

# Krsnaa Diagnostics | BUY

## Earnings improvement visible

Krsnaa Diagnostics reported a strong 1Q with margins improving to 25% (JMFe: 24.1%). With major implementation costs in the base, operating leverage will help build on earnings momentum hereon, in our view. Over the last few quarters, the management has lowered their guidance – a step in the right direction. While there seems to be a B2C push, this is a medium-term initiative with no immediate triggers. In our previous note, we highlighted delays with respect to receivables particularly from HP – these have now started flowing in thereby improving OCF. Rajasthan tender resolution has been prolonged and timelines remain elusive; accordingly, we revise our earnings by excluding this tender and believe any future resolution could be an added upside. Krsnaa has lagged its peer primarily due to weak earnings growth and it should catch up this fiscal onwards. We expect Revenue/EBITDA/PAT CAGR of 21%/26%/38% over FY24-27 (on a soft FY24 base). We maintain BUY with a revised Jun'25 TP of INR 880.

- **Sustaining revenue momentum with margin recovery:** Revenues grew 22%YoY/2%QoQ to INR 1.7bn (in-line) led by ramp up of new tenders. EBITDA margin improved 2.5ppt YoY to 25.1% (JMFe: 24.1%). The mature centres reported 38% margin. As it stands, the change in mix towards pathology could lead to gross margin dilution but ~25% EBITDA margin on a sustainable basis. B2C is at a nascent stage contributing 2-3% to revenues. The company now has a lion's share of contracts in Maharashtra.
- **Guidance has been gradually toned down:** The management remains firm on its 25% revenue growth guidance over 5 years with sustainable EBITDAM of ~25%. The guidance has been toned down but still remains slightly on the higher side, in our view, if we exclude Rajasthan.
- **Decision on Rajasthan awaited; we reset our estimates due to prolonged delays:** The matter remains sub-judice and timeline for resolution remain elusive. Accordingly, we have reset our estimates to exclude Rajasthan tender. Any favourable outcome will pose upside risk to our estimates.
- **Key financials:**
  - Revenue/EBITDA/PAT of INR 1702mn/427mn/179mn grew 22%/36%/22% YoY and were -1%/+3%/+5% vs. JMFe;
  - Gross margin was at 75% (vs. 78% JMFe) due to higher pathology mix;
  - EBITDA margin improved to 25% vs. 22.5% YoY (JMFe: 24.1%);
  - PAT was up 22% (despite higher EBITDA growth) due to higher depreciation costs from new centres and higher tax rates;
  - Prashant Deshmukh stepped down as CEO due to personal reasons;
  - The company has made recoveries and cash balance remains INR 2.4bn;

Financial Summary					(INR mn)
Y/E March	FY23A	FY24A	FY25E	FY26E	FY27E
Net Sales	4,871	6,196	7,541	9,077	10,910
Sales Growth (%)	6.9	27.2	21.7	20.4	20.2
EBITDA	1,223	1,443	1,915	2,315	2,891
EBITDA Margin (%)	25.1	23.3	25.4	25.5	26.5
Adjusted Net Profit	621	569	807	1,086	1,492
Diluted EPS (INR)	19.8	18.1	24.9	33.5	46.1
Diluted EPS Growth (%)	-9.1	-8.4	37.5	34.5	37.4
ROIC (%)	12.4	8.2	8.9	10.4	13.6
ROE (%)	8.7	7.3	9.5	11.5	13.9
P/E (x)	34.2	37.4	27.2	20.2	14.7
P/B (x)	2.9	2.6	2.5	2.2	1.9
EV/EBITDA (x)	15.1	15.1	11.4	9.2	7.0
Dividend Yield (%)	0.0	0.0	0.0	0.0	0.0

Source: Company data, JM Financial. Note: Valuations as of 07/Aug/2024



Jainil Shah

jainil.shah@jmfl.com | Tel: (91 22) 66303155

Ameey Chalke

ameey.chalke@jmfl.com | Tel: (91 22) 66303056

Raghav Vedanarayanan

raghav.vedanarayanan@jmfl.com | Tel: (91 22) 62241851

### Recommendation and Price Target

Current Reco.	BUY
Previous Reco.	BUY
Current Price Target (12M)	880
Upside/(Downside)	30.0%
Previous Price Target	970
Change	-9.3%

### Key Data – KRSNAA IN

Current Market Price	INR677
Market cap (bn)	INR21.9/US\$0.3
Free Float	56%
Shares in issue (mn)	31.4
Diluted share (mn)	32.4
3-mon avg daily val (mn)	INR85.1/US\$1.0
52-week range	789/482
Sensex/Nifty	79,468/24,298
INR/US\$	84.0

### Price Performance

%	1M	6M	12M
Absolute	-0.1	-4.8	29.5
Relative*	0.5	-14.5	7.3

\* To the BSE Sensex

JM Financial Research is also available on:  
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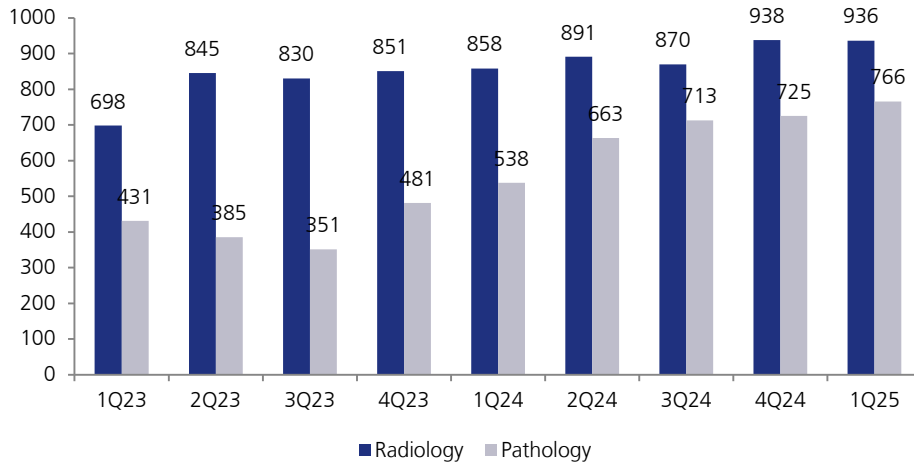
- Estimated capex outlay for FY25 is INR 1.7bn

**Exhibit 1. Pipeline**

Radiology Centres Under Implementation				Pathology Centres Under Implementation			
	Total Centres	Operational	Under Implementation		Total Centres	Operational	Under Implementation
Uttar Pradesh	8	5	3				
Delhi	1	1	-	DMC	1	-	1
DMC	1	-	1	BMC CC	600	473	127
Mira Bhayandar	1	-	1	Odisha CC	600	-	600
Rajasthan	1	-	1	Mira Bhayandar	1	-	1
Maharashtra	73	32	41	Assam	10	9	1
Madhya Pradesh	5	-	5	Assam CC	1,256	387	869
<b>Total</b>	<b>90</b>	<b>38</b>	<b>52</b>	<b>Total</b>	<b>2,468</b>	<b>869</b>	<b>1,599</b>

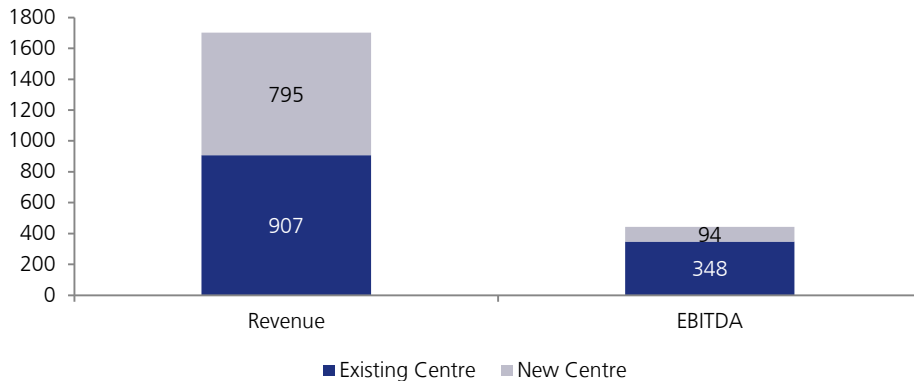
Source: Company

**Exhibit 2. Radio-Patho split**



Source: Company, Amount in INR mn

**Exhibit 3. 38% margins for mature centres**



Source: Company

## Exhibit 4. 1Q25 Result Review

Krsnaa - P&L (INR mn)	1QFY24A	1QFY25A	% YoY	1QFY25E	% Delta vs JMFe	4QFY24A	% QoQ
<b>Total Revenue</b>	<b>1,396</b>	<b>1,702</b>	<b>22%</b>	<b>1,717</b>	<b>-1%</b>	<b>1,663</b>	<b>2%</b>
COGS	278	429	54%	386	11%	430	0%
<b>Gross Profit</b>	<b>1,118</b>	<b>1,273</b>	<b>14%</b>	<b>1,331</b>	<b>-4%</b>	<b>1,233</b>	<b>3%</b>
<b>% of revenue</b>	<b>80.1%</b>	<b>74.8%</b>	-531 bps	<b>77.5%</b>	-270 bps	<b>74.1%</b>	65 bps
Staff Cost	229	331	44%	275	20%	325	2%
Other expenses	575	516	-10%	642	-20%	471	9%
<b>EBITDA</b>	<b>314</b>	<b>427</b>	<b>36%</b>	<b>414</b>	<b>3%</b>	<b>437</b>	<b>-2%</b>
EBITDA margin (%)	22.5%	25.1%	259 bps	24.1%	96 bps	26.3%	-122 bps
Other Income	42	73	73%	50	46%	43	69%
Finance Cost	20	53		65		73	
Depreciation	157	215		190		181	
<b>PBT</b>	<b>179</b>	<b>232</b>	<b>30%</b>	<b>209</b>	<b>11%</b>	<b>226</b>	<b>3%</b>
Exceptional Items						0	
Tax	32	53		38		39	
Tax Rate (%)	18.2%	22.8%		18.0%		17.2%	
<b>PAT (Reported)</b>	<b>146</b>	<b>179</b>	<b>22%</b>	<b>171</b>	<b>5%</b>	<b>187</b>	<b>-4%</b>
PAT margin (%)	10.5%	10.5%	4 bps	10.0%	56 bps	11.3%	-73 bps
<b>EPS</b>	<b>4.7</b>	<b>5.5</b>	<b>19%</b>	<b>5.5</b>	<b>1%</b>	<b>5.8</b>	<b>-4%</b>
<b>Krsnaa - Cost margins</b>							
	<b>1QFY24A</b>	<b>1QFY25A</b>	<b>% YoY</b>	<b>1QFY25E</b>	<b>% Delta vs JMFe</b>	<b>4QFY24A</b>	<b>% QoQ</b>
COGS/sales	19.9%	25.2%	531 bps	22.5%	270 bps	25.9%	-65 bps
Staff cost/sales	16.4%	19.4%	301 bps	16.0%	343 bps	19.5%	-9 bps
Other expenditure/sales	41.2%	30.3%	-1091 bps	37.4%	-710 bps	28.3%	196 bps

Source: Company, JM Financial

## Financial Tables (Consolidated)

Income Statement		(INR mn)				
Y/E March	FY23A	FY24A	FY25E	FY26E	FY27E	
Net Sales	4,871	6,196	7,541	9,077	10,910	
Sales Growth	6.9%	27.2%	21.7%	20.4%	20.2%	
Other Operating Income	0	0	0	0	0	
<b>Total Revenue</b>	<b>4,871</b>	<b>6,196</b>	<b>7,541</b>	<b>9,077</b>	<b>10,910</b>	
Cost of Goods Sold/Op. Exp	742	1,410	1,810	2,179	2,564	
Personnel Cost	746	1,115	1,342	1,589	1,855	
Other Expenses	2,161	2,228	2,474	2,996	3,600	
<b>EBITDA</b>	<b>1,223</b>	<b>1,443</b>	<b>1,915</b>	<b>2,315</b>	<b>2,891</b>	
EBITDA Margin	25.1%	23.3%	25.4%	25.5%	26.5%	
EBITDA Growth	-7.0%	18.0%	32.7%	20.8%	24.9%	
Depn. & Amort.	538	745	893	1,008	1,109	
EBIT	685	697	1,023	1,306	1,782	
Other Income	194	168	241	274	293	
Finance Cost	77	165	267	223	210	
PBT before Excep. & Forex	802	701	996	1,357	1,865	
Excep. & Forex Inc./Loss(-)	0	0	0	0	0	
PBT	802	701	996	1,357	1,865	
Taxes	181	132	189	271	373	
Extraordinary Inc./Loss(-)	0	0	0	0	0	
Assoc. Profit/Min. Int.(-)	0	0	0	0	0	
Reported Net Profit	621	569	807	1,086	1,492	
<b>Adjusted Net Profit</b>	<b>621</b>	<b>569</b>	<b>807</b>	<b>1,086</b>	<b>1,492</b>	
Net Margin	12.8%	9.2%	10.7%	12.0%	13.7%	
Diluted Share Cap. (mn)	31.4	31.4	32.4	32.4	32.4	
<b>Diluted EPS (INR)</b>	<b>19.8</b>	<b>18.1</b>	<b>24.9</b>	<b>33.5</b>	<b>46.1</b>	
Diluted EPS Growth	-9.1%	-8.4%	37.5%	34.5%	37.4%	
Total Dividend + Tax	0	0	0	0	0	
Dividend Per Share (INR)	0.0	0.0	0.0	0.0	0.0	

Source: Company, JM Financial

Balance Sheet		(INR mn)				
Y/E March	FY23A	FY24A	FY25E	FY26E	FY27E	
Shareholders' Fund	7,387	8,098	8,905	9,991	11,483	
Share Capital	157	161	162	162	162	
Reserves & Surplus	7,230	7,937	8,743	9,829	11,321	
Preference Share Capital	0	0	0	0	0	
Minority Interest	0	0	0	0	0	
Total Loans	325	1,598	1,598	1,348	1,098	
Def. Tax Liab. / Assets (-)	114	148	148	148	148	
<b>Total - Equity &amp; Liab.</b>	<b>7,826</b>	<b>9,844</b>	<b>10,651</b>	<b>11,487</b>	<b>12,729</b>	
Net Fixed Assets	4,962	6,570	7,377	7,868	7,959	
Gross Fixed Assets	6,291	8,805	10,505	12,005	13,205	
Intangible Assets	28	24	24	24	24	
Less: Depn. & Amort.	1,612	2,358	3,251	4,259	5,368	
Capital WIP	255	98	98	98	98	
Investments	3	3	3	3	3	
Current Assets	4,121	5,130	5,340	5,895	7,297	
Inventories	251	358	436	525	630	
Sundry Debtors	731	1,763	1,963	2,114	2,541	
Cash & Bank Balances	1,088	535	441	725	1,558	
Loans & Advances	0	0	0	0	0	
Other Current Assets	2,051	2,473	2,501	2,531	2,568	
Current Liab. & Prov.	1,259	1,859	2,069	2,279	2,530	
Current Liabilities	970	1,047	1,256	1,467	1,718	
Provisions & Others	289	812	812	812	812	
Net Current Assets	2,861	3,271	3,271	3,615	4,767	
<b>Total - Assets</b>	<b>7,826</b>	<b>9,844</b>	<b>10,651</b>	<b>11,487</b>	<b>12,729</b>	

Source: Company, JM Financial

Cash Flow Statement		(INR mn)				
Y/E March	FY23A	FY24A	FY25E	FY26E	FY27E	
Profit before Tax	802	700	996	1,357	1,865	
Depn. & Amort.	538	745	893	1,008	1,109	
Net Interest Exp. / Inc. (-)	-82	13	26	-51	-83	
Inc (-) / Dec in WCap.	-356	-968	-95	-60	-319	
Others	-8	-59	0	0	0	
Taxes Paid	-131	-188	-189	-271	-373	
<b>Operating Cash Flow</b>	<b>763</b>	<b>243</b>	<b>1,631</b>	<b>1,983</b>	<b>2,200</b>	
Capex	-1,414	-1,939	-1,700	-1,500	-1,200	
Free Cash Flow	-651	-1,695	-69	483	1,000	
Inc (-) / Dec in Investments	157	537	0	0	0	
Others	168	113	241	274	293	
<b>Investing Cash Flow</b>	<b>-1,089</b>	<b>-1,289</b>	<b>-1,459</b>	<b>-1,226</b>	<b>-907</b>	
Inc / Dec (-) in Capital	-69	232	0	0	0	
Dividend + Tax thereon	-78	-86	0	0	0	
Inc / Dec (-) in Loans	-91	902	0	-250	-250	
Others	-93	-206	-267	-223	-210	
<b>Financing Cash Flow</b>	<b>-331</b>	<b>842</b>	<b>-266</b>	<b>-473</b>	<b>-460</b>	
<b>Inc / Dec (-) in Cash</b>	<b>-657</b>	<b>-203</b>	<b>-94</b>	<b>284</b>	<b>833</b>	
Opening Cash Balance	884	227	23	-71	213	
Closing Cash Balance	1,088	535	441	725	1,558	

Source: Company, JM Financial

Dupont Analysis		FY23A	FY24A	FY25E	FY26E	FY27E
Net Margin		12.8%	9.2%	10.7%	12.0%	13.7%
Asset Turnover (x)		0.6	0.7	0.7	0.8	0.9
Leverage Factor (x)		1.1	1.2	1.2	1.2	1.1
RoE		8.7%	7.3%	9.5%	11.5%	13.9%

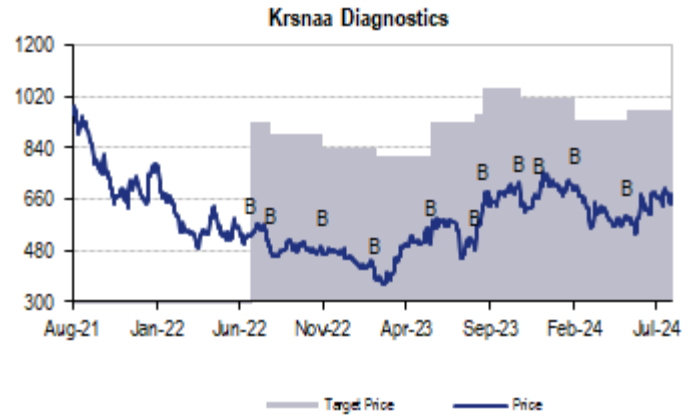
Key Ratios		FY23A	FY24A	FY25E	FY26E	FY27E
BV/Share (INR)		235.3	257.9	274.9	308.5	354.5
ROIC		12.4%	8.2%	8.9%	10.4%	13.6%
ROE		8.7%	7.3%	9.5%	11.5%	13.9%
Net Debt/Equity (x)		-0.3	0.1	0.1	0.0	-0.1
P/E (x)		34.2	37.4	27.2	20.2	14.7
P/B (x)		2.9	2.6	2.5	2.2	1.9
EV/EBITDA (x)		15.1	15.1	11.4	9.2	7.0
EV/Sales (x)		3.8	3.5	2.9	2.3	1.9
Debtor days		55	104	95	85	85
Inventory days		19	21	21	21	21
Creditor days		62	63	67	67	68

Source: Company, JM Financial

History of Recommendation and Target Price

Date	Recommendation	Target Price	% Chg.
4-Jul-22	Buy	930	
7-Aug-22	Buy	885	-4.8
10-Nov-22	Buy	840	-5.1
15-Feb-23	Buy	810	-3.6
29-May-23	Buy	930	14.8
17-Aug-23	Buy	960	3.2
1-Sep-23	Buy	1,050	9.4
6-Nov-23	Buy	1,010	-3.8
11-Dec-23	Buy	1,010	0.0
13-Feb-24	Buy	935	-7.4
21-May-24	Buy	970	3.7

Recommendation History



## APPENDIX I

## JM Financial Institutional Securities Limited

Corporate Identity Number: U67100MH2017PLC296081

Member of BSE Ltd. and National Stock Exchange of India Ltd.

SEBI Registration Nos.: Stock Broker - INZ000163434, Research Analyst - INH000000610

Registered Office: 7th Floor, Cnergy, Appasaheb Marathe Marg, Prabhadevi, Mumbai 400 025, India.

Board: +91 22 6630 3030 | Fax: +91 22 6630 3488 | Email: jmfinancial.research@jmfl.com | www.jmfl.com

Compliance Officer: Mr. Sahil Salastekar | Tel: +91 22 6224 1073 | Email: sahil.salastekar@jmfl.com

Grievance officer: Mr. Sahil Salastekar | Tel: +91 22 6224 1073 | Email: instcompliance@jmfl.com

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Hold	Price expected to move in the range of 10% downside to 10% upside from the current market price for stocks with market capitalisation in excess of INR 200 billion and REITs* and in the range of 10% downside to 15% upside from the current market price for all other stocks, over the next twelve months.
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\* REITs refers to Real Estate Investment Trusts.

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