

Krsnaa Diagnostics | BUY

Impressive revenue growth; new centre cost weighs on margin

Krsnaa Diagnostics reported an impressive revenue growth of +27% YoY. However, new centre cost of c. INR 70mn impacted EBITDA/ PAT adjusted for which performance was largely as per expectations. Krsnaa has submitted the requisite bank guarantee (in line with the Rajasthan High Court's order); however, the authorities have not yet signed the agreement. The company has taken further legal recourse and the matter is subjudice. Admittedly, the turn of events pertaining to this contract is unprecedented but we continue to monitor these developments and remain optimistic of a positive outcome. The new centre cost (Assam, Maharashtra) should be largely incurred by the next 2 quarters post which we should see healthy operating leverage play out. The management remains firm on its 30% (ex-Rajasthan) revenue growth guidance in FY24. Krsnaa is participating in new tenders (such as AP) and is also working towards expanding its B2C footprint. We adjust our earnings for new centre cost impact over the near term and remain confident of Krsnaa's execution capabilities and continue to believe that there is significant scope for a re-rating. We maintain BUY with a revised Sep'24 TP of INR 1,010.

- Strong revenue growth, margins to recover:** Non-Covid revenue grew 27% YoY/11% QoQ with negligible Covid contribution. EBITDA margin declined 450bps YoY to 20.4% (JMFe: 23.1%) due to new centre cost of INR 70mn adjusted for which the performance was in line with JMFe. Krsnaa established 7 pathology labs, 93 pathology collection centres and 5 new tele-reporting centres. The ongoing large-scale implementation of tenders (excluding Rajasthan) is likely to be complete by next 2 quarters post which operating leverage could play out. The company started its first private lab opened in Mumbai, which will act as a central processing lab for the Western region. It is currently implementing pathology operations across various geographies and is establishing 40 labs (22 labs established so far) across locations in private premises taken on lease. This will enable the company to synergise PPP and B2C business.
- Firm on guidance; Rajasthan uncertainty prevails:** At present, Krsnaa has to deploy 47 CT scans, 2 MRIs, 162 labs and 2,689 collection centres under various contracts won including Rajasthan. The company has now operationalised BMC and Orissa collection centres, and ramp-up is expected over the next few quarters. Krsnaa is also participating in new large tenders (such as AP). **FY24 guidance:** The management remains firm on its 30% (ex-Rajasthan) revenue growth guidance. The contribution of Rajasthan tender is expected in FY25 (vs. 4Q earlier). EBITDA margin will remain subdued at 24-25%. **Future guidance:** The company expects to sustain historical growth trajectory with 26-28% EBITDA margin. Krsnaa has submitted the requisite bank guarantee (in line with the Rajasthan High Court's order); however, the authorities have not yet signed the agreement. The company has taken further legal recourse and the matter is subjudice. Admittedly, the turn of events pertaining to this contract is unprecedented but we continue to monitor these developments and remain optimistic of a positive outcome. The company is likely to implement the Rajasthan tender in a phased manner.



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Recommendation and Price Target

Current Reco.	BUY
Previous Reco.	BUY
Current Price Target (12M)	1,010
Upside/(Downside)	49.6%
Previous Price Target	1,050
Change	-3.8%

Key Data – KRSNAA IN

Current Market Price	INR675
Market cap (bn)	INR21.2/US\$0.3
Free Float	50%
Shares in issue (mn)	31.4
Diluted share (mn)	31.4
3-mon avg daily val (mn)	INR95.6/US\$1.1
52-week range	727/353
Sensex/Nifty	64,959/19,412
INR/US\$	83.2

Price Performance

%	1M	6M	12M
Absolute	-1.4	33.5	39.6
Relative*	0.2	25.4	31.0

* To the BSE Sensex

Financial Summary	(INR mn)				
Y/E March	FY22A	FY23A	FY24E	FY25E	FY26E
Net Sales	4,555	4,871	6,108	8,530	9,834
Sales Growth (%)	14.9	6.9	25.4	39.6	15.3
EBITDA	1,315	1,223	1,374	2,218	2,704
EBITDA Margin (%)	28.9	25.1	22.5	26.0	27.5
Adjusted Net Profit	683	621	604	1,150	1,494
Diluted EPS (INR)	21.8	19.8	19.3	36.6	47.6
Diluted EPS Growth (%)	77.5	-9.1	-2.7	90.3	29.9
ROIC (%)	21.9	12.4	9.5	16.4	19.5
ROE (%)	14.9	8.7	7.9	13.4	15.1
P/E (x)	31.0	34.1	35.1	18.4	14.2
P/B (x)	3.1	2.9	2.7	2.3	2.0
EV/EBITDA (x)	13.5	15.1	13.9	8.4	6.6
Dividend Yield (%)	0.0	0.0	0.0	0.0	0.0

Source: Company data, JM Financial. Note: Valuations as of 06/Nov/2023

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- **Key financials:** Revenue/EBITDA/PAT of INR 1.6bn/318mn/105mn grew 24%/4%/-32% YoY. While revenue was in line, new centre cost (pertaining to Orissa and Assam) of INR 70mn impacted margins/ PAT. Adjusted for this, margin was ~25% and PAT was 4% ahead of JMFe. EBITDA margin declined to 20.4% (JMFe: 23.1%; adj. margin: 25%) as new centre cost weighed in. The company has a net cash position of INR 2.36bn. Receivable days was at 97 (vs. 79 QoQ). Capex for the quarter was INR 900mn.

Exhibit 1. Status of projects

Radiology Centers Under Implementation

State	Total Centres	Operational	Under Implementation
Uttar Pradesh	8	4	4
Delhi	1	-	1
DMC	1	-	1
Mira Bhayandhar MC	1	-	1
Rajasthan	1	-	1
Maharashtra	39	-	39
Total Radiology	51	4	47

Pathology Centers Under Implementation

State	Total Centres	Operational	Under Implementation
Mira Bhayandhar MC (Lab)	1	-	1
DMC (Lab)	1	-	1
BMC (Collection Centres)	600	462	138
Rajasthan (Lab)	150	-	150
Rajasthan (Collection Centres)	1,295	-	1,295
Assam (Lab)	10	-	10
Assam (Collection Centres)	1,256	-	1,256
Total Pathology	3,313	462	2,851

Source: Company

Exhibit 2. 2QFY24 review

Krsnaa - P&L (INR mn)	2QFY23A	2QFY24A	% YoY	2QFY24E	% Delta vs JMFe	1QFY24A	% QoQ	1H23A	1H24A	% YoY
Total Revenue	1,229	1,554	26%	1,561	0%	1,396	11%	2,358	2,950	25.1%
COGS	173	359	107%	312	15%	278	29%	293	637	117.4%
Gross Profit	1,056	1,195	13%	1,249	-4%	1,118	7%	2,065	2,313	12.0%
% of revenue	85.9%	76.9%	-901 bps	80.0%		80.1%	-321 bps	88%	78.4%	-916 bps
Staff Cost	183	264	44%	250	6%	229	15%	344	494	43.4%
Other expenses	567	613	8%	639	-4%	575	7%	1,137	1,188	4.5%
EBITDA	306	318	4%	361	-12%	314	1%	584	632	8.1%
EBITDA margin (%)	24.9%	20.4%	-446 bps	23.1%	-265 bps	22.5%	-202 bps	24.8%	21.4%	-336 bps
Other Income	43	42	-3%	46	-10%	42	-2%	89	84	-5.9%
Finance Cost	18	31		23		20		32	50	
Depreciation	129	195		160		157		253	352	
PBT	202	134	-33%	224	-40%	179	-25%	388	313	-19.4%
Exceptional Items	0	0		0		0		0	0	
Tax	48	29		52		32		93	62	
Tax Rate (%)	23.9%	21.8%		23.0%		18.2%		23.9%	19.7%	
PAT (Reported)	153	105	-32%	173	-39%	146	-28%	296	251	-14.9%
PAT margin (%)	12.5%	6.8%	-572 bps	11.1%	-430 bps	10.5%	-374 bps	12.5%	8.5%	-401 bps
EPS	4.9	3.3	-32%	5.5	-39%	4.7	-28%	9.4	8.0	-14.9%
Krsnaa - Cost margins										
COGS/sales	14.1%	23.1%	901 bps	20.0%	310 bps	19.9%	321 bps	12.4%	21.6%	916 bps
Staff cost/sales	14.9%	17.0%	211 bps	16.0%	101 bps	16.4%	59 bps	14.6%	16.7%	214 bps
Other expenditure/sales	46.1%	39.4%	-666 bps	40.9%	-146 bps	41.2%	-178 bps	48.2%	40.3%	-793 bps

Source: Company, JM Financial

Financial Tables (Consolidated)

Income Statement		(INR mn)			
Y/E March	FY22A	FY23A	FY24E	FY25E	FY26E
Net Sales	4,555	4,871	6,108	8,530	9,834
Sales Growth	14.9%	6.9%	25.4%	39.6%	15.3%
Other Operating Income	0	0	0	0	0
Total Revenue	4,555	4,871	6,108	8,530	9,834
Cost of Goods Sold/Op. Exp	603	742	1,252	1,706	1,918
Personnel Cost	547	746	977	1,279	1,426
Other Expenses	2,089	2,161	2,504	3,327	3,786
EBITDA	1,315	1,223	1,374	2,218	2,704
EBITDA Margin	28.9%	25.1%	22.5%	26.0%	27.5%
EBITDA Growth	40.1%	-7.0%	12.4%	61.4%	21.9%
Depn. & Amort.	414	538	705	832	881
EBIT	901	685	670	1,386	1,824
Other Income	149	194	201	228	245
Finance Cost	185	77	105	120	129
PBT before Excep. & Forex	865	802	765	1,494	1,940
Excep. & Forex Inc./Loss(-)	0	0	0	0	0
PBT	865	802	765	1,494	1,940
Taxes	182	181	161	344	446
Extraordinary Inc./Loss(-)	0	0	0	0	0
Assoc. Profit/Min. Int.(-)	0	0	0	0	0
Reported Net Profit	683	621	604	1,150	1,494
Adjusted Net Profit	683	621	604	1,150	1,494
Net Margin	15.0%	12.8%	9.9%	13.5%	15.2%
Diluted Share Cap. (mn)	31.4	31.4	31.4	31.4	31.4
Diluted EPS (INR)	21.8	19.8	19.3	36.6	47.6
Diluted EPS Growth	77.5%	-9.1%	-2.7%	90.3%	29.9%
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

Cash Flow Statement		(INR mn)			
Y/E March	FY22A	FY23A	FY24E	FY25E	FY26E
Profit before Tax	865	802	765	1,494	1,940
Depn. & Amort.	414	538	705	832	881
Net Interest Exp. / Inc. (-)	62	-82	-96	-108	-116
Inc (-) / Dec in WCap.	-7	-356	28	-19	-64
Others	16	-8	0	0	0
Taxes Paid	-66	-131	-161	-344	-446
Operating Cash Flow	1,284	763	1,242	1,855	2,194
Capex	-1,322	-1,414	-2,000	-1,500	-1,500
Free Cash Flow	-38	-651	-758	355	694
Inc (-) / Dec in Investments	-1,265	157	0	0	0
Others	180	168	201	228	245
Investing Cash Flow	-2,406	-1,089	-1,799	-1,272	-1,255
Inc / Dec (-) in Capital	3,853	-69	0	0	0
Dividend + Tax thereon	0	-78	0	0	0
Inc / Dec (-) in Loans	-1,894	-91	-50	-50	-50
Others	-200	-93	-105	-120	-129
Financing Cash Flow	1,760	-331	-155	-170	-179
Inc / Dec (-) in Cash	637	-657	-713	413	760
Opening Cash Balance	247	884	227	-486	-73
Closing Cash Balance	2,418	1,088	375	788	1,548

Source: Company, JM Financial

Balance Sheet		(INR mn)			
Y/E March	FY22A	FY23A	FY24E	FY25E	FY26E
Shareholders' Fund	6,844	7,387	7,992	9,142	10,636
Share Capital	157	157	157	157	157
Reserves & Surplus	6,687	7,230	7,835	8,985	10,479
Preference Share Capital	0	0	0	0	0
Minority Interest	0	0	0	0	0
Total Loans	410	325	275	225	175
Def. Tax Liab. / Assets (-)	70	114	114	114	114
Total - Equity & Liab.	7,324	7,826	8,380	9,480	10,924
Net Fixed Assets	4,140	4,962	6,257	6,925	7,544
Gross Fixed Assets	4,908	6,291	8,291	9,791	11,291
Intangible Assets	23	28	28	28	28
Less: Depn. & Amort.	1,075	1,612	2,317	3,149	4,030
Capital WIP	283	255	255	255	255
Investments	3	3	3	3	3
Current Assets	4,611	4,121	3,595	4,476	5,497
Inventories	92	251	314	439	506
Sundry Debtors	579	731	837	1,145	1,320
Cash & Bank Balances	2,419	1,088	375	788	1,548
Loans & Advances	0	0	0	0	0
Other Current Assets	1,522	2,051	2,069	2,103	2,122
Current Liab. & Prov.	1,430	1,259	1,475	1,923	2,120
Current Liabilities	794	970	1,186	1,634	1,831
Provisions & Others	636	289	289	289	289
Net Current Assets	3,182	2,861	2,120	2,553	3,377
Total - Assets	7,324	7,826	8,380	9,480	10,924

Source: Company, JM Financial

Dupont Analysis					
Y/E March	FY22A	FY23A	FY24E	FY25E	FY26E
Net Margin	15.0%	12.8%	9.9%	13.5%	15.2%
Asset Turnover (x)	0.8	0.6	0.7	0.9	0.9
Leverage Factor (x)	1.3	1.1	1.1	1.1	1.1
RoE	14.9%	8.7%	7.9%	13.4%	15.1%

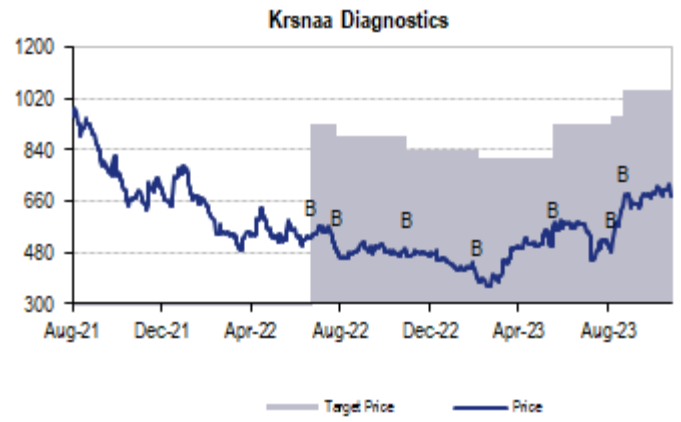
Key Ratios					
Y/E March	FY22A	FY23A	FY24E	FY25E	FY26E
BV/Share (INR)	218.0	235.3	254.5	291.1	338.7
ROIC	21.9%	12.4%	9.5%	16.4%	19.5%
ROE	14.9%	8.7%	7.9%	13.4%	15.1%
Net Debt/Equity (x)	-0.5	-0.3	-0.2	-0.2	-0.3
P/E (x)	31.0	34.1	35.1	18.4	14.2
P/B (x)	3.1	2.9	2.7	2.3	2.0
EV/EBITDA (x)	13.5	15.1	13.9	8.4	6.6
EV/Sales (x)	3.9	3.8	3.1	2.2	1.8
Debtor days	46	55	50	49	49
Inventory days	7	19	19	19	19
Creditor days	87	62	65	74	76

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

Recommendation History



APPENDIX I

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