

# Initiating Coverage Krsnaa Diagnostics Ltd.

December 20, 2021





Industry	LTP	Recommendation	Base Case Fair Value	Bull Case Fair Value	Time Horizon
Diagnostics	Rs 660	Buy in the band of Rs 658-662 & add more on dips to Rs 585-590 band	Rs 734	Rs 790	2 quarters

HDFC Scrip Code	KRSNAADIAGNO
BSE Code	543328
NSE Code	KRSNAA
Bloomberg	KRSNAA IN
CMP Dec 17, 2021	660.0
Equity Capital (Rs cr)	15.7
Face Value (Rs)	5
Equity Share O/S (cr)	3.14
Market Cap (Rs cr)	2072.2
Book Value (Rs)	178.5
Avg. 52 Wk Volumes	273840
52 Week High	1099.7
52 Week Low	626.0

Share holding Pattern % (Sep 2021)	
Promoters	27.4
Institutions	36.1
Non Institutions	36.5
Total	100.0



**HDFCsec Retail research  
stock rating meter**

for details about the ratings, refer at the end of the report

\* Refer at the end for explanation on Risk Ratings

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### Our Take:

Krsnaa Diagnostics Ltd (KDL) is one of the fastest growing and differentiated diagnostic service provider with services including radiology, pathology and tele-radiology. Krsnaa offers its services at very competitive rates; radiology tests priced at 45%-60% lower and pathology tests at 40%-80% lower than market rates. It is because of their disruptive prices and high quality services; it has become a preferred partner for state governments. Currently it has 1797 dedicated centres under the PPP model and has 26 active collaborations with private healthcare facilities. Under both the models, the company benefits from the captive patient base of such facilities and the large volume of diagnostic tests undertaken for these patients. The company's high diagnostic volumes help it enjoy economies of scale and thereby optimize its operational costs. The operations are conducted within the hospital premises at no or minimalistic rentals; this coupled with no doctor referrals and limited advertising expenses keeps the company's bidding competitive without compromising on the returns profile or quality delivery. The company's ability to competitively price its diagnostic services has enabled it to convert bids into actual contracts which is evident from the bid-win rate of ~78% for tenders since commencement of operations.

Krsnaa Diagnostics has an extensive network of integrated diagnostic centres across India, primarily in non-metro and lower tier cities and towns. It is present across 14 states and 1,800+ locations in India and has established 1,370 radiology diagnostic centres and 487 pathology diagnostic centres, including 443 collection centres. The management is looking to leverage its existing capacities for building a private business with a franchise model, which is at pilot stage. The company has historically expanded its business only through organic growth and intends to evaluate inorganic growth opportunities given its rich balance sheet.

### Valuation & Recommendation:

Krsnaa Diagnostics has recently won 5 new PPP and private projects across Punjab, Maharashtra, Himachal Pradesh and Karnataka which offers near-term topline visibility as new projects would contribute meaningfully from FY23. It also participated in few state tenders, results for which are expected in the near term. With more states moving towards the PPP segment, we believe Krsnaa would be big beneficiary due to its cost competitiveness and past track record. The company is also actively exploring strategic tie-ups in the private space owing to increase in enquiries especially post listing. New tender executions (Punjab, Maharashtra, Himachal Pradesh and Karnataka), improvement in utilization of exiting tenders, likely roll-out of franchisee model coupled with its optimal cost structure could support healthy growth over the next few years. We expect revenue/EBITDA/PAT to grow at CAGR of 21.7%/33%/60.2% over FY21-24E. Further, the company has a sizeable capex plan in progress to set up diagnostics centres; timely ramp up of new projects shall be closely



monitored over the medium term. Considering strong tailwinds in the sector, huge growth potential of PPP market and comfortable valuation (steep discount to its peers mainly due to concerns over tender business and insufficient brand pull), we believe Krsnaa Diagnostics is a good bet in this space. Though the revenue growth seems assured due to new tenders won, margins expansion and valuation rerating may happen gradually. A faster shift to pay per use for its new equipments could lead to lower capex intensity, faster expansion in return ratios and faster rerating. **We think the fair value of the stock is Rs 734 (20x Sep'23E EPS) and the bull case fair value is Rs 790 (21.5x Sep'23E EPS) over the next two quarters. Investors can buy the stock in the band of Rs 658-662 (18x Sep'23E EPS) and add on dips to Rs 585-590 band (16x Sep'23E EPS).**

### Financial Summary:

Particulars (Rs cr)	Q2FY22	Q2FY21	YoY-%	Q1FY22	QoQ-%	FY20	FY21	FY22E	FY23E	FY24E
Total Operating Income	108.3	150.2	-27.9	132.5	-18.3	258.4	396.5	466.5	597.8	714.6
EBITDA	31.9	42.8	-25.3	41.5	-23.1	62.8	93.8	138.1	179.9	220.8
Depreciation	10.3	9.4	10.4	10.0	3.5	32.4	37.4	41.8	56.3	64.1
Other Income	3.2	3.5	-8.5	3.2	-0.3	13.0	12.2	12.6	17.0	21.4
Interest Cost	8.2	6.4	28.3	6.1	34.2	24.7	25.9	20.4	5.5	4.9
Tax	4.1	7.9	-48.3	7.1	-42.0	-46.4	110.5	22.3	34.1	43.7
PAT	12.5	22.6	-44.6	21.6	-41.9	13.5	31.5	66.1	101.1	129.6
EPS (Rs)	4.0	7.2	-44.6	6.9	-41.9	13.1	24.3	21.1	32.2	41.3
RoE-%						-	-	14.1	13.3	14.8
P/E (x)						50.3	27.2	31.3	20.5	16.0
EV/EBITDA						12.2	9.7	14.0	10.9	8.6

(Source: Company, HDFC sec)

### Q2FY22 Result Review:

Krsnaa Diagnostics Ltd (KDL) reported decent topline of Rs 108.3cr, down 27.9%/18.3% YoY/QoQ. Revenue saw a de-growth mainly due to fall in covid volumes and revenue; Covid business contributed 4.6% of topline in Q2FY22, while it was 61.3% in Q2FY21 (~18% in the previous quarter). Non-covid business saw strong test volumes of 4.1 mn, +78.3% YoY/34% QoQ. The company posted EBITDA of Rs 31.9cr in Q2FY22. It reported EBITDA margins of 29.5% in Q2FY22 (+102bps/-183bps YoY/QoQ). PAT stood at Rs 12.5cr, and the PAT margins was 11.6% (vs 15.1% in Q2FY21).

Radiology business reported robust growth on the back of decent volume growth; the segment reported revenues to the tune of Rs 61cr (up ~80%/4.8% YoY/QoQ). Pathology business posted revenue of Rs 42.3cr (+74.8%/-16.4% YoY/QoQ); pulled down by lower average



revenue per test. Average revenue per test saw a decline for both radiology (21.1% QoQ) and pathology (37.8% QoQ) due to lower Covid volumes which are lucrative. Test/patient improved on YoY and QoQ basis. Core Business (Radiology and Pathology) saw an increase in both, number of tests and average revenue per test in H1FY22.

The company plans to reach 150+ CT scans and 50+ MRI machines in the next two-three years. Currently the capacity utilization for CT scan and MRIs is around 40%. Operations in Punjab is expected to operationalize by Q4FY22 or Q1FY23 and is expected to generate margins in line with existing levels. The company has repaid debt of Rs. 178cr in H1FY22 from IPO proceeds (Rs 143cr) and internal accruals. Krsnaa Diagnostics has earmarked Rs 150cr capex for recently awarded projects, which according to management is expected to generate additional topline of Rs 200cr in FY23-FY24. The management guided an annual capex outlay of Rs 100-150cr.

### Key Triggers:

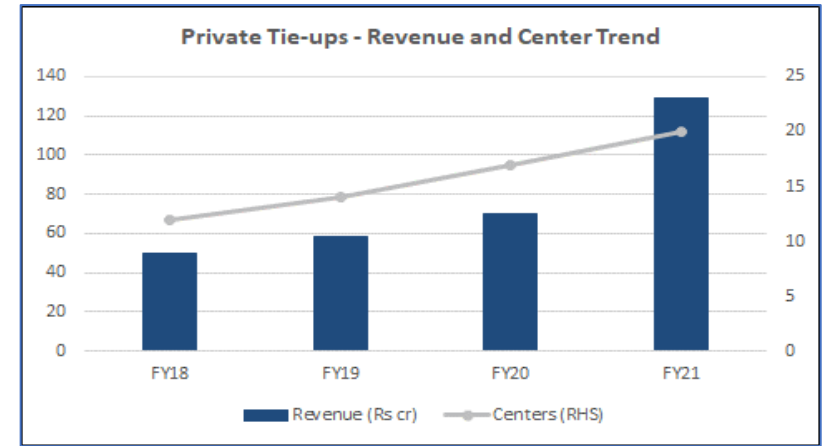
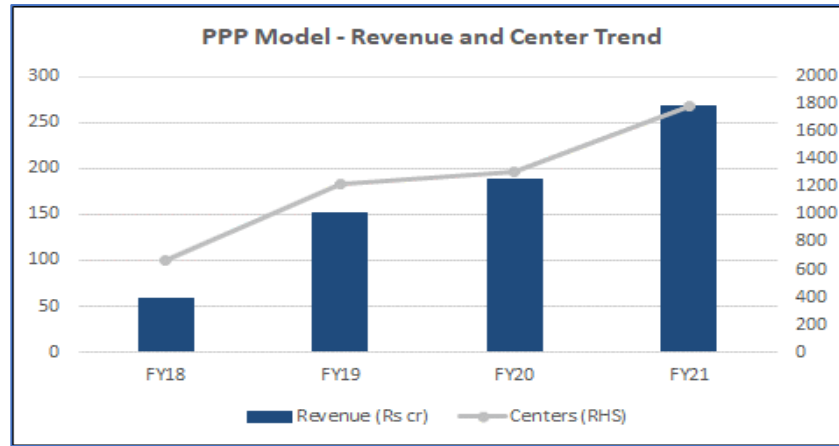
#### **Dominant PPP Player:**

Krsnaa Diagnostics has created a niche for itself in the public private partnership (PPP) diagnostics segment. The company enters into agreements with public health agencies – mainly State Govts/Municipal Corporations (floated/monitored by National Health Mission) to establish and operate onsite diagnostic centres at existing healthcare facilities. Under these arrangements, it establishes and manages ‘in-hospital’ diagnostic centres to conduct onsite testing. The medical facility typically provides rent-free space and access to its utilities and other infrastructure, and the company provides the diagnostic equipment and is responsible for all costs relating to personnel, transportation of samples and maintenance of the laboratory. Accounting for ~67% of FY21 revenue; this segment recorded revenue growth of 67% over FY18-21. It has 1797 dedicated centres under PPP model across 14 states as of Sep 30, 2021.

The PPP segment of healthcare services is a large target market, representing a market opportunity of Rs 95-100 billion in FY21. Going forward, this market is expected to grow at a CAGR of 14-17% between FY21-23 to reach Rs 125-135 billion on the back of higher government spending in the PPP segment. There are very few players actively involved in this segment. Although the participation has increased in the post-covid; Krsnaa has emerged as preferred partner for public health agencies with 100% qualification rate and tender bid-rate win of 77.6% since its inception. The company has a dedicated team that handles such projects and the team is responsible for managing the tender process hosted by the public health agency which includes undertaking detailed analysis of each location, assessment of footfalls, availability of utilities and commercial viability. The team is also responsible for the preparation and submission of relevant bid documentation, addressing and resolving queries and clarifications in relation to the submission of the bids. Although receivables days seems to be stretched due to reimbursement of expenses, in recent contracts an escrow account is opened which ensures timely payment. The company has not incurred a single bad debt in the contracts till date. With more states moving towards the



PPP segment, we believe Krsnaa could be big beneficiary due to its cost competitiveness and past track record. Recently 4-5 states published tenders to deploy CT scans and MRI equipment; Krsnaa participated in few tenders, results for which would be expected in couple of months.



(Source: Company, HDFC sec)

### Private Hospital Partnership model (Revenue Sharing)– Benefits from captive customer base and operating leverage:

Krsnaa Diagnostics enters into agreements with private healthcare providers to establish diagnostic centres within their existing healthcare facilities. These include hospitals of medical colleges & universities, hospitals & healthcare facilities administered by community health centres and other private healthcare facilities. Currently, the company has 26 active collaborations and this accounts for 33% of FY21 revenue. In this segment, it operates revenue sharing model in the range of 20-40%. The company witnessed revenue CAGR growth of 37% over FY18-21. Operating at affordable rates (higher than rates offered under PPP model); the company benefits from large volume due to captive customer base. Larger volumes help diagnostic chains achieve economies of scale, as equipment are optimally utilized and operating costs are spread over a larger number of centres. Private Hospitals benefits from Krsnaa Diagnostics’ high quality infrastructure, accurate diagnostics and quicker turnaround of reports capitalizing on tele-radiology reporting hub. Due to increased publicity and visibility post listing, more private hospitals have shown interest to enter into strategic tie-ups. The company is carefully evaluating and we can expect good expansion in this segment in next couple of years.



### **Business Model with revenue visibility:**

PPP agreements (67% of revenue) for radiology and pathology services are typically long-term between 2-10 years which ensures visibility of revenues. The contract typically includes a term extension clause based on performance and mutual agreement. On fresh competitive bidding process after the expiry, the company is at advantage given its existing spend on diagnostic equipment and infrastructure development, thereby improving their chances for renewal. Also, given that the company offers quality diagnostic services at affordable rates, public health agencies have expanded the scope of the company's services to additional centres without any additional bidding process. PPP contracts also have annual price escalation in the range of 2-5%, while the industry players have struggled to increase the average revenue per patient/test in a big way in the past two-three years.

Private hospital partnership model of operations ensures captive customer, synergies in various costs as well as significant volumes that ensures efficient cost structure. Since it is on revenue sharing basis, hospitals also work on to improve its footfalls. A diagnostic centre within an existing facility has significant advantages that include lower marketing spend and a captive customer base. There are no/limited spends on doctor referral fees and commissions. It also incurs limited rental expenses which is margin accretive.

### **Extensive footprint across India (franchise model in pilot stage):**

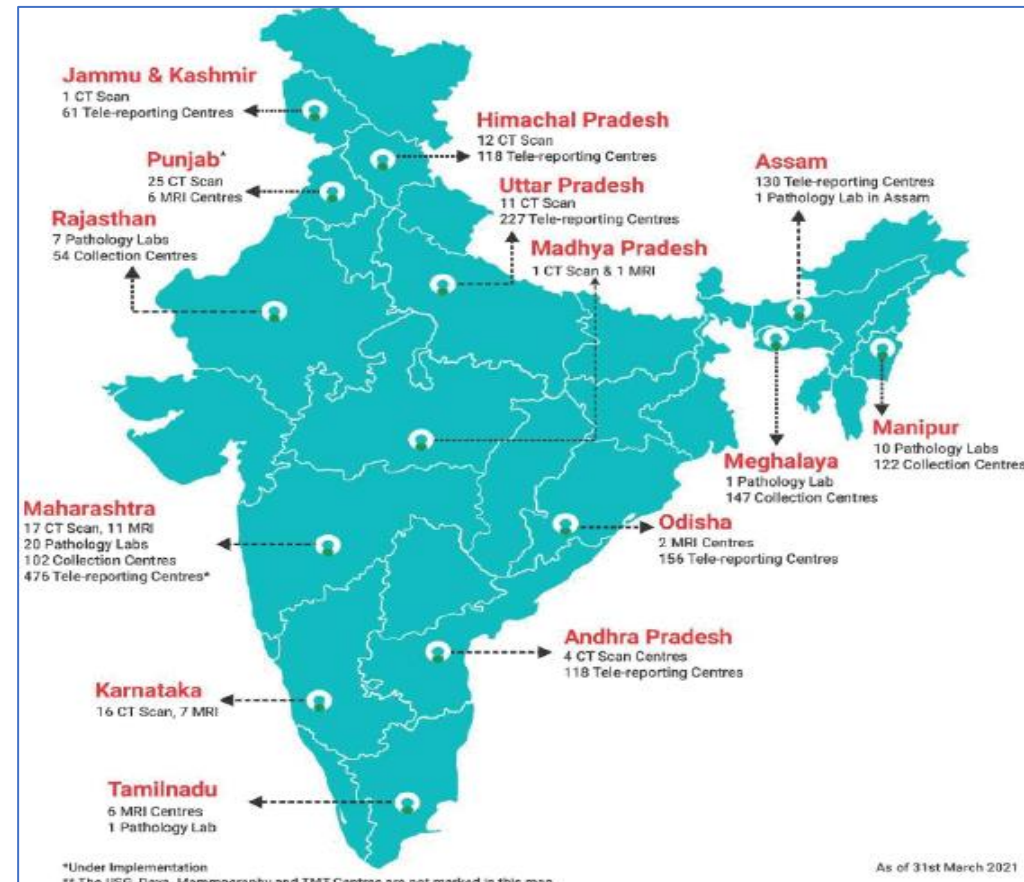
Krsnaa Diagnostics has an extensive network of integrated diagnostic centres across India, primarily in non-metro and lower tier cities and towns. It is present across 14 states and 1,800+ locations in India and has established 1,370 radiology diagnostic centres and 487 pathology diagnostic centres, including 443 collection centres. Total Centre count increased at a CAGR of 39% from 682 in FY18 to 1,803 in FY21. The company intends to grow its network across all states in India by leveraging its experience of deploying and operating diagnostic centres. The company plans to expand its customer base on the back of the scale of its operations, presence in tier II and tier III locations, ability to offer competitive pricing to customers, accuracy of diagnostic test results and service delivery through tele-reporting coupled with brand-building activities.

The company also intends to grow its focus on the private sector across both B2B and B2C segments by partnering with more private sector healthcare providers, launching integrated brand building campaigns, raising awareness among doctors on the quality & comprehensive nature of its service offerings and focusing on customer experience and improvement. It witnessed increase in queries from private hospitals for setting up diagnostics due to increase visibility post-listing. Krsnaa intends to expand capabilities at existing diagnostic centres to provide a wide range of services including chronic & lifestyle disease management, specialized diagnostic services (molecular diagnostics & genomics) and home collection. Krsnaa Diagnostics is also looking to leverage its existing capacities for building a private business with a franchise model which is at pilot stage. The company has historically expanded its business only through organic growth and intends to evaluate inorganic growth opportunities going forward.



### Expanding Service Network

Centres	FY19	FY20	FY21	Sep-21
Radiology	833	897	1365	1370
Pathology	440	455	465	487
Collection Centres	409	422	425	443
Processing Centres	31	33	40	44



(Source: Company, HDFC sec)



### Disruptive pricing and cost competitiveness:

Krsnaa offers its services at very competitive rates; radiology tests priced at 45%-60% lower and pathology tests at 40%-80% lower than market rates. It is because of their disruptive prices it has become a preferred partner for governments. The company’s hospital partnership model (public and private) of operations ensures captive customers, synergies in various costs as well as significant volumes that result in an efficient cost structure. Under both models, the operations are conducted within the hospital premises at no or minimalistic rentals; this coupled with no doctor referrals and limited advertising expenses keeps the company’s bidding competitive without compromising on the returns profile. Robust IT infrastructure, tele-reporting operations aiding centralization of resources, low cost of materials driven by scale benefits, and tight control on opex have been the key drivers of the company’s cost competitiveness. Its competitive pricing addresses regulatory price limits on tests that may be stipulated by the government to keep healthcare costs in check. The company benefits from structurally low employee costs as most of the staff fall in lower salary range and company’s presence in rural areas. The range of services offered along with scale of operations allows it to achieve economies of scale and provide competitive rates. The company’s ability to competitively price its diagnostic services has enabled it to convert bids into actual contracts which is evident from the bid-win rate of ~78% for tenders since commencement of operations.

#### High Quality Services at disruptive rates

Segment	Test	Player 1 (Rs)	Player 2 (Rs)	Player 3 (Rs)	Krsnaa (Rs)	% from min price
Radiology	CT Brain	4,500	4,500	3,500	2,000	-43%
Radiology	MRI Brain	8,000	8,250	7,000	3,500	-50%
Pathology	CBC	250	250	200	146	-27%
Pathology	Blood Sugar	85	80	70	26	-63%
Pathology	Thyroid	500	550	550	216	-57%
Pathology	Vitamin D	1,500	1,250	1,450	595	-52%
Pathology	Vitamin B12	1,000	1,100	1,300	243	-76%
Pathology	HbA1C	550	440	400	141	-65%

(Source: Company, HDFC sec)

For new centres under PPP and those under rural/remote areas, Krsnaa enters into agreement with local business partners who supply labour and also bring in footfalls. It shares some portion of its revenue with these local partners that ensures low cost of operations and rising utilization. Once the centre reaches a certain level, the labours are absorbed on payroll and the arrangement with the local people ends.





### **Operating efficiency and improving utilisation to drive profitability:**

The company operates diagnostic centres under a hospital partnership model, within public and private health care facilities. Under the hospital partnership model, the company benefits from the captive patient base of such facilities and the large volume of diagnostic tests undertaken for these patients. The company's high diagnostic volumes help it enjoy economies of scale and thereby optimize its operational costs. The tele-radiology hub is capable of processing large volumes of X-rays, CT scans and MRI scans round the clock over 365 days a year. The tele-radiology hub's capacity provides sufficient headroom for volume growth. Krsnaa's overall capacity utilisation is ~40%; much lower than well-established centres. Low capacity utilisation is due to sharp rise in new centres in last 3-4 years, lack of awareness of government sponsored schemes and lower private footfalls owing to lack of publicity. As more centres reach maturity and awareness about the quality of services in public health agencies rises, we believe utilisation levels could see sharp upturn.

Krsnaa has strong relationships with notable equipment vendors like Wipro GE (largest customer in Asia), Siemens Healthcare and Fujifilm India. This ensures timely deployment of machinery, advantageous asset pricing, fleet-wide maintenance, and preferred vendor status with certain equipment suppliers. The equipment is covered by comprehensive maintenance contracts (CMC) with OEM suppliers to ensure requisite equipment uptime and regular servicing and calibration. As it owns multiple equipment its CMC charges are lower than its competitors, bringing in cost efficiencies.

The company is also in advanced discussions with various OEM / vendors to supply equipment on deferred credit / pay per use model. Under this model, vendors will supply equipment to Krsnaa at down payment of 5-10% of the equipment value and the balance payment would be based on use that will be spread over a tenure of 5-7 years thereby significantly reducing the upfront capital outlay; thereby improving its return profile.

### **Improving brand image:**

Krsnaa Diagnostics is associated with providing quality and reliable healthcare services at affordable prices. The company's large network of diagnostic centres, along with the quality of its services at competitive rates, have been key factors aiding the significant growth in patient volumes. The company is yet to make its presence in customer's minds. Given that its majorly operations in government hospitals, Krsnaa Diagnostics has ensured that the look and feel of its centres are comparable to the private counterparts which helps in improving brand visibility and increase brand recall. Quality services similar to that provided by well-established private players would be a key driver for private footfalls (not covered under National Health Scheme (NHM)) in government hospitals. Currently the mix of free to private volumes is ~65:35; which is expected to weigh more in favour of private footfalls given the consistent quality services delivered by the company.



### **Strong industry tailwinds:**

The Indian diagnostic industry is expected to grow at 15% over the next two years and achieve a value of Rs 920-980 bn in FY23; largely driven by increase in healthcare spending by aging population, rising income levels, rising awareness for preventive testing, advanced healthcare diagnostic tests offerings, and central government's healthcare measures. The government's share within the diagnostic industry is projected to grow at a CAGR of 14%-17% over FY20-23 to INR 125-135 bn in FY23, driven by government-led programs. Under the National Health Mission, the PPP model has gained traction. Krsnaa Diagnostics stands to benefit from such increased healthcare spending given its strong track-record of executing PPP contracts across India with public health agencies. Krsnaa with its scalable and cost-efficient business model, is expected to be one of the key beneficiaries of industry trends.

### **Financials:**

Krsnaa Diagnostics demonstrated strong financial performance on revenue and EBITDA front; reporting 37.7% and 27.3% CAGR over FY19-21 on the back of tender wins and operational efficiency. Krsnaa Diagnostics plans to explore multiple cost rationalization initiatives as part of its efforts to improve margins. The company plans to explore vendor financing (pay per use model) to leverage its relationships with its vendors to reduce financing cost and initial capital outlay. It generated positive cash flow from operations and has healthy cash balance of ~Rs 380cr which would be deployed towards capex for recently awarded tenders and open opportunities for inorganic expansion. Krsnaa has substantially reduced its debt (Rs 178cr) post-IPO.

### **Public Private Partnership (PPP) Model – Industry Dynamics:**

PPP models in diagnostic have gained traction over the past five years. The PPP model involves the development of a greenfield or brownfield diagnostic centre by the private player (service provider) across various hospitals in the country and, in certain cases, such a model involves the setting up of collection points in sub-centres, primary health centres, community health centres and other remote regions (hub-and-spoke model). The services are provided free of cost to beneficiaries referred by government institutes, with the cost reimbursed by the authorities on a timely basis. However, private beneficiaries are usually charged as per the rate quoted by the service provider. PPP models provide for a yearly 2-5% price escalation in their contracts. Yet with the base prices being 50 to 60% cheaper than the private players, PPP players thrive in a strong position to attract larger volumes (captive customer base).

Government establishments are encouraging private health care companies to provide affordable diagnostic services under PPP model and expand outreach in rural areas, as 70% of the diagnostic facilities are concentrated in large cities across the country. Health comes under the state list and hence, most of the development in the PPP model of diagnostic has been through state government initiatives. The PPP model has gained traction with the pushing of the NHM's Free Diagnostic Initiative. With rising prevalence of central schemes like Ayushman Bharat and government support for private sector participation in creating a network of public health laboratories under the PMJAY scheme, the PPP model in the diagnostic industry will see a boost. The COVID-19 pandemic has also highlighted the



importance of private participation in diagnostic. Higher Government spend and initiatives is expected to drive PPP model faster than the overall diagnostic industry.

### Industry Insights:

The Indian diagnostic industry has grown consistently over the past three fiscals and is projected to grow at a CAGR of ~15% by FY21-23, achieving market size of Rs 920-980 billion. The growth in the industry is largely driven by increase in healthcare spending by aging population, rising income levels, rising awareness for preventive testing, advanced healthcare diagnostic tests offerings, and central government's healthcare measures. With increasing urbanization, awareness of the general populace regarding presence and need of diagnostic services for both preventive and curative care is increasing; which bodes well for the diagnostic industry

The market share is categorized as: unorganized (47%), hospital-based lab (37%) while the remaining (~16%) is with the organized players. Doctor referrals constitute a large part of this business. This includes commission payments to doctors in lieu of referring a diagnostic lab. Further, currently, the illness diagnosis segment is more prevalent than wellness segment in India. The diagnostics industry is highly fragmented with large chains, standalone centres, and hospital-based laboratories. Owing to low entry barriers, the industry is fragmented and is witnessing a lot of small and medium sized players; however, very few are able to scale in a profitable manner. The sector is witnessing consolidation through M&As. For instance, Dr. Lal recently acquired Suburban Diagnostics while Metropolis Healthcare acquired Hitech. Online aggregators provide a platform to customers to book their tests online from various offerings available. These aggregators are bringing diagnostic and testing services to the fingertips of customers, offering them several options almost instantly.

The Government's share in the overall hospital-based diagnostic centres was ~35-40% amounting to approximately Rs 95 billion in Fiscal 2020, has seen a growth of 13% CAGR over FY17-20. Going forward, the Government's share within the diagnostic industry is projected to grow at a CAGR of 14-17% amounting to Rs 125-135 billion in FY23, driven by government-led programmes, extensive PPP models to ensure higher penetration of diagnostic facilities in underpenetrated rural India and increasing focus towards healthcare at municipal corporation level.

### Concerns:

**Substantial portion of revenue generated from public health agencies (~67%):** The agreements with public health agencies are not always subject to an automatic extension and renewal of such agreements is based on mutually acceptable terms. The company may also be exposed to the risk that certain entities, especially public health agencies, may reject, delay or fail to make payment for services rendered. Also, the contracts of a longer tenor (7-10 years) usually have price escalation of 2-5%. Any sudden or sharp hike in cost associated with running of diagnostic centres would be passed on with certain lag, and the operating margin may be impacted.



**Increasing Competition Intensity:** The diagnostics industry in India is highly competitive with several companies present in the market. Krsnaa faces competition in the PPP set up from both established and regional players. In the recent concall, management highlighted increasing participation in tenders from regional as well as well-established players. Entry of established pan-India diagnostic players, leveraging their existing network of pick-up points and patient service centres could impact its tender winning track record that it maintained in the past. However established players like Metropolis, Dr Lal Pathlabs etc may not be aggressive in this space as they cannot afford to have dual rates in the same city or town.

**Reliance on public & private healthcare facilities:** The company operates all its diagnostic centres within public and private healthcare facilities and is significantly dependent on the captive customer base of such facilities. In addition, the company does not operate any standalone diagnostic centres and does not offer referral commissions to private clinics and healthcare professionals to refer patients to its diagnostic centres. Accordingly, the company's ability to grow its customer base is dependent on such healthcare providers. The company is working on franchisee model; but it is at pilot stage.

**Working capital requirement:** Krsnaa derives a significant portion of its receivables from PPP in the government segment. Given the typical stretch in payments from government departments, receivables have been high compared to its peers. Although it improved in last fiscal, a sustained pressure on receivables can impact cash flow.

**Geographical concentration:** The company has an extensive network of diagnostic centres across 14 states in India; a significant number of its diagnostic centres are located in the states of Karnataka, Rajasthan and Maharashtra. Krsnaa derives ~60% revenue from west, ~19% from South. Slowdown in economic activity in these regions could adversely affect company's business.

**Change in Government policy:** Any changes in policy, their healthcare spends and their stance on PPP could impact its operations in a big way.

**Covid-related revenue and margins:** Bump up in revenues and margins due to Covid may be difficult to replicate in the near term (for the company as well as the industry).

### About the company:

Krsnaa Diagnostics Ltd (KDL) is one of the fastest growing and differentiated diagnostic service provider with services including radiology, pathology and tele-radiology. Through its network of diagnostic centres, its offer a range of test that includes 1,394 radiology tests and 2,544 pathological tests, that cover a range of specialties and disciplines. It provides quality and inclusive diagnostic services at disruptive rates across various segments with a focus on public private partnership (PPP) model wherein it has the largest presence in India. PPP



agreements are typically long-term in nature (2-10 years) and ensure predictability of revenues from operations. It has emerged as preferred partner for public health agencies resulting in ~78% success ratio for tenders since inception. The company has recently won 5 new PPP and private projects across Punjab, Maharashtra, Himachal Pradesh and Karnataka which offer strong near-term growth visibility. In addition to the PPP segment, the company has been growing its collaboration with private healthcare providers to operate diagnostic centres within their facilities with 26 such centres being operational.

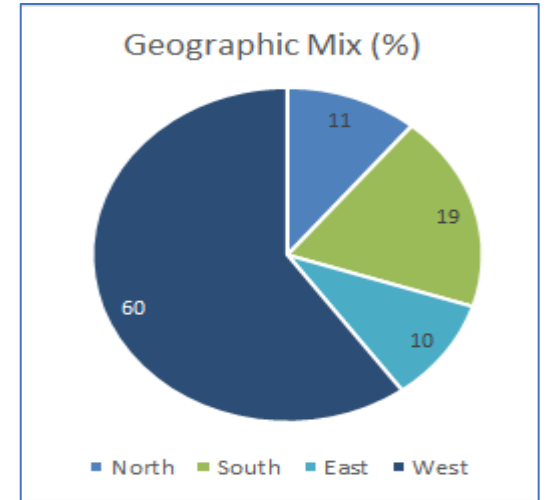
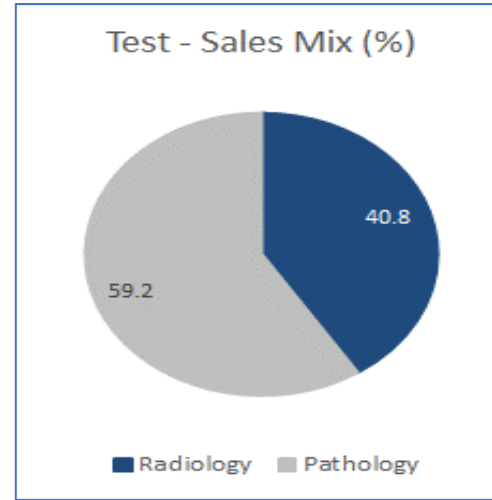
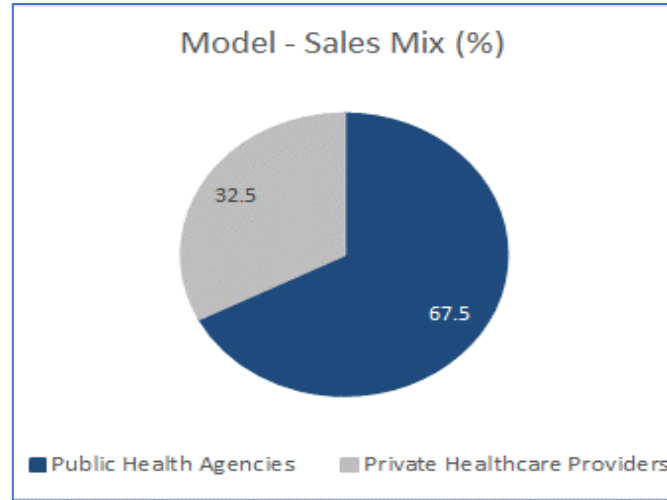
Krsnaa Diagnostics offers tests at disruptive rates - radiology tests priced at 45% – 60% lower than market rates while pathology tests are 40% – 80% lower than market rates. It has cost-efficient business model as it operates under hospital partnership model (public & private) wherein it benefits from captive customer base, lower marketing spends, no doctor referrals & commissions and incurs limited rental expense. All these cost savings help the company to offer services at affordable rates compared to its peers which supports higher volume.

Radiology	FY19	FY20	FY21
Revenue (Rs cr)	108.8	167.3	161.9
Radiology Test (in mn)	2.0	3.5	3.1
Revenue/Test (Rs)	557.9	481.4	530.1

Pathology	FY19	FY20	FY21
Revenue (Rs cr)	100.4	91.1	234.6
Pathology Test (in mn)	5.4	7.2	6.3
Revenue/Test (Rs)	184.6	126.9	371.2

(Note: Pathology segment includes covid related numbers. Source: Company, HDFC sec)

Krsnaa Diagnostics has an extensive network of integrated diagnostics centres across India primarily in non-metro and lower tier cities and towns; spanning across 14 states in India. The company operates one of India’s largest tele-radiology reporting hubs in Pune that is able to process large volumes of X-rays, CT scans & MRI scans round the clock. It offers a range of diagnostics imaging services and clinical laboratory tests that include both routine and specialized tests / studies and profiles, which are used for prediction, early detection, diagnostic screening, confirmation and/or monitoring of diseases. The diagnostic imaging/radiology services include conducting X-rays, computed tomography (CT) scans, magnetic resonance imaging (MRI) scans, ultrasounds, bone mineral densitometry and mammography.



(Source: Company, HDFC sec)

**Peer Comparison:**

	Mcap (Rs cr)	Sales				EBITDA Margin-%				APAT			
		FY21	FY22E	FY23E	FY24E	FY21	FY22E	FY23E	FY24E	FY21	FY22E	FY23E	FY24E
<b>Krsnaa Diagnostics</b>	<b>2,072</b>	<b>396</b>	<b>466</b>	<b>598</b>	<b>715</b>	<b>23.7</b>	<b>29.6</b>	<b>30.1</b>	<b>30.9</b>	<b>32</b>	<b>66</b>	<b>101</b>	<b>130</b>
Dr Lal Pathlabs	28,443	1,581	2,045	2,242	2,374	27.6	28.8	28.2	28.6	292	402	424	468
Metropolis Healthcare	16,685	998	1,248	1,453	1,671	28.7	29.4	29.7	30.3	183	231	269	320
Thyrocare Technologies	5,441	495	639	624	684	34.7	43.1	39.4	39.9	113	204	172	190

	RoE-%				P/E			
	FY21	FY22E	FY23E	FY24E	FY21	FY22E	FY23E	FY24E
<b>Krsnaa Diagnostics</b>	<b>-</b>	<b>14.1</b>	<b>13.3</b>	<b>14.8</b>	<b>27.2</b>	<b>31.3</b>	<b>20.5</b>	<b>16.0</b>
Dr Lal Pathlabs	25.6	29.4	27.0	26.2	96.6	70.5	66.7	57.0
Metropolis Healthcare	29.7	29.3	27.9	28.5	90.6	72.4	62.0	52.2
Thyrocare Technologies	28.5	44.4	31.4	27.4	48.1	27.8	31.6	28.3

(Source: Bloomberg, Company, HDFC sec)



## Financials

### Income Statement

(Rs Cr)	FY20	FY21	FY22E	FY23E	FY24E
<b>Net Revenues</b>	<b>258.4</b>	<b>396.5</b>	<b>466.5</b>	<b>597.8</b>	<b>714.6</b>
<b>Growth (%)</b>	<b>23.5</b>	<b>53.4</b>	<b>17.7</b>	<b>28.2</b>	<b>19.5</b>
Operating Expenses	195.6	302.7	328.4	417.9	493.8
<b>EBITDA</b>	<b>62.8</b>	<b>93.8</b>	<b>138.1</b>	<b>179.9</b>	<b>220.8</b>
<b>Growth (%)</b>	<b>8.5</b>	<b>49.3</b>	<b>47.2</b>	<b>30.3</b>	<b>22.7</b>
<b>EBITDA Margin (%)</b>	<b>24.3</b>	<b>23.7</b>	<b>29.6</b>	<b>30.1</b>	<b>30.9</b>
Depreciation	32.4	37.4	41.8	56.3	64.1
<b>EBIT</b>	<b>30.4</b>	<b>56.4</b>	<b>96.2</b>	<b>123.6</b>	<b>156.7</b>
Other Income	13.0	12.2	12.6	17.0	21.4
Interest expenses	24.7	25.9	20.4	5.5	4.9
<b>PBT</b>	<b>18.7</b>	<b>42.7</b>	<b>88.4</b>	<b>135.2</b>	<b>173.3</b>
Exceptional Item	-177.0	252.8	0.0	0.0	0.0
Tax	-46.4	110.5	22.3	34.1	43.7
<b>Reported PAT</b>	<b>-111.9</b>	<b>184.9</b>	<b>66.1</b>	<b>101.1</b>	<b>129.6</b>
<b>Core PAT</b>	<b>13.5</b>	<b>31.5</b>	<b>66.1</b>	<b>101.1</b>	<b>129.6</b>
<b>Growth (%)</b>	<b>40.3</b>	<b>132.8</b>	<b>109.7</b>	<b>52.9</b>	<b>28.2</b>
EPS	13.1	24.3	21.1	32.2	41.3

### Balance Sheet

As at March	FY20	FY21	FY22E	FY23E	FY24E
<b>SOURCE OF FUNDS</b>					
Share Capital	5.2	6.5	15.7	15.7	15.7
Reserves	-202.1	225.4	691.5	792.6	922.2
<b>Shareholders' Funds</b>	<b>-197.0</b>	<b>231.9</b>	<b>707.2</b>	<b>808.3</b>	<b>937.9</b>
Long Term Debt	122.7	168.0	36.2	31.2	26.2
Net Deferred Taxes	-92.2	10.7	14.0	14.0	14.0
Long Term Provisions & Others	523.5	10.2	11.7	14.9	17.9
<b>Total Source of Funds</b>	<b>357.0</b>	<b>420.7</b>	<b>769.0</b>	<b>868.4</b>	<b>995.9</b>
<b>APPLICATION OF FUNDS</b>					
Net Block & Goodwill	275.1	308.5	450.4	534.1	560.0
CWIP	9.1	3.7	0.0	0.0	0.0
Other Non-Current Assets	40.0	44.2	49.3	58.3	69.6
<b>Total Non-Current Assets</b>	<b>324.2</b>	<b>356.4</b>	<b>499.7</b>	<b>592.4</b>	<b>629.6</b>
Current Investments	0.0	0.0	150.0	200.0	250.0
Inventories	5.1	7.2	8.9	11.5	13.7
Trade Receivables	61.4	72.5	92.0	114.6	137.0
Cash & Equivalents	127.3	152.9	193.5	159.3	213.3
Other Current Assets	19.9	15.5	12.8	13.1	15.7
<b>Total Current Assets</b>	<b>213.6</b>	<b>248.1</b>	<b>457.3</b>	<b>498.5</b>	<b>629.8</b>
Short-Term Borrowings	92.3	34.7	12.9	12.9	12.9
Trade Payables	38.1	78.6	95.8	114.6	137.0
Other Current Liab & Provisions	50.4	70.5	79.2	95.0	113.6
<b>Total Current Liabilities</b>	<b>180.8</b>	<b>183.8</b>	<b>187.9</b>	<b>222.5</b>	<b>263.5</b>
Net Current Assets	32.8	64.3	269.3	276.0	366.3
<b>Total Application of Funds</b>	<b>357.0</b>	<b>420.7</b>	<b>769.0</b>	<b>868.4</b>	<b>995.9</b>



## Cash Flow Statement

(Rs Cr)	FY20	FY21	FY22E	FY23E	FY24E
Reported PBT	-158.3	295.5	88.4	135.2	173.3
Non-operating & EO items	179.5	-251.5	8.8	-5.7	-8.4
Interest Expenses	13.8	14.0	20.4	5.5	4.9
Depreciation	32.3	37.4	41.8	56.3	64.1
Working Capital Change	-19.3	14.8	7.5	9.1	13.8
Tax Paid	-10.2	-7.7	-22.3	-34.1	-43.7
<b>OPERATING CASH FLOW ( a )</b>	<b>37.8</b>	<b>102.6</b>	<b>144.7</b>	<b>166.3</b>	<b>203.9</b>
Capex	-76.8	-64.8	-180.0	-140.0	-90.0
Free Cash Flow	-38.9	37.7	-35.3	26.3	113.9
Investments	0.0	0.0	-150.0	-50.0	-50.0
Non-operating income	0.1	3.7	0.0	0.0	0.0
<b>INVESTING CASH FLOW ( b )</b>	<b>-76.7</b>	<b>-61.1</b>	<b>-330.0</b>	<b>-190.0</b>	<b>-140.0</b>
Debt Issuance / (Repaid)	30.3	55.5	-153.6	-5.0	-5.0
Interest Expenses	-24.4	-25.4	-20.4	-5.5	-4.9
FCFE	-33.1	67.8	-209.4	15.8	104.1
Share Capital Issuance/ (Buy Back)	0.0	0.7	400.0	0.0	0.0
Dividend	0.0	0.0	0.0	0.0	0.0
Others	-0.1	0.0	0.0	0.0	0.0
<b>FINANCING CASH FLOW ( c )</b>	<b>5.8</b>	<b>30.8</b>	<b>225.9</b>	<b>-10.5</b>	<b>-9.9</b>
<b>NET CASH FLOW (a+b+c)</b>	<b>-33.1</b>	<b>72.3</b>	<b>40.6</b>	<b>-34.2</b>	<b>54.1</b>

## One Year Price Chart



(Source: Company, HDFC sec)

## Key Ratios

Particulars	FY20	FY21	FY22E	FY23E	FY24E
<b>PROFITABILITY RATIOS (%)</b>					
EBITDA Margin	24.3	23.7	29.6	30.1	30.9
EBIT Margin	16.8	17.3	23.3	23.5	24.9
APAT Margin	5.2	8.0	14.2	16.9	18.1
RoE	-	-	14.1	13.3	14.8
RoCE	-	-	18.3	17.5	19.5
<b>Solvency Ratio (x)</b>					
Debt/EBITDA	3.4	2.2	0.4	0.2	0.2
D/E	-1.1	0.9	0.1	0.1	0.0
<b>PER SHARE DATA (Rs)</b>					
EPS	13.1	24.3	21.1	32.2	41.3
CEPS	44.5	53.1	34.4	50.1	61.7
Dividend	0.0	0.0	0.0	0.0	0.0
BVPS	-190.7	178.5	225.2	257.4	298.7
<b>Turnover Ratios (days)</b>					
Debtor days	83	62	64	63	64
Inventory days	7	6	6	6	6
Creditors days	56	54	68	64	64
<b>VALUATION</b>					
P/E (x)	50.3	27.2	31.3	20.5	16.0
P/BV (x)	-3.5	3.7	2.9	2.6	2.2
EV/EBITDA (x)	12.2	9.7	14.0	10.9	8.6
EV/Revenues (x)	3.0	2.3	4.1	3.3	2.7
Dividend Yield (%)	0.0	0.0	0.0	0.0	0.0
Dividend Payout (%)	0.0	0.0	0.0	0.0	0.0

(Source: Company, HDFC sec)





## HDfC Sec Retail Research Rating description

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### Yellow Rating stocks

This rating is given to stocks that have strong balance sheet and are from relatively stable industries which are likely to remain relevant for long time and unlikely to be affected much by economic or technological disruptions. These stocks have emerged stronger over time but are yet to reach the level of green rating stocks. They offer medium risk, medium return opportunities. Some of these have the potential to attain green rating over time.

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This rating is given to emerging companies which are riskier than their established peers. Their share price tends to be volatile though they offer high growth potential. They are susceptible to severe downturn in their industry or in overall economy. Management of these companies need to prove their mettle in handling cyclicity of their business. If they are successful in navigating challenges, the market rewards their shareholders with handsome gains; otherwise their stock prices can take a severe beating. Overall these stocks offer high risk high return opportunities.

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