

RETAIL EQUITY RESEARCH

Krsnaa Diagnostics Ltd.

Healthcare

SENSEX: 53,823

NIFTY: 16,131

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Price Range Rs. 933- Rs. 954

Diagnostic services player with a unique business model...

Krsnaa Diagnostics Limited (KDL), is one of the largest differentiated diagnostic service providers in India. Incorporated in 2010, at Pune, KDL provides specialized diagnostic imaging (including radiology), pathology/clinical laboratory and tele-radiology services to public and private hospitals pan-India. They focus on the public private partnership (PPP) diagnostics segment and have the largest presence in the diagnostic PPP segment. They operate an extensive network of 1,823 diagnostic centres in 13 states across India.

- The diagnostic industry in India is expected to grow at ~ 15% and achieve a value of Rs.920 billion to Rs.980 billion between FY21 and FY23.
- KDL operates one of India’s largest tele-radiology reporting hubs in Pune which can serve patients in remote locations where diagnostic facilities are limited.
- Under the hospital partnership model, KDL benefits from the captive patient base of the health care facilities and offers radiology tests at 45-60% and pathology tests at 40-80% lower than market rates.
- KDL to focus on the private sector across both B2B and B2C segment by partnering with private healthcare providers, establishing standalone centres.
- Revenue from sale of service to public health agencies in PPP model was 67% of the total revenue from operations in FY21 while the rest came from non-government customers(33%) such as private medical colleges, private laboratories etc.
- The net revenue from operations increased at a CAGR of 37.6% from Rs.209.2cr in FY19 to Rs.396.5cr with 41% revenue from radiology services and 59% from pathology in FY21.
- KDL reported one-time gain from fair value movement of CCPS (Compulsory Convertible Preference Shares) amounting to Rs. 252.8cr in FY21 while it reported loss in the previous two years(Rs.177cr&Rs.95.5cr).
- Adjusted for fair value and deferred tax arising out of it, net profit for FY21 stood at Rs 31.4cr compared with Rs.13.5cr in the year earlier.
- As of June 30, 2021, the total outstanding borrowings amounted to Rs.209.3cr,resulting in post IPO debt will be negligible.
- At the upper price band of Rs.954, KDL is available at a P/E of 95x (diluted) which appears highly expensive compared to peers. Considering its unique business model with cost advantage and plans for standalone centres, the company's revenue visibility for the future looks promising. We provide “Subscribe” on a short term view for listing gain.

Purpose of IPO

The Offer comprises of the Fresh Issue and the Offer for Sale. The proceeds from the offer for sale will go to the selling shareholders. The amount received from the sale of fresh issue will be utilised to finance the cost of establishing diagnostics centres(Rs.150.8cr) at Punjab, Karnataka, Himachal Pradesh and Maharashtra and for repayment/pre-payment, in full or part, of certain borrowings availed by the company(Rs.140cr) and General Corporate Purposes.

Key Risks

- A substantial portion of the revenue depends on payments under contracts with public health agencies(~67.5%)and a major portion of the revenue generated from the states of Maharashtra, Rajasthan and Karnataka(~70%).
- The Company has reported losses and negative net worth in the past.

Peer Valuation

Company	MCap (₹ cr)	Revenue (₹ cr)	EBITDA Margin (%)	EPS(₹)	RoE (%)	EV/EBITDA	P/E(x)
Krsnaa Diagnostics Ltd	2,994	396	23.7	10	13.6	35.2	95.0
Metropolis Health care	14,545	998	28.9	36	29.9	38.6	79.3
Dr. Lal PathLabs Ltd.	29,640	1,581	27.6	35	25.6	51.4	102.1

Source: Geojit Research, Bloomberg; Valuations of KDL are based on upper end of the price band (post issue), Financials as per FY21 Consolidated.

Issue Details			
Date of opening		Aug 4, 2021	
Date of closing		Aug 6, 2021	
Total No. of shares offered (Cr.)		1.27	
Post Issue No. of shares (cr)		3.14	
Price Band		₹933- ₹954	
Face Value		₹ 5	
Bid Lot		15 Shares	
Minimum application for retail (upper price band for 1 lot)		₹ 14,310	
Maximum application for retail (upper price band for 13 lot)		₹ 1,86,030	
Listing		BSE,NSE	
Lead Manager		DAM Capital Advisors, Equirus Capital, IIFL Holdings, JM Financial Consultant	
Registrars		KFintech Pvt. Ltd.	
Issue size (upper price)		Rs.Cr	
Fresh Issue		400.0	
OFS		813.3	
Total Issue		1,213.3	
Shareholding (%)	Pre-Issue	Post Issue	
Promoter & Promoter group	31.6	27.4	
Public	68.4	72.6	
Total	100	100	
Issue structure	Allocation %	Size Rs.cr	
Retail	10	119.3	
Non-Institutional	15	179.0	
QIB	75	895.0	
Emp. Reservation	-	20.0	
Total	100	1,213.3	
Y.E March (Rs cr) Consol.	FY19	FY20	FY21
Sales	209.2	258.4	396.5
% Change	-	23.5	53.4
EBITDA	-37.6	-114.2	93.8
Margin%	-18	-44.5	23.7
Reported PAT	-58.1	-111.9	184.9
% Change	-	-	-
Adj.EPS *	3	4	10
P/E (x)	-	-	95.0
EV/EBITDA	-	-	35.2
RoE (%)	-11.9	-6.9	13.6

\*Adjusted for fair value of compulsory convertible preference shares and deferred tax as mentioned in RHP



### Business Operations...

KDL provides specialized diagnostic imaging (including radiology), pathology/clinical laboratory and tele-radiology services. Through the network of diagnostic centres, KDL offers a range of test that includes 1,394 radiology tests and 2,544 pathological tests, as of June 30, 2021 that cover a range of specialties and disciplines.

Sr. No.	Type of Diagnostic Centre	As of March 31, 2019	As of March 31, 2020	As of March 31, 2021	As of June 30, 2021
1.	Radiology	833	897	1,365	1,370
2.	Pathology	440	455	465	487
3.	Collection Centres	409	422	425	443
4.	Processing Centres	31	33	40	44

Source: Geojit Research, RHP

### Public Private Partnership Projects

KDL enters into agreements with public health agencies to establish and operate onsite diagnostic centres at existing healthcare facilities. Under these arrangements, KDL establishes and manages “in-hospital” diagnostic centres to conduct onsite testing. Pursuant to the terms of the contractual agreements, the medical facility typically provides rent-free space and access to its utilities and other infrastructure, and KDL provides the diagnostic equipment and are responsible for all costs relating to personnel, transportation of samples and maintenance of the laboratory. As of March 31, 2019, 2020 and 2021 and as of June 30, 2021, KDL operated 1,222, 1,311, 1,783 and 1,797 diagnostic centres pursuant to the PPP contracts, respectively.

### Arrangements with Private Healthcare Providers

KDL enters into agreements with private healthcare providers to establish diagnostic centres within their existing healthcare facilities. These include hospitals of medical colleges and universities, hospitals and healthcare facilities administered by community health centres and other private healthcare facilities. As of March 31, 2019, 2020 and 2021 and as of June 30, 2021, KDL operated 14, 17, 20 and 26 diagnostic centres pursuant arrangements with private healthcare providers, respectively.

### Strengths

- Unique and scaled diagnostics company
- Strong brand equity
- Extensive footprint across India with robust infrastructure
- Business model with robust revenue visibility
- Well positioned to capitalize on healthcare spending across public and private sectors
- Scalable and agile business model with efficient cost structure
- Consistent track record of financial performance
- Ability to maintain cost competitiveness through operating leverage

### Strategies

- Continue to expand presence across India
- Expand the offering of diagnostic services with a focus on specialized diagnostics
- Grow the digital footprint
- Maintain high social impact
- Continue to improve profitability and efficiency
- Expand the business and geographical footprint through opportunistic acquisitions

### Industry Outlook

The diagnostic industry in India has been estimated to be between Rs.710 billion and Rs.730 billion in FY21, clocking a CAGR of 13% to 14% between FY17 and FY20, mirroring the growth from healthcare delivery services. The industry is expected to grow at approximately 15% and achieve a value of Rs.920 billion to Rs.980 billion between FY21 and FY23. Going forward, the government’s share within the diagnostic industry is projected to grow at a CAGR of between 14% and 17% to Rs.135 billion between FY20 and FY23, driven by government-led programs, extensive PPP models and increasing focus towards healthcare at municipal corporation level.

### Promoter and promoter group

The Promoter of the company is Rajendra Mutha. He currently holds 8,029,920 Equity Shares representing 29.53% of the issued, subscribed and paid-up Equity Share capital of the company.

### Brief Biographies of directors

- **Rajendra Mutha** is the Promoter, Executive Chairman and Whole-time Director of the company. He is currently responsible for the overall management of the Company.
- **Pallavi Bhatevara** is the Managing Director of the company.. She is currently responsible for expansion and growth of the company and is involved in the tendering process and implementation and execution of projects.
- **Yash Mutha** is the Whole-time Director of the company.. He is currently responsible for internal audit, risk review and development of business processes.
- **Prem Pradeep** is the Non-Executive Nominee Director of the company (nominee of Phi Capital).
- **Chhaya Palrecha, Chetan Desai, Prakash Iyer and Rajiva Ranjan Verma** are the Non-Executive Independent Director on the board of the company.



CONSOLIDATED FINANCIALS

PROFIT & LOSS

Y.E March (Rs cr)	FY19	FY20	FY21
Sales	209.2	258.4	396.5
% change	-	23.5	53.4
EBITDA	-37.6	-114.2	93.8
% change	-	-	-
Depreciation	25.6	32.4	37.4
EBIT	-63.2	-146.6	56.4
Interest	19.6	24.7	25.9
Other Income	5.1	13.0	265.0
Exceptional Items	-	-	-
PBT	-77.7	-158.3	295.5
% change	-	-	-
Tax	-19.7	-46.4	110.5
Tax Rate (%)	-25	-29	37
Reported PAT	-58.1	-111.9	184.9
Adj. for fair value & def. Tax on C.C Preference shares.	68	125	-153.4
Adj. PAT	10.1	13.5	31.5
% change	-	33.6	133.0
No. of shares (cr)*	3.14	3.14	3.14
Adj EPS (Rs)	3	4	10
% change	-	32.8	3.3

\*Post issue

CASH FLOW

Y.E March	FY19	FY20	FY21
PBT Adj.	-78	-158	295.5
Non-cash adj.	139.6	225.7	-200.1
Changes in W.C	-3.6	-29.5	7.2
C.F.Operating	58.3	37.8	102.6
Capital expenditure	-100	-76.7	-65
Change in investment	-101	-7.3	-6
Sale of investment	-	-	-
Other invest.CF	1.5	7.4	9.4
C.F - investing	-199.2	-76.7	-61.1
Issue of equity	100.0	-	1
Issue/repay debt	44	30.2	55.5
Dividends paid	-	-	-
Other finance.CF	-20	-24.5	-25.4
C.F - Financing	124.3	5.8	30.8
Change. in cash	-16.7	-33.0	72
Closing cash	-14.5	-47.6	24.7

BALANCE SHEET

Y.E March (Rs cr)	FY19	FY20	FY21
Cash	111.6	127.3	152.9
Accounts Receivable	56.2	61.4	72.5
Inventories	4.2	5.1	7.2
Other Cur. Assets	2.8	1.5	6.5
Investments	28.7	24.7	11.7
Deff. Tax Assets	43.6	92.2	-
Net Fixed Assets	222.4	273.6	307.3
CWIP	41.7	9.1	3.7
Intangible Assets	0.8	1.5	1.2
Other Assets	17.0	33.6	41.5
Total Assets	529	630	605
Current Liabilities	44.7	40.6	82.5
Provisions	5.3	4.9	14.5
Debt Funds	563.9	781.5	275.6
Minority Interests	-	-	-
Def. Tax Liabilities	-	-	-
Equity Capital	20.2	20.2	248.9
Reserves & Surplus	-105.1	-217.2	-17.0
Shareholder's Fund	-84.9	-197.0	231.9
Total Liabilities	529	630	605
BVPS (Rs)	-27	-63	74

RATIOS

Y.E March	FY19	FY20	FY21
Profitab. & Return			
EBITDA margin (%)	-18.0	-44.2	23.7
EBIT margin (%)	-30.2	-56.7	14.2
Net profit mgn.(%)	4.8	5.2	8.0
ROE (%)	-11.9	-6.9	13.6
ROCE (%)	5.2	2.9	4.3
W.C & Liquidity			
Receivables (days)	98	83	58
Inventory (days)	89	61	24
Payables (days)	73	54	72
Current ratio (x)	4.1	4.8	2.6
Quick ratio (x)	3.8	4.6	2.7
Turnover &Levg.			
Net asset T.O (x)	0.9	1.0	1.5
Total asset T.O (x)	0.4	0.4	0.7
Int. covge. ratio (x)	-	-	2.2
Adj. debt/equity (x)	-	-	1.3
Valuation ratios			
EV/Sales (x)	17.0	14.6	8.3
EV/EBITDA (x)	-	-	35.2
P/E (x)	295.8	221.4	95.0
P/BV (x)	-	-	12.9



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