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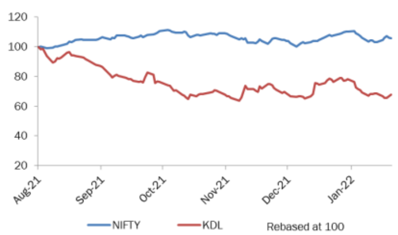
Krsnaa Diagnostics Limited

08 February 2022

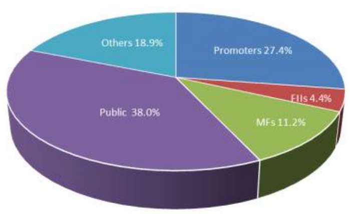
Steady topline expansion, aided by volume growth in core business — BUY

Sector	: Healthcare-Diagnostic
Target Price	: ₹1,115
Last Closing Price	: ₹661
Market Cap	: ₹2,079 crore
52-week High/Low	: ₹1100/624
Daily Avg Vol (12M)	: 2,48,370
Face Value	: ₹5
Beta	: 0.82
Pledged Shares	: Nil
Year End	: March
BSE Scrip Code	: 543328
NSE Scrip Code	: KRSNAA
Bloomberg Code	: KRSNAA IN
Reuters Code	: KRSN.NS
NSE Nifty	: 17,214
BSE Sensex	: 57,621
Analyst	: Research Team

Price Performance



Shareholding Pattern



3Q FY22 Update

Result Analysis

- KDL reported steady performance in 3Q FY22 as revenue from operations grew 8.8% y-o-y to ₹ 106 crores. The growth was primarily driven by the core buisnesses of Radiology and Pathology (+34% y-o-y), which was partially offset by a 93% y-o-y decline in covid-19 revenues due to ebbing of cases.
- For 9M FY22, the company reported volume growth of 81% y-o-y across core test categories as the number of patients grew by 58% y-o-y.
- EBITDA margin for the quarter expanded by 760 bps y-o-y to 28.6%, led by higher volumes in the core businesses and operational efficiencies. Net margins grew by 1,150 bps and 894 bps y-o-y in 3Q FY22 and 9M FY22, respectively.

Outlook & Valuation

Long term PPP contracts and a captive customer base, coupled with cost and operational efficiencies driven by the absence of doctor referral fees, limited expenses on promotions, rent-free space provided in government hospitals, subsidised utility charges, and the unique hub and spoke model in radiology tele-reporting, augur well for the company and provide long term revenue visibility. KDL's total income witnessed a healthy growth of 15.5% y-o-y to ₹ 358 crores in 9M FY22, as we expect it to grow by 38.9% and 19.6% in FY23 and FY24, respectively. We maintain a BUY rating with a target price of ₹ 1,115 based on P/E of 25x FY24E EPS, informing a 69% upside from current levels.

Key Financial Metrics (consolidated)

₹ crores	FY19A	FY20A	FY21A*	FY22E	FY23E	FY24E
Total income	211.5	271.4	408.7	483.4	671.5	803.2
Growth		*28.3%*	*50.6%*	*18.3%*	*38.9%*	*19.6%*
EBITDA	62.1	(101.3)	106.0	153.9	218.7	257.7
EBITDA margin	*29.7%*	*-39.2%*	*26.7%*	*32.8%*	*33.3%*	*32.7%*
PAT	12.5	(112.0)	(67.9)	70.9	117.2	140.0
PAT margin	*6.0%*	*-43.3%*	*-17.1%*	*15.1%*	*17.8%*	*17.7%*
Diluted EPS (₹)	12.95	(108.47)	12.25	22.59	37.31	44.58

*Source: Company data; Khambatta Research. *For FY21, all numbers are adjusted for gain on fair value movement of CCPS except EPS, which is as-reported*

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KDL has delivered a strong bid-win rate of 78% for PPP contracts, enabled by its track record, ability to execute large-scale projects and cost competitiveness. Management affirmed that the progress in setting up new centres was on track as of January-end. By the end of January 2022, the company had operationalised 5 centres in Punjab and 1 centre in Mumbai for Radiology, and 5 processing centers and 42 collection centres in Punjab for Pathology. During 3Q FY22, the contribution from the new Punjab centre was minimal. KDL is well positioned to benefit from the commissioning of new centres with meaningful contribution from them expected to start flowing in from the next fiscal year. The company incurred a capex of ₹ 39 crores in 3Q FY22 with ₹ 100 crores expected to be invested in FY23. KDL has utilized the allocated ₹ 146 crores out of the IPO proceeds to repay the entire debt and is now a debt free company.

Financial Performance (Consolidated)

₹ crores	3Q FY21	2Q FY22	3Q FY22	Y-o-Y	Q-o-Q	9M FY21	9M FY22	Y-o-Y
Total income	100.2	111.5	110.8	10.6%	-0.6%	309.9	358.0	15.5%
EBITDA	20.5	32.4	30.4	48.3%	-6.2%	60.6	104.9	73.1%
EBITDA margin	*21.0%*	*29.9%*	*28.6%*	*760 bps*	*-130 bps*	*20.2%*	*30.2%*	*1000 bps*
PAT	3.3	12.5	16.3	393.9%	30.4%	16.0	50.5	215.6%
PAT margin	*3.2%*	*11.2%*	*14.7%*	*1150 bps*	*350 bps*	*5.2%*	*14.1%*	*894 bps*

Source: Company data; Khambatta Research

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Guide to Khambatta's research approach

Valuation methodologies

We apply the following absolute/relative valuation methodologies to derive the 'fair value' of the stock as a part of our fundamental research:

DCF: The Discounted Cash Flow (DCF) method values an estimated stream of future free cash flows discounted to the present day, using a company's WACC or cost of equity. This method is used to estimate the attractiveness of an investment opportunity and as such provides a good measure of the company's value in absolute terms. There are several approaches to discounted cash flow analysis, including Free Cash Flow to Firm (FCFF), Free Cash Flow to Equity (FCFE) and the Dividend Discount Model (DDM). The selection of a particular approach depends on the particular company being researched and valued.

ERE: The Excess Return to Equity (ERE) method takes into consideration the absolute value of a company's return to equity in excess of its cost of equity discounted to the present day using the cost of equity. This methodology is more appropriate for valuing banking stocks than FCFF or FCFE methodologies.

Relative valuation: In relative valuation, various comparative multiples or ratios including Price/Earnings, Price/Sales, EV/Sales, EV/EBITDA, Price/Book Value are used to assess the relative worth of companies which operate in the same industry/industries and are thereby in the same peer group. Generally our approach involves the use of two multiples to estimate the relative valuation of a stock.

Other methodologies such as DuPont Analysis, CFROI, NAV and Sum-of-the-Parts (SOTP) are applied where appropriate.

Stock ratings

Buy recommendations are expected to improve, based on consideration of the fundamental view and the currency impact (where applicable) by at least 15%.

Hold recommendations are expected to improve, based on consideration of the fundamental view and the currency impact (where applicable) between 5% and 15%.

Sell recommendations are expected to improve up to 5% or deteriorate, based on consideration of the fundamental view and the currency impact (where applicable).

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