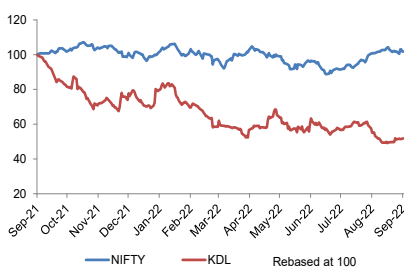


Valuation ever so attractive after correction; long-term prospects intact

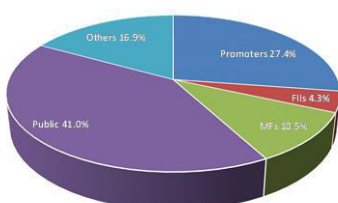
BUY

Sector	: Healthcare-Diagnostic
Target Price	: ₹868
Last Closing Price	: ₹484
Market Cap	: ₹1,519 crore
52-week High/Low	: ₹960/457
Daily Avg Vol (12M)	: 1,18,667
Face Value	: ₹5
Beta	: 0.76
Pledged Shares	: 0.0%
Year End	: March
BSE Scrip Code	: 543328
NSE Scrip Code	: KRSNAA
Bloomberg Code	: KRSNAA IN
Reuters Code	: KRSN.NS
NSE Nifty	: 17,539
BSE Sensex	: 58,803
Analyst	: Research Team

Price Performance



Shareholding Pattern



1Q FY23 Update

Outlook & Valuation

Krsnaa Diagnostics Limited's (KDL's) healthy core business performance from a high base in the corresponding quarter of the previous year was driven by a robust increase in test volumes across modalities. After factoring in procedural delays around the launch of some of the remaining centres from those listed in the RHP (41 CT scanners, 2 MRIs, 24 labs and 190 collection centres), management expects all of them to be operational by the end of 3Q FY23. KDL has won 4 new projects in Rajasthan, Maharashtra, and the two new geographies of Delhi and Tripura with an average duration of >9 years, requiring deployment of 41 CT scanners and 1 MRI, and telereporting across all districts of Tripura. Management reiterated its target of 2x revenues by FY24. KDL has a high share of long-term contracts offering revenue visibility, and with its high conversion ratio, we believe that the company is well-placed to benefit from the tendering of PPP projects across states in the coming quarters and years. The KDL stock has seen a sharp correction since its listing, out of which recent declines can be partly attributed to income tax searches at the company's offices. Management clarified that no income tax claim or demand has been made yet in relation to the search. The stock is currently trading at an attractive valuation of 10x FY24E forward EPS. Revising our forecasts based on the latest data-points, we value KDL at 18x (lowering from 20x to factor in emerging incremental risks) FY24E EPS, reiterating a BUY rating with a target price of Rs 868 (reduced from Rs 1,106) and upside of 79%.

Key Financial Metrics (Consolidated)

₹ crore	FY19A	FY20A	FY21A *	FY22A	FY23E	FY24E
Total income	211.5	271.4	408.7	470.4	647.6	919.9
Growth		28.3%	50.6%	15.1%	37.7%	42.0%
EBITDA	62.1	(101.3)	106.0	146.4	191.3	281.1
EBITDA margin	29.7%	-39.2%	26.7%	32.1%	30.3%	31.2%
PAT	12.5	(112.0)	(67.9)	68.4	91.5	151.3
PAT margin	6.0%	-43.3%	-17.1%	15.0%	14.5%	16.8%
Diluted EPS (₹)	12.95	(108.47)	12.25	22.88	29.13	48.20

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

Results Analysis

- KDL reported healthy growth in 1Q FY23 volumes and revenues from a high base in 1Q FY22. Core business revenues expanded 10.5% y-o-y to Rs 112.6 crore as volumes witnessed robust growth to clock 54.2 lakh tests in the quarter (+50.6% y-o-y / +13.4% q-o-q).
- Overall operating revenues declined 14.8% y-o-y to Rs 112.9 crore as Covid-19 revenues dropped 99.0% y-o-y from Rs 30.6 crore in 1Q FY22 to only

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Rs 0.3 crore in 1Q FY23 as the number of Covid cases in the country drastically fell after the third (Omicron) wave in Jan-Feb 2022.

- The revenue mix included 52% radiology, 38% pathology, and 10% telereporting, while Covid-19's share was insignificant.
- EBITDA fell 27.5% y-o-y to Rs 32.4 crore as EBITDA margin slid ~540 bps y-o-y to 27.6% due to the impact of additional costs incurred for onboarding teams to operate newly-launched centres.
- PAT was down 34.2% y-o-y to Rs 14.2 crore as PAT margin declined ~380 bps y-o-y to 12.1%.

Financial Performance (Consolidated)

₹ crore	1Q FY22	4Q FY22	1Q FY23	Y-o-Y	Q-o-Q
Total income	135.7	112.4	117.5	-13.4%	4.6%
EBITDA	44.7	32.1	32.4	-27.5%	0.9%
EBITDA margin	33.0%	28.6%	27.6%	-537 bps	-100 bps
PAT	21.6	17.9	14.2	-34.2%	-20.7%
PAT margin	15.9%	16.0%	12.1%	-381 bps	-387 bps
Diluted EPS, reported (₹)	7.95	5.40	4.51	-43.3%	-16.5%

Source: Company data, Khambatta Research

Profit & Loss Account (Consolidated)

₹ crore	FY19A	FY20A	FY21A *	FY22A	FY23E	FY24E
Total income	211.5	271.4	408.7	470.4	647.6	919.9
Growth		28.3%	50.6%	15.1%	37.7%	42.0%
Cost of service & operations	149.5	372.6	302.6	324.0	456.4	638.7
EBITDA	62.1	(101.3)	106.0	146.4	191.3	281.1
EBITDA margin	29.7%	-39.2%	26.7%	32.1%	30.3%	31.2%
Depreciation & amortisation	25.6	32.4	37.4	41.4	63.5	72.3
EBIT	36.5	(133.7)	68.6	105.0	127.8	208.8
PBT	20.6	(158.3)	42.7	86.5	121.2	200.4
Tax expense	8.2	(46.4)	110.5	18.1	29.7	49.1
PAT	12.5	(112.0)	(67.9)	68.4	91.5	151.3
PAT margin	6.0%	-43.3%	-17.1%	15.0%	14.5%	16.8%
Diluted EPS (₹)	12.95	(108.47)	12.25	22.88	29.13	48.20

*All numbers are adjusted for gain on fair value movement of CCPS except EPS, which is on as-reported basis

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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