

August 3, 2021

Incorporated in 2010, Krsnaa Diagnostics (Krsnaa) is one of the largest differentiated diagnostic service providers in India. The company provides a range of diagnostic services such as imaging, pathology/clinical laboratory and tele-radiology services to public and private hospitals, medical colleges and community health centres Pan-India. It mainly operates through PPP model, under which it collaborates with central, state and municipal government operated health and medical facilities for the deployment and operation of diagnostic centres. It also partners with several private sector hospitals and health centres to establish diagnostic centres within their premises. As of June FY21, it operated 1,823 diagnostic centres offering radiology and pathology services in 13 states across India.

Quality services at affordable rate

The company believes it provides quality services at competitive rates while following accreditations and protocols in line with best industry practice. For example, the cost of radiology tests it provides is 45-60% lower than market rates while the cost of pathology tests are 40-60% lower than market rate.

Long term contracts for better visibility

The terms of contract with public health agencies ranges between two and 10 years and typically include a term extension clause based on performance and mutual agreement. Further, considering services at competitive rates, public health agencies have expanded the coverage of the scope of the company's services to additional centres without any additional bidding process.

Key risk & concerns

- Payment dependent on existing contracts with public health agencies
- Uncertainty on winning new contracts
- Pandemic impact on imaging segment
- Highly capital incentive business
- Inability to revise price in tender business

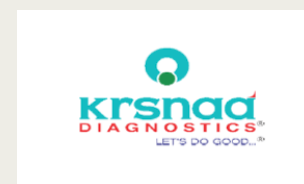
Priced at FY21 EV/EBITDA of 32x on upper band

The company has a strong pan-India presence in high capital incentive imaging and pathology services mainly in Tier II and III government hospitals via PPP tender contracts. In addition to the PPP segment, the company has been growing its collaboration with private healthcare providers to operate diagnostic centres within their facilities. However, generation of free cash flow is likely to remain a challenge as it operates in a high capex low opex segment. Similarly, we also wait for more stability and consistency in the profitability measures, going ahead.

Key Financial Summary

₹ crore	FY19	FY20	FY21	CAGR FY19-21 (%)
Revenue from Operations	209.2	258.4	396.5	37.7%
Adjusted EBITDA	57.9	62.8	93.8	27.3%
EBITDA Margins (%)	27.7%	24.3%	23.7%	
Adjusted PAT	9.6	13.5	31.5	80.8%
EPS (₹)	3.1	4.3	10.0	
P/E (x)	310.4	221.3	95.0	
P/B (x)	-11.2	-4.8	4.1	
RoE (%)	-11.4	-6.9	13.6	
RoCE (%)	-63.8	-27.8	20.0	

Source: RHP, ICICI Direct Research



Particulars

Issue Details

Issue Opens	4th Aug 2021
Issue Closes	6th Aug 2021
Issue Size (₹ crore)*	1213.3
Fresh Issue	400.0
Price Band (₹)	₹ 933 - ₹ 954
No. of Shares on Offer (in crore)	1.3
QIB (%)	75
Retail (%)	10
Minimum lot size (no of shares)	15
* based on upper price band of ₹ 954	

Shareholding Pattern (%)

	Pre-Issue	Post-Issue
Promoter Group	31.62	27.4
Public	68.4	72.6

Objective of issue

Objects of issue	₹ crore
Financing Diagnostic Centres at Punjab, Karnataka, Himachal Pradesh & Maharashtra	150.8
Repayment of borrowings	146.1
General Corporate Purposes	103.1
Fresh Issue	400.0
Offer for Sale*	813.3

*Upper Band

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Company background

Incorporated in 2010, Krsnaa Diagnostics (Krsnaa) is one of the largest differentiated diagnostic service provider in India (Source: Crisil Report). It provides a range of diagnostic services such as imaging (including radiology), pathology/clinical laboratory and tele-radiology services to public & private hospitals, medical colleges and community health centres pan-India. According to the Crisil Report, it also operates one of India's largest tele-radiology reporting hubs in Pune that is able to process large volumes of X-rays, CT scans and MRI scans round the clock and 365 days a year and allows it to serve patients in remote locations where diagnostic facilities are limited. The company provides quality and inclusive diagnostic services at affordable rates across various segments. **Since inception, it has served more than 2.3 crore patients.**

It focuses on the public private partnership (PPP) diagnostics segment and has the largest presence in the diagnostic PPP segment (Source: Crisil Report). Its PPP agreements are typically long-term in nature. As of June 30, 2021, it has deployed 1,797 diagnostic centres pursuant to PPP agreements with public health agencies. In addition to the PPP segment, the company has been growing its collaboration with private healthcare providers to operate diagnostic centres within their facilities and has expanded from operating 14 diagnostic centres, in FY19 to 26 as of June FY21.

Exhibit 3: Operating parameters

	FY19	FY20	FY21	1QFY22
Diagnostic Centres				
Radiology	833.0	897.0	1365.0	1370
Pathology (incl collection and processing centers)	440.0	455.0	465.0	487
Collection Centres	409.0	422.0	425.0	443
Processing Centres	31.0	33.0	40.0	44
Tests Conducted				
Radiology	1950356.0	3476253.0	3054032.0	790198
Pathology	5441779.0	7176459.0	6319285.0	2803747
Equipment				
CT Scan	44.0	53.0	62.0	62
X-Ray	804.0	860.0	876.0	937
MRI	18.0	23.0	26.0	27

Source: RHP, ICICI Direct Research

Exhibit 3: Financials parameters

₹ crore	FY19	FY20	FY21
Revenues	209.2	258.4	396.5
Contracts with Public Health Agencies	150.7	188.4	267.6
Contracts with Private Healthcare Providers	58.6	70.0	128.9
% of sales			
Public Health Agencies	0.7	0.7	0.7
Private Healthcare Providers	0.3	0.3	0.3

Source: RHP, ICICI Direct Research

Krsnaa has an extensive network of integrated diagnostic centres across India primarily in non-metro and lower tier cities and towns. **As of June FY21, it operated 1,823 diagnostic centres** offering radiology and pathology services in 13 states across India. Its operating model involves diagnostic centres operated under a hospital partnership model. These diagnostic centres are located within existing facilities of public and private hospitals or community health centres and operated pursuant to arrangements with public health agencies and private healthcare providers. In FY21 and Q1FY22, it served 51.8 lakh patients and 18.8 lakh patients, respectively. In line with its focus on providing inclusive and affordable services, it offers diagnostic services at competitive rates and at significantly lower rates than players with revenues exceeding ₹ 150 crore (Source: Crisil Report). For example, the cost of radiology tests it provides is 45-60% lower than market rates while the cost of pathology test are 40-60% lower than market rate (Source: Crisil Report). The company believes that its brand is associated with quality diagnostic and healthcare services at affordable rates.

Krsnaa offers a range of diagnostics imaging services and clinical laboratory tests that include both routine and specialised tests/studies and profiles, which are used for prediction, early detection, diagnostic screening, confirmation and/or monitoring of diseases. Its diagnostic imaging/radiology services include conducting X-rays, CT scans, MRI scans, ultrasounds, bone mineral densitometry and mammography. In the company's pathology segment, primary focus includes biochemistry, haematology, clinical pathology, histopathology and cytopathology, microbiology, serology and immunology. A suite of diagnostic equipment is located at its tele-radiology hub along with a team of radiologists, which provide significant operating efficiencies and scalability.

As of June 30, 2021, it had a team of 190 radiologists, 30 pathologists, eight microbiologists and more than 2,800 qualified professionals including clinicians, technicians and operators. It continues to make investments in equipment and in technology platforms, to ensure they meet requisite industry standards and accreditations like NABL and NABH. Its diagnostic equipment is procured from leading OEMs including Wipro GE Healthcare Pvt Ltd, Siemens Healthcare Pvt Ltd, Fujifilm India Pvt Ltd, Horiba India Pvt Ltd and Agappe Diagnostics. Its equipment is covered by comprehensive maintenance contracts with OEM suppliers to ensure requisite equipment uptime and regular servicing and calibration. In the pathology segment, it obtains quality assessment reports and undertakes comparison of results across diagnostic centres.

Competitive Strengths

Unique, scaled diagnostics company

The company is one of the largest differentiated diagnostic service providers in India. It provides a range of technology enabled diagnostic services such as imaging (including radiology), pathology/clinical laboratory and tele-radiology services to public & private hospitals, medical colleges and community health centres pan-India. In the PPP segment, it collaborates with central, state and municipal government operated health and medical facilities for deployment and operation of diagnostic centres. It also partners with several private sector hospitals and health centres to establish diagnostic centres within their premises. Since inception and as Q1FY22, it has been awarded 38 contracts on a PPP basis, of which 32 have been executed. In the private healthcare segment, it has 26 active collaborations. The company operates a hospital partnership model where diagnostic centres operate and are located within the existing premises of hospitals, health centres and support them with onsite testing.

It offers imaging (including radiology), pathology/clinical laboratory and tele-radiology services across India. In the radiology segment, it provides X-rays, CT scans, MRI scans, ultrasounds, bone mineral densitometry, mammography amongst others. In the pathology segment, it provides a spectrum of services ranging from routine tests such as CBC or blood glucose to highly specialised investigations for infectious diseases, cancer markers, hormonal assays and therapeutic drug assays. It also provides home collection of samples for the convenience of end-customers.

	FY19	FY20	FY21	1QFY22
Radiology				
CT Scans	297264	434042	479233	218661
MRIs	118861	192977	145116	36454
X-rays	1534231	2849234	2429683	535083
Pathology				
	5441779	7176459	6319285	2803758
Total	7392135	10652712	9373163	3593956

Source: RHP, ICICI Direct Research

The company's business is focused on providing diagnostic services to the mass segment, particularly in Tier II, Tier III cities and towns in India in addition to metros and Tier I cities. Its patient base includes large segments of government employees and their families, including public administrative officials, defence personnel, members of the judiciary and patients covered under the National Health Scheme. As of the end of FY21 and Q1FY22, it has served 51.8 lakh and 18.8 lakh patients, respectively. The company believes that its large network of diagnostic centres, together with the quality of services at competitive rates, have been key factors in the significant growth it has experienced.

Tele reporting is a critical and unique aspect of the company's business. It operates a large tele-radiology reporting hub in Pune, which is among the largest in India and equipped with sophisticated equipment and operated by a panel of experts and qualified radiologists that enable it to serve patients in remote locations where diagnostic facilities are limited. 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, including over 126,000 CT scans, over 31,500 MRIs and over 1,500,000 X-rays per month. In FY21, the company's tele-reporting network covered over 479,233 CT scans for 468,753 patients, 145,116 MRIs for 134,645 patients and 2,429,683 X-rays for 2,405,077 patients, respectively.

Strong brand equity

It continues to focus on and believes the Krsnaa brand is associated with providing quality and reliable healthcare services at affordable prices. The company believes it provides quality services at competitive rates while following accreditations and protocols in line with best industry practice. For example, the cost of radiology tests it provides is 45–60% lower than market rates while the cost of its pathology tests are 40–80% lower than market rates (Source: Crisil Report). The range of diagnostic services it offers, together with the scale of operations allows it to achieve economies of scale and provide competitive pricing for operations. A number of its diagnostic centres are accredited with NABL or NABH. It ensures that the look and feel of its diagnostic centres is consistent, which helps brand visibility and increases brand recall. The company believes this approach has enabled it to generate brand equity in the semi-urban and rural areas that it primarily caters to, where the presence of diagnostics chains is limited.

Extensive footprint across India with robust infrastructure

The company's network of diagnostic centres spans 13 states across India and as of Q1FY22 was present in over 1,800 locations. It commenced operations in FY11 with two radiology diagnostic centres and as of Q1FY22, has established 1,370 radiology diagnostic centres and 487 pathology diagnostic centres including 443 collection centres. The company has a significant presence in each state where it operates. As part of the diagnostic centres it establishes, it has deployed and operates diagnostic centres across multiple locations within a particular state. For example, it operated 24 private diagnostics centres and 590 centres in collaboration with public health agencies across 36 districts in Maharashtra where it provides radiology, pathology and tele-radiology services as of Q1FY22. It attributes the growth of diagnostic centres across India primarily to its ability to understand and analyse new markets and to project management and execution capabilities.

Exhibit 1: Network diagnostics centres map



Source: RHP, ICICI Direct Research

Business model with robust revenue visibility

The company's operations across radiology and pathology provide it with diversified sources of revenue. Its PPP agreements, to deploy diagnostic centres for radiology and pathology services are typically long-term contracts that ensure visibility of revenues for its operations. **The terms of contract with public health agencies ranges between two and 10 years and typically include a term extension clause based on performance and mutual agreement.** Further, considering services at competitive rates, public health agencies have expanded the coverage of the scope of the company's services to additional centres without any additional bidding process.

The company's cost efficient operations also help bid at competitive prices thereby allowing it to convert more bids into projects. Its ability to ensure competitive pricing allows it to address regulatory price limits on tests that may be stipulated by the government to keep healthcare costs in check.

Well positioned to capitalise on healthcare spending across public, private sectors

Crisil Research estimates the size of the diagnostic industry in India to be between ₹ 71000 crore and ₹ 73000 crore in FY21, clocking a CAGR of 13-14% in FY17-21, mirroring the growth from healthcare delivery services. The industry is expected to grow at 14-17% and achieve a value of ₹ 92000-98000 crore in FY20-23. Going forward, the government's share within the diagnostic industry is projected to grow at 14-17% CAGR to ₹ 12500-13500 crore in FY20-23, driven by government-led programmes. The National Health Mission (NHM) seeks to achieve universal access to equitable, affordable and quality health care services that are accountable and responsive to people's needs. Under NHM, the PPP model has gained traction. The PPP model aids the expansion of quality healthcare services into less-developed and remote regions of India (Source: Crisil Report).

The company's track-record of executing PPP contracts across India with public health agencies to provide diagnostic services within public hospitals will ensure that it benefits from such increased healthcare spending. **Since commencing, it has completed 32 PPP contracts and as of Q1FY22 operated 1,797 diagnostics centres in public healthcare facilities across 13 states.** The company believes it is a preferred partner for public health agencies in implementing diagnostic centres. This is evident from its bid-win rate of 77.59% for tenders that it has bid for since commencement of operations, including a 100% qualification rate on technical grounds. Revenue from sale of service to public health agencies was ₹ 267.570 crore in FY21 and represented 67.49% of total revenue from operations.

Given Krsnaa's ability to deploy and operate diagnostic centres in tier II, tier III cities and towns, private players in the healthcare industry also engage it to establish diagnostic centres in such areas within their existing facilities. As of Q1FY22, the company has established partnerships with six private medical colleges, 18 private tertiary hospitals and two private laboratories, reflecting its ability to provide quality diagnostic services in the private sector as well. As of Q1FY22, it had 26 contracts with non-government customers to establish and operate diagnostic centres, respectively, and generated ₹ 128.886 crore revenue from such contracts in FY21.

Scalable, agile business model with efficient cost structure

The company's operations across 13 states allows it to deploy new locations faster and efficiently. Its tele-reporting operations allow to centralise resources and ready-to-build locations make operations scalable. The company has deployed 1,797 diagnostic centres on a PPP basis, as of June 30, 2021. The company believes that its ability to establish and operate diagnostic centres across various segments and locations in India has contributed to growth and leadership position in the Indian diagnostic industry.

Key Risks & Concerns

Payments depends on contracts

Over the last few years, a significant majority of the company's revenue from operations has been generated from contracts with public health agencies. Revenue from sale of service to public health agencies was 67.49% of FY21 revenues. Hence, the company's future success is dependent to a large extent on its ability to maintain good relationships with public health agencies. If relationships with these entities deteriorate or if it is unable to fulfil contractual obligations, its contracts may be terminated and these entities may contract with other providers.

Uncertainty on winning future contracts

'A majority of the company's diagnostic centres have been established and operate under PPP contracts awarded by government agencies through a competitive bidding process. In FY19, FY20 and FY21, it bid for eight, two and 12 tenders, respectively, through a competitive bidding process and was awarded six, two and eight tenders, respectively. It spends considerable time and resources in the preparation and submission of bids. There is no assurance that it will be able to bid for tenders where it has been prequalified, or that its bids will be successful.

Impact of pandemic

Due to the Covid-19 pandemic, the company has experienced significant volatility. Amid Covid -19, Krsnaa witnessed a decline in volumes and corresponding revenues in radiology business. The number of radiology tests it performed in FY20 were 7,176,459 while it conducted 6,319,285 tests in FY21. Revenues from radiology business declined from ₹ 167.3 crore in FY20 to ₹ 161.9 crore in FY21. It may have incurred additional costs in order to provide for the safety of employees and the continuity of operations, including increased frequency of deep cleaning and sanitation at each diagnostic centre, additional safety training & processes, enhanced hygiene practices and materials, flexible & remote working where possible, and allowing for greater social distancing for employees who must work on-site.

Capital incentive business

The company's business is capital intensive. If it experiences insufficient cash flows from operations or is unable to borrow to meet capital requirements, it may materially and adversely affect business and results of operations.

Inability to revise price in tender business

The prices that it charges for all services are fixed under the contracts it enters into with public and private healthcare service providers. Reference prices of government services, pricing limits imposed by the government and any government linked insurance schemes may limit its ability to determine or revise the prices of the services it offers.

Financial summary

Exhibit 4: Income Statement

Revenue (₹ crore)	FY19	FY20	FY21
Revenue from operations	209.2	258.4	396.5
Other income	5.1	13.0	12.2
Total revenue	214.3	271.4	408.7
Raw Material Expenses	17.3	27.7	83.7
Employee expense	18.3	23.1	29.6
Other expenses	211.2	321.8	189.3
Total Expenses	246.8	372.6	302.6
Adjusted EBITDA	57.9	62.8	93.8
Finance costs	19.6	24.7	25.9
Depreciation and amortisation expens	25.6	32.4	37.4
Profit before tax and exceptional item:	17.8	18.7	42.7
Exceptional items	0.0	0.0	252.8
Profit before tax	-77.7	-158.3	295.5
Adjusted Tax expense	8.1	5.2	11.1
Total Tax	-19.7	-46.4	110.5
Profit after tax before Minority interes	-58.1	-112.0	184.9
Profit after tax	-58.1	-112.0	184.9
Adjusted PAT	9.6	13.5	31.5

Source: RHP, ICICI Direct Research

Exhibit 6: Balance Sheet

Balance Sheet (₹ crore)	FY19	FY20	FY21
Equity and liabilities			
Shareholders' funds			
Share capital	5.2	5.2	6.5
Reserves and surplus	-90.1	-202.1	225.4
Non-current liabilities			
Long-term borrowings	92.0	122.7	168.0
Deferred tax liabilities (net)	0.0	0.0	10.7
Other non-current liabilities	348.6	523.4	10.2
Current liabilities			
Short-term borrowings	54.0	92.3	34.7
Trade payables	41.7	38.1	78.6
Other current liabilities	77.6	50.4	70.5
Total	529.0	630.0	604.5
Assets			
Non current assets			
Fixed assets			
Tangible assets	222.4	273.6	307.3
Capital work in progress	41.7	9.1	3.7
Intangible assets	0.7	1.5	1.2
Intangible assets under development	0.1	0.0	0.0
Non-current investments	0.3	0.3	0.3
Deferred tax assets (net)	43.6	92.2	0.0
Other financial assets	20.2	16.5	16.0
Other non-current assets	11.4	23.2	27.9
Current assets			
Inventories	4.2	5.1	7.2
Trade receivables	56.2	61.4	72.5
Cash and bank balances	111.6	127.3	152.9
Other current assets	16.5	19.8	15.5
Total	529.0	630.0	604.5

Source: RHP, ICICI Direct Research

Exhibit 5: Cash Flow Statement

Cash Flow (₹ crore)	FY19	FY20	FY21
PBT	-77.7	-158.3	295.5
Operating profit before working capital	61.9	67.3	95.4
Changes in working capital	3.4	-19.3	14.8
Income tax paid	-7.0	-10.2	-7.7
CF from operating activities	58.3	37.8	102.6
(Purchase)/Sale of Fixed Assets	-99.8	-76.7	-64.8
Interest Received	1.5	7.4	9.4
Investment in bank deposits	-100.9	-7.3	-5.7
CF from investing activities	-199.3	-76.6	-61.1
Proceeds from issue of share capital	100.0	0.0	0.7
Adj. of Loan	44.2	30.2	55.5
Interest Paid	-15.8	-24.4	-25.4
Other Financial Activities	-4.0	-0.1	0.0
CF from financing activities	124.3	5.8	30.8
Net Cash Flow	-16.7	-33.1	72.3
Opening Cash	2.2	-14.5	-47.6
Closing Cash Flow	-14.5	-47.6	24.7
FCF	-41.5	-38.9	37.7

Source: RHP, ICICI Direct Research

Financial summary

Exhibit 7: Key Ratios			
Ratio Sheet	FY19	FY20	FY21
Per share data (₹)			
Diluted EPS	3.1	4.3	10.0
Cash EPS	11.2	14.6	22.0
BV per share	-27.1	-62.8	73.9
Cash Per Share	35.6	40.6	48.7
Operating Ratios (%)			
Gross Profit Margins	91.7	89.3	78.9
EBITDA Margins	27.7	24.3	23.7
PAT Margins	4.6	5.2	8.0
Inventory days	7.3	7.2	6.6
Debtor days	98.1	86.8	66.7
Creditor days	72.8	53.8	72.3
EBITDA Conversion Rate	100.6	60.2	109.3
Return Ratios (%)			
RoE	-11.4	-6.9	13.6
RoCE	-63.8	-27.8	20.0
RoC	-35.0	-25.7	20.3
Valuation Ratios (x)			
EV / Sales	14.5	11.9	7.7
EV/EBITDA	52.3	49.1	32.4
Market Cap / Sales	14.3	11.6	7.6
P/E	310.4	221.3	95.0
Price to Book Value	-11.2	-4.8	4.1
Solvency Ratios			
Debt / EBITDA	2.5	3.4	2.2
Debt / Equity	-1.7	-1.1	0.9
Net Debt/ Equity	-0.4	-0.4	0.2
Current Ratio	1.6	2.4	1.7
Quick Ratio	1.5	2.4	1.6
Asset Turnover	0.8	0.9	1.3

Source: RHP, ICICI Direct Research, considered upper band for calculations

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