



Choice

Nurturing Financial Excellence

IPO REPORT

**“Subscribe with Caution” to
Krsnaa Diagnostics**

‘Profitability likely to remain contained’

Salient features of the IPO:

- **Krsnaa Diagnostics Limited (KDL)** provides specialized diagnostic services including radiology, pathology and tele-radiology services at affordable rates.
- Out of the fresh issue size of Rs400 cr, Rs146 cr will be utilized for repayment of debt, Rs151 cr for capital expenditure and balance for general corporate purpose.

Competitive 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 capitalized on healthcare spending across public and private sectors
- Scalable and agile business model with efficient cost structure
- Ability to maintain cost competitiveness through operating leverage

Valuation: At the higher price band of Rs954, the issue is valued at trailing P/S of 7.6x.

Below are few key observations of the issue: (continued in next page)

- India's healthcare expenditure stood at 3.5% of GDP in 2018, which was well below to developed countries like US (16.9% of GDP) and UK (10% of GDP), as per the WHO report mentioned in RHP. Under penetration of healthcare services was due to less spending by govt as well as people due to lack of awareness for health. However, over the past few years, govt enhanced focus to develop the health infrastructure of the country with the implementation of flagship schemes like NHM.
- PPP models in diagnostics have gained traction recently due to govt's enhanced focus on strengthening primary healthcare centres, increasing the number of health and wellness centres. PPP segment of healthcare services is a large target market and its market size is expected to grow at a CAGR of ~17% to Rs135 bn during FY21-FY23 on the back of higher government spending in the PPP segment.
- Krsnaa Diagnostics Limited (KDL), established in 2010, is one of the largest differentiated services provider in India majorly operating under PPP model. KDL provides specialized diagnostic services through 1,823 centres including radiology, pathology and tele-radiology services at affordable rates to public and private hospitals, medical colleges and community health centres pan India across 13 states. KDL caters primarily to mass segment particularly in tier II and tier III cities.
- Under radiology segment, major services include X-rays, CT scans, MRI scans, ultrasounds, while under pathology segment, the company provides services ranging from routine tests such as CBC or blood glucose to highly specialized investigations for infectious diseases, cancer markers, hormonal assays. The company generates ~60% of business from pathology and 40% from the radiology.

Recommendation	Subscribe with Caution
Price Band	Rs933 - Rs954 per share
Face Value	Rs5 per share
Fresh Issue Size	Rs400 cr
Share for Fresh Issue (at higher price band)	0.42 cr
OFS Issue Size (at higher price band)	Rs813 cr
Total Issue Size	Rs1,213 cr
Bidding Date	Aug 04' 2021 - Aug 06' 2021
MCAP at Higher Price Band	Rs2,994 cr
Book Running Lead Manager	JM Financial Limited, DAM Capital Advisors Limited, Equirus Capital Private Limited, IIFL Securities Limited
Registrar	KFin Technologies Private Limited
Industry	Healthcare

Retail application money at higher cut-off price per lot	
Number of shares per lot	15
Application Money	Rs14,310 per lot

Allocation Detail	
Qualified Institutional Buyers (QIBs)	75%
Non-Institutional Investors (NIIs)	15%
Retail Individual Investors (RIIs)	10%

Shareholding Pattern		
	Pre-Issue	Post Issue
Promoter & promoter group	31.6%	27.4%
Public	68.4%	72.6%
Total	100.0%	100.0%

Source: Choice Broking Research, RHP

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- KDL is one of major player under the PPP model with 1,797 diagnostic centres located within the govt hospitals. In FY21, around 67.5% of KDL's revenues came from the various PPP tie-ups which the company has entered into.
- The company collaborated with central, state and municipals through the tender process for the establishment of diagnostic centres within public premises (hospitals). The company high bid-win rate of 77.6% for tenders can be attributed to competitive prices. **KDL offers radiology test at 45-60% cheaper and pathology test at 40-80% cheaper to market rates. Though, low prices also weighted on EBIDTA margin which stood at 23.7% in FY21 compared to peers of over 30%. Contract term with public hospital is 10 years and typically include a term extension clause based on performance and mutual agreement.**
- KDL also operates 26 diagnostic centres with partnership of private hospitals under which they work under the model of revenue sharing (~6%). As per the mgmt, prices in private hospital are stood at 10-15% higher compared to public hospital but the segment generate lower EBIDTA comparatively due to revenue sharing and higher fees paid to hospitals.
- The company conducted CT scan test at 4.8 lakh, MRI at 1.45 lakh, X-ray at 24.3 lakh and pathology test of 63.2 lakh in FY21. Total test increased to 93.7 lakh in FY21 from 73.9 lakh in FY19.
- The company is under long term contracts with govt (10 years clause with further extension) which shows revenue visibility; further low rent for public premises and low marketing to attract captive customers is supporting business growth and margin.
- **As per the company, disruptive pricing in the industry makes KDL's product pricing offering attractive. Coming to specific test, KDL's CT brain test/MRI Brain/Thyroid is 43%/50%/57% cheaper to market min prices. While company keeps competitive prices to win tender, it is impacting the profitability of business. Company EBIDTA stood at 23.7% in FY21 as compared to peer average of 31.2%. Adjusting with fair value gain of CCPS, the company reported loss ~Rs68 cr in FY21 despite reporting 53% YoY growth in operating revenue.**
- **We see limited EBIDTA margin expansion as under PPP model, prices remain fix during the contract period. While the company has presence in private hospitals (32% of revenue in FY21), higher competitions within the industry peers to keep services' prices under check. Furthermore, as the company deals with govt, uncertainty around payments remains high in the future (debtor days stood 67 days in FY21).**
- **KDL is loss making on adjusted PAT basis making P/E comparison with peers irrelevant. On P/S basis, at the higher price band of Rs954, the issue is valued at P/S of 7.6x. Based on our quick estimates, the issue is valued at P/E of 72x on FY23E compared to peers' average P/E ~55x. Thus, KDL's issue seems aggressively priced.**
- **Future profitability trend is expected to remain contained due to limited scope for EBIDTA expansion and prevailing high competitions within the industry players. Considering all above parameters, we assign 'Subscribe with Caution' rating to the issue.**

Peer comparison

Companies	CMP (Rs/s)	6M (R%)	12M (R%)	M Cap (Rs cr)	EBIDTA Mar. (%)	NPM (%)	RoE (%)	RoA (%)	Sales CAGR FY19-FY21	EPS (Rs/sh)	BVPS (Rs/sh)	EV (Rs cr)
Krsnaa Diagnostics	954	-	-	2,994	23.7%	-17.1%	-10.7%	-6.8%	37.7%	-21.6	201.3	3,044
Metropolis Healthcare	2,883	29.3%	81.0%	14,415	29.1%	18.3%	25.9%	18.3%	14.5%	36.6	141.2	14,107
Dr. Lal PathLabs	3,716	57.0%	88.0%	30,843	30.0%	20.5%	31.1%	23.7%	14.6%	47.5	152.4	29,917
Thracecare Technologies	1,325	47.0%	87.0%	7,023	34.5%	22.8%	26.5%	20.9%	10.8%	21.3	80.6	7,015

Companies (Rs cr)	P/E (x)	P/BV (x)	P/S (x)	EV/EBIDTA (x)	EV/Sales (x)	D/E (x)	Net Worth	Share Capital	Sales TTM	EBIDTA TTM	PAT TTM	Total Assets
Krsnaa Diagnostics	-44.1	4.7	7.6	32.4	7.7	0.3	632	16	396	94	(68)	1,005
Metropolis Healthcare	78.8	20.4	14.4	48.6	14.1	0.2	706	10	998	290	183	1,000
Dr. Lal PathLabs	78.3	24.4	16.0	51.8	15.6	0.0	1,265	83	1,922	577	394	1,661
Thracecare Technologies	62.1	16.4	14.2	41.0	14.2	0.0	427	53	495	171	113	541

*-Krsnaa Diagnostics - net worth, assets are calculated on post issue basis, EPS is negative due to adjustment with fair value gain Source: Choice Broking Research, RHP

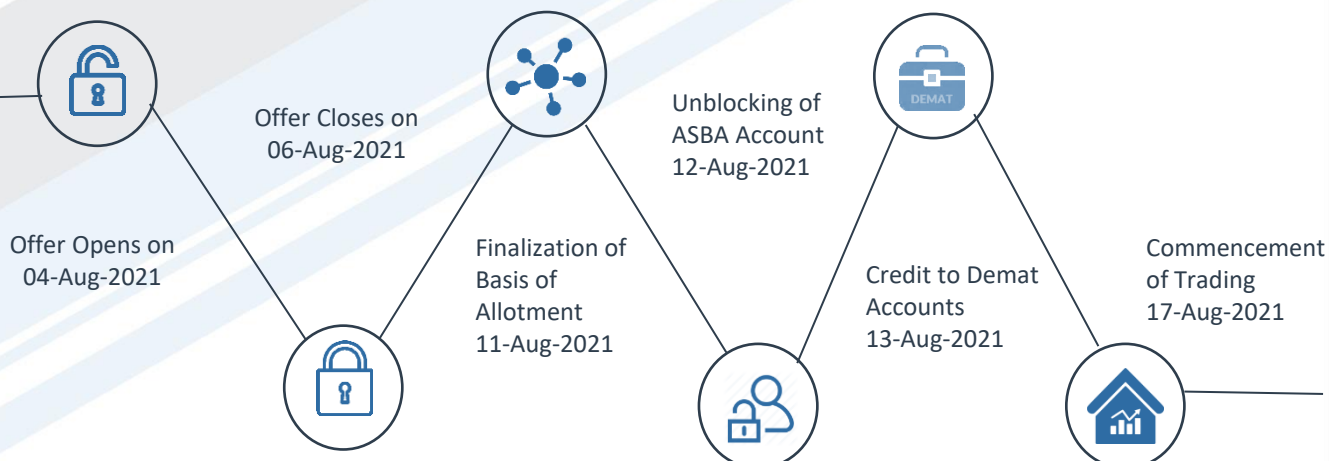
About the issue:

- Krsnaa Diagnostics Limited (KDL) is coming out with initial public offering of Rs1,213cr.
- IPO comprises fresh issue of Rs400 cr and offer for sale (OFS) of 0.85 cr shares
- At the higher price band of Rs954, fresh number of shares are stood at 0.42 cr. While OFS size comes at Rs813 cr.
- Promoter and promoter group is not participating in the OFS.
- Three private equity players are partially offloading their stake through the issue. Through OFS, Kitara PIIN is selling Rs319 cr, PHI Capital Trust of Rs153 cr, Somerset Indus Healthcare at Rs340 cr and individual investor namely Lotus Mgmt at Rs2 cr.
- Post issue, promoters stake will reduced to 27.4% from 31.6% pre issue due to equity dilution.
- Issue will open for subscription on Aug 04' 2021 and close on Aug 06' 2021
- Not less than 75% of the net offer shall be available for allocation on a proportional basis to a qualified institutional investors (QIIs).
- Further not more than 15% shall be available for allocation on a proportional to non-institutional investors (NIIs) and not more than 10% of net offer shall be available for allocation to Retail Institutional Investors (RIIs).
- Employee reservation portion is kept at Rs20 cr share which comes at 0.02 cr shares at higher price band. Employee will get Rs93 discount per share.
- Average cost of acquisition for selling shareholders include Kitara at Rs67, Somerset at Rs67, PHI Capital at Rs157 and Lotus Management at Rs67.

Objective of Offer

Fresh Issue	Rs400 cr
Repayment/ pre-payment, in full or part, of certain borrowings availed by company	Rs146 cr
Finance the cost of diagnostics centres at Punjab, Karnataka, Himachal Pradesh and Maharashtra	Rs151 cr
General corporate purposes	Rs103 cr

Indicative IPO process time line:



Company Introduction and Business Overview:

Krsna Diagnostics Limited (KDL) is one of the largest differentiated diagnostics services providers in India majorly involved in the PPP model of diagnostics with the government. The company has a pan India presence across 13 states. KDL is one of the leading players under the PPP model and provides specialized diagnostic services including radiology, pathology and tele-radiology services at affordable rates. In FY21, around 67.5% of KDL's revenues came from the various PPP tie-ups which the company has entered into. The company also operate 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 which also allows the company to serve patients in remote locations where diagnostic facilities are limited.

Due to strong focus on PPP diagnostic segment, KDL has become a preferred partner for public health agencies. As per the tender record, 77.6% of all tenders (by number) the company have bid for being granted to the company. KDL has deployed 1,797 diagnostic centres pursuant to PPP agreements with public health agencies as of Jun 30' 2021. Besides PPP segment, the company is also growing its collaboration with private healthcare providers to operate diagnostic centres withing their facilities. KDL has expanded from 14 diagnostic centres with private hospitals to 26 such diagnostics centres as of Jun 30' 2021.

The company has extensive network of integrated diagnostics centres across India primarily in non-metro and lower tier cities and towns. The company operated 1,823 diagnostics centres (including 1,797 PPP centres) offering radiology and pathology services in 13 states across India.

The company 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. Diagnostic imaging/radiology services include conducting X-rays, computed tomography ("CT") scans, magnetic resonance imaging ("MRI") scans, ultrasounds, bone mineral densitometry and mammography. While in the pathology segment, primary focus includes biochemistry, haematology, clinical pathology, histopathology and cytopathology, microbiology, serology and immunology.

Sales grew by a CAGR of 37.7% to Rs396 cr during FY19-FY21. Strong boost to growth was also driven by pandemic break-out leading to increase in Covid and radiology test. EBIDTA margin reduced to 23.7% in FY21 from 27.7% in FY19. Among the major expenses, cost of raw materials accounted for 21% of sales while fees to hospitals was the major component of operating expenses accounting for 27.3% in FY21. KDL recorded one time fair value gain of CCPS of Rs253 cr which turned the company into profit in FY21. Meanwhile adjusted with this, the company reported loss of Rs68 in FY21. As per the company, in the last three fiscals, KDL have not incurred any write-offs and have not had any bad debts.

Key Financials (Rs cr)	FY19	FY20	FY21
Operating Rev.	209.2	258.4	396.5
Share of PPP	72%	73%	68%
Share of Private hospital	28%	27%	33%
EBITDA	57.9	62.8	93.8
Adjusted PAT	37.5	65.1	(67.9)
EBITDA Margin (%)	27.7%	24.3%	23.7%
PAT Margin (%)	17.9%	25.2%	-17.1%
RoE (%)			-29.3%
RoA (%)	7.1%	10.3%	-11.2%
RoIC (%)	17.2%	23.1%	-15.7%
EV	3,131.5	3,200.7	3,043.9
OCF	58.3	37.8	102.6

Source: Choice Broking Research, RHP



Competitive 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 capitalized on healthcare spending across public and private sectors
- Scalable and agile business model with efficient cost structure
- Ability to maintain cost competitiveness through operating leverage

Business strategy:

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



Risk and concerns:

- High competition within the diagnostic industry
- Lower EBIDTA margin below industry trend to check profitability
- Risks of entering more players in PPP model
- Limited pricing power in private business due to tough competitions from organized players
- Highly fragmented diagnostic industry with presence of many unorganized players

Financial statements:

Rs Crore

Profit & Loss A/c

Particulars	FY19	FY20	FY21
Operating Revenue (OR)	209.2	258.4	396.5
Cost of materials consumed	(17.3)	(27.7)	(83.7)
Fees to hospitals and others	(62.3)	(75.5)	(108.2)
Employee Benefit Expenses	(18.3)	(23.1)	(29.6)
Other Expenses	(53.3)	(69.2)	(81.1)
EBITDA	57.9	62.8	93.8
Depreciation and Amortization Expenses	(25.6)	(32.4)	(37.4)
EBIT	32.3	30.4	56.4
Finance Costs	(19.6)	(24.7)	(25.9)
Other Income	5.1	13.0	12.2
Gain/loss on fair value movement of CCPS	(95.5)	(177.0)	252.8
PBT	(77.7)	(158.3)	295.5
Tax Expenses	19.7	46.4	(110.5)
Reported PAT	(58.1)	(112.0)	184.9
Adjustment to movement of CCPS	95.5	177.0	(252.8)
Adjusted PAT	37.5	65.1	(67.9)

Balance Sheet

Particulars	FY19	FY20	FY21
Share Capital	5.2	5.2	6.5
Instruments entirely equity in nature	15.0	15.0	242.4
Other equity	-105.1	-217.2	-17.0
Total Equity	-84.9	-197.0	231.9
Long Term Borrowings	92.0	122.7	168.0
Liability on CCPS	318.1	495.2	0.0
Other non-current liabilities	30.4	28.3	20.9
Short Term Borrowings	54.0	92.3	34.7
Trades Payables	41.7	38.1	78.6
Short term financial liabilities	74.6	47.9	66.6
Other current liabilities	3.0	2.5	4.0
Total Liabilities	529.0	630.0	604.5
Tangible Assets	222.4	273.6	307.3
Intangible Assets	0.8	1.5	1.2
Capital Work In Progress	41.7	9.1	3.7
Long Term Loans and Advances	5.6	10.4	13.5
Non-current financial assets	14.6	6.0	2.4
Other Non Current Assets	55.3	115.7	28.2
Inventories	4.2	5.1	7.2
Trade Receivables	56.2	61.4	72.5
Cash and Bank Balances	8.6	8.4	24.7
Bank Balance	103.0	118.9	128.2
Other Current Assets	16.5	19.8	15.5
Total Assets	529.0	630.0	604.5

Cash Flow Statement

Particulars	FY19	FY20	FY21
Cash Flow from Operating Activities	58.3	37.8	102.6
Cash Flow from Investing Activities	(199.3)	(76.6)	(61.1)
Purchase of fixed assets and properties	(99.8)	(76.7)	(66.8)
Cash Flow from Financing Activities	124.3	5.8	30.8
Net Cash Flow	(16.7)	(33.1)	72.3
Opening Balance of Cash and Bank Balances	2.2	(14.5)	(47.6)
Closing Balance of Cash and Bank Balances	(14.5)	(47.6)	24.7

Financial Ratios

Particulars	FY19	FY20	FY21
Growth & Margin ratios			
Revenue Growth Rate (%)		23.5%	53.4%
EBITDA Growth Rate (%)		8.5%	49.3%
EBITDA Margin (%)	27.7%	24.3%	23.7%
EBIT Growth Rate (%)		-5.8%	85.4%
EBIT Margin (%)	15.4%	11.8%	14.2%
Adjusted PAT Growth Rate (%)		73.7%	-204.3%
Reported PAT Margin (%)	17.9%	25.2%	-17.1%
Turnover ratios			
Inventories Turnover Ratio (x)	49.7	51.0	55.0
Trade Receiv. Turnover Ratio (x)	3.7	4.2	5.5
Accounts Pay. Turnover Ratio (x)	5.0	6.8	5.0
Fixed Asset Turnover Ratio (x)	0.9	0.9	1.3
Total Asset Turnover Ratio (x)	0.4	0.4	0.7
Working Cap. Turnover Ratio (x)	0.0	8.7	5.3
Operational ratios			
Current Ratio (x)	1.1	1.2	1.4
Debt to Equity (x)	7.2	10.7	0.8
Total Debt (Rs.)	146.0	215.0	202.7
Net Debt (Rs.)	34.4	87.7	49.8
Net Debt to EBITDA (x)	0.6	1.4	0.5
Net Debt to Equity (x)	-0.4	-0.4	0.2
Return ratios			
RoE (%)			-29.3%
RoA (%)	7.1%	10.3%	-11.2%
RoCE (%)	13.4%	13.6%	8.9%
RoIC (%)	17.2%	23.1%	-15.7%
EV	3,131.5	3,200.7	3,043.9
EV/Sales (x)	15.0	12.4	7.7
EV/EBITDA (x)	54.1	50.9	32.4
Per share ratios			
EPS	11.9	20.7	-21.6
BVPS	-27.1	-62.8	73.9
OCF/sh	18.6	12.0	32.7
FCF/sh	50.5	52.6	4.3
Valuation ratios			
P/E (x)	79.9	46.0	-44.1
P/BVPS (x)	-35.3	-15.2	12.9
P/S (x)	14.3	11.6	7.6
EV/EBITDA (x)	54.1	50.9	32.4

Source: Choice Broking Research, RHP

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