



IPO Report

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02nd Aug 21

Snapshot

Krsnaa Diagnostic is one of the largest differentiated diagnostic service provider in India . It provide a range of technology-enabled diagnostic services such as imaging (including radiology), pathology/clinical laboratory and tele-radiology services to public and private hospitals, medical colleges and community health centres pan-India.

VALUATION

Company is bringing the issue at price band of Rs 933-954 per share at ev/ebidta multiple of 34x. We like Unique and scaled business model of company. Company with its strong brand equity has extensive footprint across India with robust infrastructure. With robust revenue visibility; ,company is well positioned to capitalize on healthcare spending across public and private sectors Hence we recommend “Subscribe” on issue both for listing gains & long term perspective.

Price Band (Rs./Share)	933-954
Opening date of the issue	04th August 2021
Closing Date of the issue	06th August 2021
No of shares pre issue	27,191,528 Eq Shares
Issue size (Rs. Cr)	Rs 1213 Cr
Offer For Sale (No)	8525520 Eq Shares
Fresh Issue	Rs 400 Cr
Employee Reservation	Rs 20 Cr (Employee Discount Rs 93/share)
Face Value (Rs/ share)	5
Bid Lot	15

BIDDING DETAILS

QIBs (Including Anchor)	75% of the offer (Approx 9381562 Shares)
Non-Institutional	15% of the offer (Approx. 1876312 Shares)
Retail	10% of the offer (Approx. 1250874 Shares)
Lead managers	JM Financial , IIFL Securities DAM Capital, Equirus Capital Private Ltd
Registrar to the issue	KFin Technologies Pvt. Ltd.

WHAT WE LIKE

Business model with robust revenue visibility

Krsnaa’s operations across radiology and pathology provide it with diversified sources of revenue. Krsnaa’s PPP agreements, to deploy diagnostic centres for its radiology and pathology services are typically long-term contracts that ensure visibility of revenues for company’s operations. The term of its contracts with public health agencies ranges between two years and 10 years and typically include a term extension clause based on performance and mutual agreement.

Unique and scaled diagnostics company

Krsnaa is one of the largest differentiated diagnostic service provider in India .It provide a range of technology enabled diagnostic services such as imaging (including radiology), pathology/clinical laboratory and tele-radiology services to public and private hospitals, medical colleges and community health centres pan-India. In the PPP segment, Krsnaa collaborate with central, state and municipal government operated health and medical facilities for the deployment and operation of its s diagnostic centres. Krsnaa also partners with several private sector hospitals and health centres to establish diagnostic centres within their premises. Since inception and as of June 30, 2021, company have been awarded 38 contracts on a PPP basis, of which 32 projects have been executed while in the private healthcare segment, company have 26 active collaborations.

Operate a large tele-radiology reporting hub

Krsnaa operate 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 company 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.



COMPANY BACKGROUND

Krsnaa is one of the largest differentiated diagnostic service provider in India. Company provide a range of technology-enabled diagnostic services such as imaging (including radiology), pathology/clinical laboratory and tele-radiology services to public and private hospitals, medical colleges and community health centres pan-India. Company is the fastest growing diagnostic chain in India on multiple parameters including operating income, operating profit before depreciation, interest and tax (“OPBDIT”) and profit after tax between Fiscal 2017 and Fiscal 2020 and volume of tests conducted between Fiscal 2018 and Fiscal 2021 (amongst players with revenues exceeding ₹1,500 million). 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 round the clock and 365 days a year, and allows to serve patients in remote locations where diagnostic facilities are limited. Company provide quality and inclusive diagnostic services at affordable rates across various segments. Since inception, company have served more than 23 million patients.

Krsnaa focus on the public private partnership (“PPP”) diagnostics segment and have the largest presence in the diagnostic PPP segment . Company’s PPP agreements are typically long-term in nature and ensure predictability of revenues from operations. 77.59% of all tenders (by number) company have bid for being granted to it. As of June 30, 2021, company have deployed 1,797 diagnostic centres pursuant to PPP agreements with public health agencies. In addition to the PPP segment, company have been growing its collaboration with private healthcare providers to operate diagnostic centres within their facilities, and have expanded from operating 14 diagnostic centres, as of March 31, 2019 to 17 diagnostic centres, as of March 31, 2020 and to 20 diagnostic centres as of March 31, 2021 while company operated 26 such diagnostic centres as of June 30, 2021.

Certain key operational performance indicators in relation to company’s business operations are set out below:

Parameters	As of & for the year ended March 31			As of and for the three months ended June 30, 2021
	2019	2020	2021	
<i>Operational Parameters</i>				
Diagnostic Centres				
Radiology	833	897	1365	1370
- Pathology (including Collection Centres & Processing Centres)	440	455	465	487
Collection Centres	409	422	425	443
Processing Centres	31	33	40	44
Tests Conducted				
- Radiology	1950356	3476253	3054032	790198
Pathology	5441779	7176459	6319285	2803747
Equipment				
-CT Scan	44	53	62	62
-X-Ray	804	860	876	937
-MRI	18	23	26	27

Source:RHP

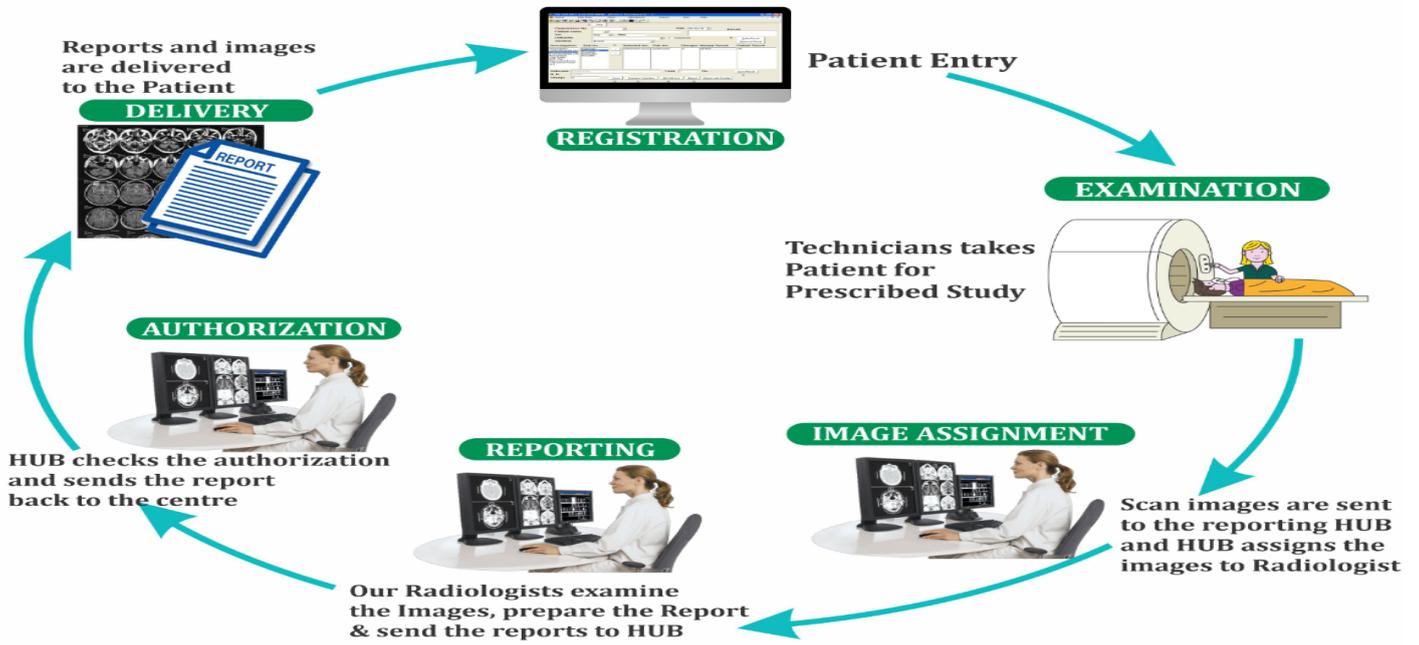


INVESTMENT RATIONALE

<p><i>Unique and scaled diagnostics company</i></p>	<p>Krsnaa’s business is focused on providing diagnostic services to the mass segment, particularly in tier II and tier III cities and towns in India in addition to metros and tier I cities. Company’s 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. In Fiscal 2019, 2020 and 2021 and in the three months ended June 30, 2021, company served 3.25 million, 5.27 million, 5.18 million and 1.88 million patients, respectively.</p>
<p><i>Extensive footprint across India with robust infrastructure</i></p>	<p>Krsnaa’s network of diagnostic centres spans 13 states across India and as of June 30, 2021 were present in over 1,800 locations. Company commenced operations in Fiscal 2011 with two radiology diagnostic centres and as of June 30, 2021, company have established 1,370 radiology diagnostic centres and 487 pathology diagnostic centres including 443 collection centres. Company have a significant presence in each state where it operate and as part of the diagnostic centres company establish, it have deployed and operate diagnostic centres across multiple locations within a particular state. Company operated 24 private diagnostics centres and 590 centres in collaboration with public health agencies across 36 districts in Maharashtra where it provide radiology, pathology and tele-radiology services as of June 30, 2021.</p>
<p><i>Well positioned to capitalize on healthcare spending across public and private sectors</i></p>	<p>CRISIL Research estimates the size of the diagnostic industry in India to be between ₹710 billion and ₹730 billion in Fiscal 2021, clocking a CAGR of 13% to 14% between Fiscal 2017 and Fiscal 2020, mirroring the growth from healthcare delivery services. The industry is expected to grow at 14% and 17% and achieve a value of ₹920 billion and ₹980 billion between Fiscal 2020 and Fiscal 2023. Going forward, the government’s share within the diagnostic industry is projected to grow at a CAGR of between 14% and 17% to ₹125 billion - ₹135 billion between Fiscal 2020 and Fiscal 2023, driven by government-led programs. 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 the NHM, the PPP model has gained traction. The PPP model aids the expansion of quality healthcare services into less-developed and remote regions of the country .</p> <p>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 stand to benefit from such increased healthcare spending. Since commencing operations company have completed 32 PPP contracts and as of June 30, 2021 operated 1,797 diagnostics centres in public healthcare facilities across 13 states.</p>
<p><i>Ability to maintain cost competitiveness through operating leverage</i></p>	<p>The volume tests, company undertook between Fiscal 2018 and Fiscal 2021 grew at a CAGR of 20% which was the highest among amongst diagnostic companies with revenues exceeding ₹1,500 million .Larger volumes help diagnostic chains achieve economies of scale, as equipment are optimally utilized and operating costs are spread over a larger number of centres . Company’s high diagnostics volumes in-turn help it enjoy economies of scale and thereby optimize company’s operational costs, resulting in price competitiveness. Company’s ability to competitively price its diagnostic services has enabled it to convert bids into actual contracts and is evident from company’s bid-win rate of 77.59% for tenders (by number) that it bid for since commencement of operations.</p>



COMPANY'S TELE-RADIOLOGY HUB PROVIDES ROUND THE CLOCK SERVICES



Source : RHP

OBJECTS OF ISSUE

The net proceeds of the Fresh Issue are proposed to be utilised in the following manner:

1. Proposing to finance the cost of establishing diagnostics centres at Punjab, Karnataka, Himachal Pradesh and Maharashtra.
2. Repayment/pre-payment, in full or part, of borrowings from banks and other lenders availed by company; and
3. General corporate purposes.

RISKS

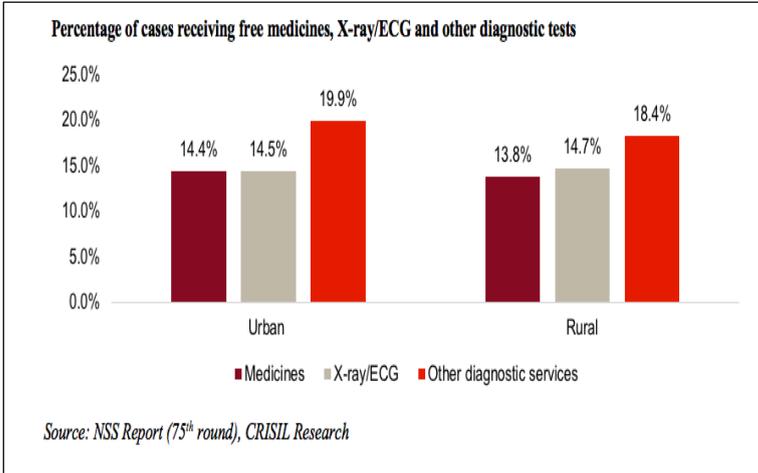
Substantial portion of company's revenue from operations depend on payments under contracts with public health agencies. If company is unable to negotiate and retain similar fee arrangements, if the contracts are cancelled, or if company is unable to realize payments due to it, company's business may be materially and adversely affected.

Source:RHP

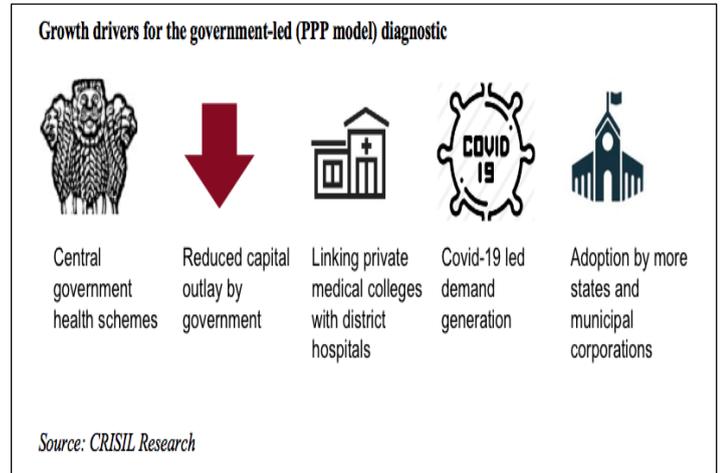


INDUSTRY OVERVIEW

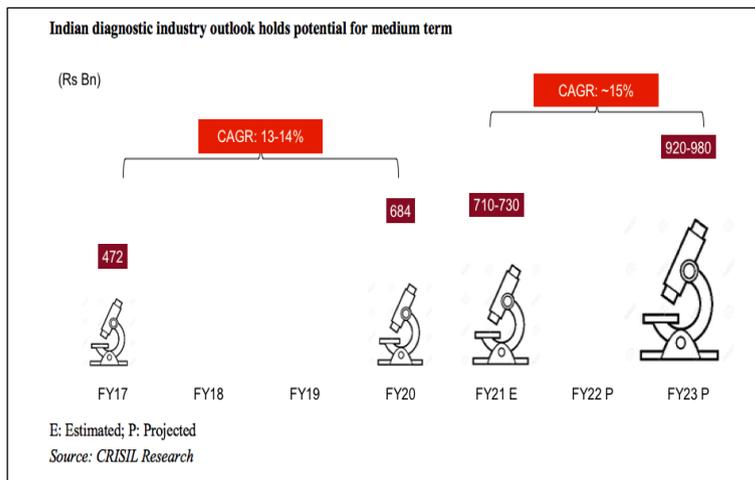
% of cases receiving free medicine X Ray & other diagnostic services



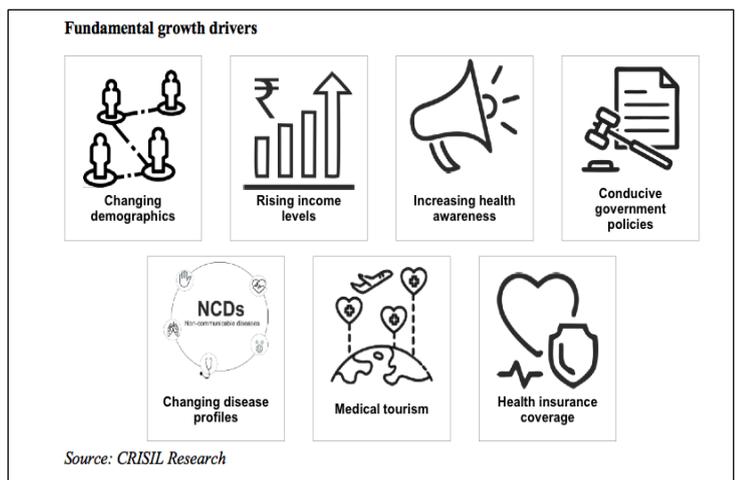
Growth Drivers of Govt led (PPP model) diagnostic



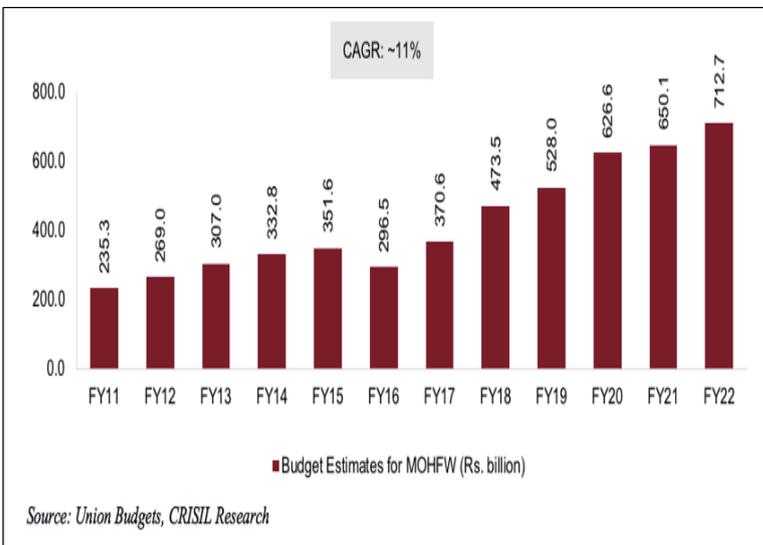
India diagnostic industry sector outlook



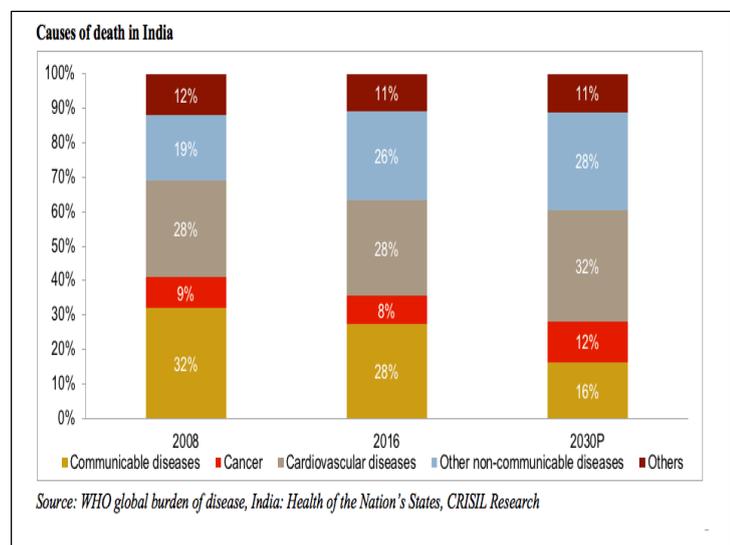
Fundamental growth drivers



Budget Estimates for MOHFW



Causes of death in India



Source: RHP



(Rs in Mn)

Financials	FY21	FY20	FY19
Total Revenue (A)	3964.56	2584.27	2092.35
Gain on fair value movement of CCPS	2527.84		
Total Income	6492.40	2584.27	2092.35
Total Expenditure (B)	3026.45	3726.47	2468.32
EBIDTA	3465.95	-1142.20	-375.97
EBIDTA Margin	53.38	-44.20	-17.97
Other Income	122.36	129.52	50.80
Depreciation	374.39	324.11	256.40
EBIT	3213.92	-1336.79	-581.57
Interest	259.40	246.64	195.69
PBT	2954.52	-1583.43	-777.26
Tax	1105.23	-463.81	-196.69
PAT	1849.29	-1119.62	-580.57
NPM	28.48	-43.32	-27.75
ROE %	79.76	-56.83	-68.37
EPS	71.86	-43.53	-24.13
Eq Cap	64.95	51.63	51.63
Net Worth	2,318.65	-1,969.77	-849.21

PEERS ANALYSIS

Following is peer group analysis:

Key Financial Parameters

Key Financials (FY21)	Op Income			OPBDIT		PAT		
	(Rs Mn)	YoY Growth (%)	CAGR (FY18-21)	(Rs Mn)	CAGR (FY18-21)	(Rs Mn)	YoY Growth (%)	CAGR (FY18-21)
DLPL	15,818	19%	14%	4368	18%	2965	30%	20%
SRL	10,321	2%	2%	1711	4%	1312	53%	20%
Metropolis	9,980	16%	16%	2860	17%	1830	43%	158%
Thyrocare	4,967	14%	11%	1734	4%	1132	28%	7%
Krsnaa	2,883	58%	47%	943	41%	1849	n.m	236%
Vijaya	3,768	11%	15%	1660	28%	849	36%	35%
Suburban	1,701	14%	13%	144	n.m	76	n.m	n.m

Source: RHP



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