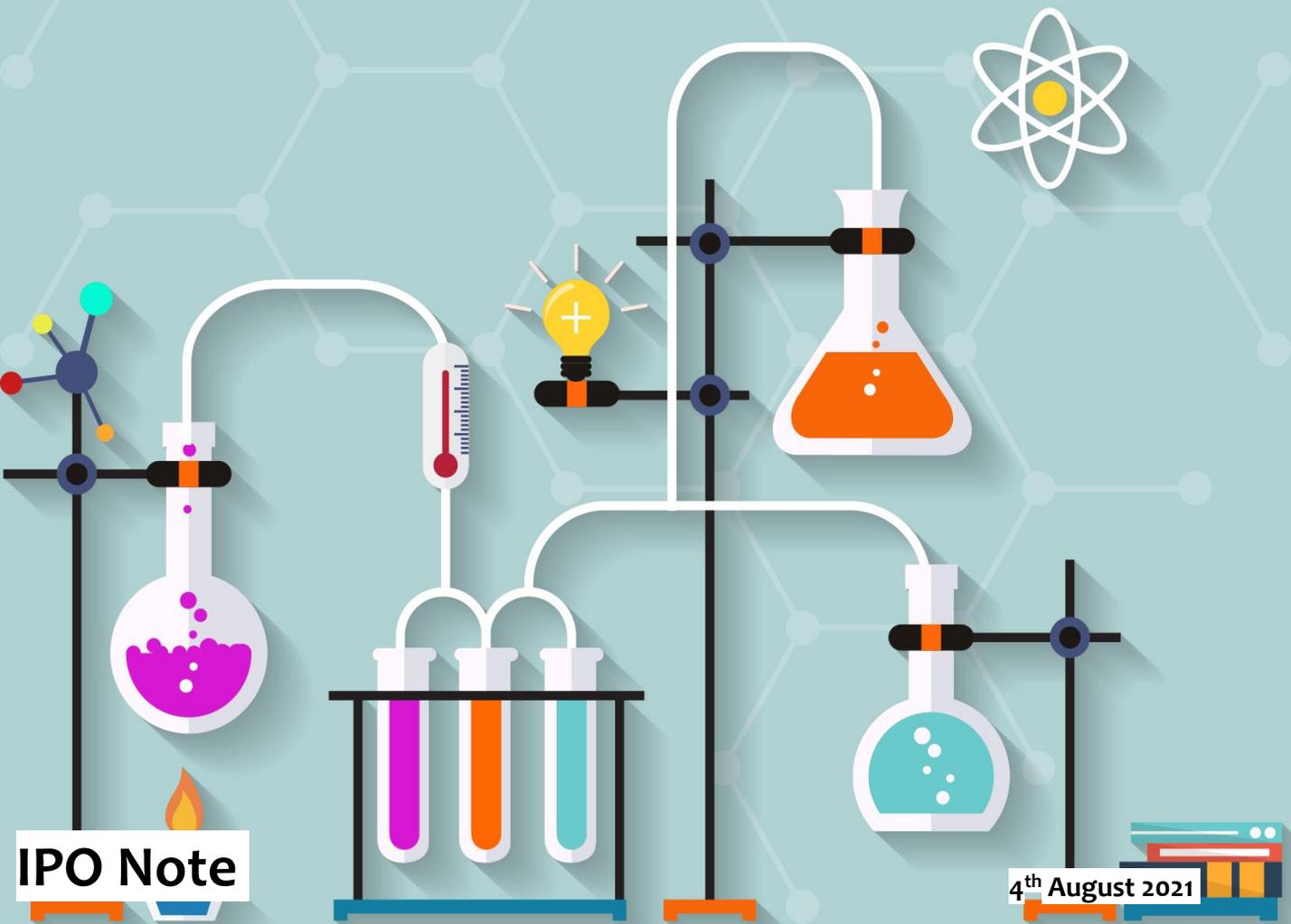


Krsnaa Diagnostics Limited



Krsnaa Diagnostics Limited

Issue Opens On
Aug 4, 2021

Issue Closes On
Aug 6, 2021

Price Band (INR)
933-954

Issue Size (INR Cr)
1213

Rating
SUBSCRIBE

Incorporated in 2011, Krsnaa Diagnostics Ltd or "KDL" is one of the fastest-growing diagnostic chains in India. It offers a wide range of diagnostic services such as imaging/radiology services (X-rays, MRI), routine clinical laboratory tests, pathology, and tele-radiology services to private/public hospitals, medical colleges, and community health centres. The firm has an extensive network of diagnostic centres across India with a key focus on non-metro, and lower tier cities and towns. It currently operates 1,823 diagnostic centres that are offering radiology and pathology services across 13 different cities in India. It also operates one of India's largest tele-radiology reporting hub in Pune which can process large volumes of X-rays, CT scans and MRI scans round the clock, round the year.

OFFER STRUCTURE

| Particulars | IPO Details |
|-----------------------------|-------------|
| No. of shares under IPO (#) | 1,27,18,392 |
| Net offer (# shares) | 1,27,18,392 |
| Price band (INR) | 933-954 |
| Post issue MCAP (INR Cr.) | 2994 |

Source: IPO Prospectus

| Indicative Timetable | |
|--|---------------------------------------|
| Offer Closing Date | Aug 6, 2021 |
| Finalization of Basis of Allotment with Stock Exchange | On or about 11 th Aug 2021 |
| Initiation of Refunds | On or about 12 th Aug 2021 |
| Credit of Equity Shares to Demat accounts | On or about 13 th Aug 2021 |
| Commencement of Trading of Equity shares on NSE | On or about 17 th Aug 2021 |

Source: IPO Prospectus

| Issue | # Shares | INR in Cr | % |
|------------------|--------------------|-------------|-------------|
| QIB | 95,38,794 | 910 | 75% |
| NIB | 19,07,759 | 182 | 15% |
| Retail | 12,71,839 | 121 | 10% |
| Net Offer | 1,27,18,392 | 1213 | 100% |

Source: IPO Prospectus

| Objects of the Offer: The net proceeds will be utilized for the following purpose | | |
|---|---------------|----------------|
| Finance the cost of establishing diagnostics centres at Punjab, Karnataka, Himachal Pradesh and Maharashtra (INR 151 Cr.) | | |
| Repayment/pre-payment, in full or part, of borrowings from banks and other lenders availed by KDL (INR 146 Cr.) | | |
| General corporate purposes (•) | | |
| Shareholding Pattern | Pre-Issue (%) | Post-Issue (%) |
| Promoters & Promoters Group | 31.6% | 27.4% |
| Others | 68.4% | 72.6% |
| Total | 100.0% | 100.0% |

Source: IPO Prospectus

| Particulars (In INR Cr) | FY19 | FY20 | FY21 |
|-------------------------|--------|--------|-------|
| Revenue | 209 | 258 | 396 |
| EBITDA | -33 | -101 | 359 |
| EBITDA Margin | -15.5% | -39.2% | 90.5% |
| PAT | -58 | -112 | 185 |
| PAT Margin | -27.7% | -43.3% | 46.6% |
| Net Worth | -85 | -197 | 232 |
| RONW | -68.4 | -56.8 | 79.8 |

Source: IPO Prospectus

Krsnaa Diagnostics Limited

Company Overview

Incorporated in 2011 with 2 radiology centres, Krsnaa Diagnostics Limited or “KDL” is today one of the largest differentiated diagnostic service provider 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 and private hospitals, medical colleges and community health centres pan-India. It is the fastest growing diagnostic chain in India on multiple parameters including operating income, and profit after tax between FY2017-FY20, and volume of tests conducted between FY2018-FY21 (amongst players with revenues exceeding INR1,50 Cr). It also operates one of India’s largest tele-radiology reporting hubs in Pune which can process large volumes of X-rays, CT scans and MRI scans round the clock, round the year, enabling KDL to serve patients in remote locations where diagnostic facilities are limited.

KDL provides quality and inclusive diagnostic services at affordable rates across various segments. Since inception in 2011, it has served more than **23 million patients**. It focuses on the public private partnership (“PPP”) diagnostics segment, having the largest presence in the space. Company’s PPP agreements are typically long-term in nature, enabling higher revenue visibility. Rentals are limited and marketing spends are low, with captive customers ensuring high growth. Company’s focus on the segment has helped it gain preferred partner status, reflected in 77.59% of all tenders (by number) it has bid for getting granter. As of June 30, 2021, company has deployed **1,797 diagnostic centres** pursuant to PPP agreements with public health agencies. Additionally, KDL has been collaborating with **private healthcare providers** to operate diagnostic centres within their facilities, and have expanded from operating 14 diagnostic centres in 2019 to **26** such diagnostic centres as of June 30, 2021. Overall, total diagnostic centres under operation totalled to **1,823** offering radiology and pathology services in **13 states** across India.

Company has an extensive network of integrated diagnostic centres across India primarily in non-metro and tier 2/3 cities. Its operating model involves diagnostic centres being located within existing facilities of public/private hospitals, and operating pursuant to arrangements with public health agencies and private healthcare providers. In FY2021 and in 1QFY2022, it has served **5.18mn patients** and **1.88mn patients**, respectively. In line with KDL’s focus on providing inclusive and affordable services, it offers diagnostic services at competitive rates, mostly at lower rates than Industry. KDL is working to ensure that its brand is associated with quality diagnostic and healthcare services at affordable rates.

| Parameters | As of and for the year ended March 31, | | | As of 30 th June 2021 & for 1QFY22 |
|---|--|-----------|-----------|--|
| | 2019 | 2020 | 2021 | |
| Diagnostic Centres | | | | |
| - Radiology | 833 | 897 | 1365 | 1370 |
| - Pathology (incl collection / proc. centres) | 440 | 455 | 465 | 487 |
| Collection Centres | 409 | 422 | 425 | 443 |
| Processing Centres | 31 | 33 | 40 | 44 |
| Tests Conducted | | | | |
| - Radiology | 1,950,356 | 3,476,253 | 3,054,032 | 790,198 |
| - Pathology | 5,441,779 | 7,176,459 | 6,319,285 | 2,803,747 |
| Equipment | | | | |
| -CT Scan | 44 | 53 | 62 | 62 |
| - X-Ray | 804 | 860 | 876 | 937 |
| - MRI | 18 | 23 | 26 | 27 |

KDL 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. Its diagnostic imaging/radiology services include conducting X-rays, computed tomography (“CT”) scans, magnetic resonance imaging (“MRI”) scans, ultrasounds, bone mineral densitometry and mammography. In its pathology segment, company’s primary focus includes biochemistry, haematology, clinical pathology, histopathology and cytopathology, microbiology, serology and immunology. A suite of diagnostic equipment is located at KDL’s tele-radiology hub along with a team of radiologists to help provide operating efficiencies and scalability.

KDL’s current team comprises 190 radiologists, 30 pathologists, 8 microbiologists and over 2,800 qualified professionals including clinicians, technicians and operators. Company continues to make investments in equipment and in its technology platform, 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, Siemens Healthcare, Fujifilm India, HORIBA and Agappe Diagnostics and is covered by CMC with the OEM suppliers to ensure requisite equipment uptime and regular servicing and calibration.

The Indian diagnostic industry has grown consistently over the past 3 fiscals and is projected to grow at a CAGR of ~15% over FY2021-23 to INR 92k Cr. Overall diagnostic industry is estimated at ~INR 71k Cr in FY21 growing at a CAGR of 13%-14% from ~INR 47k Cr in 2017. Additionally, the PPP segment of healthcare services is large, representing a market opportunity of INR 9.5k Cr – INR 10k Cr in FY21 which is expected to grow at a CAGR of 14%-17% going forward on the back of higher government spending in the PPP segment.

Krsnaa Diagnostics Limited

Growth prospects under PPP model

Under the Public-Private Partnership or PPP model, physical premise for the centre is provided by the authority and, hence such PPP implementations are largely in existing hospitals. Responsibility lies with the private player to procure, finance and undertake the planning, design, development, operation and maintenance of the diagnostic centre. The services are provided free of cost to beneficiaries referred by government institutes, with the cost reimbursed by the authorities on a timely basis. However, private beneficiaries are usually charged as per the rate quoted by the service provider. In terms of services offered, essential diagnostic tests and their charges to respective patients are predetermined by the authority. With regard to any additional services, the charges are mutually agreed on between the authority and the concessionaire. These user charges have escalation clauses and hence, they increase over the course of the concession period. It's generally seen that Government-led diagnostic facilities offer quality services at costs that are nearly 50-60% lower compared with private facilities.

| Name Of Test | Indicative Cost (INR) | |
|--------------|----------------------------|----------------------------|
| | Private diagnostic centres | Govt-led diagnostics (PPP) |
| Sonography | 700-1,200 | 400-500 |
| CT scan | 2,000-5,000 | 1,000-2,000 |
| MRI scan | 5,000-10,000 | 1,500-4,000 |

PPP model is aimed at expanding the reach of essential diagnostic services, with a view to improve quality of healthcare services at public health facilities. The low cost model is expected to reduce high out-of-pocket expenditure incurred by patients and hence enhance penetration of quality services at remote and underpenetrated locations. It allows leveraging existing health infrastructure and upgrading their services. Government has realised the importance of private participation in the healthcare industry and hence, PPP models have gained traction over the past five years (see below). Overall, PPP model in diagnostics is expected to hold huge potential in an underpenetrated rural India.

State-wise diagnostic players presence under the PPP model:

| No | States | Name of the Service Providers | | | | | | | | | |
|----|------------------|-------------------------------|--------------------|---------------------|-----------------------|--------------|----------|-------------------|--------------------|-----------------------|----------------------|
| | | Krsnaa Diagnostics | Medall Health Care | Spandan Diagnostics | Healthmap Diagnostics | HLL Lifecare | SRL Ltd. | Sanya Diagnostics | Teresa Diagnostics | Midnapore Diagnostics | suraksha Diagnostics |
| 1 | Andhra Pradesh | ✓ | ✓ | | | | | | | | |
| 2 | Assam | ✓ | | ✓ | | | | | | | |
| 3 | Gujarat | | | ✓ | | | | | | | |
| 4 | Haryana | | | | | | | | | | |
| 5 | Himachal Pradesh | ✓ | | | | | ✓ | | | | |
| 6 | Jammu & Kashmir | ✓ | | | | | | | | | |
| 7 | Jharkhand | | ✓ | | ✓ | | ✓ | | | | |
| 8 | Karnataka | ✓ | | | | | | | | | |
| 9 | Madhya Pradesh | ✓ | | | | | | ✓ | | | |
| 10 | Maharashtra | ✓ | | | | ✓ | | | | | |
| 11 | Manipur | ✓ | | | | | | | | | |
| 12 | Meghalaya | ✓ | | | | | | | | | |
| 13 | Odisha | ✓ | | | ✓ | | | | | | |
| 14 | Punjab | ✓ | | | | | | | | | |
| 15 | Rajasthan | ✓ | | | | | | | | | |
| 16 | Tamil Nadu | ✓ | ✓ | | | | | | | | |
| 17 | Telangana | | ✓ | | | | | | | | |
| 18 | Tripura | | | | | | | | ✓ | | |
| 19 | Uttar Pradesh | ✓ | | | ✓ | | | | | | |
| 20 | West Bengal | | | ✓ | | ✓ | | | ✓ | ✓ | ✓ |

Source: IPO Prospectus

Krsnaa Diagnostics Limited

INVESTMENT RATIONALE

Differentiated model, fast growing, scaled diagnostic chain

KDL is one of the largest differentiated diagnostic service providers in the country. It offers variety of imaging (including radiology), pathology and clinical laboratory services pan India, apart from operating one of the largest tele-radiology hubs. It is the fastest growing diagnostics in terms of revenue growth over FY17-20 among large players. Company focuses on and has the largest presence in the PPP segment, with 38 contracts awarded on PPP basis along with 26 active collaborations in the private healthcare segment. The company's large network of diagnostic centres, together with the quality of their services at competitive rates, have been key factors in the significant growth that they have experienced over the years.

Extensive footprint across India

Company has a network of 1823 diagnostic centres spanning across 13 states. It has built up significant presence in each state where they are present and operate under multiple locations. KDL has managed to grow across India through its ability to understand and analyse new markets, backed by superior project management and execution capabilities. It deploys latest equipment and technologies to ensure processes are efficient and scalable with minimal errors. The company's technology platform tracks their operations and internal performance metrics, thereby enabling them to improve the operating efficiency of their business.

Business model with robust revenue visibility

Hospital partnership model on PPP basis allows KDL to enjoy costs synergies (limited rentals and low marketing spends), captive customer base and significant volumes. Company's operations across radiology and pathology ensure diversified sources of revenue. Longer terms of the contracts with public health agencies (2 to 10 years) including term extension clause provide strong revenue visibility. All put together, this ensures a robust business model with significant growth potential. Also, while private sector tariffs have generally been flat over last few years, KDL has the potential to increase agreed rates with agencies under the annual escalation clauses, thereby adding to both topline and bottomline.

Potential for growth at the tele-radiology reporting hub

KDL operates hub and spoke model enabled by its large tele-radiology reporting facility in Pune, which has sections for 80 CT/MRI/X-Ray technologists' teams in addition to 100-member conference room and radiologists reporting area. The hub is operated by a team of 190 in-house tele-reporting radiologists reporting on findings from India and abroad. It monitors real-time critical findings and enjoys uninterrupted connectivity with diagnostic centres 24/7. KDL relies on the tele-radiology hub to make the business scalable in difficult geographies to address shortage of full-time doctors and staff. Company estimates hub has significant headroom to process over 3x-7x times in comparison to FY21 annual volumes.

Leveraging growth opportunities enabled by higher healthcare spending

Central government's National Health Mission or "NHM" is the programme targeting universal access to equitable, affordable and quality health care services that are accountable and responsive to people's needs. The PPP model in healthcare has gained traction under the NHM, and will help expand quality healthcare services into less-developed and remote regions of the country. Being the largest player in PPP space, KDL has been able to achieve a bid-win rate of 77.59% for tenders since inception and is well poised to capture further growth in the market. Company's track-record of executing projects across India with various public healthcare agencies should help it to benefit from increased healthcare spending.

Management

Rajendra Mutha, Promoter & Founder, Executive Chairman and Whole-time Director

Currently responsible for the overall management of the Company; registered pharmacist with over 10 years of experience in the field of pharmacy and diagnostics.

Pallavi Bhatevara, Managing Director

Associated with KDL since 2013 and has 8 years of experience in diagnostic services; currently responsible for expansion, growth tendering process, implementation and execution of projects.

Yash Mutha, Whole-time Director

Associated with KDL since 2018 and currently responsible for internal audit, risk review and development of business processes; has over 12 years of experience in the field of audit and risk management. Holds a bachelor's in commerce from Pune University CA from ICAI. Has earlier worked with BSR & Co. LLP, Deloitte, KPMG and Credit Suisse Services (India) Private Limited.

Shivananda Rao, COO

Has over 22 years of experience in human resource management; has earlier worked with Manipal Health, Dr Reddy's, Manipal Resorts, Apollo Hospitals and BGS Gleneagles Global Hospital

Pawan Daga, CFO

Has over 8 years of experience in the field of finance and accounts; has earlier worked with Syska and Foodpanda

Krsnaa Diagnostics Limited

Forward Strategy

Leveraging recently won PPP and private sector contracts

KDL has recently won 5 new projects including with governments of Punjab, Himachal Pradesh and Karnataka along with MCGM and KJ Somaiya Hospital in Mumbai. These contracts require company to set up 29 diagnostic centres and commissioning of 29 CT Scanners and 8 MRI machines. Company has already planned to use part of the IPO proceeds to fund this capex plan (INR 151 Cr over FY22 and FY23). Once the various planned centres operationalize over next few years, they will further augment both revenues and margins.

Network expansion across India

Company has a strong and diverse network of over 1800 centres across India. Going forward it intends to continue to expand the network within country and in particular increase presence in geographies already having presence. Company enjoys strong project management and execution capabilities, which should help it support its expansion plans. It should be able to grow its revenues through wider, deeper customer base, by leveraging their scale of their operations, presence in tier II and tier III, ability to offer competitive pricing, accuracy of test results and service delivery including through tele-reporting coupled with brand-building activities. KDL is also looking to grow private sector capabilities across B2B and B2C through collaboration with diverse set of private sector healthcare providers.

Expand their offering of diagnostic services with a focus on specialized diagnostics

KDL plans to boost their capabilities in specialized diagnostic services such as molecular diagnostics and genomics. It has the advantage to leverage presence across states and advanced infrastructure to offer additional diagnostic services. At diagnostic centres offering radiology services, the company intends to create additional infrastructure to offer pathology services as well. It also plans to provide a wide range of services including healthcare screening and chronic and lifestyle disease management services.

Scaling up digital footprint of company

Company would seek to increase touch points and engagement with customers through various digital and technology initiatives. This could be through various online initiatives such as bookings, receiving reports and availability of patient and family history as part of their mobile application and tele-consultation. Company also plans to leverage data analytics capabilities by creating an intelligent dashboard that could analyse historical trends and provide more value-added services. The company also intends to leverage their relationships with equipment vendors to ensure that they have access to advanced technologies. KDL also plans to invest in implementing AI and ML to be able to continue to provide quality and reliable diagnostic services at affordable prices.

Improvement in profitability and efficiency

KDL plans to explore vendor financing, to attempt to reduce financing costs of equipment while also exploring sources other than traditional banks and lenders. To increase efficiency of their operations, It also intends to continue up-gradation of diagnostic equipment and technology to increase operational efficiencies. Company plans to negotiate competitive rates with their equipment vendors for their diagnostic equipment and maintenance contracts. Among the key areas that the company will focus on is expansion of tele-radiology hub, to allow the company to reduce their reporting costs.

Inorganic growth opportunities

Company may look to augment their growth by pursuing selective acquisitions and strategic alliances that have potential to increase access to tech expertise, specialised services, market share and geographical reach, along with ability to expand offerings and grow customer base. KDL may also expand their presence internationally through acquisitions by following the same approach that has allowed them to grow their business and operations.

Krsnaa Diagnostics Limited

Outlook and Valuation:

KDL has been growing operations and revenues at a much faster pace than the industry. Revenues from operations for FY21 amounted to INR 396 Cr, growing at a CAGR of 54% over last 4 years. Adjusted EBITDA for the year came in at INR 106 Cr (after excluding the gain on fair value movement of CCPS), reflecting a 40% yoy growth on comparable basis. While the company generates two-thirds of its revenues from PPP, receivable days have improved from 96 days in FY18 to 66 days in FY21, reflecting significant reduction in working capital needs. Company intends to utilise a portion of IPO proceeds to retire debt which should improve its bottomline.

Company enjoys leadership status in the PPP diagnostics industry, which should help it to leverage rising demand both in PPP segment as well as overall diagnostics market in India. PPP model also helps in achieving costs synergies and revenue visibility, helping it to become cost competitive. At IPO's **upper price band of INR 954, company is being valued at 77.9x times earnings**, in line with the **industry average of 96x**. Considering differentiated business model, strong growth prospects, cost competitiveness and sector leadership, we recommend a **Subscribe with a long term perspective** for KDL's IPO.

Peer Comparison:

| Company Name | CMP (INR) | Sales (INR Cr) | Mkt Cap (INR Cr) | EPS (INR) | P/E (x) | RoNW (%) |
|-------------------------------|-----------|----------------|--------------------|-----------|-------------------|----------|
| Krsnaa Diagnostics Limited | [●] | 396 | 2,994 [^] | 12.25 | 77.9 [^] | 79.8 |
| Metropolis Healthcare Limited | 2948 | 998 | 15,077 | 35.8 | 82.4 | 25.9 |
| Dr. Lal PathLabs Limited | 3889 | 1,581 | 32,409 | 35.3 | 110.3 | 23.4 |

Source: IPO Prospectus, KRChoksey Research [^] Estimated at the upper band price of INR 954

Risks and Concerns:

- **Revenues from government agencies:** KDL generates nearly two-thirds of revenues under PPP model, increasing its dependence on payments under contracts with public health agencies.
- **Ability to win tenders under PPP:** Company's majority of diagnostic centres are established and operated under PPP contracts awarded by government agencies through competitive bidding process.
- **Prices chargeable as per agreements:** KDL works on hospital partnership model with public and private healthcare providers, making the pricing dependent on recommended or mandatory fees fixed under the terms of the agreements

Krsnaa Diagnostics Limited

Financials:

| Income Statement (INR Cr) | FY19 | FY20 | FY21 |
|--------------------------------------|---------------|---------------|--------------|
| Total Revenue from Operations | 209 | 258 | 396 |
| EBITDA | -33 | -101 | 359 |
| EBITDA Margin (%) | -15.5% | -39.2% | 90.5% |
| Other Income | 5 | 13 | 12 |
| Depreciation | 26 | 32 | 37 |
| EBIT | -58 | -134 | 321 |
| Interest expense | 20 | 25 | 26 |
| Exceptional Item | 0 | 0 | 0 |
| PBT | -78 | -158 | 295 |
| Tax | -20 | -46 | 111 |
| Share of Profit / MI | 0 | 0 | 0 |
| PAT | -58 | -112 | 185 |
| EPS (INR) | -24.1 | -43.5 | 12.3 |

| Cashflow Statement (INR Cr) | FY19 | FY20 | FY21 |
|---|------------|------------|-----------|
| Net cash flow from operating activities | 58 | 38 | 103 |
| Net cash flow used in investing activities | -199 | -77 | -61 |
| Net cash flow generated from / (used in) in financing activities | 124 | 6 | 31 |
| Net increase / (decrease) in cash and cash equivalents | -17 | -33 | 72 |
| Opening Cash and cash equivalents | 2 | -15 | -48 |
| Closing Cash and cash equivalents | -15 | -48 | 25 |

Krsnaa Diagnostics Limited

| Balance Sheet (INR Cr) | FY19 | FY20 | FY21 |
|---|------------|-------------|------------|
| ASSETS | | | |
| Fixed Assets | 222 | 274 | 307 |
| Capital work-in-progress | 42 | 9 | 4 |
| Other Intangible Assets | 1 | 2 | 1 |
| Goodwill | - | - | - |
| Loans | 6 | 10 | 14 |
| Other Financial Assets | 15 | 6 | 2 |
| Investments | - | - | - |
| Other Non-Current Assets | 55 | 115 | 28 |
| Inventories | 4 | 5 | 7 |
| Trade Receivables | 56 | 61 | 72 |
| Cash & Cash Equivalents | 9 | 8 | 25 |
| Bank Balances | 103 | 119 | 128 |
| Other Current Financial Assets | 14 | 18 | 9 |
| Other current assets | 3 | 1 | 7 |
| Total Assets | 529 | 630 | 605 |
| LIABILITIES | | | |
| Equity Share Capital | 5 | 5 | 6 |
| Reserves | -90 | -202 | 225 |
| Net Worth | -85 | -197 | 232 |
| Borrowings - Non Current | 92 | 123 | 168 |
| Liability on compulsory convertible preference shares | 318 | 495 | - |
| Other Financial liabilities - Non Current | 25 | 24 | 7 |
| Non Current Tax Liabilities | - | - | 11 |
| Other Non Current liabilities | 5 | 5 | 3 |
| Total Non-Current Liabilities | 441 | 646 | 189 |
| Borrowings - Current | 54 | 92 | 35 |
| Trade Payables | 42 | 38 | 79 |
| Other current liabilities - financial | 75 | 49 | 67 |
| <i>Other Current liabilities</i> | 2 | 2 | 3 |
| Total Current Liabilities | 173 | 181 | 184 |
| Total Equity and Liabilities | 529 | 630 | 605 |

Krsnaa Diagnostics Limited

ANALYST CERTIFICATION:

I, Parvati Rai (MBA-Finance, M.com), Head Research, author and the name subscribed to this report, hereby certify that all of the views expressed in this research report accurately reflect my views about the subject issuer(s) or securities. I also certify that no part of our compensation was, is, or will be directly or indirectly related to the specific recommendation(s) or view(s) in this report.

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