

Research Team

Issue Details

Issue Details	
Issue Size (Value in Rs. Million, Upper Band)	12,133
Fresh Issue (No. of Shares in Mn)	4.29
Offer for Sale (No. of Shares in Mn)	8.53
Bid/Issue opens on	4-Aug-21
Bid/Issue closes on	6-Aug-21
Face Value	Rs. 5
Price Band	933-954
Minimum Lot	15

Objects of the Issue

Fresh Issue: ₹ 4,000 Million

- To finance the cost of establishing diagnostics centres at Punjab, Karnataka, Himachal Pradesh, and Maharashtra.
- Repayment/pre-payment of firm's borrowings fully or partially.
- General corporate purposes.

Offer for Sale: ₹ 8,133 Million

- Achieve the benefits of listing the Equity shares on the stock exchanges.
- The company will not receive any proceeds from the Offer for Sale.

Book Running Lead Managers
JM Financial Limited
IIFL Securities Limited
Equirus Capital Private Limited
DAM Capital Advisors Limited
Registrar to the Offer
KFin Technologies Private Limited

Capital Structure (Rs Million)	Aggregate Value
Authorized share capital	212.24
Subscribed paid up capital (Pre-Offer)	135.96
Paid up capital (Post - Offer)	156.92

Share Holding Pattern %	Pre-Issue	Post Issue
Promoters & Promoter group	31.6	27.4
Public	68.4	72.6
Total	100.0	100.0

Financials

Particulars (Rs. In Million)	FY21	FY20	FY19
Revenue from operations	3964.6	2584.3	2092.4
Operating expenses	3026.5	1956.1	1513.1
EBITDA	938.1	628.2	579.2
Other Income	122.4	129.5	50.8
EBIDT	1060.5	757.7	630.0
Interest	259.4	246.6	195.7
Depreciation	374.4	324.1	256.4
Gain/Loss on fair value	2527.8	-1770.3	-955.2
PBT	2954.5	-1583.3	-777.3
Tax	1105.2	-463.8	-196.7
Consolidated PAT	1849.3	-1119.5	-580.6
EPS	12.25	-43.53	24.13
Ratio	FY21	FY20	FY19
EBITDAM	23.7%	24.3%	27.7%
PATM	46.6%	-43.3%	-27.7%
Sales growth	53.4%	23.5%	

Company Description

Krsnaa Diagnostics Limited is one of the largest differentiated diagnostic service providers in India. Company 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. They are 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). They 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 them to serve patients in remote locations where diagnostic facilities are limited. Company provides quality and inclusive diagnostic services at affordable rates across various segments. Since inception, they have served more than 23 million patients.

Krsnaa Diagnostics Limited has an extensive network of integrated diagnostic centres across India primarily in non-metro and lower tier cities and towns. As of June 30, 2021, Company operated 1,823 diagnostic centres offering radiology and pathology services in 13 states across India. Company 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 Fiscal 2021 and in the three months ended June 30, 2021, the company served 5.18 million patients and 1.88 million patients, respectively. In line with their focus of providing inclusive and affordable services, they offer diagnostic services at competitive rates and at significantly lower rates than players with revenues exceeding ₹1,500 million. For example, their radiology tests are priced 45% – 60% lower than market rates while pathology tests are 40% – 80% lower than market rates. Management believes that their brand is associated with quality diagnostic and healthcare services at affordable rates.

Krsnaa Diagnostics Limited offer 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. Company diagnostic imaging/radiology services include conducting X-rays, computed tomography ("CT") scans, magnetic resonance imaging ("MRI") scans, ultrasounds, bone mineral densitometry and mammography.

Valuation

The company has strong business operations, which are reflected in its financials. It has exhibited a strong 37.65% CAGR on the sales front over FY2019-21, predominantly led by volumes and partially on the back of pricing.

The company is available at the upper end of the IPO price band at 77.7x its FY21 earnings, with a market cap of Rs. 29,941 million. Further on FY21 earnings basis the company is trading below the Industry average of 85.99x. We believe that strong balance sheet position and healthy operating cash flows will enable them to pursue growth opportunities and also fund their strategic initiatives. Hence, we recommend a "Subscribe" on the issue.

Company pathology segment, where primary focus includes biochemistry, haematology, clinical pathology, histopathology and cytopathology, microbiology, serology and immunology. A suite of diagnostic equipment is located at their tele-radiology hub along with a team of radiologists which provide us significant operating efficiencies and scalability.

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

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

Parameters	As of and for the year ended March 31,			As of and for the three months ended June 30, 2021
	2019	2020	2021	
Operational Parameters				
Diagnostic Centres				
Radiology	833	897	1365	1370
Pathology (including Collection Centres and Processing 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

Company experienced and qualified management team has contributed to their significant growth over the years. Company Promoter, Executive Chairman and Whole-time Director, Rajendra Mutha, has considerable experience in the healthcare industry, and has been associated with the company since inception. Company business is ably supported by an experienced team of professionals including their Managing Director, Pallavi Bhatevara and Whole-time Director, Yash Mutha, who have helped to significantly expand their operations.

The PPP segment of healthcare services is a large target market, representing a market opportunity of ₹95 billion – ₹100 billion in Fiscal 2021. Going forward, this market is expected to grow at a CAGR of 14% and 17% between Fiscal 2021 and 2023 to reach ₹125 billion and ₹135 billion on the back of higher government spending in the PPP segment. Given the company's track-record of operating in the PPP segment, Management believe that they are well positioned to benefit from the significant growth opportunity in this segment. They intend to further grow in the business and operations organically by entering into partnership arrangements with public health agencies, private hospitals, medical colleges and community health centres as well as inorganically through value-enhancing acquisitions to consolidate their business and leadership position. Company will continue to expand their network of diagnostic centres in existing and new territories and add new services as they grow their operations. Management believes this will allow them to leverage increasing operating synergies and benefit from economies of scale, to drive earnings growth, margin improvement, and increasing return on capital invested.

Strengths:

➤ **Unique and scaled diagnostics company**

Company is one of the largest differentiated diagnostic service providers in India. They 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, they collaborate with central, state and municipal government operated health and medical facilities for the deployment and operation of their diagnostic centres. Company 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, they have been awarded 38 contracts on a PPP basis, of which 32 projects have been executed while in the private healthcare segment, the company has 26 active collaborations. They operate a hospital partnership model where diagnostic centres they operate are located within existing premises of hospitals and health centres and support them with onsite testing.

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

➤ **Strong brand equity**

Management continues to focus on, and believe that the Krsnaa brand is associated with providing quality and reliable healthcare services at affordable prices. They believe that they provide quality services at competitive rates while following accreditations and protocols in line with best industry practice. The range of diagnostic services they offer, together with the scale of operations allows them to achieve economies of scale and provide competitive pricing for operations. A number of their diagnostic centres are accredited with NABL or NABH.

Management ensures that the look and feel of their diagnostic centres is consistent which helps brand visibility and increase brand recall. They believe this approach has enabled them to generate brand equity in the semi-urban and rural areas that primarily cater to, where the presence of diagnostics chains is limited.

➤ **Extensive footprint across India with robust infrastructure**

Krsnaa Diagnostics 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, they have established 1,370 radiology diagnostic centres and 487 pathology diagnostic centres including 443 collection centres. They have a significant presence in each state where they operate and as part of the diagnostic centres they establish, company have deployed and operate diagnostic centres across multiple locations within a particular state. The map below indicates the locations of their diagnostic centres as of June 30, 2021:



One of the key contributors to their success in terms of accuracy, turnaround time and scale of operations is the advanced technology infrastructure that implement as part of operations. Company technology infrastructure is designed to support the growth of business and helps ensure reliability of their operations. Company ability to deploy the latest equipment and technologies ensure that processes are efficient and scalable with minimal errors. Company technology platform tracks their operations and internal performance metrics, thereby enabling them to improve the operating efficiency of business. As value added services, they provide a digital dashboard to public health agencies whom they have partnered with that provide real-time patient and testing information. Company has centralized processing software for remote management and reporting of all radiology studies. They have multiple servers that manage their operations and are equipped to handle internet redundancies.

➤ **Business model with robust revenue visibility**

Company operations across radiology and pathology provide them with diversified sources of revenue. Company PPP agreements to deploy diagnostic centres for their radiology and pathology services are typically long-term contracts that ensure visibility of revenues for operations. The term of their 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. Further, considering services at competitive rates, public health agencies have expanded the coverage of the scope of their services to additional centres without any additional bidding process. Pursuant to the terms of PPP agreements, the medical facility typically provides rent-free space and access to its utilities and other infrastructure for installation and operations of diagnostic centres. Certain agreements also include price escalation clauses that allow them to revise the rates for their services periodically during the tenure of the contract.

A diagnostic centre within an existing facility has significant advantages that include lower marketing spend and a captive customer base. They do not spend on doctor referral fees and commissions. They also incur limited rental expenses which they believe is margin accretive for them. Company hospital partnership model of operations ensures captive customer synergies in various costs as well as significant volumes that ensures that their cost structure is efficient.

➤ **Well positioned to capitalize on healthcare spending across public and private sectors**

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. Company track-record of executing PPP contracts across India with public health agencies to provide diagnostic services within public hospitals will ensure that they stand to benefit from such increased healthcare spending. Since commencing their operations they have completed 32 PPP contracts and as of June 30, 2021 operated 1,797 diagnostics centres in public healthcare facilities across 13 states. Management believes they are a preferred partner for public health agencies in implementing diagnostic centres that is evident from their bid-win rate of 77.59% for tenders that they have bid for since commencement of operations, including a 100% qualification rate on technical grounds.

➤ **Scalable and agile business model with efficient cost structure**

Company operations across 13 states allows them to deploy new locations faster and efficiently. Their tele-reporting operations allow them to centralize resources and ready-to-build locations make their operations scalable. Company has deployed 1,797 diagnostic centres on a PPP basis, as of June 30, 2021. Management believes that their ability to establish and operate diagnostic centres across various segments and locations in India has contributed to their growth and leadership position in the Indian diagnostic industry. Company model also ensures that they do not pay any referral commissions to independent practitioners and private clinics, lower spend on marketing and promotions resulting in cost efficiency for their operations. Company existing large-scale operations have enabled them to address diagnostic requirements on account of the COVID19 pandemic and as part of response to the COVID-19 pandemic, Company diagnostic centres have performed over 900,000 COVID-19 PCR tests in Fiscal 2021. They also established India's first Indian Council of Medical Research ("ICMR") accredited COVID-19 testing facility under the PPP model in Pune and is accredited by the ICMR and developed a mobile testing facility within an air-conditioned bus jointly with IIT Alumni Council's COVID-19 task force and the Brihanmumbai Municipal Corporation.

➤ **Consistent track record of financial performance**

Krsnaa Diagnostics are the fastest growing diagnostic chain in India in terms of operating income (amongst players with revenues exceeding ₹1,500 million), OPBDIT and profit after tax between Fiscal 2017 and Fiscal 2021 and volume of tests conducted and patients between Fiscal 2018 and Fiscal 2021. They have demonstrated consistent growth in terms of their revenues and Adjusted EBITDA over the years. Company net revenue from operations increased at a CAGR of 37.65% from ₹2,092.35 million in Fiscal 2019 to ₹3,964.56 million in Fiscal 2021. Adjusted EBITDA for Fiscal 2019, 2020 and 2021 was ₹630.02 million, ₹757.74 million and ₹1,060.47 million, respectively while Adjusted EBITDA margin was 29.40%, 27.92% and 25.95%, respectively, for similar periods.

In the last three Fiscals Company have not incurred any write-offs and have not had any bad debts. They have witnessed consistent improvement in their balance sheet position in the last three Fiscals. Total Assets have grown from ₹5,289.85 million as of March 31, 2019 to ₹6,299.82 million as of March 31, 2020 and were ₹6,045.30 million as of March 31, 2021. Company has consistently generated positive cash flows from operating activities and were ₹582.66 million, ₹378.09 million and ₹1,025.58 million in Fiscal 2019, 2020 and 2021, respectively.

➤ **Ability to maintain cost competitiveness through operating leverage**

Company operates diagnostic centres under a hospital partnership model, within public and private health care facilities. Under the hospital partnership model, they benefit from the captive patient base of such facilities and the large volume of diagnostics tests undertaken for these patients. The volume tests they undertook between Fiscal 2018 and Fiscal 2021 grew at a CAGR of 20% which was the highest amongst diagnostic companies with revenues exceeding ₹1,500 million. Larger volumes help diagnostic chains achieve economies of scale, as equipment is optimally utilized and operating costs are spread over a larger number of centres. Company high diagnostics volumes in-turn help them to enjoy economies of scale and thereby optimize operational costs, resulting in price competitiveness. Company ability to competitively price their diagnostic services has enabled them to convert bids into actual contracts and is evident from the bid-win rate of 77.59% for tenders (by number) that they bid for since commencement of operations. These contract wins, in turn, have further augmented volume of diagnostic services and improved their operating leverage. Their OPBDIT margin was amongst the highest within diagnostic companies with revenues exceeding 149 ₹1,500 million in Fiscal 2020.

➤ **Experienced promoters and management team supported by strong employee base**

Company attributes their growth to the experience of the Promoter and senior management team. Company Promoter and Chairman, Rajendra Mutha, is a first generation entrepreneur and has over 10 years of experience in the field of pharmacy and diagnostics. He has been instrumental in the Company's growth since its inception in 2010. Company Managing Director, Pallavi Bhatevara, is responsible for expansion and growth of Company and is involved in the tendering process and implementation and execution of projects. Whole-time Director, Yash Mutha, has over 12 years of experience in the field of audit and risk management and has been associated with multinational corporations and global audit firms. Company has also benefited from investments by Kitara and Somerset in Fiscal 2016 and from Phi Capital in Fiscal 2019 and the support of Phi Capital's nominee director on board.

Key Strategies:

➤ **Continue to expand presence across India**

Company intends to continue to expand its network of diagnostic centres and services within India and in particular increase their presence in geographies where they are currently present. Company intends to grow its network across all states in India by leveraging their experience of deploying and operating diagnostic centres. The scale of their operations, presence in tier II and tier III locations, ability to offer competitive pricing to customers, accuracy of diagnostic test results and service delivery including through tele-reporting coupled with brand-building activities will allow them to grow their customer base. Company also intend to grow their focus on the private sector across

both business-to-business and business-to-consumer segment by partnering with more private sector healthcare providers, establishing standalone diagnostic centres, integrated brand building campaigns, raising awareness among doctors on the quality and comprehensive nature of service offerings and focusing on customer experience and improvement.

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

The company intends to enhance their capabilities in specialized diagnostic services such as molecular diagnostics and genomics. They believe they can leverage their presence in multiple states, their extensive network of centres and advanced infrastructure to offer additional diagnostic services. Further, at diagnostic centres where they offer radiology services, they intend to create additional infrastructure to offer pathology services as well. Company also intends to expand capabilities at their existing diagnostic centres to provide a wide range of services including healthcare screening and chronic and lifestyle disease management services. Company also intends to offer additional value added services, such as customer care services, home collection of specimens and home delivery of reports.

➤ **Grow the digital footprint**

Company actively implements technologies for customer engagement, service provision and interaction with vendors. Company intends to increase their touch points and engagement with customers through various digital and technology initiatives. Certain of these measures include developing online initiatives such as bookings, receiving reports and availability of patient and family history as part of their mobile application and teleconsultation. Company also intends to leverage data analytics capabilities by creating an intelligent dashboard that will be able to analyse historical trends and provide more value-added services. Management believes that the granularity of data available with them, both geographically and across various segments will enable them to develop and support artificial intelligence based solutions in radiology and pathology.

➤ **Maintain high social impact**

Krsnaa Diagnostics intends to continue to grow its operations by increasing customer footfalls at their diagnostic centres. Company intends to increase its branding and marketing initiatives to promote the Krsnaa brand further. As part of efforts to promote compliance with the United Nation's Sustainable Development Goals (SDGs) and in particular to 'ensure healthy lives and promote well-being for all at all ages', management are working with state governments in Karnataka and Odisha to establish diagnostic centres that will provide diagnostic services at no charge or at subsidized rates to patients from lower income group through various government schemes and initiatives such as the 'Free Diagnostics Scheme'. This will ensure a revenue stream for them while helping them to achieve their social objectives.

➤ **Continue to improve profitability and efficiency**

In order to maintain profitability and owing to the highly competitive nature of the industry in which companies operate, it is critical for them to rationalize their costs to improve their margins. Management proposes to explore vendor financing, whereby they intend to leverage relationships with their equipment vendors to reduce financing costs of equipment. They also look to explore sources other than traditional banks and lenders. For instance, the company will continue to explore additional funding from multilateral agencies and sovereign funds where the tenure of funding is longer term and at lower interest rates than traditional financing. Company will also explore off-balance sheet funding arrangements in the form of letters of credit. Management believes that the scale of its operations and their credit history allow them to obtain such funding that would otherwise not be available to others.

➤ **Expand their business and geographical footprint through opportunistic acquisitions**

Krsnaa Diagnostics intends to augment their growth by pursuing selective acquisitions and strategic alliances that provide them access to technology expertise, specialised services, market share and geographical reach and allow them to expand its offerings and grow their customer base. Company has historically expanded their business through organic growth only and intend to evaluate inorganic growth opportunities going forward. They may opportunistically consider acquisitions to selectively expand in the segments they operate. Company intends on executing bolt-on acquisitions and expediting post-acquisition integrations through standardized protocols, IT infrastructure integrations, logistics, financial and equipment servicing capabilities.

Industry Snapshot:

➤ **ASSESSMENT OF THE INDIAN DIAGNOSTIC INDUSTRY**

Structure and business models of the diagnostic industry in India

Industry structure

Based on provision of services



Pathology

+



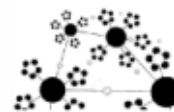
Radiology

Source: Industry, CRISIL Research

Based on business models



1. Hospital-based



2. Pan-India/regional chain



3. Standalone center



4. Public-private-partnership

Source: Industry, CRISIL Research

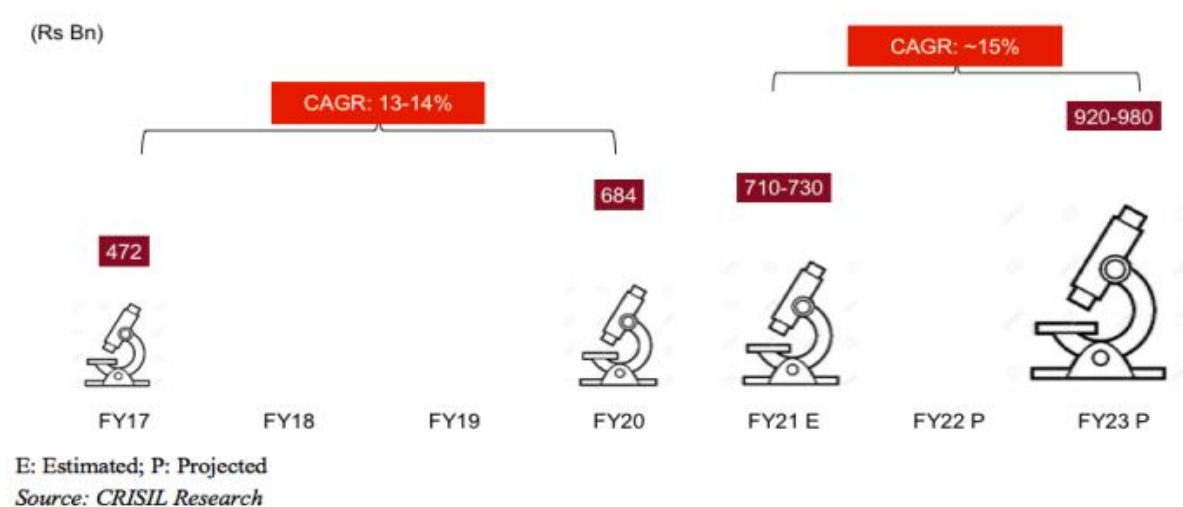
- **Hospital-based Diagnostic Centres** : Usually, secondary and tertiary hospitals have their own pathology labs and radiology centres in-house, but some outsource the management of their diagnostic facilities to third-party players. Major hospital chains such as Apollo, HCG, Max, Fortis, etc., have their diagnostic arm, which caters to their requirements. Generally, hospitals prefer to outsource their tests rather than set up an in-house laboratory testing facility. Tertiary hospitals, which may not have the equipment to conduct advanced tests, may also send samples to other high-end labs. Given that equipment for advanced tests is expensive, many hospitals find it economically unviable to operate them owing to low testing volume.
- **Diagnostic Chains** : Diagnostic chains like Dr Lal PathLabs, Krsnaa Diagnostics, Metropolis, SRL Diagnostic and Thyrocare are present either in a specific region/geography or have multi-regional presence and offer either or both pathology and radiology services. There are also prominent regional chains spread across different geographies, such as Vijaya Diagnostic, Medall Healthcare, Suraksha Diagnostic, Suburban Diagnostic, Aarthi Scans, etc, which have been successful in creating a space and brand resonance for themselves. Diagnostic chains adopt a hub-and-spoke model (usually for pathology-centric services), helping them increase their catchment area. Tele-reporting is another new technology offering which has helped increase coverage of players as it provides scope for reporting from any corner of the country. Specialised testing has seen many new entrants such as iGenetics, CORE Diagnostic, etc., since substantial growth is expected in this area owing to the shift in disease epidemiology in the country.
- **Standalone Centres**: Standalone diagnostic centres, which have a single centre, make up for 45-50% share of the market. Low entry barriers and the absence of stringent regulations have helped small pathology labs and radiology centres proliferate. They carry out basic tests that require minimal investment and space and typically have a conventional X-ray and an ultrasound machine.
- **Other Business Models in the Diagnostic Industry in India**: Different business models are being introduced in the diagnostic industry. These are hospital partnerships, PPP model, aggregator model, chained model (via franchisee), players with focus only on niche tests, etc. Diagnostic chains provide a bouquet of services to a diversified clientele, process samples from smaller hospitals and diagnostic centres, and offer corporate wellness programmes. Players such as Healthians operate more on an aggregator-based model, controlling the logistics and quality with partner labs.
- **Government-led (PPP model) diagnostic is an emerging trend in the country**: The government-led (PPP model) diagnostic involves diagnostic players entering into a public-private-partnership agreement with the government to provide specific diagnostic services (pathology, radiology or both) for a specific 129 concession period at predefined rates. The government-led PPP model for diagnostic is meant to improve health facilities and facilitate accessible healthcare to all, especially to the bottom of the pyramid. In a PPP model, government contributions can vary from providing land lease, upfront capital infusion, to giving financial concessions on the capital infused by the private players, rent-free land and captive customers. Players with established track records and most competitive prices have the chances of winning such PPP tenders. As a provider, the government can contribute towards building infrastructure and managing operations of hospitals and diagnostic centres and, as a payer, it can pay for healthcare services provided by the private sector.
- **Hospital-partnership model an emerging trend for the radiology business**: From a radiology business perspective, the hub and spoke model works for player who have multiple centres in a region. In recent times, the hospital-partnership model is an emerging model for radiology players. In this model a hospital typically refers its patients to a radiology player which they have tied-up with. The model gives hospitals an opportunity to reduce their capital outlay towards in-house radiology equipment, offers hospitals better managed services and helps go away with maintenance cost towards radiology equipment too. It also aids hospitals with quality output without having to employ dedicated professionals to run the services for them.

➤ Market Size of the Indian Diagnostic Industry:

The Indian diagnostic industry has grown consistently over the past three fiscals and is projected to grow at a CAGR of approximately 15% between fiscals 2021 and 2023.

The size of the diagnostic industry is estimated to be approximately ₹710 billion to ₹730 billion in Fiscal 2021, registering a healthy CAGR of 13% to 14%, echoing the growth from healthcare delivery services, over Fiscal 2017's industry size of approximately ₹472 billion. The industry is expected to grow at approximately 15% and achieve a value of ₹920 billion to ₹980 billion in Fiscal 2023 (gaining a gentle push from government expenditure on testing).

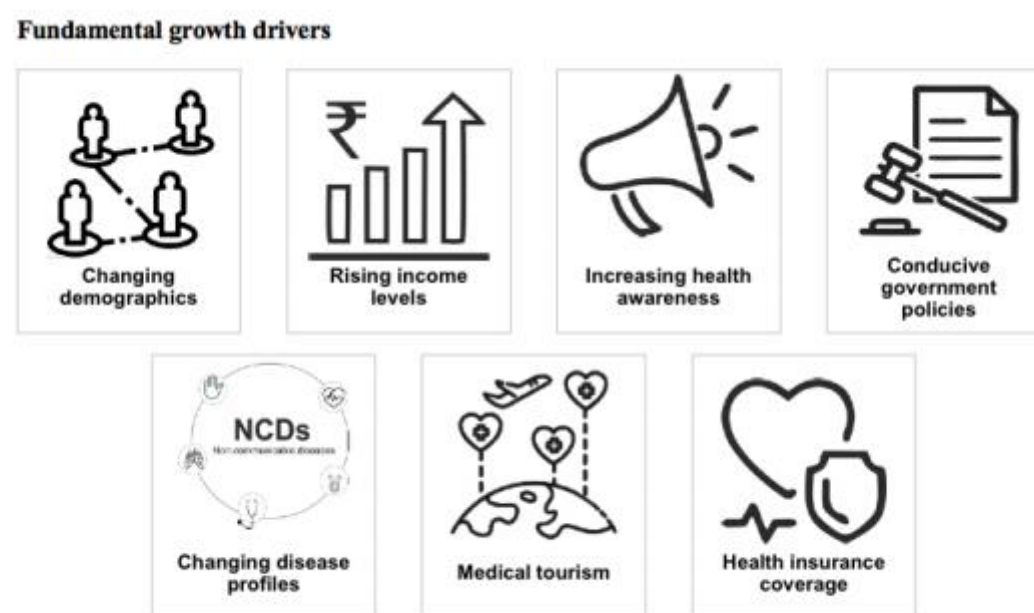
Indian diagnostic industry outlook holds potential for medium term



There was a significant decline in revenue in April and May 2020, however, the demand experienced a certain amount of revival from June 2020. The pending demand of healthcare contributed to revenues during a traditionally lean quarter from the diagnostic perspective. There was a recovery to pre-COVID-19 levels in the third quarter, with a shift towards specialised testing, increased home collection business and business to customers (B2C).

However, a robust medium-term growth is expected going forward, both from an increase in demand for in-patient treatments (who get treated while being admitted in a hospital) and out-patients (non-hospitalised treatments, including consultancy and day surgeries at hospitals). Moreover, as literacy rates and disposable incomes rise, individuals increasingly demand better healthcare facilities and quality of care, leading to high volume growth of in-patients and out-patient treatments. The rise in healthcare demand has also received a lift from the increase in urbanisation and lifestyle-related diseases, such as cardiac diseases, diabetes and cancer, prompting many healthcare-service providers to enhance their offerings in metropolitan areas and Tier-I and II cities.

➤ **Fundamental growth drivers and risks for the diagnostic industry in India**

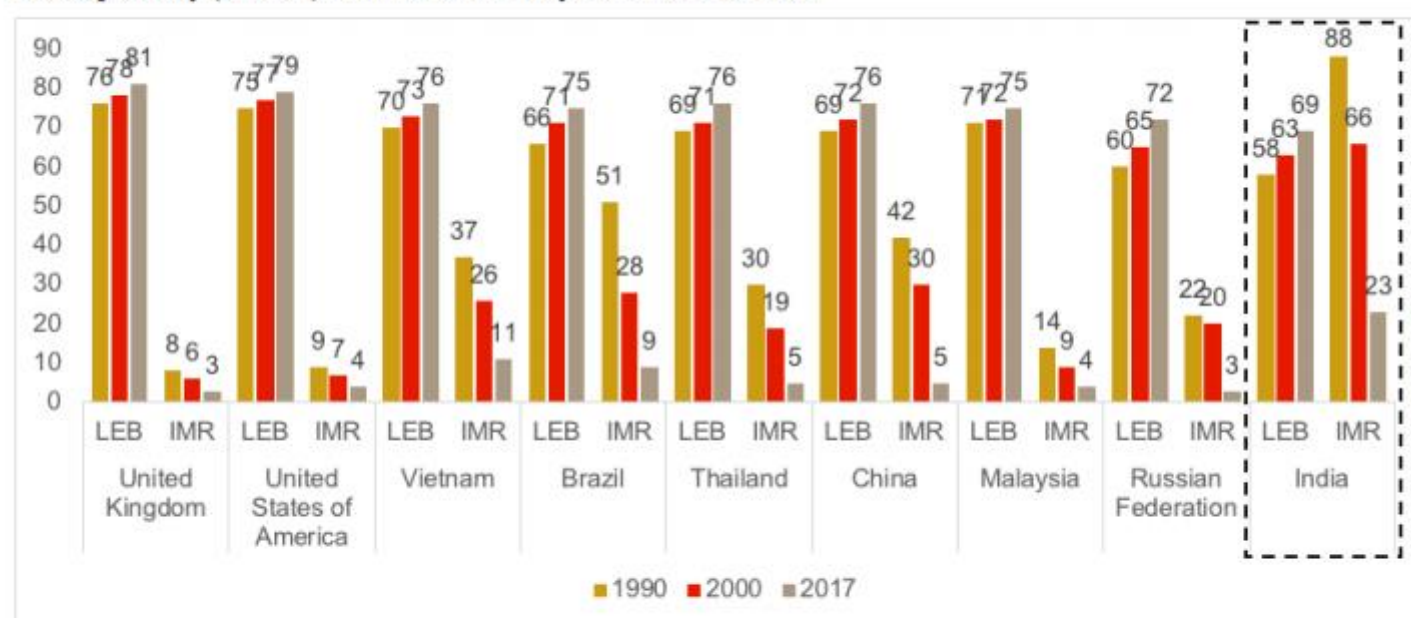


Source: CRISIL Research

A combination of economic and demographic factors is expected to drive healthcare demand in India. The Ayushman Bharat Pradhan Mantri Jan Arogya Yojana ("PMJAY") scheme launched by the Government would also support these drivers in the long term. Health and wellness packages focussing on preventive healthcare amid rising NCD-related deaths are likely to fuel demand for healthcare services in general, and diagnostic services in particular. NCDs are believed to exhibit a tendency to increase along with rising income levels. Moreover, the WHO projects an increase in NCDs by 2030. The demand for healthcare services associated with lifestyle-related diseases such as cardiac ailments, cancer and diabetes to increase, is forecasted to likely be the driving force for the Indian diagnostic industry

- **With life expectancy improving and changing demographic profile, healthcare services are considered as an essential requirement:** With improving life expectancy, the demographic of the country is also experiencing a change. As of December 31, 2011, approximately 8% of the Indian population was of 60 years or more, and this is expected to increase to 12.5% by 2026. Higher vulnerability of this age group to health-related issues is an accepted fact.

Life expectancy (at birth) and infant mortality rate: India vs other



Note: LEB – Life expectancy at birth; IMR – Infant mortality rate (probability of dying by age of 1 per 1000 live births)

Source: WHO World Health Statistics 2020

According to the Report on Status of Elderly in Select States of India, 2011, published by the United Nations Population Fund (‘UNFPA’) in November 2012, chronic ailments, such as arthritis, hypertension, diabetes, asthma, and heart diseases, were commonplace among the elderly, with approximately 66% of the respective population reporting at least one of these. In terms of gender-based tendencies, while men are more likely to suffer from heart, renal and skin diseases, women showed higher tendencies of contracting arthritis, hypertension, and osteoporosis.

With the Indian population is expected to grow to approximately 1.4 billion by 2026 and, considering the abovementioned factors, the need to ensure healthcare services to this vast populace is an imperative which provides a huge opportunity to expand into a space that bears huge potential.

- **Rising income levels to make quality healthcare services more affordable and preferred:** Growth in household incomes and, consequently, disposable incomes are critical to the overall growth in demand for healthcare delivery services in India. The share of households falling in the income bracket above ₹0.2 million is expected to go up to 35% in Fiscal 2022 from 23% in Fiscal 2017, providing potential target segment (with more paying capacity) for hospitals. The rising income levels also fares in favour of diagnostic industry. As income levels increase, it emphasises higher spending on preventive and wellness tests, and accordingly, is expected to turn out to be beneficial for the diagnostic industry.
- **Increasing health awareness to boost the hospitalisation rate and preventive and wellness tests:** With increasing urbanisation (migration of population from rural to urban areas), awareness among the general populace regarding presence and availability of healthcare services for both preventive and curative care is expected to increase. The hospitalisation rate for in-patient treatment as well as walk-in out-patients is expected to improve with increased urbanisation and increasing literacy, and therefore, paving way for the growth of diagnostic industry as well. With increase in penetration to rural India through various Government schemes and programmes, the opportunity for players involved in PPP shall also increase significantly going forward.
- **Union Budget allocation towards healthcare experienced a growth at a CAGR of 11% between Fiscals 2011 to 2022:** The healthcare budget has experienced increases year-on-year. Between Fiscals 2011 and 2022, the budget for the MoHFW registered a growth at a CAGR of 11%. In recent years, the utilisation rate has been 100% or above, as has been the case since Fiscal 2016. This is also a strong growth driver for the industry and particularly the PPP initiative from Government in order to achieve the Government’s goal of providing healthcare services to all.
- **Growing health insurance penetration to push demand for the overall healthcare delivery market including diagnostics:** According to the Insurance Regulatory and Development Authority (‘IRDA’), approximately 499 million people have health insurance coverage in India in Fiscal 2020, in comparison to approximately 288 million in Fiscal 2015. However, despite this robust growth, the penetration in Fiscal 2020 was only 36%.

Key Risk:

- A substantial portion of Krsnaa Diagnostic’s revenue from operations depend on payments under contracts with public health agencies. If the company is unable to negotiate and retain similar fee arrangements, if the contracts are cancelled, or if they are unable to realize payments due to them, their business may be materially and adversely affected.
- Most of the company diagnostic centres have been established and are operated under public private partnership contracts awarded by government agencies through a competitive bidding process. There can be no assurance that they will qualify for, or that will successfully compete and win such tenders.
- The COVID-19 pandemic may significantly affect Company’s results of operations, financial position and cash flows.
- The company relies on information technology systems and the telecommunication network in India in providing their diagnostic services and managing their operations, and any disruption to such systems or networks could adversely affect their business operations, reputation and financial performance.
- Business interruption at their diagnostic centres and at tele-radiology reporting hubs could result in significant losses and reputational damage to their business.
- The Company derives a substantial portion of their revenue from the states of Maharashtra, Rajasthan and Karnataka, and any loss of business in such regions could have an adverse effect on their business, results of operations and financial condition.
- Delays in the establishment of diagnostic centres could lead to termination of the agreements or cost overruns, which could have an adverse effect on their cash flows, business, results of operations and financial condition.
- The company business is capital intensive. If they experience insufficient cash flows from their operations or are unable to borrow to meet capital requirements, it may materially and adversely affect their business and results of operations.
- Any inadequacy in packaging, collection of, or failure or delay in the delivery of, specimens to diagnostic centres could compromise or destroy the integrity of such specimens, which could adversely affect their business, results of operations and financial condition.
- The Company requires certain approvals, licenses, registrations and permits for conducting their business and inability to obtain, retain or renew them in a timely manner, or at all, may adversely affect their business, results of operations and financial condition.
- Failure to establish and comply with appropriate quality standards when performing imaging, testing and diagnostics services could result in litigation and liability for the company and could materially and adversely affect its reputation and results of operations.

Valuation:

Comparison with Listed Industry Peers

The company has strong business operations, which are reflected in its financials. It has exhibited a strong 37.65% CAGR on the sales front over FY2019-21, predominantly led by volumes and partially on the back of pricing.

Name of the company	Total Income (₹ in million)	Face Value per Equity Share (₹)	P/E	EPS (Basic) (₹)	EPS (Diluted) (₹)	RoNW (%)	NAV per equity share (₹)	Debt Service Ratio
Krsnaa Diagnostics Limited	3,964.56	5.00	[●]	71.86	12.25	79.76%	85.27	3.65x
Listed Peers								
Metropolis Healthcare Limited	9979.87	2.00	77.65	35.97	35.79	25.91%	138.23	
Dr. Lal PathLabs Limited	15,812.66	10.00	94.32	35.33	35.25	23.42%	149.39	

The company is available at the upper end of the IPO price band at 77.7x its FY21 earnings, with a market cap of Rs. 29,941 million. Further on FY21 earnings basis the company is trading below the Industry average of 85.99x. We believe that strong balance sheet position and healthy operating cash flows will enable them to pursue growth opportunities and also fund their strategic initiatives. Hence, we recommend a “Subscribe” on the issue.

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Ratings Guide (12 months)	Buy	Hold	Sell
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Mid/Small Caps (<₹300 Bn.)	20%	10%-15%	Below 10%

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