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@AnishA_Moonka

Krsnna Diagnostics IPO notes: 'Let's do Good' ■

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A thread ■■

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1/ Basics about the IPO

Issue Dates: 4 - 6 August
Issue Size: ■ 1,211 Crore (400crs Fresh Issue & 811crs OFS)
Mcap at the upper band: 2994crs
Price Band: ■ 933 - 954
Retail Quota: 10%

Promoter stake to go from 32% to 27% post IPO.

Average cost of acquisition of Equity Shares by our Promoter and Selling Shareholders

The average cost of acquisition of equity shares by our Promoter and the Selling Shareholders, as at the date of this Red Herring Prospectus, is:

Name	Number of Equity Shares held	Average cost of acquisition per Equity Share (in ₹)[#]
Promoter		
Rajendra Mutha	8,029,920	17.79
Selling Shareholders		
Kitara	4,454,284	67.35
Somerset	4,454,284	67.35
Phi Capital	6,368,040	157.26
Lotus Management Solutions (acting through and represented by Mayur Sirdesai)	21,380	67.35

[#]*Pursuant to the certificate dated July 23, 2021 from M/s Pawan Jain and Associates, Chartered Accountants.*

2/ About the company.

Krsnaa Diagnostics provides technology-enabled services such as imaging (including radiology), pathology/clinical laboratory, and teleradiology

to public and private hospitals, medical colleges and community health centres across India.

3/ They focus on the public-private partnership (“PPP”) diagnostics segment and have the largest presence in the diagnostic PPP segment.

Contracts are typical of long-term in nature.

Won 77.6% of all tenders since inception & have thus deployed 1823 diagnostic centers.

4/ Operational performance indicators

Certain key operational performance indicators in relation to our 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	1,365	1,370
- 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

5/ Strengths

- Cost Competitive: Radiology tests are priced 45%-60% below market rates & pathology tests are 40%-80% below
- Extensive footprint & Infra: Among the few cos. in India to have MRI machines ranging from 0.2-3 Tesla machines & multi-slice CT to 128 slice CT scanners

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

Parameters	As of and for the year ended March 31,		
	2019	2020	2021
Financial Parameters			
Revenue from operations (net) (₹ million)	2,092.35	2,584.27	3,964.56
- Contracts with Public Health Agencies	1,506.61	1,884.34	2,675.70
- Contracts with Private Healthcare Providers	585.74	699.93	1,288.86
Revenue from operations (net) (%)			
- Public Health Agencies	72.01%	72.92%	67.49%
- Private Healthcare Providers	27.99%	27.08%	32.51%
Adjusted EBITDA[#] (₹ million)	630.02	757.74	1,060.47
Adjusted EBITDA Margin[##]	29.40%	27.92%	25.95%

Notes:

Adjusted EBITDA means profit / (loss) for the period plus income tax expense plus finance costs plus depreciation and amortization expenses plus loss / (gain) on fair value movement of Compulsory Convertible Preference Shares.
Adjusted EBITDA Margin means Adjusted EBITDA divided by Adjusted Total Income.

6/

- High revenue visibility (Non-Covid rev) due to 2-10 year long govt. PPP contracts
- Experienced promoters & management team supported by a strong employee base

Experienced promoters and management team supported by strong employee base

We attribute our growth to the experience of our Promoter and senior management team. Our 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 our Company's growth since its inception in 2010. Our Managing Director, Pallavi Bhatevara, is responsible for expansion and growth of our Company and is involved in the tendering process and implementation and execution of projects. Our 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. We have 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 our board.

Our senior management team has significant experience and have been with our Company collectively for over 30 years. Our operations are led by Shivananda Rao, Chief Operating Officer, who has over 22 years of extensive experience in the healthcare and hospitality sector and Dr. Kiran Bhise, Medical Director, is a practising laparoscopy surgeon, endoscopist and surgical gastroenterologist with over 21 years of medical experience and is a member of the Association of Minimal Access Surgeons of India and Association of Surgeons of India.

7/ Services they offer & the distribution.

Services

We provide specialized diagnostic imaging (including radiology), pathology/clinical laboratory and tele-radiology services. Through our network of diagnostic centres, we offer a range of test that includes 1,394 radiology tests and 2,544 pathological tests, as of June 30, 2021 that cover a range of specialties and disciplines.

Radiology

We are a large radiology chain (*Source: CRISIL Report*) in having a pan-India operations across 13 states with 1,370 radiology focused centres, as of June 30, 2021. Our diagnostic centres provide physicians and individual patients with imaging capabilities to facilitate the diagnosis and treatment of diseases and disorders and may reduce unnecessary invasive procedures, often reducing the cost and amount of care for patients. Diagnostic imaging involves the use of non-invasive procedures to generate representations of internal anatomy and function that can be recorded on film or digitized for display on a video monitor. Our business model does not require us to have radiologists at diagnostic centres in remote locations as scans are centrally processed at our tele-radiology hub unless required under a particular contract.

The principal diagnostic imaging modalities we use at our radiology diagnostic centres are:

MRI. MRI has become widely-accepted as the standard diagnostic tool for a wide and fast-growing variety of clinical applications for soft tissue anatomy, such as those found in the brain, spinal cord and interior ligaments of body joints such as the knee. MRI uses a strong magnetic field in conjunction with low energy electromagnetic waves that are processed by a computer to produce high-resolution, three-dimensional, cross-sectional images of body tissue, including the brain, spine, abdomen, heart and extremities. MRI systems can have either open or closed designs, routinely have magnetic field strength of 1.5 Tesla to 3.0 Tesla. We operate MRI machines of 0.35 Tesla, 1.5 Tesla and 3 Tesla. As of June 30, 2021, we had 27 MRI systems in operation.

CT. CT provides high resolution images of the body and internal organs. This modality combines special X-ray equipment with sophisticated computers to produce multiple cross-sectional images. These cross-sectional images can then be examined by a radiologists to diagnose problems such as cancers, cardiovascular disease, infectious disease, trauma and musculoskeletal disorders. We have dual slice, 16, 32, 64 and 128 slice CT scan systems installed at various centres. These scanners are capable of performing specialized investigations with minimum radiation dose to the patient and produces quality images to provide accurate diagnosis. As of June 30, 2021, we had 62 CT systems in operation.

X-ray. X-ray systems use roentgen rays to penetrate the body and record images of organs and structures on film. Our X-rays are undertaken using a digital system which ensures images are available immediately and measurements can be made of any area of the body. We perform all types of X-rays and routine fluoroscopy studies such as upper GIs and barium enemas, as well as advanced procedures including arthrograms, myelograms and ITS HSG, VCUGs. As of June 30, 2021, we had 937 digital X-ray systems in operation.

Mammography. Mammography is a specialized form of radiology using low dosage X-rays to visualize breast tissue and is the primary screening tool for breast cancer. Mammography procedures and related services assist in the diagnosis of and treatment planning for breast cancer.

Ultrasound and Colour Doppler. Ultrasound (sonography) is an imaging technology that uses high frequency sound waves to visualize tissues, muscles, tendons and many internal organs to capture their size, structure and any pathological lesions with real time imaging. An ultrasound probe sends an ultrasound pulse into tissues and receives echoes back, which forms an image on sonography machines screen, from which we can diagnose causes

8/ Objective of the issue

Plans to use Rs 150 crore to set up 29 diagnostic centres across multiple states.

It also plans to repay/ pre-pay debt worth Rs 146 crore to the lenders in FY22. The company's total borrowings stood at Rs 231.7 crore as of March 2021.

9/ Financials

- Good Cashflow conversion (80%+ EBITDA)
- Capex heavy business, Working Capital under control
- Strong Margins at 25-30% & gross margins of 80-85%
- COVID benefited the revenues in FY21, Non-COVID rev back to pre-COVID

Annexure I : Restated statement of assets and liabilities

(Amount in Rupees million except per share data and unless otherwise stated)

	Annexure 6 (Note No.)	As at 31 March 2021	As at 31 March 2020	As at 31 March 2019
ASSETS				
Non-current assets				
Property, plant and equipment	6	3,072.80	2,735.82	2,223.89
Capital work-in-progress	8	37.18	91.30	416.58
Intangible assets	7	12.28	15.14	7.00
Intangible asset under development	9	-	-	1.32
Financial assets				
Investments	10	2.90	2.90	2.90
Loans	11	135.44	104.28	55.63
Other financial assets	12	24.08	60.23	146.46
Deferred tax asset (net)	39	-	921.72	435.84
Other non-current assets	13	279.24	232.12	114.36
Total non-current assets		**3,563.92**	**4,163.51**	**3,403.98**
Current assets				
Inventories	14	72.10	50.67	42.12
Financial assets				
Trade receivables	15	724.74	614.32	562.23
Cash and cash equivalents	16	246.75	83.59	85.96
Bank balances other than cash and cash equivalent	17	1,282.37	1,189.24	1,030.24
Other financial assets	18	90.08	183.59	137.74
Other current assets	19	65.34	14.90	27.58
Total current assets		**2,481.38**	**2,136.31**	**1,885.87**
Total assets		**6,045.30**	**6,299.82**	**5,289.85**

		As at 31 March 2021	As at 31 March 2020	As at 31 March 2019
EQUITY AND LIABILITIES				
Equity				
Equity share capital	20	64.95	51.63	51.63
Instruments entirely equity in nature	21	2,423.90	150.24	150.24
Other equity	22	(170.20)	(2,171.64)	(1,051.08)
Total equity		**2,318.65**	**(1,969.77)**	**(849.21)**
Liabilities				
Non-current liabilities				
Financial liabilities				
Borrowings	23	1,679.54	1,227.13	920.23
Liability on compulsory convertible preference shares	24	-	4,951.75	3,181.44
Other financial liabilities	25	63.89	233.52	251.39
Employee benefit obligations	26	5.19	3.23	1.62
Other non-current liabilities	27	33.03	45.97	51.16
Deferred Tax Liabilties	39	106.95	-	-
Total non-current liabilities		**1,888.60**	**6,461.60**	**4,405.84**
Current liabilities				
Financial liabilities				
Borrowings	28	347.44	922.80	539.57
Trade payables				
i)total outstanding dues of micro enterprises and small enterprises	29	5.37	3.44	0.84
ii)total outstanding dues of creditors other than micro enterprise and small enterprise	29	780.19	377.49	416.47
Other financial liabilities	30	665.54	479.35	746.26
Employee benefit obligations	26	9.28	7.20	5.47
Other current liabilities	31	30.23	17.71	24.61
Total current liabilities		**1,838.05**	**1,807.99**	**1,733.22**
Total liabilities		**3,726.65**	**8,269.59**	**6,139.06**
Total equity and liabilities		**6,045.30**	**6,299.82**	**5,289.85**

10/ Risks

- 70% of rev from government agencies: Could lead to payment delays
- Competitive tender bidding process to get in: cost competitiveness could be challenged by some new entrant
- Contracts are based on fixed price arrangements: margins are not under their control.

11/

- 70% of rev from 3 states; Maharashtra, Rajasthan & Karnataka.
- Delays in the establishment of diagnostic centres could lead to termination of the agreements or cost overruns.
- Failure to establish and comply with appropriate quality standards could result in litigations.

12/

At 8x EV/Sales, 32x EV/ EBITDA & more than 90 times earnings, plus the commoditized nature of the industry due to high competition & also the boost in sales from COVID-19, we would rather wait & watch this company face an increasing RM cost scenario.