IPO Note

Krsnaa Diagnostics Limited

JM FINANCIAL

Issue Details

Issue Size	Rs. 1175.43 Crore – Rs. 1193.34 Crore	**Price Band:**	Rs.933 – Rs.954
IPO Date:	04th Aug 2021 to 06th Aug 2021	**Offer Ratio:**	QIB: 75%, NII: 15%, Retail: 10%
Bid Lot:	15 Equity Shares and in multiples thereof		

Company Profile

Krsnaa Diagnostics Limited is a large and differentiated diagnostic service provider (Source: CRISIL Report). 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. 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 2020 (amongst players with revenues exceeding ₹1,500 million) (Source: CRISIL Report). According to CRISIL Report, they also operate one of India's largest teleradiology 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 the company to serve patients in remote locations where diagnostic facilities are limited. They provide quality and inclusive diagnostic services at affordable rates across various segments. Since inception, they have served more than 23 million patients.

Krsnaa Diagnostics focuses on the public private partnership ("PPP") diagnostics segment and has the largest presence in the diagnostic PPP segment (Source: CRISIL Report). The PPP agreements are typically long-term in nature and ensure predictability of revenues from operations. In addition to the PPP segment, they have been growing their 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 they operated 26 such diagnostic centres as of June 30, 2021. They have an extensive network of integrated diagnostic centres across India primarily in non-metro and lower tier cities and towns. As of June 30, 2021, they operated 1,823 diagnostic centres offering radiology and pathology services in 13 states across India. Their 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, Krsnaa Diagnostics served 5.18 million patients and 1.88 million patients, respectively. As of June 30, 2021, they had a team of 190 radiologists, 30 pathologists, 8 microbiologists and more than 2,800 qualified professionals including clinicians, technicians and operators. In terms of leadership, company's Promoter and Chairman, Rajendra Mutha, is a first-generation entrepreneur and has over 10 years of experience in the field of pharmacy and diagnostics.

Competitive Strengths

- Unique and scaled diagnostics company
- Strong brand equity
- Extensive footprint across India with robust infrastructure
- Business model with robust revenue visibility
- Well positioned to capitalize on healthcare spending across public and private sectors
- Scalable and agile business model with efficient cost structure
- Consistent track record of financial performance
- Ability to maintain cost competitiveness through operating leverage
- Experienced promoters and management team supported by strong employee base

Object of the Offer

(in Rs. Million)

Particulars	Amount[1]
Finance the cost of establishing diagnostics centres at Punjab, Karnataka, Himachal Pradesh and Maharashtra	1,508.10
Repayment/pre-payment, in full or part, of borrowings from banks and other lenders availed by the Company	1,460.81
General Corporate Purposes[2]	[●]

(1) To be finalised upon determination of the Offer Price and updated in the Prospectus prior to filing with the ROC.
(2) The amount utilised for general corporate purposes shall not exceed 25% of the Gross Proceeds.

Financials (Restated)

Particulars (Rs. In Million)	Year ended March 31, 2021	Year ended March 31, 2020	Year ended March 31, 2019
Equity Share Capital	64.95	51.63	51.63
Other Equity	(170.20)	(2,171.64)	(1,051.08)
Net Worth	2,318.65	(1,969.77)	(849.21)
Total Borrowings	2,317.79	2,312.49	1,692.06
Revenue from Operations	3,964.56	2,584.27	2,092.35
EBITDA	3,588.31	(1,012.57)	(325.17)
Profit/Loss Before Tax	2,954.52	(1,583.32)	(777.26)
Net Profit/Loss for the year	1,849.29	(1,119.51)	(580.57)

Comparison with peers

Company	FV/Share (₹)	EPS (Basic)	RONW (%)	NAV (₹ per share)	P/E
Krsnaa Diagnostics Limited	5	71.86*	79.76	85.27*	[•]
Metropolis Healthcare Limited	2	35.97	25.91	138.23	77.65
Dr. Lal PathLabs Limited	10	35.33	23.42	149.39	94.32

Source: All the financial information for listed industry peer mentioned above is on a consolidated basis and is sourced from the annual report of the company for the year ended March 31, 2021.
Source for Krsnaa Diagnostics Limited: Based on the Restated Financial Statements for the year ended March 31, 2021.
**Basic and Diluted EPS and NAV is calculated post conversion of Series A CCCPS and Series C CCPS*
Notes:
(1) P/E Ratio has been computed based on the closing market price of equity shares on BSE on July 22, 2021, divided by the Basic EPS.
(2) RoNW is computed as net profit after tax (excluding profit attributable to non-controlling interest) divided by closing net worth, as on March 31, 2020.
(3) Net worth has been computed as sum of paid-up share capital and other equity.
(4) NAV is computed as the closing net worth divided by the closing outstanding number of equity shares.

Key Risk Factors

- A substantial portion of Krsnaa Diagnostics' 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's diagnostic centres have been established and are operated under PPP contracts awarded by government agencies through a competitive bidding process. There can be no assurance that they will qualify for, or that they 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 its information technology systems and the telecommunication network in India in providing diagnostic services and managing operations, and any disruption to such systems or networks could adversely affect their business operations, reputation and financial performance.
- Business interruption at the company's diagnostic centres and tele-radiology reporting hub could result in significant losses and reputational damage to their business.

- The prices that the company can charge for diagnostic services are dependent on recommended or mandatory fees fixed under the terms of the agreements entered into with public and private healthcare providers.
- Delays in the establishment of diagnostic centres could lead to termination of the agreements or cost overruns, which could have an adverse effect on company's cash flows, business, results of operations and financial condition.
- The company's 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.
- The company is subject to numerous legal and regulatory requirements governing their activities, and if they fail to comply with such requirements, they may face substantial fines and penalties, which could have a material adverse effect on their business, financial condition and results of operations.
- 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.
- The company require certain approvals, licenses, registrations and permits for conducting its business and their 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.
- The company is required to furnish bank guarantees as part of their business. Inability to arrange such guarantees or the invocation of such guarantees may adversely affect their cash flows and financial condition.
- The company derives substantial portion of its 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.
- The company is required to comply with certain restrictive covenants under their financing agreements. Any noncompliance may lead to, amongst others, suspension of further drawdowns, which may adversely affect their business, results of operations, financial condition and cash flows.
- Some of the company's diagnostic centres are required, and other diagnostic centres may be required in the future, to provide free or subsidised diagnostic services to patients belonging to economically disadvantaged sections of the society and certain other patients.
- There are certain outstanding legal proceedings involving the company, its promoter and one of its Directors. Any adverse outcome in these proceedings or in any litigation proceedings in which the Company may get involved in, in the future, may have an adverse impact on company's reputation, business, financial condition, results of operations and cash flows. For more information, please read the section "Outstanding Litigation and Other Material Developments" on page 23 of RHP.
- The Company has recorded restated losses and negative net worth in the past.
- The company has certain contingent liabilities that have not been provided for in company's financial statements, which if they materialise, may adversely affect their financial condition. For further information on their contingent liabilities, see "Restated Financial Statements – Annexure 6 – Note 53" on page 281 of RHP.
- The company in the past entered into related party transactions and may continue to do so in the future, which may potentially involve conflicts of interest with the equity shareholders.
- In the past there have been certain non-compliances with respect to certain provisions of Companies Act, regulatory filings and corporate actions taken by the Company. Consequently, they may be subject to regulatory actions and penalties for any past or future non-compliance and company's business, financial condition and reputation may be adversely affected.
- The company has issued Equity Shares during the preceding twelve months at a price which may be below the Offer Price.

(Please refer the entire list of risk factors given in section III (page 24 onwards) given in RHP)

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