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Krsnaa Diagnostics

First Recommended Date: 7 July **First Recommended Price :741**

Publishing Date: 30 Aug 2025 **CMP: 789** **Action: BUY**

Industry/Sector	Target Price	Upside Potential	Investment Duration
Automobile	890 to 926	13% to 17%	6 to 9 Months

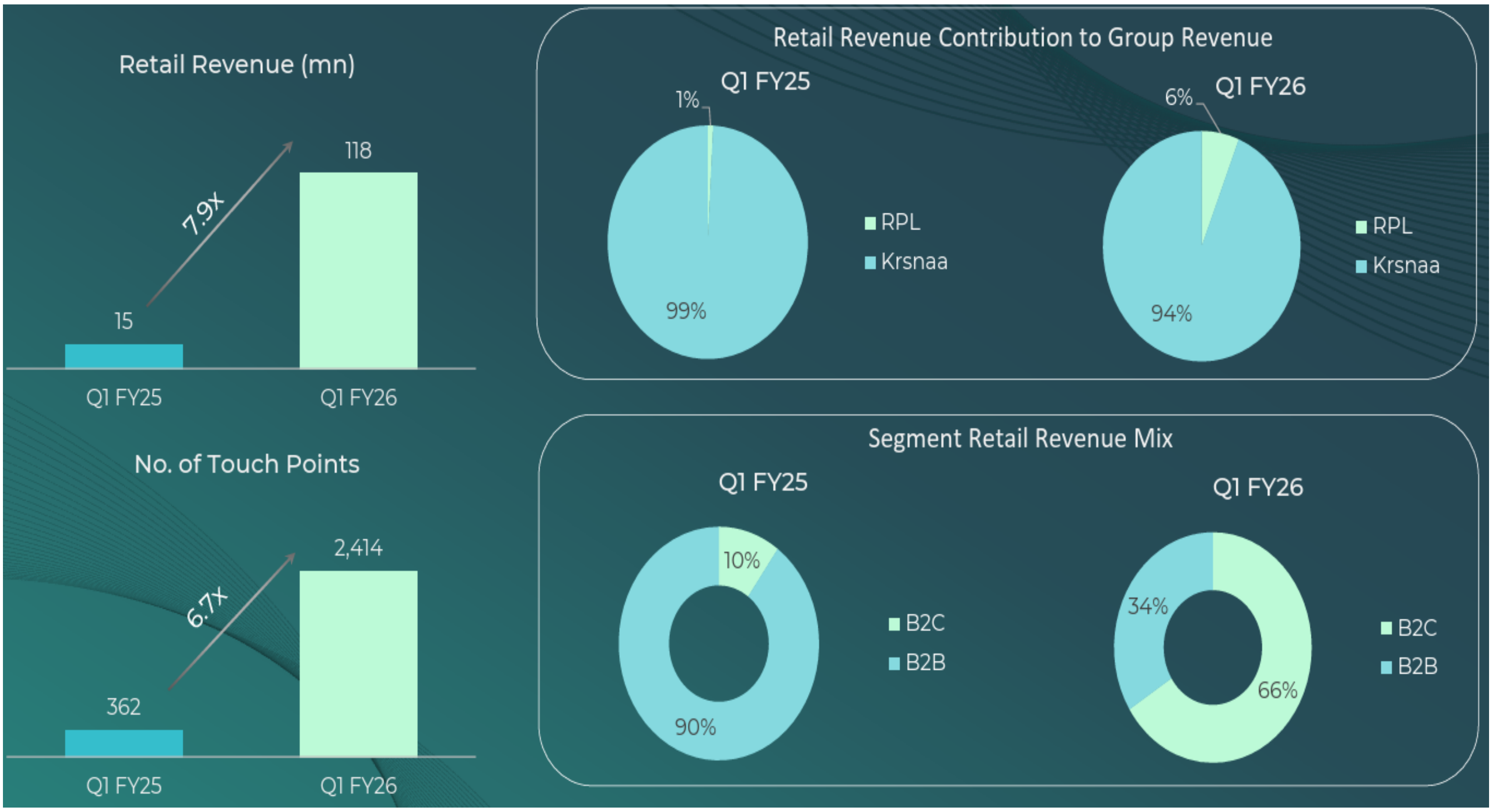
To Our Valued Investors,

On July 7, 2025, we issued a BUY recommendation for Krsnaa Diagnostics at a price of 741, based on our fundamental analysis of the company.

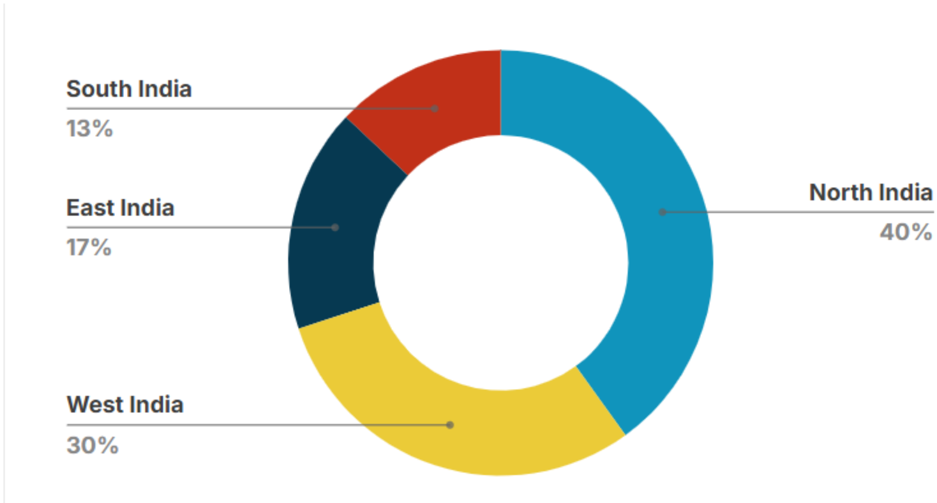
The company's Q1FY26 results, released on Aug 11, 2025, were in line with our expectations and showed continued sustainable performance.

About Business:

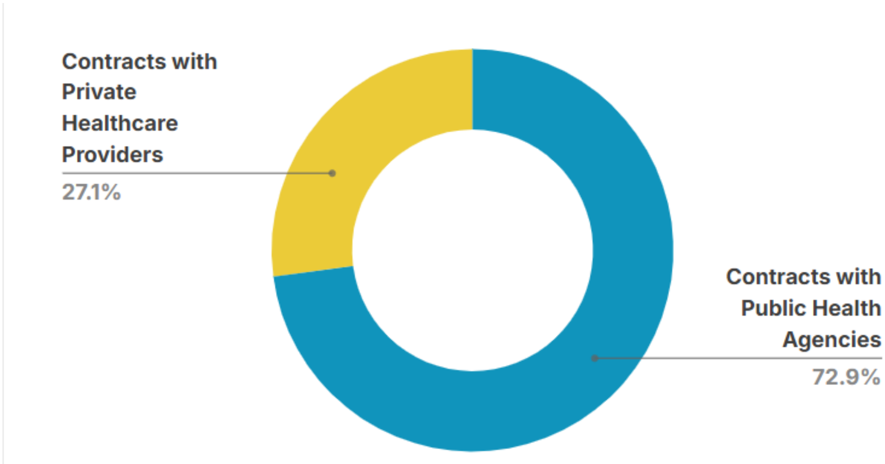
- Krsnaa is one of the Integrated diagnostic service providers which includes radiology, pathology and tele-radiology.
- Company has 185 CT/MRI centers, 120 pathology labs, 3500+ patient collections centers in 18 states & UT.
- Company has been focusing & building its retail network of labs for long term future growth.



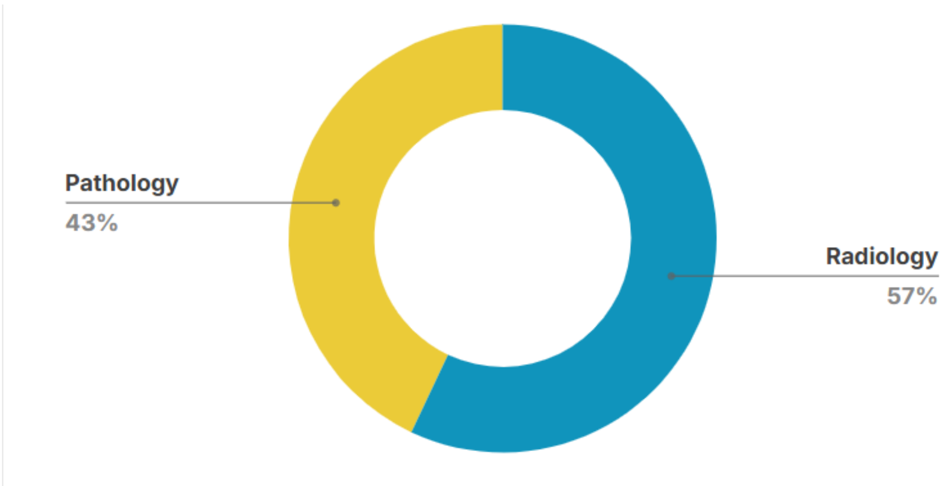
- Geography wise revenue Mix-



- Customer Segment Wise Revenue –



- Product Wise Revenue-



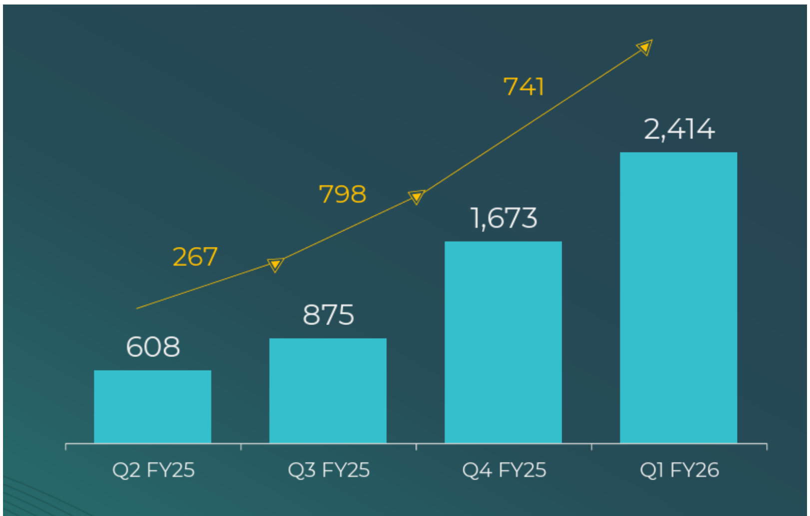
Business Updates:

➢ Rajasthan PPP Contract:

- **On 7 July 2025, the company secured a public-private partnership (PPP) contract in Rajasthan, focused purely on pathology services.** This exclusive pathology nature of the project ensures a higher revenue-to-investment ratio compared to blended contracts that include both radiology and pathology.
- The scope of the project is extensive, comprising 42 mother labs, 135 satellite labs and over 1,300 collection centers across the state. The implementation is planned over the next 6–9 months, with full-scale operations expected by FY26. Material revenue contribution is anticipated to begin from FY27
- **The total capital expenditure (CAPEX) for the project is estimated at INR 200–250 crore. The expected annualized revenue from this contract is in the range of INR 300–350 crore. The contract has a tenure of 5 years, counted from the date of commercialization.**
- Revenue per test in Rajasthan is expected to be in line with existing tenders. There is potential for improvement as the project matures and the test menu expands. Although the revenue share to business partners in Rajasthan will increase as a percentage of revenue, this will be offset by a reduction in other expenses, thereby allowing margins to remain stable.
- The working capital cycle is expected to remain between 90 to 120 days, in line with company's historical performance in Rajasthan.
- The project will be funded through a mix of internal accruals, potential debt raised at efficient rates and leasing or reagent rental models, which are currently under evaluation.

➢ Retail (B2C) Business: Retail Pathology Lab (RPL)

- The company plans to scale its partnerships (with hospitals, nursing homes and labs) from the current base of over 850 to approximately 3,500 by the end of FY27. Additionally, the company is augmenting its pathology services alongside its radiology footprint, expanding its test menu to over 3,200 tests, including advanced genomics and preventive wellness packages. The pathology-to-radiology revenue mix stood at 53%/47% in Q1 and is expected to remain broadly similar in the near term, with pathology capped at a maximum of 55%.
- Company's RPL business has seen significant growth, with retail touchpoints increasing from 362 to 2,414 YoY—a 7x jump. The company aims to continue this momentum by expanding its retail network to 700 exclusive centers, up from the current 300. This expansion will be focused on 4 high-potential states: Maharashtra, Assam, Odisha and Punjab.



"Touch points increased by 741 across 4 states in Q1 FY26"

- **The retail business is expected to contribute approximately 5–8% of overall revenue by the end of FY26, up from 6% in Q1. Over the next two years, management targets an increased contribution of 18–20% to overall revenue, driven by strategic geographic expansion and enhanced service offerings**.
- The retail strategy leverages PPP hubs for logistics support, quality assurance and brand credibility. The company is following an omnichannel approach, which includes company-owned centers, franchisee-operated outlets, collection points, digital platforms and B2B/B2C partnerships. These partnerships span corporates, insurance companies and hospitals and also include home-based diagnostic services and preventive wellness packages.
- **Currently, the RPL business is not EBITDA-positive due to upfront investments in brand building, marketing, digital infrastructure and manpower. However, management expects the segment to reach breakeven by the end of FY26 as volumes increase and the business matures.**
- The retail business is asset-light, capital-efficient and largely cash-based. This structure supports an improved working capital cycle and better return ratios as the business scales.

Key Quarterly Updates (Q1FY26): Due to the seasonal nature of the business, year-on-year (YoY) comparisons are a more appropriate metric than quarter-on-quarter (QoQ) comparisons across various parameters.

- Consolidated revenue and PAT grew by 13% and 14.5% YoY respectively.
- Operating margins Improved by 154bps YoY

Krsnaa Diagnostics (Q1 FY 26 Results) - Consolidated							
Amounts In Cr.	**Q4 FY25**	**Q1 FY26**	**QoQ Growth**		**Q1 FY25**	**Q1 FY26**	**YoY Growth**
Operating Revenue	186.1	193	3.71%		170.2	193	13.40%
Operating Profit	53	51.4	**-3.02%**		42.7	51.4	**20.37%**
OPM % Without OI	**28.48%**	**26.63%**			**25.09%**	**26.63%**	
Other Income (OI)	4.4	4			7.3	4	
PAT (Net Profit)	20.7	20.5	**-0.97%**		17.9	20.5	**14.53%**
PAT Margins %	**11.12%**	**10.62%**			**10.52%**	**10.62%**	

- The Rajasthan PPP project is expected to significantly enhance Krsnaa Diagnostics' revenue trajectory, owing to its large scale and strategic importance. **Management anticipates revenue additions of approximately INR 300 crore from this project annually from FY27 onwards**. As part of this expansion, the company's network will grow to 7 reference labs, 41 mother labs, 249 satellite labs and over 5,000 collection centers, thereby strengthening its presence in the pathology segment.
- Simultaneously, execution of ongoing projects will increase the company's radiology network to more than 200 CT/MRI centers, reinforcing company's position as one of Asia's largest radiology players.
- Receivable days remained elevated at approximately 120 in Q1 FY26, primarily due to delayed collections from Himachal Pradesh and Karnataka. However, management has confirmed that overdue payments from these and other states have started coming in. The company expects to reduce receivable days to 100 by the end of FY26 and normalize them further to 75–90 days by FY27.

- **Maharashtra: A major CT/MRI implementation project is underway, with the majority of the planned 73 centers expected to be operational by Q3 FY26.**
- **Jharkhand: Implementation of pending radiology and pathology centers is scheduled for Q2 FY26.**
- Company exited the Brihanmumbai Municipal Corporation (BMC) contract due to unfavourable tender conditions and a focus on long-term financial viability. However, the company has repurposed its Kurla lab in Mumbai for retail operations and other partnerships. Despite the exit, management noted that the volumes and revenues from the BMC contract exceeded initial projections, so the payback period has not been materially affected.
- The company has partnered with Apulki Oncology Hospitals to set up CT, MRI and pathology labs (excluding PET scans) across two hospitals. This partnership offers 30-year revenue visibility, better-than-PPP pricing and an urban location advantage. Operations at the Pune facility are expected to commence in the coming months.
- **Krsnaa continues to maintain a healthy EBITDA margin guidance of 25–27%, which management expects to sustain even after the scale-up in Rajasthan**. Volume growth for Q1 stood at 4%, compared to the industry average of ~10%. This was impacted by the BMC exit and project suspensions. However, the ramp-up of the retail and PPP businesses is expected to drive stronger growth in the coming quarters.
- **For FY26, the company is targeting revenue growth of 15–16%, outpacing industry trends.** This growth is expected to be volume-led, supported by the operationalization of new centers and deeper penetration in tier 2 and tier 3 towns. Incremental contributions from the retail and B2B segments are also expected to support this growth.

Conclusion:

- We maintain a positive outlook on Krsnaa Diagnostics and recommend a BUY at current market levels for investors with a short- to medium-term horizon, projecting an upside potential of 13–17% over the next 6–9 months. The company is aggressively scaling its B2C retail segment, aiming to grow partnerships from 850+ to ~3,500 by FY27 and expanding its RPL network from 300 to 700 exclusive centers, with a focus on four key states: Maharashtra, Assam, Odisha and Punjab.
- A significant growth catalyst is the PPP pathology-only contract in Rajasthan (secured in July 2025), covering 42 mother labs, 135 satellite labs and 1,300+ collection centers. With INR 200–250 crore CAPEX and expected annual revenue of INR 300–350 crore, the 5-year contract (from commercialization) is set to begin full operations by FY26, with meaningful revenue contributions from FY27.
- Key risks include a heavy dependence (72%) on government tenders, which may result in working capital stress due to delayed payments and potential legal or policy-related execution challenges. However, the company stands to benefit from seasonal demand tailwinds in Q2 and Q3 (during June to Oct), combined with the management's proven track record and projected PAT growth of 13-15% for FY26, reinforces our positive outlook. Based on the strength of current fundamentals, reasonable valuations and the anticipated improvements in financial prospects, we project an upside potential of 13-15% for the company over the next 6 to 9 months.

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