



IPO Report

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28th Aug 21

Snapshot

Vijaya Diagnostic Centre Ltd (VDCL) is the largest integrated diagnostic chain in southern India, by operating revenue, and also one of the fastest-growing diagnostic chain by revenue for fiscal year 2020. Company offer a one-stop solution for pathology and radiology testing services to its customers through company's extensive operational network, which consists of 81 diagnostic centres and 11 reference laboratories across 13 cities and towns in the states of Telangana and Andhra Pradesh and in the National Capital Region and Kolkata as on June 30, 2021

VALUATION

Company is bringing the issue at price band of Rs 522-531 per share at p/e multiple of 64x on FY21 PAT basis. We like integrated business model of company due to which company has posted superior financial performance. Company's OPBDIT margin ranked second among other major diagnostics along with negative working capital and high cash flow generation leading to strong net cash position. Also company's strategy of expanding in Telangana and Andhra Pradesh which are expected to grow at CAGR of 12% to 13% by 2023 will be next growth driver for company. Hence, looking after all, we recommend "Subscribe" on issue.

Price Band (Rs./Share)	522-531
Opening date of the issue	01st September 2021
Closing Date of the issue	03rd September 2021
No of shares pre issue	101,965,926 Eq Shares
Issue size (Rs. Cr)	Rs 1862-1894 Cr
Offer For Sale (No)	35688064 Eq Shares
Employee Discount	Rs 52/share
Face Value (Rs/ share)	1/share
Bid Lot	28

BIDDING DETAILS

Employee Reservation	1,50,000 Eq Shares
QIBs (Including Anchor)	50% of the offer (Approx 17769031 Shares)
Non-Institutional	15% of the offer (Approx. 5330710 shares)
Retail	35% of the offer (Approx. 12438323 Shares)
Lead managers	ICICI Securities, Edelweiss Financial Services Kotak Mahindra Capital Company
Registrar to the issue	KFin Technologies Pvt. Ltd.

WHAT WE LIKE

Largest and Fastest Growing Diagnostic Chain with Dominant Position in South India, well positioned to leverage the high growth in Indian Diagnostics Industry

Company is the largest integrated diagnostic chain in southern India, by operating revenue, and also one of the fastest-growing diagnostic chain by revenue for fiscal year 2020. Company have built an extensive operational network consisting of 81 diagnostic centres including a flagship centre located at Hyderabad, and 11 co-located reference laboratories, including a national reference laboratory at its flagship diagnostic centre, across 13 cities and towns in the states of Telangana and Andhra Pradesh and in National Capital Region and Kolkata, as of June 30, 2021.

Long Track Record of Delivering Consistent Profitable Growth, with Strong Cash Generation and Return Metrics

Company's business has demonstrated strong financial performance. For the three months ended June 30, 2021, company's operating revenue per test was ₹ 562.31 and OPBDIT per test was ₹ 260.59; company's operating revenue per customer was ₹ 1,298.96 and OPBDIT per customer was ₹ 601.39. For the fiscal year 2021, company has grown at CAGR of 13.26% for fiscal years 2019 to fiscal year 2020; its operating revenue per test was ₹ 428 and OPBDIT per test was ₹ 168 for fiscal year 2020; while its operating revenue per customer was ₹ 1,214 and OPBDIT per customer was ₹ 475 for fiscal year 2020. Company's OPBDIT margin ranked second among other major diagnostics. In addition to high OPBDIT margins, company's negative working capital and high cash flow generation leading to strong net cash position. Company have also enjoyed return on net worth of 23.64% and the return on capital employed (pre cash) of 42.00% during the fiscal year 2021.

Outperform peers

During fiscal year 2020, company's tests per customer visit was 2.83, its operating revenue per customer was ₹ 1,213.72 and operating revenue per test was ₹ 428.14, all of which are higher as compared to its listed regional peers. Company was recognized as "One of the Best Healthcare Brands-2021" by The Economic Times in 2021, "For excellence in Quality and Accuracy" under the category Leading Diagnostics company with Excellence in Quality and Safety at the Diagnostics Leadership Summit in 2021.



COMPANY BACKGROUND

VDCL offer a comprehensive range of approximately 740 routine and 870 specialized pathology tests and approximately 220 basic and 320 advanced radiology tests that cover a range of specialties and disciplines, as of June 30, 2021. Company’s test menu includes pathology tests ranging from basic biochemistry and clinical pathology to cytogenetics and high-end molecular diagnostic tests, and radiology tests ranging from basic echocardiograms, X-rays and ultrasounds to advanced radiology tests including computerised tomography (“CT”) scans, magnetic resonance imaging (“MRI”) scans, single photon emission computed tomography (“SPECT”) and advanced positron emission tomography CT (“PET CT”).

VDCL have implemented a ‘hub and spoke’ model, whereby specimens are collected across multiple locations within a catchment area or a region for delivery to its reference laboratories for diagnostic testing. This model provides greater economies of scale and enhances consistency of company’s testing procedures and results. All of company’s centres offer integrated diagnostics services (pathology and radiology tests under one roof) with smaller spokes offering pathology tests and basic radiology tests and hub centres (ARCs) offering pathology tests, basic radiology tests and advanced radiology tests such as MRI, HRCT, SPECT and PET CT. As of June 30, 2021, company’s operational network consists of diagnostic centre network of (i) a flagship centre located in Hyderabad, which is company’s main ‘hub’ and equipped to conduct all of pathology specimens collection, basic and advanced radiology tests; (ii) 20 hub centres, which are equipped to conduct all of pathology specimens collection, basic radiology tests and certain advanced radiology tests; and (iii) 60 diagnostic centres, which are equipped to conduct a majority of pathology specimen collection and certain basic radiology tests; and a laboratory network of (i) a national reference laboratory co-located with its flagship centre; and (ii) 10 reference laboratories co-located with certain hub centres and diagnostic centres. Company’s diagnostic services are provided by a medical professional team consisting of 74 laboratory doctors, 19 physicians, 105 radiologists and 1,027 well-trained technical staff in its operational network, as of June 30, 2021.

The map below depicts the geographical spread of company’s network of diagnostic centres and reference laboratories in Telangana and Andhra Pradesh, as of June 30, 2021:



The chart below sets forth company’s revenue from operations by cities and/or regions for the three months ended June 30, 2021 and the fiscal years 2021, 2020 and 2019:

City/Region	As of June 30, 2021	As of March 31,		
		2021	2020	2019
Hyderabad	1003.07	3041.86	2896.85	2490.93
Rest of Telangana & Andhra Pradesh	173.62	582.32	370.98	279.30
Others	50.17	143.30	120.38	155.65
Total	1226.86	3767.46	3388.21	2925.87

Source:RHP

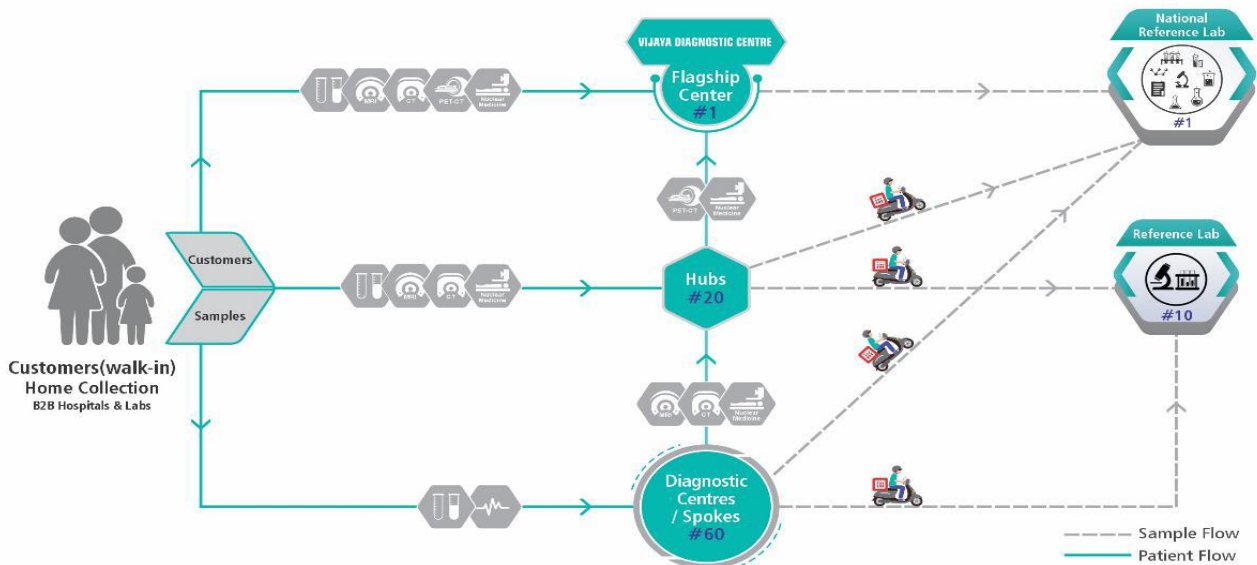


INVESTMENT RATIONALE

<p><i>Integrated Diagnostics Provider that Offers One-Stop Solution at Affordable Price</i></p>	<p>Company offer a comprehensive range of approximately 1,610 pathology tests, which are organised into approximately 740 routine tests and 870 specialized tests, as well as approximately 220 basic and 320 advanced radiology tests that cover a range of specialties and disciplines, as of June 30, 2021. Company's test menu includes (i) pathology tests ranging from basic biochemistry and clinical pathology to cytogenetics and high-end molecular diagnostic tests, including protein chemistry, cellular immunology, flowcytometry, genetics, cytogenetics, immunohistochemistry and advanced microbiology tests, and (ii) radiology tests ranging from basic echocardiograms, X-rays and ultrasounds to advanced radiology tests such as MRI, HRCT, SPECT and PET CT.</p> <p>Company currently also offer RT-PCR testing and/or CT scan for COVID-19 diagnosis across 33 diagnostic centres in 11 cities and towns and COVID-19 vaccination services at its Kolkata and Gurugram diagnostic centres. Company is one of the earliest private diagnostic service providers to be approved for COVID RT-PCR testing by India Council of Medical Research in Andhra Pradesh and Telangana . Given company's focus on the provision of integrated diagnostic services, company have provided 2.8 tests per customer on average fiscal year in fiscal year 2020, that is higher than other listed regional/multi-regional diagnostic chains.</p>
<p><i>Strong Indian Diagnostics Market</i></p>	<p>Indian diagnostics market was valued at approximately ₹ 710 billion to ₹ 730 billion in the fiscal year 2021, and is projected to grow at CAGR of around 12% to 13% to reach approximately ₹ 920 billion to ₹ 980 billion by fiscal year 2023 driven by rise in health awareness and disposable incomes, increase in demand for better healthcare facilities and quality of care of individuals, and increase in spending on preventive and wellness. The diagnostics market in Telangana and Andhra Pradesh, the states in which company have a significant presence, is projected to grow to approximately ₹ 120 billion to ₹ 130 billion by fiscal year 2023. The combination of company's strong brand position driven by its long operating history in its core geographies, its extensive operational network and its reputation for providing quality diagnostic services positions company well to continue to grow the scale of its business in Telangana and Andhra Pradesh market and take advantage of growing Indian diagnostic market</p>
<p><i>Robust Technical Capability and State of the Art Technology with Strong IT Infrastructure</i></p>	<p>Company's strong technical capability and ability to adopt to the latest technologies in the diagnostic industry allow company to provide high quality and reliable diagnostic services to its customers. As of June 30, 2021, company's radiology testing operations are supported by radiology equipment including 15 CT machines, 18 MRI machines and five PET CT/Gamma machines, which represent the leading technology used in the field, and a team of 105 radiologists across company's diagnostic centres. Diagnostic centres have to constantly upgrade their technology to stay ahead of the competition which involve significant capital investment and maintenance cost . Company's continuous investment and the long standing relationships it enjoy with certain medical technology vendors, have been at the forefront of introducing new tests by adopting the latest medical technologies across company's operational network.</p>



COMPANY'S OPERATIONAL NETWORK



Flagship Centre = Lab Sample Collection + Basic Radiology + Complete Advanced Radiology (MRI, CT Scan, SPECT & PET CT)
Hub = Lab Samples Collection + Basic Radiology + Advanced Radiology (MRI/CT Scan/SPECT)
Diagnostic Centre/ Spokes = Lab Samples Collection + Basic Radiology
Basic Radiology = ECG/X-ray/USG/Mammography/BMD/TMT/2D Echo/EEG/ENMG/Edoscopy, etc.

Source : RHP

OBJECTS OF ISSUE

The objects of the Offer is to carry out the offer for sale of up to 35,688,064 Equity Shares by the Selling Shareholders

RISKS

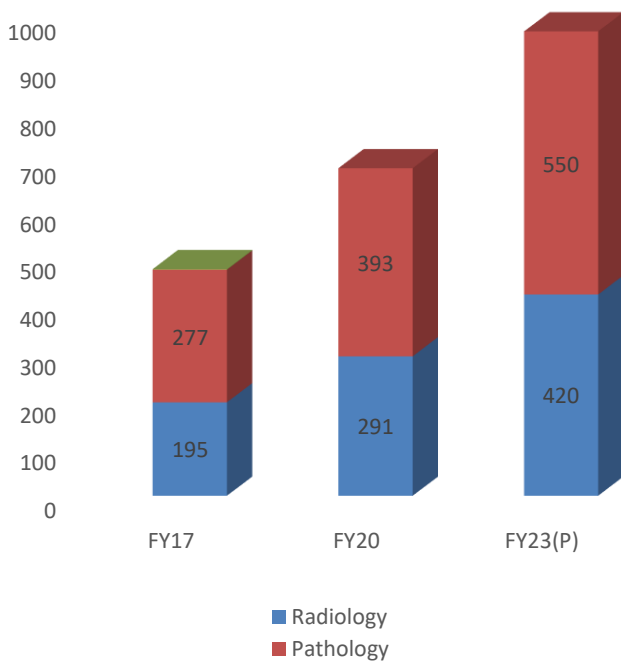
While company have presence across 13 cities and towns in India, as of June 30, 2021, a significant portion of company's operations are concentrated in the states of Telangana and Andhra Pradesh in south India.

Source:RHP

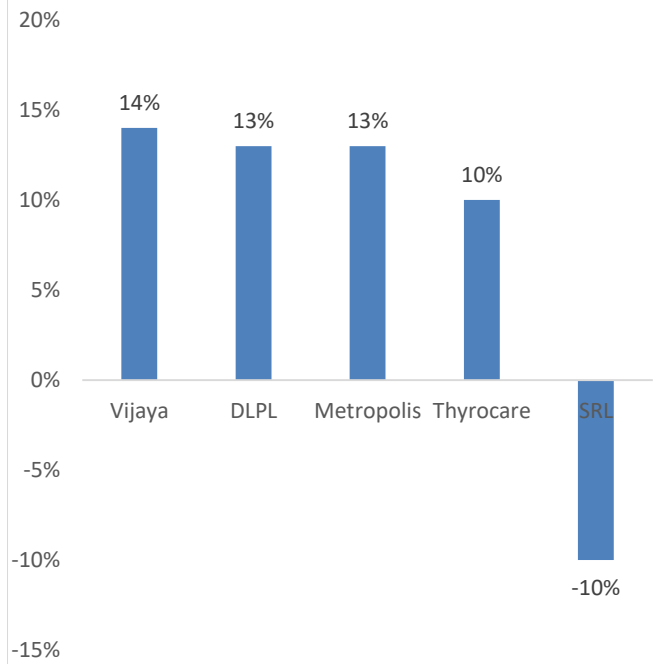


Peer Comparison

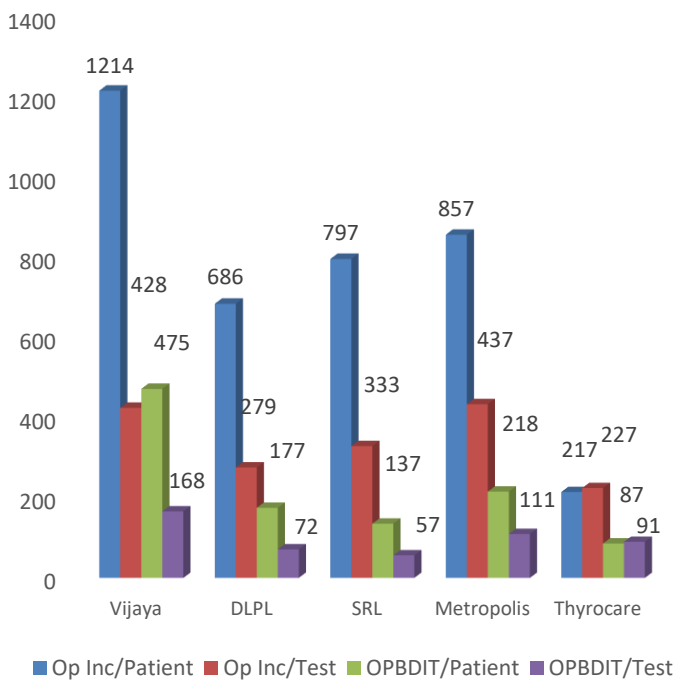
Share of radiology within diagnostic services



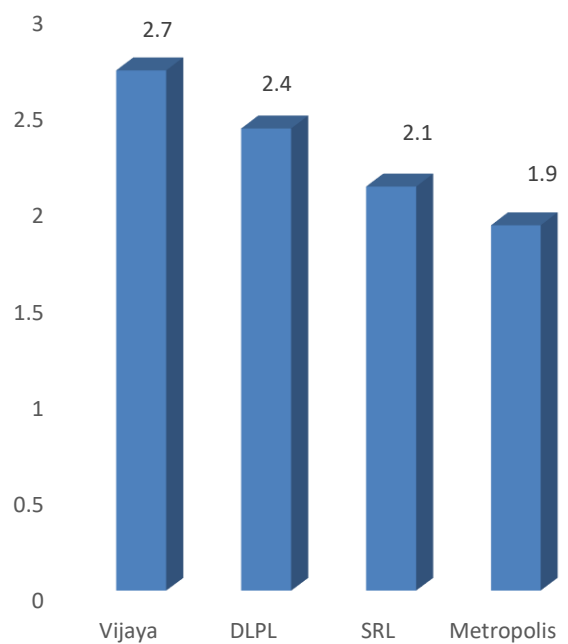
Patient Volume CAGR from FY17 to FY20



Financial Parameters (FY20 basis)



Tests per patient (FY21)



Source: RHP



(Rs in Mn)

Financials	Q1FY22	FY21	FY20	FY19
Total Income	1226.86	3767.46	3388.21	2925.87
Total Expenditure	658.31	2107.69	2062.00	1844.67
EBIDTA	568.55	1659.77	1326.21	1081.20
EBIDTA Margin	46.34	44.06	39.14	36.95
Other Income	32.84	118.47	153.61	103.57
Depreciation	119.21	504.53	491.70	396.26
EBIT	482.18	1273.71	988.12	788.51
Interest	40.03	152.47	153.85	135.33
PBT	442.15	1121.24	834.27	653.18
Tax	108.9	272.13	209.20	190.46
PAT	333.25	849.11	625.07	462.72
NPM	27.16	22.54	18.45	15.81
ROE %	8.49	23.65	22.77	22.31
EPS	3.23	8.26	6.13	4.54
Eq Cap	101.97	45.32	45.32	45.29
Net Worth	3923.26	3590.06	2745.43	2073.82

PEERS ANALYSIS

Following is peer group analysis:

Key Financial Parameters

Key Financials (FY21)	Op Income			OPBDIT		PAT		
	(Rs Mn)	YoY Growth (%)	CAGR (FY18-21)	(Rs Mn)	CAGR (FY18-21)	(Rs Mn)	YoY Growth (%)	CAGR (FY18-21)
DLPL	15,818	19%	14%	4368	18%	2965	30%	20%
SRL	10,321	2%	2%	1711	4%	1312	53%	20%
Metropolis	9,980	16%	16%	2860	17%	1830	43%	158%
Thyrocare	4,967	14%	11%	1734	4%	1132	28%	7%
Krsnaa	2,883	58%	47%	943	41%	1849	n.m	236%
Vijaya	3,768	11%	15%	1660	28%	849	36%	35%
Suburban	1,701	14%	13%	144	n.m	76	n.m	n.m



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