

September 1, 2021

Established in 1981 by Dr S Surendranath Reddy, Vijaya Diagnostic is the largest integrated diagnostic chain in southern India, by operating revenues, and also one of the fastest-growing diagnostic chain by revenue for FY20 (source: Crisil Report). The business was carried out under sole proprietorship. It was later taken over by the company in 2005. Vijaya provides a one-stop solution for pathology and radiology testing services to customers through an extensive operational network, which consists of 81 diagnostic centres and 11 reference laboratories across 13 cities and towns in Telangana, Andhra Pradesh, the National Capital Region and Kolkata as on June 30, 2021. The company offers a comprehensive range of ~740 routine and 870 specialised pathology tests and ~220 basic and 320 advanced radiology tests that cover a range of specialties and disciplines, as of June 30, 2021.

Long track record of delivering consistent profitable growth

For FY21, Vijaya recorded a total income of ₹ 388.5 crore, representing a CAGR of 13.26% for FY19-20. The operating revenue per test was ₹ 428 while OPBDIT per test was ₹ 168 for FY20 while operating revenue per customer was ₹ 1,214 and OPBDIT per customer was ₹ 475 for FY20. Vijaya's OPBDIT margin ranked second among other major diagnostics players as per the Crisil Report.

Well positioned to leverage high growth in Indian diagnostics industry

According to the Crisil Report, the Indian diagnostics market was valued at ~₹ 71,000-73,000 crore in FY21, and is projected to grow at a CAGR of ~12-13% to ~₹ 92,000-98,000 crore by FY23, driven by a 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. Further, according to Crisil Report, the diagnostics market in Telangana and Andhra Pradesh, where Vijaya has a significant presence, is projected to grow to ~₹ 12,000-13,000 crore by FY23.

Key risk & concerns

- Inability to maintain and grow the brand name and brand image
- Impact of global health epidemics, including the recent Covid-19
- Any interruptions at the flagship centre
- Concentration of operations in south India

Priced at FY21 EV/EBITDA of 31.5x on upper band

At ₹ 531 (upper band), the stock is priced at 31.5x FY21 EV/EBITDA.

Key Financial Summary

₹ crore	FY19	FY20	FY21	CAGR FY19-21 (%)
Total Revenues	292.6	338.8	376.7	13.5%
Adjusted EBITDA	108.1	132.6	166.0	23.9%
EBITDA Margins (%)	37.0%	39.1%	44.1%	
PAT	45.9	62.5	84.3	35.5%
EPS (₹)	4.5	6.1	8.3	
P/E (x)	118.0	86.6	64.3	
P/B (x)	2.6	1.9	1.5	
RoE (%)	22.4	22.8	23.6	
RoCE (%)	30.1	33.3	42.0	
P/S	18.5	16.0	14.4	

Source: RHP, ICICI Direct Research



Particulars

Issue Details

Issue Opens	1st Sep 2021
Issue Closes	3rd Sep 2021
Issue Size (₹ crore)*	1894
Price Band (₹)	₹ 522 - ₹ 531
No. of Shares on Offer (in crore)	3.57
QIB (%)	50
Retail (%)	35
Minimum lot size (no of shares)	28
* based on upper price band of ₹ 531	

Shareholding Pattern (%)

	Pre-Issue	Post-Issue
Promoter Group	59.78	54.8
Public	40.2	45.2

Objective of issue

Objects of issue	₹ crore
Carry out the Offer for Sale of up to 35,688,064 Equity Shares by the Selling Shareholders	1894.0*
Achieve the benefits of listing the Equity Shares on the Stock	
*Upper Band	

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Overview

Vijaya's history can be traced back to 1981, when promoter and Chairman, Dr S Surendranath Reddy established the first Vijaya Diagnostic Centre in Hyderabad, with a vision of providing comprehensive, innovative and high quality diagnostic services under one roof, in a reliable, affordable and customer-centric manner. The business was carried out under sole proprietorship. It was later taken over by the company in 2005.

Vijaya Diagnostic is the largest integrated diagnostic chain in southern India, by operating revenue and also one of the fastest-growing diagnostic chains by revenue for FY20 (source: Crisil report). The company offers a one-stop solution for pathology and radiology testing services to customers through an extensive operational network, which consists of 81 diagnostic centres and 11 reference laboratories across 13 cities and towns in Telangana, Andhra Pradesh, the National Capital Region and Kolkata as on June 30, 2021. For the three months ended June 30, 2021 and FY21, Vijaya derived 95.91% and 96.20% of revenue from operations from the core geographies, Hyderabad and the rest of Telangana and Andhra Pradesh, respectively.

Vijaya Diagnostic offers a comprehensive range of ~740 routine and 870 specialised pathology tests and ~220 basic and 320 advanced radiology tests that cover a range of specialties and disciplines, as of June 30, 2021. The 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 CET).

Vijaya Diagnostic has implemented a 'hub and spoke' model, whereby specimens are collected across multiple locations within a catchment area or a region for delivery to the reference laboratories for diagnostic testing. This model provides greater economies of scale and enhances consistency of testing procedures and results. All the 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, Vijaya's operational network consists of diagnostic centre network of

- (i) A flagship centre in Hyderabad, which is the main 'hub' and equipped to conduct all pathology specimen collection, basic and advanced radiology tests;
- (ii) 20 hub centres, which are equipped to conduct all pathology specimen 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
- (iv) A laboratory network of (i) a national reference laboratory co-located with the company's flagship centre; and (ii) 10 reference laboratories co-located with certain hub centres and diagnostic centres

Vijaya's diagnostic services are provided by a medical professional team of 74 laboratory doctors, 19 physicians, 105 radiologists and 1,027 well-trained technical staff in the operational network, as of June 30, 2021.

During the three months ended June 30, 2021, Vijaya conducted ~1.96 million pathology tests and 0.22 million radiology tests for ~0.94 million customers. During FY20, the company's tests per customer visit was 2.83, operating revenue per customer was ₹ 1,213.72 and operating revenue per test was ₹ 428.14, all of which are higher compared to listed regional peers as per the Crisil Report.

Vijaya Diagnostic's leadership position and scale of operation have translated to a strong financial performance for the company. For the three months ended June 30, 2021 and FY21, FY20 and FY19, total income was ₹ 125.9 crore, ₹ 388.5 crore, ₹ 354.1 crore and ₹ 302.9 crore, respectively, while Vijaya's profit, loss for the respective period, year was ₹ 33.3 crore, ₹ 84.9 crore, ₹ 62.5 crore and ₹ 46.2 crore. For the three months ended June 30, 2021 and FY21, FY20 and FY19, the company's cash generated from operations was ₹ 50.9 crore, ₹ 129.6 crore, ₹ 106.1 crore and ₹ 90.5 crore, respectively. For the three months ended June 30, 2021 and the same years, Vijaya achieved adjusted EBITDA of ₹ 56.8 crore, ₹ 165.9 crore, ₹ 132.6 crore and ₹ 108.1 crore with return on capital employed (pre cash) of 15.25% (not annualised), 42.00%, 33.28% and 30.06%, respectively.



Competitive Strengths

Largest, fastest growing diagnostic chain with dominant position in south India (source: Crisil report)

Vijaya has built an extensive operational network consisting of 81 diagnostic centres including a flagship centre in Hyderabad and 11 co-located reference laboratories, including a national reference laboratory at the flagship diagnostic centre, across 13 cities and towns in Telangana, Andhra Pradesh, the National Capital Region and Kolkata, as of June 30, 2021. For the three months ended June 30, 2021, the company derived 87.18%, 8.73% of revenue from operations from Telangana and Andhra Pradesh, respectively. For FY21, Vijaya derived 86.21% and 9.99% of revenue from operations from Telangana and Andhra Pradesh, respectively.

Well positioned to leverage high growth in Indian diagnostics industry

According to the Crisil Report, the Indian diagnostics market was valued at ~₹ 71,000-73,000 crore in FY21 and is projected to grow at a CAGR of ~12-13% to ~₹ 92,000-98,000 crore by FY23 driven by a 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. Further, according to the Crisil report, the diagnostics market in Telangana, Andhra Pradesh, states in which Vijaya has a significant presence, is projected to grow to ~₹ 12,000-13,000 crore by FY23.

Robust technical capability, state-of-the-art technology with strong IT infrastructure

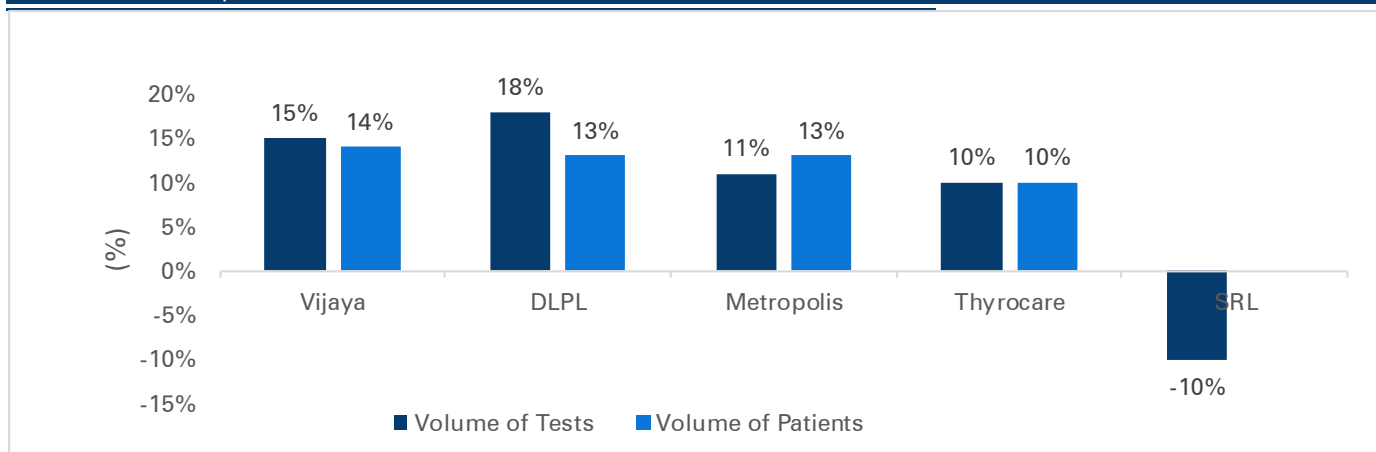
Vijaya's strong technical capability and ability to adapt to the latest technologies in the diagnostic industry allows the company to provide high quality and reliable diagnostic services to customers. As of June 30, 2021, Vijaya's radiology testing operations are supported by radiology equipment including 15 CT machines, 18 MRI machines and five PET CT/Gamma machines, which the company believes represent the leading technology used in the field with a team of 105 radiologists across the diagnostic centres. Diagnostic centres have to constantly upgrade their technology to stay ahead of the competition, which involves significant capital investment and maintenance cost (source: Crisil report). Vijaya believe that owing to the continuous investment and the long standing relationships the company enjoys with certain medical technology vendors, Vijaya Diagnostic have been at the forefront of introducing new tests by adopting the latest medical technologies across the operational network.

Long track record of delivering consistent profitable growth

For the three months ended June 30, 2021, the company reported total income of ₹ 125.9 crore. During the same period, operating revenue per test was ₹ 562.31 and OPBDIT per test was ₹ 260.59. The company's operating revenue per customer was ₹ 1298.96 and OPBDIT per customer was ₹ 601.39. For FY21, Vijaya reported a total income of ₹ 388.5 crore, representing a CAGR of 13.26% for FY19-20. The operating revenue per test was ₹ 428 while OPBDIT per test was ₹ 168 for FY20 while operating revenue per customer was ₹ 1,214 and OPBDIT per customer was ₹ 475 for FY20. Vijaya's OPBDIT margin ranked second among other major diagnostics players as per the Crisil report. In addition to the high OPBDIT margins, the company's attractive financial profile is also evidenced by negative working capital and high cash flow generation leading to the strong net cash position. Vijaya Diagnostic has also enjoyed return on net worth of 23.64% while the return on capital employed (pre cash) was 42.00% in FY21.

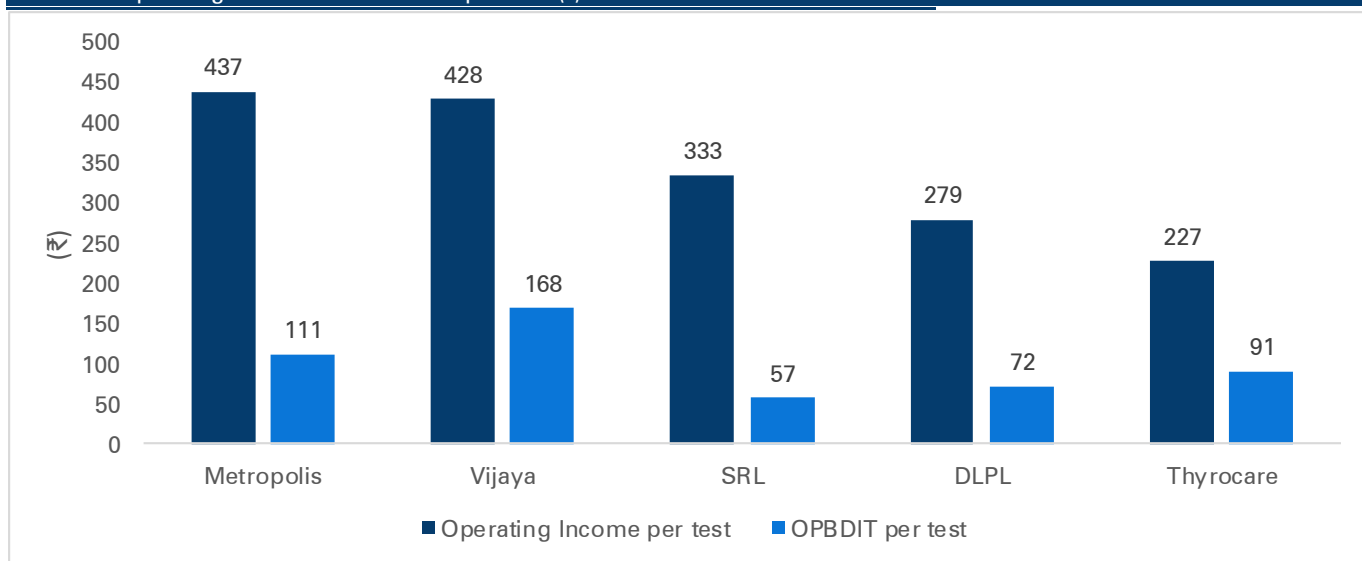
Competitive mapping of key players

Exhibit 1: Test and patient volume CAGR in FY17-20



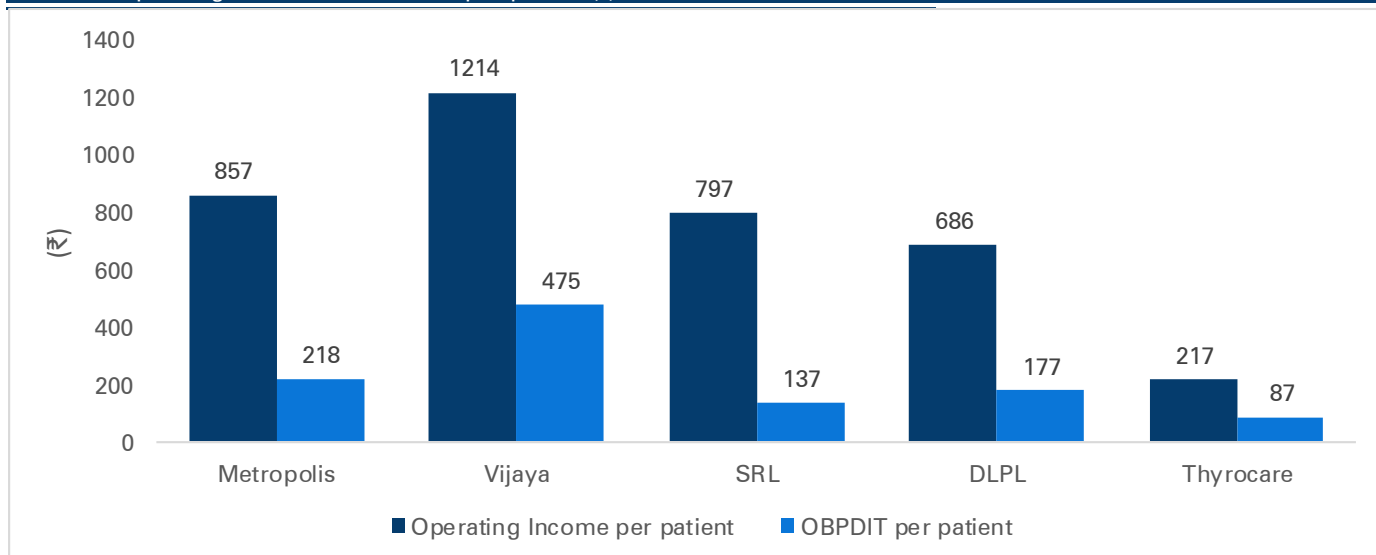
Source: RHP, ICICI Direct Research

Exhibit 2: Operating income and OPBDIT per test (₹)



Source: RHP, ICICI Direct Research

Exhibit 2: Operating income and OPBDIT per patient (₹)



Source: RHP, ICICI Direct Research

Exhibit 3: Key financial ratios

Key financial ratios (FY20)	Gross margin (%)	OPBDIT margin (%)	Net profit margin (%)	RoCE (%)	Working capital days	CFO/OPBDIT	FOCF/OPBDIT
DLPL	43%	25.9	17.1	34.1	-60	0.8	0.5
SRL	35%	17.2	8.5	13.2	-37	0.9	0.7
Metropolis	51%	25.4	14.9	40.3	-54	0.7	0.5
Thyrocare	55%	40.1	20.3	35.5	11	0.7	0.4
Vijaya	62%	39.1	18.4	30.9	-149	0.8	0.3
Medall	39%	20.1	-6.2	2.3	191	0.8	0.1
Suraksha	NA	21.6	9.7	16.5	NA	NA	NA
Lucid	31%	16.5	2.6	11.3	33	0.6	-0.8
Tenet	12%	-16.1	-27.2	-37.3	-258	1.0	2.3
Neuberg	34%	10.3	2.9	4.0	-55	N.A.	N.A.

Source: RHP, ICICI Direct Research

Key Risks & Concerns

Business, prospects may be adversely affected if Vijaya is unable to maintain, grow brand name, brand image

Since Vijaya primarily derives almost all of its revenues from walk-in customers, the company's brand and reputation are critical to the success of the business and operations. Vijaya's ability to maintain and improve the brand name and brand image is dependent on factors such as quality, accuracy and efficiency of the diagnostic tests, turnaround time and patient satisfaction, the performance of company's service network, the introduction of new tests and services. Further, as Vijaya expands into new geographic markets within India, and as the market becomes increasingly competitive, maintaining and enhancing the brand may become costly and difficult.

Business, financial condition, results of operations may be adversely affected by global health epidemics, including recent Covid-19 outbreak

There is significant uncertainty regarding the duration and long-term impact of the Covid-19 pandemic, as well as possible future responses by the government, which makes it impossible to predict with certainty the impact that Covid-19 will have on the business, operations or potential expansion plans in the future. The Covid-19 pandemic has affected and may continue to affect the company's business, results of operations and financial condition in a number of ways such as reduction of working hours at a few of Vijaya's centres, reduction of demand for certain tests, preference of Covid-19 test over the others and delays in expansion plans. Vijaya currently provides RT-PCR tests for detection of Covid-19 at 25 diagnostic centres across nine cities and towns. The impact of the Covid-19 pandemic on the future results of operations and financial condition remains uncertain and is dependent on the spread of Covid-19 and steps taken by the government to mitigate the economic impact and may differ from the company's estimates.

Any interruptions at flagship centre, other diagnostic centres may impact company's ability to process diagnostic tests

Vijaya's flagship centre in Himayatnagar, Hyderabad, is the main 'hub' and equipped to conduct a majority of the tests offered by company. In addition to walk-in patients, the flagship centre also receives test requests and related specimens from certain other diagnostic centres in Vijaya's network. Revenues from the flagship centre constituted 14.63%, 17.75%, 17.53% and 20.51% of revenue from operations for the three months ended June 30, 2021 and FY21, FY20 and FY19, respectively. Though Vijaya has not encountered any interruption to its flagship centre in the past three years, if they experience any interruptions at the flagship centre, or if it fails to function, in whole or in part, on account of events such as a fire, natural disaster or a loss of licenses, certifications or permits or other reasons or events beyond company's control, the services at such diagnostic centre may be adversely affected or suspended. Further, while Vijaya has two other diagnostic centres (at Dilshunagar and Habsiguda) in the vicinity of the flagship centre to maintain continuity of services, there are certain tests that the company only performs at its flagship centre. As a result, the occurrence of such events could also cause Vijaya to lose patients while it may face significant increase in costs for test processing, transport and logistics, which it may be unable to pass on to patients. Any failure, malfunction, shutdown or partial or complete destruction of its flagship centre could adversely affect the business, prospects, results of operations and financial conditions.

Operations concentrated in south India, any loss of business in such region may have adverse effect on business

While Vijaya has a presence across 13 cities and towns in India, as of June 30, 2021, a significant portion of operations are concentrated in Telangana and Andhra Pradesh in south India. The company derived 87.18%, 86.21%, 89.83% and 88.04% of its revenue from operations from Telangana for the three months ended June 30, 2021 and FY21, FY20 and FY19, respectively. Vijaya also derived 8.73%, 9.99%, 6.62% and 6.64% of its revenue from operations from Andhra Pradesh for the three months ended June 30, 2021 and FY21, FY20 and FY19, respectively. Further, as of June 30, 2021, 64 out of 81 of its diagnostic centres are in Hyderabad. In the event of a regional slowdown in the economic activity in south India, or any other developments including political or civil unrest, disruption or sustained economic downturn that reduces demand for the company's services in Telangana and Andhra Pradesh, it could adversely affect the business, results of operations and financial condition, which are largely dependent on the performance and other prevailing conditions affecting the economies of south India.

Financial summary

Exhibit 4: Income Statement			
Revenue (₹ crore)	FY19	FY20	FY21
Revenue from operations	292.6	338.8	376.7
Other income	10.4	15.4	11.8
Total revenue	302.9	354.2	388.6
Raw Material Expenses	40.5	43.9	57.1
Employee expense	53.9	62.4	57.4
Other expenses	90.1	99.9	96.2
Total Expenses	184.5	206.2	210.8
Adjusted EBITDA	108.1	132.6	166.0
Finance costs	13.5	15.4	15.2
Depreciation and amortisation expens	39.6	49.2	50.5
Profit before tax and exceptional item	65.3	83.4	112.1
Exceptional items	0.0	0.0	0.0
Profit before tax	65.3	83.4	112.1
Total Tax	19.0	20.9	27.2
Profit after tax before Minority interes	46.3	62.5	84.9
Less: Share of Minority interest	0.4	0.0	0.6
Profit after tax	45.9	62.5	84.3

Source: RHP, ICICI Direct Research

Exhibit 6: Balance Sheet

Balance Sheet (₹ crore)	FY19	FY20	FY21
Equity and liabilities			
Shareholders' funds			
Share capital	4.5	4.5	4.5
Reserves and surplus	202.9	270.0	354.5
Minority interest	-0.4	-0.4	0.2
Non-current liabilities			
Long-term borrowings	31.5	22.1	3.3
Other non-current liabilities	110.7	127.3	134.4
Current liabilities			
Short-term borrowings	10.9	10.7	1.2
Trade payables	21.8	21.7	22.2
Other current liabilities	23.4	25.2	19.9
Short-term provisions	1.1	1.0	0.7
Total	406.4	482.3	540.9
Assets			
Non current assets			
Fixed assets			
Tangible assets	251.6	265.2	261.8
Goodwill on consolidation	6.9	5.3	5.3
Capital work in progress	2.7	9.3	8.2
Intangible assets	0.7	1.0	0.6
Intangible assets under development	0.0	0.4	1.2
Non-current investments	0.0	0.0	0.0
Deferred tax assets (net)	2.0	2.5	6.7
Other financial assets	4.3	5.5	12.2
Other non-current assets	0.7	6.7	6.1
Current assets			
Inventories	2.2	2.8	2.6
Trade receivables	9.1	8.0	6.4
Cash and bank balances	52.6	118.2	194.2
Other current assets	73.5	57.4	35.5
Total	406.4	482.3	540.9

Source: RHP, ICICI Direct Research

Exhibit 5: Cash Flow Statement

Cash Flow (₹ crore)	FY19	FY20	FY21
PBT	65.3	83.4	112.1
Operating profit before working capital	108.4	132.6	165.4
Changes in working capital	0.8	-3.2	-4.6
Income tax paid	-18.7	-23.3	-31.2
CF from operating activities	90.5	106.1	129.6
(Purchase)/Sale of Fixed Assets	-59.1	-37.5	-31.2
Interest Received	0.6	5.7	4.8
Investment in bank deposits	-31.4	1.1	-103.3
CF from investing activities	-89.8	-30.6	-129.8
Adj. of Loan	9.3	-9.6	-28.4
Interest Paid	-16.5	-20.0	-20.4
CF from financing activities	-7.2	-29.5	-48.8
Net Cash Flow	-6.5	45.9	-48.9
Opening Cash	16.1	9.6	55.6
Closing Cash Flow	9.6	55.6	6.7
FCF	31.4	68.6	98.4

Source: RHP, ICICI Direct Research

Financial summary

Exhibit 7: Key Ratios			
Ratio Sheet	FY19	FY20	FY21
Per share data (₹)			
Diluted EPS	4.5	6.1	8.3
Cash EPS	8.4	11.0	13.2
BV per share	20.3	26.9	35.2
Cash Per Share	5.2	11.6	19.0
Operating Ratios (%)			
Gross Profit Margins	86.2	87.0	84.8
EBITDA Margins	37.0	39.1	44.1
PAT Margins	15.7	18.5	22.4
Inventory days	2.7	3.0	2.6
Debtor days	11.4	8.6	6.2
Creditor days	27.1	23.4	21.5
EBITDA Conversion Rate	83.7	80.0	78.1
Return Ratios (%)			
RoE	22.4	22.8	23.6
RoCE	30.1	33.3	42.0
RoC	35.3	46.5	71.6
Valuation Ratios (x)			
EV / Sales	18.5	15.7	13.9
EV/EBITDA	50.0	40.2	31.5
Market Cap / Sales	18.5	16.0	14.4
P/E	118.0	86.6	64.3
Price to Book Value	2.6	1.9	1.5
Solvency Ratios			
Debt / EBITDA	0.4	0.2	0.0
Debt / Equity	0.2	0.1	0.0
Net Debt/ Equity	0.0	-0.3	-0.5
Current Ratio	2.4	3.2	5.4
Quick Ratio	2.4	3.1	5.4
Asset Turnover	1.1	1.2	1.4

Source: RHP, ICICI Direct Research, considered upper band for calculations

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