

## Vijaya Diagnostic Centre Limited

Vijaya Diagnostic Centre was incorporated in 2002, and is the largest integrated diagnostic chain in southern India. Vijaya Diagnostic provides integrated services of pathology and radiology and offers around 740 routine tests, 870 specialized pathology tests, 220 basic tests, and 320 advanced radiology tests. Vijaya diagnostic network consists of 80 diagnostic centers and 11 reference labs across 13 cities. Companies 81% of revenue comes from Hyderabad.

**Positives:** (a) Fastest growing diagnostic chain with a dominant position in south India. Between 2017 and 2020 volume of tests has grown by 15% while volume of patients has grown by 14%. (b). The Company provides Integrated diagnostic services of pathology & Radiology under one roof. (c). Company has a very high brand recall in its core market of Hyderabad and derives 92% of its revenues from the high margin B2C business.

**Investment concerns:** (a) Company has a very high concentration toward one city with Hyderabad accounting for 81% of the revenues. Increase in competition in the main market can impact growth as well as EBITDA margins. (b) In FY2021 company had got some benefits due to increase in Covid related tests, which is not expected to continue in the future and can have an adverse impact on the volume growth of the company. (c) Low promoter holding will also be an issue for the company as post IPO promoter holding will be relatively low at 32.7%

**Outlook & Valuation:** Based on FY2021 numbers, IPO is priced at a Price to Earnings of 64.3 times and EV/EBITDA of 30 times at the upper price band of the IPO, which is in line with the listed peer group. Company already has a higher market share in key geographi like Hyderabad and we do not expect the covid related benefit to continue in coming years. We believe that at ₹531, all the near term positives are priced in and leaves limited upside for the investors. Hence, we are assigning a **"NEUTRAL"** recommendation to the Vijaya Diagnostic centre limited IPO.

### Key Financials

| Y/E March (₹ cr)  | FY19  | FY20  | FY21  |
|-------------------|-------|-------|-------|
| <b>Net Sales</b>  | 292.5 | 338.8 | 376.7 |
| % chg             | -     | 15.8  | 11.2  |
| <b>Net Profit</b> | 46.4  | 62.7  | 85.1  |
| % chg             | -     | 35.1  | 35.7  |
| EBITDA (%)        | 40.5  | 43.7  | 47.2  |
| EPS               | 4.5   | 6.1   | 8.3   |
| P/E (x)           | 118.0 | 86.6  | 64.3  |
| P/BV (x)          | 26.1  | 19.7  | 15.1  |
| RONW (%)          | 22    | 23    | 24    |
| ROCE (%)          | 23    | 23    | 26    |
| EV/EBITDA         | 46.4  | 36.7  | 30.0  |
| EV/Sales          | 18.8  | 16.1  | 14.2  |

Source: Company, Angel Research

## NEUTRAL

Issue Open: September 01, 2021

Issue Close: September 03, 2021

### Issue Details Face

Value: ₹1

Present Eq. Paid up Capital: ₹4.53 Cr

Issue Size: ₹1,894\*\* Cr

Offer for Sale: ₹1,894\*\* Cr

Price Band: ₹522 - 531

Lot Size: 28 shares and in multiple thereafter

Expected Listing : 14th September 2021

Employee Discount - ₹52 per share

Post-issue mkt. cap: \* ₹5323 Cr - \*\* ₹5,414 Cr

Promoters holding Pre-Issue: 37.78%

Promoters holding Post-Issue: 32.7%

\*Calculated on lower price band

\*\* Calculated on upper price band

### Book Building

|                   |              |
|-------------------|--------------|
| QIBs              | 50% of issue |
| Non-Institutional | 15% of issue |
| Retail            | 35% of issue |

### Post issue Shareholding pattern

|           |       |
|-----------|-------|
| Promoters | 32.7% |
| Others    | 67.3% |

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## Company background

Vijaya Diagnostic Centre Limited was incorporated on June 5, 2002. Vijaya Diagnostic 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.

Vijaya offers an one-stop solution for pathology and radiology testing services to their customers through their extensive operational network, which consists of 80 diagnostic centres and 11 reference laboratories across 13 cities and towns in the states of Telangana; Andhra Pradesh.

Vijaya offers 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 provides value-added services such as home collection of specimens, house calls and various delivery or access modes (i.e., at diagnostic centres, SMS, email and web portal) for test reports. They have implemented a 'hub and spoke' model, whereby specimens are collected across multiple locations within a catchment area or a region for delivery to their reference laboratories for diagnostic testing.

## Issue details –

The issue comprises of offer for sale of upto ₹1,894 crore (3.56 crores shares) with the price band of ₹522-₹531.

### Pre & Post Shareholding

| Particular                | (Pre-issue)  |       | (Post-issue) |       |
|---------------------------|--------------|-------|--------------|-------|
|                           | No of shares | %     | No of shares | %     |
| Promoter & Promoter Group | 6,09,51,621  | 59.7% | 5,58,53,325  | 54.7% |
| Public                    | 4,10,14,305  | 40.2% | 4,61,12,601  | 45.2% |
| Total                     | 10,19,65,926 | 100%  | 10,19,65,926 | 100%  |

Source: Company, Angel Research

## Objectives of the Offer

- To carry out the Offer for Sale of up to 35,688,064 Equity Shares by the Selling Shareholders.
- Achieve the benefits of listing the Equity Shares on the Stock Exchanges.

## Key Management Personnel

**Dr. S. Surendranath Reddy** is the executive Chairman of our Company. He holds a bachelor's degree in medicine from Shri Venkatesvara University and a provisional degree of Doctor of Medicine in Radiology from Osmania Medical College, Hyderabad. He has over 19 years of experience with our Company. He is a life member of the Indian Radiological and Imaging Association.

**Sunil Chandra Kondapally** is the Executive Director of our Company. He has been associated with our Company since incorporation. He holds a bachelor's degree in science in electrical engineering from Florida State University. He has over 17 years of experience in the field of pharmaceutical industry. He founded a pharmaceutical services company Trikona Pharmaceuticals Private Limited in 2016 and QPS Bioserve India Private Limited in 2004.

**S. Geeta Reddy** is a Non-Executive Director of our Company. She holds a bachelor's degree in law from Osmania University. She is enrolled as an Advocate with the Andhra Pradesh High Court in 1986. She is on the board of directors of various companies such as, Sura Agritech Private Limited, Iffco Kisan SEZ Limited, Namrata Diagnostic Centre Private Limited, Vijaya Hospitals Private Limited and Doctorslab Medical Services Private Limited.

**Nishant Sharma** is the Non-Executive Director – Nominee Director of our Company. He holds a master's degree in biochemical engineering and biotechnology from the Indian Institute of Technology Delhi and a master's degree in business administration from the Harvard University. He has over 18 years of experience in across various fields.

**Shekhar Prasad Singh** is the Non-Executive Director – Independent Director of our Company. He is a retired IAS officer of 1983 batch. Previously, he acted as Chief Secretary to Government of Telangana.

**Dr. D Nageshwar Reddy** is the Non-Executive Director – Independent Director of our Company. He holds a degree from University of Madras in general medicine and a D.M in gastroenterology from Postgraduate Institute of Medical Education and Research, Chandigarh. He is currently the Chairman of Asian Institute of Gastroenterology, Hyderabad.

## Consolidated Profit &amp; Loss Account

| Y/E March (₹ cr)              | FY19  | FY20  | FY21  |
|-------------------------------|-------|-------|-------|
| <b>Total operating income</b> | 292.5 | 338.8 | 376.7 |
| % chg                         | -     | 15.8  | 11.2  |
| <b>Total Expenditure</b>      | 184.3 | 206.1 | 210.6 |
| Cost of materials consumed    | 40.4  | 43.9  | 57    |
| Employee Benefit Expense      | 53.8  | 62.4  | 57.4  |
| Other Expenses                | 90.1  | 99.8  | 96.2  |
| <b>EBITDA</b>                 | 108.2 | 132.7 | 166.1 |
| % chg                         | -     | 22.6  | 25.2  |
| (% of Net Sales)              | 37.0  | 39.2  | 44.1  |
| Depreciation & Amortisation   | 39.6  | 49.1  | 50.4  |
| <b>EBIT</b>                   | 68.6  | 83.6  | 115.7 |
| % chg                         | -     | 21.9  | 38.4  |
| (% of Net Sales)              | 23.5  | 24.7  | 30.7  |
| Interest & other Charges      | 13.5  | 15.3  | 15.2  |
| Other Income                  | 10.3  | 15.3  | 11.8  |
| (% of Sales)                  | 3.5   | 4.5   | 3.1   |
| <b>Recurring PBT</b>          | 65.4  | 83.6  | 112.3 |
| (% of Net Sales)              | 22.4  | 24.7  | 29.8  |
| Tax                           | 19.0  | 20.9  | 27.2  |
| <b>PAT (reported)</b>         | 46.4  | 62.7  | 85.1  |
| % chg                         | -     | 35.1  | 35.7  |
| (% of Net Sales)              | 15.9  | 18.5  | 22.6  |
| <b>EPS (as stated)</b>        | 4.50  | 6.13  | 8.26  |
| % chg                         | -     | 36.2  | 34.7  |

Source: Company, Angel Research

## Consolidated Balance Sheet

| Y/E March (₹ cr)            | FY19       | FY20       | FY21       |
|-----------------------------|------------|------------|------------|
| <b>SOURCES OF FUNDS</b>     |            |            |            |
| Equity Share Capital        | 4.5        | 4.5        | 4.5        |
| Other equity                | 200        | 270        | 354        |
| <b>Shareholders Funds</b>   | 205        | 275        | 359        |
| <b>Total Loans</b>          | 137        | 143        | 130        |
| Other liabilities           | 5.4        | 6.8        | 7.8        |
| <b>Total Liabilities</b>    | <b>347</b> | <b>424</b> | <b>496</b> |
| <b>APPLICATION OF FUNDS</b> |            |            |            |
| <b>Net Block</b>            | 154        | 156        | 151        |
| <b>Right to use assets</b>  | 108        | 125        | 126        |
| <b>Current Assets</b>       | 137        | 186        | 238        |
| Sundry Debtors              | 9          | 8          | 6          |
| Inventories                 | 2          | 3          | 3          |
| Cash & Bank Balance         | 56         | 119        | 199        |
| Other Assets                | 2          | 2          | 3          |
| Current liabilities         | 57         | 58         | 44         |
| <b>Net Current Assets</b>   | 80         | 128        | 195        |
| Other Non Current Asset     | 7          | 14         | 25         |
| <b>Total Assets</b>         | <b>347</b> | <b>424</b> | <b>496</b> |

Source: Company, Angel Research

## Consolidated Cash Flow Statement

| Y/E March (₹ cr)                         | FY19   | FY20   | FY21    |
|--|--------|--------|---------|
| Profit before tax                        | 65.3   | 83.4   | 112.1   |
| Depreciation                             | 39.6   | 49.1   | 50.4    |
| Change in Working Capital                | 1.7    | 0.1    | 1.3     |
| Interest Expense                         | 3.7    | 4.0    | 2.0     |
| Direct Tax Paid                          | (18.6) | (23.2) | (31.2)  |
| Others                                   | 10.6   | 6.1    | 12.7    |
| <b>Cash Flow from Operations</b>         | 90.6   | 106.1  | 129.6   |
| (Inc.)/ Dec. in Fixed Assets             | (59.1) | (37.5) | (31.2)  |
| Investment                               | (31.4) | 1.1    | (103.3) |
| Interest received                        | 0.6    | 5.7    | 4.7     |
| <b>Cash Flow from Investing</b>          | (89.9) | (30.7) | (129.8) |
| Procees/Repayment of Long Term Borrowing | 7.4    | (8.9)  | (28.2)  |
| Dividend paid on equity shares           | (2.8)  | (3.2)  | (1.4)   |
| Others                                   | (13.6) | (16.7) | (18.9)  |
| <b>Cash Flow from Financing</b>          | (7.1)  | (29.4) | (48.6)  |
| Inc./(Dec.) in Cash                      | (6.4)  | 45.9   | (48.8)  |
| <b>Opening Cash balances</b>             | 16.1   | 9.7    | 55.6    |
| <b>Closing Cash balances</b>             | 9.7    | 55.6   | 6.8     |

Source: Company, Angel Research

## Key Ratio

| Y/E March                    | FY19   | FY20   | FY21   |
|------------------------------|--------|--------|--------|
| <b>Valuation Ratio (x)</b>   |        |        |        |
| P/E (on FDEPS)               | 118.0  | 86.6   | 64.3   |
| P/CEPS                       | 63.4   | 49.4   | 41.3   |
| P/BV                         | 26.1   | 19.7   | 15.1   |
| EV/Sales                     | 18.8   | 16.1   | 14.2   |
| EV/EBITDA                    | 46.4   | 36.7   | 30.0   |
| <b>Per Share Data (Rs)</b>   |        |        |        |
| EPS                          | 4.50   | 6.13   | 8.26   |
| Cash EPS                     | 8.4    | 10.8   | 12.8   |
| Book Value                   | 20.3   | 26.9   | 35.2   |
| DPS                          | -      | -      | -      |
| Number of share              | 10.20  | 10.20  | 10.20  |
| <b>Returns (%)</b>           |        |        |        |
| RONW                         | 22.4%  | 22.8%  | 23.7%  |
| ROCE                         | 22.6%  | 23.4%  | 25.7%  |
| <b>Turnover ratios (x)</b>   |        |        |        |
| Asset Turnover (net)         | 1.9    | 2.3    | 2.6    |
| Receivables (days)           | 11.4   | 8.5    | 6.2    |
| Inventory Days               | 3.0    | 3.4    | 3.0    |
| Payables (days)              | 196.1  | 179.6  | 140.9  |
| Working capital cycle (days) | -181.7 | -167.7 | -131.7 |

Source: Company, Angel Research

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