



SMC Ranking
★ ★ ☆ ☆ ☆ (2/5)

Issue Highlights

Industry	Diagnostics Service Provider
Offer for sale (Shares)	35,688,064
Net Offer to the Public	35,688,064
Employee reservation	150,000
Issue Size (Rs. Cr.)	1862-1896
Price Band (Rs.)	522-531
Employee Discount	52
Offer Date	1-Sep-21
Close Date	3-Sep-21
Face Value	1
Lot Size	28 Shares

Issue Composition

	In shares
Net offer for sale	35,538,064
QIB	17,769,032
NIB	5,330,710
Retail	12,438,322

About the company

Established in 1981, Vijaya Diagnostic Centre is one of the fastest-growing diagnostic chains in Southern India. The company offers a one-stop solution for pathology and radiology testing services. The company offers around 740 routine tests, 870 specialized pathology tests, 220 basic tests, and 320 advanced radiology tests. The company also offers a broad spectrum of customized health and wellness packages to its customers. The Company's operational network consists of 80 diagnostic centers and 11 reference laboratories spread across 13 cities and towns in the states of Telangana, Andhra Pradesh, National Capital Region, and Kolkata. 96.2% of the revenue comes from Hyderabad, the rest of Telangana, and the Andhra Pradesh region. During the year ended March 31, 2021, the company conducted approximately 6.20 Mn pathology tests and 0.89 Mn radiology tests for approximately 2.63 Mn customers. As of March 31, 2021, all Vijaya Diagnostic Centre laboratories hold National Accreditation Board for Testing and Calibration Laboratories (NABL) accreditations, and three diagnostic centers hold Patient Safety & Quality of Care (NABH) accreditations.

Strength

Largest and Fastest Growing Diagnostic Chain with Dominant Position in South India, Well Positioned to Leverage the High Growth in Indian Diagnostics Industry:

The 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. The company has 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. For the three months ended June 30, 2021, it has derived 87.18% and 8.73% of its revenue from operations from Telangana and Andhra Pradesh, respectively. For the fiscal year 2021, it derived 86.21% and 9.99% of its revenue from operations from Telangana and Andhra Pradesh, respectively. The company believes that the combination of its 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 it well to continue to grow the scale of its business in Telangana and Andhra Pradesh market and take advantage of growing Indian diagnostic market.

Integrated Diagnostics Provider that Offers One-Stop Solution at Affordable Price:

The company offers 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. The company believes its ability to provide one-stop diagnostic solution is an important factor in customers choosing it as their diagnostic service provider, helps it in retaining its customers, and sets it apart from its competitors. As of June 30, 2021, its operational network consists of diagnostic centre network of (i) a flagship centre located in Hyderabad, which is its 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 and basic radiology

Shareholding Pattern (%)

Particulars	Pre-issue	Post-issue
Promoters & promoters group	59.78%	54.78%
QIB	40.22%	27.65%
NIB	0.00%	5.23%
Employee reservation	0.00%	0.15%
Retail	0.00%	12.20%
Total	100.00%	100.00%

*calculated on the upper price band

Objects of the Issue

- Achieve the benefits of share listing on the Stock Exchanges.
- To make an offer for sale (OFS) of 35,688,064 shares.

Book Running Lead Manager

- ICICI Securities Limited
- Edelweiss Financial Services Limited
- Kotak Mahindra Capital Company Limited

Name of the registrar

- KFin Technologies Private Limited

tests and certain advanced radiology tests; and, (iii) 60 diagnostic centres, which are equipped to conduct a majority of pathology specimens collection and certain basic radiology tests; and laboratory network of (i) a national reference laboratory co-located with its flagship diagnostic centre; and (ii) 10 reference laboratory co-located with certain hub centres and diagnostic centres.

High Brand Recall and Commitment to Superior Quality driving High Individual Consumer Business Share and Customer Stickiness: it has built a trusted, high quality and reliable brand of choice over the last four decades. Over the years, it has received awards that recognize the strength of its brand and its focus on offering superior diagnostic services. Its diagnostic centres are designed in accordance with high quality specifications, which include requirements in relation to design of work area, physical infrastructure and placement of technical equipment, with an aim to provide its customers with uniformity of experience for visit across its diagnostic centres. The company believes its focus on the consumer and, together with what it believes is its brand's recognition for quality diagnostic services, results in higher brand recall in its core geographies and enable it to have a high share of walk-in customers leading to sticky individual consumer revenues.

Robust Technical Capability and State of the Art Technology with Strong IT Infrastructure: Its strong technical capability and ability to adopt to the latest technologies in the diagnostic industry allow it to provide high quality and reliable diagnostic services to its customers. As of June 30, 2021, its radiology testing operations are supported by radiology equipment including 15 CT machines, 18 MRI machines and five PET CT/Gamma machines, which it believes represent the leading technology used in the field, and a team of 105 radiologists across its diagnostic centres. The company believes that owing to its continuous investment and the long standing relationships it enjoys with certain medical technology vendors, it has been at the forefront of introducing new tests by adopting the latest medical technologies across its operational network. its front-end information technology system enables it to (i) achieve standardization across its operations; (ii) reduce incidence of errors due to human intervention; (iii) monitor technical operations; (iv) closely track its key performance metrics and maintain the turn-around time ("TAT"); (v) provide convenience to its consumers and customers, by allowing them to book appointments, complete registration and access test reports online; and (vi) allows consumers to make payments online (via a secured gateway).

Strategy

Deepen Footprint in its Core Markets: The company intends to strengthen its presence in regions in which it operates, with emphasis on the states of Telangana and Andhra Pradesh. It has derived 87.18% and 8.73% of its revenue from operations from these states for the three months ended June 30, 2021, respectively and 86.21% and 9.99% of its revenue from operations from these states for the fiscal year 2021, respectively. It intends to deepen its penetration and increase customer base to consolidate leading position in its core markets by (i) expanding service network by opening additional diagnostic centres; (ii) enhancing its laboratory capacity and test menu by adding latest technologies; (iii) increasing its business from individual customers by offering a portfolio of additional services; (iv) physician engagement through medical awareness initiatives and meetings with medical practitioners; and (v) increased focus on preventive and wellness offerings. It also plans to selectively explore franchisee opportunities with strong local entrepreneurs to augment own centres. Leveraging its Existing Presence by Focusing on Setting up Spoke Centres and Increasing Home Collection in Existing Catchment Areas: In recent years, it has successfully used "hub and spoke" model to grow its business and the total number of its spokes have grown from 45 as of April 1, 2019 to 60 as of June 30, 2021. In light of its success, it plans to set up additional diagnostic centres in Telangana and Andhra Pradesh. It also plans to increase its home collection services in core geographies to reach out to more customers.

Continue to Focus on Providing Customer Centric Services and Offerings: The company plans

to increase the breadth of its diagnostic services by offering additional preventive and wellness services and through, among other things, the adoption of new, cutting-edge diagnostic testing technology, as it believes this will expand its scope of diagnostic services and further enhance the reputation of its brand. The company also intends to enhance its pathology and radiology test offerings by creating customized packages to its customers, based on customers' age, sex and medical history, to cater to specific their needs. Leveraging the current needs of its customer base, it offers RT-PCR testing for COVID-19 diagnosis across 25 diagnostic centres in nine cities and towns and COVID-19 vaccination services at its diagnostic centres located at Kolkata, West Bengal and Gurugram, Haryana, and intends to grow these test offerings to few other diagnostic centres/hubs.

Expand in Adjacent Geographies and East India: It intends to establish its presence in adjacent geographies of Telangana and Andhra Pradesh and expand in concentric circles. It has identified key cities and towns that it believes are underserved, and where its brand is well-regarded. It expects that a wider geographic reach will expand its customer base as well as improve its profitability by allowing it to better leverage its infrastructure. It also plans to expand its presence in east India, in particular Kolkata. It believes that the growing demand presents it with an opportunity to establish a network of its diagnostic centres in east India. It intends to replicate its "hub and spokes" model while expanding into east India. In 2014, it has acquired a majority stake in Medinova, a diagnostic service provider which currently has an established hub in Kolkata, and successfully integrated it into its operational network. Medinova has contributed 3.70% and 3.38% of its revenue from operations for the three months ended June 30, 2021 and the fiscal year 2021. It plans to set up additional diagnostic centres in this region. Given the expected increase in demand for diagnostic services in East India, it expects Kolkata to be one of the focus areas of its medium to long term growth.

Supplement Organic Growth with Selective Acquisitions: The company intends to supplement its organic growth with selective acquisitions of/strategic partnerships with brands with strong vintage and market position in adjacent markets. When evaluating acquisition targets, it primarily takes into account a number of factors such as brand, customer base, customer centric focus and culture, technical capability and resources. It is the largest integrated diagnostic chain in southern India, by operating revenue. Given its leading market position, in-depth industry experience and expertise, the company is well positioned to take advantage.

Risk factors

- The business and prospects may be adversely affected if the company is unable to maintain and grow its brand name and brand image.
- Any interruptions at its flagship centre and other diagnostic centres may affect its ability to process diagnostic tests, which in turn may adversely affect its business, results of operations and financial condition.
- Its operations are concentrated in south India, and any loss of business in such region could have an adverse effect on its business, results of operations and financial condition.
- The company depends on third-parties to provide it its testing equipment and reagents, and any failure to continue to do so or recall of existing testing equipment and reagents could adversely affect its business, results of operations and financial condition.
- It operates in a highly competitive business environment, and its inability to compete effectively could have an adverse effect on its business, results of operations and financial condition.

Peer comparison

Co_Name	Total Income	PAT	EPS	P/E	P/BV	BV	FV	Price	Mcap
Dr Lal Pathlabs	1581.30	291.60	47.32	80.72	25.16	151.79	10	3819.55	31833.99
Metropolis Healt	997.99	183.10	47.59	56.63	19.52	138.09	2	2695.10	13790.86
Vijaya Diagnostic Centre Ltd	376.75	84.91	8.33	63.77	13.78	38.53	1	531.00	5414.39

Valuation

Considering the P/E valuation on the upper price band of Rs.531, EPS and P/E on FY2021 are Rs.8.33 and 63.77 multiple respectively and at a lower price band of Rs. 522, P/E multiple is 62.68. Looking at the P/B ratio on the upper price band of Rs.531, book value and P/B on FY21 are Rs. 38.53 and 13.78 multiple respectively and at a lower price band of Rs. 522 P/B multiple is 13.55. No change in pre and post issue EPS and Book Value as the company is not making fresh issue of capital.

Industry overview

With diagnostic services becoming the cornerstone for recommending requisite treatments, as well as monitoring recovery posttreatment, the industry has posted healthy growth over the past few years. The diagnostic industry achieved a healthy CAGR of 13 to 14% from fiscal years 2017 to 2020, tracking the growth of healthcare delivery services. However, in fiscal year 2021, CRISIL Research estimates the industry’s growth rate will sharply decelerate to approximately 4% on-year to ₹ 710 to ₹ 730 billion, owing to the fallout of the COVID-19 pandemic. In fiscal year 2021, COVID-19 put the brakes, albeit temporarily, on the growth story of the diagnostic sector, especially for small laboratories. With treatments at hospitals being deferred, outpatient footfalls dropping and lockdowns in quarter 1 of fiscal year 2021, the regular volume of diagnostic services took a hit. According to industry players, after a sharp fall in revenue in April and May 2020, there was some revival in demand from June 2020 onwards. Pent-up healthcare demand contributed to revenue during a traditionally lean quarter from a diagnostic perspective, with recovery to pre-COVID-19 levels occurring in the third quarter of fiscal year 2021. However, between fiscal years 2020 and 2023, the industry is expected to return to a healthy growth trajectory of 12 to 13% CAGR, reaching ₹ 920 to 980 billion. The industry is however expected to achieve a higher CAGR between fiscal year 2021 and fiscal year 2023 in the range of 14 to 16% on account of a low growth in fiscal year 2021 due to the COVID-19 pandemic impact on the industry.

Outlook

The company is well established regional player. It offers a one-stop solution for pathology and radiology testing services to customers through its extensive operational network. It focuses on a customer-centric approach to enhance the overall quality of services for optimal customer satisfaction. However, its operations are concentrated in south India, and any loss of business in such region could have an adverse effect on its business, results of operations and financial condition. Moreover the entire issue is Offer For Sale and the fund raised through the issue will not come to the company. A long term investor may opt the issue.

An Indicative timetable in respect of the Issue is set out below:

EVENT	INDICATIVE DATE (On or about)
Bid/Offer Opens Date	Sept 01, 2021
Bid/Offer Closing Date	Sept 03, 2021
Finalisation of Basis of Allotment with the Designated Stock Exchange	On or about Sept 08, 2021
Initiation of refunds (if any, for Anchor Investors)/unblocking of funds from ASBA Account	On or about Sept 09, 2021
Credit of Equity Shares to depository accounts of Allottees	On or about Sept 13, 2021
Commencement of trading of the Equity Shares on the Stock Exchanges	On or about Sept 14, 2021

Consolidated Financials

Profit & Loss

Rs. in Cr.

Particulars	Period ended	Period ended	Period ended
	30-Jun-21 (3 Months)	31-Mar-21 (12 Months)	31-Mar-20 (12 Months)
Revenue from operations	122.68	376.75	338.82
Total expenditure	65.83	210.77	206.20
Operating Profit	56.85	165.98	132.62
OPM%	46.34	44.06	39.14
Other Income	3.28	11.85	15.36
PBDIT	60.13	177.82	147.98
Depreciation	11.92	50.45	49.17
PBIT	48.21	127.37	98.81
Interest	4.00	15.25	15.39
PBT	44.21	112.12	83.43
Tax	10.89	27.21	20.92
Profit After Tax	33.32	84.91	62.51

Balance sheet is on next page

Balance Sheet

Rs. in Cr.

Particulars	As on 30-Jun-21	As on 31-Mar-21	As on 31-Mar-20
Non-current assets			
Property, plant and equipment	134.20	135.76	139.85
Capital work-in-progress	6.07	8.18	9.26
Goodwill	5.34	5.34	5.34
Other intangible assets	1.50	0.60	1.04
Right of use asset	145.26	126.00	125.38
Intangible assets under development	0.35	1.24	0.37
Financial Assets			
Investments	0.04	0.04	0.04
Other financial assets	18.51	12.22	5.49
Deferred tax assets, (net)	6.96	6.10	1.58
Income tax assets (net)	0.37	0.57	0.91
Other non-current assets	7.79	6.11	6.66
Total non-current assets	326.38	302.16	295.90
Current assets			
Inventories	6.30	2.64	2.77
Financial Assets			
Investments	27.96	27.63	54.67
Trade receivables	5.55	6.41	8.00
Cash and cash equivalents	10.16	6.69	55.57
Bank balances other than Cash and cash equivalents	214.79	187.56	62.62
Other financial assets	9.33	5.19	0.54
Other current assets	4.12	2.67	2.17
Total current assets	278.20	238.78	186.35
Total Assets	604.58	540.94	482.26
Non-current liabilities			
Financial liabilities			
Borrowings	0.00	3.28	22.13
Lease liabilities	146.34	126.47	119.61
Other financial liabilities	0.07	0.22	0.88
Provisions	8.07	7.70	6.74
Other liabilities	0.08	0.05	0.12
Total non-current liabilities	154.56	137.72	149.48
Current liabilities			
Borrowings	1.19	1.20	10.71
Lease liabilities	10.82	10.10	8.78
Trade payables			
Total outstanding dues to MESE	0.10	0.27	0.03
Total outstanding dues of creditors other than MASE	25.82	21.89	21.66
Other financial liabilities	8.30	6.13	12.97
Income tax liabilities	7.85	1.62	1.45
Provisions	0.89	0.74	1.04
Other liabilities	2.13	2.05	2.01
Total current liabilities	57.11	43.99	58.64
Total	211.67	181.71	208.12
NET Worth	392.91	359.23	274.14
Net worth represented by:			
Share capital	10.20	4.53	4.53
Other equity	382.13	354.47	270.01
Non-controlling interest	0.58	0.23	-0.40
Net Worth	392.91	359.23	274.14

RANKING METHODOLOGY

WEAK	★
NEUTRAL	★★
FAIR	★★★
GOOD	★★★★
EXCELLENT	★★★★★

E-mail: smc.care@smcindiaonline.com



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Corporate Office:
11/6B, Shanti Chamber,
Pusa Road, New Delhi - 110005
Tel: +91-11-30111000
www.smcindiaonline.com

Mumbai Office:
Lotus Corporate Park, A Wing 401/402, 4th Floor,
Graham Firth Steel Compound, Off Western
Express Highway, Jay Coach Signal, Goreagon
(East) Mumbai - 400063
Tel: 91-22-67341600, Fax: 91-22-67341697

Kolkata Office:
18, Rabindra Sarani, Poddar Court, Gate No-4,
5th Floor, Kolkata - 700001
Tel.: 033 6612 7000/033 4058 7000
Fax: 033 6612 7004/033 4058 7004

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