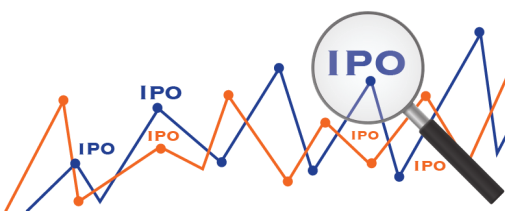




Vijaya Diagnostic Centre Limited

Issue Opens	Wednesday, Sept 01, 2021
Issue Closes	Friday, Sept 03, 2021
Price Band (in Rs)	522/531
Bid Lot	28 shares and multiples thereafter



IPO UPDATE
Vijaya Diagnostic Centre Limited

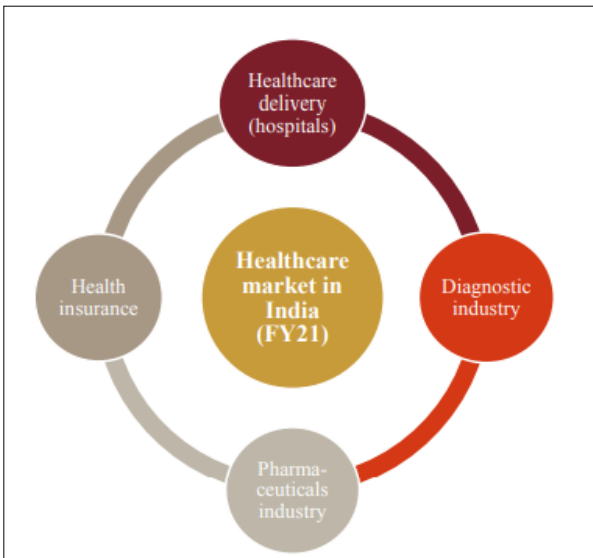
Overview: Diagnostic Industry in India

Structure of the healthcare market:

The healthcare market in India is broadly classified into:

- (i) **Healthcare delivery market** (hospitals) which was valued at approximately Rs4,400bn is projected to grow at a CAGR of 17-18% during FY21-FY25E.
- (ii) **Pharmaceuticals industry** of which the domestic formulations segment was valued at approximately Rs1,420bn is projected to grow at a CAGR of 11-12% between FY21-FY25E.
- (iii) **Diagnostic industry** which was valued at Rs710bn to Rs730bn is projected to grow at a CAGR of 14-16% between FY21-FY23E.
- (iv) **Healthcare insurance industry** of which the health insurance premium market stood at Rs583bn as of FY21 and is expected to achieve a CAGR of 18-19% between FY21-FY25E.

Exhibit 01: Synopsis of Healthcare Market



Source: Company RHP

Diagnostic-Key sub-segment of Indian healthcare market:

Evidence-based treatment has become the norm for many doctors, as diagnosis enables prescription of correct therapy, and, thereby, faster recovery. Hence, in the spectrum of healthcare delivery services, diagnostic services play the key role of information intermediary, providing useful information for correct diagnosis and treatment of diseases. Diagnostic services currently have an 8-14% share in the overall healthcare spending on account of variation between rural and urban across institutions such as government-owned, charitable/trust-based and private. The diagnostic industry achieved a healthy CAGR of 13-14% from FY17-FY20, tracking the growth of healthcare delivery services. However, in FY21, CRISIL Research estimated the industry's growth rate will sharply decelerate to approximately 4% y-o-y to Rs710bn to Rs730bn, owing to the fallout of the Covid-19 pandemic. However, between FY20-FY23E, the industry is expected to return to a healthy growth trajectory of 12-13% CAGR, reaching Rs920-980bn.

SNAPSHOT		
Issue Opens	Wednesday, Sept 01, 2021	
Issue Closes	Friday, Sept 03, 2021	
Price Band (Rs)	522/531	
Bid Lot	28 shares and multiples thereafter	
Face Value	Rs1	
Listing	BSE & NSE	
Type of Issue	OFS	
Offer Size (Rs Mn)	Fresh Issue	-
	OFS	18,950
	Total	18,950
*Implied Market Cap (Rs Mn)	54,144	
P/E (based on FY21 Earnings)*	63.77	

*Note: Implied Market Cap & P/E are calculated at upper price band of Rs531

Issue Allocation	
Reservations	% of Net Issue
QIB	50
NIB	15
Retail	35
Total	100
Employee Reservation: 150,000 equity shares	

Object of the Offer
<ul style="list-style-type: none"> • To carry out the OFS of up to 35,688,064 equity shares by the selling shareholders • Achieve the benefits of listing the equity shares on the stock exchanges



IPO UPDATE
Vijaya Diagnostic Centre Limited

Industry (contd.):

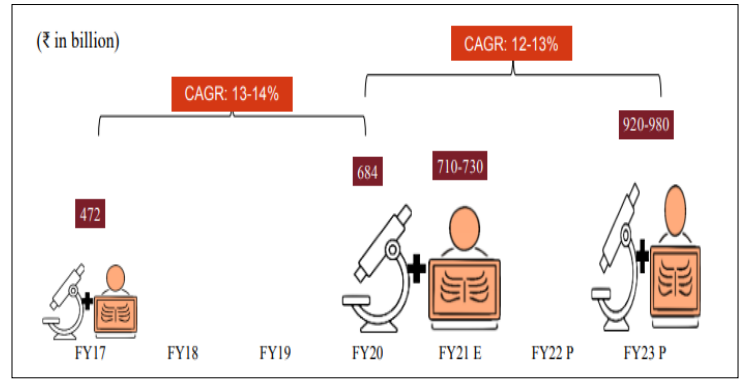
Classification of Diagnostic Industry:

A. Based on Business Models:

Diagnostic centres in India can be classified into hospital-based, diagnostic chains, and standalone centres:

- (a) **Hospital-based diagnostic centres** are located in hospitals for captive use. These are mostly owned by hospitals, or may be given to third parties to manage.
- (b) **Diagnostic chains** are owned diagnostic centres, with two or more centres. These mostly operate through a hub-and-spoke model of collection centres.
- (c) **Standalone diagnostic centres** are single unit centres. Majority of these have small-scale of operations, and offer either pathology, basic radiology or advanced radiology services.

Exhibit 02: Indian Diagnostic Industry



Source: Company RHP

B. Based on Provision of Services:

Diagnostic entities can be broadly classified into pathology and radiology centres based on the provision of services.

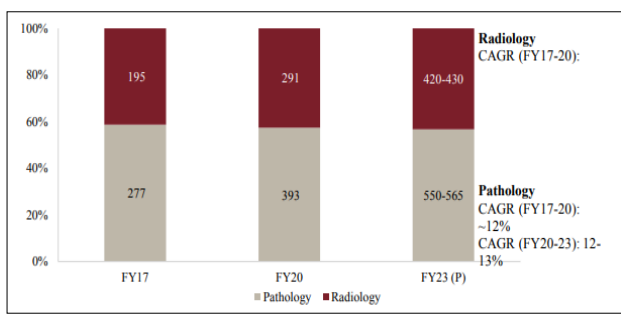
- ⇒ Pathology includes examination and laboratory analysis of body fluids (blood, urine, etc.) or organs and tissues to diagnose diseases.
- ⇒ Radiology involves usage of imaging technologies such as X-rays, radiography, ultrasound, CT scans, MRI scans to diagnose diseases.

Segment wise breakup:

A diagnostic centre generally offers either pathology or radiology services, but few offer both. Typically, advanced radiology testing services are rendered by either secondary or tertiary care hospitals or standalone radiology centres (owned by the MD radiologist) or diagnostic chains (regional/multi-regional) as they entail heavy investments in order to obtain the best-in-class equipment, technology and specially trained professional to operate the equipment. Multi-regional diagnostic chains such as Dr. Lal Pathlabs (DLPL), Thyrocare, and SRL offer both pathology as well as radiology testing services (SRL and DLPL offer both basic and advanced radiology testing services whereas Thyrocare offers only advanced radiology service). Among regional diagnostic chains, Vijaya provides a combination of diagnostic services under an integrated services model across pathology, radiology, nuclear medicine, imaging, gastroenterology, cardiology and neurology, making it a comprehensive diagnostic centre. According to CRISIL Research estimates, pathology testing commands a higher share (57%) of the diagnostics market. Typically, a battery of tests is prescribed under a single pathology test panel for a single patient. Though the volumes of pathology tests prescribed are greater, the price of a single pathology test is lower than a single imaging test such as an MRI or even an X-ray. The latter (radiology commands 43% market share) usually costs two to three times more than a regular pathology test.

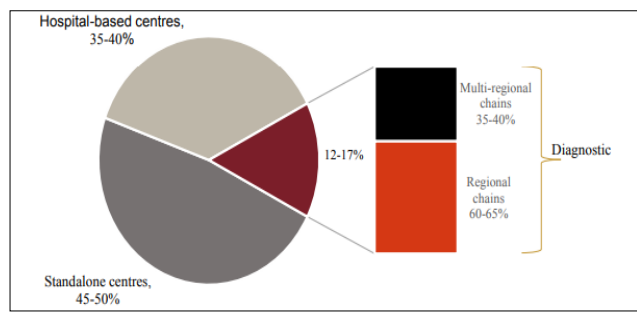
The share of radiology testing services within diagnostic services increased from nearly 41% in FY17 to approximately 43% in FY20 at approximately 14% CAGR; CRISIL expects the share to be maintained at 43-44% in FY23E. The Indian diagnostics industry is highly fragmented given the high proportion of standalone centres and hospital-based centres, which collectively comprise 83-88% of the total market as of FY20. Diagnostic chains comprise only 12-17% as of FY20 further split into regional and multi-regional chains, of which regional chains account for the majority. However, the industry has witnessed a shift from standalone centres to diagnostic chains due to increasing trend of patients' reliance on diagnostic chains for their quality of service and unavailability of complex tests with standalone centres, not only at an overall country level but also in regional markets.

Exhibit 03: Breakup of Diagnostic Services



Source: Company RHP

Exhibit 04: Split of Indian Diagnostic Industry (FY20)



Source: Company RHP



IPO UPDATE

Vijaya Diagnostic Centre Limited

Growth Drivers-Diagnostic Industry:

- Changing demographics
- Rising income levels
- Increasing health awareness
- Conducive government policies
- Changing disease profiles
- Health insurance coverage

About the Company:

Vijaya Diagnostic Centre Limited (Vijaya) is the largest integrated diagnostic chain in Southern India, by operating revenue, and also one of the fastest-growing diagnostic chain by revenue for FY20 (Source: CRISIL Report). The company offers a one-stop solution for pathology and radiology testing services to their customers through its 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. The company 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. The 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). The company has 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. As of June 30, 2021, all of the laboratories hold National Accreditation Board for Testing and Calibration Laboratories (NABL) and three of its diagnostic centres hold Patient Safety & Quality of Care (NABH) accreditations.

Competitive Strengths:

(i) Largest and fastest growing diagnostic chain with dominant position in South India: 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 FY20 (Source: CRISIL Report). It has 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 the 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, the company derived 87.18% and 8.73% of the revenue from operations from Telangana and Andhra Pradesh, respectively. For FY21, 86.21% and 9.99% of its revenue from operations came in from Telangana and Andhra Pradesh, respectively.

(ii) Integrated diagnostics provider that offers One-Stop solution at affordable price: Vijaya 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 currently also offers 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. Vijaya has been one of the earliest private diagnostic service providers to be approved for Covid RT-PCR testing by ICMR in Andhra Pradesh and Telangana (Source: List of Private Laboratories to test Covid-19 published on March 24, 2020).

(iii) Long track record of consistent profitable growth, strong cash generations: For the three months ended June 30, 2021, the company recorded a total income of Rs1,259.70mn. During the same period, the operating revenue per test was Rs562.31 and operating profit before depreciation, interest and tax (OPBDIT) per test was Rs260.59; operating revenue per customer stood at Rs1,298.96 and OPBDIT per customer at Rs601.39. For FY21, the total income came in at Rs3,885.93mn. The company has an attractive financial profile which is evident by negative working capital and high cash flow generation leading to a strong net cash position. For FY20, the average test per customer ratio was 2.8 (followed by 2.5 for DLPL), operating revenue per customer was Rs1,214 and OPBDIT per customer was Rs475, all of which are higher as compared to its listed peers as per the CRISIL Report.



IPO UPDATE

Vijaya Diagnostic Centre Limited

Strategies:

(i) Leverage existing presence by focusing on setting up spoke centres: Vijaya will continue to focus on expanding the network through setting up spokes and select hub centres in existing catchment areas. In addition, they would also be adding reference laboratories in their existing core geographies. The total number of its spokes have grown from 45 as of April 1, 2019 to 60 as of June 30, 2021. The company further plans to set up additional diagnostic centres in Telangana and Andhra Pradesh and also increase home collection services in core geographies to reach out to more customers.

(ii) Provide customer centric services and offerings: The company intends to widen the diagnostic services by offering additional preventive and wellness services and through, among other things, the adoption of new, cutting-edge diagnostic testing technology. It also intends to offer more preventive and wellness packages, preventive healthcare screening and chronic and lifestyle disease management services to individual and corporate customers, given the increasing health awareness of, and concomitant increase in, chronic and lifestyle diseases in India. Leveraging the current needs of their customer base, Vijaya 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 intend to grow these test offerings to few other diagnostic centres/hubs.

(iii) Expand in adjacent geographies: The company intends to establish its presence in adjacent geographies of Telangana and Andhra Pradesh and expand in concentric circles. They have identified key cities and towns that the company believes are underserved, and where the brand is well-regarded. A wider geographic reach would expand the customer base as well as improve the profitability by allowing the company to better leverage its infrastructure.

Financials:

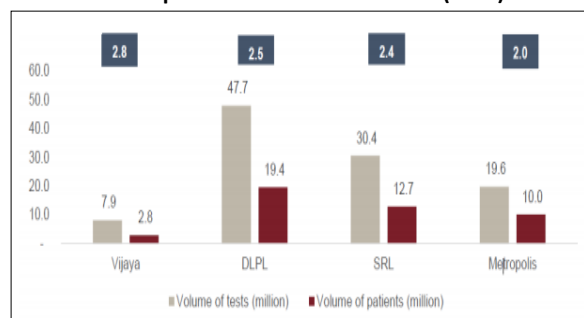
For the three months ended June 30, 2021 and FY21, the company derived 95.91% and 96.2% of its revenue from operations from their core geographies, Hyderabad and rest of Telangana and Andhra Pradesh, respectively. During three months ended June 30, 2021, the company conducted approximately 1.96 million pathology tests and 0.22 million radiology tests for approximately 0.94 million customers. During FY20, the tests per customer visit was 2.83, operating revenue per customer was Rs1,213.72 and operating revenue per test was Rs428.14, all of which are higher as compared to its listed regional peers as per the CRISIL Report. For the three months ended June 30, 2021, FY21 and FY20, the sales came in at Rs1227mn, Rs3767mn and Rs3388mn respectively and PAT stood at Rs333mn, Rs849mn and Rs625mn respectively. For the three months ended June 30, 2021, FY21, FY20 and FY19 the cash generated from operations came in at Rs509.45mn, Rs1,296.43mn, Rs1,061.12mn and Rs905.27mn resp. The Ebitda margins came in at 39.1%, 44.1% and 46.3% for FY20, FY21 and 3 months ending June, 2021 respectively.

Exhibit 5: Financial Snapshot

Revenues (Rs mn)	FY20	FY21	3M ended June, 2021
Sales	3,388	3,767	1,227
EBITDA	1,326	1,660	569
EBITDA Margin %	39.1	44.1	46.3
PAT	625	849	333
PAT Margin %	18.4	22.5	27.2
EPS	6.1	8.3	3.2
RoNW (%)	22.8	23.6	8.5

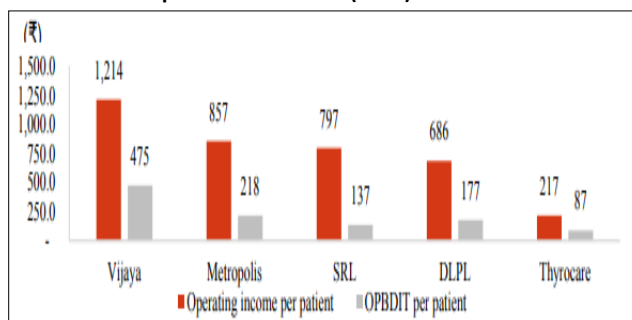
Source: Company RHP, Progressive Research

Exhibit 6: Comparison of Tests Per Patient (FY20)



Source: Company RHP

Exhibit 7: Comparison of OPBDIT (FY20)



Source: Company RHP



IPO UPDATE

Vijaya Diagnostic Centre Limited

Risks & Concerns:

- Business and prospects may be adversely affected if the company is unable to maintain and grow its brand name and brand image.
- The business, financial condition and results of operations may be adversely affected by global health epidemics, including the recent Covid-19 outbreak, and the continuing effect of the same cannot be predicted.
- Any interruptions at the flagship centre and other diagnostic centres may affect the company's ability to process diagnostic tests, which in turn may adversely affect its business, results of operations and financial condition.
- Major operations are concentrated in South India, and any loss of business in such region could have an adverse effect on the business, results of operations and financial condition.
- Dependency on third-parties to provide the company with testing equipment and reagents, and any failure to continue to do so or recall of existing testing equipment and reagents could adversely affect the business, results of operations and financial condition.

Outlook and Recommendations:

Vijaya is an integrated diagnostic player that offers a combination of services across pathology, basic radiology; having its dominant position based out of Southern India which attributes to major operational revenues. The company adopts a customer centric approach that enables them to deliver value added services such as home collection of specimens, house calls and various delivery/access modes for test reports. The company has plans in place to leverage the existing networks and additionally set up further diagnostic centres in Telangana and Andhra Pradesh in the near future. Considering the highly competitive, fragmented and underserved diagnostic industry, the company would lay its focus on expanding the network base, add reference laboratories in its exiting core geographies. On the financials front, the company has consistently improved its Ebitda margins for FY20, FY21 and 3 months ending June, 2021. Additionally, the company has strong cash in its books that stood at Rs2529mn for Q1FY22. As compared to its peers (DLPL, SRL and Metropolis), Vijaya has reported the highest gross margins (62%) for FY20. The company has the highest brand recall recognition, high share of walk-in customers and sticky individual customer revenue. Based on FY21 earnings, the company is trading at a P/E of 63.77x. **The document is for information purpose. We do not have any rating on the IPO and keep it at the discretion of the investors with regard to investment in the IPO.**



IPO UPDATE

Vijaya Diagnostic Centre Limited

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