

# All you need to know about VIJAYA DIAGNOSTIC CENTRE LIMITED IPO



Face Value: INR 1  
Issue Size: INR 1895 Cr  
Bid Lot & Size: 28 Equity Shares  
Issue Type: 100% Book Building

Post money market cap of ₹5,414 crores-at upper price band.

Price Band:  
**INR 522 –  
INR 531**

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**Issue Opens: 1<sup>st</sup> Sept 2021; Issue Closes: 3<sup>rd</sup> Sept 2021**

Shareholding (%)	Pre IPO	Post IPO
<b>Promoter &amp; Promoter Group</b>	59.78	54.78
<b>Public</b>	40.22	45.22

\*Source: RHP

Share Reservation	Net issue (%)
<b>QIB</b>	50
<b>NII</b>	15
<b>Retail</b>	35

Company Leadership	
<b>Dr. S Suredranath Reddy</b>	Executive Chairman
<b>Sura Suprita Reddy</b>	CEO
<b>Narasimha Raju K.A.</b>	CFO

Issue Managers	
<b>BRLMs</b>	ICICI Securities, Edelweiss Financial Services, Kotak Mahindra Capital Company
<b>Registrar</b>	KFin Technologies Pvt. Ltd.

## Company Overview:

Vijaya Diagnostic Centre Limited offers a one-stop solution for pathology and radiology testing services to its customers through the extensive operational network, which consists of 81 diagnostic centres and 11 reference laboratories across 13 cities and towns in the states of Telangana & Andhra Pradesh, 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.

This document summarizes a few key points related to the issue and should not be treated as a comprehensive summary. Investors are requested to refer the Red Herring Prospectus for further details regarding the issue, the issuer company and the risk factors before taking any investment decision. Please note that investment in securities is subject to risks including loss of principal amount and past performance is not indicative of future performance. Nothing herein constitutes an offer of securities for sale in any jurisdiction where it is unlawful to do so. This document is not intended to be an advertisement and does not constitute an invitation or form any part of any issue for sale or solicitation of an offer to subscribe for or purchase any securities and neither this document nor anything contained herein shall form the basis for any contract or commitment whatsoever.

## Objects of the Offer

The offer comprises of an offer for sale of INR 1,895cr. The objects of the Offer are to (i) carry out the Offer for Sale of up to 35,688,064 Equity Shares by Selling Shareholders; (ii) achieve the benefits of listing the Equity Shares on the Stock Exchanges.

## Consistent Track Record of Financial Performance

The company's revenue has increased at a CAGR of 13.5% from INR 2,925.87mn in FY19 to INR 3,767.46mn in FY21. The company was able to maintain and grow high EBITDA margins during the period; EBITDA grew at a CAGR of 23.9% from INR 1,081.20mn in FY19 to INR 1,659.77mn in FY21. The profit has grown at an even higher CAGR of 35.5%, rising from INR 462.72mn in FY19 to INR 849.11mn in FY21. Vijaya Diagnostic Centre has delivered strong return ratios with ROE at 23.6% and ROCE at 42.0% for FY21.

(₹ in million)	FY19	FY20	FY21
<b>Revenue from Operations</b>	2,925.87	3,388.21	3,767.46
<b>Adjusted EBITDA</b>	1,081.20	1,326.21	1,659.77
<b>EBITDA Margin (%)</b>	37%	39%	44%
<b>PAT</b>	462.72	625.07	849.11
<b>PAT Margin (%)</b>	16%	18%	22%
<b>EPS</b>	4.50	6.13	8.26
<b>RoNW (%)</b>	22.35	22.80	23.64
<b>ROCE (%)</b>	30.06	33.28	42.00
<b>Debt to net worth</b>	0.20	0.12	0.01

## Competitive Strengths

### Largest and fastest growing diagnostic chain with dominant position in South India

Vijaya Diagnostic centre 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 (Source: CRISIL Report). 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 their 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 fiscal year 2021, the company derived 86.21% and 9.99% of revenue from operations from Telangana and Andhra Pradesh, respectively.



## Well positioned to leverage the high growth in Indian diagnostics industry

According to the CRISIL Report, the Indian diagnostics market was valued at ~₹710 billion to ₹730 billion in the fiscal year 2021, and is projected to grow at CAGR of around 12% to 13% to reach ~₹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 combination of Vijaya Diagnostic's strong brand position driven by the long operating history in their core geographies, their extensive operational network and their reputation for providing quality diagnostic services positions them well to continue to grow the scale of their business in Telangana and Andhra Pradesh market and take advantage of growing Indian diagnostic market.

## Integrated diagnostics provider that offers one-stop solution

Vijaya Diagnostic Centre 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'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. Given the focus on the provision of integrated diagnostic services, Vijaya Diagnostic Centre has 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, according to the CRISIL Report.

## High brand recall and commitment to superior quality

Vijaya Diagnostic Centre focuses on a customer centric approach to deliver the best services that leads to high customer satisfaction and increasing customer stickiness. The diagnostic centres are designed in accordance with high quality specifications, which include requirements in relation to design of work area, physical infra-structure and placement of technical equipment, with an aim to provide their customers with uniformity of ex-perience for visit across their diagnostic centres. For convenience of their customers, it provides value-added services such as home collection of specimens, house calls and various delivery and access modes (i.e., at di-agnostic centres, SMS, email, web portal) to test reports. The company's home collection service allows spec-imens to be collected from their customers' locations, such as their homes or offices, in nine cities in India, as of June 30, 2021. The focus on the consumers and the brand's recognition for quality diagnostic services, results in higher brand recall in the core geographies and enable them 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

As of June 30, 2021, Vijaya Diagnostic Centre's radiology testing operations were 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 their diagnostic centres. The company's diagnostic centre operations are supported by front-end centralized information technology platform. Vijaya Diagnostic Centre uses Laboratory Information Management System ("LIMS") to automate laboratory workflows, manage samples, test results and associated data for pathology tests, a fully integrated Radiology Information Systems ("RIS") - Picture Archive and Communication Systems ("PACS") to manage radiology workflows, archive and access images from multiple modalities and locations for radiology tests.



## Strategies Going Forward

### **Deepen footprint in its core markets**

Vijaya Diagnostic Centre intends to strengthen their presence in regions in which they operate, with emphasis on the states of Telangana and Andhra Pradesh. The company intends to deepen their penetration and increase customer base to consolidate leading position in their core markets by (i) expanding service network by opening additional diagnostic centres; (ii) enhancing their laboratory capacity and test menu by adding latest technologies; (iii) increasing their 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. Vijaya Diagnostic also plans to selectively explore franchisee opportunities with strong local entrepreneurs to augment own centres.

### **Leveraging the existing presence by focusing on setting up spoke centres**

Vijaya Diagnostic Centre would continue to focus on expanding their network through setting up spokes and select hub centres in existing catchment areas. In addition, the company would also be adding reference laboratories in their existing core geographies. In light of their success, the company plans to set up additional diagnostic centres in Telangana and Andhra Pradesh. Vijaya Diagnostic Centre also plans to increase their home collection services in core geographies to reach out to more customers.

### **Continue to focus on providing customer centric services and offerings**

Vijaya Diagnostic Centre plan to increase the breadth of their diagnostic services by offering additional preventive and wellness services and through, among other things, the adoption of new, cutting-edge diagnostic testing technology, as this will expand their scope of diagnostic services and further enhance the reputation of their brand. The company also intends to enhance their pathology and radiology test offerings by creating customized packages to their customers, based on customers' age, sex and medical history, to cater to specific their needs. These packages are expected to increase revenue per customer visit.

### **Expand in adjacent geographies and east India**

Vijaya Diagnostic Centre intends to establish their presence in adjacent geographies of Telangana and Andhra Pradesh and expand in concentric circles. The company has identified key cities and towns that they believe are underserved, and where their brand is well-regarded. The company expects that a wider geographic reach will expand their customer base as well as improve their profitability by allowing them to better leverage their infrastructure. Vijaya Diagnostic Centre also plan to expand their presence in east India, in particular Kolkata. We intend to replicate their "hub and spokes" model while expanding into east India. The company plans to set up additional diagnostic centres in this region. Given the expected increase in demand for diagnostic services in East India, the company expects Kolkata to be one of the focus areas of their medium to long term growth.

### **Supplement organic growth with selective acquisitions**

Vijaya Diagnostic Centre intends to supplement their organic growth with selective acquisitions of/strategic partnerships with brands with strong vintage and market position in adjacent markets. According to the CRI-SIL Report, while the diagnostics industry is highly fragmented, demand for quality of service and complex tests from customers, as well as high capital expenditure requirements for radiology provides opportunity for faster consolidation in the diagnostics industry in India. In light of this opportunity, the company will actively explore select expansion opportunities through strategic acquisitions of/partner with regional diagnostic service providers who possess brand recognition among an existing customer base.

## Management

### **Dr. S. Surendranath Reddy (Executive Chairman):**

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 the Company. He is a life member of the Indian Radiological and Imaging Association.

### **Sura Suprita Reddy (CEO):**

She has been associated with the Company since its incorporation. She holds a bachelor's degree in commerce from Osmania University. Since then, she has been heading the overall strategy, clinical excellence, operations, and expansion of the company. She has previously been a director of the Medinova Diagnostic Services Limited, Namrata Diagnostic Centre Private Limited, Park Health Systems Private Limited and Doctorslab Medical Services Private Limited.

### **Narasimha Raju K.A. (Chief Financial Officer):**

He holds a bachelor's degree of commerce from Osmania University and is a member of the Institute of Chartered Accountants of India. He has previously worked with S.R. Batliboi & Co., NSL Renewable Power Private Limited and PBEL Property Development (India) Private Limited. He has over 14 years of professional experience in audit, financial reporting, regulatory compliance and accounting advisory.



## Recommendation & Valuation

At the upper price band, Vijaya Diagnostic Centre Limited is demanding a PE multiple of ~64.3X of FY21 earnings which is lower than the industry average of 90.8X. Considering the future growth potential of healthcare industry, revenue from operation, EBITDA and PAT growth of 13.5%, 23.9% and 35.5% CAGR during FY19 to FY21, respectively, strong ROE and ROCE of 23.64% and 42%, respectively in FY21, debt-free company with plans for acquisition and expansions, diversified service offerings and strong technical capabilities of the company, we recommend '**Subscribe**' to the issue with a long-term perspective.



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## **RISKS**

1. The business operations are concentrated in south India, and any loss of business in such region could have an adverse effect on their business.
2. Failure or malfunction of their equipment could adversely affect their ability to conduct their operations.
3. The company operates in a highly competitive business environment, and their inability to compete effectively could have an adverse effect on their business, results of operations and financial condition.
4. The company may become subject to professional malpractice liability claims, which could be costly and, therefore, could negatively affect their business
5. The inability to protect or use their intellectual property rights or comply with intellectual property rights of others may adversely affect their business and results of operations.
6. The company relies on their information technology systems and third-party platform for the operation of their business and any disruption to their systems and/or third-party platform could adversely affect their business and reputation and result in litigation.
7. Their insurance coverage may not be sufficient or may not adequately protect us against all material hazards, which may adversely affect their business, results of operations and financial condition.

\*For complete list of risk factors referring to the Red Herring Prospectus.

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