

**Rating: Subscribe For Listing Gains**

**Issue Offer**

Offer for sale of upto 35,688,064 Equity Shares

**Issue Summary**

Price Band (INR)	522-531
Face Value (INR)	1
Implied Market Cap (INR Cr)	5414
Market Lot	28
Issue Opens on	Sep 01, 2021
Issue Close on	Sep 03, 2021
No. of share pre-issue	10,19,65,926
No. of share post issue	10,19,65,926
Listing	NSE / BSE

**Issue Break-up (%)**

QIB Portion	50
NIB Portion	15
Retail Portion	35

**Book Running Lead Managers**

ICICI Securities, Edelweiss Financial  
Kotak Mahindra Capital

**Registrar**

KFin Technologies Pvt Ltd

**Shareholding Pattern**

	Pre-Issue	Post-Issue
Promoters	37.8%	32.78%
Promoters Group	22.0%	22.0%
Public	40.2%	45.22%

**Objects of the issue**

➤ To carry out the Offer for Sale of up to 35,688,064 equity Shares by the Selling Shareholder.

➤ Achieve the benefits of listing the Equity Shares on the Stock Exchange

Vijaya Diagnostic Centre Limited (“VDCL”) was incorporated on June 5, 2002. VDCL 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. VDCL 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; the National Capital Region and Kolkata.

**Key Highlights**

- VDCL 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. They currently offer 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 their Kolkata and Gurugram diagnostic centres.
- VDCL 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.
- As of June 30, 2021, VDCL has 2,325 full-time employees and regular consultants on retainer basis, including 74 lab doctors, 19 Physicians, 105 radiologists and 1,027 technical staff and phlebotomists
- In 2014, they acquired a majority stake in Medinova Diagnostic Services Ltd, which currently has an established hub in Kolkata, and successfully integrated it into their operational network.

**Outlook & Valuation:** At the upper band of INR 531, the issue is valued at P/E 64(x) its FY21 EPS of INR 8.26. We like the company as it is largest and fastest growing diagnostic chain with dominant position in South India, well positioned to leverage the high growth in Indian Diagnostics Industry and also provide one stop solution at affordable price, deepen footprint in the core market, supplement organic growth with selective acquisitions and expand in adjacent geographies and East India. Based on the above factors we recommend **SUBSCRIBE FOR LISTING GAINS** for the issue.

## Business Overview

Vijaya Diagnostic Centre Limited (“VDCL”) is the largest integrated diagnostic chain in southern India, by operating revenue, and also one of the fastest-growing diagnostic chains by revenue for fiscal year 2020. They offer a 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, the National Capital Region and Kolkata as on June 30, 2021. For the 3 months ended June 30, 2021 and the fiscal year 2021, they derived 95.91% and 96.20% of their revenue from operations from their core geographies, Hyderabad and rest of Telangana and Andhra Pradesh.

The combination of their strong brand position driven by their long operating history in their core geographies, extensive network and reputation for providing quality diagnostic services positions them well to continue to grow their business in Telangana and Andhra Pradesh markets and take advantage of the growth of the Indian diagnostic industry.

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. All of their 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 30 Jun 2021, their operational network consists of diagnostic centre network of:

- A flagship centre located in Hyderabad, which is their main ‘hub’ and equipped to conduct all of pathology specimens collection, basic and advanced radiology tests;
- 20 hub centres, which are equipped to conduct all of pathology specimens collection, basic radiology tests and certain advanced radiology tests; and
- 60 diagnostic centres, which are equipped to conduct a majority of pathology specimen collection and certain basic radiology tests; and a laboratory network of:
  - A national reference laboratory co-located with their flagship centre; and
  - 10 reference laboratories co-located with certain hub centres and diagnostic centres

Their diagnostic services are provided by a medical professional team consisting of 74 laboratory doctors, 19 physicians, 105 radiologists and 1,027 well-trained technical staff in their operational network, as of June 30, 2021 and all of their laboratories hold National Accreditation Board for Testing and Calibration Laboratories (“NABL”) and three of their diagnostic centres hold Patient Safety & Quality of Care (“NABH”) accreditations.

Company’s individual consumer business contributed to 93.06% and 92.09% of their revenue from operations for the 3 months ended June 30, 2021 and the fiscal year 2021, owing to the trust built over decades while rendering, over decades, quality diagnostic services and experience gained.

## Company Business operation

The company offers integrated diagnostic services to their customers through a network of diagnostic centres and reference laboratories across 13 cities and towns in the states of Telangana, Andhra Pradesh, the National Capital Region and Kolkata.

The geographical spread of the network of diagnostic centres and reference laboratories in Telangana and Andhra Pradesh, as of June 30, 2021:

City/Region	As of June 30,		As of March 31,					
	2021		2021		2020		2019	
	No. of Centres	Revenue (₹ Cr)	No. of Centres	Revenue (₹ Cr)	No. of Centres	Revenue (₹ Cr)	No. of Centres	Revenue (₹ Cr)
Hyderabad	64	100	63	304.19	58	289.69	46	249.09
Rest of Telangana and Andhra Pradesh	15	17.36	15	58.23	13	37.1	12	27.93
Others	2	5.02	2	14.33	2	12.04	3	15.57
Total	81	122.69	80	376.75	73	338.82	61	292.59

**Diagnostic Centres:** The details of the operational network:

Operational Facilities	As of June 30, 2021	As of March 31,		
		2021	2020	2019
Flagship Centre	1	1	1	1
Hub Centres	20	19	16	15
Diagnostic Centres/Spokes	60	60	56	45
Total	81	80	73	61

**Laboratory Network (co-located with the diagnostic centres):**

Operational Facilities	As of June 30, 2021	As of March 31,		
		2021	2020	2019
National Reference Laboratory	1	1	1	1
Reference Laboratories	10	10	10	10
Total	11	11	11	11

**Diagnostic Services:** VDCL provides one-stop solution of pathology radiology testing services through their operational network. As of June 30, 2021, they offer 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. The different types of testing services are Routine Testing, Specialized Testing, Basic Radiology Tests, Advanced Radiology Tests and Preventive and Wellness Services

## Key Strengths

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

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 FY20 (Source: CRISIL Report). They have 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.

According to the CRISIL Report, the Indian diagnostics market was valued at approximately Rs 710 bn to Rs 730 bn in FY21, and is projected to grow at CAGR of around 12% to 13% to reach approximately Rs 920 bn to Rs 980 bn by FY23 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. Further, according to the CRISIL Report, the diagnostics market in Telangana and Andhra Pradesh, the states in which Vijaya Diagnostic has a significant presence, is projected to grow to ~ Rs 120 bn to Rs 130 bn by FY23. The company believes that the combination of its strong brand position driven by its long operating history in core geographies, extensive operational network and its reputation for providing quality diagnostic services positions them well to continue to grow the scale of business in Telangana and Andhra Pradesh market and take advantage of growing Indian diagnostic market. In addition, they expect that they will be able to grow from potential acquisitions of standalone diagnostic centres and laboratories

### **Integrated Diagnostics Provider that Offers One-Stop Solution at affordable price:**

They offer a comprehensive range of approximately 1,610 pathology tests, which are organized 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.

Their 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, flow cytometry, 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.

They currently also offer 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 Kolkata and Gurugram diagnostic centres. Given their focus on the provision of integrated diagnostic services, they have provided 2.8 tests per customer on average in FY20, that is higher than other listed regional/multi-regional diagnostic chains, according to the CRISIL Report.

## Key Strengths

### **High brand recall and commitment to superior quality driving High individual consumer business share and customer stickiness**

Vijaya Diagnostic has built a trusted, high quality and reliable brand of choice over the last four decades. A substantial majority of its customers are individual consumers, with over 92.09% of revenue from operations for the FY21, being directly attributed to individual consumer business, as a result of its trusted and quality diagnostic services built over decades of experience. The company focuses on a customer centric approach to delivering best services that leads to high customer satisfaction and increasing customer stickiness. For convenience of customers, they provide value-added services such as home collection of specimens, house calls and various delivery and access modes (i.e., at diagnostic centres, SMS, email, web portal) to test reports. Their home collection service allows specimens to be collected from their customers' locations, such as their homes or offices, in nine cities in India, as of June 30, 2021. They believe their focus on the consumer and, together with what they believe is their brand's recognition for quality diagnostic services, results in higher brand recall in core geographies and enable 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**

Vijaya Diagnostic Centre's strong technical capability and ability to adopt to the latest technologies in the diagnostic industry allow them to provide high quality and reliable diagnostic services to their customers. As of June 30, 2021, their radiology testing operations are supported by radiology equipment including 15 CT machines, 18 MRI machines and five PET CT/Gamma machines, which they believe represent the leading technology used in the field, and a team of 105 radiologists across diagnostic centres. They believe that they were among the first diagnostic services providers in south India to offer PET-CT scan in 2008

Their front-end information technology system enables them to (i) achieve standardization across operations; (ii) reduce incidence of errors due to human intervention; (iii) monitor technical operations; (iv) closely track key performance metrics and maintain the turn-around time ("TAT"); (v) provide convenience to their 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)

## Key Strategies

**Deepen Footprint in the 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. They intend to deepen their penetration and increase customer base to consolidate leading position in the core markets by

- (i) expanding service network by opening additional diagnostic centres;
- (ii) enhancing laboratory capacity and test menu by adding latest technologies;
- (iii) increasing business from individual customers by offering a portfolio of additional services;
- (iv) physician engagement through medical awareness initiatives and meetings with medical practitioners;
- (v) increased focus on preventive and wellness offerings. They also plan to selectively explore franchisee opportunities with strong local entrepreneurs to augment own centres

**Leveraging on Existing Presence by Focusing on Setting up Spoke Centres & Increase Home Collection in Existing Catchment Areas:** The diagnostic market in India is under-penetrated relative to its potential demand. Company will continue to focus on expanding their network through setting up spokes and select hub centres in existing catchment areas. In addition, they would also be adding reference laboratories in the existing core geographies. In recent years, they have successfully used “hub and spoke” model to grow the business and the total number of spokes have grown from 45 as of April 1, 2019 to 60 as of June 30, 2021. In light of their success, they plan to set up additional diagnostic centres in Telangana and Andhra Pradesh. In addition, increasing competition has prompted industry players to adopt various techniques to differentiate themselves in terms of bandwidth, such as providing home pick-up and point-of-contact testing.

**Expand in Adjacent Geographies and East India:** They intend to establish their presence in adjacent geographies of Telangana and Andhra Pradesh and expand in concentric circles. They have identified key cities and towns that they believe are underserved, and where their brand is well-regarded. They expect that a wider geographic reach will expand their customer base as well as improve their profitability by allowing them to better leverage their infrastructure.

**Supplement Organic Growth with Selective Acquisitions:** They intend to supplement their organic growth with selective acquisitions of/strategic partnerships with brands with strong vintage and market position in adjacent markets. They 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 to, among others:

- increase their customer base to consolidate their position in core markets in which they currently operate;
- achieve operating leverage in core markets by unlocking potential efficiency and synergy benefits;
- strengthen or expand technological capabilities; and
- grow in new markets.

## Key Strategies

**Continue to Focus on Providing Customer Centric Services and Offerings:** Company plans to increase the breadth of the diagnostic services by offering additional preventive and wellness services and through, among other things, the adoption of new, cutting-edge diagnostic testing technology, as they believe this will expand their scope of diagnostic services and further enhance the reputation of their brand. For example, they intend 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. This would include additional development in the areas of genetics, molecular and oncology testing, as well as an expansion of their current chronic disease management and wellness programs. They also intend 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. Their 115 dedicated sales and marketing team will continue to promote their specialty tests and disease specific profiles and grow their corporate customer base by marketing their healthcare proposition to human resource departments and other corporate decision makers

## Key Risks

- Shortage of skilled manpower
- High cost of technical advancement
- Intense Competition
- Geographical concentration

## Peer Comparison

Company (in Cr.)	CMP	Revenue	EBITDA	EBITDA M (%)	PAT	D/E	Diluted EPS	RoE (%)	P/E
Vijaya Diagnostic Centre Ltd <sup>^</sup>	531	377	178	47%	85	0.01	8.3	24%	64
Metropolis Healthcare Ltd	2,793	998	288	28.9%	183	0.00	35.8	26.1%	78.0
Dr. Lab Pathlabs Ltd	3,965	1,581	436	27.6%	292	0.00	35.3	23.4%	112.5

Financials are as on FY21; <sup>^</sup> at upper price band

CMP as on 30-08-2021

## Management

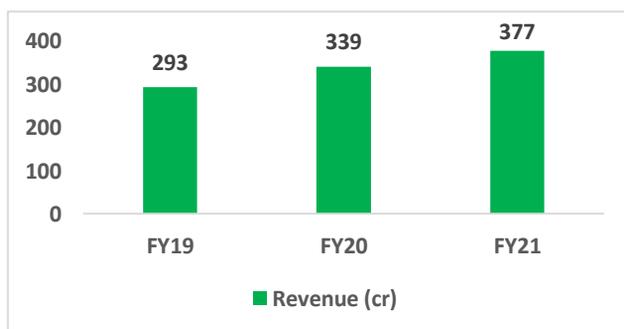
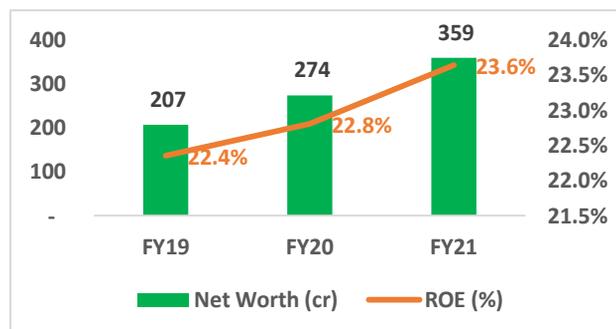
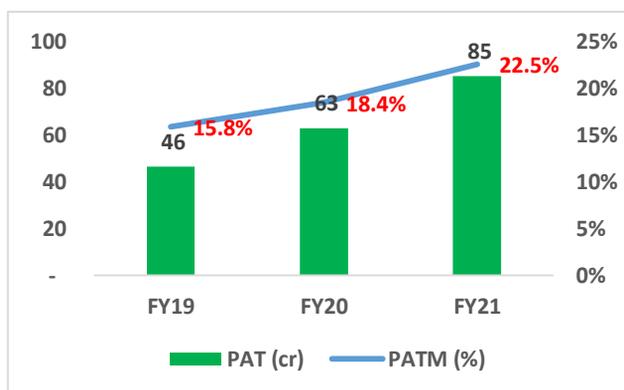
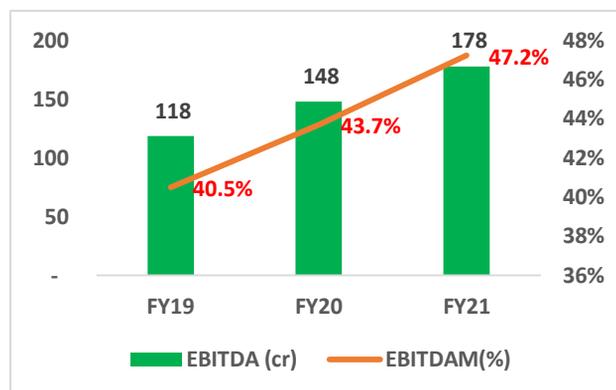
Key Person	Description
<b>Dr. S. Surendranath Reddy</b>	Dr. S. Surendranath Reddy is the Promoter and Executive Chairman of the company. He has over 19 years of experience with the company.
<b>Sunil Chandra Kondapally</b>	Sunil Chandra Kondapally is the Executive Director of the company. He has been associated with the company since incorporation. He has over 17 years of experience in the field of pharmaceutical industry
<b>Sura Suprita Reddy</b>	Sura Suprita Reddy is the CEO of the company. She has been associated with the company since its incorporation, she is heading the overall strategy, clinical excellence, operations, and expansion of the company

## Financial Performance

Particulars (in cr.)	FY19	FY20	FY21	As on 30-June-21
Revenue	293	339	377	123
EBITDA (cr)	118	148	178	60
EBITDAM(%)	40.5%	43.7%	47.2%	49.0%
PAT (cr)	46	63	85	33
PATM (%)	15.8%	18.4%	22.5%	27.2%
Basic EPS (as reported)	4.5	6.1	8.3	3.2
Diluted EPS	-24.1	-43.5	12.3	13.3
Net Worth (cr)	207	274	359	393
Total Debt	42	33	4	1
Total Assets	406	482	541	605
ROE (%)	22.4%	22.8%	23.6%	8.5%

Source: RHP, Arihant Capital Research

## Charts



Source: RHP, Arihant Capital Research

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Stock Rating Scale	Absolute Return
BUY	>20%
ACCUMULATE	12% to 20%
HOLD	5% to 12%
NEUTRAL	-5% to 5%
REDUCE	-5% to -12%
SELL	<-12%

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