

Vijaya Diagnostic Centre Ltd.

Healthcare | India

IPO | 30 August 2021

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Heathy Outlook & Steady Cash Generation Augur Well

About the Company

Vijaya Diagnostic Centre Ltd. (VDCL), incorporated in Jun'02, is the largest integrated diagnostic chain in southern India. The company VDCL offers a one-stop solution for pathology and radiology testing services to its customers through extensive operational network, which consists of 80 diagnostic centres and 11 reference laboratories across 13 cities/towns in Telangana, Andhra Pradesh, National Capital Region (NCR) and Kolkata. VDCL offers a comprehensive range of ~740 routine pathology tests, 870 specialized pathology tests, ~220 basic radiology tests and 320 advanced radiology tests that cover a range of specialties/disciplines. It provides value-added services such as home collection of specimens/samples, house calls and various delivery of test reports via different modes such as (diagnostic centres, SMS, email and web portal). The company has implemented a 'hub and spoke' model, whereby the specimens/samples are collected across multiple locations within a serviceable area/region for delivery to their reference laboratories for diagnostic services. As of June 30, 2021, VDCL has 2,325 full-time employees and regular consultants/retainers including 74 lab doctors, 19 physicians, 105 radiologists and 1,027 technical staff/phlebotomists.

Financials in Brief

VDCL's financial performance has been impressive over the two years. While its revenue clocked 13% CAGR over FY19-FY21, net profit recorded a robust 36% CAGR during the same period. Healthy earnings growth is primarily on account of sustained improvement in EBITDA margin, which improved from 37.1% in FY19 to 44% in FY21. Over the years, the company's cash flow generation has also been healthy supported by negative working capital cycle. VDCL generated cumulative OCF/FCF to the tune of ~Rs3.3bn/~Rs1.9bn over FY19-FY21, which is encouraging. As the company has consistently been paring down its debt level, its current gross debt level is negligible.

Our View: SUBSCRIBE

The IPO is valued at 64x of FY21 earnings, which appears to be at a discount of 15-40% compared to the valuation of its peers like Metropolis and Dr. Lal PathLab. However, considering its annualized earnings for FY22E, it is priced at 41x, which looks reasonable. We further believe lukewarm performance to Krsnaa Diagnostic post listing (IPO was valued at 16x of FY21 earnings), the investors should not expect strong any substantial listing gain. However, steady cash generation, superior balance sheet, decent return ratio and healthy outlook for healthcare industry in the country augur well for the company. **We recommend SUBSCRIBE to the IPO from long-term perspective.**

IPO Details

Pice Band	Rs522-531
Face Value (Rs)	1
Issue Open/Closing Date	1st / 3rd Sept'21
Fresh Issues (mn)	-
OFS (mn)	35.7
Total Issue (mn)	35.7
Minimum Bid Qty. (Nos)	28
Issue Size (Rs bn)	19.0
QIB / HNI / Retail	50% / 15% / 35%
Implied Market Cap (Rs bn)	54.1

Object of the Issue

- ▶ To achieve the benefits of listing

Key Risks

- ▶ Over dependence on public health agencies
- ▶ Regulatory interferences

Shareholding (%)	Pre-Issue	Post-Issue
Promoters	59.8	54.8
Public	40.2	45.2

Key Financials

(Rs bn)	FY19	FY20	FY21
Revenue	2.9	3.4	3.8
EBITDA	1.1	1.3	1.7
EBITDA Margin (%)	37.1	39.3	44.0
PAT	0.5	0.6	0.8
PAT Margin (%)	15.8	18.4	22.5
EPS (Rs)	4.5	6.1	8.3
P/E (x)	117.2	86.6	63.8
EV/EBITDA (x)	49.1	39.6	31.3
EV/Sales (x)	18.2	15.6	13.8
Net Worth	2.1	2.7	3.6
RoE (%)	22.3	22.8	23.6
OCF	0.9	1.1	1.3
OCF Yield (%)	1.7	2.0	2.4
FCF	0.3	0.6	1.0
Gross Debt	0.4	0.3	0.0
Net Debt/Equity (x)	(0.4)	(0.5)	(0.6)
Gross Block	2.2	2.4	2.7
Asset Turnover (x)	1.3	1.4	1.4
WCC (Days)	(13)	(12)	(13)

Source: RHP

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