

Vijaya Diagnostic Centre

BUY**Maintained****Rs386**

Non-covid patient footfall sturdy

Vijaya Diagnostic Centre's (Vijaya) Q4FY23 performance was driven by a steady 22.4% YoY growth in non-covid business, while covid business' contribution fell to 1% (15% in Q4FY22). Overheads of new centres impacted EBITDA margin to a small extent though, at 40.6% in Q4, it continues to be better than that of most of listed peers. Strong B2C franchise (95% of revenue in Q4FY23) and a dominant presence in radiology has helped the company command better margins. Traction in new centres at Tirupati and Rajamundhry, coupled with further expansion in the east (especially Kolkata), may drive medium- to long-term growth. Maintain BUY with a revised target price of Rs455/share (earlier: Rs435).

► **Business review:** Non-covid revenues were up 22.4% YoY (+7.4% QoQ) driven by both radiology and pathology segments. Radiology contribution improved to ~36% vs 31% in Q4FY22 (36% in Q3FY23). Covid revenues contributed just 1% in Q4FY23 vs 15%/1% in Q4FY22/Q3FY23. Wellness share in Q4FY23 was up at 13.4% against 8.4% in Q4FY22. Test volumes were up 10.6% YoY with healthy growth in non-covid and wellness segments. However, patient volumes declined 16.7% YoY due to decline in covid cases. Average realisation on tests was down 5.7% YoY and 1.5% QoQ while that on patients improved by 24.1% YoY and 2.7% QoQ. We expect 15% CAGR in patient volume over FY23-FY25E driven by the addition of new centres and increasing footfalls. Gross margin expanded 250bps YoY (-80bps QoQ) to 87.2% led by higher radiology contribution. EBITDA margin was down 60bps at 40.6% due to incremental expenses of new centres. PAT grew 15.8% YoY to Rs275mn due to change in depreciation accounting.

► **Concall highlights:** 1) **Guidance:** Revenue growth of 15% for FY24. Existing centres to contribute ~10-11% growth. ii) Maintain EBITDA margin of ~40% in FY24. iii) Expect EBITDA breakeven for Tirupati to be faster than Rajamundhry (took ~6 months) iv) Capex expenditure of Rs750mn-800mn for FY24. 2) **Pricing:** i) Price increases were taken in 40-50 tests for a few geographies (~0.8-1% of revenues). ii) No intention to raise prices across the test menu. iii) New centre to commercialize in North Kolkata in the next couple of months.

► **Outlook:** With higher contribution from radiology and B2C focus, Vijaya commands best-in-industry EBITDA margin, which we believe would continue and sustain above 40%. We expect a revenue CAGR of 16.3% over FY23-FY25E with EBITDA CAGR at 18.9%. Despite continuous expansion, we expect the company to generate free cashflow of ~Rs2.8bn over FY23-FY25E.

► **Valuation:** We raise our revenue estimates by ~1-2% over FY24E-FY25E to factor in the healthy growth in volumes and network expansion. We also increase our EPS estimates to account for the change in depreciation methodology from WDV to SLM. Retain **BUY** with a revised DCF-based target price of Rs455/share (earlier: Rs435). **Key downside risks:** Slowdown in growth in southern region, and regulatory hurdles.

Market Cap	Rs39.3bn/US\$476mn
Reuters/Bloomberg	VIJAYA IN
Shares Outstanding (mn)	102.1
52-week Range (Rs)	489/300
Free Float (%)	45.0
FII (%)	25.5
Daily Volume (USD/'000)	1,515
Absolute Return 3m (%)	2.1
Absolute Return 12m (%)	2.6
Sensex Return 3m (%)	7.2
Sensex Return 12m (%)	14.1

Year to Mar	FY22	FY23	FY24E	FY25E
Revenue (Rs mn)	4,624	4,592	5,351	6,215
Net Income (Rs mn)	1,097	846	1,095	1,381
EPS (Rs)	10.7	8.3	10.7	13.5
% Chg YoY	30.2	(22.8)	29.3	26.2
P/E (x)	35.9	46.6	36.0	28.5
CEPS (Rs)	15.9	14.3	16.6	20.0
EV/E (x)	19.0	21.6	17.9	14.4
Dividend Yield (%)	-	-	-	-
RoCE (%)	20.9	13.7	14.8	15.8
RoE (%)	26.5	16.7	18.3	19.1

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Q4FY23 result review;
Target price, and
earnings revision

Pharmaceuticals

Target price: Rs455

Earnings revision

(%)	FY24E	FY25E
Sales	1.4	2.4
EBITDA	0.9	3.1

Target price revision

Rs455 from Rs435

Shareholding pattern

	Sep '22	Dec '22	Mar '23
Promoters	55.0	55.0	55.0
Institutional investors	40.1	39.2	39.2
MFs and other	15.3	13.7	13.3
Insurance	0.4	0.5	0.4
FII	24.4	25.0	25.5
Others	4.2	5.8	5.8

Source: BSE India

ESG disclosure score

Year	2021	2022	Chg
ESG score	NA	NA	NA
Environment	NA	NA	NA
Social	NA	NA	NA
Governance	NA	NA	NA

Note - Score ranges from 0 - 100 with a higher score indicating higher ESG disclosures.
Source: Bloomberg, I-sec research

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Table 1: Q4FY23 performance*(Rs mn, year ending March 31)*

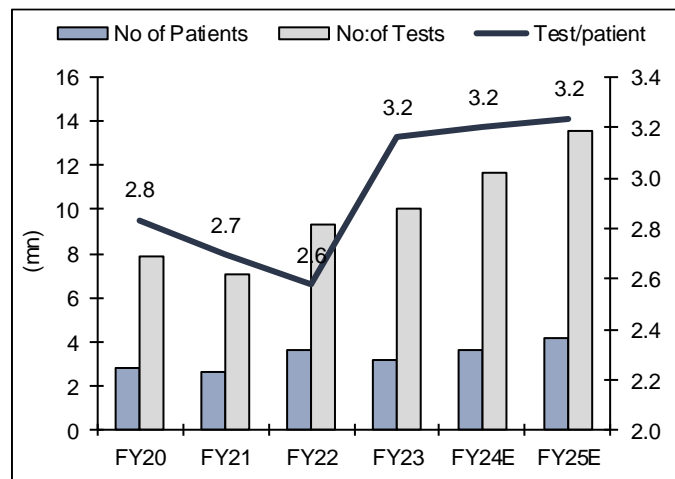
	Q4FY23	Q4FY22	YoY % Chg	Q3FY23	QoQ % Chg
Net Sales	1,210	1,162	4.1	1,131	7.0
Gross Profit	1,055	983	7.2	995	6.0
Gross margins (%)	87.2	84.6	250bps	87.9	(80bps)
EBITDA	491	479	2.6	443	10.9
EBITDA margins (%)	40.6	41.2	(60bps)	39.1	140bps
Other income	45	32	41.6	36	27.0
PBIDT	536	511	5.0	478	12.1
Depreciation	114	153	(25.7)	203	(44.0)
Interest	58	43	33.1	55	4.1
Extra ordinary income/ (exp.)	-	-		-	
PBT	365	315	16.1	220	65.8
Tax	88	75	16.2	56	57.7
Minority Interest	2	2	36.7	1	152.9
Reported PAT	275	237	15.8	164	68.0
Adjusted PAT	275	237	15.8	164	68.0

Source: Company data, I-Sec research

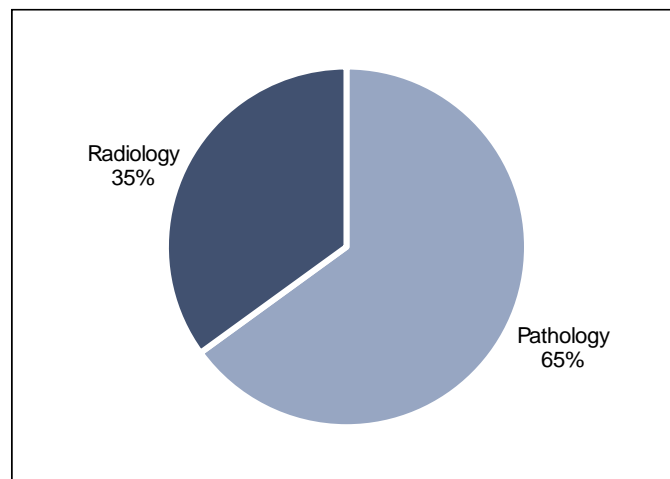
Table 2: Metrics overview

	Q1FY22	Q2FY22	Q3FY22	Q4FY22	Q1FY23	Q2FY23	Q3FY23	Q4FY23	YoY % Chg	QoQ % Chg
No of tests (mn)	2.2	2.4	2.3	2.5	2.2	2.6	2.5	2.7	10.6	8.8
No of Patient/Footfall (mn)	0.9	0.9	0.9	1.0	0.8	0.9	0.8	0.8	(16.7)	3.9
Rev per test	562	477	477.5	474	469.0	459	454	447	(5.7)	(1.5)
Rev per patient	1,299	1,295	1,303.0	1,212	1,395.0	1418	1,464	1,504	24.1	2.7

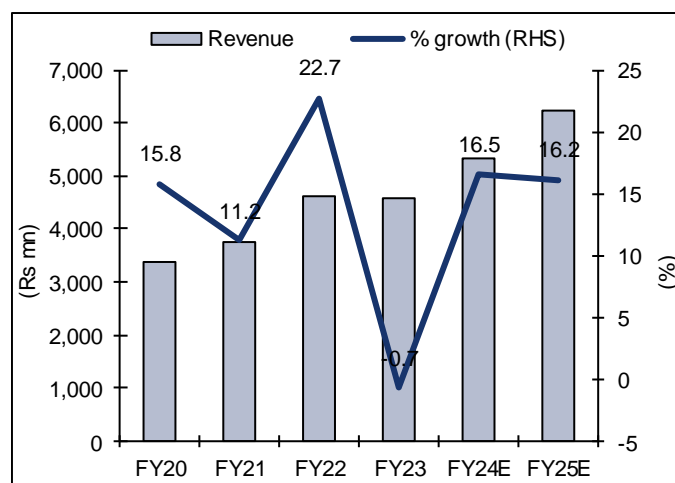
Source: Company data, I-Sec research

Chart 1: Consistent volume growth in patients and tests

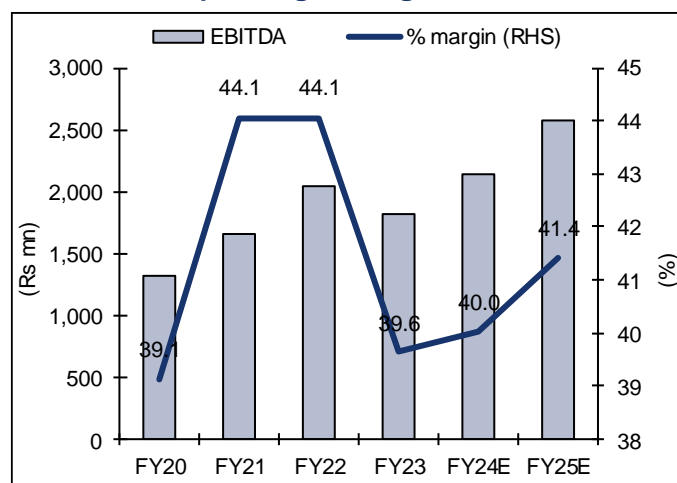
Source: Company data, I-Sec research.

Chart 2: Pathology vs radiology split (FY23)

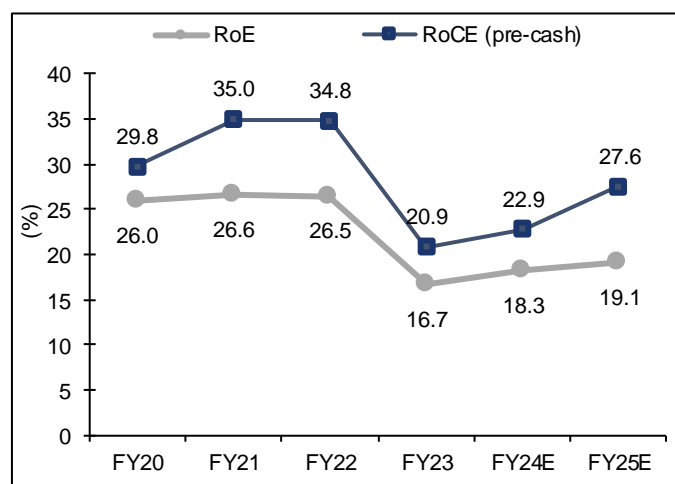
Source: Company data, I-Sec research.

Chart 2: Revenue CAGR likely at 16.3% over FY23-FY25E

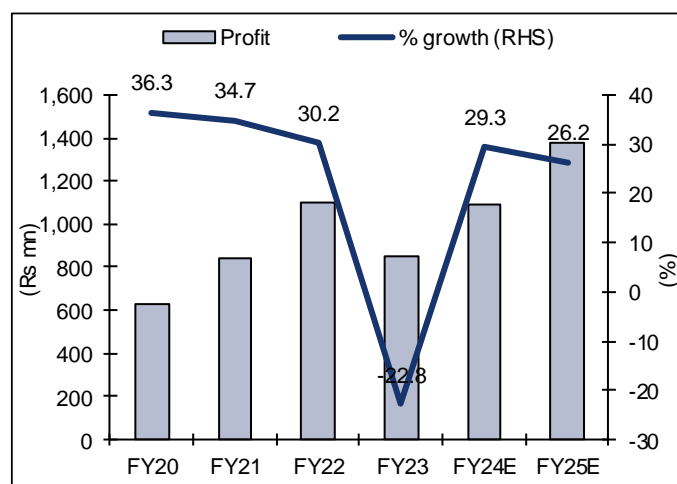
Source: Company data, I-Sec research

Chart 3: EBITDA margin to improve 180bps to ~41% due to operating leverage

Source: Company data, I-Sec research

Chart 4: Vijaya to maintain superior RoCE

Source: Company data, I-Sec research

Chart 5: Net profit CAGR expected at 27.8% over FY23-FY25E

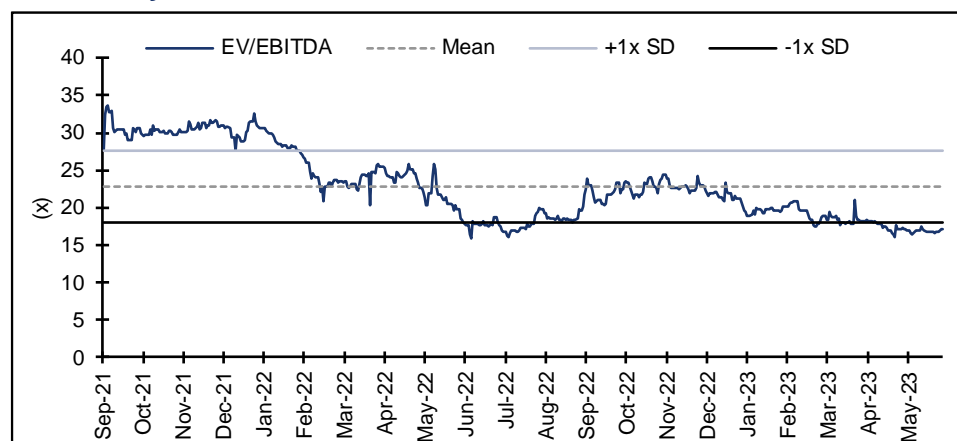
Source: Company data, I-Sec research

Valuations

We expect revenues to grow 16.3% over FY23-FY25E mainly due to addition of new centres and increasing footfalls; however, realisation in the near term is likely to be under pressure mainly due to incremental competition. We expect EBITDA CAGR of 18.9% over FY23-FY25E with 180bps improvement in margins due to operating leverage. Despite continuous expansion, the company is likely to generate free cashflow of ~Rs2.8bn over FY23-FY25E. Further, we expect RoCE to remain at ~16% (RoIC at ~28%) despite continued deeper network expansion in key geographies. Company's dominant position in south India, B2C focus, strong brand equity in the organised diagnostics market and continuing financial growth across parameters, are likely to help command premium valuations, in our view.

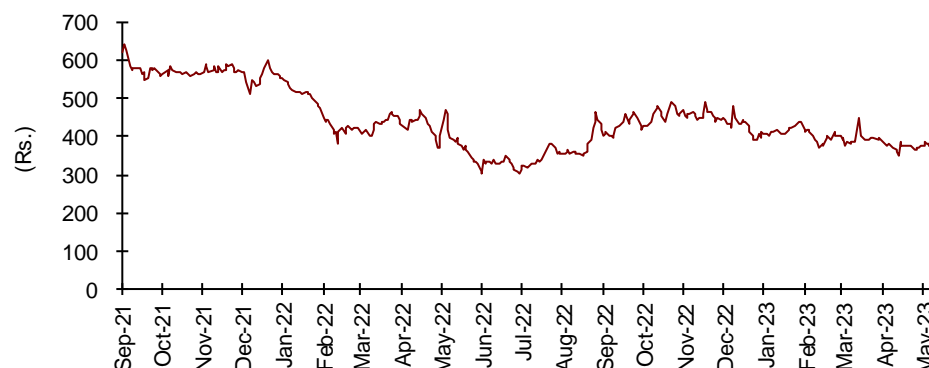
The stock currently trades at valuations of 36x FY24E and 28.5x FY25E earnings and EV/EBITDA multiple of 17.9x FY23E and 14.4x FY24E. We remain positive on Vijaya, given its dominant position in south India, B2C focus with continuous deeper network expansion in its dominant geographies, along with supportive macro factors and expectations of a faster shift of the market toward organised players. Maintain **BUY** with a revised DCF-based target price of Rs455/share (earlier: Rs435), implying 33.6x FY25E EPS and 17.1x FY25E EV/EBITDA.

Chart 6: 1-year forward EV/EBITDA



Source: Company data, I-Sec research

Price chart



Source: Bloomberg

Financial summary (consolidated)

Table 3: Profit & Loss statement

(Rs mn, year ending March 31)

	FY22	FY23	FY24E	FY25E
Total Net Revenue	4,624	4,592	5,351	6,215
YoY Growth%	22.7	(0.7)	16.5	16.2
Total Op. Exp.	2,587	2,772	3,209	3,641
EBITDA	2,037	1,820	2,141	2,574
Margins %	44.1	39.6	40.0	41.4
YoY Growth%	22.7	(10.6)	17.6	20.2
Depreciation & Amortization	527	617	596	660
EBIT	1,510	1,203	1,546	1,914
Other Income	128	142	156	171
Interest	165	209	230	230
EO Items	-	-	-	-
PBT	1,474	1,135	1,471	1,855
Tax	367	283	371	467
Tax Rate (%)	24.9	24.9	25.2	25.2
Minority Interest	10	6	6	6
Reported PAT	1,097	846	1,095	1,381
Adj PAT	1,097	846	1,095	1,381
Net Margins (%)	23.7	18.4	20.5	22.2

Source: Company data, I-Sec research

Table 4: Balance sheet

(Rs mn, year ending March 31)

	FY22	FY23	FY24E	FY25E
Paid up Capital	102	102	102	102
Reserves & Surplus	4,580	5,345	6,440	7,821
Total Equity	4,682	5,447	6,542	7,923
Minority Interest	13	19	25	31
Total Debt	1,835	2,476	2,476	2,476
Deferred Liabilities	(89)	(82)	(82)	(82)
Capital Employed	6,441	7,859	8,960	10,347
Current Liabilities & Prov	605	592	687	789
Total Liabilities	7,046	8,452	9,647	11,136
Net Fixed Assets	4,046	5,516	5,721	5,810
Investments	0	0	0	0
Inventory	43	20	25	29
Debtors	98	95	111	128
Other Current Assets	393	265	280	296
Cash and Equivalents	2,466	2,554	3,511	4,872
Total Cur. Assets	2,999	2,935	3,926	5,325
Total Assets	7,046	8,452	9,647	11,136

Source: Company data, I-Sec research

Table 5: Cashflow statement

(Rs mn, year ending March 31)

	FY22	FY23	FY24E	FY25E
PBT	1,474	1,135	1,471	1,855
Depreciation	527	617	596	660
Net Chg in WC	(50)	93	23	22
Taxes	(399)	(262)	(371)	(467)
Others	29	64	267	272
CFO	1,580	1,646	1,987	2,342
Capex	(1,209)	(1,246)	(800)	(750)
Net Investments made	(127)	86	-	-
Others	106	64	-	-
CFI	(1,231)	(1,096)	(800)	(750)
Change in Share capital	-	12	-	-
Change in Debts	(286)	(328)	-	-
Div. & Div Tax	-	(102)	-	-
Others	(83)	(891)	(230)	(230)
CFF	(368)	(1,310)	(230)	(230)
Total Cash Generated	(19)	(759)	956	1,361
Cash Opening Balance	1,942	1,924	1,164	2,121
Cash Closing Balance	1,924	1,164	2,121	3,482

Source: Company data, I-Sec research

Table 6: Key ratios

(Year ending March 31)

	FY22	FY23	FY24E	FY25E
Adj EPS	10.7	8.3	10.7	13.5
YoY Growth%	30.2	(22.8)	29.3	26.2
Cash EPS	15.9	14.3	16.6	20.0
EBITDA (%)	44.1	39.6	40.0	41.4
NPM (%)	23.7	18.4	20.5	22.2
Net Debt to Equity (x)	(0.1)	(0.0)	(0.2)	(0.3)
P/E (x)	35.9	46.6	36.0	28.5
EV/EBITDA (x)	19.0	21.6	17.9	14.4
P/BV (x)	8.4	7.2	6.0	5.0
EV/Sales (x)	8.4	8.6	7.2	6.0
ROCE (%)	20.9	13.7	14.8	15.8
ROE (%)	26.5	16.7	18.3	19.1
ROIC (%)	34.8	20.9	22.9	27.6
Book Value (Rs)	45.9	53.4	64.1	77.6
DPS (Rs)	-	1.0	-	-
Dividend Payout (%)	-	12.1	-	-
Div Yield (%)	-	-	-	-
F.Asset Turnover Ratio	1.4	1.0	1.0	1.1
Avg Collection days	6	8	7	7
Avg Inventory days	3	3	2	2

Source: Company data, I-Sec research

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