

Feb 28, 2024

Company Report | Sector: Healthcare

Vijaya Diagnostics

Takeaways from PH Diagnostics lab visit

We visited PH Diagnostics (Vijaya subsidiary) facilities in Pune and share the key highlights in this note. Purpose of the visit was to observe the qualitative nature of the business, radiology equipment and assess the positioning vis-à-vis reference labs of the some of the competitors. We also had a conversation with PH founder Dr Hemant Dhoka to gather insights about Pune market, key growth drivers and expansion plans. PH houses high quality 3T and 1.5T MRI machines though 32 slice CTs are relatively basic in nature. Operating 1 spoke and 2 hubs (newest one commissioned in 2016), PH handles about 18k footfalls in a month, or ~6% of Vijaya's annual ~3.4mn patients. Patient realization is at a premium to Vijaya due to 45% radiology share vs 35% for Vijaya. In the near term, Dr Dhoka would run the company as long as Vijaya intends to although the roadmap beyond PH would not be clear at this juncture. Competitively, PH is one of the largest integrated players in Pune with a high market share; nearest competition is from Star Imaging which is largely a radiology play. Post visit we continue with assessment of a growth trajectory that is unlikely to accelerate at Vijaya with margin in a narrow range. Lower rating to Reduce from Neutral earlier in lieu of modest downside.

Equipment like 3T MRI give PH good hold on quality

PH Diagnostics has installed 1.5T and 3T MRI along with 32 slice CT machines which give it a good hold over quality and a head start compared to most of the competition. Another positive is that PH uses brand new equipment and not refurbished ones which conveys assurance to medical fraternity about the quality of reports. The 3 centres we visited get combined patient footfall of ~18k in a month and account for bulk of the Rs420mn annual revenues. Given the size of hub, break even typically happens at 60-70 patients per day

PH founder to drive business in the near term

Dr Hemant Dhoka, the first generation promoter of PH, intends to run the business at least till Vijaya is comfortable with such an arrangement. He has built the business since 2000 and is very optimistic on demand as Pune is expanding on all fronts not too different from how Hyderabad is evolving. PH is looking to set up 2-3 hubs and 10 spokes over next 1-2 years including in new areas like Baner. PH has built impressive inhouse capabilities as less than 2% of pathology tests are required to outsourced to other labs. Like Vijaya, PH has a largely B2C business and expected so as Pune does not have large corporate hospitals leading to lower B2B business.

PH acquisition gives a foot hold into non AP/Telangana market; scale up efforts under way

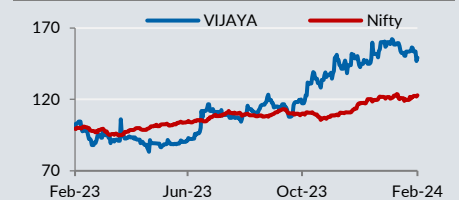
PH acquisition has given Vijaya a like-minded integrated player with similar margin and brand positioning in local market. With strong focus on expansion, reckon PH can do 2x-3x revenues in 4-5 years on back of Vijaya's know how in scaling up existing locations. So far the outcome of Vijaya's expansion outside Hyderabad has not matured (primarily Kolkata) with Pune also added to the list. We believe, based on our visit experience, over the next one year efforts would be under way to open hubs quickly in Pune to capitalize on strong brand equity. Overall, reckon Vijaya is set for mid-teens growth combined with narrow margin range in next 12-15 months which may not be enough for optimism at current valuation of ~38x FY26 PE. Lower stance to Reduce as valuations have tad shifted away from our comfort zone.

| | |
|------------------|-----------------|
| Reco | : REDUCE |
| CMP | : Rs 657 |
| Target Price | : Rs 610 |
| Potential Return | : -7.6% |

Stock data (as on February 28, 2024)

| | |
|-------------------------|-------------|
| Nifty | 21,929 |
| 52 Week h/l (Rs) | 699 / 349 |
| Market cap (Rs/USD mn) | 63447 / 764 |
| Outstanding Shares (mn) | 102 |
| 6m Avg t/o (Rs mn): | 153 |
| Div yield (%): | 0.2 |
| Bloomberg code: | VIJAYA IN |
| NSE code: | VIJAYA |

Stock performance



| | 1M | 3M | 1Y |
|-----------------|------|------|-------|
| Absolute return | 1.8% | 6.1% | 57.8% |

Shareholding pattern (As of Sep'23 end)

| | |
|----------|-------|
| Promoter | 66.2% |
| FII+DII | 25.6% |
| Others | 8.2% |

Δ in stance

| (1-Yr) | New | Old |
|--------------|--------|---------|
| Rating | REDUCE | NEUTRAL |
| Target Price | 610 | 610 |

Δ in earnings estimates

| | FY24e | FY25e | FY26e |
|-----------|-------|-------|-------|
| EPS (New) | 11.3 | 15.2 | 17.3 |
| EPS (Old) | 11.3 | 15.2 | 17.3 |
| % change | - | - | - |

Financial Summary

| (Rs mn) | FY24E | FY25E | FY26E |
|-------------|-------|-------|-------|
| Net Revenue | 5,408 | 6,466 | 7,312 |
| YoY Growth | 17.8 | 19.6 | 13.1 |
| EBIDTA | 2,182 | 2,718 | 3,039 |
| YoY Growth | 19.9 | 24.5 | 11.8 |
| PAT | 1,152 | 1,547 | 1,768 |
| YoY Growth | 36.1 | 34.4 | 14.3 |
| ROE | 19.3 | 21.5 | 20.3 |
| EPS | 11.3 | 15.2 | 17.3 |
| P/E | 58.2 | 43.3 | 37.9 |
| P/B | 63.5 | 77.5 | 93.7 |
| EV/EBITDA | 30.3 | 23.9 | 20.8 |

BHAVESH GANDHI

Lead Analyst

bhaves.gandhi@ysil.in



Highlights of interaction with PH Diagnostics founder Dr Dhoka

- Looking to accelerate hub and spoke openings over next 1-2 years which would not have been feasible without additional funding
- Post transaction with Vijaya, capital and execution advantages would help in quick roll out of centres
- Within the family, Dr Dhoka is the one with a healthcare background and so possibility of promoting similar business by other family members is least likely
- Would continue as long as Vijaya intends to retain; not thinking about any other venture other than running PH in present form
- Pune market is expanding fast like Hyderabad and need to scale up presence across new areas like Baner
- Most of the expansion and indeed capital has been invested in last 7-8 years on hub (Mayur Colony) and Spoke (Chinchwad)
- Pune market does not have many large corporate hospitals like Hyderabad which restricts the flow of B2B samples into diagnostic players. Hence focus is on building B2C branded presence
- Most radiologists are not on payroll and backups exists which is a similar practice followed at Vijaya and other healthcare companies
- In the pathology business, very little volumes (<2%) are given out to other labs which signifies broad processing capabilities
- Split between specialty and routine tests would be similar to that of Vijaya
- Equipment vendors are from the usual names of Siemens, United in radiology
- In competitive scenario, Dr Golwilkars started AG (after non-compete with Metropolis was over) which is now Neuberg Golwilkars
- Star Imaging is the nearest competitor, but it has 90% radiology business. It has a central lab and host of collection centres.
- Branding would retain PH name as that is where the familiarity with the patient resides
- Would have invested cumulative Rs500-550mn in business bulk of which would have come in last 6-7 years.
- PH pricing is competitive vs other players and also centres open early in the morning at 6.30am compared to competition which typically opens at 7.30am-8am.

FINANCIALS

Exhibit 1: Balance sheet

| Y/e 31 Mar (Rs mn) | FY22 | FY23 | FY24E | FY25E | FY26E |
|--------------------------|--------------|--------------|--------------|---------------|---------------|
| Equity capital | 102 | 102 | 102 | 102 | 102 |
| Reserves | 4,580 | 5,345 | 6,377 | 7,805 | 9,454 |
| Net worth | 4,682 | 5,447 | 6,479 | 7,907 | 9,556 |
| Debt | 1,778 | 2,406 | 2,406 | 2,406 | 2,406 |
| MI | 13 | 19 | 19 | 19 | 19 |
| Deferred tax liab (net) | 0 | 0 | 0 | 0 | 0 |
| Total liabilities | 6,473 | 7,872 | 8,905 | 10,332 | 11,981 |
| Fixed Asset | 4,046 | 5,516 | 5,727 | 5,882 | 5,981 |
| Investments | 301 | 178 | 178 | 178 | 178 |
| Net Working Capital | 2,038 | 2,095 | 2,916 | 4,189 | 5,740 |
| Inventories | 43 | 20 | 50 | 60 | 68 |
| Sundry debtors | 98 | 95 | 114 | 137 | 155 |
| Cash | 2,466 | 2,554 | 3,215 | 4,518 | 6,093 |
| Other current assets | 92 | 87 | 108 | 129 | 146 |
| Sundry creditors | (216) | (277) | (253) | (303) | (342) |
| Other CL | (445) | (385) | (318) | (352) | (379) |
| Def tax assets | 89 | 82 | 82 | 82 | 82 |
| Total Assets | 6,473 | 7,872 | 8,905 | 10,332 | 11,981 |

Exhibit 2: Income statement

| Y/e 31 Mar (Rs mn) | FY22 | FY23 | FY24E | FY25E | FY26E |
|--------------------|-------|-------|-------|-------|-------|
| Revenue | 4,624 | 4,592 | 5,408 | 6,466 | 7,312 |
| Operating profit | 2,037 | 1,820 | 2,182 | 2,718 | 3,039 |
| Depreciation | (527) | (617) | (589) | (645) | (701) |
| Interest expense | (165) | (209) | (230) | (230) | (230) |
| Other income | 128 | 142 | 200 | 220 | 250 |
| Profit before tax | 1,474 | 1,135 | 1,563 | 2,063 | 2,358 |
| Taxes | (367) | (283) | (391) | (516) | (589) |
| Adj. profit | 1,107 | 852 | 1,173 | 1,547 | 1,768 |
| MI | (10) | (6) | - | - | - |
| Net profit | 1,097 | 846 | 1,173 | 1,547 | 1,768 |

Exhibit 3: Cash flow statement

| Y/e 31 Mar (Rs mn) | FY22 | FY23 | FY24E | FY25E | FY26E |
|-------------------------|---------|---------|-------|-------|-------|
| Profit before tax | 1,474 | 1,135 | 1,563 | 2,063 | 2,358 |
| Depreciation | 527 | 617 | 589 | 645 | 701 |
| Def tax assets (net) | (28) | 6 | - | - | - |
| Tax paid | (367) | (283) | (391) | (516) | (589) |
| Working capital Δ | 161 | 31 | (160) | 30 | 24 |
| Other operating items | (10) | (6) | - | - | - |
| Operating cashflow | 1,757 | 1,501 | 1,602 | 2,222 | 2,494 |
| Capital expenditure | (1,801) | (2,087) | (800) | (800) | (800) |
| Free cash flow | (44) | (587) | 802 | 1,422 | 1,694 |
| Equity raised | 112 | 38 | (21) | - | - |
| MI | 11 | 6 | - | - | - |
| Investments | (111) | 122 | - | - | - |
| Debt financing/disposal | 401 | 628 | - | - | - |
| Dividends paid | (119) | (119) | (119) | (119) | (119) |
| Net Δ in cash | 249 | 88 | 661 | 1,303 | 1,574 |

Exhibit 4: Du Pont Analysis

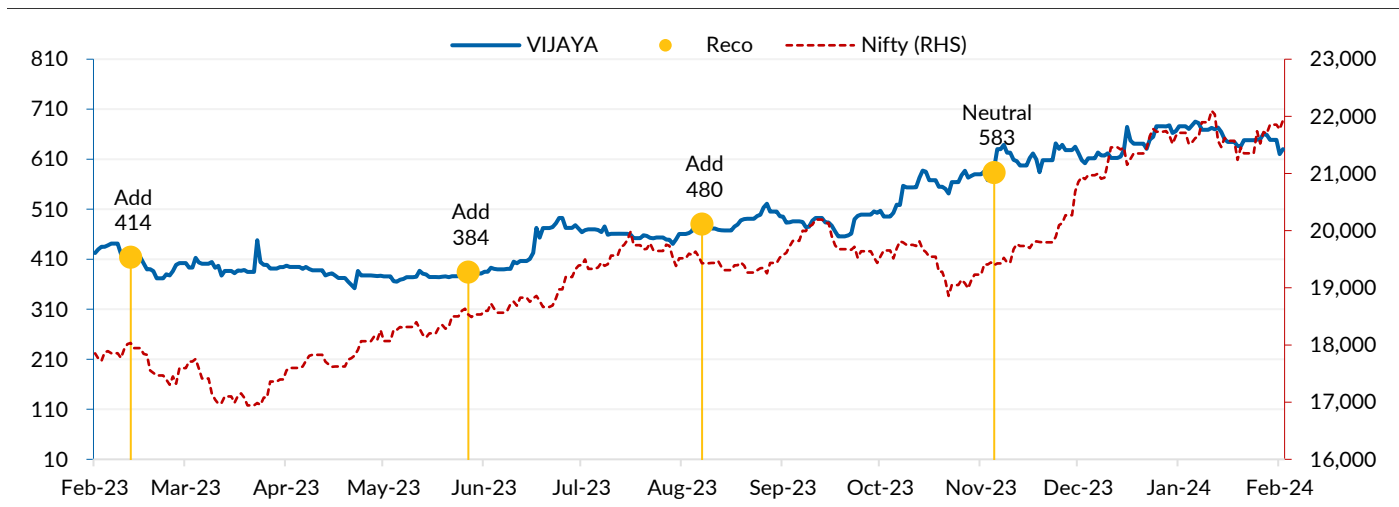
| Y/e 31 Mar (Rs mn) | FY22 | FY23 | FY24E | FY25E | FY26E |
|------------------------|------|------|-------|-------|-------|
| Tax burden (x) | 0.75 | 0.75 | 0.75 | 0.75 | 0.75 |
| Interest burden (x) | 0.90 | 0.84 | 0.87 | 0.90 | 0.91 |
| EBIT margin (x) | 0.35 | 0.29 | 0.33 | 0.35 | 0.35 |
| Asset turnover (x) | 0.75 | 0.59 | 0.61 | 0.64 | 0.62 |
| Financial leverage (x) | 1.50 | 1.53 | 1.50 | 1.41 | 1.35 |
| RoE (%) | 26.8 | 16.8 | 19.7 | 21.5 | 20.3 |

Exhibit 5: Ratio analysis

| Y/e 31 Mar | FY22 | FY23 | FY24E | FY25E | FY26E |
|---------------------------------|------|--------|-------|-------|-------|
| Growth matrix (%) | | | | | |
| Revenue growth | 22.7 | (0.7) | 17.8 | 19.6 | 13.1 |
| Op profit growth | 22.7 | (10.6) | 19.9 | 24.5 | 11.8 |
| EBIT growth | 28.6 | (17.9) | 33.4 | 27.9 | 12.9 |
| Net profit growth | 29.2 | (22.8) | 38.5 | 31.9 | 14.3 |
| Profitability ratios (%) | | | | | |
| OPM | 44.1 | 39.6 | 40.4 | 42.0 | 41.6 |
| EBIT margin | 35.4 | 29.3 | 33.2 | 35.5 | 35.4 |
| Net profit margin | 23.9 | 18.6 | 21.7 | 23.9 | 24.2 |
| RoCE | 28.6 | 18.7 | 21.4 | 23.8 | 23.2 |

| Y/e 31 Mar | FY22 | FY23 | FY24E | FY25E | FY26E |
|-------------------------|------|------|-------|-------|-------|
| RoNW | 26.8 | 16.8 | 19.7 | 21.5 | 20.3 |
| RoA | 17.9 | 11.0 | 13.1 | 15.2 | 15.0 |
| Per share ratios | | | | | |
| EPS | 10.8 | 8.3 | 11.3 | 15.2 | 17.3 |
| Dividend per share | 1.0 | 1.0 | 1.0 | 1.0 | 1.0 |
| Cash EPS | 16.0 | 14.4 | 17.3 | 21.5 | 24.2 |
| Book value per share | 45.9 | 53.4 | 63.5 | 77.5 | 93.7 |
| Valuation ratios | | | | | |
| P/E | 61.1 | 79.2 | 58.2 | 43.3 | 37.9 |
| P/CEPS | 14.3 | 12.3 | 10.3 | 8.5 | 7.0 |
| P/B | 14.5 | 14.6 | 12.4 | 10.4 | 9.2 |
| EV/EBIDTA | 32.6 | 36.7 | 30.3 | 23.9 | 20.8 |
| | 61.1 | 79.2 | 58.2 | 43.3 | 37.9 |
| Payout (%) | | | | | |
| Dividend payout | 24.9 | 24.9 | 25.0 | 25.0 | 25.0 |
| Tax payout | 10.9 | 14.1 | 10.2 | 7.7 | 6.7 |
| Liquidity ratios | | | | | |
| Debtor days | 8 | 8 | 8 | 8 | 8 |
| Inventory days | 3 | 2 | 3 | 3 | 3 |
| Creditor days | 17 | 22 | 17 | 17 | 17 |

Recommendation Tracker



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Registered Address: 2nd Floor, North Side, YES BANK House,
Off Western Express Highway, Santacruz East,
Mumbai - 400 055, Maharashtra, India.

Correspondence Address: 7th Floor, Urmi Estate Tower A, Ganpatrao
Kadam Marg, Opp. Peninsula Business Park, Lower Parel (West),
Mumbai - 400 013, Maharashtra, India.

✉ research@ysil.in | Website: www.yesinvest.in

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Details of Compliance Officer: Name: Aditya Goenka,
Email id: compliance@ysil.in, **Contact No:** 022- 65078127 (Extn: 718127)

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