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Q3FY22 result review
and earnings revision

Pharmaceuticals

Target price: Rs700

Earnings revision

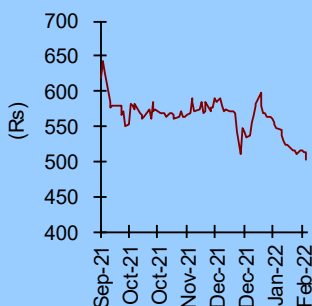
(%)	FY23E	FY24E
Sales	(0.6)	(0.6)
EPS	1.7	1.5

Shareholding pattern

	Jun '21	Sep '21	Dec '21
Promoters	54.8	54.8	54.8
Institutional investors	30.9	39.3	41.3
MFs and other	6.9	14.1	13.3
Insurance	1.1	0.8	0.4
FIs	11.7	24.4	27.6
Others	14.3	6.0	3.9

Source: BSE India

Price chart



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Vijaya Diagnostic Centre

BUY

Maintained

Rs493

Beats estimates; volume recovery drives Q3

Vijaya Diagnostic Centre's (Vijaya) Q3FY22 performance exceeded our expectation, mainly due to better-than-expected covid revenues and margins. Revenues grew 10.9% YoY to Rs1.1bn (I-Sec: Rs855mn), driven mainly by a strong recovery in non-covid volumes. Revenue from covid tests fell 20.4% QoQ to Rs86mn (I-Sec: Rs28mn) with a drop in the number of cases and realization, while non-covid revenue grew 19.5% YoY to Rs1.0bn (I-Sec: Rs855mn) due to a strong recovery in volumes. EBITDA margin shrunk 330bps YoY to 43.2%, though it was more than our estimate of 41.8%. Adj. PAT grew 2.3% to Rs253mn, in line with the operational performance. We remain positive on the stock mainly due to the company's: 1) B2C focus, 2) highest margin within the industry and 3) continuous focus on deeper expansion in its dominant regions. These strengths synergise with supportive macro factors, including the likelihood of a faster shift of market to organised players. Further expansion in east, especially Kolkata, may drive medium- to long-term growth. **Maintain BUY.**

- **Business review:** Revenues grew 10.9% YoY in Q3FY22, driven by a continuous recovery in base business aided by an improvement in volumes, partly offset by a decline in covid revenues. Overall, test volumes improved 21.5% YoY, while realisation fell to 8.8%. Realisation on non-covid remained flat YoY at Rs472-474/per test. Revenues from covid tests declined 20.4% QoQ to Rs86mn with a drop in cases and realisation. We expect non-covid volumes to continue improving in the coming quarters. Overall, we expect 30% YoY volume growth in FY22E on the low base of FY21 with a decline in realisation to 6.4% mainly due to a fall in covid realisation. Gross margin contracted 220bps YoY to 16.2%, mainly due to lower non-covid realisation. EBITDA margin shrunk 330bps YoY to 43.2%, largely as a result of lower growth in gross margins and higher other expenditure. B2C contribution in Q3FY22 and 9MFY22 stood at 95% and 94% respectively.
- **Key concall highlights:** 1) Reiterated intent to add 14-15 centres every year, including 11 spokes and 3-4 hubs. 2) Cash and equivalents stood at Rs2.5bn as of 9MFY22. 3) Started nine centres in 9MFY22 and plans to add six more in Q4FY22. 4) Guided for 15% YoY growth in FY23 revenues with more than 40% margins. 5) Guided for capex of Rs800mn for FY23 for opening of new centres and Rs40mn-50mn for digitalisation.
- **Outlook:** With a higher contribution from radiology and a B2C focus, Vijaya commands best-in-industry EBITDA margin, which we believe would likely continue and sustain at ~42-43% in the near-to-medium term. We expect revenues to grow at 15.1% CAGR with EBITDA/PAT CAGR of 13.7%/13.3% over FY21-FY24E. Despite continuous expansion, the company is likely to generate free cashflow of ~Rs3bn over FY21-FY24E. We expect RoIC to improve to 40.8% by FY24E from 35% in FY21.
- **Valuation:** We increase our earnings estimates by ~1.5% for both FY23E and FY24E mainly due to a change in our margin estimates. The stock currently trades at 50.4x FY23E and 41.3x FY24E earnings, and 22.9x FY23E and 19.2x FY24E EV/EBITDA. Retain **BUY** with an unchanged DCF-based TP of Rs700/share. Key downside risks: Slowdown in growth in southern region, and regulatory hurdles.

Market Cap	Rs504bn/US\$675mn
Bloomberg	VIJAYA IN
Shares Outstanding (mn)	102.0
52-week Range (Rs)	644/494
Free Float (%)	45.2
FII (%)	27.6
Daily Volume (USD/'000)	NA
Absolute Return 3m (%)	(11.7)
Absolute Return 12m (%)	NA
Sensex Return 3m (%)	(4.0)
Sensex Return 12m (%)	14.8

Year to Mar	FY21	FY22E	FY23E	FY24E
Revenue (Rs mn)	3,767	4,585	4,958	5,749
Net Income (Rs mn)	843	1,114	1,004	1,227
EPS (Rs)	8.3	10.9	9.8	12.0
% Chg YoY	34.7	32.2	(9.8)	22.2
P/E (x)	60.1	45.4	50.4	41.3
CEPS (Rs)	13.2	15.9	17.1	19.8
EV/E (x)	30.0	24.1	22.9	19.2
Dividend Yield (%)	-	-	-	-
RoCE (%)	20.3	21.9	16.7	17.1
RoE (%)	26.6	26.9	19.3	19.4

Table 1: Q3FY22 performance*(Rs mn, year ending March 31)*

	Q3FY22	Q3FY21	YoY % Chg	Q2FY22	QoQ % Chg
Net sales	1,108	999	10.9	1,127	(1.7)
EBITDA	478	464	3.0	511	(6.5)
Other income	32	30	7.0	32	1.5
PBITD	510	494	3.3	543	(6.0)
Depreciation	130	125	4.0	125	4.2
Interest	42	36	16.0	39	6.1
Extra ordinary income/ (exp.)	-	-		-	
PBT	338	333	1.6	379	(10.7)
Tax	84	83	1.5	99	(15.2)
Minority interest	2	3	(45.4)	3	(38.8)
Reported PAT	253	247	2.3	277	(8.8)
Adjusted PAT	253	247	2.3	277	(8.8)
EBITDA margins (%)	43.2	46.5	(330bps)	45.4	(220bps)

Source: Company data, I-Sec research

	Q3FY22	Q3FY21	YoY % Chg	Q2FY22	QoQ % Chg
No. of tests (mn)	2.3	1.9	21.5	2.4	(1.7)
No. of patients/footfalls (mn)	0.9	0.7	25.0	0.9	(2.3)
Rev per test (Rs)	477	524	(8.9)	477	0.1
Rev per patient (Rs)	1,303	1,463	(10.9)	1,295	0.6

Source: Company data, I-Sec research

(Rs mn, year ending March 31)

	Q3FY22	Q3FY21	YoY % Chg	Q2FY22	QoQ % Chg
Non-covid revenue	1,022	855	19.5	1,019	0.3
Covid revenue	86	144	(40.3)	108	(20.4)

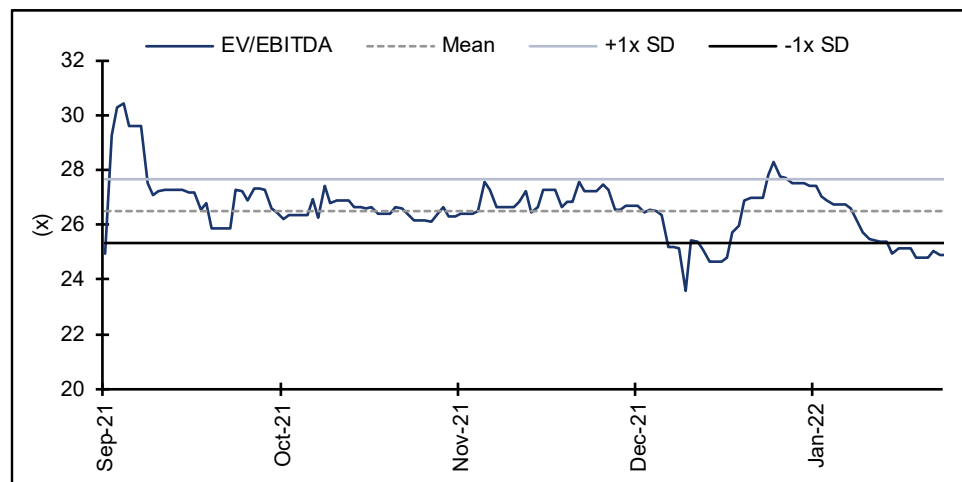
Source: Company data, I-Sec research; *Covid revenue includes RT-PCR, Antibody tests and Covid Allied tests like IL-6 and D-Dimer

Valuations

We estimate earnings to grow at a CAGR of 13.3% over FY21-FY24E, driven by a revenue CAGR of 15.1% and a rise in other income with strong free cashflow generation. Further, we expect RoCE to remain at ~17%, despite continuous deeper network expansion in key geographies. The company's dominating position in south India, B2C focus, strong brand equity in the organised diagnostics market and continuing financial growth across parameters are expected to help the company command premium valuations, in our view.

The stock currently trades at valuations of 50.4x FY23E and 41.3x FY24E earnings and EV/EBITDA multiple of 22.9x FY23E and 19.2x FY24E. We remain positive on the stock, given its dominant position in south India, B2C focus with continuous deeper network expansion in its dominant geographies, along with supportive macro factors and expectation of a faster shift of the market toward organised players. Maintain **BUY** with a DCF-based target price of Rs700/share, implying 57.7x FY24E EPS and 27.7x FY24E EV/EBITDA.

Chart 1: 1-year forward EV/EBITDA



Source: Company data, I-Sec research

Financial summary (consolidated)

Table 2: Profit & Loss statement

(Rs mn, year ending March 31)

	FY21	FY22E	FY23E	FY24E
Total Net Revenue	3,767	4,585	4,958	5,749
YoY Growth%	11.2	21.7	8.1	15.9
Total Op. Exp.	2,108	2,550	2,851	3,307
EBITDA	1,660	2,035	2,107	2,442
Margins %	44.1	44.4	42.5	42.5
YoY Growth%	25.2	22.6	3.5	15.9
Depreciation & Amortization	505	506	737	789
EBIT	1,155	1,530	1,370	1,654
Other Income	118	130	143	158
Interest	152	162	162	162
EO Items	-	-	-	-
PBT	1,121	1,498	1,351	1,649
Tax	272	377	341	416
Tax Rate (%)	24.3	25.2	25.2	25.2
Minority Interest	6	6	6	6
Reported PAT	843	1,114	1,004	1,227
Adj PAT	843	1,114	1,004	1,227
Net Margins (%)	22.4	24.3	20.3	21.3

Source: Company data, I-Sec research

Table 3: Balance sheet

(Rs mn, year ending March 31)

	FY21	FY22E	FY23E	FY24E
Paid up Capital	45	102	102	102
Reserves & Surplus	3,545	4,602	5,606	6,833
Total Equity	3,590	4,704	5,708	6,935
Minority Interest	2	9	15	22
Total Debt	1,410	1,410	1,410	1,410
Deferred Liabilities	(61)	(61)	(61)	(61)
Capital Employed	4,942	6,062	7,073	8,306
Current Liabilities & Prov	407	493	542	629
Total Liabilities	5,348	6,555	7,615	8,935
Net Fixed Assets	2,771	3,266	3,328	3,240
Investments	0	0	0	0
Inventory	26	33	36	42
Debtors	64	78	84	98
Other Current Assets	268	285	292	309
Cash and Equivalents	2,219	2,893	3,874	5,247
Total Cur. Assets	2,577	3,289	4,287	5,695
Total Assets	5,348	6,555	7,615	8,935

Source: Company data, I-Sec research

Table 4: Cashflow statement

(Rs mn, year ending March 31)

	FY21	FY22E	FY23E	FY24E
PBT	1,121	1,498	1,351	1,649
Depreciation	505	506	737	789
Net Chg in WC	15	26	23	29
Taxes	(312)	(377)	(341)	(416)
Others	(185)	23	10	22
CFO	1,144	1,674	1,781	2,073
Capex	(312)	(1,000)	(800)	(700)
Net Investments made	(1,033)	-	-	-
Others	48	-	-	-
CFI	(1,298)	(1,000)	(800)	(700)
Change in Share capital	-	-	-	-
Change in Debts	(473)	-	-	-
Div. & Div Tax	-	-	-	-
Others	1,387	-	-	-
CFF	914	-	-	-
Total Cash Generated	760	674	981	1,373
Cash Opening Balance	1,182	1,942	2,617	3,598
Cash Closing Balance	1,942	2,617	3,598	4,970

Source: Company data, I-Sec research

Table 5: Key ratios

(Year ending March 31)

	FY21	FY22E	FY23E	FY24E
Adj EPS	8.3	10.9	9.8	12.0
YoY Growth%	34.7	32.2	(9.8)	22.2
Cash EPS	13.2	15.9	17.1	19.8
EBITDA (%)	44.1	44.4	42.5	42.5
NPM (%)	22.4	24.3	20.3	21.3
Net Debt to Equity (x)	(0.2)	(0.3)	(0.4)	(0.6)
P/E (x)	60.1	45.4	50.4	41.3
EV/EBITDA (x)	30.0	24.1	22.9	19.2
P/BV (x)	14.1	10.8	8.9	7.3
EV/Sales (x)	13.2	10.7	9.7	8.1
ROCE (%)	20.3	21.9	16.7	17.1
ROE (%)	26.6	26.9	19.3	19.4
ROIC (%)	35.0	39.9	33.6	40.8
Book Value (Rs)	35.2	46.1	56.0	68.0
DPS (Rs)	-	-	-	-
Dividend Payout (%)	-	-	-	-
Div Yield (%)	-	-	-	-
F.Asset Turnover Ratio	1.3	1.5	1.5	1.8
Avg Collection days	7	6	6	6
Avg Inventory days	3	2	3	2

Source: Company data, I-Sec research

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