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Q4FY22 result review
and earnings revision

Pharmaceuticals

Target price: Rs614

Earnings revision

(%)	FY23E	FY24E
Sales	(9.7)	(9.1)
EBITDA	(12.7)	(10.2)

Target price revision

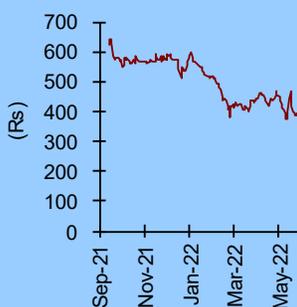
Rs614 from Rs700

Shareholding pattern

	Sep '21	Dec '21	Mar '22
Promoters	54.8	54.8	54.8
Institutional investors	39.3	41.3	41.2
MFs and other	14.1	13.3	12.9
Insurance	0.8	0.4	0.4
FIs	24.4	27.6	23.9
Others	6.0	3.9	4.0

Source: BSE India

Price chart



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Vijaya Diagnostic Centre

BUY

Maintained

Rs379

Lower footfall affects radiology

Vijaya Diagnostic Centre's (Vijaya) Q4FY22 performance was broadly in-line with estimates as revenue grew 3.8% YoY to Rs1.2bn (I-Sec: Rs1.1mn) with EBITDA margin of 41.2% (I-Sec: 41.8%). Covid revenue doubled QoQ to Rs179mn led by Omicron wave; however, non-covid revenues were impacted, which declined 3.8% QoQ. This was largely due to the fall in radiology segment with lower footfalls at centres; however, demand started to normalise Mar'22 onwards. 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. However, intense competition may affect near-term performance. Maintain BUY with a revised target price of Rs614/share.

► **Business review:** Revenue grew 3.8% YoY in Q4FY22 driven by 53.0% growth in covid revenue due to *Omicron* wave. However, footfalls at the centres declined which impacted the non-covid tests, mainly in radiology segment. Overall realisation grew 0.8% to Rs474/per test while the total number of tests grew 2.9% to 2.45mn. Non-covid revenues almost recovered in March, hence, we expect non-covid volumes to continue improving in coming quarters. On a high base, we expect 7.7% YoY volume over FY22-FY24E driven by the addition of new centres and increasing footfall in non-covid segment (ex-covid, we expect volume to grow 15.4%). Gross margin contracted 90bps YoY to 15.4% due to unfavourable mix. EBITDA margin fell 740bps YoY to 41.2% due to change of mix, new centre addition and increase in employee cost. B2C contribution in Q4FY22 and FY22 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) Guided Rs900mn of capex for FY23, 3) home collection contribution was ~2.5% of sales in FY22, 3) Hyderabad cluster contributes 83-84% in revenue expected to come down to 70-73% in next 3-4 years, 4) guided 15% YoY growth for FY23 revenues with more than 40% margins and 5) wellness was 8% in Q4FY22. Wellness is expected to increase 10% in near term.

► **Outlook:** With higher contribution from radiology and a B2C focus, Vijaya commands best-in-industry EBITDA margin, which we believe would likely continue and sustain above 40%. However, due to higher base of covid, we expect revenue to grow at 6.3% CAGR over FY22-FY24E. Due to fall in margin accretive covid business and cost inflation, we estimate EBITDA to grow at a CAGR of 3.8% over FY22-FY24E with 210bps decline in margins. Despite continuous expansion, the company is likely to generate free cashflow of ~Rs2.0bn over FY23-FY24E.

► **Valuation:** We cut our revenue and EBITDA estimates by 9-10% and 10-12%, respectively, for FY23E-FY24E to factor in loss of revenue from covid business, cost pressures and increasing competition. Retain **BUY** with a revised DCF-based TP of Rs614/share. **Key downside risks:** Slowdown in growth in southern region, and regulatory hurdles.

Market Cap	Rs38.7bn/US\$498mn
Reuters/Bloomberg	VIJAYA IN
Shares Outstanding (mn)	102.0
52-week Range (Rs)	644/372
Free Float (%)	45.2
FII (%)	23.9
Daily Volume (USD/'000)	1,089
Absolute Return 3m (%)	(7.7)
Absolute Return 12m (%)	NA
Sensex Return 3m (%)	(1.4)
Sensex Return 12m (%)	8.8

Year to Mar	FY21	FY22	FY23E	FY24E
Revenue (Rs mn)	3,767	4,624	4,479	5,228
Net Income (Rs mn)	843	1,097	888	1,096
EPS (Rs)	8.3	10.8	8.7	10.8
% Chg YoY	34.7	30.2	(19.0)	23.4
P/E (x)	45.9	35.2	43.5	35.3
CEPS (Rs)	13.2	15.9	14.6	17.5
EV/E (x)	22.8	18.7	20.3	16.6
Dividend Yield (%)	-	-	-	-
RoCE (%)	20.3	20.9	14.5	15.3
RoE (%)	26.6	26.5	17.3	17.9

Table 1: Q4FY22 performance*(Rs mn, year ending March 31)*

	Q4FY22	Q4FY21	YoY % Chg	Q3FY22	QoQ % Chg
Net sales	1,162	1,120	3.8	1,108	4.9
EBITDA	479	544	(12.0)	478	0.1
Other income	32	42	(23.7)	32	(0.3)
PBITD	511	586	(12.9)	510	0.1
Depreciation	153	126	21.8	130	17.5
Interest	43	35	24.9	42	3.8
Extra ordinary income/ (exp.)	-	-	#DIV/0!	-	#DIV/0!
PBT	315	426	(26.1)	338	(7.1)
Tax	75	111	(32.2)	84	(10.0)
Minority interest	2	-	#DIV/0!	2	(1.9)
Reported PAT	237	314	(24.5)	253	(6.1)
Adjusted PAT	237	314	(24.5)	253	(6.1)
EBITDA margins (%)	41.2	48.6	(740bps)	43.2	(200bps)

Source: Company data, I-Sec research

	Q4FY22	Q4FY21	YoY % Chg	Q3FY22	QoQ % Chg
No. of tests (mn)	2.5	2.4	2.9	2.3	5.6
No. of patients/footfalls (mn)	1.0	0.9	7.6	0.9	12.9
Rev per test (Rs)	474	470	0.8	477	(0.7)
Rev per patient (Rs)	1,212	1,265	(4.2)	1,303	(7.0)

Source: Company data, I-Sec research

(Rs mn, year ending March 31)

	Q4FY22	Q4FY21	YoY % Chg	Q3FY22	QoQ % Chg
Non-covid revenue	983	1,004	(2.1)	1,022	(3.8)
Covid revenue	179	117	53.0	86	108.1

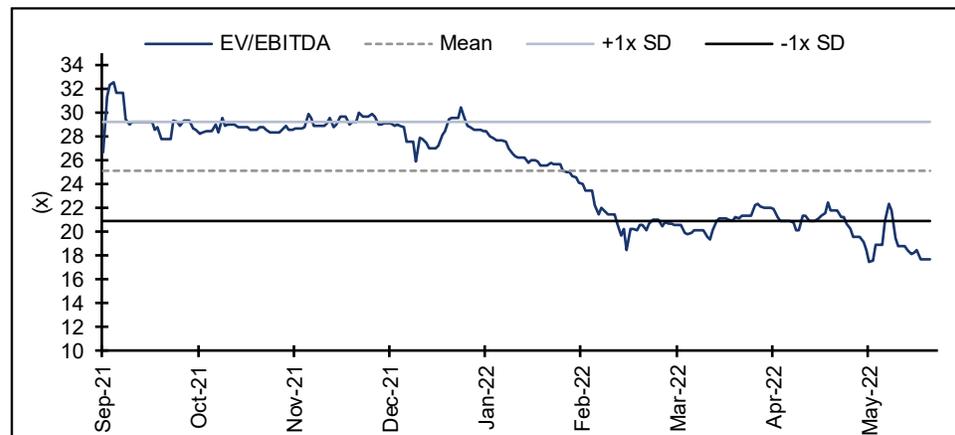
Source: Company data, I-Sec research; *Covid revenue includes RT-PCR, Antibody tests and Covid Allied tests like IL-6 and D-Dimer

Valuations

We expect revenue to grow 6.3% over FY22-FY24E mainly due to addition of new centres and increasing footfall; however, realisation in near term is likely to be under pressure mainly due to intensified competition. Due to fall in margin accretive covid business and cost inflation, we estimate EBITDA to grow at a CAGR of 3.8% over FY22-FY24E with 210bps decline in margins. Despite continuous expansion, the company is likely to generate free cashflow of ~Rs2.0bn over FY23E-FY24E. Further, we expect RoCE to remain at ~15% (RoIC at ~27%) 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 it command premium valuations, in our view.

The stock currently trades at valuations of 43.5x FY23E and 35.3x FY24E earnings and EV/EBITDA multiple of 20.3x FY23E and 16.6x 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 revised DCF-based target price of Rs614/share (earlier: Rs700/share), implying 47.3x FY24E EPS and 23.0x 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	FY22	FY23E	FY24E
Total Net Revenue	3,767	4,624	4,479	5,228
YoY Growth%	11.2	22.7	(3.1)	16.7
Total Op. Exp.	2,108	2,587	2,639	3,033
EBITDA	1,660	2,037	1,840	2,194
Margins %	44.1	44.1	41.1	42.0
YoY Growth%	25.2	22.7	(9.7)	19.2
Dep & Amort.	505	527	597	687
EBIT	1,155	1,510	1,243	1,507
Other Income	118	128	141	155
Interest	152	165	183	183
EO Items	-	-	-	-
PBT	1,121	1,474	1,200	1,479
Tax	272	367	303	373
Tax Rate (%)	24.3	24.9	25.2	25.2
Minority Interest	6	10	10	10
Reported PAT	843	1,097	888	1,096
Adj PAT	843	1,097	888	1,096
Net Margins (%)	22.4	23.7	19.8	21.0

Source: Company data, I-Sec research

Table 3: Balance sheet

(Rs mn, year ending March 31)

	FY21	FY22	FY23E	FY24E
Paid up Capital	45	102	102	102
Reserves & Surplus	3,545	4,580	5,468	6,565
Total Equity	3,590	4,682	5,570	6,666
Minority Interest	2	13	23	33
Total Debt	1,410	1,835	1,835	1,835
Deferred Liabilities	(61)	(89)	(89)	(89)
Capital Employed	4,942	6,441	7,339	8,445
Current Liabilities & Prov	407	605	597	692
Total Liabilities	5,348	7,046	7,936	9,138
Net Fixed Assets	2,771	4,046	4,349	4,561
Investments	0	0	0	0
Inventory	26	43	41	47
Debtors	64	98	95	110
Other Current Assets	268	393	390	405
Cash and Equivalents	2,219	2,466	3,061	4,014
Total Cur. Assets	2,577	2,999	3,587	4,576
Total Assets	5,348	7,046	7,936	9,138

Source: Company data, I-Sec research

Table 4: Cashflow statement

(Rs mn, year ending March 31)

	FY21	FY22	FY23E	FY24E
PBT	1,121	1,474	1,200	1,479
Depreciation	505	527	597	687
Net Chg in WC	15	(50)	9	11
Taxes	(312)	(399)	(303)	(373)
Others	(185)	(136)	(9)	48
CFO	1,144	1,415	1,496	1,852
Capex	(312)	(1,209)	(900)	(900)
Net Investments made	(1,033)	(127)	-	-
Others	48	106	-	-
CFI	(1,298)	(1,231)	(900)	(900)
Change in Share capital	-	-	-	-
Change in Debts	(473)	(286)	-	-
Div. & Div Tax	-	-	-	-
Others	1,387	82	-	-
CFF	914	(204)	-	-
Total Cash Generated	760	(19)	596	952
Cash Opening Balance	1,182	1,942	1,924	2,519
Cash Closing Balance	1,942	1,924	2,519	3,471

Source: Company data, I-Sec research

Table 5: Key ratios

(Year ending March 31)

	FY21	FY22	FY23E	FY24E
Adj EPS	8.3	10.8	8.7	10.8
YoY Growth%	34.7	30.2	(19.0)	23.4
Cash EPS	13.2	15.9	14.6	17.5
EBITDA (%)	44.1	44.1	41.1	42.0
NPM (%)	22.4	23.7	19.8	21.0
Net Debt to Equity (x)	(0.2)	(0.1)	(0.2)	(0.3)
P/E (x)	45.9	35.2	43.5	35.3
EV/EBITDA (x)	22.8	18.7	20.3	16.6
P/BV (x)	10.8	8.3	6.9	5.8
EV/Sales (x)	10.0	8.2	8.4	7.0
ROCE (%)	20.3	20.9	14.5	15.3
ROE (%)	26.6	26.5	17.3	17.9
ROIC (%)	35.0	34.8	23.9	27.3
Book Value (Rs)	35.2	45.9	54.6	65.4
DPS (Rs)	-	-	-	-
Dividend Payout (%)	-	-	-	-
Div Yield (%)	-	-	-	-
F.Asset Turnover Ratio	1.3	1.4	1.1	1.2
Avg Collection days	7	6	8	7
Avg Inventory days	3	3	3	3

Source: Company data, I-Sec research

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