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Q1FY23 result review
and earnings revision

Pharmaceuticals

Target price: Rs597

Earnings revision

(%)	FY23E	FY24E
Sales	(2.3)	(2.3)
EBITDA	(2.9)	(1.7)

Target price revision

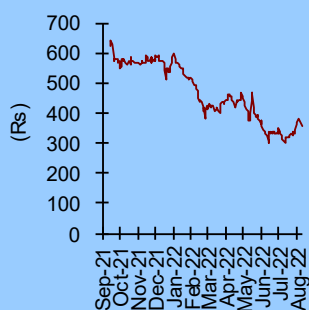
Rs597 from Rs614

Shareholding pattern

	Dec '21	Mar '22	Jun '22
Promoters	54.8	54.8	55.0
Institutional investors	41.3	41.2	40.8
MFs and other	13.3	12.9	12.8
Insurance	0.4	0.4	0.4
FIs	27.6	23.9	27.6
Others	3.9	4.0	4.2

Source: BSE India

Price chart



Research Analysts:

Vinay Bafna

vinay.bafna@icicisecurities.com
+91 22 6807 7339

Rohan John

rohan.john@icicisecurities.com
+91 22 6807 7453

INDIA

Vijaya Diagnostic Centre

BUY

Maintained

Rs355

Healthy recovery in non-covid business

Vijaya Diagnostic Centre's (Vijaya) Q1FY23 performance was broadly in line with our estimates with revenue declining 14.9% YoY to Rs1.0bn (I-Sec: Rs1.0bn) on a high covid base. EBITDA margin contracted 810bps YoY and 300bps QoQ to 38.2% (I-Sec: 41%) due to higher expenses linked with new centres. Non-covid revenues witnessed healthy YoY growth at 11.7% led by recovery in footfalls. Covid revenue slumped 90% YoY to Rs32mn. We remain positive on the stock mainly due to the company's B2C focus (95% of revenue in Q1FY23), highest margin within the industry and continued 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 Rs597/share.

- **Business review:** Revenue declined 14.9% YoY in Q1FY23 due to waning covid-led revenues. Non-covid revenues witnessed healthy recovery and grew 11.7%/2.9% YoY/QoQ while covid revenues slumped 90% YoY and 82.1% QoQ. Overall realisation declined 16.5% YoY to Rs469/per test with falling covid contribution, but was largely stable QoQ. Total number of tests grew 2.3% to 2.23mn. On a high base, we expect 8.1% YoY volume growth over FY22-FY24E driven by the addition of new centres and increasing footfalls in non-covid segment (ex-covid, we expect volume to grow 15.8%). Higher contribution from radiology (36% in Q1FY23 vs 32%/31% in Q1FY22/Q4FY22), wellness packages (10% in Q1FY23 vs 4% in Q1FY22) and non-covid revenue supported gross margin expansion of 470bps YoY (290bps QoQ) to 87.5%. Higher expenses toward newer centers dragged EBITDA margin by 810bps YoY (-300bps QoQ) to 38.2%.
- **Concall highlights:** 1) Reiterated intent to add 14-15 centres this fiscal. 2) Rajahmundry facility to be inaugurated on 11th Aug'22. Expect annualised revenues of ~Rs120mn-130mn once stabilised. Panjagutta centre to be launched in a couple of months and expect Rs400mn annually. 3) Guidance: non-covid business to grow in double-digits in coming quarters. Revenue per patient to be ~Rs1,250-1,300.
- **Outlook:** With higher contribution from radiology and 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 5.1% CAGR over FY22-FY24E. Due to fall in the margin-accretive covid business and cost inflation, we estimate EBITDA to grow at a CAGR of 2.9% over FY22-FY24E with 180bps decline in margins. Despite continuous expansion, the company is likely to generate free cashflow of ~Rs1.8bn over FY23E-FY24E.
- **Valuation:** We cut our revenue and EBITDA estimates by 2-3% each year for FY23E and FY24E to factor-in loss of revenue from covid business, cost pressures and increasing competition. Retain **BUY** with a revised DCF-based target price of Rs597/share (earlier: Rs614). **Key downside risks:** Slowdown in growth in southern region, and regulatory hurdles.

Market Cap	Rs36.3bn/US\$456mn
Reuters/Bloomberg	VIJAYA IN
Shares Outstanding (mn)	102.0
52-week Range (Rs)	644/300
Free Float (%)	45.0
FII (%)	27.6
Daily Volume (USD/'000)	1,044
Absolute Return 3m (%)	(9.3)
Absolute Return 12m (%)	NA
Sensex Return 3m (%)	9.1
Sensex Return 12m (%)	9.1

Year to Mar	FY21	FY22	FY23E	FY24E
Revenue (Rs mn)	3,767	4,624	4,376	5,107
Net Income (Rs mn)	843	1,097	848	1,069
EPS (Rs)	8.3	10.8	8.3	10.5
% Chg YoY	34.7	30.2	(22.7)	26.0
P/E (x)	43.1	33.1	42.8	34.0
CEPS (Rs)	13.2	15.9	14.2	17.2
EV/E (x)	21.4	17.5	19.7	15.9
Dividend Yield (%)	-	-	-	-
RoCE (%)	20.3	20.9	14.0	15.1
RoE (%)	26.6	26.5	16.6	17.6

Table 1: Q1FY23 performance*(Rs mn, year ending March 31)*

	Q1FY23	Q1FY22	YoY % Chg	Q4FY22	QoQ % Chg
Net sales	1,044	1,227	(14.9)	1,162	(10.2)
EBITDA	399	569	(29.8)	479	(16.7)
Other income	28	33	(15.7)	32	(13.2)
PBITD	427	601	(29.1)	511	(16.5)
Depreciation	142	119	18.9	153	(7.2)
Interest	48	40	19.0	43	9.9
Extra ordinary income/ (exp.)	-	-		-	#DIV/0!
PBT	237	442	(46.4)	315	(24.6)
Tax	62	109	(43.4)	75	(18.3)
Minority interest	1	4	(69.9)	2	(37.5)
Reported PAT	175	330	(47.1)	237	(26.5)
Adjusted PAT	175	330	(47.1)	237	(26.5)
EBITDA margins (%)	38.2	46.3	(810bps)	41.2	(300bps)

Source: Company data, I-Sec research

	Q1FY23	Q1FY22	YoY % Chg	Q4FY22	QoQ % Chg
No. of tests (mn)	2.2	2.2	2.3	2.5	(9.0)
No. of patients/footfalls (mn)	0.8	0.9	(20.2)	1.0	(21.9)
Rev per test (Rs)	469	562	(16.5)	474	(1.1)
Rev per patient (Rs)	1,395	1,299	7.4	1,212	15.1

Source: Company data, I-Sec research

(Rs mn, year ending March 31)

	Q1FY23	Q1FY22	YoY % Chg	Q4FY22	QoQ % Chg
Non-covid revenue	1,012	906	11.7	983	2.9
Covid revenue*	32	320	(90.0)	179	(82.1)

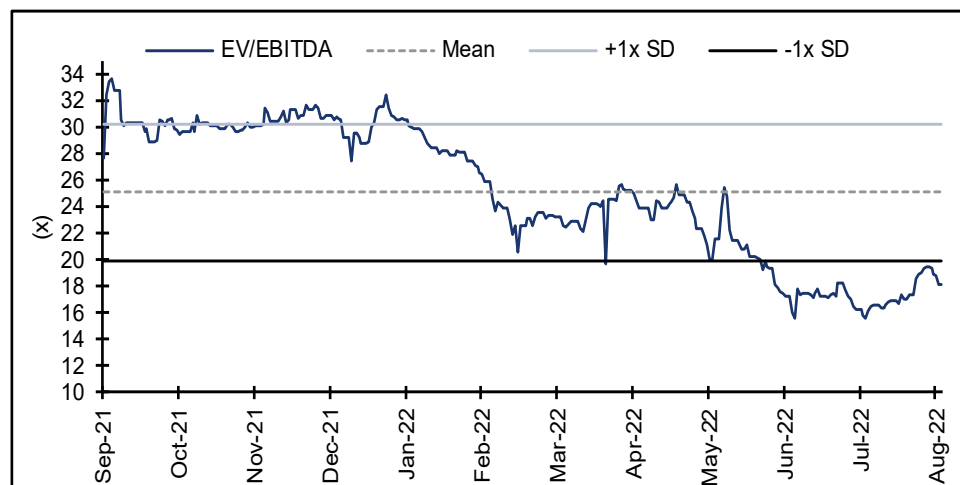
Source: Company data, I-Sec research; *Covid revenue includes RT-PCR, Antibody tests and Covid Allied tests like IL-6 and D-Dimer

Valuations

We expect revenue to grow 5.1% over FY22-FY24E mainly due to addition of new centres and increasing footfalls; 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 2.9% over FY22-FY24E with 180bps decline in margins. Despite continuous expansion, the company is likely to generate free cashflow of ~Rs1.8bn over FY23E-FY24E. Further, we expect RoCE to remain at ~15% (RoIC at ~27%) despite continued deeper network expansion in key geographies. 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 command premium valuations, in our view.

The stock currently trades at valuations of 42.8x FY23E and 34x FY24E earnings and EV/EBITDA multiple of 19.7x FY23E and 15.9x 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 Rs597/share (earlier: Rs614/share), implying 57x FY24E EPS and 27.3x 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	4,376	5,107
YoY Growth%	11.2	22.7	(5.4)	16.7
Total Op. Exp.	2,108	2,587	2,589	2,949
EBITDA	1,660	2,037	1,787	2,158
Margins %	44.1	44.1	40.8	42.2
YoY Growth%	25.2	22.7	(12.3)	20.8
Dep & Amort.	505	527	597	687
EBIT	1,155	1,510	1,189	1,470
Other Income	118	128	141	155
Interest	152	165	183	183
EO Items	-	-	-	-
PBT	1,121	1,474	1,147	1,442
Tax	272	367	289	363
Tax Rate (%)	24.3	24.9	25.2	25.2
Minority Interest	6	10	10	10
Reported PAT	843	1,097	848	1,069
Adj PAT	843	1,097	848	1,069
Net Margins (%)	22.4	23.7	19.4	20.9

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	5,428	6,497
Total Equity	3,590	4,682	5,530	6,599
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	7,299	8,378
Current Liabilities & Prov	407	605	584	675
Total Liabilities	5,348	7,046	7,883	9,053
Net Fixed Assets	2,771	4,046	4,349	4,561
Investments	0	0	0	0
Inventory	26	43	35	41
Debtors	64	98	92	108
Other Current Assets	268	393	388	403
Cash and Equivalents	2,219	2,466	3,018	3,940
Total Cur. Assets	2,577	2,999	3,534	4,491
Total Assets	5,348	7,046	7,883	9,053

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	1,147	1,442
Depreciation	505	527	597	687
Net Chg in WC	15	(50)	13	9
Taxes	(312)	(399)	(289)	(363)
Others	(185)	(136)	(16)	47
CFO	1,144	1,415	1,452	1,821
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)	552	921
Cash Opening Balance	1,182	1,942	1,924	2,476
Cash Closing Balance	1,942	1,924	2,476	3,397

Source: Company data, I-Sec research

Table 5: Key ratios

(Year ending March 31)

	FY21	FY22	FY23E	FY24E
Adj EPS	8.3	10.8	8.3	10.5
YoY Growth%	34.7	30.2	(22.7)	26.0
Cash EPS	13.2	15.9	14.2	17.2
EBITDA (%)	44.1	44.1	40.8	42.2
NPM (%)	22.4	23.7	19.4	20.9
Net Debt to Equity (x)	(0.2)	(0.1)	(0.2)	(0.3)
P/E (x)	43.1	33.1	42.8	34.0
EV/EBITDA (x)	21.4	17.5	19.7	15.9
P/BV (x)	10.1	7.8	6.6	5.5
EV/Sales (x)	9.4	7.7	8.0	6.7
ROCE (%)	20.3	20.9	14.0	15.1
ROE (%)	26.6	26.5	16.6	17.6
ROIC (%)	35.0	34.8	23.0	26.6
Book Value (Rs)	35.2	45.9	54.2	64.7
DPS (Rs)	-	-	-	-
Dividend Payout (%)	-	-	-	-
Div Yield (%)	-	-	-	-
F.Asset Turnover Ratio	1.3	1.4	1.0	1.1
Avg Collection days	7	6	8	7
Avg Inventory days	3	3	3	3

Source: Company data, I-Sec research

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