

07 August 2024

India | Equity Research | Q1FY25 results review

Vijaya Diagnostic Centre

Healthcare

PH relieves pain in margin of base business

Vijaya Diagnostic Centre's (Vijaya) Q1FY25 performance was ahead of our expectations. Base business grew at 19.6% driven by 16.6% YoY rise in patient footfall and 19.8% YoY jump in number of tests while EBITDA grew 17% YoY as margins contracted to ~38.9% (down 80bps YoY) due to surge in cost of new centres. PH Diagnostics' (PH) revenue and EBITDA margin were flat QoQ at INR 114mn and 40%. Consolidation of PH boosted overall growth to 29.1% YoY and margin by 30bps to 39.2% in Q1. Management aims to incur growth capex of INR 2–2.2bn in next two years – adding two hubs in Pune, three in WB and four in Telangana and Andhra Pradesh. It expects 3x jump in PH's revenue to INR 1.3bn in next five years with base business growing at 13–15%. The stock trades at a pricey 24x FY26E EV/EBITDA. Maintain **HOLD** with higher TP of INR 815 (earlier INR 700).

Strong volume growth though margins were subpar

Vijaya's revenue grew 29.1% YoY (0.7% QoQ) to INR 1.56bn (I-Sec: INR 1.44bn) aided by healthy footfalls and test volumes. Gross margin contracted 20bps YoY (+10 QoQ) to 88.0%. EBITDA grew 27.3% YoY (-3.0% QoQ) while EBITDA margin contracted 50bps YoY (-150bps QoQ) to 39.2% (I-Sec: 40.2%). PAT rose 19.6% YoY (-6.3% QoQ) to INR 313mn (I-Sec: INR 289mn).

Network expansion unlikely to dent margins meaningfully

Revenue of base business grew 19.6% YoY to INR 1.4bn driven by 19.8% surge in test volumes and 16.6% rise in patient footfall. Pricing aided only 1% YoY growth in base business revenue, rest came from volumes. Pathology grew 27.0% YoY to INR 969mn and contributed 62% of overall revenue. Radiology business grew faster at 32.5% YoY to INR 594mn. Number of tests grew 29% YoY to 3.4mn. Revenue per test was flat YoY at INR 462 while revenue per patient jumped 5.3% to INR 1,621. Its organic revenue growth stood at 19.6% in Q1FY25. Wellness' share in Q1FY25 stood at 13.4% as against 12.4% in Q1FY24. It has signed leases for nine more hubs (two in Pune, three in West Bengal and four in Telangana and Andhra Pradesh) which is scheduled to commence operations in next 18 months. PH's revenue is likely to grow 3x over the next 4–5 years. That said, network expansion may see margins recede 100–200bps in the near term, which it may be able to recoup in FY28.

Financial Summary

Y/E March (INR mn)	FY23A	FY24A	FY25E	FY26E
Net Revenue	4,592	5,478	7,234	8,414
EBITDA	1,820	2,209	2,916	3,453
EBITDA Margin (%)	39.6	40.3	40.3	41.0
Net Profit	846	1,209	1,619	1,999
EPS (INR)	8.3	11.8	15.8	19.5
EPS % Chg YoY	(22.8)	42.8	34.0	23.5
P/E (x)	97.9	68.5	51.2	41.4
EV/EBITDA (x)	47.2	39.3	29.4	24.4
RoCE (%)	13.7	16.0	17.9	18.6
RoE (%)	16.7	20.0	22.2	22.4

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Market Data

Market Cap (INR)	83bn
Market Cap (USD)	989mn
Bloomberg Code	VIJAYA IN
Reuters Code	VIJA BO
52-week Range (INR)	880 /450
Free Float (%)	46.0
ADTV-3M (mn) (USD)	4.9

Price Performance (%)	3m	6m	12m
Absolute	19.8	28.4	75.7
Relative to Sensex	13.4	19.6	56.1

Earnings Revisions (%)	FY25E	FY26E
Revenue	4.5	3.9
EBITDA	1.1	0.1
EPS	1.8	0.3

Previous Reports

10-05-2024: [Q4FY24 results review](#)

07-02-2024: [Q3FY24 results review](#)

Valuations and risks

Vijaya has a decent capex plan which will help the company grow ahead of the market in existing cities like Hyderabad and newer cities like Kolkata and Pune. New hubs have breakeven within a year of operations. Its new hub in Kolkata (opened in Jul'23) had breakeven in three quarters while Gulbarga hub will breakeven in Q2FY25. The company will be commencing operations at a hub facility in Ongole, Andhra Pradesh in Q2FY25 which will also cater to diagnostic needs of the three nearby districts. Management has set an aggressive growth ambition for PH – aiming for revenue to grow at 25–30% CAGR over the next 4–5 years driven by the addition of new hubs and spokes in the Pune region. Network addition (nine new hubs in next 18 months) is unlikely to make any meaningful impact (mere 30-40bps impact in FY25) on consolidated margin of the company and management is confident of maintaining margin of ~40% in FY25 (flat YoY).

We expect revenue to grow at 23.9% over FY24–26E driven by improvement in footfalls, network addition and the acquisition of PH. We expect EBITDA CAGR of 25% over FY24–26E with 70bps improvement in margin. Further, we expect RoCE to scale up to ~19% (RoIC at ~26%) despite continued deeper network expansion in key geographies. Strong volume-driven growth across key markets of south India, B2C focus (93% of sales) and continuing improvement in financial parameters are helping the company command premium valuations, in our view.

The stock currently trades at premium valuations of 53.1x FY25E and 43.0x FY26E earnings and EV/EBITDA multiple of 29.4x FY25E and 24.4x FY26E. We maintain our **HOLD** rating on the stock with DCF-based revised target price of INR 815 (INR 700 earlier), implying 41.7x FY26E EPS and 23.7x FY26E EV/EBITDA.

Key upside risks: Better operating leverage for newly-commenced hub and M&A to improve scale.

Key downside risks: Higher-than-expected competition; and regulatory action on test pricing.

Q1FY25 conference call highlights

Existing business

- Vijaya has signed leases for nine more hubs which it will open in next 18 months. Two of these will be opened in Pune, three in West Bengal (including 1 in Kolkata) and 4 in Telangana and Andhra Pradesh.
- Cost for opening a hub is INR 120-140mn but if it introduces advanced radiology then the cost soars to INR 180-190mn.
- Advanced radiology accounts for 60-65% of revenue for new hubs.
- In Q1, Hyderabad accounted for 71% of sales with 7% from Pune.
- It will be commencing operations at 10,000 sq.ft, hub facility in Ongole, Andhra Pradesh, on Aug 8, '24. The hub will also cater to diagnostic needs of three nearby districts.
- Centres added to the network prior to FY23 are growing at 12-13% while those post FY23 (50 centers) have added 6-7% incremental growth.
- Blended realisation of wellness packages stands at INR 2,200-2,300 per patient.

PH

- On Apr 1, '24 the company had changed IT systems and re-branded network in Pune as Vijaya PH.
- PH revenue was flat QoQ at INR 114mn. Revenue run-rate had slightly dipped in Q1FY24 due to change in system, however, in Jun'24 its sales grew in single digit.
- PH had margin of ~41% in Q1FY25, flat QoQ.
- Pathology accounted for nearly 55% of PH's revenue and radiology was 45%.
- Wellness packages accounted for 17-18% of sales for PH.
- PH has a higher patient footfall per centre (three hubs in network of six centres).

Q1FY25 highlights

- B2C accounted for 93% of revenue.
- It added six centres including three hubs last year which led to a spike in employee cost.
- EBITDA of base business (excluding PH) grew 17% YoY.
- Q1 margin of Vijaya is usually 50-60bps lower as compared to full year margin.
- Nearly 20% growth in base business was mainly driven by volume, pricing aided only 1% growth.

Guidance

- The company is targeting to grow ahead of the market growth in Pune and Kolkata.
- Current growth in Hyderabad is ahead of market.
- Test pricing in Kolkata is comparatively higher than Hyderabad and Pune.
- Management aims to sustain margin at 40% in FY25, despite 30-40bps impact on margin from new hubs.
- As compared to Indian GAAP, its PBT is lower by 2.5% and PAT by 1.2% due to IND-AS accounting.
- Historically, new hubs breakeven in first year of operations.
- Gulbarga hub is likely to breakeven in Q2FY25.

Exhibit 1: Q1FY25 quarterly review

Particulars (INR mn)	Q1FY25	Q1FY24	YoY % Chg	Q4FY24	QoQ % Chg	FY24	FY23	YoY % Chg
Net Sales	1,562	1,210	29.1	1,552	0.7	5,478	4,592	19.3
Gross Profit	1,375	1,068	28.8	1,364	0.8	4,824	4,003	20.5
Gross margins (%)	88.0	88.2	(20bps)	87.9	10bps	88.1	87.2	90bps
EBITDA	612	481	27.3	631	(3.0)	2,209	1,820	21.4
EBITDA margins (%)	39.2	39.7	(50bps)	40.7	(150bps)	40.3	39.6	70bps
Other income	36	57	(37.5)	33	9.7	208	142	47.1
PBITD	648	538	20.4	664	(2.3)	2,417	1,962	23.2
Depreciation	166	125	33.4	163	2.1	570	617	(7.7)
Interest	63	59	6.5	62	1.1	240	209	14.5
Extra ordinary income/ (exp.)	-	-	-	-	-	(21)	-	-
PBT	419	355	18.1	439	(4.5)	1,587	1,135	39.8
Tax	104	91	14.4	102	2.0	390	283	37.9
Minority Interest	2	2	(11.6)	2	(29.4)	8	6	41.1
Reported PAT	313	262	19.6	335	(6.3)	1,188	846	40.4
Adjusted PAT	313	262	19.6	335	(6.3)	1,204	846	42.2

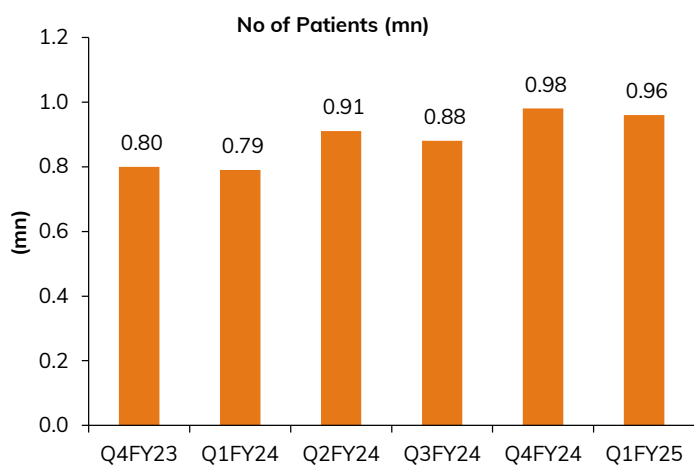
Source: I-Sec research, Company data

Exhibit 2: Key operation matrix

	Q1FY23	Q2FY23	Q3FY23	Q4FY23	Q1FY24	Q2FY24	Q3FY24	Q4FY24	Q1FY25	YoY % Chg	QoQ % Chg
No of tests (mn)	2.2	2.6	2.5	2.7	2.6	3.0	2.9	3.4	3.4	29.0	0.6
No of Patient/Footfall (mn)	0.8	0.9	0.8	0.8	0.8	0.9	0.9	1.0	1.0	21.5	(2.0)
Rev per test	469.0	459	454	447	461	459	461	462	462	0.2	-
Rev per patient	1,395.0	1418	1,464	1,504	1,540	1,525	1,515	1,589	1,621	5.3	2.0

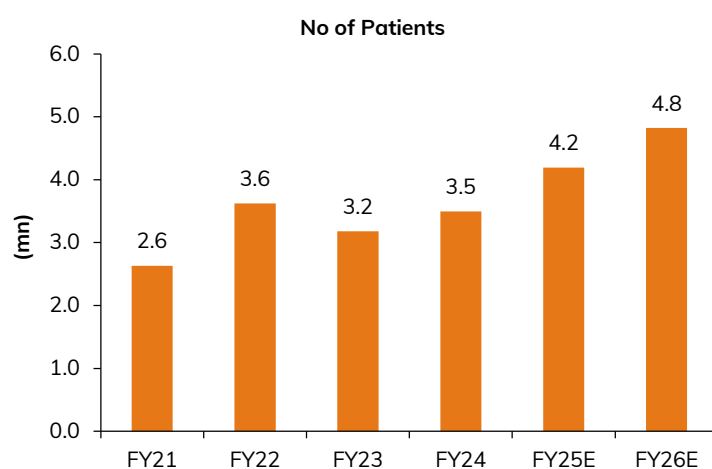
Source: I-Sec research, Company data

Exhibit 3: Number of patients grew 21.5% YoY



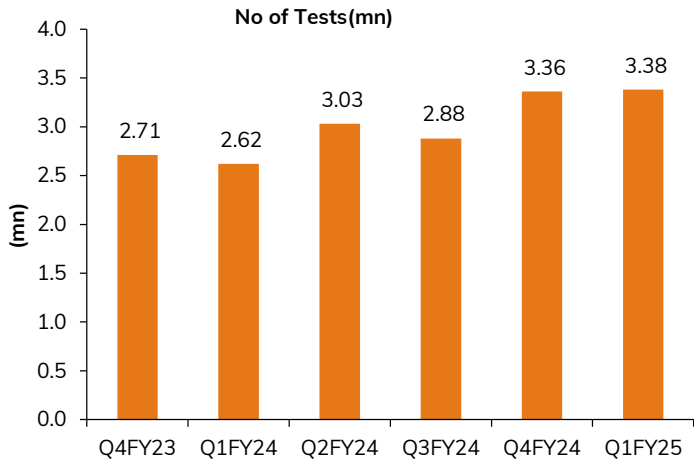
Source: I-Sec research, Company data

Exhibit 4: Consistent volume growth in patients



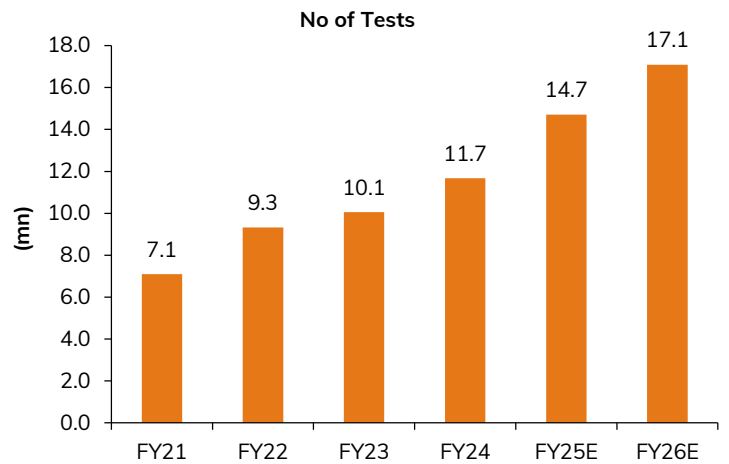
Source: I-Sec research, Company data

Exhibit 5: Number of tests grew 29% YoY



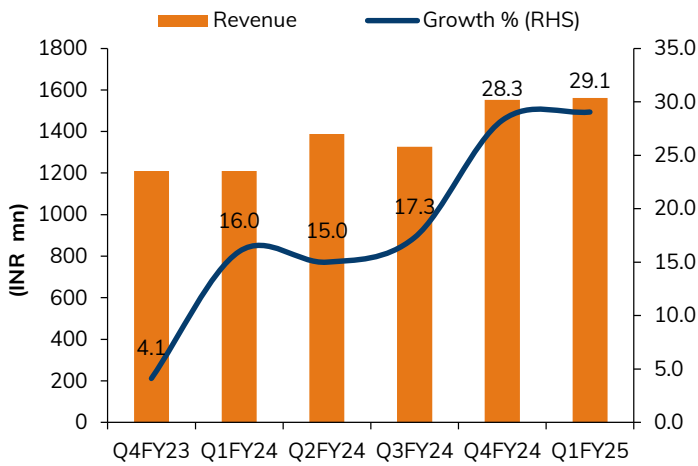
Source: I-Sec research, Company data

Exhibit 6: New centres will capture better test volumes



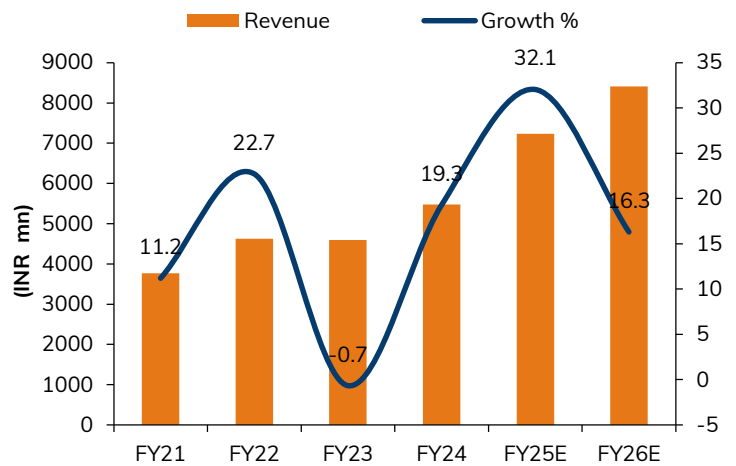
Source: I-Sec research, Company data

Exhibit 7: Strong performance driven by healthy footfalls and test volumes



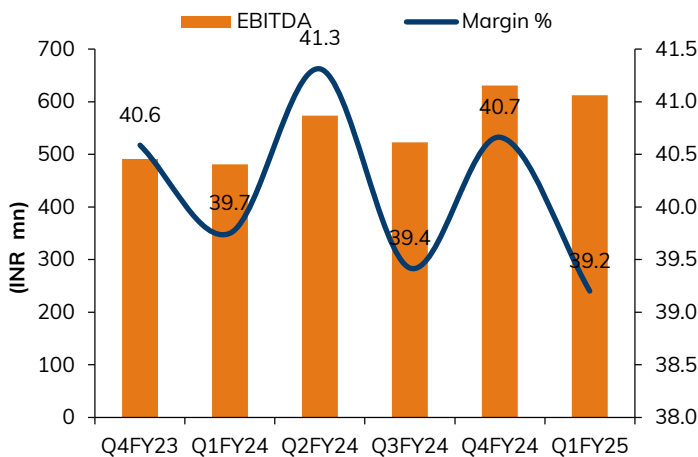
Source: I-Sec research, Company data

Exhibit 8: Revenue CAGR likely at 23.9% over FY24–26E



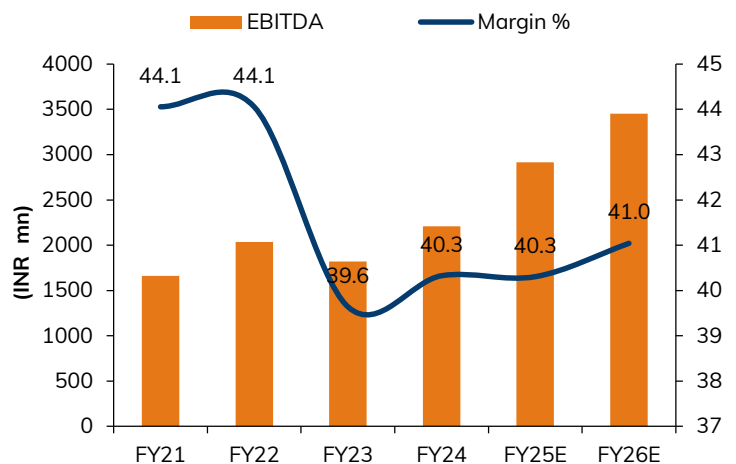
Source: I-Sec research, Company data

Exhibit 9: Cost of new centres drags margins



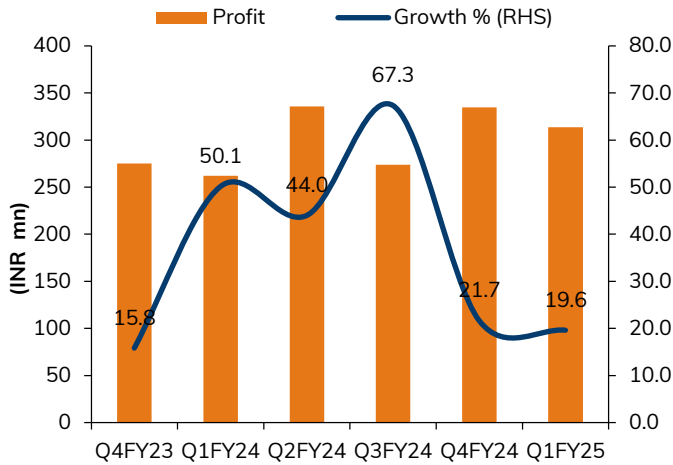
Source: I-Sec research, Company data

Exhibit 10: EBITDA margin to improve to ~41% in FY26E led by operating leverage



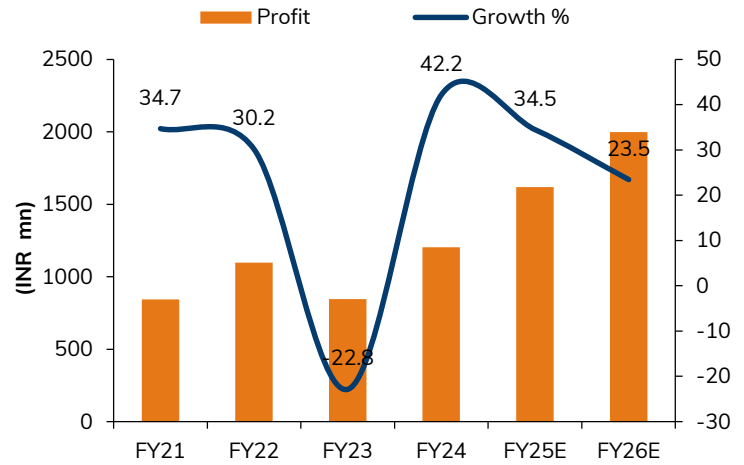
Source: I-Sec research, Company data

Exhibit 11: PAT grew 19.6% YoY to INR 313mn



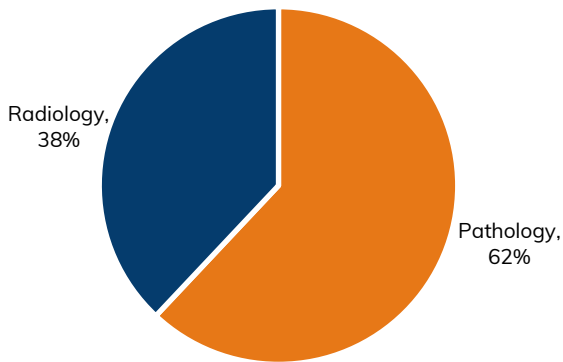
Source: I-Sec research, Company data

Exhibit 12: Net profit CAGR likely at ~29% over FY24–26E



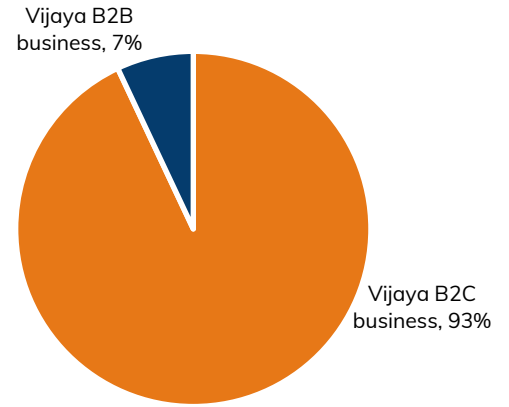
Source: I-Sec research, Company data

Exhibit 13: Pathology vs radiology split (Q1FY25)



Source: I-Sec research, Company data

Exhibit 14: B2C vs B2B split (Q1FY25)



Source: I-Sec research, Company data

Exhibit 15: Shareholding pattern

%	Dec'23	Mar'24	Jun'24
Promoters	54.9	54.1	54.0
Institutional investors	39.7	40.9	41.5
MFs and others	19.4	20.4	20.9
Insurance	0.4	0.2	0.5
FIIIs	19.9	20.3	20.1
Others	5.4	5.0	4.5

Source: Bloomberg

Exhibit 16: Price chart



Source: Bloomberg

Financial Summary

Exhibit 17: Profit & Loss

(INR mn, year ending March)

	FY23A	FY24A	FY25E	FY26E
Net Sales	4,592	5,478	7,234	8,414
Operating Expenses	2,183	2,615	3,450	3,968
EBITDA	1,820	2,209	2,916	3,453
EBITDA Margin (%)	39.6	40.3	40.3	41.0
Depreciation & Amortization	617	570	672	754
EBIT	1,203	1,639	2,244	2,699
Interest expenditure	209	240	245	245
Other Non-operating Income	142	208	177	230
Recurring PBT	1,135	1,607	2,176	2,684
Profit / (Loss) from Associates	-	-	-	-
Less: Taxes	(283)	(390)	(548)	(676)
PAT	852	1,217	1,627	2,008
Less: Minority Interest	(6)	(8)	(8)	(8)
Extraordinary (Net)	-	-	-	-
Net Income (Reported)	846	1,209	1,619	1,999
Net Income (Adjusted)	846	1,209	1,619	1,999

Source Company data, I-Sec research

Exhibit 18: Balance sheet

(INR mn, year ending March)

	FY23A	FY24A	FY25E	FY26E
Total Current Assets	1,367	1,022	2,021	3,557
of which cash & cash eqv.	1,164	731	1,636	3,111
Total Current Liabilities & Provisions	516	527	697	804
Net Current Assets	850	495	1,324	2,753
Investments	1,390	1,092	1,092	1,092
Net Fixed Assets	2,940	3,786	3,465	3,861
ROU Assets	2,223	2,235	2,235	2,235
Capital Work-in-Progress	271	82	1,082	1,082
Total Intangible Assets	82	1,404	1,404	1,404
Other assets	176	175	175	175
Deferred Tax Assets	84	31	31	31
Total Assets	8,018	9,300	10,808	12,633
Liabilities				
Borrowings	-	-	-	-
Deferred Tax Liability	-	-	-	-
provisions	71	106	140	163
other Liabilities	5	3	3	3
Equity Share Capital	5,447	6,572	8,038	9,832
Reserves & Surplus	-	-	-	-
Total Net Worth	5,447	6,572	8,038	9,832
Minority Interest	19	27	35	43
Total Liabilities	8,018	9,300	10,808	12,633

Source Company data, I-Sec research

Exhibit 19: Cashflow statement

(INR mn, year ending March)

	FY23A	FY24A	FY25E	FY26E
Operating Cashflow	1,646	1,833	2,654	3,075
Working Capital Changes	300	226	282	265
Capital Commitments	(1,246)	(846)	(1,350)	(1,150)
Free Cashflow	400	2,679	4,004	4,225
Other investing cashflow	150	(577)	-	-
Cashflow from Investing Activities	(1,096)	(1,423)	(1,350)	(1,150)
Issue of Share Capital	-	-	-	-
Interest Cost	(209)	(240)	(245)	(245)
Inc (Dec) in Borrowings	-	-	-	-
Dividend paid	(102)	(102)	(154)	(205)
Others	(998)	(501)	-	-
Cash flow from Financing Activities	(1,310)	(843)	(399)	(450)
Chg. in Cash & Bank balance	(759)	(433)	905	1,475
Closing cash & balance	1,164	731	1,636	3,111

Source Company data, I-Sec research

Exhibit 20: Key ratios

(Year ending March)

	FY23A	FY24A	FY25E	FY26E
Per Share Data (INR)				
Reported EPS	8.3	11.8	15.8	19.5
Adjusted EPS (Diluted)	8.3	11.8	15.8	19.5
Cash EPS	14.3	17.4	22.4	26.9
Dividend per share (DPS)	1.0	1.0	1.5	2.0
Book Value per share (BV)	53.2	64.2	78.5	96.1
Dividend Payout (%)	12.1	8.5	9.5	10.2
Growth (%)				
Net Sales	(0.7)	19.3	32.1	16.3
EBITDA	(10.6)	21.4	32.0	18.4
EPS (INR)	(22.8)	42.8	34.0	23.5
Valuation Ratios (x)				
P/E	97.9	68.5	51.2	41.4
P/CEPS	56.6	46.6	36.2	30.1
P/BV	15.2	12.6	10.3	8.4
EV / EBITDA	47.2	39.3	29.4	24.4
P / Sales	18.0	15.1	11.4	9.8
Dividend Yield (%)	0.0	0.0	0.0	0.0
Operating Ratios				
Gross Profit Margins (%)	87.2	88.1	88.0	88.2
EBITDA Margins (%)	39.6	40.3	40.3	41.0
Effective Tax Rate (%)	(24.9)	(24.3)	(25.2)	(25.2)
Net Profit Margins (%)	18.4	22.1	22.4	23.8
NWC / Total Assets (%)	-	-	-	-
Net Debt / Equity (x)	(0.5)	(0.3)	(0.3)	(0.4)
Net Debt / EBITDA (x)	(1.4)	(0.8)	(0.9)	(1.2)
Profitability Ratios				
RoCE (%)	13.7	16.0	17.9	18.6
RoE (%)	16.7	20.0	22.2	22.4
RoC (%)	20.9	21.4	23.2	26.4
Fixed Asset Turnover (x)	1.9	1.6	2.0	2.3
Inventory Turnover Days	2	4	4	4
Receivables Days	8	12	12	12
Payables Days	22	24	25	23

Source Company data, I-Sec research

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