

Retail Research	IPO Note
Sector: Healthcare	Price Band (Rs): 420 - 441
27 th November 2024	

Suraksha Diagnostic Ltd

Company Overview:

Suraksha Diagnostic Ltd offers a one-stop integrated solution for pathology and radiology testing and provides medical consultation services to customers through its extensive operational network. The company's network boasts of a flagship central reference laboratory, 8 satellite laboratories, 49 diagnostic centres and 166 sample collection centres (as on Jun'24).

Key Highlights:

1. Integrated diagnostic service provider: Suraksha Diagnostic offers a comprehensive range of 2,300+ tests that cover a range of specialties and disciplines. The company's key differentiating factor is its offering of omnichannel medical consultation services via online and offline modes through its polyclinic chambers. As of Jun'24, the company's 44 diagnostic centres housed 126 polyclinic chambers hosting 750+ doctors.

2. Technologically advanced infrastructure & test menu: The company's testing operations are supported by 500+ medical equipment offering a test menu of 2,300+ tests with a capacity to handle over 30,000 pathology samples and over 5,000 scans a day. The company's diagnostic test menu comprises of: a) 788 routine pathology tests and 664 specialized pathology tests, b) 766 basic/intermediate radiology tests and 119 advanced radiology tests. The radiology equipment includes 24 CT machines, 13 MRI machines along with a team of 23 laboratory doctors, 255 radiologists & other reporting doctors and 529 well-trained technical staff.

3. Extensive operational network: The company's operational network comprises a **diagnostic network** of a) 13 hub centres which are equipped to conduct all pathology sample collections, basic and advanced radiology tests. b) "Spoke" diagnostic centres which include 11 medium centers, 23 small centres and 2 centres operated under public-private partnership model. While the **laboratory network** consists of a flagship central reference laboratory and 8 satellite laboratories which are co-located with certain hub centres.

4. Focus on technology advancements (AI): The company's flagship central reference laboratory located in New Town, Kolkata is spread over 40,000 sq.ft, and houses a fully automated AI enabled robotic track and liquid chromatography with tandem mass spectroscopy ("LC-MS-MS"), cytogenetics, and next-generation sequencing capabilities. Suraksha also uses digital pathology and artificial intelligence to report blood tests.

Valuation: At the upper price band of Rs 441, Suraksha Diagnostic is valued at FY24 P/E and EV/Sales multiple of 96.1x/5.1x respectively based on its post issue capital. The company is an integrated diagnostics provider offering one-stop solution for pathology & radiology testing and medical consultation services. As of FY24, Suraksha garnered a market share of ~1.15%-1.30% in its core eastern India market and aims to further expand its presence in the adjacent northeastern markets. The company's operations in core geography, extensive network and reputation will aid in expanding its business coupled with industry growth which is expected to grow from Rs 860-870 bn to Rs 1,275-1,375 bn by FY28, experiencing a CAGR of 10-12% between FY24-FY28.

Issue Details	
Date of Opening	29 th November 2024
Date of Closing	3 rd December 2024
Price Band (Rs)	420 - 441
Offer for sale (No. of shares)	1,91,89,330
Fresh Issue (Rs cr)	-
Issue Size (No of shares)	1,91,89,330
No. of shares	1,91,89,330
Face Value (Rs)	2
Post Issue Market Cap (Rs cr)	2,187 – 2,297
BRLMs	ICICI Securities Ltd, Nuvama Wealth Management Ltd, SBI Capital Markets Ltd
Registrar	KFin Technologies Ltd
Bid Lot	34 shares and in multiple thereof
QIB shares	50%
Retail shares	35%
NII shares	15%

Shareholding Pattern		
Pre-Issue	No. of Shares	%
Promoter & Promoter Group	3,18,02,034	61.1
Public & Others	2,02,78,724	38.9
Total	5,20,80,758	100.0

Post Issue @ Lower Price Band	No. of Shares	%
Promoter & Promoter Group	2,54,05,590	48.8
Public & Others	2,66,75,168	51.2
Total	5,20,80,758	100.0

Post Issue @ Upper Price Band	No. of Shares	%
Promoter & Promoter Group	2,54,05,590	48.8
Public & Others	2,66,75,168	51.2
Total	5,20,80,758	100.0

Source: RHP, SSL Research

Key Financials

Particulars (Rs cr)	FY22	FY23	FY24	1QFY25
Revenue from operations	223.2	190.1	218.7	60.7
EBITDA	62.7	43.9	70.1	20.6
PAT	20.8	6.1	23.9	7.7
EBITDA Margin (%)	28.1	23.1	32.0	33.9
PAT Margin (%)	9.3	3.2	10.9	12.6
RoE (%)	14.3	3.9	13.3	-
RoCE (%)	22.4	9.3	21.8	-
P/E (x)*	91.3	313.6	79.6	-

**Note: Pre-issue P/E based on upper price band*

Source: RHP, SSL Research

Risk Factors

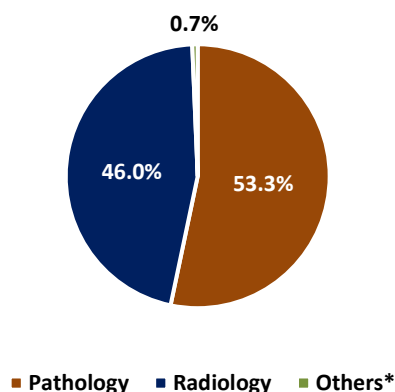
- **Intense competition:** The diagnostics industry in India is highly competitive and comprises of several listed and private players across all verticals, presenting the company with a challenge to gain market share and profitability. Accordingly, competitors may have access to greater financial resources, research and development investment, marketing and other resources. Hence, if the company fails to compete effectively with other healthcare service providers it may see adverse impact on profitability and operations.
- **Geographical risk:** The company has presence across 12 cities and towns in India across the states of West Bengal, Bihar, Assam and Meghalaya. However, a significant portion of its operations are concentrated in West Bengal with the state accounting for ~95% of the total revenues. Thus, in the event of a regional slowdown in the economic activity in West Bengal or any other developments including political or civil unrest, disruption, etc. may lead to an adverse impact on the company's business.
- **Regulatory risk:** The company operates in an industry that is exposed to heightened risks of legal claims and regulatory actions arising out of non-compliance. Such risks may arise if the company's medical professionals, technicians and staff are not properly and adequately trained and also if they make errors in the handling and labelling of patient samples in the operation of complex medical equipment, even if properly trained. In case any liabilities arise due to claims of malpractice and medical negligence or non-compliance with applicable laws by the company, it may severely impact the reputation of the business.

Growth Strategies

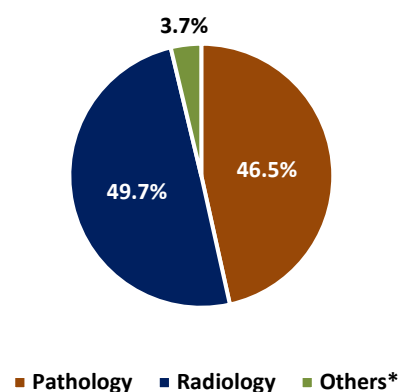
- To strengthen position in core geography (Kolkata, Rest of West Bengal)
- To expand into adjacent geographies of Eastern and North-eastern India
- To supplement organic growth with selective acquisitions
- To leverage technology to elevate customer experience
- To augment medical consultation services offered through polyclinic chambers at diagnostic centres to boost revenue
- To enhance revenue by inking business-to-business ("B2B") and corporate partnerships

Revenue split (%) – Service wise

Revenue split (%) - FY24



Revenue split (%) - 1QFY25



*Others include Doctor Consultation and Covid test services
Source: RHP, SSL Research

Operational network - Customer touchpoints

Operational Facilities	FY22	FY23	FY24	1QFY25
Diagnostic centres (1)	41	43	48	49
Hub centres	12	12	13	13
Spoke centres (small)	18	19	23	23
Spoke centres (Medium, CT Machine)	10	10	10	11
PPP	1	2	2	2
Sample collection centres (2)	113	131	146	166
Self-operated	2	8	4	5
Franchised	111	123	142	161
Total customer touchpoints (1+2)	154	174	194	215

Source: RHP, SSL Research

Operational network - Laboratories

Operational Facilities	FY22	FY23	FY24	1QFY25
Central reference laboratory	1	1	1	1
Satellite laboratories	6	7	8	8
Total	7	8	9	9

Source: RHP, SSL Research

Key Metrics

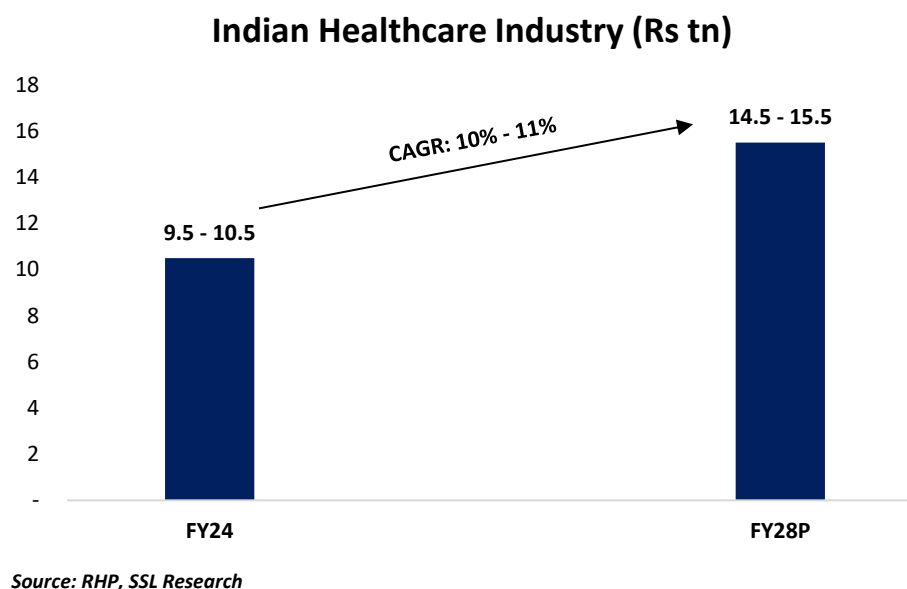
Particulars	Unit	FY22	FY23	FY24	1QFY25
Number of patients served	Mn	1.7	1.1	1.1	0.3
Number of tests performed	Mn	5.0	5.2	6.0	1.6
Average revenue per patient	Rs	1,317.8	1,711.6	1,922.4	2,146.0
Average revenue per centre	Rs cr	5.4	4.4	4.6	1.2

Source: RHP, SSL Research

Industry Overview

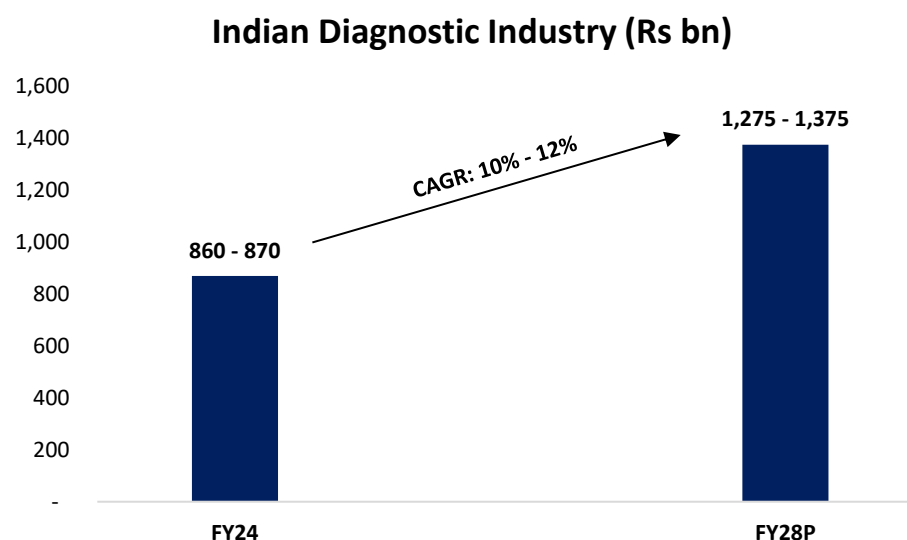
Indian Healthcare Industry:

The domestic healthcare industry is currently valued at Rs 9.5-10.5 tn and is expected to grow to Rs 14.5-15.5 tn by FY28, experiencing a CAGR of 10-11% between FY24-FY28. This growth is expected to be driven by factors such as an aging population, increased incidence of lifestyle diseases, growing healthcare awareness, technology adoption and a growing affluent middle class.



Indian Diagnostics Industry:

As of FY24, the Indian diagnostics industry was valued at Rs 860-870 bn and is expected to grow to Rs 1,275–1,375 bn by FY28, experiencing a CAGR of 10-12% between FY24-FY28; led by rising literacy rates and disposable income among the population, leading to increased awareness and demand for quality healthcare services, including diagnostics. Further, a rise in urbanisation, coupled with lifestyle-related diseases and aging population, will create a greater need for accurate and timely diagnostic services to identify and manage these health issues effectively.



Financial Snapshot

INCOME STATEMENT				
(Rs cr)	FY22	FY23	FY24	1QFY25
Revenue from Operations	223	190	219	61
YoY growth (%)	-	-14.8%	15.0%	-
Cost Of Revenues (incl Stock Adj)	60	27	27	7
Gross Profit	163	163	191	54
Gross margins (%)	72.9%	85.6%	87.5%	89.1%
Employee Cost	34	40	40	10
Other Operating Expenses	66	79	81	23
EBITDA	63	44	70	21
EBITDA margins (%)	28.1%	23.1%	32.0%	33.9%
Other Income	3	4	4	1
Interest Exp.	9	9	9	2
Depreciation	28	32	33	9
PBT	28	7	32	11
Exceptional item/Extraordinary item	-	-	(1)	-
Tax	7	1	8	3
Adj. PAT	21	6	24	8
Adj. PAT margin (%)	9.3%	3.2%	10.9%	12.6%

BALANCE SHEET				
(Rs cr)	FY22	FY23	FY24	1QFY25
Assets				
Net Block	118	113	135	137
Capital WIP	1	2	1	7
Right of use assets	79	81	75	74
Intangible Assets	2	1	1	1
Other Non-current Assets	13	16	15	13
Current Assets				
Inventories	6	6	7	6
Trade receivables	7	5	9	9
Cash and Bank Balances	45	55	55	59
Other Current Assets	5	2	2	7
Total Current Assets	63	68	72	82
Current Liabilities & Provisions				
Trade payables	14	14	14	16
Other current liabilities	8	8	10	17
Total Current Liabilities	22	22	24	33
Net Current Assets	41	46	48	49
Total Assets	254	259	276	282
Liabilities				
Share Capital	9	9	9	10
Reserves and Surplus	137	147	171	177
Total Shareholders Funds	146	156	179	187
Total Debt	19	14	9	8
Long Term Provisions	0	0	1	1
Lease Liabilities	81	83	82	81
Net Deferred Tax Liability	8	7	5	5
Total Liabilities	254	259	276	282

Cash Flow (Rs cr)	FY22	FY23	FY24
Cash flow from Operating Activities	58	44	60
Cash flow from Investing Activities	(43)	(21)	(35)
Cash flow from Financing Activities	(14)	(24)	(25)
Free Cash Flow	39	31	16

RATIOS			
	FY22	FY23	FY24
Profitability			
Return on Assets	7.5%	2.2%	8.0%
Return on Capital Employed	22.4%	9.3%	21.8%
Return on Equity	14.3%	3.9%	13.3%
Margin Analysis			
Gross Margin	72.9%	85.6%	87.5%
EBITDA Margin	28.1%	23.1%	32.0%
Net Profit Margin	9.3%	3.2%	10.9%
Short-Term Liquidity			
Current Ratio (x)	1.6	1.8	1.8
Quick Ratio (x)	1.5	1.6	1.7
Avg. Days Sales Outstanding	11	9	15
Avg. Days Inventory Outstanding	10	12	11
Avg. Days Payables	22	27	24
Fixed asset turnover (x)	1.9	1.7	1.6
Debt-service coverage (x)	1.3	0.7	2.4
Long-Term Solvency			
Total Debt / Equity (x)	0.1	0.1	0.0
Interest Coverage Ratio (x)	4.2	1.7	4.7
Valuation Ratios*			
EV/EBITDA (x)	29.9	42.4	26.5
P/E (x)	91.3	313.6	79.6
P/B (x)	13.0	12.2	10.6
EV/Sales (x)	8.4	9.8	8.5
P/Sales (x)	10.3	12.1	10.5

**Valuation ratios are based on pre-issue capital at the upper price band*

Source: RHP, SSL Research

Peer Comparison – FY24

Particulars (Rs cr)	Suraksha Diagnostic	Dr Lal PathLabs	Metropolis Healthcare	Thyrocare Technologies	Vijaya Diagnostic
CMP (Rs)	441.0	3,082.0	2,160.0	1,020.0	1,164.0
Sales	218.7	2,226.6	1,207.7	571.9	547.8
EBITDA	70.1	609.3	282.6	137.4	220.9
Net Profit	23.1	362.3	128.5	96.0	119.6
Mkt Cap.	2,296.8	25,755.0	11,071.0	5,403.0	11,946.0
Enterprise Value	2,250.4	25,008.0	11,000.0	5,363.0	11,873.0
EBITDA Margin (%)	32.0	27.4	23.4	24.0	40.3
Net Profit Margin (%)	10.6	16.3	10.6	16.8	21.8
P/E (x)	96.1	71.9	86.6	76.3	100.3
EV/EBITDA (x)	32.1	41.0	38.9	39.0	53.7
RoE (%)	13.3	19.6	11.7	19.7	18.2
RoCE (%)	21.8	24.1	17.2	17.2	24.9
EV/Sales	5.1	8.1	5.1	9.4	21.7

For Suraksha Diagnostic Ltd, the Market Cap, P/E (x), Enterprise Value, EV/EBITDA (x) and EV/Sales (x) are calculated on post-issue equity share capital based on the upper price band.

CMP of peer companies is as of 26th November, 2024.

Source: RHP, SSL Research

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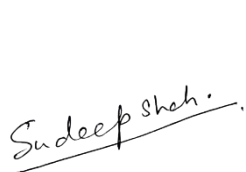
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