



LONG TERM SUBSCRIBE

IPO Report

29th Nov '24

Snapshot

Suraksha Diagnostic Ltd offer a one-stop integrated solution for pathology and radiology testing, and medical consultation services to its customers through its extensive operational network, consisting of company's flagship central reference laboratory, 8 satellite laboratories (co-located with its diagnostic centers) and 215 customer touchpoints which include 49 diagnostic centres, and 166 sample collection centres (primarily franchised), as of June 30, 2024 across the states of West Bengal, Bihar, Assam, and Meghalaya. Company's central reference laboratory has an accreditation from the College of American Pathologists, 3 of its laboratories hold National Accreditation Board for Testing and Calibration Laboratories ("NABL") and 3 of its advanced diagnostic centres hold National Accreditation Board for Hospitals & Healthcare Providers ("NABH") accreditations.

VALUATION

Company is bringing the issue at price band of Rs 420-441 per share at p/e multiple of 61x on FY24 PAT basis. Company's diagnostic chain in eastern India well positioned to leverage growth opportunity for organized diagnostic chains in the diagnostic services markets in eastern and north-eastern India. Company is integrated diagnostics provider with one-stop solution offering pathology and radiology testing, and medical consultation services. Company has technologically advanced clinical infrastructure and trained personnel providing diagnostic services & has Management team with relevant industry experience Hence looking after all above , we recommend "Long Term Subscribe" on issue.

Price Band (Rs./Share)	420-441
Opening date of the issue	29th Nov '2024
Closing Date of the issue	03rd Dec'2024
No of shares pre issue	5,20,80,758 Eq Shares
Issue Size	Rs 806-846 Cr
Offer For Sale	1,91,89,330 Equity Shares
Face Value (Rs/ share)	Rs 2/share
Bid Lot	34

BIDDING DETAILS

QIBs (Including Anchor)	50% of the offer (Approx 95,94,664 Eq Shares)
Non-Institutional	15% of the offer (Approx 28,78,400 Eq Shares)
Retail	10% of the offer (Approx 67,16,266 Eq Shares)
Lead managers	ICICI Securities, Nuvama Wealth Management, SBI Capital Markets
Registrar to the issue	KFin Technologies Ltd

WHAT WE LIKE

Diagnostic chain in eastern India well positioned to leverage growth opportunity for organized diagnostic chains in the diagnostic services markets in eastern and north-eastern India

Company reported a compounded annual growth rate ("CAGR") of 20.87% in terms of non-COVID revenues between Fiscals 2022 and 2024. Company have built an extensive operational network across the states of West Bengal, Bihar, Assam, and Meghalaya. As of June 30, 2024, 44 of companmy's diagnostic centres also house polyclinic chambers hosting specialized doctors for patient convenience.

Integrated diagnostics provider with one-stop solution offering pathology and radiology testing, and medical consultation services

Company offer a comprehensive range of 2,300+ tests that cover a range of specialties and disciplines, as of June 30, 2024. Company's diagnostic test menu included (a) 788 routine pathology tests ranging from basic biochemistry and hematology to 664 specialized pathology tests such as advanced biochemistry, histopathology, and molecular pathology, and (b) 766 basic/intermediate radiology tests ranging from basic x-rays, USG, and CT scans to 119 advanced radiology tests such as MRI scans and specialized CT scans, as of June 30, 2024

Technologically advanced clinical infrastructure and trained personnel providing diagnostic services

Company's flagship central reference laboratory located in New Town, Kolkata, spread over an area of 40,000 square feet, houses a fully automated AI enabled robotic track and also houses liquid chromatography with tandem mass spectroscopy ("LC-MS-MS"), cytogenetics, and next-generation sequencing capabilities.. 3 of company's laboratories hold NABL and 3 of its advanced diagnostic centres hold NABH accreditations.



COMPANY BACKGROUND

As of June 30, 2024, 44 of company's diagnostic centres also housed 126 polyclinic chambers hosting 750+ specialized doctors for patient convenience. During the three months period ended 2024, company conducted approximately 1.58 million tests serving approximately 0.28 million patients and derived 95.34% of its revenue from operations from its core geography, Kolkata and the rest of West Bengal. During the Fiscal 2024, company conducted approximately 5.98 million tests serving approximately 1.14 million patients and derived 95.48% of company's revenue from operations from its core geography, Kolkata and the rest of West Bengal. Company's radiology equipment consists of 24 CT and 13 MRI machines. As of June 30, 2024, its operational network comprises a diagnostic center network of (i) 13 hub centres, which are equipped to conduct all pathology sample collections, basic and advanced radiology tests; and (ii) its 'spoke' diagnostic centres which include its 11 medium centers, 23 small centres and 2 centres operated under public-private partnership ("PPP") model, which are equipped to conduct all pathology sample collection and certain basic radiology tests, further supported by 166 sample collection centres (primarily franchised); and a laboratory network of (i) its flagship central reference laboratory; and (ii) 8 satellite laboratories which are co-located with certain hub centres. Company's market share in the diagnostics services market in Eastern India was 1.15% to 1.30% in Fiscal 2024 whereas peers such as Dr. Lal Pathlabs Limited have a market share of 5.30% to 5.70% in its major market i.e., north India and Vijaya Diagnostic Centre Limited, a market share of 2.20% to 2.50% in its major market, i.e. South India.

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Company derive the majority of its revenues from the B2C segment (i.e., individual patients, who either walk into company's customer touchpoints or use company's home collection services or avail medical consultation services through its polyclinics. Company's B2C segment contributed to 93.83% of its revenue from operations for the Fiscal 2024 and 93.48% of company's revenue from operations for the three month period ended June 30, 2024, which is due to the trust built among the public and the medical community while rendering, over decades, quality diagnostic services and experience gained. Over the years, company have received several awards that recognize the strength of its brand and company's focus on offering superior diagnostic services. For example, company was recognized for 'excellence in exemplary trust & commitment towards diagnostic services' and 'excellence in quality diagnosis and convenient service in eastern India' by Zee 24Ghanta in 2023 and 2022 respectively, as 'business leader of the year' in 2021 by the World Leadership Congress & Awards, and for 'best customer service in healthcare' and 'best quality in service delivery' by ABP News in 2019 and 2017 respectively

The diagnostics industry's hub-and-spoke model, especially in the field of pathology, refers to a centralised approach for diagnostic testing and laboratory services. In this model, a central laboratory acts as the hub that receives and processes samples and smaller satellite locations — or spokes — collect and send the samples to the central facility for analysis. Company have implemented a cluster based 'hub and spoke' model which provides greater economies of scale, enables increased consistency in testing procedures, and enhances company's brand penetration through its ability to serve more customers in remote areas. Samples are collected across multiple locations within a cluster for delivery to company's laboratories for diagnostic testing



INVESTMENT RATIONALE

<p><i>Technologically advanced clinical infrastructure and trained personnel providing diagnostic services</i></p>	<p>Company have been at the forefront of technology in diagnostics and its strong technical capability and ability to adopt to the latest technologies in the diagnostic industry have ensured that company’s patients benefit from the latest technologies and receive high quality and reliable diagnostic services. Currently, 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, which includes radiology equipment consisting of 24 CT machines, 13 MRI machines, which represent the leading technology used in the field, and a team of 23 laboratory doctors, 255 radiologists and other reporting doctors, and 529 well-trained technical staff in company’s operational network, as of June 30, 2024. Company’s flagship central reference laboratory located in New Town, Kolkata, spread over an area of 40,000 square feet, houses a fully automated AI enabled robotic track and also houses liquid chromatography with tandem mass spectroscopy (“LC-MS-MS”), cytogenetics, and next-generation sequencing capabilities.. 3 of company’s laboratories hold NABL and 3 of its advanced diagnostic centres hold NABH accreditations.</p>
<p><i>Management team with relevant industry experience</i></p>	<p>Company is led by a team of experienced professionals with skill sets that are complementary and, requisite for the fast-growing Indian diagnostic market. Members of company’s management team have experience in the healthcare industry, and, under their leadership over the last several years, company have grown rapidly and increased both the productivity and efficiency of its network. Several key members of company’s management team including its Joint Managing Directors, Non-Executive, Non Independent (Nominee) Director, Chief Financial Officer and Company Secretary have extensive functional/industry experience. In particular, company’s Founder, Promoter, and Chairman and Joint Managing Director, Dr. Somnath Chatterjee has more than 32 years of experience in the diagnostics industry. Company’s Promoter, Joint Managing Director and Chief Executive Officer, Ritu Mittal, also has 28 years of experience in the diagnostics industry and is presently leading company’s business. Company’s Board of Directors includes a combination of management executives and experts from healthcare industry. The combination of company’s experienced Board of Directors and its dynamic management team positions company well to capitalize on future growth opportunities.</p>
<p><i>Commitment to quality driving high individual consumer business share and customer retention</i></p>	<p>Company have built a trusted, high quality and reliable brand of choice over the last three decades, evidenced by its high repeat rate of over 49%, and the primary contribution of the B2C segment to company’s revenue from operations, which was 93.48% in three month period ended June 30, 2024, 93.83% in Fiscal 2024, 96.01% in Fiscal 2023, and 95.56% in Fiscal 2022. Over the years, company have received several awards that recognize the strength of its brand and company’s focus on offering superior diagnostic services.</p>



OBJECTS OF OFFER

The objects of the Offer are to (i) carry out the Offer for Sale of up to 19,189,330 Equity Shares of face value ₹ 2 each by the Selling Shareholders; and (ii) achieve the benefits of listing the Equity Shares on the Stock Exchanges

RISKS

95.48% of company's Revenue from Operations in Fiscal 2024 was generated from West Bengal, and any loss of business in such region could have an adverse effect on company's business, results of operations and financial condition.

Source:RHP

INDUSTRY OVERVIEW

Key growth drivers of the Indian diagnostics industry

Ageing population India is experiencing a demographic shift, with more people entering the older age bracket. The share of the population in the 60 and above year age bracket, which was just 7% in 2001, is expected to increase to 12% by 2026. This trend is driven by factors such as increased life expectancy, owing to improved healthcare infrastructure and advancements in medical care. However, as people age, the risk of developing chronic and age-related illnesses, such as cardiovascular diseases, diabetes, cancer and neurodegenerative disorders, rises. Owing to increasing prevalence of aged-related diseases, the need for regular health check-ups and the demand for specialised diagnostic services are expected to propel the growth of the diagnostics industry.

Government initiatives have significantly benefitted the diagnostics industry The government has implemented several measures and policies, such as the Free Diagnostics Service Initiative under the NHM, to improve healthcare access and infrastructure and promote preventive care through diagnostic services. Additionally, the government has encouraged PPPs in the diagnostics space to leverage the expertise and resources of both the private and public segments. These partnerships have led to improvements in infrastructure, technology and service delivery, enabling better access to diagnostic services across the country, besides propelling industry growth. Take the case of the Free Diagnostic Service Initiative, which is delivered through in-house, PPP and hybrid modes in states/ UTs. As of April 2024, the initiative had been implemented in 36 states/ UTs. In fact, government initiatives, such as AB-PMJAY, Free Diagnostics Service Initiative, NUHM, NRHM and more have emerged as significant growth drivers for the Indian diagnostics industry. Programmes such as PMJAY are expected to boost health insurance coverage in India, ensuring affordability in availing healthcare services, including diagnostics services. Furthermore, policies such as the NHM and Ayushman Bharat have focused on expanding healthcare infrastructure, promoting preventive care and increasing access to diagnostic services, particularly in rural and underserved areas.

With improving life expectancy and changing demographic profile, healthcare services are a must With improving life expectancy, the demographic profile of the country is also witnessing a change. As of 2011, nearly 8% of the Indian population was of 60 years or more, and this is expected to surge to 13% by 2026. However, the availability of a documented knowledge base concerning the healthcare needs of the elderly (aged 60 years or more) remains a challenge. Nevertheless, the higher vulnerability of this age group to health-related issues is an accepted fact.

Rising income levels India's per capita income, a broad indicator of living standards, rose to Rs 99,404 in FY23 from Rs 63,462 in FY12 at a CAGR of 4.2%. Growth was led by better job opportunities, propped up by overall economic growth. Additionally, population growth was stable at ~1% CAGR. Also, as per provisional estimates, the per capita net national income (constant prices) was estimated to have increased to Rs 106,744, thereby registering an on-year growth of ~7.4%.

Growing health awareness with subsiding Covid-19 infections There has been a significant increase in health awareness and a growing emphasis on preventive healthcare in India, especially following the onset of Covid-19. The pandemic has heightened the importance of healthcare, including preventive care, such as early detection and regular health checkups. This has increased the importance of diagnostic services, further driving demand for a wide range of diagnostic tests.

Non-Communicable Diseases (NCDs) boost demand for diagnostics services India is currently undergoing a significant transition in disease pattern, characterised by the rising prevalence of NCDs, such as cardiovascular diseases, diabetes, cancer and respiratory disorders. In fact, NCDs are emerging as the primary contributor to the country's disease burden, accounting for 59% of DALYs in India in 2019 versus 36% in 2000. Moreover, the share of NCDs in death is also increasing, with NCDs expected to comprise ~72% share of total deaths by FY30.

Under-penetration of non-metro regions provides growth opportunity As of FY24, diagnostic test penetration in India was 600-650 tests per 1,000 population. Bifurcating the numbers, metro regions had a penetration of 1,500-2,000 tests per 1,000 population, whereas in nonmetro regions, it was 550-600 tests. However, non-metro regions accounted for 85-90% share of the total tests.



Consolidated Financials

(Rs in Mn)

Financials	FY22	FY23	FY24	Q1 FY 2025
Total Revenue (A)	2231.93	1901.34	2187.09	607.32
Total Expenditure (B)	1605.15	1462.08	1486.42	401.28
EBIDTA	626.78	439.26	700.67	206.04
EBIDTA Margin	28.08	23.10	32.04	33.93
Other Income	25.75	35.53	35.51	11.17
Depreciation	283.95	316.71	325.98	89.92
EBIT	368.58	158.08	410.20	127.29
Interest	88.46	90.60	87.88	22.15
PBT	280.12	67.48	322.32	105.14
Share of profit in Asso	0.00	0.00	0.00	0.00
PBIT	280.12	67.48	322.32	105.14
Exceptional	0.00	0.00	7.79	0.00
PBT	280.12	67.48	330.11	105.14
Tax	71.88	6.83	83.26	28.47
PAT	208.24	60.65	246.85	76.67
NPM	9.33	3.19	11.29	12.62
ROE%	15.38	4.32	14.09	4.33
EPS	3.91	1.22	4.43	1.49
Eq Cap	69.00	69.00	69.00	86.25
Net Worth	1,458.28	1,554.61	1,791.47	1,866.17

(Source: RHP)

Peer Comparison

Company Name	Face Value	EPS	P/E	ROE %	NAV
<i>Suraksha Diagnostic Limited</i>	<i>2.00</i>	<i>4.43</i>	<i>NA</i>	<i>14.09</i>	<i>33.66</i>
Peers					
Dr Lal PathLabs	10.00	43.05	77.08	20.35	221.53
Metropolis Healthcare	2.00	24.95	89.61	12.26	213.98
Thyrocare	10.00	13.42	65.52	13.34	99.48
Vijaya Diagnostic	1.00	11.62	86.40	19.77	64.21

(Source: RHP)



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