SURAKSHA DIAGNOSTIC LIMITED

November 27, 2024

Suraksha Clinic & Diagnostics

SMC Ranking

★★☆☆☆ (2/5)

Issue Highlights

Industry	**Diagnostic**
Offer for sale (Shares)	19,189,330
Net Offer to the Public	**19,189,330**
Issue Size (Rs. Cr.)	805-847
Price Band (Rs.)	420-441
Offer Date	29-Nov-24
Close Date	3-Dec-24
Face Value	2
Lot Size	34 Shares

Issue Composition

	In shares
Total Issue for Sale	19,189,330
QIB	9,594,665
NIB	2,878,400
Retail	6,716,266

Shareholding Pattern (%)

Particulars	Pre-issue	Post -issue
Promoters & promoters group	61.06%	48.78%
QIB	33.35%	31.30%
NIB	5.59%	7.02%
Retail	0.00%	12.90%
Total	**100.00%**	**100.00%**

*calculated on the upper price band

Objects of the Issue

The Company will not receive any proceeds from the Offer for sale and all proceeds will go to the Selling Shareholders.

Book Running Lead Manager

- ICICI Securities Limited
- Nuvama Wealth Management Limited
- SBI Capital Markets Limited

Name of the registrar

- KFin Technologies Limited

About the company

Since its incorporation in 2005, Suraksha Diagnostic Limited has established itself as a comprehensive healthcare provider, offering pathology, radiology testing, and medical consultancy services. As of June 30, 2024, the company boasts an extensive network across West Bengal, Bihar, Assam, and Meghalaya, comprising a central reference laboratory, 8 satellite laboratories, and 215 customer touchpoints, including 49 diagnostic centers and 166 sample collection centers. Notably, 44 of these diagnostic centers are equipped with 120 polyclinics, staffed by over 750 doctors, offering both online and offline medical consultation services under one roof. The company leverages cutting-edge technology platforms, including Laboratory Information Management System (LIMS), Radiology Information System (RIS), Picture Archive Communication System (PACS), and Enterprise Resource Planning System (ERP), to streamline operations. Additionally, Suraksha Diagnostic Limited provides vaccination services; customized testing packages for disease prediction and early detection, and employs digital pathology and artificial intelligence to enhance blood test analysis. All radiology reporting is conducted via a digital platform, enabling efficient reporting across all diagnostic centers and significantly reducing turnaround times.

Strength

Growth Opportunities in Eastern and North-Eastern India: Suraksha Diagnostic has shown a strong performance, with a CAGR of 20.87% in non-COVID revenues between Fiscal 2022 and 2024. The company has an extensive operational network in West Bengal, Bihar, Assam, and Meghalaya. As of June 30, 2024, 44 diagnostic centers also offer polyclinic chambers for specialized medical consultations. Despite its current market share of 1.15% to 1.30% in eastern India, which is lower compared to competitors like Dr. Lal Pathlabs (5.30%-5.70% in North India) and Vijaya Diagnostic (2.20%-2.50% in South India), Suraksha Diagnostic sees significant growth potential in its core geography. It aims to leverage its dominant position, reputation, and operational efficiency to expand in eastern and north-eastern India.

Comprehensive One-Stop Diagnostic Solutions: Suraksha Diagnostic provides 2,300+ tests across multiple disciplines, including routine and specialized pathology and basic and advanced radiology. For Fiscal 2024, 53.30% of revenue came from pathology and 46.03% from radiology. Additionally, its polyclinic chambers offer offline and online consultations with 750+ doctors across various specialties and super-specialties. The company's hub-and-spoke operational model ensures efficient sample collection, consistent testing, and enhanced customer reach. Its network includes 13 hub centers, 36 spoke diagnostic centers, and 166 sample collection centers. All centers offer integrated diagnostic services, with hubs providing advanced testing options like MRI and specialized CT scans.

Technological Leadership in Diagnostics: Suraksha Diagnostic's central reference laboratory in Kolkata features AI-enabled robotic systems, liquid chromatography tandem mass spectrometry (LC-MS-MS), and next-generation sequencing capabilities. The company also uses digital pathology, radiology information systems (RIS), and enterprise resource planning (ERP) systems to streamline operations. The company operates with 500+ medical devices, including 24 CT machines and 13 MRI machines, supported by a team of 23 laboratory doctors, 255 radiologists, and 529 technical staff. It uses advanced technologies like peer review in radiology reporting and AI-driven diagnostics to ensure accuracy and efficiency.

Customer-Centric Approach Driving Retention and B2C Revenue: The B2C segment contributed over 93% of revenue for Fiscal 2024, supported by a high repeat rate of 49%.

The company's focus on quality, reliability, and customer convenience has helped build a trusted brand over the past three decades. Suraksha Diagnostic has received accolades such as "Best Quality in Service Delivery" and "Best Customer Service in Healthcare", further solidifying its reputation in the market. To enhance the patient experience, the company offers home sample collection services, easy access to test reports, and templated diagnostic center designs for consistency. This focus on convenience and quality drives high customer satisfaction and retention.

Strategy

Strengthening Core Geographies in Kolkata and West Bengal: Suraksha Diagnostic plans to enhance its position in its core geography, focusing on Kolkata and the rest of West Bengal. With most diagnostic centers located in urban Kolkata, the company aims to expand further into suburban areas like Greater Kolkata while optimizing the performance of newer centers in southern Kolkata. Additionally, it seeks to bolster its presence in the northern and southern parts of West Bengal, leveraging the potential of newly established centers, which constitute about 25% of its total network in the region.

To achieve this, the company plans to:

1. Expand its service network with additional diagnostic centers and franchisee partnerships.
2. Upgrade laboratory capacity and expand the test menu with advanced technologies.
3. Increase home collection services.
4. Establish more hub centers and develop new clusters and spoke centers within existing clusters.

Expanding beyond Core Markets in Eastern and North-Eastern India: The company intends to grow its presence in adjacent regions of eastern and north-eastern India, including Bihar, Assam, and Meghalaya. It plans to establish hub diagnostic centers in these regions, with centers in Patna and Guwahati already functioning as hubs, supported by spoke centers. In 2019, the company expanded to Meghalaya through a public-private partnership, establishing high-end diagnostic facilities. These new centers have contributed 4.52% of the revenue for FY 2024, and the company expects further growth by replicating its hub-and-spoke and polyclinic models, unlocking economies of scale and attracting higher patient footfalls.

Supplementing Organic Growth with Strategic Acquisitions: Suraksha Diagnostic seeks to enhance its growth by selectively acquiring or partnering with high-quality, standalone diagnostic centers operated by local pathologists and radiologists in eastern and north-eastern India. These acquisitions aim to expand the customer base and consolidate its position in core markets and to achieve operational leverage and unlock efficiencies and strengthen technological capabilities and achieve synergies. The company evaluates acquisition targets based on factors like brand value, customer base, and technical resources. For instance, it acquired two diagnostic centers in Kolkata in 2020 to strengthen its market position.

Leveraging Technology to Elevate Customer Experience: The Company remains at the forefront of diagnostic technology, fully transitioning to cloud-based ERP systems to enhance operational efficiency. It plans to integrate advanced digital technologies, artificial intelligence (AI), and machine learning (ML) to improve customer experience with seamless digital interfaces, to expand touchpoints through enhanced web applications for booking services and accessing test reports, to use AI-based solutions in pathology and radiology to offer precise diagnostics.

Boosting Revenue through Polyclinic Services: Suraksha Diagnostic operates omnichannel medical consultation services at its diagnostic centers via polyclinic chambers, hosting over 750 doctors across specialties. This model enables holistic patient care and cross-selling of diagnostic services, increasing footfalls and revenue. The company aims to expand polyclinic chambers in existing centers and increase the number and variety of associated specialists to attract more patients and enhance average revenue per patient.

Enhancing Revenue through B2B and Corporate Partnerships: The Company seeks to diversify its revenue streams by expanding its B2B and institutional client base. It already serves public sector employees under schemes like the West Bengal Health Scheme, Central Government Health

Scheme, and the Employees State Insurance Corporation.

To grow this segment, the company plans to actively target new institutional clients through referrals and internal lead generation and strengthen partnerships with hospitals and nursing homes by providing outsourced radiology services. This strategy will help increase brand penetration and diversify the revenue mix.

Risk factor

- The company's reliance on West Bengal for 95.48% of its revenue exposes it to significant risk, as any loss of business in this region could have far-reaching adverse consequences.
- The diagnostics industry in India is highly competitive.
- 93.83% of revenue from B2C segment in Fiscal 2024. Brand reputation is fragile; single mistake can lead to negative publicity and significant revenue loss

Peer comparison

Co_Name	Total Income	PAT	EPS	P/E	P/BV	BV	FV	Price	Mcap
Dr Lal Pathlabs	2346.40	401.40	48.03	64.51	12.94	239.48	10	3098.25	25894.94
Thyrocare Tech.	623.26	83.97	15.85	64.26	11.05	92.16	10	1018.50	5395.24
Metropolis Healt	1285.27	148.04	28.87	74.68	9.34	230.94	2	2156.15	11054.01
Vijaya Diagnost.	627.07	132.59	13.07	88.54	16.38	70.63	1	1157.20	11876.28
Suraksha Diagnostic Limited	218.71	23.13	4.44	99.31	12.29	35.87	2	441.00	2296.76

***Peer companies financials are TTM based**
"Suraksha Diagnostic Limited financials are based on FY24"**

Valuation

Considering the P/E valuation on the upper price band of Rs.441, FY24 EPS and P/E are Rs.4.44 and 99.31 multiple respectively and at a lower price band of Rs. 420, P/E multiple is 94.58. Looking at the P/B ratio on the upper price band of Rs.441, book value and P/B are Rs. 35.87 and 12.29 multiple respectively and at a lower price band of Rs. 420 P/B multiple is 11.71. No change in pre and post issue EPS and Book Value as the company is not making fresh issue of capital.

Industry Outlook

The Indian diagnostics services market, estimated to be around Rs. 86,00,000 crore to Rs. 87,00,000 crore in Fiscal 2024, is projected to grow at a CAGR of around 10%-12% to Rs. 1,27,50,000 crore - Rs. 1,37,50,000 crore by Fiscal 2028. Out of this, the eastern and north-eastern India market, estimated at Rs. 17,00,000 crore to Rs. 18,00,000 crore in Fiscal 2024, is projected to grow at a CAGR of around 10.50%-12.50% to Rs. 26,00,000 crore - Rs. 28,00,000 crore by Fiscal 2028. (Source: CRISIL Report, as replicated on page 196). Particularly, the West Bengal market, estimated at Rs. 6,10,000 crore to Rs. 6,30,000 crore in Fiscal 2024, is projected to grow at a CAGR of around 10.50%-12.50% to Rs. 9,50,000 crore - Rs. 10,00,000 crore by Fiscal 2028.

Outlook

Suraksha Diagnostic Limited's upcoming IPO is garnering attention due to its dominant position in the diagnostics sector, particularly in East and Northeast India. The company's full-service diagnostic chain and notable accreditations, such as the College of American Pathologists (CAP) certification, bolster its credibility. Its market leadership in the eastern region, combined with the promising growth prospects of India's diagnostic services sector (projected to grow at a 10%-12% CAGR through 2028), makes it an attractive opportunity. However, it's essential to note that this IPO is purely an Offer For Sale (OFS), meaning the proceeds will not benefit the company but instead go to the selling shareholders. As such, investors should carefully evaluate this factor, along with valuation metrics, growth sustainability, and the competitive landscape, before making an informed investment decision.

An Indicative timetable in respect of the Issue is set out below:

EVENT	INDICATIVE DATE (On or about)
BID/ISSUE OPENS ON	29-November-24
BID/ISSUE CLOSES ON	03-December-24
Finalisation of Basis of Allotment with the Designated Stock Exchange	04-December-24
Initiation of refunds (if any, for Anchor Investors)/unblocking of funds from ASBA Account	05-December-24
Credit of Equity Shares to Demat Accounts of Allottees	05-December-24
Commencement of trading of the Equity Shares on the Stock Exchanges	06-December-24

Annexure

Consolidated Financials

Profit & Loss

Rs. in Cr.

Particulars	Period ended 30-Jun-24 (9 Months)	Period ended 31-Mar-24 (12 Months)	Period ended 31-Mar-23 (12 Months)
Revenue from operations	60.73	218.71	190.13
Total expenditure	40.13	172.25	146.21
Operating Profit	**20.60**	**46.46**	**43.93**
OPM%	33.93	21.24	23.10
Other Income	1.12	3.55	3.55
PBDIT	**21.72**	**50.01**	**47.48**
Depreciation	8.99	8.99	31.67
PBIT	**12.73**	**41.02**	**15.81**
Interest	2.22	8.79	9.06
Restated profit before exceptional items and tax	**10.51**	**32.23**	**6.75**
Exceptional items	0.00	0.78	0.00
Profit BeforeTax	**10.51**	**31.45**	**6.75**
Tax	2.85	8.33	0.68
PAT	**7.67**	**23.13**	**6.06**

Balance sheet is on next page

Balance Sheet

Rs. in Cr.

Particulars	As on 30-Jun-24	As on 31-Mar-24	As on 31-Mar-22
Non-current assets			
Property, plant and equipment	136.53	135.05	112.79
Capital work-in-progress	7.18	1.31	2.39
Right-of-use assets	73.92	75.41	80.97
Other intangible assets	1.43	1.08	1.45
Intangible assets under development	0.24	0.00	0.00
Financial Assets			
Other financial assets	8.46	8.45	13.16
Non-current tax assets (net)	0.51	1.83	2.14
Other non-current assets	4.38	4.63	0.25
Total Non Current Assets	**232.65**	**227.76**	**213.14**
Current assets			
Inventories	6.32	6.68	6.16
Financial Assets			
Trade Receivables	9.33	8.88	4.68
Cash and cash equivalents	4.42	2.52	2.16
Bank balances other than cash and cash equivalents	54.89	52.50	52.88
Other financial assets	2.45	0.00	0.00
Other current assets	4.15	1.87	2.17
Total current assets	**81.55**	**72.45**	**68.05**
Total Assets	**314.20**	**300.21**	**281.20**
Non-current liabilities			
Financial liabilities			
Borrowings	4.46	5.18	8.44
Lease liabilities	70.57	70.31	71.93
Provisions	1.34	0.77	0.45
Deferred tax liabilities (net)	5.04	5.39	6.58
Total non-current liabilities	81.40	81.65	87.39
Current liabilities			
Financial liabilities			
Borrowings	3.11	3.45	5.57
Lease liabilities	10.39	11.53	10.94
Trade payables - MSME	1.43	3.23	3.45
Trade payables - other than MSME	14.49	11.17	10.59
Other financial liabilities	12.97	7.77	6.47
Other current liabilities	2.05	1.75	1.24
Provision	0.12	0.00	0.08
Current Tax Liabilities (Net)	1.62	0.52	0.00
Total current liabilities	**46.18**	**39.41**	**38.34**
Total	**127.58**	**121.06**	**125.73**
Net worth represented by:			
Equity Share Capital	8.63	6.90	6.90
Instruments entirely equity in nature	1.63	1.63	1.63
Other equity	176.80	170.88	147.40
Non-controlling interests	-0.43	-0.26	-0.47
Net Worth	**186.62**	**179.15**	**155.46**

RANKING METHODOLOGY

WEAK	★
NEUTRAL	★★
FAIR	★★★
GOOD	★★★★
EXCELLENT	★★★★★

E-mail: researchfeedback@smcindiaonline.com

Corporate Office:
11/6B, Shanti Chamber,
Pusa Road, New Delhi - 110005
Tel: +91-11-30111000
www.smcindiaonline.com

Mumbai Office:
Lotus Corporate Park , A Wing 401 / 402 ,
4th Floor ,Graham Firth Steel Compound,
Off Western Express Highway, Jay Coach Signal,
Goreagon (East) Mumbai - 400063
Tel: 91-22-67341600, Fax: 91-22-28805606

Kolkata Office:
18, Rabindra Sarani,
Poddar Court,Gate No.- 4, 5th Floor, Kolkata-700001
Tel: 91-33-39847000, Fax: 91-33-39847004

Investments in securities market are subject to market risks, read all the related documents carefully before investing. Registration granted by SEBI and certification from NISM in no way guarantee performance of the intermediary or provide any assurance of returns to investors. The securities quoted are for illustration only and are not recommendatory. SMC is a SEBI registered Research Analyst having registration number INH100001849. CIN : L74899DL1994PLC063609.

SMC Global Securities Ltd. (hereinafter referred to as "SMC") is regulated by the Securities and Exchange Board of India ("SEBI") and is licensed to carry on the business of broking, depository services and related activities. SMC is a registered member of National Stock Exchange of India Limited, Bombay Stock Exchange Limited, MSEI (Metropolitan Stock Exchange of India Ltd) and M/s SMC Comtrade Ltd is a registered member of National Commodity and Derivative Exchange Limited and Multi Commodity Exchanges of India and other commodity exchanges in India. SMC is also registered as a Depository Participant with CDSL and NSDL. SMC's other associates are registered as Merchant Bankers, Portfolio Managers, NBFC with SEBI and Reserve Bank of India. It also has registration with AMFI as a Mutual Fund Distributor.

SMC is a SEBI registered Research Analyst having registration number INH100001849. SMC or its associates has not been debarred/ suspended by SEBI or any other regulatory authority for accessing /dealing in securities market. SMC or its associates or its Research Analyst or his relatives do not hold any financial interest in the subject company interest at the time of publication of this Report. SMC or its associates or its Research Analyst or his relatives do not hold any actual/beneficial ownership of more than 1% (one percent) in the subject company, at the end of the month immediately preceding the date of publication of this Report. SMC or its associates its Research Analyst or his relatives does not have any material conflict of interest at the time of publication of this Report.

SMC or its associates/analyst has not received any compensation from the subject company covered by the Research Analyst during the past twelve months. The subject company has not been a client of SMC during the past twelve months. SMC or its associates has not received any compensation or other benefits from the subject company covered by analyst or third party in connection with the present Research Report. The Research Analyst has not served as an officer, director or employee of the subject company covered by him/her and SMC has not been engaged in the market making activity for the subject company covered by the Research Analyst in this report.

The views expressed by the Research Analyst in this Report are based solely on information available publicly available/internal data/ other reliable sources believed to be true. SMC does not represent/ provide any warranty expressly or impliedly to the accuracy, contents or views expressed herein and investors are advised to independently evaluate the market conditions/risks involved before making any investment decision. The research analysts who have prepared this Report hereby certify that the views /opinions expressed in this Report are their personal independent views/opinions in respect of the subject company.

Disclaimer: This Research Report is for the personal information of the authorized recipient and doesn't construe to be any investment, legal or taxation advice to the investor. It is only for private circulation and use. The Research Report is based upon information that we consider reliable, but we do not represent that it is accurate or complete, and it should not be relied upon as such. No action is solicited on the basis of the contents of this Research Report. The Research Report should not be reproduced or redistributed to any other person(s)in any form without prior written permission of the SMC. The contents of this material are general and are neither comprehensive nor inclusive. Neither SMC nor any of its affiliates, associates, representatives, directors or employees shall be responsible for any loss or damage that may arise to any person due to any action taken on the basis of this Research Report. It does not constitute personal recommendations or take into account the particular investment objectives, financial situations or needs of an individual client or a corporate/s or any entity/s. All investments involve risk and past performance doesn't guarantee future results. The value of, and income from investments may vary because of the changes in the macro and micro factors given at a certain period of time. The person should use his/her own judgment while taking investment decisions. Please note that SMC its affiliates, Research Analyst, officers, directors, and employees, including persons involved in the preparation or issuance if this Research Report: (a) from time to time, may have long or short positions in, and buy or sell the securities thereof, of the subject company(ies) mentioned here in; or (b) be engaged in any other transaction involving such securities and earn brokerage or other compensation or act as a market maker in the financial instruments of the subject company(ies) discussed herein or may perform or seek to perform investment banking services for such company(ies) or act as advisor or lender/borrower to such subject company(ies); or (c) may have any other potential conflict of interest with respect to any recommendation and related information and opinions. All disputes shall be subject to the exclusive jurisdiction of Delhi High court.