

Founded by Dr. Dr. A. Velumani, TTL is engaged in the business of conducting array of medical diagnostic tests and profiles of tests that center as early detection and management of disorders and diseases. The company's geographic presence is in 483 cities across 27 states and 1 union territory through 1,122 authorised service providers (ASPs). Thyrocare became one of the first Indian diagnostic laboratories to get international accreditations like ISO 9001:2000 rating as early as 2001, which is now escalated to ISO 9001:2008; NABL (National Accreditation Board for Testing and Calibration Laboratories) in 2005 and CAP (College of American Pathologists) certification in 2007. Wellness and Preventive healthcare tests are administered under brand - Aarogyam, Thyroid tests are administered under brand - Thyrocare, Non-Thyroid tests (Cancer monitoring) are administered under brand - Nuclear. TT also does water testing under brand - Whaters. Like other diagnostic labs, TT also has Hub & Spoke model, wherein, it has Central processing Laboratory (CPL), supported by network of Regional processing Labs (RPLs). CPL is equipped with automated systems, diagnostic testing instruments and processes from leading international and Indian healthcare brands. RPLs conduct routine tests conducive to high volume testing. There are authorized service providers that direct samples requiring such tests to the RPLs. TT started operating RPLs in 2015. As of now, TT has five RPLs, one each in Delhi, Coimbatore, Hyderabad, Kolkatta and Bhopal. TT is also under process to setting additional RPL in Bangaluru.

~50% of revenue is derived from Wellness & preventive healthcare tests, 20% of revenue from Thyroid tests and 30% from Non-thyroid tests. Over FY11-15, TTL sales have witnessed a CAGR of 23.3%, while EBITDA and PAT have registered CAGR of 19.8% and 18.2% during the same period. EBITDA and PAT CAGR is lower to sales growth owing to sharp price cuts taken by TTL for thyroid test, which resulted in EBITDA margin to reduce from 45.7% in FY11 to 40.7% in FY15. As a result, ROCE also reduced from 25.7% in FY11 to 17.8% in FY15. Fall in ROCE is partly due to EBITDA margin erosion, partly due to unutilized cash on balance sheet and partly due to low profitability of molecular imaging business. Going ahead, TTL intends to grow the business by setting more number of RPLs and PET-CT scanning centres across India. It plans to set up 5 RPLs per annum for next 2-3 years, with capex of Rs150mn per annum. Setting up RPLs is from the perspective of increasing volume for Wellness and Preventive healthcare test and other thyroid related tests. TT also intends to set-up PET-CT scanning centres with 2-3 centres per annum over next 3-4 years and then increasing the pace of building more number of centres. TT intends to make capex of Rs40- 50mn per annum over next 2-3 years for PET-CT scanners.

At the upper end of the price band of Rs. 446, the IPO is valued at a P/E of 45x at annualised FY16 Post issue EPS of 9.9 which is cheap as compared to its immediate peer Dr. Lal Path Labs trading at a P/E of 84x. With due consideration to factors like a) portfolio of specialized tests with an emphasis on wellness and preventive healthcare, b) multi lab model - driving volume growth and economies of scale, c) pan-India collection network supported by logistics capabilities and information technology infrastructure, d) capital efficiencies in the diagnostic testing business, e) debt free Company, f) past strong financial performance, g) attractive ROE and ROCE in this kind of business model, h) offer price similar to its peer Company - Dr Lal Pathlabs IPO which expanded post listing; we recommend to "SUBSCRIBE" the issue.

Issue date	April 27 - 29, 2016			
Issue size	Rs. 4.8 bn. at upper end of the price band			
Type of issue	<b>Offer for sale</b> 10.7 mn Equity Shares by the Selling Shareholders			
Face Value	Rs. 10			
Price Band	Rs. 420 – 446 per share			
Lot size	33 equity Shares & multiple of 33 equity shares thereafter			
Issue structure	QIB: 50%, Retail: 35% Non – Institutional: 15%			
Post issue no. of shares	53.7 mn equity shares			
Post issue market cap	Rs. 23.9 bn at upper price band			
Book Running Lead Managers	JM Financial, Edelweiss, ICIC Sec.			
Registrar to the issue	Link Intime			
Y/e 31 Mar (Rs. mn)	9MFY16#	FY15	FY14	FY13
Income	1,759	1,801	1,500	1,343
EBITDA	716	733	687	635
PAT	400	485	462	568
EPS (Rs.)	9.9*	9.0	8.6	10.6
P/E (x)	-	50	52	42
Book Value (Rs.)	-	51.9	38.4	29.8
P/BV(x)	-	9	12	15
RoCE (%)	-	17.8	21.4	29.5
RoE (%)	-	22.4	35.5	43.3
Debt/Equity	-	-	0.1	0.2
Share Capital	537	505	109	109

\*annualized, # Consolidated

Shareholding Pattern	Pre Issue	Post Issue
Promoters	28.03	28.03
Promoters group	36.93	35.93
Agalia	21.02	2.02
Others & Public	14.02	34.02
<b>Total</b>	<b>100</b>	<b>100</b>

## Objects of the issue

Thyrocare Technologies Ltd (TTL) is coming out with an initial public offering (IPO) to raise Rs451-479 crore from the equity market at a price band of Rs420-446 per equity share. Through the IPO, Thyrocare proposes to offer 10.7mn equity shares for sale by promoter and investors. Promoter is offering up-to 0.5mn shares and investors are offering upto 10.2mn shares through offer for sale.

Out of total shares for sale, 5.4mn are for QIB category (upto 3.2mn for anchor investor, 0.1mn to Mutual funds only and 2.1mn for all QIBs including mutual funds), not less than 1.6mn shares for Non-Institutional category and not less than 3.7mn for retail category.

Since it is offer for sale, company will not receive any proceeds from sale of shares.

## Company & Promoters

Thyrocare Technologies Limited ("Thyrocare") was incorporated on January 28, 2000 at Mumbai and received a certificate of commencement of business on March 7, 2000

Dr. A. Velumani is the Chairman, CEO and Managing Director of the company. He has over 19 years of experience in the diagnostics business.

A. Sundararaju is an Executive Director and Chief Financial Officer of the company. He has over 18 years of experience in finance, legal and administrative activities.

## Business overview

Thyrocare Technologies Ltd ("Thyrocare") is one of the leading pan-India diagnostic chains and conducts an array of medical diagnostic tests and profiles of tests that center on early detection and management of disorders and diseases. As of February 29, 2016, Thyrocare offered 198 tests and 59 profiles of tests to detect a number of disorders, including thyroid disorders, growth disorders, metabolism disorders, auto-immunity, diabetes, anemia, cardiovascular disorders, infertility and various infectious diseases. The profiles of tests include 16 profiles of tests administered under the "Aarogyam" brand, which offers patients a suite of wellness and preventive health care tests. Through their wholly owned subsidiary -Nuclear Healthcare Limited ("NHL"), they operate a network of molecular imaging centers in New Delhi, Navi Mumbai and Hyderabad, focused on early and effective cancer monitoring.

Nuclear imaging consists of highly-specialised tests, such as PET\_CT scans, which are used to provide high accuracy diagnosis of diseases such as cancer. Thyrocare Technologies offers advanced PET-CT scans through its subsidiary, NHL that owns and operates medical cyclotrons and PET-CT scanners.

The company primarily operates their testing services through a fully-automated Central Processing Laboratory ("CPL") which is located in Navi Mumbai and has recently expanded the operations to include a network of Regional Processing Laboratories ("RPLs").

Thyrocare commenced setting up RPLs in 2014 and opened **Four RPLs in 2015, one in each of New Delhi, Coimbatore, Hyderabad and Kolkata**, which process samples sourced from their respective regions. They have opened an RPL in Bhopal in February 2016 and are in the process of setting up a RPL in Bengaluru.

Since the opening of the RPLs in 2015, there is an increase in the volume of tests that they have conducted from a daily average of approximately 95,610 in Fiscal 2014 to approximately 131,073 in Fiscal 2015 and approximately 159,350 in the nine months ended December 31, 2015.

Thyrocare collect samples through a pan-India network of authorized service providers comprised of Thyrocare Aggregators ("TAGs") and Thyrocare Service Provider ("TSPs"), which operate under franchise agreements with thyrocare. As of February 29, 2016, they had a network of 1,041 authorized service providers, comprised of 687 TAGs and 354 TSPs spread across 466 cities, 24 states and one union territory.



## Competitive strengths

### Portfolio of specialized tests with an emphasis on wellness and preventive healthcare

The portfolio of tests includes those for prenatal screening, hormonal imbalances, nutritional deficiencies and tracking lifestyle disorders. The company's portfolio offering include 198 tests and 59 profiles. Company's focus has been on the development of a wide range of tests and profiles in the fast growing segment of wellness and preventive healthcare. This segment has expected to grow at a CAGR of close to 25% over the next three years.

### Multi Lab model - Driving volume growth and economies of scale

The multi-lab model is comprised of a fully automated CPL supported by the network of RPLs that conduct routine tests conducive to high volume testing. With the opening of the RPLs, the company processed approximately 30% more samples in Fiscal 2015 compared with Fiscal 2014.

### Pan-India collection network supported by logistics capabilities and information technology infrastructure

A nation-wide network of 1,041 authorized service providers comprised of 687 Thyrocare Aggregators (TAGs) and 354 Thyrocare Service Providers (TSPs) spread across 483 cities, 27 states and 1 union territory.

### Capital efficiencies in the diagnostic testing business

The test volumes and strong relationships with the vendors has allowed the company to develop an equipment leasing model for the CPL that results in minimal capital expenditures for diagnostic equipment. The company benefited financially from this model as it minimizes the capital costs typically associated with diagnostic equipment, as they are not required to expend capital immediately to procure the necessary instruments and equipment.

### Experienced senior leadership and management team

The management's credible reputation, extensive industry experience and business acumen has helped the company to drive their growth and operating performance and will continue to do so in the future, as evidenced by the number of initiatives the company has already undertaken and successfully implemented.

The Company is the conceptualization of their Promoter, chairman and managing director, Dr. A. Velumani, who holds a post graduate degree science and a doctorate in philosophy (science). Dr. A. Velumani worked as a scientific officer at the Bhabha Atomic Research Centre for 12 years, where he specialized in immunodiagnosics with a focus on radioimmunoassays. The co-promoter Mr. A Sundararaju is also the Chief Financial Officer and plays a vital role in creating and managing the service provider network because of his 18 years of experience in finance, legal and administrative activities. Through their experience with the company, the management team has honed the skills necessary to navigate the fast-growing Indian diagnostic healthcare services sector.

## Key risks

**Highly competitive industry:** TTL directly competes with some major diagnostic players like SRL Diagnostics, Metropolis and Dr Lal Pathlabs. In addition, there are many small and independent clinical labs as well as labs owned by hospitals and physicians.

**Changing technology and new product introductions:** The industry faces risk with changing technology and new product introductions. Advances in technology may lead to the development of more cost-effective tests that can be performed outside of a diagnostic laboratory, such as point-of-care tests that can be performed by physicians in their offices, complex tests that can be performed by hospitals in their own laboratories and home testing that can be carried out without requiring the services of diagnostic laboratories. The development of such technology and its use by customers would reduce the demand for laboratory testing services and negatively affect revenues.



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## Research Analyst

Akash Jain, MBA (Financial Markets)

Corporate Off. : 408, Express Zone, "A" Wing, Cello – Sonal Realty, Near Oberoi Mall,  
Western Express Highway, Malad (East), Mumbai - 400 063. Tel : 91-22-67160400  
mail : research@ajcon.net Website : www.ajcononline.com



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**For research related queries contact:**

Mr. Akash Jain È Vice President (Research) at [research@ajcon.net](mailto:research@ajcon.net), 022-67160431 (D)

CIN: L74140MH1986PLC041941

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**Website:** [www.ajcononline.com](http://www.ajcononline.com)

**Corporate and Broking Division**

408 - (4<sup>th</sup> : 1 c c f È 9 I d f Y g g 1 N c b ÈZG'clb5U1 11 KF]YUJ[ 1h mZ Y 1B'YdJ'f 1 C V Y Western Express Highway) Goregaon (East), Mumbai È 400063. Tel: 91-22-67160400, Fax: 022-28722062

**Registered Office:**

101, Samarth, Off. Hinduja Hospital, 151 Lt. P.N. Kotnis Road, Mahim (West), Mumbai È 400016. Tel: 022-24460335/36/40