

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	Offer for sale 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
Total	100	100

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.



Disclaimer

Ajcon Global Services Ltd. is a fully integrated investment banking, merchant banking, corporate advisory, stock broking, commodity and currency broking. Ajcon Global Services Ltd. research analysts responsible for the preparation of the research report may interact with trading desk personnel, sales personnel and other parties for gathering, applying and interpreting information.

Ajcon Global Services Ltd. is a SEBI registered Research Analyst entity bearing registration Number INH000001170 under SEBI (Research Analysts) Regulations, 2014.

Individuals employed as research analyst by Ajcon Global Services Ltd. or their associates are not allowed to deal or trade in securities that the research analyst recommends within thirty days before and five days after the publication of a research report as prescribed under SEBI Research Analyst Regulations.

Subject to the restrictions mentioned in above paragraph, We and our affiliates, officers, directors, employees and their relative may: (a) from time to time, have long or short positions acting as a principal in, and buy or sell the securities or derivatives thereof, of Company mentioned herein or (b) be engaged in any other transaction involving such securities and earn brokerage.

Ajcon Global Services Ltd. or its associates may have commercial transactions with the Company mentioned in the research report with respect to advisory services.

The information and opinions in this report have been prepared by Ajcon Global Services Ltd. and are subject to change without any notice. The report and information contained herein is strictly confidential and meant solely for the selected recipient and may not be altered in any way, transmitted to, copied or distributed, in part or in whole, to any other person or to the media or reproduced in any form, without prior written consent of Ajcon Global Services Ltd. While we would endeavour to update the information herein on a reasonable basis, Ajcon Global Services Ltd. is under no obligation to update or keep the information current. Also, there may be regulatory, compliance or other reasons that may prevent Ajcon Global Services Ltd. from doing so. This report is based on information obtained from public sources and sources believed to be reliable, but no independent verification has been made nor is its accuracy or completeness guaranteed. This report and information herein is solely for informational purpose and shall not be used or considered as an offer document or solicitation of offer to buy or sell or subscribe for securities or other financial instruments. Though disseminated to all the customers simultaneously, not all customers may receive this report at the same time. Ajcon Global Services Ltd. will not treat recipients as customers by virtue of their receiving this report. Nothing in this report constitutes investment, legal, accounting and tax advice or a representation that any investment or strategy is suitable or appropriate to your specific circumstances. The securities discussed and opinions expressed in this report may not be suitable for all investors, who must make their own investment decisions, based on their own investment objectives, financial positions and needs of specific recipient. This may not be taken in substitution for the exercise of independent judgment by any recipient. The recipient should independently evaluate the investment risks. The value and return on investment may vary because of changes in interest rates, foreign exchange rates or any other reason. Ajcon Global Services Ltd. accepts no liabilities whatsoever for any loss or damage of any kind arising out of the use of this report. Past performance is not necessarily a guide to future performance. Investors are advised to see Risk Disclosure Document to understand the risks associated before investing in the securities markets. Actual results may differ materially from those set forth in projections. Forward-looking statements are not predictions and may be subject to change without notice. Ajcon Global Services Ltd. or its associates might have managed or co-managed public offering of securities for the subject company or might have been mandated by the subject company for any other assignment in the past twelve months.

Ajcon Global Services Ltd. encourages independence in research report preparation and strives to minimize conflict in preparation of research report. Ajcon Global Services Ltd. or its analysts did not receive any compensation or other benefits from the companies mentioned in the report or third party in connection with preparation of the research report. Accordingly, neither Ajcon Global Services Ltd. nor Research Analysts have any material conflict of interest at the time of publication of this report.

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



STOCK BROKING, INVESTMENT BANKING, CORPORATE ADVISORY & INSURANCE

It is confirmed that Akash Jain È MBA (Financial Markets) or any other Research Analysts of this report has not received any compensation from the company mentioned in the report in the preceding twelve months. Compensation of our Research Analysts is not based on any specific merchant banking, investment banking or brokerage service transactions.

Ajcon Global Services Ltd. or its subsidiaries collectively or Directors including their relatives, Research Analysts, do not own 1% or more of the equity securities of the Company mentioned in the report as of the last day of the month preceding the publication of the research report.

It is confirmed that Akash Jain È MBA (Financial Markets) research analyst or any other Research Analysts of Ajcon Global do not serve as an officer, director or employee of the companies mentioned in the report.

Ajcon Global Services Ltd. may have issued other reports that are inconsistent with and reach different conclusion from the information presented in this report. Neither the Research Analysts nor Ajcon Global Services Ltd. have been engaged in market making activity for the companies mentioned in the report.

We submit that no material disciplinary action has been taken on Ajcon Global Services Ltd. by any Regulatory Authority impacting Equity Research Analysis activities.

Analyst Certification

I, Akash Jain MBA (Financial Markets), research analyst, author and the names subscribed to this report, hereby certify that all of the views expressed in this research report accurately reflect our views about the subject issuer(s) or securities. I also certify that no part of compensation was, is, or will be directly or indirectly related to the specific recommendation(s) or view (s) in this report.



For research related queries contact:

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

CIN: L74140MH1986PLC041941

SEBI registration Number: INH000001170 as per SEBI (Research Analysts) Regulations, 2014.

Website: www.ajcononline.com

Corporate and Broking Division

408 - (4th : 1 c c f È ž 9 l d f Y g g 1 N c b ÈžG'clb5U1 11 K]YUJ[ž mZ Y B'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