

Nidan Laboratories & Healthcare Ltd.

SSIS IPO GRADE 1/5 (Avoid)
24th October, 2021

Rating Overview

Since incorporation, Nidan Laboratories and Healthcare Ltd's diagnostic centers are located within the Northern District of Mumbai and Pune and Southern District of Pune. As on this date, 30 diagnostic cum collection centers are operational under the brand name of "Nidan Healthcare" and offer radiology, neurology, cardiology, dental as well as pathology services.

Out of the 35 centre's, 16 are under the Franchisee model whereas one acts as a fully operated diagnostic centre and 15 act solely as standalone collection centre.

Nidan over the next 5 years, intends to set up more centers PAN India, either by acquiring brown field projects especially in Rajasthan, Punjab or by using "Hub and Spoke model" within the Metro cities of India. Company proposes to expand its diagnostic and collection centres PAN Mumbai by entering into Joint Ventures with various Laboratories such as Metropolis Healthcare Limited, SRL Diagnostics, on the terms and conditions as agreed between the parties.

The post issue P/E of Nidan Labs would be 53.88 on trailing twelve months and is quite higher than its peers. The earnings per share (EPS) is 2.32. The return on net worth (RONW) is 0.17%. Everything is more expensive when compared to its peers, Lal Path Labs and Metropolis Healthcare. The net asset value is 13.46 rupees per share. The issue is quite expensive and it shouldn't be completely subscribed and rolled out in the market at these valuations. Our overall fundamental rating of Nidan Labs is weak. The offer price is extremely overvalued and the company has limited growth prospects. We initiate a avoid recommendation for the foreseeable future.

Note: The analyst has no plans of subscribing to the offer and does not hold any shares in the company prior to, or at the time of writing this review.

Business Overview

Nidan Laboratories and Healthcare Ltd. (NLHL) was established as a Proprietary Firm in 1994 by Promoter- Dr Nitin Vitthalrao Throve in the Northern District of Mumbai where diagnostic services were provided under one roof at reliable and affordable prices. The business was carried out under sole proprietorship, which was later taken over by the Company in 2000. From the year 2000, it expanded the diagnostic's business by setting up various centre's within the Northern District of Mumbai and Pune and Southern District of Pune. As of this date, 30 diagnostics cum collection centres are operational under the brand name of "Nidan Healthcare" and offer radiology, neurology, cardiology, dental as well as pathology services.

Out of the 35 Centre's, 16 centres are under the Franchisee model where 1 centre acts as a fully operated diagnostic centre and 15 centre's act solely as standalone collection centres. It provides integrated diagnostics services to more than 1 million patients per year. Since 2000, private and government hospitals have been using its services and diagnostics centres for various pathology and radiology tests. After more than a decade of experience, NLHL has successfully set diagnostics centre in Asian Heart Hospital, Mumbai under the name of "Asian Nidan Imaging Centre". To enable its patients to easily distinguish pathology and radiology services, the company introduced "NIDANPATH" and "NIDAN DIAGNOSTICS" respectively in the year 2017. As of March 31, 2021, it offers a comprehensive range of approximately 740 routine and 3000 specialized pathology tests and approximately 220 basic and 320 advanced radiology tests that cover a range of specialities and disciplines.

As of March 31, 2021, NLHL's diagnostic services are provided by a medical professional team consisting of 94 laboratory doctors, radiologists, physicians and 256 well-trained technical staff in an operational network. As of June 30, 2021, all of its centres are having Pre-Conception and Pre-Natal Diagnostic Techniques ("PCPNDT") accreditations.

The Company intends to introduce online Health Care Consultancy Services, Health Care Services (Medical), Hospital and Diagnostic Services under the brand name "HEALTHEXPEDIA", "TRUFIT CLINIC" and "NIDAN HEALTHMALL". Over the next 5 years, NLHL intends to set up more centres PAN India, either by acquiring brownfield projects especially in Rajasthan, Punjab or by using the "Hub and Spoke model" within the Metro cities of India.

Financial Performance

On the financial performance front, NLHL has posted turnover/net profits of Rs. 20.97 cr. / Rs. 0.22 cr. (FY19), Rs. 22.19 cr. / Rs. 0.71 cr. (FY20) and Rs. 21.85 cr. / Rs. 2.30 cr. (FY21). For the first quarter of FY22 ended on June 30, 2021, it has earned a net profit of Rs. 1.09 cr. on a turnover of Rs. 7.85 cr. Thus scale-up in the bottom line is surprising and is the major concern as the segment in which this company is working is fragmented and highly competitive.

2

For the last three fiscals, NLHL has posted an average EPS of Rs. 1.44 and an average RoNW of 0.11%. The issue is priced at a P/BV of 8.59 based on its NAV of Rs. 14.56 and at a P/BV of 2.70 based on its post-issue NAV of Rs. 46.34.

If we annualise its super earnings of FY22 on fully diluted equity capital, then the asking price is at a P/E of 39.81. Thus the issue is highly-priced based on its financial parameters and considering near term perspectives. The sustainability of such margins going forward is a major concern.

Summary of financial Information				
Particulars	For the year/period ended (Rs in Million)			
	30-Jun-21	31-Mar-21	31-Mar-20	31-Mar-19
Total Assets	543.30	524.36	452.07	430.57
Total Revenue	78.45	218.53	221.91	209.72
Profit After Tax	10.87	23.02	7.14	2.23

Issue Details

To part finance its plans for repayment of loans (Rs. 16 cr.), additional working capital (Rs. 26 cr.) and general corporate expenses (Rs. 4.40 cr.) NLHL is coming out with a maiden IPO of 4000000 shares of Rs. 10 each at a fixed price of Rs. 125 per share to garner Rs. 50 cr. The issue opens for subscription on October 28, 2021, and will close on November 02, 2021. Minimum application is to be made for 1000 shares and in multiples thereon, thereafter. Post allotment, shares will be listed on NSE SME Emerge. The issue constitutes 28.78% of the post issue paid-up capital of the company. NLHL is spending Rs. 3.60 cr. for this IPO process.

The issue is solely lead managed by First Overseas Capital Ltd., Bigshare Services Pvt. Ltd. is the registrar and NNM Securities Pvt. Ltd. is the market maker.

The company has issued entire equity shares at par so far. The average cost of acquisition of shares by the promoters is Rs. 10 per share.

Post issue, NLHL's current paid-up equity capital of Rs. 9.90 cr. will stand enhanced to Rs. 13.90 cr. Based on IPO pricing, the company is looking for a market cap of Rs. 173.75 cr.

Application Dates	Oct 28, 2021 – Nov 2, 2021
Issue Type	Book Built Issue IPO
Face Value	₹10 per equity share
IPO Price	₹125 per equity share
Market Lot	1000 Shares
Listing At	NSE SME
Issue Size	[.] Eq Shares of ₹10 (Up to ₹50.09Cr)

Issue Timeline	
Basis of Allotment Date	Nov 9, 2021
Initiation of Refunds	Nov 10, 2021
Credit of Shares to Demat Account	Nov 11, 2021
IPO Listing Date	Nov 12, 2021

Investment Strategy

For the last three fiscals, Nidan Laboratories top line remained static, but profit margins improved with a sharp rise for FY21. It has expressed similar trends for FY22 Q1, but the sustainability of such margins going forward is a major concern as the segment is highly fragmented and witnessing a cutthroat competition. Due to pandemics, these segments gained fancy and perhaps this company is trying to encase on this boom. Based on financial parameters the asking price is high. Hence there is no harm in ignoring this issue.