

India

February 07, 2023 - 7:57 PM

HOLD (no change)

Consensus ratings*:	Buy 4	Hold 1	Sell 0
Current price:	Rs489		
Target price:	Rs698		
Previous target:	Rs698		
Up/downside:	42.7%		
InCred Research / Consensus:	-7.4%		
Reuters:			
Bloomberg:	THYROCAR IN		
Market cap:	US\$356m		
	Rs25,883m		
Average daily turnover:	US\$1.7m		
	Rs122.4m		
Current shares o/s:	52.9m		
Free float:	28.8%		
*Source: Bloomberg			

Key financial forecast

	Mar-23F	Mar-24F	Mar-25F
Net Profit (Rsm)	734	992	1,207
Core EPS (Rs)	15.70	19.66	23.72
Core EPS Growth (51.5%)	25.2%	20.7%	
FD Core P/E	31.14	24.88	20.62
Recurring ROE	15.9%	19.6%	22.6%
P/BV (x)	4.97	4.79	4.55
DPS (Rs)	14.99	14.99	17.49
Dividend Yield	3.06%	3.06%	3.58%



SOURCE: BLOOMBERG

Price performance	1M	3M	12M
Absolute (%)	(16.9)	(26.6)	(50.2)
Relative (%)	(17.5)	(25.5)	(52.2)

Major shareholders	% held
Promoters	71.2
Nippon Life India Trustee Ltd A/c	6.4
Arisaig Asia Consumer Fund	6.1

Analyst(s)**Rahul AGARWAL**

T (91) 22 4161 1553

E rahul.agarwal@incredcapital.com

Harshit SARAWAGI

T (91) 22 4161 0000

E harshit.sarawagi@incredcapital.com

Thyrocare Technologies Ltd.

Sub-optimal non-Covid revenue growth

- Thyrocare Technologies posted largely in-line 3QFY23 results adjusted for API group ESOPs. Non-Covid revenue CAGR rose to 4% in 3Q vs. 3% in 2Q.
- 14 out of total 29 labs are NABL-accredited. Active pin codes covered were 3,950+. API group revenue flat qoq at 12%. Diagnostics cross-sales at 6%.
- Stock fell 25%+ since Nov 2022 due to slow non-Covid business recovery, stagnant API group business share, and 100% pledged promoter holding.

3QFY23 performance largely in line with expectations

- Thyrocare Technologies or TTL reported largely in-line revenue/EBITDA/PAT of Rs1.3bn/Rs337m/Rs205m, +9%/-9%/-5% yoy, respectively. Non-cash API group ESOP cost included in staff cost was Rs58m in 3Q.
- Three-year non-Covid revenue CAGR stood at 4% in 3Q and 9MFY23.
- Three-year non-Covid sample volume CAGR stood at 5% in 3Q and 9MFY23.
- Sample volume stood at 5.3m, +47% yoy, on a low base. Realization per sample stood at Rs206, down 20% yoy.
- Radiology business had revenue/EBITDA of Rs109m/Rs21m, +50%/2x yoy, respectively.

Focus on test quality, reach expansion and TAT improvement

- Net addition of 50 pin codes in 3Q. Active pin codes covered stood at 3,950+ as at end-Dec 2022.
- Added three labs: one regional processing lab (RPL) at Varanasi and one satellite lab each in Mumbai and Bengaluru. Total number of labs stood at 29 as at end-Dec 2022.
- Nearly 70% of test samples were processed at 14 NABL-accredited labs. TTL intends to increase this to 90%+ over the next six months.
- Average test report release time or turnaround time (TAT) reduced by an hour to 14 hours.

Leveraging API group's digital reach and cross-selling opportunities

- Parent company - API group's (PharmEasy) revenue share stayed flat at 12% qoq of the total pathology business owing to intentional pruning of low-margin business.
- Cross-selling touched 6% of 2m quarterly transacting online users of PharmEasy.
- Around 4,900+ chemists/pharmacy stores and 180+ hospitals have been onboarded to enhance cross-selling of diagnostics services as at end-Dec 2022.

Update on business operations

- TTL extended its flagship Aarogyam programme by introducing new packages under the Aarogyam Pro and Aarogyam Plus series. New price points of <Rs1,200 and Rs2,500 to Rs4,000/test were launched. Wellness packages now fully cover all price points.
- B2C franchisee network accounted for 60%+ of total pathology sales, B2B partnerships accounted for 33% while the D2C channel contributed 6% to sales in 3Q.
- Non-cash ESOP cost is for ESOPs granted by the parent API Holdings to TTL employees and recognized as share-based payment in TTL's P&L and recognized in the balance sheet as equity contribution from the parent. Total value of the ESOPs granted stood at Rs455.3m, vesting over a six-year period. (Year 1 – 39.7%, Year 2 – 31.4%, Year 3 – 16.2%, Year 4 – 9.0%, Year 5 – 3.5%, Year 6 - 0.2%).

Our view

- Stock price is down 25%+ since Nov 2022 due to a slower-than-expected recovery in non-Covid revenue growth, stagnant API group's revenue mix and the risks associated with 100% promoter holding pledged with the lenders.
- We maintain our view of TTL being relatively better placed vs. B2C pathology peers (Dr. Lal Pathlabs/Metropolis) to face severe price competition.
- We have a HOLD rating on the stock with a target price of Rs698.

Figure 1: 3QFY23 result summary

YE Mar (Rs m)	3QFY23	3QFY22	yoy (%)	2QFY23	qoq (%)	9MFY23	9MFY22	yoy (%)
Revenue	1,280	1,174	9.1	1,350	(5.1)	3,908	4,583	(14.7)
EBITDA	337	368	(8.5)	382	(11.9)	1,078	1,973	(45.4)
EBITDA margin (%)	26.3	31.3	-504 bp	28.3	-202 bp	27.6	43.1	-1,547 bp
Adj. PAT	205	215	(4.6)	221	(7.1)	519	1,548	(66.5)
Diluted EPS (Rs)	3.9	4.1		4.2				

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 2: 3QFY23 segmental results snapshot

YE Mar (Rs m)	3QFY23	3QFY22	yoy (%)	2QFY23	qoq (%)	9MFY23	9MFY22	yoy (%)
Revenue								
Diagnostic Testing Services	1,157	1,093	5.9	1,238	(6.5)	3,580	4,334	(17.4)
Imaging Services	108.6	73.0	48.8	97.4	11.5	291.5	201.6	44.6
Others incl. BMC	14.3	8.0	78.8	14.0	2.1	36.4	47.2	(22.9)
Sub-total	1,280	1,174	9.1	1,350	-5.1	3,908	4,583	-14.7
EBIT								
Diagnostic Testing Services	172	273	(37.1)	218	(21.3)	653	1,717	(62.0)
Imaging Services	9	-6	(243.3)	6	45.8	23	-12	(297.4)
Others incl. BMC	-3	13	(125.4)	0	3,200	-1	25	(105.2)
Sub-total	177	280	(36.8)	224	(21.0)	675	1,731	(61.0)
EBIT Margin (%)								
Diagnostic Testing Services	14.8	25.0	-1013 bp	17.6	-279 bp	18.2	39.6	-2,138 bp
Imaging Services	7.9	-8.2	1614 bp	6.1	186 bp	7.9	-5.8	1,361 bp
Others incl. BMC	-23.1	162.5	-18,558 bp	-0.7	-2,236 bp	-3.6	53.2	-5,675 bp
Sub-total	13.8	23.9	-1,002 bp	16.6	-278 bp	17.3	37.8	-2,050 bp

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 3: Actuals vs. our estimates

Rs m	3QFY23A	3QFY23F	Var(%)
Revenue	1,280	1,275	0.4
EBITDA	337	325	3.8
EBITDA margin (%)	26.3	25.5	85 bp
Adj. PAT	205	178	15.4

SOURCE: INCRED RESEARCH ESTIMATES, COMPANY REPORTS

Figure 4: Actuals vs. Bloomberg consensus estimates

Rs m	3QFY23A	3QFY23C	Var(%)
Revenue	1,280	1,275	0.4
EBITDA	337	339	(0.7)
EBITDA margin (%)	26.3	26.6	-31 bp
Adj. PAT	205	197	4.2

SOURCE: INCRED RESEARCH, COMPANY REPORTS, BLOOMBERG

Figure 5: Existing revenue mix (D2C accounted for 6% of total sales)



Thyrocare is well placed to leverage best of both worlds

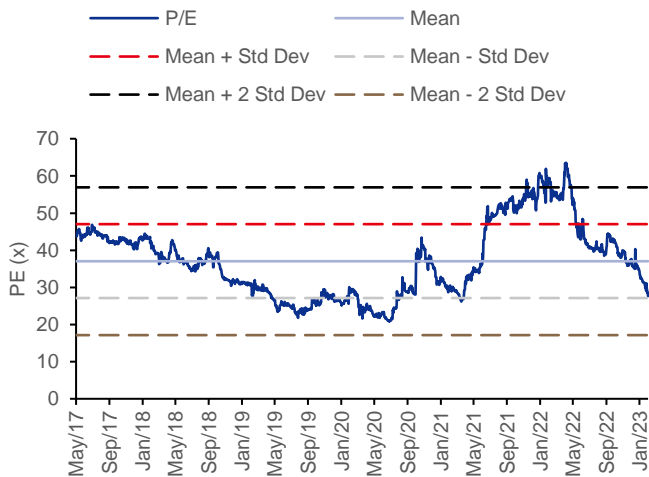
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 6: Discounted cash flow valuation, Y/E Mar, Rs m

	FY24F	FY25F	FY26F	FY27F	FY28F	FY29F	FY30F	FY31F	FY32F	FY33F	FY38F
EBIT	1,349	1,630	1,940	2,282	2,657	3,062	3,491	3,940	4,402	4,868	7,245
Depreciation	414	446	480	515	552	588	626	663	701	738	912
Tax paid	(334)	(407)	(487)	(576)	(675)	(799)	(914)	(1,035)	(1,161)	(1,289)	(1,965)
WC changes	-44	-47	-55	-59	-63	-67	-70	-71	-72	-71	-72
Capex	(263)	(276)	(289)	(304)	(319)	(335)	(352)	(369)	(388)	(407)	(520)
FCFF	1,122	1,348	1,589	1,859	2,152	2,450	2,782	3,128	3,483	3,839	5,600
Discounted FCFF	1,002	1,076	1,134	1,186	1,227	1,248	1,267	1,273	1,267	1,248	1,038
Discount factor (x)	0.89	0.80	0.71	0.64	0.57	0.51	0.46	0.41	0.36	0.33	0.19
<hr/>											
WACC (%)	11.9										
Terminal growth rate (%)	5.0										
Sum of discounted FCFF	17,570				10.9		11.4	11.9	12.4	12.9	
Terminal value	17,713			3.0	713	662	617	578	542		
Enterprise value	35,282				4.0	764	704	652	607	567	
Net debt	(1,850)			Terminal growth rate (%)	5.0	832	759	698	644	598	
Lease liabilities	207			6.0	928	835	758	694	639		
Equity value	36,925				7.0	1,073	945	844	761	693	
Number of equity shares o/s. (m)	52.9										
Equity value per share (Rs/sh)	698										

SOURCE: INCRED RESEARCH ESTIMATES, COMPANY REPORTS

Figure 7: P/E SD (five-year mean P/E)



SOURCE: INCRED RESEARCH, BLOOMBERG

Figure 8: P/E band (one-year forward EPS)



SOURCE: INCRED RESEARCH, BLOOMBERG

Profit & Loss

(Rs mn)	Mar-22A	Mar-23F	Mar-24F	Mar-25F
Total Net Revenues	5,889	5,276	6,158	7,091
Gross Profit	4,192	3,654	4,280	4,946
Operating EBITDA	2,349	1,451	1,737	2,049
Depreciation And Amortisation	(339)	(382)	(414)	(446)
Operating EBIT	2,010	1,069	1,323	1,603
Financial Income/(Expense)	(17)	10	34	40
Pretax Income/(Loss) from Assoc.	(2)	8	8	9
Non-Operating Income/(Expense)	285	25	26	28
Profit Before Tax (pre-EI)	2,277	1,112	1,392	1,679
Exceptional Items		(130)	(65)	(65)
Pre-tax Profit	2,277	982	1,326	1,614
Taxation	(562)	(247)	(334)	(407)
Exceptional Income - post-tax				
Profit After Tax	1,715	734	992	1,207
Minority Interests				
Preferred Dividends				
FX Gain/(Loss) - post tax				
Other Adjustments - post-tax				
Net Profit	1,715	734	992	1,207
Recurring Net Profit	1,715	832	1,041	1,256
Fully Diluted Recurring Net Profit	1,715	832	1,041	1,256

Balance Sheet

(Rs mn)	Mar-22A	Mar-23F	Mar-24F	Mar-25F
Total Cash And Equivalents	1,391	1,850	2,081	2,400
Total Debtors	932	217	253	291
Inventories	245	220	257	295
Total Other Current Assets	132	118	138	159
Total Current Assets	2,700	2,404	2,729	3,146
Fixed Assets	1,496	1,427	1,349	1,265
Total Investments	209	209	209	209
Intangible Assets	1,003	1,003	1,003	1,003
Total Other Non-Current Assets	663	663	663	663
Total Non-current Assets	3,370	3,301	3,224	3,139
Short-term Debt				
Current Portion of Long-Term Debt				
Total Creditors	166	145	169	194
Other Current Liabilities	430	145	169	194
Total Current Liabilities	595	289	337	389
Total Long-term Debt				
Hybrid Debt - Debt Component				
Total Other Non-Current Liabilities	210	210	210	210
Total Non-current Liabilities	210	210	210	210
Total Provisions				
Total Liabilities	805	499	547	598
Shareholders Equity	5,266	5,207	5,405	5,687
Minority Interests				
Total Equity	5,266	5,207	5,405	5,687

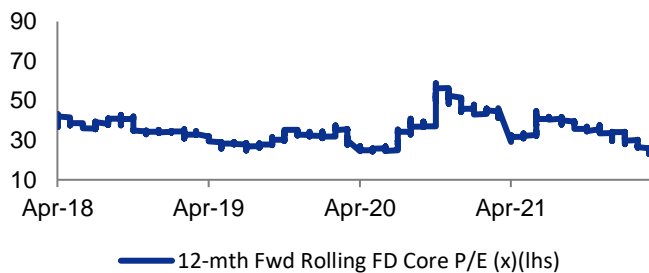
Cash Flow

(Rs mn)	Mar-22A	Mar-23F	Mar-24F	Mar-25F
EBITDA	2,349	1,451	1,737	2,049
Cash Flow from Invt. & Assoc.				
Change In Working Capital	(792)	448	(44)	(47)
(Incr)/Decr in Total Provisions				
Other Non-Cash (Income)/Expense	(117)	(170)	(114)	(124)
Other Operating Cashflow	285	25	26	28
Net Interest (Paid)/Received	(24)	(23)	(25)	(27)
Tax Paid	(568)	(247)	(334)	(407)
Cashflow From Operations	1,134	1,484	1,245	1,472
Capex	(149)	(250)	(263)	(276)
Disposals Of FAs/subsidiaries				
Acq. Of Subsidiaries/Investments				
Other Investing Cashflow	(87)	(218)	(191)	(183)
Cash Flow From Investing	(236)	(468)	(454)	(458)
Debt Raised/(repaid)	(54)			
Proceeds From Issue Of Shares				
Shares Repurchased				
Dividends Paid	(793)	(794)	(794)	(926)
Preferred Dividends				
Other Financing Cashflow	(48)	(23)	(25)	(27)
Cash Flow From Financing	(894)	(816)	(818)	(953)
Total Cash Generated	4	201	(27)	60
Free Cashflow To Equity	845	1,017	791	1,013
Free Cashflow To Firm	922	1,039	816	1,041

Key Ratios

	Mar-22A	Mar-23F	Mar-24F	Mar-25F
Revenue Growth	19.1%	(10.4%)	16.7%	15.2%
Operating EBITDA Growth	37.2%	(38.2%)	19.7%	18.0%
Operating EBITDA Margin	39.9%	27.5%	28.2%	28.9%
Net Cash Per Share (Rs)	26.27	34.93	39.30	45.33
BVPS (Rs)	99.44	98.32	102.08	107.39
Gross Interest Cover	84.82	47.47	53.28	58.73
Effective Tax Rate	24.7%	25.2%	25.2%	25.2%
Net Dividend Payout Ratio	46.2%	91.8%	75.1%	72.8%
Accounts Receivables Days	42.73	39.74	13.93	14.01
Inventory Days	51.51	52.32	46.28	46.96
Accounts Payables Days	44.72	34.90	30.44	30.88
ROIC (%)	65.3%	27.6%	39.4%	48.2%
ROCE (%)	42.3%	21.0%	26.0%	30.1%
Return On Average Assets	30.2%	14.5%	17.6%	20.1%

12-mth Fwd Rolling FD Core P/E (x)



SOURCE: INCRED RESEARCH, COMPANY REPORTS

DISCLAIMER

This report (including the views and opinions expressed therein, and the information comprised therein) has been prepared by Incred Research Services Private Ltd. (formerly known as Earnest Innovation Partners Private Limited) (hereinafter referred to as "IRSPL"). IRSPL is registered with SEBI as a Research Analyst vide Registration No. INH000011024. Pursuant to a trademark agreement, IRSPL has adopted "Incred Equities" as its trademark for use in this report.

The term "IRSPL" shall, unless the context otherwise requires, mean IRSPL and its affiliates, subsidiaries and related companies. This report is not directed or intended for distribution to or use by any person or entity resident in a state, country or any jurisdiction, where such distribution, publication, availability or use would be contrary to law, regulation or which would subject IRSPL and its affiliates/group companies to registration or licensing requirements within such jurisdictions.

This report is being supplied to you strictly on the basis that it will remain confidential. No part of this report may be (i) copied, photocopied, duplicated, stored or reproduced in any form by any means; or (ii) redistributed or passed on, directly or indirectly, to any other person in whole or in part, for any purpose without the prior written consent of IRSPL.

The information contained in this report is prepared from data believed to be correct and reliable at the time of issue of this report.

IRSPL is not required to issue regular reports on the subject matter of this report at any frequency and it may cease to do so or change the periodicity of reports at any time. IRSPL is not under any obligation to update this report in the event of a material change to the information contained in this report. IRSPL has not any and will not accept any, obligation to (i) check or ensure that the contents of this report remain current, reliable or relevant; (ii) ensure that the content of this report constitutes all the information a prospective investor may require; (iii) ensure the adequacy, accuracy, completeness, reliability or fairness of any views, opinions and information, and accordingly, IRSPL and its affiliates/group companies (and their respective directors, associates, connected persons and/or employees) shall not be liable in any manner whatsoever for any consequences (including but not limited to any direct, indirect or consequential losses, loss of profits and damages) of any reliance thereon or usage thereof.

Unless otherwise specified, this report is based upon reasonable sources. Such sources will, unless otherwise specified, for market data, be market data and prices available from the main stock exchange or market where the relevant security is listed, or, where appropriate, any other market. Information on the accounts and business of company(ies) will generally be based on published statements of the company(ies), information disseminated by regulatory information services, other publicly available information and information resulting from our research. Whilst every effort is made to ensure that statements of facts made in this report are accurate, all estimates, projections, forecasts, expressions of opinion and other subjective judgments contained in this report are based on assumptions considered to be reasonable as of the date of the document in which they are contained and must not be construed as a representation that the matters referred to therein will occur. Past performance is not a reliable indicator of future performance. The value of investments may go down as well as up and those investing may, depending on the investments in question, lose more than the initial investment. No report shall constitute an offer or an invitation by or on behalf of IRSPL and its affiliates/group companies to any person to buy or sell any investments.

The opinions expressed are based on information which are believed to be accurate and complete and obtained through reliable public or other non-confidential sources at the time made. (Information barriers and other arrangements may be established where necessary to prevent conflicts of interests arising. However, the analyst(s) may receive compensation that is based on his/their coverage of company(ies) in the performance of his/their duties or the performance of his/their recommendations. In reviewing this report, an investor should be aware that any or all of the foregoing, among other things, may give rise to real or potential conflicts of interest. Additional information is, subject to the duties of confidentiality, available on request. The report is not a "prospectus" as defined under Indian Law, including the Companies Act, 2013, and is not, and shall not be, approved by, or filed or registered with, any Indian regulator, including any Registrar of Companies in India, SEBI, any Indian stock exchange, or the Reserve Bank of India. No offer, or invitation to offer, or solicitation of subscription with respect to any such securities listed or proposed to be listed in India is being made, or intended to be made, to the public, or to any member or section of the public in India, through or pursuant to this report.

The research analysts, strategists or economists principally responsible for the preparation of this research report are segregated from the other activities of IRSPL. Information barriers and other arrangements have been established, as required, to prevent any conflicts of interests.

The research analysts, strategists or economists principally responsible for the preparation of this research report are segregated from the other activities of IRSPL. Information barriers and other arrangements have been established, as required, to prevent any conflicts of interests.

IRSPL may have issued other reports (based on technical analysis, event specific, short term views etc.) that are inconsistent with and reach different conclusion from the information presented in this report.

Holding of Analysts/Relatives of Analysts, IRSPL and Associates of IRSPL in the covered securities, as on the date of publishing of this report

	Analyst/ Relative	Entity/ Associates
any financial interests in the company covered in this report (subject company) and nature of such financial interest	NO	NO
actual/beneficial ownership of 1% or more in securities of the subject company at the end of the month immediately preceding the date of publication of the research report or date of the public appearance;	NO	NO
any other material conflict of interest at the time of publication of the research report or at the time of public appearance	NO	NO
received any compensation from the subject company in the past twelve months for investment banking or merchant banking or brokerage services or investment advisory or depository or distribution from the subject company in the last twelve months for products/services other than investment banking or merchant banking or broker- age services or investment advisory or depository or distribution from the subject company in the last twelve months	NO	NO
managed or co-managed public offering of securities for the subject company in the last twelve months	NO	NO
received any compensation or other benefits from the subject company or third party in connection with the research report	NO	NO
served as an officer, director or employee of the subject company	NO	NO
been engaged in market making activity for the subject company	NO	NO

Analyst declaration

- The analyst responsible for the production of this report hereby certifies that the views expressed herein accurately and exclusively reflect his or her personal views and opinions about any and all of the issuers or securities analysed in this report and were prepared independently and autonomously in an unbiased manner.
- No part of the compensation of the analyst(s) was, is, or will be directly or indirectly related to the inclusion of specific recommendations(s) or view(s) in this report or based any specific investment banking transaction.
- The analyst(s) has(have) not had any serious disciplinary action taken against him/her(them).
- The analyst, strategist, or economist does not have any material conflict of interest at the time of publication of this report.
- The analyst(s) has(have) received compensation based upon various factors, including quality, accuracy and value of research, overall firm performance, client feedback and competitive factors.

IRSPL and/or its affiliates and/or its Directors/employees may own or have positions in securities of the company(ies) covered in this report or any securities related thereto and may from time to time add to or dispose of, or may be materially interested in, any such securities.

IRSPL and/or its affiliates and/or its Directors/employees may do and seek to do business with the company(ies) covered in this research report and may from time to time (a) buy/sell the securities covered in this report, from time to time and/or (b) act as market maker or have assumed an underwriting commitment in securities of such company(ies), and/or (c) may sell them to or buy them from customers on a principal basis and/or (d) may also perform or seek to perform significant investment banking, advisory, underwriting or placement services for or relating to such company(ies) and/or (e) solicit such investment, advisory or other services from any entity mentioned in this report and/or (f) act as a lender/borrower to such company and may earn brokerage or other compensation. However, Analysts are forbidden to acquire, on their own account or hold securities (physical or uncertificated, including derivatives) of companies in respect of which they are compiling and producing financial recommendations or in the result of which they play a key part.