

India

ADD (previously HOLD)

Consensus ratings*: Buy 3 Hold 1 Sell 0

Current price: Rs470
 Target price: ▼ Rs581
 Previous target: Rs698
 Up/downside: 23.6%
 InCred Research / Consensus: -10.5%

Reuters:
 Bloomberg: THYROCAR IN
 Market cap: US\$343m
 Rs24,885m
 Average daily turnover: US\$1.4m
 Rs100.2m
 Current shares o/s: 52.9m
 Free float: 28.9%

*Source: Bloomberg

Key changes in this note

- FY24F/25F revenue cut by 2.9%/0.3%.
- FY24F/25F EBITDA raised by 1.8%/11.4%.
- FY24F/25F PAT raised by 12.2%/21.2%.



Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	3.0	1.3	(26.8)
Relative (%)	(0.2)	(2.8)	(36.2)

Major shareholders	% held
Promoters	71.1
Nippon India Small Cap Fund	6.4
Arisaig Asia Fund	6.1

Analyst(s)



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Thyrocare Technologies Ltd.

4Q - In line excl. one-offs, non-cash charges

- 4Q revenue & EBITDA were in line with our estimates, excluding bad debt provision and non-cash ESOP charges. Non-Covid sales up 28% yoy in 4Q.
- New lab openings, NABL accreditations and postal pin code expansion is now complete. Management explores global business to add to growth levers.
- Expect revenue/EBITDA CAGR of 15%/28% over FY23-25F. Stock trades at ~50% discount to mean P/E. Promoter stock pledge key risk. Upgrade to ADD.

4Q in line excluding bad debt provision and non-cash charges

Thyrocare Technologies' (TTL) adj. revenue/EBITDA/PAT in 4QFY23 stood at Rs1.4bn/Rs389m/Rs267m, +4%/+4%/+24% yoy, respectively. Revenue/EBITDA were in line with our estimates while EBITDA was up by 15% vs. Bloomberg consensus estimate. PAT was up by 8%/34% vs. our/Bloomberg consensus estimates, respectively. Diagnostics accounted for 91% of total revenue while imaging was at 9% in 4Q. Consol. adjusted (excl. non-cash API Holding ESOP charge of Rs65m) EBITDA margin was at 23%. Also, if we exclude the bad debt provision of Rs77.9m, adjusted EBITDA margin stood at 28.7%, flat yoy, in 4Q. Non-Covid revenue/sample volume were at Rs1.2bn/5.7m, +18%/20% yoy, respectively, on a weak base. Radiology revenue/EBITDA were at Rs111m/Rs16m, +53%/+3x yoy, respectively, in 4Q. Aarogyam (wellness) accounted for 40% of FY23 total pathology revenue. PharmEasy accounted for 12% of total pathology revenue in FY23. Net cash stood at Rs1.5bn (Mar 2023). FY23 dividend payout was at 93%.

After India business realignment, now exploring global business

TTL achieved most of its stated target on new lab openings, NABL lab accreditations, pin code expansion, higher share of NABL lab reports, and TAT of <24 hours in FY23. Radiology has been fully restructured and two centres to be added in 2HFY24F. In order to boost revenue/EBITDA growth, TTL is exploring African markets for B2B foray in a joint venture with local partners. The capex earmarked is ~Rs100m (~50% share of total JV investment of Rs200m) for FY24F and TTL expects revenue to start from 2HFY24F. Management stated that the global foray will have no negative impact on TTL's margins.

Change in our estimates, valuation and risks

We have rationalized non-Covid samples, added global business and built in operating leverage benefits for FY24F-25F. The CMP implies a ~30% discount to our rolled-forward Mar 2024 NPV of Rs683/share. We built in a lower discount of 15% to NPV as 100% promoter equity stake pledged with lenders has no covenants linked to TTL's stock price and the shares cannot be sold in the open market in case of margin shortfall. Our new TP is Rs581 (Rs698 earlier) implying an exit P/E of 21x FY25F EPS. TTL trades at ~50% discount to its mean P/E of 33-35x since listing. We upgrade TTL's rating to ADD, expecting business recovery in FY24F-25F and a significant valuation discount to the past. Promoter's stock pledge and TTL's weak financial health are big downside risks.

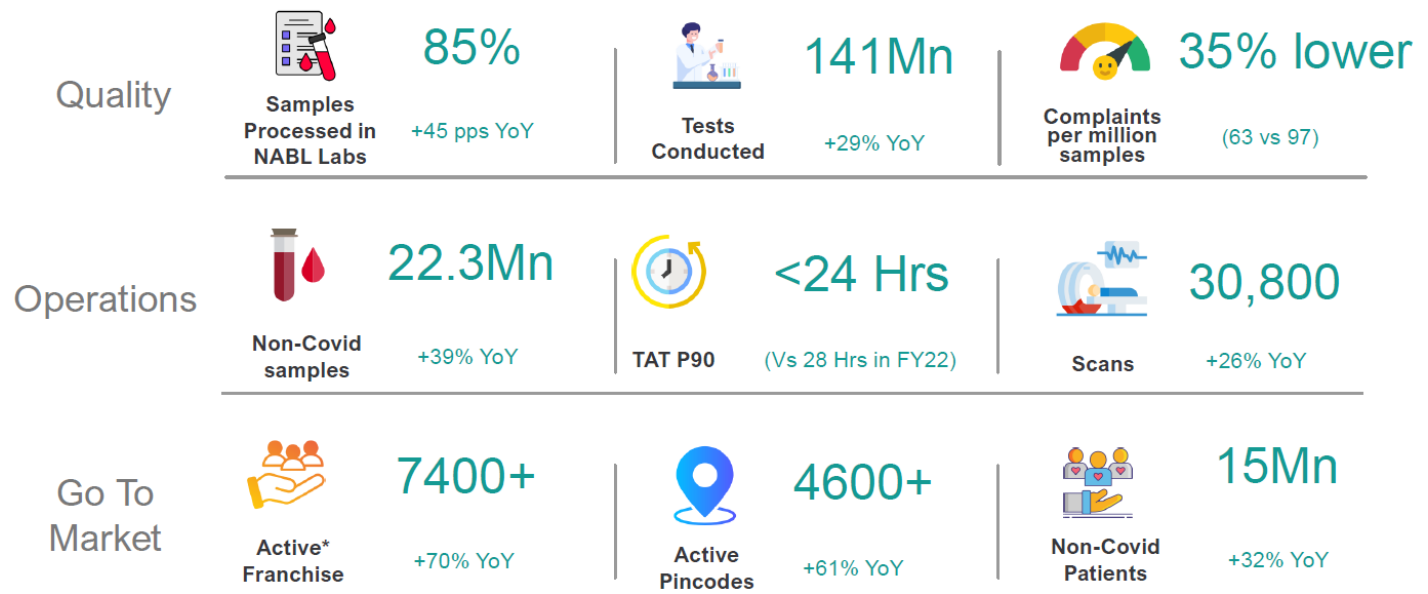
Financial Summary	Mar-21A	Mar-22A	Mar-23A	Mar-24F	Mar-25F
Revenue (Rsm)	4,946	5,889	5,267	5,982	7,072
Operating EBITDA (Rsm)	1,713	2,349	1,390	1,768	2,282
Net Profit (Rsm)	1,131	1,761	644	970	1,390
Core EPS (Rs)	21.4	33.3	14.7	20.3	27.3
Core EPS Growth	22.2%	55.7%	(55.7%)	37.8%	34.2%
FD Core P/E (x)	22.00	14.13	31.88	23.13	17.24
DPS (Rs)	25.0	15.0	18.0	17.5	20.0
Dividend Yield	5.31%	3.19%	3.83%	3.72%	4.25%
EV/EBITDA (x)	13.84	10.01	16.84	13.10	9.92
P/FCFE (x)	46.28	29.48	24.29	20.82	15.62
Net Gearing	(28.1%)	(26.4%)	(28.2%)	(32.7%)	(39.9%)
P/BV (x)	5.83	4.73	4.66	4.62	4.36
ROE	28.5%	36.9%	14.7%	20.1%	26.0%
% Change In Core EPS Estimates				3.40%	14.97%
InCred Research/Consensus EPS (x)					

SOURCE: INCRED RESEARCH, COMPANY REPORTS

4QFY23 earnings-call takeaways

- **Operations update:** TTL now offers a test menu comprising 700+ tests, has 7,400+ active franchisees, is present in 4,600+ pin codes in India and had an average report delivery time of 14 hours at the end of Mar 2023. The company operated 31 labs, of which 20 are NABL-accredited. Nearly 85% of sample testing was processed at NABL labs in 4QFY23. TTL launched a new series of investigative test packages under a new sub-brand – Jaanch. These are doctor-curated specialized test packages related to fever, heart, cancer, skin care, etc. The company introduced ThyroNXT – a new digital platform for its B2B franchisee partners in 4Q. The franchisee segment accounted for ~60% of non-Covid pathology revenue in 4Q.
- **Non-renewal of government contract:** A contract with the Municipal Corporation of Greater Mumbai (MCGM) expired in Feb 2023, with a revenue run-rate of Rs120m/year.
- **International business:** To boost revenue/EBITDA growth, TTL is exploring international geographies to replicate its Indian success in the B2B diagnostics segment. Africa, Mid-East and Southeast Asia are three key markets targeted by TTL. To start with, TTL would have a local presence with the opening of three labs across three locations in Africa, in a joint venture with a local partner. The estimated total investment for the African joint venture is Rs200m. Assuming that TTL would own ~50% equity stake in the joint venture, TTL's share works out to Rs100m that will be invested in 2HFY24F. As per management, international foray will add to revenue growth and is margin-accretive vs. India EBITDA margin.
- **Covid-related government debtors:** As of end-Mar 2023, the total outstanding receivables due from government institutions was Rs600m (gross receivables of Rs850m at the end of Mar 2023), due for over two years now. Of this, bad debt provision to the tune of ~Rs200m has been accounted over FY22 and FY23. Of the Rs600m, Rs510m is due from the Maharashtra government while the remaining Rs90m is due from state governments of Uttarakhand and Jharkhand & also from Bengaluru Municipal Corporation.
- **Nuclear Healthcare:** The PET-CT scan business had 10 operational centres with 13 test machines as of end-Mar 2023. The company plans to add two additional centres in FY24F.
- **Cash flow:** Net working capital cycle was high at 36 days of sales versus long-term average of 10-20 days, largely due to unpaid government receivables. FY23 OCF/FCF stood at Rs1.3bn/Rs878m, respectively. Net cash was at Rs1.5bn as of end-Mar 2023. Dividend payout was at 150% for FY23.

Figure 1: FY23 milestones achieved

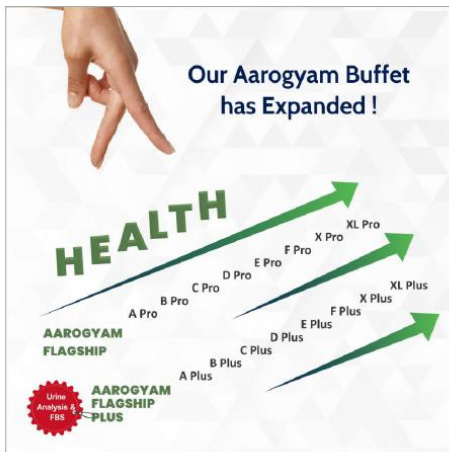


FY23 – New initiatives in the year – Expanding our offerings

Aarogyam - Preventive

Aarogyam 24x7- Non-Fasting

Jaanch - Investigative



SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 2: 4QFY23 result summary

Y/E Mar (Rs m)	4QFY23	4QFY22	yoy (%)	3QFY23	qoq (%)	Mar-23	Mar-22	yoy (%)
Revenue	1,359	1,306	4.0	1,280	6.1	5,267	5,889	(10.6)
EBITDA	311	376	(17.1)	337	(7.5)	1,390	2,349	(40.8)
EBITDA margin (%)	22.9	28.8	-585 bp	26.3	-339 bp	26.4	39.9	-1,350 bp
Adj. PAT	189	215	(11.9)	205	(7.7)	821	1,763	(53.4)
Diluted EPS (Rs)	3.6	4.1		3.9		15.5	33.3	

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 3: Actuals vs. our estimates

Rs m	4QFY23	4QFY23F	Var(%)
Revenue	1,359	1,408	(3.5)
EBITDA	311	392	(20.6)
EBITDA margin (%)	22.9	27.9	-495 bp
Adj. PAT	189	247	(23.3)

SOURCE: INCRED RESEARCH ESTIMATES, COMPANY REPORTS

Figure 4: Actuals vs. Bloomberg consensus estimates

Rs m	4QFY23	4QFY23C	Var(%)
Revenue	1,359	1,362	(0.2)
EBITDA	311	338	(7.7)
EBITDA margin (%)	22.9	24.8	-186 bp
Adj. PAT	189	200	(5.3)

SOURCE: INCRED RESEARCH, COMPANY REPORTS, BLOOMBERG

Figure 5: Change in our estimates

	New estimates		Old estimates		Change (%)	
	FY24F	FY25F	FY24F	FY25F	FY24F	FY25F
Revenue	5,982	7,072	6,158	7,091	-2.9	-0.3
EBITDA	1,768	2,282	1,737	2,049	1.8	11.4
Adjusted consol. PAT	1,113	1,463	992	1,207	12.2	21.2

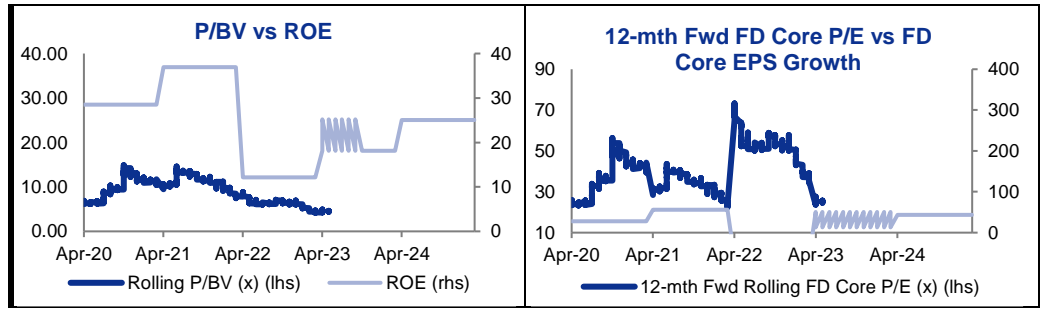
SOURCE: INCRED RESEARCH ESTIMATES, COMPANY REPORTS

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

	FY24F	FY25F	FY26F	FY27F	FY28F	FY29F	FY30F	FY31F	FY32F	FY33F	FY38F
EBIT	1,403	1,887	2,150	2,517	2,889	3,256	3,623	3,983	4,327	4,642	5,913
Depreciation	439	474	505	536	567	599	631	663	695	727	882
Tax paid	(327)	(468)	(546)	(649)	(752)	(851)	(951)	(1,051)	(1,148)	(1,240)	(1,631)
WC changes	252	48	-23	-31	-33	-34	-35	-35	-35	-34	-36
Capex	(350)	(300)	(315)	(331)	(347)	(365)	(383)	(402)	(422)	(443)	(566)
FCFF	1,418	1,640	1,770	2,041	2,324	2,605	2,885	3,158	3,417	3,653	4,562
Discounted FCFF	1,418	1,467	1,416	1,460	1,486	1,490	1,476	1,445	1,398	1,337	955
Discount factor (x)	1.00	0.89	0.80	0.72	0.64	0.57	0.51	0.46	0.41	0.37	0.21
WACC (%)	11.8										
Terminal growth rate (%)	5.0										
Sum of discounted FCFF	19,914				10.8	11.3	11.8	12.3	12.8		
Terminal value	14,726			3.0	698	655	616	582	551		
Enterprise value	34,640			4.0	741	690	645	607	572		
Net debt	(1,765)		Terminal	5.0	798	736	683	638	598		
Lease liabilities	233		growth	6.0	879	800	734	679	632		
Equity value	36,171		rate (%)	7.0	1,003	893	807	736	678		
Number of equity shares o/s. (m)	52.9										
Equity value per share (Rs/sh)	683										

SOURCE: INCRED RESEARCH, COMPANY REPORTS

BY THE NUMBERS



Profit & Loss

(Rs mn)	Mar-21A	Mar-22A	Mar-23A	Mar-24F	Mar-25F
Total Net Revenues	4,946	5,889	5,267	5,982	7,072
Gross Profit	3,307	4,192	3,634	4,128	4,880
Operating EBITDA	1,713	2,349	1,390	1,768	2,282
Depreciation And Amortisation	(303)	(339)	(387)	(439)	(474)
Operating EBIT	1,410	2,010	1,003	1,328	1,808
Financial Income/(Expense)	36	(17)	(11)	26	34
Pretax Income/(Loss) from Assoc.	(1)	(2)	12	10	11
Non-Operating Income/(Expense)	80	285	71	75	78
Profit Before Tax (pre-EI)	1,525	2,277	1,075	1,440	1,931
Exceptional Items			(189)	(143)	(74)
Pre-tax Profit	1,525	2,277	886	1,297	1,858
Taxation	(393)	(516)	(242)	(327)	(468)
Exceptional Income - post-tax					
Profit After Tax	1,131	1,761	644	970	1,390
Minority Interests					
Preferred Dividends					
FX Gain/(Loss) - post tax					
Other Adjustments - post-tax					
Net Profit	1,131	1,761	644	970	1,390
Recurring Net Profit	1,131	1,761	781	1,077	1,445
Fully Diluted Recurring Net Profit	1,131	1,761	781	1,077	1,445

Cash Flow

(Rs mn)	Mar-21A	Mar-22A	Mar-23A	Mar-24F	Mar-25F
EBITDA	1,713	2,349	1,390	1,768	2,282
Cash Flow from Invt. & Assoc.					
Change In Working Capital	(176)	(792)	58	252	48
(Incr)/Decr in Total Provisions					
Other Non-Cash (Income)/Expense	(49)	(117)	272	(148)	(80)
Other Operating Cashflow	80	285	71	75	78
Net Interest (Paid)/Received	(9)	(24)	(24)	(23)	(27)
Tax Paid	(432)	(568)	(285)	(327)	(468)
Cashflow From Operations	1,126	1,134	1,483	1,597	1,833
Capex	(187)	(149)	(416)	(350)	(300)
Disposals Of FAs/subsidiaries					
Acq. Of Subsidiaries/investments					
Other Investing Cashflow	(315)	(87)	26	(51)	61
Cash Flow From Investing	(502)	(236)	(390)	(401)	(239)
Debt Raised/(repaid)	(86)	(54)	(68)		
Proceeds From Issue Of Shares					
Shares Repurchased					
Dividends Paid	(528)	(793)	(794)	(926)	(1,059)
Preferred Dividends					
Other Financing Cashflow	(1)	(48)		(23)	(27)
Cash Flow From Financing	(616)	(894)	(862)	(949)	(1,085)
Total Cash Generated	8	4	231	247	509
Free Cashflow To Equity	538	845	1,025	1,196	1,594
Free Cashflow To Firm	633	922	1,117	1,219	1,621

SOURCES: INCRED RESEARCH, COMPANY REPORTS

BY THE NUMBERS...cont'd

Balance Sheet					
(Rs mn)	Mar-21A	Mar-22A	Mar-23A	Mar-24F	Mar-25F
Total Cash And Equivalents	1,202	1,391	1,508	1,765	2,284
Total Debtors	447	932	851	574	388
Inventories	234	245	277	328	388
Total Other Current Assets	95	132	94	107	126
Total Current Assets	1,978	2,700	2,729	2,773	3,185
Fixed Assets	1,705	1,496	1,582	1,522	1,381
Total Investments	211	209	221	321	321
Intangible Assets	1,003	1,003	1,003	1,003	1,003
Total Other Non-Current Assets	516	663	792	791	791
Total Non-current Assets	3,435	3,370	3,598	3,637	3,496
Short-term Debt					
Current Portion of Long-Term Debt					
Total Creditors	250	166	254	246	291
Other Current Liabilities	670	430	446	492	388
Total Current Liabilities	920	595	699	738	678
Total Long-term Debt					
Hybrid Debt - Debt Component					
Total Other Non-Current Liabilities	221	210	266	266	266
Total Non-current Liabilities	221	210	266	266	266
Total Provisions			10	10	10
Total Liabilities	1,140	805	975	1,013	954
Shareholders Equity	4,273	5,266	5,343	5,387	5,717
Minority Interests			9	9	9
Total Equity	4,273	5,266	5,352	5,396	5,727

Key Ratios					
	Mar-21A	Mar-22A	Mar-23A	Mar-24F	Mar-25F
Revenue Growth	14.2%	19.1%	(10.6%)	13.6%	18.2%
Operating EBITDA Growth	(0.7%)	37.2%	(40.8%)	27.2%	29.1%
Operating EBITDA Margin	34.6%	39.9%	26.4%	29.5%	32.3%
Net Cash Per Share (Rs)	22.70	26.27	28.47	33.31	43.12
BVPS (Rs)	80.69	99.44	100.90	101.68	107.92
Gross Interest Cover	162.03	84.82	42.66	58.65	68.00
Effective Tax Rate	25.8%	22.7%	27.4%	25.2%	25.2%
Net Dividend Payout Ratio	116.8%	45.0%	148.0%	95.4%	76.0%
Accounts Receivables Days	22.60	42.73	61.79	43.47	24.80
Inventory Days	48.97	51.51	58.36	59.49	59.54
Accounts Payables Days	52.19	44.72	46.87	49.14	44.66
ROIC (%)	48.6%	65.3%	25.9%	34.1%	50.4%
ROCE (%)	36.3%	42.3%	19.1%	25.6%	33.5%
Return On Average Assets	21.7%	31.0%	10.6%	14.8%	20.6%

Key Drivers					
	Mar-21A	Mar-22A	Mar-23A	Mar-24F	Mar-25F
Samples processed (mn nos)	17	21	15	26	29
Sample realisation (Rs per sample)	284	257	310	203	210

SOURCES: INCRED RESEARCH, COMPANY REPORTS

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