

India

HOLD (previously REDUCE)

Consensus ratings*: Buy 5 Hold 4 Sell 14

Current price: Rs1,906
 Target price: ▲ Rs1,969
 Previous target: Rs1,742
 Up/downside: 3.3%
 InCred Research / Consensus: -0.1%

Reuters:
 Bloomberg: DLPL IN
 Market cap: US\$2,189m
 Rs158,959m
 Average daily turnover: US\$6.9m
 Rs499.4m
 Current shares o/s: 83.6m
 Free float: 45.0%

*Source: Bloomberg

Key changes in this note

- FY24F/25F revenue cut by 3.5%/1.8%.
- FY24F/25F EBITDA cut by 9%/8.4%.
- FY24F/25F PAT cut by 11.6%/10.3%.



Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	2.4	(3.1)	(16.5)
Relative (%)	(0.1)	(5.0)	(28.6)

Major shareholders	% held
Promoters	55.0
Invesco Oppenheimer Intl. Growth	2.9
UTI Flexi Cap Fundd	2.3

Analyst(s)



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Dr. Lal Pathlabs Ltd.

Non-Covid revenue growth to get better qoq

- 4QFY23 revenue/PAT missed our/Bloomberg consensus estimates by 4-10%. Standalone non-Covid revenue grew at a 3-year CAGR of ~10%.
- We feel price hikes, normal lifestyle leading to normal sickness testing, competition peaking, and M&A integration benefits should aid revenue growth.
- The stock shed 20%+ over the past six months. We feel non-Covid revenue growth will be better qoq. Roll forward to Mar 2024F. Upgrade stock to HOLD.

Non-Covid business trend still below normal; 3-year CAGR at 10%

Dr. Lal Pathlabs or DLPL's 4QFY23 revenue stood at Rs4.9bn, flat yoy/qoq. EBITDA/PAT stood at Rs1.2bn/Rs567m, down 5%/8% yoy, respectively. Actuals missed our/Bloomberg consensus estimates by 4-10%. Gross/EBITDA margins were at 78.4%/23.5%, +190bp/(140bp) yoy, respectively. Non-Covid revenue was at Rs4.8bn, +14% yoy, including Suburban. Non-Covid revenue grew at a 3-year CAGR of ~10% (excl. Suburban) over 4QFY20-4QFY23, in our view. Non-Covid patient volume grew to 6.34m, +5% yoy, while realization/patient rose to Rs757, +9% yoy, including Suburban. Realization growth was led by a) test price hike of 2.5% on an annualized basis, effective Feb 2023, and b) higher revenue share of Swastfit (wellness test packages) - it was at Rs980m, or 22% of total sales, in 4Q. Covid revenue was at Rs110m, down 84% yoy. B2C revenue was at 72% of total sales in FY23. Delhi-NCR revenue was at Rs6.5bn, down 9% yoy, accounting for 32% of consolidated sales in FY23. Total non-Covid patient volume was at 26.6m, +8% yoy, including Suburban.

Non-Covid revenue growth trend to improve qoq going ahead

We highlight multiple factors that should drive non-Covid revenue growth for DLPL going ahead such as a) price hikes taken in Feb 2023 (not happened in the last five-to-six years), b) higher patient volume growth outside Delhi-NCR, c) normal lifestyle leading to normal sickness testing which, in turn, leads to normal test frequency by patients, d) our channel check revealing competition peaking with no new player's entry in the past one year and employee attrition rate having fallen back to normal at DLPL/Metropolis, and e) Suburban integration benefits. DLPL operates 277 labs well supported by 5k+ patient service centres (PSC) and 11k pick-up points (PUP) as at end-Mar 2023. DLPL aims to add 10-15 labs/year and proportionately add PSCs/PUPs to penetrate deeper into non-core markets.

Change in our estimates, valuation and risks

We cut our revenue/EBITDA/PAT estimates by 2-12% and expect EBITDA margin to be at 24-25%, a cut of 150-180bp, over FY24F-25F. We expect an EPS CAGR of 16% over FY23F-25F. The stock fell 20%+ in the past six months. We roll forward our DCF-based valuation to Mar 2024F and raise the target price to Rs1,969 (Rs1,742 earlier), implying a P/E of 46x FY25F EPS. We see no downside to the stock price and upgrade its rating to HOLD (from REDUCE earlier). Upside risks: Faster non-Covid business recovery. Downside risks: Intense competition and adverse capital allocation.

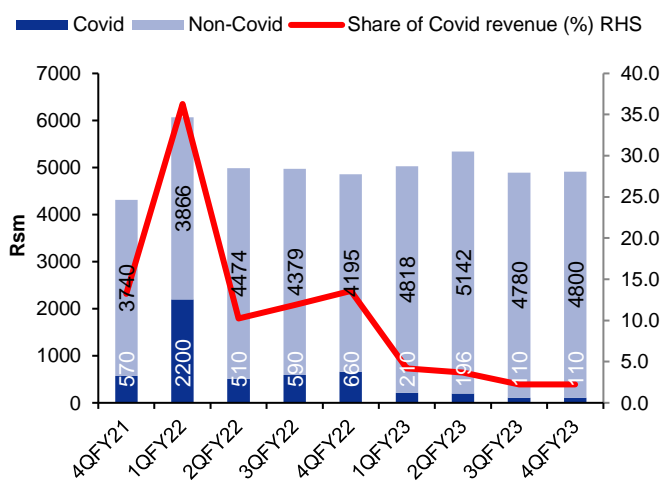
Financial Summary	Mar-21A	Mar-22A	Mar-23A	Mar-24F	Mar-25F
Revenue (Rsm)	15,813	20,874	20,169	22,587	25,620
Operating EBITDA (Rsm)	4,363	5,607	4,899	5,487	6,290
Net Profit (Rsm)	2,916	3,448	2,389	2,921	3,476
Core EPS (Rs)	34.9	41.2	28.6	34.9	41.6
Core EPS Growth	27.6%	18.2%	(30.7%)	22.3%	19.0%
FD Core P/E (x)	54.29	46.21	66.71	54.56	45.85
DPS (Rs)	20.0	12.0	12.0	15.0	18.0
Dividend Yield	1.03%	0.62%	0.63%	0.78%	0.94%
EV/EBITDA (x)	34.32	27.88	31.42	27.58	23.83
P/FCFE (x)	44.77	47.22	265.61	121.15	56.43
Net Gearing	(77.2%)	(21.9%)	(34.1%)	(44.8%)	(47.7%)
P/BV (x)	12.79	10.57	9.56	8.69	7.85
ROE	25.6%	25.0%	15.1%	16.7%	18.0%
% Change In Core EPS Estimates			(10.68%)	(11.60%)	(10.32%)
InCred Research/Consensus EPS (x)					

SOURCES: INCRED RESEARCH, COMPANY REPORTS

4QFY23 earnings-call takeaways

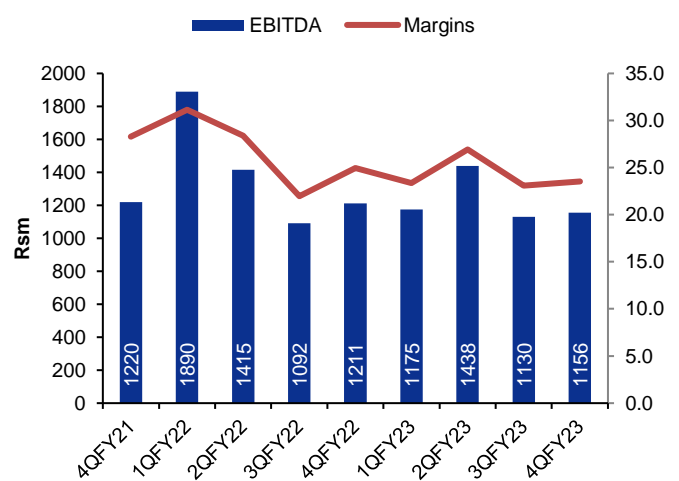
- Growth and margin outlook:** Management expects FY24F revenue growth to be higher than in FY23 (non-Covid sales grew 15.5% yoy). Despite increasing the share of B2B business and Swasthfit in the overall revenue mix, management does not expect any dilution in EBITDA margin going ahead.
- Price hikes:** DLPL has undertaken price hikes in Feb 2023 across specialized and semi-specialized test menu – about 50% of the test portfolio, as per management. No price hikes have been taken in routine tests and wellness packages. The company expects a positive impact on revenue growth by 2-2.5% yoy in FY24F.
- Wellness business trend:** Swasthfit revenue stood at Rs3.7bn, or 18% of total sales, in FY23 and at Rs980m, or 22% of total sales, in 4QFY23.
- Suburban business update:** EBITDA margin of Suburban stayed below-par at 11-12% in 4Q and FY23 due to a sharp drop in Covid-related business. Covid-related revenue stood at Rs90m, down 90% yoy, in FY23. Also, the Mumbai reference lab started operations from Jan 2023, leading to higher opex, and thus impacting operating margin of Suburban. Realization per patient continues to be higher than in the case of DLPL over the past one year.
- Patient service network:** DLPL has expanded to touch 10,938 pick-up points, 5,102 patient service centres and 277 clinical labs (70+ labs in T-3 towns). The company plans to add 10-15 new labs every year across T-3/T-4 cities in West, South and East India.
- One-off expenses:** DLPL's 4Q margins were impacted due to one-time provision of Rs70m towards a) delayed receivables from the BMC (Brihanmumbai Municipal Corporation) relating to Covid testing, and b) inventory write-off of Covid-related materials that have surpassed their expiry period.
- Cash flow:** FCF was at Rs4.2bn in FY23. Gross cash and gross debt stood at Rs8.4bn and Rs2.4bn, respectively, at the end of Mar 2023.

Figure 1: Quarterly revenue trend



SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 2: Quarterly margin trend



SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 3: 4QFY23 results snapshot

Y/E Mar (Rs m)	4QFY23	4QFY22	yoy (%)	3QFY23	qoq (%)	FY23	FY22	yoy (%)
Revenue	4,910	4,855	1.1	4,894	0.3	20,169	20,874	(3.4)
EBITDA	1,156	1,211	(4.5)	1,130	2.3	4,899	5,607	(12.6)
EBITDA margin (%)	23.5	24.9	-140 bp	23.1	45 bp	24.3	26.9	-257 bp
Adj. PAT	567	613	(7.5)	528	7.4	2,389	3,448	(30.7)
Diluted EPS (Rs)	6.8	7.4		6.3				

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 4: Actuals vs. our estimates

Rs m	4QFY23A	4QFY23F	Var(%)
Revenue	4,910	5,129	(4.3)
EBITDA	1,156	1,236	(6.5)
EBITDA margin (%)	23.5	24.1	-56bp
Adj. PAT	567	601	(5.7)

SOURCE: INCRED RESEARCH ESTIMATES, COMPANY REPORTS

Figure 5: Actuals vs Bloomberg consensus estimates

Rs m	4QFY23A	4QFY23C	Var(%)
Revenue	4,910	5,157	(4.8)
EBITDA	1,156	1,248	(7.4)
EBITDA margin (%)	23.5	24.2	-65 bp
Adj. PAT	567	629	(9.9)

SOURCE: INCRED RESEARCH, COMPANY REPORTS, BLOOMBERG

Figure 6: Change in our estimates

	New estimates		Old estimates		Change (%)	
	FY24F	FY25F	FY24F	FY25F	FY24F	FY25F
Revenue	22,587	25,620	23,406	26,080	-3.5	-1.8
EBITDA	5,487	6,290	6,033	6,866	-9.0	-8.4
Adjusted consol. PAT	2,921	3,476	3,304	3,876	-11.6	-10.3
EPS	34.9	41.6	39.5	46.4	-11.6	-10.3
EBITDA margin (%)	24.3	24.6	25.8	26.3	-148.0	-177.5

SOURCE: INCRED RESEARCH ESTIMATES, COMPANY REPORTS

Figure 7: Discounted cash flow valuation, Y/E Mar (Rsm)

	FY24F	FY25F	FY26F	FY27F	FY28F	FY29F	FY30F	FY31F	FY32F	FY38F	
EBIT	3,983	4,676	5,556	6,560	7,674	8,905	10,257	11,734	13,576	25,055	
Depreciation	1,626	1,749	1,819	1,874	1,931	1,990	2,051	2,116	1,943	2,661	
Tax paid	(1,062)	(1,263)	(1,509)	(1,797)	(2,118)	(2,474)	(2,866)	(3,296)	(3,827)	(7,249)	
WC changes	-355	168	181	198	215	232	249	266	282	302	
Capex	(800)	(840)	(882)	(926)	(972)	(1,021)	(1,072)	(1,126)	(1,182)	(1,584)	
FCFF	3,393	4,490	5,166	5,908	6,729	7,632	8,620	9,694	10,792	19,184	
Discounted FCFF	3,393	4,052	4,206	4,341	4,460	4,564	4,652	4,721	4,741	5,040	
Discount factor (x)	1.0	0.9	0.8	0.7	0.7	0.6	0.5	0.5	0.4	0.3	
WACC (%)	10.8										
Terminal growth rate (%)	5.0										
Sum of discounted FCFF	67,994				9.8		10.3		10.8		11.3
Terminal value	90,898				3.0		1,747		1,616		1,502
Enterprise value	1,58,893				Terminal		4.0		2,025		1,851
Net debt	(7,370)				Growth rate (%)		5.0		2,416		2,172
Lease liabilities	1,300				6.0		3,010		2,640		2,347
Minority Interest	356				7.0		4,023		3,387		2,919
Equity value	1,64,606										
Number of equity shares o/s. (m)	83.6										
Equity value per share (Rs/sh)	1,969										

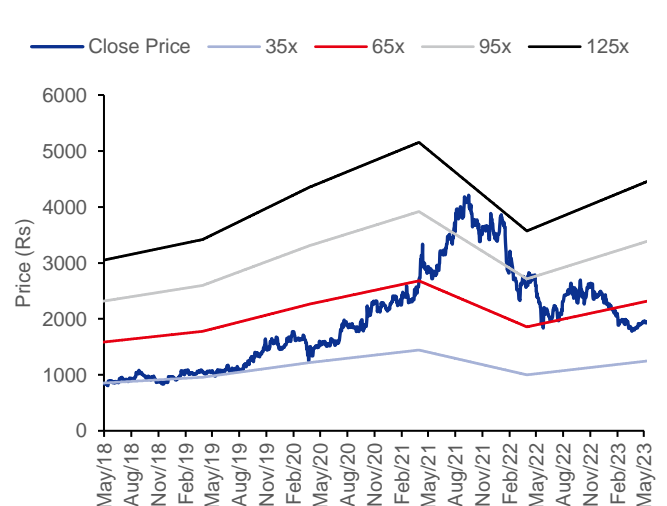
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 8: P/E standard deviation (five-year mean P/E)



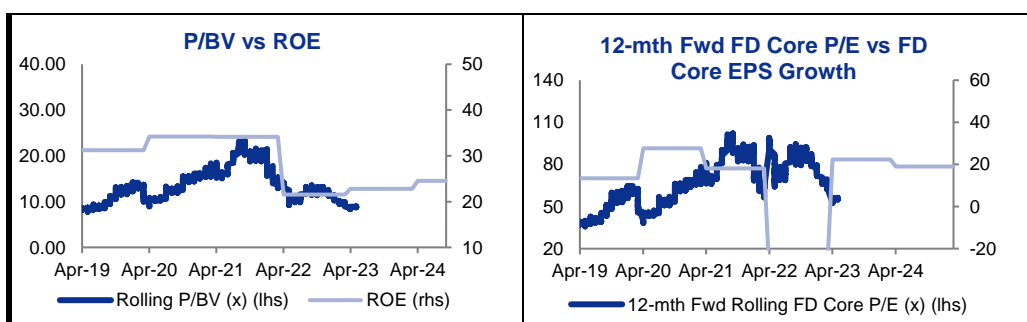
SOURCE: INCRED RESEARCH, COMPANY REPORTS, BLOOMBERG

Figure 9: P/E band



SOURCE: INCRED RESEARCH, COMPANY REPORTS, BLOOMBERG

BY THE NUMBERS



Profit & Loss

(Rs mn)	Mar-21A	Mar-22A	Mar-23A	Mar-24F	Mar-25F
Total Net Revenues	15,813	20,874	20,169	22,587	25,620
Gross Profit	11,840	15,851	15,697	17,618	20,048
Operating EBITDA	4,363	5,607	4,899	5,487	6,290
Depreciation And Amortisation	(772)	(1,081)	(1,502)	(1,626)	(1,749)
Operating EBIT	3,591	4,526	3,397	3,861	4,541
Financial Income/(Expense)	279	171	(69)	24	90
Pretax Income/(Loss) from Assoc.					
Non-Operating Income/(Expense)	74	52	111	122	134
Profit Before Tax (pre-EI)	3,944	4,749	3,439	4,007	4,765
Exceptional Items					
Pre-tax Profit	3,944	4,749	3,439	4,007	4,765
Taxation	(979)	(1,246)	(1,028)	(1,062)	(1,263)
Exceptional Income - post-tax					
Profit After Tax	2,965	3,503	2,411	2,945	3,502
Minority Interests	(49)	(55)	(22)	(24)	(27)
Preferred Dividends					
FX Gain/(Loss) - post tax					
Other Adjustments - post-tax					
Net Profit	2,916	3,448	2,389	2,921	3,476
Recurring Net Profit	2,916	3,448	2,389	2,921	3,476
Fully Diluted Recurring Net Profit	2,916	3,448	2,389	2,921	3,476

Cash Flow

(Rs mn)	Mar-21A	Mar-22A	Mar-23A	Mar-24F	Mar-25F
EBITDA	4,363	5,607	4,899	5,487	6,290
Cash Flow from Invt. & Assoc.					
Change In Working Capital	367	(167)	355	(355)	168
(Incr)/Decr in Total Provisions					
Other Non-Cash (Income)/Expense	2,264	468	(178)	(235)	(256)
Other Operating Cashflow	74	52	111	122	134
Net Interest (Paid)/Received	(160)	(302)	(375)	(348)	(321)
Tax Paid	(1,017)	(1,246)	(248)	(1,062)	(1,263)
Cashflow From Operations	5,891	4,412	4,564	3,610	4,754
Capex	(592)	(925)	(360)	(800)	(840)
Disposals Of FAs/subsidiaries					
Acq. Of Subsidiaries/investments					
Other Investing Cashflow	(1,528)	(3,567)	(2,513)	(128)	(90)
Cash Flow From Investing	(2,120)	(4,492)	(2,873)	(928)	(930)
Debt Raised/(repaid)	(235)	3,454	(1,091)	(1,366)	(1,000)
Proceeds From Issue Of Shares	3	2	9		
Shares Repurchased					
Dividends Paid	(995)	(1,167)	(1,030)	(1,251)	(1,501)
Preferred Dividends					
Other Financing Cashflow	(159)	(925)	(720)	(348)	(321)
Cash Flow From Financing	(1,386)	1,364	(2,832)	(2,965)	(2,822)
Total Cash Generated	2,385	1,284	(1,141)	(283)	1,003
Free Cashflow To Equity	3,536	3,374	600	1,315	2,824
Free Cashflow To Firm	3,931	222	2,066	3,030	4,145

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	9,853	6,831	8,153	8,370	9,872
Total Debtors	667	854	708	928	1,053
Inventories	426	524	338	495	562
Total Other Current Assets	505	542	531	619	702
Total Current Assets	11,451	8,751	9,730	10,412	12,189
Fixed Assets	2,136	6,148	5,566	5,338	5,005
Total Investments					
Intangible Assets	854	5,499	5,478	5,478	5,478
Total Other Non-Current Assets	2,165	3,094	3,072	3,057	3,057
Total Non-current Assets	5,155	14,741	14,116	13,873	13,540
Short-term Debt		1,789	1,533		
Current Portion of Long-Term Debt					
Total Creditors	1,441	1,474	1,561	1,748	1,983
Other Current Liabilities	1,302	1,737	1,624	1,547	1,755
Total Current Liabilities	2,743	5,000	4,718	3,295	3,738
Total Long-term Debt	1	1,668	833		
Hybrid Debt - Debt Component					
Total Other Non-Current Liabilities	1,102	1,389	1,300	1,300	1,300
Total Non-current Liabilities	1,103	3,057	2,133	1,300	1,300
Total Provisions					
Total Liabilities	3,846	8,057	6,851	4,595	5,038
Shareholders Equity	12,450	15,080	16,663	18,333	20,309
Minority Interests	310	355	332	356	383
Total Equity	12,760	15,435	16,995	18,690	20,691

Key Ratios					
	Mar-21A	Mar-22A	Mar-23A	Mar-24F	Mar-25F
Revenue Growth	18.9%	32.0%	(3.4%)	12.0%	13.4%
Operating EBITDA Growth	27.0%	28.5%	(12.6%)	12.0%	14.6%
Operating EBITDA Margin	27.6%	26.9%	24.3%	24.3%	24.6%
Net Cash Per Share (Rs)	117.93	40.36	69.22	100.12	118.09
BVPS (Rs)	149.03	180.39	199.32	219.30	242.93
Gross Interest Cover	22.44	14.99	9.06	11.09	14.15
Effective Tax Rate	24.8%	26.2%	29.9%	26.5%	26.5%
Net Dividend Payout Ratio	42.3%	21.1%	29.3%	31.4%	31.7%
Accounts Receivables Days	13.63	13.30	14.13	13.22	14.11
Inventory Days	45.75	34.52	35.18	30.60	34.60
Accounts Payables Days	120.26	105.91	123.86	121.53	122.19
ROIC (%)	79.8%	112.9%	25.3%	30.9%	36.0%
ROCE (%)	34.6%	31.6%	19.4%	22.2%	25.1%
Return On Average Assets	24.2%	22.8%	14.8%	16.6%	18.7%

Key Drivers					
	Mar-21A	Mar-22A	Mar-23A	Mar-24F	Mar-25F
Patient volume (mn nos)	21	28	27	30	34
Patient realisation (Rs per patient)	764	754	750	758	764

SOURCES: INCRED RESEARCH, COMPANY REPORTS

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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
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