

India

Underweight (no change)

Highlighted Companies

Dr. Lal Pathlabs

HOLD, TP Rs1969, Rs2355 close

We expect a good 1QFY24F with non-Covid patient volume and revenue growth at 3% & 11% yoy, respectively. Revenue growth outside Delhi-NCR and Suburban's performance are key monitorables.

Metropolis Healthcare

REDUCE, TP Rs1235, Rs1426 close

We expect a weak 1QFY24F owing to NIL revenue from a single government contract that ended in Feb 2023. LTL core revenue growth (ex-government business) and Hitech's performance are key monitorables.

Thyrocare Technologies

ADD, TP Rs581, Rs520 close

We expect a good 1QFY24F due to recovery in non-Covid patient volume and a non-proportionate rise in opex leading to higher EBITDA margin yoy. API promoter group's ESOP expenses to decline qoq. Recovery of delayed receivables from the government and any update related to promoter stock pledge are key monitorables.

Summary Valuation Metrics

P/E (x)	Mar22-A	Mar23-A	Mar24-F
Dr. Lal Pathlabs	57.1	82.41	67.41
Metropolis Healthcare	34.07	49.03	41.16
Thyrocare Technologies	15.63	42.79	28.41

P/BV (x)	Mar22-A	Mar23-A	Mar24-F
Dr. Lal Pathlabs	13.06	11.82	10.74
Metropolis Healthcare	8.23	7.34	6.51
Thyrocare Technologies	5.23	5.15	5.11

Dividend Yield	Mar22-A	Mar23-A	Mar24-F
Dr. Lal Pathlabs	0.5%	0.51%	0.64%
Metropolis Healthcare	0.56%	0.56%	0.7%
Thyrocare Technologies	2.88%	3.46%	3.36%

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Healthcare - Overall

1QFY24 diagnostics sector results preview

- We expect non-Covid 4-year revenue CAGR (1QFY20-1QFY24F) at 6-11% for coverage firms excl. M&A. Dr. Lal: 11.2%; Thyrocare: 7.6%; Metropolis: 5.7%.
- Favourable base, higher non-Covid patients, price hikes, better mix, opex cut and debt repayment may lead to EBITDA/PAT growth of 17-23% yoy.
- We expect a gradual recovery in patient volume growth over Jul-Mar. Pricing pressure seems to be abating. Prefer Dr. Lal. Our sector rating is under review.

Gradual increase in non-Covid revenue to continue in 1QFY24F

A conventional lifestyle, in our view, is resulting in normal diagnostic testing behaviour across India. Channel expansion into non-core markets, expansion of test menu focused on more specialized tests not offered by rivals currently, and attractive wellness test packages related to lifestyle diseases are a few factors that would aid non-Covid revenue growth recovery. As regards competition, no new player has entered the diagnostics market over the past one year. Also, top-6 cities, accounting for bulk of the business for labs like Tata 1MG, PharmEasy, Healthians, Orange Health, etc., have seen price hikes by these labs to reduce their operational losses and focus on the path to profitability. We expect a gradual recovery in non-Covid revenue over the next three quarters. We estimate non-Covid four-year revenue CAGR (1QFY20-1QFY24F) of 6-11% for our coverage universe.

Dr. Lal and Thyrocare to fare better, Metropolis flattish yoy

We expect non-Covid patient volume of 6.9m/2.6m, +3.5%/+8.5% yoy, and non-Covid revenue of Rs5.1bn/Rs2.5bn, +15%/+6% yoy, for Dr. Lal & Metropolis, excluding acquisitions of Suburban and Hitech, respectively. We expect Thyrocare's non-Covid patient volume and revenue at 6.04m, +8% yoy, and at Rs1.34bn, +13.2% yoy, respectively. We expect Covid revenue to account for 0.5-2% of total revenue in 1QFY24F and decline by 55-80% yoy. On a consol. basis, including acquisitions, we expect revenue/EBITDA/PAT growth of 11.4%/23.4%/35.2% yoy and 13.7%/24.4%/32.1% yoy for Dr. Lal and Thyrocare, respectively. Metropolis may post a relatively weak performance owing to discontinuation of a government contract (Rs670m revenue in FY23) that expired in Feb 2023. We expect revenue/EBITDA/PAT to be flattish for Metropolis in 1QFY24F.

Favourable competitive environment and better growth going ahead

Low base effect, marginal price hikes, better test mix, opex rationalization & cost synergies from M&A, and partial acquisition debt repayments would lead to EBITDA/PAT growing higher vs. revenue growth in 1QFY24F. Barring the decline in B2G revenue, we expect Metropolis to also report an improvement in core market and Hitech's revenue.

Prefer Dr. Lal over peers, Thyrocare only if promoter pledge goes off

We upgraded stock ratings of Dr. Lal and Thyrocare in May 2023, citing the sector's revenue/PAT growth bottoming out and likely to gradually revive going ahead. Dr. Lal is our preferred stock, given no haze around the promoter's commitment to business, stable senior management team, relatively better B2C network across India & high free cash flow.

Figure 1: 1QFY24F earnings summary (Rs m)

	Revenue	% yoy	EBITDA	% yoy	PAT	% yoy
Dr. Lal Pathlabs	5,598	11.4	1,450	23.4	780	35.2
Metropolis Healthcare	2,846	1.7	700	2.2	321	-3.9
Thyrocare Technologies	1,453	13.7	447	24.4	276	26.9
Total	9,897	8.7	2,597	17.0	1,377	22.0

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 2: Coverage universe - valuation summary

Company Name	Bloomberg ticker	Rating	Market cap	Closing price	Target price	Upside (%)	P/E (x)		EV/E (x)		CAGR % (FY23-25F)		FY24F		FY25F	
			US\$m	Rs/share	Rs/share		FY24F	FY25F	FY24F	FY25F	Revenue	EPS	RoE (%)	RoCE (%)	RoE (%)	RoCE (%)
Dr. Lal Pathlabs	DLPL IN	HOLD	2,705	2,355	1,969	-16.4	67.4	56.6	34.4	29.8	12.7	17.8	16.7	22.2	18.0	25.1
Metropolis Healthcare	METROHL IN	REDUCE	1,006	1,426	1,235	-13.4	41.2	33.6	21.2	18.2	12.7	20.8	16.8	20.5	18.1	23.0
Thyrocare Technologies	THYROCAR IN	ADD	379	520	581	11.7	28.4	19.8	14.6	11.1	15.9	32.7	20.1	25.6	26.0	33.5

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 3: 1QFY24F earnings preview (Rs m)

	1QFY24F	1QFY23A	4QFY23A	Change (%)		Comments
				yoy	qoq	
Dr. Lal Pathlabs						
Net Sales	5,598	5,027	4,910	11.4	14.0	# We expect non-Covid patient volume at 6.9m, +3% yoy and patient realization at Rs745, +11% yoy, albeit on a low base, excluding Suburban.
EBITDA	1,450	1,175	1,156	23.4	25.4	# We expect Suburban's revenue at Rs381m, +7.4% yoy.
EBITDA margin (%)	25.9	23.4	23.5	253 bp	236 bp	# We expect Covid and allied test revenue at Rs90m, down 60% yoy.
Consolidated PAT	780	577	567	35.2	37.6	# The EBITDA margin is typically high in 1H vs. 2H of every fiscal, as per past trends. # We expect treasury income to average at Rs80m+/quarter owing to cash and liquid investments of Rs8.4bn at the end of Mar 2023.
Metropolis Healthcare						
Net Sales	2,846	2,799	2,825	1.7	0.7	# We expect non-Covid patient volume at 2.93m, +9% yoy, including that of Hitech. The expiry of a major government contract will impact patient volume growth negatively.
EBITDA	700	685	703	2.2	-0.4	# We expect non-Covid revenue at Rs2.8bn, +6.5% yoy. The 1QFY23 government contract revenue was Rs180m, as per our estimate. This will be NIL in 1QFY24F.
EBITDA margin (%)	24.6	24.5	24.9	13 bp	-28 bp	# We expect Hitech's revenue at Rs251m, +14% yoy. # We expect Covid and allied test revenue at Rs60m, down 67% yoy. # We expect flat EBITDA margin yoy and qoq.
Consolidated PAT	321	334	333	-3.9	-3.7	# The decline in acquisition debt will lead to lower interest expenses yoy.
Thyrocare Technologies						
Net Sales	1,453	1,278	1,359	13.7	6.9	# We expect non-Covid sample volume at 6.04m, +8% yoy.
EBITDA	447	359	311	24.4	43.4	# We expect non-Covid revenue at Rs1.3bn, +14% yoy.
EBITDA margin (%)	30.8	28.1	22.9	264 bp	783 bp	# Realization is expected to improve yoy due to a higher mix of wellness business (Aarogyam and Jaanch) and tactical price revisions.
Consolidated PAT	276	217	189	26.9	45.6	# Radiology subsidiary - Nuclear - will have a revenue of Rs112m, +30% yoy.
Total						
Net Sales	9,897	9,103	9,094	8.7	8.8	
EBITDA	2,597	2,219	2,170	17.0	19.6	
EBITDA margin (%)	26.2	24.4	23.9	186 bp	237 bp	
Consolidated PAT	1,377	1,128	1,090	22.0	26.3	

SOURCE: INCRED RESEARCH ESTIMATES, COMPANY REPORTS

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