

India

HOLD (no change)

Consensus ratings*: Buy 5 Hold 4 Sell 13

Current price: Rs2,482
 Target price:  Rs1,969
 Previous target: Rs1,969
 Up/downside: -20.7%
 InCred Research / Consensus: 1.5%

Reuters:
 Bloomberg: DLPL IN
 Market cap: US\$2,851m
 Rs207,032m
 Average daily turnover: US\$7.0m
 Rs510.5m
 Current shares o/s: 83.6m
 Free float: 45.0%

*Source: Bloomberg



Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	11.8	28.5	14.4
Relative (%)	7.8	18.5	(1.9)

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

Analyst(s)



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Dr. Lal Pathlabs Ltd.

1QFY24 margins may soften over Jul-Mar

- Dr. Lal Pathlabs' 1Q was in line with our estimates. Non-Covid revenue grew 9.5% yoy, sample volume rose 6% while sample realization grew 3.5% yoy.
- Suburban's financials were constant yoy/qq. Consolidated EBITDA margin stood at 27%, +350bp yoy/qq. 1H is typically high. 2H margins set to decline.
- Net cash at Rs7.3bn. Non-Covid revenue growth to gradually improve over FY24F-25F. Retain HOLD rating with upside risk of quick non-Covid recovery.

Revenue growth is a blend of test mix, price hikes & sample volume

Dr Lal Pathlabs' (DLPL) 1QFY24 revenue stood at Rs5.4bn, +8% yoy and 10% qoq. EBITDA/PAT stood at Rs1.5bn/Rs826m, +24%/+43% yoy and +26%/46% qoq, respectively. Revenue/EBITDA were in line with our estimates while PAT beat our/Bloomberg consensus estimates by 6-12%. Consol. gross margin/EBITDA margin stood at 79.1%/27%, +188bp/365bp yoy, respectively. Non-Covid revenue (including Suburban) stood at Rs5.3bn, +10% yoy. Non-Covid patient sample volume stood at 19.3m, +6% yoy and 18% qoq, respectively. Swasthfit revenue was at Rs1.1bn, 22% of total sales (excluding Suburban). Covid revenue was at Rs130m (2.4% of total sales), down 38% yoy. Suburban revenue stood at Rs370m (Covid: Rs10m) and the EBITDA margin was between 11-13% in 1QFY24. Net cash stood at Rs7.3bn at the end of Jun 2023 (vs. Rs6bn qoq).

High gross margin and lower opex lead to higher EBITDA margin

The EBITDA margin of 27% in 1Q was 110-240bp above our/Bloomberg consensus estimates. Regional weather seasonality led to higher routine testing, higher share of yearly revenue, high gross margin and hence, higher EBITDA margin during Apr-Sep (1H) every fiscal, as per past business trends of Dr. Lal Pathlabs. Other expenditure stood at Rs1bn, down 2% yoy and 5% qoq. Management retained its EBITDA margin guidance of 24.5-26% (pre-Covid levels) in FY24F.

Network expansion continues in core as well as new markets

The company is single-mindedly focused on driving volume growth and expanding its presence to reach a larger number of customers, especially in T-3 /T-4 cities. In addition to the labs in Siwan, Sultanpur and Murshidabad set up in 4QFY23, the company added four greenfield labs at Jind in Haryana, Una in Himachal Pradesh and Tamluk and Hooghly in West Bengal in 1QFY24. Revenue salience of bundled test packages (Swasthfit) has been gradually rising and the company has created new variants of common tests like lipid profile, making it medically more relevant to sub-segments of patients suffering from diabetes & heart-related ailments.

Retain our estimates and HOLD rating on the stock

We retain our estimates & HOLD rating on the stock. We expect non-Covid revenue growth to gradually recover to the 12-15% range over the rest of FY24F. Upside risk: Faster-than-expected recovery in the non-Covid business trend. Downside risk: Intense competition.

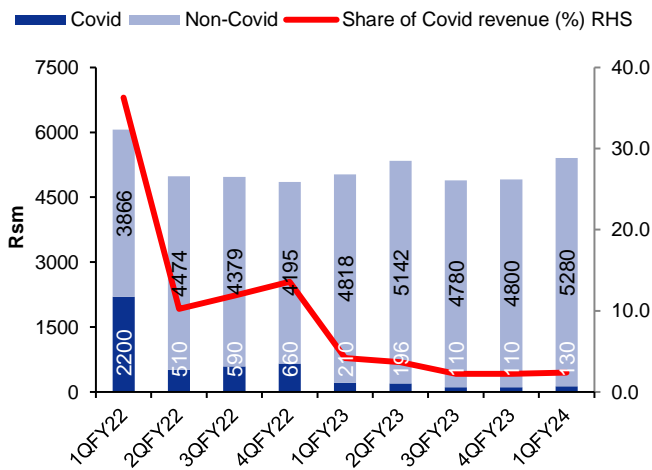
Financial Summary	Mar-21A	Mar-22A	Mar-23F	Mar-24F	Mar-25F
Revenue (Rsm)	15,813	20,874	20,169	22,587	25,620
Operating EBITDA (Rsm)	4,363	5,607	4,899	5,487	6,290
Net Profit (Rsm)	2,916	3,448	2,389	2,921	3,476
Core EPS (Rs)	34.9	41.2	28.6	34.9	41.6
Core EPS Growth	27.6%	18.2%	(30.7%)	22.3%	19.0%
FD Core P/E (x)	70.68	60.16	86.85	71.04	59.69
DPS (Rs)	20.0	12.0	12.0	15.0	18.0
Dividend Yield	0.79%	0.48%	0.48%	0.60%	0.72%
EV/EBITDA (x)	45.34	36.47	41.24	36.35	31.48
P/FCFE (x)	58.29	61.48	345.81	157.73	73.47
Net Gearing	(77.2%)	(21.9%)	(34.1%)	(44.8%)	(47.7%)
P/BV (x)	16.65	13.76	12.45	11.32	10.22
ROE	25.6%	25.0%	15.1%	16.7%	18.0%
% Change In Core EPS Estimates					
InCred Research/Consensus EPS (x)					

SOURCE: INCRED RESEARCH, COMPANY REPORTS

1QFY24 earnings-call takeaways

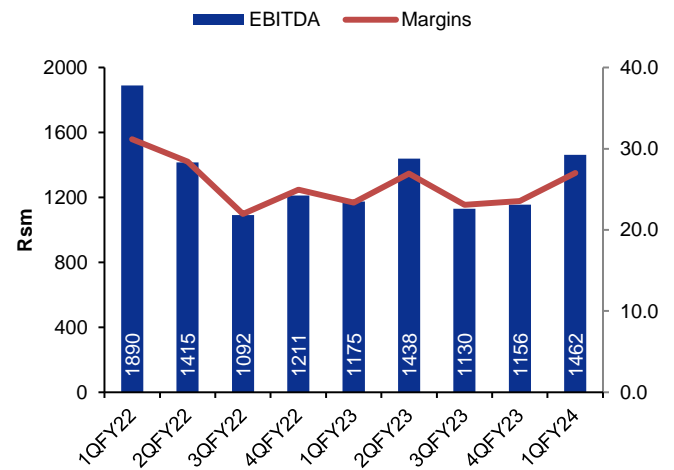
- **Growth outlook:** Management is confident of achieving higher growth from Tier 3/4 cities in the core markets of North and East India, and on adding new customers in West and South India. The company has opened four new labs during the quarter in Himachal Pradesh, Haryana and West Bengal.
- **Competition:** Regional hospitals have emerged as the most legitimate competition to brick-and-mortar national diagnostic labs. Aggregators, online digital-only labs and pharmaceutical companies have had a low impact on volume growth for national labs like Dr. Lal Pathlabs, Metropolis, etc., as per the company's management.
- **Volume trend:** Management indicated that patient volume growth trend remained sub-par and it has been difficult to ascertain the exact reasons for the same. The standalone non-Covid patient volume CAGR was 7% over 1QFY20-1QFY24, as per management. The company is single-mindedly focused on this metric and expects the volume to gradually improve over the course of the current year.
- **Regional sales mix:** Though Delhi-NCR saw the highest revenue growth in 1Q, the growth rate is expected to remain lower vs. non-Delhi NCR markets going ahead, as per management. Delhi-NCR accounted for 32% of total consolidated sales in 1Q.
- **Price hikes:** Specialized tests have been subsidized by routine test pricing over many years. Price hikes undertaken for specialized tests in 4QFY23 are expected to add ~1.5% to consolidated revenue growth in FY24F, as per management.
- **Wellness:** Swasthfit – the wellness brand of Dr. Lal Pathlabs – reported a revenue of Rs1.1bn, accounting for 22% of total sales in 1QFY24. The company expects the wellness revenue share of business to sustain within the 20-25% range of total sales over the next three-to-five years. Higher revenue share of Swasthfit test packages led to higher realization per patient, but the realization per test remained largely flattish.
- **Suburban's performance:** Revenue was largely flat at Rs370m yoy, of which Covid-related revenue was a mere Rs10m. The EBITDA margin stayed within the 11-13% band, with the patient/sample volume growth muted in 1QFY24.
- **Cash and cash equivalents:** Gross cash stood at Rs8.8bn and net cash stood at Rs7.3bn at the end of Jun 2023 (vs. net cash of Rs6bn at the end of Mar 2023). As capital intensity for the diagnostic business remains low, management intends to utilize surplus cash for inorganic growth going ahead.
- **Interim dividend:** The board of directors of the company approved an interim dividend of Rs6/share in 1QFY24.

Figure 1: Quarterly revenue trend



SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 2: Quarterly margin trend



SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 3: 1QFY24 results snapshot

YE Mar (Rs m)	1QFY24	1QFY23	yoy (%)	4QFY23	qoq (%)
Revenue	5,410	5,027	7.6	4,910	10.2
EBITDA	1,462	1,175	24.4	1,156	26.5
EBITDA margin (%)	27.0	23.4	365 bps	23.5	348 bps
Adj. PAT	826	577	43.2	567	45.7
Diluted EPS (Rs)	9.9	6.9		6.8	

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 4: Actuals vs. our estimates

Rs m	1QFY24	1QFY24F	Var(%)
Revenue	5,410	5,598	(3.4)
EBITDA	1,462	1,450	0.8
EBITDA margin (%)	27.0	25.9	112 bp
Adj. PAT	826	780	5.9

SOURCE: INCRED RESEARCH ESTIMATES, COMPANY REPORTS

Figure 5: Actuals vs Bloomberg consensus estimates

Rs m	1QFY24	1QFY24C	Var(%)
Revenue	5,410	5,460	(0.9)
EBITDA	1,462	1,347	8.5
EBITDA margin (%)	27.0	24.7	235 bp
Adj. PAT	826	737	12.1

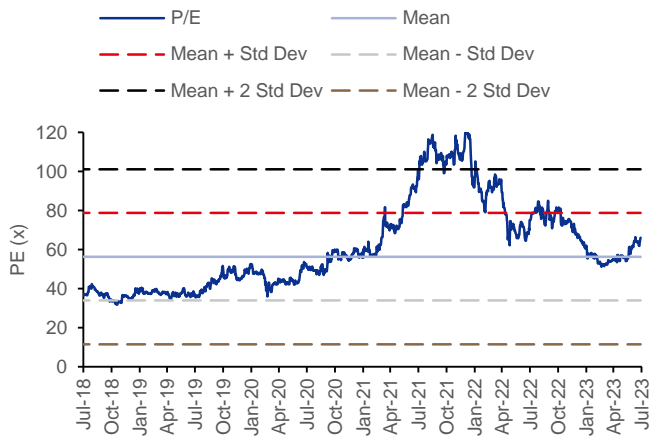
SOURCE: INCRED RESEARCH, COMPANY REPORTS, BLOOMBERG

Figure 6: 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	11.8	
Terminal value	90,898					3.0	1,747	1,616	1,502	1,403	1,315
Enterprise value	1,58,893					4.0	2,025	1,851	1,702	1,575	1,465
Net debt	(7,370)					5.0	2,416	2,172	1,969	1,801	1,657
Lease liabilities	1,300					6.0	3,010	2,640	2,347	2,110	1,915
Minority Interest	356					7.0	4,023	3,387	2,919	2,561	2,278
Equity value	1,64,606										
Number of equity shares o/s. (m)	83.6										
Equity value per share (Rs/sh)	1,969										

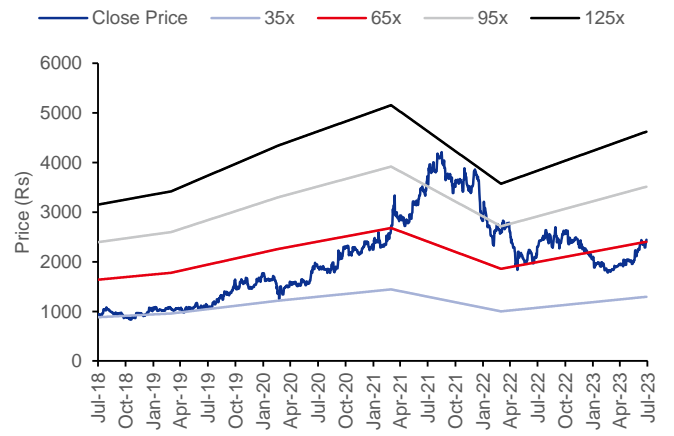
SOURCE: INCRED RESEARCH, COMPANY REPORTS

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



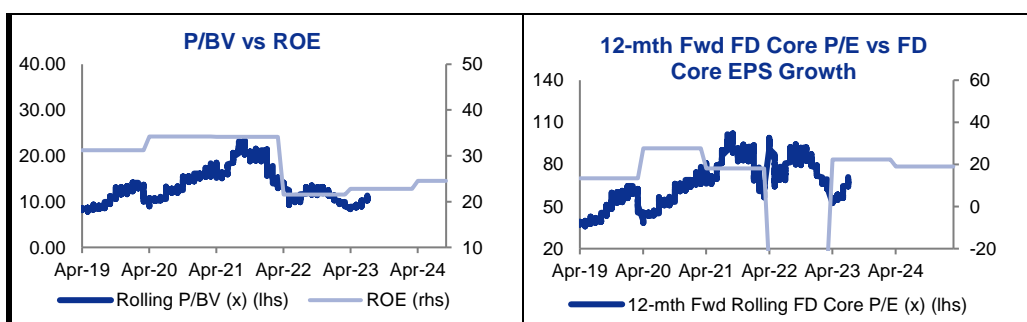
SOURCE: INCRED RESEARCH, COMPANY REPORTS, BLOOMBERG

Figure 8: P/E band



SOURCE: INCRED RESEARCH, COMPANY REPORTS, BLOOMBERG

BY THE NUMBERS



Profit & Loss

(Rs mn)	Mar-21A	Mar-22A	Mar-23F	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-23F	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

SOURCE: INCRED RESEARCH, COMPANY REPORTS

BY THE NUMBERS...cont'd

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

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Disclaimer?