



India

HOLD (previously ADD)

Consensus ratings*: Buy 3 Hold 0 Sell 0

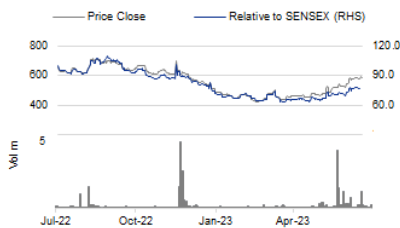
Current price: Rs590
 Target price: ▲ Rs615
 Previous target: Rs581
 Up/downside: 4.2%
 InCred Research / Consensus: 0.7%

Reuters:
 Bloomberg: THYROCAR IN
 Market cap: US\$430m
 Rs31,250m
 Average daily turnover: US\$1.3m
 Rs93.5m
 Current shares o/s: 52.9m
 Free float: 28.9%

*Source: Bloomberg

Key changes in this note

- FY24F/25F revenue cut by 1.9%/3.8%.
- FY25F EBITDA cut by 5.5%.
- FY25F PAT cut by 5.9%.



Source: Bloomberg

| Price performance | 1M | 3M | 12M |
|-------------------|------|------|--------|
| Absolute (%) | 14.0 | 33.6 | (10.2) |
| Relative (%) | 11.0 | 23.4 | (21.5) |

| Major shareholders | % held |
|-----------------------------|--------|
| Promoters | 71.1 |
| Nippon India Small Cap Fund | 7.5 |
| ICICI Prudential India Fund | 4.6 |

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.

1Q P&L below estimate but B/S improves

- Revenue loss from the API Group, government contract and one-off taxes led to 1Q revenue/PAT miss vs. our estimate. Pathology margins held up well.
- Management gave guidance of consol. sales growth of 12-14% yoy & EBITDA margin of 29-31% for FY24F. Franchisees and new products to drive growth.
- Stock has done well (+25%) since our last update in May 2023. Revenue growth & promoter financial health stability to aid returns. Downgrade to HOLD.

Drop in partnership revenue mostly leads to revenue/PAT miss

Thyrocare Technologies' (TTL) adjusted revenue/EBITDA/PAT in 1QFY24 stood at Rs1.3bn/Rs402m/Rs229m, +6%/+12%/+6% yoy, respectively. Revenue and PAT missed estimates by 7% and 3-17% vs. our/Bloomberg consensus estimates, respectively. Consolidated gross margin improved to 72%, +270bp yoy, driven by test mix while the adjusted (excl. non-cash API Holding's ESOP charge of Rs57m) EBITDA margin was at 29.8%. Reported EBITDA margin stood at 26% due to a non-cash ESOP charge of Rs57m. Franchisee revenue (66% of total sales) stood at Rs790m, +16% yoy, while partnership revenue was at Rs320m, down 6% yoy. The closure of a government contract (FY23: Rs120m) from Apr 2023 and a decline in the healthtech platform business, especially PharmEasy (1Q: Rs120m, down 20% qoq) led to a revenue loss of ~Rs60m in 1Q. Sample sales volume and realization stood at 5.43m, down 3% yoy, and at Rs219/sample, +9% yoy. Partnerships sales decline led to lower volume while lower franchisee discount drove realization growth. Radiology revenue/EBITDA were at Rs110m/Rs13m, +29% and down 33% yoy, respectively. The effective tax rate was at 31% due to a one-time deferred tax asset adjustment of Rs350m in 1QFY24.

Franchisee addition and new product launches to drive revenue

Thyrocare added 385 new franchisees, taking the total active franchisee network to ~7,800 at the end of Jun 2023. The company launched new tests and bundled packages namely – Jaanch, Her Check and Troponin I – to widen its test offerings. New partnership additions and a healthy pipeline of new government contracts, we feel, should help offset the temporary decline in the existing partnership revenue run-rate. Franchisee addition, new relevant product launches and recovery in partnership revenue growth to drive revenue growth going ahead.

Change in our estimates, valuation and risks

We account for government contract closure, higher margins due to a better test mix and adjustments to ESOP charges in FY24F. We retain FY24F estimates but cut revenue/EBITDA/PAT by 4-6% for FY25F. Thyrocare's stock price has done well (+25%) since our last update in May 2023. We raise our target price on it to Rs615 (15% discount to the 15-year NPV of Rs723/share, 100% promoter holding is pledged). Stock upside is limited and hence, we downgrade its rating to HOLD (ADD earlier). Upside risk: Pledge removal. Downside risk: Slower revenue growth.

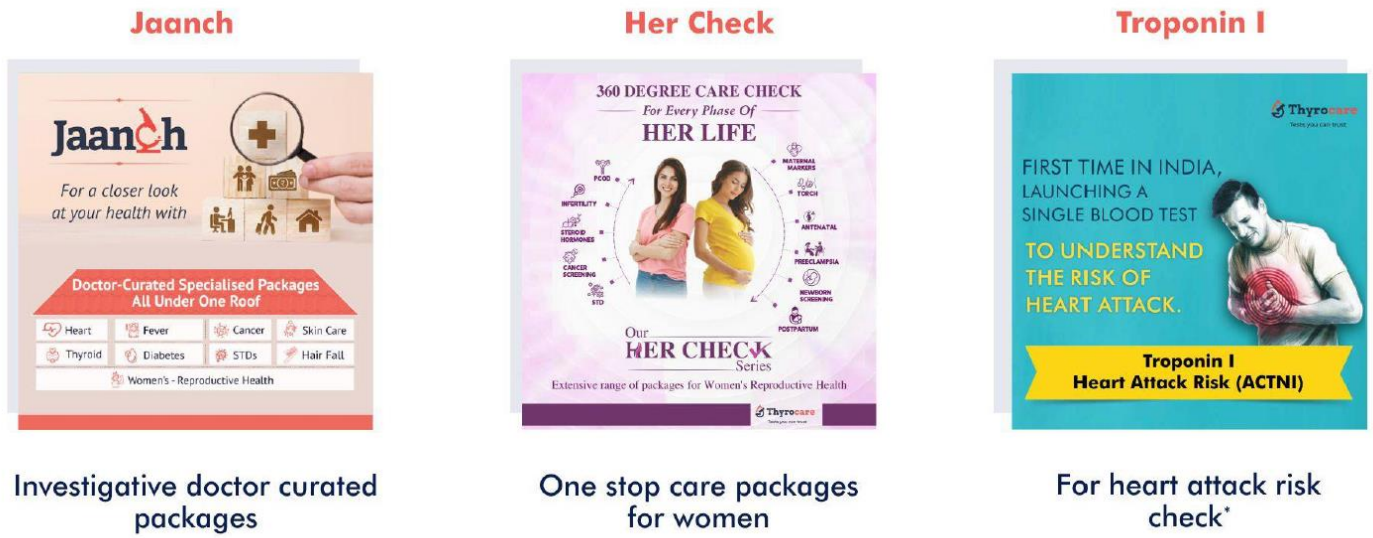
| Financial Summary | Mar-21A | Mar-22A | Mar-23A | Mar-24F | Mar-25F |
|-----------------------------------|---------|---------|---------|---------|---------|
| Revenue (Rsm) | 4,946 | 5,889 | 5,267 | 5,866 | 6,804 |
| Operating EBITDA (Rsm) | 1,713 | 2,349 | 1,390 | 1,768 | 2,156 |
| Net Profit (Rsm) | 1,131 | 1,761 | 644 | 963 | 1,284 |
| Core EPS (Rs) | 21.4 | 33.3 | 14.7 | 20.4 | 25.6 |
| Core EPS Growth | 22.2% | 55.7% | (55.7%) | 38.1% | 25.5% |
| FD Core P/E (x) | 27.62 | 17.75 | 40.03 | 28.98 | 23.10 |
| DPS (Rs) | 25.0 | 15.0 | 18.0 | 15.0 | 17.5 |
| Dividend Yield | 4.23% | 2.54% | 3.05% | 2.54% | 2.96% |
| EV/EBITDA (x) | 17.55 | 12.72 | 21.42 | 16.55 | 13.38 |
| P/FCFE (x) | 58.11 | 37.02 | 30.51 | 23.03 | 22.95 |
| Net Gearing | (28.1%) | (26.4%) | (28.2%) | (36.9%) | (41.5%) |
| P/BV (x) | 7.32 | 5.94 | 5.85 | 5.67 | 5.33 |
| ROE | 28.5% | 36.9% | 14.7% | 19.9% | 23.8% |
| % Change In Core EPS Estimates | | | | 0.21% | (6.28%) |
| InCred Research/Consensus EPS (x) | | | | | |

SOURCE: INCRED RESEARCH, COMPANY REPORTS

1QFY24 earnings-call takeaways

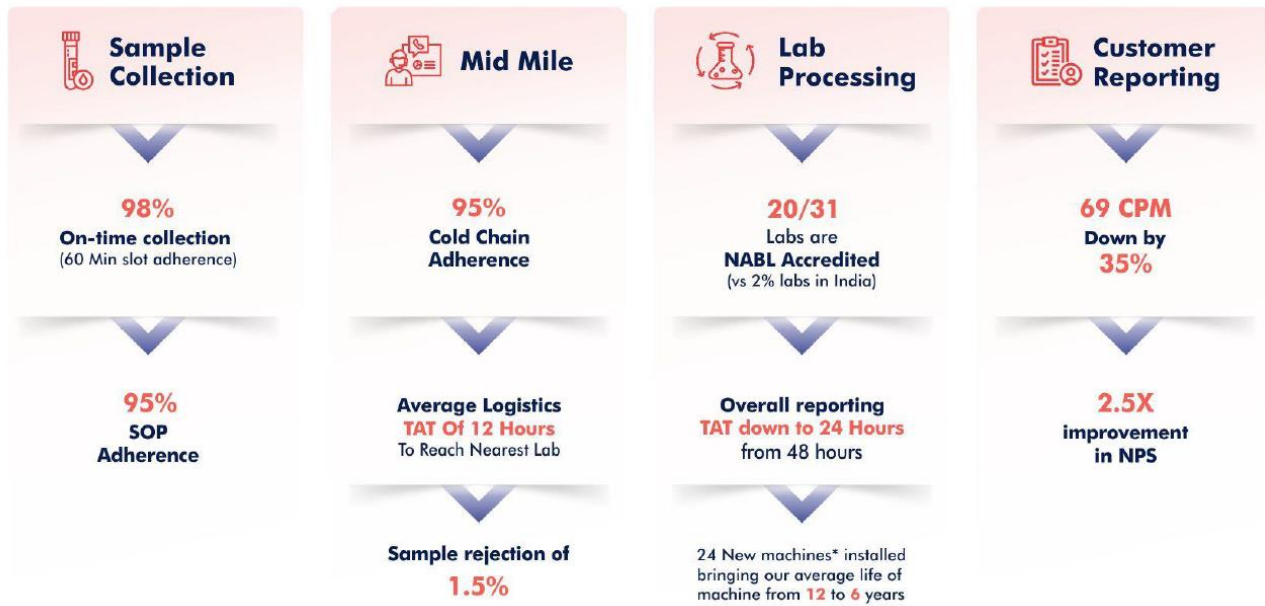
- **Growth guidance:** Management indicated franchisee network business will sustain its current revenue growth run-rate of 15-16% yoy in FY24F while the partnership revenue run-rate should average at Rs350m per quarter from 2QFY24F. New partnerships and the winning of a few new government contracts to offset the loss of revenue from existing customers.
- **New product launches:** The company had launched a new series of investigative test packages under the brand, Jaanch, in 4QFY23. Management stated that the initial response was encouraging with a revenue run-rate of Rs7m in Jun 2023. The company recently launched a blood test for heart attack risk detection called Tropinin I. Pregnancy-related test packages were relaunched under the brand, Her Check.
- **Channel discounts:** Thyrocare rolled out a pay-for-performance-based pricing structure across its franchisee network from May 2023. Earlier, the company had a uniform discount policy across its franchisee channel partners. Henceforth, the discounts would vary based on revenue targets achieved. The change led to lower discounts to smaller channel partners and higher incentives to larger partners, leading to an increase in sample realization in 1Q.
- **Slowdown in API Group business growth:** Thyrocare had a revenue run-rate of Rs50-55m per month from its parent API Group (PharmEasy). The run-rate declined to ~Rs40m per month in 1QFY24. Management expects a gradual improvement to a run-rate of Rs50m/month going ahead.
- **Recovery of government dues:** The company received Rs380m from the Maharashtra government against its Covid dues outstanding of Rs510m in 1QFY24. Management expects the balance amount to be recovered over the next six months. The bad debt provisions created against government debtors will be reversed to the extent of actual recovery in 2HFY24F.
- **International foray:** The launch of B2B diagnostics business in international markets will start with African markets followed by the Middle East and South-East Asia. Management expects African commercial operations to start in 4QFY24F. The company has budgeted an investment of Rs100m for its 50% share of the joint venture in Africa. Management expects to roll out commercial operations from Jan/Feb 2024F.
- **API-related ESOP charge:** Of the total Rs455.3m of ESOPs issued by company promoters – API Group – to Thyrocare employees, Rs240m has been charged to P&L account over the last four quarters. Of the balance ~Rs220m, ~30-35% is estimated to be charged in FY24F.
- **Capex:** The company incurred Rs118m on capex in 1QFY24. It plans to spend a further Rs150m towards machine maintenance and Rs100m for overhauling its pan-India IT infrastructure. The total capex is estimated to be at Rs350-400m for FY24F. In addition, the company would invest Rs100m as its share of equity for the international joint venture entity.
- **Cash and cash equivalents:** Cash (including equivalents) stood at Rs800m at the end of Jun 2023.

Figure 1: New product launches



SOURCE: INCRED RESEARCH ESTIMATES, COMPANY REPORTS

Figure 2: Quality metrics



SOURCE: INCRED RESEARCH ESTIMATES, COMPANY REPORTS

Figure 3: 1QFY24 results summary

| YE Mar (Rs m) | 1QFY24 | 1QFY23 | yoy (%) | 4QFY23 | qoq (%) |
|-------------------|--------|--------|---------|--------|---------|
| Revenue | 1,349 | 1,278 | 5.6 | 1,359 | (0.7) |
| EBITDA | 402 | 359 | 11.9 | 311 | 29.1 |
| EBITDA margin (%) | 29.8 | 28.1 | 169 bp | 22.9 | 688 bp |
| Adj. PAT | 229 | 217 | 5.6 | 189 | 21.1 |
| Diluted EPS (Rs) | 4.3 | 4.1 | | 3.6 | |

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 4: Actuals vs. our estimates

| Rs m | 1QFY24 | 1QFY24F | Var(%) |
|-------------------|--------|---------|---------|
| Revenue | 1,349 | 1,453 | (7.1) |
| EBITDA | 402 | 447 | (10.0) |
| EBITDA margin (%) | 29.8 | 30.8 | -95 bps |
| Adj. PAT | 229 | 276 | (16.8) |

SOURCE: INCRED RESEARCH ESTIMATES, COMPANY REPORTS

Figure 5: Actuals vs. Bloomberg consensus estimates

| Rs m | 1QFY24 | 1QFY24C | Var(%) |
|-------------------|--------|---------|--------|
| Revenue | 1,349 | 1,445 | (6.7) |
| EBITDA | 402 | 398 | 1.0 |
| EBITDA margin (%) | 29.8 | 27.5 | 226 bp |
| Adj. PAT | 229 | 237 | (3.2) |

SOURCE: INCRED RESEARCH, COMPANY REPORTS, BLOOMBERG

Figure 6: Change in our earnings estimates

| | New estimates | | Old estimates | | Change (%) | |
|-----------------------------|---------------|--------------|---------------|--------------|------------|---------|
| | FY24F | FY25F | FY24F | FY25F | FY24F | FY25F |
| Revenue | 5,866 | 6,804 | 5,982 | 7,072 | -1.9 | -3.8 |
| EBITDA | 1,768 | 2,156 | 1,768 | 2,282 | 0.0 | -5.5 |
| Adjusted consol. PAT | 1,118 | 1,378 | 1,113 | 1,463 | 0.5 | -5.9 |
| EPS | 21.1 | 26.0 | 21.0 | 27.6 | 10 bp | -162 bp |
| EBITDA margin (%) | 30.1 | 31.7 | 29.5 | 32.3 | 59 bp | -58 bp |

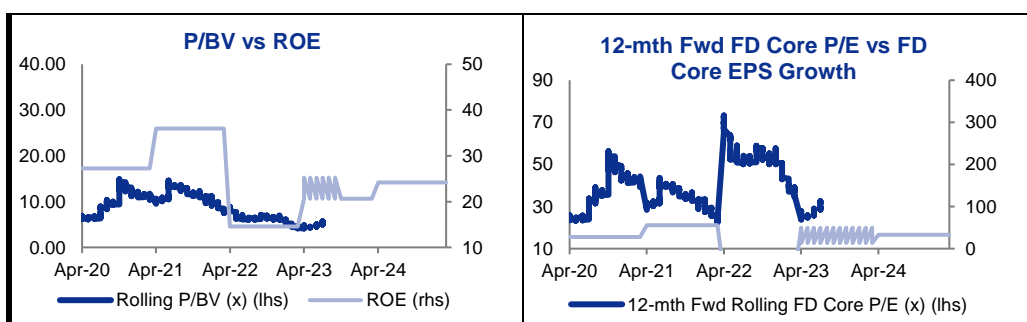
SOURCE: INCRED RESEARCH ESTIMATES, COMPANY REPORTS

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

| | FY24F | FY25F | FY26F | FY27F | FY28F | FY29F | FY30F | FY31F | FY32F | FY33F | FY38F |
|--|---------------|--------------|--------------|-----------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|
| EBIT | 1,403 | 1,757 | 2,072 | 2,414 | 2,781 | 3,169 | 3,574 | 3,995 | 4,427 | 4,864 | 6,630 |
| Depreciation | 440 | 478 | 510 | 542 | 574 | 607 | 640 | 674 | 708 | 742 | 905 |
| Tax paid | (324) | (432) | (525) | (623) | (728) | (836) | (949) | (1,069) | (1,193) | (1,321) | (1,893) |
| WC changes | 450 | -105 | -24 | -26 | -28 | -29 | -30 | -32 | -32 | -33 | -28 |
| Capex | (400) | (300) | (315) | (331) | (347) | (365) | (383) | (402) | (422) | (443) | (566) |
| FCFF | 1,569 | 1,399 | 1,718 | 1,975 | 2,252 | 2,546 | 2,852 | 3,167 | 3,488 | 3,808 | 5,049 |
| Discounted FCFF | 1,569 | 1,251 | 1,373 | 1,412 | 1,440 | 1,455 | 1,458 | 1,448 | 1,425 | 1,391 | 1,054 |
| 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 | 20,253 | | | | 10.8 | 11.3 | 11.8 | 12.3 | 12.8 | | |
| Terminal value | 16,209 | | | 3.0 | 738 | 691 | 649 | 612 | 579 | | |
| Enterprise value | 36,463 | | | 4.0 | 785 | 729 | 681 | 639 | 602 | | |
| Net debt | (2,040) | | | Terminal | 5.0 | 848 | 780 | 723 | 674 | 631 | |
| Lease liabilities | 233 | | | growth | 6.0 | 937 | 850 | 779 | 719 | 668 | |
| Equity value | 38,270 | | | rate (%) | 7.0 | 1,072 | 953 | 858 | 781 | 718 | |
| Number of equity shares o/s. (m) | 52.9 | | | | | | | | | | |
| Equity value per share (Rs/share) | 723 | | | | | | | | | | |

SOURCE: INCRED RESEARCH ESTIMATES, 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 | 5,866 | 6,804 |
| Gross Profit | 3,307 | 4,192 | 3,634 | 4,179 | 4,882 |
| Operating EBITDA | 1,713 | 2,349 | 1,390 | 1,768 | 2,156 |
| Depreciation And Amortisation | (303) | (339) | (387) | (440) | (478) |
| Operating EBIT | 1,410 | 2,010 | 1,003 | 1,328 | 1,678 |
| Financial Income/(Expense) | 36 | (17) | (11) | 29 | 42 |
| Pretax Income/(Loss) from Assoc. | (1) | (2) | 12 | 10 | 11 |
| Non-Operating Income/(Expense) | 80 | 285 | 71 | 75 | 79 |
| Profit Before Tax (pre-EI) | 1,525 | 2,277 | 1,075 | 1,442 | 1,809 |
| Exceptional Items | | | (189) | (155) | (94) |
| Pre-tax Profit | 1,525 | 2,277 | 886 | 1,287 | 1,715 |
| Taxation | (393) | (516) | (242) | (324) | (432) |
| Exceptional Income - post-tax | | | | | |
| Profit After Tax | 1,131 | 1,761 | 644 | 963 | 1,284 |
| Minority Interests | | | | | |
| Preferred Dividends | | | | | |
| FX Gain/(Loss) - post tax | | | | | |
| Other Adjustments - post-tax | | | | | |
| Net Profit | 1,131 | 1,761 | 644 | 963 | 1,284 |
| Recurring Net Profit | 1,131 | 1,761 | 781 | 1,079 | 1,354 |
| Fully Diluted Recurring Net Profit | 1,131 | 1,761 | 781 | 1,079 | 1,354 |

Cash Flow

| (Rs mn) | Mar-21A | Mar-22A | Mar-23A | Mar-24F | Mar-25F |
|----------------------------------|--------------|--------------|--------------|--------------|--------------|
| EBITDA | 1,713 | 2,349 | 1,390 | 1,768 | 2,156 |
| Cash Flow from Invt. & Assoc. | | | | | |
| Change In Working Capital | (176) | (792) | 58 | 450 | (105) |
| (Incr)/Decr in Total Provisions | | | | | |
| Other Non-Cash (Income)/Expense | (49) | (117) | 272 | (140) | (78) |
| Other Operating Cashflow | 80 | 285 | 71 | 75 | 79 |
| Net Interest (Paid)/Received | (9) | (24) | (24) | (42) | (48) |
| Tax Paid | (432) | (568) | (285) | (324) | (432) |
| Cashflow From Operations | 1,126 | 1,134 | 1,483 | 1,787 | 1,573 |
| Capex | (187) | (149) | (416) | (400) | (300) |
| Disposals Of FAs/subsidiaries | | | | | |
| Acq. Of Subsidiaries/Investments | | | | | |
| Other Investing Cashflow | (315) | (87) | 26 | (29) | 90 |
| Cash Flow From Investing | (502) | (236) | (390) | (429) | (210) |
| Debt Raised/(repaid) | (86) | (54) | (68) | | |
| Proceeds From Issue Of Shares | | | | | |
| Shares Repurchased | | | | | |
| Dividends Paid | (528) | (793) | (794) | (794) | (926) |
| Preferred Dividends | | | | | |
| Other Financing Cashflow | (1) | (48) | | (42) | (48) |
| Cash Flow From Financing | (616) | (894) | (862) | (836) | (974) |
| Total Cash Generated | 8 | 4 | 231 | 522 | 389 |
| Free Cashflow To Equity | 538 | 845 | 1,025 | 1,358 | 1,363 |
| Free Cashflow To Firm | 633 | 922 | 1,117 | 1,399 | 1,411 |

SOURCE: 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 | 2,040 | 2,439 |
| Total Debtors | 447 | 932 | 851 | 321 | 373 |
| Inventories | 234 | 245 | 277 | 289 | 336 |
| Total Other Current Assets | 95 | 132 | 94 | 104 | 121 |
| Total Current Assets | 1,978 | 2,700 | 2,729 | 2,755 | 3,269 |
| Fixed Assets | 1,705 | 1,504 | 1,582 | 1,571 | 1,424 |
| 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 | 3,379 | 3,598 | 3,685 | 3,539 |
| Short-term Debt | | | | | |
| Current Portion of Long-Term Debt | | | | | |
| Total Creditors | 250 | 166 | 240 | 241 | 280 |
| Other Current Liabilities | 670 | 438 | 459 | 402 | 373 |
| Total Current Liabilities | 920 | 604 | 699 | 643 | 652 |
| 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 | 813 | 975 | 919 | 928 |
| Shareholders Equity | 4,273 | 5,266 | 5,343 | 5,512 | 5,870 |
| Minority Interests | | | 9 | 9 | 9 |
| Total Equity | 4,273 | 5,266 | 5,352 | 5,522 | 5,879 |

| Key Ratios | | | | | |
|---------------------------|----------------|----------------|----------------|----------------|----------------|
| | Mar-21A | Mar-22A | Mar-23A | Mar-24F | Mar-25F |
| Revenue Growth | 14.2% | 19.1% | (10.6%) | 11.4% | 16.0% |
| Operating EBITDA Growth | (0.7%) | 37.2% | (40.8%) | 27.2% | 22.0% |
| Operating EBITDA Margin | 34.6% | 39.9% | 26.4% | 30.1% | 31.7% |
| Net Cash Per Share (Rs) | 22.70 | 26.27 | 28.47 | 38.51 | 46.04 |
| BVPS (Rs) | 80.69 | 99.44 | 100.90 | 104.05 | 110.80 |
| Gross Interest Cover | 162.03 | 84.82 | 42.66 | 31.93 | 35.10 |
| Effective Tax Rate | 25.8% | 22.7% | 27.4% | 25.2% | 25.2% |
| Net Dividend Payout Ratio | 122.2% | 46.2% | 123.2% | 71.0% | 67.2% |
| Accounts Receivables Days | 22.60 | 42.73 | 61.79 | 36.48 | 18.62 |
| Inventory Days | 48.97 | 51.51 | 58.36 | 61.25 | 59.32 |
| Accounts Payables Days | 52.19 | 44.72 | 45.35 | 52.05 | 49.44 |
| ROIC (%) | 48.6% | 65.3% | 25.9% | 34.0% | 48.8% |
| ROCE (%) | 36.3% | 42.3% | 19.1% | 25.7% | 31.0% |
| Return On Average Assets | 20.7% | 30.1% | 12.6% | 17.1% | 20.2% |

| Key Drivers | | | | | |
|------------------------------------|----------------|----------------|----------------|----------------|----------------|
| | Mar-21A | Mar-22A | Mar-23A | Mar-24F | Mar-25F |
| Samples processed (mn nos) | 17 | 21 | 15 | 23 | 27 |
| Sample realisation (Rs per sample) | 284 | 257 | 310 | 218 | 220 |

SOURCE: INCRED RESEARCH, COMPANY REPORTS

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| 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 |
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| managed or co-managed public offering of securities for the subject company in the last twelve months | NO | NO |
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