

India

**Underweight** (no change)

**Highlighted Companies**

**Dr. Lal Pathlabs**

**HOLD, TP Rs1969, Rs2547 close**

We expect good 2Q results with a relatively better performance in North and East India. Non-Covid patient volume and realization per patient are estimated to grow by 7% yoy.

**Metropolis Healthcare**

**ADD, TP Rs1553, Rs1545 close**

The 2Q business update showed a revenue growth of 13% yoy, excluding Covid-related and government businesses. We expect non-Covid patient volume at 3.2m, +2% yoy, and realization per patient at Rs979 in 2Q.

**Thyrocare Technologies**

**HOLD, TP Rs615, Rs570 close**

We expect a good 2Q performance with revenue/EBITDA/PAT growth at 6%/16%/29% yoy, respectively. The EBITDA margin is expected to improve to 31.1%.

**Summary Valuation Metrics**

P/E (x)	Mar23-A	Mar24-F	Mar25-F
Dr. Lal Pathlabs	83.4	67.9	57.2
Metropolis Healthcare	55.9	48.3	39.3
Thyrocare Technologies	48.6	32.5	24.4

P/BV (x)	Mar23-A	Mar24-F	Mar25-F
Dr. Lal Pathlabs	12.0	10.9	9.8
Metropolis Healthcare	8.1	7.2	6.4
Thyrocare Technologies	5.9	5.7	5.3

Dividend Yield	Mar23-A	Mar24-F	Mar25-F
Dr. Lal Pathlabs	0.5%	0.6%	0.8%
Metropolis Healthcare	0.5%	0.6%	0.8%
Thyrocare Technologies	3.0%	2.5%	3.0%

# Health Care Providers & Svs

## 2QFY24 diagnostics sector results preview

- We believe our coverage universe is likely to witness a recovery in core market revenue growth in 2QFY24F as the competition touches its peak.
- We expect cumulative revenue/EBITDA/PAT growth at 8%/9%/18% yoy. Both pricing and test volume to aid revenue growth in a seasonally strong quarter.
- Dr. Lal & Thyrocare to post EBITDA/PAT growth of 15%/30% yoy, respectively, while Metropolis to be relatively weak due to lack of government business.

### Core market revenue growth should see an improvement in 2QFY24F

We expect our coverage universe to witness a recovery in core market non-Covid revenue growth rate in 2QFY24F yoy. North India (60% of sales) market for Dr. Lal and West India (50% of sales) for Metropolis should see higher revenue growth rate yoy, driven by competition peaking in these markets and a marginal rise in test prices. Thyrocare's regional revenue is well-diversified. Core markets enjoy a higher realization per patient and higher fixed costs drive operating leverage benefits by way of higher margins in a seasonally (monsoon) strong 2Q. On a cumulative basis, we expect revenue/EBITDA/PAT growth at 8.6%/9.2%/18.5% yoy, respectively, for our coverage universe.

### Still some time away for mid-teen revenue growth, ongoing opex too

Although we have not seen new lab chain addition in core markets over the past 15 months, regional offline labs and digital-only lab chains continue to offer predatory pricing and expand their customer reach, delaying mid-teen revenue growth for incumbent market leaders (coverage companies) in the diagnostics sector, in our view. Coupled with all this is the ongoing opex (skilled manpower + digital capabilities) that B2C labs like Dr. Lal & Metropolis continue to invest for strengthening their digital presence and capabilities. Despite this, we expect EBITDA margin improvement qoq for all coverage companies. We expect non-Covid patient volume growth at 7%/2% yoy for Dr. Lal & Metropolis, respectively, and a fall (high base effect) of 3% yoy for Thyrocare in 2QFY24F. We expect the EBITDA margin at 27.6%/24.3%/31% for Dr.Lal/Metropolis and Thyrocare, respectively.

### Important levers to track in Jul-Sep 2023 quarter

a) Filling of patient service centre (PSC) gaps in core markets. b) New city revenue growth rate (largely B2B). c) International market development (Metropolis/Thyrocare). d) Evolving trend to premiumize wellness packages (Swasthfit/TruHealth/Jaanch). e) Business traction in recently launched loyalty programs. f) Performance of PSCs started over the past one year. g) Stabilization of acquired labs (Suburban/Hi-tech). h) Capital allocation strategy going ahead as the acquisition debt gets fully repaid shortly. i) Management commentary on the competitive environment.

### Dr.Lal and Thyrocare likely to report a relatively better performance

We expect EBITDA/PAT growth at 15%/30% yoy for Dr. Lal and Thyrocare, respectively, while Metropolis to report a decline of 5%/7% yoy (absence of specific government contract business). Core market revenue growth recovery over 2HFY24F is critical going ahead.

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**Figure 1: 2QFY24F earnings summary (Rs m)**

	Revenue	% yoy	EBITDA	% yoy	PAT	% yoy
Dr. Lal Pathlabs	5,990	12.2	1,653	15.0	930	29.7
Metropolis Healthcare	3,097	3.1	751	-5.0	374	-7.4
Thyrocare Technologies	1,434	6.2	445	16.5	285	29.1
<b>Total</b>	<b>10,522</b>	<b>8.6</b>	<b>2,850</b>	<b>9.2</b>	<b>1,589</b>	<b>18.5</b>

SOURCE: INCRED RESEARCH, COMPANY REPORTS

**Figure 2: Coverage universe - valuation summary**

Company Name	Bblg ticker	Rating	Market cap	Closing price	Target Price	Upside [%]	P/E (x)		EV/E (x)		CAGR % (FY23-25F)		FY25F	
							FY24F	FY25F	FY24F	FY25F	Revenue	EPS	RoE (%)	RoCE (%)
			US\$m	Rs/share	Rs/share									
Dr. Lal Pathlabs	DLPL IN	HOLD	2,936	2,554	1,969	-22.9	73.1	61.4	37.5	32.4	12.7	17.8	18.0	25.1
Metropolis Healthcare	METROHL IN	ADD	1,078	1,529	1,553	1.6	47.4	38.5	23.6	19.7	13.9	19.3	17.3	23.6
Thyrocare Technologies	THYROCAR IN	HOLD	416	570	615	7.8	31.4	23.5	15.9	12.9	13.7	33.4	23.8	31.0

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 3: 2QFY24F earnings preview (Rs m)

	2QFY24F	2QFY23A	1QFY24A	Change (%)		Comments
				yoy	qoq	
<b>Dr. Lal Pathlabs</b>						
Net Sales	5,990	5,338	5,410	12.2	10.7	# We expect non-Covid patient volume at 7.5m, +7% yoy, and patient realization at Rs785, +7% yoy, including Suburban.
EBITDA	1,653	1,438	1,462	15.0	13.1	# We expect Suburban's revenue at Rs400m, +6.7% yoy.
EBITDA margin (%)	27.6	26.9	27.0	66 bp	58 bp	# The EBITDA margin is typically high in 1H vs. 2H of every fiscal year, as per past trends. We expect the margins to decline in 2HFY24F.
<b>Consolidated PAT</b>	<b>930</b>	<b>717</b>	<b>826</b>	<b>29.7</b>	<b>12.6</b>	# We expect Covid and allied test revenue at Rs120m, down 40% yoy. # We expect treasury income to average at Rs100m+/quarter owing to cash and liquid investments of nearly Rs10bn at the end of Sep 2023.
<b>Metropolis Healthcare</b>						
Net Sales	3,097	3,003	2,771	3.1	11.8	# We expect non-Covid patient volume at 3.2m, +2% yoy, including Hitech. The expiry of a major government contract will impact patient volume growth negatively.
EBITDA	751	790	630	-5.0	19.3	# We expect non-Covid revenue of Rs3.1bn, +6% yoy. The 2QFY23 government contract revenue was Rs170m, as per our estimate. This would be NIL in 2QFY24F.
EBITDA margin (%)	24.3	26.3	22.7	-206 bp	153 bp	# We expect Hitech revenue at Rs262m, +9% yoy.
<b>Consolidated PAT</b>	<b>374</b>	<b>403</b>	<b>288</b>	<b>-7.4</b>	<b>29.7</b>	# We expect Covid and allied test revenue at Rs40m, down 70% yoy. # The decline in acquisition debt will lead to lower interest expenses yoy.
<b>Thyrocare Technologies</b>						
Net Sales	1,434	1,350	1,349	6.2	6.3	# We expect non-Covid sample volume at 5.84m, down 3% yoy and +7% qoq.
EBITDA	445	382	402	16.5	10.8	# We expect non-Covid revenue at Rs1.3bn, +6.4% yoy.
EBITDA margin (%)	31.1	28.3	29.8	273 bp	125 bp	# Realization is likely to improve yoy due to a higher mix of wellness business (Aarogyam and Jaanch) and tactical price revisions.
<b>Consolidated PAT</b>	<b>285</b>	<b>221</b>	<b>229</b>	<b>29.1</b>	<b>24.3</b>	# Radiology subsidiary - Nuclear – is likely to garner a revenue of Rs119m, +22% yoy.
<b>Total</b>						
Net Sales	10,522	9,691	9,530	8.6	10.4	
EBITDA	2,850	2,611	2,494	9.2	14.3	
EBITDA margin (%)	27.1	26.9	26.2	15 bp	92 bp	
<b>Consolidated PAT</b>	<b>1,589</b>	<b>1,341</b>	<b>1,344</b>	<b>18.5</b>	<b>18.3</b>	

SOURCE: INCRED RESEARCH ESTIMATES, COMPANY REPORTS

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