

India

Underweight (no change)

Highlighted Companies

Dr. Lal Pathlabs

HOLD, TP Rs1969, Rs2453 close

Seasonally weak quarter likely, with an estimated volume and realization growth of 11% yoy and 5% yoy, respectively. Free cash balance to touch ~Rs10bn. Capital allocation, in our view, is critical going ahead.

Metropolis Healthcare

HOLD, TP Rs1641, Rs1504 close

Core business doing well, with volume and realization growth at 9% yoy and 3% yoy. Consolidated performance to be weak due to lower government-related business yoy. The one-time impact from heavy rains and floods in Dec 2023 has led to lower test volume and margins.

Thyrocare Technologies Ltd.

HOLD, TP Rs615, Rs671 close

Stable performance likely in 3QFY24F. New franchisee additions and ramp-up of partnership revenue are the key positives. Management commentary on radiology and international business is important.

Summary Valuation Metrics

P/E (x)	Mar24-F	Mar25-F	Mar26-F
Dr. Lal Pathlabs	70.22	59.01	
Metropolis Healthcare	51.84	39.65	31.49
Thyrocare Technologies Ltd.	36.88	27.68	
P/BV (x)	Mar24-F	Mar25-F	Mar26-F
Dr. Lal Pathlabs	11.19	10.1	
Metropolis Healthcare	7.03	6.22	5.42
Thyrocare Technologies Ltd.	6.45	6.05	
Dividend Yield	Mar24-F	Mar25-F	Mar26-F
Dr. Lal Pathlabs	0.61%	0.73%	
Metropolis Healthcare	0.53%	0.66%	0.8%
Thyrocare Technologies Ltd.	2.23%	2.61%	

Health Care Providers & Svs

3QFY24 diagnostics sector results preview

- The festive season in Oct-Dec 2023 will lead to lower elective testing, pulling down patient volume growth qoq for the quarter. Realization to hold up well.
- We expect Dr. Lal to post a relatively better performance (on a very low base) vs. Metropolis & Thyrocare (both hit by lower government business yoy).
- Management commentary on test price hikes is encouraging. We expect aggregate revenue/PAT growth of 11%/24% yoy, led by Dr. Lal, in 3QFY24F.

Mixed revenue trend likely from companies in our coverage universe

We expect aggregate revenue/EBITDA/PAT growth of 11%/16%/24% yoy, respectively, in 3QFY24F. We expect Dr. Lal/Metropolis/Thyrocare to report revenue growth of 16%/2%/10% yoy, respectively. Non-Covid patient volume is likely at 7m/3m, +11%/+1.4% yoy, for Dr. Lal and Metropolis, respectively, while sample volume would be at 5.4m, +1.5% yoy, for Thyrocare. Dr. Lal saw a very weak 3QFY23 due to low patient volume throughput while Metropolis and Thyrocare had B2B government-related test contracts that expired in 4QFY23 and may have a low revenue mix in 3QFY24F. Realization per patient (RPP) to grow between 2-5% yoy for B2C-focused labs like Dr. Lal and Metropolis while Thyrocare's realization per sample is likely to expand by 10-12% yoy, driven by price hikes taken over the past 12 months. Covid-related revenue flattened yoy and would contribute 1.5-2% to total revenue in 3QFY24F. Please note that Suburban & Hitech acquisitions (of Dr. Lal/Metropolis, respectively) are now fully in the base and a part of our consol. estimates.

Margins to be largely stable excluding one-offs

Seasonally, 3Q EBITDA margin declines qoq for Dr. Lal and Thyrocare while it expands for Metropolis in a steady-state business scenario. We expect Dr. Lal's 3QFY24F EBITDA margin to expand to 26%, +290bp yoy/down 350bp qoq, due to a very weak base quarter yoy impacted by low test volume and high opex. For Metropolis, we expect its EBITDA margin at 23.2%, down 150bp/110bp, yoy/qoq, due to one-off negative impact on test volume because of heavy rains and floods in Chennai and the rest of Tamil Nadu (core markets) in the first week of Dec 2023. Continued higher opex, led by digital investments and distribution network expansion costs, to also keep margins lower. Thyrocare's EBITDA margin to be stable at 26.5%, +20bp yoy, excluding the Holdco-API Holdings' ESOP cost impact (~Rs32m, 2.3% of sales) in 3QFY24F.

Important levers to track in Oct-Dec 2023 results

a) B2C/B2B test pricing trend. b) T-2/T-3 cities' test volume growth. c) Competitive intensity from regional and non-captive hospital laboratories. d) Introduction of specialized tests and their changing revenue mix. e) Pick-up in Suburban/Hitech business. f) Capital reinvestment plans. g) International business. h) The new initiatives to boost topline growth.

Stable 3Q seen for Dr. Lal & Thyrocare, relatively weak for Metropolis

We expect Dr. Lal to report a PAT growth of +60% yoy, Thyrocare to report flat net profit yoy and Metropolis' PAT to decline by 15% yoy.

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Figure 1: 3QFY24F earnings summary (Rsm)

	Revenue	% yoy	EBITDA	% yoy	PAT	% yoy
Dr. Lal Pathlabs	5,674	15.9	1,475	30.5	842	59.5
Metropolis Healthcare	2,920	2.3	676	-4.1	303	-15.2
Thyrocare Technologies	1,405	9.7	372	10.5	204	-0.5
Total	9,998	10.7	2,523	16.2	1,349	23.7

SOURCES: INCRED RESEARCH, COMPANY REPORTS

Figure 2: Coverage universe - valuation summary

Company Name	Bbg ticker	Rating	Market cap	Closing price		Target Price	Upside [%]	P/E (x)		EV/E (x)		CAGR % (FY23-25F)		FY25F	
				US\$m	Rs/share			Rs/share	FY24F	FY25F	FY24F	FY25F	Revenue	EPS	RoE (%)
Dr. Lal Pathlabs	DLPL IN	HOLD	2,470	2,453	1,969	-19.7	70.2	59.0	35.9	31.1	12.7	17.8	18.0	25.1	
Metropolis Healthcare	METROHL IN	HOLD	929	1,504	1,641	9.1	51.8	39.6	24.9	20.5	11.8	16.6	16.6	22.2	
Thyrocare Technologies	THYROCAR IN	HOLD	428	671	615	-8.4	36.9	27.7	19.0	15.3	13.7	33.4	23.8	31.0	

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 3: 3QFY24 earnings preview (Rs m)

	3QFY24F	3QFY23A	2QFY24A	Change (%) yoy	Change (%) qoq	Comments
Dr. Lal Pathlabs						
Net sales	5,674	4,894	6,013	15.9	-5.6	# Shift of the festive season to 3Q from 2Q this financial year to result in lower discretionary testing and a weak season for elective medical procedures.
EBITDA	1,475	1,130	1,778	30.5	-17.0	# Low test volume throughput and higher opex impacted the EBITDA margin in the base quarter yoy. This will aid yoy growth in 3QFY24F.
EBITDA margin (%)	26.0	23.1	29.6	291 bp	-357 bp	# We expect non-Covid patient volume at 7.1m, +11% yoy, and per patient realisation at Rs785, +5% yoy, including that of Suburban.
Consolidated PAT	842	528	1,093	59.5	-22.9	# We expect Suburban's revenue at Rs390m, +11% yoy. # We expect Covid and allied test revenue at Rs110m, flat yoy. # EBITDA margin is seasonally the lowest in 3Q for Dr. Lal Pathlabs. # Gross cash surplus is likely to touch Rs10bn at the end of Dec 2023F.
Metropolis Healthcare						
Net sales	2,920	2,855	3,085	2.3	-5.3	# 3Q business update, released on 8 Jan 2024, indicated core revenue growth at 12% yoy, largely driven by volume growth of 9% yoy. Heavy rains and floods in the core markets of Chennai and the rest of Tamil Nadu led to lower revenue growth and impacted margins for the quarter.
EBITDA	676	705	748	-4.1	-9.6	# We expect reported non-Covid patient volume at 2.95m, +1.4% yoy, including Hitech and government business . Expiry of a government contract led to low patient volume growth yoy (LTL core volume: +9% yoy).
EBITDA margin (%)	23.2	24.7	24.2	-154 bp	-110 bp	# We expect reported non-Covid revenue at Rs2.9bn, +3% yoy. 3QFY23 government contract revenue stood at Rs230m. This is likely to be negligible at Rs10m in 3QFY24F.
Consolidated PAT	303	357	355	-15.2	-14.7	# We expect Hitech's revenue at Rs228m, +14% yoy. # We expect Covid and allied test revenue at Rs50m, down 38% yoy. # Repayment of acquisition debt is likely to lead to lower interest expenses yoy.
Thyrocare Technologies						
Net Sales	1,405	1,280	1,480	9.7	-5.1	# We expect non-Covid sample volume at 5.4m, +1.5% yoy and down 7% qoq.
EBITDA	372	337	411	10.5	-9.4	# We expect non-Covid pathology revenue at Rs1.3bn, +11.5% yoy.
EBITDA margin (%)	26.5	26.3	27.7	19 bps	-124 bps	# Blended test realization is likely to be up yoy (Rs228, +11.5% yoy) due to a better test mix and price hikes largely taken for the partnership business.
Consolidated PAT	204	205	239	-0.5	-14.5	# Radiology subsidiary Nuclear Healthcare is likely to post a revenue of Rs105m, down 3% yoy. # We note that our EBITDA/PAT estimates exclude the ESOP non-cash charges relating to Holdco - API Holdings.
Total						
Net sales	9,998	9,029	10,578	10.7	-5.5	
EBITDA	2,523	2,172	2,937	16.2	-14.1	
EBITDA margin (%)	25.2	24.1	27.8	119 bps	-252 bps	
Consolidated PAT	1,349	1,090	1,687	23.7	-20.0	

SOURCE: INCRED RESEARCH ESTIMATES, COMPANY REPORTS

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