

India

Underweight (no change)

Highlighted Companies

Dr. Lal Pathlabs

HOLD, TP Rs1969, Rs2327 close

We expect a strong end to the financial year with double-digit revenue growth yoy, margin expansion yoy and almost zero gross debt at the end of Mar 2024. Utilization of free cash going ahead, in our view, to be closely monitored.

Metropolis Healthcare

REDUCE, TP Rs1546, Rs1746 close

As disclosed in the 4Q business update, consolidated revenue growth was 10% yoy, with both patient volume and pricing aiding this growth. The company has repaid 100% of the acquisition debt during 4QFY24.

Thyrocare Technologies

HOLD, TP Rs615, Rs622 close

The company had a high base for test volume and hence, we expect flat volume growth yoy in 4QFY24F with revenue growth largely driven by a 10% rise in sample realization yoy. Franchisee and partnership revenue growth nearing stabilization with a minimal churn.

Summary Valuation Metrics

P/E (x)	Mar24-F	Mar25-F	Mar26-F
Dr. Lal Pathlabs	66.61	55.98	
Metropolis Healthcare	66.83	50.84	40.56
Thyrocare Technologies	34.21	25.68	

P/BV (x)	Mar24-F	Mar25-F	Mar26-F
Dr. Lal Pathlabs	10.61	9.58	
Metropolis Healthcare	8.27	7.42	6.55
Thyrocare Technologies	5.98	5.62	

Dividend Yield	Mar24-F	Mar25-F	Mar26-F
Dr. Lal Pathlabs	0.64%	0.77%	
Metropolis Healthcare	0.46%	0.57%	0.69%
Thyrocare Technologies	2.41%	2.81%	

Health Care Providers & Svs

4QFY24 diagnostics sector results preview

- After a seasonally lull 3Q every year, we expect healthy patient volume and realization growth for B2C diagnostic labs, albeit on a low base, in 4QFY24F.
- Long-term revenue growth rate remains weak. We expect five-year (4QFY19-4QFY24F) revenue CAGR to be range-bound between 6-10% across labs.
- Sector aggregate revenue/EBITDA/PAT growth is estimated at 13%/25%/36% yoy, largely driven by Dr. Lal (revenue/EBITDA/PAT: +15%/+32%/+57% yoy).

Non-Covid revenue growth rate has largely stabilized now

Diagnostic labs' revenue growth rate has largely stabilized now in core markets and the long-term CAGR (five-year) is in the range of 6-10% across our coverage universe. For 4QFY24F, we expect a consolidated revenue growth of +13% yoy driven by both patient volume growth and higher realization per patient (more test mix impact than price hikes). Within our coverage universe, Dr. Lal Pathlabs had a very weak base quarter (4QFY23) and hence, we expect a healthy 4QFY24F performance with patient volume/realization growth at 12%/4% yoy, respectively. Metropolis Healthcare is estimated to have grown patient volume/realization by 8%/2% yoy, respectively, while Thyrocare would have flat sample volume but higher realization per sample (+10% yoy). Covid revenue has declined significantly (~1% of total revenue, cumulative revenue of ~Rs85m across three labs under our coverage universe). Preventive health test package salience has also stabilized now between 15-20% of total revenue of B2C labs.

Revenue growth and better cost absorption will lead to stable margin

4Q typically sees a higher share of routine and preventive health tests that yields higher gross margin versus any previous quarters for B2C labs. Both Dr. Lal Pathlabs and Metropolis Healthcare seasonally should report a higher gross margin qoq. Given higher revenue growth, healthy gross margin and efficient absorption of fixed costs, we expect higher EBITDA margin yoy for all labs. We expect EBITDA margin expansion by 336bp/137bp/208bp yoy for Dr. Lal Pathlabs/Metropolis Healthcare/Thyrocare, respectively.

Channel checks show some competitors have gained market share

Our channel checks in Mumbai and Delhi with lab franchisees and senior management of a few unlisted online and brick-and-mortar labs indicate higher revenue growth for them versus national B2C labs over the past year. Tata 1MG and Redcliffe Labs are expanding their lab and collection centre network outside core markets with a minimal cash burn. We did not notice new diagnostic lab chains launching their business over the past one year.

Key parameters to track during the Jan-Mar 2024 results season

a) Patient and sample volume growth, b) Impact of selective test price hikes, c) lab and sample collection centre expansion plan for FY25F, d) management commentary on sustainable revenue growth rates over FY25F-26F, e) utilization of free cash surplus, f) change, if any, in international operations, and g) progress in shift of business growth to T-2/T-3 cities and towns from core markets of metro cities and T-1 cities.

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Figure 1: 4QFY24F earnings summary (Rsm)

	Revenue	% yoy	EBITDA	% yoy	PAT	% yoy
Dr. Lal Pathlabs	5,655	15.2	1,521	31.6	892	57.3
Metropolis Healthcare	3,108	10.0	816	16.1	396	18.6
Thyrocare Technologies	1,486	9.4	372	19.3	193	1.9
Total	10,249	12.7	2,709	24.8	1,481	35.8

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 2: Sector financial and valuation summary

Company Name	Bbg ticker	Rating	Market cap US\$m	Closing price Rs/share	Target Price Rs/share	Upside [%]	P/E (x)		EV/E (x)		CAGR % (FY23-25F)		FY25F	
							FY24F	FY25F	FY24F	FY25F	Revenue	EPS	RoE (%)	RoCE (%)
Dr. Lal Pathlabs	DLPL IN	HOLD	2,321	2,320	1,969	-15.1	66.4	55.8	33.9	29.3	12.7	17.8	18.0	25.1
Metropolis Healthcare	METROHL IN	REDUCE	1,091	1,778	1,546	-13.0	68.0	51.7	31.1	25.9	9.0	11.0	15.4	20.6
Thyrocare Technologies	THYROCAR IN	HOLD	397	626	615	-1.8	34.4	25.8	17.6	14.3	13.7	33.4	23.8	31.0

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 3: 4QFY24F earnings preview (Rs m)

	4QFY24F	4QFY23A	3QFY24A	Change (%)		Key highlights for the quarter
				yoy	qoq	
Dr. Lal Pathlabs						
Net Sales	5,655	4,910	5,389	15.2	4.9	# Strong yoy performance expected due to a weak base.
EBITDA	1,521	1,156	1,406	31.6	8.2	# 4Q is seasonally better qoq.
EBITDA margin (%)	26.9	23.5	26.1	336 bp	81 bp	# We expect non-Covid patient volume of 7.1m, +12% yoy, and patient realization at Rs785, +4% yoy, including Suburban.
Adjusted PATAMI	892	567	813	57.3	9.7	# We expect Suburban revenue at ~Rs400m. # We expect Covid and allied test revenue at Rs80m, down 25% yoy. # Gross margin is seasonally the highest across quarters in 4Q for Dr.Lal Pathlabs. # Gross cash surplus expected to surpass Rs10bn at the end of Mar 2024F.
Metropolis Healthcare						
Net Sales	3,108	2,825	2,911	10.0	6.8	# 4Q business update released on 10 Apr 2024 indicates core revenue growth of 15% yoy largely driven by patient volume growth of 8% yoy.
EBITDA	816	703	648	16.1	25.8	# We expect reported non-Covid patient volume at 3.1m, +8.3% yoy, including Hitech and government business.
EBITDA margin (%)	26.3	24.9	22.3	137 bp	397 bp	# We expect reported non-Covid revenue at Rs3.1bn, +11% yoy. The 4QFY23 government contract revenue was Rs70m. We expect this at Rs15m in 4QFY24F.
Adjusted PATAMI	396	334	272	18.6	45.6	# We expect Hitech revenue at Rs270m, +12% yoy. # We expect Covid and allied test revenue at Rs30m, down 57% yoy. # Full repayment of acquisition debt (Dec 2023: Rs130m) will lead to lower financial costs yoy.
Thyrocare Technologies						
Net Sales	1,486	1,359	1,347	9.4	10.3	# We expect non-Covid sample volume at 5.7m, flat yoy.
EBITDA	372	311	347	19.3	7.1	# We expect non-Covid pathology revenue at Rs1.3bn, +11.5% yoy.
EBITDA margin (%)	25.0	22.9	25.7	208 bp	-75 bp	# Blended test realization will be higher yoy (Rs230, +10% yoy) due to better test mix, slab-based franchisee pricing and reduced discounts for partnership business.
Adjusted PATAMI	193	189	184	1.9	4.7	# Radiology subsidiary - Nuclear - will have a revenue of Rs122m, +10% yoy. # We note that our EBITDA/PAT estimates are excluding the ESOP non-cash costs related to Holdco - API Holdings.
Sector Aggregate						
Net Sales	10,249	9,094	9,648	12.7	6.2	
EBITDA	2,709	2,170	2,401	24.8	12.8	
EBITDA margin (%)	26.4	23.9	24.9	256 bp	154 bp	
Adjusted PATAMI	1,481	1,090	1,269	35.8	16.7	

SOURCE: INCRED RESEARCH, COMPANY REPORTS

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