



India

**HOLD** (previously ADD)

Consensus ratings\*: Buy 18 Hold 2 Sell 8

Current price: Rs2,911  
 Target price: ▼ Rs3,100  
 Previous target: Rs3,600  
 Up/downside: 6.5%  
 InCred Research / Consensus: -4.2%

Reuters: DLPA.NS  
 Bloomberg: DLPL IN  
 Market cap: US\$2,848m  
 Rs243,352m  
 Average daily turnover: US\$7.2m  
 Rs612.1m  
 Current shares o/s: 83.5m  
 Free float: 45.4%

\*Source: Bloomberg

**Key changes in this note**

- ▶ Cut FY26F EPS by 3%.
- ▶ Downgrade the rating to HOLD (from ADD).
- ▶ Reduce the target price to Rs3,100 from Rs3,600.



Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	18.9	2.9	21.9
Relative (%)	16.2	(1.4)	13.5

Major shareholders	% held
Promoters	54.6
Invesco Oppenheimer Intl. Growth Fund	3.7
UTI Flexi Cap Fund	2.8

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**Dr. Lal Pathlabs Ltd.****Margin drop amid steady growth**

- In-line 4Q performance with a beat on margin, led by volume growth (9.4%); SwasthFit grew 22% YoY, adjusted for one-time tax benefit, the EPS is Rs13.6.
- Gives guidance of 11-12% growth for FY26F led by volume. Margin drop of 100bp expected in FY26F due to geography expansion, and other factors.
- Reduce FY26F EPS by 3%. Downgrade our rating to HOLD with a lower TP of Rs3,100. Risks: Slowdown in patient volume & early margin improvement.

**In-line 4QFY25 performance - beat on margin front**

The 4QFY25 performance of Dr. Lal Pathlabs (DLPL) was broadly in line with our expectation, with a beat on the margin front (200bp/170bp above our/Bloomberg consensus estimate, respectively). Revenue growth of 10.5 YoY was led by strong volume growth (9.4% YoY) and realization growth of 1%. Swasthfit grew by 22% in 4Q and contributed 26% (vs. 24% YoY/23% QoQ). Gross margin at 80.5% improved 10bp QoQ/40bp YoY whereas the EBITDA margin at 28% was up 220bp QoQ due to lower employee costs. The patient volume growth was 4.6% YoY whereas revenue/patient growth was 5.6% YoY. During the quarter, there was one-time deferred tax benefit of Rs408m on account of voluntary liquidation of Suburban Diagnostics. Adjusted for this benefit, EPS for 4QFY25 is Rs13.6 and for FY25 it is Rs53.5.

**FY26F guidance: Steady topline growth, margin to decline**

DLPL has given guidance of 11-12% growth in FY26F driven by volume & stable revenue per patient; and is not contemplating a price hike. On the margin front, the company expects a drop of 100bp (gave guidance of 27% margin) due to investment in geography expansion, talent, digital initiatives, and marketing. Network expansion to continue with the addition of 15-20 labs in FY26F, resulting in a capex of Rs600-700m.

**Network expansion continues**

In FY25, DLPL added 18 new labs, expanding its presence in Tier 3-4 markets while strengthening the network in metro and Tier-1 cities. Going ahead, in FY26F, the lab addition will continue with 15-20 labs along with the addition of collection centres, thereby ensuring access to newer geographies and micro markets. We understand DLPL should witness the benefit of network expansion done in the last two years in FY26F and FY27F. Accordingly, we are factoring in 10.5%/12% volume/revenue growth, respectively, between FY25-27F (vs. 8.9%/10.5% between FY23-25).

**Downgrade our rating to HOLD with a lower target price of Rs3,100**

We have introduced FY27F estimates and rolled forward our valuation to the same period. We have cut our FY26F EPS by 3% due to lower margin guidance. We expect DLPL to clock slower earnings growth (on a high base) in FY25-27F (9% CAGR). While the valuation remains fair, the lack of meaningful upside in earnings growth led us to downgrade our rating to HOLD (from ADD) with a lower target price of Rs3,100 (Rs3,600 earlier). Downside risk: Any slowdown in patient volume. Upside risk: Early improvement in margin.

Financial Summary	Mar-23A	Mar-24A	Mar-25A	Mar-26F	Mar-27F
Revenue (Rsm)	20,169	22,266	24,614	27,477	30,932
Operating EBITDA (Rsm)	4,899	6,093	6,955	7,502	8,806
Net Profit (Rsm)	2,389	3,577	4,871	4,903	5,796
Core EPS (Rs)	28.6	42.8	58.3	58.6	69.3
Core EPS Growth	(30.7%)	49.7%	36.2%	0.7%	18.2%
FD Core P/E (x)	101.87	68.04	49.96	49.64	41.99
DPS (Rs)	12.0	24.0	24.0	24.0	24.0
Dividend Yield	0.41%	0.82%	0.82%	0.82%	0.82%
EV/EBITDA (x)	48.56	38.59	33.37	30.41	25.36
P/FCFE (x)	408.34	68.02	56.80	45.24	38.52
Net Gearing	(34.1%)	(45.7%)	(52.8%)	(62.7%)	(71.5%)
P/BV (x)	14.61	13.16	11.20	9.91	8.61
ROE	15.1%	20.3%	24.2%	21.2%	21.9%
% Change In Core EPS Estimates				(3.01%)	
InCred Research/Consensus EPS (x)					

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 1: Financial summary

(Rs m)	4QFY22	1QFY23	2QFY23	3QFY23	4QFY23	1QFY24	2QFY24	3QFY24	4QFY24	1QFY25	2QFY25	3QFY25	4QFY25	YoY (%)	QoQ (%)
Revenue	4,855	5,027	5,338	4,894	4,910	5,410	6,013	5,389	5,454	6,019	6,602	5,967	6,026	10%	1%
Consumption of raw materials	1,139	1,142	1,162	1,109	1,059	1,131	1,224	1,070	1,089	1,194	1,273	1,170	1,178	8%	1%
as % of sales	23.5%	22.7%	21.8%	22.7%	21.6%	20.9%	20.4%	19.9%	20.0%	19.8%	19.3%	19.6%	19.5%		
Employee costs	975	968	909	963	925	1,047	1,054	1,090	1,054	1,166	1,240	1,264	1,154	9%	-9%
as % of sales	20.1%	19.3%	17.0%	19.7%	18.8%	19.4%	17.5%	20.2%	19.3%	19.4%	18.8%	21.2%	19.2%		
Other expenditure	1530	1742	1829	1692	1770	1770	1957	1823	1864	1959	2064	1993	2004	8%	1%
as % of sales	31.5%	34.7%	34.3%	34.6%	36.0%	32.7%	32.5%	33.8%	34.2%	32.5%	31.3%	33.4%	33.3%		
EBITDA	1,211	1,175	1,438	1,130	1,156	1,462	1,778	1,406	1,447	1,700	2,025	1,540	1,690	17%	10%
Margins (%)	24.9%	23.4%	26.9%	23.1%	23.5%	27.0%	29.6%	26.1%	26.5%	28.2%	30.7%	25.8%	28.0%		
Depreciation	377	359	388	379	376	351	359	360	366	347	353	355	364		
Other income	120	83	87	105	142	144	181	183	184	206	219	251	258		
Interest	119	85	109	91	90	80	78	70	66	60	60	53	50		
PBT	835	814	1,028	765	832	1,175	1,522	1,159	1,199	1,499	1,831	1,383	1,534	28%	11%
Total tax	214	232	304	229	263	339	415	337	341	421	523	402	-21		
Tax rate (%)	25.6%	28.5%	29.6%	29.9%	31.6%	28.9%	27.3%	29.1%	28.4%	28.1%	28.6%	29.1%	-1.4%		
PAT before MI	621	582	724	536	569	836	1,107	822	858	1,078	1,308	981	1,555	81%	59%
Minority interest (MI)	-8	-5	-7	-8	-2	-10	-14	-9	-13	-14	-16	-14	-7		
Adj. PAT before extraordinary items	613	577	717	528	567	826	1,093	813	845	1,064	1,292	967	1,548	83%	60%
Extraordinary expenses	0	0	0	0	0	0	0	0	0	0	0	0	0		
Reported PAT	613	577	717	528	567	826	1,093	813	845	1,064	1,292	967	1,548	83%	60%
No. of shares	83	83	83	83	83	83	83	83	83	83	84	84	84		
EPS	7.4	6.9	8.6	6.3	6.8	9.9	13.1	9.7	10.1	12.7	15.5	11.6	18.5	83%	60%

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 2: Margin break-up

(in %)	4QFY22	1QFY23	2QFY23	3QFY23	4QFY23	1QFY24	2QFY24	3QFY24	4QFY24	1QFY25	2QFY25	3QFY25	4QFY25	Y-o-Y (bp)	Q-o-Q (bp)
Gross	77%	77%	78%	77%	78%	79%	80%	80%	80%	80%	81%	80%	80%	42	6
EBITDA	25%	23%	27%	23%	24%	27%	30%	26%	27%	28%	31%	26%	28%	151	224
Adj. PAT	13%	11%	13%	11%	12%	15%	18%	15%	15%	18%	20%	16%	26%	1,020	948
Effective tax rate	26%	29%	30%	30%	32%	29%	27%	29%	28%	28%	29%	29%	-1%	-2,981	-3,044

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 3: Actuals vs estimates

	Actuals	IncRed Estimates	Variance (%)	Bloomberg Estimates	Variance (%)
Revenue (Rsm)	6,026	6,011	-	6,042	-
EBITDA (Rsm)	1,690	1,562	8%	1,590	6%
Margin (%)	28.0	26.0		26.3	
PAT (Rsm)	1,548	959	61%	996	55%

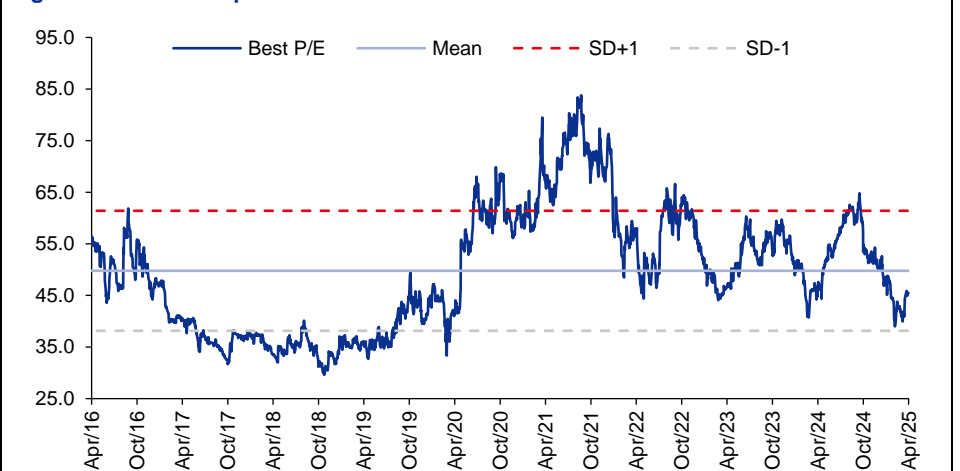
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 4: Our revised earnings estimates

	Old	FY26F New	Variance (%)
Revenue (Rsm)	27,775	27,477	-1.1
EBITDA (Rsm)	7,888	7,502	-4.9
Margin (%)	28.4	27.3	
PAT (Rsm)	5,055	4,903	-3.0

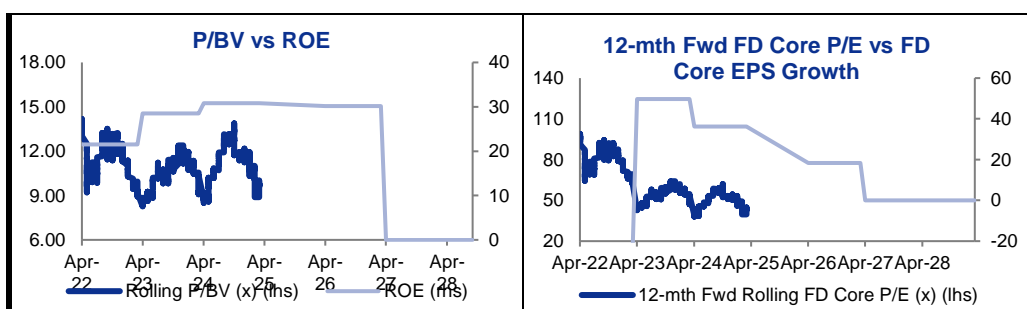
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 5: The recent price correction has made DLPL to trade near its mean valuation



SOURCE: INCRED RESEARCH, COMPANY REPORTS

## BY THE NUMBERS



### Profit & Loss

(Rs mn)	Mar-23A	Mar-24A	Mar-25A	Mar-26F	Mar-27F
<b>Total Net Revenues</b>	<b>20,169</b>	<b>22,266</b>	<b>24,614</b>	<b>27,477</b>	<b>30,932</b>
<b>Gross Profit</b>	<b>15,697</b>	<b>17,752</b>	<b>19,799</b>	<b>21,899</b>	<b>24,591</b>
<b>Operating EBITDA</b>	<b>4,899</b>	<b>6,093</b>	<b>6,955</b>	<b>7,502</b>	<b>8,806</b>
Depreciation And Amortisation	(1,502)	(1,436)	(1,419)	(1,440)	(1,470)
<b>Operating EBIT</b>	<b>3,397</b>	<b>4,657</b>	<b>5,536</b>	<b>6,062</b>	<b>7,336</b>
Financial Income/(Expense)	(375)	(294)	(223)	(200)	(150)
Pretax Income/(Loss) from Assoc.					
Non-Operating Income/(Expense)	417	692	934	950	850
<b>Profit Before Tax (pre-EI)</b>	<b>3,439</b>	<b>5,055</b>	<b>6,247</b>	<b>6,812</b>	<b>8,036</b>
Exceptional Items					
<b>Pre-tax Profit</b>	<b>3,439</b>	<b>5,055</b>	<b>6,247</b>	<b>6,812</b>	<b>8,036</b>
Taxation	(1,028)	(1,432)	(1,325)	(1,839)	(2,170)
Exceptional Income - post-tax					
<b>Profit After Tax</b>	<b>2,411</b>	<b>3,623</b>	<b>4,922</b>	<b>4,973</b>	<b>5,866</b>
Minority Interests	(22)	(46)	(51)	(70)	(70)
Preferred Dividends					
FX Gain/(Loss) - post tax					
Other Adjustments - post-tax					
<b>Net Profit</b>	<b>2,389</b>	<b>3,577</b>	<b>4,871</b>	<b>4,903</b>	<b>5,796</b>
Recurring Net Profit	2,389	3,577	4,871	4,903	5,796
<b>Fully Diluted Recurring Net Profit</b>	<b>2,389</b>	<b>3,577</b>	<b>4,871</b>	<b>4,903</b>	<b>5,796</b>

### Cash Flow

(Rs mn)	Mar-23A	Mar-24A	Mar-25A	Mar-26F	Mar-27F
<b>EBITDA</b>	<b>4,899</b>	<b>6,093</b>	<b>6,955</b>	<b>7,502</b>	<b>8,806</b>
Cash Flow from Invt. & Assoc.					
Change In Working Capital	355	357	60	262	232
(Incr)/Decr in Total Provisions					
Other Non-Cash (Income)/Expense					
Other Operating Cashflow	417	692	800	950	950
Net Interest (Paid)/Received	(375)	(294)	(223)	(200)	(150)
Tax Paid	(736)	(1,494)	(2,038)	(2,659)	(2,940)
<b>Cashflow From Operations</b>	<b>4,560</b>	<b>5,354</b>	<b>5,554</b>	<b>5,855</b>	<b>6,899</b>
Capex	(360)	(503)	(436)	(600)	(600)
Disposals Of FAs/subsidiaries					
Acq. Of Subsidiaries/investments					
Other Investing Cashflow	(2,513)	260			
<b>Cash Flow From Investing</b>	<b>(2,873)</b>	<b>(243)</b>	<b>(436)</b>	<b>(600)</b>	<b>(600)</b>
Debt Raised/(repaid)	(1,091)	(1,533)	(833)	125	19
Proceeds From Issue Of Shares	9	35	127		
Shares Repurchased					
Dividends Paid	(1,030)	(2,012)	(2,073)	(2,006)	(2,006)
Preferred Dividends					
Other Financing Cashflow	(720)	(629)	(532)	1,075	869
<b>Cash Flow From Financing</b>	<b>(2,832)</b>	<b>(4,139)</b>	<b>(3,311)</b>	<b>(807)</b>	<b>(1,119)</b>
Total Cash Generated	(1,145)	972	1,807	4,449	5,180
<b>Free Cashflow To Equity</b>	<b>596</b>	<b>3,578</b>	<b>4,285</b>	<b>5,380</b>	<b>6,318</b>
<b>Free Cashflow To Firm</b>	<b>2,062</b>	<b>5,405</b>	<b>5,341</b>	<b>5,455</b>	<b>6,449</b>

SOURCE: INCRED RESEARCH, COMPANY REPORTS

## BY THE NUMBERS...cont'd

### Balance Sheet

(Rs mn)	Mar-23A	Mar-24A	Mar-25A	Mar-26F	Mar-27F
Total Cash And Equivalents	8,153	9,441	11,654	15,778	20,689
Total Debtors	708	774	881	962	1,083
Inventories	338	373	361	467	495
Total Other Current Assets	531	679	739	824	928
<b>Total Current Assets</b>	<b>9,730</b>	<b>11,267</b>	<b>13,635</b>	<b>18,031</b>	<b>23,195</b>
Fixed Assets	7,622	3,807	3,393	2,553	1,683
Total Investments					
Intangible Assets	5,498	8,525	7,992	7,992	7,992
Total Other Non-Current Assets	621	961	2,148	2,148	2,148
<b>Total Non-current Assets</b>	<b>13,741</b>	<b>13,293</b>	<b>13,533</b>	<b>12,693</b>	<b>11,823</b>
Short-term Debt	1,533	833			
Current Portion of Long-Term Debt					
Total Creditors	1,561	1,866	1,988	2,296	2,582
Other Current Liabilities	1,624	1,953	2,037	2,264	2,462
<b>Total Current Liabilities</b>	<b>4,718</b>	<b>4,652</b>	<b>4,025</b>	<b>4,560</b>	<b>5,044</b>
Total Long-term Debt	833			125	144
Hybrid Debt - Debt Component					
Total Other Non-Current Liabilities	925	1,054	1,078	1,078	1,078
<b>Total Non-current Liabilities</b>	<b>1,758</b>	<b>1,054</b>	<b>1,078</b>	<b>1,203</b>	<b>1,222</b>
Total Provisions					
<b>Total Liabilities</b>	<b>6,476</b>	<b>5,706</b>	<b>5,103</b>	<b>5,762</b>	<b>6,266</b>
Shareholders Equity	16,663	18,493	21,727	24,554	28,273
Minority Interests	332	361	338	408	478
<b>Total Equity</b>	<b>16,995</b>	<b>18,854</b>	<b>22,065</b>	<b>24,962</b>	<b>28,751</b>

### Key Ratios

	Mar-23A	Mar-24A	Mar-25A	Mar-26F	Mar-27F
Revenue Growth	(3.4%)	10.4%	10.5%	11.6%	12.6%
Operating EBITDA Growth	(12.6%)	24.4%	14.1%	7.9%	17.4%
Operating EBITDA Margin	24.3%	27.4%	28.3%	27.3%	28.5%
Net Cash Per Share (Rs)	69.22	102.97	139.40	187.24	245.76
BVPS (Rs)	199.32	221.21	259.89	293.70	338.20
Gross Interest Cover	9.06	15.84	24.83	30.31	48.91
Effective Tax Rate	29.9%	28.3%	21.2%	27.0%	27.0%
Net Dividend Payout Ratio	29.3%	39.9%	32.4%	29.8%	25.2%
Accounts Receivables Days	14.13	12.15	12.27	12.24	12.06
Inventory Days	35.18	28.75	27.82	27.09	27.69
Accounts Payables Days	123.86	138.55	146.08	140.17	140.40
ROIC (%)	25.9%	38.4%	49.0%	52.8%	70.6%
ROCE (%)	17.8%	23.9%	26.5%	25.7%	27.2%
Return On Average Assets	16.4%	22.3%	25.0%	24.2%	24.9%

SOURCE: INCRED RESEARCH, COMPANY REPORTS

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## Recommendation Framework

### Stock Ratings

Definition:

- Add** The stock's total return is expected to exceed 10% over the next 12 months.
- Hold** The stock's total return is expected to be between 0% and positive 10% over the next 12 months.
- Reduce** The stock's total return is expected to fall below 0% or more over the next 12 months.

*The total expected return of a stock is defined as the sum of the: (i) percentage difference between the target price and the current price and (ii) the forward net dividend yields of the stock. Stock price targets have an investment horizon of 12 months.*

### Sector Ratings

Definition:

- Overweight** An Overweight rating means stocks in the sector have, on a market cap-weighted basis, a positive absolute recommendation.
- Neutral** A Neutral rating means stocks in the sector have, on a market cap-weighted basis, a neutral absolute recommendation.
- Underweight** An Underweight rating means stocks in the sector have, on a market cap-weighted basis, a negative absolute recommendation.

### Country Ratings

Definition:

- Overweight** An Overweight rating means investors should be positioned with an above-market weight in this country relative to benchmark.
- Neutral** A Neutral rating means investors should be positioned with a neutral weight in this country relative to benchmark.
- Underweight** An Underweight rating means investors should be positioned with a below-market weight in this country relative to benchmark.