

India

Underweight (no change)**Highlighted Companies****Dr. Lal Pathlabs Ltd.****REDUCE, TP Rs1746, Rs1903 close**

We expect reported non-Covid revenue to grow by 20% yoy and 5% qoq, including Suburban. Price hikes for certain specialized tests, non-core market revenue growth and faster revenue growth at Suburban, given its new lab/PSC infrastructure, are key things to monitor.

Metropolis Healthcare Ltd.**REDUCE, TP Rs1235, Rs1243 close**

We expect reported non-Covid revenue to grow by 17% yoy and 7% qoq, including Hitech. B2C revenue share in core markets, non-core service market expansion, price hikes and faster revenue growth at Hitech are key things to monitor.

Thyrocare Technologies Ltd.**HOLD, TP Rs698, Rs471 close**

We expect reported non-Covid revenue to grow by 8% yoy and 10% qoq. Reported EBITDA margin needs to be adjusted for an estimated Rs50m PharmEasy ESOP charge in 4Q. An update on the timeline to revoke promoter stock pledges is the key monitorable.

Summary Valuation Metrics

P/E (x)	Mar22-A	Mar23-F	Mar24-F
Dr. Lal Pathlabs Ltd.	46.14	59.48	48.15
Metropolis Healthcare Ltd.	29.7	42.75	35.88
Thyrocare Technologies Ltd.	14.54	33.95	25.13
P/BV (x)	Mar22-A	Mar23-F	Mar24-F
Dr. Lal Pathlabs Ltd.	10.55	9.49	8.45
Metropolis Healthcare Ltd.	7.18	6.4	5.68
Thyrocare Technologies Ltd.	4.74	4.79	4.61
Dividend Yield	Mar22-A	Mar23-F	Mar24-F
Dr. Lal Pathlabs Ltd.	0.62%	0.62%	0.78%
Metropolis Healthcare Ltd.	0.64%	0.64%	0.8%
Thyrocare Technologies Ltd.	3.18%	3.18%	3.18%

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Health Care Providers & Svs

4QFY23 diagnostics sector results preview

- We expect non-Covid 3-year revenue CAGR to improve to 9-13% in 4QFY23F for our coverage universe. Dr. Lal Pathlabs is likely to be the best, at 12.5%.
- 4QFY23F to have an unfavourable base due to high Covid revenue in 4QFY22. Growth analysis yoy and qoq will be meaningful only from 1QFY24F.
- Channel check reveals specialized test price hikes in 4Q and less incremental employee attrition in favour of new-age competitors. We remain Underweight.

Non-Covid revenue growth trend gets better for offline path labs

We believe that life is getting back to normal in India post Covid-19 pandemic, aiding walk-ins and elective tests volume for pathology labs. 4QFY23F will be the first quarter of near double-digit non-Covid revenue growth yoy across our coverage universe. We expect LTL non-Covid revenue growth of 10-20% yoy, excluding acquisitions. We expect non-Covid patient volume of 6.7m/2.9m for Dr.Lal/Metropolis including Suburban and Hitech patient volume, respectively, in 4QFY23F. This implies a 3-year non-Covid revenue CAGR of 9-13% across our coverage universe. Covid revenue is expected to be flattish qoq and account for 1-3% of consolidated revenue. However, on a reported basis, PAT is likely to decline yoy (4-13% yoy) for B2C labs like Dr. Lal Pathlabs and Metropolis Healthcare and grow by 15% yoy for Thyrocare Technologies.

EBITDA margin to stay in 24-28% range in 4QFY23F

Contrary to consensus expectations of EBITDA margin gradually declining due to intense competition in the sector, we expect companies to hold EBITDA margin in the 24-28% range in 4QFY23F led by a few price hikes, better test mix and opex rationalization. We expect EBITDA margin at 24%/27%/28% for Dr.Lal Pathlabs, Metropolis Healthcare, and Thyrocare Technologies, respectively, in 4QFY23F.

Non-core market revenue growth to offset slowdown in core market

Given the intense competition in the industry, mainly in metro cities, core markets have struggled to clock double-digit revenue growth. However, B2C labs have been consistently expanding their lab and patient service network outside core markets which led to higher consolidated revenue growth. We expect this trend to continue in 4QFY23F and FY24F. Labs are ensuring that bulk testing packages are not margin-dilutive while package revenue share (Dr.Lal Pathlabs: Swasthfit, Metropolis Healthcare: Truehealth, Thyrocare Technologies: Aarogyam) is expected to further increase yoy/qoq.

Channel check points to price hikes, lower employee attrition

Pass-through of higher input cost for certain specialized tests couldn't happen, given competitive pricing pressure and loss of business to new entrants. Our channel check reveals partial price hikes by B2C labs in 4QFY23F. Also, incrementally, employee attrition towards new market entrants has declined for B2C labs, which points towards some stability on the competition front. We await more data points to turn constructive on the sector given that it has been out of favour for a considerable time. Stay Underweight on it.

Figure 1: 4QFY23F result estimates summary (Rs m)

	Revenue	% yoy	EBITDA	% yoy	PAT	% yoy
Dr. Lal Pathlabs	5,129	5.6	1,236	2.1	601	-1.9
Metropolis Healthcare	3,065	0.2	826	10.4	431	7.3
Thyrocare Technologies	1,408	7.8	392	4.5	247	14.8
Total	9,602	4.1	2,455	5.1	1,279	4.1

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 2: Coverage universe - valuation summary

Company Name	Bblg ticker	Rating	Market cap US\$m	Closing price Rs/share	Target price Rs/share	Upside [%]	P/E (x)		EV/E (x)		CAGR % (FY20-24F)		FY24F	
							FY23F	FY24F	FY23F	FY24F	Revenue	EPS	RoE (%)	RoCE (%)
Dr. Lal Pathlabs	DLPL IN	REDUCE	1,929	1,899	1,746	-8.0	59.3	48.0	29.6	25.0	15.2	9.1	18.6	24.6
Metropolis Healthcare	METROHL IN	REDUCE	809	1,273	1,235	-2.9	44.5	37.4	21.8	19.3	11.4	3.6	16.8	20.5
Thyrocare Technologies	THYROCAR IN	HOLD	319	504	698	38.5	35.7	26.4	16.8	13.9	9.2	2.7	19.6	26.0

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 3: 4QFY23F earnings preview (Rs m)

	4QFY23F	4QFY22A	3QFY22A	Change (%)		Comments
				yoy	qoq	
Dr. Lal Pathlabs						
Net Sales	5,129	4,855	4,894	5.6	4.8	# We expect number of sample and patients (excluding Subarban) to grow by 1%/7% yoy and 2%/1% qoq respectively # We expect non-covid revenue to grow by 11%/-2% yoy and qoq # Subarban non-covid revenues to grow by 24%/4% yoy and qoq respectively
EBITDA	1,236	1,211	1,130	2.1	9.4	
EBITDA margin (%)	24.1	24.9	23.1	-84 bps	101 bps	
Adjusted PATAMI	601	613	528	-1.9	13.9	
Metropolis Healthcare						
Net Sales	3,065	3,059	2,855	0.2	7.4	# We expect non-Covid patients (incl. PPP & Hitech) to grow by 15% yoy and 7% qoq to 3.1m. # Non-Covid revenue to grow by 17% yoy and 7% qoq. # We expect Hitech revenue to grow 7% yoy and 10% qoq to Rs220m.
EBITDA	826	748	705	10.4	17.2	
EBITDA margin (%)	27.0	24.5	24.7	249 bp	226 bp	
Adjusted PATAMI	431	401	357	7.3	20.7	
Thyrocare Technologies						
Net Sales	1,408	1,306	1,280	7.8	10.0	# We expect non-Covid revenue to grow by 20% yoy and 11% qoq. #We expect total sample/patient volume to grow by 12% yoy and 10% qoq to 5.8m. #We expect non-cash ESOP charge relating to grant by Holdco-API Holdings at Rs50m.
EBITDA	392	376	337	4.5	16.5	
EBITDA margin (%)	27.9	28.8	26.3	-90 bp	156 bp	
Adjusted PATAMI	247	215	205	14.8	20.3	
Total						
Net Sales	9,602	9,220	9,029	4.1	6.3	
EBITDA	2,455	2,335	2,172	5.1	13.0	
EBITDA margin (%)	25.6	25.3	24.1	24 bps	151 bps	
Adjusted PATAMI	1,279	1,229	1,090	4.1	17.3	

SOURCE: INCRED RESEARCH ESTIMATES, COMPANY REPORTS

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