

Dr Lal Pathlabs

BUY
Maintained
Rs2,143

Resilient performance

Dr Lal Pathlabs (Dr Lal) Q1FY23 performance beat our estimates driven by better than expected improvement in the base business. Revenue from covid and allied tests (ex-Suburban) plunged 92.2% YoY. Base business revenues (ex-Suburban) grew 15.4% YoY (3-year CAGR of 10.0%) to Rs4.5bn vs our estimate of Rs3.9bn. Overall revenue fell 17.1% YoY, mainly on the high base of covid-led revenues. EBITDA margin contracted 780bps YoY to 23.4%. Adjusted PAT was down 56.0% YoY to Rs577mn. While intensified competition is likely to weigh on realisations in the near term, we believe changing revenue mix in favour of specialised tests will provide support. We remain positive on Dr Lal given its strong brand equity, focus on geographical expansion, mix shift towards specialty tests and strong return ratios with healthy FCF. Maintain BUY with a revised target price of Rs2,919/share (earlier: Rs2,981/share).

► **Business review:** Revenue declined 17.1% YoY (ex-Suburban, decline was 23.6% YoY) mainly due to 92.2% fall in covid revenues. Covid-related tests' contribution reduced sharply to 4.2% of sales from 36.2% and 13.6% in Q1FY22 and Q4FY22 respectively. Base business (excluding Suburban revenues of Rs355mn) witnessed a 3-year CAGR of 10.0%. Non-covid volumes (patients) witnessed 13.9% YoY growth in Q1FY23, and this is expected to remain strong in full-year FY23 with improving base business. Average realisation on non-covid tests remained flat QoQ, while that for patients improved marginally with revenue mix favouring the specialised and semi-specialised tests, as well as higher contribution from Swasthfit. EBITDA margin declined 780/160bps YoY/QoQ to 23.4% amid consolidation of the low-margin Suburban business and sharp fall in covid revenues coupled with higher spends towards marketing and digitisation. We expect EBITDA margin to be limited at ~25% over FY23E-FY24E, due to lower margins of Suburban and higher costs.

► **Concall highlights:** 1) Guided for 13-15% annual revenue growth; Delhi and NCR expected to grow in single digits. 2) Suburban margins stood at ~12% in Q1FY23; the company's focus is to double volumes in next 2-3 years and get margin of 20%. 3) Home collection accounted for ~10% of total revenue against 5-6% pre-covid. 4) Swasthfit contributes 21%, total routine test is ~30% of sales. 5) Company is looking to acquire assets in south India.

► **Outlook:** We expect Dr Lal to outperform industry growth with revenue, EBITDA and PAT CAGRs of 9.1%, 5.2% and 5.2% respectively, over FY22-FY24E, driven largely by volume growth. RoE and RoCE are expected to be at 20.2% and 16.8% respectively in FY24E. We are positive on the long-term outlook considering the company's strong brand franchise with sustainable growth, expansion potential, healthy FCFF generation and strong return ratios.

► **Valuation:** We reduce our FY23E-FY24E EBITDA estimates by ~2% to factor-in higher spend towards digitisation and marketing. Maintain **BUY** with a revised DCF-based target price of Rs2,919/share (earlier: Rs2,981/share), implying 63.8x FY24E EPS and 37.5x FY24E EV/EBITDA. **Key downside risks:** Higher than expected competition and regulatory hurdles.

Market Cap	Rs179bn/US\$2.2bn	Year to Mar	FY21	FY22	FY23E	FY24E
Reuters/Bloomberg	DLPA.BO/DLPL IN	Revenue (Rs mn)	15,813	20,874	22,134	24,826
Shares Outstanding (mn)	83.4	Net Income (Rs mn)	2,916	3,448	3,132	3,812
52-week Range (Rs)	4209/1836	EPS (Rs)	35.0	41.4	37.6	45.8
Free Float (%)	44.9	% Chg YoY	29.1	18.3	(9.2)	21.7
FII (%)	23.6	P/E (x)	61.2	51.8	57.0	46.8
Daily Volume (USD/'000)	9,345	CEPS (Rs)	44.3	54.4	53.7	62.7
Absolute Return 3m (%)	(19.8)	EV/E (x)	38.7	31.2	31.7	27.1
Absolute Return 12m (%)	(40.5)	Dividend Yield (%)	0.6	0.1	0.4	0.5
Sensex Return 3m (%)	(0.5)	RoCE (%)	24.0	21.5	15.6	16.8
Sensex Return 12m (%)	9.7	RoE (%)	25.6	25.0	19.3	20.2

Q1FY23 result review; rating and earnings revision

Pharmaceuticals

Target price: Rs2,919

Earnings revision

(%)	FY23E	FY24E
Sales	0.3	0.5
EBITDA	(2.2)	(2.0)

Target price revision

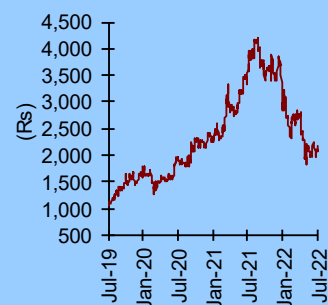
Rs2,919 from Rs2,981

Shareholding pattern

	Dec '21	Mar '22	Jun '22
Promoters	55.2	55.2	55.1
Institutional investors	32.0	30.3	28.9
MFs and other	3.3	3.3	2.8
Insurance	2.2	2.4	2.5
FIs	26.5	24.6	23.6
Others	12.8	14.5	16.0

Source: BSE India

Price chart



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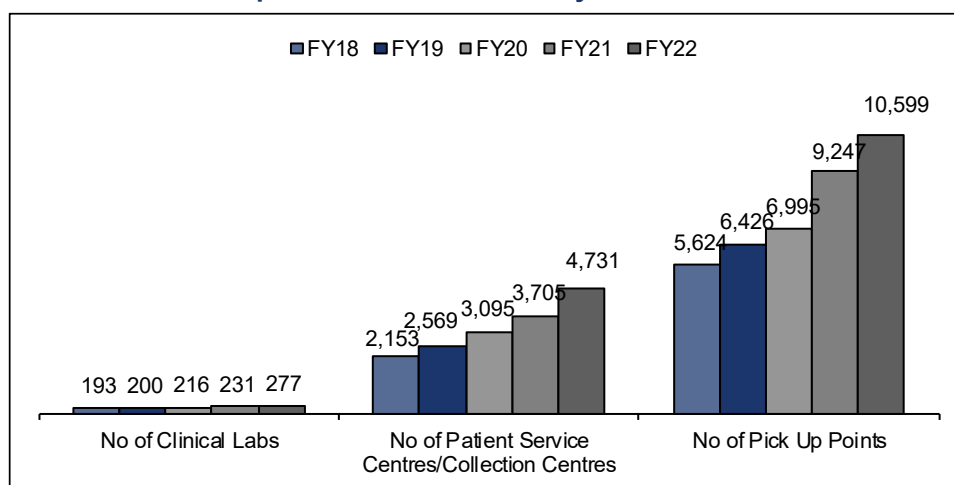
Table 1: Q1FY23 performance

(Rs mn, year ending March 31)

	Q1FY23	Q1FY22	YoY % Chg	Q4FY22	QoQ % Chg
Net Sales	5,027	6,066	(17.1)	4,855	3.5
EBITDA	1,175	1,890	(37.8)	1,211	(3.0)
Other income	83	141	(41.1)	120	(30.8)
PBIDT	1,258	2,031	(38.1)	1,331	(5.5)
Depreciation	359	192	87.0	377	(4.8)
Interest	85	46	84.8	119	(28.6)
Extra ordinary income/ (exp.)	-	-	-	-	-
PBT	814	1,793	(54.6)	835	(2.5)
Tax	232	456	(49.1)	214	8.4
Minority Interest	5	25	(80.0)	8	(37.5)
Reported PAT	577	1,312	(56.0)	613	(5.9)
Adjusted PAT	577	1,312	(56.0)	613	(5.9)
EBITDA margins (%)	23.4	31.2	-780bps	24.9	-160bps

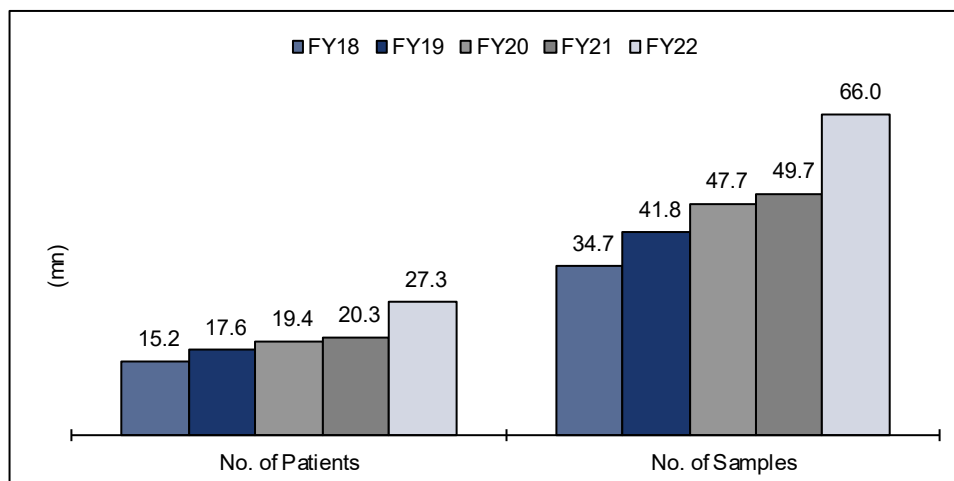
Source: Company data, I-Sec research

Chart 1: Network spread across the country



Source: Company data, I-Sec research

Chart 2: Growth in samples and patients



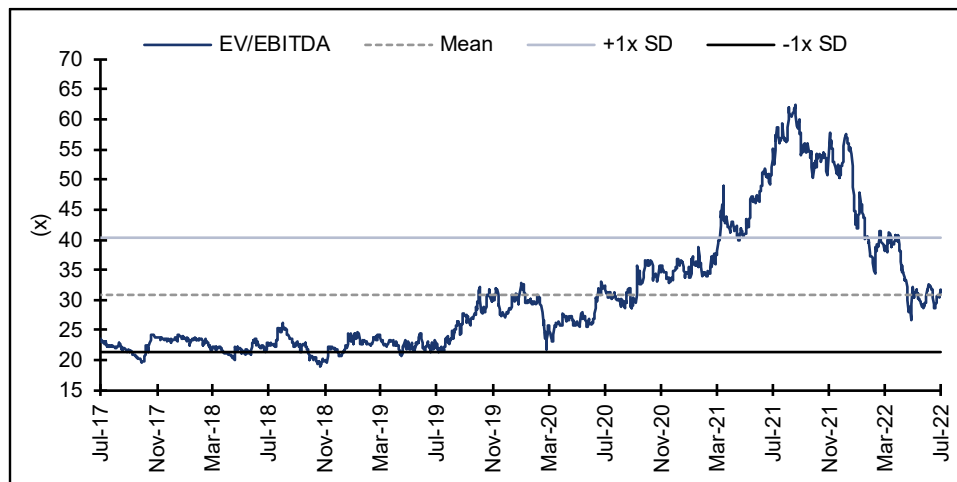
Source: Company data, I-Sec research

Valuations

We estimate earnings to grow at a CAGR of 5.2% over FY22-FY24E driven by revenue CAGR of 9.1%, which is expected to be partially offset by 260bps decline in margins. Further, we expect RoIC to remain strong at ~30% despite the recent expansion in the eastern belt and acquisition of Suburban in western India. Strong brand equity in the organised diagnostics market, experienced management team and continuing financial growth across parameters would help the company command premium valuations, in our view.

The stock currently trades at valuations of 57x FY23E and 46.8x FY24E earnings and EV/EBITDA multiple of 31.7x FY23E and 27.1x FY24E. We believe Dr Lal would benefit the most with multiple growth levers such as faster shift of unorganised business to organised players, potential consolidation in industry via inorganic or partnership route, and upside from covid-related tests. Also, the recent correction in stock price has almost discounted concerns about realisation pressures due to competition. We maintained **BUY** on the stock with a revised DCF-based target price of Rs2,919/share (earlier: Rs2,981/share) implying 63.8x FY24E EPS and 37.5x FY24E EV/EBITDA.

Chart 3: 1-year forward EV/EBITDA



Source: Company data, I-Sec research

Financial summary (consolidated)

Table 2: Profit & Loss statement

(Rs mn, year ending March 31)

	FY21	FY22	FY23E	FY24E
Total Gross Sales	15,813	20,874	22,134	24,826
Excise duty	-	-	-	-
Total Net Revenue	15,813	20,874	22,134	24,826
yoy Growth%	18.9	32.0	6.0	12.2
Total Op. Exp.	11,450	15,267	16,711	18,620
EBITDA	4,363	5,607	5,423	6,207
Margins %	27.6	26.9	24.5	25.0
yoy Growth%	27.0	28.5	(3.3)	14.5
Dep. & Amort.	772	1,081	1,343	1,409
EBIT	3,591	4,526	4,079	4,797
Other Income	513	525	410	602
Interest	160	302	302	302
EO Items	-	-	-	-
PBT	3,944	4,749	4,187	5,097
Tax	979	1,246	1,055	1,284
Tax Rate (%)	24.8	26.2	25.2	25.2
Minority Interest	49	55	-	-
Reported PAT	2,916	3,448	3,132	3,812
Adj. PAT	2,916	3,448	3,132	3,812
Net Margins (%)	18.4	16.5	14.2	15.4

Source: Company data, I-Sec research

Table 3: Balance sheet

(Rs mn, year ending March 31)

	FY21	FY22	FY23E	FY24E
Paid-up Capital	833	833	833	833
Reserves & Surplus	11,617	14,247	16,596	19,455
Total Equity	12,450	15,080	17,429	20,288
Minority Interest	310	355	355	355
Total Debt	1	3,457	3,457	3,457
Deferred Liabilities	(280)	(370)	(370)	(370)
Capital Employed	12,481	18,522	20,871	23,730
Current Liabilities	3,852	4,640	4,884	5,293
Total Liabilities	16,333	23,162	25,755	29,023
Net Fixed Assets	4,569	13,903	13,160	12,350
Investments	-	-	-	-
Inventory	426	524	577	647
Debtors	667	854	906	1,016
Other Current Assets	818	1,050	1,083	1,154
Cash and Equivalents	9,853	6,831	10,030	13,856
Total Cur. Assets	11,764	9,259	12,596	16,673
Total Assets	16,333	23,162	25,755	29,023

Source: Company data, I-Sec research

Table 4: Cashflow statement

(Rs mn, year ending March 31)

	FY21	FY22	FY23E	FY24E
PBT (Adj. for Extraordinary)	3,944	4,749	4,187	5,097
Depreciation	772	1,081	1,343	1,409
Net Chg in WC	209	(246)	35	4
Taxes	(1,017)	(1,300)	(1,055)	(1,284)
Others	(86)	(119)	72	153
CFO	3,822	4,165	4,582	5,379
Capex	(623)	(4,790)	(600)	(600)
Net Investments made	(1,893)	4,333	-	-
Others	396	(4,035)	-	-
CFI	(2,120)	(4,492)	(600)	(600)
Change in Share capital	3	2	-	-
Change in Debts	(235)	(621)	-	-
Div. & Div Tax	(995)	(117)	(783)	(953)
Others	3,094	(2,021)	-	-
CFF	1,867	(2,757)	(783)	(953)
Total Cash Generated	3,569	(3,084)	3,199	3,826
Cash Opening Balance	5,691	9,260	6,176	9,375
Cash Closing Balance	9,260	6,176	9,375	13,201

Source: Company data, I-Sec research

Table 5: Key ratios

(Year ending March 31)

	FY21	FY22	FY23E	FY24E
Adj EPS	35.0	41.4	37.6	45.8
YoY Growth%	29.1	18.3	(9.2)	21.7
Cash EPS	44.3	54.4	53.7	62.7
EBITDA - Core (%)	27.6	26.9	24.5	25.0
NPM (%)	18.4	16.5	14.2	15.4
Net Debt to Equity (x)	(0.8)	(0.2)	(0.4)	(0.5)
P/E (x)	61.2	51.8	57.0	46.8
EV/EBITDA Core (x)	38.7	31.2	31.7	27.1
P/BV (x)	14.3	11.8	10.2	8.8
EV/Sales (x)	10.7	8.4	7.8	6.8
RoCE (%)	24.0	21.5	15.6	16.8
RoE (%)	25.6	25.0	19.3	20.2
RoIC (%)	66.4	38.0	23.4	29.5
Book Value (Rs)	149	181	209	244
DPS (Rs)	11.9	1.4	9.4	11.4
Dividend Payout (%)	34.1	3.4	25.0	25.0
Div Yield (%)	0.6	0.1	0.4	0.5
Asset Turnover Ratio	1.1	1.1	0.9	0.9
Avg Collection days	14	13	15	14
Avg Inventory days	16	11	12	12

Source: Company data, I-Sec research

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