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Q1FY23 result review
and earnings revision

Pharmaceuticals

Target price: Rs960

Earnings revision

(%)	FY23E	FY24E
Sales	(0.9)	3.1
EBITDA	(16.4)	1.1

Target price revision

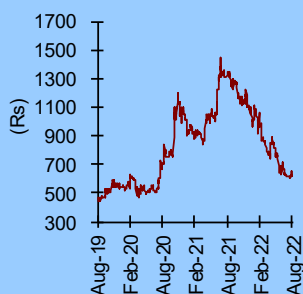
Rs960 from Rs980

Shareholding pattern

	Dec '21	Mar '22	Jun '22
Promoters	71.2	71.2	71.2
Institutional investors	18.7	19.6	20.0
MFs and other	4.6	4.6	4.7
FIs/Banks/Ins	1.7	2.0	2.0
FII	12.4	13.0	13.3
Others	10.1	9.2	8.8

Source: BSE India

Price chart



Thyrocare Technologies

BUY

Maintained

Rs633

Healthy recovery in base business

Thyrocare Technologies' (Thyrocare) Q1FY23 performance was in line with our estimates on all fronts. Non-covid pathology revenue improved 8.7% QoQ driven by 19.1% QoQ growth in volume. Covid sales contribution sharply declined to 2.1% of total revenue vs 38.6% / 12.3% in Q1FY22 / Q4FY22. Total revenue fell 22.4% YoY to Rs1.3bn as expected. EBITDA margin contracted 1,520bps / 70bps YoY / QoQ to 28.1% (I-Sec: 28.1%). Sharp fall in margins was due to aggressive expansion, discounting and decline in the high-margin covid sales. While margins in the near term are likely to remain under pressure with focus on volume growth led by aggressive expansion and discounting, operating leverage should support margins over the medium term. We remain optimistic on the growth potential for the company, especially with integration of API Holdings. Maintain BUY with a revised DCF-based target price of Rs960/share (earlier: Rs980).

- **Business review:** Non-covid business rose 8.7% QoQ to Rs1.2bn driven by volume growth of 19.1% while realisation declined ~9% as was guided by the company. Non-covid revenue CAGR over 3 years stands at 5.2% on the back of 6.3% volume growth. Volume recovery in the base pathology business is slower than peers', but is expected to improve in the coming quarters, especially with integration of API Holdings (API). API's contribution to non-covid business stood at ~13% in Q1FY23 vs ~8% in Q4FY22. Covid and allied revenues slumped 96% / 83% YoY / QoQ. Imaging business revenue also reported strong growth of 58.6% / 18.1% YoY / QoQ with normalising footfalls. Margins contracted 1,520bps / 70bps YoY / QoQ to 28.1%. This was due to: 1) decline in high-margin covid opportunities, 2) aggressive price discounts offered on packages 3) increased employee cost to support growth, and 4) increase in overall fixed costs to expand the network throughout India.
- **Concall highlights:** 1) Expansion plan by FY23-end envisages addition of two regional labs taking the total to 24, adding 8 satellite labs and increasing reach from 3,500 PIN codes to 5,000; 2) working on lifestyle packages of skin care, hair care, smoking, cancer and genomic testing in tandem with doctors; 3) increasing NABL-accredited labs from 4 to 16 by end of FY23, which will cover ~90% of volumes.
- **Outlook:** On the high base of FY22 (which benefited from covid-related tests), we estimate revenues to decline at a CAGR of 2.6% over FY22-FY24E. Aggressive expansion and discounting in the packages would pressurise EBITDA margin, which we expect to drop 780bps over the same time period. We estimate volume to grow over the longer term due to integration with API Holdings and aggressive growth strategy.
- **Valuations and risks:** We maintain our revenue estimates for FY23E, but cut EBITDA by 16% due to margin pressures. We have raised FY24E forecasts for revenue / EBITDA by 3% / 1% to factor-in higher non-covid sales. Remain optimistic on growth potential for the company, especially with integration of API Holdings. Maintain **BUY** with a revised DCF-based target price of Rs960/share (earlier: Rs980/share). **Key downside risks:** Slow recovery in the base business.

Market Cap	Rs33.3bn/US\$426mn
Reuters/Bloomberg	THYO.BO/THYROCAR IN
Shares Outstanding (mn)	52.9
52-week Range (Rs)	1351/609
Free Float (%)	28.8
FII (%)	13.3
Daily Volume (USD/'000)	1,016
Absolute Return 3m (%)	(16.2)
Absolute Return 12m (%)	(51.3)
Sensex Return 3m (%)	2.8
Sensex Return 12m (%)	11.1

Year to Mar	FY21	FY22	FY23E	FY24E
Revenue (Rs mn)	4,946	5,889	5,052	5,589
Net Income (Rs mn)	1,131	1,761	1,090	1,266
EPS (Rs)	21.4	33.3	20.6	23.9
% Chg YoY	19.0	55.6	(38.1)	16.2
P/E (x)	29.6	19.0	30.7	26.4
CEPS (Rs)	27.1	39.7	27.2	31.5
EV/E (x)	18.9	13.8	21.2	18.0
Dividend Yield (%)	2.5	3.9	2.4	2.8
RoCE (%)	28.9	39.7	23.8	26.7
RoE (%)	28.5	36.9	20.5	23.3

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Table 1: Q1FY23 performance*(Rs mn, year ending March 31)*

	Q1FY23	Q1FY22	YoY % Chg	Q4FY22	QoQ % Chg
Net Sales	1,278	1,647	(22.4)	1,306	(2.1)
EBITDA	359	712	(49.6)	376	(4.4)
Other income	13	102	(87.6)	27	(52.8)
PBIDT	372	814	(54.3)	403	(7.7)
Depreciation	86	73	18.1	97	(11.0)
Interest	6	6	(9.7)	6	(1.8)
Extra ordinary income/ (exp.)	-	-		-	
PBT	280	735	(61.9)	300	(6.7)
Tax	63	179	(65.0)	63	-
Minority Interest	-	-		-	
Adjusted PAT	217	556	(60.9)	237	(8.5)
Reported PAT	217	556	(60.9)	212	2.3
EBITDA margins (%)	28.1	43.3	-1520bps	28.8	-70bps

Source: Company data, I-Sec research

Table 2: Revenue breakup*(Rs mn, year ending March 31)*

	Q1FY23	Q1FY22	YoY % Chg	Q4FY22	QoQ % Chg
Diagnostic Testing Services	1,184	1,569	(24.5)	1,221	(3.0)
Imaging Services	86	54	58.6	72	18.1
Others	8	23	(64.9)	13	(35.7)
Total Sales	1,278	1,646	(22.4)	1,306	(2.1)

Source: Company data, I-Sec research

Table 3: Segmental EBIT*(Rs mn, year ending March 31)*

	Q1FY23	Q1FY22	YoY % Chg	Q4FY22	QoQ % Chg
Diagnostic Testing Services	273	431	(36.6)	801	(65.9)
Imaging Services	(6)	(15)	(58.9)	3	(306.9)
Total Sales	267	416	(35.9)	804	(66.8)

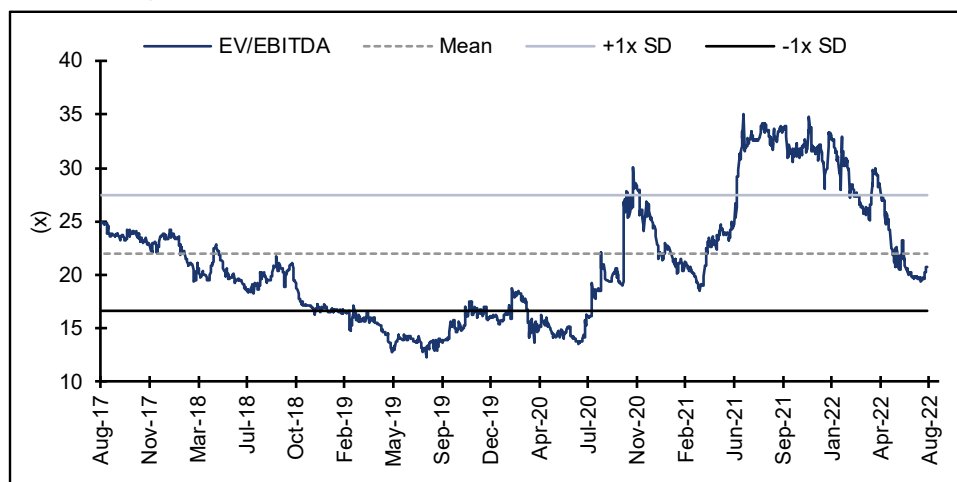
Source: Company data, I-Sec research

Valuations

We expect Thyrocare to register an earnings CAGR of -15.2% over FY22-FY24E owing to: 1) 2.6% decline in revenue due to waning of high-margin covid opportunities, and 2) margin pressures (EBITDA margin shrinking by 780bps over FY22-FY24E) on account of aggressive expansion and discounting. We expect RoCE of 26.7% by FY24E with strong free cashflow generation.

The stock currently trades at valuations of 30.7x FY23E and 26.4x FY24E earnings and EV/EBITDA multiple of 21.2x FY23E and 18x FY24E, respectively. The stock has traded at an average EV/EBITDA of 22.1x over the last five years. Company’s model of low pricing / high volume strategy has aided some recovery in non-covid tests. However, the pace of recovery is slower than peers’. We expect volume growth over the longer term due to integration with API and aggressive growth strategy. However, near-term performance largely depends on the strategies of the new management; hence, it may be volatile, though valuation and macro factors provide comfort on the stock. We therefore maintain **BUY** with a revised DCF-based target of Rs960/share (earlier: Rs980/share), implying 40.9x FY24E earnings and 28.3x FY24E EBITDA.

Chart 1: 1-year forward EV/EBITDA



Source: Company data, I-Sec research

Financial summary (consolidated)

Table 4: Profit & Loss statement

(Rs mn, year ending March 31)

	FY21	FY22	FY23E	FY24E
Pathology	4,742	5,615	4,723	5,211
Imaging	204	273	329	379
Total Gross Sales	4,946	5,889	5,052	5,589
Excise duty	-	-	-	-
Total Net Revenue	4,946	5,889	5,052	5,589
YoY Growth%	14.2	19.1	(14.2)	10.6
Total Op. Exp.	3,234	3,540	3,529	3,796
EBITDA	1,713	2,349	1,523	1,794
Margins %	34.6	39.9	30.1	32.1
YoY Growth%	(0.7)	37.2	(35.2)	17.8
Dep. & Amort.	303	339	347	397
EBIT	1,410	2,010	1,175	1,396
Other Income	124	291	305	320
Interest	9	24	24	24
EO Items	-	-	-	-
PBT	1,525	2,277	1,457	1,693
Tax	393	516	367	427
Tax Rate (%)	25.8	22.7	25.2	25.2
Minority Interest	-	-	-	-
Reported PAT	1,131	1,761	1,090	1,266
Adj. PAT	1,131	1,761	1,090	1,266
Net Margins (%)	22.9	29.9	21.6	22.7

Source: Company data, I-Sec research

Table 5: Balance sheet

(Rs mn, year ending March 31)

	FY21	FY22	FY23E	FY24E
Paid-up Capital	529	529	529	529
Reserves & Surplus	3,744	4,737	4,842	4,964
Total Equity	4,273	5,266	5,371	5,493
Minority Interest	-	-	-	-
Total Debt	85	207	207	207
Deferred Liabilities	(12)	(59)	(59)	(59)
Capital Employed	4,345	5,414	5,519	5,641
Current Liabilities	1,056	598	519	573
Total Liabilities	5,402	6,012	6,038	6,213
Net Fixed Assets	2,613	2,879	3,032	3,134
Investments	-	-	-	-
Inventory	234	245	245	263
Debtors	447	932	800	885
Other Current Assets	906	564	543	557
Cash and Equivalents	1,202	1,391	1,419	1,375
Total Cur. Assets	2,788	3,133	3,006	3,079
Total Assets	5,402	6,012	6,038	6,213

Source: Company data, I-Sec research

Table 6: Cashflow statement

(Rs mn, year ending March 31)

	FY21	FY22	FY23E	FY24E
PBT (Adj. for Extraordinary)	1,525	2,279	1,457	1,693
Depreciation	303	339	347	397
Net Chg in WC	(282)	(792)	116	(89)
Taxes	(432)	(568)	(367)	(427)
Others	40	(148)	(40)	26
CFO	1,154	1,110	1,512	1,600
Capex	(187)	(107)	(500)	(500)
Net Investments made	(318)	(155)	500	-
Others	3	4	-	-
CFI	(502)	(258)	-	(500)
Change in Share capital	0	0	-	-
Change in Debts	(86)	(78)	-	-
Div. & Div Tax	(528)	(793)	(985)	(1,144)
Others	9	-	-	-
CFF	(605)	(870)	(985)	(1,144)
Total Cash Generated	47	(18)	528	(44)
Cash Opening Balance	111	157	139	667
Cash Closing Balance	157	139	667	623

Source: Company data, I-Sec research

Table 7: Key ratios

(Year ending March 31)

	FY21	FY22	FY23E	FY24E
Adj EPS	21.4	33.3	20.6	23.9
YoY Growth%	19.0	55.6	(38.1)	16.2
Cash EPS	27.1	39.7	27.2	31.5
EBITDA - Core (%)	34.6	39.9	30.1	32.1
NPM (%)	22.9	29.9	21.6	22.7
Net Debt to Equity (x)	(0.3)	(0.2)	(0.2)	(0.2)
P/E (x)	29.6	19.0	30.7	26.4
EV/EBITDA (x)	18.9	13.8	21.2	18.0
P/BV (x)	7.8	6.4	6.2	6.1
EV/Sales (x)	6.5	5.5	6.4	5.8
RoCE (%)	28.9	39.7	23.8	26.7
RoE (%)	28.5	36.9	20.5	23.3
RoIC (%)	37.7	53.4	31.9	35.4
Book Value (Rs)	80.8	99.5	101.5	103.8
DPS (Rs)	16.0	25.0	15.5	18.0
Dividend Payout (%)	75.0	75.0	75.0	75.0
Div Yield (%)	2.5	3.9	2.4	2.8
Asset Turnover Ratio	1.0	1.0	0.8	0.9
Avg Collection days	23	43	63	55
Avg Inventory days	49	52	59	24

Source: Company data, I-Sec research

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