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Q2FY23 result review  
and earnings revision

## Pharmaceuticals

Target price: Rs834

### Earnings revision

(%)	FY23E	FY24E
Sales	(2.7)	(2.8)
EBITDA	(14.6)	(14.9)

### Target price revision

Rs834 from Rs960

### Shareholding pattern

	Mar '22	Jun '22	Sep '22
Promoters	71.2	71.2	71.2
Institutional investors	19.6	20.0	19.4
MFs and other	4.6	4.7	6.8
FIs/Banks/Ins	2.0	2.0	1.9
FII	13.0	13.3	10.7
Others	9.2	8.8	9.4

Source: BSE India

### ESG disclosure score

Year	2020	2021	Chg
ESG score	NA	NA	NA
Environment	NA	NA	NA
Social	NA	NA	NA
Governance	NA	NA	NA

Note - Score ranges from 0 - 100 with a higher score indicating higher ESG disclosures.

Source: Bloomberg, I-sec research

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# Thyrocare Technologies

**BUY**

Maintained

**Rs666**

## Limited volume growth hits profitability

Thyrocare Technologies(Thyrocare) Q2FY23 performance was below our estimates on all fronts. Non-covid pathology revenue grew by 4.6% QoQ, but volumes were flat sequentially. Total revenue was up 5.6% QoQ (-23.4% YoY) to Rs1.3bn. Imaging revenues posted healthy growth of 30.4%/13.9% YoY/QoQ. EBITDA margin contracted by 470bps QoQ to 23.4% due to limited room for operating leverage and ESOP charges. While margins in the near term are likely to remain under pressure given the company's 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 Thyrocare, especially with integration of API Holdings. Maintain **BUY** on the stock with a revised DCF-based target price of Rs834/share (earlier: Rs960).

- **Business review:** Non-covid business was up 5.6% QoQ to Rs1.2bn. Volumes remained flat QoQ while realisations per test improved by 4.6%. Non-covid revenue CAGR over 3 years stood at 3.1% with volumes growing 4.9% over the same period. 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 share in non-covid business stood at ~12% in Q2FY23 vs ~13% in Q1FY23. Imaging business revenue also reported strong growth of 30.4/13.9% YoY/QoQ with normalising footfalls. Margins declined 470bps QoQ to 23.4% due to limited room for operating leverage ESOP-related expenses (~Rs60mn). We expect margins to remain under pressure due to aggressive expansion and high discounting on packages.
- **Key concall highlights:** 1) Company added >400 active pincodes during the quarter; 2) it is extending its lifestyle range by >25 packages; 3) 10 labs are currently NABL-accredited and the company is on track to process 90% of samples in NABL-accredited labs by FY23; 4) most of the investments in manpower are now complete and management does not anticipate any more increase during the current year
- **Outlook:** On the high base of FY22 (due to gains from covid-related tests), we estimate revenue CAGR of only 2% over FY22-FY25E, as we introduce our FY25E estimates. Aggressive expansion and discounting in the packages would pressurise the EBITDA margin, which we expect to drop 950bps over the same period. We however expect volumes to grow over the longer term due to integration with API Holdings and aggressive growth strategy.
- **Valuations and risks:** We cut our revenue estimates for FY23E by ~ 3% to factor-in the slower-than-expected volume pickup in the pathology business. We also lower our EBITDA estimate by 15% to account for increased expenses and lower revenue growth. We remain optimistic on the growth potential for the company, especially with integration of API Holdings. We maintain **BUY** with a revised DCF-based target price of Rs834/share (earlier: Rs960). **Key downside risks:** Slow recovery in the base business.

Market Cap	Rs35.3bn/US\$437mn
Reuters/Bloomberg	THYO.BO/THYROCAR IN
Shares Outstanding (mn)	52.9
52-week Range (Rs)	1220/609
Free Float (%)	28.8
FII (%)	10.7
Daily Volume (USD/'000)	896
Absolute Return 3m (%)	5.5
Absolute Return 12m (%)	(39.2)
Sensex Return 3m (%)	4.4
Sensex Return 12m (%)	4.4

Year to Mar	FY22	FY23E	FY24E	FY25E
Revenue (Rs mn)	5,889	4,913	5,434	6,250
Net Income (Rs mn)	1,761	804	941	1,194
EPS (Rs)	33.3	15.2	17.8	22.6
% Chg YoY	55.6	(54.4)	17.1	26.9
P/E (x)	20.0	43.8	37.4	29.5
CEPS (Rs)	39.7	21.8	25.3	31.0
EV/E (x)	14.5	26.2	22.3	18.0
Dividend Yield (%)	3.7	1.7	2.0	2.5
RoCE (%)	39.7	16.5	18.8	23.1
RoE (%)	36.9	15.2	17.5	21.8

**Table 1: Q2FY23 performance***(Rs mn, year ending March 31)*

	Q2FY23	Q2FY22	YoY % Chg	Q1FY23	QoQ % Chg
<b>Net Sales</b>	<b>1,350</b>	<b>1,762</b>	<b>(23.4)</b>	<b>1,278</b>	<b>5.6</b>
EBITDA	316	893	(64.6)	359	(12.1)
Other income	17	150	(88.5)	13	36.5
<b>PBIDT</b>	<b>333</b>	<b>1,043</b>	<b>(68.1)</b>	<b>372</b>	<b>(10.4)</b>
Depreciation	92	82	12.1	86	6.3
Interest	5	7	(21.7)	6	(3.6)
<b>PBT</b>	<b>-</b>	<b>-</b>		<b>-</b>	
Tax	236	954	(75.3)	280	(15.7)
Minority Interest	82	177	(53.8)	63	30.3
<b>Adjusted PAT</b>	<b>-</b>	<b>-</b>		<b>-</b>	
Extra ordinary income/ (exp.)	154	777	(80.1)	217	(29.0)
<b>Reported PAT</b>	<b>154</b>	<b>777</b>	<b>(80.1)</b>	<b>217</b>	<b>(29.0)</b>
EBITDA margins (%)	23.4	50.7	-2730bps	28.1	-470bps

Source: Company data, I-Sec research

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

	Q2FY23	Q2FY22	YoY % Chg	Q1FY23	QoQ % Chg
Diagnostic Testing Services	1,238	1,671	(25.9)	1,184	4.6
Imaging Services	97	75	30.4	86	13.9
Others	14	16	(13.0)	8	72.8
<b>Total Sales</b>	<b>1,350</b>	<b>1,762</b>	<b>(23.4)</b>	<b>1,278</b>	<b>5.6</b>

Source: Company data, I-Sec research

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

	Q2FY23	Q2FY22	YoY % Chg	Q1FY23	QoQ % Chg
Diagnostic Testing Services	273	431	(36.6)	801	(65.9)
Imaging Services	(6)	(15)	(58.9)	3	(306.9)
<b>Total Sales</b>	<b>267</b>	<b>416</b>	<b>(35.9)</b>	<b>804</b>	<b>(66.8)</b>

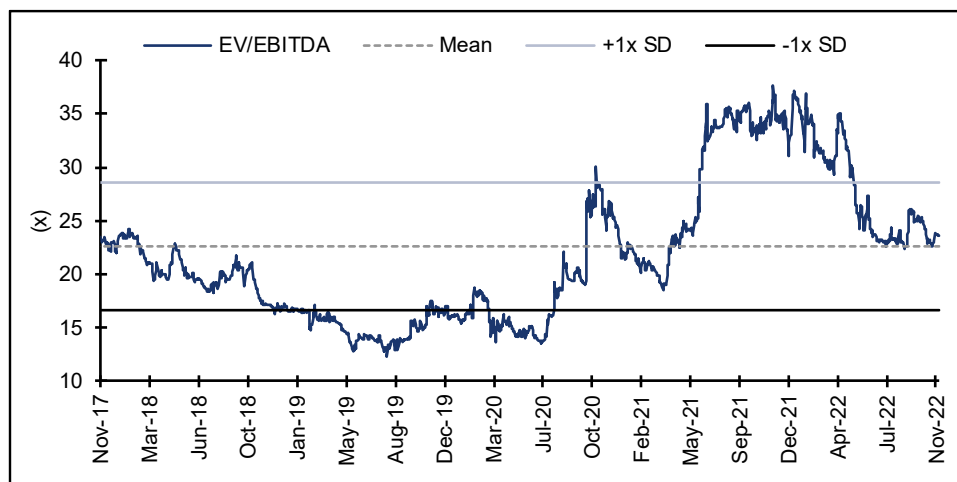
Source: Company data, I-Sec research

## Valuations

We expect Thyrocare to register an earnings CAGR of minus 12.1% over FY22-FY25E owing to: 1) waning high-margin covid opportunities, and 2) margin pressure (EBITDA margin decline of 950bps over FY22-FY25E) on account of aggressive expansion and discounting. We expect RoCE at 18.8% by FY24E with strong free cashflow generation.

The stock currently trades at valuations of 43.8x FY23E and 37.4x FY24E earnings, and EV/EBITDA multiple of 26.2x FY23E and 22.3x FY24E. The stock has traded at an average EV/EBITDA of 22.7x over the past 5 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 Holdings and aggressive growth strategy. However, near-term performance largely depends on the strategies of the new management. Hence, performance may be volatile though current valuation and macro factors provide us comfort on the stock. We maintain **BUY** with a revised DCF-based target of Rs834/share (earlier: Rs960), implying 46.9x FY24E earnings and 28.2x FY24E EBITDA.

**Chart 1: 1-year forward EV/EBITDA**



Source: Company data, I-Sec research

## Price chart



Source: Bloomberg

## Financial summary (consolidated)

Table 4: Profit &amp; Loss statement

(Rs mn, year ending March 31)

	FY22	FY23E	FY24E	FY25E
Pathology	5,615	4,559	5,027	5,781
Imaging	273	355	408	469
<b>Total Gross Sales</b>	<b>5,889</b>	<b>4,913</b>	<b>5,434</b>	<b>6,250</b>
Excise duty	-	-	-	-
<b>Total Net Revenue</b>	<b>5,889</b>	<b>4,913</b>	<b>5,434</b>	<b>6,250</b>
YoY Growth%	19.1	(16.6)	10.6	15.0
<b>Total Op. Exp.</b>	<b>3,540</b>	<b>3,613</b>	<b>3,908</b>	<b>4,350</b>
<b>EBITDA</b>	<b>2,349</b>	<b>1,300</b>	<b>1,526</b>	<b>1,900</b>
Margins %	39.9	26.5	28.1	30.4
YoY Growth%	37.2	(44.7)	17.4	24.5
Dep. & Amort.	339	347	397	447
<b>EBIT</b>	<b>2,010</b>	<b>953</b>	<b>1,129</b>	<b>1,453</b>
Other Income	291	145	153	168
Interest	24	24	24	24
EO Items	-	-	-	-
<b>PBT</b>	<b>2,277</b>	<b>1,074</b>	<b>1,258</b>	<b>1,597</b>
Tax	516	271	317	402
Tax Rate (%)	22.7	25.2	25.2	25.2
Minority Interest	-	-	-	-
<b>Reported PAT</b>	<b>1,761</b>	<b>804</b>	<b>941</b>	<b>1,194</b>
<b>Adj. PAT</b>	<b>1,761</b>	<b>804</b>	<b>941</b>	<b>1,194</b>
Net Margins (%)	29.9	16.4	17.3	19.1

Source: Company data, I-Sec research

Table 5: Balance sheet

(Rs mn, year ending March 31)

	FY22	FY23E	FY24E	FY25E
Paid-up Capital	529	529	529	529
Reserves & Surplus	4,737	4,814	4,905	5,020
<b>Total Equity</b>	<b>5,266</b>	<b>5,343</b>	<b>5,434</b>	<b>5,549</b>
Minority Interest	-	-	-	-
<b>Total Debt</b>	<b>207</b>	<b>207</b>	<b>207</b>	<b>207</b>
Deferred Liabilities	(59)	(59)	(59)	(59)
<b>Capital Employed</b>	<b>5,414</b>	<b>5,491</b>	<b>5,582</b>	<b>5,697</b>
Current Liabilities	598	513	562	641
<b>Total Liabilities</b>	<b>6,012</b>	<b>6,004</b>	<b>6,144</b>	<b>6,338</b>
<b>Net Fixed Assets</b>	<b>2,879</b>	<b>3,032</b>	<b>3,134</b>	<b>3,187</b>
Investments	-	-	-	-
Inventory	245	250	271	301
Debtors	932	778	860	989
Other Current Assets	564	540	553	573
Cash and Equivalents	1,391	1,405	1,326	1,287
<b>Total Cur. Assets</b>	<b>3,133</b>	<b>2,973</b>	<b>3,010</b>	<b>3,151</b>
<b>Total Assets</b>	<b>6,012</b>	<b>6,004</b>	<b>6,144</b>	<b>6,338</b>

Source: Company data, I-Sec research

Table 6: Cashflow statement

(Rs mn, year ending March 31)

	FY22	FY23E	FY24E	FY25E
PBT (Adj. for Extraordinary)	2,279	1,074	1,258	1,597
Depreciation	339	347	397	447
Net Chg in WC	(792)	136	(92)	(141)
Taxes	(568)	(271)	(317)	(402)
Others	(124)	(23)	49	63
<b>CFO</b>	<b>1,134</b>	<b>1,264</b>	<b>1,295</b>	<b>1,564</b>
Capex	(107)	(500)	(500)	(500)
Net Investments made	(155)	500	-	-
Others	4	-	-	-
<b>CFI</b>	<b>(258)</b>	<b>-</b>	<b>(500)</b>	<b>(500)</b>
Change in Share capital	0	-	-	-
Change in Debts	(78)	-	-	-
Div. & Div Tax	(793)	(726)	(850)	(1,079)
Others	(24)	(24)	(24)	(24)
<b>CFF</b>	<b>(894)</b>	<b>(750)</b>	<b>(874)</b>	<b>(1,103)</b>
<b>Total Cash Generated</b>	<b>(18)</b>	<b>514</b>	<b>(79)</b>	<b>(39)</b>
<b>Cash Opening Balance</b>	<b>157</b>	<b>139</b>	<b>653</b>	<b>574</b>
<b>Cash Closing Balance</b>	<b>139</b>	<b>653</b>	<b>574</b>	<b>535</b>

Source: Company data, I-Sec research

Table 7: Key ratios

(Year ending March 31)

	FY22	FY23E	FY24E	FY25E
Adj EPS	33.3	15.2	17.8	22.6
YoY Growth%	55.6	(54.4)	17.1	26.9
Cash EPS	39.7	21.8	25.3	31.0
EBITDA - Core (%)	39.9	26.5	28.1	30.4
NPM (%)	29.9	16.4	17.3	19.1
Net Debt to Equity (x)	(0.2)	(0.2)	(0.2)	(0.2)
P/E (x)	25.0	54.9	46.9	36.9
EV/EBITDA (x)	18.3	33.0	28.2	22.7
P/BV (x)	8.4	8.3	8.1	8.0
EV/Sales (x)	7.3	8.7	7.9	6.9
RoCE (%)	39.7	16.5	18.8	23.1
RoE (%)	36.9	15.2	17.5	21.8
RoIC (%)	53.4	22.1	24.9	30.0
Book Value (Rs)	99.5	101.0	102.7	104.9
DPS (Rs)	25.0	11.4	13.3	16.9
Dividend Payout (%)	75.0	75.0	75.0	75.0
Div Yield (%)	3.0	1.4	1.6	2.0
Asset Turnover Ratio	1.0	0.8	0.9	1.0
Avg Collection days	43	64	55	54
Avg Inventory days	52	58	24	24

Source: Company data, I-Sec research

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