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Q3FY21 result review
and earnings revision

Pharmaceuticals

Target price: Rs2,540

Earnings revision

(%)	FY21E	FY22E	FY23E
Sales	2.9	0.9	1.2
EBITDA	7.6	1.1	1.3

Target price revision

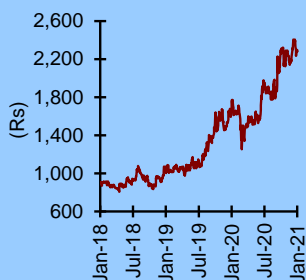
Rs2,540 from Rs2,430

Shareholding pattern

	Jun '20	Sep '20	Dec '20
Promoters	56.3	56.3	55.2
Institutional investors	30.3	32.0	33.2
MFs and other	7.3	6.5	6.2
Insurance	1.3	1.3	1.0
FIs	21.7	24.2	26.0
Others	12.4	12.7	10.6

Source: BSE India

Price chart



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INDIA



Dr Lal Pathlabs

ADD

Maintained

Rs2,248

Maintains superior execution

Dr Lal Pathlabs' (Dr Lal) Q3FY21 performance was above estimate even in a challenging environment, aided by COVID-19 tests as well as speedy recovery in base business. COVID-19 and allied tests contributed 21.6% to sales. Other revenues grew 8.3% YoY. Overall, revenue grew 38.0%, EBITDA margin was up 560/120bps YoY/QoQ to 30.7% and adj. PAT was up 74.7% to Rs945mn. The base business has seen very good recovery and we expect healthy growth in coming quarters. We believe Dr Lal would benefit the most with multiple growth levers such as faster shift of unorganised business to organised players in current scenario, potential consolidation in industry via inorganic or partnership route and shift towards home collection tests. Retain ADD.

- **Strong recovery in base business which would improve further:** Dr Lal witnessed speedy recovery in non-COVID revenue which grew 8.3% YoY. COVID-19 tests helped in reporting 38.0% revenue growth and contributed 21.6% to revenue. We expect this to decline in ensuing quarters while non-COVID revenue would pick-up further. The volumes (patients) in base (ex-COVID) business witnessed 3.6% growth and we estimate double digit growth Q4FY21 onwards. Average realisation for non-COVID patients improved to Rs747 (up 9.3%) as proportion of bundles tests and home collection increased. We believe business would improve materially with easing of lockdown in coming quarters and estimate healthy growth from Q4FY21.
- **Higher revenue and controlled costs helped QoQ margin improvement:** Dr Lal reported an EBITDA margin of 30.7% (+120bps QoQ) against estimated 28%. Cost control initiatives, which started in Apr'20, included negotiating new rentals, reducing promotions, etc. continued to support margins. Revenue from COVID-19 related tests also helped in absorbing fixed costs. We expect EBITDA margin to improve 330bps over FY20-FY23E with pick-up in patient volumes, sustaining benefits of cost control and low base of Q4FY20.
- **Outlook:** We expect Dr Lal to outperform industry growth and register revenue, EBITDA and PAT growth at CAGRs of 14.9%, 19.6% and 24.0%, respectively, over FY20-FY23E. RoE and RoCE would remain strong at 26.2% and 25.1%, respectively, in FY23E whereas RoIC would move to 132.5%. 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 raise FY21-23 EBITDA estimates by 1-8% to factor in higher revenue from COVID-19 tests in FY21E, recovery in volumes and better margin as seen in 9MFY21. Maintain **ADD** rating on the stock with a revised DCF-based target price of Rs2,540/share (earlier: Rs2,430/share) implying 49.2x FY23E EPS and 33.2x FY23E EV/EBITDA. Key downside risks: Higher-than-expected competition, pricing pressures and regulatory hurdles.

Market Cap	Rs187bn/US\$2.6bn
Reuters/Bloomberg	DLPA.BO/DLPL IN
Shares Outstanding (mn)	83.3
52-week Range (Rs)	2407/1252
Free Float (%)	43.8
FII (%)	26.0
Daily Volume (USD/'000)	5,672
Absolute Return 3m (%)	(1.9)
Absolute Return 12m (%)	27.7
Sensex Return 3m (%)	16.9
Sensex Return 12m (%)	15.0

Year to Mar	FY20	FY21E	FY22E	FY23E
Revenue (Rs mn)	13,304	15,524	17,794	20,178
Net Income (Rs mn)	2,259	2,896	3,722	4,305
EPS (Rs)	27.1	34.7	44.7	51.7
% Chg YoY	12.3	28.2	28.5	15.6
P/E (x)	83.0	64.7	50.3	43.5
CEPS (Rs)	35.8	44.1	54.5	62.2
EV/E (x)	52.4	42.9	34.0	29.1
Dividend Yield (%)	0.5	0.4	0.5	0.6
RoCE (%)	22.6	24.1	25.9	25.1
RoE (%)	22.8	25.5	27.3	26.2

Q3FY21 result and concall highlights

- Overall sales grew 38.0% YoY to Rs4.5bn (+4.7% QoQ) supported by COVID-19 related tests.
- **COVID-19 impact:** The pandemic has accelerated home collection and digital booking. The fear has also caused a sharp decline of walk-in patients in large labs, instead there is a surge in collection centres and smaller labs (less crowded). COVID-19 tests contributed ~18% to sales in the quarter. Company also witnessed a rise in COVID-19 related tests (IL-6, D-Dimer, etc.). Including these tests the contribution was ~21%. COVID-19 tests peaked during the quarter and have started to decline as the number of new patients have started to decline. Currently, COVID-19 testing has reduced by 60-70% of the peak sales during the quarter.
- **Volume growth** for number of samples stood at 14.6% YoY and 1.9% QoQ in Q3FY21. The large growth is attributed to recovery in non-COVID tests that have reverted to normalcy with support from COVID-19 related tests (RT-PCR and antibody). Testing in Delhi-NCR region have also reverted to pre-COVID levels. Company witnessed 16.4% YoY and 2.3% QoQ growth in the number of patients during the quarter.
- **Dr Lal's average realisation per patient** at Rs824 in Q3FY21 and was up 19.8% YoY. This rise in realisation was due to contribution of COVID-19 tests. Pricing scenario remains fluid with COVID-19 tests that is witnessing continuous decline barely covering the gross costs. Revenue per sample grew 18.6% YoY with samples per patient at 2.44 being flattish.
- Company used 13.5mn samples to perform tests on 5.5mn patients during the quarter. Company believes the pandemic would raise awareness and boost preventive care. *SwasthFit* scheme, that bundles several tests in a single package, is expected to witness uptick with pick up in the wellness and preventive care segment. This scheme now contributes ~13% of overall sales.
- Walk-patient demand has diverted to home collection and collection centres. Home collection for non-COVID tests has jumped 40% from the pre-COVID levels and contribute ~6% of the non-COVID sales.
- Company has acquired small but high quality laboratories to enter newer markets. Company has also witnessed higher growth in West and South region post COVID-19. Hence, the company is embarking on aggressive expansion in these regions. There is a plan to open a reference lab in Mumbai and Bangalore and is in motion to expand the feeder labs for these reference labs over the next 4-6months. These reference labs would have higher degree of automation as compared to Delhi and Kolkata reference labs.
- **Gross margin** declined by 160bps YoY to 75.7% (+80bps QoQ) with higher contribution from COVID-19 tests. Controlled cost have aided 560bps YoY (+120bps QoQ) expansion in **EBITDA margin** to 30.7%.
- **Adjusted PAT** grew 74.7% YoY to Rs945mn.

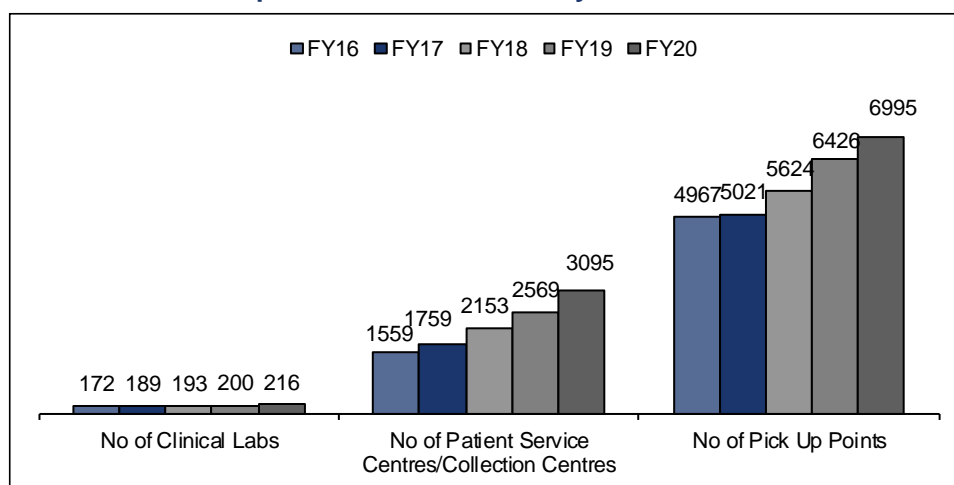
Table 1: Q3FY21 performance

(Rs mn, year ending March 31)

	Q3FY21	Q3FY20	YoY % Chg	Q2FY21	QoQ % Chg
Net Sales	4,524	3,279	38.0	4,319	4.7
EBITDA	1,388	823	68.7	1,272	9.1
Other income	135	138	(2.2)	129	4.7
PBIDT	1,523	961	58.5	1,401	8.7
Depreciation	195	188	3.7	195	-
Interest	39	39	-	40	(2.5)
Extra ordinary income/ (exp.)	-	-	-	-	-
PBT	1,289	734	75.6	1,166	10.5
Tax	330	185	78.4	295	11.9
Minority Interest	14	8	75.0	18	(22.2)
Reported PAT	945	541	74.7	853	10.8
Adjusted PAT	945	541	74.7	853	10.8
EBITDA margins (%)	30.7	25.1	560bps	29.5	120bps

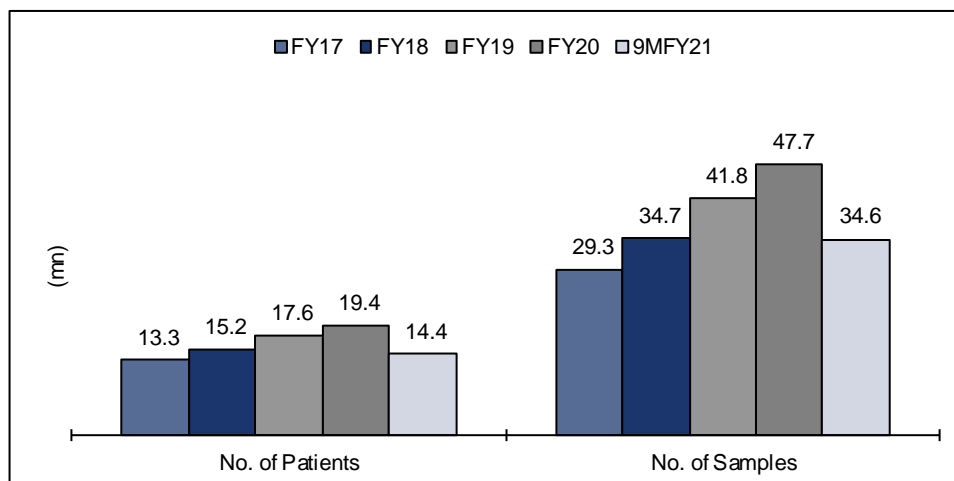
Source: Company data, I-Sec research

Chart 1: Network spread across the country



Source: Company data, I-Sec research

Chart 2: Growth in samples and patients



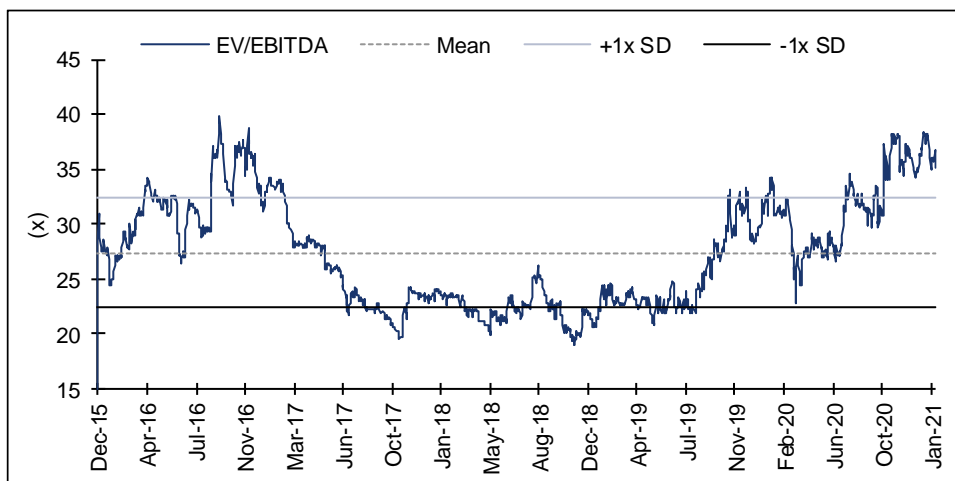
Source: Company data, I-Sec research

Valuations

We estimate earnings to grow at a CAGR of 24.0% over FY20-FY23E driven by revenue CAGR of 14.9% and rise in other income with strong free cashflow generation. Further, we expect RoCE to remain strong at ~25-26% despite the recent expansion in the Eastern belt. Strong brand equity in organised diagnostics market, experienced management team and continuing financial growth across parameters would benefit from premium valuations in our view.

The stock currently trades at valuations of 50.3x FY22E and 43.5x FY23E earnings and EV/EBITDA multiple of 34.0x FY22E and 29.1x FY23E. We believe Dr Lal would benefit the most with multiple growth levers such as faster shift of unorganized business to organized players in current scenario, potential consolidation in industry via inorganic or partnership route and upside from COVID-19 related RT-PCR & anti-body. We maintain **ADD** with a revised DCF-based target price of Rs2,540/share (earlier: Rs2,430/share) implying 49.2x FY23E EPS and 33.2x FY23E 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)

	FY20	FY21E	FY22E	FY23E
Total Gross Sales	13,304	15,524	17,794	20,178
Excise duty	-	-	-	-
Total Net Revenue	13,304	15,524	17,794	20,178
yoy Growth%	10.5	16.7	14.6	13.4
Total Op. Exp.	9,868	11,382	12,659	14,302
EBITDA	3,436	4,142	5,135	5,876
Margins %	25.8	26.7	28.9	29.1
yoy Growth%	15.8	20.6	24.0	14.4
Dep. & Amort.	728	776	822	881
EBIT	2,708	3,366	4,313	4,995
Other Income	550	658	816	913
Interest	153	153	153	153
EO Items	-	-	-	-
PBT	3,105	3,871	4,976	5,755
Tax	829	976	1,254	1,450
Tax Rate (%)	26.7	25.2	25.2	25.2
Minority Interest	17	-	-	-
Reported PAT	2,259	2,896	3,722	4,305
Adj. PAT	2,259	2,896	3,722	4,305
Net Margins (%)	17.0	18.7	20.9	21.3

Source: Company data, I-Sec research

Table 3: Balance sheet

(Rs mn, year ending March 31)

	FY20	FY21E	FY22E	FY23E
Paid-up Capital	833	833	833	833
Reserves & Surplus	9,495	11,516	14,114	17,118
Total Equity	10,328	12,349	14,947	17,952
Minority Interest	212	212	212	212
Total Debt	-	-	-	-
Deferred Liabilities	(229)	(229)	(229)	(229)
Capital Employed	10,312	12,333	14,931	17,935
Current Liabilities	3,203	3,566	3,906	4,298
Total Liabilities	13,515	15,899	18,837	22,234
Net Fixed Assets	4,244	3,868	3,447	2,966
Investments	-	-	-	-
Inventory	570	739	760	852
Debtors	514	600	687	779
Other Current Assets	853	939	1,026	1,118
Cash and Equivalents	7,334	9,753	12,916	16,518
Total Cur. Assets	9,271	12,031	15,390	19,267
Total Assets	13,515	15,899	18,837	22,234

Source: Company data, I-Sec research

Table 4: Cashflow statement

(Rs mn, year ending March 31)

	FY20	FY21E	FY22E	FY23E
PBT (Adj. for Extraordinary)	3,105	3,871	4,976	5,755
Depreciation	728	776	822	881
Net Chg in WC	56	(75)	44	12
Taxes	(935)	(976)	(1,254)	(1,450)
Others	(268)	97	99	104
CFO	2,686	3,694	4,687	5,302
Capex	(1,053)	(400)	(400)	(400)
Net Investments made	295	-	-	-
Others	497	-	-	-
CFI	(261)	(400)	(400)	(400)
Change in Share capital	2	-	-	-
Change in Debts	-	-	-	-
Div. & Div Tax	(1,555)	(875)	(1,124)	(1,300)
Others	(83)	-	-	-
CFF	(1,636)	(875)	(1,124)	(1,300)
Total Cash Generated	789	2,419	3,163	3,602
Cash Opening Balance	4,902	5,691	8,110	11,274
Cash Closing Balance	5,691	8,110	11,274	14,875

Source: Company data, I-Sec research

Table 5: Key ratios

(Year ending March 31)

	FY20	FY21E	FY22E	FY23E
Adj EPS	27.1	34.7	44.7	51.7
YoY Growth%	12.3	28.2	28.5	15.6
Cash EPS	35.8	44.1	54.5	62.2
EBITDA - Core (%)	25.8	26.7	28.9	29.1
NPM (%)	17.0	18.7	20.9	21.3
Net Debt to Equity (x)	(0.7)	(0.8)	(0.9)	(0.9)
P/E (x)	83.0	64.7	50.3	43.5
EV/EBITDA Core (x)	52.4	42.9	34.0	29.1
P/BV (x)	18.1	15.2	12.5	10.4
EV/Sales (x)	13.5	11.4	9.8	8.5
RoCE (%)	22.6	24.1	25.9	25.1
RoE (%)	22.8	25.5	27.3	26.2
RoIC (%)	59.1	65.8	95.4	132.5
Book Value (Rs)	124	148	179	215
DPS (Rs)	12.0	8.7	11.2	12.9
Dividend Payout (%)	44.3	25.0	25.0	25.0
Div Yield (%)	0.5	0.4	0.5	0.6
Asset Turnover Ratio	1.1	1.1	1.0	1.0
Avg Collection days	14	13	13	13
Avg Inventory days	16	21	22	21

Source: Company data, I-Sec research

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