

Dr Lal Pathlabs

ADD

Maintained

Rs2,831

Industry leading performance continues

Dr Lal Pathlabs' (Dr Lal) Q4FY21 performance was above estimate with strong growth recovery in the ex-COVID business and higher revenue from COVID-19 related tests. Though, COVID-19 and allied tests contribution dropped to 11.2% of sales (21.6% in Q3FY21). Base business revenues grew 28.6% YoY. Overall, revenue grew 42.9%, EBITDA margin was up 930bps YoY to 28.3% and adj. PAT was up 157% to Rs834mn. The base business has seen good recovery QoQ since Q2FY21 and we expect healthy growth in coming quarters to continue. The 2nd wave of COVID-19 may have some impact on base business in Q1FY22, however the longer term outlook remains strong. We continue to prefer Dr Lal the most in this space given volume growth consistency and ability to execute fast recovery. Retain ADD.

- **Strong growth recovery in base business:** Dr Lal witnessed another quarter of strong sequential growth in ex-COVID revenue which grew 4.5% QoQ. On YoY basis, the growth stood at 28.6% but it was on a low base impacted by lockdown. Revenue from RT-PCR tests declined 46.9% QoQ to Rs410mn with reducing volume and realisations and contributed ~10% to overall sales. We expect this to rise in the coming quarter due to 2nd wave. The volumes (patients) in base business witnessed 23.6% growth and we estimate strong growth in FY22E on a lower base. Average realisation for non-COVID patients stood at Rs712 (up 4.1% YoY). We believe the company would witness double digit volume growth over longer period given leadership position and shift from unorganised to organised players.
- **Higher employee costs suppressed margins:** Dr Lal reported an EBITDA margin of 28.3% after dropping 240bps QoQ (+930bps YoY). Cost control initiatives were visible with S,G&A and fees to collection centres dropping 4% and 3% QoQ but employee expenses was up 10% QoQ, suppressing margins. Declining revenue from COVID-19 business lifted gross margins by 30bps QoQ. We expect EBITDA margin to improve 160bps over FY21-FY23E with pick-up in patient volumes, sustaining benefits of cost control and operating leverage.
- **Outlook:** We expect Dr Lal to outperform industry growth and register revenue, EBITDA and PAT growth at CAGRs of 16.3%, 19.6% and 24.9%, respectively, over FY21-FY23E. RoE and RoCE would remain strong at 27.2% and 25.7%, respectively, in FY23E whereas RoIC would move to 133.7%. 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-FY23 EBITDA estimates by 6-7% to factor in higher revenue from COVID-19 tests and strong growth in base business. Maintain **ADD** with a revised DCF-based target price of Rs3,000/share (earlier: Rs2,540/share) implying 55.0x FY23E EPS and 37.3x FY23E EV/EBITDA. Key downside risks: Higher-than-expected competition, pricing pressures and regulatory hurdles.

Market Cap	Rs236bn/US\$3.2bn
Reuters/Bloomberg	DLPA.BO/DLPL IN
Shares Outstanding (mn)	83.3
52-week Range (Rs)	3337/1512
Free Float (%)	43.8
FII (%)	27.0
Daily Volume (USD/'000)	12,275
Absolute Return 3m (%)	16.6
Absolute Return 12m (%)	88.0
Sensex Return 3m (%)	(0.6)
Sensex Return 12m (%)	65.2

Year to Mar	FY20	FY21	FY22E	FY23E
Revenue (Rs mn)	13,304	15,813	18,836	21,395
Net Income (Rs mn)	2,259	2,916	3,862	4,547
EPS (Rs)	27.1	35.0	46.3	54.6
% Chg YoY	12.3	29.1	32.4	17.7
P/E (x)	104.5	80.9	61.1	51.9
CEPS (Rs)	35.8	44.3	56.4	65.3
EV/E (x)	66.5	51.8	40.7	35.0
Dividend Yield (%)	0.4	0.3	0.4	0.5
RoCE (%)	22.6	24.0	26.2	25.7
RoE (%)	22.8	25.6	28.0	27.2

Q4FY21 result review and earnings revision

Pharmaceuticals

Target price: Rs3,000

Earnings revision

(%)	FY22E	FY23E
Sales	5.9	6.0
EBITDA	6.6	6.3

Target price revision

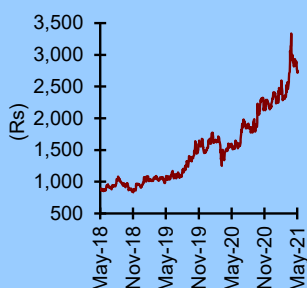
Rs3,000 from Rs2,540

Shareholding pattern

	Sep '20	Dec '20	Mar '21
Promoters	56.3	55.2	55.2
Institutional investors	32.0	33.2	33.5
MFs and other	6.5	6.2	5.3
Insurance	1.3	1.0	1.2
FIs	24.2	26.0	27.0
Others	12.7	10.6	10.3

Source: BSE India

Price chart



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Q4FY21 result and concall highlights

- Overall sales grew 42.9% YoY to Rs4.3bn (-4.7% QoQ) led by strong growth in the ex-COVID business.
- **COVID-19 impact:** Declining cases during the quarter resulted in recovery of walk-in patients and rise in collection centres and smaller labs (less crowded). However, 2nd wave has started affecting this which would reflect in the coming quarter, although it will not be as severe as last year. COVID-19 tests contributed ~10% 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 ~11%. D-dimer and IL-6 tests are generally doctor prescribed for COVID-19 positive patients and they are being done at 60-70 labs across India.
- **Volume growth** for number of samples stood at 34.8% YoY and 11.9% QoQ in Q4FY21. The large growth is attributed to continuous recovery in non-COVID tests over the preceding quarter and low base which was impacted by lockdown last year. Contribution from COVID-19 related tests (RT-PCR and antibody) have been reducing with falling realisations and volume but it may see a surge in Q1FY22 owing to the 2nd wave. Testing in Delhi-NCR region have reported a growth over the pre-COVID levels. Company witnessed 33.8% YoY and 7.3% QoQ growth in the number of patients during the quarter.
- **Dr Lal's average realisation per patient** at Rs733 in Q4FY21 and was up 7.2% YoY. This rise in realisation was due to contribution of COVID-19 tests. Sequentially it has declined 11.0% with falling realisations of COVID-19 tests. Ex-COVID realisation is higher by 4.1% YoY to Rs712 due to higher samples per patient of 2.69 vs 2.54. Overall revenue per sample grew 6.0% YoY.
- Company used 15.1mn samples to perform tests on 5.9mn patients during the quarter. Company believes the pandemic has raised awareness and boosted preventive care which is sustainable in nature. *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 ~17% of overall 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** improved by 30bps QoQ to 76.0% (flattish YoY) with declining contribution from COVID-19 tests. Controlled cost have aided 930bps YoY expansion in **EBITDA margin** to 28.3% while higher employee costs suppressed margins sequentially.
- **Adjusted PAT** grew 157% YoY to Rs834mn.

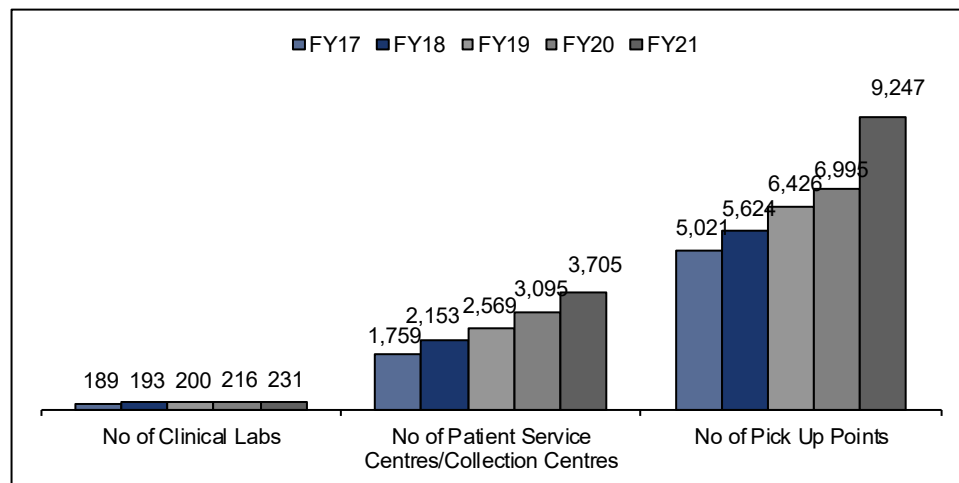
Table 1: Q4FY21 performance

(Rs mn, year ending March 31)

	Q4FY21	Q4FY20	YoY % Chg	Q3FY21	QoQ % Chg
Net Sales	4,310	3,017	42.9	4,524	(4.7)
EBITDA	1,220	573	112.9	1,388	(12.1)
Other income	135	120	12.5	135	-
PBIDT	1,355	693	95.5	1,523	(11.0)
Depreciation	203	200	1.5	195	4.1
Interest	44	39	12.8	39	12.8
Extra ordinary income/ (exp.)	-	-	-	-	-
PBT	1,108	454	144.1	1,289	(14.0)
Tax	257	128	100.8	330	(22.1)
Minority Interest	17	1	1,600.0	14	21.4
Reported PAT	834	325	156.6	945	(11.7)
Adjusted PAT	834	325	156.6	945	(11.7)
EBITDA margins (%)	28.3	19.0	930bps	30.7	(240)bps

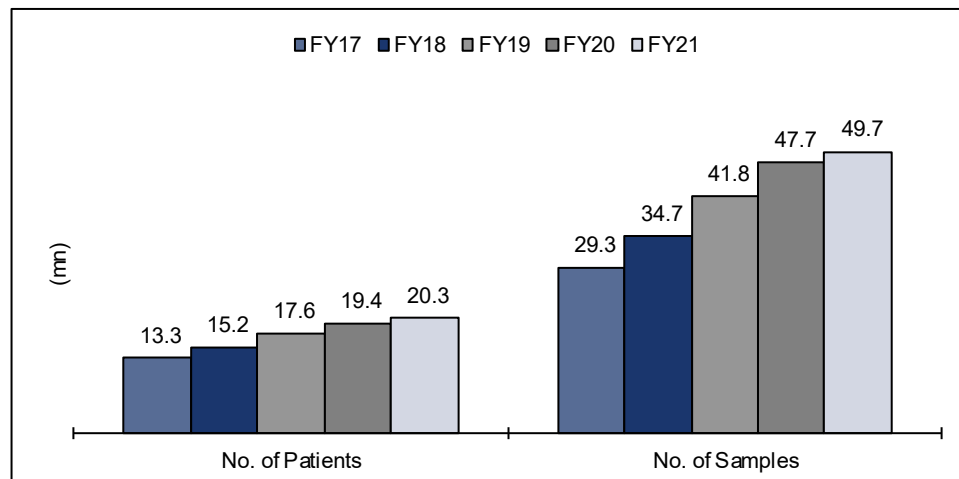
Source: Company data, I-Sec research

Chart 1: Network spread across the country



Source: Company data, I-Sec research

Chart 2: Growth in samples and patients



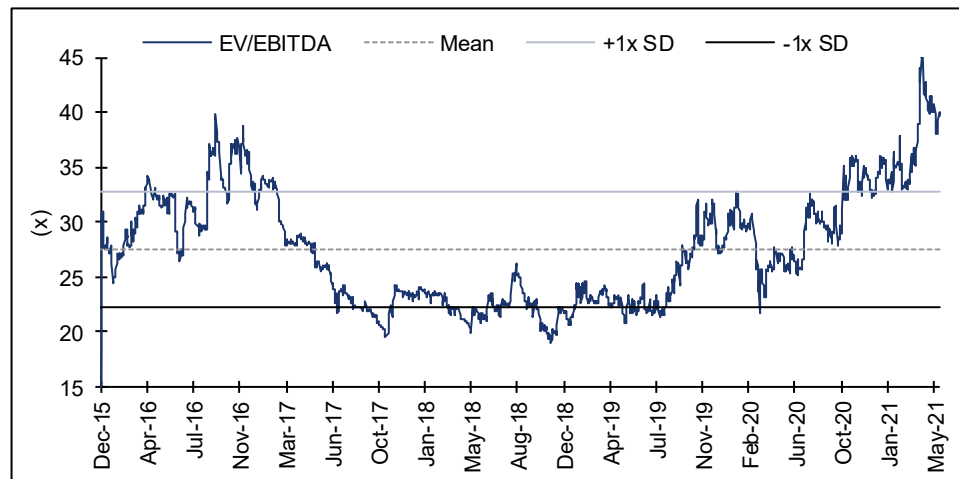
Source: Company data, I-Sec research

Valuations

We estimate earnings to grow at a CAGR of 24.9% over FY21-FY23E driven by revenue CAGR of 16.3% and rise in other income with strong free cashflow generation. Further, we expect RoCE to remain strong at ~26-27% 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 61.1x FY22E and 51.9x FY23E earnings and EV/EBITDA multiple of 40.7x FY22E and 35.0x 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 tests. We maintain **ADD** with a revised DCF-based target price of Rs3,000/share (earlier: Rs2,540/share) implying 55.0x FY23E EPS and 37.3x 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	FY21	FY22E	FY23E
Total Gross Sales	13,304	15,813	18,836	21,395
Excise duty	-	-	-	-
Total Net Revenue	13,304	15,813	18,836	21,395
yoy Growth%	10.5	18.9	19.1	13.6
Total Op. Exp.	9,868	11,450	13,362	15,150
EBITDA	3,436	4,363	5,474	6,245
Margins %	25.8	27.6	29.1	29.2
yoy Growth%	15.8	27.0	25.5	14.1
Dep. & Amort.	728	772	840	898
EBIT	2,708	3,591	4,634	5,347
Other Income	550	513	687	890
Interest	153	160	160	160
EO Items	-	-	-	-
PBT	3,105	3,944	5,161	6,076
Tax	829	979	1,299	1,529
Tax Rate (%)	26.7	24.8	25.2	25.2
Minority Interest	17	49	-	-
Reported PAT	2,259	2,916	3,862	4,547
Adj. PAT	2,259	2,916	3,862	4,547
Net Margins (%)	17.0	18.4	20.5	21.3

Source: Company data, I-Sec research

Table 3: Balance sheet

(Rs mn, year ending March 31)

	FY20	FY21	FY22E	FY23E
Paid-up Capital	833	833	833	833
Reserves & Surplus	9,495	11,617	14,313	17,486
Total Equity	10,328	12,450	15,146	18,320
Minority Interest	212	310	310	310
Total Debt	-	1	1	1
Deferred Liabilities	(229)	(280)	(280)	(280)
Capital Employed	10,312	12,481	15,177	18,350
Current Liabilities	3,203	3,852	4,342	4,777
Total Liabilities	13,515	16,333	19,518	23,128
Net Fixed Assets	4,244	4,569	4,129	3,631
Investments	-	-	-	-
Inventory	570	426	458	512
Debtors	514	667	795	902
Other Current Assets	853	818	916	998
Cash and Equivalents	7,334	9,853	13,221	17,084
Total Cur. Assets	9,271	11,764	15,389	19,497
Total Assets	13,515	16,333	19,518	23,128

Source: Company data, I-Sec research

Table 4: Cashflow statement

(Rs mn, year ending March 31)

	FY20	FY21	FY22E	FY23E
PBT (Adj. for Extraordinary)	3,105	3,944	5,161	6,076
Depreciation	728	772	840	898
Net Chg in WC	56	209	81	63
Taxes	(935)	(1,017)	(1,299)	(1,529)
Others	(268)	(86)	151	128
CFO	2,686	3,822	4,934	5,636
Capex	(1,053)	(623)	(400)	(400)
Net Investments made	194	(1,893)	-	-
Others	598	396	-	-
CFI	(261)	(2,120)	(400)	(400)
Change in Share capital	2	3	-	-
Change in Debts	(200)	(235)	-	-
Div. & Div Tax	(1,555)	(995)	(1,166)	(1,373)
Others	117	3,094	-	-
CFF	(1,636)	1,867	(1,166)	(1,373)
Total Cash Generated	789	3,569	3,368	3,863
Cash Opening Balance	4,902	5,691	9,260	12,628
Cash Closing Balance	5,691	9,260	12,628	16,491

Source: Company data, I-Sec research

Table 5: Key ratios

(Year ending March 31)

	FY20	FY21	FY22E	FY23E
Adj EPS	27.1	35.0	46.3	54.6
YoY Growth%	12.3	29.1	32.4	17.7
Cash EPS	35.8	44.3	56.4	65.3
EBITDA - Core (%)	25.8	27.6	29.1	29.2
NPM (%)	17.0	18.4	20.5	21.3
Net Debt to Equity (x)	(0.7)	(0.8)	(0.9)	(0.9)
P/E (x)	104.5	80.9	61.1	51.9
EV/EBITDA Core (x)	66.5	51.8	40.7	35.0
P/BV (x)	22.8	19.0	15.6	12.9
EV/Sales (x)	17.2	14.3	11.8	10.2
RoCE (%)	22.6	24.0	26.2	25.7
RoE (%)	22.8	25.6	28.0	27.2
RoIC (%)	59.1	66.8	96.2	135.8
Book Value (Rs)	124	149	182	220
DPS (Rs)	12.0	8.7	11.6	13.6
Dividend Payout (%)	44.3	25.0	25.0	25.0
Div Yield (%)	0.4	0.3	0.4	0.5
Asset Turnover Ratio	1.1	1.1	1.1	1.0
Avg Collection days	14	14	14	14
Avg Inventory days	16	16	12	12

Source: Company data, I-Sec research

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