

Dr Lal Pathlabs

ADD

CMP Rs2,831

Target Rs3,000

Upside 6%

Result Highlights

- ✓ 43% jump in Q4 sales on YoY rebound in non COVID business on low base of last year; 33% rise in patient volumes
- ✓ Impact of second wave not as severe on patient footfalls as last year due to localized lockdowns in Q4
- ✓ Aims for expansion in western and Southern markets through regional reference labs; ramp up in new markets would be keenly eyed.

Our view: At Rs15bn revenue, DLPL is amongst largest diagnostic players with a large runway for growth given the familiar tailwinds of rise in organized share and absolute size of market. A model with characteristics of low capex requirement and service type branded business had undergone trial by fire in past 2-3 years. However, players with higher share of specialized tests like DLPL have coped well as such tests are relatively less amenable to commoditization and price erosion. We reckon DLPL can continue to clock healthy 15-16% revenue and PAT cagr over next few years without any significant debt or dilution in return ratios (barring temporary capex periods for regional reference labs). Our target PE of 60x is driven by 1) diagnostics being a scalable business with solid FCF generation capabilities for well managed companies and 2) comparable to the domestic branded formulation business of pharma companies. While near term upsides appear modest, we adopt a positive view on the business and begin coverage with ADD rating. Our TP is based on 60x FY23 EPS and we remain marginally ahead of consensus on FY23 EPS. Any price correction should be used to accumulate position in the stock. Key risks would be sustained drag on ROE/ROCE emanating from expansion in newer geographies which can be damaging to multiples.

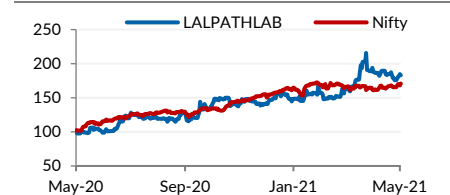
Exhibit 1: Result table

(Rs mn)	Q4 FY21	Q3 FY21	% qoq	Q4 FY20	% yoy
Revenues	4,310	4,524	(4.7)	3,017	42.9
RM + inventory changes	(1,033)	(1,098)	(5.9)	(720)	43.5
Fees to collection centers/ Channel Partners	(585)	(604)	(3.1)	(393)	48.9
Staff	(761)	(693)	9.8	(625)	21.8
Other expenses	(711)	(741)	(4.0)	(706)	0.7
Operating profit	1,220	1,388	(12.1)	573	112.9
OPM (%)	28.3	30.7	-237 bps	19.0	931 bps
Depreciation	(203)	(195)	4.1	(200)	1.5
Interest	(44)	(39)	12.8	(39)	12.8
Other income	135	135	-	120	12.5
PBT	1,108	1,289	(14.0)	454	144.1
Tax	(257)	(330)	(22.1)	(128)	100.8
Effective tax rate (%)	23.2	25.6	-241 bps	28.2	-500 bps
PAT	851	959	(11.3)	326	161.0
PAT margin (%)	19.7	21.2	-145 bps	10.8	894 bps
PAT	851	959	(11.3)	326	161.0

Stock data (as on May 21, 2021)

Nifty:	15,175
52 Week h/l (Rs)	3399 /1500
Market cap (Rs/USD mn)	235941/3239
Outstanding Shares	83
6m Avg t/o (Rs mn):	856
Div yield (%):	0.5
Bloomberg code:	DLPL IN
NSE code:	LALPATHLAB

Stock performance



	1M	3M	1Y
Absolute return	-2.5%	16.6%	88.0%

Shareholding pattern (As of Mar'21 end)

Promoter	55.2%
FII+DII	32.1%
Others	12.7%

Δ in stance

(1-Yr)	New	Old
Rating	ADD	-
Target Price	3,100	-

Δ in earnings estimates

	FY22e	FY23e
EPS (New)	39.5	50.0
EPS (Old)	-	-
% change	-	-

Financial Summary

	FY21	FY22	FY23
Net Revenue	15,813	17,500	21,000
YoY Growth	18.9	10.7	20.0
EBIDTA	4,363	4,911	6,136
YoY Growth	27.0	12.6	24.9
PAT	2,965	3,294	4,170
YoY Growth	30.3	11.1	26.6
ROE	26.0	25.1	28.0
EPS	35.6	39.5	50.0
P/E	79.7	71.7	56.6
BV	149.4	165.3	191.7
P/BV	19.0	17.1	14.8

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Dr. Lal Pathlabs

Suppressed patient growth of ~5% in FY21; uncertainty in Q1 FY22 due to COVID impact

Dr Lal Pathlabs ended FY21 with a tepid growth in patient volume at 5% though even this hides the damage to non COVID business as RT PCR and allied testing makes up for loss of patient footfall. The bulk of patient footfall in H1 FY21 and again in late Q4 (despite rise of 27% yoy in non COVID business) would have comprised of people needing specialized tests with routine tests taking a backseat. This is reflected in a sharp rise in per patient realization at Rs780/patient for FY21. Given the surge in cases from March, expect Q1 FY22 to again be on higher side wrt realization/patient as only specialized tests get conducted coupled with decline in non COVID business.

See recovery in patient growth in FY22

As vaccinations pick up pace especially after July-Aug, expect non COVID business to rebound with revival in routine tests leading to a contraction in elevated pricing seen in FY21. We factor in ~23% rise in patient footfalls to 25mn vs 20.3mn in FY21; Q4 saw 33% jump in patient volumes and our full year estimate factors in some moderation. Over a 3-year period FY20-23, we build in faster 16% volume CAGR compared to previous 4-year growth of 13% as increased coverage in the form of patient service centres (PSCs) and pick up points (PUP) netted through acquisition would drive traction. We also expect buoyancy in patient inflow as willingness and awareness about medical tests increases post pandemic – at least for 1-2 years.

New reference labs lined up in Mumbai, South

DLPL management indicated new regional reference labs would be established outside of core markets in regions like Mumbai and South. We note Apollo Hospitals too has indicated its ambition to grow diagnostic business in core Southern markets especially Chennai and DLPL execution and ramp up would be keenly watched. While hospitals based diagnostic labs have been lying low as footfalls stayed subdued in FY21, reckon these would not be threat per management as their radius of collection is not more than 1-2 kms beyond the hospital.

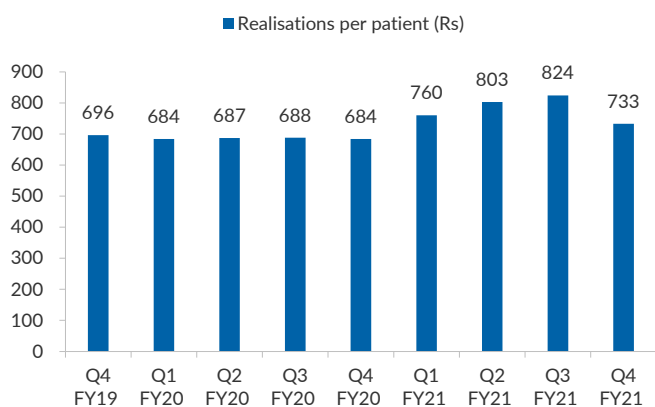
One of the largest players with a long runway for growth

At Rs15bn revenue, DLPL is one largest diagnostic players with a large runway for growth given the familiar tailwinds of rise in organized share and absolute size of market. A model with characteristics of low capex requirement and service type branded business had undergone trial by fire in past 2-3 years. PE players had pumped in capital which led to increased competitive intensity. However, players with higher share of specialized tests like DLPL have coped well as such tests are relatively less amenable to commoditization and price erosion. We reckon DLPL can continue to clock healthy 15-16% revenue and PAT cagr over next few years without any significant debt or dilution in return ratios (barring temporary capex periods for regional reference labs). We view diagnostics as a scalable business with solid FCF generation capabilities for well managed companies and comparable to the branded formulation business of pharma companies. While near term upsides appear modest, we adopt a positive view on the business and begin coverage with ADD rating. Our TP is based on 60x FY23 EPS and we remain marginally ahead of consensus on FY23 EPS. Any price correction should be used to accumulate positions in the stock. Key risks would be sustained drag on ROE/ROCE emanating from expansion in newer geographies which can be damaging to multiples.

CON-CALL HIGHLIGHTS

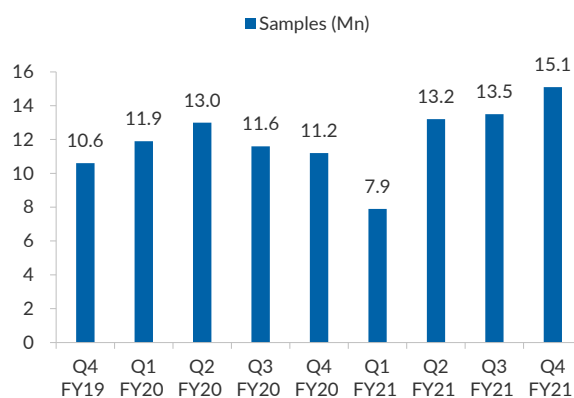
- ✓ Company has been able to scale up home testing during the quarter. It saw sharp rise of 2-2.5x in home collection business.
- ✓ Contribution from Rest of India ex Delhi-NCR is 64.8%.
- ✓ RTPCR test capacity-14 labs and the company has added more labs in Q1 FY22 (17 labs till date). Carried out 4.5 lakhs RT-PCR test during the quarter.
- ✓ 60-70 labs are doing IL-6 & D-dimer tests (Covid Allied tests). The company has surplus of 30-40% capacity for the tests being per day (25,000 samples per day).
- ✓ COVID portfolio contribution to total revenue declined to 11.2% in Q4 FY21 from 21.6% in Q3 FY21 due to regulations on pricing of RTPCR testing. COVID Allied business in Q4 FY21 was at 12.5% of total COVID portfolio.
- ✓ Non-Covid realization is Rs715 per patient. The realization increase is due to higher test per patient.
- ✓ Higher revenue realization is due to covid test revenue.
- ✓ Second Wave- Lots of people got hospitalized, due to which covid-allied tests went up (sudden spike) compared to first wave.
- ✓ Impact on non-covid revenue last year was greater due nationwide lockdown compared to this year same quarter.
- ✓ Employee cost- There is no one-off cost during the quarter.
- ✓ Covid business is bit of dilutive (because test price is coming down) but there is pick-up in non-covid business
- ✓ Contribution of Swasthfit (bundled tests portfolio) is increasing (it contributed around 19% of the total revenue).
- ✓ Seen robust growth in Eastern market of India.
- ✓ Lab expansion (including satellite labs) and collection centers expansion will continue going forward.

Exhibit 2: Realisation per patient



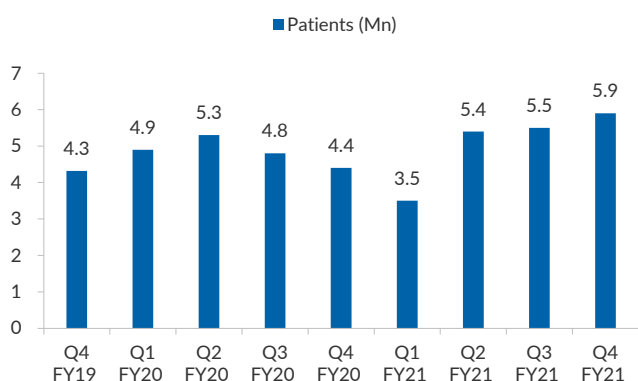
Source: Company, YES Sec - Research

Exhibit 3: Trend in samples analyzed



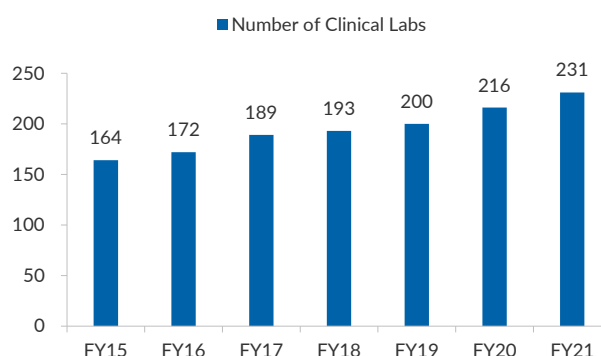
Source: Company, YES Sec - Research

Exhibit 4: Patient footfalls



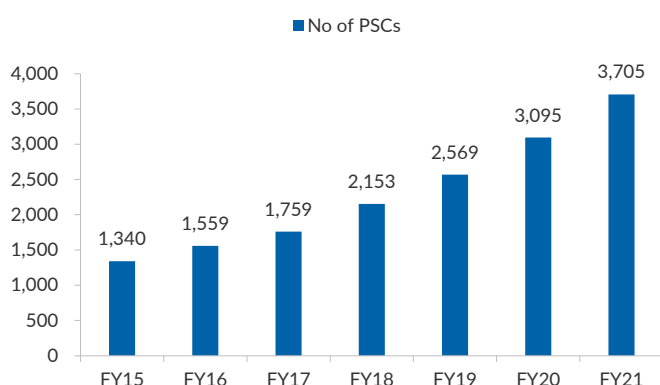
Source: Company, YES Sec - Research

Exhibit 5: No of Clinical Laboratories



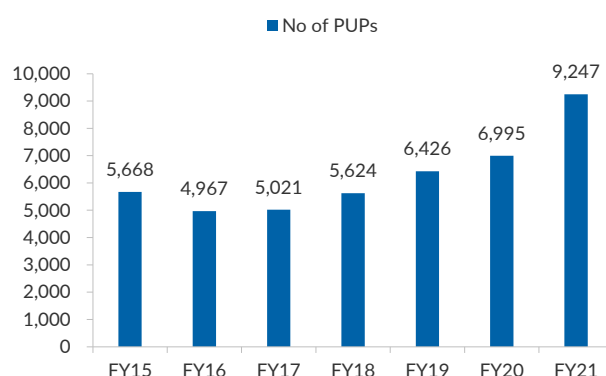
Source: Company, YES Sec - Research

Exhibit 6: No of PSCs



Source: Company, YES Sec - Research

Exhibit 7: No of PUPs



Source: Company, YES Sec - Research

FINANCIALS

Exhibit 8: Balance sheet

Y/e 31 Mar (Rs m)	FY19	FY20	FY21	FY22E	FY23E
Equity capital	833	833	833	833	833
Reserves	8,622	9,495	11,617	12,944	15,148
Net worth	9,455	10,328	12,450	13,778	15,981
Debt	12	930	1,103	1,103	1,103
Minority interest	55	212	310	310	310
Def.tax lia	0	0	7	7	7
Total liabilities	9,522	11,470	13,870	15,198	17,401
Goodwill	280	772	854	854	854
Fixed assets	1,841	3,472	3,715	3,339	2,894
Investments	433	344	313	313	313
Net working capital	6,753	6,653	8,708	10,411	13,060
Inventories	285	570	426	471	566
Sundry debtors	532	514	667	738	886
Cash	6,750	7,334	9,853	11,179	13,982
Other current assets	569	509	505	875	1,050
Sundry creditors	(798)	(1,177)	(1,441)	(1,595)	(1,914)
Other current liabilities	(585)	(1,096)	(1,302)	(1,258)	(1,510)
Def tax assets	215	229	280	280	280
Total assets	9,522	11,470	13,870	15,198	17,401

Exhibit 9: Income statement

Y/e 31 Mar (Rs m)	FY19	FY20	FY21	FY22E	FY23E
Revenue	12,034	13,304	15,813	17,500	21,000
Operating profit	2,937	3,436	4,363	4,911	6,136
Depreciation	(382)	(728)	(772)	(876)	(946)
Interest expense	(8)	(153)	(160)	(176)	(176)
Other income	459	550	513	523	534
Profit before tax	3,005	3,105	3,944	4,382	5,547
Taxes	(1,001)	(829)	(979)	(1,088)	(1,377)
Net profit	2,005	2,276	2,965	3,294	4,170

Exhibit 10: Du Pont analysis

Y/e 31 Mar (Rs m)	FY19	FY20	FY21	FY22E	FY23E
Tax burden (x)	0.67	0.73	0.75	0.75	0.75
Interest burden (x)	1.00	0.95	0.96	0.96	0.97
EBIT margin (x)	0.25	0.24	0.26	0.26	0.27
Asset turnover (x)	1.26	1.15	1.12	1.08	1.15
Financial leverage (x)	1.10	1.17	1.24	1.24	1.23
RoE (%)	23.1	23.0	26.0	25.1	28.0

Exhibit 11: Cash flow statement

Y/e 31 Mar (Rs m)	FY19	FY20	FY21	FY22E	FY23E
Profit before tax	3,005	3,105	3,944	4,382	5,547
Depreciation	382	728	772	876	946
Def.taxes (net)	(45)	(14)	(45)	-	-
Tax paid	(1,001)	(829)	(979)	(1,088)	(1,377)
Working capital Δ	485	684	464	(377)	154
Other operating items	-	-	-	-	-
Operating cashflow	2,826	3,674	4,157	3,793	5,270
Capital expenditure	(332)	(2,851)	(1,097)	(500)	(500)
Free cash flow	2,494	823	3,060	3,293	4,770
Equity raised	162	(223)	1,124	-	-
Minority interest	17	157	98	-	-
Investments	152	89	31	-	-
Debt financing/disposal	(67)	918	173	-	-
Dividends	(590)	(1,180)	(1,967)	(1,967)	(1,967)
Net Δ in cash	2,168	584	2,520	1,326	2,803

Exhibit 12: Ratio analysis

Y/e 31 Mar	FY19	FY20	FY21	FY22E	FY23E
Growth matrix (%)					
Revenue growth	13.9	10.5	18.9	10.7	20.0
Op profit growth	11.2	17.0	27.0	12.6	24.9
EBIT growth	15.0	8.1	26.0	11.1	25.6
Net profit growth	16.7	13.5	30.3	11.1	26.6
Profitability ratios (%)					
OPM	24.4	25.8	27.6	28.1	29.2
EBIT margin	25.0	24.5	26.0	26.0	27.3
Net profit margin	16.7	17.1	18.8	18.8	19.9
RoCE	34.4	31.0	32.4	31.4	35.1
RoNW	23.1	23.0	26.0	25.1	28.0
RoA	21.0	19.7	21.0	20.3	22.8
Per share ratios					
EPS	24.1	27.3	35.6	39.5	50.0
Dividend per share	6.0	12.0	20.0	20.0	20.0
Cash EPS	28.6	36.0	44.8	50.0	61.4
Book value per share	113.4	123.9	149.4	165.3	191.7
Valuation ratios (x)					
P/E	117.8	103.8	79.7	71.7	56.6
P/BV	25.0	22.9	19.0	17.1	14.8
M Cap/Sales	19.6	17.8	14.9	13.5	11.2
EV/EBIDTA	78.1	66.9	52.1	46.0	36.4
Payout (%)					
Tax payout	33.3	26.7	24.8	24.8	24.8

Dividend payout	29.4	51.9	66.3	59.7	47.2
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Liquidity ratios

Debtor days	16	14	15	15	15
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Inventory days	9	16	10	10	10
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Creditor days	24	32	33	33	33
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Leverage ratios

Interest coverage	359.2	21.3	25.7	25.8	32.4
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Net debt / equity	(0.7)	(0.6)	(0.7)	(0.7)	(0.8)
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Net debt / op. profit	(2.3)	(1.9)	(2.0)	(2.1)	(2.1)
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