

Sector update

Company update

- Apollo Hospitals (ADD from Buy)
- Aster DM (BUY)
- Dr. Lal Pathlabs (ADD)
- Fortis (ADD from Buy)
- HCG (ADD from Buy)
- Metropolis (ADD)
- Thyrocare (REDUCE)

Healthcare

Outlook 2021: Expect healthy growth recovery

We remain positive on healthcare space and expect strong growth recovery in non-COVID business along with potential margin improvement from cost-control initiatives undertaken in the past few months. Sector companies under our coverage witnessed average appreciation of 37% in stock prices over the last year largely driven by diagnostic companies. Key notable points for CY21: 1) Recovery in occupancy level including medical tourists for hospitals, 2) likely improvement in volume growth for diagnostic companies with shift from unorganised market to organised players, 3) incremental business from COVID-19 patients and 4) upward reset of EBITDA margin with partial continuation of cost-control initiatives undertaken during the lockdown. However, the meaningful stock price appreciation over the past few months has limited the upside potential.

► **Outlook for CY21**

- **Hospitals:** We expect occupancy levels to move back to pre-COVID levels in H1CY21 as lockdown restrictions have largely been eased and elective surgeries are reverting to normal levels. However, medical tourism will take longer to normalise (10-15% of hospital revenue for companies) as international travel remains limited and apprehensions may remain until successful preventive vaccination. We expect revenue growth to be strong ~25% in FY22E on a low base that has been impacted due to the lockdown and return of normal double-digit growth. The companies focused on various cost-control measures during the lockdown, which may be partially sustainable and can also help in improving RoCE.
- **Diagnostics:** We believe diagnostic companies will observe growth in base (ex-COVID) business in Q4CY20 and expect strong mid-teens growth in CY21. Low base of H1CY20 will help in registering very strong growth in H1CY21. Further, COVID-19 related tests will provide upside contingent on its continuity. We also expect faster shift from unorganised to organised players in the current environment as larger brands are associated with safety & hygiene and have efficient home collection, which has seen increased traction as well as likely consolidation in the industry.
- **Key sector trends in CY20:** Key notable trends across hospital and diagnostic sectors: 1) Business was impacted during lockdown as elective surgeries/tests were postponed and gradual recovery started in Q3CY20, and 2) diagnostic companies have seen faster recovery in base business volumes and most reached pre-COVID level volumes in Sep'20. We believe the cost-control measures announced during the lockdown by the companies will be partially sustainable over longer term. The impact on profitability was much lower than expectation despite loss of revenue resulting in earnings upgrades.
- **Our view:** We are positive on healthcare sector given high visibility on sustainable growth, increasing reach and likely margin expansion. However, stocks have seen meaningful re-rating in valuation in past few months which has limited the upside potential, hence we downgrade Apollo, Fortis and HCG to **ADD** from **Buy**. **Top picks:** Dr Lal Pathlabs and Aster DM.
- **Key risks:** Regulatory hurdles such as price ceiling on hospital treatments and diagnostic tests, and increase in competitive pressures.

Valuation summary

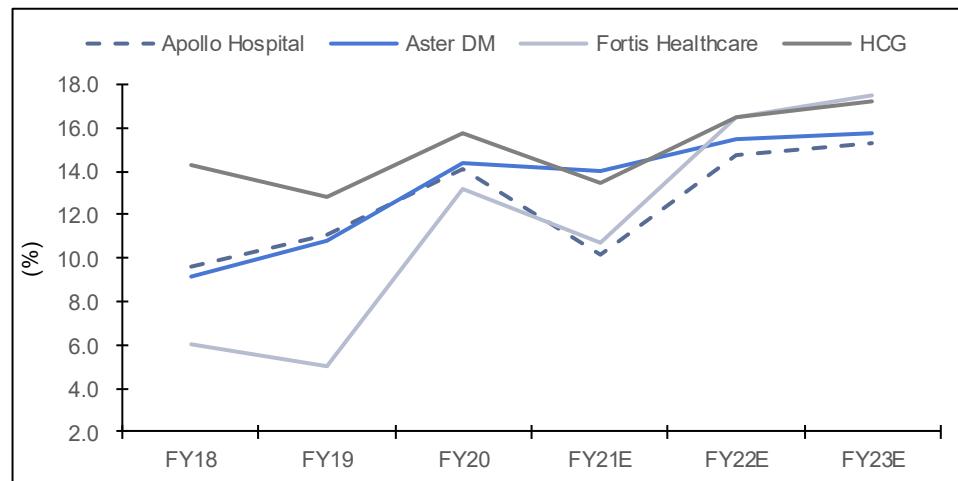
Company	Reco	CMP	TP	P/E (x)			EV/EBITDA (x)			RoE (%)		
		(Rs)	(Rs)	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E
Apollo Hosp	Add	2,393	2,566	797.8	54.3	40.1	34.4	19.1	16.2	1.3	17.9	20.8
Aster DM	Buy	161	196	34.7	15.2	10.9	10.4	7.7	6.2	6.8	14.0	16.8
Dr Lal	Add	2,177	2,430	68.0	49.4	42.8	44.6	33.2	28.5	23.7	27.2	26.1
Fortis	Add	148	163	(436.2)	44.3	28.8	28.4	15.1	12.3	(0.4)	3.7	5.5
HCG	Add	158	173	(26.9)	(81.5)	627.5	23.2	13.5	11.1	(14.1)	(3.2)	0.4
Metropolis	Add	1,970	2,254	56.8	44.4	38.3	35.6	28.4	24.3	30.9	33.6	33.0
Thyrocare	Reduce	1,016	925	42.0	36.4	34.2	27.1	23.5	22.2	34.3	38.2	39.2

Source: I-Sec research

Hospitals – growth recovery with margin expansion

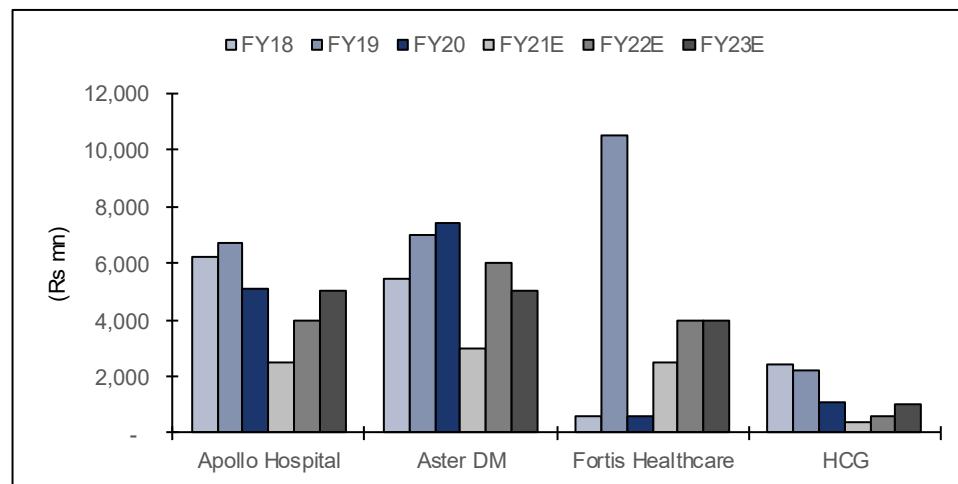
Hospital companies under our coverage have started showing decent recovery post lockdown impact. We expect recovery to continue and will achieve pre-COVID occupancy level in CY21. Further, cost-control benefits will help in EBITDA margin improvement.

Chart 1: Margin expansion expected across companies

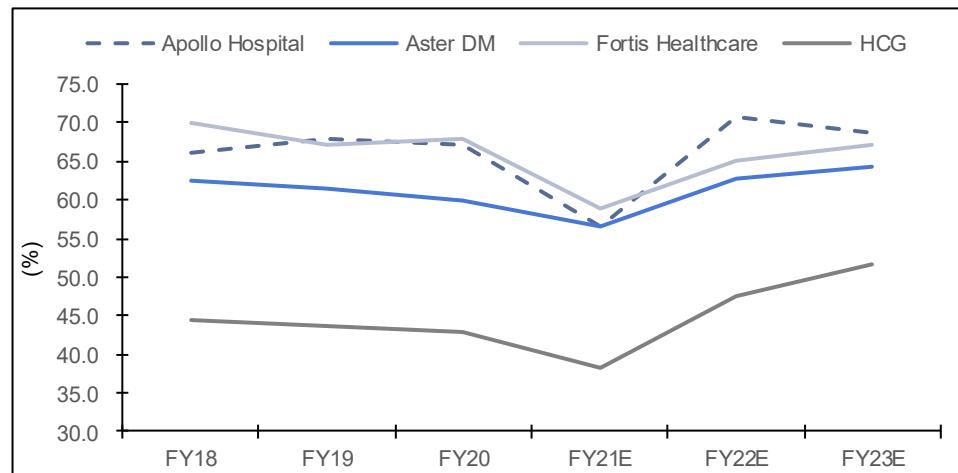


Source: Industry data, I-Sec research

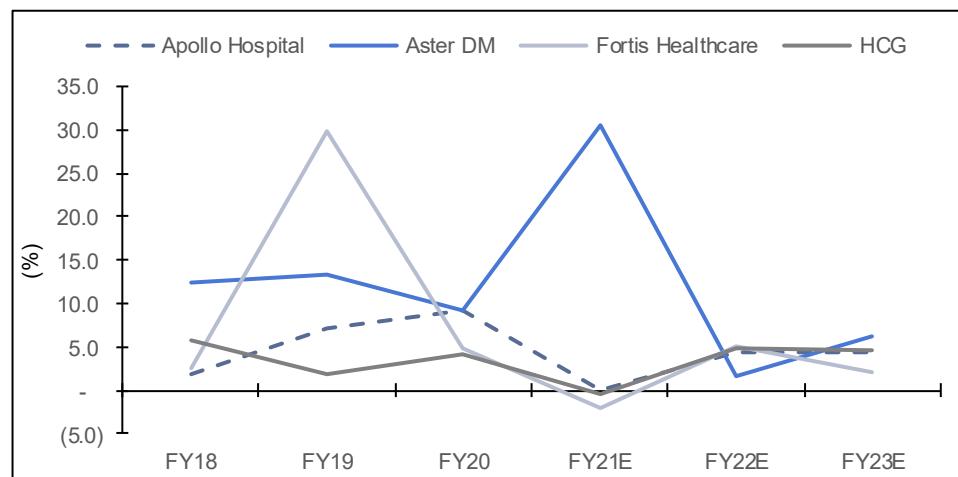
Chart 2: Capex trend



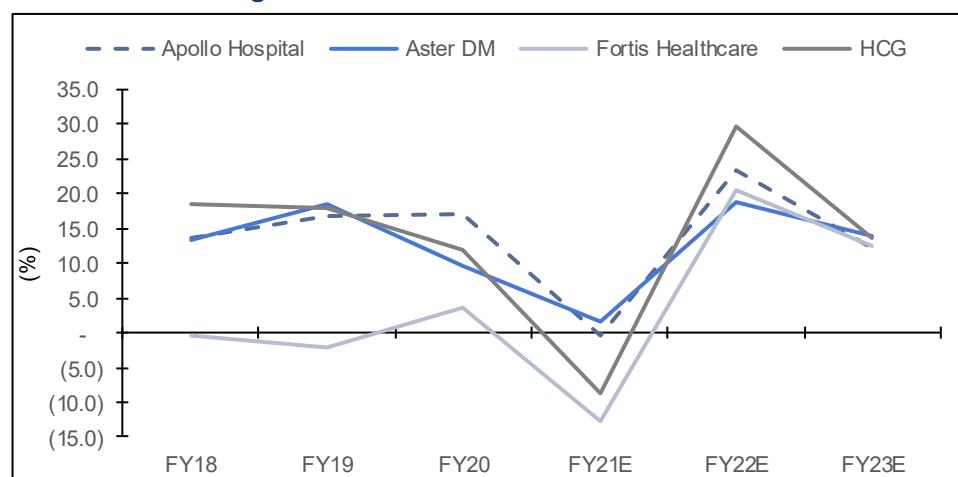
Source: Company, I-Sec research

Chart 3: Occupancy trend

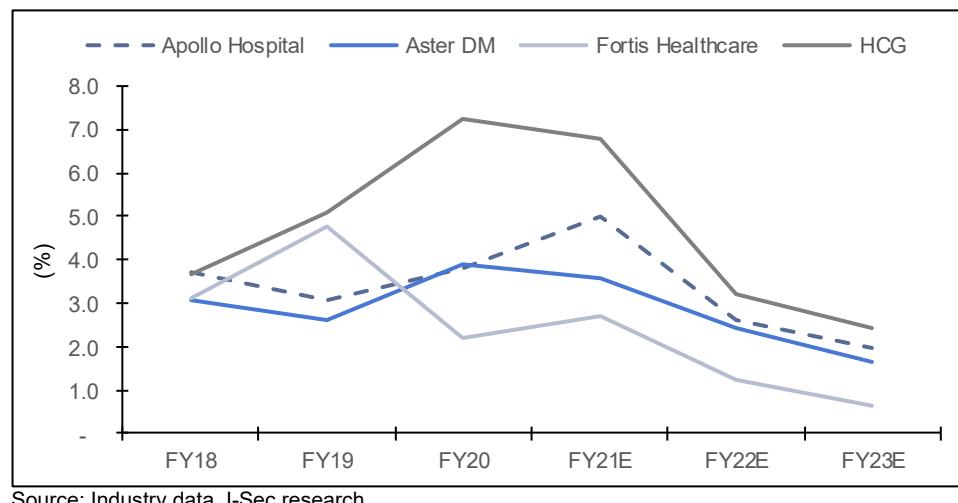
Source: Industry data, I-Sec research

Chart 4: ARPOB growth trend

Source: Industry data, I-Sec research

Chart 5: Revenue growth trend

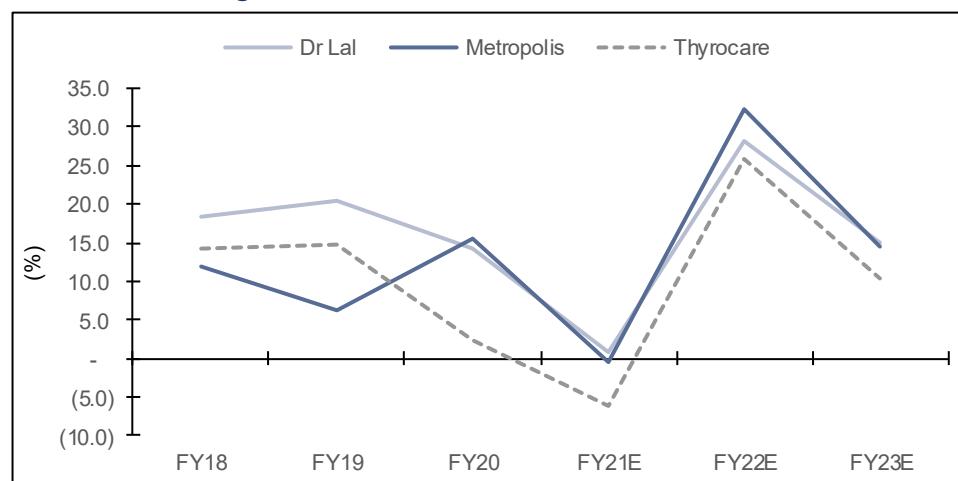
Source: Industry data, I-Sec research

Chart 6: Net-debt to EBITDA trend

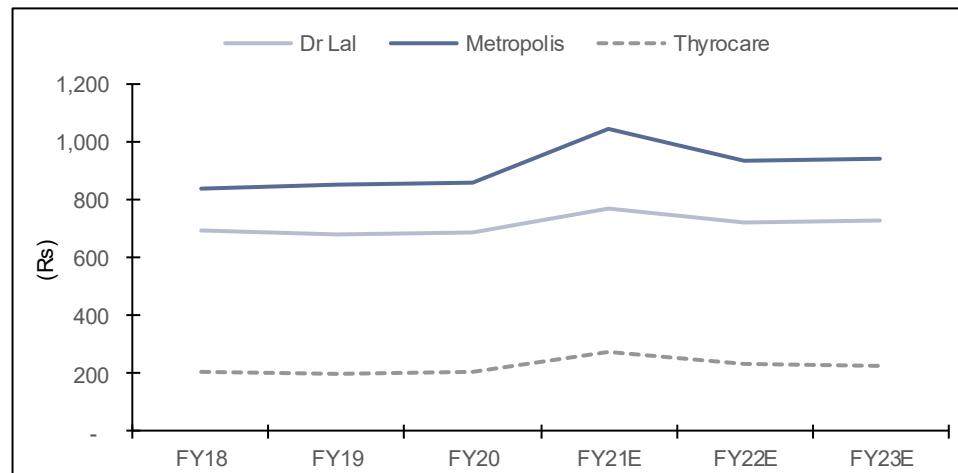
Source: Industry data, I-Sec research

Diagnostics – consistent growth with improving RoIC

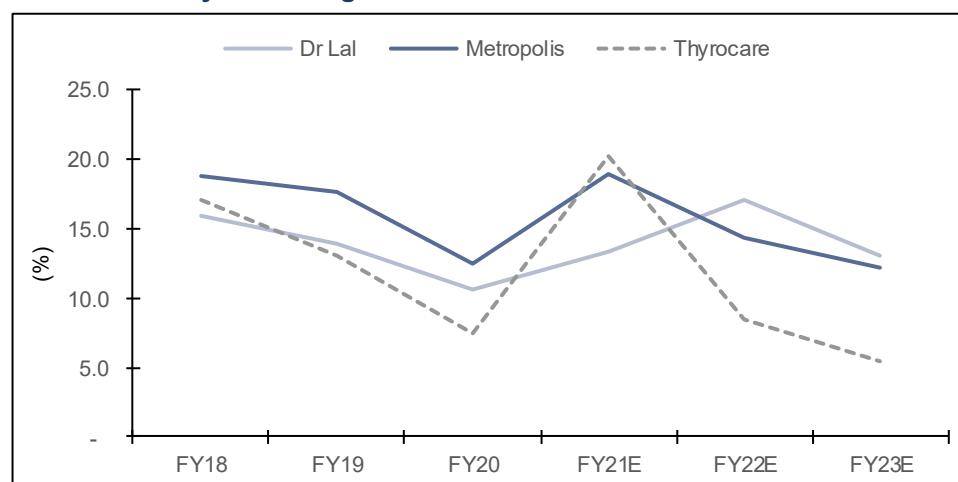
Diagnostic companies witnessed pre-COVID level revenue in Sep'20 and we expect mid-teen growth to be back in CY21 with high growth in low base quarters. Additionally, COVID related tests will drive incremental growth depending on its continuity. Base business growth will be largely driven by volumes and marginal price hikes. We also expect a modicum of margin expansion on the back of operating leverage and improvement in RoIC.

Chart 7: Volume growth trend

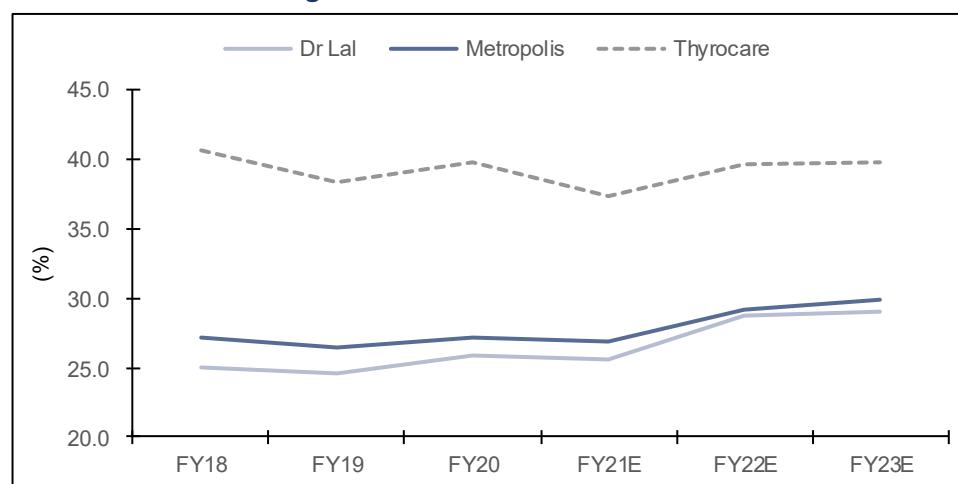
Source: Industry data, I-Sec research

Chart 8: Realisation trend

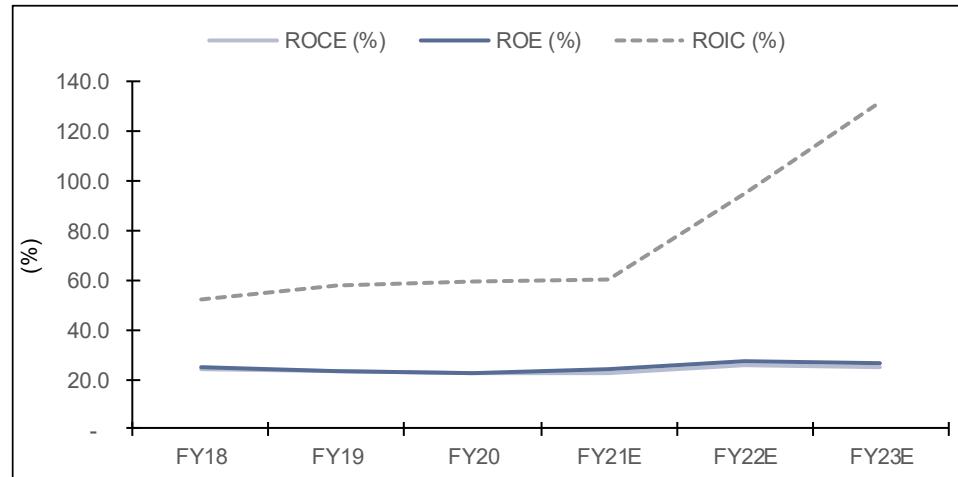
Source: Company, I-Sec research

Chart 9: Steady revenue growth momentum

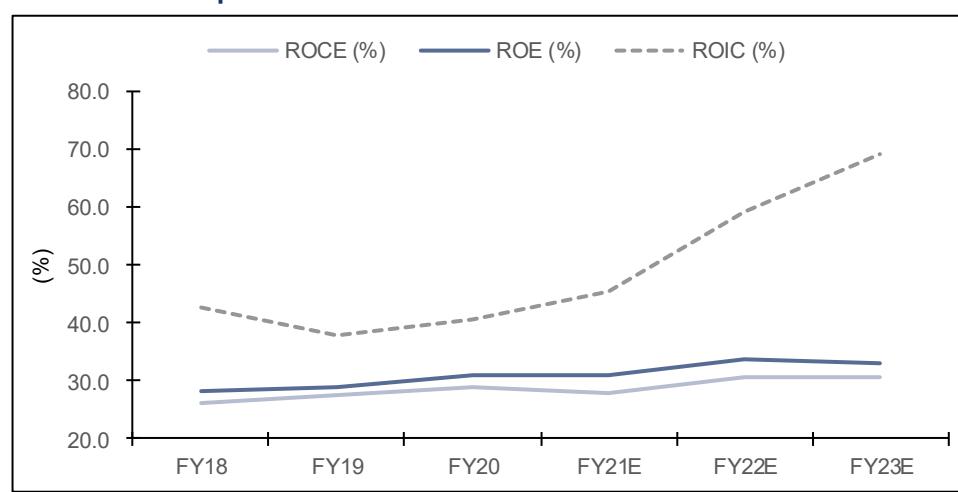
Source: Industry data, I-Sec research

Chart 10: EBITDA margin to remain stable

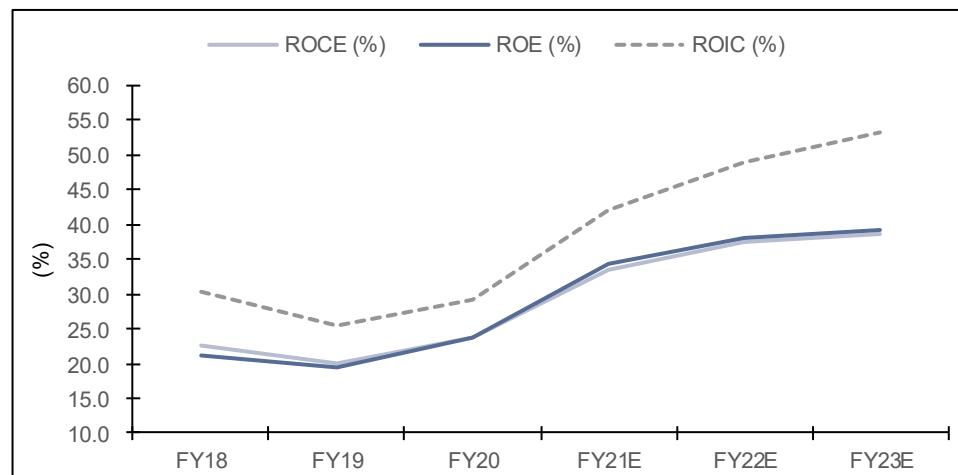
Source: Industry data, I-Sec research

Chart 11: Dr Lal return ratios

Source: Industry data, I-Sec research

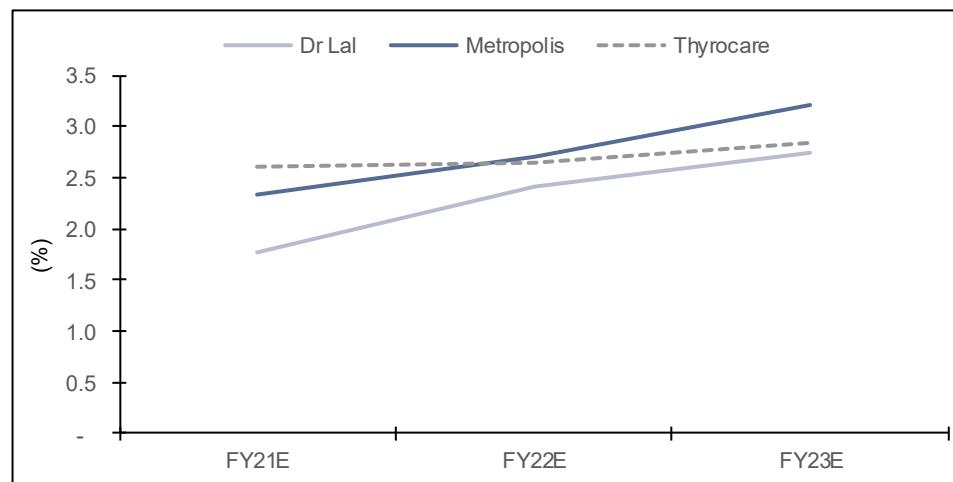
Chart 12: Metropolis return ratios

Source: Industry data, I-Sec research

Chart 13: Thyrocare return ratios

Source: Industry data, I-Sec research

Chart 14: FCF yield



Source: Industry data, I-Sec research

Table 1: Operational and financial comparison of diagnostic companies

Parameter	Dr. Lal Pathlabs	Thyrocare	Metropolis
FY20 Operational Metrics			
No. of Central/National Labs	2	1	1
No. of Regional Labs	200	8	119
No. of Samples (mn)	65	20	
No. of Tests (mn)		114	26
No. of Patients (mn)	25.4		12.8
No. of Collection Centres/Pick Up Points	6,426	2,000	10,000
No. of Tests offered	4,200	250	4,000
Revenue/test (Rs)	-	39	334
Revenue/patient (Rs)	538	-	689
Test/sample	-	5.73	#DIV/0!
Test/patient	-	-	2.06
Sample/patient	2.55	-	-
Patient/lab	125,708	-	106,950
Financial Highlights			
FY20			
Revenue (Rs mn)	13,660	4,475	8,838
% YoY growth	13.5	11.1	16.1
EBITDA (Rs mn)	3,729	1,862	2,488
EBITDA Margin (%)	27.3	41.6	28.2
CAGR (FY15-19)			
Revenue (%)	15.1	18.8	13.5
EBITDA (%)	17.1	19.0	14.5
PAT (%)	18.7	16.0	19.1
Valuations			
EV/EBITDA	50.7	30.7	42.2
P/E	80.3	56.5	68.4

Source: Industry data, I-Sec research

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Company update and
reco change

Pharmaceuticals

Target price Rs2,566

Earnings revision

	FY21E	FY22E	FY23E
Sales	-	1.0	1.0
EBITDA	-	1.0	1.0

Target price revision

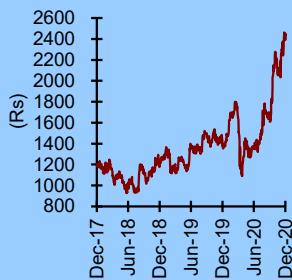
Rs2,566 from Rs2,428

Shareholding pattern

	Mar '20	Jun '20	Sep '20
Promoters	30.8	30.8	30.8
Institutional investors	61.7	61.7	62.5
MFs and other	8.9	8.3	8.7
Banks/FIs	4.0	4.7	0.1
Insurance co	1.9	2.1	6.0
FIs	46.9	46.6	47.9
Others	7.5	7.5	6.7

Source: BSE

Price chart



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INDIA

Apollo Hospitals Enterprise ADD

Downgrade from *Buy*

Hospitals recovering; pharmacy remains strong Rs2,393

Apollo Hospitals Enterprise (AHEL) has performed well in the past few years especially the EBITDA margin. The expansion in margin was led by turnaround in AHLL (Apollo Health & Lifestyle), higher occupancy for the hospital and reducing losses at newer hospitals. However, lockdown impacted the performance in H1FY21; we expect occupancy to be back to normal levels in FY22E. We expect gradual recovery in hospitals occupancy, continued traction in pharmacy business and sustainable cost-control benefits to drive 120bps EBITDA margin improvement over FY20-FY23E. We are positive on AHEL's long-term outlook considering its strong brand and pan-India presence in hospital segment, margin recovery and 14.2% EBITDA CAGR. However, considering the recent rally in stock price, we downgrade it to ADD from *Buy*.

- ▶ **Hospitals business is recovering well:** AHEL has built a strong pan-India presence in hospitals business with more than 7,400 operational beds and total capacity of over 10,000 beds across 71 hospitals including managed hospitals. We believe AHEL's hospital business is well positioned for a speedy recovery as normalcy is returning post the lockdown easing, given strong brand recognition, lower dependence on highly infected areas like Mumbai & Delhi and potential pent-up demand (elective procedures). The hospital business achieves breakeven at ~50% occupancy for AHEL and the same was already achieved in Q2FY21. We expect 13% revenue decline in FY21E but strong 30% growth in FY22E on low base and occupancy recovering to normal levels.
- ▶ **Pharmacy business – the saviour:** AHEL has rapidly expanded its pharmacy business in India and now has a network of more than 3,800 stores. Pharmacy business contributes ~42% to total revenue and ~25% to consolidated EBITDA. This business was largely unaffected during the lockdown and also supported cashflow of the company. We expect double-digit growth to continue in pharmacy business and estimate it at 14.2% revenue CAGR over FY20-FY23E to Rs71.8bn (including pharmacy distribution) – we expect addition of 300 new stores every year and 6.3% CAGR in revenue per store.
- ▶ **Outlook:** We forecast higher occupancy (~70% in FY22E vs 67% in FY20) in beds with higher maturity and reduction in losses from newer hospitals to help continual improvement in profitability. Overall, we expect 11.3% revenue and 14.2% EBITDA CAGRs over FY20-FY23E.
- ▶ **Valuations:** Considering the recent rally in stock price that has limited the upside, we downgrade AHEL to **ADD** from *Buy* with a revised target price of Rs2,566/share. Key downside risks: Higher competition and longer breakeven for newer hospitals.

Market Cap	Rs333bn/US\$4.5bn	Year to March	FY20	FY21E	FY22E	FY23E
Reuters/Bloomberg	APLH.BO/APHS IN	Net Revenue (Rs mn)	112,468	112,040	138,311	155,206
Shares Outstanding (mn)	139.1	Net Profit (Rs mn)	3,246	422	6,196	8,392
52-week Range (Rs)	2463/1089	Dil. EPS (Rs)	23.1	3.0	44.1	59.7
Free Float (%)	69.2	% Chg YoY	37.5	(87.0)	1,369.4	35.4
FII (%)	47.9	P/E (x)	103.6	797.8	54.3	40.1
Daily Volume (US\$'000)	38,004	CEPS (Rs)	67.2	49.2	91.8	109.5
Absolute Return 3m (%)	49.0	EV/EBITDA (x)	25.0	34.4	19.1	16.2
Absolute Return 12m (%)	74.8	Dividend Yield (%)	0.4	0.4	0.4	0.4
Sensex Return 3m (%)	18.6	RoCE (%)	5.8	4.3	10.5	12.4
Sensex Return 12m (%)	15.6	RoE (%)	9.7	1.3	17.9	20.8

Valuations

We expect AHEL's EBITDA to grow at a CAGR of 14.2% over FY20-FY23E driven by revenue CAGR of 11.3% and EBITDA margin expansion to 15.3% by FY23E from 11.1% in FY19. Economies of scale on increased occupancy and reduction in loss at AHLL would drive margin expansion. Further, return ratios will recover from the current depressed levels with strong growth in net profit and reduced capex.

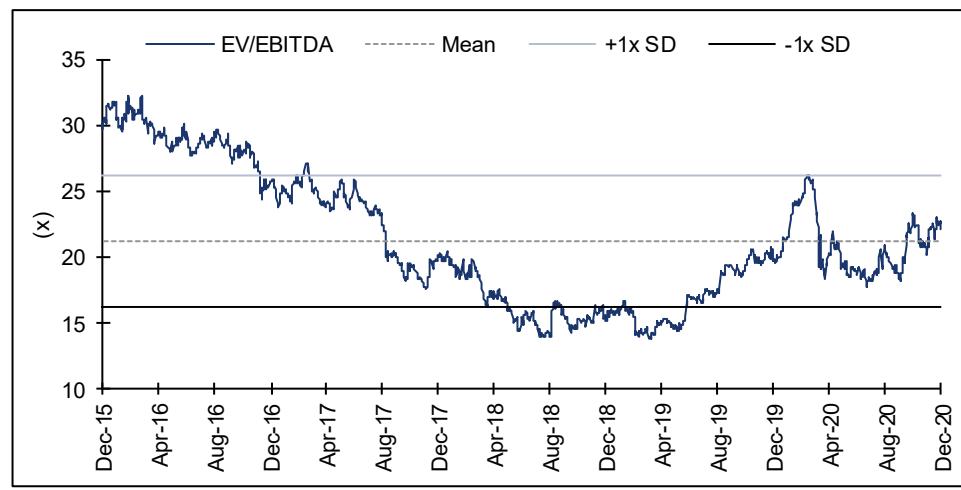
The stock currently trades at EV/EBITDA of 19.1xFY22E and 16.2xFY23E. We believe the valuation has an upside potential considering the recovery in margins, strong bottomline growth and attractive valuations. We remain positive on the stock considering improved business execution and potential upside from vaccine administration for COVID-19. However, the recent run up has limited the upside potential; hence, we downgrade the stock to **ADD** from **BUY** with a revised target price of Rs2,566/share based on SoTP valuation (earlier: Rs2,428/share). The stock has traded at an average forward EV/EBITDA of 21.2x over the past five years.

Table 1: Sum of the parts (SoTP) valuation

Segments	Rs mn	(x)	Value (Rs mn)	AHEL's stake	Value (Rs mn)
Hospitals - EBITDA (Sep'22E)	13,770	18.0	247,855	100%	247,855
Pharmacy - EBITDA (Sep'22E)	3,971	25.0	99,287	100%	99,287
AHLL - Revenue (Sep'22E)	9,177	3.0	27,532	70%	19,341
Indraprastha Medical - Market cap	4,500	0.8	3,600	22%	793
Apollo Gleneagles Kolkata (50% JV)	746	18.0	13,431	100%	13,431
Total EV			380,708		
Less: Net Debt					18,849
Less: Minority Interest					1,076
Implied MCap					360,783
Value per share (Rs)					2,566

Source: Company data, I-Sec research

Chart 1: 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
Hospitals	56,712	49,055	64,678	71,997
Pharmacy	48,206	55,688	63,983	71,798
Others	7,550	7,297	9,650	11,412
Total Revenue	112,468	112,040	138,311	155,206
YoY Growth%	16.9	(0.4)	23.4	12.2
Total Op. Exp.	96,595	100,612	117,979	131,537
EBITDA	15,873	11,428	20,332	23,669
Margins %	14.1	10.2	14.7	15.3
YoY Growth%	49.2	(28.0)	77.9	16.4
Depreciation	6,197	6,501	6,712	7,004
EBIT	9,676	4,927	13,620	16,665
Other Income	239	270	270	270
Interest	5,328	4,913	4,642	4,409
Exceptional Items (net)	1,983	354	-	-
PBT	6,570	638	9,248	12,525
Tax	2,252	211	3,052	4,133
Tax Rate (%)	34.3	33.0	33.0	33.0
Minority Interest	(231)	(231)	-	-
Reported PAT	4,549	659	6,196	8,392
Adj PAT	3,246	422	6,196	8,392
Net Margins (%)	2.9	0.4	4.5	5.4

Source: Company data, I-Sec research

Table 3: Balance sheet

(Rs mn, year ending March 31)

	FY20	FY21E	FY22E	FY23E
Paid-up Capital	696	696	696	696
Reserves & Surplus	32,695	31,711	36,265	43,014
Total Equity	33,391	32,407	36,961	43,710
Minority Interest	1,307	1,076	1,076	1,076
Total Debt	65,896	60,896	58,896	54,896
Deferred Liabilities	2,446	2,446	2,446	2,446
Capital Employed	103,040	96,825	99,378	102,127
Current Liabilities	9,849	10,840	13,501	15,386
Total Liabilities	112,889	107,665	112,880	117,514
Net Fixed Assets	76,677	72,676	69,965	67,960
Investments	3,592	3,592	3,592	3,592
Inventory	7,378	7,685	9,011	10,047
Debtors	10,272	10,233	12,632	14,175
Other Current Assets	9,553	9,518	11,695	13,095
Cash and Equivalents	5,417	3,962	5,984	8,644
Total Cur. Assets	36,212	34,989	42,915	49,554
Total Assets	112,889	107,665	112,880	117,514

Source: Company data, I-Sec research

Table 4: Cashflow statement

(Rs mn, year ending March 31)

	FY20	FY21E	FY22E	FY23E
PBT (Adj. for Extraordinary)	6,570	638	9,248	12,525
Depreciation	6,197	6,501	6,712	7,004
Net Chg in WC	(475)	736	(1,817)	(1,177)
Taxes	(1,716)	(211)	(3,052)	(4,133)
Others	(2,976)	23	(1,426)	(917)
CFO	7,600	7,688	9,665	13,302
Capex	(5,100)	(2,500)	(4,000)	(5,000)
Net Investments made	2,317	-	-	-
Others	(104)	-	-	-
CFI	(2,888)	(2,500)	(4,000)	(5,000)
Change in Share capital	-	-	-	-
Change in Debts	(1,827)	(5,000)	(2,000)	(4,000)
Div. & Div Tax	(1,551)	(1,643)	(1,643)	(1,643)
Others	(136)	-	-	-
CFF	(3,514)	(6,643)	(3,643)	(5,643)
Total Cash Generated	1,198	(1,455)	2,022	2,660
Cash Opening Balance	3,470	4,668	3,213	5,235
Cash Closing Balance	4,668	3,213	5,235	7,895

Source: Company data, I-Sec research

Table 5: Key ratios

(Year ending March 31)

	FY20	FY21E	FY22E	FY23E
Adj EPS	23.1	3.0	44.1	59.7
YoY Growth%	37.5	(87.0)	1,369.4	35.4
Cash EPS	67.2	49.2	91.8	109.5
EBITDA - Core (%)	14.1	10.2	14.7	15.3
NPM (%)	2.9	0.4	4.5	5.4
Net Debt to Equity (x)	1.8	1.8	1.4	1.1
P/E (x)	103.6	797.8	54.3	40.1
EV/EBITDA Core (x)	25.0	34.4	19.1	16.2
P/BV (x)	10.1	10.4	9.1	7.7
EV/Sales (x)	3.5	3.5	2.8	2.5
RoCE (%)	5.8	4.3	10.5	12.4
RoE (%)	9.7	1.3	17.9	20.8
RoIC (%)	6.0	4.3	10.9	13.2
Book Value (Rs)	237.5	230.5	262.9	310.9
DPS (Rs)	9.7	9.7	9.7	9.7
Dividend Payout (%)	42.0	323.7	22.0	16.3
Div Yield (%)	0.4	0.4	0.4	0.4
Asset Turnover Ratio	1.1	1.0	1.3	1.3
Avg Collection days	25	27	26	26
Avg Inventory days	31	35	34	35

Source: Company data, I-Sec research

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Company update and
earnings revision

Pharmaceuticals

Target price: Rs196

Earnings revision

(%)	FY21E	FY22E	FY23E
Sales	-	0.7	0.7
EBITDA	-	0.7	0.7

Target price revision

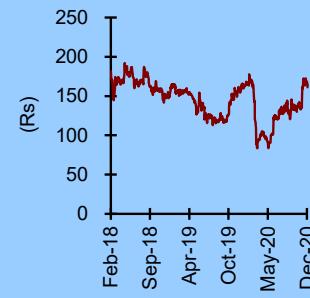
Rs196 from Rs175

Shareholding pattern

	Mar '20	Jun '20	Sep '20
Promoters	37.9	37.9	37.9
Institutional investors	17.3	18.9	19.1
MFs and others	5.0	6.0	6.1
FIs / Banks	0.6	1.5	1.6
FII	9.1	8.8	8.8
Foreign VC	2.6	2.6	2.6
Others	44.8	43.2	43.0

Source: BSE

Price chart



Note: Company listed on Feb 23, 2018

Aster DM Healthcare

BUY

Maintained

Rs161

Well diversified business model

Aster DM Healthcare (Aster DM) has established strong leadership position in Gulf Corporation Council (GCC) region and is expanding its operations well in India. Strong business model diversified into hospitals, clinics and pharmacies across the GCC and India helps minimise any potential regulatory or country-specific risk. This is also evident from the 8.7% revenue growth in Q2FY21 vs revenue decline for most peers. We believe the asset-light expansion approach and improving margin trajectory (140bps over FY20-FY23E) will help in continuing positive FCF generation. Uninterrupted double digit (11.2% CAGR) revenue growth and limited capex requirement will take RoCE to 10.6% by FY23E. Maintain BUY with a revised target price of Rs196/share (earlier: Rs175/share).

- **Strong show in GCC region:** Aster is one of the largest players in GCC region and has a strong network (FY20) of 12 hospitals, 108 clinics and 238 retail pharmacies, which together contributed ~81% to the company's total revenues in FY20. It has created a strong business model by offering services under different formats (Medcare, Aster and Access) for hospitals/clinics to target populations across the income segments. Clinics and pharmacies are less capital-intensive and incremental growth helps improve the return profile. Overall GCC region posted just 3.3% revenue decline in H1FY21 despite COVID-19 impact and we forecast 9.5% CAGR over FY20-FY23E.
- **India growth to be strong:** Aster has a network of 13 hospitals in India and bed capacity of ~3,700, of which ~2,700 are operational. It started with non-metro cities in India and is now increasing its reach to metro cities with an asset-light model. Bed capacity and operational beds have more than doubled in the past five years. The COVID-19 related lockdown impacted revenues in H1FY21 and it witnessed revenue decline of 10.9%. We expect gradual recovery in occupancy and estimate 18.0% revenue CAGR in India business led by 600 additional operating beds and 500bps occupancy increase. The incremental revenue will be margin-accretive with improving maturity profile; we estimate over 400bps margin expansion in this business.
- **Outlook:** We expect Aster to report 11.2/14.6/35.7% revenue/EBITDA/PAT CAGR, respectively, over FY20-FY23 largely driven by the hospital business as we estimate single digit growth in clinics and pharmacies. Limited capex requirement and improving margin will aid positive FCF generation. We expect RoE/RoCE to gradually improve to 16.8/10.6% by FY23E, respectively.
- **Valuations:** We marginally revise our estimates and maintain our BUY rating on the stock with a revised target price of Rs196/share (earlier: Rs175/share) based on SoTP methodology. Key downside risks to our call: Regulatory hurdles and delay in turnaround of new hospitals.

Market Cap	Rs80bn/US\$1.1bn	Year to March	FY20	FY21E	FY22E	FY23E
Bloomberg	ASTERDM IN	Net Revenue (Rs mn)	87,385	88,900	105,536	120,204
Shares Outstanding (mn)	499.5	Net Profit (Rs mn)	2,953	2,321	5,293	7,381
52-week Range (Rs)	178/84	Dil. EPS (Rs)	5.9	4.6	10.6	14.8
Free Float (%)	62.1	% Chg YoY	(11.7)	(21.4)	128.1	39.5
FII (%)	8.8	P/E (x)	27.2	34.7	15.2	10.9
Daily Volume (US\$'000)	719	CEPS (Rs)	17.3	17.8	24.5	29.5
Absolute Return 3m (%)	33.8	EV/EBITDA (x)	10.7	10.4	7.7	6.2
Absolute Return 12m (%)	7.9	Dividend Yield (%)	-	-	-	-
Sensex Return 3m (%)	18.6	RoCE (%)	7.9	5.6	8.9	10.6
Sensex Return 12m (%)	15.6	RoE (%)	9.1	6.8	14.0	16.8

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Valuations

We expect Aster DM to register earnings CAGR of 35.7% over FY20-FY23E driven by revenue CAGR of 11.2% and EBITDA margin expansion of 140bps. We believe revenue growth will be mainly led by hospitals business (16.0% CAGR). We expect return ratios to gradually improve to 16.8% for RoE and 10.6% for RoCE in FY23E with profitability improvement. Receivable days for Aster appear higher than its Indian peers but lower than or equal to its GCC peers. It is high as major revenue is being generated from GCC hospital business largely funded by the government and insurance companies.

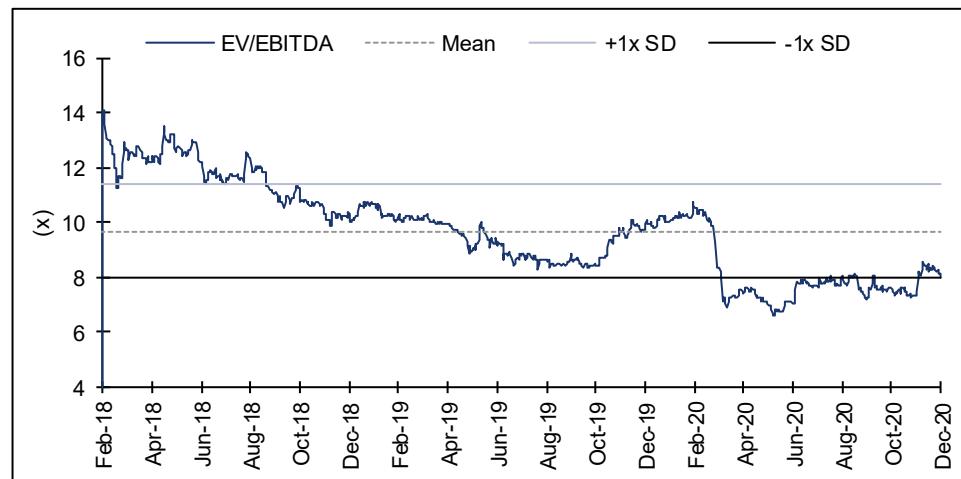
The stock currently trades at EV/EBITDA valuations of 7.7xFY22E and 6.2xFY23E. We believe it is trading at attractive valuations and rerating is likely considering the consistent revenue growth and margin expansion. We maintain our **BUY** rating and value the stock at a target price of Rs196/share (earlier: Rs175/share) based on SoTP valuation and this will imply an EV/EBITDA of 8.7xFY22E and 7.1xFY23E. We ascribe 10x to GCC business and 13x to India hospital business.

Table 1: Sum of the parts (SoTP) valuation

Sep'22E	EBITDA	(x)	Rs mn
GCC Hospitals	5,388	10.0	53,882
India Hospitals	3,175	13.0	41,272
Clinics	2,999	6.0	17,992
Pharmacies	2,320	6.0	13,922
EV	13,882	9.2	127,068
Less: Net debt			(24,760)
Minority interest			(4,464)
Implied market cap			97,844
Value Rs/share			196

Source: Company data, I-Sec research

Chart 1: 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
Hospitals	46,080	48,993	61,332	71,869
Clinics	20,050	19,781	21,992	24,142
Pharmacies	23,720	22,591	24,677	26,659
Total Gross Sales	87,385	88,900	105,536	120,204
Other Op Income	-	-	-	-
Total Net Revenue	87,385	88,900	105,536	120,204
YoY Growth%	9.7	1.7	18.7	13.9
Total Op. Exp.	74,809	76,454	89,178	101,272
EBITDA	12,576	12,446	16,358	18,932
Margins %	14.4	14.0	15.5	15.8
YoY Growth%	45.7	(1.0)	31.4	15.7
Depreciation	5,859	6,595	6,944	7,370
EBIT	6,717	5,851	9,414	11,562
Other Income	379	379	379	379
Interest	3,597	3,160	3,346	3,121
Share of P/L of asso.	(2)	-	-	-
Exceptional Items (net)	(196)	-	-	-
PBT	3,300	3,070	6,447	8,820
Tax	154	368	774	1,058
Tax Rate (%)	4.7	12.0	12.0	12.0
Minority Interest	381	381	381	381
Reported PAT	2,766	2,321	5,293	7,381
Adj PAT	2,953	2,321	5,293	7,381
Net Margins (%)	3.4	2.6	5.0	6.1

Source: Company data, I-Sec research

Table 3: Balance sheet

(Rs mn, year ending March 31)

	FY20	FY21E	FY22E	FY23E
Paid-up Capital	4,995	4,995	4,995	4,995
Reserves & Surplus	27,726	30,047	35,340	42,720
Total Equity	32,721	35,042	40,335	47,716
Minority Interest	4,464	4,844	5,225	5,605
Total Debt	51,117	46,117	43,117	40,117
Deferred Liabilities	1,227	1,227	1,227	1,227
Capital Employed	89,528	87,229	89,903	94,664
Current Liabilities	34,525	33,952	39,253	44,013
Total Liabilities	124,053	121,182	129,155	138,677
Net Fixed Assets	78,596	75,001	74,057	71,687
Investments	-	-	-	-
Inventory	9,610	9,821	11,455	13,009
Debtors	23,664	24,075	28,580	32,552
Other Current Assets	10,297	10,397	11,500	12,473
Cash and Equivalents	1,887	1,889	3,563	8,956
Total Cur. Assets	45,458	46,181	55,098	66,990
Total Assets	124,053	121,182	129,155	138,677

Source: Company data, I-Sec research

Table 4: Cashflow statement

(Rs mn, year ending March 31)

	FY20	FY21E	FY22E	FY23E
PBT (Adj. for Extraordinary)	3,300	3,070	6,447	8,820
Depreciation	5,859	6,595	6,944	7,370
Net Chg in WC	(970)	(1,482)	(3,996)	(3,549)
Taxes	(657)	(368)	(774)	(1,058)
Others	1,103	187	2,053	1,810
CFO	8,636	8,002	10,674	13,393
Capex	(7,415)	(3,000)	(6,000)	(5,000)
Net Investments made	695	(2)	(22)	(19)
Others	47	-	-	-
CFI	(6,673)	(3,002)	(6,022)	(5,019)
Change in Share capital	(1,205)	-	-	-
Change in Debts	(2,174)	(5,000)	(3,000)	(3,000)
Div. & Div Tax	-	-	-	-
Others	(224)	-	-	-
CFF	(3,603)	(5,000)	(3,000)	(3,000)
Total Cash Generated	(1,640)	(0)	1,652	5,373
Cash Opening Balance	3,411	1,771	1,771	3,423
Cash Closing Balance	1,771	1,771	3,423	8,796

Source: Company data, I-Sec research

Table 5: Key ratios

(Year ending March 31)

	FY20	FY21E	FY22E	FY23E
Adj EPS	5.9	4.6	10.6	14.8
YoY Growth%	(11.7)	(21.4)	128.1	39.5
Cash EPS	17.3	17.8	24.5	29.5
EBITDA - Core (%)	14.4	14.0	15.5	15.8
NPM (%)	3.4	2.6	5.0	6.1
Net Debt to Equity (x)	1.5	1.3	1.0	0.7
P/E (x)	27.2	34.7	15.2	10.9
EV/EBITDA Core (x)	10.7	10.4	7.7	6.2
P/BV (x)	2.5	2.3	2.0	1.7
EV/Sales (x)	1.5	1.5	1.2	1.0
RoCE (%)	7.9	5.6	8.9	10.6
RoE (%)	9.1	6.8	14.0	16.8
RoIC (%)	8.1	5.7	9.2	11.3
Book Value (Rs)	65.5	70.2	80.7	95.5
DPS (Rs)	-	-	-	-
Dividend Payout (%)	-	-	-	-
Div Yield (%)	-	-	-	-
Asset Turnover Ratio	0.8	0.7	0.8	0.9
Avg Collection days	92	98	91	93
Avg Inventory days	35	40	37	37

Source: Company data, I-Sec research

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Company update

Pharmaceuticals

Target price: Rs2,430

Shareholding pattern

	Mar '20	Jun '20	Sep '20
Promoters	56.8	56.3	56.3
Institutional investors	30.0	30.3	32.0
MFs and other	7.6	7.3	6.5
Insurance	0.5	1.3	1.3
FII	21.9	21.7	24.2
Others	13.2	12.4	12.7

Source: BSE

Price chart



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Dr Lal Pathlabs

ADD

Maintained

Rs2,177

Fastest recovery among peers

We remain positive on Dr Lal Pathlabs' (Dr Lal) long-term outlook considering its strong brand franchise with sustainably high revenue growth (14-15%), expansion potential, strong FCF generation and higher return ratios. COVID-19 led lockdown impacted H1CY20 performance; however, Dr Lal witnessed speedy recovery in base business during Q2FY21 with non-COVID revenue reverting to ~98% of pre-COVID levels against ~70-85% for peers. We believe organised players like Dr Lal will be the biggest beneficiaries of increasing reach and rising share of the organised sector in diagnostics market. Given strong balance sheet and consistent FCF generation, Dr Lal is well positioned to acquire inorganic growth. We expect mid to high teen volume growth and flattish realisation as share of bundled tests increase. Maintain ADD.

- ▶ **High visibility of sustainable growth:** Dr Lal has been the most consistent among the listed peers in terms of volume growth. It is one of the few organised players with strong brand equity and positioning to benefit as market shifts towards organised players. More than 50% of the diagnostic market is unorganised, although share of organised market is on rise. The industry is expected to grow in double digits over the medium term with organised market growth remaining higher than the industry. We expect consistent growth momentum to continue with revenue CAGR of 14.4% over FY20-FY23E. Volume (number of samples) growth will be higher with change in mix and increasing proportion of bundled tests. However, we estimate realisation levels to remain flattish.
- ▶ **Recovering faster than peers from COVID-19 impact:** Diagnostic companies witnessed significant revenue decline in Q1FY21 due to COVID-19 related lockdown with speedy recovery in Q2FY21. Dr Lal's recovery was fastest with revenue decline in base business of ~2% as compared to ~15-30% decline for peers. We believe revenue growth will revert to double digit Q3FY21 onwards and supported by tailwinds from COVID-19 related tests.
- ▶ **Outlook:** We expect Dr Lal to outperform industry growth and register revenue, EBITDA and PAT growth at CAGRs of 14.4%, 19.1% and 23.3%, respectively, over FY20-FY23E. RoE and RoCE will remain strong at 26.1% and 25.0%, respectively, in FY23E whereas RoIC will move to 131.3%. We expect the company to continue generating healthy free cashflow of ~Rs12.6bn over the next three years with minimal capital requirement.
- ▶ **Valuation and risks:** We believe high growth visibility, strong FCF and >100% RoIC by FY23E justify premium valuations. We maintain our **ADD** rating on the stock with DCF-based target price of Rs2,430/share, implying 47.8xFY23E earnings and 32.1xFY23E EV/EBITDA. Key downside risks: Regulatory hurdles, competition risk and pricing pressure including any price cap on diagnostic tests.

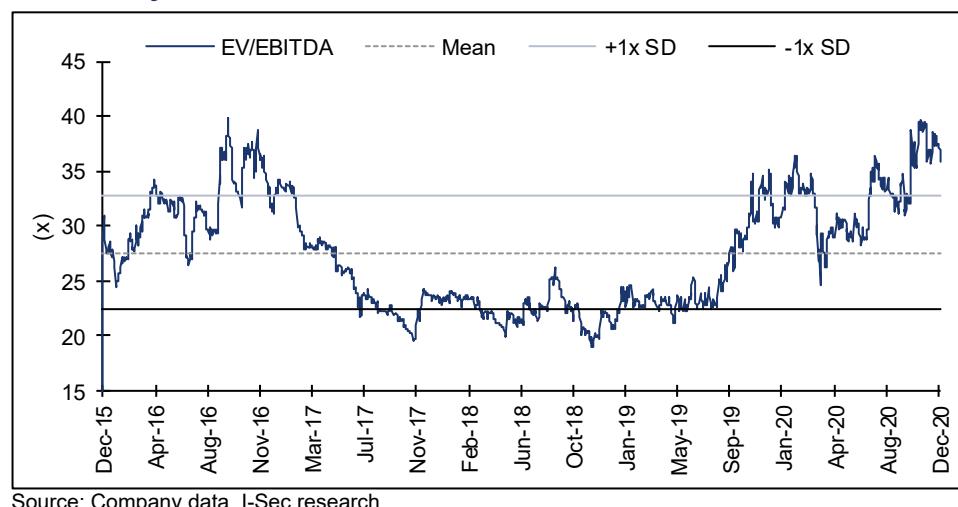
Market Cap	Rs181bn/US\$2.5bn	Year to March	FY20	FY21E	FY22E	FY23E
Reuters/Bloomberg	DLPA.BO/DLPL IN	Net Revenue (Rs mn)	13,304	15,080	17,642	19,943
Shares Outstanding (mn)	83.3	Net Profit (Rs mn)	2,259	2,667	3,669	4,235
52-week Range (Rs)	2323/1252	Dil. EPS (Rs)	27.1	32.0	44.0	50.8
Free Float (%)	43.1	% Chg YoY	12.3	18.1	37.6	15.4
FII (%)	19.3	P/E (x)	80.3	68.0	49.4	42.8
Daily Volume (US\$'000)	4,972	CEPS (Rs)	35.8	41.5	54.1	61.6
Absolute Return 3m (%)	21.3	EV/EBITDA (x)	50.7	44.6	33.2	28.5
Absolute Return 12m (%)	42.5	Dividend Yield (%)	0.6	0.4	0.5	0.6
Sensex Return 3m (%)	18.6	RoCE (%)	22.6	22.4	25.9	25.0
Sensex Return 12m (%)	15.6	RoE (%)	22.8	23.7	27.2	26.1

Valuations

We estimate earnings to grow at a CAGR of 23.3% over FY20-FY23E driven by revenue CAGR of 14.4% and rise in other income with strong free cashflow generation. Further, we expect RoCE to remain strong at ~25% despite the recent expansion in the Eastern belt. Strong brand equity in organised diagnostics market, experienced management team and continuing financial growth across parameters will benefit from premium valuations, in our view.

The stock currently trades at valuations of 49.4xFY22E and 42.8xFY23E earnings and EV/EBITDA multiple of 33.2xFY22E and 28.5xFY23E. We believe Dr Lal will 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 upside from COVID-19 related RT-PCR & anti-body tests. Reiterate **ADD** with a DCF-based target price of Rs2,430/share implying 47.8xFY23E EPS and 32.1xFY23E EV/EBITDA.

Chart 1: 1-year forward EV/EBITDA



Source: Company data, I-Sec research

Financial summary (consolidated)

Table 1: Profit & loss statement

(Rs mn, year ending March 31)

	FY20	FY21E	FY22E	FY23E
Total Gross Sales	13,304	15,080	17,642	19,943
Excise duty	-	-	-	-
Total Net Revenue	13,304	15,080	17,642	19,943
YoY Growth%	10.5	13.4	17.0	13.0
Total Op. Exp.	9,868	11,231	12,564	14,142
EBITDA	3,436	3,849	5,078	5,800
Margins %	25.8	25.5	28.8	29.1
YoY Growth%	15.8	12.0	31.9	14.2
Depreciation	728	789	836	896
EBIT	2,708	3,060	4,242	4,905
Other Income	550	658	816	910
Interest	153	153	153	153
EO Items	-	-	-	-
PBT	3,105	3,565	4,905	5,662
Tax	829	898	1,236	1,427
Tax Rate (%)	26.7	25.2	25.2	25.2
Minority Interest	17	-	-	-
Reported PAT	2,259	2,667	3,669	4,235
Adj PAT	2,259	2,667	3,669	4,235
Net Margins (%)	17.0	17.7	20.8	21.2

Source: Company data, I-Sec research

Table 2: Balance sheet

(Rs mn, year ending March 31)

	FY20	FY21E	FY22E	FY23E
Paid-up Capital	833	833	833	833
Reserves & Surplus	9,495	11,356	13,917	16,873
Total Equity	10,328	12,189	14,750	17,706
Minority Interest	212	212	212	212
Total Debt	-	-	-	-
Deferred Liabilities	(229)	(229)	(229)	(229)
Capital Employed	10,312	12,173	14,734	17,690
Current Liabilities	3,203	3,512	3,882	4,260
Total Liabilities	13,515	15,685	18,616	21,950
Net Fixed Assets	4,244	3,855	3,420	2,924
Investments	-	-	-	-
Inventory	570	718	756	843
Debtors	514	583	681	770
Other Current Assets	853	922	1,021	1,109
Cash and Equivalents	7,334	9,607	12,738	16,303
Total Cur. Assets	9,271	11,830	15,196	19,025
Total Assets	13,515	15,685	18,616	21,950

Source: Company data, I-Sec research

Table 3: Cashflow statement

(Rs mn, year ending March 31)

	FY20	FY21E	FY22E	FY23E
PBT (Adj. for Extraordinary)	3,105	3,565	4,905	5,662
Depreciation	728	789	836	896
Net Chg in WC	56	(55)	22	12
Taxes	(935)	(898)	(1,236)	(1,427)
Others	(268)	78	112	101
CFO	2,686	3,479	4,639	5,244
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)	(805)	(1,108)	(1,279)
Others	(83)	-	-	-
CFF	(1,636)	(805)	(1,108)	(1,279)
Total Cash Generated	789	2,273	3,131	3,565
Cash Opening Balance	4,902	5,691	7,964	11,095
Cash Closing Balance	5,691	7,964	11,095	14,660

Source: Company data, I-Sec research

Table 4: Key ratios

(Year ending March 31)

	FY20	FY21E	FY22E	FY23E
Adj EPS	27.1	32.0	44.0	50.8
YoY Growth%	12.3	18.1	37.6	15.4
Cash EPS	35.8	41.5	54.1	61.6
EBITDA - Core (%)	25.8	25.5	28.8	29.1
NPM (%)	17.0	17.7	20.8	21.2
Net Debt to Equity (x)	(0.7)	(0.8)	(0.9)	(0.9)
P/E (x)	80.3	68.0	49.4	42.8
EV/EBITDA Core (x)	50.7	44.6	33.2	28.5
P/BV (x)	17.6	14.9	12.3	10.2
EV/Sales (x)	13.1	11.4	9.6	8.3
RoCE (%)	22.6	22.4	25.9	25.0
RoE (%)	22.8	23.7	27.2	26.1
RoIC (%)	59.1	60.1	94.4	131.3
Book Value (Rs)	124	146	177	212
DPS (Rs)	12.0	8.0	11.0	12.7
Dividend Payout (%)	44.3	25.0	25.0	25.0
Div Yield (%)	0.6	0.4	0.5	0.6
Asset Turnover Ratio	1.1	1.0	1.0	1.0
Avg Collection days	14	13	13	13
Avg Inventory days	16	21	21	21

Source: Company data, I-Sec research

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Company update and
reco change

Pharmaceuticals

Target price: Rs163

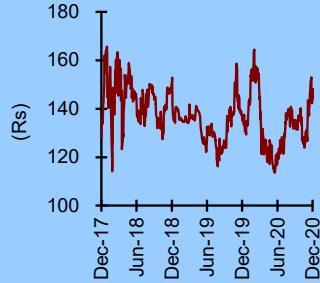
Target price revision
Rs163 from Rs165

Shareholding pattern

	Mar '20	Jun '20	Sep '20
Promoters	31.2	31.2	31.2
Institutional investors	51.6	50.8	51.1
MFs and others	7.1	8.4	8.6
Banks, FI's	1.3	1.4	1.2
FII's	43.2	41.0	41.3
Others	17.2	18.0	17.7

Source: BSE India

Price chart



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Fortis Healthcare

ADD

Downgrade from Buy

Rs148

Focus on operational efficiency

Fortis Healthcare (FHL) has been underperforming for the past few years due to change in management, liquidity driven operational issues and pending Supreme Court ruling. However, the new board has worked hard in identifying and rectifying inefficiencies coupled with various cost-control initiatives. As a result, the company reported strong FY20 performance particularly on operational metrics with recovery in hospital margins. COVID-19 related lockdown impacted revenues in H1FY21, which declined 31.9%. We expect gradual improvement in occupancy levels, which may normalise in FY22E. We believe the Supreme Court ruling will be key for valuation re-rating and execution of open offer by IHH. With the recent rally in stock price, we downgrade the stock to ADD from Buy.

- ▶ **Revenue growth to recover albeit gradually:** Revenue growth has been stagnant over the past three years with both hospital and diagnostic segments underperforming the industry and peers. The lockdown also impacted revenues significantly in H1FY21 as FHL has large presence in metro cities, particularly in Delhi-NCR region. We expect occupancies to improve at gradual pace with normalisation in FY22E. Cautiously, management has guided to add 1,500 beds over the next 3-4 years with capex requirement of Rs4-5bn to improve the growth rate; we expect >12% (in-line with peers) revenue growth FY22 onwards.
- ▶ **Focus on improving operating performance:** Adjusted EBITDA margin improved 340bps YoY in FY20 driven by focused approach towards operational efficiency. Cost-control initiatives continue in current fiscal and we expect this margin level to not only be sustainable, but also rise with additional room for optimising operating cost in the hospital business. SRL margin has also improved with better revenue mix, network management and cost containment initiatives.
- ▶ **Legal hurdle:** IHH acquired the controlling stake of the company in FY19, which should have triggered an open offer. IHH had set the open offer price at Rs170/share. However, the Supreme Court asked to delay the open offer until there is a verdict on the litigation between Daiichi and Singh brothers (prior promoters). IHH had appealed against this delay. Later, the court ruled against the IHH's appeal stating that transfer of controlling stake of FHL to IHH was in contempt of court. Next hearing is scheduled on 27th Jan, '21.
- ▶ **Outlook:** We expect gradual recovery in growth and estimate revenue/EBITDA/PAT CAGRs at 5.8%/6.4%/68.7%, respectively, over FY20-FY23E. Operating leverage and cost rationalisation will aid in improvement of EBITDA margin.
- ▶ **Valuations and risks:** We downgrade the stock to ADD from Buy post the recent stock price appreciation and value it at Rs163/share (earlier: Rs165/share) based on EV/EBITDA of 16x hospital business and 20x SRL on Sep'22E. Key downside risks to our call: Ongoing regulatory concerns and delay in margin recovery.

Market Cap	Rs112bn/US\$1.5bn
Reuters/Bloomberg	FOHE.BO/FORH IN
Shares Outstanding (mn)	755.0
52-week Range (Rs)	164/114
Free Float (%)	68.8
FII (%)	41.3
Daily Volume (USD/'000)	4,258
Absolute Return 3m (%)	10.9
Absolute Return 12m (%)	8.5
Sensex Return 3m (%)	18.6
Sensex Return 12m (%)	15.6

Year to Mar	FY20	FY21E	FY22E	FY23E
Revenue (Rs mn)	46,323	40,465	48,811	54,889
Net Income (Rs mn)	579	(256)	2,522	3,873
EPS (Rs)	1.1	(0.3)	3.3	5.1
% Chg YoY	128.5	(130.2)	(1,084)	53.6
P/E (x)	131.9	(436.2)	44.3	28.8
CEPS (Rs)	5.0	3.7	7.5	9.6
EV/E (x)	20.5	28.4	15.1	12.3
Dividend Yield (%)	-	-	-	-
RoCE (%)	2.4	1.2	4.1	5.1
RoE (%)	1.3	(0.4)	3.7	5.5

Valuations

We expect EBITDA to register CAGR of 16.4% over FY20-FY23E driven by revenue CAGR of 5.8%. Margin will expand to 17.5% by FY23 from 13.2% in FY20. This will be driven by operating leverage and cost rationalisation.

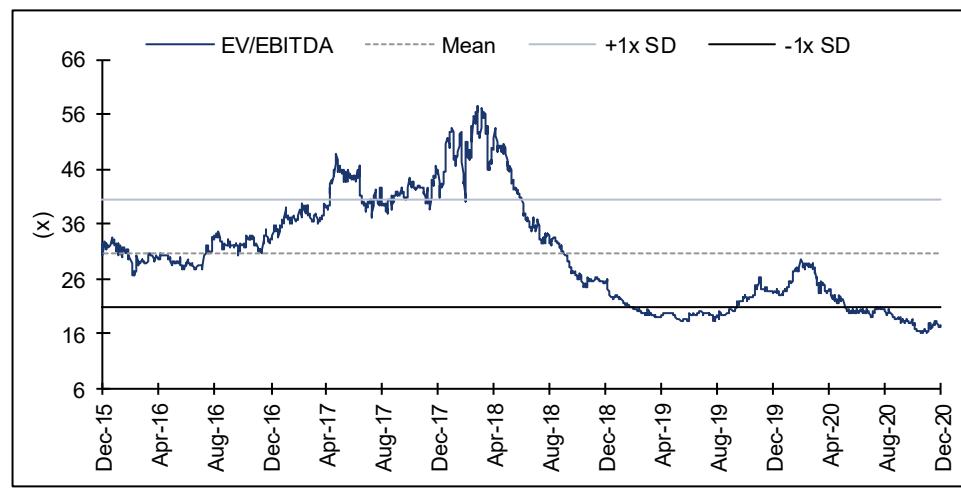
The stock currently trades at EV/EBITDA of 15.1xFY22E and 12.3xFY23E. We remain optimistic on the outlook considering strong growth in hospitals with increasing occupancy & ARPOB, inherent traction in diagnostic industry for SRL and cost-control initiatives employed by the current management. However, we downgrade the stock to **ADD** from *Buy* post the recent stock price appreciation with a revised target price of Rs163/share (earlier: Rs165/share) based on SoTP (EV/EBITDA of 16x hospital business and 20x SRL).

Table 1: Sum of the parts (SoTP) valuation

	Sep'22E EBITDA	(x)	Values (Rs mn)
Hospitals	6,675	16	106,796
SRL	2,154	20	24,511
EV			131,307
Less: Net debt			8,132
Implied Mkt Cap			123,174
Total value per share			163

Source: Company data, I-Sec research

Chart 1: 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
Hospitals	37,520	31,903	39,897	45,093
SRL	8,790	8,562	8,914	9,796
Total Revenue	46,323	40,465	48,811	54,889
yoY Growth%	3.6	(12.6)	20.6	12.5
Total Op. Exp.	40,228	36,115	40,757	45,283
EBITDA	6,095	4,350	8,054	9,606
Margins %	13.2	10.8	16.5	17.5
YoY Growth%	161.1	(18.3)	53.5	6.1
Depreciation	2,917	3,017	3,171	3,361
EBIT	3,178	1,333	4,883	6,245
Other Income	648	526	526	526
Interest	2,051	1,754	1,589	1,144
Exceptional Items (net)	-402	0	0	0
PBT	1,374	106	3,821	5,627
Tax	459	27	963	1,418
Tax Rate (%)	33.4	25.2	25.2	25.2
Profit from associates	-	-	-	-
Minority Interest	336	336	336	336
Reported PAT	579	(256)	2,522	3,873
Adj PAT	847	(256)	2,522	3,873
Net Margins (%)	1.3	(0.6)	5.2	7.1

Source: Company data, I-Sec research

Table 3: Balance sheet

(Rs mn, year ending March 31)

	FY20	FY21E	FY22E	FY23E
Paid-up Capital	7,550	7,550	7,550	7,550
Reserves & Surplus	59,061	58,805	61,327	65,201
Total Equity	66,611	66,355	68,877	72,750
Minority Interest	5,445	5,781	6,116	6,452
Total Debt	15,943	15,943	12,943	9,943
Deferred Liabilities	(813)	(813)	(813)	(813)
Capital Employed	87,186	87,265	87,123	88,332
Current Liabilities	22,363	22,171	23,173	24,143
Total Liabilities	109,549	109,436	110,296	112,475
Net Fixed Assets	90,061	89,544	90,374	91,013
Investments	1,745	1,497	1,497	1,497
Inventory	782	683	824	926
Debtors	4,588	4,008	4,834	5,436
Other Current Assets	9,714	9,543	9,786	9,964
Cash and Equivalents	2,660	4,162	2,981	3,640
Total Cur. Assets	19,488	19,892	19,923	21,463
Total Assets	109,549	109,436	110,296	112,475

Source: Company data, I-Sec research

Table 4: Cashflow statement

(Rs mn, year ending March 31)

	FY20	FY21E	FY22E	FY23E
PBT (Adj. for Extraordinary)	1,374	106	3,821	5,627
Depreciation	2,917	3,017	3,171	3,361
Net Chg in WC	(1,255)	787	(393)	(46)
Taxes	(3,395)	(27)	(963)	(1,418)
Others	23	(129)	184	134
CFO	(335)	3,754	5,819	7,658
Capex	(627)	(2,500)	(4,000)	(4,000)
Net Investments made	1,091	249	-	-
Others	140	-	-	-
CFI	604	(2,251)	(4,000)	(4,000)
Change in Share capital	0	-	-	-
Change in Debts	(6,568)	-	(3,000)	(3,000)
Div. & Div Tax	-	-	-	-
Others	400	-	-	-
CFF	(6,168)	-	(3,000)	(3,000)
Total Cash Generated	(5,899)	1,502	(1,181)	658
Cash Opening Balance	8,559	2,660	4,162	2,981
Cash Closing Balance	2,660	4,162	2,981	3,640

Source: Company data, I-Sec research

Table 5: Key ratios

(Year ending March 31)

	FY20	FY21E	FY22E	FY23E
Adj EPS	1.1	(0.3)	3.3	5.1
YoY Growth%	128.5	(130.2)	(1,084)	53.6
Cash EPS	5.0	3.7	7.5	9.6
EBITDA - Core (%)	13.2	10.8	16.5	17.5
NPM (%)	1.3	(0.6)	5.2	7.1
Net Debt to Equity (x)	0.2	0.2	0.1	0.1
P/E (x)	131.9	(436.2)	44.3	28.8
EV/EBITDA Core (x)	20.5	28.4	15.1	12.3
P/BV (x)	1.7	1.7	1.6	1.5
EV/Sales (x)	2.7	3.1	2.5	2.2
RoCE (%)	2.4	1.2	4.1	5.1
RoE (%)	1.3	(0.4)	3.7	5.5
RoIC (%)	2.3	0.9	3.9	5.0
Book Value (Rs)	88.2	87.9	91.2	96.4
DPS (Rs)	-	-	-	-
Dividend Payout (%)	-	-	-	-
Div. Yield (%)	-	-	-	-
Asset Turnover Ratio	0.4	0.4	0.4	0.5
Avg Collection days	5	7	6	6
Avg Inventory days	53	54	48	46

Source: Company data, I-Sec research

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Company update and
reco change

Pharmaceuticals

Target price: Rs173

Estimate revision

(%)	FY21E	FY22E	FY23E
Sales	-	0.6	1.1
EBITDA	-	0.6	2.6

Target price revision

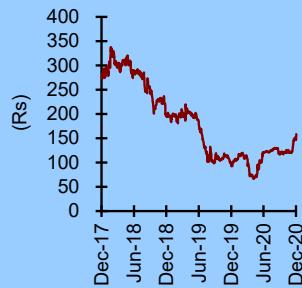
Rs173 from Rs158

Shareholding pattern

	Mar '20	Jun '20	Sep '20
Promoters	23.9	23.9	66.9
Institutional investors	54.7	48.6	18.6
MFs and others	17.5	13.8	9.6
Other Inst.	10.2	10.2	0.6
FII	27.0	23.6	8.4
Others	21.4	27.5	14.5

Source: BSE India

Price chart



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HealthCare Global Enterprises

ADD

Downgrade from *Buy*

Expansion phase over; focus on FCF

Rs158

HealthCare Global Enterprises (HCG) has been undergoing large capex phase over the past few years, which has ended in the current fiscal. The company has invested ~Rs10bn over the past five years and has more than doubled the number of operating beds to over 2,100. This heavy expansion stretched the balance sheet and weakened margins due to losses from the newly-added centres. Recently, the company raised ~Rs5.1bn by issue of equity shares on preferential basis to CVC Group and will receive an additional ~Rs1.4bn post conversion of warrants. This has allayed the debt concern to a large extent. Post completion of the expansion phase and resolution of debt concerns, company's focus will be towards generation of positive FCF FY22E driven by profitability improvement. Recent run up in stock price has limited the upside potential; hence, we downgrade the stock to ADD from *Buy*.

- ▶ **Low occupancy due to expansion and impact of COVID-19:** The company has invested close to Rs10bn towards capex over the last five years adding ten new oncology centres and three new fertility centres across India. This caused the occupancy ratio to reduce significantly from 51.0% in FY16 to 42.9% in FY20. However, the company reported strong double-digit growth throughout the years with expansion driving up volume. Change in payer mix (reduction of government sponsored patients) through the years caused an increase in ARPOB. The lockdown in H1FY21 impacted the business severely and we expect the recovery to be gradual as HCG is a single specialty chain of oncology. We expect the occupancy to gradually improve hereon with rising volume at new centres.
- ▶ **Equity infusion strengthened balance sheet:** Debt was one of the key concerns for the company as debt servicing was proving difficult from internal accruals especially after the business was impacted by COVID-19 pandemic. HCG announced total equity dilution of ~36% to raise Rs6.5bn through issue of equity shares and warrants to CVC Group and promoters. The company has already received Rs5.1bn, while the balance will accrue at the time of warrants conversion.
- ▶ **Outlook:** Increasing ARPOB with bed maturity and higher occupancy ratio may drive 160bps margin improvement for the company over FY20-FY23E. Overall, we expect 10.4% revenue and 13.9% EBITDA CAGR over FY20-FY23E. The capex requirement has reduced significantly and we do not anticipate any major capex plan over the next three years.
- ▶ **Valuations and risks:** Recent run up in the stock price has limited the upside potential; hence, we downgrade the stock to **ADD** from *Buy* with a revised target price of Rs173/share based on 15xSep'22E EBITDA (earlier: Rs158/share). Key downside risks: Higher competition in oncology and fertility care and delay in operational turnaround of new centres.

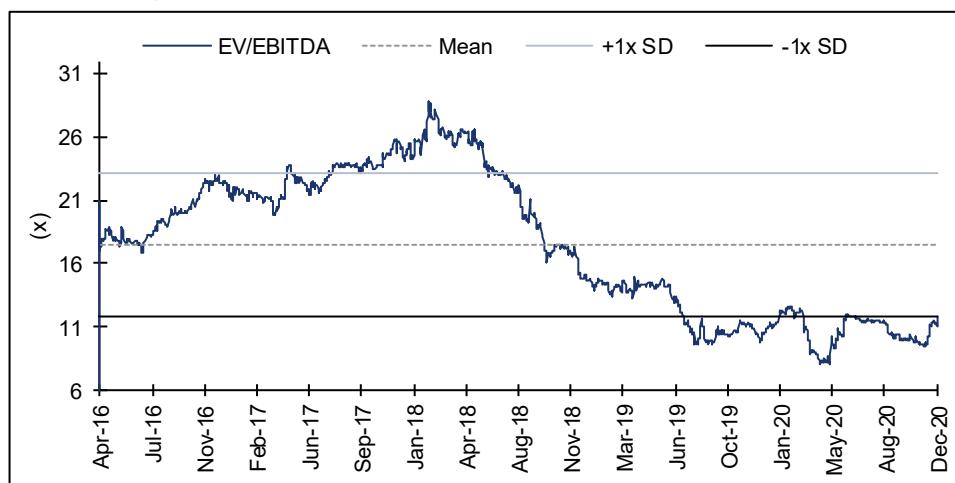
Market Cap	Rs19.8bn/US\$269mn
Reuters/Bloomberg	HEAC.BO / HCG IN
Shares Outstanding (mn)	125.3
52-week Range (Rs)	158/66
Free Float (%)	33.1
FII (%)	8.4
Daily Volume (USD/'000)	225
Absolute Return 3m (%)	31.7
Absolute Return 12m (%)	64.9
Sensex Return 3m (%)	18.6
Sensex Return 12m (%)	15.6

Year to Mar	FY20	FY21E	FY22E	FY23E
Revenue (Rs mn)	10,956	10,009	12,978	14,736
Net Income (Rs mn)	(944)	(801)	(269)	35
EPS (Rs)	(7.7)	(5.9)	(1.9)	0.3
% Chg YoY	330.2	(23.5)	(67.1)	(113.0)
P/E (x)	(20.5)	(26.9)	(81.5)	627.5
CEPS (Rs)	3.0	6.0	10.2	12.9
EV/E (x)	20.2	23.2	13.5	11.1
Dividend Yield (%)	-	-	-	-
RoCE (%)	2.6	0.1	2.2	3.6
RoE (%)	(24.9)	(14.1)	(3.2)	0.4

Valuations

We expect HCG to register revenue CAGR of 10.4% over FY20-FY23E and EBITDA margin expansion to 17.3% in FY23E (from 15.7% in FY20). The stock currently trades at EV/EBITDA of 13.5xFY22E and 11.1xFY23E. We believe upside potential exists considering the recovery in margins and strong bottomline growth as newer centres become profitable with increasing occupancy. However, recent run up in stock price has limited the upside potential; hence, we downgrade the stock to **ADD** from **Buy** with a revised target price of Rs173/share based on 15xSep'22E EV/EBITDA (earlier: Rs158/share). At our target price, the stock will trade at EV/EBITDA of 13.8xFY22E and 11.3xFY23E while it has traded at an average forward EV/EBITDA of 17.5x since its listing.

Chart 1: 1-year forward EV/E



Source: Company data, I-Sec research

Financial summary (consolidated)

Table 1: Profit & loss statement

(Rs mn, year ending March 31)

	FY20	FY21E	FY22E	FY23E
Karnataka cluster	3,645	3,250	3,995	4,456
Gujarat cluster	3,037	2,783	3,872	4,296
East India cluster	826	846	1,200	1,399
Maharashtra cluster	1,390	1,548	1,925	2,245
Others	1,357	1,162	1,525	1,830
Milann	701	421	463	509
Total Net Revenue	10,956	10,009	12,978	14,736
yoY Growth%	11.9	(8.6)	29.7	13.5
Total Op. Exp.	9,235	8,658	10,837	12,194
EBITDA	1,722	1,351	2,141	2,542
Margins %	15.7	13.5	16.5	17.3
yoY Growth%	37.5	(21.5)	58.5	18.7
Depreciation	1,485	1,645	1,687	1,755
EBIT	237	(294)	454	786
Other Income	70	70	70	73
Interest	1,377	1,103	883	813
EO Income	-	-	-	-
PBT	(1,070)	(1,327)	(359)	47
Tax	62	(338)	(91)	12
Tax Rate (%)	(5.8)	25.5	25.2	25.2
Minority Interest	(188)	(188)	-	-
Reported PAT	(944)	(801)	(269)	35
Adj. PAT	(944)	(801)	(269)	35
Net Margins (%)	(8.6)	(8.0)	(2.1)	0.2

Source: Company data, I-Sec research

Table 2: Balance sheet

(Rs mn, year ending March 31)

	FY20	FY21E	FY22E	FY23E
Paid-up Capital	887	1,252	1,387	1,387
Reserves & Surplus	2,926	6,492	7,843	7,878
Total Equity	3,813	7,744	9,230	9,265
Minority Interest	385	198	198	198
Total Debt	12,780	9,280	8,380	7,880
Deferred Liabilities	(192)	(192)	(192)	(192)
Capital Employed	16,786	17,029	17,616	17,150
Current Liabilities	5,485	3,529	4,097	4,413
Total Liabilities	22,270	20,558	21,712	21,563
Net Fixed Assets	16,922	15,677	14,589	13,834
Investments	341	341	341	341
Inventory	233	218	273	307
Debtors	1,857	1,696	2,199	2,497
Other Current Assets	2,598	2,523	2,759	2,898
Cash and Equivalents	320	103	1,551	1,686
Total Cur. Assets	5,008	4,540	6,782	7,389
Total Assets	22,270	20,558	21,712	21,563

Source: Company data, I-Sec research

Table 3: Cashflow statement

(Rs mn, year ending March 31)

	FY20	FY21E	FY22E	FY23E
PBT (Adj. for Extraordinary)	(1,193)	(1,342)	(359)	47
Depreciation	1,485	1,645	1,687	1,755
Net Chg in WC	(109)	113	(121)	(97)
Taxes	(267)	338	91	(12)
Others	9	(1,819)	(105)	(58)
CFO	(75)	(1,064)	1,193	1,635
Capex	(1,074)	(400)	(600)	(1,000)
Net Investments made	56	-	-	-
Others	4	-	-	-
CFI	(1,014)	(400)	(600)	(1,000)
Change in Share capital	203	4,747	1,755	-
Change in Debts	231	(3,500)	(900)	(500)
Div. & Div Tax	-	-	-	-
Others	766	-	-	-
CFF	1,201	1,247	855	(500)
Total Cash Generated	112	(217)	1,448	135
Cash Opening Balance	209	320	103	1,551
Cash Closing Balance	320	103	1,551	1,686

Source: Company data, I-Sec research

Table 4: Key ratios

(Year ending March 31)

	FY20	FY21E	FY22E	FY23E
Adj EPS	(7.7)	(5.9)	(1.9)	0.3
YoY Growth%	330.2	(23.5)	(67.1)	(113.0)
Cash EPS	3.0	6.0	10.2	12.9
EBITDA - Core (%)	15.7	13.5	16.5	17.3
NPM (%)	(8.6)	(8.0)	(2.1)	0.2
Net Debt to Equity (x)	3.3	1.2	0.7	0.7
P/E (x)	(20.5)	(26.9)	(81.5)	627.5
EV/EBITDA Core (x)	20.2	23.2	13.5	11.1
P/BV (x)	5.7	2.8	2.4	2.4
EV/Sales (x)	3.2	3.1	2.2	1.9
RoCE (%)	2.6	0.1	2.2	3.6
RoE (%)	(24.9)	(14.1)	(3.2)	0.4
RoIC (%)	2.3	0.1	2.3	4.0
Book Value (Rs)	27.5	55.8	66.5	66.8
DPS (Rs)	-	-	-	-
Dividend Payout (%)	-	-	-	-
Div. Yield (%)	-	-	-	-
Asset Turnover Ratio	0.6	0.5	0.6	0.7
Avg Collection days	57	65	55	58
Avg Inventory days	10	9	8	9

Source: Company data, I-Sec research

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Company update

Pharmaceuticals

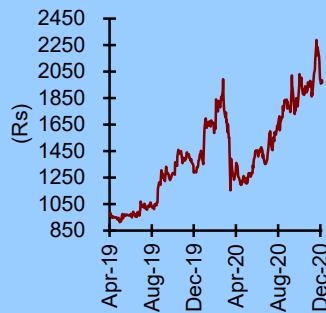
Target price: Rs2,254

Shareholding pattern

	Mar '20	Jun '20	Sep '20
Promoters	56.9	50.8	50.6
Institutional investors	22.2	39.6	42.1
MFs and other	6.0	12.1	13.8
Banks, FI's	0.0	1.6	2.1
FII's	16.2	25.9	26.2
Others	20.9	9.6	7.3

Source: BSE

Price chart



Note: Company listed on Apr 15, 2019

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Metropolis Healthcare

ADD

Maintained

Rs1,970

Headstrong towards growth

Metropolis Healthcare (Metropolis) is among the few organised players in a highly unorganised and under-penetrated diagnostic industry. It has strong presence in Western India and is gradually expanding in other regions. The management is quite headstrong towards growth, evident from the frequent small acquisitions to support faster growth vs peers. The company may look for a large acquisition if strategic opportunity is available. We believe organised players like Metropolis with focus on high-value specialised tests will benefit from increasing footprint and rising share of organised players. The base business is gradually recovering from COVID-19 impact with revenue reverting to pre-COVID levels in Sep'20. Volume growth has improved over the past few years aided by aggressive network expansion with B2C focus. Maintain ADD.

► **Organised player with rising B2C share:** More than 50% of the diagnostic market is unorganised though share of the organised market is on rise. Metropolis is the third largest organised player in India with strong brand equity and enjoys leadership position in Western India. However, the company's volume growth had lagged its peers in the past due to higher focus on B2B business and specialised tests. The renewed focus on B2C segment with aggressive network expansion has helped in improving volume growth to high double digit. The proportion of B2C revenue has increased to ~49% in FY20 from ~39% in FY17. We expect this trend to sustain and estimate volume CAGR of 14.2% in number of tests over FY20-FY23.

► **Headstrong for growth:** Over the past few years, the company has aggressively expanded its network infrastructure, in terms of number of labs, patient service centres and touch points, with a view to increase its contribution from B2C business and improve volume growth trajectory. The company has been steadfast in searching inorganic opportunities resulting in frequent small acquisitions to expand presence and acquire growth. We believe the company will also look for a larger acquisition if any strategic asset becomes available.

► **Outlook:** We expect Metropolis to outperform industry growth and register revenue, EBITDA and PAT growth at CAGRs of 15.1%, 18.7% and 21.3%, respectively, over FY20-FY23E. Generation of free cashflow worth Rs7bn is estimated over the next three years. RoE and RoCE will remain strong at 34.4% and 32.0%, respectively, in FY23E whereas RoIC will move to 84.0%. 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 maintain ADD rating on the stock with a DCF-based target price of Rs2,254/share implying 43.8xFY23E EPS and 28.0xFY23E EV/EBITDA. Key downside risks: Higher-than-expected competition, pricing pressures and regulatory hurdles.

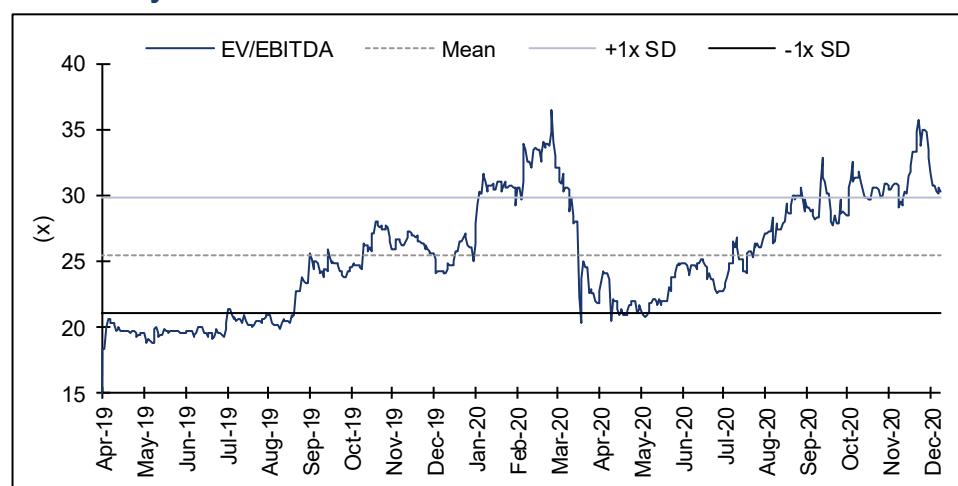
Market Cap	Rs101bn/US\$1.4bn	Year to March	FY20	FY21E	FY22E	FY23E
Reuters/Bloomberg	METP.BO/METROHL IN	Net Revenue (Rs mn)	8,564	10,177	11,631	13,043
Shares Outstanding (mn)	51.1	Net Profit (Rs mn)	1,273	1,756	2,246	2,606
52-week Range (Rs)	2289/1154	Dil. EPS (Rs)	28.8	34.7	44.4	51.5
Free Float (%)	49.4	% Chg YoY	20.4	20.4	27.9	16.1
FII (%)	26.2	P/E (x)	68.4	56.8	44.4	38.3
Daily Volume (US\$'000)	3,893	CEPS (Rs)	36.6	43.3	53.3	61.2
Absolute Return 3m (%)	12.9	EV/EBITDA (x)	42.2	35.6	28.4	24.3
Absolute Return 12m (%)	53.5	Dividend Yield (%)	0.4	0.9	1.1	1.3
Sensex Return 3m (%)	18.6	RoCE (%)	29.0	27.9	30.6	30.5
Sensex Return 12m (%)	15.6	RoE (%)	31.0	30.9	33.6	33.0

Valuations

We expect Metropolis to register earnings CAGR of 21.3% over FY20-FY23 driven by revenue CAGR of 15.1% and 260bps EBITDA margin improvement. We believe revenue growth will be led by an increase in volumes with realisation remaining flattish or declining marginally. We expect return ratios to remain strong at RoE and RoCE of 33.0% each, in FY23 given no major capex requirement.

The stock currently trades at valuations of 44.4xFY22E and 38.3xFY23E earnings and EV/EBITDA multiple of 28.4xFY22E and 24.3xFY23E. We believe premium valuation of the stock is justified and will continue due to its quality associated brand equity in growing diagnostic industry, high visibility of steady growth with increasing B2C contribution, high RoIC of 69.0% and strong free cashflow yield of 2.8% by FY23E. We retain **ADD** with a revised DCF-based target price of Rs2,254/share implying 43.8xFY23E EPS and 28.0xEV/EBITDA.

Chart 1: 1-year forward EV/EBITDA chart



Source: Company data, Bloomberg data, I-Sec research

Financial summary (consolidated)

Table 1: Profit & loss statement

(Rs mn, year ending March 31)

	FY20	FY21E	FY22E	FY23E
Total Net Revenue	8,564	10,177	11,631	13,043
yoY Growth%	12.5	18.8	14.3	12.1
Total Op. Exp.	6,236	7,447	8,245	9,151
EBITDA	2,328	2,730	3,387	3,892
Margins %	27.2	26.8	29.1	29.8
yoY Growth%	15.4	17.3	24.0	14.9
Dep. & Amort.	393	437	453	490
EBIT	1,936	2,293	2,934	3,402
Other Income	80	125	140	154
Interest	83	68	68	68
EO Items	(245)	-	-	-
PBT	1,687	2,350	3,005	3,487
Tax	412	592	757	879
Tax Rate (%)	24.4	25.2	25.2	25.2
Minority Interest	2	2	2	2
Reported PAT	1,273	1,756	2,246	2,606
Adj. PAT	1,459	1,756	2,246	2,606
Net Margins (%)	17.0	17.2	19.3	20.0

Source: Company data, I-Sec research

Table 2: Balance sheet

(Rs mn, year ending March 31)

	FY20	FY21E	FY22E	FY23E
Paid-up Capital	101	101	101	101
Reserves & Surplus	5,134	6,011	7,134	8,437
Total Equity	5,235	6,113	7,235	8,539
Minority Interest	17	19	21	23
Total Debt	667	667	667	667
Deferred Liabilities	(122)	(122)	(122)	(122)
Capital Employed	5,796	6,677	7,802	9,107
Current Liabilities	1,587	1,934	2,141	2,369
Total Liabilities	7,383	8,610	9,942	11,476
Net Fixed Assets	2,994	2,857	2,704	2,563
Investments	18	18	18	18
Inventory	244	291	323	358
Debtors	1,282	1,524	1,742	1,953
Other Current Assets	615	709	793	875
Cash and Equivalents	2,230	3,211	4,363	5,709
Total Cur. Assets	4,372	5,736	7,221	8,895
Total Assets	7,383	8,610	9,942	11,476

Source: Company data, I-Sec research

Table 3: Cashflow statement

(Rs mn, year ending March 31)

	FY20	FY21E	FY22E	FY23E
PBT (Adj. for Extraordinary)	1,687	2,350	3,005	3,487
Depreciation	393	437	453	490
Net Chg in WC	67	(72)	(159)	(132)
Taxes	(644)	(592)	(757)	(879)
Others	563	36	33	32
CFO	2,067	2,159	2,575	2,999
Capex	(483)	(300)	(300)	(350)
Net Investments made	160	-	-	-
Others	(725)	-	-	-
CFI	(1,048)	(300)	(300)	(350)
Change in Share capital	319	-	-	-
Change in Debts	(383)	-	-	-
Div. & Div Tax	(484)	(878)	(1,123)	(1,303)
Others	832	-	-	-
CFF	284	(878)	(1,123)	(1,303)
Total Cash Generated	1,302	981	1,152	1,345
Cash Opening Balance	802	2,105	3,086	4,238
Cash Closing Balance	2,105	3,086	4,238	5,583

Source: Company data, I-Sec research

Table 4: Key ratios

(Year ending March 31)

	FY20	FY21E	FY22E	FY23E
Adj EPS	28.8	34.7	44.4	51.5
YoY Growth%	20.4	20.4	27.9	16.1
Cash EPS	36.6	43.3	53.3	61.2
EBITDA - Core (%)	27.2	26.8	29.1	29.8
NPM (%)	17.0	17.2	19.3	20.0
Net Debt to Equity (x)	(0.3)	(0.4)	(0.5)	(0.6)
P/E (x)	68.4	56.8	44.4	38.3
EV/EBITDA Core (x)	42.2	35.6	28.4	24.3
P/BV (x)	19.1	16.3	13.8	11.7
EV/Sales (x)	11.5	9.6	8.3	7.3
RoCE (%)	29.0	27.9	30.6	30.5
RoE (%)	31.0	30.9	33.6	33.0
RoIC (%)	40.8	45.6	59.1	69.0
Book Value (Rs)	103	121	143	169
DPS (Rs)	8.0	17.3	22.2	25.7
Dividend Payout (%)	27.8	50.0	50.0	50.0
Div Yield (%)	0.4	0.9	1.1	1.3
Asset Turnover Ratio	3.7	4.4	5.3	6.4
Avg Collection days	56	50	51	52
Avg Inventory days	15	13	14	14

Source: Company data, I-Sec research

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Company update and
target price revision

Pharmaceuticals

Target price: Rs925

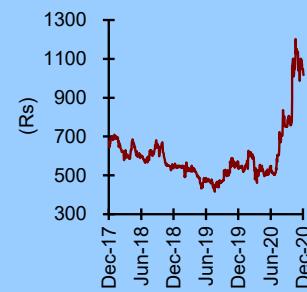
Target price revision
Rs925 from Rs986

Shareholding pattern

	Mar '20	Jun '20	Sep '20
Promoters	66.0	66.0	66.1
Institutional investors	25.5	28.1	28.7
MFs and other	8.3	7.9	8.7
FIs/Banks/Ins	0.7	2.0	1.7
FII	16.5	18.1	18.3
Others	8.5	5.9	5.2

Source: BSE India

Price chart



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Thyrocare Technologies

REDUCE

Maintained

Rs1,016

Slow recovery; pricing in COVID test upside

Thyrocare Technologies (Thyrocare) is largely a B2B player and focusses on limited test basket of preventive and wellness care. It is one of the few organised players in an unorganised and under-penetrated diagnostic industry. It focusses on asset-light and B2B business model to maximise reach and growth with cost optimisation. However, growth momentum has slowed down in the past two years to lower double digit, which is lower than peers. The recovery in base business from COVID-19 impact has also been slower with it reaching ~81% of pre-COVID level against ~85-98% for peers, despite a low base. The company was able to monetise COVID-19 tests opportunity very well, evident with ~41% revenue contribution in Q2FY21; however, continuity remains uncertain. We remain concerned on slow growth in base business and maintain **REDUCE** rating on the stock with a revised target price of Rs925/share (earlier: Rs986/share).

- ▶ **Slow growth remains a key concern:** The company's adherence to low pricing / high volume strategy without any expansion of test basket has resulted in weak revenue growth over the past two years. Further, competitive intensity has also increased in wellness and preventive care segment with other large players' aggressive entry. Subdued performance in imaging business has worsened this effect. Recovery in non-COVID business has also been slower than other listed peers during Q2FY21. We remain concerned on slower growth than peers in base business despite a lower revenue base and believe just employing the strategy of pricing disruption may not be enough for long term growth improvement.
- ▶ **Incremental business opportunity from COVID-19 tests:** Thyrocare witnessed a large revenue contribution (~41% to total revenue) from COVID-19 related tests during Q2FY21. It could monetise this opportunity well, being a B2B player. We believe this upside may continue in near to medium term depending upon the longevity of COVID-19 related cases. However, the continuity of this business opportunity remains uncertain as it is contingent of the number of new incidences, which may drastically change post the approval of a vaccine in India. Hence, growth momentum in base business will be a key metric to monitor.
- ▶ **Outlook:** We expect 11.2% revenue and 11.1% EBITDA CAGRs over FY20-FY23E. Growth will be driven mainly by volumes and stable realisations. This growth expectation is against peers' growth of 14-15%. Imaging business has been severely affected during the pandemic and it may take longer to normalise. We expect FCF generation to continue strong at ~Rs4.4bn over the next three years and continue to strengthen the balance sheet.
- ▶ **Valuations and risks:** We maintain **REDUCE** on the stock with a revised DCF-based target price of Rs925/share (earlier: Rs986), implying 31.1xFY23E earnings and 20.2xFY23E EV/EBITDA. Key upside risks: Meaningful improvement in growth momentum, growth in COVID-19 related tests and widening of test basket.

Market Cap	Rs53.7bn/US\$730mn
Reuters/Bloomberg	THYO.BO/THYROCAR IN
Shares Outstanding (mn)	52.9
52-week Range (Rs)	1202/462
Free Float (%)	33.9
FII (%)	18.3
Daily Volume (USD/'000)	3,909
Absolute Return 3m (%)	34.0
Absolute Return 12m (%)	91.2
Sensex Return 3m (%)	18.6
Sensex Return 12m (%)	15.6

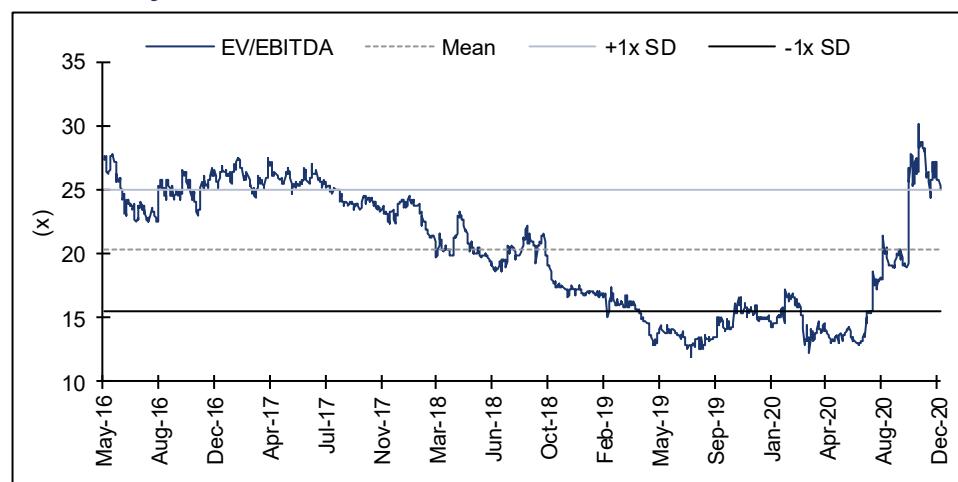
Year to Mar	FY20	FY21E	FY22E	FY23E
Revenue (Rs mn)	4,332	5,207	5,650	5,957
Net Income (Rs mn)	950	1,277	1,474	1,570
EPS (Rs)	18.0	24.2	27.9	29.7
% Chg YoY	11.6	34.4	15.4	6.5
P/E (x)	56.5	42.0	36.4	34.2
CEPS (Rs)	24.0	29.9	34.3	36.3
EV/E (x)	30.7	27.1	23.5	22.2
Dividend Yield (%)	2.5	1.8	2.1	2.2
RoCE (%)	23.7	33.6	37.5	38.6
RoE (%)	23.7	34.3	38.2	39.2

Valuations

We expect Thyrocare to register earnings CAGR of 18.2% over FY20-FY23E driven by revenue CAGR of 11.2% and flattish margins. We expect RoCE to improve to 38.6% by FY23E with strong free cashflow.

The stock currently trades at valuations of 36.4xFY22E and 34.2xFY23E earnings and EV/EBITDA multiple of 23.5xFY22E and 22.2xFY23E. The stock has traded at an average EV/EBITDA of 20.3x since the listing on stock exchanges in May'16. Company's model of low pricing/high volume strategy has aided quick recovery in non-COVID tests and we expect it to normalise in coming months with pick-up in preventive care segment. However, current performance has largely benefited from COVID-19 tests (~41% of revenue), sustainability of which remains uncertain. Coupled with concern on slower growth in base business and the recent run up in the stock price has made valuations expensive. We maintain **REDUCE** with a revised DCF-based target price of Rs925/share (earlier: Rs986/share), implying 31.1xFY23E earnings and 20.2xFY23E EBITDA.

Chart 1: 1-year forward EV/EBITDA



Source: Company data, I-Sec research

Financial summary (consolidated)

Table 1: Profit & loss statement

(Rs mn, year ending March 31)

	FY20	FY21E	FY22E	FY23E
Pathology	3,991	5,008	5,347	5,620
Imaging	341	199	303	336
Total Gross Sales	4,332	5,207	5,650	5,957
Excise duty	-	-	-	-
Total Net Revenue	4,332	5,207	5,650	5,957
YoY Growth%	7.5	20.2	8.5	5.4
Total Op. Exp.	2,607	3,263	3,412	3,590
EBITDA	1,725	1,944	2,238	2,366
Margins %	39.8	37.3	39.6	39.7
YoY Growth%	11.9	12.7	15.1	5.8
Dep. & Amort.	319	301	340	349
EBIT	1,406	1,643	1,898	2,018
Other Income	82	82	91	100
Interest	19	19	19	19
EO Items	(66)	-	-	-
PBT	1,404	1,707	1,970	2,099
Tax	520	430	496	529
Tax Rate (%)	37.0	25.2	25.2	25.2
Minority Interest	-	-	-	-
Reported PAT	884	1,277	1,474	1,570
Adj. PAT	950	1,277	1,474	1,570
Net Margins (%)	21.9	24.5	26.1	26.4

Source: Company data, I-Sec research

Table 2: Balance sheet

(Rs mn, year ending March 31)

	FY20	FY21E	FY22E	FY23E
Paid-up Capital	528	528	528	528
Reserves & Surplus	3,138	3,261	3,403	3,554
Total Equity	3,667	3,790	3,932	4,083
Minority Interest	-	-	-	-
Total Debt	124	124	124	124
Deferred Liabilities	42	42	42	42
Capital Employed	3,833	3,955	4,097	4,249
Current Liabilities	856	1,082	1,129	1,165
Total Liabilities	4,689	5,038	5,227	5,414
Net Fixed Assets	2,740	2,739	2,799	2,851
Investments	-	-	-	-
Inventory	206	258	270	284
Debtors	166	199	216	228
Other Current Assets	776	800	813	822
Cash and Equivalents	801	1,041	1,128	1,230
Total Cur. Assets	1,948	2,299	2,427	2,563
Total Assets	4,689	5,038	5,227	5,414

Source: Company data, I-Sec research

Table 3: Cashflow statement

(Rs mn, year ending March 31)

	FY20	FY21E	FY22E	FY23E
PBT (Adj. for Extraordinary)	1,404	1,707	1,970	2,099
Depreciation	319	301	340	349
Net Chg in WC	55	29	(39)	(29)
Taxes	(445)	(430)	(496)	(529)
Others	324	87	44	31
CFO	1,658	1,694	1,819	1,920
Capex	(99)	(300)	(400)	(400)
Net Investments made	101	-	-	500
Others	7	-	-	-
CFI	10	(300)	(400)	100
Change in Share capital	0	-	-	-
Change in Debts	(57)	-	-	-
Div. & Div Tax	(1,590)	(1,154)	(1,332)	(1,419)
Others	(7)	-	-	-
CFF	(1,653)	(1,154)	(1,332)	(1,419)
Total Cash Generated	15	240	87	601
Cash Opening Balance	96	111	351	438
Cash Closing Balance	111	351	438	1,040

Source: Company data, I-Sec research

Table 4: Key ratios

(Year ending March 31)

	FY20	FY21E	FY22E	FY23E
Adj EPS	18.0	24.2	27.9	29.7
YoY Growth%	11.6	34.4	15.4	6.5
Cash EPS	24.0	29.9	34.3	36.3
EBITDA - Core (%)	39.8	37.3	39.6	39.7
NPM (%)	21.9	24.5	26.1	26.4
Net Debt to Equity (x)	(0.2)	(0.2)	(0.3)	(0.3)
P/E (x)	56.5	42.0	36.4	34.2
EV/EBITDA Core (x)	30.7	27.1	23.5	22.2
P/BV (x)	14.6	14.2	13.7	13.1
EV/Sales (x)	12.2	10.1	9.3	8.8
RoCE (%)	23.7	33.6	37.5	38.6
RoE (%)	23.7	34.3	38.2	39.2
RoIC (%)	29.3	42.2	48.8	53.4
Book Value (Rs)	69.4	71.7	74.4	77.3
DPS (Rs)	25.0	18.1	20.9	22.3
Dividend Payout (%)	138.9	75.0	75.0	75.0
Div Yield (%)	2.5	1.8	2.1	2.2
Asset Turnover Ratio	0.9	1.1	1.1	1.1
Avg Collection days	12	13	13	14
Avg Inventory days	60	48	56	59

Source: Company data, I-Sec research

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