

Q1 reflects COVID peak, non-COVID growth flattish since 3 quarters

DLPL's Q1 was a 31% beat to our estimates led by COVID testing volumes (36% of total sales) while the non-COVID sales were flattish QoQ at Rs3.8bn, in-line with estimates. Home collection contributes 13% of sales of which 50% revenues are related to COVID. Swasthfit, wellness brand, was 10% of sales. Revenue per patient stands higher at Rs860 in Q1 vs Rs760 YoY aided by better product and geography mix (Delhi-NCR contributed 28% of sales). Realization per patient for COVID has lowered to ~Rs750 (peak of Rs2500) and could further go down to Rs500. To strengthen its West/South India clusters, DLPL has added two reference labs in Mumbai/Bengaluru and is already expanding the satellite lab network to support the RLs. While COVID has allowed DLPL to create inroads with new B2C customers, the company indicated the tech savvy customers that are usually more discerning. It does position the company well given its strong digital presence (new patient app launched recently), home collection and phlebotomist service quality.

Key Triggers: 1) West contributed double digits in Q1, 2) 6 satellite labs started in South along with pilot operations in Bangalore, 3) Heavy investments in digital initiatives, 4) Mix of online and offline model to ensure higher scale on cost/test and lower real estate cost enabling sustenance on EBITDA margins

Key risks: 1) No price hikes taken in last 5 years with competition set to intensify further, 2) Higher valuation of Thyrocare-Pharmany can make it difficult to acquire assets at reasonable valuations

Outlook and Valuation: We factor in a decline in COVID testing from 2Q onwards assuming the case load reduces. We factor in 23% CAGR (FY21-23E) for non-COVID revenues owing to the 2 acquisitions in 3QFY21 and commissioning of new reference labs in Mumbai and Bangalore. We have seen a gradual increase in test per patients, revenue contribution from SwasthFit and home collection. We think the current health sector crisis could nudge people to prioritize health spending on diagnostics

Q1FY22 Result (Rs Mn)

Particulars	Q1FY22	Q1FY21	YoY (%)	Q4FY21	QoQ (%)
Revenue	6,066	2,660	128.0	4,310	40.7
Total Expense	4,176	2,177	91.8	3,090	35.1
EBITDA	1,890	483	291.3	1,220	54.9
Depreciation	192	179	7.3	203	(5.4)
EBIT	1,698	304	458.6	1,017	67.0
Other Income	141	114	23.7	135	4.4
Interest	46	37	24.3	44	4.5
EBT	1,793	381	370.6	1,108	61.8
Tax	456	97	370.1	257	77.4
RPAT	1,337	284	370.8	834	60.2
APAT	1,337	284	370.8	834	60.2
			(bps)		(bps)
Gross Margin (%)	76.1	71.5	461	76.0	5
EBITDA Margin (%)	31.2	18.2	1300	28.3	285
NPM (%)	22.0	10.7	1136	19.4	268
Tax Rate (%)	25.4	25.5	(3)	23.2	224
EBIT Margin (%)	28.0	11.4	1656	23.6	440

CMP	Rs 3,556
Target / Downside	Rs 2,400 / 33%
NIFTY	15,763

Scrip Details

Equity / FV	Rs 833mn / Rs 10
Market Cap	Rs 296bn
	USD 4bn
52-week High/Low	Rs 4,050/ 1,737
Avg. Volume (no)	396,168
Bloom Code	DLPL IN

Price Performance	1M	3M	12M
Absolute (%)	9	21	88
Rel to NIFTY (%)	8	13	48

Shareholding Pattern

	Dec'20	Mar'21	Jun'21
Promoters	55.2	55.2	55.2
MF/Banks/FIs	15.3	14.2	13.7
FIs	24.4	26.0	26.4
Public / Others	5.1	4.6	4.7

Valuation (x)

	FY21E	FY22E	FY23E
P/E	101.4	85.7	71.2
EV/EBITDA	65.5	58.4	48.8
ROE (%)	25.6	25.2	25.4
RoACE (%)	24.8	23.7	23.9

Estimates (Rs mn)

	FY21E	FY22E	FY23E
Revenue	15,813	17,332	20,744
EBITDA	4,363	4,853	5,753
PAT	2,916	3,451	4,152
EPS (Rs.)	35.1	41.5	49.9

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We expect EBITDA margin to be positively impacted by operating leverage as volumes increase, somewhat negated by margin pressures due to increasing contribution from home collection. However, we see limited upside in EBITDA margins due to competitive pressures from existing and new entrants including e-commerce players. Besides, the Delhi-NCR like brand premium will be tough to achieve in Rest of India markets, which will be reflected through pricing discounts. Further, we think the need for continued investment to diversify growth (to West and South India) will also cap margins. At CMP, DLPL trades at 70x FY23E earnings of Rs50. With COVID sales at peak, and limited scope for margin expansion, we are of the view that current valuations are unjustified. Maintain SELL.

Key Con-call Takeaways

Operational metrics: In Q1FY22, patient volume increased 101% YoY and 20% QoQ at 7.1mn of which 5.9 were non-COVID. Realization per patient was Rs860, up 13% YoY and 18% QoQ. COVID realizations have fallen from peak of Rs3,500 to Rs750 now and are expected to further decline to ~Rs450. Swashfit contributed 10% of sales. Home collection contribution increased to 13% of sales. Delhi-NCR contributed 28% of sales in Q1.

Non-COVID portfolio: In Q1FY22, non-COVID revenue grew by 84% YoY/ declined 1% QoQ to Rs3.8bn (in-line with our estimates). The performance has been flattish since past 3 quarters. Despite higher COVID sales, increased bundled tests and better mix led by marginally higher realization per test. DLPL indicated that growth in Western region has now reached double digit. COVID has helped in increasing the number of tests per patient and decline in routine tests leading to higher share of higher-margin specialized tests over the last year.

COVID revenues peak: COVID revenues grew 4x QoQ at Rs2.2bn almost equivalent to FY21 sales of Rs2.5bn, contributing 36% of total sales. However, COVID tests peaked out in May and June seemed to be a normalized quarter. DLPL conducts RT-PCR tests across 19 labs as of now. However, as the recent trend points towards a fall in number of COVID cases, we expect the contribution from COVID related revenues to moderate to 8% of sales in FY22E.

Home collection demand is up: DLPL stated that consumer psyche is making a shift towards mix of on-line and off-line channels. Surge in 2nd wave paved demand for home collection has surged by 2-2.5 times regular demand. Management highlighted a lack of infrastructure (both tech and manpower) has led to diversion of demand for home collection to nearby Collection Centers. As a large portion of the demand for home collection comes from COVID related testing and the older population, the company remains skeptical about the sustainability and scalability of home collection services. Thus, DLPL looks to partner with franchises for home collection as it is challenging to manage operationally. Management also pointed towards its collaboration with e-pharmacies (like 1mg) to grow the patient base.

Profit and Loss Account

(Rs Mn)	FY20A	FY21E	FY22E	FY23E
Revenue	13,304	15,813	17,332	20,744
Total Expense	9,868	11,450	12,478	14,991
COGS	2,987	3,973	4,246	4,974
Employees Cost	2,426	2,737	2,946	3,466
Other expenses	4,454	4,740	5,286	6,551
EBIDTA	3,436	4,363	4,853	5,753
Depreciation	728	772	756	808
EBIT	2,708	3,591	4,098	4,945
Interest	153	160	83	61
Other Income	550	513	599	667
Exc. / E.O. items	0	0	0	0
EBT	3,105	3,944	4,614	5,551
Tax	829	979	1,146	1,378
RPAT	2,259	2,916	3,451	4,152
Minority Interest	16	49	17	21
Profit/Loss share of associates	0	0	0	0
APAT	2,259	2,916	3,451	4,152

Balance Sheet

(Rs Mn)	FY20A	FY21E	FY22E	FY23E
Sources of Funds				
Equity Capital	833	833	833	833
Minority Interest	212	310	310	310
Reserves & Surplus	9,495	11,617	14,064	17,010
Net Worth	10,328	12,451	14,897	17,844
Total Debt	0	1	1	1
Net Deferred Tax Liability	855	1,001	1,025	1,062
Total Capital Employed	11,395	13,762	16,233	19,217

Applications of Funds

Net Block	3,358	3,619	3,710	3,573
CWIP	886	950	956	996
Investments	344	312	343	377
Current Assets, Loans & Advances	8,927	11,452	13,749	17,036
Inventories	570	426	454	518
Receivables	514	667	712	796
Cash and Bank Balances	5,691	9,260	11,442	14,489
Loans and Advances	9	10	11	13
Other Current Assets	500	496	522	597
Less: Current Liabilities & Provisions	2,119	2,571	2,525	2,765
Payables	1,177	1,441	1,338	1,458
Other Current Liabilities	942	1,129	1,187	1,307
<i>sub total</i>				
Net Current Assets	6,807	8,882	11,224	14,270
Total Assets	11,395	13,762	16,233	19,217

E – Estimates

Important Ratios

Particulars	FY20A	FY21E	FY22E	FY23E
(A) Margins (%)				
Gross Profit Margin	77.5	74.9	75.5	76.0
EBIDTA Margin	25.8	27.6	28.0	27.7
EBIT Margin	20.4	22.7	23.6	23.8
Tax rate	26.7	24.8	24.8	24.8
Net Profit Margin	17.0	18.4	19.9	20.0
(B) As Percentage of Net Sales (%)				
COGS	22.5	25.1	24.5	24.0
Employee	18.2	17.3	17.0	16.7
Other	33.5	30.0	30.5	31.6
(C) Measure of Financial Status				
Gross Debt / Equity	0.0	0.0	0.0	0.0
Interest Coverage	17.7	22.4	49.6	80.6
Inventory days	16	10	10	9
Debtors days	14	15	15	14
Average Cost of Debt		26895.8	6942.5	5156.8
Payable days	32	33	28	26
Working Capital days	187	205	236	251
FA T/O	4.0	4.4	4.7	5.8
(D) Measures of Investment				
AEPS (Rs)	27.2	35.1	41.5	49.9
CEPS (Rs)	35.9	44.4	50.6	59.7
DPS (Rs)	18.6	0.0	12.1	14.5
Dividend Payout (%)	68.3	0.0	29.1	29.0
BVPS (Rs)	124.2	149.7	179.2	214.6
RoANW (%)	22.8	25.6	25.2	25.4
RoACE (%)	23.3	24.8	23.7	23.9
RoAIC (%)	52.9	70.4	88.2	103.9
(E) Valuation Ratios				
CMP (Rs)	3556	3556	3556	3556
P/E	130.9	101.4	85.7	71.2
Mcap (Rs Mn)	295,708	295,708	295,708	295,708
MCap/ Sales	22.2	18.7	17.1	14.3
EV	288,374	285,856	283,660	280,597
EV/Sales	21.7	18.1	16.4	13.5
EV/EBITDA	83.9	65.5	58.4	48.8
P/BV	28.6	23.8	19.8	16.6
Dividend Yield (%)	0.5	0.0	0.3	0.4
(F) Growth Rate (%)				
Revenue	10.5	18.9	9.6	19.7
EBITDA	17.0	27.0	11.2	18.5
EBIT	6.0	32.6	14.1	20.7
PBT	3.3	27.0	17.0	20.3
APAT	13.4	29.1	18.3	20.3
EPS	13.4	29.1	18.3	20.3

Cash Flow

(Rs Mn)	FY20A	FY21E	FY22E	FY23E
CFO	3,276	3,803	3,586	4,428
CFI	(1,514)	580	(294)	(54)
CFE	(973)	(813)	(1,110)	(1,327)
FCFF	1,762	4,382	3,292	4,375
Opening Cash	4,902	5,691	9,260	11,442
Closing Cash	5,691	9,260	11,442	14,489

E – Estimates

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