

Rating: SELL | CMP: Rs3,889 | TP: Rs2,626

August 3, 2021

## Company Update

Change in Estimates |  Target |  Reco

### Change in Estimates

Rating	Current		Previous	
	FY22E	FY23E	FY22E	FY23E
Target Price	SELL 2,626		UR	-
Sales (Rs. m)	22,244	24,088	17,011	18,068
% Chng.	30.8	33.3		
EBITDA (Rs. m)	6,389	6,767	4,721	5,073
% Chng.	35.3	33.4		
EPS (Rs.)	52.5	57.9	42.2	45.4
% Chng.	24.3	27.6		

### Key Financials - Consolidated

Y/e Mar	FY20	FY21	FY22E	FY23E
Sales (Rs. m)	13,304	15,810	22,244	24,088
EBITDA (Rs. m)	3,603	4,360	6,389	6,767
Margin (%)	27.1	27.6	28.7	28.1
PAT (Rs. m)	2,409	2,913	4,370	4,824
EPS (Rs.)	28.9	35.0	52.5	57.9
Gr. (%)	20.9	21.0	50.0	10.4
DPS (Rs.)	15.4	14.0	15.0	20.0
Yield (%)	0.4	0.4	0.4	0.5
RoE (%)	24.4	25.6	32.9	30.7
RoCE (%)	29.1	31.5	41.0	37.9
EV/Sales (x)	23.8	19.9	14.1	12.9
EV/EBITDA (x)	87.9	72.0	49.1	46.0
PE (x)	134.5	111.2	74.1	67.1
P/BV (x)	31.4	26.0	22.9	18.7

Key Data	DLPA.NS   DLPL IN
52-W High / Low	Rs.4,050 / Rs.1,737
Sensex / Nifty	53,823 / 16,131
Market Cap	Rs.324bn / \$ 4,363m
Shares Outstanding	83m
3M Avg. Daily Value	Rs.2662.99m

### Shareholding Pattern (%)

Promoter's	55.23
Foreign	26.42
Domestic Institution	6.54
Public & Others	11.81
Promoter Pledge (Rs bn)	-

### Stock Performance (%)

	1M	6M	12M
Absolute	16.5	63.9	108.5
Relative	13.6	53.0	43.1

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# Dr. Lal PathLabs (DLPL IN)

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## Valuation running way ahead of fundamentals

### Quick Pointers:

- COVID test contributed 36% of revenues and normalised revenues from core portfolio of tests grew by 15% YoY.
- Conducting 1.1mn COVID RT-PCR tests more than doubled QoQ, led to unsustainable rise in volume of patients and samples (all time high)

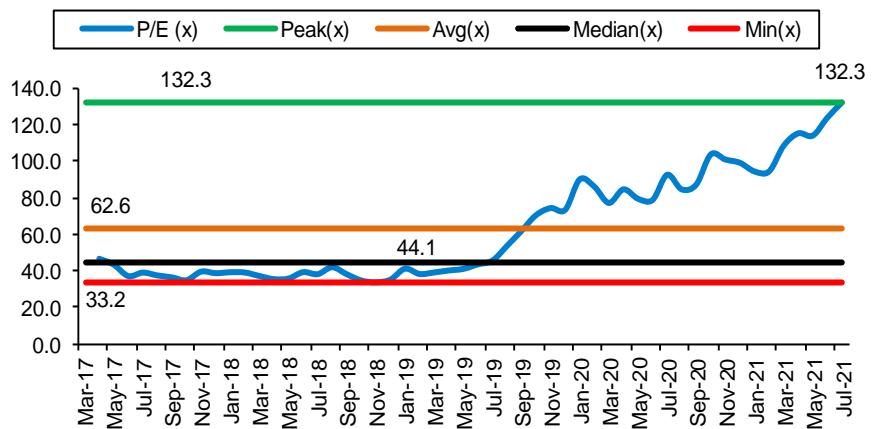
**We reinitiate coverage on DLPL stock with 'Sell' rating, previously kept 'Under Review'. 1QFY22 earnings were higher than our estimates solely driven by additional volumes, due to large number of patients in the second wave. Business in core portfolio grew 15% YoY given 1) all collection centers and labs resumed operations much earlier than expected 2) high revenue contribution from other regions than Delhi-NCR and 3) Bundled test (unimpacted in lockdown) contributed 10% of revenue. However, 1QFY21 witnessed lower realization with Revenue/Patient (ex-COVID test) of Rs648 v/s Rs686 QoQ and Test/Patient of 2.75 v/s 2.42.**

**We remain positive on the entire diagnostic chain on back of 1) premium players to gain market share, 2) B2B to offer more sick-care tests and 3) elasticity of higher volume at lower realization level (Revenue/Patient). However, amidst pandemic, usually there are changes in behavioral preference of target clientele such as choice of tests, high concern over hygiene level and home collection through phlebotomists than the visit of clinic / lab / test centers. This causes higher operating costs and not always offset by higher price of the tests, which leads to lower EBITDA margin.**

**Valuation and Outlook: As DLPL trades at PE 67x of FY23E earnings and at EV/sales (FY22E) 14.1x, its valuation remains expensive reflecting event based short term opportunities in pandemic. It has trading way above its historical valuations of 35x-45x (1yr-forward). Assuming normalized economy (post vaccination of more than 70% of population) by FY23E, sustainable revenue growth of 15% and PAT margin of 20%, DLPL will have valuation of PE 44x of FY28E earnings, clearly a steep discount of earnings 5-years forward. While we remain positive on prospects of sustainable growth and margin, we believe DLPL's valuation post pandemic reflects irrational exuberance as there is opaque visibility on additional flow of volumes and revenues post pandemic. We assign normalized PE of 45x on FY23E earnings (with track record of growth, margin and return ratios) and derive TP of Rs2,626. Recommend 'SELL' with 32% downside to our TP.**

**Higher realization due to COVID & COVID Allied testing:** DLPL revenues increased 128% YoY and 41% QoQ to Rs6.1bn, mainly on lower base aided by higher contribution from Covid and Covid allied tests. Adj. EBITDA increased by 290% YoY and 55% QoQ to Rs1.9bn primarily on higher realization per patient at Rs860 (vs Rs760 YoY). EBITDA margin came at 31.1% v/s 18.2% YoY and 28.3% QoQ. PAT increased by 369% YoY and 57% QoQ to Rs1.3bn.

Exhibit 1: Sustainable/normalized PE between 35-45x before Pandemic



Source: Company, Bloomberg, PL

### Conference Call and Key Highlights:

- The management is confident about boost in penetration of organized players across the country on Covid-19 background. It remains more focused on adding its collection centers to enhance the reach of its business model with firm presence in western and southern part of India.
- The management has approved an interim dividend of 60% (Rs6 / share).
- The highest ever quarterly revenue during 1QFY22 was mainly from the service to 7.1m patients with 37% of Covid portfolio contribution compared to 23% in 4QFY21. Company's super specialty segment has also continued strong growth momentum in the quarter.
- The higher realization per patient in the quarter was aided by Covid tests, Covid Allied tests, geographical mix, channel mix and higher sample per patient for Non-Covid business.
- During the quarter, share of RT-PCR tests remained high and accordingly company increased its capacity. As on date it has 19 laboratories across the country offering this test. Non-Covid segment has also seen upside in 1Q with more than 50 laboratories including allied tests.
- Establishing sharp focus over on-line channels, the company continued its home collection of samples effectively.
- DLPL is currently working on tech-enabled processes for operations which will continue to support franchisee network, a future growth foundation.
- To expand western and southern India market, it started its pilot operations at Bangalore reference lab in 1Q. Besides, DLPL commenced operations at 6 satellite labs in cities of southern region (Madurai, Puducherry, Hubli, Karimnagar, Kurnool & Kakinada).
- In western region satellite lab is operational at Borivali and Vashi with work in progress for Mumbai reference Lab.

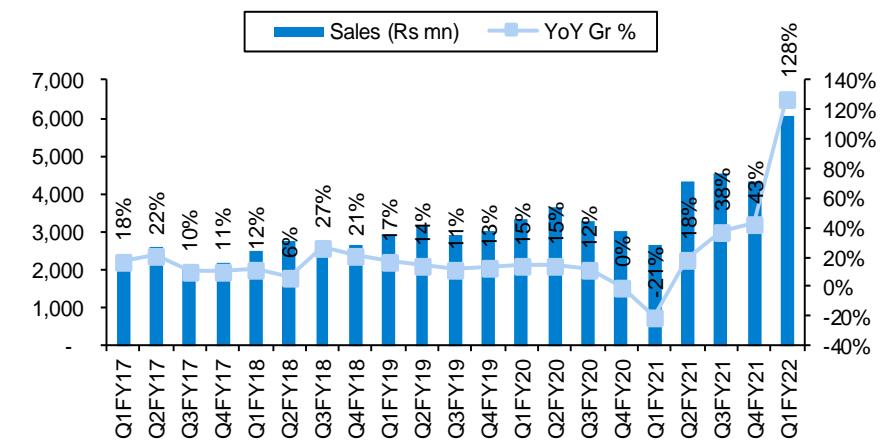
- The positive development in Indian diagnostic industry will accelerate penetration of diagnostics. This change will expand opportunities for organized business than unorganized business in the market, as per management's opinion.

#### Exhibit 2: 1QFY22 Result Overview (Rs m): COVID test drives revenues

Y/e March	Q1FY22	Q1FY21	YoY gr. (%)	Q4FY21	QoQ gr. (%)
<b>Net Sales</b>	<b>6,066</b>	<b>2,660</b>	<b>128.0</b>	<b>4,310</b>	<b>40.7</b>
Raw Material	1,451	759	91.2	1,033	40.5
% of Net Sales	23.9	28.5		24.0	
Personnel Cost	864	595	45.2	761	13.5
% of Net Sales	14.2	22.4		17.7	
Others	1,861	823	126.1	1,296	43.6
% of Net Sales	30.7	30.9		30.1	
Total Expenditure	4,176	2,177	91.8	3,090	35.1
<b>EBITDA</b>	<b>1,890</b>	<b>483</b>	<b>291.3</b>	<b>1,220</b>	<b>54.9</b>
Margin (%)	31.2	18.2		28.3	
Depreciation	192	179	7.3	203	(5.4)
<b>EBIT</b>	<b>1,698</b>	<b>304</b>	<b>458.6</b>	<b>1,017</b>	<b>67.0</b>
Other Income	141	114	23.7	135	4.4
Interest	46	37		44	
<b>PBT</b>	<b>1,793</b>	<b>381</b>	<b>370.6</b>	<b>1,108</b>	<b>61.8</b>
Total Taxes	456	97	370.1	257	77.4
ETR (%)	25.4	25.5		23.2	
<b>Reported PAT</b>	<b>1,337</b>	<b>284</b>	<b>370.8</b>	<b>851</b>	<b>57.1</b>

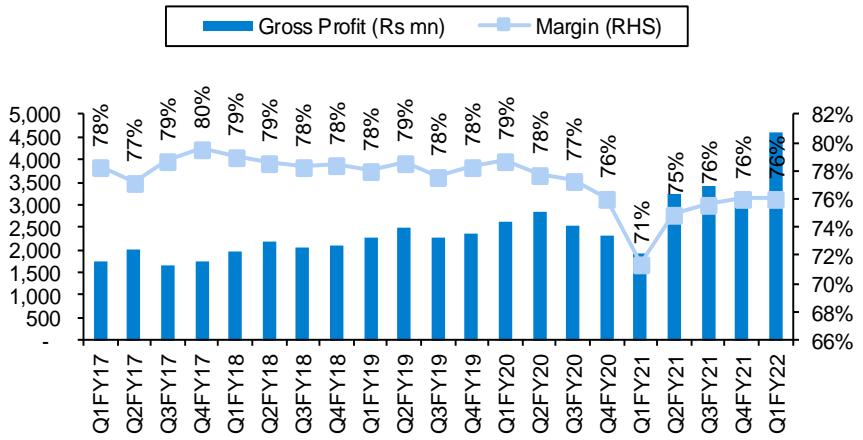
Source: Company, PL

#### Exhibit 3: Revenue (m) and YoY Gr (%)



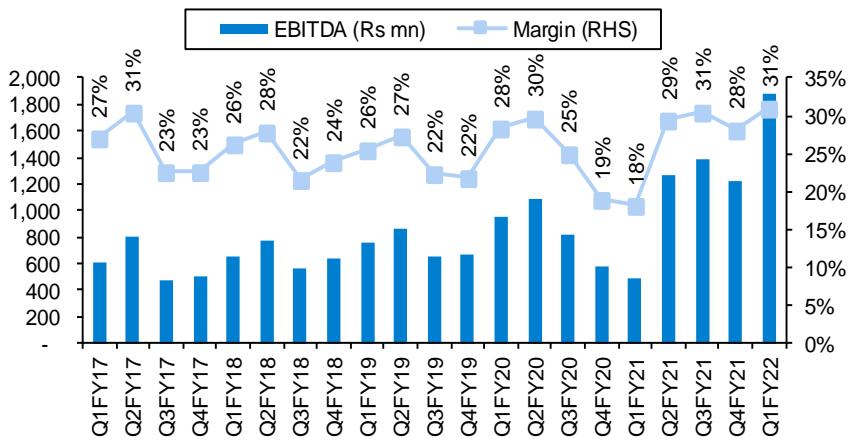
Source: Company, PL

## Exhibit 4: Gross Profit (Rs m) &amp; Margin (%)



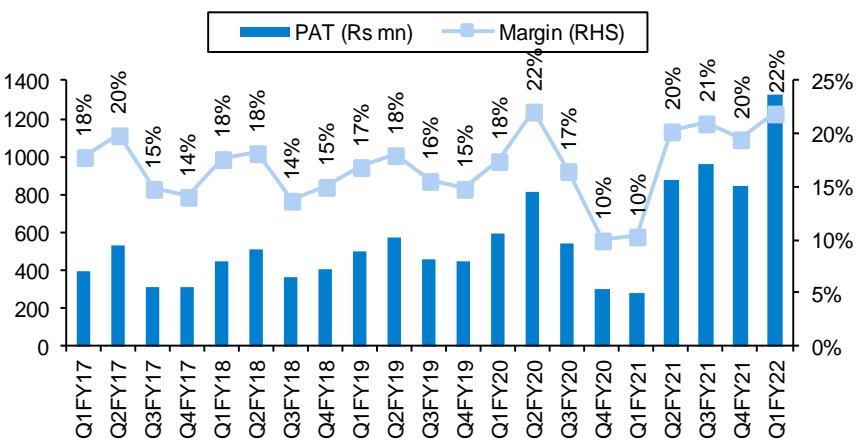
Source: Company, PL

## Exhibit 5: EBITDA (Rs m) &amp; Margin (%)



Source: Company, PL

## Exhibit 6: PAT (Rs m) &amp; Margin (%)



Source: Company, PL

## Financials

### Income Statement (Rs m)

Y/e Mar	FY20	FY21	FY22E	FY23E
<b>Net Revenues</b>	<b>13,304</b>	<b>15,810</b>	<b>22,244</b>	<b>24,088</b>
YoY gr. (%)	10.6	18.8	40.7	8.3
Cost of Goods Sold	2,987	3,973	5,253	5,428
<b>Gross Profit</b>	<b>10,317</b>	<b>11,837</b>	<b>16,992</b>	<b>18,660</b>
Margin (%)	77.5	74.9	76.4	77.5
Employee Cost	2,426	2,737	3,670	4,277
Other Expenses	-	-	-	-
<b>EBITDA</b>	<b>3,603</b>	<b>4,360</b>	<b>6,389</b>	<b>6,767</b>
YoY gr. (%)	22.7	21.0	46.5	5.9
Margin (%)	27.1	27.6	28.7	28.1
Depreciation and Amortization	728	772	936	808
<b>EBIT</b>	<b>2,875</b>	<b>3,588</b>	<b>5,453</b>	<b>5,958</b>
Margin (%)	21.6	22.7	24.5	24.7
Net Interest	153	160	184	188
Other Income	550	513	570	662
<b>Profit Before Tax</b>	<b>3,273</b>	<b>3,941</b>	<b>5,840</b>	<b>6,432</b>
Margin (%)	24.6	24.9	26.3	26.7
Total Tax	847	979	1,469	1,608
Effective tax rate (%)	25.9	24.8	25.2	25.0
<b>Profit after tax</b>	<b>2,426</b>	<b>2,962</b>	<b>4,370</b>	<b>4,824</b>
Minority interest	16	49	-	-
Share Profit from Associate	-	-	-	-
<b>Adjusted PAT</b>	<b>2,409</b>	<b>2,913</b>	<b>4,370</b>	<b>4,824</b>
YoY gr. (%)	20.9	20.9	50.0	10.4
Margin (%)	18.1	18.4	19.6	20.0
Extra Ord. Income / (Exp)	-	-	-	-
<b>Reported PAT</b>	<b>2,409</b>	<b>2,913</b>	<b>4,370</b>	<b>4,824</b>
YoY gr. (%)	20.9	20.9	50.0	10.4
Margin (%)	18.1	18.4	19.6	20.0
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	2,409	2,913	4,370	4,824
<b>Equity Shares O/s (m)</b>	<b>83</b>	<b>83</b>	<b>83</b>	<b>83</b>
<b>EPS (Rs)</b>	<b>28.9</b>	<b>35.0</b>	<b>52.5</b>	<b>57.9</b>

Source: Company Data, PL Research

### Balance Sheet Abstract (Rs m)

Y/e Mar	FY20	FY21	FY22E	FY23E
<b>Non-Current Assets</b>				
<b>Gross Block</b>	<b>3,334</b>	<b>4,229</b>	<b>5,279</b>	<b>6,329</b>
Tangibles	2,632	3,236	4,236	5,236
Intangibles	702	993	1,043	1,093
<b>Acc: Dep / Amortization</b>	<b>1,321</b>	<b>2,093</b>	<b>3,029</b>	<b>3,837</b>
Tangibles	1,060	1,660	2,299	3,072
Intangibles	261	433	730	765
<b>Net fixed assets</b>	<b>2,013</b>	<b>2,136</b>	<b>2,250</b>	<b>2,492</b>
Tangibles	1,573	1,576	1,937	2,164
Intangibles	441	560	313	328
Capital Work In Progress	114	96	61	61
Goodwill	2,117	2,337	2,688	3,091
Non-Current Investments	145	69	83	99
Net Deferred tax assets	228	273	280	280
Other Non-Current Assets	199	244	294	355
<b>Current Assets</b>				
Investments	1,643	593	712	854
Inventories	570	426	604	625
Trade receivables	514	667	914	990
Cash & Bank Balance	5,691	9,260	9,593	11,670
Other Current Assets	163	117	145	180
<b>Total Assets</b>	<b>13,744</b>	<b>16,613</b>	<b>18,107</b>	<b>21,297</b>
<b>Equity</b>				
Equity Share Capital	833	833	833	833
Other Equity	9,495	11,617	13,294	16,452
<b>Total Networth</b>	<b>10,328</b>	<b>12,450</b>	<b>14,127</b>	<b>17,285</b>
<b>Non-Current Liabilities</b>				
Long Term borrowings	-	1	-	-
Provisions	-	-	-	-
Other non current liabilities	-	-	-	-
<b>Current Liabilities</b>				
ST Debt / Current of LT Debt	-	-	-	-
Trade payables	1,177	1,441	1,295	1,338
Other current liabilities	1,096	1,302	1,218	1,149
<b>Total Equity &amp; Liabilities</b>	<b>13,743</b>	<b>16,613</b>	<b>18,107</b>	<b>21,297</b>

Source: Company Data, PL Research

Cash Flow (Rs m)					Key Financial Metrics				
Y/e Mar	FY20	FY21	FY22E	FY23E	Y/e Mar	FY20	FY21	FY22E	FY23E
PBT	3,105	3,941	5,840	6,432	EPS	28.9	35.0	52.5	57.9
Add. Depreciation	728	772	936	808	CEPS	37.6	44.2	63.7	67.6
Add. Interest	153	160	184	188	BVPS	123.9	149.5	169.6	207.5
Less Financial Other Income	550	513	570	662	FCF	24.6	40.7	0.5	27.4
Add. Other	(334)	(241)	(3,609)	(2,193)	DPS	15.4	14.0	15.0	20.0
Op. profit before WC changes	3,652	4,632	3,351	5,236	Return Ratio(%)				
Net Changes-WC	122	367	(794)	(295)	RoCE	29.1	31.5	41.0	37.9
Direct tax	(935)	(1,017)	(1,469)	(1,608)	ROIC	83.3	175.5	136.8	140.4
<b>Net cash from Op. activities</b>	<b>2,839</b>	<b>3,982</b>	<b>1,088</b>	<b>3,333</b>	RoE	24.4	25.6	32.9	30.7
Capital expenditures	(789)	(592)	(1,050)	(1,050)	Balance Sheet				
Interest / Dividend Income	408	396	485	563	Net Debt : Equity (x)	(0.7)	(0.8)	(0.7)	(0.7)
Others	120	(1,924)	(119)	(142)	Net Working Capital (Days)	(3)	(8)	4	4
<b>Net Cash from Invt. activities</b>	<b>(261)</b>	<b>(2,120)</b>	<b>(684)</b>	<b>(630)</b>	Valuation(x)				
Issue of share cap. / premium	2	3	-	-	PER	134.5	111.2	74.1	67.1
Debt changes	-	-	(1)	-	P/B	31.4	26.0	22.9	18.7
Dividend paid	(1,555)	(995)	(1,250)	(1,666)	P/CEPS	103.3	87.9	61.0	57.5
Interest paid	(152)	(159)	(184)	(188)	EV/EBITDA	87.9	72.0	49.1	46.0
Others	(200)	(235)	-	-	EV/Sales	23.8	19.9	14.1	12.9
<b>Net cash from Fin. activities</b>	<b>(1,905)</b>	<b>(1,386)</b>	<b>(1,435)</b>	<b>(1,854)</b>	Dividend Yield (%)	0.4	0.4	0.4	0.5
<b>Net change in cash</b>	<b>673</b>	<b>476</b>	<b>(1,030)</b>	<b>850</b>	Source: Company Data, PL Research				
Free Cash Flow	2,050	3,390	38	2,283					

Source: Company Data, PL Research

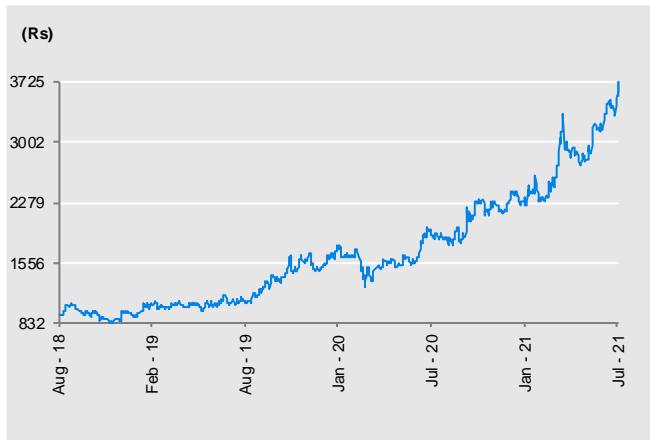
#### Quarterly Financials (Rs m)

Y/e Mar	Q2FY21	Q3FY21	Q4FY21	Q1FY22
<b>Net Revenue</b>	<b>4,320</b>	<b>4,520</b>	<b>4,310</b>	<b>6,060</b>
YoY gr. (%)	18.2	37.8	42.9	127.8
Raw Material Expenses	1,083	1,098	1,033	1,451
Gross Profit	3,237	3,422	3,277	4,609
Margin (%)	74.9	75.7	76.0	76.1
<b>EBITDA</b>	<b>1,273</b>	<b>1,384</b>	<b>1,220</b>	<b>1,884</b>
YoY gr. (%)	16.9	68.2	112.9	290.1
Margin (%)	29.5	30.6	28.3	31.1
Depreciation / Depletion	195	195	203	192
<b>EBIT</b>	<b>1,078</b>	<b>1,189</b>	<b>1,017</b>	<b>1,692</b>
Margin (%)	25.0	26.3	23.6	27.9
Net Interest	40	39	44	46
Other Income	129	135	135	141
<b>Profit before Tax</b>	<b>1,167</b>	<b>1,285</b>	<b>1,108</b>	<b>1,787</b>
Margin (%)	27.0	28.4	25.7	29.5
Total Tax	295	330	257	456
Effective tax rate (%)	25.3	25.7	23.2	25.5
<b>Profit after Tax</b>	<b>872</b>	<b>955</b>	<b>851</b>	<b>1,331</b>
Minority interest	-	-	-	-
Share Profit from Associates	-	-	-	-
<b>Adjusted PAT</b>	<b>872</b>	<b>955</b>	<b>851</b>	<b>1,331</b>
YoY gr. (%)	8.3	76.5	161.8	368.7
Margin (%)	20.2	21.1	19.7	22.0
Extra Ord. Income / (Exp)	-	-	-	-
<b>Reported PAT</b>	<b>872</b>	<b>955</b>	<b>851</b>	<b>1,331</b>
YoY gr. (%)	8.3	76.5	161.8	368.7
Margin (%)	20.2	21.1	19.7	22.0
Other Comprehensive Income	9	-	(8)	(1)
<b>Total Comprehensive Income</b>	<b>881</b>	<b>955</b>	<b>843</b>	<b>1,330</b>
Avg. Shares O/s (m)	83	83	83	83
<b>EPS (Rs)</b>	<b>10.5</b>	<b>11.5</b>	<b>10.2</b>	<b>16.0</b>

Source: Company Data, PL Research

## Price Chart

## Recommendation History



No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	07-Jul-21	UR	-	3,472
2	07-Apr-21	UR	-	2,996
3	11-Jan-21	UR	-	2,407
4	13-Oct-20	UR	-	2,179

## Analyst Coverage Universe

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	Aurobindo Pharma	BUY	1,139	980
2	Cadila Healthcare	Accumulate	696	637
3	Cipla	Accumulate	960	969
4	Dr. Lal PathLabs	UR	-	3,472
5	Dr. Reddy's Laboratories	Accumulate	5,114	4,843
6	Eris Lifesciences	BUY	909	768
7	Glenmark Pharmaceuticals	Reduce	509	648
8	Indoco Remedies	BUY	401	445
9	Ipca Laboratories	Accumulate	2,163	2,099
10	Lupin	Accumulate	1,314	1,141
11	Sun Pharmaceutical Industries	BUY	922	774
12	Thyrocare Technologies	UR	-	1,343

PL's Recommendation Nomenclature (Absolute Performance)

<b>Buy</b>	: > 15%
<b>Accumulate</b>	: 5% to 15%
<b>Hold</b>	: +5% to -5%
<b>Reduce</b>	: -5% to -15%
<b>Sell</b>	: < -15%
<b>Not Rated (NR)</b>	: No specific call on the stock
<b>Under Review (UR)</b>	: Rating likely to change shortly

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