

August 3, 2021

Company Update

☒ Change in Estimates | ☒ Target | ☒ Reco

Change in Estimates

| | Current | | Previous | |
|----------------|---------|--------|----------|--------|
| | FY22E | FY23E | FY22E | FY23E |
| Rating | SELL | | UR | |
| Target Price | 2,626 | | - | |
| 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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Valuation running way ahead of fundamentals

Quick Pointers:

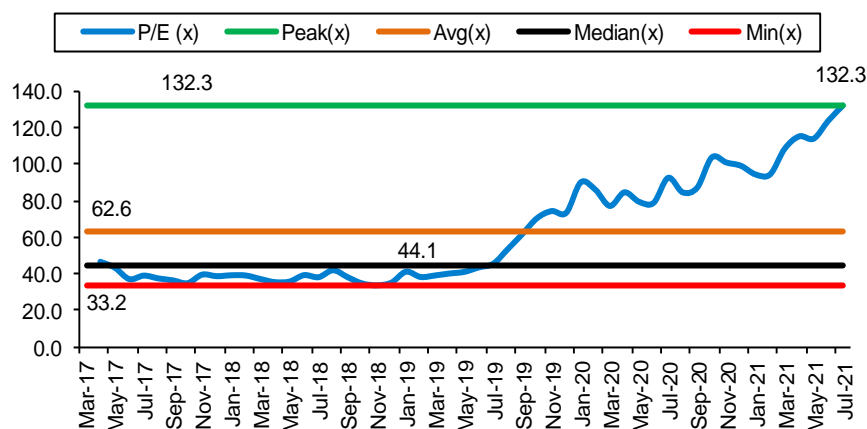
- COVID test contributed 36% of revenues and normalised revenues from core portfolio of tests grew by 15% YoY .
- Conducting 1.1mn COVID RT-PCR tests more than doubled QoQ, led to unsustainable rise in volume of patients and samples (all time high)

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:

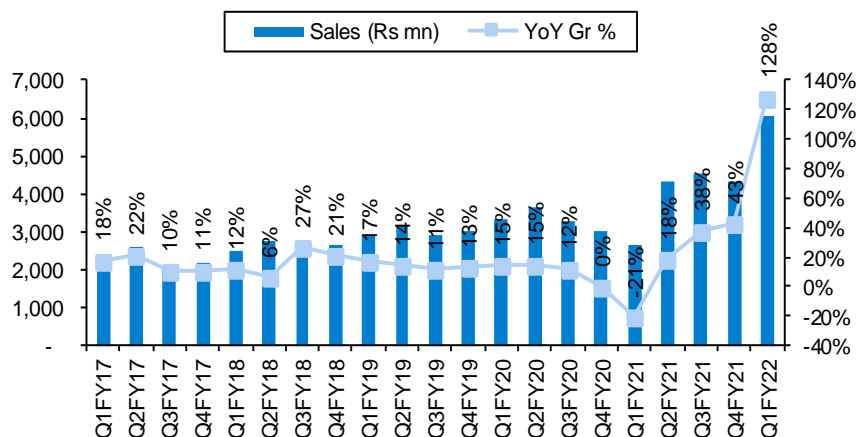
- The management is confident about boost in penetration of organized players across the country on Covid-19 background. It remains more focused on adding its collection centers to enhance the reach of its business model with firm presence in western and southern part of India.
- The management has approved 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 Bangaluru 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

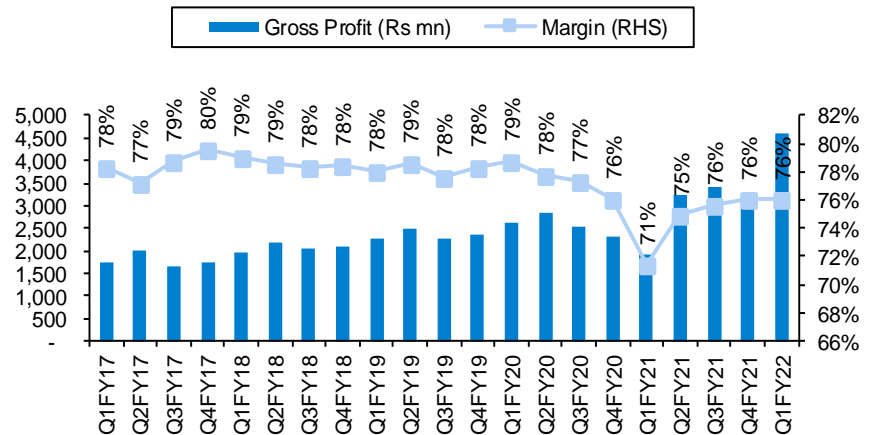
| Y/e March | Q1FY22 | Q1FY21 | YoY gr. (%) | Q4FY21 | QoQ gr. (%) |
|-----------------------|--------------|--------------|--------------|--------------|-------------|
| Net Sales | 6,066 | 2,660 | 128.0 | 4,310 | 40.7 |
| Raw Material | 1,451 | 759 | 91.2 | 1,033 | 40.5 |
| <i>% of Net Sales</i> | <i>23.9</i> | <i>28.5</i> | | <i>24.0</i> | |
| Personnel Cost | 864 | 595 | 45.2 | 761 | 13.5 |
| <i>% of Net Sales</i> | <i>14.2</i> | <i>22.4</i> | | <i>17.7</i> | |
| Others | 1,861 | 823 | 126.1 | 1,296 | 43.6 |
| <i>% of Net Sales</i> | <i>30.7</i> | <i>30.9</i> | | <i>30.1</i> | |
| Total Expenditure | 4,176 | 2,177 | 91.8 | 3,090 | 35.1 |
| EBITDA | 1,890 | 483 | 291.3 | 1,220 | 54.9 |
| <i>Margin (%)</i> | <i>31.2</i> | <i>18.2</i> | | <i>28.3</i> | |
| 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 | | 44 | |
| PBT | 1,793 | 381 | 370.6 | 1,108 | 61.8 |
| Total Taxes | 456 | 97 | 370.1 | 257 | 77.4 |
| <i>ETR (%)</i> | <i>25.4</i> | <i>25.5</i> | | <i>23.2</i> | |
| Reported PAT | 1,337 | 284 | 370.8 | 851 | 57.1 |

Source: Company, PL

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


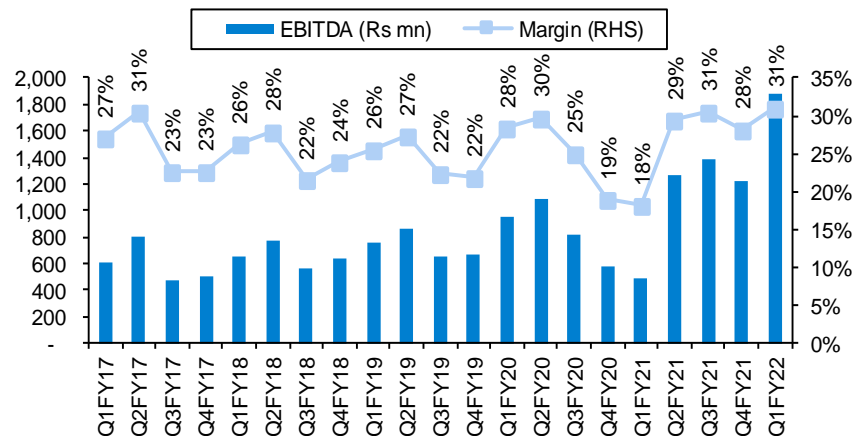
Source: Company, PL

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



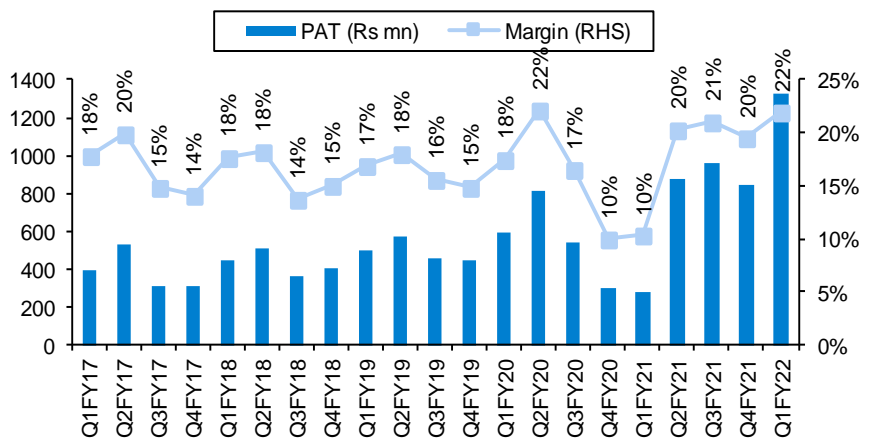
Source: Company, PL

Exhibit 5: EBITDA (Rs m) & Margin (%)



Source: Company, PL

Exhibit 6: PAT (Rs m) & Margin (%)



Source: Company, PL

Financials

Income Statement (Rs m)

| Y/e Mar | FY20 | FY21 | FY22E | FY23E |
|-------------------------------|---------------|---------------|---------------|---------------|
| Net Revenues | 13,304 | 15,810 | 22,244 | 24,088 |
| YoY gr. (%) | 10.6 | 18.8 | 40.7 | 8.3 |
| Cost of Goods Sold | 2,987 | 3,973 | 5,253 | 5,428 |
| Gross Profit | 10,317 | 11,837 | 16,992 | 18,660 |
| Margin (%) | 77.5 | 74.9 | 76.4 | 77.5 |
| Employee Cost | 2,426 | 2,737 | 3,670 | 4,277 |
| Other Expenses | - | - | - | - |
| EBITDA | 3,603 | 4,360 | 6,389 | 6,767 |
| 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 |
| EBIT | 2,875 | 3,588 | 5,453 | 5,958 |
| Margin (%) | 21.6 | 22.7 | 24.5 | 24.7 |
| Net Interest | 153 | 160 | 184 | 188 |
| Other Income | 550 | 513 | 570 | 662 |
| Profit Before Tax | 3,273 | 3,941 | 5,840 | 6,432 |
| 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 |
| Profit after tax | 2,426 | 2,962 | 4,370 | 4,824 |
| Minority interest | 16 | 49 | - | - |
| Share Profit from Associate | - | - | - | - |
| Adjusted PAT | 2,409 | 2,913 | 4,370 | 4,824 |
| YoY gr. (%) | 20.9 | 20.9 | 50.0 | 10.4 |
| Margin (%) | 18.1 | 18.4 | 19.6 | 20.0 |
| Extra Ord. Income / (Exp) | - | - | - | - |
| Reported PAT | 2,409 | 2,913 | 4,370 | 4,824 |
| 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 |
| Equity Shares O/s (m) | 83 | 83 | 83 | 83 |
| EPS (Rs) | 28.9 | 35.0 | 52.5 | 57.9 |

Source: Company Data, PL Research

Balance Sheet Abstract (Rs m)

| Y/e Mar | FY20 | FY21 | FY22E | FY23E |
|---------------------------------------|---------------|---------------|---------------|---------------|
| Non-Current Assets | | | | |
| Gross Block | 3,334 | 4,229 | 5,279 | 6,329 |
| Tangibles | 2,632 | 3,236 | 4,236 | 5,236 |
| Intangibles | 702 | 993 | 1,043 | 1,093 |
| Acc: Dep / Amortization | 1,321 | 2,093 | 3,029 | 3,837 |
| Tangibles | 1,060 | 1,660 | 2,299 | 3,072 |
| Intangibles | 261 | 433 | 730 | 765 |
| Net fixed assets | 2,013 | 2,136 | 2,250 | 2,492 |
| 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 |
| Current Assets | | | | |
| 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 |
| Total Assets | 13,744 | 16,613 | 18,107 | 21,297 |
| Equity | | | | |
| Equity Share Capital | 833 | 833 | 833 | 833 |
| Other Equity | 9,495 | 11,617 | 13,294 | 16,452 |
| Total Network | 10,328 | 12,450 | 14,127 | 17,285 |
| Non-Current Liabilities | | | | |
| Long Term borrowings | - | 1 | - | - |
| Provisions | - | - | - | - |
| Other non current liabilities | - | - | - | - |
| Current Liabilities | | | | |
| 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 |
| Total Equity & Liabilities | 13,743 | 16,613 | 18,107 | 21,297 |

Source: Company Data, PL Research

Cash Flow (Rs m)

| Y/e Mar | FY20 | FY21 | FY22E | FY23E |
|--|----------------|----------------|----------------|----------------|
| PBT | 3,105 | 3,941 | 5,840 | 6,432 |
| Add. Depreciation | 728 | 772 | 936 | 808 |
| Add. Interest | 153 | 160 | 184 | 188 |
| Less Financial Other Income | 550 | 513 | 570 | 662 |
| Add. Other | (334) | (241) | (3,609) | (2,193) |
| Op. profit before WC changes | 3,652 | 4,632 | 3,351 | 5,236 |
| Net Changes-WC | 122 | 367 | (794) | (295) |
| Direct tax | (935) | (1,017) | (1,469) | (1,608) |
| Net cash from Op. activities | 2,839 | 3,982 | 1,088 | 3,333 |
| Capital expenditures | (789) | (592) | (1,050) | (1,050) |
| Interest / Dividend Income | 408 | 396 | 485 | 563 |
| Others | 120 | (1,924) | (119) | (142) |
| Net Cash from Invst. activities | (261) | (2,120) | (684) | (630) |
| Issue of share cap. / premium | 2 | 3 | - | - |
| Debt changes | - | - | (1) | - |
| Dividend paid | (1,555) | (995) | (1,250) | (1,666) |
| Interest paid | (152) | (159) | (184) | (188) |
| Others | (200) | (235) | - | - |
| Net cash from Fin. activities | (1,905) | (1,386) | (1,435) | (1,854) |
| Net change in cash | 673 | 476 | (1,030) | 850 |
| Free Cash Flow | 2,050 | 3,390 | 38 | 2,283 |

Source: Company Data, PL Research

Key Financial Metrics

| Y/e Mar | FY20 | FY21 | FY22E | FY23E |
|----------------------------|-------|-------|-------|-------|
| Per Share(Rs) | | | | |
| EPS | 28.9 | 35.0 | 52.5 | 57.9 |
| CEPS | 37.6 | 44.2 | 63.7 | 67.6 |
| BVPS | 123.9 | 149.5 | 169.6 | 207.5 |
| FCF | 24.6 | 40.7 | 0.5 | 27.4 |
| DPS | 15.4 | 14.0 | 15.0 | 20.0 |
| Return Ratio(%) | | | | |
| RoCE | 29.1 | 31.5 | 41.0 | 37.9 |
| ROIC | 83.3 | 175.5 | 136.8 | 140.4 |
| RoE | 24.4 | 25.6 | 32.9 | 30.7 |
| Balance Sheet | | | | |
| Net Debt : Equity (x) | (0.7) | (0.8) | (0.7) | (0.7) |
| Net Working Capital (Days) | (3) | (8) | 4 | 4 |
| Valuation(x) | | | | |
| PER | 134.5 | 111.2 | 74.1 | 67.1 |
| P/B | 31.4 | 26.0 | 22.9 | 18.7 |
| P/CEPS | 103.3 | 87.9 | 61.0 | 57.5 |
| EV/EBITDA | 87.9 | 72.0 | 49.1 | 46.0 |
| EV/Sales | 23.8 | 19.9 | 14.1 | 12.9 |
| Dividend Yield (%) | 0.4 | 0.4 | 0.4 | 0.5 |

Source: Company Data, PL Research

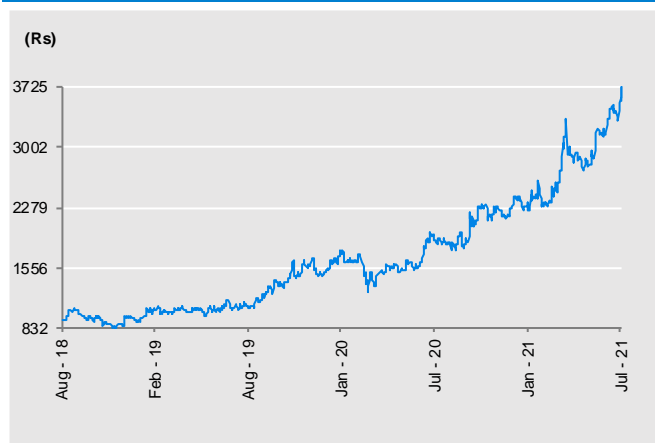
Quarterly Financials (Rs m)

| Y/e Mar | Q2FY21 | Q3FY21 | Q4FY21 | Q1FY22 |
|-----------------------------------|--------------|--------------|--------------|--------------|
| Net Revenue | 4,320 | 4,520 | 4,310 | 6,060 |
| 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 |
| EBITDA | 1,273 | 1,384 | 1,220 | 1,884 |
| 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 |
| EBIT | 1,078 | 1,189 | 1,017 | 1,692 |
| Margin (%) | 25.0 | 26.3 | 23.6 | 27.9 |
| Net Interest | 40 | 39 | 44 | 46 |
| Other Income | 129 | 135 | 135 | 141 |
| Profit before Tax | 1,167 | 1,285 | 1,108 | 1,787 |
| 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 |
| Profit after Tax | 872 | 955 | 851 | 1,331 |
| Minority interest | - | - | - | - |
| Share Profit from Associates | - | - | - | - |
| Adjusted PAT | 872 | 955 | 851 | 1,331 |
| YoY gr. (%) | 8.3 | 76.5 | 161.8 | 368.7 |
| Margin (%) | 20.2 | 21.1 | 19.7 | 22.0 |
| Extra Ord. Income / (Exp) | - | - | - | - |
| Reported PAT | 872 | 955 | 851 | 1,331 |
| 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) |
| Total Comprehensive Income | 881 | 955 | 843 | 1,330 |
| Avg. Shares O/s (m) | 83 | 83 | 83 | 83 |
| EPS (Rs) | 10.5 | 11.5 | 10.2 | 16.0 |

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)

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

ANALYST CERTIFICATION

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