

May 11, 2023

RESULT REPORT Q4 FY23 | Sector: Pharmaceuticals & Healthcare

Dr Lal Pathlabs

Caution warranted on volume growth

Result Synopsis

Dr Lal reported 14% YoY growth in non-Covid revenue, and we reckon excluding Suburban, growth would have been in high single digit YoY in the non-Covid business. Management conveyed a more positive outlook for FY24 for volumes after a tough FY23 which saw accelerated competition; while intensity still remains, a look at commentary of various players might suggest discounting may not be increasing further. DLPL has also taken a rare price increase in specialized and non-frequent rests in Feb which had a 1.5% impact in Q4 and ~2.5% impact for current year. Volume growth in the form of patient footfall still remains tepid as it has been distributed across new entrants and incumbents. We do not get comfort on volume growth beyond 8-9% for Dr Lal even as growth comes in a similar range; so far, most incumbents have defended margins well and reckon that storm may have passed with pause on additional discounting, but volumes still remain a concern. We marginally tweak FY24 and FY25 estimates and retain REDUCE with revised TP Rs1,875 (earlier Rs1,800)

Result Highlights

Dr Lal reported a slight miss on revenues and margin in Q4; reported revenues flat YoY despite addition of Suburban though non Covid sales improved 14% YoY – albeit on a Omicron impacted base last year

Excluding Suburban, implied non Covid sales up 7.5% YoY on what was a weak base of Rs4.2bn last year

Volumes continue to elude as ~6.3mn patient inflow lower than ~6.8mn in 9m FY23 and even including Suburban thereby core DLPL footfall remains weak

Margin came at 23.5%, up 40bps QoQ and lower by 140bps YoY though gross margin PAT down 9% YoY on increased depreciation despite better OPM

Exhibit 1: Actual vs estimates

Rsmn	Actual	Estimate		% Variation		Remarks
		YES Sec	Consensus	YES Sec	Consensus	
Sales	4,910	4,992	-	-1.6		
EBITDA	1,156	1,198	-	-3.5		
EBITDA Margin (%)	23.5	24.0	-	-46 bps		~7% growth YoY excluding Suburban in Q4
Adjusted PAT	569	549	-	3.6		

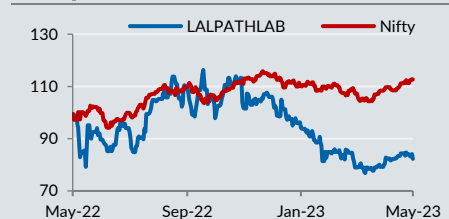
Source: Company, YES Sec

Reco	: REDUCE
CMP	: Rs 1,907
Target Price	: Rs 1,875
Potential Return	: -2%

Stock data (as on May 11, 2023)

Nifty	18,297
52 Week h/l (Rs)	2750 / 1762
Market cap (Rs/USD mn)	161752 / 1970
Outstanding Shares (mn)	83
6m Avg t/o (Rs mn):	537
Div yield (%):	0.6
Bloomberg code:	DLPL IN
NSE code:	LALPATHLAB

Stock performance



	1M	3M	1Y
Absolute return	2.4%	-3.1%	-16.5%

Shareholding pattern (As of Mar '23 end)

Promoter	55.0%
FII+DII	31.4%
Others	13.0%

Δ in stance

(1-Yr)	New	Old
Rating	REDUCE	REDUCE
Target Price	1,875	1,800

Δ in earnings estimates

	FY24e	FY25e
EPS (New)	37.5	44.1
EPS (Old)	36.0	41.8
% change	4.1%	5.6%

Financial Summary

(Rs mn)	FY23	FY24E	FY25E
Revenue	20,169	22,268	24,486
YoY Growth	-3.4	10.4	10.0
EBITDA	4,899	5,664	6,422
YoY Growth	-12.6	15.6	13.4
PAT	2,389	3,125	3,680
YoY Growth	(30.7)	30.8	17.8
ROE	15.2	17.6	18.3
EPS	28.6	37.5	44.1
P/E	66.6	50.9	43.2
BV	199.8	225.3	257.4
EV/EBITDA	31.3	26.5	22.8

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Exhibit 2: Quarterly snapshot (Consolidated)

Rs mn	Q4 FY22	Q1 FY23	Q2 FY23	Q3 FY23	Q4 FY23	y/y (%)	q/q (%)
Revenue	4,855	5,027	5,338	4,894	4,910	1.1	0.3
Expenditure	3,644	3,852	3,900	3,764	3,754	3.0	(0.3)
Cost of material consumed	1,139	1,142	1,162	1,109	1,059	(7.0)	(4.5)
Fees to collection centers/ Channel Partners	582	696	743	693	688	18.2	(0.7)
Staff	975	968	909	963	925	(5.1)	(3.9)
Other expenses	948	1,046	1,086	999	1,082	14.1	8.3
Operating Profit	1,211	1,175	1,438	1,130	1,156	(4.5)	2.3
OPM(%)	24.9	23.4	26.9	23.1	23.5	-140 bps	45 bps
Other Income	120	83	87	105	142	18	35
Depreciation	377	359	388	379	376	(0)	(1)
Interest	119	85	109	91	90	(24)	(1)
PBT	835	814	1,028	765	832	(0.4)	8.8
Tax	214	232	304	229	263	22.9	14.8
PAT	621	582	724	536	569	(8.4)	6.2
Minority Interest	-	(5)	(7)	(8)	(2)	-	(75.0)
Reported PAT	621	577	717	528	567	(8.7)	7.4

Source: Company, YES Sec

KEY CON-CALL HIGHLIGHTS

- CAGR of industry players has been 10-11% over 3-4 years and believe growth would be in this range
- Price increases are being seen and DLPL itself has taken price increase in high end tests done in reference lab; 1.5% impact in Q4 and 2.5% on an ongoing basis. Not taken price increase on routine and health packages
- Swasthfit accounted for 22% of sales in FY23
- Entering FY24 with a cleaner slate compared to FY23; employee attrition is lower to digital players
- Industry is in transition and advertisement intensity has come down
- Suburban margin ~11% in Q4 and 12% for full year
- Saw good growth in B2B channel and with back end cost control, able to come out better on B2B margin
- Underlying patient visit growth is 8%
- Carrying Rs630mn of Covid and allied test revenues in FY23 base
- Mumbai reference lab of Suburban would take time to develop and not comparable to Eastern or Bangaluru reference lab
- 8-9% of total revenue from home collection
- IND AS benefit to EBIDTA is ~2.5% for FY23

FINANCIALS

Exhibit 3: Balance Sheet

Y/e 31 Mar (Rs mn)	FY21	FY22	FY23	FY24E	FY25E
Equity capital	833	833	834	834	834
Reserves	11,617	14,183	15,829	17,953	20,632
Net worth	12,450	15,016	16,663	18,787	21,466
Debt	1,103	3,057	2,133	133	133
MI	310	355	332	332	332
Deferred tax liab (net)	7	40	29	29	29
Total liabilities	13,870	18,468	19,157	19,281	21,960
Goodwill	854	5,435	5,478	5,478	5,478
Fixed Asset	3,716	8,404	7,716	6,669	5,562
Investments	312	508	621	621	621
Net Working Capital	8,707	3,751	4,938	6,109	9,895
Inventories	426	524	338	373	410
Sundry debtors	667	854	708	782	860
Cash	9,852	6,831	8,059	8,949	12,813
Other current assets	505	542	531	1,113	1,224
Sundry creditors	(1,441)	(1,474)	(1,561)	(1,723)	(1,895)
Other CL	(1,302)	(3,526)	(3,137)	(3,385)	(3,517)
Def tax assets	280	370	404	404	404
Total Assets	13,870	18,468	19,157	19,281	21,960

Source: Company, YES Sec

Exhibit 4: Income statement

Y/e 31 Mar (Rs mn)	FY21	FY22	FY23	FY24E	FY25E
Revenue	15,813	20,874	20,169	22,268	24,486
Operating profit	4,363	5,607	4,899	5,664	6,422
Depreciation	(772)	(1,081)	(1,502)	(1,547)	(1,607)
Interest expense	(160)	(302)	(375)	(102)	(12)
Other income	513	525	417	417	417
Profit before tax	3,944	4,749	3,439	4,432	5,220
Taxes	(979)	(1,246)	(1,028)	(1,307)	(1,540)
Adj. profit	2,965	3,503	2,411	3,125	3,680
Exceptional items	-	-	-	-	-
Net profit	2,965	3,503	2,411	3,125	3,680

Source: Company, YES Sec

Exhibit 5: Cashflow Statement

Y/e 31 Mar (Rs mn)	FY21	FY22	FY23	FY24E	FY25E
Profit before tax	3,944	4,749	3,439	4,432	5,220
Depreciation	772	1,081	1,502	1,547	1,607
Def tax assets (net)	(45)	(57)	(45)	-	-
Tax paid	(979)	(1,246)	(1,028)	(1,307)	(1,540)
Working capital Δ	464	1,935	41	(280)	78
Other operating items	-	-	-	-	-
Operating cashflow	4,157	6,462	3,909	4,391	5,365
Capital expenditure	(1,098)	(10,351)	(857)	(500)	(500)
Free cash flow	3,059	(3,888)	3,052	3,891	4,865
Equity raised	824	63	236	(0)	0
MI	97	45	(23)	-	-
Investments	32	(196)	(113)	-	-
Debt financing/disposal	173	1,954	(924)	(2,000)	-
Dividends paid	(1,667)	(1,000)	(1,001)	(1,001)	(1,001)
Net Δ in cash	2,518	(3,021)	1,228	890	3,864

Source: Company, YES Sec

Exhibit 6: Du-pont analysis

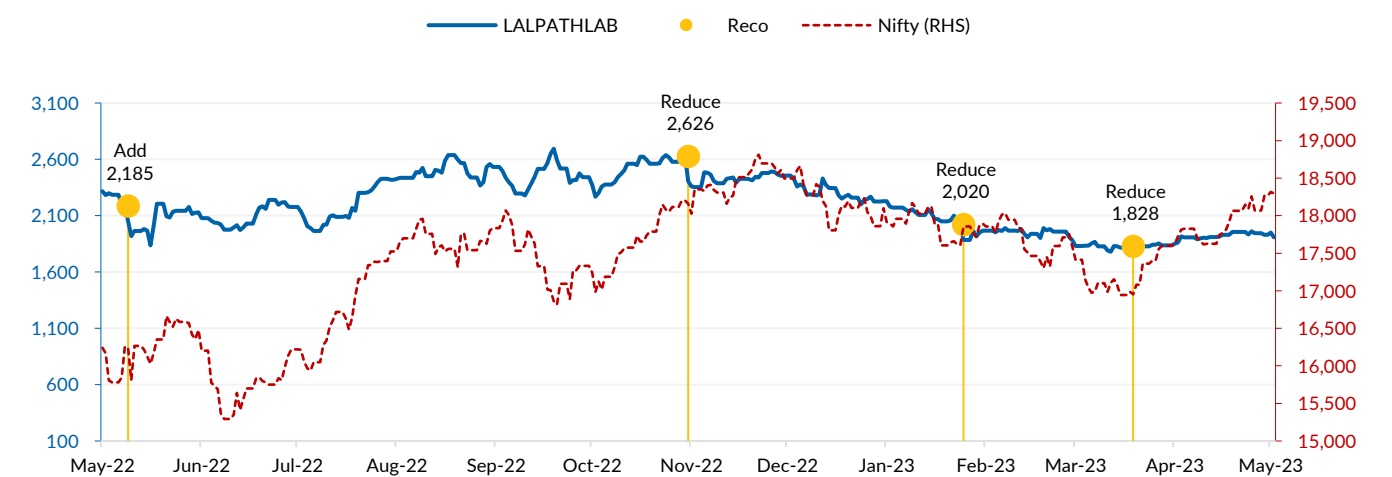
Y/e 31 Mar (Rs mn)	FY21	FY22	FY23	FY24E	FY25E
Tax burden (x)	0.75	0.74	0.70	0.71	0.71
Interest burden (x)	0.96	0.94	0.90	0.98	1.00
EBIT margin (x)	0.26	0.24	0.19	0.20	0.21
Asset turnover (x)	1.12	1.26	1.13	1.22	1.22
Financial leverage (x)	1.24	1.21	1.12	1.03	0.99
RoE (%)	26.0	25.5	15.2	17.6	18.3

Exhibit 7: Ratio analysis

Y/e 31 Mar	FY21	FY22	FY23	FY24E	FY25E
Growth matrix (%)					
Revenue growth	18.9	32.0	(3.4)	10.4	10.0
Op profit growth	27.0	28.5	(12.6)	15.6	13.4
EBIT growth	26.0	23.1	(24.5)	18.9	15.4
Net profit growth	30.3	18.1	(31.2)	29.6	17.8
Profitability ratios (%)					
OPM	27.6	26.9	24.3	25.4	26.2
EBIT margin	26.0	24.2	18.9	20.4	21.4
Net profit margin	18.8	16.8	12.0	14.0	15.0

Y/e 31 Mar	FY21	FY22	FY23	FY24E	FY25E
RoCE	32.4	31.2	20.3	23.6	25.4
RoNW	26.0	25.5	15.2	17.6	18.3
RoA	21.0	21.1	13.5	17.1	18.4
Per share ratios					
EPS	35.6	42.0	28.9	37.5	44.1
Dividend per share	20.0	12.0	12.0	12.0	12.0
Cash EPS	44.8	55.0	46.9	56.0	63.4
Book value per share	149.4	180.2	199.8	225.3	257.4
Valuation ratios					
P/E	53.6	46.1	66.6	50.9	43.2
P/CEPS	12.8	10.6	9.5	8.5	7.4
P/B	10.1	7.6	7.9	7.1	6.5
EV/EBIDTA	34.4	27.7	31.3	26.5	22.8
Payout (%)					
Dividend payout	24.8	26.2	29.9	29.5	29.5
Tax payout	56.2	28.6	41.5	32.0	27.2
Liquidity ratios					
Debtor days	15	15	13	13	13
Inventory days	10	9	6	6	6
Creditor days	33	26	28	28	28

Recommendation Tracker



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