

## Margins surprise on the back of Suburban and Swasthit

Healthcare ▶ Result Update ▶ October 24, 2024

TARGET PRICE (Rs): 3,400

DLPL's Q2FY25 margins expanded by 110bps YoY on the back of improving contribution from Swasthit and better margin performance at Suburban (~600bps QoQ). Sample volume growth (+8.6% YoY), however, remained soft owing to lower incidence of monsoon-related illnesses (except West region) and a higher base. With the management's target of adding 15-20 labs in FY25, signs of Suburban turning around, and predatory pricing receding, we anticipate 13% revenue CAGR over FY24-27E. Ramp up from hospital-backed chains remain a key risk for the well-diversified revenue base of DLPL, in our view. A strong balance sheet, industry leading margins, and improving return ratios provide comfort on valuations. We retain BUY with a revised Sep-25E TP of Rs3,400 (based on DCF), implying FY26E PER of 55x (in line with LTA).

## Dr Lal Pathlabs: Financial Snapshot (Consolidated)

Y/E Mar (Rs mn)	FY23	FY24	FY25E	FY26E	FY27E
Revenue	20,169	22,266	24,668	28,181	32,194
EBITDA	4,899	6,093	7,021	8,012	9,201
Adj. PAT	2,389	3,577	4,335	5,174	6,138
Adj. EPS (Rs)	28.7	42.8	51.9	62.0	73.5
EBITDA margin (%)	24.3	27.4	28.5	28.4	28.6
EBITDA growth (%)	(12.6)	24.4	15.2	14.1	14.8
Adj. EPS growth (%)	(30.7)	49.4	21.2	19.4	18.6
RoE (%)	14.8	20.0	21.6	22.7	23.2
RoIC (%)	21.8	28.4	34.3	40.5	42.5
P/E (x)	113.5	76.0	62.7	52.5	44.3
EV/EBITDA (x)	54.2	43.2	36.9	31.8	27.1
P/B (x)	16.3	14.7	13.0	11.3	9.6
FCFF yield (%)	1.6	1.8	2.0	2.2	2.6

Source: Company, Emkay Research

## Q2FY25 results on expected lines

For Q2FY25, DLPL reported a revenue increase of 10% YoY, on the back of volumes increasing 8.5% YoY and realizations by 1% YoY. Patient volumes grew 3.6% YoY, while higher share of bundled tests (Swasthit) and superior cost-control measures resulted in gross margins expanding by 107bps YoY. This has also resulted in EBITDA margins expanding by 110bps YoY to 30.7%. Strong operating performance and depreciation falling 2% YoY, along with other income increasing 21% YoY and finance cost reducing 23%, led to PAT expanding 18% YoY. The company has announced an interim dividend of Rs6/share for the quarter. Capex for the quarter was Rs106mn and net cash on books stood at ~Rs11bn. Swasthit revenues grew 25% YoY, contributing to 24% of the top-line. Management plans on adding 15-20 labs, majority of which will be commissioned in Tier 3+ cities in its core geographies.

## Outlook and risks

With Suburban delivering 12% YoY growth and plans of network expansion in Tier 3+ cities in North & East regions, we believe the current growth trajectory to continue for DLPL. Margin performance on the back of higher contribution from Swasthit as well as ramp up in margins at Suburban in the current quarter (+600bps QoQ expansion) should offset the back-ended network expansion planned by DLPL, in our view. Factoring in Q2FY25 results, we marginally increase EBITDAM by 20-30bps over FY26/27E, respectively. However, baking in softer volume growth over the medium term, we marginally cut our sales estimates by 1% over FY25-27. Strong balance sheet (net cash of Rs11bn), improving return ratios (ROE/ROCE at 23%/27%, respectively, in FY27), and robust cash generation (OCF as a % of EBITDA at 88% in FY24) lend comfort on valuations. We retain our BUY rating on DLPL, with revised Sep-25E TP to Rs3,400 (DCF), implying FY26E PER of 55x. **Key risks:** Increased competition in the organized market from growing hospital chains, predatory pricing from any market participants, and adverse regulatory ruling around pricing cap for healthcare services.

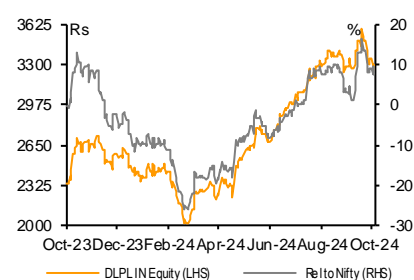
Target Price – 12M	Sep-25
Change in TP (%)	(5.6)
Current Reco.	BUY
Previous Reco.	BUY
Upside/(Downside) (%)	4.4
CMP (23-Oct-24) (Rs)	3,255.7

Stock Data	Ticker
52-week High (Rs)	3,654
52-week Low (Rs)	1,943
Shares outstanding (mn)	83.6
Market-cap (Rs bn)	272
Market-cap (USD mn)	3,236
Net-debt, FY25E (Rs mn)	-12,792
ADTV-3M (mn shares)	-
ADTV-3M (Rs mn)	758.1
ADTV-3M (USD mn)	9.0
Free float (%)	-
Nifty-50	24,436
INR/USD	84.1
<b>Shareholding, Jun-24</b>	
Promoters (%)	54.6
FPIs/MFs (%)	25.4/12.7

## Price Performance

(%)	1M	3M	12M
Absolute	(1.0)	6.2	33.3
Rel. to Nifty	5.1	6.4	5.2

## 1-Year share price trend (Rs)



## Anshul Agrawal

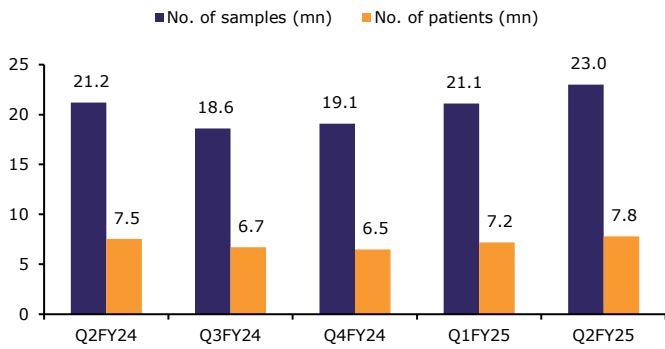
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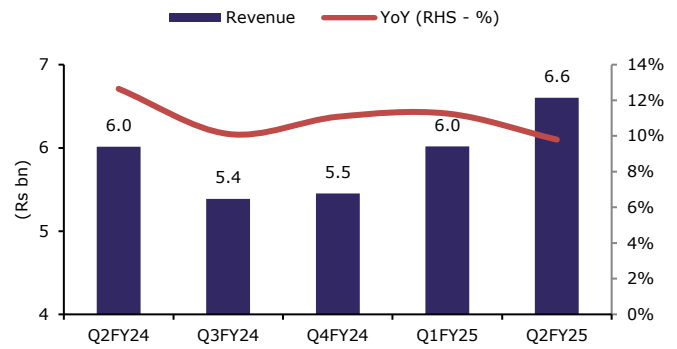
# Story in Charts

**Exhibit 1: Sample/patient volumes improve 9%/4% YoY**



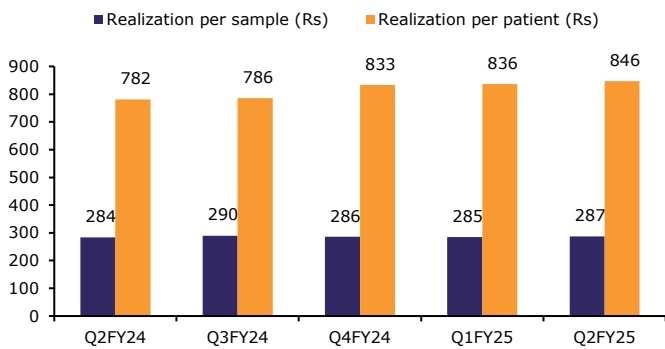
Source: Company, Emkay Research

**Exhibit 2: Core business registered 10% YoY topline growth**



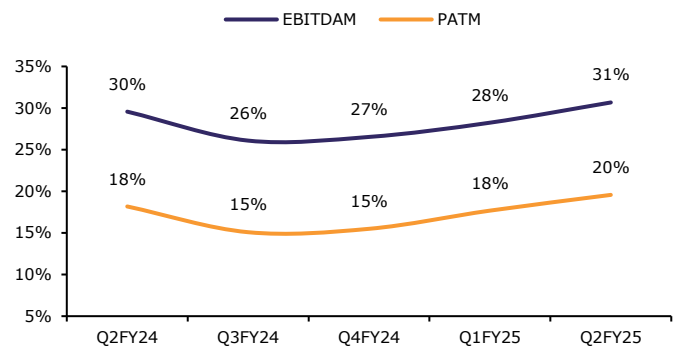
Source: Company, Emkay Research

**Exhibit 3: Realizations improved on account of better product mix...**



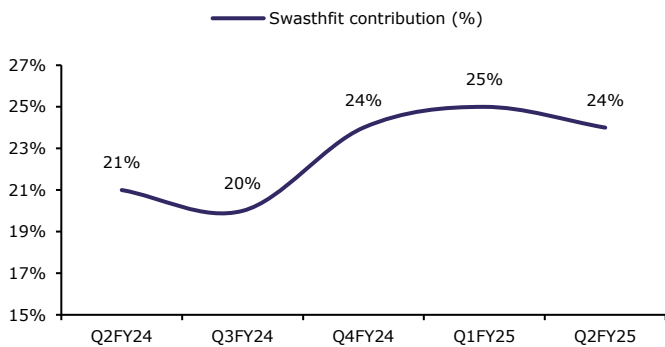
Source: Company, Emkay Research

**Exhibit 4: ...leading to a better QoQ and sustained YoY profitability**



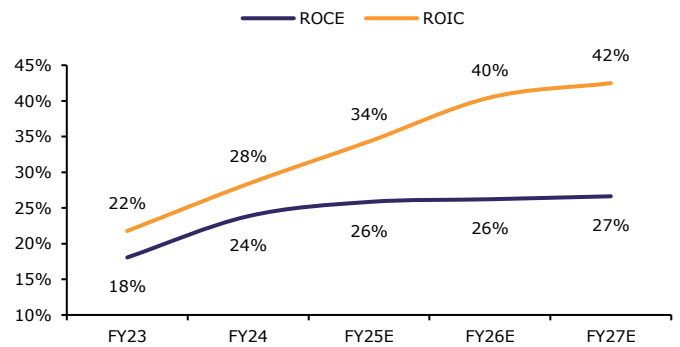
Source: Company, Emkay Research

**Exhibit 5: Swasthfit contribution remains robust**



Source: Company, Emkay Research

**Exhibit 6: Return ratios expected to improve**



Source: Company, Emkay Research

## Exhibit 7: Summary of quarterly financials

Particulars (Rs mn)	Q2FY24	Q1FY25	Q2FY25	YoY	QoQ
<b>Net sales</b>	<b>6,013</b>	<b>6,019</b>	<b>6,602</b>	<b>10%</b>	<b>10%</b>
Operating Expenses	(4,235)	(4,319)	(4,577)	8%	6%
Medical consumable costs	1,224	1,194	1,273	4%	7%
Employee Costs	1,054	1,166	1,240	18%	6%
SG&A expenses	1,957	1,959	2,064	5%	5%
<b>EBITDA</b>	<b>1,778</b>	<b>1,700</b>	<b>2,025</b>	<b>14%</b>	<b>19%</b>
<b>Margins</b>	<b>29.6%</b>	<b>28.2%</b>	<b>30.7%</b>	<b>4%</b>	<b>9%</b>
Depreciation	(359)	(347)	(353)	-2%	2%
EBIT	1,419	1,353	1,672	18%	24%
Other Income	181	206	219	21%	6%
Interest	(78)	(60)	(60)	-23%	0%
Extra ordinary items					
PBT	1,522	1,499	1,831	20%	22%
Tax	(415)	(421)	(523)	26%	24%
PAT	1,107	1,078	1,308	18%	21%
<b>Adj. PAT</b>	<b>1,107</b>	<b>1,078</b>	<b>1,308</b>	<b>18%</b>	<b>21%</b>
Minority interests	14	14	16	14%	14%
PAT (reported)	1,093	1,064	1,292	18%	21%
EPS (Rs)	13.09	12.7	15.5	18%	21%
<b>Margins (%)</b>	<b>Q2FY24</b>	<b>Q1FY25</b>	<b>Q2FY25</b>	<b>YoY (bps)</b>	<b>QoQ (bps)</b>
Gross Margin	79.6%	80.2%	80.7%	107	56
EBITDA	29.6%	28.2%	30.7%	110	243
EBIT	23.6%	22.5%	25.3%	173	285
PBT	25.3%	24.9%	27.7%	242	283
PAT	18.2%	17.7%	19.6%	139	189
Effective Tax rate	27.3%	28.1%	28.6%	130	48

Source: Company, Emkay Research

## Exhibit 8: Actuals vs estimates (Q2FY25)

(Rs mn)	Actual	Estimate	Consensus	Variation	
		(Emkay)	estimate	Emkay	Consensus
			(Bloomberg)		
Revenue	6,602	6,680	6,753	-1%	-2%
EBITDA	2,025	1,937	1,900	s5%	7%
EBITDA Margin	31%	29%	28%	167 bps	253 bps
PAT	1,308	1,228	1,215	7%	8%

Source: Company, Emkay Research

## Exhibit 9: Change in estimates

Particulars (Rs mn)	FY25E			FY26E			FY27E		
	Old	New	Change	Old	New	Change	Old	New	Change
Revenue	24,917	24,668	-1.0%	28,465	28,181	-1.0%	32,519	32,194	-1.0%
EBITDA	7,059	7,021	-0.5%	8,036	8,012	-0.3%	9,192	9,201	0.1%
EBITDA Margin	28.3%	28.5%	13 bps	28.2%	28.4%	20 bps	28.3%	28.6%	31 bps
PAT	4,322	4,335	0.3%	5,284	5,174	-2.1%	6,140	6,138	0.0%

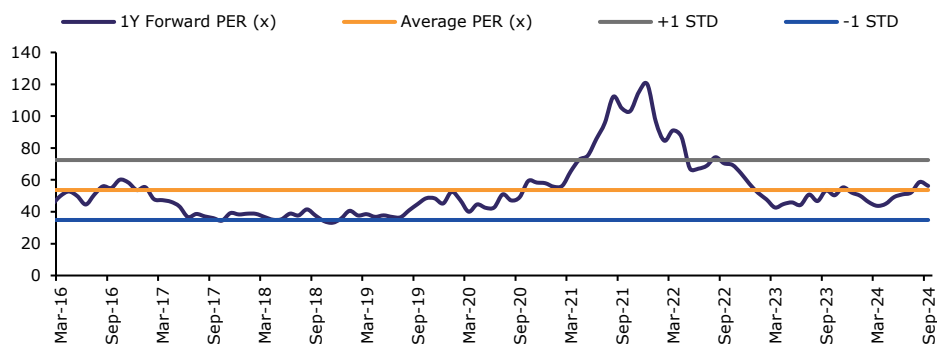
Source: Company, Emkay Research

## Exhibit 10: We value Dr Lal Path Labs at Rs3,400

	FY24	FY25E	FY26E	FY27E	FY30E	FY35E
Revenue	22,266	24,668	28,181	32,194	45,886	80,575
Growth	10%	11%	14%	14%	13%	12%
NOPAT	3,338	3,947	4,647	5,468	8,332	15,210
Non-cash items	1,436	1,489	1,558	1,606	1,772	3,153
Change in WC	(204)	78	113	190	198	317
Capex	(365)	(512)	(560)	(560)	(630)	(1,154)
FCFF	4,204	5,002	5,759	6,705	9,672	17,526
WACC	10.7%					
Terminal growth	6%					
PV of CFs (FY24-45E)	1,20,996					
PV of terminal value	1,35,874					
Total EV	2,56,870					
(Less) Net debt - FY25E	(12,792)					
<b>Total equity value</b>	<b>2,69,662</b>					
<b>Total no. of shares (mn) - Sep-24</b>	<b>84</b>					
<b>Target price (Rs) - Sep-25E</b>	<b>3,400</b>					

Source: Company, Emkay Research

## Exhibit 11: Dr Lal Path Labs is trading around its long-term 1YF PER



Source: Bloomberg, Emkay Research

## Call Highlights

- Management stayed firm on guidance to remain unchanged, with margins to contract in H2FY25 on the back of higher capex and SG&A costs owing to expansion plans. The focus remains on driving top-line growth.
- Dr Om Manchanda shall be stepping down from the post of Managing Director in Mar-25. However, he shall continue as an advisor to the company, while the current CEO, Shankha Banerjee will take over his executive responsibilities.
- While the management does not look at undertaking any price changes in the near future, any inflationary adjustments, if needed, shall be done with the core goal to appeal to a larger footprint.
- With firming up of trends in bundled testing driving higher realization per patient, business processes are becoming simplified. Management remains positive on shift to larger bundling across categories.
- The business is now expanding its reach in West and East clusters. West region now contributes 15% of revenues (~Rs100Cr/quarter run rate) with ~60% of revenues in this region coming from the inorganic route.
- The business maintains its focus on expanding deeper into North and East markets in Tier 3&4 towns, where it aims to add NCD test bundles to the menu while continuing to manage throughput per lab by ascribing larger radius catchment area.
- Suburban margins expanded to 20% from 14% in Q1FY25 on the back of better operating leverage, backend efficiency, and productivity.
- Suburban revenues grew 11.6% YoY.
- Swasthfit has seen better traction from increasing recommendations from doctors and the segment growing at 2x the company growth rate.
- DLPL has better advantage over hospitals-linked diagnostic chains on account of higher penetration and brand recognition vs standalone clinics.
- Delhi NCR contributed ~31% to the top-line.
- 50% of lab additions have been achieved in H1FY25 from the total plan of adding 15-20 labs in FY25. Management commented on capex of the same to be largely reflected in H2FY25.
- On the environment, the management alluded to intensive competition with competitors taking price hikes, while irrational pricing and deep discounting has reduced.

## Dr Lal Pathlabs: Consolidated Financials and Valuations

Profit & Loss					
Y/E Mar (Rs mn)	FY23	FY24	FY25E	FY26E	FY27E
<b>Revenue</b>	<b>20,169</b>	<b>22,266</b>	<b>24,668</b>	<b>28,181</b>	<b>32,194</b>
Revenue growth (%)	(3.4)	10.4	10.8	14.2	14.2
<b>EBITDA</b>	<b>4,899</b>	<b>6,093</b>	<b>7,021</b>	<b>8,012</b>	<b>9,201</b>
EBITDA growth (%)	(12.6)	24.4	15.2	14.1	14.8
Depreciation & Amortization	1,502	1,436	1,489	1,558	1,606
<b>EBIT</b>	<b>3,397</b>	<b>4,657</b>	<b>5,532</b>	<b>6,454</b>	<b>7,595</b>
EBIT growth (%)	(25.0)	37.1	18.8	16.7	17.7
Other operating income	0	0	0	0	0
Other income	417	692	820	983	1,180
Financial expense	375	294	220	220	220
<b>PBT</b>	<b>3,439</b>	<b>5,055</b>	<b>6,132</b>	<b>7,217</b>	<b>8,558</b>
Extraordinary items	0	0	0	0	0
Taxes	1,028	1,432	1,756	2,021	2,395
Minority interest	(22)	(46)	(40)	(22)	(22)
Income from JV/Associates	0	0	0	0	0
<b>Reported PAT</b>	<b>2,389</b>	<b>3,577</b>	<b>4,335</b>	<b>5,174</b>	<b>6,138</b>
PAT growth (%)	(30.7)	49.7	21.2	19.4	18.6
<b>Adjusted PAT</b>	<b>2,389</b>	<b>3,577</b>	<b>4,335</b>	<b>5,174</b>	<b>6,138</b>
<b>Diluted EPS (Rs)</b>	<b>28.7</b>	<b>42.8</b>	<b>51.9</b>	<b>62.0</b>	<b>73.5</b>
Diluted EPS growth (%)	(30.7)	49.4	21.2	19.4	18.6
<b>DPS (Rs)</b>	<b>12.0</b>	<b>24.0</b>	<b>24.0</b>	<b>24.0</b>	<b>24.0</b>
<b>Dividend payout (%)</b>	<b>(41.8)</b>	<b>(56.0)</b>	<b>(46.2)</b>	<b>(38.7)</b>	<b>(32.7)</b>
EBITDA margin (%)	24.3	27.4	28.5	28.4	28.6
EBIT margin (%)	16.8	20.9	22.4	22.9	23.6
Effective tax rate (%)	29.9	28.3	28.6	28.0	28.0
<b>NOPLAT (pre-IndAS)</b>	<b>2,382</b>	<b>3,338</b>	<b>3,947</b>	<b>4,647</b>	<b>5,468</b>
Shares outstanding (mn)	83.3	83.5	83.5	83.5	83.5

Source: Company, Emkay Research

Cash flows					
Y/E Mar (Rs mn)	FY23	FY24	FY25E	FY26E	FY27E
PBT	3,439	5,055	6,132	7,217	8,558
Others (non-cash items)	0	0	0	0	0
Taxes paid	(1,028)	(1,432)	(1,756)	(2,021)	(2,395)
Change in NWC	50	195	708	386	514
<b>Operating cash flow</b>	<b>4,560</b>	<b>5,354</b>	<b>5,679</b>	<b>6,105</b>	<b>6,996</b>
Capital expenditure	(365)	(512)	(560)	(560)	(580)
Acquisition of business	0	0	0	0	0
Interest & dividend income	306	473	659	823	1,020
<b>Investing cash flow</b>	<b>(2,873)</b>	<b>(243)</b>	<b>99</b>	<b>(737)</b>	<b>(4,560)</b>
Equity raised/(repaid)	0	1	0	0	0
Debt raised/(repaid)	(1,090)	(1,534)	(833)	0	0
Payment of lease liabilities	(342)	(335)	630	273	323
Interest paid	(375)	(294)	(220)	(220)	(220)
Dividend paid (incl tax)	(1,000)	(2,004)	(2,004)	(2,004)	(2,004)
Others	1,255	201	236	284	285
<b>Financing cash flow</b>	<b>(1,209)</b>	<b>(3,630)</b>	<b>(2,821)</b>	<b>(1,940)</b>	<b>(1,939)</b>
Net chg in Cash	478	1,481	2,957	3,428	496
OCF	4,560	5,354	5,679	6,105	6,996
Adj. OCF (w/o NWC chg.)	4,610	5,549	6,387	6,491	7,509
FCFF	4,195	4,842	5,119	5,545	6,416
FCFE	4,126	5,021	5,558	6,148	7,215
OCF/EBITDA (%)	93.1	87.9	80.9	76.2	76.0
FCFE/PAT (%)	172.7	140.4	128.2	118.8	117.6
<b>FCFF/NOPLAT (%)</b>	<b>176.2</b>	<b>145.1</b>	<b>129.7</b>	<b>119.3</b>	<b>117.3</b>

Source: Company, Emkay Research

Balance Sheet					
Y/E Mar (Rs mn)	FY23	FY24	FY25E	FY26E	FY27E
Share capital	834	835	835	835	835
Reserves & Surplus	15,829	17,658	20,029	23,222	27,377
<b>Net worth</b>	<b>16,663</b>	<b>18,493</b>	<b>20,864</b>	<b>24,057</b>	<b>28,212</b>
Minority interests	332	361	361	361	361
Deferred tax liability (net)	(375)	(425)	(425)	(425)	(425)
<b>Total debt</b>	<b>2,367</b>	<b>833</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>Total liabilities &amp; equity</b>	<b>18,987</b>	<b>19,262</b>	<b>20,800</b>	<b>23,993</b>	<b>28,148</b>
Net tangible fixed assets	2,004	1,994	1,983	1,941	1,856
Net intangible assets	3,562	3,026	2,473	1,885	1,290
Net ROU assets	2,006	1,436	1,232	1,024	838
Capital WIP	30	40	40	40	40
Goodwill	5,478	5,482	5,482	5,482	5,482
Investments [JV/Associates]	0	0	0	0	0
<b>Cash &amp; equivalents</b>	<b>8,154</b>	<b>9,441</b>	<b>12,792</b>	<b>17,209</b>	<b>22,744</b>
Current assets (ex-cash)	2,198	2,338	2,462	2,643	2,789
Current Liab. & Prov.	4,464	4,849	5,681	6,248	6,908
<b>NWC (ex-cash)</b>	<b>(2,266)</b>	<b>(2,511)</b>	<b>(3,219)</b>	<b>(3,606)</b>	<b>(4,119)</b>
<b>Total assets</b>	<b>18,987</b>	<b>18,925</b>	<b>20,800</b>	<b>23,992</b>	<b>28,148</b>
Net debt	(5,787)	(8,608)	(12,792)	(17,209)	(22,744)
Capital employed	18,987	19,262	20,800	23,993	28,148
<b>Invested capital</b>	<b>10,804</b>	<b>9,444</b>	<b>7,968</b>	<b>6,743</b>	<b>5,364</b>
BVPS (Rs)	200.0	221.5	249.9	288.1	337.9
Net Debt/Equity (x)	(0.3)	(0.5)	(0.6)	(0.7)	(0.8)
Net Debt/EBITDA (x)	(1.2)	(1.4)	(1.8)	(2.1)	(2.5)
Interest coverage (x)	0.1	0.1	0.0	0.0	0.0
<b>RoCE (%)</b>	<b>18.1</b>	<b>23.8</b>	<b>25.8</b>	<b>26.2</b>	<b>26.6</b>

Source: Company, Emkay Research

Valuations and key Ratios					
Y/E Mar	FY23	FY24	FY25E	FY26E	FY27E
P/E (x)	113.5	76.0	62.7	52.5	44.3
P/CE(x)	69.7	54.2	46.7	40.4	35.1
P/B (x)	16.3	14.7	13.0	11.3	9.6
EV/Sales (x)	13.2	11.8	10.5	9.0	7.7
EV/EBITDA (x)	54.2	43.2	36.9	31.8	27.1
EV/EBIT(x)	78.1	56.5	46.8	39.5	32.8
EV/IC (x)	24.6	27.9	32.5	37.8	46.4
FCFF yield (%)	1.6	1.8	2.0	2.2	2.6
FCFE yield (%)	1.5	1.8	2.0	2.3	2.7
Dividend yield (%)	0.4	0.7	0.7	0.7	0.7
<b>DuPont-RoE split</b>					
Net profit margin (%)	11.8	16.1	17.6	18.4	19.1
Total asset turnover (x)	2.6	2.8	2.9	3.1	3.2
Assets/Equity (x)	1.2	1.1	1.0	1.0	1.0
<b>RoE (%)</b>	<b>14.8</b>	<b>20.0</b>	<b>21.6</b>	<b>22.7</b>	<b>23.2</b>
<b>DuPont-RoIC</b>					
NOPLAT margin (%)	11.8	15.0	16.0	16.5	17.0
IC turnover (x)	1.3	1.4	1.5	1.8	1.8
<b>RoIC (%)</b>	<b>21.8</b>	<b>28.4</b>	<b>34.3</b>	<b>40.5</b>	<b>42.5</b>
<b>Operating metrics</b>					
Core NWC days	(9.3)	(11.8)	(11.8)	(11.8)	(12.5)
<b>Total NWC days</b>	<b>(9.3)</b>	<b>(11.8)</b>	<b>(11.8)</b>	<b>(11.8)</b>	<b>(12.5)</b>
Fixed asset turnover	1.2	1.3	1.5	1.7	1.9
Opex-to-revenue (%)	53.5	52.4	51.3	50.2	49.4

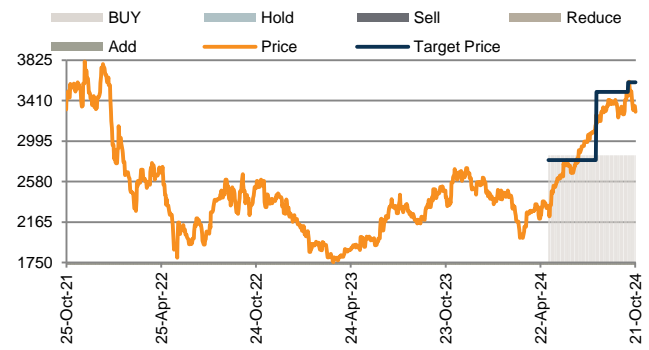
Source: Company, Emkay Research

**RECOMMENDATION HISTORY - DETAILS**

Date	Closing Price (INR)	TP (INR)	Rating	Analyst
07-Oct-24	3,460	3,600	Buy	Anshul Agrawal
07-Aug-24	3,269	3,500	Buy	Anshul Agrawal
19-Jun-24	2,674	2,800	Buy	Anshul Agrawal
10-May-24	2,339	2,800	Buy	Anshul Agrawal
07-May-24	2,313	2,800	Buy	Anshul Agrawal

Source: Company, Emkay Research

**RECOMMENDATION HISTORY - TREND**



Source: Company, Bloomberg, Emkay Research

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<b>ADD</b>	5-15% upside
<b>REDUCE</b>	5% upside to 15% downside
<b>SELL</b>	<15% downside

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