

October 23, 2024

RESULT REPORT Q2 FY25 | Sector: Pharmaceuticals & Healthcare

Dr Lal Pathlabs

In line quarter; volume growth still lackluster

Result Synopsis

Dr Lal reported largely in line quarter as sample growth yet again outpaced volume expansion. Swasthit share continues to rise YoY which is driving large part of realization improvement. Margin strength is consistently evident even as management alluded to higher opex in H2 leading to lower projected margin for the second half. With no visible price hike in FY25, expect bulk of the per patient realization to come from mix change and small contribution from geography/product mix. We marginally tweak our realization and 50bps higher gross margin resulting in 3-4% change to FY25 and FY26 estimates. Retain SELL based on unchanged 40x as reckon there is unlikely to be a revenue surprise in the near term that precludes meaningful upgrades.

Result Highlights

Dr Lal reported ~10% YoY revenue growth vs expected ~11% YoY

Likely weaker Sep first half in terms of post rainfall disease pattern led to worse than expected volume weakness as patient footfall up just ~3.9% YoY

Swasthit continues to add to samples as sample growth at 8.6% YoY

Margin at 30.7% (+110bps YoY) posted a slight miss to our ~31% expectation on higher-than-expected other expenses

PAT up 18% YoY on lower interest cost YoY

Exhibit 1: Actual vs estimates

Rsmn	Actual	Estimate		% Variation		Remarks
		YES Sec	Consensus	YES Sec	Consensus	
Sales	6,602	6,691	6,753	-1.3	-2.2	
EBITDA	2,025	2,090	1,900	-3.1	6.6	
EBITDA Margin (%)	30.7	31.2	28.1	-57 bps	253 bps	In line revenues led by sample growth with solid margin delivery
Adjusted PAT	1,308	1,340	1,215	-2.4	7.7	

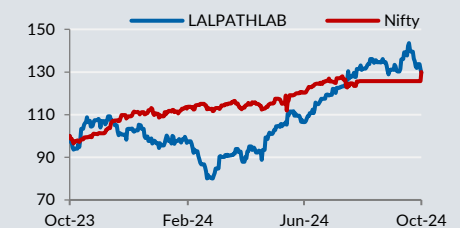
Source: Company, YES Sec

Reco	: SELL
CMP	: Rs 3,257
Target Price	: Rs 2,600
Potential Return	: -20.0%

Stock data (as on October 23, 2024)

Nifty	25,401
52 Week h/l (Rs)	3459 / 1944
Market cap (Rs/USD mn)	273282 / 3268
Outstanding Shares (mn)	83
6m Avg t/o (Rs mn):	711
Div yield (%):	0.6
Bloomberg code:	DLPL IN
NSE code:	LALPATHLAB

Stock performance



	1M	3M	1Y
Absolute return	-0.9%	6.3%	33.4%

Shareholding pattern (As of Jun'24 end)

Promoter	54.6%
FII+DII	39.7%
Others	5.7%

Δ in stance

(1-Yr)	New	Old
Rating	SELL	SELL
Target Price	2,600	2,550

Δ in earnings estimates

	FY25e	FY26e
EPS (New)	54.3	64.7
EPS (Old)	52.0	62.9
% change	4.5%	2.9%

Financial Summary

(Rs mn)	FY24	FY25E	FY26E
Revenue	22,266	24,966	28,350
YoY Growth	10.4	12.1	13.6
EBIDTA	6,093	7,306	8,580
YoY Growth	24.4	19.9	17.4
PAT	3,577	4,536	5,405
YoY Growth	49.7	26.8	19.2
ROE	20.6	23.2	24.0
EPS	42.8	54.3	64.7
P/E	75.9	59.9	50.2
BV	221.5	251.8	292.5
EV/EBITDA	43.2	35.6	29.8

BHAVESH GANDHI

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Exhibit 2: Quarterly snapshot (Consolidated)

Rs mn	Q2 FY24	Q3 FY24	Q4 FY24	Q1 FY25	Q2 FY25	y/y (%)	q/q (%)
Revenue	6,013	5,389	5,454	6,019	6,602	9.8	9.7
Expenditure	4,235	3,983	4,007	4,319	4,577	8.1	6.0
Cost of material consumed	1,224	1,070	1,089	1,194	1,273	4.0	6.6
Fees to collection centers/ Channel Partners	852	777	756	837	937	10.0	11.9
Staff	1,054	1,090	1,054	1,166	1,240	17.6	6.3
Other expenses	1,105	1,046	1,108	1,122	1,127	2.0	0.4
Operating Profit	1,778	1,406	1,447	1,700	2,025	13.9	19.1
OPM (%)	29.6	26.1	26.5	28.2	30.7	110 bps	243 bps
Other Income	181	183	184	206	219	21.0	6.3
Depreciation	359	360	366	347	353	(1.7)	1.7
Interest	78	70	66	60	60	(23.1)	-
PBT	1,522	1,159	1,199	1,499	1,831	20.3	22.1
Tax	415	337	341	421	523	26.0	24.2
PAT	1,107	822	858	1,078	1,308	18.2	21.3
Minority Interest	(14)	(9)	(13)	(14)	(16)	14.3	14.3
Reported PAT	1,093	813	845	1,064	1,292	18.2	21.4

Source: Company, YES Sec

KEY CON-CALL HIGHLIGHTS

- Dr Om turns 60 next year and would further aid in transition of CEO responsibility to Mr. Banerjee by Mar'25; Dr Om to turn in to an advisor to the company
- Stick to guidance of margin same or slightly better than last year
- On a yearly basis, gross margin is sustainable
- Concept of bundled test is firmly entrenched leading to improved per patient realization and margin
- Patient vol growth – under the influence of Swasthfit contribution and outreach program in contiguous districts
- Competitive intensity is still there – what has stopped is irrational pricing; see hospitals competing in retail pathology on the horizon
- West is 15% of revenues or ~Rs1bn a quarter of which 60% is inorganic and region has grown faster than rest of the company
- Business in West and South is an outcome of inorganic moves
- Realization improvement of 0.75% is purely due to product and geography mix
- Introducing bundled testing in locations beyond Tier II markets
- Still enjoying negative working capital of 22 days
- Should not focus on Suburban margin and would rather invest for growth even if sacrificing on margin
- Believe Suburban should sustain at double digit and grow may be faster than company
- Growth rates across regions is uniformly spread or may be West had higher incidence of fever
- As one goes into smaller towns, there are very strong relationships between patient and doctors and even between doctors; so breakthrough happens slowly
- Sense is that break even in smaller towns may have compressed compared to past
- In non Swasthfit portfolio, test/patient has inched up slightly leading to better sample growth
- A&P spends are inching up every quarter
- Swasthfit – seeing traction in Tier 3 and 4 therefore scope is much wider than wellness. There is reasonable headroom but not looking at a specific figure right now
- Bulk of Swasthfit uptake is upgradation of prescription brought in by patients
- Do not have any accurate data but believe illness component of Swasthfit would be meaningful
- Still seeing some aggression from local path labs in wake of covid-led money inflow who are trying to sustain or expand operations
- Most of the new lab operations would start in H2; margin for H2 would be lower than H1
- As long as growth is not leading to dilution of margin, price increases defeat the purpose of affordable growth in newer locations
- Purpose of price increase is not to per se improve revenue growth but more to cover inflation in costs
- Have increased collection centres per retail labs – about 29 centres per lab and should sustain that ratio in Tier 3 and 4 towns
- FY25 would be catch up year for lab addition as last few years lab additions was slower than pre covid rate
- Q3 margin are quite different than Q2 historically and Q2 is not a representation of full year
- Investment in technology, digital, logistics would be incurred in H2
- Delhi NCR contribution is 31% of Q2 revenues
- Predominant tests are in-house; over the years converted test in-house vs outsourced earlier
- Key learnings of acquisition have been post-merger financials, state of lab infra, growth drivers (franchises vs owned labs) of acquired entity

FINANCIALS

Exhibit 3: Balance Sheet

Y/e 31 Mar (Rs mn)	FY22	FY23	FY24	FY25E	FY26E
Equity capital	833	834	835	835	835
Reserves	14,183	15,829	17,658	20,190	23,592
Net worth	15,016	16,663	18,493	21,025	24,427
Debt	3,057	2,133	1,030	1,030	1,030
MI	355	332	361	361	361
Deferred tax liab (net)	40	29	24	24	24
Total liabilities	18,468	19,157	19,908	22,440	25,842
Goodwill	5,435	5,478	5,482	5,482	5,482
Fixed Asset	8,404	7,622	6,513	5,645	4,711
Investments	508	621	849	849	849
Net Working Capital	3,751	5,032	6,615	10,015	14,351
Inventories	524	338	373	418	475
Sundry debtors	854	708	774	868	985
Cash	6,831	8,153	9,441	12,658	17,157
Other current assets	542	531	679	999	1,134
Sundry creditors	(1,474)	(1,561)	(1,866)	(2,092)	(2,376)
Other CL	(3,526)	(3,137)	(2,786)	(2,835)	(3,024)
Def tax assets	370	404	449	449	449
Total Assets	18,468	19,157	19,908	22,440	25,842

Source: Company, YES Sec

Exhibit 4: Income statement

Y/e 31 Mar (Rs mn)	FY22	FY23	FY24	FY25E	FY26E
Revenue	20,874	20,169	22,266	24,966	28,350
Operating profit	5,607	4,899	6,093	7,306	8,580
Depreciation	(1,081)	(1,502)	(1,436)	(1,467)	(1,535)
Interest expense	(302)	(375)	(294)	(272)	(272)
Other income	525	417	692	800	800
Profit before tax	4,749	3,439	5,055	6,367	7,574
Taxes	(1,246)	(1,028)	(1,432)	(1,783)	(2,121)
Adj. profit	3,503	2,411	3,623	4,584	5,453
MI + exceptional	(55)	(22)	(46)	(48)	(48)
Net profit	3,448	2,389	3,577	4,536	5,405

Source: Company, YES Sec

Exhibit 5: Cashflow Statement

Y/e 31 Mar (Rs mn)	FY22	FY23	FY24	FY25E	FY26E
Profit before tax	4,749	3,439	5,055	6,367	7,574
Depreciation	1,081	1,502	1,436	1,467	1,535
Def tax assets (net)	(57)	(45)	(50)	-	-
Tax paid	(1,246)	(1,028)	(1,432)	(1,783)	(2,121)
Working capital Δ	1,935	41	(295)	(183)	163
Other operating items	(55)	(22)	(46)	(48)	(48)
Operating cashflow	6,407	3,887	4,668	5,820	7,103
Capital expenditure	(10,351)	(762)	(331)	(600)	(600)
Free cash flow	(3,943)	3,125	4,337	5,220	6,503
Equity raised	118	258	257	0	0
MI	45	(23)	29	-	-
Investments	(196)	(113)	(228)	-	-
Debt financing/disposal	1,954	(924)	(1,103)	-	-
Dividends paid	(1,000)	(1,001)	(2,004)	(2,004)	(2,004)
Net Δ in cash	(3,021)	1,322	1,288	3,216	4,499

Source: Company, YES Sec

Exhibit 6: Du-pont analysis

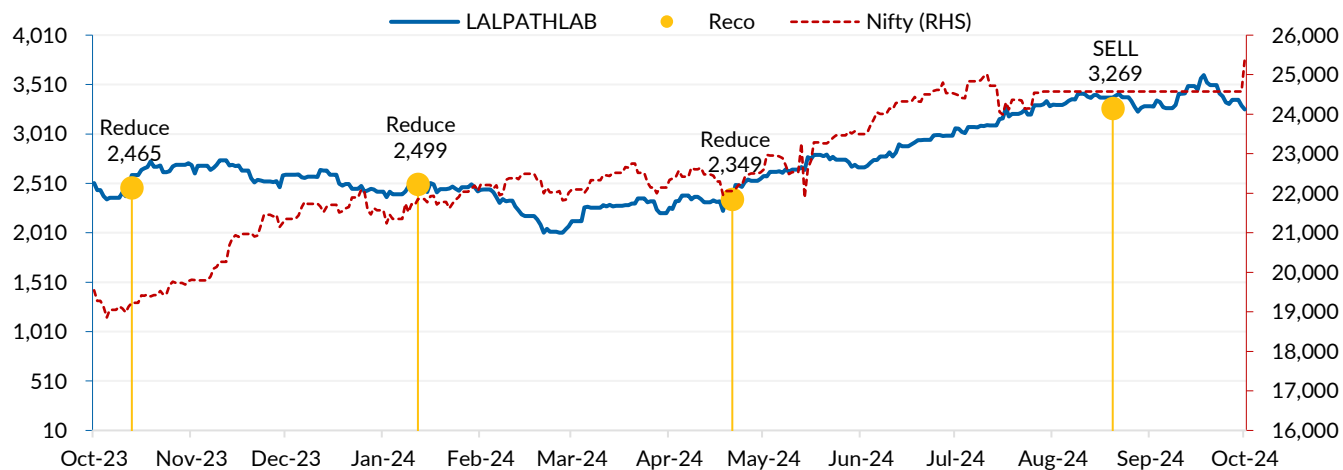
Y/e 31 Mar (Rs mn)	FY22	FY23	FY24	FY25E	FY26E
Tax burden (x)	0.74	0.70	0.72	0.72	0.72
Interest burden (x)	0.94	0.90	0.95	0.96	0.97
EBIT margin (x)	0.24	0.19	0.24	0.27	0.28
Asset turnover (x)	1.26	1.13	1.22	1.25	1.21
Financial leverage (x)	1.21	1.12	1.04	1.01	1.03
RoE (%)	25.5	15.2	20.6	23.2	24.0

Exhibit 7: Ratio analysis

Y/e 31 Mar	FY22	FY23	FY24	FY25E	FY26E
Growth matrix (%)					
Revenue growth	32.0	(3.4)	10.4	12.1	13.6
Op profit growth	28.5	(12.6)	24.4	19.9	17.4
EBIT growth	23.1	(24.5)	40.2	24.1	18.2
Net profit growth	16.3	(30.7)	49.7	26.8	19.2
Profitability ratios (%)					
OPM	26.9	24.3	27.4	29.3	30.3
EBIT margin	24.2	18.9	24.0	26.6	27.7
Net profit margin	16.8	12.0	16.3	18.4	19.2

Y/e 31 Mar	FY22	FY23	FY24	FY25E	FY26E
RoCE	31.2	20.3	27.4	31.4	32.5
RoNW	25.5	15.2	20.6	23.2	24.0
RoA	21.1	13.5	19.8	22.9	23.3
Per share ratios					
EPS	42.0	28.9	43.4	54.9	65.3
Dividend per share	12.0	12.0	24.0	24.0	24.0
Cash EPS	55.0	46.9	60.6	72.5	83.7
Book value per share	180.2	199.8	221.5	251.8	292.5
Valuation ratios					
P/E	78.6	113.5	75.9	59.9	50.2
P/CEPS	18.1	16.3	14.7	12.9	11.1
P/B	13.0	13.4	12.2	10.9	9.6
EV/EBIDTA	47.7	54.1	43.2	35.6	29.8
Payout (%)					
Dividend payout	26.2	29.9	28.3	28.0	28.0
Tax payout	29.0	41.9	56.0	44.2	37.1
Liquidity ratios					
Debtor days	15	13	13	13	13
Inventory days	9	6	6	6	6
Creditor days	26	28	31	31	31

Recommendation Tracker



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