

May 12, 2024

**RESULT REPORT Q4 FY24** | Sector: Pharmaceuticals & Healthcare

# Dr Lal Pathlabs

## Subdued volume outlook

### Result Synopsis

Dr Lal guided to better FY25 growth than FY24 less the contribution from price hike (~3.5%). Implied volume growth appears to be around 6-7% based on guidance coupled with mix change that would drive hitherto unchanged early double digit growth expectation – only difference being we have cut FY25/26 volume estimate by 4-5% given the weak prognosis and bumped up realization/patient to capture the upside from mix change. Company to reinvest incremental EBIDTA from operating leverage on expansion of labs which would preclude a significant improvement in margin. Continue to stick to our thesis of lack of volume growth being a major impediment to rerating of multiples which any way is elevated at ~46x/38x FY25E/26E basis. Believe rebound in volumes to above double digit would be a key rerating trigger and till such point we retain our negative view on the stock. Cut our target multiple to 40x (from 50x) earlier – bring it inline with that of Vijaya and persistent lack of volume visibility though roll over to FY26 largely negates the impact; our revised TP Rs2,450 (earlier Rs2,550) is based on 40x FY26 EPS and acceleration in volumes would be key upside risk to our view.

### Result Highlights

Revenue growth of 11% ahead of estimate of 7% and driven by ~3% volume and rest from realization growth (+7.7% YoY)

Gross margin rose 160bps YoY to 80% on account of price hike last year

Strong control over other expenses yet again lead to better margin outcome at 26.5% vs estimate of 25%

PAT up 49% YoY on 11% topline growth and operating leverage + gross margin benefits coupled with lower interest cost YoY

### Exhibit 1: Actual vs estimates

Rsmn	Actual	Estimate		% Variation		Remarks
		YES Sec	Consensus	YES Sec	Consensus	
Sales	5,454	5,254	5,531	3.8	-1.4	Weak volume growth as mix and/price hike drive moderate growth
EBITDA	1,447	1,306	1,441	10.8	0.4	
EBITDA Margin (%)	26.5	24.9	26.1	167 bps	48 bps	
Adjusted PAT	858	747	857	14.9	0.1	

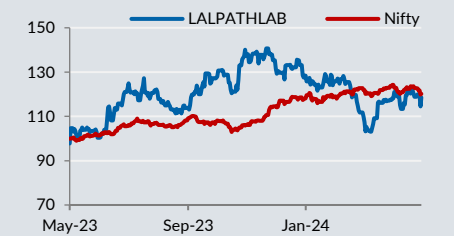
Source: Company, YES Sec

Reco	: <b>REDUCE</b>
CMP	: Rs 2,349
Target Price	: Rs 2,550
Potential Return	: 4.3%

### Stock data (as on May 10, 2024)

Nifty	22,055
52 Week h/l (Rs)	2767 / 1888
Market cap (Rs/USD mn)	193824 / 2322
Outstanding Shares (mn)	83
6m Avg t/o (Rs mn):	578
Div yield (%):	0.3
Bloomberg code:	DLPL IN
NSE code:	LALPATHLAB

### Stock performance



	1M	3M	1Y
Absolute return	0.4%	-5.7%	18.6%

### Shareholding pattern (As of Mar'24 end)

Promoter	54.6%
FII+DII	34.9%
Others	10.1%

### Δ in stance

(1-Yr)	New	Old
Rating	REDUCE	REDUCE
Target Price	2,450	2,550

### Δ in earnings estimates

	FY25e	FY26e
EPS (New)	50.9	61.7
EPS (Old)	51.1	59.7
% change	-0.4%	3.3%

### Financial Summary

(Rs mn)	FY24	FY25E	FY26E
Revenue	22,266	24,633	28,113
YoY Growth	10.4	10.6	14.1
EBIDTA	6,093	6,961	8,282
YoY Growth	24.4	14.2	19.0
PAT	3,577	4,250	5,152
YoY Growth	49.7	18.8	21.2
ROE	20.6	21.9	23.3
EPS	42.8	50.9	61.7
P/E	54.7	46.1	38.0
BV	221.5	248.4	286.1
EV/EBITDA	30.8	26.5	21.7

**BHAVESH GANDHI**

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## Exhibit 2: Quarterly snapshot (Consolidated)

Rs mn	Q4 FY23	Q1 FY24	Q2 FY24	Q3 FY24	Q4 FY24	y/y (%)	q/q (%)
Revenue	4,910	5,410	6,013	5,389	5,454	11.1	1.2
Expenditure	3,754	3,948	4,235	3,983	4,007	6.7	0.6
Cost of material consumed	1,059	1,131	1,224	1,070	1,089	2.8	1.8
Fees to collection centers/ Channel Partners	688	745	852	777	756	9.9	(2.7)
Staff	925	1,047	1,054	1,090	1,054	13.9	(3.3)
Other expenses	1,082	1,025	1,105	1,046	1,108	2.4	5.9
Operating Profit	1,156	1,462	1,778	1,406	1,447	25.2	2.9
OPM(%)	23.5	27.0	29.6	26.1	26.5	299 bps	44 bps
Other Income	142	144	181	183	184	29.6	1
Depreciation	376	351	359	360	366	(2.7)	2
Interest	90	80	78	70	66	(26.7)	(6)
PBT	832	1,175	1,522	1,159	1,199	44.1	3.5
Tax	263	339	415	337	341	29.7	1.2
PAT	569	836	1,107	822	858	50.8	4.4
Minority Interest	(2)	(10)	(14)	(9)	(13)	550.0	44.4
Reported PAT	567	826	1,093	813	845	49.0	3.9

Source: Company, YES Sec

## KEY CON-CALL HIGHLIGHTS

- Industry would see better growth in FY25 than what industry saw in FY24 and FY23
- Early signs of volume growth is just may be base was weak in FY24; would have to wait out for 1 more quarter before firming up any conclusion
- Gross margin to sustain around 78-80% and think there is not much room to expand beyond 80%
- Confident can maintain 26% margin
- FY25 growth can be better than FY24 growth less the price hike (~3.5% price benefit in FY24)
- Looking at implied volume growth of at least 6-7% in FY25
- Q4 price benefit of ~1% YoY
- Would try to invest in growth rather than expand margin from current level
- Suburban Rs1.64bn with 13% margin in FY24 and 17% margin in Q4
- Not looking at price led but more of patient volumes and mix growth
- Going forward may have to offer services in buckets of pricing like premium, discounted and mass market
- Pune market is large enough for Suburban and new integrated players to co-exist
- Delhi might be growing at high single digit same store sales growth and rest of growth could be from expansion
- Due to Swasthfit volumes might be reducing as all tests are done in one go so patient footfalls and test/patient should be both looked into rather than just footfalls.
- Difficult to say but Swasthfit can be 30-40% of portfolio
- Swasthfit being extended to other markets; patients seeing greater value in bundling
- Revenue break up for FY24 - Delhi NCR - 31%, Rest of North - 31%, East - 15%, West - 15%, South - 6%. Better to go in markets where brand presence is weaker from M&A perspective
- Saw lot of positive traction in Delhi NCR in FY24
- To establish 20 DLPL hub labs during the year
- Collection infra is franchise driven and large samples being collected from Tier 3 and below and hence the increase in collection centres
- Having more labs does not increase demand but rather ability to service demand and hence expansion in Tier 3 where there exist gaps in coverage
- No of labs have been rationalized in Tier 1 and is a one-time exercise
- Pick up points - dynamic way of looking as if samples don't come in certain time than look to wind up
- Level playing field is now a little better and deep discounting has gone away
- Hospital chains have gained what they wanted from their patient base but seeing better growth in Delhi NCR than in the past especially on uptake of Swasthfit packages
- Retail including home collection is 32% on owned network; on franchise, 50% would be B2C and rest is pick up business
- Suburban - growth traction looking up with close to double digit growth in Q4; Suburban as a brand is 3rd largest in Mumbai
- Major shift towards franchise-led sample collection has happened in Suburban
- Rationalized some of the tests as there was some overlap in the portfolio
- Continue to push ahead on brand initiatives in select markets
- Expanding on reach, focus on digital innovation would be key areas of interest

## 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	19,904	23,052
Net worth	15,016	16,663	18,493	20,739	23,887
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
<b>Total liabilities</b>	<b>18,468</b>	<b>19,157</b>	<b>19,908</b>	<b>22,154</b>	<b>25,302</b>
Goodwill	5,435	5,478	5,482	5,482	5,482
Fixed Asset	8,404	7,622	6,513	5,593	4,605
Investments	508	621	849	849	849
Net Working Capital	3,751	5,032	6,615	9,781	13,917
Inventories	524	338	373	413	471
Sundry debtors	854	708	774	856	977
Cash	6,831	8,153	9,441	12,408	16,712
Other current assets	542	531	679	985	1,125
Sundry creditors	(1,474)	(1,561)	(1,866)	(2,064)	(2,356)
Other CL	(3,526)	(3,137)	(2,786)	(2,817)	(3,011)
Def tax assets	370	404	449	449	449
<b>Total Assets</b>	<b>18,468</b>	<b>19,157</b>	<b>19,908</b>	<b>22,154</b>	<b>25,302</b>

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	24,633	28,113
Operating profit	5,607	4,899	6,093	6,961	8,282
Depreciation	(1,081)	(1,502)	(1,436)	(1,520)	(1,589)
Interest expense	(302)	(375)	(294)	(272)	(272)
Other income	525	417	692	800	800
Profit before tax	4,749	3,439	5,055	5,970	7,222
Taxes	(1,246)	(1,028)	(1,432)	(1,672)	(2,022)
Adj. profit	3,503	2,411	3,623	4,298	5,200
MI + exceptional	(55)	(22)	(46)	(48)	(48)
Net profit	3,448	2,389	3,577	4,250	5,152

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	5,970	7,222
Depreciation	1,081	1,502	1,436	1,520	1,589
Def tax assets (net)	(57)	(45)	(50)	-	-
Tax paid	(1,246)	(1,028)	(1,432)	(1,672)	(2,022)
Working capital Δ	1,935	41	(295)	(199)	168
Other operating items	(55)	(22)	(46)	(48)	(48)
Operating cashflow	6,407	3,887	4,668	5,571	6,908
Capital expenditure	(10,351)	(762)	(331)	(600)	(600)
Free cash flow	<b>(3,943)</b>	<b>3,125</b>	<b>4,337</b>	<b>4,971</b>	<b>6,308</b>
Equity raised	118	258	257	(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	<b>(3,021)</b>	<b>1,322</b>	<b>1,288</b>	<b>2,967</b>	<b>4,304</b>

Source: Company, YES Sec

## Exhibit 6: Du-pont analysis

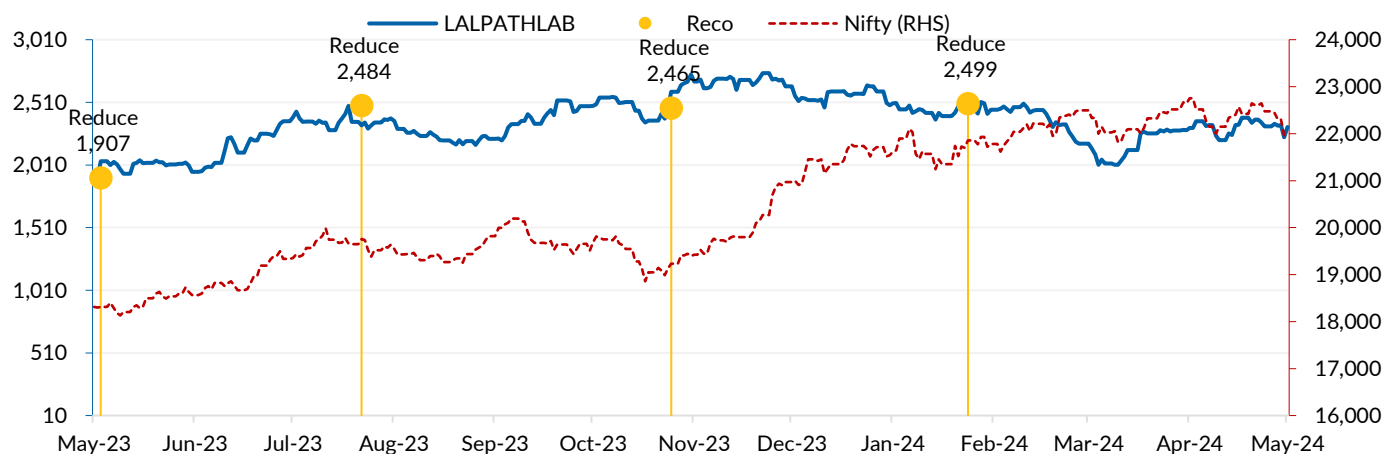
Y/e 31 Mar (Rs mn)	FY22	FY23	FY24	FY25E	FY26E
Tax burden (x)	0.74	0.70	0.72	0.72	0.72
Interest burden (x)	0.94	0.90	0.95	0.96	0.96
EBIT margin (x)	0.24	0.19	0.24	0.25	0.27
Asset turnover (x)	1.26	1.13	1.22	1.24	1.23
Financial leverage (x)	1.21	1.12	1.04	1.01	1.03
RoE (%)	<b>25.5</b>	<b>15.2</b>	<b>20.6</b>	<b>21.9</b>	<b>23.3</b>

## Exhibit 7: Ratio analysis

Y/e 31 Mar	FY22	FY23	FY24	FY25E	FY26E
<b>Growth matrix (%)</b>					
Revenue growth	32.0	(3.4)	10.4	10.6	14.1
Op profit growth	28.5	(12.6)	24.4	14.2	19.0
EBIT growth	23.1	(24.5)	40.2	16.7	20.1
Net profit growth	16.3	(30.7)	49.7	18.8	21.2
<b>Profitability ratios (%)</b>					
OPM	26.9	24.3	27.4	28.3	29.5
EBIT margin	24.2	18.9	24.0	25.3	26.7
Net profit margin	16.8	12.0	16.3	17.5	18.5

Y/e 31 Mar	FY22	FY23	FY24	FY25E	FY26E
RoCE	31.2	20.3	27.4	29.7	31.6
RoNW	25.5	15.2	20.6	21.9	23.3
RoA	21.1	13.5	19.8	21.6	22.7
<b>Per share ratios</b>					
EPS	42.0	28.9	43.4	51.5	62.3
Dividend per share	12.0	12.0	24.0	24.0	24.0
Cash EPS	55.0	46.9	60.6	69.7	81.3
Book value per share	180.2	199.8	221.5	248.4	286.1
<b>Valuation ratios</b>					
P/E	56.8	82.0	54.8	46.1	38.1
P/CEPS	13.0	11.8	10.6	9.5	8.2
P/B	9.4	9.7	8.8	8.0	7.0
EV/EBIDTA	34.2	38.8	30.8	26.5	21.8
<b>Payout (%)</b>					
Dividend payout	26.2	29.9	28.3	28.0	28.0
Tax payout	29.0	41.9	56.0	47.1	38.9
<b>Liquidity ratios</b>					
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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