

Dr Lal Pathlabs | BUY



Improving growth and attractive valuations; Upgrade to BUY

Dr.Lal's (DLPL) stock price has declined ~20% from its recent highs. Our downgrade after 1Q results was primarily due to weak visibility on volumes and expensive valuations. Post the recent correction, however DLPL trades near -1 SD along with sample volume growth returning to double digits during the quarter. Overall, DLPL's results were largely in-line with our estimates. The company reported 11% revenue growth, alongside 10%/19% growth in EBITDA/PAT, with margins contracting 30bps YoY, due to higher growth in staff cost. The 11% YoY revenue growth was driven completely by sample volume growth. As the company plans to add 15-20 labs, we anticipate growth could accelerate starting FY26. We project 12-13% top-line growth in FY26/27, with margins expected to remain above 27%, aided by an improving Swasthfit mix (currently at 24%). Attractive valuations, steady growth and margins warrant an upgrade to BUY. We largely maintain our earnings estimates as well as target multiple and roll forward to Dec'26 TP of INR 3,600 (25% upside).

- Double digit test volume growth:** Test volume grew ~11% to 20.6mn and patient volume grew 3%YoY to 6.9mn. The company achieved this through deeper penetration in core markets as well as concerted efforts to grow in the West and South region. The high-margin 'Swasthfit' portfolio contributed ~23% to revenue (vs. 20% in 3QFY24) for the quarter (24% for 9MFY25) and is expected to further improve. Realisation per patient increased 7.5% YoY at INR 865 - driven by mix and not price. Future growth in this metric will maintain this trend going forward. At an industry level test pricing is stabilising with predatory pricing/deep-discounting now receding
- Gross margins to stabilise at 80%:** The management guided for gross margins to stabilise going ahead as the company will face some headwinds in terms of rising reagent costs due to rupee depreciation. However, increasing sample and patient volume are driving operating leverage; this enables the company to maintain competitive pricing and their EBITDA margins. The management are averse to pricing led growth, and will not take any price increases over the next 6-9 months. We have built in 10.7%YoY for FY25 and 12-13% for FY26/27 which will be driven by volume ramp-up, higher Swasthfit contribution and network expansion. DLPL plans to roll out Swasthfit to Tier 3/4 cities and also widen its scope.
- Network expansion on track:** The company is on track to open 15-20 labs this year. DLPL is expanding their reach into Tier 3 and Tier 4 markets while strengthening presence in the core regions. They are making investments in new infrastructure in Metro / Tier 1 cities as well. The majority of capex outlay is back-ended. Some of the expansion initiatives are visible in higher employee costs as the company builds out its front end presence. The company indicated that so far they have spent INR 300mn in lab expansion efforts.
- West – the fastest growing:** West region was a key driver for the company and was the fastest growing region for the quarter and YTD. During the quarter/9M suburban grew 9.2%/9.8% YoY with margins for trending at 15-16% for the year so far, with 3Q

Financial Summary					(INR mn)
Y/E March	FY23A	FY24A	FY25E	FY26E	FY27E
Net Sales	20,169	22,266	24,645	27,669	31,197
Sales Growth (%)	-3.4	10.4	10.7	12.3	12.8
EBITDA	4,899	6,093	6,860	7,657	8,553
EBITDA Margin (%)	24.3	27.4	27.8	27.7	27.4
Adjusted Net Profit	2,389	3,577	4,346	4,954	5,629
Diluted EPS (INR)	28.6	42.9	52.1	59.4	67.5
Diluted EPS Growth (%)	-30.7	49.7	21.5	14.0	13.6
ROIC (%)	20.5	31.1	38.7	47.7	61.0
ROE (%)	15.1	20.3	22.4	23.3	24.3
P/E (x)	100.5	67.1	55.2	48.4	42.6
P/B (x)	14.4	13.0	11.8	10.8	10.0
EV/EBITDA (x)	47.6	37.9	33.3	29.5	26.0
Dividend Yield (%)	0.5	0.8	0.9	1.1	1.3

Source: Company data, JM Financial. Note: Valuations as of 30/Jan/2025

JM Financial Institutional Securities Limited

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Recommendation and Price Target

Current Reco.	BUY
Previous Reco.	HOLD
Current Price Target (12M)	3,600
Upside/(Downside)	25.1%
Previous Price Target	3,465
Change	3.9%

Key Data – DLPL IN

Current Market Price	INR2,878
Market cap (bn)	INR240.6/US\$2.8
Free Float	42%
Shares in issue (mn)	83.3
Diluted share (mn)	83.4
3-mon avg daily val (mn)	INR594.3/US\$6.9
52-week range	3,654/1,943
Sensex/Nifty	76,760/23,250
INR/US\$	86.6

Price Performance

%	1M	6M	12M
Absolute	-2.6	-6.9	16.2
Relative*	-0.7	-1.2	7.7

* To the BSE Sensex

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witnessing a dip in margins as it is a seasonally weak quarter. DLPL's board has given an in-principle approval for expeditious consolidation of Suburban's business. This should lead to some savings in administrative and legal costs.

■ Key financials:

- Revenue/EBITDA/PAT for the quarter were INR 6bn/1.5bn/967mn grew 11%/10%/19% YoY and were in line vs JMFe and in-line/-3%/-3% vs. consensus estimates;
- Gross Margins come in at 80.4% (vs JMFe 80%, 80.1% YoY); Going ahead management expect Gross margins to stabilise at these levels
- EBITDA margins were 25.8% (vs. JMFe 26%, 26.1% YoY), and contracted due to higher employee expense;

Exhibit 1. Trading at attractive valuation



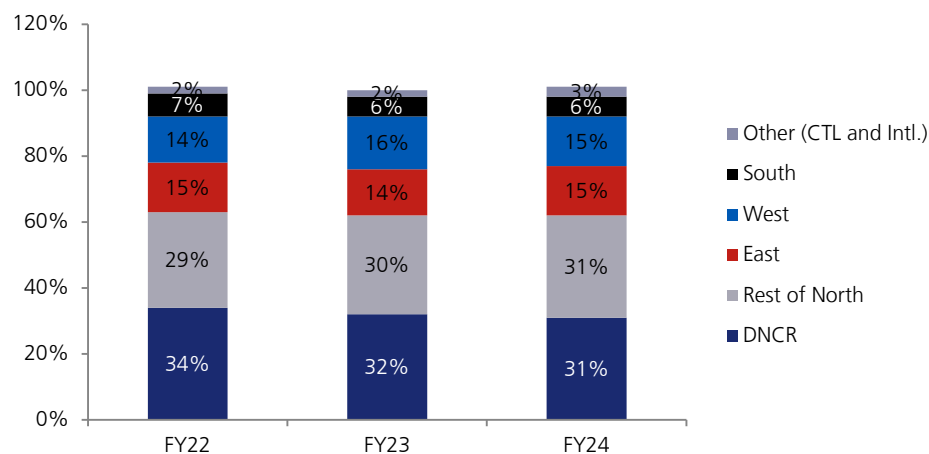
Source: Bloomberg, JM Financial

Exhibit 2. Tier 3+ has been ramping up well

Tier 3+	FY20	FY21	FY22	FY23	FY24
Revenue Tier 3	421	544	683	685	789
Total Revenues	1330	1581	2087	2017	2227
% of Total	31.7%	34.4%	32.7%	34.0%	35.4%
Revenue growth		29.2%	25.6%	0.3%	15.2%
Infra in Tier 3					
Labs	60	64	69	70	84
CC	1762	1988	2416	2848	3446
PUPs	4475	5560	6363	6863	7668
CC per lab	29	31	35	41	41
PUP per lab	75	87	92	98	91

Source: Company

Exhibit 3. Regional mix



Source: Company, JM Financial

Exhibit 4. 3QFY25 review

Dr. Lal - P&L (INR mn)	3Q24A	3Q25A	% YoY	3Q25E	% Delta vs. JMFe	3Q25E (cons)	% Delta vs. cons	2Q25A	% QoQ
Total Revenue	5,389	5,967	11%	5,991	0%	5,997	-1%	6,602	-10%
COGS	1,070	1,170	9%	1,198	-2%			1,273	-8%
Gross Profit	4,319	4,797	11%	4,793	0%			5,329	-10%
Gross Profit %	80.1%	80.4%	25 bps	80.0%	39 bps			80.7%	-33 bps
Staff Cost	1,090	1,264	16%	1,258	0%			1,240	2%
Other expenses	1,823	1,993	9%	1,977	1%			2,064	-3%
EBITDA	1,406	1,540	10%	1,558	-1%	1,591	-3%	2,025	-24%
EBITDA margin (%)	26.1%	25.8%	-28 bps	26.0%	-19 bps	26.5%	-72 bps	30.7%	-486 bps
Other Income	183	251	37%	225	12%			219	15%
Finance Cost	70	53		65				60	
Depreciation	360	355		360				353	
PBT	1,159	1,383	19%	1,358	2%			1,831	-24%
Exceptional Items	0	0		0				0	
Tax	337	402		380				523	
Tax Rate (%)	29.1%	29.1%		28.0%				28.6%	
Minority Interest	9	14		12				16	
PAT (Reported)	813	967	19%	966	0%	995	-3%	1,292	-25%
PAT margin (%)	15.1%	16.2%		16.1%		16.6%		19.6%	
Diluted EPS (INR)	9.8	11.6	19%	11.6	0%			15.5	-25%
Dr. Lal - Cost margins	3Q24A	3Q25A	% YoY	3Q25E	% Delta vs. JMFe			2Q25A	% QoQ
COGS/sales	19.9%	19.6%	-25 bps	20.0%	-39 bps			19.3%	33 bps
Staff cost/sales	20.2%	21.2%	96 bps	21.0%	18 bps			18.8%	240 bps
Other expenditure/sales	33.8%	33.4%	-43 bps	33.0%	40 bps			31.3%	214 bps

Source: Company, JM Financial, Bloomberg

Financial Tables (Consolidated)

Income Statement		(INR mn)				
Y/E March	FY23A	FY24A	FY25E	FY26E	FY27E	
Net Sales	20,169	22,266	24,645	27,669	31,197	
<i>Sales Growth</i>	-3.4%	10.4%	10.7%	12.3%	12.8%	
Other Operating Income	0	0	0	0	0	
Total Revenue	20,169	22,266	24,645	27,669	31,197	
Cost of Goods Sold/Op. Exp	4,472	4,514	4,830	5,534	6,395	
Personnel Cost	3,765	4,245	4,945	5,486	6,172	
Other Expenses	7,033	7,414	8,010	8,993	10,077	
EBITDA	4,899	6,093	6,860	7,657	8,553	
<i>EBITDA Margin</i>	24.3%	27.4%	27.8%	27.7%	27.4%	
<i>EBITDA Growth</i>	-12.6%	24.4%	12.6%	11.6%	11.7%	
Depn. & Amort.	1,502	1,436	1,417	1,549	1,653	
EBIT	3,397	4,657	5,443	6,107	6,900	
Other Income	417	692	934	1,062	1,208	
Finance Cost	375	294	220	300	315	
PBT before Excep. & Forex	3,439	5,055	6,157	6,869	7,793	
Excep. & Forex Inc./Loss(-)	0	0	0	0	0	
PBT	3,439	5,055	6,157	6,869	7,793	
Taxes	1,028	1,432	1,755	1,855	2,104	
Extraordinary Inc./Loss(-)	0	0	0	0	0	
Assoc. Profit/Min. Int.(-)	22	46	56	60	60	
Reported Net Profit	2,389	3,577	4,346	4,954	5,629	
Adjusted Net Profit	2,389	3,577	4,346	4,954	5,629	
<i>Net Margin</i>	11.8%	16.1%	17.6%	17.9%	18.0%	
Diluted Share Cap. (mn)	83.4	83.4	83.4	83.4	83.4	
Diluted EPS (INR)	28.6	42.9	52.1	59.4	67.5	
<i>Diluted EPS Growth</i>	-30.7%	49.7%	21.5%	14.0%	13.6%	
Total Dividend + Tax	1,030	2,012	2,549	3,059	3,690	
Dividend Per Share (INR)	15.6	24.0	26.0	31.2	37.6	

Source: Company, JM Financial

Cash Flow Statement		(INR mn)				
Y/E March	FY23A	FY24A	FY25E	FY26E	FY27E	
Profit before Tax	3,439	5,055	6,157	6,869	7,793	
Depn. & Amort.	1,502	1,436	1,417	1,549	1,653	
Net Interest Exp. / Inc. (-)	43	-260	-640	-687	-819	
Inc (-) / Dec in WCap.	355	357	93	216	257	
Others	286	86	10	10	10	
Taxes Paid	-1,065	-1,320	-1,755	-1,855	-2,104	
Operating Cash Flow	4,560	5,354	5,282	6,102	6,790	
Capex	-446	-575	-1,150	-702	-772	
<i>Free Cash Flow</i>	<i>4,114</i>	<i>4,779</i>	<i>4,132</i>	<i>5,401</i>	<i>6,019</i>	
Inc (-) / Dec in Investments	-2,733	-141	0	0	0	
Others	306	473	850	978	1,124	
Investing Cash Flow	-2,873	-243	-300	276	352	
Inc / Dec (-) in Capital	8	35	-1	0	0	
Dividend + Tax thereon	-1,030	-2,012	-2,549	-3,059	-3,690	
Inc / Dec (-) in Loans	-1,432	-1,868	0	0	0	
Others	-378	-294	-220	-300	-315	
Financing Cash Flow	-2,832	-4,139	-2,770	-3,359	-4,005	
Inc / Dec (-) in Cash	-1,145	972	2,212	3,019	3,138	
Opening Cash Balance	3,782	2,637	3,609	5,821	8,840	
Closing Cash Balance	6,654	8,303	10,515	13,534	16,672	

Source: Company, JM Financial

Balance Sheet		(INR mn)				
Y/E March	FY23A	FY24A	FY25E	FY26E	FY27E	
Shareholders' Fund	16,663	18,493	20,289	22,184	24,123	
Share Capital	834	835	834	834	834	
Reserves & Surplus	15,829	17,658	19,455	21,350	23,289	
Preference Share Capital	0	0	0	0	0	
Minority Interest	332	361	417	477	537	
Total Loans	2,366	833	833	833	833	
Def. Tax Liab. / Assets (-)	-375	-425	-425	-425	-425	
Total - Equity & Liab.	18,986	19,262	21,114	23,069	25,068	
Net Fixed Assets	13,100	11,995	11,728	10,880	9,998	
Gross Fixed Assets	10,338	11,194	12,344	13,045	13,817	
Intangible Assets	9,060	8,525	8,525	8,525	8,525	
Less: Depn. & Amort.	6,328	7,764	9,181	10,730	12,384	
Capital WIP	30	40	40	40	40	
Investments	1,499	1,138	1,138	1,138	1,138	
Current Assets	8,852	10,978	13,385	16,653	20,080	
Inventories	338	373	413	464	523	
Sundry Debtors	708	774	857	962	1,084	
Cash & Bank Balances	6,654	8,303	10,515	13,534	16,672	
Loans & Advances	14	13	14	16	18	
Other Current Assets	1,138	1,515	1,586	1,677	1,782	
Current Liab. & Prov.	4,465	4,849	5,137	5,601	6,148	
Current Liabilities	2,861	2,896	3,027	3,318	3,674	
Provisions & Others	1,604	1,953	2,110	2,284	2,474	
Net Current Assets	4,387	6,129	8,248	11,051	13,932	
Total - Assets	18,986	19,262	21,114	23,069	25,068	

Source: Company, JM Financial

Dupont Analysis						
Y/E March	FY23A	FY24A	FY25E	FY26E	FY27E	
Net Margin	11.8%	16.1%	17.6%	17.9%	18.0%	
Asset Turnover (x)	1.0	1.1	1.1	1.2	1.2	
Leverage Factor (x)	1.3	1.2	1.1	1.1	1.1	
RoE	15.1%	20.3%	22.4%	23.3%	24.3%	

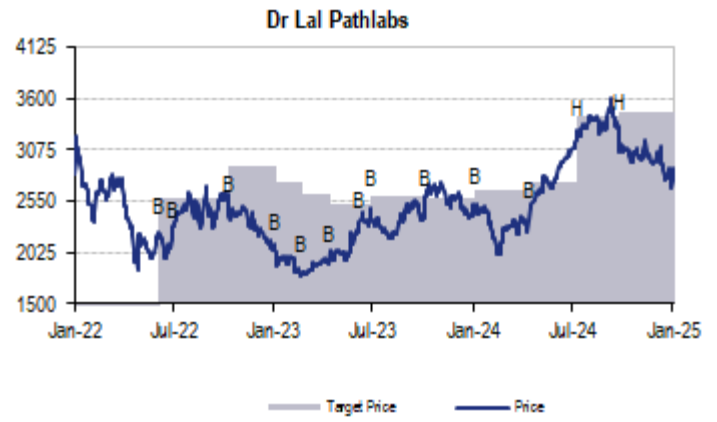
Key Ratios						
Y/E March	FY23A	FY24A	FY25E	FY26E	FY27E	
BV/Share (INR)	199.8	221.7	243.3	266.0	289.2	
ROIC	20.5%	31.1%	38.7%	47.7%	61.0%	
ROE	15.1%	20.3%	22.4%	23.3%	24.3%	
Net Debt/Equity (x)	-0.3	-0.5	-0.5	-0.6	-0.7	
P/E (x)	100.5	67.1	55.2	48.4	42.6	
P/B (x)	14.4	13.0	11.8	10.8	10.0	
EV/EBITDA (x)	47.6	37.9	33.3	29.5	26.0	
EV/Sales (x)	11.6	10.4	9.3	8.2	7.1	
Debtor days	13	13	13	13	13	
Inventory days	6	6	6	6	6	
Creditor days	37	42	41	42	43	

Source: Company, JM Financial

History of Recommendation and Target Price

Date	Recommendation	Target Price	% Chg.
4-Jul-22	Buy	2,570	
28-Jul-22	Buy	2,570	0.0
9-Nov-22	Buy	2,900	12.8
2-Feb-23	Buy	2,735	-5.7
20-Mar-23	Buy	2,620	-4.2
11-May-23	Buy	2,525	-3.6
4-Jul-23	Buy	2,525	0.0
27-Jul-23	Buy	2,610	3.4
2-Nov-23	Buy	2,575	-1.3
1-Feb-24	Buy	2,665	3.5
10-May-24	Buy	2,735	2.6
8-Aug-24	Hold	3,425	25.2
23-Oct-24	Hold	3,465	1.2

Recommendation History



APPENDIX I

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Corporate Identity Number: U67100MH2017PLC296081

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Buy	Total expected returns of more than 10% for stocks with market capitalisation in excess of INR 200 billion and REITs* and more than 15% for all other stocks, over the next twelve months. Total expected return includes dividend yields.
Hold	Price expected to move in the range of 10% downside to 10% upside from the current market price for stocks with market capitalisation in excess of INR 200 billion and REITs* and in the range of 10% downside to 15% upside from the current market price for all other stocks, over the next twelve months.
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