

Dr Lal Pathlabs | BUY

Robust execution with strong margin delivery

DLPL reported 14.4% core revenue growth with better-than-expected EBITDAM of 29.6% (3 ppt beat), thereby driving 20% PAT beat. Price hikes, lower consumption cost, better portfolio mix and operating leverage aided margins. Typically, 2Q is a strong quarter (not representative) and 2H weaker. Volume recovered sequentially, as expected, aided by the fever and dengue season. DLPL is focusing on widening and deepening its presence in uncovered markets organically (Uttar Pradesh, Bihar, Orissa, etc.) as well as inorganically (South is top priority). Swasthfit's contribution is expected to be stable at current levels of 21-22%. The management aims to strengthen the 'Suburban' brand in Mumbai, Pune and Goa. Suburban delivered 14% non-Covid revenue growth with 13.5% EBITDAM. Competitive dynamics and pricing scenario are improving as online players have undertaken price hikes. DLPL expects ~26% to be sustainable EBITDAM as it seeks to reinvest surplus profits for growth. We expect double-digit revenue growth and ~27% margin over FY24-26. We await more clarity on volume growth and margin trajectory ahead. DLPL's capital allocation strategy involves (1) Organic growth; (2) Dividend payout; and (3) Inorganic expansion. We maintain BUY with a Sep'24 TP of INR 2,575.

- Non-Covid business grows 14.4% YoY:** Patient volume increased ~8% YoY/9% QoQ to 7.5mn. Volume growth ex-Suburban slowed due to saturation of growth in mature markets and transition to newer markets (including Tier 3) such as Uttar Pradesh, Uttarakhand, Bihar and Orissa. Realisation per patient was higher YoY at INR 802 due to better test mix, higher Swasthfit contribution and price hikes. Covid revenue contributed <2% of total revenue. DLPL disclosed Tier 3 contribution which stands at 34% of total revenue. The company aims to open 20+ labs in Tier 3+ towns, which will bolster growth. The high-margin 'Swasthfit' portfolio contributed c.21% to revenue and the management expects it to stabilise at these levels. The company is creating specialty verticals to focus more on newer testing avenues such as genomics, reproductive diagnostics and auto-immune diseases and more such verticals are in the pipeline. Competitive intensity is receding but still remains elevated. Aggregators' contribution is in low single digits.
- Margins expand; sustainable margin at 26%:** Price hikes, lower consumption cost and better portfolio mix drove EBITDAM to 29.6% (3ppt beat). The management alluded to sustainable EBITDAM is ~26%. While high gross margin, price hikes, test mix and Suburban operating leverage have improved the current margin profile, the management aims to reinvest these profits for organic growth. However, we believe that DLPL can deliver ~27% EBITDAM.
- Suburban:** Suburban's post-acquisition performance has been improving, particularly since the opening of the Mumbai reference lab. DLPL's focus is on building the Suburban brand in Mumbai, Pune and Goa with a shift towards a franchisee model. In the quarter, revenue grew c.7% to INR 427mn (+14% ex-Covid), with EBITDAM of 13.5%. We expect operating leverage to play out as revenue increases over the medium term.



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Recommendation and Price Target

Current Reco.	BUY
Previous Reco.	BUY
Current Price Target (12M)	2,575
Upside/(Downside)	4.5%
Previous Price Target	2,610
Change	-1.3%

Key Data – DLPL IN

Current Market Price	INR2,463
Market cap (bn)	INR205.6/US\$2.5
Free Float	40%
Shares in issue (mn)	83.3
Diluted share (mn)	83.4
3-mon avg daily val (mn)	INR499.7/US\$6.0
52-week range	2,685/1,762
Sensex/Nifty	64,081/19,133
INR/US\$	83.3

Price Performance

%	1M	6M	12M
Absolute	-2.4	25.9	-6.6
Relative*	-0.2	20.2	-11.4

* To the BSE Sensex

Financial Summary	(INR mn)				
Y/E March	FY22A	FY23A	FY24E	FY25E	FY26E
Net Sales	20,874	20,169	22,600	25,481	28,590
Sales Growth (%)	32.0	-3.4	12.1	12.8	12.2
EBITDA	5,608	4,899	6,023	6,879	7,785
EBITDA Margin (%)	26.9	24.3	26.7	27.0	27.2
Adjusted Net Profit	3,448	2,389	3,639	4,306	5,030
Diluted EPS (INR)	41.3	28.6	43.6	51.6	60.3
Diluted EPS Growth (%)	18.2	-30.7	52.3	18.3	16.8
ROIC (%)	44.6	20.5	31.7	41.7	55.2
ROE (%)	25.0	15.1	20.4	21.1	21.5
P/E (x)	59.6	86.0	56.5	47.7	40.8
P/B (x)	13.6	12.3	10.8	9.4	8.2
EV/EBITDA (x)	35.9	40.6	32.5	27.9	24.1
Dividend Yield (%)	0.9	0.6	0.5	0.6	0.8

Source: Company data, JM Financial. Note: Valuations as of 02/Nov/2023

JM Financial Institutional Securities Limited

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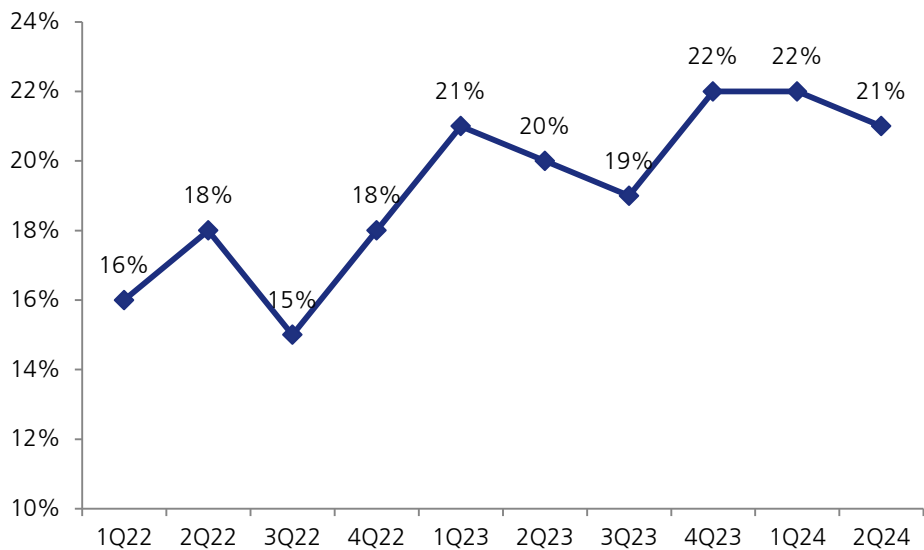
- Key financials:** Revenue/EBITDA/PAT of INR 6bn/ 1.8bn/ 1.1bn grew +13%/+24%/+52% YoY and were +2%/+13%/+20% vs. our estimates and +2%/+13%/+21% vs. consensus estimates. Gross margin improved c. 140bps YoY to 79.6% (JMFe: 78%). EBITDA margin improved c. 260bps YoY to c. 30% (JMFe: 26.5%). Cash at the end of the quarter stood at INR 7.8bn, providing sufficient headroom for inorganic growth. South remains top priority for inorganic growth.

Exhibit 1. Valuation



Source: Company, JM Financial

Exhibit 2. Swasthfit contribution



Source: Company, JM Financial

Exhibit 3. 2QFY24 review

Dr. Lal - P&L (INR mn)	2Q23A	2Q24A	% YoY	2Q24E	% Delta vs. JMFe	2Q24E (cons)	% Delta vs. cons	1Q24A	% QoQ	1H23A	1H24A	% YoY
Total Revenue	5,338	6,013	13%	5,912	2%	5,900	2%	5,410	11%	10,365	11,423	10%
COGS	1,162	1,224	5%	1,301	-6%			1,131	8%	2,304	2,355	2%
Gross Profit	4,176	4,789	15%	4,611	4%			4,279	12%	8,061	9,068	12%
Gross Profit %	78.2%	79.6%	141 bps	78.0%	164 bps			79.1%	55 bps	77.8%	79.4%	161 bps
Staff Cost	909	1,054	16%	1,064	-1%			1,047	1%	1,877	2,101	12%
Other expenses	1,829	1,957	7%	1,980	-1%			1,770	11%	3,571	3,727	4%
EBITDA	1,438	1,778	24%	1,567	13%	1,570	13%	1,462	22%	2,613	3,240	24%
EBITDA margin (%)	26.9%	29.6%	263 bps	26.5%	307 bps	26.6%	296 bps	27.0%	255 bps	25.2%	25.2%	0 bps
Other Income	87	181	108%	150	21%			144	26%	170	325	91%
Finance Cost	109	78		80				80		194	158	
Depreciation	388	359		385				351		747	710	
PBT	1,028	1,522	48%	1,252	22%			1,175	30%	1,842	2,697	46%
Exceptional Items	0	0		0				0		0	0	
Tax	304	415		338				339		536	754	
Tax Rate (%)	29.6%	27.3%		27.0%				28.9%		29.1%	28.0%	
Minority Interest	7	14		6				10		12	24	
PAT (Reported)	717	1,093	52%	909	20%	907	21%	826	32%	1,294	1,919	48%
PAT margin (%)	13.4%	18.2%		15.4%		15.4%		15.3%		12.5%	16.8%	
Diluted EPS (INR)	8.6	13.1	52%	10.9	20%			9.9	32%	15.5	23.0	48%
Dr. Lal - Cost margins	2Q23A	2Q24A	% YoY	2Q24E	% Delta vs. JMFe			1Q24A	% QoQ	1H23A	1H24A	% YoY
COGS/sales	21.8%	20.4%	-141 bps	22.0%	-164 bps			22.7%	-236 bps	22.2%	20.6%	-161 bps
Staff cost/sales	17.0%	17.5%	50 bps	18.0%	-47 bps			19.3%	-173 bps	18.1%	18.4%	28 bps
Other expenditure/sales	34.3%	32.5%	-172 bps	33.5%	-95 bps			34.7%	-211 bps	34.5%	32.6%	-183 bps

Source: Company, JM Financial

Financial Tables (Consolidated)

Income Statement		(INR mn)				
Y/E March	FY22A	FY23A	FY24E	FY25E	FY26E	
Net Sales	20,874	20,169	22,600	25,481	28,590	
Sales Growth	32.0%	-3.4%	12.1%	12.8%	12.2%	
Other Operating Income	0	0	0	0	0	
Total Revenue	20,874	20,169	22,600	25,481	28,590	
Cost of Goods Sold/Op. Exp	5,023	4,472	4,791	5,479	6,147	
Personnel Cost	3,648	3,765	4,260	4,715	5,223	
Other Expenses	6,595	7,033	7,526	8,409	9,435	
EBITDA	5,608	4,899	6,023	6,879	7,785	
EBITDA Margin	26.9%	24.3%	26.7%	27.0%	27.2%	
EBITDA Growth	28.5%	-12.6%	22.9%	14.2%	13.2%	
Depn. & Amort.	1,081	1,502	1,492	1,554	1,601	
EBIT	4,527	3,397	4,531	5,324	6,184	
Other Income	525	417	700	784	889	
Finance Cost	303	375	300	300	300	
PBT before Excep. & Forex	4,749	3,439	4,931	5,809	6,773	
Excep. & Forex Inc./Loss(-)	0	0	0	0	0	
PBT	4,749	3,439	4,931	5,809	6,773	
Taxes	1,246	1,028	1,248	1,452	1,693	
Extraordinary Inc./Loss(-)	0	0	0	0	0	
Assoc. Profit/Min. Int.(-)	55	22	45	50	50	
Reported Net Profit	3,448	2,389	3,639	4,306	5,030	
Adjusted Net Profit	3,448	2,389	3,639	4,306	5,030	
Net Margin	16.5%	11.8%	16.1%	16.9%	17.6%	
Diluted Share Cap. (mn)	83.4	83.4	83.4	83.4	83.4	
Diluted EPS (INR)	41.3	28.6	43.6	51.6	60.3	
Diluted EPS Growth	18.2%	-30.7%	52.3%	18.3%	16.8%	
Total Dividend + Tax	1,167	1,030	1,294	1,553	1,864	
Dividend Per Share (INR)	22.4	15.6	13.2	15.8	19.0	

Source: Company, JM Financial

Cash Flow Statement		(INR mn)				
Y/E March	FY22A	FY23A	FY24E	FY25E	FY26E	
Profit before Tax	4,749	3,439	4,931	5,809	6,773	
Depn. & Amort.	1,081	1,502	1,492	1,554	1,601	
Net Interest Exp. / Inc. (-)	-171	43	-210	-410	-515	
Inc (-) / Dec in WCap.	-167	355	53	159	149	
Others	275	286	10	10	10	
Taxes Paid	-1,300	-1,065	-1,248	-1,452	-1,693	
Operating Cash Flow	4,467	4,560	5,028	5,670	6,325	
Capex	-4,761	-446	-491	-540	-594	
Free Cash Flow	-294	4,114	4,537	5,130	5,732	
Inc (-) / Dec in Investments	-227	-2,733	0	0	0	
Others	496	306	500	700	805	
Investing Cash Flow	-4,492	-2,873	9	160	211	
Inc / Dec (-) in Capital	2	8	0	0	0	
Dividend + Tax thereon	-1,167	-1,030	-1,294	-1,553	-1,864	
Inc / Dec (-) in Loans	2,634	-1,432	-1,000	0	0	
Others	-105	-378	-300	-300	-300	
Financing Cash Flow	1,364	-2,832	-2,594	-1,853	-2,164	
Inc / Dec (-) in Cash	1,339	-1,145	2,443	3,977	4,373	
Opening Cash Balance	2,443	3,782	2,637	5,080	9,057	
Closing Cash Balance	6,176	6,654	9,097	13,074	17,447	

Source: Company, JM Financial

Balance Sheet		(INR mn)				
Y/E March	FY22A	FY23A	FY24E	FY25E	FY26E	
Shareholders' Fund	15,080	16,663	19,008	21,761	24,928	
Share Capital	833	834	834	834	834	
Reserves & Surplus	14,247	15,829	18,174	20,927	24,094	
Preference Share Capital	0	0	0	0	0	
Minority Interest	355	332	377	427	477	
Total Loans	3,457	2,366	1,366	1,366	1,366	
Def. Tax Liab. / Assets (-)	-330	-375	-375	-375	-375	
Total - Equity & Liab.	18,562	18,986	20,376	23,179	26,396	
Net Fixed Assets	13,903	13,100	12,099	11,084	10,077	
Gross Fixed Assets	8,980	10,338	10,828	11,368	11,961	
Intangible Assets	9,605	9,060	9,060	9,060	9,060	
Less: Depn. & Amort.	4,826	6,328	7,819	9,373	10,975	
Capital WIP	144	30	30	30	30	
Investments	655	1,499	1,499	1,499	1,499	
Current Assets	8,604	8,852	11,485	15,688	20,304	
Inventories	524	338	379	427	479	
Sundry Debtors	854	708	793	894	1,004	
Cash & Bank Balances	6,176	6,654	9,097	13,074	17,447	
Loans & Advances	11	14	16	18	20	
Other Current Assets	1,039	1,138	1,200	1,274	1,354	
Current Liab. & Prov.	4,600	4,465	4,708	5,092	5,484	
Current Liabilities	2,863	2,861	2,972	3,212	3,446	
Provisions & Others	1,737	1,604	1,735	1,880	2,039	
Net Current Assets	4,004	4,387	6,778	10,596	14,820	
Total - Assets	18,562	18,986	20,376	23,179	26,396	

Source: Company, JM Financial

Dupont Analysis						
Y/E March	FY22A	FY23A	FY24E	FY25E	FY26E	
Net Margin	16.5%	11.8%	16.1%	16.9%	17.6%	
Asset Turnover (x)	1.2	1.0	1.1	1.1	1.1	
Leverage Factor (x)	1.2	1.3	1.2	1.2	1.1	
RoE	25.0%	15.1%	20.4%	21.1%	21.5%	

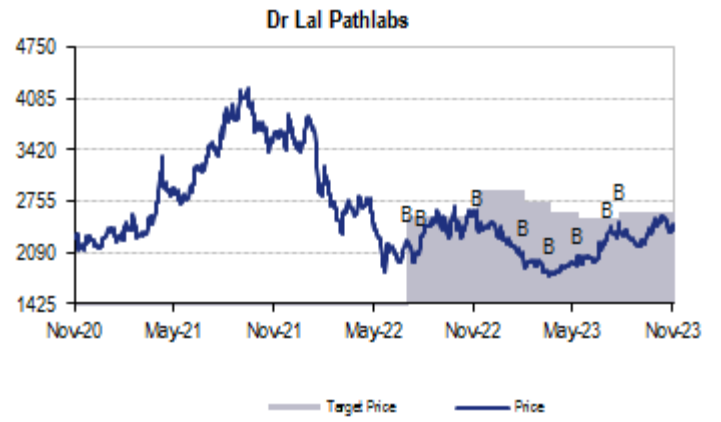
Key Ratios						
Y/E March	FY22A	FY23A	FY24E	FY25E	FY26E	
BV/Share (INR)	180.8	199.8	227.9	260.9	298.9	
ROIC	44.6%	20.5%	31.7%	41.7%	55.2%	
ROE	25.0%	15.1%	20.4%	21.1%	21.5%	
Net Debt/Equity (x)	-0.2	-0.3	-0.5	-0.6	-0.7	
P/E (x)	59.6	86.0	56.5	47.7	40.8	
P/B (x)	13.6	12.3	10.8	9.4	8.2	
EV/EBITDA (x)	35.9	40.6	32.5	27.9	24.1	
EV/Sales (x)	9.6	9.9	8.7	7.5	6.6	
Debtor days	15	13	13	13	13	
Inventory days	9	6	6	6	6	
Creditor days	35	37	37	38	38	

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

Recommendation History



APPENDIX I

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Rating	Meaning
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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* REITs refers to Real Estate Investment Trusts.

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