

Dr Lal Pathlabs | BUY

Staging a comeback

DLPL's management commentary struck a bullish tone, anticipating double digit growth in FY25 (likely ~12% in our view) driven by improved volumes and a favourable case mix. The key positive readout here is – **DLPL will not take price hikes to achieve this!** The company delivered a strong performance (5% PAT beat on cons.) as well. A large part of the current 11% growth was driven by Tier 3+ growth, higher Swasthfit and price hikes. Volume growth was admittedly soft but the management had called out a few reasons for this even last time around (higher bundled tests, covid rub-off, competition from hospitals, etc.). While there is hardly any room for gross margin expansion, operating leverage-led margin expansion will be reinvested for network expansion. DLPL plans to open 20 hubs predominantly in Tier 3+ towns. With a cash balance of INR 9.6bn and private market valuations cooling down, there is sufficient room for inorganic expansion (upside risk). DLPL is trading 1SD below average PE making the risk-reward extremely favourable. We prefer DLPL as our 'top pick' in the sector and maintain BUY with a Mar'25 TP of INR 2,735.

- Signalling bullish trends:** The management guided for higher growth in FY25 driven by better volume growth and case mix. The key positive readout here is – **DLPL will not take price hikes to achieve this!** The management believes that competitive intensity has reduced, predatory pricing is over and covid impact is now all in the base. The price hike benefit built into FY24 growth is 3.5%. We expect stable growth in Delhi NCR (7-8% as no expansion planned) and higher growth in Rest of North and Suburban. We factor in 8-9% volume growth and 3-3.5% price growth over the next 2 years. The company plans to open 20 hubs next year mainly in Tier 3+ towns and expects current 24% Swasthfit contribution to further rise. There is no room for gross margin improvement (likely as no price hikes this year) and will remain around 78-80%. As DLPL is now refocusing on investing in labs, the margins will stabilise around current levels, in our view.
- Suburban:** There are some visible green shoots – Suburban while delivering nearly double digit growth this quarter, reported strong 17% EBITDAM (vs. 12-13% earlier). DLPL is trying to gain traction and acquire customers via promotion activities. The company has completed management transition and will now focus on integration whilst following a dual brand strategy in the region.
- Price hike boosts growth by 3.5%:** Realisation per patient was higher at INR 833 (+7.5%) due to better test mix, higher Swasthfit contribution and price hikes. Patient volume grew +2.5%YoY to 6.5mn (below JMFe) – this trend is reversing. The high-margin 'Swasthfit' portfolio contributed c.24% to revenue and is expected to further improve.
- Key financials:**
 - Revenue/EBITDA/PAT for the quarter were INR 5.5bn/1.45bn/845mn grew +11%/25%/49%YoY and were -1%/-1%/-2% vs JMFe and in line/+3%/+5% vs consensus estimates;
 - Gross Margins come in at 80% (vs JMFe 79.8%, 78.4% YoY). EBITDA margins were



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Recommendation and Price Target

Current Reco.	BUY
Previous Reco.	BUY
Current Price Target (12M)	2,735
Upside/(Downside)	16.5%
Previous Price Target	2,665
Change	2.6%

Key Data – DLPL IN

Current Market Price	INR2,348
Market cap (bn)	INR196.0/US\$2.3
Free Float	39%
Shares in issue (mn)	83.3
Diluted share (mn)	83.4
3-mon avg daily val (mn)	INR574.9/US\$6.9
52-week range	2,767/1,888
Sensex/Nifty	72,664/22,055
INR/US\$	83.5

Price Performance

%	1M	6M	12M
Absolute	1.9	-12.3	20.4
Relative*	4.1	-21.6	2.8

* To the BSE Sensex

Financial Summary

Y/E March	FY22A	FY23A	FY24A	FY25E	FY26E
Net Sales	20,874	20,169	22,266	25,071	28,229
Sales Growth (%)	32.0	-3.4	10.4	12.6	12.6
EBITDA	5,608	4,899	6,093	6,836	7,709
EBITDA Margin (%)	26.9	24.3	27.4	27.3	27.3
Adjusted Net Profit	3,448	2,389	3,577	4,291	4,958
Diluted EPS (INR)	41.3	28.6	42.9	51.4	59.5
Diluted EPS Growth (%)	18.2	-30.7	49.7	19.9	15.6
ROIC (%)	44.6	20.5	31.1	40.6	52.6
ROE (%)	25.0	15.1	20.3	22.2	23.4
P/E (x)	56.8	82.0	54.7	45.6	39.5
P/B (x)	13.0	11.8	10.6	9.7	8.8
EV/EBITDA (x)	34.2	38.7	30.6	26.9	23.5
Dividend Yield (%)	1.0	0.7	1.0	1.1	1.3

Source: Company data, JM Financial. Note: Valuations as of 10/May/2024

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26.5% (vs. JMFe 26.4%, 23.5% YoY);

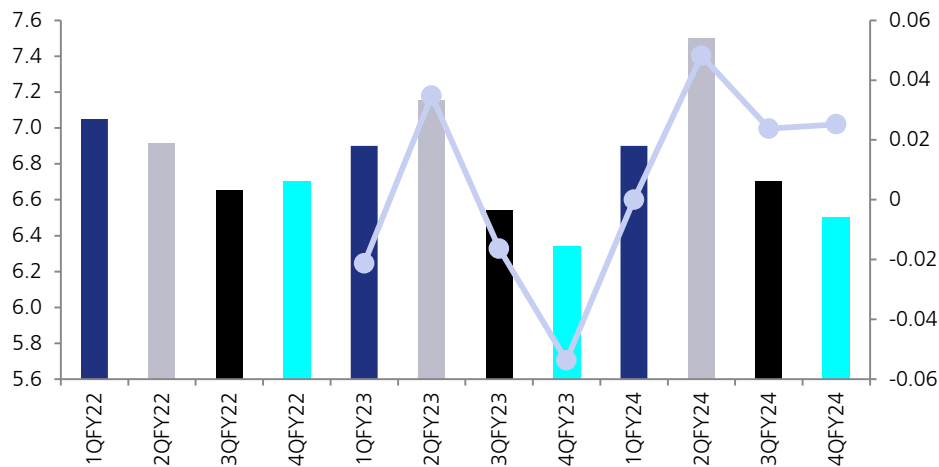
- Cash at the end of the quarter stood at INR 9.6bn, providing sufficient headroom for inorganic growth. South India remains top priority markets for inorganic growth. Capex outlay for the year is INR 600mn.

Exhibit 1. 1Y Forward PE trading 1 SD below average



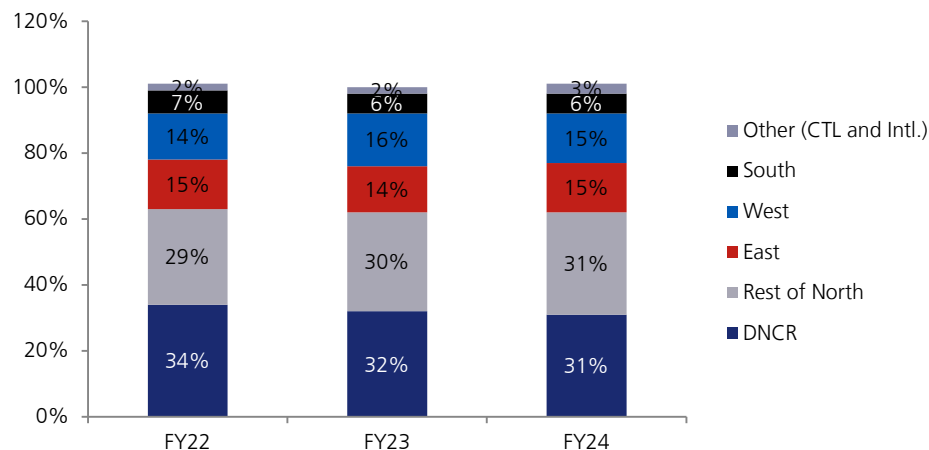
Source: Bloomberg, JM Financial

Exhibit 2. Patient volume and growth



Source: Company

Exhibit 3. Regional mix



Source: Company, JM Financial

Exhibit 4. Review

Dr. Lal - P&L (INR mn)	4Q23A	4Q24A	% YoY	4Q24E	% Delta vs. JMFe	4Q24E (cons)	% Delta vs. cons	3Q24A	% QoQ
Total Revenue	4,910	5,454	11%	5,512	-1%	5,450	0%	5,389	1%
COGS	1,059	1,089	3%	1,113	-2%			1,070	2%
Gross Profit	3,851	4,365	13%	4,399	-1%			4,319	1%
Gross Profit %	78.4%	80.0%	160 bps	79.8%	23 bps			80.1%	-11 bps
Staff Cost	925	1,054	14%	1,080	-2%			1,090	-3%
Other expenses	1,770	1,864	5%	1,863	0%			1,823	2%
EBITDA	1,156	1,447	25%	1,455	-1%	1,400	3%	1,406	3%
EBITDA margin (%)	23.5%	26.5%	299 bps	26.4%	13 bps	25.7%	84 bps	26.1%	44 bps
Other Income	142	184	30%	190	-3%			183	1%
Finance Cost	90	66		70				70	
Depreciation	376	366		370				360	
PBT	832	1,199	44%	1,205	-1%			1,159	3%
Exceptional Items	0	0		0				0	
Tax	263	341		331				337	
Tax Rate (%)	31.6%	28.4%		27.5%				29.1%	
Minority Interest	2	13		15				9	
PAT (Reported)	567	845	49%	859	-2%	803	5%	813	4%
PAT margin (%)	11.5%	15.5%		15.6%		14.7%		15.1%	
Diluted EPS (INR)	6.8	10.1	49%	10.3	-2%			9.7	4%
Dr. Lal - Cost margins									
	4Q23A	4Q24A	% YoY	4Q24E	% Delta vs. JMFe			3Q24A	% QoQ
COGS/sales	21.6%	20.0%	-160 bps	20.2%	-23 bps			19.9%	11 bps
Staff cost/sales	18.8%	19.3%	49 bps	19.6%	-27 bps			20.2%	-90 bps
Other expenditure/sales	36.0%	34.2%	-187 bps	33.8%	38 bps			33.8%	35 bps

Source: Company, JM Financial, Bloomberg

Exhibit 5. 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

Financial Tables (Consolidated)

Income Statement		(INR mn)			
Y/E March	FY22A	FY23A	FY24A	FY25E	FY26E
Net Sales	20,874	20,169	22,266	25,071	28,229
Sales Growth	32.0%	-3.4%	10.4%	12.6%	12.6%
Other Operating Income	0	0	0	0	0
Total Revenue	20,874	20,169	22,266	25,071	28,229
Cost of Goods Sold/Op. Exp	5,023	4,472	4,514	5,165	5,900
Personnel Cost	3,648	3,765	4,245	4,747	5,276
Other Expenses	6,595	7,033	7,414	8,324	9,344
EBITDA	5,608	4,899	6,093	6,836	7,709
EBITDA Margin	26.9%	24.3%	27.4%	27.3%	27.3%
EBITDA Growth	28.5%	-12.6%	24.4%	12.2%	12.8%
Depn. & Amort.	1,081	1,502	1,436	1,504	1,581
EBIT	4,527	3,397	4,657	5,332	6,128
Other Income	525	417	692	834	947
Finance Cost	303	375	294	300	300
PBT before Excep. & Forex	4,749	3,439	5,055	5,866	6,775
Excep. & Forex Inc./Loss(-)	0	0	0	0	0
PBT	4,749	3,439	5,055	5,866	6,775
Taxes	1,246	1,028	1,432	1,525	1,761
Extraordinary Inc./Loss(-)	0	0	0	0	0
Assoc. Profit/Min. Int.(-)	55	22	46	50	55
Reported Net Profit	3,448	2,389	3,577	4,291	4,958
Adjusted Net Profit	3,448	2,389	3,577	4,291	4,958
Net Margin	16.5%	11.8%	16.1%	17.1%	17.6%
Diluted Share Cap. (mn)	83.4	83.4	83.4	83.4	83.4
Diluted EPS (INR)	41.3	28.6	42.9	51.4	59.5
Diluted EPS Growth	18.2%	-30.7%	49.7%	19.9%	15.6%
Total Dividend + Tax	1,167	1,030	2,012	2,549	3,059
Dividend Per Share (INR)	22.4	15.6	24.0	26.0	31.2

Source: Company, JM Financial

Cash Flow Statement		(INR mn)			
Y/E March	FY22A	FY23A	FY24A	FY25E	FY26E
Profit before Tax	4,749	3,439	5,055	5,866	6,775
Depn. & Amort.	1,081	1,502	1,436	1,504	1,581
Net Interest Exp. / Inc. (-)	-171	43	-260	-460	-572
Inc (-) / Dec in WCap.	-167	355	357	196	218
Others	275	286	86	10	10
Taxes Paid	-1,300	-1,065	-1,320	-1,525	-1,761
Operating Cash Flow	4,467	4,560	5,354	5,591	6,250
Capex	-4,761	-446	-575	-633	-696
Free Cash Flow	-294	4,114	4,779	4,959	5,554
Inc (-) / Dec in Investments	-227	-2,733	-141	0	0
Others	496	306	473	750	863
Investing Cash Flow	-4,492	-2,873	-243	118	167
Inc / Dec (-) in Capital	2	8	35	-1	0
Dividend + Tax thereon	-1,167	-1,030	-2,012	-2,549	-3,059
Inc / Dec (-) in Loans	2,634	-1,432	-1,868	0	0
Others	-105	-378	-294	-300	-300
Financing Cash Flow	1,364	-2,832	-4,139	-2,850	-3,359
Inc / Dec (-) in Cash	1,339	-1,145	972	2,859	3,058
Opening Cash Balance	2,443	3,782	2,637	3,609	6,468
Closing Cash Balance	6,176	6,654	8,303	11,162	14,219

Source: Company, JM Financial

Balance Sheet		(INR mn)			
Y/E March	FY22A	FY23A	FY24A	FY25E	FY26E
Shareholders' Fund	15,080	16,663	18,493	20,234	22,133
Share Capital	833	834	835	834	834
Reserves & Surplus	14,247	15,829	17,658	19,400	21,299
Preference Share Capital	0	0	0	0	0
Minority Interest	355	332	361	411	466
Total Loans	3,457	2,366	833	833	833
Def. Tax Liab. / Assets (-)	-330	-375	-425	-425	-425
Total - Equity & Liab.	18,562	18,986	19,262	21,053	23,007
Net Fixed Assets	13,903	13,100	11,995	11,123	10,238
Gross Fixed Assets	8,980	10,338	11,194	11,826	12,522
Intangible Assets	9,605	9,060	8,525	8,525	8,525
Less: Depn. & Amort.	4,826	6,328	7,764	9,268	10,849
Capital WIP	144	30	40	40	40
Investments	655	1,499	1,138	1,138	1,138
Current Assets	8,604	8,852	10,978	14,067	17,383
Inventories	524	338	373	420	473
Sundry Debtors	854	708	774	872	981
Cash & Bank Balances	6,176	6,654	8,303	11,162	14,219
Loans & Advances	11	14	13	15	16
Other Current Assets	1,039	1,138	1,515	1,599	1,693
Current Liab. & Prov.	4,600	4,465	4,849	5,275	5,752
Current Liabilities	2,863	2,861	2,896	3,165	3,469
Provisions & Others	1,737	1,604	1,953	2,110	2,284
Net Current Assets	4,004	4,387	6,129	8,791	11,631
Total - Assets	18,562	18,986	19,262	21,053	23,007

Source: Company, JM Financial

Dupont Analysis					
Y/E March	FY22A	FY23A	FY24A	FY25E	FY26E
Net Margin	16.5%	11.8%	16.1%	17.1%	17.6%
Asset Turnover (x)	1.2	1.0	1.1	1.2	1.2
Leverage Factor (x)	1.2	1.3	1.2	1.1	1.1
RoE	25.0%	15.1%	20.3%	22.2%	23.4%

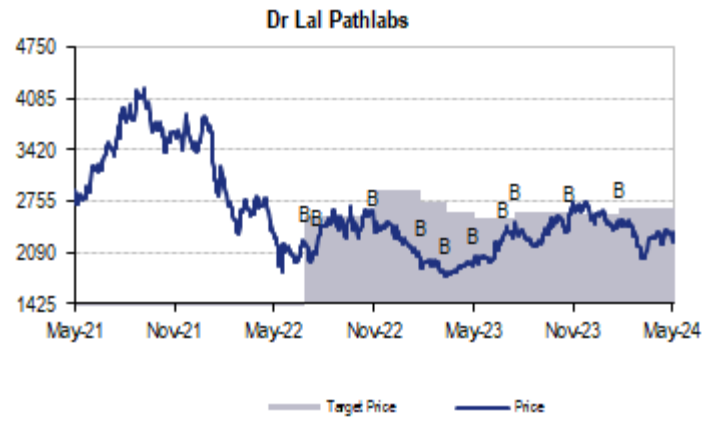
Key Ratios					
Y/E March	FY22A	FY23A	FY24A	FY25E	FY26E
BV/Share (INR)	180.8	199.8	221.7	242.6	265.4
ROIC	44.6%	20.5%	31.1%	40.6%	52.6%
ROE	25.0%	15.1%	20.3%	22.2%	23.4%
Net Debt/Equity (x)	-0.2	-0.3	-0.5	-0.6	-0.7
P/E (x)	56.8	82.0	54.7	45.6	39.5
P/B (x)	13.0	11.8	10.6	9.7	8.8
EV/EBITDA (x)	34.2	38.7	30.6	26.9	23.5
EV/Sales (x)	9.2	9.4	8.4	7.3	6.4
Debtor days	15	13	13	13	13
Inventory days	9	6	6	6	6
Creditor days	35	37	42	43	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

Recommendation History



APPENDIX I

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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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