

Industry
Bloomberg
BSE CODE

Pharmaceuticals
DLPL IN
539524

RATING	NEUTRAL
CMP	1736
Price Target	1656
Potential Upside	-5%

Rating Change	↓
Estimate Change	↓
Target Change	↔

STOCK INFO	
52wk Range H/L	1846/950
Mkt Capital (Rs Cr)	14470
Free float (%)	43%
Avg. Vol 1M (,000)	85
No. of Shares (Crs)	8
Promoters Pledged %	0%

RESEARCH ANALYST

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Severe winters in the Delhi NCR region impacted revenue growth.

3QFY20 Result update

- Overall revenue grew by 12% to Rs.328 crs in this quarter. The Revenue per patient has increased to Rs. 688 in Q3FY20 in comparison to Rs. 683 in Q2FY20.
- The revenue growth in the ROW and NCR market is 19.8% and 2% respectively. The sales in the NCR were majorly impacted on account of severe winters.
- The gross margin remained almost flat at 77.3% whereas the EBITDA margin grew by 267 bps YoY to 25.1% on account of increasing ratio of collection centers vs clinical labs. The PAT grew by 20% YoY to Rs. 55 crs, the PAT margin stood at 16.7%.
- The company Wholly Owned Subsidiary PathLabs Unifiers Private Limited has acquired two companies namely M/s Shree Computerised Pathology Laboratory and M/s Modern Diagnostics & Modern Lab.

View and Valuation

Dr Lal PathLabs is one of the largest diagnostic chains in India with a pan India presence, quality testing capabilities & asset light model of network of franchisees. The company this quarter posted an overall revenue growth of 12% YoY at Rs. 328 crs; the overall sales growth was impacted on account of severe winters in the Delhi NCR region. The gross margin remained almost flat at 77.3% whereas the EBITDA margin grew by 267 bps YoY to 25.1% on account of increasing ratio of collection centers vs clinical labs.

Going forward, the major focus of the company is to widen its footprint state by state starting from west to southern markets. We believe the major share of growth to come from rest of India going ahead. With the increasing ratio of Collection centers vs clinical labs and increased rest of India contribution, the operating leverage will kick in, thus limiting the margin dilution.

Therefore, we value the stock at 41x FY21e EPS to arrive at a target price of Rs.1656 and recommend NEUTRAL.

Key Risks to our rating and target

- Lack of a comprehensive and stringent regulatory framework.
- The major contribution to the consolidated revenue is from North India

Fig in Rs Cr

KEY FINANCIAL/VALUATIONS	FY17	FY18	FY19	FY20E	FY21E
Net Sales	912	1057	1203	1351	1549
EBITDA	238	264	294	372	482
EBIT	210	231	255	302	391
PAT	155	171	200	262	337
EPS (Rs)	19	20	24	31	40
EPS growth (%)	16%	10%	17%	31%	28%
ROE (%)	26.0%	21.6%	21.2%	23.5%	24.9%
ROCE (%)	35.3%	29.2%	27.0%	27.1%	28.9%
BV	72	95	113	134	162
P/B (X)	13.5	9.2	9.3	13.0	10.7
P/E (x)	52.0	42.7	43.8	55.2	43.0

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3QFY20 Results

Fig in Rs Cr

FINANCIALS	3QFY19	4QFY19	1QFY20	2QFY20	3QFY20	YoY %	QoQ%	FY18	FY19	YoY %
Net Sales	293	301	335	351	328	12.1%	-6.6%	1,057	1,203	13.9%
Other Income	12	14	14	16	14	13.1%	-14.8%	31	46	47.2%
COGS	65	65	71	78	74	13.9%	-5.1%	226	262	16.1%
Gross Margin	78%	78%	79%	78%	77%	-0.4%	-0.4%	79%	78%	-0.4%
Employee Cost	52	57	58	58	62	18.7%	6.2%	181	208	15.2%
Other Expen.	72	76	67	64	68	-6.6%	5.5%	259	288	11.4%
Fees -Coll.	37	37	44	47	42	12.6%	-10.6%	128	151	18.3%
EBITDA	66	66	95	104	82	25.5%	-20.6%	264	294	11.2%
EBITDA Mar.	22%	22%	28%	30%	25%	2.7%	-4.4%	25%	24%	-0.6%
Depreciation	10	10	16	17	19	95.8%	13.9%	33	38	15.6%
EBIT	56	56	79	87	64	13%	-27.2%	231	255	10.6%
Interest	0	0	4	4	4	1200%	8.3%	1	1	-0.2%
PBT	68	69	89	100	73	8.1%	-26.5%	261	301	15%
Exceptional Item	-	-	-	-	-			1	-	-100%
Tax	22	22	30	20	19	-15.1%	-8.9%	90	100	12%
PAT	46	47	59	80	55	19.9%	-31%	171	200	17%
PAT Margin	16%	16%	18%	23%	17%	1.1%	-6%	16%	17%	1%

Concall Highlights

- **Change of roles:** Effective from April 2020, Dr Om Prakash Manchanda and Mr. Bharath Uppiliappan has been re-designated as Managing Director and CEO whereas Dr. Arvind Lal has been appointed as Executive Chairman.
- Overall revenue grew by 12% to Rs.328 crs in this quarter. The Revenue per patient has increased to Rs. 688 in Q3FY20 in comparison to Rs. 683 in Q2FY20.
- The revenue growth in the rest of India and NCR market is 19.8% and 2% respectively. The sales in the NCR were majorly impacted on account of severe winters; the management has mentioned that the attempt would be to achieve 14-15% of revenue growth.
- The swasth-fit bundling test contributes around 15% of the total revenue.
- In the overall company perspective, the split between B2B and B2C is 40% and 60% respectively.
- The company Wholly Owned Subsidiary PathLabs Unifiers Private Limited has acquired two companies namely M/s Shree Computerised Pathology Laboratory and M/s Modern Diagnostics & Modern Lab.
- The turnover of these acquisitions i.e., M/s Shree Computerised Pathology Laboratory and M/s Modern Diagnostics & Modern Lab in FY19 were at 1.57 crs and 1.65 crs respectively.
- The cash, FDs and other investments as on 31 Dec 2019 stands at Rs.775 crs.
- The strategy for North and East growth would be through Organic route whereas for South and West, the strategy would be to grow through Inorganic growth. The main focus would be to wider the footprint state by state.
- The major focus of the company would be on building samples volumes through expansion in network and through higher throughput in every PSCs, labs and bundle test growth.
- The management is confident of improvement in realization per patients in the long run.
- According the management, the rest of India growth would be faster than the NCR growth on account of higher base in Delhi NCR. The company expects 7-8% growth from Delhi NCR.

Operational Details

OPERATING METRICS	2QFY18	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20	3QFY20
No. of patients (mn)	4.0	3.8	3.8	4.2	4.7	4.4	4.3	4.9	5.3	4.8
No. of samples (mn)	9.1	8.7	9.0	9.9	11.0	10.3	10.6	11.9	13.0	11.6
Samples per patients	2.3	2.3	2.4	2.4	2.3	2.3	2.5	2.4	2.5	2.4
Realization/patients	695	691	702	696	676	665	700	684	663	688

	FY13	FY14	FY15	FY16	FY17	FY18	FY19
No. of Clinical Labs	131	146	164	172	189	193	200
No. of PSCs	824	1064	1340	1559	1759	2153	2569
No. of PUPs	2879	4225	5667	4967	5021	5624	6426

Exhibit: Sales and Gross margin

Overall revenue grew by 12% to Rs.328 crs in this quarter (vs our estimate of Rs.336 crs)

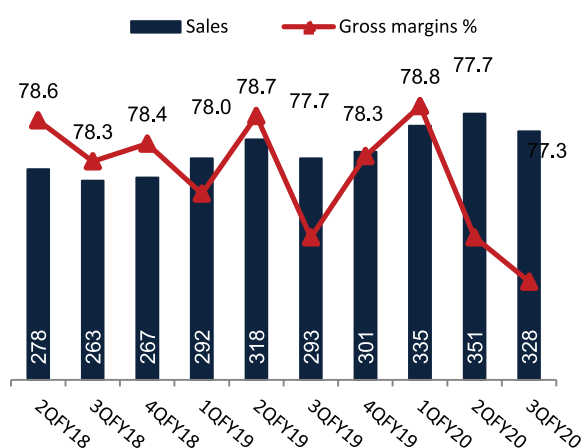


Exhibit: EBITDA and PAT Margin

EBITDA margin and PAT margin grew by 267 bps and 108 bps YoY to 25.1% and 16.7% respectively.

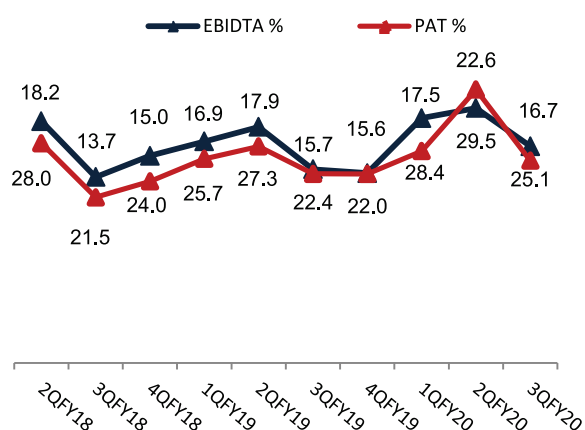


Exhibit: Geography wise break up of business

The revenue growth in the rest of India and NCR market is 19.8% and 2% respectively.

■ North India ■ East India ■ South India ■ West India ■ Others

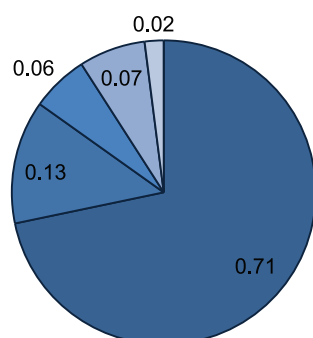
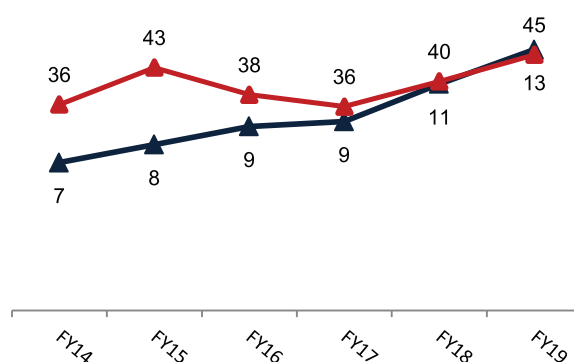


Exhibit: clinicals labs per collection infra

Clinical labs per PSCs and PSCs+PUPs stands at 45 and 13 respectively.

■ clinicals labs available per PSCs
■ clinicals labs available per PSCs + PUPs



Financial Details

Balance Sheet

Fig in Rs Cr

Y/E March	FY14	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E
Share Capital	80	81	83	83	83	83	83	83
Reserves	151	260	424	512	708	862	1,030	1,271
Networth	231	341	507	596	791	945	1,113	1,354
Debt	1	2	4	2	4	5	20	20
Other Non Current Liab	21	20	24	7	8	1	35	25
Total Capital Employed	232	343	510	598	795	951	1,133	1,374
Net Fixed Assets (incl CWIP)	140	151	170	170	220	212	395	409
Non Current Investments	-	-	-	-	-	-	-	-
Other Non Current Assets	41	43	32	54	75	65	63	63
Non Current Assets	181	194	201	224	296	277	457	472
Inventory	12	14	15	18	27	29	32	37
Debtors	25	31	36	42	41	53	60	68
Cash & Bank	106	148	210	240	314	490	652	868
Other Current Assets	28	88	163	167	241	242	213	213
Current Assets	170	282	424	467	623	814	956	1,186
Creditors	33	34	42	52	65	80	90	103
Provisions	13	19	31	7	9	13	10	10
Other Current Liabilities	50	59	18	26	42	45	146	146
Curr Liabilities	96	112	91	85	116	138	245	259
Net Current Assets	74	170	333	382	507	675	711	927
Total Assets	352	475	625	690	919	1,091	1,413	1,657

Income Statement

Fig in Rs Cr

Y/E March	FY14	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E
Revenue from Operation	558	660	791	912	1,057	1,203	1,351	1,549
Change (%)	24%	18%	20%	15%	16%	14%	12%	15%
EBITDA	139	156	210	238	264	294	372	482
Change (%)	42%	13%	34%	13%	11%	11%	27%	29%
Margin (%)	24.8%	23.6%	26.5%	26.0%	25.0%	24.4%	27.6%	31.1%
Depr & Amor.	27	28	28	28	33	38	71	91
EBIT	111	128	181	210	231	255	302	391
Int. & other fin. Cost	0	0	0	1	1	1	15	16
Other Income	2	3	5	28	31	46	58	67
EBT	119	140	201	237	261	301	345	443
Exp Item	0	0	0	1	1	0	0	0
Tax	39	43	67	81	90	100	83	106
Minority Int & P/L share of Ass.	-	-	-	-	-	-	-	-
Reported PAT	80	96	133	155	171	200	262	337
Change (%)	44%	20%	38%	16%	10%	17%	31%	28%
Margin(%)	14.4%	14.6%	16.8%	16.9%	16.2%	16.7%	19.4%	21.7%

Financial Details

Key Ratios

Y/E March	FY14	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E
ROE	34.7%	28.3%	26.3%	26.0%	21.6%	21.2%	23.5%	24.9%
ROCE	48.1%	37.5%	35.8%	35.3%	29.2%	27.0%	27.1%	28.9%
Asset Turnover	1.6	1.4	1.3	1.3	1.2	1.1	1.0	0.9
Debtor Days	16	17	17	17	14	16	16	16
Inv Days	8	8	7	7	9	9	9	9
Payable Days	21	19	19	21	23	24	24	24
Int Coverage	562	316	365	301	275	304	20	25
P/E	-	-	57	52	43	44	55	43
Price / Book Value	-	-	15	13	9	9	13	11
EV/EBITDA	-	-	35	33	26	28	37	28
FCF per Share	-	16	14	16	16	22	35	39
Div Yield	0.0%	0.0%	0.0%	0.4%	0.4%	0.5%	0.5%	0.5%

Cash Flow Statement

Fig in Rs Cr

Y/E March	FY14	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E
PBT	119	140	201	156	172	200	345	443
(inc)/Dec in Working Capital	(9)	(8)	19	(8)	10	9	145	(10)
Non Cash Op Exp	27	28	28	28	33	38	71	91
Int Paid (+)	0	0	0	1	1	1	15	16
Tax Paid	(50)	(53)	(69)	(71)	(94)	(104)	(83)	(106)
others	11	15	(21)	66	76	74	14	-
CF from Op. Activities	98	122	159	171	197	219	507	432
(inc)/Dec in FA & CWIP	(32)	(35)	(43)	(41)	(62)	(35)	(214)	(105)
Free Cashflow	65	86	114	130	135	184	293	327
(Pur)/Sale of Inv	46	(29)	(26)	(40)	(40)	(31)	17	-
others	(103)	(49)	(94)	(56)	(70)	(35)	(39)	-
CF from Inv. Activities	(90)	(113)	(163)	(137)	(172)	(100)	(236)	(105)
inc/(dec) in NW	-	11	16	4	3	0	-	-
inc/(dec) in Debt	-	(1)	-	-	-	-	-	-
Int. Paid	(1)	(0)	(1)	(0)	(0)	(0)	(15)	(16)
Div Paid (inc tax)	(10)	(10)	(16)	(37)	(32)	(55)	(96)	(96)
others	-	(1)	1	1	42	(0)	-	-
CF from Fin. Activities	(10)	(1)	0	(32)	13	(55)	(111)	(111)
Inc(Dec) in Cash	(2)	8	(5)	2	37	64	160	216
Add: Opening Balance	17	16	23	27	29	66	490	652
Closing Balance	16	23	19	29	66	129	650	868

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