

May 04, 2018

Surajit Pal  
surajitpal@plindia.com  
+91-22-66322259

Rating	<b>BUY</b>
Price	Rs656
Target Price	Rs795
Implied Upside	21.2%
Sensex	35,103
Nifty	10,680

(Prices as on May 03, 2018)

#### Trading data

Market Cap. (Rs bn)	35.2
Shares o/s (m)	53.7
3M Avg. Daily value (Rs m)	46.2

#### Major shareholders

Promoters	63.96%
Foreign	9.73%
Domestic Inst.	19.32%
Public & Other	6.99%

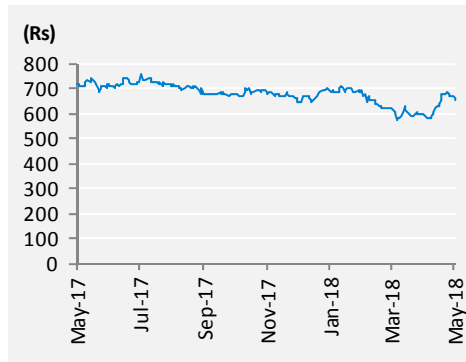
#### Stock Performance

(%)	1M	6M	12M
Absolute	10.4	(4.4)	(8.3)
Relative	5.2	(8.6)	(25.7)

#### How we differ from Consensus

EPS (Rs)	PL	Cons.	% Diff.
2019	18.6	NA	NA
2020	22.7	NA	NA

#### Price Perf. (RIC: THYO.NS, BB: THYROCAR IN)



Source: Bloomberg

■ **Headline matrices missed on increased competition:** Thyrocare's sales, EBITDA and Adj. PAT grew 11%, 18% and 29% YoY respectively in Q4FY18. While sick care business revenue grew 27%, the revenues from preventive care declined by 11% YoY due to increased competition from unorganized players and reduced promotional costs. Management guided for increased focus on B-2-B business and maintained similar B-2-C growth by spending 4-5% of sales in advertisements in FY19E.

■ **Pathology grew 9% with expansion in margins:** Thyrocare's diagnostic business grew 9% YoY with 140bps expansion in EBITDA margin at 39.9% in Q4FY18. With expectation of rationalisation in price and higher volume (driven by lower price and media promotion), the management guided for more than 25% revenue growth and 35-36% EBITDA margin in FY19-20E. Aarogyam business declined by 4% YoY and contributed 49% of pathology revenues and 12% of volume. Thyrocare improved its Nuclear imaging business by 39% YoY and set up three PET-CT scanners in Q4FY18. While management guided for adding 9 PET-centres in FY19E, we believe addition of 5-6 PET centres would be an ideal target in FY19E.

■ **Valuation-Maintain 'Buy', TP at Rs795:** The stock trades at PER of 35x and 29x FY19E and FY20E respectively. We expect Thyrocare to achieve 20% growth in revenue and 35% EBITDA margins in FY19E. Management guided that lower rationalisations and advertisement (guided at 4-5% of sales) costs will impact EBITDA margin by 400-500bps. While management maintains its guidance of 25% (+/-2%) sustainable annual growth, we have become more conservative and expect revenues to grow at 20% and 21% in FY19E and FY20E. We believe that the increased promotion expense will not immediately benefit in higher than expected growth in revenues. We expect benefits of lower price and promotions to be realised with lag effect and may have a J-curve impact on EBITDA margins. We lower our earnings estimates by 18% in FY19E as well as expect the earnings growth to be slower in FY20 at 22%. This has led to reduction in TP to Rs795 (previously Rs967) at a target PER of 35x FY20E.

Key financials (Y/e March)	2017	2018	2019E	2020E
Revenues (Rs m)	3,044	3,563	4,285	5,189
Growth (%)	26.3	17.1	20.3	21.1
EBITDA (Rs m)	1,152	1,447	1,517	1,868
PAT (Rs m)	428	933	1,000	1,220
EPS (Rs)	8.0	17.4	18.6	22.7
Growth (%)	(17.3)	117.7	7.2	22.1
Net DPS (Rs)	10.0	10.0	10.0	10.0

Profitability & Valuation	2017	2018	2019E	2020E
EBITDA margin (%)	37.8	40.6	35.4	36.0
RoE (%)	11.1	21.9	21.7	24.1
RoCE (%)	10.8	21.3	21.0	23.3
EV / sales (x)	11.5	9.9	8.1	6.6
EV / EBITDA (x)	30.5	24.3	22.9	18.4
PE (x)	82.2	37.8	35.2	28.9
P / BV (x)	8.6	7.9	7.4	6.6
Net dividend yield (%)	1.5	1.5	1.5	1.5

Source: Company Data; PL Research

## Conference call takeaways;

- Management guided that the diagnostic industry is growing at 15%, while the number of competitors are growing at 25%. Thyrocare's growth rate in sickcare segment is 27% YoY, while preventive care declined 4% YoY in Q4FY18. Management guided that aggressive growth in preventive care segment has slowed down due to increased competition and lack of material tailwinds from promotional expenses incurred in previous quarters.
- B-2-C and B-2-B businesses contributed 21% and 79% of revenues of pathology in Q4FY18. Management guided to shift focus and get more aggressive to B-2-B business going forward
- Management guided that the customer shift from unorganised to organised players will be gradual and not as quick as expected earlier
- Thyrocare has forayed into testing for Tuberculosis (TB) and believes it to be a sizeable opportunity in foreseeable future. The company has occurred capex of Rs50mn on TB segment and expects 40% raw material costs (implies 60% gross margin) for the same
- Management guided that scale up of revenues at new PET-CT centres have been faster due to deployment of local marketing staff at these locations and absence of competition in Surat and Raipur. Thyrocare added 3 new PET-CT centres at Prabhadevi, Aurangabad and Jaipur in Q4FY18
- In its nuclear imaging business, Thyrocare has achieved 6.6 scans per-day per-machine with 8 PET-CT scanners. The first five scanners recorded 4,330 scans (11.1 scans per machine/day) and six new scanners added 1,524 scans (3.3 scans per machine/day) in Q4FY18 (3 scanners commenced operations in Mar 2018). Management expects to add 9 further scanners and maintain an average above 10 scans per machine/day in FY19E.
- Going forward, the company would expand its imaging business through franchisee model with aspirational target of setting up 80 PET-CT scanners and 4 Cyclotron (Mumbai, Delhi, Kolkata and Coimbatore) facilities across India
- Expect to achieve 60% EBITDA margin from imaging business once it achieves annual revenues of Rs1,000m with 30 scans per-day per-machine from its network of 60 scanners by FY22E
- Management expects increasing competition in diagnostics business from the smaller players, which could impact Thyrocare's revenue growth. However, its volume leadership keeps raw material (reagent) costs lowest among the large peers, which allows them better margins. Management believes that by sacrificing 1% of EBITDA margin they can accelerate their growth by 2% per annum for further 2-3 years.
- Management guided for a capex of Rs65-70m per PET-CT for 4-5 PET CT centres per annum

**Exhibit 1: Change in Estimates**

Year	Sales (Rs m)			EBITDA (Rs m)			PAT (Rs m)		
	Old	New	Diff (%)	Old	New	Diff (%)	Old	New	Diff (%)
FY19E	4,465	4,285	(4.0)	1,862	1,517	(18.5)	1,215	1,000	(17.7)
FY20E	5,429	5,189	(4.4)	2,280	1,868	(18.1)	1,484	1,220	(17.8)

Source: PL Research

**Exhibit 2: Q4FY18 Result Overview (Rs m)**

Y/e March	Q4FY18	Q4FY17	YoY gr. (%)	Q3FY18	FY18	FY17	YoY gr. (%)
<b>Net Sales</b>	<b>967</b>	<b>871</b>	<b>10.9</b>	<b>839</b>	<b>3,563</b>	<b>3,044</b>	<b>17.1</b>
Raw Material	260	237	9.8	208	950	814	16.6
<i>% of Net Sales</i>	<i>26.9</i>	<i>27.2</i>		<i>24.8</i>	<i>26.7</i>	<i>26.7</i>	
Personnel Cost	113	97	16.7	95	353	320	10.4
<i>% of Net Sales</i>	<i>11.7</i>	<i>11.1</i>		<i>11.3</i>	<i>9.9</i>	<i>10.5</i>	
Others	222	222	(0.1)	183	813	758	7.3
<i>% of Net Sales</i>	<i>22.9</i>	<i>25.4</i>		<i>21.8</i>	<i>22.8</i>	<i>24.9</i>	
Total Expenditure	594	555	7.1	485	2,116	1,892	11.8
<b>EBITDA</b>	<b>372</b>	<b>316</b>	<b>17.7</b>	<b>354</b>	<b>1,447</b>	<b>1,152</b>	<b>25.6</b>
<i>Margin (%)</i>	<i>38.5</i>	<i>36.3</i>		<i>42.2</i>	<i>40.6</i>	<i>37.8</i>	
Depreciation	56	49	13.6	51	201	181	11.4
<b>EBIT</b>	<b>316</b>	<b>267</b>	<b>18.5</b>	<b>302</b>	<b>1,246</b>	<b>971</b>	<b>28.3</b>
Other Income	109	22	403.3	37	230	122	87.8
Interest	1	1		1	4	3	
<b>PBT</b>	<b>423</b>	<b>287</b>	<b>47.3</b>	<b>338</b>	<b>1,472</b>	<b>1,091</b>	<b>34.9</b>
Extra-Ord. Inc./Exps.	-	(40)		-	(22)	(274)	
Total Taxes	172	93	85.0	123	517	388	33.2
<i>ETR (%)</i>	<i>40.7</i>	<i>32.4</i>		<i>36.5</i>	<i>35.1</i>	<i>35.6</i>	
<b>Reported PAT</b>	<b>251</b>	<b>154</b>	<b>63.2</b>	<b>215</b>	<b>933</b>	<b>428</b>	<b>117.7</b>

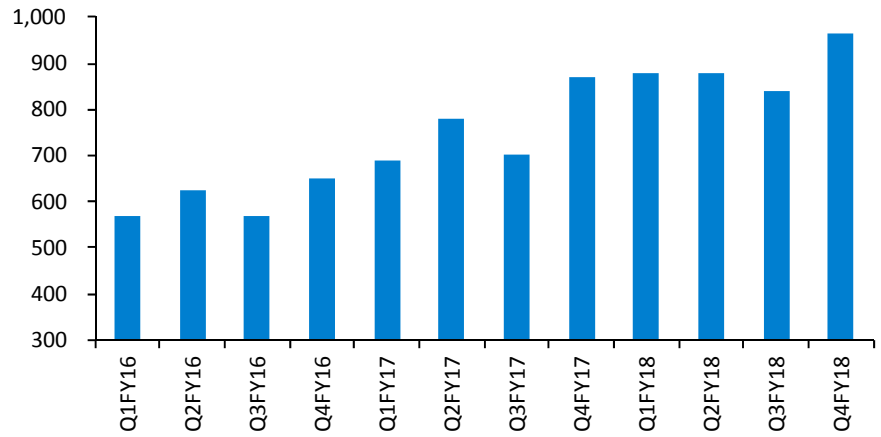
Source: Company Data, PL Research

**Exhibit 3: Major sources of Revenues (Rs m)**

Y/e March	Q4FY18	Q4FY17	YoY gr. (%)	Q3FY18	FY18	FY17	YoY gr. (%)
Diagnostic Services	894	817	9.4	770	3,289	2,832	16.1
<i>% of Net Sales</i>	<i>92.5%</i>	<i>93.8%</i>		<i>91.8%</i>	<i>92.3%</i>	<i>93.0%</i>	
Imaging Services	66	48	39.3	60	245	184	33.1
<i>% of Net Sales</i>	<i>6.9%</i>	<i>5.5%</i>		<i>7.2%</i>	<i>6.9%</i>	<i>6.0%</i>	
Sale of products/Others	6	6	(1.7)	8	28	28	3.3
<i>% of Net Sales</i>	<i>0.7%</i>	<i>0.7%</i>		<i>1.0%</i>	<i>0.8%</i>	<i>0.9%</i>	
<b>Total</b>	<b>967</b>	<b>871</b>	<b>10.9</b>	<b>839</b>	<b>3,563</b>	<b>3,044</b>	<b>17.1</b>

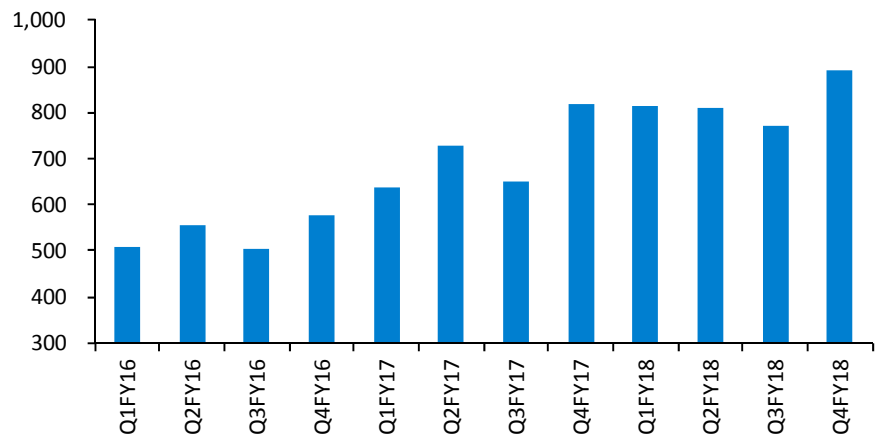
Source: Company Data, PL Research

**Exhibit 4: Net Sales**



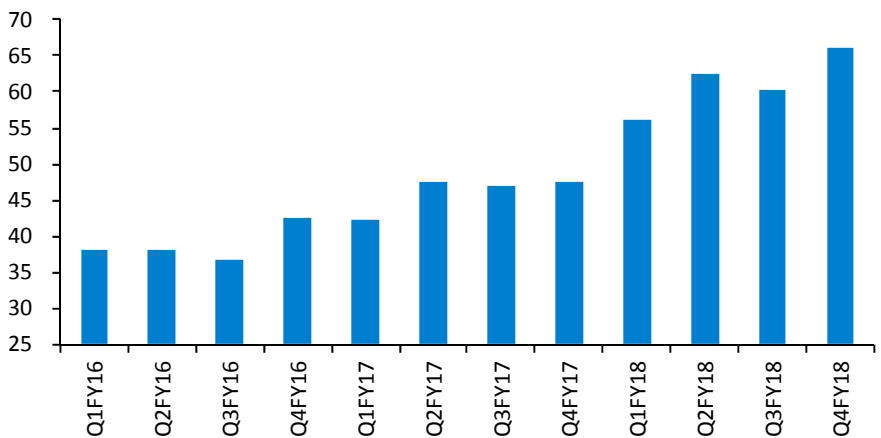
Source: Company Data, PL Research

**Exhibit 5: Diagnostic Revenues**



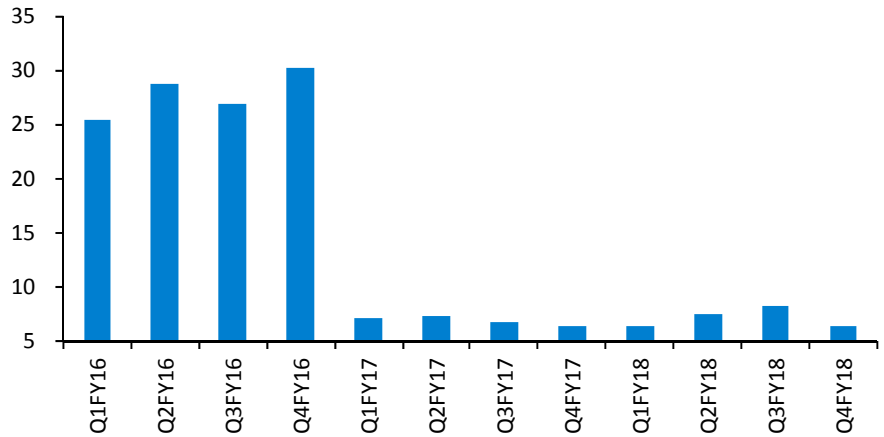
Source: Company Data, PL Research

**Exhibit 6: Imaging Revenues**



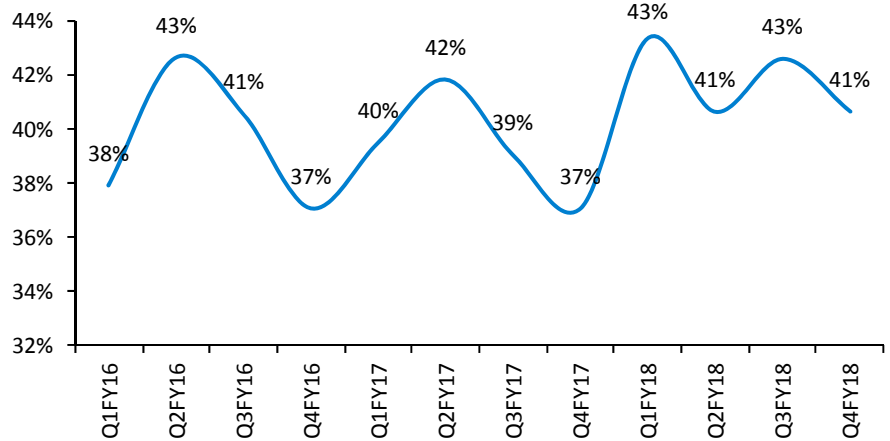
Source: Company Data, PL Research

**Exhibit 7: Sale of products**



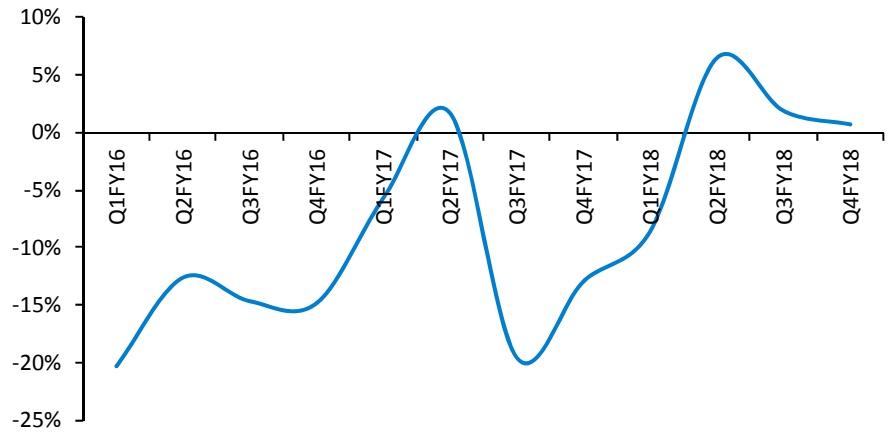
Source: Company Data, PL Research

**Exhibit 8: EBIT margins - Diagnostic**



Source: Company Data, PL Research

**Exhibit 9: EBIT Margin - Imaging**



Source: Company Data, PL Research

**Income Statement (Rs m)**

Y/e March	2017	2018	2019E	2020E
<b>Net Revenue</b>	<b>3,044</b>	<b>3,563</b>	<b>4,285</b>	<b>5,189</b>
Raw Material Expenses	814	950	1,277	1,541
Gross Profit	2,230	2,613	3,008	3,648
Employee Cost	320	353	463	550
Other Expenses	758	813	1,028	1,230
<b>EBITDA</b>	<b>1,152</b>	<b>1,447</b>	<b>1,517</b>	<b>1,868</b>
Depr. & Amortization	181	201	244	300
Net Interest	3	4	—	—
Other Income	122	230	241	254
<b>Profit before Tax</b>	<b>1,091</b>	<b>1,472</b>	<b>1,514</b>	<b>1,821</b>
Total Tax	388	517	515	601
<b>Profit after Tax</b>	<b>703</b>	<b>954</b>	<b>1,000</b>	<b>1,220</b>
Ex-Od items / Min. Int.	(274)	(22)	—	—
<b>Adj. PAT</b>	<b>428</b>	<b>933</b>	<b>1,000</b>	<b>1,220</b>
<b>Avg. Shares O/S (m)</b>	<b>53.7</b>	<b>53.7</b>	<b>53.7</b>	<b>53.7</b>
<b>EPS (Rs.)</b>	<b>8.0</b>	<b>17.4</b>	<b>18.6</b>	<b>22.7</b>

**Cash Flow Abstract (Rs m)**

Y/e March	2017	2018	2019E	2020E
C/F from Operations	894	1,305	1,053	1,430
C/F from Investing	(415)	(337)	(395)	(400)
C/F from Financing	(485)	(650)	(650)	(650)
Inc. / Dec. in Cash	(6)	318	8	381
Opening Cash	102	97	415	423
Closing Cash	97	415	423	804
FCFF	286	590	895	1,124
FCFE	217	590	895	1,124

**Key Financial Metrics**

Y/e March	2017	2018	2019E	2020E
<b>Growth</b>				
Revenue (%)	26.3	17.1	20.3	21.1
EBITDA (%)	23.2	25.6	4.8	23.1
PAT (%)	(17.3)	117.7	7.2	22.1
EPS (%)	(17.3)	117.7	7.2	22.1
<b>Profitability</b>				
EBITDA Margin (%)	37.8	40.6	35.4	36.0
PAT Margin (%)	14.1	26.2	23.3	23.5
RoCE (%)	10.8	21.3	21.0	23.3
RoE (%)	11.1	21.9	21.7	24.1
<b>Balance Sheet</b>				
Net Debt : Equity	—	—	(0.1)	(0.2)
Net Wrkng Cap. (days)	24	34	30	34
<b>Valuation</b>				
PER (x)	82.2	37.8	35.2	28.9
P / B (x)	8.6	7.9	7.4	6.6
EV / EBITDA (x)	30.5	24.3	22.9	18.4
EV / Sales (x)	11.5	9.9	8.1	6.6
<b>Earnings Quality</b>				
Eff. Tax Rate	35.6	35.1	34.0	33.0
Other Inc / PBT	11.2	15.6	15.9	13.9
Eff. Depr. Rate (%)	7.9	7.0	7.5	8.4
FCFE / PAT	50.7	63.3	89.6	92.1

Source: Company Data, PL Research.

**Balance Sheet Abstract (Rs m)**

Y/e March	2017	2018	2019E	2020E
Shareholder's Funds	4,078	4,433	4,782	5,352
Total Debt	—	—	—	—
Other Liabilities	124	154	221	239
<b>Total Liabilities</b>	<b>4,202</b>	<b>4,587</b>	<b>5,003</b>	<b>5,592</b>
Net Fixed Assets	1,693	1,919	2,025	2,075
Goodwill	1,069	1,069	1,069	1,069
Investments	1,042	1,001	1,101	1,211
Net Current Assets	279	220	523	950
Cash & Equivalents	118	119	423	804
Other Current Assets	336	304	330	386
Current Liabilities	175	203	231	240
Other Assets	121	379	286	287
<b>Total Assets</b>	<b>4,203</b>	<b>4,587</b>	<b>5,003</b>	<b>5,592</b>

**Quarterly Financials (Rs m)**

Y/e March	Q1FY18	Q2FY18	Q3FY18	Q4FY18
<b>Net Revenue</b>	<b>878</b>	<b>880</b>	<b>839</b>	<b>967</b>
<b>EBITDA</b>	<b>364</b>	<b>357</b>	<b>354</b>	<b>372</b>
% of revenue	41.5	40.6	42.2	38.5
Depr. & Amortization	44	49	51	56
Net Interest	1	1	1	1
Other Income	48	37	37	109
<b>Profit before Tax</b>	<b>367</b>	<b>344</b>	<b>338</b>	<b>423</b>
Total Tax	126	95	123	172
<b>Profit after Tax</b>	<b>220</b>	<b>247</b>	<b>215</b>	<b>251</b>
<b>Adj. PAT</b>	<b>220</b>	<b>247</b>	<b>215</b>	<b>251</b>

**Key Operating Metrics (Rs m)**

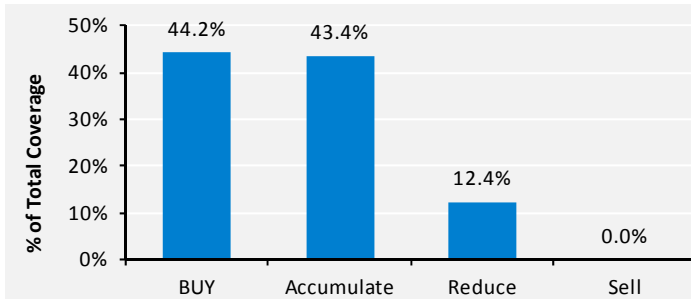
Y/e March	2017	2018	2019E	2020E
Diagnostic Testing Services	2,832	3,289	3,987	4,820
Imaging Services	184	245	244	313
Others	28	28	53	56

Source: Company Data, PL Research.

**Prabhudas Lilladher Pvt. Ltd.**

3rd Floor, Sadhana House, 570, P. B. Marg, Worli, Mumbai-400 018, India

Tel: (91 22) 6632 2222 Fax: (91 22) 6632 2209

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<b>Accumulate</b>	:	Outperformance to Sensex over 12-months
<b>Reduce</b>	:	Underperformance to Sensex over 12-months
<b>Sell</b>	:	Over 15% underperformance to Sensex over 12-months
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<b>Trading Sell</b>	:	Over 10% absolute decline in 1-month
<b>Not Rated (NR)</b>	:	No specific call on the stock
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