

# Thyrocare Technologies (THYROCARE IN)

Rating: BUY | CMP: Rs611 | TP: Rs795

August 14, 2018

## Q1FY19 Result Update

■ Change in Estimates | ■ Target | ■ Reco

### Change in Estimates

	Current		Previous	
	FY19E	FY20E	FY19E	FY20E
<b>Rating</b>	BUY		BUY	
<b>Target Price</b>	795		795	
Sales (Rs. m)	4,285	5,189	4,285	5,189
% Chng.	-	-	-	-
EBITDA (Rs. m)	1,517	1,868	1,517	1,868
% Chng.	-	-	-	-
EPS (Rs.)	18.6	22.7	18.6	22.7
% Chng.	-	-	-	-

### Key Financials

	FY17	FY18	FY19E	FY20E
Sales (Rs. m)	3,044	3,563	4,291	5,197
EBITDA (Rs. m)	1,152	1,447	1,519	1,871
Margin (%)	37.8	40.6	35.4	36.0
PAT (Rs. m)	428	933	1,001	1,222
EPS (Rs.)	8.0	17.4	18.6	22.7
Gr. (%)	(17.3)	117.6	7.3	22.1
DPS (Rs.)	-	-	-	-
Yield (%)	-	-	-	-
RoE (%)	10.8	21.9	21.7	24.1
RoCE (%)	24.5	29.3	27.7	31.0
EV/Sales (x)	10.4	8.9	7.3	6.0
EV/EBITDA (x)	27.5	21.9	20.7	16.5
PE (x)	76.5	35.2	32.8	26.8
P/BV (x)	8.0	7.4	6.9	6.1

### Key Data

### THYO.NS | THYROCARE IN

52-W High / Low	Rs.725 / Rs.548
Sensex / Nifty	37,852 / 11,435
Market Cap	Rs.33bn/ \$ 469m
Shares Outstanding	54m
3M Avg. Daily Value	Rs.39.25m

### Shareholding Pattern (%)

Promoter's	63.96
Foreign	9.73
Domestic Institution	18.89
Public & Others	7.42
Promoter Pledge (Rs bn)	-

### Stock Performance (%)

	1M	6M	12M
Absolute	3.6	(6.9)	(13.5)
Relative	-	(16.0)	(28.2)

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## Volume benefits to come with a lag

Thyrocare's sales, EBITDA and Adj. PAT grew 11%, 13% and 7% YoY respectively in Q1FY19. Revenues from preventive care and sick care business revenue grew 6% and 14% YoY respectively. The growth in preventive care was tepid 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.

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 decrease in realisations will not immediately benefit in higher than expected growth in volumes. 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 expect the earnings growth to be slower in FY20 at 22%. With strong free cash flow we expect diagnostic companies to trade at premium valuations. We maintain our earnings estimate and BUY rating with TP at Rs795 (PER of 35x FY20E)

**Pathology grew 9% with expansion in margins:** Thyrocare's diagnostic business grew 9% YoY with 40bps expansion in EBITDA margin at 44% in Q1FY19. With expectation of rationalisation in price and higher volume (driven by lower price and media promotion), the management guided for more than 20-25% revenue growth and 39-40% EBITDA margin in FY19-20E. Aarogyam business increased by 6% YoY and contributed 52% of pathology revenues and 12% of volume.

**Steady growth in imaging business:** Thyrocare improved its Nuclear imaging business by 42% YoY and set up one PET-CT scanner in July 2018. 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. Thyrocare expects to set up next two centres at Coimbatore and Bengaluru in Q2-Q3FY19E

## Conference call key 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 sick and preventive care segments is 14% and 6% respectively in Q1FY19. Management guided that aggressive growth in preventive care segment has slowed down due to seasonal variations, and there has been no 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 Q1FY19. Management expects Aarogyam to contribute 70% of total diagnostic revenues by FY25E
- Management guided that customer shift from unorganised to organised players will be gradual and not as quick as expected earlier
- Thyrocare has forayed into testing for Tuberculosis and believes it to be a sizeable opportunity in foreseeable future. Management guided for sizeable contribution from TB business segment from FY20E onwards
- 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
- In its nuclear imaging business, Thyrocare has achieved 9.15 scans per-day per-machine with 11 PET-CT scanners. The first five scanners recorded 4,204 scans (10.8 scans per machine/day) and six new scanners added 1,288 scans (7.8 scans per machine/day) in Q1FY19. Management expects to add nine further scanners in FY19E. Management guided to add centres at Coimbatore and Bengaluru in Q2-Q3FY19E
- Going forward, the company would expand its imaging business through a franchisee model with aspirational target of setting up 80 PET-CT scanners and 4 Cyclotron (Mumbai, Delhi & Coimbatore) facilities across India
- Expect to achieve 50% of total revenues and 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 FY25E
- Expect increasing competition in diagnostics business from the smaller players aided with funding from Private Equity, but see minimal impact on Thyrocare as its volume leadership keeps raw material (reagent) costs lowest among the large peers. Management believes that any regulations in pricing by the Government will be beneficial for Thyrocare and have a negative impact on its competitors
- Management guided for a capex of Rs65-70m per PET-CT for 4-5 PET CT centres per annum and maintenance capex of Rs100-150m in pathology business

**Exhibit 1: Q1FY19 Financials: Revenues grow tepidly at 11% YoY, operating margins remain robust at 42.4%**

Y/e March	Q1FY19	Q1FY18	YoY gr. (%)	Q4FY18	FY19E	FY18	YoY gr. (%)
<b>Net Sales</b>	<b>972</b>	<b>878</b>	<b>10.7</b>	<b>967</b>	<b>4,285</b>	<b>3,563</b>	<b>20.3</b>
Raw Material	256	223	14.7	260	1,277	950	34.5
<i>% of Net Sales</i>	<i>26.4</i>	<i>25.4</i>		<i>26.9</i>	<i>29.8</i>	<i>26.7</i>	
Personnel Cost	90	74	21.2	113	463	353	31.0
<i>% of Net Sales</i>	<i>9.2</i>	<i>8.4</i>		<i>11.7</i>	<i>10.8</i>	<i>9.9</i>	
Others	214	216	(1.0)	222	1,028	813	26.5
<i>% of Net Sales</i>	<i>22.0</i>	<i>24.6</i>		<i>22.9</i>	<i>24.0</i>	<i>22.8</i>	
Total Expenditure	560	513	9.0	594	2,768	2,116	30.8
<b>EBITDA</b>	<b>412</b>	<b>364</b>	<b>13.1</b>	<b>372</b>	<b>1,517</b>	<b>1,447</b>	<b>4.8</b>
<i>Margin (%)</i>	<i>42.4</i>	<i>41.5</i>		<i>38.5</i>	<i>35.4</i>	<i>40.6</i>	
Depreciation	57	44	28.5	56	244	201	21.3
<b>EBIT</b>	<b>355</b>	<b>320</b>	<b>11.0</b>	<b>316</b>	<b>1,273</b>	<b>1,246</b>	<b>2.1</b>
Other Income	23	48	(52.6)	109	241	230	5.0
Interest	1	1		1	-	4	
<b>PBT</b>	<b>377</b>	<b>367</b>	<b>2.7</b>	<b>423</b>	<b>1,514</b>	<b>1,472</b>	<b>2.9</b>
Extra-Ord. Inc./Exps.	-	(20)		-	-	(22)	
Total Taxes	142	126	12.8	172	515	517	(0.4)
<i>ETR (%)</i>	<i>37.8</i>	<i>34.4</i>		<i>40.7</i>	<i>34.0</i>	<i>35.1</i>	
<b>Reported PAT</b>	<b>234</b>	<b>220</b>	<b>6.5</b>	<b>251</b>	<b>1,000</b>	<b>933</b>	<b>7.2</b>

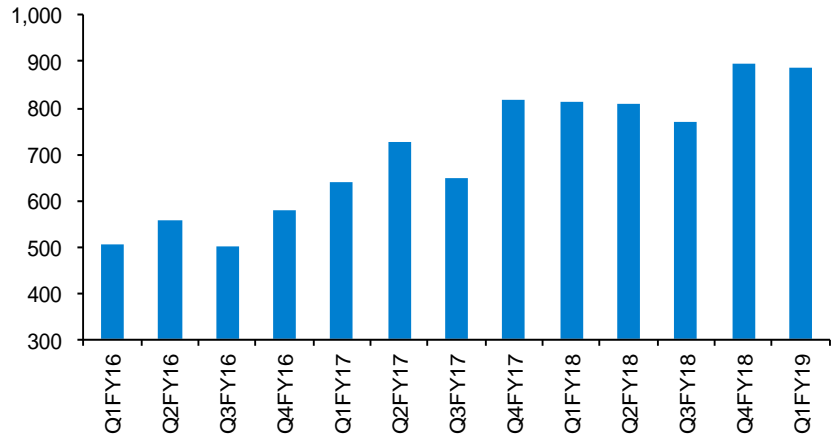
Source: Company, PL

**Exhibit 2: Major Sources of Revenues: Pathology business has subdued growth at 9%, while imaging grows at 42% YoY**

Major sources of revenues	Q1FY19	Q1FY18	YoY gr. (%)	Q4FY18	FY19E	FY18	YoY gr. (%)
Diagnostic Services	889	815	9.0	894	3,987	3,289	21.2
<i>% of Net Sales</i>	<i>91.5</i>	<i>92.9</i>		<i>92.5</i>	<i>93.1</i>	<i>92.3</i>	
Imaging Services	80	56	41.7	66	244	245	(0.2)
<i>% of Net Sales</i>	<i>8.2</i>	<i>6.4</i>		<i>6.9</i>	<i>5.7</i>	<i>6.9</i>	
Sale of products/Others	3	6	(50.1)	6	53	28	86.8
<i>% of Net Sales</i>	<i>0.3</i>	<i>0.7</i>		<i>0.7</i>	<i>1.2</i>	<i>0.8</i>	
<b>Total</b>	<b>972</b>	<b>878</b>	<b>10.7</b>	<b>967</b>	<b>4,285</b>	<b>3,563</b>	<b>20.3</b>

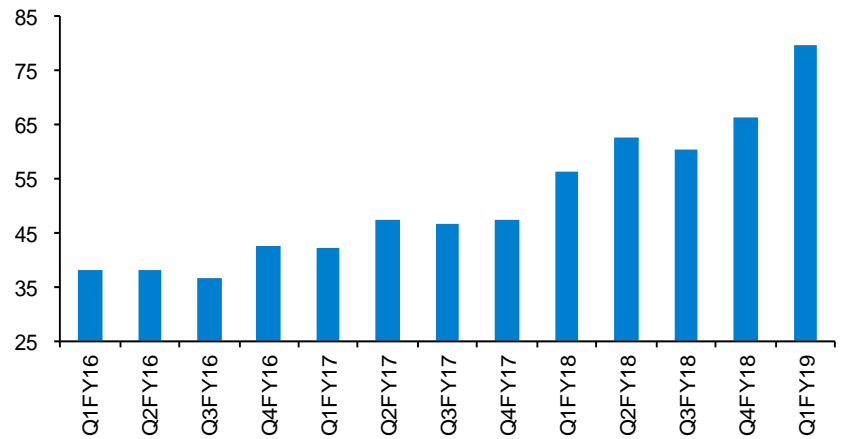
Source: Company, PL

**Exhibit 3: Diagnostic revenues**



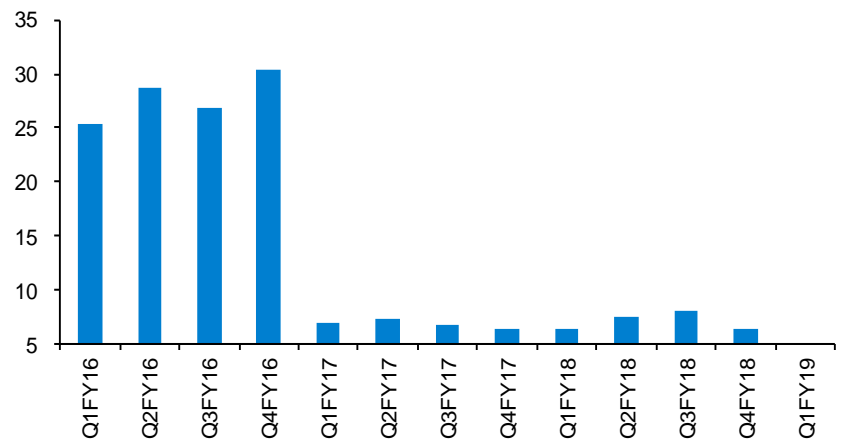
Source: Company, PL

**Exhibit 4: Imaging revenues**



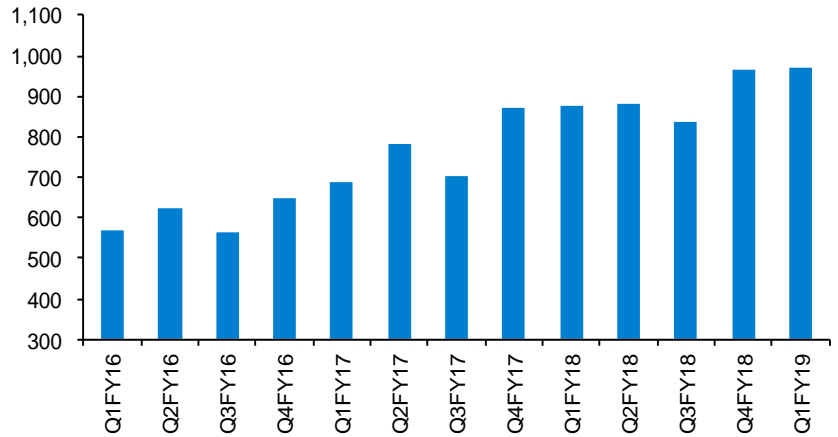
Source: Company, PL

**Exhibit 5: Revenue from sale of products**



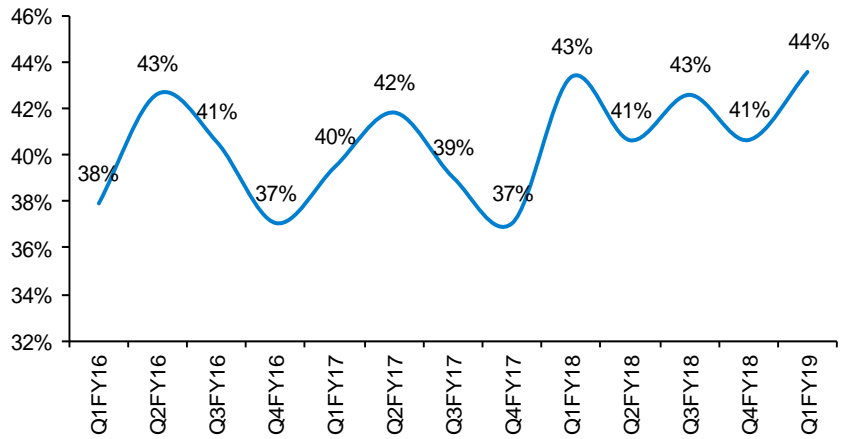
Source: Company, PL

**Exhibit 6: Total revenue**



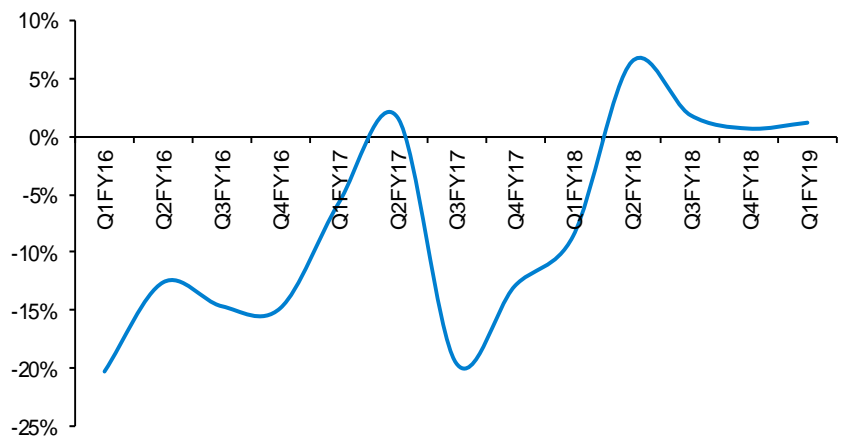
Source: Company, PL

**Exhibit 7: Diagnostic EBIT margins**



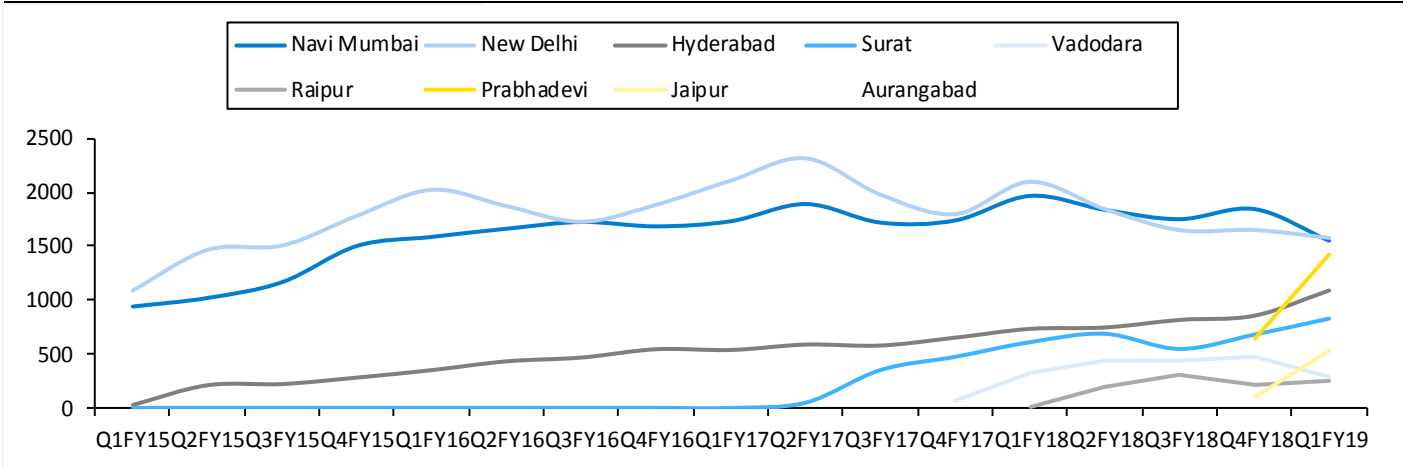
Source: Company, PL

**Exhibit 8: Imaging EBIT margins**

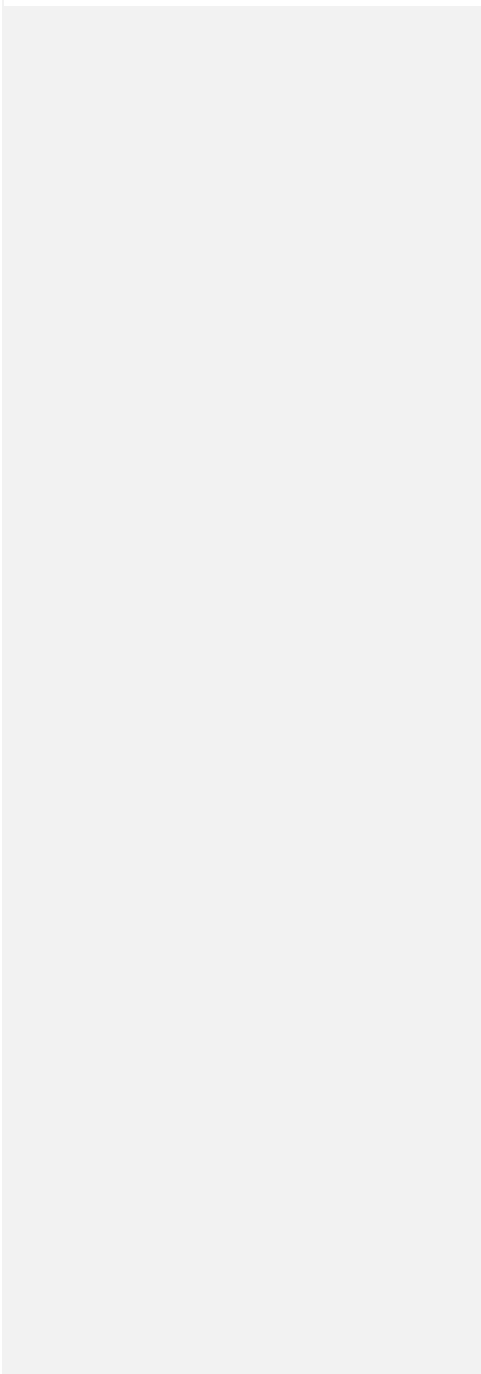


Source: Company, PL

Exhibit 9: Nuclear Imaging: Steady progress QoQ



Source: Company, PL



## Financials

### Income Statement (Rs m)

Y/e Mar	FY17	FY18	FY19E	FY20E
<b>Net Revenues</b>	<b>3,044</b>	<b>3,563</b>	<b>4,291</b>	<b>5,197</b>
YoY gr. (%)	26.3	17.1	20.4	21.1
Cost of Goods Sold	814	950	1,279	1,544
Gross Profit	2,230	2,613	3,013	3,654
Margin (%)	73.2	73.3	70.2	70.3
Employee Cost	320	353	463	551
Other Expenses	-	-	-	-
<b>EBITDA</b>	<b>1,152</b>	<b>1,447</b>	<b>1,519</b>	<b>1,871</b>
YoY gr. (%)	23.2	25.6	5.0	23.2
Margin (%)	37.8	40.6	35.4	36.0
Depreciation and Amortization	181	201	244	300
<b>EBIT</b>	<b>971</b>	<b>1,246</b>	<b>1,275</b>	<b>1,571</b>
Margin (%)	31.9	35.0	29.7	30.2
Net Interest	3	4	-	-
Other Income	122	230	241	254
<b>Profit Before Tax</b>	<b>817</b>	<b>1,450</b>	<b>1,517</b>	<b>1,824</b>
Margin (%)	26.8	40.7	35.3	35.1
Total Tax	388	517	516	602
Effective tax rate (%)	47.5	35.7	34.0	33.0
<b>Profit after tax</b>	<b>428</b>	<b>933</b>	<b>1,001</b>	<b>1,222</b>
Minority interest	-	-	-	-
Share Profit from Associate	-	-	-	-
<b>Adjusted PAT</b>	<b>428</b>	<b>933</b>	<b>1,001</b>	<b>1,222</b>
YoY gr. (%)	(17.3)	117.7	7.3	22.1
Margin (%)	14.1	26.2	23.3	23.5
Extra Ord. Income / (Exp)	-	-	-	-
<b>Reported PAT</b>	<b>428</b>	<b>933</b>	<b>1,001</b>	<b>1,222</b>
YoY gr. (%)	(17.3)	117.7	7.3	22.1
Margin (%)	14.1	26.2	23.3	23.5
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	428	933	1,001	1,222
<b>Equity Shares O/s (m)</b>	<b>54</b>	<b>54</b>	<b>54</b>	<b>54</b>
<b>EPS (Rs)</b>	<b>8.0</b>	<b>17.4</b>	<b>18.6</b>	<b>22.7</b>

Source: Company Data, PL Research

### Balance Sheet Abstract (Rs m)

Y/e Mar	FY17	FY18	FY19E	FY20E
<b>Non-Current Assets</b>				
<b>Gross Block</b>	<b>1,699</b>	<b>2,292</b>	<b>2,642</b>	<b>2,992</b>
Tangibles	1,689	2,267	2,612	2,957
Intangibles	10	25	30	35
<b>Acc: Dep / Amortization</b>	<b>181</b>	<b>373</b>	<b>617</b>	<b>917</b>
Tangibles	177	366	607	903
Intangibles	3	7	10	14
<b>Net fixed assets</b>	<b>1,518</b>	<b>1,919</b>	<b>2,025</b>	<b>2,075</b>
Tangibles	1,512	1,902	2,006	2,054
Intangibles	6	17	19	21
Capital Work In Progress	175	-	-	-
Goodwill	1,069	1,069	1,069	1,069
Non-Current Investments	6	215	217	219
Net Deferred tax assets	38	52	(61)	(73)
Other Non-Current Assets	78	111	131	155
<b>Current Assets</b>				
Investments	1,042	1,001	1,101	1,211
Inventories	145	170	217	254
Trade receivables	63	98	118	128
Cash & Bank Balance	118	119	290	629
Other Current Assets	57	35	38	42
<b>Total Assets</b>	<b>4,379</b>	<b>4,790</b>	<b>5,205</b>	<b>5,780</b>
<b>Equity</b>				
Equity Share Capital	537	537	537	537
Other Equity	3,541	3,896	4,247	4,819
<b>Total Networkth</b>	<b>4,078</b>	<b>4,433</b>	<b>4,784</b>	<b>5,356</b>
<b>Non-Current Liabilities</b>				
Long Term borrowings	-	-	-	-
Provisions	52	53	54	55
Other non current liabilities	73	101	106	111
<b>Current Liabilities</b>				
ST Debt / Current of LT Debt	-	-	-	-
Trade payables	13	12	39	47
Other current liabilities	163	191	163	138
<b>Total Equity &amp; Liabilities</b>	<b>4,378</b>	<b>4,790</b>	<b>5,206</b>	<b>5,780</b>

Source: Company Data, PL Research

**Cash Flow (Rs m)**

Y/e Mar	FY17	FY18	FY19E	FY20E
PBT	1,091	1,472	1,517	1,824
Add. Depreciation	181	201	244	300
Add. Interest	-	-	-	-
Less Financial Other Income	122	230	241	254
Add. Other	(12)	(51)	31	(95)
Op. profit before WC changes	1,259	1,622	1,792	2,029
Net Changes-WC	41	(63)	(39)	(39)
Direct tax	(405)	(489)	(516)	(602)
<b>Net cash from Op. activities</b>	<b>896</b>	<b>1,070</b>	<b>1,237</b>	<b>1,388</b>
Capital expenditures	(363)	(436)	(350)	(350)
Interest / Dividend Income	50	39	55	61
Others	(102)	(35)	(100)	(110)
<b>Net Cash from Inv. activities</b>	<b>(415)</b>	<b>(432)</b>	<b>(395)</b>	<b>(400)</b>
Issue of share cap. / premium	-	-	-	-
Debt changes	-	-	-	-
Dividend paid	(485)	(639)	(650)	(650)
Interest paid	-	-	-	-
Others	-	-	-	-
<b>Net cash from Fin. activities</b>	<b>(485)</b>	<b>(639)</b>	<b>(650)</b>	<b>(650)</b>
<b>Net change in cash</b>	<b>(5)</b>	<b>(1)</b>	<b>192</b>	<b>339</b>
Free Cash Flow	533	634	887	1,038

Source: Company Data, PL Research

**Quarterly Financials (Rs m)**

Y/e Mar	Q2FY18	Q3FY18	Q4FY18	Q1FY19
<b>Net Revenue</b>	<b>880</b>	<b>839</b>	<b>967</b>	<b>972</b>
YoY gr. (%)	-	-	-	10.7
Raw Material Expenses	259	208	260	256
Gross Profit	621	631	707	716
Margin (%)	70.6	75.2	73.1	73.6
<b>EBITDA</b>	<b>357</b>	<b>354</b>	<b>372</b>	<b>412</b>
YoY gr. (%)	(2.0)	(0.9)	5.2	10.7
Margin (%)	40.6	42.2	38.5	42.4
Depreciation / Depletion	49	51	56	57
<b>EBIT</b>	<b>308</b>	<b>302</b>	<b>316</b>	<b>355</b>
Margin (%)	35.0	36.1	32.7	36.6
Net Interest	1	1	1	1
Other Income	37	37	109	23
<b>Profit before Tax</b>	<b>344</b>	<b>338</b>	<b>423</b>	<b>377</b>
Margin (%)	39.0	40.3	43.8	38.8
Total Tax	95	123	172	142
Effective tax rate (%)	27.8	36.5	40.7	37.8
<b>Profit after Tax</b>	<b>248</b>	<b>215</b>	<b>251</b>	<b>234</b>
Minority interest	-	-	-	-
Share Profit from Associates	-	-	-	-
<b>Adjusted PAT</b>	<b>247</b>	<b>215</b>	<b>251</b>	<b>234</b>
YoY gr. (%)	-	-	-	6.5
Margin (%)	28.0	25.6	26.0	24.1
Extra Ord. Income / (Exp)	-	-	-	-
<b>Reported PAT</b>	<b>247</b>	<b>215</b>	<b>251</b>	<b>234</b>
YoY gr. (%)	-	-	-	6.5
Margin (%)	28.0	25.6	26.0	24.1
Other Comprehensive Income	-	-	-	-
<b>Total Comprehensive Income</b>	<b>247</b>	<b>215</b>	<b>251</b>	<b>234</b>
Avg. Shares O/s (m)	54	54	54	54
<b>EPS (Rs)</b>	<b>4.6</b>	<b>4.0</b>	<b>4.7</b>	<b>4.4</b>

Source: Company Data, PL Research

**Key Financial Metrics**

Y/e Mar	FY17	FY18	FY19E	FY20E
<b>Per Share(Rs)</b>				
EPS	8.0	17.4	18.6	22.7
CEPS	11.3	21.1	23.2	28.3
BVPS	76.0	82.5	89.0	99.7
FCF	9.9	11.8	16.5	19.3
DPS	-	-	-	-
<b>Return Ratio(%)</b>				
RoCE	24.5	29.3	27.7	31.0
ROIC	18.2	25.6	26.2	32.6
RoE	10.8	21.9	21.7	24.1
<b>Balance Sheet</b>				
Net Debt : Equity (x)	(0.3)	(0.3)	(0.3)	(0.3)
Net Working Capital (Days)	23	26	25	24
<b>Valuation(x)</b>				
PER	76.5	35.2	32.8	26.8
P/B	8.0	7.4	6.9	6.1
P/CEPS	11.0	20.5	22.5	27.5
EV/EBITDA	27.5	21.9	20.7	16.5
EV/Sales	10.4	8.9	7.3	6.0
Dividend Yield (%)	-	-	-	-

Source: Company Data, PL Research

**Key Operating Metrics**

Y/e Mar	FY17	FY18	FY19E	FY20E
Diagnostic Testing Services	3,044	3,563	4,291	5,197
Imaging Services	184	245	251	321
Others	28	28	53	56

Source: Company Data, PL Research



**Recommendation History**

No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	22-Aug-17	BUY	1,067	706
2	14-Sep-17	BUY	1,067	675
3	09-Oct-17	BUY	1,067	671
4	17-Nov-17	BUY	1,067	668
5	12-Dec-17	BUY	1,067	676
6	13-Dec-17	BUY	1,067	665
7	10-Jan-18	BUY	1,067	690
8	09-Feb-18	BUY	967	655
9	12-Feb-18	BUY	967	655
10	15-Mar-18	BUY	967	629

**Analyst Coverage Universe**

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	Aurobindo Pharma	BUY	909	611
2	Cadila Healthcare	Accumulate	437	354
3	Cipla	Reduce	525	633
4	Dr. Lal PathLabs	Accumulate	1,009	941
5	Dr. Reddy's Laboratories	Reduce	1,766	2,133
6	Eris Lifesciences	Accumulate	885	703
7	Glenmark Pharmaceuticals	Reduce	472	589
8	Indoco Remedies	Reduce	184	180
9	Ipca Laboratories	BUY	829	679
10	Jubilant Life Sciences	Accumulate	880	795
11	Lupin	Reduce	727	823
12	Sun Pharmaceutical Industries	Reduce	484	574
13	Thyrocare Technologies	BUY	795	627

**PL's Recommendation Nomenclature (Absolute Performance)**

<b>Buy</b>	: > 15%
<b>Accumulate</b>	: 5% to 15%
<b>Hold</b>	: +5% to -5%
<b>Reduce</b>	: -5% to -15%
<b>Sell</b>	: < -15%
<b>Not Rated (NR)</b>	: No specific call on the stock
<b>Under Review (UR)</b>	: Rating likely to change shortly



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