

November 12, 2018

Q2FY19 Result Update

Change in Estimates | Target | Reco

Change in Estimates

| | Current | | Previous | |
|----------------|---------|-------|----------|-------|
| | FY19E | FY20E | FY19E | FY20E |
| Rating | BUY | | BUY | |
| Target Price | 796 | | 796 | |
| Sales (Rs. m) | 4,291 | 5,197 | 4,291 | 5,197 |
| % Chng. | | | - | - |
| EBITDA (Rs. m) | 1,519 | 1,871 | 1,519 | 1,871 |
| % Chng. | | | - | - |
| EPS (Rs.) | 19.0 | 23.2 | 18.6 | 22.7 |
| % Chng. | | | 1.8 | 1.8 |

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 | 19.0 | 23.2 |
| Gr. (%) | (17.3) | 117.6 | 9.3 | 22.1 |
| DPS (Rs.) | 12.1 | 12.1 | 12.1 | 12.1 |
| Yield (%) | 2.2 | 2.2 | 2.2 | 2.2 |
| RoE (%) | 10.8 | 21.9 | 21.7 | 24.1 |
| RoCE (%) | 24.5 | 29.3 | 27.7 | 30.9 |
| EV/Sales (x) | 9.3 | 8.0 | 6.4 | 5.2 |
| EV/EBITDA (x) | 24.6 | 19.6 | 18.2 | 14.5 |
| PE (x) | 68.9 | 31.7 | 29.0 | 23.7 |
| P/BV (x) | 7.2 | 6.7 | 6.1 | 5.4 |

Key Data

THYO.NS | THYROCARE IN

| | |
|---------------------|-------------------|
| 52-W High / Low | Rs.725 / Rs.543 |
| Sensex / Nifty | 34,813 / 10,482 |
| Market Cap | Rs.30bn / \$ 405m |
| Shares Outstanding | 54m |
| 3M Avg. Daily Value | Rs.79.65m |

Shareholding Pattern (%)

| | |
|-------------------------|-------|
| Promoter's | 63.96 |
| Foreign | 11.22 |
| Domestic Institution | 16.67 |
| Public & Others | 8.15 |
| Promoter Pledge (Rs bn) | - |

Stock Performance (%)

| | 1M | 6M | 12M |
|----------|--------|--------|--------|
| Absolute | (11.2) | (10.9) | (19.4) |
| Relative | (11.4) | (9.1) | (22.9) |

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Momentum built to pull off 30% growth in H2

Thyrocare's sales, EBITDA and Adj. PAT grew 18%, 21% and 3% YoY respectively in Q2FY19. Revenues from preventive care and sick care business revenue grew 6% and 14% YoY respectively. The growth in preventive care returned with 23% YoY growth due to redesigned package offer of bundle of tests and strong marketing in B2B segment of Aarogyam brand. This is significant improvement as revenues from preventive care grew by 23% QoQ in Q2FY19 vs tepid growth in Q1FY19 affected by competition from unorganized players. Management guided for increased focus on B-2-B business and maintain similar B-2-C growth by spending Rs90-100m p.a. on advertisements.

The stock trades at PER of 29x and 23.7x FY19E and FY20E respectively. We expect Thyrocare to achieve 20% growth in revenue and 35% EBITDA margins in FY19E. Management guided that price rationalisations and advertisement (guided at 4-5% of sales) costs may impact EBITDA margin of its pathology business maximum by 400-500bps. While management maintains its guidance of 22-26% sustainable annual growth, we have become more conservative and expect revenues to grow at 20% and 21% in FY19E and FY20E respectively. We believe that the decrease in realisations/test (due to increase in number of tests in bundle offer) will benefit in bigger volume growth H2FY19E. 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 continues to trade at relatively premium valuations. We maintain our earnings estimate and BUY rating with TP at Rs795 (EPS of FY19E and FY20E are changed though due to buyback of 1.78% of shares).

Pathology grew 17% with expansion in margins: Thyrocare's diagnostic business grew 17% YoY with 120bps expansion in EBITDA margin at 42.7% in Q2FY19. With expectation of rationalisation in price and higher volume (driven by lower price and media promotion), the management guided for more than 20% growth in Q3FY19E and 30% growth in Q4FY20E.

New opportunity in pregnancy tests to explore: Thyrocare plans to explore pre-natal and neonatal tests as the segment is expected to gain volume and premium pricing. With disruptive pricing, management plans to target molecular biology testing (child deformity) in neonatal segment as 50% of these tests are imported from China.

Steady growth in imaging business: Thyrocare improved its Nuclear imaging business by 31% YoY and plans to commission two centers (Bengaluru and Coimbatore) in Q3FY19E. its last two PET-CT centers (Nashik, Aurangabad) were set up in July CY18. Management revised its guidance of new PET-CT centers to 4 (from 9) in FY19E, in-line with our assumptions of 5 centers during the same period.

Exhibit 1: Q2FY19 Result Overview (Rs mn)

| Y/e March | Q2FY19 | Q2FY18 | YoY gr. (%) | Q1FY19 | H1FY19 | H1FY18 | YoY gr. (%) |
|-----------------------|--------------|-------------|-------------|-------------|--------------|--------------|-------------|
| Net Sales | 1,039 | 880 | 18.0 | 972 | 4,291 | 3,563 | 20.4 |
| Raw Material | 284 | 259 | 9.5 | 256 | 1,279 | 950 | 34.6 |
| <i>% of Net Sales</i> | <i>27.3</i> | <i>29.4</i> | | <i>26.4</i> | <i>29.8</i> | <i>26.7</i> | |
| Personnel Cost | 98 | 72 | 36.4 | 90 | 463 | 353 | 31.1 |
| <i>% of Net Sales</i> | <i>9.5</i> | <i>8.2</i> | | <i>9.2</i> | <i>10.8</i> | <i>9.9</i> | |
| Others | 227 | 192 | 17.8 | 214 | 1,030 | 813 | 26.7 |
| <i>% of Net Sales</i> | <i>21.8</i> | <i>21.8</i> | | <i>22.0</i> | <i>24.0</i> | <i>22.8</i> | |
| Total Expenditure | 609 | 523 | 16.3 | 560 | 2,772 | 2,116 | 31.0 |
| EBITDA | 430 | 357 | 20.5 | 412 | 1,519 | 1,447 | 5.0 |
| <i>Margin (%)</i> | <i>41.4</i> | <i>40.6</i> | | <i>42.4</i> | <i>35.4</i> | <i>40.6</i> | |
| Depreciation | 66 | 49 | 33.9 | 57 | 244 | 201 | 21.3 |
| EBIT | 364 | 308 | 18.4 | 355 | 1,275 | 1,246 | 2.3 |
| Other Income | 24 | 37 | (34.7) | 23 | 241 | 230 | 5.0 |
| Interest | 1 | 1 | | 1 | - | 4 | |
| PBT | 387 | 344 | 12.7 | 377 | 1,517 | 1,472 | 3.0 |
| Extra-Ord. Inc./Exps. | 5 | (1) | | - | - | (22) | |
| Total Taxes | 139 | 95 | 45.1 | 142 | 516 | 517 | (0.3) |
| <i>ETR (%)</i> | <i>35.8</i> | <i>27.8</i> | | <i>37.8</i> | <i>34.0</i> | <i>35.1</i> | |
| Reported PAT | 253 | 247 | 2.6 | 234 | 1,001 | 933 | 7.3 |

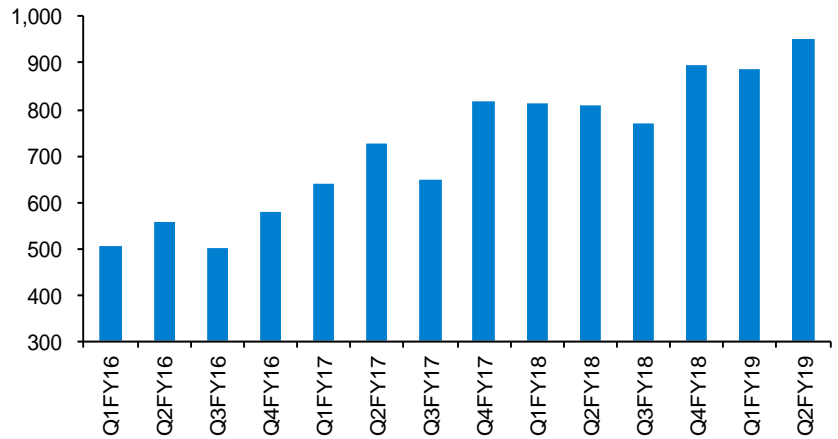
Source: Company, PL

Exhibit 2: Major Sources of Revenues (Rs mn)

| Major sources of revenues | Q2FY19 | Q2FY18 | YoY gr. (%) | Q1FY19 | H1FY19 | H1FY18 | YoY gr. (%) |
|---------------------------|--------------|-------------|-------------|-------------|--------------|--------------|-------------|
| Diagnostic Services | 952 | 810 | 17.5 | 889 | 3,987 | 3,289 | 21.2 |
| <i>% of Net Sales</i> | <i>91.6</i> | <i>92.0</i> | | <i>91.5</i> | <i>92.9</i> | <i>92.3</i> | |
| Imaging Services | 82 | 63 | 31.0 | 80 | 250 | 245 | 2.2 |
| <i>% of Net Sales</i> | <i>7.9</i> | <i>7.1</i> | | <i>8.2</i> | <i>5.8</i> | <i>6.9</i> | |
| Sale of products/Others | 5 | 8 | (32.0) | 3 | 53 | 28 | 86.8 |
| <i>% of Net Sales</i> | <i>0.5</i> | <i>0.9</i> | | <i>0.3</i> | <i>1.2</i> | <i>0.8</i> | |
| Total | 1,039 | 880 | 18.0 | 972 | 4,291 | 3,563 | 20.4 |

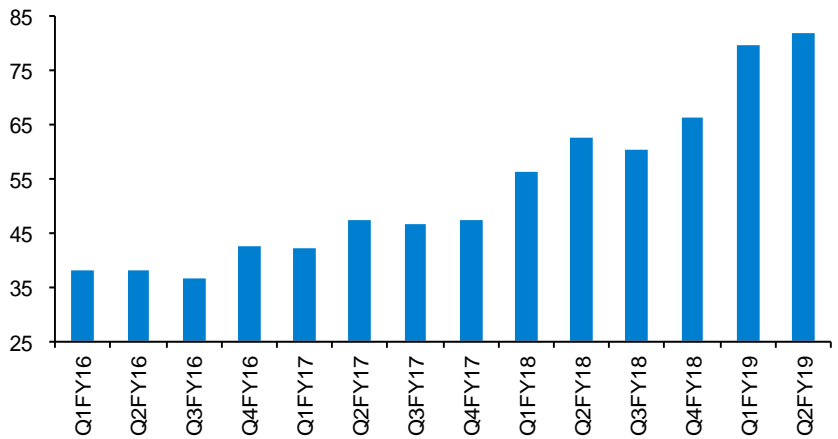
Source: Company, PL

Exhibit 3: Diagnostic revenues



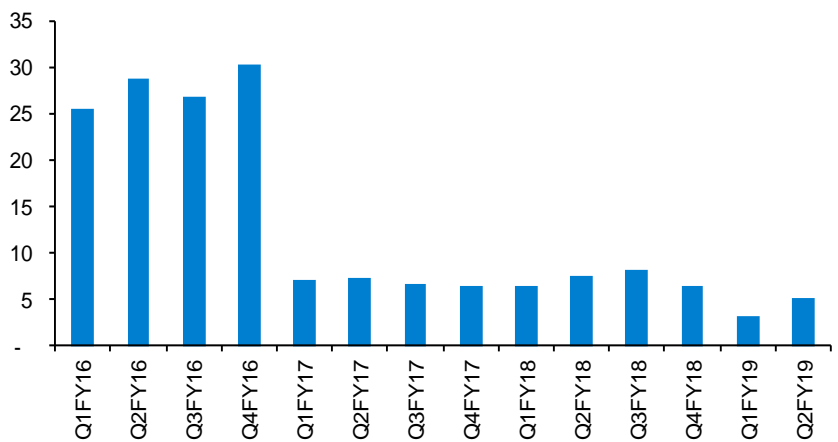
Source: Company, PL

Exhibit 4: Imaging revenues



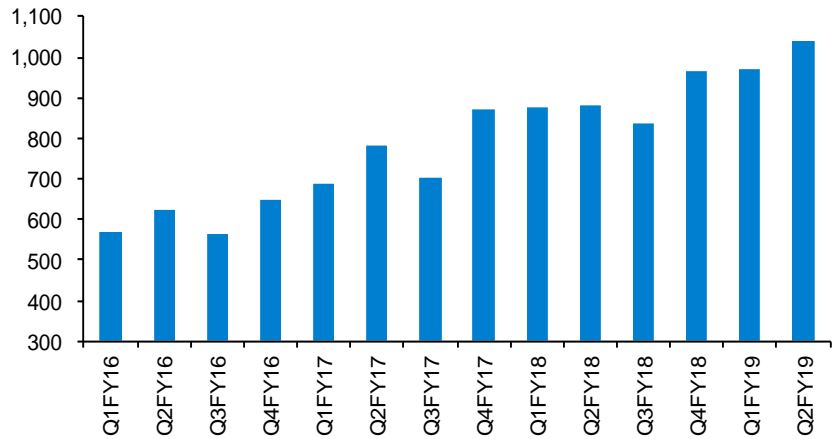
Source: Company, PL

Exhibit 5: Revenue from sale of products



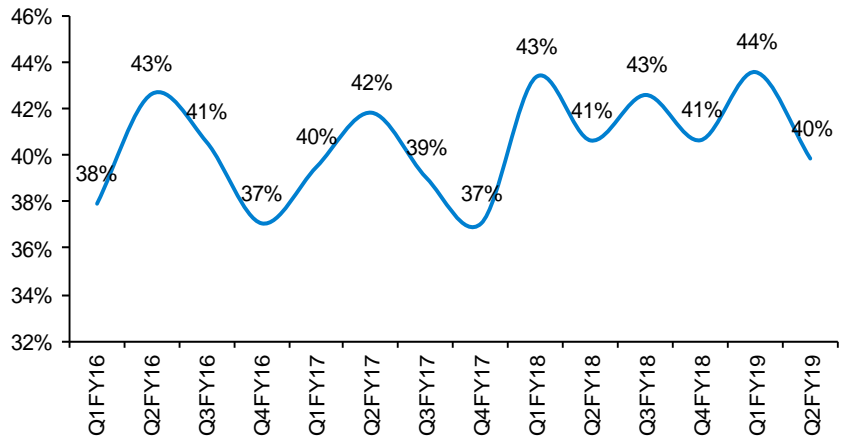
Source: Company, PL

Exhibit 6: Total revenue



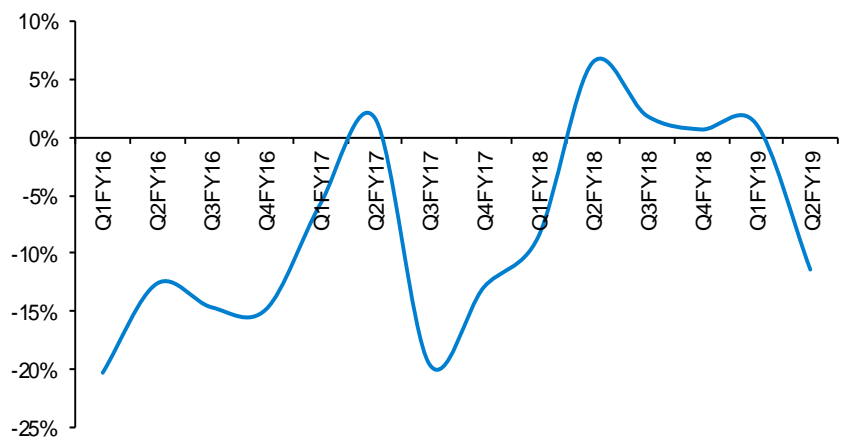
Source: Company, PL

Exhibit 7: Diagnostic EBIT margins



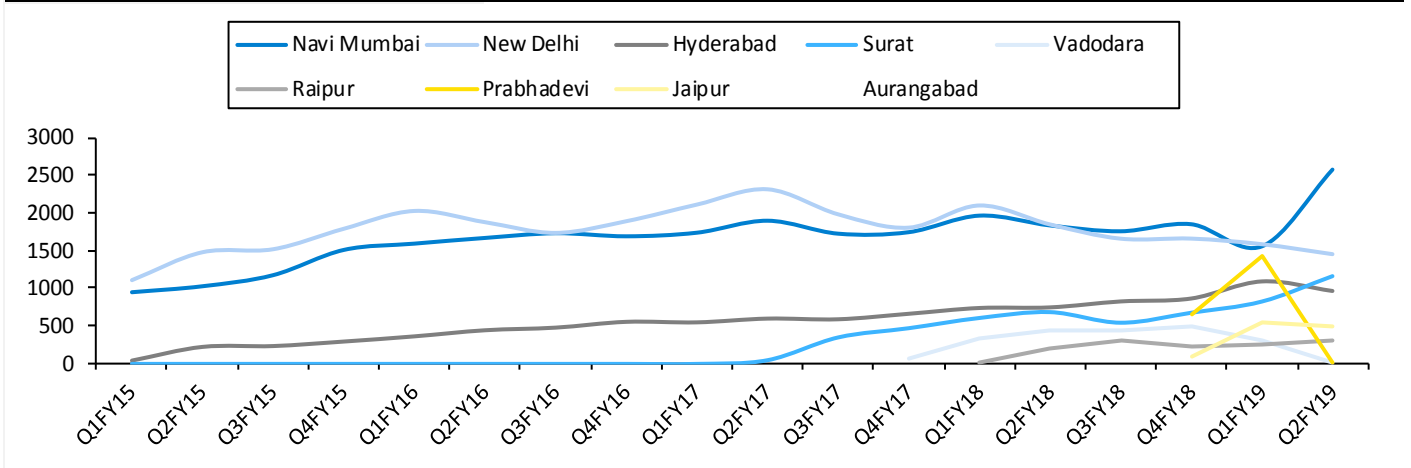
Source: Company, PL

Exhibit 8: Imaging EBIT margins

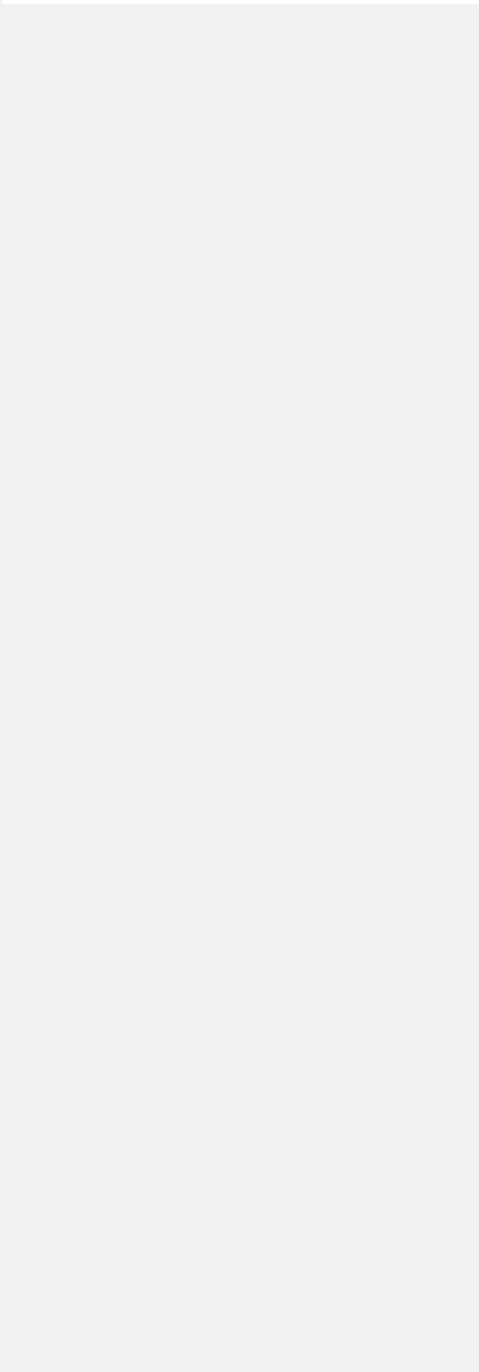


Source: Company, PL

Exhibit 9: Nuclear Imaging: Steady progress QoQ



Source: Company, PL



Financials

Income Statement (Rs m)

| Y/e Mar | FY17 | FY18 | FY19E | FY20E |
|-------------------------------|--------------|--------------|--------------|--------------|
| Net Revenues | 3,044 | 3,563 | 4,291 | 5,197 |
| YoY gr. (%) | 26.3 | 17.1 | 20.4 | 21.1 |
| Cost of Goods Sold | 814 | 950 | 1,279 | 1,543 |
| Gross Profit | 2,230 | 2,613 | 3,012 | 3,653 |
| Margin (%) | 73.2 | 73.3 | 70.2 | 70.3 |
| Employee Cost | 320 | 353 | 463 | 551 |
| Other Expenses | - | - | - | - |
| EBITDA | 1,152 | 1,447 | 1,519 | 1,871 |
| 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 |
| EBIT | 971 | 1,246 | 1,275 | 1,570 |
| Margin (%) | 31.9 | 35.0 | 29.7 | 30.2 |
| Net Interest | 3 | 4 | - | - |
| Other Income | 122 | 230 | 241 | 254 |
| Profit Before Tax | 817 | 1,450 | 1,517 | 1,824 |
| 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 |
| Profit after tax | 428 | 933 | 1,001 | 1,222 |
| Minority interest | - | - | - | - |
| Share Profit from Associate | - | - | - | - |
| Adjusted PAT | 428 | 933 | 1,001 | 1,222 |
| YoY gr. (%) | (17.3) | 117.7 | 7.3 | 22.1 |
| Margin (%) | 14.1 | 26.2 | 23.3 | 23.5 |
| Extra Ord. Income / (Exp) | - | - | - | - |
| Reported PAT | 428 | 933 | 1,001 | 1,222 |
| 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 |
| Equity Shares O/s (m) | 54 | 54 | 53 | 53 |
| EPS (Rs) | 8.0 | 17.4 | 19.0 | 23.2 |

Source: Company Data, PL Research

Balance Sheet Abstract (Rs m)

| Y/e Mar | FY17 | FY18 | FY19E | FY20E |
|---------------------------------------|--------------|--------------|--------------|--------------|
| Non-Current Assets | | | | |
| Gross Block | 1,699 | 2,292 | 2,642 | 2,992 |
| Tangibles | 1,689 | 2,267 | 2,612 | 2,957 |
| Intangibles | 10 | 25 | 30 | 35 |
| Acc: Dep / Amortization | 181 | 373 | 617 | 917 |
| Tangibles | 177 | 366 | 607 | 903 |
| Intangibles | 3 | 7 | 10 | 14 |
| Net fixed assets | 1,518 | 1,919 | 2,025 | 2,075 |
| 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 |
| Current Assets | | | | |
| 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 | 302 | 652 |
| Other Current Assets | 57 | 35 | 38 | 42 |
| Total Assets | 4,379 | 4,790 | 5,217 | 5,803 |
| Equity | | | | |
| Equity Share Capital | 537 | 537 | 528 | 528 |
| Other Equity | 3,541 | 3,896 | 4,258 | 4,842 |
| Total Networkth | 4,078 | 4,433 | 4,786 | 5,369 |
| Non-Current Liabilities | | | | |
| Long Term borrowings | - | - | - | - |
| Provisions | 52 | 53 | 54 | 55 |
| Other non current liabilities | 73 | 101 | 115 | 121 |
| Current Liabilities | | | | |
| ST Debt / Current of LT Debt | - | - | - | - |
| Trade payables | 13 | 12 | 39 | 47 |
| Other current liabilities | 163 | 191 | 163 | 138 |
| Total Equity & Liabilities | 4,378 | 4,790 | 5,217 | 5,803 |

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) |
| Net cash from Op. activities | 896 | 1,070 | 1,237 | 1,388 |
| Capital expenditures | (363) | (436) | (350) | (350) |
| Interest / Dividend Income | 50 | 39 | 55 | 61 |
| Others | (102) | (35) | (100) | (110) |
| Net Cash from Inv. activities | (415) | (432) | (395) | (400) |
| Issue of share cap. / premium | - | - | - | - |
| Debt changes | - | - | - | - |
| Dividend paid | (485) | (639) | (638) | (638) |
| Interest paid | - | - | - | - |
| Others | - | - | - | - |
| Net cash from Fin. activities | (485) | (639) | (638) | (638) |
| Net change in cash | (5) | (1) | 203 | 350 |
| Free Cash Flow | 533 | 634 | 887 | 1,038 |

Source: Company Data, PL Research

Quarterly Financials (Rs m)

| Y/e Mar | Q3FY18 | Q4FY18 | Q1FY19 | Q2FY19 |
|-----------------------------------|------------|------------|------------|--------------|
| Net Revenue | 839 | 967 | 972 | 1,039 |
| YoY gr. (%) | 19.2 | 10.9 | 10.7 | 18.0 |
| Raw Material Expenses | 208 | 260 | 256 | 284 |
| Gross Profit | 631 | 707 | 716 | 755 |
| Margin (%) | 75.2 | 73.1 | 73.6 | 72.7 |
| EBITDA | 354 | 372 | 412 | 430 |
| YoY gr. (%) | (0.9) | 5.2 | 10.7 | 4.4 |
| Margin (%) | 42.2 | 38.5 | 42.4 | 41.4 |
| Depreciation / Depletion | 51 | 56 | 57 | 66 |
| EBIT | 302 | 316 | 355 | 364 |
| Margin (%) | 36.1 | 32.7 | 36.6 | 35.1 |
| Net Interest | 1 | 1 | 1 | 2 |
| Other Income | 37 | 109 | 23 | 24 |
| Profit before Tax | 338 | 423 | 377 | 387 |
| Margin (%) | 40.3 | 43.8 | 38.8 | 37.2 |
| Total Tax | 123 | 172 | 142 | 139 |
| Effective tax rate (%) | 36.5 | 40.7 | 37.8 | 35.8 |
| Profit after Tax | 215 | 251 | 234 | 248 |
| Minority interest | - | - | - | - |
| Share Profit from Associates | - | - | - | - |
| Adjusted PAT | 215 | 251 | 234 | 253 |
| YoY gr. (%) | 133.8 | 63.2 | 6.5 | 2.4 |
| Margin (%) | 25.6 | 26.0 | 24.1 | 24.3 |
| Extra Ord. Income / (Exp) | - | - | - | - |
| Reported PAT | 215 | 251 | 234 | 253 |
| YoY gr. (%) | 133.8 | 63.2 | 6.5 | 2.4 |
| Margin (%) | 25.6 | 26.0 | 24.1 | 24.3 |
| Other Comprehensive Income | - | - | - | - |
| Total Comprehensive Income | 215 | 251 | 234 | 253 |
| Avg. Shares O/s (m) | 54 | 54 | 54 | 54 |
| EPS (Rs) | 4.0 | 4.7 | 4.4 | 4.7 |

Source: Company Data, PL Research

Key Financial Metrics

| Y/e Mar | FY17 | FY18 | FY19E | FY20E |
|----------------------------|-------|-------|-------|-------|
| Per Share(Rs) | | | | |
| EPS | 8.0 | 17.4 | 19.0 | 23.2 |
| CEPS | 11.3 | 21.1 | 23.6 | 28.9 |
| BVPS | 76.0 | 82.5 | 90.7 | 101.8 |
| FCF | 9.9 | 11.8 | 16.8 | 19.7 |
| DPS | 12.1 | 12.1 | 12.1 | 12.1 |
| Return Ratio(%) | | | | |
| RoCE | 24.5 | 29.3 | 27.7 | 30.9 |
| ROIC | 18.2 | 25.6 | 26.2 | 32.7 |
| RoE | 10.8 | 21.9 | 21.7 | 24.1 |
| Balance Sheet | | | | |
| Net Debt : Equity (x) | (0.3) | (0.3) | (0.3) | (0.3) |
| Net Working Capital (Days) | 23 | 26 | 25 | 24 |
| Valuation(x) | | | | |
| PER | 68.9 | 31.7 | 29.0 | 23.7 |
| P/B | 7.2 | 6.7 | 6.1 | 5.4 |
| P/CEPS | 9.9 | 18.5 | 20.7 | 25.3 |
| EV/EBITDA | 24.6 | 19.6 | 18.2 | 14.5 |
| EV/Sales | 9.3 | 8.0 | 6.4 | 5.2 |
| Dividend Yield (%) | 2.2 | 2.2 | 2.2 | 2.2 |

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 | 250 | 320 |
| Others | 28 | 28 | 53 | 56 |

Source: Company Data, PL Research

Recommendation History

| No. | Date | Rating | TP (Rs.) | Share Price (Rs.) |
|-----|-----------|--------|----------|-------------------|
| 1 | 17-Nov-17 | BUY | 1,067 | 668 |
| 2 | 12-Dec-17 | BUY | 1,067 | 676 |
| 3 | 13-Dec-17 | BUY | 1,067 | 665 |
| 4 | 10-Jan-18 | BUY | 1,067 | 690 |
| 5 | 9-Feb-18 | BUY | 967 | 655 |
| 6 | 12-Feb-18 | BUY | 967 | 655 |
| 7 | 15-Mar-18 | BUY | 967 | 629 |
| 8 | 13-Apr-18 | BUY | 967 | 626 |
| 9 | 4-May-18 | BUY | 795 | 656 |
| 10 | 10-Jul-18 | BUY | 795 | 565 |

Analyst Coverage Universe

| Sr. No. | Company Name | Rating | TP (Rs) | Share Price (Rs) |
|---------|-------------------------------|------------|---------|------------------|
| 1 | Aurobindo Pharma | BUY | 909 | 757 |
| 2 | Cadila Healthcare | Accumulate | 371 | 359 |
| 3 | Cipla | Reduce | 417 | 563 |
| 4 | Dr. Lal PathLabs | Accumulate | 1,009 | 885 |
| 5 | Dr. Reddy's Laboratories | Reduce | 2,170 | 2,405 |
| 6 | Eris Lifesciences | Accumulate | 704 | 643 |
| 7 | Glenmark Pharmaceuticals | Reduce | 472 | 602 |
| 8 | Indoco Remedies | Reduce | 184 | 178 |
| 9 | Ipca Laboratories | BUY | 829 | 642 |
| 10 | Jubilant Life Sciences | Accumulate | 723 | 650 |
| 11 | Lupin | Reduce | 713 | 885 |
| 12 | Sun Pharmaceutical Industries | Reduce | 447 | 599 |
| 13 | Thyrocare Technologies | BUY | 796 | 660 |

PL's Recommendation Nomenclature (Absolute Performance)

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



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