

February 11, 2019

Q3FY19 Result Update

■ Change in Estimates | ☒ Target | ■ Reco

Change in Estimates

	Current		Previous	
	FY20E	FY21E	FY20E	FY21E
Rating	ACCUMULATE		ACCUMULATE	
Target Price	1,070		1,009	
Sales (Rs. m)	14,668	16,931	14,668	16,931
% Chng.	-	-	-	-
EBITDA (Rs. m)	3,550	3,742	3,550	3,742
% Chng.	-	-	-	-
EPS (Rs.)	28.7	30.3	28.7	30.3
% Chng.	-	-	-	-

Key Financials

	FY18	FY19E	FY20E	FY21E
Sales (Rs. m)	10,570	12,497	14,668	16,931
EBITDA (Rs. m)	2,641	3,037	3,550	3,742
Margin (%)	25.0	24.3	24.2	22.1
PAT (Rs. m)	1,709	2,028	2,394	2,528
EPS (Rs.)	20.5	24.3	28.7	30.3
Gr. (%)	10.5	18.7	18.0	5.6
DPS (Rs.)	-	-	-	-
Yield (%)	-	-	-	-
RoE (%)	24.6	23.9	24.1	21.4
RoCE (%)	33.3	31.0	31.5	28.1
EV/Sales (x)	7.7	6.4	5.4	4.6
EV/EBITDA (x)	30.8	26.5	22.2	20.7
PE (x)	50.3	42.3	35.9	34.0
P/BV (x)	10.9	9.5	7.9	6.7

Key Data

DLPA.NS | DLPL IN

52-W High / Low	Rs.1,125 / Rs.798	
Sensex / Nifty	36,395 / 10,889	
Market Cap	Rs.86bn / \$ 1,206m	
Shares Outstanding	83m	
3M Avg. Daily Value	Rs.216.3m	

Shareholding Pattern (%)

Promoter's	58.11
Foreign	16.71
Domestic Institution	8.38
Public & Others	16.80
Promoter Pledge (Rs bn)	-

Stock Performance (%)

	1M	6M	12M
Absolute	4.6	11.3	14.7
Relative	3.5	15.8	7.2

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Q3 in line; Muted Dengue season leads tepid Q3

DLPL's revenue, adj. EBITDA and PAT grew 11%, 16% and 27% YoY respectively in Q3FY19 and in line with our estimates in margin and earnings. With strong cash flow and growth in new customers and packaged offer, the company expects to maintain current growth in FY20E. The expansion of bundle-test offer and gradual ramp up of central lab in Kolkata (KRL) to improve further volume addition in FY20E and FY21E. Management expects competitive intensity to remain strong with price war, regulatory interference and expected price ceiling of government. DLPL remain confident of its brand power, service quality, high-end test capability, network of collection centers and KRL to drive volume growth and profitability in FY18-20E. We maintain "Accumulate" and move forward our base of valuation to 35x of FY21E earnings estimates to derive new TP at Rs1,070

Bundle offer, product mix, lower costs drive Margin: Revenue growth was aided by a) increase in volumes by 12% and b) product mix that drove higher contribution of bundle-test package. Its margin improved due to rationalisation on the number of clinical labs and re-routing many tests (at regional labs) to central lab in Delhi and Kolkata. Increase in patient volumes was driven by aggressive contribution from bundle-offer package and commencement of KRL. DLPL's overall realisations however declined marginally as moderate growth in high-end tests is offset by lower realizations of bundle-test business. KRL's operating performance having stabilized, operates at 6,400 samples per day. Management is highly optimistic on growth in volumes from KRL going forward

DLPL to continue growth in patient volumes; maintain guidance at 18-20% growth in FY19E: DLPL's revenue growth of 11% YoY in Q3FY19 was driven by patient volumes (aided mainly by budled-tests) despite reduced prices in selective tests. DLPL's revenues/patient declined marginally due to price rationalisation undertaken in select geographies, which was partially offset by higher realisation from specialty tests which contrinue to be its focus in high-end package of tests. Test per patient in Q3FY19 improved to 2.38 vs 2.23 from Q3FY18

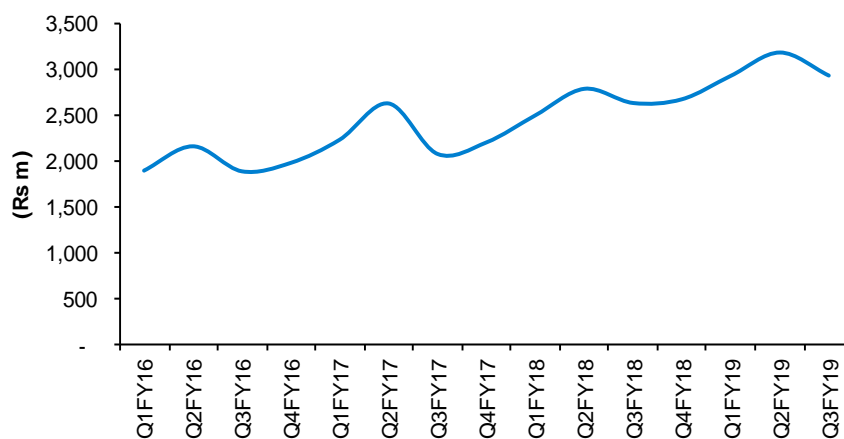
Wellness and bundled packages see positive initial response: Commencement of Wellness portfolio since Q2FY18 has seen good growth and DLPL remained optimistic in expansion of this volume-driven business through various channels like online and through its trade partners.

Future growth driven by franchisee model: Alongwith focus on rationalising prices in bulk tests, DLPL has also increased the channel margins as, 30-35% of revenues are contributed by the franchisees. With focus on expanding franchise business, DLPL guided that incremental growth of 50-60% would be contributed by franchisees going forward.

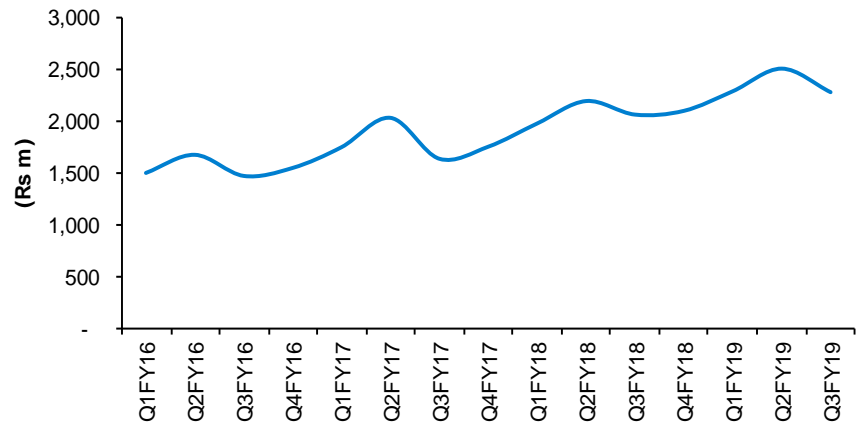
Exhibit 1: Q3FY19 Result Overview (Rs mn)

Y/e March	Q3FY19	Q3FY18	YoY gr. (%)	Q2FY19	9MFY19	9MFY18	YoY gr. (%)
Net Sales	2,925	2,627	11.3	3,175	9,023	7,901	14.2
Raw Material	653	570	14.6	677	1,972	1,685	17.0
<i>% of Net Sales</i>	<i>22.3</i>	<i>21.7</i>		<i>21.3</i>	<i>21.9</i>	<i>21.3</i>	
Personnel Cost	519	459	13.1	502	1,515	1,341	13.0
<i>% of Net Sales</i>	<i>17.7</i>	<i>17.5</i>		<i>15.8</i>	<i>16.8</i>	<i>17.0</i>	
Others	1,097	1,032	6.3	1,128	3,262	2,875	13.5
<i>% of Net Sales</i>	<i>37.5</i>	<i>39.3</i>		<i>35.5</i>	<i>36.2</i>	<i>36.4</i>	
Total Expenditure	2,269	2,061	10.1	2,307	6,749	5,901	14.4
EBITDA	656	566	15.9	868	2,274	2,000	13.7
<i>Margin (%)</i>	<i>22.4</i>	<i>21.5</i>		<i>27.3</i>	<i>25.2</i>	<i>25.3</i>	
Depreciation	96	80	20.0	94	278	224	24.1
EBIT	560	486	15.2	774	1,996	1,776	12.4
Other Income	122	71	71.8	109	325	223	45.7
Interest	3	2		2	7	6	
PBT	679	555	22.3	881	2,314	1,993	16.1
Extra-Ord. Inc./Exps.	-	-		-	-	-	
Total Taxes	218	192	13.5	307	782	677	15.5
<i>ETR (%)</i>	<i>32.1</i>	<i>34.6</i>		<i>34.8</i>	<i>33.8</i>	<i>34.0</i>	
Reported PAT	461	363	27.0	574	1,532	1,316	16.4
Minority Interest	3	3		3	10	9	
Reported PAT	458	360	27.2	571	1,522	1,307	16.4

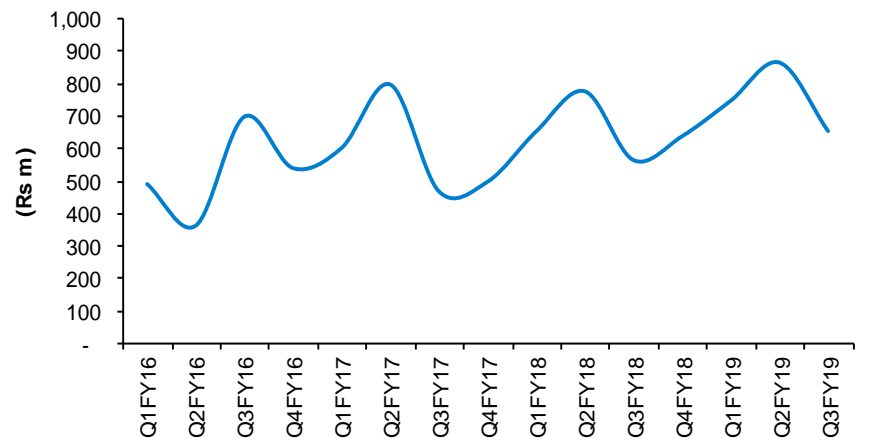
Source: Company, PL

Exhibit 2: Revenue - Diagnostics


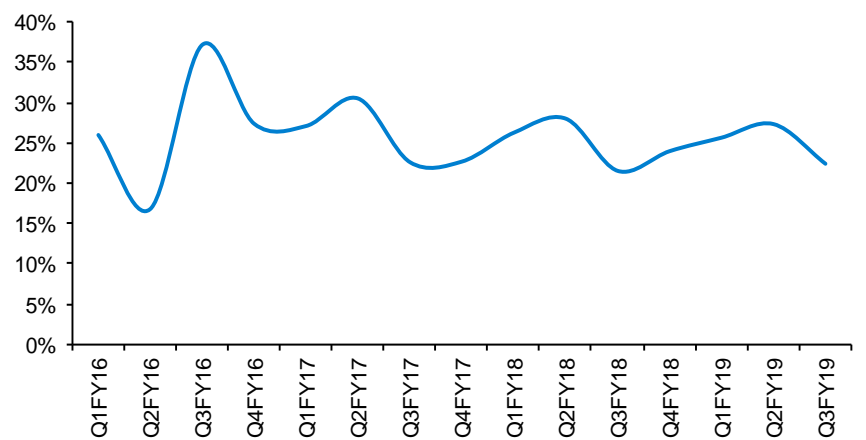
Source: Company, PL

Exhibit 3: Gross Profit


Source: Company, PL

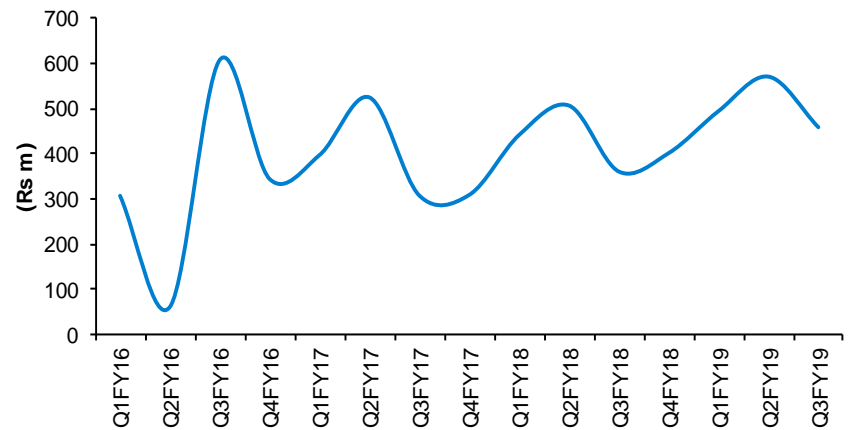
Exhibit 4: EBITDA


Source: Company, PL

Exhibit 5: EBITDA Margin


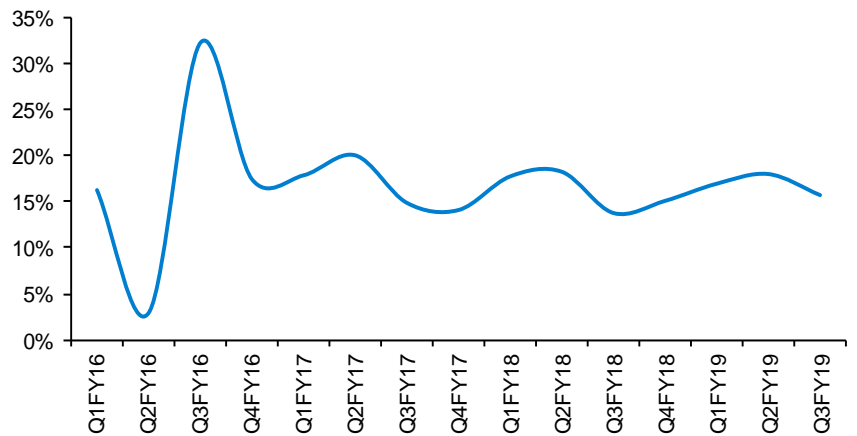
Source: Company, PL

Exhibit 6: PAT



Source: Company, PL

Exhibit 7: PAT Margins



Source: Company, PL

Financials

Income Statement (Rs m)

Y/e Mar	FY18	FY19E	FY20E	FY21E
Net Revenues	10,570	12,497	14,668	16,931
YoY gr. (%)	15.8	18.2	17.4	15.4
Cost of Goods Sold	2,260	2,699	3,168	3,657
Gross Profit	8,310	9,798	11,499	13,274
Margin (%)	78.6	78.4	78.4	78.4
Employee Cost	1,807	2,312	2,714	3,217
Other Expenses	-	-	-	-
EBITDA	2,641	3,037	3,550	3,742
YoY gr. (%)	11.6	15.0	16.9	5.4
Margin (%)	25.0	24.3	24.2	22.1
Depreciation and Amortization	331	412	417	431
EBIT	2,310	2,624	3,132	3,311
Margin (%)	21.9	21.0	21.4	19.6
Net Interest	8	2	1	0
Other Income	312	334	357	375
Profit Before Tax	2,614	2,956	3,489	3,686
Margin (%)	24.7	23.7	23.8	21.8
Total Tax	895	916	1,081	1,143
Effective tax rate (%)	34.2	31.0	31.0	31.0
Profit after tax	1,719	2,039	2,407	2,543
Minority interest	10	12	13	15
Share Profit from Associate	-	-	-	-
Adjusted PAT	1,709	2,028	2,394	2,528
YoY gr. (%)	10.8	18.7	18.0	5.6
Margin (%)	16.2	16.2	16.3	14.9
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	1,709	2,028	2,394	2,528
YoY gr. (%)	10.8	18.7	18.0	5.6
Margin (%)	16.2	16.2	16.3	14.9
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	1,709	2,028	2,394	2,528
Equity Shares O/s (m)	83	83	83	83
EPS (Rs)	20.5	24.3	28.7	30.3

Source: Company Data, PL Research

Balance Sheet Abstract (Rs m)

Y/e Mar	FY18	FY19E	FY20E	FY21E
Non-Current Assets				
Gross Block	2,325	2,975	3,625	4,275
Tangibles	2,043	2,643	3,243	3,843
Intangibles	282	332	382	432
Acc: Dep / Amortization	529	941	1,358	1,789
Tangibles	445	822	1,202	1,595
Intangibles	84	119	157	194
Net fixed assets	1,796	2,034	2,266	2,485
Tangibles	1,598	1,821	2,041	2,248
Intangibles	198	212	225	238
Capital Work In Progress	96	96	96	96
Goodwill	312	297	282	268
Non-Current Investments	379	387	395	402
Net Deferred tax assets	169	140	105	68
Other Non-Current Assets	206	227	250	275
Current Assets				
Investments	1,448	1,506	1,566	1,629
Inventories	273	229	269	321
Trade receivables	412	582	683	835
Cash & Bank Balance	3,135	3,983	5,489	6,839
Other Current Assets	161	169	178	186
Total Assets	9,189	10,489	12,461	14,419
Equity				
Equity Share Capital	833	833	833	833
Other Equity	7,078	8,191	10,003	11,917
Total Network	7,911	9,024	10,837	12,750
Non-Current Liabilities				
Long Term borrowings	-	-	-	-
Provisions	-	-	-	-
Other non current liabilities	4	4	4	4
Current Liabilities				
ST Debt / Current of LT Debt	-	-	-	-
Trade payables	655	710	799	852
Other current liabilities	505	530	561	527
Total Equity & Liabilities	9,188	10,489	12,461	14,419

Source: Company Data, PL Research

Cash Flow (Rs m)

Y/e Mar	FY18	FY19E	FY20E	FY21E
PBT	2,614	2,956	3,489	3,686
Add. Depreciation	331	412	417	431
Add. Interest	8	2	1	0
Less Financial Other Income	312	334	357	375
Add. Other	(137)	1,884	(252)	(285)
Op. profit before WC changes	2,816	5,254	3,654	3,832
Net Changes-WC	95	(95)	(77)	(331)
Direct tax	(940)	(916)	(1,081)	(1,143)
Net cash from Op. activities	1,971	4,243	2,496	2,358
Capital expenditures	(722)	(650)	(650)	(650)
Interest / Dividend Income	271	284	304	319
Others	(1,272)	(58)	(60)	(63)
Net Cash from Inv. activities	(1,723)	(424)	(407)	(394)
Issue of share cap. / premium	445	-	-	-
Debt changes	-	-	-	-
Dividend paid	(318)	(493)	(582)	(614)
Interest paid	(1)	(2)	(1)	0
Others	-	-	-	-
Net cash from Fin. activities	125	(495)	(582)	(614)
Net change in cash	373	3,324	1,507	1,350
Free Cash Flow	1,249	3,593	1,846	1,708

Source: Company Data, PL Research

Key Financial Metrics

Y/e Mar	FY18	FY19E	FY20E	FY21E
Per Share(Rs)				
EPS	20.5	24.3	28.7	30.3
CEPS	24.5	29.3	33.7	35.5
BVPS	94.9	108.3	130.0	153.0
FCF	15.0	43.1	22.2	20.5
DPS	-	-	-	-
Return Ratio(%)				
RoCE	33.3	31.0	31.5	28.1
ROIC	64.6	60.8	75.2	68.7
RoE	24.6	23.9	24.1	21.4
Balance Sheet				
Net Debt : Equity (x)	(0.6)	(0.6)	(0.7)	(0.7)
Net Working Capital (Days)	1	3	4	7
Valuation(x)				
PER	50.3	42.3	35.9	34.0
P/B	10.9	9.5	7.9	6.7
P/CEPS	42.1	35.2	30.5	29.0
EV/EBITDA	30.8	26.5	22.2	20.7
EV/Sales	7.7	6.4	5.4	4.6
Dividend Yield (%)	-	-	-	-

Source: Company Data, PL Research

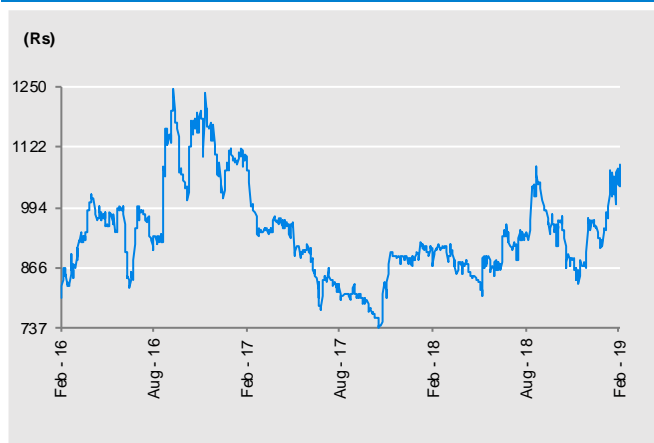
Quarterly Financials (Rs m)

Y/e Mar	Q4FY18	Q1FY19	Q2FY19	Q3FY19
Net Revenue	2,668	2,923	3,175	2,925
YoY gr. (%)	21.3	17.2	14.2	11.3
Raw Material Expenses	575	642	677	653
Gross Profit	2,093	2,281	2,498	2,272
Margin (%)	78.4	78.0	78.7	77.7
EBITDA	640	750	868	656
YoY gr. (%)	13.1	17.2	15.7	(24.4)
Margin (%)	24.0	25.7	27.3	22.4
Depreciation / Depletion	107	88	94	96
EBIT	533	662	774	560
Margin (%)	20.0	22.6	24.4	19.1
Net Interest	2	2	2	3
Other Income	89	94	109	122
Profit before Tax	620	754	881	679
Margin (%)	23.2	25.8	27.7	23.2
Total Tax	218	257	307	218
Effective tax rate (%)	35.2	34.1	34.8	32.1
Profit after Tax	402	497	574	461
Minority interest	1	3	4	3
Share Profit from Associates	-	-	-	-
Adjusted PAT	401	494	570	458
YoY gr. (%)	28.0	12.0	12.6	27.2
Margin (%)	15.0	16.9	18.0	15.7
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	401	494	570	458
YoY gr. (%)	28.0	12.0	12.6	27.2
Margin (%)	15.0	16.9	18.0	15.7
Other Comprehensive Income	1	1	1	1
Total Comprehensive Income	402	495	571	459
Avg. Shares O/s (m)	83	83	83	83
EPS (Rs)	4.8	5.9	6.8	5.5

Source: Company Data, PL Research

Price Chart

Recommendation History



No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	13-Apr-18	Accumulate	1,009	870
2	14-May-18	Accumulate	1,009	806
3	10-Jul-18	Accumulate	1,009	941
4	5-Oct-18	Accumulate	1,009	928
5	7-Nov-18	Accumulate	1,009	885
6	7-Jan-19	Accumulate	1,009	948

Analyst Coverage Universe

Sr. No.	CompanyName	Rating	TP (Rs)	Share Price (Rs)
1	Aurobindo Pharma	BUY	994	770
2	Cadila Healthcare	Accumulate	362	322
3	Cipla	Reduce	475	535
4	Dr. Lal PathLabs	Accumulate	1,009	948
5	Dr. Reddy's Laboratories	Reduce	2,558	821
6	Eris Lifesciences	Accumulate	695	678
7	Glenmark Pharmaceuticals	Reduce	528	654
8	Indoco Remedies	Reduce	111	186
9	Ipca Laboratories	BUY	899	784
10	Jubilant Life Sciences	Accumulate	822	714
11	Lupin	Reduce	820	842
12	Sun Pharmaceutical Industries	Reduce	464	431
13	Thyrocare Technologies	BUY	795	541

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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