

Thyrocare Technologies (THYROCAR IN)

Rating: BUY | CMP: Rs501 | TP: Rs795

February 12, 2019

Q3FY19 Result Update

■ Change in Estimates | ■ Target | ■ Reco

Change in Estimates

	Current		Previous	
	FY20E	FY21E	FY20E	FY21E
Rating	BUY		BUY	
Target Price	795		795	
Sales (Rs. m)	5,194	6,259	5,194	6,259
% Chng.	-	-	-	-
EBITDA (Rs. m)	1,870	2,253	1,870	2,253
% Chng.	-	-	-	-
EPS (Rs.)	23.1	27.7	23.1	27.7
% Chng.	-	-	-	-

Key Financials

	FY18	FY19E	FY20E	FY21E
Sales (Rs. m)	3,563	4,289	5,194	6,259
EBITDA (Rs. m)	1,447	1,518	1,870	2,253
Margin (%)	40.6	35.4	36.0	36.0
PAT (Rs. m)	933	1,000	1,221	1,460
EPS (Rs.)	17.4	19.0	23.1	27.7
Gr. (%)	117.6	9.2	22.1	19.5
DPS (Rs.)	12.1	12.1	12.1	12.1
Yield (%)	2.4	2.4	2.4	2.4
RoE (%)	21.9	21.7	24.1	25.3
RoCE (%)	29.3	27.6	30.9	33.1
EV/Sales (x)	7.2	5.8	4.7	3.8
EV/EBITDA (x)	17.8	16.5	13.1	10.6
PE (x)	28.9	26.4	21.6	18.1
P/BV (x)	6.1	5.5	4.9	4.3

Key Data

THYO.NS | THYROCAR IN

52-W High / Low	Rs.725 / Rs.482
Sensex / Nifty	36,154 / 10,831
Market Cap	Rs.26bn / \$ 374m
Shares Outstanding	53m
3M Avg. Daily Value	Rs.49.5m

Shareholding Pattern (%)

Promoter's	65.12
Foreign	11.68
Domestic Institution	14.95
Public & Others	8.25
Promoter Pledge (Rs bn)	-

Stock Performance (%)

	1M	6M	12M
Absolute	(8.9)	(19.1)	(23.7)
Relative	(9.2)	(15.3)	(27.6)

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Q3 Sales in line; Seasonality, price cut impact profitability

Thyrocare's sales grew 15% YoY while EBITDA remained flat and PAT declined by 7% YoY in Q3FY19. The growth in preventive care returned with lower realisation due to price cut in key diagnostic business. Management guided that price rationalization in Aarogyam 1.1, 1.2 and 1.3 had impact of 15% decline in diagnostic business as the three bundle test offers had majority of volumes. Management expects the real benefits out of lower price to be visible after 2-3 quarters. Hence, we expect better traction in volumes and growth in Q4FY19 onwards besides, Q4 being its most favored seasonal quarter. Management guided for increased focus on B-2-B business with higher incentives and revenues per franchisee as it focusses on eliminating layers of middlemen and channelizing benefits of rationalized price to end consumers. Maintain guidance of B-2-C growth by spending Rs90-100m p.a. on advertisements.

The stock trades at PER of 21.6x and 18.1x FY20E and FY21E respectively. With favorable Q4FY19E, we expect Thyrocare to achieve 35% YoY growth in revenue and 27% YoY growth in PAT in Q4FY19E. 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. We believe that the decrease in realisations/test (due to increase in number of tests in bundle offer) will benefit in bigger volume growth FY20E. 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 22% in FY20E. 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.

Pathology grew 13% with expansion in margins: Thyrocare's diagnostic business grew 13% YoY with 410bps decline in EBITDA margin at 38.6% in Q3FY19. With expectation of rationalisation in price (driven by lower price and media promotion), the management guided for 15% growth in sales.

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 35% YoY and commissioned two centers (Bengaluru and Coimbatore) in Q3FY19. its last two PET-CT centers (Nashik, Aurangabad) were set up in July CY18. With plan of one more center in Chennai in Q4FY19E, management plans to go for pause in investments in PET-CT and focus on optimizing assets, costs and logistics network of FDG.

Exhibit 1: Q3FY19 Result Overview (Rs mn)

Y/e March	Q3FY19	Q3FY18	YoY gr. (%)	Q2FY19	9MFY19	9MFY18	YoY gr. (%)
Net Sales	963	839	14.8	1,039	2,973	2,597	14.5
Raw Material	260	208	25.0	284	799	690	15.8
<i>% of Net Sales</i>	<i>26.9</i>	<i>24.8</i>		<i>27.3</i>	<i>26.9</i>	<i>26.6</i>	
Personnel Cost	105	95	10.8	98	292	240	21.7
<i>% of Net Sales</i>	<i>10.9</i>	<i>11.3</i>		<i>9.5</i>	<i>9.8</i>	<i>9.3</i>	
Others	244	183	33.3	227	684	591	15.7
<i>% of Net Sales</i>	<i>25.3</i>	<i>21.8</i>		<i>21.8</i>	<i>23.0</i>	<i>22.8</i>	
Total Expenditure	608	485	25.3	609	1,776	1,521	16.7
EBITDA	355	354	0.4	430	1,198	1,075	11.4
<i>Margin (%)</i>	<i>36.9</i>	<i>42.2</i>		<i>41.4</i>	<i>40.3</i>	<i>41.4</i>	
Depreciation	69	51	34.0	66	192	145	32.3
EBIT	286	302	(5.3)	364	1,006	930	8.1
Other Income	33	37	(9.1)	24	80	121	(34.0)
Interest	2	1		1	4	3	
PBT	318	338	(5.9)	387	1,082	1,048	3.2
Extra-Ord. Inc./Exps.	2	-		5	6	(22)	
Total Taxes	118	123	(4.1)	139	399	345	15.7
<i>ETR (%)</i>	<i>37.2</i>	<i>36.5</i>		<i>35.8</i>	<i>36.9</i>	<i>32.9</i>	
Reported PAT	202	215	(6.1)	253	689	681	1.0

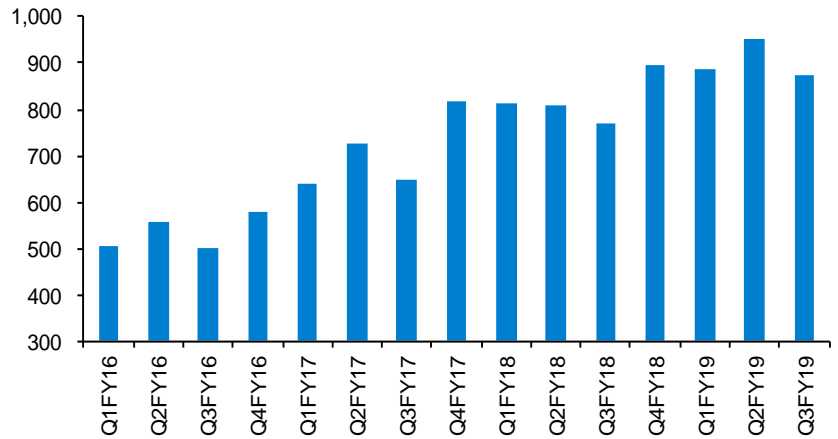
Source: Company, PL

Exhibit 2: Major Sources of Revenues (Rs mn)

Major sources of revenues	Q3FY19	Q3FY18	YoY gr. (%)	Q2FY19	9MFY19	9MFY18	YoY gr. (%)
Diagnostic Services	874	770	13.5	952	2,715	2,396	13.3
<i>% of Net Sales</i>	<i>90.8</i>	<i>91.8</i>		<i>91.6</i>	<i>91.3</i>	<i>92.3</i>	
Imaging Services	82	60	35.3	82	243	179	35.8
<i>% of Net Sales</i>	<i>8.5</i>	<i>7.2</i>		<i>7.9</i>	<i>8.2</i>	<i>6.9</i>	
Sale of products/Others	7	8	(13.1)	5	15	22	(30.3)
<i>% of Net Sales</i>	<i>0.7</i>	<i>1.0</i>		<i>0.5</i>	<i>0.5</i>	<i>0.9</i>	
Total	963	839	14.8	1,039	2,973	2,597	14.5

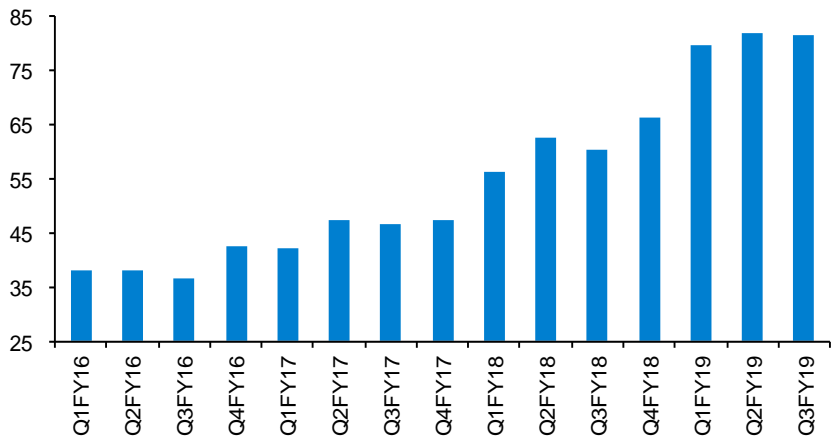
Source: Company, PL

Exhibit 3: Diagnostic revenues



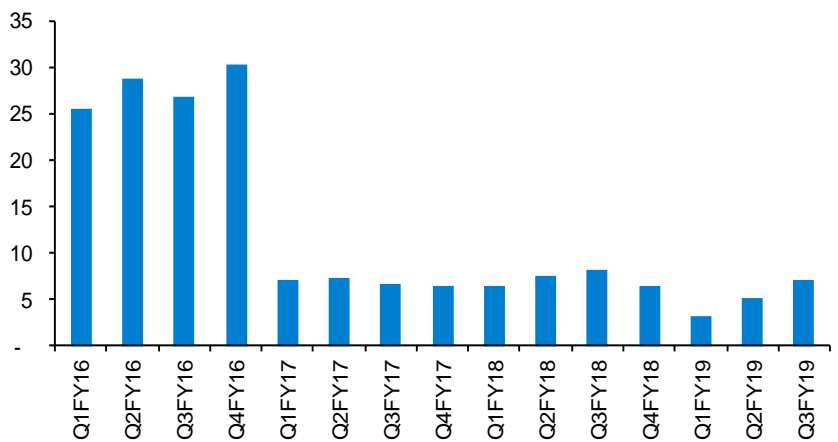
Source: Company, PL

Exhibit 4: Imaging revenues



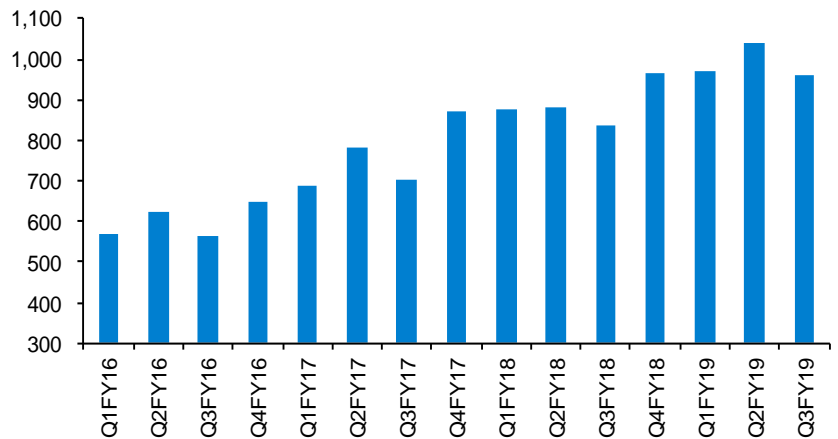
Source: Company, PL

Exhibit 5: Revenue from sale of products



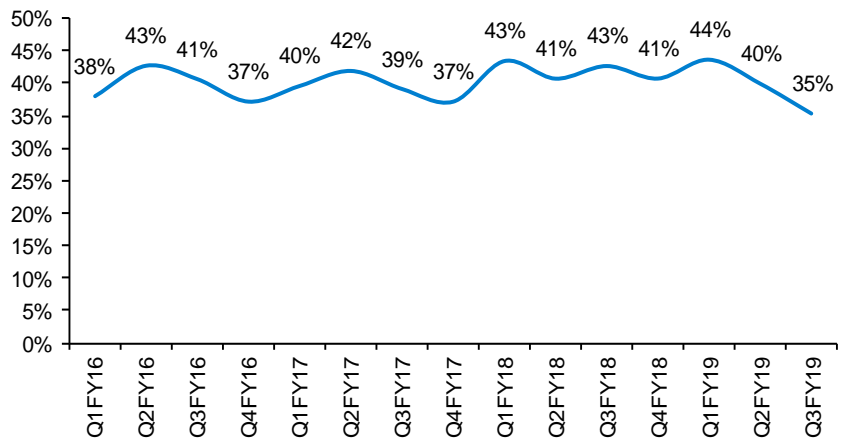
Source: Company, PL

Exhibit 6: Total revenue



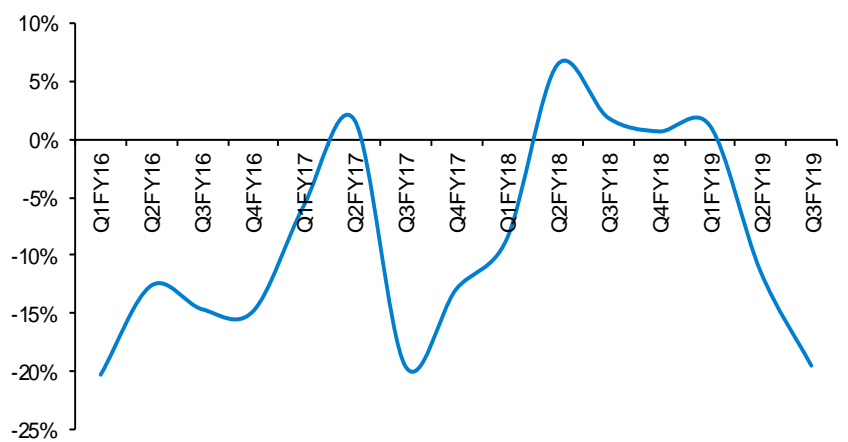
Source: Company, PL

Exhibit 7: Diagnostic EBIT margins



Source: Company, PL

Exhibit 8: Imaging EBIT margins



Source: Company, PL

Financials

Income Statement (Rs m)

Y/e Mar	FY18	FY19E	FY20E	FY21E
Net Revenues	3,563	4,289	5,194	6,259
YoY gr. (%)	17.1	20.4	21.1	20.5
Cost of Goods Sold	950	1,278	1,543	1,859
Gross Profit	2,613	3,011	3,651	4,400
Margin (%)	73.3	70.2	70.3	70.3
Employee Cost	353	463	551	663
Other Expenses	-	-	-	-
EBITDA	1,447	1,518	1,870	2,253
YoY gr. (%)	25.6	4.9	23.2	20.5
Margin (%)	40.6	35.4	36.0	36.0
Depreciation and Amortization	201	244	300	341
EBIT	1,246	1,274	1,569	1,913
Margin (%)	35.0	29.7	30.2	30.6
Net Interest	4	-	-	-
Other Income	230	241	254	266
Profit Before Tax	1,450	1,516	1,823	2,179
Margin (%)	40.7	35.3	35.1	34.8
Total Tax	517	515	602	719
Effective tax rate (%)	35.7	34.0	33.0	33.0
Profit after tax	933	1,000	1,221	1,460
Minority interest	-	-	-	-
Share Profit from Associate	-	-	-	-
Adjusted PAT	933	1,000	1,221	1,460
YoY gr. (%)	117.7	7.3	22.1	19.5
Margin (%)	26.2	23.3	23.5	23.3
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	933	1,000	1,221	1,460
YoY gr. (%)	117.7	7.3	22.1	19.5
Margin (%)	26.2	23.3	23.5	23.3
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	933	1,000	1,221	1,460
Equity Shares O/s (m)	54	53	53	53
EPS (Rs)	17.4	19.0	23.1	27.7

Source: Company Data, PL Research

Balance Sheet Abstract (Rs m)

Y/e Mar	FY18	FY19E	FY20E	FY21E
Non-Current Assets				
Gross Block	2,292	2,642	2,992	3,342
Tangibles	2,267	2,612	2,957	3,302
Intangibles	25	30	35	40
Acc: Dep / Amortization	373	617	917	1,258
Tangibles	366	607	903	1,240
Intangibles	7	10	14	18
Net fixed assets	1,919	2,025	2,075	2,084
Tangibles	1,902	2,006	2,054	2,063
Intangibles	17	19	21	21
Capital Work In Progress	-	-	-	-
Goodwill	1,069	1,069	1,069	1,069
Non-Current Investments	215	217	219	221
Net Deferred tax assets	52	(61)	(73)	(87)
Other Non-Current Assets	111	131	155	183
Current Assets				
Investments	1,001	1,101	1,211	1,332
Inventories	170	217	254	306
Trade receivables	98	118	128	154
Cash & Bank Balance	119	301	651	1,239
Other Current Assets	35	38	42	46
Total Assets	4,790	5,216	5,802	6,633
Equity				
Equity Share Capital	537	528	528	528
Other Equity	3,896	4,258	4,840	5,662
Total Networkth	4,433	4,785	5,368	6,190
Non-Current Liabilities				
Long Term borrowings	-	-	-	-
Provisions	53	54	55	57
Other non current liabilities	101	115	121	127
Current Liabilities				
ST Debt / Current of LT Debt	-	-	-	-
Trade payables	12	39	46	56
Other current liabilities	191	163	138	117
Total Equity & Liabilities	4,790	5,216	5,802	6,633

Source: Company Data, PL Research

**Cash Flow (Rs m)**

Y/e Mar	FY18	FY19E	FY20E	FY21E
PBT	1,472	1,516	1,823	2,179
Add. Depreciation	201	244	300	341
Add. Interest	-	-	-	-
Less Financial Other Income	230	241	254	266
Add. Other	(51)	31	(95)	(100)
Op. profit before WC changes	1,622	1,791	2,028	2,419
Net Changes-WC	(63)	(39)	(39)	(69)
Direct tax	(489)	(515)	(602)	(719)
Net cash from Op. activities	1,070	1,237	1,388	1,631
Capital expenditures	(436)	(350)	(350)	(350)
Interest / Dividend Income	39	55	61	67
Others	(35)	(100)	(110)	(121)
Net Cash from Inv. activities	(432)	(395)	(400)	(405)
Issue of share cap. / premium	-	-	-	-
Debt changes	-	-	-	-
Dividend paid	(639)	(638)	(638)	(638)
Interest paid	-	-	-	-
Others	-	-	-	-
Net cash from Fin. activities	(639)	(638)	(638)	(638)
Net change in cash	(1)	203	350	588
Free Cash Flow	634	887	1,038	1,281

Source: Company Data, PL Research

Quarterly Financials (Rs m)

Y/e Mar	Q4FY18	Q1FY19	Q2FY19	Q3FY19
Net Revenue	967	972	1,039	963
YoY gr. (%)	10.9	10.7	18.0	14.8
Raw Material Expenses	260	256	284	260
Gross Profit	707	716	755	703
Margin (%)	73.1	73.6	72.7	73.1
EBITDA	372	412	430	355
YoY gr. (%)	5.2	10.7	4.4	(17.5)
Margin (%)	38.5	42.4	41.4	36.9
Depreciation / Depletion	56	57	66	69
EBIT	316	355	364	286
Margin (%)	32.7	36.6	35.1	29.7
Net Interest	1	1	2	2
Other Income	109	23	24	33
Profit before Tax	423	377	387	318
Margin (%)	43.8	38.8	37.2	33.0
Total Tax	172	142	139	118
Effective tax rate (%)	40.7	37.8	35.8	37.2
Profit after Tax	251	234	248	200
Minority interest	-	-	-	-
Share Profit from Associates	-	-	-	-
Adjusted PAT	251	234	253	202
YoY gr. (%)	63.2	6.5	2.4	(6.1)
Margin (%)	26.0	24.1	24.3	20.9
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	251	234	253	202
YoY gr. (%)	63.2	6.5	2.4	(6.1)
Margin (%)	26.0	24.1	24.3	20.9
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	251	234	253	202
Avg. Shares O/s (m)	54	54	54	54
EPS (Rs)	4.7	4.4	4.7	3.8

Source: Company Data, PL Research

Key Financial Metrics

Y/e Mar	FY18	FY19E	FY20E	FY21E
Per Share(Rs)				
EPS	17.4	19.0	23.1	27.7
CEPS	21.1	23.6	28.8	34.1
BVPS	82.5	90.7	101.7	117.3
FCF	11.8	16.8	19.7	24.3
DPS	12.1	12.1	12.1	12.1
Return Ratio(%)				
RoCE	29.3	27.6	30.9	33.1
ROIC	25.6	26.2	32.7	40.0
RoE	21.9	21.7	24.1	25.3
Balance Sheet				
Net Debt : Equity (x)	(0.3)	(0.3)	(0.3)	(0.4)
Net Working Capital (Days)	26	25	24	24
Valuation(x)				
PER	28.9	26.4	21.6	18.1
P/B	6.1	5.5	4.9	4.3
P/CEPS	23.7	21.2	17.4	14.7
EV/EBITDA	17.8	16.5	13.1	10.6
EV/Sales	7.2	5.8	4.7	3.8
Dividend Yield (%)	2.4	2.4	2.4	2.4

Source: Company Data, PL Research

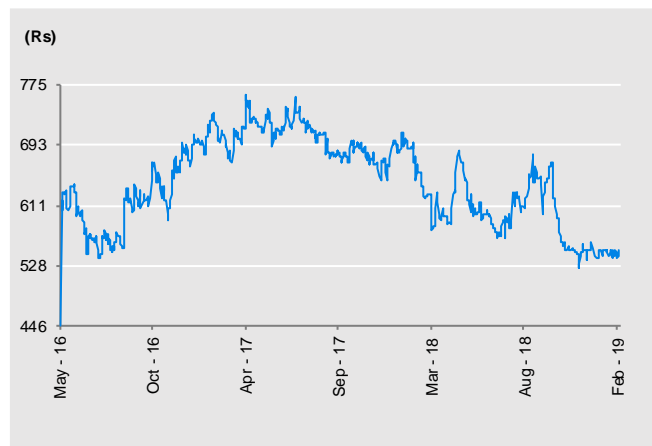
Key Operating Metrics (Rs m)

Y/e Mar	FY18	FY19E	FY20E	FY21E
Diagnostic Testing Services	3,563	4,289	5,194	6,259
Imaging Services	245	248	318	369
Others	28	53	56	59

Source: Company Data, PL Research



Price Chart



Recommendation History

No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	15-Mar-18	BUY	967	629
2	13-Apr-18	BUY	967	626
3	4-May-18	BUY	795	656
4	10-Jul-18	BUY	795	565
5	6-Aug-18	BUY	795	627
6	14-Aug-18	BUY	795	611
7	5-Oct-18	BUY	796	660
8	12-Nov-18	BUY	796	550
9	7-Jan-19	BUY	795	541

Analyst Coverage Universe

Sr. No.	CompanyName	Rating	TP (Rs)	Share Price (Rs)
1	Aurobindo Pharma	BUY	952	761
2	Cadila Healthcare	Accumulate	362	322
3	Cipla	Reduce	475	535
4	Dr. Lal PathLabs	Accumulate	1,070	1,031
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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