

November 8, 2019

Q2FY20 Result Update

Change in Estimates | Target | Reco

Change in Estimates

	Current		Previous	
	FY20E	FY21E	FY20E	FY21E
Rating	BUY		BUY	
Target Price	686		595	
Sales (Rs. m)	4,563	5,158	4,563	5,158
% Chng.	-	-	-	-
EBITDA (Rs. m)	1,912	2,140	1,643	1,857
% Chng.	16.4	15.3	16.4	15.3
EPS (Rs.)	25.3	27.4	18.6	20.6
% Chng.	36.0	33.2	36.0	33.2

Key Financials - Consolidated

Y/e Mar	FY19	FY20E	FY21E	FY22E
Sales (Rs. m)	4,029	4,563	5,158	5,838
EBITDA (Rs. m)	1,542	1,912	2,140	2,423
Margin (%)	38.3	41.9	41.5	41.5
PAT (Rs. m)	851	1,336	1,449	1,663
EPS (Rs.)	16.1	25.3	27.4	31.5
Gr. (%)	(7.1)	56.9	8.4	14.8
DPS (Rs.)	12.1	12.1	12.1	12.1
Yield (%)	2.2	2.2	2.2	2.2
RoE (%)	19.4	28.4	26.6	26.1
RoCE (%)	29.1	34.6	32.5	32.1
EV/Sales (x)	7.0	6.1	5.3	4.6
EV/EBITDA (x)	18.3	14.6	12.8	11.0
PE (x)	34.2	21.8	20.1	17.5
P/BV (x)	6.7	5.8	5.0	4.2

Key Data

THYO.NS | THYROCAR IN

52-W High / Low	Rs.605 / Rs.407
Sensex / Nifty	40,324 / 11,908
Market Cap	Rs.29bn/ \$ 408m
Shares Outstanding	53m
3M Avg. Daily Value	Rs.32.51m

Shareholding Pattern (%)

Promoter's	66.06
Foreign	10.71
Domestic Institution	14.81
Public & Others	8.42
Promoter Pledge (Rs bn)	-

Stock Performance (%)

	1M	6M	12M
Absolute	10.1	18.5	(0.7)
Relative	2.5	11.1	(13.2)

Surajit Pal

surajitpal@plindia.com | 91-22-66322259

Higher productivity increased profitability with normalized growth as guided

Quick Pointers:

- Diagnostic Service led the growth from the front
- Operational efficiency drives profitability

THYROCAR sales, EBITDA, and PAT increased by 12%, 21%, and 37% YoY. Its higher productivity over the use of RM increased gross margin by 130 bps YoY to 73.2% and reduction in SGA costs increased EBITDA margin by 330 bps YoY to 44.9% in Q2FY20. While employee cost increased by 16% YoY on account of the centers newly started, the productivity of new recruit in H2FY19 helped to increase productivity and reduce employee costs to 10% of revenues in Q2FY20 vs 13% in Q4FY19. Revenue from Diagnostic and imaging testing services increased by 13% and 5% YoY. Revenue growth of 13% is in line with the management guidance for FY20E due to competitive intensity from PE-backed diagnostic centers in B2B segment. Diagnostic services EBIT/EBIT margins increased 18%/190bps YoY while Imaging testing service reported loss of Rs.16mn (18% of Revenues). B2B /B2C revenue increased by 8 % /17% YoY. B2B business contributes more than 75% of the total revenue.

The stock trades at PER of 21.8x and 20.1x FY20E and FY21E respectively. With favorable seasonality Q4FY20E and lower base, we expect THYROCAR to grow at 15% YoY growth in revenues and 21% YoY growth in PAT due to lower tax rate to 25.2% from 34% in FY20E. While diagnostic companies are expected to trade at premium valuation with features of consumer's business, THYROCAR valuation is at sharp discount to its peers. With earnings improvement and attractive valuation vs. peers, we increased our TP to Rs686 (from Rs595) and 'BUY' recommendation.

- Thyrocare improved its ROCE 400bps to 12% from 8% YoY
- Sample processed and investigations performed increased 5% YoY and 11% YoY
- Thyrocare was able to increase its revenue share from Southern, Eastern and other parts of India.

Exhibit 1: Q2FY20 Result Overview (Rs mn)

Y/e March	Q2FY20	Q2FY19	YoY gr. (%)	Q1FY20	H1FY20	H1FY19	YoY gr. (%)
Net Sales	1,162	1,039	11.9	1,097	2,260	2,010	12.4
Raw Material	312	284	10.0	309	621	540	15.0
<i>% of Net Sales</i>	<i>26.8</i>	<i>27.3</i>		<i>28.1</i>	<i>27.5</i>	<i>26.8</i>	
Personnel Cost	114	98	16.3	115	230	188	22.3
<i>% of Net Sales</i>	<i>9.8</i>	<i>9.5</i>		<i>10.5</i>	<i>10.2</i>	<i>9.3</i>	
Others	215	227	(5.3)	217	432	441	(2.0)
<i>% of Net Sales</i>	<i>18.5</i>	<i>21.8</i>		<i>19.8</i>	<i>19.1</i>	<i>21.9</i>	
Total Expenditure	641	609	5.3	641	1,282	1,168	9.8
EBITDA	522	430	21.2	456	978	842	16.1
<i>Margin (%)</i>	<i>44.9</i>	<i>41.4</i>		<i>41.6</i>	<i>43.3</i>	<i>41.9</i>	
Depreciation	82	66	24.5	74	156	123	26.8
EBIT	439	364	20.6	383	822	719	14.2
Other Income	25	24	2.5	24	48	47	3.4
Interest	6	2		5	-	3	
PBT	458	387	18.4	402	870	763	14.0
Extra-Ord. Inc./Exps.	(3)	5		-	(5)	5	
Total Taxes	110	139	(20.6)	129	239	281	(15.1)
<i>ETR (%)</i>	<i>24.0</i>	<i>35.8</i>		<i>32.0</i>	<i>27.4</i>	<i>36.8</i>	
Reported PAT	345	253	36.6	273	627	487	28.7

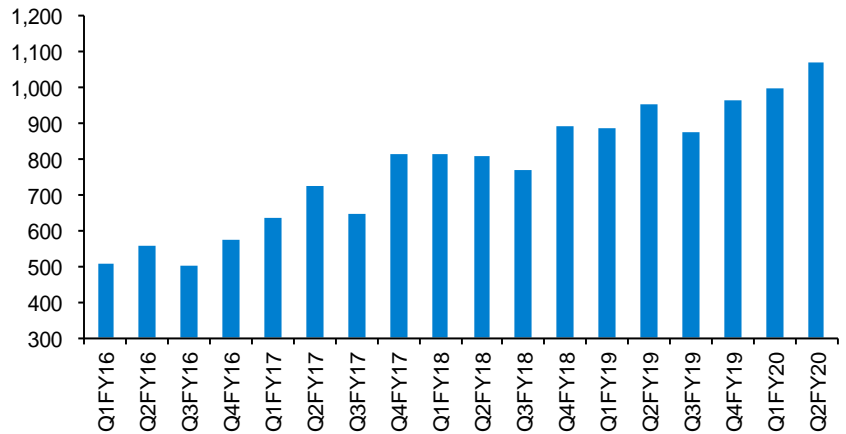
Source: Company, PL

Exhibit 2: Major Sources of Revenues (Rs mn)

Major sources of revenues	Q2FY20	Q2FY19	YoY gr. (%)	Q1FY20	H1FY20	H1FY19	YoY gr. (%)
Diagnostic Services	1,070	952	12.4	1,000	2,070	1,841	12.4
<i>% of Net Sales</i>	<i>91.8</i>	<i>91.6</i>		<i>85.8</i>	<i>91.4</i>	<i>91.6</i>	
Imaging Services	86	82	5.1	95	181	162	12.0
<i>% of Net Sales</i>	<i>7.4</i>	<i>7.9</i>		<i>8.1</i>	<i>8.0</i>	<i>8.0</i>	
Sale of products/Others	9	5	74.5	5	14	8	71.1
<i>% of Net Sales</i>	<i>0.8</i>	<i>0.5</i>		<i>0.5</i>	<i>0.6</i>	<i>0.4</i>	
Total	1,165	1,039	12.1	1,100	2,265	2,010	12.6

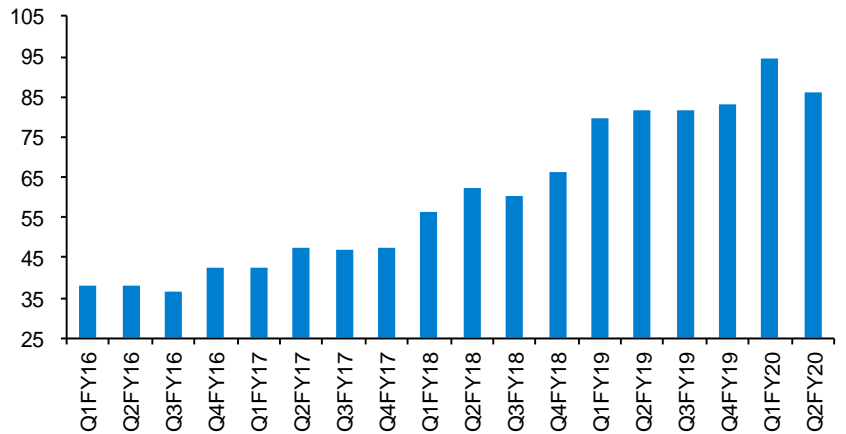
Source: Company, PL

Exhibit 3: Diagnostic revenues



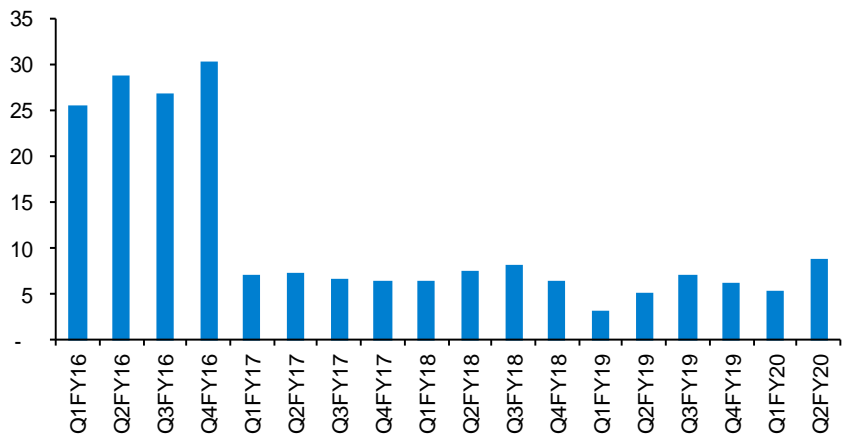
Source: Company, PL

Exhibit 4: Imaging revenues



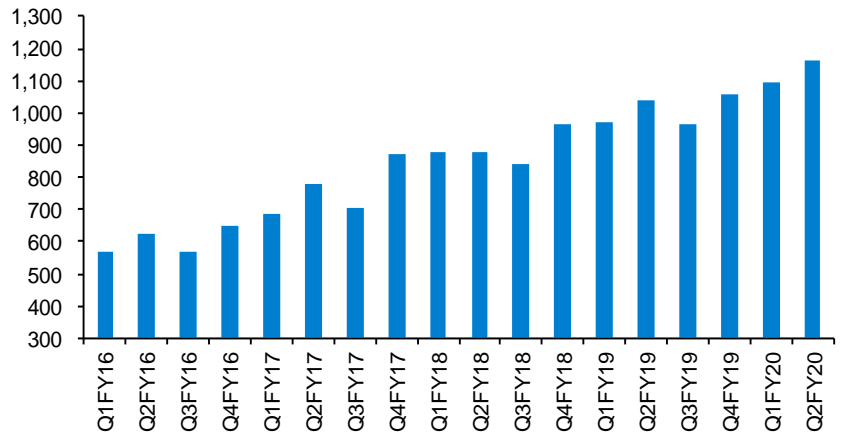
Source: Company, PL

Exhibit 5: Revenue from sale of products



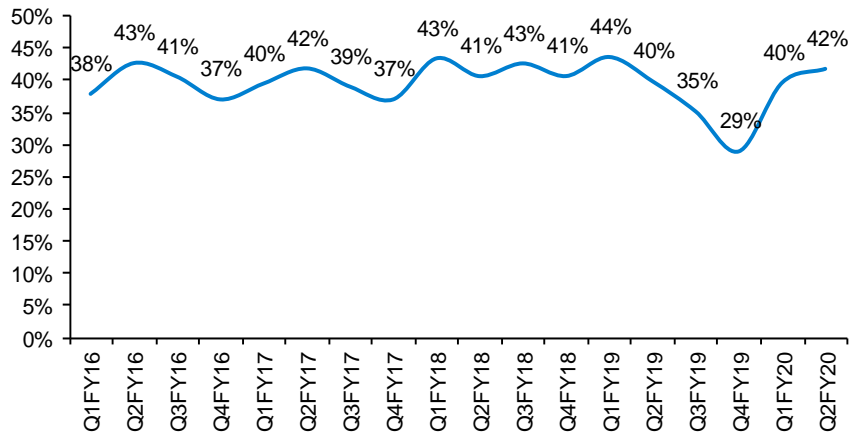
Source: Company, PL

Exhibit 6: Total revenue



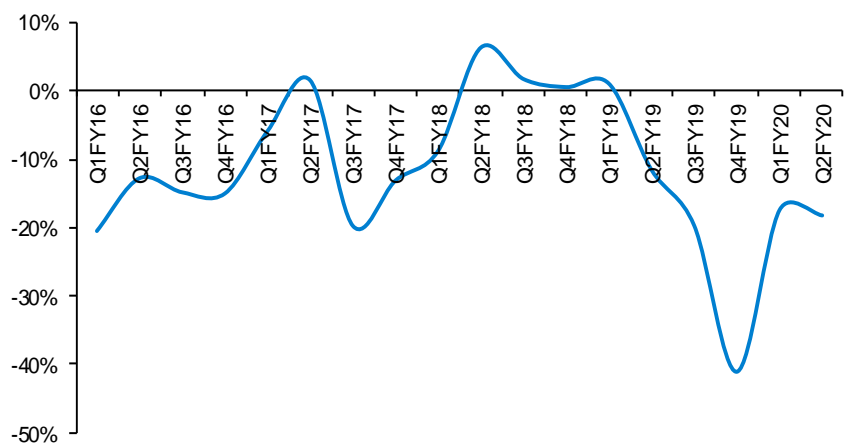
Source: Company, PL

Exhibit 7: Diagnostic EBIT margins



Source: Company, PL

Exhibit 8: Imaging EBIT margins



Source: Company, PL

Financials

Income Statement (Rs m)

Y/e Mar	FY19	FY20E	FY21E	FY22E
Net Revenues	4,029	4,563	5,158	5,838
YoY gr. (%)	13.1	13.2	13.0	13.2
Cost of Goods Sold	1,105	1,209	1,393	1,576
Gross Profit	2,924	3,353	3,765	4,262
Margin (%)	72.6	73.5	73.0	73.0
Employee Cost	434	484	542	613
Other Expenses	-	-	-	-
EBITDA	1,542	1,912	2,140	2,423
YoY gr. (%)	6.6	24.0	12.0	13.2
Margin (%)	38.3	41.9	41.5	41.5
Depreciation and Amortization	262	281	368	378
EBIT	1,281	1,631	1,772	2,044
Margin (%)	31.8	35.7	34.4	35.0
Net Interest	6	-	-	-
Other Income	100	104	110	115
Profit Before Tax	1,381	1,735	1,882	2,160
Margin (%)	34.3	38.0	36.5	37.0
Total Tax	529	399	433	497
Effective tax rate (%)	38.3	23.0	23.0	23.0
Profit after tax	851	1,336	1,449	1,663
Minority interest	-	-	-	-
Share Profit from Associate	-	-	-	-
Adjusted PAT	851	1,336	1,449	1,663
YoY gr. (%)	(8.7)	56.9	8.4	14.8
Margin (%)	21.1	29.3	28.1	28.5
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	851	1,336	1,449	1,663
YoY gr. (%)	(8.7)	56.9	8.4	14.8
Margin (%)	21.1	29.3	28.1	28.5
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	851	1,336	1,449	1,663
Equity Shares O/s (m)	53	53	53	53
EPS (Rs)	16.1	25.3	27.4	31.5

Source: Company Data, PL Research

Balance Sheet Abstract (Rs m)

Y/e Mar	FY19	FY20E	FY21E	FY22E
Non-Current Assets				
Gross Block	2,495	2,992	3,442	3,892
Tangibles	2,468	2,957	3,402	3,847
Intangibles	27	35	40	45
Acc: Dep / Amortization	620	901	1,270	1,648
Tangibles	610	888	1,252	1,625
Intangibles	10	14	18	22
Net fixed assets	1,874	2,091	2,172	2,244
Tangibles	1,858	2,070	2,151	2,222
Intangibles	17	21	22	22
Capital Work In Progress	15	-	-	-
Goodwill	1,069	1,069	1,069	1,069
Non-Current Investments	249	246	300	366
Net Deferred tax assets	51	57	62	68
Other Non-Current Assets	129	151	177	207
Current Assets				
Investments	746	970	1,213	1,637
Inventories	182	209	240	272
Trade receivables	122	163	184	208
Cash & Bank Balance	96	153	471	812
Other Current Assets	25	27	30	33
Total Assets	4,748	5,344	6,149	7,170
Equity				
Equity Share Capital	528	528	528	528
Other Equity	3,823	4,521	5,331	6,356
Total Networkth	4,351	5,049	5,859	6,884
Non-Current Liabilities				
Long Term borrowings	25	-	-	-
Provisions	67	69	70	71
Other non current liabilities	98	78	82	86
Current Liabilities				
ST Debt / Current of LT Debt	-	-	-	-
Trade payables	75	36	42	48
Other current liabilities	132	112	95	81
Total Equity & Liabilities	4,748	5,344	6,149	7,170

Source: Company Data, PL Research

Cash Flow (Rs m)

Y/e Mar	FY19	FY20E	FY21E	FY22E
PBT	1,374	1,735	1,882	2,160
Add. Depreciation	262	281	368	378
Add. Interest	-	-	-	-
Less Financial Other Income	100	104	110	115
Add. Other	31	(816)	(197)	(240)
Op. profit before WC changes	1,667	1,200	2,053	2,298
Net Changes-WC	29	(106)	(47)	(50)
Direct tax	(529)	(399)	(433)	(497)
Net cash from Op. activities	1,166	695	1,573	1,750
Capital expenditures	(365)	(335)	(450)	(450)
Interest / Dividend Income	37	49	61	82
Others	255	(224)	(243)	(425)
Net Cash from Inv. activities	(73)	(511)	(632)	(793)
Issue of share cap. / premium	-	-	-	-
Debt changes	-	-	-	-
Dividend paid	(638)	(638)	(638)	(638)
Interest paid	-	-	-	-
Others	-	-	-	-
Net cash from Fin. activities	(638)	(638)	(638)	(638)
Net change in cash	455	(454)	302	319
Free Cash Flow	802	359	1,123	1,300

Source: Company Data, PL Research

Quarterly Financials (Rs m)

Y/e Mar	Q3FY19	Q4FY19	Q1FY20	Q2FY20
Net Revenue	963	1,056	1,097	1,162
YoY gr. (%)	14.8	9.2	12.9	11.9
Raw Material Expenses	260	306	309	312
Gross Profit	703	750	789	850
Margin (%)	73.1	71.0	71.9	73.2
EBITDA	355	345	456	522
YoY gr. (%)	0.4	(7.3)	10.7	21.2
Margin (%)	36.9	32.7	41.6	44.9
Depreciation / Depletion	69	70	74	82
EBIT	286	275	383	439
Margin (%)	29.7	26.0	34.9	37.8
Net Interest	2	2	5	6
Other Income	33	20	24	25
Profit before Tax	318	292	402	458
Margin (%)	33.0	27.7	36.6	39.4
Total Tax	118	130	129	110
Effective tax rate (%)	37.2	44.4	32.0	24.0
Profit after Tax	200	163	273	348
Minority interest	-	-	-	(3)
Share Profit from Associates	-	-	-	-
Adjusted PAT	202	163	273	351
YoY gr. (%)	(6.1)	(35.0)	16.4	38.8
Margin (%)	20.9	15.5	24.9	30.2
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	202	163	273	351
YoY gr. (%)	(6.1)	(35.0)	16.4	38.8
Margin (%)	20.9	15.5	24.9	30.2
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	202	163	273	351
Avg. Shares O/s (m)	54	54	54	54
EPS (Rs)	3.8	3.0	5.1	6.5

Source: Company Data, PL Research

Key Financial Metrics

Y/e Mar	FY19	FY20E	FY21E	FY22E
Per Share(Rs)				
EPS	16.1	25.3	27.4	31.5
CEPS	21.1	30.6	34.4	38.7
BVPS	82.4	95.6	111.0	130.4
FCF	15.2	6.8	21.3	24.6
DPS	12.1	12.1	12.1	12.1
Return Ratio(%)				
RoCE	29.1	34.6	32.5	32.1
ROIC	22.2	35.0	36.2	40.1
RoE	19.4	28.4	26.6	26.1
Balance Sheet				
Net Debt : Equity (x)	(0.2)	(0.2)	(0.3)	(0.4)
Net Working Capital (Days)	21	27	27	27
Valuation(x)				
PER	34.2	21.8	20.1	17.5
P/B	6.7	5.8	5.0	4.2
P/CEPS	26.1	18.0	16.0	14.3
EV/EBITDA	18.3	14.6	12.8	11.0
EV/Sales	7.0	6.1	5.3	4.6
Dividend Yield (%)	2.2	2.2	2.2	2.2

Source: Company Data, PL Research

Key Operating Metrics

Y/e Mar	FY19	FY20E	FY21E	FY22E
Diagnostic Testing Services	4,029	4,563	5,158	5,838
Imaging Services	326			
Others	22	24	26	26

Source: Company Data, PL Research

Price Chart
Recommendation History


No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	3-Oct-19	BUY	500	595
2	14-Aug-19	BUY	595	445
3	4-Jul-19	BUY	595	466
4	5-Apr-19	BUY	795	536
5	12-Feb-19	BUY	795	501
6	7-Jan-19	BUY	795	541
7	12-Nov-18	BUY	796	550

Analyst Coverage Universe

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	Aurobindo Pharma	Hold	511	452
2	Cadila Healthcare	Accumulate	266	234
3	Cipla	Reduce	439	481
4	Dr. Lal PathLabs	Accumulate	1,120	1,390
5	Dr. Reddy's Laboratories	Accumulate	2,910	2,757
6	Eris Lifesciences	Accumulate	459	426
7	Glenmark Pharmaceuticals	Reduce	385	320
8	Indoco Remedies	Hold	157	159
9	Ipca Laboratories	Accumulate	1,008	905
10	Jubilant Life Sciences	Reduce	433	562
11	Lupin	Reduce	730	771
12	Sun Pharmaceutical Industries	Reduce	396	441
13	Thyrocare Technologies	BUY	500	595

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



ANALYST CERTIFICATION

(Indian Clients)

We/I, Mr. Surajit Pal- PGDBA, CFA, M.Com Research Analysts, authors and the names subscribed to this report, hereby certify that all of the views expressed in this research report accurately reflect our views about the subject issuer(s) or securities. We also certify that no part of our compensation was, is, or will be directly or indirectly related to the specific recommendation(s) or view(s) in this report.

(US Clients)

The research analysts, with respect to each issuer and its securities covered by them in this research report, certify that: All of the views expressed in this research report accurately reflect his or her or their personal views about all of the issuers and their securities; and No part of his or her or their compensation was, is or will be directly related to the specific recommendation or views expressed in this research report.

DISCLAIMER

Indian Clients

Prabhudas Lilladher Pvt. Ltd, Mumbai, India (hereinafter referred to as "PL") is engaged in the business of Stock Broking, Portfolio Manager, Depository Participant and distribution for third party financial products. PL is a subsidiary of Prabhudas Lilladher Advisory Services Pvt Ltd. which has its various subsidiaries engaged in business of commodity broking, investment banking, financial services (margin funding) and distribution of third party financial/other products, details in respect of which are available at www.plindia.com.

This document has been prepared by the Research Division of PL and is meant for use by the recipient only as information and is not for circulation. This document is not to be reported or copied or made available to others without prior permission of PL. It should not be considered or taken as an offer to sell or a solicitation to buy or sell any security.

The information contained in this report has been obtained from sources that are considered to be reliable. However, PL has not independently verified the accuracy or completeness of the same. Neither PL nor any of its affiliates, its directors or its employees accepts any responsibility of whatsoever nature for the information, statements and opinion given, made available or expressed herein or for any omission therein.

Recipients of this report should be aware that past performance is not necessarily a guide to future performance and value of investments can go down as well. The suitability or otherwise of any investments will depend upon the recipient's particular circumstances and, in case of doubt, advice should be sought from an independent expert/advisor.

Either PL or its affiliates or its directors or its employees or its representatives or its clients or their relatives may have position(s), make market, act as principal or engage in transactions of securities of companies referred to in this report and they may have used the research material prior to publication.

PL may from time to time solicit or perform investment banking or other services for any company mentioned in this document.

PL is in the process of applying for certificate of registration as Research Analyst under Securities and Exchange Board of India (Research Analysts) Regulations, 2014

PL submits that no material disciplinary action has been taken on us by any Regulatory Authority impacting Equity Research Analysis activities.

PL or its research analysts or its associates or his relatives do not have any financial interest in the subject company.

PL or its research analysts or its associates or his relatives do not have actual/beneficial ownership of one per cent or more securities of the subject company at the end of the month immediately preceding the date of publication of the research report.

PL or its research analysts or its associates or his relatives do not have any material conflict of interest at the time of publication of the research report.

PL or its associates might have received compensation from the subject company in the past twelve months.

PL or its associates might have managed or co-managed public offering of securities for the subject company in the past twelve months or mandated by the subject company for any other assignment in the past twelve months.

PL or its associates might have received any compensation for investment banking or merchant banking or brokerage services from the subject company in the past twelve months.

PL or its associates might have received any compensation for products or services other than investment banking or merchant banking or brokerage services from the subject company in the past twelve months

PL or its associates might have received any compensation or other benefits from the subject company or third party in connection with the research report.

PL encourages independence in research report preparation and strives to minimize conflict in preparation of research report. PL or its analysts did not receive any compensation or other benefits from the subject Company or third party in connection with the preparation of the research report. PL or its Research Analysts do not have any material conflict of interest at the time of publication of this report.

It is confirmed that Mr. Surajit Pal- PGDBA, CFA, M.Com Research Analysts of this report have not received any compensation from the companies mentioned in the report in the preceding twelve months

Compensation of our Research Analysts is not based on any specific merchant banking, investment banking or brokerage service transactions.

The Research analysts for this report certifies that all of the views expressed in this report accurately reflect his or her personal views about the subject company or companies and its or their securities, and no part of his or her compensation was, is or will be, directly or indirectly related to specific recommendations or views expressed in this report.

The research analysts for this report has not served as an officer, director or employee of the subject company PL or its research analysts have not engaged in market making activity for the subject company

Our sales people, traders, and other professionals or affiliates may provide oral or written market commentary or trading strategies to our clients that reflect opinions that are contrary to the opinions expressed herein, and our proprietary trading and investing businesses may make investment decisions that are inconsistent with the recommendations expressed herein. In reviewing these materials, you should be aware that any or all of the foregoing, among other things, may give rise to real or potential conflicts of interest.

PL and its associates, their directors and employees may (a) from time to time, have a long or short position in, and buy or sell the securities of the subject company or (b) be engaged in any other transaction involving such securities and earn brokerage or other compensation or act as a market maker in the financial instruments of the subject company or act as an advisor or lender/borrower to the subject company or may have any other potential conflict of interests with respect to any recommendation and other related information and opinions.

US Clients

This research report is a product of Prabhudas Lilladher Pvt. Ltd., which is the employer of the research analyst(s) who has prepared the research report. The research analyst(s) preparing the research report is/are resident outside the United States (U.S.) and are not associated persons of any U.S. regulated broker-dealer and therefore the analyst(s) is/are not subject to supervision by a U.S. broker-dealer, and is/are not required to satisfy the regulatory licensing requirements of FINRA or required to otherwise comply with U.S. rules or regulations regarding, among other things, communications with a subject company, public appearances and trading securities held by a research analyst account.

This report is intended for distribution by Prabhudas Lilladher Pvt. Ltd. only to "Major Institutional Investors" as defined by Rule 15a-6(b)(4) of the U.S. Securities and Exchange Act, 1934 (the Exchange Act) and interpretations thereof by U.S. Securities and Exchange Commission (SEC) in reliance on Rule 15a 6(a)(2). If the recipient of this report is not a Major Institutional Investor as specified above, then it should not act upon this report and return the same to the sender. Further, this report may not be copied, duplicated and/or transmitted onward to any U.S. person, which is not the Major Institutional Investor.

In reliance on the exemption from registration provided by Rule 15a-6 of the Exchange Act and interpretations thereof by the SEC in order to conduct certain business with Major Institutional Investors, Prabhudas Lilladher Pvt. Ltd. has entered into an agreement with a U.S. registered broker-dealer, Marco Polo Securities Inc. ("Marco Polo").

Transactions in securities discussed in this research report should be effected through Marco Polo or another U.S. registered broker dealer.

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

www.plindia.com | Bloomberg Research Page: PRLD <GO>