

**DLPL posted a robust quarter, with revenue growing 11% YoY on the back of sample volume increasing 9% YoY and *Swasthfit* contributing 24% to the topline. DLPL's focus and execution prowess on expanding its presence in Tier 3+ cities (bulk of expansion) is likely to support its high single-digit revenue growth in core markets (Delhi NCR). With pricing pressures abating, DLPL remains well positioned to capture the structural tailwinds enjoyed by the Indian healthcare industry, in line with our thesis ([link](#)). Suburban's improving margin trajectory (Q4: 17%) is likely to offset network & brand investments, keeping margin flat over FY24-26E. Strong balance sheet (net cash of Rs8.7bn), and improving return ratios provide comfort on valuations. We retain BUY with Mar-25E TP of Rs2,800/share (basis DCF), implying FY26E PER of 48x.**

#### Dr Lal Pathlabs: Financial Snapshot (Consolidated)

Y/E Mar (Rs mn)	FY22	FY23	FY24	FY25E	FY26E
Revenue	20,874	20,169	22,266	24,803	27,979
EBITDA	5,608	4,899	6,093	6,770	7,683
Adj. PAT	3,448	2,389	3,577	4,023	4,928
Adj. EPS (Rs)	41.4	28.7	42.8	48.2	59.0
EBITDA margin (%)	26.9	24.3	27.4	27.3	27.5
EBITDA growth (%)	28.5	(12.6)	24.4	11.1	13.5
Adj. EPS growth (%)	18.2	(30.7)	49.4	12.5	22.5
RoE (%)	24.5	14.8	20.0	20.0	21.3
RoIC (%)	34.7	21.8	28.4	31.9	38.1
P/E (x)	56.7	81.9	54.8	48.7	39.8
EV/EBITDA (x)	34.4	39.0	31.0	27.2	23.4
P/B (x)	13.0	11.7	10.6	9.3	8.0
FCFF yield (%)	1.8	2.2	2.6	2.7	3.1

Source: Company, Emkay Research

#### Improved efficiencies drive the beat on profitability

For Q4FY24, Dr Lal Path Labs reported a revenue increase of 11% YoY at the consolidated level, on account of improved product mix and network expansion generating incremental growth. During the same period, patient and sample volumes grew 2.4% and 9% YoY, on account of the higher penetration in Tier 3+ cities. Higher share of bundled tests (*Swasthfit* – a high-margin product) in the business resulted in DLPL's realizations per patient and sample increasing up to 10% and 2%, respectively, YoY for the fiscal. Gross margin expanded by 160bps YoY, owing to superior cost control measures undertaken by the company. EBITDA margin increased by 300bps YoY to 26.5%, predominantly due to other expenses increasing a mere 5% due to increase in share of bundled testing, which requires less overhead expenses per patient. Depreciation decreased 3% YoY, with other income increasing 30% YoY and leading to a 500bps YoY rise in PAT margin. Company announced a final dividend of Rs6/share, leading to total annual dividend of Rs24/share. Net cash on books stood at Rs8.7bn, with FY24 capex reported at Rs512mn.

#### Outlook and risks

Management has set a 5-6% patient volume growth target for FY25, as it expects muted competitive intensity on an incremental basis. Success seen in the wellness and bundling portfolio is refreshing, and may drive volume growth as consumer behavior evolves post-pandemic. With Company focus on deepening its presence in Tier 3+ cities, Suburban showing signs of ramping up (double-digit growth), and the core market growing at a mid-single-digit, we expect DLPL to clock 12% revenue CAGR over FY24-26E. We anticipate the cost rationalization initiatives, higher bundling, and improving Suburban margins to offset the investments in expansion and branding, thereby leaving margins flat during FY24-26E. Strong balance sheet (net cash of Rs8.7bn), improving return ratios (ROE at 20%), and robust cash generation (OCF as a % of EBITDA at 88%) lend comfort on valuations. We retain our BUY rating on DLPL. **Key risks:** Increased competition in the organized market, shortage of manpower and skilled labor, adverse regulatory ruling around pricing cap for healthcare services.

Target Price – 12M	Mar-25
Change in TP (%)	-
Current Reco.	BUY
Previous Reco.	BUY
Upside/(Downside) (%)	19.2
CMP (10-May-24) (Rs)	2,347.9

Stock Data	Ticker
52-week High (Rs)	2,767
52-week Low (Rs)	1,888
Shares outstanding (mn)	83.5
Market-cap (Rs bn)	196
Market-cap (USD mn)	2,347
Net-debt, FY25E (Rs mn)	-12,848
ADTV-3M (mn shares)	-
ADTV-3M (Rs mn)	574.9
ADTV-3M (USD mn)	6.9
Free float (%)	-
Nifty-50	22,055
INR/USD	83.5
<b>Shareholding, Mar-24</b>	
Promoters (%)	54.6
FPIs/MFs (%)	26.2/9.7

#### Price Performance

(%)	1M	3M	12M
Absolute	1.9	(4.2)	20.4
Rel. to Nifty	5.1	(5.4)	-

#### 1-Year share price trend (Rs)



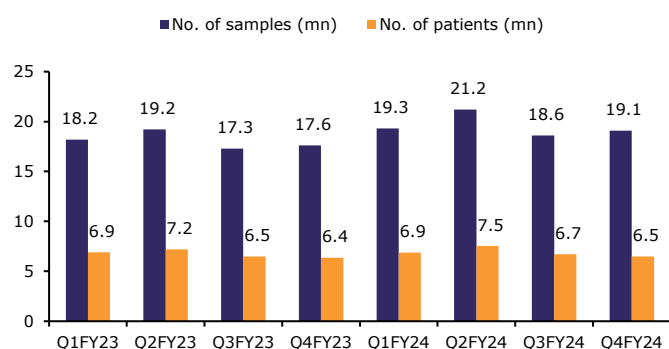
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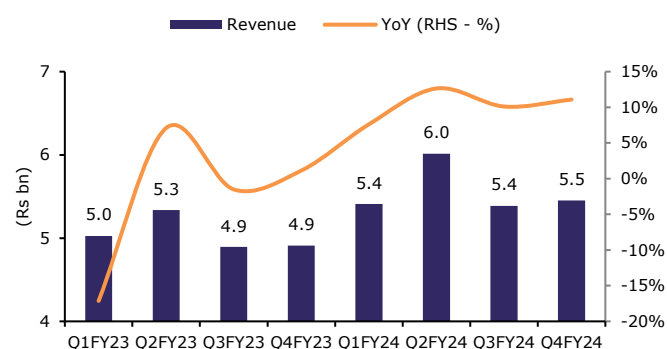
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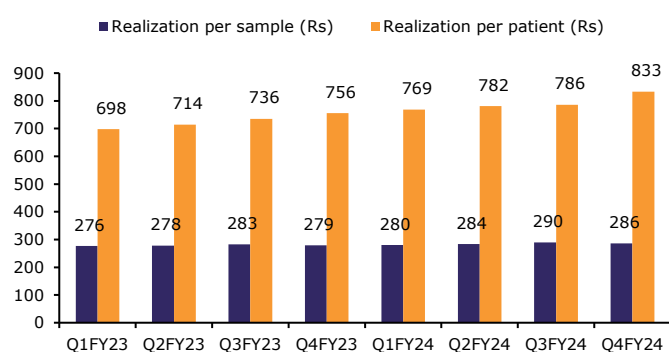
# Story in Charts

**Exhibit 1: Sample/patient volumes**


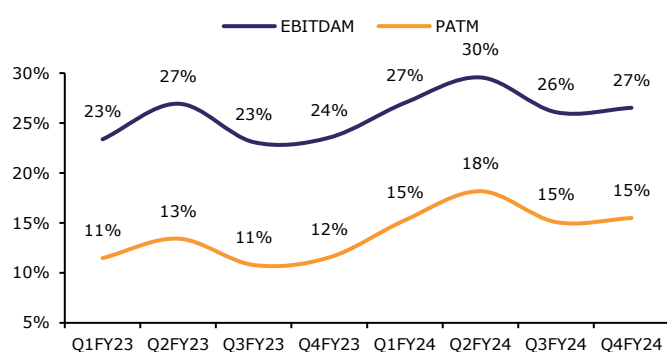
Source: Company, Emkay Research

**Exhibit 2: Core business registered 11% YoY topline growth**


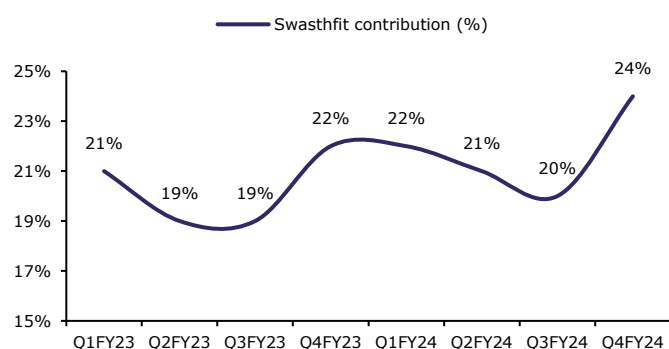
Source: Company, Emkay Research

**Exhibit 3: Realizations improved on account of better product mix...**


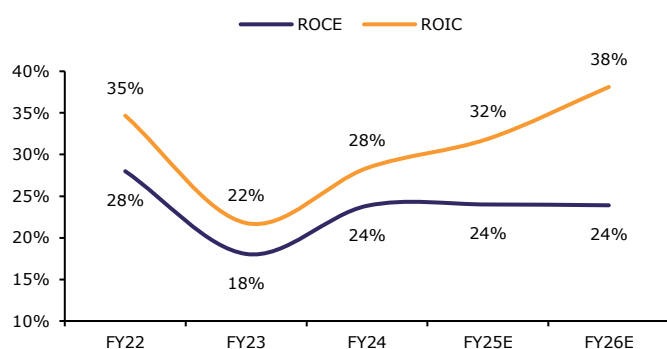
Source: Company, Emkay Research

**Exhibit 4: ...leading to a better QoQ and a sustained YoY profitability**


Source: Company, Emkay Research

**Exhibit 5: Swasthfit contribution to the topline at an all-time high**


Source: Company, Emkay Research

**Exhibit 6: Return ratios are expected to be improve, with major capex now behind**


Source: Company, Emkay Research

**Exhibit 7: Summary of quarterly financials**

Particulars (Rs mn)	Q3FY23	Q3FY24	Q4FY24	YoY	QoQ
Net sales	4,894	5,389	5,454	11%	1%
Operating Expenses	(3,764)	(3,983)	(4,007)	7%	1%
Medical consumable costs	1,109	1,070	1,089	3%	2%
Employee Costs	963	1,090	1,054	14%	-3%
SG&A expenses	1,692	1,823	1,864	5%	2%
<b>EBITDA</b>	<b>1,130</b>	<b>1,406</b>	<b>1,447</b>	<b>25%</b>	<b>3%</b>
Margins	23.1%	26.1%	26.5%	13%	2%
Depreciation	(379)	(360)	(366)	-3%	2%
EBIT	751	1,046	1,081	39%	3%
Other Income	105	183	184	30%	1%
Interest	(91)	(70)	(66)	-27%	-6%
Extra ordinary items					
PBT	765	1,159	1,199	44%	3%
Tax	(232)	(339)	(341)	12%	1%
<b>PAT</b>	<b>533</b>	<b>820</b>	<b>858</b>	<b>63%</b>	<b>5%</b>
Adj. PAT	528	813	845	60%	4%
EPS	6.34	9.74	10.12	60%	4%
(%)	Q3FY23	Q3FY24	Q4FY24	YoY (bps)	QoQ (bps)
Gross Margin	77.3%	80.1%	80.0%	160	-11
EBITDA	23.1%	26.1%	26.5%	299	44
EBIT	15.3%	19.4%	19.8%	393	41
PBT	15.6%	21.5%	22.0%	504	48
PAT	10.9%	15.2%	15.7%	498	52
Effective Tax rate	30.3%	29.2%	28.4%	-810	-81

Source: Company, Emkay Research

**Exhibit 8: Actuals vs estimates (Q4FY24)**

(Rs mn)	Actual	Estimate (Emkay)	Consensus estimate (Bloomberg)	Variation	
				Emkay	Consensus
Revenue	5,454	5,325	5,454	2%	0%
EBITDA	1,447	1,385	1,396	5%	4%
EBITDA margin	27%	26%	26%	53 bps	94 bps
PAT	858	679	808	26%	6%

Source: Company, Emkay Research

**Exhibit 9: Change in estimates**

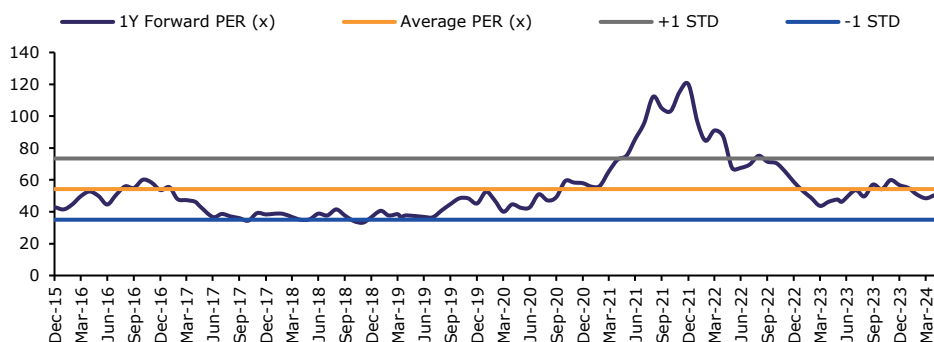
Particulars (Rs mn)	FY25E			FY26E		
	Old	New	Change	Old	New	Change
Revenue	24,506	24,803	1.2%	27,720	27,979	0.9%
EBITDA	6,691	6,770	1.2%	7,627	7,683	0.7%
EBITDA margin	27.3%	27.3%	-1 bps	27.5%	27.5%	-6 bps
PAT	3,907	4,023	3.0%	4,887	4,928	0.8%

Source: Company, Emkay Research

**Exhibit 10: We value Dr Lal Path Labs at Rs2,800/share**

	FY23	FY24E	FY25E	FY26E	FY30E	FY35E
Revenue	20,169	22,266	24,803	27,979	45,452	79,813
- Growth	-3%	10%	11%	13%	13%	12%
NOPAT	2,382	3,338	3,663	4,465	8,280	14,539
Non-cash items	1,502	1,436	1,611	1,730	2,101	3,690
Change in WC	(420)	(204)	82	103	196	314
Capex	(941)	(365)	(512)	(560)	(630)	(1,194)
<b>FCFF</b>	<b>2,522</b>	<b>4,204</b>	<b>4,844</b>	<b>5,737</b>	<b>9,947</b>	<b>17,348</b>
WACC	10.7%					
Terminal growth	6%					
PV of CFs (FY24-45E)	120,891					
PV of terminal value	129,040					
Total EV	249,932					
(Less) net debt - FY25	(12,848)					
Total equity value	262,780					
Total no. of shares (mn)	84					
<b>Target price/share - May-25E (Rs)</b>	<b>2,800</b>					

Source: Company, Emkay Research

**Exhibit 11: Dr Lal Path Labs is trading at around its long-term 1YF PER**

Source: Bloomberg, Emkay Research

## Call Highlights

- **Swasthfit:** Company registered an all-time high contribution of 24% to the topline from the product, with Management expecting the trajectory to sustain owing to i) changing consumer behavior, and ii) adoption of the package even in non-metros. Management is confident that the share of this product could reach 30-40% in coming years, owing to the aforementioned patterns, in addition to the increased awareness post-pandemic.
- **Suburban:** The subsidiary registered a revenue of Rs1.64bn, growing in early double digits, and clocked 13% EBITDAM (Q4 margins at 17%) for the year while maintaining its position as the third-largest brand in Mumbai. Increased volumes in specialized and routine tests, along with scale efficiencies, drove up the margins in Suburban. With 80% of revenue still coming from Mumbai, Company is bolstering its sales team to extract value from B2B clients.
- **Growth strategy:** Company intends to open 20 new hubs annually, with the locations being primarily in the North and in western India, where DLPL has a strong foothold. Management intends to offer services to the premium, mass and discount segments of customers, commensurate with the pricing, and is working on developing a strategy around them. Management plans on leveraging the Suburban brand name in the western market. Company is not looking to undertake any price hikes, citing affordability of tests and sustained competitive intensity as key reasons, and intends to grow on the back of patient and sample volume growth.
- **Margin guidance:** Management does not see further scope of improvement in gross margins, whereas pre-Covid levels of EBITDAM can be maintained at around 26%.
- **Capex guidance:** Annual capex is expected to be around Rs500-600mn, focused on lab infrastructure, IT investments, and equipment maintenance.
- **Revenue mix:** On a regional basis, Delhi-NCR (31%), Rest of North (31%), East (15%), West (15%), South (6%), and international markets (3%) contributed to the topline. At a segment level, B2C contributed 69% to the topline.
- Realization per patient improvement solely from the price hike of ~ 3.4% for FY24 and of 1.2% for Q4.
- Company rationalized the test portfolio on account of certain tests being duplicated and others being less frequently opted for. Currently, specialized tests contribute 20% to revenue.
- Management remains open to bolt-on acquisitions, so as not to grow the topline but gain market entry instead.
- Company has seen good traction in UP and Bihar, and maintained margins despite expansion in Tier-3+ cities owing to logistics efficiencies achieved by aligning close to the nearest lab.

Dr Lal Pathlabs: Consolidated Financials and Valuations

Profit & Loss					
Y/E Mar (Rs mn)	FY22	FY23	FY24	FY25E	FY26E
Revenue	20,874	20,169	22,266	24,803	27,979
Revenue growth (%)	32.0	(3.4)	10.4	11.4	12.8
EBITDA	5,608	4,899	6,093	6,770	7,683
EBITDA growth (%)	28.5	(12.6)	24.4	11.1	13.5
Depreciation & Amortization	1,081	1,502	1,436	1,611	1,730
EBIT	4,527	3,397	4,657	5,159	5,953
EBIT growth (%)	26.1	(25.0)	37.1	10.8	15.4
Other operating income	0	0	0	0	0
Other income	525	417	692	736	846
Financial expense	303	375	294	200	200
PBT	4,749	3,439	5,055	5,694	6,600
Extraordinary items	0	0	0	0	0
Taxes	1,246	1,028	1,432	1,651	1,650
Minority interest	(55)	(22)	(46)	(20)	(22)
Income from JV/Associates	0	0	0	0	0
Reported PAT	3,448	2,389	3,577	4,023	4,928
PAT growth (%)	18.2	(30.7)	49.7	12.5	22.5
Adjusted PAT	3,448	2,389	3,577	4,023	4,928
Diluted EPS (Rs)	41.4	28.7	42.8	48.2	59.0
Diluted EPS growth (%)	18.2	(30.7)	49.4	12.5	22.5
DPS (Rs)	15.0	12.0	24.0	18.0	18.0
Dividend payout (%)	(36.2)	(41.8)	(56.0)	(37.4)	(30.5)
EBITDA margin (%)	26.9	24.3	27.4	27.3	27.5
EBIT margin (%)	21.7	16.8	20.9	20.8	21.3
Effective tax rate (%)	26.2	29.9	28.3	29.0	25.0
NOPLAT (pre-IndAS)	3,339	2,382	3,338	3,663	4,465
Shares outstanding (mn)	83.3	83.3	83.5	83.5	83.5

Source: Company, Emkay Research

Cash flows					
Y/E Mar (Rs mn)	FY22	FY23	FY24	FY25E	FY26E
PBT	4,749	3,439	5,055	5,694	6,600
Others (non-cash items)	0	0	0	0	0
Taxes paid	(1,246)	(1,028)	(1,432)	(1,651)	(1,650)
Change in NWC	181	50	195	712	381
Operating cash flow	4,467	4,560	5,354	5,538	6,136
Capital expenditure	(941)	(365)	(512)	(560)	(610)
Acquisition of business	(62)	(845)	361	0	0
Interest & dividend income	496	306	473	336	446
Investing cash flow	(4,492)	(2,873)	(243)	(224)	(164)
Equity raised/(repaid)	0	0	1	0	0
Debt raised/(repaid)	3,455	(1,090)	(1,534)	(833)	0
Payment of lease liabilities	(621)	(342)	(335)	630	278
Interest paid	(303)	(375)	(294)	(200)	(200)
Dividend paid (incl tax)	(1,250)	(1,000)	(2,004)	(1,503)	(1,503)
Others	(4,962)	1,255	201	236	284
Financing cash flow	(3,059)	(1,209)	(3,630)	(2,300)	(1,419)
Net chg in Cash	(3,084)	478	1,481	3,013	4,553
OCF	4,467	4,560	5,354	5,538	6,136
Adj. OCF (w/o NWC chg.)	4,648	4,610	5,549	6,249	6,516
FCFF	3,526	4,195	4,842	4,978	5,526
FCFE	3,719	4,126	5,021	5,113	5,772
OCF/EBITDA (%)	79.7	93.1	87.9	81.8	79.9
FCFE/PAT (%)	107.9	172.7	140.4	127.1	117.1
FCFF/NOPLAT (%)	105.6	176.2	145.1	135.9	123.8

Source: Company, Emkay Research

Balance Sheet					
Y/E Mar (Rs mn)	FY22	FY23	FY24	FY25E	FY26E
Share capital	833	834	835	835	835
Reserves & Surplus	14,183	15,829	17,658	20,198	23,645
Net worth	15,016	16,663	18,493	21,033	24,480
Minority interests	355	332	361	361	361
Deferred tax liability (net)	(330)	(375)	(425)	(425)	(425)
Total debt	3,457	2,367	833	0	0
Total liabilities & equity	18,497	18,987	19,262	20,969	24,416
Net tangible fixed assets	2,048	2,004	1,994	2,004	1,999
Net intangible assets	4,100	3,562	3,026	2,561	2,052
Net ROU assets	2,106	2,006	1,436	1,239	1,034
Capital WIP	144	30	40	40	40
Goodwill	5,434	5,478	5,482	5,482	5,482
Investments [JV/Associates]	655	1,499	1,138	1,138	1,138
Cash & equivalents	6,176	6,654	8,303	11,710	16,257
Current assets (ex-cash)	2,429	2,198	2,338	2,469	2,632
Current Liab. & Prov.	4,600	4,464	4,849	5,691	6,235
NWC (ex-cash)	(2,171)	(2,266)	(2,511)	(3,223)	(3,603)
Total assets	18,497	18,987	18,925	20,969	24,416
Net debt	(2,719)	(4,287)	(7,470)	(11,710)	(16,257)
Capital employed	18,497	18,987	19,262	20,969	24,416
Invested capital	11,522	10,804	9,444	8,081	6,981
BVPS (Rs)	180.3	200.0	221.5	251.9	293.2
Net Debt/Equity (x)	(0.2)	(0.3)	(0.4)	(0.6)	(0.7)
Net Debt/EBITDA (x)	(0.5)	(0.9)	(1.2)	(1.7)	(2.1)
Interest coverage (x)	0.1	0.1	0.1	0.0	0.0
RoCE (%)	28.0	18.1	23.8	24.0	23.9

Source: Company, Emkay Research

Valuations and key Ratios					
Y/E Mar	FY22	FY23	FY24	FY25E	FY26E
P/E (x)	56.7	81.9	54.8	48.7	39.8
P/CE(x)	43.2	50.3	39.1	34.8	29.4
P/B (x)	13.0	11.7	10.6	9.3	8.0
EV/Sales (x)	9.2	9.5	8.5	7.4	6.4
EV/EBITDA (x)	34.4	39.0	31.0	27.2	23.4
EV/EBIT(x)	42.6	56.3	40.5	35.7	30.2
EV/IC (x)	16.7	17.7	20.0	22.8	25.8
FCFF yield (%)	1.8	2.2	2.6	2.7	3.1
FCFE yield (%)	1.9	2.1	2.6	2.6	2.9
Dividend yield (%)	0.6	0.5	1.0	0.8	0.8
DuPont-RoE split					
Net profit margin (%)	16.5	11.8	16.1	16.2	17.6
Total asset turnover (x)	3.0	2.6	2.8	2.9	3.0
Assets/Equity (x)	1.1	1.2	1.1	1.0	1.0
RoE (%)	24.5	14.8	20.0	20.0	21.3
DuPont-RoIC					
NOPLAT margin (%)	16.0	11.8	15.0	14.8	16.0
IC turnover (x)	1.6	1.3	1.4	1.5	1.8
RoIC (%)	34.7	21.8	28.4	31.9	38.1
Operating metrics					
Core NWC days	(1.7)	(9.3)	(11.8)	(11.8)	(11.8)
Total NWC days	(1.7)	(9.3)	(11.8)	(11.8)	(11.8)
Fixed asset turnover	1.8	1.2	1.3	1.5	1.7
Opex-to-revenue (%)	49.1	53.5	52.4	51.7	51.1

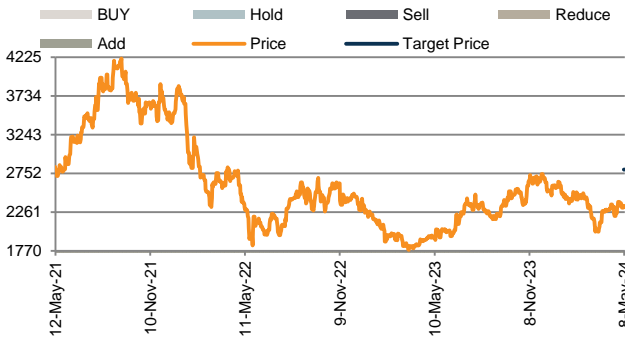
Source: Company, Emkay Research

RECOMMENDATION HISTORY - DETAILS

Date	Closing Price (INR)	TP (INR)	Rating	Analyst
07-May-24	2,323	2,800	Buy	Anshul Agrawal

Source: Company, Emkay Research

RECOMMENDATION HISTORY - TREND



Source: Company, Bloomberg, Emkay Research

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