

24 October 2024

India | Equity Research | Q2FY25 results review

Dr Lal Pathlabs

Healthcare

Growth moderates; near term green shoots unlikely

Dr Lal PathLabs' (Dr Lal) Q2FY25 revenue growth of 9.8% YoY was lower than our expectation, though its better EBITDA margin of 30.7% was a surprise. Q2FY25 growth was driven by its bundled test package Swasthfit, which rose 25% YoY and accounted for 24% of revenue (vs. 22% last year). Suburban continues to demonstrate better growth (11.6% YoY) while its margins touched 20% in Q2FY25 (up 650bps YoY). Ahead, management is focusing on boosting volume growth and may refrain from taking price hikes in the near term. Cash balance of INR 10bn may be utilised for M&A to improve its presence in south India and other fast-growing cities. We cut our FY25E/FY26E EBITDA by ~4%/5% to factor in moderate revenue growth. Retain **HOLD** with a lower target price of INR 3,100.

Subpar revenue growth, bundled test aids margins

Revenue grew 9.8% YoY (9.7% QoQ) to INR 6.6bn (I-Sec: INR 6.9bn), mainly driven by an uptick in sample volumes (up 8.6% YoY). Gross margin expanded 110bps YoY (+50bps QoQ) to 80.7% due to higher share of bundled tests. Operating leverage drove EBITDA growth of 13.9% YoY (+19.1% QoQ) to INR 2bn. EBITDA margin expanded 110bps YoY (+240bps QoQ) to 30.7% (I-Sec: 29.4%). PAT grew 18.2% YoY (+21.4% QoQ) to INR 1.3bn (I-Sec: INR 1.3bn).

Maintaining volume share takes precedence over profitability

Sample volume grew 8.6% YoY (+9.5% QoQ) to 23.1mn. Patient volume rose 3.9% YoY (+9.7% QoQ) to 7.9mn. Realisation/patient was up 5.7% YoY (+2.4%) at INR 844 aided by bundled testing, while realisation/sample was up 0.8% YoY (+0.2% QoQ) at INR 286. Swasthfit accounted for 24% of revenue, as against 25% in Q1FY25 and 21% in Q2FY24. Suburban reported revenue growth of ~11.6% YoY in Q2 with EBITDA margin of 20%. Dr Lal is in the process of setting up 15–20 labs, mainly in tier-3/4 cities in north and east India to deepen its existing presence in its core geographies. Volume expansion continues to be a priority to boost growth. It may refrain from taking price hikes in the near future. Management maintains its guidance of 10–11% revenue growth for FY25 with gross margin between 78–80% and EBITDA margins in the range of 27–28%.

Financial Summary

| Y/E March (INR mn) | FY24A | FY25E | FY26E | FY27E |
|--------------------|--------|--------|--------|--------|
| Net Revenue | 22,266 | 24,735 | 27,752 | 31,515 |
| EBITDA | 6,093 | 7,025 | 8,076 | 9,171 |
| EBITDA Margin (%) | 27.4 | 28.4 | 29.1 | 29.1 |
| Net Profit | 3,577 | 4,362 | 5,090 | 5,979 |
| EPS (INR) | 42.8 | 52.2 | 61.0 | 71.6 |
| EPS % Chg YoY | 49.5 | 21.9 | 16.7 | 17.5 |
| P/E (x) | 76.0 | 62.3 | 53.4 | 45.5 |
| EV/EBITDA (x) | 688.5 | 596.5 | 518.3 | 455.8 |
| RoCE (%) | 17.8 | 19.7 | 19.7 | 19.9 |
| RoE (%) | 20.3 | 21.7 | 21.5 | 21.5 |

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Market Data

| | |
|---------------------|--------------|
| Market Cap (INR) | 272bn |
| Market Cap (USD) | 3,237mn |
| Bloomberg Code | DLPL IN |
| Reuters Code | DLPA BO |
| 52-week Range (INR) | 3,654 /1,943 |
| Free Float (%) | 44.0 |
| ADTV-3M (mn) (USD) | 9.0 |

| Price Performance (%) | 3m | 6m | 12m |
|-----------------------|-----|------|------|
| Absolute | 6.2 | 44.7 | 33.3 |
| Relative to Sensex | 6.6 | 36.1 | 9.3 |

| ESG Score | 2022 | 2023 | Change |
|-------------|------|------|--------|
| ESG score | 67.3 | 71.3 | 4.0 |
| Environment | 43.5 | 50.9 | 7.4 |
| Social | 66.6 | 69.5 | 2.9 |
| Governance | 82.2 | 82.3 | 0.1 |

Note - Score ranges from 0 - 100 with a higher number indicating a higher ESG score.

Source: SES ESG, I-sec research

| Earnings Revisions (%) | FY25E | FY26E |
|------------------------|-------|-------|
| Revenue | (3.8) | (4.7) |
| EBITDA | (3.8) | (5.0) |
| EPS | (2.6) | (5.5) |

Previous Reports

08-08-2024: [Q1FY25 results review](#)

12-05-2024: [Q4FY24 results review](#)

Valuation and risks

Bundled test package under 'Swasthfit' has been the primary growth driver of the company for the last couple of quarters while growth in the residual business has been in mid-single-digit. Post-Covid-19, pace of network expansion has moderated, which along with competition from hospitals weighed on revenue growth. Ahead, Dr Lal aims to increase growth-related investments in technology, marketing and improving connect with patients and prescribers. Besides the company may refrain from taking a price hike in near term to ensure it maintain volume market share.

Dr Lal is working on improvising volumes by introducing more bundled testing, opening new labs to deepen presence in smaller cities of core markets. Past efforts to de-risk the model from Delhi-NCR region has yielded results with eastern and western India accounting for ~30% of revenue; its presence in south is still sub-scale, and hence, the company may evaluate an inorganic growth opportunity in this region. Cash balance of INR 10bn will likely be utilised for higher dividends, capex (INR 500–600mn) and M&A.

Mr. Om Manchanda has been the driving force for the company for the last several years. He had been instrumental in transitioning Dr Lal Pathlabs to a professionally run company. He has decided to step down from his current position of MD, effective 31 Mar'25, and move to an advisory role within the company.

We reduce our estimates for revenue/EBITDA by ~5% each and PAT by ~6% for FY26E to factor in moderation in revenue growth. We expect a 11.6%/9.8%/12.5% CAGR in revenue/EBITDA/PAT over FY24–26E. The stock trades at 62.3x/53.4x of its FY25/FY26E earnings and 36.9x/31.5x EV/EBITDA, respectively. We maintain our **HOLD** rating with a lower DCF-based target price of INR 3,100 (earlier INR 3,240).

Key upside risks: M&A; and faster ramp up of labs in tier-3/4 cities.

Key downside risks: Higher-than-expected competition; and regulatory hurdles.

Q2FY25 conference call highlights

Financial highlights

- Sample volume grew 8.6% YoY and patient volume growth of 3.9%.
- Revenue per patient stood at INR 844, higher by 5.7% YoY. Improvement is mainly due to change in test mix.
- Suburban reported revenue growth of 11.6% with EBITDA margin of 20% in Q2FY25.
- At end-Sep'24, it had cash balance of INR 10.95bn.
- Gross margins were better in the quarter due to higher share of bundled test.
- Surge in employee cost was due to staff increments and headcount addition.

Business highlights

- Mr. Om Manchanda is stepping down from position of MD effective 31 Mar'25 to an advisory role.
- Bundled test has helped to improve realisation per patient and is also aiding improvement in margins.
- Western region accounted for 15% of revenue and the company is clocking sales of INR 1bn/quarter. Suburban accounts for 60% of revenue from western region.

- Dr Lal's growth was evenly spread across all regions.
- Realisations in tier-3/4 cities is at par with current levels of Dr Lal.
- Delhi NCR contributed 31% of revenue.

Guidance

- The company does not intend to take price hikes in FY25. Ahead, it may take price hikes to absorb normal inflation in the business and not as a measure for driving growth.
- Margins in FY25 are expected to be slightly better than last year. In H2 the company generally has lower margins than H1.
- The company is on track to open 15-20 new labs every year.
- Cash on books will be utilised for organic and inorganic growth and dividends.
- Suburban will likely continue to sustain double-digit growth, margins are expected to remain between 16-17% for FY25.

Exhibit 1: Quarterly review

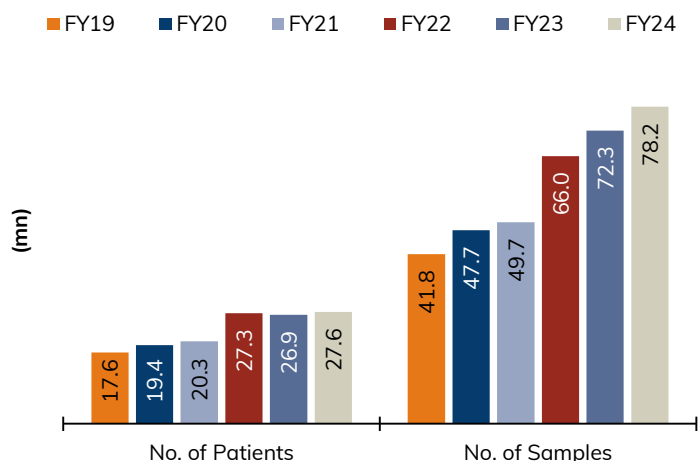
| Particulars (INR mn) | Q2FY25 | Q2FY24 | YoY % Chg | Q1FY25 | QoQ % Chg | H1FY25 | H1FY24 | YoY % Chg |
|-------------------------------|--------------|--------------|-------------|--------------|-------------|---------------|---------------|-------------|
| Net Sales | 6,602 | 6,013 | 9.8 | 6,019 | 9.7 | 12,621 | 11,423 | 10.5 |
| EBITDA | 2,025 | 1,778 | 13.9 | 1,700 | 19.1 | 3,725 | 3,240 | 15.0 |
| EBITDA margins (%) | 30.7 | 29.6 | 110bps | 28.2 | 240bps | 29.5 | 28.4 | 120bps |
| Other income | 219 | 181 | 21.0 | 206 | 6.3 | 425 | 325 | 30.8 |
| PBIDT | 2,244 | 1,959 | 14.5 | 1,906 | 17.7 | 4,150 | 3,565 | 16.4 |
| Depreciation | 353 | 359 | (1.7) | 347 | 1.7 | 700 | 710 | (1.4) |
| Interest | 60 | 78 | (23.1) | 60 | - | 120 | 158 | (24.1) |
| Extra ordinary income/ (exp.) | - | - | - | - | - | - | - | - |
| PBT | 1,831 | 1,522 | 20.3 | 1,499 | 22.1 | 3,330 | 2,697 | 23.5 |
| Tax | 523 | 415 | 26.0 | 421 | 24.2 | 944 | 754 | 25.2 |
| Minority Interest | 16 | 14 | 14.3 | 14 | 14.3 | 30 | 24 | 25.0 |
| Reported PAT | 1,292 | 1,093 | 18.2 | 1,064 | 21.4 | 2,356 | 1,919 | 22.8 |
| Adjusted PAT | 1,292 | 1,093 | 18.2 | 1,064 | 21.4 | 2,356 | 1,919 | 22.8 |

Source: I-Sec research, Company data

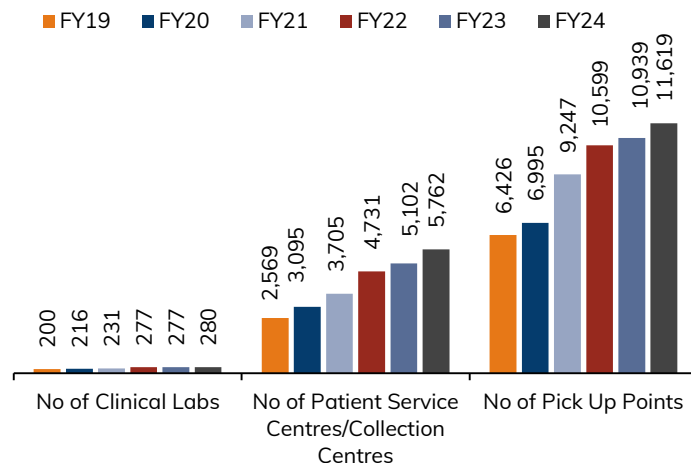
Exhibit 2: Segmental performance

| Segmental data | Q2FY25 | Q2FY24 | YoY % Chg | Q1FY25 | QoQ % Chg | H1FY25 | H1FY24 | YoY % Chg |
|-----------------------|--------|--------|-----------|--------|-----------|--------|--------|-----------|
| No pf patients (mn) | 7.8 | 7.5 | 4.0 | 7.3 | 6.8 | 15.1 | 14.4 | 4.9 |
| No of samples (mn) | 23.1 | 21.2 | 9.0 | 21.1 | 9.5 | 44.2 | 40.5 | 9.1 |
| Test/patients | | | | | | | | |
| Rev per sample (INR) | 286 | 284 | 0.8 | 285 | 0.2 | 286 | 282 | 1.2 |
| Rev per patient (INR) | 844 | 799 | 5.7 | 825 | 2.4 | 836 | 793 | 5.4 |
| Sample per patient | 3.0 | 2.8 | 4.8 | 2.9 | 2.5 | 2.9 | 2.8 | 4.1 |

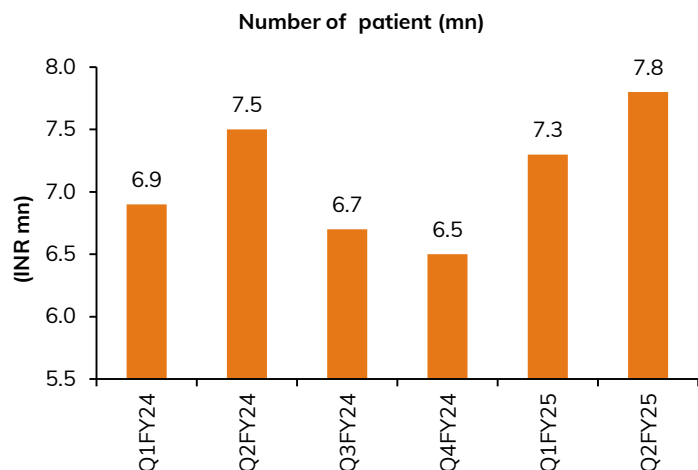
Source: I-Sec research, Company data

Exhibit 3: Healthy volume growth over the years

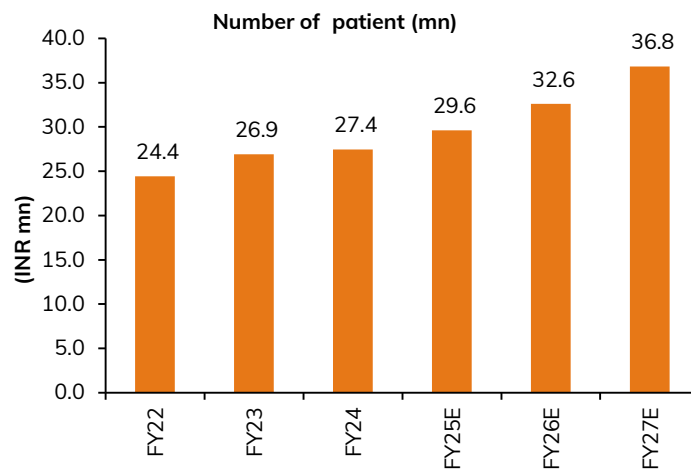
Source: I-Sec research, Company data

Exhibit 4: Steady improvement in network expansion over the years

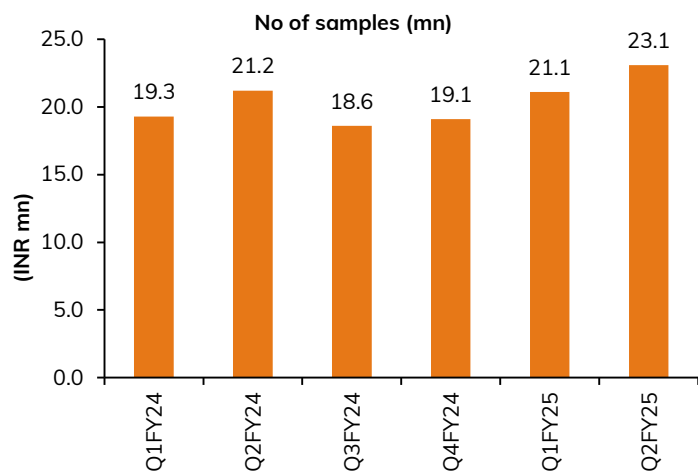
Source: I-Sec research, Company data

Exhibit 5: Patient volume grew 4% YoY

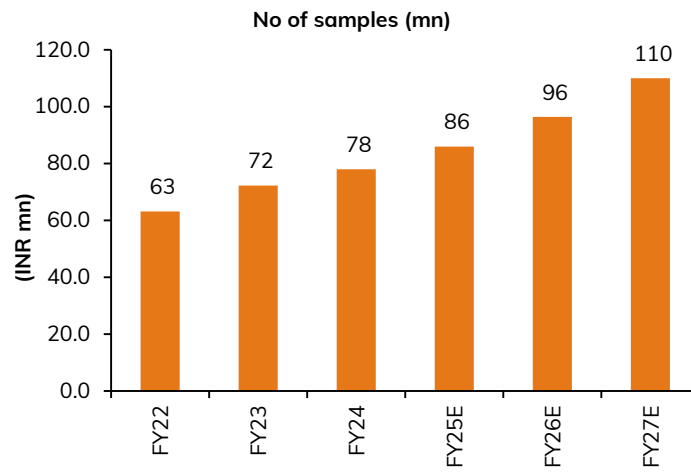
Source: I-Sec research, Company data

Exhibit 6: Patient volume likely to increase with focus on specialised tests and network expansion

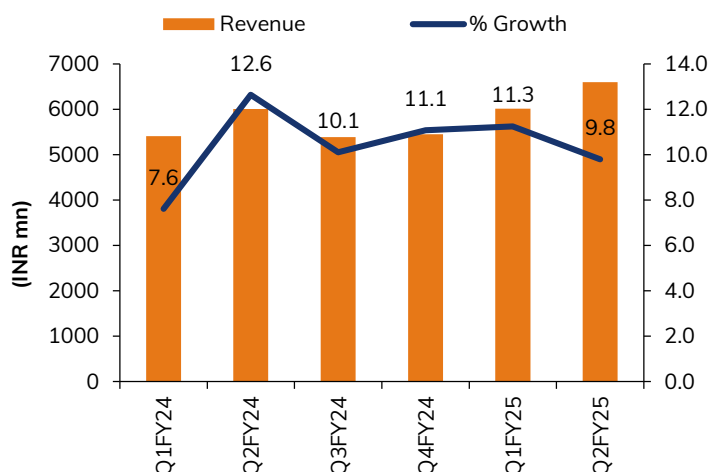
Source: I-Sec research, Company data

Exhibit 7: Sample volume grew 9% YoY

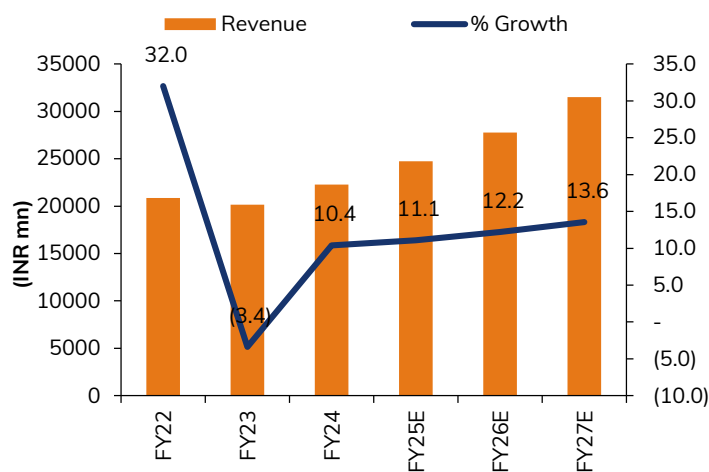
Source: I-Sec research, Company data

Exhibit 8: Samples growth pegged at ~11% CAGR over FY24-26E

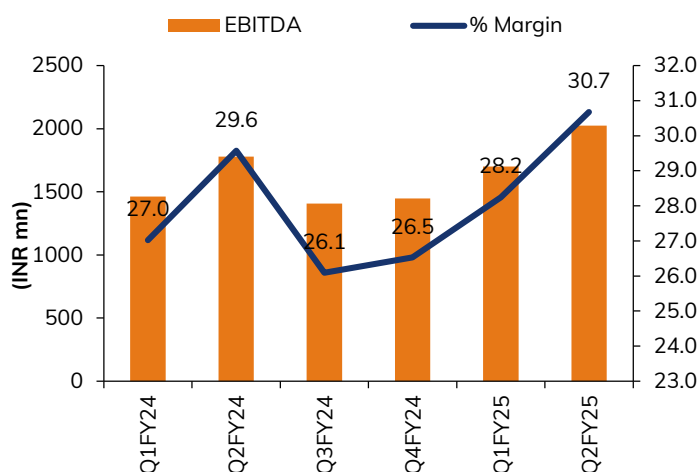
Source: I-Sec research, Company data

Exhibit 9: Surge in number of samples drove growth

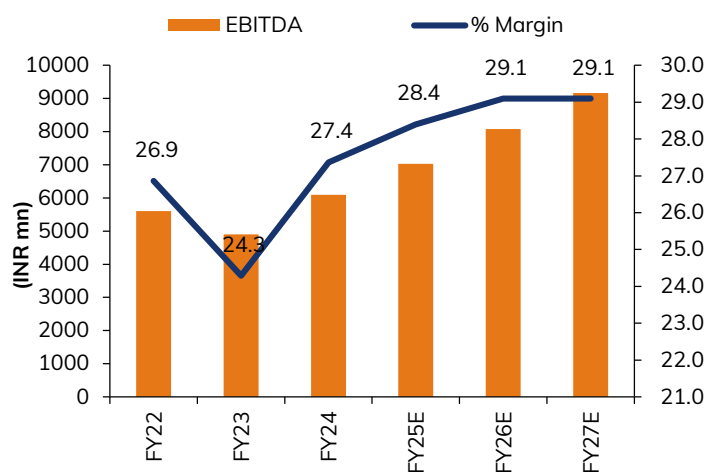
Source: I-Sec research, Company data

Exhibit 10: Revenue to grow at a CAGR of 11.6% over FY24-26E

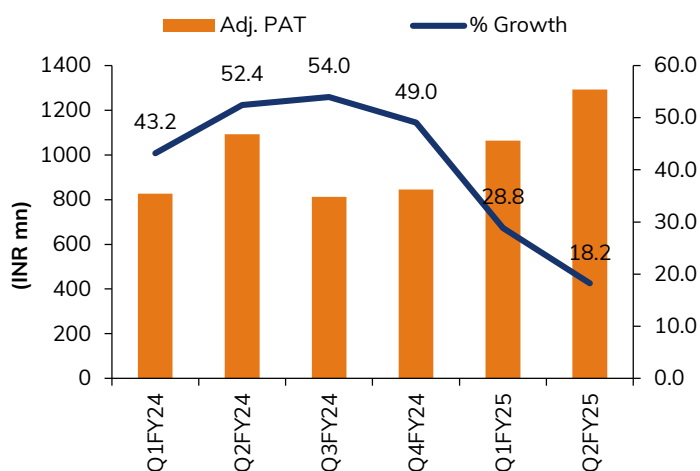
Source: I-Sec research, Company data

Exhibit 11: EBITDA margin expanded 110bps YoY

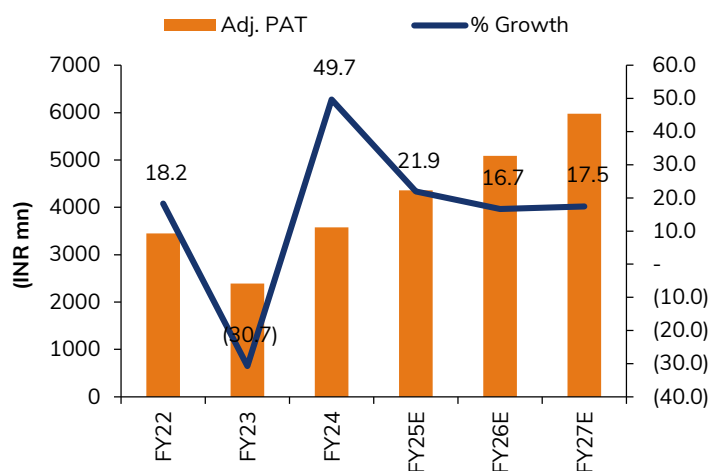
Source: I-Sec research, Company data

Exhibit 12: EBITDA margin set to expand ~175bps over FY24-26E

Source: I-Sec research, Company data

Exhibit 13: PAT grew ~18% YoY

Source: I-Sec research, Company data

Exhibit 14: Net profit to grow at ~13% CAGR over FY24-26E

Source: I-Sec research, Company data

Exhibit 15: Shareholding pattern

| % | Mar'24 | Jun'24 | Sep'24 |
|-------------------------|--------|--------|--------|
| Promoters | 54.6 | 54.6 | 54.6 |
| Institutional investors | 35.8 | 37.5 | 39.1 |
| MFs and others | 6.8 | 9.3 | 9.8 |
| FIs/Banks | 2.3 | 2.8 | 2.5 |
| FIIIs | 26.7 | 25.4 | 26.8 |
| Others | 9.6 | 7.9 | 6.3 |

Source: Bloomberg

Exhibit 16: Price chart

Source: Bloomberg

Financial Summary

Exhibit 17: Profit & Loss

(INR mn, year ending March)

| | FY24A | FY25E | FY26E | FY27E |
|----------------------------------------|---------------|---------------|---------------|---------------|
| Net Sales | 22,266 | 24,735 | 27,752 | 31,515 |
| Operating Expenses | 11,659 | 12,763 | 14,126 | 16,041 |
| EBITDA | 6,093 | 7,025 | 8,076 | 9,171 |
| EBITDA Margin (%) | 27.4 | 28.4 | 29.1 | 29.1 |
| Depreciation & Amortization | 1,436 | 1,465 | 1,530 | 1,596 |
| EBIT | 4,657 | 5,560 | 6,545 | 7,575 |
| Interest expenditure | 294 | 230 | 230 | 230 |
| Other Non-operating Income | 692 | 850 | 895 | 1,124 |
| Recurring PBT | 5,055 | 6,179 | 7,210 | 8,469 |
| Profit / (Loss) from Associates | - | - | - | - |
| Less: Taxes | 1,432 | 1,761 | 2,055 | 2,414 |
| PAT | 3,623 | 4,418 | 5,155 | 6,055 |
| Less: Minority Interest | (46) | (56) | (65) | (77) |
| Extraordinaries (Net) | - | - | - | - |
| Net Income (Reported) | 3,577 | 4,362 | 5,090 | 5,979 |
| Net Income (Adjusted) | 3,577 | 4,362 | 5,090 | 5,979 |

Source Company data, I-Sec research

Exhibit 18: Balance sheet

(INR mn, year ending March)

| | FY24A | FY25E | FY26E | FY27E |
|----------------------------------------|---------------|---------------|---------------|---------------|
| Total Current Assets | 10,641 | 15,160 | 20,383 | 26,475 |
| of which cash & cash eqv. | 8,303 | 12,624 | 17,599 | 23,382 |
| Total Current Liabilities & Provisions | 3,213 | 3,540 | 3,949 | 4,485 |
| Net Current Assets | 7,428 | 11,621 | 16,434 | 21,990 |
| Investments | 1,138 | 1,138 | 1,138 | 1,138 |
| Net Fixed Assets | 2,331 | 2,199 | 2,033 | 1,835 |
| ROU Assets | 1,436 | 1,436 | 1,436 | 1,436 |
| Capital Work-in-Progress | 57 | 57 | 57 | 57 |
| Total Intangible Assets | 8,508 | 7,776 | 7,010 | 6,212 |
| Other assets | - | - | - | - |
| Deferred Tax Assets | 449 | 449 | 449 | 449 |
| Total Assets | 21,347 | 24,675 | 28,557 | 33,118 |
| Liabilities | | | | |
| Borrowings | 1,439 | 1,439 | 1,439 | 1,439 |
| Deferred Tax Liability | - | - | - | - |
| provisions | - | - | - | - |
| other Liabilities | 1,054 | 1,054 | 1,054 | 1,054 |
| Equity Share Capital | 835 | 835 | 835 | 835 |
| Reserves & Surplus | 17,658 | 20,929 | 24,747 | 29,231 |
| Total Net Worth | 18,493 | 21,764 | 25,582 | 30,066 |
| Minority Interest | 361 | 417 | 483 | 559 |
| Total Liabilities | 21,347 | 24,675 | 28,557 | 33,118 |

Source Company data, I-Sec research

Exhibit 19: Cashflow statement

(INR mn, year ending March)

| | FY24A | FY25E | FY26E | FY27E |
|----------------------------------------|--------------|--------------|--------------|--------------|
| Operating Cashflow | 5,354 | 6,242 | 7,077 | 8,108 |
| Working Capital Changes | 1,633 | 1,521 | 1,602 | 1,711 |
| Capital Commitments | (712) | (600) | (600) | (600) |
| Free Cashflow | 4,642 | 5,642 | 6,477 | 7,508 |
| Other investing cashflow | 469 | - | - | - |
| Cashflow from Investing Activities | (243) | (600) | (600) | (600) |
| Issue of Share Capital | 35 | - | - | - |
| Interest Cost | - | - | - | - |
| Inc (Dec) in Borrowings | - | - | - | - |
| Dividend paid | (2,012) | (1,090) | (1,272) | (1,495) |
| Others | (1,485) | (230) | (230) | (230) |
| Cash flow from Financing Activities | (3,462) | (1,321) | (1,503) | (1,725) |
| Chg. in Cash & Bank balance | 1,649 | 4,321 | 4,975 | 5,783 |
| Closing cash & balance | 8,303 | 12,624 | 17,599 | 23,382 |

Source Company data, I-Sec research

Exhibit 20: Key ratios

(Year ending March)

| | FY24A | FY25E | FY26E | FY27E |
|-----------------------------|-------|-------|-------|-------|
| Per Share Data (INR) | | | | |
| Reported EPS | 42.8 | 52.2 | 61.0 | 71.6 |
| Adjusted EPS (Diluted) | 42.8 | 52.2 | 61.0 | 71.6 |
| Cash EPS | 60.0 | 69.8 | 79.3 | 90.7 |
| Dividend per share (DPS) | 24.1 | 13.1 | 15.2 | 17.9 |
| Book Value per share (BV) | 221.5 | 260.7 | 306.4 | 360.1 |
| Dividend Payout (%) | 56.2 | 25.0 | 25.0 | 25.0 |
| Growth (%) | | | | |
| Net Sales | 10.4 | 11.1 | 12.2 | 13.6 |
| EBITDA | 24.4 | 15.3 | 15.0 | 13.6 |
| EPS (INR) | 49.5 | 21.9 | 16.7 | 17.5 |
| Valuation Ratios (x) | | | | |
| P/E | 76.0 | 62.3 | 53.4 | 45.5 |
| P/CEPS | 54.2 | 46.7 | 41.1 | 35.9 |
| P/BV | 14.7 | 12.5 | 10.6 | 9.0 |
| EV / EBITDA | 688.5 | 596.5 | 518.3 | 455.8 |
| P / Sales | 188.8 | 169.9 | 151.4 | 133.4 |
| Dividend Yield (%) | 0.0 | 0.0 | 0.0 | 0.0 |
| Operating Ratios | | | | |
| Gross Profit Margins (%) | 79.7 | 80.0 | 80.0 | 80.0 |
| EBITDA Margins (%) | 27.4 | 28.4 | 29.1 | 29.1 |
| Effective Tax Rate (%) | 28.3 | 28.5 | 28.5 | 28.5 |
| Net Profit Margins (%) | 16.3 | 17.9 | 18.6 | 19.2 |
| NWC / Total Assets (%) | - | - | - | - |
| Net Debt / Equity (x) | (0.4) | (0.6) | (0.7) | (0.8) |
| Net Debt / EBITDA (x) | (1.3) | (1.8) | (2.1) | (2.5) |
| Profitability Ratios | | | | |
| RoCE (%) | 17.8 | 19.7 | 19.7 | 19.9 |
| RoE (%) | 20.3 | 21.7 | 21.5 | 21.5 |
| RoIC (%) | 27.2 | 34.4 | 44.5 | 58.0 |
| Fixed Asset Turnover (x) | 10.3 | 10.9 | 13.1 | 16.3 |
| Inventory Turnover Days | 6 | 6 | 6 | 6 |
| Receivables Days | 13 | 13 | 13 | 13 |
| Payables Days | 32 | 32 | 32 | 32 |

Source Company data, I-Sec research

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