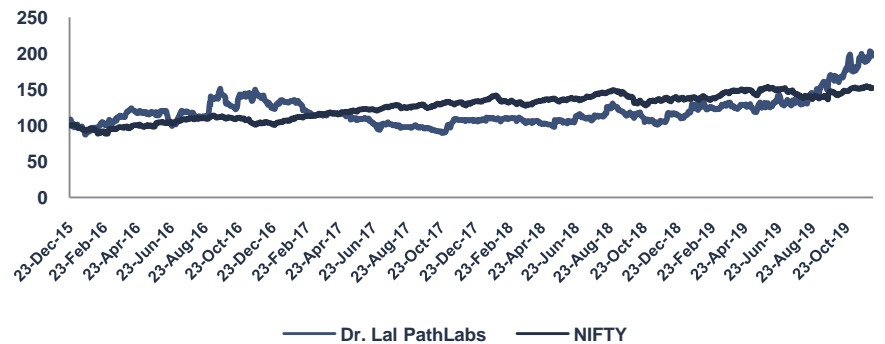


# Dr. Lal Pathlabs Limited

## Initiating Coverage - BUY

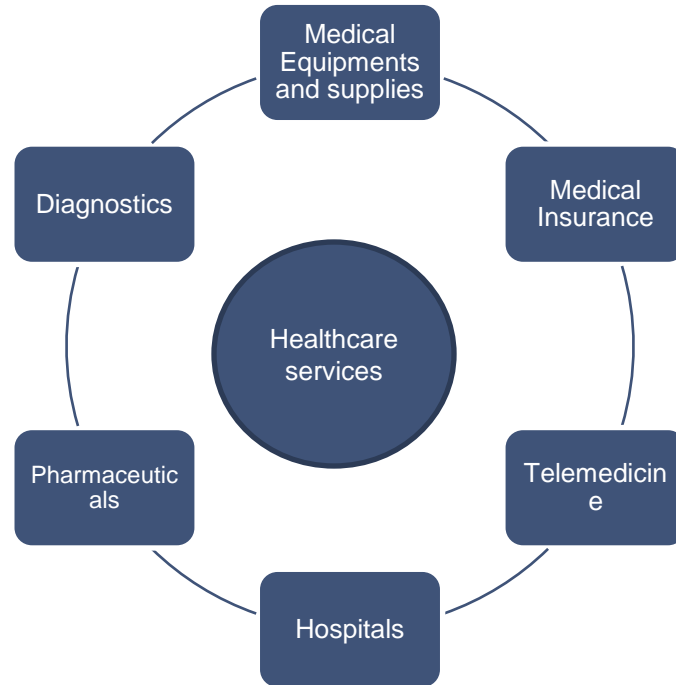
Key Data	
NSE / BSE Code	LALPATHLAB/ 539524
Sector	HEALTHCARE SERVICES
Industry	PHARMACEUTICALS
Face value / Book Value (₹ per share)	10 / 111.7
Dividend yield	60%
52 H/L (Rs.)	1698.5/890.95
Market Cap. (Rs. mn)	131,546.4
Shares Outstanding (mn)	83.34
2W Avg Traded Volume (in Lacs)	8208



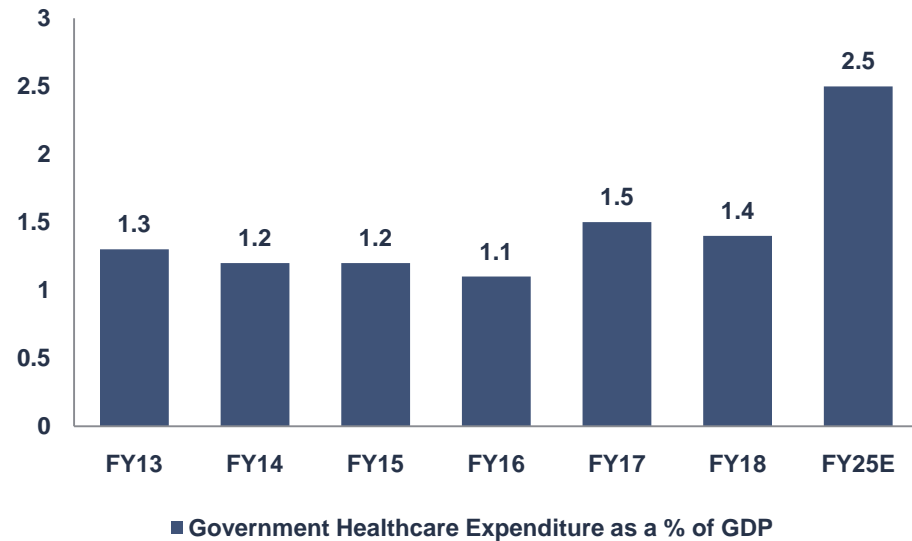
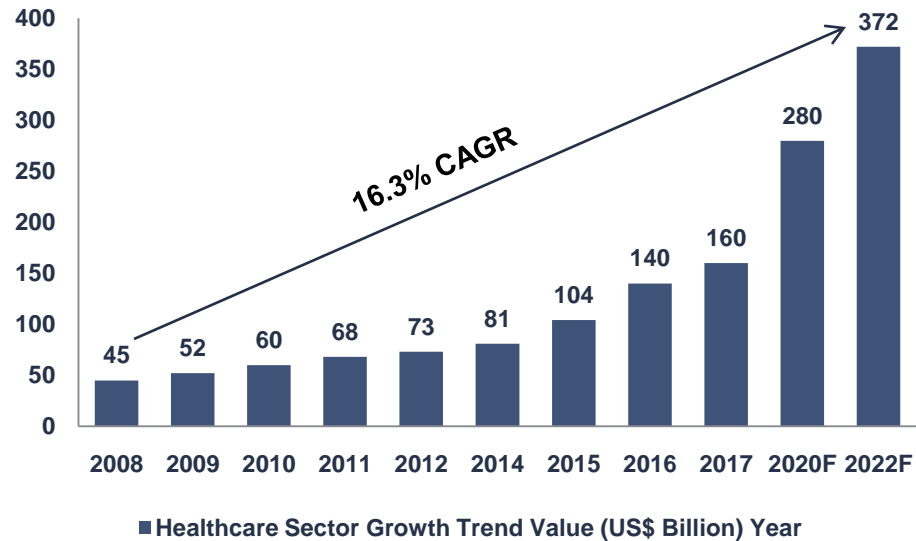
	FY17	FY18	FY19	FY20E	FY21E
Sales	7,913	9,124	10,569	12,034	13,789
EBITDA	2,097	2,375	2,640	2,937	3,275
PAT	1,332	1,556	1,718	2,005	2,629
PAT Margin	17%	17%	16%	17%	19%
PE (x)	78	71	61	46	38
ROE%	26%	25%	23%	23%	20%
Current Ratio	1.4	1.5	1.1	1.0	1.0

Shareholding Pattern (in %)	Dec-18	Mar-19	Jun-19	Sep-19
Indian Promoters	56.91	56.91	56.91	56.91
Institutions	25.09	26.17	28.53	30.22
Non-Institutions	18	16.92	14.56	12.87
Total of Promoter and Public Shareholding	100	100	100	100

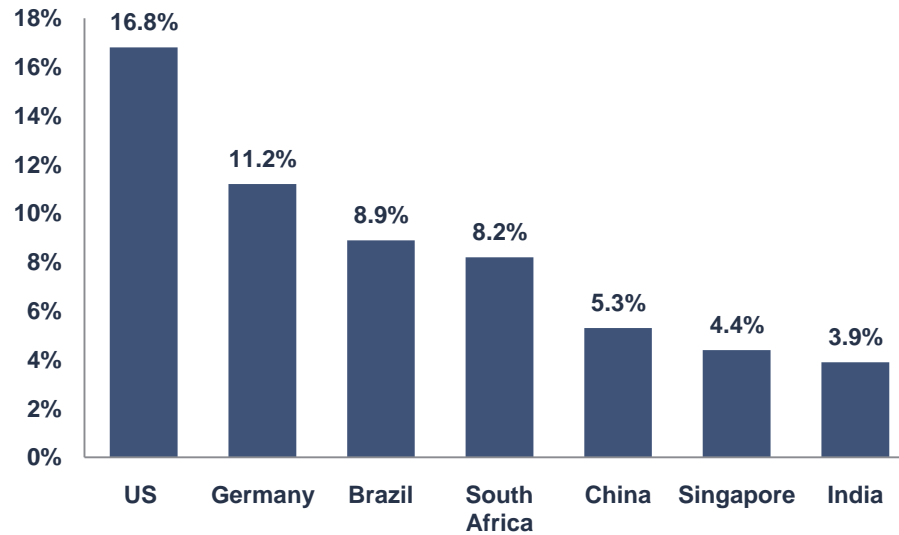
# Structure of healthcare service industry in India



# Industry Overview: India



# India has one of the lowest health expenditure



# Industry Overview

- ❑ Healthcare sector stands on of the largest sector on the basis of revenue and employment. The sector has been growing at a good speed owing to widening presence and coverage to larger mass of population followed by services and increasing spend on the sector by the public and private player.
- ❑ Further, it is expected that during the period 2008-2022 the market could record a CAGR of 16.3%. The total industry size is expected to reach \$280 US billion in FY2020 and \$372 US billion in FY2022. The hospital industry in India stood at Rs 4 trillion (\$61.79 billion) in FY 17 and is expected to increase at a CAGR of 16.2% to reach Rs 8.6 trillion (\$132.84 billion) by FY2022. (Source: IBEF)
- ❑ Since 2000 till 2014, Expenditure on health in India has increased three-fold. This shows the need and demand has lot more potential left in years to come. Three-fold increase in expenditure owes to growing per capita income, affordability and availability to high quality healthcare facilities and spreading awareness to larger population.

# Industry Overview

- ❑ Strong promotion and marketing of health insurance has helped in scaling up healthcare spending. This would further size up in coming years. Economic growth is bringing in the advancement in generic drug market. In the above chart, we see the Government's allocation towards health sector has stepped up to 1.4% of GDP in FY18 from 1.2% in FY14. Furthermore, the Government has planned to reach 2.5% by 2025.
- ❑ In the Union Budget 2018-19 as part of public expenditure, the central government announced two major initiatives under Ayushman Bharat programme. These two initiatives are Health and Wellness Centre and National Health Protection Scheme (NHPM).
- ❑ An allocation of Rs.1,200 crore has been made for 1.5 lakh health and wellness centers which will help bring health care system closer to the homes of general population and also these centers will provide free essential drugs and diagnostic services.
- ❑ Under NHPM scheme, over 10 crore poor and vulnerable families (covering approximately 50 crore beneficiaries) will be covered and a coverage up to Rs.5 lakh per year per family for secondary and tertiary care hospitalization will be provided.

## Company background:

- ❑ The company focuses on providing patients quality diagnostic and related healthcare tests and services. The company's focus on the patient as a customer is a critical differentiator in the diagnostic and healthcare industries and, together with what its brand's recognition for quality diagnostic services, results in individuals and healthcare providers choosing it as their diagnostic healthcare service provider. This is because (i) in India, patients generally choose their diagnostic healthcare service provider and (ii) patients and healthcare providers seek quality healthcare services, range in quality test and reliability of diagnostic healthcare services in India.
- ❑ With over 3,368 diagnostic and related healthcare tests and services offered, the company is capable of performing substantially all of the diagnostic healthcare tests and services currently prescribed by physicians in India. Its diagnostic and related healthcare tests and services include (i) routine clinical laboratory tests - such as blood chemistry analyses and blood cell counts; (ii) specialized testing services - such as histopathology analyses, genetic marker-based tests, viral and bacterial cultures and infectious disease tests; and (iii) preventive testing services - such as screenings for hypertension, heart disease and diabetes. It performs these tests and services in its clinical laboratories using sophisticated and computerized instruments.

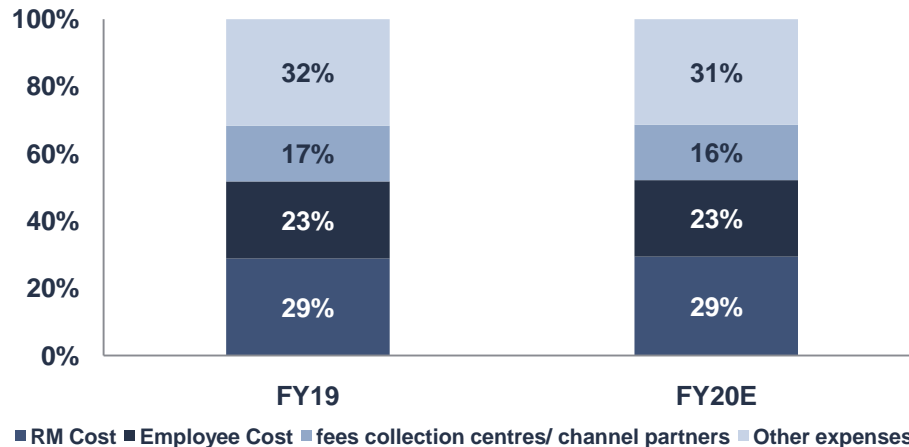


## Company background:

- ❑ The company has built a national, 'hub and spoke' network that includes its National Reference Laboratory in New Delhi. The company's 'hub and spoke' model, whereby specimens are collected across multiple locations within a region for delivery to a predesignated clinical laboratory for centralized diagnostic testing, provides greater economies of scale and offers a scalable platform for the continued growth of its business. Its network is present across India, including large cities such as New Delhi, Mumbai, Bengaluru, Chennai, Hyderabad and Kolkata. The company's centralized information technology platform fully integrates its large network through a common logistics and payments system and tracks its operations and internal performance metrics, thereby enabling it to improve the efficiencies of its business.
- ❑ The company is a provider of diagnostic and related healthcare tests and services in India. Through its integrated, nationwide network, the company offers patients and healthcare providers a broad range of diagnostic and related healthcare tests and services for use in core testing, patient diagnosis and the prevention, monitoring and treatment of disease and other health conditions. Its customers include individual patients, hospitals and other healthcare providers and corporate customers.

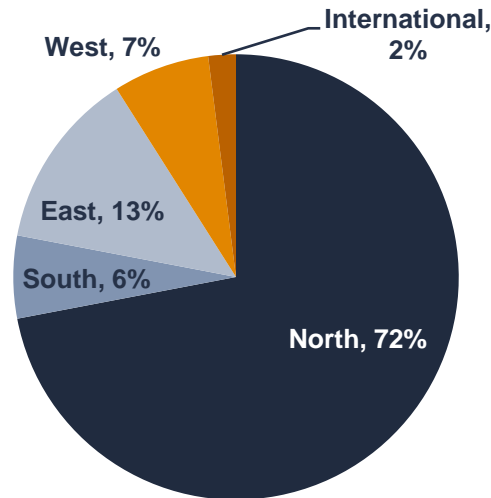
## Investment Rationale:

- **Improving cost efficiencies and debt free** : The company is working strongly on minimizing the cost in order to improve operating dynamics and create headroom for absorbing the shocks. The key cost head items were mainly growth directed such as strengthening network capacity and infrastructure. The cost registered a growth of 14.7% YoY basis to Rs. 9097.6 mn. Overall the cost majorly counts chemicals, people costs, fees to collection centres, logistics cost, technology and infrastructure. The company enjoys the debt free status and has sufficient cash flow to fulfil its short term requirement.



## Investment Rationale:

- ❑ **Growth Strategy:** DLPL has planned to bring customer centric approach into play. The company is aiming to bring brand recognition and differentiate itself amongst peers. The company aims to increase its presence through hub and spoke approach. This approach will bring in smaller and under-served pockets in the existing markets. The company encourages the standalone labs to partner with the company which would benefit in gaining market share from the unorganized players.

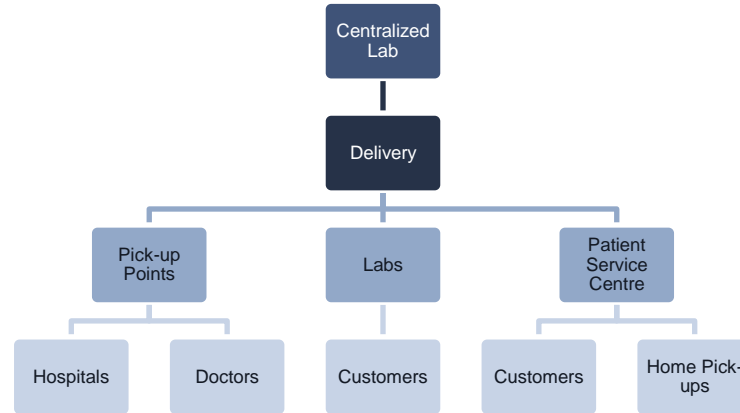


## Investment Rationale:

Moreover, the company tends to build presence in Bihar, Jharkhand, Madhya Pradesh, Uttar Pradesh, West Bengal, Chhattisgarh, North East, Bengaluru and Pune. The company looks for acquisition and tie ups which will further enhance its core operation. It focuses on broadening test menu and service platform. "Swasthfit", the company's online healthcare channel where it provides information on heart, liver, lungs, kidney and diabetes care programs to manage the health. Lastly, it scans opportunities for managing hospital based laboratories to grasp growth and bring operational efficient

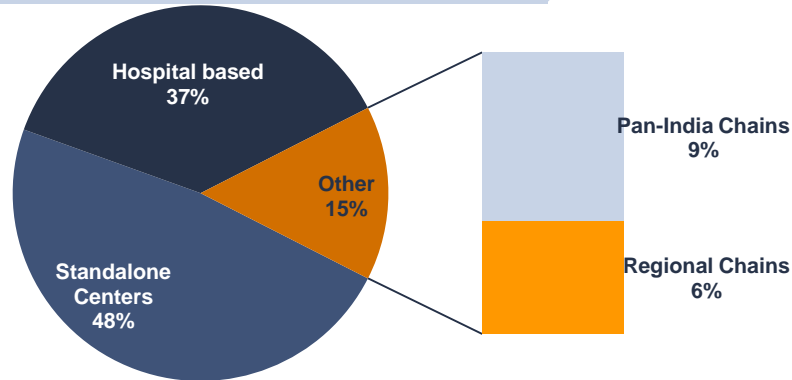
- ❑ **Healthy growth in core markets:** DLPL is a Delhi based company and holds strong position in Delhi NCR region. In last two years, DLPL's count of clinical lab has increased from 189 in FY17 to 200 in FY19. Also, the sample number has boosted from 29.3 in FY17 to 41.8 in FY19. The company has grown and sustained high margin against it peers. With an decade old of experience, we anticipate the company will able to grow at high teen and keeping the momentum in volume terms going.

# Hub and spoke structure:



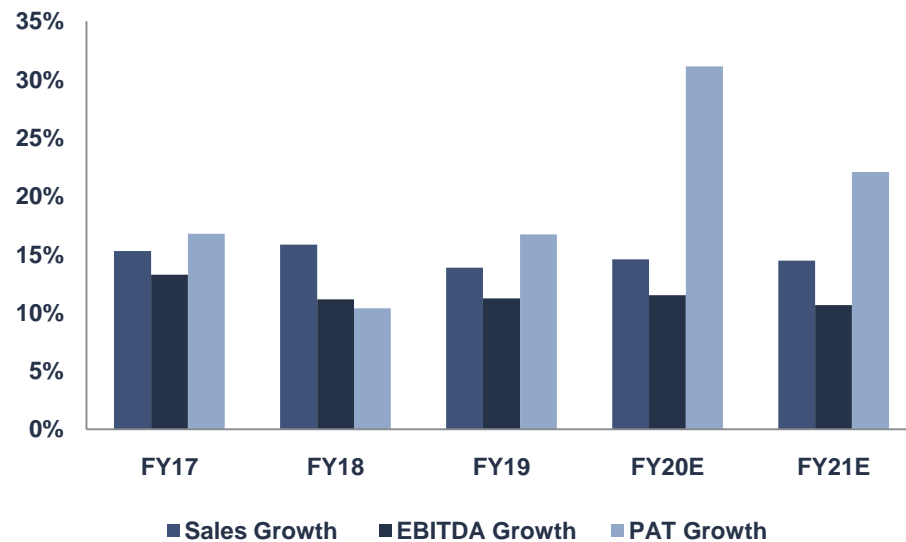
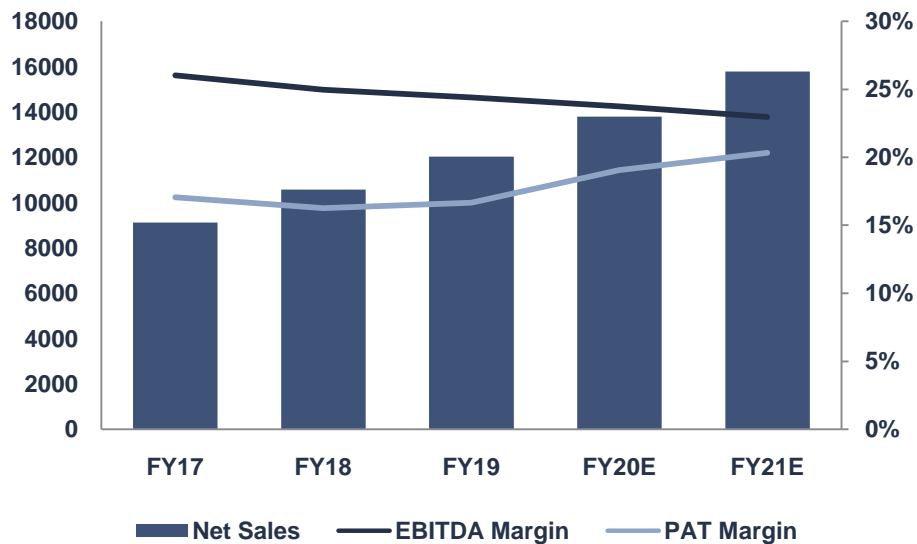
- **Unique business model:** Diagnostic market in India is distributed in different styles such as standalone players and hospital laboratories which gives strong growth potential for the company in years to come. Under hub and spoke model, the company can take the most advantage out of it. The game play of acquisition and expanding network through franchise will acquire more market share for the company. In hub and spoke model, the company will have a centralized lab acting as a “hub” and “spoke” will be service and collection centre where the new customer will be targeted.

## Investment Rationale:

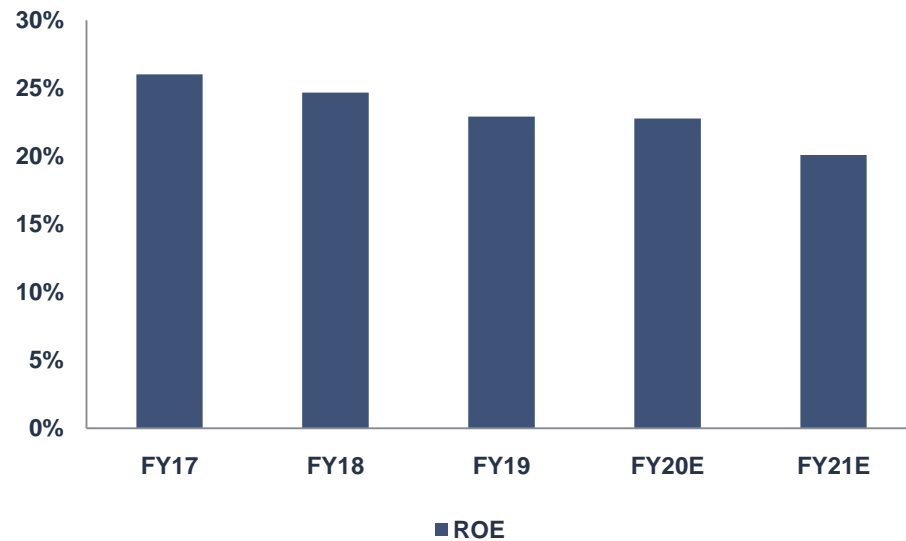
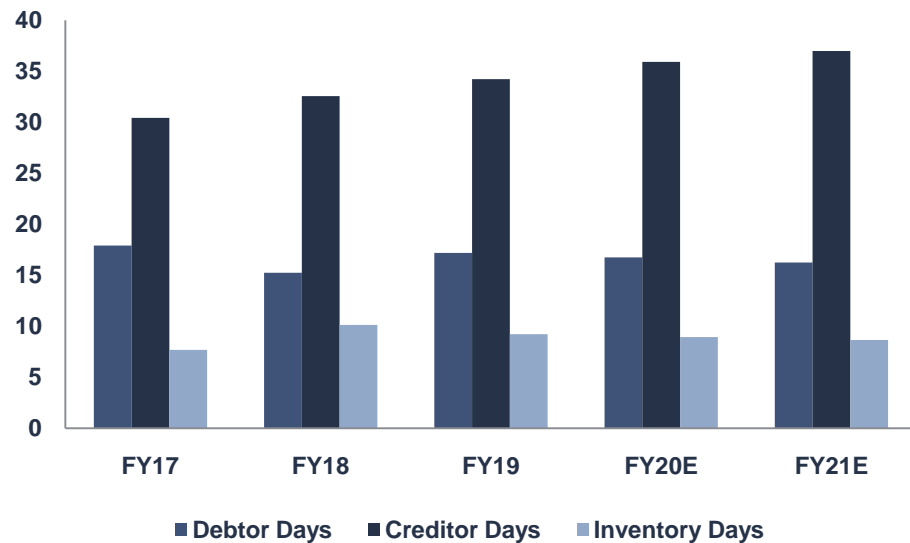


- **Industry trigger:** At the moment, the industry is majorly divided into 3 categories, i.e, 48% standalone, 37% hospital based and 15% diagnostic chains. In 15% diagnostic chain, it is fragmented into 9% by regional chains and 6% by pan-India chains. The company's business model can bring in more market share by increasing tie ups which will compliment there operational business. With increasing awareness on preventive health, rising income will pave way for the industry to grow magnificently. Many schools and corporate are coming forward for organizing health check up camps and events which further develop the mindsetin population regarding early detection of disease. We expect the segment to garner good growth on the above mentioned triggers for next couple of years.

# Financial Performance:

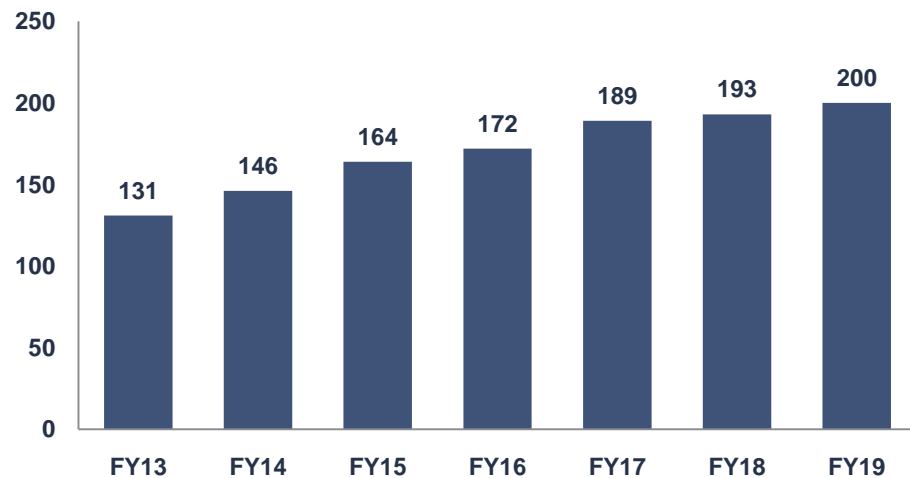


# Financial Performance:

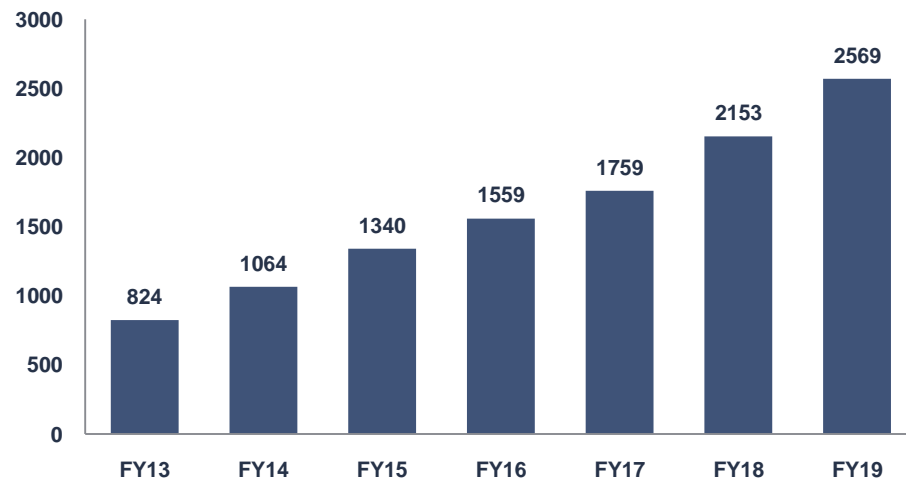




## Operational Performance:

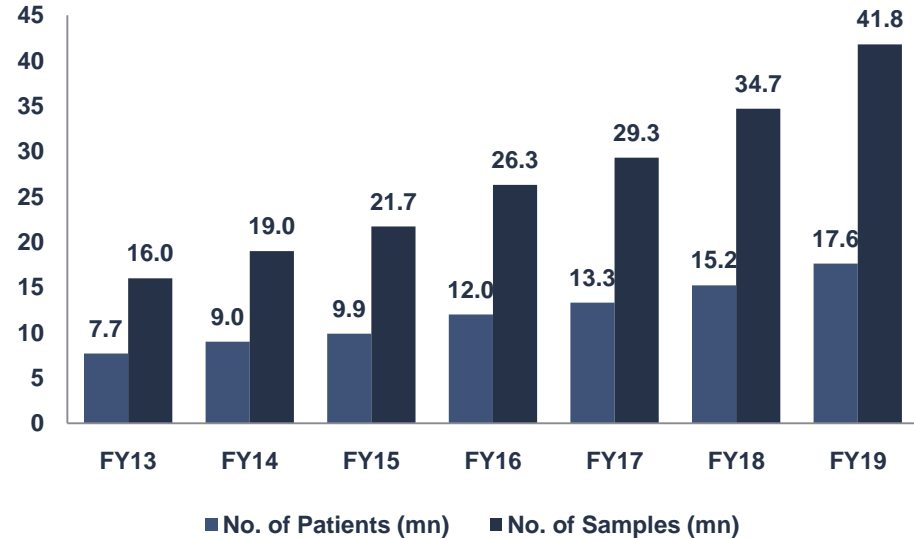
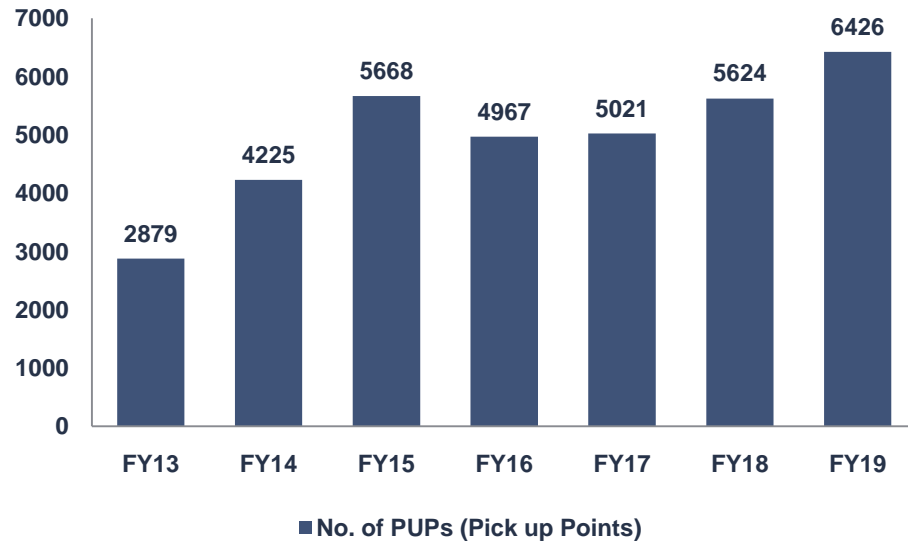


■ No. of clinical Labs



■ No. of PSCs (Patient Service Centre)

## Operational Performance:



# PE valuation band



The stock is trading below the average PE multiple of 60x. The stock trades at 38x PE FY21E which leaves a decent upside ~25% (18-24 months)

# Peer Comparison

Financial Ratios:	Apollo Hospitals Enterprise Ltd.	Aster DM Healthcare Ltd.	Dr. Lal Pathlabs Ltd.	Metropolis Healthcare Ltd.	Thyrocare Technologies Ltd.
<b>MCAP (Cr.)</b>	<b>18,824</b>	<b>7,702</b>	<b>12,232</b>	<b>6,497</b>	<b>2,831</b>
EBITDA Margin (%)	11.4	11.6	28.2	27.9	40.8
EBIT Margin (%)	7.3	7.7	25.0	25.2	34.3
Pre Tax Margin(%)	3.9	5.2	25.0	24.7	34.1
ROA (%)	2.1	4.5	20.4	15.5	17.9
ROE (%)	6.1	12.2	23.8	30.2	19.4
ROCE (%)	10.2	11.0	34.8	45.1	31.4
Asset Turnover(x)	1.0	1.0	1.2	0.9	0.9
Fixed Asset Turnover (x)	1.5	1.5	4.3	2.9	1.2
Net Sales Growth(%)	16.7	18.5	13.9	17.6	13.1
EBITDA Growth(%)	32.7	36.3	15.0	13.9	-2.1
PAT Growth(%)	235.7	31.6	16.7	11.8	-9.5
Total Debt/Equity(x)	1.1	0.9	0.0	0.0	0.0
Current Ratio(x)	1.2	1.4	5.9	1.7	6.6
Quick Ratio(x)	0.9	1.1	5.7	1.6	5.7
Interest Cover(x)	2.1	3.0	359.2	46.6	226.4
<b>Valuation Ratios:</b>					
EPS	17.0	6.6	23.9	23.9	16.1
PE	79.7	23.1	61.4	54.1	33.2
EV/Ebitda	20.8	11.4	40.0	31.5	18.3

# Financial Statements:

Income Statement	FY17	FY18	FY19	FY20E	FY21E
Revenue from operation	9,124	10,569	12,034	13,789	15,782
RM Cost	1,971	2,260	2,624	3,096	3,579
Employee Cost	1,520	1,807	2,083	2,387	2,759
fees collection centres/ channel partners	1,001	1,276	1,510	1,730	2,003
Other expenses	2,257	2,586	2,882	3,302	3,817
EBITDA	2,375	2,640	2,937	3,275	3,624
<b>EBITDA Margin</b>	<b>26%</b>	<b>25%</b>	<b>24%</b>	<b>24%</b>	<b>23%</b>
Depreciation & Amort	275	331	382	471	533
Other income	275	312	459	711	1,201
EBIT	2,375	2,622	3,014	3,515	4,292
<b>Interest Expense</b>	<b>7</b>	<b>8</b>	<b>8</b>	<b>10</b>	<b>14</b>
PBT	2,368	2,613	3,005	3,505	4,278
Total Tax Paid	812	896	1,001	876	1,069
PAT	1,556	1,718	2,005	2,629	3,208
<b>PAT Margin</b>	<b>17%</b>	<b>16%</b>	<b>17%</b>	<b>19%</b>	<b>20%</b>

Higher and sustainable operating margins

Reduction in the tax cut has resulted in good profitability and increased profit margin.

Balance Sheet	FY17	FY18	FY19	FY20E	FY21E
Net Fixed Asset	1,079	1,598	1,601	1,518	1,389
Net Intangibles	166	198	206	198	172
Capital Work in progress	156	96	34	34	34
Intangible Asset Under Development	19	-	-	-	-
Loans & Advances	214	382	212	235	264
Non-current tax assets (net)	70	93	132	132	132
Deferred tax Asset (net)	137	169	215	-	-
Other non-current assets	246	274	194	217	244
Inventories	179	273	285	316	351
Investments	1,061	1,448	1,848	1,848	1,848
Trade receivable/debtors	418	412	532	593	659
Cash and Bank Balance	2,395	3,135	4,902	9,238	14,375
Other assets	481	799	463	518	581
Trade payable	524	655	798	965	1,149
Other Current Liabilities	327	483	418	501	590
Provisions	69	87	134	145	161
<b>Total Assets</b>	<b>5,981</b>	<b>7,931</b>	<b>9,555</b>	<b>13,516</b>	<b>18,429</b>
Equity Share Capital	831	833	833	833	833
Other Equity	5,125	7,045	8,622	12,583	17,495
Total Equity	5,955	7,878	9,455	13,416	18,329
Non-Controlling Interest	24	38	55	55	55
Current Tax liabilities (net)	2	14	45	45	45
<b>Total Liabilities</b>	<b>5,981</b>	<b>7,931</b>	<b>9,555</b>	<b>13,516</b>	<b>18,429</b>

Lower capital expenditure to decrease depreciation cost which will elevate margins

Cash rich balance sheet

# Ratios:

Ratios	FY17	FY18	FY19	FY20E	FY21E
PE (x)	78.3	71.0	60.8	46.4	38.0
EV/EBITDA (x)	50.3	45.0	39.8	34.4	29.7
P/B (x)	20.5	15.5	12.9	9.1	6.6
ROE%	26.0%	24.7%	22.9%	22.8%	20.1%
ROCE%	24.7%	38.6%	36.1%	29.2%	25.7%
BVPS	71.5	94.6	113.5	161.1	220.0
PEG	5.3	2.6	1.7	-	-
Current Ratio	1.4	1.5	1.1	1.0	1.0
Du pont Analysis	FY17	FY18	FY19	FY20E	FY21E
Profit Margin	17%	16%	17%	19%	20%
Asset Turnover	1.5	1.5	1.4	1.2	1.0
Financial Leverage	1.0	1.0	1.0	1.0	1.0

Superior return ratios

## Quarterly performance:

DESCRIPTION	Sep-19	Jun-19	Mar-19	Dec-18	Sep-18
Gross Sales	3656.0	3352.0	3011.0	2925.0	3175.0
Less: Excise Duty	0.0	0.0	0.0	0.0	0.0
Net Sales	3656.0	3352.0	3011.0	2925.0	3175.0
<b>Growth (%)</b>		<b>-8%</b>	<b>-10%</b>	<b>-3%</b>	<b>9%</b>
Share of Associates	0.0	0.0	0.0	0.0	0.0
Other operating income	0.0	0.0	0.0	0.0	0.0
Net Sales & Other Operating Income	3656.0	3352.0	3011.0	2925.0	3175.0
Total Expenditure	2567.0	2401.0	2349.0	2269.0	2307.0
EBITDA (Excl OI)	1089.0	951.0	662.0	656.0	868.0
<b>EBIDTA Margin</b>	<b>30%</b>	<b>28%</b>	<b>22%</b>	<b>22%</b>	<b>27%</b>
Other Income	148.0	144.0	135.0	122.0	109.0
Operating Profit	1237.0	1095.0	797.0	778.0	977.0
Interest	37.0	38.0	1.0	3.0	2.0
Exceptional Items	0.0	0.0	0.0	0.0	0.0
PBDT	1200.0	1057.0	796.0	775.0	975.0
Depreciation	177.0	163.0	104.0	96.0	94.0
PBT	1023.0	894.0	692.0	679.0	881.0
Tax	213.0	303.0	218.0	218.0	308.0
Profit After Tax	810.0	591.0	474.0	461.0	573.0
<b>PAT Margin</b>	<b>22%</b>	<b>18%</b>	<b>16%</b>	<b>16%</b>	<b>18%</b>

Topline growth again in upward trajectory

Operating margins jumped by 500 bps to 27% in Q2FY19.



## Conclusion:

- Despite industry tailwinds, the company looks financially strong with high and sustainable margins, superior return ratios, debt free and cash rich balance sheet.
- We believe the stock is trading at a reasonable valuation of 38x FY21E and we recommend a buy with the price target of Rs.1830, which leaves the potential upside of ~25%

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