

07th November 2023

Dr. Lal Path Labs Ltd. – BUY

CMP : Rs. 2,675
Target Price : Rs. 3,372
Upside : 26% +
Stop Loss : Rs. 2,250 (Closing basis)

Investment Thesis

- Dr. Lal Path Labs (DLPL) is the largest diagnostic chain in the country based on revenue and network. Currently, DLPL operates 277 Clinical Labs (CLs) including National Reference Labs in Delhi and Regional Reference Labs at Kolkata, Bangalore, and Mumbai, 5,102 Patient Service Centers (PSCs) and 10,938 Pick-Up Points (PUPs) as of Sept – 23. DLPL has a Catalogue of 5,191 Pathology & Radiology; and a comprehensive tests menu indicating a superior service capability.
- Management believes that bundled tests have now become normal. "Swasthfit" which is a bundled test offering, contributed Rs. 126 crs in Q2FY24, accounting for ~21% of total revenues and is growing at 25%. It is expected to reach ~25% revenue share, as individuals would increase spending on preventive healthcare services. Further, management has received requests to bundle high end tests as well, since that enable early diagnosis.
- The number of patients tested has increased 7.7% ex-RTPCR and samples processed has grown by 12% ex-RTPCR which indicates a smart recovery that will pick up pace gradually. DLPL has positioned itself to capture this.
- The focus is clear on expanding wider and deeper. To achieve this target DLPL has targeted Western and Southern India as key regions wherein expansion activities would be focused. With 20+ labs to be opened in Tier 3+ towns. Currently, Tier 3+ towns account for 34% of total revenues and are growing faster than other regions.
- Suburban Diagnostic (SDL) has witnessed improved traction contributing Rs. 42.7 crs up 10.4% Y-o-Y in Q2FY24 on account of the targeted marketing campaigns and a shift to the franchisee-based model, yielding enhanced operating leverage. DLPL aims to create a strong foothold in the Mumbai, Pune, and Goa.
- The competitive intensity from online players has subsided and the significant investment made to build Hub labs has reduced the turnaround time enabling DLPL to gain market share. During H1FY24 capex incurred was Rs. 27 crs, further bolstering this competitive advantage.

Financials

- Total Revenue for Q2FY24 increased 12.6% Y-o-Y and H1FY24 revenues were up 10.2% to reach Rs. 1,142 crs against Rs. 1,037 crs in H1FY23.

Particulars	FY21	FY22	FY23	FY24E	FY25E
Revenue (Rs in Crs)	1,632.6	2,139.9	2,058.6	2,398.3	2,794.0
EBITDA (Rs in Crs)	487.6	613.2	531.6	623.6	726.4
Adj. PAT (Rs in Crs)	296.5	350.3	241.1	383.7	447.0
Adj. EPS (Rs.)	35.0	41.4	28.7	40.0	53.5
PE Multiple (x)	80.6	63.1	62.6	64.0	62.0
RoE (%)	26.9	26.4	14.5	18.7	17.9

Stock Data

Market Cap (Rs. Crs)	22,252
Market Cap (\$ Mn)	2673
Shares O/S (in Mn)	83.13
Avg. Volume (3 month)	2,61,244
52-Week Range (Rs.)	2,685 / 1,762

Shareholding Pattern

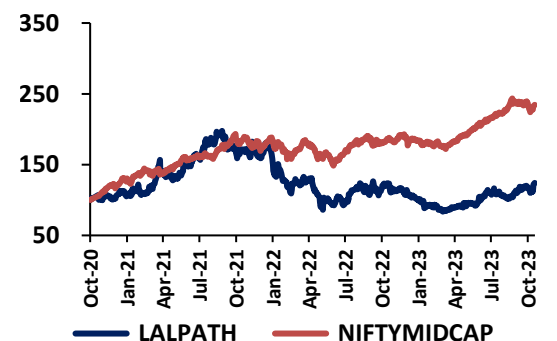
Promoters	54.61
FIIIs	24.35
Institutions	9.14
Others (incl. body corporate)	11.89

Key Ratios

Div Yield	0.44
TTM PE	74.1
ROE	14.5
TTM EPS (Rs.)	36.1

Stock Performance

Performance (%)	1M	6M	1Yr
ABSOLUTE	6.7	37.1	0.8
RELATIVE	7.6	14.2	-24.1



- The EBITDA rose to Rs. 178 crs up 23.6% on a Y-o-Y basis, which led to margin expansion of ~153 bps to 29.6% in Q2FY24, the highest margin since Jun – 21. Management believes an EBITDA margin of 26% is sustainable in the long-term.
- DLPL, saw a growth of 1.1% on sequential basis in the revenue per patient in Q2FY24 to Rs. 798 on the back of price increases, superior product mix and higher contribution from Swasthfit Portfolio. In Q2FY24, Swasthfit contributed to ~21% of revenues.
- The Cash on Books has jumped significantly to Rs. 780 crs in Q2FY24 from Rs. 419 crs in the Q2FY23, with the management indicating they would deploy this to acquire assets in the southern states where DLPL has little presence.

Key Business Highlights

- DLPL is India's leading & trusted diagnostics company with 70+ years of experience in the field of diagnostics. It has an integrated PAN-India network, where patients and healthcare providers are offered a range of diagnostics 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.
- The services of DLPL are aimed at individual patients, hospitals, healthcare providers and corporate entities as well.
- During H1FY24 DLPL serviced 14.4 mn patients and processed 40.5 mn samples
- The average revenue per patient for Q2FY24 was Rs. 798.
- The company initiated three digital initiatives: Chips, AI Recommendation engine, and Patient Wallet. These programs combined with the patient wallet will provide personalized, scalable, digital customer relationship management program.

Valuation

DLPL has posted robust set of Q2FY24 numbers, on the back of a smart recovery in the volumes and margin expansion. This provides us the confidence that this growth trajectory can be maintained.

Post results DLPL is available at Rs. 2,675. This imputes a TTM PE / EBITDA Multiple of 74.1x / 35.8x against the 5-year median of 68.2x / 34.0x which is reasonable. However, when compared to the Industry PE / EBITDA Multiple of 49.3x / 27.0x it is available at a significant premium.

We believe this is warranted since it is an industry leader, expanding operations with great prospects, in a growing market.

Therefore, considering above, we are ascribing a **BUY** rating for **DLPL** with a **target price** of **Rs. 3,372**, translating to an **upside** of **26+%**.

Risk & Concern

- Increased competition from existing competitor and new entrants, both of which are unorganized and organized players.
- Entry of Pharmaceutical & Hospitals companies in the diagnostic business.
- Technological disruption
- Government price caps

Graphs & Charts

Figure 1: Revenue Trend Q2FY24 (Rs. In Crs)

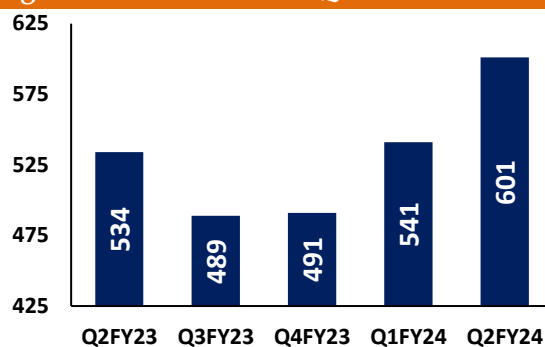


Figure 2: EBITDA & EBITDA Margin Q2FY24

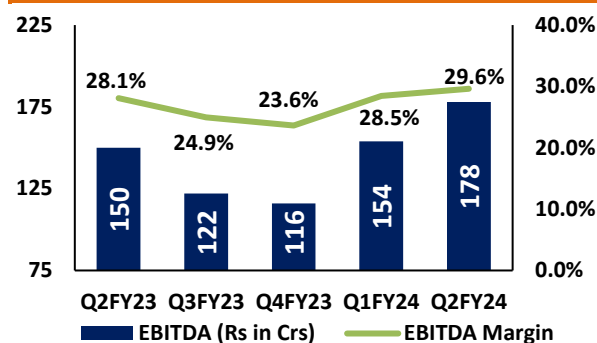


Figure 3: Location-wise Revenue (FY23)

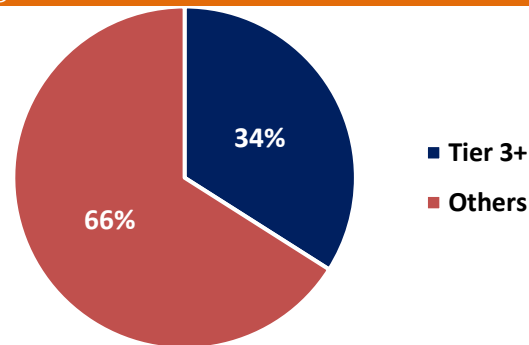
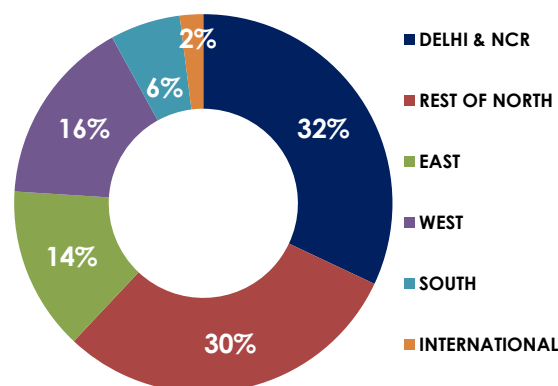


Figure 4: Region-wise Revenue (FY23)



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