

29<sup>th</sup> May 2023

## Dr. Lal Path Labs Ltd. – BUY

**CMP** : Rs. 2,034  
**Target Price** : Rs. 2,555  
**Upside** : 25 %+  
**Stop Loss** : Rs. 1,752(Closing basis)

### Investment Thesis

- 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 Mar – 23.
- DLPL hugely benefitted during and after the pandemic, as COVID-related testing created a massive opportunity on which it capitalized handsomely, evident from the massive jump in revenue and margin expansion. However, the core Non-COVID business has been growing at ~16% which is faster than the industry growth rate of 10-12%.
- Management believes that bundled tests have now become normal and "Swasthfit" which is a bundled test offering, contributed Rs. 370 crs in FY23, accounting for ~19% of total non-COVID revenues and is expected to grow further as individuals would increase spending on preventive healthcare services.
- During FY22, DLPL strategically acquired Suburban Diagnostic (SDL) to improve its footprint in Western India. SDL has now been fully integrated into the DLPL eco-system and set up a regional reference lab in Vidyavihar, Mumbai in Jan – 2023. This will solidify its position in the Mumbai Metro Region.
- DLPL uses its superior technological and network advantage to generate massive free cash flows. DLPL has been consistently free cash positive for the last 10 years except in the FY22 which was on account record CapEx and Suburban acquisition.
- DLPL has also developed a super speciality test portfolio under the name GENEVOLVE which involves genetic testing which is highly profitable. Management believes there is high growth potential in this product which will drive revenue and margins higher.
- After a pause in FY23, management has indicated they shall resume network expansion and target Tier III and Tier IV with a target of 10 to 15 labs in those areas, along with strengthening the foothold in the metro cities.

### Financials

- Total Revenue for FY23 decline by 3% owing to a sharp decline of 84% in COVID related testing revenues. However, DLPL continued to show strong growth of 16% in the Non-Covid segment to reach Rs. 1,954 crs.

Particulars	FY20	FY21	FY22	FY23	FY24E
Revenue* (Rs in Crs)	1,385.4	1,632.6	2,139.9	2,058.6	2,346.8
EBITDA*(Rs in Crs)	398.6	487.6	613.2	531.6	616.2
Adj. PAT * (Rs in Crs)	227.6	296.5	350.3	241.1	333.2
Adj. EPS (Rs.) *	27.12	35.01	41.39	28.65	39.95
PE Multiple (x)	52.33	80.56	63.16	62.60	64.00
RoE (%)	23.74	26.89	26.39	14.47	16.65

\*Assuming COVID related services are discounted

### Stock Data

Market Cap (Rs. Crs)	16,893
Market Cap (\$ Mn)	2,039.47
Shares O/S (in Mn)	83.4
Avg. Volume (3 month)	2,17,357
52-Week Range (Rs.)	2,752 / 1,762

### Shareholding Pattern

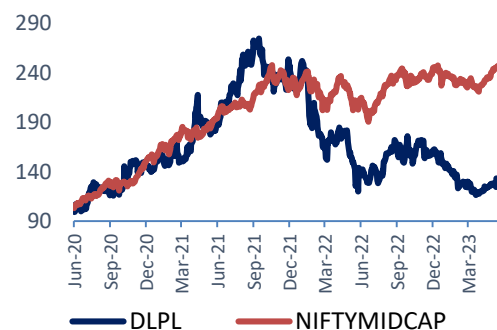
Promoters	55.03 %
FII's	24.89 %
Institutions	6.55 %
Others (incl. body corporate)	13.53 %

### Key Ratios

Div Yield	0.6%
TTM PE	71.4x
ROE	14.47 %
TTM EPS (Rs.)	28.66 /-

### Stock Performance

Performance (%)	1M	6M	1Yr
ABSOLUTE	5.7	-17.0	2.3
NIFTYMIDCAP	5.6	5.8	18.7



- Consequently EBITDA margin was impacted, which contracted by 260 bps to 26.2% for FY23.
- DLPL, saw a growth in the revenue per patient in Q4FY23 to Rs. 774 lead by price increase, superior product mix and higher contribution from Swasthfit Portfolio. In Q4FY23, Swasthfit contributed to ~22% of the Non-COVID business.
- Cash and Cash equivalents have increased to Rs. 838 Cr as on Mar – 23 were accounting for ~35% of the balance sheet size.

## 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 FY23, DLPL added 371 PSCs and 339 PUPs. Further, No of Patient serviced stood at 26.9 mn, of which 6.3 mn where serviced in Q4FY23.
- The average revenue per patient for FY23 was Rs. 749.81.
- In FY23, contribution from COVID and related tests was Rs. 63 cr which declined to 3% from 19% in FY22.
- 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, post the FY23 results, is trading at Rs.2,034 which is a ~25% discount from the 52-week of Rs. 2,752 and a 51% discount from its all-time high of Rs. 4,245 valuing it at a PE / EBITDA Multiple of 71.4x / 31.6x against the 5-year median of 62x / 32.3x, which is reasonable. However, when compared to the industry PE / EBITDA Multiple of 48.6x / 21.9x meaning it is available at a premium of ~35% which is warranted since it is an industry leader, with great prospects, in a growing market.

Therefore, in light of above, we are ascribe a **BUY** rating for **DLPL** with a **target price** of **Rs.2,555.00**, translating to an **upside** of **~25%**.

## 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: Net Sales Trend (Rs. In Crs)

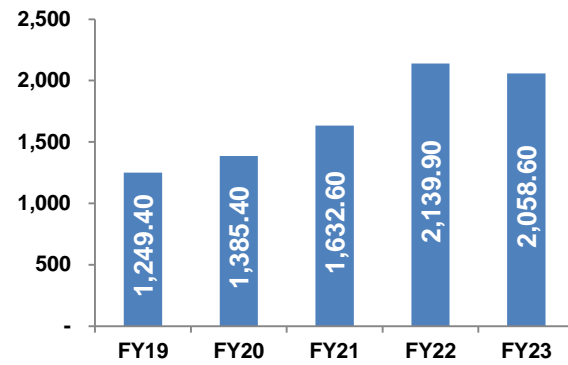


Figure 2: EBITDA & EBITDA Margin Trend

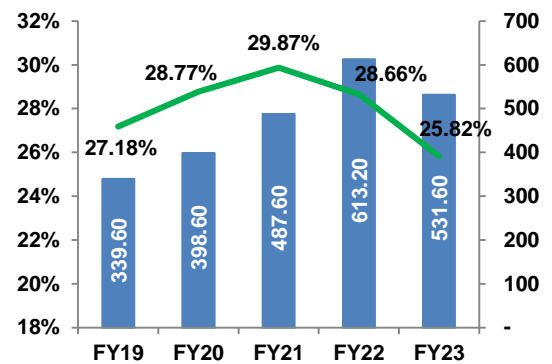


Figure 3: Customer-wise Revenue (FY23)

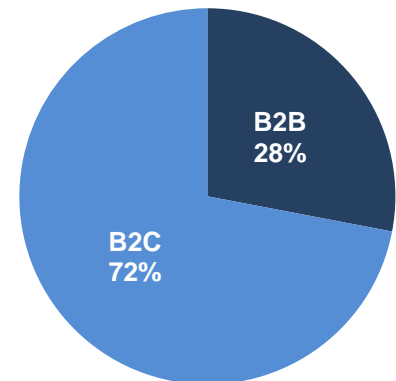
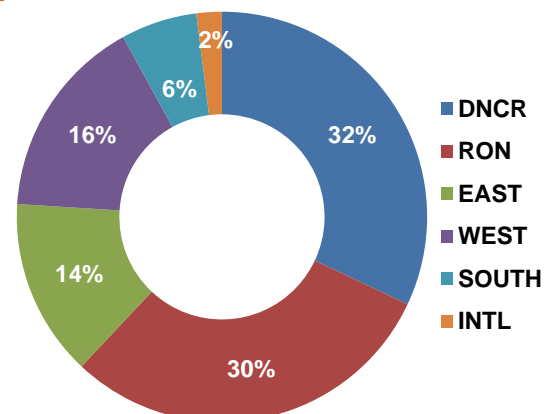


Figure 4: Vertical-wise Revenue (FY23)



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