

August 14, 2019

Q1FY20 Result Update

■ Change in Estimates | ■ Target | ■ Reco

Change in Estimates

	Current		Previous	
	FY20E	FY21E	FY20E	FY21E
Rating	BUY		BUY	
Target Price	595		595	
Sales (Rs. m)	4,563	5,158	4,563	5,158
% Chng.	-	-	-	-
EBITDA (Rs. m)	1,643	1,857	1,643	1,857
% Chng.	-	-	-	-
EPS (Rs.)	18.6	20.6	18.6	20.6
% Chng.	-	-	-	-

Key Financials - Consolidated

Y/e Mar	FY18	FY19	FY20E	FY21E
Sales (Rs. m)	3,563	4,029	4,563	5,158
EBITDA (Rs. m)	1,447	1,542	1,643	1,857
Margin (%)	40.6	38.3	36.0	36.0
PAT (Rs. m)	933	851	982	1,088
EPS (Rs.)	17.4	16.1	18.6	20.6
Gr. (%)	117.6	(7.1)	15.4	10.8
DPS (Rs.)	12.1	12.1	12.1	12.1
Yield (%)	2.7	2.7	2.7	2.7
RoE (%)	21.9	19.4	21.7	22.1
RoCE (%)	29.3	29.1	30.0	30.8
EV/Sales (x)	6.4	5.6	4.9	4.3
EV/EBITDA (x)	15.7	14.7	13.6	11.8
PE (x)	25.6	27.6	23.9	21.6
P/BV (x)	5.4	5.4	5.0	4.6

Key Data

THYO.NS | THYROCAR IN

52-W High / Low	Rs.697 / Rs.407
Sensex / Nifty	37,312 / 11,029
Market Cap	Rs.23bn/ \$ 329m
Shares Outstanding	53m
3M Avg. Daily Value	Rs.25.04m

Shareholding Pattern (%)

Promoter's	65.95
Foreign	10.90
Domestic Institution	14.18
Public & Others	8.98
Promoter Pledge (Rs bn)	-

Stock Performance (%)

	1M	6M	12M
Absolute	(7.3)	(9.5)	(27.2)
Relative	(3.7)	(13.0)	(26.1)

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Q1 Sales inline; Focus on growth to stave off competition from start ups

Thyrocare's sales grew 13% YoY, EBITDA grew 11% Yoy and PAT increased by 16% YoY in Q1FY20. The growth in preventive care returned with lower realisation due to more focus on volume growth instead of price cuts key diagnostic tests. Overall, Thyrocare increased 10% price for its sick care business in B2B segment while price of few tests in preventive care marginally reduced in Q1FY20. Management guided that the benefits of price rationalization in Aarogyam 1.1, 1.2 and 1.3 will be visible in FY20E.

Hence, we expect better traction in volumes and growth in the remaining three quarters of FY20E. Management guided for increased focus on B-2-B business with higher incentives and revenues per franchisee as it focusses on eliminating layers of middlemen and channelizing benefits of rationalized price to end consumers. Maintain guidance of B-2-C growth by spending Rs90-100m p.a. on advertisements.

The stock trades at PER of 23.8x and 21.5x FY20E and FY21E respectively. With favorable H2FY20E, we expect Thyrocare to at least 15% YoY growth in revenues and 15% YoY growth in PAT in FY20E as it focuses on EBITDA growth instead of profitability. Management guided that price rationalisations and advertisement (guided at 4-5% of sales) costs may impact EBITDA margin of its pathology business maximum by 400-500bps. While diagnostic companies is expected to trade at premium valuation with features of consumers business, Thyrocare valuation has been corrected by 36% in 12 months. With attractive valuation vs. peers, we maintain our earnings estimate and BUY rating with TP at Rs595.

Pathology revenue growth improves, maintains margin : Thyrocare's diagnostic business grew 13% YoY with while maintain 44% EBITDA margin in Q1FY20. Its volume grew 9% YoY and guided for 13-15% in FY20E. With expectation of rationalisation in price (driven by lower price and media promotion), the management guided for 15% growth in revenues.

New opportunity in pregnancy tests to explore: Thyrocare launched pre-natal and neonatal tests in May FY20 as the segment is expected to gain volume and premium pricing. With disruptive pricing, management plans to target molecular biology testing (child deformity) in neonatal segment as 50% of these tests are imported from China. Thyrocare processed 25, 50 and more than 100 samples in the first three months since commercialisation of the neo-natal tests.

Exhibit 1: Q1FY20 Result Overview (Rs mn)

Y/e March	Q1FY20	Q1FY19	YoY gr. (%)	Q4FY19	FY20E	FY19	YoY gr. (%)
Net Sales	1,097	972	12.9	1,056	4,563	4,029	13.2
Raw Material	309	256	20.5	306	1,355	1,105	22.6
<i>% of Net Sales</i>	<i>28.1</i>	<i>26.4</i>		<i>29.0</i>	<i>29.7</i>	<i>27.4</i>	
Personnel Cost	115	90	28.8	141	484	434	11.6
<i>% of Net Sales</i>	<i>10.5</i>	<i>9.2</i>		<i>13.4</i>	<i>10.6</i>	<i>10.8</i>	
Others	217	214	1.5	264	1,081	948	14.1
<i>% of Net Sales</i>	<i>19.8</i>	<i>22.0</i>		<i>25.0</i>	<i>23.7</i>	<i>23.5</i>	
Total Expenditure	641	560	14.6	711	2,920	2,487	17.4
EBITDA	456	412	10.7	345	1,643	1,542	6.5
<i>Margin (%)</i>	<i>41.6</i>	<i>42.4</i>		<i>32.7</i>	<i>36.0</i>	<i>38.3</i>	
Depreciation	74	57	29.4	70	281	262	7.3
EBIT	383	355	7.7	275	1,362	1,281	6.3
Other Income	24	23	4.4	20	104	100	5.0
Interest	5	1		2	-	6	
PBT	402	377	6.6	292	1,466	1,374	6.7
Extra-Ord. Inc./Exps.	-	-		1	-	7	
Total Taxes	129	142	(9.6)	130	484	529	(8.6)
<i>ETR (%)</i>	<i>32.0</i>	<i>37.8</i>		<i>44.4</i>	<i>33.0</i>	<i>38.5</i>	
Reported PAT	273	234	16.4	163	982	851	15.4

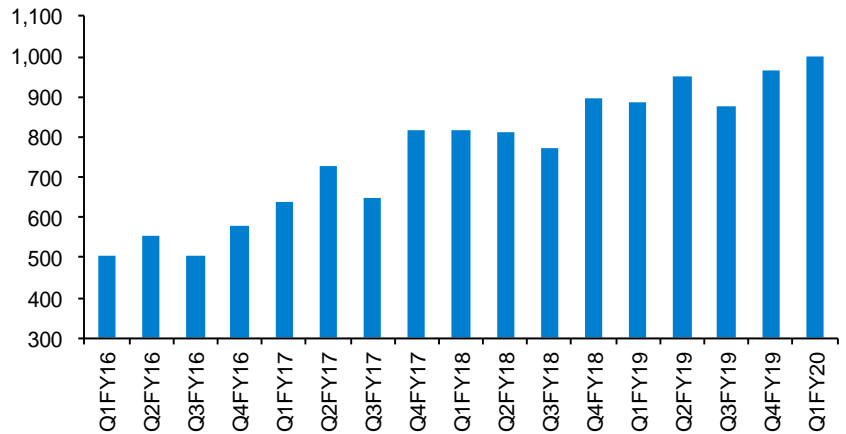
Source: Company, PL

Exhibit 2: Major Sources of Revenues (Rs mn)

Major sources of revenues	Q1FY20	Q1FY19	YoY gr. (%)	Q4FY19	FY20E	FY19	YoY gr. (%)
Diagnostic Services	1,000	889	12.5	966	4,539	3,681	23.3
<i>% of Net Sales</i>	<i>90.9</i>	<i>91.5</i>		<i>87.9</i>	<i>99.5</i>	<i>91.4</i>	
Imaging Services	95	80	19.0	83	-	326	(100.0)
<i>% of Net Sales</i>	<i>8.6</i>	<i>8.2</i>		<i>7.6</i>	<i>0.0</i>	<i>8.1</i>	
Sale of products/Others	5	3	65.6	6	24	22	11.1
<i>% of Net Sales</i>	<i>0.5</i>	<i>0.3</i>		<i>0.6</i>	<i>0.5</i>	<i>0.5</i>	
Total	1,100	972	13.2	1,056	4,563	4,029	13.2

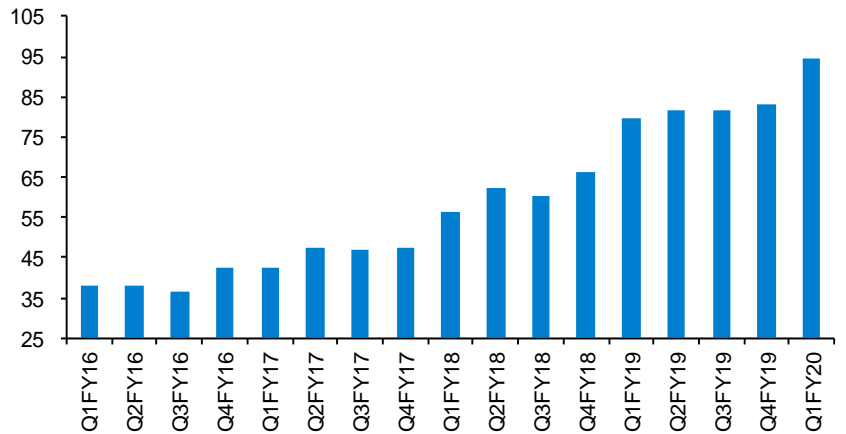
Source: Company, PL

Exhibit 3: Diagnostic revenues



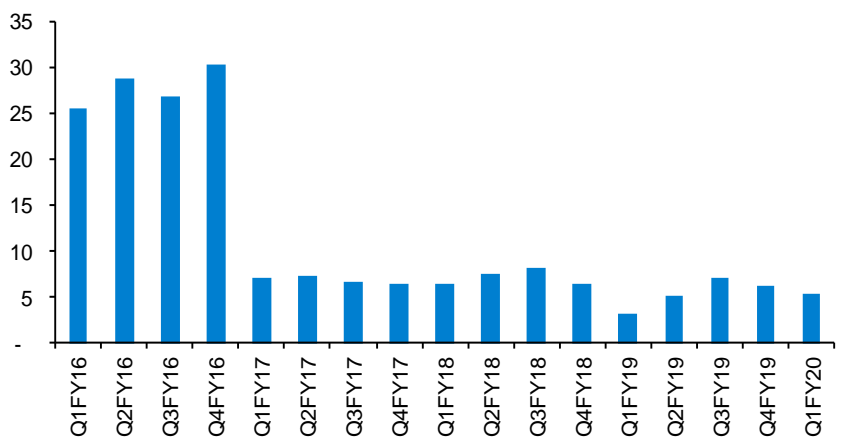
Source: Company, PL

Exhibit 4: Imaging revenues



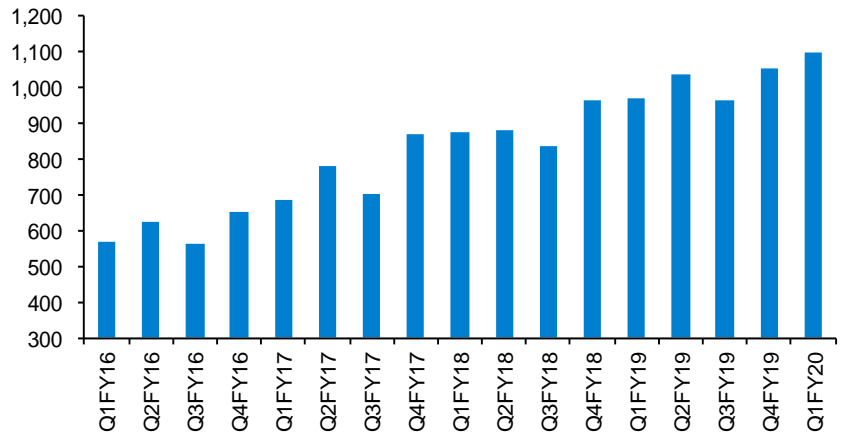
Source: Company, PL

Exhibit 5: Revenue from sale of products



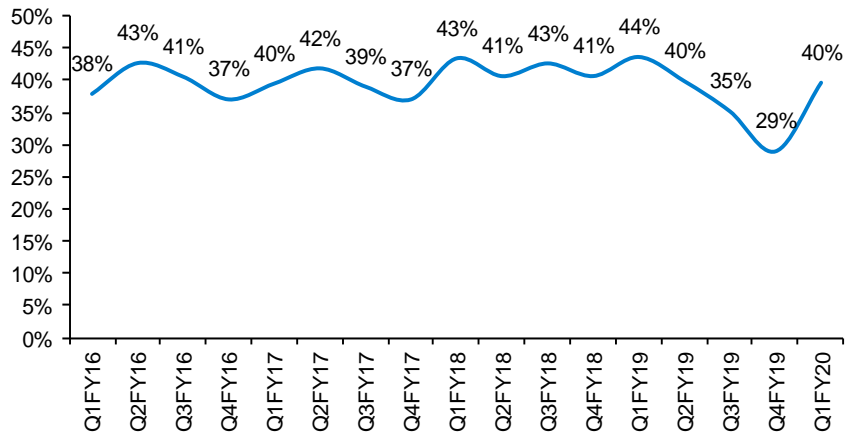
Source: Company, PL

Exhibit 6: Total revenue



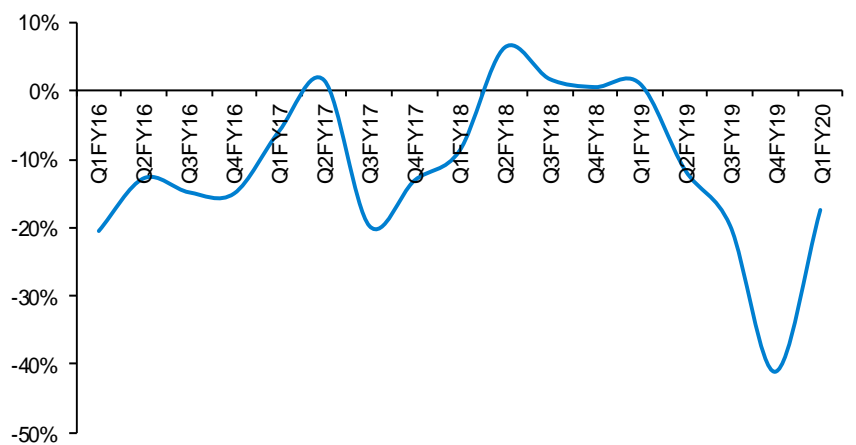
Source: Company, PL

Exhibit 7: Diagnostic EBIT margins



Source: Company, PL

Exhibit 8: Imaging EBIT margins



Source: Company, PL

Financials

Income Statement (Rs m)

Y/e Mar	FY18	FY19	FY20E	FY21E
Net Revenues	3,563	4,029	4,563	5,158
YoY gr. (%)	17.1	13.1	13.2	13.0
Cost of Goods Sold	950	1,105	1,355	1,532
Gross Profit	2,613	2,924	3,207	3,626
Margin (%)	73.3	72.6	70.3	70.3
Employee Cost	353	434	484	547
Other Expenses	-	-	-	-
EBITDA	1,447	1,542	1,643	1,857
YoY gr. (%)	25.6	6.6	6.5	13.0
Margin (%)	40.6	38.3	36.0	36.0
Depreciation and Amortization	201	262	281	342
EBIT	1,246	1,281	1,362	1,514
Margin (%)	35.0	31.8	29.8	29.4
Net Interest	4	6	-	-
Other Income	230	100	104	110
Profit Before Tax	1,450	1,381	1,466	1,624
Margin (%)	40.7	34.3	32.1	31.5
Total Tax	517	529	484	536
Effective tax rate (%)	35.7	38.3	33.0	33.0
Profit after tax	933	851	982	1,088
Minority interest	-	-	-	-
Share Profit from Associate	-	-	-	-
Adjusted PAT	933	851	982	1,088
YoY gr. (%)	117.7	(8.7)	15.4	10.8
Margin (%)	26.2	21.1	21.5	21.1
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	933	851	982	1,088
YoY gr. (%)	117.7	(8.7)	15.4	10.8
Margin (%)	26.2	21.1	21.5	21.1
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	933	851	982	1,088
Equity Shares O/s (m)	54	53	53	53
EPS (Rs)	17.4	16.1	18.6	20.6

Source: Company Data, PL Research

Balance Sheet Abstract (Rs m)

Y/e Mar	FY18	FY19	FY20E	FY21E
Non-Current Assets				
Gross Block	2,292	2,642	2,992	3,342
Tangibles	2,267	2,612	2,957	3,302
Intangibles	25	30	35	40
Acc: Dep / Amortization	373	620	901	1,244
Tangibles	366	610	888	1,226
Intangibles	7	10	14	18
Net fixed assets	1,919	2,022	2,091	2,098
Tangibles	1,902	2,002	2,070	2,077
Intangibles	17	19	21	22
Capital Work In Progress	-	15	-	-
Goodwill	1,069	1,069	1,069	1,069
Non-Current Investments	215	249	246	251
Net Deferred tax assets	52	51	(59)	(65)
Other Non-Current Assets	111	129	151	177
Current Assets				
Investments	1,001	746	821	903
Inventories	170	182	230	264
Trade receivables	98	122	150	170
Cash & Bank Balance	119	96	292	567
Other Current Assets	35	25	27	30
Total Assets	4,790	4,896	5,078	5,529
Equity				
Equity Share Capital	537	528	528	528
Other Equity	3,896	3,823	4,167	4,617
Total Networkth	4,433	4,351	4,695	5,145
Non-Current Liabilities				
Long Term borrowings	-	25	-	-
Provisions	53	67	69	70
Other non current liabilities	101	98	103	108
Current Liabilities				
ST Debt / Current of LT Debt	-	-	-	-
Trade payables	12	75	41	46
Other current liabilities	191	132	112	95
Total Equity & Liabilities	4,790	4,748	5,078	5,529

Source: Company Data, PL Research

Cash Flow (Rs m)

Y/e Mar	FY18	FY19	FY20E	FY21E
PBT	1,472	1,374	1,466	1,624
Add. Depreciation	201	262	281	342
Add. Interest	-	-	-	-
Less Financial Other Income	230	100	104	110
Add. Other	(51)	31	(460)	(90)
Op. profit before WC changes	1,622	1,667	1,287	1,876
Net Changes-WC	(63)	29	(111)	(48)
Direct tax	(489)	(529)	(484)	(536)
Net cash from Op. activities	1,070	1,166	692	1,292
Capital expenditures	(436)	(365)	(335)	(350)
Interest / Dividend Income	39	37	41	45
Others	(35)	255	(75)	(82)
Net Cash from Inv. activities	(432)	(73)	(369)	(387)
Issue of share cap. / premium	-	-	-	-
Debt changes	-	-	-	-
Dividend paid	(639)	(638)	(638)	(638)
Interest paid	-	-	-	-
Others	-	-	-	-
Net cash from Fin. activities	(639)	(638)	(638)	(638)
Net change in cash	(1)	455	(315)	267
Free Cash Flow	634	802	357	942

Source: Company Data, PL Research

Quarterly Financials (Rs m)

Y/e Mar	Q2FY19	Q3FY19	Q4FY19	Q1FY20
Net Revenue	1,039	963	1,056	1,097
YoY gr. (%)	18.0	14.8	9.2	12.9
Raw Material Expenses	284	260	306	309
Gross Profit	755	703	750	789
Margin (%)	72.7	73.1	71.0	71.9
EBITDA	430	355	345	456
YoY gr. (%)	20.5	0.4	(7.3)	10.7
Margin (%)	41.4	36.9	32.7	41.6
Depreciation / Depletion	66	69	70	74
EBIT	364	286	275	383
Margin (%)	35.1	29.7	26.0	34.9
Net Interest	2	2	2	5
Other Income	24	33	20	24
Profit before Tax	387	318	292	402
Margin (%)	37.2	33.0	27.7	36.6
Total Tax	139	118	130	129
Effective tax rate (%)	35.8	37.2	44.4	32.0
Profit after Tax	248	200	163	273
Minority interest	-	-	-	-
Share Profit from Associates	-	-	-	-
Adjusted PAT	253	202	163	273
YoY gr. (%)	2.4	(6.1)	(35.0)	16.4
Margin (%)	24.3	20.9	15.5	24.9
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	253	202	163	273
YoY gr. (%)	2.4	(6.1)	(35.0)	16.4
Margin (%)	24.3	20.9	15.5	24.9
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	253	202	163	273
Avg. Shares O/s (m)	54	54	54	54
EPS (Rs)	4.7	3.8	3.0	5.1

Source: Company Data, PL Research

Key Financial Metrics

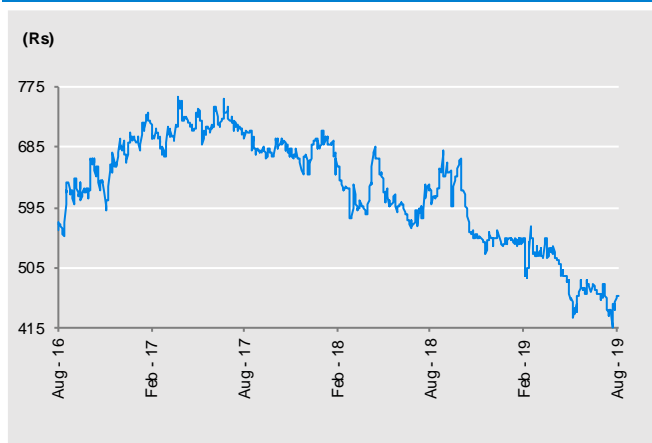
Y/e Mar	FY18	FY19	FY20E	FY21E
Per Share(Rs)				
EPS	17.4	16.1	18.6	20.6
CEPS	21.1	21.1	23.9	27.1
BVPS	82.5	82.4	88.9	97.5
FCF	11.8	15.2	6.8	17.8
DPS	12.1	12.1	12.1	12.1
Return Ratio(%)				
RoCE	29.3	29.1	30.0	30.8
ROIC	25.6	22.2	26.7	29.4
RoE	21.9	19.4	21.7	22.1
Balance Sheet				
Net Debt : Equity (x)	(0.3)	(0.2)	(0.2)	(0.3)
Net Working Capital (Days)	26	21	27	27
Valuation(x)				
PER	25.6	27.6	23.9	21.6
P/B	5.4	5.4	5.0	4.6
P/CEPS	21.1	21.1	18.6	16.4
EV/EBITDA	15.7	14.7	13.6	11.8
EV/Sales	6.4	5.6	4.9	4.3
Dividend Yield (%)	2.7	2.7	2.7	2.7

Source: Company Data, PL Research

Key Operating Metrics

Y/e Mar	FY18	FY19	FY20E	FY21E
Diagnostic Testing Services	3,563	4,029	4,563	5,158
Imaging Services	245	326		
Others	28	22	24	26

Source: Company Data, PL Research

Price Chart
Recommendation History


No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	4-Jul-19	BUY	595	466
2	5-Apr-19	BUY	795	536
3	12-Feb-19	BUY	795	501
4	7-Jan-19	BUY	795	541
5	12-Nov-18	BUY	796	550
6	5-Oct-18	BUY	796	660

Analyst Coverage Universe

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	Aurobindo Pharma	BUY	715	600
2	Cadila Healthcare	Accumulate	266	232
3	Cipla	Reduce	439	518
4	Dr. Lal PathLabs	Accumulate	1,120	1,061
5	Dr. Reddy's Laboratories	Accumulate	2,997	2,648
6	Eris Lifesciences	Accumulate	459	402
7	Glenmark Pharmaceuticals	Reduce	417	423
8	Indoco Remedies	Reduce	130	149
9	Ipca Laboratories	BUY	908	949
10	Jubilant Life Sciences	Reduce	433	445
11	Lupin	Reduce	730	761
12	Sun Pharmaceutical Industries	Reduce	396	439
13	Thyrocare Technologies	BUY	595	466

PL's Recommendation Nomenclature (Absolute Performance)

Buy	: > 15%
Accumulate	: 5% to 15%
Hold	: +5% to -5%
Reduce	: -5% to -15%
Sell	: < -15%
Not Rated (NR)	: No specific call on the stock
Under Review (UR)	: Rating likely to change shortly



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