

May 19, 2020

## Q4FY20 Result Update

Change in Estimates |  Target |  Reco

### Change in Estimates

	Current		Previous	
	FY21E	FY22E	FY21E	FY22E
Rating	SELL		REDUCE	
Target Price	895		1,310	
Sales (Rs. m)	10,887	12,215	14,044	16,474
% Chng.	(22.5)	(25.8)		
EBITDA (Rs. m)	1,695	2,981	3,469	4,020
% Chng.	(51.1)	(25.8)		
EPS (Rs.)	11.0	22.2	27.1	28.9
% Chng.	(59.5)	(23.1)		

### Key Financials - Consolidated

Y/e Mar	FY19	FY20	FY21E	FY22E
Sales (Rs. m)	12,034	13,304	10,887	12,215
EBITDA (Rs. m)	2,936	2,864	1,695	2,981
Margin (%)	24.4	21.5	15.6	24.4
PAT (Rs. m)	1,992	1,737	914	1,851
EPS (Rs.)	23.9	20.8	11.0	22.2
Gr. (%)	16.6	(12.8)	(47.4)	102.6
DPS (Rs.)	-	-	-	-
Yield (%)	-	-	-	-
RoE (%)	22.9	17.6	8.4	15.3
RoCE (%)	29.4	21.6	8.5	18.0
EV/Sales (x)	10.4	9.4	11.4	10.1
EV/EBITDA (x)	42.6	43.5	73.1	41.4
PE (x)	66.2	76.0	144.4	71.3
P/BV (x)	14.0	12.8	11.6	10.3

### Key Data

DLPA.NS | DLPL IN

52-W High / Low	Rs.1,846 / Rs.1,006
Sensex / Nifty	30,029 / 8,823
Market Cap	Rs.132bn/ \$ 1,738m
Shares Outstanding	83m
3M Avg. Daily Value	Rs.614.22m

### Shareholding Pattern (%)

Promoter's	57.37
Foreign	20.22
Domestic Institution	10.15
Public & Others	12.26
Promoter Pledge (Rs bn)	-

### Stock Performance (%)

	1M	6M	12M
Absolute	4.0	(1.1)	48.6
Relative	9.4	32.7	87.7

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## Core biz recovery unlikely in near term; Downgrade to Sell

### Quick Pointers:

- Reduce Revenue/EBITDA/EPS by 26%/26%/23% for FY22E.
- Higher fixed cost of B-2-C model to lower earnings.

**We believe COVID could structurally change the industry dynamics and spending patterns of consumers. Low-middle income groups could change their preference towards low cost and unorganized players while High-cost diagnostic players would battle out to gain market share at the expense of steep price discounts which would lower their realization. With rising COVID cases in India, the inflow of patients to diagnostic centers to remain muted and Q1FY21E to be a complete washout. We believe DLPL can generate only 28-30% of revenue compared to last year in Q1FY21E and gradual recovery from Q2FY21E. As per the management, 60-65% of DLPL's total operating cost is fixed in nature and the new additional expense (cost of safety for employee and home collection of samples) related to COVID can keep EBITDA margin below 20%. We reduce revenue/EBITDA/EPS by 22.5%/51.1%/59.5% for FY21E and 26%/26%/23% FY22E on the above concerns and change our rating to 'SELL' (earlier REDUCE) with new TP Rs895 (earlier Rs1,310) on PE 40x (earlier 45x) of FY22E.**

**Revenue holds up due to COVID testing:** DLPL revenues were flat to Rs3,017m YoY (PLe Rs2,559m), while EBITDA and PAT declined 13% YoY and 31% YoY to Rs573m (PLe Rs537m) and Rs326m (PLe Rs313m). While EBITDA margin was also lower by 300bps YoY at 19% (PLe 21%) due to high operating cost. Alongside realization and number of patients tested declined to Rs684 from Rs.697 YoY and 4.4m v/s 4.8mn in Q3FY20.

## Conference Call and Other Key Highlights

- Recovery to be led by B2B segment, as OPD has started opening up in a gradual manner. B2B sales tends to be less sticky compared to B2C.
- EBITDA margin of B2B and B2C are at similar level but Gross margin is lower for B2B segment.
- Delhi, Kolkata and Indore labs are performing PCR COVID test. Capacity to test 5,000-6,000 samples/day. COVID test has utilized only 5-10% of its lab capacity.
- At present sufficient amount of PCR testing kits are available in the system and previous issue of its shortage that led to low revenues, stands resolved. Nevertheless, management guided that supplies of samples remain volatile. The increasing amount of COVID testing will increase receivables from govt agencies/municipalities.

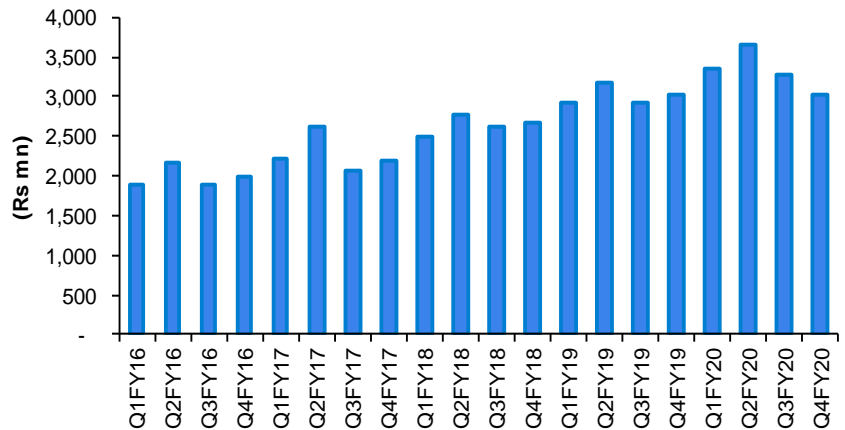
- Movement of testing samples has returned to 90% efficiency within states. Inter-states transports to remain unavailable till respective states lifts ban on air travel.
- Completely ruled out the possibility of price hike even if industry goes through consolidation phase.
- B2C comprised 60% of the total revenue while B2B contributed 40% of its revenues. B-2-B revenues mainly derive from large hospitals and provide major part of molecular biology samples.
- Maintenance capex would be Rs.300-400m each for FY21E and FY22E, respectively.
- 'Swasthit' (bundled test) currently contributes 15% to total revenues, as it was in Q3FY20.

**Exhibit 1: Q4FY20 Result Overview (Rs mn). Recovery unlikely in 1HFY21E**

Y/e March	Q4FY20	Q4FY19	YoY gr. (%)	Q3FY20	FY20	FY19	YoY gr. (%)
<b>Net Sales</b>	<b>3,017</b>	<b>3,011</b>	<b>0.2</b>	<b>3,279</b>	<b>13,304</b>	<b>12,034</b>	<b>10.6</b>
Raw Material	720	652	10.4	744	2,987	2,624	13.8
<i>% of Net Sales</i>	<i>23.9</i>	<i>21.7</i>		<i>22.7</i>	<i>22.5</i>	<i>21.8</i>	
Personnel Cost	625	568	10.0	616	2,426	2,083	16.5
<i>% of Net Sales</i>	<i>20.7</i>	<i>18.9</i>		<i>18.8</i>	<i>18.2</i>	<i>17.3</i>	
Others	1,099	1,129	(2.7)	1,096	4,455	4,391	1.5
<i>% of Net Sales</i>	<i>36.4</i>	<i>37.5</i>		<i>33.4</i>	<i>33.5</i>	<i>36.5</i>	
Total Expenditure	2,444	2,349	4.0	2,456	9,868	9,098	8.5
<b>EBITDA</b>	<b>573</b>	<b>662</b>	<b>(13.4)</b>	<b>823</b>	<b>3,436</b>	<b>2,936</b>	<b>17.0</b>
<i>Margin (%)</i>	<i>19.0</i>	<i>22.0</i>		<i>25.1</i>	<i>25.8</i>	<i>24.4</i>	
Depreciation	200	104	92.3	188	728	382	90.6
<b>EBIT</b>	<b>373</b>	<b>558</b>	<b>(33.2)</b>	<b>635</b>	<b>2,708</b>	<b>2,554</b>	<b>6.0</b>
Other Income	120	135	(11.1)	138	550	460	19.6
Interest	39	1		39	153	8	
<b>PBT</b>	<b>454</b>	<b>692</b>	<b>(34.4)</b>	<b>734</b>	<b>3,105</b>	<b>3,006</b>	<b>3.3</b>
Extra-Ord. Inc./Exps.	-	-		-	-	-	
Total Taxes	128	218	(41.3)	185	829	1,001	(17.2)
<i>ETR (%)</i>	<i>28.2</i>	<i>31.5</i>		<i>25.2</i>	<i>26.7</i>	<i>33.3</i>	
<b>Reported PAT</b>	<b>326</b>	<b>474</b>	<b>(31.2)</b>	<b>549</b>	<b>2,276</b>	<b>2,005</b>	<b>13.5</b>
Minority Interest	1	3		8	17	13	
<b>Reported PAT</b>	<b>325</b>	<b>471</b>	<b>(31.0)</b>	<b>541</b>	<b>2,259</b>	<b>1,992</b>	<b>13.4</b>

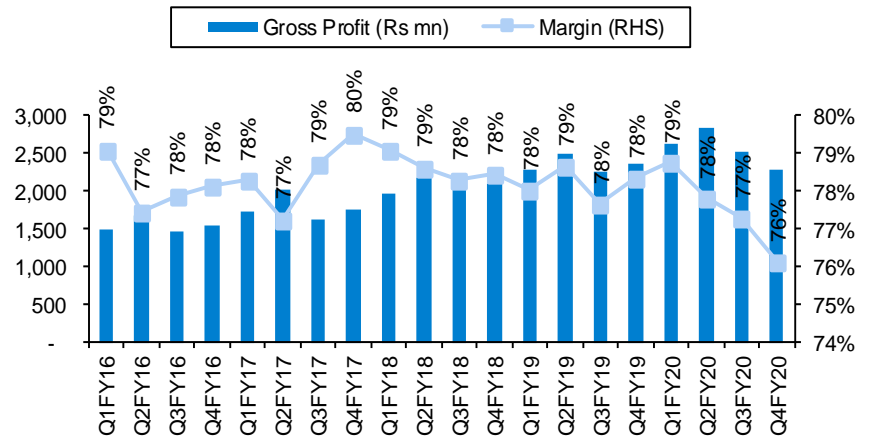
Source: Company, PL

Exhibit 2: Revenue



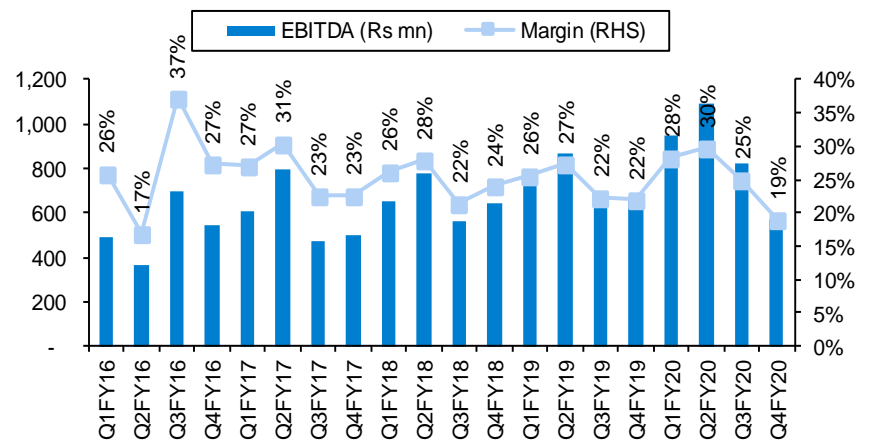
Source: Company, PL

Exhibit 3: Gross Profit & Margin



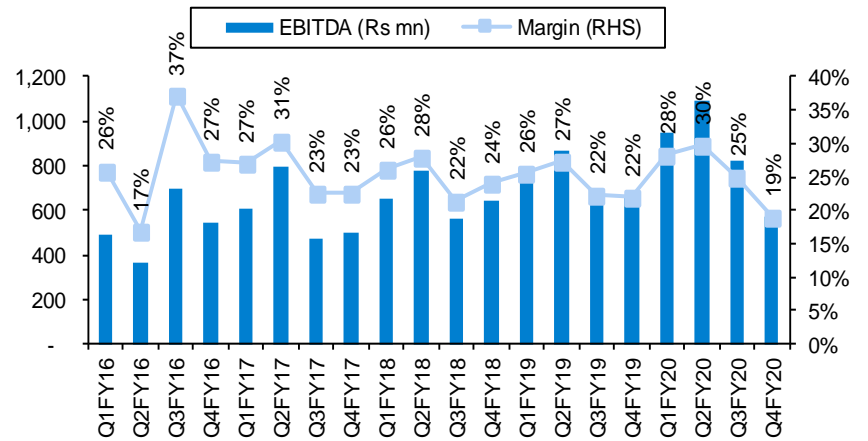
Source: Company, PL

Exhibit 4: EBITDA & Margin



Source: Company, PL

Exhibit 5: PAT & Margin



Source: Company, PL

## Financials

### Income Statement (Rs m)

Y/e Mar	FY19	FY20	FY21E	FY22E
<b>Net Revenues</b>	<b>12,034</b>	<b>13,304</b>	<b>10,887</b>	<b>12,215</b>
YoY gr. (%)	13.9	10.6	(18.2)	12.2
Cost of Goods Sold	2,624	2,987	2,624	2,639
Gross Profit	9,410	10,317	8,263	9,577
Margin (%)	78.2	77.5	75.9	78.4
Employee Cost	2,083	2,426	2,366	2,199
Other Expenses	-	-	-	-
<b>EBITDA</b>	<b>2,936</b>	<b>2,864</b>	<b>1,695</b>	<b>2,981</b>
YoY gr. (%)	11.2	(2.5)	(40.8)	75.8
Margin (%)	24.4	21.5	15.6	24.4
Depreciation and Amortization	382	728	766	800
<b>EBIT</b>	<b>2,554</b>	<b>2,136</b>	<b>929</b>	<b>2,180</b>
Margin (%)	21.2	16.1	8.5	17.8
Net Interest	8	153	145	142
Other Income	460	550	484	508
<b>Profit Before Tax</b>	<b>3,006</b>	<b>2,533</b>	<b>1,267</b>	<b>2,546</b>
Margin (%)	25.0	19.0	11.6	20.8
Total Tax	1,001	779	336	675
Effective tax rate (%)	33.3	30.8	26.5	26.5
<b>Profit after tax</b>	<b>2,005</b>	<b>1,754</b>	<b>932</b>	<b>1,871</b>
Minority interest	13	17	18	21
Share Profit from Associate	-	-	-	-
<b>Adjusted PAT</b>	<b>1,992</b>	<b>1,737</b>	<b>914</b>	<b>1,851</b>
YoY gr. (%)	16.6	(12.8)	(47.4)	102.6
Margin (%)	16.6	13.1	8.4	15.2
Extra Ord. Income / (Exp)	-	-	-	-
<b>Reported PAT</b>	<b>1,992</b>	<b>1,737</b>	<b>914</b>	<b>1,851</b>
YoY gr. (%)	16.6	(12.8)	(47.4)	102.6
Margin (%)	16.6	13.1	8.4	15.2
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	1,992	1,737	914	1,851
<b>Equity Shares O/s (m)</b>	<b>83</b>	<b>83</b>	<b>83</b>	<b>83</b>
<b>EPS (Rs)</b>	<b>23.9</b>	<b>20.8</b>	<b>11.0</b>	<b>22.2</b>

Source: Company Data, PL Research

### Balance Sheet Abstract (Rs m)

Y/e Mar	FY19	FY20	FY21E	FY22E
<b>Non-Current Assets</b>				
<b>Gross Block</b>	<b>2,269</b>	<b>3,461</b>	<b>3,569</b>	<b>4,619</b>
Tangibles	1,954	3,096	3,154	4,154
Intangibles	315	365	415	465
<b>Acc: Dep / Amortization</b>	<b>710</b>	<b>1,437</b>	<b>2,204</b>	<b>3,004</b>
Tangibles	596	1,236	1,955	2,725
Intangibles	113	201	249	279
<b>Net fixed assets</b>	<b>1,807</b>	<b>2,024</b>	<b>1,365</b>	<b>1,615</b>
Tangibles	1,601	1,860	1,199	1,429
Intangibles	206	163	166	186
Capital Work In Progress	34	104	104	104
Goodwill	280	2,117	2,223	2,556
Non-Current Investments	203	145	148	177
Net Deferred tax assets	215	228	241	266
Other Non-Current Assets	230	199	219	264
<b>Current Assets</b>				
Investments	1,848	1,643	1,774	2,129
Inventories	285	570	252	253
Trade receivables	532	514	746	837
Cash & Bank Balance	4,903	5,691	6,247	6,364
Other Current Assets	96	163	171	212
<b>Total Assets</b>	<b>10,905</b>	<b>13,744</b>	<b>13,887</b>	<b>15,273</b>
<b>Equity</b>				
Equity Share Capital	833	833	833	833
Other Equity	8,622	9,495	10,565	11,966
<b>Total Network</b>	<b>9,455</b>	<b>10,328</b>	<b>11,399</b>	<b>12,800</b>
<b>Non-Current Liabilities</b>				
Long Term borrowings	-	-	-	-
Provisions	-	-	-	-
Other non current liabilities	-	-	-	-
<b>Current Liabilities</b>				
ST Debt / Current of LT Debt	-	-	-	-
Trade payables	798	1,177	503	506
Other current liabilities	585	1,097	1,011	935
<b>Total Equity &amp; Liabilities</b>	<b>10,904</b>	<b>13,744</b>	<b>13,887</b>	<b>15,273</b>

Source: Company Data, PL Research

**Cash Flow (Rs m)**

Y/e Mar	FY19	FY20	FY21E	FY22E
PBT	3,006	3,105	1,267	2,546
Add. Depreciation	382	728	766	800
Add. Interest	8	153	145	142
Less Financial Other Income	460	550	484	508
Add. Other	1,884	(3,848)	(1,818)	(910)
Op. profit before WC changes	5,280	138	361	2,579
Net Changes-WC	455	726	(733)	(305)
Direct tax	(1,001)	(829)	(336)	(675)
<b>Net cash from Op. activities</b>	<b>4,733</b>	<b>34</b>	<b>(707)</b>	<b>1,600</b>
Capital expenditures	(650)	(650)	(650)	(1,050)
Interest / Dividend Income	391	468	411	432
Others	(400)	205	(131)	(355)
<b>Net Cash from Inv. activities</b>	<b>(659)</b>	<b>23</b>	<b>(370)</b>	<b>(973)</b>
Issue of share cap. / premium	-	-	-	-
Debt changes	-	-	-	-
Dividend paid	(484)	(549)	(222)	(450)
Interest paid	(8)	(153)	(145)	(142)
Others	-	-	-	-
<b>Net cash from Fin. activities</b>	<b>(492)</b>	<b>(702)</b>	<b>(367)</b>	<b>(592)</b>
<b>Net change in cash</b>	<b>3,582</b>	<b>(645)</b>	<b>(1,445)</b>	<b>35</b>
Free Cash Flow	4,083	(616)	(1,357)	550

Source: Company Data, PL Research

**Key Financial Metrics**

Y/e Mar	FY19	FY20	FY21E	FY22E
<b>Per Share(Rs)</b>				
EPS	23.9	20.8	11.0	22.2
CEPS	28.5	29.6	20.2	31.8
BVPS	113.5	123.9	136.8	153.6
FCF	49.0	(7.4)	(16.3)	6.6
DPS	-	-	-	-
<b>Return Ratio(%)</b>				
RoCE	29.4	21.6	8.5	18.0
ROIC	88.2	57.8	24.0	44.4
RoE	22.9	17.6	8.4	15.3
<b>Balance Sheet</b>				
Net Debt : Equity (x)	(0.7)	(0.7)	(0.7)	(0.7)
Net Working Capital (Days)	1	(3)	17	17
<b>Valuation(x)</b>				
PER	66.2	76.0	144.4	71.3
P/B	14.0	12.8	11.6	10.3
P/CEPS	55.6	53.5	78.5	49.8
EV/EBITDA	42.6	43.5	73.1	41.4
EV/Sales	10.4	9.4	11.4	10.1
Dividend Yield (%)	-	-	-	-

Source: Company Data, PL Research

**Quarterly Financials (Rs m)**

Y/e Mar	Q1FY20	Q2FY20	Q3FY20	Q4FY20
<b>Net Revenue</b>	<b>3,352</b>	<b>3,656</b>	<b>3,279</b>	<b>3,017</b>
YoY gr. (%)	14.7	15.1	12.1	0.2
Raw Material Expenses	712	811	744	720
Gross Profit	2,640	2,845	2,535	2,297
Margin (%)	78.8	77.8	77.3	76.1
<b>EBITDA</b>	<b>951</b>	<b>1,089</b>	<b>823</b>	<b>573</b>
YoY gr. (%)	26.8	25.5	25.5	(13.4)
Margin (%)	28.4	29.8	25.1	19.0
Depreciation / Depletion	163	177	188	200
<b>EBIT</b>	<b>788</b>	<b>912</b>	<b>635</b>	<b>373</b>
Margin (%)	23.5	24.9	19.4	12.4
Net Interest	38	37	39	39
Other Income	144	148	138	120
<b>Profit before Tax</b>	<b>894</b>	<b>1,023</b>	<b>734</b>	<b>454</b>
Margin (%)	26.7	28.0	22.4	15.0
Total Tax	303	213	185	128
Effective tax rate (%)	33.9	20.8	25.2	28.2
<b>Profit after Tax</b>	<b>591</b>	<b>810</b>	<b>549</b>	<b>326</b>
Minority interest	3	5	8	1
Share Profit from Associates	-	-	-	-
<b>Adjusted PAT</b>	<b>588</b>	<b>805</b>	<b>541</b>	<b>325</b>
YoY gr. (%)	19.0	41.2	18.1	(31.0)
Margin (%)	17.5	22.0	16.5	10.8
Extra Ord. Income / (Exp)	-	-	-	-
<b>Reported PAT</b>	<b>588</b>	<b>805</b>	<b>541</b>	<b>325</b>
YoY gr. (%)	19.0	41.2	18.1	(31.0)
Margin (%)	17.5	22.0	16.5	10.8
Other Comprehensive Income	-	6	1	(22)
<b>Total Comprehensive Income</b>	<b>588</b>	<b>811</b>	<b>542</b>	<b>303</b>
Avg. Shares O/s (m)	83	83	83	83
<b>EPS (Rs)</b>	<b>7.1</b>	<b>9.7</b>	<b>6.5</b>	<b>3.9</b>

Source: Company Data, PL Research

**Price Chart**
**Recommendation History**


No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	18-Apr-20	Reduce	1,310	1,522
2	14-Apr-20	Reduce	1,797	1,475
3	03-Feb-20	Hold	1,797	1,741
4	03-Jan-20	Hold	1,437	1,537
5	09-Nov-19	Hold	1,437	1,442
6	03-Oct-19	Accumulate	1,120	1,390
7	14-Aug-19	Accumulate	1,120	1,061
8	04-Jul-19	Accumulate	1,120	1,077
9	20-May-19	Accumulate	1,120	1,072

**Analyst Coverage Universe**

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	Aurobindo Pharma	Accumulate	702	644
2	Cadila Healthcare	Sell	263	324
3	Cipla	Reduce	542	570
4	Dr. Lal PathLabs	Reduce	1,310	1,522
5	Dr. Reddy's Laboratories	Accumulate	4,030	3,930
6	Eris Lifesciences	BUY	547	486
7	Glenmark Pharmaceuticals	Sell	257	314
8	Indoco Remedies	Hold	259	236
9	Ipca Laboratories	Accumulate	1,728	1,619
10	Jubilant Life Sciences	Hold	363	345
11	Lupin	BUY	978	835
12	Sun Pharmaceutical Industries	Hold	436	457
13	Thyrocare Technologies	Hold	523	543

**PL's Recommendation Nomenclature (Absolute Performance)**

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

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