

August 3, 2020

Q1FY21 Result Update

Change in Estimates | Target | Reco

Change in Estimates

	Current		Previous	
	FY22E	FY23E	FY22E	FY23E
Rating	SELL		SELL	
Target Price	1,006		895	
Sales (Rs. m)	13,369	15,000	12,215	13,706
% Chng.	9.4	9.4		
EBITDA (Rs. m)	3,262	3,750	2,981	3,344
% Chng.	9.4	12.1		
EPS (Rs.)	25.0	30.7	22.2	26.8
% Chng.	12.4	14.7		

Key Financials - Consolidated

Y/e Mar	FY20	FY21E	FY22E	FY23E
Sales (Rs. m)	13,304	11,915	13,369	15,000
EBITDA (Rs. m)	3,436	2,502	3,262	3,750
Margin (%)	25.8	21.0	24.4	25.0
PAT (Rs. m)	2,253	1,518	2,079	2,560
EPS (Rs.)	27.0	18.2	25.0	30.7
Gr. (%)	13.1	(32.6)	37.0	23.1
DPS (Rs.)	15.4	3.6	5.0	6.1
Yield (%)	0.8	0.2	0.3	0.3
RoE (%)	22.8	14.5	18.2	19.4
RoCE (%)	27.4	16.5	21.5	23.3
EV/Sales (x)	11.3	12.6	11.2	9.9
EV/EBITDA (x)	43.7	60.1	45.9	39.8
PE (x)	70.0	103.9	75.8	61.6
P/BV (x)	15.3	14.8	12.9	11.1

Key Data

DLPA.NS | DLPL IN

52-W High / Low	Rs.2,030 / Rs.1,053
Sensex / Nifty	37,607 / 11,073
Market Cap	Rs.157bn/ \$ 2,104m
Shares Outstanding	83m
3M Avg. Daily Value	Rs.463.38m

Shareholding Pattern (%)

Promoter's	56.32
Foreign	19.95
Domestic Institution	11.31
Public & Others	12.42
Promoter Pledge (Rs bn)	-

Stock Performance (%)

	1M	6M	12M
Absolute	20.7	6.6	73.6
Relative	12.1	15.5	73.1

Surajit Pal

surajitpal@plindia.com | 91-22-66322259

Tausif Shaikh

tausifshaikh@plindia.com | 91-22-66322246

COVID test paper covers the cracks of slowdown

Quick Pointers:

- COVID test contributed 21% of revenues and ex-COVID test revenues declined by 37% YoY.
- Realization per patient adj to COVID test declined by 7% YoY to Rs636 v/s Rs685.

1QFY21 earnings were higher than our estimate as 1) All collection centers and labs resumed operations much earlier than expected 2) higher revenue contribution from other regions than Delhi-NCR and 3) Bundled test not impacted during the lockdown. However, 1QFY21 witnessed lower level of realization with Revenue/Patient (ex-COVID test) to Rs636 v/s Rs685 YoY and Test/Patient to 2.27 v/s 2.42. DLPL highlighted increase in patient's preference for sample collection from homes led to higher payout of incentives to collection centers.

We remain negative on the entire diagnostic chain with a belief of 1) premium players losing their market share to unorganized players, 2) B2B (40% of revenue) partners negotiating for higher profit share, 3) Inability to hike prices causing lower realization level (Revenue/Patient) and 4) higher fixed costs (60-65% of operating cost for DLPL), new compliance expense and home collection of samples will lead to lower EBITDA margin. Assuming 1QFY21 as base case to stress tests its revenues and headline margins, we revised our earnings estimates for FY21E-23E. With assumptions 15% CAGR in earnings (derived on EPS growth in FY18-20) and normalized 1-yr forward PE of 35x, the current valuation of DLPL reflects forward earnings of FY25E. With challenging valuation of 12.5x EV/sales(FY21E), we maintain 'SELL' recommendation and revised TP to Rs1,006 (from Rs895) on PE 40x of FY22E.

Realization and revenue higher due to COVID testing: DLPL revenues declined 21% YoY and 12% QoQ to Rs2,660m (PLe Rs950m). While EBITDA declined 49% YoY and 16% QoQ to Rs483m (PLe: negative EBITDA of Rs483m). EBITDA margin was 18% v/s 28.4% YoY and 19% QoQ. PAT declined 52% YoY and 13% QoQ to Rs284m (PLe negative PAT Rs487m).

Conference Call and Other Key Highlights

- June-July business returned to 90% pre-COVID level.
- COVID-19 test pricing reduced to Rs2,000-2,500 from earlier Rs4,500. Its 60% of the COVID tests has been from government agencies while 40% is combination of private hospitals and individual patients.
- Margin for COVID-19 test is below than corporate level and PAT contribution is also nominal or just to cover fix expenses related to it.
- B2C comprised 60% of the total revenue while B2B contributed 40% of its revenues. During lockdown B2C remains most impacted.

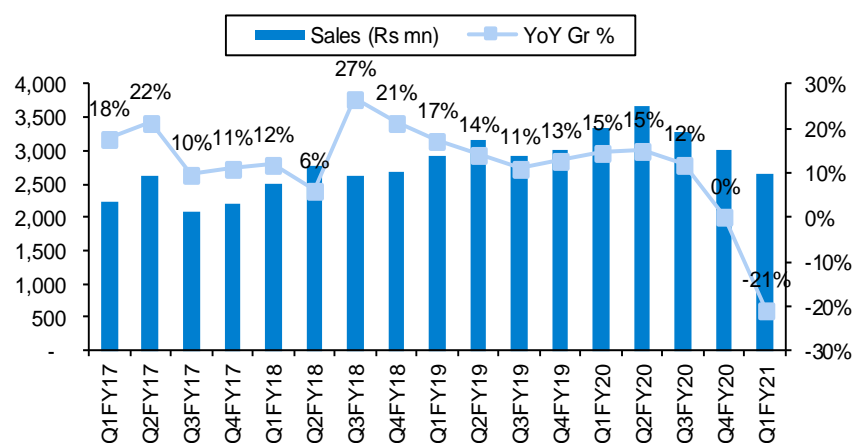
- Maintenance capex would be Rs.300-400m each for FY21E and FY22E, respectively.
- 'Swasthfit' (bundled test) contribution was 15% to total revenues and hasn't seen a significant decline during lockdown.

Exhibit 1: 1QFY21 Result Overview (Rs mn). COVID test drives revenue but contribution at EBITDA level was minimal

Y/e March	Q1FY21	Q1FY20	YoY gr. (%)	Q4FY20	FY21E	FY20	YoY gr. (%)
Net Sales	2,660	3,352	(20.6)	3,017	11,917	13,304	(10.4)
Raw Material	759	712	6.6	720	3,103	2,987	3.9
<i>% of Net Sales</i>	<i>28.5</i>	<i>21.2</i>		<i>23.9</i>	<i>26.0</i>	<i>22.5</i>	
Personnel Cost	595	583	2.1	625	2,430	2,426	0.2
<i>% of Net Sales</i>	<i>22.4</i>	<i>17.4</i>		<i>20.7</i>	<i>20.4</i>	<i>18.2</i>	
Others	823	1,106	(25.6)	1,099	3,881	4,455	(12.9)
<i>% of Net Sales</i>	<i>30.9</i>	<i>33.0</i>		<i>36.4</i>	<i>32.6</i>	<i>33.5</i>	
Total Expenditure	2,177	2,401	(9.3)	2,444	9,415	9,868	(4.6)
EBITDA	483	951	(49.2)	573	2,502	3,436	(27.2)
<i>Margin (%)</i>	<i>18.2</i>	<i>28.4</i>		<i>19.0</i>	<i>21.0</i>	<i>25.8</i>	
Depreciation	179	163	9.8	200	766	728	5.2
EBIT	304	788	(61.4)	373	1,736	2,708	(35.9)
Other Income	114	144	(20.8)	120	464	550	(15.6)
Interest	37	38		39	150	153	
PBT	381	894	(57.4)	454	2,050	3,105	(34.0)
Extra-Ord. Inc./Exps.	-	-		-	-	-	
Total Taxes	97	303	(68.0)	128	514	829	(38.0)
<i>ETR (%)</i>	<i>25.5</i>	<i>33.9</i>		<i>28.2</i>	<i>25.1</i>	<i>26.7</i>	
Reported PAT	284	591	(51.9)	326	1,536	2,276	(32.5)
Minority Interest	-	3		1	18	23	
Reported PAT	284	588	(51.7)	325	1,518	2,253	(32.6)

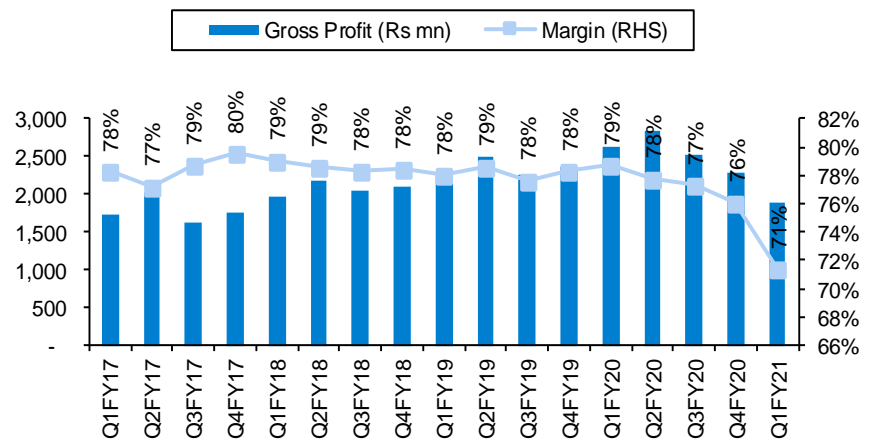
Source: Company, PL

Exhibit 2: Revenue (m) and YoY Gr (%)



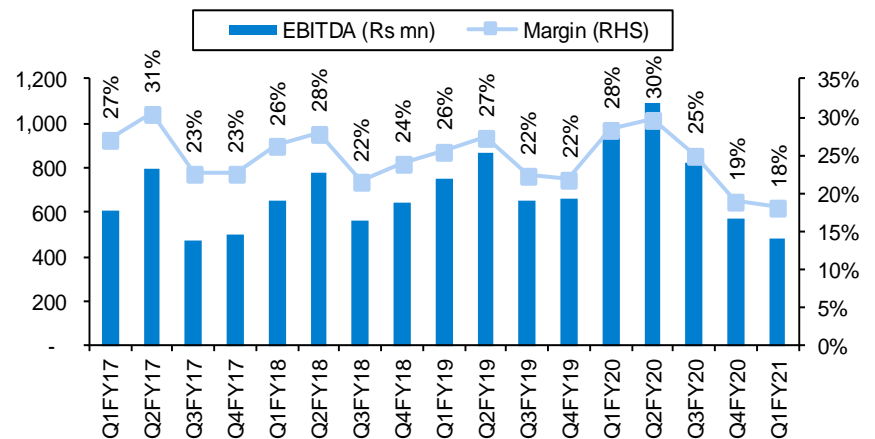
Source: Company, PL

Exhibit 3: Gross Profit (Rs m) & Margin (%)



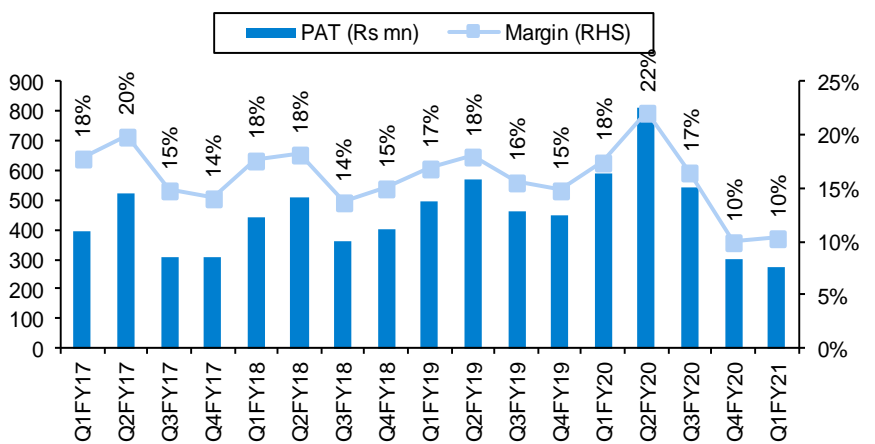
Source: Company, PL

Exhibit 4: EBITDA (Rs m) & Margin (%)



Source: Company, PL

Exhibit 5: PAT(Rs m) & Margin (%)



Source: Company, PL

Financials

Income Statement (Rs m)

Y/e Mar	FY20	FY21E	FY22E	FY23E
Net Revenues	13,304	11,915	13,369	15,000
YoY gr. (%)	10.6	(10.4)	12.2	12.2
Cost of Goods Sold	2,987	3,098	2,888	3,150
Gross Profit	10,317	8,817	10,481	11,850
Margin (%)	77.5	74.0	78.4	79.0
Employee Cost	2,426	2,443	2,406	2,700
Other Expenses	-	-	-	-
EBITDA	3,436	2,502	3,262	3,750
YoY gr. (%)	17.0	(27.2)	30.4	15.0
Margin (%)	25.8	21.0	24.4	25.0
Depreciation and Amortization	728	766	800	670
EBIT	2,708	1,736	2,462	3,080
Margin (%)	20.4	14.6	18.4	20.5
Net Interest	153	150	147	144
Other Income	550	462	485	509
Profit Before Tax	3,105	2,048	2,800	3,445
Margin (%)	23.3	17.2	20.9	23.0
Total Tax	835	512	700	861
Effective tax rate (%)	26.9	25.0	25.0	25.0
Profit after tax	2,270	1,536	2,100	2,584
Minority interest	17	18	21	24
Share Profit from Associate	-	-	-	-
Adjusted PAT	2,253	1,518	2,079	2,560
YoY gr. (%)	13.1	(32.6)	37.0	23.1
Margin (%)	16.9	12.7	15.6	17.1
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	2,253	1,518	2,079	2,560
YoY gr. (%)	13.1	(32.6)	37.0	23.1
Margin (%)	16.9	12.7	15.6	17.1
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	2,253	1,518	2,079	2,560
Equity Shares O/s (m)	83	83	83	83
EPS (Rs)	27.0	18.2	25.0	30.7

Source: Company Data, PL Research

Balance Sheet Abstract (Rs m)

Y/e Mar	FY20	FY21E	FY22E	FY23E
Non-Current Assets				
Gross Block	3,461	3,569	4,619	5,669
Tangibles	3,096	3,154	4,154	5,154
Intangibles	365	415	465	515
Acc: Dep / Amortization	1,437	2,204	3,004	3,674
Tangibles	1,236	1,955	2,725	3,365
Intangibles	201	249	279	309
Net fixed assets	2,024	1,365	1,615	1,995
Tangibles	1,860	1,199	1,429	1,789
Intangibles	163	166	186	206
Capital Work In Progress	104	104	104	104
Goodwill	2,117	2,223	2,556	2,940
Non-Current Investments	145	148	177	213
Net Deferred tax assets	228	279	349	435
Other Non-Current Assets	199	219	264	319
Current Assets				
Investments	1,643	1,774	2,129	2,555
Inventories	570	297	277	302
Trade receivables	514	816	916	1,027
Cash & Bank Balance	5,691	5,444	5,659	5,968
Other Current Assets	163	171	212	263
Total Assets	13,744	13,238	14,754	16,738
Equity				
Equity Share Capital	833	833	833	833
Other Equity	9,495	9,825	11,399	13,338
Total Networkth	10,328	10,659	12,233	14,171
Non-Current Liabilities				
Long Term borrowings	-	-	-	-
Provisions	-	-	-	-
Other non current liabilities	-	-	-	-
Current Liabilities				
ST Debt / Current of LT Debt	-	-	-	-
Trade payables	1,177	594	554	604
Other current liabilities	1,097	1,011	935	869
Total Equity & Liabilities	13,744	13,238	14,754	16,738

Source: Company Data, PL Research

Cash Flow (Rs m)

Y/e Mar	FY20	FY21E	FY22E	FY23E
PBT	3,105	2,048	2,800	3,445
Add. Depreciation	728	766	800	670
Add. Interest	153	150	147	144
Less Financial Other Income	550	462	485	509
Add. Other	(3,848)	(1,949)	(934)	(1,036)
Op. profit before WC changes	138	1,016	2,813	3,223
Net Changes-WC	726	(758)	(335)	(327)
Direct tax	(829)	(512)	(700)	(861)
Net cash from Op. activities	34	(254)	1,778	2,035
Capital expenditures	(650)	(650)	(1,050)	(1,050)
Interest / Dividend Income	468	393	412	433
Others	205	(131)	(355)	(426)
Net Cash from Inv. activities	23	(389)	(993)	(1,043)
Issue of share cap. / premium	-	-	-	-
Debt changes	-	-	-	-
Dividend paid	(1,564)	(369)	(505)	(622)
Interest paid	(153)	(150)	(147)	(144)
Others	-	-	-	-
Net cash from Fin. activities	(1,717)	(519)	(652)	(766)
Net change in cash	(1,661)	(1,162)	133	226
Free Cash Flow	(616)	(904)	728	985

Source: Company Data, PL Research

Key Financial Metrics

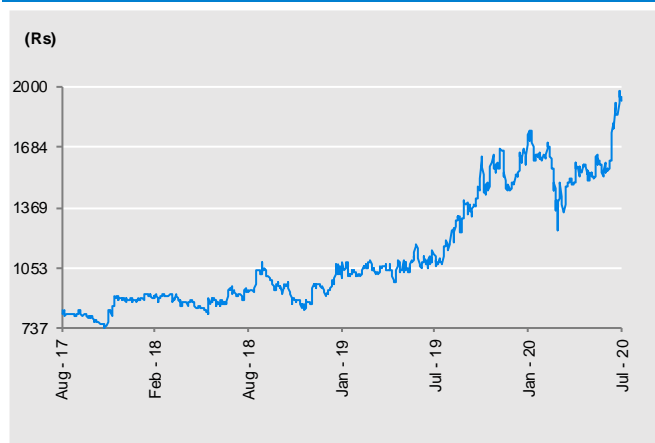
Y/e Mar	FY20	FY21E	FY22E	FY23E
Per Share(Rs)				
EPS	27.0	18.2	25.0	30.7
CEPS	35.8	27.4	34.6	38.8
BVPS	123.9	127.9	146.8	170.0
FCF	(7.4)	(10.8)	8.7	11.8
DPS	15.4	3.6	5.0	6.1
Return Ratio(%)				
RoCE	27.4	16.5	21.5	23.3
ROIC	77.4	39.8	50.5	49.4
RoE	22.8	14.5	18.2	19.4
Balance Sheet				
Net Debt : Equity (x)	(0.7)	(0.7)	(0.6)	(0.6)
Net Working Capital (Days)	(3)	16	17	18
Valuation(x)				
PER	70.0	103.9	75.8	61.6
P/B	15.3	14.8	12.9	11.1
P/CEPS	52.9	69.0	54.7	48.8
EV/EBITDA	43.7	60.1	45.9	39.8
EV/Sales	11.3	12.6	11.2	9.9
Dividend Yield (%)	0.8	0.2	0.3	0.3

Source: Company Data, PL Research

Quarterly Financials (Rs m)

Y/e Mar	Q2FY20	Q3FY20	Q4FY20	Q1FY21
Net Revenue	3,656	3,279	3,017	2,660
YoY gr. (%)	15.1	12.1	0.2	(20.6)
Raw Material Expenses	811	744	720	759
Gross Profit	2,845	2,535	2,297	1,901
Margin (%)	77.8	77.3	76.1	71.5
EBITDA	1,089	823	573	483
YoY gr. (%)	25.5	25.5	(13.4)	(49.2)
Margin (%)	29.8	25.1	19.0	18.2
Depreciation / Depletion	177	188	200	179
EBIT	912	635	373	304
Margin (%)	24.9	19.4	12.4	11.4
Net Interest	37	39	39	37
Other Income	148	138	120	114
Profit before Tax	1,023	734	454	381
Margin (%)	28.0	22.4	15.0	14.3
Total Tax	213	185	128	97
Effective tax rate (%)	20.8	25.2	28.2	25.5
Profit after Tax	810	549	326	284
Minority interest	5	8	1	-
Share Profit from Associates	-	-	-	-
Adjusted PAT	805	541	325	284
YoY gr. (%)	41.2	18.1	(31.0)	(51.7)
Margin (%)	22.0	16.5	10.8	10.7
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	805	541	325	284
YoY gr. (%)	41.2	18.1	(31.0)	(51.7)
Margin (%)	22.0	16.5	10.8	10.7
Other Comprehensive Income	6	1	(22)	(9)
Total Comprehensive Income	811	542	303	275
Avg. Shares O/s (m)	83	83	83	83
EPS (Rs)	9.7	6.5	3.9	3.4

Source: Company Data, PL Research

Price Chart
Recommendation History


No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	08-Jul-20	Sell	895	1,762
2	19-May-20	Sell	895	1,583
3	18-Apr-20	Reduce	1,310	1,522
4	14-Apr-20	Reduce	1,797	1,475
5	03-Feb-20	Hold	1,797	1,741
6	03-Jan-20	Hold	1,437	1,537
7	09-Nov-19	Hold	1,437	1,442
8	03-Oct-19	Accumulate	1,120	1,390
9	14-Aug-19	Accumulate	1,120	1,061

Analyst Coverage Universe

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	Aurobindo Pharma	Accumulate	838	802
2	Cadila Healthcare	Reduce	329	360
3	Cipla	Reduce	542	634
4	Dr. Lal PathLabs	Sell	895	1,762
5	Dr. Reddy's Laboratories	Hold	4,326	4,306
6	Eris Lifesciences	BUY	576	446
7	Glenmark Pharmaceuticals	Sell	365	419
8	Indoco Remedies	Hold	219	208
9	Ipca Laboratories	BUY	1,839	1,636
10	Jubilant Life Sciences	Sell	414	703
11	Lupin	BUY	1,001	865
12	Sun Pharmaceutical Industries	Hold	479	511
13	Thyrocare Technologies	Sell	307	522

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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3rd Floor, Sadhana House, 570, P. B. Marg, Worli, Mumbai-400 018, India | Tel: (91 22) 6632 2222 Fax: (91 22) 6632 2209

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