



COMPANY NAME	: Dr. Lal Pathlabs
BSE Code	: 539524
Time Duration	: 1 year
CMP	: ₹809 (as on 17 August, 2017)
Target Price	: ₹1040

The Mid Bridge for the month of August is Dr. Lal Pathlabs (DLPL). It is second largest provider of diagnostic and related healthcare tests and services in India, following Fortis Healthcare. It has a strong brand presence in North India and is expanding its base in eastern and central regions of India. It has 189 clinical labs, 1759 Patient Service Centres (PSCs) and 5021 Pick-up Points (PUPs). The company's revenue has grown at a CAGR of 31.8% over the last three years and its profit has grown at CAGR of 30.8% over the same period.

'Hub & Spoke' model triggers volume growth

DLPL has adopted the 'hub-and-spoke' model with its pan-India network. The hub-and-spoke model includes a reference lab, satellite labs and collection centres. The company's PSCs attend to walk-in clients with a prescribed test request from a physician. Thus, centralised testing is conducted in New Delhi for processing, while samples are collected from various locations with low incremental cost. This helps the company to achieve incremental volumes and revenues. Larger volumes also help it to achieve continuous growth in the business.

Strong brand recognition in organised sector

Diagnostics segment is a fragmented market and is dominated by unorganised players. Diagnostic chain players make up for 15% of the market. Only two big players have major diagnostic chains of India. Out of which, DLPL enjoys 35-40% market share. A major conversion from the unorganised to the organised sector is seen in the industry. By adopting the hub-and-spoke model, the company has managed to offer services at competitive prices as compared to its peers in the market. It has created a strong brand value of its own by adopting different activities like organising health camps, launching test packages at attractive pricing, offering home collection facilities and many more. The proportion of walk-in patients has also been increasing continuously at its labs. It also collects specimens from countries like Oman, Qatar, Kenya, Bhutan, Sri Lanka, Myanmar and Nigeria.

Foray into western & eastern regions

The company completed expansion of its central lab network in

Kolkata and Lucknow in FY17. Its margins have sustained at the levels of 26-27%, as expected by the management. These new labs have the potential to double company's base in the upcoming 2-3 years. However, some pressure on margins will be seen in FY18 due to the expansion costs. The management expects to surpass industry growth of 16-17%.

Industry outlook

The Union government has allocated over Rs 9,000 cr for healthcare and family welfare in the budget for the current fiscal. As per industry estimates, the growth in the industry is expected to continue in the range of 12-14%. The Indian healthcare industry is projected to touch USD 280 bn by 2020. Within this, the diagnostics market is estimated to reach USD 12 bn by 2020. As of 2014-15, the Indian diagnostics industry had touched the level of Rs 377 bn, according to the CRISIL's research reports. Rising income levels are making healthcare services more affordable and due to the rise in lifestyle diseases, the demand for healthcare services is increasing and the rising health awareness leads to more preventive health check-ups. These are some of the key growth drivers which will boost the healthcare and diagnostics industry.

Financial Performance

In FY17, the company's revenue grew 15.3% to Rs 912.38 cr on a YoY basis. Its EBITDA increased by 12.8% YoY in FY17, however, the EBITDA margin declined from 26.5% to 25.9% YoY. Its net profit grew 16.6% YoY to Rs 154.21 cr from Rs 132.19 cr. It is a debt-free company and it has declared dividend of Rs 1.7 per equity share for FY17.

In Q1FY18, the company's revenue grew 11.9% to Rs 249.3 cr on a YoY basis, due to combination of volume growth and price-mix improvement. Its EBITDA increased by 8.2% YoY in Q1FY18 due to focused cost optimisation initiatives. However, the EBITDA margin declined from 27.15% to 26.3% YoY due to expansion costs at Kolkata. The net profit grew 11% YoY to Rs 44.4 cr from Rs 40 cr. Realisation per patient improved from Rs 678 in Q1FY17 to Rs 696 in Q1FY18.

CONFIDENTIALITY NOTICE : Information contained in this report is intended for the subscribers of this product only. Unauthorized forwarding, printing, copying, distribution, or using the information in a searchable, machine-readable database is strictly prohibited and may be unlawful. **Disclaimer**: The recommendations are purely a view point and there is no guarantee on the returns. Hence all the clients (paid or unpaid) are requested to apply their prudence before acting on any of the recommendations. Neither DSIJ Pvt Ltd nor any of its promoters, members, or employees shall be held responsible for any losses incurred (if any) by acting on the recommendations. Disclosure : Kindly refer to the detailed disclosures as per SEBI (investment advisors) regulations, 2013 placed at www.DSIJ.in

Valuation & Outlook

The company is trading at TTM P/E of 42.28x with TTM EPS of Rs 19.02. It has delivered strong ROE and ROCE of 26.8% and 40.1%, respectively, in FY17. The return ratios are healthy as compared to its peers. We see that it being a debt-free company,

it has shown a continuous upward trend in revenues and profitability. With expansion in other than northern regions of India, we expect the company to have good growth prospects. We see a potential upside of 29% from the current levels with a target price of Rs 1,040.

Inc/Exp Statement(Consolidated) (Rs in Crore)

Description	201703	201603	201503	201403	201303
Net Sales	912.38	791.32	659.59	557.95	451.66
Total Income	938.12	813.16	672.75	566.03	455.04
Total Expenditure	676.45	583.66	504.44	419.39	354.01
PBIDT	261.68	229.49	168.31	146.63	101.04
PAT	155.19	133.23	96.44	80.26	55.65
Dividend %	30.00	24.50	15.34	11.00	154.00
Adj. EPS(Rs)	18.56	15.99	16.77	14.30	9.79

Quarter On Quarter (Consolidated) (Rs in Crore)

Particulars	201706	201703	Q on Q Var%	201606	Y on Y Var%
Net Sales	249.30	219.90	13.37	222.80	11.89
Total Expenditure	183.80	170.55	7.77	162.30	13.25
PBIDT (Excl OI)	65.50	49.35	32.73	60.50	8.26
PAT	44.40	31.16	42.49	40.00	11.00
PBIDTM% (Excl OI)	26.27	22.44	17.07	27.15	-3.24
PBIDTM%	29.28	25.23	16.05	30.03	-2.50
PATM%	17.81	14.17	25.69	17.95	-0.78
Adj. EPS(Rs)	5.29	3.73	41.82	4.80	10.21

