

August 14, 2019

## Q1FY20 Result Update

Change in Estimates |  Target |  Reco

### Change in Estimates

	Current		Previous	
	FY20E	FY21E	FY20E	FY21E
Rating	ACCUMULATE		ACCUMULATE	
Target Price	1,120		1,120	
Sales (Rs. m)	14,667	16,930	14,667	16,930
% Chng.	-	-	-	-
EBITDA (Rs. m)	3,549	4,131	3,549	4,131
% Chng.	-	-	-	-
EPS (Rs.)	30.2	35.0	29.8	34.7
% Chng.	1.2	0.7	-	-

### Key Financials - Consolidated

Y/e Mar	FY18	FY19	FY20E	FY21E
Sales (Rs. m)	10,570	12,034	14,667	16,930
EBITDA (Rs. m)	2,641	2,936	3,549	4,131
Margin (%)	25.0	24.4	24.2	24.4
PAT (Rs. m)	1,709	1,992	2,516	2,916
EPS (Rs.)	20.5	23.9	30.2	35.0
Gr. (%)	10.5	16.6	26.3	15.9
DPS (Rs.)	-	-	-	-
Yield (%)	-	-	-	-
RoE (%)	24.6	22.9	24.7	24.3
RoCE (%)	33.3	29.4	31.2	31.1
EV/Sales (x)	7.9	6.8	5.5	4.6
EV/EBITDA (x)	31.7	27.8	22.6	19.0
PE (x)	51.7	44.4	35.1	30.3
P/BV (x)	11.2	9.3	8.1	6.7

### Key Data

DLPA.NS | DLPL IN

52-W High / Low	Rs.1,180 / Rs.813
Sensex / Nifty	36,958 / 10,926
Market Cap	Rs.88bn / \$ 1,241m
Shares Outstanding	83m
3M Avg. Daily Value	Rs.196.54m

### Shareholding Pattern (%)

Promoter's	58.10
Foreign	19.30
Domestic Institution	9.23
Public & Others	13.37
Promoter Pledge (Rs bn)	-

### Stock Performance (%)

	1M	6M	12M
Absolute	(1.4)	4.2	12.3
Relative	3.4	1.9	15.1

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## Q1 in line; Favorable product mix leads margin

DLPL's revenue, adj. EBITDA and PAT grew 15%, 21% and 19% YoY respectively in Q1FY20 and in line with our estimates in margin and earnings. With strong cash flow and growth in new customers and packaged offer, the company expects to maintain current growth in FY20E. The expansion of bundle-test offer and gradual ramp up of central lab in Kolkata (KRL) to improve further volume addition in FY20E and FY21E. Management expects competitive intensity to remain strong with price war, regulatory interference and expected price ceiling of government. DLPL remain confident of its brand power, service quality, high-end test capability, network of collection centers and KRL to drive volume growth and profitability in FY19-21E. We maintain "Accumulate" and retain TP at Rs1,120.

**Bundle offer, product mix, lower costs drive Margin:** Revenue growth was aided by a) increase in volumes by 17% and b) product mix that drove higher contribution of bundle-test package. Its margin improved due to rationalisation on the number of clinical labs and re-routing many tests (at regional labs) to central lab in Delhi and Kolkata. Increase in patient volumes was driven by aggressive contribution from bundle-offer package and commencement of KRL. DLPL's overall realisations however declined marginally as moderate growth in high-end tests is offset by lower realizations of bundle-test business. KRL's operating performance having stabilized and DLPL now focus on to penetrate further in West Bengal. Management is highly optimistic on growth in volumes from KRL going forward

**DLPL to continue growth in patient volumes; maintain guidance at 15% growth in FY20E:** DLPL's revenue growth of 15% YoY in Q1FY20 was driven by patient volumes (aided mainly by budled-tests) of 17% and sample growth of 19.8%. DLPL's revenues/patient declined marginally to Rs684 in Q1FY20 vs. Rs691 in Q1FY19 due to price rationalisation undertaken in select geographies, which was partially offset by higher realisation from specialty tests, which continue to be its focus in high-end package of tests. Test per patient in Q1FY20 improved to 2.4 vs 2.3 from Q1FY19

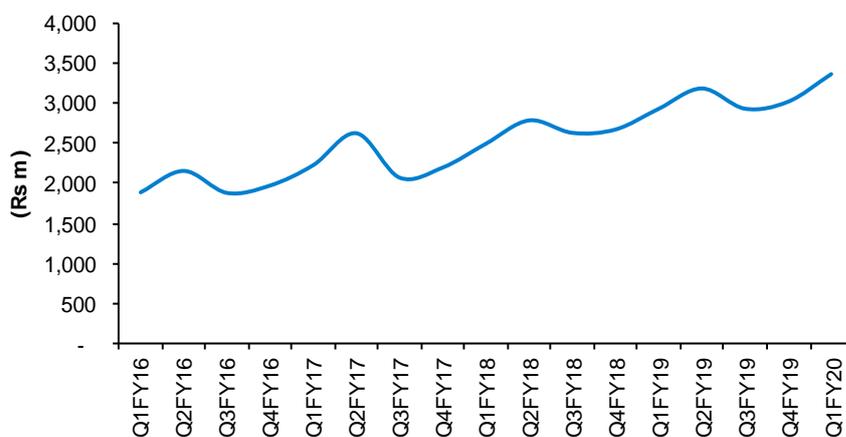
**Wellness and bundled packages contributes 15% revnues:** Commencement of Wellness portfolio since Q2FY18 has seen good growth and DLPL remained optimistic in expansion of this volume-driven business through various channels like online and through its trade partners.

**Future growth driven by franchisee model:** Alongwith focus on rationalising prices in bulk tests, DLPL has also increased the channel margins as, 35% (earlier 30%) of revenues are contributed by the franchisees. With focus on expanding franchise business, DLPL guided that incremental growth of 50-60% would be contributed by franchisees going forward.

**Exhibit 1: Q1FY20 Result Overview (Rs mn)**

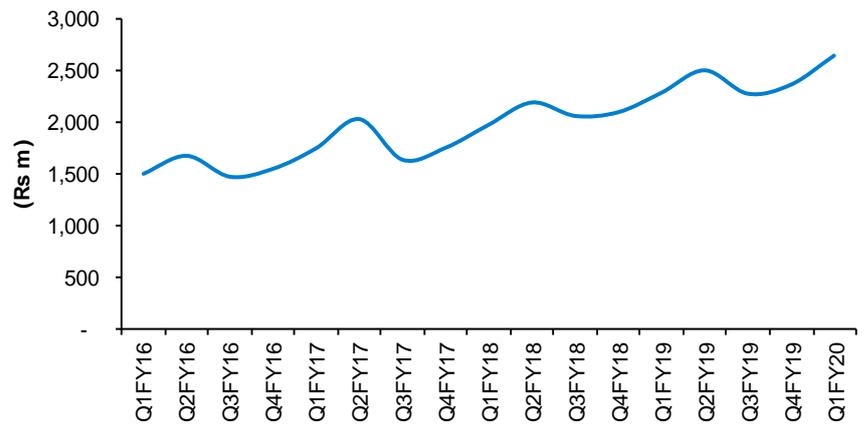
Y/e March	Q1FY20	Q1FY19	YoY gr. (%)	Q4FY19	FY20E	FY19	YoY gr. (%)
<b>Net Sales</b>	<b>3,352</b>	<b>2,923</b>	<b>14.7</b>	<b>3,011</b>	<b>14,667</b>	<b>12,034</b>	<b>21.9</b>
Raw Material	712	642	10.9	652	3,168	2,624	20.7
<i>% of Net Sales</i>	<i>21.2</i>	<i>22.0</i>		<i>21.7</i>	<i>21.6</i>	<i>21.8</i>	
Personnel Cost	583	494	18.0	568	2,713	2,083	30.3
<i>% of Net Sales</i>	<i>17.4</i>	<i>16.9</i>		<i>18.9</i>	<i>18.5</i>	<i>17.3</i>	
Others	1,106	1,037	6.7	1,129	5,236	4,391	19.2
<i>% of Net Sales</i>	<i>33.0</i>	<i>35.5</i>		<i>37.5</i>	<i>35.7</i>	<i>36.5</i>	
Total Expenditure	2,401	2,173	10.5	2,349	11,118	9,098	22.2
<b>EBITDA</b>	<b>951</b>	<b>750</b>	<b>26.8</b>	<b>662</b>	<b>3,549</b>	<b>2,936</b>	<b>20.9</b>
<i>Margin (%)</i>	<i>28.4</i>	<i>25.7</i>		<i>22.0</i>	<i>24.2</i>	<i>24.4</i>	
Depreciation	163	88	85.2	104	372	382	(2.7)
<b>EBIT</b>	<b>788</b>	<b>662</b>	<b>19.0</b>	<b>558</b>	<b>3,178</b>	<b>2,554</b>	<b>24.4</b>
Other Income	144	94	53.2	135	492	460	7.0
Interest	38	2		1	2	8	
<b>PBT</b>	<b>894</b>	<b>754</b>	<b>18.6</b>	<b>692</b>	<b>3,668</b>	<b>3,006</b>	<b>22.0</b>
Extra-Ord. Inc./Exps.	-	-		-	-	-	
Total Taxes	303	257	17.9	218	1,137	1,001	13.6
<i>ETR (%)</i>	<i>33.9</i>	<i>34.1</i>		<i>31.5</i>	<i>31.0</i>	<i>33.3</i>	
<b>Reported PAT</b>	<b>591</b>	<b>497</b>	<b>18.9</b>	<b>474</b>	<b>2,531</b>	<b>2,005</b>	<b>26.2</b>
Minority Interest	3	3		3	15	13	
<b>Reported PAT</b>	<b>588</b>	<b>494</b>	<b>19.0</b>	<b>471</b>	<b>2,516</b>	<b>1,992</b>	<b>26.3</b>

Source: Company, PL

**Exhibit 2: Revenues increase 17% driven by volume growth of 18% in Q1FY19**


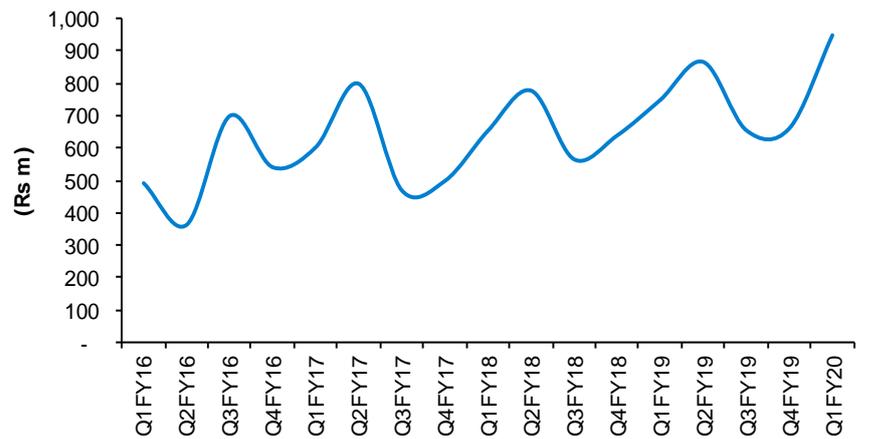
Source: Company, PL

**Exhibit 3: Gross Profit**



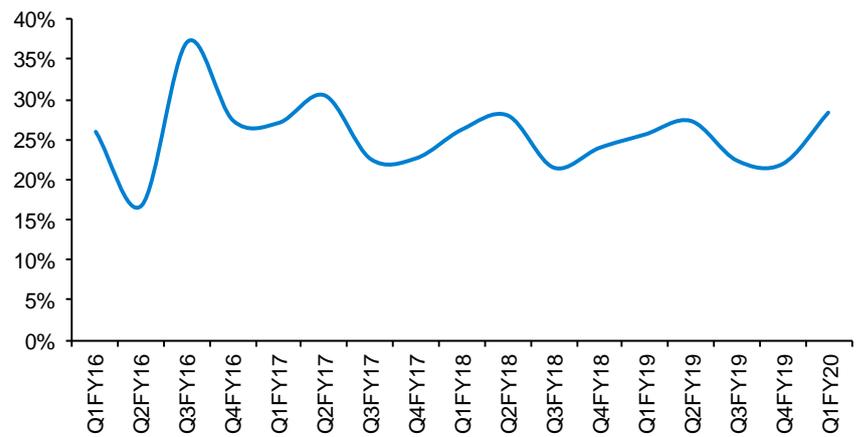
Source: Company, PL

**Exhibit 4: EBITDA increases 14.5% due to better product mix and high volume**



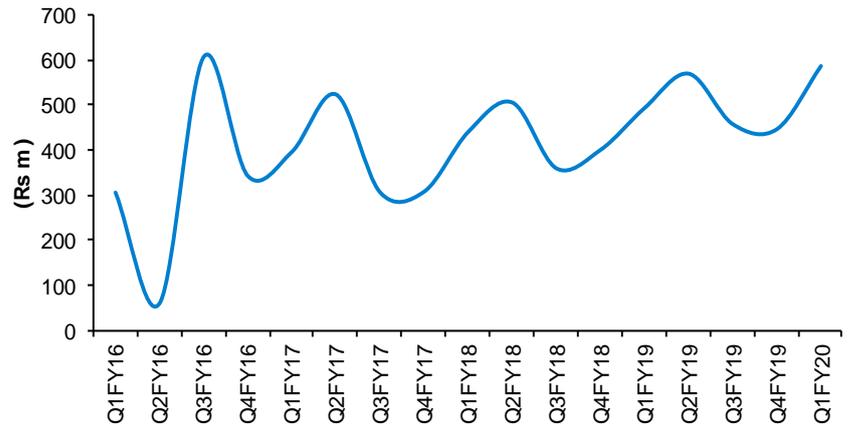
Source: Company, PL

**Exhibit 5: Reported EBITDA margin declines 60bps due to lower gross margin**



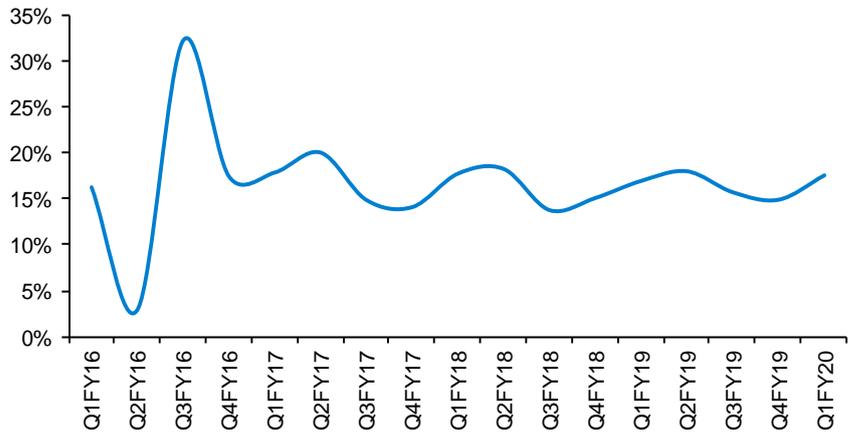
Source: Company, PL

**Exhibit 6: PAT**



Source: Company, PL

**Exhibit 7: PAT Margins**



Source: Company, PL

## Financials

### Income Statement (Rs m)

Y/e Mar	FY18	FY19	FY20E	FY21E
<b>Net Revenues</b>	<b>10,570</b>	<b>12,034</b>	<b>14,667</b>	<b>16,930</b>
YoY gr. (%)	15.8	13.9	21.9	15.4
Cost of Goods Sold	2,260	2,624	3,168	3,657
Gross Profit	8,310	9,410	11,499	13,273
Margin (%)	78.6	78.2	78.4	78.4
Employee Cost	1,807	2,083	2,713	3,047
Other Expenses	-	-	-	-
<b>EBITDA</b>	<b>2,641</b>	<b>2,936</b>	<b>3,549</b>	<b>4,131</b>
YoY gr. (%)	11.6	11.2	20.9	16.4
Margin (%)	25.0	24.4	24.2	24.4
Depreciation and Amortization	331	382	372	397
<b>EBIT</b>	<b>2,310</b>	<b>2,554</b>	<b>3,178</b>	<b>3,734</b>
Margin (%)	21.9	21.2	21.7	22.1
Net Interest	8	8	2	1
Other Income	312	460	492	517
<b>Profit Before Tax</b>	<b>2,614</b>	<b>3,006</b>	<b>3,668</b>	<b>4,250</b>
Margin (%)	24.7	25.0	25.0	25.1
Total Tax	895	1,001	1,137	1,318
Effective tax rate (%)	34.2	33.3	31.0	31.0
<b>Profit after tax</b>	<b>1,719</b>	<b>2,005</b>	<b>2,531</b>	<b>2,933</b>
Minority interest	10	13	15	17
Share Profit from Associate	-	-	-	-
<b>Adjusted PAT</b>	<b>1,709</b>	<b>1,992</b>	<b>2,516</b>	<b>2,916</b>
YoY gr. (%)	10.8	16.6	26.3	15.9
Margin (%)	16.2	16.6	17.2	17.2
Extra Ord. Income / (Exp)	-	-	-	-
<b>Reported PAT</b>	<b>1,709</b>	<b>1,992</b>	<b>2,516</b>	<b>2,916</b>
YoY gr. (%)	10.8	16.6	26.3	15.9
Margin (%)	16.2	16.6	17.2	17.2
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	1,709	1,992	2,516	2,916
<b>Equity Shares O/s (m)</b>	<b>83</b>	<b>83</b>	<b>83</b>	<b>83</b>
<b>EPS (Rs)</b>	<b>20.5</b>	<b>23.9</b>	<b>30.2</b>	<b>35.0</b>

Source: Company Data, PL Research

### Balance Sheet Abstract (Rs m)

Y/e Mar	FY18	FY19	FY20E	FY21E
<b>Non-Current Assets</b>				
<b>Gross Block</b>	<b>2,307</b>	<b>2,269</b>	<b>2,919</b>	<b>3,569</b>
Tangibles	2,043	1,954	2,554	3,154
Intangibles	265	315	365	415
<b>Acc: Dep / Amortization</b>	<b>511</b>	<b>710</b>	<b>1,081</b>	<b>1,478</b>
Tangibles	445	596	932	1,291
Intangibles	67	113	150	187
<b>Net fixed assets</b>	<b>1,796</b>	<b>1,807</b>	<b>1,838</b>	<b>2,091</b>
Tangibles	1,598	1,601	1,622	1,863
Intangibles	198	206	215	228
Capital Work In Progress	96	34	34	34
Goodwill	312	280	266	253
Non-Current Investments	379	203	207	211
Net Deferred tax assets	169	215	178	136
Other Non-Current Assets	206	230	253	278
<b>Current Assets</b>				
Investments	1,448	1,848	1,922	1,999
Inventories	273	285	269	321
Trade receivables	412	532	683	835
Cash & Bank Balance	3,135	4,903	6,348	8,032
Other Current Assets	161	96	101	106
<b>Total Assets</b>	<b>9,189</b>	<b>10,905</b>	<b>12,594</b>	<b>14,864</b>
<b>Equity</b>				
Equity Share Capital	833	833	833	833
Other Equity	7,078	8,622	10,068	12,275
<b>Total Networkth</b>	<b>7,911</b>	<b>9,455</b>	<b>10,902</b>	<b>13,109</b>
<b>Non-Current Liabilities</b>				
Long Term borrowings	-	-	-	-
Provisions	-	-	-	-
Other non current liabilities	4	-	-	-
<b>Current Liabilities</b>				
ST Debt / Current of LT Debt	-	-	-	-
Trade payables	655	798	799	852
Other current liabilities	505	585	626	607
<b>Total Equity &amp; Liabilities</b>	<b>9,188</b>	<b>10,904</b>	<b>12,594</b>	<b>14,864</b>

Source: Company Data, PL Research

**Cash Flow (Rs m)**

Y/e Mar	FY18	FY19	FY20E	FY21E
PBT	2,614	3,006	3,668	4,250
Add. Depreciation	331	382	372	397
Add. Interest	8	8	2	1
Less Financial Other Income	312	460	492	517
Add. Other	(137)	1,884	(3,712)	(782)
Op. profit before WC changes	2,816	5,280	330	3,865
Net Changes-WC	95	455	(136)	(264)
Direct tax	(940)	(1,001)	(1,137)	(1,318)
<b>Net cash from Op. activities</b>	<b>1,971</b>	<b>4,733</b>	<b>(943)</b>	<b>2,283</b>
Capital expenditures	(722)	(650)	(650)	(650)
Interest / Dividend Income	271	391	418	439
Others	(1,272)	(400)	(74)	(77)
<b>Net Cash from Inv. activities</b>	<b>(1,723)</b>	<b>(659)</b>	<b>(306)</b>	<b>(288)</b>
Issue of share cap. / premium	445	-	-	-
Debt changes	-	-	-	-
Dividend paid	(318)	(484)	(611)	(708)
Interest paid	(1)	(8)	(2)	(1)
Others	-	-	-	-
<b>Net cash from Fin. activities</b>	<b>125</b>	<b>(492)</b>	<b>(614)</b>	<b>(709)</b>
<b>Net change in cash</b>	<b>373</b>	<b>3,582</b>	<b>(1,863)</b>	<b>1,287</b>
Free Cash Flow	1,249	4,083	(1,593)	1,633

Source: Company Data, PL Research

**Quarterly Financials (Rs m)**

Y/e Mar	Q2FY19	Q3FY19	Q4FY19	Q1FY20
<b>Net Revenue</b>	<b>3,175</b>	<b>2,925</b>	<b>3,011</b>	<b>3,352</b>
YoY gr. (%)	14.2	11.3	12.9	14.7
Raw Material Expenses	677	653	652	712
Gross Profit	2,498	2,272	2,359	2,640
Margin (%)	78.7	77.7	78.3	78.8
<b>EBITDA</b>	<b>868</b>	<b>656</b>	<b>662</b>	<b>951</b>
YoY gr. (%)	11.4	15.9	3.4	26.8
Margin (%)	27.3	22.4	22.0	28.4
Depreciation / Depletion	94	96	104	163
<b>EBIT</b>	<b>774</b>	<b>560</b>	<b>558</b>	<b>788</b>
Margin (%)	24.4	19.1	18.5	23.5
Net Interest	2	3	1	38
Other Income	109	122	135	144
<b>Profit before Tax</b>	<b>881</b>	<b>679</b>	<b>692</b>	<b>894</b>
Margin (%)	27.7	23.2	23.0	26.7
Total Tax	307	218	218	303
Effective tax rate (%)	34.8	32.1	31.5	33.9
<b>Profit after Tax</b>	<b>574</b>	<b>461</b>	<b>474</b>	<b>591</b>
Minority interest	4	3	3	3
Share Profit from Associates	-	-	-	-
<b>Adjusted PAT</b>	<b>570</b>	<b>458</b>	<b>471</b>	<b>588</b>
YoY gr. (%)	12.6	27.2	17.5	19.0
Margin (%)	18.0	15.7	15.6	17.5
Extra Ord. Income / (Exp)	-	-	-	-
<b>Reported PAT</b>	<b>570</b>	<b>458</b>	<b>471</b>	<b>588</b>
YoY gr. (%)	12.6	27.2	17.5	19.0
Margin (%)	18.0	15.7	15.6	17.5
Other Comprehensive Income	1	1	(23)	-
<b>Total Comprehensive Income</b>	<b>571</b>	<b>459</b>	<b>448</b>	<b>588</b>
Avg. Shares O/s (m)	83	83	83	83
<b>EPS (Rs)</b>	<b>6.8</b>	<b>5.5</b>	<b>5.7</b>	<b>7.1</b>

Source: Company Data, PL Research

**Key Financial Metrics**

Y/e Mar	FY18	FY19	FY20E	FY21E
<b>Per Share(Rs)</b>				
EPS	20.5	23.9	30.2	35.0
CEPS	24.5	28.5	34.6	39.7
BVPS	94.9	113.5	130.8	157.3
FCF	15.0	49.0	(19.1)	19.6
DPS	-	-	-	-
<b>Return Ratio(%)</b>				
RoCE	33.3	29.4	31.2	31.1
ROIC	64.6	88.2	114.9	130.5
RoE	24.6	22.9	24.7	24.3
<b>Balance Sheet</b>				
Net Debt : Equity (x)	(0.6)	(0.7)	(0.8)	(0.8)
Net Working Capital (Days)	1	1	4	7
<b>Valuation(x)</b>				
PER	51.7	44.4	35.1	30.3
P/B	11.2	9.3	8.1	6.7
P/CEPS	43.3	37.2	30.6	26.7
EV/EBITDA	31.7	27.8	22.6	19.0
EV/Sales	7.9	6.8	5.5	4.6
Dividend Yield (%)	-	-	-	-

Source: Company Data, PL Research

**Key Operating Metrics**

Y/e Mar	FY18	FY19	FY20E	FY21E
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Source: Company Data, PL Research

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


No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	4-Jul-19	Accumulate	1,120	1,077
2	20-May-19	Accumulate	1,120	1,072
3	5-Apr-19	Accumulate	1,070	1,034
4	11-Feb-19	Accumulate	1,070	1,031
5	7-Jan-19	Accumulate	1,009	948
6	7-Nov-18	Accumulate	1,009	885
7	5-Oct-18	Accumulate	1,009	928

**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	1,077
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	Hold	137	160
9	Ipca Laboratories	BUY	908	949
10	Jubilant Life Sciences	Reduce	433	445
11	Lupin	Reduce	730	761
12	Sun Pharmaceutical Industries	Reduce	396	392
13	Thyrocare Technologies	BUY	595	466

**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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