

November 7, 2018

Q2FY19 Result Update

■ Change in Estimates | ■ Target | ■ Reco

Change in Estimates

	Current		Previous	
	FY19E	FY20E	FY19E	FY20E
Rating	ACCUMULATE		ACCUMULATE	
Target Price	1,009		1,009	
Sales (Rs. m)	12,497	14,668	12,497	14,668
% Chng.	-	-	-	-
EBITDA (Rs. m)	3,037	3,550	3,037	3,550
% Chng.	-	-	-	-
EPS (Rs.)	24.3	28.7	24.3	28.7
% Chng.	-	-	-	-

Key Financials

	FY17	FY18	FY19E	FY20E
Sales (Rs. m)	9,124	10,570	12,497	14,668
EBITDA (Rs. m)	2,365	2,641	3,037	3,550
Margin (%)	25.9	25.0	24.3	24.2
PAT (Rs. m)	1,542	1,709	2,028	2,394
EPS (Rs.)	18.6	20.5	24.3	28.7
Gr. (%)	16.1	10.5	18.7	18.0
DPS (Rs.)	-	-	-	-
Yield (%)	-	-	-	-
RoE (%)	29.0	24.6	23.9	24.1
RoCE (%)	39.2	33.3	31.0	31.5
EV/Sales (x)	7.7	6.5	5.5	4.5
EV/EBITDA (x)	29.6	26.2	22.5	18.8
PE (x)	47.7	43.2	36.4	30.8
P/BV (x)	12.3	9.3	8.2	6.8

Key Data

DLPA.NS | DLPL IN

52-W High / Low	Rs.1,122 / Rs.789
Sensex / Nifty	34,951 / 10,524
Market Cap	Rs.74bn / \$ 1,009m
Shares Outstanding	83m
3M Avg. Daily Value	Rs.152.42m

Shareholding Pattern (%)

Promoter's	57.41
Foreign	17.02
Domestic Institution	8.61
Public & Others	15.74
Promoter Pledge (Rs bn)	-

Stock Performance (%)

	1M	6M	12M
Absolute	(3.0)	5.6	5.9
Relative	(4.6)	5.5	2.1

Surajit Pal

surajitpal@plindia.com | 91-22-66322259

Q2 in line; Muted Dengue season to tepid Q3

DLPL's revenue, adj. EBITDA and PAT grew 14%, 11% and 13% YoY respectively in Q2FY19 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 FY19E. The expansion of bundle-test offer and gradual ramp up of central lab in Kolkata (KRL) to improve further volume addition in FY19E and FY20E. 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 FY18-20E. We maintain "Accumulate" and retain TP at Rs1009

Bundle offer, product mix, lower costs drive Margin: Revenue growth was aided by a) increase in volumes by 18% 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, operates at 6,200 samples per day. Management is highly optimistic on growth in volumes from KRL going forward

DLPL to continue growth in patient volumes; Guides 18-20% growth in FY19E: DLPL's revenue growth of 14% YoY in Q2FY19 was driven by patient volumes (aided mainly by budled-tests) despite reduced prices in selective tests. DLPL's revenues/patient declined marginally 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 Q2FY19 improved to 2.38 vs 2.34 in Q2FY18

Wellness and bundled packages see positive initial response: 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.

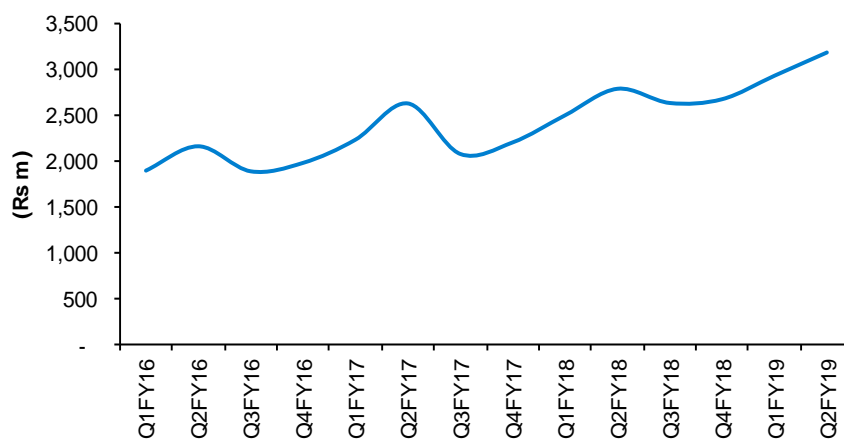
Future growth driven by franchisee model: Alongwith focus on rationalising prices in bulk tests, DLPL has also increased the channel margins as, 30-35% of revenues are contributed by the franchisees. With focus on expanding franchise business, DLPL guided that incremental growth of 50-60% would be contributed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

Expansion in lesser-tapped geographies: DLPL currently has 193 labs spread across 60-70 cities, with presence in south and west having 25 labs only. DLPL strategizes to expand in southern and western geographies tapping specialty tests and creating a brand presence with the doctors. DLPL aims at expansion in bundled tests across south and west via inorganic acquisitions.

Exhibit 1: Q2FY19 Result Overview (Rs mn)

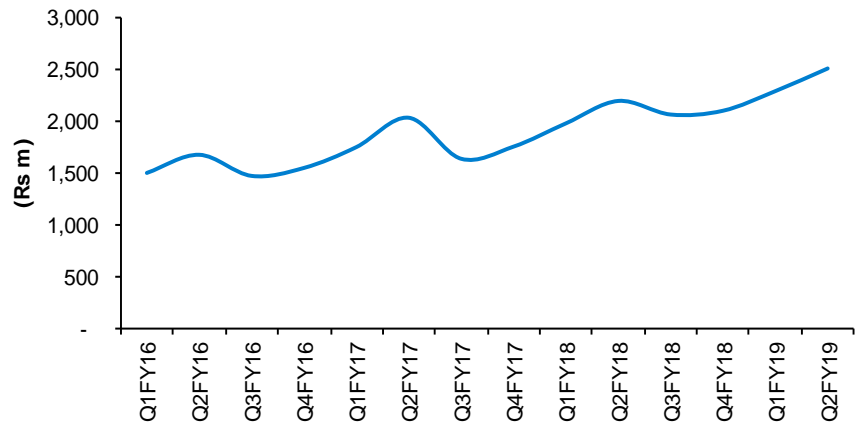
Y/e March	Q2FY19	Q2FY18	YoY gr. (%)	Q1FY19	H1FY19	H1FY18	YoY gr. (%)
Net Sales	3,175	2,781	14.2	2,923	6,098	5,274	15.6
Raw Material	677	594	14.0	642	1,319	1,115	18.3
<i>% of Net Sales</i>	<i>21.3</i>	<i>21.4</i>		<i>22.0</i>	<i>21.6</i>	<i>21.1</i>	
Personnel Cost	502	446	12.6	494	996	882	12.9
<i>% of Net Sales</i>	<i>15.8</i>	<i>16.0</i>		<i>16.9</i>	<i>16.3</i>	<i>16.7</i>	
Others	1,128	962	17.3	1,037	2,165	1,843	17.5
<i>% of Net Sales</i>	<i>35.5</i>	<i>34.6</i>		<i>35.5</i>	<i>35.5</i>	<i>34.9</i>	
Total Expenditure	2,307	2,002	15.2	2,173	4,480	3,840	16.7
EBITDA	868	779	11.4	750	1,618	1,434	12.8
<i>Margin (%)</i>	<i>27.3</i>	<i>28.0</i>		<i>25.7</i>	<i>26.5</i>	<i>27.2</i>	
Depreciation	94	75	25.3	88	182	144	26.4
EBIT	774	704	9.9	662	1,436	1,290	11.3
Other Income	109	77	41.6	94	203	152	33.6
Interest	2	3		2	4	4	
PBT	881	778	13.2	754	1,635	1,438	13.7
Extra-Ord. Inc./Exps.	-	-		-	-	-	
Total Taxes	307	269	14.1	257	564	485	16.3
<i>ETR (%)</i>	<i>34.8</i>	<i>34.6</i>		<i>34.1</i>	<i>34.5</i>	<i>33.7</i>	
Reported PAT	574	509	12.8	497	1,071	953	12.4
Minority Interest	4	3		3	7	6	
Reported PAT	570	506	12.6	494	1,064	947	12.4

Source: Company, PL

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


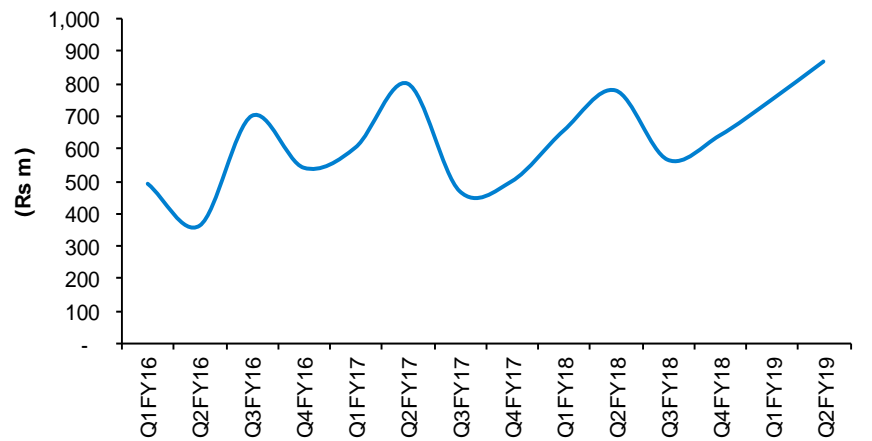
Source: Company, PL

Exhibit 3: Gross Profit



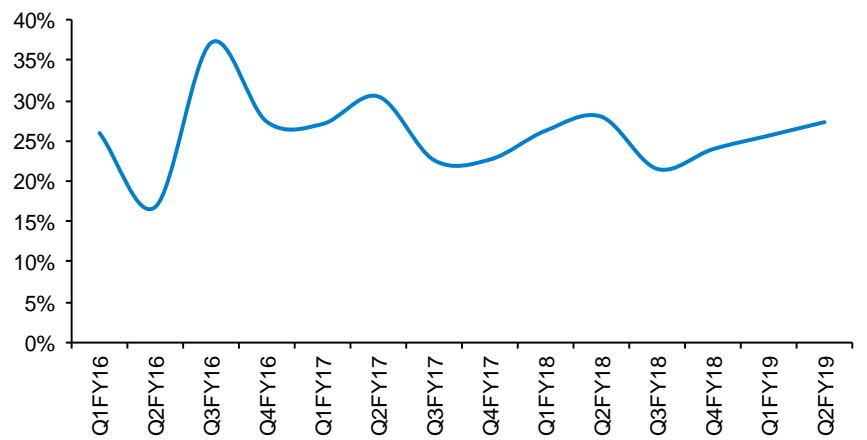
Source: Company, PL

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



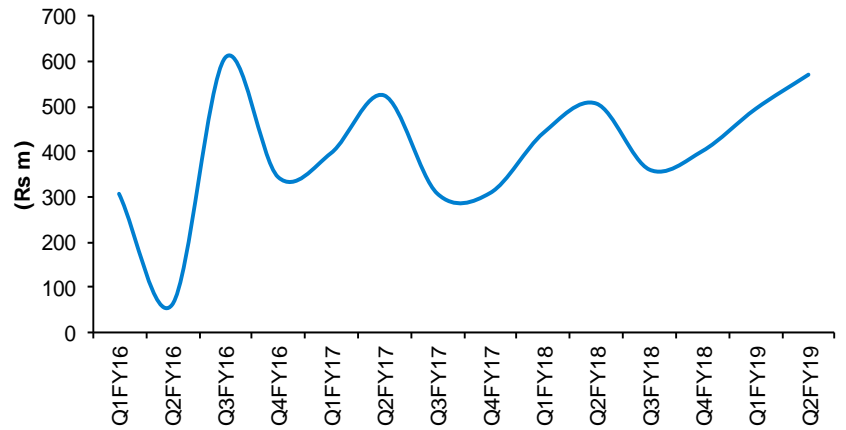
Source: Company, PL

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



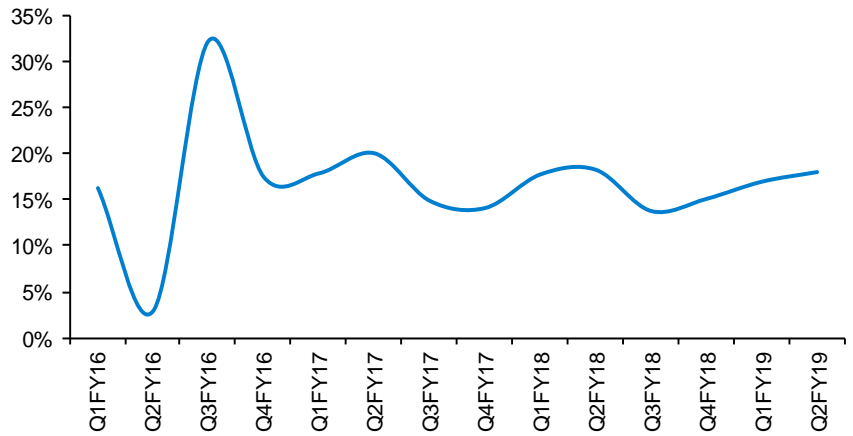
Source: Company, PL

Exhibit 6: PAT



Source: Company, PL

Exhibit 7: PAT Margins



Source: Company, PL

Financials

Income Statement (Rs m)

Y/e Mar	FY17	FY18	FY19E	FY20E
Net Revenues	9,124	10,570	12,497	14,668
YoY gr. (%)	15.3	15.8	18.2	17.4
Cost of Goods Sold	1,971	2,260	2,699	3,168
Gross Profit	7,153	8,310	9,798	11,499
Margin (%)	78.4	78.6	78.4	78.4
Employee Cost	1,634	1,807	2,312	2,714
Other Expenses	-	-	-	-
EBITDA	2,365	2,641	3,037	3,550
YoY gr. (%)	12.8	11.6	15.0	16.9
Margin (%)	25.9	25.0	24.3	24.2
Depreciation and Amortization	282	331	412	417
EBIT	2,084	2,310	2,624	3,132
Margin (%)	22.8	21.9	21.0	21.4
Net Interest	2	8	2	1
Other Income	251	312	334	357
Profit Before Tax	2,333	2,614	2,956	3,489
Margin (%)	25.6	24.7	23.7	23.8
Total Tax	781	895	916	1,081
Effective tax rate (%)	33.5	34.2	31.0	31.0
Profit after tax	1,552	1,719	2,039	2,407
Minority interest	10	10	12	13
Share Profit from Associate	-	-	-	-
Adjusted PAT	1,542	1,709	2,028	2,394
YoY gr. (%)	16.7	10.8	18.7	18.0
Margin (%)	16.9	16.2	16.2	16.3
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	1,542	1,709	2,028	2,394
YoY gr. (%)	16.7	10.8	18.7	18.0
Margin (%)	16.9	16.2	16.2	16.3
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	1,542	1,709	2,028	2,394
Equity Shares O/s (m)	83	83	83	83
EPS (Rs)	18.6	20.5	24.3	28.7

Source: Company Data, PL Research

Balance Sheet Abstract (Rs m)

Y/e Mar	FY17	FY18	FY19E	FY20E
Non-Current Assets				
Gross Block	1,522	2,325	2,975	3,625
Tangibles	1,305	2,043	2,643	3,243
Intangibles	217	282	332	382
Acc: Dep / Amortization	277	529	941	1,358
Tangibles	226	445	822	1,202
Intangibles	51	84	119	157
Net fixed assets	1,246	1,796	2,034	2,266
Tangibles	1,079	1,598	1,821	2,041
Intangibles	166	198	212	225
Capital Work In Progress	175	96	96	96
Goodwill	279	312	297	282
Non-Current Investments	213	379	387	395
Net Deferred tax assets	137	169	140	105
Other Non-Current Assets	186	206	227	250
Current Assets				
Investments	1,061	1,448	1,506	1,566
Inventories	179	273	229	269
Trade receivables	418	412	582	683
Cash & Bank Balance	2,395	3,135	3,983	5,489
Other Current Assets	130	161	169	178
Total Assets	6,901	9,189	10,489	12,461
Equity				
Equity Share Capital	831	833	833	833
Other Equity	5,125	7,078	8,191	10,003
Total Network	5,955	7,911	9,024	10,837
Non-Current Liabilities				
Long Term borrowings	-	-	-	-
Provisions	-	-	-	-
Other non current liabilities	8	4	4	4
Current Liabilities				
ST Debt / Current of LT Debt	-	-	-	-
Trade payables	524	655	710	799
Other current liabilities	325	505	530	561
Total Equity & Liabilities	6,901	9,188	10,489	12,461

Source: Company Data, PL Research

Cash Flow (Rs m)

Y/e Mar	FY17	FY18	FY19E	FY20E
PBT	2,333	2,614	2,956	3,489
Add. Depreciation	282	331	412	417
Add. Interest	2	8	2	1
Less Financial Other Income	251	312	334	357
Add. Other	(279)	(137)	1,884	(252)
Op. profit before WC changes	2,338	2,816	5,254	3,654
Net Changes-WC	81	95	(95)	(77)
Direct tax	(706)	(940)	(916)	(1,081)
Net cash from Op. activities	1,713	1,971	4,243	2,496
Capital expenditures	(511)	(722)	(650)	(650)
Interest / Dividend Income	237	271	284	304
Others	(1,098)	(1,272)	(58)	(60)
Net Cash from Inv. activities	(1,371)	(1,723)	(424)	(407)
Issue of share cap. / premium	52	445	-	-
Debt changes	-	-	-	-
Dividend paid	(372)	(318)	(493)	(582)
Interest paid	(2)	(1)	(2)	(1)
Others	-	-	-	-
Net cash from Fin. activities	(323)	125	(495)	(582)
Net change in cash	19	373	3,324	1,507
Free Cash Flow	1,202	1,249	3,593	1,846

Source: Company Data, PL Research

Quarterly Financials (Rs m)

Y/e Mar	Q3FY18	Q4FY18	Q1FY19	Q2FY19
Net Revenue	2,627	2,668	2,923	3,175
YoY gr. (%)	26.7	21.3	17.2	14.2
Raw Material Expenses	570	575	642	677
Gross Profit	2,057	2,093	2,281	2,498
Margin (%)	78.3	78.4	78.0	78.7
EBITDA	566	640	750	868
YoY gr. (%)	(27.3)	13.1	17.2	15.7
Margin (%)	21.5	24.0	25.7	27.3
Depreciation / Depletion	80	107	88	94
EBIT	486	533	662	774
Margin (%)	18.5	20.0	22.6	24.4
Net Interest	2	2	2	2
Other Income	71	89	94	109
Profit before Tax	555	620	754	881
Margin (%)	21.1	23.2	25.8	27.7
Total Tax	192	218	257	307
Effective tax rate (%)	34.6	35.2	34.1	34.8
Profit after Tax	363	402	497	574
Minority interest	3	1	3	4
Share Profit from Associates	-	-	-	-
Adjusted PAT	360	401	494	570
YoY gr. (%)	16.9	28.0	12.0	12.6
Margin (%)	13.7	15.0	16.9	18.0
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	360	401	494	570
YoY gr. (%)	16.9	28.0	12.0	12.6
Margin (%)	13.7	15.0	16.9	18.0
Other Comprehensive Income	1	1	1	1
Total Comprehensive Income	361	402	495	571
Avg. Shares O/s (m)	83	83	83	83
EPS (Rs)	4.3	4.8	5.9	6.8

Source: Company Data, PL Research

Key Financial Metrics

Y/e Mar	FY17	FY18	FY19E	FY20E
Per Share(Rs)				
EPS	18.6	20.5	24.3	28.7
CEPS	22.0	24.5	29.3	33.7
BVPS	71.7	94.9	108.3	130.0
FCF	14.5	15.0	43.1	22.2
DPS	-	-	-	-
Return Ratio(%)				
RoCE	39.2	33.3	31.0	31.5
ROIC	74.7	64.6	60.8	75.2
RoE	29.0	24.6	23.9	24.1
Balance Sheet				
Net Debt : Equity (x)	(0.6)	(0.6)	(0.6)	(0.7)
Net Working Capital (Days)	3	1	3	4
Valuation(x)				
PER	47.7	43.2	36.4	30.8
P/B	12.3	9.3	8.2	6.8
P/CEPS	21.0	23.4	28.0	32.2
EV/EBITDA	29.6	26.2	22.5	18.8
EV/Sales	7.7	6.5	5.5	4.5
Dividend Yield (%)	-	-	-	-

Source: Company Data, PL Research

Price Chart
Recommendation History


No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	9-Nov-17	Accumulate	963	832
2	10-Jan-18	Accumulate	963	886
3	9-Feb-18	Accumulate	1,009	896
4	13-Apr-18	Accumulate	1,009	870
5	14-May-18	Accumulate	1,009	806
6	10-Jul-18	Accumulate	1,009	941
7	5-Oct-18	Accumulate	1,009	928

Analyst Coverage Universe

Sr. No.	CompanyName	Rating	TP (Rs)	Share Price (Rs)
1	Aurobindo Pharma	BUY	909	757
2	Cadila Healthcare	Accumulate	371	359
3	Cipla	Reduce	417	563
4	Dr. Lal PathLabs	Accumulate	1,009	928
5	Dr. Reddy's Laboratories	Reduce	2,170	2,405
6	Eris Lifesciences	Accumulate	704	643
7	Glenmark Pharmaceuticals	Reduce	472	602
8	Indoco Remedies	Reduce	184	178
9	Ipca Laboratories	BUY	829	642
10	Jubilant Life Sciences	Accumulate	723	650
11	Lupin	Reduce	713	885
12	Sun Pharmaceutical Industries	Reduce	447	599
13	Thyrocare Technologies	BUY	796	660

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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