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Initiating Coverage - Diagnostics Sector

30-March-2021

RETAIL RESEARCH

Diagnostics Sector

Initiating Coverage Report on Dr Lal Pathlabs Ltd, Metropolis Healthcare Ltd, Thyrocare Technologies Ltd

Company Name	LTP	Recommendation	Base Case Fair Value	Bull Case Fair Value	Time Horizon
Dr. Lal Pathlabs	Rs. 2571.4	Buy at LTP and add on dips to Rs. 2295-2297 band	Rs. 2893	Rs. 2985	2 quarters

Company Name	LTP	Recommendation	Base Case Fair Value	Bull Case Fair Value	Time Horizon
Metropolis Healthcare	Rs. 2079.2	Buy at LTP and add on dips to Rs.1833-1835 band	Rs. 2304	Rs. 2453	2 quarters

Company Name	LTP	Recommendation	Base Case Fair Value	Bull Case Fair Value	Time Horizon
Thyrocare Technologies	Rs. 866.6	Buy at LTP and add on dips to Rs. 770-772 band	Rs. 966	Rs. 1026	2 quarters

Indian Diagnostic Sector:

In India's healthcare industry landscape, diagnostic services play the role of an information intermediary, providing useful information for accurate diagnosis and treatment of diseases. These services are classified into pathology testing services and imaging diagnostic services, wherein the former accounts for ~70% of the market share while radiology tests account for the rest. These services are priced the lowest in the world; therefore, this industry is largely driven by volumes. In the past five years, the price of testing has remained flat or at best increased by 5-8%.

The diagnostic industry has emerged as an attractive play in India's growing healthcare sector and is one of the fastest growing service segments in the country. The domestic industry is estimated at USD 9.5bn and is expected to grow at a compounded annual growth rate (CAGR) of ~11% over the next five years, largely driven by increase in healthcare spending by aging population, rising income levels, rising awareness for preventive testing, advanced healthcare diagnostic tests offerings, and central government's healthcare measures. Although the Indian diagnostic market is small yet compared to those in developed countries, it is amongst the fastest growing segments in the healthcare market. This segment is currently dominated by high volume/low-cost testing activity by most players, with little or almost no investment in building awareness of clinical utility.

The market share is categorized as: unorganized (47%), hospital-based lab (37%) while the remaining (~16%) is with the organized players. Doctor referrals constitute a large part of this business. This includes commission payments to doctors in lieu of referring a diagnostic lab. Further, currently, the illness diagnosis segment is more prevalent than wellness segment in India.

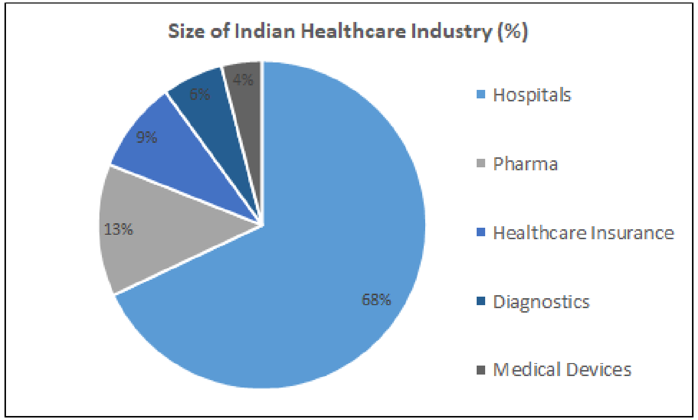
Diagnostics Sector

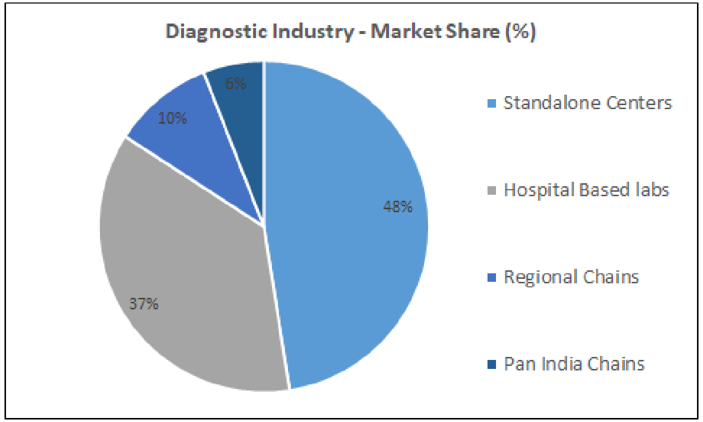
Services:

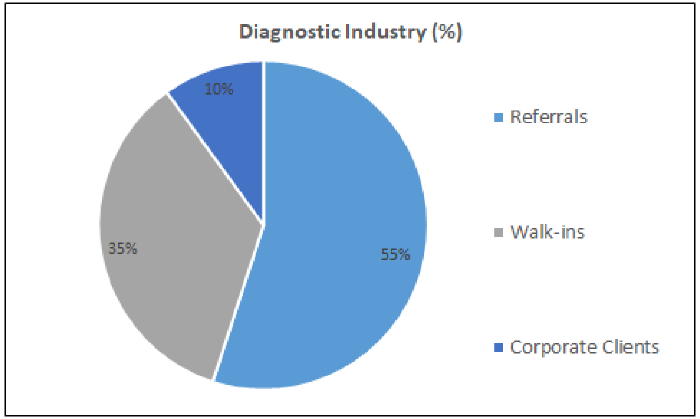
Pathology testing or invitro diagnosis involves the collection of samples in the form of blood, urine, stool, etc., and analyzing them using laboratory equipment and technology to arrive at useful clinical information that assists in treatment of diseases. It includes biochemistry, immunology, hematology, urine analysis, molecular diagnosis, and microbiology.

Imaging diagnosis or radiology involves imaging procedures such as X-rays and ultrasounds that help determine anatomical or physiological changes inside a patient's body, thus assisting doctors in diagnosing. It includes more complex tests such as CT scans, MRIs, and highly specialized PET-CT scans.

Wellness and preventive diagnostic services aim at identifying pre-existing diseases or the likely risk of particular diseases before the onset of symptoms. It is expected that wellness and preventive diagnostic services will assist people more accurately identify risks so that they can take corrective or precautionary measures before any chronic condition develops. Wellness and preventive tests are generally aligned to either specifically screen for a chronic disease or contain a series of tests to ascertain the overall health condition of an individual.







(Source: Industry Reports, Annual Reports, HDFC sec)

Diagnostic Players:

The four major players – Dr Lal PathLabs (DLPL), Metropolis Healthcare (MHL), SRL Diagnostics (SRL) and Thyrocare Technologies (TTL) – aggregate ~6% of market share. So, there is a huge opportunity for organic expansion and consolidation of national players. We believe organized players with national presence would grow at 15-17% CAGR over the next five years and continue to garner market share, led by asset light models and strong cash flows. The growth of these diagnostics would be majorly volume-driven, given the high level of competition and government-imposed regulations. Attracted by historically high growth rates (20-25%) lucrative returns, and low entry barriers, most players compete on pricing to garner volumes quickly and move up the cost curve, supported by PE investors. To capture the increasingly important shift towards the consumer, industry leaders have started to implement initiatives such as retailer partnering, offering home testing, and enhancing engagement with patients through digital presence, in addition to maintaining their basic testing services as a safety net. A faster shift of unorganized business to organized players, potential consolidation, likely increase in preventive check-ups and sizeable scale would benefit large organized players with strong balance sheets.

Asset Light Model for Growth:

Hub and spoke model: Most organized diagnostic chains operate on hub and spoke business model, which brings economies of scale benefits. To gain a competitive advantage, reap scale economy benefits and control operating costs, these diagnostic chains constantly endeavor to increase their network rapidly. They do so by adding satellite laboratories and collection centers (majorly on a franchisee model).

Reagent rental model: Suppliers sell their equipment to lab testing companies at almost zero capital costs. Lab testing companies agree to buy reagent batches (batch of testing chemicals) exclusively from the company whose equipment is installed in their lab and pay a periodic rental (given a lease rental type agreement), which is booked as an operating expense.

Shop in Shop model: Diagnostic players are entering into outsourcing contracts with hospitals, whereby they would handle the entire diagnostic operations for them. Such models of outsourcing clinical tests to private laboratories are expected to rise to streamline and increase efficiency.

Home collection: Home sample collection and testing has been on the rise, provided by almost all organized players and some unorganized ones as well. Phlebotomist collects the sample and transports it in a specially designed transportation box (cold box) to the designated processing center. Home sample collection is one of the key reasons for the success of diagnostic chains and their rapid penetration in the urban market.

Long Term Triggers:

- Changing population dynamics is a key trigger; the population of senior citizens is growing at 4-4.5%, thus providing ample opportunity to the healthcare industry, especially the diagnostic sector. Increase in life expectancy along with increase in lifestyle-related diseases contribute to the sector.
- Rising income levels, which translate into higher per capita spends on healthcare.
- Increase in health insurance coverage is another important trigger; as population and life expectancy grow, the demand for health insurance would rise, and lead to heightened requirement for diagnostic services.

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- Greater awareness of preventive testing and government measures to promote the same via tax cuts, given the COVID-19 pandemic, will act as a tailwind to volume growth.

Recent Trends:

Focus on Preventive and Wellness services: Organized players are increasingly targeting healthy individuals with sedentary lifestyles, who are more prone to lifestyle diseases such as cardiovascular ailments and diabetes. Bulk business from employer schemes is a key driver of this market. Emerging trend of precision medicine and focus on preventive care and walk-in/direct-to-customer diagnostic services are expected to drive growth in the diagnostics arena.

Consolidation, shift from unorganized to organized: India's diagnostics industry is highly fragmented. With emergence of pan-India diagnostic chains, the sector has seen more and more consolidation via mergers and acquisitions and increased market share of organized chains.

Brand building initiatives: All the major diagnostic players are investing in brand building and creating online and offline marketing campaigns to differentiate their offerings, quality, and test accuracy from their competitors. They are launching advertising campaigns, healthcare camps, and various wellness and preventive test packages under their own brands. Their focus on repeat sales and conversion of referral customers into owned ones is the path they are following in this competitive market.

Emergence of Online Aggregators: Online aggregators provide a robust website platform for customers to the most suitable diagnostic packages. They also provide a feature for choosing the service provider along with display of the price it offers. Individual health check-up providers suggest various packages to customers based on their requirements and handle the booking of packages at designated service providers. These facilities are bringing diagnostic and testing services to the fingertips of customers, offering them a number of available options almost instantly.

Formalization of Diagnostic Industry:

The diagnostics industry is highly fragmented with large chains, standalone centers, and hospital-based laboratories. Owing to low entry barriers, the industry is fragmented and is witnessing a lot of small and medium sized players; however, very few are able to scale in a profitable manner. Regional Standalone Laboratories have a limited test menu and, hence, lack the capacity needed to expand in terms of service offerings and perceived quality of testing, which may not be as good as that of an established chain's. Hospital-based laboratories are restricted to the hospital's inpatients, with a limited test menu and charges that are higher than diagnostic chains. Diagnostic chains, on the other hand, have an advantage of years of experience, brand trust and recall, global quality standards and accreditations, brand experience, expansive test menus, patient touch points to service patients locally, value added offerings for patients and the ability to sustainably grow in new markets.

Diagnostics Sector

Diagnostic chains have managed rapid growth through opening more collection centers, which has improved their asset utilization. Moreover, large chains have greater bargaining power that allows them to keep their input costs (bulk purchase of reagents) lower than standalone centers. Standalone ones also tend to lose out on some business as they are unable to carry out complex tests and customers hold the perception that their quality does not match that of branded chains'. Hence, we can say diagnostic chains would continue to eat into standalone centers' market share.

Their situation is further strengthened after the COVID-19 breakout, with the shift from unorganized to organized players expected to happen at a faster rate now, as patients prefer visiting branded and recoginzed labs that give better quality and enhanced safety. Organized players are also likely to benefit from rise in home collection, given their strong brand recognition, reliability and quality services. The unorganized and smaller labs offer a chance to the bigger players to expand their reach and presence through acquisitions and franchisee operation model.

Positive Impact of COVID-19:

The current health scare of COVID-19 is set to change the mindset of Indian customers. An increasing number of customers will now evaluate and label diagnostics chains as 'COVID-19 capable' and 'non-COVID-19 capable'. With these tests becoming the new norm, a higher market share is expected to shift towards the labs offering COVID-related tests. The pandemic is helping the organized players build their brand value and goodwill, which will help attract patients.

Customers are now anticipated to place quality over pricing when it comes to diagnostics. Higher quality standards, authentic reports, after sales service, and doctor engagement will be the key deciding factors in the lab selection process. Unorganized and standalone labs were facing severe cost pressures due to lockdown. The faster adoption of quality standards, partly enforced by the Government and partly forced upon by customers, indirectly, could result in the closure of operations for many unorganized standalone labs. A faster consolidation in the industry, along with changes in the regulatory framework, is also anticipated soon. Diagnostics chains with a lean balance sheet, strong consumer-connect, high brand recall, and following global quality standards will gain market share. We believe that the current disruption led by COVID-19 will help the industry leaders in absorbing the small and mid-sized labs, which are facing operational challenges.

Challenges faced by industry:

Lower/no entry barrier: One of the key reasons for the industry to be fragmented is low entry barrier. The historically high growth rates (20-25%) had attracted quite a few PE investors into this setup. Private equity (PE) players were very active in this space during 2011-15; but the number of deals has gone down on the back of high competition. Also, limited test menu/offerings by regional standalone laboratories and partial coverage of hospital-based laboratories have resulted in higher opportunities for diagnostic chain players.

Challenge in entering new geographies: India is a vast country with diverse cultures and disease profiles across its various regions. The diversity in demographics, disease profiles, and healthcare systems present big challenges. Large diagnostic players face competition from local players who have an edge due to their familiarity with local market dynamics. Also, most players have substantial presence in metros and Tier I. However, the Tier II, III and IV cities are something that has not been tapped aggressively and is largely run by local standalone players offering basic tests. Nevertheless, companies have now started to tap the interiors in order to drive volumes by partnering with local players, which is driving consolidation. National diagnostics players, after having set up centers in new locations, take time to engage with doctors (as referrals contribute high share in this sector) who have long relationships with regional players. Doctors take their own time, which also depends on how much visibility the national players have created of their services in local areas. These national players garnering higher market share from unorganized counterparts take time to scale up their operations.

Pricing pressures: India's diagnostics industry is highly competitive with unorganized players still garnering approximately 84% market share. This increases competition among organized and unorganized diagnostic chains in terms of volumes of patients' samples and pricing of diagnostic tests.

Vulnerability to technological advancements: Medical devices and analyzers are constantly undergoing technological advancements. To stay ahead of the competition, diagnostics centers have to constantly upgrade their technology. However, these upgrades not only involve significant capital investments, but also increase maintenance costs. This is critical, especially for smaller players who face a paucity of funds.

Comments:

The diagnostic industry has emerged as an attractive play in India's growing healthcare sector and is one of the fastest growing service segments in the country. Diagnostic is a business of economies of scale and the most important metric is the cost of processing a sample. The existing players are still in the nascent stages of their growth cycles and have a long runway ahead. We are positive on the national diagnostic chains in India, given their advantages of many years of experience, brand trust and recall, global quality standards and accreditations, wide test menus, extensive patient touchpoints to service patients locally, value-added offerings, and ability to sustainably grow in new markets. Potential consolidation in the industry, organic and inorganic expansion, complemented by their strong balance sheets and return ratios, would provide tailwinds to their growth in the medium term.

The large listed Indian diagnostic chains - Dr. Lal, Metropolis, Thyrocare - remain beneficiaries of what we view as attractive long-term industry growth story. Given the outbreak of COVID-19 and its impact on people mindset about healthcare and preventive measures over the next one to two years; we are giving higher valuation to these stocks. We see the potential for increased inclusion of diagnostic testing in health insurance and ample runway for higher market penetration as standards of living increase and preventive healthcare awareness rises.

Dr Lab Pathlabs Ltd

Industry	LTP	Recommendation	Base Case Fair Value	Bull Case Fair Value	Time Horizon
Diagnostics	Rs. 2571.4	Buy at LTP and add on dips to Rs. 2295-2297 band	Rs. 2893	Rs. 2985	2 quarters

HDFC Scrip Code	LALLABEQNR
BSE Code	539524
NSE Code	LALPATHLAB
Bloomberg	DLPL IN
CMP Mar 26, 2021	2571.4
Equity Capital (Rscr)	83.3
Face Value (Rs)	10
Eq- Share O/S (cr)	8.33
Market Cap (Rscrs)	21431.3
Book Value (Rs)	123.9
Avg. 52Wk Volumes	184191
52 Week High	2626.0
52 Week Low	1305.0

Share holding Pattern % (Dec 2020)	
Promoters	55.2
Institutions	33.2
Non Institutions	11.6
Total	100

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Our Take:

Dr Lal PathLabs (DLPL) is a leading player in the highly fragmented and competitive Indian diagnostics market and is well-positioned to benefit from favourable sector dynamics. DLPL has a robust hub-and-spoke model, with strategically positioned clinical laboratories, patient service centers (PSCs), and pick-up points (PUPs). The company's strong business model led to a revenue growth of 15% CAGR over FY15-20, supported by rise in sample collection (17.1% CAGR; backed by large network of PSCs and PUPs) along with growing number of patients served (14.4% CAGR). Its focus in providing patients with quality diagnostic healthcare services at reasonable prices has given it the reputation of being amongst the most trustworthy and reliable pathology labs in India.

The company is focused on growing its non-COVID business through menu expansion, deeper penetration in existing markets, and selective, inorganic acquisitions in newer markets. The company endeavours to enhance its online presence, sharply focusing on home collection of samples and targeting higher traction for its bundled test portfolio to further augment its preventive health platform, which should drive its revenue, going forward. Already a leader in the North region (69% of revenues), it is gradually improving its positioning in other regions. Expanding its footprint in South and West of India by setting up reference labs would further broad base its revenue mix between various geographies will yield results over medium term. We believe the growth trend is likely to sustain, driven largely by bundled tests (like Swasthfit), increase in sample per patient, moderate pricing in the B2C segment, and increased aggression in B2B segment.

Valuations & Recommendation:

Dr. Lal Pathlabs has an asset light model with its collection centers majorly operating under a franchisee model and most of its diagnostic equipment sourced through reagent rental agreements. With its strong network presence, we believe the company is poised to deliver higher volume growth. DLPL is a good bet on the structural long term growth story of Indian healthcare & diagnostics industry, considering its market leadership in the organized space, pan-India presence, quality testing capabilities, and asset light model, which would lead to robust operating cash flows. Faster shift of unorganized business to organized players, potential consolidation, and likely increase in preventive & health check-ups would benefit big organized players like Dr Lal Pathlabs. Considering the strong historic growth profile, well-established brand image and robust return ratios, we believe there is a scope for re-rating of this stock. Scaling up its operation in South and West India after having set up reference labs would be a key monitorable, given the challenging landscape of the sector. We believe the base case fair value of the stock is Rs. 2893 (63x FY23E EPS) and the bull case fair value is Rs. 2985 (65x FY23E EPS) over the next two quarters. Investors can buy the stock at LTP and add on dips to Rs. 2295-2297 band (50x FY23E EPS). At the LTP of Rs. 2571.4, it quotes at 56x FY23E EPS.

Financial Summary:

Particulars (Rs cr)	Q3FY21	Q3FY20	YoY-%	Q2FY21	QoQ-%	FY19	FY20	FY21E	FY22E	FY23E
Total Operating Income	452.4	327.9	38.0	431.9	4.7	1,203.4	1,330.4	1,590.4	1,779.7	1,947.0
EBITDA	138.8	82.3	68.7	127.2	9.1	293.6	343.6	437.4	496.5	549.1
Depreciation	19.5	18.8	3.7	19.5	0.0	38.2	72.8	76.4	73.9	81.8
Other Income	13.5	13.8	-2.2	12.9	4.7	46.0	55.0	50.1	59.6	68.1
Interest Cost	3.9	3.9	0.0	4.0	-2.5	0.8	15.3	15.5	15.8	16.1
Tax	33.0	18.5	78.4	29.5	11.9	100.1	82.9	100.1	117.6	130.8
PAT	95.9	54.9	74.7	87.1	10.1	200.5	227.6	295.5	348.9	388.4
Adjusted PAT	94.5	54.1	74.7	85.3	10.8	199.2	225.9	291.4	344.0	382.8
EPS (Rs)	11.3	6.5	74.7	10.2	10.8	24.2	27.4	35.0	41.3	45.9
RoE-%						22.9	22.8	25.8	25.7	24.2
P/E (x)						106.3	93.8	73.6	62.3	56.0
EV/EBITDA						71.3	60.7	47.4	41.5	37.1

(Source: Company, HDFC sec)

Q3FY21 Result Review

Dr. Lal Pathlabs Ltd (DLPL) posted the highest quarterly revenue of Rs 452cr (up 38% YoY) in Q3FY21, supported by modest recovery in non-COVID revenue, which was up 8.3% YoY to Rs 355cr. The growth in non-COVID business was led by 'Swasthfit' Bundle Test portfolio and their Super Speciality Test portfolio. COVID and allied business continued to be significant contributors to its topline ~21.6% (Rs 97cr) in the quarter.

EBITDA margin improved sharply and stood at 30.7% (Rs 138.8cr up 68.7% YoY) in Q3FY21 as against 21.1% a year ago. Margins improved on account of higher realization per sample, which was up 18.5% YoY. Increased home collections and low operating costs supported margins. The company reported PAT of Rs 95.9cr, up 74.7% YoY.

The company is gearing up for the next leg of growth by increasing its presence in South and West India. It is going to launch these two reference labs in Mumbai and Bengaluru and a whole suite of satellite labs, collection centers and the whole stack of market activation programs to build its presence in these two geographies. Management believes that value growth would be higher than volume growth, given that the business is likely to move gradually towards packages, rather than single tests. Broad basing its geographical revenue mix is likely to yield results and volume expansion in the next fiscal.

Triggers

Asset light model with well-defined growth strategy:

DLPL has a robust hub and spoke model, especially in north and east markets as it has strategically positioned its clinical laboratories, patient service centers (PSCs) and pick-up points (PUPs). The business model is asset light and scalable as most of the patient service centers (collection centers) operate under the franchisee model and most of its diagnostic equipment is sourced through reagent rental agreements. The company's hub and spoke model (centralized diagnostic testing and clinal laboratories) offers economies of scale and future expansion opportunities, along with large network PSCs and PUPs, thereby enhancing the company's purchasing power with suppliers. Additionally, DLPL continues to focus on improving the ratio between collection centers and labs, by focusing on building franchise infrastructure (light asset and consuming less opex).

DLPL's strong business model led to revenue growth of 15% CAGR over FY15-20, supported by a rise in sample collection (17.1% CAGR; backed by large network of PSCs and PUPs) along with a growing number of patients served (14.4% CAGR). The company continues to grow inorganically through its recent acquisition in western regions. Two new regional reference labs in Mumbai and Bengaluru are likely to improve its competitiveness across geographies. We believe the growth trend is likely to sustain, largely driven by bundled tests (like SwasthFit) and increase in sample per patient coupled with moderate pricing in the B2C segment and aggressive positioning in B2B segment.

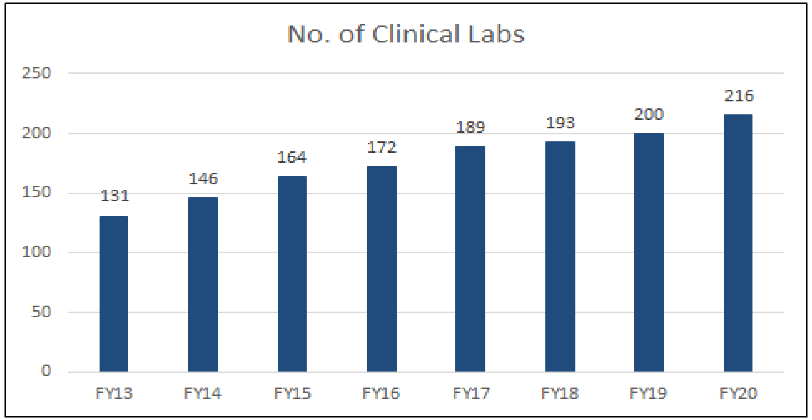
Key Operational Metrics:

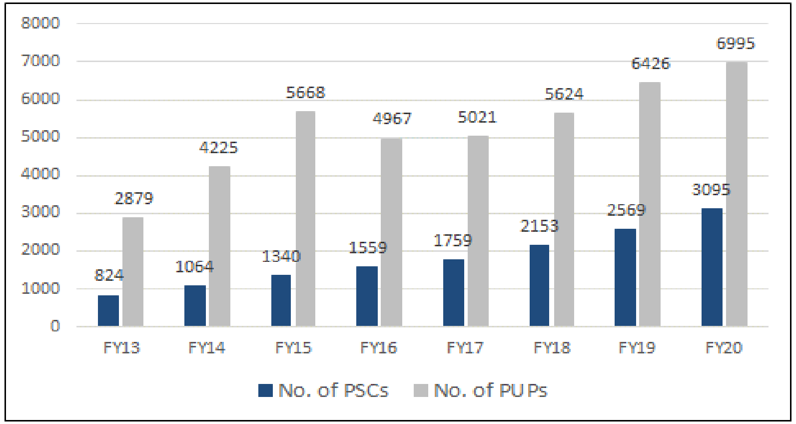
	FY13	FY14	FY15	FY16	FY17	FY18	FY19	FY20
Revenue (Rs cr)	451.7	558.0	659.6	791.3	912.4	1056.9	1203.4	1330.4
No of samples (in cr)	1.6	1.9	2.2	2.6	2.9	3.5	4.2	4.8
No of Patients (in cr)	0.8	0.9	1.0	1.2	1.3	1.5	1.8	1.9

Realisation/Sample (Rs)	282	294	304	301	311	305	288	279
Realisation/Patient (Rs)	587	620	666	659	686	695	684	686

(Source: Company, HDFC sec)

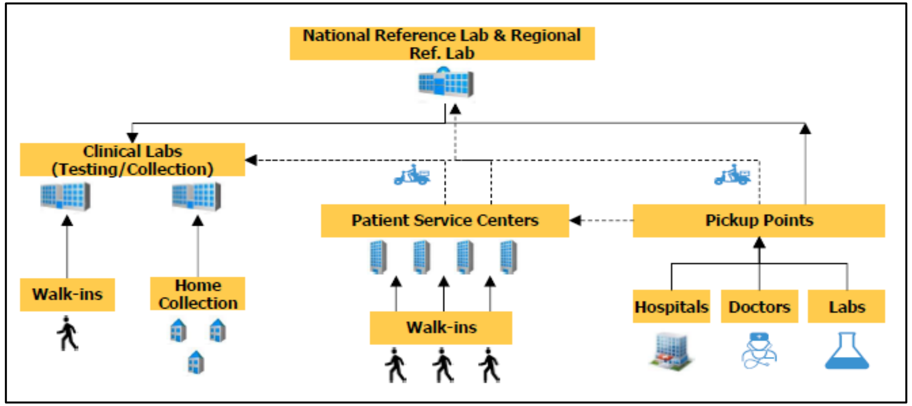
Network expansion and Focus on untapped regions through inorganic route:
The company has an integrated nationwide coverage with 216 clinical labs (including National Reference Lab at Delhi and Regional Reference Lab at Kolkata) and two regional reference labs in the pipeline (one each in Mumbai and Bengaluru). In FY20, the company added net 16 clinical labs. The number of Patient Service Centers (PSCs) grew by 526 to 3,095 as at end of FY20, while Pick-Up Points (PUPs) also expanded by 569 to 6,995. The company continues to move in a positive direction through strengthening of its network infrastructure.

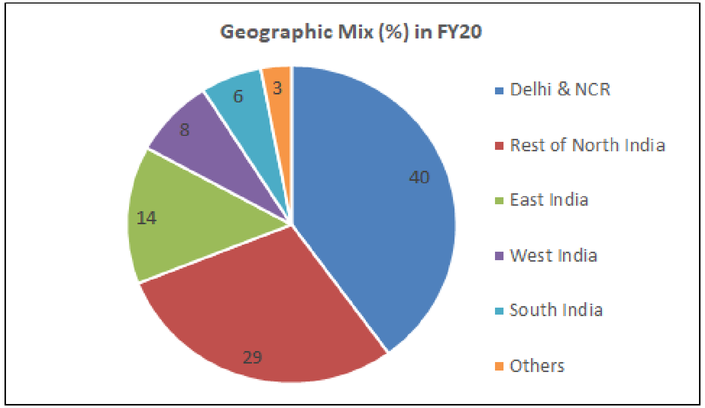




(Source: Company, HDFC sec)

DLPL's long-term strategy is to grow through network expansion and M&As remain intact. There are ample opportunities to expand the network in new, underserved clusters in its existing markets (North and East India) as well as diversifying to new markets in South and West India. Given its asset light model, it generates healthy operating cash flow and has a cash rich balance sheet with no debt, which opens up the way to expansion through further acquisitions. DLPL is well positioned to target weaker unorganized players in the post COVID scenario, as they have been significantly impacted by the pandemic. Additionally, considering the future challenges related to quality standards and compliance hygiene, we believe that the potential growth opportunity (inorganic route) for organized players like DLPL is huge. Acquiring a few small sized labs, through its subsidiary PathLabs Unifiers, has gathered momentum and achieved a meaningful scale. In the recent past, DLPL has acquired a substantial stake in Indore-based Central Lab; Maharashtra-based Bawankar Pathology, Computerised Pathology; Vadodara-based Amin's Pathology Laboratory; Jamnagar-based Bindish Diagnostic Laboratory and Karnataka based-ChanRe Diagnostic Services, among others, to penetrate the western and southern parts of India. The company will continue to build a feeder network of collection centers and satellite labs, both through organic and inorganic means to support the two new reference labs. Inorganic growth through acquisitions can further accelerate its topline growth.





(Source: Company, HDFC sec)

Strong foothold in north and plans for expansion in south and west:

Dr Lal Pathlabs has a strong presence in north India (69% of revenue, with Delhi & NCR accounting for ~40%) and is focused on gradually scaling up its positioning in other regions. After having set up a reference laboratory in Kolkata in 2018, contribution from East India, which currently accounts ~14% of revenue, saw sizeable growth - in high-teens in the last two years. Kolkata reference lab (KRL) has been successful in capturing and expanding its presence in East, North-East regions and serving neighboring countries. Due to low purchasing power in east, there is a drive to increase scale, to protect margins even at lower per patient realizations. The primary strategy behind setting up KRL was to initially focus on the B2B segment and steadily move towards the B2C customer base. The company is planning to fill in some strategic gaps by rolling out the full stack of infra capabilities by setting up reference labs in South and West India (combined 14% of the topline), which have seen subdued growth. Launching two reference labs (one each in Mumbai and Bengaluru) and a whole suite of satellite labs, collection centers and market activation programs would further enhance its growth and expand its footprint in these regions in the medium term. Although the operation model of the company is primarily asset light, setting up of reference labs would incur sizeable capital investments, which is likely to have a material impact on its operating results in the initial post-opening period, as the costs tend to be front ended before growth/volume picks up.

Focus on volume and price mix in different geographies:

DLPL being the market leader in the north because of its strong brand recognition, has been able to charge a premium for its services in Delhi & NCR without much dilution in its volumes. The price premiums charged for B2C in the north in comparison to unorganized players is ~12-15%, beyond which there exists the risk of losing the customer. Given that revenue growth from North India has dipped in the past two years, prices are likely to remain stable. In the other regions, which have lower penetration, viz., east, west, and south, the company would focus on volume growth, given higher B2B share (after initial setup of reference labs), and charge lower prices to gain market share. The company saw volume growth of 17.6% CAGR over FY17-20; in order to maintain 15%+ growth, it needs to expand in new geographies. This volume and pricing dynamics has also improved its geographical mix. During FY15-20, revenue share from the north decreased to 69% from 72%, whereas in the east it increased to 14% from 12.6%. As competitive intensity of the diagnostic sector is increasing, there may not be as many price hikes as before. The focus has been on reducing cost structure, enhancing productivity through technology application, and increasing capacity utilization at laboratories in various locations.

Capitalizing on its strong B2C segment:

Dr. Lal PathLabs is one of India’s premier diagnostic players that has a heavy business-to-consumer (B2C) presence. DLPL continues to actively invest in consistently improving customer experience, which is a key imperative of B2C strategy. The company’s focus in providing patients with quality diagnostic healthcare services at reasonable costs has earned it the reputation of being amongst the most trustworthy and reliable pathology labs in India. Customer walk-ins account for the highest share of revenues and speaks volumes about DLPL’s leading market position and established brand value. Various promotional health check-up packages targeted at different gender and age groups alongside online initiatives to provide access to information are being undertaken to grow the retail segment. Growth of B2C/retail (walk-ins, home collection and corporate) customers translating into higher realization per sample/patient is very vital for company organic growth and profit margins. Dr Lal Path Labs is focused on capitalizing on their brand value by focusing on customer walks-in and home collection (~6% of non-covid revenues). The increased percentage of topline from home collection could boost volumes and margins; the company is well-positioned to manage consumer shifts (to some extent) from direct walk-ins to home collection through its vast franchisee network and strong brand recognition.

Wide array of testing capabilities:

Dr. Lal Pathlabs has a good range of tests both individual and bundles. The company is engaged in carrying out pathological investigations of various branches of biochemistry, hematology, histopathology, microbiology, electrophoresis, immuno-chemistry, immunology, virology, cytology, other pathological and radiological investigations. The company, over the years, has built a wide array of testing services through a catalogue of 455 testing panels, 2,537 pathology tests and 1,961 radiology and cardiology test including routine clinical laboratory tests, wellness/preventive testing services and specialized tests such as genetic marker tests and histopathology analyses. Bundled test packages under 'SwasthFit' and targeted offerings like 'Sugar and Me' are also offered. SwasthFit - a wellness oriented bundled package offered by Dr Lal Pathlabs has experienced a significant uptick in volumes and currently accounts for 13-14% of revenues. 'Sugar and Me', a program aimed at helping patients combat diabetes, has also seen good response. It has been designed to offer testing as well as value-added consultation services. The recent launch of GENEVOLVE, the new Genomics division of Dr. Lal PathLabs, focuses on Genetic testing. GENEVOLVE offers a wide range of key tests related to Oncogenomics, Neurogenomics, Rare disease & Pre-natal/ Post-natal genetic testing using cutting edge technologies. The company is constantly looking to bring new tests to the market, especially in varied fields like Neurology and Oncology, post organ transplant monitoring, to help clinicians provide an accurate diagnosis to their patients. These specialized tests/ high end business under brand names NeuroPro (Neurogenetic rare disease testing) and OncoPro (Comprehensive Oncology Diagnostics) are a vital part of the company's growth strategy.

Opportunity in Outsourcing segment (B2B) in High end specialty tests:

DLPL's B2B segment constitutes ~40%, which comprises hospital lab management, wherein a hospital outsources its entire diagnostic functions to DLPL and outsourcing of high-end test from hospitals. While hospital lab management may be high value and volume business, it has lower margins and longer collection time and payment cycles. Currently, a major chunk of B2B sales comes from outsourcing channels. Because of its broad and steadily growing portfolio of high-end (specialty) tests, Dr. Lal Pathlabs has become the partner of choice for many clinical establishments (hospitals and standalone centers). It offers specialty testing in the fields of molecular diagnostics, flow cytometry, genetics/cytogenetics and histopathology as key strategic tests, which would further drive growth.

Strong Balance Sheet and Return Ratios:

DLPL has shown strong growth in revenue and a steady net profit growth over the years. Its revenue had grown at a CAGR of ~15% over FY15-20 with the EBITDA margin of over 25% during this period. This commendable growth can be attributed to its intensive efforts to widen its reach to a pan-India network of 3,095 patient service centers and 6,995 pick-up points. Net profit had grown at a CAGR of 18.7% over the same period. The debt-free Balance Sheet and solid operating performance has been the key to support future growth. For the past three years, the return on equity was over 22% and return on capital employed was over 34%.

Concerns

- **High competition intensity:** India's diagnostic players operate in a very fragmented environment, where companies are fighting for market share in concentrated spaces. India's diagnostics industry is fragmented in nature with standalone centers accounting for 45-50% of the market and organized players have 15-20% share. DLPL directly competes with some major diagnostic players like SRL Diagnostics, Metropolis and Thyrocare. In addition, there are many small and independent clinical labs as well as labs owned by hospitals and physicians. Since it is intensely competitive, this poses a risk to its high-margin profile. In addition to established players in the market, a number of PE-backed players have entered the fray, given low entry barriers in the business.

- **E-Diagnostics-Major disruptor**: Many e-pharmacy players, apart from offering doctor consultations, doctor appointments, have tie-ups with laboratories and offer online booking of diagnostic tests, health packages, and home collection of pathology samples to widen their service portfolio. A few players have started their own laboratories, offering diagnostic services to patients, on their e-pharmacy platform. While the e-diagnostics market in India is insignificant currently, according to Frost & Sullivan, the revenue stream emerging from it could become a significant contributor for e-pharmacy players.

- **Large dependence from North India:** North India accounts for 69% of its revenue. Much of the revenue from north India is from Delhi & NCR (40% of revenues). Although the share has fallen from 72% in FY15 to 69% in FY20, revenue from this region continues to remain high. The company's plan to open up two reference labs (one each in Mumbai and Bengaluru) would expand its footprint in these regions and gradually reduce its dependence from North India.

- **Slow network expansion:** As a part of its strategy, the company is opening up two reference labs (one each in Mumbai and Bengaluru) and a whole suite of satellite labs, collection centers, and a stack of market activation programs, which would further drive growth and expand its footprint in these regions in the medium term. Although the operation model of the company is primarily asset light, setting up of reference labs would incur significant capital investments, which is likely to materially impact operating results in the initial post-opening period, as the costs tend to be front-ended before growth picks up. Setting up of regional labs could take a minimum of three years to break even.

- **Failure of Equipment/Technological Systems:** The diagnostic testing services of the company depends substantially on the performance of the equipment or instruments used in its national lab and clinical labs. System failure or interruptions in a few laboratory operations could disrupt the company's ability to process laboratory requisitions, perform tests, provide test results on time, and bill the appropriate party.

Company Profile:

Dr. Lal Pathlabs Ltd (DLPL), established in 1949, is a leading diagnostics chain, supported by its robust "hub and spoke" business model. The company has an integrated nationwide coverage with its 216 clinical labs (including National Reference Lab; at Delhi and Regional Reference Lab at Kolkata), 3,095 Patient Service Centres (PSCs) and 6,995 Pick-up Points (PUPs) as of March 31, 2020. DLPL has built strong economies of scale, which helped it to further expand its offerings and network. Their network is present across India, including in major cities such as New Delhi, Mumbai, Bengaluru, Hyderabad, Chennai and Kolkata, which have fully-integrated centralized information technology platform. The company offers an exhaustive catalogue of tests – 455 testing panels, 2,537 pathology tests and 1,961 radiology and cardiology tests, including routine clinical laboratory tests, wellness/preventive testing services, and specialized tests such as genetic marker tests and histopathology analyses.

Dr. Lal PathLabs (DLPL) is one of India's premier diagnostic players that has a heavy business-to-consumer (B2C) presence and is positioned to benefit from favourable sector dynamics. Its customers include individual patients, corporates and institutions, healthcare providers as well as hospital and clinical labs (lab management). Dr. Lal PathLabs has earned the reputation of being amongst the most trustworthy and reliable pathology labs in India by providing quality healthcare diagnostics services. North India contributes ~69% of its revenue in FY20, followed by East India (14%). The company's primary focus currently is on penetrating deeper into the markets that they already exist in, and continually selectively explore inorganic opportunities in the Western and Southern geographies. The company also has operations in Nepal, Bangladesh and Kenya and operates through hospital tie-ups and global associate partners. It receives samples from international location like Bhutan, Sri Lanka, Myanmar, Malaysia, Nigeria, Saudi Arabia, Maldives, Qatar, Kuwait, and UAE, for testing in India.

Dr Lab Pathlabs Ltd

Income Statement

(Rs Cr)	FY19	FY20	FY21E	FY22E	FY23E
Net Revenues	**1203.4**	**1330.4**	**1590.4**	**1779.7**	**1947.0**
Growth (%)	13.9	10.6	19.5	11.9	9.4
Operating Expenses	909.8	986.8	1153.0	1283.2	1397.9
EBITDA	**293.6**	**343.6**	**437.4**	**496.5**	**549.1**
Growth (%)	11.2	17.0	27.3	13.5	10.6
EBITDA Margin (%)	**24.4**	**25.8**	**27.5**	**27.9**	**28.2**
Depreciation	38.2	72.8	76.4	73.9	81.8
EBIT	**255.4**	**270.8**	**361.0**	**422.6**	**467.2**
Other Income	46.0	55.0	50.1	59.6	68.1
Interest expenses	0.8	15.3	15.5	15.8	16.1
PBT	**300.6**	**310.5**	**395.6**	**466.5**	**519.2**
Tax	100.1	82.9	100.1	117.6	130.8
RPAT	**200.5**	**227.6**	**295.5**	**348.9**	**388.4**
APAT	**199.2**	**225.9**	**291.4**	**344.0**	**382.8**
Growth (%)	16.7	13.4	29.0	18.1	11.3
EPS	24.2	27.4	35.0	41.3	45.9

Balance Sheet

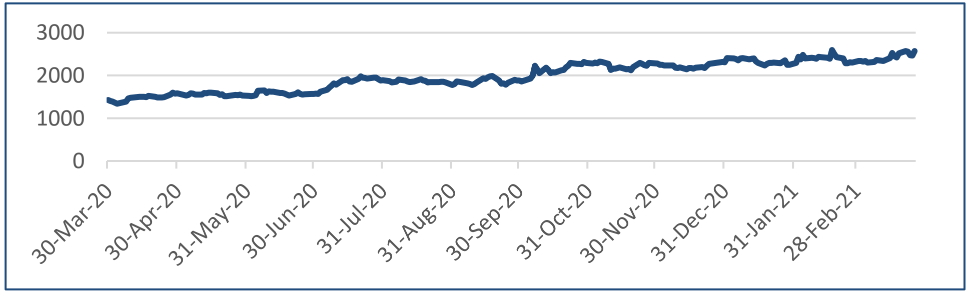
As at March	FY19	FY20	FY21E	FY22E	FY23E
SOURCE OF FUNDS					
Share Capital	83.3	83.3	83.3	83.3	83.3
Reserves	862.2	949.5	1140.9	1368.2	1634.3
Shareholders' Funds	**945.5**	**1032.8**	**1224.2**	**1451.6**	**1717.6**
Minority's Interest	5.5	21.2	25.3	30.2	35.9
Long Term Debt	0.0	0.0	0.0	0.0	0.0
Net Deferred Taxes	-21.5	-22.8	-12.0	-4.0	-4.0
Long Term Prov & Others	1.2	93.0	100.2	106.8	112.9
Total Source of Funds	**930.7**	**1124.2**	**1337.7**	**1584.6**	**1862.4**
APPLICATION OF FUNDS					
Net Block & Goodwill	208.7	414.1	408.6	444.7	447.9
CWIP	3.4	10.4	4.5	4.5	4.5
Other Non-Current Assets	43.3	34.4	114.5	100.6	91.5
Total Non-Current Assets	**255.4**	**458.9**	**527.6**	**549.8**	**543.9**
Current Investments	184.8	164.3	131.7	181.7	211.7
Inventories	28.5	57.0	82.8	87.8	96.0
Trade Receivables	53.2	51.4	74.1	73.1	69.3
Cash & Equivalents	490.3	569.1	712.3	822.8	1084.7
Other Current Assets	56.8	50.9	53.2	64.4	70.1
Total Current Assets	**813.6**	**892.7**	**1054.1**	**1229.8**	**1531.9**
Short-Term Borrowings	0.0	0.0	0.0	0.0	0.0
Trade Payables	79.8	117.7	122.0	112.1	122.7
Other Current Liab & Prov	58.5	109.7	122.0	82.9	90.7
Total Current Liabilities	**138.3**	**227.4**	**244.0**	**195.0**	**213.4**
Net Current Assets	675.3	665.3	810.1	1034.8	1318.5
Total Application of Funds	**930.7**	**1124.2**	**1337.7**	**1584.6**	**1862.4**

Dr Lab Pathlabs Ltd

Cash Flow Statement

(Rs Cr)	FY19	FY20	FY21E	FY22E	FY23E
Reported PBT	300.6	310.5	395.6	466.5	519.2
Non-operating & EO items	109.0	94.4	-62.1	28.5	15.2
Interest Expenses	-34.1	-29.6	15.5	15.8	16.1
Depreciation	38.2	72.8	76.4	73.9	81.8
Working Capital Change	9.3	12.2	-34.2	-64.1	8.1
Tax Paid	-104.3	-93.5	-100.1	-117.6	-130.8
OPERATING CASH FLOW (a)	**318.7**	**366.8**	**291.1**	**403.0**	**509.6**
Capex	-41.8	-78.9	-65.0	-110.0	-85.0
Free Cash Flow	276.9	287.9	226.1	293.0	424.6
Investments	-30.6	29.5	32.6	-50.0	-30.0
Non-operating income	-27.4	23.3	0.0	0.0	0.0
INVESTING CASH FLOW (b)	**-99.7**	**-26.1**	**-32.4**	**-160.0**	**-115.0**
Debt Issuance / (Repaid)	0.0	-35.1	0.0	0.0	0.0
Interest Expenses	-0.2	-0.1	-15.5	-15.8	-16.1
FCFE	276.7	252.8	210.6	277.2	408.5
Share Capital Issuance	0.2	0.2	0.0	0.0	0.0
Dividend	-55.2	-155.5	-100.0	-116.7	-116.7
Others	0.0	0.0	0.0	0.0	0.0
FINANCING CASH FLOW (c)	**-55.3**	**-190.4**	**-115.5**	**-132.5**	**-132.8**
NET CASH FLOW (a+b+c)	**163.7**	**150.3**	**143.2**	**110.6**	**261.8**

One Year Stock Price Chart



Key Ratios

(Rs Cr)	FY19	FY20	FY21E	FY22E	FY23E
EBITDA Margin	24.4	25.8	27.5	27.9	28.2
EBIT Margin	25.0	24.5	25.8	27.1	27.5
APAT Margin	16.6	17.0	18.3	19.3	19.7
RoE	22.9	22.8	25.8	25.7	24.2
RoCE	34.7	32.9	36.4	36.0	33.8
Solvency Ratio					
Debt/EBITDA (x)	0.0	0.0	0.0	0.0	0.0
D/E	0.0	0.0	0.0	0.0	0.0
PER SHARE DATA					
EPS	24.2	27.4	35.0	41.3	45.9
CEPS	28.5	35.8	44.1	50.1	55.7
Dividend	6.0	12.0	12.0	14.0	14.0
BVPS	113.4	123.9	146.9	174.2	206.1
Turnover Ratios (days)					
Debtor days	14.3	14.3	14.4	15.1	13.4
Inventory days	8.5	11.7	16.0	17.5	17.2
Creditors days	22.0	27.1	27.5	24.0	22.0
VALUATION					
P/E	106.3	93.8	73.6	62.3	56.0
P/BV	22.7	20.8	17.5	14.8	12.5
EV/EBITDA	71.3	60.7	47.4	41.5	37.1
EV/Revenues	17.4	15.7	13.0	11.6	10.5
Dividend Yield (%)	0.2	0.5	0.5	0.5	0.5
Dividend Payout	25.1	44.3	34.3	33.9	30.5

(Source: Company, HDFC sec)

Metropolis Healthcare Ltd

Industry	LTP	Recommendation	Base Case Fair Value	Bull Case Fair Value	Time Horizon
Diagnostics	Rs. 2079.2	Buy at LTP and add on dips to Rs. 1833-1835 band	Rs. 2304	Rs. 2453	2 quarters

HDFC Scrip Code	METHEAEQNR
BSE Code	542650
NSE Code	METROPOLIS
Bloomberg	METROHL IN
CMP Mar 26, 2021	2079.2
Equity Capital (Rscr)	10.2
Face Value (Rs)	2
Eq- Share O/S (cr)	5.11
Market Cap (Rs crs)	10527.4
Book Value (Rs)	103.4
Avg. 52Wk Volumes	143852
52 Week High	2323.0
52 Week Low	1150.0

Share holding Pattern % (Dec 2020)	
Promoters	50.4
Institutions	41.8
Non Institutions	7.8
Total	100.0

Fundamental Research Analyst
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Our Take:

Metropolis Healthcare Ltd (MHL) is a leading player in the highly fragmented and competitive Indian diagnostics market, which is well-positioned to benefit from favourable sector dynamics. It has a robust hub and spoke model, with its strategically-positioned clinical laboratories, patient service centers (PSCs) and pick-up points (PUPs). The company has a strong business model and delivered healthy financials over FY15-20 – revenue/EBITDA/PAT CAGR of 13.5%/11.9%/11%, respectively, with consistent EBITDA margin of ~26%. It works on an asset-light model and earns an RoCE of over 40%. The management is focusing on increasing its business-to-consumer (B2C) presence by expanding its collection network. It has made strategic expansions in the past, whose full potential will be unlocked in the coming future.

The management continues to focus on improving its profitability through increased share of specialty test, increased B2C business, especially in focus cities, higher home testing services, and continuous optimization of cost structure. MHL's leading position in the Indian diagnostic services market, supported by a well-established brand and strong reach and healthy operating efficiency owing to robust cash flow and prudent working capital management, make an ideal case for the stock’s re-rating.

Valuations & Recommendation:

Metropolis Healthcare Ltd has an asset-light model with collection centers majorly operating under the franchisee model and most of its diagnostic equipment sourced through reagent rental agreements. With its strong network presence, we believe the company is poised to deliver higher volume growth. It is a good bet on the structural long term growth story of Indian healthcare & diagnostics industry, considering its market leadership in the organized space, pan-India presence, quality testing capabilities and asset light model leading to robust operating cash flows. Faster shift of unorganized business to organized players, potential consolidation, likely increase in preventive & health check-ups would benefit the large organized players like Metropolis. Considering the strong historic growth profile, well-established brand image and robust return ratios, we believe that there is scope for re-rating of this stock. Management’s commitment to increase its B2C presence in focus cities coupled with its higher share of specialized tests will enhance its realization. We believe the base case fair value of the stock is Rs. 2304 (54x FY23E EPS) and the bull case fair value is Rs. 2453 (57.5x FY23E EPS) over the next two quarters. Investors can buy the stock at LTP and add on dips to Rs. 1833-1835 band (43x FY23E EPS). At the LTP of Rs. 2079.2 it quotes at 48.7x FY23E EPS.

Metropolis Healthcare Ltd

Financial Summary:

Particulars (Rs cr)	Q3FY21	Q3FY20	YoY-%	Q2FY21	QoQ-%	FY19	FY20	FY21E	FY22E	FY23E
Total Operating Income	274.8	222.9	23.3	288.4	-4.7	761.2	856.4	984.2	1,192.1	1,339.1
EBITDA	86.7	63.6	36.3	90.9	-4.6	198.9	207.8	263.8	321.9	360.2
Depreciation	11.0	10.6	3.9	11.0	-0.4	20.1	39.3	41.8	47.4	60.0
Other Income	3.7	2.2	70.8	3.1	21.4	8.2	8.6	13.5	16.1	18.1
Interest Cost	1.7	2.4	-31.3	1.5	7.1	0.5	8.3	6.7	28.0	24.2
Tax	19.1	10.8	77.3	20.9	-8.4	62.9	41.2	57.6	66.2	74.1
PAT	58.6	42.0	39.6	60.5	-3.1	123.6	127.6	171.1	196.4	220.0
Adjusted PAT	58.6	42.1	39.2	60.3	-2.8	120.1	102.8	170.7	194.0	216.0
EPS (Rs)	11.6	8.3	39.2	11.9	-2.8	24.1	25.4	33.7	38.3	42.7
RoE-%						28.8	21.8	29.0	26.9	25.0
P/E (x)						86.4	82.0	61.7	54.3	48.7
EV/EBITDA						52.1	50.0	38.9	33.4	29.7

(Source: Company, HDFC sec)

Q3FY21 Result Review

Metropolis Healthcare Ltd (MHL) posted a robust revenue of Rs 274.8cr (up 23.3% YoY), supported by strong recovery in non-COVID revenue (Rs 223.6cr) as the economy continues to move towards normalcy. The revenue growth in Q3 was led by 9% increase in patient visits and 7% increase in number of tests. Uptick in non-COVID test was seen on the back of higher elective surgeries and better doctor-patient engagement. COVID revenue came in lower due to lower pricing and relatively lower volumes. B2C recovery has been better, B2B recovery especially from hospitals are yet to return to fully normal levels.

EBITDA margin improved by 300bps YoY to 31.5% in Q3FY21. Better product mix and channel mix; with higher home collection and specialized testing coupled with cost optimization & digitalization helped improve its margins during the current quarter. The company reported a PAT of Rs 58.6cr, up 39.2% YoY; while its PAT margins stood at 21.3% (up 244bps YoY). Revenue per patient & revenue per test increased on account of high value COVID-19 test, high retail contribution in focus cities, and company’s focus on specialized non-COVID tests. Home visit testing has been scaling up on month-on-month basis and enjoys a better margin profile, with this service ramped up to 59 locations in Dec 2020 from 13 locations in Sep 2020. Home visits as a percentage of B2C business increased from 19.8% in Q3FY20 to 26.4% in Q3FY21.

Metropolis' acquisition of Hitech diagnostics will strengthen its position in Bengaluru and Chennai while gaining access to newer towns in rest of Tamil Nadu, thereby enhancing its profitability through revenue and cost synergies. Through Hitech, MHL will get access to 31 laboratories, including 3 NABL and ICMR accredited laboratories and 68 collection centers. The management continue to focus on improving its profitability through increased share of specialty test, increase B2C business especially in focus cities, higher home testing services and continuous optimization of cost structure.

Triggers

Asset light model with well-defined growth strategy:

The company works on an asset-light model with around 90.5% of its centers and 16.1% of its lab network are asset light. 12 out of 18 labs added in FY19 and FY20 were via 'lab on lease' model which is asset light with zero capital requirement. The 'laboratory on lease' model enables the company to lease out the space of other standalone private laboratories and also use the diagnostic equipment already present at the laboratory. The laboratory is operated as per Metropolis' standard of quality, the revenue is shared by both the parties involved while daily operations costs are borne by Metropolis. This asset light model allows the company to generate rich cash and cash equivalents. Over the years, MHL has been aggressively expanding its patient touchpoints through associating with third-party PSCs (88% of PSCs are third party). These include Associate Patient Service Centers (APSCs) and standalone independent laboratories converted into Metropolis-branded Patient Service Centers (D-APSCs). Due to high scalability and limited capital expenditure involved, MHL utilizes this model to expand its geographical reach and service network. Being asset light has helped the company generate ROCE of more than 35% in the past three years.

Key Operational Metrics:

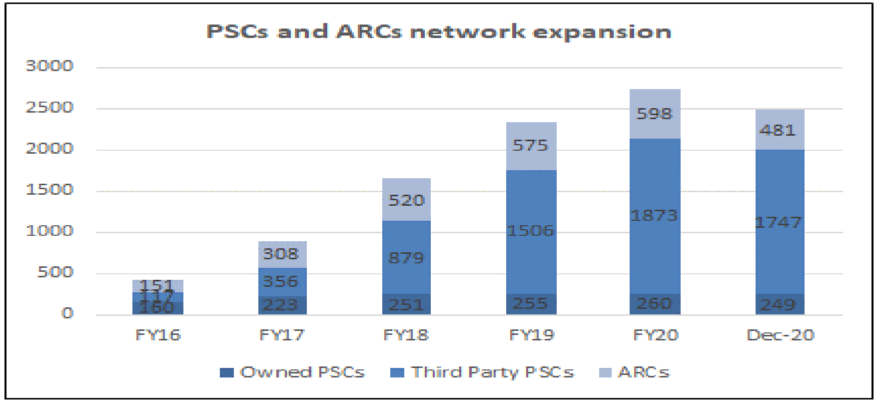
	FY16	FY17	FY18	FY19	FY20
Revenue (Rs in cr)	475.47	544.72	647.16	761.18	856.41
No of patient visits (in million)	6.9	7.0	7.7	8.9	10.0
No of tests performed (in million)	13.4	14.3	16.0	17.0	19.6
Revenue/patient (Rs)	689.1	778.2	840.5	855.3	856.4
Revenue/test (Rs)	354.8	380.9	404.5	447.8	436.9

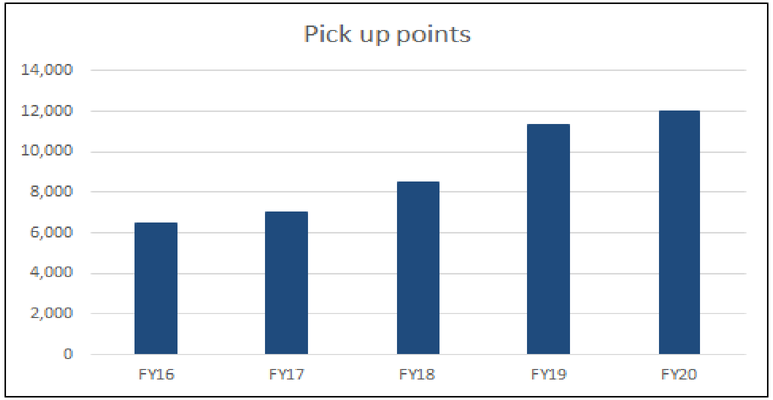
(Source: Company, HDFC sec)

Aggressive yet calibrated network expansion creating a long runway for growth

Metropolis Healthcare is the third-largest diagnostics having a well-established pan-India network of about 125 pathology labs and 2,477 service centers, including assisted referral centers or ARCs. It has a widespread presence in 19 states and 210 cities. It has been aggressively ramping up its individual business through addition of patient service centers (PSCs); more than 7x during FY16-20. As of FY20 end, the company had wide network expansion of 2,133 PSCs, of which 88% is owned by third parties. The company has undergone a onetime rationalization exercise to remove counterproductive centers within their network; contributing less than 0.5% of its revenue. Consolidation of network indicates towards management's focus on improving productivity and profitability of each lab. The centers that were closed down were primarily operational for an average two and half years and were at the bottom pyramid of the network, not completely loyal and not adhering to specific protocols of the company. Rationalization will lead to better utilization levels, leading to operating leverage and margin increase and better return ratios. Post this one-time rationalization of its network, management has guided that it would continue with its general trend of expansion.

The company follows asset light network expansion as 90.5% of the center network and 16.1% lab network is asset light. Such a model helps achieve geographic expansion and increases scalability. The company has relatively young patient networks with 67% of existing individual patient touch points added during FY17-20. Given the fact that, on an average, a retail center matures in 5 years, a younger network helps in contributing to the topline in the medium term. We expect decent growth in average revenue per center in the third-party segment.



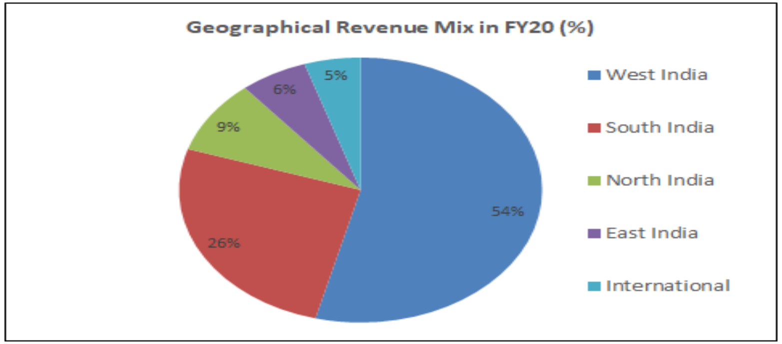


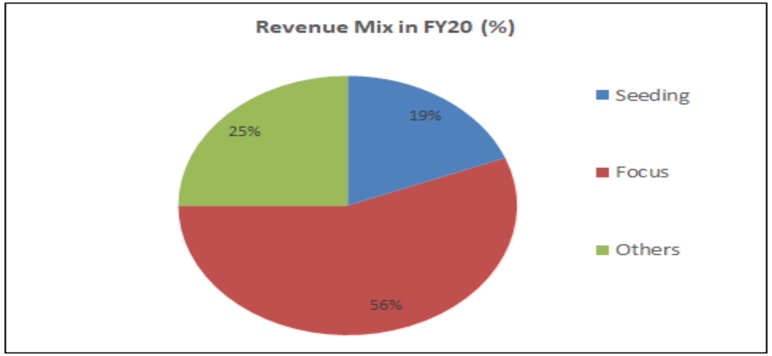
(Source: Company, HDFC sec)

Wide Geographic Reach and Improving Revenue Diversification:

Metropolis Healthcare Ltd (MHL) has a dominant market share in West India (54%) and a strong positioning in South (26%), given its extensive coverage of tests and quality services. Its franchisees, which had historically a strong presence in B2B segment (hospitals and nursing homes) due to its reputation of being a provider of high-quality tests; it is focused on expanding its B2C business. The company has consistently fared well on accreditations from industry bodies like CAP (industry benchmark in lab accreditations) and NABL. Focus on high quality has helped it establish a brand for itself in higher-end complex test market. MHL's strategy of categorizing markets into focus, seeding and other cities, based on operational history, market share and brand strength enables effective resource allocation and customized initiatives to achieve growth in each market. The company has also established strategic partnerships with Third Party Patient Service Centers in Africa and Middle East to boost its geographic reach.

Given its strong presence in the west, the company is building its moat through innovations, reputation and deepening architecture. Like Dr. Lalpath Labs has ~25% of market share in Delhi & NCR, metropolis has a little over 10% market share in Mumbai, providing ample scope to grow in Mumbai and other focus cities on the back of patient service reach and brand reputation. The management plans to increase its market share in focus cities through network expansions, improving productivity per center and generating higher revenue from Wellness. The management is aggressively increasing its presence in other regions by expanding its collection centers and lab network. The opportunity to increase market share in focus cities (56% of revenue in FY20), viz. Mumbai, Bengaluru, Chennai, Surat and Pune is high, especially through the B2C route. A combination of B2B/B2C mix is adopted for its seeding and other cities. MHL has been diversifying its revenue base by increasing its revenue contribution from seeding and other cities, which will be the growth engines of the future.

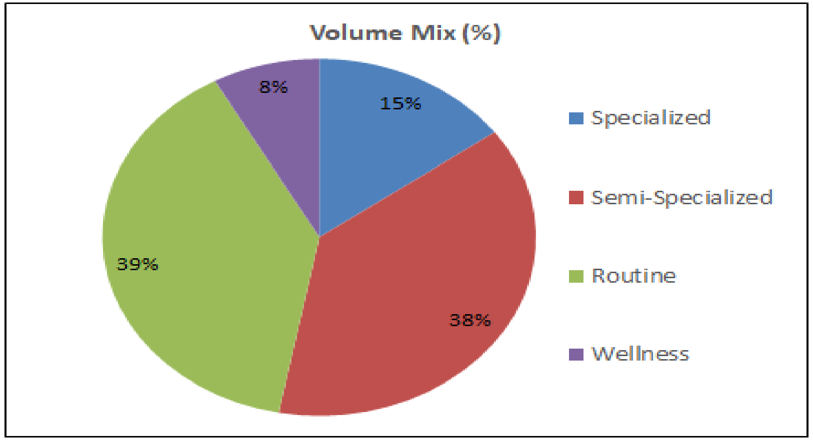


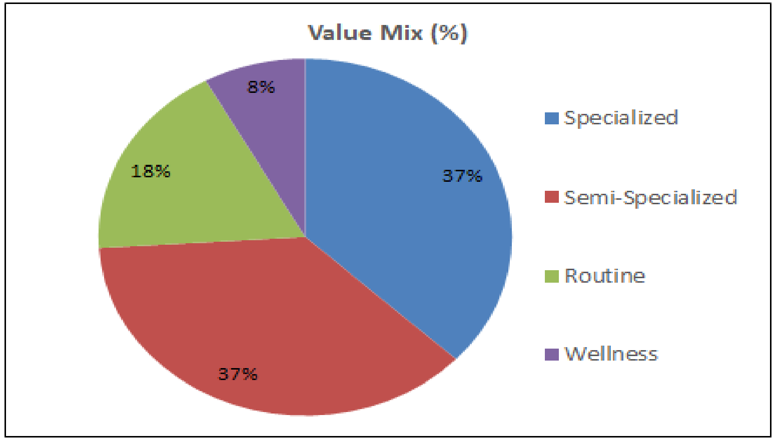


(Source: Company, HDFC sec)

Comprehensive Test Menu with higher share of specialized tests:

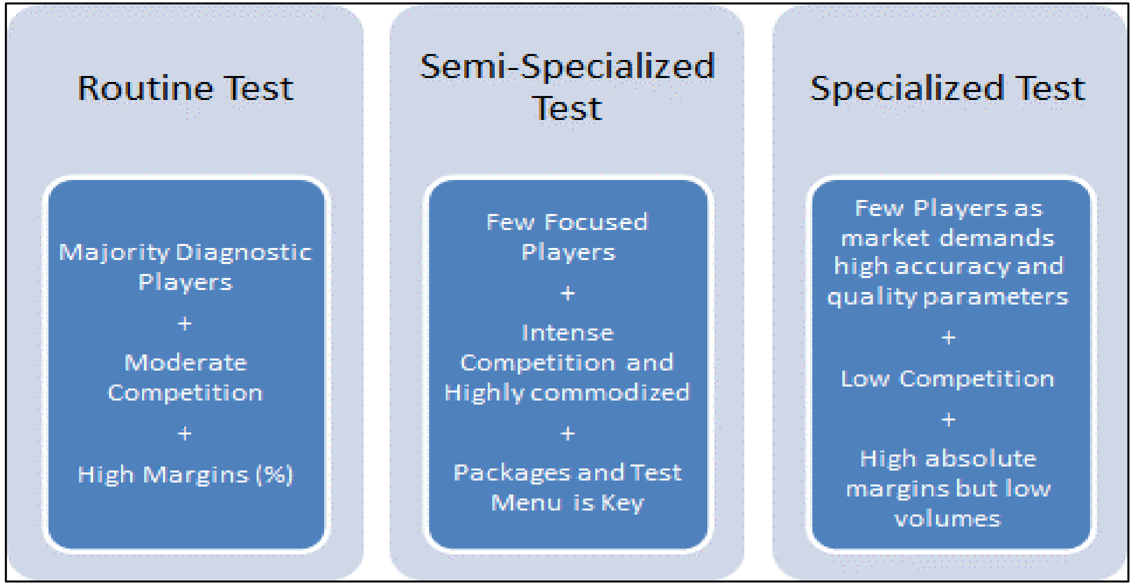
MHL offers a comprehensive range of approximately 4,000+ clinical laboratory tests and profiles to its patients. The test menu includes pathology tests ranging from basic biochemistry and surgical pathology to cytogenetics and high-end molecular diagnostic tests. Besides pathology tests, some of its centers also offer non-pathology tests such as ECG, X-ray, ultrasound and stress tests. It offers comprehensive testing in the areas of genetics, biochemistry, molecular oncology, anatomic pathology, microbiology, hematology, immunochemistry and others. The company has been investing to increase its testing capabilities and has adopted several advanced tests and technologies introduced in the global market, particularly specialized tests. 100+ new tests were added to the test menu in FY19-20. MHL will focus on scientific up-selling by leveraging its vast capabilities in molecular diagnostic, oncology, and cytogenetics. Offering a wide test menu ensures faster penetration of metropolis brand in geographies, thus creating a strong and trusted consumer brand.





(Source: Company, HDFC sec)

MHL has diversified volume and value mix spread across route tests (blood chemistry analyses, blood cell count, urine examination), semi-specialized tests (thyroid function rests, viral and bacterial cultures, histology, cytology and infectious disease test), specialized tests (coagulation studies, autoimmunity tests, cytogenetics and molecular diagnostics) and wellness & other tests. The company's key area of strength lies in specialized tests, which accounted for 15% of test volumes and 37% of revenue in FY20; this reflects higher revenue/patients compared to its peers. The higher share of business from specialized tests allows MHL to compete effectively in the marketplace, achieve faster growth on the back of limited competition and, therefore, achieve sustainable growth profitability. Focus on quality has helped it establish its brand in the high-end complex tests market. A wide array of specialized and super-specialized tests is the company's biggest forte and it will continue to add more tests based on the latest technology.



(Source: Company, HDFC sec)

Bolstering growth in the Wellness space:

The company wellness initiative 'TruHealth' was launched across 36 cities to bolster its position in the fast-growing wellness segment. Patients' experience in diagnostics testing and services has led the way for the company scientifically designing and combining diagnostic tests into diverse health check-ups. These packages are a combination of a variety of early detection and diagnostic tests to screen selected diseases and disorders with primary focus on lifestyle diseases. Based on age, gender, clinical history, parental history and affordability, there are several package options. The reports, presented in a reader-friendly format, include basic medical advice. The company offers pre-employment check-ups, employee health plans, and annual check-ups for corporates to build a healthy workforce. Metropolis witnessed decent growth in Wellness testing in Tier-2 towns across India when it launched 'TruHealth'. In FY20, 8% of its revenue come from Wellness and the company has plans to expand its services of this segment in 'other cities' as well. We believe the wellness segment would contribute 10-12% of overall sales by FY22-23E.

Increased focus towards B2C segment to dive margin expansion

Metropolis' franchise has been historically strong in B2B segment (hospitals and nursing homes) due to its reputation of being a provider of high-quality tests. Capitalizing on its B2B premium specialized testing market, the management's attention is on expanding its B2C segment, which will help in further scaling up its realizations. To accelerate its B2C segment growth, Metropolis has aggressively expanded its patient touch point network to 2,731 (mostly through franchisee), up 5.8x over FY16-20 over the past three years, which has resulted in 19.2% CAGR in B2C over FY2017-20 in its five focus cities. With increase in growth in B2C, B2B growth has narrowed to 12% CAGR on account of competitive intensity.

Most of Metropolis' expansion has taken place in its focus cities, largely through the franchisee model. Rapid expansion of collection centers, increasing focus on home collection and wellness channels, clinical engagement with doctors along with integrated brand building campaigns have led to revenue contribution from individual patients increasing to ~44% of overall sales in FY20. The B2C contribution in focus cities of MHL has increased from 43% in FY16 to 61% in Q3FY21 and is further targeted to reach 65%. The increase in share of B2C business will not only give more stickiness of business but also enhance profitability.

Metropolis also offers sample collection at doorstep, a seamless experience for a patient, collecting samples from home and delivering reports online. The management expects home visits to gain preference over walk-ins centers and has scaled up its operations by adding 46 locations where home-visits are available. As a percentage of B2C business, it has expanded by 660 bps to 26.4% in Q3FY21 from 19.8% in Q3FY20. Digital initiatives are playing a very important role in aiding the growth of its home testing services, which allows them to create long-term loyal customers and enhance the brand value.

Focus on B2B sales continues:

Metropolis Healthcare's B2B business comprises lab testing for hospital patients, testing for local clinics, management of hospital labs, & corporate business and PPP or government contracts; it contributed ~56% of revenue in FY20. The company has a higher share from the B2B segment compared to its peers, which is reflected in its test mix (higher specialized tests). After having focused on the B2B segment in its core market (focus cities), the company is building its B2B presence in seeding and other cities by increasing its coverage of hospitals/clinics. It has been growing its share of B2B in North and East aggressively, using the additional capacity created in Delhi Lab and by expanding its network to smaller towns in North East India. For its seeding cities, it has adopted a mix of B2B/B2C combination. Entering a new area/location with B2B model and then gradually focusing on B2C share has worked well for the company, as seen in the past.

Premium realization compared to peers

MHL's realizations are at a premium compared to peers due to its evolving mix of B2C segment, high home collection, and higher contribution of specialized tests (41%) to revenue. According to the company, there are a few players in the specialized test segment as market demands high accuracy and quality parameters, thus leading to lower competition and high margins on low volumes. In semi-specialized tests, there is intense competition. Revenue per patient has grown at a CAGR of 5.6% and revenue per test at a CAGR of 5.3% between FY16 and FY20, while realization has remained flat for peers. Government's intention to lower healthcare costs could be a major deterrent for MHL to increase realization further; however, increasing contribution of international business could support its margins.

Growth through inorganic expansion and integration

Metropolis Healthcare Ltd has successfully integrated its earlier acquisitions. The management said it will continue its growth focus through the inorganic route, aimed at entering new geographies and strengthening its brand in the existing ones. To expand its geographical reach and command its leadership position in the target markets, the company acquired 4 frontend labs in Surat in FY20. It merged its Histoxpert operation (providing digital pathology services to hospitals focused on cancer care) into the Metropolis parent company. Metropolis' recent acquisition of Hitech diagnostics will strengthen its position in Bengaluru and Chennai while gain it access to new towns in the rest of Tamil Nadu and enhance its profitability through revenue & cost synergies. Through Hitech, MHL will get access to 31 laboratories including 3 NABL and ICMR accredited laboratories and 68 collection centers. Metropolis Brand allows the acquired entity to strengthen its position in the local market with a wide range of test options and assurance of quality services.

Strong Balance Sheet and Return Ratios:

MHL has shown strong and steady growth in revenue and net profit growth over the years. Its revenue had grown at a CAGR of ~13.5% over FY15-20 with EBITDA margin of over 26% during this time. This commendable growth can be attributed to its intensive efforts to widen its reach to a pan-India network of 2,000 patient service centers and 481 assisted referral centers. Net profit had grown at a CAGR of 11% over the same period. The debt-free balance sheet and solid operating performance has been the key to support future growth. Even after factoring in the additional debt that the company will take on to fund its acquisition of Hitech Diagnostic, its balance sheet is well-capitalized with a comfortable Debt/Equity ratio. For the past three years, the return on capital employed was over 34%.

Concerns

- **High competition:** India's diagnostic players operate in a fragmented environment, where companies are fighting for market share in concentrated spaces. India's diagnostics industry is fragmented in nature with standalone centers accounting for 45-50% of the market and organized players having 15- 20% share. Metropolis directly competes with some major diagnostic players like SRL Diagnostics, Dr Lal Pathlabs and Thyrocare. In addition, there are many small and independent clinical labs as well as labs owned by hospitals and physicians. High competitive intensity is likely to pose a risk to its high margin profile. In addition to established players in the market, a number of PE-backed players have entered, given low entry barriers in the business.
- **E-Diagnostics – Major disruptor**: Many e-pharmacy players, apart from offering doctor consultations, doctor appointments, have tie-ups with laboratories and offer online booking of diagnostic tests, health packages, and home collection of pathology samples to widen their service portfolio. A few players have started their own laboratories, offering diagnostic services to patients on their e-pharmacy platform. While the e-diagnostics market in India is insignificant currently, according to Frost & Sullivan, the revenue stream from it is expected to be a significant contributor for e-pharmacy players.
- **Large dependence from focus cities:** Focus cities account for 56% of its revenue in FY20; although the share has dropped from 60% in FY19, revenue from these cities continues to remain high. Aggressive B2C plans in focus cities is likely to keep exposure from the five focus cities high.
- **Successful rollout of patient service centers critical:** Over the past four years, the company has expanded its patient touch points from 428 to 2,731 centers (5.7x). Although the management carried out one time rationalization of its patient service centers in this fiscal; we believe consolidation and such rationalization would be critical in improving revenue/center.

- **Failure of Equipment/Technological Systems:** The diagnostic testing services of the company depend substantially on the performance of the equipment or instruments used in its national lab and clinical labs. System failure or interruptions in any laboratory's operations could disrupt the company's ability to process laboratory requisitions, perform tests, provide test results on time, and bill the appropriate party.

Company Profile:

Metropolis Healthcare Ltd (MHL) is a leading diagnostics company in India, spread widely across 19 states in India, enjoying the leadership position in west (54%) and south (26%) India. The company also owns a chain of diagnostic centres in South Asia, Africa and the Middle East. Metropolis offers an exhaustive test repertoire comprising the most routine tests to semi-specialized tests and super-specialized tests - the broad spectrum of services with around 4,000+ clinical laboratory tests profiles that include advanced tests in diagnosis of cancer, neurological disorders, infectious diseases, and an array of genetic abnormalities. Its portfolio includes a variety of test combinations, which are specific to a disease or disorder as well as wellness profiles that are used for health and fitness screening. It offers a comprehensive range of clinical laboratory testing, profiles & support services to patients, smaller labs, nursing homes and hospitals; it offers analytical and support services to clinical research organizations for their clinical research projects. Metropolis has invested in a variety of specialized tests and adopted several advanced tests and technologies introduced in the global market. One of the prime reasons behind the its leading position in the diagnostics industry is its track record with introducing specialized tests.

MHL operates on a hub and spoke model through its wide network of labs, PSCs (sample collection centres) and institutional touchpoints. The company conducts its operations through its vast laboratory network consisting of 125 labs (including a Global Reference Lab in Mumbai and 13 Regional Reference Labs), ~2,000 Patient Service Centres (PSCs) and 481 Assisted Referral Centres (ARCs). The management plans to focus on the B2C business (44%) by extensively expanding its collection network and capitalizing its brand value in established regions. The company enjoys higher revenue/EBITDA per patient, given its strength in specialized tests, which constitutes 37% of the revenue, despite having a share from its B2B segment (56%). The company has delivered healthy financials over FY15-20 – revenue/EBITDA/PAT CAGR of 13.5%/11.9%/11% respectively with consistent EBITDA margin of ~26%. It works on an asset light model and earns an RoCE of over 40%. Given its strong geographical reach and business model, the company is well-poised to leverage on the opportunities present in the diagnostic space.

Metropolis Healthcare Ltd

Income Statement

(Rs Cr)	FY19	FY20	FY21E	FY22E	FY23E
Net Revenues	**761.2**	**856.4**	**984.2**	**1192.1**	**1339.1**
Growth (%)	17.6	12.5	14.9	21.1	12.3
Operating Expenses	562.3	648.6	720.4	870.3	978.9
EBITDA	**198.9**	**207.8**	**263.8**	**321.9**	**360.2**
Growth (%)	12.9	4.4	27.0	22.0	11.9
EBITDA Margin (%)	**26.1**	**24.3**	**26.8**	**27.0**	**26.9**
Depreciation	20.1	39.3	41.8	47.4	60.0
EBIT	**178.9**	**168.5**	**222.0**	**274.4**	**300.3**
Other Income	8.2	8.6	13.5	16.1	18.1
Interest expenses	0.5	8.3	6.7	28.0	24.2
PBT	**186.5**	**168.7**	**228.7**	**262.5**	**294.1**
Tax	62.9	41.2	57.6	66.2	74.1
RPAT	**123.6**	**127.6**	**171.1**	**196.4**	**220.0**
APAT	**120.1**	**102.8**	**170.7**	**194.0**	**216.0**
Growth (%)	15.3	-14.4	66.0	13.7	11.4
EPS	24.1	25.4	33.7	38.3	42.7

Balance Sheet

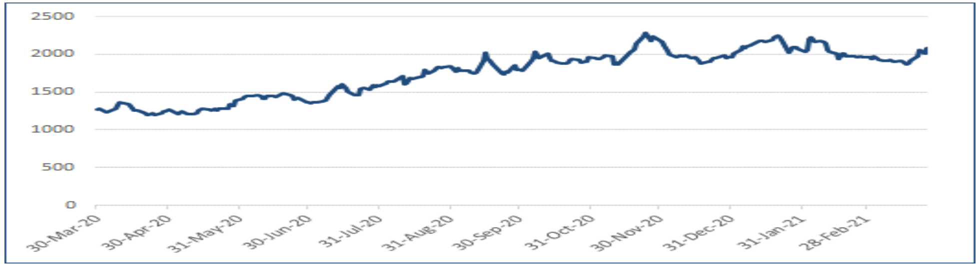
As at March	FY19	FY20	FY21E	FY22E	FY23E
SOURCE OF FUNDS					
Share Capital	10.0	10.1	10.1	10.2	10.2
Reserves	408.5	513.4	643.5	776.8	932.1
Shareholders' Funds	**418.5**	**523.5**	**653.7**	**787.0**	**942.3**
Minority's Interest	1.4	1.7	2.1	4.4	8.4
Long Term Debt	0.0	45.8	42.4	342.4	272.4
Net Deferred Taxes	-0.8	-12.2	-14.7	-6.7	-2.7
Long Term Prov & Others	5.3	10.1	8.0	11.8	13.3
Total Source of Funds	**424.5**	**568.9**	**691.4**	**1138.9**	**1233.6**
APPLICATION OF FUNDS					
Net Block & Goodwill	218.6	299.4	327.6	901.1	921.2
CWIP	0.0	0.0	0.0	0.0	0.0
Other Non-Current Assets	25.7	41.9	45.1	59.6	70.0
Total Non-Current Assets	**244.3**	**341.3**	**372.6**	**960.7**	**991.2**
Current Investments	31.0	12.6	54.1	74.1	159.1
Inventories	26.1	24.4	35.1	39.2	44.0
Trade Receivables	136.9	128.3	45.8	49.0	47.7
Cash & Equivalents	80.2	210.5	339.5	151.7	145.3
Other Current Assets	30.5	21.4	28.3	35.9	40.4
Total Current Assets	**304.7**	**397.1**	**502.8**	**349.9**	**436.4**
Short-Term Borrowings	17.6	20.9	25.6	30.6	35.6
Trade Payables	42.9	85.0	89.0	91.5	102.7
Other Current Liab & Prov	64.1	63.6	69.4	49.6	55.8
Total Current Liabilities	**124.5**	**169.5**	**184.0**	**171.7**	**194.0**
Net Current Assets	180.2	227.6	318.8	178.2	242.4
Total Application of Funds	**424.5**	**568.9**	**691.4**	**1138.9**	**1233.6**

Metropolis Healthcare Ltd

Cash Flow Statement

(Rs Cr)	FY19	FY20	FY21E	FY22E	FY23E
Reported PBT	186.5	168.7	228.7	262.5	294.1
Non-operating & EO items	4.7	41.0	-8.4	-2.5	-5.7
Interest Expenses	-2.9	2.5	6.7	28.0	24.2
Depreciation	20.1	39.3	41.8	47.4	60.0
Working Capital Change	-50.8	28.0	75.3	-32.4	10.2
Tax Paid	-67.4	-64.4	-57.6	-66.2	-74.1
OPERATING CASH FLOW (a)	**90.1**	**215.0**	**286.5**	**236.9**	**308.6**
Capex	-23.5	-36.0	-70.0	-110.0	-80.0
Free Cash Flow	66.7	179.1	216.5	126.9	228.6
Investments	71.2	16.0	-41.5	-20.0	-85.0
Non-operating income	-11.9	-83.9	0.0	-551.0	0.0
INVESTING CASH FLOW (b)	**35.9**	**-103.9**	**-111.5**	**-681.0**	**-165.0**
Debt Issuance / (Repaid)	17.1	-31.1	1.3	305.0	-65.0
Interest Expenses	-0.1	-7.8	-6.7	-28.0	-24.2
FCFE	83.6	140.2	211.0	403.9	139.4
Share Capital Issuance	0.3	31.9	0.0	0.0	0.0
Dividend	-66.5	-40.1	-40.5	-60.8	-60.8
Others	-68.9	-8.3	0.0	0.0	0.0
FINANCING CASH FLOW (c)	**-118.1**	**-55.3**	**-46.0**	**216.2**	**-150.0**
NET CASH FLOW (a+b+c)	**7.9**	**55.8**	**129.0**	**-227.9**	**-6.4**

One Year Stock Price Chart



(Source: Company, HDFC sec)

Key Ratios

(Rs Cr)	FY19	FY20	FY21E	FY22E	FY23E
EBITDA Margin	26.1	24.3	26.8	27.0	26.9
EBIT Margin	24.6	20.7	23.9	24.4	23.8
APAT Margin	15.8	12.0	17.3	16.3	16.1
RoE	28.8	21.8	29.0	26.9	25.0
RoCE	43.9	34.5	35.9	30.9	26.4
Solvency Ratio					
Debt/EBITDA (x)	0.1	0.3	0.3	1.2	0.9
D/E	0.0	0.1	0.1	0.5	0.3
PER SHARE DATA					
EPS	24.1	25.4	33.7	38.3	42.7
CEPS	27.9	28.1	42.0	47.7	54.5
Dividend	13.3	8.0	8.0	12.0	12.0
BVPS	83.4	103.4	129.1	155.4	186.1
Turnover Ratios (days)					
Debtor days	57.0	56.5	32.3	14.5	13.2
Inventory days	11.3	10.8	11.0	11.4	11.3
Creditors days	18.7	27.3	32.3	27.6	26.5
VALUATION					
P/E	86.4	82.0	61.7	54.3	48.7
P/BV	24.9	20.1	16.1	13.4	11.2
EV/EBITDA	52.1	50.0	38.9	33.4	29.7
EV/Revenues	13.6	12.1	10.4	9.0	8.0
Dividend Yield (%)	0.6	0.4	0.4	0.6	0.6
Dividend Payout	55.4	39.4	23.7	31.3	28.1

Thyrocare Technologies Ltd

Industry	LTP	Recommendation	Base Case Fair Value	Bull Case Fair Value	Time Horizon
Diagnostics	Rs. 866.6	Buy at LTP and add on dips to Rs. 770-772 band	Rs. 966	Rs. 1026	2 quarters

HDFC Scrip Code	THYTECEQNR
BSE Code	539871
NSE Code	THYROCARE
Bloomberg	THYROCAR IN
CMP Mar 26, 2021	866.6
Equity Capital (Rscr)	52.9
Face Value (Rs)	10
Eq- Share O/S (cr)	5.29
Market Cap (Rscrs)	4582.4
Book Value (Rs)	69.4
Avg. 52Wk Volumes	215171
52 Week High	1212.0
52 Week Low	481.2

Share holding Pattern % (Dec 2020)	
Promoters	66.1
Institutions	28.2
Non Institutions	5.7
Total	100

Fundamental Research Analyst
Hemanshu Parmar
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Our Take:

Thyrocare Technologies Ltd (TTL) is the fourth-largest diagnostics chain in India, specialising in cost-effective pathological biochemical testing. It works on a low-cost business model to make wellness and preventive care affordable and accessible to all the citizens, for promoting healthy living. It focuses on strong technologies, strong brands and strong systems that enable all its laboratories to remain at par with global standards in quality service at cost-effective prices. Being a low cost operator with a disruptive business model, we believe it has abundant market opportunity to grow and expand its business. TTL have established a robust B2B model by servicing laboratories, hospitals, and doctors as well as catering to individual patients' need.

Thyrocare has a differentiated business model with clinical biochemistry at its core. It has a strong focus on limited menu of preventive and wellness tests (under the Aarogyam brand). It operates an asset-light, scalable, franchisee-led model with centralized IT enabled laboratory that ensures cost-efficient testing at a quick turnaround. Given the fact that it is the leader in preventive care diagnostic test offerings with 'Aarogyam' brand and recognizes the growth opportunity in this segment, it is well-positioned to leverage its expertise and brand. In the new post-COVID normal, we believe that people's demand for assessing self-immunity and frequency of preventive checkups will increase, which will further add to the topline as TTL offers these tests at affordable costs.

Valuations & Recommendation:

Thyrocare Technologies has an asset light model with a comfortable business risk profile because of its focus on increasing its volumes at affordable costs. The management is focused to broadening its B2B network and strengthening its branded franchise centers across India. The company's model of low pricing/high volume strategy will aid quick recovery in non-COVID tests as we expect the economy to normalize in the coming months with pick-up in the preventive care segment. Faster shift of unorganized business to organized players, potential consolidation, likely increase in preventive check-ups and sizeable scale would benefit large organized players like TTL. Considering the strong historic growth profile, well-established brand image and robust return ratios, we believe that there is a scope for re-rating of this stock. We think the base case fair value of the stock is Rs. 966 (32x FY23E EPS) and the bull case fair value is Rs. 1026 (34x FY32E EPS) over the next two quarters. Investors can buy the stock at LTP and add on dips to Rs.770-772 band (25.5x FY23E EPS). At the LTP of Rs. 866.6 it quotes at 28.7x FY23E EPS.

Thyrocare Technologies Ltd

Financial Summary:

Particulars (Rs cr)	Q3FY21	Q3FY20	YoY-%	Q2FY21	QoQ-%	FY19	FY20	FY21E	FY22E	FY23E
Total Operating Income	138.3	105.8	30.7	153.3	-9.8	402.9	433.2	491.1	551.6	595.9
EBITDA	49.6	43.8	13.3	61.9	-19.8	154.0	172.4	182.4	210.2	231.2
Depreciation	7.8	7.8	0.0	7.6	2.6	26.2	31.9	31.3	31.0	30.8
Other Income	2.6	0.9	183.9	5.0	-47.1	10.6	8.2	10.9	12.7	14.3
Interest Cost	0.3	0.4	-23.1	0.3	-11.8	0.6	1.9	1.2	1.6	1.5
Tax	11.7	9.0	30.5	15.8	-25.8	52.9	52.0	45.0	47.9	53.7
PAT	32.4	27.5	17.8	43.1	-24.8	84.9	94.9	115.7	142.3	159.5
Adjusted PAT	32.4	27.5	17.8	43.1	-24.8	84.9	88.3	115.7	142.3	159.5
EPS (Rs)	6.1	5.2	17.7	8.2	-24.8	16.0	16.7	21.9	26.9	30.2
RoE-%						19.3	22.0	29.1	30.3	28.7
P/E (x)						54.3	51.8	39.6	32.2	28.7
EV/EBITDA						31.5	28.2	26.5	23.0	20.8

(Source: Company, HDFC sec)

Q3FY21 Result Review

Thyrocare Technologies Ltd clocked revenue of Rs 138.27cr up 30.7% YoY. The increase in the topline was mainly on the back of COVID RT-PCR testing. Modest recovery of non-covid revenue (up 7.5% YoY) was recorded in Q3FY21. Preventive care segment Aarogyam saw significant revival and contributed 46% to non-covid business, which also led to higher realizations per sample. Thyroid testing which has the lowest revenue per sample has come down because of the COVID pressures, while logistics pressures also supported higher revenue per sample. The company has seen greater revival in the preventive care business with volume growth of 24% and value growth of 28% QoQ. Radiology segment revived, as revenue during the quarter came in at Rs 6.16cr (78% of Q3FY20 figures).

EBITDA margin stood at 35.9% (Rs 49.62cr up 13.3% YoY) in Q3FY21 as against 41.4% a year ago. Increased field workforce coupled with lower realization from COVID-related testing impacted the margins negatively. COVID RT-PCR volume grew by 6% but topline contracted by more than 40% in sequential quarters due to stringent pricing controls. The company reported PAT of Rs 32.39cr, up 17.8% YoY.

TTL is gearing up for the next leg of growth by focusing on expanding its branded franchisee centers and planning to add 50 of them. The management is confident of providing better accessibility to clients of Thyrocare menu/tests. It has deployed more than 120 field sales executives, adding strength to its value. The gradual improvement in logistics situation would provide a further leg-up to non-COVID revenues. Steady recovery in its core business, expansion via branded franchisee centers and opening of zonal & regional offices should aid volume growth, going forward.

Triggers

Wide Range of Preventive and Wellness Tests Portfolio:

Thyrocare offers a wide range of biochemistry-based preventive healthcare tests. Its offerings include over 288 tests and 120 profiles of tests, which help detect several disorders, including thyroid, growth, metabolism, auto-immunity, diabetes, anemia, cardiovascular, infertility and various infectious diseases. It administers around 54 profiles of tests under its reputed brand, 'Aarogyam', which offers patients a suite of wellness and preventive health care tests as of 31 March 2020. Through its wholly owned subsidiary, the company offers radiology tests, which involves imaging procedures such as X-rays, ultrasounds, CT scans, MRIs and highly specialized PET-CT scans at affordable costs.

Thyrocare's initiative to launch tuberculosis testing through dedicated 'Focus TB' has already garnered volumes and it intends to expand footprints in other parts of the country by replicating its laboratory business model. With government's ambitious program to reduce TB in India, the management expects this segment to grow at 15-20% over the medium term. The company has also secured licenses in April 2019, to launch non-invasive prenatal testing (NIPT) and next generation sequencing (NGS); which provides a safer method compared to invasive procedures that involve risks of miscarriage and determine the health of fetus. Although the company could not scale this business due to COVID-related disruptions, the management plans to review this segment. The company intends to expand its diagnostic test offerings through the acquisition of new technologies, including both instruments and processes. COVID RT-PCR testing and anti-body testing would continue to add to the topline until the COVID inflection subsides. TTL will continue to focus on volume growth of wellness and preventive offerings and expansion of its test offerings through aggressive price rationalization.

Brand name	Services Offered	Tests
Thyrocare	Diagnostic Testing	Thyroid & Non Thyroid based on different types of testing
Aarogyam	Wellness and Preventive Care	Liver, Cholesterol, Kidney, Thyroid, Iron Deficiency, Testosterone, Cardiac Pancreas, Electrolytes
		Arthritis, Serum Ferritin, Folic Acid, toxic element tests and profile tests
		Diabetic screening, Complete Hemogram, Vitamin Profile
NHL	Cancer Monitoring	Full Body and brain scans
Sugar scan	Testing of blood glucose levels	Sugar scan blood glucose monitor

Low-Cost Scalable Business Model:

The company works on a low-cost business model to make wellness and preventive care affordable to clients/patients. As much of its revenue is from B2B (77%), it is focusing on volumes. To remain competitive and boost volumes, the management undertook a strategic decision of reducing prices of its best-selling 'Aarogyam' packages. It is offering low testing rates across the spectrum of available tests. The move aimed the bottom of the pyramid, where the customers are price sensitive and the impact of which can be observed from the increase in number of samples processed per day from 24,914 in FY15 to 52,651 in FY20. The decision of implementing a price disruptive business model worked well for the company as seen by rise in volumes (10.4% CAGR over FY17-20).

A centralized lab structure with high level of automation, long-term arrangement with reagent suppliers, and limited bouquet of volume-driven preventive care tests, has helped Thyrocare achieve economies of scale in operations. Scale permits it to achieve higher asset-utilization and allows it to secure favorable terms with reagent supplies. Due to the centralized nature of testing at CPL and RPLs, overheads in terms of manpower, rentals, and other administrative expenses are lower. While large peers operate rented service centers that cater to walk-in customers, Thyrocare entirely sources its revenues from samples collected by its ASPs. It spends rent only for its RPL network and hub centers. Also being a low-cost player, any future capping on testing prices announced by the government would have a greater impact on its peers. Because of its low pricing strategy, it would see good response on expansion in Tier 2-4 cities.

Well-established network of franchise partners and authorized service providers

Thyrocare Technologies Ltd has a pan-India network of authorized service providers (ASPs) comprising Thyrocare Aggregators (TAGs) and Thyrocare Service Provider (TSPs), which operate under franchisee agreements with the company. These authorized service providers are responsible for procuring samples for processing at the central processing labs or regional processing labs from local hospitals, laboratories, pathologies, referring doctors, walk-in customers, and home collection services. Thyrocare follows an agent model wherein most costs are variable and linked to revenue generation. It markets its services through franchisees, Direct Selling Associates (DSAs), OLCs (Online clients) and BOLC (blood collection technician online clients), which have enabled it to build a deep network and market itself through multiple channels. This in turn has strengthened its reach across the country and facilitated penetration into tier II/III cities without any commitment on fixed upfront costs. As of 31 March 2020, the company had a total of 44,645 touchpoints, comprising 4,410 B2B partners across 796 cities of India.

Thyrocare has a well-spread presence across all states in the country through its touch points. Far reaching presence nationwide has enabled Thyrocare to diversify their revenue sources geographically. With 47% of the tests being carried out locally, the remaining 53% are sent to their central processing laboratory in Mumbai. The company intends to use this expanded network ASPs to bolster brand visibility and increase accessibility of its services by targeting uncovered client base through deeper penetration into the regions by offering on door services to smaller clinics, dispensaries, laboratories and hospitals. In FY21, the company hired 120 field-based marketing executives to add further strength. These executives will focus on increasing volumes at branded franchisee partners and target high-value clients. To sustain future growth and client base, the company plans to increase the number and quality of ASPs within their network.

Asset-light strategy and focus on RPL network expansion – key volume driver

Thyrocare's asset-light strategy is based on having a single CPL and expanding the testing capacity through addition of RPLs, while the franchisees (TSPs, TAGs, ASPs.) collect samples and send them across to the CPL/RPL based on the tests required. This is a key differentiator in comparison to its large peers, which are growing by setting up their own standalone labs, as part of their hub and spoke models. Currently, the company has 500 committed branded franchisee collection partners operating under the brand name of Thyrocare; it plans to add 50 such franchisee partners, thus providing clients/patients access to branded centers and a complete Thyrocare menu. Typically, a collection center takes about 9-12months to stabilize; its expansion would bear results by the end of 2021 or early 2022. Also, branded franchisees help communicate about its brand and grow the business in ways other than the causal partnerships. Thyrocare's strong branding coupled with pricing flexibility for its franchisees supports its growth plans and maintains exclusivity of franchisees, thus giving it greater control over costs and quality.

The company is also increasing its presence by setting up three zonal processing labs (north, south, east). Zonal Processing Lab at Delhi NCR has commenced operations, while South Zonal Lab at Bangalore is expected to commission in Q4 and Kolkata Zonal Processing Lab in East in Q1 of the next fiscal. Apart from the zonal labs, TTL is also increasing the RPL reach. Operations at Lucknow and Kochi are likely to commence in Q4. The management is also in the process of identifying a few other cities, which could have a volume potential (by setting up more regional processing laboratories). This network expansion is likely to help in increasing its customer base, generating higher volumes of samples for processing, improving turnaround time, and optimizing its logistics costs. Once the new RPLs operationalize, Thyrocare is likely to see strong volume growth over the medium term.

Capitalizing on its strong B2B segment

Thyrocare, unlike its peers, have been focusing on developing a robust B2B segment and leveraging its low-cost competency to standalone and hospital based diagnostic centers. B2B segment constitutes ~78% of the business; its gross margins are lower compared to its peers, but it remains the key volume driver for the company. Offering specialty tests at a low cost to hospitals, clinics and other diagnostic centers ensures regular samples for its labs. Although B2B is a highly competitive space, the company is well placed to handle the intensity by offering low prices due to economies of scale and faster turnaround time.

B2C, a higher margin segment, contributes to total revenues. Thyrocare is determined to increase its contribution to top line and has allocated 5% of revenue towards this segment's ad spend annually. The management is expanding the revenue contribution from this segment through strong promotion of Aarogyam, bulk deals with corporates/insurance companies, and tie-ups with online aggregators.

Growth driven by wellness and preventive packages under Aarogyam brand

The company's flagship Aarogyam brand, a preventive care product focused on wellness and early detection of lifestyle related disorders; constitutes approximately 50% of (non-covid) revenues is growing at healthy pace. 60% of Aarogyam's demand comes from the B2B space with samples being forwarded through hospitals and other diagnostic centers. Being the leader in preventive care diagnostic test offerings with 'Aarogyam' brand and recognizing the growth opportunity in this segment, Thyrocare is well positioned to leverage its expertise and brand. It is also channelizing a significant proportion of its marketing efforts on preventive diagnostic and wellness offerings. In the post-COVID normal, we believe people's attitudes towards assessing self-immunity and undergoing frequent preventive checkups will increase, which will add to TTL's topline as it offers these tests at affordable costs.

Providing affordable PET-CT scanning; profit from this segment remains key monitorable

The company's subsidiary, Nueclear Healthcare Limited (NHL), operates a network of molecular imaging centers focused on early and effective cancer monitoring. It has 11 operating PET-CT scanners across 9 imaging centers. Being backward integrated with own cyclotron, it has the advantage of greater flexibility, reliability and cost effectiveness which will be useful when it comes to expanding operations. Nueclear owns and operates a medical cyclotron unit in Navi Mumbai which produces the radioactive biomarker FDG required for PET-CT scanning. Its current focus is to enhance the number of PET-CT scans per center to attain break-even at newly started centers and enhance cash flows at the mature ones and fund the deployment of additional centers. NHL is EBITDA positive and has registered a net loss since inception. In FY20, the radiology business suffered a setback due to suspension of operations at Surat, Vadodara and Jaipur centers on account of dispute with the partner, and inability to scale up business faster in the newly opened Bengaluru and Coimbatore centers. It has undertaken the process of shifting existing PET-CT scanners at two other locations to new locations that can yield higher revenue at lower operating costs. Due to operational difficulties, the company has planned to trim down operations to 10 centers. Having adopted a price disruption model based on high volumes, charging almost half of what its peers charge, NHL is unlikely to yield larger returns compared to its pathology segment. In the post-COVID normal, scans performed by the company would be a key monitorable.

IT enabled infrastructure aiding faster turnaround time

Thyrocare Technologies have developed efficient systems for smooth and error-free processing of samples. The company introduced a barcoding system across its collection points nationwide. The company's unmatched speed is achieved through a combination of air-cargo logistics and IT-enabled, barcoded, bi-directional systems that ensure a turnaround time of 4-5 hours for processing around 60,000 samples per day. With the use of advanced instrumentation, automation systems and IT infrastructure, it has the reputation of delivering one of the fastest and most accurate test results; which is necessary in the diagnostics industry. Thyrocare's CPL is fully automated and ensures error-free processing of samples, conducting investigations and providing results with a turnaround time of four hours. The latest technology and fully automated process bring Thyrocare at par with global standards in terms of quality and service delivery; the CPL meets international standards of quality and has received global accreditations from CAP, the NABTCL and the ISO. The company has all the infrastructure in place to handle volumes of test on time. Thyrocare today boasts of processing 3 billion investigations in a year and has a capacity to process 10 billion a year.

Strong Balance Sheet and Return Ratios:

Thyrocare has shown strong growth in revenue and a steady net profit growth over the years. Its revenue had grown at a CAGR of ~20% over FY15-20 with EBITDA margin of over 37%. Net profit had grown at a CAGR of 15% over the same period. The slow growth in PAT can be attributed to lower margins of the imaging segment. For the past three years, the return on equity was over 20% and return on capital employed was over 32%.

Key Operational Metrics:

	FY15	FY16	FY17	FY18	FY19	FY20
Diagnostics services (Rs cr)	159.8	204.8	262.6	313.0	354.4	379.7
No of samples (in 000's)	9,094	11,597	14,284	16,328	18,755	19,218
No of Tests (in 000's)	47,842	61,514	74,763	84,270	1,01,418	1,10,446
Test/Sample	5.3	5.3	5.2	5.2	5.4	5.7
Realisation/Sample (Rs)	175.7	176.6	183.8	191.7	189.0	197.6
Imaging Services (Rs cr)	9.65	15.55	18.30	24.52	32.64	34.09
No of scans	11115	15940	18530	22159	29274	25632
Realisation/scan (Rs)	8,682.0	9,755.3	9,875.9	11,065.5	11,149.8	13,299.8

(Source: Company, HDFC sec)

Concerns

- **High competitive intensity:** India's diagnostic players operate in a very fragmented environment, where companies are fighting for market share in concentrated spaces. The domestic diagnostics industry is fragmented in the sense that standalone centers account for 45-50% of the market while organized players have 15-20% share. Thyrocare directly competes with some major diagnostic players like SRL Diagnostics, Metropolis and Dr. Lal Pathlab. In addition, there are many small and independent clinical labs as well as labs owned by hospitals and physicians. High competitive intensity is likely to pose a risk to its high margin profile. In addition to established players in the market, a number of PE-backed players have entered the fray, given low entry barriers in the business.

- **E-Diagnostics – major disruptor**: Many e-pharmacy players, apart from offering doctor consultations, doctor appointments, have tie-ups with laboratories and offer online booking of diagnostic tests, health packages, and home collection of pathology samples to widen their service portfolio. A few players have started their own laboratories offering diagnostic services to patients on their e-pharmacy platform. While the e-diagnostics market in India is insignificant currently, according to Frost & Sullivan, its revenue stream could be a significant contributor to e-pharmacy players.

- **High dependence on ASPs:** Timely delivery of samples by ASPs located across the country to CPL and RPLs for testing is critical. Any prolonged disruption in the operations of ASPs or delay in the transportation of samples to CPL or RPLs may adversely impact the sample processing turnaround times, which could affect the business model and brand image, thereby impacting its ability to source samples for processing.

- **Failure of Equipment/Technological Systems:** The diagnostic testing services of the company depend substantially on the performance of the equipment or instruments used in its CPL and RPLs. System failure or interruptions in one or more laboratory operations could disrupt the company's ability to process laboratory requisitions, perform tests, provide test results on time, and bill the appropriate party.

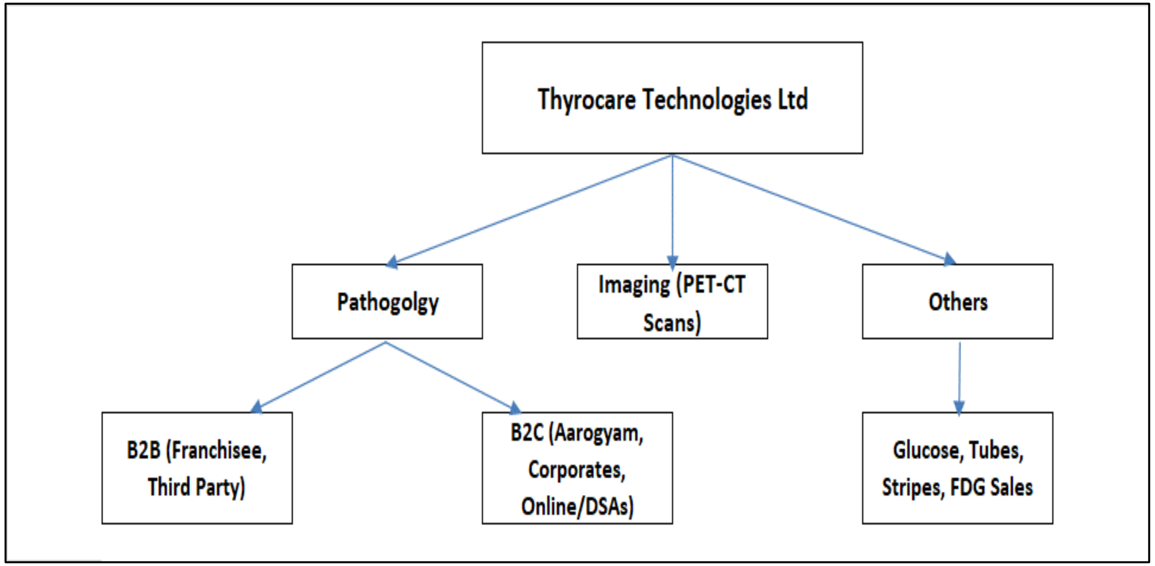
- Thyrocare's price disruptive model creates an impression of low-quality services in the minds of patients and doctors.

Company Profile:

Thyrocare Technologies Ltd (TTL) is one of the leading pan-India diagnostic chains that conduct an array of medical diagnostic tests and profiles of tests focussed on early detection and management of disorders and diseases. The company works on a low-cost business model to make wellness and preventive care affordable and accessible to all the citizens, with a larger vision of promoting healthy living. Thyrocare also has a wholly-owned subsidiary – Nueclear Healthcare Ltd – which operates a network of molecular imaging centers focused on early and effective cancer monitoring. Nueclear had 11 operating PET-CT scanners across 9 imaging centers as of 31 March 2020.

The company has developed a platform of affordable diagnostic services and is positioned to further develop its services and enhance test offerings. As of 31 March 2020, it offers a total of 288 tests and 120 profiles of tests to detect several disorders, including thyroid, growth, metabolism, auto-immunity, diabetes, anaemia, cardiovascular, infertility and various infectious diseases. Thyrocare's profiles of tests include 54 profiles administered under its well-established 'Aarogyam' brand, which offers patients a suite of wellness and preventive health care tests.

Thyrocare Technologies use the hub and spoke model and has built around a 200,000 sq ft central processing laboratory in Navi Mumbai, and 11 regional processing labs. It has established a robust a B2B model by servicing laboratories, hospitals, doctors as well as catering to individual patients. Over the years, it has expanded its gamut of offerings to cancer, tuberculosis and prenatal screening testing. It collects samples from local hospitals, laboratories, diagnostic centres, nursing homes, clinics and doctors through its pan-India network of authorised service providers (ASPs). As of 31 March 2020, it had a total of 44,645 touchpoints, comprising 4,410 B2B partners across 796 cities of India. Its widespread network of ASPs has enabled it to expand the reach of the CPL and RPLs, thereby providing access to a larger customer base.



(Source: Company, HDFC sec)

Thyrocare Technologies Ltd

Income Statement

(Rs Cr)	FY19	FY20	FY21E	FY22E	FY23E
Net Revenues	**402.9**	**433.2**	**491.1**	**551.6**	**595.9**
Growth (%)	13.1	7.5	13.4	12.3	8.0
Operating Expenses	248.9	260.8	308.7	341.4	364.7
EBITDA	**154.0**	**172.4**	**182.4**	**210.2**	**231.2**
Growth (%)	7.7	12.0	5.8	15.2	10.0
EBITDA Margin (%)	**38.2**	**39.8**	**37.1**	**38.1**	**38.8**
Depreciation	26.2	31.9	31.3	31.0	30.8
EBIT	**127.8**	**140.5**	**151.1**	**179.2**	**200.4**
Other Income	10.6	8.2	10.9	12.7	14.3
Interest expenses	0.6	1.9	1.2	1.6	1.5
PBT	**137.8**	**146.9**	**160.7**	**190.3**	**213.2**
Tax	52.9	52.0	45.0	47.9	53.7
RPAT	**84.9**	**94.9**	**115.7**	**142.3**	**159.5**
APAT	**84.9**	**88.3**	**115.7**	**142.3**	**159.5**
Growth (%)	-7.2	4.1	31.0	23.0	12.1
EPS	16.0	16.7	21.9	26.9	30.2

Balance Sheet

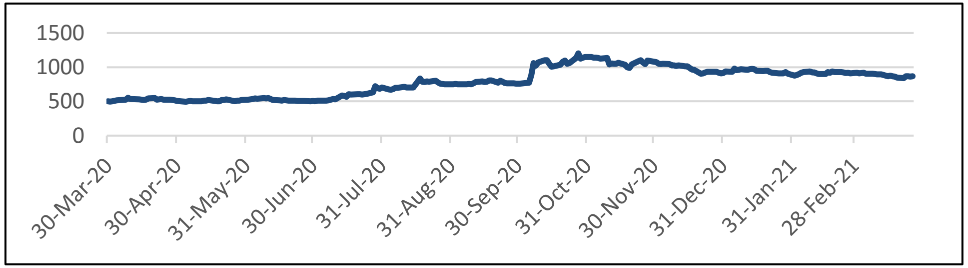
As at March	FY19	FY20	FY21E	FY22E	FY23E
SOURCE OF FUNDS					
Share Capital	52.8	52.8	52.8	52.8	52.8
Reserves	382.3	313.8	376.7	455.6	551.7
Shareholders' Funds	**435.1**	**366.7**	**429.5**	**508.5**	**604.5**
Long Term Debt	2.5	8.2	13.9	11.4	8.9
Net Deferred Taxes	-5.1	4.2	-5.3	2.7	2.7
Long Term Prov & Others	16.5	8.2	9.6	10.8	13.1
Total Source of Funds	**449.0**	**387.2**	**447.7**	**533.3**	**629.2**
APPLICATION OF FUNDS					
Net Block & Goodwill	294.3	269.1	262.8	261.8	261.0
CWIP	1.5	4.9	4.9	4.9	4.9
Other Non-Current Assets	37.8	42.6	44.7	48.3	51.3
Total Non-Current Assets	**333.6**	**316.6**	**312.4**	**315.0**	**317.2**
Current Investments	74.6	69.0	77.0	137.0	227.0
Inventories	18.1	20.6	25.6	27.2	29.4
Trade Receivables	12.2	16.6	40.4	22.7	21.2
Cash & Equivalents	9.6	11.1	40.7	46.7	57.5
Other Current Assets	21.5	35.0	33.0	18.9	13.9
Total Current Assets	**136.0**	**152.3**	**216.6**	**252.5**	**349.0**
Short-Term Borrowings	0.0	4.3	2.1	1.1	1.1
Trade Payables	7.5	21.9	20.2	12.1	13.1
Other Current Liab & Prov	13.1	55.6	59.0	21.0	22.8
Total Current Liabilities	**20.6**	**81.7**	**81.4**	**34.2**	**37.0**
Net Current Assets	115.4	70.6	135.3	218.3	312.0
Total Application of Funds	**449.0**	**387.2**	**447.7**	**533.3**	**629.2**

Thyrocare Technologies Ltd

Cash Flow Statement

(Rs Cr)	FY19	FY20	FY21E	FY22E	FY23E
Reported PBT	137.8	146.9	160.7	190.3	213.2
Non-operating & EO items	-2.0	-0.9	-11.9	5.6	-1.8
Interest Expenses	0.0	1.2	1.2	1.6	1.5
Depreciation	26.2	31.9	31.3	31.0	30.8
Working Capital Change	-0.7	33.5	-23.5	-14.8	9.4
Tax Paid	-60.6	-44.5	-45.0	-47.9	-53.7
OPERATING CASH FLOW (a)	**100.7**	**168.1**	**112.8**	**165.7**	**199.4**
Capex	-38.9	-9.9	-25.0	-30.0	-30.0
Free Cash Flow	61.8	158.2	87.8	135.7	169.4
Investments	28.2	10.1	-7.7	-61.2	-91.2
Non-operating income	-0.9	0.7	0.0	0.0	0.0
INVESTING CASH FLOW (b)	**-11.6**	**1.0**	**-32.7**	**-91.2**	**-121.2**
Debt Issuance / (Repaid)	2.5	-4.4	3.6	-3.5	-2.5
Interest Expenses	0.0	-1.4	-1.2	-1.6	-1.5
FCFE	64.3	152.4	90.2	130.6	165.4
Share Capital Issuance	0.0	0.0	0.0	0.0	0.0
Dividend	-26.9	-132.0	-52.8	-63.4	-63.4
Others	-69.3	-27.0	0.0	0.0	0.0
FINANCING CASH FLOW (c)	**-93.6**	**-164.8**	**-50.5**	**-68.5**	**-67.4**
NET CASH FLOW (a+b+c)	**-4.5**	**4.2**	**29.6**	**6.0**	**10.8**

One Year Stock Price Chart



Key Ratios

(Rs Cr)	FY19	FY20	FY21E	FY22E	FY23E
EBITDA Margin	38.2	39.8	37.1	38.1	38.8
EBIT Margin	34.4	34.3	33.0	34.8	36.0
APAT Margin	21.1	20.4	23.6	25.8	26.8
RoE	19.3	22.0	29.1	30.3	28.7
RoCE	31.4	36.4	39.3	39.7	37.8
Solvency Ratio					
Debt/EBITDA (x)	0.0	0.1	0.1	0.1	0.0
D/E	0.0	0.0	0.0	0.0	0.0
PER SHARE DATA					
EPS	16.0	16.7	21.9	26.9	30.2
CEPS	21.0	22.8	27.8	32.8	36.0
Dividend	20.0	5.0	10.0	12.0	12.0
BVPS	82.4	69.4	81.3	96.2	114.4
Turnover Ratios (days)					
Debtor days	10.0	12.1	21.2	20.9	13.4
Inventory days	15.9	16.3	17.2	17.5	17.3
Creditors days	6.4	12.4	15.6	10.7	7.7
VALUATION					
P/E	54.3	51.8	39.6	32.2	28.7
P/BV	10.5	12.5	10.7	9.0	7.6
EV/EBITDA	31.5	28.2	26.5	23.0	20.8
EV/Revenues	12.0	11.2	9.8	8.7	8.1
Dividend Yield (%)	2.3	0.6	1.2	1.4	1.4
Dividend Payout	124.4	29.9	45.7	44.6	39.8

(Source: Company, HDFC sec)

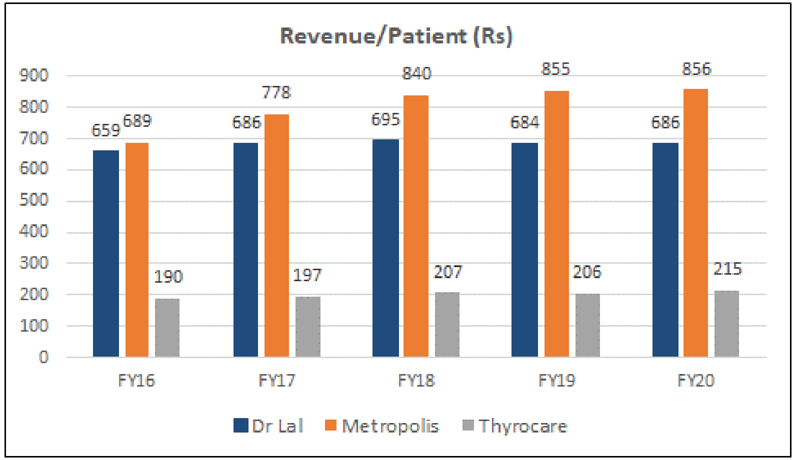
Diagnostics Sector

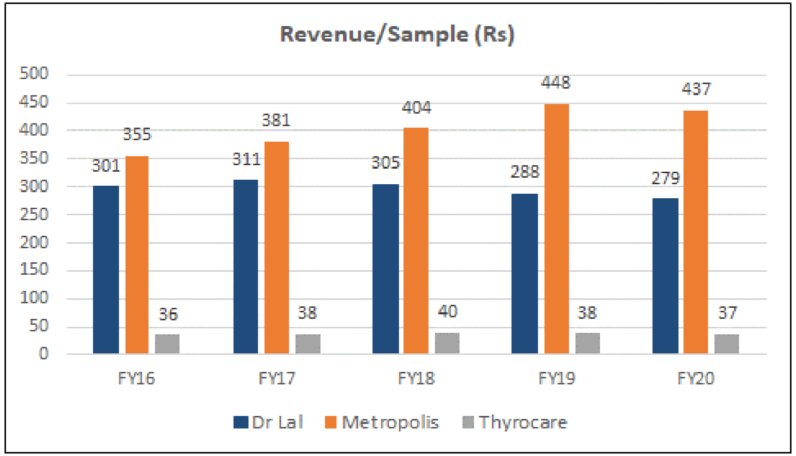
Peer Comparison:

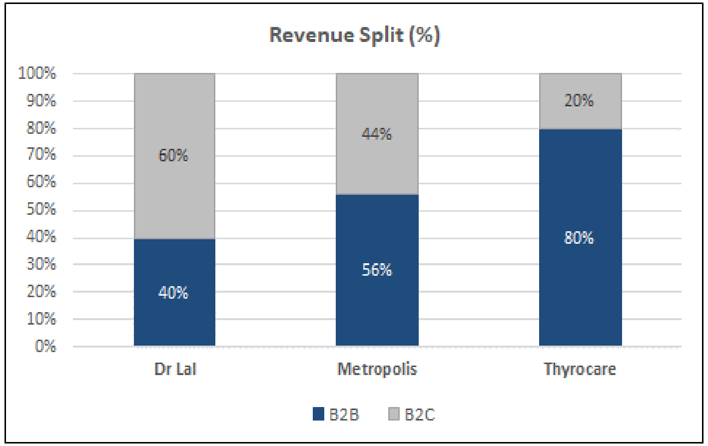
	Dr Lal	Metropolis	Thyrocare
Business Focus	Disease-based Test	Disease-based Test	Wellness Packages
Geographic Strength	North	West & South	North & West
Operational Metrics			
No of Central/National Labs	2	1	1
No of Regional Labs	216	125	11
No of Test Offered	4950	4000	288
No of Test (in million)	47.7	19.6	110.4
No of Patient (in million)	19.4	10	19.2
No of Collection Centres	3095	2133	4410
No of Patient Touch points	6995	10000+	30000+
Revenue/Patient	686	856	215
Revenue/Test	279	437	37
Financial Metrics			
Revenue (Rs cr)	1,330.4	856.4	413.8
EBITDA (Rs cr)	343.6	207.8	172.4
PAT (Rs cr)	225.9	102.8	88.3
EBITDA Margin (%)	25.8%	24.3%	39.8%
PAT Margin (%)	17.0%	12.0%	20.4%
RoCE (%)	32.9%	34.5%	36.4%
Revenue FY16-20 CAGR (%)	13.9%	15.8%	17.1%
EBITDA FY16-20 CAGR (%)	13.1%	13.2%	16.5%
PAT FY16-20 CAGR (%)	14.3%	7.6%	14.3%

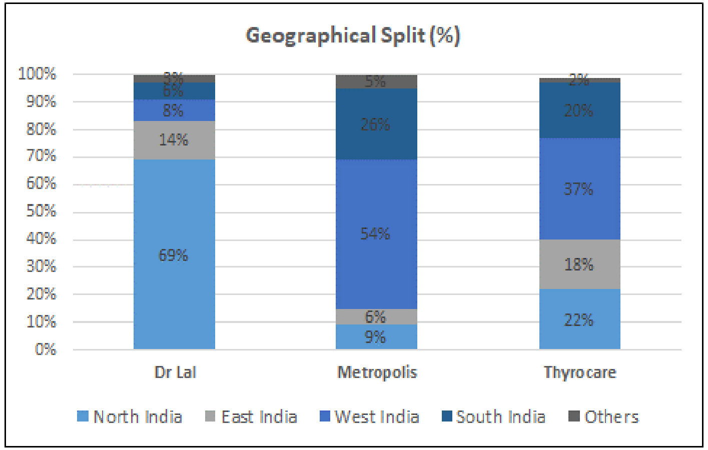
(Note: FY20 data. Source: Company, HDFC sec)

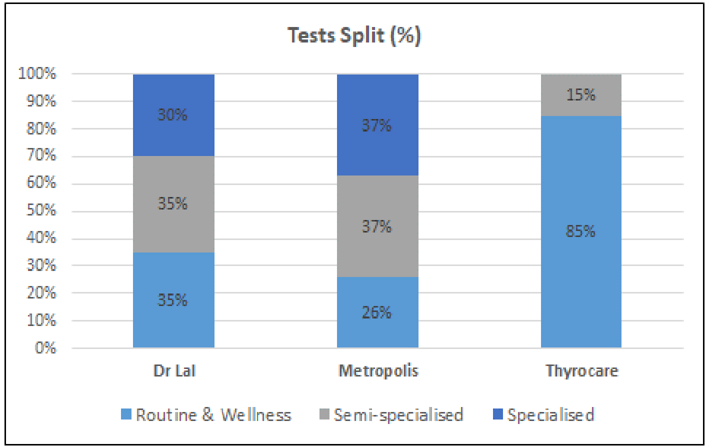
In Charts





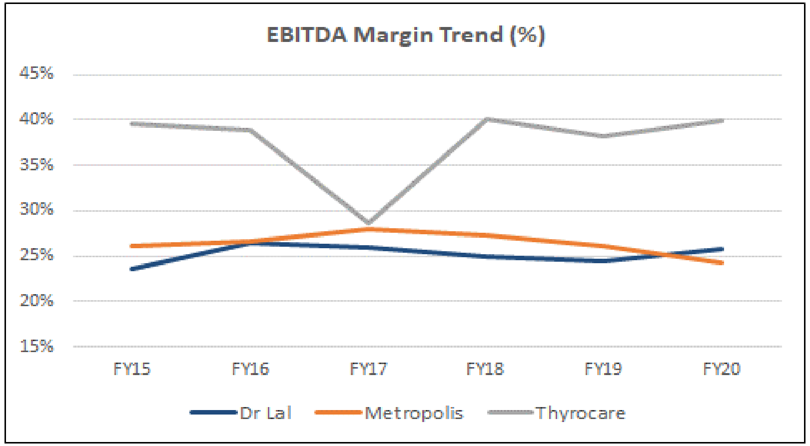


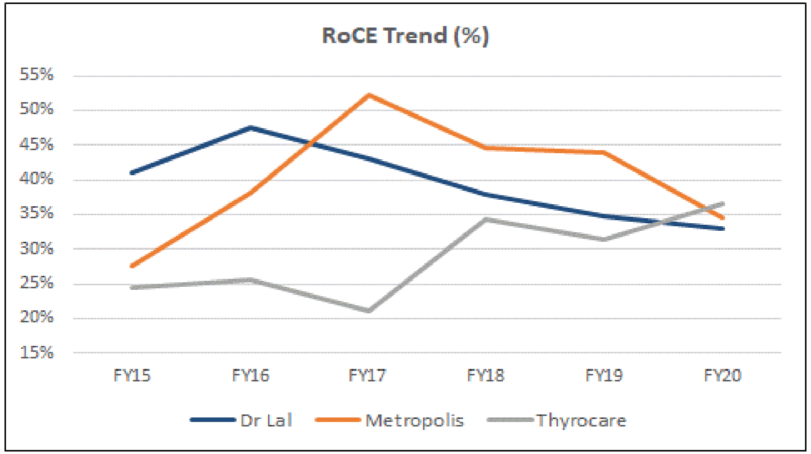




(Source: Company, HDFC sec)

Diagnostics Sector





(Source: Company, HDFC sec)

Valuation

	Mcap (Rs cr)	Sales				EBITDA Margin				PAT			
		FY20	FY21E	FY22E	FY23E	FY20	FY21E	FY22E	FY23E	FY20	FY21E	FY22E	FY23E
Dr Lal PathLabs Ltd	21431.3	1330.4	1590.4	1779.7	1947.0	24.4	25.8	27.5	27.9	225.9	291.4	344.0	382.8
Metropolis Healthcare Ltd	10527.4	856.4	984.2	1192.1	1339.1	26.1	24.3	26.8	27.0	102.8	170.7	194.0	216.0
Thyrocare Technologies Ltd	4582.4	433.2	491.1	551.6	595.9	38.2	39.8	37.1	38.1	88.3	115.7	142.3	159.5

	ROE				RoCE				PE			
	FY20	FY21E	FY22E	FY23E	FY20	FY21E	FY22E	FY23E	FY20	FY21E	FY22E	FY23E
Dr Lal PathLabs Ltd	22.8	25.8	25.7	24.2	32.9	36.4	36.0	33.8	93.8	73.6	62.3	56.0
Metropolis Healthcare Ltd	21.8	29.0	26.9	25.0	34.5	35.9	30.9	26.4	82.0	61.7	54.3	48.7
Thyrocare Technologies Ltd	22.0	29.1	30.3	28.7	36.4	39.3	39.7	37.8	51.8	39.6	32.2	28.7

(Source: Company, HDFC sec)

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