Stock Update

Thyrocare Technologies Ltd.

January 06, 2022

RETAILRESEARCH

Thyrocare Technologies Ltd.

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Industry	LTP	Recommendation	Base Case Fair Value	Bull Case Fair Value	Time Horizon
Diagnostics	Rs 1084.6	Buy in the band of Rs 1082-1088 & add more on dips to Rs 968-972 band	Rs 1208	Rs 1310	2 quarters

HDFC Scrip Code	THYTECEQNR
BSE Code	539871
NSE Code	THYROCARE
Bloomberg	THYROCAR IN
CMP Jan 05, 2022	1084.6
Equity Capital (Rs cr)	52.9
Face Value (Rs)	10
Equity Share O/S (cr)	5.29
Market Cap (Rs cr)	5734.8
Book Value (Rs)	80.8
Avg. 52 Wk Volumes	326678
52 Week High	1465.0
52 Week Low	831.0

Share holding Pattern % (Sep 2021)	
Promoters	71.2
Institutions	18.7
Non Institutions	10.1
Total	100.0

HDFCsec Retail research stock rating meter

for details about the ratings, refer at the end of the report

* Refer at the end for explanation on Risk Ratings

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Our Take:

Thyrocare Technologies Ltd (TTL) is one of the leading pan-India diagnostic chains that conducts an array of medical diagnostic tests and profiles of tests focused on early detection and management of disorders and diseases. It works on a low-cost business model to make wellness and preventive care affordable and accessible. TTL has established a robust B2B model by servicing laboratories, hospitals, and doctors as well as catering to individual patients' need. 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; it has recognized the growth opportunity in this segment and 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 add to the topline as TTL offers these tests at affordable costs. Being a low-cost operator with a disruptive business model, we believe it has abundant market opportunity to grow and expand its business.

Thyrocare Technologies has an asset light model with a comfortable business risk profile because of its focus on increasing its volumes at affordable costs. Thyrocare is aggressively looking to expand its network. It plans to increase its branded committed franchisees to 2,000 in FY22 and add 10 more Regional Processing Laboratories (RPLs) to improve reach, minimize logistical cost and improve sample turnaround time. Acquisition by PharmEasy (API Holdings Ltd) would help in improving the volume growth over long term. We expect the company would be more consumer centric with holistic offerings by the parent company.

Earlier, we had issued initiating coverage report on Thyrocare Technologies Ltd; both base case and bull case target price were achieved well within our investment horizon. Thyrocare is traded at significant discount to its peers given its majority B2B nature of business. However, given its renewed focus on bolstering its brand and integration with API Holdings, we believe the discount could narrow.

Valuation & Recommendation:

We believe Thyrocare is on a strong footing on the back of steady recovery in core business, likely increase in B2C share, opening of regional labs and expansion of branded franchisee centres which would aid volume growth. API Holding's technology and digital products will also bring necessary digital capabilities to Thyrocare's business. Wider product/service offerings and inclusion of specialised test profiles would improve its realisations once it reaches scale. Structural tailwind around shift from unorganized business to organized players, potential consolidation, likely increase in preventive check-ups and sizeable scale would benefit large organized players like TTL. Revenue from Covid tests which has been a large proportion of revenues in FY21 and likely in FY22 (given the recent spread of Omnicron variant) may not recur in FY23/FY24 to the same extent and hence the revenue growth post FY22 may not be very exciting unless compensated by other initiatives/synergy benefits with PharmEasy. Over the medium term, there remains a possibility of TTL being merged into PharmEasy; however, the benefit to TTLs shareholders will depend on the stock price of PharmEasy (post listing) and the swap ratio. 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 1208 (35.5x Dec'23E EPS) and the bull case fair value is Rs 1310 (38.5x Dec'23E EPS) over the next two quarters. Investors can buy the stock in the band of Rs 1082-1088 (31.8x Dec'23E EPS) and add on dips to Rs 968-972 band (28.5x Dec'23E EPS).**

Financial Summary

Particulars (Rs cr)	Q2FY22	Q2FY21	YoY-%	Q1FY22	QoQ-%	FY20	FY21	FY22E	FY23E	FY24E
Total Operating Income	176.2	153.3	15.0	164.7	7.0	433.2	494.6	649.7	613.8	653.4
EBITDA	89.3	61.9	44.2	71.2	25.4	172.4	171.5	287.2	241.8	253.5
Depreciation	8.2	7.6	6.8	7.3	11.9	31.9	30.3	29.8	30.8	30.6
Other Income	15.2	5.0	204.4	10.5	44.8	8.2	12.4	45.5	27.6	22.9
Interest Cost	0.7	0.3	102.9	0.6	11.3	1.9	0.9	1.6	3.0	3.6
Tax	17.7	15.8	12.0	17.9	-1.3	52.0	39.3	75.9	59.4	61.0
PAT	77.9	43.1	80.8	55.9	39.5	94.9	113.4	225.4	176.3	181.1
Adjusted PAT	77.7	43.1	80.6	55.6	39.9	88.3	113.4	225.4	176.3	181.1
EPS (Rs)	14.7	8.1	80.4	10.5	39.9	16.7	21.4	42.6	33.3	34.3
RoE-%						22.0	28.6	45.8	29.1	25.7
P/E (x)						64.8	50.7	25.4	32.5	31.7
EV/EBITDA						33.2	33.4	19.8	23.2	21.9

(Note: Consolidated numbers, Source: Company, HDFC sec)

Q2FY22 Result Review:

Thyrocare Technologies Ltd clocked revenue of Rs 176.2cr, up 15%/7% YoY/QoQ. Strong revenue growth was largely due to covid revenues with bulk of the business coming from B2G vertical (government project). Excluding one-off government project (~38% of the revenue), topline slipped by 21.3% sequentially. Non-covid revenue was near pre-covid levels and stood at Rs 99.3cr (down 1.3%/3.3% YoY/QoQ). Covid revenue contributed ~40% of topline (vs 27% in Q2FY21), while Non-covid business accounted for ~56% of revenue (vs 57% in Q2FY21). Gross margin improved significantly to 75.3% vs 66.8% in Q2FY21 (67.1% in previous quarter); on account of reduction in the cost of reagents/consumables for Covid RTPCR tests. EBITDA margin improved ~1030/740bps YoY/QoQ to 50.7% due to volume benefits and one-off contracts wherein cost of consumables was borne by the government. The company reported PAT of Rs 77.7cr, up ~80.6%/40% YoY/QoQ.

Diagnostics segment reported topline of Rs 167.1cr, up 12.7%/6.5% YoY/QoQ. Its EBIT margin stood at 47.9% (vs 41% in Q1FY21). While the volume recovery in the base pathology business is slower than the peer companies, it is expected to improve in the coming quarters especially with PharmEasy integration. During the quarter, the company benefited from one-off government contracts which boosted revenues from covid and its related tests. Radiology business (~4% of topline) saw decent recovery as patient footfall increased across the centres. The segment reported revenues to the tune of Rs 7.5cr (58.6%/38.6% YoY/QoQ). Higher realisations and operating leverage helped to report positive EBIT. EBIT margin was 3.9% (vs -15.8% in the previous quarter).

B2B, B2C & B2G mix changed in Q2. B2B business has dropped from contributing 67.3% in Q1FY22 to 43.6% of the overall revenues in Q2FY22. Contribution of B2G vertical supported healthy growth and stood at ~41% as against 17.3% of the topline in the previous quarter. Preventive care business saw a decent growth of ~11% QoQ. However, the contribution of Aarogyam within non-covid has decreased due to reduced spending on promotion and marketing. Realisation per patient improved sequentially due to covid preventive care business.

The company's pace of recovery in the core non-covid business is subdued, we expect recovery resulting in revenue growth. Acquisition by PharmEasy would help in improving the volume growth over long term for the company. Thyrocare is aggressively looking to expand its network. It plans to increase its 500 committed franchisees to 2,000 in FY22 and add 10 more Regional Processing Laboratories (RPLs) to improve reach, minimize logistical cost and improve sample turnaround time.

Recent Triggers:

Acquisition by API Holdings:

API Holdings, parent company of PharmEasy, in June 2021 announced acquisition of 66.14% stake in Thyrocare from Dr. A Velumani and affiliates at Rs 1,300 per share aggregating to Rs 4546cr. It also announced an open offer for additional 26% stake at Rs 1,300 per share; but managed to acquire additional 5.07% stake. The transaction is likely to strengthen PharmEasy's position as one of India's largest digital healthcare brands with an integrated service platform between patient, doctor and medical retailers. The company wanted to expand current network and introduce integrated platform via digitalization in diagnostic chain business with a player like Thyrocare, having pan-India presence with centralized laboratories that provide quality services at affordable price. The integration will take 18-24 months to complete the acquisition, including transition and advancement of new digitalized system.

Benefits from the integration with API Holdings:

- Holistic healthcare ecosystem: API Holdings offers integrated bouquet of products, targets servicing stakeholders across healthcare ecosystem - consumers, pharmaceutical companies, wholesalers, pharmacies, hospitals, doctors and clinics and diagnostic and radiology labs. The company provides services like teleconsultation, diagnostics, B2B and B2C sale of pharma products, EMR systems. Thyrocare provided API Holdings the ability to offer diagnostics services to customers across the country, thereby adding complimentary services to its portfolio of offerings. API Holding's technology and digital products will also bring necessary digital capabilities to Thyrocare's business.

- Increase in B2C share: Thyrocare have been focusing on developing a robust B2B model (>75%); leveraging its low-cost competency to standalone and hospital based diagnostic centers. Integration with PharmEasy would bring the company closer to customers. PharmEasy delivers medicines in 18,500+ pin codes across 2,600+ cities and towns. Increased digital penetration in rural areas and availability of acute drugs have propelled huge online adoption beyond metro cities. PharmEasy's wider reach could be leveraged to allow higher sample collection across the country which could be tested in Thyrocare's nearby laboratory. The online-offline collaboration would improve Thyrocare's brand visibility. Increase in B2C share would also be margin accretive over medium term.

- Growing its portfolio offerings: Currently, TTL offers limited tests (279 tests and 79 profiles of test), compared to 4000-5000 test offered by its peers Metropolis and Dr. Lal Pathlabs. PharmEasy would want to leverage low-cost test offerings of Thyrocare and expand product/test offerings. It would be betting on the volume game. Product offering and inclusion of specialised test profiles would improve its realisations once it reaches scale.

- Big push to wellness and preventive packages under Aarogyam brand & Home Collection: Thyrocare Technologies have been the leaders in preventive care diagnostic test offerings under 'Aarogyam' brand. The company's flagship Aarogyam brand, a preventive care product focused on wellness and early detection of lifestyle related disorders. Under the new management, the company could launch subscription model given the holistic healthcare solutions it offers to the consumers. Home collection segment of the company would see a major fillip given the pan-India network of authorized service providers comprised of Thyrocare Service Providers (TSPs), Thyrocare Aggregators (TAGs) and Online Clients (OLCs). Wide network of franchise and own collection centres and touch-points coupled to phlebotomists would give to boost to the home collection segment; thereby improving its realisations.

- Large client data, low customer acquisition cost & offering subscription model: With technological capabilities and increase scaled presence, it now touches stakeholders across healthcare solutions. This presence allows them to offer integrated bouquet of products, services and technology to all stakeholders, with each having an ability to cross-sell services and products of one stakeholder to the other or their customers. PharmEasy has large patient pool & wide services and products; it could offer a subscription model combining doctor consultancy, medicines and diagnostics at one platform. Huge customer data coupled with data analytics can be implemented to offer customized healthcare solutions which would aid growth in B2C.

Overall, the acquisition puts Thyrocare ahead of the race as it benefits from this online-offline collaboration. In the initial period, we expect margin dilution on account of likely price discounts, marketing and promotion coupled with investments in technology for platform integration.

Deeper penetration to support volume growth:

Thyrocare is gearing for next leg of growth and is aggressively looking to expand its network. It is planning to take the network of 500 committed franchisees to 2000 in FY22 and add 10 more regional processing laboratories to improve reach and go closer to customers. Asset light strategy of expansion through branded franchisee would provide clients access to complete Thyrocare's menu. TTL collect samples through a pan-India network of authorized service providers comprised of Thyrocare Service Providers (TSPs), Thyrocare Aggregators (TAGs) and Online Clients (OLCs), who in turn source these samples from local hospitals, laboratories, diagnostic centers, nursing homes, clinics and doctors. As of March 31, 2021, TTL had a network of about 4,500 service providers, comprised of TSPs, TAGs, OLCs spread across more than 250 districts covering all the states within the country. Such wide spread network of authorized service providers has enabled it to expand the reach of the CPL, RPLs and ZPLs, thereby providing access to a larger customer base.

The company has setup Zonal Processing Laboratories (ZPLs) at Delhi, Bangalore and Kolkata (in Q2FY22), which would be akin to its central processing laboratory and can perform complex and advance tests at reasonable turnaround time. By expanding the network, it plans to simultaneously increase customer base, generate higher volume of samples for processing, improve turnaround time and optimize logistic costs. All these growth initiative measures are likely to improve its brand recognition; PharmEasy's acquisition is likely to accelerate this process. It is targeting uncovered client base by penetrating deeper into the regions by offering on door services to smaller clinics, dispensaries, laboratories and hospitals.

Wellness and Preventive offerings to add to the topline:

Thyrocare Technologies being the leader in preventive care diagnostic test offerings with 'Aarogyam' brand, recognizing the growth opportunity in this segment and is well positioned to leverage its expertise and brand. It continues to focus on growth of wellness and preventive offerings and expansion of test offerings through aggressive price rationalization. As per CRISIL research estimates, the market for wellness and preventive diagnostics was around 9-10% of the total diagnostic services industry in FY20. The organized market is already working towards shift in focus of "Illness to Wellness" and are gearing up to add newer avenues to growth via home collection, wellness offerings, faster turnaround time, etc. 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.

Providing affordable PET-CT scanning; improvement in volumes would add to profitability:

The company's subsidiary, Nueclear Healthcare Limited (NHL), operates a network of molecular imaging centers focused on early and effective cancer monitoring. It has 10 operating PET-CT scanners across 8 imaging centres. NHL also owns and operates a medical cyclotron unit in Navi Mumbai, which produces the radioactive bio-marker FDG required for PET-CT scanning. 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. NHL is EBITDA positive but is running into losses at net levels. The pandemic induced lockdown has caused huge disruption, since there was limitation on movement of patients and FDG during this period. It intends to transfer existing PET-CT scanners to locations that can yield higher revenue and at a lower cost of operations. 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.

Healthy Financial 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 15.5% over FY16-21 with EBITDA margin of 37%+. Net profit had grown at a CAGR of 17% over the same period. Lower margins of imaging segment have pulled down its net profit. Although gross margins of TTL is lower compared to its peers, it has reported better EBITDA margins despite its higher B2B share of business. Lower employee expenses and other cost rationalization measures coupled with improving asset utilisation supports higher EBITDA margin level. For the past four fiscals, the return on equity was over 20% and return on capital employed was over 32%.

Strong Industry Tailwinds:

The Indian diagnostic market is highly underpenetrated, with huge potential for growth. The industry is expected see to a healthy growth trajectory of 12-13% CAGR, due to various growth drivers such as ageing population, rising insurance penetration and growing thrust on preventive care diagnostics. Standalone centres and hospital-based centres collectively comprise 83-88% of the total market, while diagnostic chains comprise only 12-17% further split into regional and multi-regional chains, of which regional chains account for the majority. The pan-India chains have 6% market share in the USD10bn diagnostics industry in India.

We believe the massive opportunity the industry offers and consolidation would help sustain the high growth momentum for organised chains. We anticipate a faster shift to organized providers, given the quality set-up, faster report turnaround, complex test availability, and better customer experience they offer. With their pan India network, organized players also benefit from economies of scale and are able to provide better illness management for patients and better diagnosis for doctors. The wellness approach towards health is still at a nascent stage in India while the pandemic has added a major push to wellness and overall healthcare penetration in India. Pandemic has also brought importance of quality and reliability of clinical data driving the demand for organised players. Moreover, increased awareness about the health in small and medium cities is likely to ensure growth for the diagnostic industry as a whole. Asset-light models, third-party centers and home collection has helped pan-India players (Dr Lal Pathlabs, Metropolis, SRL, Thyrocare) to expand faster. The lower capex intensity and a plug-play model ensures strong volume growth visibility over time. There is a strong investment case for diagnostics as a structural opportunity.

Concerns:

High competitive intensity: India's diagnostic players operate in a very fragmented environment, where companies are fighting for market share in concentrated spaces. 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 revenues growth and 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.

Price control of diagnostic tests: Prices of diagnostic services could be subject to recommended or maximum fees set by the government or other authorities. This could, in effect, limit company's ability to charge customers higher prices for its services. However, the growth in the industry in the past few years is volume driven and less likely to impact margins in a big way.

High dependence on ASPs: Timely delivery of samples by ASPs (authorized service providers) 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.

Margin dilution in the near term: API Holdings have been offering products & services at disruptive prices (at high discounts to customer). Under the new management, it could adopt similar practice in the diagnostics. In early days of the new management, we expect margin dilution on account of price discounts, marketing and promotion coupled with investments in technology for platform integration.

Pledge by promoters: The promoter has pledged their entire stake (71.2%). Such high percentage of shares could cause sharp movement in stock prices if the loan is not serviced in time. However, API Holdings has filed its DRHP for an IPO of Rs 6250cr. Once the IPO money is raised, the pledge by promoters will come to an end on repayment of loan. In case the IPO is delayed, then this could remain as a concern.

About the company:

Thyrocare Technologies Ltd (TTL) is one of the leading pan-India diagnostic chains that conducts 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. As of March 31, 2021, it offered 279 tests and 79 profiles of tests to detect a number of disorders. Its profiles of tests include 34 profiles of tests administered under our "Aarogyam" brand, which offers patients a suite of wellness and preventive health care tests.

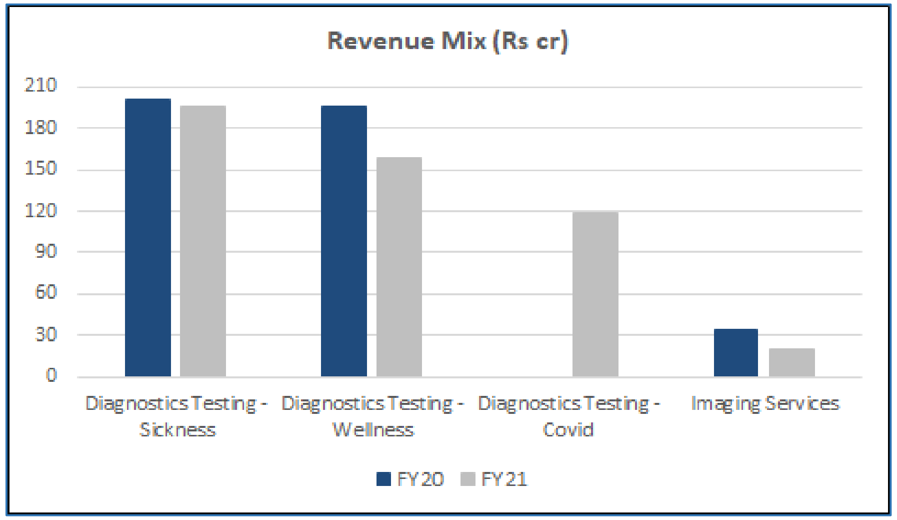
TTL primarily operates testing services through a fully-automated Centralised Processing Laboratory (CPL) and have expanded their operations to include a network of Regional Processing Laboratories (RPLs). It has established a robust a B2B model by servicing laboratories, hospitals, doctors as well as 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 authorized service providers (ASPs). Thyrocare has a nation-wide presence for sample collection managed by its pan-India network of 4500+ authorised service providers. It has a wholly owned subsidiary Nueclear Healhcare (NHL), operates a network of molecular imaging centers focused on early and effective cancer monitoring. Nueclear had 10 operating PET-CT scanners across 8 imaging centers.

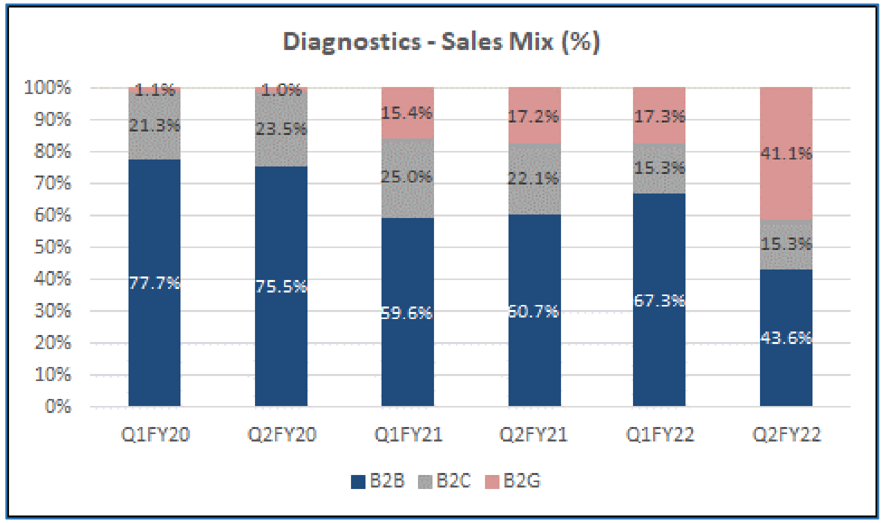
API Holdings, parent company of PharmEasy, in June 2021 announced acquisition of 66.14% stake in Thyrocare from Dr. A Velumani and affiliates at Rs 1,300 per share aggregating to Rs 4546cr. It also announced an open offer for additional 26% stake at Rs 1,300 per share; but managed to acquire additional 5.07% stake.

Segmental Data:

Diagnostics services	FY15	FY16	FY17	FY18	FY19	FY20	FY21
Revenue (Rs cr)	159.75	204.76	262.56	313.03	354.44	379.73	337.47
No of samples (in cr)	0.91	1.16	1.43	1.63	1.88	1.92	1.58
Revenue per Sample	176	177	184	192	189	198	214

Imaging Services	FY15	FY16	FY17	FY18	FY19	FY20	FY21
Revenue (Rs cr)	3.62	13.81	16.40	22.71	29.65	31.11	18.38
No of scans	11115	15940	18530	22159	29274	25632	16011
Revenue per scan	8682	9755	9876	10249	10128	12137	11480





(Source: Company, HDFC sec)

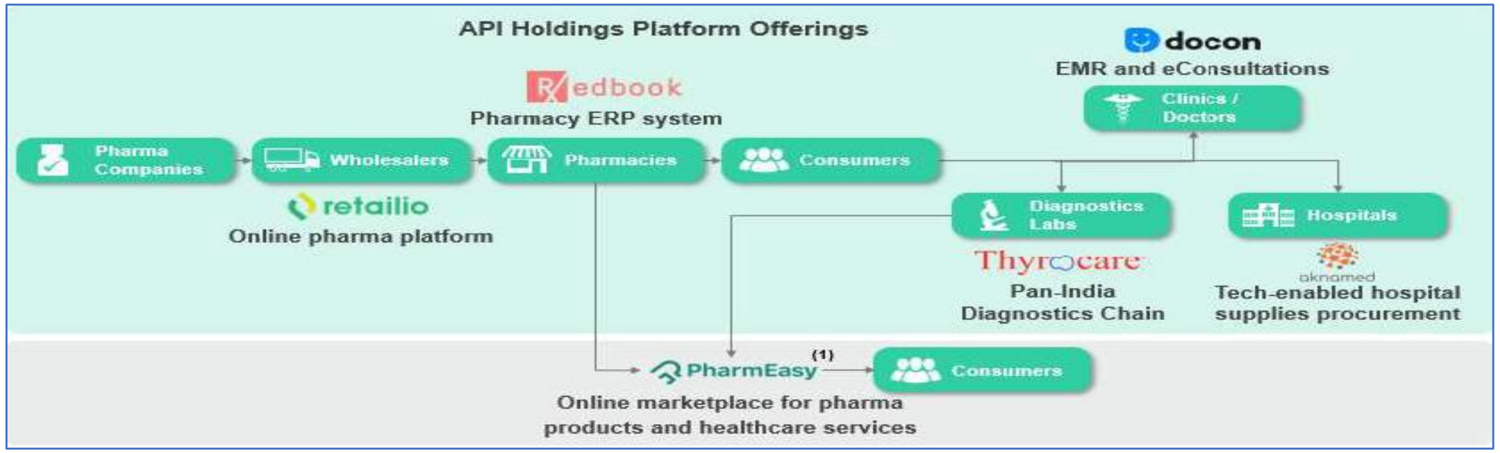
About API Holdings Ltd:

API Holdings is India's largest digital healthcare platform with FY21 Gross Merchandise value (GMV) of $1.05bn. It operates an integrated, end-to-end business that aims to provide solutions for healthcare needs of consumers across the following critical stages – a) providing digital tools and information on illness and wellness, b) offering teleconsultation, c) offering diagnostics and radiology tests, and d) delivering treatment protocols including products and devices.

API serves as a wholesaler of pharma and OTC products using Retailio 1P, as distributor using Retailio 3P and as medical supplier to hospitals/clinics using Aknamed. Other major services for the company are diagnostics (Thyrocare), ERP systems (Redbook & Marg ERP), EMR & Teleconsult (Docon). API Holdings offers integrated bouquet of products, targets servicing stakeholders across healthcare ecosystem

It is one of the largest digital first platforms in the country that aggregates healthcare data and interconnects the traditionally disparate stakeholders of the healthcare value chain. It is the only digital healthcare platform in India with leading presence across both the supply and demand sides of the healthcare value chain. Their full-stack presence and omni-channel technology have enabled to provide holistic healthcare services.

API Holding presence across the Healthcare value chain



Note: 1. The PharmEasy Brand has been licensed to Axelia, which operates the PharmEasy marketplace. API Holdings holds a 19.99% stake in Aarman, which is the holding company of Axelia. (Source: API Holdings Ltd DRHP, HDFC sec)

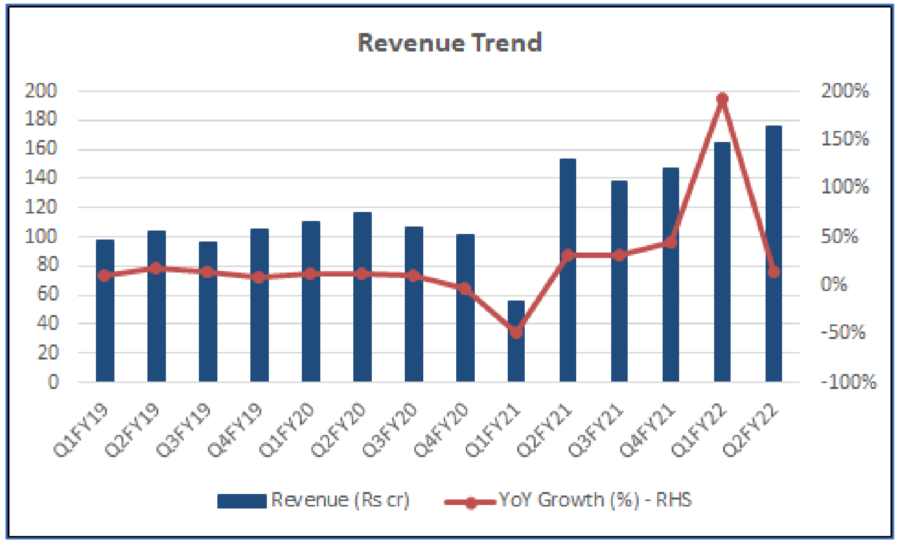
The company owns the PharmEasy brand, which is a Healthcare super app for consumers providing online pharmacy, OTC, teleconsultation, diagnostics services; D2C capabilities for offline pharmacies. Over the past few years, API Holdings has undertaken multiple acquisitions of complementary businesses, to enhance capabilities and offerings in digital healthcare for all stakeholders. Based on the company's current suite of product and service offerings, the Serviceable Addressable Market is expected to be ~USD100bn by 2025 from USD56bn in 2020 (RedSeer estimates).

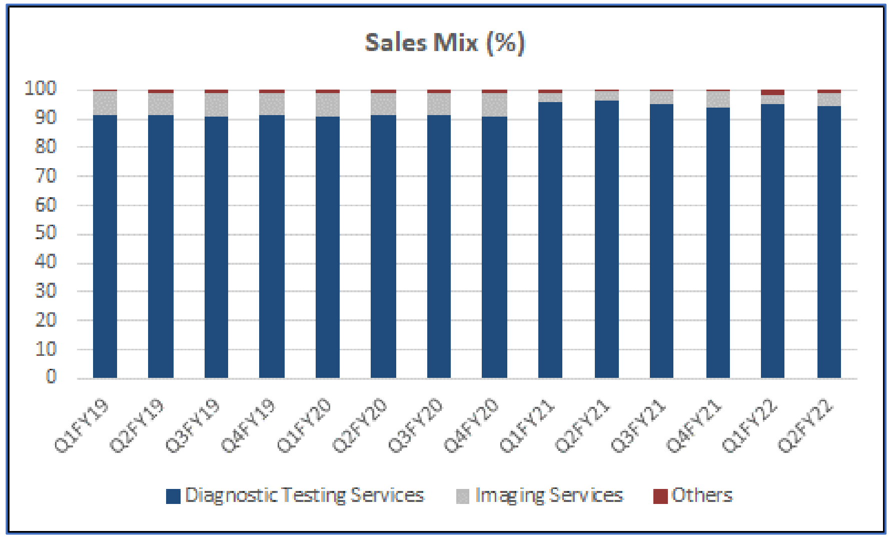
Quarterly Segmental Trend:

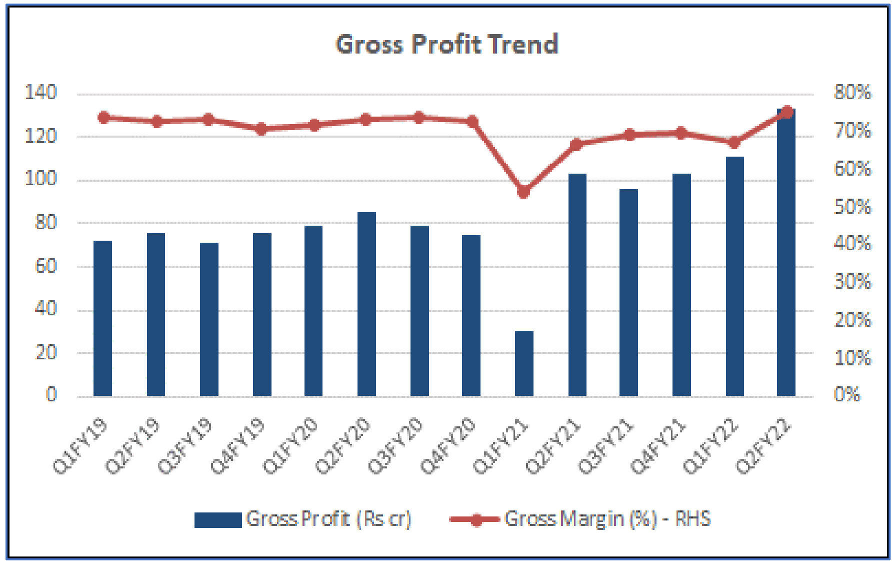
Diagnostic Testing Services	Q1FY20	Q2FY20	Q3FY20	Q4FY20	Q1FY21	Q2FY21	Q3FY21	Q4FY21	Q1FY22	Q2FY22
Revenue (Rs cr)	99.97	106.99	97.25	92.85	54.1	148.25	131.84	138.68	156.94	167.13
EBIT (Rs cr)	39.63	44.7	37.32	23.03	4.71	56.57	43.09	44.93	64.3	80.1
EBIT Margin (%)	39.6%	41.8%	38.4%	24.8%	8.7%	38.2%	32.7%	32.4%	41.0%	47.9%
Imaging Services	**Q1FY20**	**Q2FY20**	**Q3FY20**	**Q4FY20**	**Q1FY21**	**Q2FY21**	**Q3FY21**	**Q4FY21**	**Q1FY22**	**Q2FY22**
Revenue (Rs cr)	9.47	8.61	7.91	8.1	1.87	4.71	6.16	7.68	5.39	7.47
EBIT (Rs cr)	-1.64	-1.56	-1.99	-1.32	-3.67	-2.63	-1.46	-1.24	-0.85	0.29
EBIT Margin (%)	-17.3%	-18.1%	-25.2%	-16.3%	-196.3%	-55.8%	-23.7%	-16.1%	-15.8%	3.9%

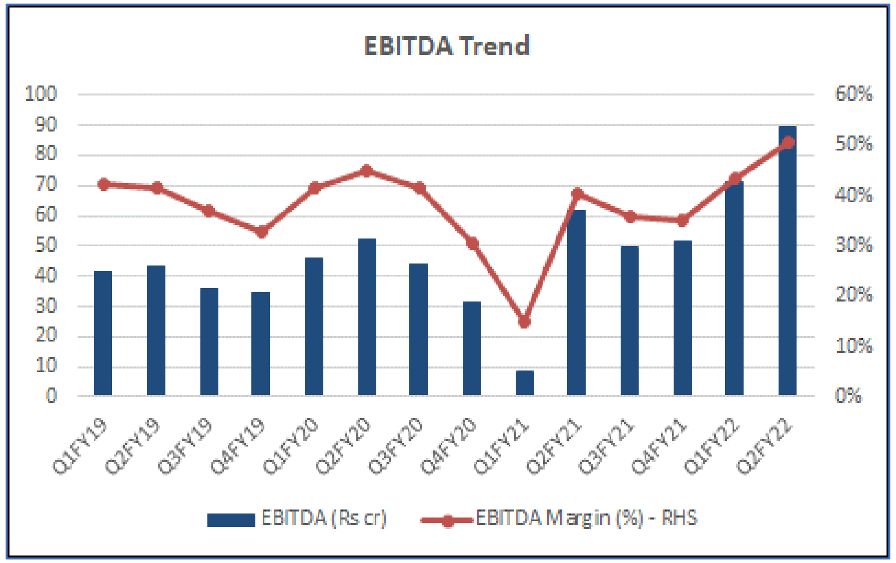
(Source: Company, HDFC sec)

Story in Charts:









(Source: Company, HDFC sec)

Peer Comparison:

	Mcap (Rs cr)	Sales				EBITDA Margin-%				PAT			
		FY21	FY22E	FY23E	FY24E	FY21	FY22E	FY23E	FY24E	FY21	FY22E	FY23E	FY24E
Thyrocare Technologies Ltd	**5,735**	**495**	**650**	**614**	**653**	**34.7**	**44.2**	**39.4**	**38.8**	**113**	**225**	**176**	**181**
Dr Lal Path Labs Ltd	31,871	1,581	2,045	2,242	2,374	27.6	28.8	28.2	28.6	292	402	424	468
Metropolis Healthcare Ltd	17,474	998	1,248	1,453	1,671	28.7	29.4	29.7	30.3	183	231	269	320

	RoE-%				P/E			
	FY21	FY22E	FY23E	FY24E	FY21	FY22E	FY23E	FY24E
Thyrocare Technologies Ltd	**28.6**	**45.8**	**29.1**	**25.7**	**50.7**	**25.4**	**32.5**	**31.7**
Dr Lal Path Labs Ltd	25.6	29.4	27.0	26.2	108.2	79.0	74.7	63.9
Metropolis Healthcare Ltd	29.8	29.3	28.0	28.5	94.9	75.8	65.0	54.7

(Note: Consolidated numbers. Source: Bloomberg, Company, HDFC sec)

Financials – Consolidated

Income Statement

(Rs Cr)	FY20	FY21	FY22E	FY23E	FY24E
Net Revenues	**433.2**	**494.6**	**649.7**	**613.8**	**653.4**
Growth (%)	**7.5**	**14.2**	**31.4**	**-5.5**	**6.4**
Operating Expenses	260.8	323.2	362.6	372.0	399.9
EBITDA	**172.4**	**171.5**	**287.2**	**241.8**	**253.5**
Growth (%)	**12.0**	**-0.6**	**67.5**	**-15.8**	**4.8**
EBITDA Margin (%)	**39.8**	**34.7**	**44.2**	**39.4**	**38.8**
Depreciation	31.9	30.3	29.8	30.8	30.6
EBIT	**140.5**	**141.2**	**257.4**	**211.1**	**222.9**
Other Income	8.2	12.4	45.5	27.6	22.9
Interest expenses	1.9	0.9	1.6	3.0	3.6
PBT	**146.9**	**152.7**	**301.3**	**235.7**	**242.1**
Tax	52.0	39.3	75.9	59.4	61.0
RPAT	**94.9**	**113.4**	**225.4**	**176.3**	**181.1**
APAT	**88.3**	**113.4**	**225.4**	**176.3**	**181.1**
Growth (%)	**4.1**	**28.4**	**98.7**	**-21.8**	**2.7**
EPS	16.7	21.4	42.6	33.3	34.3

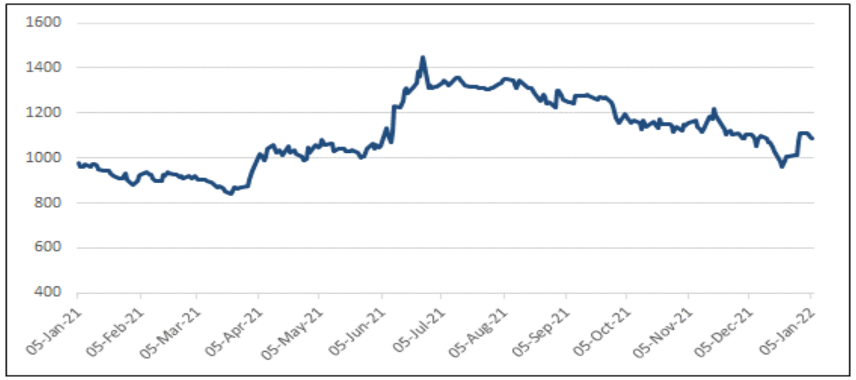
Balance Sheet

As at March (Rs Cr)	FY20	FY21	FY22E	FY23E	FY24E
SOURCE OF FUNDS					
Share Capital	52.8	52.9	52.9	52.9	52.9
Reserves	313.8	374.4	504.6	601.6	703.4
Shareholders' Funds	**366.7**	**427.3**	**557.5**	**654.4**	**756.2**
Long Term Debt	8.2	5.5	18.0	23.0	28.0
Net Deferred Taxes	4.2	-1.2	-7.2	-7.2	0.0
Long Term Provisions & Others	8.2	13.6	13.5	14.8	15.8
Total Source of Funds	**387.2**	**445.1**	**581.7**	**685.0**	**800.0**
APPLICATION OF FUNDS					
Net Block & Goodwill	269.1	253.1	258.3	257.5	256.9
CWIP	4.9	8.3	8.3	8.3	8.3
Other Non-Current Assets	42.6	40.7	52.0	48.7	50.5
Total Non-Current Assets	**316.6**	**302.0**	**318.5**	**314.5**	**315.7**
Current Investments	69.0	104.5	124.5	174.5	224.5
Inventories	20.6	23.4	32.0	33.6	35.8
Trade Receivables	16.6	44.7	89.0	70.6	62.7
Cash & Equivalents	11.1	15.7	82.8	147.3	220.2
Other Current Assets	35.0	49.9	23.1	25.2	26.9
Total Current Assets	**152.3**	**238.1**	**351.5**	**451.3**	**570.0**
Short-Term Borrowings	4.3	3.0	4.8	4.8	4.8
Trade Payables	21.9	25.0	17.8	18.5	19.7
Other Current Liab & Provisions	55.6	67.1	65.7	57.5	61.2
Total Current Liabilities	**81.7**	**95.1**	**88.3**	**80.8**	**85.7**
Net Current Assets	70.6	143.0	263.2	370.5	484.3
Total Application of Funds	**387.2**	**445.1**	**581.7**	**685.0**	**800.0**

Cash Flow Statement

(Rs Cr)	FY20	FY21	FY22E	FY23E	FY24E
Reported PBT	146.9	152.7	301.3	235.7	242.1
Non-operating & EO items	-0.9	-5.8	-17.3	3.2	5.5
Interest Expenses	1.2	0.1	1.6	3.0	3.6
Depreciation	31.9	30.3	29.8	30.8	30.6
Working Capital Change	33.5	-17.9	-34.9	8.5	10.0
Tax Paid	-44.5	-43.2	-75.9	-59.4	-61.0
OPERATING CASH FLOW (a)	**168.1**	**116.2**	**204.6**	**221.8**	**230.9**
Capex	-9.9	-23.0	-35.0	-30.0	-30.0
Free Cash Flow	158.2	93.3	169.6	191.8	200.9
Investments	10.1	-31.8	-20.0	-50.0	-50.0
Non-operating income	0.7	4.5	0.0	0.0	0.0
INVESTING CASH FLOW (b)	**1.0**	**-50.2**	**-55.0**	**-80.0**	**-80.0**
Debt Issuance / (Repaid)	-4.4	-8.1	14.3	5.0	5.0
Interest Expenses	-1.4	-0.7	-1.6	-3.0	-3.6
FCFE	152.4	84.6	182.3	193.8	202.2
Share Capital Issuance	0.0	0.0	0.0	0.0	0.0
Dividend	-132.0	-52.8	-95.2	-79.3	-79.3
Others	-27.0	0.0	0.0	0.0	0.0
FINANCING CASH FLOW (c)	**-164.8**	**-61.6**	**-82.5**	**-77.3**	**-77.9**
NET CASH FLOW (a+b+c)	**4.2**	**4.4**	**67.1**	**64.5**	**72.9**

One Year Price Chart



(Source: Company, HDFC sec)

Key Ratios

	FY20	FY21	FY22E	FY23E	FY24E
PROFITABILITY RATIOS (%)					
EBITDA Margin	39.8	34.7	44.2	39.4	38.8
EBIT Margin	34.3	31.1	46.6	38.9	37.6
APAT Margin	20.4	22.9	34.7	28.7	27.7
RoE	22.0	28.6	45.8	29.1	25.7
RoCE	36.4	37.7	59.6	37.8	33.4
SOLVENCY RATIO (x)					
Debt/EBITDA (x)	0.1	0.0	0.1	0.1	0.1
D/E	0.0	0.0	0.0	0.0	0.0
PER SHARE DATA (Rs)					
EPS	16.7	21.4	42.6	33.3	34.3
CEPS	22.8	27.2	48.3	39.2	40.0
Dividend	5.0	25.0	18.0	15.0	15.0
BVPS	69.4	80.8	105.4	123.8	143.0
TURNOVER RATIOS (days)					
Debtor days	12.1	22.6	37.5	47.5	37.2
Inventory days	16.3	16.2	15.6	19.5	19.4
Creditor days	12.4	17.3	12.0	10.8	10.7
VALUATION					
P/E (x)	64.8	50.7	25.4	32.5	31.7
P/BV (x)	15.6	13.4	10.3	8.8	7.6
EV/EBITDA (x)	33.2	33.4	19.8	23.2	21.9
EV/Revenues (x)	13.2	11.6	8.7	9.1	8.5
Dividend Yield (%)	0.5	2.3	1.7	1.4	1.4
Dividend Payout (%)	29.9	116.5	42.2	45.0	43.8

(Source: Company, HDFC sec)

HDFC Sec Retail Research Rating description

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This rating is given to emerging companies which are riskier than their established peers. Their share price tends to be volatile though they offer high growth potential. They are susceptible to severe downturn in their industry or in overall economy. Management of these companies need to prove their mettle in handling cyclicality of their business. If they are successful in navigating challenges, the market rewards their shareholders with handsome gains; otherwise their stock prices can take a severe beating. Overall these stocks offer high risk high return opportunities.

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