

SECTOR UPDATE

Diagnostic

Reaching out the surface

Initiating Coverage on Dr. Lal PathLabs and Metropolis Healthcare

22 December 2020



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Indian Diagnostic market is valued at US\$ 9.5 bn and is estimated to grow at 11% CAGR from FY20-30E. While there are no authentic estimates of the overall market, there are some ~1 lakh NABL accredited labs across India. The sector is currently dominated by high volume/low-cost testing activity by majority of players where there is little or no investment in building awareness of clinical utility. The market share categorised currently as unorganised (47%), hospital-based lab (37%) and remaining ~16% is with the organised players.

We believe the Indian Diagnostic/Pathlabs industry growth will be driven by following factors:

- (1) Rising income levels driving higher spend on healthcare per capita.
- (2) Increasing life expectancy along with increase in lifestyle-related disease.
- (3) Increase in health insurance coverage.
- (4) Pandemics like Covid-19 have again put the spotlight on testing market, thereby increasing awareness levels significantly.

We believe the Diagnostic industry offers an attractive opportunity to play this theme given our expectation of 11% CAGR over FY20-30E complemented with an asset light model driving strong cash flow generation. We expect the trend of organised players (having national presence/regional chains) and gaining market share will continue as the topline will be primarily volume-driven (quantum of common tests like Blood sugar, Lipid profile, Malaria/Dengue, Covid-19) and better product mix (quality of high-end tests like DNA, Oncology markers, etc.).

We also believe that opportunity for price hikes is likely to be limited given the high level of competition and government imposed regulations. We believe the organised players could grow at ~15-17% CAGR, ahead of the industry growth rate of 11-12% CAGR over FY20-30E.

B2B helps in entry into new regions: B2B segment helps in gaining presence into a new market smoothly due to ease of building operations and lower customer acquisition cost. However, receivables cycle from B2B network is a challenge which can improve as the business mix shifts towards B2C segment.

Margin improvement led by B2C expansion: B2C segment offers higher margins and better pricing power. Given the direct connect to customers and brand visibility, we believe B2C network will provide better long-term growth visibility.

Conclusion/Recommendation: Given the underlying potential for testing in India, we remain extremely positive on India's leading chains like Dr. Lal PathLabs and Metropolis Healthcare which are making sustainable progress as they expand their reach into new regions. Though, both players have significant scale, they are not national players yet in a segment which is highly skewed towards local/regional players. We thus remain extremely positive on their future growth prospects and recommend buying despite their rich valuations.

Our report evaluates the current market trends and opportunities in India and globally with their impact on the performance of the sector. We try to compare the business models in the Indian diagnostic services market, which would offer M&A opportunity or lead to consolidation of fragmented players. We see smaller companies either merge with the existing players or pose challenges towards the scale-up of established market players.

What's different in the report?

- The business model and advantages of the large listed diagnostics chains **Dr. Lal PathLabs (BUY) and Metropolis Healthcare (BUY)** will remain beneficiaries with their long-term growth story.
- Industry and market share analysis (Page no. 9).
- Operational parameters – Growth driven by volume and not price hikes (Page no. 13).
- Case analysis on success growth story of different nature of businesses (Page no. 16).
- Analysis of B2B and B2C network, for the scope of margin improvement reduce receivables risk (Page no. 18-23).
- Analysis of M&A opportunities in untapped markets for Dr. Lal PathLabs and Metropolis Healthcare (Page no. 24-25).
- Price analysis on different parameters (Page no. 27-30).
- Cost assessments at different size of the business (Page no. 35-36).
- PE investment shift towards niche diagnostic business (Page no. 37).

Our study of diagnostic leading players and regional players reflect that while brand name do hold some degree of comfort, from a patient mind-set, affordability ranks higher and accessibility remains an equally important factor. This we believe is most critical value parameter for diagnostics industry which is on the edge of evolution (top 4 players holds 5.5% of the market share).

Do not look at high valuations, near-term multiples signify growth potential

Dr. Lal PathLabs and Metropolis Healthcare trades at ~50x P/E on FY23E earnings and ~32x EV/EBITDA on FY23E. Rich multiples appropriately reflect the growth potential of the diagnostic industry which is currently at an emerging stage in the country. Moreover, brand recall for these companies will also improve over time and lead to an improvement in operating leverage and bargaining power. Compared with global peers, Dr. Lal PathLabs and Metropolis Healthcare trades at ~100% premium, which is likely to sustain given long-term growth runway of Indian diagnostic companies vis-à-vis global players.

Despite premium valuations, Dr. Lal PathLabs and Metropolis Healthcare's stock prices have gone up over the last 9-12 months (by >80%) driven by strong future growth trajectory given favorable industry dynamics and consolidation of heavily fragmented and regionally dominated markets. Whereas, Metropolis Healthcare is trading slightly lower to Dr. Lal PathLabs on PE valuation. Factoring the Covid-19 impact and normalised business back to pre-Covid levels, we see healthy earnings growth for both players over FY20-23E, at 19% CAGR for Dr. Lal PathLabs and 23% CAGR for Metropolis Healthcare.

We initiate coverage on Dr. Lal PathLabs and Metropolis Healthcare both with Buy rating.

- **Dr. Lal PathLabs (BUY):** We like the growth story and believe sharp recovery post Covid-19 phase. We value the stock on 20 years DCF method, taking average ~15% revenue growth and ~25% EBITDA margin to arrive at a fair value of Rs 2,669.
- **Metropolis Healthcare (BUY):** We value Metropolis on 20 years DCF taking average revenue growth of ~15% and EBITDA margin at ~27%, arrived at a fair value of Rs 2,356.

Key risks

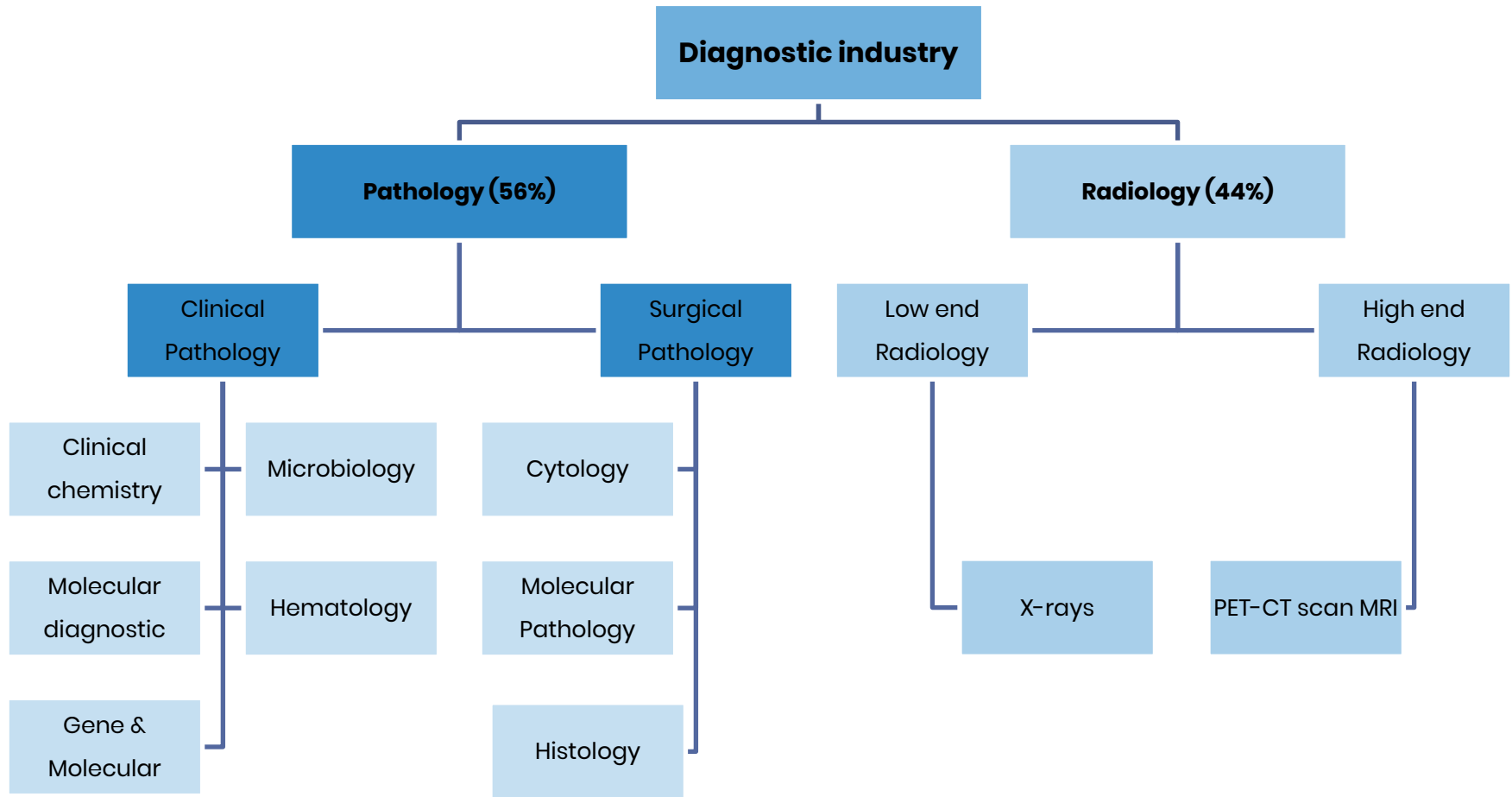
- 1) Further, increase in price cap of essential tests/reduction of test prices by the Government/addition of new tests under price ceiling.
- 2) Extended lockdown imposed by the Government.
- 3) Increased offerings of Covid-19 tests by the unorganised players post the pandemic scenario.
- 4) Delay in regularising the industry.

Index	Page No.
Industry growth and market share analysis	09-10
Network expansion opportunities	15
B2B and B2C network	18-23
M&A deal in the industry	24-25
Price discovery analysis	26-30
Covid-19 opportunities and management facts	31-34
Capital investment at different scale of business	35-36
PE funding so far in the industry	37
Company analysis	
Dr. Lal PathLabs	39-52
Metropolis Healthcare	54-66
SRL	68-72
Thyrocare Technologies	74-83

Indian and Global peer valuation

Companies	Mkt. Cap (US\$ mn)	EPS (Rs)				PER (x)				EV/EBITDA (x)		EV/Sales (x)		RoE (%)		
		FY20	FY21E	FY22E	FY23E	FY20	FY21E	FY22E	FY23E	FY21E	FY22E	FY21E	FY22E	FY20	FY21E	FY22E
Prodia Widyahusada	233	224.3	148.6	193.0	237.6	16.1	23.7	18.2	14.8	12.2	9.2	1.6	1.4	13.1	7.7	9.5
Quest Diagnostic	16,563	6.4	10.1	10.3	8.0	19.3	12.2	12.0	15.4	8.5	8.6	2.1	2.1	15.8	25.9	18.2
Sonic Healthcare	11,415	1.2	1.1	2.0	1.5	22.1	29.8	16.3	21.9	13.8	8.6	2.7	2.1	11.5	9.3	16.1
Laboratory Corp	19,220	8.4	20.4	19.2	15.3	18.0	9.7	10.3	12.9	7.5	7.5	1.8	1.7	11.3	22.6	18.3
Miraca	1,576	111.9	19.0	165.6	178.6	24.5	150.2	17.3	16.0	8.6	7.3	1.0	1.0	5.6	1.0	8.7
Dr. Lal Pathlabs	2,466	27.5	30.0	39.2	48.6	57.6	72.6	55.5	44.8	45.4	35.5	11.2	9.4	22.8	22.1	23.9
Metropolis Healthcare	1,368	25.2	29.6	39.0	45.9	51.1	66.4	50.4	42.9	40.8	31.5	10.1	8.7	27.1	27.1	31.1
Thyrocare	731	16.7	24.2	26.8	29.5	29.6	42.0	37.9	34.4	30.5	26.4	11.4	9.8	22.1	34.3	38.2

Branches of diagnostic business



Source: Company, B&K Research

Strength

Efficiency and accuracy in lab testing amongst unorganised players, with better infrastructure and services

Strong reach for the organised players in their home market Metropolis and Thyrocare (West and South) and Dr. Lal PathLabs and SRL (North and East).

Broader parameters of tests offerings in routine, specialised and semi-specialised, with TAT based on strong logistic network is 6 hrs for routine and 1-2 days for specialised and semi-specialised depending upon case-to-case basis.

Opportunities

Improving corporate tie-ups with organised players.

Insurance companies offers free diagnostic tests with their health plans e.g. Max Healthcare, Apollo Munich, ICICI Lombard, Reliance, etc.

Scope of expansion in tier 2 & 3 cities and North-east region where diabetes, Onco and Liver function disease population is increasing.

Price regularisation can help in gaining market share from the unorganised players.

Weakness

Inability in gaining brand loyalty from customer

Difficult to achieve scale in competitive region, for instance: Metropolis Healthcare is facing weak franchise business in North and East vice-versa for Dr. Lal PathLabs in West and South region.

Threat

Low entry barrier.

Lack of expertise in high end and complex testing like gene molecular testing.

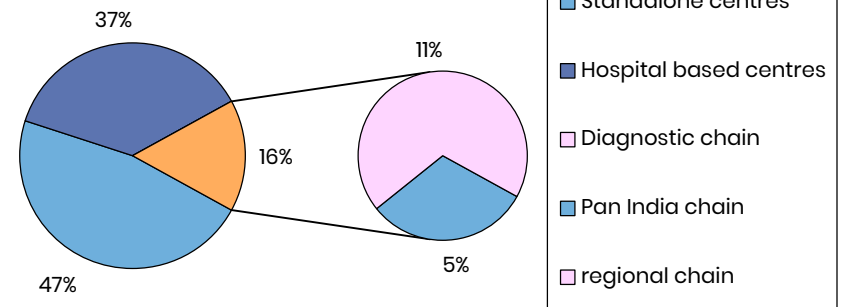
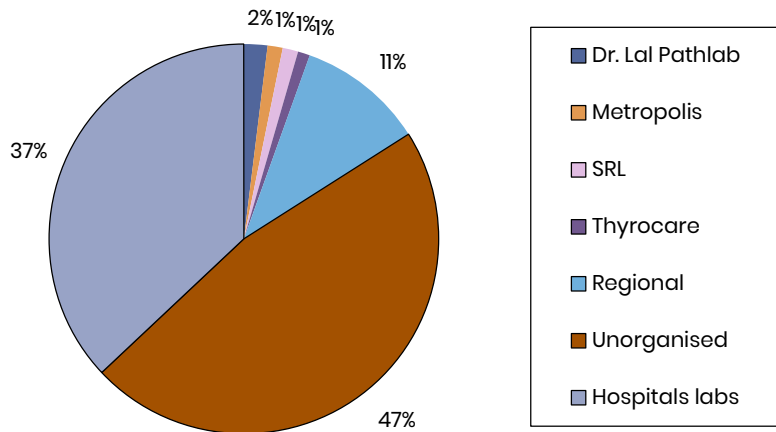
New innovative business model from the organised players.

Industry to grow at 11% CAGR FY20–30E

Expected TAM of diagnostic market	FY18	FY19	FY20	FY21E	FY22E	FY23E	FY24E	FY25E	FY26E	FY27E	FY28E	FY29E	FY30E	FY35E
Indian diagnostic market size (US\$ bn)	8.5	9.0	9.5	10.3	11.5	12.9	14.4	16.1	18.1	19.9	21.9	24.1	26.5	29.1
YoY (%)	-	6	6	8	12	12	12	12	12	10	10	10	10	10
Indian diagnostic market size (Rs bn)	578	630	684	770	862	965	1,081	1,211	1,356	1,492	1,641	1,805	1,985	2,242
YoY (%)	10	9	9	9	13	12	12	12	12	10	10	10	10	13
Unorganised share	277	302	321	362	405	434	486	545	603	664	730	803	884	964
YoY (%)	-	9	6	13	12	7	12	12	11	10	10	10	10	9
Hospital-based labs share	214	233	253	285	319	362	405	454	495	544	599	659	725	785
YoY (%)	-	9	9	13	12	14	12	12	9	10	10	10	10	8
Organised share	87	95	109	123	138	169	189	212	258	283	312	343	377	493
YoY (%)	-	9	16	13	12	23	12	12	22	10	10	10	10	31
Dr. Lal PathLab's MS (%)	-	2	2	2	2	2	2	2	3	3	3	3	3	5
Metropolis Healthcare's MS (%)	-	1	1	1	1	1	1	2	2	2	2	2	2	4

MS of leaders are less versus the unorganised of US\$ 9.5 bn MS

Business model and Market share



Ample of scope to grow for the organised players

The underpenetrated healthcare industry provides long-term growth opportunities especially in the Diagnostic sector. The highly fragmented diagnostic industry with market size of US\$ 9.5 bn (*Source: as per Metropolis AR-20*) is expected to play the best role in the healthcare system. **We estimate the industry to grow at 11% CAGR over FY20-30E, and expect Dr. Lal PathLabs and Metropolis Healthcare to outperform ahead of the industry growth at 15-17% CAGR over FY20-30E.**

The estimate of 11% CAGR (Page no. 9) is likely to play out with an asset light model driving strong cash flow generation. We expect industry growth to be predominantly volume-driven as opportunity for price hikes is limited amid high competition and scrutiny from regulators.

We expect the growth will be driven by following factors :

- **Changing population demographic:** India's population stood at 1.3 bn in 2018. Further, the population of senior citizens i.e. 65 years and more is growing at 4.0-4.5% p.a. providing ample opportunity for the healthcare industry, especially the diagnostic industry.
- **Increase in per capita income:** It is projected that ~3.0-3.5% of private healthcare revenue growth would come from the rural population, whose income level is expected to rise to US\$ 1,500-2,000 annually.
- **Increasing health coverage:** As population and life expectancy grows, the demand for health insurance will rise, thereby leading to an increasing requirement for diagnostic services.
- **Greater awareness regarding preventive testing:** Increasing awareness and the measures taken by the Government to promote preventive testing via tax cuts will become a tailwind for volume growth. The target market for the diagnostic industry is expected to rise at a robust 10% CAGR by FY23.
- **Tests mix offerings:** Diagnostic players continue to add complex tests (semi-specialised and specialised) and assessments in order to differentiate from their competitors.

Asset light model to generate high cash flow

The companies have followed an asset light model for organic expansion and generate strong cash flows and high RoCEs. We expect these companies to continue to deploy excess cash in future expansion while growing in their core regions. Therefore, we believe Dr. Lal PathLabs and Metropolis Healthcare to gain shares from the unorganised segment and gradually consolidate the market.

Over the last five years, Dr. Lal PathLabs, Metropolis Healthcare and Thyrocare Technologies have grown at ~15% CAGR (while SRL growth remain muted), ahead of the industry growth rate of ~10-12%, by strengthening their existing franchisees and expanding their footprint organically or through acquisitions.

Among the leaders Dr. Lal PathLabs has captured the market share of 2% by establishing its positioning in North region. Similarly, Metropolis (1% MS) by acquisition and organic expansion is strengthening its position in West and South market.

Particulars (FY20)	Metropolis Healthcare	Dr. Lal PathLabs	Thyrocare Technologies	SRL
Business focus	Disease-based tests	Disease-based tests	Wellness Packages	Disease-based tests
Pan India	Yes	Yes	Yes	Yes
Clinical labs	124	216	12	364
Revenue split	B2B – 54.4%	B2B – 40%	B2B – 80%	B2B – 43%
	B2C – 45.6%	B2C – 60%	B2C – 20%	B2C – 57%
Geographical split	North – 9%	North – 69%	North – 22%	North – 31%
	East – 6%	East – 14%	East – 18%	East – 20%
	West – 54%	West – 8%	West – 37%	West – 29%
	South – 26%	South – 6%	South – 20%	South – 16%
	Others – 5%	Others – 3%	Others – 2%	Others – 4%
Total no. of tests performed (mn)	19.6	47.7	110.4	30.4
Revenue/Patient (Rs)	437	279	208	329
Revenue (Rs mn)	8,558	13,302	4,000	10,002
Raw material cost (% to sales)	23.9	22.5	28.5	24.1
EBITDA margin (%)	27.2	25.8	41.7	17.7
PAT (Rs mn)	1,276	2,259	794	856
RoCE (%)	38.5	31.0	35.1	11.6
FCF	1,206	1,762	1,535	1,743

Volume driven growth, not price hikes

- As diagnostic is a volume game business, the sector has grown at an average volume growth of 12-15% with the larger players growing higher than the industry growth rate, driven by awareness in the population, improving medical coverage and rising incidence of lifestyle diseases.
- However, the current rate of growth is expected to slowdown to ~10-12%, driven by increasing competition from niche players offering high end complex tests with a competitive TAT (turnaround time) ranging from 5-48 hours versus few weeks earlier. Besides, easy financing through PE investors has intensified competition more than ever. Further, our interaction with several managements highlighted the fact that price hike led growth is not sustainable. **In fact, most companies mentioned that they have not taken any price hikes in the past three-four years and single most focus is to grow volumes and improve operational efficiency.**

Volume growth (%)	FY16	FY17	FY18	FY19	FY20	Remarks
Dr. Lal PathLabs	21.2	10.8	14.3	15.8	10.2	Dip in FY20 was largely due to loss of 4Q sales led by heavy winter season.
Metropolis Healthcare	0.9	1.4	10.0	15.6	12.4	Lockdown impact in March 2020, and pre lockdown patients were confined to their homes as a precautionary measure.
Thyrocare Technologies	-	24.3	14.0	15.3	2.1	Lockdown impact related to Covid-19.
SRL	3.5	3.4	3.5	1.3	(17.1)	Lockdown impact related to Covid-19.

Operational matrix of leading diagnostic players

Particulars	FY16	FY17	FY18	FY19	FY20
No. of labs					
Dr. Lal PathLabs	172	189	193	200	216
Metropolis Healthcare	89	95	106	119	124
SRL	314	182	159	164	172
Thyrocare Technologies	9	9	9	9	12
No. of patients visit (mn)					
Dr. Lal PathLabs	12.0	13.3	15.2	17.6	19.4
Metropolis Healthcare	6.9	7.0	7.7	8.9	10.0
SRL	14.1	14.6	15.1	15.3	12.7
Thyrocare Technologies	11.5	14.3	16.3	18.8	19.2
No. of tests performed (mn)					
Dr. Lal PathLabs	26.3	29.3	34.7	41.8	47.7
Metropolis Healthcare	13.4	14.3	16.0	17.0	19.6
SRL	32.7	31.0	36.5	45.6	30.4
Thyrocare Technologies	61.5	77.4	86.0	103.3	110.4
No. of Tests/Patient visit					
Dr. Lal PathLabs	2.2	2.2	2.3	2.4	2.5
Metropolis Healthcare	1.9	2.0	2.1	1.9	2.0
SRL	2.3	2.1	2.4	3.0	2.4
Thyrocare Technologies	5.3	5.4	5.3	5.5	5.8
Revenue/Patient (Rs)					
Dr. Lal PathLabs	659	686	695	684	686
Metropolis Healthcare	689	778	836	854	856
SRL	619	634	641	647	800
Thyrocare Technologies	204	210	204	197	208
Total revenue (Rs mn)					
Dr. Lal PathLabs	7,913	9,124	10,569	12,034	13,304
Metropolis Healthcare	4,755	5,447	6,472	7,612	8,564
SRL	8,787	9,368	9,873	10,102	10,163
Thyrocare Technologies	2,347	3,004	3,318	3,703	4,000

Financial and Business mix comparison

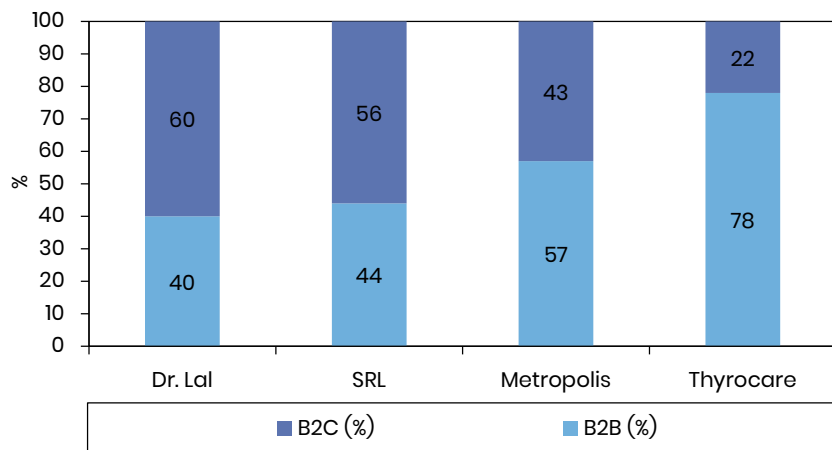
Ranking by revenue score size as on FY20

Companies (Rs mn)	Sales	EBITDA margin (%)	PAT
Dr. Lal PathLabs	13,304	26	2,259
SRL	10,163	18	856
Metropolis Healthcare	8,564	27	1,451
Thyrocare Technologies	4,000	41	944
Vijaya*	2,499	21	300
Suraksha**	1,524	25	169
Suburban**	1,497	5	1
Medgenome*	1,015	1	(101)
Nueberg*	881	18	(20)
Spandan*	705	33	65
Oncquest*	675	(2)	(22)
Core*	206	(71)	(171)

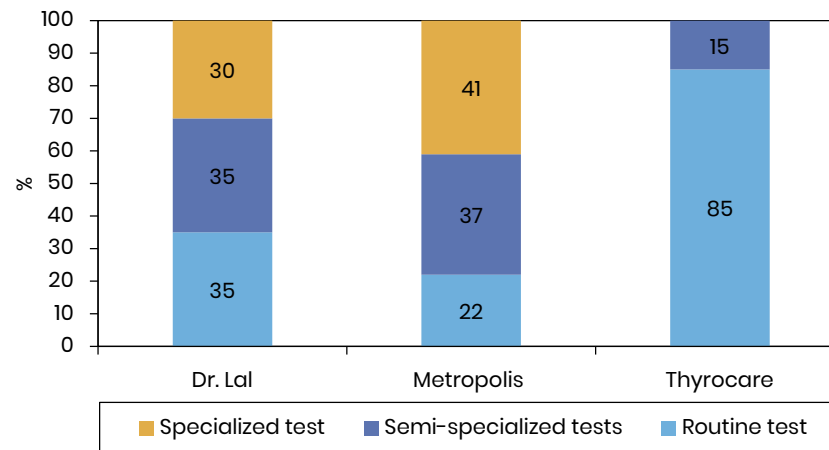
Source: Companies financial report and MCA.gov **FY19 and *FY18

In the above table, most regional players are struggling to report profitability against the established players, highlighting the importance of economies of scale.

B2B and B2C mix



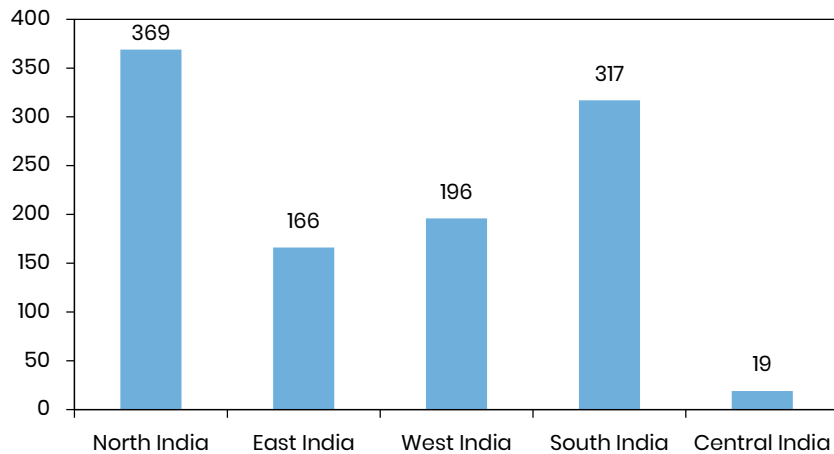
Test mix comparison



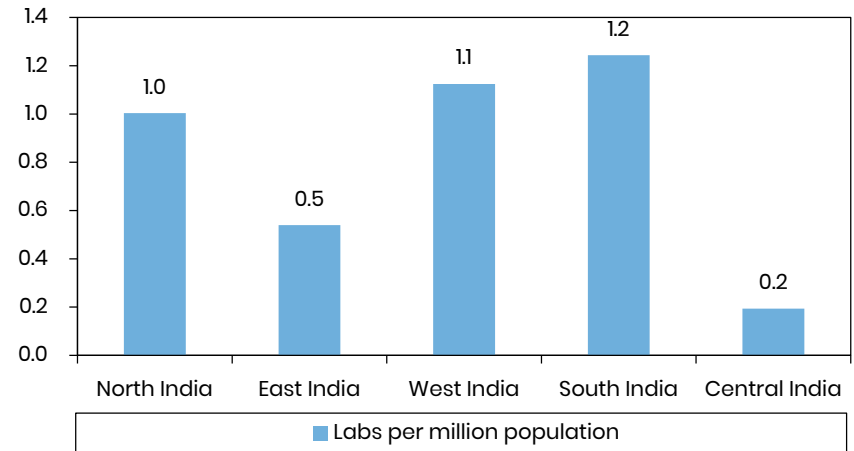
Network expansion opportunities in West and East

- **Our analysis of the total ~1,067 NABL accredited labs, out of 1 lakh diagnostic labs in India (Source: NABL) shows that North and South has the higher accredited labs presence, whereas the South has higher ratio of accredited labs on per million population, followed by North and West at 1.0 and 1.1 labs per million population, respectively.**
- New Delhi (140 labs), Maharashtra (129 labs) and West Bengal (103) are the Top 3 states for NABL Accredited Diagnostic Labs, indicating a higher degree of organised sector presence in these clusters. We believe diagnostic players to focus their expansion plans more towards other states, especially large markets, like Uttar Pradesh, Tamil Nadu, Karnataka, Telangana and Gujarat.
- We expect Dr. Lal PathLabs and Metropolis Healthcare to focus on top ~15-20 cities (by population) of India to expand their presence given the opportunity size present in these cities. Most of these cities are small markets with 2-3 organised players, which accounts for 30-50% of the addressable market share. We expect Dr. Lal PathLabs and Metropolis Healthcare to gradually strengthen their presence in weaker markets by generating surplus cash from their key markets (Dr. Lal PathLabs >25% MS in Delhi-NCR and Metropolis Healthcare ~15% MS in Mumbai) for organic expansion and acquisitions. Hence, we believe cities like Pune, Ahmedabad, Lucknow, Varanasi and other large tier-II cities will be accessible to penetrate organically given low shares of organised players.

~1,067 NABL accredited labs in India



NABL labs per million population



Being a highly fragmented industry, it is a perfect procedure for marketplaces disruption. Notably of the ~1 lakh labs in India only 1% of the labs are NABL accredited, whereas the rest of the mom & pop centres are not maintaining the operational compliance hygiene, which raises a question mark on their reports accuracy.

So just a price-discovery portal would have little to worry about. But if you enable users to book appointments, it will be tough to partner with the uncertified labs due to concerns about the accuracy of the report. This narrows down the supply to less than 15-20 certified, labs with half of them housed in hospitals for whom diagnostics is not their core focus.

Also, monopolistic and oligopolistic businesses leave little room for margin negotiation and are vulnerable to sudden cartel induced squeezes from the supply side. This is why most travel aggregators like Cleartrip, Yatra, Makemytrip, etc., have started to shift their focus from flight bookings (<10 airlines) and focus on the fragmented hotel booking market (>100,000 hotels).

The discovery aspect of the diagnostic industry

Successful discovery platforms (for example, Make my trip and Yatra.com) have a common theme – the end product (that is being searched for) has little standardisation and is highly subjective.

A booked ticket price on XX date by Mr Shyaam could be higher/lower value than a booked ticket price on YY date by Mr Mohan. Hence, there is a lot of value a used marketplace like Makemytrip and Yatra could bring in.

A burger at Restaurant X can be substantially different than a burger at Restaurant Y. Hence, there is lot of value a food discovery platform like Zomato and Swiggy could bring in.

In the diagnostic industry, the tests and packages are a standard feature. And once quality is assured, there is little to difference between a Thyroid Profile test at an SRL laboratory and at a Dr. Lal PathLabs. Thus, the only value in a diagnostic discovery tool is in price-discovery, which does hold some value for the user, but with little monetisation possibilities for the aggregator.

Scaling the business for organised players in two different markets

In the highly fragmented diagnostic industry, scaling the business is always a challenge for the organised players. Since the time of incorporation, gaining market share is a long way journey for these players. For example: Dr. Lal PathLabs have started its business in 1949 with just few clinical labs and after almost 60 years it has set up its National referral lab in Rohini, and has been able to capture 15-18% of MS in its New Delhi with ~1% market share in the overall diagnostic industry. While the other players like Metropolis, Suburban were quite young to enter on the ground. Currently, Dr. Lal PathLabs has 2% of the market share of the total diagnostic industry, with 216 labs and 2 major referral labs. Hence, scaling and building market share will always remain an ambitious challenge in the diagnostic space.

Looking at the similar growth story with Titan, although it will not be an apple to apple comparison but scaling the business and capturing the market share is largely similar, Titan also has a remarkable story for topping its business in India. Incorporated in 1984, with 7-8% of the domestic market share, and at present it has scored to ~60% of the domestic market share in the organised watch market.

Revenue (Rs mn)	FY12	FY13	FY14	FY15	FY16	FY17	FY18	FY19	FY20
Titan	88,484	101,233	109,274	119,134	112,759	132,608	161,198	197,785	210,515
YoY (%)	-	14.4	7.9	9.0	(5.4)	17.6	21.6	22.7	6.4
Dr. Lal PathLabs	3,422	4,516	5,579	6,596	7,913	9,124	10,569	12,034	13,304
YoY (%)	-	32.0	23.5	18.2	20.0	15.3	15.8	13.9	10.5

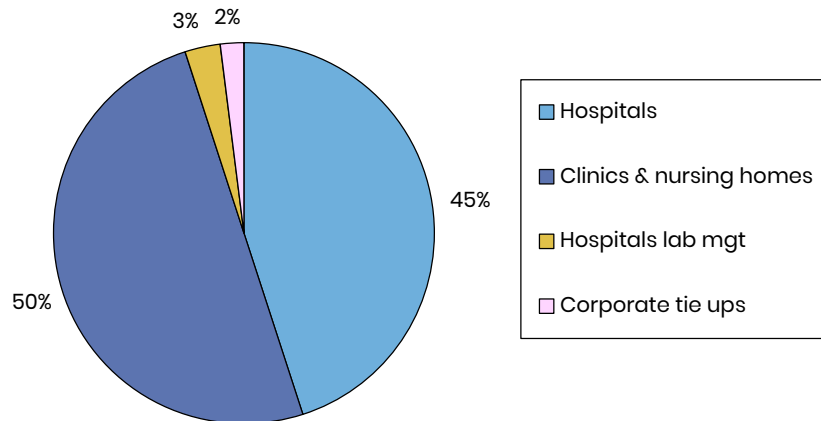
The B2B and B2C network

B2B – Initial approach for new market

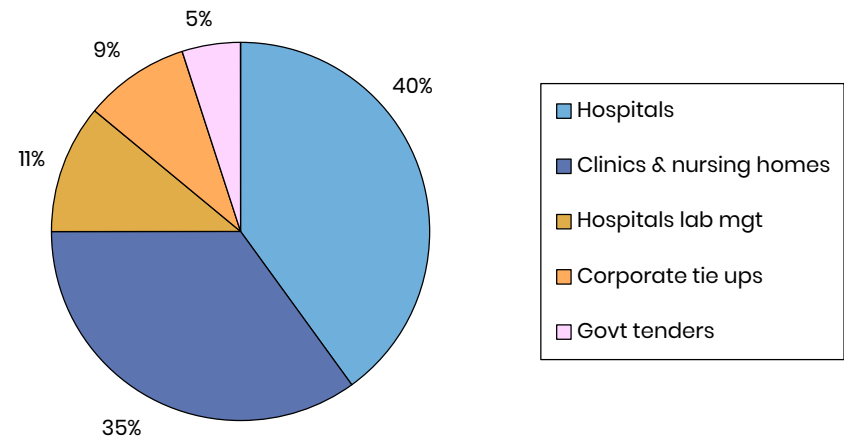
B2B network helps in entering into a new market due to ease of building operations and lower customer acquisition cost. The segment provides opportunities for sourcing specialised and semi-specialised tests from independent labs, hospitals and nursing homes. The segment also refers to the government contracts under PPP model. Leaders like Dr. Lal PathLabs, Metropolis Healthcare and SRL are well established in the B2B business. **Having presence into B2B, the segment provides access to:**

- **Hospital-based contracts** for specialised testing helps in creating brand presence specially in new regions. Although, margins will remain low due to higher competition and high receivables will remain a concern.
- **Standalone clinics and nursing homes contracts** for semi-specialised test provides higher volumes but lower revenue sharing (35-40%). However, given the high volume, this helps in creating brand presence and scope of entering into B2C.

Dr. Lal PathLabs – B2B mix



Metropolis Healthcare – B2B mix



Source: Company, B&K Research

B2B – Receivables is a challenge

Government contracts will provide a significant revenue growth, although the receivables in this segment will remain high at 120-160 days. Renewal of government contract is also one of the key concern.

Amongst the listed players, Metropolis Healthcare has NACO contract (~5% of the sales) and another 4-year contract from Brihanmumbai Municipal Corporation (BMC) worth Rs 400 mn. Thyrocare Technologies also has secured a 4-year contract from Brihanmumbai Municipal Corporation (BMC) worth Rs 520 mn for basic and advanced pathology tests. However, Dr. Lal PathLabs stayed away from any of the government contracts. SRL's receivable days are high as it has pending receivables from its parent, Fortis Healthcare.

Receivable days	FY16	FY17	FY18	FY19	FY20	Remarks
Dr. Lal PathLabs	17	17	14	16	14	No government contracts
Metropolis	54	54	57	66	64	Has government tie ups for NACO and BMC contracts
Thyrocare	12	8	10	11	12	Largely B2B, Clinics, nursing homes and other labs
SRL	45	58	93	124	54	Still some payments pending from Fortis
Vijaya		13	12	12	-	Very less B2B contracts
Suraksha	17	10	14	16	-	Very less B2B contracts
Suburban	47	25	17	21	-	Very less B2B contracts
Medall	81	94	133	156	-	Large amount of Government contracts
Onquest	122	100	100	95	-	Highly dependent on Hospital contracts

B2C – Easy expansion; difficult in scaling

In order to mark a PAN India presence, B2C is a significant route of network expansion by creating brand value and customer stickiness. Given Dr. Lal PathLabs has already developed its leading presence in the B2C segment through a third party driven franchisee model and will continue with the same method in other non-tapped market. While Metropolis Healthcare is also aggressively focusing for the expansion of its B2C network through acquisition and brand building. We believe that for expanding their network organically these players will need to deploy cash for M&A activities into the inorganic market.

- Rapid expansion of franchisee model but difficult in scaling:** After the execution of lab or collection centers in any new region, building customer stickiness will be the key to scale-up its business led by strong marketing support. Normally, collection centers take around two years to break-even and four-five years to mature and require strong marketing support and incentive structures.
- If there is a decline in patient volume these collection centers will be at risk and may lead to shut down of the store. This can cause difficulties in expansion in B2C segment. Hence, the diagnostic players need to be tactful about the market and expansion strategies. In the past, we have seen many of the SRL's collection centers have been shut down due to inadequate expansion.

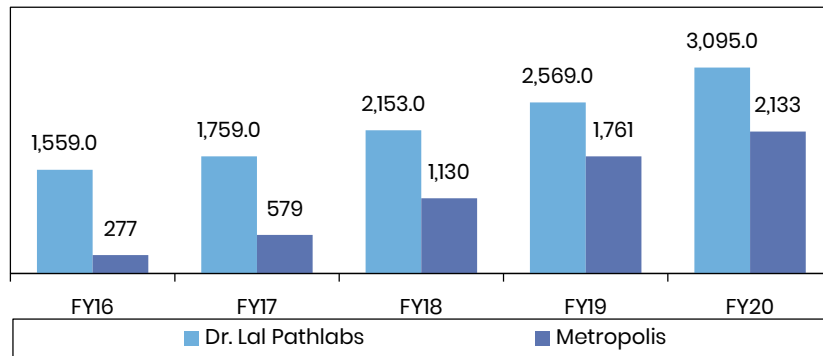
Cost analysis of a collection centre

Particulars	1st Year	2nd Year	3rd Year
One-time initial investment	~3 lakhs	-	-
Rent (monthly)	15,000	15,000	15,000
Salary to Staff	15,000	15,000	15,000
Miscellaneous expenses	5,000	5,500	6,000
Total cost	35,000	35,500	36,000
Daily average patient footfall	5	8	10
Monthly patient footfall	150	240	300
Revenue per patient (approx.)	680	680	680
Total monthly revenue	102,000	163,200	204,000
Revenue share of the CC @ 25%	25,500	40,800	51,000
Less: Expenses	35,000	35,500	36,000
Net income	(9,500)	5,300	15,000

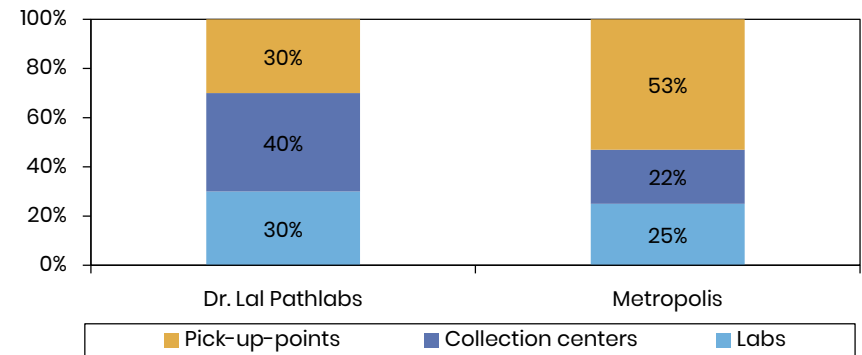
B2C – Organic network expansion

Among the organised players only Dr. Lal PathLabs and Metropolis Healthcare are running significantly in network expansion by strengthening their space in their core markets to other focused markets. Whereas the other players have limited their reach up to their own regional comfort. Both Dr. Lal PathLabs and Metropolis Healthcare have built their reach by mix of labs and collection centres (3rd party CC).

Increase in collection centres

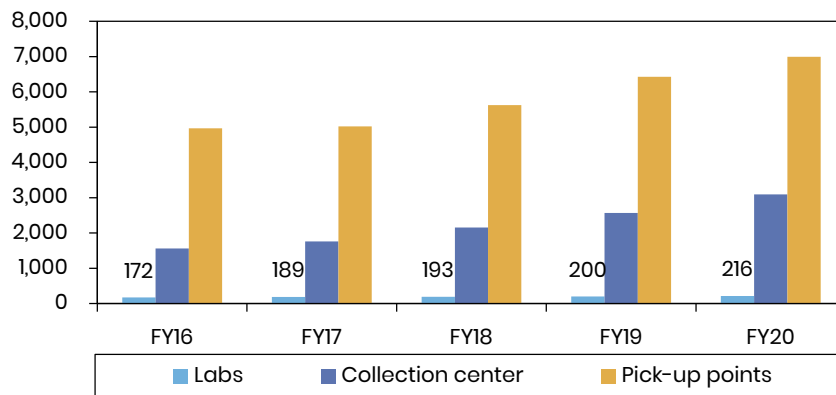


Network revenue contribution

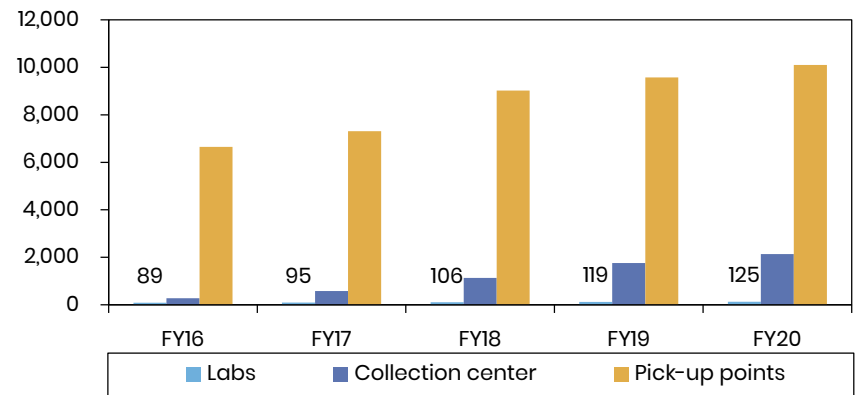


Source: Company, B&K Research

Dr. Lal PathLabs network



Metropolis Healthcare network



Source: Company, B&K Research

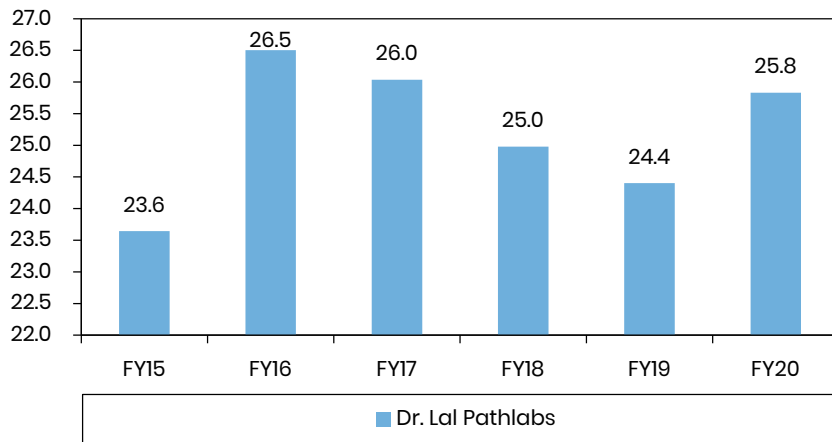
B2C – Blurred margin visibility in the near-term

B2C segment offers higher margins and better pricing power. It has an advantage to direct customer access. We believe focused on B2C network expansion will provides long-term margin expansion visibility to these companies.

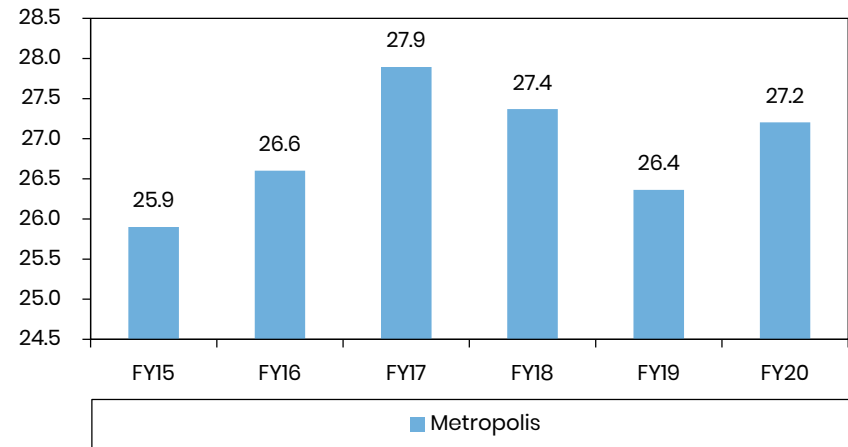
Impact on margins in recent years: Due to the rapid network expansion, most players have witnessed margin compression in recent years, in order to provide incentives and festive gifts to franchisee partners. Spending on marketing and advertisement is necessary in some regions to build their brand value. The organised players have to keep their price lower into their non-core region in order to gain volume share. Thus, resulting in lower margin.

In order to expand their reach in the un-tapped market especially in Tier II & III cities of West & East and some parts of North (Page no. 15). we expect limited scope of margin expansion in near to mid-term.

Dr. Lal PathLabs – EBITDA margin trend



Metropolis Healthcare – EBITDA margin trend



Source: Company, B&K Research

M&A deal – Focus need in Tier II & III cities

Inorganic growth has been steady due to lower volume growth; hence, more focus on Tier II, III cities

Year	Acquirer	Target	Target City	Deal value (Rs mn)	Stake (%)
2020	Metropolis Healthcare	Shraddha Diagnostic Centre	Ahmedabad	93.6	51
2020	Dr. Lal PathLabs	M/s Shree Computerised Pathology	Yavatmal	41	–
2020	Dr. Lal PathLabs	M/s Modern Diagnostic & Laboratory	Sangli	36	–
2019	Metropolis Healthcare	Doctor's Clinical Lab.	Surat	28	–
2019	Metropolis Healthcare	Iyer Pathology	Surat	13	–
2019	Metropolis Healthcare	Nagar Pathology	Surat	7	–
2019	Metropolis Healthcare	Yash Clinical Lab.	Surat	25	–
2019	Dr. Lal PathLabs	Amins Pathology	Vadodara	53	–
2019	Dr. Lal PathLabs	Bawankar Pathology	Udaipur	52	–
2019	Dr. Lal PathLabs	Centrapath Labs Private Limited	Indore	–	70
2018	Dr. Lal PathLabs	Dr. Lal Path Labs Bangladesh Pvt. Ltd.	Bangladesh	18	70
2018	Dr. Lal PathLabs	Satya Pathology & Diagnostic Centre	Kanpur	20	–
2018	Quest Diagnostic	Strand Lifesciences Pvt. Ltd.	Bengaluru	–	100
2018	Suburban Diagnostic	Dr. Patwardhan's Pathology Laboratory	Thane	–	–
2018	Neuberg Diagnostic	Anand Diagnostic	Bengaluru	–	–
2018	Neuberg Diagnostic	Supratech	Bengaluru	–	–
2017	Dr. Lal PathLabs	Delta Ria and Pathology Private Limited	Bhopal	34	–
2017	Metropolis Healthcare	Sanjeevani Pathology Lab.	Mumbai	120	100
2016	Dr. Lal PathLabs	Dr. Bhanudas Yashwant Shinagare	Pune	13	–
2015	Medgenome	Medgenome Inc.	US	213	72
2015	Megenome	Medgenome Inc.	US	23	98
2015	Suburban Diagnostic	Medicare Labs.	Mumbai	24	–
2014	Vijaya Diagnostic	Medinova Diagnostic Service Ltd.	Hyderabad	3	36
2012	Metropolis Healthcare	Dr. Patel Metropolis Healthcare Pvt, Ltd.	Nasik	–	–
2011	Fortis Healthcare	Super Religare Lab.	New Delhi	179	75
2011	Vijaya Diagnostic	Vijaya Diagnostic Pvt, Ltd.	Vizag	–	–
2010	Super Religare Lab	Piramal Diagnostic Services Pvt, Ltd.	Mumbai	129	100

- In the last three years, companies like Dr. Lal PathLabs and Metropolis Healthcare have reinvested their surplus in the non-core market (specially Dr. Lal PathLabs). However, these acquisition are at smaller scale and will not result into the growth visibility of the company, though it will help them to build their brand value in these smaller markets and later consolidate the market through multiple small scale acquisitions.
- We believe consolidation in India will significantly change the business mix and drive volume growth and so as value growth. Leaders like (Dr. Lal PathLabs, Metropolis Healthcare, Thyrocare Technologies, SRL, etc. merge their forces, given the lot of M&A happened in the healthcare businesses in the past (e.g. Sun bought Ranbaxy; Abbott acquired Piramal in pharma space and Torrent acquired Unichem).
- Larger players could acquire innovative business models such as Medgenome, Core, Oncquest, etc. to enhance their basket of offerings and creating value for customer at one stop.
- Regional players getting acquired by larger ones. For example: Companies which have size and scale limited to a particular state/region but profitability is depressed as growth plateaus in the matured market.
- Smaller players become the spoke for larger companies in the form of collection centres. This shall enable them to enhance their footprints.
- Standalone outlets could either outsource the testing samples to larger players resulting in lower processing cost per sample.

As per the Economic Survey 2018 in Parliament, highlighted the arbitrary pricing and wide differences in rates of diagnostic tests across cities and stressed on the need for regularising the sector. An analysis of prices of diagnostic tests across various cities in India done by the survey reveals that there are not only wide differences in average prices of diagnostic tests but also the price range is very wide. **The survey found while tests like lipid profile are available for as less as Rs 90 in some cities, in others it can cost as high as Rs 7,110, the echo test costs ranges between Rs 500-5,200 and liver function tests costs ranges between Rs 100-2,500** (Source: Economic survey media report).

Ranges in prices and average costs of tests across cities in India

Name of tests	Cost of tests (Rs)		Average costs (Rs)	
	Minimum (all cities)	Maximum (all cities)	Minimum (all cities)	Maximum (all cities)
Lipid Profile Test (125)*	90	7,110	217	759
ANC Test (74)*	110	6,500	389	2,396
Albumin Test (120)*	20	1,810	100	203
2d echo test (51)*	500	5,200	856	2,412
Electrolyte Test (121)*	30	3,000	245	627
Liver Function Test (117)*	100	2,500	210	1,186
Thyroid Test (123)*	100	3,100	300	721
ESR Test (103)*	10	1,100	35	116
Dengue IgG Test (114)*	100	3,600	314	1,312

*No. of cities.

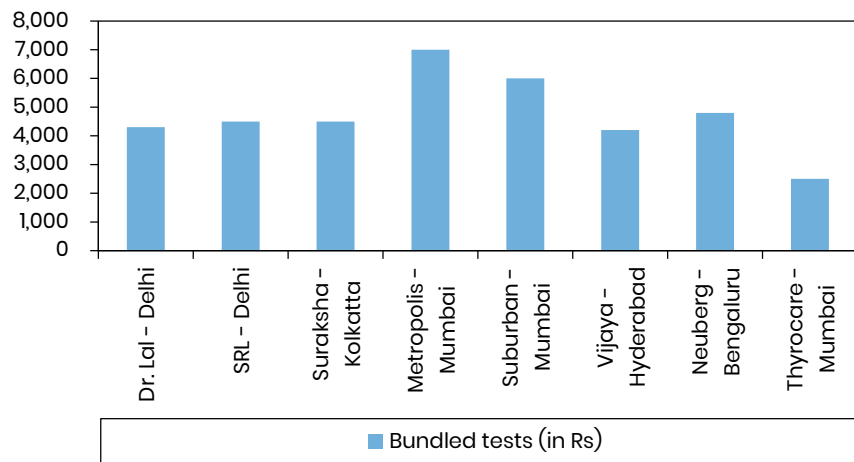
Regional pricing dynamics

- An analysis of pricing in key cities for routine tests such as glucose, lipid profile and Vitamin D indicates that prices for these tests have remained at 2016 price levels.
- Our channel checks suggests that pecking order of discounts is preferred to corporate labs, followed by large labs and then smaller labs although they could be closer to parity only in specific regions.
- Per the reagent suppliers, higher the volumes, more the discount. In our view, this is one of the primary reasons for price anomaly. Given below comparative cost assessment of most common tests performed at diagnostic centres across regions in India.

Price of routine tests in key cities are largely unchanged

Region	North		Central	East	West			West/South	South
Diagnostic centre	Dr. Lal	Lifeline Laboratory	Dr. Lal	Suraksha	Suburban	Metropolis	SRL	Thyrocare	Vijaya
Major cities	New Delhi		Bhopal	Kolkata	Mumbai			Hyderabad	
CBC	350	280	200	480	230	310	550	300	350
Lipid Profile	140	920	140	180	200	1,400	150	400	650
Glucose	80	80	80	60	80	90	80	100	100
Kidney Profile	800	780	450	1,150	1,250	1,900	1,520	-	800
Liver function	800	780	550	600	700	1,475	900	500	800
Vit-B12	1,550	1,600	1,100	1,000	1,000	1,650	1,650	800	1,500
Thyroid Profile	950	900	500	550	700	750	550	400	600
Total	4,670	5,340	3,020	4,020	4,160	7,575	5,400	2,500	4,800

Bundled tests of common tests at well known regional chains (Rs)



Source: Government data, Industry data

Analysis from the above exercise and cold callings

- Pathology chains in Mumbai enjoy the premium realisation per test followed by New Delhi, Kolkata and Hyderabad (Vijaya Diagnostics).
- Suraksha Diagnostic being the leader in the East enjoys higher realisation per test against the other parts of India. This is mainly due to limited service supply in this region; however Dr. Lal's newly established Kolkata referral lab (KRL) is expected to gain the market share gradually.
- We believe geographical expansion could dilute per test realisations for chains like Metropolis Healthcare and Dr. Lal PathLabs which are heavily concentrated in high realisation geographies, but that is of less relevance as we see them penetrating into new markets to keep growth ticking at mid teen levels.

- There are umpteen diagnostic laboratories in India. Although organised players such as Dr. Lal PathLabs, Metropolis Healthcare, SRL, Thyrocare Technologies and Quest Laboratories are gaining a reasonable market share, but the major chunk of the industry is still fragmented. This creates an undefined business environment. Moreover, **there are no specific government regulation in the industry**. However, the organised players depend on accreditation from organisations like the National Accreditation Board for Testing and Calibration Laboratories (NABL), the College of American Pathologists (CAP), World Health Organization (WHO). Only about 1% of diagnostic labs functioning within the country have NABL accreditation.

Regulatory need is a must

- With an effort to improve affordability and availability of adequate diagnostic testing in India, the Indian Council for Medical Research (ICMR) had released a draft of the **National Essential Diagnostics List (NEDL) in December 2018**.
- The list includes diagnosis and management of diseases which are a part of existing national programmes, such as, Tuberculosis, HIV, Malaria, and diseases prone to outbreaks such as dengue and chikungunya and routine tests such as CBC. However, the document does not speak on price control but gives a glimpse about inclusion of quality checks and minimum standards in place. This will ultimately benefit the large established players who already have the best in technology and accredited testing labs.

The proposed list of NEDL for type of tests at the district level hospitals

Test category	No. of tests	Test category	No. of tests
Hematology	27	Dengue	1
Biochemistry	21	Chikungunya	1
Microbiology	19	Tuberculosis	4
Clinical Pathology	11	Hepatitis	4
Serology	2	Radiology	20
Malaria	2	Other diagnostic tests	10
Filariasis	1		

Price cap during endemic season: In March 2019, **Government had announced a price cap of Rs 600 for endemic season tests such as Dengue.** This has been supportive for diagnostics labs who have been arguing that states have no jurisdiction in fixing prices.

Price cap during Covid-19 pandemic: At the initial phase of the Covid-19 pandemic, government has imposed the price cap of Rs 4,500 (on cost basis). Later in the outbreak of Covid-19 major state governments have slashed the tests prices by imposing further price cap in the range of Rs 2,500-3,000 (from earlier price cap of Rs 4,500). The latest price capping on RT-PCR tests has reduced to Rs 1200 while visiting the laboratory, and Rs 1,600 for samples collected from hospitals or Covid-19 care centres. While the home collections charges are continuing to be at Rs 2,000.

Covid-19 test price cap across major states in India

States	Maharashtra	Delhi	Tamil Nadu	Uttar Pradesh	Karnataka	Gujarat
Total no. of NABL labs	130	140	80	91	98	65
No. of labs (Dr. Lal PathLabs)	9	26	1		5	5
No. of labs (Metropolis Healthcare)	30	5	9		4	13

As the number of cases increasing, the organised players are geared up with technological capability of conducting the tests with heavy volumes. As the current situation support “No profit No loss” this gives an opportunity to the diagnostic players to create goodwill and build their brand value. However, due to the nationwide lockdown, sample collection and logistics will remain a challenge (due to lack of expertise among the field force).

ICMR guidelines to conduct Covid-19 test

1. Testing for Covid-19 only offered when prescribed by a qualified physician (exceptionally Maharashtra government has announced testing of individual without prescription).
2. Labs have to follow safety guidelines in relation to collection of samples, PCR-based diagnosis and staff training.
3. Real time reporting of tests should be followed by private labs.

Antibody test – price comparison

As the number of asymptomatic Covid-19 cases shows a rising curve, ICMR has given a green signal to the to begin antibody tests on healthy individuals with no symptoms, to check if they had developed any immunity. However, the test doesn't provide any clarity on the long-term immune responses of the body to the virus SARS-CoV-2. The antibody tests largely helps in controlling communal spread. Also, in allaying the fear and anxiety specially for frontline staffs, healthcare workers, office employees and local essential good shop owners.

Charges of Antibody tests varies across labs

Diagnostic chains	Price (Rs)
Dr. Lal PathLabs	500
Metropolis Healthcare	900
Thyrocare Technologies	600
SRL	1,000
Suburban	950
Netmed (through partner)	500
Healthspring	1,250

Other than RT-PCR test, authorities are considering antibody testing as tool for identification of immune population who can be excluded from restrictive measures currently in place. Several companies have developed rapid antibody testing kits. USFDA, approved Bodysphere's Two-Minute Testing Kit. Thus, we believe even as RT-PCR volumes decline over the next one-two years, increasing antibody test will supplement the volumes.

Covid-19 – Win-win state for diagnostic players

In India daily active cases seeing new highs till recently, However, increase number of Covid-19 testing and healthcare seriousness among people has given a up lift to the diagnostics business which has certainly amazed the investors and has given the rich valuation to stocks. Companies like Dr. Lal PathLabs, Metropolis Healthcare, SRL have got impacted in the start of the lockdown (March-April). But soon after three-four months the business has come back to the pre-Covid levels. Even the non-Covid revenue has seen faster recovery than hospitals, with companies indicating revenue recovered to 85% of normalised run-rate in September 2020.

Companies	Management commentary on business recovery in 2QFY21
Dr. Lal PathLabs	Management stated that non-Covid business has recovered to 98% (including ~3% coming from Covid-19 related testing like D-Dimer testing and CRP testing) levels of pre-Covid business. It further stated that recovery is largely due to value. Volume growth is picking up but still lagging the value growth. Home collection segment witnessed the highest recovery during 2Q, while walk-in segment still far from normal. Dr. Lal PathLabs witnessed MoM recovery in walk-in segment. Recovery in ex-Delhi-NCR is superior, the company stated contribution to revenue from Delhi-NCR and other regions was 35% and 65%, respectively.
Metropolis Healthcare	July-August posted revenue growth of 13.1% and 30.0% YoY, respectively, aided by Covid-19 related tests and recovery in non-Covid business. September saw a sharp improvement with revenue growth of 45.6% YoY with 30.0% MoM growth in non-Covid business. In September 2020, Metropolis Healthcare was able to revert to pre-Covid levels.
SRL	The recovery has been gradual, but sustainable with a combination of Covid and non-Covid driven revenue streams, with the former contributing to ~29% of the overall revenues in 1QFY21. Overall business reaches 80/86% of pre-Covid in June-July 2020, respectively. The non-Covid revenues are expected to reach the pre-pandemic steady state level by end of 2QFY21 or early 3QFY21.
Thyrocare Technologies	With non-Covid test volumes now at ~90% of pre-Covid level, business seems to be on path to recovery, but only in sickness. Wellness is likely to remain subdued for a longer duration as consumers hold back non-essential activities. 2QFY21 witnessed 13% increase in non-Covid realisations on favourable test mix, which we believe may revert to normal levels in the coming quarters.

Covid-19 led structural change in the industry

- Covid-19 tests will continue to boost sales for future growth:** There is expectation on availability of the vaccine for public use over the next six months to one year. Conversely, the production capacity, regulatory approvals and manufacturing infrastructure makes timelines ambiguous currently. Hence, we continue to see the Covid-19 test volumes contributing to diagnostics players for most part of FY21-22. This is also reflected in the investments by companies to increase testing capacity in order to cover a larger population. While the price cap has meant a smaller revenue opportunity, the large volumes will help companies offset the non- Covid impact and also recover operating costs.
- Customer touchpoint strategy might develop:** Covid-19 has bring a major structural change in the industry mainly for the home collections samples. Earlier this service was available only in major cities but now diagnostic players are evolving their system for home service to the patient. This method would require investment in logistical capacity to collect samples and training of the phlebotomist visiting customer home. The structure will bring a flow of new volumes against a shift from B2C to home collection (or a shift from walk-ins to home collection). This could lead to focused efforts by companies to increase walk-ins or rationalise touchpoints in clusters. However, most organised players still believe that the shift from unorganised to organised players in healthcare services due to the pandemic should continue to support volumes in the physical centres gradually. The shift in consumer behaviour will need to be watched closely to support volumes and further capital allocation.
- With technological advancement and E-diagnostic taking place online appointments and home collections will become part of the patient routine as it offers convenience. Here are recent management view on home collection business opportunities in 2QFY21.

Dr. Lal Pathlabs	Home collection sales grew by 16x since April 2020. Strengthened the standardisation and safety procedures for home testing to give increased level of comfort for customers (while there is a decline of walk-in patient in larger labs). Management stated that as home collection has become a major component of the overall sales, the focus will be to capture a larger chunk of the market while driving productivity enhancement as per unit and agent level basis.
Metropolis Healthcare	With digital advancement the demand for home collection is on the rise, the company observed strong traction in its home testing segment. Business contribution from this segment to the B2C business has increased from 14.6% in 2QFY20 to 19.6% in 2QFY21. Currently, the company is operating this model at nine locations but is aggressively expanding to 65 locations by the end of next quarter.

Higher spend and volume growth post Covid-19

- During the pandemic situation post lockdown released, we have seen 85-90% recovery from July-September for non-Covid segment for Dr. Lal PathLabs and Metropolis Healthcare and expects the prescription-based testing volumes to recover going ahead.
- We believe the approach to the patient will change post lockdown. However, social distancing measures are likely to continue even after the end of the crisis. We believe the dip in the Wellness business is expected to improve gradually mainly through home collection sample.
- With technological advancement and E-diagnostic taking place online appointments and home collections will become part of the patient routine as it offers convenience.
- We believe that free operative Covid-19 testing and its infectious screening would become part of our health protocol. E-Pharmacies and E-consultations are likely to pick-up, as there are already a few aggregators like Practo, Netmed, and Apollo Healthcare, who are currently operating in this segment.
- Large cash rich players are also likely to benefit from disruptions in operations of other smaller companies and standalone labs and this may lead to an increase in small sized M&A activities driving further consolidation in the market in the medium to long-term.

Covid-19 revenue for companies in 1HFY21

Companies	Revenue contribution from Covid-19 testing (Rs mn)	Covid-19 revenue as % of total revenue
Dr. Lal PathLabs	1,300	19
Metropolis Healthcare	1,420	32
SRL	1,141	27
Thyrocare Technologies	711	34

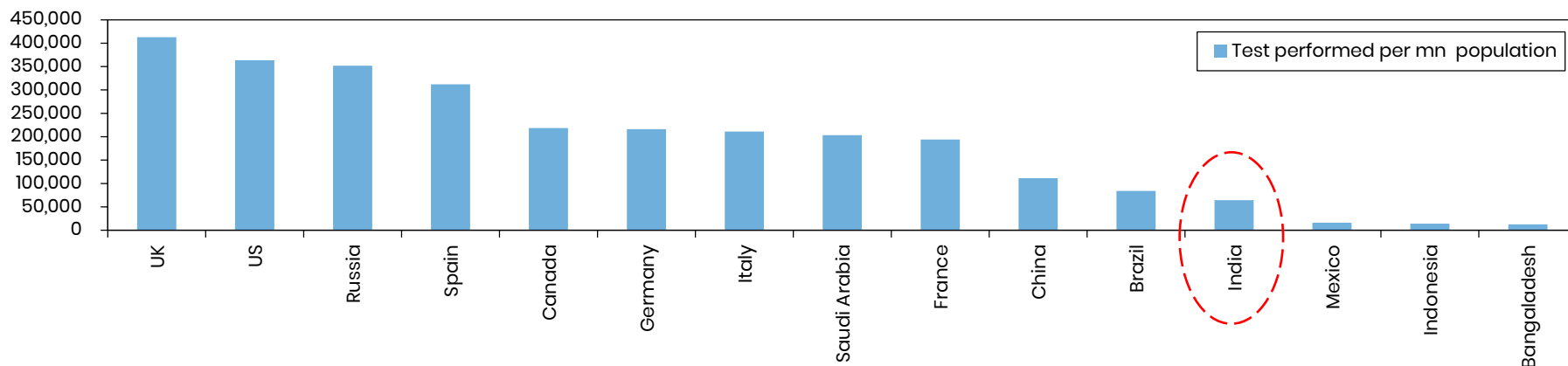
Validation and approval for Covid-19 test

The fast-track mechanism for validation of non-US Food & Drug Administration (USFDA) EUA/CE IVD approved kits by ICMR and NIV. The test kits with 100% concordance among true positive and negative samples will be approved for commercial use in India. Three organisation have received 100% concordance among true positive and negative samples: Mylab, Altona Diagnostics and Seegene.

Non-USFDA EUA approved kits – validated and approved for Covid-19 testing by ICMR

Companies	Kit name	True negative (%)	True positive (%)	Country
Mylab	Patho Detect	100	100	India
Altona Diagnostics	RealStar SARS-CoV-2 RT-PCR kit 1.0	100	100	Germany
Seegene	Allplex 2019-nCoV assay	100	100	South Korea
i-Genetic Diagnostic	RT-PCR	100	100	India
IIT-Delhi	Corosure	-	-	India
SD Biosensor	nCoV Real-Time Detection kit	NA	NA	South Korea
Kilpest (Blackbio)	TRUPCR	NA	NA	India
BGI	Real Time detecting 2019-nCoV			China
Krishgen Bio System	ARS-CoV-2 (RT-qPCR) Detection			India
HIMEDIA	PCR Coronavirus (Covid-19) Probe PCR			India
HUWEL	Quantiplus detection kit			India
Roche	LightMix Modular SARS and Wuhan CoV E gene			Switzerland

Testing in India is significantly lower than other countries (as on October 2020)



Capital investment at different scale lab set up

Being the low entry barrier industry and no regulation diagnostic business has always been fragmented. We have done a cost assessment analysis of setting up lab and franchise model below are the investment details (*Source: Franchise agents of Diagnostic chains and company*).

Cost type	Small scale	Medium Scale	Large Scale
Space and Location (Rent p.m.)	Rs 5,000–25,000	Rs 25,000–70,000	Rs 70,000
Trade registration	Rs 1,000–5,000	Rs 1,000–5,000	Rs 5,000–30,000
Get NOC	Up to Rs 20,000	~Rs 50,000	Rs 50,000–80,000 (Depending upon City)
Certification of Incorporation (optional)	–	–	Rs 20,000
ISO Certification	–	Rs 7,000–17,000	Rs 15,000
NABL Registration (Annually)	–	–	Rs 1 lakh & above
Miscellaneous costs (one-time)	Rs 20,000	Rs 20,000	Rs 50,000
Furniture & Fixtures	Rs 50,000 & above	Rs 3.5 lakhs & above	Rs 8 lakhs & above
Pathology Testing equipment	Rs 60,000 & above	Rs 2.8 lakhs & above	Rs 9 lakhs & above
Semi-automated equipment	–	–	Rs 15 lakhs & above
Radiology X-ray	–	Rs 2.5 lakhs	Rs 6 lakhs
USG	–	Rs 4.5 lakhs	Rs 13 lakhs
CT Scan	–	–	Rs 85 lakhs
Reagent stocks (Rs p.m.)	Rs 10,000	Rs 50,000	Rs 2 lakhs
Software charge (annually)	Rs 10,000	Rs 30,000	Rs 50,000
Manpower & Salary (Rs p.m.)	Rs 20,000 (2 staffs)	Rs 60,000 (4 staffs)	Depending upon City and business scope
Doctor's fee (Rs p.m.)	Rs 7,000–10,000	Rs 15,000–30,000	On payroll basis
Total initial cost	Rs 2.8 lakhs	Rs 18.5 lakhs	Rs 175 lakhs

Capital investment in franchise model

Particulars	Dr. Lal PathLabs (Collection centre)	Dr. Lal PathLabs (Lab)	SRL (Lab)	Metropolis (Collection centre)	Thyrocare (Collection centre)
Investment	Rs 1.5-3 lakhs	Rs 125 lakhs	~Rs 90 lakhs	Rs 3-5 lakhs	Rs 1 lakh
Area required (sq ft)	100-250	3,500	2,000	600-2,000	250
Security deposit and franchise fee	Rs 50,000	Rs 50,000		Rs 50,000	Rs 25,000
Commission/Revenue share	25-30% commission	25-30% commission		60% revenue share	
Training & development and franchise benefits	Onsite training	Onsite training	Technical and lab management guidance		Training
	Field assistance	STAR LIMS software	Brand building support	Branding, marketing and sales support	Minimum 15-20 people required
	Experts from HO to assist in set up	Contribution to lab structure and tasks	Training	Training and development on best laboratory management practices	Biochemist, pathologist, microbiologist
	Marketing & Advertising assistance	Marketing & sales support	Domain knowledge transfer	Knowledge sharing	Assistance till the lab completes threshold of 1,000 samples
Gestation period	2 years	2-3 years	18 months	6-24 months	6 months

PE funding inclined towards niche business

Private equity funds have usually operated with an exit time frame of around five to seven years post investment, and in the past companies with private equity investments have typically pushed prices lower in an attempt to gain market share in both B2B and B2C segments. We believe that the consequent slow down in private equity deals over the last two-three years should be sign of normalisation in price led competition.

Private equity investment in the business

Unlike their larger players, standalone diagnostics players do not have the deep pockets to invest in innovation, attract top talent and increase quality, all of which makes them potential acquisition targets and drives industry consolidation. Although, PE funding has changed this scenario to certain extent, the investment still remains limited to technologically savvy and differentiated offering player.

Year	PE players	Companies	Deal value (US\$ mn)	Stake (%)
2020	Motilal Oswal	Molbio Diagnostic	~33	
2018	HDFC Group	MedGenome Lab Pvt. Ltd.	40	
2017	Sequoia	MedGenome Lab Pvt. Ltd.	30	
2017	Manipal Group	iGenetic Diagnostic Pvt. Ltd.	20	
2017	Orbimed Advisors	Suraksha Diagnostic Pvt. Ltd.	40	30
2016	Kedaara Capital	Vijaya Diagnostic	65	
2015	Individual investor (Ameera Shah & Family)	Metropolis	90	27
2015	Sequoia	MedGenome Lab Pvt. Ltd.	20	
2015	Carlyle Group LP	Metropolis	140	37
2014	Emerge Venture	MedGenome Lab Pvt. Ltd.	4	
2013	Lighthouse Funds LLC	Suraksha Diagnostic Pvt. Ltd.	9	25
2013	West Bridge Capital LLP	Dr. Lal PathLabs Pvt. Ltd.	44	16
2013	Norwest Ventures Partners	Neuclear Healthcare	4	
2012	IFC	Supre Religare	20	8
2012	Norwest Ventures Partners	Thyrocare Technologies Ltd.	25	10
2012	Fidelity India Capital	Trivitron Healthcare	80	40
2012	Sequoia Capital	Suburban Diagnostic Pvt. Ltd.	7	30
2010	Warburg Pincus LLC	Metropolis Healthcare	85	27
2009	Peepul Capital	Medall	41	80

Companies – Dr. Lal PathLabs

Share Data

Market Cap.	Rs 181 bn (US\$ 2,416 mn)
Price	Rs 2,179
Target Price	Rs 2,669
BSE Sensex	45,553
Reuters	DLPA.BO
Bloomberg	DLPL IN
6M avg. daily turnover (US\$ mn)	4.9
52-week High/Low (Rs)	2,395/1,181
Issued Shares	83 mn

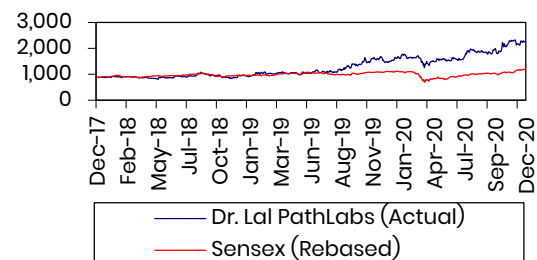
Valuation Ratios

Year to 31 Mar	FY21E	FY22E	FY23E
EPS (Rs)	30.0	39.2	48.6
+/- (%)	9.0	30.9	24.0
PER (x)	72.6	55.5	44.8
PBV (x)	15.0	12.3	10.0
Dividend/Yield (%)	0.3	0.3	0.3
EV/Sales (x)	11.2	9.4	7.9
EV/EBITDA (x)	45.4	35.5	29.0

Shareholding Pattern (%)

Promoters	55
FII's	23
MF's	6
BFSI's	2
Public & Others	14

Relative Performance



Leader in the North

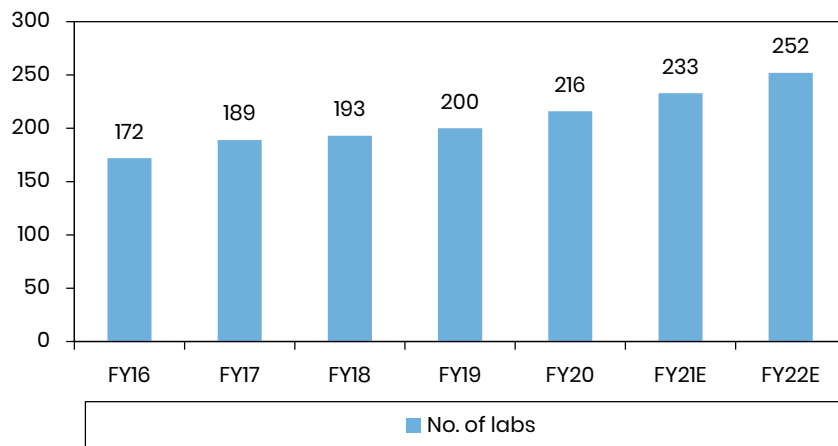
Dr. Lal PathLabs (DLPL) has a strong brand franchise and comprehensive test offerings which has kept it on the top dais in the sector. Being a leader in the North region (69% of revenues, ~25% MS for Delhi-NCR) the company is gradually scaling up its positioning in other regions. It has successfully marked its footprint in East (14% of revenues) by setting up Kolkata Reference Lab (KRL) functional in 2018, (expected to break-even in FY21E). While contribution from wellness initiative, 'Swasthfit' growing at ~30% YoY (15% of sales) reflecting the company's growth momentum. we strongly believe that the economic gains will increasingly get concentrated with select large players and Dr. Lal PathLabs will be the key beneficiary of this trend. **We like the growth story and believe sharp recovery post Covid-19 phase. We value the stock on 20 years DCF method, taking average 14.5% revenue growth and 25% EBITDA margin to arrive at a fair value of Rs 2,669.**

Future growth led by value and volume mix: DLPL recorded patient volume growth of ~13% in the last three years. As the volume growth due to Covid-19 will decelerate to ~20% in the current year. Revival in the segment is expected in FY22E given the changes mindset for health check-up is priority. We believe the growth trend to sustain largely driven by bundled tests (Swasthfit) to increase sample per patient coupled with moderate pricing (no major price hikes since 2016) in the B2C segment and stepped up aggression in B2B segment (through hospital tie-ups).

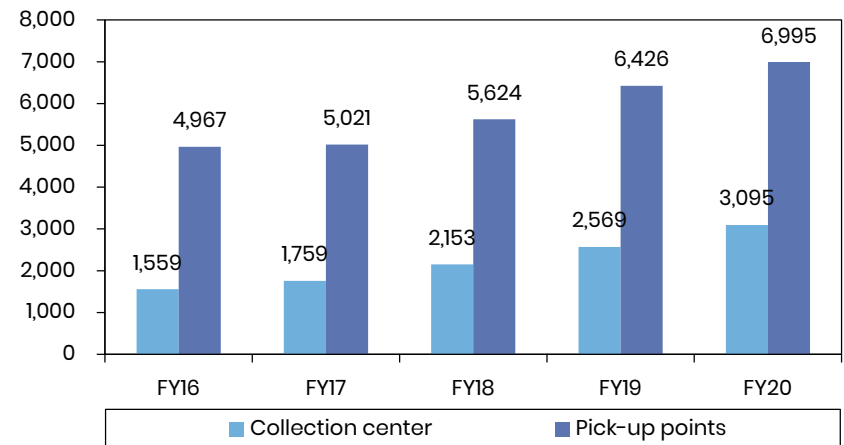
Penetration in regions ex-NCR: Over the years, DLPL has refined its business model largely contributed from North region (40% of sales from Delhi-NCR and 29% of sales from rest of North). Acknowledging the dependence, it has started focusing on untapped regions through acquisitions-identified Pune Bengaluru and North East under focused city approach. Operational since two years, KRL now supports a variety of tests and is the main center for diagnostics in the East region. We project contribution from North India to lower to 66% in FY22E and 63% in FY23E with the increase in East to 16% and 18% in FY22-23E, respectively.

- Robust balance sheet gives M&A opportunities:** The Covid-19 disruption has put many small players into pressure and most of them are on the verge of shutting down the business. Additionally, considering the future challenges related to quality standard, and compliance hygiene, will result in potential growth opportunity for organised players. Hence, Dr. Lal PathLabs is well positioned with high cash balance.
- Post Covid-19 favourable scenario for organised channels:** The current pandemic situation has raised awareness among individuals regarding their health, which is likely to boost demand for preventive test programmes and so as corporate levels health packages. People will be inclined more towards the organised players than the standalone centres. We believe home collection volumes will increase going forward given the organised players are having the larger scale of collection centers. Despite having these opportunities on track, it will be a long journey for the organised players to gain the market share versus the unorganised.
- EBITDA margins to sustain:** Going forward, high volume growth will translate into scale benefits and resultant lower cost per sample despite no price hikes. This shall aid its competitiveness in a price-sensitive market. Dr. Lal PathLabs aims to supplement scale efficiencies through continued cost rationalisation initiatives to sustain ~25% margin by FY22-23E.

~40 new labs are expected by FY22E



Services network



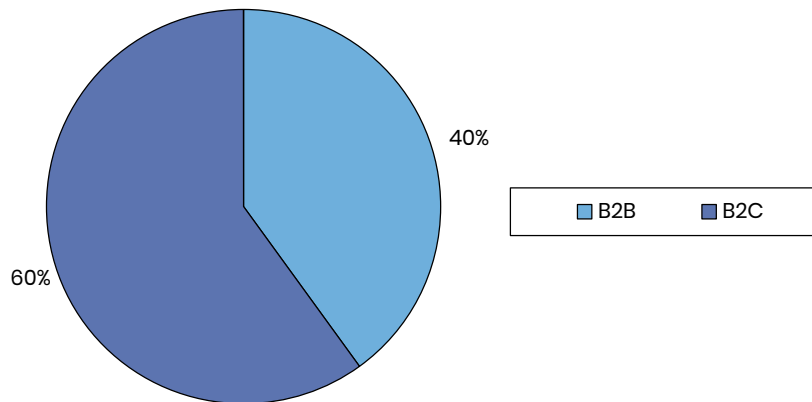
Revenue growth assumptions

Particulars	FY18	FY19	FY20	FY21E	FY22E	FY23E	Assumptions
Clinical Lab	193	200	216	233	252	272	Assuming 20+ labs opening p.a. largely in tier I,II cities through mix of own and acquisition led.
YoY (%)	-	3.6	8.0	8.0	8.0	8.0	
No. of patients visits (mn)	15.2	17.6	19.4	21.0	23.6	26.8	Volume growth expected to be robust in FY22-23, while due to Covid-19 deceleration in North is likely to drag overall volume growth to 20%.
Volume growth (YoY %)	-	15.8	10.2	8.0	12.5	13.5	
Sample processed/tests (mn)	34.7	41.8	47.7	52.4	62.5	73.6	To gain traction through the KRL and new acquisitions.
YoY (%)	-	20.5	14.1	9.8	19.3	17.8	
No. of tests/patient visit	2.28	2.38	2.46	2.50	2.65	2.75	
YoY%	-	4.0	3.5	1.7	6.0	3.8	
Revenue/test (Rs)	305	288	279	275	279	284	To moderate as pricing power is lower in East and South versus Delhi, where premium prices are charged.
YoY (%)	-	(5.5)	(3.1)	(1.5)	1.5	2.0	
Revenue/Patient visit (Rs)	695	684	686	731	760	793	Increase from its base FY20 led by Covid-19 test and Antibody tests.
YoY (%)	-	(1.7)	0.3	6.7	3.9	4.4	
Total base business revenue (Rs mn)	10,569	12,034	13,302	14,388	17,414	20,922	
YoY (%)	-	13.9	10.5	8.2	21.0	20.1	
Covid-19 revenue	-	-	-	938	500	300	Assuming Dr. Lal doing 20-15% of Covid-19 test samples found in North and WB.
YoY (%)	-	-	-	-	(46.7)	(40.0)	
Total Revenue (Rs mn)	10,569	12,034	13,302	15,325	17,914	21,222	To inch up gradually as business mix will shift towards rest of North and East region.
YoY (%)	-	13.9	10.5	15.2	16.9	18.5	

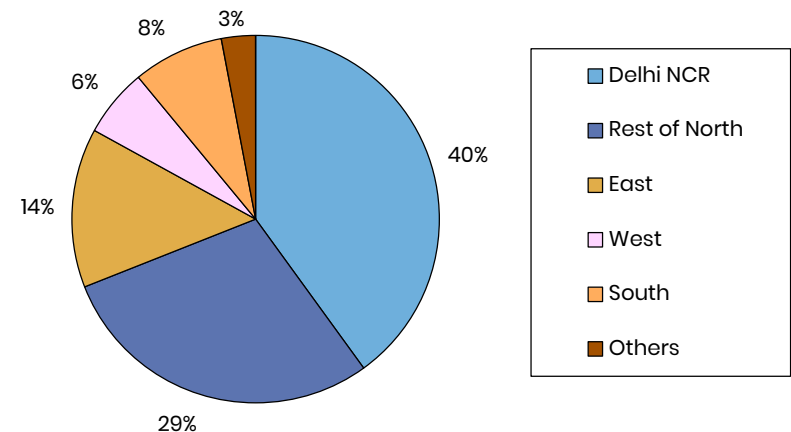
B2B (40%) – Pursue selective opportunity

- DLPL's 40% of the overall revenues comes from B2B segment, which comprises of (a) Hospital lab management, wherein a hospital outsources its entire diagnostic functions to DLPL. (b) Outsourcing of high-end tests from hospitals. Currently, major chunk of B2B sales comes from outsourcing channels.
- **Hospital lab management:** Hospital lab management is a small business segment for Dr. Lal PathLabs estimated at ~4% of revenues. The company's strategy is to increase existing tie-ups/contracts in hospital lab management which will leverage scale and efficiency of its network. Strategically, this business segment is useful in understanding the business dynamics better before stepping into its cost-intensive B2C model.
- *Hospitals which lack the resources, licences or scale to operate onsite clinical laboratories efficiently often seek to enter into laboratory management agreements with larger laboratory networks, like Dr. Lal PathLabs and other large organised players. Under these arrangements, the company manages "in-hospital" clinical laboratories and provide offsite service support on a revenue-sharing basis.*
- **Outsourced segment:** With its broad and steadily growing portfolio of high-end (specialty) tests, Dr. Lal PathLabs has become the partner of choice for most clinical establishments (hospitals and standalone centres both) who typically don't have the facilities to process these tests. It offers specialty testing in the fields of molecular diagnostics, flow cytometry, genetics/cytogenetics and histopathology as key strategic tests which shall drive growth. We expect this segment to grow in mid-teens over the next two-three years.

Segment mix



Geographical split



B2C (60%) – Volume growth driving segment

- **Stable price in B2C will drive growth:** On the B2C segment, DLPL's services are being offered at ~18–20% premium especially in North region. However, the premium has not impacted the company's volume growth, which has driven revenues over the last couple of years. Looking at the competitive scenario, Dr. Lal PathLabs has kept their test price stable (and has not taken any price cut or price hike in the last three years). This price freezing strategy has helped the company to increase its competitiveness without thinning the margins and its efficiency. We believe this move will continue to increase its competitiveness across markets.
- **Focus on volume and test mix:** The company is focused on improving volumes and test mix. The sample volume has grown at ~18% CAGR over FY17–20, and we expect sample volume growth to grow further at ~16% CAGR over FY20–23E, challenges in scaling up in the tier I, II cities is likely to moderate patient volume growth.
- **Bundled test offers an important key driver :** Dr. Lal PathLabs has bundled tests under **the SwasthFit package (especially in metros) very similar to its peer (Thyrocare's Aarogyam and Metropolis' TruHealth)**. The company has experienced a significant uptick in volume of these packages. Currently, the bundled test accounts for ~15% of revenues.
- **Volume and pricing dynamics in different geographies:** Unlike the premium pricing in North, the East and South India has been at ~20% pricing. As per the management, a new lab in Delhi becomes cash break-even in two years, whereas a similar size lab in East India might take three years and in Southern India it could take four–five years. Hence, in order to keep revenue growth at 17% CAGR over FY20–23E, the company needs to improve volume growth in newer geographies.
- DLPL continues to actively invest in consistently improving customer experience, which is a key imperative of B2C strategy. As part of its strategy to increase penetration in existing and newer markets, DLPL offers services like home collection of samples and sending reports via email. We believe these initiatives aid in maintaining and enhancing the DLPL brand, which is a critical aspect in a consumer-facing competitive business.
- **Focus on untapped regions via acquisition – West and South:** By having an asset light model, the company generates healthy cash flow of Rs 3.2 bn in FY20 and has a cash rich balance sheet which provides opportunities for acquisition. Dr. Lal PathLabs has largely grown gradually and has done few small acquisitions in the past. **But now Dr. Lal PathLabs is focusing on marking its presence in Pune and Bengaluru**, where it has fairly limited presence. The acquisition of 70% stake in the Indore-based Central Labs and the Vadodara-based Amins Pathology is expected to aid DLPL in establishing a foothold in non-core markets. **West and South combined contribute 14% of FY20 revenues. We expect this to inch up gradually to 15% by FY21–23E as the company gears up its presence in these regions.**

Other business segment and operational structure

Imaging/radiology – capex intensive concern

Radiology business (contributes ~5% of revenue) is being scaled up in a standardised structure. In the industry, Radiology segment growing at 18-20% and has less competition due to heavy capital investment. The company is looking to selectively expand and start new labs, based on the individual market. We believe going forward this will strengthened the company's brand value and profitability.

International business

The company operates in 20 countries through hospital tie-ups and global associate partners (20 and 80 tie-ups, respectively). The company has 2 global labs and it operates in Sri Lanka, Bangladesh, the United Arab Emirates (UAE), Nigeria, etc. In FY18, the company acquired 70% stake in Dr. Lal Pathlabs Bangladesh Limited to strengthen presence there. Although, the operations are not material currently, the company is using the lab as a sample volume provider for KRL.

NRL and KRL – Two major Spokes for its Hubs

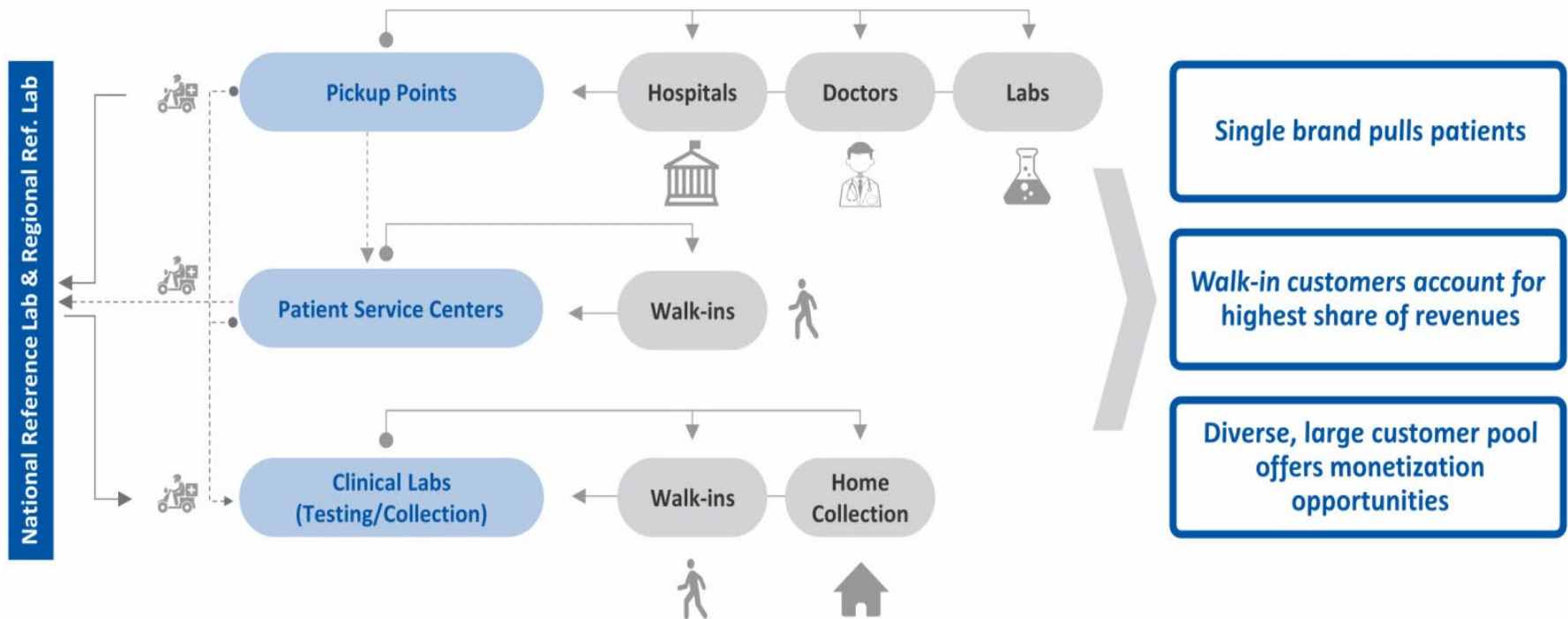
Labs	NRL (National referral Lab)	KRL (Kolkata referral lab)
Commencement year	2010	2018
Capex invested (Rs mn)	~1,000	600
Break-even time line (years)	5	Expected to break-even by FY21
Area (sq ft)	85,000	55,000
Operational shift	24x7	24x7
Services offered	Pathology, Radiology, Cardiology	Pathology, Radiology, Cardiology
Accreditation	CAP/NABL/ISO	CAP/NABL/ISO
Operational reach	Open for all regions	Specifically for WB region, North east and some part of Madhya Pradesh, along with Bangladesh and Nepal and other South Asian countries like Myanmar, Malaysia, Thailand and Singapore.

Test offers and logistics network

Wide-ranging test portfolio : Dr. Lal PathLabs started initial test offerings with:

1. Introduced Vitamin-D tests.
2. Introduced heavy metal poisoning tests.
3. H1N1 testing, etc. (at National referral lab NRL).
4. The company has a complete range of testing services and through its **455 testing panels, offers 2,537 pathology tests and 1,961 radiology and cardiology test including routine clinical laboratory tests**, wellness/preventive testing services and specialised tests such as genetic marker tests and histopathology analyses.

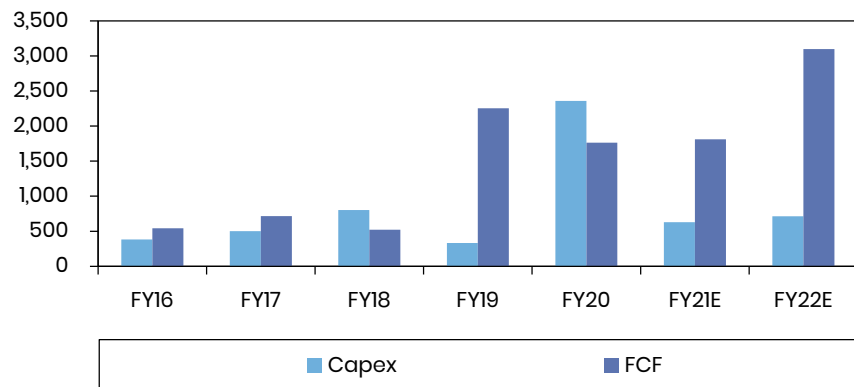
Logistics network – An important operational tool of the diagnostic business



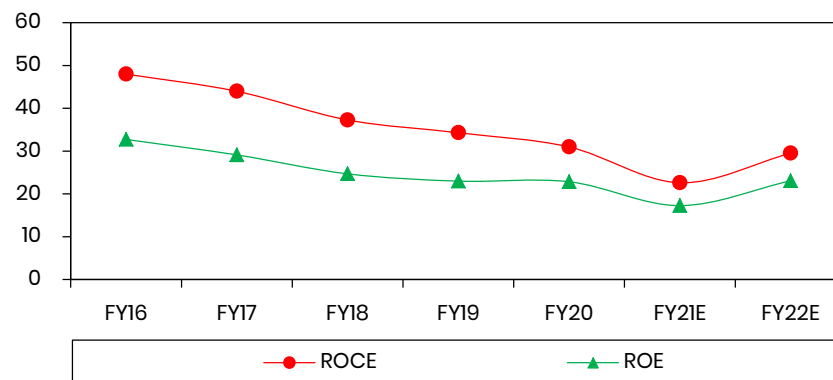
Free cash flow expected to remain healthy over FY22-23E

Free cash flow analysis (Rs mn)	FY16	FY17	FY18	FY19	FY20E	FY21E	FY22E	FY23E
Operating cash flow	1,270	1,234	1,798	2,375	3,276	3,088	4,099	4,785
Change in working capital	(827)	(1,141)	(842)	(561)	(160)	(695)	(655)	(973)
Capex	(383)	(501)	(802)	(332)	(2,359)	(1,035)	(1,129)	(1,232)
Change in current investments	(265)	(417)	(387)	(400)	205	(74)	(77)	(81)
Change in non-current assets	(278)	124	(398)	152	89	(34)	(38)	(42)
Cash flow from investment	(728)	(519)	(1,275)	(120)	(1,514)	(557)	(502)	(372)
FCF	542	715	523	2,255	1,762	2,531	3,597	4,413

Healthy FCF



Return ratios are expected to remain healthy



Source: Company, B&K Research

Post the pandemic scenario, we expect pent-up demand in the preventive health packages which will drive volume growth across B2B and B2C segment. Normalisation of operating expenses. Possible consolidation can happen given the standalone players will be under tremendous monetary crisis. Promotion of digital network will also play its key role.

Key risk: Further, impose of nationwide lockdown by the government. Discontinuation of business from the franchise players; delay in receivables from B2B segment.

Dr. Lal PathLabs has a strong brand franchise and comprehensive test offerings which has kept it on the top dais in the sector. Being a leader in the North region (69% of revenues, ~25% MS for Delhi-NCR) the company is gradually scaling up its positioning in other regions. It has successfully marked its footprint in East (14% of revenues) by setting up Kolkata Reference Lab (KRL) functional in 2018, (expected to break-even in FY21E). While contribution from wellness initiative, 'Swasthfit' growing at ~30% YoY (15% of sales) reflecting the company's growth momentum. We like Dr. Lal PathLabs, and believe that conducting Covid-19 tests would be a social activity with less financial benefits. Given the scale-driven efficiencies, we strongly believe that the economic gains will increasingly get concentrated with select large players and DLPL will be the key beneficiary of this trend.

We like the growth story and believe sharp recovery post Covid-19 phase. We value the stock on 20 years DCF method, taking average 15% revenue growth and 25% EBITDA margin to arrive at a fair value of Rs 2,669.

DCF-based valuation FY20-40E – We arrive at a fair value of Rs 2,669/share

Given high growth durability of the diagnostics industry, we value Dr. Lal PathLabs on DCF for a 20-year period, with a DCF-based target price is Rs 2,669/share.

Given below are our assumptions:

- WACC of 10.3% with cost of equity of 10.3%. We assume nil debt.
- We have assumed revenue growth of average 14.5% and have assumed average margin 25%.
- Terminal growth has been assumed at 7% post 20-year period up to FY40E.

Particulars	Rs mn
WACC (%)	10.3
Terminal growth (%)	7.0
Discounted FCF	214,985
Less: Debt	0
Add: cash	7,334
Equity value	222,319
No. of shares (mn)	83
Value per share (Rs)	2,669
CMP (Rs)	2,179
Upside (%)	19

Income Statement

Period end (Rs mn)	Mar 20	Mar 21E	Mar 22E	Mar 23E
Net sales	13,302	15,325	17,914	21,222
<i>Growth (%)</i>	10.5	15.2	16.9	18.5
Operating expenses	(9,868)	(11,544)	(13,163)	(15,466)
Operating profit	3,434	3,781	4,751	5,756
Other operating income	2	2	2	3
EBITDA	3,436	3,783	4,754	5,758
<i>Growth (%)</i>	17.0	10.1	25.6	21.1
Depreciation	(728)	(801)	(881)	(969)
Other income	550	587	742	982
EBIT	3,258	3,569	4,615	5,771
Finance cost	(153)	(220)	(236)	(279)
Profit before tax	3,105	3,349	4,380	5,492
Tax (current + deferred)	(829)	(837)	(1,095)	(1,373)
Profit / (Loss) for the period	2,276	2,512	3,285	4,119
P/L of Associates, Min Int, Pref Div	(16)	(19)	(22)	(26)
Reported Profit / (Loss)	2,259	2,493	3,262	4,093
Adjusted net profit	2,259	2,493	3,262	4,093
<i>Growth (%)</i>	13.4	10.3	30.9	25.4

Balance Sheet

Period end (Rs mn)	Mar 20	Mar 21E	Mar 22E	Mar 23E
Share capital	833	833	833	833
Reserves & surplus	9,495	11,437	14,150	17,686
Shareholders' funds	10,328	12,271	14,983	18,519
Minority interest and others	212	230	230	230
Other non-current liabilities	932	1,125	1,289	1,452
Current liabilities	2,271	2,595	3,199	3,929
Other current liabilities	2,271	2,595	3,199	3,929
Total (equity and liabilities)	13,743	16,221	19,701	24,130
Non-current assets	4,817	5,085	5,371	5,675
Fixed assets (Net block)	3,472	3,706	3,954	4,217
Other non-current assets	1,345	1,379	1,417	1,458
Current assets	8,926	11,136	14,330	18,455
Cash & current investment	7,334	9,279	12,271	16,042
Other current assets	1,593	1,857	2,060	2,412
Total (assets)	13,743	16,221	19,701	24,130
Capital employed	11,472	13,626	16,502	20,201

Cash Flow Statement

Period end (Rs mn)	Mar 20	Mar 21E	Mar 22E	Mar 23E
Profit before tax	3,105	3,349	4,380	5,492
Depreciation	728	801	881	969
Change in working capital	683	142	440	400
Total tax paid	(843)	(837)	(1,095)	(1,373)
Others	(397)	(366)	(507)	(703)
Cash flow from oper. (a)	3,276	3,088	4,099	4,785
Capital expenditure	(2,359)	(1,035)	(1,129)	(1,232)
Change in investments	205	(74)	(77)	(81)
Others	640	552	705	940
Cash flow from inv. (b)	(1,514)	(557)	(502)	(372)
Free cash flow (a+b)	1,762	2,531	3,597	4,413
Equity raised/(repaid)	38	0	0	0
Dividend (incl. tax)	0	(550)	(550)	(557)
Others	(1,011)	(110)	(133)	(165)
Cash flow from fin. (c)	(973)	(660)	(683)	(722)
Net chg in cash (a+b+c)	789	1,871	2,914	3,691

Key Ratios

Period end (%)	Mar 20	Mar 21E	Mar 22E	Mar 23E
Adjusted EPS (Rs)	27.5	30.0	39.2	48.6
<i>Growth</i>	<i>13.4</i>	<i>9.0</i>	<i>30.9</i>	<i>24.0</i>
CEPS (Rs)	36.4	39.6	49.8	60.2
Book NAV/share (Rs)	122.8	144.7	177.3	217.2
Dividend/share (Rs)	0.0	5.5	5.5	5.5
Dividend payout ratio	0.0	22.1	16.9	13.6
EBITDA margin	25.8	24.7	26.5	27.1
EBIT margin	24.5	23.3	25.8	27.2
Tax rate	26.7	25.0	25.0	25.0
RoCE	31.0	28.4	30.6	31.4
Net debt/Equity (x)	(0.7)	(0.7)	(0.8)	(0.9)
Du Pont Analysis – RoE				
Net margin	17.0	16.3	18.2	19.3
Asset turnover (x)	1.1	1.0	1.0	1.0
Leverage factor (x)	1.2	1.3	1.3	1.3
Return on equity	22.8	22.1	23.9	24.4

Valuations

Period end (x)	Mar 20	Mar 21E	Mar 22E	Mar 23E
PER	57.6	74.7	57.1	46.1
PCE	43.5	56.6	45.0	37.2
Price/Book	12.9	15.5	12.6	10.3
Yield (%)	0.0	0.2	0.2	0.2
EV/EBITDA	35.7	46.8	36.6	29.9

About the company

Established in the year 1949, by Dr. Major S.K. Lal, the company initially provided pathology services and maintaining blood bank. Honorary Brigadier Dr. Arvind Lal and Dr. Vandana Lal are licenced pathologists and have practiced pathology for over 40 and 30 years, respectively. Led by a team of experienced professionals mentored by Dr. Arvind Lal, Dr. Lal PathLabs has built strong bandwidth at the senior management level with experience in diverse industries.

Key milestones

Year	Remarks
1949	Late Dr. Major S.K. Lal set up sole proprietorship M/s Central Clinical Laboratory and M/s Blood Bank Transfusion Centre. Thus, he started the business of providing pathology services and maintaining a blood bank.
1975	The company transformed into a partnership firm with Late Dr. Major S.K. Lal and his son Dr. Arvind Lal forming a partnership agreement. The firm was named 'Central Clinical Laboratory' which carried the pathology services. Secondly, the blood bank maintained under the name 'Blood Transfusion Centre'.
1977	Late Dr. Major S.K. Lal passed away. So, his wife, Late Ms. Vimla Lal, took over the partnership with Dr. Arvind Lal.
1995	Incorporated as private limited company 'Dr. Lal PathLabs Pvt. Ltd.' and took over the business of the firm 'Central Clinical Laboratory'.
2000	Three clinical labs of Dr. Lal PathLabs received NABL accreditation.
2001	Received 'International Accreditation' from CAP2.
2005	The company received its first capital infusion from venture capital firm, WestBridge Ventures. WestBridge Ventures-I invested US\$ 10 mn in the company in two tranches during 2005-07. It exited a part of this in 2010.
2008	Acquired Paliwal Medicare Pvt. Ltd. and Paliwal Diagnostics Pvt. Ltd.
2010	NLR set up in Delhi to centralise all the tests. TA Associates bought 16% stake from WestBridge Ventures-I in a secondary deal for US\$ 35 mn.
2013	WestBridge Crossover Fund and TA Associates acquired the remaining stake of WestBridge Ventures I. WestBridge Crossover Fund invested US\$ 36 mn in the transaction and US\$ 9 mn invested by TA Associates.
2015	The company issued its IPO which oversubscribed by 33x. Issue price was Rs 550 per share and the issue size Rs 6.4 bn.
2016	Dr. Lal PathLabs acquired 100% Delta Ria and Pathology Pvt. Ltd. For the past three years, the entities were in revenue share agreement.
2017	BOD of Dr. Lal PathLabs approved amalgamation of Delta Rio and Pathology Pvt. Ltd. with the company in May 2017.
	Acquired 70% stake in Dr. Lal PathLabs Bangladesh Pvt. Ltd. (DLPLB) from existing shareholders.
	Dr. Lal PathLabs' subsidiary Paliwal Diagnostics Pvt. Ltd. acquired a Kanpur-based proprietary concern 'Satya Pathology and Diagnostic Centre' (SPDC).
2018	Kolkata Reference Lab started testing of samples in early January. This Lab caters the demand from Northeast as well as Eastern regions of India.
2019	Dr. Lal PathLabs' wholly owned subsidiary Pathlabs Unifier Pvt. Ltd. approved the acquisition of proprietorship concern. 'M/s Bawankar Pathology'. Turnover of the acquired company is Rs15mn in FY18.
	Pathlabs Unifiers Pvt. Ltd. approved to acquire 70% stake in Centra Pathlabs Pvt. Ltd., which acquired the business of Central Lab, Indore (a partnership firm) and M/s. Vinita Kothari (a proprietorship concern). This acquisition is to improve position in Madhya Pradesh.
	'Pathlabs Unifiers Pvt. Ltd.' approved to acquire 70% equity stake in M/s Amins Pathology Referral Laboratory; a proprietorship concern of Dr. Ripal Padmani, engaged in pathology business in Gujarat. Estimated turnover of the acquired entity is Rs 5 mn for FY19.

Management	Designation
Dr. Om Prakash Manchanda	CEO
Brig. Dr. Arvind Lal	Chairman & MD
Dr. Vandana Lal	Whole time Director
Ved Prakash Goel	Chief Financial Officer

Definition of common terminologies used in the business

Name	Description
NRL	National Reference Laboratory first opened in July 2010 in New Delhi and is the main “hub” for the rest of DLPL network in India.
PSCs	PSCs also refer to, internally, as “collection centres” are for the purpose of collecting specimens for shipment to the clinical laboratories to NRL/KRL or other labs , depending on the nature of the test sought.
PUPs	Pickup points (PUPs) with third parties where large and small-scale hospitals, nursing homes, physician practices, laboratories and other healthcare service providers can deliver specimens for testing in the clinical laboratories.

Metropolis Healthcare

Share Data

Market Cap.	Rs 96 bn (US\$ 1,304 mn)
Price	Rs 1,900
Target Price	Rs 2,356
BSE Sensex	45,553
Reuters	METP.BO
Bloomberg	METROHL IN
6M avg. daily turnover (US\$ mn)	3.9
52-week High/Low (Rs)	2,321/993
Issued Shares	51 mn

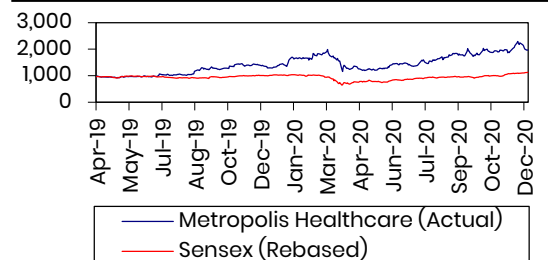
Valuation Ratios

Year to 31 Mar	FY21E	FY22E	FY23E
EPS (Rs)	29.6	39.0	45.9
+/- (%)	17.6	31.8	17.6
PER (x)	66.4	50.4	42.9
PBV (x)	17.1	14.5	12.0
Dividend/Yield (%)	0.8	0.8	0.8
EV/Sales (x)	10.1	8.7	7.3
EV/EBITDA (x)	40.8	31.5	26.7

Shareholding Pattern (%)

Promoters	51
FII's	25
MF's	14
BFSI's	2
Public & Others	8
Pledge	38

Relative Performance



Well placed in West

Metropolis Healthcare Ltd., is the 3rd largest well renowned leading Indian diagnostic company in India (after Dr. Lal PathLabs and SRL). The company owns a chain of diagnostic centres across India, South Asia, Africa and the Middle East. Metropolis is the leading in its home market West India contributing 54% of sales as on FY20, and aims to expand its reach in North & East India. The company has 124 laboratory network across the country. The company's financial history has been healthy with Revenue/EBITDA reporting CAGR of 16% and 15% with EBITDA margin of ~27% during FY17-20. The management plans to focus on B2C business which currently contributes 46% of sales (versus B2B contributes 54%). Unlike Dr. Lal, Metropolis is a young player in the market which has proved its capabilities by inorganic expansion and capturing >15% market share in its home market. **We consider its rich valuation and value Metropolis on 20 years DCF taking average revenue growth of 15% and EBITDA margin at ~27%, arrived at a fair value of Rs 2,356. Initiate coverage with a Buy.**

Leader in the West and South region: Metropolis has a leading presence in West India and a strong positioning in South. Historically, Metropolis had focused on the B2B market (46% of revenues in FY20), though over the past few years it has expanded its B2C network through a hub-and-spoke model, and the network now comprises 124 clinical labs, 2,133 total patient touch points, over 10,000 institutional touch points and offers ~3,500 laboratory tests and over 500 test panels.

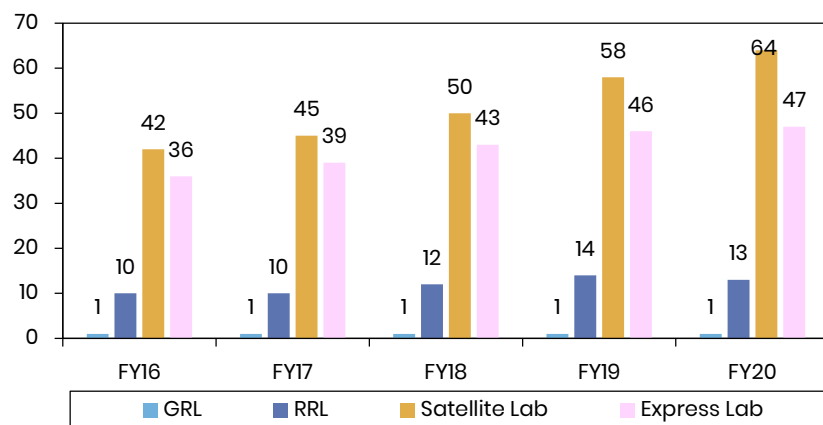
Increased focus towards B2C segment: Metropolis has aggressively expanded its patient touch point network over the past three years to accelerate its B2C segment growth with 10x increase in collection centers YTD (majority 3rd party owned), resulting in 19% B2C CAGR in focus cities during FY17-20. With increase growth in B2C, B2B growth narrowing to 12% CAGR on account of competitive intensity. We like Metropolis' strategy of increasing focus on B2C segment. We expect the B2C business to grow at 14% CAGR over FY20 -23E.

- **Aggressive expansion network in place:** Metropolis has received several acquisition proposal from many standalone players (including PE funded players). We believe that the current disruption led by Covid-19 will help the industry in absorbing the small and mid side lab which are currently facing operational challenges.
- **Favourable demand coming forward:** The company believes that the larger chains to appear strongly post Covid-19 phase. As the pandemic scenario is helping the organised players to build their brand value and goodwill, which will help in shifting patient's interest.
- Promoters pledge has reduced to minimal 5.4% (of the promoter's holding) led by recent debt payoffs.

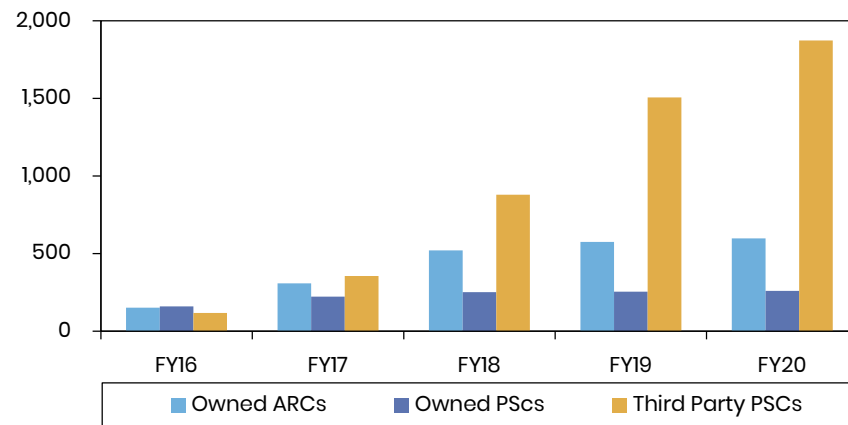
Test mix – Specialised and semi-specialised test has more potential in revenue

Test mix (%)	FY19		FY20	
	Test volume mix	Test value mix	Test volume mix	Test value mix
Routine test	35	17	39	18
Semi-specialised	41	37	38	37
Specialised	16	41	15	37
Wellness	8	5	8	8

Lab network – total 125 labs as on 1HFY21



PSCs network has grown at 8x since FY16



Revenue growth assumptions

Business model assumptions	FY18	FY19	FY20E	FY21E	FY22E	FY23E	Assumptions
Clinical Lab	106	119	125	133	143	154	Assuming 10+ labs opening p.a. largely in tier I, II cities through mix of own and acquisition led.
YoY (%)	-	12.3	5.0	6.4	7.5	8.0	
No. of patients visits (mn)	7.7	8.9	10.0	8.9	10.3	12.2	Volume growth led by B2C in West and South.
Volume growth (YoY %)	-	15.6	12.4	(10.9)	16.0	18.0	
Sample processed/tests (mn)	16.0	17.0	19.6	17.8	20.7	24.4	To gain traction from focus and tier II seeding cities.
YoY (%)	-	6.3	15.3	(9.1)	16.0	18.0	
No. of tests/patient visit	2.1	1.9	2.0	2.0	2.0	2.0	
YoY (%)	-	(8.1)	2.6	2.0	-	-	
Revenue/test (Rs)	402	447	437	439	459	484	Expected to remain in line given moderate price change.
YoY (%)	-	11.2	(2.3)	0.5	4.5	5.5	
Revenue/Patient visit (Rs)	836	854	856	878	917	968	To remain range-bound.
YoY (%)	-	2.2	0.2	2.6	4.5	5.5	
Base business revenue (Rs mn)	6,436	7,601	8,558	7,820	9,480	11,801	
YoY (%)	-	18.1	12.6	(8.6)	21.2	24.5	
Covid-19 test revenue (Rs mn)	-	-	-	1,800	1,620	1,188	Assuming Metropolis to do ~20% of Covid-19 test done in Maharashtra and Gujarat.
YoY (%)	-	-	-	-	(10.0)	(26.7)	
Total revenue (Rs mn)	6,436	7,601	8,558	9,620	11,100	12,989	
YoY (%)	-	18.1	12.6	12.4	15.4	17.0	

B2B – Government tie ups to drive growth

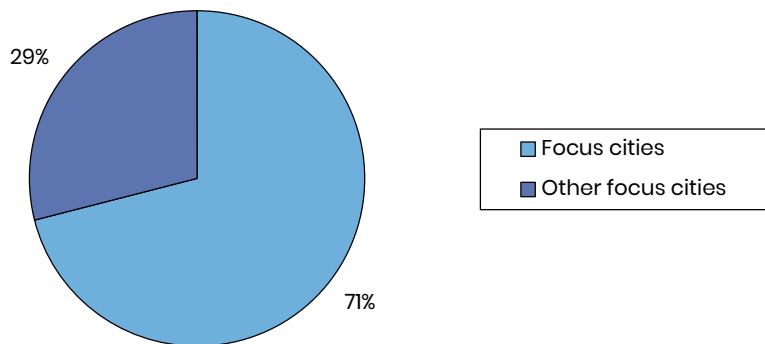
Metropolis' B2B business comprises of the following

- Lab testing for hospitals patients, primarily for high-end tests.
- Testing for local clinics who doesn't have the access to conduct high end tests.
- Management of hospital labs and Corporate business and clinical trials.
- NACO – PPP or government contracts.

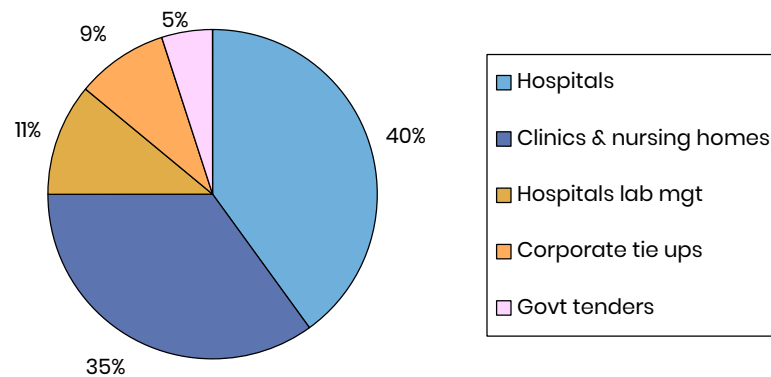
Expansion of labs in hospital network: The hospital provides a rent free space, while Metropolis manages the clinical labs and is responsible for all costs related to employees, logistics and equipment. These agreements are exclusive in nature and with contract period ranging from five-seven years. Metropolis manages ~25 hospital labs. However, this model has high receivable days, ~90-120 days and has led to an increase in the company's working capital cycle.

Secured government contract (NACO): Metropolis has secured a three-year contract from National Aids Control Organization (NACO) for conducting HIV-1 viral load testing for a period of FY2019-21. This segment is likely to aid revenue growth for Metropolis by ~4% of B2B revenues in FY23E versus 3% in FY20. Moreover, the key point to note is that NACO margins are in line with the company's margins at ~26-27%. The company has also secured a four-year contract from Brihanmumbai Municipal Corporation (BMC) worth Rs 400 mn cumulatively. However, in the past, receivables from government contracts have had been a challenge.

Revenue split of B2C



Revenue split of B2B



Metropolis has increased its focus towards B2C segment with massive expansion in collection center network in order to create its brand presence and demand capture. Over the last five years, the company has increased its touchpoints (collection centres) by ~7.5x to 2,133 by FY20. Metropolis major parts of expansion happened in its focus cities (Mumbai, Pune, Bengaluru, Surat and Chennai) largely through franchise model. Rapid expansion of collection centres, increasing focus on home collection and wellness channels, clinical engagement along with targeted marketing have led to revenue contribution from individual patients increased to ~46% of overall sales in FY20. This impact is more visible in focus cities, where revenue contribution from individual patients has increased to ~71% of the B2C business in FY20. We believe this expansion strategy will drive growth in the B2C segment led by increased share of focus cities ~74% of B2C revenue by FY23E.

- **Mumbai – key growth driver:** Metropolis derives ~30% of the overall revenue from Mumbai, with ~20% market share in Mumbai's pathology market. While B2C remains a small portion of revenues in Mumbai, as Metropolis is growing at 20%+ in Mumbai's B2C market driven by an aggressive expansion of network, mainly through franchise base.
- **Chennai – gaining rapid strides:** Chennai is the next largest market for Metropolis, it placed amongst the top 3 players in Chennai, particularly, in the B2C segment where it has established a strong brand through the acquisition of Lister Labs in 2005. While Chennai has always remained a competitive market given presence of large hospital chains, we expect competitive intensity to increase with Apollo Hospitals as a strong contender in the B2C segment along with Dr. GSK Velumani who has made strong presence in Chennai through Neuberg Ehrlich (brand of Neuberg Diagnostics).
- **Pune – facing competitive pressure:** Metropolis entered Pune through the acquisition of Golwilkar Lab in 2005. However, the growth in Pune stagnated in the recent past despite expansion of network points, due to aggressive competition by Dr. Golwilkar, who established a new pathology venture post the expiry of the contract, named AG Diagnostics (Golwilkar brand has been retained by Metropolis), with a central lab and ~30+ collection centres.
- **Seeding cities next focus cities:** To expand its regional reach, Metropolis has identified 8 seeding cities (Nashik, Rajkot, Nagpur, Kochi, Raipur, NCR, Kolkata and Guwahati) contributes ~18% of the overall revenue and ~170 other key cities where initial focus is on tapping high-end specialised tests opportunity in tier II/III cities through the institutional channel route (via assisted referral centres) and gradually expanding its reach among individual patients.
- In line with its peers, Metropolis is focusing into the fast growing and competitive wellness segment with the launch of the 'TruHealth' wellness initiative (similar to Swasthfit – Dr. Lal/Aarogyam by Thyrocare and SRL care by SRL) across 36 cities. Revenues from the wellness segment accounted for ~8% of the company's revenues in FY20. **We believe wellness segment to contribute 10-12% of overall sales by FY22-23E.**

Major acquisition story

- In the past, Metropolis has grown inorganically for expanding its geographical reach and to make its base strong in its focus cities, along with other regions such as Nasik and Kerala through acquisitions.
- **Following are the strategy parameters for Metropolis acquisitions are:**
- Identification of strategic partners in the region (well-known pathologists).
- Keeping the partner involved in the business either through revenue share or commission.
- Providing the acquired lab in Metropolis network, through logistics and technology support and test menu expansion.
- Leveraging the partner brand either by retaining existing brand, or through co-branding.

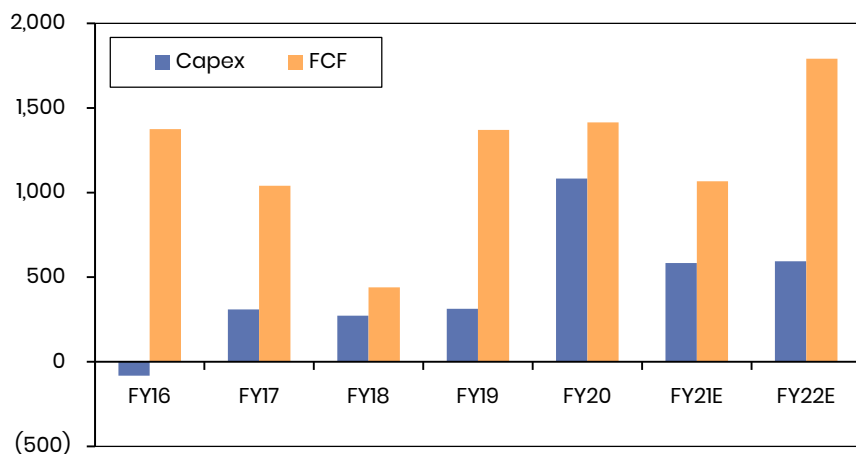
Geographical footprint through different acquisitions

Acquired company	Year of acquisition	Location	Revenue at the time of acquisition (Rs mn)	Revenue for FY18 (Rs mn)	Revenue for FY19 (Rs mn)	Revenue for FY20 (Rs mn)
Sudharma Health Services	2003	Kerala	18.0	475.0	504.0	496.0
Golwilkar Private Limited	2005	Pune	39.0	447.0	386.0	413.0
Desai Pvt. Ltd.	2007	Surat	34.0	253.0	320.0	392.0
R V Diagnostics	2008	Bengaluru	36.0	345.0	377.0	435.0
Dr Patel Pvt. Ltd.	2012	Nasik	18.0	103.0	139.0	146.0
Sanjeevani	2017	Rajkot	120.0	-	160.0	181.0

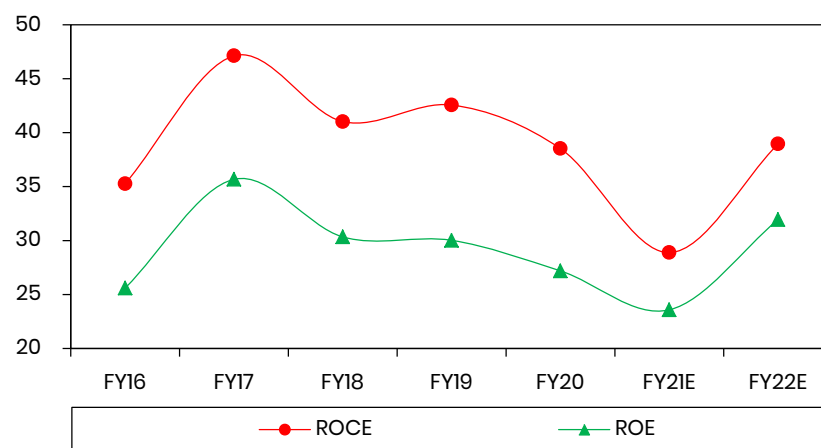
FCF analysis – expected to remain healthy

Free cash flow analysis (Rs mn)	FY16	FY17	FY18	FY19	FY20E	FY21E	FY22E	FY23E
Operating cash flow	1,343	1,789	297	1,042	2,446	1,840	2,659	2,958
Change in working capital	(107)	14	(1,542)	(1,030)	282	(643)	(497)	(704)
Capex	83	(310)	(272)	(313)	(1,082)	(614)	(657)	(705)
Change in current investments	0	(398)	336	694	185	(15)	(17)	(19)
Change in non-current assets	(33)	(41)	79	(51)	(133)	0	0	0
Cash flow from investment	32	(749)	143	329	(1,031)	(629)	(674)	(724)
FCF	1,375	1,040	440	1,371	1,415	1,211	1,985	2,234

FCF to remain healthy



Return ratio to be healthy



Source: Company, B&K Research

Metropolis Healthcare Ltd., is the 3rd largest well renowned leading Indian diagnostics company in India (after Dr. Lal PathLabs and SRL). The company owns a chain of diagnostic centres across India, South Asia, Africa and the Middle East. Metropolis is the leading in its home market West India contributing 54% of sales as on FY20, and aims to expand its reach in North and East India. The company has 124 laboratory network across the country. The company's financial history has been healthy with Revenue/EBITDA reporting CAGR of 16% and 15% with EBITDA margin of ~27% during FY17-20. The management plans to focus on B2C business which currently contributes 46% of sales (versus B2B contributes 54%). Unlike Dr. Lal, Metropolis is a young player in the market which has proved its capabilities by inorganic expansion and capturing >15% market share in its home market. **We consider its rich valuation and value Metropolis on 20 years DCF taking average revenue growth of 15% and EBITDA margin at ~27%, arrived at a fair value of Rs 2,356. Initiate coverage with a Buy.**

DCF-based valuation FY20-40E – We arrive at a fair value of Rs 2,356/share

Given high growth durability of the diagnostics industry, we value Metropolis on 20 years DCF taking average revenue growth of ~15% and EBITDA margin at ~27%, arrived at a fair value of Rs 2,356. Initiate coverage with a Buy.

Given below are our assumptions:

- WACC of 11.3% with cost of equity of 11.3%. We assume nil debt.
- We have assumed revenue growth of average 15% and have assumed average margin 27%.
- Terminal growth has been assumed at 7% post 20-year period up to FY40E.

Particulars	Rs mn
WACC (%)	11.3
Terminal growth (%)	7.0
Discounted FCF	113,788
Less: Debt	0
Add: cash	2,230
Equity value	116,019
No. of shares (mn)	50.6
Value per share (Rs)	2,312
CMP (Rs)	1,900
Upside (%)	24

Metropolis Healthcare – Financials

Income Statement

Period end (Rs mn)	Mar 20	Mar 21E	Mar 22E	Mar 23E
Net sales	8,558	9,620	11,100	12,989
<i>Growth (%)</i>	12.6	12.4	15.4	17.0
Operating expenses	(6,236)	(7,244)	(8,057)	(9,448)
Operating profit	2,323	2,376	3,042	3,541
Other operating income	6	7	8	10
EBITDA	2,328	2,383	3,050	3,551
<i>Growth (%)</i>	16.2	2.3	28.0	16.4
Depreciation	(393)	(424)	(458)	(495)
Other income	86	100	106	111
EBIT	2,021	2,059	2,698	3,167
Finance cost	(83)	(59)	(63)	(67)
Exceptional & extraordinary	(250)	0	0	0
Profit before tax	1,687	2,000	2,635	3,100
Tax (current + deferred)	(412)	(500)	(659)	(775)
Profit / (Loss) for the period	1,276	1,500	1,977	2,325
Reported Profit / (Loss)	1,276	1,500	1,977	2,325
Adjusted net profit	1,276	1,500	1,977	2,325
<i>Growth (%)</i>	3.2	17.6	31.8	17.6

Balance Sheet

Period end (Rs mn)	Mar 20	Mar 21E	Mar 22E	Mar 23E
Share capital	101	101	101	101
Reserves & surplus	5,134	5,722	6,780	8,185
Shareholders' funds	5,235	5,823	6,881	8,286
Minority interest and others	17	19	21	23
Non-current liabilities	576	611	650	693
Other non-current liabilities	576	611	650	693
Current liabilities	1,695	1,697	2,148	2,590
Other current liabilities	1,695	1,697	2,148	2,590
Total (equity and liabilities)	7,522	8,150	9,700	11,593
Non-current assets	3,552	3,790	4,055	4,354
Fixed assets (net block)	2,090	2,280	2,479	2,689
Non-current investments	18	18	18	18
Long-term loans and adv.	179	179	179	179
Other non-current assets	1,265	1,314	1,380	1,468
Current assets	3,971	4,360	5,644	7,239
Cash & current investment	2,230	2,511	3,557	4,851
Other current assets	1,740	1,849	2,087	2,388
Total (assets)	7,522	8,150	9,700	11,593
Capital employed	5,828	6,453	7,552	9,003

Metropolis Healthcare – Financials

Cash Flow Statement

Period end (Rs mn)	Mar 20	Mar 21E	Mar 22E	Mar 23E
Profit before tax	1,687	2,000	2,635	3,100
Depreciation	393	424	458	495
Change in working capital	808	(96)	226	157
Total tax paid	(526)	(547)	(723)	(862)
Others	83	59	63	67
Cash flow from oper. (a)	2,446	1,840	2,659	2,958
Capital expenditure	(1,082)	(614)	(657)	(705)
Change in investments	185	(15)	(17)	(19)
Others	(133)	0	0	0
Cash flow from inv. (b)	(1,031)	(629)	(674)	(724)
Free cash flow (a+b)	1,415	1,211	1,985	2,234
Equity raised/(repaid)	310	0	0	0
Debt raised/(repaid)	(176)	0	0	0
Dividend (incl. tax)	(484)	(911)	(919)	(919)
Others	238	(34)	(37)	(40)
Cash flow from fin. (c)	(112)	(946)	(956)	(959)
Net chg in cash (a+b+c)	1,302	265	1,029	1,275

Key Ratios

Period end (%)	Mar 20	Mar 21E	Mar 22E	Mar 23E
Adjusted EPS (Rs)	25.2	29.6	39.0	45.9
Growth	2.3	17.6	31.8	17.6
CEPS (Rs)	32.9	38.0	48.1	55.7
Book NAV/share (Rs)	103.7	115.3	136.2	163.9
Dividend/share (Rs)	7.9	15.0	15.0	15.0
Dividend payout ratio	37.9	60.8	46.5	39.5
EBITDA margin	27.2	24.8	27.5	27.3
EBIT margin	23.6	21.4	24.3	24.4
Tax rate	24.4	25.0	25.0	25.0
RoCE	39.3	33.5	38.5	38.3
Net debt/Equity (x)	(0.4)	(0.4)	(0.5)	(0.6)
Du Pont Analysis – RoE				
Net margin	14.9	15.6	17.8	17.9
Asset turnover (x)	1.3	1.2	1.2	1.2
Leverage factor (x)	1.4	1.4	1.4	1.4
Return on equity	27.1	27.1	31.1	30.7

Valuations

Period end (x)	Mar 20	Mar 21E	Mar 22E	Mar 23E
PER	51.1	66.2	50.3	42.7
PCE	39.0	51.6	40.8	35.2
Price/Book	12.4	17.0	14.4	12.0
Yield (%)	0.6	0.8	0.8	0.8
EV/EBITDA	27.0	40.6	31.4	26.6

About the company

Metropolis Healthcare Ltd. is one of the leading and renowned Indian diagnostic companies. The company owns a chain of diagnostic centres across India, South Asia, Africa and the Middle East countries. Metropolis is a leading diagnostic player in West India contributing 54% of sales and aims to expand its reach in North and East India. The company has 115 laboratory networks across the country. The management plans to focus on B2C business which currently contributes 43% of sales (versus B2B contributes 57%). Dr. Sushil Shah (Chairman) and his daughter, Ms Ameera Shah (Managing Director), are the promoters running the company, with the professional CEO, Mr Vijender Singh. The current promoters gained majority control of the company in 2015 post exit of Dr. GSK Velu.

Key milestone	Subject
1980	Founded by Dr. Sushil Shah in 1980 as a partnership firm.
1992	Commenced clinical research services.
2002	First major acquisition – Sudharma of Kerala; Introduced home service vertical.
2004	The company was accredited by National Accreditation Board for Testing and Calibration Laboratories (Department of Science & Technology, India).
2005	The company received accreditation from The College of American Pathologists.
2006	Investment by The Western India Trustee and Executor Company; US\$ 8 mn by ICICI Ventures.
	Acquisition of M/s Lister Laboratory and Research Centre Private Limited in Chennai.
2007	Acquisition of Desai Clinical Laboratory in Surat.
2008	Acquisition of R.V. Diagnostics & Healthcare Center Private Limited in Bengaluru.
2010	Investment by Foxcreek Investment Limited in the company; US\$ 85 mn by Warbug Pincus.
2011	Acquisition of LabOne in Raipur.
2012	Acquisition of Micron in Mumbai and Dr. Patel Pathology, Subsidiary in Kenya, new subsidiary in Mauritius.
2013	Acquisition of M/s. Ekopath Center – Pathology and Cytology division in Guwahati.
	Establishment of Global Reference Laboratory in Mumbai.
2014	Acquisition of subsidiary in Ghana.
	Investment by CA Lotus Investments in the company.
2015	Incorporation of subsidiary in Uganda, and branch office in Zambia; Exit of Dr. GSK Vellu as entry of Carlyle PE fund through purchase of his funds; promoters increased stake to 68%.
2017	Acquisition of Sanjeevani Pathology Laboratories in Rajkot.
2018	Public-Private partnership agreement executed with National AIDS Control Organisation, Government of India.
2019	Shares listed on NSE/BSE with a valuation of Rs 51 bn.
2019	26% of the shareholding of the promoters is pledged; promoters own 45% of the company.

Management profile and Appendix

Name	Designation	Qualification and Experiences
Dr. Shushil Kanubhai	Founder and Chairman	Degree of Doctor of Medicine in Pathology and Bacteriology. Having experience of more than 3 decades in the business.
Ameera Shah	Managing Director	Holds MBA degree, with more than two decades of experiences in the business.
Vijender Singh	Chief Executive Officer	Bachelor degree in Science with over 25 years of experience in the business. Previously worked with Dr. Lal PathLabs Limited, Ranbaxy Laboratories Limited, Bausch & Lomb India Private Limited and Blow Plast Limited.

GRL

Global Reference Lab (GRL) is a 45,000 sq ft facility located in Mumbai and acts as the main processing hub for the network. The laboratory is accredited by CAP and is capable of conducting all tests offered by Metropolis.

RRL

Metropolis has 13 RRLs, which are capable of conducting routine, semi-specialised and few specialised tests. These caters to ~70% of Metropolis' volume.

Satellite Labs

These are capable of conducting routine and semi-specialised tests. Metropolis network consists of 63 satellite labs.

Express Labs

These are capable of conducting only routine tests. Metropolis network consists of 47 express labs.

Owned PSCs

Owned patient service centres are company-owned collection centres where samples are collected to be taken to laboratories for testing.

ARCs

Assisted Referral labs (ARCs) are third-party referral centers, which collect specimens from pickup points such as hospitals, nursing homes, other diagnostic centres, etc. and are exclusive to Metropolis. These are similar to APSCs in nature of agreement but serve institutional customers rather than individuals.

NACO

National Aids Control Organization.

Focus cities

These are five key cities namely Mumbai, Bengaluru, Pune, Surat and Chennai where the company has most of their labs and collections points.

Seeding cities

Seeding cities are those which have strong growth potential and which the company identifies as the next focus cities. These cities include Nashik, Rajkot, Nagpur, Kochi, Raipur, NCR, Kolkata and Guwahati and contributed 19% of overall revenues.

SRL

Recovery mode still on

Business model

Super Religare Laboratories (SRL), an arm of Fortis group, is one of the well-known organised diagnostic player with 1% share of the overall market. SRL has a network of ~172 labs with 7609 pick-up points. The company is present in all segments of pathology testing, which includes screening, diagnostic, predictive, preventive. It has 43 NABL and CAP accredited labs. It also provides services of testing samples for the Multinational and Indian Pharmaceutical Companies/CROs undertaking clinical work for their international regulatory submissions. In FY20, SRL has sales of Rs 10 bn.

Despite having pan India presence and one of the largest national level diagnostic labs in India, SRL is overshadowed by the legal implications of its erstwhile promoters. It was valued at Rs 360 bn by TPG Capital-backed Manipal Health in FY18. Change in holding (IHH Healthcare bought SRL's promoter Fortis' shares), has lent the much needed focus. ~43% stake is held by private equities and other shareholders.

Future growth strategy

Network expansion: In order to drive future growth management plans to go aggressive in opening new collection centres and expand its franchisee model.

Expansion of PPP model: SRL has set-up its own labs in HP and while in other states, it plans to operate only through collection centres. This would help in offering specialised test which could help improve margins.

Focus on business from Fortis hospitals: SRL currently earns ~15% of its revenue from Fortis hospitals. Revenue from this stream is likely to grow with expansion of the Fortis network and addition of specialised tests basket.

Radiology business: SRL's radiology business contributes 5% to its sales. Radiology margins are higher than blended company margins and expansion in this area shall aid in improving overall operating performance.

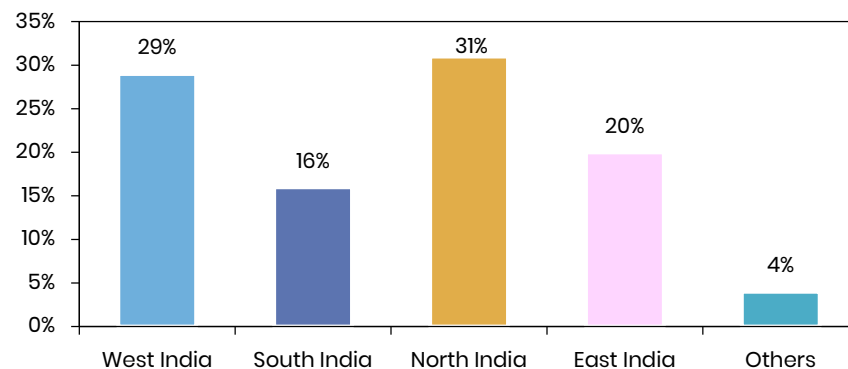
What went wrong in SRL?

- SRL carries the tainted image of its ex-promoter's legal baggage. The Singh brothers were involved in the plant sale (US\$ 4.6 bn) of Ranbaxy to Daiichi Sankyo (Promoters owe Rs 40 bn to Daiichi).
 - Diagnostic is a volume game business, backed by good logistics, which minimises the cost of every tests. But in SRL's case its mismanagement which has caused a dent in its profitability.
- Inadequate staff cost:** While SRL was part of the Religare Group until 2011, employee expense of the topline management was higher than its peers at Religare Enterprises. The manpower costs further escalated when SRL acquired Piramal Diagnostics for Rs 6 bn in 2010. By adding Piramal's 107 laboratories, SRL became the largest chain for pathology and radiology services, with 170 labs and 1,500 collection centres. Despite having the largest chain most of its labs were unprofitable, which resulted decline in the company's profitability.
 - Inefficient utilisation of lab:** SRL's second failing was that it built and acquired labs that were not efficiently utilised. With the acquisition of Piramal, SRL has large no. of labs among peers, but due to mismanagement, its asset utilisation remained poor.
 - Higher material cost:** The spending on materials and reagent cost for conducting each test was high for SRL, as the collection centres and franchisees require medical/tests kits. Currently, the reagent costs comprise ~22-25% of COGs, in line with industry peers.
 - Delayed receivables from PPP contracts:** SRL had built two labs in government hospitals under the public-private partnership (PPP) mode. Delayed payment from the government added to woes.

Financial highlights

(Rs mn)	FY16	FY17	FY18	FY19	FY20
Net sales	8,787	9,368	9,873	10,102	10,163
EBITDA	1,668	1,702	1,588	1,799	1,770
EBITDA margin (%)	19.1	18.4	16.4	18.1	17.7
Adjusted PAT	419	920	752	908	856

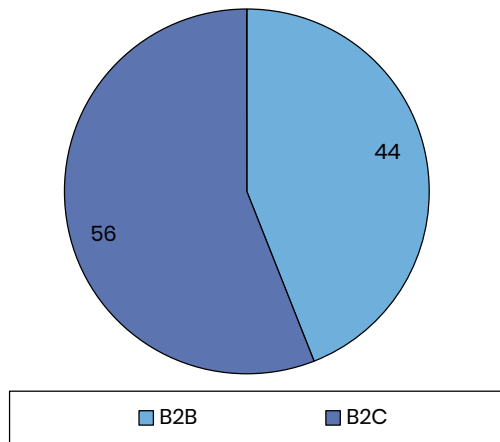
Revenue mix



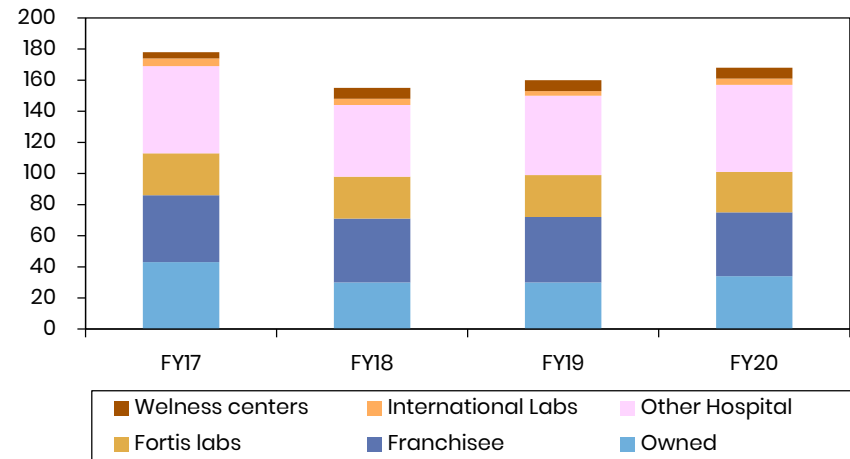
Managerial details

Key managerial	Designation
Arindam Haldar	CEO
Dr. Avinash Phadke	President & Mentor
Vikram Ahluwalia	Director – Marketing
Ravi Aggarwal	Regional COO. SCW and International Business
Anindya Chowdhury	Regional COO N & E
Saurabh Chadha	CFO
Radhakrishna Pillai	Chief Information Officer
Sumit Goel	Company Secretary

Business mix (%)



Lab network



Source: Company, B&K Research

Income Statement

Period end (Rs mn)	Mar 17	Mar 18	Mar 19	Mar 20
Net sales	9,263	9,695	9,922	10,002
<i>Growth (%)</i>	5.9	4.7	2.3	0.8
Operating expenses	(7,666)	(8,285)	(8,302)	(8,393)
Operating profit	1,597	1,410	1,620	1,609
Other operating income	105	178	180	161
EBITDA	1,702	1,588	1,799	1,770
<i>Growth (%)</i>	2.0	(6.7)	13.3	(1.6)
Depreciation	(497)	(434)	(389)	(576)
Other income	91	75	59	203
EBIT	1,296	1,228	1,469	1,396
Finance cost	(78)	(58)	(58)	(127)
Exceptional & extraordinary	60	4	30	67
Profit before tax	1,277	1,174	1,442	1,336
Tax	(357)	(422)	(534)	(481)
Profit / (Loss) for the period	920	752	908	856
Reported Profit / (Loss)	920	752	908	856
Adjusted net profit	920	752	908	856
<i>Growth (%)</i>	119.8	(18.3)	20.8	(5.8)

Balance Sheet

Period end (Rs mn)	Mar 17	Mar 18	Mar 19	Mar 20
Share capital	724	784	784	784
Reserves & surplus	8,469	9,263	10,183	11,021
Shareholders' funds	9,192	10,047	10,967	11,805
Minority interest and others	80	0	0	0
Non-current liabilities	267	319	283	793
Long-term borrowings	1	1	1	478
Other non-current liabilities	266	318	282	315
Current liabilities	1,296	1,489	1,461	1,770
ST borrowings, Curr maturity	23	199	20	172
Other current liabilities	1,273	1,290	1,441	1,598
Total (Equity and Liabilities)	10,836	11,855	12,711	14,368
Non-current assets	8,440	8,426	8,519	9,969
Fixed assets (Net block)	3,257	3,349	3,242	3,711
Non-current investments	263	0	0	0
Long-term loans and advances	2	107	129	926
Other non-current assets	4,918	4,969	5,148	5,332
Current assets	2,396	3,429	4,193	4,399
Cash & current investment	193	170	430	1,120
Other current assets	2,202	3,259	3,763	3,280
Total (Assets)	10,836	11,855	12,711	14,368
Total debt	24	200	21	650
Capital employed	9,562	10,564	11,270	12,770

Cash Flow Statement

Period end (Rs mn)	Mar 17	Mar 18	Mar 19	Mar 20
Profit before tax	1,277	1,174	1,442	1,336
Depreciation	497	434	389	576
Change in working capital	(846)	(1,075)	(367)	(102)
Total tax paid	(469)	(446)	(543)	(410)
Others	78	58	58	127
Cash flow from oper. (a)	537	145	979	1,528
Capital expenditure	(354)	7,002	1,695	470
Change in investments	(41)	263	0	0
Others	113	(27)	(170)	(255)
Cash flow from inv. (b)	(281)	7,238	1,525	215
Free cash flow (a+b)	256	7,383	2,504	1,743
Equity raised/(repaid)	125	60	0	0
Debt raised/(repaid)	(1,590)	176	(179)	629
Dividend (incl. tax)	(3)	0	0	0
Others	(253)	(162)	(94)	(2,867)
Cash flow from fin. (c)	(1,721)	74	(273)	(2,238)
Net chg in cash (a+b+c)	(1,465)	7,457	2,231	(495)

Key Ratios

Period end (%)	Mar 17	Mar 18	Mar 19	Mar 20
Adjusted EPS (Rs)	2.5	1.9	2.3	2.2
<i>Growth</i>	<i>81.8</i>	<i>(24.6)</i>	<i>20.8</i>	<i>(5.8)</i>
CEPS (Rs)	3.9	3.0	3.3	3.7
Book NAV/share (Rs)	25.4	6.4	3.7	2.0
EBITDA margin	18.4	16.4	18.1	17.7
EBIT margin	14.0	12.7	14.8	14.0
Tax rate	27.9	36.0	37.0	36.0
RoCE	14.1	12.2	13.5	11.6
Total debt/Equity (x)	0.0	0.0	0.0	0.1
Net debt/Equity (x)	(0.0)	0.0	(0.0)	(0.0)
Du Pont Analysis – RoE				
Net margin	9.9	7.8	9.2	8.6
Asset turnover (x)	0.9	0.9	0.8	0.7
Leverage factor (x)	1.3	1.9	6.2	12.1
Return on equity	11.6	12.8	45.6	76.2

Thyrocare Technologies

Share Data

Market Cap.	Rs 47 bn (US\$ 672 mn)
Price	Rs 903
BSE Sensex	45,553
Reuters	THYO BO
Bloomberg	THYOCAR IN
6M avg. daily turnover (US\$ mn)	3.9
52-week High/Low (Rs)	1,212/410
Issued Shares	53 mn

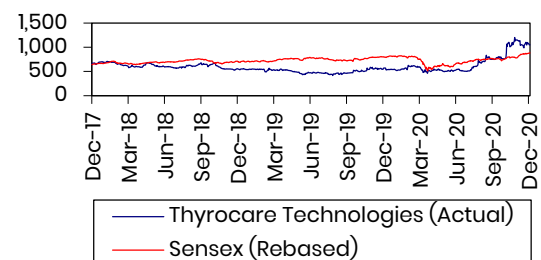
Valuation Ratios

Year to 31 Mar	FY18	FY19	FY20
EPS (Rs)	17.4	16.1	16.7
+/- (%)	117.6	(7.1)	3.7
PER (x)	39.4	36.3	29.6
PBV (x)	8.3	7.1	7.1
Dividend/Yield (%)	1.5	0.9	5.0
EV/Sales (x)	10.2	7.5	6.0
EV/EBITDA (x)	24.6	19.5	14.8

Shareholding Pattern (%)

Promoters	66
FII's	18
MFs	9
BFSI's	2
Public & Others	5

Relative Performance



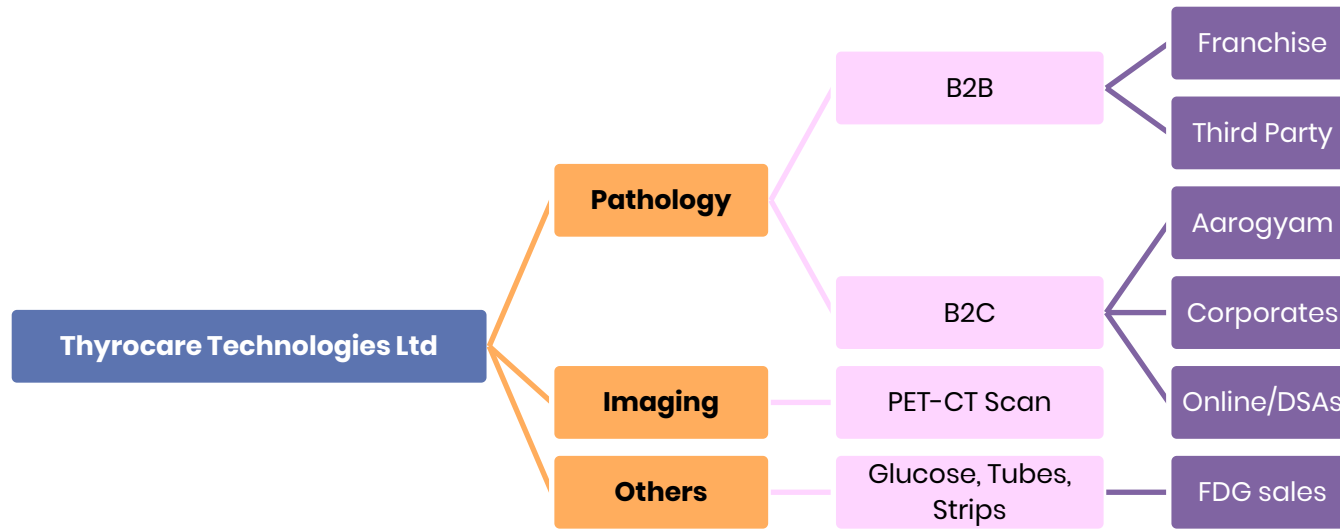
Well known disruptor

Thyrocare Technologies is 4th largest diagnostics chain in India specialising in cost-effective pathological biochemical testing. Its strategy belongs to high volumes with low costs by drawing best yields from infrastructure (limited menu of biochemistry tests that are conducted at its highly automated central lab), which drives economies of scale. Thyrocare reported 13% revenue CAGR over FY17-20. Price cuts in Aarogyam franchise (~50% of revenue) led to deceleration in revenue growth despite growth in the number of tests by 20% and samples by 15%. Traditionally, focused in B2B segment with hospitals and smaller diagnostic centres being its primary customers, Thyrocare is now facing competitive pressures both from online and offline models. Further, scale-up challenges in Nuclear Healthcare Limited (NHL), Thyrocare's fully-owned subsidiary has tainted profitability. Nevertheless, the company has invested in newer segments such as TB, pre-natal screening coupled with strong focus to drive the radiology business.

Strengthening B2B segment: Thyrocare, unlike peers, focuses on this largely unorganised market, leveraging its low-cost competency to offer discounted rates for specialty tests to these standalone and hospital-based diagnostic centers, which ensures regular samples for its labs and optimises asset utilisation. B2B business accounts for 78% of Thyrocare's revenues and remains a key volume generator for the company. In an endeavour to push its B2C product, Aarogyam (flagship brand), the company had undertaken ~25% price cuts leading to lower realisations. **60% of Aarogyam's demand comes from the B2B space with samples being forwarded through hospitals and other diagnostic centres.**

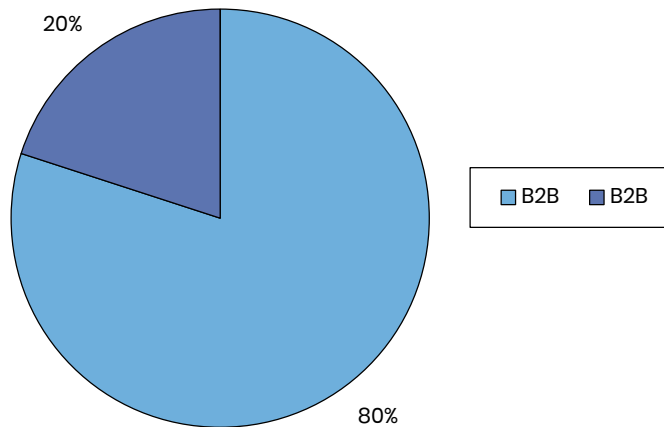
- **Determined for B2C segment:** Thyrocare's B2C business currently accounts for 22% of revenues. The management is focused on expanding the revenue contribution of this segment through strong promotion of Aarogyam, bulk deals with corporates/insurance companies and tie-ups with online aggregators
- **New wing to B2C segment:** Thyrocare launched pre-natal and neonatal tests in FY19 at 1/3rd the price prevailing in market (Rs 8,000 versus market price of Rs 25,000). With disruptive pricing, management plans to target molecular biology testing (child deformity) in neonatal segment. The segment has decent growth with ~200 samples till now and garnering revenue of ~Rs 1.5 mn per month with the price of Rs 8,000.
- Thyrocare has invested in another vertical, under the brand name Focus TB, launched in 2018 for tuberculosis testing. A 5,000 sq ft facility with an investment of ~Rs 30 mn has been setup in the ground floor of their centralised lab. TB testing is done with mucus which has its own dynamics in specimen collection, handling and operating with culture development and testing taking between 24 hours and 20 days (depending of the samples). Assuming capex of Rs 40-50 mn per set up, the business is predominantly opex driven with raw materials making up for ~40% of total costs.
- Since the sample cannot be transported beyond limit, Thyrocare is currently tapping is only Mumbai, Navi Mumbai, Thane and certain parts of Maharashtra. They already have municipal corporations at Thane and Navi Mumbai as their clients. **The company is likely to replicate the same laboratory in and near Patna as Bihar, CG, and Jharkhand. It is expected that Focus TB will achieve a turnover of Rs 50 mn by FY21. Management plans to open another centre in the near future.**
- **2QFY21 highlights:** In 2QFY21, Pathology revenue has grown up by 39% YoY led by sharp increase in Covid-19 testing Rs 477 mn and Rs 711 mn in 1HFY21, while the recovery in non-Covid was down by 6% YoY. The recovery led to EBITDA margin reverting to 40.4% from 15.0% in 1QFY21. Growth has largely seen in sickness testing (accounted for ~80% of volumes versus 45% normal run-rate) while the wellness business continued to struggle. Imaging business revived to the extent of 55% YoY and performed 3,277 scans during 2QFY21.

- Thyrocare is 4th largest diagnostics chain in India specialising in cost-effective pathological biochemical testing. Its strategy belongs to high volumes with low costs by drawing best yields from infrastructure (limited menu of biochemistry tests that are conducted at its highly automated central lab), which drives economies of scale. Thyrocare reported 13% revenue CAGR over FY17-20. Price cuts in Aarogyam franchise (~50% of revenue) led to deceleration in revenue growth despite growth in the number of tests by 20% and samples by 15%. Traditionally, focused in B2B segment with hospitals and smaller diagnostic centers being its primary customers, Thyrocare is now facing competitive pressures both from online and offline models. Further, scale-up challenges in Nuclear Healthcare Limited (NHL), Thyrocare's fully-owned subsidiary has tainted profitability. Nevertheless, the company has invested in newer segments such as TB, pre-natal screening coupled with strong focus to drive the radiology business.
- With non-Covid test volumes now at ~90% of pre-Covid level, business seems to be on path to recovery, while the Wellness is likely to remain subdued for a longer duration as consumers hold back non-essential activities. The company's model of low pricing/high volume strategy has aided quick recovery in non-Covid tests and we expect it normalise in the coming months with the pick-up in the preventive care segment. However, current performance has largely benefited from Covid-19 tests (~41% of revenue), sustainability of which remains uncertain. Couple with concern on slower growth in the base business and recent run up in the stock has made valuations expensive. At the current market price, the stock trades at 54x on FY20 EPS of Rs 16.7.



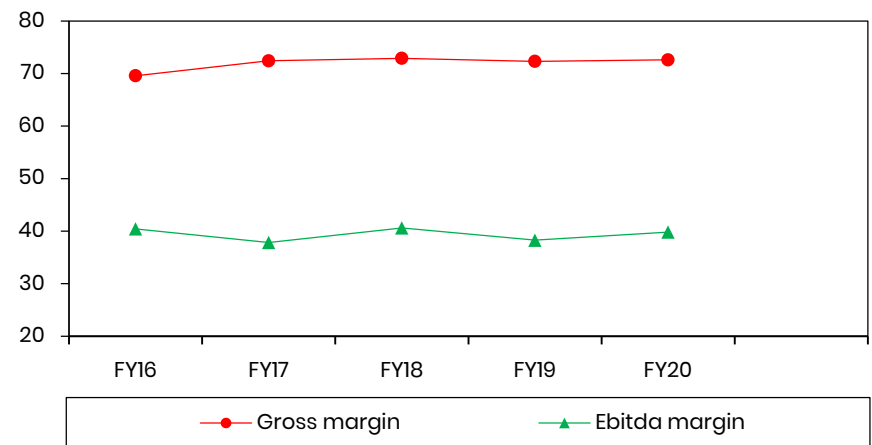
Source: Company, B&K Research

Business mix



Source: Company, B&K Research

Margin performance (%)



About the company

Thyrocare Technologies is the 4th largest pan-India diagnostic chains which conduct an array of in-vitro diagnostic tests and profiles of tests that centre on early detection and management of disorders and diseases. The company offered 283 tests and 122 profiles of tests to detect a number of disorders. Thyrocare's profiles of tests include 16 profiles of tests administered under "Aarogyam" brand, which offers wellness and preventive healthcare tests.

Key milestone

Year	Particulars
2000	Incorporation of 'TTL' and commencement of operations.
2001	Received ISO 9001 certification and acquisition of TDPL and TBPL.
2005	Received NABL accreditation.
2006	Issued fully convertible debentures to BCCL of Rs 250 mn.
2007	Received accreditation from College of American Pathologists.
2010	Issued compulsory convertible debentures of Rs 250 mn to Agalia.
	Agalia also acquired equity shares of Rs 1,250 mn from promoters and others.
	Launched wellness packages under brand 'Aarogyam'.
2011	Migrated to 'total laboratory automation system' installed by Siemens.
2012	NVP acquired equity shares of Rs 1,200 mn from certain entities.
2013	EIF acquired equity shares from Agalia.
	Commenced operations at PET-CT centres at Navi Mumbai and conducted 1,000 scans in the first year of operation.
2014	Installed India's first and longest track automation system from Siemens Limited.
	Commissioned operations in Cyclotron facility in Navi Mumbai.
	Commenced operations at PET-CT centres at New Delhi and Hyderabad and conducted 1,000 scans in the first year of operation.
2015	Commenced RPLs in Delhi, Coimbatore, Hyderabad, Kolkata.
	Acquired equipments for testing of water samples and commenced operations under brand 'Whaters'.
	Completed 10,000 scans in PET-CT at New Delhi and Mumbai each, and over 1,000 scans in Hyderabad from the date of inception.
2016	IPO in May 2016, oversubscribed by 75x, issue price at Rs 446, listed at Rs 662.
	Launched 2 new RPLs at Bhopal and Bengaluru
	Received NGSP certification for HbA1c testing.
2017	Launched Molecular Biology division (PCR).
	Launched RPL in Mumbai.
2018	Launched RPL in Patna.
	Launched TB diagnostics facility.
	Thyrocare and Thyroshop Mobile App launched.

Management profile...brands and services

Name	Designation	Directorships
Dr. A. Velumani	Chairman, CEO and MD	NHL
		THL
		Thyrocare International Limited
A. Sundararaju	ED and CFO	Dee Anu Trading Company Limited
		NHL
		Pavilion Commercial Private Limited
		SCPL
		TBPL
		TDPL
		THL
		Thyrocare International Limited
		Thyrocare Properties
		Total Diagnostics
Amruta Velumani	Non-Executive Director	Nil
Sohil Chand	Nominee Director	Nationwide Primary Healthcare Services Private Limited
		NHL
		NVP Venture Capital India Private Limited

Brand name	Services offered	Description
Thyrocare	Diagnostic testing	Thyroid and non-thyroid tests based on different types of testing.
Aarogyam	Wellness & 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.
WHATERS	Water testing	Physical and chemical, elements, microbiology, pesticide and volatile organic compound testing.
Sugar scan	Testing of blood glucose levels	Sugar scan blood glucose monitor.

Specification of processing labs

CPL & RPL	Capex (Rs mn)	Commencement	Samples capacity	Utilisation	Utilisation (%)
Navi Mumbai (CPL)					
Kolkata	25		10,000	6,870	69
New Delhi	86		10,000	6,623	66
Coimbatore			7,000	3,890	56
Hyderabad			6,000	3,159	53
Bhopal	15		6,000	2,164	36
Bengaluru			5,000	1,407	28
Mumbai		FY18			
Patna		FY18			
Total samples in RPL/day			44,000	24,113	55
Average samples/day			7,333	4,019	

Overview of the types of tests and the laboratory that performs these tests

Thyroid tests	Performed at CPL	Performed at RPL
Thyroid Stimulating Hormone	✓	✓
Total Triiodothyronine	✓	✓
Total Thyroxine	✓	✓
Non-Thyroid tests		
CLIA	✓	✓
ELISA	✓	
HPLC	✓	✓
Electrophoresis	✓	
Flow cytometry	✓	
Fluorescence Flowcytometry	✓	✓
Nephelometry	✓	
Photometry	✓	✓
Liquid Chromatography Mass Spectrometry	✓	
ICP-MS	✓	

Pathology – Hub & Spoke model

Thyrocare's CPL is located in Navi Mumbai and equipped with largest automated pathology systems APTIO, diagnostic testing instruments and processes from leading international and Indian healthcare brands. The CPL is fully automated and driven by a bar-coded and bi-directionally-interfaced system and a LIS. The CPL meets international standards of quality as it received global accreditations from CAP, the NABTCL and the ISO.

Thyrocare commenced setting up RPLs since 2014 and currently operates in 8 RPLs (New Delhi, Coimbatore, Hyderabad, Kolkata, Bengaluru, Bhopal, Mumbai and Patna). The RPLs process samples sourced from their respective catchment area. The pathology services offered at the RPLs process primarily routine tests conducive to high volume testing, including thyroid tests, profiles of tests offered under the Aarogyam brand, liver and kidney function tests.

Network of franchise partner

The company collects samples through a pan-India network of authorised service providers (ASPs) comprising Thyrocare Service Providers (TSPs), Thyrocare Aggregators mainly for B2B (TAGs) and Online Clients (OLCs). These ASPs sources samples from local hospitals, laboratories, diagnostic centres, nursing homes, clinics and doctors that avail Thyrocare's diagnostic services. As of 31 March 2019, the company had a network of 6,342 authorised service providers, including 578 Aggregators, 529 Thyrocare Service Providers and 5235 Online Clients spread across 555 cities and 32 states and 2 union territories. The company's wide spread network of ASPs has enabled it to expand the reach of the CPL and RPLs, thereby providing access to a larger customer base.

Imaging PET-CT

The company has a fully owned subsidiary Nuclear Healthcare Limited (NHL) which operates a growing network of molecular imaging centres, primarily focused on early and effective cancer monitoring. Each of NHL's imaging centres use PET-CT scanners to assist in cancer diagnosis, staging, monitoring of treatment, and efficacy and evaluation of disease recurrence. It currently has 14 operating PET-CT scanners across 12 imaging centres. Two are in Navi Mumbai, two in New Delhi, and one each in Hyderabad, Surat, Vadodara, Raipur, Jaipur, Mumbai, Aurangabad, Nashik, Bengaluru and Coimbatore. NHL also owns and operates a medical cyclotron unit in Navi Mumbai, which produces the radioactive bio-marker FDG required for PET-CT scanning.

The cyclotron unit generates FDG used by our PET-CT scanners in Navi Mumbai and New Delhi as well by third-party PET-CT imaging centres. Currently, 60% of the production of FDGs is used for owned/franchise PET-CT centres, while 40% are sold to third-party. The Hyderabad PET-CT centre currently meets the FDG requirements from third parties in Hyderabad in order to optimise cost and time efficiencies.

Income Statement

Period end (Rs mn)	Mar 17	Mar 18	Mar 19	Mar 20
Net sales	2,953	3,505	3,994	4,274
<i>Growth (%)</i>	27.7	18.7	14.0	7.0
Operating expenses	(1,892)	(2,116)	(2,487)	(2,607)
Operating profit	1,061	1,389	1,507	1,667
Other operating income	91	59	35	58
EBITDA	1,152	1,447	1,542	1,725
<i>Growth (%)</i>	23.2	25.6	6.6	11.9
Depreciation	(181)	(201)	(262)	(319)
Other income	122	230	100	77
EBIT	1,094	1,476	1,380	1,483
Finance cost	(3)	(4)	(6)	(19)
Exceptional & extraordinary	(274)	(22)	7	(61)
Profit before tax	817	1,450	1,381	1,404
Tax (current + deferred)	(388)	(517)	(529)	(520)
Profit / (Loss) for the period	428	933	851	884
Reported Profit / (Loss)	428	933	851	884
Adjusted net profit	428	933	851	884
<i>Growth (%)</i>	(17.3)	117.7	(8.7)	3.8

Balance Sheet

Period end (Rs mn)	Mar 17	Mar 18	Mar 19	Mar 20
Share capital	537	537	528	528
Reserves & surplus	3,541	3,896	3,823	3,138
Shareholders' funds	4,078	4,433	4,351	3,667
Non-current liabilities	124	154	190	210
Long-term borrowings	0	0	25	82
Other non-current liabilities	124	154	165	128
Current liabilities	176	203	206	817
ST borrowings, curr maturity	0	0	0	43
Other current liabilities	176	203	206	774
Total (equity and liabilities)	4,378	4,790	4,747	4,693
Non-current assets	2,883	3,366	3,387	3,171
Fixed assets (net block)	1,693	1,919	1,889	1,737
Non-current investments	0	200	207	212
Long-term loans and adv.	49	126	171	214
Other non-current assets	1,142	1,121	1,120	1,008
Current assets	1,495	1,424	1,360	1,523
Cash & current investment	1,160	1,120	842	801
Other current assets	336	305	518	722
Total (assets)	4,378	4,790	4,747	4,693
Total debt	0	0	25	124
Capital employed	4,202	4,587	4,541	3,919

Cash Flow Statement

Period end (Rs mn)	Mar 17	Mar 18	Mar 19	Mar 20
Profit before tax	817	1,450	1,381	1,404
Depreciation	181	201	262	319
Change in working capital	34	(18)	(242)	336
Total tax paid	(403)	(532)	(528)	(427)
Others	3	4	6	19
Cash flow from oper. (a)	631	1,106	879	1,651
Capital expenditure	(337)	(427)	(232)	(167)
Change in investments	(88)	(159)	248	51
Others	(21)	35	0	0
Cash flow from inv. (b)	(446)	(552)	16	(116)
Free cash flow (a+b)	185	555	895	1,535
Equity raised/(repaid)	0	40	(631)	22
Debt raised/(repaid)	0	0	25	99
Dividend (incl. tax)	(485)	(639)	(324)	(1,320)
Others	314	45	12	(321)
Cash flow from fin. (c)	(171)	(554)	(917)	(1,520)
Net chg in cash (a+b+c)	14	1	(23)	15

Key Ratios

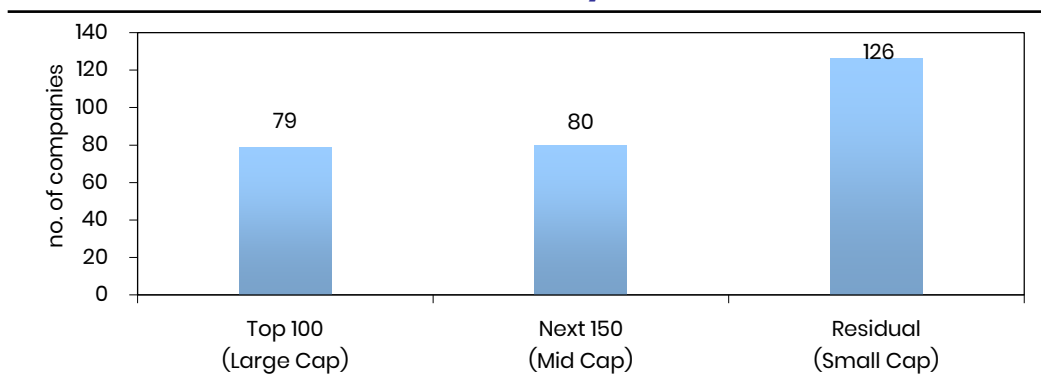
Period end (%)	Mar 17	Mar 18	Mar 19	Mar 20
Adjusted EPS (Rs)	8.0	17.4	16.1	16.7
<i>Growth</i>	<i>(17.3)</i>	<i>117.6</i>	<i>(7.1)</i>	<i>3.7</i>
CEPS (Rs)	11.3	21.1	21.1	22.8
Book NAV/share (Rs)	76.0	82.5	82.4	69.4
Dividend/share (Rs)	7.5	10.0	5.1	25.0
Dividend payout ratio	113.2	68.5	38.0	149.3
EBITDA margin	37.8	40.6	38.3	39.8
EBIT margin	37.0	42.1	34.6	34.7
Tax rate	47.5	35.7	38.3	37.0
RoCE	26.8	33.6	30.2	35.1
Net debt/Equity (x)	(0.3)	(0.3)	(0.2)	(0.2)
Du Pont Analysis – RoE				
Net margin	14.5	26.6	21.3	20.7
Asset turnover (x)	0.7	0.8	0.8	0.9
Leverage factor (x)	1.1	1.1	1.1	1.2
Return on equity	10.8	21.9	19.4	22.1

Valuations

Period end (x)	Mar 17	Mar 18	Mar 19	Mar 20
PER	81.7	39.4	36.3	29.6
PCE	57.5	32.4	27.8	21.7
Price/Book	8.6	8.3	7.1	7.1
Yield (%)	1.2	1.5	0.9	5.0
EV/EBITDA	29.4	24.6	19.5	14.8

Thank You

B&K Universe Profile - by AMFI Definition



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HOLD	+15% to -10%	+20% to -15%
SELL	<-10%	<-15%

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