

7th Dec, 2015

Issue Summary

Price band (Rs)	540-550
Market Lot	20 Equity Shares
Face Value (Rs)	10
Opens	8th Dec, 2015
Closes	10th Dec, 2015
Offer for Sale	1.16 Cr shares
Listing	BSE, NSE
Discount	Rs 15 per share discount for retail investors

Issue Break Up:

OFS by

Promoters	5%
Investors	9%

Offer consists of

QIB portion	50%
NIB portion	15%
Retail portion	35%

Book Running Lead Managers

- Kotak Mahindra Capital Company Ltd.
- Citigroup Global Markets India Pvt. Ltd.

Registrar

Link Intime India Private Limited

Company & Business Profile

Dr Lal PathLabs (DLP) is a provider of diagnostic and related healthcare tests and services for use in core testing, patient diagnosis and the prevention, monitoring and treatment of disease and other health conditions in India with concentration in Northern & Eastern region. Diagnostic & related healthcare tests & services include (i) "routine" clinical laboratory tests; (ii) "specialized" testing services; & (iii) preventive testing services. Customers include individual patients, hospitals and other healthcare providers and corporate customers. DLP operates on "hub and spoke" model whereby specimens are collected across multiple locations within a region for delivery to a predesigned clinical laboratory for centralized diagnostic testing. The network includes one National Reference Laboratory in New Delhi, 163 other clinical laboratories, about 1,340 patient service centers, 5,000 pickup points as of 31st March, 2015. The model is an asset light model where patient pick up centre and patient pick up points are mostly franchised.

Objects of the Issue

Offer for Sale:

Company will not receive any proceeds from the Offer. All proceeds from the Offer will go to the Promoter Selling Shareholders and the Investor Selling Shareholders, in proportion to the Equity Shares offered by the respective Promoter Selling Shareholder and the respective Investor Selling Shareholder in the Offer for Sale.

Investment Positives

- Operating on "hub & spoke" model offers a scalable platform for growth of business with the centralized information technology platform that fully integrates the large network through a common logistics and payments system and tracks the operations and internal performance metrics, thereby enabling the company to improve the efficiencies of business.
- An established consumer healthcare brand associated with quality services.
- Attractive financial performance - In FY2015 and H1FY2016, DLP collected and processed approximately 21.8 million samples and 13.4 million samples from approximately 9.9 million and 6.2 million patients respectively. The company has no debt on books & is cash rich with a cash & investment balance of Rs 235 Crore as on 31st March, 2015.
- CRISIL Research estimates the size of the diagnostics industry at around Rs 377 billion in 2014-2015 & is projected to grow to Rs 600 billion by FY 2018.

Concern

- The diagnostic healthcare services industry in India is highly competitive and has low barriers to entry. Moreover, the competitive dynamics of industry, particularly pricing-related competition, can intensify in the coming years.
- The delivery of diagnostic healthcare services involves certain inherent risks.

**Valuation**

At the price band of Rs 540-550, the issue is priced at 46-47x price earnings (PE) ratio for FY2015 and 28x EV/EBIDTA for FY2015. The valuations look high. However, DLP is a cash rich company with zero debt & good cash flows. Also it has strong brand image & management expects to fund its expansions through internal accruals. Also the company will be the only player in listed place in diagnostic business in India. We recommend subscribing the issue for short to medium term horizon.

Dr. Lal Pathlabs Ltd. Balance Sheet - Consolidated - [INR-Crore]					
DESCRIPTION	Mar-15	Mar-14	Mar-13	Mar-12	Mar-11
EQUITY AND LIABILITIES					
Share Capital	81.26	80.31	5.02	5.02	5.06
Total Reserves	259.82	151.18	157.03	110.95	87.79
Shareholder's Funds	341.08	231.49	162.05	115.97	92.84
Minority Interest	2.3	1.84	1.62	1.11	0.65
Total Non-Current Liabilities	-5.22	1.21	3.37	8.44	9.96
Total Current Liabilities	111.76	97.36	89.09	48.66	63.88
Total Liabilities	449.91	331.9	256.14	174.18	167.34
ASSETS					
Net Block	150.08	139.83	126.55	108.29	112.33
Long Term Loans & Advances	13.91	18.78	8.56	8.82	8.31
Total Non-Current Assets	168.29	161.57	139.39	132.22	123.4
Cash and Bank	148.19	105.67	21.46	13.44	22.46
Total Current Assets	281.62	170.33	116.75	41.96	43.94
Total Assets	449.91	331.9	256.14	174.18	167.34

Source: - Company data, Arihant Research



Dr. Lal Pathlabs Ltd. Profit And Loss - Consolidated - [INR-Crore]					
DESCRIPTION	Mar-15	Mar-14	Mar-13	Mar-12	Mar-11
Net Sales	659.59	557.95	451.66	342.21	237.27
Increase/Decrease in Stock					
Cost of Medicines and Consumables	139.16	117.66	97.3	76.17	60.87
Power & Fuel Cost	11.26	9.66	7.53	5.28	4.27
Employee Cost	134.39	101.57	93.8	53.77	37.79
Hospital Operation Expenses	39.99	33.75	25.94	19.62	13.02
Selling, Administration and Other Expenses	161.9	141.89	118.33	92.63	59.32
Miscellaneous Expenses	16.94	14.87	11.12	8.23	5.37
Total Expenditure	503.64	419.39	354.01	255.7	180.63
Operating Profit (Excl OI)	155.95	138.55	97.66	86.51	56.64
Other Income	12.34	8.08	3.38	2.28	2.48
Interest	0.41	0.2	0.44	2.53	0.78
Depreciation	28.19	27.23	20.4	19.83	13.6
Provision for Tax	44.7	38.94	24.55	21.26	15.19
Profit After Tax	95	80.26	55.65	45.17	29.55
Minority Interest	-0.75	-0.68	-0.52	-0.45	-0.43
Consolidated Net Profit	94.24	79.59	55.13	44.71	29.12

Source: - Company data, Arihant Research



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Stock Rating Scale

	Absolute Return
Buy	> 20%
Accumulate	12% to 20%
Hold	5% to 12%
Neutral	-5% to 5%
Reduce	< -5%

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