

Dr. Lal Pathlabs Limited

February 14, 2024

Facilities/Instruments	Amount (₹ crore)	Rating ¹	Rating Action
Long-term bank facilities	104.17 (Reduced from 229.00)	CARE AA; Stable	Reaffirmed

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

The rating assigned to the bank facilities of Dr. Lal Pathlabs Limited (DLPL) derives strength from the company's leading and dominant position in the domestic pathology laboratory (path lab) industry supported by extensive experience of promoters, its strong brand image supported by an established market position in business to customer (B2C) segment, strong franchisee model and a robust distribution network spread across India. DLPL's growing scale of operations with healthy operating profitability margin and its strong financial risk profile marked by comfortable capital structure and strong debt coverage indicators further support the rating. The rating also factors DLPL's healthy net worth base and strong liquidity profile which is expected to continue on the back of healthy cash accruals and absence of any major debt-funded capex in the medium term. The above rating strengths are, however, tempered by DLPL's presence in a fragmented industry and increasing competition due to moderate entry barriers and absence of stringent government regulations. The ratings also consider large-size capital deployed in its recently acquired Suburban Diagnostics India Private Limited (SDIPL), which presently operates at sub-optimal profitability and return ratio. However, DLPL expects to benefit from operational efficiencies as well as geographical diversification from the said acquisition.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

- Sustained improvement in company's scale of operations with profit before interest, lease rentals, depreciation and taxation (PBILDT) margin of more than 27% along with improved geographical presence.
- Accumulation of cash and liquid investments of the company above ₹1,000 crore in future while maintaining a healthy capital structure with gearing below 0.25x (including lease liabilities).

Negative factors

- Sustained deterioration in the company's total operating income (TOI) with reduction in PBILDT margin below 22% resulting in lower-than-envisaged cash accrual.
- Any major debt-funded capex or acquisition resulting in an overall gearing of more than 0.5x.
- Elongation in the company's working capital cycle or significant reduction in its cash and liquid investments.

Analytical approach: Consolidated.

CARE Ratings Limited (CARE Ratings) has considered DLPL's consolidated financial and operational performance along with its subsidiaries which are engaged in a similar line of operations and are collectively known as Dr. Lal Path Lab Group. The list of entities whose financials have been consolidated is mentioned in Annexure-6.

Outlook: Stable

Stable outlook reflects that DLPL is likely to maintain its market position which coupled with its established presence and distribution network across India should enable it to sustain its financial risk profile over the medium term.

Detailed description of the key rating drivers:

Key strengths

Established track record of operations and leading position in domestic market

DLPL has a track record of over seven decades in the medical diagnostics industry. The company is a leading national player with a wide network comprising 277 clinical labs, 5,102 patient service centres (PSCs) and 10,938 pick-up points (PUPs) as on March 31, 2023. DLPL offers more than 5,000 tests menu, including catalogue of 481 test panels, 2,763 pathology tests and 1,947 radiology and cardiology tests.

Geographically diversified operations and strong retail franchisee

DLPL's revenue is geographically diversified with north, east, west and south regions contributing 62%, 14%, 16%, 6% of its sales, respectively, in FY23 (refers to period April 01 to March 31). The group also has presence outside India and operates its path labs in Nepal, Bangladesh, Kenya, among others, through its subsidiaries which accounts for nearly 2% of the company's

¹Complete definition of the ratings assigned are available at www.careedge.in and other CARE Ratings Ltd.'s publications

revenue. In FY22, DLPL acquired SDIPL to strengthen and penetrate its geographical presence in western India. As on March 31, 2023, SDIPL had 40 labs, 207 PSCs and 1,008 PUPs. DLPL's revenue share from B2C continued to remain above 70% despite a sharp decline in COVID-19 revenue from ₹396 crore in FY22 to ₹63 crore in FY23, supported by strong retail franchisee.

Growing scale of operation with healthy profitability margin

On a consolidated basis, TOI of DLPL grew at a compounded annual growth rate (CAGR) of 14% in FY18-FY23, albeit it remained largely stable in FY23 over FY22 as 16% growth in non-COVID revenue was offset by decline in COVID revenue. In FY23, DLPL collected and processed nearly 72 million samples (FY22: 66 million samples) from 26.9 million patients (FY22: 27.3 million patients). With decline in COVID tests, the test rate normalised to historical average of around ₹280 in FY23. Subsequently, PBILDT margin moderated to 24.66% in FY23 from 26.89% in FY22. In 9MFY24, revenues grew by 10% on a y-o-y basis with ramp-up of newly inaugurated centres (around 400 centres opened in FY23). PBILDT margin improved to 27.64% in 9MFY24 backed by marginal price increases and higher share of specialised tests. CARE Ratings expects TOI of DLPL to increase at double digit rate in the medium term, aided by higher volume and improvement in service mix. DLPL plans expansion by adding 1,000 centres by March FY25, mainly in underpenetrated tier-3 and 4 cities, where it has strong presence and high-potential markets of the west and south regions.

During FY22, DLPL invested around ₹1,000 crore towards SDIPL. SDIPL operates at sub-optimal profitability and return on capital employed (ROCE) which restricts consolidated profitability and ROCE till the time SDIPL start generating meaningful contribution to consolidated performance. SDIPL contributed nearly 8% and 5% in consolidated TOI and PBILDT, respectively, in FY23. SDIPL has relatively lower operating margins of 14-16% as against the consolidated operating margin of 26-27%.

Strong financial risk profile marked by comfortable capital structure and strong debt coverage indicators

On a consolidated level, company's capital structure continued to remain comfortable, marked by an overall gearing ratio and total outside liabilities (TOL)/tangible net worth (TNW) of 0.25x and 0.41x, respectively, as on March 31, 2023, backed by its healthy capital base of ₹1,681 crore as on even date. Moreover, the capital structure is expected to remain comfortable due to its relatively low reliance on debt, expectation of strong cash accruals and the absence of any major debt-funded capex.

The debt coverage indicators marked by PBILDT interest coverage and total debt to PBILDT continued to remain strong at 13.25x and 0.84x, respectively, in FY23, backed by low debt levels and healthy profitability. Debt coverage indicators are expected to remain strong due to healthy profitability and cash accruals.

Extensive experience of promoters in the industry

The company is managed by Dr. Arvind Lal, the Chairman, who has experience of more than four decades and is a pioneer in bringing laboratory services in India at par with the western world. 36 labs operated by DLPL are accredited by National Accreditation Board for Testing and Calibration Laboratories (NABL) and 2 labs by College of American Pathologists (CAP). Dr. Lal is also a member of many expert and advisory bodies constituted by the central and the state governments. He is also supported by Dr. Om Prakash Manchanda, Managing Director, having more than three decades experience in pharmaceuticals and diagnostics and is associated with the company for the past 18 years.

Liquidity: Strong

DLPL has strong liquidity marked by strong operating cash flow of over ₹400 crore in FY22 and FY23, healthy current ratio of 2.07x as on March 31, 2023, and very low utilisation of fund-based working capital limits for the trailing 12 months ended December 2023. DLPL expects to generate cash accruals of around ₹500-550 crore per annum in FY24 and FY25 which will be sufficient to meet incremental working capital requirement and annual repayment obligations of around ₹83 crore over the same period. Additionally, DLPL had liquid investments and a cash and bank balance aggregating to ₹853 crore as on December 31, 2023, significantly exceeding company's total debt, resulting in a zero net debt position. DLPL's capex requirements are modular which are expected to be funded by internal accruals.

Key weaknesses

Fragmented nature of healthcare industry and increasing competition due to moderate entry barriers

The diagnostics industry faces moderate entry barriers on account of average capital intensity, resulting in the emergence of several diagnostic centres, with numerous players, big and small, offering similar services, resulting in intense competition. The laboratories within hospitals also increase competition for organised standalone diagnostic service players. In addition, DLPL also faces the competition from online aggregators who offers discounts to penetrate in the markets. Additionally, any price caps by regulators could lower the pricing power which may have an impact on sector's profitability. Diagnostic centres must continuously upgrade their technology in a competitive environment, which involves significant investment in medical equipment constraining free cash flows. However, for organised players like DLPL, most of the equipment are available on

rental and reagent basis which does not require huge cash outflow thereby providing financial flexibility to some extent. The brand equity of the company provides an edge over its peers in the competitive landscape of the industry.

Environment, social, and governance (ESG) risks

Parameter	Compliance and action by the company
Environment	<ul style="list-style-type: none"> Diagnostic service providers have a moderate exposure to environmental risks as they are exposed to environmental laws and regulations pertaining to handling, transportation and disposal of medical specimens, infectious and hazardous waste along with radio-active exposure during imaging procedures. DLPL's employees are trained and encouraged to use protective equipment and instruments while handling biological specimen and adhere to national and local safety guidelines, including that of biomedical waste disposal. DLPL uses electric bikes and biodegradable bags for sample collection.
Social	<ul style="list-style-type: none"> Exposure to social risks is moderate and includes litigation exposure, and compliance standard requirements given the importance of the service being provided. In FY23, DLPL provided 31,348 hours of training for employee development.
Governance	<ul style="list-style-type: none"> DLPL's board of directors has 50% independent directors (5 out of 10). There are separate Codes of Conduct for Board Members and senior management personnel. Various policies, including whistle blower policy, is in place in line with legal requirements.

Applicable criteria

[Policy on default recognition](#)

[Consolidation](#)

[Financial Ratios – Non financial Sector](#)

[Liquidity Analysis of Non-financial sector entities](#)

[Rating Outlook and Credit Watch](#)

[Service Sector Companies](#)

About the company and industry

Industry classification

Macro-economic Indicator	Sector	Industry	Basic Industry
Healthcare	Healthcare	Healthcare services	Healthcare service provider

DLPL is a flagship company of the Dr. Lal Pathlabs Group and is engaged in business of providing diagnostic and related healthcare tests. The company was established as a partnership firm in 1949 by Late Dr. S. K. Lal and was converted into a private limited company in 1995. The constitution of the company was converted to a public limited company and was listed on Bombay Stock Exchange and National Stock Exchange in December 2015. The company has its corporate office in Gurugram (Haryana).

Brief Consolidated Financials (₹ crore)	FY22 (A)	FY 23 (A)	9MFY24 (UA)
Total operating income	2,087	2,017	1,681
PBILDT	561	497	465
PAT	350	241	277
Overall gearing (times)	0.35	0.25	NA
Interest coverage (times)	18.60	13.25	20.38

A: Audited; UA: Unaudited; NA: Not available; Note: 'the above results are latest financial results available'

Financials classified as per CARE Ratings' standards.

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

Rating history for last three years: Please refer Annexure-2

Covenants of rated instrument / facility: Detailed explanation of covenants of the rated instruments/facilities is given in Annexure-3

Complexity level of various instruments rated: Annexure-4

Lender details: Annexure-5

Annexure-1: Details of instruments/facilities

Name of the Instrument	ISIN	Date of Issuance (DD-MM-YYYY)	Coupon Rate (%)	Maturity Date (DD-MM-YYYY)	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Fund-based - LT-Term loan	-	-	-	March 2025	104.17	CARE AA; Stable

Annexure-2: Rating history for the last three years

Sr. No.	Name of the Instrument/ Bank Facilities	Current Ratings			Rating History			
		Type	Amount Outstanding (₹ crore)	Rating	Date(s) and Rating(s) assigned in 2023-2024	Date(s) and Rating(s) assigned in 2022-2023	Date(s) and Rating(s) assigned in 2021-2022	Date(s) and Rating(s) assigned in 2020-2021
1	Fund-based - LT-Term loan	LT *	104.17	CARE AA; Stable	-	1)CARE AA; Stable (10-Jan-23)	-	-

*Long term.

Annexure-3: Detailed explanation of covenants of the rated instruments/facilities: Not applicable**Annexure-4: Complexity level of the various instruments rated**

Sr. No.	Name of the Instrument	Complexity Level
1	Fund-based - LT-Term loan	Simple

Annexure-5: Lender detailsTo view the lender wise details of bank facilities please [click here](#)**Annexure-6: List of all the entities consolidated**

Sr. No.	Name of the entity	Extent of consolidation	Rationale for consolidation
1	Paliwal Diagnostics Private Limited	Full consolidation	Subsidiary; operational linkages
2	Paliwal Medicare Private Limited		
3	Dr. Lal Ventures Private Limited		
4	PathLabs Unifiers Private Limited		
5	APRL PathLabs Private Limited		
6	Centrapath Labs Private Limited		
7	Chanre Laboratory Private Limited		
8	Suburban Diagnostics (India) Private Limited		
9	Dr. Lal PathLabs Nepal Private Limited		
10	Dr. Lal Path Labs Bangladesh Pvt Ltd		
11	Dr. Lal PathLabs Kenya Private Limited		

Note on the complexity levels of the rated instruments: CARE Ratings has classified instruments rated by it on the basis of complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careedge.in for any clarifications.

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About us:

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