

## Dr. Lal Pathlabs Limited

April 22, 2025

Facilities/Instruments	Amount (₹ crore)	Rating <sup>1</sup>	Rating Action
Issuer rating	0.00	CARE AA; Stable	Assigned

Details of instruments/facilities in Annexure-1.

### Rationale and key rating drivers

The rating assigned to the Dr. Lal Pathlabs Limited (DLPL) drives strength from the company's leading and dominant position in the domestic pathology laboratory (path lab) industry supported by extensive experience of promoters, strong brand image and franchisee in business to customer (B2C) segment, increasing geographical diversification 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 factors DLPL's healthy net worth base and strong liquidity profile which is expected to continue considering healthy cash accruals and absence of major debt-funded capex in the medium term. The rating also considers the positive demand scenario for the Indian diagnostic industry for medium-to-long-term.

However, rating strengths are tempered by DLPL's presence in a fragmented industry and increasing competition due to moderate entry barriers and absence of stringent government regulations. The rating also considers large-size capital deployed in Suburban Diagnostics India Private Limited (SDIPL), which presently operates at sub-optimal profitability. However, DLPL expects to benefit from operational efficiencies and geographical diversification from the said acquisition. DLPL plans to merge SDIPL through a voluntary liquidation route.

### Rating sensitivities: Factors likely to lead to rating actions

#### Positive factors

- Significant growth in scale of operations and geographical diversification and diversification in service offering while maintaining profit before interest, lease rentals, depreciation and taxation (PBILDT) margin of over 27%.

#### Negative factors

- Large size debt funded capex plan or acquisition weakening key debt coverage indicators.

### Analytical approach: Consolidated

CARE Ratings Limited (CARE Ratings) has considered DLPL's consolidated financial and operational performance and its subsidiaries which are engaged in similar 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 DLPL is likely to maintain its market position and its established presence and distribution network across India should enable it to sustain financial risk profile over the medium term.

### Detailed description of 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 280 clinical labs, 5,762 patient service centres (PSCs) and 11,619 pick-up points (PUPs) as on March 31, 2024. DLPL offers over 4,500 tests menu, including catalogue of 343 test panels, 3,075 pathology tests and 1,439 radiology and cardiology tests. It is expected to test over 2.8 crore patients and over 8.7 crore samples in FY25 (refers to April 01 to March 31) demonstrating its vast reach and operational excellence.

##### Geographically diversified operations and strong retail franchisee

DLPL's revenue is geographically diversified with north, east, west and south regions contributing 62%, 15%, 15% and 6% sales, respectively, in FY24. The group also has presence outside India and operates its path labs in Nepal and Bangladesh, among others, through its subsidiaries which accounts for ~2%. In FY22, DLPL acquired SDIPL to strengthen and penetrate its geographical presence in western India. 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 ₹3 crore in FY24, supported by strong retail franchisee.

<sup>1</sup>Complete definition of ratings assigned are available at [www.careedge.in](http://www.careedge.in) and other CARE Ratings Limited's publications.

### **Growing scale of operation with healthy profitability margin**

On a consolidated basis, DLPL's total operating income (TOI) grew at a compounded annual growth rate (CAGR) of 14% in FY20-FY24 and grew by ~10% in FY24 year-over-year (y-o-y). This growth was primarily driven by increase in number of patients backed by rapid rise in revenue from tier2 and tier 3 cities and marginal increase in average revenue per patient.

In FY24, DLPL collected and processed ~78.2 million samples (FY23: 72.3 million samples) from 27.6 million patients (FY23: 26.9 million patients). Despite the post-COVID-19 pandemic environment, the company successfully maintained patient inflow. DLPL has consistently maintained healthy operating margin over the years, with its robust customer mix, with over 70% revenues coming from the B2C segment. The company's PBILDT margin grew by 271 bps in FY24 to 27.37% (FY23: 24.66%). In the 9MFY25, revenue grew by 11% y-o-y and the PBILDT margin improved and stood at 28.32%, supported by an increase in the number of patients and samples tested, and higher average revenue per patient. CARE Ratings expects DLPL's TOI to grow at double digit rate in the medium term, aided by higher volume and improvement in service mix. In FY22, DLPL invested ~₹1,000 crore towards acquisition of SDIPL. SDIPL operates at sub-optimal profitability which restricts consolidated profitability and return on capital employed (ROCE). SDIPL contributed ~7% (PY: 8%) and 3% (5%) in consolidated TOI and PBILDT, respectively, in FY24.

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

On a consolidated level, the company's capital structure improved further and continued to remain comfortable, marked by an overall gearing ratio and total outside liability to total net worth (TOL/TNW) of 0.13x and 0.30x, respectively, as on March 31, 2024, backed by healthy capital base of ₹1,867 crore as on even date. 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 major debt-funded capex.

The debt coverage indicators marked by PBILDT interest coverage and total debt to gross cash accruals (TD/GCA) continued to remain strong at 20.76x and 0.49x, respectively, in FY24 (FY23: 13.25x and 1.09x, respectively), backed by low debt levels and healthy profitability.

DLPL had liquid investments and a cash and bank balance aggregating to ~₹1,100 crore as on December 31, 2024, significantly exceeding the company's total debt, resulting in a zero net debt position for the company.

### **Extensive experience of promoters in the industry**

The company is managed by Dr. Arvind Lal, the chairman, who has experience of over four decades and is a pioneer in bringing laboratory services in India at par with the western world. 40 labs operated by DLPL are accredited by National Accreditation Board for Testing and Calibration Laboratories (NABL) and two 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.

### **Favourable demand outlook for Indian diagnostics industry**

CARE Ratings expects the diagnostic industry to witness stable double-digit revenue growth, ranging from 12%-14%, driven by organic and inorganic expansion of players and paradigm shift in consumers towards preventive healthcare. The growth in the diagnostic sector is supported by an increase in healthcare spending by ageing population, rising income levels, rising awareness for preventive testing, advanced healthcare diagnostic tests offerings, market penetration of healthcare insurance and healthcare measures by the central government. Owing to the sedentary lifestyle, chronic diseases such as obesity, diabetes and hypertension among others have been on the increasing trend. There has been a rise in the number of people suffering from non-communicable diseases which is expected to jump from 19% in 2008 to 28% in 2030. The cost of diagnostic services in India is generally more affordable compared to many other countries. Consequently, India is fast emerging as a medical tourism hub, witnessing a surge in patients from across the world for cost-effective and quality treatment options which is expected to boost demand for the Indian diagnostic services for the next few years.

### **Liquidity: Strong**

DLPL's liquidity remains strong with a current ratio of 2.39x as on March 31, 2024. DLPL is expected to generate cash accruals of ~₹600-700 crore per annum in the medium term. The company does not have term debt. DLPL had liquid investments and a cash and bank balance aggregating to ~₹1,100 crore as on December 31, 2024, significantly exceeding total debt of the company, resulting zero net debt position for the company. The company's capex requirements are modular which are expected to be funded by internal accruals.

### **Key weaknesses**

#### **Fragmented healthcare industry and increasing competition due to moderate entry barriers**

The diagnostics industry faces moderate entry barriers considering 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 in 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. 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 such as DLPL, most equipment is available on rental and reagent basis which does not require huge cash outflow providing financial flexibility to some extent. The company's brand equity provides an edge over its peers in the competitive landscape of the industry.

### Environment, social, and governance (ESG) risks

Factors	Compliance and action adopted by company
Environmental	Diagnostic service providers do not face major physical climate risk. However, they are exposed to environmental laws and regulations pertaining to handling, transportation and disposal of medical specimens, infectious and hazardous waste and radio-active exposure in imaging procedures. Accordingly, entities in the industry have a moderate exposure to environmental risks. 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 biomedical waste disposal. DLPL use electric bikes and biodegradable bags for sample collection.
Social	Exposure to social risks is moderate for the health care diagnostic service provider sector. Social risks for industry players include litigation exposure, and compliance standard requirements given the importance of the service being provided. Further, regulatory interventions such as price control measures, if any, specifically levied could impact the earnings of industry players. The company enforces an annual health checkup for all technical roles involved with sample handling. Company conducts customized Management Development Programs per the employee development needs.
Governance	DLPL's board of directors has 50% independent directors (5 of 10). There are separate Codes of Conduct for Board Members and senior management personnel. Various policies, including whistle blower policy, is in place aligned with legal requirements.

### Applicable criteria

[Consolidation](#)

[Definition of Default](#)

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

[Rating Outlook and Rating Watch](#)

[Financial Ratios – Non financial Sector](#)

[Service Sector Companies](#)

[Issuer Rating](#)

### About the company and industry

#### Industry classification

Macroeconomic 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 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 to a private limited company in 1995. The company's constitution 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)	FY23 (A)	FY24 (A)	9MFY25 (UA)
Total operating income	2,017	2,227	1,859
PBILDT	497	609	527
PAT	241	362	337
Overall gearing (times)	0.25	0.13	NA
Interest coverage (times)	13.25	20.76	30.43

A: Audited UA: Unaudited; NA: Not available; Note: these are latest available financial results

**Status of non-cooperation with previous CRA:** Not applicable

**Any other information:** Not applicable

**Rating history for last three years:** Annexure-2

**Detailed explanation of covenants of rated instrument / facility:** Annexure-3

**Complexity level of 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 and Rating Outlook
Issuer Rating	-	-	-	-	0.00	CARE AA; Stable

#### Annexure-2: Rating history for 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 2025-2026	Date(s) and Rating(s) assigned in 2024-2025	Date(s) and Rating(s) assigned in 2023-2024	Date(s) and Rating(s) assigned in 2022-2023
1	Issuer Rating	LT	0.00	CARE AA; Stable	-	-	-	-
2	Fund-based - LT-Term Loan	LT	-	-	-	1)Withdrawn (17-Mar-25)	1)CARE AA; Stable (14-Feb-24)	1)CARE AA; Stable (10-Jan-23)

LT: Long term

**Annexure-3: Detailed explanation of covenants of rated instruments/facilities:** Not applicable

**Annexure-4: Complexity level of instruments rated:** Not applicable

#### Annexure-5: Lender details

To view the lender wise details of bank facilities please [click here](#)

#### Annexure-6: List of entities consolidated as on March 31, 2024

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

**Note on complexity levels of rated instruments:** CARE Ratings has classified instruments rated by it based on complexity. Investors/market intermediaries/regulators or others are welcome to write to [care@careedge.in](mailto:care@careedge.in) for clarifications.

### Contact us

<b>Media Contact</b>  Mradul Mishra Director <b>CARE Ratings Limited</b> Phone: +91-22-6754 3596 E-mail: <a href="mailto:mradul.mishra@careedge.in">mradul.mishra@careedge.in</a>	<b>Analytical Contacts</b>  Ranjan Sharma Senior Director <b>CARE Ratings Limited</b> Phone: +91-22-6754 3453 E-mail: <a href="mailto:ranjan.sharma@careedge.in">ranjan.sharma@careedge.in</a>
<b>Relationship Contact</b>  Saikat Roy Senior Director <b>CARE Ratings Limited</b> Phone: 91 22 6754 3404 E-mail: <a href="mailto:saikat.roy@careedge.in">saikat.roy@careedge.in</a>	Krunal Pankajkumar Modi Director <b>CARE Ratings Limited</b> Phone: 079-4026 5614 E-mail: <a href="mailto:krunal.modi@careedge.in">krunal.modi@careedge.in</a>
	Akshay Dilipbhai Morbiya Assistant Director <b>CARE Ratings Limited</b> Phone: 079-4026 5619 E-mail: <a href="mailto:akshay.morbiya@careedge.in">akshay.morbiya@careedge.in</a>

### About us:

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