Dr. Lal PathLabs Limited
Q4 & FY18 Earnings Conference Call transcript
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Call Duration	▪ 1 hour 26 minutes
Management Speakers	▪ (Honorary) Brig. Dr. Arvind Lal - Chairman and Managing Director ▪ Dr. Om Prakash Manchanda - Whole-time Director and CEO ▪ Mr. Dilip Bidani – CFO ▪ Mr. Bharath - Chief Operating Officer ▪ Mr. Ved Goel - Deputy CFO ▪ Mr. Rajat Kalra - Company Secretary & Head of Investor Relations
Participants who asked questions	▪ Aditya Khemka from DSP BlackRock Investment Managers ▪ Alok Srivastava from CLSA ▪ Ashish Thavkar from Motilal Oswal ▪ Fiona Chan from Buena Vista (HK) ▪ Gagan Thareja from Kotak ▪ Hemant Patel from Alder Capital ▪ Janakiraman Rengaraju from Franklin Templeton India AMC ▪ Odile Lange Broussy from Lombard Odier (Singapore) ▪ Prashant Kothari from Pictet ▪ Rohan Dalal from B & K Securities ▪ Shaleen Kumar from UBS Securities ▪ Sriraam Rathi from ICICI Securities ▪ Surajit Pal from Prabhudas Lilladher ▪ Tushar Manudhane from Motilal Oswal ▪ Vikas Kasturi - Individual Investor

Moderator Ladies and gentlemen, good day and welcome to Dr. Lal PathLabs' Q4 & FY18 Earning Conference Call. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal the operator by pressing '*' then '0' on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Siddharth Rangnekar from CDR India. Thank you and over to you sir.

Siddharth Rangnekar: Thank you. Good evening everyone and welcome to Dr. Lal PathLabs Limited or LPL's Q4 & FY18 Conference Call for Investors and Analysts.

Joining us today are (Honorary) Brig. Dr. Arvind Lal - Chairman and Managing Director of the Company; Dr. Om Prakash Manchanda – Wholetime Director and CEO; Mr. Dilip Bidani – CFO; we also have with us Mr. Bharath - Chief Operating Officer; Mr. Ved Goel - Deputy CFO; Mr. Rajat Kalra - Company Secretary & Head of Investor Relations.

I would like to highlight that some of the statements made on today's call could be forward-looking in nature. Actual results may vary significantly from those statements. A detailed disclosure in this regard is available in the Results Presentation which was circulated to you earlier.

I would now like to request Dr. Lal to share his perspectives with you. Over to you, sir.

Dr. Arvind Lal: Good Evening, everyone. It gives me immense pleasure to address you again in the earnings call for Q4 FY18 and thank you all for attending this call.

At the outset, I am delighted to inform you that our Kolkata Reference Lab is now operational and we have started feeding more network of collection points to this lab.

I am also happy to inform you that 2017-18 financial year has ended on a high note with Q4 revenue growth of 21.4%. The year ended with revenues of Rs. 10.569 billion, crossing the milestone of Rs. 10 billion for the first time in the history of our lab. As I have frequently mentioned, our business is built with the support of our customers and patients with whom we have strived to provide high quality affordable services with improved accessibility and time-bound diagnostic services. These aspects have been the cornerstone of our service philosophy to our customers and we will continue to do well and improve on this. We thank our customers, patients, investors and other stakeholders for their continued support and faith in our services.

Before I hand over the call to Dr. Om, I am pleased to announce that the board has recommended a final dividend of Rs. 3 per share having face value of Rs.10 each which shall be paid after due approval of shareholders at the AGM. The final dividend together with the interim dividend of Rs. 1.50 per equity share which was paid in November 2017 aggregates to Rs.4.50 per share for the year which is an increase of 50% over last year.

With this, I now request Dr. Om to take this call forward by sharing his thoughts and thank you very much.

Dr. Om P Manchanda: Thank you, Dr. Lal and thank you all for taking out the time and joining us for the call today. I will commence with the highlights of performance during Q4 and full year FY18 and share thoughts on drivers of company strategy. Dilip will share the details of operating and financial progress achieved during this period.

First of all, I am happy to inform you that after a muted first half of FY18 where we had revenue growth of 8%, the second half of the year has delivered growth of 23.9% due to two successive quarters registering growth of over 20%, ending Q4 with Rs. 2.67 billion. The revenue growth of 21.4% for Q4 has been driven by patient volume growth of 20.8%. Our annual revenue growth for the financial year 2017-18 stands at 15.8% with full year revenue of Rs. 10.569 billion. This has surpassed our full year estimate of 14-15% which we had indicated in our previous call. The revenue growth has also been mainly driven by patient volume growth of 15% for the full year. Our initiatives like bundling of tests thereby providing greater value for money to our patients and focus on specialized high-end tests, taken up for the last few quarters are yielding results particularly in northern part of India including UP. This is also helping us to increase samples per patient which have increased from 2.21 in FY17 to 2.28 in FY18. The impact of higher contribution of bundle tests on price realization per test and GST impact for the full year was partially offset through cost saving initiatives and thereby margins have also been protected, and we ended the year with healthy normalized EBITDA margins of 26.3%. Our focus will continue to drive revenue growth through volume and test mix. Therefore, our business model will continue to focus on productivity improvement to have competitive pricing and use of consumer facing technologies to build traffic.

With that, now I would request Dilip to continue the discussion.

Dilip Bidani: Thank you. Good evening, once again and thank you all for your continued support and participation on our calls. I will now run you through the important highlights.

I am glad to share that March quarter witnessed a strong revenue growth of 21.4% at Rs. 2.67 billion driven mainly by patient volume growth of 20.8%. Our full year revenue stands at Rs. 10.57 billion, a growth of 15.8% with volume growth of 15%. The underlying patient volume for the quarter has increased from 3.18 million in Q4 last year to 3.85 million in Q4 this year.

We are also glad to mention the sample per patient have increased from 2.24 to 2.34 in Q4 this year. The full year volume of patients have increased from 13.25 million to 15.24 million, a growth of 15%. Revenue realization per patient at Rs. 694 was marginally higher than Q4 last year which was at Rs. 691. This reflects the price rationalization we have taken this year in select geographies, increasing test per patient and higher realizations of bundle test which provide higher value to our patients.

Normalized EBITDA in Q4 at Rs. 688 million after eliminating the impact of RSUs, other stock-based remuneration charges and the CSR expense grew at 26.3% over Q4 last year which was at Rs. 545 million. Full year normalized EBITDA at Rs. 2.7 billion is 12.2% higher than last year which was at Rs. 2.48 billion last year. Normalized EBITDA margin for Q4 stood at a healthy 25.8% and at 26.3% for the year. Other income includes dividend from liquid funds and interest on FDs.

Cash and liquid funds balance end of March 2018 is Rs. 5.506 billion. PBT at Rs. 620 million in Q4 Vs Rs. 488 million in the previous year, which is a growth of 27%. The full year PBT grew 10.3% to Rs. 2,613 million from Rs. 2,368 million last year. PAT at Rs. 402 million in Q4, grew 27.2% Vs Rs. 316 million in Q4 last year. Full year PAT grew 10.4% to Rs. 1,718 million from Rs. 1,555 million last year. Q4

FY18 EPS diluted was Rs. 4.87 Vs. Rs. 3.84 last year. Full year diluted EPS stood at Rs. 20.82 Vs Rs. 18.95 last year.

We are continuing to pursue our strategies outlined earlier and focus on expansion through franchising our collection network and building scale in the markets we operate in. Focus will continue on cost and productivity improvements to protect margins and reinvest in the business growth.

This brings me to the conclusion of my opening remarks and I would like the moderator to take queries from the participants. Thank you once again.

Moderator: Thank you very much, sir. Ladies and gentlemen, we will now begin the question-and-answer session. The first question is from the line of Rohan Dalal from B&K Securities.

Rohan Dalal: Congratulations on a great set of numbers. I just wanted to know what exactly is the regional breakup in terms of patient volumes and realizations. Which regions has the company particularly seen realization drop and especially Northern India what exactly are the operational metrics?

Dr. Om P Manchanda: This growth is uniformly spread across all the regions, so there is no particular region which is standing out where the growth is high, relatively, if I have to pick one region, our northern part of India especially UP, Bihar this belt is showing good signs of growth for us.

Rohan Dalal: But the South Indian clusters usually had lower realizations, so was that the case in this quarter as well or how has that shaped out?

Dr. Om P Manchanda: For South India, first of all, the base is too small for it to make a significant impact on the overall, but I am seeing south number also showing a higher realization of patients because the component of high end test is very high there, but contribution of the overall business of south to total country share is not that high.

Rohan Dalal: Regarding the Kolkata reference lab, what has the operational metrics been sir and what is the breakeven timeline?

Dilip Bidani: Basically if you look at the breakeven timeline of Kolkata, we will be incurring cost of Rs. 6-8 crore per year on the Opex side of it. So to get that much on average EBITDA of let us say 25%, 4x of that. So that is the incremental volume which obviously is required to achieve breakeven. Over the next couple of years we need to get that much incremental value of sales to be able to start breaking even and it is not something which will happen overnight, it will take average of about three years.

Rohan Dalal: Will there be any incremental Capex incurred on that except for maintenance Capex or is all Capex now completed at Kolkata?

Dilip Bidani: Largely, the main Capex has already been incurred and there would be some maintenance Capex and may be some instrumentation, augmentation which may take place on an annual basis.

Moderator: Thank you. We will take the next question from the line of Sriraam Rathi from ICICI Securities.

Sriraam Rathi: Congratulations on a good set of numbers. Sir, a few questions; firstly, if I just look at the metrics of revenue per sample, over the last four quarters, it is gradually declining. Is it largely because of the higher number of bundle test that we have been offering because it has come down from 316 in Q1 to 297 this quarter?

Dilip Bidani: I am not too sure where you got that from, but basically if you are looking at the revenue per patient is what we are tracking at a greater level because that has remained largely flat and while sample per patient has gone up marginally by about 3-4%, obviously, it has been a combination of test bundling, price rationalization and therefore the weighted average comes down, the mix change also plays a role in reducing or increasing some of these numbers. So overall if you look at the full year, the realization per patient has been largely flat, there is some marginal increase of some 0.6 or 0.7%, but the mix is what has varied and brought down the realization somewhat because the test per patient have gone up marginally from 2.21 to 2.28.

Dr. Om P Manchanda: Let me expand this point little further; we are looking at revenue per patient while realization per test is a different metric altogether and there is operating leverage falls in place and if you can actually increase number of test per patient, the greater value is there for the customer and if we can drop the price and that is where the benefit of bundling is happening and so as a business we are tracking more as a revenue per patient rather than revenue per test. I think over a period of time, revenue per test will tend to decline as some markets we do a price rationalization, but an important metric to see the revenue per patient.

Sriraam Rathi: So revenue per patient is more or less stable?

Dr. Om P Manchanda: It is more or less same.

Sriraam Rathi: In terms of volume growth, of course, this year we have been more than like mid-teens kind of growth. So going forward, how should we look at in terms of volume growth now, earlier we have been talking about mid-teens kind of growth to continue?

Dr. Om P Manchanda: Our second half growth as we mentioned has been more than 20% and it has also been advantage of lower base due to demonetization and other factors. So if we actually normalize it and adjust it for these advantages, our underlying growth is still around 15, 16%. While it is little early for us to give a guidance for the full year, but I think at this stage it is safer to assume that we should be growing at about 15-16%, and this is also entirely led by volume because we do not foresee any price correction this year and it would not be pricing-led growth but it will be entirely volume growth, so that is the way I would look at, but I would say it is little early, because most of our numbers get shaped up in Q2 and that is a very important quarter.

Sriraam Rathi: What kind of Capex should we assume now going forward since Kolkata is already over?

Dr. Om P Manchanda: Kolkata should really drive growth for us and as we said in January we have started the operations, so now we should start seeing some of the aggressive market feedback and we are now getting a city level launches, so we hope to see rise in our growth figures in eastern region.

Dilip Bidani: As far as the Capex is what you asked is about Rs. 32-35 crore what we have been spending on normal Capex, that will definitely continue.

Sriraam Rathi: This depreciation which has been higher this quarter, I think probably because of Kolkata, so that should be a normal rate now between Rs. 10-11 crore?

Dilip Bidani: So that is for the full year. We have had about Rs. 33 crore of depreciation for this year and for the quarter that would have been a higher figure. So that will definitely be there and you can assume near about Rs. 35 crore of additional capitalization.

Moderator: Thank you. We will take the next question from the line of Vikas Kasturi, an individual investor.

Vikas Kasturi: Congratulations on a great financial year. My first question is that you have about Rs. 550 crore of cash on your balance sheet. What do you plan to do with that?

Dr. Om P Manchanda: That is a great question and I think it is something we also keep debating internally. As we have always been saying that this money is kept aside for some kind of M&A activities, and we are at it but right now there is nothing I can share that we have in pipeline. We plan to actually look at M&A because that is very important part of our strategy going forward, so as and when we have something to share, we will come back to you. But otherwise in small sums we will keep using this for some strategic initiatives like if there are other sort of businesses which we can invest in or we can probably invest in some kind of digital transformation, those are all tactical projects, but primary area where we want to invest is M&A.

Vikas Kasturi: A related question; would your future plan growth would involve M&A?

Dr. Om P Manchanda: It is actually both. As we mentioned that we will continue to focus organic growth in northern and eastern India. It started doing very well for us this entire belt as a part of our strategy if you recall I mentioned about north cluster and east cluster; in north especially UP, Bihar andOdisha and West Bengal in east, with this lab coming up in Kolkata, we are very-very hopeful that organic part of our strategy will further grow. As the dependence on Delhi is now on a decline, our rest of India is now responding especially north and east. So organic will continue to be an important part of our growth strategy in addition to M&A, it is not only M&A.

Vikas Kasturi: You mentioned bundling of test. So are these bundling of test happening in the Wellness segment?

Dr. Om P Manchanda: Not really, it is actually right all across because as you may be aware a lot of these tests are co-prescribed, I will give you an example of vitamins like vitamin-D and vitamin-B12 are mostly co-prescribed, they need not necessarily be prescribed for preventive reason, they can be prescribed for even illness reason as well. So this bundling is catering to both the segments, prescriptive as well as preventive, so it is not entirely preventive. Because the bundled offer, we can provide very attractive price to the consumer and patients, they see a greater value for money in bundle test.

Vikas Kasturi: Is TB testing an area of focus for you, now with the Government also saying that they want to eradicate TB in the next five years or ten years?

Dr. Arvind Lal: We are the pioneers in introducing Genexpert testing all over India. I was in fact the chairman of the committee which was set up of private practitioners, and we have over 120 labs doing it. So the TB test have actually reached the common man at a very-very affordable price and we have to thank the Government of India for this initiative and recently also the Prime Minister himself addressed a huge international conference in Nirman Bhawan where he made it mandatory that we have to vanish TB by 2025 in India. Though it looks like a very aggressive kind of ambitious target, but I can assure you that as far as the testing part is concerned, it is absolutely up-to-date.

Moderator: Thank you. We will take the next question from the line of Janaki Raman from Franklin.

Janaki Raman: The price rationalization that you seem to have undertaken in FY18, so when you started that, what were your expectations and to what extent have the results borne of those initial expectations?

Dr. Om P Manchanda: I think results have been much better than what we expected and in second half our growth rates in addition to lower base has also gone up because of bundle test. So we all as a management team are very pleased with our initiative of bundling and we continue to drive these benefits, and it benefits all stakeholders starting first with patients because they get a greater value for money and this is sort of advantage to the portfolio because we realize higher value per patient. So all in all this seems to be a great idea, it also simplifies our business processes rather than registering single test all the time, we just do a bundling, it simplifies everything and every stakeholder gets benefit out of this.

Janaki Raman: What you are saying is with this move rather than plain price reduction kind of initiative, the focus much more has been on adding some of the co-prescriptive test, is it?

Dr. Om P Manchanda: Indirectly, it is a reduction for the patient, right. Now, if there is a patient who has a lot of tests to be ordered, so this bundling actually helps him to pay less. Since our fixed cost is fixed for every patient, so the delta cost is not high for additional test that we do on the same patient, so in a way it is indirectly a reduction for the same patient.

Janaki Raman: This also means that some amount of sales effort is required at your customer facing end?

Dr. Om P Manchanda: Yes, it is required at every level because there is also a large part of our outsourcing that takes place because we have lab-to-lab business. So, as they see greater value for money in bundle test, they tend to divert more outsource test than do it themselves, so that part is also going up. So virtually I am seeing a benefit coming across from all segments not only from walk-in but even lab-to-lab which is B2B segment because in a way they are also looking at economics all the time that they are making make versus buy decision, whether they should do it themselves or should they outsource it. So as they see a greater value for money, they end up outsourcing to players like us. So I think overall we are very happy with this initiative and at test level in certain markets where our market shares are low, we are also looking at some rationalization. Markets like Gujarat, Rajasthan and even South as well, where our market shares are low, we are getting more competitive on pricing.

Janaki Raman: When I look at your network expansion and also the revenue growth, last year the network has expanded quite materially. So can you spilt the revenue growth into something like a same-store growth and the growth coming on account of network expansion, in the sense many of the businesses which have these networks, they also disclose a metric similar to the same-store growth, what would that be in your case?

Dilip Bidani: So one thing is that we do not track same-store growth as such, it is more like a cluster growth that we focus on and basically our intention is to continue our network expansion through franchising of our collection centers. That initiative has been going on strongly and you would have seen the numbers have increased rapidly in the last one year. Given that it has been both ways; it has been a wider spread as well as in certain cities an in-depth coverage as well for increasing the network and there are still enough white spaces available in the country to spread our network and build up franchise collection center. Again, at the cost of repetition, we do not really monitor the same-store growth because there is an element of cannibalization which does take place whenever we go within a city with multiple centers. So we look at more a cluster and a city or a town to increase the volumes and revenue from there.

Janaki Raman: So just to focus on that scope for network expansion, you mentioned that there is enough white space for expansion, so if I take a three-year view for example, can you say that your network has enough capacity to expand let us say 15% for the next three years?

Dr. Om P Manchanda: Yes-yes, easily, you should look at both, not only width our network has a lot of scope even for depth also because lot of these people are still at sub-scale as our brand franchise builds up in rest of India especially eastern part of India and UP, there is so much scope lying out there, even through our collection center also we have a scope. So technically both width and depth will come as we go along.

Janaki Raman: Initially when your IPO happened, that time the business valuation or size is so big, that itself perhaps like acted as some kind of deterrent in inorganic acquisition because probably the deal valuations would have been quite high. Has that corrected in the last year or so? Have you started seeing more reasonable pricing in potential M&A proposals that you are receiving?

Dr. Om P Manchanda: To me there is a barrier there, but I think we are applying very strong filter on issues like corporate governance and market practices and quality of various labs and plus split between pathology and radiology because we are primarily a pathology set up, we know how to scale that up, imaging is not a very scalable idea, Return on Capital Employed is not very good. So I think in addition to valuation, there are other parameters also we are applying, and that is one of the reasons why probably deals are not taking place but we do believe that as the competitive intensity over the last few years build up and some of these smaller units will be available for consolidation because there is nothing new about this because globally this trend has been there, every other market has seen that, it will come to that point where this should become a way of life. In some way even if you do not acquire but if the component of outsourcing is going up from these smaller labs to larger labs, that itself say that the shift from unorganized to organized is taking place. As we get very competitive on pricing, I think that will accelerate further.

Janaki Raman: To round up the questions, so the government seems to be now much more keen to import price controls on different segments of healthcare and obviously, you are one of the leaders in this industry, so your association will be talking to government, what is the kind of feedback that you are getting from them, price caps in pathology segment is it also on the radar of the government?

Dr. Om P Manchanda: We have not been formally approached either at the company level or association level for any discussion on this. We are also reading what you are reading in the media. So I think to that extent our knowledge is limited to what everybody else's knowledge is. The price issue if it comes up, it will come up for the entire industry. We believe that it has to have a tier structure because obviously quality is very important part of this because it is not only price, it is a price-quality equation. We are highest accredited labs, whether it is CAP or NABL, we are committed to delivering quality and service. So we are hoping that if that happens what is in my control is to keep the cost of doing business as tight as possible, rest I think we will have to leave to events as they take place.

Moderator: Thank you. We will take the next question from the line of Odile Broussy from Lombard.

Odile Broussy: The bundling and the more competetive pricing has set well in the last couple of quarters, but meanwhile could you describe what has been happening in the competitive landscape in your key regions, i.e., do you think the competition has stabilized on pricing, do you think it is likely to pick up again and could force you to rationalize your prices further?

Dr. Om P Manchanda: I think competitive intensity is stabilized now. In the last two years, the kind of chaos that we saw is now waning off. So from those pressures not that much, as it was maybe a year back, we have been able to push back on that.

Moderator: Thank you. We will take the next question from the line of Prashant Kothari from Pictet.

Prashant Kothari: A few questions; the first one was on the Wellness segment. How much is that growing at and what are the margins there if you could share?

Dr. Om P Manchanda: This Wellness as a term is according to me is little abuse term than what it should be because people are looking at bundle tests as preventive tests. We are trying our level best to separate the two because this bundle test need not necessarily be all preventive in nature because they are also driven by prescriptions. So we are trying to figure it out as to what is the way to differentiate the two. This realization came in when we saw sudden surge in this bundle test and we decided not to attribute everything to preventive segment because that may mislead all of us. So I think as we go along, we will have little better clarity on the wellness, what that segment is, how do we define wellness, is it only testing or there are some more services we can offer around the tests. So at this stage, if you are okay, I think I will hold my answer on to the Wellness portfolio being defined very sharply and the margins on that. But qualitative statement I can definitely make that this market is growing, lot of people are becoming health aware and they are very keen to get the tests done. So hopefully by the next quarterly call, we should have little more sort of granularity on this number. That is the way I would like to respond to this question.

Prashant Kothari: What is the proportion of these bundle tests in your business?

Dr. Om P Manchanda: This would be somewhere between 10% to 15%.

Prashant Kothari: This is still quite small?

Dr. Om P Manchanda: Yes. Let me also not overexcite all of you; this bundle test is a concept in some ways it has been a way of life in this industry. I will give an example of let us say liver function test. Let us say if we go back 20-years back and Dr. Lal probably can speak more on that, there were individual test like SGOT, SGPT.

Dr. Arvind Lal: There were others like Bilirubin, total direct Alkaline, Phosphatase, Gamma GT, etc. So, what used to happen was that the doctors and the patients would not remember or be able to remember all the kind of tests. It is humanly impossible. In fact, we introduced all these kinds of new tests. Later, it became very simple to remember the short forms. Like for Liver Function Test, LFT became the short form, and then KFT came in, Kidney Function Test, because again there were 12 to 14 tests. Then the almighty lipid profile also come in, the thyroid profile had come in. So these actually have been there for quite a long time. It is only fresh awakening that comes in, fresh geographies lap on to it. There is another thing which I must point out is that our turnaround time is excellent here. So we are ahead of the curve in many things, in quality and in turnaround time.

Prashant Kothari: The second question is around the margins like in FY18 we saw that you had a revenue growth of 16%, EBITDA growth of around 11, 12%, with all these kinds of maybe pricing corrections out there, how should we think about FY19?

Dr. Om P Manchanda: Actually, I must say that if you recall GST came in, we were adversely impacted, we have absorbed the entire GST impact which is nearly Rs. 10 crore which is roughly about 1% of the margins, actually we have absorbed and also bettered it by taking a lot of cost saving initiatives. I would like Dilip to elaborate a little more on that as far as how margins have done this year.

Dilip Bidani: We have achieved 26.3% full year EBITDA margin and if you recall we have over the last quarter been indicating that there would be dilution of 200-250 basis points coming of from 27.5% of EBITDA margin coming down to 25% over the next two, three years. So while there has been a marginal decline, we are still strongly battling out costs to ensure that margin dilution does not happen very rapidly, but some amount of it we will consciously allow it to happen as well in order to plough it back into the business and fuel the growth. That is something which we will consciously keep doing to see whatever is best for the business but not for a moment giving up on the cost effectiveness and productivity improvement plans that we have. So 26.3% is what we have achieved and my guess is that we should be in a similar kind of 25-26% range even for the coming year. That is not something which is going to go down very rapidly unless of course another GST like event happens.

Prashant Kothari: The third question is around the unorganized kind of sector. Are you seeing any closures happening there or people trying to consolidate, shutdown?

Dr. Om P Manchanda: One of the things which we are seeing is that first of all no new labs are coming up, so that is one area. Industry is definitely looking at ways and means of reducing cost. So one change that I see that lab-to-lab business may actually grow faster because a lot of outsourcing may happen to centralized labs as the pricing is getting very competitive, so that is the only change which I foresee. Most of these smaller labs may turn into a collection center and may reduce the testing itself. If it is not M&A, this is the only way the shrinkage of unorganized sector will take place.

Dr. Arvind Lal: If the clinical establishment act is enacted by many states, as you know that it has been adopted by eight to nine states but not been implemented, including Delhi has not even adopted it, so that will probably be able to put a stop on unorganized segment which are labs not being run by doctors. There is Supreme Court judgment that all labs have to be run by doctors and the NABL goes even one step further by stating that it has to be run by pathologists. So that kind of regulation will actually bring in better quality. That is the take from our side.

Prashant Kothari: Last question is on the specialized test that you have mentioned in the presentation. Anything exciting happening there and is it like a big part of our business?

Dr. Om P Manchanda: It is a very important part of our business, that is the way I would say because it really keeps us on the cutting edge of pathology, it also keeps us in touch with high-end super specialty doctors and you may have read in the press reports recently that we did a tie up with IGIB Institute which is under CSIR where we have extended our portfolio of genetic test. So this will continue to remain a focus area for us and we believe that this entire molecular diagnostics space is going to grow. From a value perspective, even worldwide also it may not be a large percentage of the total pathology market, but it will continue to be a focus area for us. Going forward we are going to put disproportionate effort in the space and primarily into three, four specialties like gastro, onco, nephro and neuro. So it is a very strategically important area for us. We will continue to drive this aggressively.

Moderator: Thank you. We will take the next question from the line of Fiona Chan from Buena Vista Fund Management.

Fiona Chan: I was wondering, are you building the ability to track individual patients, how often they come back and what sort of tests they took in the past?

Dr. Om P Manchanda: I think that is a very good question and we are actually building the capability of tracking a patient which is one view of customers. Unfortunately, currently, the same customer is coming through different channels where there is a walk-in patient to our labs, he or she can come in through a hospital, can come through a collection center, at some level we lose track of this patient, so we are not fully there to track unique patients, but I think once we build this capability, we should be able to do a lot of analytics on the same patient and track as to what sort of testing is happening on that. There is some level of analysis we can do which is more static in nature rather than dynamic. But I think once this falls in place, we should be able to do that.

Dr. Arvind Lal: We are also one of the very few people in India who can give a cumulative report to a patient, meaning which you can tell him what is value of a particular test was in the last four or five episodes and that way he is our loyal customer, which is very helpful to the patient and yes, the loyal customers we do keep a track of them and the numbers of such patients is only increasing.

Moderator: Thank you. We will take the next question from the line of Hemant Patel from Alder Capital.

Hemant Patel: I had a few questions; one, you did mention about the regulatory environment and how the government is actually pushing little faster regulation. I was just trying to understand this that in terms of NABL accreditation, when are we likely to see something like that move on say in most of the labs which are unorganized and need to get this kind of accreditation to function in the market because what it seems like is the intent is there but it has been for a while.

Dr. Arvind Lal: Hemant, the short answer to this is that yes, if the government wants it, it can get it done, the government has had a good history of trying to regulate bad practices like they have brought in the PNDT Act, every blood bank comes under the Indian Drugs and Cosmetics Act, etc., So to be fair to the government, they have this plan in their mind and about 850-odd labs all over India are NABL accredited, but you will appreciate they are trying to send the circular to 100,000 labs which are unorganized segment, maybe the government itself does not know. So the government has started a new cell and that is the health intelligence wing in which they call somebody from our lab also to represent the industry and they are finding out the data that where are these kinds of organizations. So I think that is the first step and then with regulation and NABL accreditation will not happen in one day once you regulate the lab, then you have got to give them time, three years, five years, ten years, to get yourself accredited. So that is how it is happening in rest of the world in America, in UK, in Europe, Australia, New Zealand, their government rules are very strict, you just cannot run a lab like that, it is only in India that anytime, anywhere, anybody can open a lab and start testing it. So the matter will have to be handled by the government and the government when you approach it, it says it is the state governments duty to implement health policies. So the policies are there, the rules are there, the NABL is there, it is a question of implementation now.

Hemant Patel: When you are manning these centers like you just mentioned it is compulsory to have a doctor, would it mean that we need to have even other personnel over there who have a minimum level of skill set and educational qualification? I think in certain markets like Indonesia and others they do have that kind of criteria.

Dr. Arvind Lal: But in India it is the Supreme Court ruling that an MD doctor has to sign on a pathology report, #1 and #2 for NABL accreditation has to be a pathologist. So the rules in our country are very-very straightforward and clear. It is a question of implementation only.

Hemant Patel: In terms of hospital management contracts, could you just give us some sense as to how that is actually or what size of the business is it today and are we going to be focusing on that area?

Dr. Om P Manchanda: This was also a part of our strategy when we were doing road shows and it still continues to be a part of our strategy even going forward, because close to one-third of the market is lying inside the hospital. It is still a very challenging market to tap because as you know it operates like B2B, they end up negotiating very-very hard, so there is hardly any margin in play, at times some of these hospitals have risk of outstanding as well. So we are looking at this in opportunistic way. Currently, we have close to about 30-odd labs as a part of our network. We will continue to stay focused but we will be cautious of the fact that we do not dilute our margins. At the same time, we are also trying to refine our offering so that when we are sitting in front of these customers we are not only discussing only revenue share but we are also discussing the value that we bring on table. So as of now, that is a way it is, close to 32 labs in our portfolio. But this is not going to be the major-major sort of a pillar of our growth, our pillar of growth is going to be expanding our network through collection center and build the capability of picking up samples from various healthcare institutions, lab-to-lab business, drive walk-in in our collection centers and that is going to be the key focus. Second one is going to be focus on specialized tests because that gives us pan India presence, it gives us proximity to high end specialty hospitals, doctors and that also positions us as a company which is at the cutting edge of pathology or diagnostics.

Hemant Patel: If you can share with us in terms of FY18 how the north, east, south and west what percentage of revenue comes from each one of these clusters?

Dr. Om P Manchanda: This percentage has remained more or less same because the only shift has been that in northern cluster, the markets like U.P, and rest of north like Punjab etc., they have started doing better, but proportion wise it remains more or less same, so there is no significant change that I can share with you which has happened in FY18 specially.

Moderator: Thank you. We will take the next question from the line of Aditya Khemka from DSP Mutual Fund.

Aditya Khemka: Just a couple; so this Clinical Establishment Act and the high court or the Supreme Court order that you said that they need to have MBBS doctor at the lab and the pathology to sign the report. Despite the Supreme Court order, the states still need to sort of pass resolutions and implement these regulations?

Dr. Arvind Lal: The thing is they have the wherewithal, apparatus and the people to implement it. It is just a question of the government pulling its pants up and getting it done. You will appreciate that there are three problems in India – one is the accessibility, one is the affordability, third is quality. So the affordability and quality are all mixed up here in this segment and if the Government can do something about it, they would be doing real great service to the entire healthcare of the country.

Dr. Om P Manchanda: But I may just want to add there, I think slowly, this Clinical Establishment Act is taking shape in various states, so there is increase sort of awareness amongst all stakeholders to enhance quality levels and that is actually going to be benefiting us because we are already complying with all these requirements as more and more states get into that, it should help us going forward.

Aditya Khemka: Just one clarity that I wanted to get there; so let us say the Clinical Establishment Act is implemented in a certain state, so there the unorganized diagnostic standalone labs, what is their situation – do they need to comply with the NABL certification and have a pathologist or MBBS in the lab or can they just do it on e-consulting basis as in have an MBBS give them signature and they can just print it, all those sort of practices that happen in the unorganized sector?

Dr. Om P Manchanda: Our understanding is signing of a report has to be by a doctor. So some of these models also may fall in place, whether physically it is present or not. But at the end of the day the report signing has to be by the doctor.

Aditya Khemka: One, where this act may actually push these unorganized players to clean up their act, on the other hand we are seeing some may go into some of these smaller chains if I may say so which have five labs ten labs or centers in a particular region and on and off your competitors have spoken off that these regional competitors are creating a non-conducive pricing environment and also struggle in volume growth. So what is your reading of the situation on the competitive act?

Dr. Om P Manchanda: This question which normally comes up on every call. I am particularly in fact happy that it really helps the quality standards to go up because first of all as a private equity money goes into these smaller chains, I think it really enhances the governance on all sides, whether it is on the financial side, whether it is on the technical side. So I am not really perturbed about the money going into regional chains. In some ways, it is creating a three-tier structure, there are national labs, there are regional labs, then there are unorganized. We know at some point in time, scale is very important to reduce cost because at a sort of country level, we are very keen if we can make healthcare affordable and still achieve the objective and keep our all stakeholders happy. So we will be happy if scale builds up in our level and we are able to reduce the costs of doing test and thereby making healthcare affordable. I think in this way we will be able to balance all our objectives of making healthcare accessible, making healthcare affordable and at the same time keeping our other stakeholders happy as well. So to me, the money going into regional chains is not bad thing to happen, it is probably a good thing to happen, that is my take on this question.

Aditya Khemka: But would it not impede the potential of your volume growth?

Dr. Om P Manchanda: Not really, because at the end of the day I still have the ability to compete because my scale is much-much higher than that player.

Aditya Khemka: That is like three to five-year period, not really over a year or two because over a year or two you can still undercut even pricing in search of market share?

Dr. Om P Manchanda: This market is not that always price sensitive as one thinks to be because there is a brand, there is a quality, there is a service, it is not that people are shifting brands just because somebody is giving a lower price, because then a brand like ours would not have survived at all because there are ten other players who are offering at lower price because healthcare is not rated only on the price and the brand is built around trust.

Dr. Arvind Lal: And the PE participation will also improve upon the ethics of these smaller players which is also very important.

Aditya Khemka: On the inorganic side, when you say you are looking to acquire, I am slightly baffled by that because I thought the hub-and-spoke model where you have regional labs and franchisee collection centers is effectively as fast as you can expand and versus that if you acquire a regional chain, how does that help you to grow faster or more effectively than you can do on organic basis?

Dr. Om P Manchanda: If you look at two-by-two metrics, there are new markets that go with the new brands. So technically those places to build a brand organically takes lots of time. Though it is possible to do that, but it is a time-consuming exercise. It has been a global experience. North and eastern part of India we are very clear that this has to be built through organic, we enjoy great brand equity. On the high end piece, we enjoy great franchise across the country, it is not that we are only in north and east India. It is only the B2C component part of business where some white spaces do exist and that is where we are talking about and those white spaces are in southern part of India for us and maybe in some western markets, but we are not waiting for M&As to happen, we continue to put our efforts. I think if I look at last five years, we have been able to make lots of inroads into western markets as well, in some parts of Maharashtra, M.P., even some Gujarat market, so we will continue to drive organically. But there is always an opportunity to do inorganic because that has been the experience of many players globally that it is quite challenging to build and go as a new brand into a new market when you can probably buy it, why not.

Moderator: Thank you. We will take the next question from the line of Shaleen Kumar from UBS Securities.

Shaleen Kumar: How do you market this bundle test in case of prescribed test? What is the strategy there?

Dr. Om P Manchanda: Bundle test in a sense that let us say if you have prescription for Vitamin-D and Vitamin B12, in the earlier situation you would have probably bought this test individually. Today if I can actually club it and make it a package for you and give it to you at much lower price, you will say okay, I want this package where you have Vitamin-B, D and B12 together. So that is how it will grow. As it becomes popular we are also able to brand it as well and we are calling it Swasth Plus, Swasth Super 3, it gives us opportunity to brand that entire bundle and like Dr. Lal mentioned about LFC, KFT becomes a vitamin panel. Though it is not preventive in nature, the patient may have been carrying a prescription from a doctor.

Shaleen Kumar: Do you educate doctors as well on this about your offerings?

Dr. Om P Manchanda: No, we are promoting only these packages and there are various ways and means -- word of mouth is one way, our collection centers are talking to customers. So it is from all sides that people are just getting aware about these packages that are available.

Shaleen Kumar: How is your B2B growth versus B2C growth considering a lot of initiatives are also going towards B2B?

Dr. Om P Manchanda: As you would have seen that we have really put a lot of focus in driving collection center network as well as B2B and collection center actually has both the components of B2C and B2B and the numbers are showing that the growth rate is uniform across both the segments.

Shaleen Kumar: Sir, linked to the previous one, as you said you have a pretty decent network expansion, so just wanted to understand, what is the churn rate of your franchisee collection center?

Dr. Om P Manchanda: On a base of close to 2,000 around 50, so we have had a drop of 50 collection centers.

Shaleen Kumar: Generally the reasons -- is it the competition or is it a location disadvantage or something like that?

Dr. Om P Manchanda: No, it is a combination of many reasons; sometimes we may have not been happy with the quality of the services he is providing to the customers or other compliances, so this could be one reason. Sometimes there are also collection centers where it is not probably viable for him, for two, three years he has been with us So, a variety of reasons where the guy makes a strong call.

Dr. Arvind Lal: They are not paying on time and insignificant number, churn rate 2.5%, that much I think happens with everybody.

Shaleen Kumar: Any color on Kolkata lab, your expectation for this year in terms of revenue broadly?

Dr. Om P Manchanda: Let me come back to the first question that somebody asked on the growth rate. We are quite bullish this year than last year. We are very happy to know that we are exiting on a good note because last two quarters our growth rates have been more than 20%, though there has been some advantage of base, but even if I correct, relatively we are getting on a very-very positive note for this year. Going forward we do believe that Kolkata will play a very significant role in driving growth. It is little early for me to put a figure and then get sort of put a figure around what the growth rate would be but my sense is it will be significantly higher than what we grow in other regions. Our objective that internally we have taken up is that we should grow twice the rate of what we grow in our normal business. So if we are growing at about 16, 17, 18%, then my internal team is going to chase that growth twice than what our all India growth has been.

Moderator: Thank you. We will take the next question from the line of Gagan Thareja from Kotak Investments.

Gagan Thareja: Given that next year you could have a good ramp up in Kolkata, would it not be reasonable to assume that operating leverage would kick in and therefore there should be scope for margin improvements?

Dilip Bidani: There would be some operating leverage which will come in but this does not happen overnight actually. So there obviously is a time lag between the costs being incurred and the growth coming in. So you are actually front-ending a lot of the cost. For the growth to come in that investment of course has to then start yielding results. So it is not as if they go hand-in-hand, there is always a lead and a lag.

Dr. Om P Manchanda: But definitely we are very positive in this year both on top line as well as on margins.

Gagan Thareja: So let me just put it this way that you are saying that in three years' time, Kolkata should be doing Rs. 200 crore worth of business. If you are able to meet that aspiration, what kind of delta could that have on your margins assuming all other things remain the same?

Dr. Om P Manchanda: So it is not only east alone because there are certain other markets where we may have a drop in EBITDA. So I think earlier we guided about 25% margin but today we are registering 26%, we are hoping that we should stay with 26%.

Gagan Thareja: Interestingly, there seems to be an alternative business model being tried out in pathology testing where the government seems to have built a sort of public-private partnership with some lab companies or lab chains where they provide them space in government hospitals and maybe these entities invest in the required machinery and the idea is that it would seem that they get the volumes and therefore they are able to offer cut pricing in some way. I am just trying to understand the viability, scalability and the economics of this business model and how do you sort of look at this business model?

Dr. Om P Manchanda: Our experience has been clearly that this is a large opportunity in terms of volume. So there is no doubt that there is a lot of business which is there but we have seen in the past that it is not a very viable idea at the kind of prices we are asked to offer and because the tendering process actually ends up going to a L1 guy and our experience is he ends up going to some smaller players. But now I think government is looking at it in a different way where quality will become an important part on case-to-case basis. We will participate but we do not want to go into completely very low pricing where viability is an issue. So we will stay opportunistic as far as the PPP is concerned.

Gagan Thareja: But indirectly, would it not put pressure on pricing in the market irrespective of whether your participate in it or not?

Dr. Om P Manchanda: Not really. I go back to the point that I mentioned that the trust around the brand, quality, these are all very important areas. You must realize that this report actually has a very huge implication on diagnosis and the patient treatment. So people do not really trade off just because somewhere it is lower. By the way testing as a total cost of treatment, that component is very small, I do not think people would want to compromise just because it is slightly cheaper and I shift. So to me, people are quality conscious and they will obviously opt for a good quality lab.

Gagan Thareja: Finally, on your M&A strategy, are you restricting yourself to a certain size in M&A which would be certain fraction of where you are or are you looking at M&A of sizes comparable in turnover to yours and what are the financial filters you would have in mind for M&A?

Dr. Om P Manchanda: We are looking at all sizes from very large labs to mid-size labs. Obviously, we do not want to acquire very small like turnover of Rs. 50 lakhs per annum or so. I think we have put a cut-off of Rs. 5 crore turnover per annum at least. The filters that we are applying is essentially the governance filter or quality filter or the market practices. These are three important filters and also looking at towns where we need them actually, it is more a market access than just bulking up turnover. So for us north is not a priority and given that Kolkata reference lab has come, we want to build that organically. So it is also not a big priority but for us the priority would be to chase South and Western markets.

Gagan Thareja: If an M&A opportunity pops up, then size is significant and well distributed across the country in terms of presence but might have a reasonable amount of radiology in it, would you still be willing to consider it?

Dr. Om P Manchanda: As I mentioned that we are open for all sizes and if it makes business sense then why not?

Moderator: Thank you. We will take the next question from the line of Ashish Thavkar from Motilal Oswal.

Ashish Thavkar: My question was on the so-called Wellness business. Can this model ever be a self-sustaining model or it needs to be continuously pushed through A&P spends?

Dr. Arvind Lal: The shift has to happen and we can see perceptively the shift is beginning to happen. So people have got to get started testing in their good times or when they are well or when they are ill. This is no rocket science, we have discussed it many times, but the good thing is that we are seeing a perceptible shift in the patients attitude and maybe it has got something to do with the more deaths or problems reported, due to (NCD) Non-Communicable Disease in India, diabetes, high blood pressure, cardiac, cancer, etc., but the shift is definitely there.

Ashish Thavkar: So do you feel at some point in time there would be price discipline in this segment?

Dr. Arvind Lal: The market is willing to give you a good price if they feel that you deliver a better report. If the patient experience is better, they are willing to pay more. I don't have to tell you but it is in all segments of life. What you are asking is "will we actually see the drop in prices, etc.? We do not see that is happening but again there is a huge market in India and then we see what happens.

Ashish Thavkar: I missed the earlier part of the call, so pardon me if I am repeating the question. So on the Kolkata Reference Lab, are you giving some details on how are the volume growth there, the number of patients handled during this quarter?

Dr. Om P Manchanda: We have not given very detailed information because it is competitive information, so we just want to stay away from that right now.

Ashish Thavkar: Just one book-keeping question on the depreciation side, the Rs. 10.7 crore of debt that we booked this quarter, it can be extrapolated, you feel that would be quarterly run rate to go with?

Dilip Bidani: Yes, largely that would be in order because we have got practically the full quarter of capitalization of Kolkata lab.

Moderator: Thank you. We will take the next question from the line of Surajit Pal from Prabhudas Lilladher.

Surajit Pal: I am just a bit confused; in one way we are saying that the client is ready to pay more when they get good service and so price point is not actually just drop and go. On the other hand, we are price rationalizing. So in a year we are rationalizing price, we are getting good growth. So do you really believe that pricing is not a factor, servicing is your factor only?

Dr. Om P Manchanda: It is like any other industry there are various price segments. So if you look at FMCG, the way one does is an A, B or C, similarly in this category also there are customers who value service, who value giving cumulative report, come home and collect my samples and I am willing to pay you and similarly there are customers who are saying, "Listen, I cannot afford you, I want at a competitive price." Then you know this business is serviced not directly but even through intermediary labs also. So there is B2B pressure which happens or healthcare institutions try to negotiate the prices. So I think what probably one is trying to say is that we really do not operate in that segment which is completely at the bottom of pyramid. At the higher end because our sales are much higher from metro markets, there are all kinds of customers, so I think that is what we meant by that this market is operating at different price points. There is a price point which is premium. This wellness segment is actually growing at upward of middle segment to top segment, not at the bottom end of the pyramid. I think that is the point we are trying to make.

Dr. Arvind Lal: Surajit, the Indian railways model is a very well-known model where you have the train is running from Point-A to Point-B and you have separate segment for unreserved, reserved second class, AC, 2-tier, 3-tier, chair car, so everybody is paying a different kind of price but going from Point-A to Point-B, and medicine is no different.

Dr. Om P Manchanda: So service is making all the difference, the quality is common to all the price segments, service is different.

Surajit Pal: So continuing with that and mixing what you have done this year, given that one of your competitors has already declared that he is going to rationalize price in FY19, as well as you have quite a good high base in FY18, and also please consider that given the political compulsion there could be a scenario that government may come out with a price ceiling as it happened in cardio or say joint replacement, do you think that given these three considerations you are comfortably 20+ kind of growth could be achievable in FY19?

Dr. Om P Manchanda: As far as external factors are concerned, government we have already discussed and second is competition, we are definitely not going to chase pricing with the competition, we are actually here to deliver value to our customers, we will stay competitive, but I am not going to match the price to the lowest level, so that is not our idea. Our idea is to deliver the best quality, best service to our patient at a most competitive price, so that we will try and achieve and then we will tweak our model in such a way that our cost of doing business is most efficient for that kind of service we provide. The other question which you said about 20% plus growth, yes, that is the desire we all carry in our business and I am happy to share the last two quarters we have registered more than 20% growth, we are much more bullish, our exit rates are much better than last year as we entered into FY18, we are entering FY19 on a very positive note, we hope that we will be able to beat this number what we have done in this year which is 16%. There are many estimates and right now it is little early for me to put a figure. I do not want to set an expectation which is very high but internally obviously we will strive to move towards 18, 20% growth.

Surajit Pal: So anything less than 18% would be disappointment for you bottom line?

Dr. Om P Manchanda: Of course, I have set a target that anything lower than that has to be looked into that but I would say I will try and do a better performance than what I have done in FY18.

Surajit Pal: Same question is that in NABL, we have already chatted quite a lot, do you think that this restriction of NABL accreditation as well as the doctor signing, really matters in terms of shutting down many unorganized people and even if it happens as per your ballpark number, what percentage of this unorganized lab could be shut down?

Dr. Om P Manchanda: I do not think it is a question of shutting down, it is just a sheer economics which is what will fall in place. If these labs are always looking at make versus buy decision, if they can actually outsource, the cost of outsourcing is lower than the cost of doing test themselves, then why will they test? But in a country like India, you cannot shut down. These are all frontend counters where they will operate like a collection point. So technically all these places will continue to remain. It is the only testing component as a percentage of overall will come down, that is the way I look at it. But healthcare accessibility is a big issue. I do not think shutting down is an option.

Surajit Pal: So you look at it as that they might be getting more into outsourcing activities rather than..

Dr. Om P Manchanda: They will partner with us because they are like front end of any pathology labs. My sense is testing may come down overall as we go along but collection will continue to happen and that is the model actually any case. I hope I have made some points clear to you.

Moderator: Thank you. We will take the next question from the line of Alok Srivastava from CLSA.

Alok Srivastava: Sir, for several quarters, we have been talking about pricing pressure particularly in the B2B segment and recently one of your peers has also talked about significant pressure in the NCR region in terms of pricing. What are we feeling, and perhaps is it something that we have created the pricing pressure in NCR region?

Dr. Om P Manchanda: This pricing pressure is not showing up in our margin dilution, right. So we are getting efficient and if we can be competitive, why not? I think pricing pressure should not be misconstrued as a dilution in margin, we have delivered a great margin in FY18 and we are making sure that our cost of doing business stays intact and then pass on that benefit to our customers.

Alok Srivastava: But what essentially you are saying is that you have not felt any incremental pricing pressure in the NCR region particularly in B2B segment which we were earlier facing because of entry of lot of new PE backed players in the region?

Dr. Om P Manchanda: That was not really meant for northern part of India because we provide great service in quality in this place, so probably it was being referred to other parts of India.

Alok Srivastava: Secondly, how are you looking at your marketing initiatives and have you budgeted anything as a percent of sales or as a total amount or what you did last year or what you are planning to do in this year?

Dr. Om P Manchanda: There is no significant jump for what we have been doing in the past, so that will continue to remain, but we are going to put lots of focus on customer services, As Dr. Lal mentioned earlier we are trying to give value added offerings like home collection, registering online, paying online. So we are trying to make the entire experience of Dr. Lal PathLabs very convenient to our patients and that is what our focus will be there in marketing as we go along.

Moderator: Thank you. We will take the next question from the line of Tushar Manudhane from Motilal Oswal Securities.

Tushar Manudhane: Just on the labs addition, five labs which got added in FY18, but the number of patient service have been added significantly. So any thoughts on that and outlook on the same?

Dr. Om P Manchanda: Yes, so we have added quite a few labs this year though the number is not reflecting because we have very smaller size labs, we try to rationalize that, but that does not mean our lab expansion program is not in place, so wherever required, we are adding labs. I think this 189 to 193 number says that we have added only four, but I think we reduced close to 11, very small stat labs in certain geographies just to rationalize it, but as I mentioned earlier also, we are trying to improve this ratio of labs to collection centers, so similarly we are very aggressive in opening collection centers as well. So please do not read this lab opening only four as that we are not expanding our lab network, we will continue to expand our lab network.

Tushar Manudhane: Secondly, coming back to again the regional growth for full year of FY18 because north was presumed to be on a high base and the remaining regions on a relatively lower base, so at least till FY17 the volume growth was significantly in other regions except north, but the commentary has been that for this year the growth has been uniform so to say that north also growing on a full year basis on 15-18% and so the other regions that are low base, is my understanding correct or is there any discrepancy in this?

Dr. Om P Manchanda: Actually in north I will slice this in two parts; Delhi NCR and rest of north. So rest of north is growing well, that is where overall north growth is falling in line with the national growth, so it averages out to be uniform, but Delhi NCR base is very high, so there we are not factoring. We do not want to depend only on this territory much for growth, but rest of north is equally large and I would include U.P., Punjab, Haryana, those markets as well.

Tushar Manudhane: South India specifically?

Dr. Om P Manchanda: South, the base is so small that it does not move the needle, I would not read too much into south figures as of now.

Moderator: Thank you. Ladies and gentlemen that was the last question. I now hand the conference over to the management for closing comments.

Dilip Bidani: Thank you, everyone for being with us for this call and we look forward to meeting you again in the next quarter.

Dr. Om P Manchanda: Thank you.

Moderator: Thank you very much, Ladies and gentlemen, on behalf of Dr. Lal PathLabs that concludes this conference. Thank you for joining us and you may now disconnect your lines.
