



**Dr. Lal PathLabs**  
**Q2 & H1 FY'20 Results Conference Call**  
**November 08, 2019**

Call Duration	<ul style="list-style-type: none"><li>▪ 1 hour 08 minutes</li></ul>
Management Speakers	<ul style="list-style-type: none"><li>▪ (Hony) Brig. Dr. Arvind Lal – Chairman &amp; Managing Director</li><li>▪ Dr. Om Prakash Manchanda - Whole-time Director and CEO</li><li>▪ Mr. Ved Prakash Goel – Chief Financial Officer</li><li>▪ Mr. Bharath <b>Uppiliappan</b> - Chief Executive Officer (India Business)</li><li>▪ Mr. Rajat Kalra - Company Secretary &amp; Head of Investor Relations</li></ul>
Participants who asked questions	<ul style="list-style-type: none"><li>▪ Chandramouli Mauli from Goldman Sachs</li><li>▪ Saiprasad Prabhu from Bajaj Capital</li><li>▪ Sriraam Rathi from ICICI Securities</li><li>▪ Pritesh Chhedda from Lucky Investment Managers</li><li>▪ Prashant Nair from Citibank</li><li>▪ Keshav Lahoti from Angel Broking</li><li>▪ Prakash Kapadia from Anived Portfolio Managers</li><li>▪ Nitin Agarwal from IDFC Securities</li><li>▪ Sumit Chandwani from Daiwa Asset Management</li><li>▪ J. Madhavi from Narnolia Financial Advisors</li><li>▪ Neha Manpuria from JP Morgan</li><li>▪ Dhruv Jain from Ambit Capital</li><li>▪ Manish Poddar from Nippon India</li><li>▪ Tushar Manudhane from Motilal Oswal Asset Management</li><li>▪ Anuj Sehgal from Manas Capital</li><li>▪ Sameer Baisiwala from Morgan Stanley</li><li>▪ Ankit Jha from Stock Access</li><li>▪ Saurabh Jain from SSJ Finance</li><li>▪ Aman Sharma an Individual Investor</li><li>▪ Nirmal Gopi from IDFC Securities</li></ul>

**Moderator:** Good day, ladies and gentlemen, and welcome to the Q2 & H1 FY'20 Earnings Conference Call of Dr. Lal PathLabs. 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 an 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. Nishid Solanki of CDR India. Thank you and over to you, sir.

**Nishid Solanki:** Thank you. Good evening, everyone and a warm welcome to Dr. Lal PathLabs Q2 and H1 FY'20 Earnings Conference Call. Joining us today are Hony. Brig. Dr. Arvind Lal -- Chairman and Managing Director; Dr. Om Prakash Manchanda -- Whole Time Director and CEO; and Mr. Ved Prakash Goel -- CFO. We also have with us, Mr. Bharath -- CEO, India Business; and Mr. Rajat Kalra -- Company Secretary and Head of Investor Relations.

Before we begin the call, I would like to highlight that some of the statements made on the call today to be forward-looking in nature. Actual results may vary from these statements. A detailed disclosure in this regard is available in the 'results presentation' which was shared earlier.

I would now like to request Dr. Arvind Lal to share his perspectives with you. Thank you, and over to you, sir.

**Dr. Arvind Lal:** Good evening to everyone on the call today. I am pleased to share my views on the performance of the company and the road ahead. We have continued to deliver strong performance quarter-after-quarter backed by a proven hub-and-spoke business model and emphasis on driving quality to attain scale. This has made us the leading diagnostic player in the country and I am glad that we have further strengthened our leadership position in this space. Higher patient volumes and sample growth is a testament to our positive growth momentum and we remain on track to make further inroads on this to focus on accurate and affordable diagnostic services with emphasis on expanding the test menu and geographical presence.

Overall, I believe that the future of diagnostic industry looks to be bright in India, and there are ample growth opportunities available for a national level player like us which enjoy customers trust through long track record of accurate test and decades of experience in diagnostics. The positive shift in market share from the unorganized to organized, more technology in healthcare, government policies like Ayushman Bharat -- Pradhan Mantri Jan Arogya Yojana and the rising awareness regarding diagnostics as an important first step in treating diseases in tier-2 and tier-3 cities will benefit the industry, at large including Dr. Lal PathLabs.

Further, I am pleased to share with you that the board of directors of the company have approved an interim dividend of 60%, i.e., Rs.6 per share to the equity shareholders of the company.

With that, I would like to hand over to Om to share his thoughts and update on the operational performance.

**Om P Manchanda:** Thank you, Dr. Lal. I am pleased to announce another quarter of healthy operating results for the company. To share quick highlights for the company, revenue for the quarter was Rs.365.6 crore, an increase of 15.1% YoY; for the half year, revenue stood at Rs.700.8 crore, up by 14.9% compared to first half FY'19. In Q2 FY'20, the patients served on a visit basis is at about 5.3 million,

growth of 12.1% and for first half FY '20, patients served is at 10.2 million, growth of 13.9%. Tests per patients have gone up to 2.45 in the quarter as compared to 2.34 in the same quarter last year. As we strive to broaden our presence, the contribution from rest of India has been increasing and it now stands at 59%. The growth of rest of India regions in Q2 FY'20 is at 20.2%. Our focus is on driving our top line growth through volumes organically as our network expands.

One factor that I wish to highlight is that the contribution from our network has been improving at robust rate. This is crucial to capitalizing on operating leverage in our system.

Our bundle package test "Swasthfit" continues to gain popularity with our patients and its contribution now has increased to 15% of our overall revenue. Our growth strategy is to strike a healthy balance between penetrating deeper into existing markets and expanding into newer markets especially in West region. The country is underserved by quality and trustworthy diagnostics service provider. We would like to be known as the leader in adoption of best practices in the large unorganized space. Our approach to growth remains measured as reflected by strategic smaller acquisitions that we have completed. These are essentially partnership with trustworthy local brands and doctors who are very closely aligned in ethos as well as in values.

On our broader plan, we continue to evaluate meaningful opportunities to add capabilities at regional level by way of inorganic means, again our approach is very prudent and well deliberated.

With that, I conclude my opening remarks and would request Ved to give an Update on the Financial Performance."

**Ved P Goel:**

Thank you, Om. Good evening, everyone and thank you for your participation on this call. I would now share with you some of the important financial highlights. Revenue for Q2 FY'20 is at Rs.365.6 crore as compared to Rs.317.5 crore last year same quarter, a growth of 15.1%. Revenue realization per patient for Q2 FY'20 is at Rs.687 as against Rs.669 for Q2 FY'19. Normalized EBITDA after eliminating the impact of stock-based compensation, CSR expense and impact of IND AS 116 in Q2 FY'20 stood at Rs.104.7 crore as compared to Rs.90.5 crore reported in Q2 FY'19, a growth of 15.7%. Normalized EBITDA margin for Q2 FY'20 is 28.6%. PBT for Q2 FY'20 is at Rs.102.3 crore as against Rs.88.1 crore in Q2 FY'19, a growth of 16.1%.

The company has exercised the option under Sec. 115BAA of the Income Tax Act as introduced by the Taxation Law Amendment Ordinance 2019. The company has re-measured income tax and deferred tax provisions for six months ended September 30, 2019. The applicable income tax rate is now reduced to 25.17% from 34.94% earlier. We have recognized the impact of this change in the results for Q2 FY'20. Accordingly, PAT for Q2 FY'20 is at Rs.81 crore as against Rs.57.3 crore in Q2 FY'19, a growth of 41.4%.

Cash, FDs and investment in mutual funds as at the end of Q2 FY'20 is at Rs.782 crore. EPS Basic for Q2 FY'20 is Rs.9.77 per share versus Rs.6.91 in the same quarter last year.

Further, as you all are aware that the company's wholly-owned subsidiary PathLabs Unifiers Private Limited has signed a binding term sheet to acquire 70% stake in APRL PathLabs Private Limited which has acquired the business

of m/s Amins Pathology. This acquisition would help us to further strengthen our presence in the state of Gujarat.

That brings me to the conclusion of my opening remarks, and I would now invite the moderator to open the forum for question-and-answer. Thank you.

**Moderator:** Thank you very much. We will now begin the question-and-answer session. The first question is from the line of Chandramouli Muthiah from Goldman Sachs.

**Chandramouli Muthiah:** First question is on the patient volume growth; you reported 12.1% for this quarter. I understand last year the patient volume base might have been little higher for some of the promotional schemes you rolled out in East India. So, if you remove that from the previous year base, what would be your patient volume growth for this quarter?

**Bharath Uppiliappan:** This is Bharath here. Our patient growth rate would expand by another 120 basis points.

**Om P Manchanda:** It has been about 13.2%, if you have adjusted for the BTL activity that we have done.

**Chandramouli Muthiah:** Second question is just on guidance. You've made three acquisitions so far this calendar year. And if I just do some rough math and if we were to assume that these acquisitions were to contribute in the back half of the year, it looks like benefit of about 50 basis points to 1% added to the overall growth. Just relating to your guidance of 14%-15% top-line growth, would this be in addition to the original guidance made at the end of the previous fiscal year?

**Om P Manchanda:** We actually do not want to really give guidance for the year. In fact, last quarter. I mentioned that we really do not want to put a figure around what we will do at the year-end, but as our strategy has been some of these smaller acquisitions are part of normal day-to-day sort of business that we do. So, unless there is very large acquisition, there is not going to be material impact the way we are looking at the market. But, however, on a long-term basis, we believe that we should be in this range let us say two to three years perspective.

**Chandramouli Muthiah:** Just related to this. Ved, you mentioned about the tax rate coming down to 25.17%. Is that the full year tax rate that we need to assume for FY'20?

**Ved P Goel:** 25.17% is the effective rate for the full year. So, whatever the first quarter impact was we have already incorporated in this quarter.

**Chandramouli Muthiah:** Just last question is on the other expenses. So if I look at your other expenses, it looks like it has been sort of flat Q-o-Q while revenues have grown 9% Q-o-Q. In the last two years, I do not think you have been able to control other expenses. So just trying to understand how you have been able to control other expenses this quarter?

**Ved P Goel:** So last year, we had some extra expenses due to marketing for BTL kind of activities, this year it was comparatively low.

**Moderator:** Thank you. The next question is from the line of Saiprasad Prabhu from Bajaj Capital. Please go ahead

- Saiprasad Prabhu:** If I understand from your opening remarks you said that your leadership position is on three factors; one is on network; one is your best practices and lastly the brand building exercise. So in terms of the best practices, can you highlight two or three key features which are the best practices that we follow versus our peers or the standalone centers?
- Om P Manchanda:** It is not a comparison from peer group I would say, but some of the practices that we actually follow is that we focus on three key areas -- One is the quality; and second is service; and third is making sure that our price value equation is competitive. So, on the quality front, many of our labs are CAP-accredited as well as NABL accredited. So there is a very-very sharp focus on quality and very sharp focus on service side of it. We are investing a lot behind technology so that patient can download their report on the net or on the move or through our app, they can book online, pay online. So there is a lot of investment going in the area of technology, at the same time, we actually try to leverage scale as much as possible so that our price value equation remains competitive.
- Saiprasad Prabhu:** In terms of accuracy of your results, like what sets us apart from standalone or local diagnostic companies, like what are the recent parameters if you can highlight?
- Om P Manchanda:** I think at a broad level of this call there are two or three things which are very important because many of these labs have similar sort of equipment because most companies supply to all labs. But, what really makes the difference is good quality lab versus not-so-good quality lab is control and calibration. Calibration for every machine has to be done on a daily basis. That is where I would say that some of the smaller labs may cut corners and may not do calibration on daily basis. That may lead to fluctuation in the results. I think that is a very important area. How we monitor that is by running controls at regular intervals. As per the protocol, we also do lot of proficiency testing where the counter sample is checked at some other locations. That is how we establish quality.
- Moderator:** Thank you. The next question is from the line of Sriraam Rathi from ICICI Securities. Please go ahead.
- Sriraam Rathi:** Firstly, what was the contribution of Northern region this quarter and how would have that grown in the quarter?
- Om P Manchanda:** Contribution from Northern region, I think we have basically started making a sort of a split between Delhi NCR and rest of India rather than North as a region. So, our rest of India contribution has gone up to 59% compared to 57% last year same quarter. So essentially, this is a point we have been consistently mentioning, that while if we grow good in Delhi NCR, it is a bonus, but we want to make sure that our company is not standing on one leg and happy to share that we continue to do very well in rest of India market.
- Sriraam Rathi:** Secondly, from the last two, three quarters, we are noticing that the realization per sample per patient has been quite stable. So does that mean that the declining situation is over now behind us, and probably there could be a possibility of some growth on the realization also?
- Om P Manchanda:** I personally would not bank on this area. This depends on multiple variables. Of course, the contribution of rest of India does make a big difference. Mix between B2C versus B2B also makes a big difference. Contribution of Swasthfit versus non-Swasthfit makes difference. But overall I would say that our business really has to do with volumes than realization per patient. So give

and take, here and there some quarters you will see fluctuation if the low value tests are lower, that is why you see this value going up and down. But, personally if you ask me on a long-term basis, I really would not see that very high improvement on revenue per patient.

**Sriraam Rathi:** Lastly, more from the broader perspective that there have been a lot of talks which keep on happening on the possibility of price cap from the government. But just wanted to take your assessment, what would be your view on that because there are also multiple labs which are available which offer lower cost test, because this creates a lot of uncertainty from the future growth perspective of the company like Dr. Lal, so that is why I just wanted to get your view on that?

**Om P Manchanda:** We do not have any fresh information to share because what I shared last time is what we gather from the media. Now, as far as the pricing is concerned, I keep repeatedly saying that this is that part of value chain where quality is more important than the price. Overall, contribution of diagnostic in the healthcare cost is not more than 5%. So I think on this area, one should focus on quality because if you get this wrong, downstream costs or implication on somebody's life can be much higher, and market forces in this space is so much that it is highly competitive space. Already, if you adjust for inflation, actually prices are going down over a period of time. So, I would say that need of the hour is to really look at the quality aspect around price; however, any move from policymaker is concerned, we do not have any fresh update. As far as the risk is concerned, that continues to remain as it was before.

**Sriraam Rathi:** Anything you are hearing from the regulation perspective basically to regulate laboratories and all?

**Om P Manchanda:** There is some amount of regulation already in place because Clinical Establishment Act that exists, many of the states have now started adopting it, and you require a license for a lab which is in some ways, ensuring that some bit of regulation has already started falling in place in many states.

**Moderator:** Thank you. The next question is from the line of Pritesh Chhedda from Lucky Investment Managers. Please go ahead.

**Pritesh Chhedda:** Sir, I didn't understand your comments on the flat cost that we have seen in the first half and what is the outlook there and I see a bit of seasonality in your business in the second half. So, if you could comment because also the other part here is, should we take this 26%-27% margin as a representative for full year or your second half has seasonality and the operating leverage for Q2?

**Om P Manchanda:** Second half generally is lower than the first half. As we said that we do not want to exactly comment on the year outlook. But if you look at last few years trends, second half generally tends to be lower, and overall margin also if you study for the last 16-17quarters, you will notice that second half margins are also slightly lower than the first half. So, I think one can apply that and figure it out as to how it is.

**Pritesh Chhedda:** And usually what should be the cost base rise for you for 14%-15% top line growth which has 12%-13% patient growth?

**Om P Manchanda:** So, as we have been saying that we want to make sure that entire growth in the company is aligned with the volume growth. So our cost structure should ensure that whatever normal increase is there and also whatever growth is

there comes from expansion. So I actually would say that it should be in line with what we do in volume.

**Pritesh Chhedda:** Expense growth should be in line with volume?

**Om P Manchanda:** Yes.

**Pritesh Chhedda:** And lastly, on your expansion side, so what is our capital expenditure, and usually what kind of expansions do we take in terms of reach or touch points, etc., which itself brings you the growth?

**Ved P Goel:** So, we generally have Rs.30 crore-Rs.40 crore kind of maintenance Capex, unless and until we do some any mega project. So this is how we are looking at it this year or the next couple of years, about Rs.40-50 crore of Capex.

**Om P Manchanda:** And normally we split between IT and instruments and few new labs. These are three big areas where the capital expenditure gets consumed.

**Pritesh Chhedda:** But you do not set up distribution infra along with it or that usually is franchised?

**Om P Manchanda:** Not distribution, collection infra is franchised out. So, there is no capital expenditure involved because whatever Capex is required, little bit is also incurred by the franchisee.

**Pritesh Chhedda:** What is the usual collection infra growth in terms of number of touch points or whichever way your metrics is captured?

**Ved P Goel:** Our collection center infrastructure grows are about 10% to 12% a year in number of unit terms, but each one has a cycle of maturity.

**Pritesh Chhedda:** So that basically translates into your 12% volume growth?

**Ved P Goel:** No, that is where the maturity curve kicks in, every unit does not give the same kind of curve.

**Pritesh Chhedda:** But you're greater than three year collection infra would be growing on the LTL...same-store basis, right?

**Om P Manchanda:** Like-to-like which is nothing but same-store growth and that definitely would be around 9%-10%. Let us say if our value growth is close to 13%, 14%, 15%, this will be around 9% or 10% will be like-to-like.

**Pritesh Chhedda:** And the balance 3% comes from expansion and touch points?

**Om P Manchanda:** Yes, absolutely.

**Moderator:** Thank you. The next question is from the line of Prashant Nair from Citibank. Please go ahead.

**Prashant Nair:** I had one question on the M&A that we have seen recently. You seem to have done a few more acquisitions in the last few quarters than you have normally done in the past. And not all of them have been in your traditional strong base like either North or East. So, is this a conscious decision to put more capital at

work and expand a bit more aggressively or is it just you have got some good assets all around the same time, how should we look at this?

**Om P Manchanda:** Prashant, if you go back to our stated strategy, we have always been saying North and East are our core markets for organic, South and West are for inorganic. In South and West, we have had two focus cities which is Pune and Bangalore, and it is in line with that strategy that we are looking for a possible consolidation or M&A targets in these markets. So, there is nothing new, it is more in line with our stated strategy of looking at inorganic in South and West.

**Prashant Nair:** Have you taken any price hikes this last quarter or does it continue to be rebalancing depending on what makes sense in this market?

**Om P Manchanda:** I think we shared in the last quarterly call that we took some price increase in Delhi NCR. It is very marginal and nothing very material, but we did take some or I would say price rationalizing; some places, we dropped it; some places we took it up. But net-net, I think there was a bit of increase in the Delhi NCR, and we took this in the month of June-July.

**Moderator:** Thank you. The next question is from the line of Keshav Lahoti from Angel Broking. Please go ahead.

**Keshav Lahoti:** I just wanted to check now that with this tax cut that essentially puts more money in the company's hand which can ideally be reinvested back in the business. So, would you be looking at doing price cuts or something like that in order to take away market share from the unorganized sector, is that an option?

**Om P Manchanda:** Cash is never a constraint for us as a company. So, I am not sure whether extra cash is going to make our life different or our strategy very different, because we always had cash. As far as the pricing bit is concerned, it only increase your paths of operating performance, in any case is not favorably impacted. So, we continue to look at our operations as we were looking at before. Unless we have some good assets, we do not want to chase something for the sake of chasing it just to get extra cash. So we will be very prudent in terms of where we invest. I think to my mind, "Does it change our strategy? No, answer remains. We will continue to operate as we were operating before, because cash was never a constraint earlier also.

**Keshav Lahoti:** I just also wanted to check because there is a talk of consolidation which is going on in the industry given that we have a lot of private equity based players who have not really been funded for quite some time, and I am talking about probably some of the smaller second and regional players. So, would it be fair to say that at this point of time some of these smaller players' business would be coming under pressure, and at some point of time, you will have enough acquisition opportunities especially in your preferred market of West and South?

**Om P Manchanda:** So in any case, that strategy was there before also, and we will continue to operate that way, but we would not unnecessarily be chasing bad assets just because we have extra cash. If there are good assets, we will definitely invest, that in any case has happened before also.

**Keshav Lahoti:** Also, given the fact that we are also acquiring a lot of scale at this point of time, over a period of time which will also give us some amount of additional competitive advantage, are you now looking at becoming a bit more aggressive in terms of your growth strategy, and would you be looking in terms of

becoming more aggressive in order to accelerate growth from whatever, the last three, four-years average of around 13%, 15% or would you be looking to accelerating growth further from year on?

**Om P Manchanda:** So my response to this question would be that we will definitely be looking at larger geographical presence. I think in the last three years, post our listing we have focused quite a bit on East. While we continue to focus on East and North, we would want to put extra effort in other parts of the country. And I think, as Prashant asked this question earlier, that West region we have done a couple of acquisitions. So, our focus now will shift to, more to these markets to see how we expand our presence in non-core markets.

**Keshav Lahoti:** The acquisition which you have done this year, what would be the total contribution in terms of absolute number to the top line and how much have you paid for them totally, for these acquisitions?

**Om P Manchanda:** I think if you annualize it because we may not have the entire annual impact this year, but if you annualize it, my sense is about 1.5% contribution will be there for top line.

**Ved P Goel:** We paid about Rs.49 crore.

**Om P Manchanda:** About 70% for this. We do not have exact numbers on this. Maybe offline we can take this question and give you a correct answer. I do not want to guess a figure on this.

**Moderator:** Thank you. The next question is from the line of Prakash Kapadia from Anived Portfolio Managers. Please go ahead.

**Prakash Kapadia:** As a customer, if I book a test through the call center, I am charged collection charges. If I do it online that is waived. So why this anomaly? Pricing seems similar be it online or through the app. So, any thoughts on difference in pricing?

**Bharath Uppiliappan:** We are trying to digitize as much as possible and move people to go online. So on the app, lot of new features like time slots, etc., so, every call which comes to us cost a certain sum of money and a follow up and so on. But digitizing it, we are able to move to relatively self-service options. It is better for the customer, better for us also to operate. Promotion is being run to encourage digital movement.

**Prakash Kapadia:** If you could share some of the app downloads till now, some number, and are we trying to increase the download of apps because I think that will ensure lot of stickiness to our brand.

**Bharath Uppiliappan:** Yes, you are absolutely right. We are focusing a lot on the digital adoption. However, I would be very cautious of downloads as a metric in our business. What we are really trying to improve upon is, of our active customers on the app because app download can be very different in many other industries, we would like to put a metric around a number of our current customers on the app which indicates stickiness for us. The exact number on this, I do not have it readily available, but we can share it to you in a different call.

**Prakash Kapadia:** If you could also comment on the Calcutta market, what has been the trajectory in terms of patient volumes? And Delhi NCR any impact on the dengue season, positive or negative? And currently, what is happening in Delhi -- any

impact on footfalls or business because we hear and see a lot of things on the negative side in Delhi specifically?

**Om P Manchanda:** Firstly, in East India, it continues to deliver good growth and on the volume front is 20% and value also is 19.6%, about 20%, so, that is the kind of growth trend. As far as Delhi NCR is concerned, this year, one has seen a healthy season compared to what normally one sees, and that is a trend which continues even now also. And this is from a perspective of vector-borne diseases. On air pollution, I have no comments.

**Moderator:** Thank you. The next question is from the line of Nitin Agarwal from IDFC Securities.

**Nitin Agarwal:** This is Nitin here. Sir, just to reiterate you mentioned that for the quarter versus the 15% overall volume growth, 20% was in rest of India. What was the number for NCR?

**Om P Manchanda:** So, our NCR growth in terms of value was about 8%. That is how our average came out to be 15%-odd for the quarter as a company.

**Nitin Agarwal:** But the fact that this growth which is more sort of skewed towards the rest of India market has come with improvement in patient realization, and the common understanding is that as you are speaking about your rest of India market business has relatively lower realizations, how do we reconcile that?

**Om P Manchanda:** I think last year Q2 we had a lot of promotion done and we had a lot of free patients and that brought down the revenue per patient, but this year that has gone away from the volume and suddenly we see revenue per patient going up. So I would not really read too much into RPP going up in rest of India. But I think the question is still valid that rest of India is driving our growth because there is a very focused effort that we are putting in, in making sure that our geographical footprint grows because we do realize that Delhi NCR is a smaller market, just about 4--5 crore population block while rest of India is huge, and we need to make sure that our collection center network, lab network grows in rest of India. And these efforts have been going on for some time. I think the question is that "How we are able to manage our EBITDA margin despite this promotion moving to much higher to rest of India?" So that is where as a management team we are putting a lot of effort, that entire infra we expand outside is productive and calibrated to the extent that we do not have adverse impact on EBITDA as we go forward.

**Nitin Agarwal:** Just taking a point up from there, this is a fairly commendable job that management has done in terms of the overheads which are there because the growth in overheads for the last few years especially has been fairly muted. And this is around the time as you mentioned rest of India business has meaningfully scaled up over this period of time. How do we optimize this cost base even going forward, I mean, will it still continue to lag the revenue growth as we go forward?

**Om P Manchanda:** Our operating expenses tend to go up if you increase the lab infra. So, we are looking at ways and means of making it more productive and which is essentially we are trying to see how we take advantage of scale. So in a much calibrated manner, we identify markets where we drive growth, because spreading yourself too thin can create this issue. So, if you go line-by-line, there are many areas like rent, etc., we have been able to become more efficient. So, combination of all this put together, we are trying to manage this. But I think the key thing that is required to be managed by us, as the proportion

of rest of India grows, how we make sure that we do not dilute our margins, and that is where we continue to focus on and use scale to our advantage as much as possible.

**Nitin Agarwal:** Between rest of India and Delhi, is there a major difference at the gross level also in these two businesses segments or is there a larger, scale impact, the fact that you operate in Delhi in a more compact scale, that lends itself to a better EBITDA margin?

**Om P Manchanda:** These two businesses slightly differ. Delhi is our are/hub, that is where we started which is more walk-in, there is very high footfall, and lots of facilities are managed by our own infra. But as we go to rest of India, that is where we start leveraging our franchisee network. So, lot of cost is actually borne by franchisee infra than on our P&L. I know B2B sounds little negative, but it is basically through partners that we get lot of business in rest of India. So I see that two different kinds of profile of businesses that we have in one company.

**Moderator:** Thank you. The next question is from the line of Sumit Chandwani from Daiwa Asset Management. Please go ahead.

**Sumit Chandwani:** You were just highlighting on the cost part of it for the rest of India. So, at what point of time, to benefit from the operating leverage, if you start to incur higher Capex or setting up of regional labs or some set up of labs in your West and South markets since you are not doing a lot of acquisitions and increasing the scale from there, so at what level do you start incurring Capex for that?

**Om P Manchanda:** Actually, this is quite a complex calculation because we are also seeing very high level of automation that is coming in the space. So, one is able to actually manage and testing at a very high sort of capacity with very low manpower. So I do not have off the cuff any number to share with you, but I do not think that is a major challenge, but what we are seeing is that cost of processing is actually going down because automation is going up. And what it means is that you would not require a large space, you would not require large manpower and very high throughput machines are able to actually do testing at a very low cost. So that is how we are able to manage our cost structure.

**Sumit Chandwani:** I am coming from the point of view that we started to shift the volumes from Delhi to East lab. So at what point of time you will look at a critical volume to require a regional lab in the West or South?

**Om P Manchanda:** So I think we probably are re-looking at the way our model of East and North has been because these labs are close to 60,000-50,000 square feet lab. We are now able to manage it in much smaller space. So you may not require that kind of expenditure as we have seen in East going forward.

**Moderator:** Thank you. The next question is from the line of J. Madhavi from Narnolia Financial Advisors. Please go ahead.

**J Madhavi:** So my first question is regarding the number of clinical labs, PSCs and PUPs. So, if you can share these numbers as on date that would be helpful?

**Om P Manchanda:** So we do not give numbers on a quarterly basis. 200 labs we have as of March 31, 2019 because these numbers are very dynamic. And we will now give a final number as of 31<sup>st</sup> March 2020.

- J Madhavi:** So as on FY'19, we had around 200 clinical labs. If you can share how much of these are owned labs and how many of these are franchised?
- Om P Manchanda:** Primarily, they are all owned by us with the exception of a few franchisee labs. I do not know the exact number, but they are in the area of like Jammu and Kashmir and Ludhiana, maybe in very low single digit. But our strategy is to have our own labs and franchise out PSCs, and 95% PSCs would be franchised out.
- J Madhavi:** As of today, how many PSCs are owned by us?
- Om P Manchanda:** So as of today, we have 2,569 PSC's franchise as of 31st March 2019, and of that, about 90-odd are owned by us, which is a very small number.
- J Madhavi:** How should we see the growth in the number of PSCs and PUPs say in the next two to three years?
- Om P Manchanda:** So as Bharath mentioned that close to 10% to 12% growth one should see in these PSCs because our focus also is to see that same-store growth or throughput per PSC goes up and we should take advantage of scale and channel also. So our focus is not only just to increase the number of PSCs but also throughput per PSC. Just to put a number, I think about 10% is the number you should expect.
- Moderator:** Thank you. The next question is from the line of Neha Manpuria from JP Morgan. Please go ahead.
- Neha Manpuria:** We have done a couple of acquisitions in the last year. Have valuations of the PE players or some of these owners come down for deals, has that made it easier? I am asking this because a lot of PE players peg valuations to the listed players like yourself and others recently which would make it difficult for you to get attractively priced assets, right?
- Om P Manchanda:** No, many of these acquisitions that we have done, they are not PE-funded players first of all.
- Neha Manpuria:** If you are looking at slightly larger deals, like these were more standalone smaller labs?
- Om P Manchanda:** If you look at last time also, I shared, there are three kinds of players: One is of course, large player, is in the top which are four or five, then there are city-based players, many of them are PE-funded, and efforts is now moving to the bottom of the pyramid which are city-based small players, and there is a clear strategy of our moving to see if we can build a critical mass around Pune city, and as we mentioned West region. So we are not PE-funded player. So we are very selective in this and seeing the quality of asset rather than just acquiring for the sake of acquiring.
- Neha Manpuria:** So we rather go with the standalone city-based players than the second tier?
- Om P Manchanda:** Second tier, we are always open, but I am saying right now those deals are not on table.
- Moderator:** Thank you. The next question is from the line of Dhruv Jain from Ambit Capital. Please go ahead.

- Dhruv Jain:** Sir, I had a question on your Bangalore market. You said that it is a key market for you. But considering there are a lot of other PE-backed players and a couple of other listed players, how has been the growth and what is the operating trend there?
- Om P Manchanda:** We do not have city specific sort of a number right now. We can offline take this question, but a qualitative figure, as we mentioned, two focus cities; one in West and one in South, Pune continues to stay a focus city, Bangalore is also a focus city for us. And the reason why these two cities we've picked up because we believe that these cities have sort of a cosmopolitan population where a lot of North Indians are there and brand equity is there in certain part of the city. And if we can build a critical mass, it will help us to expand the entire region of South and West.
- Moderator:** Thank you. The next question is from the line of Manish Poddar from Nippon India. Please go ahead.
- Manish Poddar:** Sir, any idea on the market growth let's say for the first half of this year?
- Om P Manchanda:** Great question. Because three or four are listed, and a couple of them have already declared their results and we have just collated, I think if I look at peer group, they are into low single digit kind of growth rate is what I have been told, so we will all put it together and see how it is, but it is definitely in the area of about 8% to 10% is the volume growth I see.
- Manish Poddar:** I am trying to understand pricing in East India, how does it now stack up with the other players in those markets, because earlier we were giving at a discount to the pricing which is there in North India?
- Om P Manchanda:** That is our internal benchmark. So I think the question that used to get asked is that "How is your pricing compared to Delhi NCR?" That obviously is at a discount because our cost structure is also very different. But as compared to local competition we are competitive. It is not a discount or a premium, I would say, it is very similar.
- Manish Poddar:** How many patients booked through the app or through the call center in the last six months, just trying to understand of this total 10 million patients, how many would be doing that?
- Om P Manchanda:** It is very small actually. It is not worth talking about. I know everybody is talking about app online, etc., because we are in medical business, we want to make sure that there is no error, pre-analytical is a very important area for us. I do not want to unnecessarily push the market on to booking on app and then we have a lot of other related issues because test names are very complicated, each test there are ten such variants, and there is no common knowledge with the patient. So there is always a possibility of committing error. So I think this app business is more suited to screening kind of packages, health packages where just pick one or two from a drop down and book it, but if you actually go through a prescription, that is little complicated. So I really would not unnecessarily get overexcited by app booking, etc.
- Moderator:** Thank you. The next question is from the line of Tushar Manudhane from Motilal Oswal Asset Management. Please go ahead.
- Tushar Manudhane:** So just for the rest of India market, if you can just help me with a broad breakdown of B2B and B2C segment?

- Om P Manchanda:** I think as a company our B2C business is about 60%-odd, 40% in B2B and rest of India would actually become other way round.
- Tushar Manudhane:** So basically B2C share is much higher than the B2B for rest of India?
- Om P Manchanda:** B2B share is much higher in rest of India. And the definition of B2B is that we pick up a lot of samples directly from the hospitals; that is counted as a B2B.
- Tushar Manudhane:** For the rest of India, what would be like average realization in each of these segments?
- Om P Manchanda:** I do not have B2B, B2C split here, but our rest of India realization is close to 60-65% of what we realize in Delhi NCR. But that realization should not be misconstrued as if our pricing is lower to that extent, because there is a lot of net rate booking that happens in rest of India versus what happens in Delhi NCR because here the franchisee contribution is much higher, and we have a net rate pricing in rest of India, that is why the realization is lower, but, that does not mean our margins are lower to that extent.
- Moderator:** Thank you. The next question is from the line of Anuj Sehgal from Manas Capital. Please go ahead.
- Anuj Sehgal:** I have two questions. In your annual report on the P&L, you have an item 'Fees to collection centers and channel partners', roughly 12%, 15% of your revenue. So I wanted to understand how was the flow of cash? So when the patient comes to your collection center, he or she gives a sample and he/she pays at the collection center, does money all come to Dr. Lal Path and then you pay out to the collection center, because that is what the P&L suggests or is the other way around? And then how do the fees or referral fees get paid to the doctor?
- Om P Manchanda:** I think you are barking up the wrong tree. We do not give any referral fee to the doctor.
- Ved P Goel:** So fees to collection center is about 13% which you are right where patient is paying to the collection center. We collect 100% and then we pay to the franchisee or collection center.
- Om P Manchanda:** To your second question, we do not have any arrangement with doctors. So there is no such question like that.
- Anuj Sehgal:** Even the collection centers are not paying to the doctors?
- Om P Manchanda:** Correct.
- Anuj Sehgal:** And then my second question is, you talked in the beginning about the Ayushman Bharat Scheme. If you see some of the other examples in countries like Indonesia where they have a similar medical health insurance scheme which actually has done very well. As it scaled up and became very critical in terms of scale, it actually resulted in much higher volume but at much lower cost. So what is your expectations of the Ayushman Bharat-driven business in India if the scheme were to scale up in a meaningful way, and any potential impact on not just Dr. Lal, but other healthcare providers?
- Dr. Arvind Lal:** Ayushman Bharat Scheme so far has seen I think, 1.7 million patients. It is largely due to the in patients, etc., and the outpatients which have gone to their

so-called health and wellness centers. But actually, the pathology part is not involved. So being a service provider only for diagnostics has not impacted us at all so far. The government of India will have to take a call that whether we put pathology in the OPD charges, etc., so that is a different ballgame. Right now we are talking about IPD. And IPD, all those things are internal inside the hospital built into the charges of what a particular procedure is costing, in all of these hospitals.

**Anuj Sehgal:** So if the pathology were to come under the scheme, would you take up that business and be keen to be a service provider or would you not take that business because it probably would come at lower prices but may be at a significant volume?

**Om P Manchanda:** We will have to see the economics of that as and when it happens.

**Moderator:** Thank you. The next question is from the line of Sameer Baisiwala from Morgan Stanley. Please go ahead.

**Sameer Baisiwala:** Post the acquisition, what are the next few steps for you to get more entrenched in those markets and how do you take say for example, Rs.15 crore revenue to Rs.50 crore, what is the journey like?

**Om P Manchanda:** So it is clearly focused strategy, we just want to build scale in a limited geography. And that asset actually has equity into contiguous markets. So our expansion plan would be, to pick up districts close to that place where we acquired. So it is clearly a cluster approach we want to follow wherever we have done these acquisitions.

**Sameer Baisiwala:** And so therefore then you go out to adjacent districts and then have new franchisees, PSCs and then open a lab, is that the way you expand?

**Om P Manchanda:** That is right, and we also bring in lot of processes, lot of consumer-facing initiatives where service levels go up and things like that. So, the brand experience becomes very different. So, whatever our learnings have been from our own parent business, we try to transfer it to that acquired asset and grow in the contiguous markets.

**Sameer Baisiwala:** And any number targets sort of that you doubled, tripled the revenues over certain timeframe or something?

**Om P Manchanda:** Actually, in the short term, there is a lot of pain because we first get into a cleaning up office because many practices may not be aligned to what we do. So actually things tend to get worse before they start looking up. There is a slight dip and then couple of years down the line it starts moving up. I want to share one example, we have had in Kanpur where we did one acquisition about 10-odd years back, today business has become 10x in about 10-years. So if you actually draw that learning and see if you can grow these smaller assets in a smaller market. But idea is that these smaller acquisitions also will go through lot of pain of cleaning up first. But these labs will always have good equity in these limited markets.

**Sameer Baisiwala:** Any thoughts of going international or business remains pretty much in India?

**Om P Manchanda:** I think our primary focus will continue to remain in India, and South and West, as we mentioned is the market which is where our shares are very low, we will first attempt to do something there.

- Dr. Arvind Lal:** We already have labs in Nepal and Bangladesh, if you call that international.
- Moderator:** Thank you. The next question is from the line of Ankit Jha from Stock Access. Please go ahead.
- Ankit Jha:** I would like to understand that how is the response from the bundled package test “Swasthfit” , what is the growth there and how are the margins there?
- Bharath Uppiliappan:** The growth rates continue to be very robust; upwards of 30%-odd, and a contribution is now 15% of the overall portfolio. The margins are also healthy given that we have bundled tests for efficiency.
- Ankit Jha:** How is the competition with pharmacy and online aggregators and how is the intensity there?
- Om P Manchanda:** So we do not have exact sort of information to share, but we are getting mixed signals from there because many people are also getting into diagnostics, but we are also finding that some of them are finding it difficult to scale because at a city level, they are able to do well, but if they go beyond city then it is quite challenging, and challenges come out in both ends; one is the front end because they are not able to control phlebotomy experience because many of them are home collection-driven models, at the same time, they are also not able to aggregate at the back end because service, quality both are impacted. So, some of them in order to improve these three variables, they have started hiring phlebotomy and if they are starting their own lab, and certainly they find themselves doing the same thing what we are doing. So it does not remain like eCommerce stuff. So it is a bit of mix thing. I would not like to give a definitive answer right now. I am also picking up as much information as possible. And if you guys pick up something, please share with us so that it helps us to design our strategy better.
- Moderator:** The next question is from the line of Saurabh Jain from SSJ Finance. Please go ahead.
- Saurabh Jain:** You earlier commented that the revenue that you are getting per patient is increasing at a rate much lower than probably the rate of inflation itself. Can you comment more on that and maybe in terms of how will you improve on your pricing power and will this trend change sometime soon?
- Om P Manchanda:** Revenue per patient as I keep mentioning I do not want to see pricing as a route to increase the realization. But I do see a higher end test contribution to go up. I also see bundling to help me drive revenue per patient. I also see if I can do a cross promotion, but definitely I do not see pricing as a route to increase revenue per patient.
- Saurabh Jain:** Can you also comment on how you are seeing the unorganized space behaving in terms of the lab expansion there or what trend are you seeing there?
- Om P Manchanda:** Definitely, my view there is that unorganized space is definitely feeling the heat of growth. On one side, they are also not able to take price increases, and since they operate in a limited market, they do not see volume growth, and there is also a pressure on compliances because each lab has to be run by a doctor, they have to keep licenses. I think the unorganized space is going to feel the heat a bit. It is like some people will try to compete with the larger players and increase the test menu, but most of it would want to partner with

the larger ecosystem like a large player like us. But I do not think any new fresh investments will come where people want to put up more labs. I think that era is gone where labs are going to multiply. We actually have to reduce costs in some ways.

**Moderator:** Thank you. The next question is from the line of Aman Sharma, an individual investor. Please go ahead.

**Aman Sharma:** I just have an idea. I am not sure whether you are aware of it or not. So there are a lot of life insurance companies, like before taking the life insurance they also take the medical test for the individual. So are we collaborating in this manner?

**Om P Manchanda:** Yes, this business exists, but they are always looking for lower pricing. So they are like any one player, and then they end up partnering with a lot of local labs rather than large players like us. But definitely there are some quality insurance players who come to us. The other challenge that we face in this business is that we are not only there for tests, but we also want some kind of medical sort of MBBS help because you have to check blood pressure, you have to take all other parameters. So it is not only the diagnostic alone or test alone, they need some doctor consultancy as well which in my view a local lab can provide because they can give lowest price and they can manage all that. So that is why this business is there, but it is not a very large business I would say.

**Moderator:** Thank you. The next question is from the line of Nirmal Gopi from IDFC Securities. Please go ahead.

**Nirmal Gopi:** Om, just looking through the numbers and clearly if we look through the last four quarters, the business is literally into two halves. We had a fairly tough situation, low growth, and low profitability in H2 of last year and the business seems to have turned around fairly dramatically in the first half of this year. In your assessment what is the change in these two periods if there is a way to classify them?

**Om P Manchanda:** Thank you very much, "We will see a dramatic improvement." I would not read too much into that. But I think one thing consciously that we are trying is to see how we increase focus on rest of India and reduce our dependence on Delhi NCR because rest of India is like open sky. So, we focus on East, we carefully pick the markets, we are not a company which is just Delhi-based, we are now much broader based. I think as the brand becomes widespread, we hope to see a better growth. So, that is one thing which I will say has changed.

**Nirmal Gopi:** In terms of the operational focus in terms of cost optimization, anything else which really plays itself out in a slightly more meaningful way in the last couple of quarters versus what we experienced in H2 of last year?

**Dr. Arvind Lal:** Nirmal, we emphasize a lot on the pre-analytical quality of the operations. And the good quality just does not happen out of the blue. So we strive very hard to maintain the quality, especially at the pre-analytical level. Second thing, which we have done in the last quarter or maybe slightly before, is that we have got very robust internal quality assessment software which has never been used by anybody in India before. So at a glance, we can monitor so many outside labs, etc., and we are much ahead of the curve than anybody else. So these are two qualitative things which I can share with you.

**Moderator:** Thank you. As there are no further questions from the participants, I now hand the conference over to the management for closing comments.

**Nishid Solanki:** Thank you, everyone for joining with us on this call today. I would now request the moderator to close the call. Thank you.

**Moderator:** On behalf of Dr. Lal PathLabs, that concludes this conference. Thank you for joining us, and you may now disconnect your lines.

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