



Dr. Lal PathLabs Limited (LPL)
Q4 & FY19 Earnings Conference Call Transcript
May 17, 2019

Call Duration	▪ 1 hour 17 minutes
Management Speakers	<ul style="list-style-type: none">▪ (Hony) Brig. Dr. Arvind Lal – Chairman & Managing Director▪ Dr. Om Prakash Manchanda - Whole-time Director and CEO▪ Mr. Ved Prakash Goel – Chief Financial Officer▪ Mr. Bharath Uppiliappan - Chief Executive Officer (India Business)▪ Mr. Rajat Kalra - Company Secretary & Head of Investor Relations
Participants who asked questions	<ul style="list-style-type: none">▪ Aadesh Mehta from Ambit Capital▪ Aditya Goenka from DSP Blackrock▪ Anmol Ganjoo from JM Financial▪ Ashish Thakkar from Motilal Oswal Securities▪ Chandra Mauli from Goldman Sachs▪ Gagan Haricha from Kotak Securities▪ Krishna Munde from Reliance Securities▪ Kunal Thanvi from Banyan Tree Advisory▪ Manish Poddar from Reliance AIF▪ Nilesh Soman from Keynotes Financial▪ Nimish Mehta from Research Delta Advisors▪ Prakash Kapadia from Anived Portfolio Management▪ Sameer Baisiwala from Morgan Stanley▪ Sriram Rathi from ICICI Securities▪ Surjit Pal from Prabhudas Lilladher

Moderator: Ladies and Gentlemen, Good Day and Welcome to the Dr. Lal PathLabs' Q4 & FY19 Earnings 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 an operator by pressing "*" and then '0' on your touchtone telephone. Please note that this conference is being recorded. I would now like to hand the conference over to Mr. Nishid Solanki from CDR India. Thank you and over to you, Sir.

Nishid Solanki: Thank you. Good Afternoon, everyone and a warm welcome to Dr. Lal PathLabs' Q4 & FY19 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, Mr. Ved Prakash Goel – CFO. We also have with us Mr. Bharath Uppiliappan – CEO, India Business and Mr. Rajat Kalra - Company Secretary & Head of Investor Relations.

Before we begin the call, I would like to highlight that some of the statements made on the call today could be forward-looking in nature. Actual results may vary significantly from these 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. Thank you and over to you, Sir.

(Hony) Brig. Dr. Arvind Lal: Good evening, everyone. I am happy to have you all on the Q4 & FY19 Results Call. Today, I would like to share my thoughts on the performance drivers and the road ahead for the company.

Robust patient volumes and sample growth continue to drive our business momentum on the back of strong and established hub-and-spoke network, however, there is a lot of room for us to grow further from here on, given the current market opportunity as larger portion of the pie consists of people who are under-diagnosed as well as people requiring specialized medical care.

The Kolkata Reference Lab continues to perform as expected. We have now nearly doubled our test menu at Kolkata Reference Lab and will further strengthen in the times ahead. We still see a lot of scope for the lab to grow and build scale.

While in the last year we have launched 75 plus new tests in the various high-ended segments, we are very excited about our partnerships with various research institutes as well as other research and development organizations and forums. We have partnered with CSIR-IGIB for technological transfer for many disease areas that require high-end diagnostic expertise.

We also now support and contribute to Virtual Molecular Tumor Board also known as VMTB which deals with the rare cancer and tumor-related cases requiring multi-disciplinary approach.

In-line with Government of India's thrust on TB Eradication, we have launched 'TB Lab Test' for the first time in the country.

As always, Dr. Lal PathLabs stands for providing high quality and accurate services that are easily accessible along with timely results to our patients at affordable prices. We thank our patients, customers, investors and stakeholders for continuing to give us their support.

I am pleased to share that the Board of Directors have recommended a final dividend of 35% i.e., Rs. 3.50 per equity share of face value of Rs. 10 each. The total dividend for the year thus will stand at 60%, i.e., Rs. 6 per share.

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

Dr. Om P Manchanda:

Thank you, Dr. Lal. I am pleased to inform you that we have crossed a milestone of Rs. 1,200 crore revenue in FY19 and delivered a revenue growth of 13.9%, strongly backed by 15.3% volume growth on a full year basis. The total number of patients served on patients visit basis has gone up to 17.6 million in FY19, an addition of 2.3 million patients. The revenue growth for Q4 FY19 is at 12.9% backed by a volume growth of 12.5%.

Our business is undergoing rapid change in product mix, geographical mix and channel mix. This is probably first time we are observing higher volume growth than value growth on a full year basis. This is a result of carefully thought out plan as we embrace reduced dependence on Delhi NCR and higher contribution of growth from rest of India, especially rest of North, Central, East and Northeast. The rest of India contribution is now at 57% and the revenue growth rate from rest of India is around 16.5%, backed by 18.6% volume growth. The value growth rate from Delhi NCR cluster is around 10.6%, backed by 8% volume growth. This is in-line, as from a long-term standpoint we need to reduce the dependence on Delhi NCR. The good news is that so far, we have been able to manage and sustain the EBITDA levels as the mix change is happening.

Within rest of India, nearly 73% of business comes from northern states like J&K, Punjab, Haryana, Himachal and Uttaranchal, Central India states like Rajasthan, UP, MP and Chhattisgarh and East India states like Bihar, Jharkhand, West Bengal, Odisha and Northeast. As our geographical mix changes over time, one would also see a change in channel mix as well, that means the contribution of collection center will tend to go up.

We are also pleased that we are seeing a momentum building up in our East India operations which is now growing at a higher rate than the company average growth rate. The growth rate has been 20% vis-à-vis 13.9% for all India for FY19.

Our Bundled Test Program, which is “SwasthFit” has also been performing very well and has contributed 14% to the company revenue in Q4. Therefore, on a full year basis, the contribution of SwasthFit is at 13%. It has led to a rise in samples per patient from 2.3 to 2.5 in Q4 FY19. It has also helped us to maintain the revenue per patient nearly at the same level as that of last year by off-setting the adverse impact which one is experiencing due to geographical as well as channel mix as mentioned earlier.

Our patient service center count has gone up to 2,569 at the end of FY19 from around 2,153 in FY18, growth of 19%. The asset light approach makes our model resilient and scalable in today's operating environment.

With that, I conclude my opening remarks and would request Ved to give us an update on the financial performance of the company.

Ved P Goel:

Thank you, Dr. Om. Good evening, everyone and thank you for your participation on this call. I will now share with you some of the important financial highlights.

Revenue for Q4 FY19 is at Rs. 3,011 million as compared to Rs. 2,668 million in last year, a growth of 12.9%. Full year revenue is at Rs. 12,034 million as compared to Rs. 10,569 million last year, a growth of 13.9%. The underlying patient volume for Q4 FY19 stood at 4.32 million as compared to 3.85 million in the same period last year, representing a growth of 12.5%. Full year patient volume is at 17.58 million as against 15.24 million in the previous year, a growth of 15.3%. The samples per patient have also increased to 2.5 in Q4 FY19 from 2.3 in same period last year. Revenue realization per patient for Q4 FY19 is slightly higher at Rs. 696 as against Rs. 694 for Q4 FY18.

Normalized EBITDA after eliminating the impact of stock-based compensation and CSR expense in Q4 FY19 stood at Rs. 729 million as compared to Rs. 688 million reported in Q4 FY18. Normalized EBITDA for FY19 is at Rs. 3,132 million as against Rs. 2,783 million in FY18, representing a growth of 12.5%. Normalized EBITDA margin for FY19 stood at 26% versus 26.3% in FY18.

PBT for FY19 is at Rs. 3,006 million as against Rs. 2,613 million in FY18, a growth of 15%. PAT for FY19 is at Rs. 2,005 million as against Rs. 1,718 million in FY18, a growth of 16.7%. Diluted EPS for Q4 FY19 is Rs. 5.71 per share versus Rs. 4.87 in the same quarter last year. Full year EPS diluted is at Rs. 24.15 per share versus Rs. 20.82 in last year. Cash and liquid funds at the end of FY19 are at Rs. 7,077 million.

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, Ladies and Gentlemen, we will now begin the question-and-answer session. We take the first question from the line of Sriram Rathi from ICICI Securities.

Sriram Rathi: Firstly, if I look at the revenue per sample for this quarter it seems to be very low compared to Y-o-Y or Q-o-Q. I believe it would be because of the revenue mix largely, but if you can explain in more detail, it would be helpful? Revenue per test last year Q4 was Rs. 297, Q3 was Rs. 293 and this quarter it is Rs. 284, which is down more than 5% versus Y-o-Y and almost 4% versus Q-o-Q.

Dr. Om P Manchanda: I will have to do this math, but quickly my initial response is probably the contribution of SwasthFit is going up and SwasthFit has more number of tests per package and that must be influencing this figure.

Sriram Rathi: So, in that case probably this trend may continue going forward because the contribution of SwasthFit is expected to increase?

Dr. Om P Manchanda: I think the incremental cost of an additional test is very small. So, technically we end up looking at more as revenue per patient rather than revenue per test. I think that is a little more carefully monitored metric by us than the revenue per test because the cost of additional test on the same patient is not that high.

Ved P Goel: Sometimes this test is influenced by seasonality also.

Dr. Om P Manchanda: But I think in this quarter, it is more influenced because the bundled test weightage is little more.

Sriram Rathi: Will it be possible to share what would have been the negative impact on EBITDA because of commercialization of Kolkata lab in this year FY19?

- Dr. Om P Manchanda:** I think that is really behind us. So, it is all absorbed. If at all there is an impact it is probably due to higher personnel cost this quarter, and not on account of Kolkata, but in general that is the reason.
- Sriram Rathi:** So, Kolkata is more or less close to breakeven for us?
- Dr. Om P Manchanda:** I think operating cost had gone up by about Rs. 8-10 crore. It will take another at least a year or so for us to have cash breakeven.
- Sriram Rathi:** Any specific reason for increase in the staff cost this quarter?
- Ved P Goel:** As you might be aware, that there is a Supreme Court ruling where it has confirmed the definition of minimum wage where earlier minimum wage was split between basic and some other allowances, now they said that minimum wage has to be one and on that PF has to be deducted or paid. So, earlier the limit was Rs. 15,000 and before that it was Rs. 6,500. That is where the minimum wage impact has come as a basic salary, we have to pay PF on this Rs. 15,000.
- Dr. Om P Manchanda:** That has affected this number.
- Sriram Rathi:** So, this Rs. 57 crore in this quarter is a normalized rate now for the coming quarter?
- Dr. Om P Manchanda:** There is a bit of one-time cost as well because we have restated our gratuity and leave encashment, etc., the ongoing stuff will be lower than what has been charged in this quarter.
- Sriram Rathi:** Any outlook you can provide on the growth going forward and also on the EBITDA margins?
- Dr. Om P Manchanda:** We have been talking about mid-teens like 14, 15, 16% is the number that we talked about last year, I continue to see that our business should really grow within that range of 14 - 15%. More importantly, as I mentioned in my opening comments that our mix is changing rapidly towards rest of India where the realization per patient is lower than let us say Delhi NCR. I know it may impact value growth in the short-term but we are actually trying to see that our EBITDA does not get diluted as that shift happens. We have been successful over the period of last three years. We hope to maintain the same margins as we go into next year.
- Moderator:** Thank you. The next question is from the line of Ashish Thakkar from Motilal Oswal Securities.
- Ashish Thakkar:** In Q4, patient growth is around 12.5%. Any particular reason? Because in previous quarters you are clocking about 18% volume growth.
- Dr. Om P Manchanda:** One minor sort of a variable which I really do not want to talk about much is that this time winters were little more extended in North. So, that would have affected the volumes and also if you look at the previous quarters we used to run lot of promotional schemes where lot of free testing was happening, that was also inflating our volume growth. So, this quarter we did not see anything of that sort. That is the reason why there is slight depression in volume growth.
- Ashish Thakkar:** Whenever you are talking about the promotional schemes, typically one would observe better EBITDA in terms of like EBITDA-to-sales?

- Dr. Om P Manchanda:** Actually, these promotion schemes are those tests which are very highly routine in nature. The value is not much. Let us take a sugar test, especially in these markets which only cost about Rs.40, 50. Suddenly you see a surge in volume, but financial impact is not much. So, we run some of these free sugar camps so you suddenly see a high surge in volumes.
- Ashish Thakkar:** One observation like in FY18, our volume growth was 15%-odd and in FY19 we were around 16 - 17%. So, for the next financial year, you are saying you will be comfortable doing 14 - 15%?
- Dr. Om P Manchanda:** Right. For the value growth is what I am saying.
- Ashish Thakkar:** So, on the Kolkata Lab what is the kind of volume growth keeping aside the East India part?
- Dr. Om P Manchanda:** On East India business our growth rate this year is about 20%-odd in terms of value and the volume growth has been around 25%. So, we are actually driving penetration and our strategy has been to really rapidly build scale in these corridors and we will continue to focus on volume as much as possible because these are those markets where there is very high population. Revenue per patient may not be very high but we are looking at, even if at the lower revenue per patient we can have same EBITDA margin as well as the overall company so that there is no dilutive impact, there may be dilution in the short-term but at least on long-term steady basis we are hoping to see the similar EBITDA margin.
- Ashish Thakkar:** So, 25%-odd is the fair number on a consolidated basis putting all geographies together?
- Dr. Om P Manchanda:** No, entire volume growth last year has been around 15% for us and the value growth is around 14%. Rest of India is about 18.5% volume but Delhi NCR is only 8%. So, blended average sometimes is getting adversely impacted by Delhi NCR and favorably getting impacted by rest of India. So, I would rather see these two buckets, rest of India would be in the range of about 17 - 18% and Delhi NCR if we are lucky we should really be close to a double digit, otherwise we get 8 or 9%.
- Ashish Thakkar:** Is there any major Capex or Opex - incremental investments in say Kolkata or any other places that you are planning to take in the coming year?
- Dr. Om P Manchanda:** Because our major focus is to really get on to the automation and see if we can improve the productivity and leverage the manpower cost so we are looking at automation. Capex would be normal. I think last year our Capex has been about Rs. 40 crore. We hope to remain in the same range of Rs. 40-50 crore for our Capex. As far as Opex is concerned, we are asset-light, our focus is more on building franchisee network, and there is hardly any Opex in that.
- Moderator:** Thank you. The next question is from the line of Prakash Kapadia from Anived PMS.
- Prakash Kapadia:** Couple of questions. In North India, we do have a loyalty program. Any sense of number of customers enrolled and where are we in the CRM journey specifically in the North?
- Bharath Uppiliappan:** Hi. This is Bharath here. We do have a very sedate loyalty program as of now but we plan to revitalize it in the coming few months. So, we also had a CRM

program which we recently kind of tested out. So, both these things will be put in place very shortly.

Prakash Kapadia: Any number?

Bharath Uppiliappan : It is still at a very nascent stage.

Prakash Kapadia: Maybe we would wait for a couple of quarters to get clarity from?

Dr. Om P Manchanda: Yes.

Prakash Kapadia: In Mumbai, if I scan through our Swasth packages and compare it to competition, Swasth packages offers much more value due to much lower prices as compared to a suburban or a metropolis. So, what are the challenges we are facing in a city like Mumbai to scale because that is apparently the largest diagnostics market in the country, if you could give some sense?

Dr. Om P Manchanda: If you actually scan the whole country everywhere where there is a population, there is a diagnostic market. So, we have to prioritize which one we really want to pick up. Bombay is highly competitive. So, we prioritize those markets where we get a higher return on efforts and we are seeing much more sort of traction in big markets like Varanasi, Allahabad, Kanpur, Bihar and this also feeds into our cluster strategy where we have the big labs. While Bombay, I am not saying it is not an important market, it is a large market, we want to be present there, but I think from a priority perspective, at this stage we are looking at few other markets other than Mumbai.

Prakash Kapadia: Of the total volumes for FY19 or over a period of time, if you could give us some sense, how much of these are discretionary and how much of these are prescription-led?

Dr. Om P Manchanda: It will be very difficult to actually split that number and give you exact sort of idea of that but I think once in a while we do this exercise. I think these wellness packages that we see, close to 60% of that would be more self-sort of driven, 40% is bit upgraded chronic healthcare kind of patients but rest of it is mostly prescriptive. So, I will actually say if you are trying to get a sense directionally, is the business more prescription-driven or a self-testing driven, I would still say primarily the business is prescription driven.

Prakash Kapadia: Because this would protect us from potential slowdown from a customer discretion perspective, that is what I am trying to understand?

Dr. Om P Manchanda: You must know that by design our DNA and also the way we are positioned, we are a medical company, our primary positioning and the role is to help our clinician and patient to diagnose the problem and that is the way we are also perceived in the market. While I know that by doing lot of screening stuff, you can have a short-term blip in your sales but primarily we are more prescriptive and we want to stay very scientific in nature rather than getting into a frivolous kind of testing.

Moderator: Thank you. The next question is from the line of Kunal Thanvi from Banyan Tree Advisory.

Kunal Thanvi: Congratulations on a good set of numbers. My question is related to Kolkata Reference Lab. When we last met, you mentioned that to get the volumes, we would be targeting B2B business over B2C which as you mentioned, the

margin for both the businesses would be same. Can you help us understand how it would impact our working capital cycle? What would be the difference between your receivable days as we go for the B2B business there?

Ved P Goel: You are right, EBITDA level margins are same, but if you see our overall debtors, we have only 40-days DSO, so it is big hospitals and HLMs where we do have about 45 to 60-days outstanding, but otherwise all the pickup points or B2B contract is within 30-days.

Dr. Om P Manchanda: I will probably take this question little deeper. I think we have very strong focus on financial discipline in our company. Any account that we have, we do not let that customer go beyond a particular credit limit and if you look at our number of DSO, it is only about 40-days and amount is Rs. 50 - 60 crore, it is well within control but I think in institutional customers, we have very strong limits where we do not let it go above that.

Kunal Thanvi: One more question on specialized test. You said that this year we added around 75 new tests. So, can we have a directional revenue split number on basic versus specialized test for FY19?

Dr. Om P Manchanda: There is an internal definition of a specialized test that we have where we focus on driving growth. By the way that number could be very different from company-to-company. So, it may not be actually like-to-like if I say something. The way we look at it is, that we have close to about 100-odd people who are focused on these tests and we separately track that number. All I can share at this stage is that particular growth of the specialized test is significantly higher than what our average company growth is. If I tell you a figure, that actually could mislead or misrepresent what these specialized tests are. All I can say is in those focused tests our growth rate is significantly higher than the company growth rate.

Moderator: Thank you. The next question is from the line of Chandra Mauli from Goldman Sachs.

Chandra Mauli: First question is on the one-time charges that you mentioned that it has eaten into the EBITDA margin this quarter. Would you be able to quantify what was the one-time charge related to the employee expenses and other expenses in this quarter?

Ved P Goel: Extraordinary expenses in this quarter is about Rs. 3 crore which is on account of PF and personnel cost which if we exclude, the EBITDA growth is about 10.3% instead of 6%.

Chandra Mauli: The second question is slightly more on macro industry. I think in this environment, there are a lot of talks around trade wars. I think a couple of months back the US government had discussed revoking preferential status to India and one of the items on the list is medical equipments. So, related to that, do you see any risk that there could be some kind of increase in duties on import of medical equipment and would that have any implications on your reagent cost?

Dr. Om P Manchanda: The current information that is available with us and with various interactions with vendors we have not got any heads up on that side. My sense is that lot has been talked about in that front, is on medical devices, I am not fully updated on that but at least on the reagent side I have not heard anything from our vendors, right?

- Ved P Goel:** Yes.
- Chandra Mauli:** Third question is on the national essential diagnostic list. So, in the past few months, have you had any discussions as part of an industry body with the government or the ICMR and how should we think of this going forward?
- Dr. Om P Manchanda:** I have not had a formal meeting on this one, but there were various conversations where people who matter they were part of these conversations. What my understanding is that the list that has been prepared is prepared from addressing the accessibility standpoint. ICMR has prepared the list that at least Indians should have access to these sorts of tests. There does not seem to be any pricing discussion around this. I think since there is a term which exists for the pharmaceutical because there is an essential list of medicines or something like that, lot of people are saying that this relates to that only but as of now there is no active conversation around the pricing side of it. This list has gone to Ministry of Healthy but after that we have not heard anything.
- Chandra Mauli:** My last question is around pricing. Over the past three quarters, I think you have commented that private equity activity seems to be on the decline and associated price led competition in many of your micro markets seems to be subsiding. So, do you think over the next fiscal year there is a potential that some of the large players like yourself will be slowly able to start taking price increases again?
- Dr. Om P Manchanda:** I think that is a good question. We probably will have a relook at it. Our cost structure also has gone up especially the manpower cost. We will certainly evaluate this costing of ours in next few months' time and maybe by next board meeting we will have fresh update on that.
- Moderator:** Thank you. The next question is from the line of Sameer Baisiwala from Morgan Stanley.
- Sameer Baisiwala:** A quick question on Rohini Lab. How are we doing on capacity utilization over there and how long do you think the growth can be sustained just from this reference lab?
- Dr. Om P Manchanda:** There is no challenge in those departments where the capacity is fully automated. You can just augment that capacity by adding another machine. The challenge normally happens where the human component is higher. I think the capacity then becomes issue not more on floor space. The good news for us in Delhi NCR is that we have close to another 14 - 15 testing centers. So, Rohini does act like a local lab or a satellite lab for Delhi NCR business. So, at any point in time if we have a capacity constraint on floor capacity, then we just move testing to the regional or satellite labs and free up space for the bigger department. So, my short answer is, it is not a constraint for at least next three to four years even from floor capacity perspective. Just to add another machine does not take much time. It is also not very expensive because most of these machines, vendors are willing to put up free of cost.
- Sameer Baisiwala:** Is there a spilt between the tests volumes being done at reference lab versus clinical labs.
- Dr. Om P Manchanda:** The way we look at it is the tests menu. Close to about 200 – 300 tests are done in satellite labs and the same tests can also be done in reference lab. So the entire universe of tests would be available at the central lab and satellite labs are the sub-set of tests that we do at the central lab. So, the satellite lab

has about 300 – 400 of test menu. And our test menu at Rohini would be about 2,500 – 3,000 tests.

(Hony) Brig. Dr. Arvind Lal: Plus, Sameer, Kolkata Reference Lab has also eased off the pressure. In the East also, Kolkata Reference Lab is doing many more reference kind of tests also.

Dr. Om P Manchanda: So, Kolkata Reference Lab is like a bit of mirror image of what Rohini is.

Sameer Baisiwala: If you are testing say 42 million samples in fiscal 2019, is there a split that half of this has got done in the reference lab and half in the clinical lab?

Dr. Om P Manchanda: From a value perspective, close to 65% of the value gets tested in the central lab, 35% of the value gets tested in the satellite lab. In terms of volume, it is nearly half and half.

Sameer Baisiwala: Any thoughts on how are you going to expand capacity for this year? We are talking about clinical labs, PSC and PUP.

Dr. Om P Manchanda: Our focus is actually to centralize testing as much as possible and leverage the economies of scale and invest behind our franchisee network so that the collection place is closer to the patient and testing remains as centralized as possible. So, that is how we want to really give the shape to the business.

Moderator: Thank you. The next question is from the line of Aadesh Mehta from Ambit Capital.

Aadesh Mehta: Your presentation mentions that you have acquired a new lab in Maharashtra. If you can throw some light on that?

Ved P Goel: We acquired one pathology lab in Maharashtra which is exactly in Bhandara. The turnover of this lab is very small which is about Rs. 2.2 crore. This is a slump sale which we acquired as 100%.

Dr. Om P Manchanda: It was more opportunistic because we liked the quality of the business and the quality of promoter, the way he was doing business. So, we just happened to come across this opportunity and that is how it is. But it is not a very significant M&A.

Aadesh Mehta: In terms of the cost growth, what kind of levers you have to further control your cost?

Dr. Om P Manchanda: Levers is basically scale. We have to really build as much scale as possible and increase throughput per unit of infrastructure whether it is manpower or unit. I think that is what it is and we are hoping that our rest of India story where we have large states like UP, Bihar, Jharkhand, Odisha, Chhattisgarh, in these places our volumes will continue to grow and that is where we get the leverage and then coupled with automation, I think that is where we should have the productivity benefit.

Aadesh Mehta: Your regional split in terms of Northeast, South and West, what could that be?

Dr. Om P Manchanda: I think as I mentioned in my comments, our rest of India now contributes 57% of the business, of that close to 72% comes from I sort of call it the 'Hindi belt' the entire up North states like Punjab, Haryana, Himachal and UP. So, we are looking at each of the states to form a cluster and we are not really focused in

smaller cities, we are now focused on a state level and drive as much as possible.

Aadesh Mehta: You used to give this disclosure in the presentation earlier which is not there this time in terms of the geographical split region wise.

Ved P Goel: We are giving it in the 'Corporate Presentation' which we will upload.

Dr. Om P Manchanda: I do not think on Q-o-Q basis there will be a significant movement on that percentage which exists already. But directionally you should know that our rest of India business is growing faster than our Delhi NCR.

Moderator: Thank you. The next question is from the line of Nimish Mehta from Research Delta Advisors.

Nimish Mehta: A couple of questions: First, can you throw some light on the news which says that Government is trying to come out with proposal of rules and regulations framing whereby pathologists will not be required for the normal biochemistry labs, if this understanding is true, will this spur more segmentation or maybe reverse consolidation, is that the right understanding, your thoughts over here?

(Hony) Brig. Dr. Arvind Lal: Actually, what we have been informed by ICMR & company is that there are certain essential diagnostic list of tests which can be done in a collection center which do not require even a qualified medical lab technologists. That comes under the essential list of tests. The back ground is that it has come from World Health Organization and they are talking about underserved areas all over the world especially Africa and there are certain tests which are required in each territory like Malaria, etc., and those tests have been defined and according to that list, leave aside a doctor you do not even require an MLT to perform those tests. So, that is what we have read.

Nimish Mehta: So, what do you think could be the impact? I do not know how big the essential diagnostic test as a part of the diagnostics industry is?

(Hony) Brig. Dr. Arvind Lal: Right now the Government has not come out with its clear policy because all these kind of tests, etc., to be done in those 150,000 health and wellness centers, etc., So, I think all this will become clearer after the new Government comes into place.

Nimish Mehta: How big would this essential diagnostic test be in terms of the total industry?

(Hony) Brig. Dr. Arvind Lal: You can multiply 150,000 of these health and wellness centers which will carry out each of these tests and Government has already announced that these diagnostics tests would be given free of cost to the patient. So, on this, policy right now is being formulated and I think you will hear something after the new Government comes in.

Nimish Mehta: Again, the government is trying to ensure that the TB treatment is kind of reaching 90% by 2025 and that would require lot of testing on TB patients which I understand you also have. So, what is the outlook there? In terms of your capabilities, have you been testing the XDR TB patients, how does this opportunity imply?

(Hony) Brig. Dr. Arvind Lal: The first thing is that the World Health Organization has announced that TB will be eradicated from the world in 2030 whereas Prime Minister Modi has said one thing better on that, that India will eradicate TB by 2025 and of course

there is XDR TB and there is MDR TB, etc., But the fact of the matter is that the TB diagnosis has to be enhanced. So, the Government of India with many other foundations like Bill Gates and Clinton Foundation, etc., they had introduced 'Genexpert' Testing in which now 120 or 130 private labs of which I was the chairman, when we implemented the testing of TB on the site like POC testing with rifampicin sensitivity. So, this has been enhanced and the Government of India itself has put many centers for such diagnosis in many parts of India which is showing some results now.

Nimish Mehta: Is this same thing you were mentioning for the TB test that you started pursuing on?

(Hony) Brig. Dr. Arvind Lal: Ours is a slightly new test, it is in the same genre as testing TB but it is new kind of a technique.

Nimish Mehta: So, do you think that opportunity driven by Government efforts is a big opportunity or it is not still a big opportunity?

(Hony) Brig. Dr. Arvind Lal: No, Government opportunity is sheer volumes because 2.8 million people are still suffering and one TB patient dies every minute. So, the Government is governed by controlling that mass of TB getting out of hand and by 2025 we have to control it. So, the Government is thinking on a different line.

Nimish Mehta: If I were to just focus on the specialized labs test that you are talking about, all the specialized tests that you are talking about are high value tests, right, how many of this would be, let us say constituted by any molecular diagnostic test?

(Hony) Brig. Dr. Arvind Lal: Majority of these tests have come in molecular, in genetics, in flow asymmetry etc., Right now the numbers may not be so large. Obviously, they will not be as compared to routine but from our point of view these are very essential and they are needed right now. After all somebody has to do these tests with the legacy of introducing so many hundreds and thousands of tests earlier. So, this is absolutely in sync with our thinking and DNA that we will keep on introducing new tests.

Moderator: Thank you. The next question is from the line of Manish Poddar from Reliance AIF.

Manish Poddar: Just wanted to get your thoughts on the cash on books, what is the outlook over there?

Ved P Goel: We have about Rs. 700 crore with us. Essentially this cash is meant for some strategic M&A deal. We are keeping this with us as a war chest and we will use this at an opportunity which will come.

Manish Poddar: How much would be the ESOP cost let us say in FY20?

Dr. Om P Manchanda: Depends on the grant. Normally we have not done yet. Hopefully by next board meeting we will get to know. But I think it should be within the same range as what we had this year.

Manish Poddar: There are some additional ESOP's issued, right, if I am not wrong?

Dr. Om P Manchanda: Last year additional ones were issued to one or two individuals but this year so far we have not done any grant. But once that grant happens, then only we will know but just as guidance I think we should be in the same range as this year.

Moderator: Thank you. The next question is from the line of Aditya Goenka from DSP Blackrock.

Aditya Goenka: Just a question on the NEDL front. So, these essential diagnostic tests, what percentage of revenue would be coming from such essential tests, any ballpark number?

Dr. Om P Manchanda: I think there lot of questions coming on this NEDL. Let me step back as to what our understanding is and what we have read in media and what we have gathered with all the stakeholders. WHO released first an essential diagnostic list. India took the initiative of creating a list specific to India because diseases can be very specific to countries. So, keeping that in mind, India generated its own list and it was generated by a medical body called ICMR. The purpose of this list as I understand is telling the Government of India that any health program that our country has, should make sure that these tests are available at a grass root level. And they have got a multi-tier structure where at a primary healthcare district level what are the tests that should be available. Now, I think there are two questions which are being posed to us by many people and we are also asking ourselves, is that, what is the extent of NEDL our portfolio will have. I think that number is varying and it could be in the range of 30-40%, I do not have exact number as of now. We did this rough math a few months back.

The next question which is coming is “Will this NEDL lead to a price control on these tests?” Based on various conversations, this is the directive to the Government and it is meant for the Government sector, public sector to provide these tests whether free of cost or affordable. It is not on the private sector and as of now it is not meant to be that way unless later some policy makers pick up this list and start thinking of pricing. But as of now, we have been only told that it is more from accessibility perspective rather than from pricing perspective.

Aditya Goenka: The Swasth packages, what percentage does it contribute to revenue?

Dr. Om P Manchanda: For Q4, the number is about 14%, for the year is about 13-14%.

Aditya Goenka: Most of the Swasth package tests would be under the essential diagnostic?

Dr. Om P Manchanda: I probably off hand would not have that answer. I will have to look at list again.

Aditya Goenka: If I remember about a year earlier, we had this discussion where the Government had sought for some pricing data on some tests menu from all the diagnostic players including yourself and your peers. Any progress on that front with the Government? They had asked for some pricing data earlier and then nothing has happened afterwards?

Dr. Om P Manchanda: I think what probably you are referring to is, if I remember correctly diagnostic reagent companies were asked, not the service providers. You also must remember that the reagent companies, they fall under pharmaceuticals category. So, they have a different sort of regulatory body altogether.

Aditya Goenka: They are radiopharmaceuticals?

Dr. Om P Manchanda: Yes.

Aditya Goenka: On the competitive intensity, in fact, I heard your comment earlier as well. So, with the small diagnostic chains, is the PE funding now drying up, I mean, that

was your comment in the previous quarter, is it further dried up or what is the vigor of the competitive intensity, how important is the price of the test for you guys now or the ability to take price increases now versus say three or six months earlier?

Dr. Om P Manchanda: I think there are two or three things playing out in the environment – One is of course the flow of investment overall into healthcare is muted. We have not seen deals in diagnostics or fresh investment coming in for the last couple of years. There were a lot of e-commerce players who are trying to aggressively garner market share and divert the traffic through their e-commerce venture. Even that also has slowed down a bit. We are also seeing that specially for our business, we have a strategy of widening our footprint, we do not want to get narrowed down to few cities, we really want to widen our focus to large stretch of states like northern states, eastern states, even central states, close to 12, 13 states and we believe it covers almost half of the country, and we also know that price value equation as you widen the footprint is very different than what our path has been specially in Delhi NCR. So, there is also an attempt to make sure that we become a brand which is mass market rather than niche. We have not chased revenue per patient as much as we have chased volumes. Having said that, obviously every year there is inflationary impact, every year there are other costs adding up. At an appropriate time, we will take price increases as well. So, it is not that it is carved on stone that there is so much of competition we cannot take. So, our brand is a preferred brand. We want to build the business on value rather than price but we want to get our price value equation which caters to mass market. I think we are almost there and we will re-evaluate our pricing as we go along in a few months' time.

Moderator: Thank you. The next question is from the line of Surjit Pal from Prabhudas Lilladher.

Surjit Pal: My question is regarding your anti-TB business. What I understood is that some of your competitors have also started. Volume gain is pretty easy but not the value or the revenue. And it looks like that you have to do some bit of free testing for some time and then you can go and expect some bit of revenue over there. So, what is your revenue estimates out of that business over a period of say next two to three years?

(Hony) Brig. Dr. Arvind Lal: No, I do not think that is correct, Surjit. TB business is a subsidized business from the Government's point of view and they do not want you to have very high prices here. We as an industry body have agreed on a price for the TB test and with the revamped gene sensitivity which is done on an instrument now which is not very new now and is known as as 'Genexpert'. So, what we are just saying is that since this is a proportion which is getting out of hand, so many millions of people suffering from TB, therefore even we have joined the so-called Government effort in subsidizing the cost of the TB test. That is all we are saying.

Surjit Pal: So, basically more and more volume comes over there, will also impact your overall business margin in that front?

Dr. Arvind Lal: Not significantly. This is not one of those tests where we look for scaling up and it will help us.

Dr. Om P Manchanda: I think that is where probably the question that are being asked on the pricing in this area because infectious diseases like HIV, tuberculosis, HCV, normally they sound like high end tests, but this is where one has seen in the past there has been a lot of interventions from the public sector side. They are large

volumes but not probably too much of value left but on other side like chronic diseases, preventive management, that segment is more operational like fast moving segment. So, there are infectious diseases where actually value tends to erode. In fact, I will give one example. If you study the HCV test which is for hepatitis virus, over last four- or five-years trend if you study carefully, pricing of this test actually has come down from nearly Rs. 6,000 per test to now about Rs. 1,200. We have not openly talked about that but I know that this HCV test lot of value erosion has taken place. I think these core areas where the infectious diseases especially on this HIV, HCV, tuberculosis, they all get clustered into one.

Surjit Pal:

Other thing is that EDL you have given enough of clarification. So, my doubt is that what we have seen in pharma space, that generally government starts with essential list like in form of NLEM list and slowly and gradually the area is expanded, in a sense that earlier it was only in pharma, say cephalosporin, cephalexin as a basic medicine and then getting into cardiovascular, diabetes, now cancer and CNS drugs are also included. So, now when government is providing this EDL on the back of what WHO has suggested as essential access as a free of cost, it could be possible is that Government may also consider that the other medicines like say diabetes which India has already become a global capital of or say onco therapy testing, could also be included over a period of say next one year or two years and something like NLEM kind of list also could be provided for diagnostic purpose also, possibilities are there?

Dr. Om P Manchanda:

Let me put it this way. We are not sitting on two opposite sides of the table. I am also on your side. Is this a risk? I definitely will say that it is definitely a risk. I cannot allay the fear or anxiety that this will not happen. To my mind, as you read press, and you read everything, I also read the same thing. I think we should all consider these are the risk factors. But we do not know whether it will happen or not happen. I do not think I have a definitive answer on that.

Moderator:

Thank you. The next question is from the line of Nilesh Soman from Keynote Financial.

Nilesh Soman:

Can you throw some light on what is the strategy that you are adopting for the franchisee business development?

Dr. Om P Manchanda:

Franchisee is a very integral part of our value chain and we want to really make sure that their needs are met and I think there are two, three areas – One is the brand experience, they are our ambassadors of brands, especially the phlebotomy, the way these customers are taken care of, we want to make sure that there is proper training which is imparted to these guys, we want to make sure that there are qualified sort of people, we want to make sure the compliances are met and there is a central sort of control room where we want to monitor all the franchisee. So, that is why it is a very-very sort of carefully maneuvered program of increasing our franchisee network because if you increase it to too many of them in a very short period of time, you may fumble on the quality of delivery. So, we want to make sure that there is a gradual pick up on this network so that we are making sure the training, compliances, the work, everything is taken care of.

Nilesh Soman:

Any expansion of new labs or something like that this quarter or maybe in the next two to three quarters?

(Hony) Brig. Dr. Arvind Lal: Nilesh, the thing is that, India has to keep on penetrating inwards. Right now, most of the pathology companies are in Tier-1 and Tier-2 towns. So, Tier-

3, Tier-4 and semi-urban, semi-rural has to be serviced, and it depends not only upon people like us, but it also depends on the infrastructure which is available like water, electricity, so many other things, the logistics, are there any roads, are there any pathologists available, are there any lab technicians available. So, all these things cannot be isolatedly discussed. Yes, we would also like to go inside. We would like to multiply collection centers and labs depending upon what is available to us infrastructure wise.

Moderator: Thank you. The next question is from the line of Gagan Haricha from Kotak Securities.

Gagan Haricha: My first question pertains to the discretionary part of your testing. We have seen this result season that a lot of FMCG companies coming out and saying that volumes have been impacted by some sort of a curtailment and discretionary spending by people on an average. Do you see also something same sort happening in your business?

(Hony) Brig. Dr. Arvind Lal: The spending which is what you call consumer spending in the lower middle class has definitely come down and therefore this is bound to impact not only FMCG, it is bound to affect every sector. Most of these highly specialized tests or routine tests are available in the bigger metros, etc., we do not see that happening. But what you are saying is absolutely true and we hope it does not set up a chain reaction.

Dr. Om P Manchanda: Maybe just to add to what Dr. Lal said, as I mentioned earlier, our business predominantly is prescription-driven, not too much on discretionary. I am not sure whether our business could be a right indicator to answer the question that you are looking at.

Gagan Haricha: Secondly, East, you mentioned that the average pricing and realization is lower. I am just looking at it from two points of view – One is that the average purchasing power of people in the East is lower, at the same time also it is the case that the kind of testing that you have been able to encounter in the East is that composition of tests more basic and elementary and therefore both in terms of what you can price and also in terms of the kind of tests that are there, the realization is different or is it only because of the purchasing power?

Bharath Uppiliappan: The fact remains that East is underpenetrated from a medical facility point of view also. So, it is incumbent on the market leader to start to educate and develop the whole market for high end testing. So, yes, East is slightly behind on the high end tests but it is fast catching up especially with the investments we are making now.

Gagan Haricha: So, would it be fair to then presume that on an average, the test composition in East would also improve as you go forward and it would have its impact on your turnover and profitability in East?

Dr. Om P Manchanda: I think that is fair to assume. My sense is the ratio between number of collection points and the lab is much more favorable in East. So, that is how we get the scale benefit. But I think this original question that you asked is “Purchasing power is less, does it have impact on the profile of tests which are ordered, it is also done through collection center and the realization is lower.” I think all those parameters compared to let us say Delhi NCR definitely they are lower. But directionally will it improve? Answer is yes.

Gagan Haricha: Associated question, if we could think of something akin to capacity utilization in your business, what would that be right now? And you always mentioned

that the same network can be far more optimally utilized. So, I am just trying to understand how much throughput can we additionally get from your existing service centers and labs if one were to arrive at some sort of a ballpark number?

Dr. Om P Manchanda: I think our capacity is good enough to take care of the next two, three years.

Gagan Haricha: You indicated that the cash that you have on the books you want to use it as a war chest for future acquisitions. What I understand with reference to past statements made on acquisitions, the targeted acquisitions could at best be maybe Rs. 100 to Rs. 150 crore sort of a number whereas the cash on books is probably now closer to Rs. 800 crore and your Capex is normally not exceeding Rs. 40 crore. Would the rational conclusion be to presume that there is ample scope for your dividend payouts to improve?

Dr. Om P Manchanda: I think it is steadily improving as well if you look at our last three years history, we are slowly, slowly moving up. But at the same time, we are aware and I think everybody is aware that this industry is so fragmented, globally one has taken sort of consolidation route and invariably the inflection point for consolidation is for profitability and growth to come under pressure. I sense that in unorganized space, they are already feeling the pressure. One never knows when that sort of acceleration on consolidation starts. At that time, we do not want to find ourselves in a situation where we do not have cash. So, I think it is a combination of both, right balance we are trying to find out that we also pay out dividend, also keep some money for acquisition and we will keep discussing it as we go along in the board and the board will decide as to how to move forward.

Gagan Haricha: Given the amount of free cash that you are able to generate from your EBITDA, would it not also be reasonable to maybe take on some debt for the acquisition because it could very well pay it out over the couple of years?

Dr. Om P Manchanda: You are absolutely right. We are not looking at only cash amount for acquisition. We are also looking at equal amount of debt as well.

Gagan Haricha: You did indicate that you see some pressure on profitability in the business in the unorganized side. But then would it be reasonable to assume that in the next two, three years we are definitely seeing some inorganic action in the business?

Dr. Om P Manchanda: Yes, I would like that to happen because it is an important sort of pillar for our future. So, we would want that situation to happen sooner than later.

Moderator: Thank you. The next question is from the line of Anmol Ganjoo from JM Financial.

Anmol Ganjoo: You said that we are growing volumes at 8% in NCR. So, would it be fair to assume that we are growing marginally short or at max in-line with the market as far as NCR Delhi is concerned and therefore at 23 - 25% market share, our market share in that region seems to have peaked and therefore we will grow just in line with the market?

Dr. Om P Manchanda: Anmol, our wish is that we continue to grow faster. But I also want to make sure that we are not standing on one leg. I can continue to increase my revenue per patient. It is much easier to take price increase in Delhi NCR because I have very high B2C business. But I really do not want to create a

sort of lopsidedness in the portfolio. So, that is why we would widen our footprint in rest of India so that we are much more balanced in terms of our spread. But we will continue to look at new avenues for growth in Delhi NCR. It is a very important market for us. We enjoy great brand equity. So, our focus on Delhi NCR will continue.

Anmol Ganjoo: From a market share standpoint, is this 23-25% number in the range or you think there is possibility to scale at even higher?

Dr. Om P Manchanda: Because this industry nature is so fragmented, I think 25% is fair to assume that it will stabilize. Since our price value equation is now very competitive, so we hope that with more volume growth, we have more market share in the market.

Anmol Ganjoo: My second question is based on one of the slides that you have put; you talk about geographical expansion based on identification of some focus cities or core markets. Would these core markets essentially all of them be in the Hindi heartland as you define it or there are other plans too? Another question linked to that is when you kind of decide these core markets for expansion, what is it that you look for in terms of characteristic of a market because from a brand recognition standpoint I think your brand appeal is now not now just limited to the North Indian or in the Hindi heartland market as you define it?

Dr. Om P Manchanda: When I use the term North, it is not only one state, but let me tell you it is close to 18 - 20 states in the entire stretch of Hindi belt starting from J&K, go down to even in Central India now we are fairly strong in M.P., Chhattisgarh and then you go to East, I think close to 15-18 states, our brand is very well recognized from B2C component. On a Pan-India basis yes, we are technically there in every state. So, it is not a very narrowly focused business only in the North. It is much wider than what one thinks.

Moderator: Thank you. The next question is from the line of Krishna Munde from Reliance Securities.

Krishna Munde: My question is how do you see competition coming from the point of care test where the labs can do the thyroid testing and other testing and even it can move to the physician's office, like in the US now 12% of the market has moved to the physician's office and small urgent care centres, so do you see that as a risk factor?

Dr. Om P Manchanda: I think it is a very good pertinent question at this stage. We are keeping a very close watch on as to how point of care testing is moving in western world. The way I look at it is, we have very large network of collection center, close to 2,500 now and we have labs. So, we do believe that both the models will co-exist. I think western markets are not that price-sensitive, so they tend to look at the value it provides in terms of convenience and point of care. I think Indian markets are much more price-sensitive. So, my sense is that POCT may be slow to take off but as a management team we are acutely aware about this new technology that is coming in. So, we will keep you updated as we go along. But as of now we do not see much threat of POCT.

Krishna Munde: Because as the scale goes up, the price of the test for POC will come down like how the glucose strip prices have even come to Rs. 4?

Dr. Om P Manchanda: It is always a co-existence. You do a screening test at home and then you want to have a reconfirmation of that in the lab. It is not that they do from glucometer so then it becomes unnecessary to come to the lab for sugar testing.

- Krishna Munde:** Is there somewhere you can collaborate with the point of care testing so you can take over these small physician offices or small labs for point of care?
- Dr. Om P Manchanda:** Why not? Basic testing can happen at point of care and then next level of testing actually comes to the lab, like we say for example, basic sugar you do it at the point of care and Hba1c you do it in the lab. So, there is a scope for collaboration between the front end physician as well as the lab.
- Krishna Munde:** Are you also looking at getting into point of care testing?
- Dr. Om P Manchanda:** These smaller instruments are always there in the smaller labs. So, I do not think it is like a water tight mutually exclusive. As you go down the pop strata, very small labs will have some instruments which actually technically can be called point of care instruments also.
- Krishna Munde:** For example, you have 2,000 collection centers can be a good point of care testing opportunity?
- Dr. Om P Manchanda:** Potentially yes, but then by Clinical Establishments Act they will be classified as labs, so there could be lot of compliances related challenges which one will face. Because when you are technically calling them lab, not as collection center, because then there are other requirements which will come in. I think the question which one of the investors asked about, can pathologist be required things like that, who can sign the report, who cannot sign the report, all the issues may come up as well.
- (Hony) Brig. Dr. Arvind Lal:** The fact of the matter is that point of care testing in India is hardly available except for blood glucose, etc., so, what you are saying is theoretically correct but practically we do not see that happening, coming in of POCT in a very big way. Right now, I think it is more of a technical question but I think the technical trajectory is going and once that comes it will be available for everybody. Why only for us?
- Krishna Munde:** My second question is what is your revenue split between B2B and B2C and what is the difference in the margin between B2B and B2C?
- Dr. Om P Manchanda:** We are yet to get deeper analysis for the current financial year because we just finished it. Broad number is 60% is B2C, 40% is B2B. Margin difference at gross margin, yes, there is a difference, but EBITDA margin more or less for both are very similar, so gross margin is higher in B2C than we do in B2B
- Moderator:** Thank you. Ladies and Gentlemen, that was the last question for today. I would now like to hand the conference back to the management for closing comments.
- Management:** Thank you, everyone for being with us on the call today. I would now request the moderator to close the call.
- Moderator:** Thank you very much, Ladies and Gentlemen. On behalf of Dr. Lal PathLabs, we conclude today's conference. Thank you all for joining. You may disconnect your lines now.

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