



Dr. Lal PathLabs Limited (LPL)
Q1 FY20 Earnings Conference Call Transcript
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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">▪ Chandra Mauli from Goldman Sachs▪ Prashant Nair from Citigroup▪ Sriram Rathi from ICICI Securities▪ Shaleen Kumar from UBS Securities▪ Prakash Kapadia from Anived Portfolio Management▪ Sameer Baisiwala from Morgan Stanley▪ Gagan Thareja from Kotak Investments▪ Viraj Kacharia from Securities Investment Managers▪ Dr. Harit Ahmed from Spark Capital▪ Manoj Garg from WhiteOak Capital▪ Imran Khan of RatnaTraya Capital▪ Aadesh Mehta from Ambit Capital▪ Alroy Lobo of Kotak Investments▪ Nitin Agarwal from IDFC Securities▪ Kunal, an individual investor

Moderator: Ladies and gentlemen, good day, and welcome to Dr. Lal PathLabs Q1 FY '20 Earnings Conference Call. As a reminder, all participants' lines will be in the listen-only mode. There will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference, 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 afternoon, everyone, and a warm welcome to Dr. Lal PathLabs Q1 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; 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 could be forward-looking in nature. Actual results may vary from these statements. A detail 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 Afternoon, everyone. I am happy to have you all on Q1 FY'20 results call.

Today, I would like to share "My Thoughts on the Industry Trends and the Key Levers for Dr. Lal PathLabs."

Our business momentum continues to be driven by higher patient volumes and sample growth supported by Dr. Lal's established hub-and-spoke model and emphasis on quality. We have been witnessing a progressive shift in the sector where volumes have started moving from unorganized to organized players. Further, large portions of people are still under-diagnosed and require specialized medical care, therefore, time-based diagnostics become a key requirement for treatment. We have grown as a national healthcare services brand on the back of patient-centric solutions that we have developed. As we move to the next phase, we will strive to strengthen our network presence and test menu, both, to enhance accessibility to existing and new patients. The diagnostics sector remains attractive of brands like LPL where we can offer differentiated services and accurate diagnosis.

At a broader level, AB (PM-JAY) under the aegis of Ayushman Bharat, promises to bring in a transformational change in the arena of healthcare covering almost 40% of India's population. The scheme aims at making path-breaking interventions to address health holistically in primary, secondary and tertiary care systems covering both prevention and health promotions. As the country moves towards access to healthcare for all, we will play a strong role in the development of the sector.

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

Dr. Om Manchanda: Thank you, Dr. Lal. I am pleased to inform that in Q1 FY'20 we have achieved the highest ever quarterly revenue of Rs.335.2 crore, delivering a growth of 14.7% over Q1 last year. This robust growth in the revenue is backed by 15.9% growth in patient volume and 19.8% growth in samples. The total number of

patients served on patient basis has gone up to 4.9 million in Q1 FY'20 as against 4.2 million in Q1 FY'19. Samples per patient has gone up to 2.4 in Q1 FY'20 as against 2.3 in Q1 last year.

As already explained in my earlier calls, I am delighted to share that our efforts put into growing the rest of India market are showing up in healthy growth trends. In this quarter rest of India has grown at about 17.1% in value and 19.2% in volume. The contribution of rest of India business stands at 58% now. This quarter our financials are reported after implementation of IndAS 116; however, normalized EBITDA margin excluding the impact of IndAS 116 is stable at 27.1% in Q1 FY'20. Our bundled test program, "Swasthfit" has been performing well and has contributed 15% to the company's revenue in Q1.

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

Ved Goel:

Thank you, Om. Good afternoon, everyone and thank you for your participation on this call. I will now share with you some of the "Important Financial Highlights." Revenue for Q1 FY'20 is at Rs.335.2 crore as compared to Rs.292.3 crore in last year same quarter, a growth of 14.7%. Revenue realization per patient for Q1 FY'20 is slightly lower at Rs.684 as against Rs.691 for Q1 FY'19. Normalized EBITDA after eliminating the impact of stock-based compensation, CSR expense and impact of IndAS 116 in Q1 FY'20 stood at Rs.90.8 crore as compared to Rs.79.3 crore, reported in Q1 FY'19, a growth of 14.5%. PBT for Q1 FY'20 is at Rs.89.4 crore as against Rs.75.4 crore in Q1 FY'19, a growth of 18.6%. PAT for Q1 FY'20 is at Rs.59.1 crore as against Rs.49.7 crore in FY'19, a growth of 19%. Cash and liquid funds at the end of Q1 FY'20 is at Rs.792 crore. EPS for Q1 FY'20 is Rs.7.14 per share versus Rs.6 in the same quarter last year. Current quarter reported numbers are as per IND 116, the company has adopted modified retrospective approach for the transition to IndAS 116 from 1st April 2019. This approach does not require restatement of comparative information for Q1 FY'19.

Further, as you are already aware that the company's wholly-owned subsidiary Pathlabs Unifier Private Limited has acquired 70% stake in Centra Pathlabs Private Limited which has acquired the business of Central Lab, Indore, a partnership firm and M/s. Vinita Kothari, a proprietorship concern. This acquisition would help us to further strengthen our presence in Madhya Pradesh. 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. The first question is from the line of Chandramouli from Goldman Sachs. Please go ahead.

Chandramouli:

The first question is on the revenue per patient number. Ved mentioned that there has been a slight dilution of about 1% YoY. Just wanted to understand where the dilution is coming from, is it broadly just because you have been expanding out of Delhi and into other parts of India, is it coming from there or anything else?

Dr. Om Manchanda:

You rightly mentioned. This major impact is coming from contribution of rest of India, which is growing and there our realization per patient is not that high. So, that is the real impact. Second is there are two other minor factors as well which is that we have a small clinical, we call it a clinical trial business but it is more like with pharma companies where the realizations have been sharply

dropping, that has also contributed. But primarily it is rest of India especially Eastern part of India where the realization per patient is lower and has this impact.

Chandramouli: Second bit is on the competitive environment. I think the last three quarters we have been talking about slightly better competitive environment, easing on the private equity funding side. So, there has been some talk of online test aggregators becoming little more competitive taking the place of what the private equity companies did in the past. So, just wanted to hear your thoughts on that and whether we are still considering a price increase later in the year?

Dr. Om Manchanda: The new competition or PE-funded competition is the same what we mentioned last quarter. As far as online aggregators are concerned, we do not have any hard data to substantiate whether they are either gaining momentum or not but my sense is right now at this stage there is nobody who has scaled up or likely to scale up. But yes, there are one or two players who I know that they are very active in the space. Some of them are in southern part of India, some of them are in northern part of India but I do not think there is anybody who has achieved that scale which is worth talking about in this call.

Chandramouli: The last question is on the flu season. So, typically, the September quarter is the strongest for Dr. Lal and the industry. Just wanted your thoughts on what you picked up on the flu season so far?

Dr. Om Manchanda: I guess September is the month when we observe this quite a bit. Right now, there is nothing that we are seeing. If it happens in September, we probably will let you know at that time.

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

Prashant Nair: Just a couple of questions: Firstly, Om, you mentioned some number for your Swasthfit revenue contribution. Can you repeat that? I could not get it at that time.

Dr. Om Manchanda: It is about 15% now.

Prashant Nair: My second question was about your margins now with the IndAS impact. So, clearly, this is something that will continue. You gave a normal broad range for where your margins would normally be. Now, with this accounting impact, can you tell us what we should be looking at as a normalized rate going forward?

Ved Goel: The IndAS impact for the quarter is Rs.8.2 crore on account of leases in the EBITDA and that is where we have given this normalized EBITDA which is 27.1% which is normalized margins before IndAS, CSR and RSU cost.

Dr. Om Manchanda: So, there is a favorable impact of about Rs.8.2 crore. And the same if we annualize, Ved?

Ved Goel: Total will be about Rs.30-odd crore.

Dr. Om Manchanda: In our presentation we have actually made a comparison of like-to-like.

Prashant Nair: The higher depreciation/amortization number would also be the continuing number hereon, right?

- Ved Goel:** Yes, Prashant.
- Moderator:** Thank you. The next question is from the line of Sriram Rathi from ICICI Securities. Please go ahead.
- Sriram Rathi:** Two things: One is the volume growth and the number of samples seems to be around 20%, of course, it has driven from sample per patients and the ratios. So, this 16% kind of volume growth and the patients in 20%, is it something which can be sustainable over a period of time now going forward?
- Dr. Om Manchanda:** I would say do not focus too much on samples growth because that sometimes is a function of many things. It is very difficult to project but we definitely do not want to give any guidance on this volume growth going forward but we are putting all our efforts to grow rest of India markets to see that we drive our top line through volume.
- Sriram Rathi:** Secondly, any indication of possible price increase now because in the last two, three years I believe there has been no price increase and some parts of the country it seems that the regional players would have taken 5-10% increase in the average pricing?
- Dr. Om Manchanda:** Our strategy is fairly simple which is that we are in the process of correcting or rationalizing price value equation which means we are carefully looking at each geography, somewhere there may be a need of upward revision, somewhere there may be a need of downward revision. We do not want to take step jump in our pricing. On regular basis, some places we will take price increases, some places we will take downward as well. For your information, though it is not a major impact on our numbers, about a month back, we did take some minor corrections in few markets where we took price revision upward and some places we have also taken downwards. But it is not in a step jump form which is material enough for us to discuss that revenues are being impacted by price increases.
- Moderator:** Thank you. The next question is from the line of Shaleen Kumar from UBS Securities. Please go ahead.
- Shaleen Kumar:** I want to understand basically how the costs have moved over here. So, your other expenses as a percentage of revenue have come down significantly pre-IndAS if I compare the last year. So, just want to understand what exactly has happened and is it sustainable?
- Dr. Om Manchanda:** Directionally what is likely to happen. Our fee to collection centers or channel partners are likely to move up because contribution of revenue coming out of franchisee network is significantly going up. Now, what it means is that lot of our walk-in load which was normally happening through our lab, where we were incurring rental cost, etc., is probably going to be less. So, directionally, franchisee-related cost will go up and our whole establishment cost will tend to come down. I think that is where the percentage to revenue will move up and down.
- Shaleen Kumar:** That is one of the things. If I add both the cost as a percentage of revenue, in your last quarter it was Rs. 37.5 crore and right now it is Rs. 35.4 crore. I understand the way the dynamics are going to change. Even then sum of both as a percentage of revenue has come down. So, that is what I wanted to understand. Nonetheless, even the raw material cost has also come down. So, is there a change in there or is this just pure play operating leverage or ...?

- Dr. Om Manchanda:** I think that has slightly come down, but that is just the sheer mix change that is happening, sometimes if you have more routine tests, then this percentage actually tends to go down, if you have more high end test, this percentage tends to go up.
- Shaleen Kumar:** Again, on the employee cost, in last quarter we have some one-offs and that is the reason there was a shooting up in our employee cost. But this quarter also we have a decent rise in terms of absolute number employee cost. Again, is it sustainable? Can come down from here?
- Dr. Om Manchanda:** No-no, it would not come down from here.
- Shaleen Kumar:** Can you give me again your rest of India growth number?
- Dr. Om Manchanda:** Rest of India top line has grown by 17% in value terms, 19.2% in volume terms.
- Moderator:** Thank you. The next question is from the line of Prakash Kapadia of Anived Portfolio Management. Please go ahead.
- Prakash Kapadia:** Sir, if I look at our NCR, they have been coming down as percentage of revenues. Any sense you could give us on our go-to-market strategy for the balance 28% of North India? Are these primarily UP, Bihar, what are the tests, what is our approach to scale given the huge population in these states?
- Dr. Om Manchanda:** So, our approach to scale is rest of north is basically deepen our presence to tier-2, tier-3 towns and the states that are covered in rest of north are Haryana, Punjab, Himachal and J&K which is up north and then entire UP, Rajasthan, these are the states where we are looking at deepening our presence in various tier-2, tier-3 towns. There are certain towns where even district presence is not there but we will continue to build our infrastructure both in terms of lab as well as collection center in these cities. So, it is a very promising territory for us because that is where the positive rub-off of our Delhi NCR equity is flowing and it will continue to remain our growth drivers in times to come.
- Prakash Kapadia:** Some of these states which you mentioned, is it fair to say there will be just the basic test menu as of now given the per capita will be lower and there is enough of headroom to increase the volume growth over the next few years?
- Dr. Om Manchanda:** Actually, that is what is driving our volume. If you see the rest of India growth, it is all coming from rest of North and East India. So, these are two major geographies which are really driving this volume growth.
- Prakash Kapadia:** Kolkata, I think two years in December for the reference lab for getting commenced. So, what were the number of tests then, how many of the tests are offered as on date if you could throw some light?
- Dr. Om Manchanda:** I think the dependence of that region of Rohini Lab is now only 5%. So, 95% of the test needs of that region are met in the region itself. So, it is fairly independent region now and we are fairly sort of happy with the progress though we would have liked it to be better but I think overall now it has stabilized, East is the fastest growing region in our portfolio today.
- Prakash Kapadia:** Any number of tests you could share as on date which is done in the Kolkata reference lab?

(Hony) Brig. Dr. Arvind Lal: Precise number we can share this offline but capability wise we probably would do all the tests, sometimes we still don't do it because economic sort of number of samples that we get is sub-optimal, so test menu wise I think other than test like little technical which is ISC, Histochemistry, or SLA kind of tests, every other test we will do it in Kolkata.

Prakash Kapadia: In the opening remarks, you mentioned about share moving from some of the local players to organized players like us. So, is it primarily because of the price differential between all players and us has come down or is almost at the same level or is it GST or is it the PE-angle you mentioned couple of quarters ago?

Dr. Om Manchanda: My sort of market visits and whatever I have picked up feedback from sales team, most of these smaller labs growth rates are in single digit and their costs are actually growing. And when they sit down and do this make versus buy decision they end up finding outsourcing is a better alternative. So, I think that is one variable which is leading to shift of these tests and that process actually has been on for many years, nothing new about this. But now more and more of these players are seeing their profitability because price increase for these guys is becoming very difficult, volume growth is not that high, so that is where they end up thinking that why I do not outsource is one variable which is playing out in the market.

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

Sameer Baisiwala: Just on the previous participant's question, for the unorganized sector, how will you define this business pie breakup, is it largely walk-ins or is it more institutional?

Dr. Om Manchanda: Most of these unorganized players have very large walk-in component to their sales. They really do not play on network because that is one of the reasons why they cannot scale. They have a limited number of patients that have been visiting them for so many years. So, I think if you look at profile of a local lab which is unorganized players, they would own close to 80% of the business as walk-in business or even to the extent of 90% also. The testing component they tend to outsource to players like us while the collection part of a walk-in part they would want to retain with themselves.

Sameer Baisiwala: In effect they become your PSCs, is that the right way to look at it?

Dr. Om Manchanda: Yes, if I were to visualize industry going forward, 15, 20, 30-years, obviously for players like us, it will be unthinkable to manage collection and walk-in everywhere, so they may end up actually becoming your partner as PSC.

Sameer Baisiwala: If you do not mind, I think they would all be having at the moment their own testing labs as well. What would they do with that?

Dr. Om Manchanda: I do not know. Jury is still out. But my sense is most of these guys have semi-automated systems that are not unorganized. Today's patients are expecting reports to be sent on WhatsApp and all those technologies. I think these guys may not be able to keep a pace with the kind of technology change that is coming. I think more than the instrument the real challenge would be people they have on their payroll because all of these guys will have about 8 or 9 such guys working for them. But I think slowly, slowly it will wane out. So, let us see how it goes depending on what pressure they have on margins. There are two, three variables which are under pressure for them – one is pricing, they are

finding it difficult to take it up; volume growth has fallen into probably single digit; costs are moving up; pressure on minimum wages goes up. All this put together over a period of time my sense is they would tend to reduce the level of testing and rather focus on front end interface with the customers.

Sameer Baisiwala: Just talking about the Indore acquisition of Central Lab, can you just give us some sense of the scale of operations over there, the number of cities that they are present in, is it only Indore or is it adjacent cities as well and the number of clinical labs that they have?

Dr. Om Manchanda: Basically, Indore acquisition is part of our strategy now to focus on west and clearly as we have outlined earlier also that we will have both the pillars, both inorganic as well as organic. We have reasonable sized presence in the MP. This particular acquisition helps us to build further bulk in that state. Large part of their turnover of this lab comes from Indore city itself; 80%, 90% of the business is from Indore itself and the turnover is close to Rs.13.5 crore. So, there are only one or two districts where they are present. I think this group has seven labs also spread out but most of the business right now is coming from Indore city.

Sameer Baisiwala: Why only 70% here? Why not take it out 100%?

Dr. Om Manchanda: Sameer, there are many models everybody has tried in the space. Our experience with few M&As that we have done in the past shows that local promoter's presence is very important and continuity of the business is quite dependent on local partner because relationships are maintained by them. So, we are fairly comfortable with the format where the other promoter also participates in the growth of future business and our business agreements are structured in such a way where we have right to take the balance also after few years.

Moderator: Thank you. The next question is from the line of Gagan Thareja from Kotak Investments. Please go ahead.

Gagan Thareja: You indicated that the other expenditure is up because the proportion of sales coming from your collection centers is going up vis-à-vis your own labs. Ideally, I would infer that if that were the case, then your employee expense would not rise out of line with sales, but it seems to have gone up at 21% vis-à-vis sales growth of 15%. Can you explain and elaborate somewhat more there?

Ved Goel: This personnel cost last time also we mentioned that there are some compliance costs in terms of minimum wage and PF which is new after Supreme Court ruling, this is the impact which has gone into this personnel cost. Fees to collections we mentioned, is going up due to geography mix and largely which is growth which is coming from network in rest of India.

Gagan Thareja: Even if I adjust for the ESOPs, your employee cost is Rs.54.4 crore versus Rs.45 crore for 1Q of last year which is around 21% up?

Dr. Om Manchanda: I think this maybe a quarterly variation but I do not see this kind of sharp jump for the year we expect.

Gagan Thareja: For the year how much should we budget in?

Dr. Om Manchanda: I would say that the percentage of turnover is same as last year.

- Gagan Thareja:** Is the headcount substantially up or is this cost entirely as mentioned by the CFO because there is an annual increment plus there is a revision of minimum wage and associated pension benefits and so on?
- Dr. Om Manchanda:** I think one of the things which would have come is the new PF ruling. Now the PF contribution has gone up. So, that would have impacted. In terms of headcount, there could be a few management hires because we are investing a lot on technology nowadays. I do not think it is a significant jump to say but this quarter may be showing that but we do not look at that on an annual basis moving up sharply.
- Gagan Thareja:** Can you give us some idea about the volume growth in Delhi and NCR?
- Dr. Om Manchanda:** Delhi NCR, our value growth is about 11% and volume is about 8%. We are talking about larger area of Delhi NCR here.
- Gagan Thareja:** Bangladesh has had a very intense dengue season if I understand it correctly. You have something going there. Any idea about what is the contribution and how Bangladesh would have grown for you YoY?
- Dr. Om Manchanda:** Actually, we are a very insignificant player right now to feel any impact of that. Anything of that kind is unlikely to show an impact on our numbers, but I was talking to somebody, there is some price control that has come in that market, creating all kinds of issues from local players.
- Gagan Thareja:** You have very significant cash position. You have been indicating in the past that acquisitions if and when required would be of the order of Rs.100, 200 crore. Given the current cash position and the order of acquisitions that you plan or need to do, I would infer logically that dividend payout could move up very significantly. What are your thoughts around this and how do you sort of budget and plan for the dividend payout going ahead?
- Dr. Om Manchanda:** We are trying to basically balance between the two. We have always followed a policy of being very optimistic that we will be able to do M&A. It continues to remain part of our strategy. We have had some success in the last quarter, and hopefully we will continue to have more and more. As far as the dividend part is concerned, we will continue to maintain the balance between some payout and some retention and I think our dividend policy is 25-30%, it is already mentioned on our website as well.
- Gagan Thareja:** But given the fact that you will keep on generating good amount of free cash and you already have so much cash, your acquisitions clearly in the past interactions have been mentioned that scale could not be of the order of the cash position in the book, why cannot the payout increase to 40% or 45% given that your Capex requirements any which ways are very negligible?
- Dr. Om Manchanda:** I guess I will take your input and I guess it is for the Board to discuss and decide.
- Moderator:** Thank you. The next question is from the line of Viraj Kacharia from Securities Investment Managers. Please go ahead.
- Viraj Kacharia:** Just had three questions: First is if I look at over say three years, five years or even slightly longer-term, what will drive consolidation and scale in the industry – will it be price which will continue to be a key driver? Second again on pricing, if we look at last 1, 1.5-years, the talks of competition from overall PE-

funded players are kind of moderating or stabilizing. Still organized players like us and others have talked about reducing prices further and the commentary is towards being more competitive on pricing. So, what is driving this change in thought process?

Dr. Om Manchanda: There is plenty of information available in public domain. We can all do our analysis. I was just doing a math for all the large players whose numbers are in public. I see average industry growth is now close to 11% to 12%. And if this is the way it continues obviously people will resort to sort of pricing competition which is also heating up. My sense is at the bottom of the pyramid, for these smaller labs the growth rates are even lower. So, I think there is inability to take price increase and rising cost and pressure on margins will drive consolidation.

Viraj Kacharia: One or two quarters back we talked about us looking at automation. Basically we talked about looking at measures to improve our own efficiency and bringing down further cost structure. So, just trying to understand where we are seeing these avenues to reduce cost or to automate?

Dr. Om Manchanda: That is one of the reasons why despite our contribution of rest of India going up. We have been able to maintain margin primarily due to productivity initiatives that we have been able to execute in the company and therefore have been able to stick on to these margins.

Viraj Kacharia: Where would we be in the cycle right now – is it still early days or the benefits versus implementation or just trying to get a perspective on this?

Dr. Om Manchanda: These whole automation initiatives are at two levels – one is to create a differentiation in our offering. It is not always done to reduce cost because we have taken a lot of initiatives where customers are very clear in terms of when will they get the report, machine to patient interface has gone up, so, lot of initiatives are differentiating our brands vis-à-vis competition, there are a lot of initiatives also done to reduce cost and that is primarily coming in terms of front end registration counters where nowadays people actually can do it themselves and that is where lot of manpower savings, etc., is coming which we are able to redeploy. So, these are two or three areas where we are seeing the benefit of automation.

Viraj Kacharia: The bulk benefits, is there an intention to pass on to the end market in terms of pricing, what is the thought process there?

Dr. Om Manchanda: Eventually, it is getting passed onto the consumers because we are not taking price increases and maintaining the margins.

Moderator: Thank you. The next question is from the line of Harit Ahmed from Spark Capital. Please go ahead.

Harit Ahmed: You mentioned Rs.8 crore positive impact on EBITDA on account of adoption of IndAS 116. What would be the balance sheet impact of this change, what would be the lease liability recorded and the corresponding right of use asset on the balance sheet?

Ved Goel: Harit, we capitalize right to use of Rs.141 crore as assets in our books. Against that, lease liability of Rs.129 crore is recorded.

Harit Ahmed: Given that a lot of our growth in recent quarters have been coming from outside Delhi and NCR where there is a higher share of revenues through our

collection center network, has there been a significant change in the share of revenues from the three segments, clinical labs, collection centers and pick up points, earlier we had said 40, 30 and 30, or do we anticipate a material change in the split?

Dr. Om Manchanda: I think there will be minor change because the number 40% that we used to give was basically our own lab walk-ins. I do not want to sort of venture out in giving you a quarterly breakup. Maybe once we do annual numbers, we probably will come out, but directionally you are right, as the component of franchisee collection center goes up, hence the franchisee network business as a percentage of total will also go up and our own walk-in will tend to come down. But having said that, that does not mean the collection centers do both kinds of business; collection centers also technically are doing walk-in business. That should not be misunderstood as if B2C component is going down. We do not infer that.

Harit Ahmed: But the collection center component would still be around 30%?

Dr. Om Manchanda: It is probably higher than that now; it is close to 35%.

Moderator: Thank you. The next question is from the line of Manoj Garg from White Oak Capital. Please go ahead.

Manoj Garg: Om, just would like to pick your mind. Basically from a strategic perspective, one is expanding into newer geographies or reaching out to more number of patients versus going deeper into the geographies or areas where we already are very-very strong. How would you like to play between these two strategies?

Dr. Om Manchanda: It is a great question. My experience teaches me that you have to do both because you are not only addressing current year figure, you are not addressing next year but you are also addressing next five years. My sense is deepening in existing markets, is addressing the issue of what you have to do this quarter, this year, next year and five years from now if I do not see new markets, then I will have a challenge, so I will probably do both.

Manoj Garg: Given the fact that like Delhi and NCR region, we are still 30% of the overall market while I understand 30% is a lot market share, but the kind of brand equity we enjoy in Delhi, do you think there is scope for further deepening in Delhi market and probably inching up of market share out there?

Dr. Om Manchanda: Scope is always there but I personally would say that gaining that extra market share would be much harder rather than going into rest of north because in our business there are hardly any supply side constraints because anybody can put up labs, and now hospitals I am sure you would have studied their P&L, they are getting very aggressive on diagnostics as well. So, OPD market in private shifts to hospitals. So, everybody is trying to see how they garner higher share of diagnostics. I would definitely not put all eggs in one basket and say that Delhi NCR is the future market for me. It will be a bonus if I grow higher than particular number that I have in mind. We will continue to put that effort but not depend on only Delhi NCR, hence my rest of India efforts will continue.

Manoj Garg: Second thing is largely when we look at Dr. Lal or maybe some of the large private players out there, the model which comes to your mind was the B2C; however, like I think you were responding to an earlier question of Sameer, that going forward probably we will become more like back-ended kind of sourcing and processing those volumes while the people who have the front-end they

will continue to service the upfront patients of theirs. So, are we seeing maybe five, ten years down the line we are emerging more like a B2B player than B2C?

Dr. Om Manchanda:

I am glad you asked this question. The way it would pan out is that while they have the front-end collection points but under the brand name of Dr. Lal PathLabs because eventually patients would want to have a report from Dr. Lal PathLabs. In fact, recently I went to Lucknow and visited one place and that guy had his own lab. I asked, what happens if somebody asks you that I want Dr. Lal report but the Dr. Lal prices are higher. He actually said, "If you want Dr. Lal's report, then you will have to give me higher price. If you want my report this is the price." Technically, consumers or patients are exercising their choice. They know that Dr. Lal report is a quality report, hence I want that report. So, there is a pressure on both; one is the cost of testing and on the other side market is demanding that it is basically a branding play, otherwise test is a test, everybody have same machine. That is power of the brand. So, while some part of the market would be like this but we believe that we build the preference for our brand, let the channel partners be these guys because complete end-to-end servicing the patient, we may not be able to do that, collection has to be done by somebody else. That is the model we have even today also; like what is the role of franchisee collection center. Because that guy is doing collection but the brand is preferred by the patients. That component will remain.

Manoj Garg:

The other question is in terms of like the M&A opportunities. Are we getting more such kinds of opportunities and what are the valuation expectations of the seller at this point of time?

Dr. Om Manchanda:

I do not know whether I explained on the previous calls but let me again take a bit of a step back and give you overall view of M&A the way I see it. You draw a triangle, top of the pyramid, there are four, five maybe six or seven players which I do not know, it is highly unpredictable what happens, we cannot comment. Then there are regional players who are sitting in various metros while we are a big player in Delhi, somebody else is big in Mumbai, somebody is big in Kolkata, and many of them actually already have a PE-invested in them. So, we believe at some point in time these companies may not be in a position to go public. So, there would be a transaction. So, that is where we are hopeful. And third is bottom of the the pyramids where a large number of players are there. Now, it actually cuts both ways because if you have too many of these to manage, it may become operational challenge to integrate. And if you have few only, then it may not even move the needle as far as the top line is concerned. So, our strategy is to carefully be very picky in terms of market we want to do this in. That is the reason that we have had the Indore deal, because that is a strategic market for us, MP, then from there we move towards west. So, we will pick selectively some of the markets, do more bottom of the pyramid acquisitions in these places while we will continue to stay hopeful on the other two compartments of this triangle.

Manoj Garg:

Now, it has been two years for the Kolkata reference lab. So, just would like to understand in terms of margin curve, where does it stand now?

Dr. Om Manchanda:

We may not want to share the regional margin profile right now, but from a progress perspective, I think this whole deepening of our presence deeper into West Bengal, that I think efforts will start now, two years we have stabilized operations, we have stabilized markets and I think it has progressed as per our expectations so far and we will get little more aggressive in going down the pop strata.

- Moderator:** Thank you. The next question is from the line of Imran Khan of RatnaTraya Capital. Please go ahead.
- Imran Khan:** If you can share number of employees that you have till Q1?
- Dr. Om Manchanda:** It is around 4,400.
- Imran Khan:** Other than that, if you can also share the number of clinical labs, patient service centers and pick up points?
- Dr. Om Manchanda:** We have been giving these numbers on an annual basis. Last figure we had as of March 31st is 200 labs; collection centers are 1,704 and pick up points is 6,426.
- Moderator:** Thank you. The next question is from the line of Aadesh Mehta from Ambit Capital. Please go ahead.
- Aadesh Mehta:** Sir, just wanted to ask, if it is possible to disclose how our growth has panned out across regions say in East India and in North excluding Delhi?
- Dr. Om Manchanda:** Right now, we are sticking to the breakup of Delhi NCR versus rest of India because we are clubbing rest of India as one geography.
- Moderator:** Thank you. The next question is from the line of Alroy Lobo of Kotak Investments. Please go ahead.
- Alroy Lobo:** I have got three questions: The first is this concept of complete lab on hire. Is that a model that you would like to explore because one of your competitors seems to be aggressively working on that model?
- Dr. Om Manchanda:** We always keep our eyes and ears open to what everybody else is doing. We continue to evaluate these opportunities. But in my scheme of things, this is a very tactical and opportunistic move. My strategic move would be if I am very confident of going into a market, I will rather open my own lab.
- Alroy Lobo:** Second is as far as the competitive scenario from the organized sector in your core Delhi and NCR market, has it intensified or has it reduced?
- Dr. Om Manchanda:** I think that is natural. If you look at the profile of our growth we are talking about rest of India and I am sure for someone else also there is a Delhi and rest of India. So, everybody is going to try their best in their home markets. I think that is likely to go up as well but at some level it is not a bad news because eventually it creates a level playing field, the cost structure of all the players is very similar, pricing is very similar, quality is very similar and then hence, the guy who gives the better offering is the guy who is going to be the winner. So, I am not particularly perturbed about that, but I think your question is "has that gone up?", it has not materially gone up, but I think that is bound to happen.
- Alroy Lobo:** And third is you have been working also on the wellness market vis-à-vis diagnosis of illness. Is there any split that you can provide us how the wellness market has moved for you in terms of growth and in terms of numbers?
- Dr. Om Manchanda:** Word of caution for everybody. I think we are using this term wellness. Essentially to me the meaning of wellness is the guy has not gone to the doctor on his own, he wants to do a preventive health checkup and that is the

segment. While it is a subset of that because technically the Swasthfit that we are talking about, these are all bundled tests, it essentially is a good value for money because if I am let us say a diabetic patient and I am getting lipid profile and diabetes profile, and I go to a lab and on the counter I suddenly find out that it is cheaper to get the 70 tests together rather than only these two, then I opt for that. But that does not mean I have actually walked into the lab as a wellness customer. So, please do not interpret that number as 15% Swasthfit sales coming out of wellness as a preventive health checkup, but I would rather call this as a bundled test portfolio, that portfolio in our business is right now 15% coming out of Swasthfit.

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

Nitin Agarwal: On the number of patients tested, we were at about 4.3 million patients for the last couple of quarters. The number sequentially really speaking has jumped up quite a bit in this quarter. Is there anything which has specifically changed over this last quarter or so which has led to a very sharp improvement in the number of patients tested because we have never hit these levels before barring Q2 of last year?

Bharath Uppiliappan: Overall sequential performance between Q4 and Q1 has significantly improved, and this is largely led by volume growth which we are witnessing in rest of India particularly east is what Om had mentioned. So, that is what is really driving up our volume growth.

Dr. Om Manchanda: Actually east is contributing quite a bit while in value terms it may not be, but east composition of our test mix is rapidly changing, so more and more routine test you get, because our presence has gone up sharply in that region.

Nitin Agarwal: Between Delhi and NCR versus ROI, what is the mix right now?

Dr. Om Manchanda: As I mentioned, we are not giving regional split right now, we are just sticking to rest of India versus Delhi NCR because our focus now also will be on wider geography than just these.

Nitin Agarwal: When we look at our realization per patient at about Rs. 684 for the quarter, how sustainable do you see this number as it keeps on improving the Rest of India (ROI) mix for us.

Dr. Om Manchanda: I would not bank upon this saying that it should stay there, because our majority of growth is going to come from rest of India, the realization is little on the lower side compared to Delhi NCR, so I would not see any upward movement for here, we will try and see it stabilizes there.

Nitin Agarwal: In a very-very broad sense, what is the typical on an average the difference between your ROI business and Delhi NCR, on a realization per patient basis?

Dr. Om Manchanda: Exact figure I may not have readily available but broadly speaking if Delhi NCR is 100, my sense is rest of India would be about 70, but also remember that Delhi NCR has very high walk-in components because our cost of servicing the patient structure also is extremely high.

Nitin Agarwal: Just to sort of reiterate, as this mix increases, we may probably see some pressure on realization? But also just to complete the point on Delhi per se do

you see the realization per patient, probability of this component increasing on Delhi per se meaningfully as we go forward or...?

Dr. Om Manchanda: As the contribution of Swathfit goes up that will definitely have positive impact. But I just wanted to come back to your previous question, it should not be inferred as a realization per patient is lower in rest of India so are the margins, not true because there realization in lot of cases which is net of all the channel margins that we have shared and plus here it is all mostly walk-in patients so we pick that cost in our P&L. So, it may not be the same in margins, please do not think that.

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

Kunal: I just wanted to understand with the pace of growth and deeper penetration that we are seeing in tier-3, 4 or 5 cities, how are you able to ensure that the quality of manpower at the franchisees, PSCs, pickup points is maintained? And linked to that is how are we able to ensure the sanctity and quality of the sample in particular when it has to come to the national lab? I ask this since the business is brand and trust dependent as well. So, it would be helpful to understand a bit of quality related operating processes in this regard?

Dr. Om Manchanda: I think that is a very good question. In fact, many times people ask me that where do you lose sleep every day. I think these are all operational challenges we have. Technically, as a company it is one big priority operationally we have is the franchisee management and making sure that the right quality of phlebotomist is there, the right compliances are met and entire cold chain of transporting sample is maintained and all that. So, this is basically we have teams that are looking at quality aspects, there are teams which are looking at the compliances aspect, there are teams which are looking at people who are working and they are properly qualified, there are a lot of training initiatives that we have inside the company and entire thing is in place to make sure that because ultimately going forward this is going to be major operating challenge on the organization to manage franchisee. So, we have various departments taking care of all these areas.

Kunal: For instance, how do you deal with say super specialized or may be specialized tests if you find that at a test somebody for an example HIV positive, do you double check your testing?

Dr. Om Manchanda: Yes, of course. Not only HIV, but any critical value is double checked and there are protocols by NABL and CAP and all those protocols are followed.

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

Sameer Baisiwala: I was just thinking about tests per patient, how do you move it from two, something to three, something four, five and six, and in this context are you doing something to educate doctors?

Dr. Om Manchanda: I really do not think we want to forcibly push the market to higher number of tests that is not our idea, in fact I would warn the patients do not get as much tests as possible, so I think that is the objective we have; however, what are those variables that influence this figure let us look at that -- one area clearly is this whole battery of preventive health checkups, you have close to 30, 35, 40 tests in one package, more and more patients coming for this, you tend to see this number going up. The other area is basically the real objective of

diagnostic players like us would be to help our clinicians to diagnose accurately and also early. And that is the time when first visit of patients if you can help the doctor to really say these are tests you need to get done to really catch hold of the real disease. So, that is the way we would like to educate the market so that it helps the clinician to diagnose something accurately and also early. If that leads to higher number of tests, so be it. If that leads to lower number of test, so be it but I really do not want to be seen as a company which is trying to unnecessarily get these tests specified.

Sameer Baisiwala: Do you have a team of people who visit doctors in this regard?

Dr. Om Manchanda: Yes, basically our sales structure is twin structure where we have team focussed on high end test because this is more a technical selling, profile of these guys are really different from others, they conduct lot of CMEs, they are people who are also in touch with our technical groups together we call it a medico-marketing group because we have a very senior guy who is driving this. Similarly, on ops team which essentially manages the logistics, collection center management and pickup points. So, we have two set of people looking at these two areas. So, our high end teams are different.

Sameer Baisiwala: If you do not mind, what kind of coverage you have for doctors?

Bharath Uppiliappan: We cover about 50,000 doctors in the country directly and partners may be covering some more on their own.

Sameer Baisiwala: What is the current role of insurance in your business and how do you see this going forward in next few years?

Dr. Om Manchanda: Right now insurance is not that high, most of these players end up doing a local partnership, they always try to negotiate very low prices, also, we have seen that some of the insurance guys have a requirement of an MBBS doctor also to do these other stuff. So, as of now this is not very high. Going forward, at least we have seen in western markets where some of the quality insurance players when they want to really focus on the testing areas, then this business will go, but as of now I am not seeing this is a very big component of the business.

Moderator: Thank you. Ladies and gentlemen that was the last question. I would now like to hand the floor back to the management for closing comments.

Ved Goel: Thank you, everyone for being with us on this call today. I would now request the moderator to close the call.

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

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