Dr Lal PathLabs Limited (LPL)

Q3 & 9MFY16 Results Conference Call Transcript

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Call Duration	: 01 hour 25 mins
Management Speakers	▪ (Honorary.) Brig. Dr. Arvind Lal - Chairman and Managing Director of Dr Lal PathLabs Limited ▪ Dr. Om Prakash Manchanda - Whole-time Director and CEO of Dr Lal PathLabs Limited Mr. Dilip Bidani – CFO of Dr Lal PathLabs Limited
Participants who asked questions	▪ Rakesh Nayudu – Haitong Securities India Pvt. Ltd. ▪ Neha Manpuria – J.P. Morgan India ▪ Prashant Nair –Citi Research ▪ Anubhav Aggarwal – Credit Suisse Securities Pvt. Limited. ▪ Rajesh Kothari – AlfAccurate Advisors Pvt. Ltd. ▪ Rohan Pandya – Batlivala & Karani Securities India Pvt. Ltd. ▪ Nitin Agarwal –IDFC Securities Limited ▪ Sameer Baisiwala – Morgan Stanley India Co. Pvt. Ltd. ▪ Dheeresh Pathak – Goldman Sachs (India) Securities Pvt. Ltd. ▪ Charulata Gaidhani – Dalal & Broacha ▪ Chirag Talati – Kotak Securities Limited ▪ Nikhil Upadhyay – Securities Investment Management Ltd. ▪ Girish Bakhru – HSBC Securities & Capital Markets (India) Pvt. Ltd. ▪ Dr. Harith Ahamed – Spark Capital Advisors (I) Pvt Ltd. ▪ Hemant S

Moderator:

Ladies and Gentlemen, Good Day and Welcome to the Dr. Lal PathLabs Limited Results 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 '*' then '0' on your touchtone phone. Please note that this conference is being recorded. I would now like to hand the conference over to Mr. Siddharth Rangnekar of CDR India. Thank you and over to you Sir.

Siddharth Rangnekar:

Thank you. Good morning ladies and gentlemen. Welcome to Dr Lal PathLabs Limited's or LPL's first conference call for investors and analysts. The call has been hosted to discuss the financial performance and share operating highlights of the Company with you.

I have with me on the call– (Honorary.) Brig. Dr. Arvind Lal - Chairman and Managing Director of the Company, Dr. Om Prakash Manchanda - Whole-time Director and CEO and Mr. Dilip Bidani - CFO. We will commence the call with comments from the management team, post which we shall open the call for a Q&A session, where the management will be very glad to respond to any queries you may have.

At this point I would like to highlight that some of the statements that may be made or discussed on the conference call may be forward looking statements. The actual results may vary significantly from the forward looking statements made. A detailed statement in this regard is available in LPL's Q3 & 9M FY16 result presentation which has been circulated earlier.

I would now like to invite Dr. Arvind Lal to commence by sharing his thoughts on the listing of the Companyand on the strategic progress made by the Company thus far.

Dr. Arvind Lal:

Good morning and thank you for taking out the time to join us on our very first interaction post the listing in December 2015. We have had a very promising start to our journey as a listed company and I, on behalf of the Board of Directors and the Management of the Company would like to express gratitude to the investor community, for their continued support and participation.

Our launch into the public space by way of the IPO is an important stepping stone for LPL, as we now have the opportunity to share our unique business proposition with a much wider audience with the hope that you can be part of our success story which we believe we ¬¬¬continue to drive sustainably.
Although you will be apprised of our perspectives on the financials and strategy in detail later during this presentation, I wish to share my thoughts on the evolution of Dr.Lal PathLabs thus far. We see LPL as an established consumer healthcare brand in diagnostic services. In terms of the reach and depth of our operations we are one the largest companies offering exposure to this segment within healthcare in India.
Over the years we have developed a strong network domestically and cultivated a sterling reputation for providing quality diagnostic healthcare services. LPL is today very well-position to partake in the potential that the healthcare industry is showing.

Within the ambit of the overall healthcare delivery services space in India diagnostic services essay an important role. The sector largely behaves as an intermediary providing useful information for accurate diagnosis and treatment of diseases. The market for diagnostic healthcare services providers such as LPL has been independently ascertained at Rs. 377 billion in FY15, with this number expected to grow to over Rs. 600 billion by FY18. For a young Company like ours the scope to grow therefore is immense and based on the foundation that we have built I can very clearly see a tomorrow that will be far brighter than today.

Before I conclude I would once again take this moment to welcome everyone who has put their faith in our Company and invested in our business model. My team and I are committed to building upon our leadership in the sector and set the stage for many more exciting milestones. On that positive note I will request Dr. Om Manchanda to take this call ahead.

Dr. Om P Manchanda:

Thank you. Once again a very warm welcome to all present with us today and to our new investors who came on board as part of our recent successful initial public offer.

LPL delivered a healthy year to date performance with revenue growth of 21% in Q3 and 22% for the 9 month period ended Decemeber 2015. This is on the back of the strengths of our company's business model which has been designed with high emphasis on sustainable long term growth. We believe that the healthcare sector in India holds great potential. And as we cement our position in core markets as well as expand in new markets combined with consistent growth in scale, LPL is uniquely positioned to capture the opportunities in the diagnostics sector.

We will be providing you a detailed brief on our financial performance, but prior to that, for the benefit of those who are new to the story I would like to spend some time first to briefly introduce our model and strengths and hopefully bring out our core business philosophies

The foundation of this company was laid in 1949 by Dr. Major S. K. Lal, who is the father of Dr. Lal. Since then we have evolved not only as a business but as an organisation. Along with the vision of our founders, the dedication and hard work of our team members and employees has helped establish LPL into the brand that it is today.

Thus the LPL model has metamorphosed into a nationwide hub-and-spoke business that you all are seeing today. The operating performance of LPL is backed by our strong lineage and guided by factors like our extensive and integrated network, the scalability of the model, LPL's robust brand equity and the broad range of tests and services that we offer.

Let me touch upon LPL's business approach. We operate under a hub and spoke model. This includes LPL's National Reference Laboratory which is located in New Delhi, supported by 175 clinical laboratories, 1,592 patient service centers and over 7,300 pickup points presently. Under this arrangement, samples are collected across multiple locations within a region and are forwarded to pre-designated clinical laboratories for centralized diagnostic testing. This provides us greater efficiencies and of course better economies of scale while making available a scalable platform.

With respect to our network we are present across India, including large cities such as New Delhi, Mumbai, Bengaluru, Chennai, Hyderabad and Kolkata. A key factor which binds our operations and is responsible for smooth execution is the centralized information technology platform. This integrates LPL's large network through a common registration and reporting system and tracks our operations and internal performance metrics, thereby enabling us to improve our efficiencies. This is really the heart of the operation.

Being a customer centric brand at the end of the day, we realise the importance of providing them with a variety of tests and services under one roof with the assurance of delivering accurate results on time. LPL's catalogue includes over 1,110 test panels, 1,934 pathology tests and 1,561 radiology and cardiology tests and we keep appending to this list. We cater to an audience base which comprises of not only individual patients but also corporates, institutions, healthcare providers as well as hospital and clinical labs.

Our success to date is a testament to the dedication, commitment and passion of all our team of over 3500 employees, consultants including pathologists, phlebotomists and radiologists.

I will take some time now to describe how we see the future of LPL. We expect factors such as increase in evidence-based treatments, increasing demand for lifestyle diseases-related healthcare services along with better awareness levels towards prevention of diseases, to be primary drivers for our industry. At a broad level and as per industry reports one can expect a growth CAGR of 16-17% by FY18 for the sector.

We believe we have the right approach in the field of diagnostics and have taken adequate steps to build a very strong foundation for growth. As I conclude, I will walk you through the essential elements of our program for delivering sustainable growth**:**

Geographical expansion: We will continue to drive growth through expansion of network. Strategy has already been outlined to add new franchised patient service centres within all our existing markets. We also have plans for construction of new Regional reference Labs at Lucknow and Kolkata. This will serve well for our overall objective to strengthen our presence in core markets.

Strengthening business operations: We are making requisite investments and efforts to enhance the customer experience by boosting quality & reliability standards and improving turnaround time for testing.

Grow the range of offerings**:** We remain cognizant of the fact that healthcare is a highly dynamic sector and is constantly seeing new developments in terms of tests, processes and specially technology. In the same vein we are constantly expanding the breadth of the tests and services on offer to our target audience with the aim to stay more relevant and add meaningful value to our model.

Expand management of hospital based and clinical labs: Under these arrangements, we establish and manage in-hospital clinical laboratories to conduct onsite routine testing and provide offsite support for more complex testing needs through our laboratory network on a revenue-sharing basis. We believe this is a unique driver for us to enhance our growth profile and we will be actively engaging in expanding this segment.

In conclusion, we are truly excited as we start this new chapter. We have invested significantly in our business in the past and continue to do so even now. I am confident that with the support of our well-defined business strategies, a highly talented team, excellent infrastructure and a differentiated customer proposition, LPL is on track to deliver enhanced value to all our stakeholders.

I once again take this opportunity to thank our investors, customers and employees whose constant support made this endeavour a great success. I would now request Dilip to guide you on the financial details

Dilip Bidani:

Thank you Om. I will spend time to get you acquainted to the operating and financial matrices of the business while focussing my discussion on the developments that have taken place during the Q3 & 9M periods. This has been momentous year for the Company with the recent listing of the stock. It will be our endeavour to present the way we see our business while hoping to deliver consistent value to our extended family of stakeholders.

I believe you would have seen the earnings presentation. For those who haven't we have uploaded a copy on our website which is www.lalpathlabs.com and also on the respective websites of the stock exchanges. I would like to share at the outset that with our kind of business it is very important to examine trends on an YTD basis as there is an element of seasonality associated with some quarters where the performance could be influenced by certain occurrences during the period.

Getting into the highlights in Q3 FY16, our Total Revenues showed 21% growth at Rs. 1,886 million from Rs. 1,558 million last year during the same quarter. As per our experience Q3 is typically a period where patient inflows appear moderated, despite which we have delivered growth. The key drivers as we see it include continuing benefit from the enhancement in volume of samples that we processed and an increase also in the corresponding patient count. This follows growth at existing centres within our core network across North, East and Central parts of the country but also increments from additions to our franchisee reach. During the quarter we have continued our efforts to expand our portfolio of diagnostic and related healthcare tests and services. One more factor which gave a contribution was the outbreak of dengue in parts of North which resulted in corresponding higher requirement for testing.

Moving to our EBITDA there are some expenses related to ESOPs where we have effected a reversal for prior year related charges based on advice from our auditors. This amounts to Rs. 274 mn; this is shown as a separate line item in our statutory financial statements. The EBITDA and PBT related comments which I will make will be therefore limited to EBITDA and PBT performance excluding the impact of prior period ESOP expenses reversal so as to provide a fair picture of the Company's normal business results during the quarter. A more detailed explanation on the same is covered in our earnings presentation.

Our EBITDA performance for the quarter reflects**:**

- Prior period charge of Rs. 16 mn in Q3 FY16 on account of new Bonus Act provisions. Further, charge on account of ESPS (Stock Grant) scheme was Rs. 32 mn taken during the quarter. As detailed in a note in the earnings presentation this charge may vary in the future in either direction based on the stock prices at close of the quarter. This charge is included under Employee Benefit Expenses – Others. Without these charges EBITDA growth for the quarter will be 17.3%.
- Increased volume of low margin testing during the Dengue outbreak
- Higher costing for imported consumables including reagents used owing to depreciation of the currency

Our PBT for Q3 FY16 has shown 9% improvement post the ESOP related reversals that I mentioned earlier and otherwise reflects healthy operating trends in the business.

To quickly summarize the corresponding values for the nine month period. Total Income was at Rs. 5,936 million from Rs. 4,878 million a growth of nearly 22%. The key drivers of this performance were our focused and systematic expansion approach, our drive to grow our test catalogue and our ability to capture the growth trends in the sector. Consequently for 9M FY16 EBITDA Without ESOP Reversal increased 12% to Rs 1,521 million. This of course has an apparent bearing from the healthy sales increase. However it also showcases the robust operating systems which we have created and that have eventually helped us create high levels of efficiencies. The Profit Before Tax Without ESOP Reversal stood at Rs. 1,445 million from Rs. 1,244 million in 9M FY2015.

We are debt free Company and all the required investments are being funded from our balance sheet. As you will have seen our cash flows have remained robust over the years and also both in Q3 & 9M FY16. Our Cash and cash equivalents as on December 31, 2015 stood at Rs. 2,579 million. We remain an asset light Company with fixed asset investments focused on specific goals and ability to generate attractive medium-to-long term returns.

The results achieved over the year clearly reflect our ability to chart and execute on our growth strategies. Going ahead, we will continue to pursue our strategy of expanding our base, reaching out and providing quality healthcare services to a wider audience through a varied offering range, leveraging our scale and expertise with the singular goal of adding meaningful value which resonates well with our overall business philosophies.

With that I would like to conclude over opening remarks and request the moderator to open the forum for questions.

Moderator: Thank you very much, Sir. Ladies and Gentlemen, we will now begin the Question-and-Answer Session. We have first question from the line of Rakesh Nayudu from Haitong Securities India Pvt. Ltd. Please go ahead.

Rakesh Nayudu: In your comments, you had alluded to expansions in Kolkata and Lucknow. Can you briefly elaborate in terms of capital commitments, how do we see this ramping up and what kind of capital commitments we are looking for these two investments? Second question is on the cost breakup at the P&L. Your SG&A line item had worked on a very high base in first half and it has significantly come off in the third quarter. Could you please explain the reasons for it?

Dilip Bidani: As far as the CAPEX is concerned we are on track on Kolkata, we have concluded most of the formalities and based on a few approvals we will start the construction very shortly. As we had explained earlier the CAPEX on Calcutta lab and Lucknow lab each will be in the region of Rs.40-45 crore. These are large reference labs and these are the kind of investments that would be required. As far as the SG&A is concerned, the SG&A has actually got certain impact of reversals. So if you are looking at the total expenditure line that has significantly come off primarily because of the reversal of ESOP charges, which would have been included in that line and that is about Rs.27 crore.

Rakesh Nayudu: In terms of your ESOPs write back, Rs.40 crore is what we understand has been reversed. So this would be one-off right and we would be unlikely to see this coming up in Q4 and beyond?

Dilip Bidani: That is right, there has been about Rs.44 crore of reversal, Rs.27 crore which is above the EBITDA line and there has been Rs.16 crore below the line.

Rakesh Nayudu: CAPEX of Rs.45 crore each, this would primarily be for the building and the equipments?

Dilip Bidani: That is correct and this will spread out over 12 to 18-months.

Moderator: Thank you. The next question is from the line of Neha Manpuria from J.P. Morgan India. Please go ahead.

Neha Manpuria: My first question is could you breakup what is the volume growth out of the 21% year-on-year revenue growth that you mentioned and how much of it is driven by pricing if at all?

Dr. Om P Manchanda: Our volume growth and the revenue growth they are very similar, we did not see any growth in the revenue per patient, and we had not taken any price increase so we were not anticipating any jump on the revenue per patient as well. So volume growth is very similar to our top line growth.

Neha Manpuria: Second, is it fair to assume that given festivals, etc., third quarter does have some amount of seasonality, therefore performance should improve as we go into the fourth quarter?

Dr. Om P Manchanda: Yes, to some extent you are right, normally Q3 is the lower quarter not only because of festival but also because of healthy season as we move into winters. Our highest quarters are Q2 and next one is Q4.

Neha Manpuria: The dengue outbreak that you mentioned impacted third quarter numbers to that extent that should also normalize into the fourth quarter?

Dr. Om P Manchanda: It has impacted both the quarters because dengue outbreak happened in September as well as in October. So it has been captured in both the quarters.

Neha Manpuria: Just on the expansion again, the Kolkata we have started construction now. By when will this be commissioned – would it take 12 to 24-months, when will we see that capacity come on board?

Dr. Om P Manchanda: We are hoping to commission this between March '17 let us say September of '17 because certain clearances that are required so we are waiting for those approvals and post that only we will be in a better position to give you a firm date, 18-months you can consider.

Neha Manpuria: On the cash, I understand that we have CAPEX of about Rs.90 crore for both of these. What is your plan for the utilization of cash, would it be for the M&A or how should we look at that?

Dr. Om P Manchanda: Normally as we explained during our investors presentation that our typical model asks us to put up Satellite Labs and Patient Service centers and these Patient Service Centers are franchised out, so there is not much of CAPEX there, but CAPEX is required for IT as well as putting up new labs. In addition to that, these two labs were also coming up, so we will use cash against these investments. Next one is as you know that this market is highly fragmented and there are a lot of unorganized players so there is an opportunity for us to keep on acquiring these small assets, so we hope to use this cash to do some M&A as well.

Neha Manpuria: Regionally, would you have any preference in South, East India or West India given we have a strong presence in the Northern and Central India?

Dr. Om P Manchanda: There is no specific sort of a preference for these regions. As we explained earlier we have core markets which is North, East and Central India where we have grown organically and in other markets we obviously will look for certain market entry strategies through M&A.

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

Prashant Nair: A couple of questions; firstly, can you break down your revenues by geography?

Dilip Bidani: We are still a north-centric company and over 70% of our revenues coming from North India, so the balance 30% is distributed over Central, East and West.

Prashant Nair: Would the growth rates in the non-North part of the region still be meaningfully higher given the lower base?

Dr. Om P Manchanda: As you know the market size is about Rs.37,000 crore which consists of both Radiology and Pathology and even if you take half of the market as Pathology which is Rs.18,000 crore, we still have market shares which are fairly low. So we do not see North either slowing down because we see North still has lot to deliver and at the same time in other regions, of course lower base will definitely work to our advantage, but we continue to see growth rates similar all across.

Prashant Nair: Dilip, in your other income, is this largely the income generated on the idle cash that you have or is there anything else also in there?

Dilip Bidani: That is right, this is basically interest on fixed deposits and dividend on the liquid funds, so both are part of other income.

Moderator: Thank you. The next question is from the line of Anubhav Aggarwal from Credit Suisse Securities Pvt. Limited. Please go ahead.

Anubhav Aggarwal: One clarity on the seasonality you talked about 2Q and 4Q being strong for the company; 2Q I understand, 4Q is it simply North-driven company, so cold season driving that seasonality?

Dr. Om P Manchanda: Yes, you are right, so as the season changes from winter to summer we do see upswing in the sales.

Anubhav Aggarwal: Om Sir, can you also give what is the Radiology as a percentage of sales for the company?

Dilip Bidani: It would be 4 to 5%.

Dr. Om P Manchanda: It is not very significant.

Anubhav Aggarwal: So whatever this 4 to 5%, this will be largely and only in North side or do we offer the service across the platform?

Dilip Bidani: Let us just clarify that this is basic Radiology which is in the nature of Ultrasound and X-rays and ECGs kind of stuff and this is there in some of our labs where we wish to offer a slightly wider menu of services and where we feel there is a potential for greater footfalls for people coming in for preventive health checkups. So that is something which we set up in those specific outlets.

Anubhav Aggarwal: Dilip, one question on ESPS, let us assume the stock price remain constant, this per quarter number, can we assume it will remain ESPS cost about Rs.2-3 crore?

Dilip Bidani: This would remain on a quarter charge, yes, it would remain about that, in fact, and it will be lesser because the jump takes place whenever there is a jump or drop in the stock price. So if you have seen our prospectus the quantum of ESPS is already disclosed there and the jump is primarily on account of the stock price fluctuation.

Anubhav Aggarwal: Next year for example you have 98,000 the ESPS is the number you have given out there, which current stock price works out to be roughly Rs.8.5-9 crore, so Rs.2.5 crore kind of a number can we assume to take around that level?

Dr. Om P Manchanda: No, it would not be every quarter because this is particularly relevant for this financial year because the scheme is designed in such a way that it will take the price prevalent on the 1st of April of the year. Now, when the next year begins which is FY-'17, the price prevailing on 1st of April will be the strike price. If there is a fluctuation upward/downward correction will take place. So you have to just see only for FY-'16. Do not assume that every quarter this charge will keep coming.

Anubhav Aggarwal: So for '17 let us say when you take a price in the first quarter, so we will have a large number in 1Q or for the full year the large quantum will come in first quarter?

Dr. Om P Manchanda: That amount is actually capped, it is about Rs.3-4 crore that is a starting point, in case the price goes up then this charge will go up, otherwise it will be around Rs.3-4 crore for the year.

Anubhav Aggarwal: On the new labs in Lucknow and Kolkata, I know we are putting up the labs right now, but let us say once they are constructed and they are operational, roughly, how much timeframe does it require for them to come at the corporate average margin -- is it two years, three years, any indication will be useful?

Dr. Om P Manchanda: As a company we have only one reference lab that is in New Delhi. We already have very large volume base existing East of India. So we do not see that these particular labs will be struggling for throughput because we have existing business already flowing in, but we have an experience on satellite lab, normally we have seen that each satellite lab comes back to normal corporate margin in about 3-years time. That probably is the assumption I would like to extend but probably let us see we will do a little more math as to what kind of capacities we need to build depending on the existing base. So may be in next quarter we will be little more clearer as to what it is but for now you can take about 3-years time.

Anubhav Aggarwal: Om Sir, when you mentioned 3-years roughly when it comes to around the corporate average margin, what utilization are we talking about here roughly?

Dr. Om P Manchanda: Actually in our space utilization is not such a big issue because many of these machines are very modular in nature and it does not require very high additional space. So for us the capacity utilization has not been much of issue, but actually we need to really utilize it between 12-noon to about 3 in the afternoon because turnaround time is very critical, but generally speaking capacity is not a big problem for us because many of these instruments are also on reagent rental and vendors are more than happy to put up machines any time we want.

Moderator: Thank you. The next question is from the line of Rajesh Kothari from AlfAccurate Advisors Pvt. Ltd. Please go ahead.

Rajesh Kothari: My question is with reference to the strategy what you have mentioned four points -- Growth through expansion, investment in efforts, dynamic sector, new development, new test and fourth is the hospital base management. Would you like to give in terms of quantification of these over the next 3-5-years for example, how do you plan to grow in each of these points what you have mentioned?

Dr. Om P Manchanda: Our company actually has grown by expanding geographical network, as you know, if you go to the history we grew out of Delhi, we expanded to North of India, then we slowly-slowly expanded to East of India and we will continue to do what we have done very good in the past which is the geographical expansion. Right now our core markets have evolved as North, Central and East India, we will continue to drive our market share in these markets as well as keep seeding other new markets. Now, new tests offering, it is a way of life for us because today's high end tests tend to become routine test tomorrow and more and more new tests we will keep on introducing, it will cut across the entire country. Now, coming back to the Hospital Lab, this is an upside to our business, right now this particular segment does not contribute very large percentage to our revenue; however, we do pick up samples from these hospitals because all these labs do not conduct the entire test menu, they outsource high end tests to us. But we believe there is an opportunity for us to go and manage these labs onsite, especially the mid size hospitals about 200-250 beds and currently we have close to 14-labs we manage and in the prospectus you can see a little more detail as to what is the contribution of these labs are. Right now, this segment does not contribute large percentage to revenue but we see an upside on this.

Rajesh Kothari: So your growth for expansion, what you were mentioning and I am coming back to that… my question is not still answered, my question is right now you have 172 Clinical Labs, you have 1,554 Patient Service Centers and 7,000 Pick Up Points. So if you see over next 3-5-years how do you see the growth in this expansion through organic right now you can say probably out of your ex-target maybe 70% is through organic and 30% is through inorganic whatever, but how do you see over the next 3-5-years in terms of your distribution network?

Dr. Om P Manchanda: So our major focus will be expanding our collection network and collection network we expand through by Franchising Patient Service Centers as well as Pick Up Points. Because this is the way asset light part of this model comes in, this is where the scalability comes in. As you rapidly expand your collection network, you have to support that network through opening Satellite Labs as well. But massive focus will be on expanding collection network.

Rajesh Kothari: My question is still not answered. My question is I am sure you would have internal business plan over next 3-5-years, I am not asking you quarterly numbers. Over next 3-5-years, what kind of growth you are looking for?

Dr. Om P Manchanda: As you know that market actually has been growing at about 16-17% and we definitely looking at growth which is much higher than the market and if you look at our past track record, we have done close to 20-21% growth and we continue to see that in the last nine months as well. So that is an organic piece. Over and above that will be opportunistic and there are a two large opportunities which exist for us – one is if we can really create a win-win proposition for Hospital Lab segment as well as certain kind of consolidation if we can drive. But if these two do not happen, but definitely you can probably extrapolate these numbers and see how the market is growing and we should be in line with that.

Rajesh Kothari: Since you mentioned the consolidation is one strategy what you are looking for, when you look for any acquisition, what kind of internal rate of return or parameters would you look forward from the valuation perspective?

Dr. Om P Manchanda: These are very-very small assets; some labs have Rs.2 crore, some labs have Rs.3 crore, so it is very-very difficult to apply some of these metrics, it is a case-to-case basis I would say.

Rajesh Kothari: From the finance cost, just a data point. Because in your presentation various slides have different EBITDA numbers without ESOP previous as well as before prior period charges and in some slides it is mentioned 12% growth for nine months and for third quarter Rs. 42.7 crore without ESOP reversal and it says 5% growth, in some slide it says 17% growth, I am really confused?

Dr. Om P Manchanda: I want to clarify this; yes, some of these numbers can get really confusing but there is one data which is a reported figure. But what we have tried to explain in the reported numbers, we have made some adjustments for basically three items – currently, we have two kinds of stock option scheme –one is called ESOP 2010. We were providing a charge of ESOP 2010 in earlier years and our scheme was designed in such a way that company had an obligation to provide liquidity to employees before listing. Post listing that obligation has gone away. Keeping in mind the accounting standard as well as our auditors we have reversed that entire charge. That is why you see a reported number which is very high.

Rajesh Kothari: Reported number is Rs.70 crore for third quarter I am talking about?

Dr. Om P Manchanda: Yes, without reversal this number should have been Rs.42.7 crore and that is why this growth rate of 5.3% is coming. However, there are two additional cost items that have been loaded in this quarter which are pertaining to prior period as well as market fluctuation on our price and these are the two items. We have another scheme called Stock Grant Purchase Scheme which was launched in 2014. We are providing a charge for that because stock price has moved up from the day of listing. So that charge has to be provided in this quarter. Second, cost that has been loaded in this quarter is on account of statutory bonus. It is not only for this quarter but even prior period starting from FY15 as well. So if you adjust for those two costs, the EBITDA growth turns out to be 17.2%. That is what we have tried to explain.

Rajesh Kothari: What is the absolute EBITDA in third quarter FY16 after considering these two adjustments?

Dr. Om P Manchanda: It should be about Rs.47.5 crore if you adjust for these two costs as well versus Rs.40.5 crore in the previous quarter.

Rajesh Kothari: Are there any adjustments in the fourth quarter of last year as well just because when we look at the full year number, we need to adjust everything right?

Dilip Bidani: There would be some ESPS, this is the Stock Grant Scheme charges which would have been there in the last quarter of last year, but I think this kind of analysis maybe a bit difficult to explain over a call like this.

Dr. Om P Manchanda: My sense is that hopefully after this quarter these should get normalized going forward.

Moderator: Thank you. The next question is from the line of Rohan Pandya from Batlivala & Karani Securities India Pvt. Ltd. Please go ahead

Rohan Pandya: My question is basically if there is a particular fixed number the CAPEX that you do for the year, what kind of CAPEX do we expect for the coming years ahead?

Dilip Bidani: As far as the CAPEX for the year is concerned, we would be looking at larger CAPEX as compared to the last year. So last year we were probably spending about Rs.35-odd crore with the new Labs coming in and more modernization of certain instrumentation, we would be looking at doubling that definitely for the next couple of years maybe Rs.70-80 crore kind of a number is what we would be looking at CAPEX.

Rohan Pandya: My next question is about the EBITDA margin. What kind of a range margin do you think is sustainable margin because our range would be from say 22% to 28%?

Dilip Bidani: If you look at the margins which we have been having, they have been ranging from 24% to 27% over the last few years and we do see that while 27% may have been kind of a three-year period for which we sustain that, we find that on longer term basis sustainable margin would be a bit lower than that and could be about 200 to 300 basis points lower for the next 2-3-years. I should guess maybe around 25% would be a kind of number which we would be looking at. I would just like to clarify this further that margin is really a function of how the top line grows and how our investments grow and how we strike a fine balance between our investments into the business into improving and building up a platform for going forward. Therefore, many of these margin dilutions may not necessarily be permanent cost increases but would be investments for future as well.

Dr. Om P Manchanda: Market is fairly large, it is underserved, underpenetrated and we will continue to keep a very long term focus of really providing access on Diagnostic Testing, keep a long term picture in mind rather than getting carried away by short-term….

Rohan Pandya: You said that the four new labs are coming up, the presentation has mentioned. If you could give us some details on that like **...**?

Dilip Bidani: These are basically Satellite Labs which keep coming up, we keep putting this up, and so therefore these are things like expansions in places like Deoria and Bijnor. These are not big labs, these are satellite labs, which is part of the 170 count.

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

Nitin Agarwal: On the bit about getting into Hospital based Pharmacies, how does this B2B business really compare on the profitability metric compared to the Consumer business that we currently have?

Dr. Om P Manchanda: What happens in these two segments, in one segment cost of servicing is higher like you have a direct to consumer business, obviously, you need to have an establishment, you need to have a registration counter, the lab, etc., so the cost of servicing in B2C segment is higher, but realization is also equally higher. On the other side, Hospital Lab realization is lower because we end up competing and share a lot of revenue but cost of servicing is also very lower. So on EBITDA operating margins both segments are fairly similar but B2B is more competitive in nature than B2C.

Nitin Agarwal: When you say 'competitive', you mean in terms of the fact that there are multiple service providers willing to offer the same thing?

Dr. Om P Manchanda: Yes, 3-4-guys are knocking the same door, so obviously everyone being a similar quality and all that, so the pricing builds up more there. As we mentioned earlier, our business is significantly much higher on consumer facing, so we have branded consumer play.

Nitin Agarwal: But do you see this Hospital-based business being a material portion of the business at some point in time or it is …?

Dr. Om P Manchanda: It will co-exist, it will remain material because we have two distinct segments in our business – one is the Routine business, other is the High End business – the High End business eventually flows out of this tertiary care hospitals. So going forward, I would see both will co-exist. So it will remain a significant part of it. I am not saying it is not important, it is definitely important part of our business.

Nitin Agarwal: Is there any particular reason why we sort of waited for so long in focusing on this particular segment?

Dr. Om P Manchanda: No-no, actually we have always been focusing. What we are now talking is slightly different than earlier. Right now, these hospitals outsource these tests to us. So somebody will go and pick up the samples and bring it to a central lab. The Routine Tests of these hospitals is done by themselves. So we are actually talking about, is there any proposition for us to go and manage their labs onsite. That is a new segment. What we have been doing it we will continue to do that. So we are talking about two different things here.

Nitin Agarwal: On the geographical expansion, what is the experience been in terms of the market dynamics if you encountered outside of North India when we try to get into these newer markets, are they much different compared to what we have seen in North India, does it make our expansion in these geographies easier or sort of difficult compared to North?

Dr. Om P Manchanda: Potential is everywhere. So there is no difference in terms of market opportunity. That is #1. Yes, our ability to grow faster in North is much higher than other markets given the brand has been very old, it is familiar, and it is very strong. There is gestation period which before we come to the tipping point. But good news is in the last 10-years while North may have grown faster, but at the same time we were seeding these markets, we had opened a large network of labs in North and Eastern India and Central India like MP, Rajasthan. So many of these markets our presence has been now more than 10-years old, so we foresee these markets will respond very well going forward. I think Prashant earlier asked this question, "Do you see a growth rate higher from markets outside of North?" Answer is definitely yes. But to answer your question, obviously it is challenging when you go to new markets, but we believe we are prepared in some of the co-markets like Eastern India and Central India very well.

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

Sameer Baisiwala: Just wanted to check, at the patient level, how does the business origination happen – direct walk-ins versus doctor referrals? Do you need to incentivize doctor channels?

Dr. Om P Manchanda: Let me answer the second part, we do not incentivize doctor for referring patients, that is #1; #2 is demand cycle how does it work. So there are two distinct segments – one is related to chronic lifestyle diseases, let us say somebody who has been diagnosed as a diabetes or high cholesterol, there is no one-on-one relation to seeing a doctor and getting the test done because once they get diagnosed and they frequently come to diagnostic labs for their regular monitoring of sugar or cholesterol, but definitely these people have one prescription which would have been written by a doctor much earlier. The second part of business is this normally happens when there are outbreaks like dengue or malaria or any other infection. That time it is acute state of disease where they go to a doctor and the doctor writes prescription and they come and get the test done from us. Now, you further break it up what is to be tested is written by a doctor but where it is to be tested is very largely nowadays especially in urban markets is decided by the patient or if not by the patient it is strongly endorsed by the doctor, the brand has become very-very strong and these people tend to decide which lab they want to go. Now, given our brand strength and convenience and proximity of our Labs and Patient Service Centers closer to market, they end up deciding in our favor. So that is the way whole the demand cycle operates. Convenience become even more important -- nowadays they can download the report on the net, they can even ask our collection boys to come home and collect the samples. So all these put together into them deciding which lab they want to go for Testing. So just to break this up, what is to be tested is decided largely by the medical fraternity, where it is to be tested nowadays, empowerment has shifted to the patient.

Sameer Baisiwala: But I thought that it is pretty rampant industry practice to incentivize doctors. Does it not handicap you in any which way?

Dr. Om P Manchanda: You are probably right, but that is where our branded play and that is where we have put in effort in the last so many years, we have built a very-very strong consumer facing brand and we really do not participate in that segment where it is influenced by incentives. We may be losing out certain markets, so be it, because we believe as the brand becomes bigger and customers are getting educated about the quality and especially this Chronic Disease segment forces the customers to compare the results on various visits and we are fairing very well on that and brand pull is helping us out and we have decided not to participate in that segment.

Sameer Baisiwala: Just on the pricing power, how do you rate your business over next 3-5-7-years, how do you see the pricing per test unfold?

Dr. Om P Manchanda: As you probably may have read the industry reports, it is very highly unorganized industry, only about 6% is in the hands of organized players, balance 90-94% is lying with unorganized players. So one of the reasons for high growth in this space for all of us is not only the organic growth or secular growth but also shift from unorganized to organized. Now, we will continue to drive that shift. Keeping that in mind I really do not want to get priced out and charge a very high premium. So our focus would be to have a premium but not a very high premium. It could actually vary from market-to-market because since we are competing at a local level, so our pricing in one market could be very different than the pricing in the other markets, we can be benchmarked with let us say two or three large city based players and accordingly we will price it.

Sameer Baisiwala: So any number would you say that you can increase prices on an average for the entire business 5% p.a.?

Dr. Om P Manchanda: We are really looking at long-term in this business. So we do not have a strategy which says that we have to take price increases every year. Depending on the market conditions, we will decide that. But our focus will continue to remain long-term because we believe that this market is highly underpenetrated, undeserved and Diagnostic is going to play a major role in all medical decisions and we really want to expand our network and gain volume share.

Sameer Baisiwala: Sir, one clarification; when you say that you will grow at least in line with the market 15-17%, this is assuming no new big centers that you would open, that is for the so to say same-store growth?

Dr. Om P Manchanda: Actually, we normally do not look at same-store as normally we would like to see it as a retail segment because for us it is ecosystem which is very critical, in an entire ecosystem there are three segments that grow simultaneously – one is our own lab, our own infrastructure, we also have a franchisee infrastructure, we also have a Pick Up business. So we normally track as a city level growth. For us it is just a question of serving the customers we decide to put up a lab, it is not that if we do not put a lab we would not grow. So we look at all the three infrastructure together. Depending on economics and the turnaround time, we decide whether we should put up a lab or not. So the same-store versus new store concept we normally do not use to track our growth.

Moderator: Thank you. The next question is from the line of Dheeresh Pathak from Goldman Sachs (India) Securities Pvt. Ltd. Please go ahead.

Dheeresh Pathak: What percentage of your cost of goods sold is dollar linked?

Dilip Bidani: While the reagents and the consumables that we purchase, many of them are denominated in rupees, but at the back end most of it is dollar-linked.

Dheeresh Pathak: So would you say that almost 100% of cost of goods sold is dollar-linked?

Dilip Bidani: Definitely 85-90% would be dollar linked in some way, although we make local purchases in domestic rupees, but ultimately most of it would be dollar linked.

Dheeresh Pathak: You do not hedge that, right, assume you would be able to pass on it, if there is a large disruption you will able to pass it on, right?

Dilip Bidani: We cannot hedge because our purchasing is done in rupees. So the ultimate supplier is doing the FOREX hedge. So therefore, you may not see necessarily always an impact happening in the immediate month itself when the rupee depreciates, but gradually over a period of time you would see some impact happening.

Dheeresh Pathak: Do you follow a different accounting for ESOP because they sort of mark-to-market with stock price movement? We have not seen other it with other companies who usually follow intrinsic value of fair value which does not require mark-to-market with stock price movement.

Dilip Bidani: Our old ESOP Scheme is now done with. So that was 2010 Scheme. What we now have is a stock based compensation scheme which is in the nature of a stock grant where a number of shares are predetermined at the beginning of the year and which are being granted and then they have to be mark to market to ensure that they are costed appropriately both in P&L and for taxation purposes.

Dheeresh Pathak: These are not options, these are stock grant?

Dilip Bidani: Absolutely.

Dheeresh Pathak: What is the stock granted so far as per this plan on which you currently take, any cumulative stocks granted but yet to be exercised?

Dilip Bidani: If you see the stock granted, that has been disclosed in the 'Prospectus,' I do not remember the exact figure, but it is 90,000 something, if you look at the 'Prospectus' you will get the exact number.

Dheeresh Pathak: Each fiscal year typically how many such stocks are you granting?

Dilip Bidani: That is something which will be determined by the compensation committee as to when the next year comes up.

Dheeresh Pathak: But do you have a number for FY16?

Dilip Bidani: That is a number disclosed for FY16 in the 'Prospectus.'

Moderator: Thank you. The next question is from the line of Charulata Gaidhani from Dalal & Broacha. Please go ahead.

Charulata Gaidhani: My question was relating to the services offered. Can you give a breakup by services offered like you have mentioned about Radiology 4-5% of sales, for balance what would be the services?

Dr. Om P Manchanda: Balance is all Pathology.

Charulata Gaidhani: But within Pathology, could you give a further breakup?

Dr. Om P Manchanda: Further breakup is a lot of the Routine Tests, High End Tests, that is a very technical way of defining it unless you have something else in your mind to …

Charulata Gaidhani: Any Speciality Test which you could categorize separately?

Dr. Om P Manchanda: What we normally do is there are two terms which we use – one is Routine Test, other is Specialized Test. Roughly about one-third of this Pathology business comes out of Specialized Test and the balance comes out of Routine Test. Normally, this Routine component is higher for direct walk-in patient that walk-in to our labs, while Specialized segment is higher for Pick Up business that we go and pick up from the Hospitals. Top three large selling tests would be for your understanding would be Vitamin D3, Thyroid Profile, then we will have Blood Sugar, Liver Function Test, Kidney Function Test and Lipid Profile. So these are the top four or five tests in our portfolio.

Charulata Gaidhani: Because you mentioned that the outbreak of Dengue increase the revenues in this quarter. So that would fall under your Routine Test or?

Dr. Om P Manchanda: No, that would not fall under Routine Test, but what happens any outbreak let us say Dengue would not only lead to diagnosis of Dengue but certain Routine Tests also tend to go up along with that because doctors would prescribe not only to diagnose Dengue but they will also find out whether the person has some other fever or they want to understand the blood impression. A lot of the Routine Tests also tend to go up along with Dengue Test. But, Dengue is not classified as Routine Test for us. Routine I mean irrespective of seasonal fluctuation, these tests will continue to keep on flowing in.

Charulata Gaidhani: I missed out one test.

Dr. Om P Manchanda: Lipid profile. I don't have exact data in front of me. These are top 5 tests which are there at aggregate level.

Charulata Gaidhani: But those five tests constitute what percentage of revenue?

Dr. Om P Manchanda: It will be very small. So I think our dependence on one test is not that high. If you are looking for that answer, it is not that company's portfolio depends only on one test. Each of these tests maybe 1% or 2% or 3% contribution to the total portfolio.

Moderator: Thank you. The next question is from the line of Chirag Talati from Kotak Securities Limited. Please go ahead.

Chirag Talati: Just a clarification on Dengue; Can you quantify the volume of test from Dengue in Q2 and Q3 a ballpark range?

Dr. Om P Manchanda: We have seen a trend normally 2% of our turnover get impacted by some of the seasonal outbreaks. So I think that is the number which we will probably consider in the overall revenue.

Chirag Talati: So we can assume 2% volume growth from Dengue and rest would be your general volume growth?

Dr. Om P Manchanda: I really would not say volume actually, maybe you should look at the revenue because sometimes on seasonal fluctuation you may have test like Swine Flu, it may impact your revenue much more than the volume. But Dengue may impact volume much more than the revenue because these are low price tests. So I think I would say a combination of volume price you can probably consider about 1.5-2% seasonal fluctuations, some year it happens, some year it does not happen.

Chirag Talati: Excluding the impact of Dengue, when I look at your average realization per test in the quarter it should be roughly 300 versus the 299 that you reported, would that be a fair assessment?

Dr. Om P Manchanda: If you look at it the realization per patient, so let me do a quick math; you calculate 299 per test, right, we normally look at per patient which is about Rs.650-odd. Anyway to answer your question, this realization if Dengue was not there would have been higher because average realization of Dengue Test is much lower because Platelet Count could be as low as about Rs.50 per patient. But our patient growth has been much higher than this. We do not have readily that number available with us, but to answer that question do not look at a patient and price, but look at overall revenue.

Moderator: Thank you. The next question is from the line of Nikhil Upadhyay from Securities Investment Management Ltd. Please go ahead.

Nikhil Upadhyay: Sir, just coming back to one of the questions on the customer acquisition, so you mentioned that we do not give incentives to the doctors and all, but when we enter a new market, say a new town or a city, so how does the initial customer generation work, how is the response of the general competition when we enter the market, do they try to reduce the prices, so if you can just highlight on these two aspects?

Dr. Om P Manchanda: It is a good question. When we go to a new market, we normally do not go first with opening a Lab. We normally go by opening a Patient Service Center and we do not participate in local routine business, we participate in that business which is normally outsourced to Central Labs. If you just imagine a city, if there are 100 tests being generated on a daily basis, about 30-odd tests actually would go out of the town to Central Lab players like us and there are a very few players operating a Central Lab, may be only about four or five, and these tests normally are coming out of hospitals or smaller labs that are giving it to us. So actually we collaborate with our competition rather than we compete with them in the early stage of life cycle. You get established as a quality player because you are essentially doing high end tests. Only after a certain period and threshold, the turnover you get into that city we start thinking of opening a Satellite Lab and that is a time little bit of friction does happen because they start seeing you as a competition but what we have seen in general that market is so large, so fragmented that it really does not impact them as much as they perceive this to be impacting them. So we tend to coexist. We have not seen that kind of challenge as far as the competition is concerned.

Nikhil Upadhyay: Secondly, Sir, since we are more stronger in North, Central and East, so who would be the largest organized players we would be competing equivalent to our scale or a bit smaller scale other than the individual labs, so who would be our direct competition on an organized level?

Dr. Om P Manchanda: Let me just give you a bit of math; market is about Rs.37,000 crore, half of it is Radiology, half of it is Pathology, which is let us take Pathology about Rs.18,000 crore. Only 6% is in the hands of organized player, 94% is still unorganized, and all these organized players are trying to create a shift from unorganized to organized. A direct competition at organized level though it is relevant for us to refer but our competition really is at balance 94% that we are trying to shift. Those are all the small labs. Coming back to a specific question competition like SRL, Metropolis would be our two direct competitors in the organized space.

Nikhil Upadhyay: In the geographies where we are trying to expand?

Dr. Om P Manchanda: Not really because proportionately our numbers are very high in North and East markets. Each of these labs have emerged as a regional player. So technically we complement each other in terms of geography rather than we compete.

Nikhil Upadhyay: Because my question was like if we say enter Kanpur and the SRL guys also entering Kanpur and as you mentioned that we would be the only player who would be providing the central lab facility and SRL would also be providing a central lab facility, so to that extent, we get competition from a larger player. So I was coming from that side.

Dr. Om P Manchanda: But if you go to Kanpur invariably our competition will be very high with the local market rather than with SRL. That is the way I would look at it.

Nikhil Upadhyay: Just on the Routine business which you have mentioned, it is two-third of our revenue, what is the general price deflation or price inflation which we oversee in this business?

Dilip Bidani: If you look at the general price increases that we have taken over the last few years it has been averaging 3% to 4% on a CAGR annual basis. It is not as if we take a price increase of only 3% specifically, we might take a price increase which may be higher, but then for two years we may not take a price increase. So on an annualized basis we have seen about 3% to 4% has been the price impact over the last few years.

Nikhil Upadhyay: Because of unorganized players being present, if I consider our dynamics of our P&L, unorganized player might be tempted to reduce the price and compete with us. Is it not the case?

Dilip Bidani: Definitely, we do charge a premium to the market, we do believe that our quality, our brand and our entirely professionally managed focus on our organization allows us to command that kind of a premium. There is definitely price competition, that is a huge fragmented market and we need to see how we can migrate that fragmented market… there is 50,000 to 1 lakh Labs. We do not know what is the exact number even which is there in the Indian market. So we have enough opportunity to convert many of these to the organized sector and therefore you must realize that our goal is really to provide high quality services to our customers, to our patients. To do that if you have a charge a premium we do charge a premium.

Nikhil Upadhyay: So how is the customer elasticity with respect to the pricing? If we are charging a premium, I think you mentioned just a while now that per patient our average realization is around Rs .700. So if a patient is able to see that the same test say blood test or the thyroid test… I am just talking from top of my mind, if the pricing comes to Rs. 600, would he not more inclined to go for Rs. 600 Tests rather than paying the premium and going for Rs. 700 Tests?

Dilip Bidani: Let me just give you a part of the explanation and them Om will also cover it; one of the things which is there the pricing is a very complex subject. What you must remember is that there is an organized sector and there is an unorganized sector. Even within the organized sector you have the Hospital Lab sector. Hospital for an OPD will charge significantly higher pricing as compared to the organized players in the market including our competitors. So there are various price segments for various types of customers and what our objective is, is to ensure the people get good quality accurate results consistently time after time after time and that is something which takes time for people to realize. If they are going to a standalone fragmented lab paying Rs.20-50 lesser, over a period of time they do realize that it is better to go once to a better lab than to go repeatedly to multiple smaller fragmented labs. That is the time taking painstaking process and over a period of time we can migrate such customers to us and the organized players.

Moderator: Thank you. The next question is from the line of Girish Bakhru from HSBC Securities & Capital Markets (India) Pvt. Ltd. Please go ahead.

Girish Bakhru: Just a very gross level question; in our country right now NABL's accreditation not mandatory. Do you think this will change in future?

Dr. Arvind Lal: This is Dr. Lal, I will take this question. You are quite right, there are three problems in our country as far as Healthcare is concerned -- One is the Accessibility, second is Affordability, third is Quality, but in our case as Dilip just explained to you that there are anything between 50,000 to 100,000 Labs. It would be shock to hear that hardly 550 or 600 of them are NABL accredited. So it is out of proportion.

The quality labs are a very few and out of those also the organized labs are still fewer. So there is a very big gap in the quality lab. Second thing is what we have to do in order to eliminate or decrease the number or unorganized labs, there is a law by the name of Clinical Establishment Law which the government has passed way back in 2010 but has not been implemented yet because health being a state subject, it was adopted by hardly 8 to 10-states and the rest of the states did not adopt it, and the ones which have also adopted they have got to give it their own hue and colors. In other words, net-net you can say that the Clinical Establishments Act which is not only defining how the Pathology Labs -who can run them, Qualified Pathologists, etc., also regarding Nursing Homes and all the Hospitals, Radiology Labs.

This is a non-starter because there is a very great problem in the Indian Medical Association Doctors and the local doctors because there are certain draconian measures which have been mentioned here, for example, some people can form a committee which consist of a social worker, somebody else, etc., they can inspect your premises and shut it down. These doctors obviously will not agree to. The Clinical Establishment Act which should have been implemented, and would have been helpful to us, has not been implemented, because that would have cut down the number of labs in India drastically.

The regulatory part has to come in first and the second step will be the accreditation. The accreditation part in most of the foreign countries, western countries like America, UK, Australia, Europe, etc., the regulation part was done much earlier, then they give a time for all the labs to become accredited, routine time anything between 3 years, 5 years, 10 years so that everybody falls in line. I hope that explains you the position in India.

Girish Bakhru: Even globally when I see CAP Certification I think has helped many labs out there, I think some labs in India also gone for that. So just wanted to understand, would you think getting these certifications has any role to play in future?

Dr. Arvind Lal: There will be, if you have read our prospectus, 27 of our labs are NABL accredited and we actually brought in NABL and CAP into India, two of our labs are CAP accredited.

Dr. Om P Manchanda: The short answer is I do not see accreditation being driven through regulatory mechanism, but I am seeing that some of the organized players are using this as a big differentiator over unorganized and the consumer awareness going up will further help in this direction. More and more accreditation will happen, but it will remain voluntary for some time.

Girish Bakhru: Second one on the Test. You said ballpark Radiology is just 5% and if one has to look at Pathology do you differentiate your Routine Esoteric Test, just wanted to get a sense on how much is Esoteric percentage and if that particularly has a high role of say Molecular Diagnostic or Serology like test?

Dr. Om P Manchanda: This whole Radiology Fees is linked to giving one-stop shop proposition to our customers because many times X-Ray, Ultrasound go hand in hand with Pathology, and in those geographies, those labs where we have very high proportion of walk-in patients we tend to provide them basic Radiology as well. To answer your question related to Routine versus Molecular, we look at Routine versus High End Test, as we mentioned earlier, close to 30% of our portfolio comes from High End Tests and balance is from the Routine Tests.

Girish Bakhru: How many new test you introduce per year?

Dr. Om P Manchanda: There is no exact number but we have a scientific advisory committee which keeps looking at that. It is not defined that so many number of tests have to come every year but a lot of focus is being given to Molecular Diagnostics area to launch newer and newer tests.

Moderator: Thank you. The next question is from the line of Dr. Harith Ahamed from Spark Capital Advisors (I) Pvt Ltd. Please go ahead.

Dr. Harith Ahamed: Can you give a few examples of tests that are done only at your Reference Lab and not certainly in your Satellite Labs?

Dr. Om P Manchanda: Routine Biochemistry and Routine Hematology will be done everywhere. In some cases we will probably have microbiology, but in most places we would not have that, otherwise all other tests are done in Reference Lab.

Dr. Harith Ahamed: Second question is related to this line item retainership fees to technical consultants which is part of your other expenses, that is around 10% of your other expenses. So, what exactly is this pertaining to?

Dilip Bidani: That is basically the revenue share arrangements which we have with various locations.

Moderator: Thank you. The next question is from the line of Hemant S. Please go ahead.

Hemant S: I have a couple of quick questions, Dr. Lal. Growth in North, East, West and South volume and value wise because I do not find that in the 'presentation'? #2 I heard that we are building two big Reference Labs in Lucknow and Kolkata. What is the volume you are going to process in both these labs?

Dr. Om P Manchanda: We have decided not to mention these region wise numbers on quarter-on-quarter basis because we believe that wide fluctuations depending on the seasonal outbreak, etc. So we will be sharing that number at the year-end in terms of how the regional growth will look like. To your second question, Hemant, you are familiar with this business. Delhi being epicenter we have grown North very well. Similarly, we have done very well in Eastern India for the last 5-6 years. We believe that by putting a big reference lab in Kolkata we will be able to grow rapidly. That is the whole idea behind this putting a Kolkata Lab.

Hemant S: I understand but my concern is you are going to invest Rs.40 crore in each of these labs and I am sure you must have done some quick math calculation before planning that this is the volume you intend to process, right…?

Dr. Om P Manchanda: Hemant, we have experience of Delhi when we shifted our Hanuman Road Lab to Rohini, we saw a sudden jump in growth and we are fairly confident that by once the Kolkata Lab comes up, we will see a huge surge in our top line.

Hemant S: You are investing on hope rather than facts, is that the case?

Dr. Om P Manchanda: That hope is also backed by lot of experience we have had in the past.

Hemant S: Just on volume what do you intend to do there?

Dr. Om P Manchanda: Exact numbers right now we probably may not be in a position to share, but we have plans in place to really make sure we deliver on our promise.

Moderator: Thank you. That was the last question from the participant. I would now like to hand over the floor back to the management for their closing comments. Over to you, Sir.

Dilip Bidani: Thank you, everyone. We just hope that we have been able to provide you with a complete picture of our industry and our business and some glimpses of our outlook on how we wish to take our business forward. If you have any further queries please do let us know and get in touch with us and we do look forward to having many more such interactions going forward. Thank you once again.

Moderator: Thank you very much Sir. Ladies and Gentlemen, with this we conclude today's conference call. Thank you for joining us. You may now disconnect your lines.