

Date: 03rd June, 2023

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The National Stock Exchange of India Ltd.
Exchange Plaza, 3rd Floor,
Plot No. C/1, 'G' Block,
Bandra Kurla Complex, Bandra (E),
Mumbai 400 051

Scrip ID: KRSNAA
Scrip Code: 543328

Symbol: KRSNAA
Series: EQ

Dear Sir/Madam,

Subject: Transcript of the Earning Call conducted on 29th May, 2023

Please find enclosed the transcript of the Q4FY23 and FY23 Earnings Conference Call conducted on 29th May, 2023.

Request you to take the same on your records.

Thanking you,
Yours sincerely,

For Krsnaa Diagnostics Limited

Pallavi Bhatevara
Managing Director
DIN:03600332





“Krsnaa Diagnostics Limited
. Q4 FY '23 Earnings Conference Call”
May 29, 2023



MANAGEMENT: MR. RAJENDRA MUTHA – CHAIRMAN, WHOLE TIME DIRECTOR – KRSNAA DIAGNOSTICS LIMITED
Ms. PALLAVI BHATEVARA – MANAGING DIRECTOR - KRSNAA DIAGNOSTICS LIMITED
MR. YASH MUTHA – WHOLE-TIME DIRECTOR - KRSNAA DIAGNOSTICS LIMITED
MR. PAWAN DAGA – CHIEF FINANCIAL OFFICER KRSNAA DIAGNOSTICS LIMITED

Moderator:

Ladies and gentlemen, good day and welcome to Krsnaa Diagnostics Ltd. Q4-FY23 and full year FY23 earnings conference call hosted by Equirus Securities Private Ltd. We have with us today Mr. Rajendra Mutha, Chairman and Whole Time Director, Ms. Pallavi Bhatevara, Managing Director, Mr. Yash Mutha, Whole Time Director and Mr. Pawan Dhaga, Chief Financial Officer.

Before we begin, I would like to remind all participants that some of the statements made on today's call may be forward looking in nature and are based on the company's current expectations, projections and beliefs regarding future events as on date of this call. These statements should not be considered guarantees of future performance and it may involve risks, uncertainties and assumptions which may be difficult to predict. For more details, please refer to page number 42 of investor presentation. 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 this conference call, please signal an operator by pressing star and zero on your touchtone phone. Please note that this conference is being recorded.

I now hand the conference over to Ms. Pallavi Bhatevara. Thank you and over to you ma'am.

Pallavi Bhatevara:

Thank you and good evening, everyone and welcome to Krsnaa Diagnostics Q4 FY23 earnings call. I thank each one of you for joining us today. We have already circulated our investor presentation which is available on our website as well and all the stock exchanges website. I hope you all have had the opportunity to go through the presentation.

I would like to address the current landscape of the diagnostic service industry and our company's position within it. As we all recognize high quality and affordable diagnostic services are essential components of the healthcare industry. Playing a crucial role in disease diagnosis management and prevention. In India, the diagnostic market is valued at approximately \$15 billion with a projected compound CAGR of 11.5% in the coming years.

Several fundamental drivers propel the diagnostic industry including a large population of nearly 1.4 billion people rising per capita income, increased affordability, increased acceptance of point of care testing, home collection, critical and precise clinical needs and the growing demand for better healthcare services. Higher life expectancy and changes in lifestyle and health-conscious population and improvement in testing services could directly contribute to the growth of the diagnostic companies.

Lifestyle diseases are on the rise creating a need for heightened awareness of preventive health check-ups. Additionally, insurance penetration and government initiatives have definitely contributed to the industry's growth. Considering the Indian demographic, there exists a vast and under penetrated market for diagnostic services offering significant opportunities for both organized and unorganized players.

The government of India has undertaken multiple initiatives to make high quality healthcare and diagnostic services accessible and affordable to the masses in line with sustainable development of goal (SDG)3- "Good health and wellbeing for all. Various state governments are actively

exploring PPP as a viable and optimal approach to achieve their goal of providing quality healthcare and diagnostics at affordable prices. As a leader in the PPP diagnostic space, Krsnaa has expanded its presence across India ensuring that the high-quality diagnostic services are available and affordable even in the most remote corners of the country.

We take immense pride in announcing that our teleradiology hub in Pune has recently obtained accreditation from the prestigious National Accreditation Board of Hospitals and Healthcare Providers that is the NABH. This remarkable achievement marks a significant milestone in the Indian healthcare industry as we became the first teleradiology hub in the country to receive such esteemed recognition from the NABH. This accreditation serves as an additional testament to our unwavering dedication to quality. It will not only reinforce our commitment but also enhance the quality of our radiology reports that are transmitted to our centers through the NABH accredited teleradiology hub. By obtaining this accreditation, we aim to strengthen and improve the delivery of our reports ensuring the highest standards of quality throughout the process. This accreditation underscores our unwavering commitment to delivering healthcare services of the highest quality while embracing cutting edge technology. It is a testament to our dedication to excellence and patient-centric care of which we are incredibly proud.

Furthermore, in the past 12 months, we have achieved notable success by securing nine tenders across various states. These project encompassed 53 CT and MRI centers, 158 pathology labs, and 2,281 pathology collection centers, significantly strengthening our growth prospects for the future. During the year, we have added 26 radiology centers, 50 pathology labs, and 556 collection centers. Currently, Krsnaa stands as a leading PPP diagnostic player with 133 radiology centers, 1,528 tele-reporting centers, 99 pathology labs, and 1,090 pathology collection centers.

Looking ahead, we are confident in our ability to expand our geographical footprint and penetrate deeper into the Tier 2 and Tier 3 cities, offering high quality diagnostic services at affordable prices. With recently installed centers, new tender wins, and ongoing evaluation of pipeline projects, we have a promising growth trajectory ahead. I will now hand over the call to Mr. Yash Mutha, our whole-time director, who will discuss Krsnaa's strategic plans and future growth prospects. Thank you and have a great evening.

Yash Mutha:

Thank you, Ms. Pallavi. Good evening, ladies and gentlemen. I am pleased to share with you the strong performance of Krsnaa Diagnostics in Fiscal Year 2023. We achieved core revenues of Rs. 486 crores, representing a remarkable 15% year-on-year growth. Our EBITDA stood at Rs. 124 crores, with a margin of 25%. Additionally, we reported a Net Profit of Rs. 62 crores, with a margin of 13%. While recognizing our achievements, it is important to acknowledge that our margins were impacted during FY23 due to the necessary costs associated with establishing new centers. As we move forward, we look forward towards a positive trajectory in our margins as our recently launched centers start reaching maturity and contribute more significantly to our overall performance. On our patients' front, I am delighted to announce a significant achievement. In this fiscal year, we have successfully served over one crore patients, surpassing a crucial and a noteworthy milestone. This achievement not only highlights the sheer number of patients we have attended to, but also signifies the confidence and trust that patients have placed in our exceptional high-quality services, provided at disruptive prices. Further, as regards our

growth pipeline, I am delighted to share that as part of our growth trajectory, we have successfully increased the number of our pathology labs from 49 to 99 and our pathology collection centers from 534 to 1,090, aligning with our expansion plans.

Furthermore, in the field of radiology, we have achieved an impressive 24% growth rate in establishing new centers, resulting in our expansion to a total of 133 centers by the end of FY23. The doubling of our labs, collection centers, and radiology centers will significantly enhance our capacity to cater to a large number of patients in the coming years and allowing us to sustain the growth momentum.

To support our future growth and expansion, we are also actively pursuing an extensive pipeline of projects, focusing on pathology labs, collection centers, CT and MRI centers across various states, which present significant opportunities. This allows us to expand our presence into new regions, as well as expand our operations deeper within some existing states.

In line with our commitment to serving the B2C segment, we have introduced affordable wellness packages that cater to the diverse needs of our customers. Our Ayaksham wellness packages cover both basic and special tests, ensuring comprehensive healthcare solutions for individuals.

Furthermore, we continue to prioritize technology adoption within our operations. As part of phase one, we are also implementing technology-led initiatives, including digital pathology and integrated lab management to enhance our efficiency and service quality. With our ongoing initiatives and the implementation of existing projects coupled with the recent wins, we hold a strong outlook for the future. We are confident in our ability to capitalize on the considerable opportunities that lie ahead and drive sustained growth and value for our stakeholders.

Now, I would like to hand over the call to Mr. Pawan Daga, our Chief Financial Officer, who will provide further insights into our financial performance. Thank you.

Pawan Daga:

Thank you, Mr. Yash. Very good evening to all the attendees. I will present the financial highlights for the year ended March 2023. In FY23, the company registered total revenue from operations of Rs. 487 crores and increase of 15% on a year-on-year basis from Rs. 456 crores. The growth is made by the core business comprising of radiology and pathology, which registered a revenue growth of 15% year-on-year. Operating EBITDA for the year at Rs. 124 crores, EBITDA margins were 25% in FY23. The impact on the EBITDA margin was attributed to the additional costs associated with the establishment and onboarding of teams for the newly launched center. The margins are expected to improve in upcoming quarters with the maturity of the centers. Profit after tax for FY23 was Rs. 62 crores. For the year, PAT margin was 13%.

In the quarter 4 of FY23, the company registered total revenue from operations of Rs. 133 crores. Our core business comprising of radiology pathology, which registered revenue of Rs. 133 crores, a growth of 25% year-on-year. Operating EBITDA for the quarter 4 FY23 stood at Rs. 35 crores with the margin of 26% for the quarter and profit after tax for the quarter 4 FY23 at Rs. 19 crores with a margin of 14%.

On the receivable front, I am happy to share that through our consistent effort and through our well-established system and processes, we continue to maintain our receivables well with control and have been successful in collecting majority of our receivables. Our receivable days of 56 days are marginally higher compared to previous year receivable days of 46 days, which is largely attributable to the new projects invoice processing, getting streamline as well as operational delay on account of large amount of year-end transaction being conducted on public financial management system, PFMS.

Further, as regards to operations, Krsnaa generated a strong cash flow from operations of Rs. 89 crores with EBITDA to cash flow conversion was around 72%. The EBITDA to cash flow conversion exhibit a relatively lower trend compared to previous year, primarily attributed to the increase in the inventory level, increase in debtors and payment to vendors necessary for the operationalization of a new center, especially considering the extensive implementations at the state level. However, the centers mature, we look forward to normalization in the EBITDA to cash flow conversion.

From a balance sheet perspective, the company continues to be net debt free with the net cash position of Rs. 240 crores as on 31st March, 2023. In the light of a strong performance, the board of directors has recommended a final dividend of Rs. 2.75 per share, a payout of 55% on the face value, which is subject to the shareholders' approval.

We can now open the floor for question-and-answer session. Thank you.

Moderator: Thank you very much. We will now begin the question-and-answer session. Anyone who wishes to ask a question may press star and one on their touchtone telephone. If you wish to remove yourself from the question queue, you may press star and two. Participants are requested to use handsets while asking a question. Ladies and gentlemen, we will wait for a moment while the question queue assembles. Participants, you may press star and one to ask a question. The first question is from the line of Bala Murali Krishna from Oman India Joint Investment. Please go ahead.

Bala Murali Krishna: Good evening and congratulations on great set of numbers. So, when I refer to these standalone results, there is a slight drop in revenue, I think. So, could you please throw some light on that and net profit?

Pawan Daga: So, basically, there is no impact in the standalone number. So, what we have did, we have derived the arm's length price for revenue sharing between the holding and the subsidiary on the basis of FAR function assets and risk analysis and economic analysis. It was conducted through a transfer pricing models.

Bala Murali Krishna: Okay. And could you please give some timeline on this execution of this pathology contracts of Rajasthan and Odisha? In this quarter, we may expect it to operational.

Yash Mutha: The Rajasthan tender that we currently have won, we expect that to get operationalized by Q3 of FY24 and Assam, we are working aggressively to get it completed by Q2 of this year.

Bala Murali Krishna: And Odisha can you...

- Yash Muth:** The Rajasthan contract, we are expecting it to get operationalized by Q3 of FY24 and Assam by Q2 of this year.
- Bala Murali Krishna:** I am asking about Odisha contract.
- Yash Mutha:** So, Orissa, sorry, it was Orissa by Q2 of this year, not Assam.
- Bala Murali Krishna:** Okay. And any big pipeline tenders which you have quoted and expected results in the coming quarters?
- Yash Mutha:** So, currently, there are a couple of tenders which are in pipeline, but it will be too early for us to give any indication. Whatever has been announced, we have declared it, but the work is in progress.
- Bala Murali Krishna:** Okay. And lastly, on this BMC contract, I have seen some news regarding this delay in the reporting time of the tests and they asked you to issue a show-call notice. Whether it is settled and could you please share some light on that?
- Yash Mutha:** So, that Matter has been settled. These are typical teething problems in PPP contracts, but now the Matter has been settled and the services are continued.
- Bala Murali Krishna:** Okay. Thank you. That's it. All the best.
- Yash Mutha:** And just to clarify, it was not a show-call notice. They indicated that they will issue a show-call notice, but based on the response, things were settled and the operations are now smooth and working well.
- Bala Murali Krishna:** Oh, that's great. Thank you.
- Moderator:** Thank you. The next question is from the line of Jainil Shah from JM Financial. Please go ahead
- Jainil Shah:** Thank you for the opportunity and congratulations on a good set of results. My first question is on the revenue guidance. I mean, what is the revenue guidance for FY24 and FY25 and also what will be your Capex Outlet for both these years?
- Yash Mutha:** Hi, Jainil. So, in terms of the revenue guidance, we continue to focus on maintaining our CAGR growth rate. And in FY24, we expect to achieve double-digit growth for the year and assuming and that all our new centers will get operationalized and implemented by fiscal end of FY24, we expect a higher growth rate in FY25.
- In terms of Capex, the Capex that we expect for this year is in the range of about 200 to 250 crores considering these projects that we have, for which, again our existing cash flows, the internal accruals, and some vendor's credit, we are comfortable to get this Capex implemented.
- Jainil Shah:** Okay. And we are also entering into the specialized test segment at disruptive prices. So, wanted to know your strategy here and where will we be implementing these tests and your thoughts on that?

- Yash Mutha:** So, on the specialized tests, we've already had been providing these tests at various of our projects, including Rajasthan and some other states. With these various states that now we won the tenders, we are thinking of exploring where we also offer these specialized tests either through the home collection services as well as offering it to a wider network, leveraging these labs that we will be establishing. In terms of pricing, the prices are at the similar rate that we are already comfortable with. So, there won't be any impact on margins, but we will be able to provide these at prices which will be significantly lower compared to the market rates that are there today.
- Jainil Shah:** Okay. And just on the gross margins they have dropped quite significantly this quarter. So, is it due to higher share of pathology centers that we have operationalized and BMC or what is the reason for that and what should be our sustainable gross margins?
- Pawan Daga:** So, you correctly mentioned as increasing the pathology contribution in the current quarter and this will be in the similar range going forward because of the pathology projects are fully operated and activated in Himachal and Punjab.
- Jainil Shah:** So, around 81% is what we should work with because even the upcoming tenders are all mostly pathology. So, Rajasthan is predominantly pathology. So, 81% is what we should work with, right?
- Pawan Daga:** Yes
- Jainil Shah:** Okay. I have a few, but I'll get back into you. Thank you so much.
- Moderator:** Thank you. Next question is from the line of Ritesh Parikh from Rockstud Capital. Please go ahead.
- Ritesh Parikh:** Thanks for the opportunity. So, my first question is on the guidance statement because previously you used to give FY24 guidance. Now, we have changed the stand as such. So, can you just throw more light on it and also on the EBITDA margin side, how one should be looking at it?
- Yash Mutha:** Yeah. So, in terms of the guidance, as I mentioned, we are continuously maintaining or trying to focus on achieving the target that we had set out for earlier, but having experienced some of these operational delays in Punjab, we just want to ensure that whatever guidance we give are also realistic and we are confident of achieving those guidance that we have in terms of double-digit growth. Whatever we have communicated, we will continue to focus to achieve those targets. It is only in terms of because there are some big projects or tenders that we have won. Again, these are large state-level implementations. So, implementing them across the various states and considering some of these operational or procedural delays, that is the reason why we have re-calibrated. But all our efforts are to achieve those numbers. Likewise, in terms of the EBITDA margins, and as we discussed, the EBITDA margins will continue to improve as the centers start maturing, which you also witnessed in this quarter as well. And as more and more centers start becoming mature of the recently won tenders, including Himachal Pradesh, Punjab, the EBITDA margins should improve going forward as well.

- Ritesh Parikh:** What should be the range we should be looking at EBITDA margins for current and next year indicative range?
- Yash Mutha:** So, the EBITDA would be in the similar range. We will probably expect - one or two percent improvement depending on how the business grows.
- Ritesh Parikh:** Okay. Second is on page number 30 or slide number 30, we have operationalized the TBE project implementation track. We have operationalized BMC collection center of 347, but the agreement has not been executed. So, how can that be achieved?
- Yash Mutha:** No, the reason is in the agreement, there were smaller numbers, but after the discussions happened, they asked us to also increase the numbers. So, there are just some final smaller changes to be implemented, if you see the kind of communication that has been going on between the authorities and us, the project is live. There are some final modalities to be completed. That is why it stated the fact.
- Ritesh Parikh:** Okay. Lastly, in terms of Rajasthan contract, means now we have been awarded as such, but you suggested in the previous that we will be implemented from Q3. My understanding was that we already have the asset on ground and it has to be just operationalized. So, getting executed from Q3 onwards is like almost one year lost in between the transition as such.
- Yash Mutha:** So, the Rajasthan agreement, basically if you see, it is pretty wide in scope. There are almost 150 labs and almost 1,500 collections to be established. Now, the previous scope had only 60 collection centers and few labs. So, while some of the equipment's could be utilized, but for the new project, there is also a new requirement because the test menu is different. And therefore, the establishment of labs and considering the number of labs to be established, it will take some time. So, and then we have considered around Q3 by when all these labs will be established.
- Ritesh Parikh:** Thank you. I have a couple of questions. I will join back in the queue.
- Yash Mutha:** Okay. And just to add that we could leverage our existing labs and build upon it to start with and over the period of time, get the other labs implemented.
- Ritesh Parikh:** Okay. Thank you.
- Moderator:** Thank you. Next question is from the line of Gaurav Gandhi from Glory Trail Capital Management, please go ahead.
- Gaurav Gandhi:** Congratulations on the good set of numbers. Sir, my first question is, do we provide tests at subsidized rates in private hospital also or is it just in the government facilities?
- Yash Mutha:** So, Gaurav, our model is wherever we enter into partnerships on government facility or on the private hospital side, our rates are significantly lower. Most of the hospitals where we partner are either trust-based hospital or medical colleges. And given it is a captive customer base, we are able to offer these rates which are significantly lower than the market rates.

- Gaurav Gandhi:** Then in that case, sir, in private hospitals, if we are providing tests at lower rates, do the economics work there properly, the margins and everything? Because we are not getting anything like when we bid for government contract, we get something at subsidized rate, maybe land, maybe area or we don't have to share fees with them. So, in private hospital, that is not the case. So, how do the economics work there?
- Yash Mutha:** Again, Gaurav, in terms of private hospital partnerships, our rates would be higher than the government rates to the extent of revenue share that we have to give to the hospital. Rest all in terms of space and everything else we get from the hospital partnerships. So, to the extent of revenue share that we have to offer, the rates will be higher. But even if you consider that, they'll still be significantly lower than the market rates.
- Gaurav Gandhi:** Okay. Okay. And how do we see the walk-in patients coming to in our government facilities? What is the traction there?
- Yash Mutha:** Again, as we know over the years and what we also saw of our centers now becoming live and the kind of branding and awareness that has been created, we are seeing an increased footfall of private walk-ins as we call them coming to our government centers. In fact, in some of the centers, the walk-ins could be as high as 50% to 60%. And this also benefits the government because as more and more people are utilizing the services, they are getting this quality healthcare at affordable rates. It creates more mouth-to-mouth publicity and we are seeing the traction building upon.
- Gaurav Gandhi:** I mean, we are not restricted to market such facilities, right? I mean, the government doesn't restrict us to do marketing of such facilities and availing such services.
- Yash Mutha:** No. In fact, the more these services are promoted, it basically showcases that government has also implemented the various initiatives and created the infrastructure for creating access to quality healthcare and you can also see this resulted in the number of patients that we've served during this year crossing the 1 crore milestone, which again reposes the faith and confidence that both the patients have in our high quality services, as well as the support that the government receives when patients come and avail these services.
- Gaurav Gandhi:** Alright. That helps. Thank you. Thank you very much.
- Moderator:** Thank you. Next question is from the line of Cynderella Carvalho from JM Financial. Please go ahead.
- Cynderella Carvalho:** Thanks for the question. Hi, Yash. So, I just want to understand if we are finally through with the peaking issue with BMC contracts?
- Yash Mutha:** Yes. All those peaking issues have been resolved now.
- Cynderella Carvalho:** Okay. And in terms of we have successfully almost achieved 130 plus top line on a quarterly run rate basis, how should we see this over the coming quarters, given that we have projects coming in Q2 as well as Q3? Are there any other tenders that we should build in or wait for FY24 at this point in time? Or how should we see this?

- Yash Mutha:** So, in terms of the run rate that we've delivered for Q4, we expect to continue the momentum and build upon it. As regards the new tenders that we've already won, which we have disclosed, they will start getting implemented from the respective periods and then the revenue contribution initially it will be a trickle and then eventually they start building up. Apart from this, there are a couple of tenders almost three to four tenders that we are currently working on. But in terms of the timelines, it will be too early for us to talk about it. Maybe in the subsequent quarters as and when we get updates, we will share it with you all.
- Cynderella Carvalho:** Thank you for that. And if I try and see our trend, you did mention that you want to maintain the double-digit growth guidance that we've been talking about. But is there any delays that you envisage in the existing pipeline at this point in time, like how we experienced in terms of Punjab? Is there anything in your term that you see any risk?
- Yash Mutha:** So, the three states that currently, for example, if you take Rajasthan or Odisha, the states where we have won, we already have enough experience of working out of there. Rajasthan, we already were the incumbent player. So, we don't expect significant delays in operationalizing these centers. However, considering that these are large projects in terms of size and scale, we're just being cautious when we are considering the guidance. But our full effort is to ensure we maximize and get the centers operationalized at the earliest. Even in Odisha, currently we had some prior experience with a couple of our centers being there. So, that gives us an advantage compared to Punjab, which was an absolutely virgin territory for us. So, as of now, we don't expect any significant delays in terms of the timeline that we have established and of course, we'll keep you updated as time goes on.
- Cynderella Carvalho:** Okay. And overall, do you see any change in terms of our annual run rate for pathology and radiology combination? Because you did indicate that gross margin may look little outside effort. Do you envisage any overall change in terms of radiology shared to our annual run rate?
- Yash Mutha:** Well, if you see, considering that we won most of these pathology contracts, and that is something we've also been maintaining that we would like to have a good healthy state between radiology and pathology of 50-50. This is something we believe it eventually should pan out. But again, since the projects are yet to be implemented, it would be too early to comment on how the numbers will shape up. But yet, I think directionally, pathology share will continue to increase as these projects get implemented, as well as the existing centers start contributing more and more revenues to the overall pie of revenues, and thereby, pathology share will increase. Now, gross margins, of course, at a gross margins level, because the cost of consumables in pathology are slightly higher than radiology. But overall, I think the metrics will still help us achieve the growth guidance, as well as the EBIDTA numbers that we're talking about.
- Cynderella Carvalho:** Okay, this is helpful. And one more, if I may, can you help us understand the overall, like the upcoming contracts growth or the new center growth for FY23 versus earlier years, or the mature growth, whichever one you can share?
- Yash Mutha:** Sorry, if you could just repeat that question, please.

- Cynderella Carvalho:** The new center growth, can you help us with that number, new center growth, or the existing project growth, whichever one you can share?
- Yash Mutha:** So, in terms of the new centers, I think we've already disclosed that we've grown both in terms of radiology, as well as pathology, the number of centers we've added. That's part of the presentation, as well as we've discussed. I don't know if there's anything else beyond this that you were asking?
- Cynderella Carvalho:** No, no, I was just trying to understand, like the portion of new growth coming from the new centers, if that is what I was trying to understand. If it is there, I will refer to it. No problem.
- Yash Mutha:** So, basically, if you see the contribution of growth that is coming from the new centers, currently, like it's about single digits in terms of percentage-wise, as an overall contribution, but as the centers start maturing, that share will also continue to grow. So, our same center, our existing centers are also growing, and at the same time, the new centers will also contribute. Currently, while they are at, in terms of let's say, a single-digit percentage contribution to the overall revenue, as the centers start measuring, they'll start contributing more and more.
- Cynderella Carvalho:** Okay. Thank you so much, and all the best.
- Moderator:** Thank you. Next question is from the line of Aditya Khemka from InCred PMS. Please go ahead.
- Aditya Khemka:** Thanks for the opportunity. Yes, in the slide deck, I saw the slide where we have given the ROCE for matured centers, semi-mature centers, new centers, where the matured center ROCE seems to be 32%. I just wanted to understand, are these at the unit economic level, or are these numbers derived after allocating other overhead expenses to these centers?
- Pawan Daga:** Aditya, this is at the - center level.
- Aditya Khemka:** Okay, so this is at the unit economic level. Understood. And the second question I had was that, which centers do you consider mature as in, is it, to consider a mature center, is the time that is available, as in, three years after launching it, so on? Just define what you are calling a mature, semi-mature, and a new center.
- Pawan Daga:** So, the mature centers, the age is more than three years, and the semi-mature, which is in the range of one to three years, and the newly launched center, which is less than one.
- Aditya Khemka:** The last question I have was if, so pathology versus radiology debate, so in terms of margin, would, while radiology is a better margin business, I guess, compared to pathology, but in terms of ROCE, which of the two would you consider a better business? Are they similar in terms of their ROCE profiles? Thank you.
- Yash Mutha:** Aditya, in terms of ROCE, of course, pathology will be better in terms of ROCE, given that the investments are lesser compared to radiology, which is a very capex-heavy business. As you rightly pointed out, radiology does have better margin profile, but the ROCE gets a bit suppressed because of high capex. But when you look at it from an overall project perspective, or a cohort of these various mix of radiology and pathology centers, we try to ensure that the

ROCE overall looks in the double digit that we are expecting, and that is how the combination of these various projects are being considered.

Aditya Khemka: Okay, I got that. Thanks a lot, Yash and Pawan, and all the best to you all.

Moderator: Thank you. Next question is from the line of Ankur Kumar from Alpha Capital Advisors. Please, go ahead.

Ankur Kumar: Thank you for taking my questions. Sir, one question is, as in last year, we had reduction in EBIDTA margins because of new centers. But over the coming year also, we have a couple of new centers coming in, like Odisha. So, what makes us confident that our EBIDTA margins will continue to go up from here?

Yash Mutha: So, there are two aspects. One is the new centers. Last year, we had, again, some large projects that were just getting implemented, where in the, like for example, Punjab, there was a significant manpower that had to be deployed, and the revenue got delayed. Whereas in the current way, and based on our experience, we are also planning to ensure that the deployment of these manpower resources or the projects is aligned to how the business is ramping up and that is also why we've said that the centers will take time to operationalize between Q2 or Q3. Considering this, and that the existing centers are going to ramp up, if you take a combination of both the existing centers, the new centers that got implemented, their EBIDTA contribution, and at the same time, scaling up all these new projects, we believe that we'll still be able to maintain the EBIDTA levels or rather improve, have a better EBIDTA margins as we go along.

Ankur Kumar: Got it, sir. And sir, on the guidance side, earlier we were talking about 700 crores. When these things will reach like good utilization. So, even next year, we are not giving guidance, concrete guidance, but say our FY25, do we expect this number to reach when these things, when Odisha, BMC, et cetera, will reach the full utilization?

Yash Mutha: Yes, absolutely.

Ankur Kumar: So, 700 we can expect by 25.

Yash Mutha: Yes. In fact, as I said, we are targeting to cross that number significantly and given these various contacts that we have, we are confident about crossing that benchmark for the number as well.

Ankur Kumar: Got it, sir. And last question on the B2C side, how is that going and what is our thoughts on that?

Yash Mutha: See, from a B2C side, as we discussed in the earlier calls as well, B2C market, we have already in place. We are trying to leverage our lab networks or the existing networks, but it will be a gradual grow and not a sudden. And also, to add, currently, if you see the number of projects that we already have in hand, we will also be focusing on expanding or installing these projects. So, hence priority wise, we will be focusing on the PPP while B2C will take its own steady progress.

- Ankur Kumar:** Got it. Thank you, sir, and all the best.
- Moderator:** Thank you. Next question is from the line of Nitin Agarwal from Dam Capital Advisors. Please, go ahead.
- Nitin Agarwal:** Thanks for taking my question. Yash, on the contracts that you outlined, we won across pathology and radiology in FY23. Would you be able to give a broad sense of the peak revenues for all of these cumulative tenders that you won in FY23?
- Yash Mutha:** Can you just repeat the question?
- Nitin Agarwal:** I'm saying the tenders that you've outlined in FY23 that we've won across pathology and radiology businesses; can you give us a sense of the potential peak revenues as and when they come for all of the business that you won in FY23?
- Yash Mutha:** Yeah, so if you consider Rajasthan, Assam, Orissa, all these tenders and Mumbai, we expect it to be almost about close to 400 crores as the baseline revenue that we should expect from all these projects put together.
- Nitin Agarwal:** And this is the pathology, and even for the, this includes the radiology contracts also?
- Yash Mutha:** No, no, this is only the pathology business I'm talking about.
- Nitin Agarwal:** And the radiology contract that we won this year, how much will that sort of add up to at peak?
- Yash Mutha:** Radiology, if you consider the Maharashtra project, that should be about 70, 80 crores we can expect once the tenders are implemented.
- Nitin Agarwal:** Okay, so all in all about, you will take about 500 crores is the value of the business at peak whenever these contracts are fully sort of rolled out.
- Yash Mutha:** Yeah, just to correct the Rajasthan, we would, sorry, the Maharashtra CT scan project, we are expecting about 30 odd crores. So, if you take 400 plus 30, it should be about 430 crores of overall revenues that we can consider.
- Nitin Agarwal:** Okay, and in the balance contract that we're currently doing like Punjab and some of the existing contracts that are still rolling out, is there still scope for a meaningful growth on some of these contracts or all of them are recently in a mature state? I mean, contracts if you want prior to FY23.
- Yash Mutha:** Yeah, so if you see Punjab and Himachal put together, we expect good growth there in terms of the overall growth we are expecting in double digits. So that also will continue to grow as the other mature centers continue to grow. So, we are also expecting growth in these two projects as well.
- Nitin Agarwal:** Okay, so if I'm going to just sort of paraphrase that, barring the Himachal and Punjab contracts, the other contracts are reasonably mature. They will grow at whatever rate and maybe single digit growth, a single digit rate. These two contracts still have some scope to grow till the time

they reach their peak. And then we've got the whole new contract that we want in FY23 that will scale up over the next two or three years till the time they hit maturity.

Yash Mutha: Correct, absolutely.

Nitin Agarwal: And over this period of time, as you mentioned earlier also, the mix is probably slightly skewed towards pathology when all of these contracts are completely rolled out.

Yash Mutha: Correct. Because if you see, these are again even if you just consider the revenue that I've mentioned, they're almost close to about 430 plus crores. So, if you take that in the existing revenue, the split should be about 50-50 in radiology's and pathologies, what we expect in the years to come.

Nitin Agarwal: And from a margin perspective, obviously, you've indicated that at a peak, even pathology businesses are reasonably profitable while slightly lower than radiology, but they're reasonably profitable businesses.

Yash Mutha: Yes.

Nitin Agarwal: And lastly, 250 crores is a capex for the projects that you've got in FY23 or you'll be required to do something beyond that in FY25 on these projects also?

Yash Mutha: No, so this is something we expect to be for the entire, these Rajasthan and the Odisha project. Of course, Assam might require a bit, but that we can consider maybe in FY25.

Nitin Agarwal: And so, the last one, in terms of the visibility of further contracts in terms of various contracts that you likely see getting floated and rolled out in FY24-25, I mean, qualitatively, how is the visibility, are you seeing a larger volume of projects on the offer versus what you've seen in the last year or so?

Yash Mutha: Well, it will be difficult to predict right now, but yes, there are conversations going on. We're also hearing a lot of government discussions going on, on some large PPP contracts as well and like Pallavi also mentioned in her call with the SDG goals that have been announced, we expect more and more states to adopt PPP. Some of the states which have never adopted PPP are also having discussions. So, we do look forward to some more bigger opportunities for us to come in the coming months.

Nitin Agarwal: Okay. Thank you. Best of luck.

Moderator: Thank you. Next question is from the line of Punit Mittal from Global Core Capital. Please go ahead.

Punit Mittal: Thank you. Just one question. I see there is a significant drop in the prices of your MRI scan and CT scan that you have listed compared to last year, versus these are the peers whose prices have not declined that much. Can you fill some light on that, please?

Yash Mutha: Well, I don't know where you're referring to the prices, but typically, just to give you, our prices are linked to the tenders and these are again contractually embedded. These prices are what we

quote when we bid for a particular PPP project and these prices are considering the investment that we have to make in that project, the size of the tender and accordingly these are priced. Having said that, I don't think so there has been a significant decline in the prices of our MRIs or CT scans. They are definitely lower than the market rates, but again, these are linked to the contracts that as a concessionary we sign with various authorities. And once these rates are embedded into the contracts, there is no decline in the prices as such. In fact, we have price escalation embedded into our contracts, which allow us to increase our prices as in when the clause gets triggered.

Punit Mittal: I was referring because I think on the slide 21, you have listed the price of Krsnaa compared to the peers. And the same slide, I think last year at FY22, the prices were much higher. I think you had listed CT scan at 2,000 versus 1,973 now and MRI at 3,500 versus 2,200 now.

Yash Mutha: Yeah, so the prices that you're referring to the slide is basically what we showcase as the average prices that we see across a combination of various projects. And as I mentioned, as the various tenders that we participate considering the scale and the size and the volume that we expect, the prices are accordingly provided at the tendering stage. So, these are reflection of those prices and not necessarily a decline because in some projects. So, if you see for the example in Punjab which was again a big project there the prices that we had quoted were lower compared to all the other projects that we had given, considering n the size of the state and the scale and thereby the overall prices you are seeing a decline. But we are not under any pressure to reduce the prices. It is based on the overall which tender we are participating in and what are the metrics of that particular tender.

Punit Mittal: Sure. I just have two related questions to that. One is when you participate in the tender, naturally price element is a big factor in it. So either a specific ROCE or margins that you factor in or that minimum level that you need for these tenders and projects.

Yash Mutha: So, yes, we have certain thresholds when we consider for bidding for any project. You know, typically from an EBITDA perspective, if you ask, we look at the EBITDA levels at the center level to be anywhere in the range of 35 to 40 percent and the overall IRR or ROCEs are double digits that we consider for each of these projects. So, these are some of the baseline or benchmark that we have in our system before we bid for these projects.

Punit Mittal: Okay. And you just mentioned that you have price escalation clauses in these tenders. What are the typical price escalation levels for these tenders?

Yash Mutha: So, the price escalation varies between 3% to 5%. In some of these contracts, it could also be 7%. Again, it depends on each authority and how they have structured the tender. But it ranges between 3% to 5% if you take an average.

Punit Mittal: And this escalation happens annually in a sector where the market is for the prices of those tests?

Yash Mutha: Yes, these prices are they are part of the contract. They are embedded into the contract and they basically happen by default because that is part of the tender when it was published. So, neither the authorities can deviate from it because it is part of the contract and that is on the basis of which you would have made our assumptions and planned for the investment.

- Punit Mittal:** Understood. Thank you. Thank you very much for answering those questions and all the very best.
- Yash Mutha:** Thank you.
- Moderator:** Thank you. Next question is from the line of Ashwin Agarwal from Akash Ganga Investments. Please go ahead.
- Ashwin Agarwal:** Hello. Rajasthan coming in by say FY25, we understand as you have alluded previously, you said revenues will be in the range of 700 crores plus. But what we understand, it can be about 900 crores or something of that sort, right? Is the understanding, right?
- Yash Mutha:** Correct. There is a possibility for the upside as well. But just to be prudent and conservative, we are giving a kind of a baseline expectation.
- Ashwin Agarwal:** Okay. And what about the EBITDA margins guidance?
- Yash Mutha:** So, see from an EBITDA perspective, as I mentioned earlier, we will continue to have focusing on EBITDA increasing it from what they are the levels it is today. But as I said depending on how the overall project gets implemented and how much the numbers grow, if of course the numbers do increase, the EBITDA will definitely have to increase.
- Ashwin Agarwal:** Okay. Any ballpark number or guidance that you are providing?
- Yash Mutha:** So, as of now, our focus is to ensure continuing the existing levels of EBITDA and of course also improving it as the time goes by.
- Ashwin Agarwal:** So, for Punjab, we have incurred total Capex of 120 crores. Is there any more left to incur?
- Yash Mutha:** No, I think the entire project, I mean, we've also communicated the entire project now stands implemented.
- Ashwin Agarwal:** Okay. And sir, congratulations on getting this accreditation. Can you talk about the potential of this tele-reporting business and all and what is the current contribution and how do you see the future prospects of this business?
- Yash Mutha:** Yes. So, in fact, it was a proud moment for us to get the NABH accreditation for a tele-radiology hub. I think it's the first in India and even the authorities took time to go through all the process and audits. In terms of opportunities, it certainly gives us an edge in terms of demonstrating that our hub now has a certain level of standard in terms of accreditation. It also allows us to look into other private verticals where there are radiology centers who might now leverage our tele-reporting hub to get their reports done and reported as well. So, yes, it is certainly exciting and we look forward to see how we could leverage this accreditation to further augment additional revenues as well as look at new tender opportunities that might also come up our way.
- Moderator:** Thank you. Ashwin, I would like us to join back the queue for a follow-up question. The next question is from the line of Manoj Dua from Geometric Securities. Please go ahead.

- Manoj Dua:** As I see, most of the profit in Punjab will go in the subsidiary. What's the plan? How we will take that reserve into the standalone as we go forward? By dividend or something? What's the plan regarding that?
- Pawan Daga:** So, we will continue to be doing a similar nature of the business. It's a part of agreement and we adopted the arm's length price between the holding and subsidiaries based on the FAR. So, we will continue to be maintained in a similar fashion.
- Moderator:** Thank you. Next question is from the line of Jainil from JM Financial. Please go ahead. Yeah.
- Jainil Shah:** Hi. Thanks for the follow-up. Yes, I just wanted some more clarity on the guidance. So, you mentioned that we'll be growing at our historical rates in FY24 and also that we'll get some immediate benefits from Rajasthan tender. So, like the previous one, there would be some overlap and we start getting benefits immediately. So, is it fair to assume that FY24 you're guiding for 30% to 35% growth rate and when will the benefits start flowing in for Rajasthan?
- Yash Mutha:** Well, Jainil, to be honest, that is a growth rate we are also aspiring to grow. But in all prudence or being conservative, I would expect that to grow at about between 25% to 30%. To be considering some of these projects might get delayed. But of course, if you consider FY25, given these all these projects would be implemented, this growth rate that we have been demonstrated in the past, we are confident that we should be able to achieve it or we might even surpass it.
- Jainil Shah:** Because, Yash our Rajasthan contract, if I remember correctly, used to contribute somewhere about 70-odd crores. So, that benefit we should get immediately, right?
- Yash Mutha:** Yes, but the Rajasthan tender will take time to implement, right?
- Jainil Shah:** So, 25% to 30% is what you are guiding for.
- Yash Mutha:** Yeah, and we are, of course our endeavor, the efforts will always be to cross this threshold in terms of the overall CAGR guidance that we have been, the CAGR growth that we have been achieving or maintaining over the last so many years.
- Jainil Shah:** Okay, okay. Thanks a lot, Yash. All the best.
- Moderator:** Thank you. Next question is from the line of Ritesh Parikh from Rockstud Capital. Please go ahead.
- Ritesh Parikh:** Yeah, thanks for the follow-up question. Just wanted to know about our B2C strategy, since you have not mentioned anything about it on the presentation. So, what has been the progress and how it is shaping up?
- Yash Mutha:** So, see, in terms of B2C, like you mentioned, though we have started focusing on the B2C as well, either through our KBAs that we have planned as well as leveraging our existing network of labs and diagnostic centers across various states. So, we look forward to further increase our offerings on the B2C space. But at the same time, given that we have these large PPP contracts on hand, which again needs to be implemented in time, our focus will be to complete the PPP

projects because once they are implemented, then the centers start scaling up and revenues will start coming through and then, parallelly, the B2C approach will continue to go on.

Ritesh Parikh: But we had a dedicated manager for the B2C strategy appointed, and I think a number of centers also we had identified. So, any rollout for the status on it?

Yash Mutha: Yeah, so we already have a team which is currently working on the B2C strategy. We have hired individuals from various experienced levels and they are currently working on building up the B2C strategy. At the same time, since like we mentioned earlier, the PPP contracts that we have on hand, they are almost significantly in size. And hence, the primary focus will be to complete these PPP projects while the B2C runs its parallel course and we are equally focusing on that.

Ritesh Parikh: And lastly, on this, any major contract which is coming up for renegotiation, which we can quantify in FY24?

Yash Mutha: So, as of now, there are no significant contracts which are coming up for renegotiation.

Ritesh Parikh: Okay, thank you.

Moderator: Thank you. Next question is from the line of Aditya from SIMPL. Please go ahead.

Aditya: Yeah. So, my question was regarding the ROE profile of the company. So, even if I adjust the excess cash that the company is carrying from the network of the company, we are making around 12% ROE and we are making similar ROEs even before pre-COVID period. So, I just wanted to understand, is this the normal ROE profile of the company suggesting the government business makes around 12 to 13% ROE or there are levers for us to increase the ROE in the next few years?

Yash Mutha: Yeah. So, if you see the reason why the ROE looks suppressed today is because we have been continuously investing in the various projects and they have not yet matured. As the centers start maturing and as I mentioned earlier, they will be contributing to better revenue and therefore, better margins. So, as the profile improves, the ROE will also look and the ROE will start improving or increasing. Since the company has been in a high growth phase and we continue to increase our capacity, so, while the revenue and the EBITDA margins increase, but at the same time, equally there has been investments made in the centers. So, once we come to a stage where these investments do not happen and you will see an immediate share of the ROE increasing significantly.

Aditya: Thank you. And for just one follow up. So, in your slide 31, can you mention the ROCE profile of matured, semi-matured and newly launched centers. I just wanted to know what kind of EBITDA margins will be in the different centers?

Yash Mutha: So, typically at the center level, as I mentioned earlier, our EBITDA margins are in the range of about 35 to 40% depending on different projects.

Aditya: Okay. So, I was basically asking for the average EBITDA margins you make in the matured, semi-matured and the newly launched centers.

Yash Mutha: So, see again, from a maturity profile perspective, matured centers would contribute about 35% to 40%. If you consider semi-matured centers, they would be in the range of between 20% to 25% and the newly launched centers would probably be negative EBITDA because the expenses will be higher compared to the revenue. They will not be commensurate to the revenue that we are generating.

Aditya: Sure. Thank you.

Moderator: Thank you. Ladies and gentlemen, we will take that as a last question and now hand the conference over to the management for closing comments.

Yash Mutha: Hi. So, thank you everyone. Thanks for your time as well and attending this conference call. Wishing you a pleasant evening ahead. Thank you.

Moderator: Thank you very much. On behalf of Equirus Securities Private Limited, that concludes this conference. Thank you for joining us. You may now disconnect your lines. Thank you.

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