Dr Lal PathLabs

August 02, 2023

National Stock Exchange of India Limited
Exchange Plaza,
Plot No. C/1, G Block,
Bandra Kurla Complex, Bandra (E)
Mumbai – 400 051

Symbol: LALPATHLAB

BSE Limited
Corporate Relationship Department
Phiroze Jeejeebhoy Towers
Dalal Street
Mumbai – 400 001

Scrip Code: 539524

Sub: Transcript of Conference Call on Financial Results for Q1 FY24

Dear Sir/ Madam,

Pursuant to Regulation 30 of SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015, please find attached herewith Transcript of Conference Call on Financial Results for Q1 FY24.

We request you to please take the same on record.

Thanking You,

Yours Faithfully,

For **Dr. Lal PathLabs Limited**

VINAY GUJRAL

Vinay Gujral
Company Secretary & Compliance Officer

Encl.: As above

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Dr. Lal PathLabs Limited

Q1 FY24 Earnings Conference Call Transcript
July 27, 2023

Call Duration	• 1 hour
Management Speakers	• (Hony) Brig. Dr. Arvind Lal – Executive Chairman • Dr. Om Prakash Manchanda - Managing Director • Mr. Bharath Uppiliappan - Chief Executive Officer • Mr. Ved Prakash Goel – Group Chief Financial Officer • Mr. Shankha Banerjee – CEO – Group/ Associate Companies
Participants who asked questions	• Rahul Agarwal – InCred Capital • Aneesh Deora - Nomura Financial Advisory and Securities • Tanmay Gandhi - Investec Capital Services • Mehul Sheth - Axis Capital • Cyndrella Carvalho - JM Financial Institutional Securities • Aashita Jain – Nuvama Securities • Vignesh Iyer - Sequent Investments • Omkar Kamtekar - Bonanza Portfolio • Karan Vora - Goldman Sachs • Dheeresh Pathak - White Oak Capital

Moderator: Ladies and gentlemen, good day, and welcome to the Q1 FY 24 Earnings Conference Call of Dr. Lal PathLabs.

As a reminder all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during this conference call please signal the operator by pressing '*' then '0' on your touchtone phone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Nishid Solanki of CDR India.

Nishid Solanki: Good evening, everyone and welcome to Dr. Lal PathLabs' Q1 FY24 Earnings Conference Call.

Today, we are joined by senior members of the Management Team including (Hony) Brig. Dr. Arvind Lal - Executive Chairman, Dr. Om Prakash Manchanda - Managing Director, Mr. Bharath Uppiliappan – CEO, Mr. Ved Prakash Goel - Group CFO along with Mr. Shankha Banerjee – CEO of Suburban and other Group Companies.

I would like to share our standard disclaimer here. Some of the statements made on today's call would be forward-looking in nature, and the actual results could vary from these forward-looking statements. A detailed statement in this regard is available in the Results presentation which has been circulated earlier and also available on the stock exchange websites.

I would now like to invite (Hony) Brig. Dr. Arvind Lal to share his perspectives.

(Hony) Brig. Dr. Arvind Lal: A very good evening today everyone. I welcome you all to Dr. Lal PathLabs' Q1 FY24 Earnings Conference Call. I would commence by shedding some light on the evolving market situation and the progress that we have made.

India's diagnostic industry remains vibrant presenting abundant opportunities in the future. In contrast to other nations India's healthcare expenditure relative to its GDP is reasonably low. However, a shift towards evidence-based medicine has come of age after the pandemic. The industry is undergoing a transformation from unorganized to organized more so since the onset of the pandemic. This positive shift continues and is attributed to multiple reasons including higher awareness and increasing preference of customers for branded players it offers superior quality and efficiency.

I am glad to share with you all that International Newsweek magazine has recognized Dr. Lal PathLabs as the 15th of the 100th Global Most Loved Workplaces 2023 across the world. There are only two other Indian companies on the list which were ranked much below us.

As a leader in the diagnostic industry, we have consistently thrived to deliver superior patient experience by expanding our test menu and penetrating deeper into our core markets as well as foraying into newer markets. The synergy between Suburban Diagnostics and Dr. Lal PathLabs' brand has further enhanced, helping us garner incremental shares in our high potential Western market. We are constantly focused on expanding our presence to reach a larger number of customers, especially in the Tier-III and Tier-IV cities. While doing so we remain committed to continuously improving our testing capabilities, quality, and patient experience.

We have implemented Total Lab Automation or TLA which is supplemented with digital intelligence. We have also reduced the requirement of aliquots or what are sub-samples by 93% by using inbuilt advanced sorting logic and aliquoting algorithms which resulted in saving of more than 1.3 million aliquots and more than 5,200 tons of plastic waste in our National Reference Lab at Rohini, New Delhi. This underlines Dr. Lal PathLabs' strong commitment towards sustainability and creating a greener environment.

Our investments in strengthening the digital infrastructure has started yielding positive results as anticipated. This will help us in consistently meeting patient expectations on several parameters while driving volume growth. Given our strong operating model and brand affinity in both B2C and B2B segments, I see the company continue to gain significant market share.

Thank you very much. I would now like to hand over the floor to Dr. Om Manchanda. Over to you, Om.

Dr. Om P. Manchanda: Thank you Dr. Lal. Welcome to Dr. Lal PathLabs' Q1 FY24 earnings call. I shall share the broad industry trends.

The first one is at an overall industry level, the contribution from COVID testing has further declined. We are now mainly left with COVID allied testing and this sub-group within COVID sales has a very strong overlap with non-COVID testing. Therefore, tracking and reporting sales with and without COVID separately does not make sense anymore. Therefore, we have also removed this chart from the Investor Deck where we were showing these numbers separately. The good news is that in some ways this reduces the complexity and helps us analyze business trends better.

Second point is the Suburban Diagnostic now enters into Phase II of integration where we have started looking at common lab infrastructure between the two brands that is Dr. Lal PathLabs' and Suburban.

Swasthfit continues to ride the momentum of preventive health checkup sales. The contribution has further gone up in this quarter. That is showing a strong positive impact on test per patient as well as higher realization per patient. The added advantage of this increase in contribution is also seen in simplified operations.

Widening our footprint both in terms of depth that is going deeper into Tier-II, Tier-III and Tier-IV towns as well as in terms of width which is both through inorganic as well as organic will continue to be the central theme of growth strategy of Dr. Lal PathLabs.

With that, now I handover to Bharath for further update on Q1 FY24 results. Over to you, Bharath.

Bharath Uppiliappan: A very good evening to everyone present here. I warmly welcome you all to Q1 FY24 Earnings Conference Call.

Operating and Business Highlights of the Company

In Q1 FY24, we recorded a revenue of Rs. 541 crore which is a growth of 7.6% over last year Q1, and the non-COVID revenue grew by 9.7% YoY. The COVID RT-PCR testing revenue declined by 81% in Q1 FY24 to Rs. 2.3 crore from Rs. 12 crore in Q1 FY23.

Revenue per patient for Q1 FY24 was Rs. 789, this was sequentially higher versus the preceding quarter by 1.9% led by high contribution of Swasthfit, Delhi NCR region and full quarter flow through of price adjustments.

In Q1 FY24, we recorded 6.9 million patient visits, which is flattish at an overall level led by an unusually high base in Q1 last year. However, net of COVID-related testing we grew patient volumes sequentially by 8%. Also, on a four-year CAGR basis, the patient volume growth for Q1 FY24 stood around 7% for the organic business.

We also recorded a 6.1% growth in samples, which stood at 19.3 million in Q1 FY24. The tests per patient also moved up significantly from 2.6 in Q1 FY23 to 2.8 in Q1 FY24, representing a 7.0 % growth.

Update on Strategic Initiatives

The first one is on increase in marketing efforts. In this quarter, on the organic business side, we launched a new marketing campaign "Bharat Ka Vishwas" with quantifiable reasons to believe why millions of patients and doctors trust Dr. Lal PathLabs. We believe that this campaign over a longer period of time will help pivot the conversation to the underline drivers of this category and not just on pricing and discounting.

This combined with our digital led initiatives like chips, recommendation engines, supported with on-ground activation programs are driving growth in a strong hold markets of North and East. Delhi NCR region also recorded strong growth rates in Q1 FY24. In the city of Mumbai and Pune, under Suburban, we have launched a strong direct-to-consumer program supported by Thematic above-the-line campaign.

Second strategic initiative revolves around our portfolio. Our bundled test portfolio Swasthfit continues to perform well and I am happy to share with you that we have registered the highest ever quarterly revenue from Swasthfit of Rs. 112 crore in this quarter with a contribution of 22% to the total revenue ex-Suburban.

Our Super Specialty business continues to do well with strong growth rates supported by new initiatives. We are also creating variants of common tests like Lipid Profile and making it medically more relevant to patient sub-segments like diabetics and heart related ailments. Higher Delhi NCR contribution and above average growth rate in Swasthfit and Super Specialty coupled with reinvigorating our routine portfolio have positively contributed to revenue per patient and margin profile for the quarter.

Number three, strategic initiative revolves around geographical expansions. As stated in our previous call's strategic expansions in Tier-III and Tier-IV cities of the country continues as per plan. In addition to the three labs, we opened new labs in the preceding quarter at Siwan, Sultanpur, and Murshidabad, we have commenced operations at four of our Greenfield labs in Jind in Haryana, Una in Himachal Pradesh, Tamluk, and Hooghly in West Bengal. These continue the right set of building blocks coupled with the Pan India presence and the digital infrastructure that will help us deliver industry-leading growth rates for a long period of time.

With that, I would like to invite Ved to take you all through the financial performance. Over to you, Ved.

Ved P. Goel: Hello everyone and thank you for joining this call. I trust each of you and your family are safe and healthy.

Key Financial Highlight for the Quarter

Our non-COVID revenue for Q1 FY24 came in at Rs. 528 crore versus Rs. 482 crore last year same quarter, a growth of 9.7%. Total revenue for Q1 FY24 came in at Rs. 541 crore against Rs. 503 crore last year same quarter, a growth of 7.6%.

Revenue realization per patient for Q1 FY24 is Rs. 789 as against Rs. 727 last year same quarter, an increase of 8.6% led by price increase, test mix and higher contribution of Swasthfit.

Normalized EBITDA after eliminating the impact of RSU and CSR for Q1 FY24 came in at Rs. 154 crore as compared to Rs. 125 crore in Q1 FY23. Normalized EBITDA margin for Q1 FY24 is 28.4%.

PBT for Q1 FY24 came in at Rs. 117 crore versus Rs. 81 crore in last year same quarter. PBT margin is 21.7% for Q1 FY24. PAT for Q1 FY24 came in at Rs. 84 crore versus Rs. 58 crore in Q1 FY23. The PAT margin is at 15.4% for Q1 FY24. Cash and cash equivalent as on June 30th is Rs. 877 crore, net of borrowing it is Rs. 731 crore.

I am pleased to share that our continuous efforts towards optimizing material costs and improving operational efficiency has enabled us to invest more into A&P & Technology.

At last, we are pleased to share with you that the Board of Directors of the Company have approved an interim dividend of Rs. 6 per equity share.

This brings me to the conclusion of my opening remarks and now I would request the moderator to open the forum for Q&A. Thank you.

Moderator: The first question is from the line of Rahul Agarwal from Incred Capital. Please go ahead.

Rahul Agarwal: Firstly just your thoughts Dr. Om on the quarter, 10% revenue growth I think both YoY and four-year CAGR look similar. So, what went well and what did not versus what you expected?

Dr. Om P. Manchanda: So, let me first talk about what did not do well rather than what we did well, what did well. One is I think we would have loved to see a slightly higher volume growth, that's something we felt short. But I think what did well on the number of samples growth or test growth, because test per patient has gone up very sharply.

Second is contribution from Swasthfit continues to do well and I think this is a very strategic sort of initiative from our side, we believe that trust is very important in diagnostics and more and more people do health checkups and as healthcare awareness goes up, this segment will continue to show growth and that's a very big positive sign. I think COVID part in any case was declining and we are happy that it's almost going away. Life becomes simple to analyze the trend so that I think is a positive part.

On the financial side I am sure you would have seen that our margins are much better than what we expected. So, I think these are all your takeaways as far as results are concerned.

Rahul Agarwal: Got it, yes because I was thinking 10%, I thought we should do better in Q1, not because it was a very strong season for us but just purely because Q-o-Q we were seeing improvements into non-COVID so it looks like last quarter versus this quarter there has hardly been any improvement on non-COVID that's what it feels like, is that correct understanding.

Dr. Om P. Manchanda: So, I personally think I have repeatedly been saying that these are gradual improvements that happen in our space. So, certainly, overnight jump one should not expect. But I think the good news is trajectory is moving upward because there was a time when we were a little concerned about hyper-competition and whether we can sustain this growth, but I think overall now signs are very positive as we go forward.

Rahul Agarwal: And secondly on the operating expenditure, looks like that's not grown in proportion to business growth which is good news and hence margins are up. I also understand that generally the first half of Dr. Lal has higher margins and then through the year it comes down second half. But any specific efforts you would like to highlight on cost savings with some details?

Ved Prakash Goel: Yes, so Rahul there are two major initiatives one is on the material cost side which obviously there is an impact of mix and portfolio change. And second is obviously we are looking at how to optimize this cost because this is the biggest cost in our P&L. So, this helped us in this quarter. And the second is last year in the same quarter we had some provision against debtors which is not there in this quarter. So, that is another reason.

Rahul Agarwal: What was the quantum for that provision?

Ved Prakash Goel: It was about Rs. 5 crore, this was the BMC provision we had made against recovery for Suburban.

Rahul Agarwal: And lastly on Suburban, how did that do during the quarter, some color on whatever you could share net of IndAS revenue, patient volumes, our revenue per patient, and overall business, you are expanding into South Bombay, what's really happening on Suburban?

Dr. Om P. Manchanda: So, I think Suburban what we are doing now is seeing what kind of synergies we can draw between the two companies and two brands. So, we are looking very carefully at some synergies that can come out of the lab infrastructure that exists between the two companies. So, I think that's the update we have.

Secondly in terms of marketing activities, we are looking more aggressive than before in Mumbai. We are trying to see how we can improve our B2C contribution in Mumbai market.

Rahul Agarwal: Any topline number and volume number you could share please.

Dr. Om P. Manchanda: Yes, I think right now I would say volume growth is slightly muted there, but we will probably share as we go along.

Moderator: Thank you. The next question is from the line of Aneesh Deora from Nomura Financial Advisory and Securities. Please go ahead.

Aneesh Deora: Firstly, on the margin, so it was 27% for this quarter, the EBITDA margin which is higher than the full year guidance of 25%. So, does this guidance level still hold and how should we think about margins for the coming quarters?

Ved Prakash Goel: So, this is Ved, again as Rahul mentioned previously, generally we have first half where margins are higher than second half, so we must wait, but we are holding that statement that we should maintain our pre-COVID margins going forward.

Aneesh Deora: And what is the reason for the margins being higher in the first half of the year for Dr. Lal?

Dr. Om P. Manchanda: So, the first half usually our revenue if you look at the trends historically, they are always higher. And we have also seen the mix of tests also drifted more toward certain kind of tests where gross margins are higher.

Aneesh Deora: And secondly, we have implemented the price increases which is being adequately reflected in the revenues per patient which have inched up quarter-on-quarter, but when we look at the revenue per test, that has largely remained flat. So, how do you think about this and what are the dynamics around it, like one would ideally expect that the revenue per test would also inch up proportionately, but that has not happened so any thoughts around this.

Bharath Uppiliappan: So, revenue per patient sequentially there was a positive impact of about 1.2% led by price flow. Revenue per test is a mix of multiple things I am not sure how I should respond, but give me some time if it comes up later in the queue I will

Dr. Om P. Manchanda: I will probably add to this. See the revenue per test will continue to be lower because as a contribution of Swasthfit keeps moving up, because Swasthfit has lot of tests in it you will always see that situation, but I think we have to look at economics from an overall standpoint because we don't mind revenue of Swasthfit going up because the marginal cost on additional test is very low. But we can pass on that benefit through bundle packages to the patient, in that case, you will always see not only for us I think the industry itself is seeing that the revenue per test is going down, but revenue per patient is going up.

Aneesh Deora:: And just a clarification you mentioned that four-year CAGR for the organic business was 7%, right if I got that correctly, just want to clarify.

Ved Prakash Goel: Yes, there was patient growth.

Dr. Om P. Manchanda: So, volume we were talking about.

Moderator: Thank you. The next question is from the line of Tanmay Gandhi from Investec. Please go ahead.

Tanmay Gandhi: My question is again on the operating expenses so if we look at the sequential growth, so revenues have grown by almost 10%, but still our other expenditures have degrown by 5%. So, is there any one-off in the last quarter base or is there any postponement of expenses which is there in this quarter.

Ved Prakash Goel: No, so Tanmay as I mentioned there was one provision, we took in the last year that was the only one item. And there is no postponement of the expenses in this quarter.

Tanmay Gandhi: Last year you mean Q4 FY23?

Dr. Om P. Manchanda: Q1 of last year.

Tanmay Gandhi: No, I am talking about sequentially, so even sequentially it has declined by 5%.

Ved Prakash Goel: Sequentially also.

Tanmay Gandhi: So, provision was there in Q1 as well as Q4, is that right?

Ved Prakash Goel: Yes in Q4.

Tanmay Gandhi: And can you share margins for Suburban, have they also improved?

Dr. Om P. Manchanda: Margin for Suburban also has improved, if you do just non-COVID versus non-COVID, right Yes margins have improved there also.

Tanmay Gandhi: Can you share the numbers?

Dr. Om P. Manchanda: I think the range is between about 11% to 13%, exact numbers we don't have, but it's in that range about 11% to 13%.

Moderator: Thank you. The next question is from the line of Mehul Sheth from Axis Capital. Please go ahead.

Mehul Sheth: First question is around the gross margin so does your gross margin also had some benefit of that price increase that you have taken in few of your tests?

Dr. Om P. Manchanda: Yes, that's right, it has.

Mehul Sheth: Can you quantify, mean how much was because of that price increase?

Ved Prakash Goel: It is about 3% which is for the full year.

Dr. Om P. Manchanda: Yes, so what we are seeing is that there is a 3% upside to the revenue due to price increase. So, whatever benefit goes down to gross margin one can calculate that.

Mehul Sheth: And one more question on your expansion side so do you have any near-term target which you are focusing more on the West and the South now to expanding collection centers there. So, do you have any near-term target, how much center you want to add?

Dr. Om P. Manchanda: So, I think our near-term target for the West region is how do we create synergy between Dr. Lal PathLabs network as well as Suburban network. So, currently we are looking at, we have mapped the lab locations for both companies and identifying gap areas so we will gradually fill these gaps. On an overall company basis usually, we put about 10 to 15 labs so that effort will continue on the organic side. And we will continue to look at white spaces for our collection centers. So, in general, normally we have seen about 10% odd of infrastructure growth that happens in our system. So, that really turns out to be about 20-odd labs every year.

Mehul Sheth: And just a last question to Ved, can you give break up the Suburban sales number at least, how were total sales, COVID and non-COVID sales breakup if you have them handy?

Ved Prakash Goel: So, Suburban revenue is Rs. 37 crore this quarter. And largely it is a non-COVID, very small portion was COVID.

Dr. Om P. Manchanda: Of which about Rs. 36 crore is non-COVID, Rs. 1 crore is COVID.

Moderator: Thank you. The next question is from the line of Cyndrella Thomas Carvalho from JM Financial Institutional Securities. Please go ahead.

Cyndrella Carvalho: Dr. Om you mentioned certain disappointments that you were experiencing largely on the volume side, could you elaborate more on that statement. I mean is it something to do geography wise or is it a certain segment of the business that you were expecting to be better?

Dr. Om P. Manchanda: See the thing is if you look at the patients that we report, technically they are not unique patients, these are all patient visits. So, that's how historically we have been tracking this number. And we have always had a challenge of tracking unique patients because patients in our system come from various channels. They come through walk-ins, they come through collection centers, they also come through pick-up points, it's very difficult to have one identifier, a patient ID and then we have so many unique patients.

But what we are finding is that patient visits probably have been less this quarter. And it led us to ask many questions in our mind, one was we took a price increase, is that impacting it. We did this analysis for those tests where we had taken a price increase, we didn't find any variation between though that portfolio which has been experiencing price increase versus the other one where we have not taken price increase. In fact, the growth rate for both sides is the same. So, that means we have ruled out that price increase has impacted it.

We also saw whether the competition is impacting it, we did this Tier wise analysis we again found that it's probably uniformly across this thing. We also found that we are not very sure it's a hypothesis whether because the bundle packages are going up, whether it's impacting the patient visits frequency, we still don't know that. I think the strong sort of reason that we can find out is that last year I think non-COVID numbers are also impacted by COVID itself which is very difficult to identify for us. And the base of last year is much higher if you have that number with you, close to 6.

Bharath Uppiliappan: 25% of the patients are in Q1.

Dr. Om P. Manchanda: Yes, in Q1, so I think right now probably the only analysis that we have is the last year base is much higher that probably has impacted this volume growth. We will have to wait and see for this quarter and maybe two quarters later. We are very hopeful on an annualized basis we will see a smart recovery on the volume side, I think that's the only thing I can probably say right now.

Cyndrella Carvalho: Dr. Om I said what will drive this volume recovery for us, what are the efforts we are investing in which gives you the confidence that we will be able report higher volumes?

Bharath Uppiliappan: So, like we talked about in the opening speech I think we are very focused on new customer acquisition programs, it can either be a physical hunting program or even a digital acquisition program. So, that is really what we are looking at as one stage.

Second is around the whole infrastructure expansion program. So, we announced new labs, we are putting up collection centers in the regular space and we can accelerate that whole area. So, that is going to be a second lever of getting new customers in. And third is obviously improving our customer service levels as we move forward as well. So, that's taken as increases and visit frequency increases and recommendation by doctors also increase. And the Super Specialty portfolio also will continue to make more inroads in acquiring new patients propagating those tests. So, I think within these four levers which we have, we should be able to see a smart recovery like what Dr. Om mentioned in the full year term.

Cyndrella Carvalho: And one last question in terms of the cost if we look at the cost base, I think like all the participants are asking how we make the investments but somehow the cost base has remained steady, so how should we look at it?

Dr. Om P. Manchanda: I think structurally the P&L shape is changing in two to three aspects, one is if you plot data of the last sort of 10 to 12 quarters, our rental cost is directionally going down. And one of the reasons for that is a lot of business is shifting to collection center network. People are not coming to as walk-ins but rather they are going to nearby collection center, so that's one change that we are observing.

Second is we are seeing a very volatility in the mix change. I think one of the reasons probably last year our reagents cost was high because COVID testing was very high and that led to higher reagents cost, that receipts we are probably going back to the lower sort of the consumption cost. So, that second change that I am observing.

Going forward you should see two heads going up #1 A&P and we are constantly going to increase this number, gradually I think as we get lot of confidence on margin recovery as we have seen in this quarter, we will try and plough back a lot of money back into the sort of A&P. The second area is IT cost, we have seen a sharp increase in the last three to four quarters and we will reassess the requirement, if required we will invest more in IT infra as well.

Moderator: Thank you. The next question is from the line of Aashita Jain from Nuvama. Please go ahead.

Aashita Jain: My question is more on the industry side, if I look at the price hikes that you have taken and several of your peers have also taken in semi-specialized and high-end kind of test. Will it be possible for us to take price hikes going forward in line with the inflation at least in these high-end tests, what is your take on that?

Dr. Om P. Manchanda: So, I think at a macro level I can only say that there is a bit of a rebalancing, this is going to happen on pricing. Traditionally my experience has been on high-end tests that were actually cross-subsidized by routine tests in the past. As the competitive intensity in the routine is increasing, so I think some of these high-end prices will get automatically corrected because while sometimes the realization per patient high-end is higher, gross margins are not as high as they are in the routine tests.

I think first my sense is this industry is going to experience a lot of rebalancing of pricing. And another thing one must realize that the human component on high-end test is much higher, routine tests are highly automated, machine driven, that's why you see a lot of competitive intensity on routine, you don't see that much on high-end. How we can do it, yes, this is our first attempt in February this year; we will gradually sort of wait and watch and see how we go forward, but I think one should be able to correct it on a period basis.

Aashita Jain: My second was on the industry growth in general so recently in one of the CRISIL reports they have pegged the diagnostic industry growth at about 5% to 7% for the next five years. And this number was around 10% last year. So, just wanted to know your thoughts on this, how do you see industry growth panning out for say next three to four years? And where organized players like you stand in that?

Dr. Om P. Manchanda: I haven't seen this report, but I would be surprised if the industry growth rate falls to this level, because to my mind Tier-II and Tier-III markets are just opening up from a diagnostic perspective and penetration of diagnostics in this industry on a sort of qualitative basis I can say it's pretty low. So, I would be surprised if this number is true, but I will look up to this report and see what it is. This has come out recently.

Aashita Jain: So, in one of the annual reports of the healthcare major, I think they have reported this number 5% to 7% diagnostic drop.

Dr. Om P. Manchanda: And there is a reference to the CRISIL report, is it?

Aashita Jain: Yes, so checked with the Company it was from CRISIL that is what I understand.

Dr. Om P. Manchanda: Well, my own personal view is I think it's quite a low ball, I don't think so. While it may not be still as high as it used to be in the past, I think this to me looks low.

Aashita Jain: And just lastly on the volume side I mean there are a lot of questions from that, if I look at your non-COVID sample growth it's somewhere around 6%, which is still lower than what you have been guiding around 8% to 9% and again lower than what the pre-COVID level. So, what is the trend that you are seeing on the volume side, are the volumes picking up gradually? How should we see this going forward?

Dr. Om P. Manchanda: Actually, volume growth number that we have been talking about is, these are patient visits. And sometimes there is a spike also that happens in volumes, because as we enter into high sort of vector borne diseases like malaria, chikungunya or dengue etc. one patient actually visits multiple times during fever season. And certainly when you have a non-season, these visits tend to drop also very sharply.

So, I would wait and watch, I wouldn't get perturbed by these numbers, but I do believe that there should be gradual jump in these volumes. And one of the analysis that we have done is sequentially how it has done, I think that it has done better, right, from a Q4 to Q1 about there is a jump of 8% in volume and on an CAGR basis for the last three or four years, it's about 6.5%.

I think it's just that Q1 of this year versus Q1 these numbers look very low. So, I will probably hold on to this, but I think as I made an opening comment, I think it's lower than what we expected, so we will have to wait and watch for 2024.

Moderator: Thank you. The next question is from the line of Vignesh Iyer from Sequent Investments. Please go ahead.

Vignesh Iyer: Just want to understand on the EBITDA side of it, I mean is this number a more sustainable number and can we assume a more sustainable number going forward on the EBITDA side of it?

Ved Prakash Goel: So, as I mentioned earlier somebody else has also asked this question, so this is normally first half and we have higher margins, but full year I don't think this kind of margins we are guiding. What we are saying is at least we are confident that we can maintain our pre-COVID level margins for the full year.

Vignesh Iyer: On the tax rate side, what would be a blended tax rate for FY2024, I mean are we shifting to something like 25%?

Ved Prakash Goel: Yes, we don't have any advantage, I mean normal tax rate is 25% which is applicable to us.

Vignesh Iyer: No, like we have paid around 29% if I am not wrong for the quarter, right?

Ved Prakash Goel: That was mainly because of the notional depreciation you have seen, but if you see the standalone, it is about 25%.

Moderator: Thank you. The next question is from the line of Omkar Kamtekar from Bonanza Portfolio. Please go ahead.

Omkar Kamtekar: So, firstly my question is with respect to Swasthfit, over the long term what kind of proportion of the total revenue do we target for the 22%, how much of the total blended share could be contributed by Swasthfit?

Bharath Uppiliappan: So, there can be multiple applications for Swasthfit from a what we call a bundled test offering portfolio. We can create bundles for many other disease conditions, we can get faster diagnosis out. So, I think, one way to look at it it's a great thing we will grow this portfolio only.

Second is that say we will vary this and hence try to grow variated portfolio. So, yes, the future looks very bright, I don't want to put a number but between 20% to 25% in the near term should be reasonably possible as per our estimate.

Omkar Kamtekar: So, we are also looking to create other bundled tests so that those also contribute towards the growth, that would be the right thinking?

Dr. Om P. Manchanda: Yes, let's look at from the market perspective there is a need to create this bundling. I think bundling has also become much more affordable now. And doctors are also suggesting LFT/ KFT together which they were earlier prescribing separately, patients also want to do it together. In fact, I have seen request coming even for high-end test bundling as well and see whether they can diagnose this early.

One which I keep saying the core problem our industry solves are two, first one is we must diagnose it accurately and second, we must diagnose it early. I think accuracy wise the industry has done great job; quality labs have come up. This early piece is being driven by multiple factors it could be genetic testing, it could be bundling, because you can do the entire testing in one go and diagnose it early. And I think patients in both the medical fraternity and patients are seeing great value in this because bundling is much cheaper than ordering individual tests.

Omkar Kamtekar: And lastly just a clarification, in the previous question when you were mentioning the Tier-II and Tier-III growth, I was not able to hear so what was the growth number what you were expecting from this Tier-II and Tier-III?

Dr. Om P. Manchanda: So, I was responding to someone mentioned about industry is going to grow only about 5% to 7% my thing was that I haven't seen the report myself, but my own gut says that it is too low, while one should not see quarterly numbers, but over a long period of time this whole Tier-II and Tier-III market is yet to open up.

Omkar Kamtekar: So, what would be the number if you could just have rough estimate?

Dr. Om P. Manchanda: Very early to put that thing, because the only way I can look at it is that you and I see the same numbers, 1.4 billion people and if you draw a pyramid I think most of this industry is still lying in top end of the market which is metros and mini-metros but it is still to go down, especially from organized industry point of view, while unorganized sector may still be existing in Tier-II and Tier-III towns, but I think organized industry still has to make lot of influence in these markets. So, it is more a qualitative comment well I don't have any number to which I can.

Omkar Kamtekar: And lastly, so there is one problem you generally face in Tier-II and Tier-III or lower cities that generally patients would only try to go to a diagnostic center where the doctor has recommended. So, you may go to a specific lab or a specific technician to get their report. So, how will this be overcome?

Dr. Om P. Manchanda: No, I fully agree with you, there is a challenge. And I think 20 years back that was challenging even in cities as well. So, I think as gradually more brand awareness picks up, affordability goes up, and people would be willing to pay a brand premium for this as the overall cost component goes down, OPD prices go up. So, I think some of these practices would tend to go away, and then branded players will be able to succeed, that's probably I can, I think it will happen, but you are right there are challenges, this market is not there just for us to grab, just like that.

Moderator: Thank you. The next question is from the line of Rahul Agarwal from Incred Capital. Please go ahead.

Rahul Agarwal: One question Dr. Om was how we analyze retail businesses, we look at same store sales growth, I was just trying to apply that to diagnostics. So, let's say you had a franchisee network of 3,000 roughly at the end of March 2020 so will it be fair to say that that network is still growing on revenue or most of the topline growth which we are seeing is coming from the new networks which was added over the last three years, any analysis there please?

Dr. Om P. Manchanda: It's growing across, in fact you will be surprised our Delhi NCR has shown better growth while Delhi NCR has the same store, because there is hardly any scope to grow further outlets. So, technically if I look at this geography in the same store as a concept it is still showing growth. So, I think it is across, the profile of growth may be different in these markets. The same store growth may be coming more because people are shifting to bundling, people are shifting more preventively while it may be less in other markets, but there is growth happening in both the sectors.

Rahul Jain: I will move on to the second question, it was on cash flow. My sense is our cash profit for the quarter was about Rs. 120 crore as I understand the gross cash you have reported is Rs. 877 and the debt on the books is about Rs. 146 crore. If I do a math net cash is about Rs. 730 so it looks like there is hardly any CAPEX done in the quarter, is that understanding correct?

Ved Prakash Goel: Yes, you are right.

Rahul Jain: And lastly Delhi NCR you were saying that has improved and the growth is better, what's the revenue share here for the quarter?

Ved Prakash Goel: So, it's about 32% overall.

Rahul Jain: Including Suburban right?

Dr. Om P. Manchanda: Yes, all put together it is consolidated one figure, so we are not going to talk about non-COVID separately, one number all companies as one. All put together 32% is from Delhi NCR.

Moderator: Thank you. The next question is from the line of Karan Vora from Goldman Sachs. Please go ahead.

Karan Vora: My first question is on broadly, so you highlighted that from the competitive intensity point of view the market has kind of stabilized. But is the competitive intensity back to pre-COVID levels or it's still high. And from where is it coming from? Is it still the online players or you are also seeing it from the hospital players?

Also, in addition to that, in the Delhi NCR region you mentioned kind of a higher growth, but do we think that now that we have reached a sizable scale in this region, going back to pre-COVID volume growths would be difficult?

Dr. Om P. Manchanda: Let me first answer competition from before COVID and post-COVID whether competitive intensity is same or it has gone up, answer yes, it has gone up. So, but definitely it has come down from the recent past, but it has settled down at a much higher level. So, I would say it is a new normal that has settled down. Now where is it coming from, it came from three sides one was of course this new age players, private equity funded, second was hospitals and third was some of the pharma companies.

So, I think as the new normal is settling down I would put hospitals as number 1 sort of a competitive threat to industry or rather which can change the whole construct. So, I think hospitals are getting more aggressive. Can they be Pan India, I have my sort of a doubt on that, but obviously in regional or city level, they have brand equity, and they are trying to leverage that which is what has changed.

The second question I think you had was on Delhi NCR growth -- so Delhi NCR growth though it has gone up, but I don't think it's sustainable what you we have seen in Q1 but Delhi NCR being a very sort of a high market share, market for us, so I don't see this growth would be in line with our overall blended growth for the portfolio. So, I think growth contribution from Delhi NCR will be lower than the rest of India as we go forward while a slightly better growth that we have seen in this quarter it will just be an exception.

Karan Vora: Another question on Suburban, so you mentioned in the call previously as to you are in the Phase II of the integration journey, so just if you can throw a bit more color on how many phases do you plan to completely integrate Suburban into and what is the timeline for that, like will it take a year or maybe more than that? And by when can you expect the margins to cross 20% levels?

Dr. Om P. Manchanda: When we acquired about a year and a half back that time our focus was to build Suburban as a separate company, as a separate team and separate unit. And we tried to do that. We have put out certain growth figures, unfortunately we didn't see those numbers coming in. So, essentially the idea was can we just drive topline and not worry about rest of the stuff, but then slowly we realized as the COVID receded we suddenly found the margins came down very sharply than what we had seen during COVID time.

And the growth rate was definitely not as high as what we expected, then we quickly have changed our gear saying that not only does this asset has to give us revenue synergy, but it also we have to look at cost synergies as well. And when the cost synergy started falling in place then we looked at two phases, Phase I was Can we look at our corporate cost of Dr. Lal PathLabs, can that structure provide some overriding support to this asset like Finance, HR, Marketing, IT etc. so that was Phase I.

And Phase II is when we went down to operations, we found that if we look at rationalizing our lab infra we can derive some synergies out of this, so currently we are in that phase. I think the last phase would be when you bring front-end synergies as well like the sales team becoming one and things like that which to my mind will happen as we go along, but right now Phase I and Phase II is the focus.

Karan Vora: And any guidance on the timeline for all of this to happen?

Dr. Om P. Manchanda: I would play it by the year and see how our integration happens, because the integration of lab ops is not that simple, because both the companies operate on different lab installation systems, different bar-coding system. So, I would not put any timeline right, but I would want to get it right the first time, slow and steady.

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

Dheeresh Pathak: I came in late so my apologies, but the way I am looking at the result is that non-COVID revenue grew 10% and the patient count is flat 7 million to 7 million. So, everything is coming from realization increase, now there is price increase and there is mix impact, so can you break this 10% non-COVID increase in realization into price increase that you have taken on like-to-like and mix?

Dr. Om P. Manchanda: So, I think we have spoken enough on this maybe you were not there when we talked about this, but just to give a split of 10%, 3% is on account of price increase, balance is on account of mix. And if you take out COVID volume then the growth rate is about 2.5% on volume. Volume is if you take away COVID numbers out of that, but since you asked about non-COVID 10% break up right.

Dheeresh Pathak:: Yes.

Dr. Om P. Manchanda: So, non-COVID, whatever the number is to 3% is on account of price, balance is about 2.5% on volume and balance is the mix.

Moderator: Thank you. The next question is from the line of Omkar Kamtekar from Bonanza Portfolio. Please go ahead.

Omkar Kamtekar: So, my question is with respect to what will be the next geography for expansion that we are looking for, one? And secondly the cash that is in the books of Rs. 877 crore, will that be used for any inorganic expansion over the next one or two years?

Dr. Om P. Manchanda: I couldn't hear your first question, but I did hear your second one, the cash on the books yes, I think the primary objective is to utilize it for growth, both organic and inorganic. Since our business organically does not require too much capital, we will primarily use this for inorganic and we are still digesting our last acquisition that we did in Mumbai. So, as this stabilizes as the new opportunity comes up, we will always be open to look at inorganic opportunities. The first question I am sorry, I couldn't hear that, you were asking something about Tier II or Tier-III.

Omkar Kamtekar: Which are the regions are we looking to expand in the Western region further or we are going for South region, on the national front which region are we next focusing on for expansion?

Dr. Om P. Manchanda: South and West so there is no doubt, I think every call that we talk about South and West are gap areas for us, we will try and grow in these areas.

Moderator: Thank you. That was the last question. I would now like to hand the conference over to the management for closing comments.

Ved Prakash Goel: Thank you everyone for being with us on this call today. I hope we were able to address your questions.