Dr Lal PathLabs

February 07, 2024

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: <u>Transcript of Conference Call on Financial Results for Q3 & 9M FY24</u>

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 Q3 & 9M 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

Q3 FY24 Earnings Conference Call
February 01, 2024

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 Suburban and other Group Companies
Participants who asked questions	• Prakash Kapadia – Anived Portfolio • Rahul Agarwal – InCred Capital • Rahul Jeewani – IIFL Securities • Omkar Kamtekar – Bonanza • Punit Pujara - Helios • Prashant Nair – Ambit Capital

Moderator: Ladies and gentlemen, good day and welcome to the Dr. Lal PathLabs' Q3 FY24 Earnings Conference Call.

As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference, please signal an operator by pressing '*' then '0' on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Siddharth Rangnekar of CDR India. Thank you and over to you sir.

Siddharth Rangnekar: Good evening, everyone and welcome to Dr. Lal PathLabs' Q3 FY24 Earnings Conference Call.

Today we are joined by the Senior Members of the Management Team including (Hony) Brig Dr. Arvind Lal – who is the 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 the other Group Companies.

I would like to commence by stating the standard disclaimer here. Some of the statements made on today's call could be forward-looking in nature and the actual results could vary from these forward-looking statements. A detailed disclaimer is also available in the results presentation that has been circulated to you earlier and is also available on the stock exchange website.

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

Dr. Arvind Lal: Good evening, ladies and gentlemen and a warm welcome to all participants on the call. We are gathered here today to delve into the Q3 FY24 earnings of Dr. Lal PathLabs. I wish to begin by sharing my thoughts on the evolving market dynamics and the progress that we have made.

India's diagnostic sector is undergoing a rapid transformation. Increasing burden of non-communicable diseases as well as new emerging and existing communicable diseases, increased adoption of evidence-based treatment and a growing emphasis on preventive healthcare diagnostics are expected to sustain the growth momentum.

While the competition in this space has increased, the established pan-India chains like Dr. Lal PathLabs are strategically positioned to exceed industry growth, progressively expanding their market share compared to both organized and unorganized players. This is possible due to the continuous improvement in scale achieved through our deep penetration in Tier-2 and Tier-3 towns and offering the largest portfolio of tests and services at competitive prices.

Dr. Lal PathLabs has continued to be the preferred choice for customers seeking latest high-end testing and accurate diagnosis, over the last 75 years. Yes, this is our platinum year. For example, we have achieved a milestone in Histocompatibility and Transplant Immunology testing with Next Generation Sequencing or NGS by carrying out 600 runs of HLA-NGS with 27,000 samples analyzed for Bone Marrow and Solid organ Transplantation across India, Africa, Bangladesh and Nepal. We have also taken the lead in establishing 'donor derived cells free DNA' as a non-invasive monitoring test for solid organ transplantation and have recruited 475 patients for post-transplant monitoring of which 222 patients are for kidney, 70 patients for heart and 183 patients for lung transplantation.

To maintain affordability, we have predominantly retained our pricing mix, barring minor adjustments in prices to account for cost inflation in speciality and super speciality tests. Through this, we aim to cater to a larger patient base, solidifying our position as the leading diagnostic brand in the country.

Our performance going ahead will be guided by expanding our presence in the underpenetrated Tier-3 and Tier-4 markets, coupled with the targeted focus on high-potential markets in the west and south regions. This is in addition to extensively utilizing our digital infrastructure where we have made investments across AI, data analytics, machine learning etc. Not only will this enhance the overall patient experience and provide tailored solutions but will also accelerate the volume trajectory.

In the western markets, through Suburban diagnostics and especially its Reference Lab we are emerging as a formidable player, aiming to achieve rapid scale by outpacing industry growth. Our synergies are beginning to unfold, and we are on course to fortify our position in this market.

That concludes my initial remarks. Thank you and I would now like to hand it over to Dr. Om. Over to you, Om.

Dr. Om P. Manchanda: Welcome to our call today. I shall walk you through the evolving industry scenario and progress on strategy.

In the current financial year, at an industry level, whatever the impact of Covid-19 testing was on the revenue side has all gone away. We have also experienced the same, therefore we stopped reporting the split since last few quarters. It is now only one figure that we report, thereby making the analysis easy and simple. Covid-19 also created an unevenness on growth pattern both on revenue and volume. That pattern is now getting smoothened.

Our business has delivered double-digit top-line growth rates on Y-o-Y basis both in the current quarter as well as on YTD basis. We have significantly improved our operating and net margins profile driven by efficiencies of scale and productivity initiatives. Our efforts continue to look for expansion in Tier-3 and Tier-4 towns through organic means of growth. Our teams have carefully identified pockets and the markets that will drive future growth for us.

Industry experienced bundling of routine tests as a new consumer trend. We led this trend and successfully built a brand – Swasthfit. The revenue contribution from Swasthfit has now stabilized, ranging between 19% to 21% of our total revenue. The next wave of bundling, we believe, would be in the specialized test as that could be medically more efficient for clinicians.

Our investments in technology and digital at the infrastructure level, at the front end and in the interactions with patients are also translating into salience. We are pushing ahead with some of the brand and chosen geographies, while meticulously executing a network and test menu expansion agenda. With that, I would like to hand over to Bharath to continue the conversation. Over to you, Bharat.

Bharath Uppiliappan: I warmly welcome you all on this call today. I will now take you through the business and operating highlights.

I am pleased to share with you that we have delivered yet another quarter of double-digit total revenue growth and a healthy margin profile. In Q3 FY24, we clocked a revenue of Rs. 539 crore representing a growth of 10.1% by serving 6.7 million patients and testing 18.6 million samples, representing a sample growth of 7.1% over last year.

The RPP for Q3 FY24 is at Rs. 807, a growth of 1% over Q2 FY24 mainly due to mix.

Further, to accelerate the patient volume and revenue stream as a team we are sharply focused on putting into play a white space expansion plan. Last quarter, we shared that we have put in place the program for 20+ new labs expansion. This plan is progressing on track and parallelly the creation of collection centers and pickup point ecosystem is also tracking well.

During COVID, a trend of acquiring and serving patients digitally emerged, popularly known as D2C. I am pleased to share that we have in a focused manner developed end to end D2C capabilities starting from digital marketing to lead generation to servicing the patients at home. We are now expanding this D2C program to Tier-2 and Tier-3 cities as well.

Our key product programs like Swasthfit contributing to about 20% of revenue. Medical centers of excellence like LACE and LCoRD continue to fortify their position amongst the medical community and patients.

In addition, digitally enabled initiatives like CHIPs and recommendation engine continue to make meaningful contribution in enhancing patient loyalty and stickiness. Overall, we are moving the right levers to optimally set a growth trajectory that will give us sustainable growth.

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

Ved Prakash Goel: Hello everyone and thank you for joining this call.

I am sharing the key Financial Highlights for Q3 and 9 months:

- Revenue for Q3 FY24 came in at Rs. 539 crore against Rs. 489 crore last year same quarter, a growth of 10.1%. YTD revenue for 9 months is Rs. 1,681 crore Vs Rs. 1,526 crore in last year same period, a growth of 10.2%.
- EBITDA for Q3 FY24 came in at Rs. 141 crore as compared to Rs. 113 crore in Q3 last year, registered a growth of 24.6% with EBITDA margin of 26.1%. 9 months EBITDA is Rs. 465 crore Vs Rs. 374 crore, last year same period with a margin of 27.6%.
- PBT for Q3 FY24 came in at Rs. 116 crore, registered a growth of 51.6% with PBT margin of 21.5%. 9 months PBT is Rs. 386 crore with a margin of 22.9%.
- PAT for Q3 FY24 came in at Rs. 82 crore Vs 54 crore last year same quarter, registered a growth of 53.3% with PAT margin of 15.3%. 9 months PAT is Rs. 277 crore with a margin of 16.4%.
- EPS in Q3 FY24 is Rs. 9.8 with a growth of 53.2%. 9 months EPS stood at Rs. 32.9.
- Cash and cash equivalent as on December ’23 is Rs. 957 crore. Net of borrowing it is Rs. 853 crore.

At last, we are pleased to announce that the board of director has approved a second interim dividend of Rs. 12 per share. With this, total dividend for the year 2023-24 stood at Rs. 18 per share.

That brings me to the conclusion of my opening remarks, and I would now request the moderator to open the quorum for Q&A.

Moderator: The first question is from the line of Prakash Kapadia from Anived Portfolio Managers Private Limited.

Prakash Kapadia: A couple of questions from my end, diagnostic industry growth has definitely slowed down from earlier pre-Covid days. So, what is our sense, is it customer fatigue? Is it something else which is affecting volume growth for the sector? We have obviously grown at 10%. But this is on a 9% base of last year. So, any sense you could give us for the industry?

Secondly, if I were to envisage higher growth from hereon for FY25 and beyond, so for us what would drive that? Is it Suburban scale? Is it increased contribution? Is it newer geographies where we have been pretty aggressive in Tier-3, Tier-4 cities where we have an early mover advantage? Can specialized test increase? As you know the price rise base is also now anniversary is happening in February so, what will drive growth from here on? And lastly, on Suburban what is the game plan? Because now centers are added, labs have opened, Reference Lab is done, the integration of infrastructure is done. So, can we expect much higher growth in Suburban from here on or not? Those are my questions.

Dr. Om P. Manchanda: You have asked 2-3 questions. So maybe I will first pick the industry part then probably give the other growth and Suburban questions to my colleagues later. I think on the industry front, you are absolutely right that the growth rates of all the companies which are the figures are in public domain. If I add it up, industry growth rates don't seems to be adding up to what we were having pre-Covid levels. I think what you just said is very right. In fact, we are industry-leading growth because double digits many of the other players we see are in single digits.

Prakash Kapadia: Very low single digits.

Dr. Om P. Manchanda: Very low single digit. Yes, and I think in fact our number is actually all inclusive. If you take their numbers all-inclusive then it is even contrasting now. I think earlier all of us were attributing this to new-age competition. We were thinking that probably it's losing out to that even. They also seem to be in some difficult situation though I don't have any data to support that. But I think as we travel in the market and overall, in general, that intensity which was there 2-3 years back is not there anymore.

The question arises what is going on? One hypothesis that we have probably been that fatigue factor that you talked about is during COVID times there's a tremendous amount of testing and a lot of people went for health checkups etc. There is a bit of a pause because this is not a want that you want to get tested every now and then. It's a bit of a need base and then suddenly you say listen I just got myself tested last year. Then can I give it a pause because there's too much testing and healthcare and all being talked about. So, there could be one qualitative reason but there is nothing that supports this argument. Second also could be a lot of these bundling things that we have done, like say for example we were discussing earlier within us is that this fever panel is one test and one visit. Now in the earlier years, this fever panel may have been multiple visits because you test for dengue and then you test for malaria you test for something else. Now you want to get everything tested in one sample itself. So that probably could be there could be a correlation.

While one has seen in the industry revenue per patient going up, but volume growth is not that high. I think revenue per patient for most organizations has been significantly higher, but volume growth has not been. So, could the bundling be causing this less frequency of visit? The third hypothesis could be that many of the hospitals have woken up to this idea of how they keep their captive business intact and not let this leak out to private players. At least this is someone's phenomena that I've seen in larger cities where probably some of the hospital chains have become a little more aggressive in retaining their OPD business for diagnostics as well. So, I think on the whole this is what probably I can think of. Now I think the million-dollar question is that going forward do we see the softness, or do we see this reviving, my personal view and I think I've always maintained that is that diagnostic is the important part of any medical practice. Without this, actually to my mind there is no medicine. And these days wherever I go without prescribing a test, doctors really don't shift to medicine. I think the next phase of growth actually lies as we go down the pop setup. A lot of action has been in the diagnosis in the larger cities. I think we just need to go down and probably trigger more shift from unorganized player, trigger more sort of prescription habits of higher order test. So, I think that is where the industry growth lies and we have been talking about this Tier-3, Tier-4 towns now for last three-four quarters and we have separately started tracking this data. So, we are putting a tremendous amount of focus in these towns, technically speaking going deeper into our core markets. The idea is to really increase market access, get more patients by getting deeper and wider is where we are. Now other questions related to Suburban, and I think you asked something else as well. I'll hand it over to Bharath to respond.

Shankha Banerjee: On the Suburban question, I think like you rightly said that the reference lab has been set up. It's almost a year. The infra expansion of CC is actually not only expansion we are also looking at strengthening the way that channel is being run. I think quite a lot of work on that has happened and to cut the long story short yes, growth rates will improve in the future. That is really what we are working towards. There was something on Dr. Lal PathLabs. I think Bharath will take that question.

Bharath Uppiliappan: That Dr. Om addressed on Tier-3 and Tier-4.

Prakash Kapadia: So, in terms of the growth drivers if any I was just trying to understand, will Tier-3, Tier-4 be the biggest driver or will specialized test drive this, increased worse contribution looks unlikely to majorly drive growth from here on or it's going to be Suburban scale which will grow now at a much faster pace. So, the overall revenues could be significantly higher or much better than what we are currently trending is what I was trying to understand.

Bharath Uppiliappan: So, I think what we have said so far is that we will significantly scale up a Tier-1, Tier-2 presence led by Suburban obviously in Mumbai and some parts of Maharashtra. It's a wide space for us. We will build an aggressive presence in Tier-1, Tier-2 cities in that fashion. The second thing we have said so far is that Tier-3-4 is where Dr. Lal PathLabs in the core markets will focus to drive its growth from. From a product point of view, Dr. Om mentioned in his opening speech that apart from doing bundling on Swasthfit we are now looking at bundles on the higher end specialty tests also. So, you must see as product innovation continuous pipeline as other source of growth. In my opening remark, I mentioned D2C as a capability we have built in. So, we are building multiple other capabilities in the company to drive the channel growth including PUP, key account management etc. So, there are three verticals, the Geographic Expansion is one vertical, Channel is one and Product is the other one.

Prakash Kapadia: You are saying all of this should at least directionally looks like we should head for higher growth.

Bharath Uppiliappan: Yes, we are trying the best we can to get the numbers moved up from where it is.

Prakash Kapadia: Yes, despite a low base.

Dr. Om P. Manchanda: No, low base for Q3 always remains low base. So, I don't think that is because Y-o-Y is the best way to look at. In fact, this quarter number by the way is very similar to what we did in Q1 and if you look at historical trend Q1 and Q3 being very equal. So, to that extent it's not below.

Prakash Kapadia: I'm saying industry, obviously doctor has slowed down. What I was referring to the low base was last year in the base of Q3 there was a 9% growth in non-Covid revenues. That is what I meant. From that perspective, despite being 9% non-Covid revenues, our overall revenues are up 10%. I'm just trying to figure out what is that missing link because everything seems to be there but it's not translating one for the industry. Obviously, we are doing better than the industry but looks like there is a large potential and the scientific based or evidence-based testing because anywhere you talk, go talk to friends, fraternity without a report no doctor is willing to give a medicine. So somewhere I was trying to understand what I am missing.

Moderator: The next question is from the line of Rahul Agarwal from InCred Equities.

Rahul Agarwal: I have four questions. I'll try to be very quick. Firstly, on this Tier-3, Tier-4 cities. Dr. Om basically the management commentary around this has obviously increased as you also alluded that last 3-4 quarters, we have been highlighting this. I wanted to understand what does management really expect in terms of the change in business when we started tracking this? There are two things here, one is purely in terms of operations, how does it change your daily routine in terms of the entire effort of capital allocation and sales force being focused on Tier-2, Tier-4?

Secondly in terms of financials as analysts and shareholders what should we focus on when this business actually sees higher growth in Tier-3, Tier-4? It could be revenue mix, it could be more B2B, it could be higher working capital, it could be lower margins, anything. And related question to that also was that the doctor influence in these cities according to me should be even tougher to break in Vs. what we see in metros. So, your thoughts please.

Dr. Om P. Manchanda: So, I think one of the hypotheses that we have is that our strong areas are UP, Bihar, Orissa, the rest of north like Punjab, Haryana etc. We have a great sort of franchise in larger cities. And if you look at the population of this block, I'm told UP alone is nearly 20+ crore. It's a huge market and there are 75 districts and 335 tehsils. Even in all the districts we still don't have labs. And these districts actually they don't fall in big sort of population numbers. So, the idea is how do you go deeper in these markets and there's so many businesses lying there. So, this Tier-3, Tier-4 idea comes that if we take larger test menu to district headquarters, so that will give us the ability to go deeper.

If you look at it, Government medical infrastructure also operates something like that. You have a district hospital which have very large patient flow coming in and if you analyze that flow, actually it's all building it up from ground up which is like Tier-3, Tier-4 villages etc. So, we just want to actually follow that pattern and go deeper and leverage our strength in these places because our brand is very strong. Now obviously this Tier-3, Tier-4 strategy will not work in the South and West market because there even in metro and Tier-1 town itself our presence is weak. So that clearly falls in this bucket of looking at inorganic opportunities. That's the whole idea of Tier-3, Tier-4. Now I think your next question was how do you look at from working capital perspective, operations perspective and infrastructure? I think from a financial perspective, I don't see any difference between what we do otherwise and higher folks on Tier-2, Tier-3. I know the realization would be lower as we go down the pop setup, so would also be the cost as well because many of these tests that will come from these places will be routine in nature. And routine testing is not in the range of 20%-21% of the revenue but it's more in the range of 15% odd. So, to my mind the financial profile of the P&L and the balance sheet may not change. Operationally yes, it's a bit of a challenge for us because you are technically managing a network of business which is much more spread out than what it is today. But that I think has been our differentiation as well because that is why we have grown the way we've grown in the past mainly because our management capability of managing remote infrastructure and do it in a quality manner. So, I think operationally there is a bit of a change for us because we will have to really get the management more decentralized than running it from the corporate office is what I can think of.

Rahul Agarwal: Anything on the doctor influence?

Dr. Om P. Manchanda: Doctor influence, I think that piece is where I would say we will have to use the whole D2C approach and brand building approach. My personal experience has been as we expanded out of Delhi NCR, went into other markets' It's definitely a long-drawn process but over a period of time if we have a reason to communicate with the consumers which is more in the form of service, more in the form of health checkups, I have a sense that once brand crosses a particular critical mass, it becomes difficult for doctors to de-sell you because if everybody is using Dr. Lal PathLabs if some doctor says don't go there then doctor runs the risk of losing his or her own credibility. So, I think we know the entire brand-building process. It takes a bit of time but that is what we will try and do as we go forward. But obviously we will have to offset the doctor influence and build a Direct-to-Consumer brand.

Rahul Agarwal: One more thing was this 32% to 34% of total top line which is coming from these markets. I see that number in a very narrow band over the last 4 years. I don't have the 9-month number but when I look at 19-20 what you have disclosed, it's not really moved ahead. So, anything different you are doing this time around that this number, will that actually track higher going forward?

Dr. Om P. Manchanda: I think maybe this is the way our internal number is right now. We are giving more focus in the system. That is why it's coming. I think the first stage is for us to know where we are. The second is if the growth rate in Tier-3, Tier-4 is higher than other places, the answer is definitely, yes. Now, I think our teams are aiming that how do we accelerate their growth. So that's the whole idea. I think it just tells us that we have a long way to go. Yes, you are absolutely right that it may not have moved much' it's still moving within the narrow range, but it needs to move up. That is what the whole idea is.

Rahul Agarwal: Secondly, I wanted to discuss one new topic with you and the team because this business is very largely dependent on franchisee. I don't know if the metric called Revenue per Franchisee really matters and I will give you the context. What I'm thinking is because the growth is really not picking up as what we all want to mid-teens. And my understanding is Dr. Lal has a very decentralized franchisee network which basically means that each franchisee is running at max three centers maybe nationally. Would it be a good idea to track revenue for franchisees? That is one question. And secondly would it be a good idea to basically aggregate and have larger franchisee partners so keep them motivated, compete better, commit more capital and effort to basically get the growth higher?

Bharath Uppiliappan: We have a metric called Revenue per Franchisee and we track it internally and our regional teams do that because underlying is the profitability of the franchisee. We are very conscious of that. Second thing I want to just say that is that we have got about 300 to 400 odd multi-franchise operators with us. So typically, it works well in larger cities where we can put up same person and put up three four shops and then kind of supervise them. Beyond that, since we have a lot of other smaller town operations, one person doing multiple centers from a quality of talent management bandwidth etc. that becomes difficult for him. And that is our observation. We encourage multi-year franchising which is we haven't stopped people from taking multiple centers. We got people who have gone up to 6-7. Our view is that beyond 7 it becomes difficult to manage, the geographic dispersion, people rotation etc. But yes, it is an important angle of how we build franchising in the future.

Rahul Agarwal: So, it does not really make any difference and there is no thought internally that we should do this kind of things to basically get growth up. It doesn't really help, right?

Bharath Uppiliappan: We track profitability which is a key metric and as long as we manage that then we are okay with that.

Rahul Agarwal: And the revenue per franchisee trend over the last post-Covid last 3 years, how is that behaved, according to me it should have been declining but your thoughts?

Bharath Uppiliappan: No, it doesn't decline because of the bundling effect, the bundle test they make more money on that. So, on a retained revenue basis they are making more money.

Rahul Agarwal: Seasonally Third Quarter has never seen such high gross margins. I think when I look at the past 4-5 years history, Q3 generally you see a drop in gross margins Q-o-Q, what was different this time?

Ved Prakash Goel: No, as Dr. Om mentioned in the opening speech, the operating efficiency and obviously the mix is also which sometimes create that. You are right in the past, there may not be that kind of margins. But yes, what we are doing is, right now probably you have seen which has improved some gross margin this time.

Dr. Om P. Manchanda: No. I think just to add to what Ved said is that this year definitely a lot of initiatives we took to improve efficiencies on both purchase, consumption, consumables and all that has come and baked in these numbers that is also showing up.

Ved Prakash Goel: But sequentially if you see Rahul, it is not very different from Q2-Q3.

Dr. Om P. Manchanda: Revenue was down, so he was expecting lower gross margins, right?

Rahul Agarwal: Yes, I was expecting a lower number.

Dr. Om P. Manchanda: You should be happy.

Moderator: The next question is from the line of Rahul Jeewani from IIFL Securities.

Rahul Jeewani: Now if we look at our value growth for both the Third Quarter and 9M, our value growth has been 10%. But if we disaggregate that between volumes and realization, then the volume growth both for the Third Quarter and 9M seems to be between 2.5% to 3% kind of a number. The volume growth in our portfolio both for the Third Quarter and the 9M has been lower only. So, can you comment in terms of slim growth settling over the next four quarters and are you planning to take another round of price increase?

Bharath Uppiliappan: Let me take the second question. We are not planning a price increase as of now, but we keep the options open. On the volume front yes, it has been a bit softer than what we had anticipated. What we are trying to do is to revise the volume growth by going deeper in the geographies of Tier-3, Tier-4. We're trying to strengthen the Suburban business so that Mumbai, which is a Tier-1 city we start to get a better presence and get a bit of medical equity also going by the new centers of excellence. So, there are a host of initiatives we are taking as a team to drive the volume growth up and we are hopeful that this will start to turn around in some time.

Rahul Jeewani: If you are not planning to take price increase this year and if we don't see much of an acceleration in volume growth next year, do you think that we can sustain this current growth going into next year?

Dr. Om P. Manchanda: No, I think that's mathematics. So, the idea is our pricing is the last resort. We don't want to use pricing as a lever to show higher revenue growth. We definitely want to make sure that the volume is the lever to show higher revenue growth. There's no doubt about that and we don't want to also get into a situation where we keep increasing prices and start losing our competitive advantage. We just took price increase last year. As Bharath mentioned, that as of now there's no plan. If the situation demands if we are not able to cover up our cost through higher gross margin, then we'll consider this. Because last year price increase was not taken on the entire portfolio. It was only taken on the part of the portfolio. We still have a possibility of taking other part of the portfolio, but we will use that as a last resort because we want to stimulate volume growth. That is very clear in our mind.

Rahul Jeewani: Since you pointed out that you are trying to accelerate your growth by ramping up Suburban, so can you call out the growth for Suburban this quarter both in terms of value and volume? I'm assuming that the value growth in Suburban would be higher than the 10% number which we have delivered at an overall company level.

Dr. Om P. Manchanda: I think Suburban though Shankha mentioned. But last time also I think I talked about this. We are actually doing a very strategic shift in Suburban. The shift is basically driving growth through channel collection centers. And we are also doing a strategic shift from our B2B doctor driven business to Direct to Consumer. So, there are early green shoots where we are seeing this strategy is working. I think you will have to give us a little bit of few more quarters to actually start sharing these numbers in much more detail. Right now, I think numbers are still subdued but we are very confident that this whole franchisee network driven Direct to Consumer business should work for us and will give us long term sustainable advantage. Because I think Rahul or somebody asked about this doctor influence, we want to really come out of that mode and drive direct to consumer growth. So, give us few more quarters to talk about Suburban as we go along.

Moderator: The next question is from the line of Omkar Kamtekar from Bonanza.

Omkar Kamtekar: First question that I wanted to ask was what was the Free Cash Flow generation for the quarter and for the Nine months?

Ved Prakash Goel: We have Rs. 853 crore net cash in our books and for 9M we have added about Rs. 250 crore roughly.

Omkar Kamtekar: What is the FCF generated for the quarter.

Ved Prakash Goel: For the quarter it is roughly Rs. 116 crore.

Omkar Kamtekar: If we calculate the Revenue per Patient, the revenue per patient for the year YTD 9 months is Rs. 796, so let's round it up to Rs. 800. Other than the change in the mix, what are the drivers that we can see that this revenue per patient can increase? Because it has been very steadily increasing. It's now close to Rs. 800. What do you think it will take to reach maybe Rs. 850 and higher levels?

Dr. Om P. Manchanda: I think there are some things that have helped as you rightly mentioned, one is Swasthfit package, price increase, mix change, all that has contributed to this. Now going forward, we clearly foresee that this bundling of high-end tests is a low-hanging opportunity for us, and I think should drive Revenue per Patient. But I won't change this number as much as the volume growth because I know if I go down the pop strata, go to smaller towns that may pull this number down as well. So, as a metric I think to me this could be a side effect rather than the main effect that we will probably drive. Our focus essentially would continue to remain on two things is that how do we get more number of tests per patient and how do we get more patients? That's it. Rest I think this P&L will take care of itself.

Omkar Kamtekar: On that point, answering in the previous question you said that we are focusing more on the B2C segment and trying to get the customer more aware about our offerings.

Dr. Om P. Manchanda: Let me correct this. I think the whole B2C or D2C idea is how do we keep the brand as top of mind. I would actually say that we want to keep the top-of-mind awareness of Dr. Lal because as and when the need arises the person should think of Dr. Lal PathLabs rather than any other brand. And that can be served through many other channels. It can be served through even hospital also. No problem. It can be served through a smaller lab also as long as the person is very keen to have a report from Dr. Lal PathLabs in his or her access.

Omkar Kamtekar: So, it's like we are trying to position ourselves as the product leader, service leader. So, with that in mind are we looking at, for example with respect to the other players that are there in the industry what they are doing is they are entering into contracts or maybe MoUs with these smaller town Tier-2, Tier-3 hospitals, district hospitals, etc., and they can get a captive audience right from Day1. The volumes are there for them because the people are there right from Day1 everybody is going to these specific hospitals in their regions. So, is that something of a route that we may go down? Maybe we can even approach Government hospitals for that matter so that the volume that we have been missing could be brought on board. Is that something that could be taken up?

Bharath Uppiliappan: Let's put it this way that we will look at all channels as long as we are assured of let us say the volume and also the payments coming in through. Government contracts we evaluate very carefully because there are multiple angles to be taken care of. So, we have been kind of present in all the areas where the Government hospitals are. We do have contracts with the Government on many fronts. So as long as we look at the total commercial package and it makes sense for us, we will definitely do those agreements and sign-ups. But if they don't, then we will rather walk away from those opportunities.

Dr. Om P. Manchanda: I think we need to be careful about, are we managing the optics of volume growth or are we exploring long term sustainable advantage? If we are to manage optics of volume growth there are multiple ways to get this volume so we can actually tomorrow run a huge sugar camp and you will have lakhs and lakhs of customer coming in. So, I don't think that is what we want to do. We want to make sure that whatever we do is sustainable and profitable.

Omkar Kamtekar: On the cash flow question, we have approximately Rs. 800 odd crore worth of cash in the books. Any color with respect to any acquisition in the pipeline or maybe something that is on the block. Not that I ask you to disclose it but are we looking for any specific acquisition or something so that we can utilize this cash?

Dr. Om P. Manchanda: I agree with you actually our strategy is fairly clear which is that we want to have market access and that can come through both organic which is what Tier-3, Tier-4 we keep talking about, will come through organic means in our strong markets and other markets it's all M&A. I think the last M&A that we did was Suburban 2.5 years back and our thesis is that okay if you do 10 M&As, 3-4 may not work but the other 4-5-6 which will work will take care of the failures. I think the last 3 years' valuations had gone through the roof and expectations of even private players was in line with the sort of public market multiples which we cannot give. And I think now with a smoothening of curve, and I can see the numbers of other companies as they are getting declared. My sense is that the P&L of many of these companies will come under a bit of stress. And hopefully this whole M&A piece should open up and we are open to doing M&A in those markets where we need it.

Omkar Kamtekar: Have we scouted any candidates?

Dr. Om P. Manchanda: Right now, I don't think we have anything that can be shared with anyone, but efforts are always on.

Moderator: The next question is from the line of Punit Pujara from Helios Capital.

Punit Pujara: If I look at margins on a 9M basis be it gross margins or EBITDA margins so gross margins are expanded by 2% points and EBITDA margins 3% points. And Dr. Om, I remember in the last call you mentioned that having higher margins you also attract more competition. So, the question I'm coming to is, is there room for you to reinvest these margins to accelerate volume growth which I believe comes out from the call that's a key metric you want to improve.

Dr. Om P. Manchanda: Sorry I missed the last line.

Bharath Uppiliappan: Is there a way to reinvest the extra margin?

Dr. Om P. Manchanda: I think we have done that piece quite a bit. While I don't know whether line-wise items are visible to you or not. We have invested in 2-line items aggressively. One is our A&P which has significantly gone up what we have done in the last couple of years.

Ved Prakash Goel: And IT expense.

Dr. Om P. Manchanda: There was one more thing I think on the technology front we are actually a tech company. A lot of investment has gone in these areas. Maybe one area that probably we would like to invest is go deeper and spend on bit of a Lab infra in Tier-3, Tier-4 that we have repeatedly talked about on this call because sometimes it's very difficult to actually know what all these efficiency efforts will lead to since we believe we have a buffer and so we will start investing. And I think some of those efforts have already started in the second half of this financial year. But to reassure you that we want to invest for growth. We are not here to just maximize the margins and show down. The idea is to really reinvest some of this profitability back into the top-line growth and that too more on volumes.

Punit Pujara: Dr. Om, you also mentioned about driving a durable growth which in my opinion is through number of patients increasing but on 9M basis, patients have increased by 2.5% odd and your number of tests have grown by 8% which implies that this bundling of test is working really well. But organic patient volume growth in your mind will that be a right metric for that durable growth that we just referred to?

Dr. Om P. Manchanda: Actually, I know we have always talked about patient growth, volume growth. These are actually not patients. They are actually patient visits. And what we are little unsure about that whether all the efforts of bundling, etc., or fever panel, etc., are leading to reduction in patient visits. You understand what I mean?

Punit Pujara: Yes.

Dr. Om P. Manchanda: So that piece actually we are not able to establish through data because it is not a regular purchase. Patient comes to us only when that person needs us. So sometime that patient can drop off. It's not that the patient has dropped off because he or she has gone to competition. Patient has dropped off because that patient now is cured and does not need us and will come back maybe after 2-3 years whenever the need arises. So, these are all patient visits. So, I think we are also parallelly tracking. We are not in a position to share that data because we do not have the capability to get the exact number. But from a trend perspective we are constantly looking at what's happening to unique patients rather than looking at just patient visits. And also, please remember these patient visits as we are talking about, I think 3 quarters back were also in a trajectory where it was negative growth by the way. We may have forgotten this. So, to that extent actually we are seeing, I have the data in front of me. Q2 FY23 -2.3%, Q4 FY23 -4.8%, Q1 FY24 -0.9%. I think on the back of that negative growth having these 3 quarters positive also is a positive sign I would say. So, we are improving. We are still not there but I think there is a slight improvement on these numbers.

Dr. Om P. Manchanda: And things have done exceedingly well on sample growth. So, this growth of revenue is not only driven by pricing. It is driven by samples growth which is more testing also.

Punit Pujara: This Tech investments that you referred to will enable you to track this unique patient's visit in a better way I believe.

Dr. Om P. Manchanda: Only in one segment because some segments like which comes through hospitals, which comes through even collection centers also a limited way, but which is coming directly to us that we can track definitely.

Moderator: The next question is from the line of Prashant Nair from Ambit Capital.

Prashant Nair: Dr. Om, I think you partially addressed this but if you could elaborate a bit more. When you talk about maybe increasing lab infra to target Tier-2, Tier-3 cities, is there any way you can quantify either number of labs, or if you could even give qualitative color on will these labs be similar to what you currently run in the bigger cities, or will they kind of have slightly more limited test menu, will the number of spokes they can support or number of connection centers they can support be higher, lower than what you have currently? I mean is the nature of the network likely to change or is it just adding the way you have been adding so far?

Dr. Om P. Manchanda: If you study our infra, we went through a stage where there used to be Satellite Labs and there was a Central Lab, if you go back 10 years. And now we are sitting on a format where there's an in between layer called Hub labs. These Hub labs are more similar to Central Lab but they are still not Central Lab. So, I think it's more a colonization of that cluster where you have put already a Hub lab, let's say, in a city like Varanasi or city like Kanpur. Now you want to go deeper in that cluster with satellite labs. Obviously, the answer to your question is that this will have a limited or may not be that wide a menu but as the volume picks up the menu will also expand. These labs will act more as a feeder to the big lab that we have in the region. So, it will have a limited menu.

Prashant Nair: Is there any target in terms of setting up XX number of labs.

Dr. Om P. Manchanda: We are in the process of identifying those markets.

Bharath Uppiliappan: We have done 20, announced 20 now.

Dr. Om P. Manchanda: We have already said that we will do 20 labs, by when will that be ready?

Bharath Uppiliappan: March-April.

Dr. Om P. Manchanda: By March-April, 20 more will be ready.

Bharath Uppiliappan: We are actually in the process.

Dr. Om P. Manchanda: 20 labs are right now in the works and by May when we come for the next results, those labs will be up and running. While having said that we are also doing planning for next year because we want to identify the potential towns for us and the support system for these labs and then maybe at the next meeting we'll be in a better position to highlight those. But I think directionally, you should get an idea that we are expanding our market access going deeper.

Moderator: Ladies and gentlemen, we will take that as our last question. I would now like to hand the conference over to the management for closing comments. Over to you sir.

Ved Prakash Goel: Thank you, everyone, for being with us on this call today. I hope we are able to answer all your points satisfactorily. Please feel free to reach out to us in case you have any further questions. Thank you once again.
