Dr Lal PathLabs

February 08, 2023

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

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

Subject: Financial Results Conference Call Transcript for Q3 FY23

Dear Sir/ Madam,

Pursuant to Regulation 30 of SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015, please find attached herewith Financial Results Conference Call Transcript of the Company for Q3 FY23.

We request you to please take the same on record.

Thanking You,

Yours Faithfully,

For **Dr. Lal PathLabs Limited**

RAJAT KALRA

Digitally signed by RAJAT KALRA
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Rajat Kalra
Company Secretary and Legal Head

Encl.: As above

Dr. Lal PathLabs

Q3 FY23 Earnings Conference Call Transcript
February 02, 2023

Call Duration		• 1 hour 22 min
Management Speakers		• Dr. Om Prakash Manchanda - Managing Director • Mr. Bharath U - Chief Executive Officer • Mr. Ved Prakash Goel – Group Chief Financial Officer • Mr. Shankha Banerjee – CEO Suburban and other group companies • Mr. Rajat Kalra - Company Secretary and Head of Investor Relations
Participants who asked questions		• Dheeresh Pathak - WhiteOak Capital Management • Rahul Agarwal – InCred Capital • Prakash Kapadia – Anived Portfolio Managers • Prakash Agarwal – Axis Capital • Cyndrella Carvalho - JM Financial • Shyam Srinivasan – Goldman Sachs • Sameer Baisiwala - Morgan Stanley • Aashita Jain - Nuvama Wealth Management • Sayantan Maji - Credit Suisse • Tushar Manudhane – Motilal Oswal • Tanmay Gandhi - Investec • Nitin Agarwal – DAM Capital

Classification: **Internal**

Moderator: Ladies and gentlemen, good day, and welcome to the Dr. Lal PathLabs Q3 FY23 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 call, please signal an operator by pressing '*' then '0' on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Nishid Solanki of CDR India. Thank you. And over to you, Mr. Solanki.

Nishid Solanki: Thank you. Good evening, everyone, and welcome to Dr. Lal PathLabs Q3 FY23 earnings conference call.

Today, we are joined by senior members of the management team, including Dr. Om Prakash Manchanda -- Managing Director; Mr. Bharath U -- CEO; Mr. Ved Prakash Goel – Group CFO; and Mr. Shankha Banerjee – CEO, Suburban and Other Group Companies; and Mr. Rajat Kalra -- Company Secretary & Head of Investor Relations. (Hony) Brig. Dr. Arvind Lal will not be able to join the call today due to some personal engagements.

I would like to share a 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 disclosure in this regard is available in the 'Results Presentation', which has been circulated to you and also available on stock exchange websites.

I would now like to invite "Dr. Om Prakash Manchanda to share his Perspectives." Thank you. And over to you, sir.

Dr. Om P Manchanda: Thank you, Nishid. Welcome everyone to Dr. Lal PathLabs Q3 FY23 Earnings Call. I hope you and your loved ones are safe and healthy.

I'll start by taking you through some industry landscape and key internal developments.

"The Industry Landscape"

Industry at large is experiencing operating deleverage in this financial year due to sharp decline in COVID and COVID-related revenue. The decline in COVID business has been to the extent of 80% to 85% compared to last year in general. While it was not very clear last year, but deeper analysis also suggests that even non-COVID revenues were favorably as well as unfavorably impacted in some quarters due to COVID, thereby resulting in extremely uneven quarter numbers in FY22. This brings me to a point that for meaningful analysis on top line and bottom line one needs to look at CAGR pattern of non-COVID sales over three to four years on an annualized basis, that is the comparison with pre-COVID times. Also, one needs to look at trajectory building on sequencing pattern that is quarter-on-quarter trends over the last three to four quarters instead of year-on-year basis.

The second is industry also experienced in these couple of years, entry of many players coming from pharma, hospitals and even e-commerce as well. Most large players in the industry also haven't taken meaningful price increase in the last five to six years. On the contrary, one thing is that bundling of tests may have led to higher realization per patient but has resulted into effective decline in realization per test. So, far, this has been possible due to operating leverage, mainly driven by higher number of tests per patient. Though it would be very interesting to see how this pattern takes shape, given very high inflation scenarios in times to come.

Now, a few developments at our end. Some of you may be aware that we have launched a state-of-the-art reference lab in Mumbai. This move is in line with our long-term strategy of driving the West region as a long-term growth pillar.

This is the first private lab in West India to have BSL III, bio containment lab, inclusive of mycobacteriology, mycology and molecular biology departments. The combined infra between LPL and Suburban put together now stands at 50 labs in the state of Maharashtra, and out of which, 20 labs are in Mumbai. The central lab at the top of this pyramid gives us a huge competitive edge in the West region.

"Portfolio":

Our portfolio mix comprising super speciality tests and bundled test offering under the brand name, "Swasthfit" is witnessing strong response as it offers a comprehensive solution to the patients. It reflects a large understanding of the patient's diagnostic needs, ability to cross-sell and up-sell, and the value sought by patients. Contribution from Swasthfit now stands close to 19% to 20% of our overall sales.

"High-End Test Portfolio":

As an organization, our vision is to be the most trusted healthcare partner, enabling healthier lives. To surpass this, we continue to strive in technologies and launched newer tests that continue to help early and accurate diagnosis. We have invested in Second Electron Microscope at our National Reference Lab in Delhi.

We are also creating specialty verticals to provide sharper focus on certain identified segments. In last couple of years, we have created three verticals; #1, Genevolve focuses on genomics; #2, L-CoRD focuses on reproductive diagnostics; #3, L-ACE focuses on auto-immune disorders. And there are many more such initiatives in the pipeline.

I want to talk about the "Tech Piece":

There are a lot of conversations around changing patient needs, and businesses becoming digital. Over the last three years, we have significantly enhanced our digital capabilities. Our new consumer app today has a very good rating on android and also custom built and integrated 1x view across all channels.

With that now, I would like to invite our CEO – Bharath to continue the conversation forward. Thank you.

Bharath Uppiliappan: Thank you, Om. A very good evening to each one of you present here. I warmly welcome all of you to our Q3 FY23 Earnings Call. I will take you through some of the "Operating and Business Highlights of our Company."

In Q3 FY23, we served 6.5 million patients, registering a total revenue of Rs. 489 crore. COVID and allied test declined 80% and contributed to only Rs.11 crore, that is just 2% of the overall revenue in Q3 FY23 versus 12% in last year's same quarter. Our non-COVID revenue at Rs.478 crore, registered a growth of 9.1% in Q3 FY23 over the last year's same quarter. Patient volume registered a growth of 4% and RPP is up by 5%. Test per patient also moved up from 2.59 in Q3 FY22 to 2.66 in Q3 FY23.

As you would have noticed versus past trends, this quarter has seen some noteworthy interplay between patient visits, test per patient and test mix. Q3 FY22 base events impacting various KPIs on a YoY basis. Hence, it is better to analyze the numbers on a three-year CAGR basis.

For the organic business, we are seeing an improving trend in our three-year CAGR on a sequential basis, which has moved up from 9.4% in H1 FY23 to 10.8% in Q3 FY23. Patient three-year CAGR volume growth in Q3 FY23 was at 8.3%. We continue to take measures to further accelerate the growth rates. We have also significantly scaled up our activation for L-CoRD which is a center for excellence for Reproductive Diagnostics.

During Q3, we organized 500-plus activities across India on a single day, which is an achievement in itself. We continue to see traction in L-ACE in our Autoimmunity Center of Excellence. Bundled test programs, Swasthfit continues to do well and its contribution continues to be in the range of 19% to 20% of the non-COVID business.

We continue to invest in our digital initiatives to improve patient journeys for our B2C business as well as for our B2B partners. We are seeing very encouraging trends and we'll build on these in the coming quarters as well. Overall, we remain steadfast in our commitment to the strategic agenda and execution focus.

With that, I would like to invite Ved to take you all through the Financial Performance..

Ved Prakash Goel: Thank you, Bharath. Hello, everyone, and thank you for joining this call. I trust each of you and your families are safe and healthy.

I will share some of the “Key Financial Highlights”:

Our non-COVID revenue for Q3 FY23 is at Rs.478 crore, a growth of 9.1%. YTD non-COVID revenue grew by 15.9% to Rs.1,474 crore. Total revenue for Q3 is Rs.489 crore against Rs.497 crore last year’s same quarter. This decline of 1.5% is due to a fall in COVID business by 80% as compared to last year. If you remember, COVID contributed 12% in Q3 last year, while it is nearly 2% now.

On a YTD basis, COVID contribution has fallen sharper from 21% to just 3% now. YTD total revenue came at Rs.1,526 crore versus Rs.1,602 crore last year same period. Revenue realization per patient for Q3 FY23 is Rs.754 as against Rs.747 last year same quarter. Better realization per patient is due to the test mix and higher contribution of Swasthfit which is 19% now.

Normalized EBITDA after eliminating the impact of RSU and CSR for Q3 FY23 is Rs.122 crore as compared to Rs.119 crore last year’s same quarter. The normalized EBITDA margin for this quarter is at 25%. Normalized PBT after eliminating the impact of notional depreciation on account of consolidation of Suburban for Q3 FY'23 is Rs.89 crore. The normalized PBT margin is 18%. The normalized PAT for Q3 FY23 is Rs.66 crore and the normalized PAT margin is at 14%. Net cash and cash equivalents as on 31st December 2022 are Rs.489 crore.

To conclude while we are focused on driving top line, our initiative continues in the direction of cost optimization as well by using digital tools and technologies.

With that, I request the moderator to open the forum for question-and-answer.

Moderator: We will now begin the question-and-answer session. The first question is from the line of the Dheeresh Pathak from WhiteOak Capital. Please go ahead.

Dheeresh Pathak: Sir, on Suburban, the patient count for the quarter, the revenue and EBITDA, if you can provide?

Ved Prakash Goel: So, Suburban, this quarter has revenue of Rs.37 crore, out of which Rs.35 crore is non-COVID. And EBITDA for this quarter is about 7%, which is low, because we have launched this reference lab, in this quarter there is an impact so all the expenses related to the lab are also factored in. Generally, Q3 is having lower margins overall as compared to other quarters.

Dheeresh Pathak: Number of patients for Suburban?

Ved Prakash Goel: Let me come back to you for the Suburban patients.

Dheeresh Pathak: So, adjusted for Suburban, it seems the three-year patient count CAGR is running at mid-single digit. You said, that look at three-year numbers. So, is this the right metric to look at or no?

Dr. Om P Manchanda: You're saying three-year number for value and volume, both you are talking about or?

Dheeresh Pathak: No, I'm just talking about volume right now.

Bharath Uppiliappan: If I use number of patients as a measure of volume, for December quarter, the patient CAGR on an ex-COVID, ex-Suburban basis seems to be running at mid-single digit.

Dr. Om P Manchanda: 8.3%, yes, you're right.

Bharath Uppiliappan: It's even lower, it's not even 8.35%. If I make some assumptions for Suburban you might be including Suburban there, right.

Dheeresh Pathak: 8.3% excluding Suburban?

Bharath Uppiliappan: 8.3% excluding Suburban volume.

Dr. Om P Manchanda: Sorry, your question was about Suburban volume, this quarter is 0.3 million.

Dheeresh Pathak: Maybe will take number separately. I'm getting a different look. But anyways, this 7%-8% volume CAGR, how are you interpreting this versus the baseline growth we used to have earlier this is lower than that so how should we as investors interpret this?

Dr. Om P Manchanda: One thing is fairly clear if you look at growth rates from FY20 till now, this is definitely soft by a couple of percentages. That number is clear. Now, is it because of this disruption we've had due to COVID or is it because of higher competitive intensity?

Bharath Uppiliappan: COVID patient, non-COVID volume.

Dr. Om P Manchanda: Basically, two factors I would say are very important. And my sense is maybe both are valid. As we mentioned earlier also the purchase frequency in this business is at least once a year, that's an average we see in our business. So, because of deep discounting and aggressive promotion, we may have had a trial generation done by a lot of patients, but eventually repeat purchase would happen at least after one year. So, we will actually know in a longer period of time as to how it is. But slowly, slowly, I think a very small sort of upward movement. Because our dependence on Delhi NCR is very high and Delhi NCR is slightly lower growth in overall, I think that's where it's not showing up. But it's very clear that definitely a couple of percentage points are softer than what we used to have.

Dheeresh Pathak: Is there some cohort analysis that you might have done or you can do that let's say pre-COVID, what percentage of patient volumes would be new to Dr. Lal, and what percentage would be our old patient cohorts who are coming after one year, two years, three years versus what is happening now, let's say in FY20, your certain percentage of volumes would come from old customer cohorts, and as of now, what percentage is it meaningfully lower now versus what it used to be in pre-COVID?

Dr. Om P Manchanda: I think that's a great question and I think we spend a lot of time getting deeper into this. Unfortunately, the data is not that clean, because we get revenues from all streams, one number is being used for multiple patients. So, it becomes extremely challenging for us to do this analysis. However, we do it on a small sort of data set. But again, it's very challenging to figure it out. I think what is coming out is very clear that the frequency of visits to us from a patient is I think 1.3 or 1.4. If I look at total number of patients that we have, number of times they come, average is just about 1.3, 1.4. Again, we have to then slice it further, people who are in a chronic disease, they obviously must be coming much more frequently than somebody who has this dengue event in three years just comes once, so you don't have that frequency. So, I think a lot of these efforts are being done. Unfortunately, I probably don't have anything which I can make a sort of firm statement as of now. But we are improving as we go along. As we mentioned, we have spent a lot of time and effort on our tech thing. We have now a data lake built in terms of all the data from various channels being put together in one place. So, maybe I think two, three, four quarters down the line we will have a clearer number.

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

Rahul Agarwal: Just two questions. Firstly, related to what the earlier participant asked. Your own understanding of what really happened in nine months is obviously clear that mature markets are going lower, overall, the non-COVID is softer, my channel check also tells me that patients are actually doing a lot of self-medication and hence, the visits are also lower post-COVID era, I don't know how to read this. But to get back to anywhere between 10%-13% of non-COVID patient walk-ins, is there anything we could do additionally where we can get to that number or do we have to wait with the time and then further understand, do we grow at 15%, or not, what's the answer to that?

Dr. Om P Manchanda: I think that's a great question. The answer to this is based on my sort of understanding is, one will have to widen the footprint, because this is a very asset-light business, the supply side is abundant, you will always have somebody just entering the business, whether it's a hospital side or pharma or even smaller players. So, technically, somebody having a very high market share in one market is probably a difficult thing to achieve. So, you need to widen the footprint. And that footprint will have to be done both organically and inorganically. I don't know, we'll have to wait for results for overall other companies and understand the industry trajectory. But my sense is the industry is going to face similar pressure elsewhere. So, one may see lot of inorganic opportunities coming up in the next couple of years. So, keeping that in mind, I think for us, West and South are two big gaps, and West, we fill it up, we are very aggressive on this with the launch of reference labs. So, answer number one to your question would be that we have to continuously keep on widening our geographical presence. The second thing is that I think we'll have to probably do is look at our business model slightly differently than what we have done in the past. It's very clear in our trends that patients or consumers are looking for a higher level of convenience, those days have gone, where people will come to a lab and stand in the queue and wait for 30-35 minutes for their turn to come and give blood sample. So, they are expecting collection to be done near them, which could be in the format of a collection center or a home collection, etc., See, in the past, labs were used not only from a supply side but also from a demand side of getting more walk-ins into the lab. That also added to the overhead structure. I think that model also will have to undergo a change. So, where we put more centralized labs and then put a lot of spokes in the format of collection centers. I think these are two things we'll have to do. In terms of pricing, etc., that's the market forces will decide, because you can't command prices the way you want them. So, we'll have to see how the competitive intensity settles down with time. But, from a volume perspective, these two things will have to be done. And third is in terms of clear differentiation is trust. In the last, at least one month I have traveled the markets and met a lot of doctors. To my mind, trust remains number one thing on their mind. So, this aggressive promotion in this business does not go down too well. My reading is that eventually a person who commands trust of medical fraternity will eventually last.

Rahul Agarwal: But my sense is Dr. Lal has always been the leader in all three factors and you've been doing that, you've been widening footprint, your brand value I think is the highest in the country, and in terms of convenience, I think you have the best app ratings are good, you are anyway investing for last three years in digital. But, incrementally what do we do? I think we're already doing this, right?

Dr. Om P Manchanda: But if you see performance amongst all the published data, which I have compared with the last four years, we are the best performer in any case. I know the numbers may be a little soft, but we are still number one in terms of performance.

Rahul Agarwal: Lastly, on Suburban, in terms of integration and opening of centers, we obviously need to have higher throughputs there. Where have we reached, and what's the next 12 months' plan, could you just elaborate, please?

Dr. Om P Manchanda: I think on Suburban, one setback that we've had is that this business was highly dependent on COVID, 50% of the turnover last year came from COVID. All of us knew that it is going to go down, but probably one didn't expect that there would be a sharp fall to the extent of 85%. The business had added some cost to it to serve the entire turnover. But, as the COVID business slipped away and one got really struggling in terms of managing these costs. So, that is one challenge we have faced. In terms of your question on transition, I think our team now is well in place, we have Shankha Banerjee who's our CEO. So, I think that the transition more or less is stabilized. As I mentioned to you, we have launched “Vidyavihar Lab,” that's a big move. All our experiences of the past when we launched Rohini Lab in 2010 in Kolkata in 2018, and now we also launched in Bangalore and now Mumbai. We feel that this infrastructure of central lab will definitely add to this and I traveled Mumbai in the last one month, twice, thrice met many doctors. I think our overall visibility in the market, especially amongst medical fraternity has gone up, because Suburban was seen as outsourcing high-end test to other labs. Now, it is seen as people are going to outsource to this lab. I think that's very clearly communicated. And we'll continue to do that, we have done a lot of activities, we're doing that same thing in Pune as well. So, Vidyavihar is a big initiative we feel for Suburban. And we've also seen that the combined infrastructure of LPL and Suburban put together is very, very strong. I think 50 labs in the state of Maharashtra and 28 in Mumbai, including of course, there are a few HLMs that we have in Mumbai. Our infrastructure is well in place. We just need to convert that into numbers. I'm pretty hopeful that we are well placed to take it on. And also, I think one must keep in mind that my experience is these numbers don't move quarterly that sharply, but over a period of two to three years, we will definitely see a difference in positioning.

Moderator: Next question is from the line of Prakash Kapadia from Anived Portfolio. Please go ahead.

Prakash Kapadia: Couple of questions from my end. If I were to look at growth drivers for FY24, is non-Delhi, NCR market and Suburban the key metrics which we have to evaluate for top-line growth?

Bharath Uppiliappan: So, Prakash, the way we are looking at the business for FY24 is to say that we will grow back in Delhi NCR strongly in the sense what I mean is related to what its recent performance has been. So, we'll bring it back to the original pre-COVID level growth. We are seeing some initial early signs of all the activation we have done in Delhi NCR, and hopefully touchwood in another three, four months' time, we'll get far more confidence to say, yes, it is really coming back on track. So, that's firing up combined with the rest of India firing back as usual. We're not saying, we are discarding one geography or focusing only on one geography. But one key task we have taken is to see the revival of Delhi NCR and we are seeing some early signs on that.

Dr. Om P Manchanda: The way I look at it, there are three clear buckets that we have in our business; one is the maintenance markets, then there are growth markets, then there are emerging markets. The entire belt of East, rest of North which consists of UP, Punjab, Haryana, Himachal, Rajasthan, they are really a big growth market for us. While we will revive Delhi NCR, but still my sense is NCR growth will not be in line with our overall company growth. We will push this up. But I would put that market as from a maintenance perspective. Growth would be East, UP, Bihar, Rajasthan, Punjab, Haryana and then there are emerging markets, I would put, South and West in that, where it will take definitely a year time for us to really put them back into a growth market, but right now, we will invest more in infrastructure in select pockets like Maharashtra and a couple of other places.

Prakash Kapadia: In larger cities, given that competitive intensity still remains high, is a strategy for a specialized test menus and focusing on certain high-end tests add to this growth?

Dr. Om P Manchanda: Yes, then there are two distinct segments. One segment is becoming direct-to-consumer, where this whole preventive, lifestyle, chronic illness, all that is falling in, because that's a segment which sometimes does not depend on prescription or if at all it depends on prescription is one prescription leading to multiple visits to lab. And then the other one is, is a very institutional hospital pick-up business, which is high-end business. I get a sense that is not going to be direct-to-consumer. I think one will have to work with the medical fraternity and also maybe companion diagnostics work with pharma companies as well to see how we look at the high-end portfolios, which are very, very specialized like I just mentioned, electron microscopy, or say, for example, cytogenetics, or say, for example, gene sequences, etc., So, I think those are the tests which will have to be promoted through high-end test that we talked about. We have launched these things like Genevolve, and we've launched L-CoRD. So, we are building a center of excellence around some of these tests, as you have in pharma companies, various verticals, same way we are trying to build a category or a center of excellence around this.

Prakash Kapadia: You mentioned about the reference lab and given that infrastructure is ready in Maharashtra and Mumbai, so, for Suburban, what's going to drive this growth, because if we look at existing customers, you're obviously have at a larger COVID base in Suburban, wo, will it be the existing customers, will it be new customer addition, will it be partially some of these high-end test which Suburban can do given that now the reference lab has come, so, if you could give us some insights on Suburban plans that will be helpful?

Dr. Om P Manchanda: Maybe I can ask Shankha to address this but let me put my thoughts. I clearly see three areas. One is widening footprint here. If I study Suburban business, it's mainly come from Andheri, Borivali, western track side areas. It does not have very strong presence in South Mumbai. LPL system has a lab in Dadar. So, if we can actually do one lab and testing for multiple brands, in this case, two brands, you have easily widened your footprint. Similarly, I'm seeing that in other markets like Pune as well. So, clearly, bringing some synergies between the infrastructure of LPL and Suburban, that gives us both cost side synergy as well as revenue side, because it gives you a widening sort of presence in the market, that's number one. Number two is Suburban in earlier avatar was outsourcing a lot of high-end tests to other large companies. Now, the whole thing is flipped upside down that now people start outsourcing it to Suburban. And Suburban is positioned as a central Lab, which actually is doing the entire test menu. It is well supported by NRL in Delhi, but it is giving a report on Suburban letterhead. So, that's the way it is. It is a (CAP) College of American Pathologists accredited lab now. So, it is positioned as a ultimate lab, which is doing every test. We don't say no to any test anymore. That's the second part of our strategy. Third I think is Suburban is very well positioned on the corporate health checkup, which we are here to evolve the strategy around this, but I think that's a big strength Suburban as a brand has in the city of Mumbai, that it is seen as a comprehensive health checkups. Let me elaborate this a little more. Health checkups, the way it's been promoted by all pathology companies, it is only path tests, right? Health checkup also has some element of imaging inbuilt into this, let's say, stress test, TMT, you want to do x-ray, you want to do upper abdominal, lower abdominal, ultrasound, then only it becomes a complete health checkup, by the way, which just by doing 30 tests and a pathology is still not a very comprehensive health checkup. To my mind, real health checkup would be the patient undergoes some imaging tests as well, like say, for example, as I mentioned, the x-ray of chest, ultrasound and things like that. I think Suburban has that infrastructure in Mumbai, which we will figure out how do we leverage that. And that's a unique strength this company has. Shankha, do you want to add something?

Shankha Banerjee: No, I think, Om kind of said the whole detail. I think the key here would be, we will do B2C, B2B both as well as existing geography and new geography. So, if you think about it, it's basically a 2x2. With the SDRL launch in place, we are going to be on all four, actions will be there, but I think results in some of these quadrants some will be quicker, some would be slightly longer wavelength, but yes, actions will be on all four to drive growth.

Prakash Kapadia: So, the customer segment, Shankha, will be slightly easier to scale I guess, because the higher end or the comprehensive packages have pretty big hospitals, also in Mumbai, which are offering some of these, so, I would guess that's the right timeline to think of scale for that business, right?

Shankha Banerjee: Like I said, B2C, B2B as well as new and existing geography. So, now B2C, whether it's direct consumer as you're suggesting, so, obviously, that also plays into how we want to deploy our money. So, yes, it will be a mix of all and you will see various intensities in all the quadrants, but like I said, some of them will start delivering revenues immediately, and some of it will after some time.

Dr. Om P Manchanda: Maybe I want to add one more point on the Suburban. Interestingly, we are also tweaking our business model a little bit here. Suburban in earlier avatar was very dependent on its own infrastructure; so, it had its own PSC own collection center managed by this one. Now I'm seeing is in the last one year, I think our team has done a tremendous job of building franchisee infrastructure which brings in a lot of entrepreneurial energy in the system, where some of these owners room I met in the last one month, they are actually very active on just doing very local marketing and doing some health checkups and camps, etc., That actually brings you to the point that the way Dr. Lal PathLabs is built on a franchisee infrastructure, because that entrepreneurial energy really takes it up. So, I'm seeing those early signs in Suburban as well, I think that's another change we want to bring in there.

Moderator: Next question is from the line of Prakash Agarwal from Axis Capital. Please go ahead.

Prakash Agarwal: My question is on pricing, you mentioned that pricing will be largely static. But the competition has lower pricing. You mentioned growth drivers being widening footprint and doing more test services, etc., Is there a thought on any pricing that we can play as well?

Dr. Om P Manchanda: Yes, I think that's a great question. My sense is that at the current level of growth in the industry, one may not have the option to absorb these costs but to pass them on to the market. I also foresee a rebalancing of pricing, because in the past, a lot of high-end tests were actually, if I may use the word, 'subsidized' by routine tests, some bit of that rationalization will take place. My personal view is that industry has reached that point. Especially for smaller players going to be very tough. Either they compromise with the margins or they increase the prices. And that's why I mentioned that it'll be very interesting to see how price value equation moves in next two, three years.

Prakash Agarwal: Will we take pricing as our strategy?

Dr. Om P Manchanda: Our strategy would be, I think, we will just wait and watch how the growth trajectory happens, but we will be open to considering that as well as we go along.

Prakash Agarwal: Second question for Ved is on other expenses. There seems to be a lot of cost optimization, gone down QoQ, YoY despite having so many activities which was mentioned in the opening remarks. So, is there a one-off here or these are the new levels of costs?

Ved Prakash Goel: Prakash, last year if you remember, we had some one-off transaction cost which was the last year same quarter, so that is one. Having said that, there are two things happening. While we are investing more in IT, digital and marketing, at the same time, we are optimizing costs in some of these areas, where we can leverage our existing infra. As Dr. Om was mentioning that more franchisees have fixed overhead by opening more and more labs. So, there are other levers which we are taking to optimize cost and balancing, somewhere we are increasing, somewhere we are optimizing.

Prakash Agarwal: That would also be the answer for QoQ decline, because there was not extra-transaction cost, no?

Ved Prakash Goel: Yes. But if you see, again, the quarter is not representative, because, again, there is some ups and downs on some margins.

Dr. Om P Manchanda: We've spent a lot of time on margins, just look at on YTD basis is ranging between 25% to 26% before RSU and CSR. And if I go back year, '19, year '18 and '17 pre-COVID times, I think IndAS adjustments also to do all that, it used to range between 25%, 26%, we are somewhere there only this time. In the last two years, FY'21, FY'22, because of that operating leverage, our margins just went up. So, broadly that's where we are. Now, I think the key question which was asked earlier is that "Can you sustain this going forward without the price increase?" To me, we'll have to probably wait and watch, but we will definitely be open to taking price increase if required.

Prakash Agarwal: On the South market, you mentioned in the past it would be largely organic. In this call, I heard that you would look at both the options organic and inorganic and would that be on the back of the cash of Rs.400-plus crore or what is it?

Dr. Om P Manchanda: No, that was actually a general comment I was making in terms of growth opportunity. So, because of the fragmented nature of the market, and the global experience that we have, inorganic opportunities do come up, especially when the industry undergoes margin pressure. Since any opportunity that comes in the South for inorganic will definitely be welcome, but right now our organic efforts are on. But, obviously, we don't want to pay a very high valuation to these places just because you're desperate to acquire. So, that's why we're building up now organic platform ourselves. If something attractive comes on our way, we'll definitely be open to doing that here. But this inorganic, organic is a general comment, that opportunity will always be there, that's how these businesses globally are also built that way.

Moderator: The next question is from the line of Cyndrella Carvalho from JM Financial. Please go ahead.

Cyndrella Carvalho: Ved sir, is there any one-off expenses related to Vidyavihar Lab we have opened, and if so, can you quantify?

Ved Prakash Goel: There is no material one-off in this on account of Suburban or this lab. Having said that, because this is a big reference lab, we have some expenses which is going to come for some time on account of this lab.

Dr. Om P Manchanda: So, Suburban P&L, broadly speaking, is undergoing one mega change which did not exist earlier, which is that our infrastructure is becoming more franchised. And since we have to do revenue share, that line item is growing. Is it correct, Shankha?

Shankha Banerjee: Yes.

Dr. Om P Manchanda: So, that line item in the short term will have an adverse impact, but as the growth picks up with time, which we are very confident it will do, will definitely get normalized over a period of time. I think that's one add-on cost. Suburban also in relative term has a higher manpower cost compared to let's say LPL comparison when we do. Given the low turnover base, it's justifiable. But it has an infrastructure, which is slightly different from a PathLabs infrastructure. As I mentioned to you, it has x-ray, ultrasound, and a manning model, which is suited for a corporate health checkup. So, we want to aggressively drive that part of the business as well so that we are able to reduce as a percentage of our manpower cost. I think these are two major costs that exist on that P&L. Consumable-wise, I think it's very similar to what we have in LPL. Is it correct?

Shankha Banerjee: Yes.

Dr. Om P Manchanda: I think these two costs, one is manpower, other is franchising revenue share are the two costs which are actually comparatively higher than LPL P&L, but those are required to actually drive growth. So, 99.9%, our efforts are on driving top line.

Ved Prakash Goel: Rental is also high.

Dr. Om P Manchanda: Rental probably will come down because as we have started this Vidyavihar Lab, some of the testing facilities will get consolidated.

Cyndrella Carvalho: If we look at the overall inorganic opportunities coming to our way, can you help us understand the valuation parameters, are they coming back to the pre-COVID level or still you see some valuations still being higher, or the expectations of COVID still continuing -?

Dr. Om P Manchanda: Expectations of COVID will continue. At least FY'23 to be out of the equation and then we will see what happens in FY'24.

Cyndrella Carvalho: Do you have any understanding on cluster base in the emerging markets and the growth?

Moderator: Sorry to interrupt. Your voice was breaking. Next question is from the line of Shyam Srinivasan from Goldman Sachs. Please go ahead.

Shyam Srinivasan: Just the first one on the RPP. I heard a number of 754. I'm just doing non-COVID revenue of 480 divided by six non-COVID patients, it seems to be 800. So, is there some clarity around what is 754 if you can do it? Also, question two is on, if we could get the total patients and total samples also will be helpful.

Ved Prakash Goel: Shyam, non-COVID. RPP is 744, while 754 is in total including COVID since you are mentioning it.

Shyam Srinivasan: I'm just trying to look for, like what is the trend on non-COVID? It seems to be 478 by six is 800. So, what's happening there? Just an extension of the previous participant question on pricing in non-COVID revenues. I think you mentioned five percentage points up for 754, but I wanted to see whether the trend is different for non-COVID revenue?

Ved Prakash Goel: If you see 6.4 million non-COVID patients for this quarter with a RPP of 744. And if we see volume growth is 3.6 on non-COVID basis, which is a difference of (+5%) which is due to mix and some channel that makes primarily because of Swasthfit, some high-end test has increased, and some bit of Suburban also, because Suburban is also having higher realization per patient.

Dr. Om P Manchanda: Shyam, first get the numbers, right. So, you have Rs.478 crore of non-COVID turnover this quarter, right? And then you have 6.4 million patients of non-COVID.

Shyam Srinivasan: Sorry to interrupt you, Om, but the presentation says 6 million, so which is where I calculated the number, I'm saying Slide #6.

Ved Prakash Goel: It is rounded off. Sorry.

Dr. Om P Manchanda: Anyway, the number is 6.4 which is rounded off to 6, 0.4 is a decimal point. Let's just expand this question. So, 478 divided by 6.4 gives us 744. But it is still a 5.3% revenue per patient gone up, which is slightly unusual, we have not seen this kind of jump in the past. So, let's just try and understand this better. So, the one factor is Suburban realization is higher than LPL realization. So, when you combine, this has pushed this up, that's number one. Number two is Swasthfit, which has been a reason consistently for the last four, five quarters because the contribution from Swasthfit is going up. Third is higher end test to some extent, the contribution is also on the rise, which has a higher realization per patient. And finally, last year base has a very high dengue component, which is actually a very low realization number, because a lot of people once somebody is a dengue patient, you follow it up a lot of platelet tests, which are very, very low-value test. That is also one of the reasons why you're seeing lower volume growth because last year has a very high volume due to dengue. So, that explains a little bit of that. But, going forward, we do believe as the Swasthfit goes up, as the high-end test component goes up, we will see a slight firmness on this number as we go along.

Moderator: Next question is from the line of Sameer Baisiwala from Morgan Stanley. Please go ahead.

Sameer Baisiwala: Om, how do you differentiate between your four big labs national and regional just in terms of capacity, in terms of complexity of the test, some thoughts would be great.

Dr. Om P Manchanda: There are many ways people look at reference labs. One way to look at is test menu that how many you were doing before; how many you are doing now. So, let's say, our ability to do the number of tests in Mumbai, we have seen going up from 700 to 2,800. So, that's one way to look at it. Another way to look at it is that some uniqueness that you have in the lab like I talked about this BSL-III facility, which is a very unique thing, is not in the region, electron microscope that we have added, it becomes a big news in the town that this sort of equipment has come, that's another way to look at it. But I think, from an economics perspective, one best way to look at is the following: If I get let's say, my hub is Lucknow, if I get 100 samples every day, how many actually remain within Lucknow, and my dependence on NRL is let's say 10%. As I keep reducing that number of dependents on NRL, which is Delhi, that means I'm creating an independent ecosystem and it can be managed within that region itself. So, our way of looking at it is that keep on reducing the dependence on big lab in Delhi and make every cluster a very independent thing and then you are able to run it like a P&L for that region, is what we want to achieve. It has two or three advantages. One is the medical fraternity likes it, because then they feel very close to the doctor sitting in the lab. And many times they pick up the phone and talk to the doctor as well. That becomes a little bit of a comfort factor for especially a high-end doctor that lab is within my reach. Second is turnaround time actually gets improved, because the sample doesn't have to hop at two different locations. So, it just hits Lucknow and gets tested. And that gives me the ability to actually go deeper into Tier-3, Tier-4 towns, let's say for example, if you're familiar with the UP, you can think of towns like Shahjahanpur, Sultanpur, Mirzapur, which otherwise sitting in Delhi, you will not be able to think about those towns as you will be able to think once you're sitting in Lucknow. So, that's the way we look at central lab or reference lab format. I would actually call this as a hub lab more than even how do I make sure that all my samples get tested there. So, we do some kind of analysis. I think there are some tests, turnaround time runs in days as well, reports are not given next day. Those departments like cytogenetics, HLA typing, or genomics or fish testing, common people like you and me won't even understand some of these tests. But they are actually just 5% to 10% of the portfolio. It actually doesn't even make sense to do in the region, because human component in these tests is very, very high. And at times, doctors want the report to grade by one particular doctor. So, for them, the lab is not important as important is who's signing that report.

Sameer Baisiwala: When you're talking about a volume growth three-year, four-year CAGR, I also just quickly take your channel growth over a three-year CAGR 6%-20%, and 14% for your labs, PSCs and PUPs. So, looks like the volume growth is massively tracking behind the distribution channel that you are creating. So, just your thoughts on that?

Dr. Om P Manchanda: We spent a lot of time analyzing why our volume growth is lower than value this time. I think analysis is throwing up, last year had a very high level of dengue incidence. Dengue actually brings a lot of platelets. And somehow this volume, what we're talking about are not real patients, they're all patient visits. So, one dengue patient comes within a span of at least 10, or 12 days, some six, or seven times.

Sameer Baisiwala: Om, this is three-year CAGR; 2019-2022. So, I thought I'll just let you know.

Dr. Om P Manchanda: Yes, I think that's very clear. I think that somebody asked this first question that definitely volume growth is a couple of percentage points softer than what it used to be earlier.

Sameer Baisiwala: No, relative to the growth in your distribution channels, I'm trying to ask.

Bharath Uppiliappan: That is the additional Suburban which has caused a sharp blip.

Dr. Om P Manchanda: I don't think I understood. So, you are saying our channel growth rate is higher than the volume growth?

Sameer Baisiwala: Exactly.

Dr. Om P Manchanda: It has grown faster, but our volume has not kept pace with that.

Sameer Baisiwala: No, way behind, Om, your PSCs have grown at 20% CAGR, there is no Suburban in my number, 20% CAGR of PSC growth versus some mid-single digit volume growth and likewise PUP?

Bharath Uppiliappan: Sameer, as you go down the pop strata, we have been talking of going to Tier-2, Tier-3, Tier-4, throughputs take a lot of time to build through. I think so we are putting the infrastructure in place and over a period of time we will see this even out. So, on the PSC side, that is a story. On the lab side, on the organic business, if you remove Suburban extra addition, I think our lab growth has been broadly in line if not lower than that of the volume growth.

Dr. Om P Manchanda: Sameer, one of the reasons which we will have to probably validate this, see, what we are seeing I think the numbers are not in public domain. Our contribution from collection centers has sharply moved up in the last couple of years. And that primary shift has happened from a lab. So, let's take one lab, which is doing 100 samples per day, now is shifting to at least 10 PSCs. So, the same, let's say, 100, earlier was coming from one lab, now, it actually comes from 10 PSCs. You understand what I mean? So, you may have added more infra, but your number of patients have remained the same. I am just thinking as we're talking, I'll have to probably go back and do this analysis. But that's one thought that comes to my mind, maybe creating this issue.

Sameer Baisiwala: And this thought is confirmed by the significant drop in the footfalls in the labs?

Dr. Om P Manchanda: Yes, I think COVID has actually done this very clearly. And I'm seeing that, in general, patients do not really want to come to overcrowded places anymore if they have the option to go to the nearest collection center. The comfort is very high with Dr. Lal PathLabs because they know it's the same infra. Because this can only happen to a lab which you trust. So, let's say I stay in Gurgaon and I live on Sona Road, lab is a five kilometer away, I would rather say instead of going to the lab, can I actually either call that person home or can I go to the nearest collection center. So, that tendency is very clear in the consumer behavior now.

Sameer Baisiwala: Om, have you tested the pricing power in B2C channel?

Dr. Om P Manchanda: I think honestly, we've also been little cautious of ourselves given the competitive intensity. But as we go along, we'll have to really test it out. Because so far, we were able to maintain our margins within this range of 25%- 26%. We didn't want to push it up further. We also became cautious and also there was a period of this COVID time and very uncertain times. And another problem is B2C is the following there are certain pockets, B2C is not uniformly spread business across the country. So, you don't want to create lopsidedness in your system that you load one market because of a higher B2C components and not do it another. But in a calibrated manner, we are definitely open to now looking at price rationalization as we go along. That will include even not only B2C but also B2B as well.

Moderator: Next question is from the line of Aashita Jain from Nuvama Group. Please go ahead.

Aashita Jain: Sir, could you please talk a bit about your current infrastructure in South India market and the expansion plans maybe in terms of your labs and collection centers?

Bharath Uppiliappan: So, in South of India, you must look at infrastructure from a three-year perspective. In the South, we started off with about 11, 12 labs, now we're running at 23 labs. And second is on the collection centers. We hardly had any collection centers, we have a lot of company centers, and a lot of pickup business. Today, we run about 250-plus collection centers and this network will obviously build up into the future. Even on the pickup side, a lot of hospitals have been added, so that traction is going on. But we still have a very less presence in South compared to what we have in West or East, Northeast obviously we are ahead. So, we made significant progress, but I think there is still miles and miles to go further.

Dr. Om P Manchanda: Yes, we have now labs in place like Tirunelveli, Madurai, Pondicherry, Kakinada and Kurnool. So, all these came up in the last one, one and a half years. We have some of these towns which I'm pretty familiar with these towns because I worked as ASM many years back. But we have now started having labs in these places.

Aashita Jain: Any expansion plans for which you spend for the next three years?

Bharath Uppiliappan: We put a central lab with a good amount of capacity. So, the immediate task is to get the client base up and get the sample base up into these towns and we'll keep expanding labs, there is no particular number I want to give on this call. But expansion is constantly being evaluated across the country.

Dr. Om P Manchanda: I think let me put it this way. Let's say South as a region, will we look at that as a direct-to-consumer market or more as a high-end institutional business? I think clearly answer is, we want to look at this as a high-end business market, which is more reaching out to hospitals, smaller labs, so which clearly brings us to the point that we may not build a very large front-end infrastructure, because that may put a lot of overheads into the P&L because there are a lot of local competition, local labs entrenched for many, many years, so, we don't want to be up against that. We by the way enjoy good equity amongst medical fraternity. So, for us, the model essentially would be not to proliferate as much front-end infrastructure as we invest behind high-end test, that would be more back-end central lab kind of infra is what I would think would work.

Aashita Jain: Secondly, on Swasthfit, when I look at some of the packages and your competitors are offering them and attractively priced it, so in your view, what will be your strategy to compete and grow this particular vertical, Swasthfit basically?

Bharath Uppiliappan: Even before we began the Swasthfit journey, there were competitors selling packages cheaper than us. And even after the competitors, newer players come in with cheaper packages, our Swasthfit contribution only moved up. So, I think the issue is not about only price in this category, there are a lot of other variables of access, trust, timely delivery, etc., which play into it. So, pricing is a consideration, but not the only consideration. So, we have the plan to grow the Swasthfit portfolio, the bundled test portfolio, and that continues. That is the reason why this quarter also we got a contribution of 19% or so on the Swasthfit portfolio. Just to repeat, price is not the only lever, there are multiple other levers. So, it's not a commoditized product the way one typically tends to imagine it to be.

Moderator: The next question is from the line of Sayantan Maji from Credit Suisse. Please go ahead.

Sayantan Maji: You were mentioning Tier-2, and Tier-3 towns. So, it's a deliberate strategy and you're following. Is it because of your slower growth into Tier-1 cities? And what would be the contribution from metros and Tier-1 cities for us today approximately?

Bharath Uppiliappan: You're saying, is there a growth rate difference between metro cities and lower cities, right?

Sayantan Maji: Yes, for example, as we talked about Bangalore, then Chennai, Hyderabad, so, should we not focus on these larger markets in Tier-1 cities and then venture into Tier-2, Tier-3 towns or is it because that you want to venture into those towns because of lower competition?

Bharath Uppiliappan: No-no, there are two ways to look at it. One is that in the Northern, eastern part of the country, it is a go down the pop strata game. In the southern market, we want to put reference lab and also go to key medical hubs, where there is volume and generate equity base over there. So, you must look at our strategy slightly differently in an emerging market to a stronghold market to a dominant market. So, that's way I would call it out.

Sayantan Maji: In East India, do we see our base maturing or do we still see mid-teens kind of a growth in that geography?

Bharath Uppiliappan: So, East India is definitely not a mature market yet, there is still miles to go. All the markets of East India, be it Bihar, Jharkhand, Odisha or Northeast, all remains potential. There is a lot of work to be done within large cities, there is also work to be done in going down the pop strata with access. So, I think the East India game is still a lot of ways to go.

Sayantan Maji: What could be the Ind-AS benefit for this quarter? And what is the percentage of revenue from both sample collections in the B2C segment for us?

Bharath Uppiliappan: The home sample number Is about 9%-10%.

Ved Prakash Goel: IndAS is even-steven, because it's not new, it's also in the base, so there is no difference.

Sayantan Maji: Would it be around 2% of base approximately?

Ved Prakash Goel: Maybe more 2.5%.

Moderator: Next question is from the line of Tushar Manudhane from Motilal Oswal. Please go ahead.

Tushar Manudhane: I was referring to the profitability of Suburban. Currently, this is at 7% and the kind of restructuring which we're doing, and in addition to that, we have Vidya Vihar Lab as well. So, to what extent this margin can improve say over next two to four quarters?

Ved Prakash Goel: Tushar, as I said, this quarter is not representative. So, on a yearly basis, definitely, it is going to improve from here. But again, the focus right now to invest in the business and drive top line. So, we are not cutting costs right now, but it will be improving from here.

Dr. Om P Manchanda: We want to achieve one thing which is that model which was driven by own infra, moving it to franchisee is one sort of a headwind which is going to come on the P&L because we have to do a revenue share, right, and we believe that is important for us to drive growth. So, I think that is some bit of a phase manner we'll have to see. I think FY'24 focus is just to see if we can simulate the top line growth which we're seeing some green shoots and I want to make sure that next 12-15 months we just drive for the top line. In the process, given our experience because of operating leverage in this business, I think margins should improve directionally

Tushar Manudhane: Currently, how would you be owned and franchisee, just to clarify? And then to what extent do you want to take it as a part of the strategy?

Shankha Banerjee: So, currently maybe a 1:2 ratio for own versus franchisee that we have achieved as of now in terms of a number of infrastructure outlets, revenue. It could be even higher for own versus franchisee; I'm just talking about infra numbers. And going forward that number could go as high as 1:4, 1:5.

Tushar Manudhane: Lastly, on the way of expanding to Tier-2 cities, and you're looking at this franchising model, so, broadly the other expenses, at what rate can be considered to be growing for the next couple of years?

Shankha Banerjee: For overall business, you're asking or Suburban?

Dr. Om P Manchanda: Yes, overall business.

Ved Prakash Goel: I missed that question.

Dr. Om P Manchanda: On overheads, how do you see growth growing over a period of time?

Ved Prakash Goel: Tushar, I think overheads, obviously there is inflation, which is happening everywhere, especially new talent hire.

Dr. Om P Manchanda: I would rephrase this. I think our EBITDA margins is between 25%, 26% range, right, and there is a certain growth projection for next year. Our first attempt would be how do we remain within this range. I think clearly industry has reached a stage where you not only have to manage your top line, but you have to manage all three lines, middle line, bottom line, top line. So, we'll have to really work very hard in managing the entire P&L shape. So, I think somebody asked an earlier question, "Would you be looking at price increase?" Probably, the answer is yes if we are not able to observe this cost. "Would we be looking at reorganizing our infra in terms of increasing productivity?" Again, we have done that quite a bit in the past, we'll continue to do that as well. So, that's the way we look at our costs. A lot of automation has taken place in the last two years, maybe there are certain process changes we'll have to do where manual component has to be pulled out, we'll have to look at automation. So, this effort we're just staying in this race will continue. We'll have to see how we move quarter-on-quarter basis.

Moderator: Next question is from the line of Tanmay Gandhi from Investec. Please go ahead.

Tanmay Gandhi: Sir, while we are talking about the competition, we said that routine tests are actually subsidizing the high-end test side, and at that point of time, we said that we are watching out the pricing situation and might take some price cuts, right, and while talking about the cost, we said that we will probably pass on the cost inflation, right. So, how do we reconcile that?

Dr. Om P Manchanda: No, I think the point that I was making is that there are a lot of these higher-end tests that have very high manual components inbuilt in that, while routine tests are very machine-driven tests, let's say biochemistry tests, etc., there, the productivity is very high. But let's say the histopathology department, where we read these biopsies, manual components and it is also read by top notch doctors, their cost is very high. So, traditionally, what has been happening is that, since this biopsy business or histopathology business was very small, one didn't bother too much about margins, but it was like a real brand positioning, because it really mattered from an image perspective. But now these businesses are becoming really large, so, one has to look at the entire price structure keeping that in mind. And secondly, on the routine test, as you all know, competitive intensity is very high, we can't keep on just loading that part of the business to look at. So, I think there's a bit of rationalization effort, which is what we are trying to do.

Tanmay Gandhi: Any sense about how would our realization be, in that case?

Dr. Om P Manchanda: I don't think if you're trying to build your model, there's a material change as of now, you should worry about. I think when we go along, we'll probably share with you a little more. I don't think we should tweak our model saying that there is some big change that's going to happen. It's going to be a very, very measured sort of way of rationalizing.

Tanmay Gandhi: Our non-COVID RPP is Rs.744 and total RPP is 754. But if I remember correctly, in the last few quarters, we mentioned that COVID realizations are dilutive. So, is there any change in pricing or other change?

Ved Prakash Goel: Tanmay, it is because of mix, which is a higher test and Swasthfit and Suburban also. So, all put together is where the difference is.

Tanmay Gandhi: No sir, I'm actually comparing the total RPP at the company level and non-COVID RPP. If there is any difference, that means that COVID realization is accretive, right?

Bharath Uppiliappan: No-no, it is a test mix and the geography mix change.

Dr. Om P Manchanda: Total RPP is 754, non-COVID is 744. So, what has led to this higher Rs.10?

Shankha Banerjee: Because of the allied component, Om, in that.

Dr. Om P Manchanda: So, actually COVID has two buckets. One is RT-PCR, the other is allied testing. So, RT-PCR is dilutive and the other one is taking it up, right, that's what is making difference but Rs.10 is a little high?

Shankha Banerjee: Because now the RT-PCR component of the COVID has gone down.

Bharath Uppiliappan: Significantly down.

Shankha Banerjee: It's more of the allied.

Dr. Om P Manchanda: So, that is what has led to this, yes.

Bharath Uppiliappan: COVID allied testing mix.

Tanmay Gandhi: For the industry in general, right, earlier, I think as per the industry reports, the general understanding was that diagnostics is a (+12%) growth for the industry right. But given the current competition scenario and the quick scale up which these competitors have seen and the way they are expanding their testing infrastructure, their revenue base, do you think that the growth trajectory could change?

Dr. Om P Manchanda: Definitely, no doubt. Let's look at five years back and now, competitive intensity amongst organized players have gone up sharply, because today you have brands which are being advertised heavily which are reaching out, they're building chain labs. And obviously, if they are there in the market, they are obviously gaining shares, etc., at the cost of earlier players. Now, I think one interesting thing one has to see is that a lot of deep discounting has taken place in the last year, year and a half, and purchase frequency is not that high in this business. So, one will have to actually see the thickness of this customer base over a period of time. I think many of these players have been in the market for maybe two to three years. We'll have to see how they actually stabilize in the year coming which is FY'24, it will be very important to see that. We are also seeing gradual improvement in our business as well, it's not that we are not seeing that, right.

Bharath Uppiliappan: So, like we mentioned,, Om, for the organic business, the H1 growth rate was 9.4 CAGR, it has moved to 10.8 in Q3.

Dr. Om P Manchanda: On a longer-term. There is a bit of recovery. I think the good news is that so much of action, which is taking place, market is going to grow in terms of business; Tier-2, Tier-3 towns growth rate would be there. So, we'll have to just see. While we are defending in one place, we are also making sure that we grow in other place, I think it's a combination of both.

Tanmay Gandhi: But when we say that the lower growth is also attributable to competitive intensity, but even for our Swasthfit growing very fast, right, earlier it used to be 15%, and currently it is?

Dr. Om P Manchanda: But it's not all incremental, it's also cannibalized our individual routine test, right, so, a lot of shift is happening. While the contribution of Swasthfit may have gone up, it sounds like 20% extra growth has come, it's not come as incremental, because a lot of these individual tests are now being clubbed into, people are availing bundled packages which is much greater value for money for patients.

Tanmay Gandhi: Within this 20% Swasthfit contribution, how much would be the wellness piece, any broader number?

Bharath Uppiliappan: No, there is no way we can differentiate where someone board a Swasthfit with fever or had chronic diabetes or came in for annual health checkup, there is no way of determining that instance in our system capability currently. So, I guess we are unable to differentiate and this is what we have said in the past as well.

Dr. Om P Manchanda: Yes, it's very difficult to tag that this turnover is due to wellness or this turnover is because even chronic patients are also upgrading themselves to bundled packages.

Moderator: The next question is from line of Nitin Agarwal from DAM Capital Advisors. Please go ahead.

Nitin Agarwal: On the bundled packages, two questions. One is a), proportion of Swasthfit, is it kind of uniform across various markets or this package is more skewed in certain markets?

Bharath Uppiliappan: The proportion varies, but you must look at a proportion not only at a geography level, but a channel level of geography, because each geography also has a different channel mix and Swasthfit is only through our B2C channel or a collection center channel. So, if you look at within the channel, within the geography perspective numbers, yes, there are still wide variations across the country. And there is one insight we're using to get geographies to get to the same level as the national average, or within well-performing geographies, there are centers which are not doing as well to get those up.

Nitin Agarwal: In these geographies which you are doing well would be typically traditional geographies of North or the newer geographies where the proportions are higher?

Bharath Uppiliappan: So, it's actually city specific. So, it's got a lot of detailing around that. So, I can't make a broad-brush statement, but North is definitely a much stronger Swasthfit market for us given the distribution reach we have and the consumer awareness about it also.

Nitin Agarwal: Secondly, from a business perspective, are these bundled packages equivalent from EBITDA profile perspective for the firm or are they dilutive, more accretive?

Bharath Uppiliappan: RPP is significantly higher. The net of servicing costs, there should be a higher EBITDA-accretive profile.

Nitin Agarwal: Just trying to think through now on the comment, because as a proportion this has grown much faster for us over the last few quarters, and EBITDA margins have kind of stayed around there, or maybe somewhat under pressure, the usual acute testing business, the profitability would have been under more pressure than higher pressure than the overall business, is that a fair way to look at it?

Bharath Uppiliappan: So, there has been a lot of other costs inflation, and that is one thing we haven't taken a price increase, because we have been able to manage higher realization, offset some other portions of the business through Swasthfit and a portfolio management approach.

Nitin Agarwal: Secondly, in terms of the volumes slowdown you've had this quarter or in the last couple of quarters, it is again broad-based across various geographical clusters or there are particular geographies where the relative volumes slowdowns are more pronounced?

Dr. Om P Manchanda: I think Delhi NCR is a little more, because in the base, we had very high incidence of dengue last year. So, in relative terms, other geographies are better than Delhi NCR because of a very high base of dengue last year.

Moderator: Ladies and gentlemen, that was the last question for the day. I now hand the conference over to the management for closing comments.

Ved Prakash Goel: Thank you, everyone, for being with us on the call today. I hope we are able to address your queries. If you have any more questions, please feel free to reach out to our Investor Relations team, CDR India, or me, we'll be happy to clarify our thoughts. Thank you once again. I would now request the moderator to close the call.
