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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

Symbol: LALPATHLAB

Scrip Code: 539524

**Sub: Transcript of Q1 FY25 Earnings Conference Call**

Dear Sir/ Madam,

Pursuant to Regulation 30 of SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015, please find attached herewith Transcript of Q1 FY25 Earnings Conference Call.

We request you to please take the same on record.

Thanking You,

Yours Faithfully,

For **Dr. Lal PathLabs Limited**

**Vinay Gujral**  
**Company Secretary & Compliance Officer**

*Encl.: As above*



## Dr. Lal PathLabs (DLPL) Q1 FY25 Earnings Conference Call Transcript August 07, 2024

### Call Duration

- 1 hour

### Management Speakers

- (Hony) Brig. Dr. Arvind Lal – Executive Chairman
- Dr. Om Prakash Manchanda - Managing Director
- Mr. Shankha Banerjee - Chief Executive Officer
- Mr. Ved Prakash Goel – Group Chief Financial Officer

### Participants who asked questions

- Rahul Agarwal - IKIGAI Asset Management
- Karthik Chellappa – Indus Capital Advisors Hong Kong Limited
- Binay Singh – Morgan Stanley
- Prakash Kapadia – Spark PMS
- Sumit Gupta – Centrum India
- Adrit Chaturvedi - Nomura Financial Advisory and Securities India
- Kunal Randeria – Axis Capital
- Shaleen Kumar – UBS Securities India
- Deven Kulkarni – Marcellus Investment Managers
- Abdulkader Puranwala – ICICI Securities
- Pranav Chawla - Antique Stock Broking
- Ashutosh Parashar - Mirabilis Investment Trust

**Moderator:** Ladies and gentlemen, good day and welcome to Dr. Lal PathLabs' Q1 FY25 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. Siddharth Rangnekar of CDR India. Thank you and over to you.

**Siddharth Rangnekar:** Good evening, everyone, and welcome to Dr. Lal PathLabs' Q1 FY25 Earnings Conference Call. Today, we are joined by senior members of the Management, including (Hony) Brig. Dr. Arvind Lal, Executive Chairman, Dr. Om Prakash Manchanda, Managing Director, Mr. Shankha Banerjee, Chief Executive Officer and Mr. Ved Prakash Goel, the Group Chief Financial officer.

I would like to share that some of the statements made on today's call could be forward-looking in nature and actual results could vary from these forward-looking statements. A detailed statement in this regard is also available in the results presentation that is available on the stock exchange websites and has been separately circulated to all of you.

I would now like to invite Dr. Arvind Lal to share his perspectives. Thank you and over to you, Dr. Lal.

**Dr. Arvind Lal:** Thank you, Siddharth. Good afternoon and a warm welcome to all participants on this call. We are here to discuss the Q1 FY25 Earnings Performance of Dr. Lal PathLabs. I would like to commence by sharing my insights into the changing market dynamics and the advancements we have achieved.

This year also marks our 75th anniversary. Dr. Lal PathLabs continues to be a trusted healthcare partner, renowned for its commitment to quality, accuracy, accessibility and affordability. The diagnostics market in India is expected to grow as people live longer, more tests get prescribed, and the shift from unorganized to organized sectors builds momentum.

Our unyielding attention to excellence in diagnostics has earned us the trust of both patients and physicians over the years. Utilizing our digitally enabled network infrastructure, we remain agile to service growing demand for testing. Our custom-built logistics solutions further enhance our capability to serve our patients more efficiently.

The integration between Dr. Lal PathLabs and Suburban diagnostics is progressing as per our expectations. With the Suburban brand, we are making volume expansion a priority. We are making strategic investments in both marketing and process efficiencies to fortify the brand while enhancing the patient experience. We are creating opportunities to grow sample volumes with the help of hub labs in important clusters around the rest of the country. Our synergistic approach enables us to provide patients with a comprehensive array of tests across multiple categories with speed and precision.

Looking ahead, our growth trajectory will be driven by the ongoing transition from unorganized to organized sectors, heightened awareness of accurate diagnosis and emphasis on wellness among others.

We remain dedicated to expanding our network and enhancing our service standards through operational excellence and innovative technological advancements. I am confident that the capabilities that we have created to achieve sustained growth will further consolidate our market share. Thank you and I would now like to hand over to Dr. Om Manchanda. Over to you.

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

I am pleased to report that we have achieved 11.3% growth rates on a YoY basis. This is a result of the consistent execution of strategy of expanding presence in identified towns and cities where our brand enjoys salience, particularly in West, North, Central, East and across the rest of the country.

The contribution from suburban diagnostics to the top line is scaling up in line with the initiatives that we are driving on franchising and brand communication. We continue to prioritize broadening and deepening the brands, geographical presence in order to derive sustainable volume and value growth. Our focus, therefore, is on scaling the next tier, expanding into Tier-3 and Tier-4 towns with lab infrastructure. We are establishing 20 new labs to broaden our reach with plans to add more labs as the year progresses.

DLPL is present in most prominent cities where we continue to densify our PSC network. Suburban is the fulcrum for the thrust into Mumbai, parts of western India including Goa and Pune. We are actively exploring opportunities to expand our footprint there, focusing on assets that align with our core values and strategic goals.

Our Swasthfit brand, a steady revenue contributor has delivered around 25% of the total revenue and continues to expand. The medical centers of excellence which we have established are scaling effectively and enhancing patient engagement and outcomes. Driven by strategic emphasis on sustainable volume growth, these efforts aim to draw patients from unorganized labs, promoting the adoption of a quality and accuracy-backed approach to testing.

Our investment in technology and into infrastructure are delivering concrete outcomes, strengthening brand visibility and facilitating smoother interactions with patients. Patients today access our services across channels and our infrastructure naturally has kept pace with these requirements. As its matrix evolves, brands like ours are in a strong position to access growth. We remain attentive to market dynamics, adapting our approach to ensure sustainability of outcomes.

Moving forward, maintaining a solid financial foundation is crucial. To focus efforts, we aim to maintain our robust operating metrics and drive a strong cost structure that will form the basis of the growth initiatives.

I now hand over to Shankha to delve deeper into business initiatives and operational highlights. Over to you Shankha.

**Shankha Banerjee:** Thank you. I welcome all participants joining this call today. I will proceed to share the business and operating highlights with you.

We are pleased to announce a strong start to the year, achieving robust performance in both revenue growth and profitability. In Q1 FY25, we achieved a revenue of Rs. 602 crore, representing a 11.3% growth over Q1 last year. This growth in revenue is driven by patient volumes, which is at 7.2 million and 21.1 million samples. Patient volume growth for Q1 FY25 is 5.5% and sample volume growth is 9.6% over Q1

FY24. Notably, we saw a 10.4% increase in patient numbers in Q1 FY25 as compared to Q4 FY24. Our Q1 FY25 revenue per patient stands at Rs. 833, which is same as Q4 FY24.

We are strengthening our digital infrastructure and capabilities encompassing cutting edge data analytics in order to enhance testing and service outcomes for patients. This is going to be a focus area for us. Dr. Lal PathLabs and Suburban are driving the omni-channel experience forward with the help of technology.

In the period to come, we expect a combination of volume gains and realization mix to drive the revenue growth. This shall include favorable tests and geographic mix, the traction in bundle testing and build up in volumes in specialized tests shall also contribute to this.

In conclusion, I would like to emphasize that we are progressing as per plan on our growth objectives. Our future performance will be guided by expanding our footprint in identified clusters, enhancing our digital capabilities and enhancing patient service outcomes. Thank you for your ongoing support and trust in our journey.

This concludes my opening thoughts. I would now request Ved to take you all through the Financial Performance. Over to you, Ved.

**Ved P Goel:**

Thank you, Shankha. Good afternoon, everyone and a warm welcome. I am sharing some of the key Financial Highlights for Q1 FY25. Revenue for Q1 FY25 came in at Rs. 602 crore against Rs. 541 crore last year same quarter, a growth of 11.3%. Revenue per patient for Q1 FY25 came in at Rs. 833 v/s Rs. 789 in Q1 FY24.

Sample per patient for Q1 FY25 is 2.92 with a growth of 3.9%. EBITDA for Q1 FY25 came in at Rs. 170 crore v/s Rs. 146 crore in Q1 FY24, registered a growth of 16.2% with the EBITDA margin of 28.2%. PBT for Q1 FY25 came in at Rs. 150 crore, registered a growth of 27.6% with PBT margin of 24.9%. PAT for Q1 FY25 came in at Rs. 108 crore v/s Rs. 84 crore last year same quarter, registered a growth of 29.1% with PAT margin of 17.9%. EPS in Q1 FY25 is Rs. 12.8 v/s Rs. 9.9 in Q1 FY24. Net cash and equivalents as on June 30th, 2024 is Rs. 1,044 crore.

We are pleased to announce that the board of directors has approved an interim dividend of Rs. 6 per share for FY25.

With this, I conclude my opening remarks, and I would now request the moderator to open the forum for Q&A.

**Moderator:**

We will now begin the question-and-answer session. We will take our first question from the line of Rahul Agarwal from IKIGAI Asset Management. Please go ahead.

**Rahul Agarwal:**

I have three questions. Firstly, Dr. Om, on the Tier-3, Tier-4 markets, as you are expanding infra, I just wanted to know any learning from patient behavior here like, how are these patients different from metros and Tier-1, what are they seeking from a brand like yours?

**Shankha Banerjee:**

In terms of expansion into Tier-3, Tier-4 primarily it's a lot about looking at local unorganized players and we are going to compete with them and our offering there is quite similar to what we offer in Tier-2 and Tier-1 cities as well. We lead with quality and service and obviously we are finding quite a lot of patients and clinicians who are embracing us in these cities. The offer is really not significantly different from what we are doing in our other cities.

**Rahul Agarwal:** Is the pricing very different or even that remains the same?

**Dr. Om P. Manchanda:** Rahul, I will probably slightly give you a higher-level perspective. What we have seen is that most of these smaller towns, their behavior is influenced by nature of the prescription given by doctors. What we are seeing is that the healthcare is now travelling to Tier-3, Tier-4. And I think it's a bit of a qualitative comment. I think overall quality of medical manpower is also going up as more qualified doctors settle down in smaller towns, they tend to prescribe tests which are also higher order. I think this is more a market evolution where we will see level of testing going up with time and directionally it's quite visible in our numbers as well. I think that's where I would want to make comment.

**Rahul Agarwal:** Secondly, on this Medical Center of Excellence, just wanted to know, could you elaborate what is this exactly, are we putting up a different infrastructure here or is this the current lab is getting transformed into something?

**Dr. Om P. Manchanda:** I think it's a good question. I will explain to you. I think you guys cover lot of pharma businesses. If you look at the journey of this entire pathology, most of the differentiation in the past has been service, branding, brand awareness, top of this stuff and all of that. But as we have progressed in the last 20 years, the market has grown, more competition has come, so everybody's offering the same thing. Now the only way you differentiate is that you start looking at different segments. Like in pharma, you have a Gastro division, you have an Oncology division, you have that and this. Answer to this question is we are trying to segment the market and look at broad segments and especially on high end, the segmentation is done based on busy state and that's how we have identified certain segments like Oncology, Autoimmunity, Reproductive diagnostics and trying to get more focus from the corporate side, so that whether it's introduction of newer tests, whether it's introduction of new communication with the medical fraternity, organizing seminars or creating patient cohorts. A lot of those activities in a focused manner, we are trying to create these categories and that's the whole idea. Operationally, though we have some people on ground, but we are not trying to create different teams for these segments.

**Rahul Agarwal:** These are like existing people working at different labs which are identified as where you want to increase communication and you want to focus on specific specialties, is that correct?

**Dr. Om P. Manchanda:** I would say higher focus on marketing efforts, everything else remains the same, that's it.

**Rahul Agarwal:** Lastly, on this Swasthfit specialized portfolio, just wanted to know, I know that it's small right now, but what kind of scale or total mix into overall Swasthfit, do you visualize over the next 3 years?

**Shankha Banerjee:** The Swasthfit specialized portfolio is primarily aimed toward clinicians, and we are still kind of working on it. It's not something which has reached the level of scale for us to differentiate and start reporting those numbers separately.

**Rahul Agarwal:** Shankha, I understand. What I was asking was is more like a 3-year view, would you visualize like what kind of a specialized mix would you have within Swasthfit, would you have that?

**Dr. Arvind Lal:** The people around India especially in these Tier-3 and Tier-4 towns they have not realized the importance of these so-called non-communicable diseases and lifestyle diseases which we are trying to make an awareness and that is also a part of why the Swasthfit is doing well.

- Moderator:** We have our next question from the line of Karthik Chellappa from Indus Capital Advisors, Hong Kong Limited. Please go ahead.
- K Chellappa:** Sir, I have three sets of questions. The first one is, if we were to look at our volume growth, let's say of about 9% or so, could you give us some sort of perspective on geography wise, how that is faring, I mean, which are like the geographies driving double digit and which are the ones which are still lagging?
- Ved P. Goel:** Karthik, I think we are not giving geography wise split quarterly, but once in a year we are giving it. Having said that, the geography is like rest of north and east which obviously we are performing well, and they are doing better than our company average. Where we are going much deeper, which is, let's suppose rest of north and especially UP where we are going Tier-3 and plus, that is obviously the higher growth as compared to company growth.
- K Chellappa:** My second question, sir, is what would be the like-for-like price increase that we have taken on a YoY basis across tests?
- Dr. Om P. Manchanda:** We took last price increase, that was in February 2023, and we completed one full year of cycle of that in Feb '24 and we have not taken any price increase and neither we have intent to take as of now.
- K Chellappa:** Which means if I were to look at, let's say the realization per test, which is probably up 2% YoY, that's probably driven more by mix, right, rather than anything else on a like-for-like?
- Dr. Om P. Manchanda:** Absolutely. This is the mix which is driving this revenue per patient up.
- K Chellappa:** Sir, would you be able to share the revenue and EBITDA margin for suburban this quarter?
- Ved P. Goel:** Suburban revenue growth for this quarter is about 8% and EBITDA is about 14%.
- Moderator:** We will take our next question from the line of Binay Singh from Morgan Stanley. Please go ahead.
- Binay Singh:** The 8% growth in suburban you commented so basically, we would have done around Rs. 40 crore or so of revenue. Is that YoY that you gave?
- Dr. Om P. Manchanda:** Yes, it's YoY, same quarter last year.
- Binay Singh:** Any reason for suburban growth to be lower than your overall growth, any comments on that?
- Dr. Om P. Manchanda:** I know this is the question which is in everyone's mind. I think the number doesn't show, but we are not unduly worried about this. I think the fundamental thing what has happened in Suburban is there is a very strong strategic shift that is taking place in that company. This company used to be more driven through Doctors network in the past, own infrastructure in the past, we are strictly going by franchising, infrastructure direct-to-consumer, there was a lot of the business of CRO also which actually was not a business which was very B2B, not a sustainable thing. So, we are trying to build this company more direct-to-consumer, make sure that health checkups and things like that. I think overall directionally 8.3% is definitely an improvement from what we have experienced in the past. Directionally, I think we're getting more confidence about suburban. I am not really too much worried about this number. Ved is telling me core business growth is 13%. I don't want to get into this.

To me, one number is where we stick to, we don't really slice this number into core and non-core. I stay very confident on suburban. That's the way I would say. See, it's actually not run QoQ. It's a need-based business. You just keep doing your work slowly, slowly, one gets the results. I am very, very sure about this. Look at margins of 14.1%. Even before our transition, pre-COVID had single digit margin. So, there is an improvement which is visible. There are green shoots here.

**Binay Singh:** And sir, secondly, on your own margins, because in the past we have always seen that Q2 is usually the strongest quarter for the company and given revenue leverage that falls in, so margins also tend to be the highest in Q2. Would you sort of expect a similar trajectory into this year also?

**Dr. Om P. Manchanda:** Yes, Q2 is always higher. You are right. Most of the spike actually happens around September. But there is no reason why it should not happen because the season, rains, etc., all that happens every year. But as the revenue tends to be in absolute terms also higher in Q2, everything just flows into the margin. I presume that Q2 will always remain higher margin compared to a new quarter.

**Binay Singh:** In the sense, your margins could at least hold up or inch up on an annualized basis from these levels as you are getting leverage gain like it's visible in your Tier-3?

**Dr. Om P. Manchanda:** But it gets knocked down in Q3. I just don't look at quarter wise. My eyes always are on the annualized margin where we should really focus.

**Binay Singh:** And lastly, like after many calls, you've not made much comment on competition this time around in the call. Is that because you see it easing or there was not much to add, that's why it was not there in the opening remarks?

**Dr. Om P. Manchanda:** I think there are two directions one can talk about competition. One is the intensity of competition which to my mind will continue to remain, it was always there. I think competition became visible because a lot of private equity money and I think there were different formats of cash burn, etc., they were spending a lot of money on promotions which to me has eased off. That's why they are not that visible now. So, competitive intensity from visibility perspective has come down, but it's not that they are out of the business, they are still there. Those companies that one used to talk about, it continues to operate. But I think the spend to acquire customers, spend to actually just be visible anywhere and everywhere, that too has come down. I think the other intensity in terms of predatory pricing, this kind of promotion, this Rs. 199, Rs. 99 tests and all, all that actually also has gone away. But in terms of number of players, I think that intensity still continues. And I think as the overall market is growing and you know a healthy sort of margin profile in the industry will always attract competition. And I've always maintained competition is good for the industry because it overall brings up the table in terms of quality level-playing field, and at the end of the day, organized market still has to grow because it has to grow from unorganized and which is a very large segment. So, there is a space for everyone to be there as long as there is healthy competition. I think to my mind that extreme, unhealthy competition has now become healthy competition, but competition is still there.

**Moderator:** We will take our next question from the line of Prakash Kapadia from Spark PMS. Please go ahead.

**Prakash Kapadia:** Could you give us some sense of specialized test as a percentage of overall revenues maybe last year and do we see that as a differentiator going forward because we seem to be investing in R&D, we seem to be doing a lot of work on newer tests, so where are we in our journey? Secondly is on Suburban, what will it take to get that inflection point because it's almost now 3 years and we have been



investing in process, we have built the infra we have transitioned from being a doctor advocacy to a consumer brand and I think we are still #3 in Mumbai, what will it take for us to grow Suburban faster than the company average?

**Shankha Banerjee:** I think on the first question regarding specialized, the specialized portfolio is again the way we define it, because specialized portfolio definition can vary from organization to organization, the way we define it, it currently contributes about 23% of our revenue v/s let's say similar period last year, the contribution would have grown by about 1-1.5% points. So, yes, that contribution is slowly increasing. It is a differentiator in terms of our ability to really get into larger institutional businesses and also get key opinion leaders to kind of endorse the brand. Is it a huge volume builder? As of now like I said, the contribution is more or less stable, maybe 1% up over a similar period last year. Coming to the question on Suburban, I think the way to look at Suburban is that there is a core geography focus that we talk about, and that geography is slowly and steadily responding for us. But, yes, as a number one when we look at what is happening to suburban, there is quite a lot of non-core business which is still a drag on the overall number, and one would imagine that it still would take maybe few more quarters for us to start seeing the overall suburban number growth rates to maybe move to double digit and early teen level. And after we reach there, we will see how we can get it going faster than DLPL.

**Prakash Kapadia:** That would be Shankha, from Mumbai only or this Pune or Goa initiative will get us there?

**Shankha Banerjee:** No. So, we have defined Mumbai, Pune and Goa as the three core. I think those are the three geographies that we are spending all our efforts on right now and those markets are responding quite positively as well.

**Moderator:** We have our next question from the line of Sumit Gupta from Centrum India. Please go ahead.

**Sumit Gupta:** I have some questions on Swasthfit. I just want to understand what is driving Swasthfit. So, if we see like overall contribution has been increasing on a sequential basis also? And can you explain how much is coming from rural and urban?

**Shankha Banerjee:** Let me try and take the first part of the question as to what is driving Swasthfit. So, there are three screens that we see. First and foremost, there is this whole awareness amongst the public regarding doing preventive testing. The whole area in the metro cities as well as kind of approach that we put on online, etc., so there is a slice of that preventive wellness market that we see is helping Swasthfit growth. Secondly, there is also something which we see with channel expansion. We also notice that there is some upselling which happens in the channel. And lastly, we are also seeing in certain markets that clinicians are moving toward starting to prescribe packages. So, those are really drivers. And as we expand our reach further in metro as well as Tier-2, Tier-3 kind of towns, we see that Swasthfit growth is likely to continue. That's really maybe the first part of the question. In terms of split between urban and rural, I think we haven't got those numbers ready. So, for us it is primarily from Tier-1, Tier-2, Tier-3 towns, we will have to see what is the exact split and we can maybe share that number subsequently sometime.

**Sumit Gupta:** To take a broader view over the next 3-4 years, what is the peak contribution that you expect the Swasthfit to contribute to overall revenue?

**Shankha Banerjee:** That's a quite a pie in the sky kind of a question. At least one thing we can definitely foresee is that if you see next 3-4 years, it should be higher than where we are today. But how much higher and where is the limit? I think that's something which we are still trying to work out.

**Dr. Om P. Manchanda:** We did a math and we found out that for the last 5 years, directionally every year we are increasing by 1.5%. Now, obviously that was on a much smaller base. So, let's hope that continues for some time for next 2-3 years.

**Sumit Gupta:** How do you see the margins inching up, faring well due to Swasthfit or overall business?

**Ved P Goel:** As Dr. Om mentioned, we don't see margins QoQ, but on annualized margins.

**Sumit Gupta:** Overall like over the next 3-4 years?

**Ved P Goel:** On a longer term, we said in the last call around 27% kind of margins because we also are doing lot of investments, we are going deeper, we are spending more and lot of new investments are required which will give obviously top line in a longer period. But in the longer term, I think you don't think these kind of margins, much sustainable is around 27% kind of mark.

**Sumit Gupta:** What was the revenue contribution from North and West, the overall geography mix for this quarter?

**Ved P Goel:** I think again quarter wise it will not be representative, but I am saying we had like Delhi and NCR which is 31%-32% kind of contribution and rest of India is balance.

**Moderator:** We will take our next question from the line of Adrit Chaturvedi from Nomura Financial Advisory and Securities India. Please go ahead.

**Adrit Chaturvedi:** I would just like to follow up on the awareness campaign bit that you had mentioned earlier. So, in these awareness campaigns, are there also any discounts that you are offering to drive up a lot of these bundle testing volumes?

**Shankha Banerjee:** So, I think these are two different things in itself. I think bundle testing by definition is discounted. There are awareness campaigns which are built on promoting the bundle test. Like I said, if you look at a package, the package is inherently itself discounted. That's one part of it. But I think some of the maybe visible campaigns that you observe, those are more to do with building awareness of the brand and the service, which is slightly independent from specific package promotion.

**Adrit Chaturvedi:** Would you have the number handy and if you could give it like at MRP if there are any kind of increases in these bundle testing, right now they're discounted, so there's no true sense of volume that we could gauge, if there's something like a GMV number on that?

**Ved P Goel:** Generally, I mean these packages are discounted at a 20%-30% kind of discount on MRP and depending on the packages.

**Adrit Chaturvedi:** Also, I think a lot of these bundle testing are also driving up your test for patients, right? So, right now it's at 2.9. As the share of this increases, do you have like a sense of how up it could go like it will go across 3 or like a 3.1 or is there a vision there that you would like to have more tests per patient or an average number that you track?

**Shankha Banerjee:** We don't have any operational target on saying that I want to drive test per patient. I think our operational targets are more around increasing our reach and also making these bundle tests available and promoting them. Naturally we see by doing all of these test for patient grows as well as revenue per patient grows. Now, we don't really work on a target saying that I got to grow so much basis. Because it's also a

lot of other factors which drive including geography mix, specialized test portfolio and also the channel through which we sell. We really don't work on a specific target on that. But as the contribution increases of Swasthfit, the test per patient is likely to go up.

**Adrit Chaturvedi:** This specialized portfolio, so now that it's like 23%, what kind of gross margins are you seeing on that? And I presume that there will be on the lower end of the whole portfolio?

**Ved P Goel:** Gross margin is different on this specialized v/s routine, but net-net on EBITDA level, I don't think there is much difference because these are high end mostly, we are getting outsourced from hospitals or some 3rd parties where we just spend on logistics. But on B2C there is an infra cost, servicing cost which is much higher. Gross margin is different but on EBITDA level there is not much difference.

**Adrit Chaturvedi:** Could you qualitatively or like tell me how different could they be like to like an average specialized versus a routine like what kind of gross margins differentials are you observing?

**Ved P Goel:** Those are very difficult to measure, but we are measuring on bottom line which is net-net on EBITDA level.

**Adrit Chaturvedi:** And do you have like a mix of the institutional business through Swasthfit that you are doing versus your retail?

**Shankha Banerjee:** Swasthfit is predominantly a retail product. It isn't so much into institutional product.

**Moderator:** We will take our next question from the line of Kunal Randeria from Axis Capital. Please go ahead.

**Kunal Randeria:** You've been expanding aggressively in this year. From Tier-3 and Tier-4, on company level average for Swasthfit is around 25%. So, even from Tier-3 and Tier-4, is it similar or would it be substantially lower?

**Shankha Banerjee:** I think this question was asked earlier, urban-rural split, etc., I don't think we have the numbers handy. I think once we have those numbers, we will look at it and see whether it's different or not. However, that may not be the right metric because the competitive set and the growth strategies in these markets could be slightly different, Tier-3, Tier-4 v/s Metro or a Tier-2 town.

**Kunal Randeria:** Second question is actually for Ved. Ved, you mentioned a 27% is the kind of EBITDA margin you are comfortable guiding with. You are already at 27% and I am assuming that the Suburban should improve, which means the core margin, the core ex-per cent margins should turn around in the coming year. Is that because you'll be making higher investments if you can just run it through your cost?

**Ved P Goel:** Yes, Kunal, it will compensate through higher investment in newer markets and spending on awareness, some bit of digital and automation, all these things.

**Moderator:** We will take our next question from the line of Shaleen Kumar from UBS Securities India. Please go ahead.

**Shaleen Kumar:** Two parts of the portion. First, we can see that our margins are improving, and they've been consistently improving, and I believe that we have been investing in growth as well. Can you talk a little bit about how we are investing for future growth in terms of maybe more accelerating our patient service centers or entering into new

segment? And second part, when will we see the impact of that coming in? It could be any positive momentum on the growth maybe 3-6 months down the line you see because of investments happening?

**Shankha Banerjee:** Shaleen, let me try and answer that. In terms of where we are investing, it is in quite a few dimensions. I think Dr. Om mentioned about these 20 labs that we are in the process of setting up. First and foremost, it's in new lab infrastructure and accompanying that obviously you have other overhead costs that get built into the system. Over and above that, we are also improving our spending, whether it's on the digital channel as well as in offline to build awareness and also see how we can drive more patient acquisition activities. And as we expand more into non-core geographies in West and South, obviously, the spending needs are substantially higher than in brand strong markets. Primarily those would be where these spends are going to keep going. And lastly, some of it will also go into our frontline, manpower, expansion in sales and marketing kind of areas. Your second question was where we can see the impact. Now actually this is an ongoing activity. It isn't as if that we started this action a few quarters back. This is an action we continue to do over a period of time. So, what we see benefits today are result of actions which have been taken maybe a few quarters or a year back. So, it's a rolling action. In case you are expecting a certain spike because of these investments we are making, it may not be so, but yes, steady growth and also ability for us to do better in the newer geographies that we are entering is what we see as the likely outcome.

**Shaleen Kumar:** Is it right to assume that, again, the intensity of our efforts has gone up because of our healthy profitability, strong position in terms of the character and all possibility. The intensity vis-à-vis later 2-3 quarters v/s where we are right now, it should be better, right because of where we are and hence, I am not expecting step jump, but a gradual improvement should be followed if the intensity is high, or intensity is increasing?

**Shankha Banerjee:** Intensity I would say is because of two reasons, one can look at. In our core geographies, this whole expansion into Tier-3, Tier-4 is happening which needs quite a bit of investment from our side, and also in some of our weak brand markets in west and south, there is investment required and the new channel that we have started spending on which is in digital. These is where the whole promotional spend is going. And yes, the outcome expected is a gradual improvement in our growth rates.

**Shaleen Kumar:** Any new segment you are trying to tap in, kind of segments which you are kind of getting excited about?

**Shankha Banerjee:** I think in terms of segmenting in the market, Dr. Om mentioned that there are various categories that we are trying to create and work on. Obviously, the exciting area is around non-communicable diseases. That's the whole area where Swasthfit and some of our other approaches are really focusing on, various things around that, and also some of these specialized areas in and around genetics and testing in that area.

**Moderator:** We have our next question from the line of Deven Kulkarni from Marcellus Investment Managers. Please go ahead.

**Deven Kulkarni:** Hi, Ved. For this quarter effective tax rate is around 28%, which seems to be on the higher side. So, just wanted to understand why is that?

**Ved P Goel:** There is the deferred tax and Suburban depreciation, which obviously has impacted. There is some adjustment on account of deferred tax. But on an average, this tax rate is not changing, if you will see annualized basis, I don't think there is a change in tax rate. Don't see this quarter as a representative quarter for tax rate.

- Deven Kulkarni:** And secondly, currently what's the net cash position as on 30th June?
- Ved P Goel:** Rs. 1,044 crore.
- Moderator:** We have next question from the line of Abdulkader Puranwala from ICICI Securities. Please go ahead.
- A Puranwala:** In the past, we have highlighted some bit of competition coming directly from hospitals where they are trying to forward integrate. I mean any thoughts on how we can tackle this or any measures we have already taken in those areas, if you could highlight?
- Dr. Om P. Manchanda:** Our experience is the hospital competition is very limited to where the brand salience is there and that's mainly in some catchment area of 4-5 kilometers. Building a large network for hospital business is very, very challenging, We are not unduly worried about that. As I keep mentioning that it's better that good quality name come into the market, so the overall table will go up. But there have been 4-5 such players who come in, but they have done well only in those markets where the hospital brand is strong and most of them are also listed players, I don't think there's any other listed player who's trying to do this. It's okay, there's a lot of space in the market for competition to be absorbed.
- A Puranwala:** My next question is with regards to the underlying growth in Q1. So, if I exclude the 8% growth what you mentioned about suburban and Swasthfit, the balance business also seems to have grown at 7%-8%. Any thoughts over there, I mean is there some bit of lumpiness in a few tests due to which the growth was in single digit?
- Shankha Banerjee:** Looking at growth excluding Swasthfit may not be appropriate because like I said in terms of the way Swasthfit business is coming, there are places where upselling is happening, also now some doctors' prescriptions are moving towards Swasthfit, so something which was a non-Swasthfit earlier may also be turning into Swasthfit. I think we need to look at the totality of the business. You can look at maybe suburban separate and DLPL if you want to look at in organic, maybe that will be a more appropriate way to look at it.
- A Puranwala:** In terms of the margins for Suburban, I mean I understand we have put considerable efforts to improve the margins here. But on a sequential basis also, we did I think close to 17% last quarter and now it's close to 14%. Just wanted to understand is there any lumpiness into this business and on an annualized basis what is the kind of a sustainable margin we should look forward for next 2-3 years perspective?
- Dr. Om P. Manchanda:** I really won't go by a few percentages here and there because base is too small, Rs. 40-50 lakhs here and there can swing that margin. Our focus clearly in Suburban is to see higher top line growth. I won't be worried about too much about this margin fluctuations. For the next 2 years, we just want to make sure that we get our growth trajectory right and then everything else will fall in place if you have good top line growth.
- Ved P Goel:** Plus, if you see QoQ, it's improving, last year same quarter it was much lower. So, from that sense because there is a quarterly impact, increment also. On an annualized basis we are very confident that we should be improving.
- Moderator:** Our next question is from the line of Pranav Chawla from Antique Stock Broking. Please go ahead.

**Pranav Chawla:** Sir, I have just one question majorly on your Delhi NCR market. Have we seen the growth rate of NCR slowing down over the past years?

**Shankha Banerjee:** I think the good news is that we aren't really seeing a slowdown in the growth rate rather we see it being sustained at a level which is slightly higher than what we had maybe pre-COVID.

**Pranav Chawla:** If we are seeing NCR, that is our biggest geography, if that continues to maintain its growth momentum, which would be the market that we are seeing a slowdown as of now, because NCR is among the biggest markets that we have?

**Dr. Om P. Manchanda:** My sense is that Delhi NCR market has gone through 2-3 phases where there was a phase, there was heightened competition, I presume some bit of a shift may have happened to them in the last couple of years, many of our old customers whom we lost may have come back to us. In between, we had a slightly slower growth in Delhi NCR, but as Shankha mentioned that we are inching towards slightly higher number. Can it go up further? I still doubt because in our business planning, we still don't want to project higher Delhi NCR growth because the base is too high and the market, size is still 3-4-5 crore of this cluster, while all other clusters like UP, Bihar, Uttarakhand, they are firing for us, where the market size is nearly about 20-25 crore population. So, that's the way I would put it. Basically, we are very strong in Delhi NCR. Some of our customers who may have gone to the competition may have come back in the last 8-12 months. This is what we are seeing, and I think Swasthfit contribution also has pushed up the revenue growth. But I will still stay conservative on Delhi NCR and push the other markets.

**Pranav Chawla:** Have we seen any change in patient behavior because our patient volumes have been pretty muted for the past couple of quarters, have we seen any improvement on this front?

**Dr. Om P. Manchanda:** There is an interplay that we are seeing between as the contribution for Swasthfit goes up, the number of patient visits are slightly muted. That may have impacted this growth. Because what we are reporting as a patient volume growth is technically, not unique patients, they are patient visits. But in Swasthfit per visit you end up doing a lot of tests in one-go, the number of visits may actually get reduced. So, I think we are seeing some kind of interplay as the contribution of Swasthfit is going up. I have a sense that patient visits may be inversely related to that. I think there may be some impact that we are seeing. But I think overall one should see the sample growth, which is nearly about 9.6% which is a combination of number of tests per patient into patient footfall.

**Pranav Chawla:** Can you give us some color on FY25 as well as FY26 growth that you are internally projecting?

**Dr. Om P. Manchanda:** I think FY25, I told you last time we will try and beat the FY24 number. This quarter is 11.3, its better than 10.4%. I have a feeling we will continue to do better and then definitely beat 10.4% of last year. As I mentioned that September is a crucial month for the entire industry, not only for us, I don't know how it turns out to be, but I think I can confidently say that we will beat the last year's number.

**Shankha Banerjee:** Adding to that, we beat last year growth number without having to take a price increase. That is what we are trying to drive the sales increase. And once we see 2-3 quarters of this year, maybe we will be in a position to then start looking at what the next year outlook.

**Dr. Om P. Manchanda:** I think October might be just a good month to talk about FY26.

**Pranav Chawla:** What is the strategy of cash utilization given that we have cash building on the balance sheet?

**Dr. Om P. Manchanda:** Time and again we have said, our priority #1 is to look for strategic assets, inorganic which are in South and West Region, in West we have done Suburban. If you look at contribution wise, region wise obviously South is still very weak. We would want to fill that gap. There is no doubt about that. But we also need to have a quality asset at the right price, much high on governance, etc., so that's given. In absence of that happening because you don't know that doesn't happen every month or every quarter, it may happen, may not happen. But in the meantime, we have increased our dividend payout, we are trying to balance between the two and also investment in our new labs and technology. I think combination of all these 3s where we want to utilize cash. Cash and the balance sheet is also good because our ability to do certain transactions can actually go up as well. #1 priority is to see deploy this money for growth primarily in acquisition because it's a global experience that in new markets it's very challenging to establish organically. So, one has to look at that.

**Moderator:** We will take our next question from the line of Ashutosh Parashar from Mirabilis Investment Trust. Please go ahead.

**A Parashar:** So, just a couple of questions. On the 20 labs that we are planning to open this year, can you give us some color on the geographic spread of these labs. Are these likely to come up in the markets of Bihar and UP? And how many of these are planned for Suburban?

**Shankha Banerjee:** The primary focus is going to be, we have been doing in Tier-3, Tier-4 geographies of North and East. That's where the primary focus is going to be. Suburban, there isn't really a plan to add too many labs, there are 1 or 2 maybe gaps which we will fill, we are still evaluating that, but this is more in our core geographies of North and East.

**A Parashar:** On the Suburban trend, it's been some time since we have integrated the acquisition. Are there still some gaps on testing mix and all that we have to address or we have largely addressed that?

**Shankha Banerjee:** There are various layers of integration that are currently working. From a test perspective, now the whole test menu, which Dr. Lal PathLabs operates is today available through Suburban as well. But having said that, there are certain background integration, IT integration work, which is still happening to make it even more seamless, that work is going to take some more time. But as of now, clients in the geography, in which Suburban is operating have access to all test menu from Dr. Lal PathLabs.

**A Parashar:** What would be the average realization for our Swasthfit test?

**Dr. Om P. Manchanda:** You see, my reading is, you can do a reverse math in any case, right? 25% contribution, you know the portfolio revenue contribution earlier and now I think you can figure that out, but exact figure we have not really shared so far.

**Moderator:** Ladies and gentlemen, that was the last question for today. I now hand the conference over to management for closing comments. Over to you sir.

**Ved P Goel:** Thank you everyone for being with us on this call today. We express our gratitude for your continuous trust and support. I hope we are able to answer all your queries satisfactorily. Please feel free to reach out to us in case you have any further questions. Thank you once again.

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