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Corporate Relationship Department
Phiroze Jeejeebhoy Towers
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Subject: Financial Results Conference Call Transcript for Q1 FY21

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 Q1 FY21.

We request you to please take the same on record.

Thanking You,

Yours Faithfully,

For Dr. Lal PathLabs Limited


Rajat Kalra

Company Secretary and Legal Head



Encl: As above



Dr. Lal PathLabs Limited
Q1 FY21 Earnings Conference Call
July 31, 2020

Call Duration	<ul style="list-style-type: none">▪ 1 hour 15 minutes
Management Speakers	<ul style="list-style-type: none">▪ (Hony) Brig. Dr. Arvind Lal - Executive Chairman▪ Dr. Om Prakash Manchanda - Managing Director▪ Mr. Bharath U - Chief Executive Officer▪ Mr. Ved Prakash Goel - Chief Financial Officer▪ Mr. Rajat Kalra - Company Secretary and Head of Investor Relations
Participants who asked questions	<ul style="list-style-type: none">▪ Anmol Ganjoo - JM Financial▪ Anubhav Aggarwal - Credit Suisse▪ Chandramouli - Goldman Sachs▪ Chetan Gindodia - AlfAccurate▪ Deepak Mehta – Individual Investor▪ Dr. Harith Ahamed – Spark Capital▪ Hemant Patel – Alder Capital▪ Kishore B – Retail Investor▪ Kunal Dhamesha - Systematix▪ Prashant Kothari - Pictet▪ Ranvir Singh – Individual Investor▪ Sabyasachi Mukerji – Centrum PMS▪ Sameer Baisiwala - Morgan Stanley

Moderator: Ladies and gentlemen, good day, and welcome to the Dr. Lal PathLabs' Q1 FY21 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 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, sir.

Nishid Solanki: Thank you. Good afternoon, everyone, and welcome to Dr. Lal PathLabs' Q1 FY21 Earnings Conference Call. Joining us today are senior members of the management team including (Hony). Brig. Dr. Arvind Lal - Executive Chairman, Dr. Om Prakash Manchanda - Managing Director, Mr. Bharath U – CEO, Mr. Ved Prakash Goel - CFO and Mr. Rajat Kalra - Company Secretary & Head of Investor Relations.

Before we commence the call, I would like to underline that some of the statements made on the call today could be forward-looking in nature and the actual results may vary from these forward-looking statements. A detailed disclosure in this regard is available in the 'Results Presentation', which has been circulated to you earlier.

I would now like to request Dr. Arvind Lal to Share his Perspectives with you. Thank you. And over to you, sir.

Dr. Arvind Lal: Thank you, Nishid. Good afternoon, ladies and gentlemen, and I thank you all for joining us for today's call. I hope everyone is keeping safe amidst this pandemic COVID-19 situation. I will begin by sharing my thoughts on the performance for the quarter.

As the world continues to deal with the impact of COVID-19 pandemic, day-to-day life has been affected severely as have businesses and economies across the globe. Q1 FY21 for us was no different as we commenced the year with several challenges and disruptions posed by the pandemic. It was a very difficult period with the lockdown being enforced in this quarter. And given the essential nature of our services, we were allowed to operate, although in a constrained environment and volumes momentum was significantly impacted due to patients' hesitance in stepping out of their houses also. All this impacted our financial performance for the first quarter of this fiscal year.

As a Company, we have consciously taken steps to digitize the entire patient journey long before the COVID pandemic hit us. We are confident that this will continue to give us an upper hand over the competition. I am sure you will appreciate our digital aspirations where we have deeply integrated technology into our operations to provide our patients a seamless customer experience.

As a trend, diagnostics draw greater attention post pandemic as people become more vigilant and sensitive to their health and wellness. This is expected to provide a boost to the healthcare and diagnostic industry over the medium to long-term.

We remain committed to offering our services responsibly during these unprecedented times as well as creating value for all the stakeholders. Further, I believe that all the initiatives undertaken in the recent past, will help us gain significant market share and further elevate our position as the largest diagnostics player in the country.

With that, I would like to hand over the call to Dr. Om Prakash Manchanda to share his thoughts. Thank you.

Dr. Om P Manchanda: Thank you, Dr. Lal, and good afternoon to everyone.

As Dr. Lal mentioned earlier, we witnessed a difficult first quarter due to several restrictions enforced due to the COVID-19 pandemic that impacted our business adversely. Being an agile and proactive organization, we promptly implemented several initiatives to combat the impact of this pandemic on our operations. Apart from setting up a dedicated task force to address all COVID-19 related issues, we accelerated our emphasis on home collection and online test booking by leveraging our digital infrastructure.

We are also working on initiatives to reduce the time spent and the contact with the patients whenever they visit any of our centers. This is going to help us bring back the patients.

As a Company, our focus remains on driving volumes and expanding our reach. Towards this end, we have worked tirelessly to increase our contribution from rest of India. As you may have seen, we have been acquiring select small and standalone labs in a calibrated manner in cities of West and South India. This is aligned with our strategy of expanding presence outside of Delhi NCR region. The labs that we acquire are of superior quality, an important part of our strategy for expansion in rest of India market.

We also strive to provide improved experience to our patients by leveraging technology that we have inculcated into our systems thereby helping us provide seamless and convenient process.

I will reiterate our mission of providing accurate, quality and timely diagnostic services to our patients in an easily accessible manner and at affordable prices.

With that, I conclude my opening remarks and would now request Bharath to take you through the operational performance of the Company.

Bharath U: Thank you, Dr. Om, and a very good afternoon to everyone on this call today.

In Q1 FY21, our revenue for the quarter came in at Rs. 266 crore and we served 3.5 million patients. It has been a challenging quarter, with an overall revenue decline due to the national lockdown and consequent disruption in our operations. Through the quarter, our teams have focused on overcoming frequently changing town level regulations to bring our market servicing back to normalcy. We have thus witnessed an encouraging recovery trend from April to May to June 2020. Some of it may, though, have been due to pent up demand and some due to share gain. The actual demand will be visible going forward as this is still an evolving situation with regional and city level lockdowns still continuing.

With the unlock process currently underway, we expect this to sustain and gain further momentum. As our 'Swasthfit' bundled portfolio of tests continues its sales momentum, and in spite of the lockdown, we operationalized five new labs, including two in West region.

As you are aware, our three major labs, namely, the National Reference Lab at Delhi, the Regional Reference Lab at Kolkata and Central Lab in Indore, continue to conduct COVID-19 test as per the Government norms and provide near real-time updates to the authorities. We have significantly scaled up the testing for COVID-19 from the previous quarter.

We are also working towards ramping up this capacity by adding a few more locations for the COVID RT-PCR test. This coupled with antibody tests and panels is going to enhance our COVID testing offerings.

We are also relooking at all our cost line items as we believe that managing costs judiciously and maintaining high efficiency levels is going to be the need of the hour. We have undertaken several initiatives to keep our costs under check while driving volumes and the same is visible in our cost structure during Q1.

I would like to conclude by saying that we will continue to do all that is required to serve the testing requirements of the country in these difficult times in line with the vision of being the most trusted healthcare partner.

I would now like to hand over to Ved to give an update on the financial performance.

Ved Goel:

Thank you, Bharath, and a very good afternoon to everyone present on this call. I will now share with you some of the financial highlights.

Revenue for Q1 FY21 is at Rs. 266 crore as compared to Rs. 335.2 crore in the same quarter last year, a decline of 20.6%. This revenue for Q1 FY21 is from serving 3.5 million patients and 7.9 million tests.

COVID-19 RT-PCR test revenue contributed 21% of overall revenue in Q1 FY21. Total number of COVID-19 RT-PCR tests conducted is 1.97 lakhs.

Realization per patient for Q1 FY21 stood at Rs. 760 as against Rs. 685 in Q1 FY20. The higher RPP is primarily driven by COVID-19 RT-PCR testing.

Normalized EBITDA for Q1 FY21 came at Rs. 54 crore as compared to Rs. 99 crore reported in the same quarter last year, a decline of 45.5%. PBT for Q1 FY21 is at Rs. 38.1 crore as against Rs. 89.4 crore in the same quarter last year. PAT for Q1 FY21 is at Rs. 28.4 crore as against Rs. 59.1 crore in the same quarter last year. Basic EPS for Q1 FY21 is at Rs. 3.45 as against Rs. 7.14 in Q1 FY20. Cash, FDS and investment in mutual funds stood at Rs. 759.8 crore as at June 30, 2020, an addition of Rs. 16 crore in Q1 FY21.

As you know that this has been a challenging quarter for us, still we have been able to reduce our DSOs by keeping a close check on our receivables and collections. During the quarter, we have incurred a sum of Rs. 12.5 crore on CAPEX.

That brings me to the conclusion of my opening remarks, and I would now request the moderator to open the forum for question-and-answers. Thank you.

Moderator:

We will now begin the question-and-answer session. The first question is from the line of Chandramouli from Goldman Sachs. Please go ahead.

Chandramouli:

The first question is on the non-COVID business. If I do some rough, back-of-the-envelope math, looks like your non-COVID volumes and revenues are down roughly a third, maybe over 33% Y-o-Y. So, if you could just tell us how you are thinking about that business trend that you are seeing, what the interest was in June for the non-COVID business? I think you mentioned pent up demand. So the way you think about it, like how much of pent up demand do you think can come back from some of these volumes that are lost?

Dr. Om P Manchanda:

So I think when this lockdown happened in the month of March, we were fairly clear in our mind that while a lot of time share of noise is on COVID, we were very

conscious of the fact that we have to make sure our non-COVID business stays very intact. And non-COVID business was actually getting disrupted on account of two things -- One is movement of patient was restricted and second was intercity movement due to logistics also was disrupted. So, we put in a lot of effort starting April itself and we saw a very smart recovery on non-COVID. I think you can do back-of-the-envelope calculation. We are back to about 90%-odd of our last year running rate on non-COVID. And the question one may ask is that, is it sustainable? You are absolutely right, we are still unclear about whether June month saw a jump of non-COVID sales because of pent up demand coming in. There is one more factor which some of you may not be fully aware. June is generally a lower month compared to any other month in the first half. And the primary reason for that is especially second half of June a lot of people actually go out for vacation, a lot of medical fraternity also goes out on vacation. So, you have a situation in the industry where you may have higher pent up demand coming in June because of April, May lockdown and also an advantage of lower base of last year. So, one has to actually be a little careful before looking at whether this non-COVID sales of 90% is it sustainable.

Now what we are seeing in the month of July, we thought probably this whole lockdown thing will settle down a bit. But we are seeing now city wise, state wise disruptions still continue to happen. So, we probably will have to wait and watch as to how this non-COVID trend would go. But, if I were to actually put a guess around this number, I have a feeling that we should hover around this 90% mark for some time maybe around September, October when this whole flu season picks up because this is also a time when a lot of vector-borne diseases tend to come, especially end of August, early September onwards and going till October. I think that is the time we probably should cross over this last year run rate of non-COVID. That is particularly my sense. But given volatility around environment and everything else, it is so difficult to put a number on this. But if still I am pushed to put a trajectory around non-COVID, I think around September onwards, we should cross this number upward. But I may be wrong because I do not know how things unfold as we go forward.

Chandramouli: Second question is around realization. So again, if we do the math, it looks like the non-COVID realization per patient is around Rs. 636 for this quarter versus your typical range around Rs. 680. So is this because you had more business from non-urban regions? Have you taken some correction on price? Or is it purely mix?

Dr. Om P Manchanda: So, I think there are three or four broad trends that are emerging in these times. One trend that we are seeing is a slight reduction in number of tests per patient. That may be because of two reasons -- One is our geographical mix has changed very sharply, because there was a time when Delhi actually was peaking up on in terms of COVID cases and Delhi also has a lot of walk-in business falling into our labs and people are very hesitant to come to crowded places. So we have seen a sharp fall in our walk-in patients. So, there is a change in the channel mix. A lot of walk-in business actually has shifted to a collection center or a pick up point. And we are also seeing a change in geographical mix where rest of India has done relatively better than let us say Delhi NCR. So, I think net result has been a slight reduction in number of tests per patient which has impacted our realization per patient as well.

Chandramouli: Last question is just on the antibody test and the RT-PCR test that you are doing. So just want to understand, with every antibody negative, I think it is mandated that there should be an RT-PCR test done. So, if you could just talk us through whether you need to set up more RT-PCR capacity as you do more and more antibody tests that will be helpful?

- Dr. Om P Manchanda:** So I may want to correct you here. It is not to do with antibody negative. It is to do with the rapid antigen negative and that too if somebody is symptomatic. Then only you have to do RT-PCR. I hope I have made it clear. The antibody is a different group of tests, RT-PCR and rapid antigen test is one group of test. But rapid antigen test has a little bit of an issue because it throws off false negative. So, the advisory is that if you have a patient who is showing symptoms but is also having rapid antigen test negative, then he or she has to go through RT-PCR test. That is the advisory.
- Dr. Arvind Lal:** The antibody tests are the classic test which should be done in an IGG test. But what the Government allowed was a mixture of an IGM plus and IGG test. IGM tells you of the recent infection, and IGG tells you of sustainability, surveillance and immunity. So here, it became a problem that if the combined test is positive and the patient is still having symptoms, then in that case also, he should go for the RT-PCR test. It is very confusing. In my opinion, the combined test for antibodies should never have been introduced, but again, it was introduced. So that is the way we look at it.
- Dr. Om P Manchanda:** But I think your broad question was that with rapid antigen test, do you see RT-PCR test going up, right? So, whether are we going to increase the capacity as well? I think two or three things that we are doing. As Bharath mentioned, in his comments, that today, RT-PCR testing, we are approved for Delhi, we are approved for Kolkata, and we are also approved for Indore. Now, we are looking at three or four more locations for RT-PCR tests and some of these locations are especially large focus cities. So, we are looking at expanding our testing network as we go along, because we do believe that RT-PCR test for COVID-19, we do not know where the volumes would be, but we do believe it will become a part of our portfolio as we go along.
- Moderator:** Thank you. The next question is from the line of Anmol Ganjoo from JM Financial. Please go ahead.
- Anmol Ganjoo:** Yes. My question is around the COVID business. Are you seeing any trends where COVID business is driving certain parts of other business or anything you want to call out? How is that shaping up in terms of consumer behavior? Are people getting some additional tests done, just looking at business a couple of quarters down the line as on to, is this leading to any other trends also?
- Dr. Om P Manchanda:** I think if I were to summarize a few consumer trends that I see because of COVID-19, number one is a bit of a psychological impact, which is a bit adverse in nature, that a lot of patients are hesitant to visit healthcare institution. And I think all of us can relate to that. We have a patient at home as well. So I think there is a tendency not to actually see a doctor unfortunately. People want to consume healthcare services as much as possible online, which, in our case everything can be done, but sample collection still needs to take place. So that is one change that we are seeing, and that is impacting channel mix which means the demand for home collection is on the rise, and demand for let us say walking into a large lab format is on decline. Walking to a collection center is going to rise because it is a very small cabin, 100 sq. ft, not too many people are there inside. So, they are more comfortable going into a neighborhood collection center rather than walk into a big lab. I have not picked on the latest trends, but everybody knows that number of OPDs actually went down sharply because our business is directly linked to number of prescriptions generated. If number of prescriptions fall than our business gets impacted, though we have self-testing, etc., but that percentage is not very large. Surprisingly, as a percentage of total business, Swasthfit we did not see a change. While overall table has come down, but I was actually thinking that probably Swasthfit as a contribution to the total business would also come down. I did not see that. So I think clearly, one trend that I see, and I will have to probably validate

this hypothesis, people would definitely be careful or would want to do a screening or health checkups going forward because a lot is being said about that co-morbidities is a very big risk factor and I think it would drive some kind of awareness amongst masses to take care of, especially non-communicable diseases like diabetes, etc., So, I have a feeling going forward this preventive health should do well. But right now, there is a hesitation to visit healthcare institution. They want to go only if it is extremely necessary.

Anmol Ganjoo: Just a follow-up on that. So basically, going forward you expect that the channel mix to change in favor of pick-ups. And in that case, the fact that we have an advantage in terms of a brand, does it continue to have the same impact? I just wanted to understand the fact that pickups are becoming a bigger part of the market then our brand vis-à-vis some of the new start-ups with very low capital requirements, how does that position the market share split in that case, does our brand continue to be an advantage? And in case the market was to move in that direction, should we continue to hold on to share?

Dr. Om P Manchanda: So I think that is a good point. I should have mentioned this. There is another trend that I see that people are looking for a facility which gives them confidence and assurance on safety, because one of the fears all of us and everybody has is if you walk into either hospital or a lab, are you at risk of actually catching this infection. So they really want to know from the brand that you are taking care of all the precautions, not only for employee safety, but also for patient safety as well. So, I think to that extent, established brands will definitely have an advantage over not so established brands or a local brand because they would not mind spending a little extra just to be assured of safety aspect. So, I think to that extent, established brand will always have a preference over a non-established brand.

Anmol Ganjoo: Just taking it slightly further, so in the pre-COVID times, what we have seen was that in our entrant geographies like NCR, we were not growing meaningfully faster than the market. As a consequence of these two changes that you suggested are beginning to take place, do you think once things normalize, it should be easy for us to grow faster than the market, in markets where otherwise you would have thought that we have achieved some kind of a saturation market share?

Dr. Om P Manchanda: I think it will definitely be an advantage on rest of North markets like Punjab, Haryana, UP, and we are already seeing some positive trends in these places. As far as Delhi is concerned, I would look at this as a factor to hold onto our share because our base is fairly large. So I really would not put my aggressive bets on Delhi business, but I definitely put sort of have a very positive comment on rest of North and other places. In fact, other thing that has really happened for us is Kolkata Reference Lab actually has come very handy in these times because a lot of COVID-19 testing that took place there in Eastern region has helped us to really build a very strong brand equity in that market. So hopefully, going forward, we should see a positive impact on that as well and even in Northeast and in some bit small way, we have also seen some positive impact in Indore as well. It is not our parent company, but through our PathLab Unifier, we acquired one business called Central PathLab. It is also engaged in COVID-19 testing. So I am seeing that at city level, there is some positive benefit that is flowing due to COVID-19 testing to these setups.

Moderator: Thank you. The next question is from the line of Sameer Baisiwala from Morgan Stanley. Please go ahead.

Sameer Baisiwala: Just a question on the network. What percentage is open right now in your clinical labs, PSCs and pickup points?

- Bharath Uppiliappan:** Like Dr. Om mentioned, from April onwards, we put a lot of effort in getting our network operational. All our labs are operational except for barring one or two in a city level basis, if one day some curfew or something comes. On our network, glad to say that all our collection centers are operational. In fact, that is also very good news. So, we are not seeing any more disturbance on network availability at this point of time. There are a few logistics routes still a challenge. But to a large extent, we have overcome the supply chain issues.
- Sameer Baisiwala:** A quick clarification to earlier comment that till September, October, you expect non-COVID business would be say roughly 90% of last year base. So, on top of that, should we add the COVID-related revenues? And so therefore, it could be on a total reported basis be higher than last year?
- Dr. Om P Manchanda:** Because COVID trajectory is very, very difficult to predict right now. So, as of now, we are clocking about 90% of last year's non-COVID. Over and above whatever COVID comes in, will we add on to that.
- Sameer Baisiwala:** And just a final one on COVID testing. How are you sourcing the samples - Is it still being routed through Government or can you access asymptomatic or private people? And what is the share of public versus private on what has been done cumulatively so far?
- Dr. Om P Manchanda:** I think our contribution of COVID business in the first quarter is about 20% - 21%, of which 60% of the business actually came from the Government. Now, it also did not come from the same Government, sometimes it was coming from Assam Government, sometimes from Delhi, sometimes from J&K. So, I think the important part is that this business is not a very sort of a sustainable business right now. We are also seeing Government building up a lot of testing capacity. So only 40% has actually come from private stuff. Now private business is largely a home collection business. Patients also do not want to walk into the lab to give COVID sample or neither we would encourage that because this has a huge negative impact on non-COVID. In fact, non-COVID guys are actually right now asking, I hope that you guys are not collecting COVID here. So, we have to assure them that our labs are not collecting. We only do it from home collection. The second source of COVID-19 business has been also hospitals especially where COVID hospitals are there patients are admitted. So, from a private point of view, which is 40% of business largely coming from two streams; one is home collection and other one is hospitals.
- Sameer Baisiwala:** But are these very tightly screened that there should be people with contacts or symptoms or can anyone ask for a COVID test now?
- Dr. Om P Manchanda:** I think it is fairly clear with the exception of probably Mumbai where without prescription people can get test done, but across the country without prescription we are not taking any sample at all.
- Dr. Arvind Lal:** According to the ICMR guidelines, you have to fit into one of those guidelines, there are seven, eight of them and you need a doctor's prescription. It cannot be just ordered because somebody wants this test. At least in our part of the country, they were very-very strict.
- Moderator:** Thank you. The next question is from the line of Deepak Mehta, who is an individual investor. Please go ahead.
- Deepak Mehta:** I will continue with the last question. So, you are seeing that COVID-19 test coming from Government recommendation and their reference. So, we might see the jump in the coronavirus tests once the company and IT companies get opened. So, maybe IT companies tie up with your company or some other company for antibody

tests and all. Is there any possibility or is there any talk in similar line to this with corporates?

Dr. Arvind Lal:

You see right now the phase at which the COVID-19 pandemic is, is still in the early phase. Early phase means, we are having 50,000 people getting positive every day. See, that is the way India is going. So it has not peaked yet. Once it goes into a plateau phase and it starts coming down, then the antibody test will start in real earnest. Right now, the antibody test which are available, are only being done in large numbers by the Government in containment zones or that red kind of areas, etc. So right now, there is a lot of scope for RT-PCR. And of course, as we discussed earlier, the antigen testing which is showing a high rate of false negativity. Thank you.

Moderator:

Thank you. The next question is from the line of Prashant Kothari from Pictet. Please go ahead.

Prashant Kothari:

My question is also on the antibody testing only. So are you already in touch with corporates who are looking to do antibody tests on their staff because we have seen some data coming out of Thyrocare who have done some mass-level antibody testing. So, is it a profitable opportunity to look forward to maybe even if not now in the next few months?

Dr. Om P Manchanda:

I have a view here which may be my personal view and the way I look at it, because jury is still out as to what is the role of antibody testing in COVID. First is, it is not a diagnostic test. So, we all should be very clear that it does not help you to confirm a diagnosis.

Second is let us paint the scenario. A lot of people are talking about it as a test which will help you to restart your workplace. Let us imagine a scenario, you have 1,000 people in your office, and you do antibody testing on a particular day. Now what happens if let us say 100 people are positive, and these positive people are IGG positive because IGM test has not yet come. So 100 people are IGG positive, so probably you will say, okay, these are those guys who actually had the infection. Now they have recovered. They can go inside the office. Now, those 900 who are negative. So what does it mean? Are you telling them, you please turn positive, then only you come to office or if you are negative, you can also come. If you allow them also to come, antibody test actually has not served any purpose at all. Then you allow all 1,000 to come without even doing a test itself. So technically speaking, I think a lot of people are talking about this that this can help you to start office. I am still not very sure as to how does it help. One thing it does actually is that it helps you to do a serosurveillance that if you pick up randomly, let us say, 10,000, 20,000 people in a particular zone and then you say to what percentage of people are actually carrying antibodies, it tells you to what extent infection has spread in a lot.

And that is where I go to what Dr. Lal was saying that stage is looking far because right now, we do not have a large infection in the society. So, I think on a falling curve, I guess antibody test will help. The other role of antibody would be, it is a general desire for all of us to know whether I actually have developed antibody or not. And that situation may arise once you get vaccine. People would want to know whether antibodies have developed or not. So it is that kind of test value it has. But it definitely does not have a diagnostic value. Now going forward, can it become a very large test in our portfolio? It can, but one should also keep in mind that as antibody testing picks up, there is also a rapid antibody test which is likely to come. And rapid antibody test is like a point of care test, where it does not suit a centralized lab model. So, it will be freely available with a small little prick you can actually do

it yourself as well. So one should keep that in mind as these antibody tests come in, there could be a rapid antibody also may come as a part of portfolio.

Dr. Arvind Lal: What you have to watch out for is when the antibody testing is coming in, right now, as Dr. Om has explained that it is not a diagnostic test. So once you talk about immunity, so the immunity which matters, as I said earlier is an IGG test. Those people who test IGG positive, they are clear. They will not get this infection and they are not to be put under surveillance, they can actually go and start their work. And there are also good candidates to donate their plasma for plasma treatment. The guys who turn out to the IGG negative, they are the ones especially in the elderly age group, etc., people with co-morbidities, elderly, who are IGG negative, they will become the first candidates to be given the vaccines. And once the vaccines are given, and the vaccines in India may be given once or after 4, 5 months or 3 months, they even might give you a booster and that will also create the IGG antibody. So that is how the system works. Thank you.

Dr. Om P Manchanda: If I may add, Dr. Lal, one more thing that a lot of scientists are also advising that this IGG antibody positive does not mean one should have a false sense of confidence that they will last forever, because the life of this immunity is not that long.

Dr. Arvind Lal: Yes, but that is a questionable kind of a thing. Usually, what we have seen from other virus is once the IGG antibody comes in, it stays for a long time out here. Once those studies have been done extensively, we will get the answer. I agree with you. I even read somewhere like this what you are saying.

Prashant Kothari: A lot of us, even on this call would want to kind of get such a test done to at least feel more confident that a test kind of passed us then ahead of a disease?

Dr. Arvind Lal: Why not? Absolutely, it will tell you whether you have come in contact with the virus. People who have come in contact with the virus actually, you can say within inverted commas have been infected, but they may not have suffered. So, we already said that we have come in contact with the virus. You can actually develop an IGG antibody which is good for you. And you have heard of herd immunity. Herd immunity means that more than 50% or 60% of a minimum population has been infected or they have come in contact, then the herd immunity also developed which we have actually read in the papers now, is not what India can wait for. So, we have to act before that.

Dr. Om P Manchanda: So, I think one answer probably all of you may be looking forward is that, will antibody become a part of our portfolio? Answer is yes. What is the size in this opportunity? Will depend as to how this whole pandemic takes shape.

Moderator: Thank you. The next question is from the line of Chetan Gindodia from AlfAccurate. Please go ahead.

Chetan Gindodia: My question is on the COVID test that was part of our portfolio for this quarter. So, it has now a sizable contribution to our revenue. So, in any case, if you can give what was the gross margins in this business or how has COVID testing impacted the rest of our P&L?

Dr. Om P Manchanda: Actually, one is not able to put a stable margin structure around this test as you may have picked up during the last three months, price table from Rs. 4,500 per test has now come down to Rs. 2,500, in some states even Rs. 2,000. But I must say correspondingly, we have also reduced our costs very sharply as well. So, it is definitely not in the negative range. But I think overall, one should say that the margins on these tests are actually lower than our overall portfolio margins. So, to

some extent, it is EBITDA-dilutive, but we are able to cover up a lot of our fixed costs as well.

Moderator: Thank you. The next question is from the line of Hemant Patel from Alder Capital. Please go ahead.

Hemant Patel: I have a specific question on the fees to collection centers. And what I did notice was in the last few years, this has been approximately 11% and as of last year, it was around 13%, it has been gradually going up. What I am really trying to understand is, is it something more to do with the mix change as you had spoken a little bit earlier about more revenue coming in from collection centers or is it more to do with the fact that as we enter new markets, and because of competitive intensity, we need to share more with collection centers, so any insights on this will be helpful?

Dr. Om P Manchanda: While maybe on a quarter-to-quarter basis, I may ask Ved to check and let you know, but in general on a macro level conceptual claim, I think it is something to do with the business model. As we evolved out of Delhi, a lot of our sales used to come from our own infra. A lot of it used to be walking into our labs. But scalability in our model came when we actually got some network effect by opening a lot of collection centers. As the contribution of Delhi NCR is on a decline and contribution from rest of India is on the rise, so a lot of our sales actually end up coming through franchisee collection centers. While the flow of the patients is very similar to what we would see in our own infra, because even collection center also will have two streams - One is walk-in, another is B2B which is pickup in and around that collection center. So, as the proportion of collection center moves up in the business, you will actually end up seeing a higher payout to collection centers.

Going forward, I do believe that proportion of sales coming from collection center network will tend to rise. And that is a great way to grow the business as well, because it variabilizes your costs. In fact, we are learning this particularly in this quarter when our walk-in business drops and a lot of our costs are locked in overheads in our labs. It is always good to see how we can variabilize our costs. So, I think franchisee model actually gives us that insurance. And it also augurs very well for us as we expand our footprint in rest of India. So, directionally, this number will tend to rise as our contribution from collection center goes up. On a specific quarter-to-quarter change, I think directionally, that is the way you should look at it.

Hemant Patel: Referring to an annual trend because when I look at it from the financial year FY17 to FY20, that has gone up. So maybe I can ask the question in other way around. As we enter new markets, let us say on the Eastern side, were the revenue shares to collection centers higher than what we had earlier paid in maybe similar markets?

Ved Goel: You are right. In fact, as we compare Delhi NCR versus rest of India, there may be slightly different revenue share, which is like Delhi has 20%, outside Delhi NCR it might be 20%, 25% and as rest of India is growing faster and the contribution is also high. So, revenue is coming from rest of India where realization is also lower than Delhi NCR. And as a percentage of revenue, it tends to go up. So, that is where one has to see.

Dr. Om P Manchanda: I think broadly speaking, since our throughput per collection center in rest of India is slightly lower, just to keep the viability in mind, and also in Delhi NCR, we provide doorstep pick up service, which does not happen in case of outstation CC, so we end up giving a slightly higher margin to them, so which is maybe to the extent of about 5%, 6% higher than Delhi average.

- Hemant Patel:** One final question on the same point. As we look at business on a longer-term basis and with the current digitization drive that you have been having, would it be fair enough to assume that B2C will become a larger proportion of your revenues? I believe some time back, you had said that B2C was 60% of your business. Can you give us some insights about how you see this trending now?
- Dr. Om P Manchanda:** It is a great question. A lot of people are now reaching out through online booking, etc., but we have actually started using our franchisee network to do home collection because so far if I were doing 100 home collections, a lot of it actually were being serviced by us directly. But since the demand in the recent past actually has gone up multi-fold, and it is not a scalable idea that if I build my own team of home collection because that is actually working against the whole philosophy of scaling up through franchisee network. So, we are looking at engaging with franchising quite a bit, but that engagement with franchisee has to be done through technology because we also want to control the entire experience of home collection. And leaving it loose, we may actually lose the control on the experience because in our industry the real brand experience actually is the contact of a phlebotomist with the patient. And in some way, I do not want to dilute that. I really want to keep a very big supervision on that experience. So, we are taking help of a technology, and that is where I think this whole tech business is going to come very handy here where we are able to integrate our franchisee network, where we have somewhat a direct control on the entire brand experience that happens through home collection.
- Moderator:** Thank you. The next question is from the line of Sabyasachi Mukerji from Centrum PMS. Please go ahead.
- Sabyasachi Mukerji:** A couple of questions. First of all, if I look at the gross margin, I see that this quarter cost of reagents have kind of gone up. What kind of steady-state percentage we can work with if you can guide?
- Dr. Om P Manchanda:** I think it is a good observation. We also picked it up. There are two broad variables that have impacted this number. One is since COVID tests, reagent cost is very high compared to what our normal portfolio cost is, so that has contributed significantly to this number. The second reason also has been as the turnover fell, the scale of testing especially in our satellite lab has come down and we have seen a significant rise in our consumption cost in our satellite lab infra.
- Going forward, I think it will depend quite a bit on our COVID contribution to the portfolio. But if I were to carve out non-COVID, I think we should come back to our normal 22%. So, non-COVID, we should actually mirror what we have always been doing. I think we will have to just factor in COVID because COVID consumption cost is much, much higher than what portfolio costs are.
- Sabyasachi Mukerji:** Second thing is one of the previous participants actually asked. So, this is much more structural in nature. So, if we see kind of the change in the channel mix with collection center and pick up points revenue contribution going up probably in the three, four years down the line and walk-ins come down, do we really see any margin pressure going ahead?
- Dr. Om P Manchanda:** Again, a great question. You are probably right, and I think the management team will have to be watchful as we go forward because a lot of our fixed overheads is caught up in our lab infra. Lab infra serves two purposes; one is of course of testing which is on supply side. It also serves on fulfilling walk-in demand which is on the demand side. If the demand is going to switch to collection centers and pick up points, so we will have to relook at the cost structure of this lab infra and also role of lab infra. So I think that is a brilliant observation you have and we will have to be

watchful on that. I do not want to take a kneejerk reaction here because it may just be very temporary in nature. Otherwise, we will have to probably see how we provide the same brand experience on collection centers. The good news is that our franchisee management has gone up many notches in the last three, four years. So, we are basically focused on providing the same brand experience as we provide in the lab.

Now, coming back to pick up points, see, one of the reasons which I am not sure right now, I can't say with that kind of confidence, if the patient insists that I want Dr. Lal's report, you can collect the sample, but I make sure that you give me Dr. Lal's report. So that could be a great way of capturing that demand in any case because patient might actually go to a neighborhood pick up point or a collection center but still insisting for Dr. Lal PathLabs report because they trust in our brand. So, to my mind, I think that should be good enough. And that also could set up another trend of which we have been talking in the past is that, can these smaller players be aggregated through a collection center model. So, let me not jump to that, but we will have to probably wait and watch as to how landscape changes post this COVID. But I buy your point of first one where the cost structure with walk-in dropping in, we will definitely need to be watchful on that.

Sabyasachi Mukerji: If we look at kind of the July trends, how has been the share of OPD prescription you told that OPD actually saw major decline in Q1? How has OPD prescription-based and how that traction is there in July, any early signs?

Dr. Om P Manchanda: I think July is showing a bit of a stable trend. What we saw a rise in June, we are seeing a similar trend here which is fairly stable. So we are not seeing much fluctuation right now.

Moderator: Thank you. The next question is from the line of Harith Ahamed from Spark Capital. Please go ahead

Harith Ahamed: Can you comment a bit about the COVID testing volumes that you are seeing currently in the month of July? Is there a per day number of tests you can share? And I would also like to understand if antibody tests are a significant proportion of the overall COVID volumes?

Dr. Om P Manchanda: So, on RT-PCR as we mentioned that 60% of the contribution is from the Government. A lot of Government business by the way, comes as a spillover business because if they are certainly flushed with a lot of samples and they are not able to meet that requirement for that day, then they think of a private guy. I think one must know that Government has built a lot of capacity of testing of RT-PCR. So, any business that comes from the Government technically is a spillover. So, it is not a regular flow that one can depend on. And I think only one can depend on is on a private side of business which I mentioned it is coming from either individuals calling up and asking for home collection or it is coming from private hospitals, which to my mind will be a function of how this whole trajectory of infection takes place.

Your second question of antibody testing. It is not right now a very significant component of our testing. I think 95% is RT-PCR of our testing in terms of value.

Harith Ahamed: And is there a number per day, I mean, 3,000 to 4,000 RT-PCR tests that we are doing, is there something like that?

Dr. Om P Manchanda: I think you can do a math. We have actually said this number of 1.97 lakhs for Q1 which is 90-days. You just multiply. I think that is where it falls.

- Harith Ahamed:** So was trying to understand if that has gone up significantly in July versus what you did last quarter?
- Dr. Om P Manchanda:** No, there is a bit of a softness on that number rather I would say.
- Harith Ahamed:** And could you also talk a bit about the cost that you are incurring per testing kit as well as there is a cost associated with PPE kit, so how much would be, in the total cost per kit including the PPE kit and a similar cost per test for the antibody test?
- Dr. Om P Manchanda:** I think we have not shared in so much of detail on this. Overall margins on RT-PCR tests are much less than our average portfolio margins. So, to that extent, while you may see a very high turnover contribution in the first quarter, but as far as the bottom line contribution is only to the extent of that it covers our fixed cost, it really does not contribute too much to our EBITDA margins. As far as antibody testing is concerned, right now, the contribution of antibody is very, very small. And even in antibody as well, there, as Dr. Lal mentioned, one is IGG-based test, other is total. And we believe from a medical point of view, IGG has much higher value. This total we are a little unsure about as to what value it actually delivers. So right now, I would actually close the comment by saying that antibody test as a contribution to total is not significantly higher for us.
- Moderator:** Thank you. The next question is from the line of Kunal Dhamesha from Systematix. Please go ahead.
- Kunal Dhamesha:** So, when we say the RT-PCR test is not EBITDA-accretive, it is largely neutral or just covering the fixed cost, is it the pool test that we are doing or the individual test that we were doing and I think now the Government has allowed pool testing, so can that change the economics of the test significantly?
- Dr. Om P Manchanda:** So let me briefly explain to you about this pool testing concept. The pool testing by ICMR was allowed only if the State Government agrees to that, that is number one. So, it is not allowed across the country unless you have an approval from the State Government. And if I am not mistaken, there are also guidelines on this - if the positivity is higher beyond a certain level, then pool testing cannot be done. In fact, there was a time when we did this for one state where we had an approval from that State, but the moment we saw positivity going beyond a particular level, then we said that this is not allowed and so we stopped that. So right now, there is no pool testing happening in our system. It is all individual.
- Moderator:** Thank you. The next question is from the line of Anubhav Aggarwal from Credit Suisse. Please go ahead.
- Anubhav Aggarwal:** On the non-COVID test, you mentioned we are at 90% level of the last year. And we know that the hospital utilizations are right now not in normal level. So does it imply that for the B2C patient, effectively, we are operating at 100% of last year level right now?
- Dr. Om P Manchanda:** No. Actually, our B2C is much more adversely impacted. I think broadly, we have seen two changes. For three dimensions if I look at, one is the geographical mix, second dimension is channel mix and third dimension is test mix. We are not seeing a significant change in our test mix. Maybe a slight deviation towards higher end contribution has slightly gone up. But I really would not call it a very significant change in the test mix. What we have seen is two changes; one is geographical mix. Rest of India actually has done well compared to Delhi NCR. And we have two hypotheses there. We do believe that entire recovery may not be of our own patient base. We do believe that we are waiting for results of other companies. We do believe that we may actually have had a market share gain as well because we do

believe that operational excellence was very high in our logistics. So, we will have to wait and watch and do this analysis, but we do believe that some of the gains that we are seeing on non-COVID, it may not be the entire recovery of our own base, it may be also a share gain as well.

The other change that we are observing is a channel mix. The channel especially the walk-in which actually comes from our own infra, because our own infra is a large walk-in format, where on a daily basis, some labs actually have even 200, 300, 400 patients coming in, it is similar to a hospital kind of setup. That actually has taken a significant knock. A lot of it has actually moved into a home collection. So, we have recovered there. Some of it has gone into our collection centers because collection centers also serve them as walk-in patients. But the benefit there is that you do not have a large congregation of patients there. One collection center will have about eight to ten patients, maybe 15-patients a day compared to our own lab walk-ins where it can actually go to 200 as well. So, we are seeing patients' tendency to go into that area where there is a less crowd. I have a feeling even in hospital, OPDs may have come down. They may actually have moved into a single doctor sort of OPD practice. So that is a change that we are observing.

Anubhav Aggarwal: I still have one doubt. So let us say, if we were doing 100 patients last year, so when you say we are 90% of that level, I was thinking that we are doing around 90 patients now. So, that 90 number should include whether you are gaining market share, is my understanding correct or it isn't?

Dr. Om P Manchanda: So, let us say, if I were doing 100 earlier, today, I am doing 90, one can say probably you actually recovered this entire 90 out of your own universe of 100. What I am trying to say is it may not necessarily be true. I may have recovered 80 of my own, but 10, maybe those guys who are in any case not coming to me earlier, maybe going to competition, may have come to me now.

Anubhav Aggarwal: So, let us say if 90 we are doing now, so I was saying the B2C portion would have grown, right, this 90 would be larger because let us say, we were doing 60% B2C earlier, then the B2C proportion would have grown for us now?

Dr. Om P Manchanda: No, because most of my growth actually has come from pickup points and these pickup points, I do not count them as B2C, I count them as a B2B. So my B2C components are lab walk-ins, home collection, basically, these two line items, right. Home collection has handsomely grown over last year, but the base is very small. What has declined sharply is the lab walk-ins. To that extent, I think my contribution of B2C would have actually gone down compared to what I was doing earlier. Franchisee collection center has gone up, because franchisee collection center also has both B2C and B2B, but that is not very directly monitored by us because what it comes out is a one CC line item. We can probably catch up offline on this and explain.

Moderator: Thank you. The next question is from the line of Kishor B, who is a retail investor. Please go ahead.

Kishor B: How do you see the patient data base being utilized to generate the revenues on the top line?

Dr. Om P Manchanda: No, we have not looked at that right now because patient database is highly confidential. We are so far very hesitant to share this information with anyone and neither do we have any plans to do that right now.

Moderator: Thank you. We take the next question from the line of Ranvir Singh, who is an individual investor.

- Ranvir Singh:** You said that 90% of your revenue has recovered, but if we take out the inorganic part, which was done last year, what would be the same number in terms of the non-COVID business?
- Dr. Om P Manchanda:** I think that is a good point. Maybe a very small number; 0.8%, 1% or so.
- Ranvir Singh:** What are the operating cash flows for the first quarter? And how have the receivable days moved during the quarter?
- Ved Goel:** So I have mentioned in my opening remarks. We are able to reduce our DSOs in spite of COVID, but there are some outstanding on account of COVID largely from Government which may get delayed. But otherwise, DSOs are substantially reduced.
- Dr. Om P Manchanda:** So, if I were to sum up, 60% of the business that comes from Government business, there we have some outstanding, but it is not an issue, the regular flow of collection is happening. But, relatively, our outstanding has gone up on that. But, if you look at on balance, I think we have managed it fairly well.
- Ved Goel:** On the question of cash surplus, we had about Rs. 38 crore of cash from operations in this quarter.
- Ranvir Singh:** Our EBITDA margins are around 20%. And was there any cost initiatives also done to make sure that we do not incur the impact of COVID?
- Dr. Om P Manchanda:** Absolutely, actually, a lot of effort had gone on cost side as well. There are two, three cautions we had. We did not want to take any kneejerk reaction on unnecessarily cutting costs. So, one thing that we took care of our employees, no cuts on that front. And there are two, three areas where we did have some savings; one was A&P because business was not happening for at least one and a half, two months. And then small areas like travel of course got cut for everybody because virtually there is no travel. Repairs and maintenance also, we had some saving. So, on balance, we were able to manage about Rs. 8 to 10 crore of cost savings in the quarter, but we were very cautious in not taking any knee-jerk reaction on unnecessarily cutting costs.
- Moderator:** Thank you. We take the next question from Sameer Baisiwala from Morgan Stanley. Please go ahead.
- Sameer Baisiwala:** Dr. Om, just thinking long-term, what would be the target PSC count that you need to be a truly pan India player from 3,100 that you have right now?
- Dr. Om P Manchanda:** If I go back to my FMCG experience of Hindustan Unilever, I would rather increase the throughput per PSC rather than looking at just the number of PSC count. There are two parts of this business as you guys have understood this: one is the testing bit. A lot of economies of scale have to come from testing and which is what our real strength is. And it can be centralized. But the challenge lies on the collection part of the business which has to be more decentralized, closer to patients. Home collection is making it even worse where virtually every guy wants home collection to be done and it is so customized. And so that piece actually needs to be handled by a franchisee network. And I would rather try to build economies of scale at a franchisee level rather than fragmenting it. So, to my mind, aimlessly chasing this number of PSC may not be a great idea. But obviously, it is a fine balance between what is the kind of productivity I may want to have on PSC front. But broad thumb rule that we normally follow for our lab to PSC ratio, it is about 1:19, 1:20. If I can maintain that ratio going forward, would be a great thing to happen.

- Sameer Baisiwala:** What happens if ICMR were to relax the guidelines for RT-PCR testing that it is not mandatory to have a prescription or symptoms, can that demand explode or not really?
- Dr. Om P Manchanda:** I think you probably can answer this question for yourself. The fact of the matter is every test is done has to be reported. So people are very-very cautious in do they really want to get test done. So, I do not think testing is constrained because you have a prescription requirement. Maybe you can ask this question in Mumbai, because that is a great pilot city because Mumbai has taken away this requirement. I really do not know to what extent RT-PCR testing has gone up in Mumbai city. Probably that will answer this question. I also would love to hear as to what really happens if the prescription condition goes away. My sense is it may not be.
- Sameer Baisiwala:** When you look around neighborhood labs, unorganized sector, what percentage do you think is really up and running or which is not?
- Dr. Om P Manchanda:** It is also a good question. The RT-PCR testing, and for the benefit of everybody, there are only a handful of labs. Antibody testing I think a lot of this unorganized setup will also do that. Please remember this, if antibody test takes off, it is not only advantage for large labs. It is advantage for all labs. RT-PCR test only happens in large labs. If I were to take out my COVID and then look at non-COVID trajectory for our business, maybe about 8%, 10%, 15% down for them. So, let us say, if we are 90% of non-COVID, they would be about 70% of non-COVID. That is the kind of math probably one can do.
- Sameer Baisiwala:** So what you are saying is for non-COVID business, unorganized sector is 70% to 90% of the normal?
- Dr. Om P Manchanda:** They may not have reached 90%, Sameer, but probably it is not that they also would have recovered on non-COVID is the point I am trying to say. One can make a guess as to what that number would be. I do not have any sort of data point. I will try and ask this question to my field teams. But my reading is that they definitely would have recovered, may not have reached 90% level, but maybe about 70% level.
- Sameer Baisiwala:** But they are all open, operational, alive and kicking?
- Dr. Om P Manchanda:** Yes, because ultimately, beyond a point, healthcare you cannot close. How long you. See, healthcare got impacted due to lockdown because patient movement was not there. The patient movement starts, then obviously people have to see a doctor, there is no other option. Only thing is that only essential part of healthcare is active. Non-essential people are still delaying it.
- Moderator:** Thank you very much. That was the last question in queue. I would now like to hand the conference back to the management team for closing comments.
- Ved Goel:** Thank you, everyone, for being with us on this call today. I would now request the moderator to close the call. Please take care and stay safe.
- Moderator:** Thank you very much. On behalf of Dr. Lal PathLabs, that concludes this conference. Thank you for joining us, ladies and gentlemen. You may now disconnect your lines.

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