VIJAYA DIAGNOSTIC CENTRE®

06th June 2023

To,
Listing Department
National Stock Exchange of India Limited,
Exchange Plaza,
Bandra Kurla Complex,
Bandra (East), Mumbai- 400 051
NSE Symbol. VIJAYA

To,
The Corporate Relations Department
BSE Limited,
Phiroz Jeejeebhoy Towers,
25th Floor, Dalal Street
Mumbai- 400 001
BSE Scrip code. 543350

Dear Sir/Madam,

Sub: Transcript of the Earnings conference call organized on May 30, 2023.

We are enclosing herewith the Transcript of the Earnings Conference Call organized on May 30, 2023 post declaration of audited financial results of the Company for the fourth quarter and financial year March 31, 2023.

Please take the information on record.

Thanking you.

Yours faithfully,
For Vijaya Diagnostic Centre Limited

HANSRAJ SINGH
Digitally signed by HANSRAJ SINGH
Date: 2023.06.06 20:00:20 +05'30'

Hansraj Singh
Company Secretary & Compliance Officer
M. No. F11438

Encl.: As above

Vijaya Diagnostic Centre Limited

Q4 & FY 2023 Earnings Conference Call Transcript

May 30, 2023

Moderator: Ladies and gentlemen, good day, and welcome to the earnings conference call of Vijaya Diagnostic Centre Limited. 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 star, then zero on your touchtone phone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Anoop Poojari from CDR India. Thank you, and over to you, Mr. Poojari.

Anoop Poojari: Thank you. Good morning, everyone, and a very warm welcome to Vijaya Diagnostic Centre's Q4 and FY23 earnings conference call. We have with us Ms. Suprita Reddy – Chief Executive Officer, Mr. Sunil Chandra – Executive Director, Mr. Narasimha Raju – Chief Financial Officer, and Mr. Siva Rama Raju – Head Strategy of the Company.

We will begin the call with opening remarks from the management, followed by an interactive Q&A session. Before we start, I would like to point out that some statements made in today's call may be forward-looking in nature, and a disclaimer to this effect has been included in the earnings presentation shared with you earlier.

I would now like to invite Ms. Suprita Reddy to make her opening remarks.

Suprita Reddy: Thank you, Anoop. Good afternoon, everyone. On behalf of the management team of Vijaya Diagnostic Centre, I welcome you all to this forum. I would like to first share the key highlights for the period, following which Mr. Narasimha Raju will take you through the operational and financial highlights of the quarter and year ended 31st March 2023.

I am extremely happy to announce that the fourth quarter was characterized by outstanding performance, recording the highest-ever revenue from the Non-COVID business. We have witnessed a significant year-on-year increase in demand for the Non-COVID business across both radiology and pathology segments, reinforcing the strength of our integrated model.

Revenue through B2C business was 95% during the Q4FY23. And we firmly believe that the

B2C model has played a major role in enabling us to sustain our margins in spite of opening large hubs this year. Moreover, a leading position in the B2C market has enabled us to surmount challenges with ease and leveraged the benefits of our well-established brand.

Business from the wellness segment was consistent in its growth trajectory, recording positive results all throughout. The quarter witnessed the highest ever contribution of 13.4% to our revenues from wellness.

I am indeed glad to announce that the quarter marked the inauguration of the state-of-the-art hub in Tirupati, Andhra Pradesh. Spanning over 10,000 square feet, the centre is equipped to perform advanced radiology investigations and has top-class equipment such as the 3 Tesla MRI, CT scan, Gamma Camera and a fully automated lab. Despite it being a relatively new location, we are glad to share that the customer response and the acceptance of our brand has been phenomenal.

Our hub centres at Punjagutta and Rajahmundry have successfully garnered the trust and the loyalty of customers in a very short span of time and have demonstrated consistent month-on-month growth even in the midst of all this competition. I am extremely happy to announce that both these centres have achieved the breakeven in a very short span. Rajahmundry in nine months and Punjagutta in six months from the commencement of operations. This achievement reaffirms the effectiveness of our strategic plan for business expansion, which we will continue to follow in the years to come.

In terms of digital initiatives, the comprehensive LIMS that we implemented recently has completely blended into our system of operations and is being used without hassle across all our centres. With the fulfilment of this major milestone, we have streamlined operations and enhanced efficiency that much more throughout our vast network of centres.

Advancing steadily towards our undeterred aim to offering patient convenience and a holistic patient experience, we successfully developed and launched a very robust and easy-to-use mobile app that provides an enhanced patient experience. This one-of-a-kind mobile app is available for every investigation, both in radiology and pathology alike, making it unique in the diagnostic space. Moreover, we have completed a successful rollout of a fully functional e-commerce website.

Guided by a well-thought-out expansion strategy, Vijaya has significantly strengthened its footprint in FY 2023, successfully surpassing the target of the 15 centres for the year. Our business strategy is backed by the idea of setting up large-sized hubs supported by smaller-margin accretive centres to ensure profitable business and better operational and financial performance in the years to come.

Our well-planned strategic initiatives of the digital transformation of business operations and patient service, opportunity study-backed approach for expansion into newer geographies and consistent concentration of efforts towards effective enhancement of the overall footprint will pave the way for achievements and a sustainable growth in the years to come. Our resolve to never lower the bar on the standards of quality and to offer the best possible customer experience while adopting the most advanced technology at all times will strengthen our capability of capitalizing on the immense opportunity for growth in the diagnostic space.

I would like to invite Mr. Narasimha Raju, our CFO, who will take us through the operational and the financial highlights for this period. And thank you all.

Narasimha Raju: Thank you, madam. Good afternoon, and warm welcome to everyone joining us on the call today. Before taking up the specific operating and financial performance, I would like to share a few updates about Q4 and also FY23.

I am very happy to inform you that we achieved highest-ever Non-COVID revenue growth of 22.4% year-on-year for Q4 and 14.7% for FY23. And again, this growth was driven by volumes. We maintained healthy EBITDA margin performance in the range of 40%, despite opening large hubs in this financial year. We crossed key milestones of processing more than 1 crore number of tests in this financial year.

Now I'll briefly take you through the specific operating and financial performance for the quarter and year ended 31st March 2023. The overall consolidated revenue for the quarter stood at INR 121 crore as against INR 116 crore in Q4FY22. The non-COVID business revenue stood at INR 120 crore, comprising 99% of our revenues as against 85% in Q4FY22. Our radiology business stood at 36% in Q4FY23.

During the current quarter, the Company witnessed year-on-year as well as quarter-on-quarter growth in the non-COVID test volumes. The number of tests registered a year-on-year increase of 11% from 2.45 million to 2.71 million. And further, the number of test per footfall has also increased from 2.55 in Q4FY22 to 3.37 in the current quarter. The revenue per test was INR 447 and the revenue per patient footfall was INR 1,504 during Q4. EBITDA for the current quarter stood at INR 49 crore compared to INR 48 crore in the corresponding previous period. The EBITDA margin was 40.6% in Q4FY23.

The profit after tax for the current quarter stood at INR 27 crore. Here, I would like to inform you that with effect from 1st January 2023, the Company has changed its method of depreciation on all property, plant and equipment from WDV method to straight-line method, after evaluating the usage pattern of our equipment and also considering industry practice in healthcare, more precisely hospitals and diagnostics, which use radiology equipment. Due to this change, the depreciation expense is lower by INR 90.4 million and

PAT is higher by INR 67.7 million for the quarter ended and year ended 31st March 2023. Please note that there has been no change in the depreciation expense already recognized up to the period ended December 31, 2022.

Cash and cash equivalents stood at INR 255 crore as against INR 247 crore as of the end of March 2022.

I will now summarize our performance for the twelve months period ended March 2023:

The Company has recorded year-on-year non-COVID revenue growth of 14.7% in FY23, which was again mainly driven by volumes. The total consolidated revenue stood at INR 459 crore as against INR 462 crore in FY22. The contribution from COVID and COVID-allied tests has come down from approximately 15% of revenue in FY22 to just 2% of revenues in this current financial year. Our B2C share stood healthy at 95%. EBITDA for this year stood at INR 182 crore as against INR 204 crore in the corresponding previous year. EBITDA margin stood at 39.6%, and profit after tax was INR 85 crore.

I am happy to inform you that the Board has recommended a dividend of INR 1 per equity share of INR 1 each, that is 100% dividend for the current financial year 2022-2023, subject to approval of the shareholders in the coming AGM.

To conclude, I would like to say that the Company is optimistic about the ongoing progress and remains confident in delivering consistent performance in the future. This brings me to the end of my address.

I would now request the operator to open the line for the Q&A session. Thank you.

Moderator: Thank you very much. The first question is from the line of Rishi Mody from Marcellus Investment Managers. Please go ahead.

Rishi Mody: My main question is the depreciation methodology change. What is the logic behind changing the depreciation methodology?

Narasimha Raju: Rishi, I'll explain this. As you know, in the current year, we have added many centres, like almost close to like five hubs, with state-of-the-art facilities where a large capex is involved. So in the current year, almost close to like INR 135 crore capex was involved, and then we added almost close to like 28 centres. And just like any financial year, at the end of the financial year, we need to evaluate the significant accounting estimates and consider significant capex and adding of the new centres across the geographies, we have evaluated the depreciation policy, and we felt that the straight-line method is more appropriate to follow.

So I'll just explain the rationale as well. As you know, in our business, radiology equipment forms part of the majority of the capex that is involved. And this radiology equipment, be it like an MRI or a CT or an ultrasound, basic radiology equipment, the ability to do the scanning remains the same across the useful life of 10 to 13 years. So generally, this radiology equipment, more like the entire diagnostic equipment, the useful life is almost close to 13 years. If you are following the WDV method, the rate that we are applying is 20.5%. So, in just the first three years itself, you will end up depreciating 50% of the asset value. But we know that the useful life is 13 years, and the consumption pattern from these assets is linear. That is what I mean to say is you'll be able to perform similar number of scans across the entire useful life, be it like in the first year or be it like at 10th year. So that's the reason why we felt that it's more appropriate to go and choose a straight-line method depreciation where the depreciation rate is 7.3% as compared to 20.5% in case of WDV. Okay, say, for example, at the end of 6th and 7th year, you would have depreciated 50% on a straight line, which is like 50% of the useful life is completed. But under WDV, within just three years, we are ending up depreciating 50% of the useful life, which is not correctly reflecting the pattern in the P&L.

And second thing is, we also analyze the industry practice in healthcare, particularly in hospitals and also the diagnostics which are focused in radiology, okay the capex; they are all following the straight-line method depreciation. But the diagnostic companies who are focused on pathology, where there is no significant capex is involved, WDV method is being followed.

Suprita Reddy: Also Rishi in the past, what we used to do is we used to swap the equipment under buybacks after six to seven years to introduce the latest technology. But since it's all very high-end equipment and a capital intensive, the OEMs come up with latest technologies where there's an option to upgrade to a new technology without changing the equipment. So, we have upgraded a couple of centres in the last two years. That's also the reason why the team felt that this was the right thing to do at the moment.

Rishi Mody: Yes. But I am sure this phenomenon is not new, right? You all have been using WDV for since inception. And Narasimha, you have been at Vijaya for over five years now. So why change it in this quarter? Like why...

Narasimha Raju: I'll explain that, Rishi.

Rishi Mody: The timing seems a bit off.

Narasimha Raju: Yes, sure, I'll explain that. So as I informed, this is the first year where we incurred almost close to about INR 100 crore capex. In the previous years, if you look at, okay, less than INR 25 crore to INR 30 crore capex was involved and not a very large facilities like your Punjagutta, Rajahmundry, etcetera. So, we re-evaluated the current accounting policy of the depreciation. And then considering these many hubs that are coming in this current financial year and also the plan is to open, I think, like 14 to 15 centres, and all these centres will have both the pathology and the radiology equipment, considering that we have changed this method from WDV to straight-line method. And also, during the year end that any how we have to evaluate the accounting policy. So that's the reason why it was done in Q4. And whatever was already accounted in the first three quarters, that was not changed. Since it is a change in accounting estimate, it is done under prospectively. So that means that it's done from 1st January 2023.

Rishi Mody: Okay. Alright Narasimha, I'll reach out to you later…

Narasimha Raju: Sure Rishi.

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

Cyndrella Carvalho: Thanks for the opportunity and congratulations on a great set of numbers. Ma'am what will be our vision now going ahead in these coming two years? What are the hubs that we intend to open? Because we have the success of Punjagutta and Rajahmundry with us now, and it is in the numbers, and we should see increasing contribution from these new centres also. But what is the thought process in terms of expansion over FY24-FY25? If you can help us understand.

Suprita Reddy: I think the guidance does not change like we've been saying that the strategy is to open those 15 centres. It's only the mix that changes between the hub and spoke. So last year saw five hubs coming in, I think, instead of four. And going forward also, we would be doing about four to five large hubs, again, in newer geographies like Rajahmundry. We would be probably looking at Kolkata as our major expansion plan strategy for the next year and the year after that. And following that is when the spokes do come in. So now after Rajahmundry is stabilizing now, probably you'll see a few more midsized mini-spokes or spokes coming up in that area. Kolkata will also see the hub come in. And about two quarters later, the spokes will start coming in. So the mix remains the same, four to five large hubs, and the rest of them being spokes. And in terms of guidance, we've said that we normally grow at a rate at around 15%, which we would stick to. We'd love to overachieve, but 15% is what we would like to commit on.

Cyndrella Carvalho: Yes, thank you so much for that and specifically, from the new centres, how is the new geographies like Tirupati, as you mentioned in your presentation, so what is our experience? You did highlight that it is overwhelming being a new geography. So, can you share some instances in terms of how is this new market for us and what are the key trends in these markets that we see?

Siva Rama Raju: So Cyndrella, we launched Tirupati in the month of February, but the full-fledged operations started very recently, almost from May 1st. And the initial trends that we are seeing are very encouraging. So, we expect even this centre to breakeven even more faster than Rajahmundry.

Suprita Reddy: What is expected, yes.

Siva Rama Raju: Yes. So, the initial response is very encouraging. When compared to Rajahmundry, it is doing even more better. So, we are expecting it to break even maybe in the coming quarter.

Cyndrella Carvalho: That is encouraging to know. And what kind of grossing this Tirupati centre at the annual level we should expect, ma'am?

Suprita Reddy: For Tirupati, similar to...

Siva Rama Raju: So it will be similar to Rajahmundry. So maybe at maturity, which is like four years from now, you should expect something between INR 17 crore to INR 20 crore kind of revenue coming from that centre, annual basis.

Cyndrella Carvalho: Okay. Thank you. I have more questions, I'll fall back in the queue.

Moderator: Next question is from the line of Saloni Bavishi from Val-Q Investment Advisors. Please go ahead.

Saloni Bavishi: Ma'am, my question was about the capex. Could you please guide us about the capex for the coming year?

Suprita Reddy: Sure, Saloni. I'll let Raju take that.

Narasimha Raju: So the capex for the coming year, since we are having the plans to open 15 new centres every year, we are expecting the capex will be in the range of INR 75 crore to INR 80 crore for this, including INR 2 crore to INR 3 crore we are budgeting for the digital initiatives like, okay, we are planning to revamp our existing radiology PACS software. We are trying to centralize the CRM software. So, all this put together, we are expecting in the range of INR 75 crore to INR 80 crore capex for the next year for adding up these new centres.

Apart from that, what we are currently planning is that, as you know, Vizag is an important cluster for us, and we are already having 3 hubs and 3 spokes there with a very good network. And we are planning additionally a PET-CT equipment there, which will cost INR 8 crore to INR 8.5 crore. So, this is the capex expectation for the next financial year.

Saloni Bavishi: Okay. Sir, also about EBITDA margin, will it sustain? Or what will be it like the next year and the coming years?

Narasimha Raju: So, in the current year, we achieved 40% EBITDA margins. So, what we expect is that even in the coming financial years, we remain confident that we'll achieve this 40% EBITDA margin. There are two things because one is when you are adding the new centres, like a hub centre, there might be a certain drag on the P&L because of the preoperative expenses. But what we're trying to do is to minimize such preoperative expenses to the extent possible, by scheduling properly the entire operational plan.

And second thing is these spokes. What we observed in the current financial year is that the mini-spokes and the spokes, some of them outperformed, and those margins slightly offset the drag coming from the hub centres. So that's the reason why we are fairly confident about this 40% EBITDA margin even in the coming years.

Moderator: The next question is from the line of Girish Bakhru from OrbiMed Advisors. Please go ahead.

Girish Bakhru: Just wanted to get an update on the number of tests right now in the offering. Last, I remember, it was 2,100. What is the number now? And if you can give the breakup across specialized pathology and specialized radiology?

Suprita Reddy: Girish, so that 2,100 probably is around 2,700. And in terms of specialized pathology, see we look at our pathology as just pathology, we don't do basic pathology and advanced pathology. So, the radiology number and that probably would be around 900. 900 out of the 2,700 is the test menu for the radiology.

Siva Rama Raju: Just to add, Girish, because these definitions change from player to player, so that's the reason we don't track specialized versus regular. But however, in radiology, out of the 36% revenue we get, 20% is from advanced radiology and 15% is from basic radiology.

Suprita Reddy: Yes, basic radiology.

Girish Bakhru: So this basically, I mean I am just trying to relate with new technologies you're putting in, CT, MRI, gamma camera. Are you kind of linking some test to those new equipment's that you are installing there?

Suprita Reddy: Definitely, Girish, that's also why you see the per prescription revenue is the highest, right, because there's always a mix of both radiology and pathology. And it can also be a follow-up, so it could be a basic pathology test with a combination of multiple tests following that in the coming weeks for the same UHID.

Girish Bakhru: And ma'am, can you comment on like, I mean we know that you've been advancing the specialized radiology piece pretty strongly. What is the competitive intensity right now around this incrementally, particularly in the last two, three quarters?

Suprita Reddy: In advanced radiology, I would say it's very, very low, in fact, in advanced radiology, it's just not a technology like I voiced it out. It's both the talent that comes in, the team and the correlation between both this advanced radiology and pathology. So definitely, the competition in that sector is very, very low.

Girish Bakhru: Just on the guidance of 15% growth, I mean I am just assuming that if you do not add any centres even from this level, considering 122 centres with 29 sort of hubs, I am assuming, I mean about 95 or 92-odd spokes, I mean those centres itself should be able to give you 15% growth itself, right? Is there like a conservatively low guidance or how should we read it?

Siva Rama Raju: So Girish, I think with the current network that we have, right, so for one, two years in short term, so what we can expect is, it will help us in growing. Maybe for the next year, it will help us in growing by a lower double digit, which is in the range of, say, 10% to 11%. So, like ma'am said in the previous thing that it's something which we are confident about. So, without investing further, we can give you a growth of maybe 10% to 11% with the existing network.

Suprita Reddy: And the newer centres and keeping it maybe a little conservatively, yes, I would say, 14% to 15% is the guidance that we would like to commit on.

Girish Bakhru: And do you also kind of tie it with, I mean I know you had mentioned last time you don't really measure footfall separately that closely, but we have been seeing this 0.8 million kind of a number, for a while now. I mean, is there a reason to believe that this will go higher significantly next year?

Siva Rama Raju: Definitely, yes, Girish, because last time if you see, average test per footfall were lower because many of the footfalls have one single test called COVID RT-PCR. So that was the reason you are not able to see the growth in footfall. But however, now over the last three, four quarters are more or less non-COVID. So, you'll see footfalls going up from now, from the 0.8 million mark.

Suprita Reddy: That's also a good sign that the non-COVID business has come back now, Girish. So that's when probably we expect that the test mix also goes up from now on.

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

Aashita Jain: My first question was on your Kolkata market. So, when you will be planning to open a hub in Kolkata? Also, we are seeing one more brand there, which is Medinova. So what are our plans, how do you plan to go ahead in this market?

Suprita Reddy: So, Vijaya Centre in Kolkata will probably open in the next couple of months, it's more or less done. Because it's a high-end hub, the advanced radiology equipment is all getting installed. And like we mentioned earlier, Medinova is also a brand that we have from about 2014-2015, but it is in South Kolkata, and it's a single centre. And the centre that Vijaya is coming up is in the northern side of Kolkata. And the strategic plan for growth of Kolkata has been to grow in the northern side. And also, the Board would probably take a call on whether we would be doing co-branding or using both the brands or a single brand, but we would not want to eat into each other's geography. So, we have kept it different by North and South. And we are very confident about this very huge centre, one-of-its-kind centre doing well in Kolkata. And it's going to open in a couple of months from now.

Aashita Jain: Fair enough. And secondly, have we done any study or any checks around the Kolkata market, say, other cities in the West Bengal region, which could be significant for us?

Suprita Reddy: Aashita, we've basically been part of West Bengal for quite some time. Like I mentioned, we've been there for about almost for a decade and a half now there. So we know the market well enough, and the priority was to first open and make the market ready as a next market of interest for the next five to seven years. So, Kolkata is the only place that we've been looking at, no other regions in the Eastern region, if you are asking.

Aashita Jain: Okay. And just last one from my side. Is there any percentage of patients who would be opting for, say, both radiology and pathology?

Suprita Reddy: Sorry, we didn't get that.

Aashita Jain: So, is there any percentage that we track ballpark number, that's the percentage of the patients who would be opting for, say, both radiology and pathology?

Siva Rama Raju: So, it's very difficult, Aashita, because, again, we have to wait for some more time because now we have come onto a new LIMS. Maybe we'll take another two to three quarters to do that analysis to see if the same patient is coming for pathology or radiology. But however, almost close to 30%, 35% of the patients come for radiology service. They may have pathology, or they may not have pathology.

Moderator: Thank you. Next question is from the line of Pritesh Chheda from Lucky Investment Managers. Please go ahead.

Pritesh Chheda: Ma'am, any chance for the mix to change between radiology and pathology as you grow and expand?

Narasimha Raju: So since we are adding centres, with both radiology and pathology, and again, adding like three to four hub centres and 10 to 11 spoke centres, as in the past, we expect that 65%-

35% ratio might continue. But if we are opening more hubs, then naturally the radiology mix goes up...

Suprita Reddy: The radiology mix goes up.

Narasimha Raju: If you're adding more spokes, then the pathology revenue might go up. But as of now, since we are opening like four to five hubs and then 10 to 11 spokes, we expect that if we're continuing the similar trend of opening the centres, that 65-35 might remain the same.

Suprita Reddy: It depends on also the mix as we go.

Pritesh Chheda: But as of now, from a next two three years perspective, based on your expansion plan, this mix should not change drastically, right?

Suprita Reddy: This mix should not change, yes.

Pritesh Chheda: Okay. My second question is in the AP, Telangana market, which is obviously your main market, we have given the size of the market, about INR 12,000 crore. For a diagnostic chain like us, what kind of centre or what kind of network is possible in such a market you would have mapped it? And when you go to these newer cities to open hub or a spoke, what is the metrics that we usually look at?

Sunil Chandra: So basically, if you look at the number that you mentioned, INR 12,000 crore is actually including hospital diagnostics also. And we are really focusing on the outpatient diagnostic market, which is a little bit lower. The number would be probably about INR 6,000 crore or so. And even during earlier, I guess, calls, we have mentioned that our market share is still at less than 10% of that overall aggregate market. So that gives us a lot of headroom to grow. That's the opportunity we are looking at, and that's why we are also targeting a lot of the Tier 2 towns where we are opening new hubs, which will then be followed by adding spokes around those hubs.

Pritesh Chheda: At the INR 6,000 crore market, any centre network that you think you have mapped out in terms of numbers?

Sunil Chandra: Yes. We have studied the market, and we have a number of locations which we think are potential locations for us. And if you look at our expansion as we roll out centres, that is happening as per that plan.

Suprita Reddy: So also, that's the reason why you see Rajahmundry where we don't have a presence of centre present in 200 kilometres in Andhra, we said we would take that up as one and Tirupati, which is on the opposite side again. And as Rajahmundry would mature and is doing well, now we'll see a lot of spokes coming up. So that's also the reason why you'll see that ratio doesn't change because Rajahmundry remains the hub and more of spokes coming in around that area.

Pritesh Chheda: So, the question was from a 5-year perspective, can you have a 300-odd network possible in this two States?

Sunil Chandra: So, I think we have always indicated that our growth number has been about 15 centres here. And probably as we grow, maybe that number might increase. That 15 also is a mix of hub and spokes. So, if you were to extrapolate over five years, I am not sure if you will reach 300, but definitely, we will add about maybe 80 to 90 centres for sure.

Moderator: Thank you. Next question is from the line of Rahul Jeewani from IIFL Institutional Equities. Please go ahead.

Rahul Jeewani: Ma'am, this year, we added around 25 new centres, but 2/3rd of those centres came in our core Hyderabad market, while our centre additions in markets outside the Hyderabad still remains on a lower side. So, do you think this proportion would change going forward in terms of these 15 new centres which we are talking about for FY24?

Suprita Reddy: Definitely, it would change. And also out of these centres, the total number of centres that came out, there were a lot of mini-spokes that were added. So, if you look at the total 15 count, there were only two hubs that came out in Hyderabad, and the rest of the three hubs came out of Hyderabad. So, they're not part of Hyderabad. And the spokes were only six in Hyderabad and three outside. So, I would see that number definitely increasing in the next few years to come.

Rahul Jeewani: So going forward, majority of the capex will be outside...

Suprita Reddy: Outside of Hyderabad, yes. And like I mentioned, the 10 mini-spokes were opened just to make sure that we decongested the very busy centres in Hyderabad without adding too much of capex at the same time not losing out on that clientele. So that's why you see the number the total account to be 28, but 10 of those centres are very small mini-spoke centres that were just basically added for patient convenience.

Rahul Jeewani: Sure, ma'am. And these four to five new hub centres, which we are targeting for FY24, one of those would be in Kolkata. Can you call out the location?

Suprita Reddy: So, two of them would be in Kolkata and one would be in Gulbarga and the other one is Mahbubnagar. Mahbubnagar is again in Telangana, outside of Hyderabad.

Rahul Jeewani: Okay. And in terms of this 15% revenue growth guidance which you gave for the year, can you split it out between volume growth and realizations? I know it will largely be driven by volume growth. But just anything which you can comment in terms of your overall realizations as well?

Siva Rama Raju: So Rahul, it will be majorly driven by volume growth. So the other thing is, if you see in the last two years, we did not actually take any price cuts. So, our base is intact. So, we have increased prices of a few tests, but that will add up maybe to 1% of the total revenues. So out of this 15%, at least you can expect 13% to 13.5% from volume growth.

Rahul Jeewani: Okay. Sir, and this recent price increase which you have taken, on what portion of the portfolio would you have taken these price increases? And what was the quantum?

Siva Rama Raju: So hardly, it's on like some 40, 50 tests, not across locations, in few of the geographies. So, all this put together, we'll maybe add up to some 0.8% to 1% of the revenue based on the current volumes we are doing.

Rahul Jeewani: Sure. So, anything you are seeing changing in terms of the pricing dynamics for the industry? Because some of your peers did talk about taking price increases this quarter after a very long time. So, have you also seen similar trends? And do you think that the component of price increases or price realization growth for the industry could accelerate going forward?

Sunil Chandra: So Rahul, actually, I think the competitive environment ensures that nobody is just taking price increases across the entire test menu. But at the same time, post-COVID, you have seen also with currency issues, some of the cost of equipment as well as cost of your reagents or other consumables has gone up in some cases. So, across the industry, I think most people are basically saying that we cannot absorb some of those input costs, input increases, so they are really selectively prices. But across the board, rising prices, I can't comment about competitors, but we have no plans of doing any such price increase across the test menu.

Rahul Jeewani: Sure, sir. And one last question from my end. So, can you also comment in terms of your depreciation number for next year, FY24? So, what should we be pencilling, around INR 55 crore to INR 60 crore for the full year?

Narasimha Raju: So, Rahul, if you look at the current quarter, so the current quarter depreciation is approximately INR 11 crore, so approximately like INR 44 crore an extrapolated number. But again, centres like Tirupati got commissioned in the mid of February, so you might expect an additional depreciation on account of that. So, it will be in the range of approximately like INR 50 crore for the current block. And again, for the new capex of INR 75 crore to INR 80 crore, that will be an additional depreciation, depending upon the centre launch dates. So otherwise, for the existing block, it will be in the range of INR 50 crore depreciation for the next financial year.

Moderator: Thank you. Next question is from the line of Madhav Marda from Fidelity International. Please go ahead.

Madhav Marda: I just had one question. As we expand into Kolkata, could you give us some thoughts in terms of the market landscape there? Is the competitive intensity, lower or higher versus our core market in Hyderabad? And is there like more unorganized competition? Just wanted to get some sense as we go into this new market. Like do we think the market is more lucrative or more attractive versus our current core markets because given we are planning to invest here from a 5 to 7 year horizon?

Siva Rama Raju: So if you see Kolkata today, so I think there is only one organized player in the integrated space and there is one smaller player. But the thing is like the centre that we are going to come up on the VIP road, so we are introducing a 3 Tesla MRI and a cardiac CT. If you just take 10-kilometer radius from that centre, so none of the diagnostic centres have a 3 Tesla MRI or a cardiac CT. It's more in hospitals. So that's something new that we are introducing in that area. Also even in terms of lab, if you see, so Medinova has one lab on the Southern part, and we are going to have one more lab on the North side of Kolkata. So, when we add spokes, the TAT also gets faster because currently, whatever change that are present in Kolkata, they have only one central processing lab. So, I think these are two different things that we are going to introduce into the market.

And the other thing also, is that there's a lot of medical tourism that happens from Kolkata to Hyderabad, even today, for the hospitalization, etcetera. And Vijaya is a fairly known brand there. Even the doctors who are sending cases to Medinova today, they knew that it's been reported by a Vijaya doctor because even though they're on the Medinova payroll, but the doctors are recruited and properly addressed and is purely run by Vijaya. So, I think this introduction of new technology will make us a differentiated player in that market, and it will enable us to ramp up the footfall faster.

Suprita Reddy: Madhav, to answer your question, probably compared to Andhra and Telangana, West Bengal basically does, it is a different kind of an architectural structure there. And there are definitely a lot more unorganized players, standalone players, and independent-run centres. There is also a lot of inflow that comes into Kolkata from the Northeast region. So that is also the reason why we saw a lot of growth potential there. Not keeping competition in mind but taking the model that we've tried and tested over the last 40 years, and what we are good at the B2C model and the patient-centric model, the wellness bid taking the high-end technology all integrated into one. And like we mentioned, we said we will not ramp it up at a pace that we would do in Andhra, Telangana, which are our home markets. We are getting that market ready for the next five to seven years. We will slowly start growing that market, and we will try to create a dense network like we have done in Andhra and Telangana over the next few years.

Moderator: Thank you. Next question is from the line of Aditya Khandelwal from SIMPL. Please go ahead.

Aditya Khandelwal: So, I think we have answered this question previously, but still I just wanted to get a better understanding. Regarding why as far as patient volumes, seeing a decrease year-on-year, even though our number of centres have been increasing.

Siva Rama Raju: So many of the footfalls have one single test called COVID RT-PCR. If you actually see tests per footfall, right, I think last year, Q4, because of Omicron, we used to test almost close to 6,000 to 7,000 RT-PCR samples per day in the month of January. So, we used to see around 11,000, 12,000 kind of footfall in day, but many of those footfall was just for RT-PCR, right. If you actually see today, the number of tests have gone up, but the number of footfalls have come down. So, we cannot take the last year as a base. So, what's more important is the growth of tests. So, if you see that the tests have grown in double digits, so 22% kind of increase in non-COVID revenue, this was by 24% increase in test volume. So, from going forward, you will see the number going up from current 0.8 million per quarter.

Aditya Khandelwal: Okay. Just one more question. So, this number of increase in tests, so one contributing factor would be the increase in the share of wellness tests as well, right?

Siva Rama Raju: Correct, true, Aditya. So, wellness last year if you see in Q4, we were at something like 8% versus 13.4% in the current year Q4. But if you remove the wellness portion and if you see our test per footfall, we'll be closely around, I think last quarter, it was about 3.37 tests per footfall. If you remove wellness share and if you see that, it's close to 2.95 per footfall.

Aditya Khandelwal: Okay. And the final question, so I just wanted to know what is the amount of fixed cost we incur while setting up a spoke and while setting up a hub. If you could just bifurcate between employee costs and rent.

Narasimha Raju: So what happens, Aditya, coming to the cost for setting up these centres, like for a spoke centre, you need a capex of approximately INR 1 crore to INR 1.1 crore. And there, coming to the operational cost, coming to the employees, as you know, these are not the small collection centres, you need at least like 10 to 12 people are required. So where you incur approximately like INR 2.5 crore to INR 2.8 crore on the manpower cost every month. But whereas if it comes to like a hub centre, where the capex is like INR 12 crore to INR 14 crore up to an MRI/CT facility with like 1.5 Tesla MR, 32 slice CT with a large 10,000 square feet facility, there, you need at least like INR 12 crore to INR 14 crore capex. But if you look at the manpower over there, since it's a bigger facility, including advanced radiology and all, you need at least like 40 to 50 manpower is required. And then there, you need at least like an INR 10 lakh of salary cost. A facility like a Rajahmundry, you need at least like an INR 10 lakh for employee cost over there. And for these type of hubs, you need at least like to get a breakeven, I am talking about like INR 44 lakhs to INR 48 lakhs of the revenues is needed to get an operational breakeven at these hub centres, I am talking about, the big ones.

Moderator: Thank you. Next question is from the line of Namit Mehta from KC Capital. Please go ahead.

Namit Mehta: If you can just explain what's happening with the newer hubs and why they're breaking even faster. And in addition to that, if you can talk a little bit about the spoke strategy as well, given the hub performance, whether Rajahmundry or Punjagutta or newer hubs, how quickly will we ramp up on the spokes around the hubs as well?

Siva Rama Raju: I think, Namit, the first thing is if you basically see that because whenever we're going to a new geography, we are going up with a hub where we have both pathology and radiology, right, generally if you see these two businesses separately. So, in terms of pathology, what generally happens is even if you go to micro market and, say, if we don't have the capability to test, still we can take the sample and then send the sample to a reference lab. But whereas in radiology, you have to provide service there, right. So, one major advantage for Vijaya is that whenever we go into these Tier 2 geographies, we are taking something new to the geography in terms of radiology. Obviously, yes, pathology, we are also putting a local automated lab where the TAT is faster. Maybe the other diagnostic centres, they still being sample and send it to maybe Hyderabad or some other geography, the B2B mode. In terms of radiology, clear cut, we have a very large advantage because you have to provide the service to the patient at the centre. So, when you take this high-end 3 Tesla MR and CT, and there will be some other MR and CT's in the market, but the thing is all the standalone centre is run by one or two radiologists. They may have expertise in something like neuro reporting or a cardiac reporting, but not into all reporting. But whereas for Vijaya, because of the radiology doctor network that we have, right, the talent that we have, we are able to take all the tests. There is nothing in Vijaya that you go to a Tier 2 location and you ask for and we say that's not available with us in terms of radiology and pathology.

In addition to that, we are also setting up nuclear medicine in many of these centres, like Rajahmundry and Tirupati. So because of the brand, the quality of the reporting, and apart from that, what we also have realized, right, when we market, when we do the branding is that we also try to highlight the convenience for the customer because they're coming to one single centre getting all their tests done. And in Tier 2 locations like Tirupati, even parking is a major issue today, even we are trying to highlight those.

I am not saying because of the patient is coming, but all this will make some change. The word of mouth is very faster. We are trying to conduct camps, showcase our facility, and we are doing doctor engagements to CMEs. All these are helping us to break even faster. It's a simple thing, it's about the volume. We are able to ramp up the footfall faster, hence we are getting the breakeven.

Namit Mehta: Understood. Given the success of the new hubs that you are opening and the timeline that is taking to breakeven, what prevents you from going out and saying, next year, let's put up 7, 8, 10, 12 hubs and a lot more spokes? What is the constrain there? Because clearly, it's not capital, and it looks like it's not really the breakeven period either. So, what sort of prevents that strategy?

Sunil Chandra: So Namit, again, we have spoken about this in earlier calls. So, our industry itself, I think the constraint has never been capital. We will have that expansion as a whole. You are looking at identifying locations, build out equipment and most importantly, getting the right staff, including your doctors, consultants in place. So, the combination of all of those is what constrains anybody and results in a number. If it was just capital, yes, I think you could even do 50 centres. But unfortunately, operational issues like getting the trained manpower, technicians, doctors and also getting the facility completely built out, MRIs and other equipment there, when the......

Suprita Reddy: But at the end of the day, it's also an experience that we are selling, right? So, a customer walks in, I don't think the customer is ever going to say how qualified is your consultant who's sitting with you. It's the entire experience. That's also a reason that a lot of effort goes into what Sunil mentioned, the location itself, the kind of people who are there to receive you, how convenient it was, how quick it was and how accurate it was and the trust that you build. So that takes time. And that's also the reason why we choose these hubs, the locations in areas where there's scope, there's basic scope to again create a lot more spokes. You have to create it to be dense again.

Sunil Chandra: Yes, because the cluster profitability is what is attractive when you have a hub and then build the spokes around it, that's when the profitability, the blended profitability of the cluster looks like what we are reporting. So, we have to balance both the number of hubs versus the spokes, which are being added for the existing hubs.

Moderator: Next follow-up question is from the line of Cyndrella Carvalho from JM Financial. Please go ahead.

Cyndrella Carvalho: If we just look at the new centre additions in FY23 and FY24 and FY25, by what level will our coverage outside Hyderabad is going up? Do you have that number off like on your mind or would you be able to share?

Siva Rama Raju: So we can comment on this more qualitatively. So, as we told, majority of the capex in FY24 and FY25 is going to be out of Hyderabad. But in terms of.....

Suprita Reddy: Cyndrella, I wouldn't have the exact number, but if you say 15 centres come up, probably, I would say, 12 centres would be out of Hyderabad in all the years to come from now on. So those are in our adjacent geographies and the geographies of our interest of Andhra and West Bengal.

Cyndrella Carvalho: Okay. Just looking for any coverage number that we have in mind, but this is helpful. The second thing is on the inorganic acquisition side, how is the market presently? Do you see any change there? Are we evaluating in terms of valuation? How is the market? And what is our strategy going ahead on the inorganic side?

Sunil Chandra: So Cyndrella, I think as you know, we have always been open to looking at opportunities. The last couple of years, we have seen valuations being a little a bit of a challenge. However, we continue to actually be constantly looking at different opportunities. Even today, we are engaged in some discussions. But until we reach maybe a more concreate stage where we are proceeding to do a due diligence or something of that nature, we can't really comment on that. But valuations, in general, maybe a little bit of correction has happened, which is making things a little more attractive now. So hopefully, we will look at doing something in this space in the next couple of quarters.

Moderator: Thank you. Next question is from the line of Srirama, an individual investor.

Srirama: In your Slide number 24, you have given revenue and EBITDA per footfall. Can you break it down to the two segments, radiology and pathology?

Narasimha Raju: We can't bifurcate that between these two segments because we are an integrated business model, right. But the revenue in the sense per test, we have the data; per pathology test and per radiology test. Like per pathology, I remember, it's around INR 335 approximately. And for radiology, it is INR 1,130. So at these test level, we have.

Srirama: Okay. So basically, you don't disclose the margins for those two segments, that's what you're saying?

Narasimha Raju: First of all, we are not able to arrive at that margin. At the gross margin level, we can easily find out the segment-wise, like we have a higher gross margin in case of radiology because there the cost of goods sold is approximately on a single digit, whereas on the pathology, it's a low single-digit number. So at the gross margin level, we can find out. But at the EBITDA margin level, we are not able to do because many common centre overheads are there because the centre is providing both the services, you have the common staff there, common housekeeping, security, building staff, the common rent, power and electricity, etcetera. Even though there are certain costs which are specific to each segment, like you have radiology costs or radiology doctor’s costs for radiology segment, you have a pathologist costs for the pathology segment, but we're not able to come to an exact number because of this allocation issue at the EBITDA margin level.

Srirama: Okay, understood. So, can you put some number to that gross margin which you mentioned, like some rough range?

Narasimha Raju: So, at the gross margin level for the radiology, we are enjoying almost close to like 90%, 91% gross margin because there the material consumption is roughly like a 9% range, 8% to 9%. And in case of pathology, the material consumption is somewhere like, okay, around 15%. So, we are enjoying there 85% gross margin. Again, this is slightly better than other peer group because we are enjoying 95% of revenue coming from B2C segment. That's why the gross margins are also higher even on the pathology segment.

Moderator: Thank you. Next question is from the line of Neelam Punjabi from Perpetuity Ventures. Please go ahead.

Neelam Punjabi: So, if I look at your last three years, the number of tests have grown at a CAGR of about 8% despite us opening almost around 48 new centres over the last three years. So, what would you attribute this muted volume growth to and what gives us the confidence of growing at more than 15% or about 15% going forward?

Siva Rama Raju: So, Neelam, when you say 3-years CAGR, what's the time period that you've considered?

Neelam Punjabi: Financial year '20 to financial year '23.

Siva Rama Raju: So Neelam, see, one thing in our business is we have to open centres every year to get the growth. So previously, you may have seen higher in number, but if you see the capex, the majority of the centres that we opened are spokes. And out of which, the 28 centres are part of the current year, right. So, we have to give some time for the centres to grow. Because generally when you say we grow at 15% CAGR, it's basically a mix of contribution coming from the existing centres about, say, 9% to 10% and 4% to 5% from the newer centres. But between two years, because of COVID, we were not able to open the centres. We hardly opened like some six, seven centres, which are again spokes, right. So, a majority of these centres are opened in the last only one, two years. You will see these centres coming to their maturity stage in next two to three years. That's one of the reasons you see a muted CAGR. But however, if you see year-on-year from now onwards, even if you see Q4 to Q4 or Q3 to Q3, it's in the double digit.

Moderator: Thank you. I now hand the conference over to the management for closing comments.

Sunil Chandra: I would like to thank everyone for attending this call and for showing interest in Vijaya Diagnostic Centre Limited. I hope we have been able to answer all your questions. Should you need any further clarifications or like any other information about the Company, please feel free to reach out to us or to CDR India. And thank you once again for taking time to join the call and see you all next quarter.

Moderator: Thank you very much. On behalf of Vijaya Diagnostic Centre Limited, that concludes this conference. Thank you for joining us. You may now disconnect your lines. Thank you.
