



Dr. Lal PathLabs Limited Q2 & H1 FY21 Earnings Conference Call November 6, 2020

Call Duration	<ul style="list-style-type: none">1 hour 11 minutes
Management Speakers	<ul style="list-style-type: none">(Hony) Brig. Dr. Arvind Lal - Executive ChairmanDr. Om Prakash Manchanda - Managing DirectorMr. Bharath U - Chief Executive OfficerMr. Ved Prakash Goel - Chief Financial OfficerMr. Rajat Kalra - Company Secretary and Head of Investor Relations
Participants who asked questions	<ul style="list-style-type: none">Alok Dalal - CLSAChandramouli - Goldman SachsDr. Harith Ahamed - Spark CapitalGaurav Kumar - Kotak SecuritiesHarit Shah - Stallion Asset ManagementKunal Randeria - Edelweiss SecuritiesNeha Manpuria - JP MorganNikhil Chaudhary - Kris PMSNikhil Mathur - Ambit CapitalNitin Agarwal - IDFC SecuritiesPrakash Kapadia - Anived PortfolioRahul Agarwal - Incred CapitalSabyasachi Mukerji - Centrum PMSSamir Baisiwala - Morgan StanleyShaleen Kumar - UBS SecuritiesShanti Patel - Shanti Patel InvestmentSriraam Rathi - ICICI SecuritiesTushar - Motilal Oswal AMCVishal Biraia - Aviva Insurance

Moderator: Ladies and gentlemen, good day and welcome to the Dr. Lal PathLabs' Q2 & H1 FY21 earnings conference call. As a reminder, all participants' 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 '*' and then '0' on your touchtone phone. Please note that this conference is being recorded. I would now like to hand the conference over to Mr. Siddharth Rangnekar from CDR India. Thank you and over to you, sir.

Siddharth Rangnekar: Thank you. Good afternoon, everyone and welcome to Dr. Lal PathLabs Limited's Q2 & H1 FY21 earnings conference call. We are joined today by senior management members including (Hony) Brig. Dr. Arvind Lal - Executive Chairman, Dr. Om Prakash Manchanda – Managing Director, Mr. Bharath Uppiliappan – CEO, Mr. Ved Prakash Goel – CFO and Mr. Rajat Kalra – Company Secretary & Head of Investor Relations.

I would like to share our disclaimer here. Some of the statements made on today's call could be forward-looking in nature and our actual results could vary from these forward-looking statements. A more detailed statement in this regard is available in the results presentation which had been circulated to you earlier and is also available on the stock exchange website.

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

Arvind Lal: Thank you. Good afternoon, ladies and gentlemen and thank you all for joining us on Dr. Lal PathLabs' Q2 & H1 FY21 earnings conference call. I hope all of you are safe and in good health. I will commence by sharing my views on the emerging trends, initiatives undertaken by us and some color on our performance.

The COVID-19 pandemic has been fairly prolonged not only affecting the daily life of the people, but also impacting the businesses and economies across the globe. Q2 saw the lockdown being lifted in a phased manner and accordingly, we witnessed substantial recovery where our business growth almost returned back to pre-COVID levels. While patients are still hesitant to access medical facilities, sales have started recovering as the number of walk-in patients have been increasing gradually.

Being a leader in Indian diagnostics industry, we have given utmost importance and taken numerous initiatives to strengthen our digital infrastructure to ensure that we provide best-in-class quality and customer service to all our patients.

We have made significant inroads in simplifying our processes through use of technology and bringing in innovation to patient care. All these efforts have paid off and have given us an edge over our competition.

As I have stated previously in calls, the pandemic has made people more vigilant towards their health and well-being and this would boost spending on preventive healthcare checkups. The Company remains well placed to capture this opportunity and gain market share.

All in all, we stay focused on our core values and remain an undisputed market leader by providing accessible, affordable, timely and quality healthcare diagnostics, applying insights and cutting-edge technology to create value for all our stakeholders.

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

Dr. Om P. Manchanda: Thank you, Dr. Lal and good afternoon, everyone. Today, I will share with you some macro observations about the operations and role of strategic initiatives we have taken to emerge stronger from this pandemic.

Healthcare services across the board are normalizing with nearly the entire country having opened up and that will anchor the pattern in diagnostics in the coming months. Having said that, we feel that COVID-19 related testing will continue to contribute to our revenue for at least couple of quarters depending on how pandemic pans out. RT PCR is the gold standard test in the diagnosis of COVID-19 and in-line with nationwide scale-up in number of tests conducted, We have also augmented the number of labs that offer this test. We are currently doing COVID-19 test at 9 labs. This is part of our long-term investment in infrastructure which later can be used for other specialized testing as the COVID-19 testing volume dries up.

As we mentioned on the previous call, we have taken steps towards minimizing the time spent in contact with the patients during walk-ins. While the walk-in volumes are gradually increasing in most of our regions, some regions are still slow in this aspect, especially Delhi NCR. This is primarily because people are still skeptical about visiting medical facilities especially labs due to the fear of contracting COVID-19. In terms of relative performance, the patient service centers and the pickup points are doing much better.

As Dr. Lal mentioned earlier, we have been working towards further leveraging technology to provide a more seamless and quality experience to patients. I am pleased to share with you that we have deployed artificial intelligence-based algorithms in our histopathology department. We remain strongly committed to enhancing our patient journey, keeping high service parameters as a key differentiator. Our expansion strategy remains on track as we gain traction in key regions of West and South of India by acquiring standalone labs in a calibrated manner. We only acquire labs which are of superior quality and this is an important aspect of our aim to expand and solidify our presence outside Delhi NCR region. Higher growth in rest of India has helped us to reduce our dependency further on Delhi NCR.

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

Bharath Uppiliappan: Thank you, Dr. Om. A very good afternoon to everyone present on the call today.

Revenues of Q2 FY21 came in at Rs. 431.9 crore, recording a robust growth of 18.2% over Q2 last year. Our non-COVID business in Q2 FY21 has reached to 98% compared to last year levels and 17% of this quarter's total revenue was contributed by COVID-19 test. We served 5.4 million patients during Q2 and 8.9 million patients in the first half of FY21. To provide focused attention to both COVID and non-COVID businesses, we have internally formed separate operating teams and processes to drive both the businesses and they have been working tirelessly. As a result, Dr. Lal PathLabs has seen sharp recovery in the non-COVID business including in our super specialty and SwasthFit portfolio.

We have been scaling up the COVID-19 testing at our 3 major labs at Delhi, Kolkata and Indore. Further, we have ramped up capacity for these tests by adding 6 more labs at Pune, Bangalore, Patna, Mumbai, Guwahati and Bangladesh. Overall, we performed 3.08 lakhs COVID-19 RT PCR tests in Q2 which is significantly higher than the 1.97 lakh tests in Q1. Better offerings within COVID-19 portfolio coupled with the commencement of on-demand testing supported the performance momentum in the COVID business. During the quarter, we also continued to progress well on key priorities to drive future growth.

To conclude, I would like to add that we remain committed to our vision and core values and serve the diagnostic needs of the country in the most efficient way possible. With that / Now I would like to hand over to Ved to give an update on the financial performance.

Ved Prakash Goel: Thank you, Bharath. Good afternoon, everyone and thank you for being on this call today. I will now share with you some of the key financial highlights.

Revenue for Q2 FY21 is at Rs. 431.9 crore as compared to Rs. 365.6 crore in last year same quarter, a growth of 18.2%. This includes revenue of Rs. 74 crore from COVID RT PCR and antibody testing in Q2 FY21. Revenue realization per patient for Q2 FY21 is higher at Rs. 803 as against Rs. 687 for Q2 FY20. The higher revenue realization was aided by the COVID testing. Normalized EBITDA after eliminating the impact of stock-based compensation, CSR expense in Q2 FY21 stood at Rs. 134.7 crore as compared to Rs. 113.5 crore reported in Q2 FY20, a growth of 18.7%.

PBT for Q2 FY21 is at Rs. 116.6 crore as against Rs. 102.3 crore in Q2 FY20, a growth of 14%. PAT for Q2 FY21 is at Rs. 87.1 crore as against Rs. 81 crore in Q2 FY20, a growth of 7.5%. The growth of PAT is lower due to higher base of Q2 FY20 which had a benefit of reduction in income tax rate for Q1 FY20 as well. Basic EPS for Q2 FY21 is Rs. 10.34 per share versus Rs. 9.77 in the same quarter last year. Cash, FDs and investment in mutual fund as at the end of Q2 FY21 is at Rs. 894.1 crore. Trade receivable at the end of Q2 FY21 is at Rs. 63.3 crore.

Let me take a pause and spend a minute here. In this difficult environment, we are able to keep our DSO under control. In spite of Government outstanding on account of COVID testing, which is approx. Rs. 9 crore today, DSO on credit sale has reduced from 34 days to 31 days. So, we are able to collect our money on time and we are happy to share that we are well within our control of receivables.

I am happy to share that the board of directors of the company have approved an interim dividend of Rs. 6 per equity share of Rs. 10 each.

Further, the company's wholly owned subsidiary, PathLabs Unifiers Private Limited has signed binding term sheets to acquire 100% business in Bindish Diagnostic Laboratory in Jamnagar and 70% stake in ChanRe Diagnostics Services Private Limited in Bengaluru.

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

Moderator: Thank you very much. Ladies and gentlemen, 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 testing bit, assuming that most of the Covid revenues is RT PCR, it seems to indicate the average realization per non-COVID patient is around Rs. 700 or thereabouts, compared to the pre-COVID run rate of about Rs. 680, so if you could just give us some color on what is driving this improvement in the non-COVID realization? And how sustainable some of these factors could be?

Dr. Om P. Manchanda: Yes, thanks, this is a good question. We also went deeper into this analysis and our analysis is raising two reasons. Number one, relative contribution of high-end test has gone up and there are certain COVID associated high-end test also, we are seeing a higher contribution, which has a slightly higher realization that has

contributed to overall increase in realization per patient on non-COVID. And second, minor factor is that relative contribution of home collection has gone up and we have seen in general even in the past also realization per patient for home visits is higher than any other streams of revenue.

Chandramouli: Got it, that is helpful. Second question is again on the COVID testing that you mentioned, so if you could just share with us the split of what the antibody revenues were and what the RT PCR revenues were?

Ved Prakash Goel: So, we have Rs. 74 crore of total revenue in this quarter, out of which, Rs. 6.2 crore of revenue was from antibody.

Dr. Om P. Manchanda: Rs. 6.2 crore is from antibodies and balance is from RT PCR and while we are on the subject, I want to tell you that we look at antibody test more as a zero-surveillance test. From a medical point of view, it does not have a diagnostic value.

Chandramouli: And my last question is on the volume trend. So, the non-COVID seems to be down only 2% YoY for the quarter, so pretty good recovery there. What were the trends you were seeing on non-COVID volumes maybe in the month of September and is that trend sustaining into October as well?

Dr. Om P. Manchanda: See, volume recovery is slightly on the lower side compared to value recovery because we have seen some higher revenue per patient, but directionally, I can say that we are now fairly in the trajectory where we do not have to really worry about whether we are below last year. And we are hoping that this quarter will turn out to be even better than the previous quarter as far as non-COVID is concerned. Right now, because we are not in a position to judge as we are in the middle of festive season and we do believe that some fluctuations happen, but I think if I take a slightly longer-term view, my sense is that whole impact of COVID on non-COVID business is behind us.

Moderator: Thank you. The next question is from the line of Prakash Kapadia from Anived Portfolio. Please go ahead.

Prakash Kapadia: I have two questions. On the acquisition front, do we think this string-of-pearl acquisition strategy would continue in near term or now we are waiting for some larger acquisition especially in West and South where there is ample of room for us to grow much? That is the first question. And secondly, post COVID, are we seeing national and regional players growing at a much faster pace than what industry is growing and how are the trends, if you can comment on that, that will be helpful.

Dr. Om P. Manchanda: Thanks, Prakash. So, to your first question, in order of priority, larger M&A will always be number one priority. So, we would definitely want to go after regional players of some size and scale because we do know that smaller acquisitions have its own limitations. So, number one preference will be to go after the larger ones. The smaller ones, right now, we are seeing a role of entry into some new markets, new clusters and if you study the pattern of our M&As, we have tried to create clusters and then grow in those areas. As we have always been stating that South and West are number one priority, so we are looking at opportunities which will give us some entry into these markets. That is the reason behind that.

Second is in terms of growth rates for regional players versus national player, I think your question is very valid. My reading is that regional players' growth rates especially for those people who are doing RT PCR testing would be much higher, not because they are doing much higher turnover than us, but just because their base is so low. If somebody is doing let us say Rs. 10 crore a month, then that guy may see Rs. 10 crore of RT PCR testing in that month. Suddenly, you will see the

growth being 100%. So, I have a sense that some of these large city-based players might have seen a higher percentage growth in the last 4-5 months and that actually could be a reason for some of these guys to hold on for any kind of conversation on inorganic growth.

Moderator: Thank you. The next question is from the line of Shaleen Kumar from UBS Securities. Please go ahead.

Shaleen Kumar: So just doing a broad math, if my calculations are right, your RT PCR average would be around Rs. 2,900 or Rs. 2800 something like that.

Dr. Om P. Manchanda: Realization?

Shaleen Kumar: So, antibody how much you are charging, Rs. 1,000?

Dr. Om P. Manchanda: See, we have two kinds of antibodies. One is IGG where our MRP is about Rs. 1,400, but sometime this weighted average of various states might be lower. Average realization on COVID RT PCR for last quarter is Rs. 2,216 and COVID antibodies is Rs. 936.

Shaleen Kumar: But obviously there is a drop in the realization as price restriction has happened, how do you see volume and revenue contribution from this COVID-19? Is it going to go down, any sense per se?

Dr. Om P. Manchanda: Let us talk about volumes. I think it is anybody's guess as to how it will pan out over a period of time. I think it is very difficult to judge, but as far as the pricing is concerned, all of us know that pricing is only going one way, but I think the good news is that so is the cost as well. So even cost also has come down very sharply. I think the way we are managing this whole transition of falling prices is to manage our portfolio better. It is not that prices are uniform across all states. So, we are trying to look at the states where our realization is higher, we are trying to balance our portfolio. We also feel that in some cases where if you can centralize collection at some physical collection point rather home visits, so that is another way of balancing it. And third is of course doing a sort of repertoire testing where other tests being ordered along with RT PCR. So, in some ways, we are trying to manage the situation because we have to balance all stakeholders public, Government, investors, our own P&L. I think so far, we have been able to manage it reasonably well.

Shaleen Kumar: Broadly, what could be your weighted average price given the prices right now?

Dr. Om P. Manchanda: Unfortunately, it is changing obviously every week that is what I can suggest. I think in some states, now it is hovering around Rs. 1,500. I think that is the weighted average sort of a thing. In some states, prices have gone down even to below Rs. 1,000 also.

Shaleen Kumar: And obviously we did 3 lakh tests in a quarter, but any sense on monthly numbers like is there an increasing trajectory from July to September and further in October?

Dr. Om P. Manchanda: So, I think if we look at pattern in terms of trajectory, April, May, June saw a very high sort of orders coming from Government, then we saw a sharp dip from the Government because they also had opened up lot of capacities themselves and then the business moved to private side and within private also, we saw 2 trajectories. One, when they opened up, what you call that on demand testing. So, we saw that also moving up and then now it varies depending on how this whole thing is moving up and down. So relatively if you ask me, today, there is no constraint on testing per se. Anybody can ask for a test. So at least that constraint is removed. Pricing is, I

think from a patient point of view, is quite favourable. So, I do not think one can call this is an unaffordable price range. I think that constraint is removed. So now the only variable which is left which can influence the demand is how will pandemic take shape depending on third wave, second wave, whatever that is happening and which is very difficult for us to predict. Everybody knows what really is going on, but we do believe that at least current quarter and for few more months this will continue.

Shaleen Kumar: Also, Dr. Om, want to pick your mind on the acquisitions you have done. So, I clearly understand what you said, larger M&A will always be a priority, than these smaller ones as they should be seeing as entry point or something like that, but when you acquire, what do you like about it? And any qualitative, quantitative comments that will be really helpful?

Dr. Om P. Manchanda: So, what I like about this is the following. If you go back 5 years back when we went public and we said that there are 2 focus cities, we are identifying to create some kind of hubs in South and West. One was Pune and other was Bangalore. And our intent has been to really see if we can create a sweet spot in terms of minimum size of turnover in these 2 cities. And we are nearing that sweet spot. If you look at earlier acquisition, we did something in South and West Maharashtra, and that really gave us good dividends. So, this Bangalore acquisition is keeping that in mind and this particular lab that we have acquired, actually if you are familiar with Bangalore, there are two Bangalores in one city. One is the old traditional part of it. The other is the new Whitefield side. Our current business is more drifted towards Whitefield and this side of the town where lot of North Indian population, cosmopolitan sort of profile where the brand awareness is fairly good. Traditional part is where we were weak.

Moderator: Thank you. The next question is from the line of Nikhil Mathur from Ambit Capital. Please go ahead.

Nikhil Mathur: My question is on the home collection part of the business. Can you share some numbers as to what was the proportion of sales that was related from home collection side to COVID and what it would be today?

Bharath Uppiliappan: Home collection numbers from April have moved up close to 16x the way we look at it from April because in April-May, what we were doing was predominantly Government business. So, now what we do is in terms of lot of private business and hospital pickups, etc., so our business is pivoted about 16x on the home collection side for COVID in particular.

Nikhil Mathur: A question following upon this could be with home collection rising so rapidly, do you have to pivot your business model structure in the coming 2-3 years because I think at least for the next 2 months, at least if not for a good 1 to 2 years, patients might still be skeptical in going to your patient service centers and walk-in into your labs. So, do you think this is a structural trend that will emerge from a more longer-term perspective?

Dr. Om P. Manchanda: I think so. I think it is fairly clear that COVID has disrupted many businesses where doorstep services have become the new norm. I think your reading is right that home collection as a component of this total business will keep growing. And we will have to obviously make changes accordingly.

Nikhil Mathur: My sense is that the changes that could probably have to be made is possibly hiring more phlebotomist who then do home collection services and all. Would that be a dampener to your EBITDA margins in the near to medium term, you might have to shut down certain patient service centers, which are not contributing positively to your EBITDA and then you have to ramp-up at the same time the home collection

infrastructure that you want to have, so would that incur good amount of drag on your margins?

Dr. Om P. Manchanda: I think it is interesting conversation to have. I am not sure, while margins are one side of it, it is also going to be very challenging operationally for the companies to manage this part of the business because you are technically adding one more leg to logistics. Home collection is less controlled because ultimately that is the brand experience. Otherwise, patient has no idea what is really going on in the lab. The real experience is when you collect the blood sample. So, I think there are many aspects that will undergo change. On the sort of margin side, I am not unduly worried about that. I think that is still manageable because we are a growing company and we can figure that out. But I think operational challenges are going to be much more than financial challenges is what I foresee. So, in that challenge lies an opportunity also if somebody does a better job, why not.

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

Rahul Agarwal: Congratulations for excellent recovery in non-COVID business as well as on the acquisition. Couple of questions. One is on the COVID side, essentially you mentioned that antibody serosurveillance has no diagnostic value. In general, I would imagine the expectation was higher on patient revenue antibody tests this quarter. Is that assumption correct that intentionally we are doing lower antibody test because what we are seeing in the competition side is essentially, people are indulging into lot of corporate business on antibodies and it is basically adding on to topline as well as on EBITDA. So, any thoughts on antibody facility?

Dr. Om P. Manchanda: I am not sure about this corporate side of it. I know I have also heard this narrative, but my reading is when antibody test was launched, lot of people thought that this antibody test is actually going to be a magic bullet in terms of whether to start workplace or not. But when we went into some kind of algorithm, we found that virtually this is not giving any value to even corporates also to when to start, when not to start. So, I do not think it is actually that kind of hype around this test what it was when it was launched sometime in July-August. It is not that we are actually trying to contain it, but we are definitely not trying to mislead the market. So, we are actually just going with the flow. If it is ordered by the patient or doctor, we are doing it. It is not that we are containing it, but we do not want to aggressively promote it because we believe it is not a diagnostic test.

Rahul Agarwal: And second observation on the cost side, essentially the other expenditure has actually been completely flat versus obviously, the topline has gone up because of COVID as well as non-COVID recovery? Any specific thoughts? Are you going to see the run rate being similar going forward? Is there a particular step taken or is it one-off in the first half of the year and it might recover in second half, any thoughts?

Dr. Om P. Manchanda: You are talking about cost side of business?

Rahul Agarwal: Yes, cost side, on the OPEX side, essentially it has been completely flat.

Dr. Om P. Manchanda: I think it is a good point. See when this whole thing had hit us in the month of April, we realized that it is important for our non-COVID business to come back. That time itself, we had anticipated that pricing is not going to be under our control and it is going to go only one way down and we started focusing on non-COVID and that is why you were seeing that our recovery is definitely in line with what we expected. And there are certain natural savings that have flown into our P&L because travel is virtually zero now and there are rental renegotiations that have been done. Printing and stationery have come down because lot of things now are digital. So, there are

some savings that are really one-off, I would say, but some savings have become part of a new normal as well and that is one of the reasons why we have been able to manage it. But despite all that actually, I am really looking at this, this particular event of COVID-19 given the market size is very large, it is a fragmented industry, market shares are low, is there any opportunity for us to grow and expand our footprint? I think right now, we are focused quite a bit on that, and as Bharath mentioned that our number of testing centers from COVID what it was earlier, it has come to now 9 and there are couple of more also in pipeline. We cannot really tell right now till it happens. But we believe this is going to help us in building those cluster heads or hubs that we are talking about. So right now, we are focused to see how we increase our market share in non-COVID business on the back of this COVID.

Rahul Agarwal: Perfect, got it. And one smaller one if I may. Purely looking from your balance sheet, you are adding much more cash every quarter versus what you are spending even on OPEX or acquisitions? Any thoughts of utilization of this Rs. 900 crore because it looks like based on your commentary, even the larger regional guys will obviously get a near-term booster because of COVID and hence they would not sell. So, what really happens with this money? That is my last question, thank you so much.

Dr. Om P. Manchanda: So, I think as I mentioned to you is that South and West will continue to remain our priority. Given the current state of market, we will look at combination of both, can we step up our organic efforts plus these tuck-ins that we have done these acquisitions, we will try and build these clusters as we go along. We will definitely look at that both to see how we can accelerate the growth further.

Moderator: Thank you. The next question is from the line of Gaurav Kumar from Kotak Securities. Please go ahead.

Gaurav Kumar: On the non-COVID business, you mentioned that there are certain COVID biomarker test such as IL-6, D-dimer which would also have come. So, can you give us a sense on the non-COVID recovery excluding these in the second quarter? The positivity declines even as testing might remain high, so how do you see these tests moving forward?

Dr. Om P. Manchanda: So, I think that is a good point. And we actually wanted to highlight this as well because there are COVID associated tests which are part of non-COVID, and we were little unsure should we club it with COVID test because those tests are also ordered for some other conditions as well. If we remove those tests, our non-COVID would be about 95% compared to 98% is what we just mentioned. But just remember that this delta that I am talking about may not be entirely because of COVID because these tests normally get ordered for something else as well. But materially they are getting ordered because of COVID.

Gaurav Kumar: The second question is on the regional labs. So, before COVID, there were some regional labs which I think were up for acquisition. Now with them also participating in RT PCR testing, do we think this event has actually given them a new lifeline and they might not come up for acquisition now and this whole space has gone in terms of acquisition target for some time?

Dr. Om P. Manchanda: If you are owner of one of those labs, What will be your reaction?

Gaurav Kumar: Obviously, you benefit from the recent wave of COVID.

Dr. Om P. Manchanda: So that is what is happening. I guess there will be a bit of pause till dust settles down or else the demand is very high. So, let us see how it goes, but you are right. So overall, some of the city-based players have seen huge surge in their topline. Initially,

there was great amount of panic, now there is excitement. So, let us just see how it goes. I think overall things should settle down because they would soon realize that this is not a sustainable opportunity, right. It is just short-term.

Moderator: Thank you. The next question is from the line of Vishal Biraia from Aviva Insurance. Please go ahead.

Vishal Biraia: So, my question is on specialized high-end test that we conduct. So, what would be the contribution of these tests and how different would be the margin for these kind of tests like these onco-pathology economics and something of this sort and internally, how do you look at, when you look at non-COVID, how do you distinguish between the specialized high-end tests and the regular tests, some perspective would be helpful.

Dr. Om P. Manchanda: I think the answer to the first question, we may not be in a position to give because we normally do not disclose that share. And secondly, it is also not that easy to pinpoint the number because various players have different kind of definition of what is high end and what is not high end.

Second question on margins, I think I can comment on that. In general, we have seen that most high-end tests have lower gross margins compared to routine test. As these high-end tests tend to come from healthcare institutions like hospitals or smaller labs, one has noticed that the fixed cost component incurred towards high-end tests is much lower than routine. So, on gross margin level, many of these tests have lower margin compared to routine, but when we go down to operating margin or EBITDA level, they tend to mimic the routine testing. Your third question was how do you define high-end and non high-end tests. So, I think in the past, our definition of high-end test has been sample that travels to Delhi for our big reference lab for testing, normally we classify that as a high-end test. But what is happening is that even high-end tests are also traveling closer to the market now. As we opened up lab in Kolkata, we are also further widening our test menu now. For example, this RT PCR test is technically a high-end test because it was being done only in the central lab, but as we are talking today, we are now doing it in 9 labs. So, it has actually become a more decentralized test than one centralized test. So entire molecular department in the country is becoming more like a routine department now. If I look at all the labs close to, I think 2,000-3,000 labs are doing these tests. With time, I have a sense that infectious diseases testing is becoming more routine in nature than what it was about a year back. So overall, I think that is the sense we get that high-end tests are also going closer to the market now with the widening of test menu.

Moderator: Thank you. The next question is from the line of Harit Shah from Stallion Asset Management. Please go ahead.

Harit Shah: I just wanted to ask your non-COVID realizations have actually gone higher. If I just calculate, they are higher by 10% quarter-on-quarter. So, is that a figure which you think is sustainable?

Dr. Om P. Manchanda: I do not think it is 10% higher. I think this question got asked earlier also, but let me repeat this. There are two reasons behind this. There are certain COVID-associated test, IL-6 and D-dimer have contributed to higher realization for overall portfolio, that is number one.

Number two is that as the contribution of home collection has gone up in the overall scheme of things, we have seen home collection realization per patient is the highest amongst all revenue streams compared to walk-ins, compared to pick up points and collection centers. So, these are the two reasons why it has gone up. And home

collection normally tends to have a higher component of preventive health checkup also which is when you go to somebody's house, people say okay, fine, why do not I get up my entire health checkup done. So, we have seen Swasth has started contributing slightly higher than what it contributed last quarter.

Harit Shah: And what would be the share of home collections of the total tests?

Dr. Om P. Manchanda: Actually, the problem is the base is changing very sharply. So, I do not know whether that is a right sort of a representative figure. So, I am a little cautious in putting a number because that should not get embedded in everyone's mind that that is our home collection number. But if I were to take a sort of average figure roundabout, it is about 9% odd of our revenue is home collection and that used to be about 4-5%, I think. Around 5-6% has gone up to 9-10% of the revenue.

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

Samir Baisiwala: Quick question is on how has the business recovered in NCR versus ROI?

Dr. Om P. Manchanda: I thought this question would come first. So, the news that I have split between ROI and Delhi NCR. Our Delhi NCR recovery is slower compared to rest of India. In fact, rest of India growth is very high and that is in line with our strategy also because we have been wanting to widen our footprint. So, Delhi NCR is recovering slower than that and one of the reasons for that is because our walk-in is adversely impacted due to COVID and walk-in contribution and Delhi NCR is higher compared to rest of India. That also is the reason for this.

Samir Baisiwala: Would you say ROI is more than 100% YoY and Delhi is 85% odd or so?

Dr. Om P. Manchanda: In ROI, I think we have seen some growth actually. We have seen growth over last year. If I were to just look at year-on-year basis, there is a growth in rest of India.

Samir Baisiwala: Second question is on your network expansion which is both clinical lab and PSC? So how are you seeing now FY21, normally you would grow by 8%-10%, this is a break year or how are you thinking about it?

Dr. Om P. Manchanda: Samir, earlier also I mentioned that I do not want to focus on numbers of collection centers going forward because one of the changes that I am seeing in our business is that our collection side of business is getting further fragmented. You understand what I mean because if I were to do home collection and let us say our franchises also going to do home collection. So, you are further fragmenting it and I think somebody has just asked that if the home collection business is going to grow, so will your cost structure be impacted adversely as well. So, one of the things and I know very clearly in my mind is that if we were to do home collections, directly that is not going to be scalable idea. So, we have to work through our franchise to cater to home collection. So, we will have to figure out how do we really look at economics of our franchise as well. So, in that, my reading is that we also will have to think of how do we create a leverage at this point if one franchise, one collection center may not be just a viable idea. So, we will have to probably look at how do we create a multiunit franchising. And in that case, I really do not want to get stuck with the number of franchises. I may want to actually look at number of franchises, but not franchise units because that could be as many as other that I can afford it, but I would want to actually look at number of franchises per se rather than franchise units. But having said that, to answer your question, we have seen growth in these numbers. So quarterly numbers, we do not share. We normally share it at the end of the year, but directionally, there has been growth in our infrastructure.

Samir Baisiwala: One final question is on the two acquisitions, I know they are small ones. What is the valuation? Is this more in line with what you have been doing 3-5 times sales or different from that?

Dr. Om P. Manchanda: It is lesser than that. I think about 2-3x of sales.

Moderator: Thank you. The next question is from the line of Alok Dalal from CLSA. Please go ahead.

Alok Dalal: Just to carry forward Samir's question, can you split sales between rest of India and Delhi NCR for the quarter?

Dr. Om P. Manchanda: For Delhi NCR, contribution is about 35% and rest of India is 65%.

Alok Dalal: And Dr. Om you mentioned non-COVID contribution has increased, so how much is that now?

Dr. Om P. Manchanda: I think DNCR used to hover around 40%, I am taking COVID out of this calculation, because that distorts the ratio. So, if I take out COVID, for non-COVID business, it used to hover around 40%. This quarter, we have done 36%.

Alok Dalal: And second question is I am referring to your slide 21 and 22, these refers to genomics and histopathology test. So how are you guys planning to go about this? How does this play out let us say over a 2-3 years' time?

Dr. Om P. Manchanda: So, I think since you all cover pharma as well, there comes a time in the business when you start looking at segmentation. I think we loosely use the term high-end test, right. But we strongly believe now the time has come for us to look at high-end also into multiple segments and also look at from a disease-state perspective as you look at therapy from pharma side. So, let us say onco-pathology is one such segment. We also looked at from the supply side as well because there is genetics part, there is a gene sequencing etc. so we are trying to segment this business from both demand side like onco-pathology and also from a supply side, let us say, with genomics as a platform.

So, I think the broad idea is to see if we can look at segmentation and drive focus because many of these tests are also not direct to consumers. They are basically through doctors and specialists' physicians etc. So, there are teams that we are putting around these clusters so that we can give higher focus to drive these tests. And on the histopathology side, I think there is so much of discussion going around on AI and machine learning and things like that. This whole telepathology is one such area where we have invested and we are trying to create some kind of slides images that can be beamed to our central lab and we can create a network of our histopathology centers across the country.

Moderator: Thank you. The next question is from the line of Kunal Randeria from Edelweiss Securities. Please go ahead.

Kunal Randeria: Just continuing on the recovery in the non-COVID business, so has the recovery being broad-based, across B2C and B2B?

Dr. Om P. Manchanda: No, it is not broad based. Actually, recovery is not that high in our walk-in business. Actually, it is the slowest. It is much higher in our pickup as well as collection centers. And our hypothesis is that we probably have recovered both, not only recovery of our own customers, we probably may have gained some share as well in some

markets. So, short answer is it is not broad based. Walk-in is the least. Everywhere else is higher.

Kunal Randeria: And are these trends continuing in October also?

Dr. Om P. Manchanda: I do not want to comment on month-on-month. Directionally, let us say, if I were to pan out for next 3-4 quarters, I think clearly one message that I am getting is that home collection is here to stay and will have to look at our whole operating model, financial model around home collection, number one.

Number two is, the service side of business has to be now with partners, so we will have to look at our franchisee relations, etc., how it goes and as the prices or margins come under pressure for smaller labs, I don't have much data in terms of what is really happening on smaller labs because I think we talked about some of the city based larger players, only those guys who are doing RT PCR test. I don't know what is really happening, what are the pains for smaller labs which are not doing RT PCR because our non-COVID recovery is better, but my sense is general industry non-COVID recovery is not that high, it may be around 60-65%, so we will have to probably look at what are the pressure points for the smaller labs. Assuming there are pressure points for them on the profitability terms, I have a feeling that they may end up doing higher level of outsourcing than what they were doing in the past, so that is a new opportunity which will present itself in times to come. So, I think those are the broad changes that I see in the industry post COVID.

Kunal Randeria: My second question is slightly longer-term in nature, so you clearly outlined that South and West are your focus growth areas going forward, but perhaps may be deep regions may have slightly lower realizations or may be franchisee revenue share might be a bit higher, so you think this could impact your margins in the next couple of years?

Dr. Om P. Manchanda: See, when I say South and West focus area, it is not that simple that overnight my contribution from South and West will go up. If it was that simple we would have done it by now. So, I think it is a bit of a pipeline, as you look at product pipeline, I think these are all geographical pipeline, I think our main growth engines will still continue to be rest of North and East region. These are all clusters, sort of a few islands that we are creating in South. To my mind, it is not going to be one quarter wonder or two quarter, it will be sort of 3 to 5-year plan. That is the way I look at it. So overnight, I am not seeing any impact on the margin structure as one would see it. I think it is a broad direction, it has taken almost 4 to 5 years for us to really stabilize ourselves in the East of India. If you recall in year 2015, 2016, or 2017, we used to talk about reference lab in Kolkata, now since that is in our pocket and hopefully it will continue to grow for us in the next 8 to 10 years, we believe the time has come for us to, it's not like South and West was not a focus, we are just increasing the level of attention, that is all we are doing now.

Moderator: Thank you. The next question is from the line of Neha Manpuria from JP Morgan. Please go ahead.

Neha Manpuria: Just one question, if I look at your comment on walk-in slowing and the fact that home healthcare will probably pick up in some shape and form and the fact that probably patients don't want to travel too far to access the collection center, how do we therefore manage the entire presence of home healthcare versus expansion of collection centers?

Dr. Om P. Manchanda: So, this home healthcare is not that entire business that is going to get replaced. Even walk-in also if I would look at month-on-month, there is an improvement in walk-in trends. People are coming back to labs for giving blood samples, but relatively this

segment has not recovered as fast as one would have like it to be. This particular segment is still below last year, some of it has shifted to home health, home testing and some of it has also shifted to our neighborhood collection centers. So, to my mind, home visits or request for home collection will continue to come directly to the company as well as to our collection centers. I think the way to look at is the following that we are actually two brands in one. One is our medical brand, which is all about testing, accurate report, give sample to anybody, but you want to have Dr. Lal's report in your hand because you trust that report. So that is one part of the brand.

The other part of the brand is service brand. The service brand we have been trying to cater in multiple ways. We are doing home collections, we are doing our walk-in business, we are doing through collection centers. My reading is going forward, lot of this business will shift towards collection centers and collection centers are nothing, but neighborhood outlets where the crowd are not that much on an average 10 to 15 people come every day compared to let us say, our big labs were close to 200-300 people every day. So, people are now more comfortable in going into neighborhood centers and at the most some of them, if they are worried about contracting COVID-19, they may request home collection from the same franchisee itself. I think going forward, one should see as to how we are looking at our franchisee infrastructure because the entire thing will revolve around that particular center that we have closer to the market. That is the way I would look at it.

Neha Manpuria: If I were to ask you this way, in Delhi NCR, which was largely walk-in, I am assuming we would have seen a shift to the neighborhood collection center, home healthcare, there more specifically. Is the margin profile of that volume that comes is different from that which would have actually come through a walk-in, does that make sense or that is not the way we should be looking at it?

Dr. Om P. Manchanda: Yes, you are right. The margin profile on, let us say, walk-in is very different, than let us say, margin profile from our collection center because we do share our revenue also with collection center, but the fact of the matter is that every year we expand our walk-in capacity, so we stop investing behind that area. We redeploy our staff to other segments where the traction is more, so all that what we have done in the last 6 months. So that is how we are actually managing the entire commercials around each segment. But as you rightly said that margin profile of walk-in is definitely higher compared to other segments. But I think we have managed it reasonably well so far. We do recognize that it is the one area which needs to be carefully looked at.

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

Harith Ahamed: Looking at your gross profit for the quarter of around 75% and back calculating the gross margin for COVID testing, that comes to around 60%, have these margins surprised positively on referring to the gross margins on the COVID testing front because previously you had given fairly conservative commentary on COVID testing and the margins from that business, so could you give some outlook on the margins from COVID testing given realizations have been coming down across states, but at the same time consumable costs have also come down?

Dr. Om P. Manchanda: I think relatively when we started COVID, nobody had an idea as to what the real costs are because this is the new test, we were all doing it on standard costing. Earlier we were using one PPE kit for every patient and we were over cautious, also, our home collection phlebos were not willing to go and collect samples, we were paying them incentives and all that we have been through, right. So as the prices started coming down, we started looking at it on how to reduce cost and I think even Government also has helped because some custom duties went down, some other kit prices went down, so I think relatively if I were to say now and since our non-

COVID business had fallen and we had a huge sort of fixed cost structure on our back, we were loading that as well. In fact, that time itself we realized that we will be better off if we can quickly recover our non-COVID. At least, we don't have pressure of loading our fixed component of cost onto COVID, so now we are looking at COVID as let us say, contribution margin and a few additional costs on the overhead side, and I am not looking at a quarter-to-quarter basis, we are looking at an exit rate basis. Right now, our realization on COVID has been hovering around Rs. 1,400-1,500, I don't know how it is going to go forward because if one state drops the price, then this can fall further as well and I think the good news is that we are not losing money on this. That is all I can say. We are able to manage on the contribution side fairly well. As I mentioned, couple of initiatives like portfolio margins, portfolio management, state wise prices are different, so we are trying to put more focus where the realization is a little higher. So, I think overall, I don't have a negative commentary on that it is bleeding or it is affecting this thing, but we are just fairly trying to balance all stakeholders on this.

Harith Ahamed: And the current contribution you said is around Rs. 1,400?

Dr. Om P. Manchanda: Realization per patient, yes.

Moderator: Thank you. The next question is from the line of Tushar from Motilal Oswal AMC. Please go ahead.

Tushar: One clarification, when you say COVID revenue, so it is largely RT PCR test and the Antibody test?

Dr. Om P. Manchanda: For us, it is primarily RT PCR test.

Tushar: So, the associated test, for example the CRP test and D-dimer test, that will come into your non-COVID level?

Dr. Om P. Manchanda: Yes, we have actually clubbed that in non-COVID because some of those tests also get prescribed for other disease tests as well and we just want to, for the sake of comparison, we have taken COVID as RT PCR and Antibody and IL-6, D-dimer those tests we have clubbed it in non-COVID. Just for the sake of clarity, our non-COVID business is 98% of last year. If I take out these associated tests, then our non-COVID is 95% of last year.

Moderator: Thank you. The next question is from the line of Nikhil Chaudhary from Kris PMS. Please go ahead.

Nikhil Chaudhary: I joined the call a bit late, so apologies if this is a repeat, if my understanding is correct, the realizations have shot up probably due to the COVID testing, am I correct?

Dr. Om P. Manchanda: Overall at company level, yes.

Nikhil Chaudhary: And my second question was with respect to the acquisitions that we make. Generally, is there a threshold limit that we look at, like probably a topline that we look at, we would not want to go below that topline when we make an acquisition from an economic standpoint of view?

Dr. Om P. Manchanda: I think we look at role that acquisition is going to play, first is, it should help us in entry into new market. Number two, it should further help us to build a critical mass in that city and it has to fit in overall scheme of things. We are not looking at purely from a turnover perspective, we also look at profile of promoter, we also look at profile

of business. This Jamnagar acquisition I think that we have done, it is a small acquisition, it is a market, where in Gujarat our presence is very low, but it is a very nice high walk-in kind of lab, so we thought it is a good sort of entry strategy into that part of the state. So, there are multiple factors on which we consider this, but underlying principle is higher the turnover better it is because it is much easier that to integrate.

Nikhil Chaudhary: And lastly, on the competitive intensity side, understanding is that the smaller players have probably got a lifeline due to the COVID testing, other than that on the non-COVID testing is there a pricing pressure visible like probably they would want to undercut and gain some share, just trying to get a sense on that?

Dr. Om P. Manchanda: Actually, I would say all smaller players are not doing COVID testing. COVID testing is done let us say, in 1500 labs, these are mid-sized city-based labs, I think they have got sort of lifeline, but many smaller labs which are not doing RT PCR testing, they I have a feeling must be under a bit of pressure and that is fairly large number and that is one area for us to really see as to how we can partner with these guys.

Moderator: Thank you. The next question is from the line of Sabyasachi Mukerji from Centrum PMS. Please go ahead.

Sabyasachi Mukerji: Most of my questions have been answered. I had just one question. You mentioned that you have been investing on artificial intelligence and we have seen Dr. Lal investing in IT infrastructure and all. There was a recent article on the newspaper few weeks ago about a data breach on COVID patients that was left unsecured on cloud server, your thoughts and what really happened and how to ensure such things don't happen in future?

Dr. Om P. Manchanda: This was actually not related to COVID, it was actually one of our applications on home collection It was generally sort of a booking data and there was sort of mis-configuration from our end. I think that slip was there and we immediately corrected it.

Moderator: Thank you. The next question is from the line of Shanti Patel from Shanti Patel Investment. Please go ahead.

Shanti Patel: My question is, as far as the market share in organized sector is concerned where we stand today and who is our main competitor if you can tell?

Dr. Om P. Manchanda: From an organized perspective, because there is no sort of ongoing data track that is available on a monthly basis or a quarterly basis, but one estimate suggests that organized market is about 15% and total market is estimated to be about Rs. 60,000 crore, half of it is radiology, so pathology is about Rs. 30,000 crore, 15% of that would be Rs. 4,500 crore. Within the organized sector, let us say, if I would look at ballpark figure of Rs. 1,500 odd crore, so close to 30% of our organized share would be with us, but if I look at larger market of Rs. 30,000 crore in pathology, we are just about 4 to 5%. So, there are two data points.

Shanti Patel: And who is our main competitor, if you can?

Dr. Om P. Manchanda: I really won't call it a competitor, I think the emergence of organized player has come out of unorganized sector and these 100,000 labs which are there in the market, which we call unorganized, we have to find ways and means of seeing that how can we co-exist. These guys can play a very important role of collection side of business, we guys can play a big role on the testing side of business. I think that is the way this whole ecosystem has to evolve because for one company to do entire collection

across the country is not feasible, so we will have to probably figure a way out as to how do we work with unorganized space to cater to the market.

Moderator: Thank you. The next question is from the line of Sriraam Rathi from ICICI Securities. Please go ahead.

Sriraam Rathi: Just one question on the COVID testing, out of our total revenue, what kind of business is coming from Government. So, what proportion of RT PCR tests come to us from Government and what is the contribution from private?

Dr. Om P. Manchanda: Sorry, I don't think I heard it correctly, but I think what you are saying, what is the proportion of Government business in our sales, right?

Sriraam Rathi: Right.

Dr. Om P. Manchanda: So, it is a very small number now in Q2 which is just about 9-10%. In Q1, it was significantly higher, I think it was about 50 to 55% which has come down to 9 or 10%.

Sriraam Rathi: And, out of the total tests which are happening per day, how much of that would be done by Government and how much of that will be with the private players?

Dr. Om P. Manchanda: Actually, I have not kept track of that number, sorry, I don't have any color on that right now. I will try and check that and come back to you if I get a count on this.

Moderator: Thank you. The next question is from the line of Nitin Agarwal from IDFC Securities. Please go ahead.

Nitin Agarwal: Just following on earlier question which was there, when you back calculate the revenue per non-COVID test, has that meaningfully gone up beyond Rs. 700 this quarter?

Dr. Om P. Manchanda: I think this question has been asked multiple times. This non-COVID revenue per patient has gone up for two reasons, one is our home collection revenue, our home visit revenue is relatively higher than any other segment revenue and since home collection contribution has gone up that has helped our revenue go up.

Number two is, there are certain increase in high-end tests primarily on account of COVID-19 related tests like D-dimer, IL-6, etc., that also has contributed to non-COVID patient revenue per patient going up, but overall as a company, revenue per patient has gone up because of COVID testing being so high, .

Nitin Agarwal: This ex-COVID piece of Rs. 700 thereabout per patient, given that the dynamics are that home stay is going to be more and more relevant part of our offering, should it stay around these levels, is there a fair assumption to make?

Dr. Om P. Manchanda: I think it is too early for us to comment on this, but I think directionally my reading is that home collection as a percentage of revenue will be higher than what we have had in the past and if we are able to sustain this revenue per patient, what you are saying is right. It should stay there.

Moderator: Thank you. Ladies and gentlemen, that was the last question for today. I would now like to hand the conference back to the management for their closing comments.

Ved Prakash Goel: Thank you everyone for being with us on this call today. Wish you all a very happy Diwali in advance. Please stay safe and take care. I now would like to request the moderator to close this call. Thank you very much.

Moderator: Thank you. Ladies and gentlemen, on behalf of Dr. Lal PathLabs, that concludes this conference. Thank you all for joining, you may now disconnect your lines.

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