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**Subject: Financial Results Conference Call Transcript for Q3 FY22**

Dear Sir/Madam,

Pursuant to Regulation 30 of SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015, please find attached herewith Financial Results Conference Call Transcript of the Company for Q3 FY22.

We request you to please take the same on record.

Thanking You,

Yours Faithfully,

For Dr. Lal PathLabs Limited

**Rajat Kalra**  
Company Secretary and Legal Head



Encl: As above

Classification: Internal



**Dr. Lal PathLabs Limited**  
**Q3 FY22 Earnings Conference Call Transcript**  
**February 10, 2022**

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Call Duration	<ul style="list-style-type: none"><li>• 1 hour</li></ul>
Management Speakers	<ul style="list-style-type: none"><li>• (Hony) Brig. Dr. Arvind Lal - Executive Chairman</li><li>• Dr. Om Prakash Manchanda - Managing Director</li><li>• Mr. Bharath U - Chief Executive Officer</li><li>• Mr. Ved Prakash Goel – Group Chief Financial Officer</li><li>• Mr. Rajat Kalra - Company Secretary and Head of Investor Relations</li></ul>
Participants who asked questions	<ul style="list-style-type: none"><li>• Anubhav Aggarwal – Credit Suisse</li><li>• Lavanya Tottala – UBS Securities</li><li>• Nikhil Chowdhary – Kriis Portfolio</li><li>• Nitin Agarwal – DAM Capital</li><li>• Pooja Bhatia – Morgan Stanley</li><li>• Prashant Nair – Ambit Capital</li><li>• Shaleen Kumar - UBS Securities</li><li>• Shyam Srinivasan – Goldman Sachs</li><li>• Vinayak Mohta – Stallion Asset</li></ul>

**Moderator:**

Ladies and gentlemen good day and welcome to the Dr. Lal PathLabs' Q3 FY22 Earnings Conference Call. As a reminder, all participant lines will be in the listen only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing '\*' then '0' on your touch-tone phone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Nishid Solanki of CDR India. Thank you, and over to you Sir.

**Nishid Solanki:**

Thank you. Good afternoon, everyone and welcome to Dr. Lal PathLabs' Q3 FY22 earnings conference call. Today we are joined by senior members of the management team, including (Hony) Brig. Dr. Arvind Lal – Executive Chairman, Dr. Om Prakash Manchanda – Managing Director, Mr. Bharath U – CEO, Mr. Ved Prakash Goel – Group CFO, along with Mr. Rajat Kalra – Company Secretary and Head of Investor Relations.

I would leave you with our standard disclaimer here. Some of the statements made on today's call could be forward-looking in nature and the actual results could vary from these forward-looking statements. A detailed statement in this regard is available in the results presentation which has been circulated to you, and also available on stock exchange websites.

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

**Dr. Arvind Lal:**

Thank you very much. Good evening, everyone and welcome to Dr. Lal PathLabs' Q3 & 9M FY22 earnings conference call. I will walk you through the key initiatives and share an update on the industry landscape.

I'm glad to share that we have completed the acquisition of Suburban Diagnostics, Mumbai. With this, we have become one of the leading players in the fast-growing western region, and endeavor to take our share even further. The objective is to leverage the expertise and capabilities of both the companies to deliver accurate diagnostics with better patient experience.

Given the onset of COVID over the past two years, there is a marked change that we have seen in people's behavior with respect to health awareness and hygiene. People are taking more precautions, being vigilant and adopting healthier lifestyles. Diagnostics has played an important role in helping people keep a track of their health, while we have been actively engaged in providing our patients with high quality diagnostic services, which has become synonymous with our brand name.

As I have mentioned in my previous calls, the pandemic has helped bring about a significant change in the diagnostic space, testing the pedigree of the unorganized players. This has helped accelerate the shift to organized national diagnostic chains, which follow stringent safety protocols and have foolproof processes in place. The need for accurate diagnostics, paired with permission for COVID testing being granted only to select players will most certainly continue to act as a catalyst for this shift. Dr. Lal's Pathlab's reputation and pan

India presence puts it in the right position to expand further. Our hub and spoke model, a combination of our laboratories, collection centers, and PSCs enables us to maximize our potential for expansion without compromising on patient satisfaction.

As a process, our team tracks latest technological innovations, and we deploy them on a timely basis to stay ahead of the curve when it comes to digitization. Through this, we aim to ensure a seamless and convenient experience for our patients, allowing them to book tests and receive the reports at touch of their fingers on their smartphones or iPads or laptops, etc.

The last two years have been a rollercoaster ride for us, as well as for the industry, on the back of the two or three waves of COVID. I'm glad we swiftly navigated through these challenges, and offered our patients and employees all possible help and support to combat this contagious virus. We must all take precautions, learn from the past and make sure we remain conscious of our health.

With that, I would like to hand the floor to Dr. Om. Thank you very much.

**Dr. O. P. Manchanda:**

Thank you Dr. Lal. As always thank you everyone for taking the time out for this call. I hope all of you are keeping safe and well. In my comments, I shall talk about strategic focus areas. However, before that, I want to reflect briefly on the last two years of progress.

As you all know that we started Q1 FY21 with a lockdown that adversely impacted non-COVID business in that quarter. In the same quarter, we had introduction of a new test in the portfolio, that is RT-PCR. The revenue from this test partly offset the decline that we had due to non-COVID business that was caused due to various disruptions.

Next, we experienced gradual recovery of non-COVID business throughout the FY21. At the same time, one also saw the rising trend of RT-PCR volumes and decline in price for tests as notified by State Governments time to time. Then came in a huge spike in Q1 FY22 due to severe COVID wave resulting in the highest ever revenue contribution by RT-PCR and also by a new group of COVID allied test like IL-6 and D-Dimer. COVID allied tests primarily went up due to significantly higher doctor consultations and hospitalizations.

Then in subsequent quarters, one has seen tapering of COVID revenue, both for RT-PCR as well as COVID allied tests. This trend got further accentuated due to gradual decline in realization for tests as well. In summary, I would say that given very high degree of volatility, both on monthly and quarterly basis, we should analyze our financials on full year basis, not on quarterly basis. On our part, we have tried to make the information as visible as possible by giving monthly and quarterly split between non-COVID, RT-PCR and COVID allied tests. Directionally my sense is that, we shall continue to experience month-on-month unevenness in sales pattern for a few more quarters, both in absolute figures as well as growth rates given the varying base of last year. Therefore, it will be important to do any analysis on annualized basis.

Now, let me come to strategic areas that we are focusing. Structurally our business is now taking shape of two verticals. Vertical 1 is LPL Organic and Vertical 2 is LPL Inorganic, which is newly acquired assets, like Suburban or smaller companies under PathLab Unifiers which is our fully owned subsidiary. We shall continue to drive both these pillars of growth in times to come. Second is, right from beginning, our efforts have been to continue to build non-COVID business, which we believe is more sustainable business, while at the same time meeting the sudden demand surges of COVID happening quarter-on-quarter basis. Number three, we are enhancing access of our services by strengthening Omni channel approach in cities and pursuing hub lab infrastructure in tier 2 and tier 3 towns. Whereas during pandemic, offering home collection is the right approach, and we are putting in place a process to meaningfully address this requirement from a section of patients while ensuring quality of service and care. At heart, we remain a very well networked chain of labs interlinked by technology and poised to deliver accurate outcomes at scale. We have demonstrated the ability of this approach to grow volumes and have been doing this while maintaining pricing for the past three to four years now.

We will be spending our energies on augmenting our brand infrastructure. That's the lifeblood of our model. The consumer connect in diagnostic services is paramount. It can be the prime objective to work with our franchisee partners to bring the DLPL and Suburban Diagnostics brands closer to the patients. The pandemic has inculcated awareness about evidence-based testing in the population. The natural flow of samples towards wellness and preventive categories is also building up. We continue to support these trends through our response based on scale of network and integration with technology.

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

**B. Uppiliappan:**

Thank you all. Welcome to the call today. I honestly hope all of you and near ones are keeping healthy. I will take you through the business highlights including Suburban Diagnostics, which became part of organization with affect 12<sup>th</sup> November, 2021.

In Q3, we served 6.6 million patients, leading to a revenue of INR 497 crore representing a growth of 9.8%. COVID and allied tests contributed to INR 59 crore, that is 12% of the overall revenue. The contribution of home collection to total sales in the quarter is at 10%, with significant contribution from our franchisee partners. Our non-COVID revenue of INR 438 crore registered a growth of 28% over Q3 FY21. The strong growth in revenues led by patient volumes, which registered a growth of 25%.

The higher growth is also favorably impacted by a lower base in last year due to COVID-19 pandemic. I'm glad to share with you that our non-COVID business saw further acceleration and growth momentum as compared to Q2 FY22. This is in line with our direction of bringing back our growth rates to pre-COVID levels. Our service enhancement and market activation programs including new lab and collection center opening along with strong patient and channel partner marketing programs continue to make very good progress.

We have recently opened labs in Bhagalpur in Bihar, and a very difficult terrain of Leh. During the quarter, we have successfully integrated artificial intelligence in prostate cancer reporting, leveraging FDFO technologies. This combines the strength of humans and machines to bring unparalleled patient care. Our 'Swasthfit' bundle program continues to do well and we are also making good progress in our high-end testing programs, notably Onco-pathology led by a combination of interventions across multiple departments and technologies, including the use of AI technologies. We remain committed to realizing the potential of healthcare through timely, accurate and quality solutions to patient needs.

With that, I would like to invite Ved to take you all through the financial performance. Over to you, Ved.

**Ved Goel:**

Thank you Bharath. Good evening, everyone and thanks for being on this call today. Firstly, I would like to mention that we have completed the acquisition of Suburban. Accordingly, results for Q3 and YTD include Suburban with effect from 12<sup>th</sup> November, 2021. And are not strictly comparable with previous year. I am now sharing some of the financial highlights for the quarter.

Revenue for Q3 FY22 is INR 497 crore as compared to INR 452 crore in last year same quarter, a growth of 9.8%. However, non-COVID revenue increased by 28% in Q3 FY22. Revenue from COVID and allied test in Q3 FY22 is INR 59 crore which contributes to 12% of total revenue against 24% in Q3 FY21, a decline of 47%. Realization per patient for Q3 FY22 is INR 747 as against INR 824 for Q3 FY21. The lower realization is due to the reduction in COVID RT-PCR realization. Normalized EBITDA after eliminating the impact of RSU, CSR and onetime acquisition expenses in Q3 FY22 is INR 142 crore as compared to INR 145 crore reported in Q3 FY21.

Normalized EBITDA margin for Q3 FY22 is at 28.5%. Reported PBT for Q3 FY22 is INR 82 crore. Normalized PBT after eliminating the impact of onetime acquisition expenses and notional depreciation as per IndAS 103, on consolidation of Suburban for Q3 FY22 is INR 113 crore as against INR 129 crore in Q3 FY21. Normalized PBT margin for Q3 FY22 is at 22.7%. Reported PAT for Q3 FY22 is INR 58 crore. However, normalized PAT after eliminating the impact of onetime expenses on account of acquisition of Suburban and notional depreciation is INR 84 crore as against INR 96 crore in Q3 FY21. Normalized PAT margins for Q3 FY22 is at 16.8%. Net cash and cash equivalents after adjustment of OD against FD at the end of December 31<sup>st</sup>, 2021, is INR 331 crore.

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

**Moderator:**

The first question is from the line of Shaleen Kumar from UBS Securities. Please go ahead.

**Shaleen Kumar:**

A, bunch of questions. When I was looking at your P&L, the margin compression is largely on account of employee cost and interestingly not on account of gross



margin. So how should we read this? Is it because of Suburban? Is there a change in strategy over here?

**Ved Goel:** . You're right, this is largely on account of Suburban. So that was not in the base. This year Suburban personnel cost is also added in this.

**Shaleen Kumar:** So going forward, how should we assume this cost? There will be operating leverage here, there is opportunity for you to rationalize it? How should we see this from the modeling purpose, is there a chance you can decrease it?

**Ved Goel:** Yes, so definitely, because of COVID there are certain areas where we have infused certain manpower. As COVID is subsiding now, there is an opportunity where we have to look at the costs, and the areas where we can optimize this cost.

**Dr. O. P. Manchanda:** . I think, particularly to Suburban, we clearly look at this as not a cost reduction exercise, but we look at driving top line growth. So, we will try and improve the productivity of the entire asset by driving growth. However, in the short term, there will always be a challenge of recalibrating manpower costs, because some of these costs also got added because of COVID in the last six to seven quarters and Suburban COVID contribution is very high compared to what we have in DLPL. So, we'll have to really see how it pans out. But I would actually say that we will look at revenue growth as a way to really reduce this percentage cost.

**Shaleen Kumar:** Yes. Operating leverage?

**Dr. O. P. Manchanda:** Operating leverage, yes.

**Shaleen Kumar:** And Ved, on depreciation front, is there any onetime deprecation over here or again, this will be the way moving forward?

**Ved Goel:** So, this will come because this is intangibles and goodwill which we have acquired in this acquisition largely for Suburban and this will be over a period of next five to seven years to be written off as per IndAS 103.

**Shaleen Kumar:** Right. Yes, I understand there'll be a portion of amortization. And because we see that there's a reasonable amount of COVID revenue, even in the whatever 48 months of Suburban. Part of it is because of Omicron hitting Mumbai early, is that the right way to think?

**Dr. O. P. Manchanda:** I think there are two factors. One is, Omicron maybe there, but it's not that to a large extent, but it is primarily due to international arrivals in Mumbai. Suburban has a contract to service passengers at Mumbai airport. Then there are two kinds of tests they do, one is RT-PCR and other is rapid PCR. So, they have a contract to do rapid PCR which now of course, the pricing has come down very sharply to I think INR 1,975. So, in the earlier days just before the transition, this pricing used to be INR 4,500.

There is a very large component of that also which has come into this. So, as I mentioned in my comments, the whole thing is so uneven on a monthly or weekly

basis, we have to really see a much longer time horizon to understand these figures. But overall component of COVID in Suburban is relatively higher than what we have in any field.

**Shaleen Kumar:** At least in near-term COVID contribution will remain higher in Suburban, right? As more and more international travel starts, while the pricing may come down, but some element will still be there.

**Dr. O. P. Manchanda:** See, the way to look at COVID, according to me is the following, I may be wrong as well, but it is something called baseline revenue that will remain in all the companies. Now where does it settle down as a baseline one has to see. And there are two components to this baseline revenue. One is the travel related testing and other is medical related testing. And in medical also, there are two further components, whether it is diagnostics driven, or whether it is hospitalization driven. In wave two, we saw a lot of testing driven through hospitalization as well, which actually was very unique to that way, which has not happened in Omicron at all, which was all these IL-6, D-Dimer, things like that. This time we haven't seen those tests at all.

Then we are left with only diagnostic driven testing. But even that contour is also changing because a lot of rapid antigen test is coming within home diagnostics. We have seen in Omicron, a lot of that testing happening, I don't have data points to support that. But that's what one has heard about. So, I think there are a lot of moving parts to these COVID numbers.

On the travel side, my sense is, further if vaccination driven kind of arrangement happens between the various countries, then you may not have RT-PCR test requirement also. The way it has happened in domestic travel, because from one state to another state, you don't need RT-PCR tests, you just need to show a vaccination certificate. It's quite possible that countries may have an arrangement that as long as you're vaccinated, you don't need RT-PCR report,

**Shaleen Kumar:** Yes.

**Dr. O. P. Manchanda:** There are lot of these moving parts which are there, even for us it's becoming very difficult to predict the demand for this COVID going forward. I think the sense that I have is, as a management team, we'll have to assume certain baseline revenue.

To me that baseline revenue is definitely not what the current trends are. It's going to be lower than that. And then we have to budget for these spikes. Nobody's wishing for those spikes at all. But if at all that happens, we'll have to prepare our systems to meet that demand.

**Shaleen Kumar:** Understood. Just last question from my side and then I'll join back the queue. So, because of Omicron, related to the current quarter, was there a lot of disruption in our non-COVID segment? And also, in B2B segment was elective surgery pushed out? Should we expect that in the fourth quarter?

**Dr. O. P. Manchanda:** So yes see, January actually, is the lowest month out of all the 12 months. Normally we say that Q3 is the lowest quarter, but actually January as a month



is lowest. Now it is little bit impacted by, self-imposed lockdown because everyone was anxious and didn't want to move out. And northern region has seen a little bit of severe winter as well. So, I think it's too early for us to comment on non-COVID trend because as we just come out of this winter, we come out of this Omicron wave, we have to yet see the next two months what really happens. My experience suggests that whatever demand that never got serviced, will always now come back in the later part of this quarter. So, I think it's bit early. But having said that, yes non-COVID definitely got impacted because of self-imposed restrictions on movement.

**Shaleen Kumar:** Thank you. Thank you so much. That's it from my side. I will join back the queue.

**Moderator:** Thank you. The next question is from the line of Pooja Bhatia from Morgan Stanley. Please go ahead.

**Pooja Bhatia:** Greetings everyone. On digital health front, there has been user acceleration during COVID. So, how much do you think can we retain, given that mobility restrictions are getting normalized? And people can actually walk into our physical pharmacy store and for diagnostics, say to a collection center or a lab. How much of this is here to stay?

**B. Uppiliappan:** . You are right. You know when Omicron or any such wave hits, a lot of digital properties get used up. For example, people book tests on app, Google searches go up, etc. Also, the installed base of the app goes up during this part of the time. However, the good news we have seen is that whenever the wave goes back, then the digital property adoption continues to be at a higher level than the past. It may take a temporary kind of drop down, but it continues to remain at a very high level compared to the past trends. Number two is that Dr. Om mentioned in his speech for Omni channel approach, which is to provide a seamless movement of patient traffic and information flow between app, physical store, etc. So, that is really what we are focused on perfecting that model so that we are able to seamlessly provide services across app, across website, across the physical store, say the franchisee, or our own companies. So, it is basically an Omni channel play and it is not an either-or play for us.

**Pooja Bhatia:** So Bharath, just to add to that, on the Omni channel front, like we know that we are sort of entering into a new era with the emergence of online aggregators. And a lot of these have built presence across the value chain, which is e-pharmacies, tele-consultations and they do have target of growing more than 30%. So, if we have to really grow more than mid-teens, mid to high-teens, then do you think there is a necessity, there's a need for us to also build presence in those areas?

**Dr. O. P. Manchanda:** I will respond to this sort of thing that is happening in the market in one simple way. There are two responses that we have, one is augment our own digital property, which is what we are doing. For that, if the consumers or patients want to access Dr. Lal PathLabs directly on its own digital platform, we should actually be there. The second is we also fully know that there are a lot of players who are coming, which are full stack models. And they are not only offering diagnostics, but they are offering other services also. And it's quite possible that they may grab or they may own the customer to start with. In that case, our

response is that we would partner with them, and we would stay connected with these guys. I think we are already listed on some of these platforms. And we won't hesitate to partner with these guys.

**Pooja Bhatia:** Understood. This is very helpful. And just one more, what percentages of test are being conducted through your online platform at the moment?

**B. Uppiliappan:** So actually, this category has still not evolved to a fully online model because people can book an appointment online, but they're still unsure about which test to choose between three tests of -- let us say, lipid profile. So, there is still a call-center or a physical intervention which happens. So, you must look at this percentage in various legs of the journey. In terms of what is the interest generation, what is the final output coming in the funnel form. So. at this stage, it's not a very significant number, but it is a definitely growing trend.

**Dr. O. P. Manchanda:** I think it's not very well-defined group of calls that are coming in, but I think one directionally, definitely is going up.

**B. Uppiliappan:** Yes, indeed, yes.

**Dr. O. P. Manchanda:** Is it rapidly moving up? I don't think so, but direction is going up but is it disrupting the entire trend? I don't think so.

**Pooja Bhatia:** Okay, and on the new labs in Bangalore and Mumbai, any update on these?

**Dr. O. P. Manchanda:** Yes. So, Bangalore, we have an update. Bharath, you want to talk about it?

**B. Uppiliappan:** Yes, Bangalore, we are very pleased with the progress we are making. In fact, the lab is now fully settled in, the test menu is significantly expanded. We almost doubled the number of tests we were doing vis-à-vis the past. So, it's been a good journey for us in Bangalore. The task is still not over. There are still miles to go. But to say the very least we are very happy with the progress we're making.

**Dr. O. P. Manchanda:** And, Mumbai lab is on track. I think basically with Suburban coming in, we're re-looking at the whole strategy for Mumbai city. We will see whether this lab, how it is utilized, whether it is by DLPL system or Suburban, we'll decide as we go along.

**Pooja Bhatia:** And, one last if I may? With Suburban acquisition, West region contribution has gone up to 28%?

**Dr. O. P. Manchanda:** West region yes, you're right.

**Pooja Bhatia:** And how much would be Delhi NCR now?

**Ved Goel:** Delhi NCR is about 34% for Q3 FY22.

**Dr. O. P. Manchanda:** Okay. I think Q3 is not fully loaded. So, I think we don't have exact numbers because Suburban number is only for half of the quarter. But broadly speaking

it would take about 30% odd for Delhi NCR, it is the number that we have and rest of North India is about 27%. So, this will make it what **57%** and that number used to be about 70% earlier.

**Pooja Bhatia:** Okay, thank you. I will join back in the queue.

**Moderator:** Thank you. The next question is from the line of Shyam Srinivasan from Goldman Sachs. Please go ahead.

**Shyam Srinivasan:** Yes, good evening and thank you for taking my question. Just the first one is on help us disaggregate these 6.6 million patients into COVID, non-COVID, please?

**Ved Goel:** So Shyam, we have done 5.6 lakh patients' RT-PCR tests and rest are non-COVID patients. However, there are overlaps, where there are mix and match, along with the non-COVID patients, there are COVID tests also. But as a standalone pure RT-PCR is 5.6 lakhs.

**Shyam Srinivasan:** Got it.

**Dr. O. P. Manchanda:** What is happening is that the waves, unlike the first wave and second wave, COVID tests are actually mixed up with non-COVID tests. So, it becomes very difficult to segregate whether that patient is a COVID patient or a non-COVID patient. So that's why it's becoming a little bit complex. But otherwise, what Ved just mentioned, those are exclusive RT-PCR tests that we have done, which is 5.6 lakhs.

**Ved Goel:** Yes.

**Shyam Srinivasan:** Got it. So just trying to understand, Dr. Om and you said that it's difficult to look at non-COVID. At this point of time, the trends are not very clear. I just did like a two year CAGR on Dr. Lal's non-COVID sales, which is about INR 413 crore, two years back, it seems to be 12%. Is that something that you think is right or is it very way off? We had a 15% growth, pre-COVID. So just want to understand how we should look at that particular line item, even a three year or five year view is also helpful?

**Dr. O. P. Manchanda:** I think if you just go back before this COVID happened and we used to talk about mid-teens, like 13%, 14%, 15%. Now, we also haven't taken a price increase for last four or five years now. So, my sense is, that's the best way to look at it. What is the positive rub off of COVID on non-COVID, one has to see as we go along, because a lot of testing is already happened now and there's always a gap, it's not something people just get tested every now and then. My sense is, if I'm pushed to put a figure on this, I think the mid-teens could be a good way to get it. Somewhere it could be on the lower side sometime it could be a higher side.

**Shyam Srinivasan:** Got it. Dr. Om, and again, I did extend this exercise to realization per patient and volumes. So, looks like it's still all volume driven. Subtracting that 5.6 lakh from a 6.6 and then looking at historically, that seems to have grown closer to the

13%, 14% volume growth. So, it seems to be mirroring what we had two years back. Is that right? Is that conclusion, correct?

**Dr. O. P. Manchanda:** I think that's where we are also probably seeing the trend. Maybe we'll wait for one or two more quarters to see how it is. But I think it's fair to say it's all volume driven, we feel so.

**Shyam Srinivasan:** Thank you Dr. Om. Second question is on Suburban and integration. How has it gone? Do you have full access now to this being once it's a subsidiary? I know there are some contingencies that are still there on a full year fiscal basis. So, if you could just update us on what you have seen so far of the business? And I think it's 50 days, right? So, the 28.5% normalized EBITDA margins could actually be lower, if you assume a full 90 day, if we were to do some kind of a proforma. So, help us understand Q4 margins or anything that you want to guide on margins.

**Dr. O. P. Manchanda:** So, I think maybe margins I'll hand it over to Ved. But, overall our growth so far has been a bit soft touch to this asset, because as you rightly mentioned, that there is some payout linked to the fiscal performance and as a part of arrangement, we have said that current management team needs to be given enough space not to disturb them. So, which probably will go till 31st March. We are just trying to understand what are the levers for growth, as we go forward. I think to that extent, we are connected. And unfortunately, due to this Omicron, our movements also were restricted to Mumbai city. But overall, it's been a little bit of a soft touch to the whole thing and gives us time to understand what are the levers for growth. As far as the margin part is concerned, I will ask Ved to take this question.

**Ved Goel:** Yes. So not the specific Q4, but going forward, I am just telling you Shyam, that we all got operating leverage because of COVID and COVID allied. As we are moving to pre-COVID level on our top-line, especially on non-COVID basis, our margins shall be in the line where we used to have 26%, 27%, normalized EBITDA margins.

**Dr. O. P. Manchanda:** I think his question is on whether Suburban is going to impact our margins.

**Ved Goel:** So, I'm coming to that, Suburban is over and above, obviously we know that Suburban has a lower EBITDA margins. The idea is to optimize but as Dr. Om earlier mentioned that the real driver is revenue growth, not the cost efficiencies.

**Dr. O. P. Manchanda:** I think the Suburban business has clearly demonstrated that this has a huge operating leverage, and we saw that. Last two years, as the COVID business went up for them, their margins also suddenly improved. The only challenge is whether COVID business is sustainable, we all know it is not. So, there is definitely a situation where the margins will tend to go back to where it came from. But we know that there is operating leverage and the idea is to drive volume growth and that's how we will improve these margins.

**Shyam Srinivasan:** Got it. Thank you and all the best.

- Moderator:** Thank you. The next question is from the line of Nikhil Chaudhary from Kriis PMS. Please go ahead.
- Nikhil Chaudhary:** I have a couple of questions. I wanted to understand in INR 438 crore of non-COVID revenues, how much is through Suburban? Because I wanted to understand our own non-COVID growth. We have reported 28% of non-COVID growth year-on-year. I wanted to understand how much is due to our own DLPL?
- Dr. O. P. Manchanda:** So, non-COVID from Suburban is 24.7 cr.
- Nikhil Chaudhary:** Understood. So, we are still growing at a very healthy rate. Q-o-Q, our non-COVID has been a bit lower. Was it due to the disruption at the Dadar lab that we saw? Mumbai lab was shut for some like 8 to 10 days? Was it due to that or is there something else?
- Dr. O. P. Manchanda:** You're talking about that 28% versus 21% of standalone LPL, that's what you are saying?
- Nikhil Chaudhary:** No. I was asking about Q-o-Q? Like we have shown one chart on slide number 8, where our Q2 non-COVID is INR 448 crore and Q3 is INR 438 crore, so wanted to understand that Q-o-Q non-COVID degrowth of 3%?
- Dr. O. P. Manchanda:** That's because Q3 is generally a lower quarter.
- Nikhil Chaudhary:** I understood, yes, correct.
- Dr. O. P. Manchanda:** Sequentially, it is always lower than the Q2.
- Nikhil Chaudhary:** Yes, yes, understood. Also, I wanted to understand our ad spend strategy, like we don't advertise in television, newspaper or Facebook, Insta. Wanted to understand, because we are seeing even Metropolis doing it, even the new-age start-up doing this. Although we have been showing good growth, but will it not propel the growth even more if we do the advertisement? We are a cash rich company having INR 331 crore on cash on balance sheet?
- B. Uppiliappan:** We do advertise digitally. It can be on digital including Facebook, etc. depends on the TG and the city selection. So possibly you may not have seen it. But I can assure you that we are a significant advertiser on the digital platforms inclusive of doing even below the line activities. So, we haven't cut our marketing spends, we have continued to sustain the spends.
- Nikhil Chaudhary:** Okay, understood. And, last thing like I wanted to understand more on the Suburban integration. Suburban has got 200 centers, correct me if I'm wrong. Why are we waiting for some one or two years? Why can't we just put a Dr. Lal PathLabs company brand below Suburban banner, as automatically our brand presence increases by 200 centers. Why are we waiting for one or two years to probably show that Suburban is part of Dr. Lal?
- Dr. O. P. Manchanda:** I think it's a debatable point whether it is the infra that helps you to grow or whether it's a brand pull that helps you to grow. I think Suburban is a much

stronger name in Mumbai city. So, while Dr. Lal will continue to operate the way it's operating, so we're not pulling out that. But we are thinking it through as to how do we leverage, how do we get the synergy out of the two assets. But everybody can have a view on this. But my personal view is that, we need to go after this market through Suburban in an aggressive manner. Because that brand has a strong pull.

**Nikhil Chaudhary:** Yes, I understand. But just below the hoarding, we can just put Dr. Lal Paths branding. So dual branding happens, any which ways, the revenues come from the Suburban or Dr. Lal, it will immediately be consolidated.

**Dr. O. P. Manchanda:** Sure, sure. I will take your input and then we will discuss this internally.

**Nikhil Chaudhary:** Okay, and the last thing, I have been seeing Suburban also having a collection center next to Dr. Lal. I understand we have discussed this question in the last call also. The cannibalization of the sales, why can't we probably have some strategy of having a 1 kilometer distance and if say, Suburban prices are 10% to 20%, higher to Dr. Lal, and if the patient is finding it a bit expensive. Why not deviate it to the nearest Dr. Lal Paths Center.

**Dr. O. P. Manchanda:** I take your point, what I'm saying, right now what you are seeing is not by design. It's actually by default, that's the way these companies operate because they were competitors. We will consider these inputs and then go forward.

**Nikhil Chaudhary:** Okay. Thank you so much. That's it from my side and wish you all the best.

**Dr. O. P. Manchanda:** Thank you.

**Moderator:** The next question is from the line of Nitin Agarwal from DAM capital. Please go ahead.

**Nitin Agarwal:** Hi, thanks for taking my question. I think we've had this question coming up every now and then, but I guess from a competitive activity perspective, at least with this, there seems to be a reasonable aggression in terms of a lot of new entrants, being lot more aggressive with their marketing spend, marketing promotion.

In your assessment, A, is this impacting the market dynamics in any ways, because they seem to be advertising a lot of lower prices, lower costs as a primary means of getting customers in? And how do you see this thing playing out? Do you think this is going to go on for a while, or this is a short-term phenomenon?

**Dr. O. P. Manchanda:** Yes, I think it's a great observation that you have. I know that there was a bit of pause for last four, five years before COVID. That competitive intensity actually went down a bit. Because PE funding was not taking place and suddenly due to COVID, we have seen insurgence of new competition, whether it is pharma companies coming into this, whether hospital guys coming into this, or new age companies, also a lot of start-ups are coming in this space. My view is, yes, so



the competitive intensity will put pressure on pricing, which in any case, I've been saying for last three, four years.

That's why we built our business more through volume driven growth rather than the pricing driven growth. Now your next question is how do I see it happening is, I don't know, my guess is as good as yours. My sense is that, lot of this euphoria is also due to COVID. And, as COVID is settling down and whatever is left, it's also such low prices, that there's hardly any margin in this. Some bit of it will get cleaned up in next 10 to 12 months is what my sense is.

**Nitin Agarwal:**

Okay, that's helpful. Secondly, when you look at the dynamics of the industry, especially in larger cities, this is where most of the incremental competition seems to be coming through. I mean, again, the proposition that most of these guys are coming through, are coming through our tests or is there a larger test we can offer or these are essentially guys that are looking to just gobble up the lower end of the market along with these fitness combinations?

**B. Uppiliappan:**

What I would like to share with you, like we shared in the previous commentaries is that we have a very well diversified network to sustain our growth engine. We are just not 1, 2, 5, 10, 20 city player, but we actually have now a pan India presence, cutting across all population strata. That gives us the growth engine which is required to run our company and keep it growing.

Number two is that we have been constantly upgrading our test menu and service levels across all elements, be it logistics be it turn-around times, whatever it takes. So, we have been investing a large amount of time and effort behind a hub lab program, which has actually shaped up very well. So given all these things, I don't think we are really very worried about let us say, competing in large cities or let us say even in the smaller cities of India. We have a presence which we are able to leverage using technology to be a pan India player.

**Nitin Agarwal:**

Thanks. That's helpful. If I can squeeze in one last one. One big recurring theme for the organized diagnostic space has been that organized guys will meaningfully take market share from the urban unorganized guys. In your assessment, how much of that is actually playing out? Particularly in a lot of industries, the pace of shift from unorganized to organized guys is accelerated. Have we seen similar trends happening in diagnostics, where the pace of access or the shift is accelerating in recent times?

**Dr. O. P. Manchanda:**

Yes, I think so. Some of these competitors that we are talking about are entering into the market, they are just grabbing a lot of business from unorganized players. I'm not fully familiar with pharma industry, I think all you guys cover pharma. There also a lot of these small players exists who enjoy some 2% market share, 1% market share or 0.5%. But they are still on their own right, large enough to be called as organized players. So, I do see that in next, let's say, 5 to 10 years, the emergence of a greater number of so-called organized players competing with each other than organized versus unorganized. I think unorganized sector is under lot of pressure. And they're going to be even under more pressure as the competition comes in.

**Nitin Agarwal:**

Okay. Thank you and best of luck.

**Dr. O. P. Manchanda:** Thanks.

**Moderator:** Thank you. The next question is from the line of Vinayak Mohta from Stallion Asset. Please go ahead.

**Vinayak Mohta:** Yes. Hi, good evening. So, I just wanted to harp on the Suburban thing again. I just wanted to understand what is your broad next two, three year strategy on Suburban? And, if you could also give an idea whether the margins will see a turnaround or will it eventually catch up to the company level margins that you've maintained 25%, 26% going forward?

**Dr. O. P. Manchanda:** So first is as we mentioned, right now, as we talk Suburban as an asset is sitting on a very high turnover of COVID. And we don't know how it's going to pan out going forward. In all probability, it's going to sharply decline. So that's one fact we should actually factor in as we go along. Now, as it declines, is the possibility of this company margin to go back to where it came from, which is much lower than what DLPL margins are.

But what the COVID experience has taught us that if you are able to build scale in this company, there's enough operating leverage and you can improve the EBITDA margin in Suburban. So that part is now fairly clear, which is what we have seen in the last two years progress of this company. So, first strategy would be to really drive growth of Suburban in next two to three years, to see if there is an operating leverage without adding additional costs and we improve the margins. And in all probability, I feel this is possible and we will drive top-line growth in Suburban in select pockets.

**Vinayak Mohta:** Understood. So just continuing on the same now, Suburban is looking like, it is under a run rate of INR 200 crore on a yearly level. So, can we expect this to move like somewhere around INR 500 crore in the next three, four years? I just am trying to understand where your focus will be, will it be on scale or, will it be on margins? What would be your priority be on the same?

**Dr. O. P. Manchanda:** Scale. We are entering into a market where we don't have that size sort of shift. We'll focus on scale.

**Vinayak Mohta:** Understood. So, the numbers that I've mentioned, is that possible? Is that the kind of growth possible?

**Dr. O. P. Manchanda:** See, now if you look at 12<sup>th</sup> November data, it says INR 49 crore we've added right; you can see that for the quarter, it's roughly about INR 100 crore. Now INR 100 into 4 is INR 400. Now only problem is half of it is COVID. So, we'll have to probably do adjustment, but it's possible right, why not we'll aim for that as we go along.

**Vinayak Mohta:** No. I was majorly talking from the non-COVID portion only. I was like excluding the COVID portion for that.

**Dr. O. P. Manchanda:** The way I look at it is very simple. Delhi NCR for us is more than INR 500 crore. This brand is a very strong brand and Mumbai alone is a very large market. This

actually is the catchment area for the brand in entire Maharashtra and Maharashtra is one of the most prosperous states in India, very high potential. At least, we are fishing in the right pond. If we get our act right, it's possible, why not?

- Vinayak Mohta:** Great. That's all from my side. Thank you so much and all the best.
- Moderator:** Thank you. The next question is from the line of Anubhav Agarwal from Credit Suisse. Please go ahead.
- Anubhav Agarwal:** One question on Suburban's assets. After you've taken over, has it been a good amount of price increase taken on several of the tests for the company?
- Dr. O. P. Manchanda:** In Suburban?
- Anubhav Agarwal:** Yes.
- Dr. O. P. Manchanda:** No, not to our knowledge. See, it's not after we've acquired.
- Anubhav Agarwal:** Okay. And the second question is on your preventive test program, the Swasthfit program. After all, these aggregators have really ramped up on these preventive tests, have you seen some impact on the volumes for this segment for yourself?
- B. Uppiliappan:** No, no, not at all.
- Dr. O. P. Manchanda:** There'll be a question, but I don't think you've seen it.
- B. Uppiliappan:** No, no, no. Our Swasthfit program continues to grow at a handsome rate.
- Anubhav Agarwal:** Okay, thank you.
- Moderator:** Thank you. The next question is from the line of Prashant Nair from Ambit capital. Please go ahead.
- Prashant Nair:** Hi, good evening, everyone. So just a couple of questions, mainly on Suburban. So, Dr. Om I remember you mentioning back when you were initially going into the eastern part of the country that INR 100 to 150 crore is kind of the inflection point beyond which growth in the region can accelerate. Because you have that presence on the ground at that point in time. Now, does that apply to Mumbai as well for Suburban which is probably excluding COVID, more or less in that range? Or, would you look at it slightly differently in this market, because it's a bit more competitive?
- Dr. O. P. Manchanda:** I actually look at that hypothesis for Suburban even more because profile of Suburban is more a consumer facing brand, as per my understanding as of now. But the east region, where profile of that inflection point actually has very large B2B component. So, I think this holds true for Suburban that it has a very high B2C component, but having said that, as you rightly mentioned, the competitive intensity is also equally high. So, you have one headwind and one tailwind, so

let us see as to how we maneuver this, but I do look at this as a strong consumer facing brand and we can build a great franchise going forward.

**Prashant Nair:** Right and one follow-up question. So, when you mention that revenue is the main focus and scale is the main focus here, can you outline the two or three key things that you would focus on in order to gain share? So, would it be your pricing lead or expanding tests? I mean what would be the dominant focus here in terms of trying to gain more share? Because there are multiple labs operating there?

**Dr. O. P. Manchanda:** There are many levers to grow. And obviously, I don't see pricing as a variable. So that's something which we will probably study as to what the competitive benchmarks are for pricing. We don't look at that. Test wise, yes, we are, as I mentioned in my opening comments and in answer to one of the questions that, we will definitely widen the test menu for Suburban. Because in any case, before Suburban, our plan was to open a big central lab which is currently on. And, we will leverage that aspect for both Dr. Lal PathLabs as well as Suburban, which means that test menu will get widened for city of Mumbai. So Suburban, doesn't need to outsource high-end test, which it is doing to some other labs. That answer is one.

Second is, I think everybody is talking about technology, digital, this asset is very nimble. So that could be another variable for us to really experiment something in the city of Mumbai and then enhance service levels. I think that's the way I look at it.

**Prashant Nair:** Thanks, and just a final question from my side. So the additional payout that may get triggered for Suburban that is deemed to absolute EBITDA, right? Not a function of whether it is coming from COVID or non-COVID?

**Dr. O. P. Manchanda:** It's all inclusive, so it would be total actually. It really doesn't matter where it's coming from.

**Prashant Nair:** Alright, great. Thanks a lot.

**Moderator:** The next question is from the line of Lavanya Tottala from UBS. Please go ahead.

**Lavanya Tottala:** So, I just want to check whether do you see higher contribution from the bundled packages like Swasthfit, with increasing awareness, just like the way you see stickiness of digital adoption, even after COVID wave is decreasing. So, do you see the same kind of higher contribution of Swasthfit going ahead?

**Dr. O. P. Manchanda:** Our contribution from Swasthfit is actually more or less steady. So, because overall table for the business goes up or down, the current contributions from Swasthfit is varying between 15% to 16%, all through at least last six, seven quarters. So, I'm not seeing any sharp either jump or decline in Swasthfit. It's a very steady trend that we're observing. I think if I got it right, your question is, as the COVID wave is receding, will we see an impact on this number?

- Lavanya Tottala:** Yes, sir.
- Dr. O. P. Manchanda:** Yes. My answer is probably no, because even pre-COVID, also we had the similar sort of a contribution coming in from Swasthfit. And if at all, pointers are that could be slightly higher as well because people normally go for annual check-up, etc. and invariably, annual check-ups happen in the month of March, because that's the time people also get some tax benefits
- Ved Goel:** Under 80D, yes.
- Dr. O. P. Manchanda:** Under 80D or something. So, we have seen a slightly higher contribution coming in the Q4. We'll have to see as to how it pans out.
- Lavanya Tottala:** Okay. One question, as I could hear in the call before that there are concerns around selecting the correct test through the online portal. So, do you think that having more standardized or particular segment, if someone else is going to test for diabetes, or the lipid profile, having more number of standardized tests, would that help increase online adoption?
- B. Uppiliappan:** We do have a set of tests which is aimed at various disease conditions. Be it diabetes, hypertension, cardiac risk profiles, etc. So, we have those tests and we continue to do well as a part of our Swasthfit program.
- Lavanya Tottala:** Okay, Thank you. And one last question is that how do you plan network expansion, in terms of labs and collection centers, increasing number of them over next one year?
- Dr. O. P. Manchanda:** See, I think we outline our strategy of expansion of labs very clearly to go down the pop-strata and then widen the test menu in the region as much as possible. But it's a decision based on economics; we want to keep an eye on the operating margins at unit level all the time. I think this ratio between lab and collection center is very important. But I think the broad strategy is to keep on widening test menu in the region as much as possible through these hub labs, is our strategy.
- Lavanya Tottala:** Okay. Thank you so much, sir. Thank you for the opportunity.
- Moderator:** Thank you. Ladies and gentlemen, this was the last question for today. I would now like to hand the conference over to the management for closing comments.
- Ved Goel:** Thank you everyone for being with us on this call today. I wish you all remain safe and healthy. I will now request the moderator to close the call. Thank you.
- Moderator:** Thank you. On behalf of Dr. Lal PathLabs, that concludes this conference. Thank you for joining us and you may now disconnect your lines.
- Dr. O. P. Manchanda:** Thank you.

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