Dr Lal PathLabs

May 16, 2023

National Stock Exchange of India Limited
Exchange Plaza,
Plot No. C/1, G Block,
Bandra Kurla Complex, Bandra (E)
Mumbai – 400 051

Symbol: LALPATHLAB

BSE Limited
Corporate Relationship Department
Phiroze Jeejeebhoy Towers
Dalal Street
Mumbai – 400 001

Scrip Code: 539524

Sub: <u>Transcript of Conference Call on Financial Results for Q4 & FY23</u>

Dear Sir/ Madam,

Pursuant to Regulation 30 of SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015, please find attached herewith Transcript of Conference Call on Financial Results for Q4 & FY23.

We request you to please take the same on record.

Thanking You,

Yours Faithfully,

For **Dr. Lal PathLabs Limited**

VINAY
GUJRAL

Digitally signed by VINAY GUJRAL
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Vinay Gujral
Company Secretary & Compliance Officer

Encl.: As above

Dr. Lal PathLabs

Q4 & FY23 Earnings Conference Call Transcript
May 11, 2023

Call Duration	• 1 hour 06 minutes
Management Speakers	• (Hony) Brig. Dr. Arvind Lal – Executive Chairman • Dr. Om Prakash Manchanda - Managing Director • Mr. Bharath Uppiliappan - Chief Executive Officer • Mr. Ved Prakash Goel – Group Chief Financial Officer • Mr. Shankha Banerjee – CEO Suburban and other Group Companies
Participants who asked questions	• Rahul Agarwal – InCred Capital • Prakash Kapadia - Anived Portfolio Managers • Bino Pathiparampil - Elara Capital • Lavanya Tottala - UBS Securities (India) • Prakash Agarwal - Axis Capital • Aneesh Deora - Nomura Financial Advisory and Securities • Nitin Agarwal - DAM Capital Advisors • Cyndrella Carvalho - JM Financial Institutional Securities • Tanmay Gandhi - Investec Capital Services • Yogesh Tiwary - Arihant Capital Markets • Praveen Kumar - Acuitas Capital Advisors • Zaid Munshi - Concept Investwell • Sayantan Maji - Credit Suisse

Moderator: Ladies and gentlemen, good day, and welcome to Dr. Lal PathLabs Q4 FY23 Earnings Conference Call. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing '*' then '0' on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Siddharth Rangnekar of CDR India. Thank you. And over to you, sir.

Siddharth Rangnekar: Good evening, everyone, and welcome to Dr. Lal PathLabs Q4 & FY23 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 Uppiliappan -- CEO; Mr. Ved Prakash Goel – Group CFO; and Mr. Shankha Banerjee – CEO, Suburban and Other Group Companies.

I would like to point out a standard disclaimer here. Some of the statements made on today's call could be forward-looking in nature and actual results could vary from these forward-looking statements. A detailed disclosure in this regard is available in the 'Results Presentation,' which is 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, Siddharth. A very good evening and a warm welcome to everyone present on this call. We are here to discuss Dr. Lal PathLabs Q4 FY23 Earnings and I would like to take you all through the "Key Developments and Updates" during the period under review.

India requires quality diagnostics of scale. Over the years, we have tracked the gradual evolution of the way doctors and patients manage disease and health. Accurate diagnostics is increasingly contributing throughout the treatment process, including health management, disease detection, prognosis, diagnosis, treatment planning and post-treatment monitoring. We therefore continue to invest in creating an efficient technology-backed network that can align with the growth in sample volumes.

To start with, I'm delighted to share the Dr. Lal PathLabs has clocked 15.5% growth in the non-COVID revenue in FY23. We have proudly served about 27 million patients in FY23. This has come on the back of a sharp focus on core operations across the country including Tier-2 and Tier-3 cities and investments in digital infrastructure.

We have continued to make progress across our three strategic pillars that is geographical expansion, creating a unique and fresh-size portfolio and augmenting the technology infrastructure for the future.

The highlight was the unveiling of our Mumbai Reference Lab at Vidyavihar in January this year. This has immediately resulted in the increased testing of the high ended test and it is also the first private lab in West India to have a BSL Level-III biocontainment lab. This speaks leaps and bounds of our commitment to offer our best-in-class services to our patients by bringing accurate diagnosis at reasonable prices to the fore.

We also added a second electron microscope at our National Reference Lab in Rohini in Delhi.

At this point, I would like to remind you that Dr. Lal PathLabs already have the world's largest histopathology testing center or load, processing up to 1,400 biopsies a day, and also the largest kidney biopsy testing center. We were the first private lab in South Asia and Southeast Asia to have an electron microscope way back in 2016.

Furthermore, I am pleased to share that we continue to work towards enhancing our technological capabilities. We have begun implementing and upgraded lab information system and advanced tools like artificial intelligence and data mining. These have enabled us to achieve enhanced operational efficiencies and quicker turnaround time or TAT.

We continue to add new tests to our test menu and diversify our reach to higher franchise share of patient service centers.

Our processes are tuned to drive trust towards our brand and therefore I think we are uniquely placed to both drive and benefit from the expansion in consumption of diagnostic services going forward.

Thank you very much and I would now like to hand over the floor to Dr. Om. Over to you, Dr. Om.

Dr. Om P Manchanda: Thank you, Dr. Lal. Welcome everyone to Dr. Lal PathLabs Q4 & FY23 earnings call. I hope that you and your loved ones are keeping safe and healthy.

I'll share a few of the industry and business insights that I see emerging based on FY23 results. During the entire FY23 in quarterly commentaries, I've always been highlighting that we should annualize instead of quarterly trends. Now, since the financial year is over, the entire analysis becomes a bit more meaningful as we have full year numbers in front of us.

Let's have a quick look at FY23:

While FY22 was operationally very challenging due to very high incidence of delta and subsequent overhang of travel-related test requirements and various waves like Omicron, etc.,

In contrast to FY22, we experienced FY23 turned out to be financially very challenging for the entire industry due to the following reasons:

1. Nearly 80% to 90% decline in COVID and COVID-related revenues. The higher the contribution of COVID testing to the total revenue, bigger the challenge.
2. Inability to rollback capacities and manpower and reagent stocks due to unpredictability of the future COVID demand pattern.

On the other hand, FY23 also experienced an uneven quarterly base and coupled with aggressive competitive activities further made it difficult for all of us in understanding the underlying growth trends.

Now since FY23 is over, I'm clearly seeing few trends. So, my take is the following:

1. Bundled packages have become a way of life in our industry. Contribution of Swasthfit to LPL total revenue has further gone up to 22% in Q4. This means we are doing a higher number of tests per patients and that's very clearly visible in our sample volumes as well.

2. CAGR trends based on this is our internal estimates of few large players. Their data is in public domain. That also include their inorganic assets and residual FY23 COVID revenues. Over four years suggest that some of these players have experienced all put together about growth rate of 10-11%. This may not be reflective of entire industry growth, but if I look at all the data put together in public domain, I'm seeing CAGR of 10-11%.
3. After a long gap, we saw in Q4 some of the players have taken price increase and we also did a little bit in the month of February, we will talk about that.
4. As the pressure on margins buildup in the industry, especially on smaller and mid-sized players, we do see consolidation opportunities emerging in times to come; however, valuation expectations and unavailability of quality assets will make this journey a little difficult.

All suburban diagnostics as a platform we are now set for the next phase of integration. As Dr. Lal mentioned that we built a state-of-the-art reference lab in Vidyavihar in the month of January this year.

Second is, as all of you know, that COVID contributed nearly 50% of the total revenue of the Suburban in FY22. It is now down to just 6% in FY23. The stage is definitely set for the next phase wherein we plan to bring in now back-end synergies between the parent company, LPL, as well as Suburban Diagnostics and go further aggressive in Mumbai and Western region.

In the end, I would say the brand that has the trust of the patients and medical fraternity, holistically invested in network creation, infrastructure scale up, patient services, etc., will sustain and grow in the long run.

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

Bharath Uppiliappan: Thank you, Om. A very good evening to everyone present here and I warmly welcome you all to our Q4 FY23 earnings conference call.

I will now take you through some of the operating and business highlights of our company:

In Q4 FY23, we registered 6.3 million patient visits, generating a total revenue of Rs.491 crore. COVID and allied test declined 83% and contributed to only Rs.11 crore, that is just 2% of the overall revenue.

During the full financial year, we registered 26.9 patient visits and generated a total revenue of Rs.2,017 crore.

You would remember last year, in Q4, we had a pronounced omicron wave of COVID with high testing volumes comparable to the end of delta wave. As a result, test mix profile shifted significantly. Hence for analysis purposes, one must look beyond YoY growth and use other metrics like sequential and three-year CAGR numbers.

Our non-COVID revenue at Rs.480 crore registered a YoY growth of 14.4% and followed historical sequential trends between Q3 and Q4.

The test per patients also moved up from 2.48 in Q4 FY22 to 2.76 in Q4 FY23, representing a 11.2% growth in non-COVID test conducted. Underlying non-COVID patient visits in the organic business grew near 8%.

As you are aware we had taken some price corrections in the month of February '23. Same has got settled and has been absorbed by various segments of our customers. According to our estimate, this price correction has had a 1.7% impact in this quarter and 2.5% on an ongoing basis.

We have been focused on four strategic programs building bundle test portfolio, Swasthfit, super specialty business, enhancing digital capabilities and geographic expansion including serving Tier-3 and 4 cities.

Like Om mentioned, bundle test portfolio continues to do very well and it contributed nearly 22% of Q423 of non-COVID business.

Overall, Swasthfit portfolio generated a revenue of Rs.370 crore in FY23. Super specialty portfolio led by Genomic Testing Division, Genevolve, Center of Excellence for Reproductive Diagnostics, LCoRD and also center for autoimmunity excellence LACE is becoming similar to the Swastfit portfolio in size and growth rate.

Our expansion program aimed at reaching the interiors of the country in Tier-3 plus towns or Bharat, continues unabated. We now have 277 labs at the year end, including 70 labs at Tier-3 towns like Siwan, Murshidabad in East and Sultanpur in the North.

We continue to invest in scalable and profitable digital programs, combining medical excellence and leveraging digital and analytical capabilities to improve patient journey.

I would like to talk about three digital properties that were recently launched and scaled up. Today, namely Chips, recommendation, engine and patient wallet. Our Chips customer health improvement plans is designed to engage our patients digitally with personalized digital diagnostic interventions. Further, we have better recommendation engines that share these specific tests at the point of sales. All these programs combined with the patient wallet will provide personalized, scalable, digital customer relationship management program. We are receiving good customer traction on this program since their launch.

We believe we have the right set of building blocks, which we have put in place in the marketplace with a few more in the pipeline and these we believe will help us deliver industry-leading growth rates.

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

Ved P. Goel: Thank you, Bharath. Good evening, everyone and thank you for joining this call. I'm now sharing some of the "Key Financial Highlights" for Q4 & FY23:

Our non-COVID revenue for Q4 FY23 came in at Rs.480 crore versus Rs.420 crore last year same quarter, a growth of 14.4%, whereas FY23 non-COVID revenue came in at Rs.1,954 crore versus Rs.1,691 crore last year, a growth of 15.5%. Total revenue for Q4 FY23 came in at Rs.491 crore against Rs.486 crore last year same quarter, a growth of 1.1%. Total revenue for FY23 came in at Rs.2,017 crore versus Rs.2,087 crore in FY22.

Revenue realization per patient for Q4 FY23 is Rs.774 against Rs.728 last year same quarter, an increase of 6%, led by price increase, test mix and higher contribution of Swasthfit.

Normalized EBITDA after eliminating the impact of RSU, CSR and one time exceptional expenses for Q4 FY23 came in at Rs.131 crore and Rs.528 crore for FY23. Normalized EBITDA margin for Q4 is at 26.6% and 26.2% for FY23.

Normalized PBT after eliminating the impact of notional depreciation on account of consolidation of suburban financials and one time exceptional expenses for Q4 FY23 came in at Rs.102 crore versus Rs.94 crore in last year same quarter and Rs.400 crore for FY23 versus Rs.494 crore in FY22.

Normalized PBT margin is 20.8% for Q4 FY23 and 19.8% for FY23.

Normalized PAT for Q4 FY23 came in at Rs.76 crore versus Rs.73 crore in Q4 FY22 and Rs.297 crore for FY23 versus Rs.369 crore in FY22. Normalized PAT margin is at 15.5% for Q4 and 14.7% for FY23.

Cash and cash equivalents as on March '23 is Rs.838 crore. Net of borrowing, it is Rs.601 crore.

I'm pleased to share that our efforts toward optimizing cost and increasing the operational efficiency by using the technology and digital tools has resulted in reducing our debtor outstanding and inventory to 28 days now. So, one side, we are doing efforts on front-end patient side as Bharath mentioned that digital or technology has given the edge. Another side on the operational side, we are taking technology and tools to optimize the cost.

Finally, we are pleased to share that the Board of Directors has proposed a final dividend of Rs.6 per share. With this, the total dividend for FY23 is Rs.12 per share. A final dividend will be paid after the shareholders' approval in the upcoming AGM.

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

Moderator: We will now begin the question-and-answer session. The first question is from the line of Rahul Agarwal from InCred Capital. Please go ahead.

Rahul Agarwal: Two questions. Firstly, I noticed revenue mix largely shifting to outside Delhi NCR. So, obviously other geographies are doing better. B2B is a bit higher YoY and Swasthfit is obviously growing faster. All of this combined, Om, the question for you that does this result in margin dilution for fiscal '24 YoY?

Dr. Om P Manchanda: We don't think so. Our margins, if you look at are nearing our pre-COVID level, so the COVID impact is out. So, even in FY24 also, we believe that we should be able to sustain a similar level of gross margin.

Rahul Agarwal: In spite of these three things gaining revenue share, outside Delhi NCR B2B and Swasthfit?

Dr. Om P Manchanda: Yes, you see, outside Delhi NCR, one must realize that as a scale picks up, there are markets which actually mimic like Delhi NCR. And if you notice in the last four to five years, our expansion through lab network is actually not that fast that it used to be earlier. So, because most of it is now building through hub labs where our tendency is now to open more collection points and labs. So, I think we are actually optimizing the lab cost, in such a way that our margins don't get diluted. So, that's the way we see it. And in any case, if you look at the earlier portfolio mix, we always had some markets which are operating on a lower margin, but our rest of north now has fairly scaled up, where margins are pretty healthy there. There is some variation, it's not material enough, so that's the way I would look at it.

Rahul Agarwal: Secondly, on the growth side of it, obviously, starting first quarter of fiscal '24, the base is supported because we no more have very large COVID revenues. Life coming back to normal, obviously that helps in getting normal diseases and hence normal testing for non-COVID should pick up. Employee attrition is generally low now in favor of digital lab what I understand from my channel checks. And obviously growth outside Delhi NCR is faster than Delhi NCR. So, combined of all of this, do you see 13%,-14% revenue growth next year?

Dr. Om P Manchanda: So, I think instead of me putting a number, clearly I do believe that we entered in FY23, a much more difficult outside environment than in FY24. As you outlined it very well, pressure on attrition is very low, our ability to take price increase there we have demonstrated that COVID pressure, should we roll back capacity or not, should we buy some more stocks, etc., I think now that is also behind us. So, the good news is that we are now entering into FY24 with a cleaner slate with the less sort of headwinds compared to what we saw last year. I think overall it augurs well. Now coming to growth rate, it's very difficult for the number right now, but I definitely do believe that we should do better than what we've done in previous year.

Rahul Agarwal: Just a bookkeeping, 26.6 million patients non-COVID per full year, could you break down that into Dr. Lal and Suburban separately for FY23, 26.6 million patients.

Ved P. Goel: So, Rahul, this Suburban was not fully baked-in in this year. So, probably these numbers may not give the right picture. So, at this point I think this is the consolidated number we have –

Om P. Manchanda: For us, if you look at suburban, so far, our tendency was to show separately because in some quarters we didn't have a base. So, now, since that sort of issue is no more with us, we want to operationally see it as if like both parent and suburban they go hand-in-hand together. So, we would not want to actually not highlight suburban separately, that's the way we look at it.

Rahul Agarwal: Can I get it for fourth quarter in that case, that's a YoY comparison, right?

Ved P. Goel: I'll come back to you.

Om P. Manchanda: That number I think immediately not available with us. We'll come back to you.

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

Prakash Kapadia: A couple of questions from my end. There have been price hikes in the industry by new age players. Any change in competitive landscape we are witnessing and given that growth rates in industry have generally come down post-COVID, so any acceleration or any trends we are witnessing or sensing from unorganized or shift from regional players for national players like us? We've also taken some price hikes in our portfolio. So, if you could help us understand the impact of revenues for FY24 and is it in specialty, is it in packages, is it in specific geographies, if you could highlight that? And the third question is the endeavor to drive organic growth, what should be the key drivers for that in FY24 and beyond? So, obviously Suburban scale is one of the factors, but how is non-metro contribution shaping up, how is new patient addition happening, new test menu, so some of these points will be helpful if you can clarify?

Bharath Uppiliappan: Hi, Prakash, this is Bharath here. Let me start with the first question on how the competition intensity is shaping up in the industry, right? So, there are two, three ways to look at it. One is that the incumbent players and let's say some of the new traditional players, model players, let us say for sake of any other better word, continue to intensely be competitive in the marketplace. So, there is no let down on that account. So, including new entrants, regional lab chains, etc., all continue to compete very aggressively in the marketplace like in the past. What we are seeing is that some of this new age eCom-based Google advertising, Facebook advertising-based companies because of maybe funding pressure or because they're not able to see the traction themselves are scaling down, let us say deep discounting because patients are also now realizing that the deep discounting are actually a clickbait operation whereas they finally end up paying the money, they pay similar money to what they pay to one of the incumbent players. So, I think it is all catching up and the industry is a bit of a transitionary phase, everyone's trying to innovate and try and do the best they can. So, that is the way to look at the competitive landscape today, but yes, the advertising intensity has mildly come down, at least from a (ATL) above the line perspective. Digital media competition still continues very intensely. So, I think that's the way to -

Prakash Kapadia: So, Bharath, effectively, you're saying this would take time and there is no major shift. Maybe the pace has decreased, but it remains as competitive as it was.

Bharath Uppiliappan: Yes, . It is as if the world has come to a new age, new world wherein it's all less competition and the things back. It is still intensely competitive. All of us fighting for a share of the business. But yes, some segments of competition have kind of come down. So, the second question revolves around, just remind me on –

Prakash Kapadia: It was about price hikes, which we have taken. So, is it, for specialty portfolio, is it specific geographies and the impact of that if any on next year and going forward.

Bharath Uppiliappan: So, we have not taken any price increase on routine test, the most commonly ordered tests including packages. So, that is the first statement I'd like to make. We have taken price increase on what is really esoteric test, high end test done in reference lab only and so on and so forth. And I talked about that in the opening speech of 1.7% impact for this quarter and 2.5% estimated going forward, assuming the mix holds up. So, it is not geography-specific, it is pan India basis and really tests which are less frequently ordered, so consumers and patients don't feel the pinch of it. The good news is that all B2B partners somewhere the samples predominantly come from, have largely accepted the price increase. We are not finding any major impact or push back as a result of this, because it's been long overdue, and they also realize that they have also taken up prices. So, I think it has gone well how execution was planned for. And on the third question of growth levers going forward, Dr. Lal covered this, Dr. Om covered this, I also covered this, there are three or four ways to look at it. One is geographic expansion in Tier-3, Tier-4 cities, along with strengthening our metro city presence either in wherever you operate in Northeast or also including Mumbai. So, there is a geographic expansion plan. Second is differentiated channel management programs. We talked about that I think in the last quarter also on how do we manage B2B separately then B2C. So, a lot of work is going on channel management programs and driving growth through channel partners. The third obviously we spoke about today of high-end testing, either the genomic testing or the centers of excellence on reproductive diagnostics or autoimmunity. Those are all key ways to differentiate your business while delivering value to all stakeholders. The fourth is obviously getting the tech stack up to shape, so that we constantly innovate to provide a wow! factor to the patients, saying something new has happened. So, we spoke about the chips program today, we spoke about the recommendation engine and also the wallet. So, it's a combination of what we have done traditionally, which is geographic expansion combining with obviously Swasthfit and super specialty portfolio and layering a tech component to that.

Moderator: The next question is from the line of Bino Pathiparampil from Elara Capital. Please go ahead.

Bino Pathiparampil: Just a quick clarification. When you say the price increases that you took will have an impact of 2.5%, is that on your overall revenue or on just the portfolio on which you have taken price increases?

Bharath Uppiliappan: On the overall revenue.

Bino Pathiparampil: What are your plans for addition of labs in FY24 and FY '25?

Bharath Uppiliappan: So, our lab expansion program continues the way it has always been, about 10 to 15 labs predominantly in Tier-3, Tier-4 cities spread across northeast and some portions of south and west.

Moderator: The next question is from the line of Lavanya Tottala from UBS Securities (India). Please go ahead.

Lavanya Tottala: I just wanted to understand the margins for suburban in this quarter just because last quarter we have seen a meaningful hit?

Ved P. Goel: So, normalized EBITDA margins for Suburban for this quarter is about 11.2% and for full year it is 12%.

Lavanya Tottala: So, we are still seeing the impact of the new franchise opened on the margin from suburban?

Dr. Om P Manchanda: I think on Suburban, if you go back pre-COVID times, that was the trajectory of this business in any case. I think during COVID times we experienced very high leverage because Suburban has experienced very sharp drop of COVID revenue this year from nearly Rs.113 crore, it has fallen to just Rs.9 crore. The P&L shape is very similar to let's say what it used to be pre-covid time. But the important thing is that this has a platform of nearly Rs.155 crore of revenue, 80% of that comes from city of Mumbai. And now with the sort of support of centralized lab and LPL parent support, we are basically hoping to drive this both revenue synergies as well as the cost side synergies. We realize higher margins, but this is the margin which we used to have pre-COVID times.

Ved P. Goel: And these margins, please note that we have launched this big reference lab in Mumbai. So, this quarter all the impact of that reference lab has also come.

Lavanya Tottala: One more thing on the exceptional expense that you have seen in the current quarter. What is it related to? I just wanted to understand the tax rate guidance that you give for next FY24.

Ved P. Goel: So, this exceptional item is one large amount receivable from BMC, Mumbai Municipal Corporation. As per policy, we have provided, but we are hopeful that this money will come to us very soon. And second, a small amount which has been provided on account of COVID inventory, which is going to expire. So, these are the exception items.

Lavanya Tottala: On the tax rate?

Ved P. Goel: We have a normal tax rate which is about 25% for the corporate. There is nothing which is exceptional here.

Moderator: The next question is on the line of Prakash Agarwal from Axis Capital. Please go ahead.

Prakash Agarwal: First question is just trying to understand the price increase. You mentioned it is for specialized test. How has been the experience versus the competition, has the competition followed you or have you lost some business because of price hike or it is status quo and it is value-accretive?

Bharath Uppiliappan: Two, three things. One is that this price increase has gone relatively well. We were skeptical in the beginning, but I think execution was near perfect and communicating to customers on why this price increase and in the context of the overall tenure of the price increase, this seem to be logical and reasonable to them. Number two, we explained the impact. That's about 2.5% on an ongoing basis on the overall portfolio given the mix of the portfolio on which this price increase has been taken. And we also have not taken price increase on the routine portfolio or the most commonly ordered test portfolio or the health packages or the bundle test packages. Now, with competition follow, each company will follow its own policies, procedures, priorities, etc., But given the inflationary situation, the lowering of COVID volumes, I do expect that everyone will take price increase as per their areas of strength and what they think they should be doing. So, yes, the industry price table should start to move up.

Prakash Agarwal: And the price increase would be only for your specialized, which is about 30%- 35% or lower in terms of total volume, value?

Bharath Uppiliappan: So, it's on value basis, it is about nearly 50% of the portfolios on which we have taken.

Prakash Agarwal: 50% you claim is on your specialized testing menu?

Bharath Uppiliappan: It is not only specialized, specialized plus I said less frequently ordered tests and so on.

Prakash Agarwal: And the second question was trying to understand the competitive environment and the B2B segment. Now, we hear that a lot of new players are getting very aggressive especially on the B2B side. And your progress on the South, please?

Bharath Uppiliappan: On the B2B side, my response is that, yes, it is as competitive as ever. We have actually put in place multiple programs to better manage this channel and segment this channel like we do for patients. So, we have a B2B channel program, which is very intense and very well appreciated. And in fact, B2B is one of our fast growing channels today as well compared to historical averages. So, we're very pleased with the progress of this whole approach of channel management program on the overall revenue growth rates. On South also, our progress continues; we grew South at a reasonable pace compared to the company growth rate, we grew ahead of the company growth rate significantly. So, I think, yes, we'll continue to build deeper penetration in the South and the geographies that we currently operate in.

Prakash Agarwal: So, B2B you would have grown is what you're saying? You've done very well.

Bharath Uppiliappan: Good growth rates on B2B.

Prakash Agarwal: And margin accretion or flattish?

Bharath Uppiliappan: So, if you manage the mix well and the cost structure well and there is also scope to negotiate the back-end cost, so I think it plays out well enough. Also, as the volume grows as testing efficiencies come in, we're able to amortize lot of control, calibration cost, etc.,

Moderator: The next question is from the line of Aneesh Deora from Nomura Financial Advisory and Securities. Please go ahead.

Aneesh Deora: Sir, I'm looking at the quarter-on-quarter sequential data of 4Q over 3Q. So, while the realization per patient has improved and even the number of tests per patients and the number of samples process have shown an uptick, but if you see the number of patients, that is the patient volume, they have shown a decline over 3Q which was supposed to be a seasonally weaker quarter over a strong 4Q. So, can you share your thoughts around this decline and is it pointing out any particular trend that you're seeing that we have a bearing in the coming periods?

Bharath Uppiliappan: So, on patient visits, I don't think we should get swung by quarter-on-quarter movements. There's lot of base issue last quarter, this quarter, last year, this year, etc., Like I mentioned in the opening comments, our underlying patient visit growth rate is near 8%, number of tests performed is at 11.2% and revenue is obviously higher.

Moderator: The next question is on the line of Nitin Agarwal from DAM Capital Advisors. Please go ahead.

Nitin Agarwal: Two questions. One is on the operational bit. We've seen some reduction in employee cost on a YoY and QoQ basis. Likewise, if I adjust for the one-off that you mentioned about Rs.7-odd crore, other expenses are down. So, what would we attribute to these reductions given the fact that business has been growing?

Bharath Uppiliappan: So, while Ved can give you specifics at an overall level, Ved in this opening comment talked about use of technology in automating a lot of processes, etc., So, that has given us a large headcount, what I would call leverage. But specifics around the rest of the equation, Ved, you want to take on?

Ved P. Goel: Nitin, so this is primarily because of RSU charge, which is lower than last year and that is the precise reason for compensation or employee cost. So, this is one. Other expenses obviously we had a lot of programs done in last year where efficiency has been created, as in my opening remarks also I've said lot of use of technology tools we have created and duplication of the repetition of the work which can be used by technology tools. So, those have given us some advantage and that's why we have got some advantage on other expenses.

Nitin Agarwal: And secondly, since we have the full year numbers and you have some more clarity on the post-COVID trends, what is a realistic ballpark range that one should work with in terms of the patient testing volume growth for us?

Ved P. Goel: Volume means patient you are saying?

Nitin Agarwal: Yes, patient volume going forward, I mean on a directional basis, it's a late single digit, early double digit, mid double digit, I mean, what is the realistic number given the industry dynamics we can work with?

Dr. Om P Manchanda: See, it's very difficult to put a figure, but I think the first question was asked is that we do believe that FY24 numbers should really be better than last year figures. I think all sort of variables are pointing towards that. We will not have that sort of competitive scenario as we experienced last year. And as you mentioned that since COVID is not there, actually in one-way, the good news is that we're done with it in one year itself, otherwise it would have been something which is base effect and now we can completely focus on non-COVID business. I think the only thing we are now carrying with us is I think Rs. 63 crore of COVID and allied business in our base. We don't know, it's highly unpredictable, it can actually be as good as zero as well, it could be same. But I think if I take this out, we definitely are hopeful of improving our performance in FY24.

Nitin Agarwal: Typically, from a seasonal perspective, is Q4 expect supposedly a better quarter for the diagnostic business than Q3?

Bharath Uppiliappan: No, no, I mentioned in the opening speech saying that sequentially Q3 and Q4 are similar for us.

Dr. Om P Manchanda: I think we've also made this comment in the past, but I think for the last two, three years, I'm seeing that these variations come due to infections. And for some reason I find that even though following the pattern because Q3 is no more a healthy season anymore, even in Q3, also we are having lot of infections. So, in some way Q3 actually has moved up while Q4 may have been similar. So, that's why the difference you see is much less than before. Let's see how it happens this year, because this COVID thing has always been there, right? In fact, this whole respiratory infection in general has been there in the population. I think let's just wait out for FY24, but you're right, Q3 is generally a softer quarter, but we have not seen that trend in the last couple of years.

Nitin Agarwal: Since you mentioned the point of infections we've seen very high intensity of incidence rather of infections. The whole of FY23 which is reflected in I guess the pharmaceutical sales of anti-infectives and all the cold and cough preparations, I mean in your assessment any tailwind for our business also?

Dr. Om P Manchanda: Actually, respiratory infections in general do not really directly lead to very high jump in testing. In fact, during this month of April and even in March also, we were talking about COVID, etc., We didn't see direct sort of jump in COVID testing. But I think one phase which normally tends to go up in situation like this is CRP which is inflammatory marker. So, that is one test we have seen a very significant jump in Q4, right? So, CRP is one test we saw a big jump.

Nitin Agarwal: And lastly, on the realization per patient, obviously with the bundling that we are doing, that's sort of going up. We are about 780 or there about for this quarter. I mean how does one look at this number, is there a significant scope for appreciation from these levels on this number?

Dr. Om P Manchanda: I don't think so. I think there are a few things that have gone into the base-I is of course bundle packages now contribution going up to 22%. I don't foresee a very sharp jump again in the contribution. I think it should stabilize around this number. Suburban in general has a higher realization than Dr. Lal PathLabs. So, that also has gone in for the full year impact. I think whatever little will come now is due to price increase that we've taken in the month of February. Maybe that will have some marginal impact. Mix may not change. My gut says that we may not see a very sharp jump on this in FY24.

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

Cyndrella Carvalho: So, if we are looking at the volume growth, you in your opening remark quite interestingly highlighted the Mumbai lab. We know our earlier labs whenever they have come, they have given us a good traction. So, what do you think about the Mumbai lab, how it will contribute to our overall patient growth, like, how should we relate this, if you can help us understand this?

Shankha Banerjee: So, the Mumbai lab has been launched in January. The thing is it could be a slightly longer wavelength compared to the other reference labs because from the Suburban point of view, it's kind of starting a completely new vertical so to say in terms of the specialized business, and also trying to get a completely new customer client profile to be built under the portfolio that we are currently doing. So, from that point of view, yes, from the last few quarters, it will definitely have better impact in terms of patient growth, but it may not be exactly comparable in terms of the things which we saw in East Calcutta or Bengaluru, it might take a slightly longer wavelength.

Cyndrella Carvalho: In your opening remarks, you also mentioned about a slightly higher cost base that we carried for the entire FY23. So, now, if we look at our cost base versus the growth that we have seen, at least the normalization that we have seen in FY23, do you think the upcoming year FY24, '25 this cost base will support us on the growth and you should see some operating leverage also?

Ved P. Goel: That's the idea, because one is launching this reference lab, which will obviously give advantage and what Shankha is saying on B2B side. Because all the infrastructure is in place and I think you also have visited that lab. Now we have to leverage this infra. In our view, the efforts is more on top line but similarly the operating leverage will also come on the bottom line. So, I believe that margins from here should improve.

Cyndrella Carvalho: If we try and understand the overall marketing scenario today, you highlighted that there is some sluggishness, there is intensity continues, we have taken specialized price increases. But the specialized price increase should reflect across the entire year, right, I mean, we just started in month of Feb, is that understanding correct?

Bharath Uppiliappan: Yes, indeed.

Moderator: The next question is from the line of Tanmay Gandhi from Investec Capital Services. Please go ahead.

Tanmay Gandhi: Sir, first question is on sequential growth, right. If we historically look at our sequential growth in 4Q, it had changed between 3% to 5%, right, but this time it was flat. So, anything worth highlighting there?

Bharath Uppiliappan: We couldn't hear your question properly. Could you repeat yourself if you don't mind?

Tanmay Gandhi: So, my question is that, historically if we look at our sequential growth for 4Q, it has ranged between 3% to 5%, right, but this year it is flat. So, anything particular would like to highlight here?

Om P. Manchanda: That's what I actually mentioned. Your observation is right. It's not 3% to 5%, normally it's about 2%, and the 2% actually is neither here nor there, so sometimes depending on the infection rate is flat. But I I'm actually seeing this trend for the last 2 years, even I think if I remember in the previous year also we saw the same thing. So, my hypothesis is that now it's just evened out in terms of infection rates. Earlier Q3 was seen as a healthy quarter. I think now because of air pollution, etc., all these things, Swasthfit which is more screening packages, it's become a little bit of even. So, looks like now the pattern that I'm seeing is the Q2 is the highest, all other three quarters are very similar, Q1, Q3 and Q4. That's the observation that I have for the last couple of years. Let's see in FY24 what happens because at least we will not have this whole variable of COVID, at least it will be more an illness space. But your observation is right, this time we are not seeing a sequential jump which we normally see. This is not the first time I was noticing, even last year also, I did notice that.

Tanmay Gandhi: We understand that year-on-year growth for this year is not that relevant because of volatile base. But sir, if we try to extrapolate our sequential growth, which we have seen during the last four quarters to FY24, then it roughly translates to a mid to high single digit growth. So, is that the right way to look at it?

Dr. Om P Manchanda: No, no, I don't think. We have done 15.5% in non-COVID, but it also has four quarters of Suburban compared to two quarters previous year, right? So, the normalized growth will be how much for this year?

Ved P. Goel: 10%-11%.

Dr. Om P Manchanda: Yes, we definitely hope to have better performance this year. It won't be single digit.

Tanmay Gandhi: On Swasthfit, so we have been saying that largely it has peaked out and you don't see any sharp jump from this level, right? And historically, our revenue growth was largely driven by our patient and sample growth. But this year it was also driven by higher realization per patient. Going forward, as we expect some moderation in Swasthfit expansion, do you see again our revenue growth would be driven by volume and volume growth has actually come down, right?

Bharath Uppiliappan: So, yes, our efforts will always be to drive the patient visit growth, and there are various techniques we are using to get better on that count. But as a result of bundling, the test per patient is also moving up significantly, about 11%-odd in Q4. And that trend, Swasthfit further grows, it will reflect in the numbers. But our intrinsic effort is to acquire new customers and service our existing customers in a better fashion.

Tanmay Gandhi: A related question, in Q4, did we have any one-off kind of growth in in tax-related packages for Swasthfit?

Bharath Uppiliappan: In the last two, three years I think in Q4 Swasthfit picks up because of this tax advantage. It's a normal scenario. It's in the base as well. But this year growth has been still better than the previous year led by better distribution, better understanding from patients, acceptance, etc., So, it is more than tax.

Moderator: The next question is from the line of Yogesh Tiwari from Arihant Capital Markets. Please go ahead.

Yogesh Tiwari: So, my first question is post-COVID, what would be the growth of the in-vitro diagnostic industry?

Om P. Manchanda: Normally, IVD industry, we refer to the reagent suppliers. I presume you're asking for pathology, people like us, right?

Yogesh Tiwari: Yes.

Om P. Manchanda: So, as I mentioned to you the data, which is available in public domain, I just added up at least four, five companies data. In the last four years CAGR I have removed this impact of COVID years which is FY21 and FY22. The growth rate that I'm seeing is about 10-11% CAGR over a three year or four-year period. I personally feel that it should sustain. One variable which probably is going to get added because in the last four years CAGR may not have very high pricing impact. But since our ability to take price increase is now coming back, let's see how other players do, but my reading is it will definitely be in this way going forward.

Yogesh Tiwari: And sir, what would be the total size of the industry if you can share your thoughts?

Om P. Manchanda: There is no published data available. Normally, we refer that large players contribute about 15% of the value. So, I think one crude method would be to divide the Rs. 5,000 crore by 0.15 and that gives Rs. 30,000-35,000-40,000 crore, which is essentially the private lab business and then you add this to our hospital lab business, which is there. So, my sense is it should go up to Rs. 60,000 crore, something like that. That's one of the ways to look at it.

Yogesh Tiwari: Which you mentioned, this is for the Indian domestic, right?

Om P. Manchanda: Yes, India domestic market.

Moderator: The next question is from the line of Praveen Kumar from Acuitas Capital Advisors. Please go ahead.

Praveen Kumar: I had a couple of questions. The first question was on a comment that Dr. Om had made in his opening remarks. He had mentioned that bundled packages have become a way of life. So, just thinking about the comment a little bit more, see, in terms of bundle packages, the decision-making point could be perceived to shift to the patient instead of the doctor. And since the Doctor Connect is a major complete advantage for Dr. Lal, how do you perceive this panning out in terms of your competitive advantage?

Dr. Om P Manchanda: I think that's a great sort of a question. My reading is if it is only limited to preventive health checkup, yes, decision-making is with consumer or the patient. Since lot of chronic disease patients also are shifting to bundle pack… they actually upgrade to these packages you are going to see better value for money. So, even illness patients are also in bundle packages. So, the doctor's decision-making is still there. Only thing is that the doctors also have started prescribing now some of these packages as a part of the normal prescription.

Praveen Kumar: I had a second question, which was more on the investor presentation, the financials in particular. What I wanted to understand was the company declares normalized EBITDA margins where few items are excluded, one of which is the employee stock compensation or RSU based compensation. So, I just wanted to understand the rationale for excluding this. Is it that you perceive these to be more one-off kind of expenses because if not, if you perceive that these are more ongoing nature of compensation-based practices, then in one way or the other, the companies bear in the cost for that, right. So, shouldn't it be part of the overall EBITDA itself, not a specific normalized EBITDA?

Ved P. Goel: So, Praveen, there are two reasons. One is of course this is non-cash item, it is not really where the cash outflow from the Company. And second, this charge varies depending on the price of the share because if we are granting ESOP at a time where the price differentiate, so probably this fluctuate the charge. So, these are the reasons why we are showing separately.

Praveen Kumar: But just to understand that, if I look at your past annual reports and other financial disclosures, this cost has varied between one to one and a half percent kind of a number, right? So, just wanted to understand that it seems to vary in that range. So, shouldn't that be part of this non-normalized EBITDA?

Dr. Om P Manchanda: You have both the figures in any case; you have a normalized and if you see EBITDA figures also you can see that. But you're right, there is a baseline number which will stay here, which could be, I think one, one and a half percent is really a good assumption.

Moderator: The next question is in the line of Zaid Munshi from Concept Investwell. Please go ahead.

Zaid Munshi: My question is related to the hospital base. Do we have any plans to expand in partnering with the hospitals for their diagnostic part, as we don't disclose the numbers how many of hospitals we operate?

Bharath Uppiliappan: So, we have said in the past that we continue to look at HLM as and when we find a very strategic or a geographic fit available to us, because expanding into a hospital lab management like a normal retail business can lead to a lot of other issues like outstanding debtors and so on. So, it is best to do it with lot of consideration rather than do it on a mass scale. So, we are selective about the HLMs we enter into contracts with, but yes, we do HLM.

Zaid Munshi: So, currently main focus is on independent labs and not on hospitals?

Bharath Uppiliappan: Yes, yes. So, I think that is the main focus. Once in a while we get an opportunity, we'll do HLM, no problem at all.

Moderator: The next question is from the line of Sayantan Maji from Credit Suisse. Please go ahead.

Sayantan Maji: So, my first question is on home sample collection. So, I just want to check what are the current trends that you're seeing after normalization in post-COVID outbreak, do you see patients coming back to your centers and a percentage of revenue from home sample collection, has it come down and currently how much percentage of B2C revenues are coming from home sample collection? In case this is something which is sustaining even after COVID, then what are the steps that we're taking to be competitive especially versus the integrated digital health platforms?

Bharath Uppiliappan: So, two, three points. One is that during COVID I think the predominant mode of operation itself was home collection. So, the number was very, very high; I think close to 20%-odd those days. But pre-COVID this number of home collection was about 5%. Today, I think what we are seeing is let us say about 8%, 9% of home collection, which is a better trend than what we had in the pre-COVID days, but significantly down obviously from the COVID days. So, that is one way to look at the numbers. Second is, the underlying thing is about the patients choosing a lab of trust. It is not about convenience. Convenience is one of the factors involved in it, but they want to look at labs, etc., and we continue to enjoy a very favored position on that count. So, we are seeing our home collection revenues in line with this thought of us.

Sayantan Maji: This 8% to 9% is of B2C or of the total revenue?

Bharath Uppiliappan: Of I think the total revenues here.

Sayantan Maji: In that you have mentioned of variable model. Can you just explain it a little bit like what is this variable model which grows with business volume?

Bharath Uppiliappan: When did we speak out variable model.

Sayantan Maji: So, in slide number 25 of the investor deck, it says that in the home collection, it says that it's a variable model which grows with business.

Ved P. Goel: This is one way of hiring people, which is fixed pay and another way is you pay as per pickup. So, it is not a fix charge, like our own center versus franchisee center, it is similar to that like, we instead of hiring people giving fixed contract, it is per pick up base the payment.

Sayantan Maji: Basically, the phlebotomist is entirely dependent on the number of samples he or she picks up in a day?

Ved P. Goel: Right.

Sayantan Maji: And the second question is a bookkeeping one. So, now that FY23 is over, what was the total Ind AS impact on EBITDA or Ind AS benefit to the EBITDA?

Ved P. Goel: So, it is about two and a half percent roughly which is on account of Ind AS.

Moderator: Ladies and gentlemen, that would be our last question for today. I now hand the conference back to the management for the closing remarks. Thank you and over to you.

Ved P. Goel: Thank you, everyone for being with us on this call today. I hope we were able to address your queries. If you have any more questions or queries, please feel free to reach out to us or our Investor Relations team, CDR India and we will be happy to clarify your thoughts. Thank you once again. I would now request the moderator to close the call.

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