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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: Transcript of Conference Call on Financial Results for Q2 & H1 FY24

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 Q2 & H1 FY24.

We request you to please take the same on record.

Thanking You,

Yours Faithfully,

For **Dr. Lal PathLabs Limited**

VINAY GUJRAL

Vinay Gujral
Company Secretary & Compliance Officer

Encl.: As above

Dr. Lal PathLabs Limited

Q2 FY24 Earnings Conference Call Transcript
November 2, 2023

Call Duration	• 1 hour
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 • Rishi Mody – Marcellus Investment • Prakash Kapadia – Anived Portfolio • Aneesh Deora - Nomura • Nitin Agarwal – DAM Capital • Lavanya Tottala – UBS Securities • Jainil Shah – JM Financial • Karan Vora – Goldman Sachs • Punit Pujara - Helios • Rahul Jeewani – IIFL Securities

Moderator Ladies and gentlemen, good day and welcome to Dr. Lal PathLabs' Q2 FY24 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, please signal an operator by pressing (*)then '0' on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Nishid Solanki of CDR India. Thank you. And over to you, Nishid.

Nishid Solanki: Good evening, everyone and welcome to Dr. Lal PathLabs' Q2 FY24 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 along with Mr. Shankha Banerjee - CEO of Suburban and other Group Companies.

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

I would now like to invite (Hony) Brig. Dr. Arvind Lal to share his perspectives.

Dr. Arvind Lal: A very good evening and a warm welcome to everyone present on the call. We are here to discuss Dr. Lal PathLabs' Q2 FY24 Earnings. I would like to take you through the progress that we have made, and initiatives outlined to sustain our performance trajectory.

Dr. Lal PathLabs has been meeting diagnostic requirements of the nation for several decades. And next year we shall be celebrating 75 years of our existence. Consequently, both patients and physicians regard our brand as a trusted healthcare partner. Today we are known for Quality and Accuracy, Accessibility and Affordability to meet the testing needs of all our patients and referring doctors throughout the country.

Our initiatives towards developing a model of Excellence and Diagnostics have not only earned us numerous accolades but have also helped us gain the confidence of the people of India as underlined in our new marketing campaign, "Bharat Ka Vishwas."

Our distinctive grasp of intricate market dynamics and omni-channel presence sets us apart as we aim to branch out in underserved Tier-III and Tier-IV markets. This along with sharp focus and leveraging a strong digital infrastructure will differentiate us as we achieve major milestones going ahead on a network rollout. We have implemented a new custom-built logistics solution and this product with enhancements will help us to serve our customers better.

The expected synergies between the two brands, Dr. Lal PathLabs and Suburban Diagnostics, are becoming stronger. And we now have a stake of significance in the western market. Suburban performance is improving day-by-day, and especially after the opening of the Reference Lab in Mumbai. The approach here is to combine our capabilities and serve as many patients as possible to offer them super-specialty, high-quality tests at affordable prices with quick turnaround.

Our next phase of growth will be led by a combination of factors. The continuous shift from unorganized to organized is one of them. This will be supported by meticulous execution of strategy to further add to our network scale and by elevating our service standards through best-in-class operating processes and technological advancements.

The diagnostic sector in India exhibits substantial prospects for future development. And I promise that Dr. Lal PathLabs will be at the forefront of this opportunity as consumers move towards more reputable brands that offer enhanced quality and best-in-class testing experience.

Thank you very much. That concludes my initial thoughts. I would now like to hand over the floor to Dr. Om. Thank you. Over to you, Om.

Dr. Om P. Manchanda: Welcome everyone to Dr. Lal PathLabs Q2 FY24 Earnings Call. I will talk to you about the Company's strategic priorities and throw some light on the current business trends.

At the outset, I would like to mention that COVID and COVID allied contribution to the business has fallen now just 2%. Therefore, in our headline figures, we are not reporting it separately. To further enhance the understanding of the overall P&L, we are also moving away from the term 'Normalized EBITDA' and will only be reporting one EBITDA figure as per IndAS that is net of ESOP and CSR expense.

Key Business Trends

For the last four quarters, LPL consolidated revenue growth trends both in value and volume terms are showing a healthy and steady rise. Last time we crossed the milestone of Rs. 600 crore in a quarter that was Q1 of FY22. But that was primarily driven by a 36% contribution coming from COVID and COVID allied tests. In the current quarter again, we have crossed this milestone, but this time COVID and COVID allied contribution is just under 2%. On total revenue basis, four years CAGR trend, that is from FY20 onwards for the current quarter, the growth rate is 13.2%.

Our strategic focus continues to be on similar lines, and I will just mention some of these areas that we are focusing on.

I) I think the biggest focus for us is to go deeper. As you all know that we have a strong brand franchise in Northern Eastern market. And there is a tremendous amount of focus on Tier-III and Tier-IV towns and go wider in Southern and Western markets.

II) The second priority for us is to enhance productivity and service levels to maintain a sustainable competitive advantage. And as you know, that as a team, we continue to look for running processes which are more efficient and that show up in our margins as well.

III) We are driving participation of our partners like Collection Centers to drive growth. As you know, the contribution of Collection Center business over a period of time has now become 50%.

IV) We continue to have an enhanced focus on high-end tests in our portfolio.

V) Continue to build 'Suburban' in key markets like Mumbai, Pune and Goa.

VI) Keep focus on Preventive Healthcare Tests portfolio that is Swasthfit and LPL as well as Preventive Health Check Ups portfolio in Suburban.

VII) And lastly, leverage technology to drive process efficiencies and drive marketing programs.

That's it from my side. Thank you. And over to Bharath now to continue the discussion.

Bharath Uppiliappan: I warmly welcome you all on this call today. And wish you and your family members a joyous and healthy festive season ahead. I will now take you through the business and operating highlights.

Operating and Business Highlights of the Company

I am pleased to share with you that we delivered a robust quarter of revenue and profit growth while making good progress on our strategic growth agendas.

In Q2 FY24, we achieved a revenue of Rs. 601 crore, a growth of 12.6% in total revenue over Q2 last year. Net of RT-PCR test, our growth of revenue for Q2 FY24 is 14.4%.

In Q2 FY24, we served 7.5 million patients representing a growth of 5.2% over last year, and net of RT-PCR the patient growth for this quarter is 7.7%. You will notice that our patient growth is significantly higher than our Q1 FY24 numbers.

In this quarter, we tested 21.2 million samples representing a growth of 11% over last year. And net of RT-PCR, the sample growth for Q2 FY24 is 12%.

The RPP for Q2 FY24 is at Rs. 798, a growth of 1% over Q1 FY24 that is sequential, mainly due to mix.

It is also pertinent to point out that Suburban Diagnostics registered an encouraging start to its growth journey by registering a growth of 10.4% excluding RT-PCR in Q2 FY24.

The strong performance in Q2 FY24 is mainly on account of five key factors:

(1) Market activation and execution across all geographies including that of Suburban. Our D2C program has begun to gain traction and so has our key account management program

(2) Our investments in 35 hub labs across the country are bearing results now. And this has enabled us to process samples with better tech driven by automation. This has enabled us to gain market share in these markets

(3) Our expansion program in Tier-III Plus towns continues to show encouraging results. On the back of this response, we are planning to accelerate this journey by opening 20 plus labs in Tier-III plus towns. This will obviously be backed by a strong collection center network expansion and market activation program

(4) As you all know, we had launched a marketing campaign "Bharat Ka Vishwas" with the aim of fostering trust and convenience for both doctors and patients. I am glad to share that we have started witnessing favorable outcomes, further solidifying the trust in our brand among healthcare professionals and patients

(5) Our product portfolio focus continues to do well. 'SwasthFit' together with ProSelf at Suburban Diagnostics delivered a robust growth of 25% during the quarter, and it currently constitutes 21% of our total revenue. The revenue from this portfolio bundle test during Q2 FY24 is at Rs. 125 crore enroute to Rs. 500 crore annual run-rate revenue

Our focus on growing super-specialty business across various therapies and investments in building digital infrastructure has played a key pivotal role in driving incremental volumes and attracting more patients. During this quarter, we have gone live with our new custom built, feature rich logistics app.

On the P&L side, our continuous efforts towards optimizing operational efficiency across all cost line items and reimagining the value chain has led to an improvement in profitability and gives us the headroom to invest in growth opportunities.

Overall, we are moving the right levers to optimally set a growth trajectory that will give us sustainable growth.

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

Ved Prakash Goel: Good evening, everyone and thank you for joining this call today. I am pleased to announce that we have reported robust performance this quarter, sharing some of the key highlights for the quarter's first half.

Key Financial Highlight for the Quarter

Revenue for Q2 FY24 came in at Rs. 601 crore against Rs. 534 crore last year same quarter, a growth of 12.6%. In the first half FY24, total revenue is Rs. 1,142 crore Vs. Rs. 1,037 crore last year, a growth of 10.2%. Revenue realization per patient for Q2 FY24 is Rs. 798 as against Rs. 746 last year in the same quarter, an increase of 7% led by price increase, test mix and higher contribution of SwasthFit.

EBITDA for Q2 FY24 came in at Rs. 178 crore as compared to Rs. 144 crore in Q2 FY23. EBITDA margin for Q2 FY24 is 29.6% Vs. 26.9% in Q2 last year. In first-half FY24, EBITDA is Rs. 324 crore Vs. Rs. 261 crore same period last year with a margin of 28.4% Vs. 25.2% last year same period.

PBT for Q2 FY24 came in at Rs. 152 crore Vs. Rs. 103 crore in last year same quarter. PBT margin is 25.3% for Q2 FY24 against 19.3% for Q2 FY23. In first-half FY24, PBT is Rs. 270 crore Vs. Rs. 184 crore last year same period with a margin of 23.6% against 17.8% last year.

PAT for Q2 FY24 came in at Rs. 111 crore Vs. Rs. 72 crore in Q2 FY23. PAT margin is at 18.4% for Q2 FY 24 against 13.6% for Q2 FY23. In first-half FY 24, PAT is Rs. 194 crore Vs. Rs. 131 crore last year with a margin of 17% against 12.6%.

EPS in Q2 FY24 is Rs. 13.2 Vs. Rs. 8.6 in Q2 FY23. With this, EPS for first-half FY24 is Rs. 23.1 against Rs. 15.6, last year.

As mentioned by Dr. Om, we are simplifying the reporting of profit numbers and accordingly all the above profit numbers are after CSR, RSU and Notional Depreciation because of consolidation of Suburban.

Net cash and cash equivalent as on September 23 is Rs. 780 crore.

Inventory holding is now at 31 days. And debtors outstanding is 14 days of total sales and 28 days of credit sales.

ROCE for the year is at 25.3%.

Total CAPEX for first half is Rs. 27 crore, primarily on account of new infra and investment in technology.

Once again, our continuous efforts toward improving operational efficiency has led to improved profit margins and thus provide greater opportunity to invest in underpenetrated markets, brand awareness and future technologies.

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: Thank you very much. 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: I have three questions, two on business and one more structural. Firstly, the new slide which you put in the presentation on Tier-III markets. Just wanted to know, how do you define Tier-III markets and below, in your mind, how do you classify that? And if you could elaborate a bit more on the accelerated program for these markets, because my sense is, as revenue share increases and centers take a bit of time to ramp up how does the incremental margins look like?

Bharath Uppiliappan: Mr. Rahul, I didn't get your second part of the first question, but the answer of Tier-I, Tier-II, Tier-III as per Government of India classification, as defined for I think Census and HRA and so on and so forth. So, we just follow the same classification.

Rahul Agarwal: The second part of the question essentially was, you mentioned about 20 plus labs getting opened into the Tier-III markets, just wanted to understand as the center when these labs ramp up, incremental margins how should we look at that, because I think if you do that and the revenue share further increases from here from 34%, how do the consolidated margins behave?

Dr. Om P. Manchanda: I actually would say that this is a typical business model which we have always followed. We open 15 - 20 labs every year and each lab that we open it further proliferates Collection Center and pick-up point in that area. So, I would say that it's not going to make any difference, this kind of model is already baked in into our margins. However, I do take your point that these centers would be in some of these Tier-III towns, but I really don't see materially margin getting impacted, because some of these places our cost structure is also equally very competitive. It's much lower than what we normally end up incurring in metros. So, if at all, there is something in the short term, but materially I don't think it will change the overall trajectory of the margins.

Rahul Agarwal: Secondly, on the revenue per patient I think obviously pricing mix-wise Swasthfit and all have contributed, but anything from the Delhi NCR market looks like your core must have done better this quarter. Is that true and how much was Delhi NCR overall business?

Dr. Om P. Manchanda: I think Q2 as everybody knows that it's a high sort of fever season. And fever is actually all across. We have seen the entire, this year, we have seen across India itself, but most of it is from Northern markets like UP, Bihar Delhi NCR included. So, it is from everywhere, especially September month. So, that jump has come all across.

Rahul Agarwal: And how much would be Delhi NCR now?

Dr. Om P. Manchanda: Delhi NCR contribution this quarter is 31%. Actually this, it used to hover around 34%. And now this year we have seen UP and Uttrakhand markets have done far better. But we have seen growth everywhere.

Rahul Agarwal: And lastly this cash again is getting accumulated about Rs. 800 crore, I think will make much more money in the second half. Any thoughts, how do we deploy? I know you have been looking for assets into South India, you have been mentioning that in prior calls, but any thoughts?

Dr. Om P. Manchanda: Yes, I think our view on cash utilization has always been, is a three-pronged one of course we continue to invest in the business. Organically that requirement is not very high. We will continue to pay dividends as per our policy. And of course, we will keep scouting for acquisitions. But we probably would be a little more sort of value-driven and unless we find quality assets at the right price, we probably will be careful doing acquisitions, of course in order of priority South is definitely number one because the contribution from this market is the lowest. So, that's the way we will look at it. Right now, there is nothing that we can share with all of you.

Moderator: The next question is from the line of Rishi Mody from Marcellus Investment Managers. Please go ahead.

Rishi Mody: So, a quick bookkeeping question, first, could you just tell me what is your non-COVID revenue the way you all used to report excluding RT-PCR, COVID allied and D-dimer and all those tests?

Dr. Om P. Manchanda: It's Rs. 589 crore, out of Rs. 601 crore.

Rishi Mody: So, Rs. 12 crore is COVID revenue this quarter.

Dr. Om P. Manchanda: Non-COVID is Rs. 589 crore and COVID and allied is Rs. 12 crore as we were reporting it earlier.

Rishi Mody: Dr. Om, in last quarter's call you mentioned that you are all expecting a smart recovery by the end of this year. Could you elaborate on what you meant by smart recovery, and what growth are you all looking at?

Dr. Om P. Manchanda: See recovery in the sense that we were, I don't know what I mentioned last time, but recovery, essentially, I mean on volume growth as well as value both together. And if you see the last four quarters' trends we were in a negative trajectory for volume. Now, we are actually coming into a very positive trajectory. And if I take out the RT-PCR volume, I think volume on non-COVID, pure non-COVID looks better. And we are hopeful that in times to come this will further go up. And in value terms also we have seen trajectory moving up. Of course, it's contributed by little bit due to price increase as well, but that is what I probably mean that in the growth rates are slowly inching upwards.

Rishi Mody: And like how much do you think we will be able to take this notch-up in terms of volume value?

Dr. Om P. Manchanda: See value as I mentioned in my opening comments, if I look at the last four years CAGR, we are now seeing about 13% growth for the quarter. There was a time when it had fallen below this number, I think in the early teens, we are now almost getting that number, I would say.

Rishi Mody: My third question is to Bharath, Bharath in the PPT comment that you have put in, you mentioned that Suburban has begun gaining traction. Could you shed more light here about what has happened over the last year? What are you seeing today which is making you comment that Suburban is gaining traction?

Bharath Uppiliappan: So, I think a lot of action has happened over the last one and a half years or so which includes stabilization of asset, customer base re-confidence gaining. In fact, last quarter, I think when we had met we kind of shared with you that we have put up a very aggressive marketing program in the city of Mumbai, led by ATL Digital and the full suite on that. And I think this quarter we followed up with a very strong below-the-line activation program as well. So, a lot of what I would call efforts are being taken on building the Suburban brand in the western market. And we are seeing the first green shoots of the growth trajectory for the business.

Rishi Mody: What do you think how big is it going to become over say one to three years as part of Lal's revenue, if you had to put a number there?

Dr. Om P. Manchanda: Maybe just to continue with the earlier question of yours. I think two – three fundamental shifts that have taken place for us in Suburban, number one Suburban as our business was more own asset driven, I think slowly, we have shifted towards a franchisee driven business. That is one change that has happened.

We also went through a bit of high employee turnover, which also has stabilized quite a bit. And that is what Bharath meant by a lot of effort has gone into stabilizing the ship as it changed hands.

I think the most important thing has been that we piloted few marketing programs and we are seeing some response to some of these things. So, we know fairly reasonably well know that what really works and what doesn't work.

Now coming back to your second question, it's very clearly right now three-market approach Mumbai is number one, and second is Pune and then third is Goa. And you know that within Maharashtra, Mumbai is the largest market and there is no published data, but I think it's a fairly big market. And if we get our formula right, that's where we presume that we should actually be doing well. And for us, it's a very strategic market because our LPL presence in the Western region has been less. So, if it really works well, hopefully Suburban should become a meaningful sort of contributor to the total business.

Rishi Mody: And we are giving up the Madhya Pradesh market, if I remember Suburban had some operations there as well.

Dr. Om P. Manchanda: Yes, so I think there were one or two labs. Indore, Jabalpur and Rewa, I think that we are giving up, because it doesn't make sense for Suburban to put effort there because LPL is fairly strong in these markets. It is just a maintenance sort of thing, but really investment is primarily in these three cities and whatever spillover in rest of Maharashtra is.

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

Prakash Kapadia: Dr. Om, if I were to take a mid-term view given that most of the competitive intensity seems behind us, would it be right to say there could be a 10% patient volume growth and with a bit of product mix and realization change, we should be able to grow revenues at 14% - 15% over the next three to four years, is that the right way to envisage the future?

Dr. Om P. Manchanda: Prakash, I wish I could give these numbers. I would hesitate to actually talk about some guidance. What all I can say is that as an organization we are fairly well spread out across the country. And as I mentioned in my opening comments that we want to go deeper and wider, I think this strategy of going deeper into the Northern Eastern Market is on its way. Today, there are 75 districts of UP, a very large population I think 22 - 23 crore of population we are number one and way ahead of the number two guy is very far behind us. So, as the country's economy grows, and especially UP, we are very well placed to actually gain a lot of market in these places, including Bihar, Orissa, the rest of North, you name I think our spread is probably one of the best. And I think we know what is really required to really go deep, that's one thing that we are doing.

Second is we continue to put effort to get wider and wider. I think as our footprint grows --. And the second thing is also we are trying to look at the business model which remains competitive so that we don't resort to, and our cost structure is competitive so that we can compete on price, etc. While some of this intensity may have slowed down a bit, but we still believe that intensity will continue to remain because this sector has always been competitive from unorganized sector, smaller labs it's just that now the organized competition is growing. So, the market will continue to grow because as evidence-based medicine grows, preventive health check-ups grow I think the market will continue to grow, we just have to look internally and see that our competitive advantage remains intact. And then hopefully, we should be able to achieve what we have set out for ourselves.

Prakash Kapadia: This time around you have given the contribution from Tier-III and beyond in terms of revenue contribution. So, is it fair to say North and East would be a large part of this Tier-III revenue. And could you take us through the journey in these Tier-III cities and beyond. Do you have basic packages? Is it largely B2B? Or it is Swasthfit and awareness seems to be increasing there also?

Bharath Uppiliappan: So, Prakash this Tier-III story is not new, we have always talked about this, I think for last more than two years in my recollection. There have always been constant efforts put up over here, on this front. In these Tier-III markets what we have is a classical suite, which we do is to first to start to put Collection Centers. As we build Collection Centers, we begin to realize what kind of tests sell etc., which are predominantly routine. But also, what we are now realizing is slightly higher in tests also come in, especially in Gynae and infectious diseases kind of portfolio.

And, as we densify these clusters, we then identify the distance from the nearest other lab we have and start to populate those. And that is the reason why we arrived at this number which we just talked about, of putting 20 plus new labs in these towns, because we already have a Collection Center network, and this allows us opportunity to further densify and go down deeper as Dr. Om mentioned in his opening speech.

So, I guess this we have been doing for quite some time, it is just that it is coming to the fore from a sizable opportunity perspective now and we are talking more about it.

Prakash Kapadia: And would it be fair to say, B2B is still a larger portion, but now we are seeing traction on the consumer side.

Bharath Uppiliappan: So, Prakash, we have talked about this many times in the past, we continue to believe we are an omni-channel player, we are not restricted to B2B, B2C, we will pull in all levers because there is an interplay between all the channels. A B2B patient today may walk in B2C tomorrow; B2C may go to a hospital tomorrow. So, it's important for us to kind of do an omni-channel play and not just be focused on one or the other channel. So, given geography, we look at the healthcare ecosystem and the patient or the consumer ecosystem and try and build our offering around that.

Prakash Kapadia: So, it's a mix of both in this Tier-III and beyond.

Bharath Uppiliappan: Yes, of course there can never be either only B2B or only B2C.

Prakash Kapadia: My worry was, it should not be B2B driven, because that seems to be more price conscious.

Bharath Uppiliappan: No, so we obviously manage the mix judiciously.

Prakash Kapadia: And lastly, on Suburban is there an app launch planned in Suburban? Have we taken some pricing changes, if any in suburban to grow in Western and specifically Mumbai, because there seems to be a lot of consumer campaigns which we see in and around Suburban now as compared to earlier. So, some road ahead for Suburban, if you could share.

Bharath Uppiliappan: So, I think we have just begun the journey on building or let us say further strengthening the consumer franchise and the patient franchise along with the doctor network, which will support Suburban. So, it is going to be a long journey, but we are committed to making that happen. So, once again, in the case of the focus market for Suburban, the full suite of omni-channel play will be put into say what you are seeing is evidently what is apparent in the outside which is the B2C plan, but there is also a strong B2B program also being put in play.

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

Aneesh Deora: Regarding the Dengue related cases, so the news article says that the Dengue outbreak in this particular season was much more pronounced and more so in the Delhi NCR and the North India region. So, would you be able to sort of quantify the Dengue-related revenues that let's say Dr. Lal would have seen in this quarter as against the same quarter in the previous years, any quantification there would help.

Bharath Uppiliappan: So, on Dengue, I think we saw September month having a larger kind of play. And we saw this not only in Delhi NCR, but across North and East geographies. This has been a past trend as well. However, this time what we did was, further, you know, we have this bundle portfolio on fever panel also. And that kind of really took off this season, because we had a panel, one for three fevers and one for five fevers. And this is really what caught people's, the patient's imagination. Because at one go, they could have got tested for the relevant fever without having to go through in a sequential format which they were doing in the past. So, bundling here again, helped us.

And I also talked about the hub lab program so most of our hub labs are equipped with ELISA testing, which is the gold standard for Dengue testing, Dengue. I think we leveraged that infrastructure, the Collection Center, the new Digital Logistics app to kind of significantly improve our service delivery in the marketplace.

Aneesh Deora: Could you may be as a percentage of revenues what were the Dengue related revenues in this quarter? Could you just maybe throw some light there?

Dr. Om P. Manchanda: We have not been separately giving these numbers. But for your better understanding, let me tell you every second quarter of every year has a fever season. So, whatever jump you see in this quarter, one would have already seen the last year also same quarter. But still for you to know, what is that jump, normally, I have seen that variation is maybe half a percent or 1% plus, minus on a total quarter figure. So, while the season is very high, at times this is not more than 1% extra or lower or higher that you see. Exact numbers, we normally don't share it because it creates more complexity about these figures, but otherwise, it is there last year also in the same quarter base as well.

Aneesh Deora: Secondly, I was looking at the gross margin levels. So, the gross margin for Q2 has come to 79.6% which seems to be a historically high number, I mean, the highest. So, we just wanted your thoughts around what is driving this gross margin, are price hikes helping this or are there any softening of raw material prices also. And how should we sort of think about this number going forward? What would be the sustainable levels?

Ved Prakash Goel: So, this is both in fact, one is, of course, what you are saying is price impact and second operational efficiency has also led to this higher gross margin, because the consumption cost which was like suppose earlier was in the range of 22% now came down to 20% or so. So, this is because of certain tests mix also and operational efficiency like Bharath mentioned hub labs and where we are consolidating, and a lot of operational efficiency has come in consumption so both price as well as operational efficiency. And I am hopeful that this consumption cost is stabilizing here.

Aneesh Deora: So, would these 79% - 80% odd gross margins be the sustainable margins to work with, going forward?

Ved Prakash Goel: So, let's suppose, if we have to remove the price impact then obviously this will be higher than earlier.

Dr. Om P. Manchanda: I just want to add one more thing to this question, I think one is probably what Ved is saying there maybe because volume growth is not that high as a value growth so that may be helping this margin as well. Second, mix plays a very important role, we have usually seen in Q2, our mix is very drifted toward routine test where the gross margin is generally very high. So, as you move into Q3 and Q4 routine tests actually will drop, and high-end tests actually go up where the gross margins are not that high. So, don't take Q2 gross margin as a representative number for the year. That's the only request we have. I think what you should look at is what the annual figure would be, that maybe a representative figure.

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

Nitin Agarwal: On the gross margin level just sort of going back to the question. Now, how much further scope do we have with respect to whatever, there is obviously a meaningful reduction we are getting in gross margins this year given the way trends are. I mean, do we have a meaningful scope still left to further squeeze out efficiencies in the gross margin level?

Ved Prakash Goel: No Nitin, so as I mentioned that we are looking that this is stabilizing, I don't think you should factor any further improvement on this. So, whatever we are showing now it is not even representative for the year, as Dr. Om mentioned, because there is some mix change in this quarter which is impacting this gross margin. So, on a sustainable basis I think we should say about 74% to 75%, kind of margins.

Nitin Agarwal: And secondly, on the overhead costs given the fact that we made a lot of references, we are focusing on Tier-III markets on a growth basis going forward. I mean, what implications does it have for our operating costs? I mean, obviously, lot of the growth is going to come from the franchise route, the fee-for-collection as a percentage, probably at around 14% continues there. But how should we think about the other overhead costs when we try to go out in the smaller areas?

Ved Prakash Goel: I think as Bharath mentioned earlier see one is this channel obviously, we have higher contribution. Now 45%-46% of business is coming from the CC. And obviously as a percentage it is inching up and so as a percentage of this revenue share is going up. But this is not because we are increasing the margins of the CC. This is because of mixed change I mean the contribution of these channels.

Dr. Om P. Manchanda: I will probably take a little time on this question, because it's important to answer this. See if you open a lab in a Tier-III town broad cost of running that lab would not be my sense is Rs. 50 to Rs. 70 lakh in a year. If we are able to generate Rs. 2.5 crore of turnover and 30% of that is roughly Rs. 75 lakh is what normally we will end up paying to a Collection Center if we open there, that's our normal way of growing it. So, the moment we open a one lab in a Tier-III town, the moment you reach 2.5 you are virtually breaking even in terms of Collection Center Vs. the lab.

So, to my mind, as I was answering Rahul's question earlier in the short term you might see a bit of a change up and down, but over a period of time, it is a way of growing our business. But what this lab would do for us is that it will help us to open further, more Collection Center as we go deeper in Tier-IV towns. So, for us, it's a way of life, I don't think one should look at it as a dilution of the margins.

Nitin Agarwal: The other point essentially is that in terms of when we look at the overall cost structure, we have done a phenomenal job over the years including this year, the way trends are in terms of managing our costs. While I presume will be a continuous exercise in the firm to keep out efficiencies I mean, I am just wondering, how much further scope do we have on an overall level to take out further cost efficiencies? And the reason why I talk about that is because in the past we have talked about EBITDA margins essentially stabilizing at about 25% - 26% levels. We seem to be now again trending reasonably higher from beyond those levels given where H1 has been.

Dr. Om P. Manchanda: That's mainly because of operating leverage, the moment you touch a number of Rs. 600 crore your EBITDA margin will improve. So, I think as a team you have to find out ways and means of increasing top-line, rest everything will fall in place.

Ved Prakash Goel: Just to add Nitin as I mentioned in my opening speech maybe this is the opportunity where we can invest in the business. And even if we are improving efficiency, operating leverage is coming so, it is giving opportunity where we will do the investment in the business, whether it is technology, whether it is newer geography and so on so forth. So, I don't think this 29% or 28% EBITDA margin is a representative margin for the year.

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

Lavanya Tottala: Just one thing on the margins which you were discussing. So, now that with increasing share of bundled services like with improving sales per patient, shouldn't our margins be better than what it was before with operating leverage, it should sustain, right.

Ved Prakash Goel: As I mentioned this, maybe because operating leverage is very high in our business as Dr. Om mentioning Rs. 600 crore revenue will always give very high margins. But this is again an opportunity for us whenever we are getting improved margins we will invest back into the business. So, I don't think we should factor in these kinds of margins for a longer period.

Lavanya Tottala: So, the sustainable levels should be at what level?

Ved Prakash Goel: I think around 26% we should see that these are more sustainable margins.

Lavanya Tottala: I was just asking because with increasing bundled services even in this quarter with a fever and all the bundled services will give us better operating leverage. So, that's why I was checking if the sustainable levels will be higher?

Dr. Om P. Manchanda: Actually, bundled services generally now is stabilizing at 21% - 22% of the total revenue. So, I think it will probably stay here for some time is what my sense is.

Lavanya Tottala: Just can you help me with the revenue and margin numbers for Suburban this quarter, I don't know if it was earlier covered.

Ved Prakash Goel: Suburban revenue for the quarter is Rs. 42.7 crore, total revenue for the quarter.

Lavanya Tottala: This was last year, how much?

Ved Prakash Goel: It was Rs. 40 crore total, but if we out COVID out of that, it was Rs. 37.5 crore.

Lavanya Tottala: And margins?

Ved Prakash Goel: Margins is around 13% but again, as we always mention that right now the focus is to improve top-line and invest in the business. Obviously, operational efficiency or some of the backend synergies are coming so gradually that margins will improve. But right now, the focus is on the top line.

Moderator: The next question is from the line of Jainil Shah from JM Financial. Please go ahead.

Jainil Shah: My first question is about the competitive intensity. So, is there some more room for improvement in the current scenario? And can you throw some more light on what trends we are seeing? And especially how is the competitive scenario from hospitals in the Northern region? Also, if you can talk about the scope for further price hikes over the next two to three years?

Bharath Uppiliappan: I think the competitive intensity, you know, if you cut it in multiple segments there are varying kind of degrees. So, if you look at online players obviously the extra burn, it seems, has come down significantly and they have also taken up price increases. So, both A&P for them has come down in my assessment. But they also moved up pricing and some of them have publicly talked about the same.

If you look at our regular competitors, I think we all continue to be as competitive as in the past, if not more. And I think that is a way of life for all of us. So, I think what you must do is to address competitive intensity segment by segment and not just take an overall macro view, but yes, the online intensity has come down a tad and we are also improving our mix and our offering. Our D2C program has really done well. And we continue to gain traction on our Direct-to-Consumer program as well.

As far as price increases are concerned, at this stage we don't want to make any comments on that. We are comfortable where we are, when we are focused on driving the volume growths up. And we will figure this out if and when we have to, but our current focus is on driving volumes are very clear.

Jainil Shah: Just coming back on the competitive intensity side. So, which particular segment is hurting us the most? And what would be the current share of revenue from aggregators to our total top-line?

Bharath Uppiliappan: Our share of revenue from aggregators is very minuscule, single digits if at all or lower single digit at the very best not significant at all.

Jainil Shah: Which particular competitive segment would be hurting us the most or has impacted us over the last one or two years?

Bharath Uppiliappan: In the last two years back I think if you look at a two year history in the past then online was very clearly the one which was really kind of what I would call giving us a bit of a run, because we were also not prepared for that kind of scenario. But if I look at today, we are very well equipped internally as a team to be able to handle some of these challenges. So, one part is about competitive intensity but the second is about organization's learning ability to be able to implement stuff, which will protect us in the future as well. On that metric, we have moved up significantly.

Dr. Om P. Manchanda: I would also add one more thing to what Bharath just said, I think more than hurting what has happened is that this new age player actually were bringing sort of mega trend the way customers were availing diagnostic services. While we had started home collection, but they started using tech to really order booking, paying online, etc. I think that's something in the last three years, our teams have done a tremendous work to really catch up. So, we are now fairly well tech company like any other company. So, I think that is one change that I have seen in the last three to five years. But otherwise, yes, the cash burn and competitive intensity in terms of advertising that has always been there, but now to some extent is moderating.

Jainil Shah: My second question is on the EBITDA margin, you are guiding for around 26% sustainable EBITDA margins. With operating leverage playing out in Suburban as well as Dr. Lal isn't it pretty conservative, because for the last probably two years we have been having digital spends as well. How much can the new lab investments probably offset the operating leverage? So, basically, how much reinvestment would there be in the business?

Dr. Om P. Manchanda: There are inflationary pressures, there is a cost of hiring, growing up, a lot of tech talent is required in the system, so all other costs are also going up. And I think many of you have asked this question as we go to Tier-III, Tier-IV towns, what happens to the cost structure, of course, that will have an impact and, in any case, we have not resorted to price increase. So, I rather would maintain the competitive advantage in terms of pricing and operate within range bound margins so that we are able to actually address a larger sort of a market segment. And not always resort to price increases.

So, our attempt has always been to stay very competitive, run the business efficiently and see that we are able to address all market segments. So, that's also driven, it's not that we can't increase margins, but I think it's important to see that can this Rs. 600 crore number move up very sharply when we are well positioned to gain much higher market share, because this industry is so fragmented while we may be the India's largest diagnostic company, but our market share still would be single digit so, how we go up is what probably our focus is.

And by the way, having higher margin you are also attracting more competition. So, you might as well be a range bound and then increase our top-line.

Moderator: The next question is from line of Karan Vora from Goldman Sachs. Please go ahead.

Karan Vora: Basically on volume growth can you highlight what is the patient volume growth for Suburban and Dr. Lal core business. So, just trying to get some sense as to whether most of the growth for Suburban is coming from volumes, or it is also price that is a meaningful factor, that is my first question.

Bharath Uppiliappan: Our total volume growth for the quarter is 5.2%. However, since COVID is going away RT-PCR test has gone to a large extent. So, if we remove only RT-PCR, our growth for the quarter is 7.7% including Suburban.

Karan Vora: What would be Suburban's volume growth, Suburban base last year to Suburban this year and ex-Suburban the core business volume growth?

Dr. Om P. Manchanda: The numbers are not readily available, so we probably can offline share.

Karan Vora: My second question would be so on margins you previously highlighted to 26% as a sustainable range. So, with Suburban kind of ramping up over the medium term, so basically, should we assume that incrementally over and above 26% you would be investing back in the business or that flow through could still come in and we can probably see year-on-year margin progression to some extent.

Dr. Om P. Manchanda: I think directionally we will invest back into the business. See these fluctuations in the margins actually happen on a quarter-on-quarter basis. And I think, when we see them in Quarter 3 call, you will actually find a different picture. So, that's why, in the first half our margin is generally higher than the second half. So, you will see that trajectory going down. So, I think over the period, on an annual basis, we will try and manage this margin. And then if there is a tendency for it to work, we will invest back into the top-line, because for us growth is most important.

Moderator: The next question is from the line of Punit Pujara from Helios. Please go ahead.

Punit Pujara: Bharath, in your comments in the PPT you mentioned that the Key Account Management program has been showing some traction. So, could you elaborate a bit on that? And while you do that, could you just spell out the B2B revenue contribution of the consolidated topline in H1 FY24?

Bharath Uppiliappan: The Key Account Management Program is aimed at our pickup point business, which is a B2B business, where we are trying to create segments and then give a solution for each of the segments in a very customized form. And even within those segments Tier-III customers there is an A, B, C kind of classification and give differential service. This has met with a lot of success, because we have been able to solve that particular sub-segment's problem in this very specific manner, rather than try and build an omnibus kind of solution. So, segmentation of B2B clients is really what the Key Account Management program tries to do. Obviously, this is at a very rudimentary stage. We can go a lot higher on this count and we will polish up this program as we move forward. On the B2B volume, I think the number of contributions is around 25% to 30% give or take.

Punit Pujara: 25% to 30% as a percentage of revenue in first half of this Fiscal Year, correct?

Bharath Uppiliappan: Yes, give or take.

Punit Pujara: My second question is for Dr. Om, so it's almost two years now since we consolidated Suburban. So, what would have been the key learnings and some of the mistakes that you would want to avoid going forward while you prioritize inorganic acquisitions especially for the South region.

Dr. Om P. Manchanda: One learning is in one of event one must be careful, don't get carried away, we didn't realize the COVID will suddenly fall so sharply, so I think that's one. I think the second learning is that we must really know what is very strategic, for us

Bombay, Maharashtra was very strategic. There are times when we get leads from other markets where we are already very strong so we can't afford to pay that kind of valuation that we have done in Western markets, because we are already very strong in the Northern and Eastern markets. Sometimes people tend to benchmark the same value because they expect the same valuation, so one then needs to be careful on that. And I think the third is some of the integration challenges that we faced post the acquisition that we would be really more sort of aware about this and try and prepare it before we do the transaction.

Moderator: The next question is from the line of Rahul Jeewani from IIFL Securities. Please go ahead.

Rahul Jeewani: Now on this four-year value figures which you called out as 13%, if I dissect these numbers on an ex-Suburban basis then our ex-Suburban value figure is somewhere around 10.5% and if I also back calculate the volume growth for us on an organic basis that is still trending around 7%. So, both in value as well as volume figure our growth is still below pre-COVID level. So, pre-COVID FY17 to FY20 our volume growth was trending around 12% - 12.5% kind of a number which was driving a mid-teens kind of growth for us. So, we are still very far off as far as that mid-teens growth on an organic basis is concerned. So, can you call out in terms of why we are still not back to pre-COVID level growth?

Dr. Om P. Manchanda: Yes, I think you are absolutely right, it's not only for us I think overall industry if you look at, I think the numbers that are in the public domain, so everyone's growth is below what they were trending before. But all I am saying directionally it is improving, but otherwise you are right, we are definitely not in line with what we used to grow earlier, which is true for the entire industry. I think the numbers of other companies that are in public domain same trajectory is there.

Rahul Jeewani: So, any reason in terms of whether organized players, because you have been pointing out that the competitive intensity in the space is coming down, we have taken price increases as well. So, with these two factors working in our favor, still the growth is not back to what we were seeing earlier. So, anything in terms of structurally which could have change or which is changing due to which the growth at an industry level seems to have slowed down?

Dr. Om P. Manchanda: I can give a slightly my own answer based on the experience that I have had. I think this industry has seen a lot of growth for organized players, because there was a shift from unorganized to organized in Metro, right in the last let's say 15 - 20 cities. And a lot of players have come in this area, the market has saturated. Now the next phase of growth is actually going to come from the next layers of town which is Tier-II, Tier-III, Tier-IV. Those towns actually we will see the same sort of thing, but they are in transition because doctor influence is still very high, direct-to-consumer is just taking shape. So, in my view it's maybe a market in transition but overall potential for the country is huge, because we are a 1.4 billion population country.

So, my sense is that a lot of us grew up in large metros to start with and the base has grown bigger for many of us. So, that's why you will see a slowdown in growth. And also, inability to take price increase due to competition etc., all that has contributed to a bit of a slowdown. But as we go deeper into Tier-II, Tier-III, Tier-IV towns I am hopeful that this market will again crack open in favor of organized players.

Rahul Jeewani: Just one related question to that aspect, so you are talking about growth in some of these smaller markets. So, how do you see the healthcare infra in the smaller markets because what we hear from some of the other healthcare players is that the availability of doctors in Tier-III, Tier-IV towns is very limited, due to which if you look at the pharma companies many of these pharma companies approach the smaller markets towards say generic or a retail led distribution business rather than a doctor led approach. So, can the healthcare infrastructure in these smaller markets be a hindrance to your growth in these smaller towns?

Dr. Om P. Manchanda: So, let's start step by step first of all is there a need for healthcare. The answer is a big yes in these markets. Now earlier affordability could have been a challenge, but I think in relative terms as the country's economy grows, affordability is also growing up. I think the challenge would be basically access, I think ecosystem will find its own solution to cater to this market. I have a very strong sense that distribution of health infra is going to go down to pop-strata. I think Government is also giving a big push. I am very hopeful that investment also will go in that area because the market is probably getting ripe for it to be topped.

My other thing is access also will get improved through tech solutions. I see a lot of things that are happening in telepathology, teleradiology, tele-consultation. So, I think a lot of these solutions will come which will provide access to these Tier-III, Tier-IV towns. So, overall, I think everybody is eyeing these markets. So, even in hospitals also I think they may be done with the metros now they are going to look into Tier-III, Tier-IV towns.

Overall, I think healthcare will attract a lot of investment in these. Yes, I agree with the shortage of manpower is probably getting resolved through tech solutions, let's see how it goes but I am pretty hopeful that health infra will grow in these time span.

Moderator: Thank you. Ladies and gentlemen, we will take this as the last question for today. I now hand the conference back to the management for their closing comments. Thank you. And over to you.

Ved Prakash Goel: Thank you everyone for being with us on this call today. I hope we have satisfactorily addressed all your queries. If you have any more questions, please feel free to reach out to us. Thank you once again and a very Happy Diwali and upcoming festivals too. I would now request the moderator to close the call. Thank you.

Moderator: Thank you very much. Ladies and gentlemen, on behalf of Dr. Lal PathLabs that concludes this conference.
