Dr Lal PathLabs

February 03, 2025

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 Q3 FY25 Earnings Conference Call

Dear Sir/ Madam,

Pursuant to Regulation 30 of SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015, please find attached herewith Transcript of Q3 FY25, Earnings Conference Call.

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
Date: 2025.02.03 17:49:53 +05'30'

Vinay Gujral
Company Secretary & Compliance Officer

Encl.: As above

Dr. Lal PathLabs

Q3 FY25 Earnings Conference Call Transcript
January 30, 2025

Call Duration	• 1 hour
Management Speakers	• (Hony) Brig. Dr. Arvind Lal – Executive Chairman • Dr. Om Prakash Manchanda - Managing Director • Mr. Shankha Banerjee - Chief Executive Officer • Mr. Ved Prakash Goel – Group CFO & CEO – International Business
Participants who asked questions	• Saion Mukherjee - Nomura Securities • Karthik Chellappa – Indus Capital Advisors Hong Kong Limited • Rishi Modi - Marcellus Investment Managers • Prakash Kapadia – Spark PMS • Karan Vora - Goldman Sachs • Saurabh Kapadia - Sundaram Mutual Fund • Anshul Agrawal - Emkay Global • Punit Pujara – Helios Capital • Sumit Gupta – Centrum India • Abdulkader Puranwala – ICICI Securities • Yogesh Soni – InCred Capital • Pradnya Ganar – UTI AMC • Prashant Nair - Ambit Capital • Rahul Jeewani – IIFL Capital

Moderator: Ladies and gentlemen, good day and welcome to Dr. Lal PathLabs Q3FY25 earnings conference call for investors and analysts. 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. Nishid Solanki of CDR India. Thank you. And over to you.

Nishid Solanki: Thank you. Good afternoon, everyone, and welcome to Dr. Lal PathLabs Q3 FY25 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. Shankha Banerjee, CEO, and Mr. Ved Prakash Goel, Group CFO and CEO, International Business.

I would like to share a standard disclaimer. 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 statement in this regard is available in the results presentation, which has been circulated to you and also available on the stock exchange website.

I would now like to invite Dr. Arvind Lal to share his Perspectives. Thank you. And over to you, sir.

(Hony) Brig. Dr. Arvind Lal: Thank you very much. Good afternoon, everyone, and thank you for joining us on today's call to discuss our Q3 FY25 Results.

I would like to begin by sharing my thoughts on the dynamics of the diagnostic sector in India. And give you an overview of the key initiatives we are rolling out.

The Government of India has committed to increasing the public health spend to 2.5% of our GDP from the current approximately 1.8%. The need to strengthen primary and secondary healthcare infrastructure especially in rural areas and in cities classified as Tier-3 and beyond has never been more pressing. At the same time, we are also witnessing a rise in non-communicable diseases, also called NCDs or lifestyle diseases and these include diabetes, hypertension, cardiac diseases, strokes, cancers, kidney, liver and lung diseases and obesity. NCDs account for nearly 65% of deaths in the country and a financial loss of about 2% of GDP every year. Therefore, it is imperative that both the government and the private healthcare work together to control the rise of these NCD, starting with timely screening and preventive management, creating accessible testing capabilities, which often serve as the first steps in delivering health care has become increasingly crucial, as was also seen during the COVID pandemic.

In this context, Dr. Lal PathLabs network plays a key role in enhancing healthcare accessibility in an affordable and reliable manner, particularly in underserved regions. The awareness around preventive diagnostics is also growing. We are in a position to facilitate timely screening and early detection, enabling proactive healthcare management and improving overall health outcomes for all.

Our ongoing investments in digital infrastructure have given us the flexibility to efficiently deliver services to a wider customer base. We were pioneers in leveraging AI-driven diagnostic modules with introductions of our AI-enabled test for breast cancer and prostate cancer many years ago. Genomics, where we have made significant investments and established our Center for Excellence for 'Genevolve', serves as another platform that expands our diagnostic capabilities to have a laser focus on genetics and personalized medicine. It is these innovative and cutting edge diagnostic solutions that have made us the numero uno in diagnostics in India and the most preferred testing partner for both patients and doctors.

Our operations continue to scale up according to our predefined strategy. That's by over 75-years of experience. As a leader in healthcare, it is our goal to provide timely, efficient quality care to everyone in the country.

With that, I would like to hand to Dr. Om Manchanda. Over to you, Om.

Dr. Om P Manchanda: Thank you, Dr. Lal and warm welcome to all the participants on this call today.

The last time I spoke about bundle packaging and our strategic efforts in Western region.

This time I want to share about as to how we navigated our business without the price increase and still delivered better than last year revenue and EBITDA margin in the first nine months of the current financial year.

The first initiative that we took was a very sharp focus on geographical and test mix that delivered higher realization per patient as well as EBITDA margin. For example, Delhi NCR, a region with a better margin profile has delivered double digit growth in line with the national average. This has happened after many years of single-digit growth in this region.

The second has been Swasthfit contribution continues to rise and has delivered higher realizations of patient. This is as a part of our stated strategy.

Second initiative has been that we are expanding lab and collection centers infrastructure in Tier-2 and Tier-3 towns.

Third initiative has been relentless focus on the productivity initiatives.

And lastly, a very sharp focus on franchisee collection centers that helps us to increase width as well as depth of the reach. The contribution from franchisee collection centers now has gone up to nearly 45%.

With that, I would now hand it over to Shankha for his thoughts. Thank you.

Shankha Banerjee: Thank you, Dr. Om. I extend a warm welcome to all participants joining us on call today. I will present the key business and operational achievements.

We maintained a strong performance trajectory in the third quarter of the fiscal year 2025, delivering 10.7% growth in revenues. The growth is delivered through sample volume growth and mix improvement and does not have any price increase benefit. I am pleased to share with you that Delhi NCR recorded double-digit revenue growth for the second successive quarter.

Let me share some of the key operating statistics. Sample volume stood at 20.6 million in Q3, a growth of 10.3% YoY, while patient volumes came in at 6.9 million, an increase of 3.8% over the same period last year. Revenue per patient for Q3 FY25 stands at Rs.861, a growth of 6.7% compared to Q3 FY24. This growth in revenue per patient is on account of mixed management initiatives on geography, channel and products.

We are accelerating our reach in the underserved markets with the planned opening of 15 to 20 new labs in this financial year. We continue to expand our reach into Tier-3 and Tier-4 markets and have started strengthening our presence in the core regions as well. We are now making investments in new infrastructure in metro and Tier-one cities.

Our bundle test program, Swasthfit, continues to contribute favorably to the overall performance with a robust growth of 27.2% in Q3 FY25. Building on positive results, we are developing a wider range of bundle packages and expanding our market penetration beyond the traditional Tier-one and two markets to address the growing demand. While it's still early days, the response thus far has been encouraging.

Our future growth will be driven by a combination of strengthening our operations in core metro and Tier-one cities, penetration in Tier-3 and Tier-4 in North and East and building clusters in South and West. We are committed to maintaining the highest standards of diagnostic quality and accuracy while expanding our service offerings to include high end and super specialty test. Our robust digital infrastructure will enhance the patient's experience by providing seamless access and maximizing solutions.

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

Ved P Goel: Thank you, Shankha. Good evening, everyone and a warm welcome.

I will be sharing the key financial highlights for Q3 FY25 and year till date.

- Revenue for Q3 FY25 came in at Rs.597 crore compared to Rs.539 crore in the same quarter last year, reflecting a growth of 10.7%.
- YTD FY25 revenue stands at Rs.1,859 crore against Rs.1,681 crore in the same period last year, a growth of 10.6%.
- Revenue per patient for Q3 FY25 is Rs.861 against Rs.807 in Q3 FY24 mainly due to test and geography mix.
- Test per patient for Q3 FY25 is 2.97 v/s 2.79 in Q3 last year, a growth of 6.3%.
- EBITDA for Q3 FY25 came in at Rs.154 crore compared to Rs.141 crore in Q3 FY24, registering a growth of 9.6% with the EBITDA margin of 25.8%.
- YTD FY25 EBITDA stands at Rs.527 crore v/s Rs.465 crore in last year same period with a growth of 13.3% and EBITDA margin of 28%.
- PBT for Q3 FY25 came in at Rs.138 crore v/s Rs.116 crore in last year same period, registering a growth of 19.4%.
- PAT for Q3 FY25 came in at Rs.98 crore compared to Rs.82 crore in the same period last quarter last year, registering a growth of 19.3% with a PAT margin of 16.4%. For YTD FY25, PAT stands at Rs.337 crore against Rs.277 crore in same period last year with a margin of 18.1%.
- EPS for Q3 FY25 is Rs.11.6 as against Rs.9.8 in the same period last year and YTD FY25 EPS stand at Rs.39.9 against Rs.32.9 last year same period, registering a growth of 18.7% and 21.4% respectively. Net cash as on 31st December 2024 is Rs.1,123 crore.
- At last, I am pleased to share that the Board of Directors of the company have approved a Third Interim Dividend of Rs.6 per share, taking the total dividend for the current year till date to Rs.18 per share.

With this I conclude 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.

We will take our first question from the line of Saion Mukherjee from Nomura Securities. Please go ahead.

Saion Mukherjee: Yes, hi. Good evening and thanks for taking my question. Just some P&L numbers I just wanted to get some color. We have seen consistent improvement in gross margin despite no price increase. If you can take us through the dynamics in terms of volumes, Swasthfit mix and you have raw material prices, currency, etc., how should we think about gross margins going forward? And the second one was on employee expense. What I notice, it has been growing in mid-teens higher than the revenue growth for the past few quarters. What's driving this and how should this grow going forward in your view? Thank you.

Ved P Goel: I think just to correct, the gross margin in this quarter compared to last year same quarter has not improved. Basically, this gross margin is slightly lower than last year same quarter. Second, in terms of employee cost, yes, definitely, there is a increase because we have started investing in new infra and we hired about roughly 100 people in our sales and marketing team as well. So, that is the impact where we are investing in the business for future growth.

Dr. Om P Manchanda: I want to add what Ved just mentioned. I think in the last sort of 1-2 years post COVID, there has been a certain jump in gross margins and mainly because of the COVID testing decline, our margin improve and we also invested a lot behind technology initiatives, which helped us to improve productivity. But I would say that these margins one should assume more or less stable at this number rather than any improvement further going forward. As far as employee cost is concerned, as Ved mentioned, we are now relooking at our organic infra and not only just in terms of lab but also adding manpower in our business, which is combination of both these two.

Saion Mukherjee: if I can ask one more just on depreciation and tax rate, we see depreciation, amortization numbers kind of quite flattish or even declining. Any reason there? And you are still on the old tax rate and any plans to move into the new tax rate and what should we expect in terms of an effective tax rate in the years ahead?

Ved P Goel: Our applicable tax rate is 25%. If you see the standalone, the tax rate is similar to that effective rate, but in consol we are charging some depreciation on account of impairment of intangibles, where we are not getting any tax benefit right now, that's where the effective tax rate is about 29% in consol. But in future, I don't think there is any change we have on this applicable tax rate.

Saion Mukherjee: And any comment on depreciation, amortization number?

Ved P Goel: These are similar because there is not much CAPEX which is done in terms of newer investment. These will be coming in the future. Right now, depreciation is more or less in the same range.

Dr. Om P Manchanda: Getting offset.

Ved P Goel: Yes.

Saion Mukherjee: But you were adding labs, right, I understand your organic infrastructure you are adding.

Ved P Goel: This is offsetting against the depreciation we are charging against the new addition.

Moderator: Next question is from the line of Karthik Chellappa from Indus Capital Advisors Hong Kong Limited. Please go ahead.

K Chellappa: Sir, two questions from my side. First, if I look at Swasthfit, that contribution to overall revenue has remained at about 23%-25% in the last four quarters. What is our medium-term aspiration in terms of, let's say, revenue composition and what needs to happen for us to take it to a higher level? That's my first question.

Shankha Banerjee: If you see every quarter v/s the same quarter last year, you will see that it's a 2.5%-3% contribution over and that's been a trend that we have seen through the last two, three years period that the contribution remains kind of flat between Q4 to Q3 and then again in Q4 it jumps. All the actions that we are taking, you will likely see some benefit of that accruing to us in Q4 and the baseline will shift again for the next three quarters. The growth rate on Swasthfit, and if you also compare the contribution v/s same quarter last year, you will see the delta.

K Chellappa: Got it. Which means that going into next year, this ratio, at least in a YoY basis, will continue to improve. Is that how I should interpret it?

Shankha Banerjee: Yes, that's really the plan.

K Chellappa: My second question sir, if I look at Suburban, this quarter at about 9.2%, that revenue was soft relative to both our overall revenue growth as well as Suburban's nine-month revenue growth as well. What would explain this relative weakness in Suburban this quarter and what is the plan or let's say aspiration for FY26?

Shankha Banerjee: I think we've been saying all along that in our business QoQ may not be the right metric to look at growth rates. I think what we are saying is that the growth trajectory on Suburban definitely is moving in the right direction. There is obviously some quarter there can be a slight up, some quarter there could be a slight down, but overall that trajectory will improve and obviously going forward our plans are to grow even faster than what you're seeing now.

Dr. Om P Manchanda: I also want to add more point. Actually, while the questions get asked on Suburban, but we are looking at West as a region for our total business. We have 3 verticals there. One is Suburban, the other is Dr. Lal PathLabs parent business and third also we have done a smaller acquisition under the vehicle called PathLabs Unifiers. Our front-end team now is common for all the three and we really don't evaluate them whether it has to be Suburban or parent as long as overall business grows. Because there's a huge sort of a network advantage we get one over the other and obviously there is a latent sort of brand equity for Dr. Lal PathLabs and I was looking at the number actually West region growth rate is even higher than our national average for not only for the quarter even on YTD basis. So, we've also seen some bit of uptick on the parent business as well in this geography. That network of Suburban is also helping us in a positive way to get our Dr. Lal PathLabs business growing as well.

Moderator: We will take our next question from the line of Rishi Modi from Marcellus Investment Managers. Please go ahead.

Rishi Modi: Om, I heard your comment on the gross margin where you said that large part of the gross margin expansion is done some with respect to COVID going away, the normal business having higher gross margins and the others the initiative that you all up taken at your end. One thing I wanted to understand right, today, on the other industry in the domestic reagents business, which is coming up, which is at a lower pricing than the international players. Like, are we not planning to increase that mix or like we going to pass on the benefits that we get from those and hence lower pricing or test pricing, like I am just trying to understand why wouldn't gross margin expansion take place if we incrementally keep using domestic players reagents?

Dr. Om P Manchanda: Ved can comment on this domestic part of it, but I also want to highlight because most of these regions are imported and dollar becoming expensive, while we are still holding on to this, I don't know what the response of our vendors going forward, but that pressure also is going to come not only for us, but for the entire industry, but as of now, we're just holding on to these prices. So, there are headwinds on the reagent cost. On the domestic v/s international, maybe Ved, you want to comment.

Ved P Goel: Yes, Rishi, I think as Om said, these are mostly reagents which we are directly not imported but an imported material. However, having said that, we have started using some of the consumables, which is local Indian manufactured and there we are definitely getting some leverage and benefit. If you see last 2-3 years consumption cost, it has reduced substantially because of mix which we are changing from 22.5% to now roughly 20.9% this quarter. That is where wherever we have opportunity, we are doing that, but at the same time there is a inflationary pressure which is coming and that's where I don't think in future we should build any further improvement in the gross margin.

Rishi Modi: Dollar appreciation primarily in the near term will lead to pressure, sir. Second, I wanted to understand on the Swasthfit, right. When I look at the contribution, from Q1, the contribution has come down to 23%, while YoY it's still up. I am just trying to understand, is there something which is missing here like this contribution has not historically dropped as a percentage of revenue ever since in the last 3 years at least that we have the data for, it's kept on decently well over a year upon growing on a QoQ basis as well. Is 25% the peak or like what's happening here if you can give some color?

Dr. Om P Manchanda: I think the data that I have in front of me, what I've seen is that Q3 generally is a soft quarter, 23% one see it as to what was the contribution last year in the same quarter, that number is 20%. And our sort of assessment is that Q4 actually peaks because of a lot of people actually go for health packages because there's reimbursement, I think there's a tax advantage they get. It peaks in Q4 and then somewhere stabilizes after that in Q1 as well. But then it softens in Q2 and Q3 and again it peaks in Q4. I think 23% is not a representative figure for the year, but it's only a figure for the quarter.

Shankha Banerjee: I think the trend is similar last year. So, it's not as if every quarter last year was growing over the previous quarter. If you see the trend last year was exactly the same on contribution. Even last year, the QoQ contribution was highest in Q1, then it dropped in Q2, dropped in Q3, again peaked in Q4. I think that is the trend we have seen for the last 2 years and the same trend continuing this year.

Dr. Om P Manchanda: Or other way to look at is that peak contribution aside, Swasthfit this quarter has grown by 27% over last year same quarter.

Rishi Modi: And I think last time, Om, you mentioned like this can go much beyond the 25%-30% mark. Is that still the case or you are still maintaining that, right?

Dr. Om P Manchanda: Directionally, I think industry is showing those trends and I haven't collated other companies data, but I think one should probably look at the trends in other companies as well, where the data is available publicly, but my own gut says that directionally it's moving towards bundling and we keep growing. Now I don't know what that number is, but definitely if 50%-60% of disease incidence is coming out of

NCDs, I think NCDs are, that segment is prone to bundling because they're all metabolic disorders, they are all club together and they are all falling in the domain of preventive testing, etc., It's only the infectious or communicable diseases you can't bundle it. You don't need to go for a malaria testing if you don't have fever, but you can still go for a lipid profile and kidney function test, etc., I think if you were to ask me as to where it can go, it is a reflective of total NCD burden in our society.

Rishi Modi: Finally, for Ved, just a couple of numbers I wanted your help with. Suburban EBITDA margin for the quarter v/s the same quarter last year if you could help me with? And on the tax piece I am seeing like a 28%-29% tax rate for several quarters now. Just wanted to understand like what's the reason for this elevated tax rate? I maybe you have listed a few mentioned in the past.

Ved P Goel: Rishi, Tax as I mentioned earlier also that if you see standalone, there is a absolutely around 24%-25% which is the applicable rate, but on consol there are some adjustment, maybe some depreciation, intangibles where we are not getting any tax and then dividend adjustment which is intercompany removal of those. For that, it is reflecting a higher tax rate, but normal tax rate is 25%.

Rishi Modi: Like this tax amount that we're showing in the P&L is actual amount that we are paying, not just the P&L amount?

Ved P Goel: Yes.

Rishi Modi: And if you could help me with the EBITDA margin for Suburban for the quarter v/s same quarter last year?

Ved P Goel: It is lower but again on an yearly basis, I think margins for Suburban will be in the range of 15%-16% because in Q3 as revenue dropped as so as the margins.

Rishi Modi: If I take H1, we would have done about 17%-18% of EBITDA margins, you're saying nine months is at 15%-16%. This quarter, the EBITDA margin would be around 10%-12%, is that right?

Ved P Goel: Yes, 12%-13%.

Dr. Om P Manchanda: Yes, because higher fixed cost component is so high, it's very sensitive to revenue fluctuations.

Rishi Modi: You are saying it's declined v/s last quarter. So, last year we were in the 15% range. Last year, the margin profile would be the same, same quarter?

Ved P Goel: From last year, YoY, it has improved.

Dr. Om P Manchanda: Q3 FY24 EBITDA margin for Suburban was 11.5%, now it's 12.3%.

Moderator: We will take the next question from the line of Prakash Kapadia from Spark PMS. Please go ahead.

Prakash Kapadia: Two questions from my end. Any comments on how are smaller players in the industry doing, any specific trends you witnessed in terms of consolidation or regional players performance that would help? And secondly, any price increases on the anvil because some of the larger players are contemplating price increases? Those are my questions.

Dr. Om P Manchanda: Let me answer the second question first. Yes, I know that many players have been thinking of taking price increase, some of them have already taken as well. I think, internal, our view is that we want to get our volume growth going up and the good news is that this year, we have seen significant improvement v/s last year and we believe our strategy of holding on to the prices and still managing revenue growth in line with our internal budget as well as over last year, we think our strategy is working and without dilution of margins, we want to hold on to this for some time and see if we can get our volume growth up. That's our current view. We will probably review this going forward maybe 6-9 months later, but as of now, we don't plan to take any price increase.

Second is coming to the smaller players as to how it is, I think there is some sort of a stability and calmness in this whole industry right now because a couple of years back because of this deep discounting and aggressive pricing by some of the players which are really uneasy times for the industry. Overall, it is stabilizing. I don't see too much of a sort of stress in the smaller labs, but I also don't see too many new labs coming up. I think it's a stable time I would say. And if some people are taking price increase, it does help smaller labs as well, one must know that, because it gives them sort of leeway to take price increases even locally also. I think it is going to be a stable time for smaller labs going forward for some time.

Prakash Kapadia: And lastly, Dr., in this context of what you just mentioned, is it possible directionally we should grow faster than some of the other players, given that we are spreading geographically, we've been one of the earlier players in Tier 3-4 cities, so when do you know some of these initiatives fructify and lead to still higher sales growth for us?

Dr. Om P Manchanda: Yes, I think you're right, but the challenges also is our base is equally large because at such base, let's say give or take Rs. 2,500 crore base, if you have to grow over 10%, you technically have to add Rs. 250 crore of extra business every year. That's a kind of broad math one has. And growing it organically in the same market sometime becomes challenging and the newer markets are slow to respond. I probably would say what you are saying is right and we also want to make sure that it's a sustainable growth and my personal experience is, 1% or 2% slower growth is still fine, but as long as you are structurally building it up for long-term, slowly, slowly build your infrastructure. Because the reason for people to come back again and again is quality and trust. At no point in time, our expansion should compromise on that because at times in a hurry to get extra that 1%, one then compromise on those aspects. I think it's a more process-driven business, make sure that you build it brick-by-brick is what probably helps. And we are seeing that actually in the market. And one of the factors, in fact Delhi NCR, we've not talked about this. In the last two quarters, our growth rates are pretty good. And I actually would say some of the labs users which went to some of the new competition have started coming back to us so which is a sort of a proof to at least very positive. I don't know whether it's working that way, but it's just a hypothesis I have. I want to see for next 2-3 quarters, but I probably would say that it's a process-driven business. Go steady, slow, slow, build it up and it stays with you.

Moderator: We will take our next question from the line of Karan Vora from Goldman Sachs. Please go ahead.

Karan Vora: My first question is with respect to the patient service centers and lab ratio. So, when we mentioned that we are trying to improve productivity and efficiencies, what are the metrics we kind of look at, do we look at revenue per lab or revenue per patient service center or patient service center per lab, which are the right metrics, and what is the ideal metric you would like to have like over a medium term?

Dr. Om P Manchanda: I think clearly this particular metric of ratio between lab and collection center is very important. Because a throughput through a collection centre is definitely more efficient than throughput through a lab. Not only from a cost perspective, but also giving higher market access because you are spreading your infrastructure closer to the customer.

The second area has been area of overall fixed block that we have, how does it compare in terms of cost per test, basically that ratio. And we have seen simple things like printing a stationary, if you reduce the physical paper use, that itself gives you a lot of benefits. The second area could be if you franchise more collection center, your rental cost as a percentage of revenue actually is coming down. Because your own infra is high street infra, you end up paying more rent and now I think GST impact is also there, right on that?

Ved P Goel: Yes.

Dr. Om P Manchanda: And if it moves closer to collection center, it's really that kind of cost structure is not there in their hands. So, some of these small, small initiatives, they all add it up and that's how we get the benefit.

Karan Vora: Right, now I think our patient service center to lab ratio is around 20-21x. What is the ideal number you would look at and is it different between a Tier-1 and say a Tier-2 or Tier-3 city?

Dr. Om P Manchanda: Yes, Tier-1 definitely this number would be higher because you are operating in a small geography. If we go deeper, then obviously it will be much lower. Your average number, I don't know where it can stop. There was a time when we were 1:7 also and I've seen the journey from 7 to now 20-21. I think this is technically competing with turnaround time as well because more collection centers you have, they are far away from lab, your turn around time actually gets sacrificed. I think it's a very dynamic number. I don't know whether we have a target in our mind, as long as overall sort of a cost overhead, we just keep an eye on that. I don't think we just decided target and go after that number because at some point in time like this year, we are trying to expand more collection centers. This ratio may go off as well. But it's a very dynamic number. I don't think we have a number in our mind to achieve. The higher the number better it is for us.

Karan Vora: My second question is with respect to the competition in Delhi NCR region from hospitals. So, are you seeing the competition kind of increase like on a YoY basis you think it is more or less in line with what you are expecting?

Dr. Om P Manchanda: More or less in line with what we expect, but I think last time also we spoke about, there are hospitals, especially the ones which have ambition to become bigger and get listed. They are the ones who are trying to look at retail pathology. But at least in our sales meetings, we don't really get to hear from them that hospital is a very big threat, but definitely it's a competition which is here to stay, there is no doubt about that and there's a large enough market. In fact, I personally always have believed that organized competition helps all of us because technically you are taking the market away from unorganized players and which is what we're seeing, the market has started responding now better and bundling is effect of aggressive competition activity around bundle packages. Overall I have a feeling that these people will help market to grow on an organized play, shift from unorganized to organized will move further.

Karan Vora: Are they pricing like in line with what we are pricing or are they like more price competitive, do they price higher, how is their pricing?

Dr. Om P Manchanda: They cannot afford to compete with us in pricing because they have to match their internal hospital pricing as well. I think hospital guys will never be aggressive on pricing. They can be aggressive on building infra, but my sense is they will not go to deep cut the pricing.

Karan Vora: My last question is with respect to the kind of region wise growth. I think we mentioned that West and Delhi NCR have actually grown faster, which kind of maybe implies that East or South have kind of grown below average. What has happened there? And on a normalized say medium term growth perspective, which regions do you think can be above corporate average and which regions would be below?

Dr. Om P Manchanda: I think see, the difference is not very stark. When I probably mentioned about West region growing faster, doesn't mean the East has grown very slow. I would actually say if I had to pick one region which probably requires focus is South for us. I think all other regions, in front of me I have the numbers, more or less in line with national average, few 1 or 2% higher or lower. But I think one region which probably requires focus for us is the South. This is going to be a focus area for us.

Karan Vora: Even from a medium-term standpoint, more or less growth should be split equally in across regions?

Dr. Om P Manchanda: Yes. It's a very uniform growth. It does help us to see that we are not dependent on one region for higher for the growth, it is uniform across India.

Karan Vora: And when we look at the margins like do you think or the margins across regions are similar or like if there's a rank order maybe Delhi NCR would be the highest, but like what others would be higher than corporate average and what others would be lower. Not asking for this particular quarter, but in general on a normalized basis?

Dr. Om P Manchanda: Ranking is I think it's no-brainer, Delhi NCR is the highest, then come rest of North and then East and West. Any concentrated geography will always have for us, not for the industry.

Karan Vora: And where would corporate average stand? So, corporate average would be better than rest of north?

Dr. Om P Manchanda: Maybe we can chat offline.

Karan Vora: Okay.

Moderator: We will take our next question from the line of Saurabh Kapadia from Sundaram Mutual Fund. Please go ahead.

S Kapadia: You mentioned about making investment in infra in metro and Tier-1 cities. So, is it related to the lab investment or it would be more of a marketing infra?

Shankha Banerjee: So, we are looking at lab and marketing both.

S Kapadia: What could be a quantum of investment?

Shankha Banerjee: No. I think that's more in terms of number of labs that we look at. We are starting to look at new infrastructure in metro and Tier-1 in terms of labs.

S Kapadia: I am seeing now with the voluntary liquidation of Suburban, now we mentioned the production in the overhead cost. What kind of cost saving we could see post that?

Ved P Goel: This is administrative and legal and compliance costs primarily, which can be saved because right now there are multiple entities, now it will be one. There are certain costs which we can save on account of this.

S Kapadia: Any number to it?

Ved P Goel: It's not very substantial, but yes, definitely there will be something.

Moderator: We will take our next question from the line of Anshul Agrawal from Emkay. Please go ahead.

Anshul Agrawal: If you could just help me with the number of labs you have already added in the nine months ended for this current year?

Shankha Banerjee: We have set 15-20 labs. We are well on track to achieve that by the end of the year.

Anshul Agrawal: I have a follow-up question on that. Has the Delhi region grown on the back of network expansion or would this be a sort of an SSG kind of growth that we have witnessed over the last two quarters?

Shankha Banerjee: Primarily it is SSG kind of growth as of now. Yes. Whatever we are seeing in the last two quarters is still primarily at is.

Moderator: We will take our next question from the line of Punit Pujara from Helios Capital. Please go ahead.

Punit Pujara: My first question is for Dr. Om. You mentioned that the new labs have stopped coming in, but has that resulted in let's say lower valuation in the existing labs? I am asking this because you have Rs. 1,100 crore of cash and I think it makes sense to follow the roadblock strategy. Yes, that would be my first question.

Dr. Om P Manchanda: The stable environment, I essentially meant that, one tends to see a lot of new labs being launched by smaller players. Especially in the unorganized space, I don't see a lot of new players coming and putting up new labs. That's what I meant by that. But there is aggression, there is a competition from the organized because those players are putting up new labs, but I what I meant was unorganized sector.

Punit Pujara: I see. And the second is clearly you are focusing a lot on growth. Are there any adjacent areas that you are exploring to further accelerate the current rate of growth?

Shankha Banerjee: We are currently looking at a few options, but I think there are too immature right now to talk about. But yes, overall, a slightly longer term horizon there could be some adjacencies.

Dr. Om P Manchanda: For us essentially we are looking at higher end tests in the area of genomics and Dr. Lal mentioned in his comments about 'Genevolve' and it's in the area of autoimmune disorders. There is a lot of effort going behind promoting higher end tests. So, that actually grows on back of the network that we have expanded. I think that's the way we look at adjacencies. And the second area is in terms of basic radiology, especially ultrasound and X-ray and we have large number of labs where we have the services. That's another area of adjacency. So, that's the way we look at it.

Moderator: We take our next question from the line of Sumit Gupta from Centrum India. Please go ahead.

Sumit Gupta: As we plan to expand geographically across the nation, so like, what is the patient volume growth that you expect going forward over the next 3-4 years?

Shankha Banerjee: Last year I think we ended the full year at about 2.7% and I think right now YTD we are about 4.4%. Give or take let's say we are in the range of 4.5%-5% is what I think we are expecting patient volume, and our endeavor is to improve that as we go forward. I think we are not taking any specific target on it, but the idea is with the new infrastructure, collection, network expansion, etc., we can reach and access larger patient pools and therefore grow better in terms of patient volumes going ahead.

Sumit Gupta: Okay. And then those geographies also you plan to expand through volume growth through Swasthfit?

Shankha Banerjee: Swasthfit is just a one product which plays more prominently in maybe metro, Tier-1 and some Tier-2 cities. Infra growth and Swasthfit are two different access for growth. They need not be overlapping. A certain level could be complementary to each other.

Dr. Om P Manchanda: I want to pick up this question on the volume. We first of all look at volume both these metrics together, it's not only just the patient growth but also sample growth. Because what we are seeing as a contribution of Swasthfit is moving up. There is a slight decline that we see on the patient growth because actually technically these are patient visits, they are not unique patients. We are seeing the frequencies drop and that's why you see slightly slower or lower patient volume growth. We want to see both together and we want to see both growing as we move forward.

Sumit Gupta: Understood, sir. You also allocated revenue contribution from franchisee collection center, was 45%. Overall, how is the trend being and how do you expect it to go forward?

Dr. Om P Manchanda: I get a sense it's now stabilizing here because in addition to this, we have pickup points which is nearly about another 20%-25%. The rest of it will remain as a walk-in and home collection, which we normally call retail business which is our own infra. I would say it is probably stabilizing at this number.

Sumit Gupta: And sir, lastly, how much CAPEX was there in nine months FY25 and what is your guidance for next year?

Ved P Goel: In nine months roughly we have made a CAPEX of around Rs. 30 crore. As Shankha mentioned, we are planning to open 15-16 labs in this year. Maybe this is coming in the later part of this year, so Q3 and Q4. And going forward, on an ongoing basis, maintenance CAPEX is about Rs. 60 - Rs. 70 crore per year excluding any major investment in any other venture.

Moderator: We will take our next question from the line of Abdulkader Puranwala from ICICI Securities. Please go ahead.

A Puranwala: Just a follow up on what the previous participant was talking about. If I see your Swasthfit revenues, they are growing much faster and I think that is a broader trend for the last couple of quarters and we have been talking about network expansion into Tier-2, Tier-3 markets, that has worked quite well, but what in terms of the overall growth, that's end up to single. Just also wanted to understand on the volume front, how was the volume growth been in the Swasthfit v/s the residual part of your portfolio, is there any material difference as compared to how your revenues are getting shaped?

Dr. Om P Manchanda: We don't have that data in front of us. We will come back to you offline. But YTD overall volume growth for the business is about 4.4%.

A Puranwala: Second is on a similar line. While historically we have seen that bundling test is something which has always attracted a large competition say it from online or you know from other channels. If you could share your thought process about carefully selecting this as one of your growth engines for the near future despite the threat of competition any day coming into it?

Shankha Banerjee: I think Bundle Testing is a phenomena which is now across the industry, and I think to a certain extent the promotions done by the online competitors have even spurred this demand overall. It may not necessarily be one eating into the other, rather it helps building the category much faster.

Moderator: Ladies and gentlemen, to ask a question, please press "*" and "1" on your phone now. We will take a next question from the line of Yogesh Soni from InCred Capital. Please go ahead.

Yogesh Soni: Just wanted to understand, what has been the West region contribution in last year? And also wanted to understand your plans on expansion into West and Southern regions? Thank you.

Dr. Om P Manchanda: West region contribution is now nearly 15% all put together, which is similar to what we do in East. East and West are now easily sort of balanced now, gone up from 14 to 15 is what I see.

Yogesh Soni: Sir, what endeavors are we making to expand into these two regions, West and South?

Dr. Om P Manchanda: South, obviously, the region for us to focus. As we have always stated that these new regions, we look at both organic and inorganic and we will continue to put those efforts in these markets. And while on these calls we can talk about South, but South itself is very big cluster of Bangalore, you have a cluster of Chennai, Hyderabad. We look at that cluster and then grow our business. We will definitely focus much more in South this year than what we've done in the past.

Moderator: We take a next question from the line of Pradnya Ganar from UTI AMC. Please go ahead.

Pradnya Ganar: Sir, my question is on the M&A strategy. While you indicated that M&A you look at it to expand into new geography, but can you also look at M&A to add new capabilities, are there any kind of testing capabilities that you would want to add and for which you might want to evaluate M&A?

Dr. Om P Manchanda: Yes, that's a good question. Actually, when we look at some of these businesses and I would say there's a routine testing which I think every one of us has. Then there are a lot of these high-end tests that are done in India, and nobody has these test instruments, these instruments are actually available off-the-shelf. So, you don't need to go and acquire, if we Illumina is one machine for genetic testing which cost me about Rs. 8 - Rs. 10 crore. So, you just go and buy this machine, and you add these tests. You don't need to go and acquire any company. The effort really needs to be put on the sales and marketing side and then acquiring some of these because these technologies come from outside, available on the shelf and you just go and buy these equipment and you are adding those capabilities. I think the real effort is on the front end side to grow the business.

Pradnya Ganar: Currently what would be our mix of specialized and semi-specialized set?

Shankha Banerjee: There is no industry standard definition of specialized, but the way we look at our business, the way we define specialized, that portfolio for us is about 22% right now.

Moderator: We will take our next question from the line of Prashant Nair from Ambit Capital. Please go ahead.

Prashant Nair: Good evening, everyone. I just wanted to reconfirm the volume growth number for nine months. Did you mention 4.5% in that range?

Shankha Banerjee: Yes, YTD patient volume is 4.4%.

Prashant Nair: And is there a test volume number?

Dr. Om P Manchanda: 9.5%. This number that I am mentioning to you 4.4% volume and 9.5% sample growth is for nine months.

Prashant Nair: Dr. Om, when you mentioned you want to take volume growth higher. That's the internal thought process. Where you think you would want to settle, is it like 100-200 bps higher or can you reach a higher number than that?

Dr. Om P Manchanda: Yes. Okay. Don't hold me for that number, but I would say that if you go back in time before COVID our average volume growth used to be in the range of about 8%-odd CAGR and sample growth was not much during that period. Then we went into a phase where the sample growth picked up and the volume growth declined and we were actually struggling to figure out what's really going on. And one of the variables we found was Swasthfit. Because bundling contribution was going up, sample growth was going up, but the volume was coming down. But then I look at volume growth as surrogate measure for our expansion efforts, I would want to see that more and more patients coming from newer markets, gives us that we're expanding. Sample growth at times tends to convey that you are actually upselling to the existing customer base. I think probably my message to the team would be at least go back to this number of 7%-8% that we were doing in the past.

Prashant Nair: Right. And just one follow up question. Dr. Om, I think while the volume growth in terms of patients has come down, I think your test per patient has probably gone up over this period. Do you think you'll be able to retain that number where it is now, or maybe improve on it while you also step up on patient growth?

Dr. Om P Manchanda: I think directionally test per patient, there are lots of tailwinds on that. One tailwind, of course, is the bundling. I think you guys cover pharma as well. Maybe you may want to study some of these prescription behavior. I am noticing that now more and more tests get prescribed on the same prescription than before. That is also happening. I think there is a favorable sort of a situation for test per patient in future.

Moderator: We will take our next question from the line of Rahul Jeewani from IIFL Capital. Please go ahead.

Rahul Jeewani: Sir, now you're talking about lab expansion in metro and Tier-one markets as well. And as you rightly pointed out that we see a lot of these bundle tests on Swasthfit primarily in larger metro markets. With the expansion which we are targeting in metro markets, is there a potential that the sample volume growth, which has been around 9.5%-10% for us, that can accelerate to a low double digit kind of a number going forward?

Dr. Om P Manchanda: But it'll get offset by newer markets going up for Swasthfit because it's not Delhi NCR alone, you have entire UP, rest of north, these labs are also responding very well to Swasthfit kind of packages. I think if there is a headwind in bigger towns, then it'll definitely get offset by smaller towns. That's my take away on this.

Shankha Banerjee: I think it is all just a slight shift to say that there is still quite a bit of headroom in the metro and Tier-one town, which we want to capture. And not only will it be captured through Swasthfit or bundle package, but also, the prescriptions which come out and where there is a lot of tag dependent delivery expected.

Rahul Jeewani: Sure, sir. I wasn't talking about any headwind. Actually, I was talking about this tailwind that over let's say past 2-3 years we have been expanding in Tier-2, Tier-3 markets, in North and East. Now, we are talking about expansion in metro markets as well. With that expansion in metro markets, is there a potential that we actually start seeing an acceleration in volume growth both on the patient volume as well as the sample volume growth?

Shankha Banerjee: These are in my view, it's a part of the overall mix. If you see the contribution of metro and Tier-1 today and we've been talking about our Tier-3 and Tier-4 kind of contribution, therefore, it's not as if metro and Tier-1 is a huge contributor, it's also a part contributor. It's just about ensuring that there are lot of tag dependent testing opportunities or patient opportunities that we sense in these markets as well which we would like to capture. Yes, the idea is to help us get newer patients or patients who may not be coming to us, and in a certain sense, it will help patient volume growth as well as sample growth.

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

Ved P Goel: Thank you, everyone for being with us on this call today. We express our gratitude for your continuous trust and support. I hope we are able to answer all your queries and questions. Please feel free to reach out to us in case you have any further queries. Thank you once again. Now we can close the call.
