May 16, 2024

To,
Listing Department
National Stock Exchange of India Limited,
Exchange Plaza,
Bandra Kurla Complex,
Bandra (East), Mumbai- 400 051
NSE Symbol. VIJAYA

To,
The Corporate Relations Department
BSE Limited,
Phiroze Jeejeebhoy Towers,
25th Floor, Dalal Street
Mumbai- 400 001
BSE Scrip code. 543350

Dear Sir/Madam,

Sub: Transcript of the Earnings conference call organized on May 09, 2024

We are enclosing herewith the Transcript of the Earnings Conference Call organized on May 09, 2024, post declaration of the Audited Financial Results of the Company for the fourth quarter and year ended March 31, 2024.

Please take the information on record.

Thanking you.

Yours faithfully,
For Vijaya Diagnostic Centre Limited

HANSRAJ SINGH
Digitally signed by HANSRAJ SINGH
Date: 2024.05.16 13:00:02 +05'30'

Hansraj Singh
Company Secretary & Compliance Officer
M. No. F11438

Encl.: As above

“Vijaya Diagnostic Centre Limited

Q4 FY‘24 Earnings Conference Call”

May 09, 2024

MANAGEMENT:	**MS. SUPRITA REDDY - MANAGING DIRECTOR AND CHIEF EXECUTIVE OFFICER – VIJAYA DIAGNOSTIC CENTRE LIMITED** **MR. SUNIL CHANDRA - EXECUTIVE DIRECTOR – VIJAYA DIAGNOSTIC CENTRE LIMITED** **MR. NARASIMHA RAJU - CHIEF FINANCIAL OFFICER – VIJAYA DIAGNOSTIC CENTRE LIMITED** **MR. SIVARAMARAJU - HEAD, STRATEGY AND INVESTOR RELATIONS – VIJAYA DIAGNOSTIC CENTRE LIMITED**
MODERATOR:	**MR. BHAVESH GANDHI - YES SECURITIES LIMITED**

Moderator: Ladies and gentlemen, good day, and welcome to Q4 FY '24 Earnings Conference Call of Vijaya Diagnostic Centre Limited, hosted by YES Securities Limited. 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 star then zero on your touchtone phone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Bhavesh Gandhi from YES Securities Limited. Thank you, and over to you, sir.

Bhavesh Gandhi: Thank you. Good morning, everyone. Bhavesh here from YES Securities. I welcome you all on the Q4 FY '24 Earnings Conference Call of Vijaya Diagnostics. At the outset, I would like to thank the management for giving us this opportunity to host the call. Today, from the management team, we have with us Ms. Suprita Reddy, Managing Director and CEO; Mr. Sunil Chandra, Executive Director; Mr. Narasimha Raju, Chief Financial Officer; and Mr. Sivaramaraju, Head – Strategy and Investor Relations.

I would now like to hand over the call to Ms. Suprita Reddy for her opening remarks. Over to you, ma'am.

Suprita Reddy: Thank you, Bhavesh, for hosting the call. A very good morning and a warm welcome to everyone present on the call. I will first now present the key highlights for the period. After which, we will take you through the operational and the financial highlights for the quarter ended 31st March 2024. I'm delighted to announce that this quarter, too, witnessed robust business performance with a remarkable year-on-year growth of 28.3%. Of which, an impressive 18.5% growth was achieved organically. This growth was primarily fueled by both footfall and debt volume. This quarter also marked a notable milestone with the wellness segment contributing 14% of the revenue. This is partly attributed to the recent partnerships with a few large corporates for the employee health checks.

Completing 6 months of successful business operations, our hub center in Tier 2 geography, Mahabubnagar, has gained significant traction, achieving breakeven within 2 quarters. Once again, this emphasizes the need of a quality-oriented, integrated diagnostic chain and also validates our brand's ability to earn the trust and loyalty of our customers over time, empowering us to thrive in new markets. Speaking of our Kolkata hub, the month-on-month performance has been very promising, and we anticipate reaching a breakeven within the next 2 months.

Additionally, we have recently finalized leases for 2 new hub locations. Regarding PH Pune, we have made substantial progress in integrating it with our parent company. We have successfully migrated all of PH's core ERP and other IT applications to the parent company's applications effective 1st of April 2024. I'm happy to announce that we have co-branded PH as Vijaya PH and the new co-branded logo has been presented in the earnings presentation.

I would now like to provide you a brief overview of the expansion plan for the next 2 years. Our primary focus will be in Pune, aiming to capitalize on the brand and the market potential, followed by the east and our core geographies. We have made good headway in identifying strategic locations for expansions into Pune. Over the next 2 years, we have a clear visibility of 10 hub centers and a few spokes, out of which, 4 to 5 would be in Pune and the rest in the east and our core geographies. We have already finalized locations and signed leases for 6 hubs and would be closing a few more in a couple of months to come.

With this, I would like to hand over to Raju and take you through the operational and the financial highlights.

Narasimha Raju: Thank you, Madam. Good morning, and a warm welcome to everyone joining us on the call today. I'll briefly take you through the financial performance and key developments for the current quarter ended March 31, 2024. The consolidated revenue for the current quarter stood at INR155 crores as against INR121 crores in the corresponding quarter of the last year, delivering a robust year-on-year revenue growth rate of 28%.

I am delighted to inform you that the organic growth rate, excluding PH Pune, is impressive at 18.5% from INR121 crores to INR143 crores. And this robust revenue growth was again driven by volume growth of 17% and footfall growth of 15%. Coming to PH Pune performance for the current quarter, the revenue is INR12 crores, which is in line with our expectations. As you know, the contribution from our home market Hyderabad was 82% in the last year. Due to the recent PH acquisition, now the contribution from Hyderabad is 72% in this current quarter and the rest of AP and Telangana is 17% and Pune is 8%.

Like the previous quarter, the revenue growth was driven by both radiology and pathology segments, underscoring the robustness of our B2C-focused integrated business model. The B2C revenue stood healthy again at 93%. Our radiology business stood at 37%, slightly higher than 36% in Q4 of last year. The revenue per test was INR462. And the revenue per footfall was INR1,589 during this current quarter. And we reached a key milestone of 1 million patient footfall in this current quarter.

EBITDA for the current quarter stood at INR63 crores as compared to INR49 crores in the corresponding previous quarter, registering a year-on-year growth rate of 28%, in line with revenue growth. Excluding PH Pune, the organic year-on-year growth rate in EBITDA is 18%, again, in line with the revenue growth. EBITDA margin was healthy at 40.7% in the coming quarter in spite of expansion activities going on at both organic and inorganic fronts.

A few factors that have helped the company to maintain this industry-leading margins are the impressive top line growth, strong focus on B2C segment and the cost structure of the integrated business model, and lastly, the margins of PH Pune are also at similar levels of Vijaya. Hence, there is no dilution at the margins level due to this acquisition. The profit after tax for the current quarter stood at INR34 crores, and the PAT margin was also healthy at 22%. And the surplus cash reserves at the end of this quarter are approximately INR184 crores.

I will now summarize our performance for the entire financial year 2024. The consolidated revenue is INR548 crores as against INR459 crores in the last year, marking a remarkable year-on-year growth rate of 19% on total revenue and 21% on non-COVID revenues. And organic growth rate excluding PH, is 18.3% of non-COVID base. EBITDA stood at INR221 crores as against INR182 crores in the last year, registering a year-on-year growth rate of 21%, in line with the growth in revenue. EBITDA margin stood healthy at 40.3%, and the profit after tax was INR120 crores, with impressive PAT margin of 22%.

I'm happy to inform you that the Board has recommended a dividend of INR1 per equity share of INR1 each. That is 100% dividend for this financial year FY '24, subject to approval of the shareholders in the coming AGM. To conclude, I would like to say that the company is on track of creating dense network of integrated centers at the new geographies over a period through a careful expansion strategy, and this expansion will be funded from internal accruals and the existing cash reserves. And we continue to hold our position as the largest B2C integrated diagnostic chain, supported by healthy balance sheet and impressive written ratios.

That's all from my side. I would now request the moderator to open the line for the Q&A. Thank you.

Moderator: Thank you very much , we will now begin the Q&A session. Anyone who wishes to ask questions may press * and 1 on the telephone. If you wish to remove yourself from question queue you may press * and 2. Participants are requested to use handset while asking a question. Ladies and Gentlemen, we will wait for a moment while the question queue assembles

Moderator: The first question is from the line of Amey from JM Financial. Please go ahead

Amey: Yes. Thank you so much and congratulations to the management for the good set of numbers. The first question I have is we have reported a strong volume growth this quarter. Is it possible for the management to give breakup at least in core regions, how has been the volume growth for Hyderabad, Andhra and Telangana?

Sivaramaraju: So Amey, it's basically across geographies. If you see, we did not do any price increase in the last year, hardly 1%, 2% is the price impact, right, and if you actually see on the other slide where we have given the revenue contribution from each of these geographies, Hyderabad grew at almost around 13.5% to 14% in Q4 year-on-year and across geographies, it's driven by volume. So if you see equivalent growth in footfall, for example, in Hyderabad when it is 13.5% in revenue, close to 11.5% to 12% is the volume growth. Likewise, in Tier 2 geographies where we have done the expansion, so the growth rates are much higher beyond 30% to 40% plus because of the capacity expansion. There even the volume growth is approximately about 35% to 38%. So it's across all geographies.

Amey: Sure, and do we expect to grow at similar double-digit rate in the core regions over the next 2 years?

Sivaramaraju: So, like we always say, we are confident that 1%, 2% whatever revenue growth that you see, right, 1%, 2% will be a price impact or the case mix. If we grow at 15%, say, roughly around 12% to 13% growth definitely will come from volumes.

Amey: Sure, sure. And the second question is on the Kolkata region. It's been a while we have entered that region. So what has been our learnings from that market? And how different the market is compared to like, let's say, Hyderabad? And what are changes we expect to do in the strategy in expanding business in Kolkata? Any thoughts on Kolkata?

Suprita Reddy: So Amey, the Go-to-market strategy has always been the same, whether it's Kolkata or Pune or any of our core geographies. So we look at the affordability of the population. And Kolkata being a city itself, all this was then, like we've mentioned earlier, we entered Kolkata in the early 2000s with one of the hospitals then with Medinova getting acquired. And we know that market pretty well. And we feel that our differentiated model of a very highly integrated diagnostic chain with high-quality sophisticated equipment and top of the line consultants reporting is what is driving us to get to this double-digit growth and the same strategy will be followed in Kolkata. Like I mentioned in our speech, we've already signed leases for 2 more hubs and we will slowly, organically build that market out in the same way that we've grown in our core geographies of AP and Telangana. So I don't see any kind of a very differentiated look when it comes to the East.

And also looking at our center, which we've opened, I think, in the next 2 months, it will breakeven, and that's pretty promising. In fact, when we opened it, I said, we should give it an extra 6 months because it's far out geography, I would like to understand the market. But breaking even in the next 2 months has actually given us more confidence, and it's looking very promising, and we will definitely have a headway through there.

Amey: Okay. Just wanted to ask that the demand generation is similar. The activities we do in Kolkata compared to the Hyderabad region? Or you have to do some...

Suprita Reddy: All the activities across all geographies are very similar, probably a little bit of differentiation in the kind of reporting that we do the case mix that we do see. You look at geographies, you would see differentiated diseases also. We see a lot more gastro, body imaging, liver, all that kind of work coming in, in Kolkata. So that's an area where we are investing in. We are having consultants. We brought in a consultant from New Delhi with about 13-plus years experience on board in Kolkata. So that's something that's a new learning. We keep building on those. But definitely, I don't think there's anything that I would have to learn new to make that market grow.

Amey: Sure. Sure. And the last question is on the margins. What will be your thought process going ahead with the margin? Any incremental margins which will come in, would you like to reinvest in the growth or how that process is?

Narasimha Raju: Currently, if you look at the P&L, the EBITDA margins are at 40% level. If you see, okay, consistently, we have been achieving at 39% to 40% level. And as you know, as ma'am explained in the next couple of years, we are planning to add at least like 10 hubs, out of which, at least like 5 hubs, we'll be planning in the Pune region. So considering this expansion plan, as you know, it takes some time, right, for these hubs to ramp up, okay, breakeven in a couple of quarters are max like 3 quarters. So with this expansion plan, there might be like 1% here and there, in fact, might be there on the EBITDA margin. But on the core business, we are fairly confident of the 40% EBITDA margins.

Amey: Got it. Sure .Thank you so much.

Moderator: The next question is from the line of Abdulkader Puranwala from ICICI Securities. Please go ahead.

Abdulkader Puranwala: Yeah Sir, Thank you for this opportunity**.** Sir, just first question on this PH acquisition. So of the INR147.50 crores which you have paid for this acquisition, so can you provide us a split of how that will look on the balance sheet?

Narasimha Raju: Yes, Abdul. Abdul, this is considered like a business combination accounting under the IFRS under standard 103. So as per the standard, we need to do a fair valuation of the all the assets and liabilities that we acquired on the acquisition date that was on December 21st. So we appointed a registered valuer to carry out the purchase price allocation, what it is called, is allocating this purchase price of INR147.50 crores, with regard to all the assets and liabilities, intangibles, brand, etc.

So out of this, if you see on the balance sheet, on 31st March, you see an increase in the goodwill number from existing INR5 crore of goodwill of Medinova to INR119 crore. So the movement in the goodwill number that you see is INR114 crore is on account of this acquisition of PH, that is one. And there are 2 more intangibles that are recognized during this purchase price allocation, that was the valuer has allocated INR14 crore towards the brand and then towards the noncompete, as you know, we have 5 years of noncompete clause. As per the accounting standard, we need to recognize the value towards this noncompete, which was INR3 crores was recognized, which will be amortized over the period of that 5 years of non-compete fee, okay? So these are the 3 broad numbers that you see on the balance sheet because of the PH acquisition.

Abdulkader Puranwala: Okay. And so the rest would be towards working capital on the gross lock. Is that correct?

Narasimha Raju: Yes. Yes. Majorly the fixed assets and the net assets position, which will be approximately that INR16 to INR17 crores of assets minus liability. The net position I'm talking about, including working capital and everything.

Abdulkader Puranwala: Got it. Got it. Second question on the revenue split of PH. So would it be fair to assume that it will be more inclined towards the radiology business and the pathology in terms of integration would be a pretty small amount for I mean, I'm talking about the standalone revenues of PH.

Sivaramaraju So in Q4 of the current financial year, they reported 60% revenue from pathology and 40% from radiology. Like if you see at Vijaya level 65-35. But at PH level, it varies between the range of 55 to 60 from pathology and the rest from radiology. I think 5% to 10% is the difference here.

Abdulkader Puranwala : Understood sir, Thank you.

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

Rishi Mody: Hi, Can you hear me?

Suprita Reddy: Yeah, Yeah Rishi, Good morning

Rishi Mody: Good morning Suprita, So congratulations on the good set of results. To start with, just need a clarification on the hubs announcement that you did. You're saying 10 hubs in the next couple of years, 6 of these you've signed leases for. And then you mentioned some 2 hubs that you signed leases for this. Could you clarify here?

Suprita Reddy: So we said in the next 2 years, we would be doing about 10 to 11 hubs with a few spokes, and about 5 would be in Pune, which are more or less in clear visibility, leases are signed because that's something that we've acquired. We need to capitalize on that. So 5 of those is signed. And when it comes to another 2, that was referred to the East, so close to about 6 to 7 are already signed and 2 more are in the pipeline.

Rishi Mody: Okay, So 2 are in Kolkata.

Suprita Reddy: Yes.

Sivaramaraju: When we say 6, it's across, Rishi, out of which, 2 are in Kolkata.

Rishi Mody: Okay. And any guidance on the numbers of spokes you are planning to put up like where and how many?

Suprita Reddy: So Rishi, I would probably be not be able to give you an exact split because we're trying to build out the hubs in this Pune region, which is new. And 3 of their centers have CT and MR, which are hubs according to our categorization. And they have 3 spokes. So until and unless I build out another 5 hubs in Pune, it does not give me headway into building out spokes because I cannot create that network.

So keeping that 2 or 3 years of visibility in mind, that's the reason why we went ahead and in fact, overstressed ourselves and closed off the 5 leases without any further delay. So even if these come up in about 3 or 4 quarters, that region alone would be ready to take up another 12 to 15 spokes, Pune. And coming to East, we have 1 center, so 2 more hubs will again give us headway to add more spokes there. Some spokes, you will be seeing about 5 to 6 coming up in our core geographies in the next few quarters.

Rishi Mody: Okay. Got it. All right. Second, I wanted to understand your -- you just mentioned that you hired a consultant from New Delhi to lead the Kolkata hub.

Suprita Reddy: Yes. He's a radiologist, Rishi. Like all of our other doctors who come under consultancy professional fee, we've brought in this person also all the way from New Delhi to report cases.

Rishi Mody: Got it. And finally, just a question for Narasimha. If you could give me the fair value assumptions that are going into the goodwill calculations, like what are the growth rates? What is the discount rate and terminal value and how terminal growth rate and after how many years are you putting those numbers in?

Narasimha Raju: So, Rishi, this is carried out based on the IND AS business combination accounting perspective, okay? So, what they do is, first they'll arrive at the existing numbers of the plant and machinery and other working capital numbers and then they will arrive at a brand and non-compete. And then the residual value is attributed to the goodwill. They will test for an impairment of this goodwill. So you will not have a separate competition as such, but this will be out of the INR147.5 crores, once all the assets and liabilities are assigned a value, the residual value will be allocated to goodwill, which should be tested for impairment year-on-year based on the future projections.

So from an accounting perspective, when you take a projection, you might not consider a future capex, future revenue potential of these centers. So it's like, okay, currently, the valuer can consider only the 3 hubs and the 3 spokes, but as you know, we'll be adding 5 more hubs in the next couple of years from the Pune perspective. So that will not be captured in these projections because it's only for the goodwill impairment testing purpose.

Rishi Mody: Okay. So like what will trigger an impairment? Like when will you recognize an amortization on this goodwill?

Narasimha Raju: So Rishi, based on our internal assessment, I don't think there will be a chance for any impairment on the goodwill because even if you make projections on just 3 hubs and 3 spokes at the current revenue run rate of INR45 crore, you see in the financial year, it's INR45 crore. In this current quarter, we reported INR12 crore. So the annual run rate is between INR45 crores to INR48 crores run rate, with a 40% EBITDA margin. So without even further expansion, the goodwill is not going to be impacted to P&L by this impairment. But on top of that, what we're planning is we're trying to add 5 hubs, in the next couple of years. And so what I expect is that in the next 4 to 5 years, I see this revenue of INR45 to INR50 crores should at least triple the current number. There's no question of impairment on the current goodwill.

Rishi Mody: Okay, Alright. Got it. Thank you. That’s it from my end

Narasimha Raju: Okay, Thanks Rishi.

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

Jainil Shah: Thank you for the opportunity. My question is on the capex outlay for the next 2 years.

Narasimha Raju: Hi Jainil, as we just discussed, okay, on the capex plan, we would like to add at least like 10 hubs in the next couple of years. Along with that, once these hubs are established, then we'll have opportunity to add spokes in these new geographies, that is Pune and Eastern geographies. So from capex requirement perspective, based on our internal estimates for the next 2 years, we expect around INR200 to INR220 crores of capex. Out of which, what we expect is, at least like a INR120 crores of capex for Pune region. So in Pune region, Jainil, out of these 5 hubs, what we expect is that one hub will be like a flagship hub with a PET CT, gamma camera just like how we added all the modalities in our recent Punjagutta center in 2022.

So like that, we would like to have all modalities. It should be like a flagship facility of Vijaya PH in Pune. So one centre will be state-of-the-art facility. Apart from this, even in our core geographies, Jainil, what we're trying to do is even in the existing network, we see in lot many centers, there is still potential to add further modalities. Like in few of the centers, what we have done is that if there's one ultrasound machine because of the patient footfall load, we added a second ultrasound machine. In this year, in one of the Tier 2 locations, okay, where the footfall in a hub, where the footfall is almost close like a 300, there's only currently one MRI machine, we are planning to add a second MRI machine over there in our network in Tier 2.

So considering these 10 hubs and also adding new modalities in the existing centers because of the higher footfall, we expect the total capex to be in the range of around INR220 crores for the next 2 years, out of which INR120 crores, we expect to be for the Pune region.

Jainil Shah: Sure. And just a follow-up. So we're already generating about INR180-INR200 crores of cash. And our capex is about INR100 crores, so we'll be adding another INR100 crores each in the next 2 years. So are we also looking at inorganic opportunities in out of our core region?

Sunil Chandra: Inorganic is always a question mark. So I think what I can only say is that if we find suitable opportunities, we will look at them. And the balance sheet supports us, I think. As you know and as you mentioned, the capex that Raju just mentioned is probably taken care of even by internal accruals. So inorganic growth is always depending on whether we find the right fit, right asset, right valuation. And we can't answer that question right now because we don't have anything to tell you about. But yes, we are open to that.

Jainil Shah: Sure. Got it. But just one for the -- I mean, where would you look at it? Would it be Mumbai? Would it be South? Or is there any chance for a North entry? I mean, just your thoughts.

Suprita Reddy: It's not about probably the state, Jainil it's about creating that network. So it's that hub and spokes. So down South towards the East is what is of our core interest. And West we already have Pune hands full, but if an opportunity that's something that is absolutely making sense to us even Mumbai, we would definitely look at it. There's no way that we will not. I do not have a geography to tell you, but definitely, we're not looking at something up North. Our core geographies are down South towards the East.

Jainil Shah: That's helpful, Thanks a lot

Suprita Reddy: Thank you

Moderator: Thank you, Ladies and Gentlemen, in order to ensure that management is able to address questions from all the participants in the conference please limit your questions to 2 questions per participants, should we have a follow up question we request you to rejoin the queue.

Moderator: The next question is from the line of Anshul Agrawal from Emkay Global Financial. Please go ahead

Anshul Agrawal: Hi, Thank you for the opportunity. So my question is on the hub additions. While we are saying that we plan to add 10 hubs in the next 2 years, we have already signed leases for almost say 6 hubs. Do we think that we can grow beyond this as well? Can we add more hubs beyond these numbers that we are quoting because we are seeing better traction or quicker traction in breaking even for hubs. So is there a reason why we or is there a chance that we can grow more aggressive?

Suprita Reddy: We can, Anshul. There is no end to that number, but the problem is we also -- it's just not about signing a lease or opening up a center, we also need the team, right, the talent, the pool, getting the staff ready, qualities, SOPs, processes, training. It's like a never-ending chapter. So it's a chain of -- so I think we -- normally we would do 4 hubs. We've gotten that to 5. Now we're saying 10.

So if we feel that we're able to maintain that credibility, the brand recall and give the same kind of customer experience and service without compromising on that, we would definitely do it. But we are comfortable, at the moment, with this number, keeping these factors in mind where we actually give a good experience to our customer. It's the team that is difficult to build. It's not the capex or the treasury or the number of leases we'll be able to sign. So if we're comfortable with that, we will definitely go ahead and do that.

Sunil Chandra: Also, Anshul, the spokes are where we, you know -- the model is the hubs and spoke. So when we do hubs, we have to also plan for the spokes. So that is also a big number, right? When you do 10 hubs, you're looking at multiple of that in terms of spokes.

Anshul Agrawal: Yes. Just to follow-up on that. So typically, considering that these are newer geographies or non-core geographies, what kind of number of spokes are we envisaging for each hub in this non-core geography?

Suprita Reddy: So it was never a ratio is 1:5 or 1:6. It's about the density, the population, the residential area and all that, that we take into account when we open hubs. Even if you look at our core geographies, there are certain hubs, which would cater to 13 spokes. And some would only cater to 3 spokes. So it's not about the number. It's about the -- probably the -- you have to be right there in the middle of a residential area. So the density, the population is what we look at and map this out.

Anshul Agrawal: So, I believe, while sort of signing up leases for these hubs also, you would have done those studies too.

Suprita Reddy: The hubs are normally in areas where they will be in a very upmarket high-end street areas. So if you look at the Kolkata, it's right on the VIP road close to the airport. But the spokes are going to be in multiple inner geographies, right, Anshul. So the hubs are always on main street. We don't look at residential population, we look at residential population for spokes.

Anshul Agrawal: Got it. Thank you. My second question was on margins. Like obviously, the Kolkata hub has fared better than our earlier expectations. Do we foresee -- or just wanted to understand your thought process around margins going forward? As we mentioned, as Raju sir mentioned that you know core margins would continue to be around 40%. But the new centers would take some time for ramping up, which could impact margins, say, beyond FY '26, if currently in FY '25, we are going to add more hubs. So would margins get impacted in FY '26?

Sunil Chandra: I think Raju answered that. So because there is growth happening even in the existing centers as well as we are adding spokes around hubs that have been added earlier, the overall dilution, as he mentioned, will not be significant.

Suprita Reddy: Might be 1% or 2%, but that's also because of you building out the team and getting that market ready. So 2028 would look prettier, right?

Anshul Agrawal: Okay, just one small question. On the capex number of -- capex guidance of around INR200 crores to INR220 crores, bulk would be hub-and-spoke capex or are we also accounting for any other maintenance, IT upgradation kind of capex? Is that accounted for? Or will that be over and above this number?

Narasimha Raju: Bulk will be for 2 or 3 hub-and-spoke new center additions, okay, our new equipment that is getting added in an existing center. But there might be a replacement capex, okay, any old machinery getting replaced, etc. Generally, what we see, the trend is that between like INR10 to INR15 crores, we might need towards the replacement capex, but depends upon the future activity that is.

Anshul Agrawal: And that INR10 to INR15 crores would be included in this INR220 crores guidance. Correct?

Narasimha Raju: Currently for our digital, okay, we spend at least like INR2 crores to INR3 crores. It's not a significant number. From last couple of years, the capex in terms of digital initiatives, is around INR3 crores each year.

Anshul Agrawal: Got it, sir. This would be included in this INR220 crores guidance, right?

Narasimha Raju: Which one? The replacement capex you're talking?

Anshul Agrawal: The replacement capex.

Narasimha Raju: So that will be an additional number. I'm talking about INR220 crores towards the new centres.

Anshul Agarwal: Got it, very clear. Thank you so much.

Narasimha Raju: Thank you.

Moderator: The next question is from the line of Sumit Gupta from Centrum PMS. Please go ahead.

Sumit Gupta: Hi, good morning, thank you for the opportunity. Sir, majority of the questions have been answered. So I just want to understand about the debt structure going forward. So could you please throw some light on that.

Suprita Reddy: Sorry, Sumit?

Sumit Gupta: Debt. So how much of net debt do you expect over the next 2 to 3 years?

Narasimha Raju: So as I mentioned, currently, we're having a treasury of almost close to INR185 crore and currently, the cash back is going to be at a 28% - 29% level. So you will be generating almost close to INR170 crores to INR190 crores of free cash flows every year. And so I don't think we need to take any debt because the next 2 years, the capex requirement is almost close to like INR220 crores for the new centres with the 28% of cash back coming in and with this INR185 crore, unless you do an inorganic acquisition, you don't need a debt. If you do any inorganic acquisition, then you might need to raise a debt.

Sumit Gupta: Understood. Thank you sir.

Narasimha Raju: Thank you

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

Naman Bagrecha: Hello

Suprita Reddy: Yes Naman, Good morning.

Naman Bagrecha: Good morning, Thanks for the opportunity and Congratulations on the good set of numbers. I just want to understand on the 5-hub expansion mainly that you are going to do, could you give us some guidance in terms of when can these hubs basically get breakeven in how many quarters once they are operationalized?

Sivaramaraju: So I think post acquisition, we are yet to start our first hub. So see the idea is like -- we expect these hubs to breakeven, maybe they may take one more quarter extra, right? Because PH is already known name in the market. It's not a new brand there. It's only a new hub addition. So we expect these hubs to breakeven within 1 year. But again, we'll have to wait and see because that's new for us. We have to at least see the results that the first hub is going to give us. But these locations are the locations that we have finalized. They are good locations with a lot of doctor network and hospitals being present there. So our guidance would be about close to 1 year.

Naman Bagrecha: One year. Okay. Got it. And the 5 hubs that you are looking at whether -- I mean, these will be -- I mean, majority of which will be in FY '25 or still or we are looking at, let's say, towards FY '26?

Sivaramaraju : I think 2 to 3 should come in FY '25. And maybe 2 more in either Q1 or Q2 of FY '26.

Naman Bagrecha: Alright. Okay. On the margin front, I just wanted to ask. In the quarter -- I mean, this quarter, if you look our wellness segment contribution had improved by almost 200 bps. So was it because of PH? Or was it because of, let's say, excluding PH business because PH, I believe has higher contribution towards wellness business versus our own wellness business. Is that understanding correct?

Sivaramaraju: So it's a mix of both. Like you rightly said, PH has higher contribution from wellness. So basically, also we have seen increase in base wellness business here in Hyderabad, Andhra and Telangana. So it's a mix of both. Almost -- I think last year, we have closed around 13% from wellness. This year close to 13.5% for the Vijaya Diagnostics from wellness. And because of PH higher contribution from wellness, so at a company level it is now 14%.

Naman Bagrecha: Okay. So 13.5% would be from our existing business.

Suprita Reddy: 13.5%, we've always ranged between 12% to 13.5% like we've mentioned earlier. So it's also kind of a little seasonal, but 13.5% is from the core geographies and the Vijaya network and 0.5 got added because of the PH's new addition.

Sunil Chandra: PH is not very large in terms of the total size, right?

Naman Bagrecha: Yes. So I missed one comment. You said that the current revenues of PH, which is almost around INR45 - INR50 crores annualized run rate. It will triple in how many years, you said?

Narasimha Raju: 4 to 5 years. Because at least it will take like these 5 hubs to commence in 2 years, then the full revenue potential, in our experience, we see like 3 to 4 years it will take to see the full revenue potential from a hub centre. So that's why, at least we'll have to give like 4 to 5 years' time to see that current run rate of INR45 to INR50 crores to at least like a triple from that number.

Naman Bagrecha: Okay. Okay. And I believe the new expansion that we are doing in Pune and other regions also, the asset turnover would be largely 1x, right?

Narasimha Raju: 1:1.

Naman Bagrecha: Yes, 1:1. Okay. And then one more question. I mean, could you give some time line in terms of when will Gulbarga get breakeven?

Sivaramaraju: I think it should breakeven in 3 quarters. We just completed 1 quarter. So I think it should breakeven in the next 2 quarters.

Naman Bagrecha: So in next 2 quarters, okay. And largely, if we see -- I mean, we have seen competitors increasing price hikes. What is stopping us from any price hikes in our core geographies?

Suprita Reddy: We normally -- like we said, the founder's vision was trying to keep prices affordable and get growth through volume and new customers. Until and unless, we see a significant increase in price and input costs, we do not pass it on to the customers. And for probably the volume and the growth, even we haven't seen a significant increase being asked by some of the vendors, and it's mostly been in very specialized setting, and that's why you're seeing a price hike of only 1% to 2% on the overall test menu. When we see that and there is an increase, definitely, we will make a change.

Naman Bagrecha: Alright. And just the last book-keeping question. Just wanted to know what would be the COVID, let's say, revenue, I believe, it will be very miniscule for the full year.

Narasimha Raju: Insignificant currently.

Sivaramaraju: Point -- 0.2% to 0.3% that's all.

Narasimha Raju: 0.2%, 0.3%.

Naman Bagrecha: So close to around INR1 crore?

Narasimha Raju: It is less than a crore.

Naman Bagrecha: Less than a crore. Okay. Got it. Thanks.

Moderator: The next question is from the line of Girish Bakhru from OrbiMed. Please go ahead.

Girish Bakhru: Good morning, Just the first question, a clarification on this 145 centers number, which includes, of course, the PH centers. 12 are collection centers, right? Earlier, this was not part of the mix. So just wanted to get a split of spokes, hubs and collection centers in this.

Sivaramaraju: So Girish, out of these 18 centers, 95% of the revenue coming from these 6 centers. So that is the reason we just talked about these 6 centers, 3 are hubs and 3 are spokes, and the rest 12 centers are collection centers.

Girish Bakhru: Yes, that I'm aware. So total hubs in the network would be how much now and how much spokes?

Suprita Reddy: Our entire network.

Sivaramaraju: Entire network. So closely around 35 hubs, and the rest are spokes. In 145, 35 are hubs.

Girish Bakhru: Understood. And when you talk of, of course, 5 more hubs, one being the flagship, one that you will launch in Pune, with your assessment of Pune market, is this flagship something that may have a potential to reach to the level of Himayatnagar or Punjagutta? Can you give some clarity on that?

Suprita Reddy: Definitely, it should Girish, if we're going to be investing in creating a state-of-the-art center like that. But in terms of the time, I may not be able to give you clarity on that because I've not opened a single hub after the PH acquisition. But given probably a few years, it will definitely reach the Punjagutta level because it's going to be having a PET CT and state-of-the-art lab with most of the tests being performed in Pune itself.

And also with this comes out building a large team. They only have 3 hubs as we speak now. So we need to build out on a large team of consultants for both pathology, radiology and the other facilities. So I would definitely -- I'm very confident it will reach Punjagutta level, but probably not confident in giving you those time lines right away.

Girish Bakhru: Understood. But like Hyderabad, of course, has been a very strong market for you and you actually continue to show double-digit growth there. Relatively, Pune can be faster growth market initially?

Suprita Reddy: Yes. Initially, yes, because we don't see a very significant integrated diagnostic chain like -- you would see a lot more in our core geographies. In Pune, I would definitely say the growth would be faster. But like we told you, we need to open up a couple of hubs to get a better understanding of the market to give you a better clarity.

Girish Bakhru: Understood. And just last one on the wellness, 14%, of course, this number is slowly increasing. You had clarified in the past that there is largely no radiology in wellness, right? Except for echo, USG and probably...

Suprita Reddy: Yes ultrasound, X-ray and some of the very high-end packages have some amount of high-end radiology like a CT and MR, but that should be relatively very low when we look at this entire 14% number.

Girish Bakhru: And when corporates are signing with you, they are not taking high-end packages?

Suprita Reddy: No, mostly because see, the age group in a corporate would be between that 35 to 45, and it's the active workforce, right? So they wouldn't be needing that kind of high-end imaging, in fact. This is more for older people. We've not seen that come as a request from any of the large corporates till now.

Girish Bakhru: Thank you.

Suprita Reddy: Thanks Girish

Moderator: The next question is from the line of Dheeresh K Pathak from WhiteOak. Please go ahead.

Dheeresh K Pathak: Hi , Thanks for the opportunity. I don't have a question. I just want to more like comment and ask. So from our point of view, we would like you to invest in management bandwidth and open more hubs than what you have guided for because I think the unit economics are quite good in building a low base. I think there is an opportunity to be more aggressive on competition because I heard few questions around margin compression as we open hubs. That is not of concern to us. And I just want to see if you have any comments in that direction.

Sunil Chandra: Yes Dheeresh, in fact we would be happy to do that. But again, as we have mentioned multiple times, there are constraints in operational scaling up. So we are going at the pace at which we feel that the Company can manage that growth.

Dheeresh K Pathak: And so what I wanted to ask was that if you can invest at an organizational level, increasing the bandwidth so that you can add more hubs per year.

Management: Yes. So again, fully understood. Capital is not a constraint. It's always about people and getting...

Suprita Reddy: It's also finding the right talent with the right wavelength, right, Girish. It's skilled manpower. 70% of our ops run on skilled manpower. As we speak, we do different things. That's also the reason why we do a lot of skill development programs and all that. But building that is not as easy as probably we speak. So that's something that we're building. That's why we got from 4 to 6, 6 to 10. And if we feel we are confident, we'll definitely be adding a lot more hubs.

Dheeresh K Pathak: Thank you so much.

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

Naman Bagrecha: Thanks for the opportunity again. Just one question. I mean, on the PH business, what could be the -- I mean, what are your internal targets in terms of the current base business volume growth -- patient volume growth, excluding the, let's say, assuming that the -- I mean, excluding the new hubs that you're going to open?

Sivaramaraju: So within the existing network, just with 3 hubs and 3 spokes, they get 95% of the revenue. So they're generating close to INR42 crores -- more than INR40 crores plus from these 6 centres. I think that itself is a very good number for their capacity. So we foresee for next 1 to 2 years from the existing network, the growth will be in single digit, right? And once we start adding the capacity and a few more additional modalities there, that is when we may see some more growth coming from that entire network.

Naman Bagrecha: Okay. Okay. So maybe more of a low double-digit -- I mean low double-digit number, including the...

Suprita Reddy: It's a single digit number, Naman, because although like Siva said, its existing network of the 6 centres because you'll also have to take into account the capacity issues of those centers. Those are centres that have already reached full capacity. Until and unless we add and declutter these centres, we will probably not be able to grow footfalls in the existing centres. It's not because of any other reason, it's because of a capacity issue.

Naman Bagrecha: Okay. No. So what I was saying is that with the new hubs opening, that could be more of a low double-digit number.

Suprita Reddy: Absolutely, new hubs opening, like I told you, we will definitely see a faster growth than we see here. I think double-digit number is what we would be looking at. But like we said, we would need at least one has to open, and we look at that happening probably in the next after 2 quarters, right? So we'll be able to give you guidance on that then.

Naman Bagrecha: Alright. Thanks

Moderator: The next question is from the line of Sriram R, an individual investor. Please go ahead

Sriram R: Thanks for the opportunity. Just want to know, do you track patient wait time or patient turnaround time? And also, can you elaborate on the efforts that are taken to improve customer experience?

Sivaramaraju: Yes, Sriram. So of course, right, customer experience is our priority, right? So we do track patient wait time. And generally, we have high wait times for high-end modalities like MRI, CT. For a simple blood test etc., I think it's generally done in less than 10 minutes. And sometimes in few of our old centers, we have a wait time for our billing -- at billing counters in the morning, we generally experience 20-25 minutes of wait time.

So in order to improve the customer experience, we have launched the digital app and also e-commerce website where the patient can book tests online, come to the center directly, drop the blood sample and go back, right? And also in the coming to centers for MRI, etc., if the wait time is high, we generally try to send that patient to nearby Vijaya center if we have one more MRI in 2 to 3 kilometers radius, right? We generally try to send direct that patient to the center so that they can get the scan faster.

Suprita Reddy: So turnaround time is something that's also a regulatory requirement as per your NABL and NABH. So we track this patient as soon as they enter, gets registered in one of the centers till the report is released through the app or through a WhatsApp message, Sriram. Like Siva said, there have been multiple ways that we try to declutter these centers.

Now supposing we have a center, like I would give you an example, in one of our mature centers in Hyderabad where we were seeing a footfall of 200 and the wait lines would be unending, we said we will add 2 more collection centers, what we call type E center where people who have only pathology could actually access those centres, they're not coming to this long wait of this centre. We have the app to do a booking. We have e-commerce. We encourage customers with pure pathology to do home collection. Our call centre always tells them that we'll send somebody. So for a pure pathology routine specialty test, Vijaya's TAT would not be more than 6 hours as we speak today. In high-end imaging, we would be the only center in India, where even if something like an MRI epilepsy protocol is done, if the test is performed, the report would be released within 3 hours of the test being performed. The only difficulty is getting the test to be performed is when we actually look at sending customers to different centres so the wait time itself is shortened and the experience is a little better for them.

Sriram R: Okay. But the trajectory, let's say, in your legacy centres, how has it fared? I mean, 3 years before and now, are you seeing some sort of difference?

Suprita Reddy: Absolutely. In fact, 2 years back, when we moved from our older legacy software to web-based software itself, we saw a lot of improvement in TAT. Then we also saw that when we started, there was a time I wouldn't know the exact year, we started close to about 10 to 15 type E centres to declutter these centres. We saw an improvement in TAT. Today, our main centre in Himayatnagar with close to 800-900 footfall, you will see only a 10-minute waiting for a bill to happen. Whereas probably 3 years back, that would take half an hour.

Sivaramaraju: And Sriram, I would like to share one data point, right? If you see maybe in 2019-20, when we were doing close to 400, 450 MRI CTs per day, we used to release 75% of the reports within 3 hours TAT. Otherwise for MRI CT, generally in many centers, it's like 12 hours, and you went -- in hospital if you do it, it is 24 hours for the reporting. And today, with close to 900 plus MR, we are releasing 85% of the reports within less than 3 hours. There will be outliers because of the difficulty in scan, complex case, etc. But 85% of the reports at that scale within 3 hours, I think is a very good TAT.

Sriram R: Okay, that’s great to hear. Thank you so much and all the best.

Suprita Reddy: Thank you

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

Amey: Thank you for taking up my follow up question. I just had one question or rather wanted to have view of ma'am on the emerging trend basically. So the point-of-care systems, which we witnessed during the times of COVID, when we saw a lot of PCR testing happening. Now companies are trying to expand this thing into other disease platforms as well. So how do you see this change coming in? And is it really a threat to...

Suprita Reddy: I'm sorry. I'm not able to hear you very clearly. If you could repeat it would be...

Amey: Sure. What I was asking, we saw during the times of COVID the point-of care system that emerged. We saw PCR testing happening for the COVID, etc. Now companies are trying to leverage this platform into the other diseases profiles basically. So you see that thing as a threat to diagnostic companies like us? Or how do you see this POC or point-of-care system evolving over a period of time?

Sunil Chandra: So basically, point-of-care is not new. It has been around for a long time. And you have to differentiate between POC and PCR. Where PCR is considered as confirmatory gold standard kind of a test, whereas point-of-care is usually done more from a screening point of view. So whether it is in COVID or in other indication, the market is very different for both. Somebody who gets a point-of-care will probably need to go and again and get a confirmatory test. And usually in the diagnostics space, we are focused on giving -- using technologies where the accuracy and sensitivity are fairly high. So I'm not sure, although point-of-care has been talked about a lot.

Suprita Reddy: It also has a limitation Amey, in terms of number of tests that you can do in point of care. And like Sunil said, that's mostly done for emergency testing. That's why you see it in more of the ambulance services and emergency services. And they will have to be confirmed and retested with a confirmatory test.

Amey: Got it. So as in that market is expected to stay with the diagnostic labs, basically, what you mean to say, rather than those testings happening at the centres?

Suprita Reddy: Yes.

Sunil Chandra: And just to add, PCR itself, we started PCR in 2000. So we were doing other -- maybe we were doing tuberculosis testing or HIV or hepatitis. When COVID came, it just happened that...

Suprita Reddy: PCR suddenly became -- came into the limelight and became a superhero. So it's been an old method. It's a confirmatory testing method for a lot of retro diseases.

Amey: Sure. Thank you so much ma'am.

Moderator: Thank you. That was the last question for the day, I now hand the conference over to management for closing comments.

Suprita Reddy: I would like to thank everyone for attending this call. I would also like -- I hope we have been able to answer all of your questions. Should you need any further clarifications or like any other information about the Company, please feel free to reach out to us. Thank you.

Moderator: Thank you. On behalf of YES Securities Limited, that concludes this conference. Thank you for joining us, and you may now disconnect your lines. Thank you.