Dr Lal PathLabs

May 15, 2024

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

Symbol: LALPATHLAB

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

Scrip Code: 539524

Sub: <u>Transcript of Q4 & FY24 Earnings Conference Call</u>

Dear Sir/ Madam,

Pursuant to Regulation 30 of SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015, please find attached herewith Transcript of Q4 & FY24 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: 2024.05.15 19:34:54 +05'30'

Vinay Gujral
Company Secretary & Compliance Officer

Encl.: As above

Dr. Lal PathLabs Limited

Q4 FY24 Earnings Conference Call

May 10, 2024

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 (Designate) • Mr. Ved Prakash Goel – Group Chief Financial Officer
Participants who asked questions	• Binay Singh - Morgan Stanley • Amey Singh – JM Financial • Kunal Randeria – Axis Capital • Nitin Agarwal – DAM Capital • Pranav Chawla – Antique Stock Broking • Prakash Kapadia – Spark PWM • Anshul Agarwal – Emkay Global • Jainil Shah – JM Financial • Shaleen Kumar – UBS Securities India • Dheeresh Pathak – Whiteoak Capital • Sumit Gupta – Centrum India

Moderator: Ladies and gentlemen, good day, and welcome to Dr. Lal PathLabs Q4 FY24 Earnings Conference Call. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during this 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. Siddharth Rangnekar from CDR India. Thank you, and over to you, sir.

Siddharth Rangnekar: Thank you, Michelle. Good afternoon, everyone, and welcome to Dr. Lal PathLabs Q4 FY24 Earnings Conference Call. Today, we are joined by senior members of the management team, including (Hony) Brig. Dr. Arvind Lal, Executive Chairman; Dr. Om Prakash Manchanda, Managing Director; Mr. Shankha Banerjee, CEO (Designate) and Mr. Ved Prakash Goel, Group CFO.

I would like to share that some of the statements made on today's call could be forward-looking in nature and actual results could vary from these results and forward-looking statements made. A detailed statement in this regard is available in the results presentation, which has been circulated to you and is also available on the stock exchange website.

I would now like to invite (Hony) Brig. Dr. Arvind Lal to share his perspectives. Thank you, and over to you, Dr. Lal.

Dr. Arvind Lal: Thank you, Siddharth. Good afternoon, and a warm welcome to all participants on the call. We are here to discuss the Q4 FY24 earnings performance of Dr. Lal PathLabs. I would like to commence by discussing my insights into the changing market dynamics and the advancement achieved at Dr. Lal PathLabs.

As we approach our 75th/Platinum anniversary this year, Dr. Lal PathLabs continues to be a trusted healthcare partner, renowned for its commitment to quality, accuracy, accessibility and affordability. Our marketing campaign, “Bharat Ka Vishwas”, exemplifies this dedication and reinforces our position as a cornerstone of nation's diagnostic landscape.

Our relentless pursuit of excellence in diagnostics has earned us numerous complements and the confidence of patients and physicians alike. We remain focused on deepening our presence in underserved Tier-3 and Tier-4 markets, while leveraging our robust digital infrastructure to differentiate ourselves and achieve significant milestones in network rollout. The recent introduction of a custom-built logistics solution further enhances our ability to serve our customers better.

The integration between Dr. Lal PathLabs and Suburban Diagnostics continues to yield promising results in the Western market, where we have established a growing presence. We are making targeted investments in both marketing and process efficiencies to strengthen the brand while elevating the patient experience. Our reference lab in Mumbai has begun to receive increased volumes of various clusters across Maharashtra for both routine and semi specialized tests. Our collaborative approach is enabling us to combine inherent strengths and provide patients with a wide array of tests across multiple categories with speed and precision.

Looking ahead, our growth trajectory will be fueled by the ongoing shift from unorganized to organized, more awareness on accurate diagnosis as well as focus on wellness portfolio, among others. We remain committed to expanding our network and elevating our service standards through operational excellence and technological advancements. Despite increased competition, we are strategically positioned to deliver sustained growth and further consolidate our market share, driven by our comprehensive test portfolio and competitive pricing strategy.

That concludes my initial remarks. Before I hand over, I would like to extend a note of appreciation for Bharath and wish him well in his future endeavors. As you know, we will be having Shankha Banerjee, leading the business as CEO, going forward, and he is here today. I welcome him into this role.

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

Dr. Om P. Manchanda: Thank you, Dr. Lal, and welcome all of you to our call today. I shall walk you through the evolving industry scenario and progress in our strategy.

I'm happy to announce that we have achieved double-digit top line growth on a year-on-year basis. This growth has been accompanied by a significant jump in our operating and net margins, primarily driven by efficiencies of scale and productivity initiatives.

Our strategic focus continues to remain widening and deepening the brand's presence geographically, thereby driving sustainable volume and value growth. There is also a sharp focus on expanding into Tier-3 and Tier-4 towns organically in LPL core markets. And in the rest of North India, we have made good headway with this strategy. Additionally, we are also establishing 20 new hub labs under the DLPL brand name to broaden our reach. As the year progresses, we shall undertake to add more such hub labs.

We have identified key growth areas, aiming to strengthen our presence in Mumbai and in select parts of Maharashtra via Suburban. In order to boost momentum in Suburban Diagnostics itself, we are promoting higher sampling and enhanced branding.

Our 'Swasthfit' brand, now a consistent revenue driver, comprising 22% to 24% of the total revenue is being extended to many other markets. We are moving towards bundling specialized tests as well. The medical centers of excellence that we have developed are scaling well, rendering better patient engagement and outcomes.

Being guided by a strategic focus on sustainable volume growth, these initiatives would attract patients from unorganized labs, encouraging high and specialized test prescriptions.

Our investments in technology and digital infrastructure are yielding tangible results, enhancing our brand visibility and patient interactions. We continue to push ahead with brand initiatives in select markets, while also executing a strategic agenda for network and test menu expansion.

We remain vigilant of the market dynamics and evolving the regulatory frameworks, adapting our approach to ensure compliance and sustainability.

As we press forward, maintaining a robust financial footing is paramount. With a focused approach towards cost optimization and strategic investments, we aim to uphold our financial metrics and cost structure.

I Now hand over to Shankha to delve deeper into our strategic initiatives and operational highlights. Over to you, Shankha.

Shankha Banerjee: Thank you, Om. I extend a warm welcome to all participants joining this call today. I will proceed to share the business and operating highlights with you.

I am happy to share that we have closed the year on a strong performance at both top line and profitability. In Q4 FY24, we achieved a revenue of Rs. 545 Crore, marking an 11.1% growth. This was made possible by serving 6.5 million patients and testing 19.1 million samples, reflecting a sample growth of 8.1% compared to the same period last year.

Our Q4 FY24 revenue per patient stands at Rs. 833, a 3.2% growth over Q3 FY24, primarily driven by favorable mix management. In order to intensify our efforts in key clusters of Western and Southern India, we are expanding our lab infrastructure. This is being executed in a time-bound manner and alongside, we are building a robust ecosystem of collection centers and pickup points.

Our flagship bundle program – 'Swasthfit', continues to gain healthy traction, contributing to approximately 24% of total revenues in Q4. Building on this success, we would continue to expand its reach and develop programs to sustain the growth trajectory. Furthermore, medical centers of excellence, such as LACE and LCoRD, are solidifying their positions within the medical community and among patients.

Leveraging our digital infrastructure, which includes advanced AI and data analytics, continues to drive efficiency and elevate the overall patient experience. Technology lies at the heart of our operations, and we are exerting every effort to maximize the use of our assets to achieve sustainable and profitable growth.

To conclude, I would like to say that we are moving in the right direction. Our performance going ahead will be fueled by expanding our reach, enhancing our digital capabilities and focusing on product innovation and value-driven offerings. Thank you for your continued support and trust in our journey.

That concludes my opening thoughts. I would now request Ved to take you all through the financial performance. Over to you, Ved.

Ved Prakash Goel: Thank you, Shankha. Good afternoon, everyone, and warm welcome. I'm sharing some of the key financial highlights for Q4 and full year FY24. Revenue for Q4 FY24 came in at Rs. 545 crore against Rs. 491 crore last year same quarter, a growth of 11.1%. Revenue for the full year came in at Rs. 2,227 crore v/s Rs. 2,017 crore in FY23, a growth of 10.4%. Revenue per patient for Q4 is Rs. 833 and full year is Rs. 806 v/s Rs. 750 in the previous year, a growth of 7.5%.

Sample per patient for Q4 is 2.91 and 2.83 for the year, a growth of 4.7% and 5.3%, respectively. EBITDA for Q4 FY24 came at Rs. 145 crore v/s Rs. 116 crore in Q4 FY23, registered a growth of 25.1% with an EBITDA margin of 26.5%. For full year, EBITDA came in at least Rs. 609 crore v/s Rs. 490 crore in FY23, registered a growth of 24.4% with an EBITDA margin of 27.4%. PBT for Q4 FY24 came in at Rs. 120 crore, registered a growth of 44.1% with a margin of 22%. FY24 PBT is Rs. 505 crore, registered a growth of 47% with a margin of 22.7%.

PAT for Q4 FY24 came in at Rs. 86 crore v/s Rs. 57 crore last year same quarter, registered a growth of 50.8% with a margin of 15.7%. Full year FY24 PAT is Rs. 360 crore -- sorry, Rs. 362 crore, registered a growth of 50.3% with a margin of 16.3%. EPS in Q4 FY24 is Rs. 10.1 and Rs. 43 for the year with a growth of 49%. Cash and cash equivalent as on March'24 is Rs. 960 Crore. Net of borrowing, it is Rs. 877 crore. Our receivables and inventory have further improved. Now, the DSO as on March 31, 2024, is only 25 days of credit sales and inventory is at 30 days. We still have a negative working capital of 26 days.

At last, we are pleased to announce that the Board of Directors has approved a dividend of Rs. 6 per share. With this, total dividend for the year stood at Rs. 24 per share.

As mentioned by Dr. Om, we are committed to continue our efforts to optimize cost, increase productivity and enhance efficiency through tech-driven initiatives. With this, I conclude my opening remarks, and I would now request the moderator to open the forum for Q&A.

Moderator: The first question is from the line of Binay Singh from Morgan Stanley. Please go ahead.

Binay Singh: I had 3 questions. Firstly, on the industry growth and competitive intensity. Any sort of update from what you shared last call, any changes that you see there in? The second question I have is on the Suburban side. If you could talk a little bit about the growth you are seeing, and fair to believe that the initiatives you talked about sampling promotion, brand building, these are more recent. What kind of traction you expect going ahead?

And lastly, the number of tests that you report in the presentation. We see a sharp drop in the tests under radiology from 1,947 to around 1,400 in this quarter. So any read-through from that?

Dr. Om P. Manchanda: Okay. This is Om here. Let me take the first question. And maybe the other 2 questions, I'll ask Shankha and Ved to address. So, coming to industry growth. Based on the sort of trend analysis that I have done in the last 3 years, I'm beginning to feel that probably COVID was impacting base not just due to COVID alone, I think some of the non-COVID sales in the previous years was also influenced by COVID. As the COVID has gone away, I think that FY24 base for the entire industry will be completely cleaned up, and you won't have any impact of either COVID or non-COVID sales influence due to COVID.

My personal view is our industry would see better growth in FY25 than what we have seen in FY23 or even FY24. Second part of your question was on this competitive intensity. In terms of number of players, I don't see anybody going down or getting out of the business. Whatever had to happen has already happened during COVID time.

So now, whosoever has been in the business, my sense is they'll continue. But I think the level playing field is becoming a little more, a little better compared to, I think, some of the players have already taken price increases. So the deep discounting or if I were to call, predatory pricing, I think that is now not there in the market. So overall, I would say it's a positive news as we go forward into FY25.

Shankha Banerjee: So right, there was a question on Suburban. So this is Shankha here. So yes, Suburban growth traction on revenue side definitely looking up. I think our Q4 revenue growth is inching towards double digits. We are very close to double-digit growth now on Suburban. And a lot of these patient acquisition activities, I think which Om mentioned, as well as some other future improvements that we have done, should ensure that we are able to not only sustain this growth trajectory, but maybe also build upon it going forward. You want to take the point on tests?

Binay Singh: Sorry, this is double digit as in early double-digit or high double-digit growth?

Shankha Banerjee: No, no. So this is just reaching double digits. It's just sub double-digit level, yes.

Binay Singh: Anything on market share of Suburban in Mumbai?

Shankha Banerjee: So market share is obviously a very difficult number. I think in terms of assessing what the overall market potential itself is, we don't have any official data on that. But one thing which we know is that Suburban as a brand, will be the third largest brand in Mumbai as a city.

Ved Prakash Goel: Right. Binay on the number of tests, we have rationalized some of the tests, which were not in use. So that's why we have taken away from the list duplication.

Dr. Om P. Manchanda: The same thing that what we discussed the other day. Yes. I think this rationalization is primarily done because there are a lot of medical terms, which are actually very overlapping in nature. So some of these cleanup we've done. It's not that our portfolio has shrunk, but it's just that cleanup in our nomenclature.

Binay Singh: Great and also congratulations on almost completing 75 years, big milestone. Congrats on that.

Moderator: The next question is from the line of Amey Chalke from JM Financial.

Amey Chalke: Congrats on a good set of numbers to the management. The first question I have is, is it possible for us to gain volume growth for Delhi and rest of the North India region region. And second, in Delhi we are seeing a lot of hospital chains coming back to their own lab business. There is a captive business as well, but they're also venturing into the outside market. Are you seeing the impact of this activity on your business?

Dr. Om P. Manchanda: Okay. I think on overall Delhi NCR business, we have seen a lot of positive traction this year. In fact, if at all, there is one part of the business, which has done well for us, is Delhi NCR in FY24. I think your point is valid. Some hospital lab chains have come into this business. My reading is that whatever gains they had to make, they probably have already made because of their own customer base while they'll continue to remain in the business.

But to my mind we are seeing a much higher growth than what we have experienced in the previous 3-4-5 years. So overall, I would say that we are well positioned in Delhi NCR especially given that Swasthfit business is doing pretty very well in this space.

Amey Chalke: Sure. And the second question I have is on Tier-3 contribution which is around 34%. Is it possible for us to give example of the cities what you consider in the Tier-3? And the second thing is that we see in the labs as a proportion of total labs around 40%, but the PUP number seems to be on the higher side, the collections number seems to be on a higher side. So. is the business model a bit different, you need to invest much more on the collection center side when you go for the Tier-3?

Shankha Banerjee: There is a list of cities which is their Tier-3 plus. If you remove the top 108-odd cities of the country rest of them are then classified as Tier-3 and Tier-4. So that classification is something which we have taken from whatever the government of India does the classification on. It's publicly available data.

The second question which is on the model. So the collection network primarily which is linked to all the lab infrastructure is franchisee-driven. So to that extent there isn't a heavy company investment in terms of building the network, but what it definitely does is that in the Tier-3 cities and below we have a much larger geographic footprint from which the lab actually collect samples. And therefore, we see a larger a number of collection or larger collection network associated with the labs which are operating in Tier-3 or below.

Amey Chalke: Is it because of the scale of the margins of this business will be similar to our company average or how that will be?

Shankha Banerjee: I think we have seen that and you would have seen that over the last 3 years to 4 years the contribution of the Tier-3, Tier-4 markets have increased or improved in our overall mix. However, we've been able to sustain our EBITDA profile. So we have obviously worked out modalities in which the overall company margins is not going to be impacted adversely.

Dr. Om P. Manchanda: So just to add to what Shankha is saying I think the trick lies in the way you model your business and manage the logistics of it. So idea is that how you really align these Tier-3, Tier 4 cities to the nearest lab is how we are confident of managing the margins.

Amey Chalke: Thank you so much. I will join back the queue.

Moderator: The next question is from the line of Kunal Randeria from Axis Capital. Please go ahead.

Kunal Randeria: Sir just going through some of the operating parameters like the number of labs, the pickup points and so on. So, at a consol level you have added let's say three labs in the last 2 years and around 1,000-odd pickup points. But if I were to look at Tier-3 centers there you have added maybe 15 labs and maybe 1,600 or 1,500 pickup points. So, it basically means that you're scaling back in your Tier-1, Tier-2 cities. So while I understand you're doubling down on Tier-3, but scaling back is something which I don't completely understand this, is this competition or is it maybe some inefficiencies which have crept in and you are just trying to sort of rationalize it going forward?

Dr. Om P. Manchanda: No, I think the way you should look at it is the following; because having more labs technically is not a demand generation activity. It's the ability to service the demand. So most Tier-1 cities we already have labs. In some places, we will have multiple labs also. In some places, we'll have HLMs as well. It's only Tier-3 and below where there's a huge gap, we don't even have labs at all. That's why in terms of expansion of our lab infra you will always see that more labs are coming in Tier-3 by default itself because as per the government definition I think Tier-1 has about 8-9 cities and then Tier-2 have around 98 cities. So all other towns are falling in Tier-3 and below. So those are the places where we don't have too many labs. So that's why you will see expansion coming only in Tier-3. So it's not about scaling back in Tier-1, but it's more about the gap that exists is only Tier-3 and below.

Shankha Banerjee: And I think specifically on this point of net add of 3 whereas you see an add of 15 in Tier-3. Yes, there has been a bit of an overlap rationalization that has been done, but it's kind of onetime. It's not any scaling back. It's more of a onetime rationalization to see that the overlaps are reduced.

Kunal Randeria: Sure. And the same kind of logic applies on the pickup points also because there also seen a number of pickup points seems to have gone down in Tier-1 and 2's?

Shankha Banerjee: Pickup points, again, we've got a dynamic way of looking at it because sometimes if a pickup point is not giving us regular samples for a period of time, we kind of deactivate them in our system. So, there is no scaling back so to say. I think these numbers of our pickup point acquisition activities in Tier-1 and Tier-2 continue to be operational.

Dr. Om P. Manchanda: I think broadly this chart of Tier-3 plus 1 should read as if like we are deepening our presence in the market. That's the way one should look at. Now the play between CC pickup points and labs, it's a very dynamic process mainly because sometimes our intention is always to maximize throughput per lab. And once the throughput per lab is maximized then it's a huge positive on all sides. You will expand your test menu. You can operate 24/7. You can provide the courier pickup 24/7. You connect many roads. So it's like if you get higher throughput per lab, a lot of other parameters just fall in place. So I think that number is more always constantly optimizing operations. But the reason why we probably are giving the chance of Tier-3 plus is just to say that we are not just a few city dependent company, we are widening and deepening our presence across the country.

Kunal Randeria: Sure, sir. And just carrying forward on that. Any particular region, not Tier-3, any particular region you would like to call out which has surpassed expectations and where would you look to expand further?

Dr. Om P. Manchanda: It's mainly Northern part of India. I would say UP, Bihar. Because most of the cities in UP, if you look at the population is just ballooning beyond over 22 - 23 crore. Now such a large population base is I think if you pick cities, most of these cities are in the category of Tier-3 and below. Maybe just say Lucknow, Kanpur, etc. And that is where our presence is just growing. And this State is a huge state for us, and I think it shows good sign of growth. I would call out this particular State.

Kunal Randeria: Got it, sir. And just one more, if I can. Swasthfit contribution is 24% of revenue is probably the highest, I think, what is the kind of headroom you see over here?

Dr. Om P. Manchanda: It's a very interesting, we are currently in the process of identifying because virtually, every quarter we are seeing this contribution inching upwards. We're trying to figure it out as to what is really happening. My hypothesis there could be 2-3 factors that are leading to this. One is patients have seen greater value for money because obviously, it makes sense to go for a bundled package, we can do more tests at a much lower price. Maybe medical doctors are seeing greater value because then they don't need to ask for a follow-up test in one go, they get multiple tests and their ability to diagnose what the underlying cause for any illness is there. Third could also be the way consumer behavior is changing. Because most of these now, even if they come to the lab or they book online, I have a feeling it's easy to book a bundled test. You just press a button, and it all gets done or repeat the order. All that is probably happening. So there is a sense that I get is a combined factor of all these 3 leading to higher percentage of contribution from Swasthfit.

We also believe, I think I've spoken about this in the earlier calls, is that as the bundling goes up, it is having ramification of two other parameters. One is the number of tests per patients are going up because bundled packages have more tests. I'm also getting a sense that footfall is also falling. Because once you get these tests done in one go, then you don't need to come back again because all the tests you've done in one visit itself which to some extent commercially is not a bad idea because our overhead consumption is servicing the patient is highest.

It's not in the testing that is more, but it's more the servicing the patient visit. I think we should look at a volume component both together, number of tests per patient as well as number of patient footfall. I think combined together is where the volume should be looked at. And it's an interesting sort of the thing that is emerging. Let's see how it goes, but we are very confident that Swasthfit is going to grow further.

Moderator: We'll take the next question from the line of Nitin Agarwal from DAM Capital. Please go ahead.

Nitin Agarwal: Just taking forward your previous comments. This bundled tests, obviously, moving up the overall realization per patient. I mean, where do you think this number really ends up? At what stage it will start to, in your assessment stops growing? Because we've had a consistent Q-o-Q growth on this number for the last several quarters now.

Dr. Om P. Manchanda: There are three distinct segments in the market. One is pure screening-screening, where there's no illness and people are just getting themselves checked to know whether there is a problem or not. If that factor is dominating and driving this number up, that means the market is expanding. The other is a lot of people who are suffering with NCD which are chronic diseases like diabetes, high cholesterol or some other illnesses, where they need to go for regular checkups. Those are basically upgrading from an individual test. Even there is also no problem. Let these bundled tests grow because many of these NCDs are interconnected also.

Third area is which is an illness driven or communicable diseases where things like typhoid, malaria, dengue, these are all seasonal flu, etc. To my mind, these are three distinct segments. If screening and NCDs are there, then this number, actually, my sense is can even go 30%-40% as well. So I think it will continue to grow as we go forward. And also, I think as the bundling goes up, it's a greater value for money. I think that we are also hovering around price points of between Rs. 1,000 - 2,000 which is just a ticket size which is easy to take out from the pocket. This may just become a new norm in the industry.

People will just get to know, I think I mentioned to you earlier also, if you trace the history over the last 20 years, it started with a single test, then it became like a panel test, like LFT, KFT, they're also technically bundled tests for a particular organ. What the next stage has been the bundling of these panels only, LFT, KFT clubbed together. So this is, to my mind, is a new way of life, and I think this will become a norm in the industry. I think your specific question is to what extent it can go? Anybody's imagination. My sense is it can be 30%-40% of the portfolio as well.

Nitin Agarwal: And sir, I guess, based upon your comment, probably in the past, you were tracking the patient volume growth number more closely, given the way the dynamics in the market are playing, probably you think sample growth, probably the more apt number to look at as things are.

Dr. Om P. Manchanda: Sorry to interrupt you, I would say both.

Nitin Agarwal: Okay. And secondly, on the cost part of it. We've had a pretty sharp jump up in our gross margin this year. I mean how much scope do we have for that to squeeze out more, especially at the gross level, contribution level?

Shankha Banerjee: I keep asking this question to Ved as well. So Ved should answer.

Ved Prakash Goel: So I think it's pretty high. I mean 80% roughly is gross margin. I think what we can do is, in my view, we can sustain here. But beyond this, I don't think there is a room to improve further, especially on the gross margin. But I think we can sustain between this 78% to 80% kind of margin.

Moderator: The next question is from the line of Pranav Chawla from Antique Stock Broking Limited. Please go ahead.

Pranav Chawla: I just wanted to ask what is our regional mix for the fiscal. We used to highlight the split between Delhi NCR, South, West, International, East and North. Can you provide this?

Ved Prakash Goel: Delhi NCR contribution is about 31% for the quarter.

Pranav Chawla: Sir, for the fiscal?

Ved Prakash Goel: 31%, for the full year as well.

Dr. Om P. Manchanda: Yes, I'll tell you, 31% Delhi NCR, 31% Rest of North, 15% is East, 15% is West, South is 6%, and other 3%. Others will constitute international and CTL.

Pranav Chawla: International as well. Sir, and what is our B2B, B2C mix for the fiscal?

Dr. Om P. Manchanda: It is always estimate, right?

Ved Prakash Goel: Retail, including home collection, is about 32% for the year.

Dr. Om P. Manchanda: But that is our own infra. There is also a retail component in collection center.

Ved Prakash Goel: For franchise it's about 37%, which is collections center.

Dr. Om P. Manchanda: For full year?

Ved Prakash Goel: Yes.

Dr. Om P. Manchanda: I can come back on that, 1 second. The retail component of direct-to-consumer, our own infra is very clear. But the retail component of our collection center is generally we take an assumption that 50% of their business would be direct-to-consumer and balance 50% would be a pickup business.

Ved Prakash Goel: That exact split, we don't have.

Dr. Om P. Manchanda: We don't have that, but we normally tend to assume that number and add it up.

Pranav Chawla: Okay. Perfect. Sir, just can you provide us a color on how the competition has been in a core market of Delhi NCR? And how the region of Mumbai has been doing? How Suburban is growing? Even if you can share the quarterly revenue number of Suburban, that would be great.

Shankha Banerjee: I think, firstly, to answer Suburban. I think there are quite a lot of revenue and patient growth activities that one is doing. I think, we talked about a lot of sampling activities, patient acquisition, offline, online activities that are happening. Also, we are expanding geographic testing, footprint for Suburban to get into newer pockets and tap into those opportunities. Also, running a lot of clinician connect programs to get better prescriptions and conversion programs there as well. Also beefing up the sales team, creating some specialized sales team structures to get better extraction from B2B clients as well. So there are multipronged activities currently on for driving revenue growth, and those things are going to be sustained over the next few quarters.

Dr. Om P. Manchanda: Just to add to what Shankha said, now it's been nearly about more than 2 years. We have more than 2 years. We mentioned about Suburban, it went through 2 phases. Phase 1 was basically to stabilize the ship because it is just changing hands from promoter to us. And then that piece was done. I think now the second piece was actually getting the strategic building block in place. If you recall, a major shift that we've had is the franchising of collection centers. That's the model which LPL follows. And we find that entrepreneurial energy in franchising is extremely high. And we've used that to drive a lot of sampling, a lot of camp activities in various colonies of Mumbai.

And I don't know if you guys must have seen in Pune as well. And I think now with Shankha moving as CEO in LPL, we are now going to integrate this company much more with the parent as well where a lot of back-end support operation will be driven from here. So, we are very confident that all the building blocks of future growth for Suburban are in place and we are going to be driving this business from the center. Now early days, but good sort of numbers are there last quarter. It is definitely driving a lot of confidence in this. And I'm very, very confident because as a brand, as a single largest brand in one city, there are not too many of them in this country. And the suburban, 80% of its business comes from just one city of Mumbai. And that's a huge, huge sort of advantage platform for us to expand from here on. And it also has a brand which lends very well to its sort of a direct-to-consumer. It's brand awareness is fairly high compared to many other small time pathology labs. So I'm fairly confident that going forward, Suburban would turn out to be a good asset.

Pranav Chawla: Okay. Sir, then can you just give us some broad color on Delhi NCR region, like how is the competitive intensity, pricing, realization, etcetera, just for Delhi NCR?

Shankha Banerjee: Competitive intensity in Delhi NCR hasn't really changed too much v/s what I think we spoke about in the last quarter. So I think a base level of competitive intensity is always there. We haven't seen any sharp up move or down move in terms of competitive intensity when it comes to Delhi NCR, at least not in this last quarter.

Moderator: The next question is from the line of Prakash Kapadia from Spark PMS.

Prakash Kapadia: I have two questions. If I look at the Swasthfit contribution. It has been increasing. It has been doing well for us. So is it currently just a few top cities or metro specific, is there a scope to take this beyond some of the top cities? That's my first question. And secondly, if I look at where the industry is, given that some of the price increase has happened, competitive intensity has stabilized or decreased.

So from year on, if I were to build a scenario of doubling our patient count of 27.5, 28 million over the next few years, what are the key variables which will get us there? Is it convenience? Is it accuracy? Is it increased genomics contribution? Is it doctor advocacy, if you could give some direction on those parts will be helpful?

Shankha Banerjee: Right. Okay. Thanks for the question. So on Swasthfit, it is not a metro phenomenon for us. I think over the last few years, we have been consciously expanding and driving Swasthfit into multiple geographies. And that maybe one of the underlying reasons why we are seeing consistent growth, and we will continue to do that. So that expanding the footprint for Swasth is something which we are actively working on and it's a continuing process. So that point is there. On the other question on where and how will the future growth come from? So yes, there will be, like we said, the patient and samples, there are two measures of volume that we see.

I think both of them are what we are really eagerly looking forward to be driving, although there is a price increase taken by competition and there is this sense or feeling that intensity is low. We believe that competitive intensity underlying intensity is still what this industry has been used to or has been seeing in the past continues. So we are not really looking to a price increase driven growth. We continue to believe in driving our growth through patient and sample volume addition and mix improvements.

Prakash Kapadia: I get to the point of price increases, not the route. But in terms of the patient volume growth, I'm just trying to envisage a scenario what will that one or two variables be? Because in terms of branding, we are one of the oldest companies. In terms of cost per sample, we are amongst one of the best. So why is that volume growth not really coming through for us? So, is it going to be some of the newer tests, which will contribute more or some specific convenience factor from a consumer standpoint? I was more trying to understand that.

Dr. Om P. Manchanda: Okay. This is Om here. I don't think we should really get hung up on just the volume number, okay. As I mentioned to you, I think there's a lot of interplay between test per patient and the footfall. The volume number that we are talking about technically is a footfall. It's not a unique patient. I think the question that you asked is a very great question in terms of what is the variable which we probably need to address to look at the entire market. My view is that any category, if you pick up, they're always bucketed into three price points: One is the premium end, mass market and the discount end.

Right now, I think Dr. Lal PathLabs fuddles in all these three segments. As we go forward, we'll have to carefully segment the market and design our proposition in such a way that premium customer gets premium service, but at a premium price as well. Discount customer gets discounted service at a discount price. Now getting it offered under same names sometimes is very, very difficult to achieve that in the same market.

To me, I think we'll have to probably look at that. That is where, somebody used to ask me that Suburban, are you going to keep it separately, the answer is yes. It has multi-brand strategy and also different services and at different price points. I think we are reaching at that stage where market will have to address these things as we go forward.

Moderator: We'll take the next question from the line of Anshul Agrawal from Emkay Global.

Anshul Agrawal: So, considering in the last quarter, we have seen some upward pricing action from online players as well as other national chains. Do you believe that our volume growth is a result of this pricing action since you have not taken any hikes and follow-up on that would be then could these be our sustainable volumes considering that we are not looking to take a price hike in the next few quarters?

Dr. Om P. Manchanda: It's early days, and some of these competition that you are talking about, our friction with these guys is not really head on, except in few cities. The markets where we are present, actually, we don't really compete too much with them. The early sort of a sign of increase in volume that we are seeing maybe 2. A). of course, base effect because last year, volume growth has not been that much. Second could also be that, which I'm not fully sure, but I still will make that point. I get a sense that last two years, non-COVID volume also was being influenced by COVID. As that has gone away now, we are actually in a clean base, and we are seeing now original non-COVID volume, so to call it. I think from here on, we'll have to probably wait it out for another quarter before we start making any sort of view on this. But definitely, directionally, I'm seeing a better volume growth than what we have seen on a year basis.

Anshul Agrawal: Got it. And another question on competitive intensity, Dr. Om, if I may. So, considering that one of the other listed regional chain is getting very aggressive in Pune. How do we aim to protect or expand our market share or suburban's market share in the Pune region? Are there any thoughts around this? Any strategy?

Dr. Om P. Manchanda: First of all, I think market is very large. So, it's that organized players, put together is not even 15% of the total market. So, there is a lot to gain for all of us from unorganized space. And if I were to guess the name of this company, which is probably they are more an integrated business of radiology and pathology compared to us, which is just pathology. So, right now, our business model is to actually play more in pathology, which is more hub-and-spoke model, low capex, high ROCE v/s, let's say, take integrated model. While both models are well proven, there's nothing wrong with the other side as well. But I would say the market is large enough for all of us to stay.

Anshul Agrawal: Sure. Just one last question from my end. Any sense on what would our SSG volume growths would be for the current year and the contribution from the new centers?

Ved Prakash Goel: I think, Anshul, we don't track like this because like Dr. Om was mentioning hub and spoke, so we have geography or a cluster where we have lab is one. But we have collection center, and we have pick points around that. So as a cluster or geography, we track but as a same-store, we don't look at that way. But separately if you see Delhi as a political state, probably we are not expanding that much, which is growing, let's suppose high single digit. That is where you can look at, and rest is coming from the new infra or expansion of higher growth in the newer markets.

Anshul Agrawal: Got it. Very clear. Just one last question from my end for Ved-ji probably. Just as you mentioned that gross margins would remain range-bound. Any thoughts around EBITDA margins, given our expansion plan?

Ved Prakash Goel: I think we are saying pre-COVID level margins, which is around 26% EBITDA margin, where we are confident that we can maintain.

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

Jainil Shah: My first question is on our guidance for next year. So, we alluded to our growth being higher in FY25. So just wanted to understand how much will be volume-driven and how much will be price-driven and how much growth are we budgeting for suburban here?

Dr. Om P. Manchanda: I think the way we look at our numbers is that internally, the view is that we should probably not take a price increase as things stand today. If we don't do that, I would say that we will probably better our growth slightly than what we have delivered in FY24 without the price increase. The next question is, where is it going to come from? It's going to be a combination of both volume as well as number of tests per patient, and maybe a mix also because we are seeing higher end tests, also being prescribed more. So, our internal sort of desire is to beat the last year growth without the price increase.

Jainil Shah: Sure. And would you say that FY24, at least 4Q, we would not be having any COVID revenues? So essentially, we've grown at around 14% on a non-COVID base?

Dr. Om P. Manchanda: So, right now COVID was not there, that is fine. But what is the other thing you said 14%.

Ved Prakash Goel: So full year, growth is 10.4%.

Dr. Om P. Manchanda: So I think the best way to look at the following. We are exiting the year, which is Q4 at 11.1% revenue, okay, which is primarily without any COVID impact, either in the base or in current year, right. More or less. Now this 11.1% has an advantage of one month where there was no price increase, has a disadvantage of base of two months, which is Feb and March. If we continue without the price increase, we are confident that we should be on this number or slightly better.

Jainil Shah: And just wanted full year revenue and EBITDA for suburban?

Dr. Om P. Manchanda: This year?

Jainil Shah: FY24, yes.

Ved Prakash Goel: This year, we did Rs. 164 Crore revenue for suburban.

Jainil Shah: And EBITDA would be? Or we are incurring losses there because of the selling lab?

Ved Prakash Goel: 17% EBITDA margins.

Dr. Om P. Manchanda: No, that is for the quarter. Full year?

Ved Prakash Goel: Full year is about 12%-13%.

Dr. Om P. Manchanda: Full year is 13%, Q4 is 17%.

Moderator: The next question is from the line of Shaleen Kumar from UBS Securities India.

Shaleen Kumar: Sir, just a clarification, right? Most of my questions have been answered. So, Ved sir has been saying that our margins should be pre-COVID level 26%, right? But you have already delivered more than 27%. And I understand, let's say, gross margin remains where they are, but there is definitely going to be operating leverage. Now two things can happen from here, either your margins will expand or probably you said you want to invest in growth, which means that growth expansion should happen, right? So, is my understanding right that you have decided to invest in growth and then the growth uptick will happen while margin may remain where they are, with a lag, that's okay, but that's the idea, right?

Dr. Om P. Manchanda: I think Ved was explaining gross margin, there's hardly any scope left now for gross margins to improve. And your point of operating leverage is definitely valid that if we grow from here organically, you may see expansion of EBITDA margins. But we want to really plough it back into the market going to Tier-3, Tier-4 towns, where maybe pricing could be, may not be exactly the way Tier-1 pricing is, where our cost structure may be very different. But we will try and invest more behind growth rather than expanding our margins.

Shaleen Kumar: Which is fine. Sir, my question was that, that will reflect in our growth, maybe with a lag over a medium term, right? So that's the way we should look at it, right? And the main part of that will come in.

Dr. Om P. Manchanda: Yes, ultimately, because there are so many white spaces in the market, our company has to focus on growth. There's no doubt about that.

Shaleen Kumar: Which is fine with us, sir. I just wanted to have a clarification on that.

Dr. Om P. Manchanda: No, no. It's very clear. And that would also include M&A as well. So, it's not that, while it may be a bit of a time since we did last M&A, but that has not been our eyes are not on inorganic. We will also search for inorganic.

Shaleen Kumar: Would you actually answer my second question, because you're already close to Rs. 1,000 Crore of cash. And I mean, you will be generating roughly Rs. 400 Crore of cash on average. So is this something, which we can expect in the near term in terms of the organic?.

Dr. Om P. Manchanda: I don't know, right? Let's just see how it goes. Right now, there's nothing that we can share with you. But definitely, it's part of our stated strategy.

Moderator: The next question is from the line of Pranav Chawla from Antique Stock Broking.

Pranav Chawla: I think we highlighted we plan to add around 20 hubs going forward. So, can you allude us, what time line and what CAPEX kind are we looking at? And what regions this will be in?

Dr. Om P. Manchanda: See, our average capex for this normally is about Rs. 50-60 Crore, which is a combination of investments in IT, investments in instruments, investments in labs. So I would say that will continue. It's about Rs, 60-odd Crore of normal CAPEX. Most of these expansion on opening labs primarily been in Northern part of India and rest of north, essentially where our brand is strong. That is where we are seeing better traction for the business for our lines. I think that's where we will go.

Pranav Chawla: Perfect. And sir, what markets we'll be looking for inorganic expansion? Because I think Calcutta, East, we have been trying to grow organically and still the size of the business is pretty small. Same is the case with I think West is also now at 15%. So what target markets we'll be looking at?

Dr. Om P. Manchanda: I think the answer is in these numbers only, so just 31 Delhi NCR, 31 rest of North, 15 East, 15 West, South is only 6. So these numbers are telling me where I should go. So obviously, South is one, definitely number one priority. It's not that we can't do M&A in other markets as well, but sometimes it becomes very challenging because with same surveys, a lot of friction that happens on the ground in terms of teams, in terms of brands. It's always better to go in those markets where brand presence for Dr. Lal PathLabs is weaker. And in any case, we are not doing these M&As to ramp up our top line, we are doing it more as a market entry strategy. So it is natural for us to look at in those places where our business is weak, which, to my mind right now it looks like South is the place.

Pranav Chawla: Sir, any large players or large competition in these markets like that we may explore, like number two, number three players.

Dr. Om P. Manchanda: No. I think we are indifferent size. My sense is we look at even not just region, we also look at just city level entry as well. So we are open to even smaller size acquisitions as well. So there's nothing that holds us back. In fact, our PUPL, we haven't talked about it much. But places like Indore, places like Baroda, we've actually bought individual labs, which was just about Rs. 8-10 crore as well. Now since the number is small, they don't come up on the radar for us for discussion. But we are open to doing those tuck-in acquisitions as well.

Moderator: The next question is from the line of Dheeresh Pathak from WhiteOak Capital.

Dheeresh Pathak: I'm sorry if you already answered this sir, but for the full year and for the quarter, if you can just give how much growth came from pure realization increase, like-to-like realization increase, not the effect of mix?

Dr. Om P. Manchanda: Taking out the mix impact. You mean due to price?

Dheeresh Pathak: Just from price increase, not coming from any mix effect or anything. Just your price increase, how much growth came for the full year and for the quarter?

Shankha Banerjee: Just pure price, we got realization benefit of 3.5% for full year.

Dr. Om P. Manchanda: On a year basis, but it's lesser in Q4.

Shankha Banerjee: In Q4, it is lesser. But on a full year basis, 3.5% is pure increase driven, which is for full year.

Dheeresh Pathak: And this is annualized in this year? This got annualized in Q4 now, right?

Shankha Banerjee: Yes. So the Q4 contribution of price increase is only about 1%, 1.1% or something.

Dheeresh Pathak: 1%, okay. And provided if you don't take any price increase further, then this will be almost negligible in the coming quarters, right?

Dr. Om P. Manchanda: Impact of price, that's what we are saying that we want to beat the last year growth without the price increase this year.

Moderator: This will be the last question for today, which is from the line of Sumit Gupta from Centrum India.

Sumit Gupta: So just want to understand about like pricing scenario for overall test menu. So just can you highlight like how much is the specialized test menu? Like what kind of price increase are you taking in the specialized menu v/s obviously the routine test?

Dr. Om P. Manchanda: No. as of now, we don't plan to take any price increase neither on specialized nor on routine.

Sumit Gupta: Okay. And how much is the specialized test menu as the overall test menu, specialized and overall test menu?

Shankha Banerjee: So specialized portfolio today for Q4 has contributed to about 20% of our overall revenue.

Dr. Om P. Manchanda: And by the way, they are not comparable because each company may have its own definition of specialized, so just keep that in mind as well. So it's not that somebody tells you that they're specialized menu is 30%, you start assuming that we're lower. So everybody has his own way for defining these tests.

Moderator: Ladies and gentlemen, we'll take one more question, which is from the line of Shaleen Kumar from UBS Securities India .

Shaleen Kumar: So when you said that you will be delivering better performance compared to FY24 and there will not be any price increase there, right? So assuming that our sample per patient growth would be similar of what we have in FY24, so we are looking at roughly high single digit of volume patient growth. Is that the right thing? At least, if not high, that means it is something like 7% odd kind of a growth quarterly?

Dr. Om P. Manchanda: No, no. How it is 10%?

Shaleen Kumar: No, no 6%-7%, not 10%.

Dr. Om P. Manchanda: Okay. It's a bit early. Yes, I think that's the sort of target we are keeping in our mind that it must definitely move beyond 5%-6%. Because I think for year basis, right now, this year is about 3%?

Ved Prakash Goel: 3.2%.

Dr. Om P. Manchanda: 3.2%. We want to see definitely this number moving up. And should be about 6% quarterly was the better number, yes, you're right.

Shaleen Kumar: So basically, even if 12% revenue growth we're looking at, 5% coming from higher tests.

Dr. Om P. Manchanda: So Shaleen, I think that depends on how ramp up on Swasthfit happens because that will give us a higher number of tests per patient. But you are right, we are looking at definitely, if you look at this quarter exit, which is 11.1%, has some advantage of base in pricing due to pricing. But we want a really better base and with a combination of volume as well as number of test per patient. But tests per patient, in any case, is baked in. So most of the growth will come for higher volume growth.

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

Ved Prakash 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 satisfactorily. Please feel free to reach out to us in case you have any further questions or queries. Thank you once again.
