Dr Lal PathLabs

October 28, 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: Transcript of Q2 & H1 FY25 Earnings Conference Call

Dear Sir/ Madam,

Pursuant to Regulation 30 of SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015, please find attached herewith Transcript of Q2 & H1 FY25 Earnings Conference Call.

We request you to please take the same on record.

Thanking You,

Yours Faithfully,

For **Dr. Lal PathLabs Limited**

VINAY GUJRAL
Digitally signed by VINAY GUJRAL
Date: 2024.10.28 16:09:00 +05'30'

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Company Secretary & Compliance Officer

Encl.: As above

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Dr. Lal PathLabs

Q2 & H1 FY25 Earnings Conference Call Transcript
October 23, 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
	•	Mr. Ved Prakash Goel – Group Chief Financial Officer & CEO – International Business
Participants who asked questions	•	Amey Chalke – JM Financial
	•	Tausif Shaikh - BNP Paribas Securities
	•	Karthik Chellappa – Indus Capital Advisors Hong Kong Limited
	•	Prakash Kapadia – Spark PMS
	•	Anshul Agrawal - Emkay Global
	•	Nancy Yadav - Allegro Capital Advisors
	•	Saion Mukherjee - Nomura Securities
	•	Prashant Nair - Ambit Capital
	•	Bino Pathiparampil - Elara Capital
	•	Sumit Gupta – Centrum India
	•	Siddhesh Raje - ICICI Prudential AMC Ltd.
	•	Bhavya Sanghvi – Phillip Capital
	•	Shyam Srinivasan - Goldman Sachs
	•	Vaibhav Saboo - Nippon AIF

Moderator: Ladies and gentlemen, good day and welcome to Dr Lal PathLabs Q2 FY25 earnings conference call. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing "*" then "0" on your touchtone phone. Please note that this conference is being recorded.

I now hand over the conference to Mr. Siddharth Rangnekar from CDR India. Thank you and over to you, sir.

Siddharth Rangnekar: Thank you, sir. Good evening, everyone, and welcome to Dr Lal PathLabs Q2 & H1 FY25 Earnings Conference Call. Today, we are joined by senior members of the management, including Hony. Brig. Dr. Arvind Lal, Executive Chairman, Dr. Om Prakash Manchanda, Managing Director, Mr. Shankha Banerjee, Chief Executive Officer and Mr. Ved Prakash Goel, Group Chief Financial Officer and CEO of International Operations.

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 forward-looking statements. A detailed description in this regard is available in the results presentation, which is available on the stock exchange websites and has been separately circulated to all of you.

I would now like to invite Hony. Brig. Dr. Arvind Lal, to share his perspective. Thank you. And over to you, Dr Lal.

Dr. Arvind Lal: Thank you, Siddharth and good evening, ladies and gentlemen and a very warm welcome to all the participants on today's call to discuss our Q2 FY25 performance. I will commence by discussing the evolving market dynamics and our key achievements.

Our ability to maintain our market position in the highly fragmented and competitive Indian diagnostics industry is a testament to our strong brand, exceptional service and extensive network. We are leveraging these strengths to penetrate deeper into underserved Tier-3 and Tier-4 regions by offering affordable high-quality diagnostics to the patients.

Dr Lal PathLabs have scaled up nationally into a well-run operation with an extensive franchise base, consistent delivery of high quality and affordable diagnostics reports to our patients has earned us this position. We believe this to be a core factor why patients have faith in our brand.

In today's evolving healthcare landscape, digital integration has become imperative, and we are actively leveraging technology to enhance patient experience and operational efficiency. Currently, we are also expanding our home diagnostic services to meet the growing demand from patients who value convenience. We are committed to achieving these objectives without taking any price hike and focusing on driving patient volume, growth and efficiency gains.

India has a vast unserved and underserved population in terms of healthcare and diagnostics. The headroom of growth therefore is very much there. Together, with policy impetus, tech innovation and growing propensity to avail of quality and accurate diagnostics, the share of national brands like ours is rising. We continue to benefit from our scale of operations and brand recognition, both of which are crucial factors to seed consolidation at the industry level. In the interim, our focus remains on building out organically while evaluating inorganic options that fit our objectives and values.

As we celebrate 75 years of excellence, it is an opportunity to reflect on the past, celebrate achievements and look forward to the future. We remain committed to serving the patient community through consistent service and quality of diagnosis.

And at this point of time, I would like to apprise you of a development. As you are all aware that Dr. Om Manchanda ends his term on March 31st, 2025, he will be stepping down from his position as managing director into an advisory role. We personally thank him for all the contribution he has made in building Dr Lal PathLabs into the leading and best diagnostic company in India. Nearly, 20 years of his operational and management excellence has helped the company in achieving this goal. We wish him the very best in his new role and look forward to his continued guidance and direction.

Thank you and I would now like to hand over to Dr. Om. Over to you, Om.

Dr. Om P Manchanda: Thank you, Dr. Lal and very warm welcome to all the participants on this call. First things first, as Dr. Lal mentioned that my term ends on 31st March 2025, post that I shall transition to my new role as an advisor to the company. Incidentally, I also turn 60 next year and this milestone coincides with end of my term. I thought this is the best time for me to transition into a new phase of my career from an operating role to an advisory role. A large part of my executive role is already transitioned to our CEO, Mr. Shankha Banerjee. I shall further transition to him during the remaining period of my term. Now, let me shift to the business and industry insight.

I think the very important insight that I have picked up and which we have been talking about the last few quarters, that is the concept of bundled test packages, has become a very, very firm trend in industry. In my view, it is having the following impact:

Number one, it is leading to higher realization per patient resulting due to higher number of tests per patient and this is further leading to slight improvement in the industry margins is the trend that I notice.

The second important impact of trend is that the business processes are getting very simplified in terms of whether it's ordering by the patient or collection of blood samples and even in the lab operations.

Our Bundle Test Program, which is “Swasthfit” continues to do well and is now almost 24% of the company's overall revenue. As we reach out to a wider patient base, the growing contribution from such bundled offering both in routine, semi-specialized and also specialized testing will further add to our performance going forward.

The second point that I want to make is that our efforts in building West region platform has started yielding results. West business is now nearly 15% of the total revenue, that is nearly Rs. 100 crore in a quarter. It is a very unique business in nature as 60% of the turnover is inorganic. This quarter the West region has delivered better growth than overall company growth. It will be a great learning platform for us as we build out our hybrid strategy in non-core markets, that is West and South.

We are continuously investing in our capabilities not only in technologies that drive growth and efficiencies, but also on the cyber security aspect, further solidifying defense around patient data. Going forward, we are also investing towards organizing and analyzing data better so that it helps in raising the quality of our offering.

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

Shankha Banerjee: Thank you, Dr. Om. A warm welcome to all participants on this call today. Let me share the business and operating highlights with you.

The positive momentum in performance has continued with revenue and profit after tax growing by 9.8% and 18.1% respectively in the 2nd Quarter of FY25. This performance is a testament to our strategic focus on both expanding our service network and meeting evolving patient needs.

The growth in revenue is driven by sample volumes, which stand at 23 million. Our patient volumes came at 7.8 million. Sample volume growth for Q2 FY25 is 8.6% and patient volume growth is 3.9% over Q2 FY24. Our Q2 FY25 revenue per patient stands at Rs. 844, an increase of 5.7%. The realization improvement does not have any price increase impact, rather it is due to product and geography mix.

We are happy to share that in Q2 FY25 Suburban has delivered revenue growth in double digits in line with our plans. It has started contributing positively to our overall and West region growth.

Our ongoing expansion initiatives are taking concrete steps. As indicated earlier, we will be opening 15 to 20 additional labs in this financial year and are accelerating the addition of collection centers to support these labs and meet incremental demand. These developments are crucial in widening our footprint across Tier-3 and Tier-4 markets and deepening our presence in core regions.

To align with our long-term vision, we are expanding our services to include bundled testing for non-communicable diseases beyond the Tier-2 market. This addresses the increasing demand for healthcare services, particularly in managing chronic illnesses.

Our commitment to reaching underserved markets remain steadfast and we are also strategically strengthening our footprint in creek clusters, particularly in West and South India We are undertaking targeted brand campaigns in selected cities to increase visibility and stay connected with local communities. In addition, we are driving several initiatives to foster loyalty to encourage patient growth within our core audience.

We remain confident in realizing growth organically backed by network outreach and investments in communication and technology. As we have the benefit of scale, we are in an advantageous position to benefit from positive trends shaping the diagnostic landscape.

I would now like to hand over the call to Ved who will walk you through the financial performance. Over to you, Ved.

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

I will be sharing the key financial highlights for Q2 and First Half of FY25

- Revenue for Q2 FY25 came in at Rs. 660 crore compared to Rs. 601 crore in the same quarter last year, reflecting a growth of 9.8%.The first half of FY25 revenue stands at Rs. 1,262 crore, a growth of 10.5%.
- Revenue per patient for Q2 FY25 is Rs. 844, 5.7% higher compared to Rs. 798 in Q2 FY24.

- Test per patient for Q2 FY25 is 2.94 v/s 2.81 in Q2 last year, registering a growth of 4.5%.
- EBITDA for Q2 FY25 came in at Rs. 202 crore compared to Rs. 178 crore in Q2 FY24, registering a growth of 13.9% with an EBITDA margin of 30.7%.
- EBITDA for first half of FY25 stand at Rs. 372 crore v/s Rs. 324 crore in FY24, registering a growth of 15% with EBITDA margins at 29.5%.
- PBT for Q2 FY25 came in at Rs. 183 crore, registering a growth of 20.3% with the PBT margin of 27.7% PBT for first half of FY25 stands at Rs. 333 crore with the margin at 26.4%.
- PAT for Q2 FY25 came in at Rs. 131 crore compared to Rs. 111 crore in the same quarter last year, registering a growth of 18.1% with the PAT margin of 19.8%.
- PAT for the first half of FY25 stands at Rs. 239 crore versus Rs. 194 crore in FY24, registering a growth of 22.8% with the margin of 18.9%. Improved profitability is on account of operating leverage and strategic initiatives to optimize cost by using technology.
- Earnings per share for Q2 FY25 is Rs. 15.5 compared to Rs. 13.2 in Q2 FY24. First half FY25 EPS stands at Rs. 28.3 as compared to Rs. 23.1 in FY24.
- Net cash as on September 30th, 2024, is Rs. 1,095 crore.
- The DSO as on Q2 FY25 is 25 days and we are still enjoying negative working capital of 22 days.
- Further, I am pleased to share that the board of directors of the company have approved a second interim dividend of Rs. 6 per share for FY25.

With this I conclude my opening remarks, and I would now request the moderator to open the forum for Q&A. Thank you.

Moderator: We will now begin the question-and-answer session. First question is from the line of Amey Chalke from JM Financial. Please go ahead.

Amey Chalke: The first question I have is on the Suburban for the improvement in the operational performance for QoQ. Is it possible for the management to clarify? Slight margins have improved to 20%, last quarter it was around 14%. What were the drivers during this quarter, is it only the operating leverage which has played out or something else which we should watch?

Ved P Goel: Yes, Amey, you are right that operating leverage is playing and there are certain strategies and initiative which we are taking, with use of technology, with the back-end efficiency, productivity enhancement and so on and so forth. I think that is the reason for Suburban margins is inching up.

Amey Chalke: Going ahead, how should we think the trend for the following quarters for 3Q and 4Q because 3Q could be stronger, but again, there could be a weaker quarter, so like how should we think about for a whole year?

Dr. Om P Manchanda: I still will continue to maintain that we should not focus too much on margin in Suburban. Our intent is to drive growth rate even further and in any case, our overall company margins are pretty healthy. I would rather invest in driving growth at the moment than worry about improving the margins. I will sacrifice some margins to drive growth in Suburban, that's the way I look at it. If we get leverage benefit, no problem, but I think our eyes are focused more on top line right now.

Amey Chalke: Is it possible for the management to give a growth region wise for the quarter or at least how much the growth was in north and ex of north?

Dr. Om P Manchanda: I do not think we actually share region wise growth on quarterly basis, but one thing I can share with you is that interestingly it's uniformly spread across the regions. Maybe couple of percentage higher and lower here and there. As I mentioned in my comments, West is slightly better. I also get a sense that the West region had higher incidence of fever this time than maybe rest of the region. But I think overall our growth rates across all regions is uniformly spread.

Moderator: Next question is from the line of Tausif Shaikh from BNP Paribas Securities. Please go ahead.

Tausif Shaikh: I have two questions mainly on your expansion plan in Tier-2 and Tier-3 cities. Can you throw some light how the realization is in these cities and how is the volume ramp up, are they slower compared to the metro cities when you open a new lab?

Shankha Banerjee: Our Tier-3 and Tier-4 city expansion is predominantly in our core geographies of North and East and in these geographies, we are going deeper. So, pricing in these geographies is quite similar. In the contiguous market, the pricing is not lower. So, realizations are similar in terms of the contiguous geographies that we are going into. And in terms of ramp up, it takes the normal usual time that one would take to ramp up. But the throughput of these labs is managed in a way that it gathers slightly bigger radius to ensure that the volume throughput or lab is taken care of.

Tausif Shaikh: And also, what kind of challenges do you see in these kind of cities? Is it fair to assume the unorganized player offers a path and radio mix business, so that's some kind of challenge which these kind of players like Dr. Lal face a challenge instead of a pure path player?

Shankha Banerjee: In all of these markets, the predominant task is converting the unorganized to organized and I think challenges are more or less similar whatever we have seen in our previous years as we have done it in other geographies. There is always a mix of players offering path and non-path as well as pure path. Those are not really challenges which are different than what we have done in the past. I think differential challenge to that extent is not something which is very different. It is more or less similar. It's just that it's a smaller ground that we're reaching out today.

Dr. Om P Manchanda: Yes, I think I may just add what Shankha just mentioned. I think it's true not only for diagnostics, but for all healthcare sector, even hospitals also I am sure must be facing a challenge. As we go in smaller towns, there are very strong relationships between patient and doctor and between the doctors also. For any brand which is slightly global or acting in nature to penetrate to in that relation becomes very, very challenging. It's a very slow process, gradual process, you have to really communicate your proposition very well so that you can overcome the power of those relationships with the kind of service that you offer. But once you reach that tipping point, then I think the whole shift happens from unorganized to organized. And it takes a little bit of time, but as we build scale my sense is the time it takes now is much lesser than what it was taking before.

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

K Chellappa: My first question is, if we were to look at our volume growth at least on samples, for the last 4 quarters, it has been somewhere in the range of about 8%-9% and it is backed by very healthy margin expansion. I am just curious to see whether there is scope for us to reinvest some of these margins to drive a higher volume growth? And in your opinion, what needs to happen for volume to kind of move up to a more sustainable double-digit level?

Shankha Banerjee: Firstly, let me try and answer the question that the sample growth is driven by also improved contribution which is coming through Swasthfit and we are seeing even in the non-Swasthfit portfolio the test per patient is slightly up compared to what we were seeing maybe a year before, that is what is driving sample per patient and therefore our overall sample growth. Now, I think investing back into growth is something that we are continuously doing. Like I mentioned in my opening remarks, this year we are planning to open a higher number of labs between 15 to 20 labs, we will be adding this financial year. Also, we are doing investment in terms of communication in key cities very strategically wherever we feel that adds value to our brand and our position.

We are also strengthening our market connect and our sales teams and those kind of investments are continuously being made. It is not as if whatever is there investments to be done that are being held back, because if you see our A&P spends are actually inching up every quarter when you compare with the same period last quarter, those are definitely there. And whether it will be a double-digit patient volume growth or not, I think that's something which we will have to come back to, I think that's an aspiration, but not really in the near future because there is a mix of two things. One is the existing patient volume getting impacted because of more Swasthfit and also on the balancing factor, the outreach we are doing to newer geographies and newer Tier-3, Tier-4 towns and the activities we are doing there which is adding new patients, it's still under churn. When does it reach double digit is something which we will come back to that a bit later.

K Chellappa: My second question is, as far as competition is concerned, let's say, compare to your commentary a quarter ago or even two quarters ago, has there been any change either for the positive or negative, either in the form of pricing, discounting or number of players or any other attribute that you measure?

Dr. Om P Manchanda: I think our commentary is exactly very steady. First, I think you all know that our numbers should be viewed with the backdrop that we have not taken any price increase. Many of our competitors have taken price increase and we also have adverse impact of higher base as well. From that perspective, we always said that, we try and meet or slightly beat our last year’s performance, which I think at first half level, our growth is 10.4% compared to what we did last year full year. Last year 10.4% had an impact of nearly 3% of price increase. And this year, we have not had that and despite that not only the revenue, but we have also improved our margins a bit as well.

We continue to maintain that steady sort of commentary as to what we have been saying. I think if you really want to know about competitive intensity, I think the general perception in the market is that competition is less. I do not think that is true. Competitive intensity is still there. I think what is not there is irrational pricing, promotion, discounts, those are happening. But competitive intensity to my mind still continues to be there. I think many of these young new age players are looking for a path to profitability. My sense is they have stopped deep discounting their promotions, etc. But definitely one competition from hospital is on the horizon because I continue to see hospitals trying to move into retail pathology business, to my mind intensity is still there in the market. It's just that irrational competition on pricing is reduced.

K Chellappa: As far as the management succession is concerned, so once Dr. Om steps down in March '25, how is the succession going to be planned, will it be someone internally or are we going to look for somebody externally or could you give us some color or thought on that?

Dr. Om P Manchanda: If you look at we in any case have a full-time CEO who is Shankha Banerjee. We split this position a few years back and a large part of my role has already been transitioned to Shankha and he will spearhead as far as the internal management is concerned. And along with that, Ved is there as a group CFO as well as the international CEO. That's the way it is. As of now, there is no other plan as far as succession is concerned.

Moderator: Next question is from the line of Prakash Kapadia from Spark PMS. Please go ahead.

Prakash Kapadia: A couple of questions from my end. On Swasthfit, if you could give us some sense how much of this is a doctor recommended, how much is directly and is there a scope to increase this contribution in Tier-3, Tier-4 cities also? Given the work we have done over the last two years now in Suburban, so is it fair to assume now Suburban will continue to grow higher than the company average from here on? And lastly from a higher revenue growth perspective if I were to just guess the drivers in the medium term, will it be market share gain from smaller players, will it be higher number of patients or will it be more revenue from patients or you see Tier-3, Tier-4 contribution increasing, what could be the pecking order in terms of just trying to assess the potential revenue over the medium-term?

Shankha Banerjee: Prakash, let me try and answer them to the best possible degree. I think firstly on the Swasthfit contribution from direct patient v/s doctor prescription, we do not have accurate data on that, but one would assume that quite a bulk of it is also upgrading prescriptions, they may not directly be a Swasthfit prescription, but some prescriptions get upgraded, so quite a bulk of our Swasthfit kind of comes through that. We will not have exact numbers but that is one bit. Secondly, whether we are taking it to Tier-3 and Tier-4, I think that's something which I mentioned in my opening comment as well that we are actively taking Swasthfit packages into our Tier-3, Tier-4 markets and we are also seeing some traction build up in those markets on Swasthfit which is giving us the confidence that the growth trajectory we are seeing on Swasthfit still has the legs to run on.

I think on Suburban, yes, lot of work has been done in the last two years and I think we have now started seeing results on that. Independently, we definitely feel that, or we believe that Suburban growth rates are going to be sustained or better as we keep moving forward. Will it be always better than the company? Actually, my expectation would be even the other part of the company should grow faster. So, to me those two remain independent. But yes, Suburban growth, we should be able to now sustain double-digit and grow maybe even faster than that.

Your last question, in terms of how will future growth come and what are the driver? Yes, we continue to look at newer geographies, which is the Tier-3, Tier-4 expansion. I talked about new labs. We are opening more sales headquarters reaching more directly to more clients across more of geography, that gives wider coverage. And in South and West, we continue to focus on our core cities and core clusters and building our brand and writing on whatever we have built in the past, getting higher throughputs in our existing infrastructure. Those will be the key drivers and also the bundled test portfolio growth continuing.

Dr. Om P Manchanda: I just want to add one more thing about Suburban point that while we track Suburban performance separately, but to my mind we do not look at that number in isolation. In fact as I mentioned that 60% of our business is coming from an inorganic in the West region. It is not only Suburban. It is also coming from that small subsidiary company that we have Pathlabs Unifiers. We actually look at this as a driving network effect of labs, collection center of all the brands put together in the region. We track first is West region, the entire region's growth first and then look at each component separately. As long as we are able to drive the region's growth, which is significantly better than company, I think we probably would have achieved our objective.

Prakash Kapadia: Lastly, Shankha, you mentioned about the growth drivers for a higher kind of revenue growth. Historically we had seen post-COVID lot of these new labs had sprung up. Any sense on these unorganized or these players getting marginalized because I guess over the mid-to-long term that also would aid growth and now should translate or show into higher growth, is that happening on the ground, not happening if you could give us some sense that would be helpful.

Shankha Banerjee: It's a bit of mixed feedback there. The COVID period actually created a bit of a cushion for a lot of the single operating labs because lot of them need quite a bit of money. Therefore, some people have tried to expand, or they are sustaining their businesses and still continuing to run their operations, that is at one end. At another end, we also see people who may want to be exiting or wanting to close their businesses. But yes, it is a bit different than what we were seeing pre-COVID. There is still some bit of aggression that we see in the local lab networks, but we have our eyes and ears open, I think the situation should improve in terms of consolidation as we move forward.

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

Anshul Agrawal: My first question is on network expansion. Is the target of adding 15 to 20 labs in the current year more back ended in nature? How many labs have we added in H1.

Shankha Banerjee: Although we do not maybe share the number, but one can say that we are on track, 50% of these labs have already been added in H1.

Anshul Agrawal: The reason why this is we have only incurred a CAPEX of about Rs. 10 crore in H1 if I am not mistaken. So, would that mean that our CAPEX numbers would be materially lower than what we had incurred last year?

Ved P Goel: I mean most of these CAPEX is happening in second half of the year. Though we have started the labs but maybe most of the real operation will start in the second half. That's why the CAPEX is low. And historically also if you see the CAPEX in first half is always low.

Anshul Agrawal: Our CAPEX guidance of roughly around Rs. 50-60-odd crore would stay as is. Secondly, the moment we sort of commission these labs, would our margins also get impacted in the second half of the year?

Ved P Goel: I think it's a good question. I mean that's why I always say that do not look at margins for QoQ basis, but on an annual basis, I think I mentioned on the last call as well that we are hoping that we can do slightly better than last year, but our margins will be sustained as last year. This Q2 always has a higher margin because of operating leverage and efficiency and due to most of the investments that come in the second half, that's why I think the overall margin for Q2 will be lower than H2.

Anshul Agrawal: Second question is on Swasthfit portfolio. If you may throw some light on this, what percentage of the Swasthfit portfolio would be illness testing and what percentage would be wellness?

Shankha Banerjee: I think somebody in the past also asked this question how much is home v/s patient prescription upgraded. We do not have any accurate data to say that, but one can look at it, either illness part is also the sizeable component.

Anshul Agrawal: What are our plans for the cash that we have on books? I mean, I am sure we do not have any CAPEX sort of requirement. Do we plan on giving out increasing dividend payouts or what is your thought process on the cash that we have on books?

Dr. Om P Manchanda: See, obviously, our first priority is to use this cash for growth with purpose and growth consists of both organic and inorganic. Those efforts will continue. While organic we have better control on how we expand. Inorganic is very difficult to time it, but consistently we have been also paying out dividend, that will also continue. I think it's a combination of all 3 organic, inorganic and dividend and we will continue to progress as we have been doing in the past. Our effort on inorganic continues. If we cannot use this cash, then obviously a dividend will be paid out.

Moderator: Next question is from the line of Nancy Yadav from Allegro Capital Advisors. Please go ahead.

Nancy Yadav: I wanted to ask if we can give out any numbers on the IndAS adjustment that we have made for this quarter?

Ved P Goel: Nancy, IndAS adjustment is not new, I mean, it is implemented 3-4 years back and there is no exceptional in this quarter, I would say it's very much comparable as last year.

Nancy Yadav: And also, sir, if it's possible to give any sort of exact numbers for the Suburban labs like if we could get a percentage of exact growth from the previous quarters or any numbers that you will be able to provide?

Ved P Goel: Suburban growth this quarter is about 11.6% and EBITDA margin is about 20%.

Moderator: Next question is from the line of Saion Mukherjee from Nomura Securities. Please go ahead.

Saion Mukherjee: This strategy of not taking price increase unlike your competitors, I think, historically, Dr. Lal used to take low single digit price increases. I am just wondering is this a strategy for a year or you think it should sustain this on a slightly longer-term perspective? And generally, we see inflation across everywhere. There's like 2-3% price increase is something where the volume sensitivity is very high. How do you assess the strategy of keeping or not taking any price increase?

Dr. Om P Manchanda: We are not averse to taking price increase. I do not think it's our stated strategy that we will not take price increase as our effort is to go down to Tier-3, Tier-4 towns. As all of us are aware that those are the markets that require affordability and to achieve that if we continue to take price increases, then we do not achieve that objective. As long as we are able to achieve this without diluting our margins, that's the reason why we resist taking price increases, but it's not that if inflation is higher than what we can absorb through this leverage, then we will obviously be forcing a price increase. But our intention is to make sure that our proposition appeals to wider footprint, otherwise, we can get narrowed down to large cities.

Saion Mukherjee: The second question I have on this employee expense in the quarter. It seems to have gone up almost 18% YoY, much higher than the revenue growth. If you can throw some light on the dynamics there?

Ved P Goel: One is obviously, every year we give some increments and as Shankha mentioned, we are in the process of opening these 15-20 labs. New additions, new manpower and so on and so forth, there is nothing which is exceptional here, but these are all where some increment every year we give to the employees and plus additional manpower which we are hiring.

Saion Mukherjee: And finally, now you have guided for more than 10.5% growth this year. Now, as you look forward with the lab expansion, Suburban picking up growth and possibly some price increase, are you expecting an acceleration in growth as we go forward, or you think low double digit is a level that we should sustain from a slightly medium-term perspective?

Shankha Banerjee: We have been saying equal to or better than last year growth, which is 10.4% and first half now we have delivered 10.5%. Therefore, our guidance still remains the same from that point of view. I think the point about Suburban growth coming through and price increase, like this financial year, definitely we may not be taking price increases like even Dr. Om mentioned. We continue to evaluate, if we feel that we need to take a price increase, we will take a price increase, but definitely not to drive revenue growth, that is not going to be a reason to take price increases because we like to be at broad base as possible. As of now we will stay with the revenue guidance that we have given in the past few quarters.

Saion Mukherjee: I was just looking at let's say for FY26. Are you expecting growth to accelerate from let's say 10.5% this year or it would more or less remain at the current level?

Shankha Banerjee: See, our next year's financial plan we will start thinking once we are through with Q3 and maybe we will be in a better position to start talking about that a quarter or 4-5 months from now.

Dr. Om P Manchanda: And also, please keep in mind that our base is much higher than many of our competitors.

Moderator: Next question is from the line of Prashant Nair from Ambit Capital. Please go ahead.

Prashant Nair: Related to how do you plan your network as you go into the future. 5-6 years back, you had a certain hub-and-spoke model with a certain ratio of collection centers to labs which has served you well so far. Now as you go into Tier-3 markets increasingly or into newer markets, would that change in any manner? So, I am talking more about number of collection centers in relation to number of labs. Would you be able to do with more collection centers relative to labs or would you need to set up more labs, how do you think about the network as you go into your next phase of development?

Shankha Banerjee: Over the last few years, we have been steadily increasing the number of collection centers per retail lab that we have, and we reached a reasonably good number of almost 28-29 labs, in the last financial year we reported I think close to about 29 collection centers for retail labs. I think that kind of a ratio we should be able to sustain even with our expansion into Tier-3 and Tier-4 models. The broad hub-and-spoke model remains in place. It is just that we are now going into as closer to the consumer as possible even in the hinterland, but the overall model is not really changing.

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

B Pathiparampil: Looking at this 15-20 labs this year number, is that going to be a strategy going forward as well, so can we look at a similar number of lab additions for the next few years per year?

Shankha Banerjee: If you see our historic trend, typically we have added between maybe 10-15 labs if you go back to pre-COVID that kind of run rate we usually had. In the last two or three years, there has been a bit of a slowdown in terms of the number of labs that we have added. This year is also a bit of a catch up in terms of doing 15-20 labs. At best, this rate may be sustained for one more year, but chances are we will start going back to what our normal pre-COVID level of lab addition would be in a given year.

B Pathiparampil: Just one question to Ved. Depreciation expense has actually come down a little bit YoY. Is it going to be like this at the given level of CAPEX or will this change and start moving up again?

Ved P Goel: No. First half depreciation is about Rs. 70-odd crore, which is similar as last year. I mentioned that most of the CAPEX is usually in the second half. I think depreciation will be higher in the second half compared to the first half.

B Pathiparampil: Yes, but YoY comparison, would it be similar, or it will keep going up?

Ved P Goel: Yes, it is similar unless and until we are doing large CAPEX because there is a depreciation, there is addition, net-net you are finding that this is the impact.

B Pathiparampil: For the current level of CAPEX that you are doing, should depreciation be a kind of stable expenditure going forward?

Ved P Goel: Yes.

Moderator: Next question is from the line of Sumit Gupta from Centrum Broking. Please go ahead.

Sumit Gupta: Just want to understand on the margin guidance that you highlighted 27%. However, let's say for the second half then it comes out to be around 24.5%-25%. I just want to understand where those investments will be largely since 50% of the lab addition has been done, just want to understand on the investment part? And what kind of returns that you can generate?

Ved P Goel: Sumit, as I mentioned, I mean, though we have started and opened few labs, but the real impact will start coming in second half, that is number one. Second, historically also if you see our Q3 particularly our margins are quite different than Q2. Overall, I am saying margin, we can do slightly better than last year, but it is not something which is like you have seen in Q2, which is not a representation of the full year.

Sumit Gupta: Just want to understand the majority of the breakup of the CAPEX that you would be investing in apart from the lab side?

Ved P Goel: There are investment in the technology, digital, there are higher in spending on the A&P, we are going deeper, we are going newer markets, there are investments, awareness and so and so forth. There are logistic expenses which will go up, when you added new infra you have to add newer routes and so on and so forth. There are expenses which are coming along with this new infra. It is not only the CAPEX, but the running expenses will also go up.

Sumit Gupta: What kind of margins can we target for the Suburban, let's say, over the next one year or so?

Ved P Goel: As Dr. Om mentioned, right now the focus is to drive top line rather than to see margins. Having said that and naturally whatever efficiency we can generate whether it is maintaining the efficiency or improving the efficiency. As Q2 is 20%, it is not representation of the full year as Q2 is always higher, but overall basis maybe you can take 16%-17% kind of steady margins for the Suburban.

Shankha Banerjee: Also, I think it will be important or one thing would be to look at company total margin and that guidance. I think that will be a much more stable indicator because our key thing for Suburban will continue to be how to drive the top line. The margin profile of Suburban can fluctuate. But I think the important thing would be to keep looking at the company total margin guidance.

Dr. Om P Manchanda: I think margins can fluctuate because we are also investing heavily into IT systems there. Some quarters those costs may come, A&P as well. I think my reading is that just let's focus on top line, right, because overall company margins are taking care of Suburban.

Sumit Gupta: On the geographical side, Delhi NCR still contributes around 30%-32%?

Shankha Banerjee: Yes, Delhi NCR contribution is still at 31% for Q2.

Moderator: Next question is from the line of Siddhesh Raje from ICICI Prudential AMC Limited. Please go ahead.

Siddhesh Raje: I have two questions. One is we have seen this number of patient volume growth of 3.9% YoY and Swasthfit revenue is growing by more than 20%. Is it fair to assume that this new patient volume growth would have come largely because people are taking this Swasthfit packages and in that context where can the Swasthfit contribution settle down at company level? Second, in the last few calls you mentioned that the company will look to reinvest back margins into business so that even incremental competition gets very attractive, right. So, in that context when we say that we may do better than last year in terms of margin, can it incrementally attract more competition?

Shankha Banerjee: I think firstly to answer Swasthfit, where is it likely to settle down? I think in one of the previous calls also I had mentioned that we are seeing traction in terms of the newer geographies even in Tier-3 and Tier-4 as well as the source of revenue coming or these packages even coming from patients who come with prescription. So, therefore the scope of Swasthfit is much, much wider than only wellness. We still believe that there is a reasonable headroom for it to continue to grow at this level and improve contribution further. What that number would be is something which I do not think we are looking at putting a figure on right now. We will see how that evolves.

Also, in terms of overall market requirements, the incidence of non-communicable diseases keeps going up and that also is a driver for some of these health packages being utilized by patients, that's one. I think on the part about margins attracting competition, I think competition is there from multiple sides. I think Dr. Om mentioned in his comments, now we are seeing competition emerging from the hospital players wanting to get into retail pathology and they are driven by a very, very different thought process than just pure what is the retail or the margin profile that we see. As an industry I think again Dr. Om had made a remark in his opening comments that in the overall industry we are seeing improvement in the margin profile, those things are happening. Whether it will be attracting more investment? I am not too sure whether that's something I will be able to comment on right now.

Dr. Om P Manchanda: Obviously. I think it's a broad factor. If the margins improve, people would like to become aggressive in growth. Competitive intensity does grow if the industry has healthy margins. I think I will wait for this quarter results for other players. But my reading is that this year industry might just show a slightly better margin than last year mainly on account of higher contribution of bundle packages, that also augurs well with our strategy of not trying to unnecessarily take a price increase and be a loser on our proposition.

Moderator: Next question is from the line of Bhavya Sanghvi from PhillipCapital. Please go ahead.

Bhavya Sanghvi: I just have a single question. in our presentation and annual reports, we talk about offering close to 4,500 tests. I just wanted to get a sense as to how many of these tests are outsourced and how many of these are conducted in-house? And if you could just give a sense of the percentage contribution and revenues from these outsourced tests?

Shankha Banerjee: I do not think that's the data that is something we share, or we would like to share, but suffice to say that predominant tests are all in-house.

Bhavya Sanghvi: And over the last 5 years, the trend would be the same, right, the contribution from the outsourced or it has changed?

Ved P Goel: No. I think over the years we are in fact converted some of the tests in-house rather than sending out. And it's a very small number of tests which probably we are sending out of India and that's all.

Moderator: Next question is from the line of Shyam Srinivasan from Goldman Sachs. Please go ahead.

S Srinivasan: Just the first one is on the Suburban acquisition we announced three years back and now I think in this quarter you started giving us more granularity. Just some of the learnings is what I was looking not just generally from a Suburban perspective, but also just from an M&A perspective. What are some of the key learnings maybe even some color around the Mumbai market?

Dr. Om P Manchanda: It's a good question and we have actually done about I think 28 M&As of different sizes and scale. Obviously, Suburban is of a different scale. I have actually got many learnings out of this and fundamentally I think most important learning that I have is to really understand the business post-acquisition as to how in our lab it will look like. I think if you are able to assess restated financials and restated infrastructure, which is very important, because sometimes those challenges we tend to underestimate like say for example in Suburban itself, I would say that large part of Suburban infrastructure before acquisition was own infrastructure and that was one of the reasons why their margins also were lower because like LPL actually has grown out of entrepreneurial behavior of partners and franchising does help.

Now, the Suburban was not like that, this whole transition as we made, we ended up actually sharing revenue share with our partners that caused a little bit of a stress. So, to me, I think I would sum it up our ability to visualize a scenario that post-acquisition what is the state of the business is one learning that I have out of this. And that reason helps in all the negotiations, evaluations and operational challenges one would face post-acquisition.

S Srinivasan: And the second question is just a data-keeping on the 11.6% growth. How is that split by the volume and price for Suburban again?

Dr. Om P Manchanda: That probably, Shyam, we have not really shared. That granular I would say as of now I think this data probably as the time comes, we will start sharing, but as of now I would say that we are not fully there yet because of the system integration.

Ved P Goel: There is no price increase in Suburban.

Dr. Om P Manchanda: This has not come out of price increases.

Moderator: Next question is from the line of Vaibhav Saboo from Nippon AIF. Please go ahead.

Vaibhav Saboo: If I look at the material cost and if I evaluate the gross margin for Q2 last year, the gross margin was around 79.7%, which was 80.2% in the previous quarter and 80.7% in the current quarter. Now considering we have not also taken any price increase, can you give any insight as to how we are able to increase the gross margin just on the material front, and whether this is something which is sustainable going forward or was it something like a one-off?

Dr. Om P Manchanda: Yes, I think I have an answer for that. I think again and again we are talking about, this is what is bundling is leading to and if you study most of the bundle packages of various companies in the industry they consist of a lot of routine tests and relatively routine test cost is lower as a percentage of top line compared to higher end test. And Swasthfit is growing nearly about twice the rate of our company growth. That tends to reduce the consumption cost. Now, it will obviously stabilize at some point. It cannot really keep going down again and again. I would say your question is, is it sustainable at this number? I get a sense, yes, right.

Ved P Goel: And in shorter term, yes.

Dr. Om P Manchanda: Yes, and obviously there is an impact of higher top line. In those quarters where top line is lower you might just see but on a yearly basis I would say they are sustainable.

Vaibhav Saboo: In terms of Swasthfit contribution, while we have been able to increase on a YoY basis but if I look at it, Q1 stood at 25% whereas for the current quarter stands at 24%. Like any particular insight from that?

Shankha Banerjee: Historically, the trend is that the Q2 contribution is lower than Q1 and it is because of the overall base number going up due to a lot of seasonal fever, etc., Even if you see QoQ, last year Q2 contribution was lower than last year Q1 contribution for Swasthfit.

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

Ved P Goel: Thank you, everyone for being with us on this call today. We express our gratitude for your continuous trust and support. I hope we are able to answer all your queries. Please feel free to reach out to us in case you have any further questions or queries. And once again thank you and wish you a very, very Happy Diwali and the rest of the festival. Thank you.