Thyrocare
Tests you can trust

February 06, 2023

The National Stock Exchange of India Limited
Exchange Plaza,
Bandra Kurla Complex,
Bandra (E), Mumbai - 400 051
(SYMBOL: THYROCARE)

BSE Limited
Phiroze Jeejeeboy Towers
Dalal Street,
Mumbai- 400 001
(SCRIP CODE 539871)

Dear Sir/Madam,

Sub: Transcript of post results earnings conference call held on February 3, 2023 with Analysts / Investors

Ref: Disclosure under Regulation 30 of the Securities and Exchange Board of India (Listing Obligations and Disclosure Requirements) Regulations, 2015 ("SEBI Listing Regulations")

Pursuant to Regulation 30(6) and 46(2) read with Part A of Schedule III of the SEBI Listing Regulations, please find enclosed herewith transcript of earnings conference call with Analysts and Investors held on February 03, 2023.

We wish to add that the same has also been made available on the website of the Company (www.thyrocare.com).

This is for your information and records.

Yours Faithfully,

For **Thyrocare Technologies Limited,**

Dorai Ramjee

Digitally signed by Dorai Ramjee
Date: 2023.02.06 08:13:33 +05'30'

Ramjee Dorai

Company Secretary and Compliance Officer

Thyrocare Technologies Limited

"Thyrocare Technologies Limited

Q3 FY '23 Earnings Conference Call"

February 03, 2023

MANAGEMENT: **MR. RAHUL GUHA – MANAGING DIRECTOR AND CHIEF EXECUTIVE OFFICER – THYROCARE TECHNOLOGIES LIMITED**
MR. SACHIN SALVI – CHIEF FINANCIAL OFFICER – THYROCARE TECHNOLOGIES LIMITED
MR. PRATIK HIRE – STRATEGY TEAM – LEAD INVESTOR RELATIONS – THYROCARE TECHNOLOGIES LIMITED
MR. ADITYA SHINDE – HEAD FINANCE, ADMIN AND SOURCE INCOME – THYROCARE TECHNOLOGIES LIMITED

Moderator: Ladies and gentlemen, good day, and welcome to the Thyrocare Technologies Limited Q3 FY '23 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 star then zero on your touchtone phone. Please note that this conference is being recorded.

I now hand the conference over to Abhishek. Thank you, and over to you.

Abhishek: Thank you, Tanvi. A very good evening to you, and thank you for joining us today for Thyrocare's Earnings Conference Call for the third quarter and 9 months ended financial year 2023. Today, we have with us Mr. Rahul Guha, MD and CEO; and Mr. Sachin Salvi, CFO, to share highlights of the business and financials for the quarter. I hope you've gone through our results release and the quarterly investor presentation, which have now been uploaded in the stock exchange website. The transcript of this call will be available in a week's time on the company's website. Please note that today's discussion may be forward-looking in nature and must be viewed in relation to the risk pertaining to our business. After the end of this call, in case you have any further questions, please feel free to reach out to the Investor Relations team.

I now hand over the call to Rahul Guha to make the opening remarks.

Rahul Guha: Thank you, Abhishek, and welcome to everybody on the call. A very good evening to you. Thank you for making the time out on a Friday evening to join us for this call. Just a brief introduction to those of us on the call. My name is Rahul Guha, I'm the MD and CEO of Thyrocare. It's been about 9 months since I've joined. And thank you for the opportunity to present the Q3 FY '23 results. I'm joined by my colleague, Sachin Salvi, who is our CFO and well known to most. Additionally, Pratik Hire, who is part of our strategy team, and lead Investor Relations is with me, along with Aditya Shinde, who heads our finance, admin and source income.

Before we begin, as with all my calls, I will start with a quote from the Mahatma, "The future depends on what you do today." And with that, I wanted to give a sense of what we've been up to in the last few months. Before we get into the strategy and its execution, I want to reiterate on how we are presenting our performance, which I had shared last quarter.

In line with our strategy as a B2B business, we have reoriented and our investor presentation is along those lines on how we present our results to correctly reflect our channels to the market. We classify our business into 4 categories. The first is our franchisee business. This is our franchisee network, which has 950 branded Thyrocare outlets and 5,000-plus non-branded outlets. These franchisees primarily serve diagnostic labs, small nursing homes, hospitals and individual customers. The Thyrocare branded franchisees have a direct consumer presence as well.

The second area is our partnerships. These are partnerships with health care platforms, direct selling agents or corporates, where we enable them with diagnostics as part of their portfolio. Our flagship partnership with API Group, which accounts for 12% of our pathology this quarter. However, we work with all the leading e-pharmacies, most of the major e-consultation platforms, health care at home providers and surgery platforms. In addition to this, we have a large network of direct selling agents who engage online to promote our packages. Finally, we work with several insurance companies for their free policy and annual health checkup, and with corporate for that annual health checkup. In this year, we have added several pharma companies who work with us for their patient support program.

We also have a small direct-to-consumer business. This business driven directly from our website app and CRM teams. This is where a customer books on Thyrocare directly. And finally, we have our government business, where we participate on several government programs. In particular, our strength is in the tuberculosis space, and we work with the government on multiple TB initiatives. As we have shared in our presentation, we have shown strong growth year-on-year across all verticals, and the revenue picture is quite strong.

We continue to execute on the strategy we outlined and have made good progress across all elements. In pin code expansion, although our activation rate was similar last quarter, we had a significant amount of churn. And so that has led to a net addition this quarter of only about 50 pin codes against last quarter. We have been working very hard to get to the root cause of the churn, and we believe we have addressed much of it. And with focused pharming efforts, we hope to continue the trajectory of pin code expansion that we have done in the last couple of quarters.

We also expanded our flagship Aarogyam series to include a Plus and Pro Series at higher price points and to provide a wider range of preventive health packages to our patients. The journey on quality is ongoing, and we have made good progress, with 4 labs receiving the NABL certificate this quarter and 2 labs completing the NABL audit successfully where the certificates are expected. With this, we now have 14 labs as of Q3 and 15 labs as of today, which are NABL accredited. It remains our goal to have 90% of our sample load processed at an NABL lab. And today, I'm very happy to say that 70% of our sample load is processed in a NABL lab. It is important to understand the 70% in the context that today, only 2% of pathology labs in the country have an NABL accreditation.

On the customer connect, we expanded our field team who goes out and meets franchisees and doctors. This team is at 59 members and have already activated several partnerships over the last quarter, who have been working with Thyrocare. Additionally, we have complemented the field team with an outbound call center which promotes our packages and our network. This team has 50 people. On TAT, the journey has been very encouraging. We continue to optimize the TAT. In any of the 22 cities where our lab is present, our T90 that is the 90th percentile of turnaround time is less than 15 hours. I'm happy to say that we are able to reliably deliver same-day reports on 90% of our samples across the country.

This quarter, we also moved forward in engaging doctors on diagnostic testing and how it can impact their patients. In partnership with key opinion leaders, we have developed educational videos and have also started participating in conferences to share and debate our perspectives on diagnostic testing. Finally, when it comes to leveraging the API Group. As I shared earlier, API

Group today accounts for 12% of our pathology level -- revenue, which is the same as last quarter. As I mentioned, we have 3 major initiative cross-selling on the pharmacy platform, enabling pharmacies or pharmacy counters to sell diagnostics through Retailio and Marg, which are the retailer app as well as the retailer ERP, respectively; and entering the hospital space through the partner company, Aknamed.

As informed last quarter, a large part of the lower volumes from API growth has been on the PharmEasy platform, and this is primarily because as a group, we are focused on profitable growth. As a result, the rate of customer acquisition has slowed down as the group pruned the low profitable orders in the portfolio.

With that, while the overall number of order has reduced, it has resulted in an average order value improvement. And as we correct this base with the right growth formula, we are hopeful that the growth from the PharmEasy platform comes back in the next couple of quarters. Retailio, the B2B retailer app; and Marg, the retailer ERP initiatives are going well and are on track. As of today, we have been able to onboard 4,900 pharmacy counters, who have placed 1 order for diagnostics with their customers. The revenue of this channel is up by 14% versus last quarter, though it is still off a very small base.

Additionally, through focused efforts, we have now onboarded 180 hospitals for their outsourced business across the country. This is a mix of small and big hospitals and we are watching this initiative to see how it scales up. As we get into the results, I wanted to share with you a few highlights or main pointers before we deep dive into the sales. Our focus has been on driving sustainable revenue growth. We continue to sustain a healthy recovery in our volumes. And this is the first quarter where we have seen Y-on-Y growth after some time at an overall level despite a significant dip in the COVID business.

This has been driven by continuous focus on channel expansion through our pin expansion initiative and focus on onboarding new accounts in our partnerships. As a result, we have been able to deliver 20% year-on-year growth in our non-COVID business, while growing 6% year-on-year in spite of a significant COVID business of INR 15 crores in the same quarter last year.

With that, I will hand over to my colleague, Sachin, to cover the results. Over to you, Sachin.

Sachin Salvi: Thank you, Rahul Guha. And thank you, everyone, for attending this call. I will briefly update you about the key highlights of Q3 financial year '23 financial performance. Before we get into the details, I'll reiterate about the ESOP program that I had mentioned in the last quarter. This program has been introduced at the group level to retain talent at Thyrocare. These ESOPs of parent company will vest over the period of 6 years, and we are recognizing the same as per the IND AS IFRS as a book entry towards share-based payments and appropriately reflected in the profit and loss account statement as an expense. And in the balance sheet at equity contribution from the parent company.

The total value of the ESOPs granted are INR 45.53 crores over the period of 6 years. But 1 thing you must know is that this is the cash list charge. It is not a cash outlook. As for IND AS, the options are valued at a grant date as per as Black-Scholes formula, which is a charge to profit and loss account over the vesting period proportionately. And typically, it reserves in the year of grant and then proportionately charged over the period of vesting. The breakup is included in the presentation as well. As these are not operating expenses and do not impact the cash outflow of the company, we have normalized EBITDA to the extent and reported EBITDA in line.

So now I go into the performance. First, I'll start with the revenue from operations. Our revenue from non-COVID operations for the current quarter on a standalone basis has increased by about 20% Y-o-Y to INR 109 crore. However, our COVID revenue has declined 94% Y-o-Y to INR 87 lakhs for this current quarter, resulting in a 6% growth in our pathology revenue. However, on a sequential basis, our pathology revenue has declined by 6%, which is in line with expected seasonality owing to steaming seasons in quarter 3.

In the last 9 months, we have grown our non-COVID revenue from INR 275.3 crores in YTD '22 to INR 338.6 crores in YTD '23, which is about 23% growth. Additionally, we have seen a strong recovery in our radiology business. We have grown revenue on a Y-o-Y basis by 50% and on a sequential basis by 11%.

As far as EBITDA margin is concerned, our stand-alone EBITDA margin stands at 28% versus 30% last quarter. This margin impact can be explained by lower revenue on account of seasonality, while the overhead cost remain to see. To summarize our financial highlights, revenue growth of 20% Y-o-Y in non-COVID business, 6% Y-o-Y in overall pathology business and 6% decline Q-o-Q on account of seasonality. Gross margin is marginally down at 67% versus 68% last quarter. Employee costs and other expenses have remained stable versus last quarter. In terms of volumes, we have processed in the current quarter about 5.3 million non-COVID samples, which is 47% up Y-o-Y.

With these brief highlights, I'll pass it on to our MD and CEO, Mr. Rahul Guha, for the strategic updates to the investors. Thank you.

Rahul Guha: Thank you, Sachin. Briefly, I would like to take a few minutes to recap to you on our strategic direction. Then as always, I'll be happy to discuss Q&A. First, I will cover our value proposition to the customer. As always, as I iterated in every call, we will continue to remain an affordable option to all patients with good quality and on-time reports. All our efforts on our value proposition is towards ensuring low cost to the patient, assurance on quality of testing through our certifications and engagement to doctors. We have made substantial progress on this, which I updated in my initial comments and is reflected in the presentation. This will continue to remain at our core and will guide all that we do.

Second, our strategy. We hope to become the B2B partner of choice to all front-end health care services companies in India, whether it is a small diagnostic center in the semi-urban area, a pharmacy in the metro, a small nursing home, an individual doctor or a leading online diagnostics platform or health tech marketplace. We are happy to provide low-cost, robust testing solutions to ensure they can serve their patients in the most effective manner. If they require phlebotomy, we are happy to mobilize our phlebotomy network of almost 900 companies and 400 network phlebotomists to serve them. This strategy has been working well for us. We believe we are uniquely positioned in the diagnostics industry to enjoy the best of both worlds.

With our offline presence of almost 6,000 channel partners, should the offline world pick up, we are well positioned with these channel partners to win in that space. And with all our partnerships in the online world, should the online side of the business pick up, we are well positioned to take advantage of that uptick as well. As a result, this quarter, we have delivered 20% year-on-year value growth and 47% volume growth in our non-COVID. Third, our roadmap remains the same as we shared every quarter. I will give an update on where we are on this. I will cover this in 2 parts.

Part A, leveraging the power of the API platform. As we mentioned in the investor presentation, we have 4 focus areas to maximize our advantage. The first is serving the PharmEasy online customer base of regularly transacting quarterly users. Today, we are at 6% of diagnostics process. Similarly, we wanted to leverage the advantage from Retailio and Marg of that 2.8 lakh counters to expand order points. We have a pipeline of 11,000 retailers who have expressed interest in diagnostics. And as I shared earlier in my presentation, we have 4,900 retailers who have placed an order on this platform.

We also continue to leverage Aknamed and our Thyrocare franchise networks to build a presence in the hospital space. While we have leveraged Aknamed, we have also used our own field team and partnerships with other companies to scale our hospital presence. Today, we serve 180-plus hospitals versus 110-plus hospitals last quarter in our network and continue to focus on this. We also ensure the expansion of the PharmEasy offline collection points. They continue to rapidly expand their offline presence with almost 300-plus offline franchisee stores for lab collection, where Thyrocare serves all the lab collection needs.

On the Thyrocare side as well, we have 4 areas where we maximize our advantage. The first is continuing to improve our value proposition to our franchise network. We are expanding aggressively. We continue to scale our sales footprint. And as I mentioned, we are now at 3,950 active pin codes. We also focus on our health packages, Aarogyam, and promote it to corporates, online and offline players. We've launched a set of packages on our flagship Aarogyam series to really have a full range from INR 500 to INR 5,000, so that we give the best options to customers for their annual health checkup.

We've also, as I shared earlier, launched a number of preventive profiles, depending on the specific lifestyle diseases, so that customers can have a more targeted approach towards their health. The third area is where we are expanding our lab network selectively to address the TAT challenges. We have been investing in accreditation and getting our voice out there through PR. 50% of our labs are NABL-accredited. Target is to get most done by the year. In all cities where our labs are present, we give same-day reports. And at an all-India basis, as I shared earlier, our P90 is within 24 hours. We also continue to invest in technology. Much of the achievements we have been able to do in terms of quality on-time reporting and cost is because of the technology investments we have been able to make and leverage value out of.

That in a brief is our mandate as management. Thank you once again for giving us a patient hearing. As always, I will end with the quote from the Mahatma. "Find purpose, the means will follow." And our purpose remains to provide affordable, high-quality testing to the masses.

So with that, we'll open it up to questions.

Moderator: First question is from the line of Rahul Agarwal from InCred Capital.

Rahul Agarwal: Just 3, 4 questions, clarifications. Essentially, firstly, Rahul Guha, lay of the land, I mean, how are customers behaving, both in franchisees and partnerships? We have seen some peers on B2C side reporting weak growth on volumes and revenue. But what color are you picking up from the industry? Has competition slowed down? Is the change in pricing? How are patients behaving? Anything you'd like to share, please. That's the first question.

Rahul Guha: Sure. Do you want me to note down all your questions or if you want me to take it one at a time?

Rahul Agarwal: No, I think one at a time will be good.

Rahul Guha: So on the franchisee side, we've -- if you see in the presentation, Rahul Guha, we've actually seen very strong growth on both sides, both on the franchisee side as well as our partnerships. That being said, our partnerships are growing much faster than our franchisee business. So that should give you a little bit of a glimpse into how patients are at least behaving. So overall, I would say -- look, as you know, Thyrocare, almost 80% of our business is Tier 2 and beyond. So Metro Tier 1 -- actually, our business is only 20%.

So that business has grown quite well. I do believe, though, on -- if I take a look at our Metro Tier 1 business, I would say competition has hotted up -- heated up quite a bit over there. As I can see from our partnerships, our partners have been growing all very, very fast in that space. So I would say, the urban Tier 1 market, it seems like people have many options, and some of our partners are, of course, gaining share or at least seeing strong growth in those segments. But I think in the Tier 2 and beyond of India where actually 80% of our business is there, that also continues to enjoy a decent amount of growth.

Rahul Agarwal: Got it. That helps. Secondly, on the API engagement, basically on both, on Retailio, Marg and Aknamed, quarter-on-quarter, we've improved with engagement, right? Count of hospitals, counts of pharmacy retailers. We haven't seen flow through. I mean, when do we expect that to happen?

Rahul Guha: I would say -- see, on the platform, you will -- as I said, we've been correcting the focus and the burn. So I think a little bit of time has taken to get that model right and then scale it up from there. So you haven't seen that. But I would say Retailio now is starting to become a significant part of our numbers. We don't report it separately, but it's not a small number anymore. And on the hospital side, though, it is still a very small number.

Rahul Agarwal: You mentioned in yor speech, some 14% of top line. Is that the Retailio and hospital number put together of total top line?

Rahul Guha: No, 12% is what I had said. And 12% is overall API as a group, which includes the platform, Retailio. However, hospitals, we don't book in that API number, because it's a mix of actually leads from Aknamed and our own sales network that goes out in connects. So in effect, it doesn't get counted in the API revenue. So API revenue is largely the platform and Retailio and Marg. So -- but I would say, if I go back a couple of quarters, that ratio would have been 99:1. Today, the ratio, I would say, closer to 95:1 -- 95:5.

Rahul Agarwal: Got it. Yes, I understand the 12% number. I think there was some 14% number in your speech, I got confused. Anyway, I'll take it offline. Thirdly, on the pin you mentioned, obviously, the activations are lower in the quarter. But why is the churn like -- what has really happened here?

Rahul Guha: I think 1 mistake we made in the second quarter, which we have corrected now, is we went quite deep. So we have gone almost to Tier 3 and 4 kind of terms, where I think we were struggling to maintain a decent TAT. And so as a result, we saw quite a bit of churn. So now we kind of pulled back from that and said, we will do it only in 100-kilometer to 150-kilometer radius from where we have a lab. And we'll focus on those territories rather than going too deep into the interior. And only when we are reliably able to do reports within 24 hours, we'll open up a pin code. And I think that will help address all the challenges.

Rahul Agarwal: So that's largely done, or this 3,950 number could also see some churn going forward?

Rahul Guha: No, no. I think we are done on that. We should be okay. We should be back to our old run rate.

Rahul Agarwal: Got it. And 2 small questions for Sachin. This ESOP charge, I think second quarter, third quarter put together, it's INR 12.5 crores. Total, my understanding is INR 45 crores over 6 years. Could you -- I know the valuation is tough here. But could you help me with the fourth quarter number, approximate numbers and the next year number, which you'll debit to the P&L, please?

Sachin Salvi: So again, as I said in the opening remarks, it depends upon the date of grant. So assuming that there is no grant in the third -- in the quarter 4, the number which you are asking for would be similar. That is about INR 6 crores. And I think in the presentation, in 1 of the slides, we have given the further breakup. So you can recalculate the number which you are asking for in the next financial year accordingly.

Rahul Guha; Yes. Rahul Guha, in the presentation on Slide #8, actually, the year-wise breakup is given. So you can actually calculate the impact there.

Rahul Agarwal: Yes. I'm aware of that. I thought those are -- those percentages are not really applicable to the INR 45 crores. So if I just multiply that percentage into INR 45 crores, will I get the annual numbers? Is that correct?

Rahul Guha: That's correct. You -- exactly.

Rahul Agarwal: Okay. I understand that. And lastly, the provisions on receivables, I'm just a bit not clear, I know these are smaller amounts. But till date, all the provisions created for government receivables are all related to COVID. Is that understanding correct?

Rahul Guha: That's correct.

Rahul Agarwal: Anything incremental you would expect, or is entire receivable balance clean now?

Sachin Salvi: So as of now, based on the position which is there as on 31st December or as on 3rd of February 2023, we do not anticipate any additional provisions. But it depends upon any further clarification, which may be asked by the government bodies. We may have to assess again either at 31st of March or, say, on 30th May by the date on which we are supposed to declare our Q4 results.

Rahul Agarwal: So these are more ECL provisions because of law, we have to do it, or do you think these are something which we really never get it back?

Sachin Salvi: These are really any ECL provision. You're right – As on date that all our debtors will get realized. But since we have a ECL metrics, which we follow, based on the ECL metrics, this provision has [inaudible 0:29:43].

Moderator: The next question is from the line of Rahul [inaudible 0:30:00] from Aditya Birla Finance Limited.

Rahul: My question is, can you brief me about the [inaudible 0:30:10].

Moderator: Rahul, your voice is not clear.

Rahul: I want to know about the INR 2.5 crore investment in High-Tech health segment. Can I get a little brief about it?

Sachin Salvi: We are trying a pilot project in the radiology space with the -- with a partner who is very, very experienced in the radiology space called Pulse High Tech. So we have opened or in process of opening our first radiology center which will have CT, MRI, ultrasound and x-ray, all the main radiology modalities along with pathology. It will be coming up in Ghatkopar as our first pilot location. We are just assessing the -- if the radiology space can be an interesting space for us, and we have done a small pilot in that space.

Rahul: And my next question is on NHL. Like previously, there was a time that there was a -- you would like to take an impairment. So is there any situation in future, there could be an impairment for NHL?

Sachin Salvi: This question, Rahul Guha, I think I have already addressed. So as on 31st of December 2022 or as on 3rd of February '23, that is the -- today's date, we do not anticipate any further provisions. But we will assess the situation once again as of 31st of March '23 or as of the date of declaration of our reserves for the quarter 4. And then if required, we will take a provision. Again, this provision has been made on the basis of ECL metrics, which we follow. As of now, we do not have a definite amount which is not likely to receive for any of our government parties.

Rahul: Actually, my question was on NHL impairment.

Sachin Salvi: NHL impairment. I'm sorry. So as far as Nuclear Healthcare Limited is concerned, we have taken impairment -- we have taken an impairment hit in March 2020. We will assess the situation once again as of 31st of March 2023. But going by the results of Nuclear or the performance of the results of Nuclear, we do not anticipate any future impairments as far as NHL investment is concerned.

Moderator: The next question is from the line of [Ashita Jain from Nuvama 0:33:15] Group.

Ashita Jain: So my question is on your PharmEasy revenues. I was going through your last quarter highlights and I think you made the same commentary last quarter as well that because of the profitable growth, there has added some slowdown, and this has continued this quarter as well. So I just wanted to understand your thoughts how -- what are your plans to grow this 12% of the revenues going forward? And secondly, when I look at your profitability, it hasn't improved much. It's 28%, the margin that you're reporting right now. I understand there's some offering delevers that happens, but any color on the 12% of your revenue as well as on the profitability.

Management: Yes. So the 12% of revenue, as I mentioned, it has remained, I would say, as a percentage flat for the last quarter at least. But before that, it needs to grow quite significantly. Now look, it's difficult to say or give you guidance on where we think that number will go. But I do believe as we enter into this quarter, that formula of what is profitable growth and what is the appropriate price point to sell has been figured out. And now we're really investing along with PharmEasy to see how that business can be scaled. And of course, it benefits Thyrocare if that business scales.

But it is very difficult at this point to give you a number on where we think that, that percentage can go, but we are quite bullish on at least how that partnership is panning out and will continue to pan out.

Unknown Analyst: My question is not on the number perspective.

Management: I just wanted to share, as I keep reporting, just last quarter, the diagnostics cross-sell, which is basically the percentage of diagnostics revenue on PharmEasy versus the percentage of revenue on medicine at PharmEasy has been steadily increasing. So it was, I think, roughly around 3% when we -- when I first started reporting and now we have doubled that to almost 6%. And so as the medicine orders start to grow, when the diagnostics orders are at 6% of medicine orders, we expect that to also rapidly scale at the same pace.

Sorry, you were giving a clarification on the question.

Unknown Analyst: Yes. No, that's very helpful. So my question is not on the number perspective, but more from a strategy perspective, how do you plan to grow this business going forward?

Management: Okay. So one is, of course, as the medicine orders increase, diagnostic orders also will come. We have invested quite a bit in the technology product, the on time of reproposition on PharmEasy. And actually, if you use the app, you will see it's quite a seamless experience overall. I think a lot of investments has gone into making the consumer experience on that app to book a diagnostic test, get your results, all of that. I think the journey has been quite seamless. And as we continue to invest, if you see at the PharmEasy group level also, diagnostics is a very big priority. So a lot of the investment is going behind diagnostics to acquire customers or cross-sell to customers from medicine to diagnostics. And if you see the investments there, it's lined up against that.

So I'm hopeful as we invest behind the cross-sell and the medicine orders now continue to grow, we should be in a good place. The product is fantastic. So if you go and see the app and all of that, I don't think there is much to be done anymore to make the journey of purchasing a diagnostic test on PharmEasy. To improve that, I don't think there is much to be done. You should try it out yourself.

When it comes to the EBITDA, we still continue to carry some amount of COVID in the base from last quarter. Last quarter, we had about INR 15 crores of COVID sitting there. COVID, of course, came at a higher overall gross margin and EBITDA margin. And that -- as we keep seeing that come out of the base, it does have an impact on earnings. And the second is, as I said before, we've been investing on the employee side. So if you look at the same time last quarter versus this quarter, there is still an increase in employee cost.

But if you look at quarter-on-quarter, we have kind of kept it more or less steady or actually going down. And overheads, we have kept under control throughout this period. So to answer your question on the overall margin, it's 2 effects. One is COVID coming out of the base, and it is taking us some time to accelerate the NOVID business. And NOVID business, of course, came at a lower margin than the COVID business. So that has its impact on the gross margin and mix. And the second is the investments in manpower, which hopefully, as the business scales, we'll get operating leverage out of that.

Moderator: The next question is from the line of [Sumit Sharda from Compound Everday Capital 0:39:20].

Sumit Sharda: Two questions for Sachin. First is on the ESOP. I understand the cost part of it -- cash part of it. But I just wanted to say, will there be any dilution of Thyrocare's equity shares when these shares are finally issued or no?

Sachin Salvi: No. The equity shares -- so there are two scales. One is of ESOP scheme of Thyrocare and other is the ESOP Epay. For the first one, the equity shares of Thyrocare have been issued, but there is a very small amount. As far as the second one is concerned, the shares of API is issue.

Sumit Sharda: Okay. So for the API Holdings ESOP program, there won't be any dilution of equity shares at Thyrocare. Am I correct?

Sachin Salvi: Yes. That is correct.

Sumit Sharda: Okay. And neither there will be any issuance to API Holdings in the view of that?

Sachin Salvi: There will not be any issuance, yes.

Sumit Sharda; Okay. Got it. And then the final one is on -- what the absolute amount of receivables as on date?

Sachin Salvi: Absolute amount of receivables at Thyrocare?

Sumit Sharda: Yes.

Sachin Salvi: It is -- just a minute. In Thyrocare books, it is INR 87.70 crores as on December 31, 2022, total.

Sumit Sharda: And as you earlier alluded, most of it is towards the government business?

Sachin Salvi: Yes.

Sumit Sharda: And 1 final question to Rahul Guha, if I may. What is the trend on pricing? I think -- of course, there is an impact of COVID in the base. But if you exclude that, and as you had alluded that you are trying to increase volumes, can we assume that the pricing rationalization has been stabilized? Or can we expect further rationalization?

Sachin Salvi: No, no. If you see, we've -- in our presentation also, we report both, the revenue and the workload, which is the sample. Over the last couple of quarters, we have been steadily increasing prices, of course, dramatically, but small increases we've been taking in the quarter.

Sumit Sharda: And are you saying that the competitive intensity kind of allows you to do that?

Sachin Salvi: Yes, particularly on our franchise network, it does allow us to do it. On our partnerships also, I think we have been able to pass on price increases to the partners as well. So I think, yes, on both sides, we have not had -- but again, I want to clarify, these are small price increases. These are not very large price increases. But yes, in both cases, our partners have been able to absorb this and compete in the market.

Moderator: There's just one question from the line of [inaudible Majhi 0:43:12] from Credit Suisse.

Majhi: So my question is on Aarogyam. So we have been hearing from peers as well that patients offerings more for bundled packages, because it conveys better value proposition for the patient, and the doctor is prescribing multiple tests. So has our share -- so I know we used to report it earlier till March '22. But -- and we had seen some increase in the last 1 or 2 or 3 months prior to that. So has the contribution from Aarogyam increased for us, say, in the last 3 to 6 months?

Sachin Salvi: So the -- so this quarter is -- actually, a lot of this quarter is around the festive season. So we typically, in this quarter, run a lot of camps. And many of our channel partners run festive season camps and all of that. So Aarogyam typically around this quarter is a good -- how you say, it's a good season for Aarogyam. But the overall market tends to be depressed because of the -- again, because of the festivals, as well as the winter season. So our overall Aarogyam today is steady at about 35%, and it was at the same level last quarter as well. As we move into the next quarter, you should see a big spike again in Aarogyam. And the next quarter tends to be quite a good season for packages because of the tax benefits from diagnostic testing. So as of now, it is 35%, but I would expect it to grow as we go into the next quarter.

Majhi: Right. And my next question is also related to that. Now we are introducing Aarogyam Plus and Aarogyam Pro packages. So what led to this decision? Do you see our patients moving up -- so you have multiple Aarogyam packages as well? So do you see patients opting for a higher value package? And what are the packages, kind of explain a bit as well, the Plus and Pro packages?

Sachin Salvi: Sure. So if you look at our Aarogyam series, it used to start at about INR 1,000 and aimed at about INR 2,500, which actually then a very big jump to about INR 5,500 in that range. So we realized that there were gaps in our portfolio, both at the lower end of the range as well as in this mid-tier of between INR 2,000 to INR 5,000. So the Plus and Pro portfolio sits there. It fills the gap and it gives patients a lot of options.

So earlier, we ended at INR 2,500 and then a big jump at INR 5,000. Now we have INR 2,500, INR 3,000, INR 3,500, INR 4,000. And we've been able to provide customers a full range starting from actually INR 750, all the way to INR 5,000. And the reason we did that is we found -- actually, there was a good mix of customers in that INR 2,000 to INR 3,000 range, who were opting for these packages. And that, for example, the Pro and Plus series, what we call the higher-end sets of packages, I think are already almost 8% to 10% of our Aarogyam business deals.

Majhi: Got it. No, that's very clear. And also, are you promoting these packages? I mean, through the direct-to-consumer channel itself? Or do you know -- are you also promoting it through that 59 member field team that is engaging with doctors?

Sachin Salvi: No. So packages normally don't go through the doctor network. So our franchisee network is promoting these packages. And of course, these packages are live on all our partners.

Majhi: So just 1 last question. So this is on PharmEasy. So our API share of revenues, I remember, I think it was 13%, then it was 12% and again 12%. So for -- and as you had mentioned that the product has been upgraded to optimize for cross-selling diagnostics as well. So I would believe from PharmEasy point of view also, because diagnostic tests are more profitable than, say, selling medicines. So the focus should be high there as well, right?

If you are -- if you want -- for a profitable then diagnostic revenue in absolute terms should have highly increased quarter-on-quarter over the last few quarters. So what has been the challenges? Is it that total number of users the platform has decreased? Or is it that benefit of better product and advertising has not yet reflect -- is not reflecting, but you expect it to reflect in the subsequent quarters?

Sachin Salvi: No. I think if you do the mathematics of how I have been reporting, if cross-sell of PharmEasy diagnostics to medicine was 3%, and then it has slowly increased to 4%, 5% and now 6%, but the overall contribution to Thyrocare has remained flat. It means that the overall users transacting had come down over the last item, but that was intentional to remove the low profitable orders from the PharmEasy platform and ensure that we are -- we retain the profitable customers and ensure that we grow from there.

Majhi: Got it. But you said the 12% share to increase as a percentage of our revenues.

Sachin Salvi: Absolutely. Once the -- as I said, and as you rightly pointed out also, the core around getting to profitable growth, diagnostics is a very strong pillar for PharmEasy in that, and Thyrocare is the entire back-end partner for all the diagnostics on PharmEasy. So strategically, for the API Group, diagnostics is the -- is one of the most important verticals when it comes to the journey of the path to profitability. So the investments have been planned accordingly to scale this business on the PharmEasy side. And Thyrocare, of course, benefits from that. And we are quite hopeful that as the platform also continues to grow from this base, the diagnostics business will accelerate from here much faster.

Majhi: Right. And it's safe to assume that this -- since 95% of the revenues are still coming from the platform and PharmEasy has a more dominant presence in, say, metros. So this 12% or majority of it will be coming from the metro cities itself?

Sachin Salvi: So I would say the top 20 cities in India. But yes, within that also, if the top 5 cities would account for about 70% and then the remaining 15% would account for 30% of that business.

Moderator: As there are no further questions, I would now like to hand the conference over to management for closing comments.

Rahul Guha: Thank you so much for spending the time with us on this evening. As always, we continue to remain focused on our strategy, which is to be the most affordable good quality diagnostic testing partner for anyone in the health care business, and we continue to execute on that strategy. We have been investing in improving our quality, improving our reach and ensuring our turnaround time is as close to best-in-class. And we've made substantial progress on all of this. And I thank you for all your support in this journey. With that, I'll hand over to Abhishek for closing comments, and we can close.

Abhishek: Thank you, all. Tanvi, you may close the call.

Moderator: Thank you very much. On behalf of Thyrocare Technologies Limited, we conclude this conference. Thank you for joining us. And you may now disconnect your lines.