November 12, 2024

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

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

Dear Sir/Madam,

Sub: Transcript of the Earnings conference call organized on November 07, 2024

We are enclosing herewith the Transcript of the Earnings Conference Call organized on November 07, 2024, post declaration of the Unaudited Financial Results of the Company for the second quarter and half year ended September 30, 2024.

Please take the information on your record.

Thanking you.

Yours faithfully,
For Vijaya Diagnostic Centre Limited

HANSRAJ SINGH
Digitally signed by HANSRAJ SINGH
Date: 2024.11.12 16:36:26 +05'30'

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

Encl.: as above

"Vijaya Diagnostic Centre Limited

Q2 FY'25 Earnings Conference Call"

November 07, 2024

MANAGEMENT: **MS. SUPRITA REDDY – MANAGING DIRECTOR AND CHIEF EXECUTIVE OFFICER – VIJAYA DIAGNOSTIC CENTRE LIMITED**
MR. NARASIMHA RAJU – CHIEF FINANCIAL OFFICER – VIJAYA DIAGNOSTIC CENTRE LIMITED
MR. SIVARAMARAJU – HEAD, STRATEGY AND INVESTOR RELATIONS – VIJAYA DIAGNOSTIC CENTRE LIMITED

MODERATOR: **MR. BHAVESH GANDHI - YES SECURITIES LIMITED**

Moderator: Ladies and gentlemen, good day, and welcome to Vijaya Diagnostics Limited Q2 FY '25 Earnings Conference Call hosted by YES Securities. 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 touch-tone phone.

Please note that this conference is being recorded. I now hand the conference over to Mr. Bhavesh Gandhi from YES Securities. Thank you, and over to you, sir.

Bhavesh Gandhi: Thank you. Good evening, everyone. This is Bhavesh here from YES Securities. I welcome you all for the second quarter earnings conference call of Vijaya Diagnostics Limited. At the outset, I would like to thank the management for giving us this opportunity to host the call. From the management team, we have Mrs. Suprita Reddy, MD and CEO; Mr. Narasimha Raju, Chief Financial Officer; and Mr. Sivaramaraju, Head Strategy and Investor Relations. I would now hand over the call to Mr. Reddy for her opening remarks. Over to you, ma'am.

Suprita Reddy: Thank you, Bhavesh, for hosting the call. Good evening, and a warm welcome to everyone on the call. I will begin by presenting the key highlights for the period, after which, we will take you through the operational and the financial highlights of the quarter ended 30th September 2024. I would like to begin my address on a positive note by highlighting that for the past 8 consecutive quarters, we've been consistently performing better than our growth guidance.

This quarter marks a significant milestone for us with an impressive 32% year-over-year growth, of which 23% was delivered organically. This achievement reflects our confidence in our integrated business model and concept of a dense network. The encouraging part is that the growth was primarily volume driven, with contributions coming both from our existing and newly launched centers, which are breaking even more quickly while maintaining a strong B2C shift.

I'm happy to share that we have successfully transitioned our network to a new AI powered path as part of our digital strategy, and this upgrade will allow us to further leverage the skillset of our specialist radiologists, improving both customer and clinician satisfaction.

Additionally, it will also enable radiologists to focus on reporting cases that align with the areas of expertise and interest. I'm also happy to announce that we successfully launched operations at our hub center in Ongole this August, and the response over the first 2 months has been highly encouraging. We now expect the center to break even ahead of the initially anticipated timeline of 2 to 3 quarters.

Additionally, we are starting operations of another state-of-the-art facility in Nizamabad tomorrow. This center is equipped with advanced technologies like a 3 Tesla MRI, CT scan and automated lab and other basic radiology modalities. We have enhanced a spoke center in Gurgaon, transforming it into a fully equipped hub with the addition of an MRI and CT machine.

This upgrade allows us to offer a comprehensive range of services, from basic blood tests to advanced imaging like MRIs all under 1 roof, making it on par with any other hub center that we established in a new geography. Regarding the updates of Pune and Kolkata, we have finalized few leases across both these regions. Work is currently underway, and we expect that these centers to be operational within the next 2 to 3 quarters.

As part of our expansion strategy, we have identified Bangalore as an additional Tier 1 location and plan to enter this market soon through organic growth. We have been evaluating this market for the past 2 years, considering both inorganic and organic opportunities. Bangalore is largely dominated by semi-branded integrated chains, each with a presence in only 2 to 3 locations across the city. Given this, we are very confident that the market holds significant potential for us, and we believe we can create a dense network in the years to come.

To conclude, I would like to highlight that with a combination of a well-planned strategic expansion and the robust strength inherent in our model, we are very confident that we are well positioned to capitalize on the growth opportunities from the ever-growing demand in the diagnostic sector. With this, I'd like to hand over to Raju to take you through the operational and the financial highlights.

Narasimha Raju: Thank you, Madam. Good evening, and a warm welcome to everyone on the call today. I'll quickly take you through the financial performance and key developments for the current quarter and half year ended September 30, 2024. The consolidated revenue for the current quarter stood at INR183 crores, reflecting a strong revenue growth rate of 32% year-on-year and 17% quarter-on-quarter.

And this robust revenue growth, just like the previous quarter, was again driven by volume growth of 30% year-on-year and footfall growth of 24% year-on-year. I'm delighted to inform that the year-on-year organic growth, excluding PH Pune, is remarkable at 23%, which is the highest growth reported so far.

And this strong growth is driven by volume growth of 22% and footfall growth of 18%. I'm extremely happy to inform that the business from Hyderabad, which is a core geography with many mature centers, has grown at 18.5% year-on-year, which clearly demonstrates the strength of Vijaya's brand in a core geography.

Coming to PH Pune's performance for the current quarter, the revenue is INR12.2 crores, which is in line with our expectations. Coming to the geography-wise revenue contribution, Hyderabad region contributed 73%, rest of AP Telangana was 17% and Pune with 7%. Like the previous quarters, the revenue growth was driven by both radiology and pathology segment, reflecting the robustness of our B2C focused integrated business model.

The B2C revenue stood healthy at 93%, and our radiology business stood at 35%. The revenue per test was INR463, and revenue per patient footfall was INR1,616 during this current quarter. EBITDA for the current quarter stood at INR76 crores as compared to INR57 crores in the corresponding quarter in the last year, reflecting a year-on-year growth rate of 33%, in line with revenue growth.

Excluding PH Pune, the year-on-year growth rate in EBITDA is 24%, again, in line with the revenue growth. The EBITDA margin was healthy at 41.5% in the current quarter, with an improvement of 20 basis points year-on-year and 230 basis points quarter-on-quarter. The profit after tax for the current quarter stood at INR42 crores, and the PAT margin was also healthy at 23%.

I will now summarize our performance for the half year ended September 30, 2024. The consolidated revenue is INR339 crores as against INR260 crores in H1 of last year, reflecting a year-on-year growth rate of 30%. And excluding PH, the growth was 21%. EBITDA stood healthy at INR137 crores as against INR105 crores in H1 of last year, registering a year-on-year growth rate of 30%. EBITDA margin stood healthy at 40.5%, and the profit after tax was INR74 crores with a margin of 22%.

Coming to the update on the capital investments in the current period. We have successfully started 2 hub centers, 1 in Ongole Tier 2 location in AP, and second was an upgradation of spoke 2 hub in Gurgaon with advanced radiology equipment of MRI and CT. Considering the growing demand for oncology testing and advanced radiology, we have added PET/CT in Tirupati and a second MRI at our Kurnool geography. The company is on track of adding new centers at Pune and Kolkata through a careful expansion strategy, and this expansion will be funded from internal accruals.

To conclude, I would like to say that we continue to hold our position as the largest B2C integrated diagnostic chain, supported by healthy balance sheet and impressive return ratios. That's all from my side. I would now request the moderator to open the line for the Q&A. Thank you.

Moderator: Thank you very much. We will now begin the question-and-answer session. The first question is from the line of Amey Chalke from JM Financial.

Amey Chalke: The first question I have basically on the growth. We have delivered around 22% organic growth for the quarter. I understand it is led by seasonality, but I believe even in seasonality, this kind of growth, we have not seen earlier. Does that leave some scope to increase our growth guidance organic growth guidance for the year from mid-teens to towards high teens?

Also, if you can explain the reasons for high volume growth apart from the PH contribution, which has delivered more than 20%?

Siva Rama Raju: Yes. So like you rightly said, there is some seasonality. But at the same time, if you see last year also, from Q1 to Q2, I think we have delivered roughly about a 15% growth, and we have delivered 17% this year. Right? So and like we discussed in the earlier call, I think that's the beauty of having a dense network and also being integrated.

And also, I think the shift from post-COVID, the shift from unorganized to organized. Like if you see the ground reality of healthcare industry today in any of these larger markets. It could be Hyderabad, Bangalore, Delhi, Mumbai or any other geography. So now hospitals, if you see multiple chains that are present in these geographies operating for a long time, now they are talking about creating dense network in the geographies they are very strong. And they are all growing, right? If there are 4 players in 1 geography, all the 4 players are growing. I think that's the beauty of the model, and Vijaya being known for the quality and having the talent. With the kind of effort that we are putting and the kind of the network expansion we are doing, that's where we are able to generate these volumes.

The shift is happening from unorganized to organized. But coming to seasonality, it was almost like a similar quarter that we had in the last year. And on the growth guidance, Amey, like we always said, we are confident of delivering double-digit growth of, say, 15% to 16%. But obviously, the efforts are to achieve that growth guidance.

Amey Chalke: Sure, sure. The second question I have is on the Gurgaon and Bangalore. Both the places, we are showing intent to grow presence organically. So if you can elaborate on our plans in both these regions for the next 2 to 3 years? And also, as you grow in these other regions, the new regions, do you expect to deliver similar profitability? Thank you, and I will join the queue.

Suprita Reddy: So Amey, Gurgaon is an old center. Like we told you, it was a sector that we tried out a long time ago, I don't remember the exact time, as a wellness concept. And it's a large center with almost about 12,000 area footprint. And since we are integrated in all of our other centers and this center was the only center of not doing only wellness and we had the space available, we wanted to upgrade it and bring it to the level of any of our most sophisticated and updated centers in terms of technology.

And that is the reason why we have made sure that it is also integrated. And it's been a mature center now. We see a lot of repeat customers coming back to that centre and that's the reason why we wanted to make it more whole and fulfilled in terms of the customer experience itself. And in terms of expansion in Gurgaon, immediately, we do not have any plans of doing that. But when it comes to Bangalore, like we mentioned, being dominant in the South, the largest player in the South and the 3 top cities probably known for their healthcare at Chennai, Bangalore and Hyderabad. And with now that we have other centers and the concentration of business from Hyderabad coming to its 70s, we said we have more room to explore new markets, and that's the reason why we were able to probably give some time to this market, understand this market and we feel that just like Calcutta, we'll be able to grow the dense network in this particular city, the Tier 1 city and the wellness and the integrated business makes sense to us.

Like I mentioned in the speech, there are a lot of chains there, integrated is not new to Bangalore, and they are all 2 to 5 center chains. So we said there's more than enough room to grow, and we would like to take up that route organically rather than inorganically. And that's not something that we would probably say we'll do about 5 centers in 1 year. It's over a period of time that we would like to invest and make sure Bangalore is a good market for us to grow in.

Moderator: The next question is from the line of Anshul from Emkay Global.

Anshul: My first question is on the samples for patients. Now this metric is growing 25% plus in the last 3 quarters now. Is wellness the only reason driving this samples per patient number? And how sustainable is this growth number? Do we see this settling over here wellness is only 13% of our business. Again, do we see that also growing?

Siva Rama Raju: Yes. So Anshul, so basically, if you see pre-PH, right, we were at somewhere around 3.3. The compression that we are seeing is like last year we were only Vijaya. Now, Vijaya with PH. And

PH has got 3 hub centers and 3 spoke centers, right, where you see the higher test per footfall at a hub center. So that's the major reason why you are seeing the change. I think more or less from now that test per footfall should be somewhere around 3.4 to 3.5.

So it all depends on the combination of hubs and spokes, like if you have 2 years of a period where you'll open more hubs, you may see that growing. And whenever you add up spokes, you see that getting diluted. It all depends on the mix of the centers. Wellness, to a certain extent, yes. Earlier, we were at 10%-11%, now, 13%. But otherwise, we don't see major change in test per footfall going forward.

Anshul: Okay. Any specific plans for growing the wellness business?

Suprita Reddy: Not specifically, Anshul. We mentioned, wellness has been part and part of the history of Vijaya. We've always been doing it. It's integrated. So a package is more meaningful because it will involve some amount of radiology and pathology does not past work. So we don't make a conscious effort, but it's also sometimes just like your fevers are seasonal, even health and wellness is seasonal.

So you see an up and down, but more or less, it will remain in that 13 to 14 is what we think that is an achievable number. And we don't try and upsell packages in Vijaya. So if somebody who comes in walks in with a need or a want of getting a wellness package done is the one we actually serve.

Anshul: My second question is on our capex guidance, which were driven post the Q4 results of about INR220-odd crores, INR230-odd crores in the next years. Does that whole set considering that we have done INR40 crores of capex in H1? Will it be more back ended? How many hubs are you planning to commission in FY '25 section?

Narasimha Raju: So Anshul, as we communicated in the previous calls, okay, we are planning to add at least like 10 to 12 hubs across these 2 financial years. Out of that, 2 hubs are already ready, like 1, we already launched, Ongole, okay and the other 1 is tomorrow at Nizamabad, similar hub centre and a larger area. So another 10 more centers apart from these 2 hubs will get opened in these 2 financial years, FY '25 and FY '26.

So the capex guidance of approximately like INR200 crores on these new centers remains same. And in the first 6 months, as you rightly told, the capex on the new center is approximately like INR40 crore.

Anshul: Got it. So I believe we had initially given a guidance of 10 centers in the next few years, but we are upping it to probably 12 centers. My question is our internal accruals are cash flow generation seems very robust. Would we be able to add Bangalore in this by somewhere in FY '26 itself? Can we go slightly more aggressive on this on the expansion considering our balance sheet is supporting it? We have seen incremental signs of organic growth coming in as well for our tested model.

Suprita Reddy: Absolutely, Anshul. Like we mentioned, it's not the capex that drives us to grow. It's the geography, the interest and then probably also the people. So like I've mentioned, we will be looking at Bangalore. We don't have anything concrete for me to confirm on this call today. But definitely if something comes up, you will be seeing a few centers coming up in this region by FY '26.

Anshul: Sure, many, many thanks for your time. All the very best for the remainder of the year.

Moderator: The next question is from the line of Sumit Gupta from Centrum Broking Limited.

Sumit Gupta: Sir, what are the PH margins for this quarter?

Narasimha Raju: 40%.

Sumit Gupta: 40?

Narasimha Raju: Yes, yes. For the PH margins.

Sumit Gupta: Yes, PH margins. So like going forward also, like so on the standard basis, like over it comes out at around 41.5% to 42%. So going forward also in the second half, how do we see it panning out on the standard user?

Narasimha Raju: So if you see the 41.5% is at the consol level, Sumit, okay? So since we are adding new centers like, okay, like in Pune also, a few centers, the work keeps happening. So as we mentioned earlier, in any 1 quarter, say for example, 2 or 3 major hubs get open. So for example, like a Q4, okay, or Q1. So in those quarters, there might be a slight drag because of these new centers because they take -- typically, these hubs take at least like -- outside geographies that take like 3 quarters to break even.

So, because of that, if 2 or 3 hubs get opened in a similar period, that quarter, margins might be like 1% or 2% here and there, okay, might be impact might be there. But what I look at it is, okay, for a full financial year, I'm fairly confident that 40% EBITDA margins will be maintained.

Sumit Gupta: Okay. So point one, like I want to understand more about like 40% is financed. Is it like strong operating leverage won't is likely to play out. So can it be surpassing 40% margin guidance? Just want to understand on that as well, like strong operating rates getting played out. However, obviously, there are some new additions. But what I see is those will not be able to like more like offset the strong leverage at the existing centers will do. So just wanted to understand on that part.

Narasimha Raju: So definitely, the operating leverage plays out, okay? That's the reason why you see the improvement in the EBITDA margins, okay? Okay, like almost close to like a 230 basis points improvement is there from Q1 to Q2, definitely because of the fixed cost operating leverage play. And as you know, we continue to invest, okay, in technology, okay, digital marketing, okay? So continuous efforts are there, okay, to invest in various channels.

So that's the reason. Apart from that, okay, on account of these hubs also, even though if there is a drag, is there like a 1% and 2%. I expect that the operating leverage play, okay, might take care of that. And then on a sustainable basis, okay, what I'm fairly confident is with 40% EBITDA margins will be achievable.

Sumit Gupta: Okay. And sir, Gulbarga has breakeven?

Narasimha Raju: Sorry?

Sumit Gupta: Gulbarga City.

Siva Rama Raju: So, Gulbarga, this month, we are going to complete 1 year. And this is 1 center which took us 4 quarters like the guidance of 3 to 4 quarters. This center took us 4 quarters. But generally, how we announce breakeven is we'll wait out and look for another 1, 2 months and then on the break even. But yes, Gulbarga is going to break even this month.

Sumit Gupta: And sir, lastly, on the CAGR side, sorry for the repeat. So you guided for INR200 crores, right?

Narasimha Raju: INR200 crores approximately at 10 hubs spanning across these 2 financial years, Sumit.

Sumit Gupta: Okay. So out of this, how much is the equipment?

Narasimha Raju: So, equipment accounts to approximately like 75% is equipment, okay? And then the rest is towards infrastructure, plant and machine others, and then you have the software, computers, etc. So, but the main radiology equipment accounts for almost close to 75%.

Moderator: The next question is from the line of Abdulkader from ICICI Securities.

Abdulkader: So just wanted to understand your thought process of entering into Bangalore and the expansion in Gurgaon. So what I understand is basically, the health care market of these 2 cities are much different as compared to where you are currently present into. So just if you could share your strategic rationale for selecting these 2 cities and considering the network hospitals which are located in these 2 cities, those are quite having an integrated diagnostic model.

So how do we compete against those? And in terms of breakeven, where you're talking about a 3 months break -- sorry, 3 quarters breakeven for your operational hubs, do you see a similar kind of a breakeven model to happen here as well?

Siva Rama Raju: So in the past, like in the over many calls when we've been asked why don't you open 15, 20 or 25 centers in a year. It was always smart about the capital because about the people, right? So basically, we said we are comfortable opening 15 centers a year. It's because this business, the key for success is the team, right? Which we have realized very early. And from past 2 to 3 years, what we were doing is, let's take any market, even today when we acquired Pune or when we launched Kolkata.

We are from past 2, 3 years, we are trying to identify people within the company and also, we are getting talent from mid-level to senior level, right, across core departments like operation, sales, projects because these are the key departments for our success of the business, right? And we are training them internally, right? And it's always the bandwidth, which will allow us to grow.

So 10 years back, I think we were comfortable launching 2 centers and launching markets within Andhra Telangana. So 5 years back, we thought we are comfortable launching West Bengal.

And then we also 2 years back, we thought we are comfortable doing 1 acquisition. So today, with the kind of bandwidth and the team that we have, we are comfortable launching 1 more market while choosing the market, right?

So today, if you take India, it can be an any state capital, right? I think integrated plays, at any initial stage, you have very few players like I think hardly few players who have got that network in integrated play. But which is required. Again, in Bangalore, if you see, there are multiple integrated players operating in each of these micro markets. So again, comparing this to a hospital. So I think this model works well where you have a very good doctor strength, right?

When you have a lot of super specialty hospitals is where you have the super specialist doctors. I think no other market today has the highest density than Hyderabad. And if we are able to compete in Hyderabad with any of these hospitals and able to make INR480 crores of revenue per year. We don't see any challenge in having -- getting into Bangalore market. And again, Bangalore is a developed market. Like ma'am said, right, Bangalore, Chennai, Hyderabad, these markets are known for health care facilities for a long time.

So out of the options available, we thought Bangalore is a market which will be feasible for us. And we also have people within a team who can take care of this market.

Suprita Reddy: To answer your question, it's not every geography is unique. So if you say Andhra and Telangana, Hyderabad might work differently versus the Rajahmundry center or a Karimnagar in Telangana itself. So when we try to push ourselves out of the comfort zone and when you're trying to probably replicate what you're good at and mastered over the last 40 years, I don't think whether it's Chennai or Bangalore, Kolkata, makes a difference.

I think the difference comes in probably 4 quarters or 5 quarters of breakeven. But the confidence of absolutely breaking even and making the center a success is what probably allows all of us to look at a new geography and confidently move on and take that step forward. And that's exactly what we did in the East. And if we took almost 6 years when we took a loss-making company, we acquired it. It took us a long time to clean it up, break it even.

In spite of that, we said we will try and we will grow in the East and we started the VIP road center. And if that could do well, I think that's also a booster. And probably to say you're out of your comfort zone doesn't matter where you are as long as you have a customer base that understands you, educated, there's affordability. And that's probably working well for us.

So I don't know, maybe 5 quarters from now, I might say we'll go into Chennai too, but today, we're saying we're going to try Bangalore.

Abdulkader: And appreciate that confidence. Just then on your hub centres that you opened. So also when we talk about an integrated model. So on day 1, do we introduce the entire offering, that is, both pathology or radiology?

Suprita Reddy: How we operate it, we do not do it phase-wise when a center opens. That's also why we need that incubation period of 90, almost 120 days. Because you will have the center that will open up to a customer right from a complete urine exam to an MRI 3 Tesla or in certain cases, even a

PET/CT. So if you look at Tirupati, we added a PET because we saw the response. But on day 1, it was a fully automated lab with an ultrasound TMT Mammo, all the way up to 3 Tesla MRI. And it will be the same tomorrow in the center that we're opening in Nizamabad.

That will offer an MRI, that will offer high-end cardiac imaging and will offer lab facilities, all in 1 go. And also to answer a question asked by someone else previously, what happens is when we open hubs in regions outside of the core geography. Even though there's leverage, what happens is we tend to take on staff to be able to train them and get them ready to operate the center. So that cost gets added a little bit, but that will probably play out in the quarters to come, the second quarter. But you are prepared on day 1 to be able to do any of these tests in that particular center itself.

Abdulkader: Thank you for answering my question. Thank you.

Moderator: The next question is from the line of Rishi Mody from Marcellus Investment Managers.

Rishi Mody: So just on the gross margin front, right, we've seen a dip in this quarter. Is it something structural? Like is it a one-off? Or because normally, what we've seen in other diagnostic companies will start as your packages business increases, your gross margin is increasing for at least the PAT players. So just wanted to understand, is that not the case for us?

Narasimha Raju: Sure, Rishi. Raju here. As you said, okay, the material consumption has slightly moved up, okay, year-on-year from 11.8% to 12.6%. It's a combination of 3 factors. One is the test mix. And the second one is the depends upon the pathology-radiology mix. As you know, radiology has slightly lower metal consumption compared to pathology. And if you look at the growth in this current quarter.

On a stand-alone, they will be excluding PH, you have seen 23% growth, okay? So across these 2 segments, the growth is there, but there's a slightly higher growth is there on the pathology segment. I remember like okay, 24% or 25% growth is there on the pathology trend, okay? Actually, like a 2% lower number is there in the radiology. So the movement you have a more pathology revenue, slightly, the consumption will go up.

And the third point is the wellness, okay? Whenever the wellness segment goes up slightly, there is an impact on the metal consumption, a few basis points. So, if you look at it in this current year, it is 13.7%, slightly increase is there as compared to the last year. Approximately in this current year, excluding PH, we're done at INR22.5 crores wellness.

So it's a combination of these 3 factors, Rishi. That's the reason why there's a movement from 11.8% to slightly to 12.6%. But what we have generally budgeted and then communicated is that generally, it ranges between 12% to 12.5%. And this was the case, Rishi, even in the past year. I think in the previous years also, you've seen that gross margins moving by 50 bps between the quarters.

Rishi Mody: Okay. So I just wanted to follow up there because Dr. Lal in the recent call, right, they said that their packages business has become gross margin accretive for them. We have been expanding the gross margins for the last few quarters. So just I know you're saying that the packages business is gross margin dilutive. So just wanted to understand where is the gap in my understanding?

Narasimha Raju: So Rishi, it depends, right? So for example, if we are at, say, 13.7% today, and if we are at that level, I'm still growing at a higher percentage. Then with volumes, you may see the gross margin or you may be getting some advantage on gross margin. And also, you do price increases, right, is when also you'll see some for the same package, if we increase the price, right, you will see some gross margin addition there.

But if you in the last 2 to 3 years, we have not taken any price increases, except that 1%, 2% at a broad level for a few tests, which we have done. So that's 1 of the reasons why we are not seeing the gross margin improving. I think this is a combination, generally packages, at least for Vijaya, gross margin dilutive and EBITDA accretive, right? But if you generally take the price increases when you see the gross margin moving.

Rishi Mody: Okay. All right. Got it. Second, you see that you've given the guidance on the hub addition. Any guidance on spoke addition over the next couple of years?

Siva Rama Raju: So Rishi, again, like, as we are focusing on these new markets like Pune, Kolkata and then Bangalore, right? And in Pune also, we have signed 1, and we are also looking for a few more spokes, right? But I think these 2 years, FY '25 and '26, you will see more of hubs. And then the subsequent years, you'll see more of spokes coming in.

Narasimha Raju: And Rishi, one spoke, the work is almost completed in Pune. We're just waiting for the approval. I think we might receive the approvals in this month, so we might launch it in December month. These hubs are getting established, right? Simultaneously, the work will start in terms of the spokes.

Rishi Mody: Right. I understand the bandwidth being used up for the hubs in the new geographies. But utilizing the hubs that we have invested in the last year, which is like the Tirupati one, Rajahmundry one and through spoke investments in those regions, is that going to happen or we don't have the bandwidth for that right now?

Suprita Reddy: Rishi, it's not about the bandwidth. It's also about looking at the concentration of people in and around that 150, 200 kilometers. When you have some amounts, if you look at Rajahmundry as a market, you still have a lot of development going on in terms of probably large, high-rise buildings and group society kind of residential complexes, right?

Until an analyst that comes in, your spoke won't play out because the spokes generally bring in business that is more into pathology. And also tests that require fasting. Until housing develops in that particular area, probably, going and putting in a spoke is not going to play out as expected. Even though when we see that happening, we would not back out.

It's not about the bandwidth. All of these geographies that we have mentioned has a different team working on them. It's not just a Hyderabad-based team. So we have a separate team that's sitting in Kolkata, overlooking the Kolkata expansion. Likewise, in Pune. So it's not about that. It's just about these Tier 2 places playing out and that residential, what the visibility that you would see in a metro city coming up there is what we're waiting for. We see that coming. You will see a spoke getting added there immediately.

Siva Rama Raju: And just to add, Rishi, and also these centers are not yet mature. Like, for example, if you take Karnoor right? We have 1 hub with 5 spokes in that geography. Right? So Rajahmundry and Tirupati are still growing. These centers have not yet hit that maturity. So maybe I think 1, 2 years down the line is when you will start seeing spokes coming in these geographies.

Rishi Mody: Okay. Got it. Last, I just wanted to understand now we are entering -- we are focusing on 4 new geographies outside of AP Telangana. We've got Pune, we got Kolkata and now we're entering Bangalore and maybe even increasing our interest in Gurgaon. So just wanted to understand, like, firstly, you did mention for store openings, you have the bandwidth. But in terms of operational bandwidth, do we have that? Or are we going to rely on external talent?

Suprita Reddy: The more execution in our B2C business. The more the number of executors, the better the experience. So if you ask me, probably your mid-level to the senior level is what basically empowers us to do that. So that is a level that we've invested in the last 2 to 3 years. You would have seen if we had 4 or 5 cluster managers would have become 14 to 15 cluster managers, multiple ADP operations, multiple GMs.

So those roles are increasing. Probably, we just don't worry them out, but those are the ones who actually make sure the operations run at what we would want to on ground zero. And that's the reason why the confidence that we'll be able to do that both in Pune and Kolkata because that's the size of the team that we're investing in, training in. And those are the ones who actually run the show in those geographies.

So I don't think -- I don't look at that as a challenge. But yes, finding the right set of people like you know and like everyone else knows, it's a challenge today. And when we see that opportunity, we do not let it go by. Gurgaon, we absolutely have no interest in expanding. Like I've mentioned to you, it's an old center, the only center in the network which did not have high-end imaging. A lot of time, the teams also said, why the step motherly treatment.

And that's the only reason why we said let's actually it's been quite some time. Give it a revamp, make it look better, invest in some technology and make it probably to a level of what we would call a Vijaya Diagnostic down south in Gurgaon too. So that's not something that we should be looking at as interest of growth. But definitely, yes, Bangalore, Pune and Kolkata is what we're investing in.

Rishi Mody: All right. Okay. That's helpful.

Narasimha Raju: Thanks, Rishi.

Moderator: The next question is from the line of Dheeraj, an Individual Investor.

Dheeraj: Yes. Actually, I wanted to know the how much is the percentage of outsourced diagnostics you are giving to others?

Siva Rama Raju: I think it will be less than 0.5% of our total.

Suprita Reddy: 0.3% also, maybe.

Dheeraj: Okay. And what is the major steps are you taking to reduce the consumption percentage?

Suprita Reddy: Which consumption leverage?

Dheeraj: Consumption margin, gross margin. Consumption cost.

Narasimha Raju: So Dheeraj, the currently, the gross margins of the company are at 87% to 88%, which are already the industry-leading margins, okay, for us as compared to any other peer group. A couple of reasons why we are able to enjoy these industry-leading gross margins in the range of 87% to 88%, one is the dominant share of revenue coming from B2C segment, where we're enjoying the full MRP.

And the second thing is we're having the integrated diagnostic facilities across our network. And also, our cost structure is also efficient. Okay? Since we are a market leader, we are able to unload the better reagent materials pricing, better pricing on the filing for the radiology, et cetera. So we are enjoying these industry-leading margins. So going forward as well, it will be in the range of 87% to 88% gross margin.

Dheeraj: And more that I want to know is a percentage of B2C and B2B business which we are getting.

Suprita Reddy: 95% to 96% will be B2C, and probably 3% to 4% will be B2B. We are a B2C driven company.

Dheeraj: It's a very good number. And 1 more thing, when are you starting the business in Nizamabad?

Suprita Reddy: Tomorrow morning.

Dheeraj: Yes. And what will what is the capex cost has been incurred in Nizamabad to open?

Suprita Reddy: I'll let Raja answer that.

Narasimha Raju: So approximately INR14 to INR15 crores there. I don't have the exact number, but it is in this range. Because we are going to invest in good technology, the high-end 3T MRI we're investing. And also high-end CT scan machine, we're investing. And also all the basic radiology modalities will be there. And with a very good infrastructure built on almost close to 8,000 to 9,000 square feet facility.

Dheeraj: How much is the bank borrowing of it?

Narasimha Raju: We don't have any bank borrowings. As of now, we're a debt-free company. And the surplus cash balance is approximately INR225 crores.

Dheeraj: Thank you.

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

Pranav Chawla: Congratulations on the great set of results. So I was just going through your presentation. Can you just elaborate why Kolkata has been so lumpy for us? If I see the revenue in the previous quarter, overall INR6 crores. Now it has fallen down to almost INR5 crores. So any particular reason? On a sequential basis.

Siva Rama Raju: Yes, yes. So basically, I think every 1 of us are aware, right? So we had some unfortunate events in Kolkata in Q2. Because of that, there were multiple strikes. And even because of this Bangladesh issue, for some time, that market has suffered. So that's the only reason why almost for 20, 25 days, the business got hit in this market. Otherwise, specifically, if you see the VIP road center, it's still growing. We had a very good October, and even the current November month run rate is picking up well.

Pranav Chawla: Correct. So does this impact our future plans for Kolkata in the near term? If I'm not mistaken, we have 1 more hub coming up in the fourth quarter.

Siva Rama Raju: No, nothing. So I think these are all more of temporary issues. So in fact, we have signed more leases in Kolkata. You only see the center addition happening in the next 1, 2 years, more centers coming in next stronger.

Pranav Chawla: And sir, any update on Medinova integration? Are we reaping benefits of this in this quarter or they are yet to come?

Narasimha Raju: The formal major process approvals are pending as of now. Okay? We have received a few points from the stock exchange because both are listed companies, right? So, we need to get the clearance from the stock exchanges and SEBI first, which is supposed to be received last month, but there is some delay from the authority side. So once we get those approvals, then petition will be moved to the NCLT. Then from there, the process will take at least like 5 to 6 months, okay? Because there will be shareholders' approval, et cetera. So we expect the whole process might get completed sometime around like May or June month.

Pranav Chawla: Okay. And 1 last question, if you may allow. Is primarily what is driving our Hyderabad market growth? Because I think we for the past couple of years, we haven't been able to grow at this 18-odd-percent rate. Suddenly, we are at 18%, 20% growth rate for this market. Any particular reason for it?

Siva Rama Raju: So, I think even in the past years, we are growing in double digit. And like we said in the earlier call, we have added a very good capacity from FY '19 to '23, until '23. And in between because of COVID, these centers took time to ramp up. Apart from that, the best part here for us is that both the existing and the new centers are performing, right? Like we said, it's a B2C brand. We are seeing the direct walk-ins growing. I think it's because of the capacity and the dense network that we have. We are able to see this kind of a growth. But otherwise, even in the past years, we were growing at, say, 12% to 14%.

Pranav Chawla: And what would be our market share in Hyderabad?

Siva Rama Raju: So this market size is slightly tricky. If we have to get the exact numbers because different companies giving different numbers. But understanding the market, what we guess is that we'll be less than, say, 20% of the diagnostic market. That, again, I guess, based on multiple factors that we know in the market. But to be very frank, we don't have the exact numbers.

Pranav Chawla: And what is the contribution of flagship centers?

Narasimha Raju: So flagship generates roughly around INR60 crores, so INR5 crores per month. Right? I think at the current run rate, I think at the time of IPO, it was roughly around 15% was the contribution. Today, I think it's about 10% of our monthly less than 10% of our monthly revenue.

Pranav Chawla: Okay. Thank you so much, sir.

Moderator: The next question is from the line of Deven from Marcellus Investment Managers.

Deven: Yes. Raju, what's the impact on EBITDA and PBT for Q2?

Narasimha Raju: The EBITDA, at the PAT level, it's approximately INR1.6 crores from this current quarter, which is like 0.9%. The PAT margins would have been higher by 0.9%. In the current quarter, we reported 23%. Had we followed Indian GAAP, it would have become 23.90%. In absolute number, it's approximately INR1.6 crores for the current quarter.

Deven: Okay. Got it. And secondly, sir, in your opening remarks, you mentioned that you've transitioned to some AI power pack for your entire network. So can you elaborate a bit more on this? What exactly is this and what sort of benefits should we expect on this?

Suprita Reddy: Like we said, we have a large team of more than 200 to 250 radiologists who work across all these centers. So the thing is when we have a large team, their expertise and their interest defer into different modalities. And what this AI pack basically does, it connects all of our doctors plus also our science cases, depending on the skill set of these doctors, which creates a more specialized expertise report.

Even to the customers, beneficial because if we have a pediatric radiologist. Then what will happen is all the pediatric radiology cases get assigned to these pediatric radiologists. Like a cardiac case will only get assigned to a radiologist who is subspecialized in cardiology. Two things happen. One is we'll be able to churn out a report much faster. And this will be of the highest quality because you are actually investing in a doctor who's specialized in that submodality reporting this case.

And this entire system is based on a web-based platform. It has AI capabilities. So it basically lets the doctor know whatever information he needs to know before, and it's a first come, first serve-based software. So the TAT is monitored automatically instead of us intervening manually to do that. It's basically to enhance the entire customer experience and keep the reporting at the highest quality possible.

Deven: Because the throughput for radiologist will increase because of it.

Suprita Reddy: It will also increase, and we'll also make sure that there is no attrition in the radiology base because they tend to do various cases and also what they enjoy at the same time.

Deven: And if throughput increases, do we also then see some benefit in professional fees that we pay to radiologists?

Suprita Reddy: So we have different models of our professionals working with us. We have people who come in for a few ads versus data, a few people who come in on target models. So it completely depends on various models, whether a consultant wants to come in.

Siva Rama Raju: And many of these doctors who and who were the throughput is high, generally, they're on incentive model. So basically, the more scans they report, the more they earn. So I don't think it will get any benefit on professional fee front. It's more on...

Suprita Reddy: The productivity front and the experience front and probably the professional satisfaction for the consultant himself.

Moderator: The next question is from the line of Anshul from Emkay Global.

Anshul: If you could just, I think it'll be a various composition to guide us about how many center how many hubs can be commissioned in Pune and Kolkata in H2 '25?

Siva Rama Raju: So Anshul, I think in this year, we have already opened 2 hubs, right. Rather than naming the region because these depends on multiple things, right? The landlords giving us on time, all the work happening on time, all that. So, we would say we'll open at about 6 at least 6 hubs in this year. We already we have opened 2 hubs, right? And we have upgraded 1 more hub in Gurgaon, right? Other than this, you'll see another 3 to 4 hubs across it can be any region, across these regions coming up in this year. Or maybe early Q1 FY '26.

Anshul: Okay. So in total, about 4 or more hubs until probably Q1 '26, wouldn't that be correct?

Siva Rama Raju: Yes, correct.

Anshul: Great. And our guidance of breaking even in these hubs outside our core geography of about 3 to 4 quarters remains the same?

Siva Rama Raju: Yes, 3 to 4 quarters, yes.

Anshul: And if I heard ma'am, correct, in your opening remarks, you said on goal, have we break even within 2 to 3 quarters itself?

Siva Rama Raju: Yes, we'll be able to break even within 2 to 3 quarters. Less than 2 to 3 quarters.

Moderator: The next question is from the line of Dheeraj, an Individual Investor.

Dheeraj: Sorry to ask you 1 more question. Whether are you planning to split the shares in the future? Are you planning to issue bonus shares?

Narasimha Raju: Currently, there are no such plans. But if anything relating to the share capital reorganization, it will be with the Board of Directors. Currently, there are no such plans.

Moderator: The next question is from the line of Bhavesh Ghandi from YES Securities.

Bhavesh Gandhi: One question from my side on the Bangalore plan. So you mentioned that there are 2 to 5 kind of chains, integrated chains operating in Bangalore and for a new concept to the city. So, and you have also mentioned about being organic. So any thought why an inorganic would not have made sense? I mean, what were the reasons that you found since you've been observing the market for 2 years?

Siva Rama Raju: So, Bhavesh, we have evaluated both the options. And then we found organic route will create a better will work better for us, both in terms of financials and also rather than taking somebody with a 3 to 4 centers who are operating in micro market. We want to open more centers across the city with the brand new centers. And then that will also make financial...

Suprita Reddy: It's not that we did not look at the inorganic route. Just the way that we looked at Pune, we also invested a lot of time into looking at a lot of opportunities that came away in the entire Southern region. But there are a few things that like we always tell you in an inorganic opportunity, we look at probably the mindset, the wavelength, the compatibility between both the businesses running, whether it's a B2C business or a B2B business over the only radiology focused centers where probably their government work was more. A lot of reasons that probably we did not think added value. And that is the reason why we did not take that route.

And the second one was pricing, which we always have to keep make sure that the investors' money is also looked at when we go, and we try to invest into an opportunity where it does not make sense to us. And when we invested about 2 years of our time and looked at the market in multiple opportunities like this, that we had more than enough knowledge to go the organic route and there's no hurry.

We will take a time out, but we'll probably build it out organically. That's the only reason. There's no other reason. Even now, if there's something that comes up our way which interest us in that particular region, we will definitely look at it. We will not say that we are going the organic route, so we're not going to take that. But I think the priority here is whether both the businesses will work seamlessly together.

Bhavesh Gandhi: Got it. That's it from my side.

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

Suprita Reddy: So I thank everyone for joining this call today. For any information or clarifications, we would love to answer you. You can get in touch with us. Thank you, everyone.

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