Ref: MHL/Sec&Legal/2024-25/41 **Date: August 17, 2024**

To,

BSE Limited
Scrip Code: 542650

National Stock Exchange of India Ltd
Scrip Symbol: METROPOLIS

Dear Sir/ Madam,

Sub: Earnings call transcript for Q1 FY25.

Pursuant to Regulation 30 of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015, please find enclosed herewith the transcript of Q1 FY25 earnings conference call held on August 12, 2024. The transcript is also available on the Company's website i.e., www.metropolisindia.com

We request you to kindly take the above information on record.

Thanking you,
Yours faithfully,

For **Metropolis Healthcare Limited**

Kamlesh Chandrashekhar Kulkarni

Digitally signed by Kamlesh Chandrashekhar Kulkarni
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Kamlesh C Kulkarni
Head – Legal & Secretarial

Encl: A/a

"Metropolis Healthcare Limited Q1 FY25 Earnings Conference Call"

August 12, 2024

E&OE - This transcript is edited for factual errors. In case of discrepancy, the audio recordings uploaded on the stock exchange on 12th August 2024 will prevail

MANAGEMENT: **MS. AMEERA SHAH – CHAIRPERSON AND EXECUTIVE DIRECTOR, METROPOLIS HEALTHCARE LIMITED**
MR. SURENDRAN CHEMMENKOTIL – CHIEF EXECUTIVE OFFICER – METROPOLIS HEALTHCARE LIMITED
MR. RAKESH AGARWAL – CHIEF FINANCIAL OFFICER, METROPOLIS HEALTHCARE LIMITED

MODERATOR: **MR. SUMIT GUPTA – CENTRUM BROKING LIMITED**

Moderator: Ladies and gentlemen, good day, and welcome to the Metropolis Healthcare Q1 and FY '25 Conference Call hosted by Centrum Broking Limited.

As a reminder, all participants' line 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.

I now hand the conference over to Mr. Sumit Gupta from Centrum Broking Limited. Thank you, and over to you, sir.

Sumit Gupta: Thank you. Good morning, and a very warm welcome to all the participants on Metropolis 1Q FY '25 Earnings Call hosted by Centrum Broking Limited.

With us today, we have the Senior Management Team represented by Ms. Ameera Shah – Chairperson and Executive Director, Mr. Surendran Chemmenkotil – CEO, and Mr. Rakesh Agarwal – CFO.

I will now hand over the call to Ameera ma'am for her "Opening Remarks." Over to you, ma'am.

Ameera Shah: Thank you, and good morning, everyone. Thanks everyone for joining us for this Q1 FY '25 Earnings Call today.

I am joined by Suren and Rakesh and our IR advisors from SGA. We have uploaded our updated Results on the Stock Exchanges and the Company's website, and I hope everyone has had an opportunity to go through them.

I want to start by thanking each of you for your continued trust and support. And it's your belief in our vision that drives us to push our boundaries and achieve new milestones. Let me begin with giving you an overview of the industry scenario.

The diagnostics industry is set for significant growth driven by rising health care awareness, the prevalence of lifestyle-related and critical diseases and the expansion of tertiary care across the country, especially in non-metro towns.

Currently we are observing increased consolidation within the industry. The standalone unorganized players are struggling to grow in terms of volume and the health tech players are facing a stagnation in terms of wellness growth. Both groups lack the pricing power of branded players in the illness segment who offer superior quality testing and tech-enabled solutions to enhance the consumer experience.

The wellness-oriented health tech players don't enjoy the same level of confidence from doctors, making it difficult for them to enter the illness space in any meaningful way.

Moreover, consumer preferences for superior testing experiences are driving the industry to adopt higher standards such as a more specialized talent pool, advanced infrastructure, and large investments in technology. These elements are now integral to stand apart in the market and scale profitably.

A year ago, the industry was characterized by aggressive pricing and intense competition. However, the current landscape is shifting towards a more stable pricing environment. Consumers are now prioritizing higher quality services over low prices. There is also a clear focus on developing niche capabilities in genomics and molecular diagnostics, which is in the illness space, expected to drive future growth.

The industry is seeing an increase in M&A opportunities with more reasonable valuations compared to COVID times, but high quality and ethical players will always demand a premium because they are so few. New players have realized that while entry barriers are low and scale can be built via the tail end of the market, the sustainability of the business is challenging, and profitability will remain elusive by building it this way.

At Metropolis, our focus remains on scientific innovation that differentiates us from the others. Secondly, geographical expansion provides access and driving growth through strategic initiatives.

I have always maintained that science is at the core of Metropolis. Our specialty segment is a key differentiator, collaborating with tertiary care specialists and providing them comprehensive, super-specialty diagnostics for treating complex diseases. There is an increase in demand in this segment, and it is more margin accretive due to its higher value and the specialized nature of tests which command premium pricing. To this effect, we are strengthening our Centers of Excellence for specialty testing by expanding our test menu and accelerating our efforts in molecular genomics.

We have also created IMAB, which is the Internal Medical Advisory Board, to provide expert guidance on clinical and medical matters. Their insights and guidance will drive innovation and maintain our reputation for clinical excellence.

In line with the Government's focus on upskilling and workforce development, we have recently launched MILES, which is Metropolis Institute of Laboratory Education and Skilling, in collaboration with reputed universities to provide continuous education and training for doctors and technologists.

We are actively expanding our market share in both core and emerging geographies focusing on specialized tests, and bundled wellness and illness packages. Currently, the top 8 Tier-1 cities in India contribute about 60% of our revenue, and we are leaders in four of these eight towns, while our peers are leaders in only one such city each.

Metropolis' strategy has been about deep penetration in large cities through our own and retail franchise centers, which has led to premium pricing and word-of-mouth marketing. When we look at the top 20 towns in India, they contribute 75% to our domestic revenue. We believe the growth opportunity in these 20 markets remains robust, providing us a long runway for growth and continued expansion.

Given our strong operational lab infrastructure in these markets, our key strategy is to keep opening new collection centers and increase productivity at all these centers through brand trust and excellent service. This will remain our focus this year.

Meanwhile, we have built 79 labs between FY '21 and FY '24, primarily in Tier-3 and 4 markets. By '25, we will have achieved our goal of establishing 90 labs. While these markets are growing rapidly for us, they still represent a small portion of our overall business.

However, the significant growth opportunity that lies ahead of us is generating revenue from these 630 Tier-3 and 4 markets where we are already present but have not focused on extensively and therefore they contribute to small percentage of the revenue.

Since we have already established the necessary infrastructure in these markets through our labs and collection centers, we believe that by intensifying our sales and product efforts, we can turn these regions into a strong growth engine for the future.

Our goal over the next 18 months is to additionally expand our network from 650 towns to 1,000 towns and at the same time focus on driving more sample load through our existing centers in these markets. We plan to offer a full range of tests and work with both B2C and B2B channels through this franchise ARC model in these 650 going to 1,000 markets.

While we extend our network in geographic reach, we also remain dedicated to enhancing the growth and profitability by existing partners and the network. Our aim this year is to create a differentiated brand and empower our services with AI and digitization for a seamless customer experience for both B2C and B2B customers. This will make it easier for customers to access services, schedule appointments, make payments and receive results digitally. These enhancements also facilitate quick resolutions to queries and concerns, overall improving customer satisfaction.

As we mentioned last quarter, exploring bolt-on and strategic acquisitions remains a key focus, allowing us to enter new markets and acquire new skills. I am personally dedicating a considerable amount of my time in identifying and pursuing acquisitions that I believe will align with our strategy going forward. Any acquisitions will be done after due consideration of strategic benefits and return ratios over mid to long term.

Additionally, we have focused our time and money on building our IT infrastructure to optimize operations, streamline processes, reduce manual interventions and overall improve productivity. Our partnerships with renowned industry players ensure access to the latest technologies and best practices, enabling us to implement operational automation and efficiency improvements. Since we are investing significant capital in infrastructure and technology, we have established a CAPEX Committee to oversee these investments, ensuring efficient capital deployment.

We are deeply committed to enhancing compliance and solidifying our governance framework. Prioritizing impactful ESG initiatives and social responsibilities is also central to our long-term strategy. One of the key focus areas for me this year will be to strengthen our governance to ensure that we operate with the utmost integrity, transparency, accountability and no surprises.

Speaking of the quarter gone by, we have delivered strong financial and operational performance for Q1 FY '25 with revenue and margin growth as was expected in Q1 in line with our overall anticipation for the year.

In closing, our strategy for this year focuses on expanding organically in our core markets of pathology, exploring new growth opportunities and allied services, and maintaining our commitment to scientific excellence and sustainability.

With these strategic initiatives, we are confident in our ability to deliver exceptional value to our shareholders, customers, and partners. I personally want to thank our team, investors, and board for their commitment to Metropolis. Your contributions are what help us build a brighter future for Metropolis and the communities we serve.

With that, I will ask Suren to now take you through our "Operational Performance" for the Quarter and our "Strategies" for FY '25.

Surendran Chemmenkotil: Thank you, Ameera, and good morning everyone on the call today morning.

We have had another superb quarter and begun the year on a strong footing. Our Quarter 1 revenue grew by 13.1% year-over-year, well within our guided range of 13%-15% growth for the year. We need to read this along with the fact that Quarter 1 is historically a relatively weaker quarter for the West and South of India for the industry.

EBITDA and PAT for Quarter 1, '25 grew by 21.2% and 31.3% respectively. This margin increase is attributed to operating leverage and operational efficiencies. We have maintained better OpEx control with costs increasing by only 10% while revenues grew by 13%. In the coming quarters, we anticipate to build on this further better.

Moving on to the operational KPIs:

Our patient volumes for Quarter 1 grew by 7% year-over-year, with a 6% increase in revenue per patient. Test volumes grew by 10% year-over-year, with a 3% increase in revenue per test. We have consistently seen high single-digit patient volume growth over the last 9 quarters and remain confident in our volume trajectory going forward as well.

In this quarter, patient volume growth was partially impacted by a price increase in our B2C segment effective January '24. As I told you all earlier, typically after a price increase, there is a temporary dip in volume for one or two quarters. However, we have observed a month-on-month uptick with volumes of June growing by 7.5% and we expect this positive trend to continue.

In Quarter 1, our revenue from TruHealth wellness and illness package bundling grew by 28% year-on-year. Our approach to selling packages focuses on empowering consumers with health information along with providing commercial benefits all backed by an excellent tech-enabled service.

This strategy has enabled us to upsell to existing customers, resulting in higher revenue per patient and more tests per patient. Scientifically curated packages and targeted marketing allow us to maintain a laser focus on digital channels, enhancing our margins. With continued emphasis on this approach and further automation, we believe TruHealth's contribution will increase with each coming quarter.

Through our network expansion strategy, we have increased our presence to over 650 towns by Quarter 1 end, up from 300 towns in Financial Year '23. We have successfully identified and entered markets with significant potential that face a supply-side challenge for quality diagnostic services.

While we have entered these markets through our franchisee centers and this expansion has boosted our revenue from Tier-3 cities, it is still early days and we believe this part of the business has a long runway for growth. Revenue from Tier-3 cities has grown by 18% year-on-year, and now contributed to more than 33% of total revenues.

We are committed to our expansion strategy of adding 25 labs and 500 centers this financial year with a focus on Tier-3 cities. This involves building a lab infrastructure and establishing network spokes to serve these labs as feeders, which will drive long-term revenue growth. While building labs adds to costs initially, once the feeders are established and productive, they will significantly increase our revenues in the future.

Our B2C revenue growth has been very robust, increasing by 18.4% in Quarter 1. The B2C segment now contributes to 54% of total revenue, up from 51% in Quarter 1, '24, keeping us on track to reach our target of 60% B2C revenue. Our B2C revenues from TruHealth and Specialty grew by 31% and 22% respectively. Our B2C revenue for the Mumbai market has increased by 18%. The overall B2C growth of 18.4% indicates we are expanding across various markets.

We have also seen faster than average revenue growth in cities like Bangalore, Pune, Surat, indicating increased consumer mindshare for quality diagnostic testing. Based on our internal costing analytics, we understand that our B2C segment yields higher margins in TruHealth and Specialty areas, which is why we continue to focus more on these segments.

Additionally, our strategic initiatives on B2C channels have enabled us to achieve robust, same-store growth from our own centers in established markets. We aim to replicate the same in our partner network as well, ensuring their growth and profitability.

Our recently launched partner engagement program, Metlink, will be instrumental in this regard. By providing structured support and benefits to our partners, we have enhanced our network's reach and efficiency. This program will help us strengthen relationships with our existing partners and retain them, thereby ensuring growth and success.

Our B2B segment has also performed exceptionally well with revenues growing by 12.4% in Quarter 1, '25. Over the last four quarters, we have increased our market share in the B2B business while maintaining our discount structure, ensuring profitable growth. B2B revenue contributions stood at 37% for Quarter 1.

We have implemented several initiatives including engagement through the partner portal, a centralized help desk and assigning dedicated key relationship managers to enhance service levels and drive B2B growth.

We have consciously decided to defocus on our institutional business coming from Government tenders, low margin corporate accounts and aggregators. As a result, the remaining 9% of our business, excluding B2C and B2B has grown at a slower pace than the Company average, impacting overall revenue growth for short term. However, we believe that this is a well thought out plan and there is sufficient potential in our B2C and B2B segments to meet and exceed our revenue growth aspirations in the near future.

Lastly, regarding our broader numbers for Full Year '25, we hope to achieve revenue growth in the range of 13% to 15% for the year as guided at the beginning of the year. Keeping in mind that coming quarters are historically stronger, particularly Quarter 2 and Quarter 4, this growth will be driven by a high single-digit volume increase and favorable change in product mix, which will help enhance the revenue per patient.

In terms of operating margins, while Q1 has been a strong start, we expect margins to expand further during the rest of the year due to operational leverage and seasonal factors within the business. We will continue to focus on margin enhancing segments like TruHealth and Specialty through our B2C channels.

As we continue building new labs at a rapid pace this year, we anticipate roughly a 1% EBITDA dilution due to the OpEx losses associated with these new labs. This dilution is already reflected in our current P&L and is expected to continue at a lesser number until full Year '26, after which it should cease and contribute positively to our margins for the long term.

On the closing, I would like to take a moment to acknowledge the hard work and dedication of our partners, the trust of the clinical fraternity and the efforts of our team. Together we are building a stronger and more resilient organization.

With this, I will now hand over to Rakesh for the financial updates.

Rakesh Agarwal: Thanks, Suren. Let me share some of the key "Financial Performance" for the Quarter:

Revenue for Q1 Financial Year '25 stood at Rs. 313.4 crore, a growth of 13.1% Y-on-Y with 7% patient volume growth and 6% on account of price increase and product mix change.

Our test volume growth stood at 10% for Q1 Financial Year '25. We count profiles as one test in MHL and the underlying test count will be higher. Revenue per test has increased by 3% on a Y-on-Y basis.

Our B2C revenue stood at Rs. 169 crore as compared to Rs. 143 crore in Quarter 1 Financial Year '24, an increase of 18.4%. Our B2C revenue for TruHealth grew at 31% and for Specialty at 22% on a Y-on-Y basis.

Our B2B revenue grew by 12.4% for Q1 Financial Year '25 compared to same period last year with B2B TruHealth and Specialty growing by 24% and 11% respectively. Revenue contribution of TruHealth segment to total revenue has moved up to 17% from 14% indicating a growth of 28% Y-on-Y.

Reported EBITDA for the quarter stood at Rs. 78.2 crore as compared to 64.5 crore, a growth of 21.2%. Reported EBITDA margins for Q1 Financial Year '25 stood at 25%, a growth of 170 basis point year-over-year.

PAT for the quarter stood at Rs. 38.1 crore with margin of 12.2%, up from 10.5% for Q1 Financial Year '24, which is an increase of 170 basis point year-on-year basis.

Moving on to the balance sheet, we have a net cash surplus of Rs. 137 crore as on 30th June 2024.

That's all from my side. With this, I open the floor for Q&A. Thank you.

Moderator: Thank you very much. We will now begin the question and answer session. First question is from the line of Amey from JM Financial. Please go ahead.

Amey: The first question I have is on the other expenses which have gone down sequentially. So, in opening remarks, we mentioned that we are optimizing cost etc., which has led to margin improvement as well. So, should we assume these other expenses as a structural change or is it led by some seasonality or something like that?

Rakesh Agarwal: So, I will take this. So, this is a combination of both. Obviously, the seasonality will help us to ramp up the revenue and that will come in a bit of a margin. And then at the same time, we are also looking at some structural changes like a bit more of automation, process improvement, and efficiency coming through productivity increase. So, all this combination will also help us and at the same time, the seasonality will help us. So, this is a combination of both.

Amey: So, going ahead, considering we are expanding as well, so how should we look at on the margin front? If you can guide us for full year?

Rakesh Agarwal: So, we have already guided that we will be in between 25% to 26%. So, we have closed our Quarter 1 at 25%, and we believe that we should go upside to 26% as we go further. So, we will be somewhere landing at between 25% to 26% during the year for the full year.

Amey: And on the top-line guidance of 13% to 15% for the full year, I believe we also said that high single digit would be coming in from the volume and rest of it would be maybe the mix and the price hike. So, is it possible to guide us on the price hike trend for next year? It would be similar nature like we saw last year.

Surendran Chemmenkotil: So, see, at this point of time, there is no discussion going on the price hike because too early for us to think about it because we just only over with two quarters with the earlier price hike. And our focus is definitely to increase volumes, improve productivity out of the stores from the franchisees, expand into the 650 plus markets etc. So, that's what we are focus going to be when it comes to revenue growth.

If any price increase at this stage or early next year is not under discussion at this point of time. We will take a call at the appropriate time depending upon what's the market conditions as well you know. So, volume growth definitely is one of our big focus areas and you will see that rolling out as you go towards the rest of the year.

Ameera Shah: Just want to add something to that. I just want to add something to that that, see, you remember that the 13% is a breakup of three things. One thing is the 7% volume growth. The second is the price input and the third is actually the product mix which is changing the average revenue per patient. So, the price does not impact the product mix part of it.

So, what we will certainly see going into next year and out of this 13%, only approximately 2%-2.5% has been effectively added by price. So, the rest of it is actually coming because of sort of work on the ground in terms of volumes and in terms of changing the product mix.

So, when we are thinking about next year, we will obviously not have any guidance at this point of time in terms of revenue etc. But the way we can think about is these three levers and even if tomorrow we don't land up doing price or we land up doing price, we are thinking about price as an annual or once in 18 months kind of a scenario.

So, we don't have a timeline fixed yet at this point, but we certainly, obviously, the volume and the increase in ARPP, which is the average revenue per patient, will certainly happen regardless whether we do the price increase or not.

Amey: Just one follow-up is that if the price hike is not taken, let's say, assume next year, then the ask for the ARPP is significantly higher and are we confident of achieving that next year?

Ameera Shah: See, ARPP is factored in by multiple things, right? It is about one, educating doctors about the more advanced diagnostics that are available and therefore recommending more specialty diagnostics for patients. That's one.

The second is how much we are able to drive more of our TruHealth, which is the bundling and the wellness, right? So, as patients walk in, there are patients who want to then buy bigger packages and what is our ability to do that conversion?

Now on both sides, as you can see, as we have shared with you in the presentation, both these areas are growing faster for us than the overall revenue for the business. And that's what our aim is to continue to do, is to drive specialty and TruHealth at a faster pace. And therefore, if we are able to continue to do that, automatically the ARPP will keep increasing. So, I think we are confident in where we stand on the execution front. And like we said, it's not that we are not planning to do a price increase, we just have not decided on the timeline, whether it will be 12 months, 18 months. So, I think we will just have to wait for that.

Moderator: Thank you very much. The next question is from the line of Kaustav Bubna from the BMSPL Capital. Please go ahead.

Kaustav Bubna: I wanted to understand what's stopping us from growing 25% on a year-on-year basis. Why are we guiding for mid-teen growth? What is it in the market and the factors that are stopping us from growing faster? Could you explain?

Ameera Shah: So, the industry, the way the industry is structured is, you have a head and a tail. The head is really where you have your best quality doctors, best quality hospitals, and top labs, which are your customers. And then you obviously have a tail, which is made up of a lot of unorganized players, which tend to be sort of a lower standard, right?

Now, the customer base that we are sort of going after is really more in the head because in the tail we find that the quality of work, because there is no minimum standards in India, the quality of work and therefore the kind of discounting and the kind of service requirement, it makes your business actually not so profitable if you follow good quality minimum standards.

So, if you try to grow much, much faster, you have to then be willing to play in all parts of the business, in all parts of the industry which may then actually have a negative impact from a margin perspective because you land up providing over servicing, unit economics of customers which are not very profitable. It might impact receivables days and fairly among other KPIs as well.

And we have to remember also that the market is at this point still quite fragmented and unorganized in nature and while we have always said it is an easy market to enter from a competition perspective, it is not an easy market to scale profitably.

And therefore, I think these are some of the thoughts when we are thinking about where we should really play, where we should focus our energies, because it is easy to build scale and grow at 25%, but you are not going to necessarily get the commensurate profit that actually makes this a business worth building or a business which is sticky enough and where you are building it on the back of brand and science rather than building it on the back of pure discount.

So, I think our model is more unique based on science and service and then we would like to build it in a way that is sustainable and profitable.

Surendran Chemmenkotil : Kaustav, we can just add one more statistic to that. In Quarter 1, if I look at the industry average growth of all the operators who have published the results, you know, it stands at 12.6% and we are at 13.1%. So, our endeavor is always to grow higher than the industry average and we are putting our efforts to be there.

Kaustav Bubna: Just one more question. You know, a few years ago, we did an acquisition to expand our presence in the south. So, want to understand going ahead, obviously, this market could consolidate going ahead, and we could be the ones consolidating it. So, wanted to understand where would we like to expand inorganically? Now where are the opportunities you are seeing, like in which states, in which regions in India?

Ameera Shah: So, we have about two or three different strategies now when it comes to acquisitions. One is what we have traditionally done, which is the geographical expansion, right? And Hitech also, which we did in October '21, was not so much about expanding into South as we were already the leaders in Chennai, and we were a significant player in Bangalore. And by acquiring Hitech, it accomplished two or three different things for us. It helped us solidify our leadership in Chennai.

And what we have found in healthcare is when you are a dominant player in a market, there are specific benefits on word-of-mouth, premium pricing, profitability, all of those benefits come through. And therefore, rather than being in 20 different places in markets, it's always better to actually be leaders in fewer markets rather than just being a very, very diversified option. So, keeping this in mind, we would like to continue the strategic thought around geographical expansion. So, that's one.

The second thought we also have is that, you know, there will be sort of technical or medical skills you may want to acquire in terms of products, in terms of new services and new tests that can actually help us grow for the future. So, there might be acquisitions also potentially linked to bringing in new service offerings into the business.

And the third kind of acquisition which could be looked at could be that we have seen a lot of entry over the last 15 years of players who have come into the market. And there are many what we call as sort of zombie firms in the industry today, which are knowing that they are never going to make money because they are either sub-scale or structurally there are issues, but a larger player can potentially turn these around with better management.

So, we are looking at these three different buckets for strategic acquisitions. And we will obviously, whenever we are applying our lens of acquisition, we look at not only the strategic imperative, we look at obviously the return ratios, the IRRs of these projects over a period of time, and we obviously look at the quality of the business.

Moderator: Thank you very much. The next question will be from the line of Pranav Chawla from Antique Broking. Please go ahead.

Pranav Chawla: My first question would be regarding; we have seen a slowdown in the growth in our focus cities. So, would you like to give any color on the reason for this slowdown, is this competition, is this saturation or a high base or anything of that sort?

Surendran Chemmenkotil: The focus cities, you know, it's in this range only over the last couple of quarters, two, three quarters, we are in the 8% to 10%, 11% range on the growth, because these are the big market, the top markets, and already keeping with the reasonably good high base.

Our efforts to drive these markets for further growth is like, just I told during the speech is about increasing the same-store growth further and also bringing in the franchises to add on to the overall growth story and also focusing on the TruHealth and the Specialty segments, right?

So, you know, this focus cities in the coming days, you will see a little more upside on the growth perspective, but if you look at it, two, three quarters is in the similar range, and we want to do better on the focus cities.

Pranav Chawla: And on the M&A front, any particular geographies that we are looking for? Because some of our players are, I think, are in South as of now, South and East. So, what would be our preferred markets given that we already have a strong presence in the South and West?

Ameera Shah: See, our belief, our model is a little bit different from our peers' models. I think some of our peers look at sort of regional expansion as a goal. We always have looked at this business as a city-wise focus. And the reason for that is like the statistic that we mentioned in the speech that out of the Top 8 Tier-1 markets in India, we are leaders in four.

Now that cannot happen unless you have a city specific mindset. If you have a regional mindset, then that will never happen, right? Because in these Tier-1 markets, you have to be able to build very strong B2C. And the ability that we have is to be a built it in four markets where we are the leader, right? So, while we will continue looking at North and East, obviously, because we are challengers and not leaders in those markets, and therefore M&A will be helpful.

But there are many cities even in the West and South in which today we are not leaders. And therefore, if tomorrow we did get a good acquisition that allowed us to have that platform to build dominance and leadership in a market in the South and West, we would not refrain from it. Because it's very different to go into a market and like through a distributor and build a B2B business, but it's very different to actually go into a market and build a B2C business. And therefore, we will be open to all markets, but obviously the preference is North and East.

Pranav Chawla: Last question from my end. Given that we have changed our presentation, can you provide us a split between North, South, East, and West for the quarter?

Ameera Shah: I think that's already in the presentation. Right, Suren?

Surendran Chemmenkotil: Contribution? No, it's an overall contribution. So, we will look at it and provide you. We will have noted down this.

Pranav Chawla: And as well as value on volume split for our tests.

Surendran Chemmenkotil: All right.

Pranav Chawla: Routine, specialized and semi-specialized.

Surendran Chemmenkotil: Right. We will do that.

Moderator: Thank you very much. The next question will be from the line of Sumit Gupta from Centrum Broking Limited. Please go ahead.

Sumit Gupta: I want to understand all the market dynamics in the Western India part of it. And how is the pricing scenario going there? And how much is like, what is the competitive intensity that you see in the Western India market, particularly Mumbai region?

Surendran Chemmenkotil: See, the Western India, particularly Mumbai, the competition intensity is not any lesser or more than the past, right? I mean, we continue to see a similar amount of rigor from all the competitions.

But of course, we have not seen too much competition from the pricing point of view over the last two, three, four quarters, right, purely on the basis of productivity, efficiency, product mix et cetera is what is playing in this market. So, you have seen that we have done 18% growth in Mumbai and our Pune is another city in the west region is doing very well. Surat is doing very well.

So, we are on our trajectory with respect to growth on all the western part of the country and also Maharashtra is doing very well for us. So, any specific thing that you want to know, please ask. Otherwise, in terms of our action plans on the west part of it, the rigor et cetera will continue to be as it is and it is going to help us in terms of our overall growth.

Sumit Gupta: So, just want to understand on the geographic mix over the next, let's say, next 2 to 3 years, so if you plan to expand into like to M&A into southern market, so just want to understand will the geographic mix remain more or less the same or will it change over the near future?

Surendran Chemmenkotil : The mix could, of course, today, west and south being our strong markets, the mix is largely skewed towards west and south at this point of time and as we keep expanding to the north and east and the next 300 more towns like we said, of course the mix will start changing a little bit as we go forward, right? But also, to some extent, things will also depend upon where we will go and do some of the acquisitions etc.

But organically if you ask me, the mix will definitely keep changing and you will keep seeing north and east part of the country getting stronger and we talked in the past that Uttar Pradesh, Madhya Pradesh, Assam are the 3 states where we are going to put lot of expansion plans and also Andhra and Telangana, right, which, of course, falls in south. So, I mean, you will definitely see some amount of change of the mix going forward on the market which today we may not be as strong as what we should be.

Sumit Gupta: And sir, just one thing on this point. What is the rationale that you look forward to when you target a new market? Just like you said Uttar Pradesh, Assam, Madhya Pradesh, so I just want to understand on that part.

Surendran Chemmenkotil : What is the rationale for?

Sumit Gupta: Like how do you target the markets? Like what do you see in the particular market that you focus on?

Surendran Chemmenkotil : when you enter into a new market you are asking, right?

Sumit Gupta: Yes.

Surendran Chemmenkotil : See, what we do, there has been a science behind entering into a new market, right? See, what we look at it is, first, of course, we start with what is the population of the city, what are the medical facilities in the city and how many hospitals, how many physicians and how many doctors in that city, what is the paying power of the city, what is the competition. So, all this put together, we have a science, we figure out okay, what is the right time to and right market to enter, what is the right time to enter.

We first process that and then we start with a B2B presence in that market. We go and appoint some of the B2B clients who will take samples for us and send it to us, the particular specialty sample. And when the volumes reached a certain level, then we go there and start our own centers and we start the B2C. And then the volume picks up to a certain more level, then we will go and put up a lab there. That's largely the broader sense of the science that we use in putting up any new cities.

So, we mentioned that we moved from 300 to 650 cities. Some of them we put up labs and rest all we have put up centers, either through B2C or B2B, and we need to keep expanding these 650 cities first and grow the volumes. That's the first opportunity available. And at the same time, we will move the number from 650 to 1,000 cities using the science that I talked about it.

Sumit Gupta: And sir, lastly, on the, like, present scenario in these test menus, so this will be specialized routine tests. How is the present scenario going in these? And if possible, can you provide the split between all these, like you used to provide previously, specialized and specialized routine and wellness also?

Surendran Chemmenkotil : I think we talked, we have mentioned that 37% of the total revenue is coming from the specialized testing, and TruHealth, which is the wellness and illness bundle packaging, has moved up to 17%. So, 54% of the total business is actually coming from Specialty and TruHealth, and the rest is coming from the routine and semi-special.

Sumit Gupta: So, how is the pricing scenario, like what kind of pricing power do you have? And we just want to understand this pricing also. So, what is exactly driving the pricing down? Is it only the routine test that is there, or are you facing competition in some other category as well?

Ameera Shah: I will just add something to that. See, if you have to remember one thing, pricing is not a competitive on a specific test. It depends on the customer. I will tell you what I mean by that. People think that routine tests or pricing is commoditized, and specialty tests are advanced. That's not actually true.

The way it works is that if you are a patient who is fine, you are not a patient at all, you are a healthy customer, then you may start looking at discounts, depending on your mindset, as something that drives your decision-making. But even in wellness, we find there are many customers who are more, they are saying, look, we are doing this once a year. I don't want to compromise, and I will do it only from a trusted player, and I will pay whatever I need to pay.

But when it comes to illness and you are sick, for example, a patient who has got heart disease, even a cholesterol, which is a very routine test, is a very important test for them. So, you can't say that the cholesterol test is therefore commoditized, and therefore the pricing is low.

So, actually what we find is that pricing is completely impacted by the criticality of the patient. And the more critical the patient, the less chances they are willing to take on something going wrong, and the more chances that they will go to a branded player that they trust, and then price actually has very little meaning because you are doing testing once a year and you are average spending some Rs. 700, Rs. 800. It's not a very expensive or a deal for most people.

So, we actually have found that the pricing is not a challenge. The only thing which is increasing every year has actually been the distributor margin. So, it's not that consumer prices are coming down but distributor margins are going up and now that depends on your model. If you are largely led by a sort of you have built a business which is discount led and very heavily dependent on distributors, then the last few years have been challenging for you.

But as an organization, as we mentioned, that has not been our model. Our model has been more direct to consumer, direct to doctor and therefore, frankly, our discount percentages are not increasing. In fact, they have been very stable when it comes to margins for distributors. Suren, if you want to add anything.

Surendran Chemmenkotil: Yes, that's fine I think you mentioned that.

Moderator: Thank you. The next question will be from the line of Pranav Chawla from Antique Broking. Please go ahead.

Pranav Chawla: So, on the gross margin front, if I see our gross margins has only marginally improved whereas our B2C mix has continued to improve. Our focus in Tier-1 cities has also improved. So, on those sides, it has always been tick-tick-tick, but our gross margins are not meaningfully improved. So, is there a particular reason why that is the case?

Rakesh Agarwal:: So, I will just add on one or two things. While you are right that this whole B2C growth and total growth should add the gross margin, there are certain activities which we are doing, is also taking away like new labs which we are creating. So, that actually has a higher material cost in the initial six to eight months period because there are very low volumes there and the cost of material is directly proportional to the volume. So, that is one reason.

Second is that we are also expanding our test menu in lot of new geography. So, we have added lot of new tests in new locations and in RRL. So, that also in the initial stage we face a bit of gross margin lower in that sense and definitely as we are expanding our test menu every month, so we are adding lot of new tests and when we add new tests, especially in the Specialty segment, though this test comes with a lower volume in the initial stage and a higher cost. So, these are the three factors which actually nullifies, but obviously from a long run point of view, all these are worth investing.

Pranav Chawla: Sir, just to follow up on that. So, when if you are saying the new expansion, I fail to understand how new lab additions is impacting gross margin because I am assuming these may be franchisee centers majorly and you may be processing tests at your main center. So, your other expense, the traveling, the test movement cost will be captured in other expenses and the processing may be happening in your main processing center.

Surendran Chemmenkotil: Please understand this, we are expanding the centers to the franchisees and labs, all labs are our own labs. The one which is coming up in Tier-2, Tier-3 towns is all our own labs. So, when a new lab comes up, the test volumes in the initial months will be lower, but at the end of the day, once you open up a consumable kit, you need to consume in a certain amount of period and hence, there is a relatively higher material cost from a new lab and also all varieties of new tests that we start, right? So, that is what is impacting the gross margin like Rakesh said. And it is not anything to do with the franchisee when it comes to the new labs. Only the centers are being run by the franchisees and the labs run by us if that clarifies your question.

Pranav Chawla: Sir, in Delhi, if I am not mistaken, the previous couple of quarters, we were taking write-offs and making provisions for the receivables that we had from the Government. So, is there any update on that?

Surendran Chemmenkotil: So, we continue to do that. I mean, whatever revenues come from that account, we continue to provide for at this point of time and while our efforts on collecting the monies are also on.

Pranav Chawla: Sir, but if I am not mistaken, we had decided that we were planning to stop supplies until we start receiving from the Government.

Rakesh Agarwal:: So, there are two accounts in the Government. Obviously, one is this Aam Aadmi, which we spoke last year and there are discussions that how should we continue the relationship, the volumes has come down particularly this year. And there are contractual obligations on Aam Aadmi which we are looking at and accordingly we will act upon. We cannot just abruptly stop any services. These are publicly distributed and there is no other contract as such as of now where we are not receiving payment, and we are continuing to supply services.

Moderator: Thank you. The next question is from the line of Aashita Jain from Nuvama Institutional Equities. Please go ahead.

Aashita Jain: A couple of questions. So, firstly on your revenue growth guidance, would it be possible that the 13% to 15% growth to seem sustainable even for the next two to three years in the absence of price hikes? As things turn today, we are expanding, and the focus is more on the product mix. How do you see this coming out in the next two to three years?

Surendran Chemmenkotil: So, Aashita, we have guided for 13% to 15% for the full year and also, I mean, once we do that, and I think going forward also, we should be talking about a similar levels of growth. And on the pricing part, like Ameera also mentioned this, we are not saying that price increase is not on the cards, so we are not going to take the prices up. I mean, we said it's appropriate time we will do that and we need to earlier, I mean, as of now the industry does in 2 years, 2.5 years once, but we will keep looking at the opportunity to increase the price as we go, right? And till then we will focus on the volume growth, the text mix between TruHealth and the specialty and also the volumes coming from the new accounts and the new labs that we launch. It's a combination of all that. So, we are optimistic that you know the guidance that we have given for this year can even be stretched to the years beyond the next one year.

Aashita Jain: My second question is on TruHealth. So, it's already contributing to about, I think, 17% to our revenues. Where do you see it settling in the next two to four years?

Surendran Chemmenkotil: Well, I think I don't want to put a number to it because there is a great opportunity. As and when we keep exploring, we keep seeing a lot of opportunities in this segment, bundling in the illness packages and also driving the wellness. We are clearly seeing good opportunities because one, of course, is giving a lot of good information about health to the consumer and also commercially good for the consumer, right? And we are delivering it through technology-enabled platforms and also 360 degree, like, it's going through all kind of touch points whether it is digital, whether it is our service centers or from the call center. So, every piece is helping us to grow this business.

So, as and when the consumer adoption and the awareness go up, this only keep getting quarter-on-quarter. I mean, every quarter we see that this last quarter to this quarter last, year to this year, we are seeing growth, right? So, we can be sure that this will keep going. I don't want to put a number to it for a year or two at this point of time. We would definitely like this to be a very big part of our portfolio.

Aashita Jain: No, I just wanted to understand directionally how you are looking at this?

Surendran Chemmenkotil: Yes, of course, actually, so you would see that 17, 20, 25. So, I don't want to put a time band to that, but definitely there is a huge opportunity. As we keep exploring, we can clearly see that there is a good you know portfolio that you are working upon.

Aashita Jain: And just lastly on your expansion plan, so, I see that one of your key geographies that you plan to expand is UP and other players too are directing their expansion plans towards this region. So, what gives us confidence to grow there and build a successful brand giving us a non-core market for us?

Surendran Chemmenkotil: So, I have already, yes, sometime back I spoke about the science that we use for geography expansion, right? The population, the medical setup, the opportunity, the competition, etc. We do all those kind of science and we arrive, these are the key cities, then we should go and operate. And also, some of the cities are not, supply side is definitely we find efficiencies in terms of good quality diagnostics. So, on the base of that, we are identifying these terms and putting up labs and so far, our success rates have been pretty good, right? And of course, like you know, UP, MP are all very highly populated places and medical facilities can still get better. So, that's the reason why we are focusing on these cities, and we are seeing wherever we are putting up labs and centers, we are finding things getting better sooner.

Moderator: Thank you very much. Ladies and gentlemen, that was the last question for today. I now hand the conference over to the management for closing comments.

Ameera Shah: Thank you everybody for joining us today for the Quarter 1 review of Results. As we have mentioned and just wanted to summarize, it's been a good quarter for us. We have been very encouraged by the very positive volume growth, the ARPP growth and we believe that we are very much on the right track and obviously the margin holding up as well. Usually, Q2 and Q4 are the best quarters of the year for the organization. And we have already gone into Q2 with that optimism of being able to have this quarter be better than obviously Q1.

We are very excited also about the other robust things that we are building in the organization, whether it's the systems, processes, technology and really good quality of team. And all of these things together really make us very excited about the future and really diversifying into new markets. Like we said, they are present in about 630 other markets which contribute low revenues today and how we can really make these centers much more productive and expand further into 1,000 markets of India.

So, the future and the runway for growth for this industry and for Metropolis specifically is very high. And we would definitely continue to see these engines of growth keep churning quarter by quarter.

Additionally, of course, we will be looking at acquisitions as well, things that are strategically aligned to us and look forward to accelerating growth through that aspect as well. But we are very excited and positive and look forward to continuing to chat with you on the next quarter. Thank you everybody.

Moderator: Thank you. On behalf of Centrum Broking Limited, that concludes the Conference Call. Thank you for joining us, and you may now disconnect your lines.