Thyrocare
Tests you can trust

February 05, 2024

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

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

Dear Sir/Madam,

Sub: Transcript of post results earnings conference call held on February 01, 2024 with Analysts / Investors

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

Pursuant to Regulation 30 and 46(2) read with Part A of Schedule III of the SEBI Listing Regulations, please find enclosed herewith the transcript of earnings conference call with Analysts and Investors held on February 01, 2024 for financial results of the Company for the quarter and nine months ended on December 31, 2023.

We wish to add that the same has also been made available on the website of the Company https://investor.thyrocare.com/financials/quarterly-financial-results/

This is for your information and records

Yours Faithfully,

For **Thyrocare Technologies Limited,**

Dorai Ramjee
Digitally signed by Dorai Ramjee
Date: 2024.02.05 16:58:13 +05'30'

Ramjee Dorai
Company Secretary and Compliance Officer

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"Thyrocare Technologies Limited
Earnings Conference Call"
February 01, 2024

Tests you can trust

MANAGEMENT: **MR. RAHUL GUHA – MANAGING DIRECTOR AND CHIEF EXECUTIVE OFFICER – THYROCARE TECHNOLOGIES LIMITED**
MR. ALOK KUMAR JAGNANI – CHIEF FINANCIAL OFFICER - THYROCARE TECHNOLOGIES LIMITED
MR. PRATIK HIRE – STRATEGY TEAM – LEAD INVESTOR RELATIONS – THYROCARE TECHNOLOGIES LIMITED

Moderator: Ladies and gentlemen, good day and welcome to the Thyrocare Technologies Limited Earnings Conference Call. As a reminder, all participant lines will be in the listen-only mode. And there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing star then zero on your touchtone phone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Pratik Hire, from Thyrocare Technologies Limited. Thank you and over to you, sir.

Pratik Hire: Thanks, Rio. A very good evening to all and thank you for joining us today for Thyrocare's earnings conference call for the third quarter of the year FY'24.

Today, we have with us Mr. Rahul Guha, MD and CEO of Thyrocare; and Mr. Alok Jagnani of Thyrocare, along with other key members of the senior management on this call to share highlights of the business and financials for the quarter. I hope you have gone through our results release and the quarterly earnings presentation, which has now been uploaded on the stock exchange website.

The transcript of this call will be available in a week's time on the company's website. Please note that today's discussion may be forward-looking in nature and must be viewed in relation to the risks pertaining to our business. After the end of this call, in case you have any further questions, please feel free to reach out to the Investor Relations team.

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

Rahul Guha: Thanks, Pratik. Welcome -- good evening and welcome to everyone on the call. Thank you for taking out the time from your busy schedules to join us this evening. Just a quick introduction to us on the call. My name is Rahul Guha and I'm the MD and CEO of Thyrocare and thank you for the opportunity to present the Q3's results for FY'24. I'm joined with my colleague, Alok Kumar Jagnani, who is our CFO; and Pratik, who handles our Strategy and Investor Relations.

As I did in the last call, I will start with a quote from Mr. Nelson Mandela in recognition of foray into Africa. "It is in your hands to make a better world for all live who in it." And we believe Thyrocare can bring our business model to Africa to make affordable and good quality diagnostics available to all. I'll give you some of the key highlights of what we've been up to this quarter.

Before we get into the details of this quarter, I'll reiterate the pay-for-performance pricing structure that we implemented at the beginning of this financial year. Earlier, our pricing structure was one-size-fits-all but now we have moved to a slab-based pricing model, which we implemented in May 2023. This has led to an increased energy with our franchisee network with motivation to move up volumes and enter higher slabs.

It will result in a movement towards larger franchisees and enable much greater reach from our large partners. As always, we continue to selectively expand our offerings. Aarogyam has been our flagship brand in the preventive healthcare segment. And now we have 2 more brands, JAANCH and Her Check.

JAANCH is targeted towards lifestyle challenges or for you to better understand your health. We have solutions across the spectrum from anything you might be worried about, whether it is fever or something more serious, hair fall, cancer screening as well as deep investigations for common chronic diseases like diabetes, heart health, amongst others. JAANCH already doing INR1 crore of monthly business. We've also revamped our gynac portfolio and relaunched it under the brand name of Her Check and it focuses on women's health.

I'm very pleased to announce that we have partnered with TestEasy to introduce genomics testing in our test menu. These tests will be targeted towards hospitals and marks our entrance into the genomic space. We are taking a very focused approach here and it is largely genomics in the diagnosis space and not consumer genomics. Specifically, some of the tests are launched to use genomics in diseases such as tuberculosis, fungal infections, bacterial infections and others.

Partnerships business, excluding API and B2G did phenomenally well in the quarter as we onboarded new clients in health tech segments and continue to grow our existing accounts. To bolster this success, I'm happy to share that we have acquired Think Health to strengthen our offering for the insurance segment with the additional capability of ECG at home. This will allow us to give our insurance partners a one-stop solution for blood and ECG testing and will further deepen our presence in the premedical checkup, pre-policy medical checkup and the annual health checkup market.

We will soon be the company that can offer health checks with ECG at home and I'm sure that will enhance our Aarogyam brand. On the B2G side, we continue to execute TB projects in the state of Gujarat, Assam and Maharashtra. On the international side, our lab setup in Tanzania is going on full swing and we are on track to start the operations before the end of this financial year.

As I've been telling you in the last quarters, we have revamped our equipment platform. Our equipment was quite old with an average age of 12 years. We've added 24 new machines from our vendors, bringing our average age down to 6 years. These new additions have dramatically improved our reporting accuracy and turnaround time. As we get into the results, I wanted to share with you a few highlights and pointers before we deep dive into the same.

Our franchisee business showed a revenue growth of 11%. Growth rate in franchisee business has slowed down, largely because of churn in the small franchisees. This churn was expected after we implemented volume-based pricing. Our big franchisees have grown at 25%, while the small franchisees have degrown. In terms of mix, contributions from big franchisees has increased from 80% last year to 90% this year.

Majority of the small franchisees have churned and the base is stabilized now. Going forward, the franchisee business should return back with high teens growth rate. Our partnerships business, excluding API and B2G showed a strong revenue growth of 33% year-on-year. On overall level, our partnerships business has remained flat year-on-year on account of decline in API and closure of the MCGM contract.

Overall, the pathology business has grown by 8% year-on-year, excluding materials. Radiology business, including Pulse Hitech, did a revenue growth of 9% year-on-year. However, at a consolidated level, we did a 5% year-on-year growth, largely because of the headwinds in API, the government business and some of the smaller material sales business. With that, I will hand over to Alok to cover the results.

Alok Jagnani: Thank you, Rahul. A warm welcome to each of you. I will briefly update you about the key highlights of Q3 FY'24 financial performance. Before we get into the detail, I will reiterate about the ESOP program that we have been mentioning in the last few quarters. This program has been introduced at group level to keep talent at Thyrocare. These ESOPs of parent's company will vest over a period of 6 years and we are recognizing the same as per the NDA as a book entry share-based payment reflected in P&L as expense and balance sheet as a equity contribution from parents.

The value of ESOPs granted is INR45.53 crores over a period of 6 years. But one thing we must note that this is a cashless charge and there is no cash outflow. As per Ind AS option are valued at grant date as for the Black-Scholes formula, which is charged to P&L over the vesting period proportionately.

Typically, its result in a hit in a year of grant, then proportionally charge over a period of vesting period. The breakup is included in the presentation. As these charges are noncash transaction -- noncash operating expenses and do not affect the cash outflow of the company, we have normalized EBITDA, which takes into account along with the provision of bad and doubtful debts. As Rahul mentioned, revenue of the quarter stood at INR123 crores standalone and INR135 crores at consolidated level, a year-on-year improvement of 5%, aided by better partnership, revenue growth in -- excluding B2G and API revenue, by 30% and franchisee by 11%.

Our pathology revenue, excluding material, has grown by 8% year-on-year. Our gross margin has improved by 3.3 percentage points, which is stable in quarter-on-quarter, mainly driven by price increase, volume growth and better negotiations. Our employee expenses has increased year-on-year on account of annual increment and decreased quarter-on-quarter due to the actuarial valuations. The same has been clarified in the previous quarter presentations that actuarial valuation is a timing difference. Our standalone normal EBITDA margin stayed flat 28% year-on-year, while quarter-on-quarter dipped by 2% on account of dip in revenue due festivity and seasonality, whereas overhead remained similar.

EBITDA margin at radiology stood at 8% versus 19% year-on-year, mainly on account of aged machines coming out of the CMC period and change of revenue mix mainly moving to FDG/PSMA. Quarter-on-quarter EBITDA has improved due to the price revision in few centers. Our consolidated financial normalized EBITDA margin is at 26%, lower by 1% as compared to the same quarter previous year.

With this, I will hand over the call to Rahul for strategic update. Thank you.

Rahul Guha: Thank you, Alok. Just to reiterate our overall growth, if you exclude API and B2G, as a company is about 15%. With that, I'll just take a few minutes to recap to you our strategic direction, then I'll open it up for Q&A. First, I will reiterate our value proposition to the customer. We will continue to remain an affordable option to all patients with good quality and on-time reports. All our efforts on our value proposition is towards ensuring low cost to the patient; assurance on quality of testing through our certifications and engagement with doctors.

We have made substantial progress on this, which I updated in my initial comments, is reflected in our presentation and this continues to remain at our core and will guide all that we do. Second, our strategy. We hope to become the B2B partner of choice to all front-end diagnostic services companies in India, whether it is a small diagnostic center in a semi-urban area, a pharmacy in a metro, a small nursing home, an individual doctor, or a leading online diagnostic platform or health tech marketplace.

We are happy to provide low cost, robust testing solutions to ensure that they can serve their patients in the most effective manner. If they require phlebotomy, we are happy to mobilize our phlebotomy network of almost 900 company and 400 network phlebotomists to serve them better. With the addition of Think Health, we will be able to serve our B2B partners with the solutions for ECG at home as well. With the addition of TestEasy, we will be able to now help them add genomic sequencing or genome sequencing for their customers too.

Further to reiterate, as I've shared in the last few quarters, we have 3 key pillars of growth. The first is our franchise business. The focus is to take our franchise business deeper into India with a focused test menu and provide our clients with a frictionless experience to transact with us and provide their customers the best testing experience they can. We continue to focus on private as well as public partnerships.

In the public space TB and infectious disease, where we are, by far, one of the strongest players in these segments. We have won tenders in Gujarat and Asam and have been working with Maharashtra. Additionally, we will continue to expand our partnerships across health care companies, hospitals and other health services companies to enable them to provide diagnostic testing to their customers.

The third area is new for us. We believe we have a strong and robust B2B model with a core of execution. We are ready to take this model forward with our first entry in Tanzania. The opportunity is tremendous for us to be able to launch affordable tests. That in brief is our mandate as management. Thank you so much for giving us a patient hearing. As always, I will end once again with a quote from the Mahatma, "find purpose, the means will follow" and our purpose remains to provide affordable, high-quality testing to everyone.

With that, I'll open up for Q&A.

Moderator: Thank you very much. The first question is from the line of Mr. Rahul Agarwal from InCred Equity. Please go ahead.

Rahul Agarwal: Firstly, congratulations Rahul for the additional role at API. Just to start with the questions. I think first on the Think Health acquisition, I wanted to know, the buying of this asset, I think that the benefit will come through insurance clients but I couldn't really figure out what do we get in return? So essentially, does this -- thoughts, like is there was an entry barrier, which is getting solved by this acquisition? And what is this asset all about? Would you just help me to understand that please.

Rahul Guha: Sure. So see, in insurance, one of the big gaps that Thyrocare had is, when you have a pre-policy medical checkup ECG is actually an integral component of that, right? Since we were largely pathology only, we could not service those orders fully. So it was -- many of the aggregators would work directly with the insurance companies where they were able to give both of these solutions to an insurance company through a single window.

Of course, there are not significant barriers to entry. We could have built this ourselves. But we felt that the Think Health team brought to the table 2 things. One is the full understanding of how the insurance segment works and they have built the appropriate technology and operations to be able to service that demand, right, which if we had done on our own would have taken us upwards of 1 year.

The second is they have 100 phlebotomists on the ground who have been trained in administrating ECG at home, right? And they are equipped with ECG, mobile ECG equipment and that was a ready base that we were immediately able to integrate into -- or we will be immediately able to integrate into our phlebotomy network and be able to service ECG at home orders for all our insurance clients. So the real rationale behind the acquisition was it's a new capability, which would have taken us a long time to develop on our own and we were able to get it quite quickly into our system.

Rahul Agarwal: Perfect. Got it. Clearly understand what's happening. Secondly, on the sample volumes, I understand there was churn in franchisees and seasonally, this is a big quarter. Any other reason for sample volumes to decline Y-o-Y?

Rahul Guha: No, it's largely the churn. As I said, we have categories going from Bronze all the way to Diamond. So Bronze being where we have the highest rate in the market and Diamond where we offer franchisees a significant discount because of the volumes. So as I highlighted in the initial comments, our mix of large clients, which I would call Diamond to Silver was about 80-20. So 80% Diamond to Silver and then 20% Bronze. That has actually now moved to 90% Diamond and Silver and less than 10% or roughly about 10% Bronze.

This we were expecting would happen as we moved into that price tierization. What happens is, over time, these clients, actually the Bronze kind of category will get attached to some of our Diamond franchisees and will come back but we were expecting this to happen. We had timed it in a way that it happens in this quarter because this quarter is the quarter where anyway you see a significant dip because of the season and all of that. So we have timed it in a way that this would come roughly 6 months after we launched the pricing strategy and that's kind of how it has played out.

It's reached the bottom. So the churn in Bronze also over the last 3 months has more or less been stable. There's not that much more churn that is happening over there. So as we get into the peak season, which is the entire fourth quarter or Feb, March more specifically, actually, we enter the peak season with a much stronger franchisee network. Each of them transact much more with Thyrocare and, therefore, have the ability to invest and expand their business as we enter into the festive season. So I think most of this will get sorted out over the next 2 quarters.

Rahul Agarwal: But in my understanding, if the Silver and Diamond go up and Bronze goes down, it basically means that the volumes go up and realizations go down. Isn't that correct?

Rahul Guha: Yes. But while the churn is happening, the net volumes remain the same. Once the churn stops, which is what I said over the last couple of months, 3 months exact -- to be precise. We've kind of reached the bottom of where the churn would be. So now we will see the growth going forward. If you're referring to our overall pathology workload, right, so the franchisee workload has been more or less stable. It's not gone down at all. Our partnerships workload has kind of been in line with revenue. So if we grew about 33% our partnership revenue, our workload has grown, I think, about 25% roughly.

The big dip in overall workload has come because of API and B2G, where we've lost about 4.5 lakhs of workload on a year-on-year basis. So MCGM was a very large workload account. From a margin and EBITDA point of view, it was very narrow. So actually, there's very little impact on the EBITDA of that workload going. And API, of course, over the last year has degrown.

Rahul Agarwal: Got it. And last question from my side on radiology. Obviously, there's a declining trend in margins because of cost increases. Just wanted to understand, are we headed to a cash loss here or this declining trend will stop next quarter?

Rahul Guha: No. Actually, last quarter also was quite bad but we've been able to arrest the decline, right? So last quarter, I think we landed at about INR70 lakhs EBITDA. This quarter, we land at about INR80 lakhs. The bulk of the cost increases have actually got -- come into the base. So if you see the biggest hit that has happened in NHL is our other expenses has gone up by roughly about INR60 lakhs, INR70 lakhs.

That is because the machines are very old and the CMC or maintenance costs have gone up. But now that's in the base, right? So I don't see this business going into a cash loss. There is also a significant amount of depreciation there, right? So it's about INR1.5 crores of depreciation that sits there. So I think from a cash position, we are reasonably comfortable.

Moderator: The next question is from the line of Aditya Khemka from InCred PMS.

Aditya Khemka: Rahul, so since the management changed at Thyrocare, we have rationalized 3 streams of revenue. That's the API business, B2G, I understand it's not intentional rationalization but it's happening nevertheless and now the low ticket or the smaller franchisees. Going forward, is there any other part of the business which we see will get negatively impacted due to the initiatives that we are taking? Or do you think in terms of the rationalization of the less productive streams of revenue, we're done.

Rahul Guha: I think largely -- you have pointed the right thing. I think API has bottomed out. Government we had exited. And I think this entire Bronze category cleanup that we were planning is done.

Broadly, I think -- actually, if you look over the last 2 quarters, the growth has been quite robust of all of these base businesses. This was -- this franchisee pricing cleanup was the last one that we had to do. But I think broadly that's it.

Aditya Khemka: Got it. And you said that the larger franchisees were earlier 80% of the revenues, now they are 90%. So the balance 10% Bronze franchisees, I think, will have, is there a chance that they will also eventually drop out over the next 2, 3 quarters? Or have you got an indication from them that they are okay with the pricing and they would actually scale up the business to move upwards on a redrawn strategy?

Rahul Guha: Yes. So as I said in the call, we've been studying this quite closely. If you look at it over the last, I would say, 4 to 5 months, that number has been stable. So if they had to -- so they churned in the initial part. So during July, August, September is where we saw the maximum amount of churn, right, just after we launched the scheme. Over the last 4 months, it's been stable. Whereas if you look at the large franchisees, the large franchisees have actually grown by almost 25%.

So that base has actually done quite well. This cleanup was expected, we were saying because our cost to serve over there is quite high. So if we were charging the same price for a large franchisee versus a small franchisee, it was actually margin dilutive to some of those clients at the old rate that we were serving them. So we had to do this cleanup.

Aditya Khemka: Understood. On the margin profile side, Rahul, so 28%, if I'm reading it correctly of ESOP charges and some one-offs that we have reported this quarter. Where do you see the margins, adjusted over the ESOP charges, where do you see the margin projected once the Bronze sites move out because the previous participant asked a question that if Bronze guys move out, basically margins could probably get compromised because these guys will pay lesser as you take more from them. So how do you see the margin projected over the next 1 or 2 years for the consol business?

Rahul Guha: See, I have been always guiding to between 29% and 30% on the EBITDA side. I mean this quarter is -- any way normally this quarter is muted from a margin point of view. But I think we'll cover it up in the fourth quarter. So I think on a 9 months basis, they're still on track. And I think for the full year, we'll be on track to be in that range of 29% to 30%.

Aditya Khemka: This is from the fourth quarter, you're saying or from the net fiscal year?

Rahul Guha: No, no. From the fourth quarter itself. The fourth quarter tends to be very good from a revenue point.

Aditya Khemka: Yes, that's right. It's the best quarter seasonally. Okay. Last question and a more strategic top-down question. Now that API PharmEasy doesn't have much business with us as it is and they've been unable to raise capital to sort of deleverage themselves, what do you see is the benefit of being part of the API Group? Why would they still hold on to Thyrocare as a subsidiary? And how does this benefit Thyrocare to be a subsidiary of API?

Rahul Guha: Yes. See, for us, right now, these are related parties but all transactions are done on arm's length basis. For us, PharmEasy still accounts for about INR12 crores, INR13 crores of revenue every quarter. So they are our largest client or customer by far. So from that point of view, they're very important to Thyrocare.

Even from the API Group side, the diagnostics business is one of the most -- actually the most profitable business on API as well. And so, therefore, there will be intent to scale that business and see how much we can grow it because if you look at it between medicines, OTC products and diagnostics, diagnostics, even at an EBITDA level at API Group is the most profitable. So there is definitely intent from that point or API's point of view also to scale the business.

Aditya Khemka: Right. And is this being a part of the API Group a hindrance for you guys to approach other med tech platforms to get B2B business from them or are they fairly open to you guys despite you being a [inaudible 0:28:06] competitor?

Rahul Guha: We haven't faced that challenge at all, Aditya. We work with almost every health tech company in the country. It has never really affected Thyrocare. We do -- even on PharmEasy, we sell a Thyrocare. So if you see -- go on the PharmEasy app, you'll see it's powered by Thyrocare. And if you go on any of the other apps, I don't want to name names but if you go on many of the other apps, almost every other app, you will find Thyrocare there as well.

Aditya Khemka: Right. Sorry, I have one more. On the African entity, so how much have we already invested? And you said it will get operational from the fourth quarter. So are you already sort of incurring expenses on the African business on your P&L? Or are you capitalizing those businesses as for the operating expenses?

Rahul Guha: So overall, we have a commitment. As I had said, we would basically invest about INR10 crores overall in Africa. So far, we have funded the African entity with roughly about $375,000. So that's the level of investment we've put. The partner also will put, match us at every stage of the investment. The work is underway. The lab will get operationalized this month. So we will be starting operations in this quarter. All the equipment has been bought. The lab has been set up. I mean the final touches are going on at this point in time. But I think we are on track to launch this month. And so the business will be operational, I would say, in this quarter.

Aditya Khemka: So you are not currently incurring various -- as in -- when I say currently, I mean in the December quarter. So in the December you did not have any operating expenses from the African entity...

Alok Jagnani: So there is no operating expenses as the pre-operation expenses are incurring and all is going to capitalized once we are going to start the operation, which is going to happen at the end of quarter, what Rahul has said.

Moderator: Thank you. The next question is from the line of Shubh from RatnaTraya Capital. Please go ahead.

Shubh: So I wanted to get some more clarity on the API front. How do you see it going further as a percentage of revenue? And second, what is the difference in pricing given to API and to other B2B vendors or partners?

Rahul Guha: Sure. See, in growth, I -- as the funding comes in and the investment plans get drawn up, right, I would expect API to grow between -- in the teens, I would say, not the super normal growth that we saw earlier. So I would be happy if that business grew at about 15%, maybe between 15% and 20% is where I would be happy if that business grew. On the second question, the pricing is declared as part of our related party transactions.

I mentioned earlier, they're the largest customer that we have by far. So we have a standardized rate across all our B2B partners and we have a slab-wise discount from there, depending on the size of the customer. At this point in time, PharmEasy enjoys a 15% discount from the B2B rate or basically our market rate, which is in line with the slab-based discounts that we have basically put in place.

Shubh: Understood. Understood. And second, earlier, you had taken some efforts and experiments with changing the realizations. How do you see it going forward, like sales and realizations versus change in volumes? What is your view on that?

Rahul Guha: See, we normally, I think, pretty consistently do volume growth of roughly about 10%. I expect that to continue and maybe a 3% to 4% from price. So that's kind of where I see us land.

Moderator: The next question is from the line of [Meg Shah], who is an individual investor.

Meg Shah: And first of all, congratulation to Rahul ji for the appointment as President, operation of API, in addition to the MD of Thyrocare. But sir, my question is that will you be able to serve both the company efficiently?

Rahul Guha: See, the -- as it has been declared, I continue to remain the Managing Director and CEO of Thyrocare. I am spending time at API to coordinate the synergies across the group. So individual business leaders in API run their individual businesses. I'm there to ensure synergies are captured across the group. So -- and for that, I'm spending time as needed but my primary focus remains Thyrocare and ensuring that Thyrocare continues to grow and deliver the margins expected.

Meg Shah: Yes. Because the many investors are wishing that you remain the MD and you look after the Thyrocare business more than the API business. It's our wish. That's it, my concern. And sir, the second question is how much capex the company Thyrocare has incurred, particularly during the quarter 3 and the first 9 months of the year on at pathlab and radiology? And when the benefit of this capex will be seen in the profitability?

Rahul Guha: Sure, sure. I'll let Alok take that question. But Meg, first, thank you for the vote of confidence and be rest assured that my primary responsibility continues to ensure that Thyrocare is on track. With that, Alok, you can take the capex.

Alok Jagnani: So on the total capex, what we spend over the period of 9 months is around INR46 crores, of which INR6 crores pertains to previous year, which cash outflow has happened in the current financial year. As mentioned in the brief presentations also, we have spent -- we have replaced our 24 machines on which we have spent around INR16 crores.

Around INR24 crores we have spent on lab infra and interior upgradations because all the labs are old and require lots of upgradations and internal works, so that has happened. Around INR6 crores we have spent on the equity and IT leased line upgradations, IT capex and all. So in total, we have spent around INR46 crores in the last 9 months, that include INR9 crores we spent on Pulse radiology business also.

And on the benefit side, the second question is the -- how is going to benefit us? The capex spend has happened mainly because, mainly on account of -- as the machine was -- is between 9 to 12 years and require a replacement. So on the quality front, we have spent all this capex, so that we will be more focused on quality, so that reports are more accurate and correct. So that's resulted in converting revenue and price from consumer sites -- franchisee sites. On radiology business, we have spent INR9 crores and that we have through Pulse investment and which is coming in radiology investments. We are expecting over a period that's going to convert into a more beneficial -- more EBITDA for investors.

Rahul Guha: And Mr. Shah...

Meg Shah: My question is that whenever there was some CapEx that OpEx is reduced, their capacity is increased, quality is increased. And ultimately, because of this, the profitability increase. When the -- in real term -- in the financial terms, the profitability will increase.

Rahul Guha: So sir, there are 2 parts to this. One is, what we invested in capex last year. If you see our gross margin also, most of that is, comes from efficiency in our cost of operations. So if you look at the P&L also, our gross margin last year was about 68%. This year, it is 71%. Of course, some of that has come from price hikes but also from the efficiency from the equipment. So one part of that is, we are already seeing the efficiency in the gross margin, right?

The second part, which is, wherein when we have invested in quality, over time that results in more and more confidence on our reports and more and more customers coming and repeating with us. That I think will come over the next couple of years, the confidence from the equipment and the -- but the benefits have already come in the gross margins.

Meg Shah: Okay. Sir, in this quarter, there is a revenue growth. And I think it is mainly due to the value growth, not the volume growth. The volume has reported some degrowth. So when the company will be on a sustainable volume growth path?

Rahul Guha: As I said, the volume decline has largely been because of the exit. We exited from the government business. And we -- our parent PharmEasy's business has degrown. The rest of the business is growing quite well. But if you remove these 2 effects, API and B2G, rest of the business has grown at 15% year-on-year. And as these reach the bottom or have reached the bottom, I expect the business also to get back on a strong growth trajectory.

Meg Shah: Okay. Okay. Suppose we don't get any business from the government or the very less business from the API, then this -- can we consider this is a base and now on what the company will report the volume growth?

Rahul Guha: Yes, yes, very much. In fact, if you look over the last 2 quarters, we were tracking quite well on the volume and revenue growth. This quarter, as I said, we had put some pricing strategy in place, which we were expecting the smaller companies to -- smaller technology partners to act upon because we had [inaudible 0:39:46] prices there, which was expected. But as Aditya had also asked, right, I think for all the business we have tried to exit, I think we have now reached the bottom. So going forward, I think we should be back on a good growth track.

Meg Shah: Sir, earlier, we were making the good profit from the radiology business [inaudible 0:40:10] radiology business has reported the, I think the operating loss or net loss. So when this business will achieve breakeven or what is the reason for making them loss?

Rahul Guha: The radiology business, as I said, sir, last quarter was in a loss. This year, it has come back into profit. And the reason it had gone into a loss was largely because of the equipment being very old and having a lot of breakdowns in the business. We have been working very hard to [inaudible 0:40:47] of that and bring the business back on track. As I said, from a cash flow basis, the radiology business is quite fine. What hurts us is effectively the equipment life and the breakdowns and there's still a substantial depreciation charge that hits us.

Moderator: We'll move to the next question. The next question is from [Aditya] from Securities Investment Management Company. Please go ahead.

Aditya: Sir, we break up our revenue into 3 parts that is franchisee, partnerships and B2C. Sir, if you can just help us understand the difference between all these 3 categories in terms of scope of work of Thyrocare for the customers, pricing or any different parameter?

Rahul Guha: Sure. It's also explained in the presentation towards the end but I'll just give you a brief summary. Our franchisee business are offline partners. So think of it as Thyrocare branded pathology lab or pathology collection centers or even independent pathology centers who outsource their testing to Thyrocare. So that is largely our franchisee business. So it's an entirely offline business. where we partner with roughly now, I think, about 7,500 of these offline partners.

Our partnership business is working with many of the large insurance players, large pharma companies, large health tech players, of which one is PharmEasy, where we not only support them with the testing but we also support them with the blood collection, right? So we have a fleet, as I mentioned, 900 company phlebotomists and 400 franchisees phlebotomists who go to the house and service the orders.

So like for PharmEasy, PharmEasy places an order on Thyrocare, Thyrocare technician will go to house, collect the blood sample, bring it to a Thyrocare lab and then Thyrocare will release the result to PharmEasy. So we have similar arrangements with almost all the health tech players. And we also work with many large corporates, insurance, as well as pharma companies to help do the same. So that's the scope of partnerships business. The B2C business is the business that we get from thyrocare.com, the website, ThyroApp, which is our app.

Aditya: Got it. And sir, these individual franchisees, are they only give the volumes to Thyrocare or they can give the volumes to other players as well?

Rahul Guha: So as I said, the Thyrocare-branded franchisees work exclusively with Thyrocare. But the non-branded franchisees work with multiple partners.

Aditya: And currently, what will be the proportion of PoCs?

Rahul Guha: So from a count point, roughly about 800 Thyrocare branded. The remaining are Thyrocare unbranded. From a business point of view, I think it will be -- about 30% from a business point of view will be Thyrocare banded and 70% will be Thyrocare unbranded.

Aditya: Okay. Okay. And sir, in terms of geographic expansion, we had set up lot of labs when you took over the company. So have we [inaudible 0:44:33] capex expansion will completed or do you -- you still feel that we have to open more labs and deepen our geographical presence?

Rahul Guha: See, I think by and large, the capex expansion in India is completed. We may do a few selective expansions where we feel there is a good opportunity. And our presence is low. But by and large, we are quite happy we have about, I think, 50 labs across the country. If you drop a pin anywhere in India, there will be a Thyrocare within 200 kilometers. So by and large, we are quite happy with the expansion. I don't think we'll be expanding too many at this point in time. But we will look at Africa, as I mentioned.

Aditya: Got it. Sir, just one last question. We had a partnership revenue of total INR35 crores and INR23 crores was excluding API and B2G. So this balance INR12 crores is purely from PharmEasy? Or we have some government revenue as well?

Rahul Guha: Government business will be about INR1.5 crores. The vast majority will be PharmEasy.

Moderator: The next question is from the line of Rahul Agarwal: from Incred Equities.

Rahul Agarwal: Just 1 question on the international business. How much time will it take for this business to reach your internal revenue expectations at Tanzania?

Rahul Guha: So I would say 2025, FY 2025. Our expectation from Tanzania is quite small. I would anticipate in the INR2 crores to INR3 crores range. That's it. But then as we scale up in the next year and the year after is when we expect it to be substantial.

Rahul Agarwal: Okay. And related question was, so let's say, annually you reach INR2 crores, INR3 crores. When do we start investing for other locations? Does it start in fiscal '25 at all? Or do you want to stabilize Tanzania first, experience that and get -- and then maybe FY '26, you start investing for other locations?

Rahul Guha: Yes, yes. Africa, we will not do the lab in 2025. We will only look after we have stabilized and we have fully understood the market.

Rahul Agarwal: Okay. Get it. So the next year's capital expenditure plan, would you have a number to that, fiscal '25 apart from...

Rahul Guha: I'll ask Alok to take it up.

Alok Jagnani: So approx, in this quarter, we are going to spend around INR[6] crores approximately, out of which maybe INR1.5 crores is going to be on account of machines replacement and INR3.5 crores is going to be for miscellaneous. That's the projections we have.

Rahul Guha: He is asking for next year.

Alok Jagnani: Next year, we'll come back on the guidance.

Rahul Guha: It's not going to be substantial, Rahul but we'll come back with a specific number. I would anticipate it to be around the INR30 crores range.

Rahul Agarwal: Okay. Get it. And fourth quarter, Alok said was INR5 crores, right?

Alok Jagnani: Yes, approximately INR5 crores we are projecting, we're going to spend. INR5 crores.

Moderator: We will take that as the last question. I would now like to hand the conference over to Mr. Rahul Guha for closing comments.

Rahul Guha: Thank you, everyone, for joining us and spending time with us and for all the questions. I hope I've been able to answer them to your satisfaction. As always, we continue to remain focused on our strategy, which is to be the most affordable, good quality, diagnostic test partner for everyone in the health care business and we continue to execute on that strategy. We have been investing in improving our quality, improving our reach and ensuring our turnaround time is as close to best-in-class and we made substantial progress on all of this.

I thank you for all your support on this journey and with that, I'll hand over to Pratik to close the call.

Pratik Hire: Thank you, ladies and gentlemen. On behalf of Thyrocare Technologies, that concludes this conference. We thank you all for joining this evening. Over to you, Rio.

Moderator: Thank you very much. With that, we conclude the conference. Thank you for joining us. You may now disconnect your lines.