Dr Lal PathLabs

June 9, 2016

National Stock Exchange of India Limited
Exchange Plaza,
Plot No. C/1, G Block,
Bandra Kurla Complex
Bandra (E)
Mumbai – 400 051.

BSE Limited
Corporate Relationship Department
Phiroze Jeejeebhoy Towers
Dalal Street
Mumbai- 400001

**Subject: Disclosure of information under Regulation 30 of SEBI (Listing Obligation and Disclosure Requirement) Regulations 2015**

Dear Sir/Madam,

Pursuant to Reg. 30 of SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015 (the "Regulations"), please find attached herewith Financial Results Conference Call Transcript of the Company for Q4 & FY16.

We request you to please take the same on record.

Thanking You,

Yours Faithfully,

**For Dr. Lal PathLabs Limited**

Dr. Lal PathLabs Limited Gurgaon

Rajat

**Rajat Kalra**
**Company Secretary & Legal Head**

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# Dr Lal PathLabs Limited (LPL)

Q4 & FY16 Results Conference Call Transcript

May 27, 2016

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| Call Duration | ▪ 1 hour 12 mins |
| Management Speakers | ▪ (Honorary.) Brig. Dr. Arvind Lal - Chairman and Managing Director of Dr Lal PathLabs Limited<br>▪ Dr. Om Prakash Manchanda - Whole-time Director and CEO of Dr Lal PathLabs Limited<br>Mr. Dilip Bidani – CFO of Dr Lal PathLabs Limited |
| Participants who asked questions | ▪ Dheeresh Pathak - Goldman Sachs<br>▪ Pritesh Chheda - Lucky Investments.<br>▪ Paras Nagda - Enam Holdings<br>▪ Bhagwan Chaudhary -Sunidhi Securities<br>▪ Manoj Garg - Bank of America<br>▪ Nitin Agarwal - IDFC Securities<br>▪ Nishad Karkare - Bay Capital.<br>▪ Sameer Baisiwala -Morgan Stanley<br>▪ Neha Manpuria - JP Morgan<br>▪ Prashant Nair - Citi<br>▪ Nikhil Upadhyay - Securities Investment Managers |

**Siddharth Rangnekar:** Thank you. Good evening ladies and gentlemen. Welcome to Dr Lal PathLabs Limited's or LPL's annual conference call for investors and analysts. The call has been hosted to discuss the financial performance and share operating highlights of the Company with you.

Joining us today are (Honorary.) Brig. Dr. Arvind Lal - Chairman and Managing Director of the Company, Dr. Om Prakash Manchanda - Whole-time Director, CEO and Mr. Dilip Bidani – CFO and Mr. Ved Goel, Financial Controller. We will commence the call with comments from the management team, following which we shall open the call for a Q&A session, where the management will address queries that you may have.

I would like to highlight that some of the statements that may be made or discussed on the conference call may be forward looking statements. The actual results may vary significantly from the forward looking statements made. A detailed statement in this regard is available in LPL's Q4 & FY16 result presentation which has been circulated earlier.

I would now like to invite Dr. Arvind Lal to commence by sharing his thoughts on the Company. Over to you sir.

**Dr Arvind Lal:** Good evening and thank you all for joining us on our call today. I am pleased to share that our persistent pursuit and efforts to grow our brand and provide better diagnostic services to a nation where there is an immense and urgent need for quality healthcare, has translated in us not only fulfilling our passion but has also generating positive results. Our continuous initiatives to innovate and expand have enabled us stay ahead on our growth curve, in a sector which we believe is highly dynamic.

The team at LPL continues to work as a well-integrated system where we combine research with our operations on a sustained basis to ensure we are up to date on various technologies and techniques in the world of diagnostics. As a Company, while expansion is important, over the years we have created the scale which we today can leverage to drive cost effectiveness and thereby improve operational efficiencies.

On a macro level, we expect the sector to maintain its upward trajectory with respect to growth. With such positive undertones in combination with our focused strategies, we are optimistic of sustaining our drive for long term growth for the company and our shareholders. While we have come a long way and enjoyed many achievements in the past, our focus now remains on further enhancing this growth year after year. With that I will request Dr. Om Manchanda to take this call ahead.

**Dr. Om P Manchanda:** Thank You for taking the time to join us on our conference call today. I would like to engage you with key perspectives on the operating and strategic progress that we have made during the year, while sharing important updates pertaining to the quarter gone by.

Before I begin to read out some key highlights; I am pleased to announce that the board has recommended a maiden dividend of 24.5% for the year-ended March 31, 2016. To highlight LPL's performance, revenue growth during FY16 has stood at 20% and this was complemented by a 38% improvement in the profit after tax earned by the business.

Many of you will be acquainted of the role that diagnostics plays within healthcare. It is becoming an essential component in the delivery of healthcare services. Broadly speaking there are 3 factors that are important to this industry in terms of generating growth; doctors and patients both showing preference for evidence based treatments, wider prevalence of lifestyle diseases that will call for continual testing and the propensity to screen for preventive diseases and overall wellness.

Within the field of pathology services we offer a very wide range of tests. As on March 31, 2016 we have a catalogue of 1,101 test panels, 1,934 pathology tests and 1,561 radiology and cardiology tests. By and large our gamut of services has under its coverage majority of tests under diagnostics in the country. And this library of tests is continually updated and showcased to the medical fraternity through symposiums and seminars regionally and locally. Our hub and spoke model works best when the local doctors are well-aware of the capabilities that we can offer.

Contrary to the trends in most other nations, Indians tend to incur expenditure on healthcare on a private basis. Currently, India as a country currently spends only 4% of its GDP on healthcare, which clearly signals that the scope to increase and grow is immense. This entails that as a consumer of diagnostic services, patients will look at the perceived quality of a laboratory, the training/qualifications of the staff and the accuracy and timeliness of the results. All of which play to the strengths of a brand-centric model such as Dr Lal PathLabs.

Since early years we have consciously focused on these parameters. Along with the latest and most advanced equipment, we have developed a cadre of well-trained phlebotomists, technicians and specialist doctors to provide the best standard of service delivery and consultancy. Our franchise partners are regularly trained and are provided with full-support in each of these areas and have to submit to constant monitoring and regulation from our end. The comfort and feeling of assurance a patient feels when walking into one of our centers is essential to the sustenance of the operation. As you will know we have one of the best walk-in ratios in the comparable space. It is a serious competitive advantage, one that is not easily replicated.

We are also a very technology oriented organization, you will be aware that our operation runs on enterprise grade software which gives flexibility to add scale as the network expands, interactivity to manage operations of individual laboratories and maintain oversight of the samples and testing besides generating analysis in order to further enhance the level of service delivery. Another aspect which I will touch upon is the ability of our network to stay ahead on the technology curve in terms of providing the best of technology to patients and doctors alike. We pride ourselves in being future-proof. Having in place world-class infrastructure thus is an important attribute of our approach.

India offers a vast opportunity for players like us to extend our services even further. Studies have pointed out that patients have exhibited a preference to getting tested in a modern environment typically provided by a branded network in the organized space. Consequently we see healthy scope for an organization like ours to expand in an otherwise fragmented industry. I will like to quickly address our growth imperatives the way the management sees it; we see opportunity coming from-

Network and geographic expansion: Banking on our near leadership in Northern India, we are assertively moving into other potentially good geographies, the first of which will be East and Central India where we believe the operation is at an inflection point. By this virtue, we saw an increase in the number of patients we served by 21% to stand at 12 million, whereas no of samples collected increased by 21% to 26.3 million samples. With our investments in Regional Reference Laboratories at Lucknow and a larger one at Kolkata we are confident that we will be able to fully deploy our hub-and-spoke model to great efficacy. Having said that we are continually augmenting our network along with our partners in the North. For the rest of the country and particularly in the South and West we are taking a cluster approach by growing around cities and towns where we see potential and in the long-term building towards a Regional Reference Laboratory model.

Broadening in the offering: The science and technology involved in diagnostics keeps advancing year upon year. In order to introduce the best of the latest across our network we have in place a mechanism to identify and adopt novel and innovative tests. The ultimate objective being to reduce the discomfort to the patient while increasing the accuracy and turnaround times. As a business we are re-investing in providing the patients a superior experience that deepens their trust in our brand. We are taking steps to further strengthen our quality and reliability standards within our network. [Mention any new tests or technologies]

Strategic thrust on management of hospital based and clinical laboratories: As the operator of pan-India diagnostic testing network we have the ability to drive the operations of clinical laboratories within and outside hospitals. With the economies that we bring to the table, the technological edge that we can offer I believe we are in an attractive position to manage these set-ups. Whereas routine testing will get undertaken locally, for the more sophisticated tests we will utilize our hub-and-spoke model and reach out to our owned, advanced laboratories. This approach takes our asset-light forward in a manner that complements both our partner and us.

As we look at FY17 expectations for us to perform as a business have further built up. I believe that we have the right mix of acumen and approach to drive this operation to greater heights. We will continue to expand our network as outlined by me and will work towards timely operationalization of our new Regional Reference Laboratories. We are progressing well towards the development of our new main lab at Kolkata and have thus far invested Rs 90 million capex towards acquisition of land and capital work in progress.

With that I would like to request Dilip to take you through our financial updates.

**Dilip Bidani:** Thank you Om. And thank you once again for joining us today. I will take you through our financial performance for the quarter and year ended March 31, 2016.

I trust you have had the opportunity to run through our earnings presentation for the year. The same has been uploaded on our website, www.lalpathlabs.com and is also available with the stock exchanges. I will commence with highlights for the quarterly performance. Before I begin I would like to share that a proper appreciation of our business can be better developed over a YTD perspective as it avoids the biases associated with seasonality.

Coming to the discussion, during Q4 FY16 revenues showed 15% growth at Rs. 1,977 million as compared to Rs. 1,718 million in the last year. Growth in volumes continued to build on the back of a combination of factors;

- Addition to number of outlets YoY
- Increase in the range of tests on offer
- Extension of business into managed clinics and hospital

A point to note is that this growth that you are seeing could have been higher if we were to exclude the favourable impact on account of increased testing for Swine Flu during Q4 FY15. It would actually stand at around 21%

We remain focused on the North market where the business is established very well. Our Reference Laboratory at Rohini is amongst the best set-ups in the country in terms of infrastructure and breadth of testing on offer. We believe that by adding regional reference laboratories at Lucknow and Kolkata we will be able to better serve the needs of our patients in target geographies.

At this point I would like to highlight that the earnings discussion in my prepared remarks focusses on performance without the prior period ESOP expenses reversal to provide a fair picture of the Company's normal business results during the discussion period.

Commenting on profitability our EBITDA in Q4 FY16 stood at Rs. 520 million from Rs. 449 million last year. The corresponding EBITDA margins stood at 26.3%, showing an improvement of 20bps. Gains in the earnings follow healthy increase in the topline on account of network and volume growth. I must point out that this was partially offset by higher costs of imported reagents and other consumables. PAT for Q4 FY16 stood at Rs. 346 million from Rs. 288 million in the previous year and reflecting the growth shown in the topline.

Coming to our annual performance, revenues were at Rs. 7,913 million from Rs. 6,596 million, representative of a growth of 20%. The contribution to revenues for FY16 for the North market stood at 72%. The East zone had a share of 13%. The EBITDA during the period showed 15% growth to Rs. 2,113 million following healthy accretion to topline and impacts from dearness in reagents & consumables. While EBITDA reflects the effect of high volumes from dengue testing undertaken during Q3 FY16, margins bear the impact of certain one-off expenses in the form of listing fees etc incurred during the year. Our Profit After Tax stood at Rs. 1,332 million from Rs. 964 million in the previous year.

I am pleased to share that we are driving this growth based on the strength of our own balance sheet. And even going forward our appetite for debt will remain very contained. To share some important numbers Cash and Cash Equivalents as on March 31, 2016 stood at Rs. 2,945 million. As an enterprise we are on track to deliver encouraging returns to our community of stakeholders in the coming years.

Our performance underlines our strategy for expansion. We have shared our intent to strengthen our outreach nationally beginning with Central and Eastern India. There is a constant impetus on enhancing the range of tests in order to offer our patients the latest technologies, to minimize discomfort while boosting accuracy of the test.

With that I would like to conclude over opening remarks and request the moderator to open the forum for questions.

**Moderator**: Thank you very much, sir. Ladies and Gentlemen, we will now begin the Question-and-Answer Session. The first question is from the line of Dheeresh Pathak of Goldman Sachs. Please go ahead.

**Dheeresh Pathak:** I think you said top line growth for the full year was 20% and adjusted EBITDA was 15%, then also you called out certain one-time expenses. So the 15% growth is after adjusting for those expenses or before those expenses?

**Dilip Bidani:** Yes, this is after adjusting for those expenses as in it is after accounting for those expenses.

**Dheeresh Pathak:** So then can you just explain that why the EBITDA growth is lower than the top line growth…adjusted EBITDA growth is 15%, lower than the top line growth of 20% for the full year?

**Dilip Bidani:** If you look at the cost structure which will be available once the detailed results are published, our consumption cost of materials has increased marginally, primarily because of the prices of Dengue were lower, there were price increases which were given to certain vendors and there were certain businesses that were higher than planned with certain types of customers which are in the nature of corporate customers, so we had about 0.8% increase in our consumption cost. There were other increases as well on account of personnel cost, changes in the statutory bonus, revision in minimum wages in many states, and the increase in the retrospective bonus applicability which we had explained in the last quarter. So some of these expenses have actually increased our overall expense ratio while there were savings in certain areas as well but the overall there was a 1% increase in the expense ratio, so there was a margin dilution at EBITDA level of about 110 basis points on a normalized basis.

**Dheeresh Pathak:** Going forward, do you feel that as we grow top line, the EBITDA and the core operating EBITDA will grow in line obviously now looking at a broader time period would grow in line with the top line growth?

**Dr. Om P Manchanda:** I think it is a very good question in terms of whether EBITDA will grow in line with the top line. I think we have a long-term view in mind because our competition is with the unorganized space and we just do not want to get ourselves into a position where any cost increase immediately be passed on to price increase. So we will try and see what it is but we will continue to have a view which is very-very long-term in terms of driving volumes and you must have seen in our volume growth is about 21% which has been fairly good up to last two to three years. So that is the way we would look at, we will just focus on the long-term.

Moderator: Thank you. The next question is from the line of Pritesh Chheda of Lucky Investments. Please go ahead.

Pritesh Chheda: If you could give your comments or views on the pricing trends in the industry and for you, how do you see the pricing trends emerging because we at the customer level started experiencing reduction in costs for expenses on testing, so what is your opinion there and how will this play out as interplay on gross margins is the thoughts which I was seeking for?

Dr. Om P Manchanda: There are various types of customers we have – one is very large proportion of Walk-in Customers and then we have Institutional Customers, consisting of Hospitals and Corporates. Now, competition in both these buckets is very different because in Walk-in Customers largely compete with smaller labs but there brand pull is very-very important. I think in that particular piece, we will continue to have the ability to command a premium but as far as the Institutional part is concerned, there aggressive competition may come in and there could be a pressure on pricing. So, on balance, there will be a pressure on pricing going forward, especially in the Institutional or Corporate business. As far as our own pricing strategy is concerned, the last price increase that we had taken was about 2.5-years back. It was a strategic sort of initiative from our side not to take prices up regularly because we wanted our volumes growth to go up because we have seen scale does give us advantage in terms of cost. But keeping in mind the cost increase that we have had on minimum wages and especially on dollar fronts, some of the imported reagents, so at appropriate time we will take price increases as well. But on balance, our focus will continue to remain to drive volume growth than drive value through price.

Pritesh Chheda: Can you give the composition of sales from Walk-In and Institution business…Walk-In means at the collection centres?

Dr. Om P Manchanda: We have not shared exact data in the past between Walk-in as well as Network business, partly because many of our franchisee network is also not so easy to track the data because all of them are not doing online registration because they have both kinds of customers coming in that, but all our estimates suggest that we have very-very high proportion of Walk-in data.

**Moderator**: Thank you. The next question is from the line of Paras Nagda of Enam Holdings. Please go ahead.

**Paras Nagda:** Sir, I had a question on employee expenditure. As you mentioned in the call there were certain one-offs and there were also certain increase in employee cost due to wage revision and all. Can you give us a normalized employee expenditure for the year, excluding the ESOP part? Some granular details on why has the cost increased?

**Dilip Bidani:** Our normalized employee cost is in the region of around 21%, which is up without considering the impact of ESOP reversals and all of that. If you look at some of the increases that have taken place, bonus has been one of the main increases that has been charged other than the routine increases in wages on increments and headcount increase that normally takes place.

**Paras Nagda:** Can I know how much was the headcount increase which happened over last one year?

**Dilip Bidani:** We are not talking about these numbers, but it was approximately 500 numbers is what we added on last year.

**Paras Nagda:** As you mentioned 21% growth in sales, can you break them in volume and pricing or this was predominantly volume itself?

**Dilip Bidani:** If you look at our detailed numbers, while 20% was the revenue increase, our volume growth was 21%, there was a 0.8% reduction in average realization per patient which is what gave us 20% increase, which is largely driven by volume only.

**Moderator**: Thank you. The next question is from the line of Bhagwan Chaudhary of Sunidhi Securities. Please go ahead.

**Bhagwan Chaudhary:** Sir, just to understand the business in a much more detail, how much contribution to the business is from these PUPs and I think the remaining would be from PSCs?

**Dr. Om P Manchanda:** We actually get business from three basic units of infrastructure – one is Labs where we do Testing as well as there are a lot of Walk-In Patients that come in, that business is easy to track and that contributes roughly about 40%-odd. Then there are these Collection Centers or Patient Service Centers which are franchised out, they actually have both businesses – one is Walk-in business and this Pick Up Point business. That is what I was trying to tell earlier that it is very difficult to actually get exact number, we do estimate that also contributes especially Northern India, lot of Walk-In Patients come in and that Walk-in base plus our own lab Walk-In constitute a very large proportion of Walk-In business. The third piece is the Pick Up

Point with the direct accounts was like we go and pick up samples from hospitals and smaller labs because they do not do the entire test menu. That to me again is a little bit of an estimate but close to I think one-third of our business comes from this Pick up Point, but it would be broad estimate.

Bhagwan Chaudhary: So this is completely Pick up Points, there is no Lab Testing and other things under these franchisees, am I right?

Dr. Om P Manchanda: Yes.

Bhagwan Chaudhary: Just to understand that at the PSCs, do we do some Lab Testing as well because our franchisee would be doing something like Imaging Diagnostics, etc.,?

Dr. Om P Manchanda: No, we do not do any testing there.

Bhagwan Chaudhary: But franchisee would be doing that?

Dr. Om P Manchanda: No, if that person is doing then that lab would be classified as pick up point, because that means that person is outsourcing high end testing.

Bhagwan Chaudhary: So that lab would not be carrying the logo of Dr. Lal in that case?

Dr. Arvind Lal: What we franchise out are only Collection Centers and PSCs, we do not franchise out any labs and if a lab also sent us samples, then it is branded as a Pick Up Point and there is no question of our sharing a brand with him.

Bhagwan Chaudhary: In Labs, how much revenue would be from the Imaging Diagnostics and Pathology if you divide it like that?

Dr. Om P Manchanda: It is roughly about 4% would be our Imaging business, balance would be all Pathology, we are primarily a Pathology business.

Bhagwan Chaudhary: On the CAPEX part, the two new labs we are going to establish, at what level these are currently, by what time they will commence? If you can break up the cost in terms of the building, land and instruments?

Dilip Bidani: I will give you a typical estimate; the land in each of these will cost or has a cost average of about Rs.10 crore and the building in Kolkata -the progress has already started, the digging and piling work is done and work is in full progress. We expect that it will take maybe another 15-18 months to get it up and running. The cost of the building, the interiors, the entire infrastructure with equipment, we are estimating in Kolkata should be of the order of Rs. 40 to 45 crore over and above the land cost. The Lab in Lucknow is at an initial stage we have sent out for RFPs and we have started getting in the proposals, so we would be looking at awarding contracts in due course. The commencement of work will start a bit later although the land is already in place. So the plans for that are still being drawn up and we will have a better position on what the CAPEX would be based on the size of construction and what is the building area, etc.,

Bhagwan Chaudhary: Out of this Rs.40-45 crore, how much would be towards the instruments?

Dilip Bidani: Lot of the instruments will be on reagent rentals, so the instruments cost itself will not be so significant, since it is a newly constructed building with over 50,000 sq.ft. of constructed space, it is going to be largely into the building cost and infrastructure and getting the complete facilities and utilities in place.

Moderator: Thank you. The next question is from the line of Manoj Garg of Bank of America. Please go ahead.

Manoj Garg: Mr. Dilip, can you just help us understand in terms of the sensitivity to the raw mat cost with the movement of currency or the dollar?

Dilip Bidani: It is a very interesting question. While most of our contracts are having a FOREX component, it is not necessarily directly imported by us in FOREX because we purchase most of our materials locally in rupee-denominated transactions. So while there is a FOREX risk associated with it in the longer-term, in the short-term we have got contracts which are fixed in rupee terms, so the fluctuation takes place only if the dollar-rupee movement is beyond a range. So that range is something which would vary from vendor-to-vendor and it is not something which I would like to share at this point of time.

Manoj Garg: Because only reason that since you have avoided one of the regions, that is why this year the margins were lower because of obviously the increase in dollar prices, so I just want to understand that for the future perspective how should we model this movement in the currency?

Dilip Bidani: If you look at a Reagent cost to revenue so far has been in the region of 20-22%, is the kind of range in which it operates. So you would really need to see and understand how the rupee-dollar movement would impact this ratio and how much we would in a rapid movement be able to transfer that out to the customers through pricing, how much we can actually absorb and how much we can actually resist to the vendor given that we have been growing rapidly and offering good volume offtake as well from the vendors of the supplies. So it is a complete mix and its something which we really need to estimate how wide or wildly the dollar-rupee movement happens in order to pass on or absorb or to resist the rate increases.

**Manoj Garg:** The second thing Dr. Manchanda has indicated that the focus would definitely be to grow the volumes instead of looking at the price increase or the value. So just would like to understand maybe two to three years kind of perspective, given the fact that we are going to open up Kolkata Labs over the next 12-18 months and obviously there would be an initial cost and there will be lower realizations per patient given that those are in the initial phases. How do you see the margin trajectory moving on over the next two-three years?

**Dr. Om P Manchanda:** I think we have been guiding in terms of in the short term there is going to be a blip in margins to about 1-2%, it could be even 3% as well, so we have already seen about 1% dip here but when this Kolkata and Lucknow Labs become operational, we do see a dip in margins in the short-term, but we have also experienced that as the scale picks up, we start getting efficiencies and scale both in terms of cost but as well as operating leverage. So we do believe that we should be able to come back to a normal trajectory but in the short term we do expect some dip.

**Manoj Garg:** But, Dr. Manchanda, is going to be a regular phenomena like once your Kolkata will be over, then you have Lucknow and after that Lucknow probably you need to put lab in the other regions, so given that perspective, do you think that at least this 26-27% kind of margins would be sustainable in the long run?

**Dr. Om P Manchanda:** My answer to that question would be that it is very much a cluster approach and if you see that our North business contributes 72%, there is so much of business lying out there if you really drive very hard and build a scale, we still have a long-long way to go there. So, I think as these clusters evolve, it will also give us enough sort of margin to fund another cluster which we want to develop, in fact, one of the reasons why we are able to do it today because our North cluster is doing well.

**Manoj Garg:** This Kolkata would be in the horizon somewhere in FY'18 or you see that even fiscal year '17 there would be a possibility?

**Dr. Om P Manchanda:** No, right now the way it is looking like sometime September '17, so that will be in FY'18.

**Moderator**: Thank you. The next question is from the line of Nitin Agarwal of IDFC Securities. Please go ahead.

**Nitin Agarwal:** On the matter of pricing, what we start seeing essentially in the Hospital space is the increasing insurance penetration is beginning to have an impact in terms of the realizations that the hospitals are able to charge to the patients while most of our reimbursements actually are through out of pocket, do you see any impact of the insurance penetration really playing out as far as Diagnostics part of the business is concerned?

Dr. Om P Manchanda: In the short-term, I do not see, because lot of insurance right now is IPD-driven and the sample load of business that we get is more OPD-led, but as the OPD insurance picks up, then only the pressure will build, I think that is some distance away.

Nitin Agarwal: In terms of the price points which are there, when you look around the country, do you see significant regional variations in terms of the price points for different tests?

Dr. Om P Manchanda: Yes, I think that is very common in our industry, mainly it is highly fragmented, unorganized, a lot of smaller labs, so you actually end up competing with them, so there is a differential pricing structure that exists today, it is also a function of brand strength we have in various geographies. So short answer is yes, it does vary.

Nitin Agarwal: For comparable brands are the pricing levels lower in certain parts of the country… materially lower or it is much of a difference for a comparable brand across different parts?

Dr. Om P Manchanda: Comparable brand iis similar.

Nitin Agarwal: In East India, similar rates for the test as well as that you probably charge on northern part of the country?

Dr. Om P Manchanda: Yes.

Nitin Agarwal: When you have been looking at markets, have you seen any increase or decrease in intensity of localized competition whichever the localized exchange would probably not ambitions to make it pan national but with probably ambitions to be strong in the regional pockets, have you seen increased intensity of these sort of competition or it has been on its way down in the last few years?

Dr. Om P Manchanda: Yes, we have seen different kind of trends on competition front. I think there is a lot of private investment that has started taking place at a regional level. So there are a few players who have got private equity investments coming in, so they are getting aggressive. While at some level this business has very natural barriers to sail because operationally it is very intensive, it is not so easy to expand and then there are very-very small labs which really either there is no succession plan or something those people just want to get out of the business or they just become collection centers. So what I see is that some players are becoming regional players and some of the smaller players are also finding it difficult to sustain and converting into a collection point rather than testing lab.

Nitin Agarwal: For your business do you see some of these trends playing on a more favorable manner for you or when you start to look out next 5 to 10-years for your growth on a Pan India basis?

Dr. Om P Manchanda: I look at it a little bit positively because at the end of the day players like us will become bigger if we are able to strategically align with some of the regional players. These regional players which are emerging, they are also in their own way trying to organize the market and create a branded sort of play, take the quality up, because we are still 72% north focus, there are a lot of large part of the country where we have to go right now and I believe as the regional players emerge, the quality standards, uniformity in various commercial terms will emerge, because right now it is very-very highly unorganized. So I look at it as a positive way but there is definitely a competition which is going to grow because the space is quite visible with a couple of listings that have taken place, so the intensity of competition is going to grow, but I think it is not always negative, it is positive as well.

Dr. Arvind Lal: At least I have been in this business for 38-years now that it is not only the new person who comes and takes a slice of the cake, but the size of the cake itself increases, the pie increases tremendously also, and we people also benefit because once the routine testing starts in some kind of geography where we are not there, etc., we have seen that the high-ended test starts coming to us only because we have the collection centers. So in a way it is good that more and more people bank upon evidence based diagnostics. So from our point of view the competition has also helped us. This is what our experience has been.

Moderator: Thank you. The next question is from the line of Nishad Karkare of Bay Capital. Please go ahead.

Nishad Karkare: Could you help us with the value and volume split between the Reference Lab in Delhi and the Regional Satellite Labs?

Dr. Om P Manchanda: I do not have readily, this data available, but some rough estimate I can share this with you. Directionally, we have tried to test as much as possible centrally. The reason for that is very simple, because it reduces the cost for test. But we do local testing because we have to also achieve the turnaround time. Normally the tests that come to NRL or the central lab will be high value test. So in terms of centralized testing in terms of value will always be higher than the volume we do. I think my rough number is about two-third of our value would be centralized testing.

**Moderator**: Thank you. The next question is from the line of Sameer Baisiwala from Morgan Stanley. Please go ahead.

**Sameer Baisiwala:** Just want to check in Q4 were there any one-offs both cost or on the income side?

**Dilip Bidani:** Nothing specifically, but there was first time one-off costs which were incurred during the year. As I mentioned earlier there was this listing fee which was the first time, which we have incurred and we have also started with our CSR initiatives, that was about Rs.40 lakhs or so. So, this was spread out during the year and specifically in Q4 unlike in Q3, there was not anything specific as such.

**Dr. Om P Manchanda:** Only one-off, which is in the last year Q4, where we had a Swine Flu, is about Rs.9 crore of additional sales.

**Sameer Baisiwala:** So that means your net profit base was Rs.34-35 crore for Q4 is what is a normalized number on a quarter basis?

**Dilip Bidani:** There was an Rs.3.5 crore ESOP reversals which was taken in the Q4 if you would like you can adjust for that.

**Sameer Baisiwala:** Have you given top line guidance… what kind of growth we should expect in fiscal '17?

**Dilip Bidani:** We have not given guidance on revenue growth.

**Sameer Baisiwala:** But in the earlier call that you said you will grow ahead of the industry growth, so roughly about high teens of 20%?

**Dilip Bidani:** As per industry estimates, the Diagnostics industry is growing from 15% to 17% and we would definitely like to stay ahead of that.

**Sameer Baisiwala:** When you look at your collection of test that you are doing and when you compare with the western world, do you think there is a lot of catch up to be done or do you think you are pretty much out there?

**Dr. Arvind Lal:** The fact of the matter is that newer tests are being discovered and brought into practice every day, some of them are sustainable, some of them are not. So, answering your question as far as we in India are concerned, we would rate ourselves as approximately 70% of what the western world is doing, but 30%-odd tests which are those kind of research tests, etc., more in molecular and genetics, etc., which may take time to reach India. But at the moment what we are doing is something phenomenal which many western countries also cannot match… I am talking about the very-very high

Esoteric kind of testing which may be available, is just about a couple of labs say in America like Mayoclinic.

**Moderator**: Thank you. The next question is from the line of Neha Manpuria of JP Morgan. Please go ahead.

**Neha Manpuria:** My first question is on pricing. Do we have an annual or semi-annual pricing policy where we look at tariffs or increasing tariffs and when was the last time this was done?

**Dr. Om P Manchanda:** I think it is a great question, because this question we keep asking every now and then. I think our pricing strategy has been very calibrated in terms of our strength in that market. So we have a three layered pricing structure – one is national sales prices, we have local sales prices which is where we have labs in various towns, so our prices do vary from town-to-town and third is customer specific pricing which is mainly for Corporate business. Strategy actually has been not to take any big jump on an immediate basis, we want to increase it moderately and slowly. On an average we have seen our growth has been about 2-3% influenced by pricing for the last at least 5-6-years, that has been the trend. But as I have been always maintaining that our focus right now is to see how we drive volumes more than pricing.

**Neha Manpuria:** As such we do not really have. This is essentially your pricing strategy I am assuming will be based on the customer group that you are targeting?

**Dr. Om P Manchanda:** Yes.

**Neha Manpuria:** Second sir on your expansion, you talked about how you want to grow outside the north. Is there again a thought process that we have in place as to how we are going to go about it in terms of tying with the hospitals, looking at PPPs, because we do not really have a brand, so banking on the Walk-ins, I am not so sure how successful that would be, so would we have a strategy in terms of expanding outside the North market?

**Dr. Om P Manchanda:** There are two distinct segments in our business – one is a high end advanced tests, that business actually is not strictly Walk-in business, that business is essentially lying inside the hospitals, so that footprint is Pan India for us, it is not only North, it is across the country and that part is not visible, because it is essentially more B2B and we reach out to all the hospitals. So these central labs that we are talking about Kolkata, Lucknow as well as our main lab in Rohini, Delhi, these labs primarily cater to this high end business, because that business actually flies in or travels to the central lab. So we believe that both these labs in Kolkata and Lucknow will be able to deepen our penetration in these markets which have a huge scope because the population of these clusters is to the extent of 20-30 crore and we believe that it will help us. Now, I think your question was related to Walk-in, because we may not have that kind of strength. I think while we grew aggressively North India, we started having presence in Eastern as well as Central market at least 8-10-years before. So today many of these cities in U.P. as well as West Bengal or even M.P. as well, they are the point where our brand has started creating sort of pull, it is only South and West where we may not have that kind of brand equity as far as Walk-ins is concerned, but our Institutional, B2B, doctor fraternity, our brand equity is very good.

**Dr. Arvind Lal:** For example, we get very high ended test from say hospitals like in Trivandrum and hospitals in the western side which is Mumbai side, etc., which are not available locally. So we are also branded as or looked upon as national reference lab, something which is not available anywhere else would be available with us. So that is a sizeable kind of a business and you cannot reduce it because it is a B2B business and it is a very high ended business.

**Moderator**: Thank you. The next question is from the line of Prashant Nair of Citi. Please go ahead.

**Prashant Nair:** A couple of questions: Firstly, when the reference labs in Kolkata and Lucknow are operational, do you have any estimate on how much load it could ease from the New Delhi reference lab and will that open up any headroom for more testing there for the local market?

**Dr. Arvind Lal:** What we had seen was an unprecedented growth when we got the first national reference lab in Delhi in 2010 and that not only is a magnet for the whole of North, NCR, till Central India, but it also creates its own ecosystem. So what we are actually after is in Kolkata, etc., it is not that we are not picking up samples from Kolkata, but once the reference lab comes in, it changes a complexion of the testing services available completely, it creates such a big ecosystem there. This is what we have seen and what India does not lack in is population and that population needs to be serviced very quickly and very efficiently with high quality diagnosis, that is what the national reference lab in that area brings to the table.

**Prashant Nair:** The second question was more on the financial side. So Dilip, do you have an estimate for what your CAPEX would be over the next say two to three years?

**Dilip Bidani:** If you look at the CAPEX, Kolkata and Lucknow reference lab itself will be taking Rs.40-45 crore odd each, that is a kind of estimate that we have. Over and above that our routine CAPEX would continue the way it is.

**Prashant Nair:** Would you be spending much on Clinical Laboratories in addition to the reference labs or would it largely be Patient Service Center collection point kind of expansion?

**Dilip Bidani:** It would be a combination of both and we would be creating these ecosystems in various geographies and we will see what we can build with a combination of both Satellite Labs as well as PSCs. So it would really go hand-in-hand and we would be building up these ecosystems.

**Dr. Arvind Lal:** Again, I am not telling you anything new, the hub-and-spoke system implies that the peripheral would be a Collection Center and after that it could be a small satellite lab which is being serviced or looked after by a bigger metro kind of a lab. So, this is what he means by the ecosystem, it is not relegated only to opening up of Collection Centers and pick up points, we will have to set up small labs which can do the routine kind of testing and we have seen that whenever we go into such areas, 70% of the work or the Walk-ins patients, they require routine testing. After all imagine if you are a doctor, your patient goes to a lab, he is not going to wait for hemoglobin test or urine test to be reported from a bigger lab which takes about 1-day or 2-days.

**Moderator**: Thank you. The next question is from the line of Nikhil Upadhyay of Securities Investment Managers. Please go ahead.

**Nikhil Upadhyay:** Sir, just correct me if I am wrong, the total volume growth for the full year was 21%?

**Dilip Bidani:** Yes.

**Nikhil Upadhyay:** So sir is it a right way to look at it, so volume growth would be divided into one is the organic growth in terms of the Collection Centers which we have been present over the last 2-years and some of the volume growth would be incremental Collection Centers which we have set up over the last 1-year. So in terms of the 21% can you help us understand how the division would be or how it is generally… is it 70:30, 80:20, so how do you see the volume growth coming from these two parameters separately?

**Dr. Om P Manchanda:** This question gets asked very often. We normally look at geographical growth in one city we look at what is the total growth because if I open a lab, the impact of that lab could be captured in some other outlet, not necessarily in the same outlet. So the intensity of infrastructure, intensity of marketing efforts that are put in the geography, this drives the growth in that geography rather than just one outlet. Let me talk about the value first; if the growth is 20%, 5% or 5% to 7% would come out of the new markets or new outlet and about 13%-odd would be from the existing outlets if we had not opened the new outlet. But I want to add one more point in terms of volume growth that needs to be seen from some of these seasonal outbreaks that are there like Dengue testing and Swine Flu testing now these are two seasonal diseases normally we get in Northern part of India. In one disease you will not get patients but you will get very high value like the cost of Swine Flu per test is about Rs.4,500 and you will get fewer patients but very-very high value. In Dengue outbreak you will get lots of patients but very little value because the Platelet Count Test could be as low as about Rs.100 bucks. So sometimes that volume growth also gets pushed up by very-very high Platelet Count, CBC, Fever Panel, and that tends to give a little bit of a different picture. So one must keep that in mind as well while analyzing volume growth. This year you will see that our value growth per patient is lower compared to earlier years we have had because we had a very high volume growth of a low value test.

Nikhil Upadhyay: When we are setting up a national lab in Lucknow and Kolkata, as you mentioned that 30% of the Esoteric Test would be done in the national lab, so probably setting up of a Collection Center say in a remote location in Bihar or Jharkhand and taking it to Delhi, the cost would be much higher, but with the labs in Lucknow or in Kolkata that cost comes down, so those places which were not viable earlier they also become viable to some extent for us with the setting of these national labs in Kolkata and Lucknow. So is this understanding correct? Secondly, if I go back to my previous notes or previous discussion we had mentioned that when we enter a city we first see what is the type of volume which we can get from that city. So with this set up of these national labs what is the type of population cities which you see we can enter now once these labs are on line for us?

Dr. Om P Manchanda: What we have seen is that it is more like an epicenter where you have one big city in the center and there is radius which you start influencing. If your central lab is in Kolkata, then you start going to towns which are 1 lakh, 2 lakhs population town but if your central lab is in Delhi, sometimes your ability to get business from these smaller towns is limited and we have experienced this, whenever we open a large lab it tends to influence the demand side of business, because you become a talk of the town and medical fraternity is very thrilled with this that good quality lab has come to their town, we start getting a lot of high end test and the brand equity starts traveling to nearby places, and specially high end test if you notice are not only from the same city because medical footfall in a large metro is not only of the metro but also from the region. So Kolkata would attract crowd from North Eastern India, entire West Bengal, so when you open a central lab as the high end test report tend to travel in these interior markets, your brand equity starts building. So we are looking at these labs not only just influencing the supply side but also the demand side as well.

Nikhil Upadhyay: Just one clarification sir; I think in last quarter call discussion you had mentioned that when a local lab comes to you and gets the test done on the report the name which goes is Dr. Lal or is it the local lab name which goes to the patient?

**Dr. Om P Manchanda:** So when the sample comes to us we give report on our letterhead .

**Nikhil Upadhyay:** So the patient receives in our own brand name?

**Dr. Om P Manchanda:** It is very difficult to estimate what percentage of patients would get report on our letterhead, but our estimate is most patients get on our letterheads, so that is the some kind of branding. But there is no probably regulation around this which says that they have to give on our letterhead, but we presume especially these are high end tests, and doctors have to refer these again and again, so they are essentially on our letterhead, but there is no regulation that it cannot be on their letterhead as well.

**Dr. Arvind Lal:** All the accredited labs or accredited labs in accredited hospitals if they get a test done from us, they are supposed to write a footnote that this test was carried out at Dr. Lal's Labs. So this they have to do as far as the accredited bodies are concerned. But if the test has not emanated from an accredited lab or a quality lab or a quality hospital, they would normally take our report and reprint that report on their letterhead, that happens also.

**Nikhil Upadhyay:** We are scientifically strong enough that 70% of the test we are able to conduct in India in our labs. If someone has to do a Zika Test or a Superbug Test in India, so how do you develop those capabilities, because probably as of now you have not seen those volumes come in so you are not focusing that much on these, but if a hospital does give you a test of that side, so how do you develop your technologies or how do you develop your test on those levels say if you can just highlight that part?

**Dr. Arvind Lal:** Now what happens is if you remember about in 2009 when the first Swine Flu epidemic hit India and it hit Delhi really badly because most of the international passengers were coming through this place. The government both the central and the local government they actually came to us and they said that why do you not start and pickup this load because just imagine if you were entering a government hospital these samples of Swine Flu Testing which is basically got to be taken with lot of troubles, sputum, etc., they were strewn everywhere and we had never done Swine Flu Testing. But the beauty is that that the same methodology we were definitely using and carrying out many other tests. So they said, "Yes, we can subject to the procurement of the kits which were available in the Indian market." So we made a provision and both the central government and the state government they came and inspected and they gave us the green signal. This is not something small because never anywhere in the world a private lab has been given samples to test for Swine Flu, it is much like the dope testing in athletics in Olympics, it is not given to private labs.

The point I am trying to make is the same thing we are now geared for Zika Test and the Zika Test the government has informed us that Dr. Lal, you will not carry out the Zika test and the reasons for that is very easy to understand for you; the Government of India wants to keep Zika out of India at all costs and this is one of the ways of killing the disease out of India by not making us or allowing us to do the test, which by the way we can do the test.

**Nikhil Upadhyay:** If we look at the amount of tests or the complexity of test in Pathology it has actually been increasing year-on-year, so something or the other keeps on happening. So my question was more on do you have some partnerships or do you have some inbuilt, how are you developing those inherent capabilities to continue and grow over that… so are you investing too much on developing continuously on Pathological Tests as the complexity increases, so that is what I am trying to understand?

**Dr. Om P Manchanda:** On many of these tests we do not have any IP because these are all western countries developed test and there are large companies like Roche, Siemens, they bring these technologies to us. We are essentially the commercial arm of some of these tests, so they are not in-house developed tests, and as and when such diseases come they tend to bring these technologies to India.

**Moderator:** Thank you. Our next question is from the line of Dheeresh Pathak of Goldman Sachs. Please go ahead.

**Dheeresh Pathak:** I just want to understand that the reagent central model. After how many years does the reagent buying cost go down because after some years you would have paid for the cost of the equipment?

**Dilip Bidani:** The way this works is that periodically these equipments keep getting replaced, there is also a contract for replacement of the equipment, so you got to look at it not so much as the amortization of the cost of the equipment, because the life of the equipment is also fairly limited, and with the volume of testing that we do, these equipments need to be upgraded and returned, and one of the advantages of going with the reagent rental model is that we do not have to look at disposal of the equipment after its useful life is over.

**Dheeresh Pathak:** Typically what is the useful life of an equipment?

**Dilip Bidani:** 5 to 7-years is the kind of useful life which is stated.

**Dr. Arvind Lal:** It is like a model of a car, suddenly, new technology comes in, they might even change it in the first 3-years only, they themselves will come and say, now we got a higher model, we will take away this machine and give you a better one, so that happens even from their side.

**Dheeresh Pathak:** Will there be a minimum volume that we have to buy of these reagents otherwise is the rates are different based on the volume that you are buying?

**Dilip Bidani:** Yes, there are certain rates and volume related contracts, so most of these are obviously linked to volumes as well.

**Dheeresh Pathak:** In any particular scenario, would it be economically better to buy the equipment yourself and therefore have a lower reagent cost or you think this model has always worked better?

**Dilip Bidani:** It is really a question of economics as you rightly put it, so we continuously evaluate that, and there are certain types of equipment which we do buy out as well from time-to-time.

**Dheeresh Pathak:** So what characteristics those equipments have that you decide to buy them out rather than using this model?

**Dr. Om P Manchanda:** Sometimes when we build a Satellite Lab network, the volumes are low there and some of these vendors may not be willing to put the instruments there, because they feel that minimum volume may not be committed or we may not be able to adhere to that. But we take a strategic view saying that in these markets we have to be present irrespective at what time the breakeven is going to happen, so in that case we tend to buy, and many of these smaller labs we have, we have instruments which are bought rather than reagent rental.

**Moderator:** Thank you. Ladies and Gentlemen that was a last question. I now hand the floor back to the management for closing comments.

**Dr. Om P Manchanda:** Thank you all for joining us today and we hope we have been able to address all your questions. Should you need any further data, please do get in touch with us and we would be happy to respond to that.

**Dr. Arvind Lal:** Thank you very much.

**Moderator:** Thank you members of the management. Ladies and Gentlemen, on behalf of Dr. Lal PathLabs that concludes this conference. Thank you for joining us and you may now disconnect your lines.