Thyrocare

Tests you can trust

November 03 2023

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

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

Dear Sir/Madam,

Sub: Transcript of post results earnings conference call held on October 31, 2023 with Analysts / Investors

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

Pursuant to Regulation 30(6) and 46(2) read with Part A of Schedule III of the SEBI Listing Regulations, please find enclosed herewith the transcript of earnings conference call with Analysts and Investors held on October 31, 2023.

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

This is for your information and records.

Yours Faithfully,

For **Thyrocare Technologies Limited,**

Dorai Ramjee Digitally signed by Dorai Ramjee
Date: 2023.11.03 14:59:16 +05'30'

Ramjee Dorai
Company Secretary and Compliance Officer

"Thyrocare Technologies Limited Q2 FY '24 Earnings Conference Call"

October 31, 2023

MANAGEMENT: **MR. RAHUL GUHA – MANAGING DIRECTOR AND CHIEF EXECUTIVE OFFICER, THYROCARE TECHNOLOGIES LIMITED**
MR. PRATIK HIRE – STRATEGY TEAM & LEAD INVESTOR RELATIONS, THYROCARE TECHNOLOGIES LIMITED
MR. ALOK JAGNANI – CFO, THYROCARE TECHNOLOGIES LIMITED
MR. ADITYA SHINDE – VICE PRESIDENT, HEAD (FINANCE, ADMIN, SOURCING), THYROCARE TECHNOLOGIES LIMITED

Moderator: Ladies and gentlemen, good day, and welcome to 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 '*' then '0' 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.

Pratik Hire: Thanks, Yashashri. A very good evening to all and thank you for joining us today for the Thyrocare Earnings Conference Call for the 2nd Quarter of the Year FY '24.

Today, we have with us Mr. Rahul Guha – MD and CEO, and Mr. Alok Jagnani – CFO, 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 been now 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 may be viewed in relation to the risks pertaining to our business. After the end of this call, in case if you have any further questions, please feel free to reach out to the Investor Relations team.

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

Rahul Guha: Thank you, Pratik. Welcome. Good evening, and welcome to all on the call. Thank you for taking the time out from your busy schedules to join us this evening.

Quick introduction of those of us on the call. My name is Rahul Guha. I am the MD and CEO of Thyrocare, and I thank you for the opportunity to present the Q2 results for FY '24. I am joined with my colleague Alok Jagnani, who has recently joined us as our CFO. Additionally, Pratik Hire, who you heard, is part of our strategy team and leads investor relations and is with me along with Aditya Shinde who heads our finance, admin, and sourcing function.

Before we begin, as with all my calls, I will always start with a quote, but this time from Nelson Mandela in recognition of our foray into Africa. It is in your hands to make a better world for all who live in it, and we believe Thyrocare can bring our business model to Africa to make affordable and good quality diagnostics available to all.

With that, I will give you some key highlights of what we have been up to in the last quarter. Before we get into the details of the quarter, I will reiterate our pay-for-performance pricing structure that we implemented at the beginning of this financial year. Earlier, our discount 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 synergy with our franchisee network with motivation to move up volumes and enter higher slabs. This has resulted in both volume and value growth in the last two quarters.

As always, we continue to selectively expand our offerings. Aarogyam, which has been a flagship brand in the preventive healthcare segment. As I have discussed in previous presentations, we have two more brands, Jaanch, which is our diagnostic or illness package offering and Her Check, which is focused on women, and largely focused in the maternity and women's health space.

Jaanch, as I said, is targeted towards lifestyle challenges for you to better understand your health. We have solutions across the spectrum for anything you might be worried about, whether it's fever or something more serious, hair fall, cancer screenings, as well as deep investigations for common chronic diseases like diabetes, heart health amongst others. Jaanch is already doing 1 crores of monthly business. We have revamped our Gynec portfolio and relaunched it under the brand name Her Check, which is focused on women's health.

Our partnerships business excluding API and the government business continues to do well as we grow existing accounts and add new partners. On the government side, I am very happy to share that we have been awarded contracts for TB testing in the state of Gujarat and Assam and the work has started from this month.

On the international expansion side, we have signed the JV agreement and the company has been incorporated in Tanzania. Our plan is to be operational in the Tanzania market by the beginning of the next financial year.

As I told last quarter, we have revamped our equipment platform. Our equipment was quite old with an average age of 12 years. We have added 24 new machines from our vendors, bringing our average age down to 6 years. These new additions have dramatically improved our reporting accuracy, performance, and turnaround time. As you will see in the financials, we have financed these machines over a period of 3 years.

As we get into the results, I wanted to share with you a few highlights or pointers before we deep dive into the same. Our franchisee business showed a strong revenue growth of 20% year-on-year and while our partnerships business saw a decline because of API and the closure of our MCGM contract.

Our partnership business excluding API and B2G showed a strong revenue growth of 22% year-on-year. The API business while degrown year-on-year, has now stabilized quarter-on-quarter at a quarterly run rate of 12.7 crores, which is a growth of 5% quarter-on-quarter.

Our radiology business did a revenue growth of 20% year-on-year, which includes our new foray into full-scale radiology through Pulse Hi Tech. Overall, we did a 10% year-on-year revenue growth on a consolidated basis.

With that, I will hand it over to Alok to take us through the results.

Alok Jagnani: Thank you, Rahul. Hi, all. Good evening. Thanks for this opportunity. I am very excited and thrilled to present my first financial highlights of Thyrocare. I will briefly update you about the key highlights of Q2 FY '24 financial performance.

Before we get into the details, I will reiterate about the ESOPs program that we have been mentioning in the last few quarters. This program has been introduced at group level to retain talent at Thyrocare. These ESOPs of parent company will vest over a period of six years and we are recognizing the same as per IND AS IFRS as a book entry toward our share-based payment and appropriately reflecting profit and loss account as an expense and balance sheet as an equity contribution from parents.

The total value of ESOPs granted is 45.53 crores over a period of 6-year period. But one thing we must note is that this is a cashless transaction, and there is no cash outflow going to happen. As per the Ind AS, the options are valued at a grand period as per Black-Scholes formula, which is charged to P&L over the vesting period proportionately and typically it results in a hit in the year of the grant. Then proportionate charge over the resting period. The breakup is included in the presentations.

As these are not operating expenses, do not impact the cash flow of the company, we have normalized EBITDA, which takes into account along with the provision of bad and doubtful debts.

Now, to go into the performance, our overall revenue saw a growth of 10% year-on-year driven by 20% growth of franchise business and around 22% growth in partnership business excluding API and B2G.

Our employee benefit expenses have increased by 1.3 crores versus last quarter mainly on account of actuarial valuation impact on leave encasement and gratuity which may be a timing difference and expected to be actualized in a subsequent quarter based on the actual leave availed by our employees during the festive and holiday periods which are in Q2, Q3.

Our other expenses overhead have increased by 4.8 crores versus last quarter on account of increased spend on business promotion expenses, loss on sale of end-of-life assets and onetime legal fees and some other IT expenses.

As far as the EBITDA margin is concerned, our standalone normalized EBITDA margin remains flat at 30% compared to the same quarter last year. EBITDA margin in NHL stood at 6% versus

17% Y-o-Y mainly due to the age machines coming out of the CMC period and increased transportation cost due to the increased volume of FDG and plasma sales. Our consolidated normal EBITDA margin remained stable at 29% same quarter last year.

With this brief highlight, I will pass it on to my MD, our MD, CEO, Mr. Rahul Guha for the strategic update. Thank you.

Rahul Guha: Thank you, Alok. Briefly, I would like to take a few minutes to recap to you our strategic direction, and then I will open it up for Q&A.

First, I will reiterate our value proposition to the customer. We will continue to remain an affordable option for all patients with good quality and on-time reports. All our efforts on our value proposition are towards ensuring low cost to the patient, assurance on quality of testing through our certifications, and deep engagement with doctors. We have made substantial progress on this, which I updated in my initial comments and is reflected in the presentation. This will remain at our core and will guide all that we will do.

Second, our strategy. We hope to become the B2B partner of choice to all front-end healthcare 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 companies and 400 networks phlebotomists to serve them better.

This strategy has been working well for us with our franchise business at an all-time high again. And hopefully, the headwinds in the e-commerce space will abate, and our partnerships business will be on a strong growth trajectory once again.

We remain true to our strategy. We have three key pillars of growth which I have shared in the last few quarters. I will reiterate once again. We are focusing on three areas. 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 that they can.

The second area is where we will focus on our partnership. We continue to focus on private as well as public partnerships. In the public space, TB, an infectious disease, which is our focus where we are by far one of the strongest players in this segment where we have won tenders now in Gujarat and Assam.

Additionally, we will continue to expand our partnerships across health care companies, hospitals, and other health services companies and 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. I happy to share that the JV is signed and Thyrocare Tanzania has been incorporated.

That in a 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 high quality, affordable testing to the masses. With that, I will open it up for Q&A.

Moderator: Thank you very much. We will now begin the question-and-answer session. We have our first question from the line of Rahul Agarwal from Incred Capital. Please go ahead.

Rahul Agarwal: Sir, first question was on the TB testing contract. Could you please explain whatever is possible on the Gujarat and Assam contracts in terms of the revenue size, the tenure, and how does the business grow forward? That's the first question.

Alok Jagnani: I think it's early days for the government business. These two contracts will total to about 4.5 crores. So, it's the first set of wins that we have won after. I think now we will, as we gain confidence in the execution of that, I think we will go after more and more contracts.

Rahul Agarwal: This is 4.5 crores annual, right?

Alok Jagnani: Yes.

Rahul Agarwal: And for what is the tenure here.

Alok Jagnani: It's for one year.

Rahul Agarwal: Secondly, on the working capital side, what I can see is as of September we are down about 38 days of net sales, which is good. I just wanted to know what should be the sustainable level. Once we get whatever outstanding payments we have with the government on a sustainable basis, our net working capital cycle should stabilize at what level, sir?

Rahul Guha: So, firstly, I think we have received most of our government payment, and overall, I will let Alok take this. Alok, why don't you take it?

Alok Jagnani: Thank you, Rahul. So, on the trade receivable in the working capital piece, Rahul, we are expecting that on an average trade receivable are going to be around 90 to 120 days outstanding because it's going to have a B2G outstanding and all, and it require a longer period of payment.

In the case of our partnership business, we are expecting that it's going to be as per the terms and condition of business agreement which is between 75 to 90 days. So, on an average, it's going to be 3 months working capital is going to on the credit side. In B2B business, most of the things are on prepaid model. So, there is no working capital blocking is required there.

Rahul Guha: Rahul, I think you are saying, I would expect from here, I think one could expect another 20% reduction as the remaining outstanding gets cleared.

Rahul Agarwal: So, on a net basis, 30 days should be like a reasonable number long term, 30 days of sale?

Rahul Guha: Yes, I think 30 days of sales working capital should be more or less what you should expect.

Rahul Agarwal: And third question, then I will come back in the queue, was on CAPEX, 47 crores for first half. This number I have taken from the cash flow. Could you explain the breakdown please?

Rahul Guha: Alok, you want to take that? Capital. His question is 47 crores of CAPEX in the first half. What is the breakup of that?

Alok Jagnani: So, Rahul, from where you have got the number of 47 crores? So, as per our working, in H1, we have incurred around 16 crores of CAPEX, which include plant and machinery worth of Rs. 11 crores, IT and other software spends which we have done Rs. 2.5 crores, and in office and lab furniture, we have spent around Rs. 2.5 crores.

Rahul Agarwal: Maybe I have got the figure wrong. I will come back in the queue.

Moderator: Thank you. We have our next question from the line of Rahul Mulani from Aditya Birla Finance. Please go ahead.

Rahul Mulani: My question is, there is a penalty of 2 crores from NMMC. So, what is the exact situation and whether we are going to appeal or not?

Alok Jagnani: So, we have received a demand notice from LBT last week and we have updated the exchange portal. We are evaluating our options for appeal and further course of action, and we will update accordingly soon.

Rahul Mulani: And the second question is like now you have entered the African continent. So, any future plans like other geographical expansion?

Rahul Guha: Yes, as I had highlighted in my earlier presentation, we have shortlisted three main kind of geographies. One was Africa. Second was the Middle East, and third is Southeast Asia. Tanzania is our first step into Africa, but our plans are to at least expand into the East Africa Nations as our first entry into Africa. We are evaluating options to enter the Middle East. I think Southeast Asia is on the back burner at this point in time until we sought out both Africa and Middle East.

Moderator: Thank you. We have our next question from the line of Megh Shah from Prospero Tree. Please go ahead.

Megh Shah: I just have some simple questions. On an overall basis, our GP margin looks good. So, what percentage of the operating expenses are fixed in this? And in absolute terms, when will the operating leverage be generated? Like, what should be the revenue should be above this number for operating leverage should be generated after that? So, what is that absolute number?

Rahul Guha: Can I ask you to repeat your first question because your voice broke a little bit at that point?

Megh Shah: What is the percentage of fixed operating expense like a fixed percentage of other expenses?

Rahul Guha: So, see, our employee, if you look at our total expenses, we were at about 60 odd crores. Employee benefits remain by and large fixed, and I would say in the other expenses, you can take a ratio of 50:50. So, I would say, of the 60 crores total expenses, about 40 crores would be fixed and 20 crores would be largely linked to revenue to a broad extent.

So, if you are looking for operating leverage at this point, I think it will kick. I have been always guiding that we will kind of maintain our EBITDA margin in the 30s range because as we grow the business and invest in growth, as I said both the franchise business and our partnerships business have grown at (+20%) and our D2C or our Direct-to-Consumer business also has grown at 19%, right? All of this has required investment in business promotion and visibility and the like. So, we will continue to invest back any operating leverage we get into business promotion to fuel the growth.

So, for this financial year, I would not expect much operating leverage. I have been saying that we will be in the 28% to 30% range for our normalized EBITDA. I am hopeful if we are able to sustain the growth into next year, you will start to see operating leverage kick in. It's too early to comment. Maybe towards Quarter 4 Results, I will start to give guidance for next year, but I am hopeful that next year we will start to see operating leverage.

Megh Shah: So, anything about 30% of EBITDA margin would be invested in marketing? That's what you are saying.

Rahul Guha: Yes.

Megh Shah: That's pretty clear. My next question is, so for the radiology business, up to what level of revenue would the operating costs not increase? Like, right now, the revenue has been quite flattish for some time of 10 crores this quarter as well, and the operating costs are almost 70%. So, what is the level of revenue where the operating costs will not increase?

Rahul Guha: See, the operating cost actually in our nuclear business is by and large fixed. The main categories of operating cost in our nuclear business if you look at it is about 8 crores. Most of that is actually CMC cost, rent cost for the locations. CMC is the maintenance of our PET/CT machines. Then we also have rent at those locations plus the staff at those locations.

So, I think a large amount of our cost in NHL is fixed. So, I would say of that 8 crores, almost 4 crores would be fixed. The rest is commission that we pay to our centers where we have franchises, right. So, that is linked to the revenue. My sense is actually we should be at a healthy profitable level once we cross 12 crores a quarter.

Megh Shah: So, when will that happen? Because it has been quite flattish since quite a long time. So, when will the business grow because it is not able to grow as of now?

Rahul Guha: No, actually, that's not true. If I look at, see, last year, we had grown on a very high base, right? So, if you look at our last year, full-year consolidated growth rate for nuclear, I think it was 40 plus percent on a revenue basis. And this year, yes, it looks like about 10% year-on-year growth, but it's off a very strong base of last year.

And what has happened is not all our centers are still operational. So, as we get one or two more centers operational, you will start to see the growth rate come back in this business. I can't give you specific guidance on when we will hit 12, 12.5. I am hopeful that by the time we enter the next financial year, we should be there.

Megh Shah: So, by '25, FY '25?

Rahul Guha: Yes, I would say, you can take almost by, I would anticipate by the first half of '25, we should get there.

Megh Shah: And in the other expense, you have mentioned that there were some onetime expenses of legal fees. So, what was that quantum?

Rahul Guha: So, the legal, there are two onetime expenses in other expenses of the tune of 1.5 crores. 1 crore is because we had very old equipment, which we sold at scrap value. There was a residual value attached to that which we charged to the P&L. So, that was 1 crore, and the legal expenses of 50 lakhs which is largely linked to our international outstanding.

Megh Shah: So, is it recurring?

Rahul Guha: No.

Alok Jagnani: It's a one time.

Rahul Guha: One-time.

Moderator: Thank you. We have our next question from the line of Ankeet Pandya from Incred Asset Management. Please go ahead.

Ankeet Pandya: Firstly on the provision for receivables. So, from the March quarter to from in the first half, we have seen a reduction in receivables from 85 crores to almost 55 crores, but yet on the sequential basis, the provision for receivable is yet there. So, any particular reason we are still charging for that, accounting for that?

Rahul Guha: See, we still continue to have government receivables which are long outstanding, and as per our provisioning policy, we are following the policy strictly which is beyond a certain point of outstanding, on a conservative basis, we provide it in the P&L. So, until we finish all the government receivable, I think that provision is there. It's, of course, substantially reduced to, let's say, what it was in Q4 of last year. But the tail end of our government money is still pending. So, as per our own policy, we provide for it in advance. However, we are still hopeful that money will come because these things take time.

Ankeet Pandya: And from last quarter, I think you mentioned that around 38 crores have been received, 35 or 38 crores. So, what will be the balance amount pending from the government?

Rahul Guha: The total balance account pending from the government is about 10 crores.

Ankeet Pandya: 10 crores, okay. Lastly, on the CAPEX fund. So, just wanted some clarity. So, on the cash flow, it's mentioned that around 46.9 crores CAPEX has been done, and we have in the quarter, Q1 quarter, you had guided that around 40 crores CAPEX for FY '24. So, just wanted to your sense on what CAPEX can we assume for FY '24?

Rahul Guha: Your question was what did you spend the 46 crores off?

Ankeet Pandya: On the CAPEX?

Rahul Guha: What are you planning to spend additional CAPEX?

Ankeet Pandya: Yes, 46 crores of CAPEX have been spent in first half '24. And in previous, in Q1 call, you had mentioned that for the whole year, our CAPEX will be around 40 crores. So, just wanted some clarity on the CAPEX front?

Rahul Guha: No problem. I will give you at least a view on what we are planning to spend our CAPEX on, and then I will ask Alok to reconcile for you the first half. So, look, first half, actually, a lot of our CAPEX went towards plant and equipment and some of the office refurbishment and all of that. I will ask Alok to take you through the details.

In H2, actually, majority of our CAPEX investment will be in the maintenance CAPEX area. We expect to spend about five more crores on some of the older machines in the lab and also overhauling our IT architect infrastructure by another 5 crores. And then I think we will have our international expansion in Tanzania where the lab is getting set up, which I think we will incur another 10 crores.

So, in the second half of the year, I would anticipate about 20 crores of CAPEX to happen. In the first half, I will ask Alok to take you through what has the 46 crores break up more or less.

Alok Jagnani: So, in the cash flow, like, you have seen that around 46 crores of CAPEX investment was happened, and mainly on account of, like Rahul said, that 24, around 25 plus machines which we have replaced over a period of last 6 months which required a CAPEX and around 16, 17 crores of CAPEX investment has happened on account of that. We have invested on lab infrastructure facilities and expansions on efficiencies. Around 16 crores of further investment has happened on account of that. That is around 33 crores of total investment. Rest is a capital advance for other business plan which has been given.

Moderator: Thank you. We have our next question from the line of Girish Bakhru from Orbimed. Please go ahead.

Girish Bakhru: Just want to check, so these new packages, Jaanch and Her Check, is there a major overlap with Aarogyam? How are they exactly different?

Rahul Guha: No, they are very, firstly, nice to see you, Girish on the call, and just to give you at least the overall strategy, see, we have a routine test and semi-specialized tests. Aarogyam is largely an annual checkup, preventive wellness brand, right? So, it is focused for people who would like to do an annual health checkup. The problem with annual health checkup is it is only once a year.

Jaanch is really focused on the therapeutic side, right? So, it is, think of it as a consumer facing therapeutic brand. So, for example, if you have a fever and you are worried about whether you have malaria, right? Then you would do Jaanch Fever. If you are, let's say, having hair fall, and you feel that there is something wrong with your body for hair fall, so you would do Jaanch Hair fall.

Similarly, we have Jaanch Diabetes, Jaanch Healthy Heart. So, if you are worried about heart attack risk, then you would use J Healthy Heart that gives you a 360-degree picture of your heart health. Right?

So, Jaanch is very therapy specific and largely focused on lifestyle and chronic diseases. We have Jaanch Cancer. We have Jaanch Pollution and many other kinds of segments. Jaanch STD.

So, it's really, the way to think about it is Aarogyam is your annual health checkup for a full scan of your body. Jaanch is really therapeutic focused, if you are worried about the detrimental effects of any lifestyle disease or chronic disease that is there in your body.

Her Check is a pure women's health package. It is largely focused for gynecologists. It has two main legs. Maternity. So, all the maternity tests double marker, triple marker, NIPT, everything that goes in the section of maternity all the way to newborn screening and so on is under the umbrella of Her Check.

And the other area is infertility, which is really about doing investigations to understand the reasons for infertility, and that covers the whole gamut of infertility as well. Her Check is largely focused on gynecologists to treat women.

So, that's how you should think about the three brands. Aarogyam is the annual health checkup wellness brand. Jaanch is the therapeutic chronic disease focused brand where if you are worried about something, you do a Jaanch. And Her Check is largely for gynecs to help them manage women's health.

Girish Bakhru: That's a very detailed description. So, when we look at these new packages, would it be fair to assume there are certain tests which you have, let's say, maybe introduced or they were in the panel before, but they were not getting scaled up? So, is there a higher mix of specialization expected with these packages increasing in the overall contribution?

Rahul Guha: Yes. So, just to give you a sense, our average Aarogyam package to the B2B channel, right, which is where we sell, or actually, let me not comment on my B2B rates. Our average Aarogyam package typically operates at a 1,400, 1,500 MRP in the market. Our average Jaanch package actually operates at closer to 2,000, and so does Her Check. So, I think these are two strategies also to move the mix upwards.

Girish Bakhru: And what would be your, let's say, target to revenue for these packages put together, let's say, fiscal '25-'26? Any ballpark number?

Rahul Guha: See, Her Check is actually still too new. So, we are still promoting and marketing it at this point in time. So, it's too early to comment on Her Check. Jaanch has beaten all our expectations. I think within three months of launch, it has already touched 1 crore a month, right. I am hopeful by the end of the year we should be able to double it. So, I would say between 25, 30 crores is what you can take as Jaanch as our target for next year.

Girish Bakhru: And just one more on the expansion strategy. You talked about, of course, international and B2G now coming with these contracts. What about the hospital channel that you had mentioned in the past that maybe small hospitals less than 100 beds could be a potential target. Are they still accessible?

Rahul Guha: Yes, we have been working on the hospital space, I think, now for about four, five months. To be honest, I mean, it is not scaling as per the expectation because it does take a long time to convince a hospital to hand over their lab to us. At this point of time, it's not material. We only have two or three hospitals, but we are learning the business with the help of those.

Moderator: Thank you. We have our next question from the line of Amit Agarwal from Nirvay Investment. Please go ahead.

Amit Agarwal: My question is regarding the term loan we have taken for the business. Thyrocare has always been a very cash rich company. So, what is the need to take this term loan? And for how long this loan has been taken. And do you think that this will be unit practice in future also? And regarding the capital expenditure of 47 crores, this company has been always left as capital-intensive business. So, what is the change in the future business plan? Because I think cash is becoming debt now?

Rahul Guha: Maybe first I will just share a bit of philosophy, and then I will ask Alok to cover the details. See, I think one is to use equity to fund equipment. In my mind yes, it is debt, but I mean, it is not bad debt. It comes at quite a reasonable cost and helps us overall expand the business and be more prudent about our capital allocation.

So, as a philosophy, we didn't feel it makes a lot of sense to deploy equity capital to fund equipment, right? And so, therefore, we looked at loans, and we said, how best can we leverage the debt market rather than deploying equity capital? That improves the return for our shareholders and everybody and the amount of equity that remains with us, we can deploy it to fund much better avenues of growth and hopefully grow the business faster.

So, with philosophy in mind, we decided to take the loan to fund our equipment. I thought it was quite an attractive value proposition. So, I will let Alok take you through the details.

Alok Jagnani: I think almost Rahul has covered, and we all know that debt is lesser costly as compared to equity come at a higher cost, and we have taken around 30 crores of loan in our financial books which you can see all against the plant and machinery which is going to have a tenure of three years, and it's a very reasonable best rates what we have taken. And this gives us the leverage to expand our business and cash in our hand to further expand and opportunities in CAPEX and business expansion piece, which were like other expansions we are doing.

Amit Agarwal: So, you mentioned we have taken almost 16 crores for capital advances. So, could you explain that item more? Because 246 crores for capital expenditure have been a huge amount, and we have always been very less capital-intensive business? Because I think there is a change of model of business right after the change of management.

Rahul Guha: So, wait, first, let me take again the first question around the change of business model. Look, as I said before, our average age of equipment was 12 years. Okay. It becomes very difficult to run reliable testing on equipment that is so old. We had to replace that equipment to ensure that we could have much better accuracy, throughput, and performance. So, that was a need of the hour for the business to ensure that we have the right equipment so that we can give our customers the right and most reliable testing. So, that decision to replace the equipment was not a change of business model. It was the need of the hour to ensure that we improve our accuracy and reliability in the lab.

Now, how we chose to fund it, that I will let Alok take over.

Alok Jagnani: So, the funding piece we have already explained. So, the total spend of CAPEX and investment what we have done till in H1 is Rs. 46 crores what my friend, Incred friend has also asked. So, we have spent on the machine expansions and replacement of existing old machine with the new machines and around 24 machines have been replaced which resulted spend of around Rs. 16 crores, Rs. 17 crores.

Our labs also require some infrastructure and improvements, and we have gone for the infrastructure improvement and expansions. That leads to a CAPEX advance of around 16 crores, which are going to be capitalized over a period of the next three to six months' time once the entire expansions are going to complete.

We have done a LLP investments, which is going to have around Rs. 6 crores in the last 6 months what we have done, and other IT and other CAPEX investment which has happened to around Rs. 63 crores, which leads to a total 46 crores of CAPEX spends which we have done, and depending upon the best leverage what is available, we evaluate whether we go with the equity or cash available or we will evaluate with the debts which is available at the best market rate, and then we take the decisions for the interest of best to the interest of our shareholders.

Amit Agarwal: My question is also that is this amount going to reduce in future or is this amount going to stay as it is in this financial year? And what is the investment required for Tanzania project?

Rahul Guha: So, that I have already shared. As I said in H2, we anticipate to spend another 5 crores to replace the machines and another 5 crores for our physical infrastructure and IT. So, that is 10 crores, and our international expansion, which is primarily Tanzania is another 10 crores.

Amit Agarwal: What about in the next financial year?

Rahul Guha: In the next financial year, I would think again, depending on the maintenance CAPEX and all, I will be able to give you a more concrete guidance towards the latter part of the year. But if you force me for a number, I would say it would be in the 50 crores range.

Amit Agarwal: 50 crores?

Rahul Guha: Yes.

Amit Agarwal: For the whole, yes?

Rahul Guha: Remember, I have a lot of old aged equipment even in the NHL business for which we will have to replace those equipments over time.

Amit Agarwal: So, are we taking some more term loan or we can manage these investments?

Rahul Guha: So, currently we are not forcing on the more term loans, but it's a like open opportunity depending upon the business CAPEX investments what we are going to happen, based on the best available options, we will evaluate.

Currently, we have like 30 crores of debt in our books which is having a tenure of three years against the assets. There is no bank guarantee, no collateral security attached to that. In subsequent CAPEX investments, maybe we can go, but as of now we have enough cash and immediately in the next three months to six months' time, we are not planning to go for further debt funding.

And again, I wanted to once again just reiterate our balance sheet is very strong. Our cash flow is also very strong. Because we are a healthcare company, we get preferential rates as healthcare equipment finance. I don't see anything wrong in taking debt to finance healthcare equipment for our expansion. In fact, I feel using shareholder money to finance equipment is perhaps less prudent.

Amit Agarwal: No, I understand that point, but I just wanted to evaluate how much dividend we will be getting in future, like earlier two years back we used to get 25%. Now we are reduced to 18%. I think we don't foresee an increase in dividend in future I suppose.

Rahul Guha: No, I would not anticipate, expect an increase in dividends in the future.

Moderator: Thank you. We have our next question from the line of Aneesh Deora from Nomura. Please go ahead.

Aneesh Deora: Firstly, I just needed clarification. I was looking at the PDF slide nine, where we have shown the breakup of the pathology revenues quarter-on-quarter. So, in the footnote it has been written that Q1 FY '24 and Q2 FY '24 refer to non-COVID numbers, and oh, sorry, all numbers except Q1 and Q2 of FY '24 refer to non-COVID numbers. So, I just wanted to understand if any COVID revenues are there in these two quarters and if you can quantify the same?

Rahul Guha: Yes, just give me one second. See, these numbers largely are non-COVID numbers. the COVID numbers are almost negligible at this point in time. So, we didn't see any reason to really bifurcate it at this point. Aditya can share. Aditya, what is our COVID number for this quarter? I think it's less than 1 crores, right?

Aditya Shinde: It is 38 lakhs for Quarter 2.

Rahul Guha: So, yes, our COVID number, Aneesh, is 38 lakhs for Quarter 2. So, we didn't bother bifurcating it at this point.

Aneesh Deora: And can I just know the COVID number of Q2 of FY '23 in that case?

Rahul Guha: 2 crores roughly.

Aneesh Deora: I see. Secondly, I just wanted your comments around the pricing in the industry currently. Have you like taken any price increases? And what are the quantum of growth that we are seeing through price? Just wanted to understand the dissection between volumes and price growths that is currently there.

Rahul Guha: See, for us we are taking price up through mix. We are not taking prices up through price hikes. So, our price hikes have been marginal I think to the range of about 4%, 5%. The rest we have actually been driving through mix which is to larger and larger Aarogyam packages, Jaanch the newer test menu, more movement towards vitamins and all of that. So, I would say, if you see we grew about 20% by revenue in our franchise business, I think about 8% by volume. So, roughly about 12% is price, which is about 4%, 5% has come from just price increase and the remaining has come largely from mix.

Aneesh Deora: And the price increases have been taken on like the entire portfolio or only on some specified portfolio of tests?

Rahul Guha: So, we have taken the price increases across the board. There are just a few losses leader kind of tests that we have which kind of brings the customer through the door. Over there, we have chosen not to raise the price.

Moderator: Thank you. We have our next question from the line of Rahul Agarwal from Incred Capital. Please go ahead.

Rahul Agarwal: I think the CAPEX question got answered. One question on the nuclear business. How should this business grow? And what are the sustainable EBITDA margins for this business?

Rahul Guha: See, the business, as I said one, we are faced with a few headwinds in nuclear to be quite candid. As I said, the machines are very old. So, the cost to maintain those machines is just going up and up, which is what you see in the other expenses over there. As a result, we have been steadily also increasing prices in line with that to cover the cost, but that naturally has an impact on the volumes as well.

I would say, if I were to guide you, a normal EBITDA for this business given the state of the machines that we have and the kind of OPEX that go goes into maintaining and running these machines, I would say in the between 10% and 15% range is where you should look at NHL on a steady state. We are doing a lot to fix the business, but I would say, don't anticipate anything more than between 10 and 15. If we touch 15, I will say, we would have done a fantastic job with the kind of infrastructure that we have.

Rahul Agarwal: And a related question as you also mention on volume, I think just wanted to know the sustainable growth here. The revenue growth in the first half I think is 10%. What was the volume growth here? Like, if you could share the number of scans for first half, that will help.

Rahul Guha: For first half versus?

Rahul Agarwal: Y-o-Y volume growth for nuclear?

Rahul Guha: The total scan volume will be about 10% is what I think, which is where we have landed year-on-year in revenue also.

Rahul Agarwal: But you mentioned price hike. So, I just wanted to clarify that the growth is driven by…

Rahul Guha: No, the price hikes we started now because we started in September and actually now going into October, November. The reason we started to do the price hikes is when the CMC cost started to hit us. And as you know, it's not easy to take price up in this business. So, it takes a little bit of time to ensure it lands.

Rahul Agarwal: Thanks for the clarification. Another thing was we, obviously, lot of PharmEasy shareholders have got their forms for rights issue. My sense is legally that process is going through. For us from a business perspective, API partnership, would you expect that business to revive back on the growth path? Any color could you provide on this?

Rahul Guha: So, I am hopeful, I think it has already been publicly declared. So, I can quote it that the rights issue has been oversubscribed. So, I would hope that now that some of the funding issues at PharmEasy are resolved, that they would also go back on a full growth trajectory.

As you know, our entire API business is just cross-selling on the diagnostics platform, on the PharmEasy medicine platform. So, as that medicine platform goes back on its path to recovery, our cross-sell business obviously grows lock in step with that. So, I am very hopeful that with this funding issues behind us the third engine of Thyrocare will now start to fire.

Our first two engines are firing quite well. The franchise business, as you have seen, Rahul, has grown at 20%. Our partnerships business excluding API and government has also grown at 22%. In fact, surprisingly, even our D2C or our direct business has grown at 19%.

The last engine that we have is the API cross sell where I am hopeful that would also come back on its original growth trajectory.

Rahul Agarwal: And Tanzania overall investment is going to be 20 crores. 10 is done. 10 in second half. Is that correct?

Rahul Guha: No, no, we have not done any investment till now. 10 will happen in the second half. That's all we will plan to invest in.

Rahul Agarwal: And lastly, just one clarification. I think you answered partially, but I wanted to clarify. The provision the line reads in your presentation essentially provision for receivables taken for foreign accounts after netting of reversal from B2G business. Could you just explain this please?

Rahul Guha: So, as you know we had provided quite heavily for the NHM business, which we received the money. So, there was a provision that was released from the P&L. However, as per our normal policy, our receivables from Thyrocare Gulf have been pending for a significant amount of time, and we have now gone into litigation. So, therefore, our advisers have asked us to or our auditors have insisted that we provide for that. So, these two have netted each other off, and it's landed at about that 1.36 crores seen in the P&L.

Rahul Agarwal: So, the Thyrocare Gulf receivable is higher than one, and whatever releases happened from NHM is also higher than one, right? And hence the net number is 1.5. Is that correct?

Rahul Guha: Yes, it's I think about five and six.

Alok Jagnani: Correct. So, around Rs. 6 crores of Thyro Gulf which is netted up against the NHM and few other small receivables.

Moderator: Thank you. We have our next question from the line of Ashutosh Parashar from Mirabilis Investment Trust. Please go ahead.

Ashutosh Parashar: I just had a couple of questions. So, first regarding, so we had initiated this pin code expansion like four, five quarters back. So, I wanted to check whatever new areas that we have entered into in these last four, five quarters, how have those been performing? And if we were to sort of index it to a mature area, so, currently, what level would these areas be operating at? So, that is the first question.

Rahul Guha: So, if I could repeat your question so I have understood it, you are asking what is the status of the pin code expansion and where do you think it will reach?

Ashutosh Parashar: And how has those areas been performing for us? The new areas basically.

Rahul Guha: So, look, we continue to expand in the pin codes through our pin code expansion team. We actually now have started to track it from number of active franchises. So, we closed last year, I report it on an annual basis. I don't report it quarter-on-quarter.

But last year, if you remember, we had ended at about 7,488 active franchises, and we continue to add franchises at a run rate of between 100 and 135 per month depending on the month. So, I would say, in July, August, September, net-net we would have added about 400 new franchisees. I think we will peak out at about 10,000.

Of course, it's like same store sales growth in a retail business, right? The new franchisees take a little time to scale up. So, obviously, in the first year, they operate at about 25% of the full potential of the base, and then it takes them about three years to reach the full potential. So, it takes a little bit of time to scale up, but we are running at a healthy run rate over there.

Ashutosh Parashar: And secondly, on the Aarogyam portfolio, so, currently, what is the total contribution of Aarogyam portfolio to total sales?

The second one is on the Aarogyam portfolio. So, what is the contribution currently to our total sales?

Rahul Guha: Aarogyam remains at 36% of our turnover which is the same as what it was last year.

Ashutosh Parashar: And the Pro and Plus range that we have launched a couple of quarters back, so is it contributing meaningfully? Would you be able to quantify the contribution?

Rahul Guha: See, we have now a full lineup. It is Aarogyam Pro and Plus. It is all part of the Aarogyam. They are just, how do I describe it? A completion. At that point, our Aarogyam average order value used to be about Rs. 1,200. Over time, it is moving up in that way, but we had also at the same time launched Aarogyam Mini and Aarogyam Basic, which were at the entry level. So, at a mixed level, I would say, we are kind of at the same place, but I would say our franchise business has grown at 20% year-on-year and Aarogyam remains at 36% of our overall business. So, the Aarogyam business continues to grow at a strong clip of about 20%, most of that driven by our investments in Plus and Pro because we haven't done anything else with Aarogyam.

Ashutosh Parashar: That would be all.

Moderator: Thank you. We have our next question from the line of Siddhesh from ICICI. Please go ahead.

Siddhesh: So, my question was regarding this depreciation policy. So, if we look at plants and diagnostic equipments, we are depreciating that over 13 years. But you mentioned that some of the old assets that we replaced, those were having an average year of 12 years. So, is there a need to revisit this depreciation policy of 13 years?

Rahul Guha: I will let Alok take that.

Alok Jagnani: We will go through the policy and come back on that, but the current policy what we are having of 13 years asset life, which we are taking for our accounting purpose, remain valid. But point taken. We will evaluate, but on average, our machines have life cycles of around 13 to 15 years.

Rahul Guha: So, just to clarify also, I just wanted to say the average age of our equipments were 12 years, right, before we bought the new equipments. That means, of course, that many of our equipments were well beyond 13, 14, even 15 years. So, it's those equipments that we have replaced. It doesn't mean that we are not using equipment, that is, let's say, 8, 9, 10, 11 years old.

Moderator: Thank you. We have our next question from the line of Megh Shah from Prospero Tree. Please go ahead.

Megh Shah: I just wanted to confirm one thing. As on 31st March 2023, the total outstanding net of impairment was 83 crores, of which 72 crores were outstanding from government, and right now the total amount outstanding from government is 10 crores. Is my understanding correct?

Rahul Guha: Yes.

Megh Shah: So, in the Quarter 1, we received 38 crores, and in 2nd Quarter we received 24 crores?

Alok Jagnani: So, what you said is like 85 crores of total outstanding was there in March. Against that, the current outstanding which is showing is 55 crores. The moment is of 30 crores, correct?

Megh Shah: I actually want to focus on the government part.

Alok Jagnani: So, on the government part, the outstanding what was we have received around 41 crores of amount we have received from NHM, and few other government collections also happened. In addition to that, other business partners where the outstanding was there, we collected around Rs. 20 crores, which resulted in deductions of trade receivable. In addition to that, subsequently, in 6 months' time, fresh filling has happened and resulted to add on to the data receivable piece.

Megh Shah: So, in March, the total outstanding from government was 72 crores according to the figures you have mentioned in the annual report.

Alok Jagnani: No, so in March, the total outstanding with government was around 35 crores.

Megh Shah: As on March 2023?

Alok Jagnani: 35 plus 15. Just 35 -- it's around 50 crores net of provision.

Megh Shah: 50 crores net of provision.

Alok Jagnani: So, in March '23, the total outstanding from government net of provision was 50 crores. Now after in September, net of provision, the total outstanding from B2G business is around 10 crores.

Rahul Guha: Let me try to make an attempt once again to receive. So, net of provision, so without provision, right? Our March outstanding was 71 crores. We received 45 crores. We have provided for 16 crores until now, which leads us to a net balance of after provision of 10 crores.

Megh Shah: And all these are outstanding figures, right?

Alok Jagnani: Sorry.

Megh Shah: All these are outstanding from government or total outstanding? These figures?

Rahul Guha: No, no, only government outstanding.

Megh Shah: Only government.

Alok Jagnani: We have done B2G outstanding only.

Megh Shah: Just a follow-up question for the CAPEX which you mentioned of 47 crores. So, I just wanted to understand where is that amount reflected in the balance sheet?

Alok Jagnani: So, that is you can see in the fixed assets addition and deletion, both addition and replacement have both has happened. So, it will be seen as a net of once you are going to receive a detailed financial in the month of March detailed financial which is going to come with annual financials, you will find where the additions and deletions can be seen.

Megh Shah: So, the net amount is the same, right.

Moderator: Thank you. Ladies and gentlemen, that was the last question for today. I would now like to hand the conference over to Mr. Rahul Guha for closing comments. Please go ahead, sir.

Rahul Guha: Thank you everyone for spending the time with us this evening. I think this is the longest question-and-answer session I have seen since the time I joined. It has been now I think about 15 months or 16 months ago.

As always we continue to remain focused on our strategy, which is to be the most affordable, good quality diagnostic testing partner for anyone in the healthcare 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 the best in class. We have made substantial progress on all of this as I have been reporting over the previous year, and I thank you all for your support in this journey.

With that, I will hand over to Pratik for closing comments, and then we can close.

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

Moderator: Thank you.

Pratik Hire: Over to you, Yashashri.

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