Dr Lal PathLabs

February 27, 2017

National Stock Exchange of India Limited
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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 Q3 9M FY17.

We request you to please take the same on record.

Thanking You,

Yours Faithfully,

For **Dr. Lal PathLabs Limited**

Rajat Kalra
Company Secretary & Legal Head

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Dr Lal PathLabs Limited (LPL)
Q3 & 9M FY17 Earnings Conference Call Transcript

February 02, 2017

Call Duration	▪ 1 hour 15 mins
Management Speakers	▪ (Honorary.) Brig. Dr. Arvind Lal - Chairman and Managing Director of Dr Lal PathLabs Limited ▪ Dr. Om Prakash Manchanda - Whole-time Director and CEO of Dr Lal PathLabs Limited Mr. Dilip Bidani – CFO of Dr Lal PathLabs Limited
Participants who asked questions	▪ Sweta Karia from Batlivala & Karani Securities ▪ Kunal Randeria from JM Financial ▪ Sudarshan Padmanabhan from Sundaram Mutual Fund ▪ Neha Manpuria from JP Morgan ▪ Nitin Agarwal from IDFC ▪ Abhishek Sharma from IIFL ▪ Surajit Pal from Prabhudas Lilladher ▪ Sameer Baisiwala from Morgan Stanley ▪ Prashant Nair from Citigroup ▪ Yashas Bhatt from LKP Securities ▪ Tushar Manudhane from Motilal Oswal Securities ▪ Abhinav Ganeshan from Canara Bank Securities ▪ Saion Mukherjee from Nomura ▪ Chirag Talati from Kotak Securities ▪ Kaushal Shah from Research Delta Advisors ▪ Amrit Talantri, Individual investor

Siddharth Rangnekar: Thank you. Good Evening, Ladies and Gentlemen. Welcome to Dr. Lal PathLabs Limited or LPL Q3 FY'17 Conference Call for Investors and Analysts. Joining us today are Hony. Brig. Dr. Arvind Lal -- Chairman & Managing Director of the Company; Dr. Om Prakash Manchanda – Whole-time Director and CEO; Mr. Dilip Bidani – CFO, accompanied by Mr. Ved Goel – Vice President, Finance.

I would like to highlight that some of the statements made during today's call would be forward-looking in nature. Actual results may vary significantly from these statements. A detail statement in this regard is available in the 'Results Presentation' which was been circulated to you earlier.

I would now like to invite Dr. Lal to commence by sharing thoughts on the company and it performance. Over to you, sir.

Dr. Arvind Lal: Thank you, Siddharth, and Good Evening to all joining us on this concall. Our determination to enhance patient service experience while facilitating better decision making by the medical fraternity, backed by accurate and timely diagnostic testing, continues to underpin our performance and strategies. We believe our foundation of world-class infrastructure and capabilities enabled us to remain committed to our execution plan even in scenarios or situations which can have an adverse effect on the company's performance in the short-term such as recently seen demonetization drive. Thus while our immediate initiatives were aimed towards offering solutions to better the situation and help our patients, our vision remains intact towards long-term growth. Our key focus areas of deepening penetration, expansion in geography, as well as range of tests, technological upgradation and creating awareness remains primary on our agenda. What gave the top most position on our priority list is quality. We absolutely strive to establish and meet very high standards of quality across all our operations in order to do justice to our brand. We at Dr. Lal PathLabs, truly believe that our transformation over the many years has impacted many lives positively and it is with this passion of making a difference via our services that we will remain steadfast for our progression plans.

With that, I will request our CEO – Dr. Om Manchanda to take this call ahead and thank you very much.

Dr. Om Manchanda: Thank you, Dr. Lal for those inspirational words. I would like to welcome our listeners and thank them for joining us on today's call. I will briefly cover with you important aspects of our growth initiatives, our CFO –Dilip will follow with thoughts on the financial progress made by the company thus far.

January 2017 marks the completion of first trading year for us as a listed entity and I wish to extend our gratitude to all our stakeholders who have supported us in this journey. Our vision is to bring the benefits of complete diagnostics brand to people while fostering a habit of evidence-based treatment in medical community. Whereas the sector continues to grow at mid-teens level in the last quarter, we face strong headwinds due to demonetization. This is primarily due to high dependence of physical cash paying patients, this Hospital businesses were also impacted, and we face the cascading effect of lower samples. In order to combat the situation, we have increased the pace of receiving non-cash and digital payments. In the recent months, sector has also seen heightened levels of tests and plethora of PE-backed deals which we believe has increased the competitive intensity in the Diagnostics space. We are highly cognizant of the movement and emerging trends and remain confident of adopting our business planning. As explained earlier, the upcoming regional reference lab at Kolkata and Lucknow, our steps towards strengthening our business into these regions. At Kolkata, we are nearly completing our civil construction work which is well within our estimated timeline. The coming quarters will mark next step revolution of our model backed by a brand with high affinity from the consumers. Within the Healthcare space, we believe we are favorably placed to drive accelerated growth.

With that, I will hand over to Dilip and request him to share his thoughts with you.

Dilip Bidani: Good Evening and thank you for joining us on this call today. Let me quickly update you on the Key Financial Highlights:

Q3 was a challenging quarter for company across sectors on account of demonetization. Our performance this quarter also reflects that impact. Given that a majority of our walk-ins and network plans, operate on the cash transactions, our volume growth was subdued and stood at 5% in Q3. Prior to demonetization period, we were operating at revenue growth levels of around 20%. Post-demonetization, our revenue growth moderated and saw a growth of 10% to Rs.2,075 million. In order to address the issue and provide more convenience to our patients, we have increased the options of non-cash and digital payments across our network. On the whole, a gradual and steady recovery has started again post-demonetization.

For the nine months of FY'17 ended December, revenues improved by 16.7% to stand at Rs.6,925 million. It is important to note that all our drivers for revenue growth such as increase in market reach, tapping new regions and introducing new tests, continue to be implemented with the aim to create longer-term sustainable growth.

In Q3 FY'17, our EBITDA stood at Rs.470 million, up 10% over Q3 of the previous year after excluding the ESOP charge reversals which were taken last year. Normalized PBT excluding these exceptional ESOP reversals was at Rs.465 million, correspondingly, in the nine months period FY'17, the normalized EBITDA was up 23% in comparison at Rs.1,872 million. The normalized PBT growth for this period is 28.6% at Rs.1858 million. Please note that our PAT figures for FY'16 are strictly not comparable on account of these ESOP charges which was charged in Q1 & Q2 last year and later reversed in Q3 and I will leave this out of the discussion.

To conclude, we believe we are steadily progressing on our growth initiatives which are clearly targeted and enabling the firm deliver sustainable long-term profit. We know that this is an ongoing process and are committed to make the necessary investments to fortify infrastructure. We will clearly leverage our established reputation expertise and capabilities to grow in our core markets and successfully complete in newer markets.

With this, I would like to conclude our opening remarks and request the moderator to open the forum for Question-and-Answer. Thank you.

Moderator: Thank you, sir. Ladies and gentlemen, we will now begin with the Question-and-Answer Session. The first question is from the line of Sweta Karia from Batlivala & Karani Securities. Please go ahead.

Sweta Karia: While we went through the highlights and the data given in the earnings presentation, I would like to ask one thing that since our volume growth was 5%, could you highlight what would be our value growth if at all and have we taken any price revision in the key markets or any newer markets that we have forayed in?

Dilip Bidani: I will take the second part of the question first; there have been no price increases in this quarter specifically, we did take a price increase in June 2016, so the impact of that definitely continues. As I mentioned earlier, our growth was in the region of 18-20% till the first half and post demonetization in November and ultimately for the quarter, our overall growth has ended at 10%.

Moderator: Thank you. The next question is from the line of Kunal Randeria from JM Financial. Please go ahead.

Kunal Randeria: Firstly, if you were to break down the revenue growth, can you give some flavor on the regional contribution, any particular region that was impacted by this move? Secondly, can you share how much of the cash contribution to your overall revenue changed from let us say pre-November 08 to the end of this quarter?

Dr. Om Manchanda: We saw much more adverse impact in Eastern part of India followed by Delhi NCR. So these two regions were adversely impacted due to demonetization. As far as physical cash component, I think our numbers are close to 55% is physical cash, which has gone down from 55% to 35%. So that was the decline which we noticed post-demonetization.

Moderator: Thank you. The next question is from Sudarshan Padmanabhan from Sundaram Mutual Fund. Please go ahead.

S Padmanabhan: One question is primarily on the EBITDA margin side. We are actually looking at the adjusted margins has been no improvement. But if we are actually looking at the last three quarters, one would notice that we have been hovering around 27-28%. I am keeping the second quarter out because we did see some benefit of dengue. Broadly can you give us some color on why we have seen some kind of spike in the other expenses and what is really building into the other costs?

Dilip Bidani: If you look at our detailed structure of cost, it has largely been pretty constant and if you are looking specifically at Q3, this is generally one of our weaker quarters in any case and this quarter we have 22.6% EBITDA margin which is the same as last year. If you look at the overall cost structure we have around 20-21% is into material cost, about nearly 20% all told is the people cost including the cost of doctors and professionals on our roles. Then there is cost which is around revenue share which is 9-10%. There is an ESOP and RSU cost which typically is around 1% in last year as well as this year. Overall there is not any significant change in the cost structure and while 27% has been our trending margin, we have been maintaining that we will over a period of time see margin dilutions as we continue to invest in new territories and build up our people base and look at our investments both in marketing and IT. I would suggest that we should look at our cumulative nine months' margins rather than our quarter margins because there are lot of seasonality factors involved in it as well.

Dr. Om Manchanda: Q3 in general, our margins are lowest as being an off season our sales normally drop and this got further compounded due to demonetization but do not look at just the quarter margin, look at on overall yearly basis.

S Padmanabhan: Second question is around the interesting comment you made on competition heating up. I understand that as people get more money they would try to invest into growth, but I would actually believe that at a certain point of time there would only be a certain number of players who can gain that kind of care and reach. Second is what is your outlook on the government focusing more on getting all the labs on the same quality platform, something like enforcing NABL accreditation into the quality of labs because now we are seeing the government kind of focusing on the drug pricing, the government is now talking about medical devices. So where are we on that side of thought process?

Dr. Arvind Lal: I will take the quality-NABL question of yours first; In India, the entire scenario of the labs has not improved, in the sense the estimates are anything between 60,000 to 100,000 labs in this country and majority of them are in the unorganized sector which are run by people who are not qualified to run these labs, as per the Supreme Court judgment, that is #1. #2 is that accreditation what you have rightly pointed out is the correct thing for the government to implement. #3, the second stage is being missed and that is the regulator mechanism. Regulatory mechanism of the government should have been implemented by now in the form of a clinical establishment law which has been passed by the parliament in 2010 but unfortunately which has been taken up or implemented or adopted I should say by something like eight state governments and they themselves have also not implemented it fully and the rest of course have not done at all. Now, this is a very important step towards the third step i.e accreditation, because this will effectively be able to control the labs which should be running. Right now these are testing shops, which you and I coming across, including one of our competitors, it is a big testing shop. So only the doctor-run labs would be remaining and the third step would come gradually if the second step is implemented then the third step the government can say that, okay, we are giving you a timeframe of 5-years, 10-years, that all the labs say I am just taking a figure that there are 50,000 labs in India will have to be accredited by such bodies within say next 5-7-years. So that is the way it has to function.

S Padmanabhan: Given that till now we have been predominantly Delhi and East focussed player, probably if I am looking at five years down the line, as would we be still predominantly a Delhi and East player or would we at that point of time be more of a pan India player with equal contribution coming in from various parts of the country? What is our take on moving into the tier-2 towns, tier-3 towns where the per capita income is also increasing?

Dr. Om Manchanda: It is a very good question, so I am just drawing a parallel to what has happened in other markets, especially western world. Technically, I think entire healthcare not only just diagnostics, is quite fragmented space and organically you can only grow in your own strong markets. So the companies have become larger not only following organic strategy, at the same time there is inorganic play also. So I think to your question, five years or even more, I do believe that some of the regional players will come together and some M&A kind of movements will become much more and that will lead to us becoming a pan India player. But till that happens, we will continue to focus in our strong markets and at the same time keep trying for certain M&A opportunities in the other markets.

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

Neha Manpuria: If I look at the pricing growth in this quarter, given that we took the price hike, the tariff adjustment in the June quarter, and the commentary that you make in your opening statements about how competition is increasing, have we seen some amount of pressure on pricing because of the competition increasing or this is just a demonetization phenomena that our realization per test has not shown that much improvement?

Dr. Om Manchanda: So I will have to split these two parts; one is the demonetization which I hope it remains temporary and we are seeing a gradual recovery out of this, so hopefully we will be out of it in the next two-three months time, so let us keep that aside. Two, your question on pricing, clearly, we are cognizant of the fact that it is highly fragmented, lot of competition. As I mentioned in earlier calls as well, I do not want to depend our business just to on price hikes, I am acutely aware that pricing will come under pressure as competition grows. So we will try and see that how we stay very lean on our cost structure to maintain our competitive advantage.

Neha Manpuria: So is it fair to assume that the tepid YoY growth in realization is more a function of demonetization than anything else in terms of probably we are losing some of the higher end test to competition, etc.?

Dr. Om Manchanda: Our revenue per patient has not gone down, I do not know how you got it, we are only impacted in volumes right now.

Moderator: Thank you. The next question is from Nitin Agarwal from IDFC. Please go ahead.

Nitin Agarwal: Just going back to the competition point that you mentioned in your opening comments, what has been your initial experience with this over the last quarter or so – is the new competition which is coming in, is it like a rational competition in terms of the way they are going about doing business on the pricing front?

Dr. Om Manchanda: A lot of questions are coming around competition. What actually I meant by an opening comment was that the private equity interest which has been seen in this space, there are a couple of deals that have happened and those deals have happened in other regions like Eastern part of India, and then something going on in south as well. So when I meant by competition, I was basically trying to say lot of regional players now getting some private equity funding, we presume that there was a lot of activity, it can cut both ways, I am looking at a positive side of it because they will help industry to organize better and I will be up against the competition which will probably of similar type as mine in terms of quality standards, etc., So that does not necessarily mean that it will have adverse impact on the way I work but I am just saying that it will actually help large regional players to emerge which sometimes could be a good news as well.

Nitin Agarwal: We have seen instances where some of these new competition as you mentioned is in the form of very established brands like Apollo and Max. Does that change especially when this kind of competition emerge in the markets, we are not present and you are talking about strong regional players emerging in those specific markets, for example, Apollo in the south, does it make life difficult for us, you try enter those markets at a later point in time?

Dr. Om Manchanda: Jury is still out there, theyhave just come into the market, but my sense is it is not easy to grow beyond your markets where your brand is stronger since their brand is very strong in south, so they are probably starting from there. But beyond really I cannot comment on how it will pan out eventually. But to me, I look at some of these three or four quality players coming in, will lift the overall standards of quality in the market which eventually I believe at least will create a level playing field amongst us. Today, I am up against lot of small time players where the cost structure is not similar, quality standards are not similar. So I presume some of these larger players coming in, probably will bring in standardization in the whole space.

Dr. Arvind Lal: Last time, one such larger player from the south entered completely a new market all over India in the form of franchising clinics, etc., it was not very successful. So do not take it for granted.

Nitin Agarwal: In the last quarter, the fact our growth as you mentioned was slightly lower than the industry growth. So what kind of players would have gained in the process because I presume the problem of handling cash would have been sort of acute for all the players?

Dr. Om Manchanda: My sense is nobody gained. So overall market must have gone down because this is one of the healthiest season, winter months not too many diseases are there, so I think overall table has gone down is my reading.

Dilip Bidani: Just to add to that, I think our statement was that we against our benchmarks did not grow at the rate we were expecting to grow. It is not worse than the market and competition, it is against our own benchmark.

Moderator: Thank you. The next question is from Abhishek Sharma from IIFL. Please go ahead.

Abhishek Sharma: Sir, just wanted to understand, what was the state of discretionary test during this quarter like Wellness Testing, etc., did that go down considerably?

Dilip Bidani: We did not see any major shift in the kind of testing which happened during this quarter. It was right across the board that we found that the testing was minimized. This is actually reflected in the volume of patients going down rather than the realization per patient going down. So what we have noticed is that during this period it is not as if there was one test preferred over another, it was an entire table which shifted.

Abhishek Sharma: During this period of demonetization, did you see people sending their samples to cheaper centers?

Dilip Bidani: Based on market information, everyone seems to have seen lower volumes that could have been so, but we cannot really pin it to that.

Dr. Arvind Lal: We have seen after consulting with our peers and the other lines also for example providers and hospitals that there was a uniform kind of dip around 15% was noticed by everybody, some place even 20%, some place even 10%.

Abhishek Sharma: On the private equity funding side, have you seen any attrition in your franchise base or key employees losing out some of these two companies which have just got private equity funded?

Dr. Arvind Lal No, we have not seen any such effect, on the contrary we are flooded with more franchisee collection centers requests.

Moderator: Thank you. The next question is from Surajit Pal from Prabhudas Lilladher. Please go ahead.

Surajit Pal: I have two questions; one question is that NABL related issues which you are saying is that if government try to implement that rule, so 60,000 to 1 lakh labs, is it that difficult that you believe that this 60,000 to 1 lakh those small test centers will be shrinked significantly and if it is so, how many will survive as per your understanding? Along with that say assuming that Rs.50 crore to Rs.70 crore kind of revenue guys are getting majority of this PE funding, if that be the case, do you really believe that this kind of regulation will be hindering their growth?

Dr. Arvind Lal: The fact of the matter is that there are lots of testing shops in India. Now, accreditation is not the answer right away but the regulatory thing which has to be implemented has not been implemented. So after regulation whether the number comes down by half or by one quarter, I have one idea, but that would be the right step. So right now anybody, anywhere, anytime can open up a lab at their own testing shops as I said earlier.

Surajit Pal: I mean, if you can focus a bit more, in the sense that other than this accreditation what are these regulations which could be making a small test operator to open the shop?

Dr. Arvind Lal: The first thing which is bothering India or what is wrong in this line is that according to Supreme Court ruling only MBBS qualified doctors who's names are there in the medical registry namely MCIA can operate a lab, it is written in black and white. But if you see the ground reality, those doctors are not there, they are being run by so-called compounders, so-called people who are not supposed to be testing and therefore they have given rights to lack of quality, unethical practices, etc., and so many other things in India which we cannot go into, it is a hole in the bucket and you keep on putting water into it. That is kind of a problem which we face.

Surajit Pal: These 50-70 guys who are getting namely PE backing and with this kind of unhealthy competition where their bottom line might be running in red as well as there could be bleeding in the balance sheet, how long do you believe that this scenario could survive before any kind of sanity comes?

Dr. Arvind Lal I think at the outset, I must tell you that the private equity guys would never put their money in a non-accredited lab. I do not know the names of these labs but they must be NABL accredited.

Dr. Om Manchanda: First of all, these labs that are there, there are not very unhealthy competition, I think we are not referring to PE-backed labs, in fact, that competition is a healthy competition for us, the reference has been to some of these labs which are really not managed properly which are very-very small labs, not the PE-backed labs.

Surajit Pal: Second part is that your price hike, do you really believe that when majority of the industry players getting 70% of the revenue from the top-10 tests and so much of competition healthy or unhealthy we do not know, as well as the intensity also increased with the PE backed guys, do you really believe that the price hike would be feasibility going forward including that reagent cost may not be coming down further?

Dr. Om Manchanda: I think you are absolutely right, I mentioned earlier also that clearly we will focus on our cost structure much-much more so that we do not push ourselves in the price hike scenario and we are fully aware that in a competitive scenario taking a price hike will be challenging so we do not want our business to depend on price hike going forward.

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

Sameer Baisiwala: I am at your Slide #10 in your presentation. The top-3 exhibits which are clinical labs, PSCs and PUPs, is it possible for you to tell us how does a number look like for the nine months of this year, just a ballpark percentage or whatever you can?

Dilip Bidani: We have not been disclosing these numbers for competitive reasons other than annually, so we would not like to mention these numbers at this point of time.

Dr. Om Manchanda: However, directionally, as I mentioned earlier, we really want to consolidate our pick up points under some master franchisee so that number may shrink a bit, we want to increase our network of PSC and collection center which is a franchisee network. As far as the labs are concerned, that is more on a case-to-case basis depending on because that is really supply side of the market but we want to really increase our collection centers and patient service centers as much as possible.

Sameer Baisiwala: If I look at patient centers, would you say that your trend line has been between 10% to 15% in last three-four years and that is probably the trajectory you will be taking?

Dr. Om Manchanda: Not only just growth, because our focus is even on making these centers viable as well. So it is not just always width of collection center, but also even depth so that per patient collection center sales also go up because that will help us to improve the service levels out of these centers, so the focus is on both – width as well as depth. Now coming on width, I think 10-15% has been our growth trend in the last 3-4-years.

Sameer Baisiwala: Just touching upon the second one which is depth,I don't know if the right way to look at it is to compare the top-3 exhibits with the one below which is number of patients. If I look at it end-to-end, first year versus last year, it looks like they are broadly in line with each other, just the number of patients maybe 2% or so per annum ahead of the centers. So does it suggest that large part of your growth is dependent on really more centers and more labs which means your same stores growth which is on volume growth is just about couple of percentage points?

Dr. Om Manchanda: Actually, there is a bit of lag there because the growth actually comes from centers that would have come two to three years before. So it is not to be read that if I do not grow on the centers, my growth will not happen. But you are right, it is always a pipeline, we just keep building up collection centers, this is one of the drivers of growth. It looks like a linear relationship on year-to-year basis, but there is always a time lag between these two.

Sameer Baisiwala: So adjusting for time lag, what would you say, same store volume growth is what -- 5% or less or more?

Dr. Om Manchanda: I think if I look at my pre-demonetization volume growth of about 14%, out of which close to 10% would be same. We actually do not simply look at same-store, we look at same geography and plus 5% would be coming out of the new centers.

Moderator: Thank you. The next question is from Prashant Nair from Citigroup. Please go ahead.

Prashant Nair: Just wanted to understand, you mentioned that the share of cash payments had gone down meaningfully immediately after demonetization. Now that a few months or a couple of months have gone by. Have we seen it staying there or have we seen it coming back to earlier levels?

Dr. Om Manchanda: We are seeing improvements, Prashant, on that. It has still not come back to earlier levels, it has started stabilizing little higher level as far as the digital part is concerned but we have started seeing some improvement in that area.

Prashant Nair: Actually, my question was, has the share of digital stayed as high as it was in the initial period or has that again gone down and the share of cash going up once again?

Dr. Om Manchanda: It went up sharply, again digital has started coming down a bit and cash has started moving up a bit.

Prashant Nair: In overall terms, it is still below the normal trend that you would have seen had this not happened?

Dr. Om Manchanda: Cash as a percentage of total is yet to go back to the earlier levels.

Prashant Nair: Overall sales levels are also trending below what it would usually have been, is that right?

Dr. Om Manchanda: Actually, the clarity would probably emerge in Feb, March because January is again a very low month because of extreme winter in North India and January usually is the lowest month in the entire 12-months. So as we enter into Feb, we are seeing some signs of going back to the earlier levels, but it is little early for us to comment on that right now.

Moderator: Thank you. The next question is from Yashas Bhatt from LKP Securities. Please go ahead.

Yashas Bhatt: My question is basically with respect to basic understanding of your company. What is the share of pathology and radiology that you have with Dr. Lal PathLabs as well as on an average with the Indian Diagnostics?

Dilip Bidani: As far as Radiology component is concerned, overall it is pretty low at this point of time; it is under 5%.

Yashas Bhatt: What about the industry sir?

Dilip Bidani: If you look at industry as per the CRISIL's report which came out a couple of years back, the Diagnostics market was broadly broken up into two parts – one was technology, the other was Imaging and Radiology and both were largely half and half.

Dr. Om Manchanda: About Rs.19,000 crore each.

Yashas Bhatt: Also, how much portion of your business is coming from your Institutional segment and what is the margin profile that you actually see with your Institutional business vis-à-vis your individual business… is the margin profile largely similar?

Dilip Bidani: If you look at our Institutional business, it is of two kinds; one is that there are CGHS (Central Government Health Scheme) kind of business which is Institutional and the second type is the hospitals and corporate business which we get on through corporate tie-ups. So these typically are at contracted rates which are pre-determined and fixed. As far as the margin profile is concerned vis-à-vis the customer walk-in profile, in absolute terms the realization is higher from the customers as compared to the Institutional business but individual business really comes through walk-ins and through outlets where cost structures are significantly higher. Ultimately, it all compensates out and at the net level we find that largely we are having a mix which is largely netting out.

Yashas Bhatt: I would like to know a little bit more about how your reagent rental model exactly functions?

Dilip Bidani: Reagent rental is nothing but a pay-per-use model. Absolutely the same as a photocopying model where the machine is given free and you pay for each copy. In this case, we get the machine for free so to say and we just buy the reagents and we pay for the reagents on a per test basis.

Yashas Bhatt: With respect to the vendors that you actually have for your reagent rental, is it concentrated amongst three or four big providers because your competition has seen a trend of having concentrated vendor profile?

Dilip Bidani: If you consider our profile of tests, we have a very large variety and range of tests and that necessitates that we look at the best consistent platform, the service levels, the reference ranges and the kind of volumes that we will be able to get and the kind of rates that we would be able to get. So because of this wide range, we do have a wide variety of vendors and it is not necessarily concentrated on one or two vendors because it is not only biochemistry or only hematology kind of tests that we do, therefore we need various kinds of vendors for various variety of tests.

Yashas Bhatt: So your largest vendor in terms of reagent cost how much is he contributing to?

Dilip Bidani: We are not communicating these numbers. It is not a significant.

Dr. Om Manchanda: Our dependence on one vendor is not that high if you are trying to ask that question.

Dilip Bidani: Single vendor risk is not there.

Dr. Om Manchanda: I also want to use the opportunity. I do not know which competitor you are referring to. I think for all listeners, we are a company which is the pathology company, catering to all streams of diagnostics and very closely working with medical fraternity to help them diagnose a disease. So our portfolio is very-very different than what you are seeing with the low cost players.

Dr. Arvind Lal: We deal with sickness more because people use us medical investigators, so we have got to work to find a diagnosis so that the correct treatment can be given, but on the other hand we are just commoditizing tests, etc., let us say how much giving me for this much, that is a different kind of scenario.

Moderator: Thank you. The next question is from Tushar Manudhane from Motilal Oswal Securities. Please go ahead.

Tushar Manudhane: In terms of growth in the regions where we have currently little exposure to be more the inorganic way, but given the kind of valuations, the listed companies have and given the PE race in the unlisted space, how do you see the valuation scenario shaping up?

Dr. Om Manchanda: Honestly, I am not really competent to comment on the valuation side because that probably market determines.

Tushar Manudhane: No, let us say when we want to target companies' valuations, your experience?

Dr. Om Manchanda: Maybe if you are asking whether their expectation has gone up post listing, answer is yes, their expectation is obviously a high multiple but first we have to see the quality of business and their corporate governance standards before even reach to the valuation point. PE valuations are not in line with what one is seeing in the public market.

Tushar Manudhane: Of course it would be at a discount but is it still in the comfortable zone or would it be creating some kind of hurdle for our …?

Dr. Om Manchanda: I really cannot comment on this.

Moderator: Thank you. The next question is from Abhinav Ganeshan from Canara Bank Securities. Please go ahead.

Abhinav Ganeshan: Just wanted to ask regarding the demonetization, how much was the impact on the business exactly volume wise?

Dilip Bidani: If you consider the growth which we were at prior to demonetization and the growth that we are currently at, while we cannot get precise figures because there is the impact of seasonality and various other factors, but our estimates are that 8-10% is what we would have seen as a dip.

Abhinav Ganeshan: You have given this operating highlights on Slide #9 wherein you have said the number of patients that you have treated, so looked at the nine months number it is around say 10.1 and you say that there is seasonality in January, so is it safe to assume that we will match the last year's number for a whole year at around 12 million?

Dilip Bidani: We will have growth definitely over the last year number, not just reaching last year number.

Dr. Om Manchanda: If January is weak this year it was weak last year also, so we will be higher than last year.

Moderator: Thank you. The next question is from Saion Mukherjee from Nomura. Please go ahead.

Saion Mukherjee: Sir, in one of your earlier comments, you talked about levers available to control cost. Can you throw some light on that what are the items that you are looking at and how much benefit one can get from there?

Dr. Om Manchanda: It is a very good question. I think there are two-three levers for us; one is we have close to 172 labs. One of the ways would be how do we concentrate testing in fewer centers and free up the capacity for more walk-ins. So this is one lever that is available to us and some of our strong markets we have a possibility of doing that. Second is also look at use of technology as much as possible so that some of our front end registration staff, we automate that process so that we get more out of the same. So that is where productivity can come in. We also look at reagents if there is any possibility of negotiation there. While I know the headwinds are on because the dollar is becoming expensive, but there would be possibility of better negotiations. So there are two or three levers that are available to us.

Saion Mukherjee: Assuming no change in pricing and the fact that with the expansion there would be some contraction in margin as you have mentioned, so net-net if I take a 5-year view, do you think that we will get back to the kind of margins that we currently enjoy or it can even go higher?

Dr. Om Manchanda: No, it cannot go higher, I think that we have guided the market earlier as well, we probably see it stabilizing at about 25%. Currently, I think our margins are about 26.5-27%. So as we build capacity, we will obviously incur more overheads in centralized labs, but probably we will find some savings in our distributed lab infrastructure. But to answer your question in short, we do not see margins going up from here, maybe stabilizing at about 25-26%.

Saion Mukherjee: Because this space has not been listed long enough, it appears based on your commentary that the pricing environment and competition is intensifying. Have you seen this kind of a cycle before or this is something a new phenomena? When you look at the next five years, do you expect the pricing to be much more adverse than let us say what was in the last five, ten years?

Dr. Om Manchanda: This sector has always been very competitive, because 60,000 labs, 100,000 labs, these labs numbers have always been there. The recent phenomena is that people trying to aggregate the market, trying to open a chain of labs, this is a very recent phenomena, earlier there were only three or four players but building that scale is also not very easy because many companies have struggled. So it is a little bit of first time in the industry. So let us see how it pans out.

Saion Mukherjee: On your balance sheet and the cash that you have, again, any plans there you want to increase the dividend or you still want to keep it on your balance sheet for possible acquisition?

Dilip Bidani: Dividend is something which is an ongoing year-to-year process which is given as per requirements and as per the dividend policy, the Board will evaluate and recommend suitably. As far as having the cash on the balance sheet as a war chest for any acquisition, that is something which we are always considering that if there is a suitable asset and in addition to that our Capex investments that are taking place for our two new big labs that are reference labs which are coming up and upgrading many of our instrumentations, that is a continuous process. So we will definitely be evaluating how we use the cash that we have on the balance sheet.

Moderator: Thank you. The next question is from Chirag Talati from Kotak Securities. Please go ahead.

Chirag Talati: Can you help us pinpoint what would have been the volume growth as far as walk-ins are concerned in the quarter?

Dilip Bidani: We had about overall 5% volume growth.

Dr. Om Manchanda: Actually, walk-ins are the highest in Delhi NCR and Delhi NCR had the maximum impact of demonetization, so we were also adversely impacted on that, it would hardly be about 1 or 2% growth on walk-ins.

Chirag Talati: So does that mean that actually the pickups naturally assuming 6-7% growth maybe or maybe higher in terms of volume… your Institutional business would have grown at a much more rapid pace that implies?

Dr. Om Manchanda: No, actually, collection center business grew at slightly rapid pace because pickups also were adversely impacted because most of these businesses are coming from hospitals, this drop was made up by our PSC and CC network.

Chirag Talati: Can you help us quantify the volume growth for PSC?

Dr. Om Manchanda: Can I give you that number offline? I do not have it readily available here.

Moderator: Thank you. The next question is from Kaushal Shah from Research Delta Advisors. Please go ahead.

Kaushal Shah: In one earlier concall you mentioned like when you go for expansion in any other city, you first go with the collection center and then go with expanding like how the market is and all that kind of thing. So when you set up one collection center, then you start with clinical lab or then again you start with more collection centers because basically if you start with clinical lab in that city after one collection center, then it might be running in loss or something like that, right for some few initial years?

Dr. Om Manchanda: It depends on case-to-case basis, but you are probably right, it is not that immediately after one collection center I will open a lab, it could be one or two more collection center before actually the stage of opening a lab comes up.

Kaushal Shah: But then the business would not be coming in that much, right, because it is B2B business, right, so basically one collection center would do for the whole city, so then if you do not have any clinical lab, it would not work, right?

Dr. Om Manchanda: Not really, actually we loosely this term B2B but technically these are two different segments; you have a high end segment or you have a routine segment. When I get high end business, it sounds as if like B2B business is not a good quality business but that is not so. At the end of the day, branding is still happening because the report that is going,is going on Dr. Lal PathLabs letter head. It is also going in the hands of doctors who are high end doctors in that city. So technically brand building has already begun with that B2B business. Otherwise B2B sounds as if it is like it is a very commodity business, that is not true.

Kaushal Shah: But till you open a clinical lab in a city, it would be difficult for you to sell franchise for collection center, that kind of, if you are franchising to others, they would be doing it for clinical labs also, right, so like normal routine test?

Dilip Bidani: I think just to clarify, the collection centers are initially usually franchisee-owned only. So these are set up in towns where we do not have any other presence so that they can actually pick high end samples from those towns and send it to us. As we grow in that town, we can set up multiple collection centers before we set up a clinical lab depending the size and the business potential of the town.

Kaushal Shah: So basically it is like the person would be approaching you or you would be approaching like you want to set up in that particular city and then you would be finding a partner in that kind of way?

Dilip Bidani: It works both ways.

Moderator: Thank you. The next question is from Amrit Talantri who is an individual investor. Please go ahead.

Amrit Talantri: Sir, my question regarding competition and this is regarding the core competition basically the MBBS and M.D. Pathology doctors who are actually running their labs or clinics, so just did a few check in the markets. So just a couple of things I wanted to understand; one is in terms of the pricing, what I understand is organized players like you and even your competitors your pricing is much lower than what is individual doctors charge in their labs, still they have been having a good business. So what do you think like why do patients or customers keep going to them and what is the business model there? Secondly, in terms of lot of these guys are also trying to now scale up and form collection centers and offer better franchise agreements than what you offer. So when do you think these guys would become competition to you and what is kind of the breakeven and how difficult is it to scale up for these guys? On NABL accreditation, what I understand from lot of these people is they have been facing competition from these DMLT pass out people and while lot of state governments have tried to clamp down on them and the IMA doctors have tried to do it, lot of the retired doctors are actually renting their degrees, so basically if a doctor is retired who is M.D. Pathology he is just allowing someone else to just use his name and so really so even the NABL accreditation would not really make much of a difference. So what is your view on these three points if you can help?

Dr. Arvind Lal: The first thing is that medicine still remains a faith and trust kind of a business. People when they go to a doctor, you must have heard so many times they only buy a gentle touch in his voice, half the disease comes down. So I am talking about these individual labs. Those individual labs you can term loosely as if they kind of design a lab, they do an excellent job, a case in point if you remember was this Dr. Praful Patel in Nariman Point in Mumbai, and they really look after the patients and everybody is not into this game of scaling up and top line, bottom line, doctors also just do their jobs and get on with their lives. So majority of the single doctors who are qualified doctors are like what I have just told you. Talking about the NABL accreditation, etc., so those NABL accreditations are coming into organized sector where the organized doctors and pathologists are there, they will never go to the unorganized sector because this is one of the NABL requirements. The qualified doctor with qualified staff, etc., you have to run the lab. So the two things are go hand-in-hand.

Dilip Bidani: To your other question, I think it is a pretty interesting question, but we have not really analyzed it in that way because this is the kind of dynamic bucket where new doctors who pass out from college and they would like to set up their own pathology labs, there are retiring doctors who exit and do not continue with their business. So it is a continuous process. So it is not as if all doctors are ambitious doctors as Dr. Lal mentioned but many of them are. But they do not all carry the similar kind of ambition to corporatize and typically remain as regional players and there are very many such examples in these locations in south, east, west, north, everywhere, where there are doctors who have set up and try to establish themselves with one, two, three collection centers, collection outlets. But scalability requires something much more. So unless you have those ambition, and which is what yes then translate it into some of these PE kind of investments which take place, so that is something which we are seeing now. It is very difficult to estimate that when a particular lab will become serious competition, whether it is at three or 30 collection centers and so on. But each one of them is definitely competition in its own way. I hope I have been able to explain it somewhat.

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

Sameer Baisiwala: A little curious about, do you carry out some data analytics on your roughly 12 million patients and I am just asking you whether these are repeat customers or do you start the year with a fresh with altogether new set of patient population? Second is, is there any way of knowing that how many of these are preventive and how many of them are post-sickness, just to say I guess preventive would be maybe more repeat customers every year?

Dr. Om Manchanda: It is a great question. I think we are slowly-slowly building a capability of finding how many unique customers we have so that we are able to get how many repeats are there during the year and within the repeats also how many times they came. So that capability we are building up because we had some issues in terms of earlier we thought we will use the mobile numbers, but we found that same mobile number is used for many members of the family, so it was becoming little difficult. But with our new app where that is e-mail enabled, so we are able to actually do a little bit of that but I think we do not have exact data to tell you as to how many unique and how many repeat customers. But we are moving towards that, maybe next six to nine month we will have the capability. Coming back to your second question of preventive and illness testing right, I think that is extremely difficult to figure that out because it is a very loosely used term what is wellness. With a lot of these routine tests, they are also prescribed if you have a high-end testing need. It is not that high-end test will come all by itself. On the same prescription, you will have lot of routine tests as well. However, one can do an analysis of co-prescription that if test-A is prescribed, what are the other tests normally gets co-prescribed with that test. So that analytics can throw, but to say that the guy actually was not well but he wanted to do a preventive testing, it is very-very difficult to figure that out.

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

Dr. Arvind Lal: Thank you everyone for attending this call. We will meet again at the next quarter end. Thank you.

Moderator: Thank you very much. Ladies and gentlemen, on behalf of Dr Lal PathLabs Limited that concludes this conference. Thank you for joining us and you may now disconnect your lines.

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