Dr Lal PathLabs

November 16, 2016

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

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

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

Dear Sir/Madam,

Pursuant to Reg. 30 of SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015 (the "Regulations"), please find attached herewith Financial Results Conference Call Transcript of the Company for Q2 H1 FY17.

We request you to please take the same on record.

Thanking You,

Yours Faithfully,

For **Dr. Lal PathLabs Limited**

Dr. Lal PathLabs Limited

Rajat Kalra
Company Secretary & Legal Head

Dr Lal PathLabs Limited (LPL)
Q2 & H1FY17 Earnings Conference Call Transcript

November 03, 2016

Call Duration	▪ 1 hour 10 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	▪ Sudarshan Padmanabhan from Sundaram Mutual Fund ▪ Prashant Nair from Citi Group ▪ Sriram Rathi from ICICI Securities ▪ Alok Dalal -CLSA ▪ Girish Bakhru from HSBC ▪ Abhishek Sharma from IIFL ▪ John Munge from Kingsway Capital ▪ Vishal Purohit from Prabhudas Lilladher ▪ Alok Dalal from CLSA ▪ Nakul Manaktala from Samara Investments ▪ Nitin Agarwal from IDFC Securities ▪ Ayan Deb from Nomura ▪ Atul Mehra from Motilal Oswal

Siddharth Rangnekar: Thank you. Good evening ladies and gentlemen. Welcome to Dr Lal PathLabs Limited or LPL's Q2 FY17 conference call for investors and analysts. Joining us today are (Honorary) Brig. Dr. Arvind Lal - Chairman and 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 on today's call could be forward looking in nature. The actual results may vary significantly from these statements. A detailed statement in this regard is available in the result presentation which has been circulated earlier.

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

Dr. Arvind Lal: Thank you, Siddharth and good evening to all joining us on this con-call.

Healthcare and diagnostics industry in India is currently immensely untapped. This gives our company the ability to explore and create unique opportunities to grow. While the canvas is huge, as pioneers it also places on us the onus to create awareness and grow the market in a sustainable manner. Thus, we have created an ecosystem which is dedicated to the goal of providing diagnostic tests and delivery of consistent and accurate results that both the medical community and patients can rely upon.

Our performance during the quarter signalled the progress we are making on key focus areas of geographic expansion, utilizing technology to improve efficiency in business operations and innovation. At the same time, we are committed to a very important factor of success and that is strengthening our brand name. Over the many years, our business has demonstrated its ability to grow and expand its scale and achieve superior results. As we go ahead, given the evolving nature of this space, we remain highly cognizant of the emerging trends and best global practices and are dedicated to prudently and constantly investing in our infrastructure by means of our Regional Reference Labs and technology to drive growth in a sustainable and profitable manner.

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 and to everyone joining us today, a very warm welcome. I will cover some important aspects of our strategy and outlook before handing over to Dilip for the perspectives on the financial performance.

Many of you who have been following us will be acquainted with the way our model is set up, so I will only briefly cover the hub-and-spoke arrangement that we have developed. At the core of the entire arrangement are the 172 laboratories that are owned and managed by us. So any patient sample, be it a direct walk-in at any of these labs or associated Dr. Lal PathLabs' branded Patient Service Centres (PSCs) or samples coming from our pickup points that are spread far and wide will get tested at one any of these labs. Our endeavour is to make the inbound journey of the sample seamless reducing the turnaround time while also optimizing the utilization of our machines.

From modest beginnings, we have grown today into a national level establishment that handled 15.5 million samples in H1 FY17, as compared to 26.3 million in FY16. By the same yardstick, 7.04 million patients on average trusted us to deliver absolutely accurate results each time with the figure in FY16 standing at 12 million patients. This was led by strong performance of 21.5% growth in revenue in Q2 FY17 to Rs. 2,622 million.

An important point to note is that the volumes in Q2 are typically higher given the occurrence of seasonal vector bound fevers like malaria, dengue, chikungunya during and post monsoon period. This year, these seasonal fevers contributed 2% to the volume growth and over 3% to the revenue during the quarter.

We have ensured that Dr. Lal PathLabs embodies attributes of a consumer brand within the realm of healthcare and every action that we take supports this proposition. What also makes us tick is the state-of-the-art IT backbone that integrate our entire network.

As an organization, we are completely geared to operate at a much wider scale whereas the lab infrastructure itself is very modular and can be ramped up in line with need. With a certain degree of foresightedness, we are investing in developing two regional reference labs. The first state-of-the-art lab will be commissioned in Kolkata in September 2017. This new capability will allow us to serve the Eastern block of the country far more efficiently. The second such venture will come up at Lucknow by December 2018. In tandem, we will undertake a reach out to the medical fraternity and appraise local doctors about the capabilities that we will be bringing to the region

While the two regional reference labs form the cornerstone of our agenda, we are taking a series of steps to increase our coverage of the entire country. Some of the measures I will enlist for the benefits of the listener today.

- Organic expansion of the existing hub-and-spoke arrangement
- Inorganic augmentation; where we are always evaluating opportunities to come together with like-minded establishments to drive scale in under-represented areas
- Technology upgradation is also a driver of growth for us; where we will endeavor to introduce the latest available techniques through our nationwide infrastructure
- Expansion of clinical laboratories management operations

Coming back to more immediate term, we are committed to making best use of our establishment to serve a growing number of patients to utilize the power of Dr. Lal PathLabs brand to facilitate more walk-ins and extend our reach to so far under-represented areas.

I would now like to hand over the forum to Dilip, our CFO and I urge him to take us through the financial progress that we have had during the renewed period.

Dilip Bidani: Good evening and thank you for joining us on this call today. I shall quickly take you through the financial performance of the company for the quarter and half year ended September 2016. Our results presentation and results tables are also available on the company's and stock exchanges website.

During Q2 FY17, revenues were up 22% at Rs. 2,622 million following higher than expected volume growth and benefits from improved price revision taken in Q1. As Om has already mentioned earlier while underlying volume growth stood at 13.6%, seasonal fevers contributed an additional 2% to volumes and over 3% to revenue growth. In Q2 FY17, the EBITDA excluding the ESOP charge stood 38% higher, the same without the benefit of seasonal fevers and price increase was at 23%. The factors contributing to margin expansion of 350 basis points to 30.4% include

- Volume growth and enhanced realizations per patient.
- Rise in cost of consumables aligned to business growth and
- Operating leverage.

Normalized profit before taxes excluding ESOP and Exceptional Item last year was up 42% at Rs. 793.8 million and PAT for Q2 increased to Rs. 528.5 million versus 64.9 million last year.

To quickly summarize the H1 performance, total revenues improved 20% to stand at Rs. 4,850 million. EBITDA excluding ESOP charges increased to Rs. 1,402 million which reflects a growth of 28%. PBT excluding ESOP and an exceptional item increased by 36% to Rs. 1,393 million, PAT for H1 increased to Rs. 930.2 million from Rs. 374.7 million.

Please note that our PAT figures for FY16 are strictly not comparable as there was certain ESOP charges which were charged in Q1 and Q2 last year in FY16 and then later reversed in Q3 FY16 and therefore I will leave this out of the discussion.

With this, I would like to conclude our opening remark and request the moderator to open the forum for questions. Thank you.

Moderator: Thank you very much. Ladies and gentlemen, we will now begin the question and answer session. We have the first question from the line of Sudarshan Padmanabhan from Sundaram Mutual Fund. Please go ahead.

S. Padmanabhan: Sir, my question relates to the higher occurrences of dengue and malaria which happened in this season especially in the North. I understand that this is normally the vector season but even on a year-on-year basis, I think I would assume that the incidence would be significantly higher than last year and if you can also throw some light given that in certain parts of the country, the government has capped your ability to take the realization for the tests as well. So if you can broadly tell us what is the kind of benefit that you are seeing, more from on a year-on-year basis because of the pop in the incidence rate, both on the top-line and the bottom-line?

Dr. Om Manchanda: I think it is a great question, as you rightly said incidence of vector-borne diseases is a phenomena that normally happens every year, but unfortunately this year it was much more than usual and as far as the benefit to the organization is concerned, I think the benefit is primarily because we are able to capture business from the network that we have across markets, so it does not come at a very high sort of incremental cost. The operating leverage is pretty good whenever such spikes happen, not only in the seasonal fevers, at any point in time because throughput is very high from the existing network and we tend to benefit out of the operating leverage. That is what we have noticed in this quarter.

S. Padmanabhan: And would this continue in the third quarter as well because I think the incidence would not come down drastically, it should at least be there for the first half of this year?

Dr. Om Manchanda: No, actually it is already off. We are unlikely to see it in the coming quarter. It normally happens between September and early few days of October, but this time it starts little early, but it is now over.

S. Padmanabhan: So, the margins would revert back to your 27%-28% levels, if you are excluding the impact of the higher pop of these vector incidents?

Dr. Om Manchanda: You are right, so these are not margins which are sustainable what you see in quarter 2.

Moderator: Thank you. We have the next question from the line of Prashant Nair from Citi Group. Please go ahead.

Prashant Nair: Just a few clarifications, so when you said that these vector fevers or the vector season fevers contributed to 2% to volume growth and 3% to value sales growth, so are you talking about the greater than expected impact this year or are you adjusting it into the base as well because last year also you may have had some incidences of these fever?

Dr. Om Manchanda: No, actually why we are probably picking up this number is, it is there in the base also, this time that is a kind of incremental impact, otherwise every year it happens.

Prashant Nair: This is the incremental on the basis that you have already…..?

Dr. Om Manchanda: Yes, we do not take it as 3%, it is just the additional 3.3% but even last year also if you recall, some of these diseases were very high in terms of incidence.

Prashant Nair: And secondly, Dilip you mentioned EBITDA growth without the benefit of this would have been say 23%, is that what you meant to suggest?

Dilip Bidani: Yes, that is right.

Prashant Nair: And on the base without including the ESOP cost in the base, right?

Dilip Bidani: We are deleting that ESOP cost.

Prashant Nair: And Yes, but if you just delete the ESOP cost, you have an EBITDA growth of about 38% year-on-year, so the 23% number is without including the benefit of the incremental impact of the fever rate.

Dr. Om Manchanda: Sure as well as the price also.

Moderator: Thank you. We have the next question from the line of Sriram Rathi from ICICI Securities. Please go ahead.

Sriram Rathi: Firstly, this volume growth of 13.6%, is it inclusive of the 2% volume growth because of the seasonal fever?

Dilip Bidani: That is correct.

Sriram Rathi: So base growth would have been around 11.6% this quarter?

Dr. Om Manchanda: Yes, I just want to make additional point which is not covered in the commentary is that sometimes this volume growth can be little misleading because let us say if the dengue test comes, there are lot of follow up tests of platelet counts that tend to happen. While some other fevers like malaria or chikungunya, it is only one test which normally gets done. So we found that relatively, last year dengue was very high compared to this year. So we did not have too many platelet count tests, so that tends to affect the base of the last year. So relatively our base was higher last year for dengue compared to this year.

Sriram Rathi: Otherwise, the growth would have been like normal like we saw in Q1 around 15%?

Dr. Om Manchanda: Yes, so I think our underlying growth is around that number of 14% of what we saw in the last quarter, but that is the way normally the impact happens is if platelet counts go up, then the number of patients also tend to go up. This time we saw less of those.

Sriram Rathi: And second thing on the margin expansion side, you mentioned of course the part of that has come because of seasonal thing, but is it possible to quantify how much improvement would have been because of the operating leverage, any indication if you can provide?

Om Manchanda: It is very difficult, but I think qualitatively since a lot of it happened in Northern part of India and that is where we have an established network and we already have all the costs in place, so it actually was higher throughput through the same network that give us this benefit.

Sriram Rathi: Because large part of this has come because of the savings on the other expenses side, I think in this quarter, so?

Dilip Bidani: That is right, what happens is that the other expenses do not go up proportionately because a lot of them are fixed and as Om just mentioned that since this incidence was more through our networks in the North, there was no significant incremental cost which needed to be incurred for managing these volumes.

Sriram Rathi: Sir, just wanted the regional breakup of the revenue that you generally provide for the full year?

Dr. Om Manchanda: So actually, we probably have not been sharing at this stage regional split because internally our regions are not aligned North, East, West, they are mostly through states. So readily those numbers not available, but maybe we can come back to you once those figures are in place.

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

Girish Bakhru: First question was on the pricing that you commented which also contributed to higher growth this quarter, if you could comment on is this price increase again more on the national level or specific to certain region?

Dr. Om Manchanda: It is specific to certain regions, so what we have been following for last couple of years is that we do not take price increase across the portfolio in one go. We take them in parts, if you recall in the last call, we had mentioned we took this price increase in Northern region and for some high end tests where we have national pricing. So technically speaking, we visualized the impact of about 2% of pricing on the overall annualized number. So we saw this time a slightly little higher number in Q2 which is about 2.6%, but I think my sense if you annualize it, this impact would be about 2% for the portfolio.

Girish Bakhru: And when you say high end tests, so these do not involve any routine biochemistry tests?

Dr. Om Manchanda: No, they are the tests which actually tend to come to Rohini from all over India

Girish Bakhru: Sir in an event like where seasonal vector-borne diseases are high, is there any capacity to take price hikes in say, tests like platelet counts and stuff**?**

Dr. Om Manchanda: No, actually it is other way around normally because we work with government agencies etc. to make the test affordable. So we do not really look at this as the opportunity for commercial gains, so our intention always is to make sure that accessibility and affordability is maintained.

Girish Bakhru: Right and on the overall growth dynamics, would you say that when you basically have another lab in the Eastern region and you get more access to the higher end tests that you so far have been missing out, so any ballpark number that you have where say the current portfolio will say largely shift in terms of the overall mix in terms of the tests?

Dr. Om Manchanda: See, in the past what we have noticed is that this opening of a high end lab will impact both segments, high end as well as routine but sequentially high end gets impacted first more than the routine because routine is more B2C**,** high end is more B2B because that business we normally get from hospital labs and also independent private labs. So that helps the brand to build amongst medical fraternity, people get to know that now a big lab has come in the region, so that is what we are looking at. Once Kolkata lab comes in, not only it will open up markets like West Bengal, Orissa but maybe North Eastern states, we are also hopeful that even Bangladesh business will grow. So to my mind, I think it will impact both segments, high end as well as routine tests but it will follow, phase 1 it will be high end and phase 2 will be routine.

Moderator: Thank you. We have the next question from the line of Abhishek Sharma from IIFL. Please go ahead.

Abhishek Sharma: Sir, can you just help us understand what portion of your total revenues would be from test panels?

Dr. Om Manchanda: Sorry that data actually is not readily available but normally also we do not capture it that way because we capture individual test. So it will be a guesswork to give any number right now, so I would rather not give a number as of now but we will probably keep it ready for the next time.

Abhishek Sharma: And on the NCR market, are you seeing any impact not from this quarter perspective but other national level players trying to make a breakthrough in terms of increasing competition on your walk-ins or your wellness or high end testing volumes and pricing?

Dr. Om Manchanda: Not in NCR, but I think overall in general competitive intensity which is always very high but visibility of the sector has gone up because of couple of listings. In general, competitive intensity is growing, there is no doubt about that but specific to NCR, I think the brand is fairly strong and we have not seen any sort of pressures as of now, but I think to answer your question in general, the competitive intensity is on the rise as far as the business is concerned.

Abhishek Sharma: And typically you would consider the national level players as the formidable guys or would you think that there could be some impact from local players gaining strength?

Dr. Om Manchanda: So I think that is a good question, so I do not really see national level players to really be a serious competitor, in fact we probably help each other to organize the market, organize in every sense of it- in terms of quality, in terms of commercial processes and pricing structure and overall all the three or four large players on the top are really trying to lift the standards of business practices in every which way. So I do not see them as a great competitor in terms of some kind of threat but definitely our competition is with the large, small sized labs where we are forced to compete on pricing. But it is not a level playing field as far as the quality process is concerned. So I think it is a good sign that large players tend to come up, it will help the industry.

Abhishek Sharma: And Sir my last question, your M&A, till now, was focussed around creating small beachheads in cities that you go to and then just building on the brand, so what has been the experience with some of these let us say larger acquisitions like Paliwal and Ashish in Ahmedabad?

Dr. Om Manchanda: So experience has been definitely that the city tends to grow faster. The Paliwal acquisition we did in 2008 and Kanpur is probably now the third or fourth largest city in our portfolio. So that actually has been possible mainly because of this acquisition. Similarly another example that comes to my mind is Varanasi where we did this acquisition and now Varanasi has become a very big city as far as the business is concerned. So, overall this acquisition tends to help to grow the business in that place.

Abhishek Sharma: And broadly that has been the experience with all the acquisitions that you have done including cities like Raipur and Bhopal?

Dr. Om Manchanda: Yes, naturally that will help us because that is our strategy in any case we are going to those under-represented areas, so in any case our base is always low. So it helps us to grow in that city.

Abhishek Sharma: So, then would it be a fair assumption that if you would continue with this strategy of creating beachheads and once it reaches the critical volume, then you could possibly look at setting up a referral lab there?

Dr. Om Manchanda: Yes, see setting up a lab is a decision based on economics of both reach as well as costs. So those decision in any case will be taken irrespective whether it is through acquisitions or our own business, but as the scale picks up, we will keep taking these calls as to build a lab or not. That will keep happening.

Dr. Arvind Lal: Yes, this is Dr. Lal here. I may add that you know the standard of the healthcare or the standard of medicine which is being practiced in state to state or across different geographies in India that also impacts. For example, if there is a medical college or if there is a tertiary hospital, so they will order special high ended test, so all this is factored in when we go or do any inorganic activity also.

Moderator: Thank you. We have the next question from the line of John Munge from Kingsway Capital. Please go ahead.

John Munge: My question really would be just to get through understand your industry, what would you just say are the key drivers of volume in that diagnostic space and just quickly the follow-up question would be just like it kindly comment on the competitive landscape in the diagnostic space in India I have read few article whereby they claim that it is highly competitive, so my question really is are you able to put up prices on an annual basis as 2% rates that you earlier mentioned? Thank you.

Dr. Arvind Lal: India is a very diversified country and if you have known this industry, you will appreciate there are anything between 50,000 to 100,000 labs in India and most of them are in the unorganized sector, you know what we loosely used to call mom and pop shops. So the competition is intense to say the least, but what will win the battle for us is going to be airing to our own quality, very high quality standards and going for accessibility, keeping in mind the payment capacity in that region. So having said that, what we have seen consistently over the last say at least 20 years is that quality definitely pays and we have stuck to quality like anything. If you ask that one thing which has taken us forward, it is quality in both in testing and in improving everything else, the patient entire experience.

John Munge: And could you kindly quickly comment on your market share within the organized sector and how has that changed overtime?

Dr. Arvind Lal: So the organized sector in India is not more than 15% or 16%, so we would probably be one third of that or that is a wild guess because nobody has the statistics.

Dilip Bidani: Just to give you a little more landscape of the industry, about 48% of the industry is in the hands of the unorganized sector, about 37% is in hospitals and balance 15% is in regional and national chains such as ours. So that is the broad framework of the industry and which was $6 billion industry for Pathology and Radiology a couple of years back growing at about 15% to 16%.

John Munge: And just a quick one, one of your competitors, listed peers follow the strategy of trying to be like they are low cost service provider whereas I doubt that you follow the similar path do you see their business as a major threat to your operation?

Dr. Arvind Lal: Not at all. This industry is so varied and as I just explained to you that you can pretty much have one kind of a territory under you and the rest of India you may not have done so well, so the price points in India as you know is gathering from the other industries, same applies here. So we are in a different kind of a quality bracket, we have premium pricing, our services are premium also, so it is pretty much saying that there is ordinary class and there is local class and there is higher end class, that kind of a thing. So I do not think we have this kind of competition with us, right now.

Dr. Om Manchanda: And I think for the benefit of others also, we are a diagnostic company where we help clinicians to diagnose the disease, it is not a transaction of just doing a test and waiting for another test to come. You are actually doing the entire life cycle of the disease where entire testing from end-to-end is actually done by us and where the clinician is in constant touch with the lab. So we are a full scale diagnostic company helping clinicians to diagnose while some of our competitors may not be in that sort of position.

John Munge: And just final one, could you kindly provide our revenue breakdown by the different types of customers that you serve. For example whether they would be walk-in individuals or..?

Dr. Om Manchanda: Yes, We have the data but I think I am afraid we won’t be able to share because that data we have not made public so far.

Moderator: Thank you. We have the next question from the line of Vishal Purohit from Prabhudas Lilladher. Please go ahead.

Vishal Purohit: Thanks to the entire team and thanks to Dr. Lal for being a trendsetter in the Indian context. Sir, I just have one question. In terms of the setting up the reference lab, how is this different from your other 172 labs in terms of the operation or the scale of operations and also in terms of the test which one can do and also follow up in terms of the investment required for the reference lab vis-à-vis your normal labs?

Dr. Arvind Lal: See, the question before us is that the patient is the same and the segregation of the tests into routine and high end or middle order tests comes much later. So in order to give high quality diagnostics, even a test like haemoglobin and a blood sugar is very important. So I would not say just because they are not that highly priced, they do not become insignificant tests for us. So we treat or give the same treatment to routine test as much as we give to a high ended test. But answering your question of high ended test, these are tests which are used in kidney transplants or molecular diagnostics or cancer associated tests, in genomics etc. these are tests which everybody may not be having and as I explained just two minutes back that this also depends upon the tertiary hospital and the tertiary care which is in a given area. So having said that, the tertiary hospitals are the ones which are going to probably demand more numbers of the so called "high ended tests" because of the nature of the operation/surgery. For examples, if a transplant patient is there, so all those renal transplant tests before and after, then he has given an anti-rejection drug, we got to monitor the blood level of that drug. So you will appreciate, it is not so called a routine test, it is very high ended test. So we have to be in this bracket because we are the trendsetters as you have correctly said Vishal and what we need to do is also to keep in the eye that we do not try to stick to the high end tests only because low end tests are the most important. Out of say 100 tests which are coming to us, 80% would definitely be so called routine test and 20% would be very high ended tests.

Vishal Purohit: And in terms of the actual CAPEX requirement for the normal labs vis-à-vis the reference labs?

Dr. Arvind Lal: Yes, definitely, I think Dilip will take this question.

Dilip Bidani: So as far as normal lab is concerned, these are in smaller units which may be 1,500 to 3,000 square feet premises and having an investment of may be Rs 0.8 – 1 – 1.2 crore, depending on the size and the kind of test menu on the location. Now a reference lab is on a much larger scale with more expensive equipment and larger throughputs expected, so you have larger machines. So the one in Kolkata for example will occupy a space of something like 50,000 square feet which compares with let us say 80,000 square feet that we have in Delhi as a reference lab. A normal small lab is much smaller and that 50,000 square feet labs will automatically given the scale and since we are constructing it on own land including the cost of the land, it might be as much as Rs 40 to 50 crore as far as the capital investment goes. So that is a kind of scale difference and size difference that we are talking about.

Dr. Arvind Lal: And I may quickly add, the reference lab has many more departments than a routine lab has. The departments are different, molecular diagnostics, microbiology, flow cytometry, atomic absorption, cancer diagnostics, histopathology, so all these departments are not there in the routine lab.

Vishal Purohit: And Dr. Lal if I can also add and this is also related to one of the earlier questions one of our friends had asked in terms of the geographical mix, now your expansions also of the regional reference lab to Kolkata and Lucknow region, is it fair to look at that you concentrating more on the northern and the eastern region from your business strategy for the next 3 or 4 at least on the next 3 years to be seen before and I am surprised that you still do not have a western region in the agenda as yet?

Dilip Bidani: Now if you look at the current geographic spread that we have and which we had indicated in our March disclosures is that about 72% of our revenue comes from the Northern part of the country, 13% comes from East and about 14% from South and West combined. So our strategy really has been to build up our strength in the locations where we are already strong, have a brand presence and can build upon it and strategically therefore Kolkata and Lucknow which is in the heart of UP which has the population of Rs 20 crore forms a very logical location where we can actually expand and improve our presence. Not to say that South and West are going unserviced, we do have 14% of our business coming from these territories and we have different kind of strategies where which we are approaching these markets.

Vishal Purohit: And the other question which I had is in terms of the overall mix, when you to say the first half you did about Rs 485 odd crore, how much of your overall business would be B2B vis-à-vis B2C?

Dilip Bidani: We normally do not have a very accurate estimation of this because some of our B2C business is also B2B led, but our internal estimate shows that about 60% of our business is walk-ins and B2C and balance approximately 40% is B2B.

Vishal Purohit: And if I can also squeeze in one more, does the B2B business also entail a lot of tie-ups with the regional hospitals or the larger corporations?

Dilip Bidani: Correct.

Moderator: Thank you. We have the next question from the line of Alok Dalal from CLSA. Please go ahead.

Alok Dalal: Dr. Lal as you rightly mentioned that there have been listings in this space and there is greater visibility on pathology and diagnostic services, do you feel hospitals particularly in and around NCR would be looking at this and they would be thinking about trying to leverage their own labs better versus what they were doing earlier. The question that I asked is that our interaction with certain hospitals in NCR indicates that they are trying to leverage their own labs better now through home sample collections or physician clinic tie-ups or hospital tie-ups, so do you feel this is a threat to your business model as these in-house labs try and capture more business?

Dr. Arvind Lal: See the question is slightly more complicated in the sense that most of the tertiary hospitals which I am sure, what you talking about in and around NCR, so those people they require a fair amount of self-testing also. However, they appreciate there is no point in reinventing the wheel and to even if you could do a test by the time you get expertise in doing the test to a very high quality, u must get the TQM part right every time. So even if you buy an instrument and etc., you will not be able to achieve that kind of quality or excellence of perfection which we have. So answering your question yes, it is in our interest to get into that space that is well taken, I think you will appreciate that but at the same time one of the biggest revenue earners for a hospital are the pathology labs and the chemist shops. So it is a kind of hybrid mixture and people come to us something pretty much like you know what we used to say, even you used to have a look at the computer Intel

Inside. So most of them have tie-ups with us etc. and we appreciate in a very positive way their contribution to our success and we also appreciate they will not be able to call us for doing routine basis like haemoglobin inside the hospital or blood sugar or urine test etc. So we live in this kind of space.

Alok Dalal: That is very helpful. And just two more questions, today does the patient pay any service tax?

Dilip Bidani: So, currently the health services are exempt from service tax, we will await and see how it moves.

Alok Dalal: Yes, sir under GST will this change?

Dilip Bidani: We are awaiting clarification.

Arvind Lal We are hoping it will not and we look forward to that actually.

Alok Dalal: And sir one more point, will you be reporting IndAS number next year?

Dilip Bidani: IndAS will be applicable to us from 1st April 2017 that is for the first for the financial year FY18, so we will need to report quarterly comparables.

Alok Dalal: And so sir this fee to collection centre will be grossed up in sales or will it remain like this?

Dilip Bidani: We will be evaluating this with the auditors, to work out the exact implications and whatever be the impact that will naturally need to get disclosed as the IndAS impact.

Alok Dalal: And one last question. Sir, can you split 21.2% growth Y-o-Y into realization and volume, there seems to be some confusion around the numbers?

Dilip Bidani: The 21% Y-o-Y volume growth, the revenue growth has an element of 13.6% volume growth and the balance is between price and mix.

Alok Dalal: So balance 6.9% is price and mix?

Dilip Bidani: Yes, it is actually multiplicative, so it will actually be slightly less than that arithmetical subtraction and it will be slightly less than 6.9.

Moderator: Thank you. We have the next question from the line of Nakul Manaktala from Samara Investments. Please go ahead.

Nakul Manaktala: So, my question primarily revolves around like, what is the incremental benefit of having this adjustment with your reference labs, are you reaching capacity utilization and you are maximizing that in your Delhi unit or so what is the added benefits in shipping cost should not be that crazy for like a blood sample?

Dr. Om Manchanda: Yes, I think, there are two-three reasons, so let me first look at it from the demand side, it always helps to grow the business if you are closer to the market and we believe that once you are present in the medical hub like these cities like Lucknow and Kolkata are medical hub for these reasons, so it helps to build the brand. Second is, once you have large number of doctors sitting out there, the reach to or the medical fraternity feels closer to the lab and they have access to all the doctors. It does influence the brand in a big way. Third is that today the entire business is being served from one lab in Rohini, it also mitigates the risk in the business so that we are not dependent on one big lab in Delhi.

Nakul Manaktala But if initial CAPEX in Delhi is already done, why not spend 1 Cr each on multiple smaller labs in Kolkata for example and then collect the sample there and then ship them to Delhi and do the test in Delhi itself where I am guessing you have the excess capacity remaining.

Dr. Arvind Lal: Yes, Nakul, but that is not how the system works with us. The high ended lab or the regional reference lab which you are talking about in Kolkata and Lucknow, that has to have in its ecosystems smaller labs and even the smallest labs which occupies about 1,000 square feet which Dilip has just talked about and collection centre and pickup points and collection centres are mix of all franchisee, non-franchisee, PSCs etc. So it would not be incorrect to say that the reference lab by itself has got no meaning, so therefore we need the lower end labs so that is what we are not mentioning right now because the whole focus is on discussion of the reference lab and the CAPEX there etc. but the regional labs are the ones which will create the work for the reference lab, so it is a hub and spoke model which we have perfected.

Nakul Manaktala: And what are the utilization levels at present of your Delhi unit, Delhi reference lab?

Dr. Om Manchanda: I think this question does come in every call and for us the cost of adding new capacity is not very high because most of our instruments are on lease and rental. Technically, this is not something which bothers us every time, enhancing capacity is not that expensive. So the capacity utilization is not that big an issue but what is the issue is basically improving turnaround time and being closer to the market. While if let us say if you are hinting at as why you are opening a lab in Kolkata, why cannot you manage it from Delhi that is also possible by increasing little bit of space in Rohini, but we just want to go closer to the market and inflows the demand curve than addresses supply issues.

Dr. Arvind Lal: Turnaround time is very important in our line, if the turnaround time is not optimal, either the disease will not be there or the patient is not there. So we have to take cognizance of the turnaround time which means that we have got to be closer to the patient.

Nakul Manaktala: One other quick question. Sir in terms of the unorganized market, how has that been trending over the last 10 years and is there a way for Dr. Lal to tap into that market against some turnover and at the same time, increase the quality of these unorganized players are working with them?

Dr. Arvind Lal: Yes, I think the possibility is absolutely there and the younger players who are quality minded will get attracted by what we are doing and what our track record is and they are our natural allies and we can help them in many ways in just upping there or increasing their quality right from the pre-testing with the pre-analytical phase that is at the patient interaction. We can help even the quality in the lab and we can also help them later on with the quality of sending the reports by e-mail and by using the digital platform. So we can come in as your partners at any level, we do not have a very super-duper kind of this M&A policy, but we can partner with smaller labs in many ways, such ways.

Moderator: Thank you. We have the next question from the line of Nitin Agarwal from IDFC Securities. Please go ahead.

Nitin Agarwal: The operating leverage that we have seen in the current quarter and our other expenses grew just about flat on a Y-o-Y basis, in next 2-3 years, how should we look at other expenses in the consequent operating leverage that we should see this playing out on system?

Dr. Om Manchanda: See, actually qualitatively, I do not have exact figures, but in general what I have experienced is that the second half expenses are generally higher than the first half. It normally happens because now onwards we will get into planning for next year. We will open more satellite labs, we will hire people because they will get into a launch phase, sometimes we start hiring people for next year growth right say, in the month of November, December onwards. So relatively our second half expenses are higher than the first half, so that is one broad trend we see. We also see that the mix is more favourable for higher gross margin test in Q2 than latter part of the year because fever season comes in, there are lot of routine tests and routine tests have gross margins slightly higher than the high end tests. We tend to get little extra gross margin in the first half that is another trend I see. So we have also in the last couple of years have, if you look at our infrastructure growth we have opened lot of our own PSCs, but our model is that we will open our own labs but franchised PSC. If we push for more franchising of patient service centre, we tend to see our own expenses are growing less. In fact that is one of the reason I think question has been asked is that why other expenses have not grown that much this first half. Relatively, the number of our own PSCs has been less this year compared to what we had done last year. So that is also one of the reason why our expenses are slightly lower in the first half but I think on balance, I would say that our manpower expenses actually we have seen some leverage as our volumes in Northern India and Eastern India picking up. So that is what we are seeing operating leverage in Northern-Eastern part of India because our throughput is now much higher than what it used to be earlier.

Nitin Agarwal: And when you are relying on franchised PSCs, where does that cost reflect?

Dr. Om Manchanda: Since we do a revenue share, that cost will come in the fees paid to the collection centres because all other costs are borne by them.

Nitin Agarwal: And second on the reference labs, so we have got these three of the labs on our agenda when you look at the national landscape for industry, in your own assessment how many labs of this quality of the scale are there in the country?

Dr. Arvind Lal: Well from our point of view, hardly one or two and we are leading this pack here because the diversification of the tests, especially of the high end tests, is not an easy job and it is not that the others will not catch up us on this so called technological trajectory, but that is what we have seen for the last 40 or 50 years that will be achieved, we achieved the breakthrough, we create the path and we get on with some new other tests while the others then catch up with what you would be doing a few years back.

Nitin Agarwal: And just coming back to the whole operating leverage question sir, so when we look at the next two to three years given the way our things have really played out for us in H1 on the operating leverage front, do we see substantial scope qualitatively for further operating leverage in the business because earlier we used to talk about some bit of pressure/compression on the margins as we were entering into some of the newer geographies, so the performance in H1 is little bit of at contrast to the sense we had on the margins going forward.

Dilip Bidani: I think it is a great question but we should look at it in a longer term perspective and not nearly on a quarter-to-quarter perspective. So this quarter for example we had the full impact of the price revision as we mentioned, there has been operating leverage because of higher seasonal fevers that we have experienced. So going forward into the second half of the year, as Om also just mentioned briefly is that lot of our expansion plans, recruitment will be starting now and Q3-Q4 would see some of those coming in. Q2 is also generally one of the higher quarters in the year and therefore keeping all that in mind and the fact that price revisions may not always happen so periodically. In a longer term, we would obviously be trying to sustain our margins but margin expansions may not always be something which will happen every quarter and while we have given a guidance of some 200 to 300 basis points margin dilution, those we would possibly see more once some of the larger reference labs kick in. The costs related to those will actually hit us sometime in FY18 once the Kolkata lab gets commissioned in September 2017. Hence I think while your observation is valid, we need to look at it in a very balanced view over a longer period of time.

Dr. Om Manchanda: Just to add one more point what Dilip was saying; relatively our projections for Delhi NCR were lower and I think we have delivered better results. So whenever we do a better growth in Delhi NCR, margins tend to be higher, we were little cautious last time while giving guidance on this but I think since our first half growth rates have been higher that has led to this, but I think it should not be a reflection that the future also would be like this. So as these costs tend to come in, my sense is now margin will normalize over a period of time.

Dr. Arvind Lal: See, the nature of the business is also based on monsoon, humidity and tropical kind of conditions where the mosquitoes thrive. So life is not like that, these seasons pass over and something else can come, sometime influenza comes, sometimes swine flu comes, so these are the vagaries of nature I would say and health is just held hostage to that.

Moderator: Thank you. We have the next question from the line of Ayan Deb from Nomura. Please go ahead.

Ayan Deb: Sir one clarification if a sample collected in Eastern part of India for high end test, so if it comes to Delhi NCR, so the revenue would be booked in Northern region or would be a part of Eastern region?

Dr. Om Manchanda: Will be a part of Eastern region.

Ayan Deb: So, I think in the earlier call we have talked about percentage of the revenue being cannibalised when the regional reference labs actually come there in Kolkata, so in terms of at least reporting perspective, numbers won't shift from Delhi NCR or Northern region to Kolkata, is that understanding correct?

Dr. Om Manchanda: From a reporting perspective, they should not change; however, I think since you use the word cannibalising, it is more from a testing perspective. We have 3 kinds of revenue, one is revenue generated, other is revenue registered, third is revenue tested. Revenue generated should not get impacted by these labs coming up because what we report is what belongs to the region.

Moderator Thank you. We have the next question from the line of Atul Mehra from Motilal Oswal. Please go ahead.

Atul Mehra: Sir just one question. So we have this entire model around franchise based patient service centres where we end up giving a fee to them for getting us revenue, so what percentage of our revenues in aggregate comes in from franchise based patient service centres?

Dr. Om Manchanda: I think we have not shared the segment wise data so far. What we have talked about is what is B2C and B2B component. So roughly as Dilip mentioned 60% or 65% is from B2C and balance is from B2B. But further drill down on segment wise, we have not shared it yet.

Atul Mehra: Now where I am coming from is typically what tends to happen is the last mile and the customer interface is with that particular franchisee and as the industry gets more and more organised and consolidated, those will be the people who will be chased by your competitors, so what really stops them from moving to another organized player or another unorganized player who is trying to get organized and how do you see that stickiness being there with your current collection centre?

Dr. Om Manchanda: I think that is a brilliant question and that is where the branding will play a big role. It is highly competitive market and everybody has tried these things in the past but eventually patient is very clear that they want to get the test done from Dr. Lal PathLabs, so that centre may not have a choice but to send the samples to Dr. Lal PathLabs, so I think that is where the brand differentiation will play a bigger role. It is like in FMCG where all the brands are competing on the shelf right, a customer still tends to pick up the brand he or she wants, so this exactly what happens even in healthcare. And healthcare, by the way branding plays a much bigger role because you see your own experience, you still want to see a doctor of your choice, same way people want to get test done from their choice of labs. So I think the brand will play bigger role there.

Atul Mehra: And sir what is the level of attrition that we have seen in this franchise based in terms of patient service centres?

Dr. Om Manchanda: That data also we have not shared but it is fairly stable part of network. Attrition may be because either we have terminated some because they are not following quality practices or but otherwise attrition is not much, but it is fairly stable but we have not shared this specific numbers yet.

Atul Mehra: And in terms of the fee that we shared with them, has the percentage been pretty much stable or has this been moving up in terms of a trend or when does this get revisited on an ongoing basis?

Dr. Om Manchanda: It is stable, historically we have been sharing 20%. Many times you talked about this, difficult to change these terms. We have not moved up or moved down but we have started doing is demanding more investments in the part of franchisee in terms of branding, in terms of look and feel of the place, in terms of ambience, all that stuff we have been demanding more from our franchisee. It also helps them to increase their own revenue, so I think it is a win-win situation for both. But we have not changed it. I want to add this 20% that I shared, it is more in Delhi NCR but in some regions where our market share has been weaker, in the past we have even gone up to about 30% as well.

Atul Mehra: And would we be tracking in terms of, so we have an overall sales growth of about 22% but if you would look at the network infrastructure that we would have say a year back and compared the growth in those set of outlets and not really from the new ones that we would have opened. So what would that number have been, so it is more like a same store growth or something of those?

Dr. Om Manchanda: Yes, understood, I think relatively lot of this growth has actually come from, I would not like to use the term same store but same network in a city, so technically lot of this growth has come from similar geography right, the same clusters. So our network of collection centres and the labs, it is more an economic decision because we have a lot of collection centres where the throughput is still low, 1,500-1,600 collection centres. We still have a long way to go to drive depth. So we are not too dependent right now to on width as much as on depth. So that is going to help us in any case going forward.

Atul Mehra: And sir in case of some of these service centers, we have about third which are not branded by us at this point in time, so is that changing pretty much soon in terms of getting them under the branding umbrella as well.

Dilip Bidani: No, as far as the patient service centers are concerned, these are all branded by us. It is just at the pickup points which are third party outlets, from where we pick up samples which could be in the nature of nursing homes, hospitals, doctors clinics, these are not branded by us, but all our patient service centers, 1,500-1,600 of these. These are all branded outlets.

Atul Mehra: And by branding, we would mean the reports come out in our name as well as the shop would have some association with cobranding with them as well as with us, right?

Dilip Bidani: Yes, there is no cobranding of the shop, we have our board out there and yes, the report is our report and in fact as far as the report goes, that is even given to the pickup points. So there is some sort of branding which happens even through the pickup points. Some of the larger pickup points, large hospitals may choose to white label the report, but these are our reports.

Moderator Thank you. We have the next question from the line of Alok Dalal from CLSA. Please go ahead.

Alok Dalal: Om, are you overall happy with the 13.6% volume growth because the thought process was that this is seasonally a strong quarter and from what we have read in newspapers and heard about the outbreak of these illnesses, one would have thought the volume growth would have been higher this quarter versus the normal trend. So are we missing something here?

Dr. Om Manchanda: I think it is a good question. So relatively we found this year incidence of dengue was much less compared to last year and dengue testing actually gives you more volume and we have very high base of platelet counts in the last year quarter and compared to this year where we had incidence of other fevers more than dengue. So that has given us one impact on volumes that is why it is, but otherwise we have been guiding the market about 14% volume growth. So little bit of since we took a price increase, I do not know I have to go deeper into that, if that has impacted the volume little bit. I think this is pretty much in line what I expected given that dengue incidence was lower this year.

Moderator: Thank you. Ladies and gentlemen, we will take the last question from the line of Prashant Nair from Citi Group. Please go ahead.

Prashant Nair: Just wanted to understand, since this is the first year we are getting all 4 quarters and we have seen now 4 quarters for last year as well. So would say the third and fourth quarters of last year have been kind of normal business quarters or was there any squeeze, any of those just for us to understand when we try to work our numbers.

Dr. Om Manchanda: I think it is a good question. I think it is pretty much last year 2 quarters are normal quarters. So we prepared for a lower figure in Q3, so it is not like its going up and up, so Q3 we see a dip and then later sometimes February onwards, we see a rise in business. So I think what you see last year 2 quarters, they are pretty much the representative quarters and I get a sense that, that is the way trend would move going forward, Q3 being lower.

Prashant Nair: So when you say Q3 will be lower, you are talking about seasonally lower vis-à-vis to Q2 of this number right, but the same seasonality would have held last year as well.

Dr. Om Manchanda: Yes, lower than this quarter but previous year of course we will see how it has got to be, lower than Q2 I am saying. Q3 is lower than Q2.

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

Dilip Bidani: Thank you everyone for being on the call and see you again next quarter.

Dr. Arvind Lal: Thank you very much.

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.

This is a transcription and may contain transcription errors. The Company or sender takes no responsibility for such errors, although an effort has been made to ensure high level of accuracy.