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To,

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Dear Sir/Madam,

Sub: Transcripts

Please find enclosed transcripts of the Earnings Call held on August 07, 2019.

This will also be hosted on the company's website at www.metropolisindia.com

We request you to kindly take the same on record.

Yours Faithfully,

For Metropolis Healthcare Limited

Jayant Prakash

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“Metropolis Healthcare Limited Q1 FY20 Earnings Conference Call”

August 7, 2019

MANAGEMENT: MS. AMEERA SHAH – MANAGING DIRECTOR
MR. VIJENDER SINGH – CHIEF EXECUTIVE OFFICER
MR. TUSHAR KARNIK – CHIEF FINANCIAL OFFICER

Moderator: Ladies and gentlemen, good day and welcome to the Metropolis Healthcare Limited Q1 FY20 Earnings Conference Call. This conference call may contain forward-looking statements about the company which are based on the beliefs, opinions, and expectations of the company as on the date of this call. These statements are not the guarantees of future performance and involve risks and uncertainties that are difficult to predict.

As a reminder, all participants' lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing '*' then '0' on your touchtone telephone. Please note that this conference is being recorded.

I now hand the conference over to Ms. Ameera Shah – MD of Metropolis Healthcare Limited. Thank you and over to you ma'am.

Ameera Shah: Good afternoon everyone. Thank you for joining us for the Q1 FY20 Earnings Call. Today, I am joined by Mr. Vijender Singh – CEO and Mr. Tushar Karnik – CFO, and SGA – our IR Advisors. The presentation and press release have been issued to the stock exchanges and uploaded on our website. I hope everyone has had a chance to look at our performance.

Let me give you a perspective on the industry and our strategy before I ask Vijender to give you details on our operational performance and Tushar on the financial performance.

In general, the diagnostics industry is expected to grow to USD 12 billion in FY20 from about USD 9 billion in FY18. It is one of the better growing segments in the Indian healthcare sector. Organized players have less than 15% to 20% market share leaving ample room for growth. Players with a good consumer brand, high focus on quality, and rich customer experience will continue to gain large market share. We, at Metropolis, with a strong consumer connect, leadership position in many of our markets, pan-India presence, and large test menu with a higher focus on specialized and wellness tests, are confident of growing above industry growth rates.

In Q1, our consolidated revenue stood at 203.3 crores, a growth of 15.7% on YOY basis. Our normalized EBITDA, i.e., EBITDA before CSR and impact of Ind-AS 116 stood at Rs. 51.1 crores, a growth of 15.4% on year-on-year basis. Accordingly, the EBITDA margin stood at 25.15%. The PAT before CSR, exceptional items, and impact of Ind-AS 116 stood at 35 crores, a growth of 28.3% on year-on-year basis. Accordingly, the PAT margin stood at 17.21%.

Let me now share our perspective on growth and strategy going forward:

At Metropolis, we have a leadership position on test menu, accreditation & quality scores, infrastructure, revenue per patient, customer experience score and ROCE. All this is a result of a continuous focus on customer, in relation to, reach, a variety of tests, quality parameters, consistency in test results, and a superior customer experience backed by a highly qualified and

specialized team of doctors and technical team. We, at Metropolis, strongly believe that growth opportunities are plenty for a focused player like us.

The growth opportunities are as follows.:

1) Scientific upselling: We will leverage our vast capability in molecular diagnostics, oncology, cytogenic, where there is less competition and higher margins due to advanced technology, skilled manpower, and complex processes involved to move patients up the value chain based on advanced prescriptions generated by doctors.

2) Preventive and wellness services: This is a growing area of focus for Metropolis. We are targeting healthy individuals with sedentary lifestyle who are prone to diseases such as cardiovascular and diabetes ailments. Precision medicine focused on preventive care and walk-in & direct-to-customer services will drive growth.

These two points along with

- Aggressive network expansion to go closer to our patients,
- Working towards upscaling seeding cities to focused cities,
- Maturity of our young network, and
- Inorganic strategy

will be the main points which will strengthen the Metropolis brand to be the only choice of patients.

We are an organization with a strong sense of purpose and are committed to solid governance framework and sound accounting policies. In addition to creating value for all stakeholders, we will continue to walk the extra mile for our patients who trust us during their most anxious moments during illness.

I would now like to hand over to Vijender Singh, our CEO, to take you through some of the operational parameters.

Vijender Singh: Good afternoon everyone. Let me give you a perspective on our operational parameters. Our strategy for growth in focused cities is a proven strategy of going deeper and casting wider for long-term business outcomes. Metropolis' concentrated network in focused cities and seeding cities is growing. In addition, we are also confident about growth and contribution in other City category. We are witnessing an increasing trend in consumption in smaller cities and we aim to capitalize on this category. In Q1, we have seen a good progress.

Moving on to our revenue mix, following are the updates:

- Our overall B2C revenue share in Q1 FY20 stood at 45%, up from 43% in Q1 FY19. B2C revenues of the group have registered a 21% growth on year-on-year basis. B2C share in focused cities was at 56% as compared to 51% in Q1 FY19 and 52% in FY19.
- Domestic revenues grew faster at 16.7% and now contribute to 95% of our total revenue.
- Our revenue growth is primarily volume driven in quarter 1.
- Our upcoming segment, i.e., Wellness, has shown a strong growth at 40% on year-on-year basis. This segment now contributes to 6.5% of overall revenues.

Now, let me take you through the network highlights for this quarter: Our network expansion and capacity utilization strategy is well in place.

- We added 5 labs to our network in Q1 FY20 taking the total lab number to 124 as of now as compared to 119 at the end of FY19.
- Our patient service network stands at 2,536 as compared to 2,336 at the end of FY19. Third-party PSCs comprised of 1,679 centers. ARC, which is again a third-party collection center network, stood at 600 centers as of now. While we have company-owned PSCs which total as of now to 257 numbers.
- We are pleased to report that we have added over 200 patient centers in Q1 FY20.
- 71% of the network added between FY17 till date is young. Maturity of this network will allow us to increase our revenues, improve our capacity utilization levels leading to operating leverage and increase in profitability.
- ~87% of center network and 18% of lab network is asset-light in nature in our system.

Our patient metrics performance has been robust this quarter and let me take you through a little brief on this.

- In Q1 FY20, number of patient visits stood at 2.3 million, a growth of 17.7% year-on-year.
- Number of tests in Q1 FY20 stood at 4.3 million, a growth of 20.9% year-on-year.
- Revenue per patient in Q1 FY20 stood at Rs. 899, a growth of 5.3% from FY19 levels.
- Revenue per test stood in Q1 FY20 at Rs. 471, a growth of 5.5% from FY19 levels.

At Metropolis, we keenly focus on quality in everything we do. Our quality protocols follow global standards. We achieve 98.5% quality score by CAP in FY19. NPS, i.e., our net promoter score, is consistently high and now it is around 90%. We understand our customers and know that their trust and sustainability of our brand is critical to our success.

This is all from my end. Now I would request Mr. Tushar Karnik to take us through the financial performance for the quarter.

Tushar Karnik: Good afternoon. I will share the financial performance for the quarter gone by. Our consolidated revenue grew by 15.7% from Rs. 175.8 crores in Q1 FY19 to Rs. 203.3 crores in Q1 FY20. Our normalized EBITDA, i.e., EBITDA before CSR and impact of Ind-AS 116 stood at 51.1 crores

registering a growth of 15.4% on year-on-year basis. Accordingly, the margins stood at 25.15% for Q1 FY20. The EBITDA margin would have been higher by 0.9% if we exclude the Lab on Lease. The Lab on Lease contract existing in Q1 FY19 which were 11 in numbers have moved from 6.5% EBITDA to 14.5% EBITDA margin in Q1 FY20.

The new Lab on Lease contract started post Q1 FY19 which were 12 in numbers have diluted the total Lab on Lease EBITDA to 8.8%. We reported exceptional items of Rs. 6.9 crores for the quarter as a prudent practice. Rs. 3.36 crores was on account of provision for impairment of investment in securities of Infrastructure Leasing and Financial Services (IL&FS). With this, we have fully provided for our investment in IL&FS. We have provided for Rs. 3.5 crores on account of certain old unreconciled balances. PAT before CSR, exceptional items, and impact of Ind-AS 116 grew by 28.3% on year-on-year basis to Rs. 35 crores. Our CAPEX for the quarter stands at Rs. 3.72 crores. We have a CAPEX budget of about Rs. 20 crores for the year FY20.

On account of the Ind-AS 116 for leases, we have the following overall impact:

We have a benefit of Rs. 4.2 crores which has been reported above EBITDA while increase in depreciation and finance cost has been to the tune of Rs. 3.3 crores and Rs. 1.5 crores respectively. On the balance sheet front, we have created a right-of-use asset of Rs. 46.74 crores for the long-term lease contract whereas on the liability side, a lease liability has been created to the tune of Rs. 52 crores in favor of leases against the assets created. The retained earnings were impacted by Rs. 3.5 crores which is net of the deferred tax.

That is all from our side. We now leave the floor open for questions & answers.

Moderator: Ladies and gentlemen, we will now begin the question & answer session. The first question is from the line of Sudarsan Padmanabhan from Sundaram Mutual Fund. Please go ahead.

Sudarsan Padmanabhan: My question is probably on the sales itself. While I am looking at the volumes, it has been kind of encouraging – patients growing by about 18% and number of tests growing by about 21% – but if I am actually looking at the revenue per test or revenue per patient, it looks like there has been some kind of a drop in the realization. So, I just wanted to understand whether it is because of the regional mix or has there been any kind of discount or a cut that has happened on an apple-to-apple basis.

Ameera Shah: If you compare to FY18-19, our average revenue per patient as well as per test has actually increased. I am not sure what number we are comparing now to.

Sudarsan Padmanabhan: I am actually comparing the 1Q FY19. if I look at the number of tests or the number of patients and I divide it by 1Q FY19 sales by them, you would arrive at revenue per test of 488 and revenue per patient of 925 and if I do the same thing for this year 1Q FY20, I am looking at 473 and 884. That is a drop of about 3.5% and 4.5%. That is per test and per patient. This is comparing 1Q versus 1Q.

Ameera Shah: I think the number you have of 1.9 million patients may be slightly a summarized number. It may not be a very exact number to what is in our system which may be causing the slight change, but otherwise, when we are comparing our numbers, we are actually not finding any significant difference of even more than 1% between the numbers.

Sudarsan Padmanabhan: Since we do not have the historical of 2Q and 3Q, if you are breaking your entire full year, both in terms of EBITDA and in terms of sales, how does it look like? 1Q how much does it contribute to your full year and if you can give some color, specifically the 2Q and 3Q now that we know 4Q and 1Q.

Ameera Shah: Normally, I think for the whole industry, Q1 is the leanest quarter. That has been true for Metropolis as well. Every year, our contribution to revenue and EBITDA from Q1 traditionally tends to be not proportionate. This year also, we expect that to be the same. Usually for Metropolis, and it is not the same for every company in the industry because it depends on where your regional presence is. For example, we are more in the south and west and so more of our revenues come from west and south which means Gujarat will be affected quite hard by Navratri and Diwali, Onam will affect us in Kerala, Pongal will affect us in Tamil Nadu versus for some of the other peers, there will be other festivals which will affect them depending on where they are strong. For Metropolis, Q2 and Q4 are usually the better quarters. Q1 is the leanest quarter and Q3 tends to be a little bit subdued mostly because of the festival season.

Sudarsan Padmanabhan: One final question on the margin side. We have pretty strong volume growth as well as sales growth and even if one is looking at it, the B2C part of it has actually done better compared to the B2B part and even the wellness portion though small has done very well, but somehow, if I adjust for the Ind-AS and look at the EBITDA margin, we do not actually see an expansion in terms of margin. So, is it because of our expansion into newer regions that we are seeing that the margin is kind of curtailed because of our investments over there or are we seeing any kind of cost escalation in any specific line item?

Ameera Shah: As we said, the revenue growth has been 15.7% and the EBITDA growth has been 15.4%. As Tushar mentioned, our EBITDA would have been 0.9% higher if we were not doing the Lab on Lease model which would have clearly demonstrated the operating leverage that is coming out of the higher B2C growth, but because we are expanding the number of labs and we have added just 5 labs already in this quarter, but if you see in the last year, we added I think around 12 Lab on Lease within the whole system. When these Lab on Lease come into our system, we are actually taking on the entire fixed cost of operating these laboratories, which means the cost of people, the cost of admin, the cost of infrastructure, etc. While there is no CAPEX in the Lab on Lease, the operational expenses get added on because of which in the 1st year usually in the Lab on Lease, we see a marginal profit; in the 2nd year, we see a higher profit; and hopefully by the 3rd year, we expect to be around 20% to 20% plus EBITDA margin. As demonstrated by the older Lab on Leases, we had 6.5% in the 1st year and 14.5% in the 2nd year which we believe should get to about 20% to 22% in the 3rd year. So, this is diluting the EBITDA margin slightly and we are doing this very consciously so that we are able to expand the number of labs into

new markets into smaller towns across the country in a very asset-light non-CAPEX heavy way which we believe will actually contribute to the ROCE of the business.

Vijender Singh: The second most important thought process here is based on whether we should go greenfield or we should have this new model? There are two aspects of this model. First is of course, we have been talking about our growth strategy where we are talking about retail growth. One of course will be natural growth and second will be shift from unorganized to organized. This model actually helps us in getting into this space of growth from unorganized to organized. And if we compare with greenfield labs, when we put a Greenfield lab, at least for 3 years, the greenfield lab doesn't come to a positive EBITDA, whereas this model actually in a way helps us a lot. Though it dilutes 0.9% in Q1 but in the long term, it definitely helps.

Moderator: The next question is from the line of (Sayantan Maji) from Credit Suisse. Please go ahead.

Anubhav: On the B2B business, if we were to exclude NACO contract contribution, it seems like our B2B business is just flattish year-on-year. Would that be a correct statement?

Ameera Shah: Actually, that is not correct. We normally don't give specific numbers on the differentiation, but we usually count institutional business separate from the B2B business and we have actually seen a healthy growth on the B2B business in this quarter. It has been a double-digit growth, so nothing to be concerned about it.

Anubhav: Ameera, when I look at your consolidated EBITDA margins, they are higher than standalone margins and of course we guys make very good margin in Surat and Kerala subsidiaries. Question was on those subsidiaries. What is so different there that the margins are higher versus let us say when we look at our standalone? Is it that B2B portion there is lower or there is some other factor?

Ameera Shah: There are multiple factors that affect the EBITDA margin. One is the B2C contribution in a city in our business. That definitely affects it. The second is really the test mix that you are getting and then third depends on what you are doing really in that city because we work in a hub-and-spoke model. For example, it makes no sense for us to do all 4,000 tests in every lab. It works in a situation where you do the minimum tests required in that city and then you send the rest of it to the global reference lab. So, frankly, looking at the standalone numbers of Metropolis may not give you a good indication of the strength because there are a lot of samples and tests that move back and forth between many labs. So, I think the holistic profit from the consolidated basis would be a far more accurate basis on which to judge the different businesses because also we have to remember that all the corporate costs are actually sitting in standalone. They are not attributed or allocated to different subsidiaries which is why I would recommend to look at the consolidated statement.

Anubhav: So, when you report the subsidiary financials, you do not charge that corporate central cost to them?

Ameera Shah: That's right.

Anubhav: When you report wellness numbers, is this all B2C, B2B, or mix of the two?

Ameera Shah: I would say majority of it is B2C, if not all of it.

Anubhav: The price does look like has come down in this quarter, maybe just that we don't have sufficient data or proper number of tests. From next time maybe you can give with one more decimal point that may help, but just checking, specialized tests for us should be very uniform throughout quarter, right? It should be that just the seasonality on the routine tests which will vary up and down, right? That's the way to think about business?

Ameera Shah: Not really, because I think that specialized tests of course are linked a lot to acute diseases like cancer and neurology and brain strokes, etc. So, what we have to remember is the reason the 1st quarter is the leanest quarter is not because of any other reason. The biggest reason is that a lot of summer holidays and most doctors are actually traveling. So, the biggest issue is there. Therefore, it will affect the routine and specialized quite proportionately because if a doctor is out on holiday, then frankly it is going to affect all the varieties of tests.

Anubhav: Why I was asking that even if you leave this quarter, if you look at the 1Q '19 for us, the price per test in 1Q '19 was also higher than the fiscal '19 average. That is why this doubt was coming that something is good in 1st quarter that the price is much higher. Of course, the volume ramps up in the later part of the year.

Ameera Shah: I don't think there is any such particular reason in any quarter. I would again urge you to look at the average revenues per test and per patient more on an annual basis versus on a quarterly basis because I don't think that is something that we can fully always control and influence on a quarterly basis because that will change with the product mix. Sometimes, the initiative that you start in the 1st quarter will pay you good in the 3rd quarter. Therefore, I would urge you to look at it more from a comparison on an annual basis versus a quarterly basis.

Moderator: The next question is from the line of Sahil Chotalia from MC Investments. Please go ahead.

Sahil Chotalia: Ma'am, I have 2 questions. My first question is with regards to the risk of NEDL, the price caps of the government. There is a lot of talk about this. What my question particularly is say in a normal setting, if a customer pays say Rs. 500 for a test and if you take this Rs. 500 revenue, I understand that one part of the revenue goes to Metropolis and the other part of the revenue goes to the collection center from which they would generally manage all their costs, right? In case, if this Rs. 500 is capped to say Rs. 300, then how would the industry reorganize the revenue flow is what I wanted to understand.

Ameera Shah: Obviously, there are a couple of hypotheses in that question. The theory is that the NEDL is coming in and therefore price capping will come in which itself frankly is not at all a certainty

at this point of time. It is not even a discussion which the government has even started to engage in with the industry or the industry players. So, frankly, in our minds, it continues to be a theory versus something which is actually practically happening today. So, how the industry will react to it and how it will reorganize frankly is a way away because we don't even think that that is going to come in place today. But theoretically if it were to come in, my guess is that people would probably start finding ways. And first of all, the NEDL is not applicable to the entire test menus, only potentially could be applicable to 20-30-40-50 tests. So, depending on which tests theoretically it were applicable to, you have to see whether you can differentiate your tests from a scientific basis in terms of the kind of tests you are providing. That may be one way. You have to see whether you can do bundling. That would be the second thing. But if tomorrow the MRP was to be fixed, then obviously you would have to change your trade margins with your channel partners because obviously then the revenue sharing will change. I am still reinforcing that honestly there is not even a single conversation the government has still had with us on this topic.

Sahil Chotalia: Ma'am, my second question is with regards to the wellness testing. When I look at the industry, what other players are doing, I find your prices of wellness testing is pretty much on the higher side as compared to say one Thyrocare. And everywhere we are writing that this is going to be a major growth lever for us going forward, how do we justify our prices being so high? Because I believe your lowest is at Rs. 3,600 or something wherein Thyrocare the lowest is at I think Rs. 900 or something and their highest is I think Rs. 4,000 and yours is something Rs. 6,000 plus. How do we justify this price thing that we have and do we see any correction happening in this as we grow volumes going forward?

Ameera Shah: Firstly, just to get the facts right, I think our lowest price of packages is between Rs. 2,000 and Rs. 2,500 and the highest ones of course are much higher. We have to remember one thing that India is a country of many different customer segments. You can sell a value-based service or product. You can also sell a premium-based product or service depending on who your customer segment is. There is also Maruti that sells and also BMW that sells in the same country. Therefore, the comparison, I think, may not be warranted because we are targeting a different customer segment. I think the Metropolis customer is a customer who is looking for a very good quality accurate report and looking for a patient experience that goes along with it. I think for them, it is not so important as to how much the price is, but it is more important that they have the peace of mind of knowing that they know exactly what is happening in their body, their doctor will accept the report, they get it in a fast turnaround time, and they have an exceptional customer experience when they engage with us. And we have not seen our customers having any issue in paying Rs. 2,500 once a year to take care of their health. Frankly, we don't feel that there is any correction required from that basis. Having said that, we have launched a different project which is also in the wellness segment which has more value-based packages and maybe Vijender can tell you a little bit more about it.

Vijender Singh: Basically, what we have done is we have recently launched it. I think in last call also, we discussed about a brand under the umbrella of Metropolis, we called it TrueHealth. This

TrueHealth basically addresses two different segments of the market as Ameera mentioned. First is our core markets and second is non-core market. In non-core market, you will find our prices pretty much competitive whereas in core markets, the product designing has been done based on some value propositions for the patients. And in value propositions, it is more about providing consultation and many other sort of interpretations required in order to sort of position our TrueHealth brand in these core markets. These are the two different sort of segments we are trying to address through on price point.

Moderator: The next question is from the line of Shyam Srinivasan from Goldman Sachs. Please go ahead.

Shyam Srinivasan: On the young network, about 71% of the patient service network is young and the fact that I think 5 years is the typical time, where are we on a weighted basis? What is the tenure of our network at this point of time? If you can give us a perspective on young versus mature and what is the difference in either margins or ROCE ratio so that for us to see what could be the upside on profitability.

Vijender Singh: This 71% young network is 2 to 2.5 years old. So, still there is a lot more room for growth, and going forward, from my experience, I think 5 to 6 years is a good time where you can expect maturity of the centers. If you look at our retail growth which is 21%, this retail growth primarily has come through this young network. Going forward, as in our strategy, we want to continuously focus on expanding the network. Even as I mentioned in my discussion also that we are going to focus on Other City category also because we see a lot more opportunity there as well. So, going forward, this new network will continue to grow and give us a lot more leverage at profitability as well.

Shyam Srinivasan: Just linking to this, what is our expansion strategy in terms of say for fiscal '20, how many labs/patient service networks are we planning to add?

Vijender Singh: In our strategy what we have been talking is we don't want to add too many labs. Yes, of course, we want to expand our network which is third-party collection centers. If you look at our data, in the last 6 months, we have opened many third-party centers and only in a few ones we have opened 2 greenfield labs and rest of the labs we have added through asset-light model. Going forward, it is going to be third-party collection centers, mostly network expansion, not on the lab front.

Shyam Srinivasan: My last question is on NACO contract on the institutional side. Can you quantify what is it today as a percentage and where are the margins on this? Do you think we can kind of achieve corporate margins over time on the NACO contract?

Ameera Shah: Currently, NACO is still not a very significant part of our revenue. It continues to be a smaller percentage of our revenue. And we are not able to give you very specific numbers on one contract alone but we can tell you that we expect this contract to be profitable for us. It already is profitable. Last year, as we have said that we don't expect to make much money because it was

the 1st year but we almost broke even, I think, on it last year and this year it is profitable for us which it will be through the tenure of the contract.

Vijender Singh: If you look at our strategy, there are 3 pillars in our strategy. First is organic, second is inorganic, third is new initiative. This NACO kind of projects fall in our third category. This third category is growing fast and the contribution is also growing very fast. This also includes NACO, but NACO as of now is not significant. I think, going forward, probably we can share a little bit as we move forward.

Moderator: The next question is from the line of Shaleen Kumar from UBS Securities. Please go ahead.

Shaleen Kumar: Congrats to the management on a good set of numbers. I have a bunch of questions over here. Regarding your expansion, pretty impressive expansion you have done. Just want to understand, are there any focused geographies which you are looking at for this expansion?

Vijender Singh: In our strategy, it is clearly defined that we want to go deep in focused cities and there is second level of cities which is seeding cities. The next level is that there will be transformation of cities moving from lower strata to upper strata. So, probably you will find one or two more cities now being added into focused cities and one or two more cities getting added into seeding. This transformation is going to come up very soon, maybe by the end of this year and probably will come up with a new set of geographies, which will fall in our focused and seeding cities strategy.

Shaleen Kumar: In terms of the region, 258 patient touch points you have added. These are like north, south, where we have added?

Vijender Singh: Mostly these are in our core markets, focused cities, and to some extent in the seeding cities also but majority is in the focused cities.

Shaleen Kumar: Just for the understanding, what is the difference between greenfield and Lab on Lease?

Vijender Singh: Greenfield is something where you have invested in that lab, you have taken a property on lease, you have sort of started from scratch whereas Lab on Lease model is something where you collaborate with an existing lab. In return, you get a readymade platform or start from at least some platform and then from there, you can grow faster.

Shaleen Kumar: In that case, when you take a Lab on Lease, I presume that there is an existing lab from some player and when the customer comes in into that lab, will he see Metropolis board or will be see….?

Vijender Singh: That will be a Metropolis branded lab.

Shaleen Kumar: And what would the other guy will get out of it?

Vijender Singh: There is an arrangement with this guy which is commercial which probably we cannot share as of now.

Shaleen Kumar: It's kind of a revenue sharing?

Ameera Shah: Yes, it is revenue sharing. In short, the greenfield lab requires us to invest CAPEX. In Lab on Lease, we don't invest any CAPEX which is why it is a completely asset-light model which is more focused on management and the expertise that we are able to bring to it, and like Vijender said, it is all branded Metropolis and works under our policies and our procedures.

Shaleen Kumar: Then, why go for inorganic route if this can work well?

Ameera Shah: This can work well but usually the size of labs that you are working with from Lab on Lease perspective don't tend to be obviously very large. They tend to be more mid sized labs. Usually, when we do acquisitions, inorganic strategy, we tend to go for larger labs which is usually the leader in the market. So, usually we will do inorganic strategy either because of entering a new market where we don't have a strong consumer base and the lab we are acquiring, therefore, gives us that consumer brand platform. That is one reason. Or it may be in an existing market where we are already present where we believe we want to consolidate and we can bring synergies in terms of backend operations which is obviously a very different motivation from what we do with Lab on Lease which tends to be in more tier 2 and tier 3 towns in markets where we don't have a lab today.

Shaleen Kumar: The ARCs which you are talking about, these are I believe third-party pickup points in a way?

Vijender Singh: These are exclusive third-party collection centers and these are mostly in non-lab towns which fall in Other City category.

Shaleen Kumar: A polyclinic or a hospital also falls under the third-party collection center where you will be collecting the samples?

Vijender Singh: This collection center could be in a clinic, it could be a standalone, but it definitely is a third-party arrangement, not on company sort of investment.

Ameera Shah: But usually the hospitals and nursing homes are considered under the pickup point category. That is not the same as ARC.

Shaleen Kumar: How many pickup points you have?

Ameera Shah: Approximately 9,600 pickup points which would include all the hospitals and nursing homes.

Shaleen Kumar: Any kind of guidance on top line or margins do you give? Short term or long term?

Ameera Shah: Not really. Difficult for us to give any guidance but I can just tell you that we feel quite comfortable with the growth levels that we have been at, and we are happy with the tracking of this 1st quarter as well.

Vijender Singh: What is important is that once you are clear on your strategy, then I think there is nothing to look back. We are bang on our strategy and follow to focus on specific projects. That's what I think is helping us.

Shaleen Kumar: Can we expect the Lab on Lease to increase in this year as well like the way it has been growing in the 1st quarter at the same rate?

Vijender Singh: As of now, whatever Lab on Lease we have taken, we want to sort of mature these labs up to a minimum level of EBITDA and then probably keep hunting for good quality labs who actually synergize into our strategy and thought process.

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

Sameer Baisiwala: What is the kind of dependance do we have for our global reference lab and what kind of utilization are we having over there?

Vijender Singh: GRL actually today if you look at, I think, is close to about 60% in terms of capacity utilization and at least in this quarter since the expansion has gone up and then maturity of new centers is also growing, this capacity has improved by at least 7% to 8% in the past 5 to 6 months, and going forward, we see that this will further go up to 5% to 10% in the next 8 months' time. Still we have a lot more room for expansion.

Sameer Baisiwala: What would be the revenue share from this?

Ameera Shah: What do you mean by revenue share?

Sameer Baisiwala: Of the total revenue generated for the company, how much are getting tested at GRL?

Ameera Shah: Don't have an exact number, we will have to come back to you. Obviously, we think of this as a backend production facility. But I don't think it is a majority for sure.

Vijender Singh: At times, we keep moving samples to central lab, and at times, we move the samples to satellite lab depending on the route, depending on the monsoon, and depending on traffic. So, this number keeps changing because ultimately end of the day, this lab also acts as a backup lab for almost all our labs, especially in Mumbai.

Sameer Baisiwala: I get the picture, it is always a matter of flux but on a ballpark basis, is it like 50% of your business?

Vijender Singh: It would be close to that, maybe a little bit around that.

Sameer Baisiwala: In general, maybe for this quarter and going back 4 or 5 quarters, what is the sort of growth rate differential that you have versus the industry?

Ameera Shah: I think the industry, difficult to predict because there is not too much of clear data out there. There are 2 listed peers. So, I think there is public data available for you to compare with. Our opinion, which is not substantiated by any data, is that the industry is probably growing closer to 10% to 12%. Therefore, we are significantly outpacing the industry and from what numbers we have seen in the past, also the key peers.

Sameer Baisiwala: What is the outlook for pricing?

Ameera Shah: I think from a B2C perspective where our brand is out there and we have a strong consumer connect, I think people have no trouble in paying our prices because they realize the value that they get for it. We have not really done any significant price increase. I think, in 3 years, we have done very marginal price increases. So, we may consider looking at a price increase later this year.

Sameer Baisiwala: Are there any pockets where you are facing a lot of hyper competition versus others where it is more relaxed?

Ameera Shah: I think it is more in the text mix to look at it versus geography. If you look at the semi-specialized segment, there is more competition. Less in the retail and less in the specialized.

Moderator: The next question is from the line of Aadesh Mehta from Ambit Capital. Please go ahead.

Adesh Mehta: Congratulations on great set of numbers. Ma'am, this question is regarding slide #7 of your presentation. I just wanted to understand the difference between ARC and third-party PSC.

Vijender Singh: ARC is basically a center which is in non-lab towns because there you don't have labs and hence you don't participate in routine sort of space. So, it only participates in semi-specialized and specialized. ARC in a way is a model where you get a lot more semi-specialized and specialized because there is no lab whereas the APSC is more of a frontend retail outlet. For example, in Mumbai, we have X number of APSCs which are targeted towards retail and we have a lot more satellite labs in order to service routine also. So, primarily the PSC actually also participates in routine space.

Adesh Mehta: So, ARCs, is it fair to assume that they would typically take only B2C revenues?

Vijender Singh: ARC can be both. B2C and B2B both because at the end of the day, it is a consolidation, it is a hub for you in that town who can directly cater to the patients and also collect samples on company's behalf from different hospitals and pickup points.

Adesh Mehta: Basically, out of our entire revenue mix, how much could be sourced from third-party service network?

Vijender Singh: As we said that our retail growth is 21% and the majority of our growths are coming from this new network which is primarily PSCs.

Adesh Mehta: We are seeing that owned PSCs would be around 1/10th of your network. So, would it be fair to say that your own PSCs will contribute only 10% of your revenues?

Ameera Shah: No, it wouldn't because traditionally we had only PSCs. If you see till 3 years ago, we had no APSC network, we had only a PSC network. And all the new network which has been built, we had only 250-300 centers in 2016 and today we have about 2536 centers. All of these new centers which have been built are all third party but obviously the revenue maturity doesn't come overnight. So, today we still see our PSC network which is the old PSC network, is still contributing a significant amount to the total revenue but the new network which Vijender is talking about is growing faster. So, in the next 2 years, you will actually see a much better balance between the new network and the old network in terms of revenue.

Adesh Mehta: Is it possible to get how much this third-party PSCs are actually contributing to revenues?

Vijender Singh: A little bit we can address separately with you on this number.

Adesh Mehta: NACO, we are not classifying it either in B2B or B2C. It is a separate category, right?

Vijender Singh: It is part of our institution group.

Moderator: The next question is from the line of Shaleen Kumar from UBS Securities. Please go ahead.

Shaleen Kumar: A question on your phlebotomists. Do you have them on your payroll or you outsource them?

Vijender Singh: On company-owned units, definitely they are on our payroll. On third party, they are on third party's payroll.

Shaleen Kumar: Do you use the phlebotomy specialists' organization which provides phlebotomists for the collection?

Vijender Singh: We do have in-house training centers. We have automated our training sort of module and through that it is being taken care of, and the interesting thing is that this training module is under our quality head.

Shaleen Kumar: Incrementally, it is becoming on-demand kind of a service where people are asking for a phlebotomist to come to their home or office for the collection. In that way, does it matter that you have a lab in that city or even the center at the key points?

Ameera Shah: It is very important actually because we have to remember one thing that in healthcare, we are not in a sector where somebody just has an impulse buy. This is very much a need-based industry. Actually, it has not moved to an on-demand need at this point of time. Usually, a patient will go to a doctor's clinic or doctor will recommend certain tests. The doctor and the patient together will decide which lab the patient should go to because that lab result has to be very much acceptable to the doctor based on the credibility that lab has with the doctor. So, this is not an industry where you can just start building with an outsourced phlebotomist team whether you have a lab or not and pick up a lot of samples and then send them to another city and do the testing. Theoretically may be, but practically no, because the most important thing is to get buy-in from the doctors in that city, and if you cannot provide that report fast because if you don't have a lab in that city and you don't have the quality relationship with the doctor, you will not get the business.

Shaleen Kumar: Do you guys track turnaround time of the sample received vis-a-vis the report generation?

Vijender Singh: We do have specific turnaround time for every test starting from when the sample was collected and every receipt has also got this message which talks about what time the report will be ready and also the patient can also track the status of his report through customer care and through online also. These are some of the things which we are further building in terms of automating the whole process so that our services become simple for the patients.

Moderator: The next question is from the line of Gagan Thareja from Kotak Investment Advisors. Please go ahead.

Gagan Thareja: First question on the PSCs. Bulk of your network as you pointed out has been established in the last 3 years and there is a differential in terms of revenue and profitability of the mature units versus those which have been recently established. If you could give us some idea or some metrics in terms of what is the peak revenue of the mature stores and what order of multiple that is of the relatively new ones to start with?

Ameera Shah: We don't have any specific numbers at this point of time in terms of what is the revenue contribution of the older centers, but like we said, what we do know is that the newer network is growing definitely faster and we are seeing the percentage increase year-on-year. We can look at the numbers and maybe come back to you.

Gagan Thareja: Would it be possible to throw a ballpark number at a unit level as I indicated to a multiple one could look at in terms of mature versus the new at a per unit PSC level and not at an aggregate level?

Ameera Shah: At an aggregate level if I have to give you an instinctual number, it will be close to maybe 50% would be the older network, but we will have to check whether that is right or wrong and come back to you.

Vijender Singh: This is an ongoing process. We keep adding centers and still there is a lot more room for centers which are opened 2.5 years back or 3 years back. Aggregating this whole 2,536 networks into these pieces is a little bit challenge but not impossible. We can come back to you.

Gagan Thareja: Also, one would presume that there is operating leverage and significant operating leverage to come in when you scale up. I am just trying to understand in terms of revenue sharing, you indicated there is a revenue sharing model with the PSCs. At the same time, is there a cost sharing both at the CAPEX and OPEX level and any order of magnitude you could indicate around that?

Ameera Shah: With the third-party centers, the best part is that the CAPEX is fully on them and so is the OPEX. This is what makes it extremely asset-light and then we only do revenue sharing. In terms of the journey of operating leverage, while we started building this network in the last few years, one of the things that is actually happening in the P&L is the variable revenue share is actually disproportionately growing because when you are seeing a lot of growth coming from the newer network, naturally the variable revenue share which you are sharing with them will also grow quite aggressively. So, you may not see the entire operating leverage benefits come today, but as these centers also move towards maturity over the next 2-3 years, you will definitely see that operating leverage come through even more, but today also we are seeing the operating leverage come through as we mentioned on one of the questions earlier today that except for the Lab on Lease, we would have been 0.9% higher on our EBITDA which clearly demonstrates the operating leverage.

Gagan Thareja: Wellness, as you pointed out, is right now 6.5% of your sales and growing faster. Could one, therefore, infer that in the years to come, at least in the medium term, maybe 3 years to come, this is a segment which will keep on growing at a faster pace than the company at an aggregate level? And also if you could give us some idea of the profit and revenue metrics at a unit level in the wellness business compared to your other businesses?

Vijender Singh: Wellness piece in India, estimated growth is about 25%. As of now if you look at it, everybody is into this segment and today probably it is more of a push sale. And till it achieves a maturity level where there is going to be a lot more pull from the patient's side, I think things will change. Today, the scenario is push. Tomorrow if it becomes pull, then probably you can sort of charge a little bit of premium based on value proposition. So, we see a lot more opportunities in this wellness from pull point of view.

Gagan Thareja: Does dengue also materially impact your revenue billing across quarters? For some of your peer companies, it is a very significant and material impact to growth in any given year. Is that the same for you?

Ameera Shah: I think any seasonal peak of infection will definitely give an additional spike in growth, but as a prudent business, obviously we cannot be waiting for infection to hit and give us sort of that peak growth. Our methodology is really to continue to drive that growth whether or not we get

that great seasonal impact, and if that comes, that is cherry on top. We cannot say that we are overly dependent on it because we would like to at least influence our own destiny.

Gagan Thareja: Given your focus on specialized testing and your price segmentation, would the addressable market be significantly different from the total addressable market that you pointed out in India to be for you?

Vijender Singh: On specialized, definitely, because we have the widest test menu. So, we have that capability and the ability to serve whatever there is a need on specialty side. This is one of our key differentiators as compared to our peer group and many other labs in India. I think this differentiator probably is going to help us and definitely we will bank upon this.

Gagan Thareja: My question is that if 9 billion is the size of the Indian market and you want to be in certain price segments and you want to focus more on specialized testing, would 9 billion be the addressable market for you or would it be significantly different from that number of 9 billion?

Ameera Shah: If we were a lab doing only specialized tests, then I think your question is valid. It would be a much smaller industry market size, but considering we are across all the spectrums of testing, if fact with a largest test menu, it doesn't limit the size of our market. In fact, one thing to remember which is very interesting is that if you compare globally, developed markets like the US, Australia, and Europe where usually a patient gets an average of 10 to 12 tests per sample. So, per patient visit, number of tests are very high and the average revenue is much higher, not only because prices are higher but mostly because the number of specialized tests prescribed are very high. India is still at a very nascent stage where the number of tests per patient is only about 2 and more importantly the tests prescribed are mostly routine in nature and the specialized contribution is small. This is basically because of two reasons. One is the lack of education for doctors where they are not aware of most of the specialized tests and second is the lack of affordability. Both of these will continue to change in a growing India, and we expect that in the next many years to come, the specialized size of market will only keep increasing as we have seen it in the last many years.

Gagan Thareja: Is it also possible to understand how much would chronic therapy area related testings contribute to your overall sales vis-a-vis acute maybe?

Ameera Shah: I know you are talking more in the pharma language which we actually don't compare in the acute and chronic way. We actually compare it more based on disease profile. We look at it from an oncology or gastroenterology or neurology like segment-wise, not so much in acute and chronic.

Gagan Thareja: Is it possible to segment it that way and give us some idea of the revenue mix that way?

Ameera Shah: We don't have it ready on us, but maybe in the next quarter, we will try and at least pick out some of the key segment areas and be happy to share some numbers also.

Moderator: The next question is from the line of Anmol Verma from Arisaig Partners. Please go ahead.

Anmol Verma: Ameera, in terms of FY20 realization evolution for us, is it going to be materially different from FY19? I know you cannot look at it on a quarter-to-quarter basis, but on a full-year basis, do you see any reason for FY20 not to be a repeat of FY19 in terms of realization evolution for us?

Ameera Shah: I see FY20 being similar to FY19. If we are looking at a price increase in the later part of the year, then yes, you would probably see some amount of a growth impact there, but otherwise, we expect FY20 to be similar to FY19.

Vijender Singh: It all boils down to again what the question one asked about seasonality which is about dengue and all. Dengue is now a regulated test. Now, if suddenly the volume of dengue goes up out of the roof, then probably this may change a little bit. So, there will be a little bit change, upside, downside, but definitely a little bit change.

Anmol Verma: But no major deviations in terms of improvement and mix and so on and so forth for the full year, right? For competitive intensity, preventing price hikes, being aggressive or something of that sort?

Ameera Shah: No, nothing of that sort. I think there are a few things we are trying to do to increase the realization. One of them is obviously more of the wellness because the revenue per patient is higher on the wellness piece. One of them is obviously pushing more on the specialized which again the revenue per patient is higher. So, we are attempting these initiatives to push that business higher because that will automatically impact it. But like Vijender said, there will be another 2-3 things that will happen that may balance that out. So, it is very difficult at this point to predict exactly how the test mix will play out in the rest of the year. So, I think we will be a little bit more comfortable to say it will be similar to FY19.

Anmol Verma: My second question is on this Labs on Lease. I just want to understand how are you thinking about it because you mentioned in one of your opening remarks that margins would have grown much better than top line had we not set up 5 Lab on Lease this quarter. Is that what the way you are calibrating this whole thing that whatever operating leverage gains you are having, you are going to reinvest them in Labs on Lease or you have a fixed number in mind for the full year and it will eat into whatever our core operating leverage gains are as a consequence of strong revenue growth? Just wanted to understand how you are going to calibrate this rollout of Labs on Lease.

Ameera Shah: First thing is just to understand the principle of why Labs on Lease and I will then quickly get to the mathematics behind it. Like Vijender said, we have an alternative to get into a new market. Either we do a greenfield or we do a Lab on Lease. If we do a greenfield, we have a good amount of CAPEX outflow, but more than that, we have 3 years of OPEX negative till the time you actually start making money. So, you have to have the bearing of losses as well as CAPEX. So, overall, you may look at it sort of a crore to 2 crores kind of an investment in a city before you

start making money. Compared to that, when we do a Lab on Lease, you have not got any CAPEX, you start making money from day #1, and you have a platform in terms of talent available. You have a pathologist, you have a team, and you are able to build from a base that that pathologist had already built in that city. So, we therefore, see a good number of reasons why it is helpful to us.

In terms of how many and how fast we will roll them out, since we have only launched this model in 2017, we piloted a few of them in 2017, felt like it was giving us some increase and therefore, we added quite a lot of them in 2018-19. Totally we have, I think, about 22 or 23 Labs on Lease today. Because we have added so many in 18-19, we are seeing those operational costs impact the P&L this year. This year, our plan is while we have added 3 in the 1st quarter, the plan is to maybe go at the same pace, definitely not faster than this but may be a little bit slower than that in the rest of the 3 quarters so that we have the chance to consolidate the 22 that we already have, bring them to a good profitability number. So, the outer limit would be 12 for the year but the more likely would be lesser than that.

Anmol Verma: My last question is around the inorganic landscape. Any thoughts there? You guys have done a great job of integrating certain acquisitions and that has been a part of your overall growth strategy. We know that the asks in the interim had become quite unreasonable but anything changing with respect to that landscape where you reckon that there could be opportunities?

Ameera Shah: We are seeing a lot of changes. If you look at the larger competitors who entered the market between 2010 and 2016-17, there were about 10-12 competitors who entered and what we have seen is majority of them, if not all, are available for sale and looking to exit the market because they have realized how difficult it is to really establish credibility. We will obviously have to take a call. Unfortunately, most of these labs, the unit economics are quite weak. Most of them are either loss making or single digit profits. So, we will have to take a call whether these are interesting to us or not from any other strategic views. What we are looking keenly at and we have always looked at is individual labs or small chain of labs in markets where we are interested in, we continue to have lots of different discussions and conversations. It is too early to obviously cite any numbers or any particular NIMs but this continues to be a very important part of our strategy. This inorganic is probably not going to dramatically change financial pro forma of our P&L in the near term but these will be important entry points into markets that will allow us to have platforms to grow.

Moderator: The next question is from the line of Sahil Chotalia from MC Investments. Please go ahead.

Sahil Chotalia: A little bit of clarity I wanted on the CAPEX that we are planning to do. I think I heard 20 crores is what you all are planning to invest this year. Can you give us a breakup of where this money will go particularly so that we can do a model? When we are doing a modeling, we know what we need to put where.

Ameera Shah: Broadly, every year we spend about the same. Even this year, I think almost half of it will be towards medical equipment and almost half of it will be towards information technology investments which we had sort of set that we are continuing to make into really developing and boosting our infrastructure front end and back end.

Sahil Chotalia: So, none of your CAPEX actually happens on any collection centers or the Lab on Lease model, right? You have zero investment in that.

Ameera Shah: On the Lab on Lease, there might be very marginal investment in terms of a signboard or in terms of very basic office equipment but absolutely nothing significant. I would say all this money is going to go in information technology and medical equipment.

Moderator: As there are no further questions from the participants, I now hand the conference over to the management for their closing comments. Over to your ma'am.

Ameera Shah: Thank you everybody for joining us. While we have had a very good quarter, we continue to obviously strive and work hard for all our stakeholders in the business. "Reach out Responsibly" is our motto and we will continue to do that and look forward to chatting with all of you in the next quarter.

Moderator: Ladies and gentlemen, on behalf of Metropolis Healthcare Limited, that concludes this conference call. Thank you for joining us, and you may now disconnect your lines.