

August 28, 2018

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Corporate Relationship Department
Phiroze Jeejeebhoy Towers
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Subject: Financial Results Conference Call Transcript for Q1 FY19

Dear Sir/Madam,

Pursuant to Reg. 30 of SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015, please find attached herewith Financial Results Conference Call Transcript of the Company for Q1 FY19.

We request you to please take the same on record.

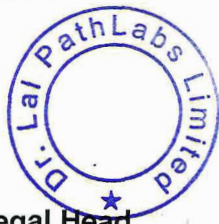
Thanking You,

Yours Faithfully,

For **Dr. Lal PathLabs Limited**



Rajat Kalra
Company Secretary & Legal Head



Encl: As above



Dr. Lal PathLabs Limited
Q1 FY19 Earnings Conference Call Transcript
August 10, 2018

Call Duration	▪ 1 hour 3 minutes
Management Speakers	<ul style="list-style-type: none">▪ (Hony) Brig. Dr. Arvind Lal – Chairman & Managing Director▪ Dr. Om Prakash Manchanda - Whole-time Director and CEO▪ Mr. Ved Goel – CFO▪ Mr. Bharath - Chief Operating Officer▪ Mr. Rajat Kalra - Company Secretary & Head of Investor Relations
Participants who asked questions	<ul style="list-style-type: none">▪ Anmol Ganjoo from JM Financial▪ Atul Mehra from Motilal Oswal▪ Shyam Srinivasan and Chandramouli from Goldman Sachs▪ Nitin Agarwal from IDFC Securities▪ Prakash Kapadia from Anived Portfolio Management▪ Rohan Dalal from B&K Securities▪ Sameer Baisiwala from Morgan Stanley▪ Shaleen Kumar from UBS Securities▪ Sriraam Rathi from ICICI Securities

Moderator: Good day, ladies and gentlemen, and a very warm welcome to the Q1 FY19 Earnings Conference Call of Dr. Lal PathLabs Limited. As a reminder, all participant lines will be in the listen-only mode. There will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing '*' then '0' on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Nishid Solanki from CDR India. Thank you and over to you, sir.

Nishid Solanki: Thank you. Good afternoon, everyone and welcome to Dr. Lal PathLabs Q1 FY19 Earnings Conference Call for investors and analysts. Joining us today are (Hony) Brig. Dr. Arvind Lal - Chairman and Managing Director of the Company; Dr. Om Prakash Manchanda – Whole-time Director and CEO; Mr. Ved Prakash Goel – CFO. We also have with us Mr. Bharath – Chief Operating Officer and Mr. Rajat Kalra - Company Secretary & Head of Investor Relations

I would like to highlight that some of the statements made on the call today could be forward-looking in nature. Actual results may vary significantly from these statements. A detailed disclosure in this regard is available in the Results Presentation which was circulated to you earlier.

I would now like to request Dr. Lal to share his perspectives with you. Thank you. Over to, you sir

(Hony) Brig. Dr. Arvind Lal: Thank you, Nishid. A very good evening to everyone. I am delighted to address you all again on our Q1 FY19 earnings conference call. In my address today, I would like to share with you my thoughts on the journey ahead, as we prepare to scale new horizons and capitalize on the upcoming growth opportunities in the sector.

Dr. Lal PathLabs is indeed traversing through a remarkable journey of transformation in the diagnostics space. Our 'Swasthfit' wellness and preventive portfolios are seeing good traction and we are confident that going forward it will further enhance our penetration in the market through focus on quality, accuracy and speed of diagnosis. We continue to focus on expanding our geographical footprint and our teams are relentlessly working towards making the company a Pan India healthcare brand. The bedrock of our corporate strategy is to provide greater value to our customers and patients.

On the back of a disciplined approach of driving patient volumes, we have demonstrated a strong growth of 17% during the quarter under review. Our Kolkata Reference Lab has stabilized and is testing over 6,000 samples a day. This lab has started contributing to the growth momentum and we seek to further increase the volumes going forward.

By pursuing objectives in a manner that serve a large customer base, I believe we can make our growth more enduring and sustainable. The strength of conviction that your company has pursued innovation in business model with the support of customers and patients is deeply satisfying. This strategy has enabled the Company to make a much larger and meaningful contribution by providing high quality affordable services with improved accessibility and time-bound diagnostic

services. We will continue to build a foundation that will serve to multiply the Company's growth in the years ahead and believe that the bundled packages across wellness and prevention will continue to offer greater value to our customers.

Before I conclude, I am happy to share with you that Mr. Ved Goel who has been Deputy CFO of the company has now been elevated to the post of Chief Financial Officer of Dr. Lal PathLabs w.e.f. today, that is August 10, 2018. Ved has over 22 years of experience in the corporate finance industry and has been with our company for the last 12 years. We wish him all the best for the new role.

With this, I now request Dr. Om to take this call forward and share his thoughts on the operational performance of the company. Thank you very much.

Dr. Om P Manchanda: Thank you, Dr. Lal. Thank you all for taking the time out and joining us on the call today. I will commence with the highlights of performance during Q1 FY19 and share thoughts on drivers of our strategy and later Ved will share the details of operating and financial progress achieved during this period.

First of all, I am happy to inform you that we have achieved a revenue growth of 17.3% in Q1, ending the quarter with Rs. 292.3 crore. The revenue growth for Q1 has been driven by patient volume growth of 18.1% which is in sync with our expectations.

Our initiative of bundling tests under the "SwasthFit" brand is also gaining momentum and is helping us to increase samples per patient. That has increased from 2.28 in FY18 to 2.34 in Q1 FY19. We expect this trend to help us garner a greater market share

Our efforts around cost management are also paying off with our normalized EBITDA margins sustained now at 27.1% in Q1 versus 27.3% last year in Q1.

We have strengthened our customer care infrastructure with initiatives like chatbot, self-registration kiosk in select locations and increased capacity in customer care department.

We are continuing to pursue our strategies outlined earlier and focus on expansion through franchisee collection center network and build scale in the markets we operate.

Our focus will continue to drive growth through volumes as well as test mix. Therefore, our business model will continue to focus on productivity improvement to have competitive pricing and use of consumer-facing technology to build traffic.

With that, I would request Ved to continue the discussion.

Ved P Goel: Thank you, Dr. Om. Good evening once again and thank you for your continued support and participation on this call. I will now run you through the important highlights:

I will not repeat the revenue numbers which has been covered earlier. The underlying patient volume for the quarter has increased from 3.58 million in Q1 last year to 4.23 million in Q1 this year. We are also glad to mention that sample per patient has increased from 2.21 to 2.34 in Q1 this year.

Revenue realization per patient at Rs. 691 is marginally lower than Q1, last year which was at Rs. 694.

Normalized EBITDA in Q1 is Rs. 793 million after eliminating the impact of RSU, other stock based charges and CSR expense, grew at 16.7% over Q1 last year which was at Rs. 680 million.

Normalized EBITDA margin for Q1 stood at 27.1%.

Other income includes dividend from liquid funds and interest on FDs. Cash and liquid funds balance at the end of Q1 is Rs. 6,085 million.

PBT is Rs. 754 million in Q1 versus Rs. 660 million in previous year, a growth of 14.1%.

PAT at Rs. 497 million in Q1, grew by 11.7% versus Rs. 444 million in Q1 last year.

Q1 FY19 EPS is Rs. 6 per share versus Rs. 5.4 per share last year in the same quarter.

Our focus will continue on cost and productivity improvement to protect margins and reinvest in the business growth.

That brings me to the conclusion of my opening remarks and I would like the moderator to take queries from the participants. Thank you.

Moderator: Thank you very much. Ladies and gentlemen, we will now begin the question-and-answer session. We will take the first question from the line of Prakash Kapadia from Anived Portfolio Management. Please go ahead.

Prakash Kapadia: I have two questions: We have fixed the volume growth over the last few quarters and it has been the third quarter of strong volume growth. So, if you could give us some sense, what are the factors you think have worked well for us, you did mention about the “SwasthFit” package, apart from that if you could attribute to technology penetration in other markets, competitive environment, if you could give some sense, that will be helpful?

Second one is given that we have the widest range of tests and the non-routine or the specialized test were around 30% for us last year. So, is there a roadmap for that to grow that have some specific strategy to look at it and is it more margin accretive, specialized contribution increases or not necessary?

Dr. Om P Manchanda: Let me address the first question. As we have always been saying that opportunity is so large that we need to build business model where we will scale. I think one of

the things that we have done in the last few quarters consciously is to keep our pricing very competitive. As we shared earlier also that every year or two, we used to take price increases. I think our last price increase was in 2016. We have consciously decided to keep pricing under check and without diluting the margins. So, that is one thing that has helped in increasing our volume growth.

Second, as we have mentioned for a few times about this whole bundling, that bundling also has provided greater value for money, in fact, one of the metrics that normally we do not talk about is the test volume that actually has grown even faster than the patient volume because that means number of tests per patient as Ved mentioned has gone up. So, what it does is that since we have our lab infrastructure, more and more testing that we do, it gives us a huge cost advantage. So, that is one part of the reason why volumes have grown. Second also has been renewed thrust on our reach, especially in our core markets and these core markets are northern and eastern part of India and that reach has been building through franchisee collection centers and pick up points. Without adding too much of overheads through lab infrastructure, because we are conscious of the fact that since we are keeping pricing very competitive, we do not want to add costs but we still want to build traffic through volumes and which is franchising that helps us there. I think these are the factors that have helped us to gain volumes.

Prakash Kapadia: Is it right to say that while you are building this low fixed cost model, the payout is variable depending on the collection, so the fixed cost remains low?

Dr. Om P Manchanda: On low fixed costs, we have also driven some of the rental renegotiations because real estate market has been soft for many years and we have certain leases for nine years, we have gone back to landlords and renegotiated the agreements that also has helped us managing fixed cost. What will happen is that as the volumes go up, we do not increase prices, it is likelihood. I think you must have seen our recent cost may tend to move up as a variable cost but we are trying to make sure that our fixed overheads will come under for some kind of control.

Second question that you asked is about the specialized business. This business is extremely dear to us, not just from margin perspective or from top line perspective, but what it does is that we do not want to keep a company which is highly commoditized and selling a lot of these routine tests. At the end of the day, our larger goal is to help our clinicians and customers to diagnose difficult problems and that essentially would mean bringing newer tests to India and that will continue to remain as a larger goal for us because we are a medical company and we want to help clinicians to diagnose certain diseases and which will mean getting a lot of these high end tests and at times we know that some of these tests may not be making money in the short-term, may not drive volumes, but in the long run it continues to position company on the cutting edge of pathology. That is, I think at a much broader level I would like to see high end test and high end test includes things like genomics and genetics and molecular diagnostics and things like that. In terms of specific numbers, volume growth has been nearly about 26%. While this may vary quarter-to-quarter, but it is definitely on a much smaller base than at least one would like to be. But I would rather end the question saying that specialty business is very critical for us to position on the cutting edge of pathology.

Moderator: Thank you. We will take the next question from the line of Rohan Dalal from B&K Securities. Please go ahead.

Rohan Dalal: So, I wanted to understand firstly this sales growth that has been really robust. Has that been centered specifically on North and East or has it spread to other regions as well, I know that we are trying to spread into South before and West to some end, so if you could just share some light on that and also what is the competitive landscape now in the sector because last year there was obviously a strong amount of competition that was still present and diluting our sales?

My second question is on the point of the fees to collection centers, it has gone up from a run rate of Rs. 33 crore to Rs.36 crore in this quarter. I am just wondering even though we have not added anything, how are those fees increasing?

Dr. Om P Manchanda: I think your first question relates to growth. Certainly, a major contribution of growth has been in our core markets which is North, East and Central India consisting of states like M.P., Chhattisgarh, Bihar, Jharkhand, Odisha, U.P., so it has primarily come from our core markets which is North, East and Central India. I think your second question was collection center fee per se going up. I do not have exact details, but my sense is when we launched this entire mix of bundled test, we looked at entire mix of pricing not only to the end consumer but also channel margin, we increased channel margin a bit, that may have impacted our total payout to collection center. Is that right, Ved?

Ved P Goel: Yes, plus the growth is coming more from our channel partners.

Dr. Om P Manchanda: That is also a good point, that technically speaking our business traditionally has grown through our own infrastructure but with time franchising became more and more important building block and we grew faster. For us to build scale in rest of India, other than Delhi NCR, the best way to grow is through franchising. As we go deeper into tier-2, tier-3 towns and increase our franchisee network, that contribution has always been moving up and that is how in absolute terms you might see a payout moving up here as well.

Rohan Dalal: Just one more thing about the competition landscape and how that is panning up?

Dr. Om P Manchanda: I think relatively even a couple of calls back as well I mentioned that the kind of intensity that we used to see earlier has definitely toned down a bit. Some of our competitor's initial growth rates were under pressures, everybody was trying to compete for the same. I think there has been a realization that the growth rates actually going to be moderated for many of them, so earlier they were all chasing very high figure. So, overall it is a stable environment that I see in competition. To some extent, we have also responded well by making sure the value for money equation, we just do not get priced out in the market and our not taking price increase for the last few quarters which everybody was expecting, also has pushed by competition a little bit.

Rohan Dalal: So, we should expect this trend to remain?

Dr. Om P Manchanda: I would tend to assume so, yes.

- Moderator:** Thank you. We will take the next question from the line of Sriraam Rathi from ICICI Securities. Please go ahead.
- Sriraam Rathi:** Two questions: Firstly, if you can update us on the Kolkata lab in terms of how is it progressing and is it as per our plan?
- Dr. Om P Manchanda:** I will request Bharath, our COO to answer this question.
- Bharath Uppiliappan:** Kolkata reference lab is progressing really well, and we are very confident it will do even better as times come ahead. To give you a short update, all our East-based labs are now today draining into KRL, so that has become the reference lab for East of India operations for us. Close to 19-odd labs today do this high end sample transfer to KRL and lot of the specialized departments including microbiology, cytogenetics immunohistochemistry, all has started to work over there, and that is really adding traction from a clinician perspective, because these kinds of facilities do not exist very widely in East of India and more importantly, we have put in a place a very strong market activation plan to bring in top clinicians and client partners to come and visit the facility and have a look at it. So, from a perspective of the sight readiness into the future, we are confident that this will add significant volumes in the quarters to come.
- Sriraam Rathi:** Have we seen any kind of growth rate improvement after the commercialization of this lab?
- Bharath Uppiliappan:** There are early signs, but it will be too early to comment giving a definitive number on this count, but yes, the numbers are really encouraging.
- Sriraam Rathi:** Is it fair to assume that most of the fixed cost pertaining to Kolkata lab are already into the numbers for this quarter?
- Dr. Om P Manchanda:** I think that is a good question, I was expecting this. Our mind also has been there as to what the cost impact would be. We estimated about Rs. 8-10 crore addition in our operating cost and this is the first quarter and I think we have fully costed the operating expenditure of Kolkata and despite that our normalized margins are at 27%, I think it is now fully absorbed in our P&L.
- Sriraam Rathi:** So, considering that Kolkata is now progressing as per plan and encouraging signs are there, so earlier we were planning to open a new lab in Lucknow also, so any thoughts on that?
- Dr. Om P Manchanda:** Lucknow, I think we continue to keep a pause on this. As we mentioned that Lucknow still can be easily served from Delhi. We also have very large operations in Kanpur which is nearby. So, I do not think I have any firm dates right now to communicate but we are still taking a pause on that right now.
- Sriraam Rathi:** How much of our revenue would be coming from franchisees approximately for this quarter or FY18?
- Dr. Om P Manchanda:** 30-35% is through franchisee collection centers

- Sriraam Rathi:** That will be increasing basically over the quarters?
- Dr. Om P Manchanda:** Yes, I think that will continue to increase because as we put our focus on productivity enhancement, for us this ratio between lab versus collection center is very important, so number of collection center for lab will keep moving up, hence contribution from CC also will move up.
- Moderator:** Thank you. We will take the next question from the line of Sameer Baisiwala from Morgan Stanley. Please go ahead.
- Sameer Baisiwala:** First question is on the pricing. So, how long before you decide to take the prices up and what would be priced at?
- Dr. Om P Manchanda:** Actually, I would not use the term, price up or price down. We are using this obviously more as the pricing rationalization. What we plan to do is, in the past we had a practice of taking step jump in our pricing in one go. We want to avoid that tendency that certainly one day entire portfolio goes up. So, that is one tendency we want to stay away from. As you know, this business is very local in nature, as we grew organically, we ended up having a differential price in various cities. So, we are using this opportunity of rationalization, some places may go down, some places may go up so that we just simplify our operations. So, I think in this particular year, we will use the opportunity of rationalizing it, somewhere we lose, somewhere we gain, net-net we will remain where we are. But to the extent we will also keep a very close eye on margins. So, we do not want to dilute our margin structure as well. We also do not want to cut cost to an extent it starts affecting the business. So, at this stage, we are looking at all possible ways of improving processes which are enhancing productivity, get rid of some redundant processes and see where productivity can come in and as I mentioned in the earlier question that we are looking at some rental renegotiation. As far as possible, we want to hold on to this. I am not sure whether we can continue with this but as and when need arises, cost goes, obviously we will have to take prices up, we are not saying we will not take it up but as far as possible we just want to stay competitive on pricing without diluting margins or efficiency.
- Sameer Baisiwala:** What kind of cost inflation are you seeing in the business?
- Dr. Om P Manchanda:** I think one inflation which is clearly there because manpower is a very large component of our cost so that increment whatever we do that is one part of the inflation. On the other side, I think it has not been much, right, Ved?
- Ved P Goel:** We are in fact offsetting some of these inflation through our initiatives, we are optimizing improvement in our processes.
- Dr. Om P Manchanda:** I think this quarter our reagents cost has gone up slightly. It got offset by reduction in our overhead cost as a percentage of turnover and which primarily came out of rental going down very substantially. Some of the miscellaneous expenses that were there, because we have very distributed infrastructure, we are close to nearly 190 plus labs and lot of our PSCs, small, small expenditure in these you get efficiencies which all adds up. So, we are trying to just make sure that our operating leverage stays there.

- Sameer Baisiwala:** Inflation on the material side, reagents and stuff like that?
- Ved P Goel:** On reagents, we have not recently giving any increase, we have long-term contracts and especially after GST there is some increase there, but we have negotiated in terms of volumes and other things so that the overall impact is not much.
- Dr. Om P Manchanda:** Actually, technically speaking, I think it has been third quarter in a row where our volume growth is very good. I know that in the last two quarters, we had advantage of base. I guess underlying volume growth will become much more clearer after one or two quarters, but at these growth rates, we should be able to negotiate prices better with the vendors because volumes definitely directly benefit them as well.
- Sameer Baisiwala:** Just moving on, in terms of your network, how many towns and cities are really covered by the company? Second, if you can break out your revenues broadly speaking in metros, tier-1, tier-2, tier-3 towns?
- Dr. Om P Manchanda:** Actively we do not track number of towns, because we track number of collection centers. Three - four months back I did this analysis, I think it is close to about 800-900 towns we are present. But I may be wrong by a few numbers, maybe offline we can talk about this number, but I do not have that data immediately. In terms of year wise growth base, straightforward Delhi NCR cluster contributes close to 45% of our sales and it is all top metros, right, I think you can add another maybe 30% of our business will be again metro or large towns, so close to 75, 80% would be in bigger towns only.
- Bharath Uppiliappan:** The other statistics we have reach up till 20k population towns in our stronghold geographies so it is a very good indicator of the depth to which we can cover from a patient service perspective.
- Sameer Baisiwala:** But I am a little confused because I get the numbers, 800-900 towns and all, but 75% of your revenues is still coming from top towns, I would imagine top-50 towns, so the balance is all contributing just 25%?
- Dr. Om P Manchanda:** No, this space actually grows through cluster. Let us say Delhi NCR cluster, it is not about Gurgaon alone, it is NCR town. There are smaller towns like Panipat, Sonipat, Bhadurgarh, these are very-very small towns but I would actually use the term as a cluster. You go to let us say Ghaziabad, Ghaziabad is not alone, there is Meerut, Saharanpur, so everything drains into that city. So, the way it works is that if you are strong in a particular geography, then you do not differentiate tier-1, tier-2 towns because everything just flows into the epicenter. So, idea for us is to build epicenter in a large city and then start building network in and around that city. Let us take now Varanasi which is the fastest growing town for us. Places like Ghaziapur, Mughalsarai or the nearby areas, a lot of the growth will come into that, but it will get counted as Varanasi in our system.
- Moderator:** Thank you. We will take the next question from the line of Atul Mehra from Motilal Oswal Asset Management. Please go ahead.

Atul Mehra: Just one question in terms of the online platforms like Practo nowadays they have tests where you can book online, etc., So, what is the kind of arrangements that we have with them and is it with us or at a lower level in terms of the franchisee, etc., how does that work?

Dr. Om P Manchanda: We are not saying no to these guys, people who come to us and they want to be a partner with us, are most welcome. We do not have differential MRP there. Whatever MRP people get through our center is what all these online people get. But to me, substitution is very difficult here because people prefer brands, they actually buy test report from a particular brand and we develop our online channel because a lot of our patients actually visit our website to download reports. So, technically for them interactions with our website is very-very active. So, they can book online on Dr. Lal PathLabs site as well. But some of these online aggregators if they want to partner with us, they are most welcome to join us which they are doing also, and we do not differentiate on prices.

Atul Mehra: When I observe some of the tests wherein you have these packages, so what I observe is our presence out there as well but on the lower side than some of our competitors. So, is that a conscious strategy or how do we look at it because it is only incremental business for you, right, like full body checkup, lot of these packages that come about, in terms of availability of say something like Practo?

Dr. Om P Manchanda: Maybe some of these online aggregators are looking for deep discounting which we do not want to disturb that market. I do not think it is all incremental because our bundled test growth is much faster than portfolio growth. Overall there is an upgradation that is taking place. It is also not all preventive wellness. That is why I do not use the term, preventive check-ups. They are bundled packages, good value for money for patients, so they actually go for such kind of options. The reason why probably you do not see us aggressively on some of these online guys because they want deep cuts in prices, discounting, we do not want to participate in that kind of game.

Moderator: Thank you. We will take the next question from the line of Anmol Ganjoo from JM Financial. Please go ahead.

Anmol Ganjoo: My first question is regarding one of the statements you made that when it comes to pricing, you will be calibrated, in certain places you will be taking it down, certain places you will be taking it up. When you draw that distinction, how are you thinking about it – is it B2B versus B2C or are there any geographies which inherently are less price inelastic than others?

Dr. Om P Manchanda: What I meant by price rationalization, let us say we have close to 190 plus satellite labs and they are in various towns. So, our local prices are very different, let us say in Panipat, Sonipat Ludhiana, Jalandhar. So, what we are trying to do is simplify the pricing structure across North of India which means try and see if we can manage one price across all the markets, given the scale that we have achieved. So, that is the pricing for consumer. The next question I think you had was, “Is your B2B pricing also trying to be similar?” Our desire is that way, but I think some of these guys negotiate very hard and how these towns are. In reality, sometimes it does not work but we are trying to make sure that we create simplification the way our pricing operates today.

Anmol Ganjoo: I was just trying to understand with reference to an earlier question because you said that FY16 was the last time you took a price hike incidentally, that was also the last year when our EBITDA growth was faster than our top line growth. So, just trying to understand what would be the inflection point where either due to benefits of operating leverage or because of greater realizations, we start seeing a profit growth which exceeds our top line growth?

Dr. Om P Manchanda: We guided the market between 25 & 26% EBITDA margins where we have tried to stay at that number now despite prolonging this sort of increase. Most important thing is to build scale. If we get more and more volumes and tests throughput for machine, I think this operating leverage should set in that time because right now there is highly unutilized capacity at collection centers. So, technically that is also a retail space which is lying unoccupied, our logistics boys were carrying let us say today 30 samples in one lot can carry 50, 60, 100 samples. So, I think our focus will continue to stay on building volumes and as we build volumes we can also negotiate better prices with our vendors. So, we continue to build scale and obviously the market is large enough and I know the one variable where we can get good price and service equation, quality being given, we probably will become a sort of magnet to as much as volume that we can garner. That probably will happen in core markets like North, East and central India. Some of these large markets like U.P., Bihar, Jharkhand, they are just on the inflection point where growth rates are much higher, of course, Delhi is much mature for us, growth rates will not be that high but in blended terms, I think personally I am happy with this 27% margins and having higher growth as long as I can continue to have sustained volume and value growth on top line.

Anmol Ganjoo: My second question is on the M&A possibilities that you spoke about given the cash on the Balance Sheet. Just wanted to understand with regard to the assets in the market and buyer expectations, have things settled down to a point where you think you can probably pull the trigger or you think there is still a disconnect in terms of pricing or there are not enough opportunities, how do you look at it?

Dr. Om P Manchanda: Actually, opportunities are there, to me I really would not say valuation is only one of the factors, I think the quality of asset is very important for us, areas related to governance, etc., So, I think we are very choosy and picky as far as that part is concerned. So, that is also one of the hurdles that we have created, we have in our filter. Valuation is also one of the angles, but we will be very choosy in terms of which part of the country we do M&A. From business standpoint, it makes sense definitely South and West for us to do any M&A. We are trying but we do not have anything to share as of today. But I know that cash is also building up in our Balance Sheet, so we are conscious of the fact that we deploy it as soon as possible.

Anmol Ganjoo: In terms of the shift and landscaping of the opportunity, one big driver is the unorganized to organized shift, have we seen anything change there with respect to given the new regulations of pathologists signing and all, the shift accelerating, labs shutting down, anything that is there in the horizon which kind of signals that things should improve for players like yourself?

Dr. Om P Manchanda: We have not seen any acceleration on this, but if I look at it fundamentally as the price value equation improves, my sense is if I were sitting in the camp of

unorganized sector, I would start wondering why do I need to do testing, when I can outsource at a very attractive price to these larger chains. That is the second sort of a rub-off. As volume picks up in our region, rather than a central lab, our ability to service and give very attractive price to some of these unorganized players will improve, city like Jalandhar, Ludhiana, my scale picks up at the city level, then I should be able to better service these unorganized players at good attractive pricing. I think once that starts falling in place, a lot of unorganized players will say rather than competing with them, might as well join them, become a collection center of these guys and then stop testing. I know at macro level that sounds logical to me, but I am sure with time that acceleration should start.

Moderator: Thank you. We will take the next question from the line of Shaleen Kumar from UBS Securities. Please go ahead.

Shaleen Kumar: There is an increase in outsourcing and franchising. So, theoretically, your cost of fees for the collection center may go up but then your own operating costs or probably employee costs can also come down. Is the assumption right over here?

Dr. Om P Manchanda: I am not very sure it will come down, but equally the management of franchisee will also go up. I think I would look at the term lab infrastructure versus franchisee infrastructure and franchisee infrastructure is a collection infrastructure, it is not a testing infrastructure. If we continue to improve this ratio of lab infra versus franchisee collection center infra, the point that you are making is definitely makes sense, why only employee costs, I think overall costs will come down. That is the whole idea.

Shaleen Kumar: My second bit, in the base quarter, there was a GST impact on the raw material. Has that anything led to the higher raw material cost as a percentage of sales in this quarter, I mean, GST was not there, now GST is there?

Ved P Goel: GST impact is definitely there because GST was applicable from 1st July last year but it has been offset against, as earlier I said by volume discount and fee negotiation with the vendors. So, there is not much impact in terms of GST.

Shaleen Kumar: Dollar currency impact, that also not there?

Ved P Goel: No.

Shaleen Kumar: If I look at your RSUs and ESOPs outstanding for this financial year, in terms of the exciseable, they are much less compared to last year. Will that pertain to lower ESOP, RSU cost and also if you can comment on your RSU policy for this year?

Dr. Om P Manchanda: We made a slight change in our vesting conditions. I think the earlier grant was equal over four years, this time we actually have a lesser percentage in the first year, it is more back-loaded in the latter part of the years. So, that may have impacted the charge.

Shaleen Kumar: Any sense then how much will be the RSU/ESOP cost for the full year, like this quarter it was around Rs. 4-4.5 crore, right, I was assuming that for the full year it would be like Rs. 8 to 9 crore.

- Dr. Om P Manchanda:** Multiple grants are getting accumulated. You have Rs. 4.5 crore this quarter, that is the number you can assume every quarter by and large, because sometimes unvested options get lapsed, I think on balance that number probably could be good enough to assume for the year.
- Shaleen Kumar:** Regarding our RSU policy, what kind of RSU grant do you think on a run rate basis, like we have seen around 2-2.5 lakh RSUs granted, is that a sustainable number or it can come down/go up?
- Dr. Om P Manchanda:** I do not know how much you know about our RSU plans. We have an employee trust that has been going on for many years. A lot of rotation was happening. So, this plan is actually coming out of that trust only, it is not dilutive right now. I think that if our numbers are correct, you can take care of next two years as well.
- Ved P Goel:** Further, I would like to mention here, this is the notional charge because these shares are coming from trust, so there is no real cash payout that is going out of this company. So, that is another point you should keep in mind. We have tax advantage on this.
- Shaleen Kumar:** But you show it in your reported P&L, right?
- Ved P Goel:** That is accounting charge.
- Shaleen Kumar:** But reported EPS looks lower because of that?
- Dr. Om P Manchanda:** But, I think as a policy, we will continue to have a very strong retention plan for our management team and then key employees. Right now, it is coming out of the trust. I think trusts can take care of another two years but then probably board and NRC will decide as to how we continue this going forward. But as of now next two years grant also probably can be taken care of, vesting is another four years after that.
- Moderator:** Thank you. We will take the next question from the line of Nitin Agarwal from IDFC Securities. Please go ahead.
- Nitin Agarwal:** Two things: In the coming quarters, do we have challenge of a higher base due to pretty severe outbreak of dengue in the last year or that is not a concern from a growth perspective this year?
- Dr. Om P Manchanda:** Higher base challenge in this quarter does not exist that much as it exists in the Q3 because I think last year it was not that severe, but it was a delayed season, we had more outbreak in October-November. I think it is too early to comment right now. I think we should be able to sail through this quarter, I do not see that as a big challenge.
- Nitin Agarwal:** Secondly, when we talk about price rationalization and being competitive with pricing versus competition, is this sort of construct more relevant to the B2B segment or this is even relevant in the retail B2C segment where, retail customers also is price-sensitive as it is, as you sort of make it out to in the conversations?

Dr. Om P Manchanda: Yes, it is becoming because I have been here now for 12 years, I have seen price elasticity moving up very sharply in the recent years, that is mainly because as frequency of testing at a patient level goes up, you start shopping, right. You know the non-communicable diseases is pushing people to have frequent testing, on top of that all these ecommerce ventures have made price discovery very easy, all these companies which have come and started sending messages, that have so many tests at some price, that price discovery again has become very easy. So, to me that pressure is felt by every company at both consumer level as well as institutional level.

Nitin Agarwal: On that point, what is the tolerance level that one can sort of get away with, where probably the customer is agnostic and beyond that starts to become maybe sensitivity increases from a retail customer perspective, is there a band of 5%, 10%?

Dr. Om P Manchanda: Customers are not looking for lowest cost. If that would have been the case, then none of us would have been going to private healthcare, we will go somewhere else. So, I do not think people are looking for cheapest and the lowest. People actually just see the right value for money, balance it out. I think we are talking too much about price, so let me tell you that we want to be competitive on pricing. So, our goal is not to be the lowest or not to be the cheapest. We do not want to compromise at all on quality and service. We are very clear that there is a value we provide and that is why customers come to us. That value lies in excellent service and the top-notch quality and the trust in the report and we will continue to focus on that, at the same time continue to build brand premium, my sense is our brand premium in core markets is close to about 15-20% over competition.

We will continue to maintain that sort of premium. Sometimes if the competition is not taking the price increase because they are also waiting for us to take the price increase because they are following the leader. In this lies the whole thing. If I can manage it without diluting the margin, and I know that it will continue to further push the competition, and somebody asked this question from unorganized to organized, I want to really accelerate that momentum which is very critical for our growth. It is good for everybody because scale helps to consumers because over last sort of ten years, our average price increase has been much lower than the inflation in the country. So, scale helps consumers, scale helps all other stakeholders, because it has come without any dilution on margins. So, we just want to have a fine balance on that without only chasing pricing. I would say it is a value for money.

Nitin Agarwal: The point that you earlier mentioned, what proportion of our incremental growth is through the franchisee route?

Dr. Om P Manchanda: Close to 50-60% will be from the franchisee route.

Nitin Agarwal: In that construct, sort of onboarding new franchisees would be a critical activity, right, from our perspective. In your experience, how easy or difficult has it been in terms of getting new franchisees on board, given the cost pressure, the pressure on the franchisee economics also, with the way competition has played out in the industry?

Bharath Uppiliappan: There are two things I would like to say: One is that as much as there is a focus on onboarding new franchisees in unrepresented areas, it is also our endeavor to grow the business of our current franchisees. We are also getting into multi-unit franchising where we are encouraging the same franchisee partner to build scale with us. So, it is not only onboarding newer and newer parties but same party opening multiple centers as well. This helps him also build some scale in our business. So, that is part one of the question you asked.

Second is on the point of, "Is there a competitive pressure?" If we do a service part right, keep the quality which I do not say those are given and we provide good let us say an acceptable and affordable pricing, the business will come to us, so competitive pressure will always be there, we have to find ways and means of providing the right value to the patients, so we would like to be patient-focused first rather than get distracted by competitive activities.

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

Chandramouli: Hi this is Chandru, in for Shyam. My first question is on the Ayushman Bharat Scheme that government planning to roll out. What kind of opportunities do you see as a diagnostics company from this mega scheme?

(Hony) Brig. Dr. Arvind Lal: This is Dr. Lal here. So, the Ayushman Bharat offers you two possibilities -- one is that the primary healthcare role and one is the secondary and tertiary. So, the primary if you have read what they are telling us is that they will be opening about 150,000 better primary healthcare centers or its wellness centers, so these wellness centers would be able to take care of the patients as a primary point of contact and it will also have a large element of mother and child kind of treatments, it will also take care of the non-communicable diseases like diabetes, hypertension, cardiac and cancer also they have said that they would like them to be screened here and of course the lung diseases, etc. So, point I am trying to make is that the backbone of these centers is going to be diagnostics, as you know that 70% of clinical decisions are made on the basis of labs tests, so this is part 1.

The part 2 is the secondary and tertiary care which is known as (NHPM) National Health Protection Mission in which 10 crore families or 50 crore population is going to be given a cover of Rs. 5 lakh for healthcare after the state and the center buys insurance for approximately Rs. 1,100. So, in this also once the patient is inside a hospital, a small say 15-bedded nursing home or 500-bedded hospital, the backbone is again going to be pathology, for example when a patient is admitted with chest pain, he could be having the cardiac attack or heart attack, or he could just be having some other kind of chest pain. Of course, an ECG is very much there, but we have got much more sensitive tests like, Tropolin-I, Tropolin-T, etc., which will effectively rule out a heart attack. So, what I am trying to say is that even in the secondary and tertiary conditions, these patients will not be wasting any time because no bed which should not be occupied, should be occupied just because the patient could not be diagnosed in time. So, the turnaround time of the case is almost instantaneous, we have all these kind of tests which can be done right in the field as you say and these big hospitals it is not going to be a problem. So, we look at it very positively the

Government's initiative of Ayushman Bharat and this would definitely be helped by a very strong, scaleable, quality service of the pathology.

Chandramouli: The next question is just on reagent costs and the way you contract. As I understand, your reagent costs are in some cases linked with the movement in the rupee and we have seen depreciation in the rupee over the last few months. So, could you just provide some color on what your contracting on that account would be for the rest of the year -- Has there has been some kind of escalation in the clauses or costs expected to stay flat on the agent side going forward?

Ved P Goel: We have long-term contracts though there is a clause of escalation beyond a point, let us say 5% or 10% increase in dollar, there is a clause where we mutually agree, but having said that we in the past have not given any increase due to dollar price fluctuations. The reason for that is we are increasing our volume and that is compensating this whole increase in dollar and depreciation in rupee. So, it is not really happening I think due to this dollar change.

Dr. Om P Manchanda: I think on balance, this is not a matter of great concern for us.

Chandramouli: That is encouraging to know. Just my final question is on the Kolkata center, looks like it is off to an encouraging start in the first full quarter that you had operations there, you had earlier guided to potentially breaking even there between year two and year three. Would you say you are on track for that or is there potential that you could do it ahead of target?

Dr. Om P Manchanda: I think it is little early for us because last three to four months our focus has been more on ops, as Bharath mentioned that we are now draining samples from our 19 to 20 labs in the entire East region. So, we want to really stabilize operations which we have already achieved. I think in next 9 to 12 months we want to increase our marketing spend to stimulate top line further. In terms of breakeven, it will take some time, I think we have been able to sustain our margins because of initiatives at some other places as well. I would still say that two to three years indication that we have given to market earlier, we will stick to that.

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

Sameer Baisiwala: Just on the earlier conversation, so this 190 clinical labs that you have is based in how many cities?

(Hony) Brig. Dr. Arvind Lal: We would not be able to give you the exact number because we have not brought it here today, but our case is atleast about 60 to 70 cities.

Sameer Baisiwala: The maximum number of labs in the largest city would be, like how much NCR -- 15 or 20 or something like that?

Dr. Om P Manchanda: Actually, we loosely use the term labs because some of these labs have radiology practices, x-ray, ultrasound etc., so we put the number of 20 there because from a cost perspective each unit that number is about 20.

Sameer Baisiwala: That is the largest number you are giving me for the second question that is in the single city?

Dr. Om P Manchanda: Single city largest number is Delhi NCR.

Sameer Baisiwala: Can you share your expansion plans in West and South?

Bharath Uppiliappan: From a expansion plan perspective, there will be two or three things which we will be doing -- one is selectively we will build our focus city approach, so have Bangalore and Pune as focus cities, we are also trying to get into couple of more cities to build scale and volume, we are also building new channels of getting business which are currently under pilot and those are giving us good initial responses, so that is something which will strengthen as we move forward. Also, a speciality play in South and West is what has been the business so far and that will continue to expand as we increase our test menus especially in couple of key focus areas. So, all in all South and West continues to remain an area of importance for us and while we build core markets of North and Central India, South and West is definitely on the radar.

Sameer Baisiwala: Presently how many clinical labs do you have in these two regions?

Bharath Uppiliappan: In South and West, clinical labs, we will have about 20 to 30.

Sameer Baisiwala: You see this going up over next three-year period?

Bharath Uppiliappan: Selectively yes, we will do that. Also, what we have said in the past is we look for acquisitions as a route if good quality assets come.

Dr. Om P Manchanda: But that number will not straightly go up because see labs helps you to build routine business, but initially best way to grow South and West would be if we stay competitive on pricing service or all the high-end test that go in to central lab. As this critical mass builds up in a particular city then only there becomes a case for putting up a routine lab, otherwise it is not a very viable proposition, but on select places we will do that like last quarter we have not shared that, but Visakhapatnam is the one city that we have added. We are looking at selectively some other cities in A.P. as well, that will keep happening. But I think if you were to compare South and West and versus North and East number of labs growing, my sense is if you put two labs in North and East, you will put one lab in South and West.

Sameer Baisiwala: I would have thought the other way round?

Dr. Om P Manchanda: No, actually there idea is to grow the high-end business much more.

(Hony) Brig. Dr. Arvind Lal: The specialized test segment is growing much faster in the West and the South.

Dr. Om P Manchanda: Plus other thing is always in a new market with a new lab and that to trying to get a routine business in an established relationship that has been age old is much challenging. So, you better off by providing quality to high-end doctors in that city

and build a brand that way. It is like typically in pharma when you look at Rx to OTC strategy is what works in new markets.

Sameer Baisiwala: When I think about your next big large central reference lab, you have in NCR and Kolkata now, why do it in Lucknow and why not do the next big one in major South Indian market and that way you probably would cover the region?

(Hony) Brig. Dr. Arvind Lal: You are absolutely correct, that is our strategy alright, but it may not be a Greenfield lab.

Dr. Om P Manchanda: This idea is worth considering, so you have a point, thank you for the input.

Sameer Baisiwala: Given the cash which you have in the balance sheet versus what it takes to set this up, if I remember correctly Rs. 50 crore or thereabouts, you can easily accelerate this?

Dr. Om P Manchanda: I think you have a point, yes.

Moderator: Thank you. The next question is from the line of Rohan Dalal from B&K Securities. Please go ahead.

Rohan Dalal: I want to know what is the maintenance CAPEX for the next two years?

Ved P Goel: If you see we are spending about Rs. 30 to 40 crore every year.

Dr. Om P Manchanda: I think we can assume Rs. 30 to 40 crore every year for the next two years unless something exceptional comes in.

Moderator: Thank you. That was the last question. I now hand the conference over to the management for their closing comments.

Dr. Om P Manchanda: I would like to thank everyone on behalf of Dr. Lal PathLabs and hope to talk you soon in the investors meeting.

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

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