Dr Lal PathLabs

August 23, 2017

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

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

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

Dear Sir/Madam,

Pursuant to Reg. 30 of SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015 (the "Regulations"), please find attached herewith Financial Results Conference Call Transcript of the Company for Q1 FY18.

We request you to please take the same on record.

Thanking You,

Yours Faithfully,

For **Dr. Lal PathLabs Limited**

Dr. Lal PathLabs Limited

Rajat Kalra
Company Secretary & Legal Head

Encl: As above

Dr Lal PathLabs Limited (LPL)
Q1 FY18 Earnings Conference Call Transcript

August 07, 2017

Call Duration	▪ 1 hour 11 mins
Management Speakers	▪ (Honorary.) Brig. Dr. Arvind Lal - Chairman and Managing Director of Dr Lal PathLabs Limited ▪ Dr. Om Prakash Manchanda - Whole-time Director and CEO of Dr Lal PathLabs Limited ▪ Mr. Dilip Bidani – CFO of Dr Lal PathLabs Limited ▪ Mr. Rajat Kalra - Company Secretary & Head of Investor Relations
Participants who asked questions	▪ Prashant Nair from Citi ▪ Anmol Ganjoo from J&M Financial ▪ Ashish Thavkar from Motilal Oswal Asset Management Company ▪ Neha Manpuria from JPMorgan ▪ Prashant Kothari from Pictet ▪ Krishna Prasad from Franklin Templeton ▪ Shaleen Kumar from UBS ▪ Sriraam Rathi from ICICI Securities ▪ Abhishek Sharma from IIFL ▪ Gagan Thareja from Kotak Investments ▪ Saion Mukherjee from Nomura Securities ▪ Sameer Baisiwala from Morgan Stanley

Moderator Ladies and gentlemen, good day and welcome to Dr. Lal PathLabs Limited Q1 FY'18 Earnings Conference Call. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. In case you need assistance joining 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. Siddharth Rangnekar of CDR India. Thank you and over to you, sir.

Siddharth Rangnekar Thank you. Good evening, ladies and gentlemen, welcome to Dr. Lal PathLabs Limited or LPL's Q1 FY'18 conference call for investors and analysts. Joining us today are Honorary Brigadier Dr. Arvind Lal – Chairman & Managing Director of the Company; Dr. Om Prakash Manchanda - Wholetime Director and CEO; Mr. Dilip Bidani - CFO, accompanied by Mr. Rajat Kalra - Company Secretary & Head of Investor Relations.

I would like to highlight that some of the statements made on today's call 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 has been circulated to you earlier. I would now like to invite Dr. Lal to commence by sharing his thoughts on the Company and its performance during quarter one FY'18. Over to you, sir.

Dr. Arvind Lal Thank you, Siddharth, and good evening to all joining us on this concall. As an organization, our intent is to build a broader based diagnostics company that delivers value consistently. We strongly believe that traditional healthcare is changing and our team over the years has been instrumental in aiding this movement. Hence, it has always been our endeavor to provide professional diagnostic services, which rate high on quality, turnaround time, and accuracy. Having said that, we believe that the migration of patients towards the organized sector is what creates opportunities for growth for us. We will continue exploring new technology, enhance our infrastructure, experiment with new technology to integrate our operations and address diagnostic challenges in unique ways. We believe with our model and a healthy financial status, we will be able to capture, and create new trends in the diagnostic industry.

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

Dr. Om Manchanda A very good evening to all of you and thank you for taking the time to be with us once again. I'll commence with the highlights on the recently concluded quarter's performance and then focus the presentation on the strategic initiatives and imperatives that we are facing. Our CFO – Dilip

Bidani, will have detailed discussion with you on the financial achievements and progress later during the call.

During Q1 FY18, we have delivered 12% growth in revenues owing to sustained execution of our key focus areas. With focus on productivity, we have been able to grow EBITDA by 11%, and maintain normalized EBITDA margin about 20% of revenue. The improvement in PAT stood at 11.7%. Progress towards reaching out to under-represented geographies is steady and we are within timelines to inaugurate our Kolkata reference lab. Given the rate of growth that one is seeing in this geography and considering the potential for meeting the requirement of the Northeast region, we are of the opinion that lab will bring us future potential for growth. This will be followed by another regional reference lab after our learnings from the Kolkata lab.

With respect to our presence in the rest of the country, particularly in the South and West, we are looking at a focused city approach to build the brand presence. This we believe is a better way to extend ourselves in these geographies. It has been our endeavor to expand our presence in hospital lab management and I am glad to note that we are making good progress in this area as well.

The diagnostic space, we continue to attract interest from the investors and entrepreneurs alike, both seeking to accelerate the transition from the unorganized sector to the more formalized model. What will stand out is a salient brand. We are confident that we will essay a leading role in this transition with our setup, capabilities and focus on helping our patients and their doctors with correct and accurate diagnosis. With that, I would like to request Dilip to take this conversation forward.

Dilip Bidani

Good evening all, and thank you for joining us on this call today. Before I update you on the financials of the quarter, I would like to inform you that this is the first quarter where in our results have been recast based on the Ind-AS requirements. Let me now quickly update you on the key financial highlights.

Q1FY18 revenues improved 12% to Rs. 2,493 million. This is driven by 9.1% growth in volumes and 2.5% through price and mix. Our core markets of Delhi NCR delivered strong growth, contributing well to overall revenues. We have successfully increased our network, by opening new labs and utilized the hub-and-spoke model to increase the reach via PSCs, our patient service centers. As a result, we were able to reach out to a wider patient base of 3.59 million. Our results also signal an improvement in growth trends during the quarter as compared to the constraints seen in the recent months.

On the EBITDA side, our normalized EBITDA, after eliminating the impact of RSU and ESOPs and other stock-based remuneration charges, stood at Rs. 680 million in Q1 FY18. Besides being backed by healthy revenue increase, the key factor aiding EBITDA improvement is the Company's concerted efforts to constantly evaluate areas of cost optimization and focusing on enhancing overall productivity. EBITDA margins in Q1 were at 27.3%. Consequently, Q1 FY18 PBT growth was at 9.2%. PAT for the quarter was at Rs. 446 million owing to higher other income which was led by dividend from liquid funds and interest on FDs.

To summarize, Q1 FY18 results were encouraging, and give us confidence that based on a strong business model, we are well positioned to improve our growth trajectory. We will continue to invest in our infrastructure prudently in order to capitalize opportunities. The expenses related to our Kolkata reference lab will have some dilutive impact on margins in the short to medium term. But we are excited to realize the value from these investments and which should translate well to increase value to our shareholders.

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

Moderator Thank you very much. Ladies and gentlemen, we will now begin the question-and-answer session. The first question is from the line of Prashant Nair from Citi. Please go ahead.

Prashant Nair So can you give an update on the competitive scenario in the B2B segment, you had flagged off earlier that there is some pricing pressure. Does this continue at the same level or has there been an improvement or change?

Dr. Om Manchanda I think that pressure still continues. But maybe it seems that the pressure is present on the other side as well. So I presume, at some point in time, sanity will prevail, but we do continue to see pressure in B2B segment. In fact one of the tests, which is Hepatitis C we have seen a very drastic reduction in realization. But as of now, answer is, yes, it is there. But let's see what happens after three to six months.

Prashant Nair Okay. And my second question relates to the Kolkata lab. So when does this get commissioned and when do we see the expenses in the P&L?

Dr. Om Manchanda So, we are expecting launch of this lab sometime in November-December. So, expenses should start hitting us in Q4 onwards. So maybe some part of Q3. But Q4 onwards definitely.

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

Anmol Ganjoo My first question is on the revenue line. So obviously revenue growth has been higher than the volume growth. Price mix improvement is something to the tune of 2.5%. But last quarter one bright spot that you had highlighted was test per patients. Given the increase in the patients at least from the year-on-year basis, how does that metric look today for this quarter?

Dilip Bidani So we have seen there has been an improvement versus last year same quarter about 1.5%, which has come through on account of tests per patient.

Dr. Om Manchanda Our volume growth is up by 9%, test growth is up by 10.9%.

Dilip Bidani So out of that 2.5%, 1.5% has come out of test per patient.

Anmol Ganjoo And realizations would be flat to marginally lower.

Dilip Bidani That's 2.5% overall.

Dr. Om Manchanda So, 1.5% is tests and 1% is price

Anmol Ganjoo That's helpful. And the second is the follow-up on the earlier participant's question. Kolkata, some of the cost items will start hitting us in the second half of the year. So, is it reasonable to assume that the second half profit growth will be lower than the topline growth. And if you can quantify the margin compression or because until the Kolkata reference lab becomes EBITDA breakeven that could be helpful, if you can throw any light around that.

Dr. Om Manchanda At a company level, we are trying to see that we are able to save costs in some part of the business so that gets offset. In fact that's one of the reasons why our EBITDA this quarter has been 27%. We have been able to increase enhanced productivity in some of the places. As per my last calculation, we calculated about annualized operating expenditure going to the extent of about Rs 8 crore to Rs 9 crore, which is roughly about maybe 1% extra. So our endeavor will still be that you can save something in other parts of the businesses, but overall valuation, only on account of Kolkata we see to the extent of 1%. Now in terms of breakeven point for us, we just need additional, close to about Rs 50 to 60 crore of business to breakeven whatever that extra costs we have, and we believe that we should be able to do it in about two or three years' time.

Anmol Ganjoo That's helpful. And one last question if I may before I get back into the queue. On competition, you spoke about signs of sanity returning, if you could just elaborate on that and also help us understand that if certain test segments like Hepatitis C that you spoke about face greater competition, what is determining competition behavior for you and how is the industry thinking about it because, Hepatitis C, I'm not sure why that figures into something which competition would like to undercut?

Dr. Om Manchanda Actually, you know what happens, this institutional segment or B2B segment consists of two or three buckets, one bucket is where large hospitals outsource their high-end tests to central lab players. Second area is where smaller labs, private independent labs, they outsource their business to central lab players. Now in the recent past, obviously many of the players have been a bit under pressure. So in order to prop up the growth rate, as you know that sales team tend to throw more discounts, and that's where some of these B2B players also have been taking advantage of that. So in central labs, our competition in this high-end business is not with all the mom-and-pop labs, there are actually about five or six labs. So when they go and knock the same customer and they end up offering higher discounts, and that is what we've experienced. Now coming back to the question of Hepatitis C, it is little bit driven by some of the tendering process that took place in Government of Punjab, that led to L1 sort of people dropping their prices and then that impacted our private market as well. So it was actually sort of a price parity that took place between the two segments and brought this down. Our earlier realization used to be about Rs. 6,000-Rs. 7,000 rupees per test, now it has come down to over a period of time, not immediately, about Rs. 2,000-Rs. 2,500. So this is one such one such example. It's not a very large test, but it was just to communicate the point that B2B segment is highly competitive in terms of price. The third area is some of the hospital lab management because we do about close to Rs 30 crore to Rs 35 crore of business coming out of hospital. So there again some of these players go and offer more discounts. But I do believe that beyond a point many of these companies won't be able to do that and then this should really settle down at certain point in time.

Moderator Thank you. We have the next question from the line of Ashish Thavkar from Motilal Oswal Asset Management Company. Please go ahead.

Ashish Thavkar Sir did I hear clear that we'd be having 1% impact on margins post this Kolkata lab getting operationalized?

Dr. Om Manchanda Yes, if I just look at standalone impact of this Kolkata and there is no increase in sales, which is very unlikely situation, because Rs 8 crore to Rs 10 crore is additional operating cost which will get added and that should be roughly about 1%.

Ashish Tavkar And how long this impact should be there in the P&L for the next 12 months?

Dr. Om Manchanda I think maximum about two years, I think it should then come back.

Dilip Bidani Basically it depends how fast the ramp-up and incremental growth takes place.

Ashish Thavkar And another, the Lucknow reference lab we would actually wait and see the results from Kolkata and then go on or that is something we've actually already started?

Dr. Om Manchanda I mean that's a good question, so in the past we had indicated about in FY19 sometime December of '19 is what we launch Lucknow, but we have consciously taken a call that we just go little easy right now and get our Kolkata lab model right and learn from it before we take a plunge in Lucknow. So we will bit wait and watch on Lucknow because Lucknow region can still be serviced better from Delhi as well. So it is not that a slight delay in Lucknow will impact our business, but Kolkata definitely will give us good learning, and then accordingly we'll take a call. While work is in process, but we are taking a little bit of time before we go ahead with Lucknow.

Ashish Thavkar So structurally all currently excluding the Kolkata lab, which is coming up, our business is well placed to do 25%-26% EBITDA margins, is that a fair understanding?

Dr. Om Manchanda Yes, I think we are currently clocking about 27% and we continue to believe that we should be able to, we won't be able to go below 25%, so I think within this 2% we should be able to take all the shocks whether additional OpEx of Kolkata or pricing pressure, I think within that range we should stay.

Ashish Thavkar So anything on tax savings front because Kolkata would be operational and there could be some losses and hence tax benefits, are we guiding for any lower taxes for FY'18, '19?

Dilip Bidani No, basically, we are still a profit making company and there are no specific tax incentives for the Kolkata lab. So therefore, there won't be any specific incentive for the Kolkata lab to benefit on tax.

Ashish Thavkar Okay, sir. Got it. And then sir we have seen price caps coming in the stents part of the business in the hospital space, do you think there could be any such regulations in the diagnostic space as well, and if yes, sir, would it be favorable for organized players like us?

Dr. Arvind Lal You know, from time-to-time and the time of epidemics when there is Dengue fever epidemic or Swine Flu epidemic and things like that, the government has come up in our sector, I am not talking about stents and other things, in our sector we are used to this, and this has happened in the last 4-5 years that whenever such epidemics come in, the government steps in and they regulate the price, but at the same breadth it is removed after some time. So that is what has been happening in our field and we don't envisage something like this happening in the near future.

Ashish Thavkar Okay sir, one last question from my side. Anything on the impact from the GST that has come up, anything on reagents cost anything of that sort, whether we have been benefited or we have lost something?

Dilip Bidani As you are aware that healthcare and our sector has been exempted from output GST. So whatever costs come in and wherever there have been increases in costs from 15% to 18% on services, some reagents have got increased from 5% to 12%, there has been imposition of responsibility to file reverse charge on certain kinds of expenses like rental and all. So all these have actually added to the cost. So while there would be some benefits, which suppliers of reagents and all will pass on to us, and we have been negotiating with them, but our initial estimate is that there would be some 1% to 1.5% increase in the cost as a percentage to revenue. And therefore that would have some immediate dilution, but we will be seeing how best we can negotiate and set off some of these increases, but yes, there will be a cost, there will not be an immediate benefit.

Moderator Thank you. We have the next question from the line of Neha Manpuria from JPMorgan. Please go ahead.

Neha Manpuria My first question is on the Kolkata reference lab. Sir, could you give us a little bit of color as to how we plan to ramp up that reference lab in terms of would you see cannibalization of growth from our existing reference lab or would this be new volume that you could potentially get over the period of time from catchment area around like Central and Eastern India? And the timeframe for both?

Dr. Om Manchanda Yes, okay, so see the reference lab as a concept is essentially it is a lab which is equipped to do a wider test menu. As of now, lot of these tests are actually coming to Delhi. So we believe that by opening a lab in Kolkata, we will be able to get new business from all over the region, not just only Kolkata city, but Northeast, West Bengal, even kind of Bangladesh as well. So what tends to happen is that many of these small private labs, many of the hospital lab, they will outsource high-end tests to this lab, so it is clearly seen as a driver for growth from new businesses that we get in that region.

Neha Manpuria And would this be immediate sir or how soon can we see that this ramp-up to achieve breakeven? Just trying to understand how long would be sort of have the impacts from a higher cost from the new lab?

Dr. Om Manchanda So actually, in medical field from my experience, I can see that this is a very slow and steady curve. It's not that overnight you will see a huge jump. But what we have seen as the word of mouth spreads and confidence of medical fraternity builds up, service levels improved, lab stabilizes, you will start seeing growth and growth lasts for a longer period of time, it's not that just goes up and stays there. In my rough sort of math would suggest, I think most of the questions are coming around breakeven point, let's take if the current growth rate is around 15%-16%, I do believe that our growth rates should start at least about 30-odd percent, so 15% jump extra sale would be about current base of let's say Rs 80 - 90 crore, let's say average about Rs 10 crore - 12 crore extra I get, and that gives me a EBITDA of 20% or let's say 20% on the conservative side. So we have Rs 2 crore to 2.5 crore extra coming in, and my operating cost is about Rs 7.5 crore to 8 crore per annum, so I'm looking at cash breakeven of about two to three years.

Neha Manpuria Two to three years, okay, fair enough. Sir my second question is on the institutional business and the price parity with the private business that you mentioned in Hepatitis C. Do you see this as a risk in other places also given that institutional competition picks up and eventually we have to match the price for our private business implying that margins even on the private business goes down over time?

Dr. Om Manchanda No, it's actually as Dr. Lal mentioned many times this intervention happens only if there is an epidemic and some of these infectious diseases, but otherwise on non-communicable diseases or other diseases, this kind of intervention doesn't happen. And hepatitis is one of them, like many years back it happened for HIV, so I think many of these initiatives are restricted to some of the initiatives which either the government or some of these driven by some of the large NGOs etc., but it's not a normal thing for all the tests. But I think the price competition that we are talking about is not from this type, price competition that we are talking about is some of the large players going and knocking the door of private healthcare providers like hospitals and private independent labs.

Neha Manpuria So you are saying that it is restricted to things like essentially epidemic diseases or communicable diseases?

Dr. Om Manchanda Yes, some of the diseases which have very high social sort of significance and things like that. Like hepatitis is happening in certain parts of India due to massive drug use and some intervention happening.

Moderator Thank you. We have the next question from the line of Prashant Kothari from Pictet. Please go ahead.

Prashant Kothari Can you give some idea how the industry is kind of growing, are we in line with the industry or slow than the industry, because of all this pricing pressure?

Dr. Om Manchanda Okay, I think industry is clearly getting divided into two segments. One is which one is hearing quite a bit about this wellness and other is a very prescriptive segment, which some of the large players are based on that. And some players who are really exploring this wellness segment, they're very small players, that's why you see higher growth rates there, but overall, if I look at industry, in full service players like us, we are the probably only listed player, two of our large competitors are not listed. So I don't have their industry growth data but the sense that I get is that our growth rates are higher than them. But I won't have any sort of data to substantiate that. But I think overall, we are higher than the market growth. My sense is, in the recent quarters market growth itself may have slowed down, but in this industry, you don't get any tracker on a monthly or a quarterly basis which tells you how the market is growing. Overall, I do believe that we are either in line with the market or slightly higher than the market. As far as the wellness segment is concerned, again there are one or two listed companies and I also do get some information from my sales team that lot of players are coming in this wellness segment. But that's getting overcrowded. But we are trying to figure out, can we participate in that segment without affecting our business due to lower pricing? But we are totally aware about the fact that there are two distinct segments that are emerging in the market, one is wellness, other is a very prescriptive business.

Prashant Kothari And sir do you have any thoughts on why the industry growth rate has slowed down, demonetization was there, but probably the effect should have kind of gone away by now.

Dr. Om Manchanda I think slowly, my sense is we have something called healthy seasons and we have something unhealthy seasons. So I think November, December are the healthy months for us and that's the time demonetization came in. And it's only either in the month of March or now in the rainy season some of these infection trends are coming. We'll we have to wait and watch as to how the industry is shaping up, but we also have very high base impact on our growth because we are now nearly Rs. 900 crore. And that also is showing up on our growth rate. So I think let's just watch for another two quarters as to how it shapes up.

Prashant Kothari Okay. And second one, if you could give us some idea in terms of growth in different geographies, South, kind of North, East, West, different regions, are they growing any differently?

Dr. Om Manchanda See, we don't give very sharp numbers on region-wise geography because it has a sort of the competitive side to it, but our main business which is in Delhi NCR which is very important for both topline and profitability perspective, has grown at about 10.9% this quarter. So that's very important metric for us to keep track as to how we've done. On against overall all India growth of 12%, Delhi NCR has grown at about 10.9%.

Prashant Kothari Okay, so the regions are slightly higher than the…

Dr. Om Manchanda We don't further slice it for obvious reasons.

Prashant Kothari Sure. And there is this news about test ban on DNA testing. Can you just elaborate on that please?

Dr. Om Manchanda Yes, so it's one of the city-based hospitals, there is some enquiry going on, on that hospital and that enquiry is related to some kidney transplant and we are one of the partners with that hospital because some of the tests were done by us. So government has basically suspended for the time-being till the enquiry is over.

Prashant Kothari Okay. So it's only related to one facility, not…

Dr. Om Manchanda Yes. So it's one test which is only related to this. This is not a very material stuff, but we still in the interest of transparency we thought of sharing.

Dr. Arvind Lal Yes, one test in one hospital, you're right.

Prashant Kothari And lastly I saw this news that you have bought some clinic in Dhaka, can you explain what is it about?

Dilip Bidani This is basically kind of a process driven acquisition that we are doing. This company was set up some six, seven years back by one of our partners there for a proposed business arrangement. So at that point of time that project did not materialize and the company never started off anything and we never had a stake in it either. So now this company is actually acquiring a local diagnostic business and we are acquiring the company and then we will increase our footprint in Bangladesh. It's basically a process which we're following so that we can strengthen our presence in Bangladesh.

Prashant Kothari And the short financial that you have kind of disclosed along with seems to suggest that it's actually a declining company out there.

Dilip Bidani Yes. So basically it's a local business which it's acquiring and it's a nominal size, which we expect that we can grow quite rapidly. And at a future point of time, set up lab and get samples from there for feeding our Kolkata business, Kolkata lab. So I think it's a longer-term decision. We believe that it has a franchise there and local doctors etc. are familiar with the local brand, we already get some samples coming in from there. So we believe we can expand our footprint with this.

Dr. Arvind Lal We have been testing this Bangladesh segment since 2004 to be precise and we have already had collection centers in Bangladesh and even in our Agartala lab we were getting these samples across the border for testing.

Prashant Kothari Right. And have you disclosed how much you have paid for this?

Dilip Bidani So there is a 181 Bangladeshi Takas odd that we will be paying. So all those figures etc. once the acquisition is completed, we will be disclosing it and that will be about 70% stake that we will ultimately have.

Moderator Thank you. We have the next question from the line of Krishna Prasad from Franklin Templeton. Please go ahead.

Krishna Prasad So earlier, I think to one of the questions you spoke about the higher base that you are now operating at. But the impression that one had about this industry was, there is a large unorganized segment, so there is still enough room to grow at significantly higher growth rates. So is there a change in thought process now and do you think maybe this 10%-12% is more the normalized growth now or do you think growth will go back to that 15%-20% that we used to see in the recent past?

Dr. Om Manchanda Yes, I think clearly there is a slowdown compared to what we have seen in the past. So, it's becoming extremely difficult to put a number on this because still first half of last year we were growing at about 20%. And then suddenly we saw a sharp drop. As I go around and talk to a lot of people, growth rates are down for everybody. So it's not that we are the only ones impacted. So one tends to ask either two questions, is the growth rate going down or is it the larger players have now are not growing to the extent they should actually grow? If I further slice, there are two parts to this, one is of course the competition due to pricing. So that means the earlier trend of switching from smaller players or some of the new players to large players may have slowed down a bit. Or overall the market growth itself is low. But I think to answer your specific question whether are we going to see 20% growth in the near term, I think no. It probably may be hovering around 15%-16% is what my sense is.

Krishna Prasad But you would still stick to your view that you're growing ahead of the market?

Dr. Om Manchanda I do track one of the players whose numbers are also public and some of them are unlisted, so if I put it all together, I do believe that in the prescriptive business, I'm growing probably higher in the market.

Krishna Prasad Any other regions outside of India, that you're looking at you spoke about Bangladesh now but any other such countries, any other acquisitions that you're looking at?

Dr. Om Manchanda Not really, in fact earlier we articulated that we will continue to participate in international business more by picking up and bringing the samples to India for testing with the only exception of Bangladesh and Nepal that we have on-ground operation because these are markets, which are extension of typical India is, but other places we are going to pick up sample and bring it to India rather than build any on-ground facility there as of now.

Krishna Prasad Okay. Just final question, you spoke about the 200 bps margin range in which you would operate, does that include the GST impact you spoke about or that's over and above that?

Dr. Om Manchanda I think GST impact we had not foreseen till all these announcements were made. Even today we still have no clarity as to what is the extent of dilution will happen due to GST. This is probably a worst-case scenario, but we have already started negotiating the vendors, because they are going to get some input tax credit, so it's a worst-case scenario, but we will try and manage this shock also within 2%. Right, Dilip?

Dilip Bidani Yes.

Dr. Om Manchanda So I think we should be able to do that, because obviously given a slight slowness in our growth, we have taken a lot of initiatives on productivity enhancement in the company, which is little visible also, you must have seen this quarter on EBITDA growth and we are continuing to go into make an effort to see that our costs don't really go up. So we will try and absorb within this range itself.

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

Shaleen Kumar Sir can you please elaborate a bit about your hospital lab business which you talked about in terms of what's the portion of your total revenue and how is it growing, opportunity, size etc.?

Dr. Om Manchanda So HLM contributes about 4% of our business, and we have close to 23-24 labs giving us this business. This business does offer a large opportunity, but it cuts both ways because it is a slightly lower EBITDA margin business. The other party tends to ask for higher revenue share. The advantages are that sometimes we get an entry into new markets so that opening an independent outside lab may take a little longer time, here you start with the minimum threshold, and then you can cater to outside market. And in existing markets, we can really leverage on our existing network. So it actually serves both the purposes. In strong markets, our ability to service is much higher to these customers, so we can get more and more. In completely new markets, it could be an entry strategy where we go inside the hospital and then expand outside, but it's not a business which it has to be carefully done because it can dilute your EBITDA margin. It has a higher risk of outstanding as well, because sometimes hospitals don't pay up on time then your outstanding start going up. So it requires very careful monitoring, but it is definitely an opportunity which cannot be ignored.

Shaleen Kumar Right, sir,. Sir my second question regarding your vector-borne diseases which we saw last year, there was a kind of epidemic in the Northern region, with Chikungunya and Dengue and all. So what do you see right now? Are there incidents of those cases happening in the Northern region?

Dr. Om Manchanda Good, this question is coming little late in the conversation, but good you asked me. So I think it's a little bit of wait and watch, if you recall last year Chikungunya and Dengue outbreak started happening sometime in third week of August till about early October. So we are yet to hit that phase, but in any case, this is that season when infection tends to go up and we are definitely up against a very high base, so let's see how it goes, but we can't predict as to how severe it is going to be, but every year, it does happen. It is just the severity which may vary from year to year. But we will see if at all anything happens sometime end of August and September.

Dr. Arvind Lal Yes, Shaleen, this is Dr Lal here, but the Delhi Government has been giving a very sustained campaign awareness etc. of checking these vector-borne diseases every day including radio announcements and advertisements, and the other thing, which comes out this time of the year is Swine Flu which touchwood fortunately has not touched Delhi yet in a big way, but it is prevalent in Maharashtra and especially Mumbai.

Shaleen Kumar So it's definitely a good news that these diseases haven't touched Delhi, but then it may impact our performance as well.

Dr. Arvind Lal Again, this is our line, every line has its own ups and downs, so we don't envisage that…

Dr. Om Manchanda We want this should not happen, because commercial reasons are secondary, so primary we just wish that these should not happen.

Moderator Thank you. We have the next question from the line of Sriraam Rathi from ICICI Securities, please go ahead.

Sriraam Rathi Firstly on the volume growth, what we have seen is earlier it used to be around mid-teens and after demonetization it has gradually improved from 5% to 9% now. So I mean, just wanted to check, I mean this quarter also, had the demonetization not happened that time, would have this growth been higher or this is kind of thing which is sustainable kind of thing?

Dr. Om Manchanda Yes, I think you have a good observation because we fell down to 5% and then we went up to 7%, then we are now 9% and I think in the last call, I did mention that we should look at both test growth as well as patient growth, because as the pressure on cost build up, we are also trying to see if we are able to upsell and get test growth higher because our incremental overheads on additional test per patient is not that high, so it doesn't impact EBITDA much. So we are looking at both the metrics, test as well as patient. On the patient's side, sometimes as I mentioned earlier also, it is little misleading because there are certain diseases which require only one test at a time, and there are certain diseases which require series of tests like Dengue last time I mentioned is that if you get tested positive, then every time you have to come back for platelet count, but for let's say example of Chikungunya or any other disease, you just get one test done and that's it. So at times, patient growth may not actually give you a proper further dipstick in the business, but I do believe that 9% to 10% growth rate should happen, quarter-to-quarter variations will be there, but we are aiming for at least this kind of growth, given that there is the pricing pressure, so I may not have much sort of higher revenue realization due to price, but either because of volume or mix is what we will have to try the growth going forward. So we are looking at ways and means of driving this volume as well as tests in our business.

Sriraam Rathi And secondly, I mean on the fees to collection center what we have noticed is that gradually it has been increasing quarter-on-quarter, I think two years back it was around 8.5%, now it is 11.8% this quarter. So, does it mean that I mean more proportion of the revenue is coming from collection centers now or is it like we are paying actually higher to collection centers compared to past?

Dilip Bidani It is a good observation, Sriram. Couple of points to note, earlier some of the franchise fees used to get clubbed under technical fees and all sort of that, now it is getting classified under fees to franchisee, so that is one reason. The second is that outside of Delhi, the franchisees actually get a revenue share above the Delhi one, so growth is higher in the non-Delhi market where it's 20% in Delhi, outside of Delhi it's as high as 30%-32% as well. So then obviously when the growth is coming from other markets, weighted average goes up gradually. So that is the reason where the mix actually changes, but the main reason was that there was a reclassification done and that was an immediate change that you saw in the last quarter actually.

Sriraam Rathi Okay. So these should not impact EBITDA directly?

Dilip Bidani Not in the short term, but definitely if more growth comes from lower margin markets, then it will.

Sriraam Rathi Right. That is helpful. Thanks. And sir since our Lucknow plan has been postponed, sir how should we look at the CAPEX this year and next year in terms of total amount?

Dilip Bidani So, as far as the CAPEX of Lucknow is concerned, we had originally planned that, that could be about 50 crore to 60 crore, similar level as Kolkata, maybe slightly more than Kolkata. So that will go away. Our normal CAPEX of 30 crore, 35 crore will definitely continue, and the balance CAPEX for Kolkata which the capital work in progress we have already put in about 20 crore - 25 crore. Balance 25-odd crore also will come in over the next 6-8 months.

Sriram Rathi Okay. So this year it will be around 60-odd crore and next year normal CAPEX you should have.

Dr. Om Manchanda That's right.

Sriraam Rathi Okay, got it. And lastly sir, is it possible to share. I mean what would have been the proportion of vector-borne diseases to our total revenue in last year FY'17, full year?

Dr. Om Manchanda I think off hand that number may not be available, but one figure I can give is that about Rs 10 to 15 crore, was the figure which I calculated in the last year this Q2 which happened due to sudden surge in these diseases, which probably in normal course would not have happened. Vector-borne diseases are there every month. But I think if you're just looking for that sudden surge that happened, that number could be about Rs 10 crore to 15 crore. That entire thing came in only one, one-and-a-half month.

Sriraam Rathi In Q2 last year?

Dr. Om Manchanda In Q2 last year

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

Abhishek Sharma Sir, just one question sir. Sir, I just wanted to understand what kind of price arbitrage is there on a blended basis between you and the unorganized player and because you've been taking price hikes, not only you I mean the other organized players and at what level do you start losing market share to unorganized players, that is my first question.

Dr. Om Manchanda See, this is a good question, but I think one must know that customers in the space need not necessarily be buying our services because of price. Because ultimately and our intent is not to really build, get the conversation with the customer always on price. So my sense is that we are at a premium to local players at about 15% to 20% and especially in strong markets like Northern part of India. But other parts of the country, we may not be that very high B2C component, but at the consumer level, our price premium would be about 15% to 20%. But we do believe that people come to us because they believe in accuracy of our reports and there is Dr. Lal's experience which is very unique and differenced from any of the smaller player experience. And we continue to believe that our brand can charge premium and we do that also in these markets.

Abhishek Sharma Yes, that point is understood sir, I was just wanting to understand, sir, you are saying that you can sustain 15%-20% kind of gap over the unorganized there, but I'm presuming that above that you know the samples would start going to unorganized, that is the point I was trying to..

Dr. Om Manchanda Yes. So that's what it means, the moment our price value equation goes off beyond 20%, then we would run risk of losing business. So given in this competitive scenario, what I can do internally is to keep our costs under check and that if the competition drops the price, then I should have the ability to drop price as well to stay at that premium percentage.

Abhishek Sharma Sure. And a situation like that, has that happened to you in recent times, in the past one, two years where the realizations went higher than this 15%-20% total?

Dr. Om Manchanda In B2B, yes. That's where we have corrected our prices and that's where the one is feeling the heat quite a bit and also what happens that in the past we have had a practice of taking a price increase all in one go. But now we have decided not to do all this. So we take a gradually, in some tests and other tests we don't take it, so per patient realization, doesn't go up that sharply because if we take it in all entire portfolio, then it tends to hit the per ticket realization. So we have decided to take it on certain tests, not to take it on other tests, but this year we will be little cautious as to how do we take our price increase, but I think the point overall remains that we don't want to allow this gap between the small player and us to go beyond 20%.

Abhishek Sharma Okay. And, sir the second question that I had was you have been alluding to the wellness testing, I just wanted to sort of understand, does the wellness testing play to a lower level of accuracy or quality and is that how the price metric differs from the fitness testing in which you are currently present?

Dr. Om Manchanda Not really. Actually I think you may be referring to one of the listed players in wellness testing. I think the two models are very different. In our model, let's say I call it Dr. Lal's experience is very different from someone else's experience which is offering a very low price. And our experience is where the customer walks in, I own the customer, I give a personalized service, I collect the blood sample, I control the entire chain of movement of sample from the point of collection to lab and I'm available for any queries. There are a lot of value added services like you can download the report on the net, you can reach out to my customer. So I'm virtually owning the sample from the point it is collected. In the other model and I have 200 labs, and there is overhead structure of that lab. I am available locally. So versus other models which is actually a single lab model or a very huge lab model, or it's the less and hence the ability to drop prices is low there, the price is very high. But at the same time, you are also compromising on the experience itself. So I think these two models are very different. That's where the ability to, it's a low cost model, hence low pricing. But there is something one is giving away on in terms of a lot of other value-added services. So our response to this is that we will continue to have Dr. Lal's experience. I don't want to dilute that experience. I do believe that I have to be competitive in that segment to get some share in that market, which we will do. But we will not dilute Dr. Lal's experience, which is very important and there is no way we want to dilute the image of our brand as well. We do believe the customers do value that and they will give us the premium. But we will adjust the price value equation to participate in this wellness market.

Moderator Thank you. We have the next question from the line of Gagan Thareja from Kotak Investments. Please go ahead.

Gagan Thareja First of all clarification on your margin guidance. If 40% of your business is B2B and you have been experiencing competitive pressure there, would it be possible to understand what kind of impact could this have already had on your numbers, which you might have set off with some cost efficiencies?

Dilip Bidani So, basically, if you look at our overall margin profile, it has been at about 27.6%, 27.5% on EBITDA over the last 3-4 years. And this mix of B2B and B2C has largely remained similar with around 40% being B2B. So while there will be a pressure here and therefore when we are saying that there will be margin dilution, it's a combination of so many factors that you take some price increases, adjust some, do some cost efficiencies, manage your cost structures.

Gagan Thareja Yes. I was just trying to sort out not a precise number but you know in the ballpark, how much could the margin have been impacted, had the impact of the increased competition not being set off by efficiencies or improvements?

Dilip Bidani It is somewhat hypothetical question because then maybe it wouldn't have taken some price increases over the last two years which we did.

Gagan Thareja Okay. The reason I'm asking this question is, first of all, if I sort of go back to the previous calls transcripts you've been pointing out that when Kolkata comes in, margin could be impacted by 200 basis points. Now you are saying it could be at the most 100 basis points and probably lower if you manage to get some cost efficiencies going. Apart from the Kolkata, you have the GST impact which you are saying could have another 100-150 basis points of impact on your margin. Between these three and the fact that your volume growth went down and your cost structure is what it is, fixed versus variable, and I'm simply trying to understand if 1Q margins are fairly healthy at the levels that they are and between 150 from GST and 100 from Kolkata you would have 250 basis point impact there itself. And B2B competition deteriorating margins in that segment, something more there. So, I'm thinking that already there is 300 or maybe North of 300 basis point sort of a margin headwind, which you might be able to counter somewhat with your cost efficiencies. But, therefore, why are the margins at this level they are in the first quarter and your guidance around maintaining margins at 25% to 27%?

Dr. Om Manchanda So, I think I'll try and answer this question. We are trying to really drive productivity in our system. And interestingly, we can grow our business by owning our own labs and patient service centers. But we do realize that brings in lot of operating expenditure. First of all, we have gone very cautious on number of labs we open and where do we open. So it is a matter of economics, it's very strong filter we are applying before we actually opened new satellite labs. Second is in our business, scalability is due to more and more collection centers that we open because if we increase points of collection and we further drive debts where we collect more sample per unit of infrastructure, it can really give us huge leverage and our focus in the last six months or nine months after the demonetization has been to recognize the fact that my growths are not going to be in the range of 20% but going to be around 15%. Then I have started focusing on debt which is I have nearly 5,000 pickup points, I have nearly 1,500 collection centers. If each of these units are giving one, one, two, two samples everyday more, and my margins will just go up. So I think that is what is helping us to offset some of the increase in costs that we are seeing in either due to price erosion in certain segments or anticipated costs that are there on Kolkata. So I think my team is really geared up to seeing that yes, there are headwinds on certain areas but immediately we also start focusing on productivity. Because in any case, it is not a question of one quarter, two quarter. Going forward, we are acutely aware of the fact that though we are asset light business but we have to be lighter. Because some of these other players who are trying to put pressure through either online way of either aggregators or whatever we call them. So what is under our control is to figure out ways and means of reducing cost. I think to that extent in this quarter we have been quite successful. If you look at last quarter for the similar growth, our EBITDA growth was not that much as one has seen in this quarter. But still to be very cautious we are not guiding the market that we will sustain these margins. I think we should be able to operate within the band of 25%-27%, mainly because some places we go up as you rightly calculate about 3%. Then I should be able to save some cost also by driving productivity initiatives in the company.

Moderator Thank you. We have the next question from the line of Saion Mukherjee from Nomura Securities. Please go ahead.

Saion Mukherjee Sir Just on the competition dynamic in the B2B segment, would you say that these smaller players, most of them would have a much larger revenue coming from the B2B segment?

Dr. Om Manchanda No. Actually smaller players do not really participate much in B2B as they participate in B2C. B2B segment is something which most of these smaller labs outsource to larger players. So the number of players are very few in B2B segment. But they compete aggressively for the same sample. While in B2C number of players are more, but they have very strong sort of local relationship with the doctors and things like that, the patients, proximity and then that kind of factors. B2B number of players are very small, it's not that large.

Saion Mukherjee And sir, I mean, how much would your realizations have come down in the last couple of years in this segment?

Dr. Om Manchanda So I do not have exact figures, but I think see the way the realization tends to come down is the following. Let's say a corporate client, who will say now I want 5% more discount, otherwise I'm shifting or a hospital guy will say, listen I'm giving you Rs 30-40 lakhs business a year, somebody else is now offering me a higher discount, so would you offer that or not? So it's by way of higher discounting, our realization tends to come down. So exact figures of maybe you can connect offline and I can give you that number.

Saion Mukherjee Okay. But sir your commentary suggests that you are already facing that pressure and things haven't really deteriorated in the last three to six months, would that be a right assessment?

Dr. Om Manchanda Yes. But things have started deteriorating for some of our competition. So I hope it stops here. So let's see.

Saion Mukherjee Okay. And sir, you talked about cost control and productivity improvement like getting more samples from the collection centers etc., how much headroom is available there to improve on productivity. Will we continuously see that playing out over the next couple of years?

Dr. Om Manchanda Yes, there is plenty of room available there. So 1,500 collection centers, I have a huge scale where I will not share the exact number here, but I think there is a scope to drive productivity there, even same thing on pickup points as well, 5,000 pickup points. You get one sample extra per pickup point can you give you huge number.

Saion Mukherjee In a sense sir that, I mean, within the current setup itself there is room for margins to improve. I mean, of course, I mean I'm keeping aside the pricing dynamics there aside but through productivity improvement itself?

Dr. Om Manchanda Yes, I won't say to improve the margins to stay competitive. So in case I have to drop prices, I can always make it up by higher business per unit of infrastructure.

Saion Mukherjee Got it. Sir basically what I'm saying is that there are levers available to be in that 25%-27% range in next five years timeframe?

Dr. Om Manchanda I don't know number of years, but I think the way you have to look at this, is this infrastructure that we have 200 labs, 1,500 collection centers and 5,000 pickup points is the strength that we have, which we can continue to leverage for times to come.

Moderator Thank you. We have the next question from the line of Sameer Baisiwala from Morgan Stanley. Please go ahead.

Sameer Baisiwala Just a quick clarification, you said 1,500 patient service center it's 1,800 as on last fiscal end, right?

Dr. Om Manchanda Yes I just give round-off figure

Dilip Bidani We have got 1,759 collection centers and 182 labs as of 31st March 2017. So these are ballpark numbers, which almost demonstrate the point that the number of collection points are if you get one sample more, you have so much more samples coming in.

Dr. Om Manchanda Yes, I was trying to give back of the envelope calculation as to how we can leverage this network.

Sameer Baisiwala Sir, what's your revenue split across these different channels of picking up samples?

Dr. Om Manchanda So in terms of revenue, 40% of it is direct walk-ins into our labs. So balance 60%, roughly 30% is collection centers which we also call patient service centers and balance 30% is from pickup points which we call direct pickup points. And there is other dimension to this, it is B2C and B2B because collection centers also go and pick up business from various other hospitals, which I may not have the ability to track it fully, so that's why we say 60% business is roughly B2C and 40% is B2B. And in terms of channel source 40%, 30%, 30%, that's the way it would look like.

Sameer Baisiwala Okay. Perfect. And sir if I look at your last 3-4 years growth in these different metrics, sir you have been adding clinical labs 15 a year or PSCs is about 200 a year, flat PUPs. So is this something that we should continue to do in current fiscal and next?

Dr. Om Manchanda Yes, I think the pickup points, you shouldn't focus much on this number, because it may not be a very good idea to add too many pickup points because still they are operating on very low threshold, which we are aiming for because we would like these pickup points to be serviced by more and more collection centers, because otherwise it will become an operational nightmare to service these guys directly. What probably you should focus is the number of collection centers, how they are growing because that really gives the scale to this business, and we have had our own setups also, but I think going forward, our focus is more on franchising, so that's the real strategic sort of play in our business, where we can franchise the collection, so it keeps at low cost, it also makes it easy to manage operationally. So my message to you would be focus more on collection points than on pickup points.

Sameer Baisiwala Okay. And clinical labs, you said you'd be very careful in opening it, but fair to assume that you will still open about whatever 5% of your total?

Dr. Om Manchanda Yes. So I think that is pure economics. We follow a hub-and-spoke model like in a city, you may want to have one lab and open more and more collection points. So whenever we go to a city obviously, you need to have at least one lab. So it is an important building block of growth, but it also brings in lot of overheads and OpEx, so we have to ask a question that you're asking what's the breakeven point. In fact many of these labs have come up in the last few months or few quarters have been more in the areas like rest of North and North rather than in other weaker geographies for us. So I think that's the more economic decision when does it make sense for us to put up a lab in a town, that's when we will do that, but collection centers is something which is a low-cost model, it doesn't require very high OpEx, it can be franchised out, run by an entrepreneur, there one can still take a chance of opening more, but labs, we will apply very strong filters when to open, when not to open.

Sameer Baisiwala Okay, one final question from my side, I don't know if you have shared this number, but what's the split of your revenues between prescriptive and wellness?

Dr. Om Manchanda It is actually very difficult to put that number and I'm not sure whether people who talk about this prescriptive wellness, they really understand what it means because tests are overlapping, it's not the guy who comes for wellness has different set of test than the guy who comes from prescriptive. So they are similar tests and it is also very important that whether wellness was prescribed by a doctor or not, that is also very difficult to establish. So I think the way now industry is looking at, they say, okay we had 60-70 tests done at Rs 1,000 or something, that people are calling it wellness. So no one knows actually that guy may be carrying a prescription for these tests and no one knows that some of the tests is that we are doing in illness may have been done even without prescription as well. So I think these are all loosely defined segments. As the industry evolves and we move into a little more rigor, I think some of these definitions will become more sharper as we go along, but I think to my mind it's very difficult to say how much is wellness, how much is prescriptive.

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

Dr. Arvind Lal: Thank you everyone for attending this call. We hope, we have been able to address and answer most of your queries. So if you have any further questions, request you to get in touch with us and we will be happy to address them. Thank you once again.

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