Ref: MHL/Sec&Legal/2022-23/21 **Date: May 31, 2022**

To,

Head, Listing Compliance Department
BSE Limited
Phiroze Jeejeebhoy Towers
Dalal Street, Mumbai - 400 001.

Scrip Code: 542650

Head, Listing Compliance Department
National Stock Exchange of India Limited
Exchange Plaza, Plot No. C/1. G Block,
Bandra -Kurla Complex, Bandra (East),
Mumbai- 400051.
Scrip Symbol: METROPOLIS

Sub: Transcripts of Earning Call for Q4FY2022

Dear Sir / Madam,

Pursuant to Regulation 30 of the Securities and Exchange Board of India (Listing Obligations and Disclosure Requirements) Regulations 2015, please find enclosed herewith transcript of the Earning Call held on May 25,2022 wherein the management of the Company discussed the Q4FY2022 Results.

The same has also been uploaded on the Company's website and the same can be accessed at www.metropolisindia.com.

This is for your information and records.

Thanking you.

Yours faithfully

For **Metropolis Healthcare Limited**

Simmi Singh Bisht

Digitally signed by Simmi Singh Bisht
DN: c=IN, st=Maharashtra,
2.5.4.20=26030f0f5f8a4b28f73303312abcbf651a61629c5a776513507b34a7712c7c7d, postalCode=400066,
street=A/1306,Dheeraj Hill View Tower,Next To Dheeraj Upvan,Mumbai,Borivali East,Mumbai Suburban,
pseudonym=d8e34bd996fe07c82e2dc1c11d834b53,
title=5625,
serialNumber=80a282e36414f5d6340ff9536bae1db1d43f37685a4ad4c6f163b46ffb964360, o=Personal, cn=Simmi Singh Bisht
Date: 2022.05.31 17:33:36 +05'30'

Simmi Singh Bisht
Head - Legal and Secretarial
Membership No.: ACS 23360

Enclosed : a/a

"Metropolis Healthcare Limited Q4 FY22 Earnings Conference Call"

May 25, 2022

Disclaimer: E&OE - This transcript is edited for factual errors. In case of discrepancy, the audio recordings uploaded on the stock exchange on 25th May 2022 will prevail.

MANAGEMENT: **MS. AMEERA SHAH – MANAGING DIRECTOR, METROPOLIS HEALTHCARE LIMITED**
MR. RAKESH AGARWAL – CHIEF FINANCIAL OFFICER, METROPOLIS HEALTHCARE LIMITED
MR. VIJENDRA SINGH – CHIEF EXECUTIVE OFFICER, METROPOLIS HEALTHCARE LIMITED

MODERATOR: **MR. RAHUL AGARWAL - INCRED EQUITIES**

Moderator: Ladies and gentlemen, good day, and welcome to the 4Q FY22 Earnings Conference Call of Metropolis Healthcare Limited, hosted by InCred Equities.

This conference call may contain forward-looking statements about the Company, which are based on the beliefs, opinions, and expectations of the Company as on date of this call. The statements are not the guarantees of future performance and involve risks and uncertainties that are difficult to predict.

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. Should you need assistance during the conference call, please signal an operator by pressure "*" then "0" on your touchtone phone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Rahul Agarwal from InCred Equities. Thank you, and over to you, sir.

Rahul Agarwal: Hi. Good morning. And InCred Equities welcomes everybody to this call today to discuss the fourth quarter and full year fiscal '22 results of Metropolis Healthcare Limited. We thank the Company and the Investor Relations team for this opportunity to InCred to host the call.

We have the Senior Management Team of Metropolis for this discussion represented by Ms. Ameera Shah, the Managing Director; Mr. Vijender Singh, the CEO; and Mr. Rakesh Agarwal, the CFO of the Company along with the SGA Investor Relations team.

I hand over the call to Ameera now for initial performance highlights, and then we'll get into the Q&A session. Over to you, Ameera.

Ameera Shah: Hi. Good morning, everyone, and thank you joining us for the Q4 and FY22 Earnings Call. I hope you and everyone around you is safe and healthy. I'm joined today by Vijender – CEO; Rakesh, CFO; and SGA, IR Advisors. The Presentation and Press Release have been issued to the exchanges and uploaded on our site. I hope everyone has had the opportunity to go through the same.

I'm very pleased to share that our Company recorded its highest ever revenue, EBITDA, and PAT during FY22. Revenue increased by 23% year-on-year to Rs. 1,228 crore. EBITDA before CSR and ESOP increased by 20% year-on-year to Rs. 362 crore, and PAT increased by 17% year-on-year to Rs. 215 crore. FY22 has truly been a transformational year for the industry.

While there has been a lot of action and consolidation, we have witnessed landmark M&A deals that clearly indicate the leader's confidence in the long-term prospects. This is further strongly evidenced by the fact that new players have emerged in this space, whether it is hospital players, large conglomerates, e-pharmacy players, PE players, etc., This is very similar to the phase we witnessed between 2012 to 2016, where a whole lot of new players enter the market, but very few could survive the marathon. We believe the increased online competition will expand the wellness market by educating customers and good quality customers who value service and quality will naturally seek best-in-class brands like ourselves.

New brick and mortar competition may create competitive pressure for price sensitive B2B business for the top 100 tests. And our strategy of focusing on specialized tests above these 100, which most existing and new players do not do, will help us. These factors will lead to a faster shift from unorganized to organized whose share today is a mere 15% of the market in our estimate. In the middle of so much action, we have continued to work on our expansion strategy, which we strongly believe will continue to give us well-rounded growth. Vijender will speak a little bit more on this in the remarks later.

In the past few months, with the entry of newer players, there's been a lot of discussion around disruption, test prices, its impact on test volumes and revenue growth. The question in everybody's mind has been what therefore happened to incumbents and will businesses erode the way it happened in some other industries temporarily. And as we are flooded with these questions and more, I would like to take this platform to explain the industry situation and our strategy at Metropolis. Let's step back and understand why the health care industry is not like any other industry.

In health care, it is important to understand that trust, science and consistency of reports and test play a very critical role. In diagnostics, the doctor's medication to a patient is based on the basis of a scientific correct lab report. Also, we have to remember that in the illness space, tests are not commoditized. A liver function profile that 1 lab is not the same as another. So, a simple price comparison is difficult when the ingredients are not the same. Doctors understand these nuances, although patients don't. And this is where we believe pricing disruption will be lower in the illness space because doctors who are the biggest influencers in diagnostics value chain are more concerned about the quality of the lab and the consistency of the report rather than only pricing, especially in situations of moderate to critical illness. And therefore, it is an important for me to discuss the evolution of Metropolis in the last 40 years to help you understand our true value proposition.

Metropolis is a science-based diagnostic lab chain in the illness space and a pioneer of specialized test. We started as a specialized test lab and have slowly and steadily earned the trust of doctors over the last 40 years. We are the largest pathology lab chain in the country today with regards to our test menu. And that is a big differentiator in the minds of the doctor and the patient. So, that when they get pricked by our needle, they're able to get all the tests that they need at 1 shot. This, in our opinion, is challenging to replicate and any other player who wishes to scale up will have to go through the same process as ours. Discounts can give you a bump in revenue on the short-term basis, but the real question is, are you really creating a consistent, quality focused scientific approach to diagnostics for the doctors to recommend your brand to patients? Having said this, we also believe that there is a segment of business that will be influenced by low prices. And this is the segment which has a low influence by doctors, which is not illness but wellness based.

The competitive intensity in the budget wellness space, which is the low price, low revenue per patient wellness space will increase and create margin pressure for people who are in that space. And therefore, we, at Metropolis, have stayed away from the budget wellness segment of the industry and have rather focused on the premium wellness segment, which where scientific image and the right education to the customer matter.

Our wellness revenue per patient is 3x the budget wellness space and continued to grow at 50% in FY21-22 despite competitive intensity.

Let me now talk about how we have insulated ourselves from disruption. There are 3 types of customers who opt for a test: acute, chronic, and preventive. Acute patients are the ones who are suffering from a disease and require immediate treatment. Chronic patients are the ones who require testing at regular intervals to monitor their conditions while preventive customers are the ones who opt for wellness tests when they are well, and this is clearly not illness space. As per the report by Bain & Company, acute patients like one suffering from heart, lung, kidney disease or cancer or something critical are the most influenced by doctors and less concerned about prices as improvement in their health is their major priority. In fact, it is impossible for patients who are nonmedical to understand the differences in tests, lab quality, raw material ingredients and, therefore, the decision maker and chief influencer is the doctor and not the patient.

Chronic patients who suffer from diabetes or blood sugar or thyroid disorders or the like are moderately influenced by doctors and slightly influenced by prices. They need consistent reporting from 1 lab as they need to monitor levels of test results through the last result for them to know if they are okay. Changing labs just for prices and discounts will be harmful to the health as labs give different results and different normal ranges based on different equipment.

While wellness consumers are least influenced by doctors, less aware consumers are highly influenced by prices, and the more aware consumers care for quality and service. Hence, as the new players in the industry do not have doctors trust, they can impact the preventive segment followed by the chronic segment to some extent but extremely challenging in the acute segment. We, at Metropolis, are a specialized acute-focused lab with majority of our volumes, coming from acute patients.

Our main customers is a specialty doctor who trusts us and refers their patients to us. We have a smaller segment of chronic patients and as chronic patients are moderately influenced by doctors and prices; we plan to mitigate this impact by loyalty that is a program for the chronic patients. Loyalty benefits will help us to make our chronic patients' business stickier in nature, and they will find no value in switching to another player.

In a nutshell, while it may look that the whole diagnostics is getting disrupted like telecom, retail, FMCG, e-commerce industry did, if you dig deeper, you will find that, in fact, only a small part of the business is actually getting impacted, and we are generally well placed to compete. Apart from these initiatives during '22, we have stepped up our digital play with full stack investments across the digital field to make Metropolis technology ready. We are investing in tech to ensure the entire ecosystem which engages with Metropolis if automized.

Let me highlight a few of these initiatives:

During Q4 FY22, we have been able to roll out our new app with a revamped user-friendly UI. This app is being constantly monitored for reviews and feedback and actions will be taken on priority. Customers can view his or her lifetime report, smart reports, easy bookings, you can track sample location and status through the new app. We have planned targeted marketing activities, especially in the focus and seeding cities through Google search, SEO optimization and content marketing. Customer life cycle management, where we engage our customer database to update the test offerings and offers as per customer profile. And we have completely digitized our system for our partners and doctors enabling WhatsApp connect as well as complete automation from end-to-end process. This is leading to customer self-serving and helping us to save employee bandwidth. We have spent close to Rs. 18 crore on technology initiatives to drive digital transformation. We expect this to partly continue in FY23 as well. All these investments on digital marketing and expansion of service network will have some minor impact on the margins. But once the systems are set, these investments we make now will create a backbone for the next level of growth that we envisage in the business, which will help us to safeguard our margins, keeping in view of the increased intensity of competition going ahead.

FY22 has been an exceptional year with COVID income, contributing 16% of the top line. The non-COVID business grew at a robust 35% year-on-year for FY22. It grew 7% Y-o-Y in Q4 FY22 in spite of a COVID wave in Jan and February. While on a quarter-on-quarter basis, it grew by 10% in Q4 FY22. In spite of multiple disruptions, we were able to upsell and cross-sell, maintaining a high level of superior product mix and growing our revenue per patient and test in Q4 FY22 and for the whole year as well, a strong testimony of the strength of the Metropolis brand. In Q4 FY22, we have also started work on ESG as per our commitment. We will give more disclosures as we complete certain milestones.

In FY23, we believe growth may optically look subdued in the Q1 of FY23 on account of a very high base in Q1 FY22 on the back of COVID wave. Business will normalize from Q2 FY23 onwards, unless no new waves of COVID hit us. We also expect the specialized tests in our premium wellness to grow in the normal environment, which will benefit us with the continuous improvement in product mix, leading to an increase in revenue per patient. Having said this, we believe an aggressive network expansion, employee cost pressures and digital investment will also have a little bit of impact. And therefore for '23, we believe we would target pre-COVID margin.

That's all from my side. Vijender will now take you through some of the operational parameter.

Vijender Singh: Thank you, Ameera, and good morning, everyone. Let me talk about the key performance highlights for FY22.

On COVID and non-COVID business first I'll talk. FY22 started with deadly second wave of COVID-19 with India, recording its highest ever case of COVID-19 during the month of April and May '22. The cases reduced as year progressed before spurting back in January '22 with the third wave of Omicron. Accordingly, the COVID RT-PCR revenue contributed 19% of the revenue in Q1 FY22 and dropped gradually to 12% of revenue in Q4 FY22.

Along with the drop in tests volume, continuous pricing capping of COVID test downwards also led to lower revenue contribution for full year, COVID revenue dropped by 17% in FY22. FY22 was a year of ups and downs in the sense that COVID continued to be present at some or the other parts of the country throughout the year. And when COVID tends to persist, it takes a bit of toll on non-COVID business. This is because in general, people tend to postpone the test which they can afford to when it's not safe to move out. However, in spite of all these challenges, our non-COVID business grew by 7% year-on-year, contributing 84% to total revenue in FY22 as compared to 77% in FY21.

On acquisition of Hitech Diagnostics, we successfully acquired Hitech Diagnostics during FY22 for an all-cash deal of Rs. 636 crore. Happy to share that the non-COVID business for Hitech grew by 35% in FY22 to Rs. 100 crore. That is 81% of the total revenue in FY22 as compared to 60% of the revenue in FY21. COVID revenue dropped by 56% in FY22 to Rs. 23 crore in FY22. That is 19% of the revenue in FY22 as compared to 40% of the revenue in FY21. Such higher revenue contribution of growth from the non-COVID business is a sign that business has been scaled up on strong fundamentals and is not a onetime beneficiary of the COVID wave. Its strong B2C connect has also led to this strong growth. Our focus now has been on time-bound integration of Hitech with Metropolis to extract the maximum possible synergies from the deal.

Going forward, we plan to launch 100 new centers in FY23. Our work on integration has commenced fully, and we are confident to see an uptick in the margins of Hitech business, led by better raw material purchases, IT process integration, increasing contribution of wellness business and using Metropolis sales and marketing infrastructure along with increasing B2C contribution of overall business.

Now on expansion of lab and service network. We embarked FY22 with a network expansion plan with a view to deepen our presence across geographies and increase the B2C ratio of the business. We had planned to add 90 labs and 1,800 service centers between FY22 to FY24. During FY22, we have added 16 labs and 509 service centers despite unexpected COVID waves. We are confident we will reach out desired goal of 90 labs and 1,800 centers as we have built a strong pipeline of new projects.

Now I'll talk about on home visit coverage. During FY22, we widened our home testing service to 100-plus locations from 60 locations in FY21. This has resulted into 23% revenue growth from home testing for non-COVID business.

Overall home testing business, including COVID has remained at similar levels at Rs. 135 crore. This is due to share drop in home testing from COVID test, which is on expected lines. The economics from a home testing keeps on improving as the center matures and volume throughput for home testing increases.

Let me now come to key performance metrics and operation numbers. Revenue share of B2C business in focus cities for non-COVID stood at 60% in FY22 versus 58% in FY21. Our near-term target is to be 65% contribution. Revenue contribution from specialized tests for noncore stood at 40% in FY22 versus 42% in FY21. Revenue contribution from wellness test increased to 9% in FY22 from 7% in FY21. We recorded strong 37% growth in number of patients with 13.4 million in FY22 while number of tests increased by 35% year-on-year to 25.7 million in FY22. The revenue per patient for non-COVID business increased by 2% year-on-year to Rs. 947, and revenue per test for the non-COVID business increased by 7% year-on-year to Rs. 447. Our revenue profile among focused, seeding, and other cities stood as follows. Focus cities, 5 cities, including the city and peripheral area around metropolitan regions contributed 60% to the total revenue in FY22. Seeding cities, 8 cities, including the city and peripheral area around the regions contributed 20% to the total revenue in FY22. Rest of the other cities contributed 20% of the revenue in FY22.

With respect to geographic distribution, revenue contribution from west region was 56%, south contributed 25%, north contributed 8%, while the rest was contributed from east and international locations. I will now talk the Metropolis strength at the ground level. Our analysis has shown that the productivity per center in our business has continued to move up higher. That is the revenue clocked by a new center in its first 12 months is increasing in each passing year. We have witnessed this in most of our focus and seeding cities, which gives us confidence to keep expanding our network. In fact, the productivity of the centers opened in 2017 versus 2021 has also seen a marked increase, signifying better screening and selection of franchise, better acceptance of the brand Metropolis, moving up the value chain in terms of product mix and channel mix. This will also mean that we will achieve faster breakeven levels in our newly expanded network than in the earlier periods. Take in case, Mumbai City. The most significant focus city for us which contributes highest revenue, the productivity of new center has increased even in the most recent period in spite of increasing competitive intensity in the city. We believe there is still a significant headroom for us to grow and hence, we have decided to add 150 centers in FY23 to take the walk-in center network in Mumbai from 341 in FY22 to 491 centers. We intend to expand similarly across all our focus in seeding cities to capture growth opportunities. Our focus will be to continue growing revenue from existing centers while new centers will become our growth engine. While revenue growth will continue through increasing volumes, we also keep on putting efforts to increase the revenue per patient. This is done through upselling and adding value to the customers via tests that can be offered exclusively by Metropolis.

To conclude from my end, our focus going ahead will continue on ramping of the B2C business on the back of investments in digitalization, marketing and expanding the home visit service locations along with the planned network expansion.

On the acquisition front, our efforts will be focused towards the smooth and quick integration of Hitech operations with Metropolis to drive these synergies.

That's all from my side. I'll now ask Rakesh to take you through financials. Thank you.

Rakesh Agarwal: Thanks, Vijender. Good morning to all on the call. Let me give you a snapshot of our financial performance. The Hitech numbers are consolidated with Metropolis with effect from 22nd of October 2021, the date acquisition was completed. Revenue for Q4 financial year '22 was up by 5% Y-on-Y to Rs. 305.9 crore. Revenue for financial year '22 was up by 23% Y-o-Y to Rs. 1228.3 crore. EBITDA before CSR and ESOP for quarter 4 financial year 22 dropped by 20% Y-on-Y to Rs. 82.6 crore due to high revenue base, including COVID testing in Q4 last year. EBITDA before CSR ESOP and onetime acquisition costs for financial year '22 increased by 20% Y-on-Y to Rs. 361.6 crore. EBITDA margin for the same period stood at 27% in Q4 financial year '22 as compared to 35.5% in Q4 financial year '21. EBITDA was impacted mainly on account of significantly lower COVID revenue and price capping by government that makes COVID testing margin significantly lower than non-COVID.

Investment in digitization and marketing in a bid to improve customer experience and faster growth. Increase in employee costs on account of strengthening our leadership team and front-end staff. Investment in lab expansion, which means carrying months of fixed cost before lab launches. EBITDA margin for financial year '22 stood at 29.4% in financial year '22 as compared to 30.2% in financial year '21. Reported PAT for Q4 financial year '22 stood at Rs. 40.1 crore. Reported PAT for financial year '22 stood at Rs. 214.7 crore.

Coming to our working capital ratios, our debtor days has significantly improved from 41 days in March '21 to 31 days in March '22. Overall, working capital days increased from 4 days in March '21 to 14 days in March '22 on account of early payment to creditors. OFC to EBITDA stood at healthy 98% in financial year '22. Cash and cash equivalents stood at Rs. 181 crore as on March '22. Total debt drawn for the acquisition of Hitech was Rs. 300 crore, of which we have already repaid around Rs. 42 crore. We plan to repay the external debt of the acquisition by financial year '24. For financial year '22, we paid a dividend of approximately Rs. 40 crore, translating to a payout of 20% of PAT.

In financial year '23, we expect margin to reach pre-COVID levels. We are deploying all efficiency levers like automation and digital enhancement, zero-based costing, process reengineering and improvement and better breakeven of newly expanded network to maximize margin enhancement.

That is all from our side. We now leave the floor open for Q&A. We request participants to refrain from discussing around recent news item. We'll not be able to provide any comment on this call. Thank you.

Moderator: We will now begin the question-and-answer session. The first question is from the line of Praveen Sahay from Edelweiss Financial. Please go ahead.

Praveen Sahay: So, the first question is related to the non-COVID revenue, excluding Hitech which seems on down on a Y-on-Y side around 3%. So, can you give some more color on the volume or realization related to the non-COVID excluding Hitech?

Ameera Shah: So, I think, as you know, the non-COVID is made up of the normal trade business. It's also made up of some government contracts and like. As we had mentioned in Q3, the volumes of the government contracts were a little bit lumpy quarter-to-quarter. And that is the only reason why you're seeing a sort of a negative trend on a Y-o-Y basis. But if you look at the core business, it is not a negative growth at all. In fact, from Q3 to Q4, we've actually seen a significant growth on a quarter-to-quarter basis on non-COVID.

Praveen Sahay: Second question is related to the western geography, there also a significant dip on the quarter 4 is seen. Is it only because of a COVID or because of the competition realization is down? Can you give some detail on that.

Ameera Shah: The geographical distribution has obviously changed with the acquisition of Hitech because, obviously, south has become now a slightly higher contribution to overall revenue. But except for that, we are not seeing any negative growth on the west side. It is continuing to grow. And in fact, we have started a lot of centers as well, which are all growing well and breaking even faster than we originally had experienced. So, at this point of time, west continues to grow. It's only the COVID revenues and the COVID rub-off revenue, which, obviously, were highest in west which probably will have some impact. But on the non-COVID side, things are moving as planned.

Praveen Sahay: And last question I'll take and then come to in queue. So, on the expansion plan, as you had mentioned about the 90 labs, out of which, 16 already has been commissioned, 74 are still in the next 2 years. Even in the network, like around 1,219 networks are also going to be had in this 2 years. So, can you give light on the geographical mix? As already you had said that's 150 around is in the Bombay, but more color on that, like how the south or the west and the north you are planning for the geographical expansion in these lab and network expansion?

Ameera Shah: Vijender, do you want to take that?

Vijender Singh: So, basically, what we have done is we've divided this whole network expansion plan based on core markets and noncore markets. And as you know that core markets are our major profit-making markets. So, we've decided to put in more infrastructure in these markets. And there are a couple of other markets also like North India, East India, and South India where we are also trying to kind of expand into newer cities while setting up franchisee network. So, it's going to be a mix of network across the geography. However, majority of the expansion would be from core market because there, we have seen the returns are faster and the breakeven is much faster than the previous data.

Praveen Sahay: So, the major expansion would be on the core market and on the asset-light model.

Vijender Singh: Yes.

Moderator: The next question is from the line of Prakash Kapadia from Anived Portfolio Managers. Please go ahead.

Prakash Kapadia: Ameera, you did mention about competitive intensity being on the rise. So, if you could give us some sense. is it just local players coming back due to COVID wave or is it new funding by private equity players? And in this context, is specialized tests the only way to beat competition at our end? And if you could give some sense of what is the contribution of specialized tests for us on an annual basis in terms of percentage of revenues?

Ameera Shah: So, in our presentation, the specialized test is about 40% this quarter. I think overall for the year, if I'm not mistaken, is about 42% of our revenue. And just in terms of talking about competition and who's entering, you're seeing a variety of people entering and let's understand the logic why. So, what's happened with certain amount of digital health movement trend happening, where we saw in the last 2 years that a certain segment of society is now trying to get telehealth or teleconsultations or certain societies getting e-pharmacy. So, there are some pharma companies who are saying that they are worried about being disintermediated. So, they are saying can we build a B2C platform, where we can combine our pharmacy, we can combine teleconsultation and we can combine diagnostics and offer it as a combination platform to consumer. So, that's one kind of an existing pharma Company who sees that they have some relationships with either patients or doctors is trying to get in. So, that's one. The second, you are seeing hospitals who are saying that, look, I'm doing pathology in my hospital, so why don't I extend it and do it outside the hospital. Now the dynamics, obviously, for doing pathology inside when it's captive, and doing it outside when you have to go and earn the revenue only on the back of pathology are 2 very different dynamics, right? But that's the second kind of competitor that we've seen come in. The third is the health tech players, the new digital health tech players who have come in and are trying to basically offer a variety of services, which include e-pharmacy, telehealth, diagnostics, other things, all as a part of an aggregation to the consumer. So, we are seeing these 3, 4, I would say, are the main varieties. We've actually not seen that much amount of private equity funding at this point of time. In fact, there are a lot of diagnostics firms, which are actually available for acquisition at the point of time. So, that's the nature of the competition.

Prakash Kapadia: And in this longer-term approach to grow the business faster and gain market share, so where are these smaller local players because some of them had very good revenues due to COVID? So, how does that shift in the medium term happen where larger players can grow faster and some of the smaller players get disrupted because they also seem to have done well due to COVID?

Ameera Shah: So, I'll just give you a quick understanding of the industry and the different layers. So, I've often said this to look at industry as a pyramid. So, at the top, you've got sort of the 4 national players, which are operating and which are pan-India and which 3 of the 4 do sort of a good amount of specialized tests and a sort of a larger testing. At the middle, you have about 30, 40 regional chain, right, all across the country, which are focused in one territory, they are in 1 state or maximum in 2 states and in sort of in a local constituency. Now the people who have done well during COVID are the national players as well as the regional players because they had the capability to do COVID testing and molecule biology testing in their local places. And consequently, most of the ones which are on sale are also the regional players because they have benefited so much to our imported that kind of growth, they probably are not going to see for the next 2 years, right? The small players, which are the unorganized players on the bottom of the pyramid are almost 160,000 such small, small labs. To give color, I mean, of these labs, most of them have revenue from sort of 2 lakh a month to maybe 5 lakh, 7 lakh, 8 lakh a month. So, these are not very large labs, these are very small labs which actually have a captive patient or captive doctor base in about 0.5 kilometer around their location. So, it's a very hyperlocal business, and they basically are tied up with, let's say, 10 or 15 doctors in that region, who sort of send a patient walk in into that center. Now with the trends that are happening in the industry where you're seeing digital health come in, you're seeing large distributions come in, this entire industry is going to get restructured. So, often, investors have asked us what will be the catalyst to move more unorganized to organized. And I would say this is the catalyst. The market is changing. Consumer behavior is changing. And I would expect the consolidation from unorganized to organized will be much faster at this point of time going forward than it has been in the last 10 to 15 years. So, I think the top players, sort of the national players if they do the right strategy, will continue to grow, and get stronger in the time to come. And I think it's the smallest players who are going to have a hard time struggling because neither are able to give consumers the kind of technology-enabled engagement and services that customers want, neither do they have the distribution, neither do they have the specialized test menu that keeps away or they don't have the brand. So, I think it’s the smaller players that are going to get disintermediated in this process.

Prakash Kapadia: And lastly from my side, are we seeing any inflationary pressure because most of the businesses seem to be witnessing a lot of inflationary pressure, any input cost, any collection cost, anything which you think is inflationary in this current time? And will price hike beyond the anvil, will the same pricing continue for us and the industry, if you could share some thoughts?

Ameera Shah: Sure. So, we did a marginal price hike at the beginning of this quarter just for example, from an inflation perspective. And it was, again, very, very marginal only impacting a very small number of geographies on the B2C side. So, very incremental. But this was not really because of inflationary pressures. We are seeing, obviously, the imports that the industry uses for testing, the chemicals and the kits are mostly imported. And therefore, they are usually dollar and euro denominated. So, there is obviously some pressure from vendors on prices because of the dollar-rupee currency exchange, but we are sort of balancing that with our own efficiency initiatives to say how do we be more operationally efficient in the way that we manage our chemical.

Prakash Kapadia: And this is across west India or specific geographies where we've taken some price increase on the B2C side?

Ameera Shah: It's been specific geographies all across the country. But like I said, very marginal, very incremental at this point of time.

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

Pooja Bhatia: So, in the core business comparing to pre-COVID levels, patient volumes are up 16%, but realization is up only 3%. How do you see the growth in realization? I understand that the test kits will change with more of semi-specialized, specialized increasing, more wellness growing more of home test, but that's not going to happen overnight, it could take a few quarters or maybe a few years. So, is it the right understanding that realization growth could be, say, in low single digits?

Ameera Shah: I think the numbers I think you're quoting are overall, if I'm not mistaken, and that includes COVID. So, COVID, as you know, the pricing which started off at Rs. 4,500 came down finally to Rs. 300, Rs. 400 per test across most geographies. And therefore, the revenue per patient from COVID tends to be much lower than our non-COVID revenue per patient. So, in quarter 4, for example, where you have a wave and COVID volumes will surge, that's very natural to happen that your test realization will not score accordingly because it is dilutive to the revenue per patient of non-COVID. Otherwise, if you keep aside any COVID business, we've actually only seen an increment on revenue per test and revenue per patient year-on-year. I think it will be premature to give any sort of guidance on this because the market is changing, and we would like to wait and watch to see how things move. But we continue to obviously put our best efforts on keeping on improving the product mix, moving people up the value chain. And that's something that we've been successful at for the last many years and we would continue to try to do.

Pooja Bhatia: Just to add to that in case we are expecting a low teen to mid-teen growth, most would be coming from volumes and realization would still be a little subdued. It wouldn't be contributing much, is it the right understanding?

Ameera Shah: I think that would be assumption at this point. I think if you look at our past history, we have seen a very fair contribution from revenue per patient and a fair contribution from volume. And I don't see any reason why we would see a drastic change in that.

Pooja Bhatia: On the doctors, the doctor recommendation part, it's not the price which is the major determinant of acute uptake, how do we manage this? What level of marketing promotion activities are you all expecting? And how do we add more doctors to our network?

Ameera Shah: So, our energy is about increasing the coverage from our sales team and scientific team to meeting doctors. So, we have about 400-odd scientific medical representatives. We also have a large number of sort of pathologists and doctors. And all of these are sort of our brand ambassadors who engage with doctors on an ongoing basis. The keyway of engagement that will be scientific medical symposium, continuing medical education programs, our teams visiting doctors. So, the key drivers are one, about making sure that the number of calls made by the teams are adequate in terms of visits to doctors. Number two is the constant training to make sure they impart the right education and awareness to doctors and the right positioning of Metropolis. And third is obviously going to say how do we convert a doctor to prescribe test that

Metropolis offers which are necessary for the patient. So, these are all the drivers. It's not really about a push marketing because we have seen a push marketing is not the way to build a quality business. It will give you short-term growth with large amount of discounts, and that may not necessarily be sustainable. So, ours is a very scientific driven, sales excellence focused model.

Pooja Bhatia: On the network expansion, you mentioned in the opening remarks that you expect faster breakeven in the new centers, which are being added. So, what will be the time frame for it? Would it be 12 months, 24 months?

Ameera Shah: Are you talking about the collection centers?

Pooja Bhatia: Yes.

Ameera Shah: So, we are seeing in strong geographies in focus cities. Earlier, we were looking at sort of centers breaking even within sort of 9 to 12 months. And we're now seeing that timeline actually shorten to close to 6 months to 9 months. And the reason for this, I think, is a better selection of partner, a stronger brand, where consumers want to come to our brand, better engagement, a bunch of reasons.

Moderator: The next question is from the line of Anubhav Aggarwal from Credit Suisse. Please go ahead.

Anubhav Aggarwal: Ameera, you mentioned that quarter 1 revenue will be down year-on-year because of the high base. Just clarity over there. What is your expectation about the non-COVID business? Do you expect that to grow year-on-year basis?

Ameera Shah: I don't have an answer right away, but I would say, yes, overall, I think it's the COVID base that would cause a concern, not so much the non-COVID.

Anubhav Aggarwal: Because the reason I asked is in quarter 4 it says the non-COVID revenues are still higher than quarter 1 non-COVID. So, sequentially, do you expect June quarter non-COVID business to be higher than the March quarter, non-COVID?

Ameera Shah: It's a little difficult to look at our business sequentially, which is why we always provide information year-on-year and quarter-on-quarter because there is a seasonal impact that comes in. Health is not a consistent subject. It depends on the infections and the diseases that happen in that seasonality. Usually, we have seen, if you look at the past history and the data's available, if you look at the past 3, 4 years, even pre-COVID, Q4 is usually a good quarter. Of course, in this quarter there was COVID, so the non-COVID was more subdued. Usually, Q2 is another quarter which is considered one of the highest because the infections are the most during a monsoon period all across the country, and therefore, gives rise to fevers and other infections. Usually, Q1 is a decent quarter, and Q3 is usually the weakest quarter because of festival. That's usually the pattern of how we've seen things play out in history.

Anubhav Aggarwal: So, just to correct, you're saying that non-COVID business should grow, whether it's a mid-single-digit growth or high single digit or double-digit growth, that's you're not sure about.

Ameera Shah: I'm saying year-on-year non-COVID will grow. Yes.

Anubhav Aggarwal: And secondly, on the margin guidance, when you talk about pre-COVID, can you help us understand that pre-COVID numbers in the sense right now, if you look at the margins, the Company has done in the last 2 quarters, 3 and 4Q, are you talking about that fiscal '23 EBITDA margin can be 200 to 300 basis points higher than that? Because pre-COVID you have done very different kind of margins. Can you help us quantify at what range are you talking about on the margin side?

Ameera Shah: Go ahead, Rakesh.

Rakesh Agarwal: Yes, I will take this. So, if you look at the pre-COVID level, we have done between 27% to 28% consistently for 2, 3 years before the COVID came in. So, we expect that, that is how we are guiding the market that we expect that we will go to that level where we were in pre-COVID level. And obviously, there, we can look at increasing things as we go along. So, that's how it looks like. It should not take a very long horizon pre-COVID, but I think 2-3 years before the COVID period can be the ideal numbers to look at.

Anubhav Aggarwal: But Rakesh, this quarter also, you have done 27% margin, right? So, then you're not talking about the expansion of margins from this level?

Rakesh Agarwal: So, basically, 27% is the margin, which is obviously looking at before ESR and ESOP and all. So, there is 1% there also. So, if you otherwise look at it's around 26.2%. So, we are seeing that how can this 26%, 26.2% can move upward to 27.5% to 28%. That's how we are looking at from expansion of a margin point of view. But obviously, this is just holding it back so that let's see how things goes in next 2, 3 quarters, and then we will be more firm on these things. But at least we expect that the numbers will be more or less in line with what we are doing in the pre-COVID level.

Anubhav Aggarwal: And last question is on this investment and I'm talking about OpEx here, not the CapEx, OpEx on digital, more advertisement spend as well as incremental spend on this network expansion. Can you just roughly talk about how many crore kind of expense you're talking about incremental from here, very rough range we've had.

Rakesh Agarwal: We have already given a guidance that for a network expansion, we look at 0.6%. 0.7% of margin dilution, which will happen because one is that when we open a lab, so lab takes its own time to open up, and we have a cost which comes before that. So, that's one. And obviously, when lab opens up, it takes its own time to reach to a level where we want to. So, 0.6%, 0.7% of dilution coming from there. And obviously, some 0.5%, 0.6% of dilution coming from the digital network marketing and other fees. So, if you look at both of this, we will look at 1.2% to 1.25%. But obviously, this number will keep changing as we move ahead because some of the centers will become more mature as we move and that will start contributing to it. So, I think it will be more in that line, but obviously, maybe a bit changing here and there.

Anubhav Aggarwal: So, 1% is more like Rs. 12 crore to Rs. 13 crore number we're talking about. So, part of it we would have already spent in third and fourth quarter. That's why I was looking for more incremental kind of guidance from your side.

Rakesh Agarwal: So, I think the guidance is, again, very simple that we want to maintain at the-pre COVID level, which we've spoken about. And that is where we are. And obviously, there are dilutions happening because of a lot of things happening, and there are a lot of efficiency projects and cost efficiency things going on in between, lot of automation projects are going on. So, hopefully, we will nullify this both the sides and see we can maintain the pre-COVID level. That's how it is.

Moderator: The next question is from the line of Bharat Sheth from Quest Investment Advisors. Please go ahead.

Bharat Sheth: Ameera, when we are talking of the growth in different geographies, so how do we really would like to play in those geography vis-a-vis margin where the breakeven takes a little more time? And second, in those geographies where our brand name is not that really, I mean, visible to the medical fraternity, so how do we really plan to build that business?

Ameera Shah: So, a good question. I think, see, in markets we have to remember 2 things that, for example, markets where the consumer brand may not be very strong of Metropolis. But the fraternity, the health care industry and the fraternity know of Metropolis. So, the issue is not about doctors not knowing Metropolis. It's not about consumers not knowing it strongly as a strong consumer planning. So, really the differentiation is there. So, even today, whether you take a Delhi or a Calcutta or Punjab or any of these markets, where we are not in the top 2 or top 3 in the market but in more sort of number 3, 4, 5. If you look at it sort of the fraternity, hospitals, labs, doctors recognize Metropolis and the quality of it. Of course, this will never be 100%, but it will be a large number of doctors. What we mostly do when we go into a new market like this is we start with the B2B business, where we actually go and educate doctors, labs, and hospitals about our brands. So, in a market like Delhi, we've been doing that now for many, many years, and we start our reports circulating in that market through B2B channels. As the brand starts circulating more and more, the brand becomes more familiar. And at the right time, when you feel like you're ready to make a large B2C investments, it then makes sense to start the B2C. Having said that, we all know building a consumer brand takes a long time, especially in health care because it's not something you can do simply through advertisements and other ways like FMCG because it's not a business which is built on the back of advertising and marketing. It's a business that's definitely not for illness. It's a business which is built through engagement and trust and experience. So, therefore, we would start B2C, like we have in many of the cities, but probably not in a huge way overnight, but more in a creeping style where you keep expanding your centers and keep trying to work in that hyper local market to get B2C patients.

Bharat Sheth: And second question on when we are talking of specialty, so have we really added any more capability on the specialty side in last 2 years? Or how do we really plan to expand that portfolio?

Ameera Shah: We have absolutely added a lot of capability. So, we obviously already did genetics. We have all kinds of genomics. So, we have added a lot of capability on multiple areas and constantly to make sure that we are pioneering in the test menu. And we also do R&D in-house to sort of see how we can make more tests more affordable. Certain tests, which may be quite expensive, are there new technologies or techniques we can use to make them affordable or more relevant to the Indian population. For example, when we get most of these technologies, they come with western changes, which are actually relevant for an American or European population because the R&D is done there. How may this be relevant for Indian population which fits our genetic parameters. This is the kind of work we do behind this scene that helps us actually go to doctors and say, look, you should use our test because we are the only ones who have an Indian reference range, for example. So, there are many such things that sort of happen. But absolutely, we keep expanding the menu.

Bharat Sheth: And last question from my side. I mean when we are talking of this disruption. So, all these like several aggregator, which has recently seeing a good run like in Zomato and small restaurant. And so we are also seeing in this medical diagnostic industry some of the aggregator is appearing. And so how do we really plan to work, I mean, whether compete with them or complementary to them and vis-a-vis one this 1.5 lakh small labs which are already present. So, how do you really plan to grow with this kind of a scenario?

Ameera Shah: We have to be very clear about who we are and where are the areas we want to compete. So, we are very clear that we are not interested in competing with the aggregators on the low-priced wellness business because we feel this is just a quest for acquiring consumers and in a very nonprofitable and non-sustainable way on the wellness side. And that is a business that we feel does not make sense for us at this point of time to compete with them to acquire consumers in that way. So, we are, therefore, not competing with them on the low-price wellness. What we are doing is we are saying that how do we continue to participate in the wellness business, but using our brand, our technology, our quality, our services and therefore, continue to compete more on the premium wellness segment, which is what we are doing. As far as the aggregators, we are very open to partnerships. We are open to working with all the aggregators in the industry. In fact, we already are. But I think what you will see in the next few months is many of the aggregators, which have been doing a lot of very high-profile marketing and spending a lot of money, we have to recognize that the change of the economic environment. Many of them are also having a very hard time in securing funding. And I think you will see some sort of a consolidation in the aggregator space in the coming 6 to 9 months as well. So, I think we have to stay to our journey, it was good for us. And if there are opportunities to work with the aggregators, we are absolutely open to in a way that economically makes sense.

Bharat Sheth: So, how much is our wellness portfolio, size of the wellness portfolio that contributed to overall top line?

Ameera Shah: This quarter, it's 10%.

Bharat Sheth: And annualized?

Ameera Shah: About 8%. If I'm not missing, Rakesh, 8%?

Rakesh Agarwal: Yes. So, pre-COVID level, we were at 6%, 7%. COVID time, it has come down. And now it is increasing gradually. So, we have seen that this contribution going from 7% in quarter 1 to 10% in quarter 4.

Vijender Singh: Ameera, I want to add one more point to this question on aggregator.

Bharat Sheth: I'll appreciate that.

Vijender Singh: See what, we believe that with the aggregators, I think the overall consumption in diagnostics will go up. And within this wellness, we hope that 20% would be illness also. And this illness will become TG for a Company like Metropolis because our focus is going to be also on doctor connect. And for illness, largely the patients, they would go to doctors for their treatment and hence, this becomes our TG. So, overall, this will help us in creating more business opportunities.

Moderator: The next question is from the line of Rahul Agarwal from InCred Equities. Please go ahead.

Rahul Agarwal: Just two questions from my side. So, firstly, on non-COVID, Ameera, a lot of discussion happening around the growth part. Obviously, despite of COVID in Jan '22, we've grown both Y-o-Y and Q-o-Q. But a simple question, when do we see non-COVID revenue, excluding COVID alike obviously, growing at 15%? We are all used to looking at that number, this industry growing at that number and large organized players getting a lot of market share. The entire concern around this competition, I think, is because that number is not growing. They're still hovering around 5% to 10% in terms of growth. Could you give us some sense from wherein you see and obviously, there is an assumption here that COVID not recur, that when do you see this 15% non-COVID revenue straight B2C revenue growing for Metropolis.

Ameera Shah: So, Rahul, I don't have a crystal ball, so it's very difficult to give an exact timeline. But what I can tell you is that we have to understand that when COVID happens, the reason non-COVID comes down is because people are stick with COVID and therefore, that's the disease that takes priority. And therefore, other things are ignored or they don't happen because you're at home recovering from COVID. In every quarter, even if you look at Jan, Feb, March, you will see Jan had the lowest sort of non-COVID, Feb also had the lowest non-COVID, and then March sort of picked up in a much better way and had a much better growth. But these things tend to be very seasonal based on the kind of infections that you're seeing. This is not something that can be likely sort of push marketing. If somebody is sick then they need to come. And generally, what we are seeing is that as COVID has taken over sort of all health issues for the past few months and past couple of years, other things have come a little bit more on the side. I don't have an estimate in place, but I can say that my mind tells me that if COVID, we don't see another wave, my sense is that by Q2, we should see more of a normalcy in terms of a positive growth number going forward. And I'm fully hoping that we don't see any more disruptions like any other severe infections or severe COVID variants that come along the way.

Rahul Agarwal: So, in normal circumstances, removing COVID out, we should get back to that number, right? I mean the entire effort is focused on that, is that correct?

Ameera Shah: Well, I mean, of course, the effort is completely focused on non-COVID. I don't think there's any effort going into at this point on COVID, of course, as people fall sick, we have to take care of them. But the entire effort is going into non-COVID building geographical expansion, building business, going to doctors, doing better companies and that all the efforts are going in that direction.

Rahul Agarwal: And one other question was on routine testing. So, my sense is generally, routine tests have higher gross margin versus specialized and on EBITDA level they are pretty much similar. For a typical test like lipid profile or thyroid, what would be a reagent cost for Metropolis, at volumes you do? Because that's the number I'm looking at on an absolute basis, which is a minimum breakeven at gross level, right? I mean, could you help me with just 1 number here?

Ameera Shah: A gross margin percentage is what you mean?

Rahul Agarwal: Yes. I mean the reagent cost for a lipid profile or a thyroid test at current volumes for Metropolis per test, how much will it be? Will it be like Rs. 80, Rs. 100, Rs. 60?

Ameera Shah: Difficult to give that number because the costing information is obviously confidential to the organization. But what I can share with you is that there is the gross margin on routine test. The first thing to remember about testing pathology is that the material cost is not the biggest cost on the P&L. The biggest cost on the P&L is the servicing cost. So, while somebody may say, okay, if the MRP is Rs. 100, and if your cost of a test is Rs. 20, then why can't you sell it at Rs. 30 because out of that Rs. 20 to Rs. 80, almost Rs. 50 is the servicing cost. You have a cost of a phlebo, you have a cost of property, you have cost of consumables to do the collections, and the cost of testing people, et cetera, etc., So, the material cost is something which is important, but it is not the only important factor in the entire costing. Traditionally, we see that routine testing has the highest gross margin, but routine testing can again come in multiple ways. Routine testing can come either through a strong brand that we have of B2C, where you are able to get a fair market price. But if routine testing is coming through this kind of discounted aggregation that people are doing, then the servicing cost will actually completely destroy any profitability on that test, and there would have to be losses incurred for them to be able to make sense of it. So, I think what we are continuing to see in some of the aggregators is like I said, the consumer acquisition spree at any cost. And the thought is to say that okay, we'll fund it till it makes sense. But the real question in health care is whether consumers are going to react to that, looking at only price. And like we already discussed that may happen on wellness and chronic, but not so much.

Rahul Agarwal: Ameera, that's the point I was trying to drive to that they're saying that Rs. 100 a test is profitable on TV, basically, meaning that maybe a profit around gross margin, but is it possible after you account for servicing costs? But anyway, we'll take that just looking forward.

Moderator: The next question is from the line of Tarang Agarwal, Old Bridge Capital. Please go ahead.

Tarang Agrawal: A couple of questions. One is a lack of a cross-selling platform an impediment for you, for instance, you have a hospital, pharmacy, diagnostics or now with the newer players, you have a host of other things on their platform where they're trying to cross-sell which gives them some sort of economy and a good customer stickiness. So, is that you feel an impediment insofar as your business is concerned? And would you be sort of open to some sort of a partnership to you have that in place? That's one. Second, pardon my ignorance, but if you could just give me some sense on how you define your specialized and wellness and other category of tests and some quantitative sense in terms of the breadth and depth of your portfolio there versus incumbents in the market.

Ameera Shah: I'll start with the second. So, we have a large test menu of about 4,000 varieties of tests. If I compare to a couple of the other national players, which also do a larger test menu, there would be a difference, we would be higher by maybe 20% over some of the others. Obviously, the fourth player, which does mostly wellness and B2B, will do a very limited number of tests, about 200 varieties test. So, that's really not a comparison point in terms of the business model. The 150,000 labs, which are on the street, which are doing that 2 lakh to 5 lakh, 7 lakh business per month will only do 50 varieties of test. The slightly larger lab, which to maybe 10 lakh, 20 lakh a month will do maybe 100, 150 varieties of test. Even top hospitals, you guys go for tertiary care would do 300 to 400 of test. A regional chain would do maybe 500 variety of test. So, I hope that gives you a sense on the level of complicated and very comprehensive test that we do when we have a test menu of 4,000, which is equivalent to the best global players offering everything under a platform. The reason I had mentioned in the speech was that this is difficult to replicate is because these volumes of these sort of sale and test what you call as the bottom 3,000, 3,500 tests tend to be very, very small in number, and you need to accumulate these volumes through a national distribution from all across the country to bring them to one place and commercially make it viable to get economies of scale to actually run those tests. Otherwise, for any player who doesn't have a national distribution and normally national distribution, but the ability to generate those tests because these are very specialized medical tests and you have to be able to go to doctor and convince them on your expertise on each one of those tests. So, for example, if you are showing a neurological test, the question is, do you have a pathologist who has very, very high knowledge on neurology? Do you have your interpretations which are high fully knowledge on neurology? So, there are a lot of things that go behind the scene. It's not just going and picking up a test. So, I hope that answers your question on the test menu and the scope of it.

Tarang Agrawal: Yes. I'm sorry to interrupt, just a follow-up on that. So, out of your 141-odd labs, my sense is only a specific set of labs would be capable of administering these 3,500 tests and then servicing them over a couple of days or so on and so forth. Would that be the right way to look at it?

Ameera Shah: The stride, it works on a hub-and-spoke model. What's unique about Metropolis is that we have almost 10 regional reference labs in India, which means that while we have 170-odd stat labs, which do about 150 varieties of test, we have 10 regional reference labs, which do about 400 to 500 varieties of tests, which is the highest amongst all our peers. This gives us an ability to do more tests locally, which is very valuable in the quality of the business that you pick up because you're able to give a faster turnaround time. And then we have the global reference lab, which is based out of Bombay which does all the 4,000 varieties of test. This is a very normal structure and practice globally that consolidates the volume of specialized tests because otherwise, it economically doesn't make sense to do that. Coming to your first question on the platform play. I want to reverse the question and ask the question, why do people even think a platform play is the way to go? I think this idea has come from China, where we have seen platform plays do well. But if you look at the ecosystem of the Chinese market before consumer health care came in, everything was state run, everything was run by the government or in very large hospitals. And therefore, a consumer play where you could book everything together on 1 platform became a very attractive thing for consumers. That is not the problem in India. In India, today, consumers already have access to a completely retail health care ecosystem. They are not forced to go to the government or go to any institution for anything. They already have all options at their table. So, the reason why your e-commerce platforms do well is because you will land up ordering something from this e-commerce platform every day. Sometimes you'll order something small, the next day something small and it makes it very convenient. But if you think about your own life, how often do you engage with health care systems? You may order the drug once a month. You may go for the test once a year. You may need to see a doctor once or twice or 3 times a year. This app is not going to be something that you're going to get on to every day where you're ordering something and therefore, the habit, and the use of the app and the platform is far less frequent than what you would compare to an e-commerce player. So, I think the debate and the discussion whether a platform play is truly going to succeed, it's a big question mark at this point of time for the Indian health care ecosystem. Then it comes to the question of, do we think we are missing out because of an upsell a cross-sell, but is anybody able to do upsell or a cross-sell? Is it proven? It's not. At this point of time, there are a lot of theories around or we will cross-sell from e-pharmacy to diagnostics or we will upsell from here to there. But is it happening? I think you should check. I don't think so.

Moderator: The next question is from the line of Shanti Patel from Shanti Patel Investments Advisors. Please go ahead.

Shanti Patel: The latest entrant is Lupin. Even Adani is coming and 1mg or so is starting. So, looking to all these things, will you think that the market share will go down as far as Metropolis is concerned?

Ameera Shah: I don't know how to answer this question because we believe that there are only 5 groups that can succeed in every business in every industry in India. Then that will basically, we will say that entrepreneurship is dead in our country, and consumers will only go to these 5 groups for everything. We have to remember that that is not the case today. There are many groups flourishing and many people in even a particular segment of society, there are many businesses flourishing. I think it would be fear of the unknown to say that, oh, now if this group or that group comes in, everybody else is going to have a hard time thrown. I think that would be a stretch in my opinion. I think we have succeeded for our own part; we can speak. We have succeeded very well in diagnostics and become a leader in the space. Based on the DNA, the hard work, the distribution, the specialized tests and more importantly, the expertise that we have built up in health care, this is not so easy to replicate. I want you to just think through your own examples and say that tomorrow if any one of these groups just came in and said, now we are offering all services, are you going to stop going to the doctors that you trust because somebody else is offering it. I don't think it works like that when you're sick. When you're sick, you want to go to people who trust, you want to go to where you feel you've got reassurance that you're going to get better, that you're going to get the right test. When you have cancer, you're worried about treating the cancer, you're not worried about whether you go to group A or group B. You want to go to the doctor, the lab, the treatment where you're going to get the best treatment possible and get well soon. That is our belief in the way we've built the business and what we see of the market that we understand.

Shanti Patel: I entirely agree, you are very intelligent, very enthusiastic, very firm on your belief, etc. But in our area only, let me tell you, only 2 or 3 diagnostic centers were there. Now Lupin has come. Then some RG – I've forgotten the name, some 3, 4 new entrants have come, and they're very strong. So, I think naturally one will feel that the market share has to go down because others will otherwise will not have any business. From that angle I was asking. I don't have any doubt about the competency, your intelligence.

Ameera Shah: The market is only 15% organized segment and 85% unorganized. Why is there the assumption that any new entrant is going to come and eat up the market share of the 15% players? Maybe it is possible that the new entrants will come and take some of the market share of the unorganized.

Shanti Patel: I agree. Unorganized and in organized, and I don't know, you are in a better position to express that opinion. And in stock market, see, the moment this, what you call, Tata, one entity gets in, now the market price of share went down. When you're psychological, I don't say it, it is in reality we have had. But that is a psychology which people think that your market share may go down, may not necessarily, but probability.

Ameera Shah: Sir, I can only talk about our industry, and I'm sure in the stock market, if everybody started following the psychology of anybody who advertises, stock price of everybody else will go down, then nobody in the market will make money. So, all of you are obviously very, very intelligent investors, and I think you can probably see beyond the basics of the market.

Shanti Patel: In your case, you see like depending upon the experience, depending upon the intelligence, depending upon what you call past experience, we are just to rely on you. I don't deny that. But I was thinking, let me have an explanation. Fine, I will accept your explanation and let us see next year what is the influence.

Ameera Shah: Sure, thank you.

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

Namit Mehta: Just a couple from my side. One, I just wanted to understand whether competitive entry changes the dynamics in terms of franchisees, whether in terms of acquisition or management or churn. Are we seeing some of these franchisees going to the more aggressive peers, maybe offering higher margins and so on, and do we need to match those? How do those dynamics play out?

Ameera Shah: So, franchisees are unlikely to go to new entrants because franchisees only survive based on the business that we generate for them. And therefore, the brand is very important because you have to remember that the sales generation is done by the organization and only the service fulfillment is done by the franchise. Therefore, the franchise is quite dependent on the brand to generate. So, if they go to a new brand, it offers them higher commissions, but doesn't give them even half the business, then it the loss-making proposition for that franchise. So, I think if there is any poaching that happens or anything on franchisees, it tends to happen, and that's also very, very marginal. We don't see this as a big trend between the incumbent who already have strong brands and not really with new players. As far as acquisitions, like I mentioned, there are many deals available on the table. So, far, at least a few competitors that have come in are hoping to build organic business by building distribution. I'm not seeing them in the market at this time for acquisition.

Namit Mehta: And I found what you said on the specialized test business in terms of economies of scale and volume very interesting. Just wanted to probe a little further and understand how competitive the specialized test business is. So, in a Mumbai or a Chennai, what kind of market share would you have in this particular segment? And will some of the new entrants even try to compete in those segments given they don't have the volumes? Do you see people just sort of splurging money to be able to offer those tests? Or is it more that people like you focused on quality and with the experience and with the volumes are the ones dominating those markets?

Ameera Shah: So, to the first question, the answer is yes, the larger players do dominate this market. It's very difficult to give you a share of market because that data is not available in the public domain in terms of any third-party data. But considering 40%, 42% of our revenue comes from specialized tests, we definitely have the highest share of specialized test in the industry. And of course, that would be fairly proportionate to the stronger markets that we are in. On your question about new players doing specialized, I mean the market has all kind players, right? We have seen in the past, not even in this round of competition, but in the earlier round of competition between 2012 and '16, we saw 1 player come in and on a very specialized technology decide to try and just build large volumes by discounting the price more than 60% to 70% on a very, very specialized genetic test. And said that, look, I'll offer this at a very, very low price, let me build volumes. And what landed up happening now in the 10 years they have been doing it, they did manage to build some volumes initially, but it has always been a loss-making business for them, and it has not really ever become profitable or contributed to their success. They were not able to diversify from that genetic test to other tests to compete with us on a pan-India basis. They were not able to get the doctors' trust and credibility even for that genetic test because in health care, there is a mindset that the more you discount the question comes up, look, are they even doing the test?

Are they doing a good job? Do I want to go to some place, which is just discounting? How are they affording it, right? And am I getting a poor-quality report because it is so heavily discounted. So, actually, the lower pricing and the discounting causes a concern amongst patients in illness and doctors around the credibility of the test report. So, we have not seen it actually the strategy of price disruption. We have not seen it to be successful for the many, many, many players, which have come into the industry and tried this. And they have to remember that the 150,000 labs that exists, are anywhere a significant discount to all the national and the seasonal players. So, if pricing was the main thing, then actually the unorganized market would flourish far more than the organized market. So, I think, there will be players who will try, I would say, on the specialized side. Not all 4,000, but they'll try with 200, 300, 400 test to try and make a mark. And if they try to do it in a rush with discounting, I think they will struggle. If they try to do it in the way that we did it scientifically with expertise, they may have a chance of success, but then that will take time.

Namit Mehta: And last question from my side. So, do you think broad-based brands which generally mean trust for the Indian consumer translate well in the health care industry? So, for example, for you or for a Dr. Lal, you had to build up your brand from scratch and develop that over a long period of time to the state where you are today. But somebody like a Tata coming in today with that sort of day 1 reputation and trust, which is broad based across sectors, does that translate well in this industry? Or does that still require a very specialized brand focused on medical fraternity to succeed in this business?

Ameera Shah: Well, I don't want to comment on any specific player, but I want to give you an example. Even the top 2 hospital chains of the country, they try to take their brand and set up diagnostics on their brand, and they have far more trust in health care than any of the groups that you're mentioning, were not able to be successful in diagnostics because they had trust from doctors on treatment. But having trust on treatment for heart or gastro or neuro is not the same as having the doctors trust on diagnostics. Health care is an area of subspecialties. To give you an example, if somebody in the family, in your family has got cancer and they have somebody who is suspected of having lung cancer, let me tell you, you will not even go to a general histopathologist. Your doctor will say, go to this specific histopathologist who has got the maximum expertise in lung cancer. That is how subspecialty health care is and especially isn't. The expertise and the knowledge is what counts the most. And therefore, the translation of trust, general trust from FMCG brands to specific acute illness diagnostics is not so easy.

Moderator: Ladies and gentlemen, due to time constraints, that was the last question for today. I would now like to hand the conference over to the management for closing comments.

Ameera Shah: Thank you for you guys to organize the call and thank you to all for attending and patiently hearing us for the last hour 23 minutes. We hope we've been able to address a lot of the questions. I just want to leave you with 3 messages that we have worked very, very hard over the last 40 years to build trust, credibility, experience and knowledge and expertise in this industry. And there is a reason why we are leaders in the industry today. This has not happened by chance or by fluke. There have been many competitors that have come in, tried to do price disruption and other ways. And we have to just recognize that there will be some parts of the industry, which will like we said the wellness segment, which may be more prone for disruption, but the parts of the business which are built on strong fundamentals are in the illness space which is where we operate. We would like to continue our journey of building out our expansion, geographical expansion, product expansion, technology changes and really move towards a Company that is not only strong in science, expertise, and knowledge, but also provides all the conveniences from a technology and a digital perspective to our consumers and makes working with Metropolis and engaging with Metropolis a completely seamless experience. This is the journey that we are on, and we believe that we are very well placed to continue to compete and to do well for us and our shareholders. Thank you, everybody.

Moderator: Thank you. On behalf of InCred Equities, that concludes this conference. Thank you for joining us, and you may now disconnect your lines.