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Corporate Relationship Department
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Subject: Financial Results Conference Call Transcript for Q4 & FY20

Dear Sir/Madam,

Pursuant to Regulation 30 of SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015, please find attached herewith Financial Results Conference Call Transcript of the Company for Q4 & FY20.

We request you to please take the same on record.

Thanking You,

Yours Faithfully,

For Dr. Lal PathLabs Limited



Rajat Kalra
Company Secretary and Legal Head



Encl: As above



Dr. Lal PathLabs Limited Q4 & FY20 Earnings Conference Call May 18, 2020

Call Duration	<ul style="list-style-type: none">▪ 1 hour 42 minutes
Management Speakers	<ul style="list-style-type: none">▪ Hony. Brig. Dr. Arvind Lal - Executive Chairman▪ Dr. Om Prakash Manchanda - Managing Director▪ Mr. Bharath - Chief Executive Officer▪ Mr. Ved Prakash Goel - Chief Financial Officer▪ Mr. Rajat Kalra - Company Secretary and Head of Investor Relations
Participants who asked questions	<ul style="list-style-type: none">▪ Amit Kadam - Canara Robeco▪ Anmol Ganjoo - JM Financial▪ Anubhav Agarwal - Credit Suisse▪ Ashish Thakkar - Motilal Oswal Securities▪ Chandramouli - Goldman Sachs▪ Gagan Thareja - Kotak Investments▪ Hardik Shah - Prabhudas Lilladher▪ Harish Krishnan - Kotak Mutual Fund▪ Keshav Lahoti - Angel Broking▪ Manish Poddar - Nippon India▪ Neha Manpuria - JP Morgan▪ Nitin Agarwal – IDFC Securities▪ Nikhil Mathur - Ambit Capital▪ Nitin Gosar - Invesco Asset Management▪ Prakash Kapadia - Anived Portfolio Managers▪ Prashant Nair - Citi▪ Pritesh Vora - Mission Holdings▪ Sameer Baisiwala - Morgan Stanley▪ Sapna Jhawar - Dolat Capital▪ Subhankar Ojha - SKS Capital

Moderator: Ladies and gentlemen, good day and welcome to the Dr. Lal PathLabs' Q4 & FY20 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. Should you need assistance during the conference call, please signal an operator by pressing "*" then '0' on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Nishid Solanki from CDR India. Thank you and over to you, sir.

Nishid Solanki: Thank you. Good afternoon, everyone and a warm welcome to Dr. Lal PathLabs' Q4 & FY20 Earnings Conference Call. Joining us today are senior members of the management team including Hon. Brig. Dr. Arvind Lal – Executive Chairman; Dr. Om Prakash Manchanda -- Managing Director; Mr. Bharath -- CEO; Mr. Ved Prakash Goel – CFO and Mr. Rajat Kalra -- Company Secretary and Head of Investor Relations.

Before we commence the call, I would like to underline that some of the statements made on the call today could be forward-looking in nature and the actual results may vary from these forward-looking 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 request Dr. Arvind Lal to share his perspectives with you. Thank you and over to you, sir.

Dr. Arvind Lal: Good afternoon to all and thank you for joining us on today's call. I will be sharing my thoughts on the key developments during the quarter and give a broad color on the outlook. The world over we are grappling with defeating a common enemy in the form of COVID-19 which has taken the shape of a global pandemic. The quarter gone by was marked by a decline in volume due to the impact of nationwide lockdown starting second half of March to contain the spread of COVID-19. As we continue to experience some adverse impact of lockdown on the business in Q1 FY21 as well; however, we believe this to be a transient effect and expect to return to normalcy once the economic activities start post lockdown given the inherent nature of our services. You may be aware that we were one of the first private laboratories in India that has got approval to commence testing for COVID-19. Currently, we have approvals for three labs which are at the National Reference Lab at Delhi, the Regional Reference Lab at Kolkata and Central Lab in Indore. We are closely working with the state Governments to meet their testing requirements.

This unforeseen pandemic will bring in sharp focus on communicable diseases in times to come and it also exposed that India is underserved in the healthcare segment. Therefore, current situation highlights vast scope of growth in healthcare, particularly in diagnostics.

Our performance during the first nine months of the fiscal year reflects our well-considered approach of blending organic growth with pursuing strategic opportunities in West and South regions to build out testing and patient collection infrastructure. We are also continuously working on providing an improved user experience to the patients by leveraging technology. This is in addition to our efforts towards widening our test menu and geographic presence. Our hub-and-spoke operating model has successfully demonstrated scale benefits in the past and I continue to believe that this will help us in further expanding our penetration in the diagnostics industry.

With that I would like to hand over the call to Dr. Om Manchanda to share his thoughts and updates on the operational performance.

Dr. Om P Manchanda: Thank you, Dr. Lal and good afternoon to everyone on this call today. As pointed out by Dr. Lal, this quarter was a challenging one for us due to COVID-19 pandemic especially towards the end, that is in March 2020 and the challenge still continues. While we have undertaken host of initiatives to partially offset this impact, the resultant impact on our financial performance is evident. We are certain that the adverse impact on our operations will not be too prolonged given that we offer an essential service and that our momentum will return gradually as the lockdown gets eased.

Our revenue for the quarter came in at Rs. 301.7 crore. For the full year ended March 31, 2020, revenue stood at Rs. 1,330.4 crore, growing by 10.6% compared to last year. We served 4.4 million patients in Q4 FY20, an increase of 2.1% as compared to Q4 last year. In FY20, we served 19.4 million patients, an increase of 10.3%. While we have been driving sample volumes through network expansion and bundled tests, the overall performance has to be seen in light of COVID-19 impact and subsequent lockdown.

In terms of COVID-19 testing, we are drawing samples and conducting the tests in complete compliance with patient and sample management protocols as laid out by ICMR and other Government bodies. The data is being shared on an almost real-time basis with the Government authorities. We are currently testing for COVID-19 at our National Reference Lab in Delhi, Kolkata Reference Lab and Central Lab, Indore.

The COVID-19 outbreak has significantly impacted sample flow in the non-COVID segment and Dr. Lal PathLabs continues to keep its infrastructure of labs and collection centers open as much as possible. We are carefully analysing likely patient behavior post the lockdown and accordingly making changes in various processes related to patient handling.

Dr. Lal PathLabs continues to drive volumes by expanding the reach in rest of India market through cluster approach. And during the quarter under review, contribution from Rest of India stood at 60% as against 58% percent last year. Our attempt has always been to increase the productivity by driving scale and keeping costs under control.

Given our strong presence in the Delhi NCR region, our focus has been on growing the Rest of India contribution in a calibrated manner, which will be crucial for us to maintain margins. We have also been acquiring smaller but high-quality local labs in the west and south regions of India to grow our presence in lesser tapped regions of the country, that is beyond north and east.

Technology is an integral part of our operations and we are continuously thriving to strengthen our digital presence and further developing our app with greater functionality and customization. Our online experience thus far has been encouraging and our ability to integrate technology into our service offering is what gives us a significant edge over competition.

Our mission is to provide the best possible diagnostic services to our patients conveniently and at reasonable prices by leveraging technology and widening the test menu. With that in mind, it is our duty and responsibility to enhance the quality of healthcare and to provide value to all our stakeholders.

With that, I conclude my opening comments and would now request Ved to give an update on the financial performance of the company.

Ved P Goel: Thank you. A very good afternoon to everyone present on this call. I will now share with you some of the financial highlights.

Revenue for Q4 FY20 is at Rs. 301.7 crore as compared to Rs. 301.1 crore in the same quarter of last year. For the full year FY20, revenue came at Rs. 1,330.4 crore, a growth of 10.6% over FY19. Realization per patient for the year FY20 stood at Rs. 686 as against Rs. 685 in FY19. Normalized EBITDA for Q4 FY20 came in at Rs. 55.5 crore as compared to Rs. 72.9 crore reported in the same quarter last year. Normalized EBITDA for FY20 came in at Rs. 331.1 crore, a growth of 5.7% over FY19. PBT for Q4 FY20 is at Rs. 45.4 crore as against Rs. 69.2 crore in the same quarter last year. PBT for FY20 came in at Rs. 310.5 crore, a growth of 3.3% over FY19. PAT for the quarter is at Rs. 32.6 crore as against Rs. 47.4 crore in the same quarter of last year and for FY20 full year, the PAT came in at Rs. 227.6 crore, a growth of 13.5% over FY19.

Cash, FD and investment in mutual funds stood out Rs. 744.3 crore as at March 31, 2020. Basic EPS for the Q4 FY20 was Rs. 3.94 per share. For the full year, basic EPS stood at Rs. 27.42 per share.

That brings me to the conclusion of my opening remarks, and I would now request the moderator to open the forum for question-and-answers. Thank you.

Moderator: Thank you very much, sir. Ladies and gentlemen, we will now begin the question-and-answer session. The first question is from the line of Chandramouli from Goldman Sachs. Please go ahead.

Chandramouli: First question is related to the opening remarks that you had made. We have seen only a mildly similar shocks in the past post listing for you which is demonetization and demand there seem to come back in a couple of quarters. In contrast, the current experience with that shock based on data and trends that you are seeing, how many quarters would you think that it might take for demand in this situation to come back to sort of normalized levels, any color that would be really helpful?

Dr. Om P Manchanda: I think that is a good question. While we are seeing encouraging improvement in the sales over the last five, six weeks of lockdown, it has definitely not come back to what we used to be. We are significantly down compared to last year, but my sense is once the lock down gets relaxed and overall lockdown 4.0 has certain relaxation in green zones, etc., definitely demand will come back but it is very-very difficult to actually say as to when will we come back to normal level because of strategy adopted during this lockdown by various states which is actually varying. We were hoping that from today onwards lockdown relaxation will be much-much more, but we have not seen that yet. So I do believe that we will come back to normal. It is very difficult right now to say as to how much time it will take. But my sense is that will be a big function of relaxing various restrictions that exist today in key states specially northern and eastern part of India.

Chandramouli: Second question, Ved, is on the gross margin. Looks like for the last couple of quarters gross margin is down in excess of 100 basis points. Is this a function of maybe the INR weakness and some of the contracts that you have with the suppliers or is it a function of maybe softer volumes expected in recent quarters, if you could give us some color on the gross margin please?

Ved P Goel: See, gross margin, if you are talking about this quarter especially, because of lower sales and that is where consumption is slightly higher because on scale of low volume, obviously, the consumption tends to grow up. That is the reason we see that gross margin is looking lower. But otherwise on a steady state, our gross margin is quite stable.

Dr. Om P Manchanda: I think one variable that we see clearly is that it is very sensitive to scale. As the scale went down very sharply in the last fortnight of March, we saw some impact. While the revenue per patient from high end test is high, but relatively these kind of test tend to have lower gross margin compared to let us say a routine test, but then EBITDA margin is very similar because servicing cost of a high-end test is much-much lower than a routine test because most of the high-end test tend to be B2B in nature. So that also tends to make a difference at a gross margin level.

Chandramouli: My last question is, I understand you do not usually comment on monthly trends, but we seem to be in very-very different times and there are a lot of numbers doing around that healthcare services companies are seeing in excess of 70%- 80% sort of YoY declines in April and May. So, if you could just give us some directional commentary on what trends you have been seeing in April and May, that will be really helpful?

Dr. Om P Manchanda: I may not want to put a figure on to this because we are in such a dynamic world where virtually these numbers on day-to-day basis are changing, but there are two, three things I want to tell you -- One is that we are looking at business as COVID and non-COVID because there is some COVID testing which is flowing in and that is very highly volatile in nature because one day you get a large number of samples, next day you do not get it. So we are very clearly focused on reviving non-COVID business because we know that COVID business is a temporary opportunity, it also exists primarily right now more in the top line because we are uncertain right now and unsure as to whether it will have any positive impact on the bottom line at all because lots of unforeseen expenses are becoming more and more visible on the COVID side of business. But if I were to just take non-COVID which is our original parent business, we are seeing a very encouraging improvement week-after-week. We are still nowhere close to where we would like it to be, but all I can say is that what happened in the first week of lockdown and where we are now, there is a significant jump in the business as of today.

Moderator: Thank you. The next question is from the line of Nikhil Mathur from Ambit Capital. Please go ahead.

Nikhil Mathur: So what we have seen in your pricing profile over the last two-three years is that there has not been any kind of pricing hikes that have been undertaken either by Dr. Lal or some of the larger players in the market. Does it offer some room for you to increase prices in FY21 given that there is possibly more income at disposal for many of your clientele in metro cities and possibly the competition is also a bit weaker, so can you offset some bit of pressure in FY21 by taking some bit of price hikes in FY21?

Dr. Om P Manchanda: My sense is there is so much of adverse impact on the economy I am not sure that we would like to take that route or market would be able to absorb it. So, I think immediate reaction to your question is it will be difficult to make up through a price increase on shortfall that we expect in the year. But we also believe that as the lock down opens up, there is a pent up demand which will come out because see, our demand is largely a function of private OPDs and during lockdown these OPDs have actually come down drastically. But I think with every relaxation happening on the medical movement, we do believe that we should quickly come back to a reasonably good level of numbers compared to last year within next two to three months.

Nikhil Mathur: Also the compliance cost in terms of protecting your employees or in general how collection will happen, how your facilities will operate, surely there would have been some jump in compliance cost in deploying these kind of safety measures. Can that really have a bearing on your margins in FY21 from that standpoint?

Dr. Om P Manchanda: I think it is a great question. We do believe post lockdown, there is a likelihood of a change in consumer behavior. One clear behavioral change which is going to be there for all of us which is going to impact all the industry is social distancing norms. And there is also likely for some time to come, the hesitation for people to walk into a retail facility. We do believe that we will have to take some measures to counter that. I do believe that home collection segment will tend to grow. I also do believe that digital initiatives that people would like to book online, pay online and maybe come only for just giving blood sample rather than staying longer in the walk-in area, so that also may happen. We also may have to spend some money on protecting our own employees which we have already started doing. So you are absolutely right that some amount of precautions will need to be taken to keep both, patient as well as employee safety.

At cost basis at some places, we have started building into that cost because let us say for example we are not allowing anybody to walk into our facility without a mask. So we are actually communicating to all our customers that they should come with the mask and if they do not bring mask then we probably are giving a facility of picking up one from our outlet and pay for it. So all those costs as much as possible we are trying to recover. And let us hope that we significantly do not increase cost of operations. But it is very difficult right now to estimate that what that cost of operations is going to be. But I do believe that it is not going to be significant that we resort ourselves to take a price increase. Ved may want to add something more to it.

Ved P Goel: You are right. I think Nikhil, cost of operations is going to go up as explained by Dr. Om also, but at the same time we are looking and seeing how we can change our model so that we can optimize the costs. So, a lot of cost which is normal cost we are spending, other cost that might not be required, we can optimize those. So, it is a bit of balancing the whole thing where in some area the cost will go up but at the same time we can also save some cost by optimizing some of these operations or some of these processes where we generally spend money.

Dr. Om P Manchanda: But the revenue side can also throw up opportunity because consumers will feel more confident in coming to an organized branded player than a small player because they believe that safety measures are much better here.

Nikhil Mathur: So are there any packages that are being worked out from a strategic standpoint? What we understand is that co-morbidity is a very large issue. If a patient has some co-morbidity, he also gets impacted by COVID. So, are there any health risk assessment kind of packages that Dr. Lal is willing to launch wherein there is a setup test that will be undertaken by a patient and he or she can get to know the risk profile in general to try and lead a more healthy lifestyle?

Dr. Arvind Lal: The thing is that right now it is peak of COVID-19 infection and the co-morbidity right now are interconnected with people slightly in the older age group who are going for other kind of chemotherapy or who are going for elective surgery or a cardiac stenting or things like that. So, those are the ones which are actually looking you in the eye. And with that you do not have the co-morbidity, if you are infected with COVID-19, then the outlook is slightly bad.

Coming to people like us, we have to wait for this initial peak to subside as we say that if the curve gets down, and then of course the number of packages which we can take out in no time. But at that point of time they will be testing for the COVID-19 but hopefully for the antibody segment to find out if there is any immunity created in this person or not. But that will take time. Right now the Government has not announced those plans for people like us to do the antibody testing along with co-morbidity conditions.

- Moderator:** Thank you. The next question is from the line of Harish Krishnan from Kotak Mutual Fund. Please go ahead.
- Harish Krishnan:** My question was related to the antibody testing opportunity. Like you mentioned the Government has not allowed it. But could you give a sense as to how large that opportunity is if scale of investments may be needed, and how are we looking at this as an opportunity to institutionalize that we may not participate, how are we looking at this as an opportunity once we get out from the lockdown phase and this will become new normal?
- Dr. Arvind Lal:** So I would like to inform you that if you read the 'Economic Times' today, the Government has announced that testing is going to be ramped up and right now I think we have done about 20 lakh tests and they would like to do about a crore of tests by July end, this is written today. And in that they expect to find 5 to 7 lakhs positivity which means 5% to 7% positivity. The point I am trying to make is that right now there is no time absolutely for the antibody test to come in right now because the peak of the epidemic has not been seen in India. So once this peak comes, then it will taper off and at that point of time the antibody test will come in. Having said that, antibody manufacturing companies are already approaching us. Some of them have even been approved. But what is most important is that the Government has not given any private or for that matter Government hospital labs to go ahead and start doing the antibody testing because the antibody testing is not to be used for diagnosis. It is only for surveillance and finding out the immunity and therefore it is going to come in later from our point of view.
- Harish Krishnan:** But we are keen on entering this opportunity or do you think that this will be to commoditize and therefore we would not get in. I just want to get a sense.
- Dr. Arvind Lal:** That is not the issue. The issue is that first of all the signs must be correct. Right now, the signs is of finding out who has got this infection and namely people who are around a positive case and the asymptomatic cases. So right now, the phase of the disease in India is different. And it is to find out if somebody is infected or not, for that the good standard is RT-PCR. So once this tapers off which is going to be, I mean, we can keep on speculating, but I think it may take another two months or so, after that the antibody test will definitely kick in because people will have to find out whether they are immunized or not. And people who are immunized for example will also be a good candidate for the vaccine trial or the vaccine when it is introduced. So the two phases are different. Yes, the opportunity will be there, but right now the opportunity for us as mentioned earlier is in jumping on to the bandwagon of the Government trying to do one crore tests by July. So that is the first opportunity.
- Dr. Om P Manchanda:** Dr. Lal, if I may add I think if your question is "As and when it opens up for private sector, we are allowed to do" short answer is we would obviously participate in this opportunity as well. And second is RT PCR test is highly specialized, only a few labs do this test. But once the antibody test comes in, then it will be widely available, it is much more scalable test because ELISA or whatever technology that gets approved is widely available with various labs.
- Harish Krishnan:** Thank you. My second question is, have you seen any change in the reagent pricing because of maybe a significant ramp up globally for reagents itself, has there been any such trend for non-COVID or both?
- Dr. Om P Manchanda:** I do not think there is any change that we have seen on either of them.
- Ved P Goel:** The only thing which is dollar movement which is there but right now we have not seen any increase or we have not come across a situation where supplies are coming and the prices going up. So right now there is no such case.

Dr. Om P Manchanda: Actually, I would say there is one adverse factor which is dollar movement and one favorable because they also must be sitting on high inventory, you know the business is down. So I do not see that they will come back and put pressure on increasing prices.

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

Sameer Baisiwala: Can you update us on the movement of samples both intracity and intercity, how is it looking at the moment?

Bharath Uppiliappan: So we had initial challenge during the first three, four days of lockdown, but glad to share with you that more than 90% percent of our intracity and intercity lines are completely operational now. The frequency gets better as flight connectivity starts to roll in. We have the crescent route now being run by Blue Dart which is what we are using to connect into Delhi or into Kolkata. But going forward the rest of the main cities must be covered through airline which will hopefully open up soon.

Dr. Om P Manchanda: So just to add to what Bharath said, relatively we got more impacted by lack of patients because they were all locked-down. While we were wondering logistics is actually hampered or not, but luckily our infrastructure and logistics movement were not that badly impacted as the patient movement because patients were not there mainly because there were no OPDs happening at that time. But for the last 8-10 days, OPDs have started opening up and we are seeing some encouraging trend in our non-COVID sales.

Sameer Baisiwala: Just on that point of OPD, these are doctors doing private consulting. So what is your assessment, I mean is most of the doctors now operating three to four hours every day or is it half of them, I guess that is what will determine your volume recovery?

Dr. Om P Manchanda: Actually I do not have any firm number but the challenge which I find is that patients are hesitant to come out and see doctors even if the doctor is there. So I think there is a lot of anxiety in patients right now, whether they want to move out and see a doctor or visit a hospital or a medical facility. I think till that stabilizes, one will have to wait for the normalization of business.

Sameer Baisiwala: On COVID testing, what is your current capacity, daily capacity whichever way you want to put it, and earlier I remember the reagents for COVID was the bottleneck, so how is that looking?

Dr. Om P Manchanda: Our capacity for PCR testing is about 4,000 samples per day. This is the total capacity because it also includes any business for non-COVID as well because non-COVID has been very low, so most of this capacity, we have been sharing with all the Government bodies that if push comes to shove, we can actually go to 4,000 samples per day. So that is our stated capacity for PCR test.

Sameer Baisiwala: Do you have the reagent to do that test?

Dr. Om P Manchanda: Yes, I think when these tests were approved, there was a lot of hue and cry and some of the media coverage about kit started. It was never meant to be like that because once the approval happens, obviously these people had to get import license, all that, is behind us. So, kit is not an issue anymore.

Dr. Arvind Lal: And if I may add very quickly, 4,000 is our stated capacity in the reference lab in Delhi and the test has been carried out also in our Kolkata reference lab and also in

our central lab in Indore. So, the total capacity which we offer all over India for this COVID testing is between 5,000 to 6,000 test per day.

Sameer Baisiwala: How do you see the demand for COVID testing in the sense that are large employers like IT companies or private banks thinking of making a mandatory COVID testing once the lockdown is lifted, so every employee who comes to office needs to do it, airlines are thinking, any conversations are going on in this direction?

Dr. Arvind Lal: Yes, we have actually recommended to the private industry and also to the ICMR that for large industrial units, for example, big automobile units, etc., who want to bring back their people for testing, we have suggested pool testing and pool testing means these people are all asymptomatic, they are rearing to go and join work again. So, five people throat swab will be put into one and that is what has been already approved by the ICMR but the difference is that they have not given us the green signal yet. It is the pool testing they have only recommended in the clusters in red zone areas, not for the industrial workers so far, but hopefully it will come.

Moderator: Thank you. The next question is from the line of Neha Manpuria from JP Morgan. Please go ahead.

Neha Manpuria: If I were to look at recovery post-COVID, which segment in your view is likely to see recovery faster -- do you think it would be the B2C versus B2B given it might take time for people to get comfortable to go back to hospitals?

Bharath Uppiliappan: Currently, what we are seeing is both recovering at similar paces, percentage point here and there are different. The reason is a lot of B2C traffic is also led by a hospital or a clinic operating. So, both are currently seeing similar rates of recovery, including the hospital segment.

Dr. Om P Manchanda: But what I see is that if our collection centers having walk-in, more and more request will come for home collections.

Neha Manpuria: Let us assume March was zero, to what extent has the recovery happened now? And post let us say in May when you have seen some of the green zones open, what is the extent of recovery that you have seen in that green zone, just to understand if that can be replicated let us say once a larger easing of lockdown happens?

Dr. Om P Manchanda: So it is actually varying. Our business actually fell to the extent of 80%, 90% in the first week. Now, in some places we have recovered to about 60% of our running rate, in some places 50%, in some places 70%. And these numbers actually vary on day-to-day basis as well. Because we are not able to actually fix up a trend whether it is a sustainable trend or suddenly a pent up demand that has suddenly opened up because there is a relaxation in one zone one day and suddenly all that is over in next two to three days and then tends to fall down again. So it is a very uneven trend that we are seeing, but directionally I can say that trends are actually moving up. There is no doubt about that. And one does get a feeling that as the relaxation takes place, we will tend to come back to normalcy.

Neha Manpuria: My last question is would you have the numbers to what extent of volumes tend to be seasonal test? I ask this because we are going to see monsoons coming in and usually we do see increased volumes associated with flu, etc., So is there a risk that we see volumes being slower than last year as people are staying indoors and probably do not see a high rate of infection, so if you could give us a ballpark number of what extent of the volumes are seasonal test?

Dr. Om P Manchanda: So I do not have the data readily available but my broad guess is about 3% to 4% of our turnover generally is due to these spikes and these spikes are mainly on account of fever and fever is mainly on account of dengue, chikungunya and things like that which are linked to monsoon, etc., And my sense is that it is very-very difficult to stay in lockdown if you have fever. So I do not see that kind of dip happening just because there is a lockdown.

Moderator: Thank you. The next question is from the line of Prashant Nair from Citi. Please go ahead.

Prashant Nair: Ved, you mentioned some levers you have on the cost and the operational efficiency side. If you could just elaborate on say which broad heads could these be under and what could be the quantum of cost reduction that you may be looking at under those heads?

Dr. Om P Manchanda: So, I think one area is clearly rental. We are going back to our landlords and talking about slowdown, etc., So they do understand the situation. Many of them actually have come forward and offered some reduction. So that is one clear area.

Second clear area is our A&P where we had some arrangement with some agencies, etc., we are relooking at that. Since there is no traffic movement, so naturally that is saving on account of lesser spend. So that is a second head.

Third head is also over time in our business naturally, the business is now slow and there is some saving coming on account of overtime. And fourth area is clearly manpower which is a very large spend for us. We are relooking at hiring, etc., and we are also looking at some ways and means of redeploying our resources as this COVID is a new work and we redeploy our people from non-COVID to COVID rather than hiring new set of people and COVID is also highly specialized. So, that is another way of redeploying resources from non-COVID to COVID. Travel, of course, for all of us including new guys just come down to virtually zero, so that is another saving which will come. So, I think while we do recognize there is a pressure on the top line, it might take time for it to come back to normal and clearly a lot of effort is going on saving costs and productivity etc. Good news is that being an essential services, our employees have risen to the occasion and they are actually working in all the labs. All our labs are open. 70% to 80% of our collection center network is open. And for the last few weeks, even our corporate office some of us based on the guidelines in Gurgaon, we are all working from office. So, I think we are trying our level best to keep our operations running within the guidelines of the Government. And as and when the patient movement starts coming up, we are seeing improvement in sales as well. And having said that, focus on cost clearly is there to see if we can save off some cost especially this quarter as well as next quarter.

Prashant Nair: And just one follow-up question on that. Would you be able to give a rough ballpark estimate of what part of your costs are absolutely fixed and what part are reasonably variable revenues of volume of business?

Dr. Om P Manchanda: Clearly, the raw material consumable cost that you see, revenue share is the variable cost, manpower is a bit of a semi-variable because there is a bit of a component of overtime and component of outsourcing of manpower especially when the business goes up, rest of it is pretty much fixed, A&P also is somewhat, we have a control there.

Moderator: Thank you. The next question is from the line of Hardik Shah from Prabhudas Lilladher. Please go ahead.

Hardik Shah: My question is with respect to the COVID testing. Now that we are utilizing our time and resources for COVID testing and also the impact on bottom line is negligible if at all there is any. And there is a possibility that it stays with us for an extended duration. Can you broadly comment that how does it impact our non-COVID business if at all it turns to normalcy?

Dr. Om P Manchanda: So I think COVID testing right now is only limited to one department which is molecular diagnostics. And that department if I am not mistaken is about 5%, 6% percent of our total business. So 95% of our business remains like biochemistry, hematology, microbiology, a lot of other departments. So they are not impacted by COVID at all. One of the departments will play a role once the antibody testing comes in. But as of now, RT-PCR test is done only by one department. I think most of the manpower is actually consumed by data entry work which is unfortunately not related to technical stuff, because a lot of these samples that have come have manual TRF, but that side of life is also improving as this RT-PCR app has come in, as this whole automation is taking place, my sense is once that also stabilizes it will be very-very small set of people who will work on this COVID business. So I do not think it is going to be such a big impact on non-COVID because COVID business has come in.

Hardik Shah: Is there a possibility that this business turns profitable in the near-term?

Dr. Om P Manchanda: Actually we do not know yet. When we started this, it actually was at cost basis because we did not have any idea of these costs, we had to do some kind of standard costing and industry position was that we will try at cost. As we have done now for the last six weeks, there are in fact a lot of unforeseen costs that have come in. We had to do testing of our healthcare workers, a lot of people actually have been put in place to do data entry, we have also taken insurance for our people whether it is related to health and life. That is another area that has come in. Yes, there is some advantage of scale that falls in place, at the same time as some of you mentioned that most of the business is coming from hospitals or is coming from institution there you do not realize Rs. 4,500, it is much lower. And then a lot of money is in the form of receivables. So, we do not even know what is going to be the carrying cost of these debtors in our books. So it is a little chaotic right now in terms of financially. It is obviously showing up some benefit in revenue but I think it is very early for me to comment on the bottom line. But I think the sense that we get is that it is not going to be very short of making any meaningless impact on the bottom line.

Moderator: Thank you. The next question is from the line of Subhankar Ojha from SKS Capital. Please go ahead.

Subhankar Ojha: Are we doing home COVID testing through online?

Bharath Uppiliappan: Yes, we do offer home collection in select cities.

Dr. Om P Manchanda: But it has to adhere to guidelines by ICMR.

Subhankar Ojha: So that booking can be done online?

Bharath Uppiliappan: Yes, you can book it online as well.

Subhankar Ojha: Can you just elaborate which are the cities you are doing right now?

Bharath Uppiliappan: Delhi NCR and some cities of UP and some cities of Punjab.

Moderator: Thank you. The next question is from the line of Manish Poddar from Nippon India. Please go ahead.

- Manish Poddar:** So just wanted to get an idea. So you mentioned a lot about this cost tailwinds which you have. So would it be fair that with these tailwinds you will be able to offset the increase in the safety cost which you are incurring and probably operating leverage to some extent?
- Ved P Goel:** So that is where I earlier told that though some of the costs are going up operationally because of some compliance or new way of working, at the same time we are optimizing the cost which in some sense will offset the additional cost which is coming on account of safety, compliance and all that stuff.
- Manish Poddar:** Would it be net-net neutral?
- Dr. Om P Manchanda:** It depends on what eventually happens. But I think on the face of it, obviously looks like there is going to be increase in cost. We have to estimate that impact. I think if you were to ask me, "Will the cost of operation go up?" Answer is "Yes". "To what extent can it be absorbed in our operations?" We will have to see as to how it is. Main cost of increase in operation is going to come out of use of masks and PPEs because you will have to take precautions not only from any COVID test but also non-COVID patients also. We will have to make sure that our employees are taken care of. Even non-COVID patients would want to make sure that they are equally safe. So, I think on the face of it I do see that costs of operations will go up. We will probably estimate it as to how it is and figure it out and try and make sure that does not impact our margins.
- Manish Poddar:** One question on the medium term. Earlier organized players and the hospital labs, there were a lot of labs which were dormant or not running at that scale and Government has also put up some labs in different cities now. So do you envisage competition will increase in the medium term post-COVID?
- Dr. Om P Manchanda:** I actually find that the entire pathology lab space will undergo a huge change and primarily my personal view, I do not know whether it happens or not, I have a feeling that public-private interface will grow on information exchange, as public health will gain a lot of importance in times to come and COVID is one such infectious communicable disease, there are many other diseases like swine flu, dengue or any other disease or even tuberculosis for that matter, I think information exchange between medical establishments from private side and Government will actually go up significantly. And that interface is not easy to manage because it requires a lot of technology and it requires a lot of information which has to be in a very structured form. I do find the smaller labs may come under a lot of pressure rather than probably for ratings.
- Manish Poddar:** Ved, the cash which we have on the books, where is that invested and is there any impact of the recent debt funds which are there?
- Ved P Goel:** Fortunately not. So, most of the investments are in FDs and we have some amount invested in mutual funds, that too is not having any exposure into some of these companies which you are referring to. So, we are not impacted from that.
- Moderator:** Thank you. The next question is from the line of Sapna Jhawar from Dolat Capital. Please go ahead.
- Sapna Jhawar:** I wanted to understand post-COVID, once the business starts to gain pace, how should our business mix look like in terms of B2B and B2C split?
- Bharath Uppiliappan:** Like we have said, the recovery we are seeing is at very similar pace across both the segments because both are dependent on each other, it is what independent

channel, B2B does not mean that it is completely independent, there is a flow of patients which happen. So, I would actually expect both to go up in a similar fashion and this time possibly the B2B segment going up a bit more faster given the pent up surgeries, etc., which will be conducted now.

Dr. Om P Manchanda: It is a good question. If I were to visualize, I have a feeling that if I am a patient I would actually hesitate to go to a crowded place. So I would rather go to an outlet where only few people go. Let us say for example, ATM also I would rather go to that ATM where only one or two people are going rather than in an ATM where 20, 30 people are standing in the queue. So if I apply that formula then, I think our collection center network would do better because normally throughput per collection center is not that high. And even there also I would rather receive a lot of home collection requests because within the vicinity most people know me personally I would rather serve them through home collections. So, I think a lot of business is likely to go up to our franchisee network in the sense that I have.

Sapna Jhawar: Franchisee network I do understand but also in terms of my hospital contracts or contracts from this small and medium nursing homes, will that not be under pressure right now, or are we also renegotiating those contracts?

Dr. Om P Manchanda: That part of the business is IPD-driven. As their occupancy of bed goes up, our business also will tend to go up. So, there is no direct patient interaction that happens in the hospital inside of business. Their own lab would have picked it up from IPD patients.

Sapna Jhawar: I mean, in terms of hospitals where there are no surgeries, only the sample collections happen from the small and medium nursing homes. I am assuming our contracts would be on volume basis. So in times today and probably the recovery when it happens maybe slow and gradual in a way, will there be a pressure in terms of our contracting in terms of volume collection there?

Dr. Om P Manchanda: We do not have volume based pricing structure there. It is just a flat pricing that we agree with them. I think the only risk that we have in HLM is bit on receivables. I think that is the only area probably we need to be careful as the volumes dip. But otherwise there is no change in the pricing terms just because the volumes have fallen.

Moderator: Thank you. The next question is from the line of Nitin Agarwal from IDFC. Please go ahead.

Nitin Agarwal: You mentioned a couple of times that you expect some customer behavior changes once normalization comes in post-COVID. You did allude to preferring home collections versus any collection center. Are there any other facets that sort of strike you probably will change industry in a meaningful way?

Dr. Om P Manchanda: One behavior change I foresee is that a lot of people are reaching out to me asking me is there any test that I can do to know whether I have immunity to fight these infections or not. I think it finally boils down to your normal health status. So definitely it should have some positive rub off on preventive health checkup. People would be much more health conscious, want to stay healthy. I think there is so much talk going around co-morbidity which people know that if you are diabetic or you have a high blood pressure and things like that you are at a much higher risk. So people would want to manage their lifestyle better and manage some of these non-communicable diseases as well. So I do believe that overall preventive health check-up segment should do well.

Nitin Agarwal: Secondly, if people essentially are more becoming health concerned, intuitively some bit of infection related diseases burden should come off. Is there a large portion

of our business or a meaningful proportion of our business which is contingent on the infection outbreaks, not the seasonal one?

Dr. Om P Manchanda: We have a component of vector-borne diseases. I think that of course is very steady business that is very seasonal in nature. The fact of the matter is we are such a large country. If you just look at numbers that we serve is very small. So I am not sure whether some of these macro trends will have any impact. We have a long-long way to go because our market shares are so low. Even if you lose somewhere, you gain somewhere. Overall size of the opportunity is still very attractive for all of us.

Nitin Agarwal: Lastly, while we are in early days, but do you see any impact on our sustainable EBITDA margin, profitability of our business on a sustained basis, that is positively or negatively impacted on sustained basis, whole whatever changes we see right now?

Dr. Om P Manchanda: So clearly, our business is somewhat retail in nature. It has a high fixed cost infra and it is extremely sensitive to any change in top line both favorable and unfavorable. If you actually see this quarter results, while our top line is flat but we have seen a sharp decline in EBITDA. So clearly we will have to manage as a team next at least current quarter as well as maybe at the most next quarter to manage this decline in sales. So for these two quarters I do not see that we can sustain these EBITDA margins in terms of percentage of turnover, but when we come back to our normal sales trajectory, I think we should be back to our normal EBITDA margins.

Moderator: Thank you. The next question is from the line of Anmol Ganjoo from JM Financial. Please go ahead.

Anmol Ganjoo: My question is related to your comments that year-on-year we have seen just flat revenues and we have seen very sharp decline in EBITDA. But if we deconstruct the EBITDA piece, it has primarily come on the back of gross margins. I understand the explanation is that this was on account of economies of scale getting disrupted for last 10, 15 days, but then what would logically show also is that as the recovery starts, our gross margin profile should revert given the inventory and other reasons that you just read out as not contributing to any meaningful escalation in the reagent cost, etc., so any thoughts on that because if I deconstruct the margin part I think gross margin is the only missing link.

Dr. Om P Manchanda: So yes you are right, there is sudden fall in gross margins and we have high fixed cost structure that has impacted. Once that comes back then we are back in the game.

Anmol Ganjoo: Second is that again emanating from your comments only. I do understand that even in pre-COVID given our dominant position in the NCR region, we were finding it hard to grow meaningfully faster than the market. New dynamics which you also highlighted and I find fairly logical that these smaller players should come under a lot more stress. Do you see there is an opportunity for us to grow meaningfully faster than the market? And in that case why would you pull back on some of the expenses, like A&P, etc., because if at all that should just drive our journey to consolidation and even more fortify dominant position even stronger, so just wanted to know your thoughts. Why not look at FY21 just as an investment year where you can reinforce your position as a dominant player in most markets you try to enter into the last three, four years?

Dr. Om P Manchanda: Sorry, if I conveyed, maybe let me correct myself. This pullback on A&P is not on an annualized basis. Since there is no patient, there is no point in spending. In fact we have disproportionately increased our spend on communicating to our patients that our infrastructure is open because we did not want them to feel as if there is a

lockdown and we are not working because we are an essential service, so our infra is open, we spend disproportionate amount of money sending SMSs and telling them that we are open. So, this pullback is natural since there is no patient flow. Some of the radio advertising, local stuff that we used to do, that is what we have stopped. But once the lockdown is lifted, we are back in action. So it is not that we want to actually pull back just to manage our EBITDA margin in the short-term. So, we are very clear. Our focus will remain medium to long term. We do not want to sacrifice medium and long term just to manage our short term. We are very clear on that. So this pullback is not on annualized basis, just that last couple of months.

Anmol Ganjoo: Huge cash pile that we have becomes fairly interesting at this point in time with more and more players coming under stress. Any exploratory thoughts about using this cash to strategically augment being a national player, as a dominant player in the space more than what we already have?

Dr. Om P Manchanda: So that goes without saying, we have always been open to doing these M&A opportunities. Yes, there is a thinking that many of these players would want to come forward and engage in these conversations and we are hopeful that things should turn for good as far as inorganic side of opportunity is concerned and this cash would come handy for us.

Moderator: Thank you. The next question is from the line of Nitin Gosar from Invesco Asset Management. Please go ahead.

Nitin Gosar: I have two questions. In this current environment of old system including prescription writer to collection center across, they have been stowed on businesses and they have been forced to absorb the fixed cost. How much time as a diagnostic company, we have before the system becomes impatient, trying to come back, renegotiate the whole incentivisation program or commission structure if the old system does not see volumes coming back to normalcy by October or November, the idea is to understand how impatient the system would be?

Dr. Om P Manchanda: I think it is a question which is getting asked in different form and shape again and again as to how quickly we will come back to normal. I do believe that as more and more relaxation start happening because it is not like switch on and switch off, a) it is definitely going to be a gradual recovery. b) I do get a sense in my bones that we will definitely recover because we are an essential service, it is not like airlines or travel, tourism or entertainment, it is a basic need, so we should come back to normal. We are also cognizant of the fact that opportunity may present itself in different form either in terms of channel partners or walk-in versus home collection, maybe test mix might change. I think you are asking whether it will come in September or October. It is anybody's guess. As Dr. Lal mentioned, we are yet to see a peak on COVID side. So I think it will depend quite a bit on when do we get into that falling curve of COVID. I think it depends on that quite a bit.

Nitin Gosar: Sorry, my question was more pertinent to the impatience the ecosystem may show because everybody is stowed of cash, everybody is stowed of business, everybody has to absorb the fixed cost and each one will try to push back each other in the whole ecosystem. So the idea is to understand how much time we have in our hands because systems try to squeeze out each other, prescription writing, collection center, hospitals, all being part of global ecosystem? Hospitals are not doing bad or maybe the collection centers are not having enough volumes to absorb their cost, doctor is not doing enough business. So somebody is going to push the second guy and second guy is going to push the third guy and third guy will push the fourth.

Dr. Om P Manchanda: I think that is a good question. So the pressure point that we will feel let us say from hospital is one pressure point we might feel on receivables. So I think we will have

to be very-very careful that receivables stay within the limits and we actually track credit limits carefully. That is one area for the management team to keep an eye on. Because otherwise, those guys might see us as funding their working capital. As far as the collection centers are concerned, their pressure could be because they earn through revenue share, if their business is falling, their revenue share is going down. It is quite possible that they may actually just close down. So we will have to keep looking at active collection centers in these times. And if that is what is happening, I am sure it also must be happening to competition. If it is happening to competition, my logistics must make sure that I give a better service to the account and that might actually just turn to a competitive advantage as well if I am able to service that market better. So that is a collection center area.

On the walk-in piece, I think people may not want to come to lab immediately but then I have to ramp up my home collection capacity to make sure that I cater to that segment as well. So I think each segment will need to find out pain points and then accordingly address it. Right now, I think the real issue we are facing is receivables on the COVID side because that business is coming from institutions and I need to be careful on the receivables, that is one area which clearly, we need to be careful on.

Nitin Gosar: Second question is pertaining on collection efficiency or probably the time that per day we collect the sample in early morning slots. How do we ensure we collect more samples in that limited time window in the environment when social distancing will become more normal, sanitation norms will become much more stringent wherein earlier person who comes up for blood sample will have to hygiene out the whole place and go for the second patient after a couple of minutes. Do you think the whole system will see a cost inflation?

Dr. Arvind Lal: There are two things on this count. One is that operationally we are trying to do a few things which ensures that the space is used far more effectively. For example, we have asked people to book slots to come into our centers. We are also discouraging attendants from walking along with the main patient himself or herself so they will be able to manage the ambience inside.

Second is like Om mentioned in his remarks saying that people would prefer to go to a nearby center rather than travel a bit more distance to a main lab. So the franchise collection center will see a faster growth.

And third is people who like home collection more than coming even to a franchisee center. So the nature of business is likely to shift in some sense and we are working towards enabling some of these shifts to happen as well or enabling the patients to get the choice of channel readily available for them.

Dr. Om P Manchanda: Generally, Saturday workloads is very high. Most people now would want to go on a weekday rather than crowding on Saturday.

Moderator: Thank you. The next question is from the line of Amit Kadam from Canara Robeco. Please go ahead.

Amit Kadam: So, in the last 10-days we have seen lots of reverse migration happening in lots of urban cities. What could be its impact on our business especially on the seasonal part which is like dengue, malaria, if these guys do not come back in the next two months, how is it going to impact our seasonal business.

Bharath Uppiliappan: Our segment is slightly more lower middle class to the middle class to the upper middle class. So, whatever, that pyramid really does not come to us, they go to the

Government institutions for their treatments. So, we do not see any major impact on this migration or remigration part.

Amit Kadam: Wanted a small clarification. Dr. Arvind Lal said that when we are going to see 1 crore testing at pan India level, the percentage could actually touch 7% or 8%-odd. Am I right, and what could be the reason that it is becoming from 4% to 7%?

Dr. Arvind Lal: Amit, I am just quoting what Government has said today. It can reach from 5 lakhs to 7 lakhs. That is what the Government is saying. And this is also actually when it was asked about the migration, you know, when people are going back to the villages, you find more positivity there. It is not a fact of life, because these people have been sticking together for a long time and one person can infect 400 people more in a matter of a month. So, we see a spike coming up in the following one or two months, that is what the Government is also saying.

Dr. Om P Manchanda: I think Dr. Lal you are referring to an article that appeared today, right.

Dr. Arvind Lal: Yes. They actually said, we are going to ramp up COVID testing.

Amit Kadam: So, in short, this displacement of people which is happening, so that is not going to impact our business because that is not our target market as such?

Dr. Om P Manchanda: No, we do not see that.

Dr. Arvind Lal: There is a possibility that we may get some more COVID testing from these people. That opens up another opportunity for us.

Moderator: Thank you. The next question is from the line of Ashish Thakkar from Motilal Oswal Securities. Please go ahead.

Ashish Thakkar: I think this quarter we did around 2% patient volume growth. And considering that we already have a knowledge of how the April month has gone, would you like to put a number for the patient volume growth for FY21 for our business?

Dr. Om P Manchanda: I think it is very difficult. It is a natural question to be asked by any one of us including our team. I would not like to put any figure as of now. Maybe you will have to give us some time. Maybe let us see how this quarter goes, then we will try and give some color on full year because right now there is no such trend that is emerging.

Ashish Thakkar: On the COVID thing, as we increase the number of test per day, is there a possibility that the element of fixed cost absorption might just go up, in the sense that there could be more like operating leverage which could get unlocked.

Dr. Om P Manchanda: I think it is not that significant right now. As I mentioned to you earlier that we looked at standard costing when we started this. We are seeing a lot of unforeseen costs now in the business. So my sense is that we may not get a significant leverage coming out of COVID testing.

Ashish Thakkar: One clarification I would need. In the midst of your commentary, you said that you would not be able to sustain the EBITDA margins at least for the next one or two quarters. Were you benchmarking FY20 as the EBITDA margin or you are talking more specific about the Q4?

Dr. Om P Manchanda: No, we are benchmarking FY20.

Moderator: Thank you. The next question is from the line of Keshav Lahoti from Angel Broking. Please go ahead.

Keshav Lahoti: I can understand volumes have dropped significantly in April and May. Can you please give me some ballpark number or range on what was the volume in April and lockdown in 3.0 for you?

Dr. Om P Manchanda: We do not have these figures, but as I mentioned that when the lockdown happened, our business actually fell very sharply to the extent of 80%. But from there on, we have recovered very well. And the trends are very encouraging. But given that these trends are little uneven in nature, so we are not able to put a figure. But definitely there is significant improvement from what happened in the first week than what is happening in the last week. So we are clearly looking at non-COVID trends because if I add COVID, then obviously life looks better, but COVID contribution is primarily on the top line, not to a very large extent on the bottom line and COVID also is very-very fluctuating; one day you have lots of sample, next day you have nothing. That is why our focus primarily is getting back our non-COVID sales as much as possible and our efforts are out there to open our lab network to collection center network and making sure that we do not fall short on service, our courier boys are reaching out to all the hospitals and we believe that as OPD and IPD open up, our business will come back to normal very quickly.

Keshav Lahoti: There was a notification from the Government that COVID test should be free of cost. Post that whether anything has affected our COVID business or nothing changed post that notification?

Dr. Om P Manchanda: That order actually got reversed by the Hon'ble court, so that issue was there only for a few days. So we are working on ICMR approved rates.

Keshav Lahoti: There is an expectation that ICMR might reduce the rate.

Dr. Om P Manchanda: But there will be some sort of a discussion around this. So, it depends on how it goes. Even ICMR write this figure after discussing with industry in any case.

Keshav Lahoti: My question was based on that. If volumes are picking up in the industry, is there a possibility that the rate might be renegotiated lower?

Dr. Om P Manchanda: But there are a lot of other costs also coming up because there is a huge administrative cost which we never envisaged earlier, because data entry work which is happening. And as far as the scale is concerned, Government rates are definitely much lower because different kinds of format being serviced, whether the collection is done by the Government and we are only doing logistics and transport. So, to that extent, economies of scale are already falling in place and B2B rates are actually directionally going down.

Moderator: Thank you. The next question is from the line of Pritesh Vora from Mission Holdings. Please go ahead.

Pritesh Vora: What do you think is the market opportunity over a longer period of time? Let us say next five years or something as you expand geographically and other areas, one is the natural acquisition of the customer, and the other is the geographical expansion. How do you see the opportunity pan out?

Dr. Om P Manchanda: I think I put an extremely positive outlook on the long-term opportunity, and I am very clear in my mind that with this crisis, general public will become much more aware about health. And if you look at some of the Government announcements in the last

few days, they have even gone to the extent of they want to develop labs at the block level related to infectious diseases. So my sense is that penetration levels of diagnostics will go up very sharply once we are out of this crisis. The overall outlook for next five years is quite positive on diagnostics.

Dr. Arvind Lal: And if I may add, we have been actually concentrating on non-communicable diseases that are catching up in India, but suddenly this dual burden of disease, communicable diseases as we are seeing right now is again reminding us that the infectious diseases there are also going to stay. So we will have a dual disease burden for which we will have to be ready at all times.

Pritesh Vora: Would you take a market share in this environment? What is your ambition in geographical expansion - will you go in the western areas, southern areas, one is the natural client acquired, other is the geographical expansion?

Dr. Om P Manchanda: So we have already outlined the strategy many times that we follow a cluster approach. Given our market shares are still in single digit, so we want to penetrate deeper down the pop strata, we identify cluster and then we want to be present in all categories of town in that cluster. So we have identified clusters across the country. And from an organic standpoint, we will keep deepening our presence within that cluster. Obviously, our presence in south and west is weaker. So there we are actually trying to achieve a higher market share by adopting both the strategies of organic as well as inorganic. While north and east we will just stay focused on the organic part of the business because that is where our growths are coming and we will continue to follow cluster, very-very highly focused approach in identified geography. That is the way we want to go about.

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

Anubhav Agarwal: A couple of questions for me. One, given the volumes are pretty less from the hospital segment right now, how have we seen the B2B margins right now -.they are always very low but have they really become very low during the current time say in last couple of months?

Dr. Om P Manchanda: B2B gross margins are quite low but not EBITDA margins because our cost of servicing B2B business is not that high, just we need to go and send our courier boys to pick up the sample because collection is done by these guys. So, on EBITDA basis both the segments are similar but B2B is less sticky business, that is why it is not the most preferred business. But B2B also has a very high specialized test profile. So in these times, since IPD has stopped in many hospitals B2B business has declined quite a bit, but it should come back as somebody mentioned that Apollo capacity has gone up, so our business also is slowly, slowly coming back.

Anubhav Agarwal: I completely agree with that point. The only point was the volumes are down. But I was asking in particular whatever margins the industry was making, since the pie has shrunk in recent times, has the margins even taken further dip?

Dr. Om P Manchanda: So margin actually would take dip on all segments even including our B2C also because we have very high fixed cost infrastructure there. If the volumes have dipped there also, we will see a dip in margins but that is only for short term but once our volumes come back and we should come back to normal trajectory. So, it is not just B2B alone, our margins will dip even in B2C.

Anubhav Agarwal: Sorry, I was asking about the pricing pressure from the B2B side that, are players undercutting each other right now and offering better terms to the hospital because the volumes are so low?

Dr. Om P Manchanda: We are not seeing that right now.

Anubhav Agarwal: And just a couple of other questions. Just on preventive test which is 15% of revenues and second is the home collections. For these two segments are the margins below or above our corporate average margins in a steady state I am asking, not right now?

Ved P Goel: Yes, in this Swasthfit which is kind of preventive wellness program. So generally, margins as compared to other tests are high because we do a little high test, but the testing cost is only one-third, but two-third cost is servicing cost. If I service the same patient, even if I am doing little extra test, it is not hurting me. So that is where the margins as compared to other test are quite good.

Anubhav Agarwal: Ved, what about home collection?

Ved P Goel: So, home collection is the highest revenue per patient because again in the whole segment, home collection is also on the gross margin business which is high as compared to others.

Dr. Om P Manchanda: There is always a chance to upsell in home collection environment.

Anubhav Agarwal: One question here on the home collection segment is that most of the home collection is done by your franchisee or is done by the central labs in the place. Why I am asking that question is that it has a huge impact on let us say for that test which is coming what is the contribution to the EBITDA.

Dr. Om P Manchanda: I think directionally we would want our franchisee to do home collection because one of the reason the role a franchisee plays to bring scalability to our business, because if I were to service first mile myself, then it is not a scalable idea. So, we would want going forward a lot of home collections to be done by our franchisees. So we are actually making them tech-enabled so that they are able to service their customers better. So that is our directionally way forward; however, we also do home collections ourselves which is directly done by the Company but that is more to actually just set up a model team so that that becomes a role model for our franchisees to emulate.

Anubhav Agarwal: Directionally, when you said that home collections will increase let us say in a new world, would not the margins come down because typically on the franchisee business our margins will be lower than the corporate average?

Dr. Om P Manchanda: But he is also bearing on the cost as well.

Anubhav Agarwal: So, you do not think pressure on the margin if home collection is done?

Dr. Om P Manchanda: It is not that significant.

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

Prakash Kapadia: Two questions. Going forward for non-COVID business as you know home collection will drive volumes, what are we doing to prepare ourselves to gear up for this change in trend maybe in the long-term? Are we going to outsource, are we going to live in technologies adding more plethos?

Dr. Arvind Lal: Yes, Prakash. So the short answer to that there is a lot of tech investment happening to get a seamless home collection experience going. And on top of it like Om mentioned some time back, more and more franchisee will start to do home

collection. So we will hold intellectual control of what is happening in the channel from a service delivery point of view while the execution will be decentralized to the franchisee partners.

Prakash Kapadia: And as of now these franchisees are part of the digital ecosystem?

Dr. Arvind Lal: They are getting into this world now.

Prakash Kapadia: And secondly what is happening to smaller labs? They would suffer more in these times. So, any thoughts on faster consolidation?

Dr. Om P Manchanda: It is early but my sense is that consolidation may just happen by shift of patient base itself. We may not actually need to go and ask for acquisition. I think patient comfort is now going to be with more reputed brand rather than a small player is the sense that I get. So, I think you will have to give us a little bit of time to understand and do a dip stick in the market. Till the lockdown is on, we are not able to get that. Maybe we will commission a research on this and find out what is really happening with the smaller labs. But definitely we need to be aware about the new trend that is going to emerge with small labs. Give us a little bit of time and maybe let us just conduct some research on this and come back to you.

Prakash Kapadia: And lastly you mentioned that there are a lot of opportunities. So, is it not the right time to use the gun powder and cash which we have because at these times only you get what you want in terms of any inorganic or the right kind of Company which you would want to acquire, so any thoughts on that?

Dr. Om P Manchanda: Those conversations hopefully should begin. Right now we are not able to move out. But you are right, I think that goes without saying every crisis also throws up some opportunity and for a fragmented nature of the industry this is certainly that sort of a moment where consolidation wave should begin, I think there is no doubt about that.

Prakash Kapadia: Sure, hopefully once things open up post lockdown then I think we will hear more things from you on that front.

Dr. Om P Manchanda: Right.

Moderator: Thank you. The next question is from the line of Gagan Thareja from Kotak Investments. Please go ahead.

Gagan Thareja: Would bundled test have seen an outsized hit in the current environment and would that have caused some impact on your EBITDA margins?

Dr. Arvind Lal: The bundle test took a very similar drop as the overall business but our contributions are coming back in terms of the past numbers.

Dr. Om P Manchanda: I think the drop that we saw was uniform all across except probably home collections, right. That is what we noticed that our home collection business fell relatively less, obviously because some people wanted home collection, but otherwise drop has been all across, uniform in nature.

Gagan Thareja: Because of the pressures on receivables from both the COVID channel and also from the hospitals, what could be going ahead the new normal for net working capital?

- Ved P Goel:** You rightly said that on account of receivables, everybody is facing the same problem so as we. So, our working capital is stuck but as the lockdown is easing out, we are able to recover this money, but right now we are cash-negative.
- Dr. Om P Manchanda:** I think we should be in a similar situation for next two to three months as well.
- Gagan Thareja:** How much has been the increase in your receivable days if you could give some idea there?
- Dr. Om P Manchanda:** Because our sales are down, days sales outstanding has gone up, but in absolute terms I think we are somewhat there only. I think COVID outstanding that has gone up sharply. But other places we have received some money I think in absolute terms increase may not have been very high. Since sales are down that is why days sales outstanding is more.
- Gagan Thareja:** Also, you indicated that there would now be an increased preference for a home-based testing. Do you see ePharmacies, who have both revenue streams one in diagnostics, one in retail pharmacy practice, do you see them becoming more aggressive on their diagnostic practice in terms of pricing to build up a catchment base of patients who would be interested in the digital route?
- Dr. Om P Manchanda:** So, I do believe that they will play a much bigger role in collections part of the business. They would become our partner on the collection side of it. But I do believe that consumers are going to prefer a brand for testing. So, it is somewhat like both of us will have to actually work together with each other rather than compete with each other. So I get a sense that many of these eCommerce guys will play a very significant role for being our collection partners. Yes, you are right.
- Gagan Thareja:** But do you not foresee them becoming competitors to you because some of them already have their own albeit limited sort of practices, but they do have their diagnostic practices full out rather than just being collection centers?
- Dr. Om P Manchanda:** Some of them have tried doing that but given this business is highly operational in nature, so if they want to do that, that will be at the cost of scaling up their pharmacy side of business. So they will need to be very clear on what they want to do because if they get into doing end-to-end diagnostics, then I have a feeling that they will struggle to scale up. They might just be better off doing the front-end part of it, is my sense I do not know. I may be wrong. But a couple of guys have studied, they have struggled to scale full-service model to multiple cities.
- Gagan Thareja:** Even if they were to collaborate with you, would it mean that business would have an inherent difference in profitability or in cash flows compared to the traditional model?
- Dr. Om P Manchanda:** You may be right because obviously if these guys start owning the front end customer, they would want to push back on us to get some extra share of margins, but that is some distance away, because they are not a significant player right now. Having said that, we also are investing a lot behind technology. Our preference would be that we be that player to serve our customer directly through home collection online, etc., rather than depend on them. I rather use them in those markets like South and West where my presence is weaker. I do not mind sharing high margins with them in those markets because in any case that is what I am doing right now also. So I will have to carefully use these people to suit my requirement. But you are absolutely right, they may want to push back on us to get extra share of margins.

- Gagan Thareja:** Lastly, around the COVID thing, I think the CSIR lab in Delhi came out with the paper strip sputum based testing format which is not an antibody test but which I think is in the same regime as the RTPCR and I think the NIV was supposed to give an approval. I do not know what the status is. But do you see that sort of thing scaling up because sputum based testing seems to be more accurate even if you were to look at papers coming outside from India as well and also is more scalable and faster to implement?
- Dr. Arvind Lal:** In the diagnostics space, when you catch the disease, I keep insisting that we fill in, so there the best samples which you can get are the throat swabs and the pharyngeal swab, that is point #1. Point #2 is yes, the virus can be found in the saliva also. But saliva is not a very easy kind of thing to obtain. And third thing is sputum. This sputum has to be produced. Sometimes instead of sputum you might just get saliva. And saliva also is not the best of the samples in this disease. So, I think we have to be slightly more realistic and conservative that world over throat swabs and nasopharyngeal swabs is number one. When the disease goes down into the chest, you might get a productive sputum, then there is no doubt about it, because if the whole infection has gone inside, then sputum is very good, so that kind of a thing would be probably when the patient is admitted into the hospital and he is having the severe respiratory kind of thing. So, that is the way we look at it. And by the way it is also found in the stools. So, there are a whole lot of places it has been found in the semen, it has been practically everywhere, it has penetrated the blood brain barrier, that kind of thing. So, this is a very dangerous kind of virus which we are looking at. I agree with you in principle, in theory, yes, sputum can be used, saliva can be used but the best sample still is through throat swabs.
- Gagan Thareja:** Final question, you use PCR machines which might be of a specific make maybe Roche or Fisher or something of that sort. Does that therefore mean the RTPCR test kits also have to be from Roche or from the same maker which you have the PCR machine or maybe you could you mix and match the test kits with the different machines also?
- Dr. Arvind Lal:** Very high throughput machines would be made by the same company. You need 1,000 samples a day. Well, there is an automated Roche platform for that, but then you have to use only Roche kits. So that is the way the whole system behaves. What we are doing is that we are pretty much open to it. So we have moved the Mylab kits, we have used something else. So, these kits can be used and still we are able to give you 6,000 samples a day throughput. So we have not done too badly.
- Gagan Thareja:** So you can use Mylab test kit with PCR machine which might be of someone else's make?
- Dr. Arvind Lal:** Yes.
- Moderator:** Thank you. Ladies and gentlemen, that was the last question. I now hand the conference over to the management for closing comments.
- Management:** Thank you everyone for being with us on this call. Look forward to meet you on the next call. Till then, please stay safe and healthy.
- 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.

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