Thyrocare

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May 09 2022

To,

National Stock Exchange of India Limited
Exchange Plaza
Bandra Kurla Complex,
Bandra (E), Mumbai - 400 051

Scrip Symbol: THYROCARE

BSE Limited
Phiroze Jeejeeboy Towers
Dalal Street,
Mumbai- 400 001

Script Code: 539871

Dear Sir/Madam,

Sub: Transcript of Earnings Call held on 06-05-2022 for Analysts / Investors

Please find attached herewith copy of the transcript of the Conference Call held on Friday, May 06, 2022, and the same is also available at website of the Company (www.thyrocare.com) pursuant to the provisions of Schedule III, Part A, Clause 15(b)(2).

This is for your information and records.

Yours Faithfully,
For **Thyrocare Technologies Limited,**

Ramjee Dorai
Company Secretary and Compliance Officer

Thyrocare Technologies Limited

"Thyrocare Technologies Limited Q4 & FY2022 Earnings Conference Call"

May 06, 2022

MANAGEMENT: MR. RAHUL GUHA – MANAGING DIRECTOR & CHIEF EXECUTIVE OFFICER – THYROCARE TECHNOLOGIES LIMITED

MR. SACHIN SALVI – CHIEF FINANCIAL OFFICER – THYROCARE TECHNOLOGIES LIMITED

MR. ABHISHEK SINGHAL – THYROCARE TECHNOLOGIES LIMITED

Moderator: Ladies and gentlemen, good day and welcome to Thyrocare Technologies Limited Q4 and FY2022 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 "*" and then "0" on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Abhishek Singhal. Thank you and over to you, Sir!

Abhishek Singhal: A very good afternoon to all of you and thank you for joining us today for Thyrocare Technologies earnings conference call for the Q4 and full year ended financial year FY2022. Today we have with us Mr. Rahul Guha, MD & CEO and Mr. Sachin Salvi, CFO to share the highlights of the business and financials for the quarter. I hope you have gone through our results release and the quarterly investor presentation, which have been uploaded on the stock exchange website.

The transcript for this call will be available in a week's time on the company's website. Please note that today's discussion will be forward looking in nature and must be viewed in relation to the risk pertaining to our business. After the end of this call in case if you have any further questions please feel free to reach out to the investor relation team. I now hand over the call to Rahul to make the opening remarks.

Rahul Guha: Good afternoon and welcome to all on the call. Our apologies, we had a last minute technical issue but thank you all for taking out the time from your busy schedules and apologies for the short delay to get us started.

Just a brief introduction to us on the call, my name is Rahul Guha and I have joined as the MD and CEO of Thyrocare actually as recently as May 4, 2022. Prior to this, I was a senior partner and managing director in the Boston Consulting Group, a leading global consulting firm and have been with them for 17 years before coming to Thyrocare. Before BCG, I was a part of a founding team of a few startups. With that being said I am quite familiar with Thyrocare having spent the last few months supporting the integration of API group companies with Thyrocare and have been able to spend some time getting up to speed on the business. I am joined by my colleague, Sachin Salvi who is our CFO. I will let him introduce himself. Sachin!

Sachin Salvi: Good afternoon everyone. Thank you for joining this call. My name is Sachin. I am a chartered accountant by profession working with this organization for the last about 11 odd years. I have joined in 2011 and since then I am working in finance basically in various strategic initiatives which the management is undertaking since last about 10 years. After transition into API holding, I have been promoted at the CFO of this organization in January 2020 and after listing, I have been attending to various conference calls. I have been interacting with various analysts so most of you must be familiar with me. With this, I will again hand it over to Rahul to give a brief about the performance of the company and where we are heading.

Rahul Guha: Thank you Sachin. Before we get into the results, I just wanted to take a few minutes to update you on what has been the focus over the last couple of quarters. As you would have seen from the results in H1 COVID was driving almost 43% of our revenue, which in H2 has come down to 14%. As we had shared in our previous quarter report our focus over the last few months has been to revive the non-COVID part of our business to ensure we get back on track towards growth.

As Gandhi once said the future depends on what you do today. Therefore, I wanted to give you a sense of what we have been up to in the last few months. We have been working on three areas. First, in the non-COVID part of the business as you would have seen from the data, we had taken up price significantly from Rs.233 per sample in Q1 to almost Rs.261 per sample in Q3.

You would have also seen that had a large impact in volumes. Along with this a number of our channel partners had churned with the new prices. Over the last quarter, we have tried to correct the prices to the channel through a mix of price cuts and volume discounts to ensure we are able to drive volumes. We have done this primarily in our Aarogyam profile, but we have also seen a significant growth in our non-Aarogyam profiles as well as a result.

Our channel partners are regaining confidence in Thyrocare as a key partner in their business. It is important to note even after all our price adjustments the March 2022 exit pricing of Rs.179 per sample is still higher versus our exit pricing in March 2021 and we do not anticipate to reduce prices any further going forward.

Second we have focused on getting the integration of API Group and the brands right of which one is PharmEasy. At this point, 100% of PharmEasy volumes and API Group Company now come to Thyrocare. We have taken over and integrated their labs and provide mid mile services to them.

In this quarter, revenue from API Holdings accounts for 8% of our non-COVID-19 revenue and will continue to grow quarter-on-quarter as cross-selling of diagnostic services to PharmEasy customers continues to grow. API Holdings too has a number of investments with which we have been integrating to ensure diagnostic services from Thyrocare can be made available.

Retailio and MARG both API Group Companies together have a presence in 2.8 lakh pharmacy counters in the country. We have been working with them to complete a pilot in five cities, which enables pharmacies that use their software to book diagnostic tests for their customers on Thyrocare.

Finally, we are leveraging the relationships that API Companies Aknamed and Docon have with hospitals and doctors respectively to expand our reach. Beyond pharmacy, PharmEasy we are also listed on the other ecommerce platforms in healthcare and even beyond ecommerce, we are listed on the top three e-consultation platforms as well as the leading three health aggregators. Third we have been working on addressing the key perception gaps of Thyrocare with doctors and patients. From our market feedback, customers are concerned on quality.

They have the impression that we are only thyroid focused and that reports take a long time because we have a single lab in Mumbai. Just to address all that we have been doing on these subjects on quality, our focus was to get the basics in place. We have been upgrading our infrastructure and processes to assure quality. We have been implementing systems that give us end-to-end visibility of samples on a real-time basis. We have readied several of our labs for NABL certification and have received NABL certification for three labs already. We are expecting five more labs to complete their NABL certification soon.

Our central processing lab recently completed its NABL and CAP that is the College of American Pathologist Accreditation. CAP accreditation programs are universally regarded as the most rigorous choice to achieve and maintain accreditation. With this in place, we are now confident and have begun outreach to doctors and hospitals to explain to them our quality systems.

On being quality thyroid focused, I wanted to share with you that firstly thyroid only accounts for 9% of our revenue today. More importantly, today we have a test menu of 700 plus tests. Over the last few months, we have added 300 plus tests in our test menu to cater to the increasing needs of our customers and partners. Today we cover almost all technologies and diagnostics and are continuously scanning for opportunities to improve our test menu going forward.

Finally on delays and reports, I wanted to address the misconception that Thyrocare has only one lab in Mumbai. Today, we have 22 regional processing labs across the country.

At our regional processing labs when we started turnaround time was 24 hours. With our current regional network and investments in ensuring multiple pickups and visibility of samples our current tax is down to 18 hours for local samples and 24 hours for non-local cities.

This is measured from the time the sample is collected from your home to the time that the report is released. We have been working continuously to improve the stat and are targeting getting to a same day report all the pin codes that we service and all our investments and efforts have been to drive. These are the three elements that we have been working on as I mentioned.

Just to recap, we had worked on price and getting it right, the integration of API group brands with Thyrocare and then addressing the main perception gaps of quality being only thyroid focused and slow in reporting because we have only one lab. As I have mentioned, we have made a lot of progress on these dimensions and after Sachin covers the results, I will come back and share with you our strategy going forward. Over to you Sachin to cover the results!

Sachin Salvi: Thank you Rahul so I will briefly update you about the key highlights financial year fh2022 financial performance. First I will start with revenue from operations. Our revenue from operations for the current financial year on a standalone basis has increased by about 18% Y-o-Y. Our consolidated revenue for the current year has increased by about 19% Y-o-Y. Our financial year pathology revenue of Rs.561.53 consists of Rs.171 Crores of COVID RT PCR revenue.

Our pathology revenue excluding COVID RT PCR revenue for the current financial year has grown by about 21%. We recognize that the performance in the last few quarters has seen significant variations. In order to give clarity on these base businesses we have included in our investor presentations are non COVID profit and loss as well as COVID profit and loss. As mentioned earlier our non-COVID revenue for financial year FY2022 stood at Rs.391 Crores for the financial year.

Our estimated EBITDA for the business is about Rs.124 Crores which is 32% as a percentage of sales. However to provide additional priority and remove the effect of human financial year FY2022 which was the first wave of COVID which deeply impacted the businesses, we also split our revenue for the nine months for the financial year FY2022 and the growth over these period has been 3%.

While the growth over these periods has been low, we are encouraged by the performance in the Q4 financial year FY2022 that is the last quarter. Our revenue from operations for the current quarter on a standalone basis has increased by about 12% sequentially. Our Q4 pathology revenue of Rs.123 Crores consists of Rs.16.1 Crores of COVID revenue.

Additionally if we compare our non-COVID business then Y-o-Y we have recovered to our previous levels of revenue. That is pre-COVID level of revenue. Further the price corrections done in February and March have driven non-COVID volumes at an all time high. We have seen very healthy revival in preventive care business also in the current quarter. Our consolidated quarterly revenue for the current quarter has increased by about 11% sequentially.

Our Q4 radiology segment revenue is about Rs.7.22 Crores which is flat sequentially. As far as EBITDA margin is concerned, our standalone EBITDA margin stands at 30%. Our consolidated EBITDA margin stands at 29%. Our standalone EBITDA margin of Rs.36.83 Crores has decreased by about 27% Y-o-Y. Similarly console EBITDA margin have decreased by about 27% Y-o-Y. Most of this margin decline as mentioned in our presentation can be attributed to decline in the COVID revenue in the last two quarters.

Non-COVID business margins stand at 31.86% and have grown significantly to Rs.124.43 Crores versus last year of Rs.85.25 Crores which was 26.40%. To give some financial highlights gross margin impacted during the quarter mainly on account of erosion of high margin COVID business, our aggressive prices being offered on routine non RFGM tests and certain Aarogyam profiles as well to garner volumes.

Our employee benefit expenses of Rs.17 Crores increased with additions mainly in growth to sustain growth and in the laboratory team to ensure quality in reporting. Our other expenses consist of service charges, which we pay to phlebo and to runners. It includes sales incentive and tent maintenance charges. There is an increase in the overall fixed cost anticipated with the expansion of the RPL network. As Rahul mentioned we are having about 24 to 25 RPM as of now in the country. In terms of volumes, we have processed in the current quarter about 5.2 million samples. We have performed 6370 scans under our radiology division that is HRCT scans, which includes 77 PSMS scans as well. For the same period last year, we have processed about 6670 scans. With these brief highlights, I will pass it on again to our MD and CEO Mr. Rahul Guha for the strategic updates of the industry. Thank you very much.

Rahul Guha: Thank you Sachin. Briefly I would like to take a few minutes to outline to you a strategic direction and then we will be happy to take Q&A. First at the core, I wanted to cover our value proposition to the customer. It is very clear we will continue to remain an affordable option to all patients with good quality and on-time reports. All our efforts on our value proposition is towards ensuring low cost to the patient, assurance on quality of testing through our certifications and engagement with doctor. We recognize the gap in our on-time reports and we are continuing to invest in our logistics and regional processing network to ensure we can process reports within the same day. This will remain at our core and will guide all that we will do.

Second coming to our strategy, we hope to become the B2B partner of choice to all front-end diagnostic services companies in India whether it is a small diagnostic center in a semi-urban area, a pharmacy in a metro, a small nursing home, an individual doctor or a leading online diagnostic platform or health tech marketplace. We are happy to provide low cost robust testing solutions to ensure they can serve their patients in the most effective manner. If they require collection we are happy to mobilize our phlebotomy network of almost 900 phlebotomists to serve them better.

At this point our largest customer is PharmEasy, but as we mentioned and paneled on all major diagnostic platforms several online medical consultation platforms and search aggregators as well as present in the physical world in our traditional channel. The coming together of PharmEasy and Thyrocare differentiates us from others in the market.

We are able to leverage the consumer brand and technology from PharmEasy with the low cost execution at Thyrocare to deliver exceptional value to the patient. Our competitors in the space will struggle to match this competition. As we mentioned in the presentation digital only diagnostic players do not have the back end that Thyrocare brings to the table. Traditional diagnostics players do not have the technology, talent and backbone that we get from the PharmEasy team and other health tech platforms do not have the back end scale that Thyrocare.

With this in mind, I wanted to cover our focus areas linked to the strategy that I just covered, which was to remain a B2B partner of choice and providing low cost diagnostic solutions to anybody who has a front-end presence.

Our focus areas, I will cover in two parts. Part one is about leveraging the power of the API brands and company. As we mentioned in the investor presentation, we have four areas to maximize our advantage. Area number one is to serve pharmacies online customer base which is 2.1 quarterly transacted users. The attempt is to get them to buy diagnostics when they buy medicine.

We will partner with Retailio and MARG the retailer network of 2.8 lakh pharmacy counters as I mentioned to expand the order points. We have already run a pilot with 500 pharmacy counters. 273 of them have started to sell diagnostics, which was an encouraging hit rate and we are now scaling up the model. Our partner company Aknamed which does hospital supplies, we are working with them to approach the 900 hospitals where they have relationships to sell diagnostics labs and diagnostic services into those hospitals.

As a result we hope to expand our presence significantly in the hospital space where currently we are a minor player. We will also ensure the expansion of pharmacy of PharmEasy and Docon offline collection points. PharmEasy is rapidly expanding the offline franchise presence. At Thyrocare, it is our goal to fully support these offline franchises of PharmEasy and enable them to sell diagnostics as well as medicine. So that is on maximizing the opportunity with the API group.

Within Thyrocare as well, we have four priority areas to maximize and will remain our focus areas. First, we will continue to improve our value proposition to the franchise network. We are expanding aggressively and as I had mentioned when we tried to raise price in the past, we had a significant struggle with volumes.

We need to remain true to our value proposition of being low cost and good quality. In order to do that we have reworked our pricing, tweaked our policies to reward our last large customers and are taking a sharp look at our overheads to ensure we remain a lean customer oriented company. With this value proposition, it is our aim to expand the network aggressively so that anyone looking for a low-cost diagnostic test in the offline world has access to a Thyrocare franchise partner. In order to do that we are adding some capacity and network expansion over the next few quarters, which you are seeing in the manpower cost.

We will also continue to focus on our health packages that are Arogyam to promote to corporates both online and offline. Our health packages are our jewel in the crown and we will ensure we offer a low cost value proposition and go direct to patients through this channel. Lastly as I mentioned, we have three core player pillars low cost, good quality and on time. On the first two, we are in a good play. On, on time we will continue to selectively expand our network and really use technology to optimize our mid mile operations.

The goal is same day reports. Beyond that we are investing significantly to ensure that there can be no doubt about Thyrocare's quality. So far three labs have been accredited for NBAL in the last three months and another five labs are due for accreditation coming soon and lastly we will leverage PharmEasy technology expertise to improve our customer experience and phlebotomist productivity. A big learning for us has been that the collection agent must arrive at the customer's end on time. We are deploying technology that allows us to track the entire consumer experience and ensure that the collection agent arrived at your home plus minus 15 minutes of the time that you have selected. Today we offer 60 minute slots and track the slot that you are in.

We are already at 90% plus both for our and PharmEasy served orders. That in a brief is our plan as management. In conclusion, I would like to share a small quote once again from Gandhi. Full effort is full victory. Please be assured that your management at this time is putting full effort into the business to ensure that we deliver growth. Thank you so much for giving us a patient hearing. We are now opening up for questions and answers.

Moderator: Thank you very much. We will now begin with the question and answer session. Ladies and gentlemen, we will wait for a moment while the question queue assembles. The first question is from the line of Aashita Jain from Edelweiss Financial Services. Please go ahead.

Aashita Jain: Good evening everyone and first of all congratulations Rahul. My first question is on your growth expectations so while you have clearly laid out your growth expectations in your opening remarks as well as in your presentation, but my question to you is how soon can we see our base business growth returning? Should we wait for a quarter or two or maybe a year before we see that growth in our number and in continuation to this what are your growth expectations for say for the next one to three years that you would be very comfortable to achieve? Thank you?

Rahul Guha: Thank you Aashita and thank you for the question. I think on the first question in terms of the near term growth I think there are two parts to that. One is the recovery of the base business. As you would have seen in the last quarter actually, we were able to come back to the pre-COVID levels and actually we are now looking to grow back from there. That business, I anticipate will come back to its historical growth rate pre-COVID and we should be able to get there quite quickly, but we also have a very strong tailwind that comes below us which is the demand that comes from the API group companies particularly the PharmEasy platform. This quarter was the first quarter that we integrated and served the entire orders. I expect that as that scales, we will also see the benefit. Now coming to your second question around the three year growth trajectory, we are still at this point working through our you know three year strategic plan and where we expect to end, but what I can say is that our ambition are to be the industry leaders in growth particularly in the diagnostic space.

Aashita Jain: Thank you very clear. My second question to you is on the prices and the margins? While you have briefly mentioned this in your opening remark, I just wanted to understand were these price cuts offered to only to your traditional B2B channel or also to the cloud platforms your e-pharmacies or other online aggregators and is it stabilized now and in continuation to this historically Thyrocare used to make margins in the range of say 35% to 45%? With all these costs rising and investments increasing as well as these aggressive prices what should be the sustainable margin profile going forward that we should see for Thyrocare?

Rahul Guha: Understood. Thanks again for the question. On the first one, the price cuts were largely limited to the B2B network because that is where we saw the maximum churn and that is actually the most price sensitive segment amongst all our channels. To answer the question very specifically the price cuts were very focused to address the churn in our B2B channel and so therefore we were there. I think at the price levels that you would have seen exit March, we are very confident that our channel has found confidence in the Thyrocare brand and is able to sustain their business going forward so I think on that side we do not anticipate to be doing any more price cuts over the next couple of quarters. To your second question around EBITDA yes we are investing significantly but we are also taking a hard look at our overhead structure to see where we can optimize as you would have seen in the presentation our overhead are already 30% of our revenues so we are going to take a hard look at that and see if we can balance our investments versus cost saving. With that being said I think I cannot give any specific guidance at this point of the EBITDA range but I would say that a good base would be the exit of March 2022 without the COVID impact.

Moderator: Thank you. The next question is from the line of Chirag Dagli from DSP Mutual Fund. Please go ahead.

Chirag Dagli: Thank you for the opportunity. Sir you talked about 8% of TTL revenue non-COVID revenue coming from PharmEasy what was this number prior to the PharmEasy takeover maybe let us say pre-COVID because Thyrocare has always been a big player in the online aggregators market?

Rahul Guha: So thank you Chirag for the question. Actually before API group and Thyrocare came together PharmEasy used to run its own lab network and actually used to process labs their diagnostic tests in-house and would only outsource a very small portion of their volume so I would say that, that number would have been negligible in the past. It is now that we have taken over the labs and we process 100% of their samples is where it has become a significant revenue contribution.

Chirag Dagli: Understood Sir. Sir you also talked about cross sell and you said that you want to reach this number needs to reach to 7% over the short term and 15% over the long term is what the presentation talks about? The question is where are we currently on that cross sell?

Rahul Guha: So I cannot give you a specific number Chirag but I would say we are in the 4% ballpark. The target is to double that over the next year and then of course as you mentioned in the long term presentation.

Chirag Dagli: Understood Sir and the test menu expansion that we have done historically Thyrocare has been very strong at the cost line item on the tests that they have done how is our cost position in the expanded test? Where do we stand in terms of costs on those tests?

Rahul Guha: A very good question Chirag. We have been very calibrated in the way that we add tests into our menu. The reason being for us to get the rates that Thyrocare enjoys on thyroid and others we typically require to commit volumes to the vendor so therefore whenever we add a test into our test menu, we try to include it in our Aarogyam packages so that we automatically get some volume and then we are able to negotiate low cost. That remains the strategy so we have been very calibrated in what we add. We could have added if we look at our competitors it could be 2500 to 3000 tests. We have very selectively picked 300 tests where we believe there is complementarity with our Aarogyam portfolio today so therefore we have a certain assured volume that we can use with our vendor as well as there is a medical rationale to include it into our test library.

Chirag Dagli: Understood Sir and just a last question what is the strategy behind the whole hospitals business? Sir I am not actually clear? I am sorry but what is our right to win here this market in the hospitals market?

Rahul Guha: Very good question Chirag. It shows that you have a strong understanding of the diagnostics business. Firstly if you look at an all India level if you look at the pathology market, pathology OPD I am keeping pathology IPD the urgent tests out of the picture but if I just look at pathology OPD. Our estimate is 30% of the pathology OPD happens in hospital labs. At this point, Thyrocare has a very limited presence in the hospital space so if we are going to be an industry leader in diagnostics we cannot ignore 30% of the market so that is the first question to you why are you looking at hospital. The second is we had the advantage of a sister company that actually handles the hospital supplies for 900 hospitals in the country and has existing relationships so from a go to market we thought that we could at least get introduced very quickly and meet these hospitals at a scale that is far faster than if we had to do it on our own one by one. That was the second reason. The third reason is if you look at the hospital segment it is one of the most price sensitive segments where hospitals particularly for tests that they are looking to outsource are very keen to you know get the best price in the market. Actually in that business we are very, very competitive because we have a very strong cost structure. In many of the hospitals that we have met even when we are able to better their existing competition in many cases we enjoy a significant margin even after that and so therefore we believe these are the three reasons we are getting into. It is a large market. We have a very strong go to market advantage from our sister company Aknamed and when we have gone and studied the costs that these hospitals are getting served at. When we look at cost structure we believe that we can easily match those prices or do much better than that and enjoy a good margin.

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

Shyam Srinivasan: Good evening and thank you for taking my question and congratulations Rahul for your role at Thyrocare? Sir first question is on the B2B, B2C and B2G like I am just looking at your slide seven? We have had historically Thyrocare philosophy has been to play into the B2B market? If you look at a three or five year history, we used to take prices lower with the anticipation of volumes coming through given the price sensitivity like you said? At least the March seems to suggest a good uptake in volumes so just your thoughts around the B2B piece? How different or similar it is to the past? Why we think the price is the way forward to grow this business?

Rahul Guha: Thank you Shyam excellent question. I think, I will say that you know if you look at our Q2 and Q3 results actually particularly Q2 we took a very steep jump in price with the assumption that you know the investments that we had made in the brand and the fact that there would be limited competition at our price point that we would be able to sustain the business. Actually what we saw is a massive amount of churn in that time. We also saw and it is reflected in the volumes that you see between July and November where we went from in our B2B business from 12.4 lakh workload all the way down to 9.2 in a span literally I would say one month after we raised the prices so what we have realized is that our channel partner network and actually most channel partner networks firstly there are alternatives now in the market to Thyrocare that come in with a low cost value proposition and when we raised price to that extent our channel moved on from us. The good news is that when we corrected this, the channel came back very fast so I think the combination of the Thyrocare brand being known as a quality low-cost testing provider along with prices that were competitive actually showed us the uptick in March and you will see actually a lot of the strategies that we implemented actually got implemented in mid-Feb and it started to show results in March so I think to answer your first question how different is this from the past. I do not think it is very different from the past. I think the diagnostics testing industry tends to remain price sensitive particularly in the B2B segment absolutely and if we are able to manage and optimize our price within a tight band actually the volumes are there for us to take and will still be at a at a very healthy EBITDA.

Shyam Srinivasan: That is helpful so the second part of the question is on the plan to grow B2C I think it is less than close to 20% of revenues today so just any thought process there? Is there a plan to kind of now do like what the other guys are doing either in terms of retail formats? Is there a plan to grow B2C at all?

Rahul Guha: Yes so just to give you a little background of the definitions of B2B and B2C for Thyrocare. B2B is when we just receive a sample. B2C is when we collect the sample ourselves or collect the blood ourselves and our phlebotomist go so while we say that that is a B2C business it is really a B2B B2C business, which is we work with an aggregator, a platform, let us a corporate and they pass on the lead to us and we collect the sample and issue the report. So actually if you look at the pure B2C where a customer walks into a Thyrocare franchisee and gets his blood and collects a report actually that is a very small part of our business. We are largely a B2B business and it is segmented on whether we collect the sample or we collect the blood think of it that way. Now in that I think firstly there are very strong plans to grow to our B2B business. We are investing significantly to add counters and ensure that anyone who offers a diagnostic test or has a diagnostic test collection center in the country thinks of Thyrocare as his back end and that is one of the big areas that we are focusing on. The second is on the B2C side. We are ensuring that anybody in the online space of which PharmEasy is one of our customers but we are working with almost all the health tech platform. We are working with many of the new innovative marketplaces on diagnostics. We are even actually working with several of the e-consult or medical consultation company as well as the traditional health aggregators and the plan is really to scale that up as much as possible. We have built up a team that actually goes to corporate and to some of these large health tech players, e-consult players and getting them in paneled as Thyrocare and getting Thyrocare empanelled as diagnostics partner on those platforms. That is where we are. The plan to go B2C purely where we would set up franchisee counters and actually set up or invest significantly in tghyrocare.com is actually not on the card. We believe this is our efficient business model and we can grow our business this way.

Shyam Srinivasan: Got it. That is very clear. If I can squeeze the last question on our Arogyam versus non Arogyam again historically we have had close to 50% from Arogyam, but if I look at I think January to March that number is lower? Any thought process around how you will look at Arogyam packages versus non Arogyam? You have expanded the test numbers like what you mentioned as well so just want to understand how we should look at the whole wellness part of your business?

Rahul Guha: Sure I think what happened in JFM so I think what we have realized now is the large part of our franchise looks at the Arogyam package and then determines our overall price so when we corrected the price on Arogyam and the franchise network came back it had a massive knock on effect on non Arogyam as well so that I think was a plus that we got when we corrected the prices on Arogyam and to some we call price or price perception drivers. Going forward Arogyam will remain our primary focus because we have found we have significant brand recognition there. People understand the packages. Customers understand the packages so I would expect that we will get back to the same ratio you alluded to Shyam.

Moderator: Thank you. The next question is from the line of Aditya Khemka from InCred AMC. Please go ahead.

Aditya Khemka: Thanks for the opportunity. Congratulations on Rahul on the new role. Rahul so what I hear from you is that March was basically the first point of the newly reformed strategy at Thyrocare and we are looking onwards going forward you are looking onwards for growth beyond the March numbers so in March our diagnostic revenue was Rs.41 Crores which when annualized translates to roughly Rs.480 Crores and very little revenue from COVID so all of it lion share is non COVID so would it to say therefore you are looking beyond Rs.480 Crores from your non-COVID business?

Rahul Guha: Yes absolutely Aditya. I think without giving specific guidance yes I think we would all be disappointed if we land at Rs.480 Crores.

Aditya Khemka: And that would also translate to a sample volume of 20 lakhs per month which we did in March? We are looking at growth beyond 20 lakhs per month in FY2023 for all 12 months?

Rahul Guha: Yes I do not anticipate to be reducing prices for the government.

Aditya Khemka: Fair enough. Just one clarity I want when you bill, so when you use the Aknamed network to reach hospitals and when you use the PharmEasy network to connect with customers, are your economics there similar to what they used to be before acquisition when you had channel partners or is the economics with Aknamed and PharmEasy better or worse compared to your independent channel partners?

Rahul Guha: Aknamed is just a legion partner so actually there is no economic sharing with Aknamed. Once we approach the hospital and we agree to work together Thyrocare bills directly to the hospital directly so you should think of Aknamed only as a legion partner not a via media to reach the hospital. When it comes to PharmEasy the economics, the way to think about it is there is economics at a gross margin level and economics at the EBITDA level. I would say if you compare at the gross margin level PharmEasy enjoys a certain amount of discount because of the volume that they do but if you look at it at the Thyrocare level at an EBITDA level it will be more or less the same as our normal partners because we do not incur any of the fixed costs in sales, collection, and routing for PharmEasy. With that being said, I would also like clarify all prices to any of the related parties as per our standardized discount sheet and that has been ratified as part of our audit committee per related party transaction so we follow a standard discount sheet regardless of whether you are PharmEasy or any other online platform giving a certain amount of business and that discount is exactly calculated on the net gross margin realization and the fixed cost that is required to serve that business.

Aditya Khemka: Got it just one last question so pre-PharmEasy and pre-COVID-19, Thyrocare was 40% EBITDA business? Now we are on our non-COVID PCR in the low 30s? Three years out in your vision that you have stated in the presentation that you have shared margin outlook seems to be missing so just want to understand is 32% to 33% where you are comfortable being three years out or is 40% really going to be your target which used to be the case pre-COVID?

Rahul Guha: I think over the next year or two Aditya we will come to know where we are. I think the way to think about it is keeping COVID aside right. Let us keep COVID aside which was driving as you would have seen when we broke it out driving a large part of that 40% the base over the last couple of years also has been at about 32%. Pre COVID the question is do you want to have 40% EBITDA but you know single digit growth or industry leading growth at a 30% in the 30%that is the trade-off. I cannot comment at this point because at this point we are in the investment phase but certainly over the next three years we see enough investments to be made to deliver industry leading growth and we will do that.

Moderator: Thank you. The next question is from the line of Nikhil Mathur from HDFC Mutual Fund. Please go ahead.

Nikhil Mathur: Good evening and congratulations Rahul on your new role. My question is a bit on the cost fact only? I just take your comments that we have done an investment phase and perhaps we will come back with a better margins outlook in a few quarters, but just looking at from a granular basis if I look at RM cost as a percentage of sales in Q4 it has come to around 32% can you highlight any base response or percentage point of savings that you get from your vendors or your reagent suppliers that you realize on the basis of scale?

Rahul Guha: Sorry Nikhil just to ensure I have understood the question. You have asked my material cost has gone up over the last couple of quarters, is that because I have stopped getting discounts from my vendors.

Nikhil Mathur: No my question is a bit more, are there any material savings that you will get on material discounts you get from your vendors because of scale at which Thyrocare operates Sir?

Rahul Guha: Yes so that I think without getting into the details of that I think I am reasonably confident at the scale and volumes that we commit upfront to our vendors. We will be getting the best reagent prices in the market. I would be very disappointed if we were not. We sit down across the table and discuss what are the volume commitments and typically our volume commitments are in excess of any other diagnostic lab in the country and then we negotiate or find win-win solutions to get the best prices for us so that is on that part. I think your question also was what has happened to gross margin between Q3 and Q4 right?

Nikhil Mathur: On the first part itself as are there any material savings and I actually have question prior to that where I think you are clearly laid out the expectations of the pricing front but on the cost front especially raw material side I think there is an elevation of competitive intensity in the industry? We have pharma companies, we have physical details outside venturing into diagnostics, so does that does that put pressure on your organic power with your suppliers on your reagent cost because the vendors are now spoiled for more organized choices it developed in the past working more with unorganized players but they are more organized players who are perhaps willing to offer better economic proposition to the vendors as well so is there any headwind to them to a gross margin because of elevated competitive intensity on the organized fund?

Rahul Guha: I think to be quite candid there Nikhil I do not think so at this point just as we talked about at March we were at a scale of 21 lakh samples a month I think it would be very difficult for anyone to be at that scale to sit down and negotiate prices that we are talking about.

Nikhil Mathur: Got it. Also on the cost front on the fixed cost front or variable cost front now collections of samples even that is automated, slightly specialized job not everyone can do? Even on that front is there any wage inflation that you are witnessing in the industry because of again competitive pressures coming in or generalization pressures are also there so what are your thoughts on the availability of the tool required to connect the samples and is there a fight for constrained stool and that can lead to elevated costs in the coming quarters?

Rahul Guha: Now that is a very a very good question Nikhil and it is something that we have also been mulling on. I think we will recognize that the collection agent or phlebotomist as we call them will be the constrained resource over the next thing a few years actually because they are medical technicians and you know have to be trained as such and then on boarded on this platform to be able to serve the customers and as competition increases and more and more people want to collect the samples on their own we would see cost go up per collection. The way that we are combating this is in two-fold. One is using our technology particularly using some of the app based technology that we get to benefit from PharmEasy on how to root, how to schedule and how to ensure that the phlebotomist is utilized to the maximum possible so while cost may go up hopefully we will be able to compensate it with productivity increases of the phlebotomist. Now that is one part. The second is we are also exploring and we have actually very successfully done. It is a bit of a part-time model. As you may know in the diagnostics industry a large part of the collections happen in the early morning after fasting and then actually we have a long period of low utilization in the day for a particular phlebotomist. We have also explored where we onboard nurses who are working for the full day let say in a patient's house or even in a hospital where they support us for the first three hours in collection and then continue with their normal job and earn a little bit extra on the day. That actually has been a very successful model for us so to answer your question Nikhil I believe this will be a constrained resource cost will rise. We are combating it through two ways. One is of course as I mentioned using technology to enhance productivity and two this how would I say almost like a gig economy for phlebotomist where we are trying to engage nurses and other healthcare workers to use the spare time in the morning to collect samples also.

Moderator: Thank you. The next question is from the line of Rahul Vora from Abakkus Asset Manager LLP. Please go ahead.

Rahul Vora: Sir just a quick question from my end? What is the peak testing sample, sample testing capacity we can go up to?

Rahul Guha: So the way we measure our capacity is actually in how much capacity do we have to release a sample in six hours right. Today our capacity utilization as measured by that metric is about 67% to 70% so we have adequate capacity to service the demand temporarily. I also wanted to call out that the way we measure capacity is sample release in six hours. If I was for example to release or increase that time to eight hours then I already have 25% more capacity but our goal is that all labs turn around samples in six hours so we measure our capacity in that way and we are at about 70% capacity utilization at this point.

Rahul Vora: Sir given this kind of metric and the kind of reach outcomes that we are targeting whether it is Aknamed or any other channels? Within two years we will fill out our capacities right?

Rahul Guha: Within two years we will sell out our capacity but we are also at this point as I mentioned in order to solve the turnaround time challenge we have already added several what we call regional processing labs and we will continue to have and what we call very small footprint satellite labs to be able to augment the capacity.

Rahul Vora: Sure this is helpful Sir. Thank you.

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

Rahul Agarwal: Good evening and thank you for the opportunity and appreciate holding this call after some time gap. Best wishes to Mr. Guha for the journey at Thyrocare and congrats Sachin for the promotion? Sir firstly on first question is more top down as purely on Thyrocare as an entity within the API group? Will it stay like pathology and radiology focused business going forward? The key additions to your senior leadership to achieve what you have just said to support Mr. Guha in this endeavor and you know thirdly was on the capital allocation? Obviously we talked about growth and margins but we have not talked about capital utilization and taking care of balance sheet does not dilute because you know B2B business is obviously a bit more challenging so any in terms of your mind what is the priority on return on capital and what kind of investments are you looking at that is the first question?

Rahul Guha: Thanks Rahul so I will take each of your questions one by one. I think the first one was at least for the foreseeable future we see Thyrocare as a pathology and radiology company. I do not think we will move beyond that as far as our mandate is concerned. In terms of the key additions to the team I think some of our big priorities as I mentioned really expanding the B2B channels so we have had someone recently join us to head the entire B2B sales and drive that entire growth team so to speak. We are also doing select additions to ensure we build our hospital franchise business and are able to cater to that and the pharmacy counter is a important strategic leg and we have someone who will be driving that business as well. Other than that we will see other key additions as we go along. One other important addition not on the revenue side but on the operation side is we have had someone join us as the quality head to be able to oversee all our labs and ensure that our quality processes and NABL accreditations are well underway. I think those are the main additions that we have already done. When it comes to capital allocation Rahul as you know unlike most other B2B businesses we do insist on a certain deposit from our channel partners and we typically extend them credit basis the initial deposit so from that point of view typically our receivables are not out of whack as a result and we have been always very tight on our credit limits and how we extend what you call credit into the channel. With that being said when it comes to capital allocation and capital utilization we will invest into capital particularly as I mentioned on the regional labs and the satellite lab. That estimate we are working through but I do not think it will be let us say north of 20 but it will be in that range the Rs.20 Crores to Rs.25 Crores range but that is where we will expand on capacity beyond that I think we will do some select investment in the radiology space to see if we can augment capacity and turn around that business. Those are the two areas where I see us deploying capital to a large extent. I do not see us at least at this point in time pursuing the inorganic route. Actually that was one of the reasons also we dividend a large part of the cash because if you look at our capital commitments to grow the business which is mostly in receivables, expand the capacity and also to invest selectively in radiology we thought from a cache position we were quite well placed.

Rahul Agarwal: Correct Sir I mean I agree to you but broadly Thyrocare as an entity was very efficiently managed on the working capital inside and on balance sheet and cash generation so basically going forward even when we grow harder and we grow faster I think if that discipline of balance sheet can be maintained we will be great? Secondly I just last question from my side on the service network so earlier pre-acquisition we used to discuss about Thyrocare aggregators, Thyrocare service providers, tags and PSPs, overall touch points, B2B partners but going forward after the integration how should we look at service network for therapy like could you help me with like top three things we should track over the three to five years just to understand what is the reach of Thyrocare after the integration along with API holdings?

Rahul Guha: I think our channel partner network remains core to our business Rahul so we will continue to invest and support them and actually we are investing heavily to put in place not heavily so I would say selectively to put in place a growth team that will expand that network right. The way we categorize we used to have I think if you looked at B2B we had five different segregations of channels and in B2C we had four different segregations of channel. We are trying to keep it as simple as possible now. Within our B2B business we think of our channel in two categories direct and indirect. Direct being Thyrocare and Thyrocare branded works largely for Thyrocare as a storefront is okay giving working with the Thyrocare backend and following our particular processes in terms of deposit, work order and all the processes so that is one kind of direct channel that we have which was in the earlier parlance was the TSP and GQC term that we used to use and then the second is the indirect channel which is largely the trading panel that that effectively kind of is a B2B to B2B where they go ahead and then sell to other diagnostic labs and so on. if I look at our total channel partner network right if I look at the first category which is direct I would say we have about 1500 direct partners right and about 2500 indirect partners and off and those 2500 in turn service many, many more diagnostic labs, hospitals and so on. At this point we actually do not have visibility on them. Our attempt is to actually understand who are the end customers and try to reach them directly to our B2B channel.

Rahul Agarwal: Sir for the B2C you said four channels anything on that please?

Rahul Guha: Four channels, I will spend a lot of time explaining the terminology but think of it as there was what was called the DSA which is many of the portals that would come to us and think of it as the online lead gen or offline lead gen channel. We had what was the corporate channel which was corporates that we would work with for our business and then we had our own Thyrocare channel which was web and calling so those were the channels that we had. I think we have come to the realization that in this competitive environment it will be very difficult for us to burn money and build thyrocare.com and today the customer acquisition cost for a diagnostic test as many of you know is quite substantial. It will be very difficult for us to replicate that model so we are largely focusing on our corporate business where we are trying to go direct to corporate and get a part of the annual health checkup over there using our Arogyam brand and then on the DSA side we are really in a way chasing after every single large healthcare platform consultation platform, treatment platform, aggregator and trying to get Thyrocare impaneled as a diagnostic provider.

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

Rahul Guha: Thank you so much. Thank you everyone for joining us and for giving us a patient listening over an hour and ten minutes. My apologies once again for the delayed start. We had a technical glitch. Hopefully in the next call we will not have this. We will continue to engage with all investors and analysts every quarter. I know we have had a bit of a silent period over the last year or so but we will continue to now maintain this cadence and explain where we are going with the business and our strategy. I really appreciate all of you taking the time. Thank you for all the congratulatory notes on joining. This is my third day at Thyrocare so thank you so much for having such a patent journey listening as I walk you through how we intend to take the business. Thank you everyone.

Moderator: Thank you. Ladies and gentlemen on behalf of Thyrocare Technologies Limited, we conclude this conference call. Thank you for joining us and you may now disconnect your lines.