Thyrocare
Tests you can trust

May 26, 2023

The National Stock Exchange of India Limited
Exchange Plaza,
Bandra Kurla Complex,
Bandra (E), Mumbai - 400 051
**(SYMBOL: THYROCARE)**

BSE Limited
Phiroze Jeejeeboy Towers
Dalal Street,
Mumbai- 400 001
**(SCRIP CODE 539871)**

Dear Sir/Madam,

**Sub: Transcript of post results earnings conference call held on May 23, 2023 with Analysts / Investors**

**Ref: Disclosure under Regulation 30 of the Securities and Exchange Board of India (Listing Obligations and Disclosure Requirements) Regulations, 2015 ("SEBI Listing Regulations")**

Pursuant to Regulation 30(6) and 46(2) read with Part A of Schedule III of the SEBI Listing Regulations, please find enclosed herewith transcript of earnings conference call with Analysts and Investors held on May 23, 2023.

We wish to add that the same has also been made available on the website of the Company (www.thyrocare.com).

This is for your information and records.

Yours Faithfully,

For **Thyrocare Technologies Limited,**

Dorai Ramjee
Digitally signed by Dorai Ramjee
Date: 2023.05.26 18:21:38 +05'30'

**Ramjee Dorai**
**Company Secretary and Compliance Officer**

# "Thyrocare Technologies Limited Q4 & FY23 Earnings Conference Call"

**May 23, 2023**

MANAGEMENT: MR. RAHUL GUHA – MD & CEO
MR. SACHIN SALVI – CFO
MR. PRATIK HIRE – HEAD (STRATEGY & IR)
MR. ADITYA SHINDE – HEAD (FINANCE, ADMIN, & SOURCING)

**Moderator:** Ladies and gentlemen, good day and welcome to the Thyrocare Technologies Limited earnings conference call.

As a reminder, all participants' 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 touch-tone phone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Pratik Hire from Thyrocare. Thank you and over to you, Mr. Hire.

**Pratik Hire:** A very good evening to all and thank you for joining us today for Thyrocare's earnings conference call for the 4th quarter and full year FY23. 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 Investor Presentation which now have been uploaded on the Stock Exchange websites. The transcript of this call will be available in a week's time on the company's website.

Please note that today's discussion may be forward looking in nature and must be viewed in relation to the risks pertaining to our business. After the end of this call, in case you have any further questions, please feel free to reach out to the investor relations team.

I now hand over the call to Rahul Guha to make the opening remarks.

**Rahul Guha:** Welcome to everyone on the call. Thank you once again taking out time from your schedules to join us this evening. For those who are joining for the first time, just a quick introduction of us on the call. My name is Rahul Guha. I am the MD and CEO of Thyrocare. It has actually been roughly a year since I joined, and I want to thank you all for the opportunity to present the Q4 and annual results for this year. I am joined by Sachin Salvi who is our CFO and well known to most people on the call. Pratik Hire who is part of our strategy team and leads investor relations and had kicked off the call is with me along with Aditya Shinde who heads the Finance, Admin, and Sourcing functions.

First, I will just talk a little bit about the focus areas over the last few months and the years that have been. But before we begin, as with all my calls, I will always start with a quote from the Mahatma. "The *future depends on what you do today*." And therefore, I wanted to give you a sense of some of the highlights of what we have been doing in the last 1 year. If you recall, when we first took over, we touched upon rebranding efforts to bring a fresh and modern perspective to the brand. That has been completed and with our new test menu of 700 tests, our brand logo actually moves away from the old imagery of the thyroid gland and anchors on two tenets. The first is a drop of blood signifying our heritage in pathology. The second element is a microscope which we wanted to use to bring out our anchoring in science and technology at all our labs.

Quality remains the key priority area for us. It is an ongoing journey and I wanted to report that we have made good progress over the last 1 year. We have now 20 labs that are NABL accredited which includes our COVID lab. And today I am very happy to say that 85% of our sample load is processed in an NABL lab. It's important to understand this in context, this 85%. Today, only 2% of the pathology labs in the country have an NABL accreditation. Actually, what we did was we commissioned an independent study on quality through a research paper that has been published in the International Journal of Advanced Research, Ideas, and Innovations in Technology. That report actually shows that 9 out of 10 doctors trust Thyrocare reports to be reliable and recommend their patients to get tested from Thyrocare. That is a big stamp of approval of all the work that we have been doing on the quality front.

Beyond the work on quality, we have expanded our offerings substantially in the preventive care space. As I had talked in the last quarter call, we had introduced the plus and pro series in our flagship Aarogyam. We have also launched a set of 24x7 non-fasting packages to offer round-the-clock diagnostic services on the wellness front and working closely with doctors. We have launched a new series of investigative packages under the brand name Jaanch. These packages are curated by doctors to help doctors and patients investigate specific chronic and lifestyle diseases in a much more targeted way. The way to think about it is Aarogyam is our wellness brand, but Jaanch is our investigative or sickness brand. If you are concerned about any health concerns, then we would recommend that you use a targeted Jaanch profile. We have Jaanch profiles for hair fall, for fever, for PCOS, for thyroid, for any sickness or chronic condition, we have worked very closely with doctors to curate these packages to put the power of diagnosis in the hands of the patients and doctors and we have branded this series Jaanch and we have launched it across the country in the last few weeks.

We also continue to engage doctors on diagnostic testing and how it can better impact their patients and the treatment that they receive. In partnership with key opinion leaders, we have developed educational videos and have also started participating in conferences to share and debate our perspectives on diagnostic testing. You would have seen through many of our campaigns we have engaged with regional celebrities to create awareness about diabetes testing. We have also revamped our technology stack. We have now launched our new platform called ThyroNXT for our franchisee partners, which aims to make transacting with Thyrocare as a B2B company a frictionless experience.

On the financial front, we also distributed an interim dividend of Rs. 18 per share at the rate of 180%. We are very proud of some of the key milestones that we achieved in the last year. On the quality front, we have reduced our complaints per million samples by 35%. Our P90 TAT is now less than 24 hours pan India as compared to 28 hours last year. And our average TAT now is less than 14 hours. Through our pin expansion initiative, we are now active in 4,600 pins as compared to 2,600 pins in FY22. And we now have 7,400+ active franchisees as compared to 4,400 in FY22. As a result, we processed 22.3 million non-COVID samples and served 15 million patients in the year which is 39% and 32% year-on-year growth respectively in volume. In our nuclear business, we performed 30,800 PET CT scans this year which compares to 24,000 scans last year. And when it comes to API group, it continues to account for 12% of our pathology revenue for the full financial year.

As we get into the results, I wanted to share with you a few highlights or pointers before we deep dive into the same. Our focus has always been in driving sustainable revenue growth. We have seen a healthy recovery in our non-COVID volumes year on year. This has been driven by continued focus on channel expansion through our pin expansion initiative and a focus on on-boarding new key accounts in our partnerships. As a result, we have been able to deliver a 22% year-on-year growth in our non-COVID business. And while there has been a degrowth at an overall level, that is largely the drop from COVID being out of the picture.

With that, I will hand over to Sachin to just cover the overall results.

**Sachin Salvi:** Good evening and thank you everyone for joining this call. I will briefly update you about the key highlights of Q4 and full year FY23 Financial Performance.

Before we get into the details, I will reiterate about ESOP program that I had mentioned in the last couple of calls and last couple of quarters. This program has been introduced at the group level to retain talent at Thyrocare. The ESOPs of parent company will vest over the next 6 years and we are recognizing the same as per IndAS and IFRS framework. As a book entry towards the share base payments and appropriately reflected in the profit & loss account as an expense and in the balance sheet as equity contribution with us from the parent company. The total value of the ESOPs granted are Rs. 45.53 crores over a period of 6 years, but one thing you must note that this is a cashless charge. It is not cash outflow. As per the IndAS framework, the options are valued at grant date as per the Black Scholes formula which is a charge to the profit & loss account over the vesting period proportionately and typically which results in hit in the year of grant and then proportionately charged over the vesting period. The breakup is included in our detailed presentation. As these are not operating expenses and do not impact our cash flow, we have normalized EBITDA to the extent and reported EBITDA in line.

Now, going into the performance:

First, I will start with the revenue from operations:

Our revenue from non-COVID operations for the year on a standalone basis has increased by about 22% Y-o-Y to Rs. 457 crores. Our COVID revenue, however, has declined by 96% Y-o-Y to Rs. 6 crores for the current year. In Q4, we have grown our non-COVID revenue by 18% and overall revenue by 4% Y-o-Y. Additionally, we have seen a strong recovery in our radiology business. We have grown revenue on a Y-o-Y basis by 47% in the year and 53% Y-o-Y in Q4. As far as the EBITDA margin is concerned, our standalone normalized EBITDA margin stands at 31% for the quarter and 29% for the full year.

With these brief highlights, I will pass it on to our MD and CEO – Rahul Guha, for the strategic updates to the investors.

**Rahul Guha:** Just one important point to clarify, while we have reported a consolidated normalized EBITDA of Rs. 151 crores, our free cash flow from operations this year is Rs. 129 crores. So, our normalized EBITDA to cash conversion is quite good.

I will just take now a few minutes to recap our strategic direction and then I will open it up for Q&A. As always, I will first start with our value proposition with the customer. 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 patients, assurance on quality of testing through our certifications, and engagement with doctors. We have made substantial progress on this which I updated in my initial comment and you will see reflected in the presentation. This will remain at our core and will continue to guide all that we do. Second is our strategy. We continue to maintain our strategy of being 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 even a leading online diagnostic platform or a health tech market place, we are happy to work with them to provide low-cost robust testing solutions so that they can serve their patients in the most effective manner. If they require phlebotomy, we are happy to mobilize our phlebotomy network of almost 900 company and 400 network phlebotomists to serve them better. This strategy has been working well for us. We have delivered a year-on-year value growth of 22% and a 39% volume growth in our non-COVID business.

Going forward, we have 3 key pillars of growth which is slightly different from what I have been sharing over the last few quarters. We are focusing on 3 areas. The first is our franchise business. The focus is to take our franchise business deeper into India with a focused test menu and provide our clients with a frictionless experience to transact with us and provide their customers the best testing experience that they can. We continue to focus on private as well as public partnerships. In the public space, we will focus on TB and infectious disease where we are by far one of the strongest players in these segments with large screening programs partnering with health bodies and funding agencies who participate in this segment to provide better testing and care to the patients who are suffering from these diseases. Additionally, we will continue to expand our partnership across healthcare companies, hospitals, and other health services companies and enable them to provide diagnostic testing to their customers. The third area which is new from before is we believe we have a strong and robust B2B model with a core of execution. We believe there is a lot of opportunity to take this model internationally and we will start to look at emerging markets where we can bring this model to provide affordable testing into those markets.

That, in a brief, is our mandate management. Thank you for giving us a patient hearing. I will once again end with a quote from the Mahatma. “Find purpose; the means will follow.” And our purpose always remains to be to provide affordable high-quality testing to the masses. With that, I will open it up for Q&A.

**Moderator:** We will now being the question & answer session. Ladies and gentlemen, we will wait for a moment while the question queue assembles.

The first question is from the line of Rahul Agarwal from InCred Capital. Please go ahead.

**Rahul Agarwal:** I will start with your last point, Rahul. You mentioned foray into international market. Could you elaborate please why this is even needed for the company?

**Rahul Guha:** As we look at growth and our business model, we are always looking for new avenues for growth, Rahul, and we believe there is an opportunity there. We have done a detailed study in some of the emerging markets in terms of the prices, in terms of our operating model, and the return that we can generate and also with a thorough assessment of the competitive scenario, we believe there is a sweet spot to disrupt some of these emerging markets in the same way the Thyrocare has disrupted the Indian market a few years ago. We believe there is a substantial opportunity to take our model international.

**Rahul Agarwal:** Any countries you would want to focus on at the initial stages?

**Rahul Guha:** We are looking largely at emerging markets, Rahul. We have done a full assessment on Africa. We believe that could be an interesting opportunity for us. The Middle East is the second and Southeast Asia is the third that we have prioritized. Again, I want to reiterate we will follow a B2B model there where we will largely to a large extent take our lab strength infrastructure and the ability to operate large-scale labs at a low cost and work with partners in those respective markets to develop the market.

**Rahul Agarwal:** Labs essentially are going to get set up there and they will service the B2B market. Is that correct? Or they will get the samples come to India and get tested?

**Rahul Guha:** Labs will have to be set up there. We won't be able to manage the international air freight logistics.

**Rahul Agarwal:** Secondly, a few discussions or question. I will put in two and then I will come back in the queue. We generally end up discussing all B2B on Thyrocare's calls. Just on B2C, how is that moving for the business? Obviously, the own lab infra, your pin code expansion, your NAVL labs actually boost that. Isn't it? Plus, the D2C side of it, which is our own app and website, how is the traction there?

**Rahul Guha:** On the D2C side, just to clarify, we don't follow a customer-acquisition strategy where we invest in Google AdWords and Facebook and so on and then acquire customers into the platform. It's largely organic traffic that we look at. That business has grown well but to be honest, it's a very small part of our business and we haven't really pushed that part because it's very expensive to acquire customers online and then service them. That's not really our cup of tea. We prefer to work with partners who have acquired customers and then we are able to work with them to service their diagnostic testing needs and that strategy has overall worked fine. If you look at our business, as I said many times, we break our business into two parts – the franchise business and the partnerships business and then we have our D2C which is 5%. Our franchise business, as you have seen, same year last quarter was Rs. 62 crores and now is Rs. 73 crores and our partnerships was last time Rs. 31 crores and now is Rs. 38 crores which is roughly kind of the same growth rate for the company. So, I would say both engines, our offline franchise business and our largely online partnerships, are kind of firing at the same rate.

**Rahul Agarwal:** Overall B2C, not the D2C part but including D2C, overall B2C should be like 15% of the business – your Thyrocare denominated report?

**Rahul Guha:** I would say almost all our reports are Thyrocare denominated reports. As I said, we look at our business, Rahul, in two ways. We believe we are largely B2B, and we look at our business in two ways. One is our franchise network that works with pathology labs to collect samples and then process them at Thyrocare and then our partnerships which may be like PharmEasy, but we work with many of the other online players who have their own captive customers but for diagnostics actually pass on the customers to Thyrocare and we…. Except for PharmEasy, actually for almost all our partners, we release the Thyrocare reports.

**Rahul Agarwal:** Lastly on Aarogyam, what was the revenue share for fiscal '23 and after the realignment you have done across being across price points, the pro and plus series, what has been your experience over the last 2-3 months?

**Rahul Guha:** Pro and plus was basically launched in the last quarter. I think it will take some time. Roughly, there is a set of packages that have got launched over that, they account for about 10% or 15% of the overall Aarogyam now, the new packages that were launched in the pro and plus series. Our Aarogyam to non-Aarogyam remains at about 40:60. 40% of FY23 would be Aarogyam and about 60% would be non-Aarogyam. To be precise, it is 41 something and 58.7 something but that is you say 40:60 is the rough ratio of turnover for Aarogyam to non-Aarogyam.

**Moderator:** The next question is from the line of Nitin Shakdher from Green Capital Single Family Office. Please go ahead.

**Nitin Shakdher:** My question is in relation to what is the exact current cash on books? And obviously related to that is what is the management viewpoint on increasing shareholder value in terms of buyback? Because, obviously the share price while the management will not comment on it, but as an investor, I feel that it is heavily undervalued. Any initiatives on that which will change the current paradigm?

**Rahul Guha:** To a large extent, the cash on books is about Rs. 40 crores now after the payout of the Rs. 95 crores dividend that we paid just in the month of April. Post the payout of the Rs. 95 crores, cash on books is about Rs. 40 crores. We generate a decent amount of operating cash every month. As I said, over the course of last year, we generated Rs. 129 crores of cash. Coming to the shareholder point, one of the things that we always followed is a pretty aggressive dividend strategy and we will continue to do that when we don't have material uses for the cash. We haven't evaluated a share buyback at this point but we typically use dividend as the way to return money to the shareholders. The other is, in our capital allocation when we reviewed it as well, we found that actually we use a lot of operating cash to fund equipment purchases. There, we have moderated some of that capital allocation strategy where we will use debt to finance equipment and actually free up a lot of the shareholder cash that normally would get used in purchasing equipment and continue to dividend it out unless we find a material deployment area that can be remunerative from a return-on-capital point of view. The international expansion is one area where we may deploy some of that cash to generate returns but that's the overall capital allocation strategy right now.

**Nitin Shakdher:** I will come to the international expansion which is interesting because you are looking at Africa as No. 1 and obviously in Africa whether Uganda, Nigeria, or South Africa or even Kenya, can you just highlight a little bit on the strategy in terms of what exactly business to business (B2B) you will be looking at? Is it in terms of tie-ups or is it in terms of endemic or pandemic pathology testing or is it in terms of even exploring markets like Vietnam, Philippines, Thailand, Indonesia? Is the strategy going to be different for Southeast Asia or is it going to be very similar for Africa as well? And how much is allocated for the international expansion for the financial year, please?

**Rahul Guha:** As I said, there are 3 geographies – Africa, Middle East, and Southeast Asia that we have prioritized as the first wave. Just to say what do I mean by the B2B model, typically in all these markets, there are a large number of hospitals and large number of pathology labs that operate in these markets. Typically, just like in India, we go in and set up a lab of a significant scale that allows us to bring the cost down of testing of particularly high CAPEX kind of tests – hormones; one of the most famous is thyroid, but there are multiple hormones that can be leveraged as well; many of the infectious diseases, particularly when it comes to PCR-based testing and things like that, which are also endemic in these countries. So, the strategy is to go in and set up a large infrastructure and lab which can process significant volumes at a much lower cost and then work with distribution partners in those markets to gather the volume and those distribution partners are typically distributors to hospitals or distributors to pathology labs, typically people who sell vials or reagents into these labs and have a good connect and we are effectively then able to provide them one more line of business into that market. That's the outline of the strategy. For next year, we have actually allocated not a lot; we have allocated about Rs. 20 crores that will be largely deployed in the Africa space. But once we taste success in Africa, and then we will look to scale the model is when we will consider a further capital deployment.

**Moderator:** The next question is from the line of Aditya Khemka from Incred Asset Management. Please go ahead.

**Aditya Khemka:** Rahul, sorry I couldn't catch that. How much capital would it need for you to enter these emerging markets next year?

**Rahul Guha:** We have allocated for the first wave Rs. 20 crores.

**Aditya Khemka:** This Rs. 20 crores would be spent across what time frame?

**Rahul Guha:** To be honest, I would say between the quarter 3 and quarter 4 is when we would incur most of it because that is the time that the labs would get set up.

**Aditya Khemka:** This Rs. 20 crores would be sufficient for how many geographies, Rahul, as in how many countries or how many labs?

**Rahul Guha:** Three geographies and it would be 3 labs.

**Aditya Khemka:** Secondly, on the government receivables that you have provisioned for, how long have these receivables been due? And we also look at this company called Krishna Diagnostics that does business from the government. We haven't seen any provisioning ever from their side. They seem to get their receivables on time. If you could slightly elaborate on what caused this to be provisioned and how long has it been overdue from the government and why is it different from what other players are going?

**Rahul Guha:** I cannot comment on the provisioning practices of other companies. I will just talk about ours. This outstanding has been due for 2 years. It is COVID testing related. I don't think we are very different from other players when it comes to the COVID receivables, particularly the specific testing agencies that we have been working with. It has taken time to clear the bill. And according to the process with our auditors, we are provisioning as appropriate and we remain hopeful as and when the funds are released that we will receive the funds, but we have been provisioning as per the guidance from our auditors. But there are 2 parts of the government business; there is pathology and there is radiology. In radiology, the receivables tend to be more under control because you control the equipment as well. If over a period of time you have not been paid, you can shut down the equipment and effectively precipitate your payment whereas in pathology and particularly in COVID where the testing was done at such a high volume in such a short period of time, it will take time for the payments to get released.

**Aditya Khemka:** Could you also clarify is this state government payments or central or spread between state and central?

**Rahul Guha:** This is state government payment and municipal corporations.

**Aditya Khemka:** Okay, that clarifies. Because, under the NHM which is the National Health Mission controlled by the state government and my understanding is that the payments are fairly moving fast. Any which ways.

Lastly, on the non-COVID business. We see that the volume is going faster than the top line revenue. Is the realization per test coming down? Are we actively offering discounts to get higher volumes in? And if so, what is your outlook for the future? Can you maintain a 20%ish kind of volume growth without taking significant price cuts or you feel you would have to offer some sort of price cuts to get volumes north of 20% on the non-COVID side?

**Rahul Guha:** Actually there, Aditya, if you recall when I had first taken over, we had done a price correction in just prior to in Q4 of 2022 and so if you look at Q4 '22 to Q4 '23, actually our gross margin has improved over the year. After that Q4 '22 price correction that we took, we have not corrected prices throughout this financial year. If you compare Q4 to Q4, our gross margin has improved by a percentage point overall. I would say whatever correction we did to the operating model which was to correct the prices and all of that in Q4 of last year, since then, that has carried us forward in terms of the revenue growth that we are seeing.

**Aditya Khemka:** Just one more question from my side. This ESOP pool of Rs. 45 odd crores which we are writing off over the next 6 years, in the foreseeable future as in the next 2-3 years, do we have any visibility if there would be a fresh pool again created for ESOP to incentivize more or do you think this ESOP pool will last for 10 years or 6 years or whatever? Can you give us some clarity on can there be further ESOP grants in the future?

**Rahul Guha:** There could be a possibility of further ESOP grants in the future. It always remains our priority to attract talent, but as of now, at least at the Board level, there has been no discussion of enhancing or increasing this, but as and when we get key talent, we may evaluate a further ESOP grant, but at this time, there isn't any plan.

**Aditya Khemka:** Just to clarify on this, Rahul, these ESOPs are for the API holding shares. In Thyrocare's book, there is an entry, but there is no cash impact and there is no dilution of equity happening in the books of Thyrocare.

**Rahul Guha:** That is correct. As I discussed also, if you look at our normalized EBITDA for the year, our normalized EBITDA was Rs. 150 crores and our reported EBITDA actually goes down all the way to Rs. 120 crores because of this ESOP cost and provision for receivables, but our free cash flow from operations for the year is Rs. 130 crores.

**Aditya Khemka:** A normal ESOP of Thyrocare shares would not also impact cash flow but it would impact your number of shares – diluted number of shares. So, I just wanted this to be on record that your diluted number of shares is not actually increasing because of this ESOP grants.

**Rahul Guha:** Because of the API ESOP grant, no, but as you know, we have a small ESOP program in Thyrocare as well, which when created was 1% of the outstanding equity. That ESOP plan continues as always.

**Aditya Khemka:** What is the quantum of that ESOP plan? 1% of Thyrocare's equity?

**Rahul Guha:** It was about 5 lakh shares. It was granted over a period of 10 years. It roughly works out to about 50,000 to 60,000 every year.

**Aditya Khemka:** 50,000 to 60,000 shares every year? And out of the 10 years, how many years have lapsed and how many years are left?

**Rahul Guha:** Eight have lapsed. There are two more years left.

**Aditya Khemka:** So, this total ESOP cost of Rs. 45 odd crores holding cost

**Rahul Guha:** Yes, this is the API holding ESOP cost. The Thyrocare cost is not significant. We have absorbed it as part of employee benefits.

**Aditya Khemka:** When you say not significant, it's not north of Rs. 1 crore?

**Rahul Guha:** Rs. 2 crores.

**Aditya Khemka:** And it's included in employee benefit expenses.

**Moderator:** The next question is from the line of Nilesh Doshi from Prospero Tree. Please go ahead.

**Nilesh Doshi:** Sir, I had 2 questions only. One is that you have answered a little bit on the government outstanding amounts. What is the exact amount outstanding as on the 31st March 2023?

**Sachin Salvi:** It is about Rs. 60 crores. Rs. 51 crores from one debtor which is NHM Maharashtra. There would be some small debtors like NHM Uttarakhand, NHM Jharkhand, and Bengaluru Municipal Corporation that would be another Rs. 7-8 crores.

**Nilesh Doshi:** It was around Rs. 80+ crores as on 31st March 2022. So, we received Rs. 20 crores during the year or we have provided out of this Rs. 20 crores?

**Sachin Salvi:** The total billing was about Rs. 80 crores. We have received about Rs. 20 crores in financial year '22. During financial year 22-23, we have not received significant amount. That's why as on 31st March 2023, the tentative outstanding from NHM on account of COVID business was roughly about Rs. 60 crores.

**Nilesh Doshi:** But we had the provision of around Rs. 10 crores in FY23. The amount is outstanding amount is Rs. 61 crores for FY23. It was Rs. 80+ crores in 2022. The difference between these two amounts is Rs. 20 crores. So, we must be made the provision of Rs. 20 crores if we have not received any amount from the government authority?

**Sachin Salvi:** The provision for the outstanding receivables is made on the basis of ECL model. It is not on the basis of whether the money has been received or not, it is based on the amount which is outstanding and for how much period the amount is outstanding of the total quantum. So, this has nothing to do with how much amount has been received, how much amount was outstanding as on 31st March '22 or as on 31st March 2023.

**Nilesh Doshi:** We are not receiving the amount because of any dispute or there is anything wrong billing or what has actually exactly happened?

**Sachin Salvi:** There is no wrong billing and all. The only thing is there was some clarification which has been sought by the regulator on account of the repose which has been uploaded on the ICMR website. We have given that clarification to the respective department and they are just quantifying by seeking confirmation from the respective MoH who are sitting in the respective districts.

**Nilesh Doshi:** When we are expecting to receive this amount?

**Sachin Salvi:** We were expecting it to receive in the last quarter, but somehow this process is getting delayed, and we have been informed that it will take another say 5 to 6 months to release this payment. So, by September 2023, we are expecting.

**Nilesh Doshi:** But now, are we doing any government project and for that we are receiving the regular payment?

**Sachin Salvi:** As of now you are asking? As of now, we are not doing any big government project as such. We are doing municipal corporation project that is BMC but that has been awarded to Krishna in the month of February. So, that has been stopped. As far as that payment is concerned, we are receiving that payment against that outstanding quite regularly. But we are not doing any substantial government business as of now.

**Nilesh Doshi:** What is the total receivables as on 31st March '23 including the other party and government authorities?

**Sachin Salvi:** The total receivables as on 31st March 2023 net of provision is about Rs. 85 crores.

**Nilesh Doshi:** Excluding the provision or after making the provision?

**Sachin Salvi:** That is true.

**Nilesh Doshi:** My last question is related to dividend. Sir has described the capital allocation strategy. That's fine. But we are a growing company and should not we use the fund for the infrastructure development rather than distributing the amount to the shareholders which is beneficial to the shareholders? Because, dividend is good, but I think growth is better.

**Rahul Guha:** As I said, the overall company growth is fine. Last year we grew at 22%. The important question is at this point in time, should we invest in setting up more labs in the country to deepen our presence? At this point, we don't believe it's prudent to use cash and shareholder cash to fund equipment. We can actually fund equipment at very good rates with debt. So, there is no need to use shareholder money to fund equipment at this point in time. At this point in time, we are not looking at any material acquisition to purchase any kinds of companies to see if we can grow the top line and our organic growth has actually been quite healthy. As I said, we are allocating some capital for our international expansion strategy, but we don't think it's prudent at this point to hold on to the cash or to use it to fund equipment and deprive the shareholders of their own avenues to deploy the money. And as I said, our current strategy has been delivering healthy growth. So, we don't foresee very large CAPEX or acquisition to deploy that cash.

**Nilesh Doshi:** So, the current dividend rate will be maintained if the earning met the current status?

**Rahul Guha:** Yes, unless something changes, and we see a great opportunity where we can really accelerate the performance of the company.

**Nilesh Doshi:** Sir, are we offering any special discount to PharmEasy, or we are giving the same rate to other parties?

**Rahul Guha:** This forms part of the related-party transactions which we get approved in the AGM also. It is actually a public information. PharmEasy gets a 15% discount over our published rate but many of our other customers also get the benefit of discount basis their volumes. It is we have a standard published rate card basis volume and PharmEasy enjoys that 15% discount because of the volumes that they give to us.

**Nilesh Doshi:** What is the status of the pilot project which is likely to be set up at Ghatkopar with some other partner?

**Rahul Guha:** The pilot project is operational, sir. We have just done a few scans, CT scans in particular. The full project will be operational, I would say, towards June-July, but that is a small pilot as you rightly pointed out and it's our first step in the radiology segment. Let us see how it goes. If it goes well, then we will consider investing. But at this point, it is just a pilot.

**Nilesh Doshi:** Will there be any conflict of interest with our nuclear business or both are in the different business?

**Rahul Guha:** Very different segments. Nuclear is in the PET CT business. The pilot that we are doing has CT, MRI, X-ray, and ultrasound. It is a full radiology business but does not have PET CT.

**Nilesh Doshi:** Last question. Under nuclear, we are operating 9 centers or 10 centers.

**Sachin Salvi:** We are operating 9 centers.

**Nilesh Doshi:** Because, in the presentation, Baroda and Surat are provided and in the annual report Baroda was there. So, I was confused it is 9 or 10. In the annual report, 8 centers are mentioned. So, Surat is the new one?

**Sachin Salvi:** Sorry, we operate 10 centers including Surat and Baroda.

**Moderator:** The next question is from the line of Harini Dedhia from Tamohara Investment Managers. Please go ahead.

**Harini Dedhia:** Just 2 quick points. One was on when I look at the partnership workload, we are in Q4 marginally lower than Q1, but our revenues are higher. Is it just because we have increased the number of tests per sample or is it because we have managed to push some price hikes on platforms?

**Rahul Guha:** Some of our newer partners are coming at a much better realization and that is what is driving the growth rate.

**Harini Dedhia:** Maybe we have seen some workload rationalization happening at the older partners which is understandable because of the push to profitability. But the newer partners, because they are not giving us the same volumes as yet, realizations are better.

**Rahul Guha:** Yes.

**Harini Dedhia:** Just broadly speaking, Sachin, if you could help us what portion of other expenses are variable and fixed? If you can just give a broad number, that would be very helpful?

**Sachin Salvi:** Thyrocare or nuclear?

**Harini Dedhia:** Thyrocare, the pathology business.

**Sachin Salvi:** As far as the pathology business is concerned, I think almost all the expenses are variable except for the rental cost which we are incurring. Otherwise, all the expenses are almost variable. As far as nuclear is concerned, I would say mostly all the expenses are fixed expenses and hardly anything variable because the CMC cost of the machine, the cost of the personnel which are engaged to report as well as the cost of running the center like rent and other charges like electricity, all these costs are fixed.

So, for pathology, most of the expenses would be variable whereas for radiology, it's the reverse – most of the expenses would be fixed.

**Harini Dedhia:** For the quarter, of the Rs. 27 crores odd that are other expenses, what is the rental?

**Sachin Salvi:** I am not having the exact number as of now. Maybe we can take that separately.

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

**Rahul Agarwal:** First question is on CAPEX. Rs. 41 crores was spent in fiscal '23. Could I understand where was this spent? And fiscal '24, you mentioned Rs. 20 crores is what you allocate for international expansion into second half. What would be the total CAPEX for the year including the Indian operations?

**Rahul Guha:** To answer your question, a large part of the CAPEX, Rahul, of FY23 would have gone in the regional labs. We would have set up 6 regional labs through the year. Each lab roughly costs us between Rs. 5 crores to Rs. 6 crores as the full setup. Additionally, we had set up, I think, 2 nuclear centers during the year, new centers. But I would say the large part of the CAPEX, Rahul, has been in setting up of new labs.

**Rahul Agarwal:** For fiscal '24, Rs. 20 crores international plus domestic, how much will that be?

**Rahul Guha:** It would be in the range of Rs. 40 crores again because, as I had guided earlier, we are not planning too many more new labs. I think only our Goa lab and maybe a couple of satellite labs will be there. And then in nuclear, we are shifting a couple of labs. That is the main CAPEX that we are forecasting in India. If we do any material CAPEX, I would imagine it would go in the international side.

**Rahul Agarwal:** One question was on the international foray again. Will the P&L balance sheet see any material change in the short term? And let's say most of that actually comes in second half, will the P&L balance sheet have some kind of OpEx impact on EBITDA level or on the balance sheet side purely from an investment perspective? How should we see that going into next year?

**Rahul Guha:** Difficult to say at this point, Rahul. We are still in the MoU stage the CAPEX feasibility and all of that. What I can say is that obviously as a new business, it will not deliver a 30% EBITDA from the get-go, but again, as I said, we are only allocating Rs. 20 crores across 3 geographies, it would be about Rs. 6-7 crores in each geography. If I look at the overall revenue and operating cost of those labs in those cities, I don't think it would have a very material impact in the second half of the year on a Rs. 500 odd crores base. Let's see how it plays out. But it is very early for me to be able to tell you how much of this will really hit the P&L. But all I would say is they are small investments. Actually, to enter an African market is almost as much as what we would have spent to set up our radiology center in Ghatkopar in partnership. Let's see how it plays out.

**Rahul Agarwal:** Thirdly, MCGM, the business goes off from Feb. What was the annual revenue in fiscal '23 from that business?

**Rahul Guha:** It would have been about Rs. 12 crores, roughly Rs. 1 crore a month.

**Rahul Agarwal:** And lastly, is nuclear a growth business or an annuity business for us? Obviously, fiscal '23 looks like a stellar year, but I think that's more recovery from a lot of issues we had. How should we look at that going forward? Should we expect a similar growth rate, 25% to 30%, or it stabilizes here only?

**Rahul Guha:** I think you should expect it to stabilize. A large part of this growth has come from the centers that were not operational because of different issues over there. To us, resolving those issues and getting those centers operational, I think going forward we would expect two more centers where we would get them operational. That is on a base of 10 centers, you can say. One might expect two more centers to get operational in the second half of this year. That is how I would look at it. But I would not anticipate this kind of growth rate coming into the next year.

**Rahul Agarwal:** So, essentially 10+2. Let's say second half would have like 10% volume impact purely from new centers. And is there any pricing here or pricing is largely stabilized?

**Rahul Guha:** I think pricing has largely stabilized. It's not easy to raise price in this market.

**Rahul Agarwal:** So, we should think it as an annuity business going forward. Is that correct? Like 10% to 12% of pure pure scan growth is what we should predict. Is that correct?

**Rahul Guha:** Yes. I would say think of it as a more organic business.

**Moderator:** As there are no further questions, I would now like to hand the conference over to the management for closing comments.

**Rahul Guha:** Thank you everyone for the questions and spending the time with us. Some of the questions, particularly it seems like our international strategy has evoked quite a bit of interest, and as we progress on that in the coming quarters, I will share more details around it. The base business, as I have shared, our franchisee business and our partnerships are going well, and we are very encouraged by the results in the last quarter as well. Let's see how the next year goes. On the quality front, as I have shared, we made a lot of progress. The validation from the doctor community also has been well received and we hope to anchor our communication around that, i.e., Thyrocare trusted by at least 9 out of 10 doctors in the country. I look forward to next year and our continued engagement. And with that, I will hand over to Pratik to close the call.

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