



**Dr Lal PathLabs**

November 15, 2021

National Stock Exchange of India Limited  
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Mumbai – 400 051.

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**Subject: Financial Results Conference Call Transcript for Q2 FY22**

Dear Sir/Madam,

Pursuant to Regulation 30 of SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015, please find attached herewith Financial Results Conference Call Transcript of the Company for Q2 FY22.

We request you to please take the same on record.

Thanking You,

Yours Faithfully,

For **Dr. Lal PathLabs Limited**

**Rajat Kalra**  
Company Secretary and Legal Head



Encl: As above

Classification: Internal



## Dr. Lal PathLabs Limited

### Q2 FY22 Earnings Conference Call Transcript

### October 27, 2021

Call Duration	<ul style="list-style-type: none"><li>▪ 1 hour and 16 minutes</li></ul>
Management Speakers	<ul style="list-style-type: none"><li>▪ (Hony) Brig. Dr. Arvind Lal - Executive Chairman</li><li>▪ Dr. Om Prakash Manchanda - Managing Director</li><li>▪ Mr. Bharath U - Chief Executive Officer</li><li>▪ Mr. Ved Prakash Goel - Chief Financial Officer</li><li>▪ Mr. Rajat Kalra - Company Secretary and Head of Investor Relations</li><li>▪ Dr. Sanjay Arora – Founder, Suburban Diagnostics</li></ul>
Participants who asked questions	<ul style="list-style-type: none"><li>▪ Alok Dalal – CLSA</li><li>▪ Anubhav Aggarwal – Credit Suisse</li><li>▪ Manish Poddar – Nippon India AIF</li><li>▪ Nikhil Chowdhary – Kriis Portfolio</li><li>▪ Nitin Agarwal – DAM Capital</li><li>▪ Pooja Bhatia – Morgan Stanley</li><li>▪ Prakash Kapadia - Anived Portfolio Managers</li><li>▪ Prashant Nair – Ambit Capital</li><li>▪ Pravin Sahay - Edelweiss Financial Services</li><li>▪ Rahul Agarwal - InCred AMC</li><li>▪ Shaleen Kumar - UBS Securities</li><li>▪ Shubham Rajdharna – West Bridge Capital</li><li>▪ Shyam Srinivasan – Goldman Sachs</li><li>▪ Sriraam Rathi - ICICI Securities</li><li>▪ Tarang Agrawal – Old Bridge Capital Management</li></ul>

**Moderator:** Good morning, ladies and gentlemen. Welcome to the Dr. Lal PathLabs' Q2 FY22 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 the operator by pressing '\*' then '0' on your touchtone phone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Siddharth Rangnekar from CDR India. Thank you and over to you, sir.

**Siddharth Rangnekar:** Thank you. Good morning, everyone and welcome to Dr. Lal PathLabs' Q2 & H1 FY22 Earnings Conference Call. Today, we are joined by senior members of the management team including (Hony) Brig. Dr. Arvind Lal – Executive Chairman; Dr. Om Prakash Manchanda – Managing Director; Mr. Bharath U -- CEO; and Mr. Ved Prakash Goel -- CFO along with Mr. Rajat Kalra – Company Secretary and Head of Investor Relations. Also, joining us today is Dr. Sanjay Arora – Founder, Suburban Diagnostics.

Let me leave our standard disclaimer over here. Some of the statements made on today's call could be forward-looking in nature and the actual results could vary from these forward-looking statements. A detailed statement in this regard is available in the 'Results Presentation' which has been circulated to you and is also available on the stock exchange website.

I would now like to invite Dr. Lal to share his perspectives with you. Thank you, and over to you, sir.

**Dr. Arvind Lal:** Thank you, Siddharth. Good morning, everyone and welcome to Dr. Lal PathLabs' Q2 & H1 FY22 Earnings Conference Call. I will share with you the key performance trends and industry dynamics.

But before that, I would like to say that I am delighted to announce a 100% equity deal with Suburban Diagnostics of Mumbai. This is a significant step in Dr. Lal PathLabs' expansion footprint in western India. I am confident that our combined strengths in similar DNA of both companies that is led by doctor promoters will achieve new heights in serving our customers across the western region. And after I finish my statement, I will also request Dr. Sanjay Arora to say a few words

So, I will continue now. Dr. Lal PathLabs has witnessed healthy growth during the quarter especially in the non-COVID segment which has reverted to pre-pandemic levels. With lower COVID-19 case loads across the country, COVID-related test like RT-PCR and allied tests have seen markedly lower contribution to our testing mix. Our overall focus was on maintaining productivity and cost effectiveness in order to safeguard operating momentum. Healthcare in India remains underserved and the encounter with the pandemic has brought within all of us awareness towards better management of health.

Diagnostics, because it directly effects the outcome of treatment, is highly sensitive to quality and accuracy of reporting. Further, the pervasiveness of technology across business since the start of the COVID-19 pandemic last year has also driven improvement in process efficiencies and patients' interactions in our industry. Clearly, larger organized brands like ours have an active role to play with its pioneering presence in the Indian diagnostics space.

Dr. Lal's is well placed to benefit from the increasing shift to organized players. Our brand invokes trust and responsiveness. We have been providing access to accurate diagnostics solutions at affordable rates and in an easily accessible manner for several years and have scaled up a very viable model. We are well equipped to drive expansion of our network of laboratories and collection centers and PSCs that is Patient Service Centers across the country, further augmenting the branded hub and spoke model.

In the coming years, we will see accent on patient convenience, higher prevalence of digitization approach and integration with other healthcare services. We remain watchful and capable to leverage our experience towards such course.

In the interim, home collection has emerged as the preferred way for many patients to access the brand and we have been able to seamlessly offer this service through increased use of technology.

Through the ups and downs of the last one and half years, our teams have continued meeting patients' requirements, proving our resilience and commitment to the nation. As a company, our focus will be to ensure health and safety of our employees as well as drive vaccination for safer ecosystem of both patients and employees.

With that, I would like to hand over the floor to Dr. Sanjay Arora to share a few words with us. Thank you.

**Dr. Sanjay Arora:**

Thank you, Dr. Lal for inviting me to be a part of this session this morning. Good morning, everybody. My name is Dr. Sanjay Arora. I am a M.D. Pathologist, trained at Mumbai. My wife and I co-founded Suburban Diagnostics 27-years ago. Across those times, I have known Dr. Lal for almost 25 years and over these years he and I have built a very strong relationship. I have also known Dr. Om Manchanda and admired the way in which he has pioneered Dr. Lal PathLabs to being India's premier diagnostic player.

One of my missions has been to unburden healthcare and to add value to medical outcome. By coming together with Dr. Lal PathLabs, I will get the right platform to make this impact now at a national level.

Core of any healthcare organization is to add medical value while continuing to drive good governance and positive commercial success.

As a medical professional for myself, I will now be able to concentrate on adding value to medical outcome. This association with Dr. Lal PathLabs allows us to play to our strength while continuing to add value to society. I am looking forward

to this new journey with Dr. Lal PathLabs. Thank you for allowing me to be a part of this great organization. I now hand over the call to Dr. Om Manchanda.

**Dr. Om P Manchanda:**

Thank you, Dr. Sanjay Arora. Once again very warm welcome to you and Suburban team. We are all looking forward to working with Suburban team in West region in Mumbai.

Good morning, everyone. Thank you as always for taking the time and joining us early morning on this call. Before I comment on the business performance, I want to briefly talk about the Suburban transaction. Almost on every earnings call as well as investor meeting, I have been highlighting that Dr. Lal PathLabs needs to fill two strategic gaps:

Number one is inorganic growth in south and west region to widen its geographical footprint; second is invest behind technology, thereby enabling to meet ever growing consumer expectations on service.

Our answer to the first strategic gap has been two-fold; number one, we formed a company, PathLabs Unifiers as a subsidiary to build clusters within south and west regions by way of smaller acquisitions. Second was look for acquisitions with meaningful size and scale especially in large metros of south and west.

Suburban Diagnostics, a PE-funded company since 2012 with one of big fours as its auditor, professionally runs with a strong consumer franchise and with its size and scale really fit the bill. Large, concentrated network of labs and collection centers in City of Mumbai offers our team a great platform to drive growth, not only in Mumbai but in the entire State of Maharashtra and the west region.

We plan to follow twin brand strategy in the region where both Dr. Lal PathLabs and Suburban brand will continue to fight to gain overall market share.

Post this transaction, revenue contribution from west region for Dr. Lal PathLabs will go up to 24% from the current 10% as of today.

Now, let me briefly talk about the “Q2 Results”. We experienced a sharp decline in COVID and COVID allied test when COVID wave receded starting in the June month itself. The decline in revenue is contributed by lower realization per test. Our continuous focus on non-COVID business has helped us offset large part of this decline. We have also been able to manage our margins well within the expected range.

The broader scope of organized diagnostics chains remains very attractive, and we have plans to expand our strength in rest of North and East geographies by developing and integrating hub labs into our network. Coverage will further get enhanced in clusters around cities like Meerut, Kanpur, Varanasi, Lucknow and Patna among others. These labs are now designed to offer wider test menu and will increase the level of penetration in Tier-2 and Tier-3 towns in these markets.

The pandemic has highlighted a few trends: firstly, that the patients in larger metros and towns are seeking enhanced convenience through home testing and this is where we are working with our franchise partners to streamline processes and alleviate inefficiencies.

Secondly, with the pervasiveness of pandemic, we have seen higher sensitivity towards being aware of and monitoring health conditions. National brands like ours are uniquely placed to drive customized, bundled offerings here.

We are continuing with investments in technology both at the interface level where patients have received our revamped app quite well and also to the infrastructure at the back end, that is making home collections more seamless from resource management and logistics perspective.

The Company continues to partner with eCommerce entities engaged in healthcare, and patients are continuing to favor trusted healthcare brands like ours to avail the testing requirements.

This concludes my opening thoughts. And now I would like to hand over to our CEO, Bharath, to carry forward this conversation and share his perspectives with you.

**Bharath U:**

Thank you, Dr. Om. A warm welcome to everyone and hope all of you are keeping well. The second quarter has been characterized by marked drop in COVID case loads and related testing which augurs well for the country. Given our consistent emphasis on restoration of momentum in our non-COVID portfolio, we have witnessed encouraging trends and expect this trajectory to continue in the ensuing period.

In the current quarter, we achieved revenues of Rs. 498 crore, registering a healthy overall growth of 15% over Q2 last year. The revenue growth was on the back of 28% growth in patient volumes which were at 6.9 million for the current quarter.

Contribution of COVID portfolio in the overall revenue declined to 10% in Q2 FY22 as against 36% in Q1 FY22. Our non-COVID revenues for the quarter registered an uptick of 16% on sequential basis. Given our stated strategy of pursuing non-COVID business, the operations continue to register healthy gains on a quarter-on-quarter basis.

During the quarter, we conducted 4.7 lakh RT-PCR tests as compared to 11.4 lakh RT-PCR tests in Q1 FY22 and 3.08 lakh in Q2 of last year. The revenue per patient came in at Rs. 721 from Rs. 803 in the previous quarter of last year. The test mix continues to change in favor of non-COVID test. Our bundled test offering, 'Swasthfit' contributed 18% to non-COVID revenues while home collection segment represented 11% of total sales.

Our network expansion plan for south and west is well on track. We are receiving encouraging volume trends from south with our Bangalore reference lab stabilizing and commissioning of three new satellite labs in south, namely Puducherry, Kakinada and Belgaum. The work on the reference lab in Mumbai

is also underway and the same is expected to be completed towards the end of the financial year.

'Genevolve', our genomic testing division has achieved good success within a short span of two years of its launch. We now have cutting edge technology platforms to perform genetic testing for oncology and neurology segments. We are further strengthening our bioinformatics capability for reporting complex cases.

We have also tied up with leading international companies in genomics to offer multi-gene panels for their patients and doctors in India. Overall, we are seeing a very good traction in the business and expect the same to continue going forward.

With that, I would like to invite Ved, our CFO to take you all through the financial performance of the quarter under review. Over to you, Ved.

**Ved Goel:**

Thank you, Bharath. Good morning, everyone and thank you for joining this early morning call today.

Firstly, I will share some important financial highlights of Q2 FY22. Revenue for Q2 FY22 is Rs. 498 crore as compared to Rs. 432 crore in the last year same quarter, a growth of 15.4%. Revenue from COVID portfolio in Q2 FY22 is at Rs. 51 crore which contributes to 10% of our total revenue against 22% in Q2 FY21. If you remember this number was Rs. 221 crore in previous quarter that is Q1 FY22. Revenue realization per patient for Q2 FY22 is at Rs. 721 as against Rs. 803 for Q2 FY21. The lower realization is due to sharp reduction in COVID and allied test prices.

Normalized EBITDA after eliminating the impact of stock-based compensation and CSR expense in Q2 FY22 is Rs. 152 crore as against Rs. 135 crore, reported in Q2 FY21. PBT for Q2 FY22 is at Rs. 131 crore as against Rs. 117 crore in Q2 FY21. PBT margin for Q2 FY22 is at 26%. PAT for Q2 FY22 is at Rs. 96 crore as against Rs. 87 crore in Q2 FY21. PAT margin for this quarter is at 19%.

Basic EPS for Q2 FY22 is at Rs. 11.49 per share versus Rs. 10.34 in the same quarter of last year. We have cash and cash equivalent at the end of September 30th to the tune of Rs. 1,137 crore.

Now, I am delighted to share the key highlights of the transaction with Suburban Diagnostics. Suburban Diagnostics started operations in 1994 and has 27+ years of experience in the field of diagnostics. Suburban has 44 labs and diagnostic centers, 150+ collection centers and 1,000+ employees. Central reference lab is accredited by CAP and five other labs by NABL. It has a CAGR of 30% revenue for last three years. FY21 revenue is at Rs. 294 crore with EBITDA of Rs. 58 crore.

We have signed the definitive agreement to acquire 100% equity stake of Suburban Diagnostics India Private Limited in an all-cash deal for a floor enterprise value of Rs. 925 crore, plus certain performance-linked payment

capped at Rs. 225 crore to be paid based on audited financials for FY22. The deal shall be funded through the existing cash reserve of the company.

Dr. Sanjay Arora, the Founder of Suburban Diagnostics, shall continue to be on the board of the Suburban Diagnostics and also join Dr. Lal PathLabs as Group Medical Director.

That brings me to the conclusion of my opening remarks. And I would now request the moderator to open the forum for Q&A. Thank you.

**Moderator:** Ladies and gentlemen, we will now begin with the question-and-answer session. The first question is from the line of Shyam Srinivasan from Goldman Sachs. Please go ahead.

**Shyam Srinivasan:** Let me quickly ask the two questions I have. First one is on Suburban as an asset. In the past, this has been on the board for quite a long time. Just want to understand the timing and what has precipitated this deal at this point of time? Also, if you could share some of the key metrics around revenue per patient, what is the B2C contribution for this entity, how does it look on the testing mix in terms of specialized routines, if you can add some color there that will be very helpful?

**Dr. Om P Manchanda:** I will take the first question. Maybe I will hand over the second question to Ved. I must say that we have been actually in conversation with Suburban for nearly 15-16 years now. Actually, it's not been in the last one year or two years. I will probably take it from a Dr. Lal's perspective. If I go back in 2005, we had 85% of our contribution coming from northern region and of that 70% was from Delhi NCR. If you trace the entire journey of us, we have really grown the business organically in entire north and then we moved to east. And clearly, our experience has been that it's extremely challenging and difficult to grow businesses and in completely new markets. That time west region was contributing around 7%-odd and in fact we had done smaller acquisition in 2001. But we notice that west region despite all the efforts continued to remain at the same per cent contribution level, but other regions started contributing much more. So it was very clear to us those regions like south and west, we need to partner with a very strong brand. And then we of course have been scanning the entire country and looking for assets. And I am very happy to say that I would have met hundreds of labs and I think this is one asset which Dr. Sanjay Arora has built which is completely in line with the kind of culture, quality and the B2C contribution that we have in our company. We feel this is the greatest fit we can have today in the market, and it solves our main issue of how do we really increase the contribution in west region. So, it's not really been this year or last year, but we have been in conversation with Dr. Sanjay Arora for many, many years. And I am very happy that both these brands are now coming together, and I am sure synergies will be immense and benefit Dr. Lal PathLabs.

**Ved Goel:** So, on this Shyam, revenue per patient is Rs. 1,474 for this asset and revenue per test is Rs. 605. As far as the B2C contribution, about 60% of the business which is coming from direct customers.



- Shyam Srinivasan:** Ved, just to clarify and a follow up on this, the realization numbers look high, right, there is an element of COVID, even in the 1H number, it seems to be close to 50% COVID, so if you kind of strip out and look at like-for-like and I am sure you are doing this deal for fiscal '23, '24. So just want to understand how the non-COVID realizations are. And also I think another reason is probably there were concerns about the lower profitability for this business. So do you think there are enough cost levers that you can see from your earning scale that can help push up margins closer to where you are?
- Dr. Om P Manchanda:** I was anticipating this will come up. The way we look at this business is very simple. We are actually not looking at COVID versus non-COVID. We all are aware that COVID is actually a business which is not very sticky, it is a function of what happens which is beyond anyone's control. We have looked at completely from the point of view is that if this business can go to this scale, the margin improvement is very-very high. In fact, we have seen our own trajectory. In many years back, our own margins were hovering around 14%, 15%, 16%. Today, that margin with scale actually has gone up to nearly 28%, 29%. And this business has clearly demonstrated that if you build scale and which they have done in the last two years, obviously, it has come on back of COVID, clearly their trajectory of margin has improved. So I clearly see that happening. And we still see a lot of scope of margin improvement as we go forward. But clearly as I mentioned to you, we are now going to be operating in a very large market, margin probably is to me a step-2. Step-1 is to really increase our market share in these markets and I think once we have that in place, I think margins will follow that I am fairly confident.
- Ved Goel:** Just to add, Shyam, on this realization fees, in fact, if we remove this COVID fees, in spite of that, realization is high generally because test per patient is also high for this asset. Probably you can compare better, because this is overall realization, but if you compare this realization with our Delhi NCR realization, it's in line.
- Dr. Om P Manchanda:** By the way this brand is slightly better positioned on corporate wellness. So that also helps the realization to be higher.
- Shyam Srinivasan:** Are we sharing any of those metrics what is wellness contribution, what is realization per patient excluding COVID, maybe at a later time which is fine, but it will be helpful to get all those numbers?
- Dr. Om P Manchanda:** Absolutely, I think we will wait till the closing happens, then we will try and share with you.
- Shyam Srinivasan:** Just a philosophical question. We have seen three deals announced; Thyrocare, Metropolis Hitech, yours and Suburban. Do you think the gloves are now off, Dr. Om, Dr. Lal, just to understand what's happening from a competitive standpoint, everybody seems to be moving into each other's territory, just your philosophical thoughts on the entire M&A and consolidation thing?
- Dr. Arvind Lal:** Historically, all the pathology services all over the world have consolidated or trying to consolidate in a time-based manner. American example, the Australian example, the European example is all there in front of you. And it is also possible

to imagine that India will also get its act together. I don't have to tell you, Shyam that 3 lakh independent pathology laboratories are functional in India, and this number has been given by Indian Express, that there are only 6,000 pathologists in India. So, what we are talking about is it's high time it happened and good people have to join good people, only then will the patient or the client be able to get better services. Pathology services, just to reiterate are responsible for 70% of our clinical decisions. So this is a step which is highly warranted for a long time and I am glad it is happening now.

**Moderator:** The next question is from the line of Sriraam Rathi from ICICI Securities. Please go ahead.

**Sriraam Rathi:** Firstly, of course, this is just a strategic acquisition that we have done and gaining significant presence in the western market. What will be our market share in Maharashtra or Mumbai particularly now after this Suburban acquisition?

**Dr. Om P Manchanda:** See, actually, we don't have any published data on size of market. I think we will have to do a bit of work on that and come back. Right now, it will be intelligent guess that I will make if I tell you some number. But the way we look at right now is that our own contribution from west region from 10% going up to 24% is very significant and maybe once we have handle on the market size and share, then I will try and share with you in the next call.

**Sriraam Rathi:** When do we expect this deal to be EPS-accretive for us? It looks like that if we exclude the COVID revenue, then our EBITDA will be probably lesser than what we are making on the interest income currently on the cash, or am I missing something out here?

**Dr. Om P Manchanda:** As I mentioned that for us the first priority will be to really gain market share in western region and we are going to follow the twin brand strategy of fighting it out both through Dr. Lal PathLabs and Suburban. And once we put together business plan and then probably we will be able to share with you as to how the whole EBITDA trajectory would look like. But initially we really want to invest behind growth in these markets given the kind of long runway that we have in these places.

**Sriraam Rathi:** In this quarter on non-COVID business we have grown around 10-11% which is two-year CAGR, if I compare from FY20 number which is more relevant. So, when do we expect that we should be back to mid-teens kind of growth trajectory after acquisition of Suburban also, on like-to-like basis, can we grow around 14%-15% in the medium-term?

**Bharath U:** Like we mentioned in the opening comments, we are seeing a continued upward trend in the non-COVID trajectory which is where the real focus lies. So, in fact, if you look at the two-year CAGR numbers, they have been constantly inching up over a period of time. And that is the reason I mentioned that we have now grown 16% sequential basis. And we needed to see this momentum come up, maybe in a couple of quarters, we should see a non-COVID revenues coming back to our usual growth rates.

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

**Rahul Agarwal:** Two questions: Firstly, to start with, as Dr. Om mentioned, there are synergies in terms of revenue, cost post this deal and obviously there is an aspiration of the family to essentially grow in size and scale because that's what is demonstrated on profitability and real impact on the medical science here. But I fail to appreciate and understand that even at a 50% EBITDA margin for this current business, it's tough to justify a return on investment of what Dr. Lal PathLabs currently earns on its organic business. My understanding is whenever you started with Kolkata Lab as well as since listing, the company has been maintaining very high standards of capital allocation. But this deal essentially purely from a mathematical perspective looks like detrimental to stakeholders. So could you explain as in whatever I am missing here in terms of top three, four parameters where you will judge yourself in terms of this deal being successful in three to five years out?

**Dr. Om P Manchanda:** I think I will go back to the point that I made in the beginning. We are looking at this from a very long-term perspective. As Dr. Lal mentioned, it's no brainer if you study the trajectory of all the global labs, one really gets answer from them. In fact, I had studied many of these global labs myself and there are two or three moments in their lives which actually have changed the complexion of those companies. And clearly, I think that's the way I look at it, the last 16-years I have been here, west market is very-very difficult to crack organically, and I think I am really happy to say that we actually stumbled upon an asset which is sort of in sync with the way we operate. Yes, I do agree with you maybe in couple of quarters, next one or two years you will see things differently from numbers perspective. But if I actually stretch this argument to 10-years from now, I am very sure this will turn out well thought out decision.

**Rahul Agarwal:** Secondly, could you please detail something on this floor and cap price of the deal essentially, what will drive this decision of the additional Rs. 225 crore you have been talking about?

**Dr. Om P Manchanda:** It was a very competitive process of reaching the stage and other side was pushing for the higher number. As all of us have realized that there is a COVID component which one is not very sure how it will pan out because that's contributing to the bottom line, then we thought best way is to have that number on table and then we give that figure. I think that's how this whole earn-out structure was worked out and 18.5x is what we have agreed upon and then whatever upside is there, they will probably get only after audited financials of FY22.

**Rahul Agarwal:** This is 18.5x forecasted fiscal '22 EBITDA, is that correct?

**Dr. Om P Manchanda:** Yes.

**Rahul Agarwal:** And that is consol including COVID.

**Dr. Om P Manchanda:** But with a floor of Rs. 925 crore.

- Ved Goel:** Which is essentially assumption of EBITDA of minimum Rs.50 crore.
- Dr. Om P Manchanda:** Yes, including COVID.
- Rahul Agarwal:** On Dr. Lal PathLabs, the number you mentioned for non-COVID for the quarter Q2 fiscal '22 is Rs. 448 crore in terms of revenue. Could you give me a like-to-like patient volume number?
- Dr. Om P Manchanda:** Non-COVID 29.6% growth of volumes YoY.
- Rahul Agarwal:** Excluding COVID allied 1 and 2?
- Dr. Om P Manchanda:** Everything related to COVID, yes. There may be a bit of a double counting to the extent if there is some normal patient who does COVID test also is included in this, you must know that, but that will be a small number.
- Moderator:** The next question is from the line of Pooja Bhatia from Morgan Stanley. Please go ahead.
- Pooja Bhatia:** Just want to understand what is the growth expected in this business? Looks like Suburban has grown much higher than the industry and Lal; 30% CAGR last three years. So, what's driven this, is it all organic or there is any inorganic piece in?
- Dr. Om P Manchanda:** So for Suburban, we clearly look at next three years plan to drive organic growth. We do believe that brand can be clearly leveraged not only in the city of Mumbai but entire Maharashtra and west region. So we would really drive growth through organic path for Suburban. Now, as far as inorganic is concerned, as Dr. Lal mentioned that it's going to be a way of life. We will continue to look for assets which meet our requirement, and we will continue to have the appetite to growth in south and west regions through inorganic routes.
- Pooja Bhatia:** The cash on book right now is about Rs. 1,140 crore and the deal value if we consider the performance linked payment, is also about the same value. That does not leave anything on hand. So does it mean that acquisitions would be on hold for the next say two, three years?
- Dr. Om P Manchanda:** The total payout for this will actually happen sometime next year because once the audited financials are in place. So right now it will be Rs. 925 crore. So we will have sufficient sort of cash and obviously we are also throwing up more every quarter. So I don't think it should be a big balance.
- Ved Goel:** We are a debt-free company. So it's not that we can't take any debt, in future if required, we are open.
- Pooja Bhatia:** If we exclude the COVID contribution, the revenue per test and patient will definitely be higher than what Lal is right now. So if we can break out the routine and specialized, just a very rough number?
- Dr. Om P Manchanda:** If it's okay, then can we share in the next call once the deal is closed.

- Pooja Bhatia:** Sure, sure. In terms of branding, would you be changing this with immediate effect for Suburban?
- Dr. Om P Manchanda:** No, as I mentioned that we are going to follow the twin brand strategy and both brands will continue the way they are.
- Moderator:** The next question is from the line of Manish Poddar from Nippon India AIF. Please go ahead.
- Manish Poddar:** Just two part questions. One is would you have other acquisitions which were on the table and why did you let them go, just any thoughts on that? And the second part is was there an equity option which you could have taken in consideration for this deal?
- Dr. Om P Manchanda:** I am not sure which asset you are referring to but if you scan the entire country, there are to my mind four or five private equity funded assets and then there are a few large sort of a family run, but there is no private equity in that and then there are smaller ones. I think in my scheme of things, any PE-funded venture always is a better asset because it has gone through a sort of governance lens of at least one of the big four audit firms and also a strategic input that may have come from the PE player and there are four or five of them. So to me, actually Suburban fits the bill and it's right on top. All other assets actually also do not have very high B2C components and we believe it's a strong brand franchise. But we think this is the best asset available in the market today.
- Manish Poddar:** How about the equity option to probably go about the deal, just trying to understand sort of the owner of Suburban gets a board seat, right and this is for the next three or five years, if I get it right?
- Dr. Om P Manchanda:** Board seat not with LPL, it is Suburban because we have planned to run this company as a separate subsidiary.
- Manish Poddar:** Could you work around with the equity option for the remaining part, Rs. 225-odd crore, just trying to get your thoughts around that?
- Dr. Om P Manchanda:** Yes, so I think those options are always available and then it's a matter of negotiations and that's a way it worked out because there were a couple of partners in the asset and some preferred cash still. So, I think we have evaluated all possible options; equity deal was always an option, but I think that's the way it worked out.
- Moderator:** The next question is from the line of Nitin Agarwal from DAM Capital. Please go ahead.
- Nitin Agarwal:** Two things: One is that in the current quarter from a core Dr. Lal PathLabs business perspective, how much do you think has the business gained by this, we have had a pretty virulent outbreak of infections this year in the country, is there some tailwinds which has come through on account of that in your assessment or this is the regular Q2 that we have seen through the years, for non-COVID?

- Dr. Om P Manchanda:** I think it's a very good question to ask. We are also probably searching for some of the trends. I think clearly, one trend that I see is that there is a pent up demand that is flowing in the market and when I talk to my colleagues on the hospital side, all beds are full and a lot of surgeries are happening which couldn't happen in the previous year. So, I presume there is some linkage to pent up demand which is flowing in. So, I think we will get to know a little bit more about this, but we are now seeing a bit of evening out of all these fluctuations that have happened. Maybe Bharath, can add to this. My sense is now it's all over, right....this pent up demand.
- Bharath U:** Yes, so hospitals like you said, Om, the business from there has really picked up and for next I think couple of quarters we will see this trend continuing.
- Dr. Om P Manchanda:** It's very difficult to quantify but I think qualitatively I can clearly see that our outsourced business from hospital contribution is higher than usual which probably I can link it to a pent up demand which is coming especially on the surgery.
- Nitin Agarwal:** My question essentially was that typically because this is an infection viral seasonality and normally see it's a big quarter and we see a little bit of a slack off in revenue which comes through in the second half of the year. Will this very strong quarter magnify this trend in the second half this time?
- Dr. Om P Manchanda:** To my mind, qualitative answer to this question is that it's not that high which one has seen in the past.
- Bharath U:** Base has also become big to absorb all this.
- Dr. Om P Manchanda:** Yes, so, it's not very-very high. Normally that happens in September-October, this time it's not been to the extent.
- Nitin Agarwal:** Secondly, just linked to the last question the last participant asked, we have seen a couple of transactions which has happened in the sector, in one of the other transactions there was an equity cum cash option which either got changed to cash only option, is there some level deflection from the person getting acquired's discomfort with the stock buoyancy at these levels, I am just referring to the consideration entirely being in cash at a philosophical level?
- Dr. Om P Manchanda:** You guys are expert in this space than I am, but when you talk about equity related sort of a transaction, people tend to focus on your traded multiple. And that's where the focus shifts. You also may be right that some of these people also prefer cash. So I think it's a combination of both and plus our own ability to pay cash because we had in our balance sheet and I am sure next deal that we discuss, we will look at slightly differently.
- Moderator:** The next question is from the line of Prakash Kapadia from Anived Portfolio Managers. Please go ahead.
- Prakash Kapadia:** A couple of questions from my end. If I look at the non-COVID revenues for Dr. Lal PathLabs, we have seen a decent growth in the current quarter. So wanted

to get your sense, now consumer behavior changing and acceptance of diagnostic test is much faster in terms of adoption than ever before; preventive, co-morbidity and whatever we have seen in the last 18-months. Is that what you are sensing?

**Bharath U:**

You are very right, Prakash. Like we have always said, post-COVID the awareness of healthcare will go up in this country. And a small reflection of that ...I am not saying the entire, but a small reflection of that is in our Swasthfit bundle test portfolio contribution which serves both the preventive as well as diagnostic needs of patients, has gone to a very good number of 16% to our overall revenues. So that is a very encouraging trend. On top of that, what has driven non-COVID revenues is like I have mentioned in the opening comments around our high intense initiatives especially genomics and other key tests like this, which is really what is driving the growth in our business.

**Dr. Arvind Lal:**

Also, having the experience of COVID run labs, we have 2,000 labs in India, have come out of nowhere who are now very high into molecular diagnostic testing. So this means that all the other diseases like hepatitis C, hepatitis B, chikungunya, dengue and Japanese encephalitis, etc., they will also get a fillip as far as diagnostic testing is concerned. So it is technically all non-COVID but it has come on the back of COVID. That's the point I wanted to make. The second thing is that India is still losing about 65% of its people because of non-communicable diseases...I don't have to mention which ones those are, but we will get back on track in terms of treating them and that has got a very huge kind of impact on our GDP; 2% of our GDP can come up if we can control those NCDs. So, I think the time is now right for us to go back on our original thing. Of course, nobody can predict how long COVID is going to stay, but our sense is that it's going down now. Thank you.

**Prakash Kapadia:**

Bharath, is it right to think on these lines where with your technology initiatives and awareness because of all of these factors, it would be possible we could see increased contribution from Swasthfit and our bundle packages?

**Bharath U:**

See, it's not something which we drive very actively that Swasthfit should be sold more and more. That is what people tend to gravitate to, in the sense that it offers good value, offers convenience, etc., So, as preventive or diagnostic needs in the country increase, we definitely see a larger role for Swasthfit in our portfolio. Technologies have enabled in this whole equation. So, yes, we see a positive momentum going for Swasthfit in the days ahead as well.

**Prakash Kapadia:**

Secondly, on Suburban, as I look at the history of the company, they have scaled from around 7%-8% EBITDA margins to around 16% in H1. So, is it fair to say over the next few years if they double in size, we should get to 25%-27% EBITDA margin or in terms of number of samples. what will drive this in terms of cost per sample, processing, is it operating leverage, if you could you throw some light on that from a direction perspective, that will be helpful?

**Dr. Om P Manchanda:**

I think the initial benefit which we believe will happen by network effect, and as we grow our network which goes beyond the city of Mumbai, goes to Maharashtra and drive it organically, I think that is first contributor. Obviously, the other parameter like economies of scale will fall in place but I think the initial

effort will have to be on driving top line growth and that comes out of building a network in entire state of Maharashtra. And that experience we have with us. That's what we have done in the past.

**Moderator:** The next question is from the line of Pravin Sahay from Edelweiss Financial. Please go ahead.

**Pravin Sahay:** One question on the acquisition, the Suburban. As the Suburban has a higher realization, whether it's a per test or a per patient terms, but their margin is quite lower. So, that clearly indicates some costs were a quite higher. So can you give some color on which cost item you look at immediately to minimize?

**Dr. Om P Manchanda:** I would refrain from commenting on this question, but question is good. Let the closing happens and then we will share with you as to how we really want to take this asset forward.

**Pravin Sahay:** Second question is related to this company on how is their geographical mix and how much is the PE stake in this company which you are buying?

**Dr. Om P Manchanda:** Geographically, I think very large part of their business is sitting in Mumbai... and I would say Greater Mumbai because they have business in Thane and Navi Mumbai, rest of it is coming from Maharashtra, primarily from Pune cluster. So that's the way they are structured in terms of turnover right now. In terms of PE stake, number is about 39%, I may not be very accurate but it's in that range.

**Pravin Sahay:** And they are fully exiting?

**Dr. Om P Manchanda:** Yes, it's 100%, so everyone is exiting.

**Pravin Sahay:** Next question is on Dr. Lal PathLabs only. Dr. Lal PathLabs revenue per test and revenue per patient, I can see because of COVID, there is a lot of fluctuation in the last six quarters. So now we are normalizing on the non-COVID business. Where do you see the realization numbers to stabilize?

**Dr. Om P Manchanda:** In fact, yesterday only we were discussing. If you take out maybe last few quarters and then you look at previous history, the revenue per patient has always been either flat or slight decline. And the reason for that has been very simple that we have been resisting price increases and we still continue to believe in that direction as long as we are able to protect our EBITDA by having efficiencies. So, I think it will probably stabilize in the same range and obviously price increase will be the last resort but given that inflation and recent past has been on a higher side, especially on logistics front, we will evaluate this, but I think it's fair to assume that it will remain flat if you compare it with the pre-COVID level.

**Moderator:** The next question is from the line of Tarang from Oldbridge Capital. Please go ahead.

**Tarang:** What was the non-COVID revenues for the Suburban business in FY21?



- Ved Goel:** FY21 was Rs. 167 crore for COVID and non-COVID is Rs. 127 crore.
- Tarang:** How has this business grown, I mean, what will be the size of this business two years back?
- Dr. Om P Manchanda:** For non-COVID, I think they did in FY20 around Rs. 170 crore roughly.
- Moderator:** The next question is from the line of Shaleen Kumar from UBS. Please go ahead.
- Shaleen Kumar:** Just one hypothetical question like Dr. Arora is very well respected, but he doesn't have a skin in the game just because of the 100% buyout. So do we have any kind of a non-compete agreement with him?
- Dr. Om P Manchanda:** Yes, we do.
- Shaleen Kumar:** Second thing, in terms of the Q2, is there a possibility for you to share like a COVID, non-COVID revenue or a margin anything for Suburban?
- Dr. Om P Manchanda:** Actually, we have got only management estimates of first half, that's what we have shared with you.
- Shaleen Kumar:** Is it fair to kind of extrapolate like will it be in the same line the way we are in the proportion of Q1, Q2 what is there for Dr. Lal PathLabs in COVID, non-COVID?
- Dr. Om P Manchanda:** I have my doubts on that. First of all, directionally non-COVID recovery is happening across the industry and that is true for Suburban as well in Q2. My sense is that COVID may be slightly higher in western region, etc., compared to north because north positivity levels are low, and I think travel-related testing is happening more that side. That probably we will get to know once audited financials are shared with us.
- Shaleen Kumar:** We look forward for more numbers from your side in terms of the cost synergies, etc.,
- Dr. Om P Manchanda:** Absolutely.
- Moderator:** The next question is from the line of Prashant Nair from Ambit Capital. Please go ahead.
- Prashant Nair:** Can you qualitatively give some sense on Suburban's testing, both capability and capacity. If we assume that it makes sense for the labs in the western region to become the hub for all volumes that even Dr. Lal PathLabs generates in west and south, does the current lab set up have the capacity and also the test menu to make that switch or will it take some time to build up?
- Dr. Om P Manchanda:** So qualitatively about Suburban, I think the first thing to note is for all of us is a very strong consumer franchise. It's very rare to find a consumer facing brand in diagnostics. And once you have that, the sort of a sustainability of growth is much stronger over a period of time. I think that's the first thing to note about this asset. The second thing to note about this asset is it's very concentrated in one city. So

you can leverage that and that's what we have seen in Delhi when we were, how we travel to country-wide markets, I find the brand is definitely going to travel to other markets in Maharashtra and then to west. I think these two important things we must note. Second important thing to note is that this company has had PE for now nine years. It's professionally run both on the management side, of course, as you heard Dr. Sanjay Arora talking about being passionate on the medical side. So I think it's a very strong combination of both on the commercial side as well as on medical side, something very similar to the way we are. The third thing I want to tell you is that while I know historically margins have been lower which of course is known to all of us but the company has been showing a strong revenue growth trajectory over a period of three years, even if you take out COVID impact, still you have seen a lot of growth, and we believe that joining with us, we can probably take this growth curve even much higher level. I think your question related to does the company have capacity to really at the back end to service the market. We probably will sit together with management team in next couple of months after the closing is done and then decide. Clearly, if you look at 3x from here, then obviously we will have to build the lab capacity going forward.

**Dr. Arvind Lal:** I may quickly add that qualitatively Suburban is a very-very good pathology lab; they already have one (CAP) College of American Pathologists accredited lab and four NABL ones. So quality is only going to come up from five NABL labs and the quality can be assured and we are going to increase this qualitative reference from other labs. This is what we plan to do.

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

**Anubhav Aggarwal:** If the revenue split between radiology and pathology, can you just mention that for Suburban? Second is out of the collection center, 150-plus odd, how many are owned versus franchisee for them?

**Dr. Om P Manchanda:** If you are okay, can we hold on to this question till closing is done? Maybe on the next we will elaborate you more on this.

**Anubhav Aggarwal:** And on the franchisee one, because when I see in Mumbai, most of them seem to be owned by Suburban directly, is it a franchisee concept?

**Dr. Om P Manchanda:** Yes, they have a combination of both; own and franchisee right now.

**Moderator:** The next question is from the line of Alok Dalal from CLSA India Private Limited. Please go ahead.

**Alok Dalal:** Om, you mentioned about certain investments in Suburban to grow the business. Can you suggest in which areas they will be?

**Dr. Om P Manchanda:** I think clearly, one investment will be we want to strengthen our consumer-facing part of the business and build even further stronger consumer brand. That will be one investment and which will cover everything in terms of technology, etc., make the entire home collection. In fact, this one company which has really benefited out of COVID as well because lot of home collections they have done.

So that's clearly one area. Second area would be to map out white spaces not only in Mumbai but entire Maharashtra. So we look at some of those places where we need to expand. And third would be once we have the business plan in place and we will see the back end in terms of lab capacity how do we really structure the central lab format.

**Alok Dalal:** Is that going to be a significant investment, or these are part and parcel of an acquisition that comes in?

**Dr. Om P Manchanda:** In any case, our business is not really Capex-heavy. These are usual investments that one does in these businesses. So one can probably fairly assume the way our trajectory has been, that's the way it's going to go.

**Moderator:** The next question is from the line of Nikhil Chowdhary from Kriis Portfolio. Please go ahead.

**Nikhil Chowdhary:** Wanted to understand, if we plan to run Suburban as a separate entity and we don't plan to rebrand it, how will the pricing pan out like say which cost 200 bucks at Dr. Lal PathLabs and Rs. 250 at Suburban, how do we plan to ensure that the pricing and the benefit of Dr. Lal PathLabs cost advantages flows on to the Suburban patient also and we tend to gain market share even on the pricing basis and make sure that we are competitive on all fronts?

**Dr. Om P Manchanda:** See, to the customer, these are two different brands and two different propositions. So, I presume whosoever goes to Suburban, goes to Suburban. Whosoever goes to Dr. Lal PathLabs and Dr. Lal PathLabs will have its own proposition. Obviously, parent being the same, we will try and minimize the friction as much as possible but in some way, we will allow these brands to compete and fight for market share in any case. Otherwise, our relative position, Suburban enjoys a much higher share of market as well as in absolute terms also a very large turnover. Dr. Lal PathLabs compared to that is more hospital-focused and that's the way we look at it. Customers will not see this as one brand, they will see as two different brands.

**Nikhil Chowdhary:** Also, on the CC expansion sir, will we continue the expansion of CC on the Suburban or we will now take the lead from here on? And also, on the cannibalization, we have seen like Metro, SRL, Suburban, and Dr. Lal PathLabs having centers next to each other. So, how will this now probably take from here on?

**Dr. Om P Manchanda:** I think it's a good question. As I mentioned and I repeatedly keep talking about this consumer facing brand, clearly, Suburban is going to take the lead to wherever the consumer B2C business is. Many of these collection centers actually is an action towards achieving that objective of catering to consumer demand or direct to patient demand. So, I think Suburban will take the lead of expanding collection center network. Dr. Lal PathLabs relatively as a brand is more focused on hospitals, B2B side of it, I think that's a short answer I have for this question.

**Nikhil Chowdhary:** I agree that this is a premature question, probably we can keep it for the next call if you wouldn't want to answer. Wanted to understand how about the

cannibalization say, I have seen Metro, SRL, Suburban, Dr. Lal PathLabs next to each other. From here on, will we focus on doing something like that or will we have some kilometer gap in the center between Dr. Lal PathLabs and Suburban?

**Dr. Om P Manchanda:** You may have seen these centers together right now but there are lots of white space in the city as well as entire state of Maharashtra. Some natural cannibalization will happen because we are allowing them to compete but obviously we will plan it in a manner which is most optimal.

**Nikhil Chowdhary:** You said Suburban will take the lead on city expansion. I understand Suburban has already been more of company-owned outlet, right or....?

**Dr. Om P Manchanda:** I think that's a bit of economic decision. In our experience, ownership behavior is very important and we have found franchising really helps us to scale because it's a highly sort of operational business and we will definitely continue to expand our network through franchisee. So that's given. So it's not that we are saying wholly-owned network. We will probably carefully look at the entire infrastructure of Suburban and plan it, but franchising is going to be the main stay of infra expansion.

**Dr. Arvind Lal:** Nikhil, don't forget, that's the reason why we have gone to Suburban to increase their part of the market share.

**Moderator:** The next question is from the line of Shubham Rajdharna from WestBridge Capital. Please go ahead.

**Shubham Rajdharna:** My one question is how is Dr. Lal PathLabs looking at home collection strategy going forward, if you could comment a bit on that. I guess you mentioned that today it's contributed about 11% this quarter, are there any specific targets going forward on the home collection side of things?

**Bharath U:** On home collection, there are two or three key strategic priorities; number one is that it is a service we offer. It's an omni-channel place what we look at. You can walk into centers, you can go to a hospital or you can get it done by a home collection. So it's really an omni-channel play and we must deliver this omni-channel play across all markets of India. So, there is going to be expansion of home collection capabilities across length and breadth of India because that is what the patient today really wants. Number two, the real focus on home collection is while we deliver it, it is not a very easy business, because it's a very personal interaction in someone's house, hence we need to strengthen really the way we deliver the service, there's a lot of focus and attention being put on to strengthen that portion of the service delivery as well. So home collection is going to be a continued priority and we will try to continue build scale and service excellence in this area.

**Shubham Rajdharna:** How much you expect from collection to contribute to revenues say in the medium term to long term?

**Bharath U:** There are no specific targets per se. It is just that we want to be at arm's length wherever possible through whatever means, whichever channel. And that is

really the objective. It's not only about one portion of the business or one service delivery channel taking the lead. It's about an omni-channel play.

**Dr. Om P Manchanda:** Instead of chasing this from a number perspective, I think we want to chase it from a capability perspective that given that we have our own network and franchisee and over a period of time business has been transitioning from building own to franchisee network, I think that's where lies the opportunity because not every lab can manage the franchisee network. I think we would have done a great job. If you build the capability of our franchisee to provide the same experience as we would have provided directly. I think if we are able to build that capability, then obviously we will flow with the market.

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

**Pooja Bhatia:** Is there an internal strategy on network expansion say adding 50-60 labs in next three years and some number of collection centers?

**Dr. Arvind Lal:** So the expansion strategy on labs which we have shared in the past as well that we want to really build some hub labs where widening of our test menu and while in the past we have been using this term of building the reference lab but we don't think a large format like 60,000-70,000 sq. ft. labs would come up but we do see hubs being created and in that direction we have started moving now and I mentioned in my opening comments that in UP we have earmarked certain towns where these hub labs are coming up. And these hub labs are primarily having wider test menu. And what it does to the business is really gives the ability for us to go into Tier-2, Tier-3 towns and that's where the markets have started showing a lot of growth in the recent past.

**Pooja Bhatia:** On capital deployment, I was just wondering if it makes more sense to open the 15 reference labs investing Rs. 1,000 crore and spending all the money in a single market, I mean, Rs. 1,000 crore for Rs. 50 crore EBITDA versus growing two reference labs, what really makes sense was the internal discussions that you had when you value such deals?

**Dr. Om P Manchanda:** In my experience, I think journey from zero to Rs. 50 crore EBITDA is extremely difficult. Journey from Rs. 50 crore onwards, I think is much easier. That's the way I look at it and I look at much longer term and we have tried our level best and we believe that in some of these markets, they are hyper-competitive, well-entrenched competition, it would have become very-very difficult to drive growth organically. So, we look at this as a platform acquisition and we believe that there is a long runway from hereon for us as far as the deal is concerned. Obviously, any acquisition, there is a journey after that is organic, right, that's where we come in now.

**Pooja Bhatia:** In terms of the routine, specialized mix for Lal, what is the ratio right now?

**Bharath U:** There are various cuts we have internally and since there are no hard and fast numbers, we track a couple of key metrics; one is Swasthfit which is about close to 18% of our non-COVID revenues, rest we look at it from a high end portfolio, which we have internal defined portfolio and it may not be strictly market

comparable, so we don't give out that number, but we continue to have internal segmentation which we keep operating on. But Swasthfit is something which we declare publicly, that is about 18%.

**Pooja Bhatia:** What would be the margin differential between both routine and specialized?

**Bharath U:** There are various cuts to this margin profile. There is how you load cost structures, etc., So, on the overall sense, we look at a patient journey and then say we are really making a transaction level, if not a patient level margin. But in my estimate, both the margins will broadly be similar on a fully loaded basis.

**Moderator:** Ladies and gentlemen, as there are no further questions, I now hand the conference over to the management for their closing comments.

**Ved Goel:** Thank you, everyone for being with us on this call today. We at Dr. Lal PathLabs are always committed to provide the best of the services with very high quality and to be a truly national player. We thank you for your support and continuous guidance in this journey. I am wishing you and your family to remain safe and healthy and also wishing you a very Happy Diwali in advance.

**Moderator:** Ladies and gentlemen, on behalf of Dr. Lal PathLabs, that concludes this conference call. We thank you for joining us and you may now disconnect your lines.

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