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The National Stock Exchange of India Limited  
Exchange Plaza  
Bandra Kurla Complex, Bandra (E)  
Mumbai - 400051

The Bombay Stock Exchange Limited  
Phiroze Jeejeeboy Towers  
Dalal Street,  
Mumbai – 400001

**Subject: Disclosure of information under Regulation 30 of SEBI (Listing Obligation and Disclosure Requirement) Regulations 2015**

Dear Sir/Madam,

Pursuant to Reg. 30 of SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015 (the "Regulations"), please find attached herewith Financial Results Conference Call Transcript of the Company for Q2 & H1 FY 18.

We request you to please take the same on record.

Thanking You,

Yours Faithfully,

For Dr. Lal PathLabs Limited



**Rajat Kalra**

**Company Secretary & Legal Head**





Dr. Lal PathLabs Limited (LPL)  
Q2 & H1 FY'18 Earning Conference Call

November 09, 2017

Call Duration	<ul style="list-style-type: none"><li>▪ 1 hour 2 mins</li></ul>
Management Speakers	<ul style="list-style-type: none"><li>▪ (Honorary) Brig. Dr. Arvind Lal - Chairman and Managing Director of Dr. Lal PathLabs Limited</li><li>▪ Dr. Om Prakash Manchanda - Whole-time Director and CEO of Dr. Lal PathLabs Limited</li><li>▪ Mr. Dilip Bidani – CFO of Dr. Lal PathLabs Limited</li><li>▪ Mr. Rajat Kalra - Company Secretary &amp; Head of Investor Relations of Dr. Lal PathLabs Limited</li></ul>
Participants who asked questions	<ul style="list-style-type: none"><li>▪ Abhishek Sharma from IIFL</li><li>▪ Anmol Ganjoo from J&amp;M Financial</li><li>▪ Ashish Thavkar from Motilal Oswal Asset Management Company</li><li>▪ Kunal Randeria from Antique Stock Broking</li><li>▪ Neha Manpuria from JPMorgan</li><li>▪ Nitin Aggarwal from IDFC Securities</li><li>▪ Safal Shetty from Gulita Securities</li><li>▪ Saion Mukherjee from Nomura Securities</li><li>▪ Shaleen Kumar from UBS</li><li>▪ Shweta Karia from B&amp;K Securities</li><li>▪ Sriram Rathi from ICICI Securities</li><li>▪ Umakant Sharma from EM Capital Advisors</li></ul>

**Moderator:** Ladies and gentlemen, good day and welcome to Dr. Lal PathLabs' Q2 & H1 FY18 Earnings Conference Call. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing '\*' then '0' on your touchtone phone. Please note that this conference is being recorded. I would now like to hand the conference over to Mr. Siddharth Rangnekar of CDR India. Thank you and over to you, sir.

**Siddharth Rangnekar:** Thank you. Good Evening, everyone and welcome to Dr. Lal PathLabs Limited or LPL's Q2 & H1 FY18 Conference Call for Investors and Analysts. Joining us today are Hon. Brigadier Dr. Arvind Lal – Chairman & Managing Director of the company; Dr. Om Prakash Manchanda - Wholetime Director and CEO; Mr. Dilip Bidani - CFO, we also have with us Mr. Ved Goel – Deputy CFO and Mr. Rajat Kalra - Company Secretary & Head of Investor Relations.

I would like to highlight that some of the statements made on today's call could be forward-looking in nature. Actual results may vary significantly from these statements. A detail disclosure in this regard is available in the 'Results Presentation' which has been circulated and is available on the website. I would now like to invite Dr. Lal to share his perspectives with you. Over to you, sir.

**Dr. Arvind Lal:** Thank you, Siddharth. Good Evening, everyone. It gives me great pleasure to have this opportunity of addressing all of you yet again.

The evolution of LPL brand and the associated network and infrastructure is a matter of great pride for us. Our philosophy of focusing on patients' welfare is continually guiding our initiatives to offer the best platform for rendering, accurate and time-bound diagnostic services to our patients' base.

During the course of the year, we shall be commissioning an additional Regional Reference Laboratory at Kolkata as per plan. We are simultaneously taking disciplined steps to augment the rest of the network nationwide both in terms of increased reach, quality and accessibility providing the latest and specialized diagnostic tests and platforms for our patients. The organized diagnostic space is witnessing lots of attention which in our opinion bodes well for the patients who will benefit from wider access to quality services. On our part, we will continue our commitment to drive scale in our operations through an established brand franchise and the strength of a balance sheet.

Before I hand over the call to Om, I am pleased to announce that the board has recommended an interim dividend of Rs. 1.50 per share of Rs. 10 each.

With this, I now request Dr. Om to take the call forward by sharing his thoughts. Thank you very much.

**Dr. Om P Manchanda:** Thank you, Dr. Lal. Thank you, all for taking the time out and joining us on the call today.

I will commence with the highlights of the performance during Q2 & H1 FY18 and share the thoughts and drivers of our strategy. Later, Dilip will illustrate the details of operating and financial progress achieved during this period.

This quarter results of revenue growth of 6.1% should be viewed and analyzed against the backdrop of very high base of last year corresponding quarter as well as delayed and weaker outbreak of vector-bound diseases this year. You will recall that last year North India that contributes over 70% of our company turnover experienced severe outbreak of chikungunya and dengue fever. This outbreak was more pronounced in Delhi NCR, thereby leading to very high Q2 FY17 revenue and EBITDA contribution of 29% and 33% last year against usual average strengths of 26% and 28% respectively. Despite this, our normalized EBITDA in Q2 came in at Rs. 807 million and margin of 29% have continued to be very healthy

I also want to highlight a couple of points related to GST. As you are all aware that Healthcare is exempt from GST, which also means that we have no ability to claim any input tax credit. Most services, tax rate has gone up from 15% to 18% and in many reagents the net impact of taxes is higher than the earlier tax rate. As a strategy, we have decided to absorb this adverse impact of GST instead of passing it on to our customers through price increase. I am happy to share that our teams have taken a lot of initiatives to drive productivity thereby containing the adverse impact of GST. Dilip will share some of the details in his comments on results.

As I move to update on our strategic initiatives, I am pleased to share that our Kolkata Reference Lab project is progressing very well. We are now in the final stages and awaiting final regulatory clearances. Last time, I shared with you that we will be upping the ante on preventive healthcare. To that effect, we have extended preventive healthcare practices to all the channels of Dr. Lal PathLabs. Earlier, these packages were primarily sold to walk-in patients in the company-owned labs. We

have also made certain organizational structural changes where a very senior resource will lead the wellness initiative amongst other initiatives.

One more point that merits a specific mention here is that last year we took price increase in June 2016. This year, given the competitive pressures, we have decided to absorb all the inflationary pressures like higher minimum wages, etc., and drive growth through volumes and test mix rather than through upward revision of prices.

Lastly, we have started driving mix growth by focusing on increasing the contribution of high end tests as well as panels like health packages, thereby impacting test per patient growth higher than patient volume growth. We have built a strong network of labs, collection points and pick up points and this network has a very strong potential to drive high growth in times to come. Overall, with the above backdrop, I am happy to share that we are over the hump of first half FY17, Q2 in particular, and now very confident that second half should enable us to achieve around 14-15% revenue growth for the full year FY18.

With that, I would request Dilip to continue with the discussion.

**Dilip Bidani:**

Thank you, Om. Good evening once again and thank you for your continued support and participation on our calls.

I would like to run through the important highlights. I am glad to share that the September quarter witnessed a record highest ever revenue for us at Rs. 2,781 million. During this quarter, we saw good momentum in our business and while growth in revenue shows only a 6.1% increase backed by 6.7% volume growth, these numbers need to be compared with an equally high base last year. As you will recall, there was a severe incidence of chikungunya and dengue last year during this quarter.

We had mentioned in our last quarterly call that growth in the first half would face headwinds which we have weathered, and the first half revenue growth stands at 8.7% with the volume growth of 7.6% and as mentioned by Om earlier, we believe we are over the hump. The underlying volume growth of 6.7% for the quarter and 7.6% for the first half are encouraging and we expect the momentum to continue into the second half of the year. The number of patients tested increased from 3.75 million last year in Q2 to 4 million in Q2 this year, also a highest ever during the quarter.

We are also glad to mention, the test per patient have increased from 2.24 to 2.28 in Q2 this year. Revenue realization per patient was similar as Q2 last year at Rs. 6.96. This reflects the price rationalization we have taken this year in select geographies and the benefit of price increases

taken in Q2 last year is now largely neutralized. Normalized EBITDA in Q2 at Rs. 807 million after eliminating the impact of RSU and other stock-based remuneration charges was slightly lower than Q2 last year which was at Rs. 819 million. Cumulative EBITDA for the first half at Rs. 1,487 million was 3.8% higher than first half last year which was at Rs. 1,432 million.

As you are aware, this quarter also witnessed one of the most dramatic and progressive changes in the history of Indian business with the introduction of GST in which Healthcare is an exempted industry. This implies that we do not charge any GST on our output services and we are also not eligible to take the benefit of input GST costs which ends up as an inflationary cost for us. Reverse charge mechanism for payment of GST on certain services also adds to our cost. The GST impact is estimated at Rs. 9-10 crore for the financial year alone and increase in minimum wages in Delhi NCR is also adding to the cost base.

I am happy to share that we have taken measures to improve productivity, manage cost structures and have thereby absorbed some of the inflationary pressures relating to GST, minimum wage corrections and even competitive pricing pressures. With selective price rationalizations of panels in select markets, we have seen an improvement in growth rates and realization per patient in those markets. We are confident of selectively extending these pricing initiatives in other geographies as well. Despite these challenges, normalized EBITDA margin for Q2 continue to be healthy at 29% and 28.2% for the first half this year.

Other income includes dividend from liquid funds and interest on FDs. Average returns on our cash surpluses was 7% p.a. for the quarter. Cash and liquid funds balance as at end September is at Rs. 4,330 million or Rs. 433 crore and has increased from Rs. 4,226 million in June 2017. PBT is Rs. 778 million in Q2 Vs. Rs. 803 million in the previous year. The first half PBT grew 2.2% to Rs. 1,438 million from Rs. 1,408 million last year. PAT is Rs. 510 million in Q2 Vs. Rs. 529 million in Q2 last year. First half PAT grew 3% to Rs. 955 million from Rs. 928 million last year. Q2 FY18 EPS diluted at was Rs. 6.19 Vs. Rs. 6.43 last year.

We are continuing to pursue our strategies outlined earlier and focus on expansions through franchising our collection network and building scale in the markets we operate. Focus will continue on cost and productivity improvement to protect margins and thereby reinvest in the business growth.

This brings me to the conclusion of my opening remarks and I would like the moderator to take queries from the participants. Thank you.

**Moderator:** Thank you. Ladies and gentlemen, we will now begin with the Question-and-Answer Session. The first question is from the line of Neha Manpuria from JP Morgan. Please go ahead.

**Neha Manpuria:** Did I hear correctly that the second half growth is expected to improve to 14-15%?

**Dr. Om P Manchanda:** It is not second half, actually it is a little bit of overall picture for the year we are giving because first half our growth is now nearly about 8.7% and in the second half we are hoping to have a favorable base advantage because if you remember last year because of demonetization the base is slightly lower. So we are hoping our sales to improve in the second half.

**Neha Manpuria:** This is just a base improvement or will there be anything else that will be driving higher growth on Y-o-Y basis other than the base if I were to look at revenue from this quarter onwards, how do you see that is panning out?

**Dr. Om P Manchanda:** I think it is a combination of both, but yes, base improvement also is a significant factor.

**Neha Manpuria:** On your margins, if I look at, your margins for the first half at 27% Vs. for the last year which were at 28 to 29% first half-to-first half because there was the demonetization impact in the second half. Despite increase in cost, not taking price increases and the GST impact, we have been able to maintain margins. What have we done in terms of to be able to offset the cost increases or negative impact that we have seen through the year?

**Dilip Bidani:** If you look at the margins for this quarter in Q2 normally it is at a high level in any case because Q2 is usually a very high quarter. Last year if you look at the EBITDA margin normalized was at 31.3% which is now at 29% which is also very healthy. We have been indicating that our annual margins have been around 27%-odd and over a period of time they were expected to go down to around 25% or thereabouts after considering the impact of GST, Kolkata Reference Lab and additional costs which are coming in. However, having said that, what we are saying is that we have absorbed the cost of GST partially with the productivity improvements, rental negotiations, material price negotiations and so on which are actually helping us in changing our cost base in a way that we can absorb some of these costs and manage the inflationary pressures. It is not to say that we are absorbing the entire lot but we will definitely back to the best our ability, try to protect the margins by productivity improvements and cost rationalizations.

- Neha Manpuria:** Is it fair to assume since we have started this, a lot of this is already in the margins or could we see this continue to support margins as we commission Kolkata which will only add to the margin pressure?
- Dilip Bidani:** I think this margin pressure is something which we will always be trying to protect and cost structure improvements is a continuous process, it is not a one-off kind of an exercise. So given that, while our EBITDA margin for the first half has been at 28%, we will try to protect it and at least ensure that we do not slide significantly lower than what we have already been indicating in the past.
- Moderator:** Thank you. The next question is from the line of Shweta Karia from B&K Securities. Please go ahead.
- Shweta Karia:** Just one question on the Kolkata Lab. We have guided with the launch of the same in September 2017. Two things – One is wanted to know the reason for the delay? Secondly, a little more clarity on strategy for the ramp up considering near-term cannibalization?
- Dr. Om P Manchanda:** You are right, probably we are little delayed on Kolkata. Primary reason has been some of the licenses timelines that we estimated are very difficult to predict. So we are almost in the last stage. Now we are expecting 'Occupation Certification.' We applied it last week. The moment that comes, we should be able to launch it. The building is actually ready.
- Shweta Karia:** Another thing is wanted to know two things – One is reason for foraying into the low value or low realization in East India. Secondly, cannibalization in case you foresee any, meaning high end test is transferred to Rohini Lab, where that was around 1-1.5-days, now with Kolkata Lab coming in, I presume some amount of cannibalization specially for samples coming from Bangladesh, Nepal, etc., approximately what would be the timeline for normalization of the same? Third is our strategy considering we have big hospital chains like Manipal Group, etc., Any plans for hospital lab management or any O&M contract with them?
- Dr. Om P Manchanda:** Probably if I understood correctly you are saying that samples that were coming to Rohini will now stay in Kolkata for testing, does it have any business impact, is that the question? I think earlier we had mentioned that there are two big advantages of Kolkata Lab coming in. I think it is less on supply side, more on demand side. We have experienced that the moment you build a very strong hub in the region and that region tends to respond. That confidence is coming from when we build our reference lab in Delhi in 2010, we saw a huge growth in northern region because the entire quality standards, the service levels, everything went up in the region. With the same belief, we actually are going to Kolkata.

Assumption is that the moment we put a world-class lab there, the entire Northeast, Eastern region, Bangladesh, Nepal, the demand will get simulated. I think this investment is primarily more to stimulate demand than augment the supply side. That is question #1.

I think the question #2 was is in specific reference to Manipal. I am not sure about the Manipal part of it, but I think our strategy of hospital lab management is pretty much intact and we are putting a lot of management resources behind the strategy. As I mentioned in my remarks that we have actually put senior resource to drive HLMs and it will continue to be a frontrunner as far as one of the building blocks for our growth.

I think the third question was eastern region you are asking me realization, right. I think in general if you see the purchasing power is much lower compared to any other region of the country. So our pricing strategy is aligned to take care of the customer needs and that is why probably the realization is lower, so is our cost side as well, so it is not that expensive to have a real estate in east as it is in north and other parts of the country. So it is more a regional pricing strategy which is getting reflected in lower price realization.

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

**Sriram Rathi:** Firstly, if you can just repeat the tests per patient in Q2 was around 2.8, how much was it for Q2 FY17?

**Dilip Bidani:** 2.28 Vs. 2.24 in Q2 FY17.

**Sriram Rathi:** Second thing, this quarter we had a volume growth of around 6.7% and since you are talking closer for the second half most likely to achieve growth of 14-15%, largely that will come from volume growth only, right?

**Dr. Om P Manchanda:** Yes, because we are not taking any price increase, so it essentially should be coming from volume growth, yes. But I just want to put one caveat here because many times these revenue per patient gets impacted by test mix as well, so sometimes if there is seasonal outbreak of like H1N1 or dengue, now dengue is unlikely to happen as much as let us say H1N1, sometimes that may drive the revenue per patient. But it may not be on account of pricing, but it may be on account of mix change if at all there is a higher realization per patient.

**Sriram Rathi:** Because realization per patient was actually lower in second half last year versus what we have right now in Q2, so I think there was a difference of around 4%-odd?

**Dr. Om P Manchanda:** I think it is fair to say that most of the growth that we are expecting in the second half will be volume-led growth.

**Sriram Rathi:** How should we look at the volume growth overall for the full year when we have the normal base this year - double digit volume growth is what we can expect or how should we look at it?

**Dr. Om P Manchanda:** Right now it is hovering at around if I have to take this 6.7% away it is more on an annualized basis about 8-9% or 10% roughly, that is the kind of growth on volume is what probably one can assume and balance should come out of mix change. Since we are driving a lot of health packages, where the realization is slightly higher, I think about 9-10% volume growth is fair to assume.

**Sriram Rathi:** On margins, first half we had reported close to 28% for this year. Once the Kolkata Lab starts, how much would be the overall impact on margins?

**Dr. Om P Manchanda:** I think this 28% margin first half looks little high, but Q3 traditionally has been a very low margin, so it tends to get corrected for the first nine months if you look at the data. So it is little unfair to assume that 28% is sustainable margin because Q3 will take the margins down.

Coming to Kolkata, our estimate is about operating cost will go up by about Rs. 7-Rs.8 crore on an annualized basis, while this year depending on when we start the lab, whatever those two months or three months impact will be there, but we also assume that it will give us growth on top line. So it should get offset in two to three years' time. So let us keep the growth aside Rs. 7 to Rs. 8 crore cost increase is less than a percent impact on margins.

**Sriram Rathi:** How much should we expect total CAPEX this year?

**Dilip Bidani:** Other than the amount being spent on Kolkata, we have been spending about Rs. 30-34 crore per year and that is something which we have been maintaining is what you can assume will continue because this will be into infrastructure as well as new equipment which we invest from time-to-time and also there is an investment in IT which goes in which we may also be augmenting some of our IT expenditure.

**Moderator:** Thank you. We take the next question from the line of Ashish Thavkar from Motilal Oswal Asset Management. Please go ahead.

**Ashish Thavkar:** In your opening comments, you did mention about organized space is witnessing a lot of traction. Could you elaborate this?

**Dr. Om P Manchanda:** What we are seeing is that at a regional level, lot of players are coming in, we have seen entry of some hospital guys also entering the space, we are also now hearing that one Pharma company has been wanted to come into this and people with deep pockets, there are three or four large players which are national players and then large number of Tier-2 or these regional players are emerging now in East, South, North and West. I think that is the broad chain that one has observed in the last two years since the time we got listed, so that is what probably my observation is in the market.

**Ashish Thavkar:** In the organized space, you believe this will help the industry to mature and generate more volumes for players like you?

**Dr. Om P Manchanda:** Perfectly, I think so because that will create the level playing field because we are up against those 100,000 labs where certain practices are not very healthy, pricing is not competitive, cost structure is not similar and more and more these people who are trying to organize the space, will always help because then we are competing with the similar kind of cost structure and I think then better management will always win the race.

**Ashish Thavkar:** I know it is too early to ask this question, but the likelihood of Government trying to put a price cap on few of the diagnostic tests?

**Dr. Om P Manchanda:** This is a question which is getting asked very frequently and I think it is a very complex subject, I may not have direct answer to the question but healthcare being a subject which is of interest from social angle, yes, there is always an overhang of price control. But having said that, there is very important element in diagnostics is that just not the cost of reagents but it is also cost of servicing which is much-much more than at times from cost of reagents and the quality standards at various labs are very-very different. So if at all such move happens, the government definitely will have to recognize that all players are not same in terms of costs structure and the quality standards, so they will have to create a differentiation between top quality labs and other labs, because every lab is not NABL-accredited, every lab is not CAP-accredited and our quality standards are very different from others. So government will have to recognize the fact that there is a quality difference between various kinds of players. One size does not fit all. So if at all that move happens, they will have to recognize that our cost structure is different, hence, the pricing will be different. But so far there has not been any active discussion with us on that, but I really do not know in future whether it will happen or not happen. So I do not have any firm answer on this question.

**Dr. Arvind Lal:** Ashish, this is Dr. Lal here. There is some little bit of respite for people like us because the Delhi High Court has reversed the order of Delhi Government which had put a price cap on platelet counts and things like that during the dengue fever, so there is a temporary relief for us, that is what we can say from the High Court.

**Moderator:** Thank you. We take the next question from the line of Shaleen Kumar from UBS. Please go ahead.

**Shaleen Kumar:** Is it possible to see this quarter result vis-à-vis the last year quarter result ex of this vector-borne diseases, so just want to see what kind of growth lever we have?

**Dr. Om P Manchanda:** Yes, we have tried to do that analysis internally. So assuming that if the season was as good as last year or last year was as bad this year, I think top line growth would have been near about 12%-odd, but that is just a broad number because the challenge which we face at times is that there are a lot of associated tests which also tend to go up. So it becomes very difficult to estimate whether this was because of this or because of that.

**Shaleen Kumar:** The other thing which we have noticed and we have been discussing about is a competitive intensity going up in a B2B space and a part of it was driven by private equity money coming in and other factors, that is what you have also been calling out. So how do you see this – is it coming down, is it the same level?

**Dr. Om P Manchanda:** That is what Dilip was trying to make comment on that. We are geared up and we have done extremely well on managing cost of doing business so that in some places we have taken a price drop also though not very significant at all India level but certain states we have rationalized our prices. I think it should stabilize in times to come. That euphoria of let us just go and cut the prices and get volumes is probably going to stabilize soon. I do not know how soon that is, but I think people will realize that it is not price alone, there is a quality and service which actually has to come because some of these players who drop prices, they may not be able to afford that service which customers are used to. So as of now competitive intensity still remains, but I am hoping that it should stabilize at some point in time.

**Shaleen Kumar:** Also sir, you have made a comment regarding your preventive healthcare and senior resource being deployed towards it. If you can just give us any idea how big is it right now for us and how fast is it growing?

**Dr. Om P Manchanda:** We have this preventive health check-up under the brand name called “Swasth” and earlier, we were already doing that in Delhi NCR, it was a small scale but now we have opened up this “Swasth” health packages to

all our channels including our collection centers and as we recognize that this is a large opportunity, it is a growing opportunity, so we are deploying dedicated resources on this, so we are creating a small division which will be headed by a senior resource which will focus on preventive health checkups. In addition to that, part of that initiative will also be hospital lab management. So that is a division structure we are trying to build.

**Shaleen Kumar:** How big is it right now and what is the ballpark growth rate you are seeing?

**Dr. Om P Manchanda:** So I would reserve right now because we believe is competitive information at the moment, but one should look at overall figure right now.

**Shaleen Kumar:** Given there is a lot of hue and cry regarding the pollution levels going up in the northern India, do you see that could lead to any kind of increase in disease or any kind of health hazard and that could actually drive our business?

**Dr. Om P Manchanda:** So I think this pollution level has no correlation with pathology test, of course, it does have issues related to health and illness and all that. But it is not like where somebody has to quickly get and diagnose for certain test. I do not think there is any strong upside to this pollution levels.

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

**Anmol Ganjoo:** My first question reverts back to some of your opening remarks but also some of the other participants asked. So 14-15% growth for the full year implies 23% H2 over H1 growth which I understand it should not be very steep in the context of idiosyncratic factors, last year like demonetization and so on. But if I look at your operating history, this Q2 has been the best quarter. If I do the maths, 23% H2 over H1 growth essentially means that we are not tapering from this quarterly run rate. So this is the number which broadly we will hold for next two quarters. What is the driver of that big confidence in terms of volume growth I just wanted to understand that?

**Dr. Om P Manchanda:** I think it is a good observation you have and I am actually not looking at last year base at all. Last year is an outlier in the entire database. So let us take away last year figure and if I see first half versus second half, mostly the split has been 50 or 51/49. So if I take 50.5 as an average first half, so we will end up doing similar turnover unless some other unusual event takes place. So if you project that way and then we should fall in that number of 14%-15%.

**Anmol Ganjoo:** My second question is around again the competitive intensity. What are the updates that we have? Also in terms of your response you spoke about dropping the price of certain test in certain cities to be able to match competition. But internally given our premier positioning stance that we have adopted, is there a margin threshold or pricing threshold something which you are working with that if the market in pockets become irrational, we are not going to chase it?

**Dr. Om P Manchanda:** Actually, this competitive intensity that we are referring really came from those players, you must have got those messages, “70 tests at Rs.1500”, right? I think we got pressure from those guys. It was not an individual test. I have always internally said and even to others as well that there are these players who are actually selling the tests. As far as we are concerned, our model is such that people buy tests because it is in line with what is prescribed by the doctor, we do not try to push tests which patients may not even need. While in other situation where these competitions which has come in, they are trying to push tests which patient even may not require. How do you know that 70 tests are required by the patient or not? So our response has been to also offer these health packages. Not to the extent of 70 tests and carefully design these packages so that we are not unnecessarily selling tests, but very well medically guided preventive health packages and we sell that, that is how we have become competitive. The second area of competitiveness has come off as Dilip mentioned, renegotiation of prices on reagents. On certain areas, we have also gone ahead and renegotiated our rentals with landlords. We have also tried to rationalize on our manpower productivity, etc., All this put together, we have been able to fund certain pricing, not in Delhi NCR as much as let us say in central India like MP, Chhattisgarh. So we are piloting certain of these pricing models where we are seeing that if I drop prices, what happens to volumes. Those are the kind of activities we have been doing and we have been pretty successful on that.

**Anmol Ganjoo:** You spoke about reorganizing and focusing on a division level at wellness. But if I remember your past comments you were talking about the line between wellness and sickness being drawn in sand and one categorization to one can be another one, so does this mark a change in strategy to some extent and are you viewing this segment quite differently what you viewed it same time last year?

**Dr. Om P Manchanda:** Not really, I know people call it sickness and wellness, but essentially, the idea is that it is really nothing about bundling of tests. So by bundling, what happens is that cost of servicing the patient is fixed, the incremental cost of doing an extra test on the same tube is very-very low. So if somebody is looking for additional tests, it is available at a very-very discounted price and that people call it “Preventive Health Checkup.” It is

not necessary that the person does not have any disease. So it becomes very difficult to classify whether this particular test was done by a person who did not require this test or did not have any disease. I think it is a matter of convenience to classify this wellness and illness. So to my mind this is nothing but a promotion of a bundling of many tests and offering at a very-very attractive price to the patient.

**Dr. Arvind Lal:** There have been doctors we would stay away from this tendency of overprescribing tests which are not required, so we have seen in the lists which we get that many tests are just not required for a wellness check.

**Moderator:** Thank you. We take the next question from the line of Nitin Aggarwal from IDFC Securities. Please go ahead.

**Nitin Aggarwal:** You mentioned about the geographical expansion essentially is being a key element of your growth going forward. Apart from the geographical expansion that they will come through the opening of this Kolkata reference lab, is there any other area that you have in mind that you actively sort of looking at from a growth perspective?

**Dr. Om P Manchanda:** In the past, we have always said that we follow a cluster approach and wherever we go there we want to dominate, I think for us, East is the cluster which is opening up and we will continue to drive depth in this region and expand our network of collection centers, pick up points, labs in this territory. As far as central India is concerned, that is also giving us good growth. The only vacant area where in terms of our expansion on ground deliberately the part of strategy is slightly slow in south and west. But there it is aggression on focus city as well as high-end tests, because high-end tests are more B2B in nature and there we go and service medical establishments like hospitals and other lab service providers, and we also have a focus city approach in those areas like Bangalore as well as Pune. But I think we do not want to spread ourselves too thin and being in every city rather than follow a cluster approach so that we dominate in the market in which we are present.

**Nitin Aggarwal:** With these incremental rather focus on whichever way you want to define those wellness packages and the hospital-based labs, does that really lead to any sort of structural change in your EBITDA profile as a contribution of these businesses increase going forward?

**Dr. Om P Manchanda:** Structural profile for hospital lab management, yes, because that business has a slightly lower margin compared to other business. It is a high volume, high value but low margin business, it also has slightly longer sort of a collection time, payment cycle is a little longer. So it may have a structural change, but it is not significant enough to be noticed in the short-term.

**Nitin Aggarwal:** Wellness business is not materially different, the other bit which is there?

**Dr. Om P Manchanda:** Wellness, I do not think so, because most of these tests are very Biochemistry test, same tube you do, the moment you load that on the machine instead of doing five, it does just another 20, 30 tests, so the delta of cost is not that high when you do more number of tests. So I do not think that should really impact the margins.

**Nitin Aggarwal:** You talked about the competitive bit earlier. I think it is still a very-very profitable business, right, which does leave scope for people who want to act as price warriors to really bring down the pricing to substantially lower levels than where it is and still make it a fairly profitable business to be in, right?

**Dr. Om P Manchanda:** Yes but it is also equally challenging business to scale because operationally it is not that easy business to do, while one can offer lower prices but you have to service the patient... collect the sample in the morning, bring it to the lab, it is just not that simple. So you are right, competition will keep on growing... I think that is happening also, but for the competition to scale, it is quite challenging task.

**Moderator:** Thank you. We take the next question from the line of Abhishek Sharma from India Infoline. Please go ahead.

**Abhishek Sharma:** Just some bit of color on Kolkata cluster Pathology market...when I say cluster I mean all samples that land in Kolkata for testing. What would be the market size of that currently?

**Dr. Om P Manchanda:** In absence of any published data, I will have to make a guess on that. I think in terms of Pathology market, north is about 25%-30% and south is equally bigger, then, the balance is west and east, so I would say about Rs.3,000 crore is the number which comes to my mind.

**Abhishek Sharma:** Out of which Kolkata would be roughly half or one-third?

**Dr. Om P Manchanda:** Kolkata should be around Rs.700 crore, Rs.800 crore.

**Abhishek Sharma:** What is your current market share in that city?

**Dr. Om P Manchanda:** If you start doing maths on this market share in Pathology space, all the large players have very-very low market share. So all of us put together will not be more than 10% to 15% of the market. So for many of us, the market share in many of these cities is in single digit except Delhi for us which is higher, but other places will all be in single-digit.

**Abhishek Sharma:** Whatever market share you have in single digits, what is your aim in next four, five years with your reference lab becoming operational, where would it grow to?

**Dr. Om P Manchanda:** I think it is a good question. I have even looked at other industries as well. Share of an organized player in unorganized market and highly fragmented I think close to 20% market share is a good enough market share for the guy to be called a dominant player. For us, we are fairly dominant in Delhi NCR and I did a quick back-of-the-envelope calculation, our market share is close to about 25%-30% which is fairly large from a kind of market structure we operate in. So I think my ambition should be at least for 10% to 15% market share in that market.

**Abhishek Sharma:** In East, just in terms of growth characteristics, how is the market growing there if you could just give some color on price, volume or overall also would be okay?

**Dr. Om P Manchanda:** I do not think I will have any data available which is credible as of now, but overall I did a math and at an all India level last year market did not grow much -- Thanks to some of the macro level factors. About 10% is the growth which I am told happened in FY'17 at all India level for many of the large plus second level players put together. So this year hopefully growth should be much higher than last year. So I think one can apply that percentage to East as well.

**Moderator:** Thank you. We take the next question from the line of Saion Mukherjee from Nomura Securities. Please go ahead.

**Saion Mukherjee:** Sir, on growth, in response to another earlier question, you talked about going back to 9, 10% volume growth. I am assuming that is something you are talking about not factoring in the incremental growth that you get from Kolkata Reference Lab?

**Dr. Om P Manchanda:** Right now we really do not know and plus we believe that in Pathology space you do not get just spikes, it is a steady curve, so it will build slowly-slowly, so it is not that immediately it will be a step jump. So we will start factoring in as it comes, but definitely once the Kolkata lab is in place, we should start seeing more growth there.

**Saion Mukherjee:** When you talk about your ultimate aim to get to something like 10, 15%, what is the timeframe for something like that which is feasible market share in this business?

**Dr. Om P Manchanda:** Market share about Rs.300-odd crore, I think next four years, it should happen, as of today the entire clusters about Rs.80 to Rs.100-odd crore, so we should become 3x in 4 to 5-years.

**Saion Mukherjee:** Your commentary over the last one year or so kind of made me think that the competitive intensity has been much stronger or kind of worsened and despite that you manage to hold on to cost structure and deliver the margins. So it looks this is quite sustainable as you go past this phase. Will that be a right assessment? The second question is you have been working on like a lot of cost control initiatives. So is there something which we can still expect, you mentioned it is a continuous process, I am just wondering how much lever we have there to kind of deliver higher margin?

**Dilip Bidani:** I think it is a good question and as I mentioned earlier that this is actually a continuous process and there will always be pricing pressures, there will be inflationary pressures, there will be places where we can improve and places where we cannot improve, so there would be certain processes we have to improve, productivity improve, change the way we do things and it is not something which I can give a precise number that I will maintain this cost structure or reduce this cost structure by x percentage over the next to absorb the inflation, but it is a continuous improvement, it is not something which you can say that this is what I will do and achieve. You identify pockets of opportunities, you identify processes which can be done differently. You try to see if there is automation which can be brought in, in various processes or change the way you work. These are the kind of things which you are constantly exploring. You cannot pin a number and say, okay, this one will give me X percent, Y percent, Z percent improvement, I do not know that I have been able to explain that to you but it is not like an excel spreadsheet where I can precisely define that this is what is going to happen.

**Saion Mukherjee:** I am just wondering like you had a lot of headwinds just on back of GST, you mentioned Rs. 9 - 10 crore impact annually, right and then there is wage increase in Delhi, I do not know what the quantum is, but it looks like you kind of got that kind of Rs. 10 - 15 crore cost on an annualized basis, that kind of saving it seems that you would have got this year?

**Dr. Om P Manchanda:** But that is also an opportunity for us to drive the organization because at times, many of these news also provides us the reason to discuss productivity initiatives and I am happy to share that we have been able to renegotiate prices on certain reagents as the GST came in, we have also been able to renegotiate rent because real estate is down, this rental arrangements were past arrangements, so we went back to some of the landlords and said that we want to renegotiate that and lot of automation initiatives. So I think overall put together as a management team our intention is to see if we can hold on to these margins, but I think to be on safe side, we did indicate that it will hover between 25% to 27%. But I think the way to look at it is, it will not go above this number, but we will keep trying our best not to keep it in the range.

**Moderator:** Thank you. We take the next question from the line of Umakant Sharma from EM Capital Advisors. Please go ahead.

**Umakant Sharma:** I have just got two set of questions for you; one is with regards to what are the kind of top three objectives that you aim to achieve in three years time and the rest that are associated with them?

**Dr. Om P Manchanda:** I think the first objective I have is to get the price value equation right. It is always in relation to the competition. I just do not want to get outpriced in the market. So whatever productivity initiatives I take, I am not taking to just shore up the margins, but I am taking to see if I can stay competitive on price. That is objective #1. That objective should lead to more volume growth than higher realization per patient. Objective #2 for us is to aggressively participate in this preventive health segment as well. It is a great opportunity and it is a large opportunity. Objective #3 is not to stay behind on high end tests because at the technical level this entire space is moving towards molecular and genetics and while our large base is from routine biochemistry tests, but we want to stay focused on high end tests as well. So these are top three objectives.

**Umakant Sharma:** Second is what kind of disruption do you see to your business model coming from the healthcare start-ups which provide a real-time data regarding the potential diseases that an individual is vulnerable to?

**Dr. Om P Manchanda:** People who are coming in this space are from technology, I think these are the guys who are really helping this entire experience of availing medical services very convenient, at a macro level, you can talk to your doctors online, you can book your test online, you can download the report online anywhere, anytime. So I think start-ups are going to be a great ecosystem which is going to help us to augment the area on the patient interface. So many of these startups I am beginning to feel that they are not competitors, they are actually more like helping to bridge that competency level which some of the old traditional companies like us may not have and we have also invested significantly internally in the area of Digital space. So I think that disruption is going to be on automation and application of technology. I think that is what we have to keep our eyes and ears open to.

**Umakant Sharma:** Do you mean to say that you will be moving away from brick-and-mortar laboratory side to something more on the technology front because a couple of the start-ups where I am aware of they are getting devices which are let us say placed at a distance from you and they will be able to do real-time monitor in your body based on certain data parameters they give you what are the diseases that you are vulnerable to?

**Dr. Om P Manchanda:** So you are right, some of these technologies are coming, I think little ahead of time because one has to be even sure about the quality, acceptance by medical profession. So innovations are very-very slow to get accepted in medical field because they have to be certified by regulators and things like that. We do not want to implement any technology which is not really tested on quality.

**Moderator:** Thank you. We take the next question from the line of Kunal Randeria from Antique Stock Broking. Please go ahead.

**Kunal Randeria:** You mentioned that you have not taken price hikes. So has that been prompted by others who are also not taking it to or is it more like tactical move to gain back some volumes when others increase the prices?

**Dr. Om P Manchanda:** I think it is a bit of a rebalancing act that we need to do because I know that we faced bit of a pricing pressure from some of the competition in the past last especially four quarters. You must have experienced lots of these messages were coming at so and so price and people started comparing the prices without realizing the quality is different. So we just have let us go easy on pricing right now because our market shares are still very low, drive this growth more through volumes and that is the reason why we have taken this strategy and especially in the last four quarters after demonetization, our growth rates fell down. So we just want to quickly come back to the original volume growth and we decided that it is a best for us not to take price increase right now. If there is a need, then we will take it, but right now, our objective is to go back to our original volume growth quickly.

**Kunal Randeria:** So if I put it this way that you have mentioned in the past of being at 15-20% premium to some of the other mainly unorganized players, so has it contracted now or is it around the same level?

**Dr. Om P Manchanda:** This pricing correction, it is mainly done in rest of India than in Delhi NCR where it may have contracted, but in NCR, we are still maintaining the same premium.

**Moderator:** Thank you. We take the next question from the line of Safal Shetty from Gulita Securities. Please go ahead.

**Safal Shetty:** I would like to know what is our R&D expense as a percentage of our sales?

**Dr. Om P Manchanda:** So R&D, in our space, there are two areas where we spend or invest money-- One is to bring down cost of these tests where we try to develop homebrew tests and other area is that where we introduce newer test in the marketplace and invest more behind because initially the volumes

and value was not much especially in the area of genetics, but it is not a very significant number to mention, it is not like Pharma industry where they spend large sum of money on R&D. Most of our tests are actually outsourced from outside and we just do a commercialization of those tests in India.

**Moderator:** That was the last question. I now hand the floor back to the management for their closing comments.

**Dilip Bidani:** So that brings us to the close of this call and we look forward to the call next quarter. Thank you all for participating. Good Bye.

**Moderator:** Thank you. Ladies and Gentlemen, on behalf of Dr. Lal PathLabs that concludes this conference. Thank you for joining us. You may now disconnect your lines.

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