

**Thyrocare Technologies Limited- Q3 FY-19 Earnings Conference Call**  
**Hosted by Prabhudas Lilladher Pvt. Ltd.**

**Management Speakers:** Dr. A. Velumani, Chairman, Managing Director & CEO  
Mr. A. Sundararaju, Executive Director & CFO  
Mr. Anand Velumani, Director of Subsidiary, NHL  
Miss. Amruta Velumani, Director  
Mr. Sachin Salvi, VP- Finance  
Dr. Caesar Sengupta, VP- Operations

**Participants:** Mr. Prakash Kapadia – Anived Portfolio Management  
Mr. Rakesh Naidu – Haitong Securities.  
Mr. Anush Gupta – Perfect Research.  
Mr. Mangesh Barje – Capital One  
Mr. Shrinivas Seshadri - Mirabilis  
Mr. Paul Simon - SPARX Asset Management  
Mr. Shivam Gupta – PWC Advisors  
Mr. Surajit Pal - Prabhudas Lilladher  
Mr. Nishant Sharma – HDFC Bank  
Mr. Jayman Shah – Ardego

**Moderator** Ladies and gentlemen, good day and welcome to the Thyrocare Technologies Limited Q3 FY 19 Earning Conference Call hosted Pradhudas Lilladhar Pvt. Ltd.

As a reminder all participants' lines will be in the listen only mode and there will be an opportunity to ask you questions after the presentation concludes.

Should you need the assistance during the conference please signal the operator by pressing \* then 0 on attached tone phone. Please note this conference is being recorded. Now the conference is over to Mr. Surajit Pal from Prabhudas Liladhar. Thank you and over to you sir.

**Mr. Surajit Pal**

Good evening everyone. This is Surajit from Prabhudas Liladhar. I thank Thyrocare Management for giving us opportunity to host this call. From Thyrocare we have Dr. Velumani, CEO, Miss. Amruta Velumani, Director, Mr. A. Sundararaju, CFO, Dr. Caesar Sengupta, VP-Operation, Mr. Sachin Salvi, VP- Finance, Mr. Anand Velumani, Director Nueclear Healthcare Limited. We will start with Management Presentation first followed by question and answer. Thank you, over to you, Doctor.

**Mr. Sachin Salvi**

Good afternoon and Thank you everyone for participating in the post result conference call of Thyrocare Technologies Ltd. I have along with me Dr. Caesar Sengupta, Amruta and Anand Velumani and my team to answer all the questions on results. We have Dr. Velumani also on the con call available. Before that I will briefly explain you our financial performance and quarterly result so that we will have the idea about the growth profitability and one-offs that have an impact on the financial statement in this quarter.

As stand-alone level the pathology business has grown by around 13%. It has also contributed in consolidated growth of upto13%. The consolidated revenue was around 96.29 Crore which roughly grew at rate of 15%. Our Nueclear business has grown by 35%. There are certain one-offs that impacted our profitability in for this quarter which I will explain in the conference call while addressing the relevant questions. There is no impact other than the one-offs on the profitability for this quarter. The number of samples processed have increased by 13% almost. Our investigations performed have increased by around 21%. As far as nuclear is concerned, we have started the operation in the Bangalore centre. We have also started operation at our Coimbatore Centre, too.

I will pass it on to Dr. Velumani now to have a first set of remarks as far as the quarterly financial statements are concerned.

**Dr. A. Velumani**

Hello, Thank you Sachin. All of you can hear me? I am connecting from London.

**Management, Thyrocare**

Yes. We can hear you.

**Dr. A. Velumani**

Right. As the numbers are seen, yes there is a disappointment in the look of the number, there is no profit growth at all when one looks the overall number, I want the investors to understand in the beginning itself –that, when I witnessed 17% growth in the last year. I was pretty unhappy about it being less than 20%. I had informed and I have revised my prices 15% low. That means we have year over year compared between December 2017 and December 2018, there is a 15% reduction in the price of the tests which are sold.

That 13% growth is in spite of 15% reduction in price and that has to be captured in the mind that when you reduce 15% in the pricing then you are reducing the profit bar straight. That's because it is how the sacrifice is. So when we look at this particular quarter the profit growth looks zero but profitability has not truly changed there has been some additional investigation done due to price reduction, there is the increase in the number of investigations and that is increasing the cost of consumption. So, when one analyses this internally, looking at what contributes the 0% growth in the EBITDA it is price reduction and the cost increase. More than that, we also have the Manpower addition and capacity addition and we also bought the hardware so that in the long run we will have the advantage of 15% reduction in cost. About the individual numbers, when you ask questions, Sachin will give the numbers and I will give explanation if necessary. Otherwise I will give you the macro picture about what was this price reduction and what was the expected impact. This is the second time we are doing in the History of Thyrocare price reduction. Earlier we have done that in the year 2013. In 2013 March, we found the growth of only 11% in the top line which was historically first time as low as 11. We did correct the prices at that point of time and in the next year we found the 11% is going to 17% and in the third year it was going to 23% and in the

next year it became 27%. That is the time when IPO happened. Subsequently after 27% the picking was almost done and we are back to 17% in FY 18. So it feels quite possible and it is quite evident that every profile which Thyrocare is creating is very easy to replicate and everybody has a machine and everybody can copy it and compete in the market place.

When we reduced the price in 2013 we reduced the price only for Thyroid. Today when we realise where are we getting disrupted, it is the Aarogyam 1.2 and 1.3; these are two products which are having highest volume and highest EBITDA also. So when we realise these profiles are replicated and disrupted, we took a decision to reduce the price for these two specifically to an extent of some 25% which is overall 15% revenue erosion. This has been intentionally done. It is not that suddenly the company has lost the profitability. I have no idea what happens to the industry but I have a feeling this December has been the lowest. This December is lower than last December, is what is seen in record. It has nothing to do with the competition and nothing to do with the pricing and it is to do with season. Overall I see from the investor point of view that the quarter has gone flat where is no profit addition and it is only 13% addition as one can call, but I don't think in this industry anybody had a Q3 double digit, anything more than 13%.

So this is the overall scenario. I want you all to understand. This price correction would improve in the top line probably by 2022 or 2023 it will reach to a percentage which will justify as to why we did the price correction. I wouldn't be able to tell even the right number how this year will end but I have a number in my hand which says year till date is 15% Year till date in March 31<sup>st</sup> would be certainly be 15% growth in the top line and EBITDA would also be more or less 38% or 39%. This is my inputs in terms of the numbers and as far as Nuclear is concerned, we have started two new centres. One is in Bangalore and another one is in Coimbatore and Nuclear is not doing as much as it was expected to be doing. We will be probably adding just one more in Chennai for which we have already created the infrastructure. Then we will be taking a pause for some time to see how the

Nuclear business with 15 scanners is reaching to profitability. So, this is about the Nuclear business; overall, the industry is highly disrupted because of the arrival of so many private equity investors and also because there are no entry barriers and many people have started literally copying, somebody is Apurva Pathology. They have started Apurva 1.1, Apurva 1.2 and Apurva 1.3. So finally these 1.2 and 1.3 have become the brand across the country. Everybody is marketing. That is the biggest challenge of all unorganised markets. In the unorganised market, if somebody is making 5 crore turn over, then he has 2.5 Crore profit and he does not have to pay the tax. He has an upper hand than the organised players who have hardly EBITDA and still they have to face all challenges of complying with every statutory requirement. So, this is overall scene in the industry and the top players will have the challenge in growth but again B2B guys will have a different scene and B2C guys will have a different scene and that is to be learned that everyone who is operating is fully conversant how the market will react for any of the action which we do from our end. This is overall my input. I am not totally shocked to see the number because this number in this quarter was expected but I wanted this to be a little better except that December has disappointed otherwise I see the number in the right direction and I would expect couple of years to come will compensate for whatever low growth we have last year and this year and we will take care of it. That's my inputs and remaining our team will tell you if there is number related and if it is related to philosophy and vision, I will get in and talk. Thank you very much. Now the session is open for discussion.

## **Moderator**

Sure, thank you very much, we will now begin with the question and answer session. Anyone who wants to ask a questions may press \* and 1 on their touch tone telephone. If you wish to remove yourself from the question queue you may press \* and 2. Participants are requested to use handsets while asking questions. Ladies and gentlemen, we will wait for a moment while the question queue assembles.

First question from the line of Prakash Kapadia from Anived VMS, please go ahead.

- Mr. Prakash Kapadia** Thanks for taking my question. I have 2 or 3 questions. Can you quantify the amount of CSR spend and buyback expenses incurred during the quarter and in the presentation, there is an item of loss on sale of investments and assets? What is the item and what is the amount?
- Management, Thyrocare** Ok. As far as the CSR expenses are concerned, for the current quarter the amount is around 15 lacs and the YTD level the amount is around 45 lacs. As far as the buyback of shares and expenses are concerned for the current quarter we have spent around 49 lacs or 50 lacs rather. At YTD level the number is around 89 lacs. What was the last statement?
- Mr. Prakash Kapadia** It was on some loss on investments and assets. What is the line item and what is the amount?
- Management, Thyrocare** So there is no loss on investment of any asset in this financial quarter at least. There is in fact a profit on sale of one of our property in this financial quarter.
- Mr. Prakash Kapadia** Ok. What is the amount? Is that shown in other income?
- Management, Thyrocare** It is shown in other income of course. It will not have any impact on EBITDA .
- Mr. Prakash Kapadia** Okay, so, other income includes some non-recurring.
- Management, Thyrocare** Yes, & in consolidated financial statement there is share of profit from associates -, in the last year we have sold our water division to Equinox Labs Private Limited, so Equinox has earned profit since we are holding 30% of that entity that gets consolidated over here and we are having YTD of profit share of 58 lacs towards share of our associate entity.
- Mr. Prakash Kapadia** Fine. On price cut, is it across the country? Is it for specific reason as we move forward to FY 20 you have confidence after this price cut that we will know continue to grow higher what we are

targeting this year, especially on the B2B side? Because you know somebody else could cut the price on the B2B side.

**Management, Thyrocare**

I don't think anybody can cut the price lesser than what we have.

**Mr. Prakash Kapadia**

Ok.

**Dr. A Velumani**

Just to answer your question, we haven't cut the prices across the country at a time. We have understood if we do so it will be straight away erosion and we need to do it intelligently. We have a price cutting only for Aarogyam 1.1, 2 and 3. Remaining of it we have not cut the price. But these 3 profiles are such a huge volume in overall it results into 15% erosion in the total rate, no 1. No 2, we increase the rate of Thyroid. So the 15% reduction was offset by the increase in Thyroid but subsequently we understood, if we increase the Thyroid rate it may hit our volumes so we have decided to bring back the thyroid rate and in few geography we have brought down the thyroid rate of the original rate. In remaining geography we will be doing either from April 1<sup>st</sup> or from July 1<sup>st</sup>. So, coming to your question - What is the guarantee. I must tell you there is no guarantee. It worked last time when we reduced the price. In the B2B business, which is sensitive to price of the services, we expect increase in the business volume and finally the EBITDA will come back to its position because of increased volume. This is the pure assumption after one experience of reducing the price. I think there should be 95% of the chance that this stands correct, and there is no guarantee it will specifically work 100%.

**Mr. Prakash Kapadia**

Doctor we were targeting Tier 2 Tier 3 cities for higher growth.

**Dr. A. Velumani**

That is happening.

**Mr. Prakash Kapadia**

Yes, Growth has come from North India and East India which is where we are focusing on in TR 2 TR 3 or Is it western and south where we are?

**Dr. A. Velumani**

I think we are Pan India and we are not segregating the geography region. Metros are stagnating so we are into district headquarters

and taluk headquarters. We have started putting our efforts but the return we may get in another quarter.

- Mr. Prakash Kapadi** Ok fine, Thank you and all the best. I will come back if I have more questions.
- Dr. A. Velumani** Thank you.
- Moderator** Thank you. The next question is from Rakesh Naidu from Haitong Securities. Please go ahead.
- Mr. Rakesh Naidu** Thanks for the opportunity, sir. Sir earlier you have talked about the price cuts and the wellness keep test. Can you please tell what points the price cuts are taken? Were these taken at the beginning of the quarter or during of the quarter or at the end of the quarter?
- Dr. A. Velumani** Yes. I think I will only answer. Month of May we have reduced the price of Aarogyam and increased the Thyroid price.
- Mr. Rakesh Naidu** Ok.
- Dr. A. Velumani** In the month of January 19 we have increased the Thyroid rate in a few geographies.
- Mr. Rakesh Naidu** Ok
- Dr. A. Velumani** That's all we have done and nothing else has been done.
- Mr. Rakesh Naidu** You are saying that price cut has been taken in May. That was not in the recent front.
- Dr. A. Velumani** That was not in the last quarter.
- Mr. Rakesh Naidu** But, sir that is not reflecting in the post May number side. I mean even you look at these quarter numbers, I means your philosophy is that you will go and take the market share based on the price but then that's not exactly coming about. I mean if the price cut have been taken in May then the growth should have been higher

than what we are seeing now. Right? Is it a correct way to look at it?

**Dr. A. Velumani**

No. I think it needs at least 3 quarters to get the impact.

**Mr. Rakesh Naidu**

Okay, basically we have seen this 15% kind of growth so it is basically it's still taking some time to cultivate the market what you are saying.

**Dr. A. Velumani**

This is a very dynamic place. There is a natural growth happening. There is a growth because of price reduction. So there is turn over growth and turn over control because of price reduction. It is very difficult for me to make it static and analyse and tell you what exactly is happening. I would request if I have change the price in May 2018, till 2019 May I have to study what kind of impact is given. Mild, moderate, good, very good, surprising and all these things will be based on how the market is responding. Because I have done in Aarogyam. In Aarogyam the impact is not that you see within a month or two, it needs 4 quarters and I want you people to give me some time to learn how things are changing and I will find it out why it has happened.

**Mr. Rakesh Naidu**

Right, sir. I have the follow up question to this. Earlier in the last call you have guided that on a medium term basis 20% 25% offline growth is what once we are looking at the business. But if you look at the recent quarters I mean it shows that we have been highlighting. What should be the realistic growth expectation from the business over the media in term? If we give some time from the fourth quarter you are saying that you need to see, post that I mean on-going basis, what is the realistic growth that one can expect from this business?

**Dr. A. Velumani**

Now, I am not going to give the numbers because I have to understand how the reaction is and how long that can take to come back. I would only tell from whatever YTD we have finished for 9 months. This quarter has been back to numbers. So we are expecting 16% topline growth and EBITDA at 38- 39%. I have no knowledge about how it will finally be ending however.

- Mr. Rakesh Naidu** Okay, Sir, one final question on the imaging business and earlier you have been saying that that business is taking some time to gain interaction. How should we look into this from capital outlet from here on even the optic revenue and margin?
- Dr. A. Velumani** One more Scanner in the next quarter.
- Mr. Rakesh Naidu** Okay.
- Dr. A. Velumani** In the next 90 days one more Scanner and for another one year no more Scanners.
- Mr. Rakesh Naidu** No investment for FY 20 what you are saying.
- Dr. A. Velumani** Yes. Because we need to look at these numbers as how it as a business is turning out to be profitable. We will be investing more otherwise we will not be investing in that.
- Mr. Rakesh Naidu** Ok. What should be the profitability situation? Can we expect the improvement in the margin from year on for the remaining business or current entity is growing rate for the business?
- Dr. A. Velumani** I would not be able to tell you the number because once I tell you the number then it will be very difficult for me to explain whether I could do that much or not. Let me tell you once I stop investing, numbers will improve because every additional centre has pre operational cost which is truly high. It is very difficult for me to figure that because frequently we are investing on newer one. Let me come back to you by March 31<sup>st</sup> with some specific number for next one or two years but I would not be able to tell in the term of Nuclear how the numbers will improve.
- Mr. Rakesh Naidu** How is being the volume in the remaining business? I mean what is tax in day in scan volume?
- Dr. A. Velumani** If you ask me, then my answer is in disappointed growth. There is a stagnation because there is a kind of market where everybody has reduced their prices. That's no 1. No 2, actually in Nuclear, more operators are coming in than the demand.

- Mr. Rakesh Naidu** Okay.
- Dr. A. Velumani** That's why I have no reason to understand where no one is having the profit, then why everyone is investing.
- Mr. Rakesh Naidu** Okay.
- Dr. A. Velumani** If everybody is making profit then that's a different segment. In Nuclear not a single person making profit and I am wondering from where the new investments are coming there also.
- Mr. Rakesh Naidu** Sir, from the current balance sheet of 400 crore is my understanding correct, including the unallocated, total allocation for the nuclear business is 10 s crore. Is it the correct allocate?
- Management, Thyrocare** At the consolidated financial statement, at the year end level we are talking about 400 crore of turnover, we are expecting the Nuclear business to be somewhere in the range of 32 crore, at the top line.
- Mr. Rakesh Naidu** I am talking about the Balance Sheet. If you look at the balance sheet then 100 crore is that what you see. Then when you see the consolidated portion, we see the unallocated element and that's a very high amount. What is the breakup of the final allocating amount?
- Management, Thyrocare** At the consolidated level we are segmenting on the basis of Pathology business, radiology business and others. In the others we are calculating the investment of the liquid assets which we are having. I will get back to you with the exact number on this. Give me some time.
- Mr. Rakesh Naidu** Ok. I will break the line Thank you.
- Moderator** Thank you. We will move to the next question. The next question is from Anush Gupta from Perfect Research.

- Mr. Anush Gupta** Hello, good evening. I have 3 questions and I will ask them. How are you looking at the thread from the PE from the lab who is offering low cost services and losses and taking customers? The question number 2 is, despite our stated objective of growing more than 20% we couldn't see it for the past few quarters so
- Management, Thyrocare** Hello. Can you just repeat the question?
- Mr. Anush Gupta** Yes. The question no 2 is this. Despite the stated objective of growing more than 20% we couldn't see it for the past few quarters, so what strategy have we developed in to accomplish the same? Lastly, what has been the organised industry growth in the recent time?
- Management, Thyrocare** The Organised industry is growing somewhere around 14% to 15% year over year.
- Mr. Anush Gupta** Okay.
- Management, Thyrocare** That's the diagnostic industry and the organised players are growing around 3% or 4% higher than that. The PE funded players who are in the market are disrupting because of driving the volume using lower pricing. That is putting some kind of pressure but we are confident that the kind of pricing that we are offering we would be able to sustain for a longer period and thereby gaining attraction. The pricing cut which we have done like Doctor mentioned, has not given immediate result in the last 3 quarters which we are hoping to see in the next 2 quarters because this is having more performance than we have imagined. We are trying to gather volumes increasing the impact of price cut by getting into Tier 2-3 cities with the network which is in the next level of in the front network. There by adding more collectors and tapping to the nursing homes and labs who can give us more volumes. We would see the effect of these initiatives in the next 2 to 3 quarters.
- Mr. Anush Gupta** Hello. I can understand from this that on the PE funded lab, do you think in future also more can come in? Today they are opening up and they won't get market share or they won't sustain.

What if the one which ends today and tomorrow there are more new players? Who will be competing with others?

**Management - Thyrocare**

That is true. We have been seeing for the past 4-5 years PE funded laboratories, be it front end aggregators or backend laboratories, having a churn. There are, at the regional level, couple of them coming every year and they are adding to the stress. However, we feel there is a kind of gap which they need to bridge to reach that volume to have that kind of comforts of EBITDA and profit. Though this is adding to our stress, the market is growing and we feel that with our sustained efforts of reaching the nooks and corners of the country, we'll be able to capitalize on the efforts which are being put by these PE players with our kind of reach and pricing.

**Mr. Anush Gupta**

Thank you sir.

**Moderator**

Thank you. The next question is from the line of Mangesh Barje from Capital One. Please go ahead.

**Mr. Mangesh Barje**

Thanks for the opportunity. I just have one simple question. What is your current market share in the industry. As I understand, you are cutting down prices which lead to volume increase, and that might again finally increase your market share in the coming quarters. But, what is your market share as of now? That is the first point. The second point is, do you foresee any government regulation in your sector? Now this sector has become more competitive and there is no entry barrier as of now. But any government regulations you are foreseeing in your sector, which might be a threat to your business in the upcoming years?

**Management - Thyrocare**

So, I'll give an answer to the first question on the market share. It is not really easy to assess the size of the market because a large proportion of the market, almost 80% is unorganized. And, we don't really have a numbering system or a government agency which tracks the revenue, which all these labs make. So to go and analyze how much is the market share, one way of doing it is to understand the share of revenue for the reagent suppliers which players have. So, on a very rough estimate, when you say there is a 20% of organized market, we are having a belief of having around 3-4 % of the total market share.

- Mr. Mangesh Barje** 3-4% market share in the organized...?
- Management - Thyrocare** No, overall. As far as the government regulations are concerned, this was talked about now almost 3 to 4 years. Everyone is talking about this, but nothing has come as of now. But even if it is coming, we will be most interested because our prices are the lowest in the industry. We would be at the beneficial end. We would be benefitting most from it, and we are eagerly waiting for it.
- Mr. Mangesh Barje** Okay, so you mean to say that if it happens anytime soon, Thyrocare as a player would benefit?
- Management - Thyrocare** Yes.
- Mr. Mangesh Barje** Okay, that's it from my side. Thank you.
- Moderator** Thank you. Before we take the next question, a reminder to participants to press \* and 1 to join the question queue. The next question is from Shrinivas Seshadri from Mirabilis. Please go ahead.
- Mr. Shrinivas Seshadri** Thanks for the opportunity. The first question is on nuclear. Dr. Velumani mentioned that the next one year will be somewhat of a pause in terms of expansion. But if you can also throw some colour on what kind of milestones would you like to achieve with the current machine population before you look to expand... I mean, on what specific metrics would you be looking at taking the next step forward in that business? Can you give some broad idea of that and what are the specific steps you are taking to achieve that?
- Management - Thyrocare** So, we have currently 14 scanners, 12 centres. And like Doctor has mentioned, we have committed for one more centre i.e. Chennai. So we would be making an investment of getting that machine in the next 90 days. With 15 scanners in our network, our goal would be to first reach an average of 8 scans per machine per day to even look at the next centre.

- Mr. Shrinivas Seshadri** Okay. So that is the kind of operating benchmark we should look at to see how you are going to... Okay. And the second question, which is not still clear to me, is that in the diagnostic segment, the sickness segment is kind of pretty much flat. I believe even in thyroid, the pricing action was after the quarter. So that doesn't quite explain the kind of very weak numbers. It's a segment, where over time, we have seen a kind of steady double digit growth year on year. Sir, is this mainly attributable to the weak December and some climate related factors? How do you kind of dissect that number and bring out the kind of diverging trend which has come out during the quarter?
- Management - Thyrocare** As far as the sickness business is concerned, as we have pointed out, Q3 is historically our lean period. You can take out any of our balance sheet or the quarterly numbers, Q3 is always the lean period. That is one of the reasons for our flat performance as far as the sickness business is concerned. As Doctor has also said, in December we haven't had the growth which we had anticipated. Also, we have the coldest winter of almost last 5 years now in this quarter. These are some of the reasons which we are seeing for the sickness business not growing as anticipated.
- Mr. Shrinivas Seshadri** Okay, got it. Thank you so much for answering my questions.
- Moderator** Thank you. The next question is from the line of Paul Simon from SPARX Asset Management. Please go ahead.
- Mr. Paul Simon** Hi, thank you sir. Sir, you are the lowest cost operator, have the highest profitability and also operating mainly in the B to B price sensitive segment. Why is it that there is such a transmission lag in volume and substantial revenue, for them to pick up despite having good prices? What exactly is the key driver in the B to B business?
- Management - Thyrocare** The key driver in B to B business is to reach more and more clients without multiple layers in between. While we have reduced the prices, we are seeing that these prices would be first absorbed by the people in between who serve the other B to B intermediaries as their margins. We have taken a few initiatives where our network expansion would grow much faster. Like you have seen in our disclosures, we have added the employee count and they all will be focused on adding more and more B to B clients who will be connected directly to the company, thereby gathering volumes. So, if we have 3,000 client codes right now, we would focus on

making them 5,000 by rightly supporting and training and guiding our central office, and ensuring that maximum people are able to get the price benefits of this reduction.

**Mr. Paul Simon**

So essentially, you are going to cut out the middleman then?

**Management - Thyrocare**

Yes. We are going to reach the labs more aggressively so that the intermediaries have their business separately and the actual consumer is able to connect to the brand.

**Mr. Paul Simon**

Okay. As a follow up to that question, on the PPP tender side, on the public health related, how do you see that growing and what is the potential there, especially having the lost operative cost?

**Management - Thyrocare**

So, the governments have taken aggressive initiatives on health. We have recently seen the Ayushman Bharat scheme being launched at the central level. While that scheme has focused primarily on the hospitals, not specifically on laboratories, at regional and state levels, there are different initiatives being taken up. We have recently tied up with Mumbai Municipal Corporation i.e. Greater Mumbai Municipal Corporation, and have struck a tender for outsourcing of diagnostic tests. Wherever there is an opportunity to partner with the government, we would be keen to explore the opportunity and go further.

**Mr. Paul Simon**

So that was a chunky order. How much more of those can we see in terms of partnerships? Is there lot of demand for such kind of tenders? Do you see that happening more?

**Management - Thyrocare**

It would be difficult to give you an exact number on the kind of pipelines there is. But, we would also be focusing on the opportunities available in this space.

**Mr. Paul Simon**

Are the margins similar on such kind of business?

**Management - Thyrocare**

The margins would, to certain extent, be similar because it is B to B and we focused on B to B.

**Mr. Paul Simon**

That's it. Thank you sir.

- Moderator** The next question is from Shivam Gupta from PWC Advisors. Please go ahead.
- Mr. Shivam Gupta** I just have 2 quick questions. The discount that you will enjoy because of purchasing those machines, for how many years is that applicable?
- Management - Thyrocare** This discount is applicable to us as far as we are owning the machines. In Q1, we had mentioned that we are likely to buy those machines on our books. So we have already structured a deal with the vendor, already we have bought those machines, and a portion of the price of these machines we have paid. The balance price we would be adjusting against the discounts which we are entitled to for the financial year up to 31<sup>st</sup> March, 2019. In fact, that is one of the reasons in the current quarter, our cost of goods sold was higher by certain amount. So what was happening is, the discount portion which we are getting or which we are entitled to, at the year end, we were proportionately unwinding it into our COGS. Since we have structured this deal in the month of May 2018 when we bought these assets on our books, upto 31<sup>st</sup> March, 2019 we will not be getting any discount. Post 31<sup>st</sup> March, 2019 i.e. from 1<sup>st</sup> April 2019 and every subsequent year, yes, we are entitled to these discounts. So that says our COGS will be reduced, and our profitability or our margins will increase then .
- Mr. Shivam Gupta** So, as long as you are owning this machine and you do not fully depreciate it out, you will have this discount, is that correct?
- Management - Thyrocare** Yes.
- Mr. Shivam Gupta** Okay. And secondly, can you give me some idea around how many RPLs we plan to add in the next 2 years?
- Management - Thyrocare** So, as far as opening of an RPL is concerned, we have not added any RPL...
- Mr. Shivam Gupta** So in this quarter we didn't open any fresh RPL. They were opened in the last quarter and ran full for this quarter.

- Management - Thyrocare** We have opened new Nuclear centres, but not new RPLs. We are planning to open on RPL in Chennai in Q4 . In the quarter ended December, we haven't opened any RPL.
- Mr. Shivam Gupta** Okay. And we'll have 4 RPLs every year?
- Management - Thyrocare** Yes. We are looking at RPL as a capacity strategy. So wherever we have a volume sufficient enough to cater, we would be opening an RPL. And yes, we would plan to open 3-4 RPLs in a year, based on the demand.
- Mr. Shivam Gupta** Understood. And the last question, Anand, when you were responding to the previous point of why there is a lag between the time you cut the price and volumes coming back... So are you saying that the intermediaries were effectively, either your franchisee or an OLC or whoever who is basically, forcing/foreseeing business from the lab, are actually keeping the far margins themselves and not cutting the price to the end consumer? Is that the interpretation?
- Management - Thyrocare** I would like to correct the interpretation here. Between the patient and the company, there are different layers. Franchisee is the one who is connecting us to the patient. So, wherever we would see an opportunity where a lab nursing home could be effectively serviced, we would be reaching them directly. Of course, we would be asking our franchisees also to be reaching them to increase the volumes.
- Mr. Shivam Gupta** So where exactly are you saying that the middleman is stopping the price transmission? Who is that entity, that I'm not able to understand.
- Management - Thyrocare** There are laboratories who also in turn do specimen pickups from other laboratories who become the middlemen. And in some cases, also the franchisees who are focused purely on inter-lab business and not into direct patient service.
- Mr. Shivam Gupta** Okay. And these are the guys who are effectively not passing it as you would like them to do?
- Management - Thyrocare** They wouldn't pass until and unless there is a need for growth. And that need is what we would have to generate.

**Mr. Shivam Gupta**

Understood. Thank you.

**Dr. A. Velumani**

I was trying to tell my views in between when questions were asked. Let me explain you point no. 1 regarding Nuclear, what are the milestones. I must tell you, without doing 10 scans per day, it is not EBITDA positive. Without doing 12 scans per day, it is not PAT positive. So the machine can easily do 25 scans a day though the capacity is doing around 35 scans a day. So, our objective now is to put a pause and then work on, 'Can we do more than 12 scans per machine per day'. This is the goal, because only then you have a PAT. The capacity under-utilization is because of too many machines. Every scanner is seen as an ornament to invest and they are not looking at the profits of that machine. And for plenty of cancer hospitals, that is an investment for getting the patient to doing their business of surgery or radio therapy. So that is the challenge in a standalone centre, to compete with those people who have revenues coming from other businesses. This is one challenge. In spite of that, we need to work on how to build volumes. There is no need to put more scanners and then struggle. So that is the point No. 1 regarding Nuclear.

Somebody was asking about government business. There we are not actively going and asking for business. We are quoting our best rate, and somebody else who is desperate for business is quoting another rate. In government, they want us to go and collect the specimen from the customer, every district, every taluka, which is so painful. We have got used to samples coming to our door. So we want to quote a price for samples coming to our door. And as a margin, I can always imagine that it is necessary. Let me honestly tell you, in testing, we are cheapest, but not in picking up specimens from every nook and corner of the country. So we are going slow. Having said that, we have got the Mumbai business. We have also got a part of the Maharashtra business. We are trying to see whether we can really scale it up.

Another point asked, in the government rates, when we are quoting, it is 18-20% of our EBITDA. But for volumes and for good balance sheet, we can always do. I'm just wondering how the competition, who doesn't have an EBITDA is quoting that rate. It's a very interesting game and we are sitting and watching. You can proceed to the next question.

- Moderator** Sure, thank you very much. The next question is from Surajit Pal from Prabhudas Lilladher. Please go ahead.
- Mr. Surajit Pal** Hi. If you can throw some light, do we currently stand in anti TB testing or TB testing and neo natal, which is the new venture for us. In terms of, where do we stand where we could see both business and profit start?
- Dr. A. Velumani** I want to say that tuberculosis was started exactly one year back last January. In the entire year, we only clocked Rs. 1 crore turnover. We had an investment of Rs. 3 crores, and we met with only the cost and there was no EBITDA. This year we are expecting around Rs. 2 crores. Next year onwards, it will add one more crore till it reaches Rs. 5 crores. And when it reaches Rs. 5 crores, we'll have a 50% EBITDA. So that is our tuberculosis business. It is going to take time and it will grow on its own. It is not that simple because tuberculosis is not blood as a specimen, it is sputum as a specimen. We have the strength to collect blood, but we have challenges in collecting sputum. However, the business is growing and we will be doing a fairly good business in focused TB. The other segment is Next Generation Sequencing, that is what we have just invested in and we are yet to start the business. The business most likely will have a turnover only in April, though in March we are likely to see some numbers. But I think it will get delayed and go to April. And there also, a similar number only will be possible for an investment of Rs. 2 crores. We should be seeing Rs. 5-6 crores turnover, and that should be giving us 50% EBITDA. And if we find that growth comes, we can keep on investing in similar units, that is not a challenge. So overall, they have not still contributed to the balance sheet.
- Mr. Surajit Pal** Okay. What would be the revenue contribution of the BMC business and Maharashtra?
- Dr. A. Velumani** I think Rs. 52 crores sanctioned for 4 years. Am I right?
- Management - Thyrocare** Yes. For 4 years, the amount sanctioned is Rs. 52 crores. This is a fixed cost tender. That says, 60% of that is still fixed even if we don't get a single sample. This Rs. 52 crore business is spread over 4 years and this is a 4 year contract. And this contract covers 2 zones – The Central Zone and the Western Zone of Mumbai.

**Dr. A. Velumani** They have divided it and given to 2 different operators. Our share is Rs. 52 crores. When I analyzed, this business would be having only 15% EBITDA, because unless we quote such a low rate, we don't get it. This time we have gone and quoted and we got it. We will know by any chance there is more EBITDA, but I'm expecting around 15-20% EBITDA.

**Mr. Surajit Pal** And when has it been started?

**Dr. A. Velumani** It will be started from 1<sup>st</sup> April.

**Mr. Surajit Pal** Okay. So on an average, yearly you can have a run rate of around Rs. 13 crores?

**Dr. A. Velumani** Yes, you are right.

**Mr. Surajit Pal** Thank you from my side.

**Moderator** Thank you. The next question is from Nishant Sharma from HDFC Bank. Please go ahead.

**Mr. Nishant Sharma** Thank you for the opportunity. Just wanted to understand what could have been the industry growth in the last 9 months vis-à-vis our growth of about 15% that we have seen? My second question is, can you once again elaborate on the discounting or the buying arrangement that we have with our vendor, and how do we gain out of it?

**Management - Thyrocare** The industry growth would be around the same number if you look at the overall industry, because it is being assessed by the growth at which the reagent operators are growing.

As far as the discounting arrangement is concerned, we have agreed to buy these assets on our books, because we are entitled to get some additional discount once these assets are purchased in our books. That was the objective for which we have gone ahead and bought these assets. Just to clarify how this has

worked out or how this has got adjusted, as I earlier said, we are entitled to certain discounts on the year end reconciliation from these vendors. So, since we have bought these assets on our books, some part of it has been paid in cash and some part of it, they have agreed to adjust against the discounts which we are entitled to. That said, up to 31<sup>st</sup> March, 2019, we will not be entitled to get any discount on account of the purchases which we are doing from these vendors in the entire financial year. So that said, our cost to that extent, is more for this financial year. Once 31<sup>st</sup> March 2019 is surpassed, i.e. for FY 19-20 onwards, we will have the same normalized EBITDA, we will have the same normalized cost or we will have the same normalized reagent prices with the discount which we are entitled to.

**Dr. A. Velumani**

I want to give my input regarding the industry growth. We have only grown 13% in this quarter and year to date also....

**Management - Thyrocare**

It's the same, 13% for Pathology Business YTD.

**Dr. A. Velumani**

There are 2 ways to assess the market growth, leader minus 2%. If you notice, out of the 2 listed companies, one had a similar 13%, I have a similar 13%. So the market should be 10% . There is no other way of finding out.

**Mr. Nishant Sharma**

On the discounting part, since the assets are now in our books, will that discount amount, which we'll be getting above the EBITDA, get nullified on that depreciation on below the EBITDA? Is my understanding correct, or there won't be any depreciation?

**Management - Thyrocare**

To a certain extent yes, but then the assets would be depreciated over the next 3-4 years, but the discount will continue.

**Mr. Nishant Sharma**

So this will be above the asset life also?

**Management - Thyrocare**

Yes, till the time we are meeting the targets, till the time we are sourcing the reagents from these vendors.

**Mr. Nishant Sharma** Any number that you can help us out with, in terms of what kind of EBITDA improvement because of this particular arrangement, we'll be able to see?

**Dr. A. Velumani** Let me correct here. The machine's life is 5 years. But the way in which the machine runs in our floor, it is almost depreciated within 3 ½ to 4 years. The machine's life is coming to an end because it is an overrun asset. But at the same time, when it is overrunning, it is over consuming reagents. And when it is over consuming reagents, then the consumer reagent will get 15%. So when we made a calculation, with cash in hand, buying and taking the 15% is making better sense. It has made better sense because EBITDA has improved because of that. I want all of you to understand, our price correction of 15% is to take this 15% benefit from the reagent to get a better market share. We are not truly supposed to be sitting and worried about that portion of reduction of price and loss of EBITDA.

**Mr. Nishant Sharma** So from 1<sup>st</sup> April, we'll be able to see these benefits once again coming into the picture?

**Dr. A. Velumani** Yes. It was happening for 50% of the asset already. For the remaining 50% of the assets, from April.

**Mr. Nishant Sharma** Okay sir. Thank you very much.

**Moderator** Thank you. The next question is from Rakesh Naidu from Haitong Securities. Please go ahead.

**Mr. Rakesh Naidu** Thanks for the opportunity. Sir, earlier you said that pricing cut has been taken on wellness and that's been one of the strategies which you have been repeatedly highlighting. Beyond pricing, what else are you guys doing that you are highlighting so that there is an increase in competition, especially in 1.2 to 1.3? So what are the incremental efforts that you are putting beyond pricing to take back the market share?

**Dr. A. Velumani** Rakesh, I want to add one point here. Until we were a listed company, whatever strategies we made, all strategies could be

implemented and only after implementation, competition has understood. Today, since the investor is keen to ask, all competitors are on call and every strategy is known to them even before we implement it. So this is the unfortunate part of it. Amruta wishes to take this question?

**Management - Thyrocare**

Yes. We were handling our B to B clients through franchisees. And the retention and client stickiness was depending on the franchisee service. So now we are trying to go to the next layer and take care of the clients ourselves by appointing field agents. So that is the extra effort we are putting, and we are very confident that the rates which we are offering,...the price cut which we have taken, is going to get to the client without any middleman taking the benefit of the price cut. So that is how we are planning to work on the price cut with this strategy.

**Mr. Rakesh Naidu**

Okay, that's interesting. And sir, I have one more question. When we compare other lab assets and when they were of fewer size, the topline of around Rs. 400-500 crores, the cost structure looked a bit different than what you have, especially around the staff costing. Given that there is a competitive element and you are also taking about direct outreach, how realistic is this 10% staff cost structure? Is it something which still has a potential to leverage upon this cost base or do you think there now is a new way to look at it?

**Dr. A. Velumani**

The cost of manpower will remain 10% as long as growth remains 25%. If the growth is not there, the cost will go up. So whatever efforts you make, everything is to make sure that your growth is 25%. If not, atleast 20% plus, so that the entire cost is never worrying and it would remain around 10%. It has remained around 10% for 15 years. So I don't think it is a worry. Every man who is added in the company is a revenue and not an expenditure. I'm talking about marketing men.

**Mr. Rakesh Naidu**

Thank you sir.

**Management - Thyrocare**

Rakesh, just to answer your earlier question as to what is included in unallocated assets in the segmental financial results, the first element which I was talking about is liquid assets or the

investments in mutual funds. The second is investments in our associates. And the third one is goodwill on consultation which is factored over there. So that makes up to Rs. 184 crores which we are talking about.

**Mr. Rakesh Naidu**

And what is this investment in associates?

**Management - Thyrocare**

We have invested in Equinox Labs Private Limited , around Rs. 20 crores. So Rs. 10 crores by transferring our assets, and Rs. 10 crores additional investments we have done.

**Mr. Rakesh Naidu**

So the imaging business capital employed is at Rs. 100 odd crores. Is that what you're saying?

**Management - Thyrocare**

That is true.

**Mr. Rakesh Naidu**

Thank you.

**Moderator**

Thank you. The next question is from Jayman Shah from Ardego. Please go ahead.

**Mr. Jayman Shah**

Thank you sir. I just wanted to understand our network strategy for the current year. How many franchisees did we add in the current financial year?

**Dr. A. Velumani**

Let me explain you. The word 'franchisee' has got diluted. The typical franchisee of Thyrocare... Can you hear me? The typical franchisee was a guy who was paying an advance, taking a contract and working for us exclusively. This was the first 10 years of business. Because of the market, because of the compulsion, we have understood that demanding for a deposit is working against the growth of the company. So another set of people had come who would not pay any deposit, but they would enjoy trades. But they have to pay online, and they cannot be given credit. So, when we look at the 2 kinds, the 3<sup>rd</sup> kind also we have engaged. You need not be anywhere signing a contract. He can still pay and use it. So these 3 kinds of people are there, and all 3

put together, roughly around 3,000 are there. So the interest is to take this 3,000 by March 2020 to 5,000.

- Mr. Jayman Shah** Okay, fair enough. My next question is, how much revenue are we getting from the online aggregators like One MG or Medyog?
- Dr. A. Velumani** Sachin, do you have a number?
- Management - Thyrocare** So, these online aggregators, their turnover is calculated under DSA portion and it is roughly around 5-6% of our topline.
- Mr. Jayman Shah** And when these aggregators give you the business, do you give them the B to B rates or the B to C rates?
- Management - Thyrocare** We charge them a B to B rate, and a collection charge of our technician. Other than that, the entire margin up to the B to C is enjoyed by them.
- Mr. Jayman Shah** Okay, that's it. Thank you so much.
- Dr. A. Velumani** I want you to understand one more point. We were earlier giving straight 30% to the DSAs. Now we have increased that also because we want more DSAs to work for it. That also is some kind of price cutting.
- Management - Thyrocare** That increases our expenditure head.
- Moderator** Thank you very much. Mr. Shah, would that conclude your questions? Then we'll take that as the last question. I would now like to hand over the conference back to the management team for closing comments.
- Dr. A. Velumani** Okay. Is the last question answered?
- Management - Thyrocare** Yes sir. They are waiting for your concluding remarks.

**Dr. A. Velumani**

Yeah, thank you very much. This is the first time I'm doing an earning call sitting in London. I had an investor meet yesterday. Of course, yesterday we saw a single day where we lost 10%. It was a very worrying one, and I can understand as an investor, what kind of stress it would have created. Trust me, this quarter is one of the worst quarters we have ever had. Not because it became a worst quarter because of not doing anything. It became the worst quarter because we did something. And I want all of you to trust and this something that we did, is very well planned and we must have very comfortable next 4 years with growth. I hope I'll make all of you understand that time, how I took a risk and set the price. Thank you very much for being in the earning call. Thank you. Good bye!

**Management - Thyrocare**

Thank you.

***END OF TRANSCRIPT***