Think Thyroid. Think Thyrocare.

Thyrocare Technologies Limited- Q4 FY- 2019 Earnings Conference Call
hosted by Prabhudas Lilladher Pvt. Ltd.

Company Participants

- Dr. A. Velumani- Chairman, Managing Director & Chief Executive Officer
- Mr. A. Sundararaju, Executive Director & Chief Financial Officer
- Dr. Caesar Sengupta, Vice-President-Operations
- Mr. Sachin Salvi, Vice-President- Finance

Other Participants

- Mr. Sudarshan Padmanabhan- Sundaram Mutual Fund
- Mr. Ashish Jha- Invesco
- Mr. Sriraam Rathi- ICICI Securities
- Mr. Tushar Manudhane- Motilal Oswal Financial Services
- Mr. Varun Goenka- Reliance Mutual Fund
- Mr. Shivam Gupta- CWC Advisors
- Mr. Shyam Srinivasan- Goldman Sachs
- Mr. Amish Mehta-
- Mr. Vishal Purohit- Prabhudas Lilladher
- Mr. Chirag Dagli- HDFC

Operator

Ladies and gentlemen, good day, and welcome to the Thyrocare Technologies Limited Q4 FY 2019 Earnings Conference Call, hosted by Prabhudas Lilladher Private Limited. As a reminder, all participants line will be in the listen mode only. Please note, that this conference is being recorded.

I now hand the conference over to Vishal Purohit, from Prabhudas Lilladher. Thank you, and over to you Mr. Purohit.

Mr. Vishal Purohit

Thanks, Carina. Welcome to all the participants, and welcome to the Thyrocare management, and thanks for giving us this opportunity of hosting the call. We have with us from the management side Dr. Velumani, who's the CEO; Mr. Sundararaju, the CFO; Mr. Sachin Salvi, VP- Finance; and Dr. Caesar Sengupta, VP- Operations.

I request Sachin Salvi, if you can take us through the quarter four numbers and after that, Dr. Velumani can guide us on the overall strategic perspective of the business. Over to you, Sachin.

Mr. Sachin Salvi

Thank you. Good evening, everyone. Thyrocare Technologies Limited has disclosed its financial performance for the quarter and financial year ended 31st March 2019 on 18th of May 2019. Our annual consolidated revenue of INR402.91 crores has grown by 13%. Our EBITDA of INR160.37 crore has grown by 9%. We have maintained our EBITDA margin at a consolidated level at 40%. Our stand-alone revenue, which is INR370.28 crore has grown by 12%. Our stand-alone EBITDA of INR154.28 crore, which is about 42% normalized for one-off adjustments, is again up by about 9%. In our Board meeting, we have declared a dividend of INR20 per share.

So this is in brief about our financial performance. I'll hand it over to Dr. Velumani for the commentary.

Dr. A. Velumani

Hello. Good evening. This is Dr. Velumani, this year has not given any surprise, because in the beginning of the year itself, we said that this year we would be correcting some of the prices for our diagnostic services. While doing so, we have corrected for some of the Aarogyam profiles. We also had courage to increase the rates for some tests, the rates for which were really low, and there was no competition around. Overall, it has been not a year which went in a predicted way, but it ended in a predicted way.

In that way, quarters had their own fluctuations. And my own franchisees took time to react to that price correction and some are yet to even react. So overall, we sacrificed the top line, the corrections were done in both ways, one was taking Aarogyam prices low and taking some of the retail test prices high. And overall, correction was roughly around 3.5% to 4.5%. This top line we have lost. Subsequently, we have number of tests going up, number of samples going up, but not revenues have gone up as much as I expected it to happen.

Having said that, any price correction gives result only in the fifth or sixth quarter, and we are very positive this year, we should be doing a good number - in terms of number of samples also, and in terms of revenue also. Now overall, the year had the conventional challenges of many players coming in. I happened to see some of the numbers of some of the so-called disrupters, who started selling their services at rates cheaper than even Thyrocare and majority of them are having a negative EBITDA. And why I'm saying that is, there has been a, very aggressive pricing by the market in B2B, and I being the single largest B2B player, the challenge was to keep growing in spite of all these aggressions.

Having said that, I wanted to sacrifice EBITDA, but I have ended up without sacrificing the EBITDA, which is when I look at the laboratory as a stand-alone, we haven't truly lost any EBITDA. So, what, it looked like, I had courage to take decision, but I took a decision very conservative, and that results into moderate growth and retained EBITDA.

Having said that, we also have added a lot of manpower. Manpower could not truly realize the quantum revenues in the first year of on-boarding, a lot of training and a lot of orientation is happening. So we believe the year to come will certainly be compensating for the last two years gone.

I must remind the investors, we have a revenue CAGR of 21%. We have the EBITDA growth also in a similar line. We also have the PAT in the similar line. Though it looks like the stock market is beating selectively Dr. Velumani. I don't know what is the reason first, but I do know that we have been enjoying this 22% year-to-year, when we look at five year as the size of the period.

But I personally feel the stock market is giving us a lesser multiple and giving to somebody else, a much bigger multiple, which is to be seen whether it be some error or whether that is the actual reality. So this is my observation in the numbers and the stock price, and it has gone down continuously. I was wondering whether I had priced it high in the IPO or not, but while thinking, whether I had priced it high in IPO or I got a 75 times subscription, which gave me a feeling probably I have underpriced. But subsequently, you know it was not that suddenly after one or two months, it went down. It remained pretty all right for almost one year. Then I don't know what has happened. How did they find out, what is good and bad in any company, and the stock price has been going down, without a reason. No, growth should not reduce the stock. Even if it reduces the stock, it has gone to 30%.

Having said that, I wanted to price the IPO at INR1,800 crore, but then it didn't happen, all pressures of investors. Today, if you look at it, if we had priced at INR1,800 crore, probably I would've got a better dignity in the eyes of the investors. Having said that, we believe that it's a correction which again the market will do.

And when it comes to the other side of the business, Nueclear. Nueclear has been a tough business. This Nueclear business, I wanted to do myself personally in the year 2011, when I did private equity dilution. I got cash in hand. Cash in hand did not allow me to put in mutual fund or anywhere. I wanted to do a business that would help me to establish a radiology brand, but then the investors felt that Velumani is now moving away from pathology and focusing on radiology. They were scared and they invested with me. And during the IPO, to avoid, what you call as interest of all interested parties, we had to take that company into what you call a 100% subsidiary.

These have not gone well with Nueclear for a few reasons, I want to state what are the few reasons. Number one, we went into the market much in before the market has come to the side. And if you want to understand from the investor point of view, let me tell you if Indigo would have come in 1990, it would have not been successful. Only in 2005 it came and it is successful. So is Nueclear, I should have come in the year 2020, not in the year 2011. So that was timing which I felt, I am in time, but I had reached before time.

Number two, in India, limited number of oncologists are there, and these oncologists are not truly growing fast in their understanding and awareness of PET-CT as a technology. Number three, PET-CT, as an instrument is, what you call as the BMW for each of the hospitals and diagnostic centers. So everybody has purchased one without even understanding, no one is making money there. And to your surprise, if the market is growing 15%, the players have grown 20% year-over-year. So that's another challenge there.

And it also needs patience, and it also needs investment. Because the market reached early, I was agreeing with the investors word of caution, go slow. But because I went slow, because the market is not truly doing well, it's reflecting on the balance sheet every quarter and every year. And this year or in last year, when auditors asked me the question in the boardroom, I said to them, it's going to improve better. But then this year, auditors felt that I'm not talking truth. So there was a kind of indication by them to need to understand that the price of NHL today is much lesser than what is the investment.

And I agreed to buy out the Nueclear Healthcare Limited at the cost which has been invested, so as to ensure that the public do not have a loss because of the loss-making unit of Nueclear. Of course, I just made an offer to make sure that everybody understands, I have not given up hope on Nueclear.

Having said that, I also analyzed why my multiples are low compared to my peers. It is because I handle Radiology, the number one, Radiology doesn't have that kind of multiples that pathology has got. Number two, it is bleeding the numbers of Thyrocare in the EBITDA level, as well as the PAT level, which is a big concern for my balance sheet, core balance sheet, standalone balance sheet of Thyrocare Technologies Limited.

So on that basis, we have our output, and we need to look at what can be done in that. And overall, Nueclear will take some more time. Nueclear needs some more investments, but we can't do it right now, because the market is not that big right now. So that's the peculiar challenge which I have got in.

And coming back to the overall business of our laboratory, we did invest in Focus TB. Today, Focus TB is around 15 months of business. We have reason to believe that in another one year period, it should give a fairly good return. We invested around INR4 crores, you should have a INR4 crores profit by this year or even middle of next year.

We have invested in NIPT. NIPT is Non-Invasive pregnancy Prenatal Testing. This test has been priced by market somewhere around INR.25,000. We have priced it around INR. 8,000, another bold move which we have taken. But here there is no huge CapEx, it's a very scalable business. We don't know how big it will become. But if I look at the trend in India, as well as globally, that could certainly be a big contributor by another five years to a balance sheet. So this is overall a summary of our business, and I've been asked so many questions, too many investors and since I had given a guideline of we should be growing 20% year-over-year, I did grow couple of quarters down. I never said every quarter will be 20%. I still continue to believe we are the fastest-growing, we are the most profitable company, and I wish to congratulate all of you to be a part of it. I also wish to thank all of you who are holding the stock of Thyrocare, holding stock of Thyrocare after losing this much erosion in such a short period. It is a great honor for me.. I can assure you that it would be a bright future tomorrow, it is now open for the questions. Thank you.

Operator Ladies and gentlemen, we will now begin the question-and-answer session. The first question is from the line of Sudarshan Padmanabhan from Sundaram Mutual Fund. Please go ahead.

Mr. Sudarshan Padmanabhan Yes, see my question is on the diagnostic business. What I would like to understand is if I go through your presentations, it looks like the volume growth is at around 15% on the samples that we do. And I mean can you throw some light with respect to what is the industry growth like, and I mean the broad belief was that the industry growth was around 14% to 15%, and Thyrocare should continue to grow above this. So we were broadly, at the beginning of the IPO, looking at about 20% kind of a volume growth at least to happen. So I mean some light on that, sir.

Dr. A. Velumani Yes. Actually, the market is growing somewhere 13%, 14%, which is a wild guess. No one knows what it is, but actually, it should be that much. And having said that, organized players should grow much more. But here the challenge comes -- the organized players have more challenges than the unorganized players in the industry. And let me explain you, what are challenges for the organized players. One is they can't cut corners anywhere, they can't compromise anywhere, because now they are very bi brands. Number two, there are costs involved in IT accreditation, and every aspect of business, which big guys have to certainly take care of. One more big challenge is all of the bigger guys have gotten to either public listed or even private equity investment, where they don't have comfort of pricing going down because that will eat out the EBITDA, and they will have to answer every quarter. The unorganized players don't have any such thing. They don't have accreditation, they don't have any of the costs -- what a man costs to me at INR3 lakhs, it's only INR1.5 lakhs for him. He doesn't need much more of long training and not much of better systems. Having said that, their costs are low, and more than anything else, since they don't document anything, they don't have an income tax also to be very precise. So I want you to understand there is no level playing ground even for organized and unorganized, where the organized can enjoy. And the unorganized have a much more comfortable journey today. And till government lays down some of the basic criteria required for a laboratory to run, in terms of size, in terms of manpower, in terms of accreditation, in terms of systems, it will be very difficult for organized players to grow, as fast as they dream to grow. Otherwise, they could have grown even 25%, 35%, 45%. This is my perception -- not that I have any statistics to talk to about it.

Mr. Sudarshan Padmanabhan Sir, my second question is on the margin. Sir, if I look at our EBITDA margins right from the first quarter -- I'm only talking about the stand-alone business. So the fourth quarter. I mean consistently the margins have been coming off. A part of it is also because we have taken this price correction. When we entered probably the fourth quarter, at around 35% margin, where we started the first quarter, 44% margin. And I think for the year, probably we're at around 40% kind of a margin. Sir, from say, in FY 2020 or even FY 2021, what is your outlook, sir? I mean what should be the margin that you think is more realistic? And second, do we continue to see more price cuts in Aarogyam?

Dr. A. Velumani Yes. Let me explain you. When we reduced the price, we are reducing the top line straight by 4%. When we reduced top 4%, the EBITDA straight away goes down by 4%, number one. Number two, because we reduced the rate, there is some increase in volume, that increase in volume increases the reagent cost, and that also reduces slightly EBITDA. So this EBITDA is not a surprise to me. I wanted it to be diluted and I have done an effort to dilute it, but I have a reason to believe we will get back the same EBITDA, even next year. The EBITDA will not get diluted, number one. Number two, as far as growth is concerned, all investors are asking me quarter-to-quarter commitment. I'm not even giving year-to-year commitment. I'm very clear this company will continue to do more than 20% CAGR - Which last 15 years it could manage. It's very difficult for me to commit any number beyond that. Then that looks like I'm misguiding.

Mr. Sudarshan Padmanabhan Sure, sir, thanks a lot, I'll join back.

Dr. A. Velumani Thank you.

Operator The next question is from the line of Ashish Jha from Invesco. Please go ahead.

Mr. Ashish Jha Yes. This is Ashish from Invesco. Sir, in your answer to the first participant's question, you basically said about the competition and whether, how the tax evasion and other costs make them more competitive. But sir, this is true also for B2B business, because I would assume that the sizes of B2B players would be larger and their place to hide will be not as big from a tax evasion perspective. So I just wanted your perspective on this.

Dr. A. Velumani Yes. Actually, the B2B business is not with everyone's in a big size as much as it is with me. I've got around 80% business of B2B. And my peers also earlier, they're not having B2B, but slowly they are also inching towards 60% and 50%. So with all said and done, big player is a big player, only if he has B2B. If he doesn't have a B2B, he's not a big player, full stop. So if you look at the market, all players small are only B2C, and in B2C, there is no pricing pressure, because common man doesn't understand, what is the cost of ESR or PCR . So he comes and he pays and there is no standard printer catalogue which is everywhere available -- every company prints its own catalogue. And more the colorful the catalogue, more is the price. Having said that, there is no competition at the B2C market. All competitions are in the B2B market. In a B2B, you are dealing with a man who knows the test technology and the disease, and also he knows the EBITDAs of the organized players. So there is a huge disruption happening in a B2B space. And so much so, if I have to relook at what my business is, it would have been dead five years back with the kind of aggression which has come into the market. But without this volume, this rate is not possible. Without this rate, this volume is not possible, and any new guy comes is burning too much in the runway and he never takes off. Have I answered your question?

Mr. Ashish Jha Yes. Sir. But sir, where does this end basically?

Dr. A. Velumani It will never end.
Because every day, a new player comes, and he brings his price to the runway, and his runway burn is continuing. So every private equity guys who have gone in the last three, four years have put in money in plenty of companies, and all of these companies have zero EBITDA or even negative EBITDA. Good numbers. I'm not telling all. So this will continue. Our growth in Thyrocare will not be just a cakewalk like many of the investors felt when my first IPO came in. It's going to be a tough journey. And in this journey, probably in the long run, we will have relative ease. At least another five years, we might have the stamina to stand straight and be what we are.

Mr. Ashish Jha Okay. Sir, corollary to this thing. Basically you're saying B2B is too competitive. And you just removed our focus on B2C a couple of quarters back.

Dr. A. Velumani What is the rationale? What is rationale, right?

Mr. Ashish Jha Yes. Absolutely.

Dr. A. Velumani When we sat and calculated for our kind of business, which is not localized, which is not doctor dependent, which is not on lunches and dinners. Our business needs to be acquired from people who are in remote parts of the country without knowing, without having any sales directly sitting there and talking. B2C is so costly, if we had invested let's say INR10 crores budget on our B2C promotion, we felt customer acquisition cost is eroding the EBITDA of what we otherwise were realizing from B2B. In B2B, we don't have any other cost. In B2C, revenue minus all the cost incurred in B2C sales, we are not making it wise, number one. Number two, we've heard (had?) as a religion, we will shift to more B2B because our strength is floor strength. Our strength is volume, and we have established it for the last 15-18 years, I mean 23 years. Why should we doubt our model? It is a challenge, but doesn't mean that it is some kind of a difficulty to continue at least growing 20%; When and I said challenge, Challenge is growing anything more than 20%.

Mr. Ashish Jha Okay. If I can ask one more question, sir, if you look at the new listings like Metropolis and Dr. Lal, so they are basically through franchise or whatever. Their B2C portion comes on a larger proportion basically. So their numbers and profitability seem to be something like yours despite being the difference in B2B, B2C probably. So, as you're mentioning, B2C has a challenging task on managing the cost and profitability. So how do we

Dr. A. Velumani These two are different beasts. One is very powerful in jungle, another is very powerful in sand. It's very difficult to compare. B2C business, other two peers have been doing for last 40 years and 60 years. But it's an established business model in which they have been successful. I came very late. And when I came in, I said to that asset technologist I must work on volume. I'm not a pathologist, and then we found that model doing very well. And if you ask me there has no up and down when you look at the five-year horizon, there are some challenges when you look at year-over-year and quarter-over-quarter. I'm fully well convinced, my model will continue to be in B2B. And it has worked, and they believe it will work.

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

Mr. Sriraam Rathi Sir, one thing we're expecting around 20% growth to continue, I mean in the future years. And assuming largely will be driven from the volume growth. So just wanted to know, so what will be driving such high volume growth? Because if I look last four quarters, in the three quarters our growth in volume has been below 15%. So I mean, are we looking to add more number of test or any other strategy that we adopting, that will be driving this growth?

Dr. A. Velumani So you are saying that 20% growth is too good a growth? I'm supposed to be happy about that, because largely investors are not looking 20% is happy enough. Having said that, this 20% sustaining means, I have to do next two, three years at least 25% to sustain this 20% 5 years CAGR. At least I have a reason to believe, it would happen because it had helped in the past when we corrected our rates. So I am not going to tell, this coming year what percent is, year-after-year what is percentage. But what I have done as the correction, I should be sustaining this 20% year-over-year. Of course, there are no newer technologies which are coming in. Let me explain you, Pathology has been stagnant as a discipline. No new markers have come in. Except the last one that came in was Vitamin D. Not only for me, all players in this space even our own vendors are also having challenges. Nothing new which is happening, which would completely change the slope of the growth. Having said that, India is too big, and I think I have said in a couple of last meetings also, the metros are drying up, Tier-2 towns are still growing, and Tier-3 towns are fastest growing. Now this is where we need to focus for next couple of years. That needs more men, more methods, not more tests.

Mr. Sriraam Rathi Okay, okay. Got it sir, got it. And secondly on the Nuclear Imaging business, since you offered to buy it back from the company. Any time line to that by when we expect this to happen

Dr. A. Velumani This happened as a heated argument between auditors and me, and I felt that if I have to console them, I have to tell them I am willing to buy out. And that has been documented. If I am asked to buy it in another three months' time, I will do so. But if it says, I have to complete formalities AGMs - both AGMs and I have to go and take approvals from everyone, it will have their own time line. But personally, I'm ready to do the deal before next quarter results Board meeting, 90 days from today.

Mr. Sriraam Rathi Okay, sir. Perfect, perfect. And sir, what kind of CapEx that we should assume now going forward, assuming that Nuclear is not a part of company?

Dr. A. Velumani I think we have been having a CapEx of around INR18 crores to INR20 crores per annum. That is to have 20% more business, if we have to process, INR20 crore more we have to invest. And that's the thumb rule.

Mr. Sriraam Rathi Perfect, thank you so much.

Operator Thank you. The next question is from the line of Tushar Manudhane from Motilal Oswal Financial Services.Please go ahead.

Mr. Tushar Manudhane Sir, just with respect to the fund which would come in Thyrocare Technologies. So just would like to understand the use of that fund.

Dr. A. Velumani Which fund? The NHL transaction fund?

Mr. Tushar Manudhane Yes. Right.

Dr. A. Velumani That fund will come with a dividend if it's unutilized in the CapEx. I think this company was not giving enough dividend because of Nuclear. And I wanted Nuclear to pay to Thyrocare Technologies Limited investors and the public to enjoy the best of the dividends. I don't think there is any other idea of putting in a laboratory business, you can't make large CapEx.

Mr. Tushar Manudhane Okay, okay.

Dr. A. Velumani But it will be coming as dividend.

Mr. Tushar Manudhane Got it. And just with respect to the price reduction strategy, just would like to understand whether the franchises have now reduced the prices for the test to the customers?

Dr. A. Velumani No one will reduce the price for the end user. But my franchisees also have a B2B component inside. They are a more set of laboratory. So they have reduced their rates for the laboratories, but not for the common man.

Mr. Tushar Manudhane So which means for a customer there would be a franchisee, who would have it at higher price, and then there would be a local lab.

Dr. A. Velumani No. Wherever syringe is opened, full amount is collected. You understand what I'm talking? If a patient encounters a hospital or a lab or a clinic, there, the full money is collected. Subsequently, for testing, they look out who is cheap and best. So in that way, since we are the cheaper operators there, we are getting volumes. This B2B business is so price-sensitive, it is really at times frustrating.

Mr. Tushar Manudhane And just coming back to the volume growth. So the reasoning of the maintaining brand image or the accreditation or the lowest of price, which has been the factors for last three, four years, I guess, where do we have good enough volumes, and we had the investors in place. So any incremental change in that, that shows -- that has led to this lower volume growth?

Dr. A. Velumani No. Lower volume growth has been happening this last five, six quarters. As I said, the lower volume growth is because of the high EBITDA in Aarogyam profile. And because the high EBITDA Aarogyam profile was very lucrative, everybody got into that space, and we expanded to that. If we want numbers back in place, we must disrupt. And that is where we have reduced the prices for specifically some of the high EBITDA Aarogyam profile.

Operator The next question is from the line of Varun Goenka from Reliance Mutual Fund. Please go ahead.

Mr. Varun Goenka First of all, congratulations for this gesture that you're doing towards shareholders.

Dr. A. Velumani Thank you

Mr. Varun Goenka Sure will be really appreciated. Just a small input. Maybe rather than dividend, you could consider buyback. It probably would be more tax efficient in the future.

Dr. A. Velumani Let me answer to this. I did a buyback. Unfortunately, that time, the price was a bit high. I never knew that it will go down so low otherwise, I would have waited until now. But having said that, many have criticized that promoter has no ideas, promoter has no dreams, that is why he is buying back share, within three years of going for IPO. It was very hard thing to listen. But then it looks like dividend is a better option than buying back. But having said that, we will certainly discuss again on buyback of shares, if the shares are at a low P/E multiple.

Mr. Varun Goenka Sure, sure. So I have two questions. One on gross margins. Since our Aarogyam costs have risen higher than our revenues, how do we see this panning out as we grow along? And are there any major changes to our cost structure now that we are going to focus only on the B2B diagnostics side?

Dr. A. Velumani Mr. Sachin will answer you for this because it involves some numbers.

Mr. Sachin Salvi As far as the stand-alone revenue is concerned, our revenue has grown by about 12%. And if you can see the presentation, our gross margin has increased by about 10%. So as we have said, there's certainly an impact on account of price correction but, at the same time, if you can see the presentation on the one off adjustment , I've mentioned one-off adjustment, wherein we have agreed to buy certain assets from the vendor and the discounts, which we're entitled from the vendors at the year end, we have adjusted those discounts against the price, which is payable to the vendors. So this is one-off adjustment, once the one-off adjustment goes off, this margin is likely to be corrected by at least 1%. So that said, the gross margin has not eroded -- it has eroded only by about odd 1%. That's basically on account of price corrections. Nothing else.

Mr. Varun Goenka Okay, okay. So are we done with our price rationalization or any other changes that we envisage over the next one year?

Dr. A. Velumani I think next three years, I don't see any reason to talk about price corrections on the earnings call.

Mr. Varun Goenka Okay. And our employee costs have significantly risen. If we could get an idea what is that capacity of the system today? And where are we investing in terms of employees, in terms of distribution or marketing or deeper into different cities?

Dr. A. Velumani Yes. Let me explain to you. My employee counts have gone up, number one. We have created a department of around 200 people only to aggressively market. But you know we take freshers. So we have taken freshers and trained them, and it has taken six months' time for us to train. Now the trained resources are there in hand. So we believe last year the same employees eroded some of my profitability. This year, they will add to the profitability.

Mr. Varun Goenka Okay. So just for an idea, this 200 people bench, what could be an approximate cost that was unutilized last year?

Dr. A. Velumani INR2.2 lakh is the cost per employee at the entry level.

Mr. Varun Goenka Dr. Velumani, you used to give a very detailed presentation on our volume breakup every quarter. Maybe going forward, if you could just continue that, it would help us to see the franchise grow.

Dr. A. Velumani Actually, I have understood in last 10 earning calls, all my competitors are exactly looking at this very, very carefully than the investors.

Operator The next question is from the line of Shivam Gupta from CWC Adviser. Please go ahead.

Mr. Shivam Gupta I have two questions. And the first one is from an overall perspective, since we came into IPO, that outlook on our growth has subsequently gone from less than 30% to 25%, and now we are kind of guiding for 20% CAGR. So just the three years in business, what's changed? And what exactly changed for the revision of this outlook? And any remediation plans that we have to address this? And by when do you expect to get back to -- growth trajectory? Just these three things around the changing outlook that happened for Thyrocare since IPO.

Dr. A. Velumani Yes. I think for the last four years for health care, it has not been a good journey overall, if you people look at pharma and hospitals. Now a couple of roars happening that I will reduce the stent price, I will reduce the cancer drug price, I will reduce the essential drug price, I will put ceiling on this, that. Everything has contributed to the sentiments of the investment community, that there appear to be more challenges in pharma today because pharma stocks have been challenged, many have gone down. So are hospital. And so is diagnostic, which is inside a part of the health care. Now other than this, there has not been any specific diagnostic industry challenges that I have seen because still government has not talked about diagnostic test price controlling. But if you ask me, all investments in this health care yield return in the long run and it is not in the short run. And I believe that IPO's time, it was a bit buoyant, subsequently it has come down. This is my opinion and guess. It is just nothing, no scientific, no statistics about or for it. In fact, people like you who are in the market and having access to every balance sheet should be able to teach us.

Mr. Shivam Gupta Sir, so in that case, do you foresee that there are any challenges in the business model per se that Thyrocare has been doing?

Dr. A. Velumani In that way, this model is not five-year-old model. This is a 23-year-old model, and the model started with some basic structure and subsequently got evolved over a period of time, perfected over a period of time for its efficiency, for its pricing, for its entire model. If at all, something goes wrong in the model, it will take 10 years for the model to go wrong and produce some kind of a negative impact. Any model comes, I will be leading that model. I have no worries. This model is lean you can change, tweak, any way whenever you want, whatever way you want.

Mr. Shivam Gupta Sir, I was just coming from the point that -- like last time on the con call, there was an issue that the franchisees, rate cut was not passing through them. In home service, we have a constraint of levels we can go out and still -- so that every request can be filled. Do you believe that all these are not really challenges and they are par for the course and the current business model can run it -- is that what you're implying?

Dr. A. Velumani In that sense today, testing is a core business like manufacturing. Without testing, there is no industry and this testing industry will not get disrupted. The channels through which the sales are happening, middlemen are there. Their unnecessary greed will make sure one channel dies, another channel grows, and the third channel comes in. So there are disruptions at the delivery levels because of change in IET, change in app culture, change in Amazon culture, everything is resulting into the delivery channel getting more often tweaked. The basic laboratory model has not changed over the last 25 years.

Mr. Shivam Gupta Sir, in that case, would it be fair to argue that in the next few years, the percentage of request of you, by you will directly change compared to the ones through franchisees?

Dr. A. Velumani I think in that way, my franchisees continue to dominate because the community which are IT savvy and all those disruptors only have only 5%, 10% market whereas 80% to 85% of the market is still offline, is still happening at a face value. So franchisees will continue to dominate. I don't think in any of the brands, without the franchisee, without the collection center, the specimen can reach to the centralized laboratory.

Mr. Shivam Gupta My last question would be that, while we do appreciate the price cut that was taken on the Aarogyam profiles and whatever traction you're generating there. But how do we understand the slowness which is the non-Aarogyam piece, especially B2B channel over the last six months? I mean we are growing much slower than the 13%, 14%, which you were just saying about the industry. What is ailing this non-Aarogyam piece of our business?

Dr. A. Velumani Let me explain to you there are three segments. One is retail test a-la-carte, which is just test as a separate test. Another one is package test. The third one is Aarogyam. Aarogyam is wellness package, even illnesses sometimes package. So if you ask me, a-la-carte tests are not growing at all. They are even growing 5% negative in some cases, whereas the packaging is helping. And today, every pathology laboratory is packaging because that is where you can deliver more value to the customer and justify the cost. So if you ask me, the packagings are growing faster, the a la carte tests are not selling faster. This is the opinion I can give you even in my own menu or even in the entire industry menu.

Mr. Shivam Gupta Sir -- because then it would be for the entire industry, that the a la carte would not be growing, right?

Dr. A. Velumani No, a la carte grows with the unorganized players.

Mr. Shivam Gupta But you are the B2B guys, so you would be the back end for most of them, right?

Dr. A. Velumani Let me tell you I don't get blood sugar, blood sugar is the biggest industry. Lipid profile is another biggest. I don't get even daily 200, 300. So these tests are not just supposed to be divided into B2B and B2C. They should be divided as easily doable and difficult to do. What is easily doable gets tested locally and what is difficult to do are coming to the centralized laboratory. And what is easily doable has so many people jumping in, and they are all taking that extra growing market. All such players are stagnated.

Mr. Shivam Gupta So just last piece, sir. One last question, if I may. So I guess one last thing, so doctor, would it be fair to just say that you at Thyrocare may no longer be the lowest cost provider on B2B basis?

Dr. A. Velumani When it comes to difficult tests, lowest B2B will be mine for probably next 50 years.

Mr. Shivam Gupta Okay sir, thank you.

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

Mr. Shyam Srinivasan Hi, thank you for taking my question. Dr. Velumani, first one is on equipment suppliers. What's the kind of discussions you are having with them? And we've heard certain anecdotal information saying them extending similar discounts on reagents to smaller volume players as well, and that's probably one of the reasons, why the competition has been intense. Would you corroborate that kind of anecdote?

Dr. A. Velumani When I came to Mumbai, somebody took me to the wholesale manish market. They have wholesale, they were selling only three sarees and five sarees. So there is a vendor aggression to give a rate to a smaller man, even desperately at a very great extent, very close to mine. But this has been happening for the last five, six years. The vendors have understood that without volume, there is no business. So they are crazily diluting today. Having said that, if my cost is X, the small players cost is 2X. Earlier, small players cost was 3X.

So from 3X, they have come down to 2X, but X is too far. I didn't answer?

Mr. Shyam Srinivasan So you're still saying there isn't cost advantage related to bulk buying.

Dr. A. Velumani The biggest problem is vendors also have their own competitors. So for them, there is a margin even when they do it at a lesser rate. And let me tell you, I was the one who could truly expose the margins available in diagnostic reagents also.

Mr. Shyam Srinivasan Got it. Okay. My second question is more from the online part of your business. B2B, how much B2C today for you, as a percentage of revenue? And what percentage of that is coming from online sources?

Dr. A. Velumani I think we have a B2B revenue-wise around -- how much is that?

Mr. Sachin Salvi 50% Aarogyam and 50% Non Aarogyam

Dr. A. Velumani No. That is Aarogyam. No, no. He is asking what is your online turnover percentage. Online business turnover is around 17% to 20%.

Mr. Shyam Srinivasan 17% to 20%?

Dr. A. Velumani And in this, 10% is coming because of the online medical service providers and remaining 7%, 8% comes through directly our website because that is what you call the footfall on our website directly.

Mr. Shyam Srinivasan And what's been the trend on this, Dr. Velumani, is it that portion of direct channel is that growing faster?

Dr. A. Velumani This 10% was 1% five years back.

Mr. Shyam Srinivasan Got it. So maybe, this would be another way to kind of -- I know you're defocusing B2C, but would this be.

Dr. A. Velumani No, no. I am not defocusing. Whatever comes through this online medical service providers is not a B2C for me to get distracted, it is a B2C for them. And they are investing money, and they are spending money. For them, this is the traction. And if all online companies tomorrow become, what do you call as unicorn s, Thyrocare will be the best beneficiary.

Operator The next question is from the line of Amish Mehta. Please go ahead.

Mr. Amish Mehta Yes. Thanks for taking the question. I just wanted to know. Sir, you mentioned that there is a lot of competition in the B2B business and in the B2C business. So who are the competitors of your size that are kind of competing with you aggressively? Can you name some of them? That would be helpful.

Dr. A. Velumani All of them are online, how can I name them?

Mr. Amish Mehta I mean the larger ones

Dr. A. Velumani I will give you a simple clue. Today morning I received a research paper from Goldman Sachs, they have a studied Indian diagnostic industry. And according to me, by far that is not fully on correct, but the most closer to the truth. It lists all players. All their balance sheet, all their EBITDA, you can have a look at it. But having said that, answering strategically to you, anybody who is having more than INR50 crores turnover is operating in B2B space and bigger they are, aggressive they are, because without a B2B business, you just can't cross 50 cr.

Mr. Amish Mehta I see. So even the ones who are larger in B2C segment are actually thinking of going largely into the B2B segment.

Dr. A. Velumani That only gives the growth. B2C is very difficult to grow. Let me put it this way, B2C gives you profit. B2B gives you growth.

Mr. Amish Mehta Yes, understood. The second thing I wanted to know. You mentioned that you had introduced new tests so if you can just let us know how many tests have been introduced this year, that would be helpful.

Dr. A. Velumani In that way, we have introduced some tests in ICP-MS, which is known as induction coupled plasma microscopy, mass spectrometry. So ICP-MS is a technology which we have introduced six years back. LC-MS, liquid chromatography-mass spectrometry we've introduced 2.5 years back. And we have introduced Focus TB -- where we are focusing on tuberculosis very specifically. And we also have introduced the NIPT which is known as noninvasive prenatal testing. So these are the few segments we have introduced, we were having lesser tests earlier. But today, we have roughly around 490 tests in our menu.

Mr. Amish Mehta I see. Okay. And lastly on the TB business that you mentioned. Do you think that there is an opportunity now that the government is targeting to kind of eradicate that by 2025 or are we geared with kind of address that market, that would be helpful.

Dr. A. Velumani So, actually it's very interesting market. You know why I got into tuberculosis is because there is no patient said to have died because of a thyroid disorder. In that I could establish a very powerful brand. And there's said to be two people dying every minute because of tuberculosis. So if we focus, we can address. And that is why we started it as a specific -- Focus TB as a brand. It started only 15 months back. Today, we have business in Mumbai, Thane, Raigad, and all the western districts of Maharashtra. It's a very difficult one. It is not like blood you can put up a collection center and collect. This is sputum. Sputum collection needs a very careful collection, otherwise, all people around the collection point get will tuberculosis. Transportation has its own challenges. But having said that, we see a growth, which is quarter-over-quarter, promising. And whether it will reach up to INR10 crores or we will put up such facilities 10 or 15 in UP, Bihar, which are known to be tuberculosis headquarters, we can always invest. This is just what you call a dip stick study to see, is there an opportunity.

Mr. Amish Mehta But we also have the highly extensive that we offer

Dr. A. Velumani Yes, yes. There is no one in India offers anything more than us in tuberculosis.

Operator The next question from the line of Vishal Purohit from Prabhudas Lilladher. Please go ahead.

Mr. Vishal Purohit Dr. Velumani, I have a question here on you just signed a deal with the Municipal Corporation of Bombay. What is the thought process in getting this? Is this a pilot project for you to roll out in the country?

Dr. A. Velumani Actually, the government projects are tedious to get first. After getting first, you have to execute it. And then the rates here are very, low, and we are just experimenting. If we can't do it in Mumbai, where are we going to do it, in the UP or Bihar. So you're absolutely right. We did tick it up to learn whether we make some profit or not. But certainly, INR55 crore should be getting us good profits business.

Mr. Vishal Purohit From your pricing strategy, have you gone really competitive in terms of just trying to achieve breakeven or you make a marginal profit here?

Dr. A. Velumani Actually if I don't make profit, who else will?.

Mr. Vishal Purohit That is true, sir. That is true. But just on the bigger question -- do you see a risk of the Thyrocare, as a brand or the laboratory diagnostics getting diluted with you servicing the MCGM hospital? Because generally, general public always regard MCGM in terms of a poor service record. So if you're associated with them in terms of a diagnosis, do you run the risk of diluting the brand?

Dr. A. Velumani No, in that we all big brands are connected with the government in different forms and different shapes.

So there is not any fear of it, and common man is getting benefited. I'm extremely happy to know Bombay Municipal Corporation is making health care almost free for everyone in the City of Mumbai. A very great gesture. I'm pretty sure that it will bring our best to the common man, and I am not at all worried about doing this work. I am common man. I want to serve common.

Mr. Vishal Purohit Sure, sure. Sure. And is this an exclusive contract with you or this is a divided contract?

Dr. A. Velumani It is divided into two and one has gone to other listed company.

Mr. Vishal Purohit Okay, thank you Dr. Velumani.

Operator The next question is from the line of Ashish from Invesco.

Mr. Ashish Jha Yes, sir. Just to follow up from my side. On the newer areas, which is tuberculosis, prenatal testing and others. What are the expectations here? I mean, I know you are still testing it out. But any sort of indicators on how it can pan out would be helpful.

Dr. A. Velumani One thing is we keep doing this every year with some segment -- those things we don't tell specifically to the investor side. But as a laboratory, you have to experiment every year with some INR5 crore, INR6 crore CapEx businesses and try to see whether they give volumes, whether they give you profitability. We have done in the last five to eight years of introducing something that are there. All didn't succeed, but then half of them have succeeded . So if you ask me, if tuberculosis succeeds well, it's going to be a great solution for the country. And we would be making multiple laboratories in multiple parts of the country. And the Prime Minister's focus is to eradicate tuberculosis, I think I have this year, 2030 -- 2025. But I don't think tuberculosis can be conquered before 2050. That is going to be a very big challenge.

And in the case of NIPT, NIPT is meant for women having third or second semester of pregnancy. Even first semester and people have some genetic disorders, which is in the ratio in 1:100 to 1:1,000 or 10,000. And they can specifically look for what is doubted. And if doubted and they can do further investigation, and they can do some kind of solution to it. This is a huge market in western world because every pregnancy has to follow a set of diagnostic test without choice. In India, all with choice. When there is a choice, no one undergoes a test of INR25,000 that easily. That is why we have brought in a rate of INR8,000. We believe we will create an NIPT market as powerfully as we have created a thyroid market.

Mr. Ashish Jha So by when you would be able to take a call. I mean, that the pilot is successful or unsuccessful.

Dr. A. Velumani Here it's not like we have invested INR150 crores. There it is hardly at INR2.5 crores and INR3 crores have been gone in, not in any CapEx. It is in building the infrastructure suitable for that. Anyhow, it will be full. That becoming full is not the problem. Whether that is scalable, whether there are huge volumes, should we further continue to invest on it is a matter of experimentation.

Mr. Ashish Jha Yes. So that is the question that I had, by when the experimentation will be, given as to whether it should be scaled up or not?

Dr. A. Velumani I think the tuberculosis business is today 15 months old or 18 months old. And we have received the inquiries from Bihar as well as from UP. So we are looking at an option, so we put up a laboratory because the volumes agreed is fairly big. And if everything goes all right, we should see another two laboratories happening in Uttar Pradesh and Bihar. And in Mumbai, if we do well, for western Maharashtra , the capacity is full. So each capacity will produce INR5 crore turnover. And that INR5 crore turnover needs onetime initial investment of INR2 crore. If things work all right, we can have N number of units, as much as the country needs.

Mr. Ashish Jha So in the next three to six months, we can have a word on this, probably.

Dr. A. Velumani Yes.

Mr. Ashish Jha Thank you so much.

Operator Ladies and gentlemen, we take that last question from the line of Chirag Dagli from HDFC.Please go ahead.

Mr. Chirag Dagli Yes, sir, thank you for the opportunity, sir can you indicate the volume split for FY '19 between the Mumbai lab and the regional labs?

Dr. A. Velumani Actually, I want all of you not to do research on these regional processing laboratories for one simple reason. They are nothing but the extension of floor of centralized laboratory in different parts of the country, number one. They don't do any walk-in patients. They don't entertain any patient, they are back end labs. They are in the floor, and their testing is done. And only testing is done. No procurement of samples are done locally in the premises. We were receiving 5,000 samples per day from Calcutta. So we put a regional laboratory which was full within six months period, then the volumes went up. We have put one in Patna, because large volume was going from Jharkhand and Bihar to Calcutta. Having said that, we have nine laboratories. And in these nine laboratories, we have 47% of the total business processed, and in the centralized facilities, 53% is processed.

Mr. Chirag Dagli Okay. That's helpful. And sir, you made 2 comments: B2C is more profitable, but in other comment you said that the procurement cost for B2C is very large. So I'm just sort of just trying to think is B2C dramatically more profitable than B2B?

Dr. A. Velumani No, I think somebody told me aeroplane is cheaper than auto rickshaw. Then I asked him what is the reason. He told me, you calculate for 1,600 kilometer, how much an auto rickshaw man will charge? Sorry, sir, for goingaway from your core question. B2B business, when you do nationwide, it is most profitable. B2C business, when you do it in 10 kilometer radius, it is profitable. You can't do a B2C business sitting in

Mumbai that easily for Orissa or Bihar or Uttar Pradesh until you incur a lot of cost. So the nature of business B2C still stays between local business. The kind of B2B business is from different airports, from different cities, it can travel.

Mr. Chirag Dagli But for us, how different is the profitability for our B2B business and our B2C business?

Dr. A. Velumani Yes, let me explain to you. INR1000, I charge from patients. And INR200, I have to give for a collection charge, whether it is happening in the neighborhood or it is happening in Srinagar. So INR800 is remaining. In this, INR300 is known as customer acquisition cost. So my franchisee, anyhow pays me only INR500. But when I do a marketing for myself, the customer acquisition cost sometimes goes to INR400. You got it? So it is fair to allow that man because he's also happy, I am also happy.

Mr. Chirag Dagli So it is safe to say that in your case, B2B and B2C are broadly similar profitability on a per-sample basis?

Dr. A. Velumani When you are directly dealing B2C it is absolute heaven, because your patient is giving you the full value when he is coming to your door.

Mr. Chirag Dagli But you're also spending right, sir?

Dr. A. Velumani So let me give you another explanation. If somebody does a INR5 crores business in a 10-kilometer radius, he has got INR3 crores profit.

Mr. Chirag Dagli Okay. And sir, this -- so Aarogyam for FY 2019, if you can give the value and volume split of how big Aarogyam is for us?

Dr. A. Velumani Aarogyam is by volume 20%, by value, 53%.

Mr. Chirag Dagli 53%. Okay. And last with this intent of buying of Nueclear Health, this is at the moment an intent for you rather than reality, a clear plan that you have in your head?

Dr. A. Velumani The auditor was right about to reduce my PAT, telling that it has eroded.

Mr. Chirag Dagli What has eroded?

Dr. A. Velumani The networth of Nueclear Healthcare Limited. He used the word impairment. And he said, Dr. Velumani, your PAT will be only INR63 crores / INR64 crores. That gave me a jitter, having added Nueclear to it. So I felt that let me buy it out so that at least Nueclear will have its original value and original comfort. So this was a decision which was taken in half an hour in the Board room.

Mr. Chirag Dagli Sir, do you have the cash to sort of manage this INR195 crores?

Dr. A. Velumani I have been doing business without salary for the last 25 years. I have got enough reserves.

Operator Ladies and gentlemen, with this, I now hand the conference over to the management for their closing comments. Over to you, sir.

Dr. A. Velumani Yes, thank you very much. And though the worry was there for me about how will I talk, and how will I convince my investors, I have really enjoyed communicating, the questions were very fair and very logical. And I am very happy to see the April 2020 much more delightful in terms of share price. Otherwise, company will certainly do a CAGR of 20%. This I will continue to tell until I fail that. And thank you very much and have a great evening. Wonderful to have all of you in the con call.

Operator Thank you very much, sir. Ladies and gentlemen, on behalf of Prabhudas Lilladher Private Limited that concludes the conference call. Thank you for joining us. And you may now disconnect your lines.

** END OF TRANSCRIPT **