



Dr. Lal PathLabs Q3 & 9M FY21 Earnings Conference Call January 29, 2021

Call Duration	▪ 50 minutes
Management Speakers	▪ (Hony) Brig. Dr. Arvind Lal - Executive Chairman ▪ Dr. Om Prakash Manchanda - Managing Director ▪ Mr. Bharath U - Chief Executive Officer ▪ Mr. Ved Prakash Goel - Chief Financial Officer ▪ Mr. Rajat Kalra - Company Secretary and Head of Investor Relations
Participants who asked questions	▪ Anurag Purohit – Anived PMS ▪ Bhagwan Chaudhary – Sunidhi Securities ▪ Chandramouli Muthiah - Goldman Sachs ▪ Dr. Harith Ahamed - Spark Capital ▪ Nikhil Chaudhary - Kris PMS ▪ Rahul Agarwal - Incred Capital ▪ Subham Rajgariya – West Bridge Capital ▪ Sunil Poonia – HDFC Bank ▪ Sriraam Rathi - ICICI Securities ▪ Rakhi Prasad – Alder Capital

Moderator: Ladies and gentlemen, good day and welcome to Dr. Lal PathLabs' Q3 FY21 Earnings Conference Call. As a reminder, all participant lines will be in listen-only mode, and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing "*" then '0' on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Nishid Solanki from CDR India. Thank you. And over to you, sir.

Nishid Solanki: Thank you. Good afternoon, everyone and welcome to Dr. Lal PathLabs' Q3 & 9M FY21 Earnings Conference Call.

Today, we are joined by senior members of the management team, including (Hony) Brig. Dr. Arvind Lal -- Executive Chairman; Dr. Om Prakash Manchanda -- Managing Director; Mr. Bharath U -- CEO; Mr. Ved Prakash Goel -- CFO and Mr. Rajat Kalra - - Company Secretary and Head of Investor Relations.

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

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

Dr. Arvind Lal: Thank you very much. Good afternoon ladies and gentlemen, and thanks for joining us today. My best wishes for the new year. I wish 2021 brings in prosperity and good health for everybody.

The global pandemic has reached a crucial phase where several vaccines have been developed by leading players across the world. And many of them are gaining approvals everywhere. India too has approved various vaccines, and accordingly, inoculations have started. We wish this brings hope and business momentum gets fully restored for the broader economy.

Overall, we have witnessed a steep decline in the number of new COVID cases across the country and a sharp improvement in recoveries. In line with this, we have seen our business make further progress in returning to normalcy and our non-COVID business has seen a sharp recovery. While COVID tests continue to be significant contributor to our performance, we are making further inroads to grow our non-COVID business through menu expansion, deeper penetration in existing markets, and selective, inorganic acquisitions in newer markets. I believe this is working well for us, and we remain confident to realize our growth objectives.

Time and again, we have ensured that as a leader, we constantly improve our processes to provide top quality diagnostics and seamless experience to customers. Our digital infrastructure is helping us to continuously innovate as well as simplify processes, thereby keeping costs in check and giving us an edge over our competitors.

This pandemic has made people more aware of the importance of good health. With increasing spend on preventive tests, the diagnostic industry in India is ripe for growth. And organized player such as Dr. Lal PathLabs are very well placed to carve out substantial market shares for ourselves. Providing our patients with quality, timely, accessible and affordable diagnostic services by leveraging technology will

continue to be our top priority, which will help to maintain our position as market leaders.

With that, I would like to hand over the call to Dr. Om Manchanda to share his thoughts. Thank you very much.

Dr. Om P Manchanda: Thank you, Dr. Lal. And good afternoon, everyone. I take this opportunity to share my thoughts on the industry, our company initiatives and how our strategy is evolving to steer our brand forward.

The country is gradually returning to normalcy in many ways. India's healthcare services sector too is on the same trajectory. Right from the beginning, our effort of keeping simultaneous focus on both non-COVID and COVID business is paying off. This quarter, we have seen growth in our non-COVID revenue, and we believe that the growth trajectory of non-COVID revenue is back on track.

Despite series of price reductions of RT-PCR tests, we remain focused on optimizing cost structure and per test realization by way of managing revenue mix, thereby ensuring the sustainability of COVID testing. October and November months experienced sharp rise in COVID testing. However, now we are seeing declining trends especially from December onwards, which is contributed by both lower realization per test as well as lower patient volumes. The current trend suggests that the contribution from COVID tests will continue to decline.

Our efforts to broad base revenue mix between various geographies continue to yield results. Contribution from rest of India that is ex-Delhi NCR has gone up from 59% to 64% on YTD basis.

We continue to strengthen the service delivery, especially in the area of home collection through our franchisee partners. We have concurrently augmented our online assets in order to enhance accessibility for patients. With an integrated technology backbone in place, we were in a position to manage consumer shifts from direct walk-ins to home collection and franchisee network.

As an industry leader, we try to stay ahead of the curve when it comes to technology and innovation, which is geared towards improving the quality of services for our patients and providing them with a seamless experience.

We continue to stay focused on filling few strategic gaps in our business that I have spoken even earlier as well. One of them is expanding our footprint in south and west of India. Our initiative of acquiring few small size labs, through our subsidiary, PathLabs Unifiers has gathered momentum and has achieved a meaningful scale as of now. We also plan to further increase our footprint in these markets by rolling out full stack of infra and capability including two reference labs, one each in Mumbai and Bengaluru. We will continue to build a feeder network of collection centers and satellite labs, both through organic and inorganic means to support these reference labs.

With that, I conclude my opening remarks and would now request Bharath to take you through the Operating Performance of the Company.

Bharath Uppiliappan: Thank you, Dr. Om. Hope all of you are safe and in good health.

In Q3 FY21, we built upon the recovery trend, especially in the non-COVID business. We recorded a total revenue of Rs. 452.4 crore, serving 5.5 million patients. This number is inclusive of Rs. 98 crore derived from the COVID portfolio of tests including

IL-6, D Dimer and antibody apart from the RT-PCR test. In Q3 FY21, we did around 5.3 lakh RT-PCR test.

Our non-COVID business came back to growth curve with an encouraging 8.3% growth over Q3 last year. Our Delhi NCR non-COVID business has now equalized last year's revenue and rest of India shaped up well on both volume and value matrices.

Our growth in non-COVID business was led by 'Swasthfit' Bundle Test portfolio and our Super Speciality Test portfolio. Additional matrices are also registering robust growth. We are focused on building upon these further and reaching pre-COVID growth rates as soon as possible. As we look forward, we continue to remain focused on executing our geographic expansion plan, accelerating further capability build up around high-end test portfolio and digital.

To sum up, I would say that we are getting back to pre-COVID level kind of business momentum and expect this to positively continue as the vaccination program has commenced. We at our end will remain committed to providing the best possible diagnostic service at affordable prices to all our patients in an efficient manner.

I would now request Ved to give an Update on the Financial Performance.

Ved P Goel:

Thank you, Bharath. Good afternoon, everyone, and thank you for being on this call today. I will now share with you some of the important financial highlights.

Revenue for Q3 FY21 is at Rs. 452.4 crore as compared to Rs. 327.9 crore in last year same quarter, a growth of 38%. Revenue contribution from COVID RT-PCR, antibody and allied test in Q3 FY21 is at Rs. 97.5 crore which is 21.6% of total revenue of Q3. Revenue realization per patient for Q3 FY21 is higher at Rs. 824 as against Rs. 688 for Q3 FY20. The higher realization was aided mainly due to COVID contribution. Normalized EBITDA after eliminating the impact of stock-based compensation and CSR expense in Q3 FY21 stood at Rs. 144.6 crore as compared to Rs. 88.9 crore reported in Q3 FY20, a growth of 62.7%. PBT for Q3 FY21 is at Rs. 128.9 crore as against Rs. 73.4 crore in Q3 FY20, a growth of 75.6%. PAT for Q3 FY21 is at Rs. 95.9 crore as against Rs. 54.9 crore in Q3 FY20, a growth of 74.7%. Cash, FD investment in mutual funds as at the end of Q3 FY21 is at Rs. 932.6 crore. Basic EPS for Q3 FY21 is Rs. 11.44 per share versus Rs. 6.56 per share in the same quarter last year.

I'm pleased to share that the board of directors of the Company have approved a second interim dividend of Rs. 6 per equity share. This is in addition to earlier interim dividend of Rs. 6, which has already been paid in last quarter this year.

As disclosed in our last Q2 call, the Company's wholly-owned subsidiary, PathLabs Unifiers Private Limited, has acquired 100% business in Bindish Diagnostic Laboratory, Jamnagar and 70% stake in ChanRe Laboratory Private Limited, Bengaluru. Both the deals have now been completed. That brings me to the conclusion of my opening remarks, and I would now request the moderator to open the forum for question-and-answer.

Moderator:

Thank you very much. We will now begin the question-and-answer session. The first question is from the line of Chandramouli Muthiah from Goldman Sachs. Please go ahead.

C Muthiah:

My first question is on non-COVID trajectory. So, I think the non-COVID business seems to be up about 2% to 3% on a sequential basis, quarter-on-quarter, and if I

back out what the non-COVID realizations are, those also seem to be sort of flat quarter-on-quarter. So just trying to understand your non-COVID volumes, is it fair to assume that they're up about 2% to 3% sequentially?

Dr. Om P Manchanda: I just want to highlight one thing that Q3 normally is the lowest quarter for us. If you look at earlier trends, Q3 always used to be lower than even Q2. So, it's probably the first time we are seeing some sequential growth in Q3 over Q2. So that's one point. In terms of the numbers that you mentioned, these are correct.

C Muthiah: My second question is on home collection. So, I'm just trying to understand from what you're seeing at your end in your physical locations, is there still some kind of aversion for patients coming to the physical locations to give their samples? Is home collection still a large part, it was 9% to 10% of your total revenues last quarter. So just trying to understand what is home collections as a percentage of the total mix in the context that whether patients are still pursuing home collections or they're happy to start coming back to the physical location?

Dr. Om P Manchanda: So, I will try and give you a bit of a qualitative answer on this. Whether people are still hesitant to come to the lab? Answer is yes. Whether the extent of reduction what we saw earlier and what we are seeing now, there is a revival in that, there is some increase in our walk-in patients, but still not to the level where it used to be. So, it's fair to say that there is some reluctance for people to come.

Number two, where has that business gone? In our assessment, it has gone to two different channels; one channel is of home collection, and another channel is to our franchisee collection centers. And probably our hypothesis of franchisee collection centers is that it may further be split into two parts; their home collection, as well as their walk-ins, I get a sense that their walk-ins have gone up because there is not too much of overcrowding in our collection centers because it's a very small place, and you can actually form a queue, only few guys are waiting, plus they've also started doing home collections. So that's fundamentally the way I see consumer shift.

Now, as far as a home collection as a percentage of business is concerned, you must know that lot of COVID business was actually driven by home collection or driven by Government business, because we were not entertaining to a large extent the walk-in business of COVID. Now, since COVID actually has sharply declined, one may see that home collection as a percentage of turnover also has sharply declined. So, I think what we should analyze is that what is happening to home collection for a non-COVID might just give you an idea to what extent that shift has happened. Maybe Bharath, if you can highlight what is the non-COVID home collection shift?

Bharath Uppiliappan: We have seen about a 40% increase in pre to post COVID era in home collection for non-COVID.

Dr. Om P Manchanda: So if I was doing 100 home collections earlier, now that number has gone up to 140. And this is taking out the COVID impact because COVID obviously has shot up home collection, I want to take that out so that we get a good analysis of where the home collection is shifting.

C Muthiah: Just a follow up on this, the non-COVID home collections business, what would that be approximately as a percentage of the total?

Dr. Om P Manchanda: 6% for the quarter. If I include COVID, then number will look higher. We are deliberately trying to take that out so that we don't want to give a wrong picture.

Moderator: Thank you. The next question is from the line of Rakhi Prasad from Alder Capital. Please go ahead.

Rakhi Prasad: I just wanted to follow up on this home collection part wherein you did say currently at 6% of the non-COVID home collection. Where do you see this trending towards over the course of next couple of years, is that something that you're trying to focus on to build that channel?

Dr. Om P Manchanda: If you look at trend perspective, I have a feeling that home collection as a percentage of business with time will keep on moving up. And I also get a sense that this business will keep going up only for those players who are established, branded and trusted players because if it's an unknown brand, one customer may not be very comfortable in calling that person home. So, it is advantage actually established regular well-known brands. The shift to home collection will only happen through a trajectory wave that person has experienced either as a walk-in customer or as a franchisee collection center.

So, point number one, home collection will keep growing. Will it become belly of the market? I have my doubts whether overnight it will become a very large business. The reason for that are two: One is the brand experience in home collection to provide that consistently, it is going to take quite a bit of time for many of the players to achieve that. Second is what is likely to happen is that people will try and finish those jobs which can be done online, say for example, I can book online, I can pay online, maybe I just come to the facility to give my sample and walk out. So, the length of stay for any customer in an outlet may just sharply reduce and the rest of the activities will move digital is what I feel going forward will happen.

Rakhi Prasad: The other question I had was on rest of India. You did mention that rest of India is about 64% of the business now. Is this a result of volume growth or realization growth, if you could give some color around the increase in the share in rest of India?

Dr. Om P Manchanda: It's primarily volume-led, because our realizations in rest of India relative to Delhi are lower, so the volumes have to grow much faster to give us this number. So, it's primarily volume led.

Moderator: Thank you. The next question is from the line of Rahul Agarwal from Incred. Please go ahead.

Rahul Agarwal: I had two questions. Firstly, it seems like if I just reduce the RT-PCR volume numbers from the total number of patients, it looks like the volume growth has been very low, single digit, 1.5% to 2%. I don't really have the antibody test number with me. So, could you provide some more color as in what is really happening with non-COVID recovery? You mentioned in your remarks that it's quite sharp. But though, my sense is it's more driven by realization, which is more driven by the allied COVID activities plus higher share of home collections. So, could you give some more understanding on how should one think about the non-COVID recovery in Q4 and going forward?

Dr. Om P Manchanda: Actually, when I use the word sharp, I use it for a sharp decline of COVID rather than sharp recovery of non-COVID. I would say non-COVID has recovered. You are probably right. If you look at last three quarters trend, first quarter non-COVID, business was down almost 38%. Second quarter, I think in the last call, we had mentioned that it was down about 2%, but what we have done is that we have taken out allied test from this calculation, because we found that IL-6 and D Dimer are two tests where the trends are moving up. So, it was not really right comparison. So, we have taken that out into COVID numbers. So, our non-COVID business was down (-5%) in Q2, that business now has is up by 8.3%. And your observation is right that the volumes are almost flat, right, for this quarter for non-COVID. But we hope to see

that in Q4 the trend while there is a recovery which is happening and probably your inference is correct that it is more due to revenue per patient going up in Q3 of non-COVID. And I think it's also important for me to mention here is that this business is also moving a lot towards packages rather than single test. So, there are lots of these innovations which are happening around post-COVID packages, health checkups, etc., which have much higher realization. My sense is value growth would always be a little higher than the volume growth going forward.

Rahul Agarwal: Right, but it seems like the first bit was a lower percentage to non-COVID right on overall basis quarter-on-quarter, like second quarter it was 17%, this quarter, it was 13%, is that correct?

Dr. Om P Manchanda: The 13%, I think is calculated because we've included COVID base into the one. If you take out COVID out of the base, then it will still be 17%. That's why some of these COVID is actually altering these percentages. So, one has to be little careful when we compare these numbers. So, if I take out COVID from the base, the contribution of Swasthfit to non-COVID is still 17%.

Rahul Agarwal: And secondly, one question on the service network and physical lab., How's the progress on lab additions and service center additions in nine months, could you give some color qualitatively on how have we progressed on that, obviously, first half was suffering because of lockdown, but how was Q3 and what's the plan for Q4? Along with that if you could just highlight the Capex numbers, it will be helpful?

Dr. Om P Manchanda: So, I will answer this question in two parts. I think one of the part is that it may not actually be visible to the outside world but we have been through a very, very high level of operational stress in the last nine months. One stress has been to manage this COVID load which was primarily at home collection and that too also dealing with a lot of anxious customers, so that was one stress at one level. Second stress was that as a company a lot of our resources are deployed to cater to walk-in business which suddenly shifted to either network or shifted to home collection. And the home collection customer is actually very digitally savvy because the comparison is not with any other healthcare player, but comparison is with any other eCommerce companies from any other sector, it's not just healthcare. So, I think operationally, lot of us were very busy in setting that right. And I'm happy that despite those upheavals, we have actually been able to manage our business reasonably well.

Second is, you asked about expansion. We also have seen that this whole COVID situation has benefited us organically in some markets. Normally, we don't see a region wise split, but there are certain regions where we have seen much higher growth rates compared to what we used to see earlier. So, I am seeing that COVID has benefited in some markets for us where our market shares are not that high. So, taking a cue from that trend, we have now decided to go a little more aggressive on organic in south and west. And we are going to open two central labs; one in Bengaluru, one in Mumbai. And we want to build a feeder network of collection centers and few satellite labs in these markets, which might take another five to six months of time, and that is what our capital expenditure plan is going forward.

Rahul Agarwal: Ved, if you could help me with the antibody revenues or realization or a volume number, please?

Dr. Om P Manchanda: If you look at the earnings presentation, this time deliberately, we have split RT-PCR, antibodies and IL-6 and D Dimer.

Ved P Goel: COVID includes both RT-PCR and antibodies.

Dr. Om P Manchanda: We will give that. It is a little detailed stuff, but we have those numbers with us.

Moderator: Thank you. The next question is from the line of Nikhil Choudhary from Kriis PMS. Please go ahead.

Nikhil Choudhary: Could you please split the home collection and normal walk-in on the operational parameters like how does the cost vary for us and if you could give a sense on that, it would be helpful?

Dr. Om P Manchanda: Home collection cost actually has one major impact compared to, let's say, a walk-in patient. A phlebotomist when he's sitting in a lab on an eight-hour shift basis, he can collect, let's say, for example, 40 samples in a day. The same person in a home collection setting can only collect on an average would be eight patients. So, you're talking about a productivity drop of roughly from 40 patients per day per person to about eight patients per day per person. So, to cater to the same customer number, I need to deploy at least four more phlebotomists. Now, the challenge in that is not just economics, but challenge also is operational because brand experience that phlebo can provide versus now a new phlebo that I hire in home collection actually your brand experiences drop. That is where the challenge lies. And since these are COVID times, a lot of our phlebotomists are also very hesitant to go to home collections and then it becomes a little more challenging because we end up paying them more. So that is one cost that goes up when you shift from walk-in to a home collection. But there are a lot of savings also coming in because walk-in business has real estate costs, this does not have real estate costs. Walk-in has a lot of these walk-in area, customer Care counters, etc., this may not have it. But here the challenge is because we are a legacy, traditional brick-and-mortar setup, now in a transition to become a digital company. So, we are now moving into those consumer apps, people are booking online, paying online, all that stuff. So, there is a transition that is going on. So, on balance, I would say if you lose a customer on walk-in, you also save a lot of costs of servicing that customer because servicing a walk-in customer is nearly about Rs. 250 to Rs. 300 per patient. Now that number in a home collection setting would actually drop, because you're only incurring a cost of that home collection boy, and that normally is about Rs. 100 to Rs.150 per this one. But you have to set the system right to provide the same brand experience that you normally provide in a walk-in set up. I think that to me is the bigger challenge than the financial challenge.

Moderator: Thank you. The next question is from the line of Sunil Poonia from HDFC Bank. Please go ahead.

Sunil Poonia: Just wanted to have a sense of the non-COVID revenue based on the test split of specialized, routine and wellness revenue. Have you seen any depth in the wellness revenue, which is currently non-capped, or do we see the recovery in it?

Dr. Om P Manchanda: See, on a percentage basis, Swasthfit is 17% of the total business. So, from a contribution perspective, we don't see any Swasthfit revenue dip. The second is on the high-end business. We are yet to do a detail analysis, but this time we have seen marginal increase in revenue per patient. And that actually is flowing from our contribution of high-end business going up. So, we do believe that in these times, high end business is growing faster than let's say a normal routine business.

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

Sriram Rathi: Firstly, with this COVID allied tests, particularly the D Dimer and all, is it fair to assume that some part of this is actually recurring also in the normal course of action without COVID?

Dr. Om P Manchanda: I think it's a good question. We also do not know. But if I were to pick up last one month trend, I do believe that as RT-PCR and other tests are dropping, so is IL-6, D Dimer as well. In fact, when we saw that dipping trend, we decided to split it and show it separately. But there is definitely a question to be asked that, are there any tests post-COVID likely to come up? Which right now it may be hidden in normal routine tests, etc, but definitely IL-6 and D Dimer, my sense is will also follow the same trajectory as RT-PCR. A decline may not be that sharp, but definitely it is going to decline as well.

Sriram Rathi: In terms of any potential acquisitions, we have not done any new acquisition till now though recently one of the large players has done one acquisition in south India. Did we also evaluate that particular asset or how are we evaluating this?

Dr. Om P Manchanda: I think we definitely evaluated that asset. So, it's not that we were not evaluating it. There is nothing holding us back. Our strategy for inorganic still continues. And for that, we have specially created vehicle of Unifiers and I am happy to share that today on exit rate basis, we have a very meaningful turnover that has emerged in that vehicle. So, we were very conscious to what extent we go. According to us, that asset, we had certain figure in mind and we just stick to that and that's how it happened.

Sriram Rathi: In this quarter, of course, we have seen 8% growth in the base business. Is it possible to share like exit run rate, in the month of December 2020, what kind of growth it would have been like 15%-plus or minus something like that for non-COVID?

Dr. Om P Manchanda: I would not really highlight month figure because these numbers on a monthly basis sometimes can be misleading. The reason being in 2019, winter was very severe. So suddenly if I tell you a number, it may have a base benefit also. So, I would hold on to a month figure. It's better to actually see a little longer term. All I can say is that relatively trajectory of non-COVID recovery is promising. We'll have to wait and watch what is our industry trends once their results are out. But overall, we feel confident that because COVID is on a decline, we want to just stay focused on non-COVID recovery as much as possible. As we are sitting right now, we are feeling confident that we are probably back on track.

Moderator: Thank you. The next question is from the line of Bhagwan Chaudhary from Sunidhi Securities. Please go ahead.

Bhagwan Chaudhary: When you say there is a sharp decline in COVID testing, can you quantify?

Dr. Om P Manchanda: If it was 100, now, it's almost 40. That decline I'm seeing actually on a weekly basis also, so that's why it may be a low, but I think it's about one-third of the business what it used to be at peak level.

Bhagwan Chaudhary: Do you think some portion of it is going to stay for the next year given that many reports are suggesting that COVID is going to stay?

Dr. Arvind Lal: I can tell you that many senior doctors in India have predicted that there can be a resurgence of COVID anytime around February and March, and that is one of the reasons that they say that please do not throw caution to the winds, please maintain all those kind of precautions, which you all know of, and they are expecting it and in foreign countries, if you have noticed whether it is a different strain or something else, but these are continuing. So, you cannot throw your defenses down. This is quite capable of bouncing back.

Bhagwan Chaudhary: My second question is related to the non-COVID business. You are suggesting that you are seeing a promising recovery. So, do you think that whatever has happened because of COVID, we are going to get some benefit out of this COVID condition into the non-COVID business side for the longer-term perspective?

Dr. Om P Manchanda: I think it's little difficult to comment on that. I think when I say our non-COVID recovery is promising, the one major advantage that I see is that we are able to cover up a lot of our fixed costs from the gross margin that we create from non-COVID, because COVID pricing has gone down so low that I just have to survive on gross margins. So, the reason why we want to see non-COVID recovery as fast as possible because it helps us manage our P&L better, otherwise, at the current COVID pricing, it may unnecessarily strain our bottom line. If you're saying in terms of whether current situation will help our non-COVID business, I think jury's still out, probably it's difficult to comment right now. Because there are reports at times I keep reading and hearing that post-COVID complications are also on rise. So, I just don't know how it happens, but we are focused on the operations as much as possible. I think if we get that piece right, obviously, whatever happens in the environment will flow back to us.

Moderator: Thank you. The next question is from the line of Anurag Purohit from Anived PMS. Please go ahead.

Anurag Purohit: My question is regarding the prospective reference labs of Mumbai and Bangalore. In comparison to Delhi and Kolkata, how would these labs be? And what would be the Capex and the timeline for the same?

Bharath Uppiliappan: What we are trying to do in these two labs is to create a new model of reference lab, which is slightly different from what we have in Delhi and Kolkata. That is part one. Part two is from a timeline perspective, we do look forward to these labs going on stream, let us say at least one of them by first half of this year, if not, then early part of the second half of the coming year. Number three is that in terms of capability, this lab will compare very well to what we have today in Kolkata, it may not necessarily mirror exactly what we have in Delhi because of various other reasons, but our intent is to build it towards a Delhi kind of model. That is what I can share at this point of time. But we are very excited that we are going to launch these two labs and a whole suite of satellite labs, collection centers and the whole stack of market activation program to be building these two geographies.

Anurag Purohit: So, when you say new model compared to the existing reference labs, would it be in terms of the test menus or possibly operational?

Bharath Uppiliappan: The operational angles because we got a lot of automation going, we got a lot of design thinking going into these labs. And that is something we will have to possibly wait and watch a bit more of time.

Moderator: Thank you. The next question is from the line of Subham Rajgaria from West Bridge Capital. Please go ahead.

Subham Rajgaria: My question is regarding market share. So, you mentioned that home collection might be favorable for the ones who have a brand name. Do you think in recent times that has led to gain in market share for the organized players, and even within organized players, has it led to market share gain for Dr. Lal?

Bharath Uppiliappan: Indeed on both counts. If you go back to previous investor calls also, we have said that because of our ability to service the market through better operational matrices, we have gained share in the past and we believe that it will continue in the future as well.

Dr. Om P Manchanda: I want to add, it might be just repetition. I think there are two thought processes which are going in my mind. One is that with COVID coming in, old businesses are undergoing some kind of disruptions. As a Company, our DNA is to grow the business organically, and be a little bit nimble and very agile to change our processes to suit the new environment. So instead of just depending on one thing of just inorganic in south and west, we decided that we want to pursue both. And that's why we have decided to now put more efforts behind organic as well in south and west. Keeping that in mind, we are opening these two labs, and our experience of East has been very encouraging and we feel a little more confident now than what we were before.

Moderator: Thank you. The next question is from the line of Harith Ahamed from Spark Capital Advisors. Please go ahead.

Harith Ahamed: As we have entered the phase of vaccination, do you expect volumes of certain tests like antibody testing or checking antibody titres, these kind of tests gaining prominence in a post vaccine world, are you seeing any such trends or do you expect any of these tests gaining volumes?

Dr. Om P Manchanda: I think antibody testing post vaccination sounds very natural to go up. My view is it'll happen in multiple ways; I think first it will be in a surveillance format, where you may want to check in large scale to prove that, yes, immunity is developing. And that to my mind actually would be more driven by certain agencies rather than private players. There could be individual patients like you and me curious to know whether I have built antibodies or not. To that extent, I presume it should go up. It also will go up if you and I want to go for a health checkup. If somebody's saying, okay, antibody tests, because the same sample which is actually going to do your health checkup, and you might as well say I'll just do this antibody also for me. I think overall antibody testing will go up. Whether it will translate to a big upside on revenue? I'm not so sure. Because it will get consumed in overall repertoire of testing is what I feel. The second is antibody testing. Maybe Dr. Lal can add to this. I think it's more amenable to point of care tests as well. A lot of rapid tests tend to come up. It's also much more democratized than let's say RT-PCR testing, which is only done by fewer labs, while antibody testing can actually be done with wider number of labs. It will be much more spread out. So, I think banking on seeing a big upside on antibody may be a little bit misplaced at this stage.

Dr. Arvind Lal: Scientifically speaking what you are saying makes sense. But once the vaccine has been given, well, people will be in a different kind of mood, they would say that, okay now we can step out and that deja vu or happiness comes, etc., So my take on this is that though antibody tests are technically feasible, they should be done, but the people say, okay now let's forget about it, very few people like highly trained doctors, they might say that let's go and find out if this vaccine has been of any effect, etc., But I think it's going to be a close call out there after once the vaccine has been given.

Dr. Om P Manchanda: I think it's also a bit behavioral. If you look at, you and I have been through vaccinations, but I don't know whether I ever checked my antibodies after that.

Harith Ahamed: And on your point that these tests are more democratized. How is the pricing holding up, have you seen a pressure on that front because more labs are offering antibody tests?

Dr. Om P Manchanda: Actually, my reading is antibody is not a way of life. So, it's a sketchy sort of a thing. I think nobody's actually providing any lens from the Government side to look at what's the pricing on antibody, except maybe say a few states. It's just the market

pricing, which is prevailing in antibody testing. It's only RT-PCR where there are notifications coming in.

Harith Ahamed: Looking at the RT-PCR volumes for Q3, we've seen a significant jump versus the second quarter. So, just trying to understand, what drove this increase, is it greater higher number of cases in our focus markets or is it that we got more aggressive or are we focusing more on RT-PCR test, so what exactly drove the sequential increase in RT-PCR volumes?

Dr. Om P Manchanda: No, actually it's basically outside driven, we have not tried to influence this flow. And if you remember Delhi surge in the month of October and November, I think that led to this increase. So, now it has settled down. So, it's mainly market-driven, because there was a surge in Delhi at that time.

Moderator: Thank you. The next question is a follow-up from the line of Rahul Agarwal from Incred. Please go ahead.

Rahul Agarwal: Just one quick question on the code of social security. So, essentially, my understanding is it is applicable starting 1st of April, 2021. Any rough-cut estimates, how does the staff cost actually behave next year? Generally, we have about Rs. 270 crore of staff cost annually. This number will have a major impact there?

Ved P Goel: Though these rules are there in place now, we are in the process of evaluating what will be the impact, but certainly there will be impact and this is not for us, everybody, because there are some dramatic changes in the definition of wages, particularly in terms of gratuity or leave, and some PF kind of impact will come, but we are in the process of evaluating this.

Rahul Agarwal: But could it be like a major impact like 10% to 15% incremental to normal increments you give?

Dr. Om P Manchanda: Actually, we don't know honestly speaking because there is a one-time impact which will come and there's also recurring impact. I don't think we are fully prepared to give you a number. But all we can say that there will be impact which is not only for us as a company but entire system.

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

Ved P Goel: Thank you, everyone for being with us on this call today. I wish everyone stays safe and healthy. Now, I would request the moderator to close the call. Thank you very much.

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

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