

Thyrocare Q1 FY19

Post result conference call

14-8-2018

- **Female Operator**

- The conference is now being recorded.

- **Moderator**

- Good morning, ladies and gentlemen, welcome to the Q1 FY'19 post results conference call of Thyrocare hosted by Prabhudas Lilladher Private Limited. As a reminder all participant line will be in the listen only mode. And there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal the operator by pressing star then zero on your touchtone phone. Please note that this conference is being recorded. And I now hand the conference over to Mr. Prateek Jain from Prabhudas Lilladher. Thank you and over to you, sir.

- **Mr. Prateek Jain – Prabhudas Lilladher Private Limited**

- Hi. Good morning, everyone. I thank Thyrocare management team for giving us the opportunity to host this call. From Thyrocare we have with us today, Dr. Velumani - CEO, Mr. Sundararaju - CFO, Mr. Sachin Salvi-GM Finance and Mr. Vatsal Goyal-Head, Strategy and Corporate Development. I now hand over the call to the Thyrocare management team for their opening remarks. Over to you, sir.

- **Dr. A Velumani – CEO, Thyrocare Technologies Limited**

- Hello, good morning. Welcome and this is Dr. Velumani. Yeah, we have our numbers of Q1 of financial year 2019. I want to say I am not very happy. It's an unhappy number for me personally. But I am not disappointed because having had a great Q1 in last financial year in that strong base, this Q1 was expected anywhere 10, 12, 15%. We had also a price cut and the price cut was roughly around 7%. So, what we have reported as 11% is a number which is after the corrections. Corrections for the previous year base and the corrections for the price correction. Post IPO we had pledged 40 crores of money in the advertisement. And when we made final calculation of how much revenue it would have given in terms of top line, it was roughly around 20 crores. So, we had, a Q3 and Q4 of year of FY'17 and Q1 and Q2 of FY'18 which were very strong.

And that has put a stress as I said on Q3 and Q4 of FY'18 and Q1 and Q2 of FY'19. What have you learnt from that, advertisements don't give great ROI. And it of course improves the brand image. What surprisingly we have observed was while we were trying to get B2C business by advertisement, we had better growth of B2B and this is somewhere around 18% growth in B2B has been observed in this quarter. What I would like the investors to understand about the numbers is 5 years compounded annual growth rate for Thyrocare still continues to be 20 plus percentage even after this week Q1 numbers. We were a bit complacent and we didn't increase the head count when we saw the growth rate touching 27%. We thought we will go slow and in fact in these last 6 months we have added substantial numbers what we had in the previous quarters was, the previous year quarter was 700 and now we have around 1100 staff. So, we believe this would also be giving results in a next couple of quarters. As I said price reduction has been done and price reduction was done in the month of May and not in April. So, we had in this quarter only 2 months in that quarter rate reduction. Whenever we do a rate reduction there is hockey stick effect. It says that top line will go down and then top line then will pick up. So, we are not surprised about the 11%. But I know, when Thyrocare had set a standard of 20 plus, this level sounds bit weak. Wellness continues to grow. We have been growing in Wellness and very happy to see competition is copying not one competition but all competitors have been copying Arogyam and that probably is a reason why the numbers are not moving that fast. And we had started focus on PET CT business in January only. Just 2 quarters are over. It is yet to see positive results that is something expected probably in Q4. And all RPLs are running that is the regional processing laboratories are running more than 70% capacity. And the increased EBITDA which has been observed in spite of reducing the cost is obviously because we were having cash in hand and we purchased a lot of assets which were otherwise where vendors are set and we have bargained for better rates and today we have better reagent cost. And that has improved our EBITDA also. As far as nuclear is concerned we are happy to see the numbers are growing up. And we have added some more centres and two more centres will come in this quarter. We have 10 operational centres and we are already doing more than 10 scans per machine per day, which is already EBITDA positive and we have this year an EBITDA positive balance in nuclear healthcare. We had cash in balance sheet and we were wondering to take out dividend or to buy back the share. Good number of shareholders gave us the feedback that buying back of shares is one of the good options. And we did announce that we would be buying back shares. And in the board meeting a rate of Rs. 730 has been decided that we should buy back. And we have good expectations as an outcome of our Arogyam, sorry, Ayushman Bharat project which will be launched by the Prime Minister from tomorrow. And the entire industry is scared of because all our competitors including hospitals, diagnostic centres who charge for any test or any amount are pretty scared. Thyrocare being the lowest cost operators in the country, we are pretty excited as to

what kind of numbers we will have as a support in the quarters to come. Obviously the agenda would continue to remain, don't grow the EBITDA, control the EBITDA, reduce the EBITDA intelligently and improve the growth and that would be taking its own time maybe by year 2020 we will be back with the same growth. And for the remaining part of the proceeding I would ask Mr. Sachin Salvi to talk about the numbers in terms of the top line EBITDA and PAT growth. And then for the question and answers, I will come back. Thank you very much.

- **Mr. Sachin Salvi – GM, Finance, Thyrocare Technologies Limited**

- Good morning, this is Sachin. Thyrocare standalone revenue of Rs. 89.2 crores has moved by almost 9%, same quarter same period last year. Profit before tax stands at 38.9 crores which is up 9%. EBITDA margin has been maintained. And EBITDA of Thyrocare business and standalone business is at 39.2 crores, which is up again 9%. Consolidated profit before tax at 37.6 crores which is again up 9%. Consolidated revenue that is of Thyrocare and nuclear together stands at 11%. As far as nuclear is concerned, nuclear EBITDA has grown almost by 343% given that newer centres have start functioning, it currently stands at 1.8 crore. Nuclear revenue currently, in the current quarter is around 8 crores which is again up 42%. NHL has recently completed about 80,000 scans, PETCT scans since inception. Our new centres at Nashik has already started functioning. It has started operations in July, 2018. As Dr. AVM said two new centres that is at Coimbatore and Bangalore will start functioning in the coming quarter. So, that is briefly about the financial numbers or the key highlights of Q1 financial year, 2019.

- **Dr. A. Velumani – CEO, Thyrocare Technologies Limited**

- We can now take the questions. We can go for it.

- **Moderator**

- Thank you. Ladies and gentlemen, we will now begin the question and answer session. Anyone wishing to ask question, may please press star and 1 on your touchtone telephone. If you wish to remove yourself from the question queue, you may press star and 2. Participants are requested to use handsets while asking a question. Ladies and gentlemen, please wait for a moment, while the question queue assembles. First question is from the line of Anuj Gupta from Perfect Research. Please go ahead.

- **Mr. Anuj Gupta – Perfect Research**

- Good morning. Sir, what is the rate at which the industry grew in FY'18 and how do we see our growth compared to the industry in the future? Also what trigger will boost our performance

- **Dr. A. Velumani – CEO, Thyrocare Technologies Limited**

- Can you repeat please?

- **Mr. Anuj Gupta – Perfect Research**

- What is the rate at which the industry grew in FY'18 and how do you see our growth compared to the industry in the future? And what will be the trigger that will boost our performance.

- **Dr. A Velumani – CEO, Thyrocare Technologies Limited**

- The industry has been obviously the unorganised industry is 80%. So, no one knows the true numbers in diagnostic industries specifically. But I believe it should be 15% plus or minus 1 or 2%. That is the overall industry growth. The organised players should be moving around 17 to 20% growth. And that is what is expected from us also. That is why I have been telling, I have been having an unhappy quarter. But going forward one expects the organised players to put their pricing in place, their strategies in place, their reach in place and continue to achieve 4% at least more than the market growth.

- **Mr. Anuj Gupta – Perfect Research**

- With the pricing we will see the triggers move.

- **Dr. A Velumani – CEO, Thyrocare Technologies Limited**

- Yeah, in that way you know, one challenge is at least specifically for Thyrocare is we have been having an EBITDA which is 40 plus. So, if at all we wish to grow little faster, we should be able to sacrifice EBITDA intelligently by way of correcting the prices and getting the volumes and that is where growth will come. But overall the industry must be growing around this 14-15% is my personal opinion. There is no true numbers anywhere available.

- **Mr. Anuj Gupta – Perfect Research**

- Okay. And sir, another is could you throw some colour on the future of imaging business.

- **Dr. A Velumani – CEO, Thyrocare Technologies Limited**

- See, the future of imaging business, in radiology there is no national brand and it is not a branded business. It is all local business, where largely CT, MRI is the major business. CT is not volume wise big business. Having said that in entire radiology we haven't touched the CT or MRI, we are only focusing on PET CT. When we focus on PET CT, PET CT business is very different from that of CT, MRI because there is a FDG component in it. And the FDG has to be manufactured close by, the half life of FDG is only 1 1/2 hours. So, the pricing, the distribution in this industry all are driven by FDG location. Having said that according to nuclear as a management we believe that once we have our full capacity running in nuclear, we will have a huge and very enjoyable margin. This business has a capability of running 40 scans per machine per day. We are now crossing 10 scans per machine per day. When we cross 15 scans per machine per day all the remaining 25 scans are only profit. So, it's a very different kind of industry where you have capacity utilisation as a mind criteria to get profit. So, if you ask me in the long run radiology will produce better EBITDA and better profitability than pathology because in radiology there are lot of entry barriers, in pathology there are no barriers.

- **Mr. Anuj Gupta – Perfect Research**

- Okay. And sir, if you have any regular mix targets from the diagnostic and imaging services for the future.

- **Dr. A Velumani – CEO, Thyrocare Technologies Limited**

- If you ask me the total in the total 5, 50% will be radiology in the year 2025.

- **Mr. Anuj Gupta – Perfect Research**

- Okay, okay. Thanks a lot, sir.

- **Dr. A Velumani – CEO, Thyrocare Technologies Limited**

- Thank you.

- **Moderator**

- Thank you. Before we take the next question we would like to remind participants, you may press star and 1 to ask the question. The next question is from the line of Nitin Gosar from Invesco Mutual Fund. Please go ahead.

- **Mr. Nitin Gosar – Invesco Mutual Fund**

- Hi, sir. Just wanted to understand on Ayushman Bharat, how as a company would you be able to participate and how is the competition going to act on this?

- **Dr. A Velumani – CEO, Thyrocare Technologies Limited**

- Now, as far as Ayushman Bharat is concerned, it is more of hospitals and procedures and treatment they are talking. Ayushman Bharat directly do not talk about diagnostics. Having said that in any hospital business 50% of the revenue and 70% of their profit come only from diagnostics. So, the diagnostics will be the back end beneficiary of the Ayushman Bharat. Now to the shock of the stakeholders in the industry, whatever procedure today is done using a lakh rupee, government is insisting that should be done in 15,000 rupees, which is the shocking one for many of the organised players. We are not talking about diagnostic tests, we are now talking about diagnostic procedures. Now obviously in that rate there will be a huge volume and in that volume hospitals will make money. And big hospitals shy away, the smaller hospitals will be lucky to take all the business. Anyhow government cannot afford to pay anything more than what they have declared and this is the business which is going to come and every player is told to take it or leave it. And all those who take it will be benefited, those who leave it will watch it. Having said that in the backend diagnostic laboratories are very much essential. Diagnostic procedures are very much essential in treatment. So, I have a reason to believe it will have an impact on the diagnostic industry too. We are the lowest cost players, in the entire world India is cheapest and in India we are the cheapest. And we believe we will have more business support from Ayushman Bharat than any of the other players who charge pretty heavy on it. Our per specimen revenue is only 200, 190 rupees whereas competitors have somewhere around 600 plus. So, I have the reason to believe we will be the favourable players for the Ayushman Bharat. We don't know how many channels will be there through which channels we will get. But we have a reason to believe we should be getting it.

- **Mr. Nitin Gosar – Invesco Mutual Fund**

- Got it, sir. My second question is on man power. You mentioned that the man power strength has been increased from 700 to 1100. Now within organisation which division are you referring to, is it B2B or B2C and how it is going to enhance the growth.

- **Dr. A Velumani – CEO, Thyrocare Technologies Limited**

- We have observed that this business is a very local business. National brand cannot go to taluk headquarters, put its own shops and look for business directly from the customer because the language is different, cultures are different and every different kind of logic will play. So, we wish to continue to support the laboratories which are 100,000 plus are in the country. That means we are fully well convinced B2B business is wonderful business. That is the volume business. Now that means the country with 2.5 billion populations around 50% of it lives in cities where it is accessible for health care. So around 60, 65 crore of population we are targeting and we are thinking of putting for every channel at 5 lakh, one man to look after that region. So, we have added around 400 staff in specifically in different parts of the country, different language specific staff have been appointed and they have given task of putting up collection centres in that local cities using local people and help them to get some volumes of business especially in preventive care. So, if you ask me the counts have been increased only in business development in (A). (B) is in business development the B2B segment.

- **Mr. Nitin Gosar – Invesco Mutual Fund**

- Okay, got it. And sir, last question is pertaining of Arogyam, there has been bit of disappointment in terms of you highlighted there has been cut down on advertisement spent. And the response was lower sales in Arogyam. As an overall piece for Thyrocare, where does Arogyam fit in, in terms of strategic approach and where do we see this business say by 2025.

- **Dr. A Velumani – CEO, Thyrocare Technologies Limited**

- I think overall Arogyam falls under two categories one is B2C Arogyam, another is B2B Arogyam. B2C Arogyam went up because we were making lot of decibels and lot of people came online and ordered lot many Arogyam. But overall Arogyam has been growing even now, even without advertisement because the B2B side of Arogyam. So, overall if you segment the business as Arogyam and non-Arogyam we are having around 54% of the business in Arogyam. We have a reason to believe this could go as high as 70% but that would take another 4-5 years.

- **Mr. Nitin Gosar – Invesco Mutual Fund**

- Okay, but this 70% we mean to say B2C or?

- **Dr. A Velumani – CEO, Thyrocare Technologies Limited**

- No, it will be Arogyam. This is Arogyam I am talking that could grow as high as 70% and remaining will be non Arogyam. As far as B2B or B2C, if the question comes there is a likelihood this company will continue to remain 80% B2B and 20% B2C even for 20 years.

- **Mr. Nitin Gosar – Invesco Mutual Fund**

- Okay. So incrementally within Arogyam it's B2B.

- **Dr. A Velumani – CEO, Thyrocare Technologies Limited**

- Yeah.

- **Mr. Nitin Gosar – Invesco Mutual Fund**

- That is what is still going to help.

- **Dr. A Velumani – CEO, Thyrocare Technologies Limited**

- Yeah, all collection centres will find more, more margin in Arogyam. So, instead of selling what you call as a-la-carte people are sending, selling the packages. And B2B also is quite enthused by our Arogyam packages.

- **Mr. Nitin Gosar – Invesco Mutual Fund**

- Got it, sir. Okay. And sir, last one with the second push through on margins how should we understand for the year where we have cut the prices and we have added more tests. Should we expect revenue to immediately respond and how should margin behave for the year?

- **Dr. A Velumani – CEO, Thyrocare Technologies Limited**

- When we say price reduction has been done then we could not, we did not do price reduction in all. Some of them we have already done over price reduction. We had increased them and in some we had too good margin. So we have brought down the rates as high as 25%, 30% also. But if you look at it overall when we look at the product mix we have reduced the rates by around 7%. Now this 7% reduction straight away takes the top line down from the day one from May 1st we introduced it, entire month May we went straight down by 7% because that is the conscious cut we have taken. Having said that this would continue till end of Q2. That the price reduction is affecting the number and only when the volumes come that numbers will be compensated. And we have a reason to believe this year we would be ending with 20 plus of growth. Yeah, to anywhere upto 20% growth, depending upon how this price reduction has played in

the market place to get more business. It's a very long procedure because the market will first enjoy the price reduction then only they will work on it. And we are aware of it and we are prepared for it. The price reduction in fact will be seen for the next 3 years but will not be seen in the first 3 quarters.

- **Mr. Nitin Gosar – Invesco Mutual Fund**

- And on margin, sir.

- **Dr. A Velumani – CEO, Thyrocare Technologies Limited**

- Margin fortunately we are having around this year we continue to have 42% in the quarter ended. We will be 39 to 40 when the year ends. And we have clarity that we should not allow EBITDA to grow more than 40% and continue to correct prices so that growth is there. One mistake which we have done is, we have done a price correction after seeing the difficulty in growth. Actually when the growth is too good that time only the price correction has to be done. That is another lesson which I have learnt.

- **Mr. Nitin Gosar – Invesco Mutual Fund**

- Got it, sir. Appreciate that sir. Thank you.

- **Dr. A Velumani – CEO, Thyrocare Technologies Limited**

- Thank you.

- **Moderator**

- Thank you. The next question is from the line of Chirag Dagli from HDFC AMC. Please go ahead.

- **Mr. Chirag Dagli – HDFC Asset Management Company**

- Yes, sir, thank you for the opportunity. Sir, on the B2C volumes for the last 3 quarters we have seen weak growth this quarter then volumes have actually declined. When you say, you stopped advertisement or you know the promotion spend. Do you, how should we think about this you know this base volume currently, will this decline further you know or is it that just the growth will slow down?

- **Dr. A Velumani – CEO, Thyrocare Technologies Limited**

- When we look at the B2C business it looks like it is a value business because we realize more a lot more revenue than B2B. But when we calculate what all we are spending, we are spending for getting the assumption that is the order generation and

then we are spending on executing the order and then we are spending when I am doing customer support, all these three expenditures are not there in B2B. So when we sat and analyzed after doing a campaign on B2C and looked at which business made more sense B2B or B2C, it is unanimous decision inside the management that B2B makes a better sense, not B2C. Having said that without an advertisement even the B2B business growth will not be there, the number of franchises will not grow, confidence of franchise will not grow, so we believe advertisement in between is to support the B2B business not truly to garner the B2C business. So if you ask me 80% of our business will continue to remain as B2B and 20% will continue to remain as B2C whether we put lot more effort or we don't bother it will continue in the same ratio.

Mr. Chirag Dagli – HDFC Asset Management Company

Capital Exp. on oldish centres ?

Dr. A Velumani – CEO, Thyrocare Technologies Limited

- Actually speaking those centres have grown exceedingly well in the first 4 years because we came up with disruptive pricing. All others were charging 25,000, we came up with 10,000. But what has happened over 4 years, 5 years period is for the competition in the radiology they had to either grow or they had to go. So, they had no option other than doing the test at the rate at which Nuclear is doing. Because everybody is come down to that rate the volumes growth have stagnated in Delhi and Mumbai which are major markets. But having said that, in that 10,000 rupees rate we made EBITDA positive and don't think that competition makes EBITDA positive. Now it is the question of how long and who will be continue to, continue to keep the same pricing and grow it, and for us other cities are doing well. So, it's going to be a tough journey, it's not a simple journey. But when we got inside we thought everybody is charging 25,000, if we charge 10,000, no one will be able to charge 10,000. But in this industry after investing 8 crores to 9 crores in the machinery, it's very difficult for anyone to keep the machines standing. So, it's going to be matter of how, and how long is this competition and what will be the final outcome. We have a reason to believe as a national brand we would have a comfort and we will have profitability.
- **Mr. Chirag Dagli – HDFC Asset Management Company**
- These, these two centres are higher than the business margins today, sir. Both Mumbai and Delhi.

- **Dr. A Velumani – CEO, Thyrocare Technologies Limited**
- Yes, obviously they are having better numbers. So we have our margins wise they are better.
- **Mr. Chirag Dagli – HDFC Asset Management Company**
- They are better. Okay, sir.
- **Dr. A Velumani – CEO, Thyrocare Technologies Limited**
- In fact they are subsidizing the newer centres which are not making profit yet.
- **Mr. Chirag Dagli – HDFC Asset Management Company**
- So, even at this reduced level would you say that margins are closer to where you are thinking, you know, earlier?
- **Dr. A Velumani – CEO, Thyrocare Technologies Limited**
- These centres Delhi and Mumbai we have both locations, two, two machines that is twins.
- **Mr. Chirag Dagli – HDFC Asset Management Company**
- Correct.
- **Dr. A Velumani – CEO, Thyrocare Technologies Limited**
- We are about cross 30 per day each at the centre. We were supposed to reach 40 by now. Now from 30 it has not gone to 40, but in 30 itself we have a fairly good profitability which takes care of the smaller centres which we have just now started in other towns.
- **Mr. Chirag Dagli – HDFC Asset Management Company**
- Okay. Thank you so much and best of luck.
- **Dr. A Velumani – CEO, Thyrocare Technologies Limited**
- Thank you.
- **Moderator**

- Thank you. The next question is from the line of Shivam Gupta from CWC Advisors. Please go ahead.
- **Mr. Shivam Gupta – CWC Advisors**
- Thanks for the opportunities. I just have two set of questions. One related to the fact that despite of taking price cut for this quarter our Arogyam revenue has grown faster than the volumes in the B2B segments. Is it just a product mix shift or how do you explain this?
- **Dr. A Velumani – CEO, Thyrocare Technologies Limited**
- No, advertisements have come down. Prices have been brought down. Once we bring down the prices, the numbers anyhow is going up, in the month of May numbers were not growing but in the month of June it has increased. So, if you look at it, in spite of the price cut, we have got numbers of Arogyam growing because in Arogyam only we have done price cut, not in others.
- **Mr. Shivam Gupta – CWC Advisors**
- Sir, I understand that actually what I was wondering is that since we did the price cut, our volumes should have grown faster given the elasticity of market than the revenue numbers. But it is actually reversed. The numbers are very healthy nevertheless. So, the volume in B2B is only 25% growth but the revenue is 30% growth. So that's what I was trying to understand it is just the product mix that the people show higher priced packages or what happened here.
- **Dr. A Velumani – CEO, Thyrocare Technologies Limited**
- Now only the Arogyam which is in the lower side, you know, we have Arogyam from 1.12 to 1.7. We have only corrected price 1.1 and 1.2 and 1.3. The remaining Arogyam we have increased the prices also. So, we have overall better numbers and also a better revenue. Better numbers because we reduced the pricing in the lower side and better revenue because we have increased the pricing in the higher side. I don't know whether I have answered you correctly or not because somehow, the question was not very clear to me.
- **Mr. Shivam Gupta – CWC Advisors**

- I will probably clarify it separately offline. The other question I also had was that if you look at the B2B segment non Aroygam. We grew the volume by 15% and you were saying that there wasn't any price cut in this ex of Aroygam. I just want to understand that since this is the major chunk of volume that we get, get across the company. So, how should we look at this number, is there room for this number to spike up because there is a, and is there any seasonality to do this business.
- **Dr. A Velumani – CEO, Thyrocare Technologies Limited**
- I think that number in fact gives industry growth. Because that is not any number which I can influence. If I see that as 15% that is what I said industry growth is around 15%. All manipulation, all price strategies, all aggression can only be in the Wellness and in the Wellness segment it is supposed to be up and down. But other segments seems to be fairly stabled.
- **Mr. Shivam Gupta – CWC Advisors**
- Sir, taking it forward then for the full year, will it again be a case where the revenue improves faster than our volumes.
- **Dr. A Velumani – CEO, Thyrocare Technologies Limited**
- I will not be able to tell anything for these 3 quarters that is the quarter ended and the next 2 quarters because these 3 quarters we will have what you call as hockey stick affect and we won't know whether the numbers truly will emerge as a satisfying one. But having said that here after the price correction next year and the 3rd quarter will be the best year. I am eagerly waiting for them.
- **Mr. Shivam Gupta – CWC Advisors**
- Okay. Thank you, thank you for answering the question, sir. Thanks at lot and all the best.
- **Dr. A Velumani – CEO, Thyrocare Technologies Limited**
- Good luck.
- **Moderator**

- Thank you. Before we take the next question we would like to remind participants that you may press star and 1 to ask question. The next question is from the line of Srinivas Seshadri from Mirabilis. Please go ahead.
- **Mr. Srinivas Seshadri – Mirabilis**
- Yeah. Thank you for opportunity, sir. My first question is relating to Nuclear. Sir, if we see the kind of centres opened over time they have grown in wide range of trajectories. So, some of the new centres may be 4 to 5 years old, 4 to 6 quarters old like Baroda and Raipur, they seem to kind of still doing less than 300 scans per day. While some of the others like Jaipur for instance has picked up quite well even in the second quarter. So, I wanted to understand from your perspective what have been the learnings in terms of, I means what works and what doesn't work as far as choosing sites and putting the machines are concerned and how are those learnings being incorporated in the future selection of sites for Nuclear.
- **Dr. A Velumani – CEO, Thyrocare Technologies Limited**
- Yeah. I think there are two major learnings. Learning number one, don't go to a city where there is no PET CT because you are a disrupter and you are, you know, using a price you make volumes. So, if you go to a new city or where there is no PET CT, or there is only one PET CT you are not going to get any volumes there. Instead choose cities in which 4+, 5+, or 7+ PET CTs are already working. And there you get in and you play your volume game, your numbers will grow up very fast. For example Mumbai has 30 PET CT centres and we introduced one in Central Mumbai. And we got in the 4th month itself something like 400 scans per month. So, we believe that major metros are the places where we can play well and we must choose centres, cities with multiple existing PET CTs, that is lesson number one. Lesson number 2, is a franchise model is a better model than the owned and operated model. So, we did owned and operated model and we had lot of learnings and we understood this is again a local business. The local party when involved he also works on behalf of the company to get more volumes and we have less overheads and we need less management bandwidth. So, for the last you know, so far we are present in 10 locations. Last 5, 6, last 7 locations have been partnered, for 3 locations only were owned and operated. Going forward we will be going only for partnered

business model and not owned and operated because our numbers will be faster growing as well as better indices when we operated franchise model. These two learnings have been there in the last few years.

- **Mr. Srinivas Seshadri – Mirabilis**

- Okay, thanks and just a follow up to whatever you said. Now have we changed the kind of the decisions in terms of these cities we are going to say in the next 3 quarters based on whatever has happened. And if you can just illustrate that point. And also secondly what happens in cases where even after for so many quarters the volumes don't pick up. So do you exit those centres or is that a mix you would be willing to live with at an overall level, I mean how do you think about the kind of the continuation of the business in such kind of situation.

- **Dr. A. Velumani – CEO, Thyrocare Technologies Limited**

- See, I will tell you the learning was, in Raipur we were the first one in the entire state of Chhattisgarh, so the numbers went on very well in the first month. But then two more players have come inside after we have come inside. So the workload has got distributed into all the three, and since all of them are new, they don't have any fear of charging less, only in a city when somebody has been charging more they are scared to bring down the cost in a new city, people will play at any price. We have taken a decision that we will continue Raipur and allow the volume to grow though it will take some more time there is no meaning in jumping from city to city. Raipur itself is a capital of the state and how come Raipur will not have viability and a profitability, so we are patiently operating. So as in Baroda, Baroda for the size of the city there are three PET CTs, there also the state government is supporting hospitals in terms of diagnostic, they are not supporting standalone diagnostic, that appears to be the state policy. So there we have a number problem and we may at any time take out, we are just looking at another 2-3 quarters to see if it is viable let us continue. But the same partner of Baroda had sold his machine of Surat to us, that Surat is doing very well. So the same promoter, having two centres, one centre is doing very well, the other centre is not doing that well, so we are averaging it out. These are the only two cities, Baroda and Raipur which are major concerns, all the remaining appear to be pretty well in line. Having said that we will not be going for smaller towns, all towns which we will be planning now onwards should have minimum at least 4 existing PET CTs operating.

- **Mr. Srinivas Seshadri - Mirabilis**

- Okay. Sir, great, sir, that helps clarify how you are thinking about it. The second question is as far as the current quarter financials for the diagnostic business is concerned. I mean though you talked about the price correction which is taken from 1st May, both the gross margin and EBITDA margin have come out quite well. I was kind of pleasantly surprised by that. So could you talk about how the offset has happened on the margin side despite having taken corrections, we don't see the margins coming down on a sequential basis also.

- **Dr. A Velumani – CEO, Thyrocare Technologies Limited**

- Yeah, I think there are two aspects to it, I said in the opening remarks itself that since we have cash in balance we have purchased the assets of the vendor otherwise was owned by the vendor on my floor, because we purchased the asset in our name we had asked for a better pricing and we got a better pricing so the reagent cost is down by some 3% overall, 4% overall. So this is something which we consciously bid because the cash having in balance and taking it as a dividend is not making much sense, reducing the price of raw material would improve the EBITDA, that is number one. Number two Thyroid was our least priced zero profit product, highest volume. For some strategy for the 3-4-5 years we have Thyroid without a margin in fact with negative EBITDA. So when we did the price correction we did a correction of reducing the prices of Arogyam and increasing the prices of thyroid. So if you look at it they are very big products in which we have slightly increased the rate and the other product we reduced the rates, so overall it appears we have got another 1%, 1 and ½ percent improvement in the EBITDA. I think these two things must have contributed otherwise I was also quite surprised when I saw the number.

- **Mr. Srinivas Seshadri - Mirabilis**

- Okay, and sir, could you please quantify how much you spent on purchasing those machines.

- **Dr. A Velumani – CEO, Thyrocare Technologies Limited**

- Yeah, I will tell you the machines on our floor had been installed, some of them five years back, some of them 4 years back like that. There

were around 35 machines on the floor were there, and all 35 machines we had purchased roughly around 6.5 crores.

- **Mr. Srinivas Seshadri - Mirabilis**

- Okay. And what would be the residual life of the machines, sir?

- **Dr. A Velumani – CEO, Thyrocare Technologies Limited**

- As I said some of them are coming to an end and some of them are new. So now onwards we need to keep buying machines, I will give you an update. The machines cost 50 lakh rupees for us to buy and that gives us 15% reduction in our pricing, than what we were otherwise doing. So we have observed that the recovery is done, there is a fair amount of justice in purchasing them.

- **Mr. Srinivas Seshadri - Mirabilis**

- Okay. And on an annual basis, sir, what would be the capital expenditure then on the diagnostic business

- **Dr. A Velumani – CEO, Thyrocare Technologies Limited**

- Well, in pathology the capital expenditure should be somewhere between ten to 15 crores to maintain what has been going on and anything additional is purely optional.

- **Mr. Srinivas Seshadri - Mirabilis**

- Okay, okay. Thanks a lot, sir, if I have any questions I will come back.

- **Moderator**

- Thank you. A reminder to the participants, anyone wishing to ask a question may press star and 1. The next question is from the line of Nitin Gosar from Invesco Mutual Fund. Please go ahead.

- **Mr. Nitin Gosar – Invesco Mutual Fund**

- Hi, sir. On Nuclear partnering model where we are now opting to go via franchise route, how do we cash the reporting part of the revenue like we will do a franchise at a certain rate that is what we capture and margin whatever we make prior to that is getting captured.

- **Dr. A Velumani – CEO, Thyrocare Technologies Limited**
- Sachin will answer.
- **Mr. Sachin Salvi - GM, Finance, Thyrocare Technologies Limited**
- So we account it at a gross value so whatever the centre charges to the patient that is what is recognized as revenue and amount which is paid to the franchise or the partner is charged to profit and loss account as expenses.
- **Mr. Nitin Gosar – Invesco Mutual Fund**
- Okay. So supposedly 10,000 is getting charged and ...
- **Mr. Sachin Salvi – GM, Finance, Thyrocare Technologies Limited**
- Revenue at Rs. 10,000.
- **Mr. Nitin Gosar – Invesco Mutual Fund**
- Yeah, so
- **Dr. A Velumani – CEO, Thyrocare Technologies Limited**
- Sorry, your voice is not too clear, can you repeat?
- **Moderator**
- Hello, Nitin. Ladies and gentlemen, we seem to have lost the line for the current participant, and participants if you wish to ask a question, you may please press star and 1. The next question is from the line of Sriram Rathi from ICICI Securities. Please go ahead.
- **Mr. Sriram Rathi – ICICI Securities**
- Yes, sir, thanks for taking my question, just a question on follow up from the previous participant's question. So basically 100% revenue is recognised is that which right?
- **Dr. A Velumani – CEO, Thyrocare Technologies Limited**
- Yes.
- **Mr. Sriram Rathi – ICICI Securities**

- So then the franchise fees whatever we pay to the franchise where is that recognized, other expenses or?
- **Mr. Sachin Salvi – GM, Finance, Thyrocare Technologies Limited**
- So it is recognized in the other expenses. And it is charged to profit and loss accounts, other expenses.
- **Mr. Sriram Rathi – ICICI Securities**
- Because other expenses the total amount is 22 to 24% of the sales. That means most of this will be kind of franchise fees.
- **Dr. A Velumani – CEO, Thyrocare Technologies Limited**
- See we have both businesses, the first three centres of ours is 100% revenue and we don't pay anything to anyone. So others you know some of the expenditure is coming as salaried employees, that is only for the owned model, that component is not there in the franchise model so you will not be able to clearly see the ratios.
- **Mr. Sriram Rathi – ICICI Securities**
- Okay. And lastly if you can share approximately the sales which come from the franchises, what kind of percentage generally we pay to the franchise, just to get an approximate idea?
- **Dr. A Velumani – CEO, Thyrocare Technologies Limited**
- 50:50.
- **Mr. Sriram Rathi – ICICI Securities**
- Okay, thank you.
- **Moderator**
- Thank you. The next question is from the line of Prateek Jain from Prabhudas Lilladher Private Limited, please go ahead.
- **Mr. Prateek Jain – Prabhudas Lilladher Private Limited**
- Hi, sir, if you could give any clarity on the tuberculosis franchise.

- **Dr. A Velumani – CEO, Thyrocare Technologies Limited**
- Tuberculosis is not a franchise, tuberculosis is a business and the business is set up in the centralized laboratory. This business as I had said in last two earning calls, it is a new business, this business is not focused like this by any other player. This business at present is handled by government and they are not handling it correct, and there is a plan for government of India to eradicate tuberculosis by the year 2030, and they have given a lot of funds for government hospitals to control the tuberculosis. What we felt is we do a comprehensive tuberculosis as a business, there is a likelihood people will consume these services, and we have started it. We have just now finished the accreditation procedures which takes pretty long period. We got one accreditation there are two more accreditation which are going to take another two three months. The first year will go in getting all accreditations, and probably in the first year we will breakeven because there are some businesses which are coming without accreditation. We are likely to see an upside only from year two onwards. How good that business will be depending upon how people have perceived that tuberculosis diagnosis can be done affordable at my brand. So, we are hoping that we will do a good business. Right now it is not giving any numbers.
- **Mr. Prateek Jain - Prabhudas Lilladher Private Limited**
- Okay. Sure sir. Thanks.
- **Moderator**
- Thank you. The next question is from the line of Nitin Gosar from Invesco Mutual Fund. Please go ahead.
- **Mr. Nitin Gosar – Invesco Mutual Fund**
- Yes. Question is again on Nuclear. I think you mentioned that FY'25, 50% of revenue would come from Nuclear.
- **Dr. A Velumani – CEO, Thyrocare Technologies Limited**
- Yes, go ahead.
- **Mr. Nitin Gosar – Invesco Mutual Fund**

- Okay. The clarification on that part and ...
- **Dr. A Velumani – CEO, Thyrocare Technologies Limited**
- We, we believe that Nuclear should grow since it is a new business roughly around 40% year over year. And if we are aggressive it can even be 100% year over year. But we don't want to go to too much of capital investment and struggle. So, we have decided to put in every year that many number of PET CTs which is 50% of our PAT will produce. So, if we go like that by year 2025, we would have a 50% of top line contributed by Nuclear. And keeping that in the mind accordingly we will invest.
- **Mr. Nitin Gosar – Invesco Mutual Fund**
- Okay. And our investment will be largely restricted to the backend part that is raw material and the machine.
- **Dr. A Velumani – CEO, Thyrocare Technologies Limited**
- Yeah, there is. You are talking about Nuclear right.
- **Mr. Nitin Gosar – Invesco Mutual Fund**
- Yeah, yeah.
- **Dr. A Velumani – CEO, Thyrocare Technologies Limited**
- See, currently we have one cyclotron in Mumbai, that also is only utilised to a capacity of 50%. So, we should be able to have some 25 PET CTs. Currently we are at the number 12. So, 25 PET CTs even without investing for one more cyclotron.
- **Mr. Nitin Gosar – Invesco Mutual Fund**
- Okay.
- **Dr. A Velumani – CEO, Thyrocare Technologies Limited**
- So by that time we will have clarity how is this business is growing. We might go in for aggressive mode once we understand the beast. Right now we are still in a learning mode and what we have learnt so far is not full.

- **Mr. Nitin Gosar – Invesco Mutual Fund**
- Okay. And in franchise mode we support the franchise with the machine part. So, the machine is provided by the Thyrocare and then operation.
- **Dr. A Velumani – CEO, Thyrocare Technologies Limited**
- We give, we give machine, CMC and FDG.
- **Mr. Nitin Gosar – Invesco Mutual Fund**
- Okay, okay. Sir, second question is regards to the thoughts on PET CT standalone versus attached model. I mean lot of hospitals have PET CT attached to their organisation or their buildings. Do we believe that, that kind of model is what we should be pursuing or it is standalone PET CTs, PET CT models which is going to be pursued going forward.
- **Dr. A Velumani – CEO, Thyrocare Technologies Limited**
- For your clarity 20 years back specialised testing like thyroid, those days thyroid was called as specialised testing, 90% was in hospitals and 10% was in standalone. Over 20 years period 90% is standalone and 10% is only with hospitals. In the year 2010, it looked like 90% of a PET CTs is only in the hospitals and only 10% is standing alone. I have a reason to believe by 2030, 90% will be standing alone, 10% only will be hospital.
- **Mr. Nitin Gosar – Invesco Mutual Fund**
- And one last bit on Ayushman Bharat. Right now our most of the tests are in preventive care and Ayushman Bharat since it's been, it will be run through hospitals, there would be more tests which will be requiring immediate analysis and results. To what extent we will be able to participate in those kind of product offering.
- **Dr. A Velumani – CEO, Thyrocare Technologies Limited**
- We have been a darling of those hospitals which are smaller hospitals. If you make a pyramid of hospitals where the big hospital in the top and the small nursing homes in the bottom, put a central point and below the central point have been our customers for the last twenty years. I have a reason to believe that Ayushman Bharat is going to support that segment below the centre point as a common man's solution and we

expect those hospitals to increase their volumes and send it to us, this is only a hope and expectation.

- **Mr. Nitin Gosar – Invesco Mutual Fund**

- Thank you. Got it.

- **Moderator**

- Thank you. The next question is from the line of Harit Ahmed from Spark Capital, please go ahead.

- **Mr. Harit Ahmed – Spark Capital**

- Hi, good afternoon. Thanks for taking my question, sir. In the Nuclear business under the franchise model what is the EBITDA margin what is the potentially achieve when these centres mature?

- **Dr. A Velumani – CEO, Thyrocare Technologies Limited**

- In case of Nuclear in the franchise model we don't have the floor cost, we don't have the administrative cost, we don't have the HR cost, we only have a FDG cost, other than that we have a CMC. So if you ask me the EBITDA could be as high as 60% if the, what you call, capacity of the machine is utilized by 30 scans per machine per day. So I would say there is no true cost involved except CMC and FDG so we have a pretty good margin there. But we are going to realize only half of the amount, straightaway 50% goes out.

- **Mr. Harit Ahmed – Spark Capital**

- So after the revenue share with the franchise will it lead to EBITDA margins that will be booked on your P&L is there a....

- **Dr. A Velumani – CEO, Thyrocare Technologies Limited**

- Yeah, let me put it in per scan basis if 5000 comes to us, after 5000 retained by the franchise, in that 5000, 500 is our cost.

- **Mr. Harit Ahmed – Spark Capital**

- Okay. Got it. And what would this EBITDA margin be under owned PET CT model?

- **Dr. A Velumani – CEO, Thyrocare Technologies Limited**
- Owned PET CT models will be having an EBITDA margin of somewhere 40% to 50% depending upon what is the capacity utilization, 10% to 40% depending upon the capacity utilization.
- **Mr. Harit Ahmed – Spark Capital**
- Okay, and lastly the matured PET CTs centres in Delhi and Navi Mumbai, what are the number of scans that we will be at currently.
- **Dr. A Velumani – CEO, Thyrocare Technologies Limited**
- In Mumbai fortunately we have put a third centre in South Mumbai, so today we have roughly around 50 scans using three machines. So that is pretty highest in the entire country when you look at the number of scans per machines per day. But we have a capacity using these three machines we can even go to 90. So we are somewhere around 50 so we still have an upside of 40 more scans.
- **Mr. Harit Ahmed – Spark Capital**
- So based on this 1500 odd scans that is given in the presentation from Navi Mumbai for the quarter, that works out to lower number if I do the math on...
- **Mr. Sachin Salvi – GM, Finance, Thyrocare Technologies Limited**
- So that is only for Navi Mumbai, what sir was talking about is Prabhadevi plus Navi Mumbai location, that is Mumbai.
- **Mr. Harit Ahmed – Spark Capital**
- Okay, okay.
- **Dr. A Velumani – CEO, Thyrocare Technologies Limited**
- See once inside Mumbai the business has started we don't harass the patient by asking them to come to Navi Mumbai, so now we look at Mumbai as a market not separately Mumbai and Navi Mumbai.
- **Mr. Harit Ahmed – Spark Capital**

- Okay, so that's an additional almost doubling, understood, sir, thank you, sir.
- **Moderator**
- Thank you. Ladies and gentlemen, that was the last question, I now hand over the conference to the management for their closing comments.
- **Dr. A Velumani – CEO, Thyrocare Technologies Limited**
- Thank you very much for being part of this one hour interaction and as I started I want to end by telling that it was not a happy quarter but it was not a disappointing quarter. We believe year 2019 financial year when it ends we should be happening a better number to rejoice. Thank you again for being part of the journey, good day.
- **Moderator**
- Thank you. Ladies and gentlemen, on behalf of Prabhudas Lilladher Limited that concludes today's conference, thank you for joining us and you may now disconnect your lines.

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