Thyrocare

Tests you can trust

August 05, 2022

To,

National Stock Exchange of India Limited
Exchange Plaza
Bandra Kurla Complex,
Bandra (E), Mumbai - 400 051

Scrip Symbol: THYROCARE

BSE Limited
Phiroze Jeejeeboy Towers
Dalal Street,
Mumbai- 400 001

Script Code: 539871

Dear Sir/Madam,

Sub: Transcript of Earnings Call held on 02-08-2022 for Analysts / Investors

Please refer to our letter dated 02-08-2022 forwarding the audio recording of the Post June 2022 results conference Call held on Tuesday August 02, 2022.

We are now filing the copy of the transcript of the said Conference Call which may be taken on record.

We wish to add that the same has also been made available at the website of the Company (www.thyrocare.com) pursuant to the provisions of Schedule III, Part A, Clause 15(b)(2)

This is for your information and records.

Yours Faithfully,
For **Thyrocare Technologies Limited,**

Ramjee Dorai
Company Secretary and Compliance Officer

Thyrocare Technologies Limited

“Thyrocare Technologies Limited
Q1 FY2022 Earnings Conference Call”

August 02, 2022

MANAGEMENT: **MR. RAHUL GUHA – MANAGING DIRECTOR & CHIEF EXECUTIVE OFFICER – THYROCARE TECHNOLOGIES LIMITED**

MR. SACHIN SALVI – CHIEF FINANCIAL OFFICER – THYROCARE TECHNOLOGIES LIMITED

MR. ABHISHEK SINGHAL – THYROCARE TECHNOLOGIES LIMITED

Moderator: Ladies and gentlemen, good day and welcome to Thyrocare Technologies Limited Q1 FY2023 Earnings Conference Call. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing "*" then "0" on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Abhishek Singhal. Thank you and over to you, Sir!

Abhishek Singhal: A very good morning to all of you and thank you for joining us today for Thyrocare's earnings conference call for the first quarter ended financial year 2023. Today, we have with us Mr. Rahul Guha, MD & CEO and Mr. Sachin Salvi, CFO to share the highlights of the business and financials for the quarter. I hope you have gone through our results release and the quarterly investor presentation, which have been uploaded on the stock exchange website. The transcript for this call will be available in a week's time on the company's website. Please note that today's discussion will be forward looking in nature and must be viewed in relation to the risk pertaining to our business. After the end of this call-in case you have any further questions, please feel free to reach out to the investor relation team. I now hand over the call to Rahul to make the opening remarks.

Rahul Guha: Good Morning and thank you everyone for taking the time to join us in this conference call. I hope everyone is safe and healthy. I wanted to take the time to just walk you through what we are doing. I am joined by my colleague, Sachin Salvi our CFO, who is known to most of you. Before we begin you know as with my last call I will always start with the code from the Mahatma that I hold very dear to my heart. The future depends on what you do today, so with that backdrop I will just give you a sense of what we have been up to in the last few months.

First, we took upon a re-branding effort while the brand Thyrocare resonates with many people we felt it was time to give a fresh and modern perspective to the brand. The brand identity we felt was very anchored in the thyroid space, which was correct for the time it was created, but now with a test menu of 700 plus tests, we wanted to move away from the old imagery of the thyroid gland. Additionally, we felt a new identity with embodies the bold agenda as a B2B needed to come out. We are you happy with the way the logo is come out. I hope you had a chance to see it in our presentation.

As I shared in the investor presentation the logo anchors on two tenets, the first is the drop of blood signifying of course our heritage and pathology testing, conveys the imagery of life while squarely reinforcing our image that where one of the leading players in the pathology testing space. The second element is a microscope, which we wanted to use to bring out our anchoring in science and technology at all our labs when it comes to diagnostic test. The new brand is already live in all our online and digital formats and we are in process of replacing the brand identity across our 8000 direct and indirect channel partners, 900 phlebotomists and 800 plus runners split, so, that is the update on the brand that was the first thing that kept us busy.

The second is, we continue to execute against our strategy, which we highlighted in the last quarterly results and is also captured in the presentation. Just to give you a brief update on all the elements that we are that embodies our strategy, we are first, I am very happy to say that we have been able to expand our presence in a 1000 new pin codes since the last time we spoke. We have also to open two new labs in the Visakhapatnam and Jaipur. On building deeper customer connect we have now expanded our field team who goes out needs franchises and doctors. We also have a dedicated franchise support call center and for the first time since I think COVID was upon us, we have launched a new set of packages.

This has been designed in collaboration with doctors; the most notable has been our monsoon fever package, which in one test for dengue, malaria, typhoid as well as all other essential monsoon related parameters, and this was designed in consultation with the doctor paternity. We continue to expand on that effort to design packages in skin care, hair fall, smoking, alcohol, cancer and genomic testing to really expand our menu towards capturing the higher value lifestyle diseases with the consumer. On quality, we continue to work on our quality journey. We renewed our college of American Pathologists Accreditation and four labs; I am happy to say have completed the NABL audit.

The target is to have 15 of our labs NABL accredited by the end of the year, which will mean that 90% of our samples will be processed in NABL lab. On that a turnaround time, we continue to optimize our turnaround time across the country. Today, 90% of our sample reaches a lab within 18 hours; in cities where our labs are present we are already at six hours. At our lab, the turnaround samples on average in four hours and 97% of the samples are processed in six hours. With this initiative effectively in cities where we have a lab we are able to deliver reports consistently on the same day and across the country, we are now able to deliver reports within 24 hours.

We continue to engage doctors on diagnostic testing. We believe it is our responsibility to educate and engage doctors on the difference the diagnostic testing can make to the treatment paradigm, so in partnership with key leaders we have developed education videos. We have also started participating in conferences to share and debate our perspectives on diagnostic test. Finally, when it comes to leveraging the API group, API group today accounts for 13% of our pathology revenue, as I had mentioned we have three major initiatives across in cell initiative continues to progress well, we serve 5000 patients a day on pharm easy.

Additionally, from retail IO, the B2B app and mark the retailer ERP we have been able to on board 900 plus PharmEasy counter who are now booking diagnostic tests for their customers. Additionally through focused efforts we have now on board 50 hospitals across the country. This is the mix of small and big hospitals and we will monitor how this initiative scales up over the next few quarters. Actually, before I hand over to Sachin, I wanted to share a few highlights and main pointers on the results and then I will ask Sachin to deep dive a little bit there.

Overall, I wanted to share our focus has been in driving sustainable revenue growth. Over the last two quarters, we have seen a healthy recovery in our volumes. This has been driven by basically ensuring that we have the right price value proposition to our partners and focus efforts in expansion and retention of our old customers. I am very happy to say that we have driven this growth while keeping margins steady both at a gross margin and EBITDA level in unknown COVID business. We have been able to do this by judiciously driving mix towards higher value and higher GM test and our investments in manpower to drive growth we have compensated those investments by sharply looking at our overheads and optimize in costs as much as we can.

As a result as you would see in the presentation this quarter we been able to deliver 12% quarter-on-quarter growth in our non-COVID business while at the same time improving gross margins and EBITDA levels in the business. This is a year-on-year growth performance in a non-COVID business of 33% with a 57% growth in volume. With regards to COVID, as with most participants in the industry, the business is down 96% year-on-year and 83% quarter-on-quarter. With this, the EBITDA levels of our COVID business even after optimizing the fixed costs that we have been doing over the last quarter as the EBITDA has come down substantially. As a result, we have powered down the labs and now re-focusing the same for other PCR use cases. With those highlights, I will hand over to my colleague Sachin to cover the results.

Sachin Salvi: Thank you, Rahul. Good morning everyone and thanks for attending this call. I would briefly update you about the highlights of financial year 2022 Q1 financial performance. First, I will start with revenue from operations, our revenue from non-COVID operations for the current quarter on a standalone basis has increased by about 33% Y-o-Y to 112.2 Crores; however our COVID revenue has declined by 96% you 22.7 Crores for this quarter resulting in a 25% decline in our pathology revenue; however, on a sequential basis our pathology non-COVID revenue has grown by 27, which is on back of an already stronger quarter in the last quarter where review almost 12%.

Sequentially, in last six months, we have grown a non-COVID revenue from 91.2 Crores to the current quarter of about 112.2 Crores. Additionally, we have seen a strong recovery in our radiology business that is nuclear, we have grown revenue on Y-o-Y basis by 59% on a sequential basis by almost 18%. Our non-COVID consolidated revenue as a result for the current quarter on a Y-o-Y basis have grown by 30% and sequentially on a Q-o-Q basis by 10%; however, the 96% Y-o-Y decline in COVID revenue has led to an overall decline of 22% Y-o-Y. As far as EBITDA margin is concerned, our standalone EBITDA margins stands at 49%, versus 30% last quarter.

This margin impact can be explained by the declining margin in COVID business because of the fixed costs associated with. If you look at our non-COVID profit and loss our margins have improved versus last quarter by 100 bps and remains more or less in the range that we saw last quarter for a non-COVID patient. We have done this when investing substantially in our teens to drive growth, but in parallel took a hard look at our overheads to ensure that we remain in line at an EBITDA level. The decline in the overall EBITDA margin on a Y-o-Y basis can be entirely attributed to the COVID business decline in volumes.

To give some highlights, gross margin continues to improve versus the previous quarter in the non-COVID business primarily, as we should mix towards more higher value test. Employee benefit expenses have increased 31 Crores, which primarily due to four reasons, reason number one, annual increments, two introduction of variable pay for the company, three expansion of freebies, our field staff and franchise supposed to include service levels, four increase in senior management compensation as we built the senior leadership team. We have completed most of our investments in manpower and did not anticipate to increase further assistance this year.

Other expenses consist of service charges, which we pay to our sales invectives, PAR and fuel, refresh and maintenance costs and other such expenses. We have been able to optimizes to keep the EBITDA impact of manpower due to the profit and loss. In terms of volumes we have processed in the current quarter about 5.5 million samples. With this brief highlights, I will again pass it onto our MD and CEO, Rahul Guha for the strategic updates to the investors. Thank you very much.

Rahul Guha: Thank you, Sachin. Before we get into Q&A, just briefly take a few minutes to recap our strategy and our priorities just to give you a sense of what to expect over the next few quarters. First as always I will cover our value proposition to the customer. We continue to remain an affordable option to all patients with good quality and on time reports. All our efforts on our value proposition is towards ensuring low cost to the patient, assurance on quality of testing to our certification and engagement with doctors. We have made substantial progress on this which I updated in my initial comments and is also reflected in the presentation. This will remain at our core annual guide all that we will do.

Second, our strategy, as I had mentioned earlier and it remains true, we hope to become the B2B partner of choice to all front and diagnostic services companies in India whether it is a small diagnostic center in a semi urban area, a PharmEasy in the metro, a small nursing home and individual doctor or a leading online diagnostics platform a health clear. We are happy to provide low-cost robust testing solutions to ensure that they can serve their patients in the most effective manner. If they require phlebotomy we are happy to mobilize our phlebotomy network of almost 900 companies and 400 network phlebotomists to serve them better.

This strategy has been working well for us, quite frankly. As I had mentioned we have delivered 10% and 14% sequential growth in our B2B the business. In addition, we have added substantial volumes which help us leverage our scale economics to drive value to the customer. Third, when we think about the execution platforms on our strategy what I had shared last quarter continues to hold through and if you recall and you would have seen in the presentation we had laid out on eight-point agenda, we continue to focus very sharply on that eight-point agenda to drive value.

To give you an idea of where we are against that eight-point agenda, I will split the discussion into two parts, part A is related to leveraging the power of API platform, which has four focus areas. We continue to serve the pharm easy base of 2.51 million quarterly transacting users. As I mentioned today we are at 4%, the target is to get 5% to 6% by the end of the year. We continue to partner with retail IO and mark and their retailer networks of 2.8 lakhs counters to expand order points. We have now begun to scale up from the pilot. We already have a pipeline of 11000 retailers who have expressed interest in selling diagnostics at their countered. We have been able to on go 900 of them who have been active and I placed a fulfilled order.

The third was leveraging the power of API group holding relationships to build a diagnostic presence in the hospital space. We have build our own field team and we are exploring all partnerships to scale our hospital presence. Today versus where we were last time, we are now present in 50 hospitals where we handle their outsource business and we will continue to focus on this and expand this network. Finally, we are supporting PharmEasy and talk on under offline collection points. Today Thyrocare services demand at 356 PharmEasy diagnostic franchises and 1500 doc on doctors, so that on the API group side. As I mentioned API group now today accounts for 13% of our overall revenue.

The second part is the focus areas in Thyrocare. The first as I mentioned we will continue to improve our value proposition to our franchise network and we will expand that aggressively. We continue to scale our sales footprint and as I mentioned this quarter we have added 1000 pin codes where we have got our first order. The second element is our focus on health packages, Aarogyam has been our core brand and we continue to promote that to corporates online and offline; however, Aarogyam was very focused on the annual health check up, which is once a year frequency item. We have now worked very closely with doctors to develop packages for all lifestyle diseases, if you see on our menu, we launched as I mentioned a monsoon fever package, but since then we have also launched an alcohol impact package, a smokers package, a hair fall package, a skin care package and multiple, multiple packages targeted at lifestyle diseases and to help increase the frequency of purchase of our package profile.

We continue on the third point; we continue to expand our lab network to address the TAT or turnaround time challenges. We continue to invest in accreditation. As I mentioned we are already at eight hours logistics turnaround time across the country and six are in cities where our labs are present. Our processing times in labs are down to less than six hours for 97% of the samples and on average we are processing samples with four hours. The combination of this means as I mentioned that wherever we have cities where our laps a 22 labs are present, we are able to provide same day reports and for across the country we able to provide reliably reports within 24 hours.

The last point we continue to invest in technology. Much of the investments that we have been able to do in technology actually are the backbone of why we have been able to improve our turnaround time, improve our quality processes and improve our slot adherence at the customer end. So, with that this is my update on the eight-point agenda. We continue to stay stoop to the strategy and execute against that. Thank you so much for giving us a patient hearing. I will always start and end with the code from the Mahatma, fine purpose the means will follow. Our purpose as Thyrocare remains to provide high quality affordable testing to the masses and we will continue to execute against this purpose and agenda. Thank you so much. With this, we will open up for Q&A.

Moderator: Thank you very much. We will now begin the question-and-answer session. Ladies and gentlemen, we will wait for a moment while the question queue assembles. The first question is from the line of Rahul Agarwal from InCred Capital. Please go ahead.

Rahul Agarwal: Good morning, Rahul, Sachin and Abhishek. Thanks for holding the call and the commentary. Three questions, firstly to start with our non-COVID volume growth, now obviously adjusted for COVID I am looking at Q1 FY2022 and I am comparing that with Q1 FY2023, which is just reported, the numbers look like a 5.5 to 5.6 million this quarter versus 5 million in Q1 FY2020, firstly are these numbers correct and then secondly, the question was if yes, then it looks like a 4% CAGR on a three-year basis, I would imagine that the tracking much lower than what we should on non-COVID, if you could help give some insights on this and how do you look at growth going forward that is the first question?

Rahul Guha: Sure, did you want to give all three of your questions, Rahul or should I take them as we go?

Rahul Agarwal: So, I will give you the two more questions, secondly on the geographic expansion was on the lab and pin code expansion, you said what you did in the quarter I just wanted to know where we are cumulatively today and what is the goal like you know both in terms of number of laps and pin code expansion and the third was essentially on doctor engagement, if you could elaborate certain regions how you are going about it, but my sense is it is pan India issue, so my sense is there could be in a lot more efforts to improve the brand perception in the medical facilities, could you help us understand how would you go about this a bit more will be really helpful, that is all from my side, thank you?

Rahul Guha: Thanks, Rahul. Thanks for all three questions. The first one you are right, the three-years CAGR on a non-COVID business is I think around 5% I look at the overall correction, we have had a strong recovery this quarter that being said there is still a lot of work for us to do, it also means there is a lot of how do you say headroom for growth in the near term as we bring back channel partners you know who over the last couple of years because of the price moves and some of the decisions that we had taken had left us, as we continue to bring them back into the hold and convince them the Thyrocare is the brand to work with, I believe there is a fair headroom to recover back. Just to give you a sense, over the last couple of years of course COVID was such a large part our of our business and that in some way we did not focus too much on our non-COVID business, so there was a substantial decline that over the last couple of quarters I would say we have started to correct and really drive the business and the fruits of that effort are there to see right, channel partners are coming back, channel partners are increasing their share of wallet with us and we are able to onboard new channel partners which is what is driving the quarter-on-quarter performance, so that is the first one, but as I said you have pointed out the right point, in a three-year CAGR it is only 5% growth. I look it as an opportunity rather than a headwind because there is upside to recover to where we used to be.

Rahul Agarwal: Sorry to interrupt, but just on this question, is it also function of competition because we are seeing lot of new guys being very aggressive on wellness it also function of that or irrespective of that we think we should go back to 15% to 20% growth?

Rahul Guha: No, actually just we are a B2B player as I mentioned and in the B2B space I would say there I have been new entrance in the last I would say two years, but they are not brands that typically make you would read in the papers and so on, that being said I believe many of our channel partners when we reach out to them and communicate our current pricing strategy, current philosophy of working very closely with them are actually very happy to come back because we continue to actually have one of the lowest prices as a B2B player in the country, so from that end I have not really seen the impact of the new competition that is creating the buzz on our B2B business.

Rahul Agarwal: I got that, thanks, Sir and the second question on the lab and pin code, Sir?

Rahul Guha: So, cumulatively we will be at 22 labs and our pin codes today we will be at about 3500 pin code.

Rahul Agarwal: And what is the goal?

Rahul Guha: Sorry?

Rahul Agarwal: What is the target here I mean what are you looking at 12, 24 months you know whatever in terms of how are you thinking about these two numbers?

Rahul Guha: So, 22 labs, so we have a large footprint labs, we will add only two more in this year because once we do that actually in any pin in India, if you drop a pin anywhere in India, there will be a Thyrocare lab within 200 kilometers, and with our logistics network we believe we should be able to get samples to the lab I would say between 8 and 12 maximum, so after the two labs that we have planned which I will share the details when we meet next time because by then hopefully we will have inaugurated those labs, we do not plan to add any more large labs, so we will end our network above 24, selectively we will invest in what we call satellite labs that will be largely micro market small format labs where we will really invest I would say about eight of them in this year, which are there really in highly dense markets to be able to manage the TAT and the turnaround time expectations of our clients. Just to give you a sense for example, today in Mumbai if you are familiar with the geography of Mumbai, we have two laps, one in Navi Mumbai and the other in Kurla, we are looking at expanding a satellite lab on the western side of the city because we struggle with our TAT on that front, similarly in Bengaluru, we are only present on the northern side of the city towards the airport, we are actually looking at area expanding a satellite lap in the southern part of the city so that is what the satellite lab footprint will be used for all, but on the lab side we will kind of end that as I said 24 regional labs and maybe about eight satellite labs. The target is to be in 5000 pin code by the end of the year. I think we are currently on average add between 150 to 200 pin codes every month and we expect to continue that run rate.

Rahul Agarwal: Got it and lastly on the doctor engagement, please?

Rahul Guha: So, on the doctor engagement it is an interesting question, we have realized that we will have to tackle this at two levels, so let me first talk about the national level what we are doing, on the national level we are actually working with very, very senior doctors to create educational videos for the doctor network, for different diagnostic test and how they can be used in the treatment paradigm, these are Thyrocare sponsored videos with very senior key opinion leaders, the last one that we did was in the area of PCOS, a polycystic ovarian syndrome with a very senior KOL it is there on our website, it is there on YouTube, we got I think about 1.5 lakhs views of that web video which was largely promoted to the doctor network particularly through FOGSI which is the large gynecology platform for doctors and then of course on our own social media channels. We are planning to do similar work in TV, actually the videos are ready we are just launching them in a phase manner expect one every month coming out which are very senior doctor kind of top of the line, a key opinion leaders who will be talking on a Thyrocare branded platform. We also are participating in many of the national conferences typically buy specialty once again to educate and share about Thyrocare our practices, our are technologies and educate doctors and how we can play a role in their treatment, so that is at the national level what we are doing. At the local level as I mentioned we have invested in the field force, the field force actually works very closely with our franchise network and goes out and needs doctors and actually shares with them the Thyrocare processes as I have share in multiple calls before we have 100% bar coding of all our whilst we have a fully automated technology system across our 22 labs that allows us to process samples real time and release, give your status of your bar code on samples in real time and all these times and all of that is actually published in our report including when your blood was drawn, when the sample arrived in our lab and when we release the report, so all of this we talk about with doctors, our sales force goes out and actually educate doctors about Thyrocare and what our technology is, we have also invested in a trained pathologist in every lab, so that should any doctor have a question about any of our reports, a trained pathologist is there at our labs to be able to answer and help the doctor understand our reports and the results therein, so, those are the two levels that we are working at a local doctor by doctor level using our field force to educate them about the technology and quality processes that we have and at a national level using the key opinion leaders on a branded Thyrocare platform along with our participation and conferences to once again talk about what we are doing.

Rahul Agarwal: Thank you so much and best wishes. I will come back in the queue.

Moderator: Thank you. The next question is from the line of Devesh Pathak from White Oak Capital. Please go ahead.

Devesh Pathak: Thank you for the opportunity. In the B2C revenue just would clear my understanding, this is business directly booked through your website or app?

Rahul Guha: So, Mr. Pathak, jut to clarify our B2C business is where we collect the sample, so it is where a Thyrocare phlebotomist goes to the customer and collects the sample, it is not necessarily our Thyrocare app or Thyrocare website, it could be one of our many partners who basically books through a lead generation platform and then we go ahead and collect the samples, for example, as I shared with you we have now on boarded 900 pharmacies to book a diagnostic test, these pharmacies typically engage with a customer and then book a test using our B2C platform and then we sent a phlebotomist to the customer house to collect the sample that is also considered a B2C order, but it is really B2B2C if you if you think about it we work with large aggregators, I cannot share the names, but you know many of the famous health tech platforms and aggregators would actually book a test through Thyrocare where a Thyrocare phlebotomist would go and collect the sample, the other our area is our work with corporates, so just imagine a large corporate that has 100000 employees may onboard Thyrocare as its diagnostic partner, they would punch and order on our system, our phlebotomist would go and collect the blood sample and we will process the order that order is also classified as B2C.

Devesh Pathak: So in that lead generation that the partner is doing let us say for example, I was looking at some of the Aarogyam packages at Rs.800 74 tests, so how much let us say the customers is 800, how much is the partner who is generating the needs booking and in case of B2B how does it really like, it is just B2B B2C and in case of B2B, how much does the partner see from the retail price?

Rahul Guha: So, in the B2C side we typically offer basically what we call direct selling agent commission that can range between 30% and 40% on the net order value, so if the patient does paid 800 you would popup about 40% on that which is what would have been the list price and sorry let us say my Aarogyam package was Rs.1600, which is typically my largest selling package then the agents would make about between 30% and 40% depending on their scale so for the sake of argument let us say 30% so Rs.480

is what the direct selling agent would retain and then 1120 is what the company would realize, the patient would be paying 1600.

Devesh Pathak: How does it work in B2C?

Rahul Guha: In B2B we have a fixed price that we sell into the channel, so to give you a similar thing for the Rs.1600 package our B2B price would range between I would say 800 to 1000 depending on the size of the partners and then we invoice the partner for sake of argument Rs.1000 at this point and then the partner basically decides between the 1000 and 1600 at what level he would like to price to retain the customer, so the B2B is a company forward billing whereas our B2C is a patient realized commission.

Devesh Pathak: Understood and one last question, in B2B who is paying for the logistics from the partners collection point to your lab, how is that booked in your P&L or no collection from the franchise that is booked in RPM that is taking care of by the partner?

Rahul Guha: No, the collection from the B2B franchise our lab is booked in our P&L.

Devesh Pathak: That has shown as their expense service charge right?

Rahul Guha: Because that logistics network device is entirely owned by me,

Devesh Pathak: Yes and that when I see your publish numbers in your other expenses it shows that as the service charge is that the line item?

Rahul Guha: Service charges done?

Devesh Pathak: Yes, I just want a confirmation on that logistics part?

Rahul Guha: Can we take the next question?

Moderator: Sure, Sir. The next question is from the line of Nikhil Mathur from HDFC Mutual Fund. Please go ahead.

Nikhil Mathur: Good morning. My first question is on the API platform that the Thyrocare is leveraging, post Thyrocare's acquisition by API, can you share some numbers on how is the contribution. Sir, I will just start my question again, post acquisition how is the sales continuation from the API platform moved up to the most recent month, can you share some numbers. So, my first question was on the sales contribution from the API platform, can you share some numbers on how that has moved up till the most recent quarter?

Rahul Guha: Sorry, I did not get your name.

Nikhil Mathur: This is Nikhil Mathur from HDFC.

Rahul Guha: Hi, Nikhil, just to give you a sense two quarters ago, I mean the API platform numbers were negligible as I shared in January, February, March of Q4 FY2022 is when we started to integrate with the API platform, in that quarter API revenue was 8% of our total revenue, as I shared in this quarter we have finished the integration overall, and as I shared it is 13% of our overall revenue, so in Q3 of FY2022 it would have been close to zero, in Q4 of FY2022 it was 8%, in Q1 FY2023 it is 13%.

Nikhil Mathur: Okay and this revenue from API platform would it be entirely B2C or combination of B2C and B2B, how would that play out there?

Rahul Guha: So, it is the B2B business for us as all platforms because API group actually has its own phlebotomist network and they collect the samples themselves, we actually collect the samples from their collection points or drop points and then process the samples in our laps, so in that way it is exactly like with any of our other B2B partners, so it is actually considered B2B business for us.

Nikhil Mathur: So, considering that a part of the sample collection costs are shared by the API collection network, would the margins be superior to the other B2B contracts or the pricing will adjust accordingly and keeping the market neutral versus other B2B relationships?

Rahul Guha: Yes, so the way we have done it is given the size of course the API group is substantially large account for us, we have for all our B2B accounts a volume discount laps that is actually available to any of our B2B partners that volume discounts lab are calculated essentially basically when we give the discount while may take a hit on the gross margin level because we get a significant operating leverage at the lab level, at a gross margin level we may be lower, but at an EBITDA level actually we kind of end up either neutral or better off, so that is how our labs are constructed, so we have a slab, if you are a 1 Crores a month party, we have a slab, if you are a 5 Crores a month party and so, and we have calculated the discounts essentially to share the operating leverage benefit that we get on volumes that same pricing policy is applied to the API group as well.

Nikhil Mathur: Got it. Another question I had on the lab infra and that is kind of tie to TAT many of your peers on the B2C side they are working with the lab infra of 200, SRL has a lab infra of 430 to 440 labs, and you mention sample collection or sample delivery still taking 18 hours at a very high level do not you think that there is a pressing need to take up the lab infra at a very high pace so that you can lower the TAT and only then can your various initiative that we have mentioned in your eight point agenda can work out the way you are envisioning over the next two to three years?

Rahul Guha: So, it is a very good question, it actually a very deep question also, see a large part of our competitive advantage comes from having labs that are significantly large and therefore have a very high throughput and therefore we get the operating leverage benefit right and also because of our volumes and the way we are able to consolidate, we are able to negotiate with our reagent partners to get the best possible rate that is the sort of a competitor our advantage and why we are able to offer the kind of prices that we are able to in the overall market, as and when you start to expand the lab network into smaller and smaller labs you lose that operating leverage on every incremental small lab and as a result you start to dilute the overall EBITDA for the company because you are running then from a tight network of 22 highly efficient lamps you are running a network of over 250 not so efficient labs and each of those labs would have 500 maybe 1000 samples maybe even less than 500 samples a day, which makes very difficult to run an efficient and optimal cost structure kind of lap, so with that being said therefore the problem and conundrum is how we kind of optimize our logistics TAT while preserving our competitive advantage in the scale of our laps and for that actually technology is the solution, as I mentioned in the earlier part we will have a lab after I finish the last two laps that I talked about, we will have a lab within 200 kilometers anywhere in the country right, then if we are able to leverage technology I believe we can bring the logistics down, we are currently as I mentioned at 18 hours, I believe with technology and being efficient and how we run some of this we can bring that down to 12 hours, which means across the country we will be able to deliver reports on the same day, to be honest these are preventive packages to a large extent I mean patients are on fasting in the morning, they will probably go see the doctor only the next day, there is not that much of a demand at least that we have seen some patients that requires the test shorter than let us say the end of day, same day and so we keep that as our value proposition and will deliver that to the patients with the same day report, the way we will do it is keeping our lab network efficient, but also then squeezing as much efficiently we can out of our logistics using technology.

Nikhil Mathur: Right, so one question kind of attached to this, so given the strategy of being efficient right from the initial days of setting up a lab would it be fair to assume that the focus test menu for Thyrocare would be a restricted versus what the peers would be operating with, can that be a fair assumption?

Rahul Guha: Yes, I mean my peers would have upwards of 2500 to 3000 tests, our test menu will be about 700 to 800, so in that way yes, but I would say this is the testing business with a very, very long tail right, so if I look at the 700 tests that I run also out of those I would say almost 300 tests would account for less than 5% of my revenue and that tail gets even longer when you go from 700 to 2500 right and so yes, we will of course not be only thyroid focused right, we have a test menu of 700 plus tests, but we do not see us going to do 2500 to 3000 tests because that will be an impossible long tail.

Nikhil Mathur: Got it, thanks a lot. This is very helpful.

Moderator: Thank you. The next question is from the line of Chirag Dagli from DSP Blackrock. Please go ahead.

Chirag Dagli: Sir, thank you for the opportunity. Sir, with the API business being about 13% of our overall non-COVID revenue at the moment three-year CAGR of low single digit, it seems like the non-API channel business is almost flattish maybe declining as well anything specific that you want to highlight in terms of what is going on over there, have you undertaken any rationalization just how should we think about the non-API piece?

Rahul Guha: Actually the non-API business is not fattish, if we take the growth about half the growth will come for API, on sequential basis half the growth will come API, half the growth will come from the base business and as I said the base business is growing also quite strongly, the largest bet that we have made is actually geographical expansion where we are adding channel partners as I mentioned at a run rate of about 150 a month and we will continue that journey.

Chirag Dagli: You know the reason I look at three-year CAGR is because it is a sort of normalizes everything that has happened with COVID, so when you look at the three-year CAGR it seems like that the non-API business has not grown much on a three-year basis?

Rahul Guha: On a three-year basis, yes, see as I said three-year CAGR, yes, while helpful to look at overall, as management we have taken over in the last couple of quarters we are pushing very hard to drive recovery in the base business, we track the business quarter-on-quarter to able to show that we are on the right trajectory of growth, you are absolutely right, year-on-year versus last year because of the base effect while you look at 33% you think it is an overall great performance; however, what we as management track is just continuous growth quarter-on-quarter, which is driven by as I mentioned in the initial part, last two quarters we have been able to basically grow the business consistently over the last two quarters at 10% plus that growth actually is there, we are seeing our franchise growth also a kind of grow quarter-on-quarter as well as the API business is a nice top up on top of that, but I would not say that our entire quarter-on-quarter growth is driven by API that is not true.

Chirag Dagli: Understood Sir and can you quantify the number of samples for COVID RT PCR are in the first quarter, absolute number?

Rahul Guha: The absolute number of COVID RT/PCR in the first quarter of this year, it is not a very large number.

Chirag Dagli: We reported about 26.9 million of revenue commensurate to that I wanted to know what this number of samples was.

Rahul Guha: A number of samples will be 72000.

Chirag Dagli: Okay, Sir. Thank you so much.

Moderator: Thank you. The next question is from the line of Aditya from SIMPL. Please go ahead.

Aditya: Sir, thanks for the opportunity. Sir, I needed clarification on one matter it is mentioned in the presentation that there are almost 2.1 million tons or transacting users in PharmEasy, so how much of these users will be booking test through our Thyrocare platform?

Rahul Guha: So, as I mentioned today this is transacting users roughly our cross-sell number is at about 4% overall, we hope to take that to between 5% and 6% for the end of the year.

Aditya: Right and pre-COVID Thyrocare used to be on 30% and now it is currently low at 20% to 29% for the last two quarters, so can you just explain the reason what has happened or which has led to such a drop-in margins?

Rahul Guha: See as I mentioned earlier actually during the entire COVID period I hope I have been able to explain over the last two presentations that a lot of the 40% margin that was there was actually driven by COVID, in the pre-COVID period there are two effects that are largely playing out in where we have invested to drive the overall margin, as I said in the pre-COVID period also we had a chance of very, very high prices and we have started to take up crisis even at that time, so one is we have been investing in basically bringing back our channel partners and so to a certain extent the GM is lower than what it used to be about three years ago and then second is if you look at the three-year history the company never really invested in a field team in managing in going out and meeting doctors or invested to a large extent creating some of these education and accreditation concepts so some amount of our overhead and manpower costs is being deployed towards growth, which is the second effect that you see in the EBITDA.

Aditya: Right, so this will be the sustainable margins in the near future?

Rahul Guha: At least in the near future I think as we are driving growth I would expect margins to remain in this range, as the growth comes of course we will get operating leverage and that will slow down into the bottom line, so as the business scales from here and we start to see the benefits of the operating leverage you should see that getting reflected in the margins, as I said our investments both in terms of manpower and kind of doctor engagement and all of that I think we have now completed all of that, so our overheads will kind of remain in this range and then as we get growth we will get the benefit of the operating leverage.

Aditya: Right and Sir, one bookkeeping question, what is the freight cost mentioned in your annual report it is part of your service charges, the logistic cost?

Rahul Guha: Sorry, I could not hear that could you repeat the question?

Aditya: One bookkeeping question, the freight cost or the logistics cost, which you incur, so where do they translate in P&L?

Rahul Guha: The freight cost and the cost of the last mile executive for carrying the sample to the laboratories sitting in service charges.

Aditya: Thank you.

Moderator: Thank you. The next question is from the line of Aashita Jain from Edelweiss. Please go ahead.

Aashita Jain: Sir, just one question from my side, could you just help me with your Aarogyam revenues for this quarter?

Rahul Guha: So, Aarogyam revenues as it as 45 Crores for this quarter.

Aashita Jain: Sure, thank you. That is all.

Moderator: Thank you. The next question is from the line of Tushar Manudhane from Motilal Oswal. Please go ahead.

Tushar Manudhane: Thanks for the opportunities. So, we are looking at the non-COVID diagnostic service revenue, which has grown by 12% while the volume growth has almost to the tune of 19% quarter-on-quarter basis immediately implies the realization to be getting lower so while you alluded that the online platforms has smart kind of disrupted the pricing then if you could just explain what is dragging this realization slower?

Rahul Guha: So, as I mentioned to a large part I think in our franchise business realization at a GM level kind of remained steady, as I had mentioned with our online players of which API group is one, but we have several other online platforms, we work with actually all the online platform to service their diagnostics revenue as I had mentioned we have a slab wise discounting structure so while you see the impact at a GM level overall at the EBITDA level it has not impacted so it is just a little bit of a mixed effect coming out on that 12% value growth versus the 16% volume growth.

Tushar Manudhane: Understood, Sir. Thanks a lot.

Moderator: Thank you. The next question is from the line of Sayantan Maji from Credit Suisse. Please go ahead.

Sayantan Maji: Thanks for the opportunity. My question is basically on since API Group has becomes a large part of our revenues now, so is there any specific promotions that API group is doing or specific promotion that you are planning to do to cross the revenue API customers also increase and has you have planned more cross sell opportunities as well?

Rahul Guha: As you know we are the 100% exclusive diagnostic testing partner for the API group, so actually any test that is booked on the PharmEasy platform actually flows through Thyrocare that being said I think the group on the PharmEasy platform continues to push diagnostics as a priority area, if you visit the app diagnostics visibility is substantially higher than where it used to be I would say about six months ago the cross-sell journey also is actually much more seamless it is much easier actually on the PharmEasy app to book a diagnostic tests than if you tried on almost any other health sector wider app and that is largely because there has been a lot of focus on the PharmEasy end to be able to drive diagnostics on the platform that is one, the second is as I mentioned there is a lot of focus on ensuring retail IO and the PharmEasy counter under retail IO are fully educated to sell diagnostics, so as a result there is a lot the promotion, there is a field force that is going out and meeting retailer counter by counter to convince them that selling diagnostics at a PharmEasy counter, it is something that adds to their bottom line so that is the second substantial investment that the group is doing to drive diagnostics, so any summons all shot two main investments I think there is a lot of investment in the PharmEasy app to optimize the diagnostics journey as well as on the discounting side which is anyway visible and on retail IO there is a dedicated field force that is going to convince the captive not exactly captive but the on boarded retailers both on retail IO and MAR VRP to actually help them sell diagnostics.

Sayantan Maji: Great, on the choice between B2B and B2C to be conscious choice where do you guys one part of the segment or other realization more or less pain at EBITDA level, so are they similar?

Rahul Guha: Actually the realization and EBITDA level is similar because while my revenue realization in B2C is higher my cost is also higher because I incur the costs for the phlebotomist and I incur the costs for the kick to collect the sample and then the rest kind of flow from there, so I would say our B2B and B2C net realizations are kind of comparable, the only reason we continue to focus on both the way I think of it is if you are a customer who has of phlebotomist or the ability to draw blood I can be your diagnostic partner for processing, but however, if you are let us say a partner who actually talks to patients and talks to health conscious customers, but do not have the ability to collect the blood sample then my B2C business is there to support you in that journey, but otherwise on a net realization point of view there is nothing different, it is just two sets of capabilities, the second one really so that I can expand my footprint of customers.

Sayantan Maji: That is clear and just one last question, so this B2B is there any that you incur below gross profits and above that B2B?

Rahul Guha: Sorry, I did not understand this question.

Sayantan Maji: So, I was checking if you incur any cost they are below gross profit and above the EBITDA in B2B part of business in CNA overhead expenses because sample is being collected by you partner?

Rahul Guha: So, we incur the logistics cost of transportation of the sample from the franchise to our lab and we incur the lab overheads, the manpower cost to process the sample in the lab and then of course our own central customer service, call center and the processing of reports and all of that those are the three main pause items and then of course the corporate over it.

Sayantan Maji: Thank you so much for answering my questions.

Moderator: Thank you. Participants we will take the last question from the line of f Nikhil Mathur from HDFC Mutual Fund. Please go ahead.

Nikhil Mathur: Thanks for opportunity again. I just had one question, so on the raw material costs front which is the reagent cost it is my understanding, you can please correct me if I am wrong, at Thyrocare's end the industry still fragmented across the organized players, but my sense is that on the reagent side some of the global companies which supply these agents they are much more consolidated at a global level, so is there a mismatch today between the bargaining power of companies like yourself who are procuring these agencies from these companies and given that the inflation where we are in you might actually see higher agent costs going forward, your prices remains the same and that can be a pressure on the gross margin over the next one-and-a-half to two years, I am not take into account any mix in this year, but just like to like gross margin movement if that can be at risk over the next couple of years?

Rahul Guha: No certainly I think given the dollar and rupee and how that dynamic is playing out we are also seeing many of our vendors coming back with requests for cost increases and so on, I will say that our share of the cost increase may not be as high as if you were a smaller customer in the network, but I think that as of given I think as an industry we will also to in some way and form tweak our packages in a way that we pass on that cost to the customer, for example, just give you a sense we may not increase the price point that the customer may pay for a particular package, but we may tweak the package itself to kind of compensate for some of the cost increases.

Nikhil Mathur: Got it. This is helpful. Thank you a lot.

Moderator: Thank you. I now hand the conference over to the management for closing comments.

Rahul Guha: Thank you everyone for joining the call. As I mentioned this is my first I think 90 days in the job, so looking forward to continue engagement, continues dialogue and discussion. I hope in this call we have been able to present the strategy and the fact that we remain true to the strategy. We continue to execute against that strategy the way we kind of measure ourselves because of all the COVID noises we have been just looking at our growth as we progress each quarter and execute against the strategy and many of the things are working, some other things we still have a lot to learn, so I hope to keep engaging with you and giving you updates as we progress on this journey. Thank you everyone for your time.

Moderator: Thank you very much. On behalf of Thyrocare Technologies Limited, that concludes this conference. Thank you for joining us. You may now disconnect your lines.