Thyrocare
Tests you can trust

August 04, 2023

The National Stock Exchange of India Limited
Exchange Plaza,
Bandra Kurla Complex,
Bandra (E), Mumbai - 400 051
**(SYMBOL: THYROCARE)**

BSE Limited
Phiroze Jeejeeboy Towers
Dalal Street,
Mumbai- 400 001
**(SCRIP CODE 539871)**

Dear Sir/Madam,

**Sub: Transcript of post results earnings conference call held on August 01, 2023 with Analysts / Investors**

**Ref: Disclosure under Regulation 30 of the Securities and Exchange Board of India (Listing Obligations and Disclosure Requirements) Regulations, 2015 ("SEBI Listing Regulations")**

Pursuant to Regulation 30(6) and 46(2) read with Part A of Schedule III of the SEBI Listing Regulations, please find enclosed herewith the transcript of earnings conference call with Analysts and Investors held on August 01, 2023.

We wish to add that the same has also been made available on the website of the Company (www.thyrocare.com).

This is for your information and records.

Yours Faithfully,

For **Thyrocare Technologies Limited,**

Dorai Ramjee
Digitally signed by Dorai Ramjee
Date: 2023.08.04 19:40:14 +05'30'

**Ramjee Dorai**
**Company Secretary and Compliance Officer**

# "Thyrocare Technologies Limited

# Earnings Conference Call"

# August 01, 2023

**MANAGEMENT:** **MR. RAHUL GUHA – MANAGING DIRECTOR AND CHIEF EXECUTIVE OFFICER – THYROCARE TECHNOLOGIES LIMITED**
**MR. PRATIK HIRE – STRATEGY TEAM – LEAD INVESTOR RELATIONS – THYROCARE TECHNOLOGIES LIMITED**
**MR. ADITYA SHINDE – VICE PRESIDENT, FINANCE – THYROCARE TECHNOLOGIES LIMITED**

**Moderator:** Ladies and gentlemen, good day, and welcome to Thyrocare Technologies Limited Earnings Conference Call. As a reminder, all participant lines will be in the listen-only mode. 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 star then zero on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Pratik Hire from Thyrocare Technologies Limited. Thank you, and over to you, sir.

**Pratik Hire:** Thank you, Dorwin. Good evening to all, and thank you for joining us today for Thyrocare's earnings conference call for the first quarter of the year FY '24. Today, we have with us Mr. Rahul Guha, MD and CEO; and Mr. Aditya Shinde, VP Finance, to share highlights of the business and financials for the quarter. I hope you have gone through our results release and the quarterly earnings presentation, which are now uploaded on the stock exchange website. The transcript of this call will be available in a week's time on the company's website.

Please note that today's discussion may be forward-looking in nature and must be viewed in relation to the risks 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 Relations team. I now hand over the call to Mr. Rahul Guha to make the opening remarks.

**Rahul Guha:** Thank you, Pratik. Welcome. Good evening and a warm warm welcome to all on the call. Thank you for making the time out on the evening time to join us. My name is Rahul Guha, I'm the MD and CEO of Thyrocare and will take this opportunity to present the Q1 results of FY '24. As Pratik said, I'm joined with Aditya Shinde, who is our VP Finance, who will take us through the numbers and Pratik, who is part of our strategy team and leads Investor Relation.

As always, before we begin, I will start with the quote from the Mahatma. The future depends on what you do today. And so, I wanted to give some of the key highlights of what we've been up to in the last quarter. I'll start off with some good news. We have received payments of INR38 crores from NHL for the testing done during the COVID period. We still have an outstanding of about INR13 crores, which has been provisioned in the book.

Another big change that we implemented this quarter is a pay-for-performance pricing structure. Earlier, our discount structure was one size fits all, but now we have moved to a slab-based pricing model, which we implemented in May of 2023. This has led to an increased synergy with our franchisee network with motivation to move up volumes and enter higher slabs. This has resulted in both volume and value growth in this quarter.

Our efforts in our franchisee business to go deeper into India with a focused test menu continues. And this quarter, we added 385 transacting franchises. We also continue to selectively expand our offerings. As I shared last quarter, we launched Jaanch packages, which is our investigative or sickness brand. Just to remind all of you, our Jaanch lineup is targeted towards lifestyle challenges or for you to better understand your health. We have solutions across this spectrum for anything you might be worried about.

Is it fever or something more serious? Why is my hair falling, might be I have cancer through our cancer screening as well as deep investigations for common chronic diseases like diabetes, heart ailment, PCOS, amongst others. Jaanch is already doing INR70 lakhs of monthly business, and we also launched Troponin I Heart Attack Risk to assess the early risk of heart attack as part of our Jaanch series. In addition, we have revamped our Gynec portfolio and relaunched it under the name of Her Check.

So that's on the Jaanch for packages front. We've also revamped our equipment platform. Our equipment was quite old with an average life of 12 years. We have added 24 new machines from our vendors in the last year, bringing our average life span down to 6 years. These new additions have dramatically improved our reporting accuracy and turnaround time. As I shared, we have equipment-financed these machines over a period of 5 years.

In the partnership business, unfortunately, we had a setback due to the degrowth in API business and the closure of the MCGM contract. The remainder of our partnerships business has been steady. And as we add new partners and continue to bid for tenders with the government, I think we will be able to close this gap shortly. On the international expansion side, we are on track to start operations in Africa before the end of this financial year.

As we get into the results, I wanted to share with you a few highlights or main pointers before Aditya deep dive into the same. Our franchisee business, which accounts for 2/3 of our business showed a strong revenue growth of 16% year-on-year. However, our partnerships business saw a decline. As I mentioned earlier, largely because of API and the closure of our MCGM contract. The API Group revenues and MCGM together account for INR6 crores of the degrowth in the partnerships business.

Some of the other health tech partners also faced degrowth. However, that gap was filled by onboarding new clients. And overall, the partnership business has remained steady. Our margins have expanded this quarter, primarily due to gross margin expansion because of the improved efficiency of the new machines, exit of lower-margin government business and our costs have remained controlled year-on-year with both manpower and overheads more or less flat versus last year. Our radiology business did a revenue growth of 30% year-on-year. And overall, we did a 6% year-on-year revenue growth.

With that, I'll hand over to Aditya to cover the results.

**Aditya Shinde:** Thanks, Rahul. Good evening, everyone. So, I'll briefly update you about the key highlights of Q1 FY '24 financial performance. But before we get into the details, I'll reiterate something we've been telling for quite a few quarters now about the ESOP program that we've been mentioning. This program has been introduced by the API to retain talent at Thyrocare. The ESOP of parent company will invest over a period of 6 years, out of which one has already passed, so we have 5 more to go. And we are recognizing the same as per the India's IFRS as a book entry towards the share-based payment.

The total value of the ESOP is close to INR45.53 crores to be prorated over a period of 6 years. Out of this INR45 crores, we already provisioned INR24 crores. So, there is only halfway to go.

But one thing we all know that this is a cashless charge being an ESOP. It is no way affecting my cash flow. And as for Ind AS options are valued at the grand date as per the Blacks and Scholes, which is a charge to the P&L over the vesting period.

The breakup of this INR45 crores year-wise is given in our quarterly presentations. As these are not operating expenses and do not impact the cash flow of the company, we have normalized EBITDA, which takes into account along with the provision for RTD. Along with this, I'd also like to say that this is not -- this doesn't dilute the Thyrocare equity in any way. So even after the 5-year period, whenever the ESOPs are vested, it will not impact the Thyrocare equity in any way. To go into the performance, our overall revenue saw a growth of 6% Y-o-Y. This is consolidated. And this has been driven by a 16% growth in our base franchise business.

As far as EBITDA margin is concerned, our stand-alone EBITDA at a normalized level stands at 33% versus 29% same quarter last year. The EBITDA margins in our Radiology segment stood at 12% versus 23% same quarter last year. There has been a dip in the EBITDA margins in Radiology because of increased CMC costs and reduced gross margins. While the consolidated normalized EBITDA margin stands at 31% versus 28% same quarter last year, which is a 15% Y-o-Y growth in EBITDA margins. With these brief highlights, I'll pass it back to our MD and CEO, Mr. Rahul Guha, for the strategic updates. Thank you.

**Rahul Guha:** Thank you, Aditya. I'll just once again take a few minutes to recap our strategic direction, and then we'll go into Q&A. First, as always, our value proposition to the customer. We will continue to remain an affordable option to all patients with good quality and on-time reports. All of our efforts on our value proposition is towards ensuring this low cost to the patient, assurance on quality of testing to our certifications and engagements with doctors. We have made substantial progress on this, which I updated in my initial comments and is also reflected in the presentation in the chapter on raising the bar on quality. This remains at our core and will guide all that we do.

Second, our strategy. We continue to remain the B2B partner of choice to all front-end diagnostic services companies in India, whether it is a small diagnostic centre in a semi- urban area, a pharmacy in the metro, a small nursing home, an individual doctor or a leading online diagnostics platform or health tech marketplace. 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 networks phlebotomists to serve them better.

This strategy has been working well for us with our franchise business at an all-time high. And hopefully, the headwinds in the e-commerce space will abate, and our partnerships business will be back on a strong growth trajectory. As I outlined last time in our strategy, we have 3 key pillars of growth. The first is our franchise business. The focus is to take our franchise business deeper into India. As I've shared, we are actually largely Tier 2 plus as an organization. And we will continue to go deeper into India with a focused test menu and provide our clients with a frictionless experience to transact with us and provide their customers the best testing experience that they can.

We will continue to focus on private as well as public partnerships. In the public space, we will focus on TB, an infectious disease, where we are by far one of the strongest players in this segment. Additionally, we will continue to expand our partnerships across health care companies, hospitals and other health services companies to enable them to provide diagnostic testing to the customer. The third area is new for us. As I said, we have a strong and robust B2B model with a core of execution. We believe there is a lot of opportunity to take this model internationally, and we will start to look at emerging markets where we can bring this model to provide affordable testing into these emerging markets.

As I mentioned, we are on track to have our operations in Africa start by the end of this year. And I'm hopeful after that, we will look at newer opportunities to expand the international business. That in a brief is our mandate as management. Thank you for giving us a patient hearing. I'll once again end with the quote from the Mahatma, which I always do. Find purpose, the means will follow. And as always, our purpose remains to provide affordable, high-quality testing to the masses. With that, we'll open up for Q&A.

**Moderator:** Thank you very much. The first question is from the line of Rahul Agarwal from Incred Capital.

**Rahul Agarwal:** A few questions. Firstly, on the partnership. Is this the new normal? Like should we assume INR30 crores, INR32 crores of run rate going forward as sustainable?

**Rahul Guha:** I think, look, I don't think the dip is -- I would say, I think INR32 crores is an anomaly because we haven't had the time to plug the government contracts since we lost the MCGM contract. So, I would say in the INR35 crores range would be the new normal.

**Rahul Agarwal:** Okay. I get it. Secondly, on the price hike, the presentation mentioned about some hikes taken in the quarter. Just wanted to clarify, was this like done on specific test or it was largely a mix impact?

**Rahul Guha:** Actually, as I mentioned around at the beginning, we moved from a base of performance structure. So earlier, we used to have a universal discount regardless of whether you were a small client or a large client. So, what we have done is move to a greater discount or a slab-based discount structure. So as a result, some of the smaller clients saw a higher price hike and the larger clients did not. So that's what you see there. So, it's not really mix, it was across the board, more determined by how large a client you were.

**Rahul Agarwal:** Got it. So, this -- the number should continue it as well, right, because the system has changed permanently. So, this should be retained by the company, right?

**Rahul Guha:** Yes.

**Rahul Agarwal:** Okay, got it. And just purely on MCGM, when did this contract actually close? And what was the revenue number for fiscal '23?

**Rahul Guha:** Okay. So, it was roughly INR1 crores a month, and it closed on 4th April.

**Rahul Agarwal:** Okay. And is it worth discussing Pulse Hi Tech financials? I think it's consolidated nuclear. I know it's very small, but any -- what is the contribution and the potential ahead for this business?

**Rahul Guha:** See, it's only 1 centre, as I have shared in the last couple of calls, it's a pilot that we are doing in the Radiology business. It's too small to spend time on it just now.

**Rahul Agarwal:** Got it. And last question is on tax rates. The effective tax rate for the quarter is 31%. Any adjustments done here? Or is it like it will come back to 25% for the full year?

**Rahul Guha:** Aditya, do you want to take that?

**Aditya Shinde:** So yes, there have been a deferred tax one-off entries this time. It should normalize to 25%, 26% plus or minus 2% going ahead on a sustainable basis.

**Rahul Agarwal:** What was the quantum of the adjustment, please?

**Aditya Shinde:** So, the net tax asset has been roughly INR3.5 crores to INR4 crores taken this quarter.

**Moderator:** We have the next question from the line of Rahul Agarwal from Incred Capital.

**Rahul Agarwal:** Sorry, I thought I'll continue with the conversation, did the point you guys enter the queue. One, on the commentary, Rahul, you mentioned some other health tech platforms apart from API also degrew, could you explain how the market actually shaping up because these are the guys who are competing pretty hard, both on B2B, B2C and the entire industry had some issues around pricing and competition. Could you just elaborate a bit what is really happening in this part of the market?

**Rahul Guha:** Yes. See, I would not want to name specific companies. But I would say the partnerships are -- it really depends on what is the nature of the partner. I would say the more services-driven partners have been largely stable. The more product supply-driven partners, that is where the dip is coming.

**Rahul Agarwal:** Okay. Got it. So, it's more like pure product aggregators have degrown. Is that correct?

**Rahul Guha:** Yes. I would put it that...

**Rahul Agarwal:** And on Africa, you want to talk a bit more as in -- obviously, it starts by year-end, but how are we going about building the network there? Like have we hired people, how are we building the network there?

**Rahul Guha:** So, in Africa, there is a team on the ground right now, finalizing the lab location and placing the equipment orders. We have a daily partner who is actually helping us with the market development part of the business. They are a very large distributor in that country. And so, they will be helping us with the market development. We are in the process of actually hiring that sales team at this point in time.

**Moderator:** The next question is from the line of Kahlil Randeria from Ruliad.

**Kahlil Randeria:** My question is really on the strategy of going to Africa. And is this the first of others to come? And so, let's start with that, and then I can take the second one.

**Rahul Guha:** Sure. I had -- in the last call, Kahlil, identified 3 regions that we would be looking at. Africa was one. Middle East was the second and Southeast Asia was the third. So, our foray in Africa, the first foray in Africa is this year. Once we are able to wrap our minds around this part of the business, then we would look to the Middle East.

**Kahlil Randeria:** Okay. And I would imagine you would have some sort of an advantage over here, which is why you wanted to get in here. And if so, if you could just remunerate a few of them.

**Rahul Guha:** Sure. So one is, actually, it is about replicating our India competitive advantage, which is low-cost, good quality testing through a centralized network at high scale, right, that allows us to bring the prices down substantially in these markets. And that is the strategy that Thyrocare has been built on. We are effectively replicating that same strategy in Africa where there is a large out-of-pocket paying population.

And so therefore, they are always looking for an affordable option. And it allows us to take the India model, which has worked very well into that market.

**Kahlil Randeria:** So, pricing would be similar over there or it's much higher?

**Rahul Guha:** Pricing is much higher currently. On average, the pricing from our market study has been almost 3x India rate. But the cost structure also tends to be higher. But we believe with the large-scale centralized lab, we should be able to go in and bring cost-to-the-patient down substantially.

**Kahlil Randeria:** Sure. And in terms of working capital, is there anything over here? Or would it all be direct to you? Would you have an intermediary and then you will have a working capital need to be met over there?

**Rahul Guha:** So, we are setting a JV operations there. So, the invoicing will happen in the JV. To a large extent, when you're running a B2B model, particularly with a focus on hospitals and servicing other diagnostic labs for their outsourced need, you require a certain amount of working capital, but it is in the 30 to 60 days range, not longer than that.

**Kahlil Randeria:** All right. My second part of the question is really on -- you had mentioned that there is a -- you have reset the EBITDA margin to a certain level. And you also say that you continue to remain to be a low cost, I would imagine one of the lowest cost providers of this business. How do you expect that to play out over the next 24 months, given that you had substantial time that you spend with Thyrocare already so far?

**Rahul Guha:** Sure. Although it's been 14 months at Thyrocare, yes, look, if you see quarter-on-quarter or year-on-year, if you compare versus quarter 1 of last year versus quarter 1 of this year, our manpower cost or our employee benefit expenses and our other expenses are more or less flat. We have not allowed any or very tiny increase in that cost structure. And therefore, with the pricing strategy that we have taken in the market and all of that, we've been able to also improve the EBITDA margin quite healthily, I would say, over the last year.

Of course, one should not expect this kind of trend as we move into the next year. But I do believe that we will continue to remain focused sharply on our costs and ensure that operating leverage comes through.

**Kahlil Randeria:** So, would you -- earlier when Mr. Velumani was running at, it was more like a 40%-odd kind of a number. Is that anywhere on the horizon? Or do you think this is more or less a reset permanently?

**Rahul Guha:** So, as I said, when it was a 40% EBITDA business, and I think this quarter, we've executed Thyrocare stand-alone at 33%, right? So, the gap is about 7%. That investment in EBITDA has gone into 2 areas. One is expanding our lab network. And so earlier, we had a much more consolidated lab network. I think in today's competitive environment, turnaround time of at least 24 hours is required or turnaround time, if you see in the presentation, could go as high as 48 hours. So that has been 1 investment that we have made in ensuring that we are able to bring our all-India turnaround time within 24 hours.

That results in higher rental costs and all of that as -- in our cost structure. And the second investment that we have made is largely on the quality side. Actually, very few of our labs had pathologists. Today, all our labs have pathologists overseeing the operations and are able to interact with doctors so that if they have any queries or complaints, they can address them in a timely manner.

And that cost structure is an investment that we have made. So, we've made 2 large investments. One is in our lab network and the other is in our quality, particularly when it comes to having pathologists in each of our labs. So, I think if you were to ask me, will we go back to 40%? I think that will be a difficult journey. However, I do see scope for still some margin expansion from where we are today.

**Moderator:** We have the next question from the line of Saurabh Shroff from QRC Investments.

**Saurabh Shroff:** My first question is on the ESOP. I'm not sure if all have covered it in the past, but any reason why the management is taking up in unlisted parent rather than the listed operating company?

**Rahul Guha:** That is how it was structured at the time. So, I mean, that was the parent company, and the time was to be listed very shortly. And it was felt that instead of diluting Thyrocare shareholders who, at that point, the management was quite new into this organization. It was felt that it would be best to, how do you say, create these or pool at the parent. As you know, Thyrocare has an ease of pool already in place, but it is quite limited in the number of options and the -- it was also quite restrictive in terms of the grant period and the exercise period and so on. So therefore, overall, I think the group decided to grant options at the group level. And that was a call taken at that time.

**Saurabh Shroff:** So, if for whatever reason, the parent does an IPO, there is still no fallback or the management to get compensated for the good work that they will do with Thyrocare in any way? I mean, essentially, the management is running the risk of not getting compensated for whatever reason, the IPO doesn't happen. Is that fair to understand?

**Rahul Guha:** Yes. I would say, yes, that could be a risk overall.

**Saurabh Shroff:** Okay. And secondly, I guess just circling back on the slowdown in the business from the parent, you said that you expect this to normalize over time. I didn't catch the run rate that you think -- that you mentioned that we should sort of work with.

**Rahul Guha:** So, I had said we should normalize at about 35%. Actually, that is because we have been bidding very aggressively for a number of government contracts and some of them hopefully will come through in this quarter or the next. I anticipate that the API group level, it will remain at the level that it is, which is roughly about INR4 crores a month. I think that is the range that it will remain as it used to be about between 5% and 5.5% in its peak. But I expect -- I don't expect it to move below 4%, but I think it will be a while before it recovers back to 5%.

**Saurabh Shroff:** Okay. And on this partnership business, what is the split between government and nongovernment, is it sort of -- I know there has been a runoff on the government business, but typically, is this something that you try to sort of solve for? Because I would imagine the government business is not at the same margins, right? Or is it?

**Rahul Guha:** No, the government businesses at a substantially lower margin. Actually, in that -- after the COVID, business that we had done, the only government business that we had was our TB business, which continues and the MCGM contract. MCGM, as I shared, was roughly INR1 crores a month, and our TB is roughly about INR50 lakhs, I think, a month. So, you could say about INR4.5 crores in that INR32 crores is our government business -- in that INR38 crores is our government business, of which INR3 crores is completely gone.

**Saurabh Shroff:** Okay. Got it. All right. So that's why you are saying that it should come back to that 35% kind of a number.

**Moderator:** The next question is from the line of Amit Aggarwal from Leeway Investments.

**Amit Aggarwal:** Just a have a general question. What is the business model adopted advanced companies like U.S. or Japan, because I don't think they have a system of calling it cleaning and asking for diagnostics test. Do they buy tests over there? Or what is the future of this business model 20 years ahead or 10 years ahead?

**Rahul Guha:** So, I'll take up the question a little bit, Amit. I think in the U.S. and in many developed markets where the entire health system is reimbursed, right, actually, a lot of the diagnostic testing is largely controlled by the -- not -- I wouldn't say control, but largely mandated either as part of the annual health checkup of your insurance company or with the doctor, right? And that is because those are largely reimbursed economies.

In India and a few of the emerging markets that I highlighted, it is very much a self-pay market, where effectively you go and pay for your doctor visit, you pay for your insurance -- sorry, you pay for your diagnostic test, you pay for your medicines out of pocket, right? And in this kind of economy or in this kind of health care system, actually having good diagnostics plays a very critical role because the early, as they say, a stitch in time saves 9. We all know the difference between diagnosing diabetes early versus late cancer versus early versus late.

So at least it is my view that in the emerging markets, diagnostics will continue and for as long as I can see it, play a very critical role in helping patients identify diseases early, helping governments also manage the cost of health care with early diagnosis and then better treatment. So, I don't think -- I do believe the business model of diagnostic testing out of pocket is, of course, largely prevalent in emerging markets as is branded generics and other health care nuances that are largely related to out-of-pocket markets. But I think in out-of-pocket markets, you will see that diagnostics plays a very critical role.

**Amit Aggarwal:** Because my worry is that I read in the descriptor that Google also entering into this testing. And soon, they will have an AI model which replaces all the testing in the future. Is it possible? And can I buy some kit in the future for testing myself the cluster or diabetes or something like this? How can -- and this market could shrink, calling somebody to get a test done at home?

**Rahul Guha:** No. See, many of these tests still require final confirmation through a diagnostic test. So if I take the example of HbA1c, you can get HbA1c kits that are very much like the rapid kits that we use during COVID, where you can do a skin prick and get a reading of your HbA1c but in 99% or 100% of those cases, if you have elevated HbA1c or even normal HbA1c, most people will recommend that you do a confirmatory test, right? And some of these are, I would say, more screening rather than confirmatory technologies.

So, I think if you're a diabetic, you will need to do an HbA1c once every 6 months for the rest of your life. Yes, the first time you may be able to do a quick iPhone camera and see that you may be diabetic or at risk of diabetes. But the testing life cycle is very, very long when you're a chronic patient.

**Amit Aggarwal:** But because in India, we did for general testing and after 6 months or 1 year, is just a normal test over all the problem solution have in the bordereau, can this market shrink over market in shrink, is a possibility, what is the chance of that?

**Rahul Guha:** See, I think we are far away from a single technology like a phone-based platform, replacing all the possible health checkup -- all the possible health parameters in our health checkup. If the technology could be advanced to a point where you may be able to do screening for very specific 1 or 2 largely diabetic parameters, right, but I think we are a long way from an annual health checkup happening on the phone.

**Moderator:** The next question is from the line of Aditya Khemka from InCred Asset Management.

**Aditya Khemka:** Just a question on the partnership business again. Just help us understand a little better. We understand that it has dipped. But why would the API platform revenues dip from the previous subdebt of INR5 crores a month to INR4 crores a month now? I mean what was the problem or the challenge that, that business faced?

**Rahul Guha:** As I said earlier as well, I think there has been a movement towards a part to profitability as which actually most of our health tech platforms. So, I think the burn model, or the deep discount model has pulled back substantially, right? And as a result, volumes have come down. And actually, I've seen that across, as I shared, across most of the aggregator or product-based marketplaces where they have pulled down substantially the discounts. And as a result, we have seen a bearing down on volumes.

**Aditya Khemka:** Got it. So, it's mostly volume-driven. And I can see that data in your presentation as well. Okay. So, API, understood. What was the challenge on the B2G side? Because given the numbers that you have spoken, the decline is not only in the API business, there is a decline on the B2G business as well. So, could I understand a little better on what's happening there?

**Rahul Guha:** That is, as I mentioned, the MCGM tender, which used to account for about INR1 crores a month of our business, that tender when it came for renewal, the pricing that was what was there was we had quoted our best possible rate protecting our margins. And we lost the tender to go below that, what we had bid didn't make sense for us. So, we didn't pick up that tender. Also, given that we had so much government receivables in the last quarter, we were very cautious about what we would bid for and what we would go after.

I think now with a lot of the government receivables having come in and with line of sight on at least many of our payments, I think now we are more comfortable looking at this business and seeing how we can participate most strongly.

**Aditya Khemka:** Got it. So, excluding API and government business on the B2G channel, the numbers seem to then flatten out, right? Because you lost INR1 crores a month on the government and INR1 crores a month on API. So that INR6 crores that we can see Y-o-Y, that I understand. Now coming to the rest of the B2G business, excluding government and API. Why was there no growth? It was Y-o-Y flat. So, I mean, even if you haven't added partners, your existing partners would have given you a higher volume Y-o-Y, right? So, what exactly went wrong there?

**Rahul Guha:** Yes. So, as I mentioned, API is one of our partners, which I can talk about because in a way, they are our parent. But we had a multiple of other partners whose volumes also pulled back, right? But we were able to cover it up by adding new partners and getting that business flat. As you know, Aditya also -- Q4 tends to be the best quarter for partnerships because we get into the annual health checkup and all of that. So, the fact that we were able to maintain between the non-API, non-B2G partnerships as the same level as Q4 of FY '23 was also reasonably good.

**Aditya Khemka:** Yes. No, I get that. Now coming to the B2C business, right? So, I see a topline growth of about 15%. So that INR6.5 crores going to INR7.4 crores but I see a workload growth of about 30%, so 1 crores samples probably going to 1.3 crores samples, which means realizations dropped there, right? I mean so in an environment where health tech companies are reducing discounts and moving to profitability, on our B2C franchise, it seems our realizations are dropping. So, I just want to understand a little better what the strategy there is?

**Rahul Guha:** No. Actually, that's -- I can explain it. I'll try to simplify it as much as possible. One of the things that we launched was upsell for our D2C platform. So, if you place an order on Thyrocare, typically, this level would ask you if you would like to add 1 or 2 additional tests at the time of collection, those tests get that collected in another sample. So effectively, what you're seeing there is the additional tests getting added on, which is getting reflected as higher volume.

But if there was a INR1,000 package and you added a INR300 test at the time of collection, yes, on a per-sample basis, the realization has gone down. But you will find on a per-patient basis, our realization has gone up.

**Aditya Khemka:** Right. So, the right way to look at it is not really on a per sample or a workload basis, but to look at it on a per-patient basis?

**Rahul Guha:** Yes.

**Aditya Khemka:** Maybe that should be the rate we should be sharing in the back, right, in terms of per patient, but we... I understand the conundrum there. Yes, I get that. So, Rahul, given that we have done only 6% topline growth for various reasons in the first quarter, so how would you guide us to your FY '24 topline? Market doesn't seem to be growing at what we thought was 10% growth from the market. Your pincode-driven growth seems to be there because your franchise business is growing, but not at the rate that we had thought. So, what would you believe would be your guidance for FY '24 in terms of the topline?

**Rahul Guha:** See, there, I just -- I mean our franchise business grew 16% year-on-year, right? If you look at -- and if you see our franchise business, it has even grown over Q4 of last year. So, both, if you look year-on-year, it was 16% and Q4, which typically tends to be the best quarter, we've done better than that in this quarter as well. So, I am quite bullish about the franchise business and its prospects.

I would expect to sustain the growth that we've seen in the first quarter through the year. I expect that in the partnerships, if we can get back to a 35%, 36% average, right, I would be happy of where we are. So, I think the weighted average of that would probably land you at about 12% and 14% overall.

**Aditya Khemka:** On 40%. And in terms of margins, I heard you say that there is still scope for improvement, but I must comment to you on the margins that we are doing, at least on an adjusted basis once we call out the soft costs. So, on the margin side, 31% for this quarter, am I right? What would you say would our full year margins look like?

**Rahul Guha:** I would say, in that range, Aditya, plus minus 1%.

**Aditya Khemka:** Got it. One last question. So, you mentioned you received some money from the government, and I believe some of this was already provisioned for. So, I don't see a write-back of provisions in the financial statement. So can the CFO, please help me on this front? What's happening there?

**Rahul Guha:** I can take it, and I'll ask Aditya to add on. We are still waiting for -- as I said, there is still some payment left, right? So, the entire receivables now has been provisioned. We're just waiting for the final closure on the payments to evaluate what is the full write-back. We wanted to do it in 1 shot. So, we're just waiting. I think we'll get complete clarity at the end of this quarter, and we'll take a call then. Aditya, you have anything to add?

**Aditya Shinde:** Yes, that's right. So, we are fully provisioned. In fact, we are overprovisioned. But then before we write back and reverse these provisions, we would like to wait at least 2 quarters to get a full view of how much is the final -- full and final settlement coming from the government parties, especially the NHM project. And once that visibility is there, we'll be proceeding with the write-back or reversals of these provisions. But no more province or...

**Aditya Khemka:** Aditya, is this a good quarter, we have provided another INR1.3 crores. So, is this not related to the government?

**Aditya Shinde:** This is partially related to the government. So typically, we provide this is an ECL model and basis our alignment with the statutory auditors. So, basis that INR1.29 crores is towards -- some part of it is towards government because we still have INR9.9 crores of government receivables. And a part of it is also for the corporate business as we've been subscribing to. So, yes.

**Aditya Khemka:** Sorry, I have one more question. Can you guide us to your full year capex number for this year? And what is our current cash or net debt position, if you can help us with that?

**Rahul Guha:** Aditya, you can take that.

**Aditya Shinde:** Sure. So, for FY '23, we did close to INR40 crores of capex. In FY '24 as well, we are expecting a...

**Aditya Khemka:** You are guiding for FY '24, right?

**Aditya Shinde:** Yes. I'm guiding for FY '24. So, FY '23, we did INR40 crores. FY '24, we should be doing close to INR45 crores, out of which, in Q1, we have already spent INR1.8 crores, right? So, balance will be spent largely towards maintenance capex, INR20 crores of INR15 crores and another INR10 crores for overhauling our IT infrastructure and large physical infrastructure plan India, another INR10 crores for the international expansion. So overall, INR45 crores is what we are budgeting this year towards capex. And out of that INR45 crores, INR10 crores has been incurred in Q1 '23.

**Aditya Khemka:** Right. And the current cash position?

**Aditya Shinde:** So currently, we are sitting on a cash of INR80 crores, both Thyro and ESL put together.

**Aditya Khemka:** 8-0?

**Aditya Shinde:** INR80 crores, correct. That's right. And these are marked in the debt mutual funds, essentially.

**Aditya Khemka:** So, Rahul, I have one more because I hope there are no people waiting in the queue. On the B2C side, obviously, when we look at the other companies, which are listed diagnostic labs, they have a fairly profitable B2C business model. Could you talk to us a little about what initiatives we are taking on the D2C side?

I know it's a small baby right now, but this model definitely has potential. So, can you talk to us a bit about what you're doing? What are the initiatives they're taking here? And how would you -- what is your right to win in the D2C space?

**Rahul Guha:** Yes. So, on the D2C side, to a large extent, we are learning from our partners in the B2C side of the business or the partnerships where all of them run a number of health tech platform. So, we are learning from all of them. For example, most of the growth that you've seen over the last year in our D2C has come largely organically, mostly through remarketing, which we have effectively learned going back to our old customers, being able to mine the data and see when it is time for them to retest.

That has worked very well for us. The other was what we call multi-patient or adding more patients to the same order. And as I talked about also what we call upsell, which is at the time of collection, asking the patient, if they would like to add any other tests and so on. We have still not reached the point, Aditya, where we think it is -- it makes sense to put, how do you say, marketing dollars behind this because the ROI is still -- the cost per lead acquisition on Google and Facebook and all of them still remains exorbitantly high.

So, we still haven't invested in the, what we would call, marketing burn model or the marketing-led model. We are trying to maximize the organic traffic that we have right now and also leveraging our franchise business, along with our online business to be able to service orders deeper and deeper in the country.

**Moderator:** The next question is from the line of Rahul Agarwal from Incred Capital.

**Rahul Agarwal:** On the NABL accreditation, are we done largely this 20 or 31 or we are looking for more accreditation please?

**Rahul Guha:** I think 20 out of 31 are our largest labs. I think now we are at almost 85% of our samples processed in a lab -- in an NABL lab. What you should know also is NABL is a biyearly process. So almost every lab will go for their NABL renewal, either this year or in the next year. So that keeps us on our toes. I don't anticipate to increase this number beyond 24.

**Rahul Agarwal:** Got it. And last question from my side was, you mentioned we're trying to recoup the partnership business through bidding for some new government contracts. I'm assuming and please correct me if I'm wrong, that these contracts will be actually bid by the partner and not by Thyrocare. And hence, the entire billing risk is on them and not us. Is that correct?

**Rahul Guha:** No. In that -- in the government business, we have to participate as the principal. So, we will be billing, and the billing risk will be with us. But we are being cautious, as I mentioned, focusing on areas where we have a right to win and are our strengths, particularly in TB, an infectious disease. And so that's where we have actually limited the scope of our participation in the government contracts.

**Rahul Agarwal:** Okay. So, this is not in partnership with any partners, this is direct Thyrocare going and bidding for new contracts, which obviously you have been trying to be very conservative on this. Is that correct?

**Rahul Guha:** Exactly. That's correct.

**Moderator:** As there are no further questions, I would now like to hand the conference over to Mr. Pratik Hire for closing comments. Over to you, sir.

**Pratik Hire:** Thank you, ladies and gentlemen. On behalf of Thyrocare Technologies, that concludes this conference. We thank you all for joining us.

**Moderator:** Thank you, everyone, for joining us. You may now disconnect your lines.