

Kahaani Zameen Par | Second Edition | Dr. Lal PathLabs Ltd.

On ground diagnosis

6th November 2017

BSE Code - 539524 | Scrip Name - LALPATHLAB | CMP - INR 826 | Market Capitalization ~6,883 crores



Investment Thesis	On-ground findings	View
<p>USP of Dr. Lal PathLabs</p> <ul style="list-style-type: none"> ✓ Report Accuracy ✓ Doctor Referral 	<ul style="list-style-type: none"> ✓ More than 55% of the franchise owners we spoke to said that <i>the report accuracy of Dr. Lal is very good. Dr. Lal PathLabs reports are trusted by doctors.</i> <i>“Most doctors ask for Dr Lal PathLabs report. All defence personnel at the time of recruitment have to go through medical screening test with Dr Lal’s only” – South based franchise owner.</i> ✓ More than 20% of franchise owners have mentioned that Dr. Lal has a very good doctor referral 	<p>Positive: This will help Dr. Lal PathLabs to grow</p>
<p>Competitive Pricing</p>	<ul style="list-style-type: none"> ✓ Thyrocare is the cheapest amongst the organized chains across regions (67% of responses) ✓ However the key competitor of Dr. Lal PathLabs is SRL (88%) and Metropolis (75%). Few of them have mentioned that Dr. Lal is cheaper than SRL as well as has better quality report <i>“SRL is costly, Dr Lal PathLabs is cheaper and has a better quality report” - South based franchise owner.</i> 	<p>Neutral</p>
<p>Recent focus on technology and service quality</p> <p>There is an increase in competition in India in the diagnostics sector. To acquire new customers and to retain existing, players need to improve in terms of quality services and report delivery timing.</p>	<ul style="list-style-type: none"> ✓ More than 81% have said that there is an improvement in service quality as compared to previous year – Same day reporting, resolving of customer queries etc. ✓ ~40% of franchisees have mentioned improvement in technology in terms of availability of online reports <i>“With the help of regional labs, PSCs are able to deliver reports to customers within 12 hours” – West India based franchise owner.</i> 	<p>Positive: With plans to set up regional labs in Kolkata and Lucknow, it will help Dr. Lal to improve service quality in those regions.</p>
<p>Addition of new tests in the portfolio</p> <p>Dr. Lal PathLabs is well positioned to gain by adding new tests and services.</p>	<ul style="list-style-type: none"> ✓ <i>Dr. Lal PathLabs has launched multiple tests in the last one year – cancer, new born baby screening tests, liver and kidney transplant detection tests, molecular, microbiology, RNA DNA test, Vitamin D ultrasensitive etc.</i> <i>“Dr. Lal PathLabs has 230 marker tests on cancer detection” – Doctor based in Southern region.</i> 	<p>Positive: This will help Dr. Lal PathLabs to grow</p>

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<p>Dominant market position in North India.</p> <p>Dr. Lal PathLabs is 60 year old brand in diagnostics industry and it is highly recommended by doctors in North India.</p>	<ul style="list-style-type: none"> ✓ All the franchise owners (100%) have chosen Dr. Lal PathLabs in North India over other brands because of brand equity and brand loyalty ✓ As a result of strong brand recall, franchise owners incur no lead costs for Dr. Lal PathLabs in North India <p><i>"Patients and doctors blindly trust Dr. Lal PathLabs for report accuracy". – Delhi based franchise owner</i></p> <ul style="list-style-type: none"> ✓ However few franchise owners in North India have given feedback that because of internal competition they are under pressure to give discounts to customers 	<p>Positive: This will help the growth of Dr. Lal PathLabs.</p> <p>Cannibalization has started in Northern region. The management should take note of it.</p>
<p>Comparison - East vs. South vs. West</p>	<ul style="list-style-type: none"> ✓ Franchise owners in East and South are satisfied with Dr. Lal. However in East, 45% of franchisees are not seeing growth in samples. In South, franchise owners are seeing growth in samples but are facing issues of brand awareness ✓ Western region is a concern for Dr. Lal PathLabs especially Maharashtra and Gujarat wherein franchisees are shutting shops because of losses and lack of brand awareness <p><i>"In Western region we are not getting any support from company. We have not even reached break-even so planning to close down the franchise - Franchise owner, Mumbai</i></p>	<p>Positive: Setting up of Kolkata reference lab could help in the growth of Dr. Lal.</p> <p>Negative: This can hurt the business going forward. Management should immediately look at taking corrective steps.</p>
<p>Growth in Patient Service Centres (PSCs)</p>	<ul style="list-style-type: none"> ✓ Franchise owners are satisfied with Dr. Lal PathLabs in all regions except in Western India ✓ Most of the franchise owners (70%) are happy with the support from Dr. Lal PathLabs for marketing, sales etc. except in Western India ✓ Also satisfaction is high as there are no targets or penalties in Dr. Lal as is the case with Thyrocare 	<p>Positive: This will help in the growth of Dr. Lal</p>
<p>Share of Packages</p>	<ul style="list-style-type: none"> ✓ Share of Packages in total samples collected is very low in Dr. Lal PathLabs with around 15% ✓ Promoting/ selling packages is not the focus of franchise owners as the share of franchise owner is less in packages vs. individual tests. As a result they do not recommend packages to customers 	<p>Negative:</p> <p>Management needs to work on the sharing with franchisees if they plan to increase the share of packages</p>

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Business Economics

Patient Service Centres (PSC)					
Region	No. of samples Collected daily (Avg)	Revenue (Avg) Rs. in Lakhs per month	Profit % (Avg)	Satisfaction Level	Share of Packages in Total Samples - (Avg)
Overall	19	3.3	27%	Satisfied - 35% Moderately Satisfied - 47% Not Satisfied - 18%	20%
North	22	4.9	21%	Satisfied - 47% Moderately Satisfied - 37% Not Satisfied - 16%	15%
East	16	3.7	24%	Satisfied - 58% Moderately Satisfied - 33% Not Satisfied - 8%	17%
South	23	2.1	34%	Moderately Satisfied - 89% Not Satisfied - 11%	28%
West	16	2.6	28%	Satisfied - 18% Moderately Satisfied - 45% Not Satisfied - 36%	19%

Other Qualitative findings

- ✓ Overall revenue sharing between franchisee and Dr. Lal PathLabs is 67% for routine tests and 76% for test packages respectively
- ✓ A typical franchise earns a profit of Rs. 50,000-60,000 per month (20-40%) on an average with a focus to generate and collect samples of advanced tests
- ✓ Franchise agreement/contract is signed for 5 years, at the time of renewal there is no extra charge. The revenue share with Dr. Lal PathLabs is negotiable
- ✓ The franchise owners who have been in this business for more than 10 years are satisfied with Dr. Lal PathLabs franchise as they tend to have relaxed franchise terms and conditions as compared to other labs
- ✓ In case of Pick-up point (PUP) center, they can take up franchise of other brands at the same time. These are mainly doctors. All sample collection materials including courier charges to send test samples to regional labs are incurred by the company

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