

# ANNUAL REPORT

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2017-2018

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## Facts about us

Dr Lal PathLabs has a robust infrastructure at its core with a vast network that comprises a National Reference Laboratory at New Delhi, Kolkata Reference Lab at Kolkata and **191 other clinical laboratories, 2153 patient service centres, 4316 strong manpower and 5624 pickup points** that enable greater efficiencies and prompt diagnostic services to reach people.

- An exhaustive range of **pathology, radiology and cardiology** tests.
- Close to **7 decades of experience** in the world of diagnostics
- Trust of over **15 million customers**
- The specialty tests being promoted are mainly from high-end Molecular Diagnostics, Cytogenetics, Flowcytometry, Immunohistochemistry & Microbiology departments

New tests introduced in the market with special focus on creating brand identity

- 21 Rare disease genetic tests in the field of Neurology (Neuropro) covering Myotonic dystrophy, Ataxia & Mitochondrial Disorders in collaboration with CSIR-IGIB as our technology transfer partner
- High End NGS & liquid Biopsy testing under the Oncology portfolio (Oncopro)
- PD-L1 qualitative Immunohistochemical assay - assessment of Non-Small Cell Lung Cancer (NSCLC) and other tumors. PD-L1 expression is used to guide immunotherapy decisions.
- State of the art, LIQUID BIOPSY, ct DNA, EGFR test for detection of mutation in exons 19,20,21 & T790M required in lung cancer treatment diagnosis
- ONCOPRO LIQUID BIOPSY 73 Gene Panel with MSI for detection of somatic mutations and for personalized medicine using circulating tumor DNA (ctDNA)
- HEREDITARY CANCER RISK Panel for assessing the risk of hereditary cancer. The test covers 98 genes targeting 25 hereditary cancers. The genes selected are based on the NCCN guidelines and peer reviewed literature
- SwasthFit packages introduced for providing enhanced value to customers availing combination of tests.



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## From the Chairman's Desk

Dear Shareholders,

As a leading consumer healthcare brand, we believe that Dr. Lal PathLabs (DLPL) is the vanguard of transformation in the diagnostics industry. The largely un-organized sector is in the process of transitioning gradually to a more formalized set-up spurred in part, by the advent of last year's GST implementation. We find that our hub-and-spoke model lends itself well to these dynamics, wherein we are charting our growth as per our strategic imperatives in an evolving landscape. FY18 has served as a sterling example of how a well-trusted, established chain like DLPL can continue to create scale and brand equity in the face of multiple headwinds.

As we move forward, there are a few trends that we see emerging; the formal sector is expected to witness healthy competitive intensity from fund-backed players, who are seeking to accelerate growth. This trend, however is moderating and will instead serve to expand the ambit of the branded chains overall. The other trend is of greater regulatory oversight from both a pricing and compliance point of view. We see DLPL traversing these realities with confidence too, stemming from the trust the name inspires.

Looking at a macro perspective, the coming decades will see greater public spending on healthcare through dedicated and broad-based schemes aimed at the most vulnerable sections of society. Both Central and State Governments have created programs to formalize the delivery of services. The National Health Protection Mission (NHPM), a part of Ayushman Bharat, which intends to provide targeted health coverage to approximately 500 million of Economically Weaker Section (EWS) citizens comes under the umbrella of the Government's stellar health initiative. As an established chain, we see a role for ourselves in this scenario.

A methodical approach to expanding our network has helped to create scale and in-line with our strategic vision, we will stay on this path. We firmly believe that volume growth is the prime driver of the operation and our initiatives are lined-up to make that possible.



Over the coming months, we seek to increase volumes by way of expansion from the East and Central regions given that we have commissioned the Reference Laboratory at Kolkata and the traction building up in the wellness & preventive portfolio through bundled packages, under the umbrella brand name SwasthFit which provide greater value to our customers. This will be in addition to growth that will be realized from higher sampling across our existing network where we are adding capacity as per plan.

At this opportunity, I would also like to place on record my sincere thanks to all our well-wishers, associates, vendors, customers, employees and members of the Board who over several years have contributed to the success of your Company. Lastly, I would also like to thank all the stakeholders for their loyalty and continuous support in helping us achieve our vision of bringing quality health care to India's masses.

Warm Regards

A handwritten signature in black ink, appearing to read 'Arvind Lal'.

(Hony) Brig. Dr. Arvind Lal  
Chairman & Managing Director



## A word from CEO & Whole-time Director

As we exit Financial Year 2018, I am glad to share with you that we have overcome numerous headwinds during the year, and with our disciplined approach, we have delivered a healthy performance, with revenues growing at 15.8% and earnings after tax at 10.4%. It is heartening to note that the revenue growth has been driven by patient volume growth of 15% from 13.3 million to 15.2 million while samples processed grew by 18.5% from 29.3 million to 34.7 million YoY.

With the introduction of GST, the country progressed to a single-nation single-taxation regime; the diagnostics sector, being exempt from GST, consequently had to bear additional expenses towards higher input costs which could not be offset against output GST. Despite these additional costs we have largely been able to protect our margins.

I am also pleased to inform you that our infrastructure has been strengthened with the launch of our Kolkata Reference Laboratory (KRL) which commenced operations in Q4 2018. With this, our infrastructure now comprises 193 clinical laboratories, 2,153 patient service centres (PSCs) and 5,624 pick up points (PUPs) as on March 31, 2018. We will continue to build our infrastructure to get widespread presence and improve our accessibility within and around our selected geographies. We expect the presence of KRL will help in catering to the requirement from Northeast as well as Eastern regions of India and the neighbouring international markets.

Our efforts are always centered at driving growth through volumes and test-mix rather than through upward price revisions. I am also glad to share with you that our initiative to focus on the wellness segment and bundled packages, under the Umbrella brand name SwasthFit, is gaining momentum and this has been favorable in improving the number of samples per patient. Our business model will continue to focus on productivity improvement to have competitive pricing and use of consumer facing technology to build customer traffic. Focus on specialised high end tests, taken up over last few quarters are also yielding results particularly in North India including UP. This is also helping to increase samples per patient which have increased from 2.21 in FY'17 to 2.28 in FY'18.



Given the huge potential, we have decided to explore new channels that would augment the pace of our growth. With this vision in mind, DLPL continues to target expansion in the Southern and Western states with a focused city approach where we are continuously building both presence and visibility in centres identified for growth in cities like Pune and Bengaluru.

We are mindful of managing costs, optimising productivity and maintaining focus on service and quality, through our patient-centric approach. Our confidence in the model and the opportunity at large is driving us to expand our scale at an optimal pace as we implement our strategic vision of being able to bring our brand uniformly to patients across the country.

On this positive note, I would like to thank all our stakeholders for believing in us and being an integral part of our journey. I would also like to specially offer my appreciation to our Board for its continued guidance and for giving us the benefit of their rich experience. I also extend our gratitude to the innumerable investors, employees, vendors and patients for placing their trust in the DLPL brand. As a growing organisation, I am optimistic about delivering a performance that is commensurate with our position as a leading player in the diagnostics space.

Warm Regards

Dr. Om Prakash Manchanda  
CEO & Whole-time Director

## Board of Directors



**Dr. Om Prakash Manchanda**  
CEO & Whole-time Director



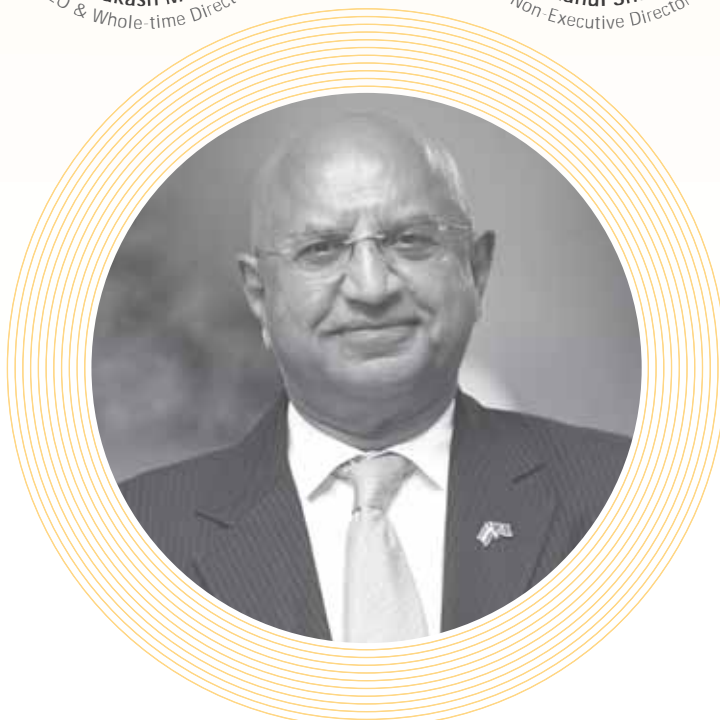
**Mr. Rahul Sharma**  
Non-Executive Director



**Dr. Vandana Lal**  
Whole-time Director



**Mr. Arun Duggal**  
Independent Director



**(Hony) Brig. Dr. Arvind Lal**  
Chairman & Managing Director



**Dr. Saurabh Srivastava**  
Independent Director



**Mr. Anoop Mahendra Singh**  
Independent Director



**Mr. Harneet Singh Chandhoke**  
Independent Director



**Mr. Sunil Varma**  
Independent Director



## Corporate Information

### **Company Secretary & Compliance Officer**

Mr. Rajat Kalra

### **Auditors**

Deloitte Haskins & Sells LLP,  
Chartered Accountants, 7th Floor,  
Building 10, Tower B, DLF Cyber City  
Complex, DLF City Phase-II,  
Gurugram -122002, Haryana, India

### **Registrar & Share Transfer Agent**


Link Intime India Private Limited  
44 Community Center, 2nd Floor,  
Naraina Industrial Area, Phase I,  
Near PVR, Naraina, New Delhi - 110 028  
Ph: +91 – 11 – 4141 – 0592  
Fax: +91 – 11 – 4141 – 0591

### **Corporate Office**

12th Floor, Tower B, SAS Tower,  
Medicity, Sector-38, Gurgaon -122 001  
Ph: + 91 – 124 – 3016 – 500  
Fax: +91 – 124 – 4234 – 468

### **Registered Office**

Block E, Sector - 18, Rohini,  
New Delhi – 110 085  
Ph: + 91 – 11 – 3024 – 4149  
Fax: +91 – 11 – 2788 – 2134



# BOARD'S REPORT

Dear Members,

Your Directors have pleasure in presenting the 24<sup>th</sup> Annual Report on the business and operations of your Company along with the audited statement of accounts for the year ended March 31, 2018.

## FINANCIAL RESULTS

The Financial performance of your Company for the year ended March 31, 2018 is summarized below:

Particulars	Year ended March 31, 2018 (in ` million)	Year ended March 31, 2017 (in ` million)	Year ended March 31, 2018 (in ` million)	Year ended March 31, 2017 (in ` million)
	Consolidated	Consolidated	Standalone	Standalone
Total Income	10,881.38	9,399.21	10,555.53	9,101.58
Total Expenses	8,268.23	7,030.97	8,002.35	6,789.02
Profit/(Loss) before Tax (PBT)	2,613.15	2,368.24	2,553.18	2,312.56
Profit/(Loss) after Tax (PAT)	1,717.85	1,555.89	1,679.82	1,524.81

## FINANCIAL PERFORMANCE

During the year under review, the consolidated income of the Company increased to ` 10,881.38 million compared to ` 9,399.21 million in the previous year, registering growth of 15.8%. Net profit after tax for the group increased to ` 1,717.85 million from ` 1,555.89 million representing a growth of 10.4%.

During the year under review, the standalone income of the Company increased to ` 10,555.53 million compared to ` 9,101.58 million in the previous year, registering growth of 16%. The standalone profit after tax for the year increased by 10.2% to ` 1,679.82 million compared to ` 1,524.81 million in the previous year.

## CONSOLIDATED ACCOUNTS

The consolidated financial statements of your Company for the Financial Year 2017-18, are prepared in compliance with applicable provisions of the Companies Act, 2013, Accounting Standards and Listing Regulations as prescribed by the Securities and Exchange Board of India (SEBI). The consolidated financial statements have been prepared on the basis of audited financial statements of the Company and its Subsidiary Companies, as approved by their respective Board of Directors.

## DIVIDEND

During the Financial Year, your Company declared and paid an interim dividend of ` 1.50/- per equity share of face value of ` 10/- each. In addition, your Directors are pleased to recommend a dividend of ` 3/- per equity share of face value of ` 10/- each as final dividend for the Financial Year 2017-18, for approval of the shareholders at the ensuing Annual General Meeting ("AGM") of the Company.

If approved by the members, the total dividend for the Financial Year shall be ` 4.50/- per equity share of face value of ` 10/- each.

The Dividend Distribution Policy of the Company is attached herewith as Annexure 1 and forms an integral part of the Annual Report.

## TRANSFER TO RESERVES

During the year under review, no amount has been transferred to the General Reserve of the Company.

## CHANGES IN SHARE CAPITAL

During the Financial Year 2017-18, the paid - up equity share capital of the Company has been increased from ` 83,06,61,840/- to ` 83,33,27,440/- pursuant to allotment of 2,66,560 Equity Shares of ` 10/- each under the Employee Stock Option Plan 2010 of the Company.

## UPDATE ON SCHEME OF AMALGAMATION OF DELTA RIA AND PATHOLOGY PRIVATE LIMITED WITH THE COMPANY

The Board of Directors of your Company in their meeting held on May 12, 2017, approved a Scheme of Amalgamation of Delta Ria And Pathology Private Limited, a wholly owned subsidiary of the Company with the Company, subject to requisite approvals under Section 230 to 232 of the Companies Act, 2013.

Subsequently, the Scheme was filed before the Hon'ble New Delhi Bench of the National Company Law Tribunal ('Hon'ble Tribunal' or 'NCLT'). The Company in compliance with the directions issued by the Hon'ble Tribunal vide its order dated December 14, 2017 convened meetings of Equity Shareholders and Unsecured Creditors on February 10, 2018 at PHD Chambers of Commerce, No. 4/2 Siri Institutional Area, August Kranti Marg, New Delhi-110016, for approving the said scheme of Amalgamation.

The Scheme was approved by the requisite majority of Equity Shareholders and Unsecured Creditors of the Company in their respective meetings held on February 10, 2018.

The Company subsequently filed a second motion application for approving the said Scheme of Amalgamation before the NCLT on February 23, 2018 and the NCLT has vide its order dated April 17, 2018 fixed the date of hearing as July 02, 2018.

## EMPLOYEES STOCK OPTION PLAN / SCHEME

During the year under review, there has been no material change in the ESOP-2010/ RSU-2016 Scheme(s) of the Company and these Schemes continue to be in compliance with relevant/applicable ESOP Regulations/clauses.

Further the details required to be provided under the SEBI (Share Based Employee Benefits) Regulations, 2014 are disclosed on the website of the Company and can be accessed at <https://www.lalpathlabs.com/pdf/Information-as-per-SEBI-Regulations-FY-18.pdf>.



## SUBSIDIARIES

A report on the performance and financial position of each of the subsidiaries for the year ended March 31, 2018 as per the Companies Act, 2013 is set out in Annexure 2 and forms an integral part of this Annual Report.

The annual accounts of the subsidiaries shall also be made available to the Members of the Company/Subsidiary Companies seeking such information at any point of time. The annual accounts of the subsidiaries are also available for inspection for any Member during business hours at the Registered Office of the Company and Subsidiary Companies and have also been uploaded on the website of the Company ([www.lalpathlabs.com](http://www.lalpathlabs.com)).

The Company has formulated a policy for determining material subsidiaries. The policy may be accessed on the website of the Company <https://www.lalpathlabs.com/investor/policies-and-programs.aspx>.

During the year under review, Dr. Lal Path Labs Bangladesh Private Limited become a subsidiary of the Company as a result of the acquisition of its 70% stake by the Company.

## MANAGEMENT DISCUSSION AND ANALYSIS REPORT

The Management Discussion and Analysis Report forms an integral part of this Annual Report and gives details of the overall industry structure, developments, performance and state of affairs of the Company's business and other material developments during the Financial Year.

## BUSINESS RESPONSIBILITY REPORT

The Business Responsibility Report ('BRR') forms an integral part of this Annual Report. The Report provides a detailed overview of initiatives taken by your Company from environmental, social and governance perspectives.

## MATERIAL CHANGES AND COMMITMENTS AFFECTING THE FINANCIAL POSITION

No material changes and commitments, other than disclosed as part of this report, affecting the financial position of the Company have occurred between March 31, 2018 and the date of the report.

## PUBLIC DEPOSITS

During the Financial Year 2017-18, your Company has not accepted any deposit within the meaning of Sections 73 and 74 of the Companies Act, 2013 read together with the Companies (Acceptance of Deposits) Rules, 2014.

## CORPORATE GOVERNANCE REPORT

In compliance with the provisions of SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015 a separate report on corporate governance along with a certificate from the Practicing Company Secretary on its compliance, forms an integral part of this Annual Report.

## PARTICULARS OF EMPLOYEES AND RELATED DISCLOSURES

Disclosures pertaining to remuneration and other details as required under Section 197(12) of the Companies Act, 2013 read with Rule 5(1) of the Companies (Appointment and Remuneration of Managerial

Personnel) Rules, 2014 are provided in the prescribed format and annexed herewith as Annexure 3 to this Report.

The statement containing particulars of employees as required under Section 197(12) of the Companies Act, 2013 read with Rule 5(2) and 5(3) of the Companies (Appointment and Remuneration of Managerial Personnel) Rules, 2014, is provided in a separate annexure forming part of this report. Further, the Report and the accounts are being sent to the members excluding the aforesaid annexure. In terms of Section 136 of the Act, the said annexure is open for inspection at the Registered Office of the Company till the date of the ensuing Annual General Meeting. Any shareholder interested in obtaining a copy of the same may write to the Company Secretary.

## AUDIT COMMITTEE

The composition of Audit Committee has been detailed in the Corporate Governance Report, forming part of this Annual Report.

All recommendations made by the Audit Committee have been accepted by the Board of Directors.

## DIRECTORS

### I. Retirement by rotation and subsequent re-appointment:

Dr. Vandana Lal, Whole Time Director is liable to retire by rotation at the ensuing AGM pursuant to the provisions of Section 152 of the Companies Act, 2013 read with the Companies (Appointment and Qualification of Directors) Rules, 2014 and being eligible offers herself for reappointment. Appropriate resolution for her re-appointment is being placed for the approval of the shareholders of the Company at the ensuing AGM. The Brief profile of Dr. Vandana Lal and other related information has been detailed in the Notice convening the 24<sup>th</sup> AGM of your Company.

### II. Re-appointment of Independent Directors:

The term of office of Mr. Arun Duggal, Mr. Anoop Mahendra Singh, Mr. Harneet Singh Chandhoke, Mr. Sunil Varma and Dr. Saurabh Srivastava, as Independent Directors expires on August 20, 2018. The Board of Directors based on performance evaluation of all the above Independent Directors, recommends their re-appointment to the shareholders for a second term of five (5) consecutive years commencing from August 21, 2018. Brief profile of all the above Independent Directors and other related information has been detailed in the Notice convening the 24<sup>th</sup> AGM of your Company

Your Company has received declarations from all the Independent Directors confirming that they meet the criteria of independence as prescribed under the provisions of Companies Act, 2013 read with the Schedules and Rules issued thereunder as well as SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015.

In the opinion of the Board, Independent Directors fulfill the conditions specified in Companies Act, 2013 read with the Schedules and Rules issued thereunder as well as SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015 and are independent from Management.

## KEY MANAGERIAL PERSONNEL

In accordance with the provisions of Sections 2(51), 203 of the Companies Act, 2013 read with Companies (Appointment and Remuneration of Managerial Personnel) Rules, 2014, the following are the Key Managerial Personnel of the Company:

1. (Hony) Brig. Dr. Arvind Lal - Chairman and Managing Director
2. Dr. Om Prakash Manchanda - CEO and Whole Time Director
3. Dr. Vandana Lal - Whole Time Director
4. Mr. Dilip Bidani - Chief Financial Officer; and
5. Mr. Rajat Kalra - Company Secretary

## ANNUAL EVALUATION OF BOARD'S PERFORMANCE:

Pursuant to the provisions of the Companies Act, 2013 and SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015, the Board has carried out annual performance evaluation of its own performance, the Directors individually as well as the evaluation of all Committees of the Board for the Financial Year 2017-18. A structured questionnaire was prepared after taking into consideration inputs received from the Directors, covering various aspects of the Board's functioning such as adequacy of the composition of the Board and its Committees, Board culture, execution and performance of specific duties, obligations and governance. A separate exercise was carried out to evaluate the performance of individual Directors, who were evaluated on parameters such as level of engagement and contribution, independence of judgment, safeguarding the interest of the Company and its minority shareholders etc. The performance evaluation of the Independent Directors was carried out by the entire Board. The performance evaluation of the Non Independent Directors was carried out by the Independent Directors.

The Directors expressed their satisfaction with the evaluation process.

## REMUNERATION POLICY

The Board has, on the recommendation of the Nomination & Remuneration Committee of the Company framed a policy for selection and appointment of Directors, Key Managerial Personnel, Senior Management and their remuneration.

The Policy is set out as Annexure 4 and forms an integral part of this Annual Report.

## NUMBER OF MEETINGS OF THE BOARD AND ITS COMMITTEES & DETAILS OF ATTENDANCE

The details of the meetings of the Board of Directors and its Committees and attendance by Directors/Members, convened during the Financial Year 2017-18 are given in the Corporate Governance Report, which forms an integral part of this Annual Report.

## DIRECTORS' RESPONSIBILITY STATEMENT

Pursuant to Section 134(3)(c) of the Companies Act, 2013, the Directors confirm that:

- a) in the preparation of the annual accounts for the Financial Year ended March 31, 2018, the applicable accounting standards and Schedule III of the Companies Act, 2013, have been followed and there are no material departures from the same;
- b) the Directors have selected such accounting policies and applied them consistently and made judgments and estimates that are

reasonable and prudent so as to give a true and fair view of the state of affairs of your Company as at March 31, 2018 and of the profit and loss of the Company for the Financial Year ended March 31, 2018;

- c) proper and sufficient care has been taken for the maintenance of adequate accounting records in accordance with the provisions of the Companies Act, 2013 for safeguarding the assets of the Company and for preventing and detecting fraud and other irregularities;
- d) the annual accounts have been prepared on a 'going concern' basis;
- e) proper internal financial controls laid down by the Directors were followed by the Company and that such internal financial controls are adequate and were operating effectively; and
- f) the Directors have devised proper systems to ensure compliance with the provisions of all applicable laws and that such systems were adequate and operating effectively.

## AUDITORS AND AUDITORS' REPORT

### I. Statutory Auditors

The shareholders at the 23<sup>rd</sup> AGM, approved the appointment of M/s. Deloitte Haskins & Sells LLP, Chartered Accountants (Firm Registration No. 117366W/W - 100018), as the Statutory Auditors, for a period of five (5) years i.e. from the conclusion of the 23<sup>rd</sup> AGM till the conclusion of 28<sup>th</sup> AGM of the Company subject to ratification of the appointment by the shareholders at every Annual General Meeting.

However, pursuant to the notification dated May 07, 2018, issued by the Ministry of Corporate Affairs, the requirement for ratification of Statutory Auditors at every Annual General Meeting has been done away with.

Accordingly, M/s. Deloitte Haskins & Sells LLP, Chartered Accountants shall continue as the Statutory Auditors of the Company till the conclusion of 28<sup>th</sup> AGM in terms of the shareholders resolution dated July 20, 2017 passed at the 23<sup>rd</sup> AGM.

The Statutory Auditors of the Company have not reported any fraud as specified under the second proviso of Section 143(12) of the Companies Act, 2013 (including any statutory modification(s) or re-enactment(s) for the time being in force).

The Auditors' Report for the Financial Year ended March 31, 2018, does not contain any qualification, reservation or adverse remark.

Further the Auditors' Report being self-explanatory does not call for any further comments from the Board of Directors.

### II. Cost Auditors

In terms of the Section 148 of the Companies Act, 2013 read with Companies (Cost Records and Audit) Rules, 2014, the Company is required to maintain cost accounting records and get them audited every year. The Board of Directors on the basis of recommendations from Audit Committee has appointed M/s A.G. Agarwal & Associates, Cost Accountants, as cost auditors of the Company for the Financial Year 2018-19 at a fee of ₹ 60,000 (Rupees Sixty Thousand only) plus applicable taxes