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Institutional Equities

Metropolis Healthcare

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Bloomberg: METROHL IN

Management Meet Update

Despite competition sanguine on double digit growth

We met the management of Metropolis Healthcare Ltd (Metropolis) to get insights into the business outlook for the company and the sector at large. Metropolis is the third largest diagnostics player in India after Dr Lal and SRL Diagnostics. It is a pan-India player with a strong foothold in the western region (~50% of sales) followed by the southern region (30% of sales). B2C is one of the faster growing segments for the company and it aims to increase contribution from B2C in its focused cities through network expansion and brand building initiatives. Despite competitive pressure from the new-age diagnostics players and the incumbents, Metropolis management remains sanguine about the company's outlook and expects to clock 12-15% annual topline growth going forward. The management believes that Metropolis is well placed given its better quality standards and strong doctor network. The company intends to strengthen its presence in Tier2/Tier 3 cities by adding 90 labs (50% of lab capacity) over the next 3-4 years.

Following are the other key highlights of the analyst meet

Competition

- Competitive intensity from the brick & mortar players such as hospitals and pharmaceutical companies has increased. Due to intense competition, certain unorganized players have started existing this business. Talent poaching in the industry is rampant among the organized players
- New-age diagnostic players are using competitive pricing to poach customers by push marketing mainly in the wellness space. However, Metropolis believes in competing with these players on quality rather than on price.
- For online diagnostic players, growth has started to normalize.
- The company's B2C segment does not see significant pricing pressure; in fact, it has taken a marginal price increase.
- Churn of customers has increased due to deep discounting practices.
- Even in the past (during 2012-2018), the competitive intensity in the industry was high. Many players who had ventured into diagnostics business during that timeframe are struggling now and some have even shut down operations.

Hitech Acquisition

- The major rational for this acquisition was Hitech's higher market share in Chennai, 70% B2C business contribution and strong synergy benefits.
- This acquisition provides pricing flexibility as post the acquisition it controls ~25% of the market in Chennai.

Y/E March (Rsmn)	FY19	FY20	FY21	FY22
Net Sales	7,612	8,564	9,980	12,283
Growth YoY%	*17.6*	*12.5*	*16.5*	*23.1*
Gross margin %	*77.2*	*76.2*	*74.7*	*77.5*
EBITDA	2,040	2,371	2,898	3,481
EBITDA margin %	*26.8*	*27.7*	*29.0*	*28.3*
Adj PAT	1,271	1,463	1,836	2,036
Growth YoY%	*6.4*	*15.1*	*25.5*	*10.9*
Adj EPS	*24.8*	*28.6*	*35.9*	*39.8*
Growth YoY%	*6.4*	*15.1*	*25.5*	*10.9*
RoCE%	*43.2*	*41.2*	*39.6*	*30.8*
RoE%	*30.5*	*31.1*	*29.9*	*25.6*
P/E	53.5	46.5	37.1	33.4
EV/EBITDA	33.1	27.8	22.0	19.8
P/BV	16.3	13.0	9.6	7.7

Source: Company, Nirmal Bang Institutional Equities Research

NOT RATED

Sector: Pharmaceuticals/Diagnostics

CMP: Rs1,316

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Key Data

Current Shares O/S (mn)	51.2
Mkt. Cap (Rsbn/US$mn)	67.1/812.0
52 Wk H / L (Rs)	2,571/1,190
Daily Vol. (3M NSE Avg.)	282,283

Price Performance (%)

	1 M	6 M	1 Yr
Metropolis Healthcare	7.0	(6.6)	(33.0)
Nifty Index	(1.4)	(1.0)	4.5

Source: Bloomberg

FY22 Annual Report

3QFY23 Results

Government Contracts

- Government contracts have mid single digit contribution. There will be 1-2 quarters' impact as new contracts take time to scale up while the old contracts expire. Margins in government contracts also vary.
- One of the PPP contracts, which had a 5-year term, is coming to an end in 4QFY23.

Margins

- Routine tests have higher gross margins than specialized tests. Wellness is a margin- accretive segment for the company
- Marketing spending was at 2% of revenue earlier but now stands at 2.5%; its salesforce stood at 400 people.
- The International business will continue to grow since it is a high-margin and high RoCE business for the company.
- Metroploius will add 90 new labs (50% of lab capacity) with most of them in Tier 2/Tier 3 cities in 3-4 years' time, which will add to the fixed cost. The company expects ~1.4% margin dilution due to the addition of new labs. Appreciation of the USD vs INR has also increased input costs.
- New labs are expected to reach EBITDA breakeven in two years and are expected to reach company level margins in three years.

Others

- Pre-covid 19, Metropolis was reporting 10-12% volume growth while realization was aided by a better product mix. Going forward, it aspires to achieve 12-15% revenue growth p.a.
- Metropolis' focus is on quality of reports, precision and consistency while online players' focus is more on customer acquisition. Metropolis is preferred for niche tests by the doctors due to its quality delivery.
- The company's B2C segment has seen strong revenue and volume growth. Mumbai and Pune are the fastest growing cities.
- It is trying to launch new tests and is building connect with new customers through the wellness channel.
- Revenue contribution from online diagnostics players is negligible for the company. Pre-covid home care was 5-6% of sales, which now stands at 9-10%. Franchisees contribute ~18-20% to total revenue.
- The company is open to exploring opportunities in Radiology.
- In Delhi, there are 50 centres. The company is trying to build B2B strength in Delhi. Currently, 30% of its business in Delhi is B2C. On the other hand, Mumbai has 25-30% contribution to total sales.
- Penetrating into newer cities entails building a doctor network, adding collection centers & salesforce and creating a wide distribution channel.
- Private market valuations are still high and there is a risk of RoCE dilution in case of acquisition(s).
- FY23 would be a new base for the company and it expects its core business to drive growth in FY24 and beyond.

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Financials (Consolidated)

Exhibit 1: Income statement

Y/E March (Rsmn)	FY19	FY20	FY21	FY22
Net Sales	**7,612**	**8,564**	**9,980**	**12,283**
Growth YoY%	*17.6*	*12.5*	*16.5*	*23.1*
COGS	1,735	2,041	2,522	2,760
Gross margin %	***77.2***	***76.2***	***74.7***	***77.5***
Staff costs	1,762	1,902	1,986	2,332
Other expenses	2,075	2,250	2,574	3,711
EBITDA	**2,040**	**2,371**	**2,898**	**3,481**
Growth YoY%	*14.3*	*16.3*	*22.2*	*20.1*
EBITDA margin %	***26.8***	***27.7***	***29.0***	***28.3***
Depreciation	201	393	459	632
EBIT	1,839	1,979	2,438	2,849
Interest	41	127	116	250
Other income	82	86	120	176
PBT (Before exceptional items)	1,866	1,933	2,443	2,774
PBT	1,866	1,687	2,443	2,934
ETR	33.7	24.4	25.0	26.8
PAT	1,201	1,273	1,831	2,142
Adj PAT	**1,271**	**1,463**	**1,836**	**2,036**
Growth YoY%	***6.4***	***15.1***	***25.5***	***10.9***

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 2: Cash flow

Y/E March (Rsmn)	FY19	FY20	FY21	FY22
PBT	**1,866**	**1,687**	**2,443**	**2,934**
Depreciation	201	393	459	632
Interest	5	83	78	197
Other adjustments	12	351	231	-241
Change in Working capital	-508	280	-153	-164
Tax paid	-674	-644	-568	-825
Operating cash flow	**902**	**2,150**	**2,490**	**2,533**
Capex	-237	-362	-283	-307
Free cash flow	**664**	**1,788**	**2,208**	**2,226**
Other investing activities	591	-686	900	-7,069
Investing cash flow	**353**	**-1,048**	**617**	**-7,376**
Issuance of share capital	-32	319	343	20
Movement of Debt	170	-309	-0	2,585
Dividend paid (incl DDT)	-831	-83	-	-
Other financing activities	-1	-407	-73	-184
Financing cash flow	**-1,181**	**-553**	**-327**	**1,625**
Net change in cash flow	**73**	**548**	**2,780**	**-3,218**
Opening C&CE	435	514	1,072	3,866
Forex adjustments	6	10	14	12
Closing C&CE	514	1,072	3,866	660

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 3: Balance sheet

Y/E March (Rsmn)	FY19	FY20	FY21	FY22
Share Capital	100	101	102	102
Reserves & Surplus	4,085	5,134	6,964	8,760
Net worth	**4,185**	**5,235**	**7,066**	**8,862**
Minority Interest	14	17	15	20
Long term debt	0	0	0	1,587
Short term debt	176	0	0	999
Total debt	**176**	**0**	**0**	**2,585**
Other non-current liabilities	1,417	1,946	1,109	2,035
Total Equity & Liabilities	**5,793**	**7,198**	**8,190**	**13,502**
Gross block	2,713	3,661	4,384	12,235
Accumulated depreciation	585	697	952	1,646
Net Block	**2,128**	**2,964**	**3,431**	**10,589**
CWIP	0	0	0	0
Intangible and others	58	30	0	58
Other non-current assets	1,606	1,911	696	923
Investments	333	143	101	155
Trade receivables	1,368	1,282	1,230	1,355
Inventories	261	244	405	511
Cash & Cash equivalents	802	2,105	4,197	1,669
Other current assets	1,474	621	531	667
Total current assets	**3,906**	**4,252**	**6,363**	**4,202**
Trade payables	428	850	1,106	1,032
Other current liabilities	1,809	1,252	1,296	1,393
Total current liabilities	**2,238**	**2,102**	**2,402**	**2,425**
Total Assets	**5,793**	**7,198**	**8,190**	**13,502**

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 4: Key ratios

Y/E March	FY19	FY20	FY21	FY22
Per share (Rs)				
Adj EPS	24.8	28.6	35.9	39.8
Book value	81.7	102.2	138.0	173.1
Valuation (x)				
P/Sales	8.9	7.9	6.8	5.5
EV/sales	8.9	7.7	6.4	5.6
EV/EBITDA	33.1	27.8	22.0	19.8
P/E	53.5	46.5	37.1	33.4
P/BV	16.3	13.0	9.6	7.7
Return ratios (%)				
RoCE	43.2	41.2	39.6	30.8
RoE	30.5	31.1	29.9	25.6
Profitability ratios (%)				
Gross margin	77.2	76.2	74.7	77.5
EBITDA margin	26.8	27.7	29.0	28.3
PAT margin	16.5	16.9	18.2	16.3
Liquidity ratios (%)				
Current ratio	1.7	2.1	2.7	1.3
Quick ratio	1.6	2.0	2.5	1.1
Solvency ratio (%)				
Debt to Equity ratio	0.0	0.0	0.0	0.3
Turnover ratios				
Fixed asset turnover ratio (x)	2.9	2.7	2.5	1.5
Debtor days	57	56	46	38
Inventory days	11	11	12	14
Creditor days	19	27	36	32
Net Working capital days	50	40	22	20

Source: Company, Nirmal Bang Institutional Equities Research

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