

23 May 2024

India | Equity Research | Q4FY24 results review

Metropolis Healthcare

Pharma

On the path to better profitability

Metropolis Healthcare's (Metropolis) Q4FY24 results benefitted from a change in accounting year of its overseas subsidiary; adjusting for this, Metropolis' result undershot our expectation marginally. To further profitability, the company took a ~4% price hike in Jan'24; even so, volume growth (7% in Q4FY24) has been steady. Impact of network expansion is in its last leg; it may add 25 labs in FY25E and 6–7 labs in FY26E. EBITDA impact from new centres addition has softened, shrinking 30bps QoQ in Q4FY24. Via price hikes/better volumes, Metropolis is likely to restore its EBITDA margins to ~27–28% by FY26E. Management is also actively pursuing an M&A, which may lift near-term earnings growth. We raise our FY26E EBITDA by ~5%. Retain **ADD** with a higher DCF-based TP of INR 2,160.

Core business grows at a healthy pace

Revenue grew a strong ~17.1% YoY (13.7% QoQ) to INR 3.3bn (I-Sec: INR 3.1bn). Adjusting for the change in the accounting policy of subsidiaries, revenue stood at INR 3.1bn. Gross margins expanded 80bps YoY (-60bps QoQ) to 79.7% due to better realisations and test mix. EBITDA grew 13.8% YoY (23.3% QoQ) to INR 800mn (I-Sec: INR 790mn). EBITDA margins contracted 70bps YoY (+190bps QoQ) to 24.2% due to network expansion (90bps impact). Adj. PAT grew 9.1% YoY to INR 364mn (I-Sec: INR 414mn).

Price hikes to absorb margin impact from new centres

Core business (excluding PPP contracts and covid-led test) grew 15% YoY to INR 3.08bn. Volume growth for core business remained healthy with number of patients and number of tests growing 7.3% and 7.8% to 3mn and 6.1mn, respectively. Average realisation on core business tests/patient (ex-PPP contracts) was up 6.7%/7.2% YoY to INR 506/1,034. Covid PCR allied test revenue declined 28.6% to INR 50mn. EBITDA margins of Hi-tech have scaled to 30% in Q4FY24. Premium wellness revenue grew 23.1% YoY to INR 420mn and accounted for 14.5% of revenue. Volumes for specialised tests revenue grew 10.5% YoY. Specialised test accounted for 36% of revenue (34% last year), while the contribution from semi-specialised tests saw a marginal decline to 30% (33% in Q4FY23). Management targets 13–15% revenue growth in FY25, with EBITDA margins between 25.5–26%.

Financial Summary

Y/E March (INR mn)	FY23A	FY24E	FY25E	FY26E
Net Revenue	11,482	12,077	14,012	16,488
EBITDA	2,883	2,859	3,642	4,516
EBITDA Margin (%)	25.1	23.7	26.0	27.4
Net Profit	1,429	1,278	1,883	2,517
EPS (INR)	27.9	25.0	36.8	49.1
EPS % Chg YoY	(33.3)	(10.6)	47.4	33.6
P/E (x)	70.1	78.4	53.2	39.8
EV/EBITDA (x)	34.7	34.6	26.7	21.2
RoCE (%)	12.0	10.7	14.2	17.5
RoE (%)	15.2	12.5	16.6	20.5

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Market Data

Market Cap (INR)	100bn
Market Cap (USD)	1,203mn
Bloomberg Code	METROHL IN
Reuters Code	METP BO
52-week Range (INR)	2,050 /1,209
Free Float (%)	50.0
ADTV-3M (mn) (USD)	7.2

Price Performance (%)	3m	6m	12m
Absolute	11.8	20.8	57.4
Relative to Sensex	10.4	8.4	37.6

Earnings Revisions (%)	FY25E	FY26E
Revenue	(0.4)	4.4
EBITDA	(0.1)	4.8
EPS	(4.5)	2.4

Previous Reports

05-02-2024: [Q3FY24 results review](#)

15-01-2024: [Company Update](#)

Valuation and risks

Metropolis' strong presence in key tier-1 cities and superior specialised test portfolio have historically helped it command premium pricing for its tests. The company has added 54 labs in the past three years with an aim to improve its presence in tier-2/3 towns. Metropolis may add another 25 labs in FY25E, beyond which, it will focus on driving operating leverage by shifting focus towards boosting volume growth. In Q4FY24, EBITDA margins took a 90bps hit with the addition of new labs; with better pricing and volumes, the company is on the path of reviving profitability. Metropolis is also actively scouting for an inorganic opportunity (M&A), which may help propel scale and growth further. In FY24, the company repaid INR 1.4bn of debt and had a cash balance of INR 1.24bn. We expect Metropolis to generate free cash flow of ~INR 6bn over the next two years, which will help the company realise its inorganic growth aspirations.

We expect Metropolis to register an earnings CAGR of 39% over FY24–26E with revenue CAGR at 16.8%. Revenue growth is likely to come from volume growth while realisation improvement may be 5–6%. We expect EBITDA margin to remain in the vicinity of 26–27.5% over FY25–26E. We see return ratios to staying strong with RoE and RoCE of 20.5% and 17.5%, respectively, in FY26E.

The stock currently trades at valuations of 53.2x FY25E and 39.8x FY26E earnings and EV/EBITDA multiple of 26.7x FY25E and 21.2x FY26E. We believe the premium valuation of the stock may continue due to its brand equity in the growing diagnostic industry, and increasing B2C contribution. Maintain **ADD** with a DCF-based target price of INR 2,160/share (earlier INR 1,770/share).

Key downside risks: Higher-than expected competition and regulatory hurdles.

Q4FY24 conference call highlights

Business highlights

- New industry participants are forced to take a price increase as volume growth in wellness packages have reduced to single-digits.
- Prices of pathology test in hospitals are 50% higher than Metropolis'.
- Omni-channel presence has helped Metropolis improve its wellness revenue.
- The company would evaluate and pursue M&A candidates that: 1) will help it to improve scale and add new technologies in existing market of operations; and/or 2) local companies with strong brand recall among consumers, which will help it diversify presence beyond existing area of operations; and/or 3) good quality brick and motor diagnostic centres, which are not run efficiently currently.
- Post-covid, valuations of acquisition targets have softened. Metropolis may not significantly leverage its balance sheet and may also use existing cash on balance sheet (INR 1.24bn) to fund the acquisition.

Financial highlights

- In Q4FY24, Metropolis changed the accounting year of its subsidiaries in Kenya, Ghana, Tanzania, Uganda, and other international subsidiaries. Consequently, the consolidated financials include six months of financials of these subsidiaries.
- Core business revenues grew 15% YoY in Q4FY24.
- Hi-tech witnessed strong growth. Margins stood at ~30% for FY24.
- B2B business grew by 11.1% in Q4FY24 and by 10% in FY24.

- The company has reduced discounts in the B2B segment in FY24, indicating a reduction in competitive intensity in the last one year.
- Volumes for specialised tests grew by 10.5% YoY in Q4FY24, while B2C specialised tests grew by 20%.
- Contribution from specialised tests stood at 36% of total test revenue in Q4FY24.
- Revenue per patient grew by 7.2% YoY, of which 4% came from price increase and ~3% on account of improvement in test mix.
- Volumes grew 7% in Q4FY24 despite Metropolis taking a price increase in Jan'24.
- In FY24, it added 24 new labs, of which seven were added in Q4FY24.
- Management indicated that it might further add 25 labs in FY25, and six–seven labs in FY26.
- In Q4FY24, revenue from Mumbai city grew 20%. Metropolis has 430 centres in Mumbai, which might be scaled up to over 500 in next few years.
- Driven by better traction in tier-2/3 cities, its revenue from other cities grew by 34% in Q4FY24 and 28% in FY24.
- Out of the 54 labs added since FY21, 39 have been added in tier-2/3 towns.
- It added 550 collection centres in FY24, of which 150 were added in Q4FY24.
- The company has repaid INR 790mn of debt and had a cash balance of INR 1.2bn at end of FY24.
- ~100 bps on margins is on account of network expansion.

Guidance

- Ahead, the company aims to outperform industry revenue growth and profitability.
- Management is aiming for 13–15% revenue growth in FY25E, of which volume will account for 8–9% and better realisations will aid 5–6% growth.
- Metropolis aims to maintain margins between 25.5–26% in FY25E.
- Improvement in profitability of new labs (90bps impact on margins in Q4FY24) will likely help sustain margins in FY25E.

Exhibit 1: Quarterly review

Particulars (INR mn)	Q4FY24	Q4FY23	YoY % Chg	Q3FY24	QoQ % Chg	FY24	FY23	YoY % Chg
Net Sales	3,310	2,825	17.1	2,911	13.7	12,077	11,482	5.2
Gross Profit	2,639	2,230	18.3	2,339	12.8	9,651	8,949	7.8
Gross margins(%)	79.7	78.9	80bps	80.3	-60bps	79.9	77.9	200bps
Personnel / Staff cost	715	643	11.1	695	2.8	2,757.8	2,527.3	9.1
SG&A expenses	1,062	881	20.5	974	9.0	3,899	3,473	12.2
EBITDA	800	703	13.8	648	23.3	2,859	2,883	(0.8)
EBITDA margins (%)	24.2	24.9	-70bps	22.3	190bps	23.7	25.1	-140bps
Other income	25	12	107.1	23	10.1	91	152	(40.1)
PBIDT	825	715	15.4	672	22.9	2,950	3,035	(2.8)
Depreciation	264	234	12.7	250	5.7	945	892	5.9
Interest	56	62	(9.8)	53	4.9	225	268	(15.9)
Extra ordinary income/ (exp.)	-	-	-	-	-	(33)	-	-
PBT	505	419	20.6	369	37.1	1,747	1,875	(6.8)
Tax	140	84	66.5	96	46.4	462	441	4.8
Minority Interest	1	1	(11.0)	1	(8.9)	6	5	25.0
Reported PAT	364	334	9.1	272	34.1	1,278	1,429	(10.5)
Adjusted PAT	364	334	9.1	272	34.1	1,303	1,429	(8.8)

Source: I-Sec research, Company data

Exhibit 2: Operational metrics

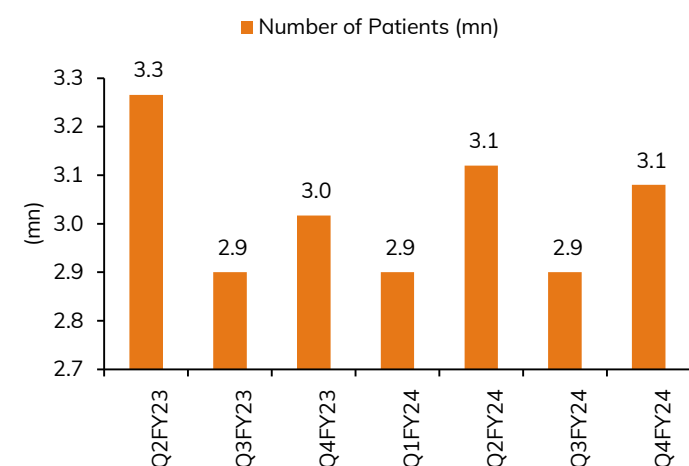
Non-covid	Q4FY22	Q1FY23	Q2FY23	Q3FY23	Q4FY23	Q1FY24	Q2FY24	Q3FY24	Q4FY24	YoY %	QoQ %
No of tests (mn)	5.5	5.8	6.5	6.2	6.1	5.5	6.2	5.8	6.1	-	5.2
No of Patient/Footfall (mn)	2.7	2.7	3.1	2.9	2.9	2.8	3.1	2.8	3.0	2.8	6.4
Rev per patient	950	956	942	957	946	988	975	1,009	1,034	9.3	2.5
Rev per test	461	467	442	450	452	502	488	492	506	11.9	2.8

Source: I-Sec research, Company data

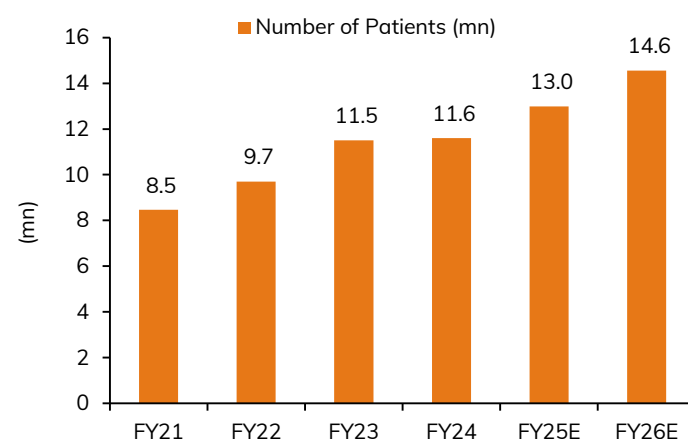
Exhibit 3: Sales split

Particular (INR mn)	Q4FY22	Q1FY23	Q2FY23	Q3FY23	Q4FY23	Q1FY24	Q2FY24	Q3FY24	Q4FY24	YoY %	QoQ %
Core biz	2,130	2,410	2,417	2,350	2,360	2,483	2,732	2,630	2,804	18.8	6.6
Hi-Tech	220	194	246	200	240	227	288	230	276	15.0	20.0
PPP contracts	170	200	210	230	70	10	10	-	-	(100.0)	-
COVID PCR and COVID Allied	530	190	130	80	70	50	50	50	50	(28.6)	-

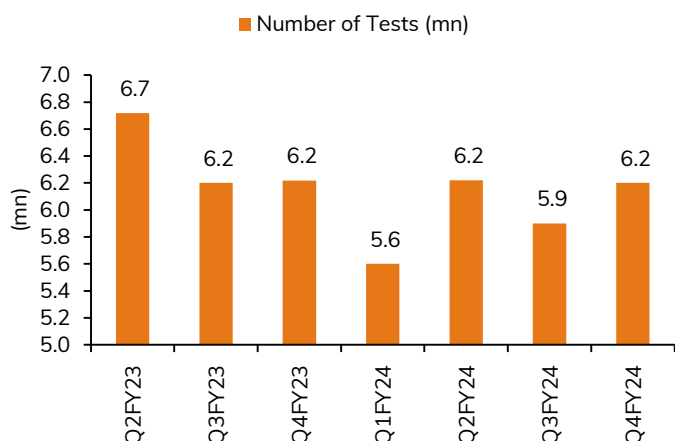
Source: I-Sec research, Company data

Exhibit 4: Core business witnessed 7% volume growth

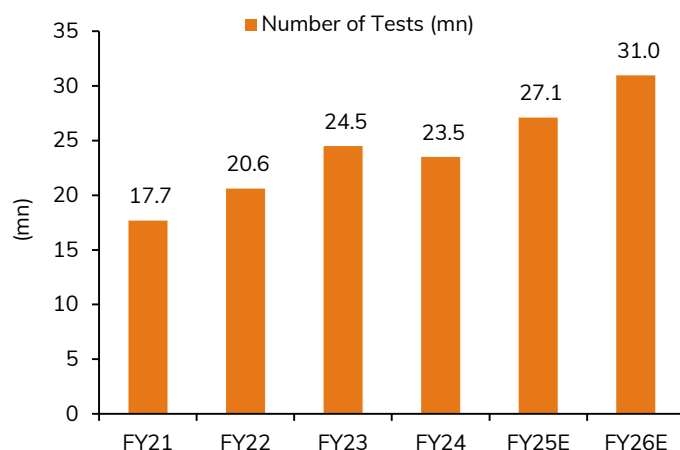
Source: I-Sec research, Company data

Exhibit 5: Network expansion to support healthy volumes over FY24-26E

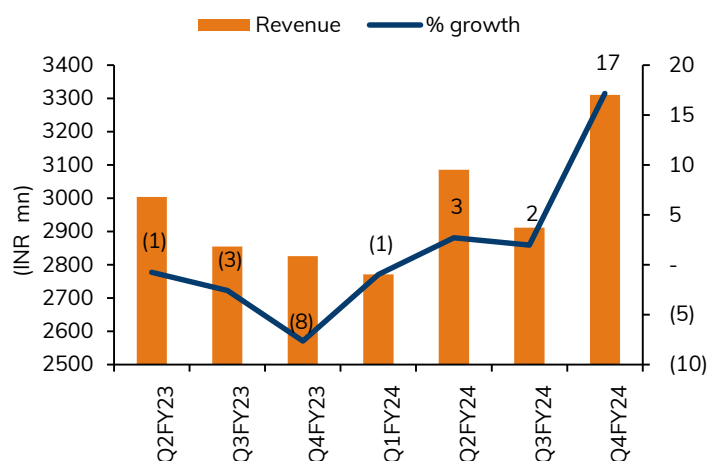
Source: I-Sec research, Company data

Exhibit 6: Core business test volumes grew ~7.8%

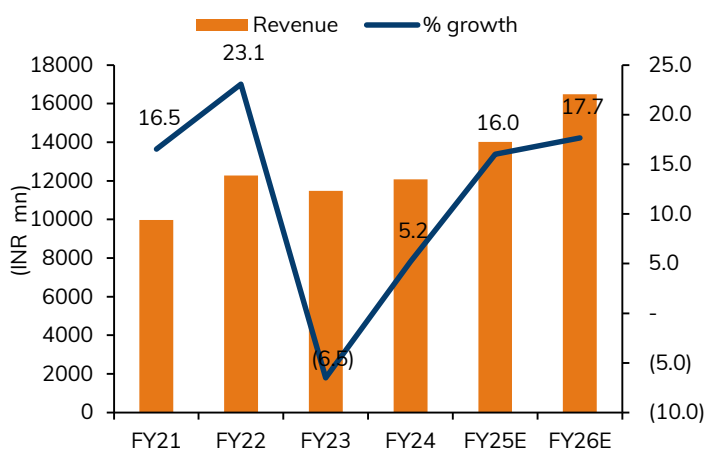
Source: I-Sec research, Company data

Exhibit 7: Test volume to improve on the back of specialty tests

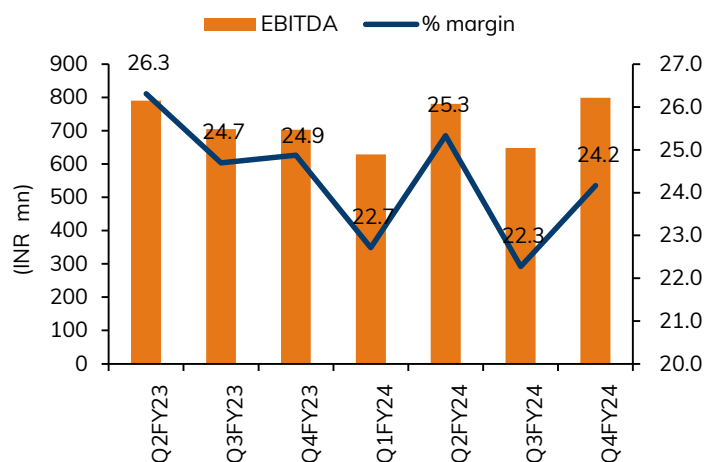
Source: I-Sec research, Company data

Exhibit 8: Revenue growth spikes to 17%, as impact of discontinuation off PPP contract now behind

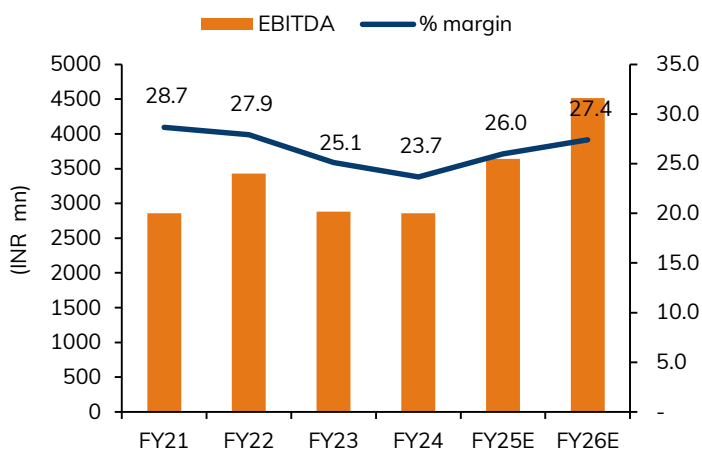
Source: I-Sec research, Company data

Exhibit 9: Revenue to grow 16.8% over FY24–26E

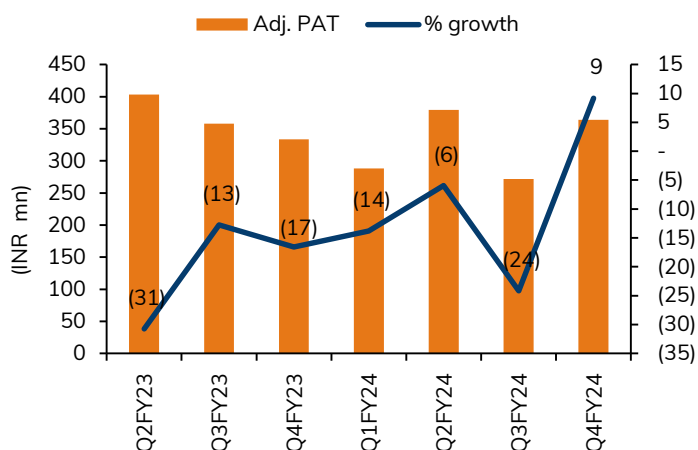
Source: I-Sec research, Company data

Exhibit 10: Network expansion dented margins

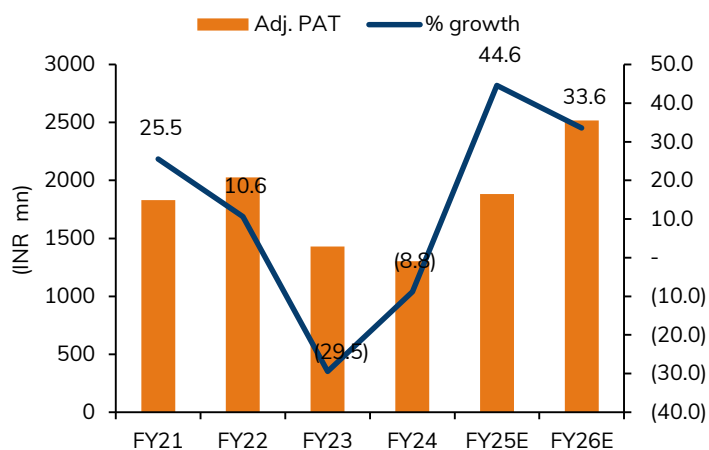
Source: I-Sec research, Company data

Exhibit 11: EBITDA margin to expand by 370bps over FY24–26E

Source: I-Sec research, Company data

Exhibit 12: Higher tax rate restricts PAT growth to ~9% YoY

Source: I-Sec research, Company data

Exhibit 13: Net profit CAGR expected at 39% over FY24–26E

Source: I-Sec research, Company data

Exhibit 14: Shareholding pattern

%	Sep'23	Dec'23	Mar'24
Promoters	49.7	49.7	49.7
Institutional investors	41.2	42.4	43.8
MFs and other	14.0	16.0	21.3
FIs/ Banks	-	-	-
Insurance Cos.	2.4	4.3	3.3
FIIIs	24.7	22.1	19.2
Others	9.1	7.9	6.5

Source: Bloomberg, I-Sec research

Exhibit 15: Price chart

Source: Bloomberg, I-Sec research

Financial Summary

Exhibit 16: Profit & Loss

(INR mn, year ending March)

	FY23A	FY24E	FY25E	FY26E
Net Sales	11,482	12,077	14,012	16,488
Operating Expenses	6,067	6,792	7,556	8,685
EBITDA	2,883	2,859	3,642	4,516
EBITDA Margin (%)	25.1	23.7	26.0	27.4
Depreciation & Amortization	892	945	989	1,013
EBIT	1,991	1,914	2,653	3,503
Interest expenditure	268	225	197	197
Other Non-operating Income	152	91	114	125
Recurring PBT	1,875	1,780	2,570	3,431
Profit / (Loss) from Associates	-	-	-	-
Less: Taxes	441	462	680	908
PAT	1,434	1,318	1,890	2,523
Less: Minority Interest	(5)	(6)	(6)	(6)
Extraordinaries (Net)	-	-	-	-
Net Income (Reported)	1,429	1,278	1,883	2,517
Net Income (Adjusted)	1,429	1,278	1,883	2,517

Source Company data, I-Sec research

Exhibit 17: Balance sheet

(INR mn, year ending March)

	FY23A	FY24E	FY25E	FY26E
Total Current Assets	2,897	2,628	4,759	6,569
of which cash & cash eqv.	932	712	2,550	3,980
Total Current Liabilities & Provisions	1,527	1,679	1,948	2,282
Net Current Assets	1,370	949	2,811	4,288
Investments	718	1,152	1,236	1,344
Net Fixed Assets	1,372	1,559	1,568	1,453
ROU Assets	1,734	1,801	1,801	1,801
Capital Work-in-Progress	-	-	-	-
Total Intangible Assets	8,295	8,410	7,259	6,861
Other assets	569	604	688	795
Deferred Tax Assets	-	-	-	-
Total Assets	13,489	13,872	14,676	15,746
Liabilities				
Borrowings	791	-	-	-
Deferred Tax Liability	782	751	751	751
provisions	130	158	183	216
other Liabilities	5	-	-	-
Equity Share Capital	9,882	10,962	11,734	12,766
Reserves & Surplus	-	-	-	-
Total Net Worth	9,882	10,962	11,734	12,766
Minority Interest	25	31	38	44
Total Liabilities	13,489	13,872	14,676	15,746

Source Company data, I-Sec research

Exhibit 18: Cashflow statement

(INR mn, year ending March)

	FY23A	FY24E	FY25E	FY26E
Operating Cashflow	2,471	2,641	2,993	3,612
Working Capital Changes	1,160	1,170	1,186	1,210
Capital Commitments	(525)	(638)	154	(500)
Free Cashflow	2,996	3,278	2,839	4,112
Other investing cashflow	993	(257)	-	-
Cashflow from Investing Activities	468	(894)	154	(500)
Issue of Share Capital	2	0	-	-
Interest Cost	(166)	(186)	(197)	(197)
Inc (Dec) in Borrowings	-	-	-	-
Dividend paid	(410)	(205)	(1,111)	(1,485)
Others	(2,350)	(1,421)	-	-
Cash flow from Financing Activities	(2,923)	(1,812)	(1,308)	(1,682)
Chg. in Cash & Bank balance	16	(65)	1,838	1,430
Closing cash & balance	1,685	867	2,550	3,980

Source Company data, I-Sec research

Exhibit 19: Key ratios

(Year ending March)

	FY23A	FY24E	FY25E	FY26E
Per Share Data (INR)				
Reported EPS	27.9	25.0	36.8	49.1
Adjusted EPS (Diluted)	27.9	25.0	36.8	49.1
Cash EPS	45.3	43.4	56.1	68.9
Dividend per share (DPS)	8.0	4.0	21.7	29.0
Book Value per share (BV)	193.0	214.0	229.1	249.2
Dividend Payout (%)	28.7	16.0	59.0	59.0
Growth (%)				
Net Sales	(6.5)	5.2	16.0	17.7
EBITDA	(15.9)	(0.8)	27.4	24.0
EPS (INR)	(33.3)	(10.6)	47.4	33.6
Valuation Ratios (x)				
P/E	70.1	78.4	53.2	39.8
P/CEPS	43.2	45.1	34.9	28.4
P/BV	10.1	9.1	8.5	7.8
EV / EBITDA	34.7	34.6	26.7	21.2
P / Sales	8.7	8.3	7.2	6.1
Dividend Yield (%)	0.0	0.0	0.0	0.0
Operating Ratios				
Gross Profit Margins (%)	77.9	79.9	79.9	80.1
EBITDA Margins (%)	25.1	23.7	26.0	27.4
Effective Tax Rate (%)	23.5	26.5	26.5	26.5
Net Profit Margins (%)	12.4	10.6	13.4	15.3
NWC / Total Assets (%)	-	-	-	-
Net Debt / Equity (x)	0.0	(0.1)	(0.3)	(0.4)
Net Debt / EBITDA (x)	(0.1)	(0.4)	(0.9)	(1.0)
Profitability Ratios				
RoCE (%)	12.0	10.7	14.2	17.5
RoE (%)	15.2	12.5	16.6	20.5
RoC (%)	12.5	11.2	16.1	22.5
Fixed Asset Turnover (x)	8.3	8.2	9.0	10.9
Inventory Turnover Days	14	12	12	12
Receivables Days	37	39	41	41
Payables Days	29	31	32	32

Source Company data, I-Sec research

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