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Q1FY23 result review
and earnings revision

Pharmaceuticals

Target price: Rs2,013

Earnings revision

(%)	FY23E	FY24E
Sales	↓ 5.0	↓ 5.9
EBITDA	↓ 9.2	↓ 6.7

Target price revision

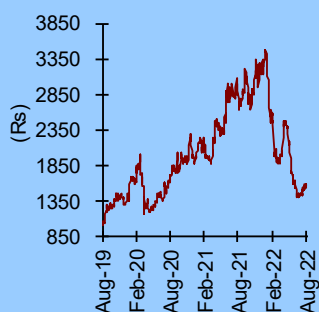
Rs2,013 from Rs2,187

Shareholding pattern

	Dec '21	Mar '22	Jun '22
Promoters	49.5	49.8	49.8
Institutional investors	41.4	38.1	37.7
MFs and other	9.4	14.1	12.7
Banks, FI's	1.2	1.2	1.1
FIs	30.8	22.8	23.9
Others	9.1	12.1	12.5

Source: BSE India

Price chart



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INDIA

Metropolis Healthcare

BUY

Maintained

Rs1,491

Modest recovery in non-covid business

Metropolis Healthcare's (Metropolis) reported Q1FY23 performance was broadly in line with our estimates. Revenues declined 14.4% YoY to Rs2.8bn (I-Sec: Rs2.7bn) on a high base which had benefited from covid-related business. Non-covid revenues grew 26.4% YoY led by recovery in footfalls and consolidation of HiTech. Revenues from covid and allied tests shrank 85% YoY and 65% QoQ to Rs182mn. EBITDA margin stood at 24.5% vs our estimate of 23.9%. Surge in competition from large brands is likely to impact realisations in the near term. However, we remain positive on the company owing to its aggressive network expansion with focus on B2C, strengthening position in the fast-growing south region with the HiTech acquisition, focus on increasing digital revenues and faster shift of the market to organised players. Maintain BUY with a revised target price of Rs2,013/share (earlier: Rs2,187/share).

- **Business review:** Non-covid business grew 26.4% YoY (~17% excluding HiTech), led by steady recovery in footfalls. HiTech revenues stood at Rs194mn for the quarter. B2C revenues grew ~28% YoY. Total number of patient footfalls declined 17.1% YoY to 2.9mn due to sharp decline in covid patients. Non-covid patients stood at 2.7mn, up 33.4% YoY on a weak base (remained flat QoQ). 3-year CAGR of non-covid patients stood at ~6% while realisation grew at ~3% in the same period. Tests per patient metric remained stable at 2.2x. EBITDA margin at 24.5% was down 680bps YoY (flat QoQ) due to reducing covid revenues and higher digitisation spends. Higher costs and aggressive network expansion will partially offset operational leverage and change in mix towards the margin-accretive B2C segment restricting EBITDA margin to ~26-27% over FY23E-FY24E.
- **Concall highlights:** 1) Metropolis is not looking at any fundraise currently. 2) Company expects to reach near pre-covid level EBITDA margins (~26%-28%) in the near term. 3) Wellness revenue contribution stood at 12% (from 7% in Q1FY22); company wishes to increase the contribution to 20% going forward. 4) Specialised tests accounted for 42% of revenues (excl. covid and allied tests) and 20 new tests have been added in the past six months
- **Outlook:** Expansion, HiTech acquisition, growing digital revenues and shift to organised players would help Metropolis' growth. However, increasing competition and higher base will restrict growth in the near term. We expect revenue, EBITDA and PAT CAGRs of 5.0%, 3.8% and 1.1% respectively, over FY22-FY24E. We expect the company to generate FCF of ~Rs5bn over the next two years.
- **Valuation:** We cut our revenue estimates by ~5-6% and EBITDA estimates by ~7-9% each year over FY23E-FY24E due to slower than expected improvement in non-covid business, elevated costs and increased competition. Maintain **BUY** with a revised DCF-based target price of Rs2,013/share. **Key downside risks:** Higher than expected competition and regulatory hurdles.

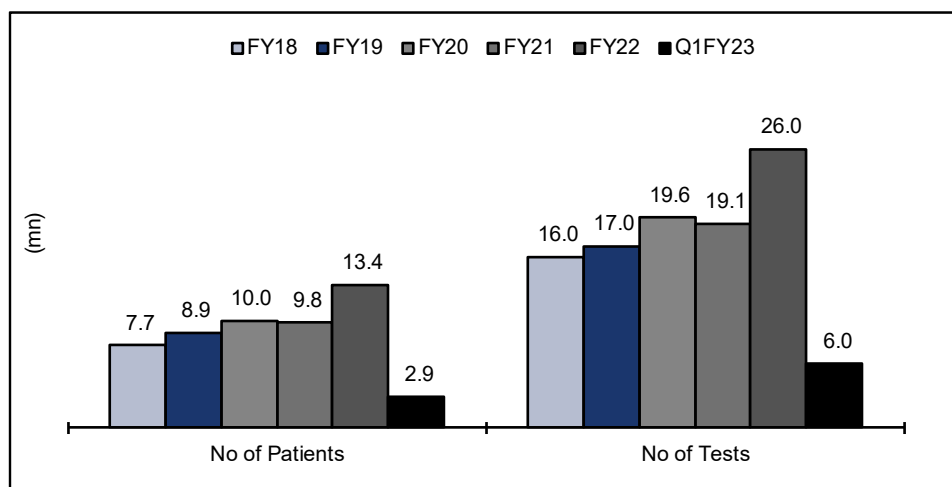
Market Cap	Rs76.4bn/US\$961mn
Reuters/Bloomberg	METP.BO/METROHL IN
Shares Outstanding (mn)	51.2
52-week Range (Rs)	3475/1398
Free Float (%)	50.2
FII (%)	23.9
Daily Volume (USD/'000)	8,950
Absolute Return 3m (%)	(27.4)
Absolute Return 12m (%)	(44.0)
Sensex Return 3m (%)	10.6
Sensex Return 12m (%)	10.2

Year to Mar	FY21	FY22	FY23E	FY24E
Revenue (Rs mn)	9,980	12,283	12,043	13,550
Net Income (Rs mn)	1,831	2,142	1,601	2,068
EPS (Rs)	35.8	39.6	31.3	40.4
% Chg YoY	25.5	10.6	(21.0)	29.2
P/E (x)	41.7	37.7	47.7	36.9
CEPS (Rs)	44.8	51.9	48.7	58.6
EV/E (x)	25.6	22.8	24.5	20.5
Dividend Yield (%)	1.2	1.4	1.0	1.4
RoCE (%)	26.3	19.7	13.1	16.2
RoE (%)	29.8	25.4	17.3	20.5

Table 1: Q1FY23 performance*(Rs mn, year ending March 31)*

	Q1FY23	Q1FY22	YoY % Chg	Q4FY22	QoQ % Chg
Net Sales	2,799	3,268	(14.4)	3,059	(8.5)
EBITDA	685	1,024	(33.1)	748	(8.5)
Other income	30	38	(19.3)	57	(46.5)
PBIDT	715	1,061	(32.6)	805	(11.2)
Depreciation	212	133	59.1	180	17.7
Interest	75	56	33.4	61	24.1
Extra ordinary income/ (exp.)	-	159		-	
PBT	428	1,031	(58.5)	565	(24.2)
Tax	93	295	(68.5)	163	(43.2)
Minority Interest	2	-		2	
Reported PAT	334	736	(54.6)	400	(16.5)
Adjusted PAT	334	610	(45.2)	400	(16.5)
EBITDA margins (%)	24.5	31.3	-680bps	24.5	0bps

Source: Company data, I-Sec research

Chart 1: Growth in number of tests and patients

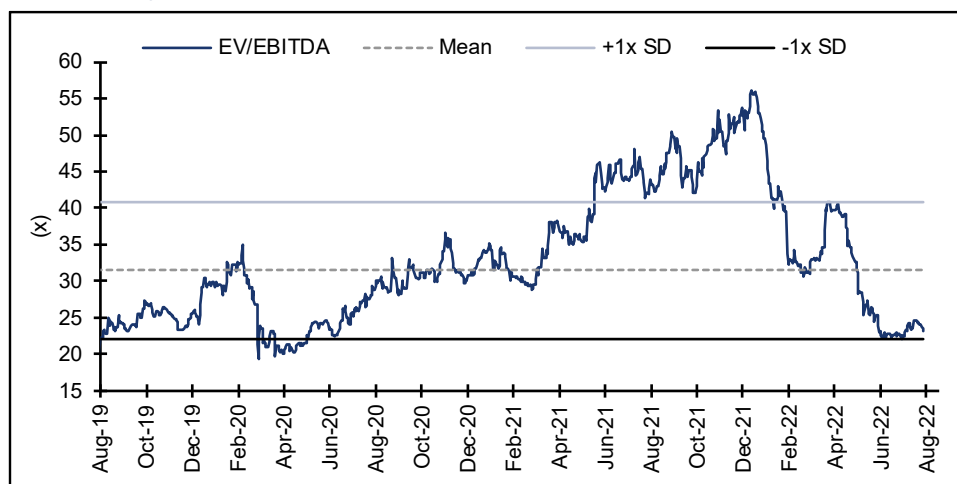
Source: Company data, I-Sec research

Valuations

We expect Metropolis to register an earnings CAGR of 1.1% over FY22-FY24E with revenue growing at 5% CAGR on a high base. Revenue growth is expected to come from volume growth while realisation is likely to remain flattish. We expect EBITDA margin to remain in the vicinity of 26-27% over FY22-FY24E mainly due to decline in high-margin covid revenues and higher spending in digitalisation and aggressive network expansion. This will likely offset operational leverage and change of mix towards the margin-accretive B2C segment. We expect return ratios to remain strong with RoE and RoCE of 20.5% and 16.2% respectively in FY24E, given no major capex requirement.

The stock currently trades at valuations of 47.7x FY23E and 36.9x FY24E earnings and EV/EBITDA multiple of 24.5x FY23E and 20.5x FY24E. We believe premium valuation of the stock would continue due to its brand equity in the growing diagnostic industry, high visibility of steady growth with increasing B2C contribution, and decent free cashflow yield of 3.5% by FY24E. Maintain **BUY** with a revised DCF-based target price of Rs2,013/share (earlier: Rs2,187/share) implying 52x FY24E EPS and 29x FY24E EV/EBITDA.

Chart 2: 1-year forward EV/EBITDA chart



Source: Company data, Bloomberg data, I-Sec research

Financial summary (consolidated)

Table 2: Profit & Loss statement

(Rs mn, year ending March 31)

	FY21	FY22	FY23E	FY24E
Total Net Revenue	9,980	12,283	12,043	13,550
yoy Growth%	16.5	23.1	(2.0)	12.5
Total Op. Exp.	7,120	8,855	8,907	9,857
EBITDA	2,860	3,428	3,136	3,692
Margins %	28.7	27.9	26.0	27.3
yoy Growth%	22.8	19.9	(8.5)	17.7
Dep. & Amort.	459	632	893	931
EBIT	2,401	2,796	2,243	2,762
Other Income	120	176	187	205
Interest	78	197	283	195
EO Items	-	159	-	-
PBT	2,443	2,934	2,147	2,772
Tax	610	787	541	699
Tax Rate (%)	25.0	26.8	25.2	25.2
Minority Interest	3	5	5	5
Reported PAT	1,831	2,142	1,601	2,068
Adj. PAT	1,831	2,025	1,601	2,068
Net Margins (%)	18.3	16.5	13.3	15.3

Source: Company data, I-Sec research

Table 3: Balance sheet

(Rs mn, year ending March 31)

	FY21	FY22	FY23E	FY24E
Paid-up Capital	102	102	102	102
Reserves & Surplus	6,964	8,760	9,560	10,408
Total Equity	7,066	8,862	9,663	10,511
Minority Interest	15	20	25	30
Total Debt	1,123	3,786	3,286	1,787
Deferred Liabilities	(129)	769	769	769
Capital Employed	8,074	13,436	13,742	13,096
Current Liabilities	1,799	1,769	1,790	1,990
Total Liabilities	9,873	15,205	15,532	15,086
Net Fixed Assets	3,431	10,647	10,104	9,573
Investments	18	18	18	18
Inventory	405	511	514	569
Debtors	1,230	1,355	1,328	1,495
Other Current Assets	509	868	851	957
Cash and Equivalents	4,280	1,807	2,717	2,475
Total Cur. Assets	6,425	4,541	5,410	5,495
Total Assets	9,873	15,205	15,532	15,086

Source: Company data, I-Sec research

Table 4: Cashflow statement

(Rs mn, year ending March 31)

	FY21	FY22	FY23E	FY24E
PBT (Adj. for Extraordinary)	2,443	2,934	2,147	2,772
Depreciation	459	632	893	931
Net Chg in WC	(83)	(129)	59	(111)
Taxes	(568)	(825)	(541)	(699)
Others	161	(277)	3	(17)
CFO	2,412	2,335	2,561	2,877
Capex	(336)	(6,686)	(350)	(400)
Net Investments made	47	(50)	-	-
Others	906	(640)	-	-
CFI	617	(7,376)	(350)	(400)
Change in Share capital	343	20	-	-
Change in Debts	(253)	2,105	(500)	(1,499)
Div. & Div Tax	(409)	(409)	(801)	(1,220)
Others	(619)	797	-	-
CFF	(937)	2,513	(1,301)	(2,719)
Total Cash Generated	2,092	(2,528)	910	(242)
Cash Opening Balance	2,105	4,197	1,669	2,580
Cash Closing Balance	4,197	1,669	2,580	2,337

Source: Company data, I-Sec research

Table 5: Key ratios

(Year ending March 31)

	FY21	FY22	FY23E	FY24E
Adj EPS	35.8	39.6	31.3	40.4
YoY Growth%	25.5	10.6	(21.0)	29.2
Cash EPS	44.8	51.9	48.7	58.6
EBITDA - Core (%)	28.7	27.9	26.0	27.3
NPM (%)	18.3	16.5	13.3	15.3
Net Debt to Equity (x)	(0.4)	0.2	0.1	(0.1)
P/E (x)	41.7	37.7	47.7	36.9
EV/EBITDA Core (x)	25.6	22.8	24.5	20.5
P/BV (x)	10.8	8.6	7.9	7.3
EV/Sales (x)	7.3	6.4	6.4	5.6
RoCE (%)	26.3	19.7	13.1	16.2
RoE (%)	29.8	25.4	17.3	20.5
RoIC (%)	45.8	25.7	14.5	18.6
Book Value (Rs)	138	173	189	205
DPS (Rs)	17.9	20.9	15.6	20.2
Dividend Payout (%)	50.0	52.9	50.0	50.0
Div Yield (%)	1.2	1.4	1.0	1.4
Asset Turnover Ratio	4.2	2.1	1.3	1.5
Avg Collection days	46	38	41	38
Avg Inventory days	17	19	21	20

Source: Company data, I-Sec research

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