

Metropolis Healthcare

03 March, 2023

Bloomberg: METROHL IN

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 rationale 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

Mitesh Shah, CFA

Research Analyst

mitesh.shah@nirmalbang.com

+91-76668 04995

Bhavya Sanghavi

Research Associate

bhavya.sanghavi@nirmalbang.com

+91 22 6273 8188

Key Data

Current Shares O/S (mn)	51.2
Mkt. Cap (Rsbn/US\$m)	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.
- Metroplolius 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.

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 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 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 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

DISCLOSURES

This Report is published by Nirmal Bang Equities Private Limited (hereinafter referred to as “NBEPL”) for private circulation. NBEPL is a registered Research Analyst under SEBI (Research Analyst) Regulations, 2014 having Registration no. INH000001436. NBEPL is also a registered Stock Broker with National Stock Exchange of India Limited and BSE Limited in cash and derivatives segments.

NBEPL has other business divisions with independent research teams separated by Chinese walls, and therefore may, at times, have different or contrary views on stocks and markets.

NBEPL or its associates have not been debarred / suspended by SEBI or any other regulatory authority for accessing / dealing in securities Market. NBEPL, its associates or analyst or his relatives do not hold any financial interest in the subject company. NBEPL or its associates or Analyst do not have any conflict or material conflict of interest at the time of publication of the research report with the subject company. NBEPL or its associates or Analyst or his relatives do not hold beneficial ownership of 1% or more in the subject company at the end of the month immediately preceding the date of publication of this research report.

NBEPL or its associates / analyst has not received any compensation / managed or co-managed public offering of securities of the company covered by Analyst during the past twelve months. NBEPL or its associates have not received any compensation or other benefits from the company covered by Analyst or third party in connection with the research report. Analyst has not served as an officer, director or employee of Subject Company and NBEPL / analyst has not been engaged in market making activity of the subject company.

Analyst Certification: I/We, Mr. Mitesh Shah and Bhavya Sanghavi, the research analyst, the author of this report, hereby certify that the views expressed in this research report accurately reflects my personal views about the subject securities, issuers, products, sectors or industries. It is also certified that no part of the compensation of the analyst was, is, or will be directly or indirectly related to the inclusion of specific recommendations or views in this research. The analyst is principally responsible for the preparation of this research report and has taken reasonable care to achieve and maintain independence and objectivity in making any recommendations.

Disclaimer

Stock Ratings Absolute Returns

BUY > 15%

ACCUMULATE -5% to 15%

SELL < -5%

This report is for the personal information of the authorized recipient and does not construe to be any investment, legal or taxation advice to you. NBEPL is not soliciting any action based upon it. Nothing in this research shall be construed as a solicitation to buy or sell any security or product, or to engage in or refrain from engaging in any such transaction. In preparing this research, we did not take into account the investment objectives, financial situation and particular needs of the reader.

This research has been prepared for the general use of the clients of NBEPL and must not be copied, either in whole or in part, or distributed or redistributed to any other person in any form. If you are not the intended recipient you must not use or disclose the information in this research in any way. Though disseminated to all the customers simultaneously, not all customers may receive this report at the same time. NBEPL will not treat recipients as customers by virtue of their receiving this report. This report is not directed or intended for distribution to or use by any person or entity resident in a state, country or any jurisdiction, where such distribution, publication, availability or use would be contrary to law, regulation or which would subject NBEPL & its group companies to registration or licensing requirements within such jurisdictions.

The report is based on the information obtained from sources believed to be reliable, but we do not make any representation or warranty that it is accurate, complete or up-to-date and it should not be relied upon as such. We accept no obligation to correct or update the information or opinions in it. NBEPL or any of its affiliates or employees shall not be in any way responsible for any loss or damage that may arise to any person from any inadvertent error in the information contained in this report. NBEPL or any of its affiliates or employees do not provide, at any time, any express or implied warranty of any kind, regarding any matter pertaining to this report, including without limitation the implied warranties of merchantability, fitness for a particular purpose, and non-infringement. The recipients of this report should rely on their own investigations.

This information is subject to change without any prior notice. NBEPL reserves its absolute discretion and right to make or refrain from making modifications and alterations to this statement from time to time. Nevertheless, NBEPL is committed to providing independent and transparent recommendations to its clients, and would be happy to provide information in response to specific client queries.

Before making an investment decision on the basis of this research, the reader needs to consider, with or without the assistance of an adviser, whether the advice is appropriate in light of their particular investment needs, objectives and financial circumstances. There are risks involved in securities trading. The price of securities can and does fluctuate, and an individual security may even become valueless. International investors are reminded of the additional risks inherent in international investments, such as currency fluctuations and international stock market or economic conditions, which may adversely affect the value of the investment. Opinions expressed are subject to change without any notice. Neither the company nor the director or the employees of NBEPL accept any liability whatsoever for any direct, indirect, consequential or other loss arising from any use of this research and/or further communication in relation to this research. Here it may be noted that neither NBEPL, nor its directors, employees, agents or representatives shall be liable for any damages whether direct or indirect, incidental, special or consequential including lost revenue or lost profit that may arise from or in connection with the use of the information contained in this report.

Copyright of this document vests exclusively with NBEPL.

Our reports are also available on our website www.nirmalbang.com

Access all our reports on Bloomberg, Thomson Reuters and Factset.

Team Details:			
Name		Email Id	Direct Line
Rahul Arora	CEO	rahul.arora@nirmalbang.com	-
Girish Pai	Head of Research	girish.pai@nirmalbang.com	+91 22 6273 8017 / 18
Dealing			
Ravi Jagtiani	Dealing Desk	ravi.jagtiani@nirmalbang.com	+91 22 6273 8230, +91 22 6636 8833
Michael Pillai	Dealing Desk	michael.pillai@nirmalbang.com	+91 22 6273 8102/8103, +91 22 6636 8830

Nirmal Bang Equities Pvt. Ltd.

Correspondence Address

B-2, 301/302, Marathon Innova,
 Nr. Peninsula Corporate Park,
 Lower Parel (W), Mumbai-400013.

Board No. : 91 22 6273 8000/1; Fax. : 022 6273 8010