Equity Research
May 18, 2023
BSE Sensex: 61561

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Q4FY23 result review and earnings revision

Pharmaceuticals

Target price: Rs1,345

Earnings revision

(%)	FY24E	FY25E
Sales	(0.3)	(0.3)
EBITDA	(0.3)	(0.3)

Shareholding pattern

	Sep '22	Dec '22	Mar '23
Promoters	49.8	49.8	49.8
Institutional investors	37.5	36.6	39.3
MFs and other	10.9	11.8	12.4
Banks, FI's	1.0	0.9	0.9
FIIs	25.6	23.9	26.0
Others	12.7	13.6	10.9

Source: BSE India

ESG disclosure score

Year	2021	2022	Chg
ESG score	**NA**	**NA**	-
Environment	NA	NA	-
Social	NA	NA	-
Governance	NA	NA	-

Note - Score ranges from 0 - 100 with a higher score indicating higher ESG disclosures.
Source: Bloomberg, I-sec research

Research Analyst:

Abdulkader Puranwala
abdulkader.puranwala@icicisecurities.com
+91 22 6807 7339

Rohan John
rohan.john@icicisecurities.com
+91 22 6807 7453

INDIA

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Metropolis Healthcare

HOLD
Maintained
Rs1,297

Challenges persist

Metropolis Healthcare's (Metropolis) efforts to boost revenue growth through acquisitions and network expansion have taken a hit due to non-recurring covid-linked tests and PPP contracts. Discontinuation of PPP contract will likely impact FY24E performance, though network addition (4% growth in Q4FY23) may largely offset the impact. While we like the aggressive network expansion with focus on B2C and strengthening position in the fast-growing south region, we remain cautious on the stock due to: cost overheads, increasing competitive intensity in key focus geographies, and test basket. Maintain HOLD and target price of Rs1,345/share.

- **Business review:** Non-covid business (ex Hitech) was up 9.6% YoY to Rs2.52bn, led by healthy growth in the base business. Revenues from PPP contracts witnessed a sharp decline (-56% YoY) with closure of the NACO contract in Feb'23. Hitech revenues grew 7% YoY to Rs240mn in Q4FY23. Wellness segment continued its strong growth momentum and grew 43% YoY during the quarter. Management aspires to increase the wellness segment's contribution from 15% to 20% going forward. Revenue contribution from specialised tests remained stable at 33%, while the contribution from semi-specialised tests saw a marginal decline to 34% (36% in Q4FY22). Volume growth remained robust with the number of patients and number of tests growing 9.8% and 11.6% respectively. Average realisations on non-covid tests declined 2% YoY on account of the PPP contract closure. At the end of Mar'23, the company undertook a price increase of 4% for 900 tests (~25% of overall test basket) largely in the specialised test segment, which will likely boost FY24E revenue growth by 1%.
- **New centres cap margins:** Gross margin expanded 220bps YoY (+130bps QoQ), led by decrease in low-margin covid tests and higher contribution from the wellness segment. However, the benefit was partially offset by a 120bps dilution due to network expansion. Consequently, EBITDA margins were up by a mere 40bps YoY (20bps QoQ) to 24.9%. Addition of 30 labs and ~700 patient service centres could keep a check on margins and, despite price increase in select tests, margins are expected to remain flat at 25% in FY24E. We expect EBITDA margins to surge to 26.5-27% from FY26E-FY27E when the newly added centres become EBITDA-accretive.
- **Outlook:** We forecast revenue, EBITDA and PAT CAGRs of 8.4%, 9.9% and 17.6% respectively, over FY23-FY25E. We expect the company to generate FCF of ~Rs7.8bn over the same period.
- **Valuation:** Network expansion, Hitech acquisition, growing digital revenues and shift to organised players would support growth for Metropolis. However, increasing competition and higher base may restrain growth in the near term. We largely maintain our estimates and reiterate **HOLD** and a DCF-based target price of Rs1,345/share. **Key upside risks**: Inorganic acquisitions and faster shift from unorganised to organised players. **Key downside risks**: Higher-than-expected competition and regulatory hurdles.

Market Cap	Rs66.4bn/US$806bn
Reuters/Bloomberg	METP.BO/METROHL IN
Shares Outstanding (mn)	51.2
52-week Range (Rs)	1947/1197
Free Float (%)	50.2
FII (%)	26.0
Daily Volume (USD/'000)	4,287
Absolute Return 3m (%)	(3.2)
Absolute Return 12m (%)	(32.5)
Sensex Return 3m (%)	1.2
Sensex Return 12m (%)	14.9

Year to Mar	FY22	FY23	FY24E	FY25E
Revenue (Rs mn)	12,283	11,482	12,177	13,481
Net Income (Rs mn)	2,142	1,429	1,633	1,976
EPS (Rs)	39.6	27.9	31.9	38.6
% Chg YoY	10.6	(29.5)	14.3	21.0
P/E (x)	32.8	46.5	40.7	33.6
CEPS (Rs)	51.9	45.3	50.3	57.9
EV/E (x)	20.0	23.6	21.2	18.5
Dividend Yield (%)	1.6	1.1	1.2	1.5
RoCE (%)	19.7	12.0	13.3	15.8
RoE (%)	25.4	15.2	16.0	18.0

Q4FY23 concall highlights

- Company aims at aggressively expanding its network. It expects to achieve this by penetrating deeper into tier-2 and tier-3 markets and widening its geographical reach by entering new markets in the north and east.
- It will add new labs and centres – mostly in Karnataka, Gujarat and Maharashtra.
- Wellness testing is expected to become a strong pillar of growth. Company aspires to increase the contribution of wellness to ~20% (from current levels of 15%).
- 83 new tests were added in FY23 in the specialised test basket. Further, ~120 tests are expected to be added in the test basket in FY24.
- **Expansion**: i) Metropolis aims to establish 90 labs and 1,800 centres by FY25; ii) 30 labs and 600-800 collection centres are planned to be added in FY24; iii) 50 Hitech centres are expected to be added in FY24.
- **PPP contracts:** NACO contract was a one-off with duration of three years, which was largely focussed on specialised tests. The contract has not been renewed, with the government taking over the testing. PPP contracts have not been the key focus area of the company.
- **Wellness:** Realisation drop in the wellness category has been attributed to the changes in geographical mix.
- **Competition:** i) B2B and semi-specialised tests are currently facing competition. Management does not expect any major impact on the company; ii) B2C segment: no pricing pressures are being faced; iii) expect no incremental competition from pharmaceutical companies in the coming year
- Metropolis is increasingly turning towards **lease model** for equipment, which has helped increase the gross margins.
- Company is exploring opportunities in basic radiology space such as ECG, X-ray, sonography, etc.
- **Borrowings:** Rs790mn of Hitech-related borrowing are currently on the books. Company intends to pare down the remaining debt by H1FY24
- **Other income** decreased due to lower cash balance during the year (cash balances were utilised for paring down the debt).
- **FY24 guidance:** Double-digit revenue growth in key cities. EBITDA margins to be flat at ~25%.

Table 1: Q4FY23 performance

(Rs mn, year ending March 31)

	Q4FY23	Q4FY22	YoY % Chg	Q3FY23	QoQ % Chg	FY23	FY22	YoY % Chg
Net Sales	**2,825**	**3,059**	**(7.6)**	**2,855**	**(1.0)**	**11,482**	**12,283**	**(6.5)**
Gross Profit	2,230	2,347	**(5.0)**	2,216	**0.7**	8,949	9,523	**(6.0)**
Gross margins(%)	78.9	76.7	220bps	77.6	130bps	77.9	77.5	40bps
Personnel / Staff cost	643.1	607.9	5.8	645.7	(0.4)	2,527.3	2,331.7	8.4
SG&A expenses	881	976	(9.7)	846	4.1	3,473	3,694	(6.0)
EBITDA	703	748	(6.1)	705	(0.3)	2,883	3,428	(15.9)
Other income	12	57	(78.4)	66	(81.5)	152	176	(13.6)
PBIDT	**715**	**805**	**(11.2)**	**771**	**(7.3)**	**3,035**	**3,604**	**(15.8)**
Depreciation	234	180	30.3	230	1.8	892	632	41.1
Interest	62	61	1.8	61	1.1	268	197	35.8
Extra ordinary income/ (exp.)	-	-		-		-	159	
PBT	**419**	**565**	**(25.8)**	**480**	**(12.7)**	**1,875**	**2,934**	**(36.1)**
Tax	84	163	(48.4)	121	(30.5)	441	787	(43.9)
Minority Interest	1	2	(17.2)	1	102.7	5	5	1.5
Reported PAT	**334**	**400**	**(16.6)**	**358**	**(6.8)**	**1,429**	**2,142**	**(33.3)**
Adjusted PAT	**334**	**400**	**(16.6)**	**358**	**(6.8)**	**1,429**	**2,025**	**(29.5)**
EBITDA margins (%)	24.9	24.5	40bps	24.7	20bps	25.1	27.9	-280bps

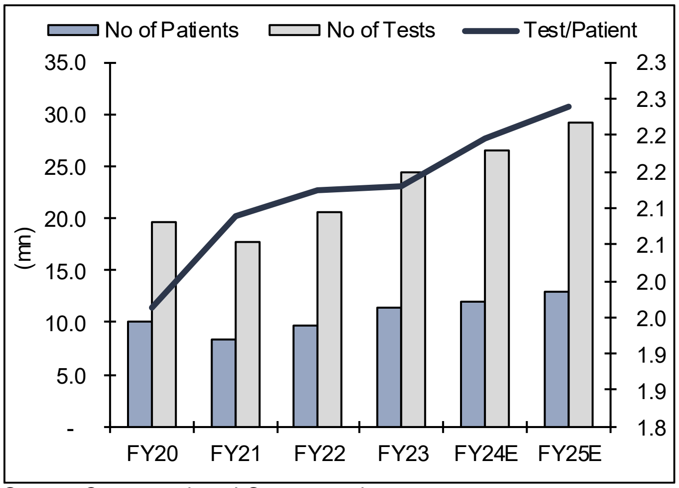
Source: Company data, I-Sec research

Table 2: Operational metrics

Non-covid	Q1FY22	Q2FY22	Q3FY22	Q4FY22	Q1FY23	Q2FY23	Q3FY23	Q4FY23	YoY % Chg
No of tests (mn)	4.4	5.4	5.5	5.5	5.8	6.5	6.2	6.1	10.9
No of Patient/Footfall (mn)	2.0	2.5	2.5	2.7	2.7	3.1	2.9	2.9	7.4
Rev per test	1,028	976	911	950	974	942	957	946	(0.4)
Rev per patient	473	462	423	461	451	442	450	452	(2.0)

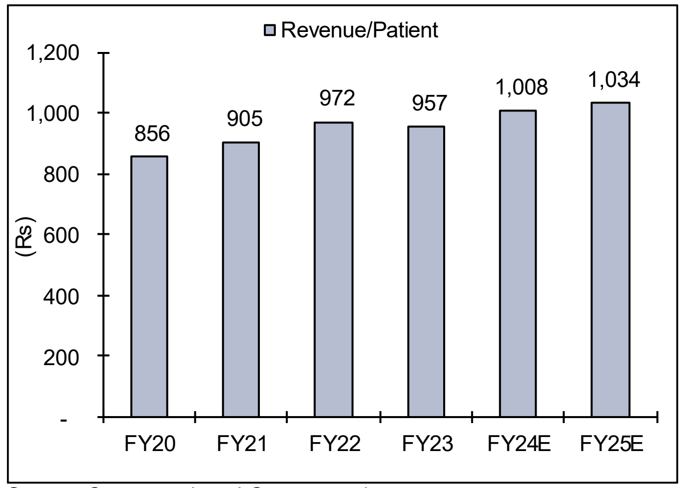
Source: Company data, I-Sec research

Chart 1: Network expansion to support healthy volumes over FY23-FY25E



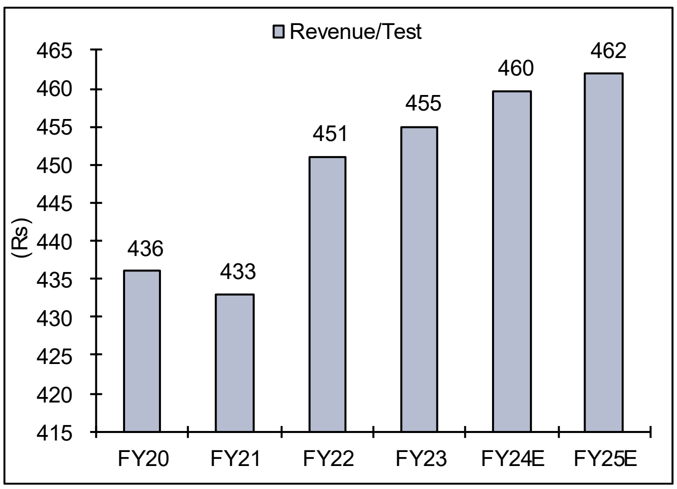
Source: Company data, I-Sec research.

Chart 2: Revenue per patient to improve on the back of specialty tests



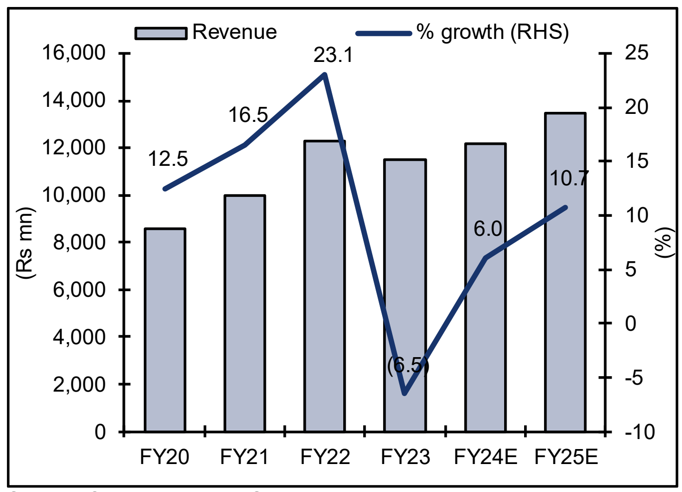
Source: Company data, I-Sec research.

Chart 3: Revenue per test to marginally improve



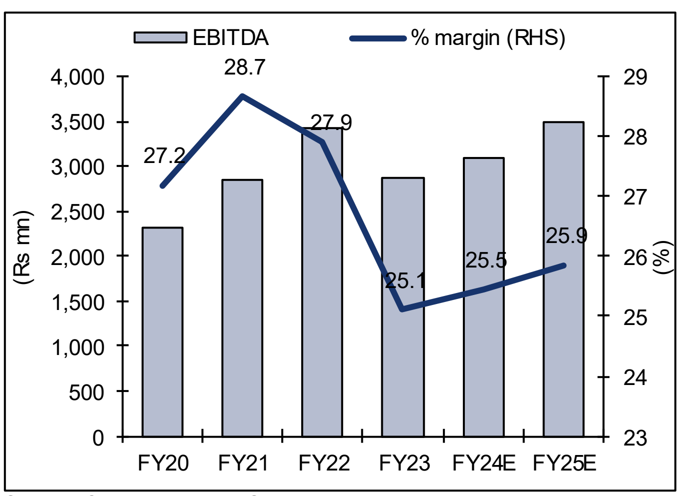
Source: Company data, I-Sec research.

Chart 4: Revenues to grow 8.4% over FY23-FY25E



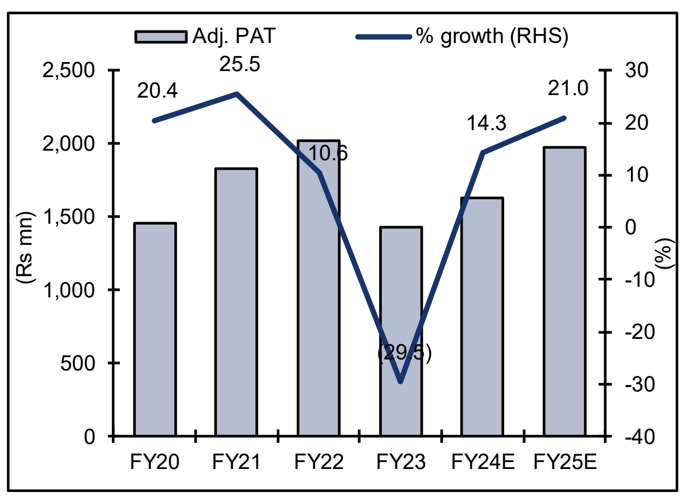
Source: Company data, I-Sec research.

Chart 5: EBITDA margin to expand by 80bps over FY23-FY25E



Source: Company data, I-Sec research

Chart 6: Net profit CAGR expected at 17.6% over FY23-FY25E



Source: Company data, I-Sec research

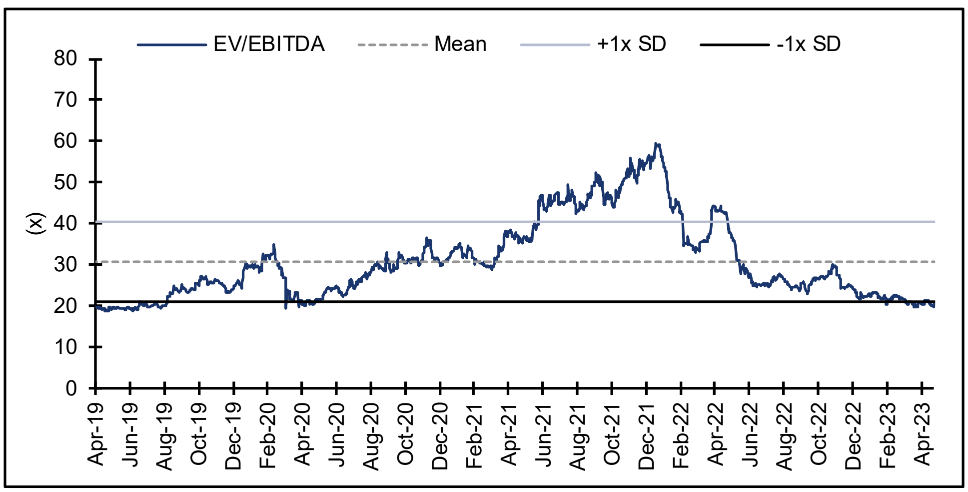
Valuations

Non-recurring revenues linked to covid-led tests and PPP contracts have impacted Metropolis' performance. Going ahead, while the covid base will fade out, PPP contract sales decline will likely keep a check on FY24 revenue growth. Company has taken a price hike of 4% on nearly 25% of its test portfolio, though it wasn't material enough to lift margins and realisation per test. Besides, costs related to new network additions and other overheads is expected to keep a check on margins ahead.

We expect Metropolis to register an earnings CAGR of 17.6% over FY23-FY25E with revenue CAGR at 8.4%. Revenue growth is expected to come from volume growth while realisation is likely to remain flat. We expect EBITDA margin to remain in the vicinity of ~25-26% over FY23-FY25E due to higher costs and aggressive expansion. We expect return ratios to remain strong with RoE and RoCE of 18% and 15.8% respectively, in FY25E.

The stock currently trades at valuations of 40.7x FY24E and 33.6x FY25E earnings and EV/EBITDA multiple of 21.2x FY24E and 18.5x FY25E. We believe premium valuation of the stock will likely continue due to its brand equity in the growing diagnostic industry, and high visibility of steady growth with increasing B2C contribution. Maintain **HOLD** with a DCF-based target price of Rs1,345/share

Chart 7: 1-year forward EV/EBITDA



Source: Company data, I-Sec research

Price chart

Source: Bloomberg

Financial summary (consolidated)

Table 2: Profit and Loss statement

(Rs mn, year ending March 31)

	FY22	FY23E	FY24E	FY25E
Total Net Revenue	**12,283**	**11,482**	**12,177**	**13,481**
YoY Growth%	23.1	(6.5)	6.0	10.7
Total Op. Exp.	**8,855**	**8,599**	**9,078**	**9,996**
EBITDA	**3,428**	**2,883**	**3,099**	**3,485**
Margins %	27.9	25.1	25.5	25.9
YoY Growth%	19.9	(15.9)	7.5	12.5
Dep. & Amort.	632	892	945	987
EBIT	**2,796**	**1,991**	**2,154**	**2,497**
Other Income	176	152	183	219
Interest	197	268	147	68
EO Items	159	-	-	-
PBT	**2,934**	**1,875**	**2,190**	**2,648**
Tax	787	441	552	667
Tax Rate (%)	26.8	23.5	25.2	25.2
Minority Interest	5	5	5	5
Reported PAT	**2,142**	**1,429**	**1,633**	**1,976**
Adj. PAT	**2,025**	**1,429**	**1,633**	**1,976**
Net Margins (%)	16.5	12.4	13.4	14.7

Source: Company data, I-Sec research

Table 3: Balance sheet

(Rs mn, year ending March 31)

	FY22	FY23	FY24E	FY25E
Paid-up Capital	102	102	102	102
Reserves & Surplus	8,760	9,780	10,449	11,259
Total Equity	**8,862**	**9,882**	**10,552**	**11,362**
Minority Interest	20	25	30	35
Total Debt	**3,786**	**2,664**	**1,159**	**659**
Deferred Liabilities	769	713	713	713
Capital Employed	**13,436**	**13,284**	**12,455**	**12,770**
Current Liabilities	1,769	1,663	1,765	1,953
Total Liabilities	**15,205**	**14,947**	**14,219**	**14,723**
Net Fixed Assets	**10,647**	**11,402**	**9,696**	**9,208**
Investments	18	18	18	18
Inventory	511	446	471	518
Debtors	1,355	1,219	1,293	1,431
Other Current Assets	868	800	849	939
Cash and Equivalents	1,807	1,063	1,894	2,609
Total Cur. Assets	**4,541**	**3,528**	**4,506**	**5,497**
Total Assets	**15,205**	**14,947**	**14,219**	**14,723**

Source: Company data, I-Sec research

Table 4: Cashflow statement

(Rs mn, year ending March 31)

	FY22	FY23	FY24E	FY25E
PBT (Adj. for Extraordinary)	2,934	1,875	2,190	2,648
Depreciation	632	892	945	987
Net Chg in WC	(129)	170	(40)	(79)
Taxes	(825)	(516)	(552)	(667)
Others	(79)	50	142	59
CFO	**2,533**	**2,471**	**2,685**	**2,949**
Capex	(6,686)	(525)	761	(500)
Net Investments made	(50)	14	-	-
Others	(640)	43	-	-
CFI	**(7,376)**	**(468)**	**761**	**(500)**
Change in Share capital	20	2	-	-
Change in Debts	2,105	(2,242)	(1,504)	(500)
Div. & Div Tax	(409)	(410)	(963)	(1,166)
Others	600	(90)	(147)	(68)
CFF	**2,315**	**(2,740)**	**(2,615)**	**(1,734)**
Total Cash Generated	**(2,528)**	**(737)**	**832**	**715**
Cash Opening Balance	**4,197**	**1,669**	**932**	**1,764**
Cash Closing Balance	**1,669**	**932**	**1,764**	**2,479**

Source: Company data, I-Sec research

Table 5: Key ratios

(Year ending March 31)

	FY22	FY23	FY24E	FY25E
Adj EPS	39.6	27.9	31.9	38.6
YoY Growth%	10.6	(29.5)	14.3	21.0
Cash EPS	51.9	45.3	50.3	57.9
EBITDA - Core (%)	27.9	25.1	25.5	25.9
NPM (%)	16.5	12.4	13.4	14.7
Net Debt to Equity (x)	0.2	0.2	(0.1)	(0.2)
P/E (x)	32.8	46.5	40.7	33.6
EV/EBITDA Core (x)	20.0	23.6	21.2	18.5
P/BV (x)	7.5	6.7	6.3	5.9
EV/Sales (x)	5.6	5.9	5.4	4.8
RoCE (%)	19.7	12.0	13.3	15.8
RoE (%)	25.4	15.2	16.0	18.0
RoIC (%)	25.7	12.5	13.8	17.6
Book Value (Rs)	173	193	206	222
DPS (Rs)	20.9	14.0	15.9	19.3
Dividend Payout (%)	52.9	50.0	50.0	50.0
Div Yield (%)	1.6	1.1	1.2	1.5
Asset Turnover Ratio	2.1	1.2	1.4	1.7
Avg Collection days	38	41	38	37
Avg Inventory days	19	20	18	18

Source: Company data, I-Sec research

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