

India

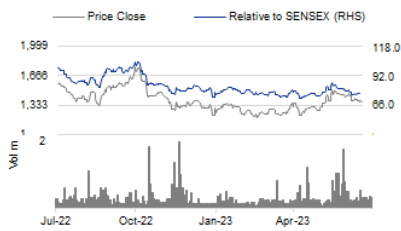
**ADD** (previously REDUCE)

Consensus ratings\*: Buy 9 Hold 2 Sell 7

Current price:	Rs1,408
Target price:	Rs1,553
Previous target:	Rs1,235
Up/downside:	10.3%
InCred Research / Consensus:	10.2%
Reuters:	METP.NS
Bloomberg:	METROHL IN
Market cap:	US\$871m
	Rs72,087m
Average daily turnover:	US\$4.6m
	Rs383.9m
Current shares o/s:	51.2m
Free float:	50.3%
*Source: Bloomberg	

**Key changes in this note**

- FY24F revenue cut by 2%.
- FY24F EBITDA cut by 3.3%.
- FY24F/25F PAT cut by 6.9%/6.4%.



Source: Bloomberg

<b>Price performance</b>	1M	3M	12M
Absolute (%)	(3.7)	12.3	(10.5)
Relative (%)	(3.4)	6.3	(20.0)

<b>Major shareholders</b>	% held
Promoters	49.8
UTI Flexi Cap Fund	6.8
JP Morgan Funds	2.8

**Analyst(s)**



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# Metropolis Healthcare Ltd.

## Mixed 1Q; business gradually getting better

- Revenue/EBITDA missed our estimates by 3-10%. LTL non-Covid patient revenue grew 12% yoy (patient vol: +9%; pricing: +3%). B2C grew +15% yoy.
- Lab/PSC network expansion on track. City presence to double (FY26F: 700). Specialized test/premium wellness gains momentum. Net cash by Mar 2024F.
- We expect a gradual recovery in non-Covid growth. We estimate EPS CAGR of 19% over FY23-25F. Upgrade to ADD rating with a higher TP of Rs1,553.

### 1Q weak on reported numbers; LTL-adjusted sales grew 12% yoy

Metropolis Healthcare's (Metropolis) consol. revenue/EBITDA/PAT stood at Rs2.8bn/Rs630m/Rs288m, down 1%/8%/14% yoy, respectively. Revenue largely in line but EBITDA/PAT missed by 10-16% vs. our/Bloomberg consensus estimates. Consol. gross/EBITDA margins stood at 79.4%/22.7%, +140bp/(176bp) yoy, respectively. Higher costs relating to network expansion had an impact of 1.1% on the EBITDA margin. Reported revenue was flattish yoy due to insourcing of a government contract (Feb 2023) and a sharp fall in Covid revenue. Excluding this, LTL sales stood at Rs2.7bn, +12% yoy, including Hitech. LTL patient volume & realization/patient stood at 2.7m, +9% yoy, and at Rs1,006, +3% yoy, respectively. Hitech patient volume/realization grew by 8%/4% yoy, respectively. Covid revenue was at Rs50m, down 70%+ yoy. B2G revenue fell sharply to Rs10m vs. Rs200m yoy. B2B/B2C revenue was at Rs1.1bn/Rs1.4bn, +9%/+13% yoy, respectively, while B2C revenue in the Mumbai region grew 15% yoy.

### Focus is on reach expansion, specialized testing, premium wellness

Metropolis added 6 labs and 118 service centres in 1Q. As of Jun 2023-end, including Hitech, 180 labs and 3,693 service centres were operational. Nearly two-thirds of lab additions in the last 24 months happened in new geographies, especially in North/East India (1Q: 13% of total sales). Focus cities accounted for ~60% of total sales and the company plans to expand the category base to a total of ~15 cities (from 10) shortly. Metropolis plans to operate 230 labs and 4500+ service centres across ~600 cities by Mar 2025F. Specialized test revenue stood at Rs910m, +14% yoy, with revenue/volume mix of 34%/12% respectively. Premium wellness revenue grew to Rs400m, +27% yoy, accounting for 14% of total revenue. Metropolis expects specialized and premium wellness revenue share to touch 40-45% and 20-25%, respectively, over the next three-to-five years.

### Change in our estimates; upgrade to ADD rating

We account for test price hikes, NIL government sales and the new depreciation policy (shift to SLM from WDV method from Apr 2023). We cut our revenue/EBITDA/PAT by 2-7% over FY24F-25F. We expect revenue/EBITDA/PAT CAGR of 14%/15%/19%, respectively, over FY23-25F. We expect a gradual recovery in patient volume growth and steady realization on the back of peaking competition. We raise our 15-year discounted cash flow or DCF-based target price to Rs1,553 (WACC: 11.9%, stock beta: 0.8x) from Rs1,235 earlier. Upgrade to ADD rating. Downside risks: Insufficient capital allocation.

Financial Summary	Mar-21A	Mar-22A	Mar-23A	Mar-24F	Mar-25F
Revenue (Rsm)	9,980	12,283	11,482	12,933	14,895
Operating EBITDA (Rsm)	2,860	3,428	2,883	3,259	3,828
Net Profit (Rsm)	1,832	2,142	1,428	1,651	2,032
Core EPS (Rs)	35.8	39.6	27.9	32.2	39.7
Core EPS Growth	23.8%	10.6%	(29.5%)	15.6%	23.1%
FD Core P/E (x)	39.04	35.56	50.45	43.66	35.47
DPS (Rs)	8.0	8.0	8.0	10.0	12.0
Dividend Yield	0.57%	0.57%	0.57%	0.71%	0.85%
EV/EBITDA (x)	23.71	21.25	24.91	21.69	18.09
P/FCFE (x)	25.08	(24.36)	81.13	62.29	39.48
Net Gearing	(59.5%)	8.8%	(2.7%)	(13.0%)	(23.0%)
P/BV (x)	10.19	8.13	7.29	6.54	5.80
ROE	29.8%	25.4%	15.2%	15.8%	17.3%
% Change In Core EPS Estimates				(6.95%)	(6.51%)
InCred Research/Consensus EPS (x)					

SOURCE: INCRED RESEARCH, COMPANY REPORTS

## 1QFY24 earnings-call highlights

- **TAM update:** The total addressable market (TAM) for diagnostic services in India is estimated at Rs1tr and is expected to grow at a 10% CAGR over FY23-26F, as per management. Metropolis aspires to address nearly Rs150bn of this TAM that comprises illness TAM of Rs110bn and wellness TAM of Rs40bn. These two segments are expected to grow at a faster pace (12% CAGR over FY23-26F), as per management.
- **Lab and PSC network:** Metropolis had a total of 180 labs at the end of Jun 2023, of which Hitech accounted for 19 labs. The total patient service network expanded to 3,693 centres comprising 3,630 Metropolis centres and 63 Hitech centres. Metropolis intends to add 25 labs and 700 service centres between Jul-Mar 2024F. The company is on track to achieve its target addition of 90 labs and 1,800 service centres over FY22-25F. Almost 50% of the network expansion is directed towards new geographies in North and East India.
- **Wellness testing:** The wellness segment of Metropolis contributed 14% to its total revenue (vs. 13% yoy) in 1QFY24. Revenue grew by 27% yoy and patient volume grew by 38% yoy. The company targets to achieve 20-25% of its revenue from the wellness segment over the next three-to-five years.
- **Hitech update:** Excluding Chennai, Metropolis and Hitech brands have been merged for the rest of Tamil Nadu and Bengaluru markets. The company intends to add 50 touchpoints across Chennai in FY24F. Hitech revenue grew 12% yoy (patient volume: 8%, pricing; 4%) and had a higher EBITDA margin vs. consolidated margin reported by Metropolis for 1QFY24.
- **Change in depreciation policy:** Metropolis has shifted to the Straight-Line Method (SLM) of depreciation from the Written Down Value (WDV) method from Apr 2023. Depreciation charges were lower by Rs26.5m as a result of this policy change in 1QFY24.
- **International business:** Metropolis operates labs and service centres in the African market largely. The total international revenue stood at Rs190m, 7% of total sales, in 1QFY24. About 60-70% of test samples are processed locally while 30-40% samples get processed at the global reference lab in Mumbai. The capital intensity of this business is low and hence, return on capital is higher vs. India business. Forex fluctuations impact periodical performance.
- **M&A:** Metropolis has acquired around 20-25 regional labs since its inception and integrated them successfully. Going ahead, management intends to continue with bolt-on acquisitions (five-to-six over the next three-to-five years) to expand geographical reach.
- **Debt:** Gross debt stood at Rs670m at the end of Jun 2023 as compared to Rs791m (as of Mar 2023-end). The company intends to repay its debt fully by Mar 2024F.

Figure 1: B2C revenue mix

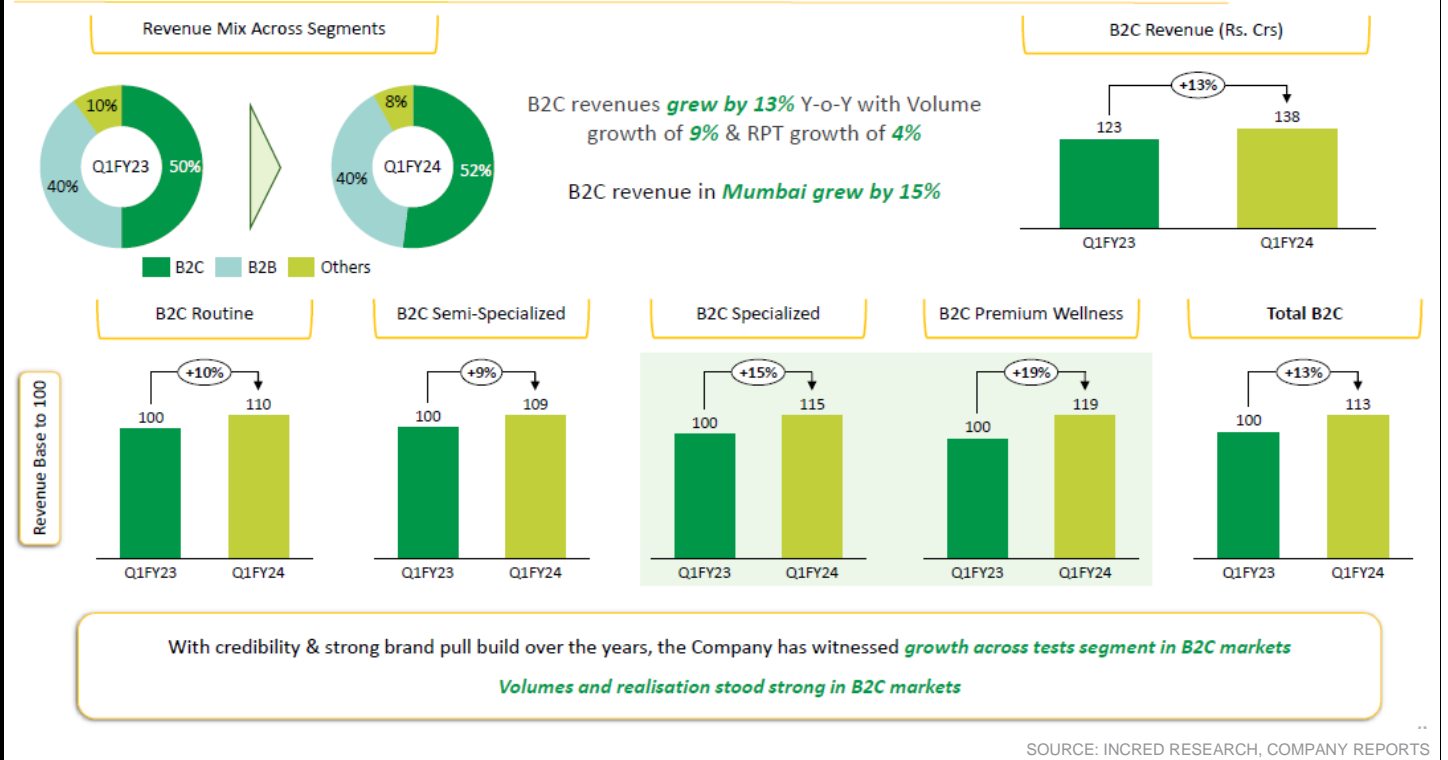
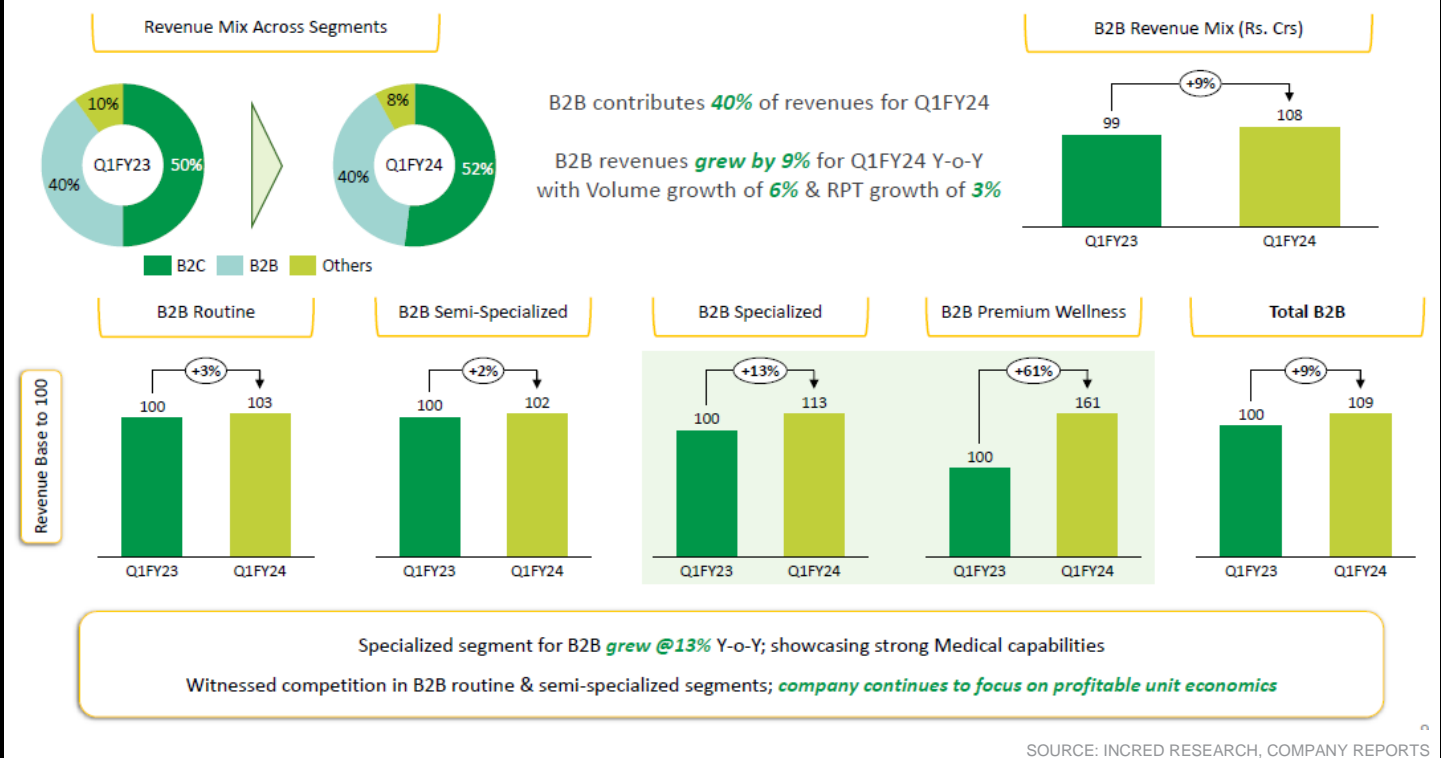
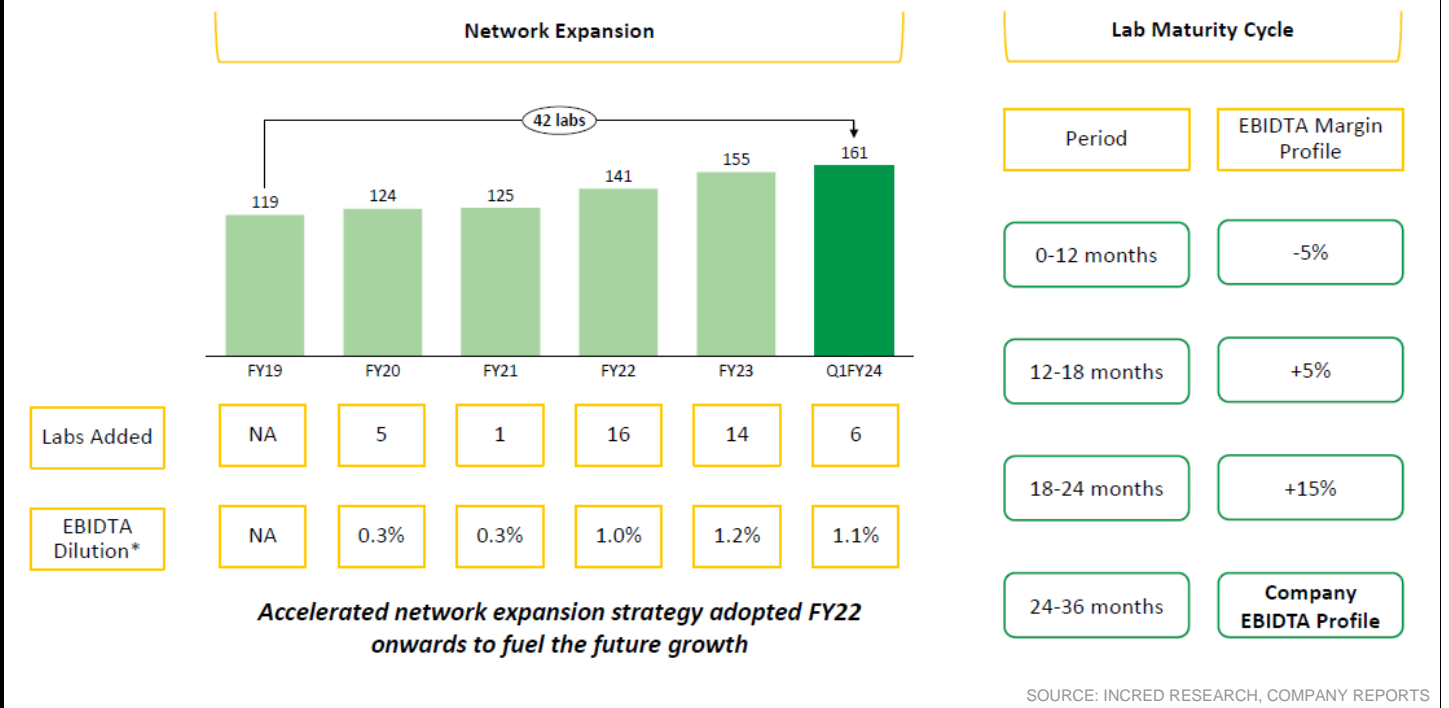


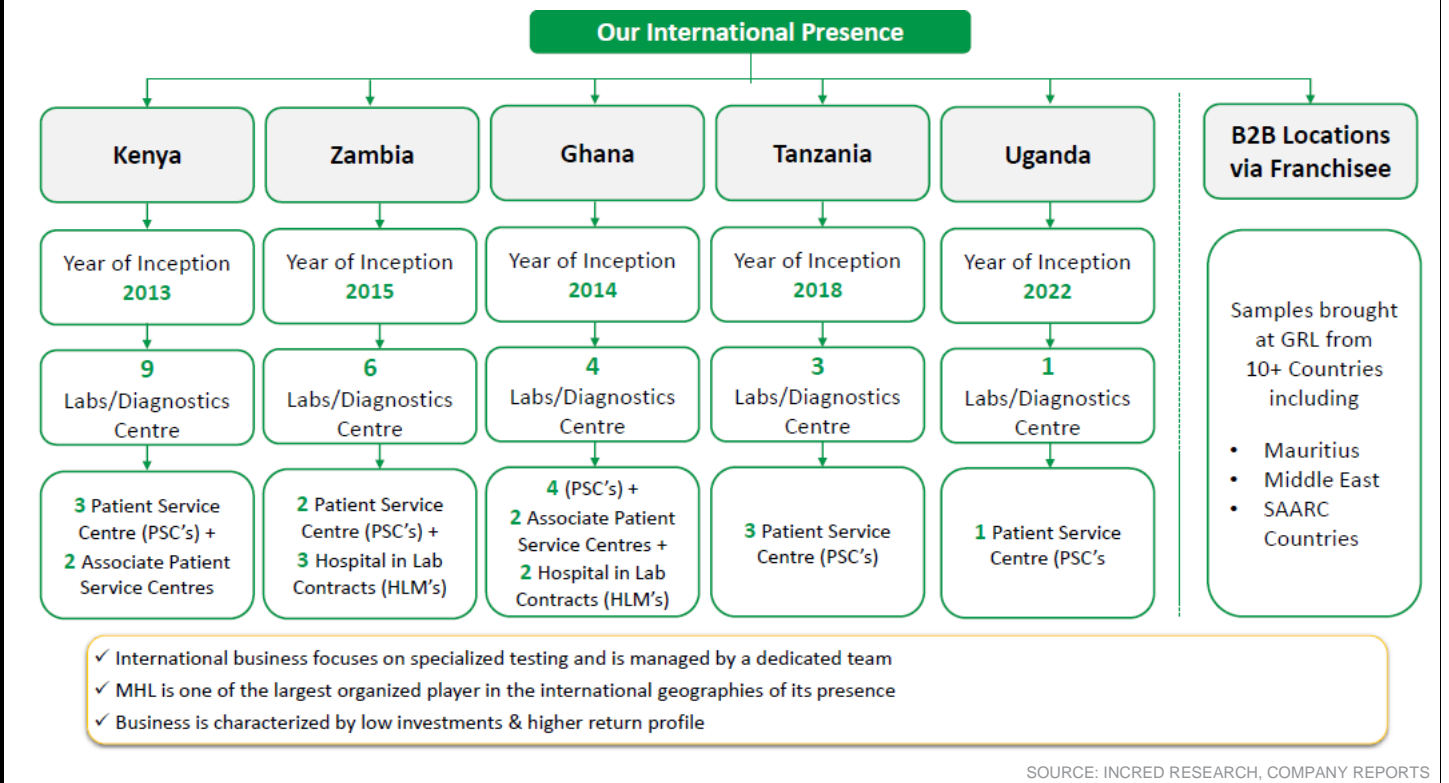
Figure 2: B2B revenue mix



**Figure 3: Network expansion**



**Figure 4: International business**



**Figure 5: 1QFY24 results snapshot**

YE Mar (Rs m)	1QFY24	1QFY23	yoy (%)	4QFY23	qoq (%)
Revenue	2,771	2,799	(1.0)	2,825	(1.9)
EBITDA	630	685	(8.1)	703	(10.4)
EBITDA margin (%)	22.7	24.5	-176 bp	24.9	-216 bp
Adj. PAT	288	334	(13.7)	334	(13.6)
Diluted EPS (Rs)	5.6	6.5		6.5	

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 6: Actuals vs. our estimates

Rs m	1QFY24	1QFY24F	Var(%)
Revenue	2,771	2,846	(2.6)
EBITDA	630	700	(10.1)
EBITDA margin (%)	22.7	24.6	-188 bp
Adj. PAT	288	321	(10.2)

SOURCE: INCRED RESEARCH ESTIMATES, COMPANY REPORTS

Figure 7: Actuals vs. Bloomberg consensus

Rs m	1QFY24	1QFY24C	Var(%)
Revenue	2,771	2,880	(3.8)
EBITDA	630	721	(12.7)
EBITDA margin (%)	22.7	25.0	-233 bp
Adj. PAT	288	343	(15.9)

SOURCE: INCRED RESEARCH, COMPANY REPORTS, BLOOMBERG

Figure 8: Our revised earnings estimates

	New estimates		Old estimates		Change (%)	
	FY24F	FY25F	FY24F	FY25F	FY24F	FY25F
Revenue	12,933	14,895	13,200	14,929	-2.0	-0.2
EBITDA	3,259	3,828	3,369	3,844	-3.3	-0.4
Adjusted consol. PAT	1,651	2,032	1,773	2,172	-6.9	-6.4
EPS	32.2	39.7	34.6	42.4	-6.9	-6.4
EBITDA margin (%)	25.2	25.7	25.5	25.7	-1.3	-0.2

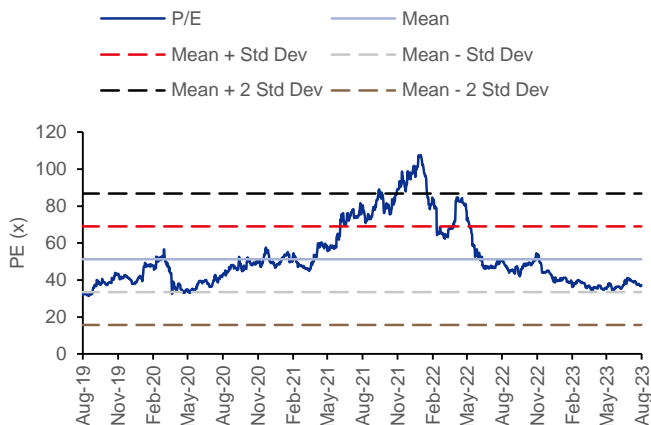
SOURCE: INCRED RESEARCH ESTIMATES, COMPANY REPORTS

Figure 9: Discounted cash flow or DCF valuation (Y/E Mar, Rsm)

	FY24F	FY25F	FY26F	FY27F	FY28F	FY29F	FY30F	FY31F	FY32F	FY33F	FY38F					
<b>EBIT</b>	<b>2,432</b>	<b>2,899</b>	<b>3,396</b>	<b>3,977</b>	<b>4,617</b>	<b>5,317</b>	<b>6,074</b>	<b>6,855</b>	<b>7,678</b>	<b>8,537</b>	<b>13,269</b>					
Depreciation	887	992	1,084	1,182	1,288	1,399	1,515	1,635	1,757	1,881	2,473					
Tax paid	(565)	(696)	(831)	(991)	(1,169)	(1,365)	(1,579)	(1,801)	(2,038)	(2,288)	(3,716)					
WC changes	9	-65	-71	-82	-89	-95	-102	-107	-112	-116	-144					
Capex	(350)	(300)	(315)	(331)	(347)	(365)	(383)	(402)	(422)	(443)	(566)					
<b>FCFF</b>	<b>2,413</b>	<b>2,830</b>	<b>3,262</b>	<b>3,755</b>	<b>4,300</b>	<b>4,890</b>	<b>5,526</b>	<b>6,179</b>	<b>6,863</b>	<b>7,571</b>	<b>11,317</b>					
Discounted FCFF	2,413	2,530	2,606	2,681	2,743	2,789	2,816	2,815	2,794	2,754	2,627					
Discount factor (x)	1.00	0.89	0.80	0.71	0.64	0.57	0.51	0.46	0.41	0.36	0.23					
<b>WACC (%)</b>	<b>11.9</b>															
Terminal growth rate (%)	5.0															
Sum of discounted FCFF (FY24-38)	39,844				10.8		11.3		11.8		12.3		12.8			
Terminal value	40,077				3.0		1,437		1,339		1,252		1,175	1,106		
<b>Enterprise value</b>	<b>79,921</b>				<b>4.0</b>		1,623		1,498		1,390		1,296		1,212	
Net debt	(1,435)				<b>5.0</b>		1,873		1,709		<b>1,553</b>		1,450		1,345	
Lease liabilities	1,873				6.0		2,227		1,999		1,811		1,653		1,519	
Minorities	31				7.0		2,768		2,425		2,153		1,933		1,752	
<b>Equity value</b>	<b>79,452</b>															
Number of equity shares o/s (m)	51.2															
<b>Equity value per share (Rs/sh)</b>	<b>1,553</b>															

SOURCE: INCRED RESEARCH ESTIMATES, COMPANY REPORTS

Figure 10: P/E standard deviation (five-year mean)



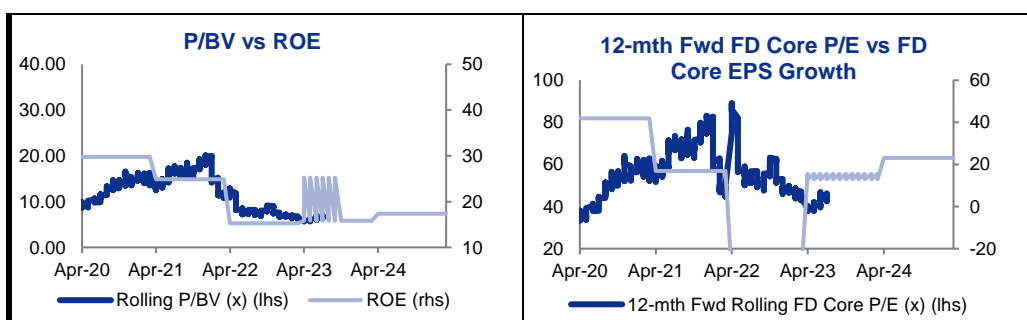
SOURCE: INCRED RESEARCH, COMPANY REPORTS, BLOOMBERG

Figure 11: P/E



SOURCE: INCRED RESEARCH, COMPANY REPORTS, BLOOMBERG

**BY THE NUMBERS**



**Profit & Loss**

(Rs mn)	Mar-21A	Mar-22A	Mar-23A	Mar-24F	Mar-25F
<b>Total Net Revenues</b>	<b>9,980</b>	<b>12,283</b>	<b>11,482</b>	<b>12,933</b>	<b>14,895</b>
<b>Gross Profit</b>	<b>7,458</b>	<b>9,523</b>	<b>8,950</b>	<b>10,056</b>	<b>11,610</b>
<b>Operating EBITDA</b>	<b>2,860</b>	<b>3,428</b>	<b>2,883</b>	<b>3,259</b>	<b>3,828</b>
Depreciation And Amortisation	(459)	(632)	(892)	(887)	(992)
<b>Operating EBIT</b>	<b>2,401</b>	<b>2,796</b>	<b>1,991</b>	<b>2,372</b>	<b>2,836</b>
Financial Income/(Expense)	23	(26)	(203)	(210)	(164)
Pretax Income/(Loss) from Assoc.					
Non-Operating Income/(Expense)	20	4	87	60	63
<b>Profit Before Tax (pre-EI)</b>	<b>2,444</b>	<b>2,774</b>	<b>1,875</b>	<b>2,222</b>	<b>2,735</b>
Exceptional Items		159			
<b>Pre-tax Profit</b>	<b>2,444</b>	<b>2,934</b>	<b>1,875</b>	<b>2,222</b>	<b>2,735</b>
Taxation	(610)	(787)	(441)	(565)	(696)
Exceptional Income - post-tax					
<b>Profit After Tax</b>	<b>1,834</b>	<b>2,147</b>	<b>1,434</b>	<b>1,657</b>	<b>2,039</b>
Minority Interests	(3)	(5)	(6)	(7)	(7)
Preferred Dividends					
FX Gain/(Loss) - post tax					
Other Adjustments - post-tax					
<b>Net Profit</b>	<b>1,832</b>	<b>2,142</b>	<b>1,428</b>	<b>1,651</b>	<b>2,032</b>
Recurring Net Profit	1,832	2,025	1,428	1,651	2,032
<b>Fully Diluted Recurring Net Profit</b>	<b>1,832</b>	<b>2,025</b>	<b>1,428</b>	<b>1,651</b>	<b>2,032</b>

**Cash Flow**

(Rs mn)	Mar-21A	Mar-22A	Mar-23A	Mar-24F	Mar-25F
<b>EBITDA</b>	<b>2,860</b>	<b>3,428</b>	<b>2,883</b>	<b>3,259</b>	<b>3,828</b>
Cash Flow from Invt. & Assoc.					
Change In Working Capital	(153)	(164)	71	9	(65)
(Incr)/Decr in Total Provisions					
Other Non-Cash (Income)/Expense	399	79	361	(256)	(340)
Other Operating Cashflow	20	4	87	60	63
Net Interest (Paid)/Received	(78)	(197)	(268)	(272)	(272)
Tax Paid	(568)	(825)	(516)	(565)	(696)
<b>Cashflow From Operations</b>	<b>2,481</b>	<b>2,325</b>	<b>2,618</b>	<b>2,235</b>	<b>2,518</b>
Capex	(282)	(372)	(526)	(350)	(300)
Disposals Of FAs/subsidiaries					
Acq. Of Subsidiaries/Investments		(6,314)	928		
Other Investing Cashflow	913	(690)	66	62	(392)
<b>Cash Flow From Investing</b>	<b>631</b>	<b>(7,376)</b>	<b>468</b>	<b>(288)</b>	<b>(692)</b>
Debt Raised/(repaid)	(261)	2,094	(2,198)	(791)	
Proceeds From Issue Of Shares	343	20	2		
Shares Repurchased					
Dividends Paid	(409)	(409)	(619)	(512)	(615)
Preferred Dividends					
Other Financing Cashflow		(79)	(107)	(272)	(272)
<b>Cash Flow From Financing</b>	<b>(327)</b>	<b>1,625</b>	<b>(2,923)</b>	<b>(1,575)</b>	<b>(887)</b>
Total Cash Generated	2,785	(3,425)	163	373	939
<b>Free Cashflow To Equity</b>	<b>2,851</b>	<b>(2,956)</b>	<b>888</b>	<b>1,157</b>	<b>1,826</b>
<b>Free Cashflow To Firm</b>	<b>3,189</b>	<b>(4,853)</b>	<b>3,354</b>	<b>2,220</b>	<b>2,098</b>

SOURCE: INCRED RESEARCH, COMPANY REPORTS

**BY THE NUMBERS...cont'd**

<b>Balance Sheet</b>					
<b>(Rs mn)</b>	<b>Mar-21A</b>	<b>Mar-22A</b>	<b>Mar-23A</b>	<b>Mar-24F</b>	<b>Mar-25F</b>
Total Cash And Equivalents	4,214	1,807	1,063	1,435	2,875
Total Debtors	1,230	1,355	1,219	1,417	1,632
Inventories	405	511	446	461	530
Total Other Current Assets	169	258	300	319	367
<b>Total Current Assets</b>	<b>6,018</b>	<b>3,931</b>	<b>3,027</b>	<b>3,632</b>	<b>5,405</b>
Fixed Assets	1,497	4,948	4,926	4,917	4,838
Total Investments	83	18	18	18	18
Intangible Assets	903	4,547	4,547	4,547	4,547
Total Other Non-Current Assets	1,500	1,762	2,430	2,430	2,430
<b>Total Non-current Assets</b>	<b>3,984</b>	<b>11,274</b>	<b>11,920</b>	<b>11,911</b>	<b>11,832</b>
Short-term Debt		999	504		
Current Portion of Long-Term Debt					
Total Creditors	1,106	1,032	941	1,060	1,220
Other Current Liabilities	600	611	586	709	816
<b>Total Current Liabilities</b>	<b>1,706</b>	<b>2,642</b>	<b>2,031</b>	<b>1,768</b>	<b>2,037</b>
Total Long-term Debt		1,587	286		
Hybrid Debt - Debt Component					
Total Other Non-Current Liabilities	1,216	1,326	2,009	2,009	2,009
<b>Total Non-current Liabilities</b>	<b>1,216</b>	<b>2,913</b>	<b>2,295</b>	<b>2,009</b>	<b>2,009</b>
Total Provisions		769	713	713	713
<b>Total Liabilities</b>	<b>2,921</b>	<b>6,323</b>	<b>5,040</b>	<b>4,491</b>	<b>4,759</b>
Shareholders Equity	7,066	8,862	9,882	11,021	12,439
Minority Interests	15	20	25	31	39
<b>Total Equity</b>	<b>7,081</b>	<b>8,882</b>	<b>9,907</b>	<b>11,052</b>	<b>12,477</b>

<b>Key Ratios</b>					
	<b>Mar-21A</b>	<b>Mar-22A</b>	<b>Mar-23A</b>	<b>Mar-24F</b>	<b>Mar-25F</b>
Revenue Growth	16.5%	23.1%	(6.5%)	12.6%	15.2%
Operating EBITDA Growth	22.8%	19.8%	(15.9%)	13.0%	17.4%
Operating EBITDA Margin	28.7%	27.9%	25.1%	25.2%	25.7%
Net Cash Per Share (Rs)	82.38	(15.21)	5.31	28.03	56.14
BVPS (Rs)	138.11	173.18	193.01	215.21	242.89
Gross Interest Cover	30.87	14.16	7.43	8.71	10.43
Effective Tax Rate	24.9%	26.8%	23.5%	25.4%	25.4%
Net Dividend Payout Ratio	22.3%	20.6%	28.7%	31.0%	30.2%
Accounts Receivables Days	45.94	38.40	40.91	37.20	37.37
Inventory Days	47.00	60.59	68.96	57.49	55.08
Accounts Payables Days	141.54	141.33	142.17	126.87	126.70
ROIC (%)	63.7%	69.9%	17.0%	19.2%	23.0%
ROCE (%)	40.6%	30.7%	17.4%	21.0%	23.6%
Return On Average Assets	20.7%	16.0%	10.9%	12.2%	13.4%

<b>Key Drivers</b>					
	<b>Mar-21A</b>	<b>Mar-22A</b>	<b>Mar-23A</b>	<b>Mar-24F</b>	<b>Mar-25F</b>
Patient volume (mn nos)	10	13	10	N/A	N/A
Patient realisation (Rs per patient)	1,016	917	981	N/A	N/A

SOURCE: INCRED RESEARCH, COMPANY REPORTS

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