

India

**HOLD** (previously ADD)

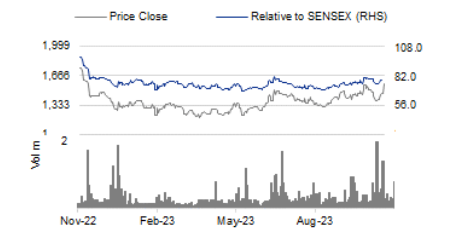
Consensus ratings\*: Buy 10 Hold 1 Sell 8

Current price:	Rs1,572
Target price:	Rs1,641 ▲
Previous target:	Rs1,553
Up/downside:	4.4%
InCred Research / Consensus:	4.7%
Reuters:	METP.NS
Bloomberg:	METROHL IN
Market cap:	US\$967m
	Rs80,500m
Average daily turnover:	US\$6.2m
	Rs514.9m
Current shares o/s:	51.2m
Free float:	50.3%

\*Source: Bloomberg

**Key changes in this note**

- FY24F revenue/EBITDA/PAT cut by 3.8%/6.3%/10%.
- FY25F revenue/EBITDA/PAT cut by 3.6%/4.7%/4.4%.



Source: Bloomberg

<b>Price performance</b>	1M	3M	12M
Absolute (%)	6.8	15.6	(10.1)
Relative (%)	8.5	17.4	(15.3)

<b>Major shareholders</b>	% held
Promoters	49.8
UTI Flexi Cap Fund	6.8
JP Morgan Funds	2.7

**Analyst(s)**



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# Metropolis Healthcare Ltd.

## Stable execution in 2Q, but upside is limited

- 2QFY24 revenue/EBITDA in line with expectations. Non-Covid LTL sales grew by 13.4% yoy, patient volume +10.4% yoy, and patient realization +3% yoy.
- Seasonally, 2H accounts for 50%+ of annual sales/profits. Management indicated 2HFY24F to be similar. Mid-teen sales growth to stay (FY25F-26F).
- Excluding Hitech, 4-year non-Covid sales CAGR was at 5.3% (2QFY20-24F). As business picks up gradually, competition is still a risk. Downgrade to HOLD.

### 2QFY24 performance in line with expectations

Metropolis Healthcare's (MHL) consol. revenue/EBITDA/PAT stood at Rs3.1bn/Rs748m/Rs355m, +3%/(5%)/(12%) yoy, respectively. Revenue/EBITDA were in line but PAT was lower by 5% and 7% vs. Incred/Bloomberg consensus estimates, respectively. Consol. gross/EBITDA margins stood at 80.1%/24.2%, +291bp/(207bp) yoy, respectively. The EBITDA margin was lower due to a) network expansion costs: 120bp impact, and b) an one-time provision for doubtful debtors of Rs33.4m: 110bp impact. On an LTL basis, non-Covid patients grew by 10.4% yoy to 3.1m while the realization per patient (RPP) grew by 3% to Rs977. B2C revenue (52% of total sales) stood at Rs 1.6bn, +16% yoy, while B2B revenue was at Rs1.2bn, +12% yoy. Hitech's revenue/EBITDA stood at ~Rs276m (+15% yoy)/~Rs70-75m, based on our estimates. The net working capital cycle expanded to 18 days of TTM sales due to a decline in creditors (advance payments in lieu of cash discounts). 1HFY24 OCF/FCF stood at Rs1.1bn/Rs805m, respectively.

### Gradual pick-up in non-Covid business likely to continue in 2HFY24F

Seasonally, 2H accounts for a higher share of annual revenue/profit based on past trends for MHL. Management gave guidance of a stronger 2HFY24F and expects core revenue (total revenue excluding government, Covid and allied sales but incl. Hitech) growth to be meaningfully higher vs. a flattish 1H. We expect 2HFY24F revenue/EBITDA/PAT growth at 16%/19%/22% yoy, respectively. Management is confident of a mid-teen revenue growth & EBITDA margin of 26-27% from FY25F. We estimate a non-Covid patient volume CAGR of 11.3% & revenue/EBITDA CAGR of 13%/15%, respectively, over FY23-26F. RPP to improve based on higher mix of specialized tests, premium wellness & price hikes.

### Change in our estimates, valuation and risks

We have altered our patient volume, RPP, gross margin, opex and capex assumptions for FY24F-25F based on 1H actuals and the underlying trends. We cut revenue/EBITDA/PAT estimates by 4%/6%/10% and by 4%/5%/4% for FY24F/25F, respectively. Last four-year non-Covid sales CAGR is still low at 5.3% (2QFY20-24F). We are positive about the gradual pick-up for B2C diagnostic labs but feel that local regional labs remain a risk to market share gains & sustainable growth. Due to limited upside from the CMP, we downgrade our rating to HOLD (ADD earlier) and roll our TP over to Mar'25 with a higher DCF-based target price of Rs1,641 (Rs1,553 earlier). Upside risk: Decline in competition. Downside risk: Delay in setting up new labs/ramp-up of collection centres.

Financial Summary	Mar-22A	Mar-23A	Mar-24F	Mar-25F	Mar-26F
Revenue (Rsm)	12,283	11,482	12,438	14,358	16,433
Operating EBITDA (Rsm)	3,428	2,883	3,054	3,647	4,355
Net Profit (Rsm)	2,142	1,428	1,485	1,942	2,445
Core EPS (Rs)	39.6	27.9	29.0	37.9	47.7
Core EPS Growth	10.6%	(29.5%)	4.0%	30.8%	25.9%
FD Core P/E (x)	39.70	56.33	54.17	41.43	32.91
DPS (Rs)	8.0	8.0	8.0	10.0	12.0
Dividend Yield	0.51%	0.51%	0.51%	0.64%	0.76%
EV/EBITDA (x)	23.69	27.82	26.03	21.44	17.58
P/FCFE (x)	(27.20)	90.57	139.19	53.97	40.19
Net Gearing	8.8%	(2.7%)	(9.2%)	(18.6%)	(28.0%)
P/BV (x)	9.07	8.14	7.34	6.50	5.66
ROE	25.4%	15.2%	14.3%	16.6%	18.4%
% Change In Core EPS Estimates			(10.02%)	(4.41%)	
InCred Research/Consensus EPS (x)					

SOURCE: INCRED RESEARCH, COMPANY REPORTS

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## 2QFY24 earnings-call highlights

- **Guidance:** Management continues its focus on specialized illness test menu for both B2C and B2B customers to sustain/gain market share across its core and new markets in India. The EBITDA margin is likely to sustain in the range of 25-27% over FY24F-25F. Monsoon-related seasonal infections were delayed but increased as of end-Sep and early-Oct 2023, as per management, leading to higher-than-normal test volume in Oct 2023.
- **Strengthening senior management team:** The company appointed Mr. Mohan Menon as its chief marketing officer in 2QFY24. Mr. Menon joins Metropolis Healthcare after nearly two decades of diverse experience across various sectors and a proven track record of leading and managing successful marketing initiatives. Prior to Metropolis Healthcare, he had a successful stint with Max Healthcare as senior vice president of marketing & digital business. He has formerly worked in organizations like Micromax Mobiles, American Express and Samsung India. On the academic front, Mr. Menon is an MBA (Marketing and Operations) from the Narsee Monjee Institute of Management Studies and holds an engineering degree with specialization in computer science.
- **Recalibration of focus and seeding cities:** Management is in the process of recalibrating its classification of focus and seeding cities based on current business trends & a change in priorities and announce the same at the end of FY24F.
- **Lab and PSC network:** The company had a total of 187 labs at the end of Sep 2023, of which Hitech accounted for 20 labs. The total patient service network expanded to 3,934 centres comprising 3,854 Metropolis Healthcare centres and 63 Hitech centres. The company is on track to achieve its target addition of 90 labs and 1,800 service centres over FY22-25F. Also, management intends to provide basic radiology service such as X-ray, etc. at a few centres to tap higher walk-ins.
- **Wellness testing:** The premium wellness segment for MHL contributed 14% to total revenue (vs. 13% yoy) in 2QFY24. Premium wellness revenue grew by 27% yoy to Rs440m vs. Rs340m yoy. The company targets to achieve 20-25% of revenue from the wellness segment over the next three-to-five years.
- **Hitech update:** MHL has integrated Hitech and has been capitalizing on synergies in the areas of procurement, efficiency, logistics, manpower management and marketing. MHL has added 35 centres (1HFY24: 17) since the acquisition of Hitech and the total number of patient service centres stands at 80 at the end of Sep 2023. The company has expanded its test offerings in the areas such as B2B testing, curated wellness and home testing, which, before the acquisition, had a small salience.
- **Whistle-blower complaint:** MHL received a whistle-blower complaint from an employee regarding accounting adjustment discrepancies in the debtors account for FY23 and 1HFY24. Upon investigation by a third-party auditor, the findings stated that the entries passed in the debtor and creditor accounts largely nullified each other and therefore the entries do not have any material impact on the accounts of MHL. A one-time provision for doubtful debts of Rs33.4m (1.1% of sales) was accounted for in 2QFY24 to ensure the full impact of the audit is taken into consideration.
- **Cash flow:** 1HFY24 OCF/FCF stood at Rs1.1bn/Rs805m, respectively. Gross debt declined to Rs440m at the end of Sep 2023, as compared to Rs670m (as of end-Jun 2023). The company intends to repay its debt fully by Mar 2024F. Net cash (including equivalents) stood at Rs634m at the end of Sep 2023. The company moved to a bi-annual dividend payment policy and its board thus declared an interim dividend of Rs4/share. Management intends to pay 35-40% of the annual profits as dividend.

Figure 1: 2QFY24 results snapshot

Y/E Mar (Rs m)	2QFY24	2QFY23	yoy (%)	1QFY24	qoq (%)	1HFY24	1HFY23	yoy (%)
Revenue	3,085	3,003	2.7	2,771	11.3	5,856	5,802	0.9
EBITDA	748	790	(5.4)	630	18.8	1,378	1,475	(6.6)
EBITDA margin (%)	24.2	26.3	-207 bp	22.7	153 bp	23.5	25.4	-190 bp
Adj. PAT	355	403	(12.0)	288	23.1	643	737	(12.8)
Diluted EPS (Rs)	6.9	7.9		5.6		12.6	14.4	

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 2: Actuals vs. our estimates

Rs m	2QFY24	2QFY24F	Var (%)
Revenue	3,085	3,097	(0.4)
EBITDA	748	751	(0.4)
EBITDA margin (%)	24.2	24.3	0 bp
Adj. PAT	355	374	(5.0)

SOURCE: INCRED RESEARCH ESTIMATES, COMPANY REPORTS

Figure 3: Actuals vs. Bloomberg consensus

Rs m	2QFY24	2QFY24C	Var (%)
Revenue	3,085	3,042	1.4
EBITDA	748	757	(1.1)
EBITDA margin (%)	24.2	24.9	-63 bp
Adj. PAT	355	381	(6.8)

SOURCE: INCRED RESEARCH, COMPANY REPORTS, BLOOMBERG

Figure 4: Our revised earnings estimates

	New estimates			Old estimates			Change (%)		
	FY24F	FY25F	FY26F	FY24F	FY25F	FY26F	FY24F	FY25F	FY26F
Revenue	12,438	14,358	16,433	12,933	14,895	NA	-3.8	-3.6	NA
EBITDA	3,054	3,647	4,355	3,259	3,828	NA	-6.3	-4.7	NA
Adjusted consol. PAT	1,485	1,942	2,445	1,651	2,032	NA	-10.0	-4.4	NA
EPS	29.0	37.9	47.7	32.2	39.7	NA	-10.0	-4.4	NA
EBITDA margin (%)	24.6	25.4	26.5	25.2	25.7	NA	-2.6	-1.2	NA

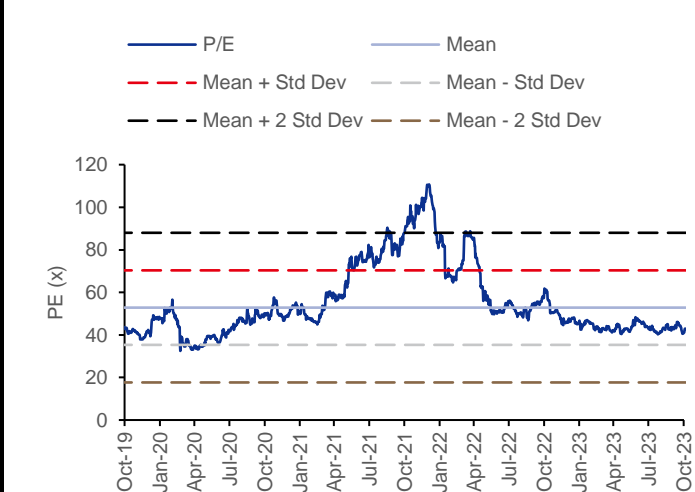
SOURCE: INCRED RESEARCH ESTIMATES, COMPANY REPORTS

Figure 5: Discounted cash flow or DCF valuation (Y/E Mar, Rsm)

	FY24F	FY25F	FY26F	FY27F	FY28F	FY29F	FY30F	FY31F	FY32F	FY33F	FY38F													
EBIT	2,169	2,686	3,297	3,877	4,520	5,228	5,999	6,828	7,712	8,644	13,917													
Depreciation	914	992	1,091	1,193	1,300	1,409	1,520	1,632	1,743	1,851	2,307													
Tax paid	(500)	(654)	(824)	(990)	(1,176)	(1,383)	(1,611)	(1,858)	(2,125)	(2,411)	(4,104)													
WC changes	-210	-100	-108	-121	-131	-140	-149	-156	-162	-166	-203													
Capex	(500)	(450)	(473)	(496)	(521)	(547)	(574)	(603)	(633)	(665)	(849)													
FCFF	1,873	2,474	2,983	3,463	3,992	4,567	5,185	5,843	6,535	7,254	11,068													
Discounted FCFF	2,097	2,474	2,666	2,765	2,847	2,910	2,951	2,972	2,969	2,944	2,862													
Discount factor (x)	1.12	1.00	0.89	0.80	0.71	0.64	0.57	0.51	0.45	0.41	0.26													
WACC (%)	11.9																							
Terminal growth rate (%)	5.0																							
Sum of discounted FCFF (FY24-38)	41,553			10.9			11.4			11.8			12.4			12.9								
Terminal value	43,395			3.0			1,469			1,374			1,290			1,214			1,147					
Enterprise value	84,948			Terminal Growth (%)			4.0			1,672			1,549			1,443			1,349			1,267		
Net debt	(1,013)			5.0			1,943			1,780			1,641			1,521			1,417					
Lease liabilities	1,873			6.0			2,327			2,098			1,908			1,748			1,611					
Minorities	32			7.0			2,907			2,560			2,283			2,059			1,872					
Equity value	84,056																							
Number of equity shares o/s (m)	51.2																							
Equity value per share (Rs/sh)	1,641																							

SOURCE: INCRED RESEARCH ESTIMATES, COMPANY REPORTS

Figure 6: P/E standard deviation (five-year mean)



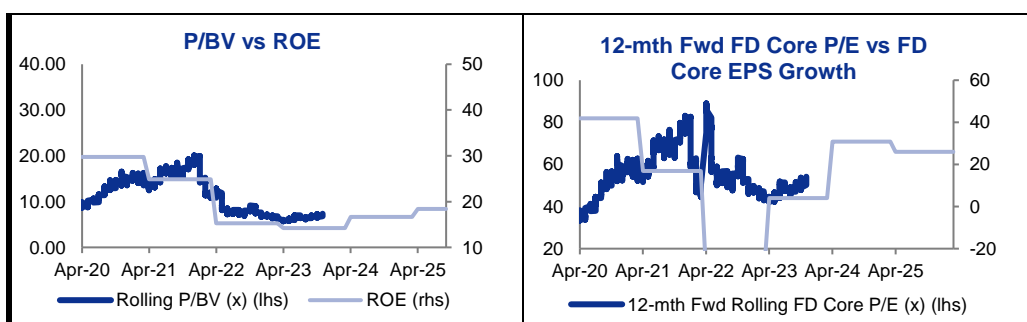
SOURCE: INCRED RESEARCH, COMPANY REPORTS, BLOOMBERG

Figure 7: P/E



SOURCE: INCRED RESEARCH, COMPANY REPORTS, BLOOMBERG

**BY THE NUMBERS**



**Profit & Loss**

(Rs mn)	Mar-22A	Mar-23A	Mar-24F	Mar-25F	Mar-26F
<b>Total Net Revenues</b>	<b>12,283</b>	<b>11,482</b>	<b>12,438</b>	<b>14,358</b>	<b>16,433</b>
<b>Gross Profit</b>	<b>9,523</b>	<b>8,950</b>	<b>9,857</b>	<b>11,415</b>	<b>13,089</b>
<b>Operating EBITDA</b>	<b>3,428</b>	<b>2,883</b>	<b>3,054</b>	<b>3,647</b>	<b>4,355</b>
Depreciation And Amortisation	(632)	(892)	(914)	(992)	(1,091)
<b>Operating EBIT</b>	<b>2,796</b>	<b>1,991</b>	<b>2,139</b>	<b>2,655</b>	<b>3,264</b>
Financial Income/(Expense)	(26)	(203)	(176)	(82)	(19)
Pretax Income/(Loss) from Assoc.					
Non-Operating Income/(Expense)	4	87	30	32	33
<b>Profit Before Tax (pre-EI)</b>	<b>2,774</b>	<b>1,875</b>	<b>1,993</b>	<b>2,605</b>	<b>3,278</b>
Exceptional Items	159				
<b>Pre-tax Profit</b>	<b>2,934</b>	<b>1,875</b>	<b>1,993</b>	<b>2,605</b>	<b>3,278</b>
Taxation	(787)	(441)	(500)	(654)	(824)
Exceptional Income - post-tax					
<b>Profit After Tax</b>	<b>2,147</b>	<b>1,434</b>	<b>1,492</b>	<b>1,950</b>	<b>2,454</b>
Minority Interests	(5)	(6)	(7)	(8)	(9)
Preferred Dividends					
FX Gain/(Loss) - post tax					
Other Adjustments - post-tax					
<b>Net Profit</b>	<b>2,142</b>	<b>1,428</b>	<b>1,485</b>	<b>1,942</b>	<b>2,445</b>
Recurring Net Profit	2,025	1,428	1,485	1,942	2,445
<b>Fully Diluted Recurring Net Profit</b>	<b>2,025</b>	<b>1,428</b>	<b>1,485</b>	<b>1,942</b>	<b>2,445</b>

**Cash Flow**

(Rs mn)	Mar-22A	Mar-23A	Mar-24F	Mar-25F	Mar-26F
<b>EBITDA</b>	<b>3,428</b>	<b>2,883</b>	<b>3,054</b>	<b>3,647</b>	<b>4,355</b>
Cash Flow from Invt. & Assoc.					
Change In Working Capital	(164)	71	(210)	(100)	(108)
(Incr)/Decr in Total Provisions					
Other Non-Cash (Income)/Expense	79	361	(328)	(401)	(462)
Other Operating Cashflow	4	87	30	32	33
Net Interest (Paid)/Received	(197)	(268)	(218)	(181)	(208)
Tax Paid	(825)	(516)	(500)	(654)	(824)
<b>Cashflow From Operations</b>	<b>2,325</b>	<b>2,618</b>	<b>1,827</b>	<b>2,341</b>	<b>2,786</b>
Capex	(372)	(526)	(500)	(450)	(473)
Disposals Of FAs/subsidiaries					
Acq. Of Subsidiaries/Investments	(6,314)	929			
Other Investing Cashflow	(690)	65	42	(400)	(311)
<b>Cash Flow From Investing</b>	<b>(7,376)</b>	<b>468</b>	<b>(458)</b>	<b>(850)</b>	<b>(783)</b>
Debt Raised/(repaid)	2,094	(2,198)	(791)		
Proceeds From Issue Of Shares	20	2			
Shares Repurchased					
Dividends Paid	(409)	(619)	(410)	(512)	(615)
Preferred Dividends					
Other Financing Cashflow	(79)	(107)	(218)	(181)	(208)
<b>Cash Flow From Financing</b>	<b>1,625</b>	<b>(2,923)</b>	<b>(1,418)</b>	<b>(693)</b>	<b>(823)</b>
Total Cash Generated	(3,425)	163	(49)	798	1,179
<b>Free Cashflow To Equity</b>	<b>(2,956)</b>	<b>888</b>	<b>578</b>	<b>1,491</b>	<b>2,002</b>
<b>Free Cashflow To Firm</b>	<b>(4,853)</b>	<b>3,354</b>	<b>1,587</b>	<b>1,672</b>	<b>2,211</b>

SOURCE: INCRED RESEARCH, COMPANY REPORTS

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

<b>Balance Sheet</b>					
<b>(Rs mn)</b>	<b>Mar-22A</b>	<b>Mar-23A</b>	<b>Mar-24F</b>	<b>Mar-25F</b>	<b>Mar-26F</b>
Total Cash And Equivalents	1,807	1,063	1,013	2,311	3,990
Total Debtors	1,355	1,219	1,363	1,574	1,801
Inventories	511	446	477	551	630
Total Other Current Assets	258	300	341	393	450
<b>Total Current Assets</b>	<b>3,931</b>	<b>3,027</b>	<b>3,194</b>	<b>4,829</b>	<b>6,872</b>
Fixed Assets	4,948	4,926	5,253	5,293	5,345
Total Investments	18	18	18	18	18
Intangible Assets	4,547	4,547	4,547	4,547	4,547
Total Other Non-Current Assets	1,762	2,430	2,234	2,234	2,234
<b>Total Non-current Assets</b>	<b>11,274</b>	<b>11,920</b>	<b>12,052</b>	<b>12,092</b>	<b>12,144</b>
Short-term Debt	999	504			
Current Portion of Long-Term Debt					
Total Creditors	1,032	941	920	1,062	1,216
Other Current Liabilities	611	586	613	708	810
<b>Total Current Liabilities</b>	<b>2,642</b>	<b>2,031</b>	<b>1,533</b>	<b>1,770</b>	<b>2,026</b>
Total Long-term Debt	1,587	286			
Hybrid Debt - Debt Component					
Total Other Non-Current Liabilities	1,326	2,009	2,009	2,009	2,009
<b>Total Non-current Liabilities</b>	<b>2,913</b>	<b>2,295</b>	<b>2,009</b>	<b>2,009</b>	<b>2,009</b>
Total Provisions	769	713	713	713	713
<b>Total Liabilities</b>	<b>6,323</b>	<b>5,040</b>	<b>4,256</b>	<b>4,493</b>	<b>4,748</b>
Shareholders Equity	8,862	9,882	10,958	12,388	14,219
Minority Interests	20	25	32	39	48
<b>Total Equity</b>	<b>8,882</b>	<b>9,907</b>	<b>10,990</b>	<b>12,428</b>	<b>14,267</b>

<b>Key Ratios</b>					
	<b>Mar-22A</b>	<b>Mar-23A</b>	<b>Mar-24F</b>	<b>Mar-25F</b>	<b>Mar-26F</b>
Revenue Growth	23.1%	(6.5%)	8.3%	15.4%	14.4%
Operating EBITDA Growth	19.8%	(15.9%)	5.9%	19.4%	19.4%
Operating EBITDA Margin	27.9%	25.1%	24.5%	25.4%	26.5%
Net Cash Per Share (Rs)	(15.21)	5.31	19.78	45.13	77.92
BVPS (Rs)	173.18	193.01	213.98	241.91	277.66
Gross Interest Cover	14.16	7.43	9.82	14.64	15.66
Effective Tax Rate	26.8%	23.5%	25.1%	25.1%	25.1%
Net Dividend Payout Ratio	20.6%	28.7%	27.6%	26.4%	25.1%
Accounts Receivables Days	38.40	40.91	37.88	37.33	37.48
Inventory Days	60.59	68.96	65.27	63.73	64.45
Accounts Payables Days	141.33	142.17	131.59	122.90	124.30
ROIC (%)	69.9%	17.0%	17.3%	20.9%	25.5%
ROCE (%)	30.7%	17.4%	18.9%	22.2%	24.6%
Return On Average Assets	16.0%	10.9%	11.1%	12.6%	13.8%

<b>Key Drivers</b>					
	<b>Mar-22A</b>	<b>Mar-23A</b>	<b>Mar-24F</b>	<b>Mar-25F</b>	<b>Mar-26F</b>
Patient volume (mn nos)	13	10	13	14	16
Patient realisation (Rs per patient)	917	981	992	1,014	1,032

SOURCE: INCRED RESEARCH, COMPANY REPORTS

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