

India

ADD (no change)

Consensus ratings*: Buy 12 Hold 2 Sell 7

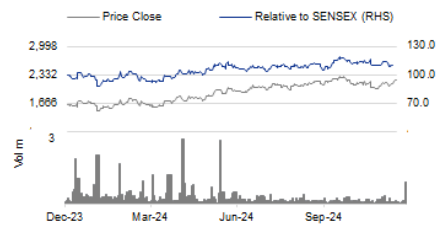
| | |
|------------------------------|---------|
| Current price: | Rs2,221 |
| Target price: ▲ | Rs2,460 |
| Previous target: | Rs2,380 |
| Up/downside: | 10.8% |
| InCred Research / Consensus: | 10.1% |

| | |
|-------------------------|--------------------------|
| Reuters: | METP.NS |
| Bloomberg: | METROHL IN |
| Market cap: | US\$1,342m Rs113,857m |
| Average daily turnover: | US\$4.0m Rs343.4m |
| Current shares o/s: | 51.2m |
| Free float: | 50.4% |

*Source: Bloomberg

Key changes in this note

- Cut EPS estimate for FY26F by 2%.
- Raise our target price to Rs2,460 from Rs2,380 earlier.



Source: Bloomberg

| Price performance | 1M | 3M | 12M |
|-------------------|-----|-----|------|
| Absolute (%) | 3.1 | 2.4 | 34.9 |
| Relative (%) | 0.5 | 2.4 | 15.8 |

| Major shareholders | % held |
|----------------------|--------|
| Promoters | 49.6 |
| HDFC Focused 30 Fund | 9.0 |
| UTI Large Cap Fund | 5.2 |

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Metropolis Healthcare Ltd.

Forges ahead in specialty diagnostics biz

- Core Diagnostics buyout to result in MHL becoming a leading oncology testing company. Rs2.46bn consideration in the form of cash & equity in 55:45 ratio.
- The acquisition is at ~2x FY25F revenue. Core Diagnostic's future growth to be 20%+ along with margin expansion due to synergy benefits.
- We factor in Core Diagnostics' performance in our FY26F estimates and cut EPS estimate by 2%. Retain ADD rating with a higher target price of Rs2,460.

Acquisition nitty-gritty

Metropolis Healthcare (MHL) announced the acquisition of a 100% stake in Core Diagnostics (Core). This will result in MHL turning into India's leading cancer testing company. The acquisition is for total consideration of Rs2.46bn, which will be paid through a combination of cash and equity in the ratio of 55:45, respectively. MHL will issue 0.52m equity shares (1% dilution) to Core's shareholders, implying an allotment price of Rs2,139 per share (~2-3% discount). The transaction is expected to be completed within 60 days, and it will take 18 months to fully integrate the business under a unified brand.

Valuation and outlook

Core's acquisition is at ~2x of FY25F revenue. The payback period is estimated to be six-to-eight years at the EBITDA level & eight-to-nine years on the PAT front. Over FY22-24, Core posted a 22% CAGR, of which 10-12% has been volume growth and the remaining driven by sales mix. Going ahead, MHL expects the historical growth of 20% to continue. In FY25F, Core's EBITDA margin is expected to be in lower single digits. However, post-integration, there would be a significant growth in EBITDA and margin expansion (to reach MHL's level margin in four-to-five years) driven by cost synergy and operational scale. The acquisition is likely to be EPS-accretive in FY26F & RoCE/RoE-accretive from FY28F.

Cross-selling opportunities

Core has a strong presence in the northern and eastern regions (1,200+ hospitals and laboratories) with a low overlap (10-15%). This network will help MHL to connect with leading cancer specialists and hospitals in the region and leverage cross-selling opportunities (B2B segment) by offering its wide test portfolio. Post-acquisition, MHL's oncology revenue will increase to 10% (from 4%) and the northern and eastern regions' contribution will rise to ~20% (vs. 13%). On the other hand, MHL will also be able to provide its customers with Core's specialized oncology diagnostics services.

Maintain ADD rating with a higher target price of Rs2,460

We are optimistic about the acquisition due to its reasonable valuation, healthy growth prospects, cross-selling opportunities, synergy benefits and past acquisition experience. We factor in Core's FY26F performance in our estimates and cut our EPS estimate by 2%. We retain ADD rating with a higher target price of Rs2,460 (Rs2,380 earlier). Downside risks: Slowdown in patient volume and arrival of competitors in the B2C segment. Also, the inability to generate synergy benefits from the acquisition.

| Financial Summary | Mar-22A | Mar-23A | Mar-24A | Mar-25F | Mar-26F |
|-----------------------------------|---------|---------|---------|---------|---------|
| Revenue (Rsm) | 12,283 | 11,482 | 12,077 | 13,747 | 16,906 |
| Operating EBITDA (Rsm) | 3,428 | 2,883 | 2,826 | 3,498 | 4,138 |
| Net Profit (Rsm) | 2,142 | 1,428 | 1,278 | 1,791 | 2,193 |
| Core EPS (Rs) | 39.6 | 27.9 | 25.0 | 35.0 | 42.4 |
| Core EPS Growth | 10.6% | (29.5%) | (10.5%) | 40.1% | 21.2% |
| FD Core P/E (x) | 55.33 | 78.51 | 87.76 | 62.66 | 51.43 |
| DPS (Rs) | 8.0 | 8.0 | 4.0 | 4.0 | 4.0 |
| Dividend Yield | 0.37% | 0.37% | 0.18% | 0.18% | 0.18% |
| EV/EBITDA (x) | 32.93 | 38.81 | 39.28 | 31.63 | 26.40 |
| P/FCFE (x) | (40.78) | 151.40 | 117.33 | 173.68 | 37.91 |
| Net Gearing | 8.8% | (2.7%) | (11.3%) | (11.6%) | (26.8%) |
| P/BV (x) | 12.65 | 11.35 | 10.24 | 8.22 | 7.25 |
| ROE | 25.4% | 15.2% | 12.3% | 14.6% | 15.0% |
| % Change In Core EPS Estimates | | | | (0.01%) | (2.23%) |
| InCred Research/Consensus EPS (x) | | | | | |

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Investment rationale

The transaction is a strategic alignment with MHL’s goal of acquiring a local diagnostics brand with a reach in non-core regions and having a presence in the specialized segment along with limited competition. The oncology diagnostics market in India (estimated at Rs40-50bn) is fast growing (17.5% CAGR over the next five years). The acquisition will help to serve the rising demand from the segment. The significant entry barriers in the form of specialized expertise, strong R&D capabilities, trust in oncologists and reliability make the segment attractive. It would have taken MHL five years to build a specialized oncology business of a similar scale.

Synergy benefits

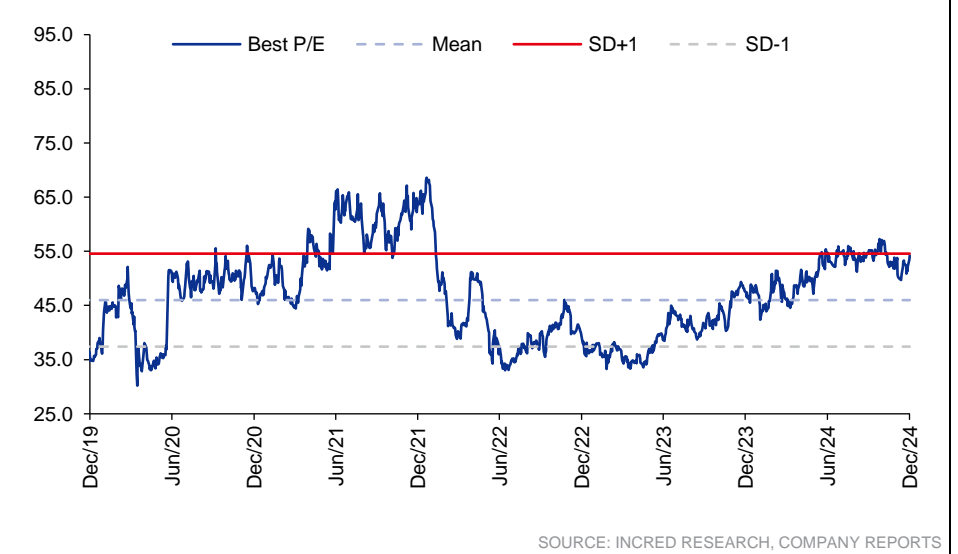
MHL has laid down integration plans which will help in optimizing material sourcing and outsourcing costs, merging overlapping labs and consolidating resources. Also, single- specialty diagnostics companies like Core usually have high operating costs due to sub-par scale. Hence, the acquisition will help in improving asset utilization and unit economics.

Figure 1: Our revised earnings estimates

| | FY25F | | | FY26F | | |
|---------------|--------|--------|--------------|--------|--------|--------------|
| | Old | New | Variance (%) | Old | New | Variance (%) |
| Revenue (Rsm) | 13,747 | 13,747 | - | 15,525 | 16,906 | 8.9 |
| EBITDA (Rsm) | 3,498 | 3,498 | - | 4,014 | 4,138 | 3.1 |
| Margin (%) | 25.4 | 25.4 | - | 25.9 | 24.5 | - |
| PAT (Rsm) | 1,791 | 1,791 | - | 2,220 | 2,193 | -1.2 |
| EPS (Rs) | 35.0 | 35.0 | - | 43.3 | 42.4 | -2.1 |

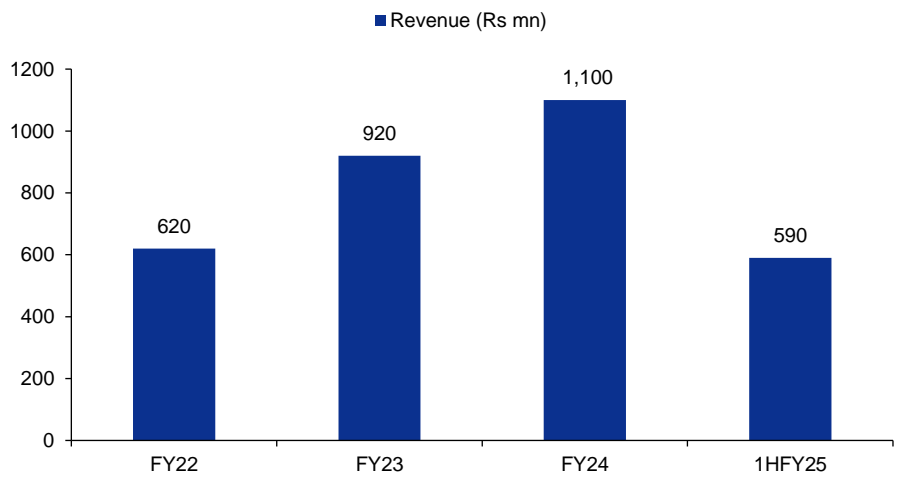
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 2: Metropolis Healthcare stock currently trades at the SD+1 level



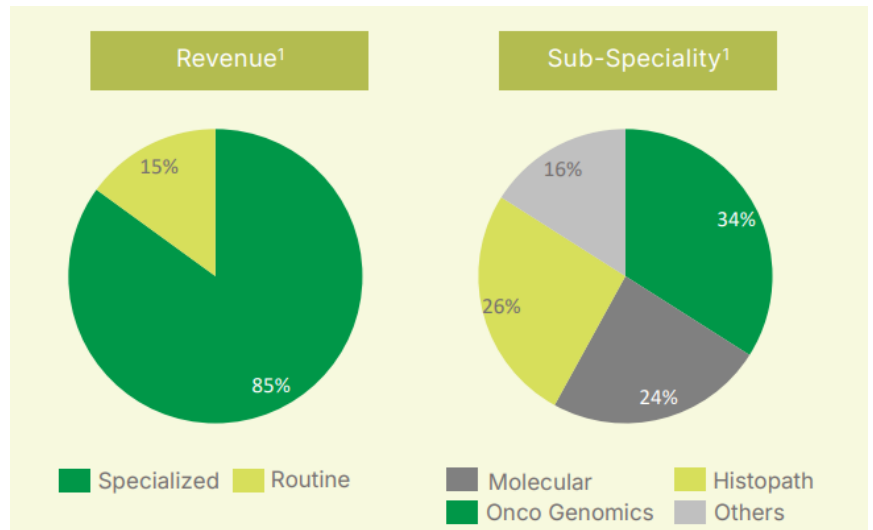
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 3: Core Diagnostics' revenue has grown at a CAGR of 22% over FY22-24



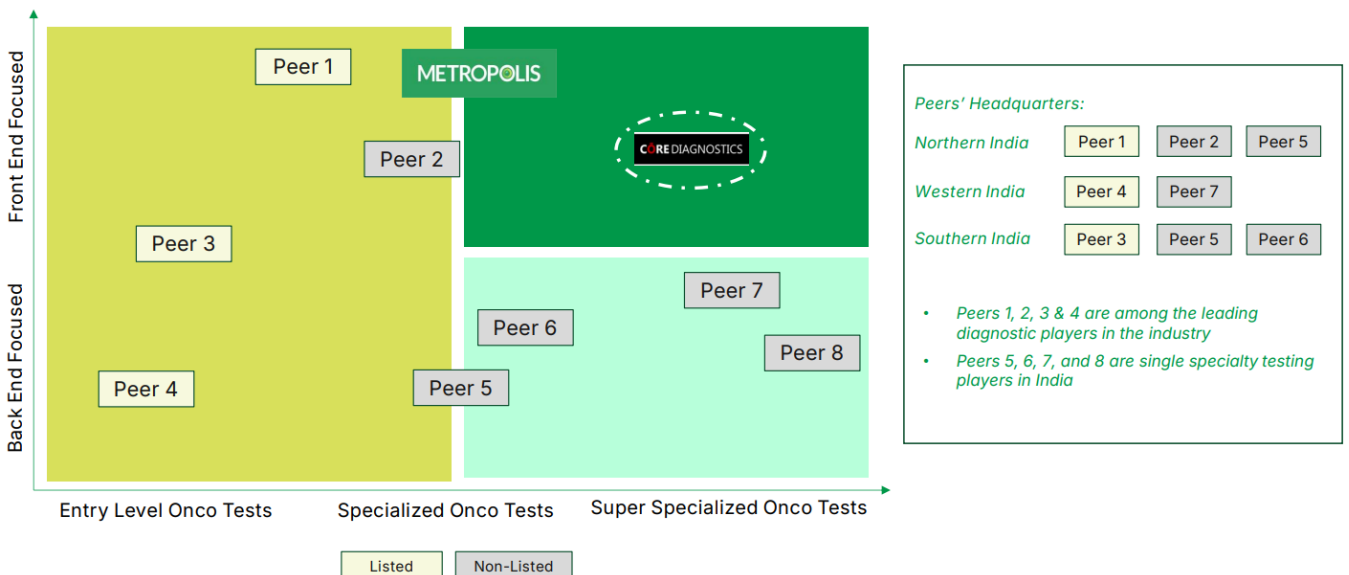
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 4: Core Diagnostics' revenue and specialty mix in FY24



SOURCE: INCRED RESEARCH, COMPANY REPORTS

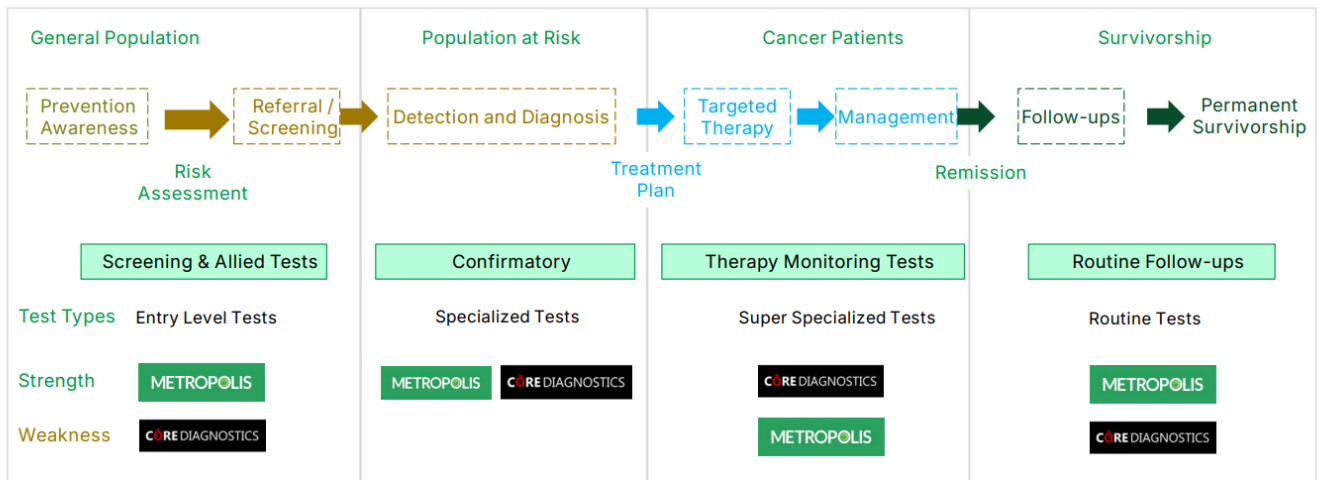
Figure 5: Core Diagnostics will help MHL to position itself in specialized and super-specialized oncology tests



SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 6: Core Diagnostics acquisition will help MHL to have its presence across the oncology testing chain

The Cancer Patient Journey



3x Oncology patients need 3x more frequent tests for monitoring and management

High Synergy in Patient Acquisition, Management, and Retention

SOURCE: INCRED RESEARCH, COMPANY REPORTS

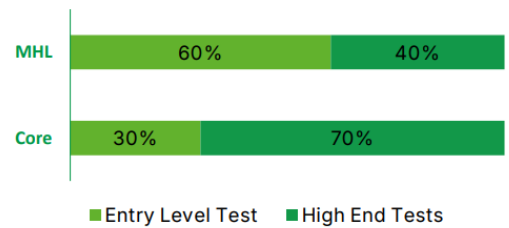
Figure 7: The combined resources of both organizations will help in having a deeper presence in the northern and eastern regions and strengthen the specialty segment

| INR (Cr.) | Metropolis | Core | Combined |
|-------------------------------|------------|------|----------|
| Total Revenue* | 1,189 | 110 | 1,299 |
| Specialty Revenue | 440 | 93 | 533 |
| Specialty as a % Contribution | 37% | 85% | 41% |

| Oncology Reach | Metropolis | Core | Combined |
|---------------------|------------|-------|----------|
| Oncology Sales Team | 30 | 100 | 130 |
| Oncologist Connect | 600 | 1,600 | 2,200 |

| North & East | Metropolis | Core | Combined |
|---------------------|------------|------|----------|
| Oncology Sales Team | 10 | 36 | 46 |
| Oncologist Connect | 300 | 900 | 1,200 |

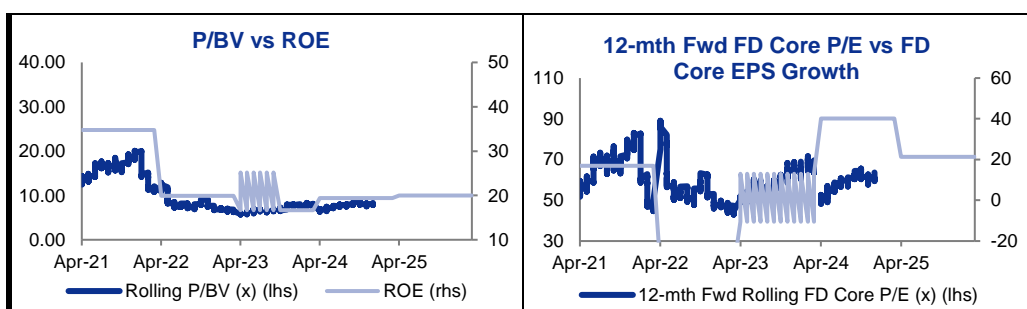
Oncology Revenue – by Test Type



70% of Core's Oncology Revenue is from high end tests compared to 40% for MHL

SOURCE: INCRED RESEARCH, COMPANY REPORTS

BY THE NUMBERS



Profit & Loss

| (Rs mn) | Mar-22A | Mar-23A | Mar-24A | Mar-25F | Mar-26F |
|---|---------------|---------------|---------------|---------------|---------------|
| Total Net Revenues | 12,283 | 11,482 | 12,077 | 13,747 | 16,906 |
| Gross Profit | 9,523 | 8,950 | 9,651 | 10,860 | 13,225 |
| Operating EBITDA | 3,428 | 2,883 | 2,826 | 3,498 | 4,138 |
| Depreciation And Amortisation | (632) | (892) | (945) | (1,000) | (1,050) |
| Operating EBIT | 2,796 | 1,991 | 1,881 | 2,498 | 3,088 |
| Financial Income/(Expense) | (197) | (268) | (225) | (200) | (200) |
| Pretax Income/(Loss) from Assoc. | (5) | (6) | (6) | (8) | (10) |
| Non-Operating Income/(Expense) | 176 | 152 | 91 | 100 | 50 |
| Profit Before Tax (pre-EI) | 2,769 | 1,869 | 1,740 | 2,390 | 2,928 |
| Exceptional Items | 159 | | | | |
| Pre-tax Profit | 2,928 | 1,869 | 1,740 | 2,390 | 2,928 |
| Taxation | (787) | (441) | (462) | (600) | (734) |
| Exceptional Income - post-tax | | | | | |
| Profit After Tax | 2,142 | 1,428 | 1,278 | 1,791 | 2,193 |
| Minority Interests | | | | | |
| Preferred Dividends | | | | | |
| FX Gain/(Loss) - post tax | | | | | |
| Other Adjustments - post-tax | | | | | |
| Net Profit | 2,142 | 1,428 | 1,278 | 1,791 | 2,193 |
| Recurring Net Profit | 2,026 | 1,428 | 1,278 | 1,791 | 2,193 |
| Fully Diluted Recurring Net Profit | 2,026 | 1,428 | 1,278 | 1,791 | 2,193 |

Cash Flow

| (Rs mn) | Mar-22A | Mar-23A | Mar-24A | Mar-25F | Mar-26F |
|----------------------------------|----------------|----------------|----------------|----------------|--------------|
| EBITDA | 3,428 | 2,883 | 2,826 | 3,498 | 4,138 |
| Cash Flow from Invt. & Assoc. | | | | | |
| Change In Working Capital | (164) | 71 | 55 | (187) | 82 |
| (Incr)/Decr in Total Provisions | | | | | |
| Other Non-Cash (Income)/Expense | | | | | |
| Other Operating Cashflow | 335 | 152 | 91 | 100 | 50 |
| Net Interest (Paid)/Received | (197) | (268) | (225) | (200) | (200) |
| Tax Paid | (869) | (367) | (105) | (508) | (594) |
| Cashflow From Operations | 2,533 | 2,471 | 2,641 | 2,704 | 3,475 |
| Capex | (372) | (526) | (638) | (700) | (500) |
| Disposals Of FAs/subsidiaries | | | | | |
| Acq. Of Subsidiaries/investments | (6,314) | 929 | | (1,358) | |
| Other Investing Cashflow | (690) | 65 | (257) | | |
| Cash Flow From Investing | (7,376) | 468 | (894) | (2,058) | (500) |
| Debt Raised/(repaid) | 2,094 | (2,198) | (791) | | |
| Proceeds From Issue Of Shares | 20 | 2 | | | |
| Shares Repurchased | | | | | |
| Dividends Paid | (409) | (619) | (983) | (205) | (207) |
| Preferred Dividends | | | | | |
| Other Financing Cashflow | (79) | (107) | (39) | | |
| Cash Flow From Financing | 1,626 | (2,923) | (1,812) | (205) | (207) |
| Total Cash Generated | (3,217) | 16 | (66) | 441 | 2,768 |
| Free Cashflow To Equity | (2,749) | 741 | 956 | 646 | 2,975 |
| Free Cashflow To Firm | (4,646) | 3,207 | 1,972 | 846 | 3,175 |

SOURCE: INCRED RESEARCH, COMPANY REPORTS

BY THE NUMBERS...cont'd

| Balance Sheet | | | | | |
|--------------------------------------|----------------|----------------|----------------|----------------|----------------|
| (Rs mn) | Mar-22A | Mar-23A | Mar-24A | Mar-25F | Mar-26F |
| Total Cash And Equivalents | 1,807 | 1,063 | 1,243 | 1,584 | 4,202 |
| Total Debtors | 1,355 | 1,219 | 1,263 | 1,485 | 1,860 |
| Inventories | 511 | 446 | 387 | 454 | 592 |
| Total Other Current Assets | 258 | 300 | 266 | 330 | 338 |
| Total Current Assets | 3,931 | 3,027 | 3,158 | 3,852 | 6,992 |
| Fixed Assets | 6,042 | 6,660 | 7,224 | 9,392 | 8,842 |
| Total Investments | 18 | 18 | 18 | 18 | 18 |
| Intangible Assets | 4,605 | 4,742 | 4,547 | 4,547 | 4,547 |
| Total Other Non-Current Assets | 609 | 500 | 528 | 528 | 530 |
| Total Non-current Assets | 11,274 | 11,920 | 12,316 | 14,484 | 13,936 |
| Short-term Debt | 999 | 504 | | | |
| Current Portion of Long-Term Debt | | | | | |
| Total Creditors | 1,032 | 941 | 994 | 1,100 | 1,439 |
| Other Current Liabilities | 611 | 586 | 684 | 745 | 1,008 |
| Total Current Liabilities | 2,642 | 2,031 | 1,679 | 1,844 | 2,448 |
| Total Long-term Debt | 1,587 | 286 | | | |
| Hybrid Debt - Debt Component | | | | | |
| Total Other Non-Current Liabilities | 2,095 | 2,722 | 2,803 | 2,803 | 2,803 |
| Total Non-current Liabilities | 3,682 | 3,009 | 2,803 | 2,803 | 2,803 |
| Total Provisions | | | | | |
| Total Liabilities | 6,323 | 5,040 | 4,482 | 4,647 | 5,250 |
| Shareholders Equity | 8,862 | 9,882 | 10,962 | 13,650 | 15,629 |
| Minority Interests | 20 | 25 | 31 | 39 | 49 |
| Total Equity | 8,882 | 9,907 | 10,993 | 13,689 | 15,678 |

| Key Ratios | | | | | |
|---------------------------|----------------|----------------|----------------|----------------|----------------|
| | Mar-22A | Mar-23A | Mar-24A | Mar-25F | Mar-26F |
| Revenue Growth | 23.1% | (6.5%) | 5.2% | 13.8% | 23.0% |
| Operating EBITDA Growth | 19.8% | (15.9%) | (2.0%) | 23.8% | 18.3% |
| Operating EBITDA Margin | 27.9% | 25.1% | 23.4% | 25.4% | 24.5% |
| Net Cash Per Share (Rs) | (15.21) | 5.31 | 24.26 | 30.92 | 81.19 |
| BVPS (Rs) | 173.18 | 193.01 | 213.99 | 266.45 | 301.94 |
| Gross Interest Cover | 14.16 | 7.43 | 8.35 | 12.49 | 15.44 |
| Effective Tax Rate | 26.9% | 23.6% | 26.6% | 25.1% | 25.1% |
| Net Dividend Payout Ratio | 14.8% | 21.9% | 11.8% | 8.6% | 7.1% |
| Accounts Receivables Days | 38.40 | 40.91 | 37.50 | 36.47 | 36.10 |
| Inventory Days | 60.59 | 68.96 | 62.66 | 53.14 | 51.82 |
| Accounts Payables Days | 141.33 | 142.17 | 145.60 | 132.38 | 125.85 |
| ROIC (%) | 72.3% | 17.0% | 15.2% | 19.9% | 20.7% |
| ROCE (%) | 30.1% | 18.0% | 17.3% | 20.2% | 21.0% |
| Return On Average Assets | 23.7% | 14.2% | 12.9% | 15.3% | 15.9% |

SOURCE: INCRED RESEARCH, COMPANY REPORTS

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- c) Received compensation for investment banking or merchant banking or brokerage services from the subject company,
- d) Received compensation for products or services other than investment banking or merchant banking or brokerage services from the subject company

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Recommendation Framework

Stock Ratings

Definition:

- Add** The stock's total return is expected to exceed 10% over the next 12 months.
- Hold** The stock's total return is expected to be between 0% and positive 10% over the next 12 months.
- Reduce** The stock's total return is expected to fall below 0% or more over the next 12 months.

The total expected return of a stock is defined as the sum of the: (i) percentage difference between the target price and the current price and (ii) the forward net dividend yields of the stock. Stock price targets have an investment horizon of 12 months.

Sector Ratings

Definition:

- Overweight** An Overweight rating means stocks in the sector have, on a market cap-weighted basis, a positive absolute recommendation.
- Neutral** A Neutral rating means stocks in the sector have, on a market cap-weighted basis, a neutral absolute recommendation.
- Underweight** An Underweight rating means stocks in the sector have, on a market cap-weighted basis, a negative absolute recommendation.

Country Ratings

Definition:

- Overweight** An Overweight rating means investors should be positioned with an above-market weight in this country relative to benchmark.
- Neutral** A Neutral rating means investors should be positioned with a neutral weight in this country relative to benchmark.
- Underweight** An Underweight rating means investors should be positioned with a below-market weight in this country relative to benchmark.