

India

ADD (no change)

Consensus ratings*: Buy 17 Hold 2 Sell 5

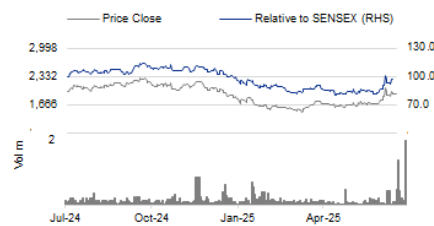
Current price: Rs2,008
 Target price:  Rs2,250
 Previous target: Rs2,250
 Up/downside: 12.1%
 InCred Research / Consensus: 15.4%

Reuters: METP.NS
 Bloomberg: METROHL IN
 Market cap: US\$1,187m
 Rs104,039m
 Average daily turnover: US\$2.9m
 Rs256.6m
 Current shares o/s: 51.2m
 Free float: 50.4%

*Source: Bloomberg

Key changes in this note

► FY26F/27F estimates remain unchanged.



Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	7.6	20.8	(2.8)
Relative (%)	11.2	20.1	(3.0)

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.**Margin recovery likely in FY27F**

- The 1QFY26 performance was in line with expectations. The growth was 23% YoY, of which 13% was contributed by the organic business.
- We expect a 100bp margin improvement in FY27F led by improvement in Core Diagnostics' margin, completion of lab addition & contribution from new labs.
- The company is well-positioned to capitalize on its investment phase. Maintain ADD rating on the stock with an unchanged target price of Rs2,250.

In-line 1QFY26 performance

Metropolis Healthcare or MHL's 1QFY25 results were in line with our/Bloomberg consensus estimates. The revenue growth (23% YoY) was led by 13% growth from the organic business and 10% from the inorganic business. Volume growth (both patient & tests) was at 12% YoY for the group whereas for the organic business it was 7%. Revenue per patient grew by 12% YoY (group) and 6% for the organic business. Truhealth grew by 22% YoY (contributed 18% to revenue vs. 19% QoQ) and B2C revenue grew by 19% YoY to Rs2.14bn (contributed 55% to revenue vs. 56% QoQ). The EBITDA margin stood at 23.2%, 190bp lower YoY, due to margin drag from Core Diagnostics (low single-digit margin) whereas the organic business margin stood at 24.7% (50% lower YoY). MHL is likely to grow by 24% in FY26F led by 12% growth from the organic business (7% patient volume & 5% realization), and the remaining from acquisitions/inorganic business and a 100bp improvement in the organic business margin.

Margin improvement likely in FY27F

We believe that MHL's margin trajectory is likely to go upwards and estimate a 100bp improvement in FY27F led by: 1) Improvement in Core Diagnostics margin from mid-single digit (blended basis) in FY26F to early teens in FY27F. Currently, the focus is on unlocking efficiency gains through integration synergies to exit FY26F with a high-single-digit margin. 2) Completion of lab additions activity is likely to eliminate the fixed-cost pressure exerted by new labs. 3) Most lab additions done between FY21-25 are likely to start contributing to the margin, as it takes three years for new labs to reach company-level margin. We bake in a flattish margin (24.2%) in FY26F, despite margin pressure from Core Diagnostics and 25.2% margin in FY27F resulting from the above benefits.

Maintain ADD rating with an unchanged target price of Rs2,250

We view MHL as well-positioned to capitalize on its investment phase and leverage its investments for sustained growth. MHL's inorganic growth strategy is expected to contribute meaningfully. While the integration of Core Diagnostics may weigh on margin in the near term, its EPS-accretive nature and long-term synergies should, in our view, drive value. Our FY26F/27F estimates and target price remains unchanged, and we maintain our ADD rating on the stock. Downside risks: Slowdown in patient volume & the inability to generate synergy benefits from the acquisition.

Financial Summary	Mar-23A	Mar-24A	Mar-25A	Mar-26F	Mar-27F
Revenue (Rsm)	11,482	12,077	13,312	16,513	18,585
Operating EBITDA (Rsm)	2,883	2,826	3,030	3,991	4,680
Net Profit (Rsm)	1,428	1,278	1,450	2,035	2,456
Core EPS (Rs)	27.9	25.0	28.3	39.3	47.4
Core EPS Growth	(29.5%)	(10.5%)	13.4%	38.9%	20.7%
FD Core P/E (x)	71.99	80.47	70.97	50.82	42.33
DPS (Rs)	8.0	4.0	4.0	4.0	7.3
Dividend Yield	0.40%	0.20%	0.20%	0.20%	0.37%
EV/EBITDA (x)	35.58	35.98	33.63	25.22	20.96
P/FCFE (x)	138.82	107.58	172.90	38.86	37.82
Net Gearing	(2.7%)	(11.3%)	(7.8%)	(22.2%)	(34.0%)
P/BV (x)	10.41	9.39	7.73	6.87	5.99
ROE	15.2%	12.3%	11.9%	14.3%	15.1%
% Change In Core EPS Estimates				0.11%	0.19%
InCred Research/Consensus EPS (x)					

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Core Diagnostics - enhancing specialty segment

Being the premier oncology platform in India with 85% revenue from the specialty segment, MHL's overall specialty mix to improve from 37% to 41% post-acquisition. Also, Core Diagnostics' 20-30% revenue comes from genomics, which gives MHL an opportunity to establish a platform for genomics across India. Post-merger synergies and operational efficiency likely to drive Core Diagnostics' margin profile to high single-digit by end-FY26F (margin-dilutive but EPS-accretive) & MHL-level margin in three-to-four years.

Figure 1: Financial summary

(Rs m)	1QFY24	2QFY24	3QFY24	4QFY24	1QFY25	2QFY25	3QFY25	4QFY25	1QFY26	YoY (%)	QoQ (%)
Revenue	2,771	3,085	2,911	3,310	3,134	3,498	3,228	3,453	3,861	23%	12%
Consumption of raw materials	570	613	572	671	632	695	645	715	790	25%	11%
as % of sales	20.6%	19.9%	19.7%	20.3%	20.2%	19.9%	20.0%	20.7%	20.5%		
Employee costs	651	698	695	715	717	784	814	822	923	29%	12%
as % of sales	23.5%	22.6%	23.9%	21.6%	22.9%	22.4%	25.2%	23.8%	23.9%		
Other expenditure	921	1027	995	1125	997	1120	1048	1293	1250	25%	-3%
as % of sales	33.2%	33.3%	34.2%	34.0%	31.8%	32.0%	32.5%	37.4%	32.4%		
EBITDA	630	748	648	800	788	899	720	623	898	14%	44%
Margins (%)	22.7%	24.2%	22.3%	24.2%	25.2%	25.7%	22.3%	18.0%	23.2%		
Depreciation	208	222	250	264	255	268	277	286	308		
Other Income	31	12	23	25	25	31	26	70	75		
Interest	60	57	53	56	47	48	45	46	52		
PBT	392	481	369	505	511	614	423	360	612	20%	70%
Total tax	102	125	96	140	130	147	109	68	160		
Tax rate (%)	26.0%	25.9%	26.0%	27.7%	25.4%	23.9%	25.7%	18.9%	26.1%		
PAT before MI	290	357	273	365	381	467	315	292	452	19%	55%
Minority interest (MI)	-2	-2	-1	-1	-2	-2	-1	-1	-2		
Adj. PAT before extraordinary items	288	355	272	364	379	465	314	291	451	19%	55%
Extraordinary expenses	0	0	0	0	0	0	0	0	0		
Reported PAT	288	355	272	364	379	465	314	291	451	19%	55%
No. of shares	51	51	51	51	51	51	51	51	51		
EPS	5.6	6.9	5.3	7.1	7.4	9.1	6.1	5.7	8.8		

SOURCES: INCRED RESEARCH, COMPANY REPORTS

Figure 2: Margin profile (%)

(in %)	1QFY24	2QFY24	3QFY24	4QFY24	1QFY25	2QFY25	3QFY25	4QFY25	1QFY26	Y-o-Y (bp)	Q-o-Q (bp)
Gross	79%	80%	80%	80%	80%	80%	80%	79%	80%	-32	24
EBITDA	23%	24%	22%	24%	25%	26%	22%	18%	23%	-190	521
Adj. PAT	10%	12%	9%	11%	12%	13%	10%	8%	12%	-44	323
Effective tax rate	26%	26%	26%	28%	25%	24%	26%	19%	26%	72	720

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 3: Actuals vs. estimates

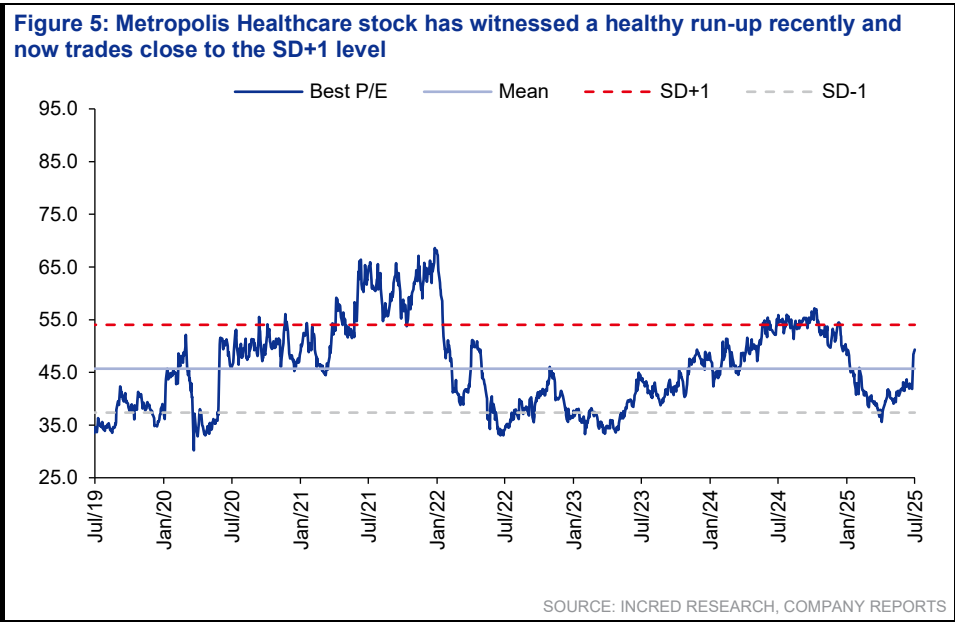
	Actuals	Incred Estimate	Variance (%)	Bloomberg Estimate	Variance (%)
Revenue (Rsm)	3,861	3,799	2%	3,813	1%
EBITDA (Rsm)	898	878	2%	879	2%
Margin (%)	23.2	23.1		23.0	
PAT (Rsm)	451	424	6%	417	8%

SOURCE: INCRED RESEARCH, COMPANY REPORTS

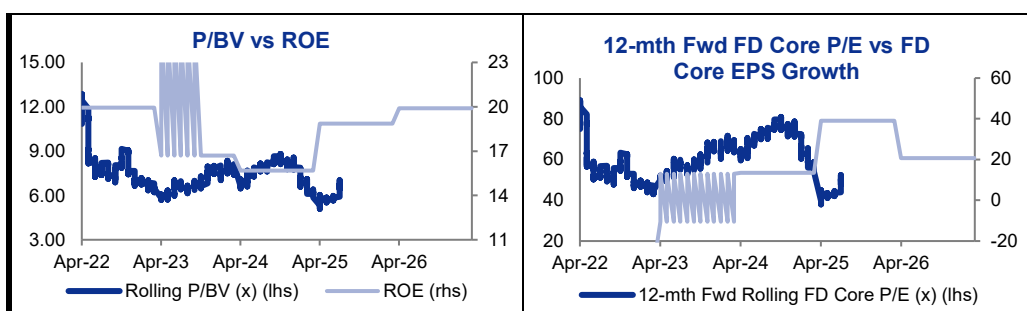
Figure 4: Our revised earnings estimates

	FY26F			FY27F		
	Old	New	Variance (%)	Old	New	Variance (%)
Revenue (Rsm)	16,509	16,513	0.0	18,575	18,585	0.1
EBITDA (Rsm)	3,988	3,991	0.1	4,674	4,680	0.1
Margin (%)	24.2	24.2		25.2	25.2	
PAT (Rsm)	2,033	2,035	0.1	2,451	2,456	0.2
EPS (Rs)	39.3	39.3	-	47.4	47.4	-

SOURCE: INCRED RESEARCH, COMPANY REPORTS



BY THE NUMBERS



Profit & Loss

(Rs mn)	Mar-23A	Mar-24A	Mar-25A	Mar-26F	Mar-27F
Total Net Revenues	11,482	12,077	13,312	16,513	18,585
Gross Profit	8,950	9,651	10,625	13,109	14,767
Operating EBITDA	2,883	2,826	3,030	3,991	4,680
Depreciation And Amortisation	(892)	(945)	(1,087)	(1,200)	(1,350)
Operating EBIT	1,991	1,881	1,943	2,791	3,330
Financial Income/(Expense)	(268)	(225)	(186)	(200)	(210)
Pretax Income/(Loss) from Assoc.	(6)	(6)	(5)	(10)	(10)
Non-Operating Income/(Expense)	152	91	151	100	125
Profit Before Tax (pre-EI)	1,869	1,740	1,903	2,681	3,235
Exceptional Items					
Pre-tax Profit	1,869	1,740	1,903	2,681	3,235
Taxation	(441)	(462)	(453)	(646)	(779)
Exceptional Income - post-tax					
Profit After Tax	1,428	1,278	1,450	2,035	2,456
Minority Interests					
Preferred Dividends					
FX Gain/(Loss) - post tax					
Other Adjustments - post-tax					
Net Profit	1,428	1,278	1,450	2,035	2,456
Recurring Net Profit	1,428	1,278	1,450	2,035	2,456
Fully Diluted Recurring Net Profit	1,428	1,278	1,450	2,035	2,456

Cash Flow

(Rs mn)	Mar-23A	Mar-24A	Mar-25A	Mar-26F	Mar-27F
EBITDA	2,883	2,826	3,030	3,991	4,680
Cash Flow from Invt. & Assoc.					
Change In Working Capital	71	55	(157)	(142)	(501)
(Incr)/Decr in Total Provisions					
Other Non-Cash (Income)/Expense					
Other Operating Cashflow	152	91	100	50	50
Net Interest (Paid)/Received	(268)	(225)	(186)	(200)	(210)
Tax Paid	(367)	(105)	(211)	(556)	(704)
Cashflow From Operations	2,471	2,641	2,576	3,143	3,315
Capex	(526)	(638)	(666)	(550)	(550)
Disposals Of FAs/subsidiaries					
Acq. Of Subsidiaries/investments	929		(1,308)		
Other Investing Cashflow	65	(257)			
Cash Flow From Investing	468	(894)	(1,974)	(550)	(550)
Debt Raised/(repaid)	(2,198)	(791)	(8)	69	(17)
Proceeds From Issue Of Shares	2				
Shares Repurchased					
Dividends Paid	(619)	(983)		(207)	(207)
Preferred Dividends					
Other Financing Cashflow	(107)	(39)			
Cash Flow From Financing	(2,923)	(1,812)	(7)	(138)	(224)
Total Cash Generated	16	(66)	595	2,454	2,542
Free Cashflow To Equity	741	956	595	2,661	2,749
Free Cashflow To Firm	3,207	1,972	788	2,793	2,975

SOURCE: INCRED RESEARCH, COMPANY REPORTS

BY THE NUMBERS...cont'd

Balance Sheet

(Rs mn)	Mar-23A	Mar-24A	Mar-25A	Mar-26F	Mar-27F
Total Cash And Equivalents	1,063	1,243	1,183	3,587	6,119
Total Debtors	1,219	1,263	1,479	1,816	2,230
Inventories	446	387	478	578	743
Total Other Current Assets	300	266	319	330	465
Total Current Assets	3,027	3,158	3,459	6,312	9,557
Fixed Assets	6,660	7,224	3,605	2,955	2,155
Total Investments	18	18	18	18	18
Intangible Assets	4,742	4,547	10,864	10,864	10,864
Total Other Non-Current Assets	500	528	727	729	729
Total Non-current Assets	11,920	12,316	15,214	14,566	13,766
Short-term Debt	504		89	89	89
Current Portion of Long-Term Debt					
Total Creditors	941	994	1,259	1,428	1,638
Other Current Liabilities	586	684	1,596	1,731	1,735
Total Current Liabilities	2,031	1,679	2,943	3,249	3,462
Total Long-term Debt	286		53	121	105
Hybrid Debt - Debt Component					
Total Other Non-Current Liabilities	2,722	2,803	2,331	2,331	2,331
Total Non-current Liabilities	3,009	2,803	2,384	2,452	2,436
Total Provisions					
Total Liabilities	5,040	4,482	5,327	5,701	5,898
Shareholders Equity	9,882	10,962	13,310	15,130	17,369
Minority Interests	25	31	37	47	57
Total Equity	9,907	10,993	13,346	15,176	17,425

Key Ratios

	Mar-23A	Mar-24A	Mar-25A	Mar-26F	Mar-27F
Revenue Growth	(6.5%)	5.2%	10.2%	24.0%	12.5%
Operating EBITDA Growth	(15.9%)	(2.0%)	7.2%	31.7%	17.3%
Operating EBITDA Margin	25.1%	23.4%	22.8%	24.2%	25.2%
Net Cash Per Share (Rs)	5.31	24.26	20.31	65.23	114.46
BVPS (Rs)	193.01	213.99	259.81	292.30	335.56
Gross Interest Cover	7.43	8.35	10.46	13.95	15.86
Effective Tax Rate	23.6%	26.6%	23.8%	24.1%	24.1%
Net Dividend Payout Ratio	21.9%	11.8%	10.8%	7.7%	11.7%
Accounts Receivables Days	40.91	37.50	37.60	36.43	39.74
Inventory Days	68.96	62.66	58.78	56.63	63.16
Accounts Payables Days	142.17	145.60	153.03	144.03	146.58
ROIC (%)	17.0%	15.2%	15.5%	19.1%	23.6%
ROCE (%)	18.0%	17.3%	15.9%	19.3%	20.2%
Return On Average Assets	14.2%	12.9%	12.2%	14.6%	15.6%

SOURCE: INCRED RESEARCH, COMPANY REPORTS

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CIN: U74999MH2016PTC287535

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.