



India

REDUCE (previously HOLD)

Consensus ratings*: Buy 9 Hold 2 Sell 8

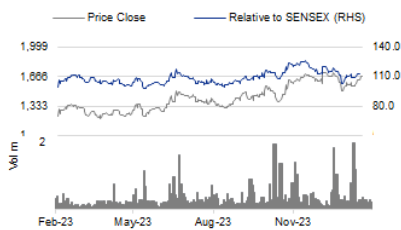
Current price: Rs1,667
 Target price: ▼ Rs1,546
 Previous target: Rs1,641
 Up/downside: -7.3%
 InCred Research / Consensus: -6.8%

Reuters: METP.NS
 Bloomberg: METROHL IN
 Market cap: US\$1,028m
 Rs85,379m
 Average daily turnover: US\$7.1m
 Rs590.7m
 Current shares o/s: 51.2m
 Free float: 50.3%

*Source: Bloomberg

Key changes in this note

- Cut revenue by 3-7% for FY24F-26F.
- Cut EBITDA by 5-6% for FY24F-26F.
- Cut PAT by 9-10% for FY24F-26F.



Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	(0.5)	6.1	28.5
Relative (%)	0.0	(4.0)	8.4

Major shareholders	% held
Promoters	49.7
UTI Flexi Cap Fund	6.6
Nippon India Small Cap Fund	2.6

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Metropolis Healthcare Ltd.**Rains and one-time costs hit 3Q**

- Heavy rains in Chennai and a one-time provision led to lower sales growth and margins. Like-to-like non-Covid patient volume/realization grew 9%/3% yoy.
- Pan-India B2C test price hike rolled out from Jan 2024. B2B hike from Apr 2024F. Coupled with a wider service network, FY24-26F sales CAGR at 13%.
- Shift to P/E from DCF valuation is in line with our consumer discretionary coverage. The stock to trade at a discount to pre-Covid multiples. REDUCE.

Sales and adjusted EBITDA (one-time costs) match expectations

Metropolis Healthcare's (MHL) consol. 3QFY24 revenue at Rs2.9bn, +2% yoy, matched estimate, as was disclosed in the quarterly business update released in early Jan 2024. Heavy rains and floods in the first week of Dec 2023 in Chennai disrupted sales (1% lower growth). EBITDA/PAT at Rs648m/Rs272m, down 8%/24% yoy, respectively, were lower by 4-20% vs. Incred & Bloomberg consensus estimates. Consol. gross/EBITDA margins stood at 80.3%/22.3%, +270bp/(240bp) yoy, respectively. The EBITDA margin was lower due to a) provision for a doubtful debt of Rs22m on account of a Delhi government contract and b) an expected credit loss (ECL) provision of ~Rs20m. On a like-to-like basis, non-Covid patients grew by 9% yoy to 2.8m while the realization per patient (RPP) rose by 3% to Rs1,011. B2C revenue (52% of total sales) stood at Rs1.5bn, +15% yoy, while B2B revenue was at Rs1bn, +7% yoy. International sales stood at 7% of total sales in 3Q. Premium wellness package sales stood at Rs420m, +15% yoy, accounting for 15% of total sales. The effective tax rate was up at 26% in 9MFY24 vs. 23.6% in FY23.

Price hikes rolled out; on track to achieve its network expansion plan

MHL rolled out B2C price hike of ~3% effective 1 Jan 2024 and plans for B2B test price hike (~1%) from Apr 2024. The three-year (FY23-25F) network expansion plan to set up 90 labs and 1,800 collection centres is on track. Since Apr 2022, MHL has added 41 labs (Hitech: 20 labs) and 1,063 collection centres (B2C+B2B) on a net basis. Wider reach expanded test menu and a higher mix of specialized tests, premium wellness and B2C business would lead to a sales CAGR of 13% over FY24F-26F, in our view. EBITDA dilution (1-1.5% of sales) to stay due to network expansion till Mar 2025F. We expect a higher EBITDA CAGR of 18% and margins to rise by 250bp to ~26.5% over FY24F-26F.

Change in our estimates, valuation and risks

We model lower patient volume growth, slower margin recovery and a higher effective tax leading to a cut in our sales/EBITDA/PAT estimates by 3-10% over FY24F-26F. Given a low base, the implied EPS CAGR is 28% over FY24F-26F. Given the meaningful decline in RoCE vs. pre-Covid levels (17% now vs. 40% earlier), we expect the stock to trade at a discount to its pre-Covid P/E multiple. We shift to P/E methodology from DCF, in line with our consumer discretionary coverage. We downgrade the stock's rating to REDUCE with a lower target price of Rs1,546 (from Rs1,641) based on a P/E of 45x (10% discount to mean P/E) FY25F EPS. Upside risks: Higher patient volume & quicker new lab breakevens.

Financial Summary

	Mar-22A	Mar-23A	Mar-24F	Mar-25F	Mar-26F
Revenue (Rsm)	12,283	11,482	12,045	13,643	15,345
Operating EBITDA (Rsm)	3,428	2,883	2,903	3,438	4,074
Net Profit (Rsm)	2,142	1,428	1,339	1,760	2,205
Core EPS (Rs)	39.6	27.9	26.1	34.4	43.1
Core EPS Growth	10.6%	(29.5%)	(6.3%)	31.5%	25.3%
FD Core P/E (x)	42.11	59.74	63.77	48.52	38.71
DPS (Rs)	8.0	8.0	8.0	10.0	12.0
Dividend Yield	0.48%	0.48%	0.48%	0.60%	0.72%
EV/EBITDA (x)	25.11	29.51	29.12	24.26	20.11
P/FCFE (x)	(28.85)	96.06	184.61	64.10	47.58
Net Gearing	8.8%	(2.7%)	(8.2%)	(16.7%)	(25.5%)
P/BV (x)	9.62	8.64	7.90	7.08	6.26
ROE	25.4%	15.2%	12.9%	15.4%	17.2%
% Change In Core EPS Estimates			(9.91%)	(9.44%)	(9.83%)
InCred Research/Consensus EPS (x)					

SOURCE: INCRED RESEARCH, COMPANY REPORTS

3QFY24 earnings-call highlights

- **Growth and margin guidance:** Management indicated the diagnostics industry's sales CAGR at 8-10% and MHL's addressable market within that to grow faster at a 10-11% CAGR over the next three-to-five years. The EBITDA margin is expected to expand from 1HFY26F, once the current network expansion is completed by Mar 2025F.
- **Strengthening senior management:** The company's board approved the appointment of Mr. Avadhut Joshi as the chief business development officer. He has rejoined MHL after a brief stint of about one year with Rivaara Labs before which he spent 11 years at the MHL group. Prior to joining Rivaara Labs, he worked as the CEO of international business at MHL till Nov 2022. The board also elevated Mr. Umesh Rai from the post of head of digital marketing to the head of emerging business.
- **Lab and PSC network:** The company had a total of 192 labs at the end of Dec 2023, of which Hitech accounted for 20 labs. The total patient service network expanded to 4,127 centres comprising 4,012 Metropolis centres and 115 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 services of X-rays, etc. at a few centres in order to tap higher walk-ins. MHL is now present in 595 towns in India and plans to reach 700 towns by Mar 2024F.
- **Delhi state government contract:** MHL was awarded the smallest portion of the contract after being the second-highest bidder and matching the rate of the highest bidder in a public tender process. The overall revenue from the project since inception i.e. from Feb 2023 till Dec 2023 is Rs35.8m. Of this, Rs13.2m has been received from Mohalla clinics till date. The assignment is not commercially viable for MHL and due to a prolonged delay in receiving its dues, a notice was sent on 19 Dec 2023 to the state government expressing its inability to continue with the contract. Meanwhile, the company has provisioned the balance receivable of Rs22m (0.8% of sales) as a doubtful debt in 3QFY24. All future billings (~Rs10m every quarter) till the contract reaches a close for MHL will stand fully provisioned for doubtful recovery in the books of accounts.
- **Hitech update:** Sales grew 13-14% yoy and the EBITDA margin was higher vs. MHL's consolidated margin in 9MFY24F.
- **Better growth analysis:** Starting 4QFY24F, the yoy sales growth analysis would be more meaningful as the base quarter would be the last quarter to have government contract revenue (discontinued from Feb 2023).
- **Debt and cash balance:** Gross debt declined to Rs127m at the end of Dec 2023 compared to Rs440m (as of Sep 2023-end). Net cash (including equivalents) stood at Rs763m at the end of Dec 2023.

Figure 1: 3QFY24 results snapshot

Y/E Mar (Rs m)	3QFY24	3QFY23	yoy (%)	2QFY24	qoq (%)	9MFY24	9MFY23	yoy (%)
Revenue	2,911	2,855	2.0	3,085	(5.6)	8,767	8,657	1.3
EBITDA	648	705	(8.0)	748	(13.3)	2,026	2,180	(7.1)
EBITDA margin (%)	22.3	24.7	-242 bp	24.2	-197 bp	23.1	25.2	-208 bp
Adj. PAT	272	357	(24.0)	355	(23.5)	915	1,094	(16.4)
Diluted EPS (Rs)	5.3	7.0		6.9		17.9	21.4	

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 2: Actuals vs. our estimates

Rs m	3QFY24	3QFY24F	Var (%)
Revenue	2,911	2,920	(0.3)
EBITDA	648	676	(4.1)
EBITDA margin (%)	22.3	23.2	-87 bp
Adj. PAT	272	303	(10.3)

SOURCE: INCRED RESEARCH ESTIMATES, COMPANY REPORTS

Figure 3: Actuals vs. Bloomberg consensus estimates

Rs m	3QFY24	3QFY24C	Var (%)
Revenue	2,911	2,932	(0.7)
EBITDA	648	709	(8.6)
EBITDA margin (%)	22.3	24.2	-192 bp
Adj. PAT	272	340	(20.0)

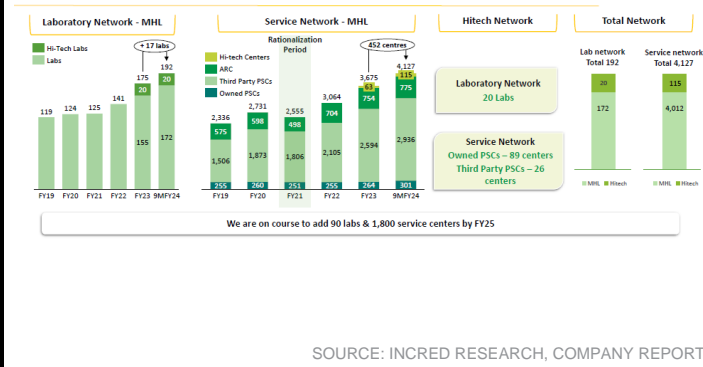
SOURCE: INCRED RESEARCH, COMPANY REPORTS, BLOOMBERG

Figure 4: Our revised earnings estimates

	New estimates			Old estimates			Change (%)		
	FY24F	FY25F	FY26F	FY24F	FY25F	FY26F	FY24F	FY25F	FY26F
Revenue	12,045	13,643	15,345	12,438	14,358	16,433	-3.2	-5.0	-6.6
EBITDA	2,903	3,438	4,074	3,054	3,647	4,355	-4.9	-5.7	-6.4
Adjusted consol. PAT	1,339	1,760	2,205	1,485	1,942	2,445	-9.9	-9.4	-9.8
EPS	26.1	34.4	43.1	29.0	37.9	47.7	-9.9	-9.4	-9.8
EBITDA margin (%)	24.1	25.2	26.6	24.6	25.4	26.5	-45 bp	-20 bp	5 bp

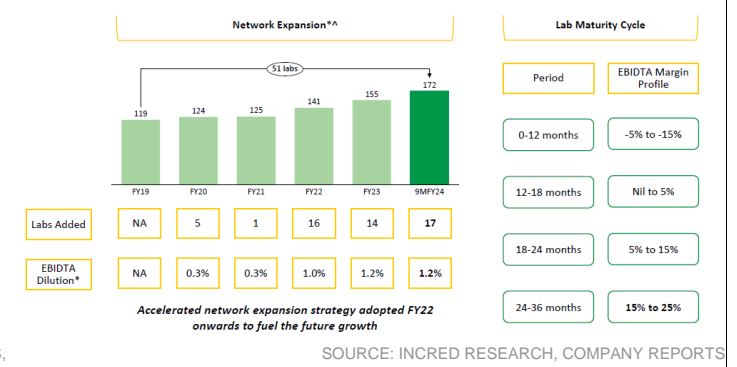
SOURCE: INCRED RESEARCH ESTIMATES, COMPANY REPORTS

Figure 5: Network expansion over the years



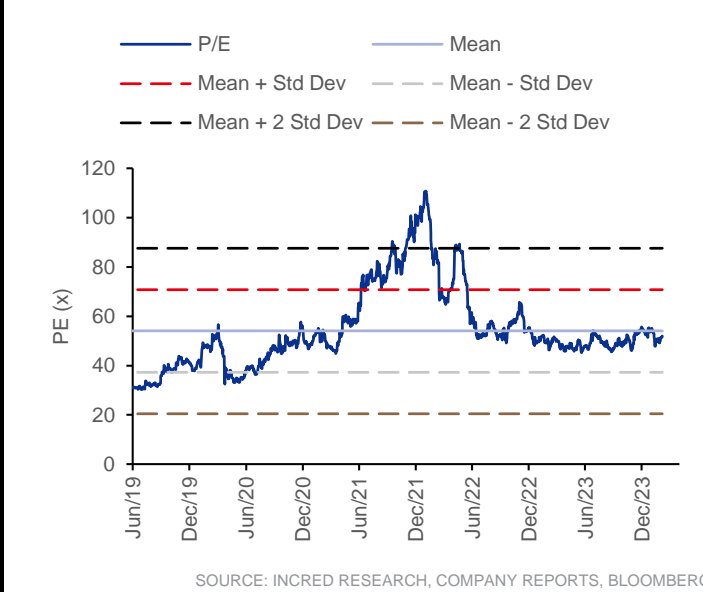
SOURCE: INCRED RESEARCH, COMPANY REPORTS,

Figure 6: Lifecycle of a new lab and its financial impact



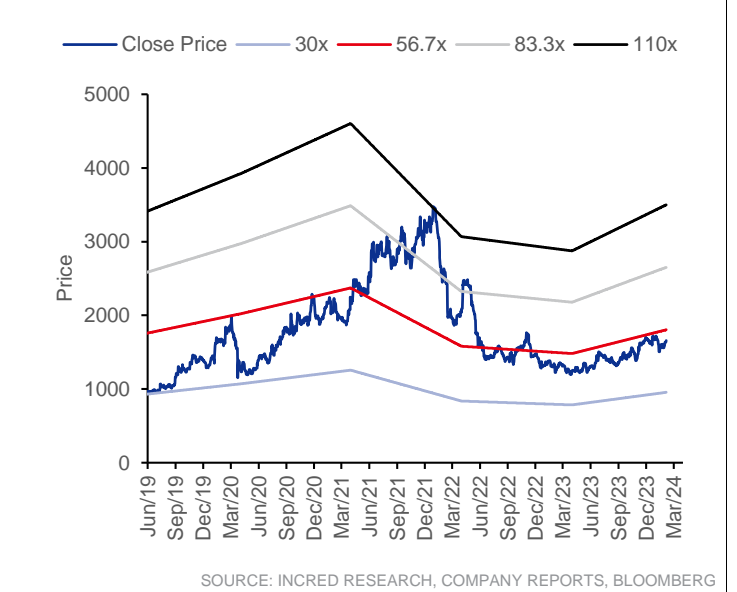
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 7: Mean P/E with standard deviation



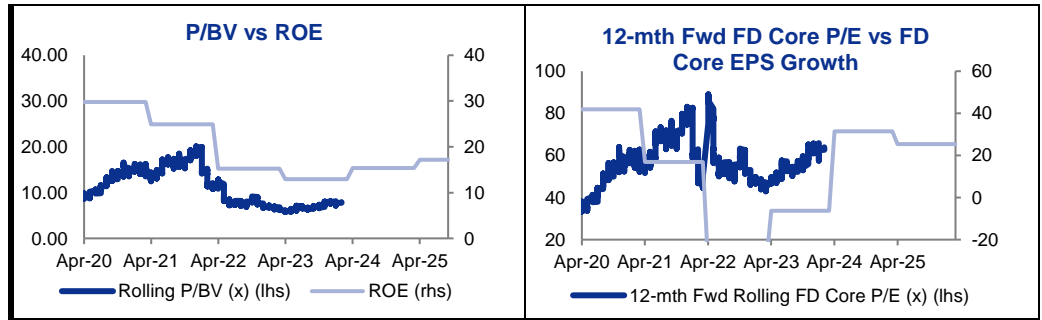
SOURCE: INCRED RESEARCH, COMPANY REPORTS, BLOOMBERG

Figure 8: P/E band



SOURCE: INCRED RESEARCH, COMPANY REPORTS, BLOOMBERG

BY THE NUMBERS



Profit & Loss

(Rs mn)	Mar-22A	Mar-23A	Mar-24F	Mar-25F	Mar-26F
Total Net Revenues	12,283	11,482	12,045	13,643	15,345
Gross Profit	9,523	8,950	9,606	10,846	12,200
Operating EBITDA	3,428	2,883	2,903	3,438	4,074
Depreciation And Amortisation	(632)	(892)	(947)	(1,015)	(1,111)
Operating EBIT	2,796	1,991	1,956	2,423	2,963
Financial Income/(Expense)	(26)	(203)	(170)	(101)	(47)
Pretax Income/(Loss) from Assoc.					
Non-Operating Income/(Expense)	4	87	30	32	33
Profit Before Tax (pre-EI)	2,774	1,875	1,816	2,354	2,949
Exceptional Items	159				
Pre-tax Profit	2,934	1,875	1,816	2,354	2,949
Taxation	(787)	(441)	(470)	(587)	(735)
Exceptional Income - post-tax					
Profit After Tax	2,147	1,434	1,345	1,767	2,214
Minority Interests	(5)	(6)	(7)	(8)	(9)
Preferred Dividends					
FX Gain/(Loss) - post tax					
Other Adjustments - post-tax					
Net Profit	2,142	1,428	1,339	1,760	2,205
Recurring Net Profit	2,025	1,428	1,339	1,760	2,205
Fully Diluted Recurring Net Profit	2,025	1,428	1,339	1,760	2,205

Cash Flow

(Rs mn)	Mar-22A	Mar-23A	Mar-24F	Mar-25F	Mar-26F
EBITDA	3,428	2,883	2,903	3,438	4,074
Cash Flow from Invt. & Assoc.					
Change In Working Capital	(164)	71	(189)	(83)	(89)
(Incr)/Decr in Total Provisions					
Other Non-Cash (Income)/Expense	79	361	(350)	(417)	(470)
Other Operating Cashflow	4	87	30	32	33
Net Interest (Paid)/Received	(197)	(268)	(229)	(188)	(212)
Tax Paid	(825)	(516)	(470)	(587)	(735)
Cashflow From Operations	2,325	2,618	1,694	2,195	2,602
Capex	(372)	(526)	(500)	(450)	(473)
Disposals Of FAs/subsidiaries					
Acq. Of Subsidiaries/Investments	(6,314)	929			
Other Investing Cashflow	(690)	65	58	(413)	(335)
Cash Flow From Investing	(7,376)	468	(442)	(863)	(807)
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)	(229)	(188)	(212)
Cash Flow From Financing	1,625	(2,923)	(1,429)	(700)	(827)
Total Cash Generated	(3,425)	163	(176)	632	968
Free Cashflow To Equity	(2,956)	888	462	1,332	1,795
Free Cashflow To Firm	(4,853)	3,354	1,481	1,520	2,007

SOURCE: INCRED RESEARCH, COMPANY REPORTS

BY THE NUMBERS...cont'd

Balance Sheet					
(Rs mn)	Mar-22A	Mar-23A	Mar-24F	Mar-25F	Mar-26F
Total Cash And Equivalents	1,807	1,063	887	2,018	3,486
Total Debtors	1,355	1,219	1,320	1,495	1,682
Inventories	511	446	429	486	547
Total Other Current Assets	258	300	330	374	420
Total Current Assets	3,931	3,027	2,966	4,373	6,135
Fixed Assets	4,948	4,926	5,253	5,293	5,336
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
Total Non-current Assets	11,274	11,920	12,052	12,092	12,135
Short-term Debt	999	504			
Current Portion of Long-Term Debt					
Total Creditors	1,032	941	858	972	1,093
Other Current Liabilities	611	586	594	673	757
Total Current Liabilities	2,642	2,031	1,452	1,645	1,850
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
Total Non-current Liabilities	2,913	2,295	2,009	2,009	2,009
Total Provisions	769	713	713	713	713
Total Liabilities	6,323	5,040	4,175	4,367	4,572
Shareholders Equity	8,862	9,882	10,811	12,059	13,650
Minority Interests	20	25	32	39	48
Total Equity	8,882	9,907	10,843	12,098	13,698

Key Ratios					
	Mar-22A	Mar-23A	Mar-24F	Mar-25F	Mar-26F
Revenue Growth	23.1%	(6.5%)	4.9%	13.3%	12.5%
Operating EBITDA Growth	19.8%	(15.9%)	0.7%	18.4%	18.5%
Operating EBITDA Margin	27.9%	25.1%	24.1%	25.2%	26.6%
Net Cash Per Share (Rs)	(15.21)	5.31	17.31	39.40	68.06
BVPS (Rs)	173.18	193.01	211.06	235.41	266.47
Gross Interest Cover	14.16	7.43	8.56	12.88	13.97
Effective Tax Rate	26.8%	23.5%	25.9%	24.9%	24.9%
Net Dividend Payout Ratio	20.6%	28.7%	30.6%	29.1%	27.9%
Accounts Receivables Days	38.40	40.91	38.47	37.66	37.78
Inventory Days	60.59	68.96	65.46	59.70	59.90
Accounts Payables Days	141.33	142.17	134.59	119.40	119.79
ROIC (%)	69.9%	17.0%	15.8%	19.1%	23.2%
ROCE (%)	30.7%	17.4%	17.5%	20.6%	23.0%
Return On Average Assets	16.0%	10.9%	10.1%	11.9%	13.0%

Key Drivers					
	Mar-22A	Mar-23A	Mar-24F	Mar-25F	Mar-26F
Patient volume (mn nos)	13	10	12	13	15
Patient realisation (Rs per patient)	917	981	1,021	1,042	1,056

SOURCE: INCRED RESEARCH, COMPANY REPORTS

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