



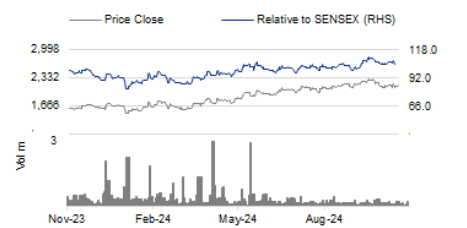
India

ADD (previously **REDUCE**)

Consensus ratings*:	Buy 10	Hold 3	Sell 8
Current price:	Rs2,155		
Target price:	Rs2,380 ▲		
Previous target:	Rs1,546		
Up/downside:	10.4%		
InCred Research / Consensus:	13.4%		
Reuters:			
Bloomberg:	METROHL IN		
Market cap:	US\$1,521m		
	Rs110,471m		
Average daily turnover:	US\$5.3m		
	Rs383.0m		
Current shares o/s:	51.2m		
Free float:	50.4%		
*Source: Bloomberg			

Key changes in this note

- Raise our target price to Rs2,380 from Rs1,546.
- Upgrade the stock's rating to ADD from REDUCE earlier.



Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	(5.2)	4.7	32.6
Relative (%)	(3.0)	5.0	8.3

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.**Steady performance likely to continue**

- Healthy 2Q performance of double-digit growth on all fronts. Despite the lab addition impact of 1.2% on EBITDA, the margin improved by 50bp QoQ.
- We expect a mid-teen top-line growth in FY25F/26F. Margin to be stable at 25-26%. On track to complete the addition of 25 labs in FY25F (17 in 1HFY25).
- Resume coverage on the stock with an ADD rating & a higher TP of Rs2,380.

Healthy 2QFY25 performance

Metropolis Healthcare (MHL) reported a healthy 2QFY25 performance of double-digit growth on revenue/EBITDA/PAT fronts QoQ and YoY. The revenue growth was led by strong growth in volume across patients (10% YoY) and tests (13.4% YoY). The volume growth was on account of the rise in market share (tier-1 and metro cities), expansion and deepening presence in newer geographies (tier-3 and below). Revenue per patient grew by 5% YoY, partly led by price benefit and partly due to the mix. Truhealth grew by 23% YoY (now contributes 16% to revenue) and B2C revenue grew by 21% YoY to Rs1.94bn. Despite the 1.2% impact on EBITDA due to new labs and centres, the margin was at 25.7% (+50bp QoQ) partly led by gross margin improvement of 50bp.

Mid-teen growth; margin improvement despite lab expansion

MHL expects to register around mid-teen top-line growth in FY25F and FY26F. This would be mostly driven by volume growth (8-9%) and a decent contribution from price (2-2.5%) and mix (3-3.5%). The gross margin may see some negative impact due to higher raw material costs (at new labs) for the initial two-to-three quarters due to lower volume. Additionally, the new labs may lead to EBITDA margin dilution of up to 1% in FY25F. Despite this, the margin in FY25F-26F is expected to be in the range of 25-26% (23.4% in FY24). Beyond FY25F, margin improvement may be fast due to completion of lab expansion and new labs inching towards company-level margin (within 24 months).

Deepening penetration through network expansion

MHL is strategically focusing on opening new labs, mainly in newer geographies to reach underserved markets and drive B2B business in the specialty segment and expand into the B2C market. This will help in accelerating growth and market share. In FY24, 24 new labs were opened, and another 25 labs are targeted in FY25F (17 labs addition done in 1HFY25) to reach a network of 220 labs; post FY25F, the lab addition will slow down (below 10 labs) and may be done on a need basis. Most of the expansion will take place in Uttar Pradesh, Madhya Pradesh, Assam and some in Andhra Pradesh and Telangana as well.

Resume coverage with an ADD rating and a higher TP of Rs2,380

With the slowdown in major expansion plans (tier-3/4 cities) post FY25F and market share gains in tier-1 and metro cities (due to B2C), we expect MHL to deliver a healthy performance of 13%/19%/32% CAGR in revenue/EBITDA/PAT, respectively, with margin expansion of 250bp over FY24-26F. We value MHL at 55x FY26F EPS and resume coverage on it with an ADD rating & a higher target price of Rs2,380 (Rs1,546 earlier). Downside risks: Any slowdown in patient volume and arrival of competitors in the B2C segment.

Financial Summary

	Mar-22A	Mar-23A	Mar-24A	Mar-25F	Mar-26F
Revenue (Rsm)	12,283	11,482	12,077	13,747	15,525
Operating EBITDA (Rsm)	3,428	2,883	2,826	3,498	4,014
Net Profit (Rsm)	2,142	1,428	1,278	1,791	2,220
Core EPS (Rs)	39.6	27.9	25.0	35.0	43.3
Core EPS Growth	10.6%	(29.5%)	(10.5%)	40.1%	24.0%
FD Core P/E (x)	54.43	77.23	86.34	61.64	49.72
DPS (Rs)	8.0	8.0	4.0	50.0	50.0
Dividend Yield	0.37%	0.37%	0.19%	2.32%	2.32%
EV/EBITDA (x)	32.40	38.18	38.63	30.72	26.78
P/FCFE (x)	(40.11)	148.93	115.42	55.09	40.37
Net Gearing	8.8%	(2.7%)	(11.3%)	(23.4%)	(24.2%)
P/BV (x)	12.44	11.16	10.07	8.80	9.06
ROE	25.4%	15.2%	12.3%	15.2%	18.0%
% Change In Core EPS Estimates				1.77%	0.67%
InCred Research/Consensus EPS (x)					

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Hitech – forging growth in specialty and expanding beyond Chennai

Hitech is aiming to expand its network by adding 50 new centres by FY25F-end. The brand presence will be expanded beyond Chennai across Tamil Nadu through a large franchise network to scale up specialty business. Synergies of MHL and Hitech will help in margin expansion (already higher than consolidated margin).

Conference-call highlights

- MHL is in advanced stages of evaluating a potential M&A target.
- MHL aims to take the Truhealth contribution to 20%, from 16% currently, in the next few quarters.
- In the case of new lab expansion, in year one, there is a minus 10% impact on the EBITDA margin. In year two, the EBITDA margin is a bit positive (single-digit) and in year three (30th month onwards), we start seeing the EBITDA margin coming closer to the company margin.

Figure 1: Financial summary

(Rs m)	2QFY23	3QFY23	4QFY23	1QFY24	2QFY24	3QFY24	4QFY24	1QFY25	2QFY25	Y-o-Y (%)	Q-o-Q (%)
Revenue	3,003	2,855	2,825	2,771	3,085	2,911	3,310	3,134	3,498	13%	12%
Consumption of raw materials	684	639	595	570	613	572	671	632	695	13%	10%
as % of sales	22.8%	22.4%	21.1%	20.6%	19.9%	19.7%	20.3%	20.2%	19.9%		
Employee costs	616	646	643	651	698	695	715	717	784	12%	9%
as % of sales	20.5%	22.6%	22.8%	23.5%	22.6%	23.9%	21.6%	22.9%	22.4%		
Other expenditure	913	865	884	921	1027	995	1125	997	1120	9%	12%
as % of sales	30.4%	30.3%	31.3%	33.2%	33.3%	34.2%	34.0%	31.8%	32.0%		
EBITDA	790	705	703	630	748	648	800	788	899	20%	14%
Margin (%)	26.3%	24.7%	24.9%	22.7%	24.2%	22.3%	24.2%	25.2%	25.7%		
Depreciation	216	230	234	208	222	250	264	255	268		
Other income	43	66	12	31	12	23	25	25	31		
Interest	70	61	62	60	57	53	56	47	48		
PBT	548	480	419	392	481	369	505	511	614	28%	20%
Total tax	143	121	84	102	125	96	140	130	147		
Tax rate (%)	26.1%	25.2%	20.1%	26.0%	25.9%	26.0%	27.7%	25.4%	23.9%		
PAT before MI	405	359	335	290	357	273	365	381	467	31%	23%
Minority interest (MI)	-1	-1	-1	-2	-2	-1	-1	-2	-2		
Adj. PAT before extraordinary items	403	357	334	288	355	272	364	379	465	31%	23%
Extraordinary expenses	0	0	0	0	0	0	0	0	0		
Reported PAT	403	357	334	288	355	272	364	379	465	31%	23%
No. of shares	51	51	51	51	51	51	51	51	51		
EPS	7.9	7.0	6.5	5.6	6.9	5.3	7.1	7.4	9.1		

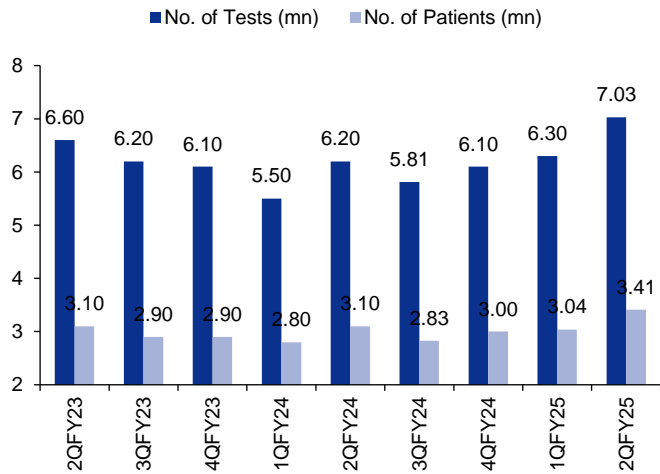
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 2: Margin Profile (%)

(in %)	2QFY23	3QFY23	4QFY23	1QFY24	2QFY24	3QFY24	4QFY24	1QFY25	2QFY25	Y-o-Y (bp)	Q-o-Q (bp)
Gross	77%	78%	79%	79%	80%	80%	80%	80%	80%	1	30
EBITDA	26%	25%	25%	23%	24%	22%	24%	25%	26%	145	54
Adj.PAT	13%	13%	12%	10%	12%	9%	11%	12%	13%	180	119
Effective tax rate	26%	25%	20%	26%	26%	26%	28%	25%	24%	-194	-145

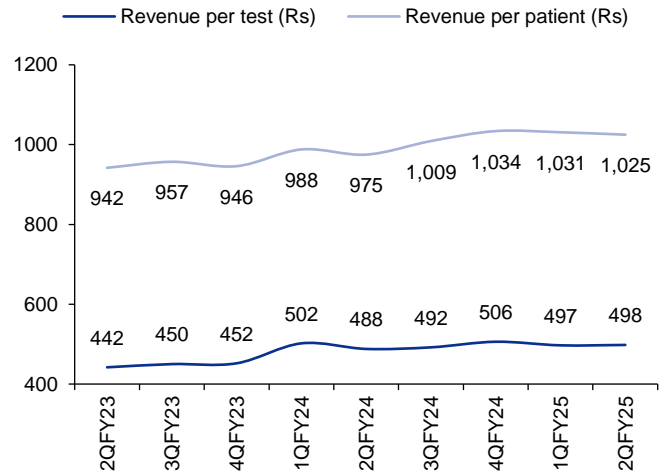
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Figure 3: Consistent growth in patients and tests volume



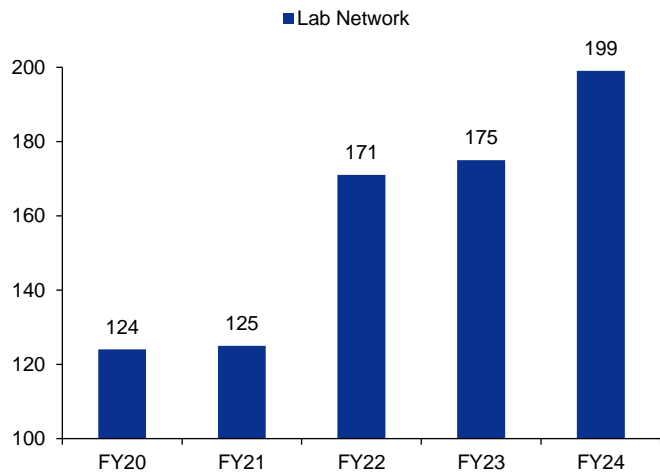
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 4: Revenue per patient consistently growing since the last few quarters



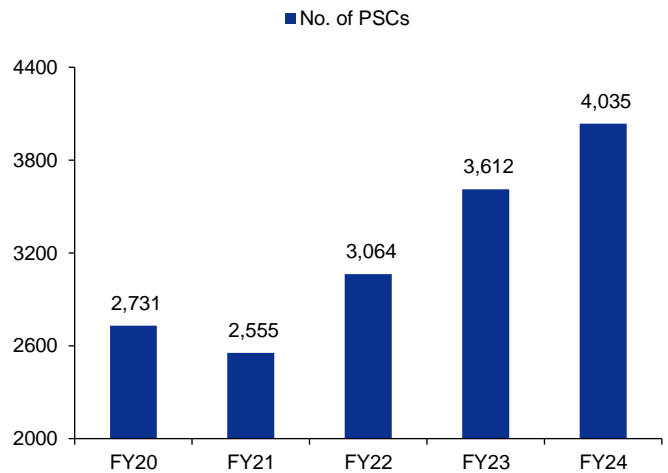
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 5: Added approx. 75 labs in the last four years



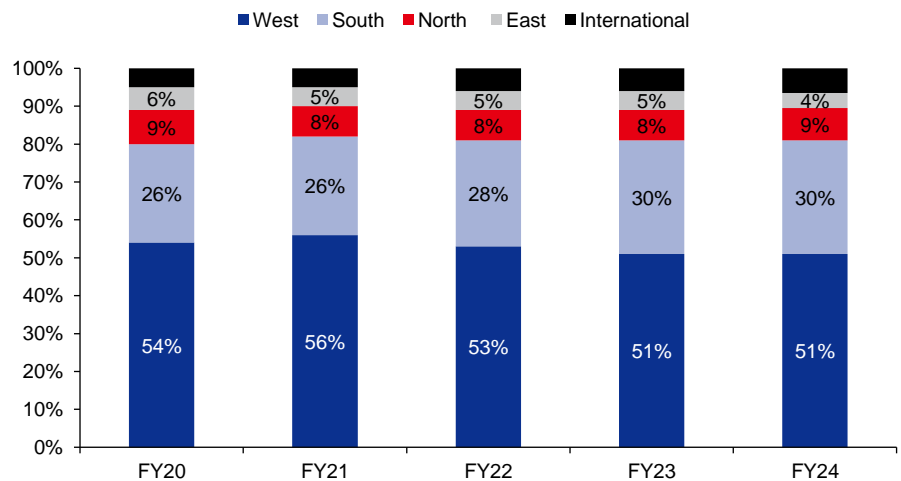
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Figure 6: PSCs rise in tandem with labs addition



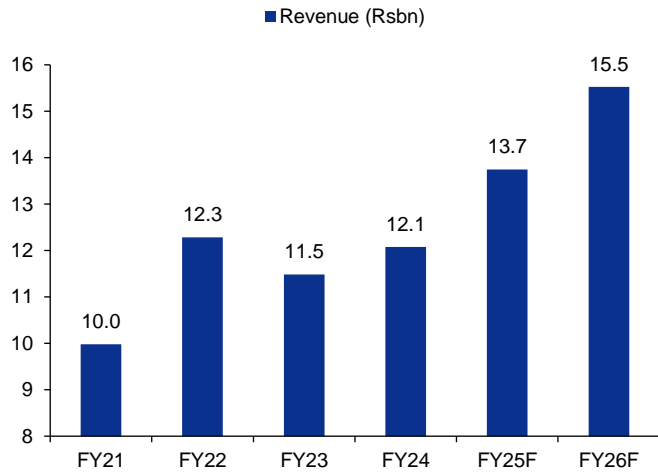
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 7: High concentration of revenue mix towards western and southern regions



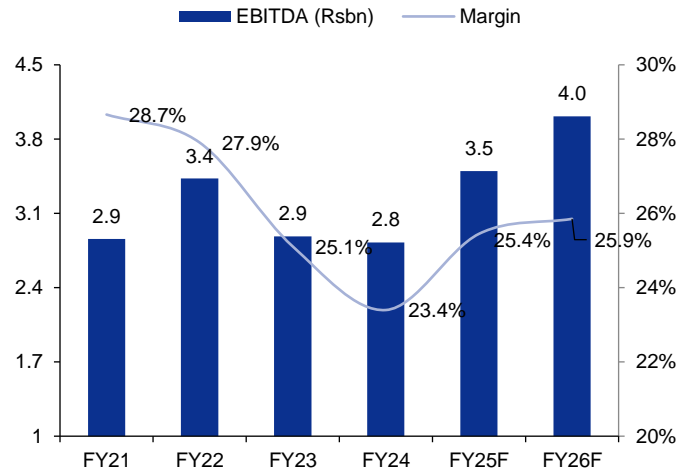
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 8: Revenue CAGR of 13.4% expected over FY24-26F as against 6.6% over FY21-24



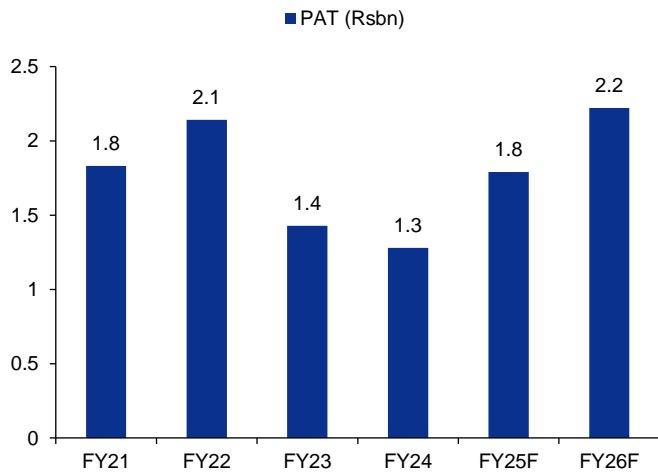
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 9: EBITDA CAGR of 19% expected over FY24-26F and margin expansion of ~200-250bp



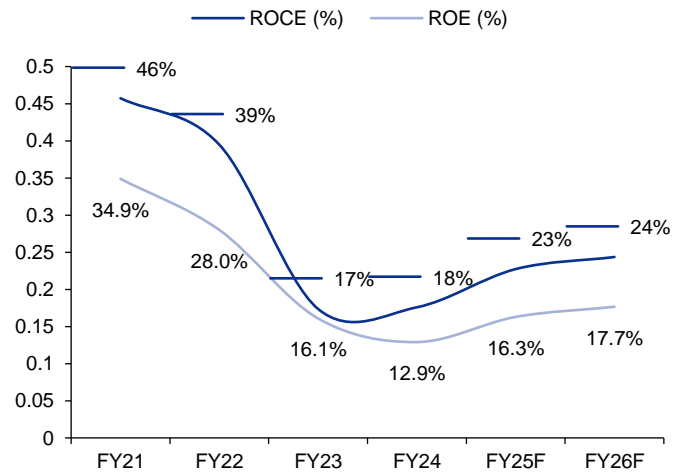
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 10: PAT CAGR of 32% expected over FY24-26F



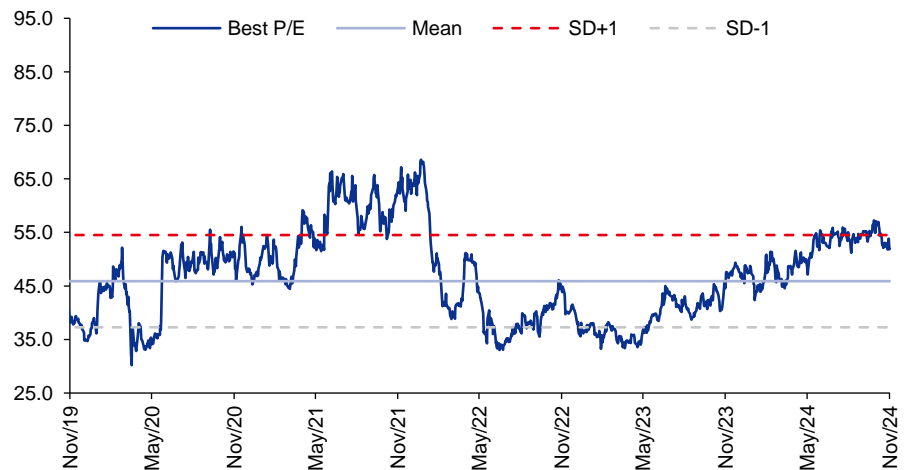
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 11: ROE and ROCE curves expected to inch upwards



SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 12: Metropolis Healthcare stock currently trades at SD+1 level



SOURCE: INCRED RESEARCH, COMPANY REPORTS

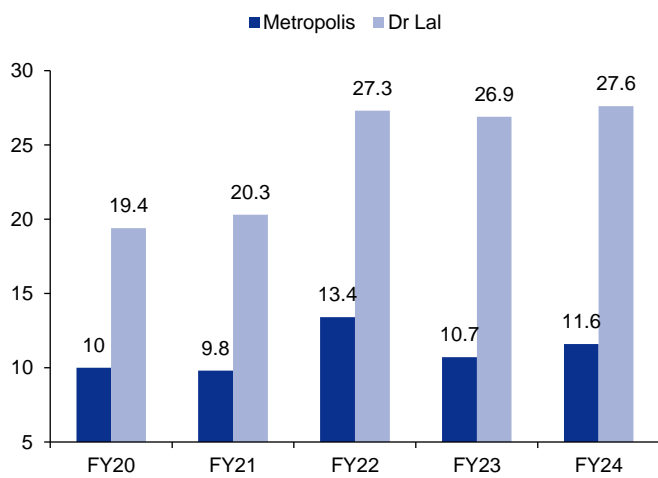
Comparing Metropolis Healthcare and Dr Lal Pathlabs

Figure 13: Dr Lal Pathlabs has softer pricing in Mumbai and Hyderabad compared to Metropolis Healthcare

Tests	Delhi (Rs)		Mumbai (Rs)		Bengaluru (Rs)		Hyderabad (Rs)	
	Dr Lal	Metropolis	Dr Lal	Metropolis	Dr Lal	Metropolis	Dr Lal	Metropolis
Routine / Basic tests								
Complete Blood Count (CBC)	350	350	250	330	350	340	250	330
Thyroid Stimulating Hormone (TSH), Ultrasensitive	380	200	380	400	380	350	380	380
Thyroid Profile (T3/T4/TSH)	550	550	550	600	550	590	350	550
Glucose, Fasting & Post Meal	150	140	160	180	100	160	150	180
Lipid Profile, Basic	1000	850	840	800	1,000	660	1000	800
Specialized tests								
Allergy Comprehensive Profile	14,000	16,350	7,800	16,000	14,000	16,000	14,000	15,000
Kidney Function Test	850	850	910	1,180	850	1,150	470	1,100
Liver Function Test	800	500	800	605	800	635	440	500

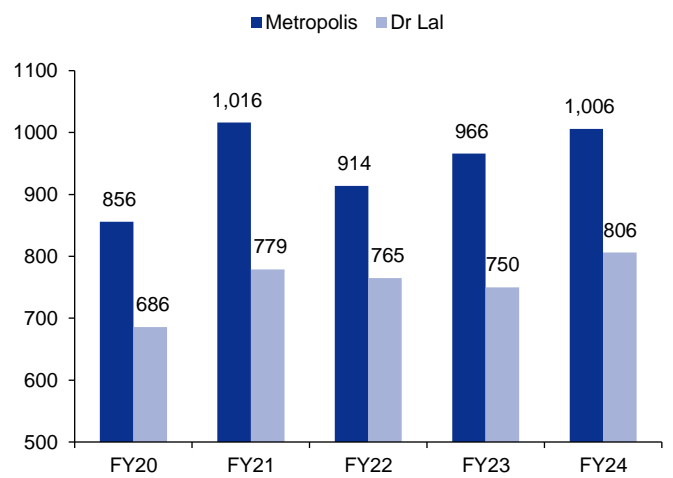
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 14: Dr Lal Pathlabs has a better patient volume (m) growth at a 9% CAGR over FY20-24



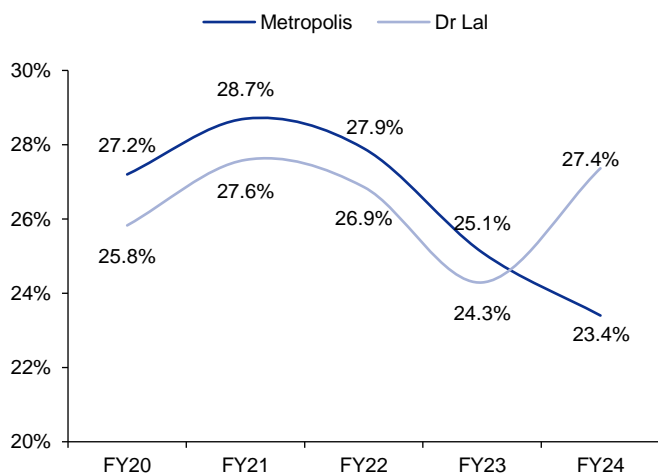
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 15: Realization per patient (Rs) growth has been same at 4% over FY20-24 for both



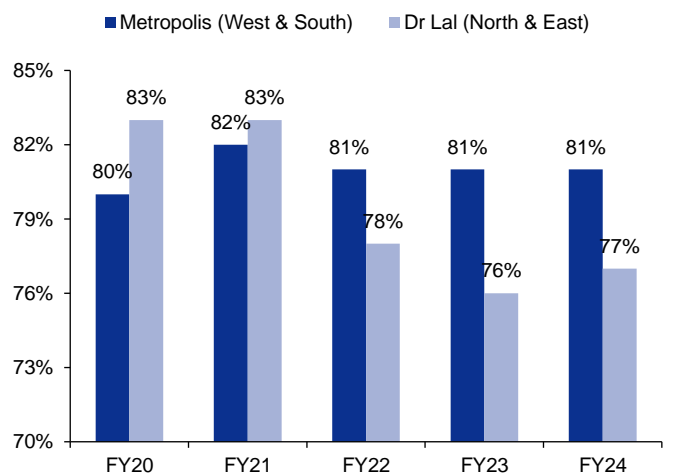
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 16: Metropolis Healthcare's EBITDA margin to see a reversal going ahead



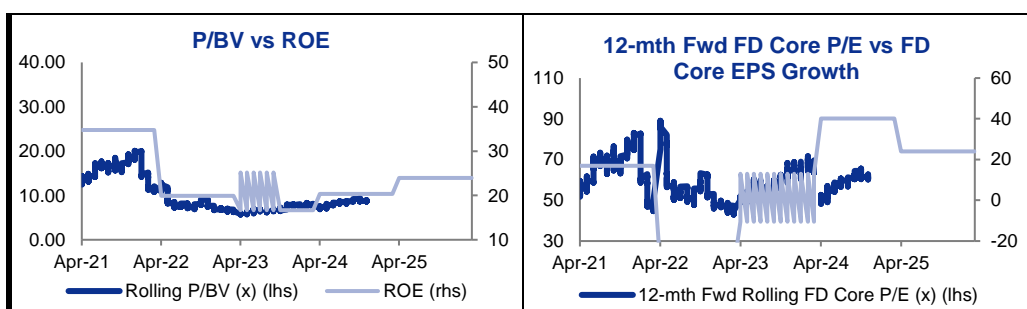
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 17: Geography mix- both the companies have distinct geographies as their core which do not overlap



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	15,525
Gross Profit	9,523	8,950	9,651	10,860	12,327
Operating EBITDA	3,428	2,883	2,826	3,498	4,014
Depreciation And Amortisation	(632)	(892)	(945)	(1,000)	(950)
Operating EBIT	2,796	1,991	1,881	2,498	3,064
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	110
Profit Before Tax (pre-EI)	2,769	1,869	1,740	2,390	2,964
Exceptional Items	159				
Pre-tax Profit	2,928	1,869	1,740	2,390	2,964
Taxation	(787)	(441)	(462)	(600)	(743)
Exceptional Income - post-tax					
Profit After Tax	2,142	1,428	1,278	1,791	2,220
Minority Interests					
Preferred Dividends					
FX Gain/(Loss) - post tax					
Other Adjustments - post-tax					
Net Profit	2,142	1,428	1,278	1,791	2,220
Recurring Net Profit	2,026	1,428	1,278	1,791	2,220
Fully Diluted Recurring Net Profit	2,026	1,428	1,278	1,791	2,220

Cash Flow

(Rs mn)	Mar-22A	Mar-23A	Mar-24A	Mar-25F	Mar-26F
EBITDA	3,428	2,883	2,826	3,498	4,014
Cash Flow from Invt. & Assoc.					
Change In Working Capital	(164)	71	55	(187)	(26)
(Incr)/Decr in Total Provisions					
Other Non-Cash (Income)/Expense					
Other Operating Cashflow	335	152	91	100	110
Net Interest (Paid)/Received	(197)	(268)	(225)	(200)	(200)
Tax Paid	(869)	(367)	(105)	(508)	(663)
Cashflow From Operations	2,533	2,471	2,641	2,704	3,234
Capex	(372)	(526)	(638)	(700)	(500)
Disposals Of FAs/subsidiaries					
Acq. Of Subsidiaries/investments	(6,314)	929			
Other Investing Cashflow	(690)	65	(257)		
Cash Flow From Investing	(7,376)	468	(894)	(700)	(500)
Debt Raised/(repaid)	2,094	(2,198)	(791)		
Proceeds From Issue Of Shares	20	2			
Shares Repurchased					
Dividends Paid	(409)	(619)	(983)	(205)	(2,624)
Preferred Dividends					
Other Financing Cashflow	(79)	(107)	(39)		
Cash Flow From Financing	1,626	(2,923)	(1,812)	(205)	(2,624)
Total Cash Generated	(3,217)	16	(66)	1,799	110
Free Cashflow To Equity	(2,749)	741	956	2,004	2,734
Free Cashflow To Firm	(4,646)	3,207	1,972	2,204	2,934

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	2,942	2,962
Total Debtors	1,355	1,219	1,263	1,485	1,708
Inventories	511	446	387	454	543
Total Other Current Assets	258	300	266	330	310
Total Current Assets	3,931	3,027	3,158	5,210	5,523
Fixed Assets	6,042	6,660	7,224	6,924	6,474
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	528
Total Non-current Assets	11,274	11,920	12,316	12,016	11,566
Short-term Debt	999	504			
Current Portion of Long-Term Debt					
Total Creditors	1,032	941	994	1,100	1,242
Other Current Liabilities	611	586	684	745	870
Total Current Liabilities	2,642	2,031	1,679	1,844	2,112
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	4,915
Shareholders Equity	8,862	9,882	10,962	12,539	12,188
Minority Interests	20	25	31	39	49
Total Equity	8,882	9,907	10,993	12,579	12,237

Key Ratios					
	Mar-22A	Mar-23A	Mar-24A	Mar-25F	Mar-26F
Revenue Growth	23.1%	(6.5%)	5.2%	13.8%	12.9%
Operating EBITDA Growth	19.8%	(15.9%)	(2.0%)	23.8%	14.7%
Operating EBITDA Margin	27.9%	25.1%	23.4%	25.4%	25.9%
Net Cash Per Share (Rs)	(15.21)	5.31	24.26	57.43	57.82
BVPS (Rs)	173.18	193.01	213.99	244.80	237.94
Gross Interest Cover	14.16	7.43	8.35	12.49	15.32
Effective Tax Rate	26.9%	23.6%	26.6%	25.1%	25.1%
Net Dividend Payout Ratio	14.8%	21.9%	11.8%	107.2%	86.4%
Accounts Receivables Days	38.40	40.91	37.50	36.47	37.53
Inventory Days	60.59	68.96	62.66	53.14	56.89
Accounts Payables Days	141.33	142.17	145.60	132.38	133.62
ROIC (%)	72.3%	17.0%	15.2%	19.9%	24.7%
ROCE (%)	30.1%	18.0%	17.3%	21.2%	24.7%
Return On Average Assets	23.7%	14.2%	12.9%	15.8%	18.4%

SOURCE: INCRED RESEARCH, COMPANY REPORTS

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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.