

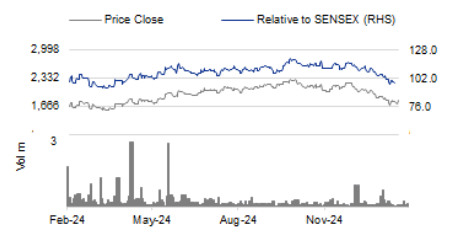
India

ADD (no change)

Consensus ratings*: Buy 11 Hold 3 Sell 7	
Current price:	Rs1,806
Target price:	Rs2,250
Previous target:	Rs2,460
Up/downside:	24.6%
InCred Research / Consensus:	1.0%
Reuters:	
Bloomberg:	METROHL IN
Market cap:	US\$1,275m
	Rs92,589m
Average daily turnover:	US\$4.5m
	Rs324.3m
Current shares o/s:	51.2m
Free float:	50.4%
*Source: Bloomberg	

Key changes in this note

- Cut FY25F/26F EPS by 4%/6%, respectively.
- Cut the target price to Rs2,250 from Rs2,460 earlier.



Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	(9.6)	(16.0)	8.4
Relative (%)	(8.5)	(14.7)	(0.7)

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.

Pursues inorganic growth opportunities

- The 3QFY25 performance was below our expectations by 120bp on the margin front. Lower volume of acute therapy patients hit volume growth and margin.
- Core Diagnostics buyout to be done by end-Feb 2025F. Acquisition will be margin-dilutive in FY26F. Pursuing inorganic growth for north & east markets.
- Cut FY25F/26F EPS by 4%/6%, respectively. Maintain our ADD rating on the stock with a lower target price of Rs2,250 (Rs2,460 earlier).

Miss on the margin front

Metropolis Healthcare or MHL's 3QFY25 performance was below our/Bloomberg consensus estimates on the margin front by 120bp/190bp, respectively. The revenue growth (11%) was led by strong growth in volume (patients: 4% YoY and tests: 6% YoY). The volume growth was impacted during the quarter due to lower volume in acute therapy patients (an industry-wide scenario). Revenue per patient grew by 6.5% YoY due to the upselling. Truhealth grew by 25% YoY (contributes 17% to revenue vs. 16% QoQ) and B2C revenue grew by 15% YoY to Rs1.78bn (contributes 55% to revenue vs. 56% QoQ). The margin at 22.3% was flat YoY due to lower volume in the acute therapy business (high margin) and lab addition (seven labs). MHL is on track to achieve ~13% growth and 25%+ margin in 4QFY25F. Effective Jan 2025, MHL undertook a price revision, which will lead to a net 2% positive impact on its revenue.

Core Diagnostics acquisition – an early closure likely

MHL is looking to finalize Core Diagnostics (Core) acquisition by the end of Feb 2025F. After this, it will start contributing to MHL's revenue from Mar 2025F. Post-merger synergies and operational efficiency are expected to drive Core's margin profile from 1QFY26F; however, it will be margin-dilutive (though EPS-accretive with a healthy RoI) in Year-1 (two-to-three years to reach MHL-level margin). With lab expansion now at the fag end of the cycle (positive for margin) and acquisition being margin-dilutive in Year-1 (high single-digit margin), we believe the net impact would be a negative 100bp on FY26F margin.

Pursuing inorganic growth opportunities

MHL has set itself on an inorganic growth quest to penetrate the non-core northern markets. There are several potential targets under consideration, and it is expecting early closure of these opportunities. It is also looking at opportunities in companies having strong B2C brands in north Indian cities. These acquisitions are focused on the city's leading B2C businesses having high EBITDA, high RoCE and a strong OCF-to-EBITDA ratio as they offer significant value, thereby helping in scaling operations and driving growth.

Maintain ADD rating with a lower target price of Rs2,250

In the last four months, MHL has underperformed the BSE Healthcare Index by more than 15%. The recent price correction offers the stock at an attractive valuation (below the long-term mean at 42x FY26F EPS), providing a suitable entry point. We reduce FY25F/26F EPS factoring in the margin dilution while keeping the growth intact. Downside risks: Slowdown in patient volume & 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	13,708	16,863
Operating EBITDA (Rsm)	3,428	2,883	2,826	3,440	4,082
Net Profit (Rsm)	2,142	1,428	1,278	1,680	2,114
Core EPS (Rs)	39.6	27.9	25.0	32.8	40.8
Core EPS Growth	10.6%	(29.5%)	(10.5%)	31.4%	24.6%
FD Core P/E (x)	45.62	64.73	72.36	55.08	43.99
DPS (Rs)	8.0	8.0	4.0	4.0	4.0
Dividend Yield	0.44%	0.44%	0.22%	0.22%	0.22%
EV/EBITDA (x)	27.19	31.99	32.31	26.45	21.89
P/FCFE (x)	(33.62)	124.83	96.74	151.93	31.38
Net Gearing	8.8%	(2.7%)	(11.3%)	(11.4%)	(26.8%)
P/BV (x)	10.43	9.36	8.44	6.83	6.05
ROE	25.4%	15.2%	12.3%	13.7%	14.6%
% Change In Core EPS Estimates				(6.20%)	(3.60%)
InCred Research/Consensus EPS (x)					

SOURCE: INCRED RESEARCH, COMPANY REPORTS

New micro-market strategy

To grow the market share in Tier 2-4 cities, MHL has come up with a micro-market strategy for which it has divided all the markets in India into 100-120 micro markets. The strategy has four main objectives:

- Having market-relevant prices to remain competitive in the micro market.
- Revamp the partner model to improve productivity.
- Efficiency improvement: Enhance logistics operations to improve services and reduce the turnaround time.
- Market-specific test menu and tailor-made expanded offerings to meet the demand of each region.

The net impact of this strategy is a 2% improvement in revenue from 4QFY25F.

Figure 1: Financial summary

(Rs m)	3QFY23	4QFY23	1QFY24	2QFY24	3QFY24	4QFY24	1QFY25	2QFY25	3QFY25	Y-o-Y (%)	Q-o-Q (%)
Revenue	2,855	2,825	2,771	3,085	2,911	3,310	3,134	3,498	3,228	11%	-8%
Consumption of raw materials	639	595	570	613	572	671	632	695	645	13%	-7%
as % of sales	22.4%	21.1%	20.6%	19.9%	19.7%	20.3%	20.2%	19.9%	20.0%		
Employee costs	646	643	651	698	695	715	717	784	814	17%	4%
as % of sales	22.6%	22.8%	23.5%	22.6%	23.9%	21.6%	22.9%	22.4%	25.2%		
Other expenditure	865	884	921	1027	995	1125	997	1120	1048	5%	-6%
as % of sales	30.3%	31.3%	33.2%	33.3%	34.2%	34.0%	31.8%	32.0%	32.5%		
EBITDA	705	703	630	748	648	800	788	899	720	11%	-20%
Margins (%)	24.7%	24.9%	22.7%	24.2%	22.3%	24.2%	25.2%	25.7%	22.3%		
Depreciation	230	234	208	222	250	264	255	268	277		
Other income	66	12	31	12	23	25	25	31	26		
Interest	61	62	60	57	53	56	47	48	45		
PBT	480	419	392	481	369	505	511	614	423	15%	-31%
Total tax	121	84	102	125	96	140	130	147	109		
Tax rate (%)	25.2%	20.1%	26.0%	25.9%	26.0%	27.7%	25.4%	23.9%	25.7%		
PAT before MI	359	335	290	357	273	365	381	467	315	15%	-33%
Minority interest (MI)	-1	-1	-2	-2	-1	-1	-2	-2	-1		
Adj. PAT before extraordinary items	357	334	288	355	272	364	379	465	314	15%	-33%
Extraordinary expenses	0	0	0	0	0	0	0	0	0		
Reported PAT	357	334	288	355	272	364	379	465	314	15%	-33%
No. of shares	51	51	51	51	51	51	51	51	51		
EPS	7.0	6.5	5.6	6.9	5.3	7.1	7.4	9.1	6.1		

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 2: Margin profile (%)

(in %)	3QFY23	4QFY23	1QFY24	2QFY24	3QFY24	4QFY24	1QFY25	2QFY25	3QFY25	Y-o-Y (bp)	Q-o-Q (bp)
Gross	78%	79%	79%	80%	80%	80%	80%	80%	80%	-33	-14
EBITDA	25%	25%	23%	24%	22%	24%	25%	26%	22%	3	-338
Adj. PAT	13%	12%	10%	12%	9%	11%	12%	13%	10%	39	-358
Effective tax rate	25%	20%	26%	26%	26%	28%	25%	24%	26%	-30	171

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 3: Actuals vs. estimates

	Actuals	Incred Est.	Variance (%)	Bloomberg Est.	Variance (%)
Revenue (Rs m)	3,228	3,295	-2%	3,266	-1%
EBITDA (Rs m)	720	809	-11%	791	-9%
Margin (%)	22.3	24.6		24.2	
PAT (Rs m)	314	391	-20%	371	-15%

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 4: Our revised earnings estimates

	FY25F			FY26F		
	Old	New	Variance (%)	Old	New	Variance (%)
Revenue (Rs m)	13,747	13,708	-0.3	16,906	16,863	-0.3
EBITDA (Rs m)	3,498	3,440	-1.7	4,138	4,082	-1.3
Margin (%)	25.4	25.1		24.5	24.2	
PAT (Rs m)	1,791	1,680	-6.2	2,193	2,114	-3.6
EPS (Rs)	35.0	32.8	-6.2	42.4	40.8	-3.6

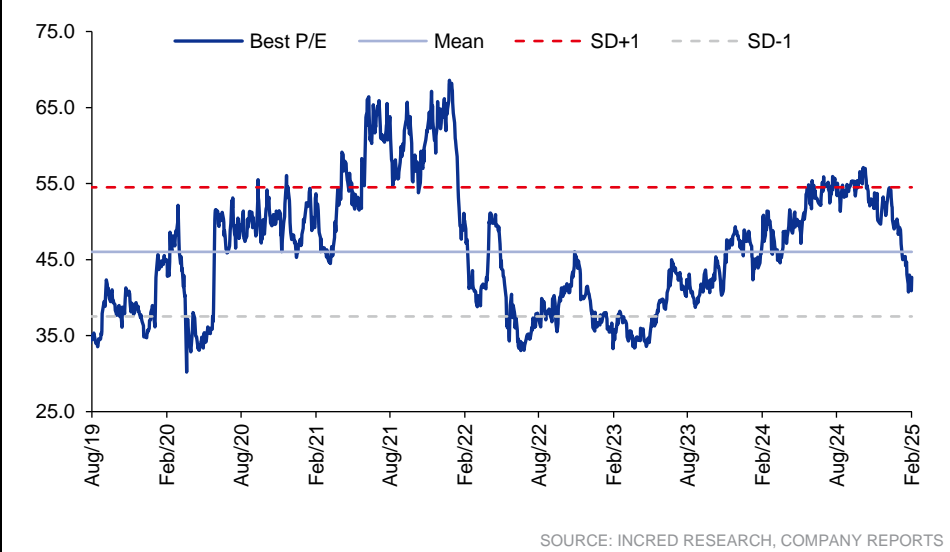
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 5: Metropolis Healthcare has undertaken price revision, effective Jan 2025, leading to a 2% positive impact

Particulars	Mumbai (Rs)			Delhi NCR (Rs)			Bengaluru (Rs)			Hyderabad (Rs)		
	Oct-Dec'24	Jan'25	Change	Oct-Dec'24	Jan'25	Change	Oct-Dec'24	Jan'25	Change	Oct-Dec'24	Jan'25	Change
Routine / Basic tests												
Complete Blood Count (CBC)	330	340	3.0%	350	350	-	340	400	17.6%	330	330	-
Thyroid Stimulating Hormone (TSH), Ultrasensitive	400	400	-	200	200	-	350	360	2.9%	380	300	-21.1%
Thyroid Profile (T3/T4/TSH)	600	600	-	550	550	-	590	600	1.7%	550	550	-
Glucose, Fasting & Post-Meal	180	180	-	140	140	-	160	160	-	180	140	-22.2%
Lipid Profile, Basic	800	800	-	850	850	-	660	680	3.0%	800	800	-
Specialized tests												
Allergy Comprehensive Profile	16,000	16,000	-	16,350	16,350	-	16,000	16,000	-	15,000	15,000	-
Kidney Function Test	1,180	1,250	5.9%	850	850	-	1,150	1,150	-	1,100	850	-22.7%
Liver Function Test	605	650	7.4%	500	500	-	635	635	-	500	500	-

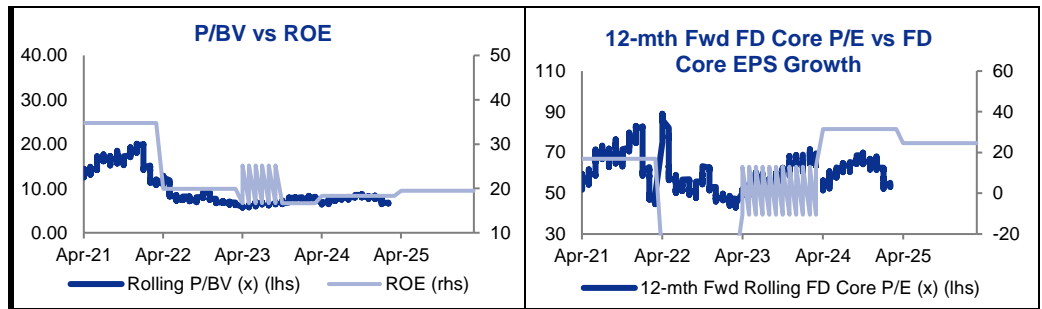
SOURCES: INCRED RESEARCH, COMPANY REPORTS

Figure 6: MHL trades below its mean valuation, thereby offering a suitable entry point



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	13,708	16,863
Gross Profit	9,523	8,950	9,651	10,980	13,283
Operating EBITDA	3,428	2,883	2,826	3,440	4,082
Depreciation And Amortisation	(632)	(892)	(945)	(1,090)	(1,100)
Operating EBIT	2,796	1,991	1,881	2,350	2,982
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	2,242	2,822
Exceptional Items	159				
Pre-tax Profit	2,928	1,869	1,740	2,242	2,822
Taxation	(787)	(441)	(462)	(563)	(708)
Exceptional Income - post-tax					
Profit After Tax	2,142	1,428	1,278	1,680	2,114
Minority Interests					
Preferred Dividends					
FX Gain/(Loss) - post tax					
Other Adjustments - post-tax					
Net Profit	2,142	1,428	1,278	1,680	2,114
Recurring Net Profit	2,026	1,428	1,278	1,680	2,114
Fully Diluted Recurring Net Profit	2,026	1,428	1,278	1,680	2,114

Cash Flow

(Rs mn)	Mar-22A	Mar-23A	Mar-24A	Mar-25F	Mar-26F
EBITDA	3,428	2,883	2,826	3,440	4,082
Cash Flow from Invt. & Assoc.					
Change In Working Capital	(164)	71	55	(203)	100
(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)	(471)	(568)
Cashflow From Operations	2,533	2,471	2,641	2,667	3,464
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)	404	2,757
Free Cashflow To Equity	(2,749)	741	956	609	2,964
Free Cashflow To Firm	(4,646)	3,207	1,972	809	3,164

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	1,547	4,154
Total Debtors	1,355	1,219	1,263	1,480	1,855
Inventories	511	446	387	452	590
Total Other Current Assets	258	300	266	329	337
Total Current Assets	3,931	3,027	3,158	3,809	6,936
Fixed Assets	6,042	6,660	7,224	9,302	8,702
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	14,394	13,796
Short-term Debt	999	504			
Current Portion of Long-Term Debt					
Total Creditors	1,032	941	994	1,086	1,436
Other Current Liabilities	611	586	684	736	1,006
Total Current Liabilities	2,642	2,031	1,679	1,822	2,442
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	4,625	5,245
Shareholders Equity	8,862	9,882	10,962	13,539	15,439
Minority Interests	20	25	31	39	49
Total Equity	8,882	9,907	10,993	13,578	15,488

Key Ratios					
	Mar-22A	Mar-23A	Mar-24A	Mar-25F	Mar-26F
Revenue Growth	23.1%	(6.5%)	5.2%	13.5%	23.0%
Operating EBITDA Growth	19.8%	(15.9%)	(2.0%)	21.7%	18.7%
Operating EBITDA Margin	27.9%	25.1%	23.4%	25.1%	24.2%
Net Cash Per Share (Rs)	(15.21)	5.31	24.26	30.20	80.25
BVPS (Rs)	173.18	193.01	213.99	264.29	298.27
Gross Interest Cover	14.16	7.43	8.35	11.75	14.91
Effective Tax Rate	26.9%	23.6%	26.6%	25.1%	25.1%
Net Dividend Payout Ratio	14.8%	21.9%	11.8%	9.1%	7.3%
Accounts Receivables Days	38.40	40.91	37.50	36.52	36.10
Inventory Days	60.59	68.96	62.66	56.15	53.15
Accounts Payables Days	141.33	142.17	145.60	139.19	128.59
ROIC (%)	72.3%	17.0%	15.2%	18.7%	20.1%
ROCE (%)	30.1%	18.0%	17.3%	19.1%	20.5%
Return On Average Assets	23.7%	14.2%	12.9%	14.5%	15.5%

SOURCE: INCRED RESEARCH, COMPANY REPORTS

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InCred Research Services Private Limited

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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.