

Metropolis Healthcare | BUY

Improving performance; inorganic expansion ahead?

METROHL reported in-line performance with 13.4%YoY revenue growth and 20%YoY EBITDA growth. The revenue growth was driven by a 7%YoY increase in patient volumes and 6%YoY growth in ARPP. Of the latter, price hike benefit was limited to 2.3-2.4%. The management guided for 13-15% revenue growth over the next 2-3 years with EBITDA margins of 26-27% as they near completion of lab additions this fiscal. The company has set up sufficient labs to expand coverage to 1000 towns (from 700 towns) over the next 12-18 months. This penetration will be via collection centres which are asset-light (franchise model). The management indicated that METROHL is actively pursuing inorganic expansion (upside risks) which could either be a capability addition or penetration in non-core geography. The company's B2C, wellness and Mumbai market growth has been outpacing overall growth whilst phasing out of discounts has aided B2B growth. The reduction in competitive intensity, margin expansion and inorganic expansion suggest a favourable outlook for the company. We maintain BUY with a Sep'25 TP of INR 2,500.

- Revenue momentum to accelerate:** Metropolis' revenue increased 13%YoY to INR 3.5bn (in line) and was driven by volume and realisation growth. With price hike-led operating leverage playing out and aggressive network expansion nearing completion, we expect significant earnings improvement over the next 2 years. **Guidance:** METROHL maintains FY25 growth guidance of 13-15% revenue growth driven by high single digit patient growth and expects margin improvement. Over the next 2-3 years, Metropolis expects 13-15% growth with 26-27% EBITDA margin. The B2C revenue outpaced overall growth at 21% YoY. Patient volume increased to 3.41mn (+7%YoY) and ARPP grew 6%YoY to INR 1028. Price hike benefit in ARPP growth was 2.3-2.4%. Margin accretive bundled tests (TruHealth) grew 23%YoY to INR 570mn.
- Inorganic expansion on the cards:** The management is actively pursuing acquisition and the plan is as follows: (1) Acquire capabilities in advanced specialty areas like molecular diagnostics, histopathology, genomics, oncology, etc.; and (2) Extend reach in non-core like North India where there is lower brand presence. The company is at an advanced stage and will update at an appropriate time. METROHL has a cash balance of INR 1.85bn.
- Network expansion nearing completion:** Metropolis added 17 labs in 1H (7 in 2Q) and plans to add 8 in 2H. Thereafter, it will add 4-5 labs per annum whilst focusing on asset-light (franchise driven) collection centre network expansion. The company closed down a few labs – some were loss-making and unviable and some were combined (Hitech-Metropolis) to unlock synergies. Over the next 12-18 months, the plan is to expand from 700 to 1,000 towns. Most of the labs are in place and collection centre addition will support future growth. Among the newer geographies, the company has focused its expansion on UP, MP, Punjab and Assam. The company wants to focus on micro markets where there is limited organized competition.
- Competition:** There is not much change QoQ. In non-metros, local labs continue to

Financial Summary					(INR mn)
Y/E March	FY23A	FY24A	FY25E	FY26E	FY27E
Net Sales	11,482	12,077	13,636	15,555	17,755
Sales Growth (%)	-6.5	5.2	12.9	14.1	14.1
EBITDA	2,883	2,826	3,477	4,169	4,847
EBITDA Margin (%)	25.1	23.4	25.5	26.8	27.3
Adjusted Net Profit	1,429	1,278	1,809	2,312	2,804
Diluted EPS (INR)	27.9	25.0	35.4	45.2	54.8
Diluted EPS Growth (%)	-27.9	-10.5	41.5	27.8	21.3
ROIC (%)	15.8	14.3	18.8	24.9	32.4
ROE (%)	15.2	12.3	15.5	17.4	18.5
P/E (x)	77.1	86.2	60.9	47.7	39.3
P/B (x)	11.2	10.1	8.9	7.8	6.8
EV/EBITDA (x)	38.0	38.5	30.8	25.1	21.1
Dividend Yield (%)	0.4	0.0	0.3	0.5	0.8

Source: Company data, JM Financial. Note: Valuations as of 11/Nov/2024



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Recommendation and Price Target

Current Reco.	BUY
Previous Reco.	BUY
Current Price Target (12M)	2,500
Upside/(Downside)	16.0%
Previous Price Target	2,490
Change	0.4%

Key Data – METROHL IN

Current Market Price	INR2,155
Market cap (bn)	INR110.5/US\$1.3
Free Float	49%
Shares in issue (mn)	50.9
Diluted share (mn)	51.2
3-mon avg daily val (mn)	INR280.2/US\$3.3
52-week range	2,318/1,450
Sensex/Nifty	79,496/24,141
INR/US\$	84.4

Price Performance

%	1M	6M	12M
Absolute	-5.2	23.3	32.6
Relative*	-3.0	12.7	8.3

* To the BSE Sensex

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remain relevant with a loyal customer base. Specialized testing with expanded test menu is the moat for Metropolis. For online players, they are compelled to raise prices to become profitable and are also entering brick and mortar which is weighing on margins. Competition from hospitals continues to remain confined to Delhi/Hyderabad and face a problem of pricing as retail pricing is one-third of prices charged inside the hospital leading to cannibalization of their own business.

- **Tier 1 revenues:** Mumbai has been growing at 17-20% over the last 8 quarters and is the fastest growing player in this region. The drop in Tier 1 revenues is on account of phasing out of institutional/govt. business.
- **B2B:** B2B growth picked up to ~13% led by 4% patient volume growth. The company is gradually phasing out discounts and focusing on profitable growth – aiding revenues and margins. The B2B business is largely from smaller labs or hospitals and organized hospitals are a very small portion of these revenues.
- **Revenue contribution:** India's top 10 cities contribute 50% of revenue and Top 100 around 75%. During the quarter, West contributed ~50%, 25-26% from south and balance from North and East.
- **Lab economics:** It takes around 2y+ for positive margin. Typically, in Year1, margins are -10%, Year 2 it is single digit positive and Year 3 – it is at company level margins. This is on an average as West and South breakeven faster whereas others take longer durations.
- **Key financials:**
 - Metropolis's reported Revenue/EBITDA/APAT grew 13%/20%/31% YoY to INR 3.5bn/899mn/465mn and were in line/in line/+2% vs our estimates.
 - Revenue was driven by ~7% patient volume and ~6% realisation growth;
 - Gross margin was flat YoY at 80.1% (JMFe: 80%);
 - EBITDA margins expanded 140bp YoY to 25.7% (in line);
 - B2C revenue growth stood at 21%YoY;
 - TruHealth (bundled package segment) grew 23% YoY;
 - The company added 7 labs during the quarter and targets to add 25 labs in total by end of the year (8 in 2H).
 - Cash and cash surplus was INR 1.85bn.
 - The company appointed Mr Aditya Shinde as Interim CFO.

Exhibit 1. 2QFY25 review

Metropolis - P&L (INR mn)	2QFY24A	2QFY25A	% YoY	2QFY25E	% Delta vs JMFe	2QFY25E (cons)	% Delta vs cons	1QFY25A	% QoQ
Total Revenue	3,085	3,498	13%	3,486	0%	3,498	0%	3,134	12%
COGS	613	695	13%	697	0%			632	10%
Gross Profit	2,472	2,803	13%	2,789	1%			2,502	12%
Gross Profit margin (%)	80.1%	80.1%	0 bps	80.0%	14 bps			79.8%	30 bps
Staff Cost	698	784	12%	784	0%			717	9%
Other expenses	1,027	1,120	9%	1,105	1%			997	12%
EBITDA	748	899	20%	899	0%	903	0%	788	14%
EBITDA margin (%)	24.2%	25.7%	144 bps	25.8%	-11 bps	25.8%	-12 bps	25.2%	54 bps
Other Income	12	31	157%	30	4%			25	27%
Finance Cost	57	48		50				47	
Depreciation	222	268		260				255	
PBT	481	614	28%	619	-1%			511	20%
Exceptional Items	0	0		0				0	
Tax	125	147		161				130	
Tax Rate (%)	25.9%	23.9%		26.0%				25.4%	
Minority Interest	2	2		1				2	
PAT (Reported)	355	465	31%	457	2%	466	0%	379	23%
EPS (Reported)	7	9	31%	9	2%			7	23%
Metropolis - Cost margins	2QFY24A	2QFY25A	% YoY	2QFY25E	% Delta vs JMFe			1QFY25A	% QoQ
COGS/sales	19.9%	19.9%	0 bps	20.0%	-14 bps			20.2%	-30 bps
Staff cost/sales	22.6%	22.4%	-19 bps	22.5%	-8 bps			22.9%	-45 bps
Other expenditure/sales	33.3%	32.0%	-126 bps	31.7%	32 bps			31.8%	21 bps

Source: Company, JM Financial, Bloomberg

Financial Tables (Consolidated)

Income Statement		(INR mn)				
Y/E March	FY23A	FY24A	FY25E	FY26E	FY27E	
Net Sales	11,482	12,077	13,636	15,555	17,755	
Sales Growth	-6.5%	5.2%	12.9%	14.1%	14.1%	
Other Operating Income	0	0	0	0	0	
Total Revenue	11,482	12,077	13,636	15,555	17,755	
Cost of Goods Sold/Op. Exp	2,533	2,426	2,714	3,111	3,675	
Personnel Cost	2,527	2,758	3,082	3,453	3,871	
Other Expenses	3,539	4,068	4,364	4,822	5,362	
EBITDA	2,883	2,826	3,477	4,169	4,847	
EBITDA Margin	25.1%	23.4%	25.5%	26.8%	27.3%	
EBITDA Growth	-15.9%	-2.0%	23.1%	19.9%	16.3%	
Depn. & Amort.	892	945	1,055	1,079	1,113	
EBIT	1,991	1,881	2,422	3,090	3,734	
Other Income	152	91	192	226	252	
Finance Cost	268	225	192	202	212	
PBT before Excep. & Forex	1,875	1,747	2,422	3,114	3,774	
Excep. & Forex Inc./Loss(-)	0	0	0	0	0	
PBT	1,875	1,747	2,422	3,114	3,774	
Taxes	441	462	606	794	962	
Extraordinary Inc./Loss(-)	0	0	0	0	0	
Assoc. Profit/Min. Int.(-)	-5	-6	-8	-8	-8	
Reported Net Profit	1,429	1,278	1,809	2,312	2,804	
Adjusted Net Profit	1,429	1,278	1,809	2,312	2,804	
Net Margin	12.4%	10.6%	13.3%	14.9%	15.8%	
Diluted Share Cap. (mn)	51.2	51.2	51.2	51.2	51.2	
Diluted EPS (INR)	27.9	25.0	35.4	45.2	54.8	
Diluted EPS Growth	-27.9%	-10.5%	41.5%	27.8%	21.3%	
Total Dividend + Tax	410	0	362	578	841	
Dividend Per Share (INR)	8.0	0.0	7.1	11.3	16.4	

Source: Company, JM Financial

Cash Flow Statement		(INR mn)				
Y/E March	FY23A	FY24A	FY25E	FY26E	FY27E	
Profit before Tax	1,875	1,747	2,422	3,114	3,774	
Depn. & Amort.	892	945	1,055	1,079	1,113	
Net Interest Exp. / Inc. (-)	211	193	0	-24	-40	
Inc (-) / Dec in WCap.	71	55	-231	-94	-108	
Others	-63	76	0	0	0	
Taxes Paid	-516	-374	-606	-794	-962	
Operating Cash Flow	2,471	2,641	2,641	3,281	3,777	
Capex	-526	-638	-650	-330	-370	
Free Cash Flow	1,945	2,003	1,991	2,951	3,407	
Inc (-) / Dec in Investments	929	-278	192	226	252	
Others	65	22	0	0	0	
Investing Cash Flow	468	-894	-458	-104	-118	
Inc / Dec (-) in Capital	0	0	0	0	0	
Dividend + Tax thereon	-410	-205	-362	-578	-841	
Inc / Dec (-) in Loans	-1,789	-791	0	0	0	
Others	-712	-813	-192	-202	-212	
Financing Cash Flow	-2,910	-1,809	-554	-780	-1,053	
Inc / Dec (-) in Cash	29	-62	1,629	2,396	2,606	
Opening Cash Balance	660	688	626	2,255	4,651	
Closing Cash Balance	688	626	2,255	4,651	7,257	

Source: Company, JM Financial

Balance Sheet		(INR mn)				
Y/E March	FY23A	FY24A	FY25E	FY26E	FY27E	
Shareholders' Fund	9,882	10,962	12,408	14,142	16,105	
Share Capital	102	102	102	102	102	
Reserves & Surplus	9,780	10,859	12,306	14,040	16,003	
Preference Share Capital	0	0	0	0	0	
Minority Interest	25	31	39	47	55	
Total Loans	791	0	0	0	0	
Def. Tax Liab. / Assets (-)	713	674	674	674	674	
Total - Equity & Liab.	11,411	11,667	13,122	14,864	16,834	
Net Fixed Assets	9,668	9,969	9,564	8,816	8,073	
Gross Fixed Assets	4,996	5,978	6,628	6,958	7,328	
Intangible Assets	8,610	8,875	8,875	8,875	8,875	
Less: Depn. & Amort.	3,938	4,883	5,938	7,016	8,129	
Capital WIP	0	0	0	0	0	
Investments	392	634	634	634	634	
Current Assets	4,888	4,871	7,280	10,383	13,800	
Inventories	446	387	460	524	598	
Sundry Debtors	1,219	1,263	1,500	1,711	1,953	
Cash & Bank Balances	688	626	2,255	4,651	7,257	
Loans & Advances	141	63	71	81	92	
Other Current Assets	2,394	2,532	2,995	3,417	3,900	
Current Liab. & Prov.	3,536	3,807	4,357	4,970	5,673	
Current Liabilities	2,201	2,185	2,525	2,881	3,288	
Provisions & Others	1,335	1,622	1,832	2,089	2,385	
Net Current Assets	1,352	1,063	2,923	5,413	8,127	
Total - Assets	11,411	11,667	13,122	14,863	16,834	

Source: Company, JM Financial

Dupont Analysis						
Y/E March	FY23A	FY24A	FY25E	FY26E	FY27E	
Net Margin	12.4%	10.6%	13.3%	14.9%	15.8%	
Asset Turnover (x)	0.9	0.9	1.0	1.0	1.0	
Leverage Factor (x)	1.4	1.2	1.2	1.2	1.2	
RoE	15.2%	12.3%	15.5%	17.4%	18.5%	

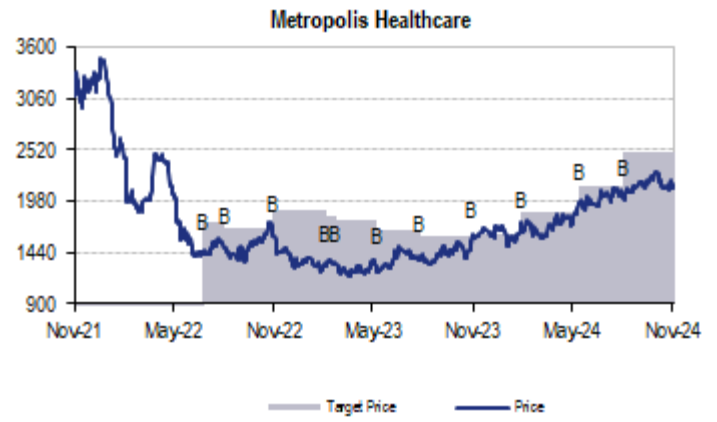
Key Ratios						
Y/E March	FY23A	FY24A	FY25E	FY26E	FY27E	
BV/Share (INR)	193.2	214.3	242.6	276.5	314.9	
ROIC	15.8%	14.3%	18.8%	24.9%	32.4%	
ROE	15.2%	12.3%	15.5%	17.4%	18.5%	
Net Debt/Equity (x)	0.0	-0.1	-0.2	-0.4	-0.5	
P/E (x)	77.1	86.2	60.9	47.7	39.3	
P/B (x)	11.2	10.1	8.9	7.8	6.8	
EV/EBITDA (x)	38.0	38.5	30.8	25.1	21.1	
EV/Sales (x)	9.6	9.0	7.9	6.7	5.7	
Debtor days	39	38	40	40	40	
Inventory days	14	12	12	12	12	
Creditor days	40	39	42	43	43	

Source: Company, JM Financial

History of Recommendation and Target Price

Date	Recommendation	Target Price	% Chg.
4-Jul-22	Buy	1,760	
11-Aug-22	Buy	1,700	-3.4
9-Nov-22	Buy	1,895	11.5
13-Feb-23	Buy	1,825	-3.7
3-Mar-23	Buy	1,775	-2.7
17-May-23	Buy	1,670	-5.9
3-Aug-23	Buy	1,610	-3.6
6-Nov-23	Buy	1,635	1.6
5-Feb-24	Buy	1,865	14.1
22-May-24	Buy	2,135	14.5
13-Aug-24	Buy	2,490	16.6

Recommendation History



APPENDIX I

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Hold	Price expected to move in the range of 10% downside to 10% upside from the current market price for stocks with market capitalisation in excess of INR 200 billion and REITs* and in the range of 10% downside to 15% upside from the current market price for all other stocks, over the next twelve months.
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* REITs refers to Real Estate Investment Trusts.

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