

MHL logged yet another strong quarter, with revenue growing 13% YoY, driven by B2C revenue improving 18% YoY. Test volume growth was robust across the B2B and B2C portfolios, growing 9% YoY. In line with our thesis ([link](#)), MHL's aggressive network expansion plans (25 labs in FY25) and focus on the specialty and wellness portfolio will support volume trajectory in the medium term, in our view. With industry-wide pricing stabilizing and improved customer awareness driving growth in preventive testing as well as the shift toward branded, organized operators, the management remains confident about the topline growing 13-15% over the medium term. We believe MHL's strategy of ramping up the B2C portfolio and given the asset light nature of network bode well for margin trajectory. The improving margin trajectory, strong balance sheet, and healthy cash generation provide comfort on valuations. We retain our BUY rating on the stock, nudging up Jun-25E TP to Rs2,300/share (basis DCF), implying FY26E PER of 53x (in line with LTA of 55x).

Metropolis Healthcare: Financial Snapshot (Consolidated)					
Y/E Mar (Rs mn)	FY23	FY24	FY25E	FY26E	FY27E
Revenue	11,482	12,077	13,385	15,414	17,782
EBITDA	2,883	2,826	3,337	4,028	4,736
Adj. PAT	1,434	1,278	1,671	2,203	2,739
Adj. EPS (Rs)	28.0	25.0	32.6	43.0	53.5
EBITDA margin (%)	25.1	23.4	24.9	26.1	26.6
EBITDA growth (%)	(15.9)	(2.0)	18.1	20.7	17.6
Adj. EPS growth (%)	(33.0)	(11.0)	30.7	31.8	24.3
RoE (%)	15.3	12.3	14.4	16.9	18.2
RoIC (%)	17.1	15.6	18.4	24.7	32.0
P/E (x)	72.7	81.7	62.5	47.4	38.1
EV/EBITDA (x)	36.1	36.7	30.7	24.9	20.6
P/B (x)	10.5	9.5	8.6	7.5	6.4
FCFF yield (%)	1.9	1.9	2.1	2.9	3.3

Source: Company, Emkay Research

Strong start to FY25

MHL reported a robust quarter with revenues growing 13% YoY. Patient volumes were reported at 3.04mn, up 7% YoY, with realizations improving 6%. B2C revenues drove overall revenues, growing 18.4% YoY with RPT increasing 9%, while B2B grew 12% YoY with RPT increasing 3% YoY. Strategic focal segments like Wellness/Specialized Testing grew 28%/14% YoY, respectively. On the back of higher contribution from the B2C business, EBITDA margin expanded by 244bps YoY to 25.2%. Reported PAT of Rs381mn was ahead of our estimates by 12%, buoyed by operating performance and decreased finance costs (-22% YoY). The company is debt free and has cash reserves of Rs1.37bn as of end-Q1FY25. Network expansion continues with 5 more labs and 66 new centers (Rural: 11; Franchise: 15; owned: 40) added in the quarter.

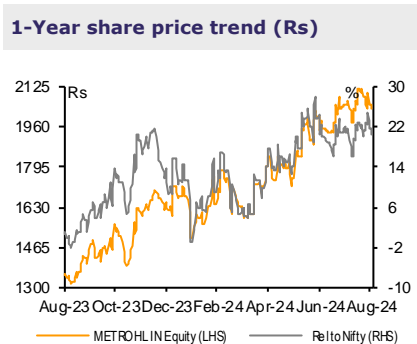
Outlook and risks

Improving awareness for preventive healthcare should bode well for premium operators like MHL, with its strong brand presence in focus cities, as evidenced in Q1FY25 results. The management continues to execute well in terms of network expansion, especially beyond Tier 1 cities. With Tier 3 cities growing well (highest in the portfolio), we believe MHL's aggressive network expansion plans (adding 25 labs in FY25) are likely to support the volume trajectory in the near term. Focus on the specialty, wellness, and B2C portfolios should bode well for margins following the lab expansion program beyond FY25. We anticipate MHL clocking revenue CAGR of 14% and margins improving by ~300bps over FY24-27E. Improving balance sheet (net cash of Rs1.4bn), continued robust cash generation (FCF yield of 3%; OCF as a % of EBITDA at 93% in FY24), and improving return ratios (22% pre-tax ROCE) provide comfort on valuations. We retain our BUY rating on MHL with revised up Jun-25E TP of Rs2,300/sh (DCF basis), implying FY26E PER of 53x. **Key risks:** Increased competition in the organized market from growing hospital chains, shortage of manpower and skilled labor, predatory pricing from any market participants, and adverse regulatory ruling around pricing cap for healthcare services.

Target Price – 12M	Jun-25
Change in TP (%)	4.5
Current Reco.	BUY
Previous Reco.	BUY
Upside/(Downside) (%)	12.8
CMP (12-Aug-24) (Rs)	2,038.7

Stock Data	Ticker
52-week High (Rs)	2,163
52-week Low (Rs)	1,296
Shares outstanding (mn)	51.2
Market-cap (Rs bn)	104
Market-cap (USD mn)	1,244
Net-debt, FY25E (Rs mn)	-2,010
ADTV-3M (mn shares)	-
ADTV-3M (Rs mn)	485.7
ADTV-3M (USD mn)	5.8
Free float (%)	-
Nifty-50	24,347
INR/USD	84.0
Shareholding, Jun-24	
Promoters (%)	49.6
FPIs/MFs (%)	18.3/27.4

Price Performance			
(%)	1M	3M	12M
Absolute	(0.7)	16.6	47.8
Rel. to Nifty	(0.1)	5.7	17.9



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Exhibit 1: Summary of quarterly financials

Particulars (Rs mn)	Q1FY24	Q4FY24	Q1FY25	YoY	QoQ
Net sales	2,771	3,310	3,134	13%	-5%
Operating Expenses	(2,142)	(2,510)	(2,345)	10%	-7%
Medical consumable costs	594	734	658	11%	-10%
Employee Costs	651	715	717	10%	0%
SG&A expenses	897	1,062	970	8%	-9%
EBITDA	629	800	788	25%	-1%
Margins	22.7%	24.2%	25.2%	11%	4%
Depreciation	(208)	(264)	(255)	23%	-3%
EBIT	421	536	533	26%	-1%
Other Income	31	25	25	-19%	-3%
Interest	(60)	(56)	(47)	-22%	-16%
Extra ordinary items					
PBT	392	505	511	30%	1%
Tax	(102)	(140)	(130)	27%	-7%
PAT	290	365	381	32%	4%
Adj. PAT	290	365	381	32%	4%
Minority interest	2	1	2		
PAT (reported)	288	364	379	32%	4%
EPS (Rs)	5.7	7.1	7.5	32%	5%
(%)	Q1FY24	Q4FY24	Q1FY25	YoY (bps)	QoQ (bps)
Gross margin	78.6%	77.8%	79.0%	43	116
EBITDAM	22.7%	24.2%	25.2%	244	99
EBITM	15.2%	16.2%	17.0%	180	82
EBTM	14.1%	15.3%	16.3%	216	103
PATM	10.4%	11.0%	12.1%	172	111
Effective Tax rate	26.1%	27.7%	25.4%	-66	-233

Source: Company, Bloomberg

Exhibit 2: Actuals vs estimates (Q1FY25)

(Rs mn)	Actual	Estimate (Emkay)	Consensus estimate (Bloomberg)	Variation	
				Emkay	Consensus
Revenue	3,134	3,092	3,128	1%	0%
EBITDA	788	727	755	8%	4%
EBITDA Margin	25%	24%	24%	165 bps	102 bps
PAT	381	339	351	12%	9%

Source: Company, Emkay Research

Exhibit 3: Change in estimates

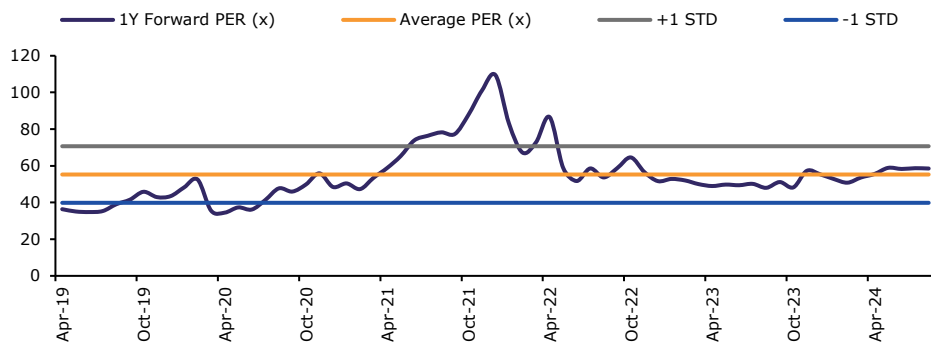
Particulars (Rs mn)	FY25E			FY26E		
	Old	New	Change	Old	New	Change
Revenue	13,515	13,385	-1.0%	15,448	15,414	-0.2%
EBITDA	3,311	3,337	0.8%	4,016	4,028	0.3%
EBITDA Margin	24.5%	24.9%	43 bps	26.0%	26.1%	13 bps
PAT	1,623	1,671	2.9%	2,220	2,203	-0.8%

Source: Company, Emkay Research

Exhibit 4: We value Metropolis at Rs2,300/share

(Rs mn)	FY24	FY25E	FY26E	FY27E	FY30E	FY35E
Revenue	12,078	13,386	15,414	17,782	25,575	41,561
Growth	5%	11%	15%	15%	10%	10%
NOPAT	1,439	1,729	2,238	2,759	4,374	7,108
Non-cash items	945	1,076	1,102	1,128	1,220	1,982
Change in WC	(69)	71	(101)	39	51	64
Capex	(526)	(638)	(573)	(498)	(453)	(736)
FCFF	1,788	2,238	2,666	3,428	5,192	8,418
WACC	10.8%					
Terminal growth	6%					
PV of CFs (FY24-45E)	57,715					
PV of terminal value	56,503					
Total EV	114,218					
(Less) net debt (FY25)	(2,010)					
Total equity value	1,16,228					
Total no. of shares (mn)	51					
Target price/share - Jun-25E (Rs)	2,300					

Source: Company, Emkay Research

Exhibit 5: Metropolis is currently trading around its long-term 1Y PER

Source: Bloomberg, Emkay Research

Con call highlights

- The management maintained its guidance for revenue growth in the 13-15% range for FY25, with Q2 and Q4 usually being stronger. It anticipates growth to be driven by a high single-digit volume increase and favorable change in the product mix, which will help enhance the revenue per patient.
- On the margin front, the management expects margins to expand further, to 25-26% during the rest of the year due to operational leverage and seasonal factors within the business. It aims to continue focusing on margin enhancing segments like true health and specialty through B2C channels.
- On the onset of new labs, it is anticipated that roughly 1% EBITDA dilution will occur due to the operational expense losses. This dilution is already reflecting in the current P&L and is expected to continue, albeit clock lower, until FY26.
- Margins are in a tight band this quarter owing to higher material cost in the initial 6-8-month period of setting up new centers; this is so i) as the initial low volume traction and the cost of raw material are directly proportional to the volume; ii) due to expanding test menus to new geographies; and iii) owing to adding more tests to the menu which takes time to build traction.
- The management aspires to establish 25 new labs and 500 centers by FY25, followed by its goal of expanding the network from 650 towns to 1,000 over the next 18 months.
- Specific to improving the topline, the strategy will be focused on volume growth, improving cash mix between TruHealth and the specialty business, and volumes coming from the new launched centers.
- The significant growth opportunity that lies ahead is to generate revenue from centers in Tier 3 and 4 markets, where MHL is already present but where the company has not focused extensively and, therefore, contribute a small percentage of the revenue.
- The management has consciously decided to defocus on the institutional business coming from government tenders, low-margin corporate accounts, and aggregators. As a result, the remainder nine percentage of the business, excluding B2C and B2B, has grown at a slower pace than the company average, hence impacting overall revenue growth for the short term.
- The management does not aim to increase prices in the near term due to the recent revisions. Typically after a price increase, there is a temporary dip in volumes for one or two quarters. The commentary also followed that pricing is not a challenge. The only thing that is increasing every year is the distributor margin.
- Top-8 Tier 1 cities in India contribute about 60% of the revenue, with the company being the leader in four of these eight, whereas competitors are leaders in only one city each. This is on the back of deep penetration in large cities through own and retail franchise centers which has led to premium pricing and word of mouth marketing. The top-20 towns in India contribute 75% to the business's domestic revenue.
- The specialty segment is a key differentiator for MHL, collaborating with tertiary care specialists and providing them comprehensive super specialty diagnostics for treating complex diseases. There is an increase in demand in this segment, and it is more margin accretive due to its higher value and the specialized nature of care tests that command premium pricing.
- On the current customer base, the mix is largely skewed towards the West and South, while aiming at expanding to the North and East, with Uttar Pradesh, Madhya Pradesh, and Assam being the core areas of interests, along with Andhra Pradesh in the South.

Industry

- Unorganized players are struggling to grow in terms of volume, and health-tech players are facing stagnation in terms of wellness growth. Both groups lack the pricing power of branded players in the illness segment who offer superior quality testing and tech-enabled solutions to enhance the consumer experience. Wellness-oriented health tech players do not enjoy the same level of confidence from doctors, making it difficult for them to enter the illness space in any meaningful way.
- While the industry was characterized by aggressive pricing and intense competition historically, the current landscape is shifting toward a more stable pricing environment. Consumers are now prioritizing higher quality services over low prices. There is clear focus on developing niche capabilities in the illness space which is expected to drive future growth.
- The industry is seeing an increase in M&A opportunities. While entry barriers are low and scale can be built via the tail end of the market, sustainability of the business is challenging and profitability will remain elusive.

Metropolis Healthcare: Consolidated Financials and Valuations

Profit & Loss					
Y/E Mar (Rs mn)	FY23	FY24	FY25E	FY26E	FY27E
Revenue	11,482	12,077	13,385	15,414	17,782
Revenue growth (%)	(6.5)	5.2	10.8	15.2	15.4
EBITDA	2,883	2,826	3,337	4,028	4,736
EBITDA growth (%)	(15.9)	(2.0)	18.1	20.7	17.6
Depreciation & Amortization	892	945	1,076	1,102	1,128
EBIT	1,991	1,881	2,261	2,927	3,608
EBIT growth (%)	(28.8)	(5.5)	20.2	29.4	23.3
Other operating income	0	0	0	0	0
Other income	152	91	97	156	218
Financial expense	268	225	107	138	152
PBT	1,875	1,747	2,252	2,944	3,674
Extraordinary items	0	0	0	0	0
Taxes	441	462	575	736	930
Minority interest	0	(6)	(6)	(5)	(5)
Income from JV/Associates	0	0	0	0	0
Reported PAT	1,434	1,278	1,671	2,203	2,739
PAT growth (%)	(33.0)	(10.9)	30.7	31.8	24.3
Adjusted PAT	1,434	1,278	1,671	2,203	2,739
Diluted EPS (Rs)	28.0	25.0	32.6	43.0	53.5
Diluted EPS growth (%)	(33.0)	(11.0)	30.7	31.8	24.3
DPS (Rs)	12.0	12.0	9.0	9.0	9.0
Dividend payout (%)	(42.8)	(48.1)	(27.6)	(20.9)	(16.8)
EBITDA margin (%)	25.1	23.4	24.9	26.1	26.6
EBIT margin (%)	17.3	15.6	16.9	19.0	20.3
Effective tax rate (%)	23.5	26.5	25.6	25.0	25.3
NOPLAT (pre-IndAS)	1,522	1,383	1,683	2,195	2,695
Shares outstanding (mn)	51.1	51.2	51.2	51.2	51.2

Source: Company, Emkay Research

Cash flows					
Y/E Mar (Rs mn)	FY23	FY24	FY25E	FY26E	FY27E
PBT	1,875	1,747	2,252	2,944	3,674
Others (non-cash items)	0	0	0	0	0
Taxes paid	(441)	(462)	(575)	(736)	(930)
Change in NWC	780	254	(321)	(149)	(289)
Operating cash flow	2,471	2,641	2,691	3,393	3,767
Capital expenditure	(526)	(638)	(573)	(498)	(465)
Acquisition of business	7	(400)	0	0	0
Interest & dividend income	57	33	0	0	0
Investing cash flow	468	(894)	(576)	(442)	(347)
Equity raised/(repaid)	0	0	0	0	0
Debt raised/(repaid)	(1,795)	(791)	0	0	0
Payment of lease liabilities	0	592	250	250	250
Interest paid	(268)	(225)	(107)	(138)	(152)
Dividend paid (incl tax)	(614)	(615)	(461)	(461)	(461)
Others	(1,000)	(500)	(250)	(250)	(250)
Financing cash flow	(3,676)	(2,131)	(818)	(850)	(863)
Net chg in Cash	(737)	(384)	1,297	2,102	2,557
OCF	2,471	2,641	2,691	3,393	3,767
Adj. OCF (w/o NWC chg.)	3,251	2,895	2,370	3,244	3,478
FCFF	1,945	2,003	2,118	2,895	3,302
FCFE	1,734	1,810	2,011	2,757	3,150
OCF/EBITDA (%)	85.7	93.5	80.6	84.2	79.5
FCFE/PAT (%)	120.9	141.6	120.4	125.1	115.0
FCFF/NOPLAT (%)	127.7	144.8	125.8	131.9	122.5

Source: Company, Emkay Research

Balance Sheet					
Y/E Mar (Rs mn)	FY23	FY24	FY25E	FY26E	FY27E
Share capital	102	102	102	102	102
Reserves & Surplus	9,780	10,859	12,075	13,822	16,105
Net worth	9,882	10,962	12,177	13,924	16,207
Minority interests	25	31	31	31	31
Deferred tax liability (net)	713	674	674	674	674
Total debt	791	0	0	0	0
Total liabilities & equity	11,411	11,667	12,882	14,629	16,913
Net tangible fixed assets	1,372	1,559	1,739	1,837	1,851
Net intangible assets	3,553	3,863	3,685	3,506	3,328
Net ROU assets	1,734	1,801	1,397	974	575
Capital WIP	0	0	0	0	0
Goodwill	4,547	4,547	4,547	4,547	4,547
Investments [JV/Associates]	148	548	548	548	548
Cash & equivalents	932	712	2,010	4,111	6,668
Current assets (ex-cash)	2,465	2,443	2,622	2,688	2,922
Current Liab. & Prov.	3,536	3,807	3,665	3,582	3,527
NWC (ex-cash)	(1,071)	(1,364)	(1,043)	(894)	(605)
Total assets	11,411	11,667	12,882	14,629	16,913
Net debt	(141)	(712)	(2,010)	(4,111)	(6,668)
Capital employed	11,411	11,667	12,882	14,629	16,913
Invested capital	10,331	10,406	10,324	9,970	9,966
BVPS (Rs)	193.3	214.0	237.7	271.8	316.4
Net Debt/Equity (x)	0.0	(0.1)	(0.2)	(0.3)	(0.4)
Net Debt/EBITDA (x)	0.0	(0.3)	(0.6)	(1.0)	(1.4)
Interest coverage (x)	0.1	0.1	0.0	0.0	0.0
RoCE (%)	16.2	14.8	16.7	19.8	21.8

Source: Company, Emkay Research

Valuations and key Ratios					
Y/E Mar	FY23	FY24	FY25E	FY26E	FY27E
P/E (x)	72.7	81.7	62.5	47.4	38.1
P/CE(x)	45.2	47.4	38.3	31.9	27.2
P/B (x)	10.5	9.5	8.6	7.5	6.4
EV/Sales (x)	9.1	8.6	7.7	6.5	5.5
EV/EBITDA (x)	36.1	36.7	30.7	24.9	20.6
EV/EBIT(x)	52.7	55.6	45.7	34.6	27.3
EV/IC (x)	10.2	10.0	10.0	10.1	10.2
FCFF yield (%)	1.9	1.9	2.1	2.9	3.3
FCFE yield (%)	1.7	1.7	1.9	2.6	3.0
Dividend yield (%)	0.6	0.6	0.4	0.4	0.4
DuPont-RoE split					
Net profit margin (%)	12.5	10.6	12.5	14.3	15.4
Total asset turnover (x)	2.1	1.8	1.8	2.0	2.1
Assets/Equity (x)	1.3	1.1	1.1	1.1	1.0
RoE (%)	15.3	12.2	14.4	16.8	18.1
DuPont-RoIC					
NOPLAT margin (%)	13.3	11.5	12.6	14.2	15.2
IC turnover (x)	1.0	1.0	1.1	1.3	1.6
RoIC (%)	17.1	15.6	18.4	24.7	32.0
Operating metrics					
Core NWC days	23.0	19.8	19.8	14.8	13.6
Total NWC days	23.0	19.8	19.8	14.8	13.6
Fixed asset turnover	2.1	1.8	1.8	2.0	2.1
Opex-to-revenue (%)	52.3	55.4	53.3	52.6	52.1

Source: Company, Emkay Research

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RECOMMENDATION HISTORY - DETAILS

Date	Closing Price (INR)	TP (INR)	Rating	Analyst
22-May-24	1,956	2,200	Buy	Anshul Agrawal
07-May-24	1,779	2,200	Buy	Anshul Agrawal

Source: Company, Emkay Research

RECOMMENDATION HISTORY - TREND



Source: Company, Bloomberg, Emkay Research

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ADD	5-15% upside
REDUCE	5% upside to 15% downside
SELL	<15% downside

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