

# Metropolis Healthcare | BUY

## Ripe for a rally

Core business revenue (ex-Covid, ex-PPP) grew 12% YoY (1% impact on account of floods) with 9% volume growth (key positive). B2C business continues to deliver strong mid-teens growth, particularly driven by core markets such as Mumbai (18%). Reported EBITDAM of 22.3% includes 0.8% impact of provision for Mohalla clinics business and 1.4% dilution on account of NACO contract expiry. Over the next 3 years, we expect a mid-teens revenue CAGR with meaningful margin expansion (to 27%) supported by price hikes, PPP base reset and network expansion. Receding competitive intensity, near-completion of accelerated network expansion, robust Hitech performance, sustained volume growth, base reset and improving earnings visibility build a compelling case for our 'BUY' thesis. We value METROHL at 42x Dec'25 earnings (near 5Y average) to derive a TP of INR 1,865. In our view, METROHL is now ripe for a rally and prefer it as our 'top pick' in the diagnostics sector.

- **We prefer METROHL as our 'top pick' in the diagnostic sector:** We expect 14-15% revenue CAGR over the next 3 years along with margin expansion (to 27%). METROHL's 3Q earnings were subdued due to NACO contract expiry, aggressive network addition and provision for Mohalla clinics business (0.8% margin impact). We believe earnings have bottomed out and B2C price hikes w.e.f. Jan'24 and B2B specialised segment price hikes w.e.f. 1QFY25 will drive strong operating leverage. The management alluded to 26-27% FY25 margins, in line with pre-Covid levels. Lab expansion will continue (30 lab expected to be added next year as well), post which operating leverage will be realised. Core volume growth remains healthy at 9% with B2C, specialised and Hitech franchise performing well. METROHL, with network expansion cycle almost at the end, sustained volume growth, base reset and price hikes across portfolio builds a case for re-rating.
- **Revenue momentum to accelerate:** Metropolis' revenue increased 2%YoY to INR 2.9bn (in line), optically subdued due to expiry of the NACO contract and part impact of Tamil Nadu floods. Core business revenue (ex-PPP, ex-Covid) grew 13%YoY. B2C revenue outpaced overall growth at 15% YoY with Mumbai growing faster (18%). Core business patient volume increased to 2.8mn (+9% YoY) and ARPP grew ~3% YoY to INR 1009. Premium wellness tests' share was 15% of revenue (vs. 14% YoY), growing 15% YoY (11% volume growth).
- **Network expansion on track:** Metropolis is on course to add 90 labs and 1,800 service centres over FY21-25. This will be via increasing penetration in focus markets and widening geographical presence (595 towns as of 9MFY24) in untapped markets. The company plans to deepen its presence in Chennai and Bengaluru, akin to Mumbai. It will add 30 labs in FY25. During 9MFY24, Metropolis (ex Hitech) added 17 labs and 400 centres across geographies, leading to margin dilution of 120bps (+40bps YoY). METROHL plans to introduce basic radiology services (ECG, X-Ray etc.) in its 400 owned centres to increase ARPP as the services are complementary to its current offering. These services will be provided through an asset light model and are not expected to dilute margins.



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### Recommendation and Price Target

Current Reco.	BUY
Previous Reco.	BUY
Current Price Target (12M)	1,865
Upside/(Downside)	13.9%
Previous Price Target	1,635
Change	14.1%

### Key Data – METROHL IN

Current Market Price	INR1,637
Market cap (bn)	INR83.9/US\$1.0
Free Float	44%
Shares in issue (mn)	50.9
Diluted share (mn)	51.2
3-mon avg daily val (mn)	INR657.5/US\$7.9
52-week range	1,755/1,171
Sensex/Nifty	72,086/21,854
INR/US\$	82.9

### Price Performance

%	1M	6M	12M
Absolute	-3.5	20.5	33.7
Relative*	-3.5	9.8	12.9

\* To the BSE Sensex

Financial Summary					(INR mn)
Y/E March	FY22A	FY23A	FY24E	FY25E	FY26E
Net Sales	12,283	11,482	11,862	13,526	15,429
Sales Growth (%)	23.1	-6.5	3.3	14.0	14.1
EBITDA	3,428	2,883	2,799	3,503	4,166
EBITDA Margin (%)	27.9	25.1	23.6	25.9	27.0
Adjusted Net Profit	1,983	1,429	1,297	1,900	2,397
Diluted EPS (INR)	38.8	27.9	25.4	37.1	46.9
Diluted EPS Growth (%)	7.8	-27.9	-9.2	46.5	26.1
ROIC (%)	32.9	15.8	14.7	20.4	26.5
ROE (%)	24.9	15.2	12.6	16.6	18.7
P/E (x)	42.2	58.6	64.6	44.1	34.9
P/B (x)	9.4	8.5	7.8	6.9	6.2
EV/EBITDA (x)	24.6	28.9	29.3	23.0	18.9
Dividend Yield (%)	0.5	0.3	0.4	0.6	0.9

Source: Company data, JM Financial. Note: Valuations as of 02/Feb/2024

JM Financial Institutional Securities Limited

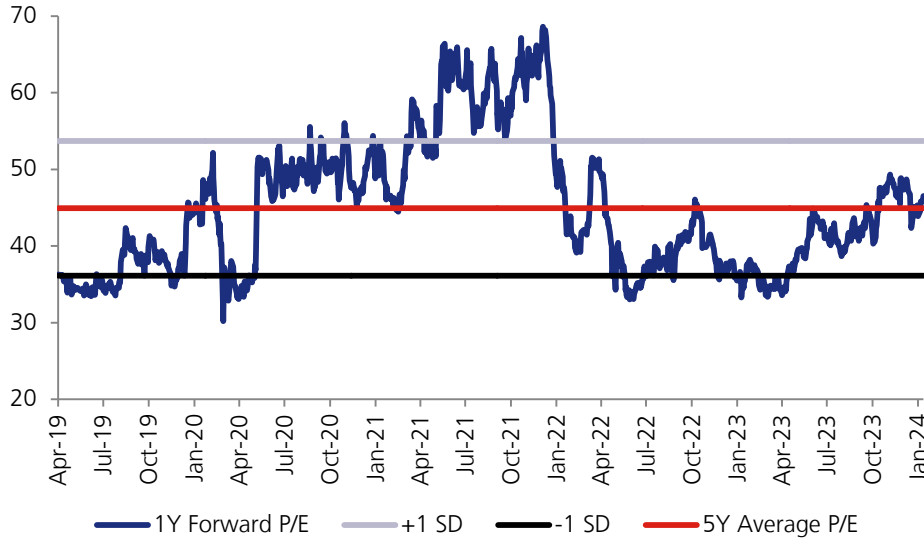
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- Key financials:** Revenue/EBITDA/PAT of INR 2.9bn/ 648mn/ 272mn grew +2%/-8%/-24% YoY and were in line/-5%/-17% vs. our estimates. Gross margin improved c. 270bps YoY to 80.3% (JMFe: 79.6%). EBITDA margin declined c.240bps YoY to 22.3% (JMFe: 23.5%). This includes an impact of INR 22mn pertaining to provision for doubtful debts related to the delay in receiving dues from the Delhi government for the Mohalla clinic project. The company has gross debt of INR 127mn and plans to be debt-free by the end of the year. At present, the company has a cash balance of INR 890mn.

**Exhibit 1. Valuation**



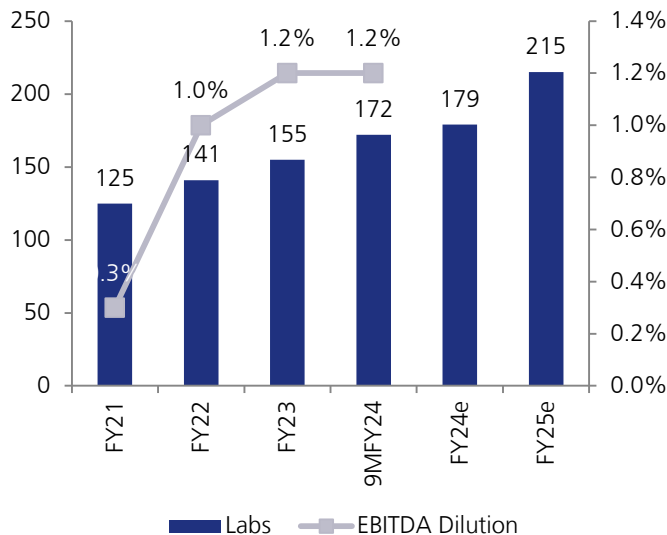
Source: Bloomberg

**Exhibit 2. We expect METROHL to outperform DLPL over the next 3 years**

	3Y CAGR (FY24-27)	DLPL	METROHL
Revenue		12%	15%
EBITDA		13%	20%
PAT		17%	31%

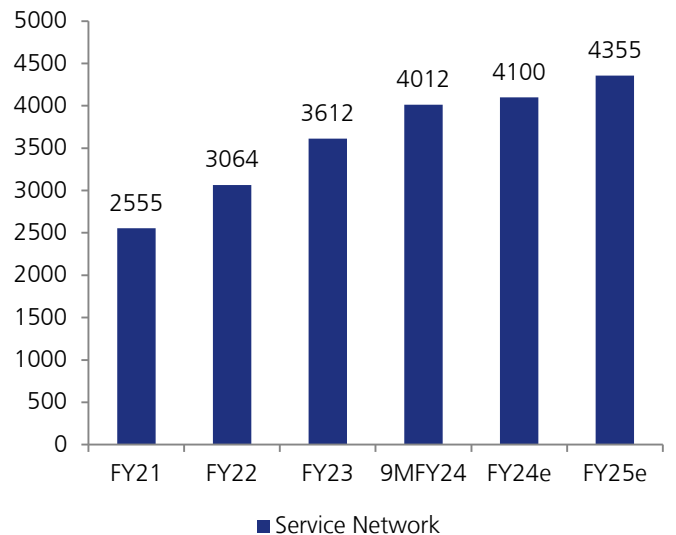
Source: JM Financial

**Exhibit 3. Aggressive lab additions**



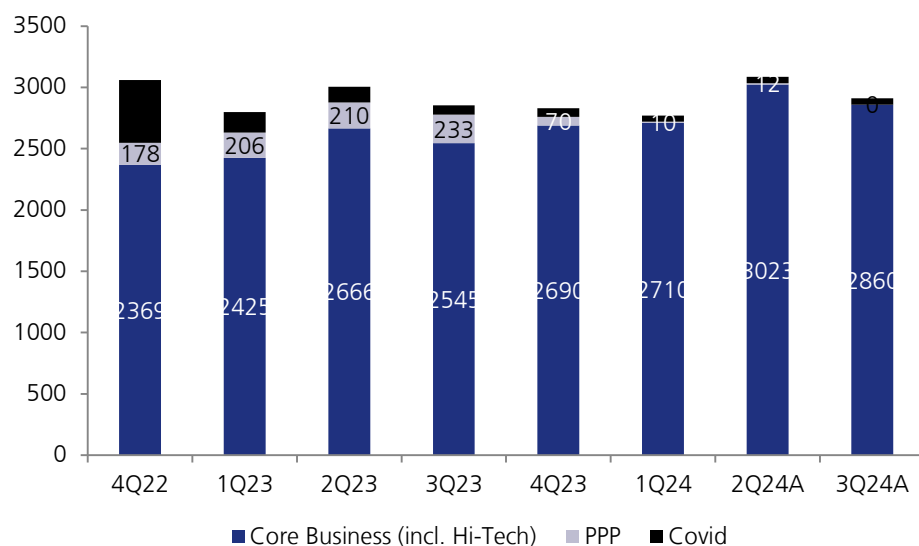
Source: Company, JM Financial

**Exhibit 4. Aggressive service network expansion**



Source: Company, JM Financial

## Exhibit 5. Quarterly revenue break-up



Source: Company, JM Financial

## Exhibit 6. 3QFY24 review

Metropolis - P&L (INR mn)	3QFY23A	3QFY24A	% YoY	3QFY24E	% Delta vs JMFe	3QFY24E (cons)	% Delta vs cons	2QFY24A	% QoQ
<b>Total Revenue</b>	<b>2,855</b>	<b>2,911</b>	<b>2%</b>	<b>2,910</b>	<b>0%</b>	<b>2,930</b>	<b>-1%</b>	<b>3,085</b>	<b>-6%</b>
COGS	639	572	-10%	594	-4%			613	-7%
Gross Profit	<b>2,216</b>	<b>2,339</b>	<b>6%</b>	<b>2,316</b>	<b>1%</b>			<b>2,472</b>	<b>-5%</b>
Gross Profit margin (%)	<b>77.6%</b>	<b>80.3%</b>	<b>272 bps</b>	<b>79.6%</b>	<b>73 bps</b>			<b>80.1%</b>	<b>19 bps</b>
Staff Cost	646	695	8%	672	3%			698	0%
Other expenses	865	995	15%	960	4%			1,027	-3%
<b>EBITDA</b>	<b>705</b>	<b>648</b>	<b>-8%</b>	<b>684</b>	<b>-5%</b>	<b>709</b>	<b>-9%</b>	<b>748</b>	<b>-13%</b>
EBITDA margin (%)	24.7%	22.3%	-242 bps	23.5%	-122 bps			24.2%	-197 bps
Other Income	66	23	-65%	25	-8%			12	89%
Finance Cost	61	53		50				57	
Depreciation	230	250		215				222	
PBT	480	369	-23%	444	-17%			481	-23%
Exceptional Items	0	0		0				(33)	
Tax	121	96		115				125	
Tax Rate (%)	25.2%	26.0%		26.0%				27.8%	
Minority Interest	1	1		1				2	
<b>PAT (Reported)</b>	<b>358</b>	<b>272</b>	<b>-24%</b>	<b>327</b>	<b>-17%</b>	<b>340</b>	<b>-20%</b>	<b>355</b>	<b>-23%</b>
<b>PAT (Adjusted)</b>	<b>358</b>	<b>272</b>		<b>327</b>				<b>388</b>	<b>-30%</b>
<b>EPS (Reported)</b>	<b>7</b>	<b>5</b>	<b>-24%</b>	<b>6</b>	<b>-17%</b>			<b>7</b>	<b>-23%</b>
<b>EPS (Adjusted)</b>	<b>7</b>	<b>5</b>		<b>6</b>				<b>8</b>	<b>-30%</b>
<b>Metropolis - Cost margins</b>									
COGS/sales	22.4%	19.7%	-272 bps	20.4%	-73 bps			19.9%	-19 bps
Staff cost/sales	22.6%	23.9%	125 bps	23.1%	78 bps			22.6%	126 bps
Other expenditure/sales	30.3%	34.2%	388 bps	33.0%	118 bps			33.3%	90 bps

Source: Company, JM Financial

## Financial Tables (Consolidated)

Income Statement		(INR mn)			
Y/E March	FY22A	FY23A	FY24E	FY25E	FY26E
Net Sales	12,283	11,482	11,862	13,526	15,429
Sales Growth	23.1%	-6.5%	3.3%	14.0%	14.1%
Other Operating Income	0	0	0	0	0
<b>Total Revenue</b>	<b>12,283</b>	<b>11,482</b>	<b>11,862</b>	<b>13,526</b>	<b>15,429</b>
Cost of Goods Sold/Op. Exp	2,760	2,533	2,384	2,705	3,086
Personnel Cost	2,332	2,527	2,740	3,043	3,394
Other Expenses	3,763	3,539	3,938	4,274	4,783
<b>EBITDA</b>	<b>3,428</b>	<b>2,883</b>	<b>2,799</b>	<b>3,503</b>	<b>4,166</b>
EBITDA Margin	27.9%	25.1%	23.6%	25.9%	27.0%
EBITDA Growth	19.9%	-15.9%	-2.9%	25.1%	18.9%
Depn. & Amort.	632	892	914	936	945
EBIT	2,796	1,991	1,885	2,567	3,220
Other Income	176	152	96	196	242
Finance Cost	197	268	221	189	217
PBT before Excep. & Forex	2,775	1,875	1,759	2,575	3,246
Excep. & Forex Inc./Loss(-)	159	0	0	0	0
PBT	2,934	1,875	1,759	2,575	3,246
Taxes	787	441	457	669	844
Extraordinary Inc./Loss(-)	0	0	0	0	0
Assoc. Profit/Min. Int.(-)	-5	-5	-5	-5	-5
Reported Net Profit	2,142	1,429	1,297	1,900	2,397
<b>Adjusted Net Profit</b>	<b>1,983</b>	<b>1,429</b>	<b>1,297</b>	<b>1,900</b>	<b>2,397</b>
Net Margin	16.1%	12.4%	10.9%	14.0%	15.5%
Diluted Share Cap. (mn)	51.2	51.2	51.2	51.2	51.2
<b>Diluted EPS (INR)</b>	<b>38.8</b>	<b>27.9</b>	<b>25.4</b>	<b>37.1</b>	<b>46.9</b>
Diluted EPS Growth	7.8%	-27.9%	-9.2%	46.5%	26.1%
Total Dividend + Tax	409	339	405	594	899
Dividend Per Share (INR)	8.0	5.3	6.3	9.3	14.1

Source: Company, JM Financial

Cash Flow Statement		(INR mn)			
Y/E March	FY22A	FY23A	FY24E	FY25E	FY26E
Profit before Tax	2,934	1,875	1,759	2,575	3,246
Depn. & Amort.	632	892	914	936	945
Net Interest Exp. / Inc. (-)	72	211	125	-8	217
Inc (-) / Dec in WCap.	-164	71	-83	-105	-120
Others	-116	-63	0	0	0
Taxes Paid	-825	-516	-457	-669	-844
<b>Operating Cash Flow</b>	<b>2,533</b>	<b>2,471</b>	<b>2,259</b>	<b>2,729</b>	<b>3,445</b>
Capex	-307	-526	-600	-650	-330
Free Cash Flow	2,226	1,945	1,659	2,079	3,115
Inc (-) / Dec in Investments	-7,180	929	96	196	151
Others	111	65	0	0	0
<b>Investing Cash Flow</b>	<b>-7,376</b>	<b>468</b>	<b>-504</b>	<b>-454</b>	<b>-179</b>
Inc / Dec (-) in Capital	0	0	0	0	0
Dividend + Tax thereon	-409	-410	-405	-594	-899
Inc / Dec (-) in Loans	2,585	-1,789	-791	0	0
Others	-538	-712	-221	-189	-217
<b>Financing Cash Flow</b>	<b>1,637</b>	<b>-2,910</b>	<b>-1,417</b>	<b>-782</b>	<b>-1,116</b>
<b>Inc / Dec (-) in Cash</b>	<b>-3,206</b>	<b>29</b>	<b>337</b>	<b>1,493</b>	<b>2,150</b>
Opening Cash Balance	3,866	660	688	1,026	2,519
Closing Cash Balance	660	688	1,026	2,519	4,668

Source: Company, JM Financial

Balance Sheet		(INR mn)			
Y/E March	FY22A	FY23A	FY24E	FY25E	FY26E
Shareholders' Fund	8,862	9,882	10,774	12,080	13,613
Share Capital	102	102	102	102	102
Reserves & Surplus	8,760	9,780	10,671	11,978	13,511
Preference Share Capital	0	0	0	0	0
Minority Interest	20	25	30	35	35
Total Loans	2,585	791	0	0	0
Def. Tax Liab. / Assets (-)	769	713	713	713	713
<b>Total - Equity &amp; Liab.</b>	<b>12,236</b>	<b>11,411</b>	<b>11,517</b>	<b>12,829</b>	<b>14,362</b>
Net Fixed Assets	9,552	9,668	9,353	9,067	8,501
Gross Fixed Assets	4,339	4,996	5,596	6,246	6,576
Intangible Assets	8,280	8,610	8,610	8,610	8,660
Less: Depn. & Amort.	3,067	3,938	4,853	5,789	6,735
Capital WIP	0	0	0	0	0
Investments	155	148	148	148	148
Current Assets	5,498	5,131	5,518	7,608	10,268
Inventories	511	446	494	563	642
Sundry Debtors	1,355	1,219	1,308	1,492	1,702
Cash & Bank Balances	1,669	932	1,269	2,762	4,741
Loans & Advances	115	141	136	155	177
Other Current Assets	1,847	2,394	2,312	2,636	3,007
Current Liab. & Prov.	2,969	3,536	3,503	3,994	4,556
Current Liabilities	1,867	2,201	2,214	2,524	2,880
Provisions & Others	1,102	1,335	1,289	1,470	1,677
Net Current Assets	2,529	1,595	2,016	3,614	5,712
<b>Total - Assets</b>	<b>12,236</b>	<b>11,411</b>	<b>11,517</b>	<b>12,829</b>	<b>14,362</b>

Source: Company, JM Financial

Dupont Analysis					
Y/E March	FY22A	FY23A	FY24E	FY25E	FY26E
Net Margin	16.1%	12.4%	10.9%	14.0%	15.5%
Asset Turnover (x)	1.2	0.9	0.9	1.0	1.0
Leverage Factor (x)	1.3	1.4	1.2	1.2	1.2
RoE	24.9%	15.2%	12.6%	16.6%	18.7%

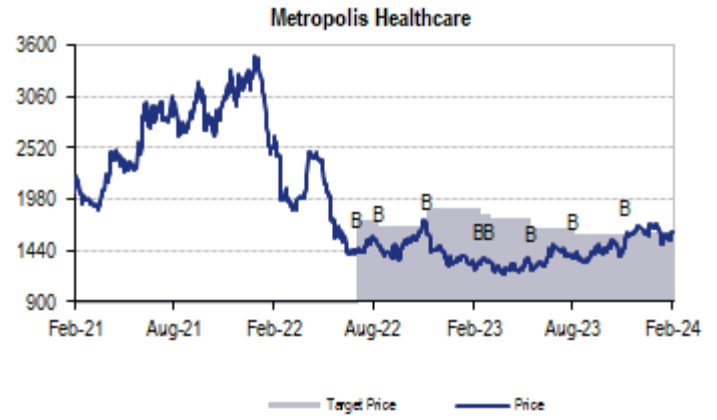
Key Ratios					
Y/E March	FY22A	FY23A	FY24E	FY25E	FY26E
BV/Share (INR)	173.3	193.2	210.6	236.2	266.1
ROIC	32.9%	15.8%	14.7%	20.4%	26.5%
ROE	24.9%	15.2%	12.6%	16.6%	18.7%
Net Debt/Equity (x)	0.1	0.0	-0.1	-0.2	-0.4
P/E (x)	42.2	58.6	64.6	44.1	34.9
P/B (x)	9.4	8.5	7.8	6.9	6.2
EV/EBITDA (x)	24.6	28.9	29.3	23.0	18.9
EV/Sales (x)	6.9	7.2	6.9	6.0	5.1
Debtor days	40	39	40	40	40
Inventory days	15	14	15	15	15
Creditor days	43	40	40	41	42

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

Recommendation History



## APPENDIX I

## JM Financial Institutional Securities Limited

Corporate Identity Number: U67100MH2017PLC296081

Member of BSE Ltd. and National Stock Exchange of India Ltd.

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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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