

Metropolis Healthcare | BUY

Strong outlook ahead

With price hikes early next year, PPP base reset in 4Q and ramp-up of newer labs, METROHL's earnings momentum should accelerate, in our view. We expect mid-teens revenue CAGR with meaningful margin expansion (to 27%) to play out over the next 3 years. The recent 2Q performance was in line with JMFe. Core business revenue (ex-Covid, ex-PPP) grew 13.4% YoY. Reported EBITDA includes a one-time impact of INR 33mn pertaining to provision for adjustments related to employee fraud pursuant to an audit triggered by a whistleblower complaint. Adjusted for this, margin was c. 110bps ahead of our estimates. B2C business continues to deliver strong mid-teens growth particularly driven by core markets such as Mumbai (23%). The receding competitive intensity, near-completion of accelerated network expansion, robust Hitech performance, introduction of basic radiology services and improving earnings visibility build a compelling case for our long-term 'BUY' thesis. We value METROHL at 38x (vs. 36x) Sep'25 earnings to derive a TP of INR 1,635. We prefer METROHL as our 'top pick' in the diagnostic sector.

- **We prefer METROHL as our 'top pick' in the diagnostic sector:** We expect ~15% revenue CAGR over the next 3 years along with margin expansion (to 27%). METROHL's near-term earnings are subdued due to NACO contract expiry and aggressive network addition. While we do expect the envisaged lab addition to be completed next fiscal, the operating leverage will be realised in FY26. Pre-Covid, METROHL had reported higher margins than DLPL. The company also alluded to a price hike early next year, which should further bolster earnings. DLPL's operating leverage has largely played out in FY24 (in the price) and we believe that there is limited room for margin expansion hereon given that DLPL seeks to reinvest surplus for organic expansion. METROHL, nearing the end of its network expansion cycle, can therefore outperform DLPL over FY24-27, in our view.
- **Revenue momentum to accelerate:** Metropolis' revenue increased 3%YoY to INR 3.1bn (in line), optically subdued due to expiry of the NACO contract. Core business revenue (ex-PPP, ex-Covid) grew 13.4%YoY. B2C revenue outpaced overall growth at 16% YoY with Mumbai growing faster (23%). Core business patient volume increased to 3.1mn (+10.4% YoY) and ARPP grew ~3% YoY to INR 975. Premium wellness tests' share was 14% of revenue (vs. 13% YoY), growing 27% YoY (21% 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 (reach 600 towns by FY24) in untapped markets. The company plans to deepen its presence in Chennai and Bengaluru, akin to Mumbai. The company will add ~30 labs and 800 centres in FY24 and an additional 30 labs in FY25, in our view. During 1HFY24, Metropolis (ex Hitech) added 12 labs and 242 centres across geographies, leading to margin dilution of 120bps. 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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We acknowledge the support of Raghav Vedanarayanan in the preparation of this report

Recommendation and Price Target

Current Reco.	BUY
Previous Reco.	BUY
Current Price Target (12M)	1,635
Upside/(Downside)	4.0%
Previous Price Target	1,610
Change	1.6%

Key Data – METROHL IN

Current Market Price	INR1,572
Market cap (bn)	INR80.5/US\$1.0
Free Float	43%
Shares in issue (mn)	50.9
Diluted share (mn)	51.2
3-mon avg daily val (mn)	INR537.7/US\$6.5
52-week range	1,766/1,171
Sensex/Nifty	64,959/19,412
INR/US\$	83.2

Price Performance

%	1M	6M	12M
Absolute	6.8	22.3	-10.1
Relative*	8.5	14.9	-15.7

* To the BSE Sensex

Financial Summary	(INR mn)				
Y/E March	FY22A	FY23A	FY24E	FY25E	FY26E
Net Sales	12,283	11,482	12,051	13,876	15,910
Sales Growth (%)	23.1	-6.5	5.0	15.1	14.7
EBITDA	3,428	2,883	2,892	3,538	4,248
EBITDA Margin (%)	27.9	25.1	24.0	25.5	26.7
Adjusted Net Profit	1,983	1,429	1,425	1,938	2,469
Diluted EPS (INR)	38.8	27.9	27.9	37.9	48.3
Diluted EPS Growth (%)	7.8	-27.9	-0.3	36.0	27.4
ROIC (%)	32.9	15.8	15.8	21.0	27.2
ROE (%)	24.9	15.2	13.7	16.8	19.0
P/E (x)	40.5	56.3	56.4	41.5	32.6
P/B (x)	9.1	8.1	7.4	6.6	5.8
EV/EBITDA (x)	23.6	27.7	27.2	21.8	17.7
Dividend Yield (%)	0.5	0.3	0.4	0.6	0.9

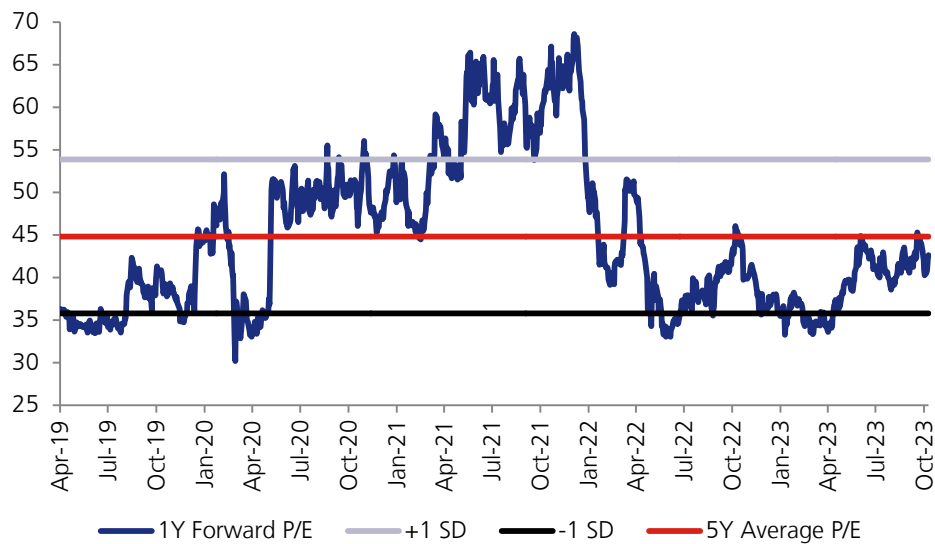
Source: Company data, JM Financial. Note: Valuations as of 06/Nov/2023

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Please see Appendix I at the end of this report for Important Disclosures and Disclaimers and Research Analyst Certification.

- Whistleblower complaint:** The company said there was a whistleblower complaint relating to certain accounting adjustments in FY23 and FY24. The matter was referred to an expert third party auditor as per established internal policies. A one-time provision of INR 33mn (~110bps EBITDA margin impact) has been provided in 2Q to ensure full impact in for the audit. The company has undertaken audits across the group level post the complaint and noted that the incident was an isolated one that occurred in a select geographical region and not an institutional issue. Further, the management clarified that there was no misappropriation of funds related to this complaint.
- Key financials:** Revenue/EBITDA/PAT of INR 3.1bn/ 748mn/ 355mn grew +3%/-5%/-12% YoY and were +1%/+1%/+2% vs. our estimates. Gross margin improved c. 290bps YoY to 80.1% (JMFe: 77.8%). EBITDA margin declined c.200bps YoY to 24.2% (JMFe: 24.3%). This includes a one-off impact of INR 33mn pertaining to provision for adjustments related to employee fraud pursuant to an audit post a whistleblower complaint. Adjusted for this, margin was c. 110bps ahead of our estimates. The company has gross debt of INR 440mn and it plans to be debt-free by the end of the year. At present, the company has a cash balance of INR 1.1bn, which will be used for dividend payout and inorganic growth opportunities.

Exhibit 1. Valuations



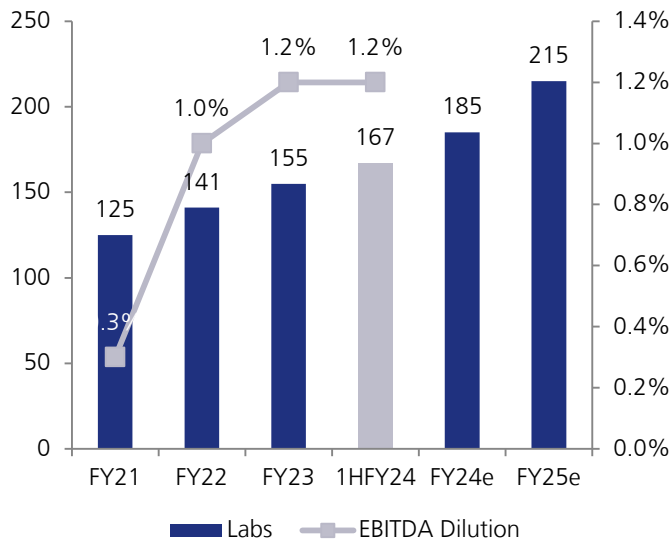
Source: Bloomberg, JM Financial

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

3Y CAGR (FY24-27)	DLPL	METROHL
Revenue	12.2%	14.8%
EBITDA	13.0%	19.6%
PAT	16.6%	28.0%

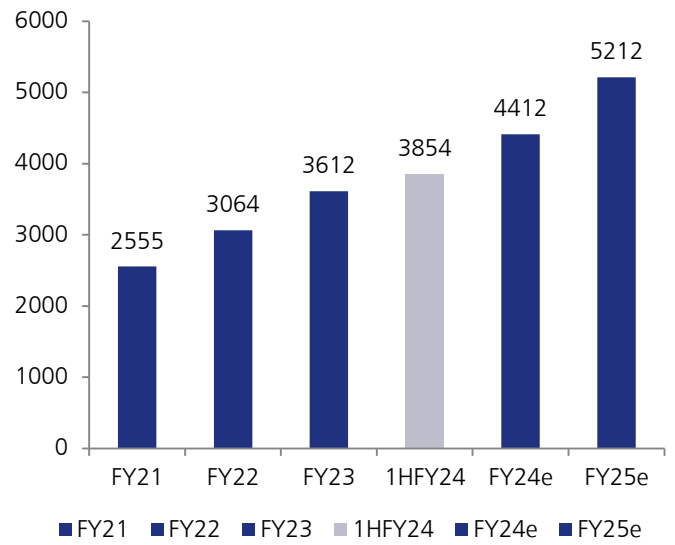
Source: JM Financial

Exhibit 3. Aggressive lab additions



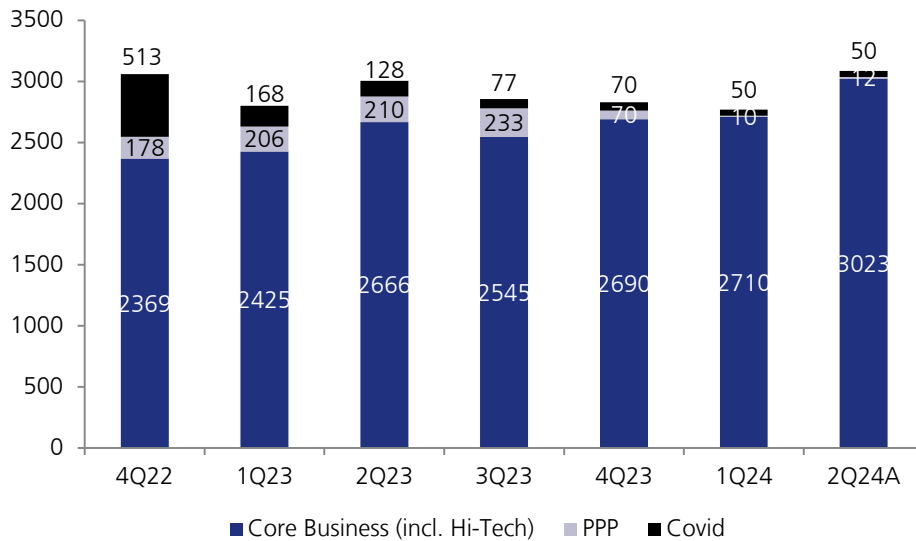
Source: Company, JM Financial

Exhibit 4. Aggressive service network expansion



Source: Company, JM Financial

Exhibit 1. Quarterly revenue break-up



Source: Company, JM Financial

Exhibit 2. 2QFY24 review

Metropolis - P&L (INR mn)	2QFY23A	2QFY24A	% YoY	2QFY24E	% Delta vs JMFe	2QFY24E (cons)	% Delta vs cons	1QFY24A	% QoQ	1H23A	1H24A	% YoY
Total Revenue	3,003	3,085	3%	3,059	1%	3,040	1%	2,771	11%	5,802	5,856	1%
COGS	684	613	-10%	679	-10%			570	8%	1,299	1,182	-9%
Gross Profit	2,319	2,472	7%	2,380	4%			2,201	12%	4,503	4,674	4%
Gross Profit margin (%)	77.2%	80.1%	292 bps	77.8%	234 bps			79.4%	70 bps	77.6%	79.8%	219 bps
Staff Cost	616	698	13%	673	4%			651	7%	1,238	1,348	9%
Other expenses	913	1,027	12%	964	7%			921	11%	1,790	1,948	9%
EBITDA	790	748	-5%	743	1%			629	19%	1,475	1,377	-7%
EBITDA margin (%)	26.3%	24.2%	-206 bps	24.3%	-5 bps			22.7%	154 bps	25.4%	23.5%	-190 bps
Other Income	43	12	-72%	24	-49%			31	-60%	74	43	-42%
Finance Cost	70	57		65				60		145	117	
Depreciation	216	222		225				208		428	431	
PBT	548	481	-12%	477	1%			392	23%	976	873	-11%
Exceptional Items	0	(33)		0				0		0	-33	
Tax	143	125		129				102		236	227	
Tax Rate (%)	26.1%	27.8%		27.0%				26.1%		24.2%	27.0%	
Minority Interest	1	2		1				2		3	4	
PAT (Reported)	403	355	-12%	347	2%	381	-7%	288	23%	737	643	-13%
PAT (Adjusted)	403	388	-4%	347	12%			288	35%	737	676	-8%
EPS (Reported)	8	7	-12%	7	2%			6	23%	14	13	-13%
EPS (Adjusted)	8	8	-4%	7	12%			6	35%	14	13	-8%
Metropolis - Cost margins	2QFY23A	2QFY24A	% YoY	2QFY24E	% Delta vs JMFe			1QFY24A	% QoQ	1H23A	1H24A	% YoY
COGS/sales	22.8%	19.9%	-292 bps	22.2%	-234 bps			20.6%	-70 bps	22.4%	20.2%	-219 bps
Staff cost/sales	20.5%	22.6%	209 bps	22.0%	61 bps			23.5%	-87 bps	21.3%	23.0%	168 bps
Other expenditure/sales	30.4%	33.3%	289 bps	31.5%	178 bps			33.3%	3 bps	30.8%	33.3%	242 bps
Metropolis - Revenue Segment	2QFY23A	2QFY24A	% YoY	2QFY24E	% Delta vs JMFe			1QFY24A	% QoQ	1H23A	1H24A	% YoY
Non-covid	2876	3023	5%	3039	-1%			2720	11%	5,506	5,743	4%
Covid	128	50	-61%	20	150%			50	0%	296	100	-66%

Source: Company, JM Financial, Bloomberg

Financial Tables (Consolidated)

Income Statement		(INR mn)			
Y/E March	FY22A	FY23A	FY24E	FY25E	FY26E
Net Sales	12,283	11,482	12,051	13,876	15,910
Sales Growth	23.1%	-6.5%	5.0%	15.1%	14.7%
Other Operating Income	0	0	0	0	0
Total Revenue	12,283	11,482	12,051	13,876	15,910
Cost of Goods Sold/Op. Exp	2,760	2,533	2,531	2,817	3,341
Personnel Cost	2,332	2,527	2,712	3,080	3,468
Other Expenses	3,763	3,539	3,917	4,440	4,853
EBITDA	3,428	2,883	2,892	3,538	4,248
EBITDA Margin	27.9%	25.1%	24.0%	25.5%	26.7%
EBITDA Growth	19.9%	-15.9%	0.3%	22.3%	20.1%
Depn. & Amort.	632	892	858	905	932
EBIT	2,796	1,991	2,034	2,633	3,316
Other Income	176	152	120	185	229
Finance Cost	197	268	221	227	233
PBT before Excep. & Forex	2,775	1,875	1,932	2,590	3,312
Excep. & Forex Inc./Loss(-)	159	0	0	0	0
PBT	2,934	1,875	1,932	2,590	3,312
Taxes	787	441	502	648	838
Extraordinary Inc./Loss(-)	0	0	0	0	0
Assoc. Profit/Min. Int.(-)	-5	-5	-5	-5	-5
Reported Net Profit	2,142	1,429	1,425	1,938	2,469
Adjusted Net Profit	1,983	1,429	1,425	1,938	2,469
Net Margin	16.1%	12.4%	11.8%	14.0%	15.5%
Diluted Share Cap. (mn)	51.2	51.2	51.2	51.2	51.2
Diluted EPS (INR)	38.8	27.9	27.9	37.9	48.3
Diluted EPS Growth	7.8%	-27.9%	-0.3%	36.0%	27.4%
Total Dividend + Tax	409	339	445	605	926
Dividend Per Share (INR)	8.0	5.3	7.0	9.5	14.5

Source: Company, JM Financial

Cash Flow Statement		(INR mn)			
Y/E March	FY22A	FY23A	FY24E	FY25E	FY26E
Profit before Tax	2,934	1,875	1,932	2,590	3,312
Depn. & Amort.	632	892	858	905	932
Net Interest Exp. / Inc. (-)	72	211	101	43	233
Inc (-) / Dec in WCap.	-164	71	-95	-115	-128
Others	-116	-63	0	0	0
Taxes Paid	-825	-516	-502	-648	-838
Operating Cash Flow	2,533	2,471	2,295	2,776	3,511
Capex	-307	-526	-600	-650	-330
Free Cash Flow	2,226	1,945	1,695	2,126	3,181
Inc (-) / Dec in Investments	-7,180	929	120	185	151
Others	111	65	0	0	0
Investing Cash Flow	-7,376	468	-480	-465	-179
Inc / Dec (-) in Capital	0	0	0	0	0
Dividend + Tax thereon	-409	-410	-445	-605	-926
Inc / Dec (-) in Loans	2,585	-1,789	-791	0	0
Others	-538	-712	-221	-227	-233
Financing Cash Flow	1,637	-2,910	-1,457	-833	-1,159
Inc / Dec (-) in Cash	-3,206	29	357	1,478	2,173
Opening Cash Balance	3,866	660	688	1,046	2,523
Closing Cash Balance	660	688	1,046	2,523	4,696

Source: Company, JM Financial

Balance Sheet		(INR mn)			
Y/E March	FY22A	FY23A	FY24E	FY25E	FY26E
Shareholders' Fund	8,862	9,882	10,862	12,194	13,772
Share Capital	102	102	102	102	102
Reserves & Surplus	8,760	9,780	10,760	12,092	13,669
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
Total - Equity & Liab.	12,236	11,411	11,605	12,942	14,520
Net Fixed Assets	9,552	9,668	9,409	9,154	8,602
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	4,797	5,702	6,634
Capital WIP	0	0	0	0	0
Investments	155	148	148	148	148
Current Assets	5,498	5,131	5,606	7,738	10,469
Inventories	511	446	501	577	662
Sundry Debtors	1,355	1,219	1,329	1,530	1,755
Cash & Bank Balances	1,669	932	1,289	2,767	4,769
Loans & Advances	115	141	138	159	182
Other Current Assets	1,847	2,394	2,349	2,704	3,101
Current Liab. & Prov.	2,969	3,536	3,559	4,097	4,698
Current Liabilities	1,867	2,201	2,249	2,590	2,969
Provisions & Others	1,102	1,335	1,309	1,508	1,729
Net Current Assets	2,529	1,595	2,048	3,640	5,770
Total - Assets	12,236	11,411	11,605	12,942	14,520

Source: Company, JM Financial

Dupont Analysis					
Y/E March	FY22A	FY23A	FY24E	FY25E	FY26E
Net Margin	16.1%	12.4%	11.8%	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%	13.7%	16.8%	19.0%

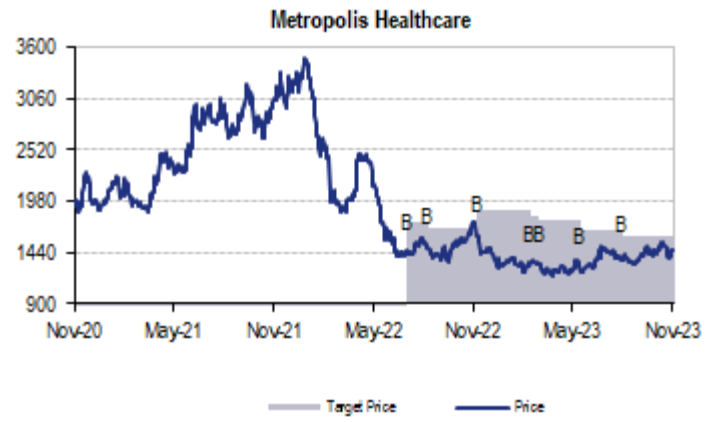
Key Ratios					
Y/E March	FY22A	FY23A	FY24E	FY25E	FY26E
BV/Share (INR)	173.3	193.2	212.4	238.4	269.2
ROIC	32.9%	15.8%	15.8%	21.0%	27.2%
ROE	24.9%	15.2%	13.7%	16.8%	19.0%
Net Debt/Equity (x)	0.1	0.0	-0.1	-0.2	-0.4
P/E (x)	40.5	56.3	56.4	41.5	32.6
P/B (x)	9.1	8.1	7.4	6.6	5.8
EV/EBITDA (x)	23.6	27.7	27.2	21.8	17.7
EV/Sales (x)	6.6	7.0	6.5	5.6	4.7
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

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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Rating	Meaning
Buy	Total expected returns of more than 10% for stocks with market capitalisation in excess of INR 200 billion and REITs* and more than 15% for all other stocks, over the next twelve months. Total expected return includes dividend yields.
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.
Sell	Price expected to move downwards by more than 10% from the current market price over the next twelve months.

* REITs refers to Real Estate Investment Trusts.

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