

November 06, 2023

RESULT REPORT Q2 FY24 | Sector: Pharmaceuticals & Healthcare

Metropolis Healthcare

Moderate vols, mix dampen outlook

Result Synopsis

Metropolis reported another quarter of moderate volume growth of ~10% in core business (ex-Covid, PPP contract) on back of +9% volume in Q1. Margin was impacted by one-time receivables write-off (~1%) and the more recurring investment in lab network (added 7 labs in Q2). Company reiterated its lab and service centre expansion plans – additional 90 labs (to 270) and 1800 service centres (to 5,500) by 2025. We noted change in management shift on revenue generation from B2C vs earlier focus on B2B; reckon being in new places, where Metropolis brand may not have any recall, plus the focus on B2C may lead to a tough task of scaling up expanded lab infra. Overall, volumes have not matched the pre covid run rate despite the larger sourcing infra built up particularly by franchises. We believe increase in realization per patient cannot be relied upon as a sustainable trigger. Till we get a semblance of better volume growth and visibility around better utilization of new labs, it would be difficult to get constructive on the company. We largely retain EPS estimates and continue with our cautious stance and rating of Reduce with revised TP Rs1,430 (earlier Rs1,400) based on unchanged 35x FY25 PE.

Result Highlights

Core business (ex-Covid, PPP contract) revenue growth of 13% driven by 10% patient volume and 3% rise in patient realization

Wellness grew by 27% backed by 21% volume growth; contribution at 14% of sales

B2C (52% of sales) up 16% YoY with volume growth of 14%; B2B clocks 8% volume and 12% revenue growth

HiTech revenues up 17% YoY supported by 14% volume growth

Margin at 24% impacted by doubtful debt provision (1%) and investment in lab expansion (1.2%)

Exhibit 1: Actual vs estimates

Rsmn	Actual	Estimate		% Variation		Remarks
		YES Sec	Consensus	YES Sec	Consensus	
Sales	3,085	3,089	3,078	(0.1)	0.2	Reported numbers subdued but on like to like basis vol growth of 10%; margin impacted by provision for debtors and investments on labs (7 in Q2 FY24)
EBITDA	748	735	777	1.8	(3.7)	
EBITDA Margin (%)	24.2	23.8	25.2	45 bps	-99 bps	
Adjusted PAT	357	355	392	0.4	(9.1)	

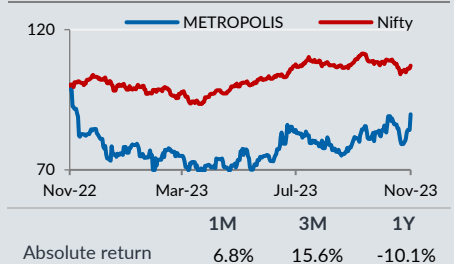
Source: Company, YES Sec

Reco	: REDUCE
CMP	: Rs 1,573
Target Price	: Rs 1,430
Potential Return	: -9%

Stock data (as on November 06, 2023)

Nifty	19,412
52 Week h/l (Rs)	1791 / 1171
Market cap (Rs/USD mn)	75424 / 907
Outstanding Shares (mn)	51
6m Avg t/o (Rs mn):	408
Div yield (%):	0.5
Bloomberg code:	METROHL IN
NSE code:	METROPOLIS

Stock performance



Shareholding pattern (As of Sep '23 end)

Promoter	49.7%
FII+DII	41.2%
Others	9.1%

Δ in stance

(1-Yr)	New	Old
Rating	REDUCE	REDUCE
Target Price	1,430	1,400

Δ in earnings estimates

	FY24e	FY25e
EPS (New)	28.1	41.0
EPS (Old)	28.7	39.7
% change	-2.2%	3.3%

Financial Summary

(Rs mn)	FY23	FY24E	FY25E
Revenue	11,482	11,956	13,720
YoY Growth	-6.5	4.1	14.8
EBIDTA	2,883	3,005	3,809
YoY Growth	-15.9	4.2	26.7
PAT	1,429	1,438	2,100
YoY Growth	(33.3)	0.6	46.0
ROE	15.3	13.8	17.9
EPS	27.9	28.1	41.0
P/E	56.4	56.0	38.4
BV	193.0	213.1	246.1
EV/EBITDA	28.2	26.4	20.2

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Exhibit 2: Quarterly snapshot (Consolidated)

Rs mn	Q2 FY23	Q3 FY23	Q4 FY23	Q1 FY24	Q2 FY24	y/y (%)	q/q (%)
Revenue	3,003	2,855	2,825	2,771	3,085	2.7	11.3
Expenditure	2,213	2,150	2,123	2,141	2,337	5.6	9.1
- RM	684	639	595	570	613	(10.4)	7.6
- Lab testing charges	16	19	3	24	28	75.3	16.1
- Staff exp	616	646	643	651	698	13.2	7.2
- Other exp	897	846	881	897	999	11.4	11.3
Operating Profit	790	705	703	629	748	(5.3)	18.8
OPM(%)	26.3	24.7	24.9	22.7	24.2	-206 bps	153 bps
Other Income	43	66	12	31	12	(71.9)	(60)
Depreciation	216	230	234	208	222	3.1	7
Interest	70	61	62	60	57	(18.7)	(5)
PBT	548	480	419	392	481	(12.2)	22.7
Tax	143	121	84	102	125	(13.1)	21.9
PAT	405	359	335	290	357	(11.9)	23.0

Source: Company, YES Sec

KEY CON-CALL HIGHLIGHTS

- Margin would be similar to FY23; 1.5% impact on account of lab addition costs; sustainable margin would be between 26-27% - expansion would continue till FY25 post which there would be increase in franchise count
- Out of mid-teens growth pre covid, 9% from volume and 6% from realization per test
- Most of the competition coming in B2B segment; however, 80% of the B2B business which has less competition giving very good margin while tail end 20% has lot more competitive intensity
- Focused cities like Mumbai would continue to grow at high teens
- Margin was impacted due to loss of PPP contracts, one-time provision of doubtful debt (-1.5% impact)
- Price increases has been marginal during the quarter
- HiTech – Increased number of labs and integrated into parent Metropolis. Revenue growth of 17% in H1 on vol growth of 14% YoY. Looking to expand specialty business as most of the business is routine testing
- Confident of even better growth in H2 and likely to be mid-teens, similar to H2 last year
- Mumbai market has been exceptional and looking to add more touch points
- Plan to add 800 centres in FY24 and similar number next fiscal; most of the additions are in markets where Metropolis does not have a presence
- Labs opened after April '22 have added 4% to revenue growth and 4% to volumes; seen continuously increasing margin at such labs and should be at par with company average in 24 months
- Payables – getting better discounts by paying up faster has resulted in lower payable days; this helps gross margin
- PPP contracts – chances of getting contracts again looks slim as government has brought business in-house; PPP business had 43% margin and 7% of revenues so had a 1.5% impact in Q2. PPP contract had higher RM costs, which led to higher gross margin for the quarter. Total PPP revenues was Rs210 per quarter last year
- Each company has its way of accounting for tests – at Metropolis, wellness test is counted as one, even if it has 30 tests bundled inside. Better to look at patient footfalls
- Seeding cities – growth was primarily from B2B and semi-specialized tests which is where the competition has been and so revenues may have declined. In contrast, focus cities have always been about B2C. Albeit seeing increased traction in B2C in seeding cities.
- Moving to a twice a year dividend declaration policy with a stable 30-35% payout retained

FINANCIALS

Exhibit 3: Balance Sheet

Y/e 31 Mar (Rs mn)	FY21	FY22	FY23	FY24E	FY25E
Equity capital	102	102	102	102	102
Reserves	6,964	8,760	9,780	10,808	12,499
Net worth	7,066	8,862	9,882	10,911	12,601
Debt	882	2,539	1,677	1,677	1,677
MI	15	20	25	25	25
Deferred tax liab (net)	42	867	782	782	782
Total liabilities	8,005	12,287	12,366	13,395	15,085
Goodwill	903	4,547	4,547	4,547	4,547
Fixed Asset	2,528	6,100	6,855	6,109	5,348
Investments	358	627	518	518	518
Net Working Capital	4,045	916	378	2,152	4,604
Inventories	405	511	446	464	533
Sundry debtors	1,230	1,355	1,219	1,269	1,456
Cash	4,281	1,807	1,063	2,836	5,223
Other current assets	169	258	300	299	343
Sundry creditors	(1,106)	(1,032)	(941)	(980)	(1,124)
Other CL	(934)	(1,983)	(1,709)	(1,737)	(1,827)
Def tax assets	171	98	69	69	69
Total Assets	8,005	12,287	12,366	13,395	15,085

Source: Company, YES Sec

Exhibit 4: Income statement

Y/e 31 Mar (Rs mn)	FY21	FY22	FY23	FY24E	FY25E
Revenue	9,980	12,283	11,482	11,956	13,720
Operating profit	2,860	3,428	2,883	3,005	3,809
Depreciation	(459)	(632)	(892)	(896)	(911)
Interest expense	(78)	(197)	(268)	(266)	(159)
Other income	120	176	152	100	100
Profit before tax	2,443	2,775	1,875	1,943	2,838
Taxes	(610)	(787)	(441)	(505)	(738)
Adj. profit	1,833	1,988	1,434	1,438	2,100
MI	-	159	-	-	-
Net profit	1,833	2,147	1,434	1,438	2,100

Source: Company, YES Sec

Exhibit 5: Cashflow Statement

Y/e 31 Mar (Rs mn)	FY21	FY22	FY23	FY24E	FY25E
Profit before tax	2,443	2,775	1,875	1,943	2,838
Depreciation	459	632	892	896	911
Def tax assets (net)	(8)	898	(55)	-	-
Tax paid	(610)	(787)	(441)	(505)	(738)
Working capital Δ	281	656	(206)	(1)	(65)
Other operating items	-	159	-	-	-
Operating cashflow	2,566	4,333	2,065	2,333	2,947
Capital expenditure	(897)	(7,848)	(1,647)	(150)	(150)
Free cash flow	1,669	(3,516)	418	2,183	2,797
Equity raised	406	58	(4)	-	0
MI	(2)	5	5	-	-
Investments	61	(269)	109	-	-
Debt financing/disposal	324	1,657	(862)	-	-
Dividends paid	(409)	(409)	(410)	(410)	(410)
Net Δ in cash	2,050	(2,474)	(744)	1,773	2,387

Source: Company, YES Sec

Exhibit 6: Du-pont analysis

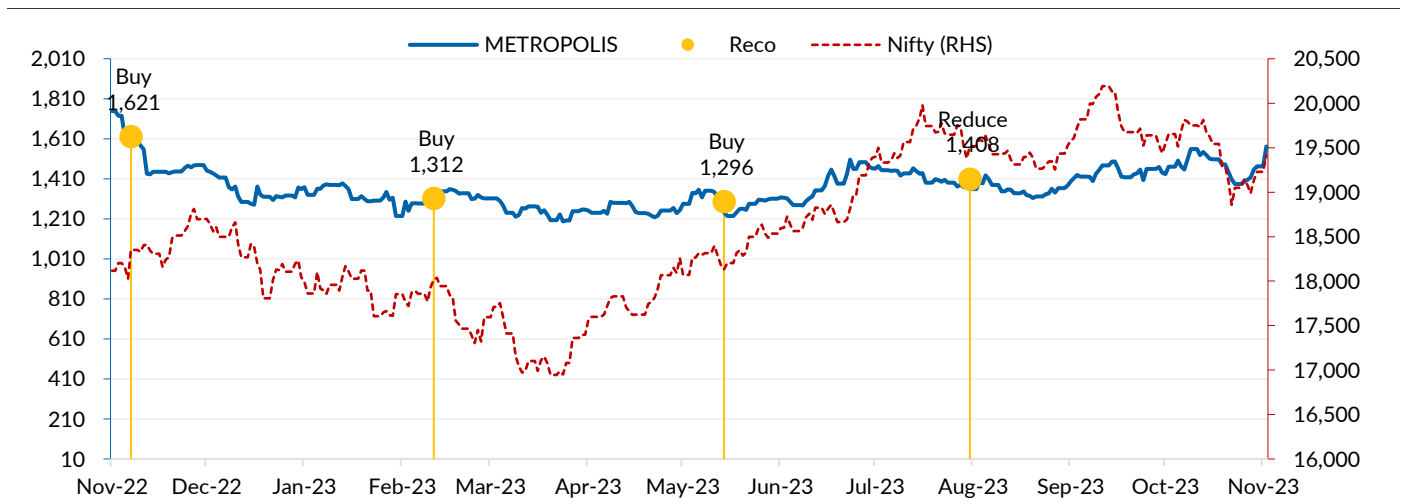
Y/e 31 Mar (Rs mn)	FY21	FY22	FY23	FY24E	FY25E
Tax burden (x)	0.75	0.72	0.76	0.74	0.74
Interest burden (x)	0.97	0.93	0.87	0.88	0.95
EBIT margin (x)	0.25	0.24	0.19	0.18	0.22
Asset turnover (x)	1.29	1.25	1.09	1.09	1.10
Financial leverage (x)	1.26	1.23	1.12	1.05	1.06
RoE (%)	29.8	25.0	15.3	13.8	17.9

Exhibit 7: Ratio analysis

Y/e 31 Mar	FY21	FY22	FY23	FY24E	FY25E
Growth matrix (%)					
Revenue growth	16.5	23.1	(6.5)	4.1	14.8
Op profit growth	22.8	19.9	(15.9)	4.2	26.7
EBIT growth	24.7	17.9	(27.9)	3.1	35.7
Net profit growth	43.2	17.1	(33.2)	0.3	46.0
Profitability ratios (%)					
OPM	28.7	27.9	25.1	25.1	27.8
EBIT margin	25.3	24.2	18.7	18.5	21.8
Net profit margin	18.4	16.2	12.5	12.0	15.3

Y/e 31 Mar	FY21	FY22	FY23	FY24E	FY25E
RoCE	36.5	29.3	17.4	17.2	21.0
RoNW	29.8	25.0	15.3	13.8	17.9
RoA	23.7	20.3	13.6	13.1	16.9
Per share ratios					
EPS	35.9	38.9	28.0	28.1	41.0
Dividend per share	8.0	8.0	8.0	8.0	8.0
Cash EPS	44.9	51.3	45.4	45.6	58.8
Book value per share	138.2	173.4	193.0	213.1	246.1
Valuation ratios					
P/E	43.9	37.5	56.4	56.0	38.4
P/CEPS	11.4	9.1	8.2	7.4	6.4
P/B	8.1	6.5	7.0	6.7	5.9
EV/EBIDTA	26.9	23.7	28.2	26.4	20.2
Payout (%)					
Dividend payout	25.0	28.4	23.5	26.0	26.0
Tax payout	22.3	19.0	28.6	28.5	19.5
Liquidity ratios					
Debtor days	45	40	39	39	39
Inventory days	15	15	14	14	14
Creditor days	40	31	30	30	30

Recommendation Tracker



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