

Stocks and Securities

Aditya Birla Money Ltd.



ADITYA BIRLA
CAPITAL

PROTECTING INVESTING FINANCING ADVISING

IPO Note- Metropolis Healthcare Limited

03 April 2019

Metropolis Healthcare Limited ("Metropolis") is one of the leading diagnostic companies in India in terms of revenue with a presence across 19 states. Metropolis offers a broad range tests and has implemented a "Hub & Spoke" model for swift delivery of services through their vast delivery network. Through this model they operate in 197 cities in India as of Dec' 18.

Key Investment Rationale

- Dominant player in highly fragmented industry:**
The diagnostic market in India is highly fragmented & largely unorganized with standalone centers accounting for ~47% of the pathology labs in the country. Diagnostic chains run only ~16% of the labs in the country. We believe that due to its well-established brand, broad range of test offerings and economies of scale, Metropolis is well poised to increase its market share in the future.
- Comprehensive test menu with a focus on "Specialized" tests:**
Metropolis classifies its over 3400 tests into (i) 'routine' tests: blood chemistry analyses, blood cell counts and urine examination; (ii) 'semi-specialized' tests: thyroid function tests, histology, cytology, viral & bacterial cultures, and infectious disease tests; and (iii) 'specialized' tests: autoimmunity tests, cytogenetic and molecular diagnostics. Due to the company's focus on specialized tests (~40% of the revenues) Metropolis has not experienced pricing pressure unlike its peers in the industry. This is evident by the rising revenue/test from Rs.354.8 in FY16 to Rs.454.7 in 9MFY19.
- Successful history of Inorganic growth:**
Owing to the highly fragmented diagnostic market inorganic growth is an effective route for entering new geographies. Metropolis has a well-established track record of acquiring and successfully integrating companies to grow its portfolio. The company leverages its brand & sales network to strengthen the acquired company's positioning in the local market. The management has indicated that the acquisitions will be one of the driver's for growth in the future.
- Widespread & Asset light Service model:**
Metropolis operates through an asset-light model for growing its service network. In addition to setting up Owned Patient Service Centres ("PSCs"), Metropolis has significantly expanded its network by contracting Third Party PSCs, to service its individual patients, with limited capital expenditure incurred by it. In addition, its home collection service to patients also reduces the requirement of having numerous collection centers. The company's service network comprises of 1,631 patient touch points, including 256 owned PSCs and 1,375 third party PSCs, ~9,000 pick-up points and 552 ARCs to serve its institutional customers.

Rating	SUBSCRIBE
--------	-----------

Issue Details

Issue Opens	03-April-19
Issue Closes	05-April-19
Equity Offerings (In MN shares)	13.68
Face Value	2
Price Band (₹)	877-880
Bid Lot	17
Issue Size (₹bn)	12.05
Maximum Application for Retail Investor (₹)	2,00,000.0
Issue Type	100% Book Building
Listing	NSE/BSE
BRLMs	JM Financial, Credit Suisse, Goldman Sachs, HDFC Bank, Kotak Capital.
Registrar	Link Intime

Shareholding Pattern (%)

	Pre Issue	Post Issue
Promoter	67.80%	55.30%
Non Promoter	32.20%	44.70%

Issue Structure (In mn no. of shares)

Issue size	13.68
Break-up of net issue to public:	
QIB's portion	75.0
Non-institutional portion	15.0
Retail Portion	10.0

Source: ABML Research, RHP

Analyst Details

Advik Shetty
+912268190541
advik.shetty@adityabirlacapital.com

Aditya Birla Money Ltd.

10th Floor, R - Tech Park, Nirlon Knowledge Park, Off Western Express Highway,
Goregaon (E), Mumbai - 400 063
+91 22 6225 7600

care.stocksandsecurities@adityabirlacapital.com | www.stocksandsecurities.adityabirlacapital.com

Registered Office:

Indian Rayon Compound, Veraval,
Gujarat - 362 266

CIN: L65993GJ1995PLC064810

Stocks and Securities

Aditya Birla Money Ltd.



ADITYA BIRLA
CAPITAL

PROTECTING INVESTING FINANCING ADVISING

IPO Note- Metropolis Healthcare Limited

03 April 2019

Outlook & Valuation

At the upper end of the price band, Metropolis is valued at a P/E of ~38x on TTM basis which is largely in line with the average of the other two listed players in the diagnostics space. We believe the company is well-poised to deliver strong earnings growth in the forthcoming years considering the fragmented & under penetrated diagnostic market. We recommend investors to **SUBSCRIBE the issue** and hold the stock with a long term perspective.

Risks & concerns

- **Intense competition in the Diagnostic Industry:** Low regulatory supervision & capital expenditure requirement have led to new competitors to enter the diagnostic market leading to increased competition. Large diagnostic players face competition from local players who have an upper hand due to their familiarity with local medical practitioners.
- **Regulatory risks:** In 2017, The Indian Government decided to place price caps for certain surgical implants (Stents & Knee implants). Although there are currently no price caps in the diagnostic industry any similar moves in the future can adversely impact the profitability of Metropolis & its peers.
- **Pricing Pressure:** Venture capitalist & PE funding into regional diagnostic labs has initiated a series of aggressive price revisions by those labs, as a strategy to gain volume share. If this trend persists in the future it may impact company's profitability as overall industry margins shrink.

Objects of the issue

- The objects of the issue are to achieve the benefits of listing on stock exchanges and to carry out the sale of equity shares offered for sale by the promoters & provide liquidity to the company's shareholders.
- In addition, the company expects that the listing will enhance its visibility & brand image.

Aditya Birla Money Ltd.

10th Floor, R - Tech Park, Nirlon Knowledge Park, Off Western Express Highway,
Goregaon (E), Mumbai - 400 063
+91 22 6225 7600

care.stocksandsecurities@adityabirlacapital.com | www.stocksandsecurities.adityabirlacapital.com

Registered Office:

Indian Rayon Compound, Veraval,
Gujarat - 362 266

CIN: L65993GJ1995PLC064810

Stocks and Securities

Aditya Birla Money Ltd.



PROTECTING INVESTING FINANCING ADVISING

IPO Note- Metropolis Healthcare Limited

03 April 2019

Income Statement

In ₹ mn	9MFY19	FY18	FY17	FY16
Revenue from operations	5,593.06	6,435.67	5,447.24	4,754.69
Cost of material consumed	1,296.69	1,458.98	1,351.04	1,245.93
Laboratory testing charges	38.46	56.75	24.7	31.46
Employee benefits expense	1,337.22	1,473.68	1,276.95	1,081.77
Other expenses	1,488.46	1,720.88	1,275.08	1,130.67
Total Expenses	4,160.83	4,710.29	3,927.77	3,489.83
EBITDA	1,432.23	1,725.38	1,519.47	1,264.86
Depreciation and amortisation expense	146.14	190.17	172.27	166.41
EBIT	1,286.09	1,535.21	1,347.20	1,098.45
Finance costs	4.58	12.08	3.87	7.98
Other Income	75.14	79.88	229.35	151.65
Profit before tax	1,356.65	1,603.01	1,572.68	1,242.12
Share of profit / (loss) for equity accounted investees (net of tax)	-10.40	0.00	26.53	33.10
Total Income Tax Expenses	458.54	505.54	526.64	455.67
Profit for the period/year	887.71	1,097.47	1,072.57	819.55
Other comprehensive income for the period	18.38	7.93	2.59	-19.25
Total comprehensive income for the period/year	906.09	1,105.40	1,075.16	800.30
Earnings per Equity Share				
Basic earnings per share (₹)	17.18	20.61	20.48	15.25
Diluted earnings per share (₹)	17.15	20.49	20.35	15.14

Source: ABML Research, RHP

Aditya Birla Money Ltd.

10th Floor, R - Tech Park, Nirlon Knowledge Park, Off Western Express Highway,
Goregaon (E), Mumbai - 400 063
+91 22 6225 7600

care.stocksandsecurities@adityabirlacapital.com | www.stocksandsecurities.adityabirlacapital.com

Registered Office:

Indian Rayon Compound, Veraval,
Gujarat - 362 266

CIN: L65993GJ1995PLC064810

Stocks and Securities

Aditya Birla Money Ltd.



PROTECTING INVESTING FINANCING ADVISING

IPO Note- Metropolis Healthcare Limited

03 April 2019

Balance Sheet

In ₹ mn	9MFY19	FY18	FY17	FY16
Assets				
Non-current assets				
Property, Plant and Equipment	1,141.08	1,122.97	1,051.59	1,055.96
Capital work-in-progress	0	0	9.53	5.58
Goodwill	785.69	783.69	824.61	351.04
Other intangible assets	180.34	167.74	147.36	9.57
Equity accounted investees	9.1	0.07	60.3	53.88
Financial Assets				
Investments	17.53	17.56	17.56	17.56
Loans	31.72	33.21	37.23	83.02
Other non-current Financial Assets	92.05	83.34	22.36	0.42
Deferred tax assets (net)	35.72	52.97	34.31	52.49
Other non-current assets	25.3	19.6	85.76	58.42
Non-current tax assets (net)	59.22	16.66	9.8	18.05
Total non-current assets	2,412.12	2,297.81	2,300.41	1,705.99
Current assets				
Inventories	274.89	211.87	141.3	155.71
Financial assets				
Investments	762.25	1,004.23	1,340.52	942.42
Trade receivables	1,385.87	1,006.84	802.88	702
Cash and Cash equivalents	533.81	434.68	255.09	268.32
Bank Balances other than cash and cash equivalents	196.36	166.68	150.03	67.64
Loans	132.42	108.21	96.07	72.54
Other Current Assets	141.03	73.08	65.29	44.54
Total current assets	3,426.63	3,005.59	2,851.18	2,253.17
Total Assets	5,838.75	5,303.40	5,151.59	3,959.16
Equity and Liabilities				
Equity				
Equity Share Capital	100.36	95.44	95.44	95.44
Other Equity	4,579.99	4,052.24	3,136.29	2,691.75
Equity attributable to equity holders of the Company	4,680.35	4,147.68	3,231.73	2,787.19
Non-Controlling Interest	22.81	143.64	209.82	151.61
Total Equity	4,703.16	4,291.32	3,441.55	2,938.80
Liabilities				
Non-Current Liabilities	87.68	105.95	191.49	110.78
Current liabilities	1,047.91	906.13	1,518.55	909.58
Total liabilities	1,135.59	1,012.08	1,710.04	1,020.36
Total Equity and Liabilities	5,838.75	5,303.40	5,151.59	3,959.16

Source: ABML Research, RHP

Aditya Birla Money Ltd.

10th Floor, R - Tech Park, Nirlon Knowledge Park, Off Western Express Highway,
Goregaon (E), Mumbai - 400 063
+91 22 6225 7600

care.stocksandsecurities@adityabirlacapital.com | www.stocksandsecurities.adityabirlacapital.com

Registered Office:

Indian Rayon Compound, Veraval,
Gujarat - 362 266

CIN: L65993GJ1995PLC064810

Stocks and Securities

Aditya Birla Money Ltd.



**ADITYA BIRLA
CAPITAL**

PROTECTING INVESTING FINANCING ADVISING

IPO Note- Metropolis Healthcare Limited

03 April 2019

Cash Flow Statement

In ₹ mn	9MFY19	FY18	FY17	FY16
Cash flow from operating activities	525.88	1,039.31	1,017.53	914.16
Cash flow from investing activities	40.92	18.82	-857.85	963.61
Cash flow from financing activities	-474.97	-873.03	-173	-1,737.63

Source: ABML Research, RHP

Ratio %

Particulars	FY18	FY17	FY16
EPS - Basic (₹) based on closing no of shares	20.61	20.48	15.25
Book value (₹) based on face value Rs.2	86.92	67.73	58.41
Debt-equity (x)	0.1%	0.2%	0.3%
ROCE (%)	35.7%	39.1%	37.3%
RoE (%)	24.7%	31.5%	27.6%

Source: ABML Research, RHP

Aditya Birla Money Ltd.

10th Floor, R - Tech Park, Nirlon Knowledge Park, Off Western Express Highway,
Goregaon (E), Mumbai - 400 063
+91 22 6225 7600

care.stocksandsecurities@adityabirlacapital.com | www.stocksandsecurities.adityabirlacapital.com

Registered Office:

Indian Rayon Compound, Veraval,
Gujarat - 362 266

CIN: L65993GJ1995PLC064810

Stocks and Securities

Aditya Birla Money Ltd.



PROTECTING INVESTING FINANCING ADVISING

IPO Note- Metropolis Healthcare Limited

03 April 2019

Research Team			
	Vivek Mahajan		Hemant Thukral
	Head of Research		Head – Derivatives Desk
	022-6819 0549		022-6819 0550
	vivek.mahajan@adityabirlacapital.com		hemant.thukral@adityabirlacapital.com

Fundamental Team			
Vidrum Mehta	Auto	022-6819 0537	Vidrum.Mehta@adityabirlacapital.com
Jaymin Trivedi	Banking & Finance	022-6819 0511	jaymin.trivedi@adityabirlacapital.com
Naveen Baid	IT	022-6819 0516	naveen.baid@adityabirlacapital.com
Suresh Gardas	Pharma & Chemicals	022-6819 0513	suresh.gardas@adityabirlacapital.com
Mahavir Jain	Mid - Cap	022 6819 0518	mahavir.jain@adityabirlacapital.com
Mohan Jaiswal	Technical Analyst	022-6819 0515	mohan.jaiswal@adityabirlacapital.com
Salim Hajjani	Equity Advisor	022-6819 0512	salim.hajjani@adityabirlacapital.com
Pradeep Parkar	Equity Advisor	022-6819 0514	pradeep.parkar@adityabirlacapital.com
Hemal Shah	Equity Advisor	022-6819 0552	Hemal.Shah3@adityabirlacapital.com
Advik Shetty	Research Associate	022-6819 0541	advik.shetty@adityabirlacapital.com

Quantitative Team			
Sudeep Shah	Sr.Technical Analyst	022-6819 0523	sudeep.shah@adityabirlacapital.com
Smita Dhale	Assistant Manager – Derivative Desk	022-6819 0519	smita.dhale@adityabirlacapital.com

ABML research is also accessible in Bloomberg at ABMR

Aditya Birla Money Ltd.

10th Floor, R - Tech Park, Nirlon Knowledge Park, Off Western Express Highway,
Goregaon (E), Mumbai - 400 063
+91 22 6225 7600
care.stocksandsecurities@adityabirlacapital.com | www.stocksandsecurities.adityabirlacapital.com

Registered Office:

Indian Rayon Compound, Veraval,
Gujarat - 362 266

CIN: L65993GJ1995PLC064810

Stocks and Securities

Aditya Birla Money Ltd.



**ADITYA BIRLA
CAPITAL**

PROTECTING INVESTING FINANCING ADVISING

IPO Note- Metropolis Healthcare Limited

03 April 2019

Disclaimer:

Aditya Birla Money Limited (ABML) is in the business of offering investments & trading in Stock and Securities through its various affiliations with Stock Exchanges. It offers Portfolio Management Services to HNI and Corporate investors. ABML also caters to investments in Debt instruments and Mutual funds through its digital platform to diversify asset allocation. As a depository participant, ABML has equity assets under custody worth around ₹. 25,000 crores catering to over 3 lac investors who can hold Stocks & Securities, Mutual funds and Insurance policies in electronic form.

This document is not for public distribution and is meant solely for the personal information of the authorized recipient. No part of the information must be altered, transmitted, copied, distributed or reproduced in any form to any other person. Persons into whose possession this document may come are required to observe these restrictions. This document is for general information purposes only and does not constitute an investment advice or an offer to sell or solicitation of an offer to buy / sell any security and is not intended for distribution in countries where distribution of such material is subject to any licensing, registration or other legal requirements.

The information, opinion, views contained in this document are as per prevailing conditions and are of the date of appearing on this material only and are subject to change. No reliance may be placed for any purpose whatsoever on the information contained in this document or on its completeness. Neither ABML, its group companies, its directors, associates, employees nor any person connected with it accepts any liability or loss arising from the use of this document. The views and opinions expressed herein by the author in the document are his own and do not reflect the views of Aditya Birla Money Limited or any of its associate or group companies. The information set out herein may be subject to updating, completion, revision, verification and amendment and such information may change materially. Past performance is no guarantee and does not indicate or guide to future performance.

Nothing in this document is intended to constitute legal, tax or investment advice, or an opinion regarding the appropriateness of any investment, or a solicitation of any type. The contents in this document are intended for general information purposes only. This document or information mentioned therefore should not form the basis of and should not be relied upon in connection with making any investment. The investment may not be suited to all the categories of investors. The recipients should therefore obtain their own professional, legal, tax and financial advice and assessment of their risk profile and financial condition before considering any decision.

ABML, its associate and group companies, its directors, associates, employees from time to time may have various interests/ positions in any of the securities of the Company (ies) mentioned therein or be engaged in any other transactions involving such securities or otherwise in other securities of the companies / organization mentioned in the document or may have other interest with respect of any recommendation and / related information and opinions.

In the last 12 months period ending on the last day of the month immediately preceding the date of publication of this research report, ABML or any of its associates may have managed or co-managed public offering of securities from subject company of this research report, or received compensation for investment banking or merchant banking or brokerage services from subject company of this research report, or received compensation for products or services other than investment banking or merchant banking or brokerage services as applicable from the subject company of this research report or the Subject Company may have been a client of ABML or its associates during twelve months preceding the date of distribution of the research report. ABML and its associates have not received any compensation or other benefits from the subject company or third party in connection with the research report. The company follows employee trading policy which regulates the trading activities of the research analyst. The company policy does not restrict the compensation of research analyst linked with the recommendations provided therein.

Aditya Birla Money Limited is registered as a Research Analyst under SEBI (Research Analyst) Regulations, 2014. SEBI Reg. No. INH000002145

Aditya Birla Money Ltd.

10th Floor, R - Tech Park, Nirlon Knowledge Park, Off Western Express Highway,
Goregaon (E), Mumbai - 400 063
+91 22 6225 7600

care.stocksandsecurities@adityabirlacapital.com | www.stocksandsecurities.adityabirlacapital.com

Registered Office:

Indian Rayon Compound, Veraval,
Gujarat - 362 266

CIN: L65993GJ1995PLC064810