

February 14, 2023

RESULT REPORT Q3 FY23 | Sector: Pharmaceuticals & Healthcare

Metropolis Healthcare

Volume, margin on track

Result Synopsis

Metropolis exhibited a marginal miss on revenues and margin as Q3 sales declined 2.5% YoY and OPM fell ~100bps. Albeit, the internals were better than the headline print as B2C (~60% of core Metropolis sales) revenues grew 15% excluding Covid and allied tests; ex-Hitech and PPP contracts, sales up 13% - driven by healthy 9% volume growth and 3% price contribution. Margin were lower as network expansion (~12 labs and ~400 centers in 9m FY23) led to ~120bps impact.

Metropolis management appeared optimistic on volume growth which appears tad better than Dr Lal though we would be mindful of base effect as Hitech got integrated in Q3 last year. Company alluded to increased competition in the semi-specialized tests and, we reckon, this would renew focus on test menu above and below the segment. Addition of lab and collection infra in the focus cities should support volume growth leading to 12-13% topline growth over next 1-2 years. Believe Metropolis has had a better handle on volume growth compared to peers like Dr Lal and hence our confidence on presuming higher volume growth over next 2 years. Albeit, we have cut FY23 and FY24 estimates by 5-12% on flat realization assumption (vs 3% growth earlier) and also introduce FY25 estimates. Our TP gets rolled over to FY25 and we cut target multiple to 35x (prevailing pre-Covid) from 45x and retain BUY with revised TP Rs1,720 (earlier Rs1,900).

Result Highlights

Revenue growth of 13% excluding Covid, PPP contracts and Hitech

9% volume growth and ~3% price mix drove YoY growth

Margin at ~25% maintained despite sector wide apprehension of falling prices; some impact of adverse forex on reagent costs and opex hit due to ongoing network expansion

Exhibit 1: Actual vs estimates

Rsmn	Actual	Estimate		% Variation		Remarks
		YES Sec	Consensus	YES Sec	Consensus	
Sales	2,855	2,988	2,910	(4.5)	(1.9)	
EBITDA	705	747	730	(5.6)	(3.4)	
EBITDA Margin (%)	24.7	25.0	25.1	-31 bps	-39 bps	Non Covid revenues up 13% driven by 9% vol growth
Adjusted PAT	359	549	361	(34.6)	(0.7)	

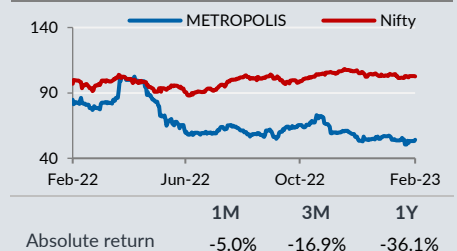
Source: Company, YES Sec

Reco	: BUY
CMP	: Rs 1,312
Target Price	: Rs 1,720
Potential Return	: +31%

Stock data (as on Feb 13, 2023)

Nifty	17,841
52 Week h/l (Rs)	2571 / 1190
Market cap (Rs/USD mn)	65895 / 797
Outstanding Shares (mn)	51
6m Avg t/o (Rs mn):	459
Div yield (%)	0.6
Bloomberg code:	METROHL IN
NSE code:	METROPOLIS

Stock performance



Shareholding pattern (As of Dec '22 end)

Promoter	49.8%
FII+DII	37.2%
Others	13.1%

Δ in stance

(1-Yr)	New	Old
Rating	BUY	BUY
Target Price	1,720	1,900

Δ in earnings estimates

	FY23e	FY24e	FY25e
EPS (New)	28.1	37.3	49.2
EPS (Old)	29.7	42.7	-
% change	-5.3%	-12.6%	-

Financial Summary

(Rs mn)	FY23E	FY24E	FY25E
Revenue	11,638	13,151	14,992
YoY Growth	-5.3	13.0	14.0
EBIDTA	2,873	3,430	4,181
YoY Growth	-16.2	19.4	21.9
PAT	1,438	1,907	2,516
YoY Growth	(32.9)	32.6	32.0
ROE	15.3	17.9	20.2
EPS	28.1	37.3	49.2
P/E	46.6	35.2	26.7
BV	193.5	222.8	264.0
EV/EBITDA	23.0	18.6	14.6

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Exhibit 2: Quarterly snapshot (Consolidated)

Rs mn	Q3 FY22	Q4 FY22	Q1 FY23	Q2 FY23	Q3 FY23	y/y (%)	q/q (%)
Revenue	2,931	3,059	2,799	3,003	2,855	(2.6)	(5.0)
Expenditure	2,177	2,310	2,114	2,213	2,150	(1.3)	(2.9)
- RM	630	712	615	684	639	1.4	(6.6)
-Lab testing charges	20	14	27	16	19	(4.1)	17.9
- Staff Cost	625	608	622	616	646	3.3	4.8
- Other exp	902	976	850	897	846	(6.2)	(5.7)
Operating Profit	753	749	685	790	705	(6.4)	(10.8)
OPM(%)	25.7	24.5	24.5	26.3	24.7	-101 bps	-162 bps
Other Income	26	57	30	43	66	153.8	53
Depreciation	169	180	212	216	230	36.4	7
Interest	50	61	75	70	61	23.2	(13)
PBT	561	565	428	548	480	(14.5)	(12.4)
Tax	149	163	93	143	121	(18.6)	(15.4)
PAT	412	402	336	405	359	(13.0)	(11.4)

Source: Company, YES Sec

KEY CON-CALL HIGHLIGHTS

Quarterly highlights

- B2B business is facing price challenges
- Growth in B2C is 13% and that in focus cities is 15-16% excluding Hitech and PP partnerships
- Out of 13% growth – 9% is volume led and 3% is price-led
- Rev share of B2C in focus cities stood at 60% and stick to 65% target in medium term – market share is only 10-15% in these cities.
- Stick to target of 90 labs addition in 3 years
- Ganesh Hitech - sales up 20% for Q3 but base quarter of Q3 FY22 had 22 lesser days making comparable skewed. Margin profile is similar to Metropolis
- Recently won a PP partnership contract in Delhi – would partner with Delhi government's Mohalla clinics
- One of the public-private contracts is ending, and this might have some impact on Q4 revenues. Most of the volumes on this contract would now be outsourced by the government
- No material outcome expected from the tax search conducted in Nov'22
- Other expenses – reverse in 0.5% of sales provision towards doubtful debt so that has released by Rs20-30mn + no Hitech acquisition costs this time

Competition, pricing & growth

- Do not expect margin to be lower in Tier 2 & 3 towns as mix is more skewed towards specialized tests where pricing is more similar to that for metros
- Hitech is doing 100bps margin more than Metropolis
- New CEO thoughts – pricing disruption, distribution/network reach would be key along with improving doctor connect. Believe there is room to improve productivity of existing lab infra
- Semi-specialized – new competitors are going after this segment with focus on turn-around time; there is pricing pressure on 20-30 tests
- Metropolis strategy – focus on B2C in routine and specialized tests
- Majority of rev/patient increase has come from product mix and rest from price rise
- Average price difference between top 200-300 tests with competition is 20-30% but for rest of the tests price gap may not be so much
- Wellness – focusing on individual wellness more as corporate wellness is more about low price and high volumes being pushed so not focusing on that segment. Wellness is still only 5% of market
- Concept of wellness growing at 20-25% pa and being pursued by new age players is actually not working with monthly active users falling
- Valuation has not corrected in private markets yet but average asset quality is not up to mark and would be careful in such evaluation

FINANCIALS

Exhibit 3: Balance Sheet

Y/e 31 Mar (Rs mn)	FY21	FY22	FY23E	FY24E	FY25E
Equity capital	102	102	102	102	102
Reserves	6,964	8,760	9,789	11,287	13,394
Net worth	7,066	8,862	9,891	11,389	13,497
Debt	882	2,539	2,539	539	539
MI	15	20	20	20	20
Deferred tax liab (net)	42	867	867	867	867
Total liabilities	8,005	12,287	13,317	12,815	14,922
Goodwill	903	4,547	4,547	4,547	4,547
Fixed Asset	2,528	6,100	5,397	4,675	3,937
Investments	358	627	627	627	627
Net Working Capital	4,045	916	2,649	2,868	5,713
Inventories	405	511	484	547	624
Sundry debtors	1,230	1,355	1,284	1,451	1,654
Cash	4,281	1,807	3,583	3,745	6,521
Other current assets	169	258	233	263	300
Sundry creditors	(1,106)	(1,032)	(978)	(1,105)	(1,260)
Other CL	(934)	(1,983)	(1,957)	(2,033)	(2,125)
Def tax assets	171	98	98	98	98
Total Assets	8,005	12,287	13,317	12,815	14,922

Source: Company, YES Sec

Exhibit 4: Income statement

Y/e 31 Mar (Rs mn)	FY21	FY22	FY23E	FY24E	FY25E
Revenue	9,980	12,283	11,638	13,151	14,992
Operating profit	2,860	3,428	2,873	3,430	4,181
Depreciation	(459)	(632)	(854)	(871)	(888)
Interest expense	(78)	(197)	(254)	(154)	(54)
Other income	120	176	200	200	200
Profit before tax	2,443	2,775	1,965	2,606	3,438
Taxes	(610)	(787)	(527)	(699)	(922)
Adj. profit	1,833	1,988	1,438	1,907	2,516
Exceptional items	-	159	-	-	-
Net profit	1,833	2,147	1,438	1,907	2,516

Source: Company, YES Sec

Exhibit 5: Cashflow Statement

Y/e 31 Mar (Rs mn)	FY21	FY22	FY23E	FY24E	FY25E
Profit before tax	2,443	2,775	1,965	2,606	3,438
Depreciation	459	632	854	871	888
Def tax assets (net)	(8)	898	-	-	-
Tax paid	(610)	(787)	(527)	(699)	(922)
Working capital Δ	281	656	43	(57)	(69)
Other operating items	-	159	-	-	-
Operating cashflow	2,566	4,333	2,335	2,721	3,335
Capital expenditure	(897)	(7,848)	(150)	(150)	(150)
Free cash flow	1,669	(3,516)	2,185	2,571	3,185
Equity raised	406	58	(0)	0	(0)
MI	(2)	5	-	-	-
Investments	61	(269)	-	-	-
Debt financing/disposal	324	1,657	-	(2,000)	-
Dividends paid	(409)	(409)	(409)	(409)	(409)
Net Δ in cash	2,050	(2,474)	1,776	162	2,776

Source: Company, YES Sec

Exhibit 6: Du-pont analysis

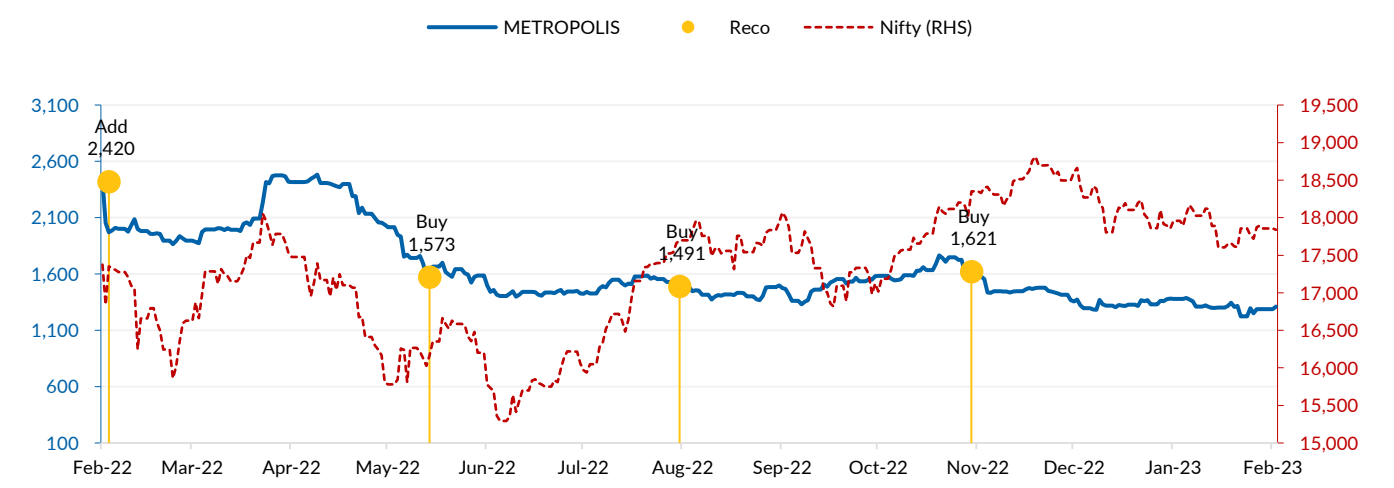
Y/e 31 Mar (Rs mn)	FY21	FY22	FY23E	FY24E	FY25E
Tax burden (x)	0.75	0.72	0.73	0.73	0.73
Interest burden (x)	0.97	0.93	0.89	0.94	0.98
EBIT margin (x)	0.25	0.24	0.19	0.21	0.23
Asset turnover (x)	1.29	1.25	1.05	1.15	1.20
Financial leverage (x)	1.26	1.23	1.19	1.08	1.00
RoE (%)	29.8	25.0	15.3	17.9	20.2

Exhibit 7: Ratio analysis

Y/e 31 Mar	FY21	FY22	FY23E	FY24E	FY25E
Growth matrix (%)					
Revenue growth	16.5	23.1	(5.3)	13.0	14.0
Op profit growth	22.8	19.9	(16.2)	19.4	21.9
EBIT growth	24.7	17.9	(25.3)	24.3	26.6
Net profit growth	43.2	17.1	(33.0)	32.6	32.0
Profitability ratios (%)					
OPM	28.7	27.9	24.7	26.1	27.9
EBIT margin	25.3	24.2	19.1	21.0	23.3
Net profit margin	18.4	16.2	12.4	14.5	16.8

Y/e 31 Mar	FY21	FY22	FY23E	FY24E	FY25E
RoCE	36.5	29.3	17.3	21.1	25.2
RoNW	29.8	25.0	15.3	17.9	20.2
RoA	23.7	20.3	12.9	16.6	20.2
Per share ratios					
EPS	35.9	38.9	28.1	37.3	49.2
Dividend per share	8.0	8.0	8.0	8.0	8.0
Cash EPS	44.9	51.3	44.8	54.3	66.6
Book value per share	138.2	173.4	193.5	222.8	264.0
Valuation ratios					
P/E	36.6	31.3	46.6	35.2	26.7
P/CEPS	9.5	7.6	6.8	5.9	5.0
P/B	6.7	5.5	5.8	5.1	4.5
EV/EBIDTA	22.3	19.8	23.0	18.6	14.6
Payout (%)					
Dividend payout	25.0	28.4	26.8	26.8	26.8
Tax payout	22.3	19.0	28.4	21.4	16.3
Liquidity ratios					
Debtor days	45	40	40	40	40
Inventory days	15	15	15	15	15
Creditor days	40	31	31	31	31

Recommendation Tracker



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