

May 17, 2023

RESULT REPORT Q4 FY23 | Sector: Pharmaceuticals & Healthcare

Metropolis Healthcare

Volume trajectory keenly eyed

Result Synopsis

Metropolis reported a largely in-line quarter as revenues declined 1% QoQ and 7% YoY on account of 1) lower Covid sales YoY and 2) lack of PP government tender revenues which ended in Feb 3) 7% rise in HiTech sales. Margin came in line with expectation at ~25%, up 40bps YoY.

Metropolis FY24 revenues would be impacted to the extent of Rs670mn as PP government tender receded from the base in Feb'23. Also, we presume zero Covid sales and Hi-tech being subsumed in the base after a full year of consolidation. Metropolis volumes have been growing at ~5% since FY20 which is due to twin impact of Covid and entry of new players. We continue to believe Metropolis can clock better volume growth than peers like Dr Lal though reinvestment of EBIDTA to the tune of ~150bps would keep a lid on FY24 margin. We trim revenue growth on back of slightly lower volume growth assumption and flat margin in FY24. Accordingly lower FY24 and FY25 EPS forecast by 10-11%. Continue to value Metropolis at 35x PE which is in line with its pre Covid multiple and retain BUY with revised TP Rs1,520 (earlier Rs1,720).

Result Highlights

Largely in line quarter with marginal 1% QoQ decline in sales and -7% YoY; ending of a government contract may have had some impact on quarterly revenue

Margin in line at ~25% as improved gross margin QoQ offset sequential increase in other expenses

Sharply lower tax rate at 20% vs 25% in Q3 and 29% last year offset the drop in other income and restricted PAT decline to 7% QoQ

Exhibit 1: Actual vs estimates

Rsmn	Actual	Estimate		% Variation		Remarks
		YES Sec	Consensus	YES Sec	Consensus	
Sales	2,825	2,826		(0.0)		In line quarter with lower revenue due to lack of government tender income, reduced Covid testing YoY
EBITDA	703	706		(0.5)		
EBITDA Margin (%)	24.9	25.0		-12 bps		
Adjusted PAT	335	367		(8.8)		

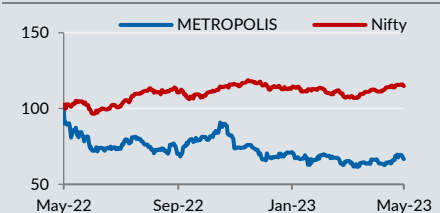
Source: Company, YES Sec

Reco	: BUY
CMP	: Rs 1,296
Target Price	: Rs 1,520
Potential Return	: +17%

Stock data (as on May 17, 2023)

Nifty	18,182
52 Week h/l (Rs)	2009 / 1171
Market cap (Rs/USD mn)	67007 / 814
Outstanding Shares (mn)	51
6m Avg t/o (Rs mn):	356
Div yield (%):	0.6
Bloomberg code:	METROHL IN
NSE code:	METROPOLIS

Stock performance



	1M	3M	1Y
Absolute return	0.6%	-3.8%	-32.9%

Shareholding pattern (As of Mar '23 end)

Promoter	49.8%
FII+DII	39.3%
Others	10.9%

Δ in stance

(1-Yr)	New	Old
Rating	BUY	BUY
Target Price	1,520	1,720

Δ in earnings estimates

	FY24e	FY25e
EPS (New)	33.3	43.5
EPS (Old)	37.3	49.2
% change	-10.8%	-11.7%

Financial Summary

(Rs mn)	FY23	FY24E	FY25E
Revenue	11,482	12,532	14,282
YoY Growth	-6.5	9.1	14.0
EBIDTA	2,883	3,159	3,859
YoY Growth	-15.9	9.6	22.2
PAT	1,429	1,704	2,225
YoY Growth	(33.3)	19.3	30.6
ROE	15.3	16.2	18.4
EPS	27.9	33.3	43.5
P/E	46.5	38.9	29.8
BV	193.0	218.3	253.7
EV/EBITDA	23.2	20.6	16.2

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Exhibit 2: Quarterly snapshot (Consolidated)

Rs mn	Q4 FY22	Q1 FY23	Q2 FY23	Q3 FY23	Q4 FY23	y/y (%)	q/q (%)
Revenue	3,059	2,799	3,003	2,855	2,825	(7.6)	(1.0)
Expenditure	2,310	2,114	2,213	2,150	2,123	(8.1)	(1.3)
- RM	712	615	684	639	595	(16.4)	(6.9)
-Lab testing charges	14	27	16	19	3	(76.7)	(82.2)
- Staff Cost	608	622	616	646	643	5.8	(0.4)
- Other exp	976	850	897	846	881	(9.7)	4.1
Operating Profit	749	685	790	705	703	(6.1)	(0.3)
OPM(%)	24.5	24.5	26.3	24.7	24.9	40 bps	18 bps
Other Income	57	30	43	66	12	(78.5)	(82)
Depreciation	180	212	216	230	234	30.2	2
Interest	61	75	70	61	62	1.7	1
PBT	565	428	548	480	419	(25.8)	(12.6)
Tax	163	93	143	121	84	(48.4)	(30.5)
PAT	402	336	405	359	335	(16.6)	(6.6)

Source: Company, YES Sec

KEY CON-CALL HIGHLIGHTS

Quarterly highlights

- Do not think growth would be as low as 5% in FY24 even accounting for zero PP revenue and receding Covid contribution
- Once investments in new labs and collection centres is done, expect margin to inch back to pre-Covid range of 27%
- Excluding government PP contract, Hitech and Covid, growth was 15% YoY same as pre Covid; all PP contracts would end depending on tender dates. PP revenue was Rs670mn in FY23 and was not present for 2 months in Q4
- Growth in North India was 30%
- New investments are diluting margin to the extent of ~150bps
- Wellness share to be taken to 20% from current 15%; Metropolis has been in premium wellness space and earlier realizations were Rs2800 and now at Rs2200 which is still in the premium end vs mass market at Rs500 per package. Would continue to be in the Rs2000-2200 range for wellness
- Other income – focused on repaying loan so interest generated on reduced cash is also lower now

Network expansion

- Attempting to get in to radiology – ECG, X-ray and limited way in to sonography. About 300-400 centres are owned and addition of radiology would not load on extra infra costs
- Completed 30 labs in last 2 years – target of 90 labs in 2-3 years and 800 centres
- Aim to expand lab network in strong states of MH, Guj, Karanataka; to open 30 labs in FY24
- Added 83 new tests and look at add 1 new test every 3 days in current year
- Looking at aggressive expansion in Tier 2 & 3 towns and sharpen focus on North and East
- Would like to do bolt on acquisitions in next 2 years to boost focus on newer areas or even in West or South to plug geographic gaps
- Pricing scenario
- In B2C and specialized doctor driven test, do not see any pricing pressure
- Not facing heat in B2C customer facing side as customer comes only when ill
- Do not expect any new player barring one who is yet to launch; strategy of new players is the same – focus on B2B and discounted end of B2C tests menu

FY23 performance

- Total revenue contributed by new network came after April 22 is 4%; coupled with 10% growth from existing stores, total growth for FY23 is 14%
- 18% B2C growth in Mumbai and 23% growth in Pune; end of March taken 4% price hike on 900 regular tests which should give 1% benefit in FY24. Would contemplate whether there is further opportunity to raise prices as have seen competitors raise prices. Choosing volumes and better realization through mix rather than outright price increase at this point
- Lease liabilities – moved lot of equipment models from purchase to lease models last year and hence leads to higher lease liabilities + expansion in number of centres leads to higher rentals

Hi-tech labs

- Hitech margin at 27% for the full year which should improve further
- Some issues in 9m FY23 which impacted revenue to Rs880mn from Rs840mn last year

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	11,075	12,890
Net worth	7,066	8,862	9,882	11,177	12,993
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	13,661	15,477
Goodwill	903	4,547	4,547	4,547	4,547
Fixed Asset	2,528	6,100	6,855	6,104	5,338
Investments	358	627	518	518	518
Net Working Capital	4,045	916	378	2,423	5,005
Inventories	405	511	446	487	555
Sundry debtors	1,230	1,355	1,219	1,330	1,516
Cash	4,281	1,807	1,063	3,086	5,603
Other current assets	169	258	300	313	357
Sundry creditors	(1,106)	(1,032)	(941)	(1,027)	(1,170)
Other CL	(934)	(1,983)	(1,709)	(1,766)	(1,856)
Def tax assets	171	98	69	69	69
Total Assets	8,005	12,287	12,366	13,661	15,477

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	12,532	14,282
Operating profit	2,860	3,428	2,883	3,159	3,859
Depreciation	(459)	(632)	(892)	(901)	(916)
Interest expense	(78)	(197)	(268)	(168)	(168)
Other income	120	176	152	152	152
Profit before tax	2,443	2,775	1,875	2,243	2,928
Taxes	(610)	(787)	(441)	(538)	(703)
Adj. profit	1,833	1,988	1,434	1,704	2,225
Exceptional items	-	159	-	-	-
Net profit	1,833	2,147	1,434	1,704	2,225

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	2,243	2,928
Depreciation	459	632	892	901	916
Def tax assets (net)	(8)	898	(55)	-	-
Tax paid	(610)	(787)	(441)	(538)	(703)
Working capital Δ	281	656	(206)	(22)	(64)
Other operating items	-	159	-	-	-
Operating cashflow	2,566	4,333	2,065	2,583	3,077
Capital expenditure	(897)	(7,848)	(1,647)	(150)	(150)
Free cash flow	1,669	(3,516)	418	2,433	2,927
Equity raised	406	58	(4)	(0)	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)	2,023	2,517

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	0.76	0.76
Interest burden (x)	0.97	0.93	0.87	0.93	0.95
EBIT margin (x)	0.25	0.24	0.19	0.19	0.22
Asset turnover (x)	1.29	1.25	1.09	1.13	1.11
Financial leverage (x)	1.26	1.23	1.12	1.06	1.06
RoE (%)	29.8	25.0	15.3	16.2	18.4

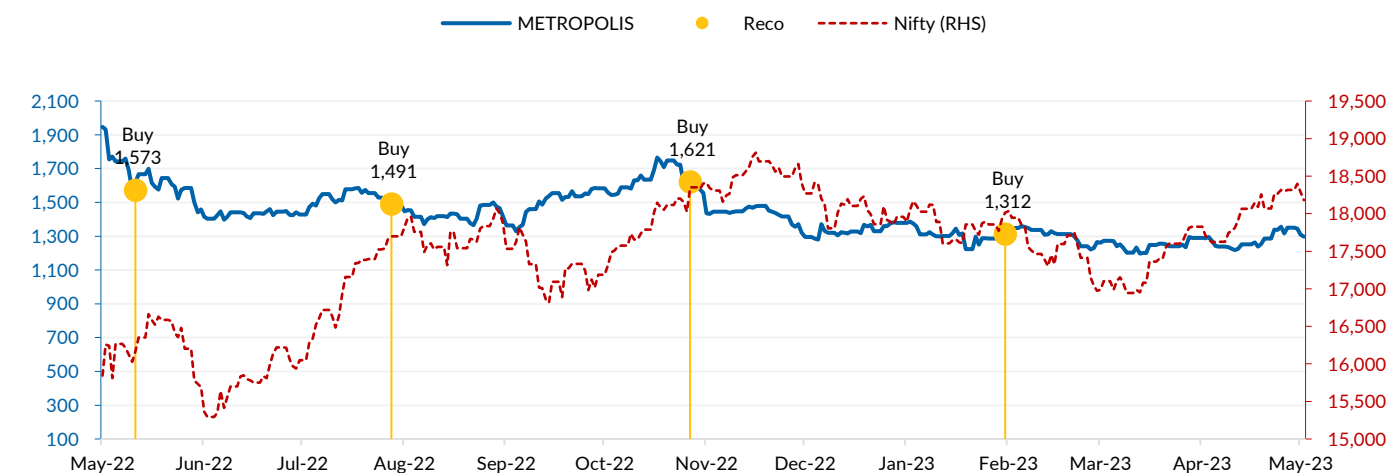
Exhibit 7: Ratio analysis

Y/e 31 Mar	FY21	FY22	FY23	FY24E	FY25E
Growth matrix (%)					
Revenue growth	16.5	23.1	(6.5)	9.1	14.0
Op profit growth	22.8	19.9	(15.9)	9.6	22.2
EBIT growth	24.7	17.9	(27.9)	12.5	28.4
Net profit growth	43.2	17.1	(33.2)	18.9	30.6
Profitability ratios (%)					
OPM	28.7	27.9	25.1	25.2	27.0
EBIT margin	25.3	24.2	18.7	19.2	21.7
Net profit margin	18.4	16.2	12.5	13.6	15.6

Metropolis Healthcare

Y/e 31 Mar	FY21	FY22	FY23	FY24E	FY25E
RoCE	36.5	29.3	17.4	18.5	21.2
RoNW	29.8	25.0	15.3	16.2	18.4
RoA	23.7	20.3	13.6	15.3	17.3
Per share ratios					
EPS	35.9	38.9	28.0	33.3	43.5
Dividend per share	8.0	8.0	8.0	8.0	8.0
Cash EPS	44.9	51.3	45.4	50.9	61.3
Book value per share	138.2	173.4	193.0	218.3	253.7
Valuation ratios					
P/E	36.1	30.9	46.5	38.9	29.8
P/CEPS	9.4	7.5	6.7	5.9	5.1
P/B	6.6	5.4	5.8	5.3	4.6
EV/EBIDTA	22.0	19.5	23.2	20.6	16.2
Payout (%)					
Dividend payout	25.0	28.4	23.5	24.0	24.0
Tax payout	22.3	19.0	28.6	24.0	18.4
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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