

## Tier 3 expansion and wellness portfolio to drive revenue growth

Healthcare ▶ Result Update ▶ November 11, 2024

TARGET PRICE (Rs): 2,400

MHL's Q2FY25 print was in line with our estimates, with revenues growing 13% YoY, driven by B2C revenues improving 21% YoY. Overall sample volume growth (8%) was dragged by the B2B portfolio as MHL rationalized its long tail customers. Tier 3 revenue growth of 23% is encouraging given the investments made by MHL over the last 3-4 years. With focus shifting toward improving catchment areas of newly-opened labs, we anticipate Tier 3+ cities, along with wellness, to drive the management's guidance of high-single digit patient volume growth over the medium term. This, coupled with the company's asset-light network should assist in expanding EBITDAM by 150-180bps by FY27E, in our view. Net cash balance sheet and improving return ratios lend comfort on valuations. We retain our BUY rating on the stock, with an unchanged Sep-25E TP of Rs2,400 (basis DCF), implying FY26E PER of 55x (in line with LTA).

## Metropolis Healthcare: Financial Snapshot (Consolidated)

Y/E Mar (Rs mn)	FY23	FY24	FY25E	FY26E	FY27E
Revenue	11,482	12,077	13,393	15,331	17,539
EBITDA	2,883	2,826	3,395	4,011	4,729
Adj. PAT	1,434	1,278	1,737	2,190	2,737
Adj. EPS (Rs)	28.0	25.0	33.9	42.7	53.4
EBITDA margin (%)	25.1	23.4	25.3	26.2	27.0
EBITDA growth (%)	(15.9)	(2.0)	20.1	18.1	17.9
Adj. EPS growth (%)	(33.0)	(11.0)	35.9	26.1	25.0
RoE (%)	15.3	12.3	15.0	16.7	18.1
RoIC (%)	17.1	15.6	18.9	24.8	32.2
P/E (x)	75.4	84.8	62.4	49.5	39.6
EV/EBITDA (x)	37.5	38.1	31.3	26.0	21.5
P/B (x)	10.9	9.9	8.9	7.8	6.7
FCFF yield (%)	1.8	1.9	2.1	2.8	3.3

Source: Company, Emkay Research

## B2C and wellness drive volume growth

MHL reported a robust quarter with revenues growing 13% YoY. Patient volumes were reported at 3.04mn, up 7% YoY, with realizations improving 5% YoY. B2C revenues drove overall revenues, growing 21% YoY with RPT increasing 8%, while B2B grew 13% YoY with RPT rising 8% YoY. Volumes of both segments grew 12%/4% YoY, respectively. Strategic focal segments like Wellness/Specialized Testing grew 23%/16% YoY contributing 16%/37% to the topline, respectively. On the back of higher contribution from the B2C business, EBITDA margin expanded by 144bps YoY to 25.7%. Reported PAT of Rs467mn was in line with our estimates. Operational efficiencies were buoyed by increased other income (+157% YoY) and decreased finance costs (-16% YoY). The company is debt-free and has cash reserves of Rs1.8bn as of end-Q2FY25. Capex for H1FY25 was Rs136mn.

## Outlook and risks

Management has outlined its strategy to grow revenues on the back of: 1) improving capabilities in advanced testing like histopathology, genomics etc; 2) entering new micro-markets, especially in North India via acquisitions, and then ramp-up in these markets organically; 3) focus on network expansion in Tier 3+ markets and offer wider test menu vs competition; and 4) leverage digital initiatives and marketing to aid wellness offerings as well as other adjacencies. Market share gains, especially in the B2C portfolio, are visible and with focus shifting on expanding catchment areas of the newly-opened labs over the last 2/3 years, we believe that Tier 3+ markets are likely to contribute meaningfully to the high-single digit patient volume growth guidance given by the management. Focus on the specialty, wellness, and B2C portfolios should bode well for margins in the coming years. We anticipate MHL clocking revenue CAGR of 13% and margins improving by ~350bps over FY24-27E. Strong balance sheet (net cash of Rs1.8bn), continued robust cash generation (FCF yield of 3%), and improving return ratios provide comfort on valuations. **Key risks:** Increased competition in the organized market from growing hospital chains, predatory pricing from any market participants, and adverse regulatory ruling around pricing cap for healthcare services.

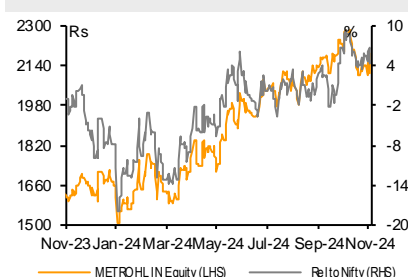
Target Price – 12M	Sep-25
Change in TP (%)	-
Current Reco.	BUY
Previous Reco.	BUY
Upside/(Downside) (%)	13.4
CMP (08-Nov-24) (Rs)	2,115.5

Stock Data	Ticker
52-week High (Rs)	2,318
52-week Low (Rs)	1,450
Shares outstanding (mn)	51.3
Market-cap (Rs bn)	108
Market-cap (USD mn)	1,285
Net-debt, FY25E (Rs mn)	-2,141
ADTV-3M (mn shares)	-
ADTV-3M (Rs mn)	281.7
ADTV-3M (USD mn)	3.3
Free float (%)	-
Nifty-50	24,148
INR/USD	84.4
<b>Shareholding, Sep-24</b>	
Promoters (%)	49.4
FPIs/MFs (%)	18.6/28.0

## Price Performance

(%)	1M	3M	12M
Absolute	(7.1)	2.4	37.6
Rel. to Nifty	(3.8)	2.3	10.8

## 1-Year share price trend (Rs)



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## Exhibit 1: Summary of quarterly financials

Particulars (Rs mn)	Q2FY24	Q1FY25	Q2FY25	YoY	QoQ
<b>Net sales</b>	<b>3,085</b>	<b>3,134</b>	<b>3,498</b>	<b>13%</b>	<b>12%</b>
Operating Expenses	(2,337)	(2,345)	(2,599)	11%	11%
Medical consumable costs	641	658	725	13%	10%
Employee Costs	698	717	784	12%	9%
SG&A expenses	999	970	1,089	9%	12%
EBITDA	748	788	899	20%	14%
Margins	24.2%	25.2%	25.7%	6%	2%
Depreciation	(222)	(255)	(268)	21%	5%
EBIT	526	533	631	20%	18%
Other Income	12	25	31	157%	27%
Interest	(57)	(47)	(48)	-16%	3%
Extra ordinary items					
PBT	481	511	614	28%	20%
Tax	(125)	(130)	(147)	18%	13%
<b>PAT</b>	<b>357</b>	<b>381</b>	<b>467</b>	<b>31%</b>	<b>23%</b>
Adj. PAT	357	381	467	31%	23%
Minority interest	2	2	2	-13%	10%
PAT ex MI	355	379	465	31%	23%
<b>EPS (Rs)</b>	<b>7.0</b>	<b>7.5</b>	<b>9.1</b>	<b>31%</b>	<b>23%</b>
Margins (%)	Q2FY24	Q1FY25	Q2FY25	YoY (bps)	QoQ (bps)
Gross Margin	79.2%	79.0%	79.3%	3	27
EBITDA	24.2%	25.2%	25.7%	144	54
EBIT	17.0%	17.0%	18.0%	99	103
EBT	15.6%	16.3%	17.6%	196	125
PAT	11.5%	12.1%	13.3%	181	119
Effective Tax rate	25.9%	25.4%	23.9%	-194	-145

Source: Company, Bloomberg

## Exhibit 2: Actuals vs estimates (Q2FY25)

(Rs mn)	Actual	Estimate (Emkay)	Consensus estimate (Bloomberg)	Variation	
				Emkay	Consensus
Revenue	3,498	3,476	3,498	1%	0%
EBITDA	899	887	903	1%	0%
EBITDA Margin	26%	26%	26%	19 bps	-13 bps
PAT	467	462	466	1%	0%

Source: Company, Emkay Research

## Exhibit 3: Change in estimates

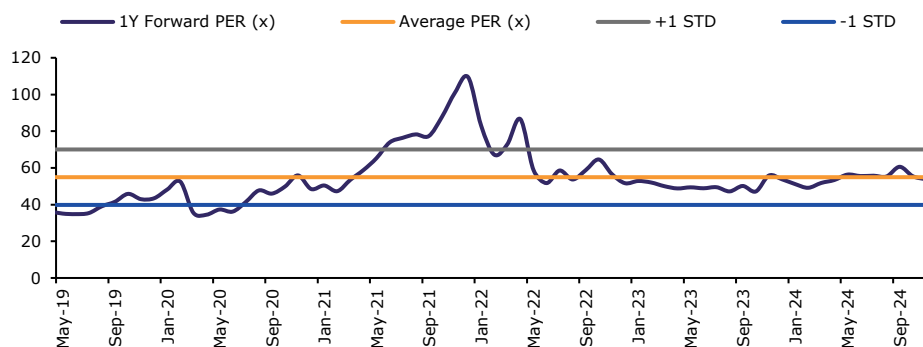
Particulars (Rs mn)	FY25E			FY26E			FY27E		
	Old	New	Change	Old	New	Change	Old	New	Change
Revenue	13,372	13,393	0.2%	15,289	15,331	0.3%	17,479	17,539	0.3%
EBITDA	3,383	3,395	0.4%	3,995	4,011	0.4%	4,655	4,729	1.6%
EBITDA Margin	25.3%	25.3%	5 bps	26.1%	26.2%	3 bps	26.6%	27.0%	33 bps
PAT	1,705	1,737	1.9%	2,179	2,190	0.5%	2,678	2,737	2.2%

Source: Company, Emkay Research

**Exhibit 4: We value Metropolis at Rs2,400/share**

(Rs mn)	FY24	FY25E	FY26E	FY27E	FY30E	FY35E
Revenue	12,078	13,401	15,331	17,539	25,225	40,992
Growth	5%	11%	14%	14%	10%	10%
NOPAT	1,439	1,777	2,231	2,760	4,371	7,102
Non-cash items	945	1,072	1,094	1,120	1,213	1,971
Change in WC	(69)	71	(105)	34	50	63
Capex	(526)	(638)	(503)	(498)	(453)	(736)
FCFF	1,788	2,282	2,717	3,416	5,180	8,400
WACC	10.8%					
Terminal growth	6%					
PV of CFs (FY24-45E)	57,632					
PV of terminal value	56,349					
Total EV	113,981					
(Less) net debt (FY25E)	(2,141)					
Total equity value	116,122					
Total no. of shares (mn)	51					
<b>Target price/share (Rs) - Sep-25E</b>	<b>2,400</b>					

Source: Company, Emkay Research

**Exhibit 5: Metropolis is currently trading around its long-term 1Y PER**

Source: Bloomberg, Emkay Research

## Concall highlights

- The management maintained its guidance for revenue growth in the 13-15% range for FY25. It anticipates growth to be driven by a high-single digit volume increase and favorable change in the product mix, which will help enhance the revenue per patient.
- Given that Mumbai is a matured market with considerable competition, the management is still confident of garnering further market share in B2C from the current growth rate of 17-20%.
- Management reiterated on increasing focus on penetrating tier 3 and 4 markets, especially in Uttar Pradesh and Madhya Pradesh with strong growth expectations on the back of lab expansion and enhancement of test menu. They also expect wellness portfolios to witness good traction in these regions, which contributes to 16% of the revenues.
- Management expects wellness segment to contribute 20% of overall revenues over the next few quarters. All wellness packages have been upgraded and are driven through omni channels. Technological upgradations to enable enhancement in test selection by consumers have also been done.
- Management alluded to the possibilities of achieving margin levels of 28%-29%, but maintaining current levels on the back of investments in lab expansions. Mega lab-addition drive to end by FY25 after which moderation with new 4-5 labs will take place along with initiating expansion on collection centers, which are asset light models, and hence will not impact margins. ~1.2% impact on margins is from lab expansions which should be absent FY26 onwards.
- Management outlined their 4 pillars of growth: 1. Extending reach in North India via acquisitions in micro markets and grow organically with enhancement of test menus. 2. Acquire capabilities and pioneer in advance testing. 3. Focus on expansion of wellness packages, and 4. Heighten marketing strategies and improve customer experience.
- Management has strategically opted to discontinue government businesses which has dragged tier 1 revenues and would showcase impact till FY25-end.
- Mumbai, Pune, Chennai, Surat and Bangalore remain the core focus markets where growth is expected at 10%. South saw flattish growth due to couple of institutional businesses disengaging collaborations, leading to South contributing to 25% of the revenues. West contributed to 50% of the topline and remainder was from North and East.
- Labs typically take 2 years to get margin positive. General trend observed being -10% EBITDA levels in the first year, followed by breakeven in the second and inching up to company levels in the third year. West and South see faster ramp up than North and East.
- Company is focusing on wider penetration in Tier 3 and 4 markets where doctors are migrating back home post their studies in Tier 1 cities to start their own practice, but lack diagnostic facilities.
- B2B segment is not largely dependent on the big names but rather on the bottom 85% of the industry which don't have diagnostic capabilities or the ability to insource the services. Doctor-run clinics are the larger landscape for the company.
- On the digital front, the app is witnessing better traction on the back of improved customer lifecycle management.
- While 17 labs were added in H1FY25, 14 were shut on the back of synergies with HiTech and to improve efficiencies.
- Management remains highly selective on acquisition targets with core interests in the business model. They prefer B2C brands with higher margins and B2B brands that are lower commoditized.

Metropolis Healthcare: Consolidated Financials and Valuations

Profit & Loss					
Y/E Mar (Rs mn)	FY23	FY24	FY25E	FY26E	FY27E
Revenue	11,482	12,077	13,393	15,331	17,539
Revenue growth (%)	(6.5)	5.2	10.9	14.5	14.4
EBITDA	2,883	2,826	3,395	4,011	4,729
EBITDA growth (%)	(15.9)	(2.0)	20.1	18.1	17.9
Depreciation & Amortization	892	945	1,072	1,094	1,120
EBIT	1,991	1,881	2,323	2,917	3,609
EBIT growth (%)	(28.8)	(5.5)	23.5	25.5	23.7
Other operating income	0	0	0	0	0
Other income	152	91	114	171	239
Financial expense	268	225	134	161	177
PBT	1,875	1,747	2,303	2,927	3,671
Extraordinary items	0	0	0	0	0
Taxes	441	462	560	732	929
Minority interest	0	(6)	(6)	(5)	(5)
Income from JV/Associates	0	0	0	0	0
Reported PAT	1,434	1,278	1,737	2,190	2,737
PAT growth (%)	(33.0)	(10.9)	35.9	26.1	25.0
Adjusted PAT	1,434	1,278	1,737	2,190	2,737
Diluted EPS (Rs)	28.0	25.0	33.9	42.7	53.4
Diluted EPS growth (%)	(33.0)	(11.0)	35.9	26.1	25.0
DPS (Rs)	12.0	12.0	9.0	9.0	9.0
Dividend payout (%)	(42.8)	(48.1)	(26.5)	(21.1)	(16.8)
EBITDA margin (%)	25.1	23.4	25.3	26.2	27.0
EBIT margin (%)	17.3	15.6	17.3	19.0	20.6
Effective tax rate (%)	23.5	26.5	24.3	25.0	25.3
NOPLAT (pre-IndAS)	1,522	1,383	1,758	2,188	2,696
Shares outstanding (mn)	51.1	51.2	51.2	51.2	51.2

Source: Company, Emkay Research

Cash flows					
Y/E Mar (Rs mn)	FY23	FY24	FY25E	FY26E	FY27E
PBT	1,875	1,747	2,303	2,927	3,671
Others (non-cash items)	0	0	0	0	0
Taxes paid	(441)	(462)	(560)	(732)	(929)
Change in NWC	780	254	(321)	(145)	(284)
Operating cash flow	2,471	2,641	2,764	3,384	3,767
Capital expenditure	(526)	(638)	(503)	(498)	(465)
Acquisition of business	7	(400)	0	0	0
Interest & dividend income	57	33	0	0	0
Investing cash flow	468	(894)	(489)	(427)	(326)
Equity raised/(repaid)	0	0	0	0	0
Debt raised/(repaid)	(1,795)	(791)	0	0	0
Payment of lease liabilities	0	592	250	250	250
Interest paid	(268)	(225)	(134)	(161)	(177)
Dividend paid (incl tax)	(614)	(615)	(461)	(461)	(461)
Others	(1,000)	(500)	(250)	(250)	(250)
Financing cash flow	(3,676)	(2,131)	(845)	(872)	(889)
Net chg in Cash	(737)	(384)	1,429	2,085	2,553
OCF	2,471	2,641	2,764	3,384	3,767
Adj. OCF (w/o NWC chg.)	3,251	2,895	2,442	3,239	3,483
FCFF	1,945	2,003	2,261	2,886	3,302
FCFE	1,734	1,810	2,126	2,725	3,124
OCF/EBITDA (%)	85.7	93.5	81.4	84.4	79.7
FCFE/PAT (%)	120.9	141.6	122.4	124.4	114.2
FCFF/NOPLAT (%)	127.7	144.8	128.6	131.9	122.5

Source: Company, Emkay Research

Balance Sheet					
Y/E Mar (Rs mn)	FY23	FY24	FY25E	FY26E	FY27E
Share capital	102	102	102	102	102
Reserves & Surplus	9,780	10,859	12,141	13,875	16,156
Net worth	9,882	10,962	12,243	13,977	16,258
Minority interests	25	31	31	31	31
Deferred tax liability (net)	713	674	674	674	674
Total debt	791	0	0	0	0
Total liabilities & equity	11,411	11,667	12,949	14,683	16,963
Net tangible fixed assets	1,372	1,559	1,673	1,779	1,800
Net intangible assets	3,553	3,863	3,685	3,506	3,328
Net ROU assets	1,734	1,801	1,397	974	575
Capital WIP	0	0	0	0	0
Goodwill	4,547	4,547	4,547	4,547	4,547
Investments [JV/Associates]	148	548	548	548	548
Cash & equivalents	932	712	2,141	4,226	6,779
Current assets (ex-cash)	2,465	2,443	2,623	2,678	2,893
Current Liab. & Prov.	3,536	3,807	3,666	3,575	3,507
NWC (ex-cash)	(1,071)	(1,364)	(1,043)	(898)	(614)
Total assets	11,411	11,667	12,948	14,682	16,963
Net debt	(141)	(712)	(2,141)	(4,226)	(6,779)
Capital employed	11,411	11,667	12,949	14,683	16,963
Invested capital	10,331	10,406	10,259	9,908	9,636
BVPS (Rs)	193.3	214.0	239.0	272.8	317.4
Net Debt/Equity (x)	0.0	(0.1)	(0.2)	(0.3)	(0.4)
Net Debt/EBITDA (x)	0.0	(0.3)	(0.6)	(1.1)	(1.4)
Interest coverage (x)	0.1	0.1	0.1	0.1	0.0
RoCE (%)	16.2	14.8	17.1	19.6	21.7

Source: Company, Emkay Research

Valuations and key Ratios					
Y/E Mar	FY23	FY24	FY25E	FY26E	FY27E
P/E (x)	75.4	84.8	62.4	49.5	39.6
P/CE(x)	46.5	48.8	38.6	33.0	28.1
P/B (x)	10.9	9.9	8.9	7.8	6.7
EV/Sales (x)	9.4	8.9	7.9	6.8	5.8
EV/EBITDA (x)	37.5	38.1	31.3	26.0	21.5
EV/EBIT(x)	54.3	57.2	45.7	35.7	28.2
EV/IC (x)	10.5	10.3	10.4	10.5	10.5
FCFF yield (%)	1.8	1.9	2.1	2.8	3.3
FCFE yield (%)	1.6	1.7	2.0	2.5	2.9
Dividend yield (%)	0.6	0.6	0.4	0.4	0.4
DuPont-RoE split					
Net profit margin (%)	12.5	10.6	13.0	14.3	15.6
Total asset turnover (x)	2.1	1.8	1.9	2.0	2.1
Assets/Equity (x)	1.3	1.1	1.1	1.1	1.0
RoE (%)	15.3	12.2	14.9	16.7	18.1
DuPont-RoIC					
NOPLAT margin (%)	13.3	11.5	13.1	14.3	15.4
IC turnover (x)	1.0	1.0	1.1	1.3	1.6
RoIC (%)	17.1	15.6	18.9	24.8	32.2
Operating metrics					
Core NWC days	23.0	19.8	19.8	14.8	13.6
Total NWC days	23.0	19.8	19.8	14.8	13.6
Fixed asset turnover	2.1	1.8	1.9	2.0	2.1
Opex-to-revenue (%)	52.3	55.4	53.2	52.9	52.1

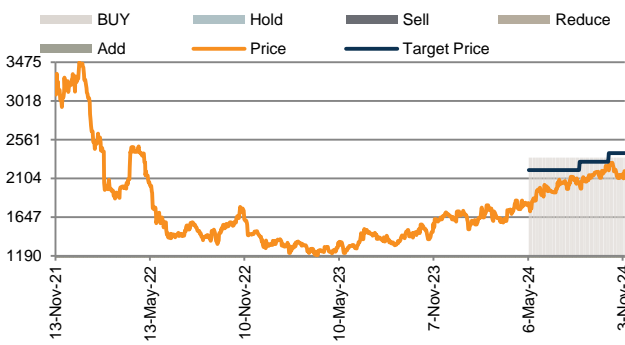
Source: Company, Emkay Research

RECOMMENDATION HISTORY - DETAILS

Date	Closing Price (INR)	TP (INR)	Rating	Analyst
07-Oct-24	2,198	2,400	Buy	Anshul Agrawal
12-Aug-24	2,039	2,300	Buy	Anshul Agrawal
22-May-24	1,956	2,200	Buy	Anshul Agrawal
07-May-24	1,779	2,200	Buy	Anshul Agrawal

Source: Company, Emkay Research

RECOMMENDATION HISTORY - TREND



Source: Company, Bloomberg, Emkay Research

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<b>SELL</b>	<15% downside

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