BUY (Upgrade from ADD)

CMP: **INR 1,806** Target Price: **INR 2,250 (INR 2,335)** ▲ 25%

ICICI Securities

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06 February 2025

India | Equity Research | Results update

Metropolis Healthcare

Healthcare

Growth levers adequately in place

Metropolis' Q3FY25 result was impacted by lower sales from institutional biz (2% impact on revenue) and muted growth in acute ailment tests. In last 4 years, Metropolis has widened its lab network by 68% to 209 labs in 9MFY25. With sufficient lab network in place, the company's focus ahead is on adding spokes and the target is to have 30 collection centres per lab as against 21 currently. Besides, new lab additions have dented its EBITDA margin by 100-150bps and the impact is likely to reverse ahead on the back of price hikes and operating leverage. Acquisition of Core Diagnostics may complete by end of Feb'25 and by FY28 its margins may become similar to Metropolis'. Management guides for organic revenue growth of 13% with EBITDA margin of <25% in Q4FY25.

Adequate (organic + inorganic) growth and margin levers are in place to drive EBITDA/PAT CAGR of 23.9%/32% over FY24-27E. Current valuation of 38.4x FY26E EPS offers a favourable risk reward within the peer group. We upgrade to **BUY** with DCF-based TP of INR 2,250 (target PE multiple of 48x FY26E EPS, in line with current multiple of Dr Lal).

Institution biz and lower acute test volumes drag growth

Reported revenue grew 10.9% YoY (-7.7% QoQ) to INR 3.2bn (I-Sec: INR 3.2bn). Excluding institutional biz, its growth stood at ~13% led by B2C (up 15%) and B2B (up 10%) segments. Gross margin contracted marginally by 30bps YoY (-10bps QoQ) to 80%. EBITDA grew 11.0% YoY (-19.9% QoQ) to INR 720mn (I-Sec: INR 744mn). EBITDA margin was flat YoY (-340bps QoQ) to 22.3% (I-Sec: 23%) due to surge in employee cost (up 17.2% YoY). PAT grew 15.5% YoY (-32.6% QoQ) to INR 314mn (I-Sec: INR 340mn).

Metropolis' base business to continue healthy growth

Revenue per patient grew 6.5% YoY to INR 1,053 and revenue per test was up 4.4% YoY to INR 501. Patient/test volume grew 5.5%/6.1% YoY to 3.1mn/6.4mn. Premium wellness segment grew 25% YoY to INR 525mn backed by test volume growth of 6.1% YoY and accounted for 17% of revenue while specialty segment grew 13% YoY. Specialised test accounted for ~37 of revenue, while semi-specialised and routine test accounted for ~46% of revenue. Network expansion aided ~17% YoY increase in revenue from tier-3 cities and it now contributes 26% of total revenue.

Financial Summary

Y/E March (INR mn)	FY24A	FY25E	FY26E	FY27E
Net Revenue	12,077	13,709	17,687	20,271
EBITDA	2,859	3,379	4,628	5,435
EBITDA Margin (%)	23.7	24.6	26.2	26.8
Net Profit	1,278	1,636	2,421	2,999
EPS (INR)	24.8	31.8	47.0	58.3
EPS % Chg YoY	(10.6)	27.4	48.0	23.9
P/E (x)	72.4	56.8	38.4	31.0
EV/EBITDA (x)	32.1	27.2	19.5	16.3
RoCE (%)	10.7	12.5	17.0	19.3
RoE (%)	12.5	14.5	20.0	22.7

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Market Data

Market Cap (INR)	93bn
Market Cap (USD)	1,059mn
Bloomberg Code	METROHL IN
Reuters Code	METP BO
52-week Range (INR)	2,318 /1,551
Free Float (%)	51.0
ADTV-3M (mn) (USD)	4.2

Price Performance (%)	3m	6m	12m
Absolute	(16.0)	(12.1)	8.4
Relative to Sensex	(14.5)	(11.4)	(0.8)

ESG Score	2022	2023	Change
ESG score	**52.6**	**65.8**	**13.2**
Environment	28.6	41.8	13.2
Social	35.0	69.7	34.7
Governance	75.8	77.4	1.6

Note - Score ranges from 0 - 100 with a higher score indicating higher ESG disclosures.

Source: SES ESG, I-sec research

Earnings Revisions (%)	FY25E	FY26E
Revenue	(0.1)	0.8
EBITDA	(2.1)	(2.0)
EPS	(2.5)	(2.3)

Previous Reports

11-12-2024: [Company Update]

13-11-2024: [Q2FY25 results review]

Addition of asset light collection centre to boost operating leverage

Metropolis has increased its lab network by 68% in the last 4 years to 209 labs currently. From FY26, it will add mere 5-6 labs as current lab network is sufficient to service the additional 300 towns (overall presence across 1,000 towns) in which aims to establish presence in next 12-18 months. Management plans to add more collection centres ahead and is targeting to have 30 collection centres per lab (addition of 1,800-2,000 collection centres on cards) as compared to 21 collection centres per lab currently.

Ample scope to grow through organic and inorganic routes

Addition of collection centres, sales pickup across new labs added in last couple of years and timely price hikes are likely to drive organic growth of 17% over FY24-27E. The company is likely to consolidate the acquired business of Core Diagnostics from Mar'25 and it may boost revenue growth by 8% in FY26E. While the business is expected to be EPS accretive in FY26, it may reach Metropolis' margin levels by FY28E. Management is further open to acquire labs which may help it diversify its geographical presence (especially in North India) or add newer testing capabilities.

Valuation and risks

Metropolis' volume growth in Q3 was impacted due to drag in volumes for acute related test and institutional business. Acute portfolio accounts for higher share of Metropolis' revenue and management expects recovery in Q4FY25. It expects organic growth in Q4 to be ~13% while EBITDA margin will be over 25%. The company has also selectively taken price hikes across key cities to leverage on the opportunity. Metropolis is on track to add 25 labs (23 added in 9MFY25) and 500 centers in FY25, beyond which, it will focus on driving operating leverage by shifting focus towards boosting volume growth through addition of more collection centres. Core Diagnostics may consolidate in Mar'25 which could further boost revenue growth in FY26. Metropolis is also actively scouting for an inorganic opportunity (M&A) and is in advanced stages of evaluation of some North India based diagnostic labs, which may help propel scale in this region. New lab additions have had 100-150bps impact on its EBITDA margin which is expected to ease in next couple of years. We expect Metropolis to generate free cashflow of ~INR 6bn over FY25-27E, which may help the company fund its inorganic growth aspirations.

We expect Metropolis to register an earnings CAGR of 32.0% over FY24–27E with revenue CAGR at 18.8%. Revenue growth is likely to stem from volume growth while test mix and realisation improvement may further fetch 5–6% growth. We expect EBITDA margin to remain in the vicinity of 24–27% over FY25–27E. We see return ratios staying strong with RoE and RoCE of 20.0% and 17.0%, respectively, in FY26E.

The stock currently trades at valuations of 38.4x FY26E and 31.0x FY27E earnings and EV/EBITDA multiple of 20.0x FY26E and 16.7x FY27E. We upgrade our rating to **BUY** (earlier *Add*) on the stock with DCF-based target price of INR 2,250 (earlier INR 2,335).

Key downside risks: Higher-than-expected competition and regulatory hurdles.

Q3FY25 conference call highlights

Business highlights

- Consolidation in diagnostic industry is one of the important growth pillars for organised players.
- Mr Sameer Patel is set to join as CFO in Feb'25.
- In Q3, it added 7 new labs and 114 collection centres across its overall network.
- Accelerated phase of lab expansion will be over in Q4FY25. From FY26, focus will be to improve operational efficiency.
- Organic growth will be driven by better traction in TruHealth portfolio, scaling up presence in tier 3&4 markets and addition of new collection centres to its current network.
- The company has carefully taken price hikes in specific markets along with other measures to boost volumes which should boost revenue growth by 2% for next couple of quarters.
- In B2B segment, small players are exerting pressure on prices of certain tests, Metropolis has not bowed down to such kind of pricing pressure and has not cut prices across its test menu.
- Unorganised segment still accounts for 85% of diagnostic industry in India and there is ample headroom to grow organically.
- Metropolis may pursue further acquisition to diversify its geographical presence or add newer capabilities.
- Online competitors had taken away market share from unorganised players in markets in which Metropolis is operating. Online competitors are now growing in line with market growth rate.

Financial highlights

- Drag in institutional business and lower volumes of acute patients had dampened YoY growth in Q3FY25 which is otherwise also a seasonally weak quarter for the company.
- Revenue growth in Mumbai stood at 16% in Q3FY25.
- Presently, it has 7 labs and 500 collection centres in Mumbai and will add 30-40 labs in Mumbai every year. In Mumbai, it aims to expand distribution network by having a collection centre in every 2-2.5km.
- New labs will have negative single digit EBITDA margin in first year of operations and will reach company level margins in 2-3 years.
- Gross margin could improve from current levels if B2C and B2B mix remains stable.
- It has added 13-14 labs (on gross basis) in the last 2 quarters due to which operating expenditure has increased in the last 2 quarters. Going ahead, its overall cost will grow lower than revenue which will boost operating margin.
- Management is targeting to lift patient volume growth to historical level of 7-8% as against 6% currently.

Core Diagnostics

- Acquisition of Core Diagnostics will complete by the end of Feb'25.
- Acquisition will be funded through cash of INR 1.36bn and shares worth INR 1.1bn.
- Operational efficiencies will boost Core's margins from Q1FY26.
- Core will be margin dilutive in FY26 and will scale up to Metropolis' margin levels by FY28.
- Core's therapeutic expertise in oncology differentiates it from other players and acts as a major entry barrier to its business.

Guidance

- Management expects volume growth to bounce back in Q4FY25. Guides for revenue growth of 13% (excluding Core acquisition) and 25%+ margins for Q4FY25.
- It is targeting EBITDA margin increase of 100-150bps (excluding Core) as impact of network expansion will fade away in next couple of quarters.
- The company is in advanced discussions with some smaller (local brands with deep roots in core markets) North India based chains for inorganic opportunities
- Going ahead, it will look to acquire entities at a valuation multiple which is lower than that of listed peers.
- It will add 2 more labs in Q4FY25 (23 labs added on gross basis in 9MFY25) and in FY26 will add only 5-6 labs which will lead to margin expansion. Collection to lab ratio is set to improve from 21 collection centres per lab to 30 collection centres per lab in next couple of years.

Exhibit 1: Quarterly review

Particulars (INR mn)	Q3FY25	Q3FY24	YoY % Chg	Q2FY25	QoQ % Chg	9MFY25	9MFY24	YoY % Chg
Net Sales	**3,228**	**2,911**	**10.9**	**3,498**	**(7.7)**	**9,859**	**8,767**	**12.5**
Gross Profit	2,582	2,339	**10.4**	2,803	**(7.9)**	7,888	7,012	**12.5**
Gross margins(%)	80.0	80.3	-30bps	80.1	-10bps	80.0	80.0	0bps
Personnel / Staff cost	814	695	17.2	784	3.8	2,316	2,043	13.3
SG&A expenses	1,024	974	5.1	1,089	(6.0)	3,084	2,837	8.7
EBITDA	**720**	**648**	**11.0**	**899**	**(19.9)**	**2,407**	**2,059**	**16.9**
EBITDA margins (%)	**22.3**	**22.3**	**0bps**	**25.7**	**-340bps**	**24.4**	**23.5**	**90bps**
Other income	26	23	10.8	31	(18.3)	81	66	23.8
PBIDT	746	672	11.0	930	(19.8)	2,488	2,125	17.1
Depreciation	277	250	10.8	268	3.3	801	681	17.6
Interest	45	53	(14.6)	48	(5.4)	140	170	(17.6)
Extra ordinary income/ (exp.)	-	-		-		-	(33)	(100.0)
PBT	**423**	**369**	**14.9**	**614**	**(31.0)**	**1,548**	**1,242**	**24.7**
Tax	109	96	13.5	147	(26.1)	385	322	19.5
Minority Interest	1	1	(12.7)	2	(36.2)	5	5	(12.4)
Reported PAT	**314**	**272**	**15.5**	**465**	**(32.6)**	**1,158**	**914**	**26.7**
Adjusted PAT	**314**	**272**	**15.5**	**465**	**(32.6)**	**1,158**	**939**	**23.4**

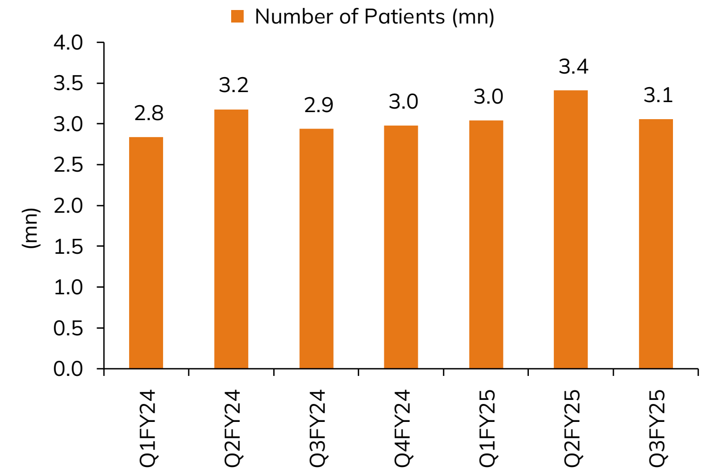
Source: I-Sec research, Company data

Exhibit 2: Operational metrics

Non-covid	Q3FY23	Q4FY23	Q1FY24	Q2FY24	Q3FY24	Q4FY24	Q1FY25	Q2FY25	Q3FY25	YoY %	QoQ %
No of tests (mn)	6.2	6.1	5.7	6.5	6.1	6.1	6.3	7.0	6.4	6.1	(8.4)
No of Patient/Footfall (mn)	2.9	2.9	2.8	3.2	2.9	3.0	3.0	3.4	3.1	4.1	(10.3)
Rev per patient (INR)	957	946	974	964	989	1,034	1,031	1,025	1,053	6.5	2.7
Rev per test (INR)	450	452	482	473	480	506	497	498	501	4.4	0.6

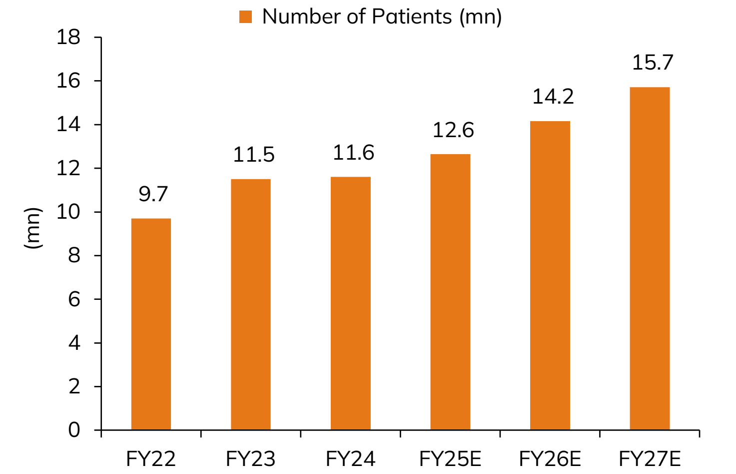
Source: I-Sec research, Company data

Exhibit 3: Business witnessed ~4% YoY growth in patient volume



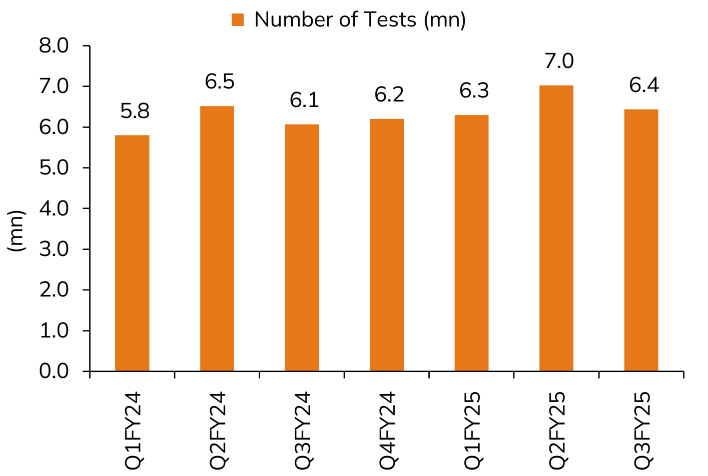
Source: I-Sec research, Company data

Exhibit 4: Network expansion to support healthy volumes over FY24–27E



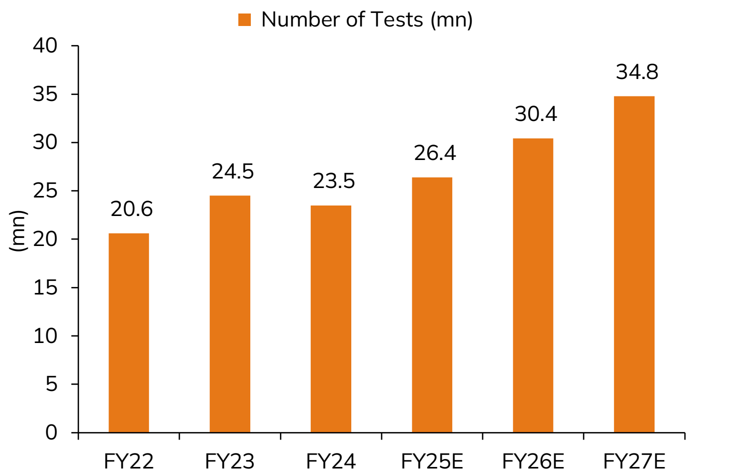
Source: I-Sec research, Company data

Exhibit 5: Test volumes grew ~6% YoY



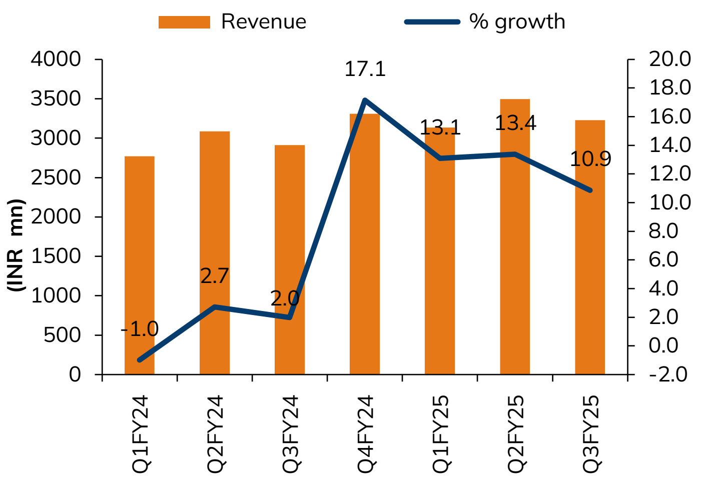
Source: I-Sec research, Company data

Exhibit 6: Test volume to improve on the back of specialty tests



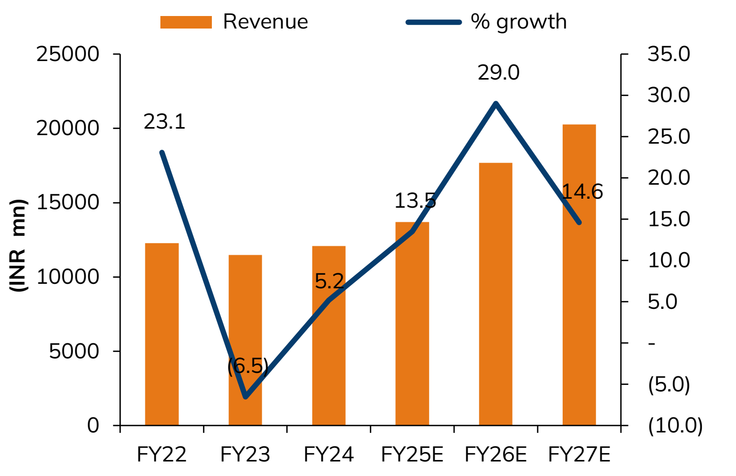
Source: I-Sec research, Company data

Exhibit 7: Revenue growth spikes to 10.9% YoY



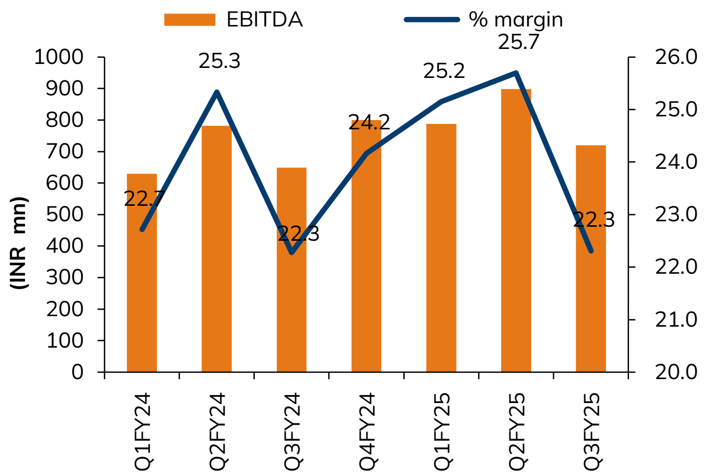
Source: I-Sec research, Company data

Exhibit 8: Revenue to grow 18.8% over FY24–27E



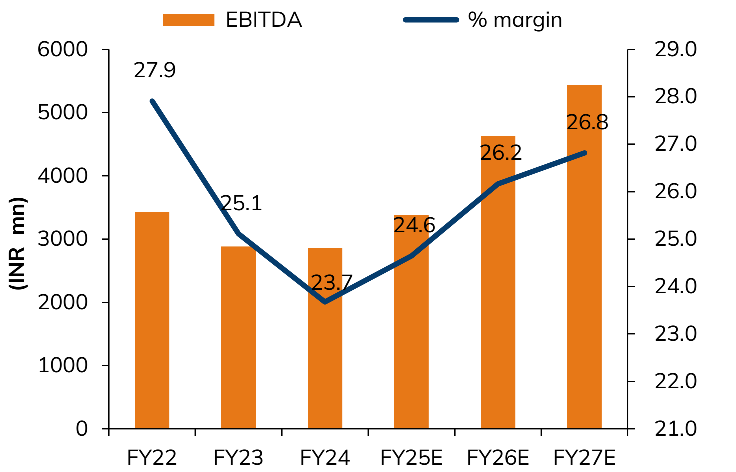
Source: I-Sec research, Company data

Exhibit 9: EBITDA margin was flat YoY



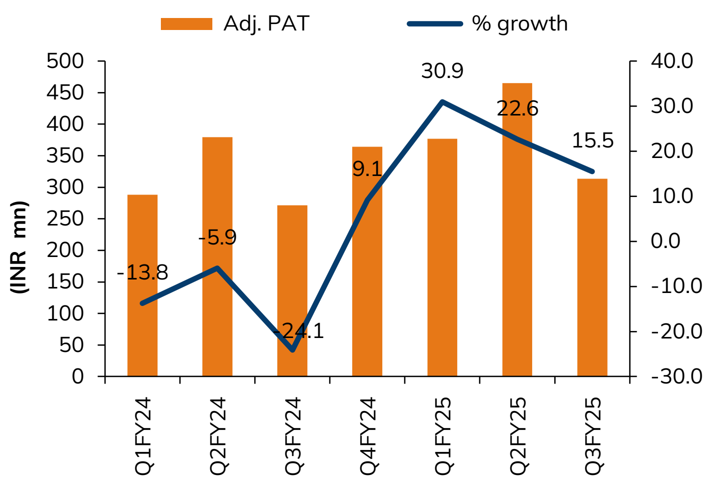
Source: I-Sec research, Company data

Exhibit 10: EBITDA margin to expand by ~300bps over FY24–27E



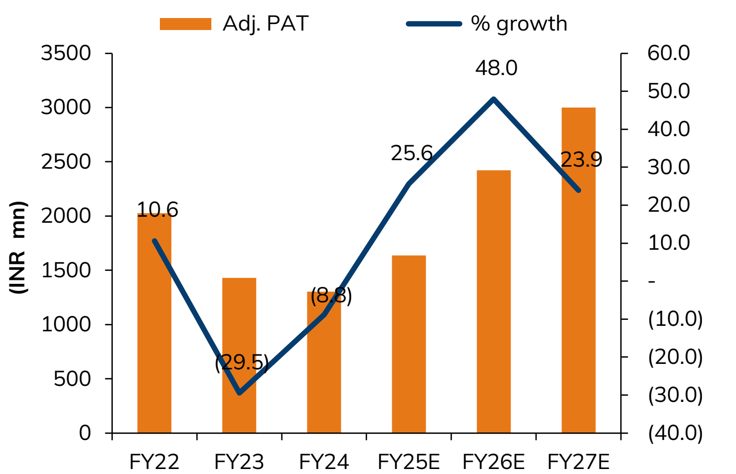
Source: I-Sec research, Company data

Exhibit 11: PAT grew ~15.5% YoY to INR 314mn



Source: I-Sec research, Company data

Exhibit 12: Net profit CAGR expected at 32.0% over FY24–27E



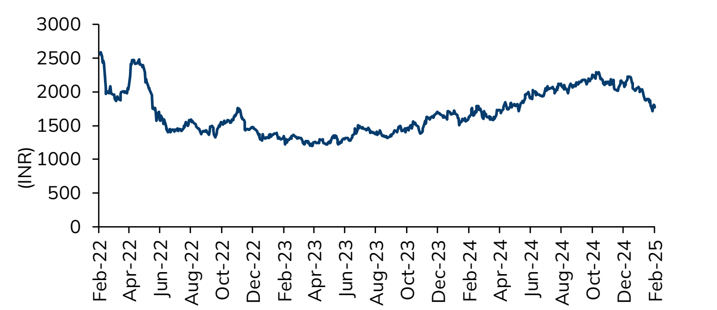
Source: I-Sec research, Company data

Exhibit 13: Shareholding pattern

%	Jun'24	Sep'24	Dec'24
Promoters	49.6	49.4	49.4
Institutional investors	45.7	46.6	46.7
MFs and other	23.7	24.3	26.4
FIs/ Banks	-	0.1	0.1
Insurance Cos.	3.5	3.6	3.5
FIIs	18.5	18.6	16.7
Others	4.7	4.0	3.9

Source: Bloomberg, I-Sec research

Exhibit 14: Price chart



Source: Bloomberg, I-Sec research

Financial Summary

Exhibit 15: Profit & Loss

(INR mn, year ending March)

	FY24A	FY25E	FY26E	FY27E
Net Sales	**12,077**	**13,709**	**17,687**	**20,271**
Operating Expenses	6,792	7,595	9,515	10,784
EBITDA	**2,859**	**3,379**	**4,628**	**5,435**
EBITDA Margin (%)	23.7	24.6	26.2	26.8
Depreciation & Amortization	945	1,110	1,235	1,287
EBIT	1,914	2,269	3,393	4,149
Interest expenditure	225	185	185	185
Other Non-operating Income	91	112	38	55
Recurring PBT	**1,780**	**2,196**	**3,246**	**4,019**
Profit / (Loss) from Associates	**-**	**-**	**-**	**-**
Less: Taxes	462	553	818	1,013
PAT	1,318	1,643	2,428	3,006
Less: Minority Interest	(6)	(6)	(6)	(6)
Extraordinaries (Net)	-	-	-	-
Net Income (Reported)	**1,278**	**1,636**	**2,421**	**2,999**
Net Income (Adjusted)	**1,278**	**1,636**	**2,421**	**2,999**

Source Company data, I-Sec research

Exhibit 16: Balance sheet

(INR mn, year ending March)

	FY24A	FY25E	FY26E	FY27E
Total Current Assets	2,628	2,585	4,755	7,055
of which cash & cash eqv.	712	417	1,969	3,867
Total Current Liabilities & Provisions	1,679	1,898	2,455	2,810
Net Current Assets	**949**	**687**	**2,301**	**4,245**
Investments	1,152	1,223	1,396	1,508
Net Fixed Assets	1,559	3,651	3,317	2,931
ROU Assets	1,801	1,801	1,801	1,801
Capital Work-in-Progress	-	-	-	-
Total Intangible Assets	8,410	7,209	6,808	6,407
Other assets	604	675	847	959
Deferred Tax Assets	-	-	-	-
Total Assets	**13,872**	**14,571**	**15,622**	**16,892**
Liabilities				
Borrowings	**-**	**-**	**-**	**-**
Deferred Tax Liability	**751**	**751**	**751**	**751**
provisions	158	179	231	265
other Liabilities	-	-	-	-
Equity Share Capital	10,962	11,633	12,626	13,855
Reserves & Surplus	-	-	-	-
Total Net Worth	**10,962**	**11,633**	**12,626**	**13,855**
Minority Interest	31	38	44	50
Total Liabilities	**13,872**	**14,571**	**15,622**	**16,892**

Source Company data, I-Sec research

Exhibit 17: Cashflow statement

(INR mn, year ending March)

	FY24A	FY25E	FY26E	FY27E
Operating Cashflow	**2,641**	**2,854**	**3,666**	**4,353**
Working Capital Changes	1,170	1,295	1,420	1,472
Capital Commitments	(638)	(2,000)	(500)	(500)
Free Cashflow	**3,278**	**4,854**	**4,166**	**4,853**
Other investing cashflow	**(257)**	**-**	**-**	**-**
Cashflow from Investing Activities	(894)	(2,000)	(500)	(500)
Issue of Share Capital	0	1	-	-
Interest Cost	(186)	(185)	(185)	(185)
Inc (Dec) in Borrowings	-	-	-	-
Dividend paid	(205)	(965)	(1,429)	(1,770)
Others	(1,421)	-	-	-
Cash flow from Financing Activities	(1,812)	(1,150)	(1,614)	(1,955)
Chg. in Cash & Bank balance	**(65)**	**(296)**	**1,552**	**1,898**
Closing cash & balance	867	417	1,969	3,867

Source Company data, I-Sec research

Exhibit 18: Key ratios

(Year ending March)

	FY24A	FY25E	FY26E	FY27E
Per Share Data (INR)				
Reported EPS	25.0	31.8	47.0	58.3
Adjusted EPS (Diluted)	24.8	31.8	47.0	58.3
Cash EPS	43.4	53.3	71.0	83.3
Dividend per share (DPS)	4.0	18.7	27.7	34.4
Book Value per share (BV)	214.0	225.9	245.2	269.1
Dividend Payout (%)	16.0	59.0	59.0	59.0
Growth (%)				
Net Sales	5.2	13.5	29.0	14.6
EBITDA	(0.8)	18.2	37.0	17.5
EPS (INR)	(10.6)	27.4	48.0	23.9
Valuation Ratios (x)				
P/E	72.4	56.8	38.4	31.0
P/CEPS	41.6	33.9	25.4	21.7
P/BV	8.4	8.0	7.4	6.7
EV / EBITDA	32.1	27.2	19.5	16.3
P / Sales	7.7	6.8	5.3	4.6
Dividend Yield (%)	0.0	0.0	0.0	0.0
Operating Ratios				
Gross Profit Margins (%)	79.9	80.0	80.0	80.0
EBITDA Margins (%)	23.7	24.6	26.2	26.8
Effective Tax Rate (%)	26.5	25.2	25.2	25.2
Net Profit Margins (%)	10.6	11.9	13.7	14.8
NWC / Total Assets (%)	-	-	-	-
Net Debt / Equity (x)	(0.1)	(0.1)	(0.2)	(0.3)
Net Debt / EBITDA (x)	(0.4)	(0.3)	(0.5)	(0.8)
Profitability Ratios				
RoCE (%)	10.7	12.5	17.0	19.3
RoE (%)	12.5	14.5	20.0	22.7
RoIC (%)	11.2	12.9	18.9	24.2
Fixed Asset Turnover (x)	8.2	5.3	5.1	6.5
Inventory Turnover Days	12	12	13	12
Receivables Days	39	41	43	41
Payables Days	31	32	34	32

Source Company data, I-Sec research

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BUY: >15% return; ADD: 5% to 15% return; HOLD: Negative 5% to Positive 5% return; REDUCE: Negative 5% to Negative 15% return; SELL: < negative 15% return

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