




Industry
Bloomberg
BSE CODE

Pharmaceuticals
METROHL IN
542650

Price increase and growth in the preventive & wellness segment led to growth in 3QFY20.

RATING	NEUTRAL
CMP	1658
Price Target	1643
Potential Upside	-1%
Rating Change	
Estimate Change	
Target Change	

3QFY20 Result Update

- The overall revenues grew by 17% to Rs.223 crs this quarter. The B2C sales contribution in the total mix increased to 42.9% in Q3FY20 vs 42.6% in Q3FY19; wellness grew by 60% YoY increasing its share to 7.9% this quarter vs 5.8% in Q3FY20.
- Revenue per patient increased by 2.7% YoY to Rs. 923 in Q3FY20 vs Rs.898 in Q3FY19. This increase has been by contributed by the price increase taken on Oct 2019 and wellness growth of 8% on a YoY basis.
- Total patient visit and the number of test grew by 14% and 17.5% YoY to 2.42 mn and 4.78 mn respectively.
- The EBITDA margin grew by 173 bps YoY to 28.5% this quarter; the margins excluding the lab on lease would have been 0.6% higher as the new labs on lease diluted the total lab on lease EBITDA.

STOCK INFO	
52wk Range H/L	1732/905
Mkt Capital (Rs Cr)	8317
Free float (%)	27%
Avg. Vol 1M (,000)	39
No. of Shares (Crs)	5
Promoters Pledged %	34%

View and Valuation

Metropolis Healthcare Ltd is one of the leading diagnostics companies having prominence in West and South India. The company this quarter reported a growth of 17% YoY; the B2C increased contribution in the total mix, price increase taken in Oct 2019 and wellness growth contributed towards such strong growth.

The major strategy of the company is to grow through network expansion going ahead. 82% of the Metropolis network is still young, we believe as these centers matures- the operating leverage will start kicking in thereby improving the margins and profitability. Along with this, the company's strategy to increase its market share in the focus cities, plans of aggressively growing in the north and East part of the country and its focus on the preventive & wellness segment will drive profitability.

Therefore, we value the stock at 41x FY21E EPS to reach at a target price of Rs. 1643. Maintain NEUTRAL.

Key Risks to our rating and target

- Increase in competition from other players can impact the business.
- The major contribution to the consolidated revenue is from South & West India

RESEARCH ANALYST

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Fig in Rs Cr

KEY FINANCIAL/VALUATIONS	FY17	FY18	FY19	FY20E	FY21E
Net Sales	545	647	761	887	1064
EBITDA	152	176	200	249	316
EBIT	135	157	180	211	278
PAT	102	104	120	152	201
EPS (Rs)	21	22	24	30	40
EPS growth (%)	36%	3%	10%	26%	33%
ROE (%)	31.5%	25.1%	28.7%	30.8%	32.7%
ROCE (%)	41.6%	37.9%	43.1%	42.8%	45.2%
BV	68	87	83	98	123
P/B (X)	0.0	0.0	11.4	14.3	11.5
P/E (x)	0.0	0.0	39.6	46.5	35.1

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3QFY20 Results

Fig in Rs Cr

FINANCIALS	3QFY19	4QFY19	1QFY20	2QFY20	3QFY20	YoY %	QoQ%	FY18	FY19	YoY %
Net Sales	190	202	203	223	223	17.0%	-0.2%	647	761	17.6%
Other Income	0	1	2	2	2	467.8%	11.3%	8	8	5.7%
COGS	44	46	50	54	54	22.1%	-1.2%	152	179	18.1%
Gross Margin	77.0%	77.4%	75.5%	75.7%	76.0%	-1.0%	0.2%	76.6%	76.5%	-0.1%
Employee Cost	45	42	47	50	48	8.5%	-2.4%	147	176	19.6%
Other Expen.	51	57	51	57	57	12.6%	0.8%	172	206	19.4%
EBITDA	51	57	55	63	64	24.6%	1.5%	176	200	13.8%
EBITDA Mar.	26.8%	28.3%	27.1%	28.0%	28.5%	1.7%	0.5%	27.2%	26.3%	-0.9%
Depreciation	5	5	8	9	11	99.2%	13.7%	19	20	5.5%
EBIT	46	52	47	53	53	16%	-0.6%	157	180	14.8%
Interest	0	0	2	2	2	1184%	25.5%	1	1	-56.0%
PBT	46	52	47	53	53	15.0%	-1.1%	164	188	15%
Exceptional Item	-	-	7	-	-			-	-	
Tax	14	17	12	10	11	-24.0%	7.0%	52	63	21%
PAT	30	34	26	42	42	38.1%	-1%	104	120	15%
PAT Margin	16.0%	16.8%	12.8%	18.9%	18.9%	2.9%	0%	16.1%	15.8%	0%

Concall Highlights

- The overall revenues grew by 17% to Rs.223 crs this quarter. The B2C sales contribution in the total mix increased to 42.9% in Q3FY20 vs 42.6% in Q3FY19; wellness grew by 60% YoY increasing its share to 7.9% this quarter vs 5.8% in Q3FY20.
- The EBITDA margin excluding the lab on lease would have been 0.6% higher as the new labs on lease diluted the total lab on lease EBITDA. Certain leasehold assets upto the tune of Rs. 0.5 crs were written off during the shifting of Delhi Lab. This impacted the EBITDA to the tune of 1%.
- Revenue per patient increased by 2.7% YoY to Rs. 923 in Q3FY20 vs Rs.898 in Q3FY19. This increase has been by contributed by the price increase taken on Oct 2019 and wellness growth of 8% on a YoY basis.
- Total patient visit and the number of test grew by 14% and 17.5% YoY to 2.42 mn and 4.78 mn respectively.
- In terms of volumes, Tier 2 and 3 cities are growing faster than Tier 1 cities; however, the margins profiles are higher better in Tier 1 cities. ARC networks also contributing towards volume growth.
- B2C now contributes 54% of the revenue from Focus cities vs 52% in Q3FY19. This segment saw a revenue growth of 16.3% YoY in the focus cities. The focus going ahead would be to increase this share to 65%.
- A total of 19 new tests (7 in chemistry, 11 in molecular pathology and 1 in infectious molecular) have been validated and new tests added to the test menu in Q3FY20.
- 23 acquisitions have been done so far by the company, the major strategy for acquisitions being strengthening its leadership position in the existing market and entering new geographies.
- The Company is in process of acquiring 51 % shareholding of Shradha Diagnostic Centre Pvt Ltd for providing diagnostic and pathological testing services in Ahmedabad, Gujarat.
- The major growth drivers going ahead:
 - Since the 82% of the franchise network are young, the continued efforts to grow this throughput will lead to medium term growth leading to operating leverage and improved profitability.
 - Increasing market share in the focus cities through network expansion and improving productivity.
 - Focus on growing business in North and East aggressively using the additional new capacities created in Delhi lab and by expanding networks in the smaller towns of North and East India.
 - Focus on Preventive and wellness segment to drive volumes.
 - Leverage vast capabilities in molecular diagnostics, Oncology and Cytogenetics where the margins are high and competition is lower.

Exhibit: Sales and Gross margin

Overall revenue grew by 17% to Rs.223 crs in this quarter (vs our estimate of Rs.226 crs).

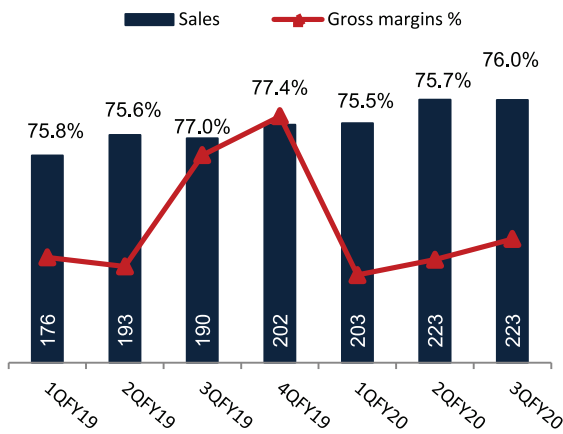


Exhibit: EBITDA and PAT margin

EBITDA margin and PAT margin for the quarter stands at 28.5% and 18.9% respectively.

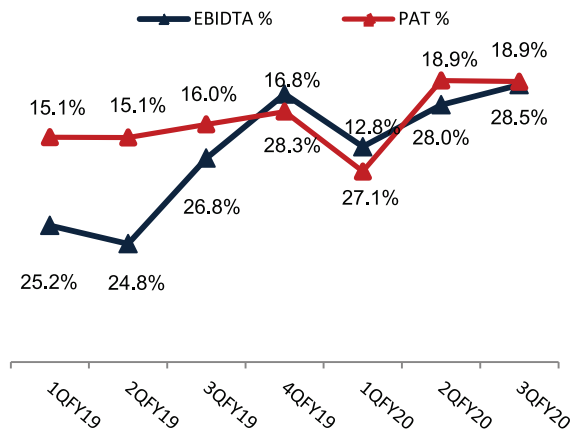


Exhibit: No. of tests & Revenue/tests.

The number of tests stands at 9.51 mn and revenue/tests stands at Rs.454 in this quarter.

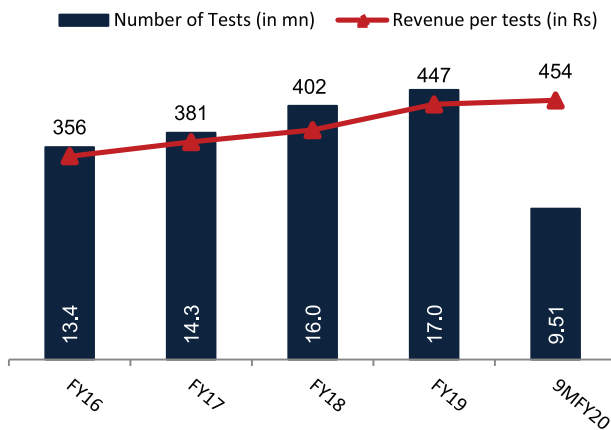


Exhibit: No of patients visits & Revenue/patients.

Revenue per patient increased by 2.7% YoY to Rs. 923 in Q3FY20.

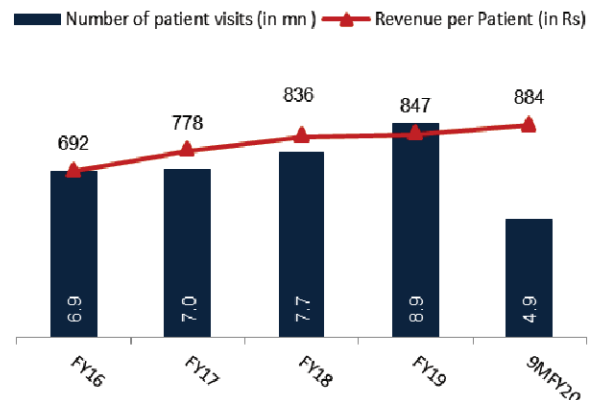


Exhibit: Service Network of Metropolis

The Owned PSCs, third party PSCs and ARC stands at 260, 1898 and 628 respectively.

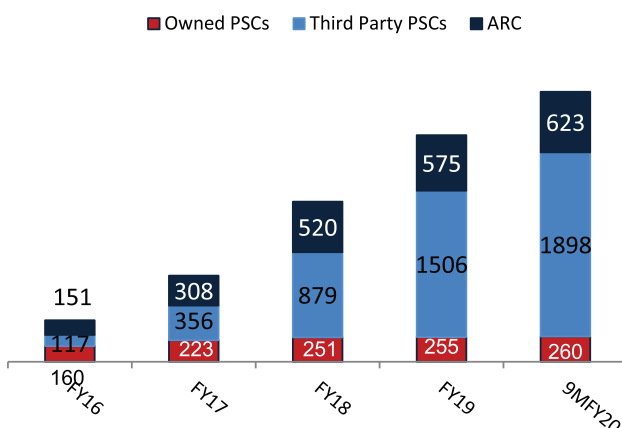
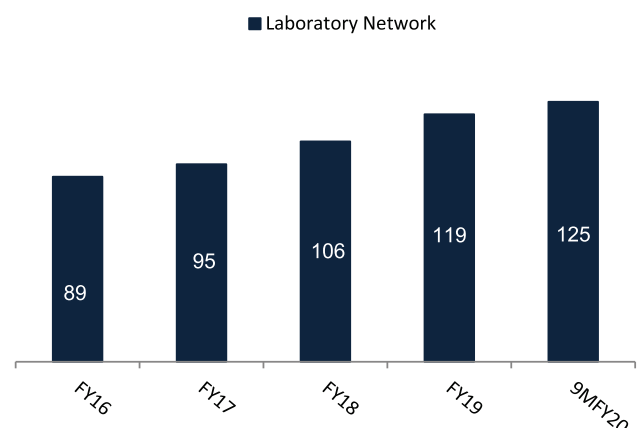


Exhibit: Laboratory Network of Metropolis

The greenfield lab stands at 104 and lab on lease stands at 20 for 9MFY20.



Financial Details

Balance Sheet

Fig in Rs Cr

Y/E March	FY14	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E
Share Capital	10	10	10	10	10	10	10	10
Reserves	292	352	269	314	405	409	482	605
Networth	302	362	279	323	415	419	492	615
Debt	14	7	1	1	1	18	2	2
Other Non Current Liab	4	5	11	19	10	8	60	61
Total Capital Employed	316	369	280	324	415	436	494	616
Net Fixed Assets (incl CWIP)	150	153	142	203	207	219	281	283
Non Current Investments	2	2	2	2	2	2	2	2
Other Non Current Assets	12	13	27	25	21	28	37	39
Non Current Assets	164	168	171	230	230	248	320	324
Inventory	14	18	16	14	21	26	29	35
Debtors	50	71	70	80	101	137	161	194
Cash & Bank	23	29	34	41	60	80	162	266
Other Current Assets	141	178	106	150	118	62	60	68
Current Assets	229	296	225	285	300	305	413	562
Creditors	23	32	33	36	35	43	53	64
Provisions	3	4	4	4	4	5	5	7
Other Current Liabilities	31	30	54	112	51	59	120	137
Curr Liabilities	57	67	91	151	90	107	178	208
Net Current Assets	172	229	135	134	210	198	235	354
Total Assets	393	464	396	515	530	553	733	887

Income Statement

Fig in Rs Cr

Y/E March	FY14	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E
Revenue from Operation	388	455	475	545	647	761	887	1,064
Change (%)		17%	4%	15%	19%	18%	17%	20%
EBITDA	107	118	126	152	176	200	249	316
Change (%)		11%	7%	20%	16%	14%	24%	27%
Margin (%)	27.5%	25.9%	26.6%	27.9%	27.2%	26.3%	28.1%	29.7%
Depr & Amor.	16	21	17	17	19	20	39	38
EBIT	91	98	110	135	157	180	211	278
Int. & other fin. Cost	2	2	1	0	1	1	8	6
Other Income	7	5	15	23	8	8	9	12
EBT	95	101	124	157	164	188	212	284
Exp Item	0	0	0	0	0	0	7	0
Tax	32	33	46	53	52	63	49	80
Minority Int & P/L share of Ass.	(6)	(7)	(5)	(6)	(8)	(3)	(3)	(3)
Reported PAT	57	61	77	102	104	120	152	201
Change (%)		8%	26%	32%	3%	15%	26%	33%
Margin(%)	14.6%	13.4%	16.2%	18.7%	16.1%	15.8%	17.1%	18.9%

Financial Details

Key Ratios

Y/E March	FY14	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E
ROE	18.7%	16.9%	27.6%	31.5%	25.1%	28.7%	30.8%	32.7%
ROCE	28.7%	26.4%	39.3%	41.6%	37.9%	43.1%	42.8%	45.2%
Asset Turnover	1.0	1.0	1.2	1.1	1.2	1.4	1.2	1.2
Debtor Days	47	57	54	54	57	66	66	66
Inv Days	14	15	12	9	12	13	12	12
Payable Days	22	26	25	24	20	21	22	22
Int Coverage	-	38	59	138	348	130	339	28
P/E	-	-	-	-	-	40	55	41
Price / Book Value	-	-	-	-	-	11	17	14
EV/EBITDA	(0)	(0)	(0)	(0)	(0)	23	33	25
FCF per Share	11	9	15	17	18	14	23	38
Div Yield	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%

Cash Flow Statement

Fig in Rs Cr

Y/E March	FY14	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E
PBT	95	101	128	160	164	187	212	284
(inc)/Dec in Working Capital	(6)	(18)	(0)	(4)	(23)	(51)	19	(17)
Non Cash Op Exp	16	0	1	17	19	20	39	38
Int Paid (+)	2	2	1	0	1	1	8	6
Tax Paid	(30)	(32)	(40)	(51)	(58)	(67)	(49)	(80)
others	(1)	(4)	(13)	(21)	1	1	(11)	(3)
CF from Op. Activities	77	69	91	102	104	90	217	229
(inc)/Dec in FA & CWIP	(24)	(24)	(10)	(16)	(14)	(19)	(102)	(40)
Free Cashflow	56	46	75	85	88	71	116	188
(Pur)/Sale of Inv	(39)	(34)	105	(34)	37	71	6	-
others	2	3	3	(26)	(13)	(4)	-	-
CF from Inv. Activities	(61)	(55)	98	(75)	10	48	(96)	(40)
inc/(dec) in NW	-	-	-	-	-	(1)	-	-
inc/(dec) in Debt	(7)	(6)	(6)	(4)	(0)	17	(17)	-
Int. Paid	(2)	(2)	(1)	(0)	(0)	(0)	(8)	(6)
Div Paid (inc tax)	(5)	(1)	(89)	(13)	(64)	(83)	(78)	(78)
others	-	-	0	(78)	(0)	(23)	(51)	62
CF from Fin. Activities	(14)	(9)	(174)	(17)	(87)	(118)	(41)	(84)
Inc(Dec) in Cash	1	5	15	9	26	20	81	104
Add: Opening Balance	18	20	13	27	25	44	80	162
Closing Balance	19	25	28	36	51	64	161	266

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