

Industry
Bloomberg
BSE CODE

Pharmaceuticals
METROHL IN
542650

RATING	ACCUMULATE
CMP	1438
Price Target	1592
Potential Upside	11%

Rating Change	↑
Estimate Change	↑
Target Change	↑

STOCK INFO	
52wk Range H/L	2110/927
Mkt Capital (Rs Cr)	7351
Free float (%)	27%
Avg. Vol 1M (,000)	133
No. of Shares (Cr)	5
Promoters Pledged %	34%

RESEARCH ANALYST

J MADHAVI
j.madhavi@narnolia.com

Network & cost rationalization will improve efficiency & productivity going ahead.

4QFY20 Result update

- Revenue for 4QFY20 grew by 2.5% YoY to Rs. 207 crs as the last 15 days of March 2020 witnessed sharp revenue de-growth of 46% YoY due to Covid'19. Adjusted for Covid'19, the revenue growth would have been 15.1% in 4QFY20.
- EBITDA de-grew by 10% YoY to Rs. 52 crs. EBITDA margin declined 350 bps YoY to 24.8% due to disruption in the economies of scale.
- PAT for the quarter declined by 56% YoY to Rs. 16 crs, impacted on account of extra-ordinary provisioning for receivable amounting to Rs. 17.7 Cr pertaining to large B2B hospital.
- In the beginning of lockdown, the company had around 75% of its lab network non-functional and now gradually its opening all the laboratories.
- 15-20% of the Owned collections centres were operating at the end of March and now operations have commenced operations at 50% of the network.

View and Valuation

Overall revenue of METROPOLIS grew by 2.5% YoY to Rs 207 crs. The revenue for the month of March 2020 was down by 20.6% compared to March 2019 as the movement of samples were restricted due to non-availability of transport and courier services during the lockdown phase in last 15 days of March. In the beginning of lockdown, the company had around 75% of its lab network non-functional and now gradually its opening all the laboratories.

We believe with the relaxation in lockdown 5.0, the operations will normalize. The company has taken significant steps in order to improve the overall efficiency and productivity of its operations; it has initiated rationalization of collection centres which were adding to significant cost. Further, steps have been taken for quarterly reconciliation for all the channel partners in order to improve the collection efficiency. Post results, we have increased our PAT estimates for FY21 by 23%. Therefore, we improve our rating from NEUTRAL to ACCUMULATE with a target price of Rs.1592.

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.

Fig in Rs Cr

KEY FINANCIAL/VALUATIONS	FY17	FY18	FY19	FY20	FY21E
Net Sales	545	647	761	856	899
EBITDA	152	176	200	233	246
EBIT	135	157	180	194	203
PAT	102	104	120	128	145
EPS (Rs)	21	22	24	25	29
EPS growth (%)	36%	3%	10%	6%	14%
ROE (%)	31.5%	25.1%	28.7%	24.4%	24.6%
ROCE (%)	41.6%	37.9%	43.1%	37.0%	34.4%
BV	68	87	83	104	118
P/B (X)	0.0	0.0	11.4	12.3	12.2
P/E (x)	0.0	0.0	39.6	50.6	49.7

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4QFY20 Results

Fig in Rs Cr

FINANCIALS	4QFY19	1QFY20	2QFY20	3QFY20	4QFY20	YoY%	QoQ%	FY19	FY20	YoY%
Net Sales	202	203	223	223	207	2.5%	-7.1%	761	856	12.5%
Other Income	1	2	2	2	3	339.1%	40.3%	8	9	4.3%
COGS	46	50	54	54	54	17.5%	0.0%	179	211	17.8%
Gross Margin	77.4%	75.5%	75.7%	76.0%	74.1%	-3.3%	-1.8%	76.5%	75.4%	-1.1%
Employee Cost	42	47	50	48	45	5.7%	-7.2%	176	190	7.9%
Other Expen.	57	51	57	57	57	0.8%	-0.4%	206	222	8.2%
EBITDA	57	55	63	64	51	-10.0%	-19.1%	200	233	16.2%
EBITDA Mar.	28.3%	27.1%	28.0%	28.5%	24.0%	-4.3%	-4.5%	26.3%	27.2%	0.9%
Depreciation	5	8	9	11	11	104.4%	5.5%	20	39	95.7%
EBIT	52	47	53	53	40	-22%	-24.1%	180	194	7.4%
Interest	0	2	2	2	2	3037%	-4.9%	1	8	1471.2%
PBT	52	47	53	53	41	-21.5%	-22.3%	188	194	3%
Exceptional Item	-	7	-	-	18			-	25	
Tax	17	12	10	11	8	-53.8%	-26.8%	63	41	-35%
PAT	35	27	43	42	15	-55.5%	-63%	120	128	6%
PAT Margin	17.3%	13.2%	19.3%	18.9%	7.5%	-9.8%	-11%	15.8%	14.9%	-1%

Concall Highlights

- As per management, the revenue growth would have been higher by 15.1% in Q4FY20 and 15.9% in FY20 adjusting for Covid-19 impact.
- As per management, EBIDTA would have been higher by Rs. 17 crs for Q4 & FY20 with EBIDTA margin being higher by 100 bps for FY20
- In the beginning of lockdown, the company had around 75% of its lab network non-functional and now gradually its opening all the laboratories.
- 15-20% of the Owned collections centres were operating at the end of March and now operations have commenced operations at 50% of the network.
- Revenue in April 2020 was down to 40% of the normal trend and is expected to improve to around 75% of the normal trend by end of June 2020.
- April 2020 saw EBIDTA loss followed by break even in May 2020; the company expects clock positive EBITDA in June 2020.
- According to the management, Covid-19 testing helps cover fixed cost, help minimizing margin downfall though is not profit accretive.
- The company has significantly ramped up the capacity of Covid testing in the last few weeks and is prepared to triple the volume from the current volume.
- The company has initiated cost rationalization measures and have been successful in reducing fixed and semi-variable costs from Rs. 28- 29 Cr per month to Rs. 21-22 Cr a month i.e. reduction of more than 20%. This rationalization will lead to better productivity and efficiency.
- In April 2020, the company has initiated steps to rationalize our collection center and anticipate this exercise to culminate in June-July 2020. This rationalization exercise will see a 10-15% reduction in ARC network which were not contributing meaningfully to revenue.
- The company has taken steps towards improving the collection efficiency especially in B2B network evaluating improvement in outstanding receivable days.
- The focus going ahead would to increase the productivity of young networks & rationalize the network when needed in order to improve revenue & efficiency.
- On the promoter's pledge – the management expects to become un-pledge in the next 12 months.

Exhibit: Sales and Gross margin

Revenue for 4QFY20 grew by 2.5% YoY as the last 15 days of March 2020 witnessed sharp revenue de-growth.

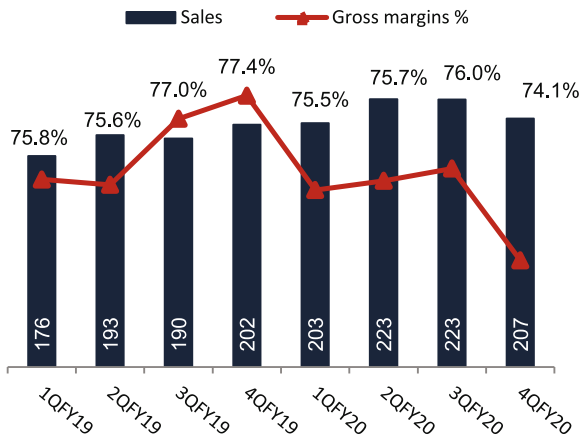


Exhibit: EBITDA & PAT margin

EBITDA margin declined 350 bps YoY to 24.8% due to disruption in the economies of scale.

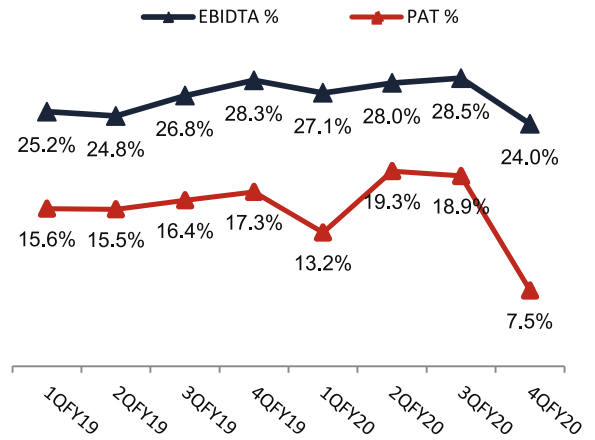


Exhibit: No. of tests & Revenue/tests.

The no of tests stands at 5.26mn for Q4FY20 and revenue/ test stands at Rs.396 compared to Rs. 411 in Q4FY20.

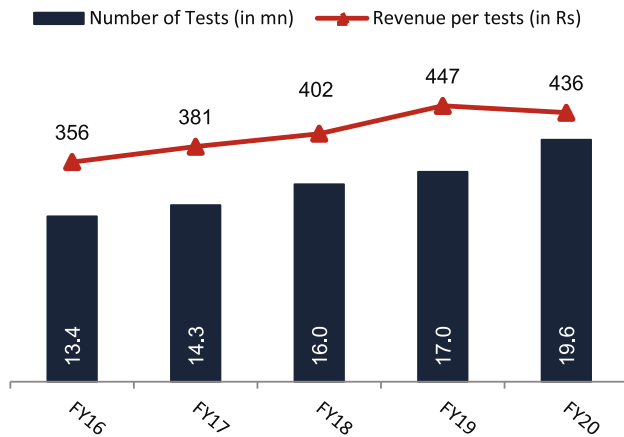


Exhibit: No of patients visits & Revenue/patients.

The no of patients visits stands at 2.45 mn. Revenue/ patients stands at Rs.844 compared to Rs.798 in Q4FY20.

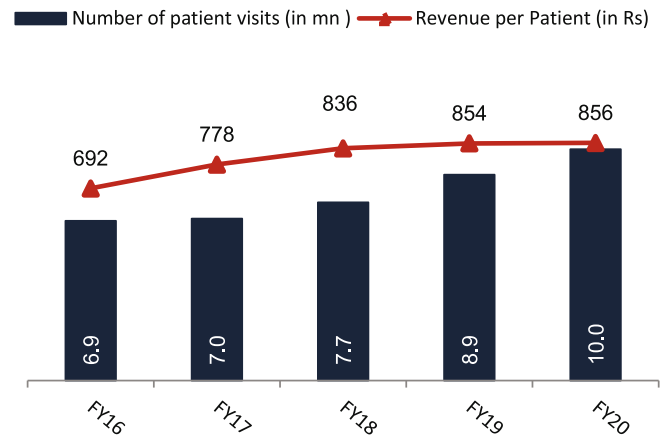


Exhibit: Service Network of Metropolis

The Owned PSCs, third party PSCs and ARC stands at 260, 1873 and 598 respectively.

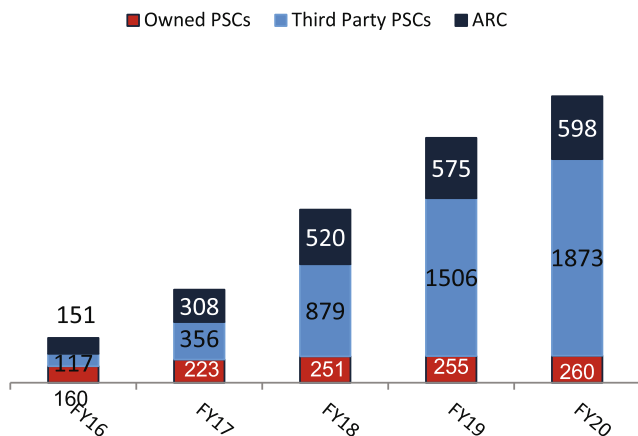
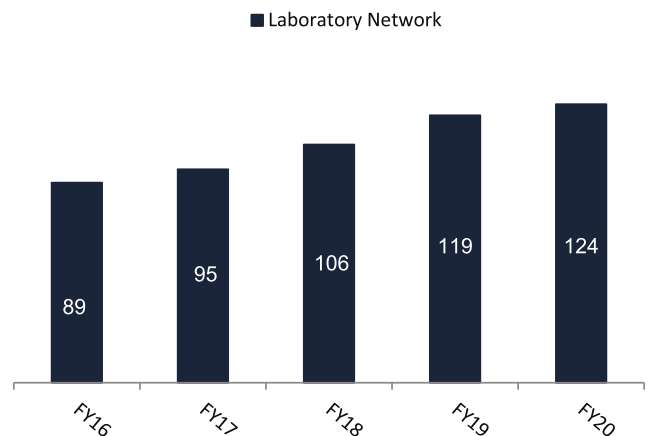


Exhibit: Laboratory Network of Metropolis

The greenfield lab stands at 104 and lab on lease stands at 20 for FY20.



Financial Details

Balance Sheet

Fig in Rs Cr

Y/E March	FY14	FY15	FY16	FY17	FY18	FY19	FY20	FY21E
Share Capital	10	10	10	10	10	10	10	10
Reserves	292	352	269	314	405	409	513	580
Networth	302	362	279	323	415	419	523	590
Debt	14	7	1	1	1	18	2	2
Other Non Current Liab	4	5	11	19	10	8	58	58
Total Capital Employed	316	369	280	324	415	436	525	592
Net Fixed Assets (incl CWIP)	150	153	142	203	207	219	299	316
Non Current Investments	2	2	2	2	2	2	2	2
Other Non Current Assets	12	13	27	25	21	28	54	55
Non Current Assets	164	168	171	230	230	248	355	373
Inventory	14	18	16	14	21	26	24	26
Debtors	50	71	70	80	101	137	128	135
Cash & Bank	23	29	34	41	60	80	210	243
Other Current Assets	141	178	106	150	118	62	34	35
Current Assets	229	296	225	285	300	305	397	438
Creditors	23	32	33	36	35	43	85	74
Provisions	3	4	4	4	4	5	7	7
Other Current Liabilities	31	30	54	112	51	59	78	81
Curr Liabilities	57	67	91	151	90	107	169	161
Net Current Assets	172	229	135	134	210	198	228	277
Total Assets	393	464	396	515	530	553	752	811

Income Statement

Fig in Rs Cr

Y/E March	FY14	FY15	FY16	FY17	FY18	FY19	FY20	FY21E
Revenue from Operation	388	455	475	545	647	761	856	899
Change (%)		17%	4%	15%	19%	18%	13%	5%
EBITDA	107	118	126	152	176	200	233	246
Change (%)		11%	7%	20%	16%	14%	16%	6%
Margin (%)	27.5%	25.9%	26.6%	27.9%	27.2%	26.3%	27.2%	27.4%
Depr & Amor.	16	21	17	17	19	20	39	43
EBIT	91	98	110	135	157	180	194	203
Int. & other fin. Cost	2	2	1	0	1	1	8	8
Other Income	7	5	15	23	8	8	9	9
EBT	95	101	124	157	164	188	194	204
Exp Item	0	0	0	0	0	0	25	0
Tax	32	33	46	53	52	63	41	59
Minority Int & P/L share of Ass.	(6)	(7)	(5)	(6)	(8)	(3)	-	-
Reported PAT	57	61	77	102	104	120	128	145
Change (%)		8%	26%	32%	3%	15%	6%	14%
Margin(%)	14.6%	13.4%	16.2%	18.7%	16.1%	15.8%	14.9%	16.2%

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%	24.4%	24.6%
ROCE	28.7%	26.4%	39.3%	41.6%	37.9%	43.1%	37.0%	34.4%
Asset Turnover	1.0	1.0	1.2	1.1	1.2	1.4	1.1	1.1
Debtor Days	47	57	54	54	57	66	55	55
Inv Days	14	15	12	9	12	13	10	10
Payable Days	22	26	25	24	20	21	36	30
Int Coverage	-	38	59	138	348	130	339	23
P/E	-	-	-	-	-	40	51	50
Price / Book Value	-	-	-	-	-	11	12	12
EV/EBITDA	(0)	(0)	(0)	(0)	(0)	23	27	28
FCF per Share	11	9	15	17	18	14	37	24
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	FY20	FY21E
PBT	95	101	128	160	164	187	169	204
(inc)/Dec in Working Capital	(6)	(18)	(0)	(4)	(23)	(51)	28	(17)
Non Cash Op Exp	16	0	1	17	19	20	39	43
Int Paid (+)	2	2	1	0	1	1	8	8
Tax Paid	(30)	(32)	(40)	(51)	(58)	(67)	(64)	(59)
others	(1)	(4)	(13)	(21)	1	1	35	-
CF from Op. Activities	77	69	91	102	104	90	215	179
(inc)/Dec in FA & CWIP	(24)	(24)	(10)	(16)	(14)	(19)	(29)	(60)
Free Cashflow	56	46	75	85	88	71	186	119
(Pur)/Sale of Inv	(39)	(34)	105	(34)	37	71	16	-
others	2	3	3	(26)	(13)	(4)	(92)	-
CF from Inv. Activities	(61)	(55)	98	(75)	10	48	(105)	(60)
inc/(dec) in NW	-	-	-	-	-	(1)	32	-
inc/(dec) in Debt	(7)	(6)	(6)	(4)	(0)	17	(18)	-
Int. Paid	(2)	(2)	(1)	(0)	(0)	(0)	(1)	(8)
Div Paid (inc tax)	(5)	(1)	(89)	(13)	(64)	(83)	(48)	(78)
others	-	-	0	(78)	(0)	(23)	(51)	(21)
CF from Fin. Activities	(14)	(9)	(174)	(17)	(87)	(118)	(55)	(86)
Inc(Dec) in Cash	1	5	15	9	26	20	55	33
Add: Opening Balance	18	20	13	27	25	44	52	210
Closing Balance	19	25	28	36	51	64	107	243

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Correspondence Office Address: Arch Waterfront, 5th Floor, Block GP, Saltlake, Sector 5, Kolkata 700 091; Tel No.: 033-40541700; www.narnolia.com.

Registered Office Address: Marble Arch, Office 201, 2nd Floor, 236B, AJC Bose Road, Kolkata 700 020; Tel No.: 033-4050 1500; www.narnolia.com

Compliance Officer: Manish Kr Agarwal, Email Id: mkagarwal@narnolia.com, Contact No.:033-40541700.

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