

Sector	Healthcare
Recommendation	BUY
Upside	15%

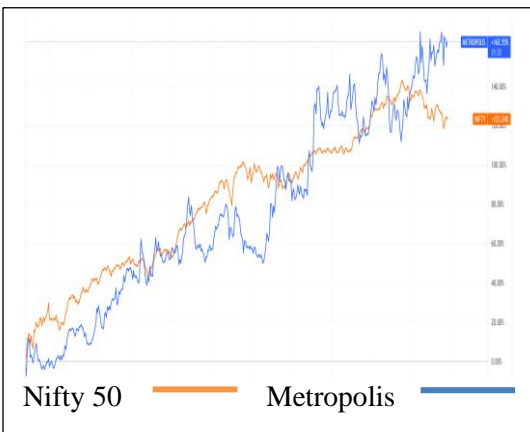
**Metropolis | CMP: ₹3430-3450 | Target: ₹3956**

Stock Data	
Sensex	56319
52 Week h/l (₹)	3421/1846
Market cap (₹ Cr)	16,661
BSE code	542650
NSE code	METROPOLIS
FV (₹)	2.0
Div. yield (%)	0.25%

Shareholding Pattern			
	Mar-21	Jun-21	Sep-21
FII+DII	42.97	43.18	42.98
Government	50.38	50.37	50.33
Public	6.65	6.45	6.69

Source: www.bseindia.com

### Share Price Data



### Profile

Metropolis is India's third-largest diagnostics player, with a strong B2C pathology franchise in five focus cities of Mumbai, Pune, Chennai, Bangalore, Surat and a combination of B2C & B2B business in >200 other cities in India. Metropolis offers 4,000+ diagnostic tests to individual patients, hospitals, other healthcare providers and corporates. It operates 125 clinical labs (including its Global Reference Lab in Mumbai) which are serviced by ~2,000 Patient Service Centers and ~10,000 Touch Points. Over FY16-20, Metropolis' patient volumes have seen 10% CAGR, while overall revenues have clocked at 16% CAGR. B2C segment, which accounts for 44% of Metropolis' overall revenues, has grown at a much faster rate, of 20% CAGR, during this period.

### Investment Rationale

**Opening-up in core markets should drive better growth:** Although Metropolis' non-Covid revenue growth was muted vs. DLPL, mgmt. has guided that growth should pick-up with relaxations of lockdowns in Metropolis' core markets of Maharashtra/South India. However, govt. business which accounts for single-digit revenue share for Metropolis is likely to be weak in 3Q; albeit, annual govt. volumes are expected to remain steady. Ramp-up in specialised & home collection (HC) segments continues to be strong, with specialised tests accounting for 43% of the non-Covid business and HC contributing 22% of B2C non-Covid business

**Network expansion plans remain on track:** Against its target of adding 90 labs and 1,800 collection centres over the next 3 years, Metropolis added 7 labs & 450 centers in 1HFY22 and plans to add another 15-20 labs & 250-300 centres in 2HFY22. While majority of this network expansion will be across tier-2/3 towns, mgmt. indicated that one-third of this planned expansion will be across states/markets where Metropolis does not have a meaningful presence.

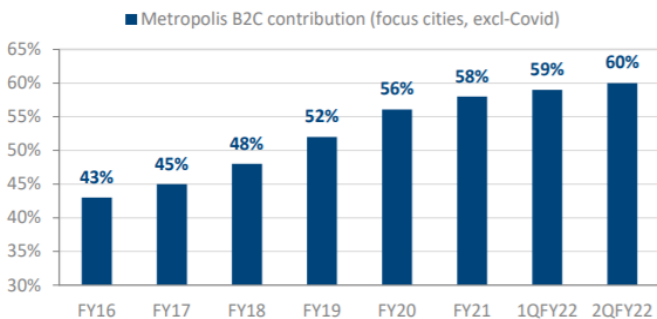
**Analyst – Sanjiv Bhasin  
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21st December, 2021

**Margins will marginally dip in 2HFY22 on account of network and digital investments:** Management expects Ebitda margins to marginally dip in 2HFY22 from current levels of ~30%, owing to planned network expansion and Rs40-50m of digital investments per quarter. We assume margins will contract to ~29% in 2HFY22 and gradually improve to 29.5- 30% over the next 2 years, led by operating leverage from the expanded network and newer growth initiatives.

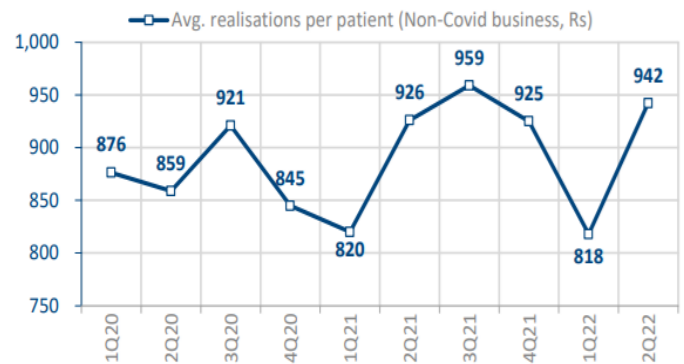
**Opportunities to meaningfully expand coverage in TN:** Hitech is the 2nd-largest organised diagnostics player in the Chennai market after Metropolis, and will double Metropolis' revenue base in the Chennai market. Given that the combined entity is present only in 6-7 districts out of 38 districts in TN, the plan is to expand coverage to another 8-10 districts over the next 2-3 years by setting up 15-20 clinical labs and 300 collection centres. Hitech would increase Metropolis' revenue base in the Bangalore market by 20-25%.

Metropolis' B2C revenue share in focus cities, excluding the Covid business, increased to 60% in 2Q and the company has reiterated its target of 65% B2C revenue contribution in focus cities over the next few years



Source: Company, IIFL Research

Non-Covid patient realisations (ex-Covid allied tests) increased QoQ, from Rs818 to Rs942



Source: Company, IIFL Research

**Cost synergies to be the initial focus, followed by cross-selling:** While Hitech's realisation-per-test is only 60-65% that of Metropolis, its realisation-per-patient is similar to Metropolis', as Hitech processes higher no. of tests per patient and 90-95% of Hitech's B2C (65% of revenue) volumes are for routine tests. Cost synergies from procurement, operating leverage through higher volumes processed at Metropolis' Chennai RRL, and backend infra costs will enable Metropolis to further improve Hitech's 28-30% Ebitda margins. Also, revenue synergies can accrue by cross selling wellness & specialized tests, where Hitech has limited presence.

## Risks

**New Covid wave: Lockdowns related to new wave of covid due to increase in new omicron variant cases could delay the expansion plans.**

## Outlook & Valuation:

Metropolis' non-Covid revenue, excluding Covid-allied tests, grew 19% QoQ in 2Q vs. 16%/12% for Dr. Lal PathLabs (DLPL)/Vijaya. However, 2-yr non-Covid revenue Cagr for Metropolis was muted at 6% vs. 11% for DLPL, and mgmt. has indicated that opening-up and relaxations of lockdowns in its core West & South India markets should accelerate growth going forward. Mgmt. has highlighted five key strategic priorities including executing on company's planned network expansion of ~70% over the next 3 years, integrating and driving revenue/cost synergies from Hitech acquisition, investing in new technologies and digital initiatives to ramp-up omnichannel presence and further strengthening the mgmt. team. Although we downgrade FY22-24ii EPS by 5-6% to account for gradual recovery in the non-Covid business, Metropolis remains our top-pick in the sector. Thus, we maintain a BUY on the stock with a target of ₹3956.

## Financial Summary

Consolidated (INR in mn)	FY20	FY21	FY22ii	FY23ii	FY24ii
Net Interest Income	8564	9980	12901	14406	16804
YoY Growth (%)	12.5	16.5	29.3	11.7	16.6
EBITDA Margin(%)	27.2	28.7	29.8	29.5	30.0
PAT	1273	1831	2470	2602	3228
ROE (%)	32.1	29.7	29.1	26.1	26.9
P/B (x)	29.4	22.1	17.3	14.5	11.9
EV/EBITDA	65.6	53.6	41.2	36.9	30.6
Net Debt/Equity	(0.3)	(0.4)	0.2	0.0	(0.2)

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#### Recommendation Parameters for Fundamental/Technical Reports:

Buy – Absolute return of over +10%

Accumulate – Absolute return between 0% to +10%

Reduce – Absolute return between 0% to -10%

Sell – Absolute return below -10%

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