

Metropolis Healthcare

ADD

CMP Rs2,524

Target Rs2,800

Upside 11%

Result Highlights

- ✓ Healthy end to FY21 with 29% jump in patient visits and 42% revenue growth on pandemic impacted base of last year
- ✓ More importantly, company appears confident of strong volume growth as seen in robust expansion plan in labs and service centres
- ✓ No guidance given but expect patient volumes to clock ~23% cagr on FY21 base

Our view: Metropolis management refrained from giving any guidance for FY22 on back of continued uncertainty. Albeit, we expect regular patient volumes to rebound strongly in current year (after 2% dip in FY21) so as to revert to prior trend rate of 13% growth witnessed in earlier years. On the other hand, realization/patient had jumped sharply as last year would have seen footfalls more on the specialty side compared to historical run rate; over next 2 years, we expect the patient mix to normalize towards the pre-pandemic pattern and expect realization to hover in the range of Rs870-880. An expansion in the lab network and addition of 1,800 (~70% increase) in service centres would embed position in existing markets and support entry into newer ones (over 3 years).

We expect the benefit of increased geographic foothold to add to patient growth from FY23 and drive strong volumes in FY24. Revenue mix would continually improve with ~40% of revenues coming from specialized tests in a normal year (56% in FY21 – heightened due to COVID), a strong barrier which can protect portfolio from price wars in the routine to semi-specialized test market. Metropolis has been an active player in M&A space and latest acquisition of Hi-Tech Diagnostics (~Rs830mn revenues, acquired at 7x FY21E sales) would make Metropolis the largest brand in South and West India. We forecast strong growth over FY21-23 driven by 1) 23% patient volume cagr 2) addition of ~Rs900mn annualized Hi-Tech revenues 3) 225bps margin gain. We are 6% ahead of consensus on FY23 EPS and assume coverage with ADD rating and TP Rs2,800, based on 55x FY23 EPS.

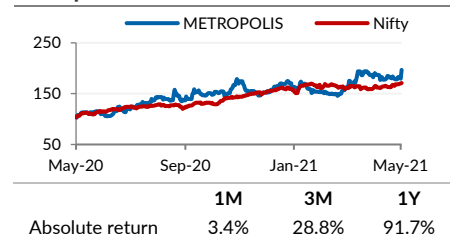
Exhibit 1: Result table

(Rs mn)	Q4 FY21	Q3 FY21	% qoq	Q4 FY20	% yoy
Revenues	2,917	2,748	6.2	2,070	41.0
Cost of material consumed	(702)	(693)	1.3	(509)	37.8
Lab testing charges	(16)	(9)	75.3	(26)	(37.9)
Staff	(511)	(529)	(3.5)	(449)	13.7
Other expenses	(724)	(649)	11.5	(571)	26.8
Operating profit	964	866	11.3	514	87.5
OPM (%)	33.0	31.5	151 bps	24.8	821 bps
Depreciation	(141)	(110)	28.4	(111)	26.4
Interest	(27)	(16)	65.0	(23)	19.5
Tax	(203)	(191)	6.3	(79)	157.6
Effective tax rate (%)	24.9	24.6	30 bps	19.2	567 bps
Exceptional	-	-		(177)	
PAT	613	586	4.6	155	295.8

Stock data (as on May 30, 2021)

Nifty:	15,436
52 Week h/l (Rs)	2615 /1312
Market cap (Rs/USD mn)	129027/1781
Outstanding Shares	51
6m Avg t/o (Rs mn):	258
Div yield (%):	0.3
Bloomberg code:	METROHL IN
NSE code:	METROPOLIS

Stock performance



Shareholding pattern (As of Mar'21 end)

Promoter	50.4%
FII+DII	41.8%
Others	7.8%

Δ in stance

(1-Yr)	New	Old
Rating	ADD	-
Target Price	2,800	-

Δ in earnings estimates

	FY22e	FY23e
EPS (New)	37.1	50.3
EPS (Old)	-	-
% change	-	-

Financial Summary

	FY21	FY22	FY23
Net Revenue	9,980	11,826	14,179
YoY Growth	16.5	18.5	19.9
EBIDTA	2,860	3,230	4,384
YoY Growth	22.8	12.9	35.7
PAT	1,833	1,906	2,584
YoY Growth	43.2	4.0	35.6
ROE	29.8	22.7	24.0
EPS	35.9	37.1	50.3
P/E	64.1	67.7	50.0
BV	138.2	189.4	230.3
P/BV	16.6	13.3	10.9

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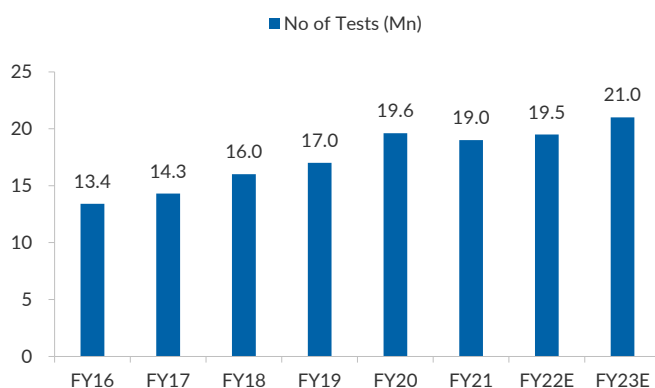
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CON-CALL HIGHLIGHTS

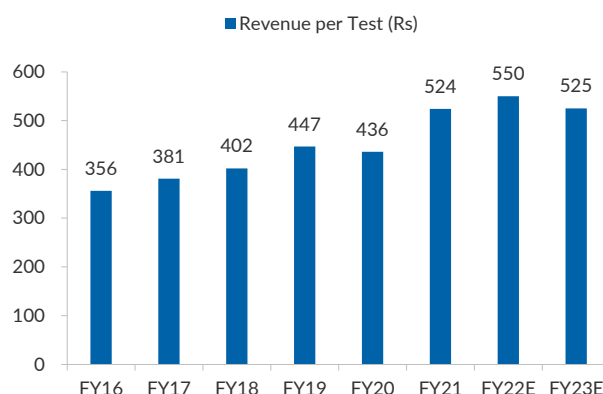
- ✓ Guidance- The company has refrained from giving any guidance on revenue growth due to the uncertainty of covid.
- ✓ Contribution of lower covid revenue in Q4 is due to lower covid test prices.
- ✓ The company expects to increase the lab networks to 215 by FY24E from 125 currently at the end of FY21 and 600 collection centers over a 3-year period. Capex will be of Rs 300-350 mn over a 3-year period. It will have 75-100 bps impact on the margin for the first year and then will normalize going forward.
- ✓ The company targets 100 cities (at the end of FY21 it stood at 60 cities) for Home testing by the end of FY22E and 200 cities by the end of FY23E.
- ✓ Driver for the business going forward- B2C share to increase, ramping up the non-covid business increase in geographical spread, increase in contribution from specialized tests and also optimize the cost through digital transformation.
- ✓ There will be good amount of consolidation of the individual labs going forward.
- ✓ Margins expansion was possible of higher productivity due to automation, increased scale of business and strong cost optimization.
- ✓ 8% of revenues currently comes through digital channels, and the company expects it to reach 14-15% by the end of FY22E and 30% in the next 3 years.
- ✓ Hitech Diagnostic transaction- the company has done well on a topline and bottom-line basis FY21E.
- ✓ Wellness & Preventive-care contribution is expected to increase once covid ebbs away.
- ✓ Revenue per patient has improved during the quarter due to OPD and IPD surgeries (Non-covid business).
- ✓ Receivables- The company expects further improvement in the receivables and is not a one-off in the current quarter.
- ✓ The management has stated that rural market is under-penetrated, but the cost of healthcare is higher in rural market due to which it is quite difficult to function there.

Exhibit 2: Trend in tests conducted



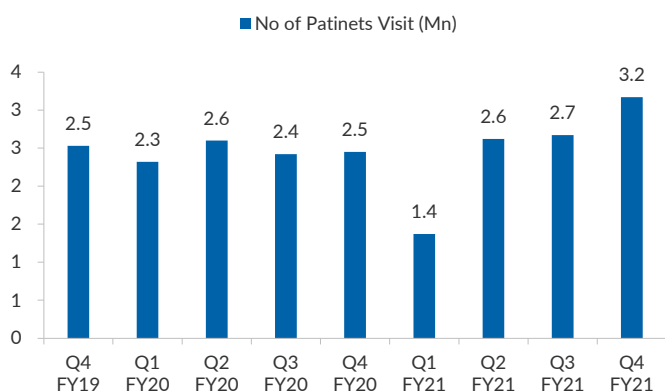
Source: Company, YES Sec – Research

Exhibit 3: Revenue per test



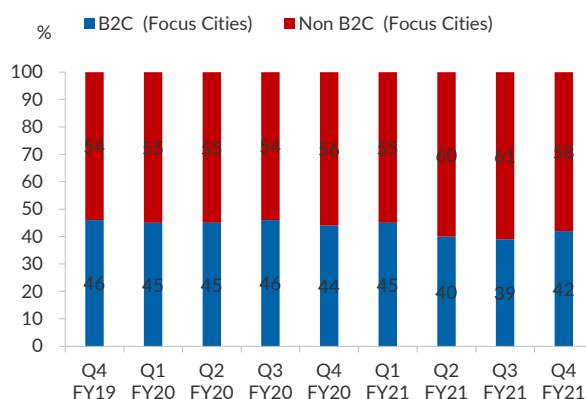
Source: Company, YES Sec – Research

Exhibit 4: No of Patients visits



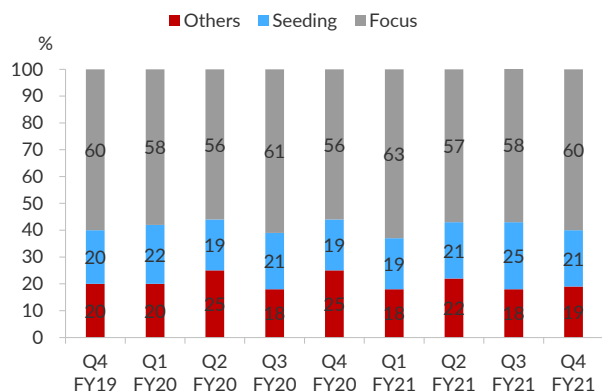
Source: Company, YES Sec – Research

Exhibit 5: B2C Contribution in Focus Cities



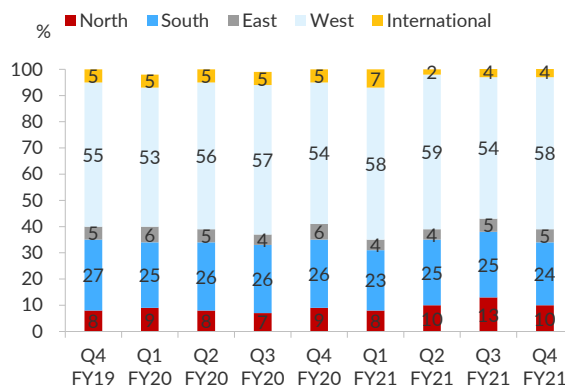
Source: Company, YES Sec – Research

Exhibit 6: Revenue mix between focus, seeding & others Cities



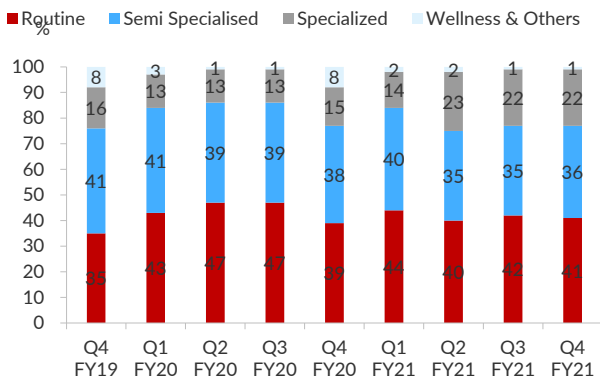
Source: Company, YES Sec – Research

Exhibit 7: Revenue mix between Geographies



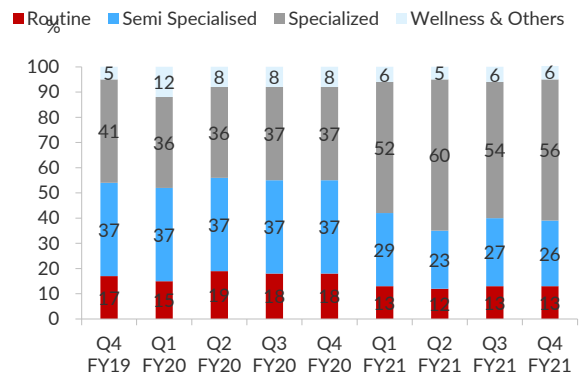
Source: Company, YES Sec – Research

Exhibit 8: Trend in volume mix



Source: Company, YES Sec – Research

Exhibit 9: Trend in value mix (total Businesses)



Source: Company, YES Sec – Research

Exhibit 10: Balance sheet

Y/e 31 Mar (Rs m)	FY19	FY20	FY21	FY22E	FY23E
Equity capital	100	101	102	103	103
Reserves	4,085	5,134	6,964	9,627	11,727
Net worth	4,185	5,235	7,066	9,730	11,830
Debt	53	559	882	3,882	3,882
Minority interest	14	17	15	15	15
Def.tax lia	29	17	42	42	42
Total liabilities	4,282	5,828	8,005	13,669	15,768
Goodwill	786	903	903	6,803	6,803
Fixed assets	1,400	2,090	2,529	2,780	2,647
Investments	257	419	358	358	358
Net working capital	1,802	2,276	4,045	3,558	5,791
Inventories	261	244	405	481	576
Sundry debtors	1,368	1,282	1,230	1,457	1,747
Cash	1,113	2,230	4,280	3,769	5,978
Other current assets	305	214	169	237	284
Sundry creditors	(428)	(850)	(1,106)	(1,310)	(1,571)
Other current liabilities	(816)	(844)	(934)	(1,076)	(1,223)
Def tax assets	37	139	171	171	171
Total assets	4,282	5,828	8,005	13,669	15,768

Exhibit 11: Income statement

Y/e 31 Mar (Rs m)	FY19	FY20	FY21	FY22E	FY23E
Revenue	7,612	8,564	9,980	11,826	14,179
Operating profit	2,004	2,328	2,860	3,230	4,384
Depreciation	(201)	(393)	(459)	(549)	(633)
Interest expense	(5)	(83)	(78)	(262)	(427)
Other income	82	86	120	120	120
Profit before tax	1,880	1,938	2,443	2,540	3,444
Taxes	(629)	(412)	(610)	(634)	(859)
Adj. profit	1,250	1,526	1,833	1,906	2,584
Minority interest	-	(245)	-	-	-
Net profit	1,250	1,281	1,833	1,906	2,584

Exhibit 12: Du Pont analysis

Y/e 31 Mar (Rs m)	FY19	FY20	FY21	FY22E	FY23E
Tax burden (x)	0.67	0.79	0.75	0.75	0.75
Interest burden (x)	1.00	0.96	0.97	0.91	0.89
EBIT margin (x)	0.25	0.24	0.25	0.24	0.27
Asset turnover (x)	1.66	1.53	1.29	1.31	1.37
Financial leverage (x)	1.10	1.19	1.26	1.07	0.96
RoE (%)	30.0	32.4	29.8	22.7	24.0

Exhibit 13: Cash flow statement

Y/e 31 Mar (Rs m)	FY19	FY20	FY21	FY22E	FY23E
Profit before tax	1,880	1,938	2,443	2,540	3,444
Depreciation	201	393	459	549	633
Def.taxes (net)	1	(114)	(8)	-	-
Tax paid	(629)	(412)	(610)	(634)	(859)
Working capital Δ	(198)	644	281	(24)	(24)
Other operating items	-	(245)	-	-	-
Operating cashflow	1,254	2,204	2,566	2,431	3,193
Capital expenditure	(312)	(1,200)	(897)	(6,700)	(500)
Free cash flow	942	1,003	1,669	(4,269)	2,693
Equity raised	(1,213)	247	480	1,243	(0)
Minority interest	(129)	2	(2)	-	-
Investments	(84)	(162)	61	-	-
Debt financing/disposal	(9)	506	324	3,000	-
Dividends	-	(478)	(483)	(485)	(485)
Net Δ in cash	(493)	1,118	2,050	(511)	2,208

Exhibit 14: Ratio analysis

Y/e 31 Mar	FY19	FY20	FY21	FY22E	FY23E
Growth matrix (%)					
Revenue growth	17.6	12.5	16.5	18.5	19.9
Op profit growth	13.8	16.2	22.8	12.9	35.7
EBIT growth	14.3	7.2	24.7	11.1	38.1
Net profit growth	11.8	2.4	43.2	4.0	35.6
Profitability ratios (%)					
OPM	26.3	27.2	28.7	27.3	30.9
EBIT margin	24.8	23.6	25.3	23.7	27.3
Net profit margin	16.4	17.8	18.4	16.1	18.2
RoCE	43.4	40.0	36.5	25.9	26.3
RoNW	30.0	32.4	29.8	22.7	24.0
RoA	27.3	27.3	23.7	21.1	25.0
Per share ratios					
EPS	24.9	30.1	35.9	37.1	50.3
Dividend per share	0.0	8.0	8.0	8.0	8.0
Cash EPS	28.9	37.9	44.9	47.8	62.6
Book value per share	83.4	103.4	138.2	189.4	230.3
Valuation ratios (x)					
P/E	102.1	99.8	70.1	67.7	50.0
P/BV	30.1	24.3	18.2	13.3	10.9
M Cap/Sales	16.6	14.9	12.9	10.9	9.1
EV/EBIDTA	62.4	54.0	43.7	40.0	29.0
Payout (%)					
Tax payout	33.5	21.3	25.0	25.0	25.0

Metropolis Healthcare

Y/e 31 Mar	FY19	FY20	FY21	FY22E	FY23E
Dividend payout	0.0	37.3	26.3	25.4	18.8
Liquidity ratios					
Debtor days	66	55	45	45	45
Inventory days	13	10	15	15	15
Creditor days	21	36	40	40	40
Leverage ratios					
Interest coverage	354.9	24.2	32.4	10.7	9.1
Net debt / equity	(0.3)	(0.3)	(0.5)	0.0	(0.2)
Net debt / op. profit	(0.5)	(0.7)	(1.2)	0.0	(0.5)

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