

13 November 2024

India | Equity Research | Q2FY25 results review

Metropolis Healthcare

Healthcare

Healthy traction across new centres

Metropolis' Q2FY25 result was in line with our estimates. It has expanded its presence in tier 3 towns in the last couple of years which is yielding results. In Q2, tier 3 cities grew the fastest at 23% YoY, while focused/seeding cities grew modest 10%/7%. Reported growth of 13% YoY was impacted by lower institutional revenue, adjusting for it, growth stood at ~17% YoY. B2C business grew 21% YoY, (12% patient volume growth) (56% of sales) while B2B (34% of sales) grew modest 12.6% YoY (4% patient volume growth). It is present in 700 towns and plans to further add 300 towns to its network in a few years. EBITDA margin may be at 26–27% ahead. Cut FY25–26E EBITDA by ~1–2% on lower growth across focused cities. Maintain **ADD** with DCF-based TP of INR 2,280.

B2C business drives growth; margin climbs to ~26%

Reported revenues grew 13.4% YoY (+11.6% QoQ) to INR 3.5bn (I-Sec: INR 3.5bn). Barring sales from the institutional biz, revenue grew ~17% YoY. Gross margin was flat YoY (+30bps QoQ) to 80.1%. EBITDA grew 15.0% YoY (+14.4% QoQ) to INR 899mn (I-Sec: INR 913mn). EBITDA margins expanded 40bps YoY (+50bps QoQ) to 25.7% (I-Sec: 26.2%). Adj. PAT grew 22.6% YoY to INR 465mn (I-Sec: INR 463mn).

Absorbs cost of new centre; focus shifts to boosting volumes

Revenue per patient grew 6.3% YoY to INR 1,025 and revenue per test was up 5.3% YoY to INR 498. Patient/test volume grew 6.6%/7.8% YoY to 3.4mn/7.0mn. Premium wellness segment grew 23% YoY to INR 570mn backed by test volume growth of 7.8% YoY and accounted for 16% of revenue. Specialty segment grew 16% YoY aided by test volume growth of 9% YoY. Specialised test accounted for ~37 of revenue, while semi-specialised and routine test accounted for ~48% of revenue. Network expansion aided 23% YoY increase in revenue from tier-3 cities and it now contributes 25% of total revenue. Management maintains its target of 13–15% revenue growth in FY25, with EBITDA margin of 26–27% over the next couple of quarters. It aims to expand its presence from 700 to 1,000 towns in the next 12–18 months and is on track to add 25 labs and 500 centres in FY25.

Financial Summary

Y/E March (INR mn)	FY24A	FY25E	FY26E	FY27E
Net Revenue	12,077	13,762	16,352	18,514
EBITDA	2,859	3,635	4,548	5,307
EBITDA Margin (%)	23.7	26.4	27.8	28.7
Net Profit	1,278	1,812	2,436	2,977
EPS (INR)	25.0	35.4	47.5	58.1
EPS % Chg YoY	(10.6)	41.8	34.4	22.2
P/E (x)	87.1	61.5	45.7	37.4
EV/EBITDA (x)	38.5	30.0	23.6	19.9
RoCE (%)	10.7	13.7	17.0	19.2
RoE (%)	12.5	16.0	20.0	22.4

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Market Data

Market Cap (INR)	111bn
Market Cap (USD)	1,321mn
Bloomberg Code	METROHL IN
Reuters Code	METP BO
52-week Range (INR)	2,318 /1,450
Free Float (%)	50.0
ADTV-3M (mn) (USD)	3.4

Price Performance (%)	3m	6m	12m
Absolute	6.7	24.4	34.3
Relative to Sensex	7.9	16.1	13.7

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 number indicating a higher ESG score.

Source: SES ESG, I-sec research

Earnings Revisions (%)	FY25E	FY26E
Revenue	(1.8)	(0.8)
EBITDA	(1.8)	(0.8)
EPS	(3.2)	(1.6)

Previous Reports

13-08-2024: [Q1FY25 results review](#)

23-05-2024: [Q4FY24 results review](#)

Valuation and risks

Metropolis' strong volume traction was maintained on account of increase in market share and deepening presence in newer geographies, especially, tier 3 cities. Revenue from tier 1 cities grew modest 8% YoY as the company has moved away from low margin government and institutional business. Metropolis is on track to add 25 labs and 500 centres in FY25, beyond which, it will focus on driving operating leverage by shifting focus towards boosting volume growth. New lab and centre addition is likely to have 120bps impact on EBITDA which is expected to ease in a couple of years. Metropolis is also actively scouting for an inorganic opportunity (M&A), which may help propel scale and further growth. The company had cash balance of INR 1.85bn as of 30 Sep'24. We expect Metropolis to generate free cashflow of ~INR 6bn over the next two years, which may help the company realise its inorganic growth aspirations.

We expect Metropolis to register an earnings CAGR of 36.7% over FY24–26E with revenue CAGR at 16.4%. 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 26–28% over FY25–26E. We see return ratios staying strong with RoE and RoCE of 22.4% and 19.2%, respectively, in FY26E.

The stock currently trades at valuations of 62.0x FY25E and 46.2x FY26E earnings and EV/EBITDA multiple of 30.8x FY25E and 24.3x FY26E. We maintain our **ADD** rating on the stock with DCF-based target price of INR 2,280 (earlier INR 2,279).

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

Q2FY25 conference call highlights

Business and financial highlights

- Revenue grew 13.4% YoY, within the guided range of 13-15%. Patient volume grew 7% YoY and test volume grew 8% YoY. Volumes increased on account of increase in market share among core geographies, expansion and deepening of operations in newer geographies.
- B2C business grew 21% YoY, patient volume grew 12% YoY aided by increased market share and faster growth in core geographies.
- B2C for wellness and specialty grew by 26% and 22%, respectively, YoY.
- B2B revenue grew 12.6% YoY and patient volume grew 4% YoY. It managed to keep discounts at bay and increase revenue; volumes may grow going ahead. B2B for wellness and specialty grew 21% and 10%, YoY, respectively.
- B2B+B2C accounted for 90% of revenue growing 17% YoY. B2B and B2C patient volume grew 8% YoY.
- TruHealth grew 23% YoY aided by curated packages and focused marketing efforts. It accounts for 16% of revenue and aims to expand it to 20% in a couple of quarters. Specialty grew 16% YoY and accounted for 37% of revenue.
- Tier 1 grew 8% YoY; there was temporary drop due to reduced exposure to government and institutional business and tier 2 grew 7% YoY.
- Addition of new labs and centres will have an impact of 1.2% on EBITDA which is expected to start settling in the next couple of years.
- Pune, Bangalore, Mumbai, Chennai and Surat continue to be focused cities, growing 10% YoY.
- Added 7 labs in Q2FY25 and 17 in H1FY25. Expects to add 25 labs in FY25.

- Added 186 centres in H1FY25, taking the total to 4,336 and targets 5,000 centres by FY25.
- Entered 400 new towns in the past 24 months. It is currently present in 700 towns and aims to expand to 1,000 in the next 12-18 months.
- It is witnessing consistent growth in core geographies of West and South and is strengthening its business in North and East markets.
- Company is deepening its presence in emerging markets like UP, MP, Punjab and Assam where demand is rising rapidly.
- The company is experiencing strong growth in tier 3-4 cities, which accounted for 25% of revenue in Q2FY25, growing 23% YoY.
- Top 100 cities contributed close to 75% of revenue.
- It is present in 700 towns and plans to expand to 1,000 in the next 12-18 months.
- West accounted for 50% of sales, while south contributed 25-26% and the rest from North and East.
- Net cash surplus of INR 1.8bn as of 30 Sep'24.
- It is in advanced stage of evaluating potential targets. For inorganic expansion, it will mostly focus on acquiring pathology.

Guidance

- Revenue guidance of 13-15% maintained for FY25.
- Aims to achieve EBITDA margin of ~26-27% (post IND AS) over the next couple of quarters.

Exhibit 1: Quarterly review

Particulars (INR mn)	Q2FY25	Q2FY24	YoY % Chg	Q1FY25	QoQ % Chg	H1FY25	H1FY24	YoY % Chg
Net Sales	3,498	3,085	13.4	3,134	11.6	6,631	5,856	13.2
Gross Profit	2,803	2,472	13.4	2,502	12.0	5,305	4,674	13.5
Gross margins(%)	80.1	80.1	0bps	79.8	30bps	80.0	79.8	20bps
Personnel / Staff cost	784	698	12.4	717	9.4	1,501	1,348	11.4
SG&A expenses	1,089	965	12.9	970	12.3	2,060	1,862	10.6
EBITDA	899	782	15.0	788	14.0	1,687	1,411	19.6
EBITDA margins (%)	25.7	25.3	40bps	25.2	50bps	25.4	24.1	130bps
Other income	31	12	156.7	25	27.3	56	43	30.8
PBIDT	930	794	17.2	813	14.4	1,743	1,454	19.9
Depreciation	268	222	20.6	255	5.0	524	431	21.6
Interest	48	57	(15.6)	47	3.0	94	117	(19.0)
Extra ordinary income/ (exp.)	-	(33)	-	-	-	-	(33)	-
PBT	614	481	27.6	511	20.2	1,125	873	28.8
Tax	147	125	18.0	130	13.4	277	227	22.1
Minority Interest	2	2	(12.8)	2	9.8	3	4	(12.2)
Reported PAT	465	355	31.2	379	22.6	845	642	31.5
Adjusted PAT	465	379	22.6	379	22.6	845	667	26.6

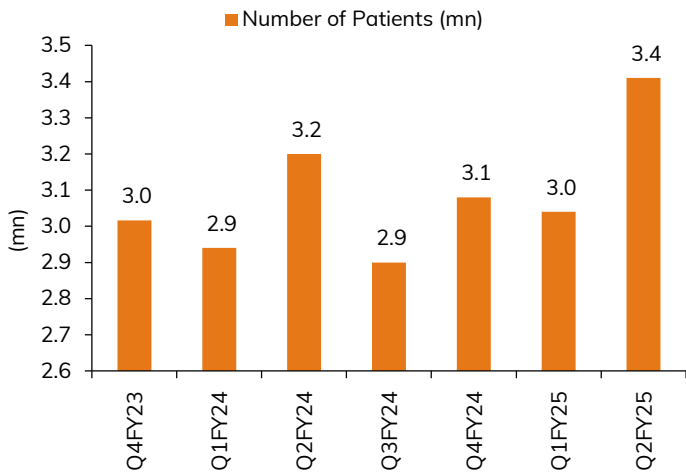
Source: I-Sec research, Company data

Exhibit 2: Operational metrics

Non-covid	Q2FY23	Q3FY23	Q4FY23	Q1FY24	Q2FY24	Q3FY24	Q4FY24	Q1FY25	Q2FY25	YoY %	QoQ %
No of tests (mn)	6.5	6.2	6.1	5.7	6.2	5.8	6.1	6.3	7.0	13.4	11.6
No of Patient/Footfall (mn)	3.1	2.9	2.9	2.8	3.1	2.8	3.0	3.0	3.4	10.0	12.2
Rev per patient (INR)	942	957	946	974	975	1,009	1,034	1,031	1,025	5.1	(0.6)
Rev per test (INR)	442	450	452	482	488	492	506	497	498	2.0	0.2

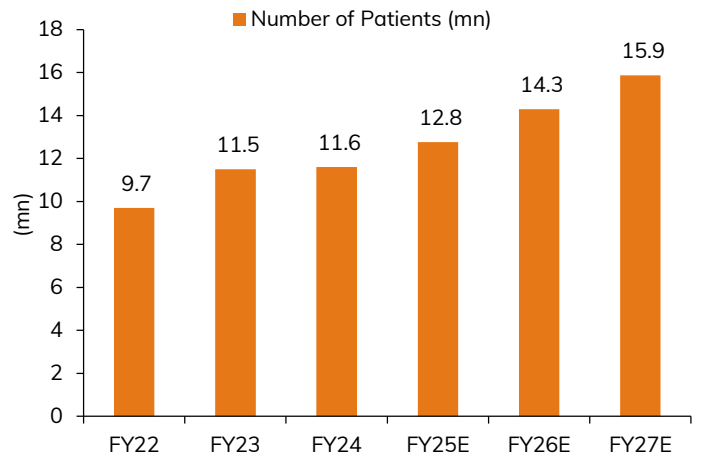
Source: I-Sec research, Company data

Exhibit 3: Business witnessed ~7% YoY growth in patient volume



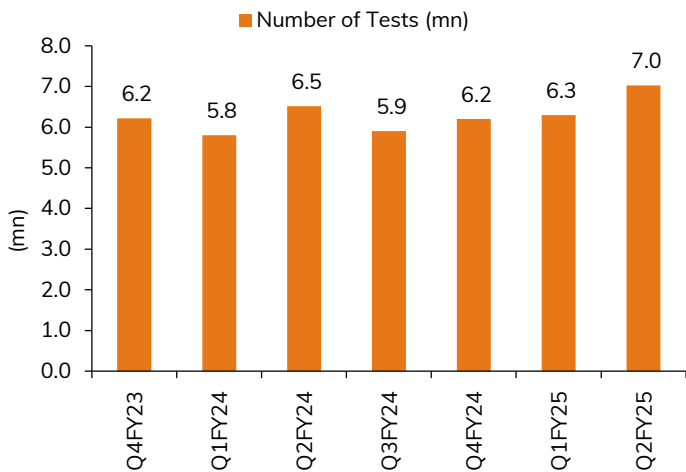
Source: I-Sec research, Company data

Exhibit 4: Network expansion to support healthy volumes over FY24–26E



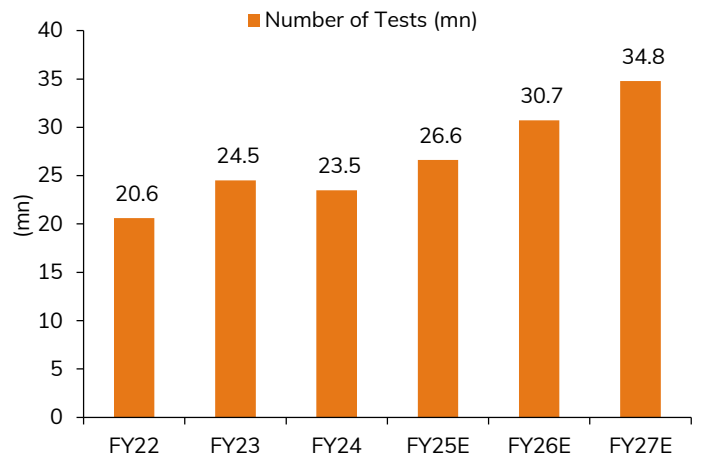
Source: I-Sec research, Company data

Exhibit 5: Test volumes grew ~8% YoY



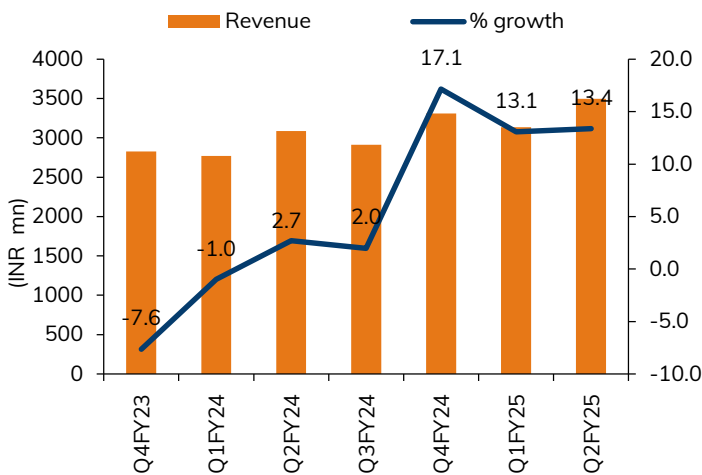
Source: I-Sec research, Company data

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



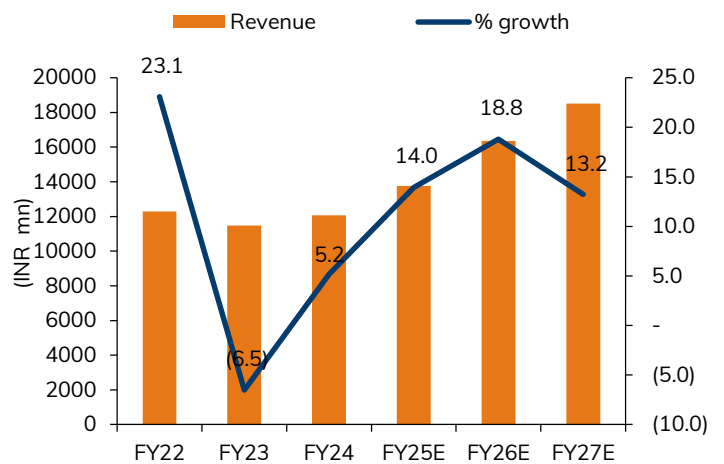
Source: I-Sec research, Company data

Exhibit 7: Revenue growth spikes to 13.4% YoY



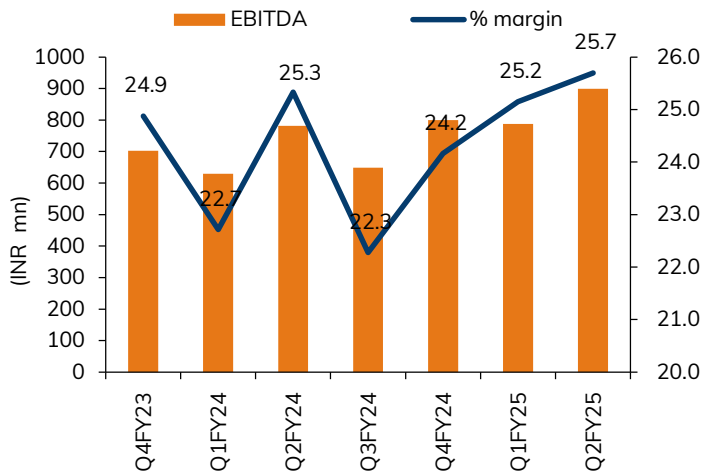
Source: I-Sec research, Company data

Exhibit 8: Revenue to grow 16.4% over FY24–26E



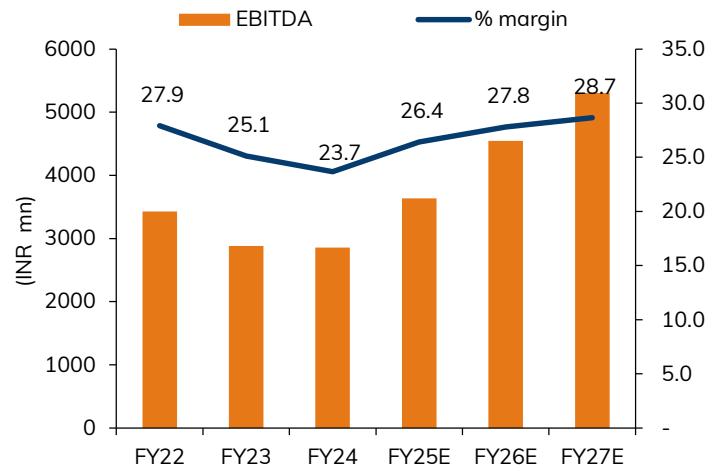
Source: I-Sec research, Company data

Exhibit 9: EBITDA margin expanded 40bps YoY



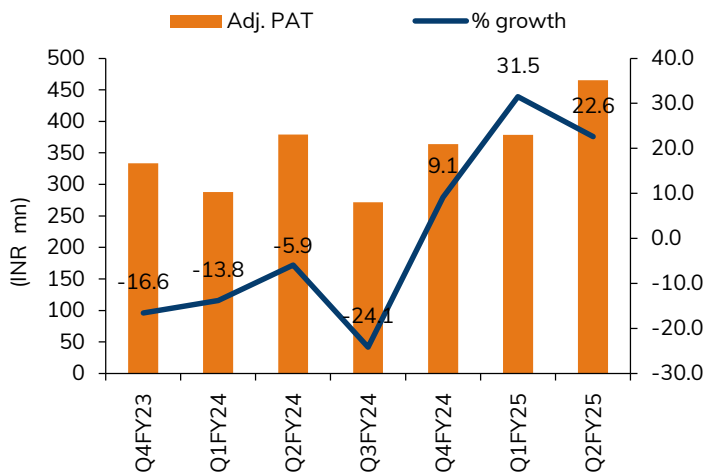
Source: I-Sec research, Company data

Exhibit 10: EBITDA margin to expand by 414bps over FY24–26E



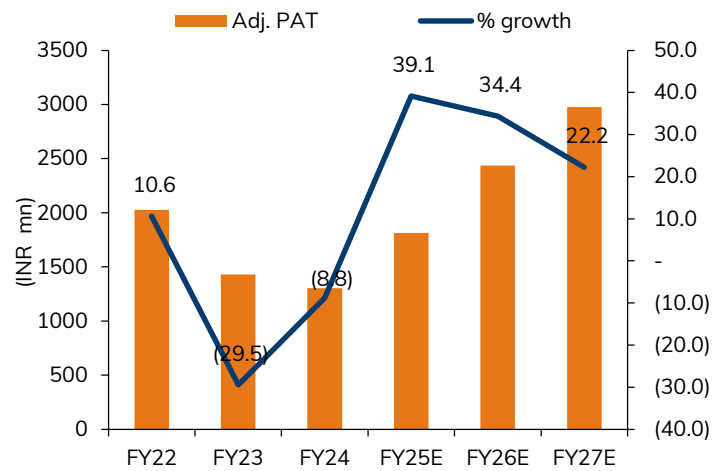
Source: I-Sec research, Company data

Exhibit 11: PAT grew ~22.6% YoY to INR 465mn



Source: I-Sec research, Company data

Exhibit 12: Net profit CAGR expected at 36.7% over FY24–26E



Source: I-Sec research, Company data

Exhibit 13: Shareholding pattern

%	Mar'24	Jun'24	Sep'24
Promoters	49.7	49.6	49.4
Institutional investors	43.8	45.7	46.6
MFs and other	21.3	23.7	24.3
FIs/ Banks	-	-	0.1
Insurance Cos.	3.3	3.5	3.6
FIIIs	19.2	18.5	18.6
Others	6.5	4.7	4.0

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	13,762	16,352	18,514
Operating Expenses	6,792	7,363	8,544	9,544
EBITDA	2,859	3,635	4,548	5,307
EBITDA Margin (%)	23.7	26.4	27.8	28.7
Depreciation & Amortization	945	1,107	1,197	1,243
EBIT	1,914	2,528	3,351	4,064
Interest expenditure	225	197	197	197
Other Non-operating Income	91	100	110	121
Recurring PBT	1,780	2,431	3,265	3,988
Profit / (Loss) from Associates	-	-	-	-
Less: Taxes	462	613	823	1,005
PAT	1,318	1,819	2,442	2,983
Less: Minority Interest	(6)	(6)	(6)	(6)
Extraordinary (Net)	-	-	-	-
Net Income (Reported)	1,278	1,812	2,436	2,977
Net Income (Adjusted)	1,278	1,812	2,436	2,977

Source Company data, I-Sec research

Exhibit 16: Balance sheet

(INR mn, year ending March)

	FY24A	FY25E	FY26E	FY27E
Total Current Assets	2,628	4,018	5,991	8,183
of which cash & cash eqv.	712	1,851	3,426	5,286
Total Current Liabilities & Provisions	1,679	1,913	2,263	2,551
Net Current Assets	949	2,105	3,728	5,633
Investments	1,152	1,225	1,338	1,431
Net Fixed Assets	1,559	2,302	2,041	1,732
ROU Assets	1,801	1,801	1,801	1,801
Capital Work-in-Progress	-	-	-	-
Total Intangible Assets	8,410	7,210	6,774	6,340
Other assets	604	677	789	883
Deferred Tax Assets	-	-	-	-
Total Assets	13,872	14,643	15,682	16,937
Liabilities				
Borrowings	-	-	-	-
Deferred Tax Liability	751	751	751	751
provisions	158	180	214	242
other Liabilities	-	-	-	-
Equity Share Capital	10,962	11,705	12,703	13,924
Reserves & Surplus	-	-	-	-
Total Net Worth	10,962	11,705	12,703	13,924
Minority Interest	31	38	44	50
Total Liabilities	13,872	14,643	15,682	16,937

Source Company data, I-Sec research

Exhibit 17: Cashflow statement

(INR mn, year ending March)

	FY24A	FY25E	FY26E	FY27E
Operating Cashflow	2,641	3,055	3,709	4,313
Working Capital Changes	1,170	1,304	1,394	1,440
Capital Commitments	(638)	(650)	(500)	(500)
Free Cashflow	3,278	3,705	4,209	4,813
Other investing cashflow	(257)	-	-	-
Cashflow from Investing Activities	(894)	(650)	(500)	(500)
Issue of Share Capital	0	-	-	-
Interest Cost	(186)	(197)	(197)	(197)
Inc (Dec) in Borrowings	-	-	-	-
Dividend paid	(205)	(1,069)	(1,437)	(1,756)
Others	(1,421)	-	-	-
Cash flow from Financing Activities	(1,812)	(1,266)	(1,634)	(1,953)
Chg. in Cash & Bank balance	(65)	1,139	1,575	1,860
Closing cash & balance	867	1,851	3,426	5,286

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	35.4	47.5	58.1
Adjusted EPS (Diluted)	25.0	35.4	47.5	58.1
Cash EPS	43.4	57.0	70.9	82.4
Dividend per share (DPS)	4.0	20.9	28.1	34.3
Book Value per share (BV)	214.0	228.5	248.0	271.8
Dividend Payout (%)	16.0	59.0	59.0	59.0
Growth (%)				
Net Sales	5.2	14.0	18.8	13.2
EBITDA	(0.8)	27.1	25.1	16.7
EPS (INR)	(10.6)	41.8	34.4	22.2
Valuation Ratios (x)				
P/E	87.1	61.5	45.7	37.4
P/CEPS	50.1	38.2	30.7	26.4
P/BV	10.2	9.5	8.8	8.0
EV / EBITDA	38.5	30.0	23.6	19.9
P / Sales	9.2	8.1	6.8	6.0
Dividend Yield (%)	0.0	0.0	0.0	0.0
Operating Ratios				
Gross Profit Margins (%)	79.9	79.9	80.1	80.2
EBITDA Margins (%)	23.7	26.4	27.8	28.7
Effective Tax Rate (%)	26.5	25.2	25.2	25.2
Net Profit Margins (%)	10.6	13.2	14.9	16.1
NWC / Total Assets (%)	-	-	-	-
Net Debt / Equity (x)	(0.1)	(0.2)	(0.3)	(0.4)
Net Debt / EBITDA (x)	(0.4)	(0.7)	(0.9)	(1.1)
Profitability Ratios				
RoCE (%)	10.7	13.7	17.0	19.2
RoE (%)	12.5	16.0	20.0	22.4
RoC (%)	11.2	15.1	20.8	26.6
Fixed Asset Turnover (x)	8.2	7.1	7.5	9.8
Inventory Turnover Days	12	12	12	12
Receivables Days	39	41	41	41
Payables Days	31	32	32	31

Source Company data, I-Sec research

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