

## RETAIL EQUITY RESEARCH

### Metropolis Healthcare Ltd.

Healthcare Services

Sensex: 39,057

Nifty: 11,713

## Not Rated

Price Range Rs. 877 - Rs. 880

2<sup>nd</sup> April, 2019

### An emerging player in healthcare analytical services ...

Metropolis Healthcare Ltd (MHL) is one of the leading diagnostics companies having prominence in West and South India. The company offers a comprehensive range of clinical laboratory tests & profiles, and support services to clinical research organizations. MHL operates through laboratory and service network and has implemented a 'hub and spoke' model for quick and efficient delivery of services. Revenue, EBITDA and PAT grew at a CAGR of 12%, 13% and 22% respectively during FY15-FY18 while the company has maintained an average RoE and RoCE of 27.3% and 24.3% respectively for the past 3 years. Going forward, company intends to focus on increasing the number of individual patients through various initiatives such as expanding service network and setting up of Third Party PSCs (Patient Service Centres). Given the economies of scale and wider geographical reach they enjoy, MHL is well-positioned to leverage the vast opportunities in the Indian diagnostics space. At the upper price band of Rs880, MHL is available at a P/E of 37x and 40x on 9MFY19 and FY18 EPS respectively. Considering lower PAT growth reported by MHL in FY18 and 9MFY19 we believe that the valuation is on premium.

### Purpose of IPO

At the upper price band, total issue size stands at Rs1,204cr. The issue consists of only offer for sale (OFS) wherein the promoters and existing shareholders will dilute 1.37cr shares of the company. Although, MHL will not receive any proceeds from this offer yet the prime purpose of the issue is to achieve the benefits of listing shares on stock exchange, enhance its visibility, brand image and provide liquidity to shareholders.

### Key Risks...

- Business operations are concentrated in west and south India and any loss in such regions could have an adverse effect on business.
- Implementation of pricing policies by the Govt or other authorities could adversely affect business.
- Increase in competition from other players can impact the business.

### Peer Valuation...

Company(FY18)	MCap (Rs cr)	Sales (Rs cr)	Sales CAGR (%) (FY15-18)	EBITDA Margin (%)	P/E	EV/EBITDA	RoE (%)
Metropolis Healthcare Ltd	4,416	644	12	26.8	40	25.8	29.7
Dr. Lal Pathlabs Ltd	8,716	1,057	17	24.9	53	29.6	24.6

Source: Geojit Research, Bloomberg; Note: Valuations of MHL are based on upper end of the price band, Financials as per FY18

Issue Details			
Date of Opening	03 <sup>rd</sup> April, 2019		
Date of Closing	05 <sup>th</sup> April, 2019		
Total no. of Shares offered(cr)	1.37		
Post Issue No. of shares (cr)	5.02		
Price Band	Rs. 877- 880		
Face Value	Rs. 2		
Bid Lot	17 shares		
Minimum application for retail (upper price band for 1 lot)	Rs 14,960		
Maximum application for retail (upper price band for 13 lot)	Rs 1,94,480		
Listing	BSE & NSE		
Lead Manager	JM financial Ltd, Credit Suisse securities (India) Ltd, Goldman Sachs (India) Ltd, HDFC bank Ltd. etc.		
Registrars	Link Intime India Pvt. Ltd		
Issue size (at upper price)	Rs. Cr		
Fresh Issue	0		
OFS	1,204		
<b>Total Issue</b>	<b>1,204</b>		
Shareholding (%)	Pre Issue	Post Issue	
Promoters	68	55	
Others	32	45	
Total	100	100	
Issue structure	Allocation (%)	Size Rs.cr (upper band)	
Retail	35	422	
Non Institutional	15	181	
QIB	50	602	
<b>Total</b>	<b>100</b>	<b>1,204</b>	
Y.E March (Rs cr)	FY17	FY18	9MFY19
Sales	545	644	559
Growth (%)	15	18	16*
EBITDA	152	173	143
Margin%	27.9	26.8	25.6
PAT Adj	107	110	89
Growth (%)	31.3	2.3	8*
EPS	21	22	24*
DPS	2.6	2.2	-
P/E (x)	41.2	40	37*
EV/EBITDA	29.7	25.8	31.3
P/BV (x)	13.7	10.7	9.4

\*Annualised

## Company Description

Metropolis Healthcare Ltd (MHL) is one of the leading diagnostics companies in India, according to the revenue metrics, as of March 31, 2018. They have widespread presence across 19 states in India, as of December 31, 2018, with leadership position in west and south India. Outside India, the company has laboratory operations in Ghana, Kenya, Zambia, Mauritius and Sri Lanka. In addition, MHL has also entered into agreements with third parties for collection and processing of specimens in Nepal, Nigeria, UAE and Oman. Through their widespread operational network, the company offers a comprehensive range of clinical laboratory tests and profiles, which are used for prediction, early detection, diagnostic screening, confirmation and monitoring of the disease. MHL also offer analytical and support services to clinical research organizations for their research projects.

### Revenue break-up by Geographical Segment (in Rs Cr)

Particulars	Dec 31, 2018	FY18	FY17	FY16
West India	289.98	348.03	302.98	264.91
South India	146.27	179.27	157.41	146.55
North India	38.63	41.97	330.73	28.29
East India	23.23	21.44	16.48	14.07
International	40.01	52.07	34.77	21.65
<b>Total</b>	<b>559.31**</b>	<b>643.57*</b>	<b>544.72</b>	<b>475.47</b>

\*This includes revenue of ₹ 7.78 million from PPP contract with NACO.

\*\* This includes revenue of ₹ 211.78 million from PPP contract with NACO.

Source: RHP, Geojit Research

## Widespread operational network & Asset light business model...

MHL conduct their operations through laboratory and service network. The laboratory network comprises of 115 clinical laboratories, including GRL (Global Reference Laboratory) and a service network comprising of 1,631 patient touch points including 256 owned PSCs (Patient Service Centres) and 1,375 third party PSCs, which service individual patients and approx.9,000 pick-up points and 552 ARCs (Assisted Referral Centres), which service their institutional customers as on Dec 31, 2018. MHL has implemented a 'hub and spoke' model for quick and efficient delivery of services through their widespread laboratory and service network, which covers 197 cities in India, as of December 31, 2018.

### Key Financial & Operational Metrics

Particulars	Dec 31, 2018	FY18	FY17	FY16
Clinical laboratories	115	106	95	89
Number of patient visits (in million)	6.6	7.7	7.0	6.9
<b>Total number of patient touch points:</b>	<b>1631</b>	<b>1130</b>	<b>579</b>	<b>277</b>
• Number of owned PSCs	256	251	223	160
• Number of Third Party PSCs	1375	879	356	117
<b>Total number of institutional touch points (approx):</b>	<b>9552</b>	<b>9020</b>	<b>7308</b>	<b>6651</b>
• Number of pick-up points (approximately)	9000	8500	7000	6500
• Number of ARCs	552	520	308	151
<b>Number of tests performed (in mn) (approx)</b>	<b>12.3</b>	<b>16.0</b>	<b>14.3</b>	<b>13.4</b>
Number of tests/profiles per patient visit	1.86	2.08	2.04	1.94
Revenue per test/profiles*(in ₹)	454.72	402.2	380.9	354.8
Revenue per patient visit**(in ₹)	847.43	835.8	778.2	689.0

Note:

\*This figure is derived by dividing revenue from operations, as per Consolidated Statements by the number of tests/profiles.

\*\*This figure is derived by dividing revenue from operations as per Consolidated Statements by the number of patient visits.

Source: RHP, Geojit Research

MHL has implemented 'Asset light model' for growing their service network. In addition to setting up of owned PSCs, MHL significantly expanded its service network by contracting with Third Party PSCs, to service individual patients. Further, the company also provide home collection service to patients wherein specimens are collected at the patient's house. In order to cater the requirements of Institutional customers, MHL has set up pick- up points and ARCs. Going forward, the company focusses particularly on using the third party PSC model for expanding the geographical reach of service network due to its high scalability and limited capital expenditure involved.

### Comprehensive test menu with wide range of clinical laboratory tests and profiles...

MHL offer a comprehensive range of approx. 3,487 clinical laboratory tests and 530 profiles to their patients, as of Dec 31, 2018. The test menu includes pathology tests ranging from basic biochemistry and surgical pathology to cytogenetics and high-end molecular diagnostic tests. Besides pathology tests, some of their centres also offer non-pathology tests such as ECG, X-ray, ultrasound and stress tests. According to Frost & Sullivan, there has been a significant growth in demand of preventive health check-up in India, and to cater to this demand, MHL developed a wide range of wellness profiles for diverse patient base. The company also offer customized wellness packages to institutional customers as per their requirement. MHL has invested in a wide range of specialized tests (offered 2,799 specialized tests, as of Dec 31, 2018) and have adopted several advanced tests and technologies introduced in the global market.

### Robust Information Technology Infrastructure with Focus on Improving Efficiency ...

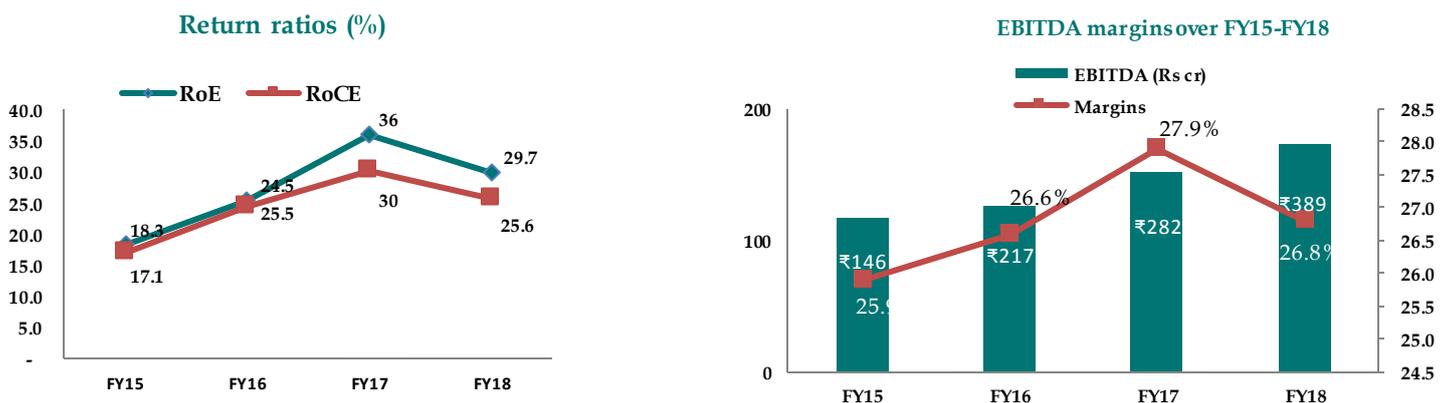
MHL's laboratory operations are supported by a cloud-based information technology platform, while rest of the operations are managed using a centralized SAP platform. The company's information technology system allows them to fully integrate and automate processes ranging from registration, bar-coding and billing of specimens to analysis and reporting of test results. MHL's information technology system enables them to achieve standardization across its operations, reduce incidence of errors due to human intervention, monitor technical operations, closely track key performance metrics and provide convenience to patients and customers, by allowing them to book appointments, complete registration and access test reports online. Their information technology infrastructure is scalable and has been designed to support the growth of the business and help to ensure reliability of operations as well as the security of customer information. Going ahead, MHL focusses on upgrading technology for better quality, efficiency and reliability.

### Established brand with a focus on quality and customer service...

The company has established a well-recognized brand image by delivering quality and reliable diagnostic services since 1980. Over the years, MHL has received several awards that recognize the strength of brand and focus on offering superior diagnostic tests and services. MHL's patient centric approach is a critical differentiator which results in several individuals and healthcare providers choosing them as their diagnostic healthcare service provider. MHL focusses on providing reliable test results as well as value-added services such as home collection of specimens and online access to test reports. Further, the company focusses on increasing business from Individual patients by employing focused sales and support team and by undertaking targeted marketing initiatives to create strong brand equity and awareness towards the brand.

### Financial performance...

Over FY15-18, MHL reported 12%, 13% and 22% CAGR in Revenue, EBITDA and PAT respectively led by overall growth in business. The company has maintained an average RoE and RoCE of 27.3% and 24.3% respectively over the past 3 years.



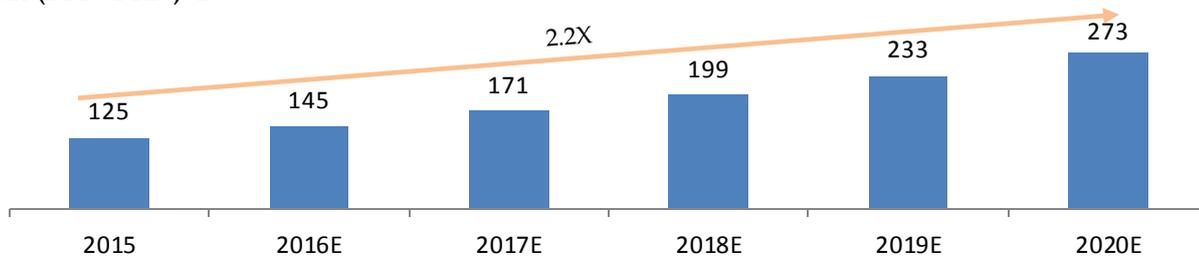
Source: RHP, Geojit Research

## Industry Outlook

### Overview of the Indian Healthcare Market...

The size of the Indian healthcare industry in revenue terms was USD 125 billion in FY15, which is estimated to have increased to USD 171 billion by FY17. The healthcare industry is expected to grow at a CAGR of 16.9% from USD 125 billion in FY15 to USD 273 billion in FY20. India's healthcare market is expected to be among the top three globally, in terms of incremental growth by FY20.

**CAGR (FY15-FY20): 16.9%**



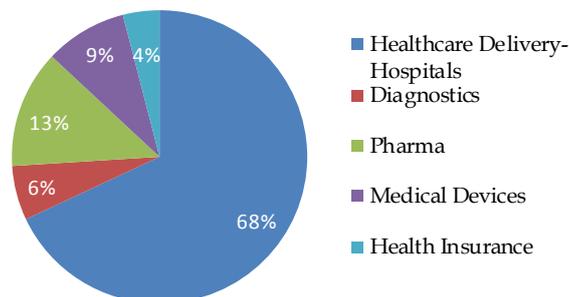
Source: RHP, Geojit Research

### Healthcare Industry Segment...

The Indian healthcare industry has five key functional sub-sections: healthcare delivery is the largest segment, followed by the pharmaceutical, medical devices, diagnostics and healthcare insurance segments.

The following chart sets forth India's healthcare industry size by segment in the financial year 2016.

**Total Market Size (FY 2016) = \$ 145 billion**

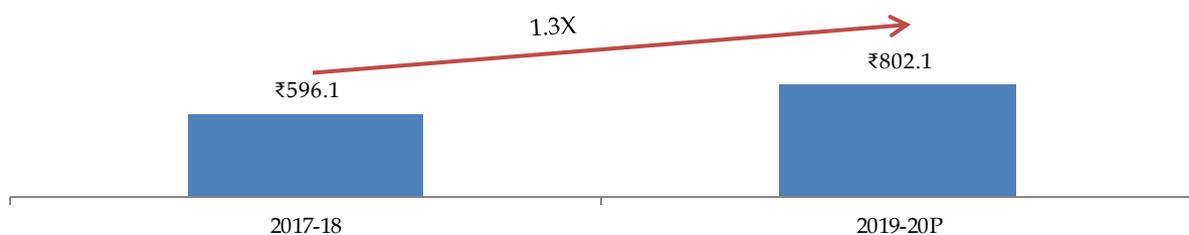


Source: RHP, Geojit Research

### Overview of India's Diagnostic Market...

From FY15 to FY18, the Indian diagnostic industry has grown at a CAGR of ~16.5% to ~Rs596 bn (USD 9.1 bn) in FY18. For the next two years, India's diagnostic industry is expected to grow at a CAGR of ~16% to reach ~Rs802 bn (USD 12.3 bn) in FY20. Within the diagnostics market, the pathology segment has contributed ~58% of total market by revenue in FY 18, while the remaining 42% is contributed by the radiology segment.

The below chart sets forth the projected growth of India's diagnostic industry from FY18 to FY20 (in Rs bn):



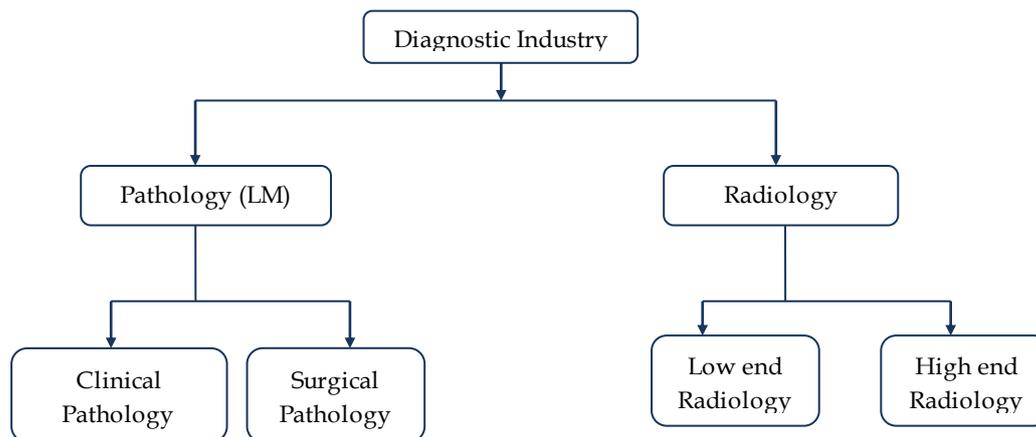
Note: P - Projected. Conversion rate: financial year 2018: 1 US \$ = ₹ 65.1; the financial year 2020: 1 US \$ = ₹ 65.1.

Source: RHP, Geojit Research

## India's Diagnostic Industry Segments...

The diagnostic industry in India can be classified into pathology testing services and imaging diagnostic services. Pathology testing or in-vitro diagnosis involves the collection of samples, in the form of blood, urine and stool and analysing them using laboratory equipment and technology to arrive at useful clinical information, in order to assist with the treatment of patients' diseases. Imaging diagnosis or radiology involves imaging procedures such as x-rays and ultrasounds, which help to mark anatomical or physiological changes inside a patient's body, in order to assist doctors to diagnose a patient's disease. The imaging diagnostic segment also includes more complex tests, such as computed tomography (CT) scans and magnetic resonance imaging (MRIs) and highly specialized tests, such as positron emission tomography (PET)-CT scans.

The following chart sets forth segments of the diagnostic industry:

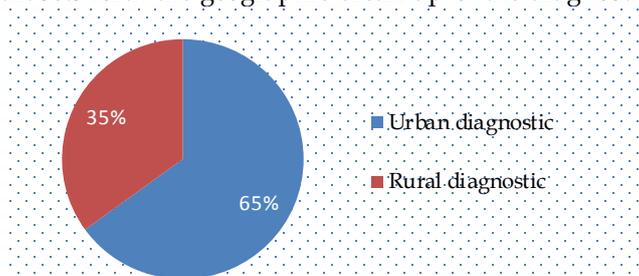


Source: RHP, Geojit Research

## Major Contributor of Revenue in the Diagnostic Industry ...

The urban population of India (approx. 28% of India's total population) contributes up to 65% of the total revenues of the diagnostics industry.

The following chart sets forth the geographic break-up of the diagnostic industry in the FY18:



Source: RHP, Geojit Research

Urban areas typically have better healthcare infrastructure in form of hospitals, clinics and diagnostic centres, along with greater penetration of the private sector in the healthcare space. Also, higher disposable incomes have made diagnostic tests more affordable along with increasing literacy rates which have resulted in the urban population availing better facilities.

## The Preventive and Wellness Segment...

The overall market for wellness and preventive diagnostics was 7 to 9% in FY18. It is expected that this segment will grow at a CAGR of approximately 20% over the next three financial years. Higher literacy levels are expected to increase awareness of preventive and curative healthcare and in turn boost the demand for diagnostic services. Also, the corporate sector is focusing more on the well-being of their employees, promoting them to undergo preventive and wellness tests. This will further support the growth of the preventive and wellness segment and the diagnostic sector as a whole.

## Promoter and promoter group

The Promoters of the Company are Dr. Sushil Kanubhai Shah, Ameera Sushil Shah and Metz Advisory LLP. Promoter and Promoter group collectively hold 68% of the pre-Offer Paid-up Equity Share capital of the company. After this Offer, Promoter and promoter group shall hold 55% of the post-Offer paid-up equity share capital of the company.

## Management:

Company currently has Six Directors, comprising of three Independent Directors, two Executive Directors (including one women Director) and one Non- Executive Director.

- ✚ **Dr. Sushil Kanubhai Shah**, is the chairman and Executive Director of Company. He has been a Director in Company Board since 2005. He was one of the partners of Metropolis Healthcare Services and Metropolis Lab and he has more than three decades of experience in pathology business. Dr. Sushil holds a bachelor's degree in Medicine and Surgery and degree of Doctor of Medicine in Pathology and Bacteriology from University of Bombay.
- ✚ **Ameera Sushil Shah**, is the Managing Director of the Company. She was one of the partners of Metropolis Healthcare Services and Metropolis Lab. She holds a bachelor's degree in Business Administration from the University of Texas at Austin. She has also completed the Owner-President Management Programme from Harvard Business School, Harvard University. She has more than two decades of experience in pathology business. She has been Director with Company Board since 2008.
- ✚ **Mihir Jagdish Doshi**, is a Non-Executive, Non-Independent Director of the Company. He holds a bachelor's degree in Science from New York University and is also a member of the New York State Society of Certified Public Accountants and the American Institute of Certified Public Accountants. He has over three decades of experience in finance. He has been a Director on Company Board since 2015.
- ✚ **Sanjay Bhatnagar**, is an Independent Director of the Company. He holds a master's degree in Engineering from Stanford University. He also holds a master's degree in business administration from Harvard University. He has over 15 years of experience in project development, marketing and operations management. He has been a Director on Company Board since 2018.
- ✚ **Vivek Gambhir** is an Independent Director of the Company. He holds a bachelor's degree in Science from Lafayette College, Pennsylvania and a bachelor's degree in Arts from Lafayette College, Pennsylvania. He also holds a master's degree in Business Administration from Harvard University. He has more than ten years of experience in operations and strategy. He has been a Director on Company Board since 2018.
- ✚ **Milind Shripad Sarwate** is an Independent Director of the Company. He holds a bachelor's degree in Commerce from the University of Bombay and is an associate of the ICAI, the Institute of Company Secretaries of India and the Institute of Costs and Works Accountants of India. He has over three decades of experience in consumer products and services. He has been a Director on Board since 2018.

## Consolidated Financials

### Profit & Loss Account

Y.E March (Rscr)	FY16	FY17	FY18	9MFY19
<b>Sales</b>	<b>475</b>	<b>545</b>	<b>644</b>	<b>559</b>
% change	4.4%	15%	18%	16%*
<b>EBITDA</b>	<b>126</b>	<b>152</b>	<b>173</b>	<b>143</b>
% change	7%	20%	14%	10.7%*
Depreciation	17	17	19	15
EBIT	110	135	154	129
Interest	1	0	1	0
Other Income	15	23	08	08
<b>PBT</b>	<b>128</b>	<b>160</b>	<b>160</b>	<b>135</b>
% change	26%	25%	0.2%	12%*
Tax	46	53	51	46
Tax Rate (%)	36%	33%	32%	34%*
<b>Reported PAT</b>	<b>82</b>	<b>107</b>	<b>110</b>	<b>89</b>
Adj	-	-	-	-
<b>Adj PAT</b>	<b>82</b>	<b>107</b>	<b>110</b>	<b>89</b>
% change	34%	31%	2.3%	8%*
No. of shares (cr)	5.02	5.02	5.02	5.02
<b>Adj EPS (Rs)</b>	<b>16</b>	<b>21</b>	<b>22</b>	<b>24*</b>
% change	34%	31%	2.3%	7.8%*

\*Annualised

### Balance Sheet

Y.E March (Rscr)	FY16	FY17	FY18	9MFY19
Cash	27	25	44	53
Accounts Receivable	70	80	101	139
Inventories	16	14	21	27
Other Cur. Assets	18	31	33	41
Investments	102	145	112	94
Net Fixed Assets	106	105	112	114
CWIP	1	1	-	-
Intangible Assets	36	97	95	100
Other Assets	14	12	5	6
<b>Total Assets</b>	<b>396</b>	<b>515</b>	<b>530</b>	<b>584</b>
Current Liabilities	54	50	43	50
Provisions	6	15	10	12
Debt Funds	24	89	35	39
<b>Minority Interests</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Def.Tax</b>	<b>18</b>	<b>16</b>	<b>13</b>	<b>12</b>
<b>Equity Capital</b>	<b>10</b>	<b>10</b>	<b>10</b>	<b>10</b>
<b>Reserves &amp; Surplus</b>	<b>269</b>	<b>314</b>	<b>405</b>	<b>458</b>
<b>Shareholder's Fund</b>	<b>279</b>	<b>323</b>	<b>415</b>	<b>468</b>
<b>Total Liabilities</b>	<b>396</b>	<b>515</b>	<b>530</b>	<b>584</b>
<b>BVPS (Rs)</b>	<b>55.5</b>	<b>64.4</b>	<b>82.6</b>	<b>93.2</b>

### Cash flow

Y.E March (Rscr)	FY16	FY17	FY18	9MFY19
PBT	128	160	160	135
Non-cash adj.	5	(3)	24	(37)
Changes in W.C	(41)	(55)	(81)	(45)
<b>C.F.O</b>	<b>91</b>	<b>102</b>	<b>104</b>	<b>53</b>
Capital exp.	(12)	(50)	(30)	(23)
Change in inv.	(99)	(160)	(424)	69
Sale of investment	204	126	460	(41)
Other invest.CF	4	(2)	(5)	(1)
<b>C.F- investing</b>	<b>96</b>	<b>(86)</b>	<b>2</b>	<b>4</b>
Issue of equity	-	-	-	-
Issue/ repay debt	(6)	(4)	(0.3)	2
Dividends paid	(89)	(13)	(64)	-
Other finance.CF	(79)	(0.2)	(23)	(50)
<b>C.F- Financing</b>	<b>(174)</b>	<b>(17)</b>	<b>(87)</b>	<b>(47)</b>
Chg. in cash	14	(2)	18	9.9
Closing cash	27	25	44	53

### Ratios

Y.E March	FY16	FY17	FY18	9MFY19
<b>Profitab. &amp; Return</b>				
EBITDA margin (%)	26.6	27.9	26.8	25.6
EBIT margin (%)	23.1	24.7	23.9	23.0
Net profit mgn.(%)	17.2	19.2	17.1	15.9
ROE (%)	25.5	36	29.7	20.1
ROCE (%)	24.5	30	25.6	18.6
<b>W.C &amp; Liquidity</b>				
Receivables (days)	54	50	44	59
Inventory (days)	48	39	42	66
Payables (days)	166	138	112	128
Current ratio (x)	4.0	4.7	6.2	6.0
Quick ratio (x)	1.8	2.1	3.4	3.8
<b>Turnover &amp; Levq.</b>				
Net asset T.O (x)	4.2	5.2	5.9	4.9
Total asset T.O(x)	1.1	1.2	1.2	1.0
Int. covge. ratio (x)	137.7	348.1	127.1	280.8
Adj. debt/equity (x)	0.1	0.3	0.1	0.1
<b>Valuation ratios</b>				
EV/Sales (x)	9.3	8.3	6.9	8.0
EV/EBITDA (x)	35.1	29.7	25.8	31.1
P/E (x)	54.1	41.2	40	37*
P/BV (x)	15.9	13.7	10.7	9.4

\*Annualised

## Investment Rating Criteria

Large Cap Stocks;		Mid Cap and Small Cap;			
Buy	-	Upside is above 10%.	Buy	-	Upside is above 15%
Hold	-	Upside is between 0% - 10%.	Accumulate	-	Upside is between 10% - 15%.
Reduce	-	Downside is more than 0%.	Hold	-	Upside is between 0% - 10%.
Neutral	-	Not Applicable	Reduce/Sell	-	Downside is more than 0%.
			Neutral	-	Not Applicable

To satisfy regulatory requirements, we attribute 'Accumulate' as Buy and 'Reduce' as Sell. The recommendations are based on 12-month horizon, unless otherwise specified. The investment ratings are on absolute positive/negative return basis. It is possible that due to volatile price fluctuation in the near to medium term, there could be a temporary mismatch to rating.

For reasons of valuations/return/lack of clarity/event we may revisit rating at appropriate time. Please note that the stock always carries the risk of being upgraded to BUY or downgraded to a HOLD, REDUCE or SELL.

Neutral- The analyst has no investment opinion on the stock under review.

## General Disclosures and Disclaimers

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We, Sheen G and Rajeev T, authors of this Report, hereby certify that all the views expressed in this research report reflect my personal views about any or all of the subject issuer or securities. This report has been prepared by the Research Team of Geojit Financial Services Limited, hereinafter referred to as Geojit.

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