

22nd April 2020

Metropolis Healthcare–BUY

CMP : Rs.1,225.0
Target Price : Rs.1,503.0
Upside : 23%+
Stop Loss : Rs.1,096.0(Closing basis)

Investment Thesis

Recently, the stock price of Metropolis Healthcare Ltd. (Metropolis Healthcare) corrected by ~40% from 52-week high of Rs.2,109.00 despite it has been approved by ICMR to conduct test for Covid 19. Metropolis Healthcare has presently capable of conducting 2,000 tests a day at its Mumbai laboratory, which can further be scaled up if needed.

Metropolis Healthcare offers a comprehensive range of clinical laboratory tests & profiles along with support services to clinical research organizations. It operates through laboratory & service network and has implemented a 'hub and spoke' model for quick and efficient delivery of services. As compared with any regionally dominant diagnostic lab, it has competitive strengths in term of its strong brand equity and scale. This has reflected in its 16% revenue CAGR over FY16-19 and robust profitability. Going forward, it 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. Given the economies of scale and wider geographical reach, Metropolis Healthcare is well-positioned to leverage the vast opportunities in the Indian diagnostics space.

After establishing its labs in five focus cities (Mumbai, Bengaluru, Chennai, Surat and Pune), Metropolis Healthcare has identified eight seeding cities and regions which it believes to have strong growth potential. These are Rajkot, Nashik, Nagpur, Kochi, Raipur, National Capital Region (NCR), Kolkata and Guwahati. Given the expected increase in demand for diagnostic services in seeding cities, these will be the core focus of the company for medium to long term growth. The company intends to expand its network in seeding cities by increasing the number of patient touch points and expanding the test offerings as well as employing targeted marketing strategies to grow the business.

Financials

- During the past 5 years, revenue of Metropolis Healthcare grew at CAGR of 28.0% while PAT grew at CAGR of 22.8% in the same period.

Consol. (Rs. Mn)	FY17	FY18	FY19E	FY20E	FY21E
Revenue	5,447	6,472	7,612	8,754	10,067
EBITDA	1,535	1,785	2,040	2,345	2,697
% growth	12.8	16.3	14.3	15.0	15.0
PAT	1,073	1,118	1,250	1,432	1,639
EPS (INR)	22.5	23.4	24.9	28.5	32.7
P/E (x)	55.7	53.4	50.2	43.9	38.3
RoE (%)	33.2%	27.1%	30.1%	31.4%	32.7%

- Metropolis Healthcare has reported 17.0% YoY growth in net revenue in Q3FY20 to Rs.2,229mn led by overall business growth in all region in the quarter.

Stock Data

Market Cap (Rs. Mn)	63,465
Market Cap (\$ Mn)	830.8
Shares O/S (in Mn)	50.2
Avg. Volume (3 month)	84,000
52-Week Range (Rs.)	2,109.00 / 907.00

Shareholding Pattern

Promoters	57.41%
FII's	16.58%
Institutions	5.93%
Others (incl. body corporate)	20.08%

Performance (%)	1M	6M	1Yr
Absolute	-24.2%	-1.5%	27.1%
BSE 500	0.1%	-21.1%	-24.1%

Key Ratios

Div Yield	1.1%
TTM PE	43.3x
ROE	31.2%
TTM EPS (Rs.)	28.9/-

- Metropolis Healthcare's EBITDA grew by 29.2% YoY in Q3FY20 to Rs.636mn due to higher revenue growth and better profitability measures taken by the company. As a result, EBITDA margin also improve by 268bps YoY to 28.5% in Q3FY20.
- PAT of Metropolis Healthcare also improved by 34.8% YoY to Rs.421mn in Q3FY20 on better operating margin and lower tax outgo.

Key Business Highlights

- Metropolis Healthcare is one of the leading diagnostics companies in India. It has widespread presence across 19 states in India with leadership position in west and south India.
- Metropolis Healthcare offers a comprehensive range of clinical laboratory tests and profiles, which are used for prediction, early detection, diagnostic screening and monitoring of the disease.
- Outside India, Metropolis Healthcare has laboratory operations in Ghana, Kenya, Zambia, Mauritius and Sri Lanka. In addition, it has also entered into agreements with third parties for collection and processing of specimens in Nepal, Nigeria, UAE and Oman.

Valuation

- Metropolis Healthcare is focusing on increasing its sales contribution from B2C channel (currently 43%) through increase in its collection centers and lab networks. The B2C contribution in focus cities of Metropolis Healthcare has increase from 45% in FY17 to 56% by Q1FY20, which further expected to reach 65%. It has a patient service network of 2,536, up 6x over FY16-Q1FY20 and also its lab network grew 12% over FY17-19. It has added 71.3% of its existing individual patient touch points between FY17 and Q1FY20. Its B2C segment has registered 22% sales CAGR over FY16-19 and its contribution touched 45% in Q1FY20. Metropolis Healthcare is focusing on increasing its B2C contribution via aggressive network expansion, integrated brand building campaigns, building awareness amongst doctors for quality & services and focus on customer experience & improvement.
- Metropolis Healthcare conduct their operations through laboratory and service network. 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, ~9,000 pick-up points and 552 ARCs, which service their institutional customers. Metropolis Healthcare 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. Going forward, Metropolis Healthcare plans to focus majorly 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.
- With one of the leading diagnostics companies, implemented a 'hub and spoke' model for quick and efficient delivery, identified eight seeding cities to focus, increasing sales contribution from B2C channel and large network of laboratory and service network, we value Metropolis Healthcare at 46.0x FY21E EPS of Rs.32.70 to arrive at target price of Rs.1,503.00, an upside of ~20%.

Risk & Concern

- Metropolis Healthcare's business operations are focussed in west and south India and any loss in such regions could have an adverse effect on business.
- Any implementation of pricing policies or regulations by government or authorities may adversely affect business of Metropolis Healthcare.
- High competition from other players as well as local pathologies may impact margins and business growth of Metropolis Healthcare.

Graphs & Charts

Figure 1: Net Sales Trend

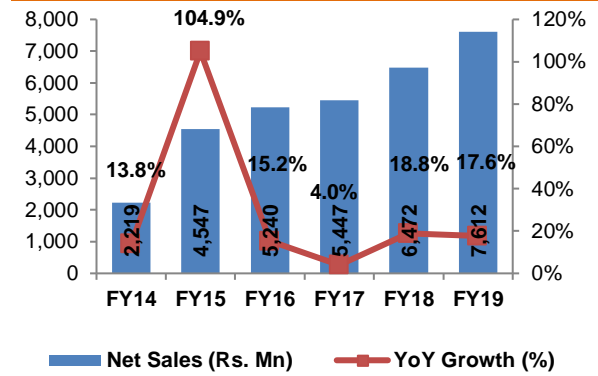


Figure 2: EBITDA & EBITDA Margin Trend

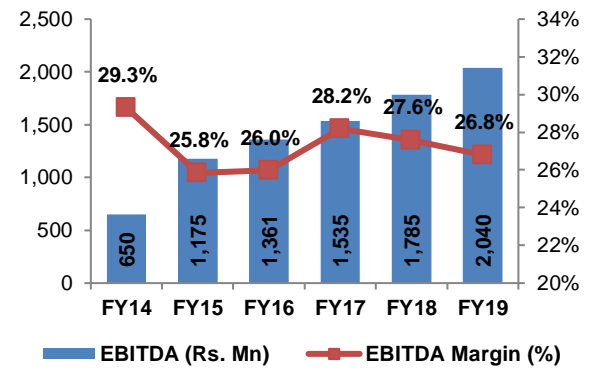


Figure 3: PAT Trend

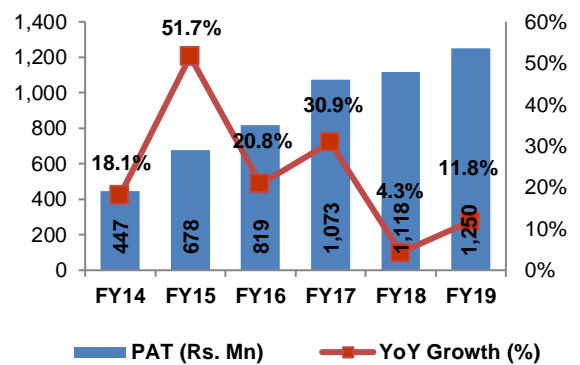
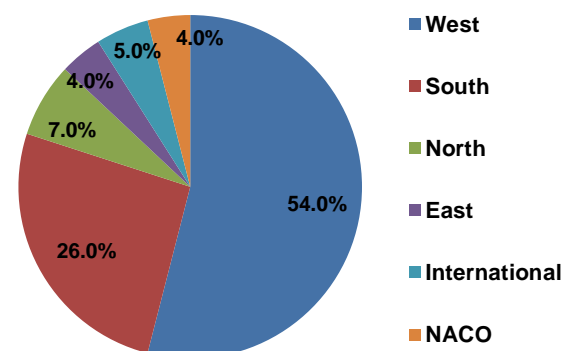


Figure 4: Region-wise Revenue (FY19)



* NACO: National AIDS Control Organisation

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