Sharekhan by BNP PARIBAS

Powered by the Sharekhan 3R Research Philosophy

3R MATRIX	+	=	-
Right Sector (RS)	✓		
Right Quality (RQ)	✓		
Right Valuation (RV)		✓	

\+ Positive = Neutral - Negative

Reco/View

View: **Positive**

CMP: **Rs. 2,779**

Upside potential: **22%**

↑ Upgrade ↔ Maintain ↓ Downgrade

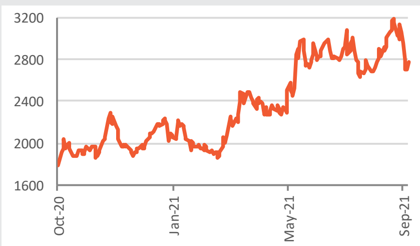
Company details

Market cap:	Rs. 14,218 cr
52-week high/low:	Rs. 3,241 / 1,770
NSE volume: (No of shares)	2.4 lakh
BSE code:	542650
NSE code:	METROPOLIS
Free float: (No of shares)	2.5 cr

Shareholding (%)

Promoters	50.4
FII	28.8
DII	14.6
Others	6.2

Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	-4.1	-2.0	28.5	55.4
Relative to Sensex	-6.6	-14.3	11.0	3.5

Sharekhan Research, Bloomberg

Viewpoint

Metropolis Healthcare Ltd

Charting a strong growth trajectory

Pharmaceuticals	Sharekhan code: METROPOLIS	New Idea

Summary

- We initiate Viewpoint coverage on Metropolis Healthcare (Metropolis) with a positive view and expect a 22% upside from current levels.
- Emphasis on growing the lucrative B2C business, plans to increase the share of B2C segment in focus cities to 65% from 58% (FY21) coupled with efforts to convert few seeding cities to focus cities and sturdy expansion plans basis asset light franchise model to drive the topline growth.
- Efforts to drive the home collection services and more specialised tests, and higher growth in B2C segment leading to favorable mix would drive up margins leading to a strong 21% PAT CAGR over FY21-FY23E.
- Leading position in diagnostics space, wide test portfolio, pan-India presence would be the positives for Metropolis. The stock trades at 62.6x and 52.9x its FY22E/FY23E EPS.

Metropolis Healthcare (Metropolis), one of India's leading diagnostics player is well-placed to chart a strong double-digit growth over next two years. The management's relentless focus to grow the business-to-consumer (B2C) segment, backed by its wide portfolio of tests, expanding laboratory and patient service center network, leveraging digital platforms to increase the penetration would be key growth driver. Efforts to grow the home collection services and higher specialised tests, leading to favorable mix would drive up margins leading to a strong 21% PAT CAGR over FY21-FY23E. Sturdy expansion plans to set up 90 new laboratories and 1,800 service points over next 3 years basis the asset light franchise model provides a strong base for growth ahead.

- **Focus on growing lucrative B2C business:** The B2C business is a lucrative, high-margin business for Metropolis and a key growth driver. Leveraging its digital platform (through TruHealth mobile app) to increase penetration, plans to provide value added services, expanding network would support the growth. Metropolis aims to increase the share of B2C business in focus cities to 65% from 58% as of FY21. Growth in the B2C segment also strengthens the Metropolis' brand.
- **Expansion plans offer growth visibility:** Metropolis has been consistently focusing on expanding its network to fuel growth. Going ahead, the management plans to add around 90 new laboratories and 1800 new patient service centers over next three years, driven by the asset-light franchise model. The expansion could entail an investment of Rs 25-35 crore. Further, given the strong growth potential in seeding cities (21% of sales), the company plans to convert a few 'seeding cities' to 'focus cities' (in which it has a higher market share).
- **Favorable mix to drive margins:** Metropolis' network of branches and service centers is young and it is yet to fully ramp up operations, thus pointing to better utilization levels ahead. Strategy to increase the share of B2C in the focus cities with an eye on increasing home collection services and higher contribution expected from specialized tests in the B2B segment would drive up margins by 100 bps to 29.7% over FY21-FY23E.

Our Call

Valuation: Initiate Viewpoint coverage with Positive View and expect a 22% upside: The Indian diagnostics industry is expected to grow strongly, underpinned by multiple drivers. Further, a shift from fragmented unorganized players to organised players, would benefit players like Metropolis with capability to process a wide portfolio of tests. This coupled with management's thrust to grow the lucrative B2C segment, expand network and leverage digital platform would be key growth drivers. A favorable mix due to higher share of specialized tests, thrust on home collection services and faster growth in B2C segment would result in a strong 21% PAT CAGR over FY21-FY23E. At CMP, the stock trades at 62.6x and 52.9x its FY22E/FY23E EPS. Further, leading position in diagnostics space, wide test portfolio, a pan-India presence would be the positives. We initiate Viewpoint coverage with a positive view and expect a 22% upside from current levels.

Key Risks

1) Any slow down in the network expansion plans and higher competitive intensity could impact growth prospects. 2) Any adverse regulatory changes in the form of price capping can affect the earnings.

Valuation (Consolidated) Rs cr

Particulars	FY2020	FY2021	FY2022E	FY2023E	FY2024E
Total Sales	856.4	998.0	1227.9	1398.1	1606.2
Operating Profits	241.4	298.0	370.3	429.3	495.4
OPM (%)	27.2	28.7	29.1	29.7	29.9
Reported PAT	151.8	183.1	226.9	268.8	339.7
EPS (Rs)	29.7	35.8	44.4	52.6	66.5
PER (x)	93.6	77.6	62.6	52.9	41.8
EV/Ebidta (x)	58.2	46.6	37.3	31.6	26.9
P/BV (x)	27.1	20.1	16.5	13.8	11.2
ROCE (%)	33.5	30.2	31.7	31.3	33.0
RONW (%)	24.3	25.9	26.3	26.1	26.8

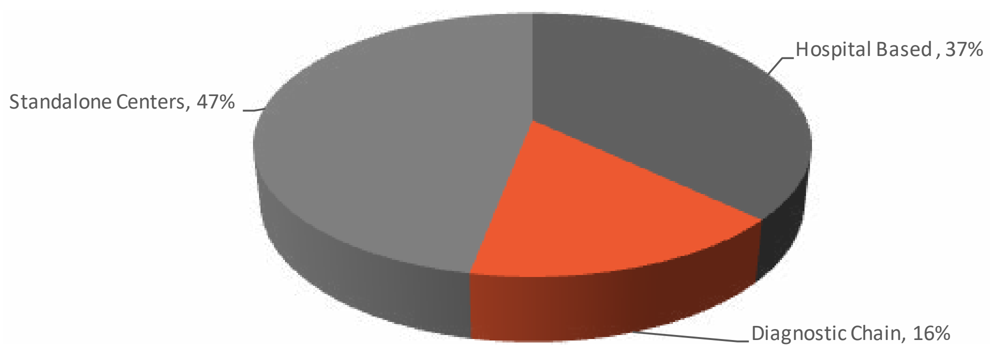
Source: Company; Sharekhan estimates

Investment Rationale

Indian diagnostics industry to stage healthy growth: The diagnostics industry is a critical segment of the overall healthcare market in India. Diagnosis is the preliminary step towards disease management and decisions on the medical treatment to be prescribed are based on diagnosis reports. In the overall scheme of health care delivery services, diagnostic services play the key role of information intermediary, providing useful information for correct diagnosis and treatment of diseases. In addition, the services have a vital role to play during the process of the treatment to gauge the progress and effectiveness of the medicines prescribed. As per industry reports, the diagnostic services have a share of 8-14% in overall healthcare spends across the rural and urban geographies.

Fragmented structure of the diagnostics industry due to higher share of standalone centers: The Indian diagnostics industry can be classified in to three– hospital-based centers, diagnostics chains and standalone centers. Hospital based centers constitute for 37% of industry, while diagnostic chains account of 16%. The standalone centers account for a majority of 47% of the overall industry.

Structure of the Diagnostic Industry in india



Source: Company, Sharekhan Research

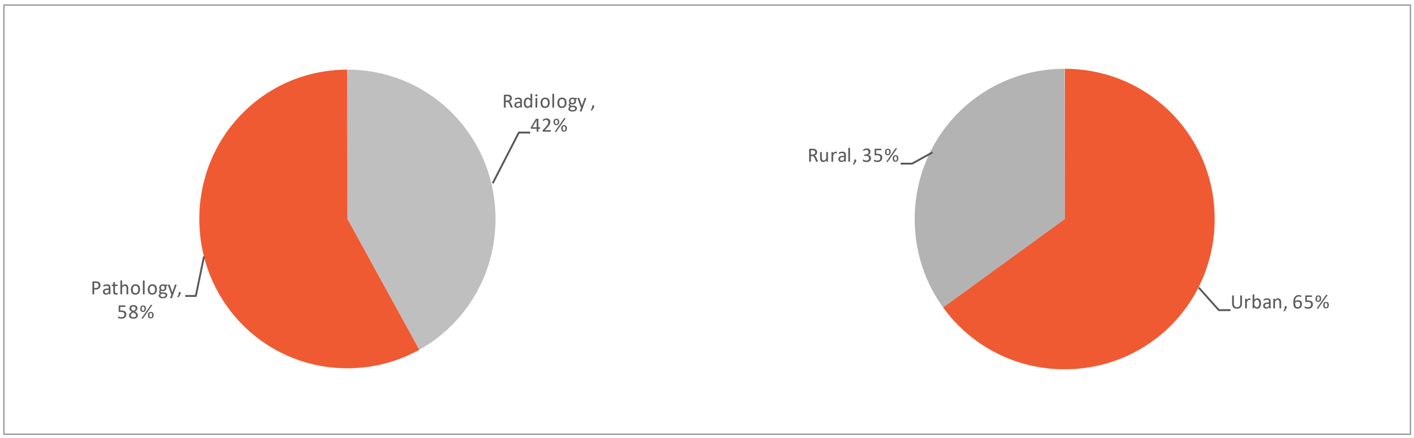
Hospital-based centers: These are largely located in the premises of the hospitals and meant mostly to cater to the in house requirements of the patients admitted. These centers may be managed by hospitals or could be outsourced to third parties for management. Usually, secondary and tertiary hospitals have pathology laboratories and radiology centres in-house; but some also engage third-party players such as Metropolis or its competitors to manage their diagnostic requirements. Generally, hospitals with bed capacity of ~100 or less than that prefer to outsource the diagnostics part as it becomes unviable for them to operate given the lower test volumes.

Diagnostic chains: are the ones having two or more centers and offer a wide variety of tests. These largely operate with a Hub-and-Spoke model and could have presence in either a specific geography or can have a pan India presence. This offer pathology as well as radiology tests. Of the diagnostic chains segment, the pan-India chains constitute 6% of the total while 11% are constituted by regional chains.

Standalone Centers: These constitute a large portion of the diagnostic industry and are single centers having a small scale of operations. Most of these centers have a very small scale of operations and offer routine pathology tests while some of them could offer routine radiology or advanced radiology tests.

Diagnostics Industry Segments – Pathology and Radiology: Diagnostics Industry can be broadly segregated into pathology testing and radiology testing segments. Radiology includes the imaging diagnostic services while the Pathology includes sample collection in the form of blood, urine and stool. This is followed by the processing of the same using laboratory equipment and technology to derive useful clinical information, which goes as an input for assisting in patient treatment. Radiology or the imaging diagnostic segment consists of more complex tests such as computed tomography (CT) scans and magnetic resonance imaging (MRI). It also includes other highly specialised tests such as positron emission tomography (PET)-CT scans. As per estimates, the pathology segment contributes ~58% of the total market revenue.

Diagnostic industry segmentation



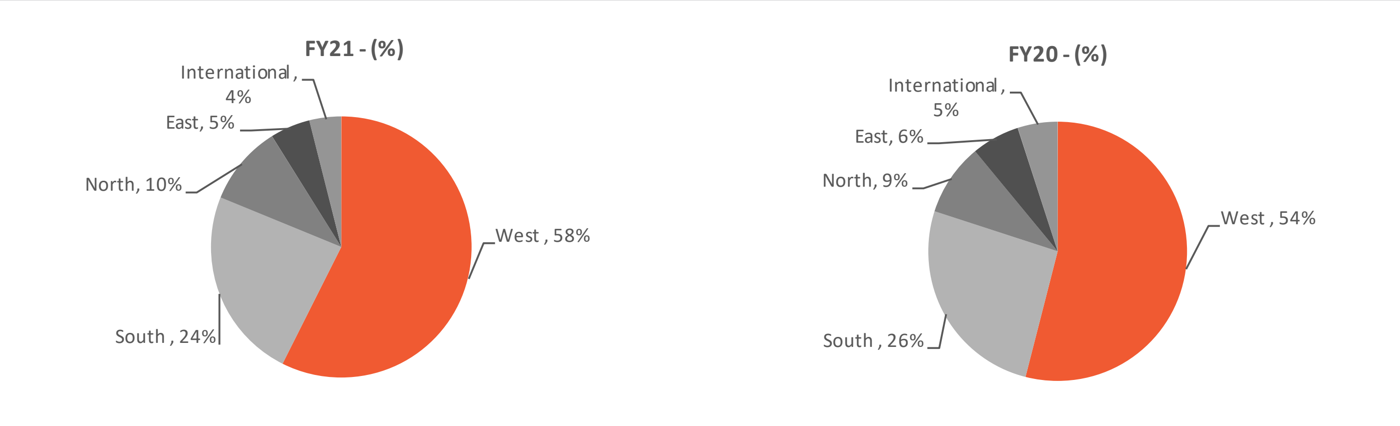
Source: Company, Sharekhan Research

The radiology industry clocked a strong 14% CAGR over the past three years till FY2020 to reach a size of Rs 291 billion. Going ahead due to newer and advanced technology, growing dependence on radiology and preference for high-realisation radiology tests such as CT scans over X-rays, the radiology segment is expected to reach around Rs 420-430 billion by FY2023, translating to a CAGR of 13-14%. On the other hand, the pathology market in India stands at around Rs 393 billion during FY2020, registering a 3 year CAGR of 12%. Going ahead, the industry reports expect the pathology market to stage a growth of 12-13% CAGR over the three-year period from FY2020 to FY2023.

Public-private partnership (PPP) model to gain traction; to improve accessibility of the diagnostics services
The Government of India has been emphasising on promoting private participation in the healthcare industry and hence, PPP models in diagnostic have gained traction over the past five years. The model is expected to see further growth as the government is keen on strengthening primary healthcare centres, increasing the number of health & wellness centres and making a policy shift towards preventive care from curative care. The PPP model involves the development of a greenfield or brownfield diagnostic centre by the private player (service provider) across various location or set ups and, in certain cases, such a model involves the setting up of collection points in sub-centres, primary health centres, community health centres and other remote regions (hub-and-spoke model). The gamut of services provided by these centres involves both pathology and radiology or any one of these depending on the requirements. The physical premise for the development is provided by the authority and, largely, these PPP implementations are in existing hospitals and requires improvement by the private player. There is a lack of manpower, inadequate resources such as diagnostics, pathology and stock-outs in the public healthcare institutions operating in rural areas. To bridge this gap, private players come into play. They help deliver efficient services in the government-run hospitals through PPP model. Thus, using private players to the advantage can help penetrate this untapped market.

Emphasis on growing 'Seeding Cities' to 'Focus Cities': Metropolis is a well-diversified player with a pan India presence across all the four regions – West, East, North and South. Also it has a small presence in the international markets. The company derives a lion's share of revenues from the west region followed by the South India Markets, while the North and the East account for around 15% of the overall sales. The revenues from the west have been growing faster as compared to other regions given the strong presence of Metropolis in this region. The share of revenues from the west have gone up by 4% to 58% as of Fy2021 as compared to FY2020. Being a pan-India player in the diagnostics space with a wide variety of tests offered, augurs well for Metropolis.

Region-wise Revenue Mix



Source: Company, Sharekhan Research

Metropolis has also bifurcated its presence on a territorial basis classified as – Focus cities, Seeding Cities and Others. Focus cities include Mumbai, Pune, Chennai, Bangalore and Surat and all of these cities are under the West and South regions, in which the company has a strong presence. Focus cities are ones with a sizeable presence of other organised players as well. Inspite of being a competitive market, Metropolis holds a sizeable market share of 15-20% in respective markets and the management is looking to further increase its share in these cities to 25-30% levels.

Geographic revenue mix

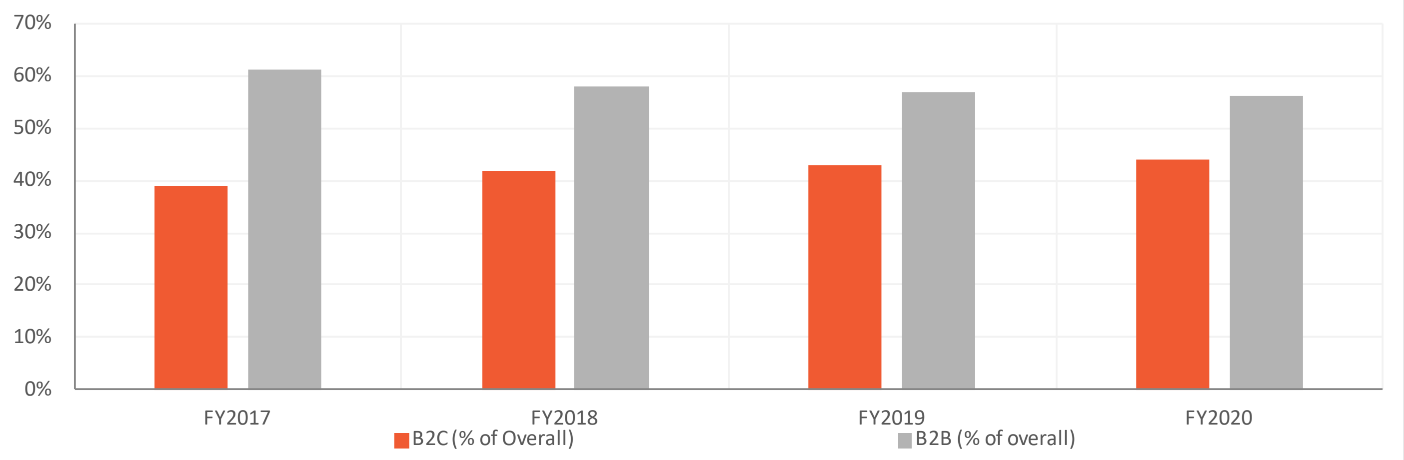
Source: Company, Sharekhan Research

Seeding cities are those (including tier I cities as well) in which the company sees a substantial growth potential as well as headroom for market share gains. The share of revenues from the seeding cities has improved from around 19% levels in FY2018 to around 21% in Fy2021. This translates in to a revenue CAGR of ~16% over FY2018 to FY2021, which is higher than the 13% CAGR reported by the focused cities revenues. The seeding cities include 8 cities / markets in India in which the company sees a substantial growth potential. These cities include - Nashik, Nagpur, Rajkot, Kochi, Raipur, Guwahati, Delhi-NCR and Kolkata and the company has around mid to high single-digit market share in these cities, in the organised segment. The management is looking to further increase market share in these markets through increasing penetration. Almost half of the revenues from these markets is from the retail segment, which is the B2C segment. Management is focusing on marketing activities to develop the Metropolis brand in these markets. In addition, the company is looking to expand its touch points or service centres in these markets and also in few tier I cities the company is looking to looking to expand lab presence to enhance the test infrastructure and introduce high end tests. Overall the company has adopted to a mix of both B2B and B2C strategy to grow its business in the seeding cities. While establishing / expanding the high end testing laboratories in these areas, would enable to grow the B2B business, increasing patient service centres or the franchises and strong brand position would enable to grow the B2C business. Going ahead, the company sees to convert a few of the seeding cities in to focus cities.

Eyeing greater share in B2C segment; higher penetration in focus cities to drive growth in B2C:

Metropolis, which is a well-diversified diagnostic player has had a presence across the B2B as well as the B2C segments. Predominantly, the company derived a higher share of revenues from the B2B segment, however over the last few years the company has been focusing on increasing its presence in the B2C segment as well. As of FY2017, the B2B segment in the overall revenues contributed around 61% which has now reduced to 56% as of FY2020, though its stands to be on the higher side as compared to its competition. The higher share of B2B business is on the back of a higher share of the specialized tests which contributes ~37% in value terms as of Fy2020 with the corresponding volumes contribution at 14%. However over the past few years the management has set its eyes on growing the B2C segment and has tweaked / gradually changed its model accordingly.

Revenue Mix (B2C - B2B) - Overall

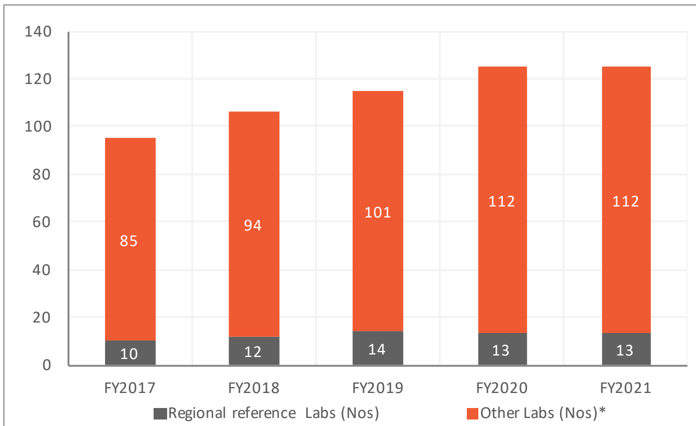


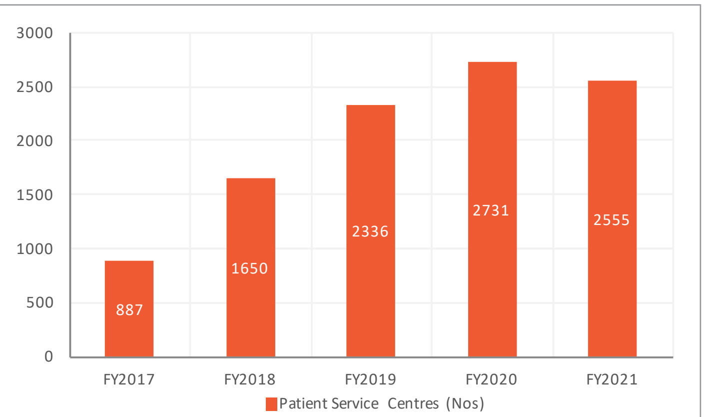
Source: Company, Sharekhan Research

Going ahead, the management is now targeting to increase the share of B2C segment in the overall mix and especially in the focus cities. Efforts to expand the network of laboratories as well as service centers, leveraging digital platforms to better penetrate and fortify the Metropolis brand, ramp up in the home collection services are the key factors that would be driving the growth of the B2C segment.

Geographic expansion: Over the past few years, Metropolis has been laying its focus on expanding the network, with an objective to strengthen the B2C segment. The company has, since FY2017 has increased its regional reference laboratories by three while other laboratories (which include the satellite as well as the express labs) network has increased by 26 labs over FY2017 to FY2021. The company also operates a global reference lab (based in Mumbai) which has the capability to process 4000 different types of test and also acts as the mother laboratory for the company.

Laboratory network & Patient Service Centre Network



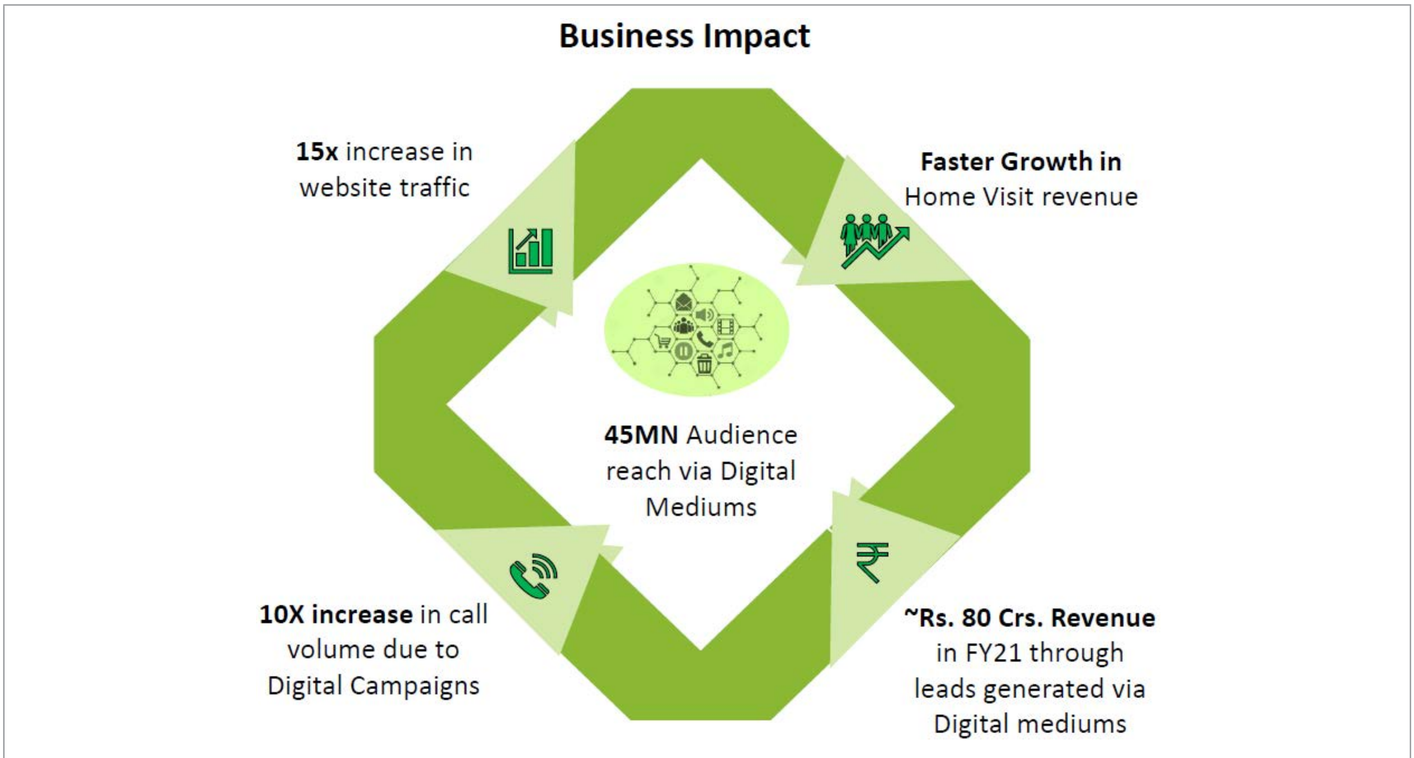


Source: Company, Sharekhan Research

Going ahead, Metropolis has planned a strong expansion of its network across the regions. Over the next 3 years the company plans to set up 90 new laboratories as well as plans to add 1,800 new patient service centers or touch points. Being a player with a pan India presence, extension of network augurs well as it would strengthen the Metropolis brand as well as also enable the growth of B2C segment.

Leveraging digital platform to strengthen the brand & drive B2C penetration in Focus cities: Amid the pandemic, companies world over (especially the ones with B2C presence) have leveraged or have adapted to digital medium to grow / run the businesses. Digital platforms are an effective tool in driving the growth as well as the profitability for the company and the same is justified from the fact that in Fy2021 the company has generated significant share of revenues amounting to Rs. 80 crore from the digital initiatives (translating to 8% of overall sales). Material benefits which include – higher website traffic, higher call volumes and an apparent traction in request for home collection services in the covered areas, are attributable to the digital focus by the management. Going ahead, of the Rs 25-35 crore capex announced by the company, around half is attributable to digital transformation. Metropolis has launched its mobile health app TruHealth and is now looking to expand its services by including value added services like doctor consultations (on demand) and interpretations. For FY21, the company's revenues share from digital stood at 8% of the total and by FY22 it plans to achieve ~15% of the sales and over the next three years looks to achieve around 33% of the sales from digital channels.

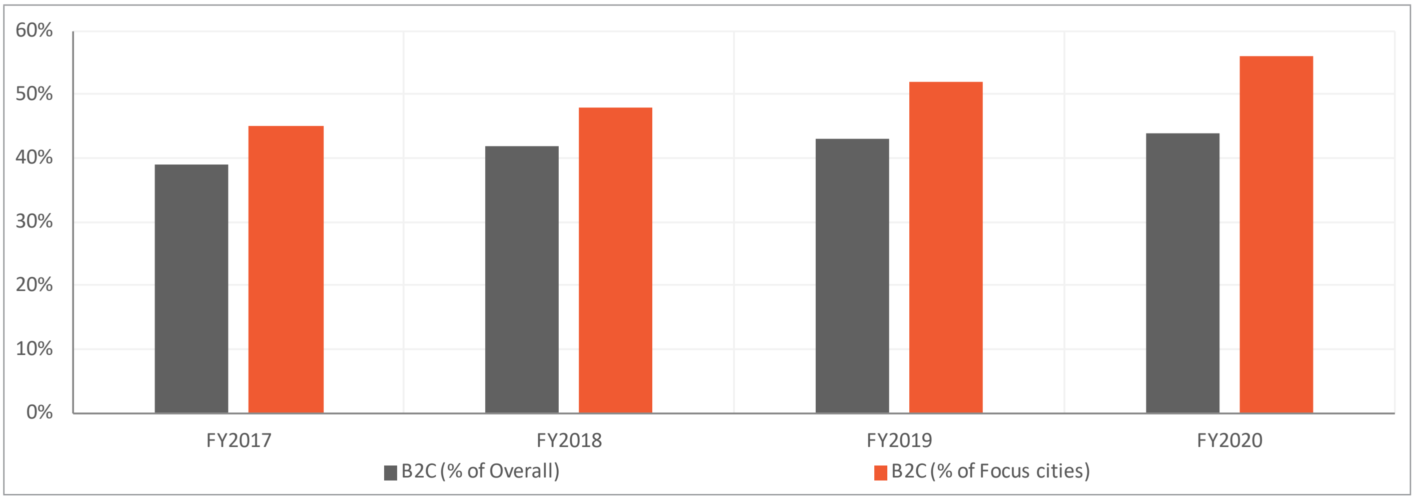
Digital engagement driving growth in brand equity



Source: Company, Sharekhan Research

Metropolis has a strong and an established presence in the focus markets / cities - Mumbai, Pune, Bangalore, Chennai and Surat. The company has an established presence in these markets and also has a sizeable market share. Mumbai is one of the key regions for the company and the company has a strong established presence with 1 RRL and Global Reference lab and at least ~400 patient service centers. In Mumbai, it is present in the B2B as well as B2C segment and due to the global reference lab offers a wide variety of 4000 different tests. Metropolis has built a robust B2C business model over the years by leveraging its network expansion strategy brand-building initiatives and improved patient experience. In the focus cities, the B2C business contribution stood at 58% as of FY2021, up from 45% in FY2017.

Share of B2C segment in overall sales and focus cities sales



Source: Company, Sharekhan Research

The share of B2C revenues in focus cities is higher as compared to that of overall sales. The growth in the B2C sales can be attributable to brand building initiative leading to improved customer experience, building doctor / physician relations through an effective sales force, increasing penetration in the focus cities and upselling opportunities for wellness tests and bundled tests to existing as well as new customers. Further the increasing maturity of the patient service centers in the focus cities also point at ample headroom for growth. Overall, the B2C segment constitutes 58% of the focus cities sales and the management is aiming to take this up to 65% going ahead, which bodes well for Metropolis.

Favourable mix to drive margin expansion: Metropolis's operating margins for Fy2021 stand at 28.7% as compared to 27.2% as of FY2018, implying an expansion of 150 bps, this largely supported by the reduction in employee cost and other expenses (as a percentage of sales). However over the period from FY2017 to FY2021 the company has substantially expanded its network / touch points including the patient service centers. Considering substantial expansion in network, test volumes have grown at a mere 7.4% CAGR over FY2017 to FY2021 thus implying at ample head room for expansion. Further the management believes that it takes around five years for the new centers / touch points to gain traction. With the current maturity of the network stands at 2.5-3 years thus implying a strong growth traction expected in the coming years. In the B2B segment the company is targeting to build its presence through the specialized tests and is looking to fortify its presence in tier 1 cities as well. The company's B2B strategy emphasizes on leveraging specialized tests menu in new markets. Metropolis already has a strong back-end for its specialized tests, which accounts for ~40% of revenue and has higher realizations. The specialised tests are largely processed at the RRLs or global reference labs which have ample head room to ramp up the tests processing. Thus higher share of specialised tests would lead to favourable mix and in turn support margins expansion.

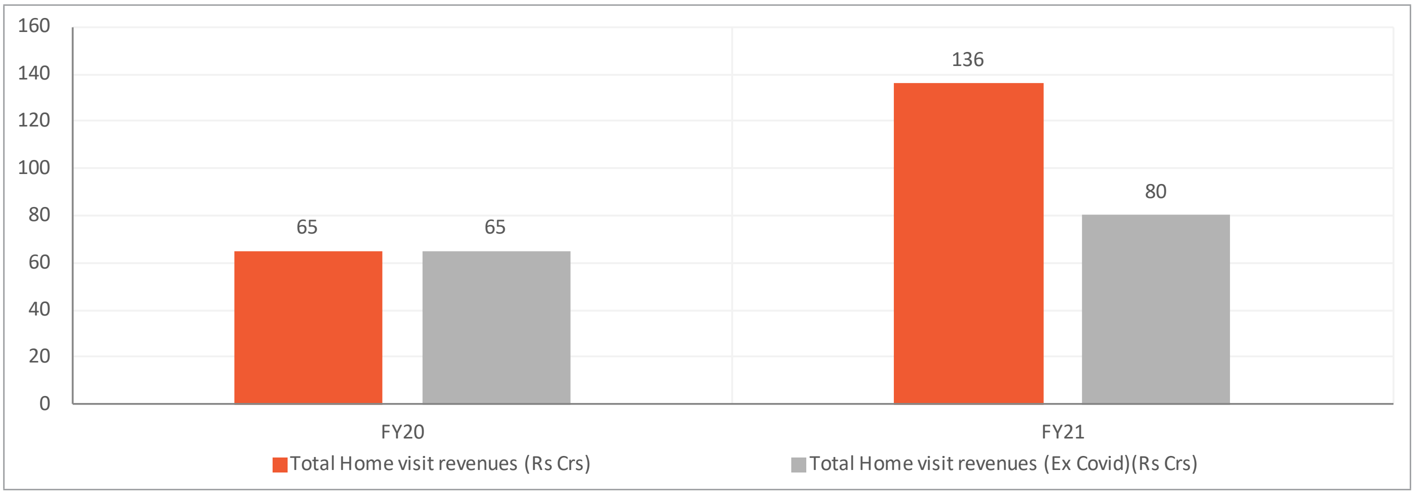
Test Mix – Volume and Value based:

Test Type	FY2019		FY2020		FY2021	
	Volume	Value	Volume	Value	Volume	Value
Routine	35%	17%	45%	17%	41%	13%
Semi - Specialised	41%	37%	40%	36%	36%	26%
Specialised	**16%**	**41%**	**14%**	**39%**	**22%**	**56%**
Wellness	8%	5%	1%	8%	1%	6%

Source: Company; Sharekhan Research

The share of the lucrative B2C segment in the overall mix has increased, which is attributable to the growth from the five focus cities, Tier II/III cities and expansion of the Wellness business. In addition to this the company is also concentrating on ramping up the home collection services in the focus cities which is also a key factor determining the margins. The expected faster growth in the B2C segment in focus cities with an established presence could translate to higher realisations and consequently better margins.

Home collection revenues gaining traction



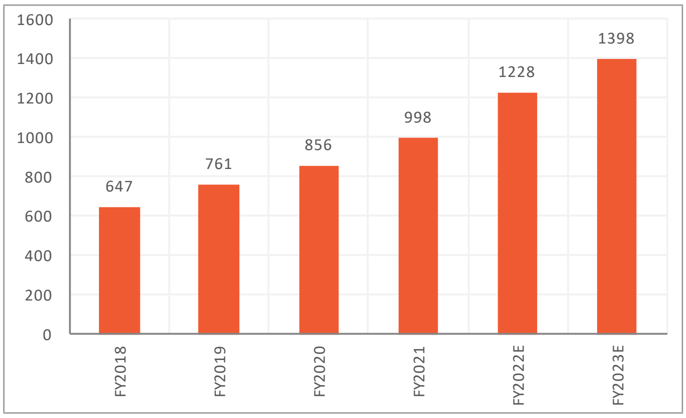
Source: Company, Sharekhan Research

Overall, given the comparatively young network which is yet to fully ramp up its operations, Metropolis' strategy to increase the share of B2C business, especially in focus cities with an eye on increasing the home collection services and expected higher contribution from the specialised tests in B2B segments are the key factors that could drive the margin expansion for Metropolis. OPM are expected to expand by around 100 bps to 29.7% over FY21-FY23E.

Sizeable capacity expansions planned over next three years: Over the past four years, Metropolis has been consistently focusing on network expansion as a key driver for growth. The company operations encompass regional reference labs, other labs and patient service centers, in addition to a global reference lab. Over FY2017 to FY2021 Metropolis has added around 1670 patient service centers and 30 new laboratories, which has enabled it to either tap a new geography or fortify its presence in the existing regions. Going ahead, to fuel the growth, the company has substantial expansion plans, to add ~90 new laboratories and around 1800 new patient service centers over the next three years. A majority of the growth is expected to be driven by the asset light franchise models which enables the company to rapidly scale up its performance whilst keeping a tab on the incremental costs. Overall investments envisaged for the overall expansion plan is around 25-35 crores. Collectively, network expansion largely driven by the asset light franchise model augurs well for Metropolis from a growth perspective.

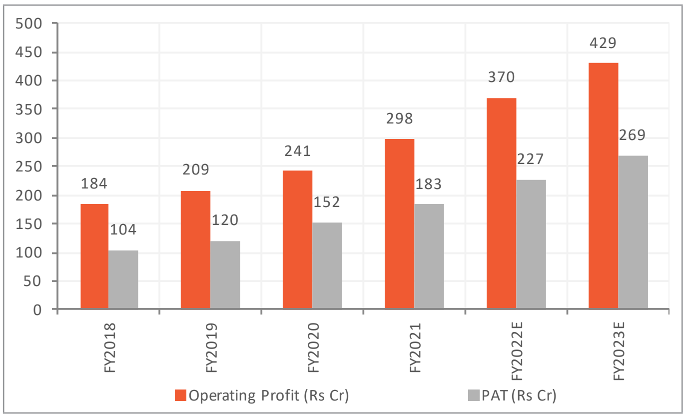
Financials in charts

Sales Trends (Rs Cr)



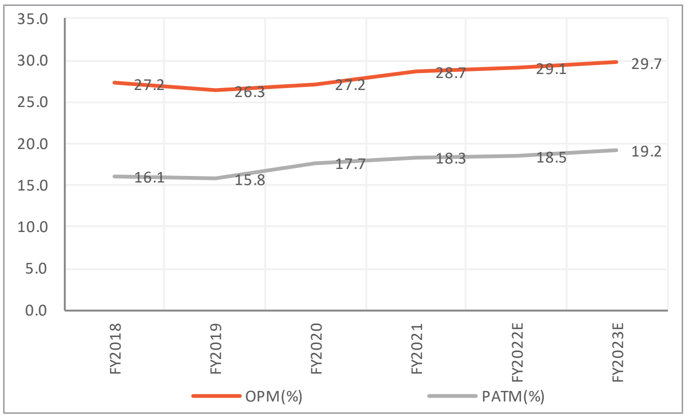
Source: Company, Sharekhan Research

Operating Profit - PAT Trends



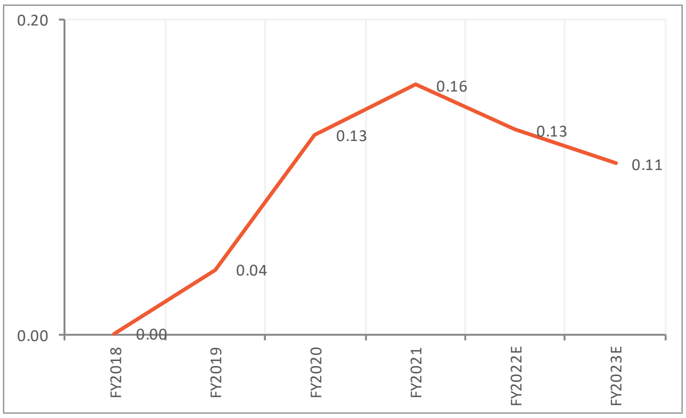
Source: Company, Sharekhan Research

Margin Trends



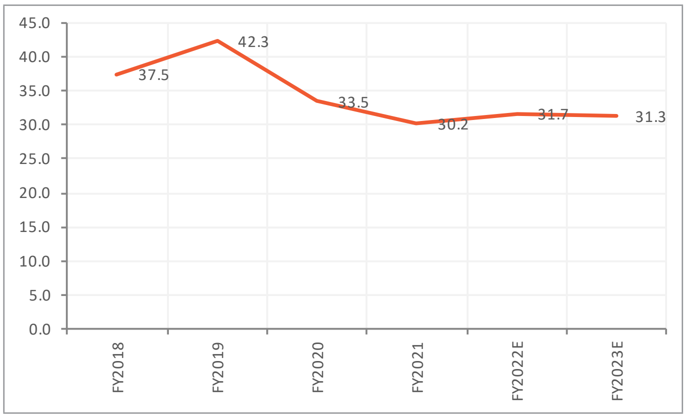
Source: Company, Sharekhan Research

D:E (x)



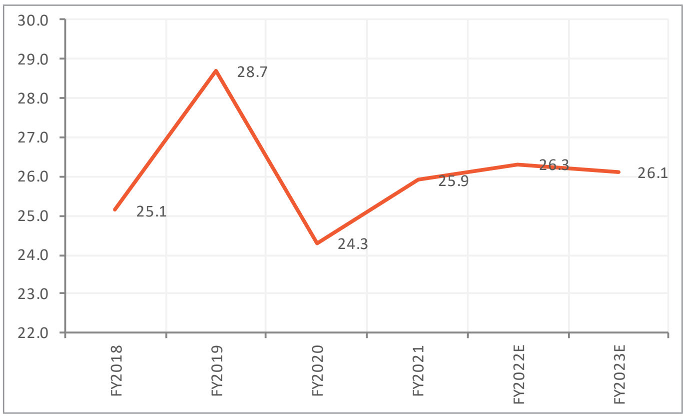
Source: Company, Sharekhan Research

RoCE Trend (%)



Source: Company, Sharekhan Research

RoE Trend (%)



Source: Company, Sharekhan Research

Outlook and Valuation

■ Sector View – Indian diagnostics industry to clock double-digit CAGR

With diagnostics services becoming the cornerstone for recommending requisite treatments, as well as monitoring recovery post treatment, the industry has posted healthy growth over the past few years. The Indian diagnostics industry has emerged as an attractive arena in India's growing healthcare sector. Albeit in FY2021, due to COVID-19, growth in the overall diagnostics industry slowed, but going ahead the industry is expected to register a growth of double digit. Change in demographics, increase in lifestyle diseases, and higher income levels across all strata of society, rise in preventive testing, deeper penetration with asset-light expansion, and spread of healthcare services and insurance are the growth levers for the diagnostic markets. In addition to the above, the government's thrust on the healthcare sector, launch of National Digital Health Mission coupled with expected increase in post COVID-19 tests for well-being could propel the growth of the diagnostics players.

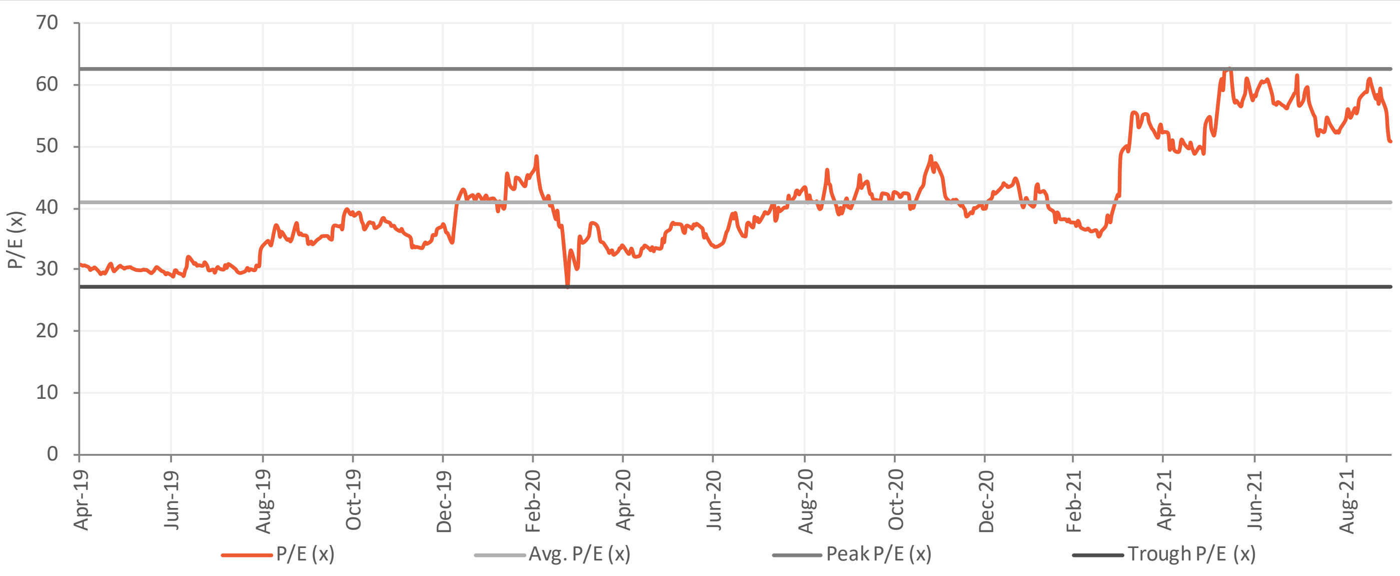
■ Company outlook – charting a strong growth path

Metropolis, is a leading player in the diagnostics space with a pan India presence with south and west regions constituting more than 80% of the overall sales as of Fy2021. Underpinned by strong growth drivers and governments focus on healthcare services, the diagnostics industry is expected to benefit, especially players such as Metropolis with a pan India presence and capabilities to process highly-specialized tests could benefit substantially. Backed by plans to expand its network, services centers and leveraging digital platforms, the company aims to grow the lucrative and high margins B2C business. In the focus cities (~61% of the sales), Metropolis plans to increase the share of B2C revenues to ~65% from around 58% as of FY21. This would also strengthen Metropolis brand position. As of FY2021, Metropolis has around 125 laboratories pan-india and 2555 service centers, which would be expanded by 90 new laboratories and ~1800 service centers over the next three years. Higher penetration could translate in to better revenues growth for the company. Also, Metropolis' share of revenues from the seeding cities (8 cities classified as seeding cities) is up by 2% over the past 2-3 years to 21% as of FY2021 and the basis its wide tests portfolio and positive outlook, the company looks to convert few of the seeding cities to focus cities, where the company has a sizeable market share.

■ Valuation – Initiate Viewpoint coverage with Positive View and expect a 22% upside

The Indian diagnostics industry is expected to grow strongly, underpinned by multiple drivers. Further, a shift from fragmented unorganized players to organised players, would benefit players like Metropolis with capability to process a wide portfolio of tests. This coupled with management's thrust to grow the lucrative B2C segment, expand network and leverage digital platform would be key growth drivers. A favourable mix due to higher share of specialised tests, thrust on home collection services and faster growth in B2C segment would result in a strong 21% PAT CAGR over FY21-FY23E. At CMP, the stock trades at 62.6x and 52.9x its FY22E/FY23E EPS. Further, given a leading position in diagnostics space, wide test portfolio, a pan-India presence would be key positives. We initiate Viewpoint coverage with a positive view and expect a 22% upside from current levels.

One-year forward P/E (x) band



Source: Company, Sharekhan Research

Peer valuation

Particulars	CMP (Rs / Share)	O/S Shares (Cr)	MCAP (Rs Cr)	P/E (x)			EV/EBIDTA (x)			RoE (%)		
				FY21	FY22E	FY23E	FY21	FY22E	FY23E	FY21	FY22E	FY23E
Metropolis Healthcare	2,779.0	5.1	14,218.0	77.6	62.6	53.9	46.6	37.3	31.6	25.9	26.3	26.1
Dr Lal Path Labs*	3701	8.33	30,846	104.8	77.3	72.1	69.4	52.6	49.8	25.7	25.5	25.0
Thyrocare Technologies *	1155	5.28	6107	54.0	34.6	25.2	35.3	26.0	23.7	27.5	31.0	26.0

*Source: Company, Sharekhan estimates; * Consensus estimates*

About company

Metropolis Healthcare (Metropolis), incorporated in 1980, is among the leading diagnostics players in India, with a dominant share in the country's western and southern region. It also has presence in other countries of South Asia, Africa and Middle East. Metropolis offers a comprehensive range of 4,000+ clinical laboratory tests and is amongst the leaders. Various test combinations, specific to a disease or disorder and wellness profiles used for health and fitness screening are a part of the offerings. These tests are used for prediction, early detection, diagnostic screening, confirmation and/or monitoring of different diseases. It is the third-largest player in the diagnostics space with a presence across the B2B as well as B2C space and provides tests to individual patients, hospitals, other healthcare providers and corporates. The Company enjoys a loyal customer base, reflecting its strength as a brand offering superior diagnostic tests and services. Metropolis has a strong presence the west & South region and is expanding its presence in the North and the east regions. West accounts for 58% of the overall sales, followed by South (24%). North and East regions constitute around 10% and 5% each respectively. As of Fy2021 the company has a total of 125 laboratories including 13 reference labs and 112 other laboratories. Apart from this, the company has around 2555 patient service centers. Over the years the company has grown through a mix of organic and inorganic route, with the acquisitions having played a vital part in the growth of Metropolis healthcare.

Investment theme

Metropolis, is a leading player in the diagnostics space with a pan India presence with south and west regions constituting more than 80% of the overall sales as of Fy2021. Underpinned by strong growth drivers and governments focus on healthcare services, the diagnostics industry is expected to benefit, especially players such as Metropolis with a pan India presence and capabilities to process highly specialized tests could benefit substantially. Backed by plans to expand its network, services centers and leveraging digital platforms, the company aims to grow the lucrative and high margins B2C business. As of FY2021, Metropolis has around 125 laboratories pan India and 2555 service centers, which would be expanded by 90 new laboratories and ~1800 service centers over the next three years. Higher penetration could translate in to better revenues growth for the company. Also Metropolis share of revenues from the seeding cities is up by 2% over the past 2-3 years to 21% as of Fy2021 and the basis its wide tests portfolio and positive outlook, the company looks to convert few of the seeding cities to focus cities, where the company has a sizeable market share.

Key Risks

1) Any slow down in the network expansion plans and higher competitive intensity could impact growth prospects.
2) Any adverse regulatory changes in the form of price capping can affect the earnings

Additional Data

Key management personnel

Mr Sushil Shah	Chairman & Executive Director
Ms Amera Shah	Managing Director
Mr Rakesh Agarwal	Chief Financial Officer

Source: Company Website

Top 10 shareholders

Sr. No.	Holder Name	Holding (%)
1	Smallcap world Fund	6.9
2	Capital Group Cos inc	6.9
3	UTI Asset Management Company	4.1
4	Grandeur Peak Global Advisors LLC	4.1
5	Aditya Birla Sunlife Asset Management Co	3.9
6	Bright Star Investment	1.5
7	Vangaurd Group Inc	1.5
8	Wasatch Advisors Inc	1.2
9	Fundsmith LLP	1.1
10	First State Investment ICVC	1.0

Source: Bloomberg

Understanding the Sharekhan 3R Matrix

Right Sector	
Positive	Strong industry fundamentals (favorable demand-supply scenario, consistent industry growth), increasing investments, higher entry barrier, and favorable government policies
Neutral	Stagnancy in the industry growth due to macro factors and lower incremental investments by Government/private companies
Negative	Unable to recover from low in the stable economic environment, adverse government policies affecting the business fundamentals and global challenges (currency headwinds and unfavorable policies implemented by global industrial institutions) and any significant increase in commodity prices affecting profitability.
Right Quality	
Positive	Sector leader, Strong management bandwidth, Strong financial track-record, Healthy Balance sheet/cash flows, differentiated product/service portfolio and Good corporate governance.
Neutral	Macro slowdown affecting near term growth profile, Untoward events such as natural calamities resulting in near term uncertainty, Company specific events such as factory shutdown, lack of positive triggers/events in near term, raw material price movement turning unfavourable
Negative	Weakening growth trend led by led by external/internal factors, reshuffling of key management personal, questionable corporate governance, high commodity prices/weak realisation environment resulting in margin pressure and detoriating balance sheet
Right Valuation	
Positive	Strong earnings growth expectation and improving return ratios but valuations are trading at discount to industry leaders/historical average multiples, Expansion in valuation multiple due to expected outperformance amongst its peers and Industry up-cycle with conducive business environment.
Neutral	Trading at par to historical valuations and having limited scope of expansion in valuation multiples.
Negative	Trading at premium valuations but earnings outlook are weak; Emergence of roadblocks such as corporate governance issue, adverse government policies and bleak global macro environment etc warranting for lower than historical valuation multiple.

Source: Sharekhan Research

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