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Issue Details	
Price Band (Rs)	877 -880
Face Value (Rs)	2
Issue Size (Rs)	1204 Cr
Issue Type	Book Building
Minimum lot	17 Shares
Issue Opens	April 03,2019
Issue Closes	April 05,2019
Listing on	BSE, NSE

Indicative Timeline	On or before
Finalization of Basis of Allotment	April 10,2019
Unblocking of Funds	April 11,2019
Credit of shares to Demat Account	April 12,2019
Listing on exchange	April 15,2019

Other Detail	
Book Running Lead Managers	JM Financial Limited, Credit Suisse Securities (India) Private Limited, Goldman Sachs (India) Securities Private Limited, HDFC Bank Limited and Kotak Mahindra Capital Company Limited
Registrar	Link Intime India Private Limited

Metropolis Healthcare Limited

Company Background

Dr. Sushil Kanubhai Shah, one of the Promoters, commenced pathology business in January 1980 as a partnership firm in the name of Dr. V. K. Desai's Hospital. Dr. Sushil Kanubhai Shah was also carrying on a business of radioimmunoassay and pathology laboratory on a sole proprietorship basis. On March 20, 1995, the said sole proprietorship business was converted into a partnership in the name and style of Metropolis Lab. Effective Feb 1, 2002, the business of Metropolis Lab was transferred to Dr. V. K. Desai's Hospital as a going concern. The name of Dr. V. K. Desai's Hospital was changed to Metropolis Health Services in November 2002. In July 2003, Metropolis Health Services was converted into a private limited company as Metropolis Health Services (India) Private Limited ("MHSIPL") under the Companies Act, 1956. The name of MHSIPL was changed to Metropolis Health Services (India) Limited in March 2006. In January 2009, MHSIL amalgamated with Pathnet India Private Limited, which was a wholly owned subsidiary of MHSIL. Pursuant to the amalgamation, the name of the company was changed to Pathnet India Limited on July 1, 2009. Moreover, the name of the company was changed to Metropolis Healthcare Limited (MHL) pursuant to a 'Fresh Certificate of Incorporation consequent upon 'Change of Name' granted by the RoC on Sept 23, 2009.

Issue Details

For listing benefits and unlocking the market value, Metropolis Healthcare Limited is coming out with a maiden IPO of 13,685,095 equity shares of Rs. 2 each via book building issue. The entire offer is an offer for sale by the existing stakeholders. The IPO includes an offer for sale of up to 6,272,335 equity shares by promoter Dr. Sushil Kanubhai Shah and up to 7,412,760 shares by CA Lotus Investments. The Issue constitutes 27.27% of the post issue paid-up capital of the company. Being an OFS, company won't receive any proceeds from the issue. Of the total, 3,00,000 shares have been reserved for the employees bringing net issue to 13,385,095 shares, 26.67% of the post issue paid-up capital.

IPO share allotment pattern

Category	Allocation	Number of Shares	Issue Size (Rs.Cr) at	
			Lower Band (Rs. 877)	Upper Band (Rs.880)
QIB	75%	10,038,821	880	883
Non-Institutional	15%	2,007,764	176	177
Retail	10%	1,338,510	117	118
Net Issue	100%	13,385,095	1174	1178
Eligible Employees		300,000	26.3	26.4
Total		13,685,095	1200	1204

Source: Company RHP, ACMIIL

Outlook and Valuations

Metropolis Healthcare Limited (MHL) is one of the largest diagnostic players in India. The company has a wide operational network, young patient touch point network, and asset-light growth of service network. MHL has a strong and established brand with a focus on quality and customer service. We believe MHL is well positioned to leverage the expected growth in the Indian diagnostics industry. At the upper price band, the company's stock trades at 43x its FY18 EPS of Rs 20.49/-. We recommend to **SUBSCRIBE** to the issue with a long-term perspective.

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Business Overview

MHL is one of the leading diagnostics companies in India in revenue terms (Source: Frost & Sullivan). MHL has a widespread presence across 19 states in India, with leadership position in west and south India. 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/or monitoring of disease. MHL also offers analytical and support services to clinical research organizations for their clinical research projects.

They offer a broad range of approximately 3,487 clinical laboratory tests and 530 profiles which comprises a variety of test combinations, which are specific to a disease or disorder as well as wellness profiles that are used for health and fitness screening. MHL classify their tests into:

- **Routine** tests such as blood chemistry analyses, blood cell counts, and urine examination;
- **Semi-specialized** tests such as thyroid function tests, viral and bacterial cultures, histology, cytology, and infectious disease tests; and
- **Specialized** tests such as tests for coagulation studies, autoimmunity tests, cytogenetics, and molecular diagnostics.

MHL's service network caters to individual patients as well as institutional customers. They service individual patients through 1,631 patient touch points (out of which 26 are located outside India), as of Dec 31, 2018, including 256 patient service centers owned by them ("Owned PSCs") and 1,375 third party patient service centers ("Third Party PSCs"). MHL services their institutional customers through approximately 9,552 institutional touch points, as of Dec 31, 2018, including:

- Approximately 9,000 pick-up points; and
- 552 assisted referral centers ("ARCs") (out of which 7 are located outside India), which are their exclusive third-party referral centers.

Investment Rationale

Leading diagnostics company in India well positioned to leverage the expected growth

MHL offers a comprehensive range of approximately 3,487 clinical laboratory tests out of which 2,799 tests are specialized tests and 530 profiles to their patients, as of Dec 31, 2018. MHL has a widespread presence across 19 states, with a leadership position in the west and south India. MHL's operational network is spread across 197 cities in India. MHL's widespread presence provides a hedge against the risks associated with any particular geography while benefitting from the competitive advantages of each location. MHL's brand and reputation, economies of scale, and wide geographic coverage position them well to leverage from the underlying opportunities in the Indian diagnostics space.

Further, the overall growth in the Indian diagnostics market is expected to be led by eight major cities, which have the highest GDP (on purchasing power parity basis) in India (Source: Frost & Sullivan). Metropolis has a significant presence in five of these eight major cities – Mumbai, Chennai, Surat, Pune, and Bengaluru with an operational network of 33 clinical laboratories, 1,156 patient touch points, and 70 ARCs, as of Dec 31, 2018. During the nine months period ended Dec 31, 2018, and the financial year 2018, it derived 58.78% and 62.75% of revenue from operations from these five cities respectively, and is well-positioned to grow the scale of business and operations. The company has also grown their presence in the remaining three cities, Delhi, Hyderabad, and Kolkata, from five clinical laboratories, 16 patient touch points, and 31 ARCs as of Mar 31, 2016, to eight clinical laboratories, 82 patient touch points and 61 ARCs, as of Dec 31, 2018.

Revenues - Region wise				(Rs.mn)
Particulars	FY16	FY17	FY18	9MFY19
West India	2,649.12	3,029.84	3,480.29	2,899.83
South India	1,465.49	1,574.12	1,792.75	1,462.69
North India	282.90	330.73	419.71	3,86.34
East India	140.72	164.83	214.42	232.33
International	216.46	347.72	520.72	400.10
Total	4,754.69	5,447.24	6,435.67	5,593.06

Source: Company RHP, ACMIIL

Widespread operational network, young patient touch point network and asset light growth of service network

Metropolis operations are supported by a laboratory network comprising 115 clinical laboratories, including Global reference laboratory

(GRL) and a service network comprising 1,631 patient touch points, including 256 owned patient service centers (PSCs) and 1,375 Third Party PSCs, which serve its individual patients; and approximately 9,000 pick-up points and 552 Assisted referral centers (ARCs), which service MHL's institutional customers, as of Dec 31, 2018. MHL operations are supported by a young patient touch point network, with 70.56% being less than two years old, as of Dec 31, 2018. As of Dec 31, 2018, MHL operational network is spread across 197 cities in India. MHL has implemented an asset-light model for growing its service network. In addition to setting up owned PSCs, MHL has significantly expanded its service network by contracting with third-party PSCs, to service their individual patients, with limited capital expenditure incurred by MHL. In addition, MHL also provides home collection service to its patients, which allows them to collect specimens at the patient's house. For catering to the requirements of their institutional customers, MHL set up pick-up points and ARCs.

Key Facts

Particulars	FY16	FY17	FY18	9MFY19
Clinical laboratories	89	95	106	115
Number of patient visits (mn)	6.9	7.0	7.7	6.6
Total number of patient touch points	277	579	1,130	1,631
Number of tests performed (mn)	13.4	14.3	16.0	12.3
Number of tests/profiles per patient visit	1.94	2.04	2.08	1.85
Revenue per test /profiles (in Rs)	354.8	380.9	402.2	454.72
Revenue per patient visit (in Rs)	689	778.2	835.8	847.43

Source: Company RHP, ACMIL

Robust information technology infrastructure with focus on improving efficiency

MHL's laboratory operations are supported by a cloud-based information technology and other operations are managed using a centralized SAP platform. It enables the company to:

- Achieve standardization across operations;
- Reduce incidence of errors due to human intervention;
- Monitor technical operations;
- Closely track key performance metrics; and
- Provide convenience to its patients and customers, by allowing them to book appointments, complete registration, and access test reports online.

Experienced senior management team and qualified operational personnel

MHL is a promoter led, professionally managed company. MHL Promoter and Chairman, Dr. Sushil Shah, has more than three decades of experience in pathology business, and his vision is critical to 'Metropolis' becoming one of the leading healthcare brands in India. Another Promoter and Managing Director, Ms. Ameera Shah, has more than two decades of experience in pathology business in a variety of roles including finance, strategy, innovation, and investor relations. MHL has a team of approximately 196 doctors and pathologists and 2,236 scientific officers and phlebotomists, including third-party consultants, as of Dec 31, 2018.

Strong and established brand with a focus on quality and customer service

MHL has established a well-recognized brand by delivering quality and reliable diagnostic services since 1980. Over the years, MHL has received several awards that recognize the strength of its brand and its focus on offering superior diagnostic tests and services. MHL was recognized for "excellence in customer service and delivery" by Biotrains in 2018 and also received special jury mention for "service excellence (diagnostic center)" by FICCI at the Healthcare Excellence Awards 2018. In addition, MHL health campaign was recognized as "best in health and fitness" in the Digital Campaign Awards 2018 by LH Insight.

Established financial track record

MHL has established a consistent track record of financial performance and growth. The company has maintained a consistent EBITDA margin of ~ 28 % over the last three years. During FY16-18, the company's revenue and EBITDA has grown at a CAGR of 16.3% and 16.9% respectively. The company reported ROCE (pre-tax, ex-cash) of 56% and 64% respectively in FY17 and FY18. Its EPS for FY2018 is Rs. 20.49, and 3 years' average EPS is Rs.18.66. Revenue per patient has grown from Rs.689 in FY16 to Rs.836 in FY18 at a CAGR of 10.1%. During the last three years, MHL's individual patient touch points have grown at an extensive growth rate of 408% .

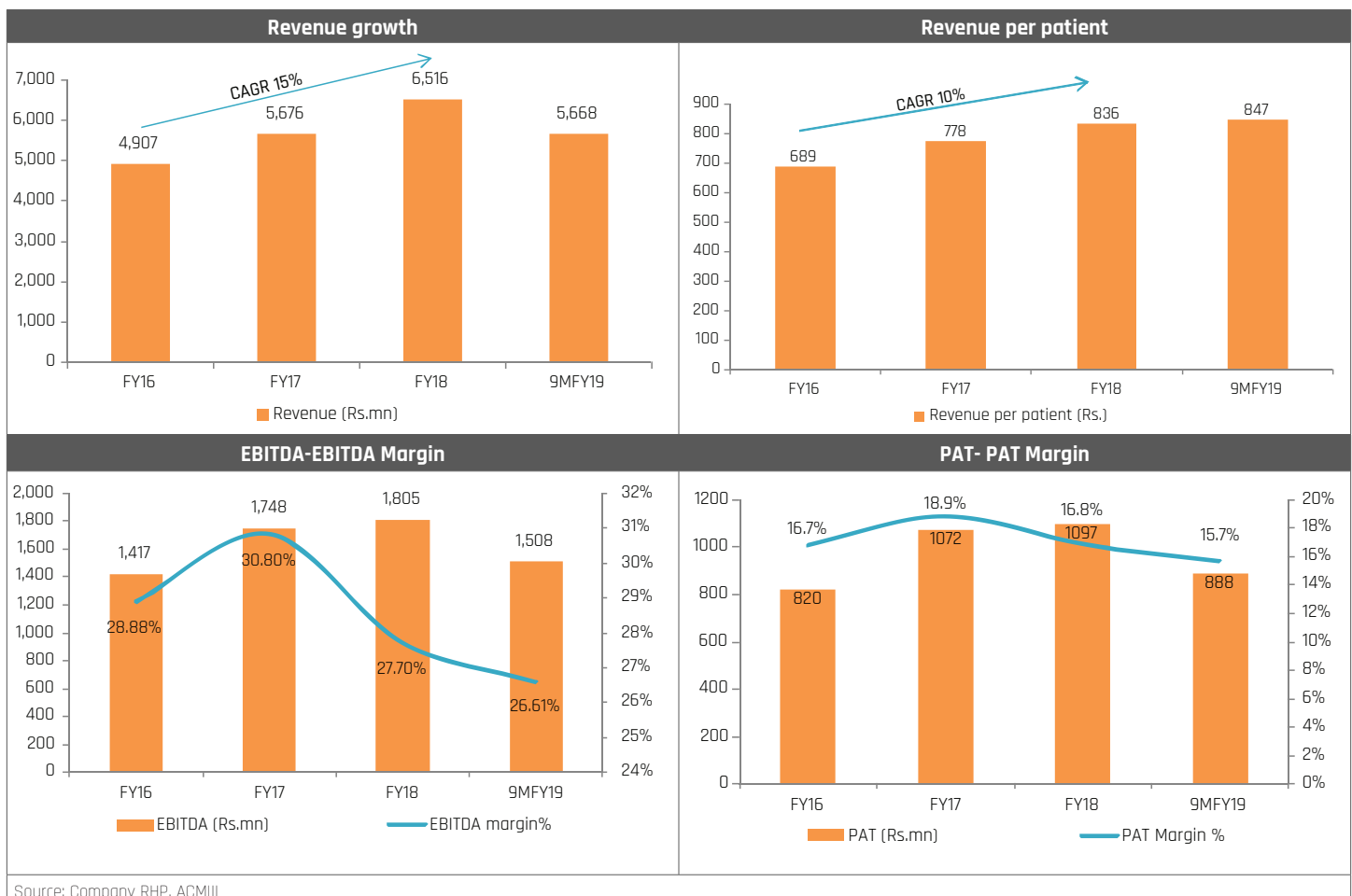
Risk Factors

- India's diagnostics industry is highly competitive with standalone centers having approximately 47% market share, 37% for hospital-based diagnostic centers, and the remaining 16% for organized diagnostic players. Low entry barriers, low capital expenditure requirements, and minimum regulatory supervision make it easier for new competitors.
- Implementation of the pricing policies of the government or other authorities could adversely affect their business, results of operations, and financial condition.
- MHL rely on the performance of third-parties, including third-party patient service centers and pick-up points, for a portion of their business, and any deficiency in services provided by them could adversely affect their business and reputation.

Peer Comparison -FY18

Sr. No.	Name of the Company	Face value (Rs)	Consolidated revenue from operations (Rs.mn)	Basic EPS (Rs)	Diluted EPS (Rs)	P/E (based on Basic EPS)	Return on Networth (%)	NAV per Equity Share (Rs)
1	Metropolis Healthcare Limited	2	6,436	20.61	20.49	43	24.66	83.58
2	Dr. Lal Pathlabs Limited	10	10,570	20.85	20.82	50	21.61	96.93
3	Thyrocare Technologies Ltd	10	3653.15	18	18	29.61	22.27	83.96

Source: Company RHP, ACMIIL



Source: Company RHP, ACMIIL

Financials

Income statement

Particulars (Rs.mn)	FY16	FY17	FY18	9MFY19
Revenue from operations	4,755	5,447	6,436	5,593
Growth %		14.60%	18.10%	
Other Income	152	229	80	75
Total Income	4,907	5,676	6,516	5,668
Expenses				
Cost of material consumed	1,246	1,351	1,459	1,297
Laboratory testing charges	31	25	57	38
Employee benefits expense	1,082	1,277	1,474	1,337
Other expenses	1,131	1,275	1,721	1,488
Total Expenses	3,490	3,928	4,711	4,160
EBITDA	1,417	1,748	1,805	1,508
EBITDA margin%	28.88%	30.80%	27.70%	26.61%
Depreciation and amortization	166	172	190	146
EBIT	1,251	1,576	1,615	1,362
Finance cost	8	4	12	5
Share of profit of equity account investees	33	27	0	-10
Profit before tax	1,276	1,599	1,603	1,347
PBT margin%	26.00%	28.20%	24.60%	23.80%
Net Tax Expenses	456	527	506	459
Profit after tax	820	1,072	1,097	888
PAT margin%	16.71%	18.89%	16.84%	15.67%

Source: Company RHP, ACMIIL

Balance sheet

Particulars (Rs.mn)	FY16	FY17	FY18	9MFY19
Assets				
Non-current assets				
Fixed assets	1,062	1,061	1,123	1,141
Intangible assets	361	972	951	1,000
Other non-current assets	284	267	223	271
Total non-current assets	1,706	2,300	2,298	2,412
Current assets				
Current investments	942	1,341	1,004	762
Cash and bank balances	336	405	601	730
Inventories	156	141	212	275
Trade receivables	702	803	1,007	1,386
Other current assets	117	161	181	273
Total current assets	2,253	2,851	3,006	3,427
Total assets	3,959	5,152	5,303	5,839
Equity and Liabilities				
Shareholder's Funds				
Share capital	95	95	95	100
Reserves and Surplus	2,692	3,136	4,052	4,580
Minority interest	152	210	144	23
Total shareholder's fund	2,939	3,442	4,291	4,703
Non-current liabilities				
Long term borrowings	5	4	2	1
Net deferred tax liabilities	79	70	44	29
Other non-current liabilities	27	118	60	57
Total non-current liabilities	111	191	106	88
Current liabilities				
Short term borrowings	4	4	4	2
Trade payables	328	359	353	441
Other current liabilities	577	1,155	549	604
Total current liabilities	910	1,519	906	1,048
Total equity and liabilities	3,959	5,152	5,303	5,839

Source: Company RHP, ACMIL

Asit C. Mehta

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