

**Issue Details**

Listing	NSE & BSE
Open Date	03/04/2019
Close Date	05/04/2019
Price Band	877-880

**Issue Structure (In %)**

Fresh issue	0.0
Offer for Sales	100.0

**Shareholding Pattern (%)**

	Pre	Post
Promoters	67.80	55.30
Public	32.32	44.70
Total	100.0	100.0

Metropolis is one of the leading diagnostics companies in India, by revenue with a widespread presence across 18 states in India. It enjoys a leadership position in the west and south of India. It offers a comprehensive range of clinical laboratory tests and profiles, which are used for prediction, early detection, diagnostic screening, confirmation and/or monitoring of the disease. It also offers analytical and support services to clinical research organizations for their clinical research projects. During the financial year 2018, it conducted approximately 16.0 million tests from approximately 7.7 million patient visits.

It offers a broad range of approximately 3,480 clinical laboratory tests and 524 profiles. Each profile comprises of 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. It services individual patients through 1,130 patient touch points (out of which 28 are located outside India), as of March 31, 2018, including 251 patient service centers owned by the company ("Owned PSCs") and 879 third party patient service centers ("Third Party PSCs").

It services the institutional customers through approximately 9,020 institutional touch points, as of March 31, 2018, including: -

- i. approximately 8,500 pick-up points and,
- ii. 520 assisted referral centers ("ARCs") (out of which seven are located outside India), which are exclusive third-party referral centers.

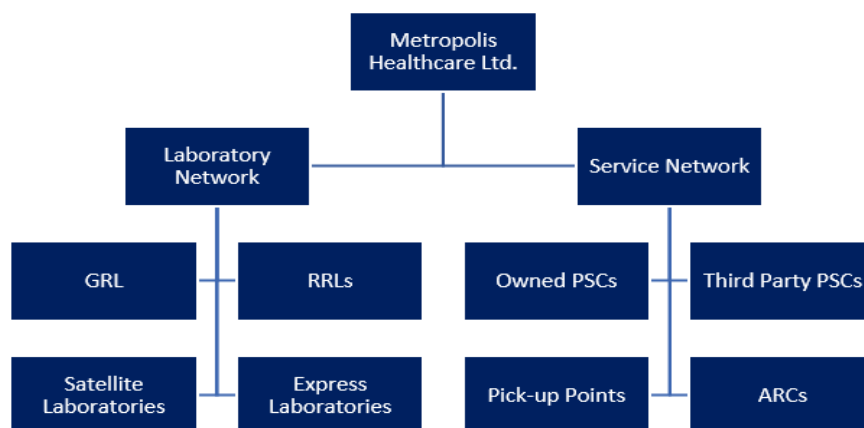
It has implemented a 'hub and spoke' model for quick and efficient delivery of services through the widespread laboratory and service network, which covers 173 cities in India, as of March 31, 2018. As of March 31, 2018, the laboratory network consists of 106 clinical laboratories, comprising

- i. a global reference laboratory ("GRL") located in Mumbai, which is the main 'hub' and equipped to conduct majority of the tests offered by the company;
- ii. 12 regional reference laboratories ("RRLs") (out of which two are located outside India), which are equipped to conduct routine, semi-specialized and a few specialized tests;
- iii. 50 satellite laboratories (out of which four are located outside India), which are equipped to conduct routine and semi-specialized tests; and
- iv. 43 express laboratories (out of which 11 are located outside India), which are equipped to conduct routine tests.

Outside India, it 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. As of March 31, 2018, it had an operational network of 17 clinical laboratories, 28 patient touch points and seven ARCs, outside India.

### ❖ Business Overview: -

Metropolis is among handful of the organized national players in this segment. Established in 1981, it has now grown in scale to operate 3,480 clinical laboratories, 1,130 patient touch points and 9,552 institutional touch points covering 197 cities.



Source: Company, Ventura Research

Metropolis offers its diagnostic healthcare services in India through its operational network, comprising of a laboratory and service network.

#### • Laboratory Network

The laboratory network consists of 106 clinical laboratories, comprising (i) a GRL (ii) 12 RRLs (out of which two are located outside India); (ii) 50 satellite laboratories (out of which four are located outside India); and (iii) 43 express laboratories (out of which 11 are located outside India). It has also implemented a 'hub and spoke' model, whereby specimens are collected from across multiple locations within a catchment area or region for shipment to the clinical laboratories for testing. In addition, the company outsources certain tests at times, including during emergency situations and breakdowns, as well as certain specialized tests to third party laboratories, when required.

#### Laboratory Network

Particulars	2018	2017	2016
GRL	1	1	1
RRL's	12	10	10
Satellite Laboratories	50	45	42
Express Laboratories	43	39	36
<b>Total</b>	<b>106</b>	<b>95</b>	<b>89</b>

## • Service Network

The company'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 December 31, 2018, including 256 patient service centers owned by them ("Owned PSCs") and 1,375 third party patient service centers ("Third Party PSCs").

### Service Network

Particulars	2018	2017	2016
Owned PSCs	251	223	160
Third Party PSCs	879	356	117
Pick-up Points	8,500	7,000	6,500
ARCs	520	308	151
<b>Total</b>	<b>10,150</b>	<b>7,887</b>	<b>6,928</b>

Source: Company, Ventura Research

### Widespread Geographical presence



Source: Company, Ventura Research

Outside India, the company 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.

#### State-wise operational network in India

State	ARC's	Clinical Laboratories	Patient Touch Points	Total
Andhra Pradesh	30	2	-	32
Telangana	13	1	-	15
Assam	1	1	1	4
Bihar	22	1	2	23
Uttarakhand	4	-	-	4
Chhattisgarh	6	3	10	19
Delhi	55	6	71	132
Goa	2	1	3	6
Gujarat	14	7	120	141
Karnataka	21	6	32	59
Kerala	31	19	26	76
Madhya Pradesh	42	3	19	64
Maharashtra	118	20	645	783
Punjab	36	4	23	63
Rajasthan	4	2	1	7
Tamil Nadu	39	8	120	167
Uttar Pradesh	56	3	16	75
West Bengal	19	2	13	34
<b>Grand Total</b>	<b>513</b>	<b>89</b>	<b>1102</b>	<b>1704</b>

Source: Company, Ventura Research

#### ❖ Key Strategies:

- **Continue to focus on organic growth initiatives to expand reach**

It has developed a highly differentiated and focused growth strategy of dividing the key target cities in which 140 are operated into focus cities, seeding cities and other key cities, on the basis of the market share, the strength of the brand, operational history, experience and the quality of the team.

1. **Focus cities:** The company has identified five focus cities, for the financial year 2019 - Mumbai, Bengaluru, Chennai, Surat and Pune - and it intends to deepen the penetration in Focus Cities by –

(i) increasing the number of Third-Party PSCs, enhancing the laboratory capacity and test menu by adding latest machines and technology;  
(iii) expanding business derived from individual patients;  
(iv) employing focused sales and marketing teams to generate walk-ins through targeted marketing strategies;  
(v) doctor engagement through medical awareness initiatives and meetings with medical practitioners; and  
(vi) increased focus on home collection service and wellness offerings.  
The list of Focus Cities is revised on a yearly basis to ensure that the resources are deployed in line with the growth strategy.

2. **Seeding cities:** The company 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 (i) increasing the number of patient touch points; (ii) expanding the test offerings; and (iii) employing targeted marketing strategies to grow the business.
3. **Other key cities:** The company has identified 160 other key cities in which it either has satellite or express laboratories or ARCs. It intends to use the asset-light model for expanding its service network in Other Key Cities, with primary focus on growth of the ARC network to service institutional customers.

- **Focus on Providing Quality Tests and Services**

The quality and reliability of the tests and services are critical to the success. The company intends to help doctors treat their patients better and the strategy is to take the following steps in this regard:

- upgrading the technology for better quality, efficiency and reliability;
- consistent value addition to tests being offered; and
- promoting disease and disorder specific profiles, to allow doctors to receive comprehensive view of the patient’s disease status.

- **Focus on the Expansion of the Service Network**

Going forward, the company targets to particularly focus on using the Third-Party PSC model for expanding the geographical reach of its service network, due to its high scalability and the limited capital expenditure involved.

- **Focus on Increasing the Business from Individual Patients**

The business derived from individual patients provides better economies of scale, and to leverage this opportunity, the company intends to:

- Focus on Metropolis-branded Third-Party PSCs
- Employ focused sales and support team
- Undertake targeted marketing initiatives

- **Pursue New Avenues of Growth**

The company intends to pursue several new avenues of growth, including:

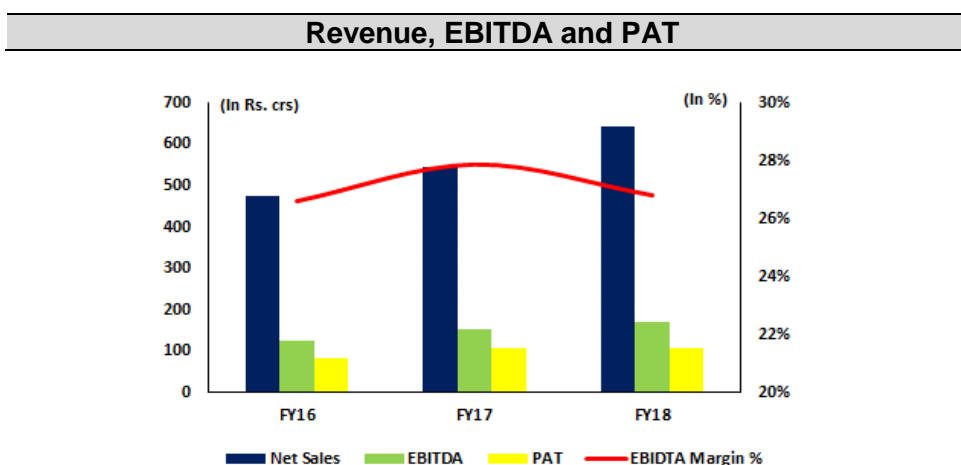
- Growing the offering of test packages
- Pursuing scientific upselling of tests
- Participating in select Public-Private Partnership tenders
- Increase focus on contract research

- **Focus on Consolidation Opportunities in a Largely Unorganized Diagnostic Sector**

Given the track record of successful consolidations, the company believes that it will be well positioned to take advantage of the expected consolidation and shift towards organized providers in the Indian diagnostics market.

❖ **Financial Performance:**

Revenue of Metropolis has demonstrated a growth of 16% CAGR from Rs. 474 crores in FY16 to Rs. 643 crores in FY18. EBITDA grew at a similar pace of 16.9% to Rs. 177 crores in FY18 from Rs. 129.8 with a constant EBITDA margin.



Source: Company, Ventura Research

### Geographical Revenue

Particulars (in Rs mn)	2018	2017	2016
West India	3,480.29	3,029.84	2,649.12
South India	1,792.75	1,574.12	1,465.49
North India	419.71	330.73	282.90
East India	214.42	164.83	140.72
International	520.72	347.72	216.46
<b>Total</b>	<b>6,427.89</b>	<b>5,447.24</b>	<b>4,754.69</b>

Source: Company, Ventura Research

### Key Performance Metrics

Particulars	9months	FY18	FY17	FY16
Clinical laboratories	115.0	106.0	95.0	89.0
Number of patient visits (in million)	6.6	7.7	7.0	6.9
Total number of patient touch points:	1,631.0	1,130.0	579.0	277.0
Number of Owned PSCs	256.0	251.0	223.0	160.0
Number of Third-Party PSCs	1,375.0	879.0	356.0	117.0
Total number of institutional touch points (approximately):	9,552.0	9,020.0	7,308.0	6,651.0
Number of pick-up points (approximately)	9,000.0	8,500.0	7,000.0	6,500.0
Number of ARCs	552.0	520.0	308.0	151.0
Number of tests performed (in million) (approximately)	12.3	16.0	14.3	13.4
Number of tests per patient visit	1.9	2.1	2.0	1.9
Revenue per test/profiles <sup>1</sup> (in ₹)	454.7	402.2	380.9	354.8
Revenue per patient visit <sup>2</sup> (in ₹)	847.4	835.8	778.2	689.0

Source: Company, Ventura Research

#### ❖ Key Risk and Threats:

1. Highly-competitive and fragmented industry with low entry barriers, low capital expenditure requirements and minimum regulatory supervision makes it easier for new competitors.
2. Failing to attract, train and retain its critical staff such as pathologists and laboratory technicians which are critical for running a diagnostic center.
3. Inability to upgrade to the continuous technological advancement leading to difficulty in keeping the pace with the competitors.

4. High pricing pressure with increased competition.
5. Lack of a comprehensive and stringent regulatory framework.

❖ **Issue Structure & Valuation:**

The proposed Metropolis Healthcare Ltd. issue is for an aggregate of 13,685,095 shares by way of offer for sale. This is being offered to the public in a price range of Rs 877 per share to Rs 880 per share. Minimum bid is of 17 shares and in multiple of the same thereafter.

The valuation works out to be 38x P/E FY18

Category	No. of shares Offered	% of Shares Offered
QIB	10,038,822	75%
Non institutional Bidders	2,007,764	15%
Retail	1,338,509	10%
Employees	300,000	-
<b>Total</b>	<b>13,685,095</b>	



❖ **SWOT Analysis:**

<p><b>STRENGTH</b></p> <ul style="list-style-type: none"> <li>➤ Leading diagnostic company in India poised to leverage the industry growth</li> <li>➤ Widespread operational network with young patient touch point and asset-light approach to bring growth of service network</li> <li>➤ Offers comprehensive test menu with wide range of clinical laboratory tests and profiles</li> <li>➤ Strong and established brand with a focus on quality and customer service</li> <li>➤ Senior management team and qualified operational personnel.</li> </ul>	<p><b>WEAKNESS</b></p> <ul style="list-style-type: none"> <li>➤ High, albeit reducing, revenue contribution from the B2B segment</li> <li>➤ Interruptions at the Global reference laboratory may affect the ability to process clinical tests, which in turn may adversely affect the business</li> <li>➤ Inadequacy in collection of, or failure or delay in the delivery of, specimens to the laboratories could compromise the integrity of such specimens affecting the business</li> <li>➤ Concentration of operations in west and south of India.</li> </ul>
<p><b>OPPORTUNITY</b></p> <ul style="list-style-type: none"> <li>➤ India's population base and increase in greying population is expected to drive the consumption of healthcare and diagnostic services in India.</li> <li>➤ Increase in affordability and disposable personal income has created a large middle-class population and is likely to help sustain demand for healthcare services and translate into healthy growth in the diagnostic services industry.</li> <li>➤ Higher health insurance penetration allowing greater access to quality healthcare.</li> </ul>	<p><b>THREAT</b></p> <ul style="list-style-type: none"> <li>➤ Non-compliance with changes in any of the applicable laws, rules or regulations, including safety, health and environmental laws, may adversely affect the business.</li> <li>➤ Inability to obtain, retain or renew the required licenses or approvals in a timely manner may adversely affect the business.</li> <li>➤ Diagnostics industry in India is highly competitive and inability to compete effectively may adversely affect the business.</li> </ul>

**Profit & Loss (In Rs. crs)**

Particulars	FY18	FY17	FY16
Net Sales	643.6	544.7	475.5
Expenses	471.0	392.8	349.0
<b>EBITDA</b>	<b>172.5</b>	<b>151.9</b>	<b>126.5</b>
<i>EBITDA Margin %</i>	27%	28%	27%
Other Income	8.0	22.9	15.17
<b>PBDIT</b>	<b>180.5</b>	<b>174.9</b>	<b>141.7</b>
Depreciation	19.0	17.2	16.6
Interest	1.2	0.4	0.8
Exceptional items	-	-	-
<b>PBT</b>	<b>160.3</b>	<b>157.3</b>	<b>124.2</b>
Tax Provisions	50.6	52.7	45.6
<b>PAT</b>	<b>109.7</b>	<b>104.6</b>	<b>78.6</b>
<i>PAT Margin %</i>	17%	19%	17%
Share of profit/(loss) of Joint Ventures	-	2.7	3.3
<b>Consolidated Net Profit</b>	<b>109.7</b>	<b>107.3</b>	<b>82.0</b>

Source: Company, Ventura Research

**Balance Sheet (In Rs. crs)**

Particulars	FY16	FY17	FY18
<b>EQUITY AND LIABILITIES</b>			
<b>Shareholder's Funds</b>			
Share Capital	9.5	9.5	9.5
Other Equity	269.2	313.6	405.2
<b>Equity attributable to equity holders</b>	<b>278.7</b>	<b>323.2</b>	<b>414.8</b>
Non controlling interests	15.2	21.0	14.4
<b>Total Equity</b>	<b>293.9</b>	<b>344.2</b>	<b>429.1</b>
<b>Non-current Liabilities</b>			
Borrowings	0.5	0.4	0.2
Other non-current financial Liabilities	0.3	8.7	2.4
Long term provisions	2.4	3.2	3.5
Deferred tax liabilities (net)	7.9	7.0	4.4
<b>Total Non-current Liabilities</b>	<b>11.1</b>	<b>19.1</b>	<b>10.6</b>
<b>Current Liabilities</b>			
Short term borrowings	0.4	0.4	0.4
Trade Payables	32.8	35.9	35.3
Other current financial liabilities	22.9	88.3	34.7
Other current liabilities	21.1	14.1	7.7
Short term Provisions	3.7	3.7	4.4
Current tax liabilities (net)	10.0	9.4	8.1
<b>Total Current Liabilities</b>	<b>91.0</b>	<b>151.9</b>	<b>90.6</b>
<b>Total Liabilities</b>	<b>102.0</b>	<b>171.0</b>	<b>101.2</b>
<b>Total Equity and Liabilities</b>	<b>395.9</b>	<b>515.2</b>	<b>530.3</b>
<b>ASSETS</b>			
<b>Non-current Assets</b>			
Property, Plant and Equipment	105.6	105.2	112.3
Capital Work in Progress	0.6	1.0	-
Intangible assets	36.1	97.2	95.1
Financial assets	15.4	11.5	5.1
Trade receivables	-	-	-
Other financial assets	0.0	2.2	8.3
Non-Current tax assets	1.8	1.0	1.7
Deferred tax assets (net)	5.2	3.4	5.3
Other non-current assets	5.8	8.6	2.0
<b>Total Non-current assets</b>	<b>170.6</b>	<b>230.0</b>	<b>229.8</b>
<b>Current assets</b>			
Inventories	15.6	14.1	21.2
Investments	94.2	134.1	100.4
Trade receivables	70.2	80.3	100.7
Cash and cash equivalents	26.8	25.5	43.5
Bank balance other than cash and CE	6.8	15.0	16.7
Loans	7.3	9.6	10.8
Other current financial assets	0.5	0.5	1.4
Other current assets	3.6	5.9	5.7
Current tax assets (net)	0.3	0.1	0.3
<b>Total Currents Investments</b>	<b>225.3</b>	<b>285.1</b>	<b>300.6</b>
<b>Total Assets</b>	<b>395.9</b>	<b>515.2</b>	<b>530.3</b>

Source: Company, Ventura Research

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