



**SMC Ranking**  
 ★★☆☆☆ (3.5/5)

**Issue Highlights**

Industry	Healthcare
Offer for sale (Shares)	13,685,095
Fresh Issue (Shares)	0
Employee reservation	300,000
<b>Net Offer to the Public</b>	<b>13,385,095</b>
Issue Size (Rs. Cr.)	1200-1205
Price Band (Rs.)	877-880
Discount offered to Retail & Employee investors	0.00
Offer Date	3-Apr-19
Close Date	5-Apr-19
Face Value	2
Lot Size	17

**Issue Composition** In shares

Total Issue for Sale	13385095
QIB	6692547
NIB	2007764
Retail	4684783

**Shareholding Pattern (%)**

Particulars	Pre-issue	Post-issue
Promoters & promoters group	67.80%	55.30%
QIB	31.20%	29.76%
NIB	1.01%	5.01%
Employee reservation	0.00%	0.60%
Retail	0.00%	9.34%
<b>Total</b>	<b>100.00%</b>	<b>100.00%</b>

\*Calculated on the upper price band

**Objects of the Issue**

- To achieve the benefits of listing the Equity Shares on the Stock Exchanges and for the Offer for Sale
- To provide a public market for the Equity Shares in India

**Book Running Lead Manager**

- JM Financial Limited
- Credit Suisse Securities (India) Private Limited
- Goldman Sachs (India) Securities Private Limited
- HDFC Bank Limited
- Kotak Mahindra Capital Company Limited

**Name of the registrar** Link Intime India Private Limited

**About the company**

Metropolis Healthcare Limited offers a broad range of approximately 3,487 clinical laboratory tests and 530 profiles, as of December 31, 2018. The 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. The company has implemented a 'hub and spoke' model for quick and efficient delivery of services through its widespread laboratory and service network, which covers 197 cities in India, as of December 31, 2018. Its laboratory network consists of 115 clinical laboratories, comprising (i) a global reference laboratory ("GRL") located in Mumbai, which is its main 'hub' and equipped to conduct majority of the tests offered by the company; (ii) 14 regional reference laboratories ("RRLs") (out of which four are located outside India), which are equipped to conduct routine, semi-specialized and few specialized tests; (iii) 56 satellite laboratories (out of which one is located outside India), which are equipped to conduct routine and semi-specialized tests; and (iv) 44 express laboratories (out of which five are located outside India), which are equipped to conduct routine test. The service network caters to individual patients as well as institutional customers. Its revenue from operations outside India was Rs 40 crore and Rs.52.0 crore, which accounted for 7.15% and 8.09% of its revenue from operations for the nine months period ended December 31, 2018 and financial year 2018, respectively.

**Competitive Strengths**

**One of the leading diagnostics companies in India which is well positioned to leverage the expected growth in the Indian diagnostics industry:** The Company has a widespread presence across 19 states in India, as of December 31, 2018, with leadership position in west and south India. The company has a significant presence in five of these eight major cities, namely Mumbai, Chennai, Surat, Pune and Bengaluru, with an operational network of 33 clinical laboratories, 1,156 patient touch points and 70 ARCs, as of December 31, 2018. The company has also grown in presence in the remaining three cities, Delhi, Hyderabad and Kolkata, from five clinical laboratories, 16 patient touch points and 31 ARCs as of March 31, 2016 to eight clinical laboratories, 82 patient touch points and 61 ARCs, as of December 31, 2018.

**Widespread operational network, young patient touch point network and asset light growth of service network:** The operations of the company are supported by a laboratory network comprising of 115 clinical laboratories, young patient touch point network and asset-light model of service network. In addition to setting up Owned PSCs, it has significantly expanded its service network by contracting with Third Party PSCs, to service its individual patients. The company has also provided home collection service to its patients, which allows it to collect specimens at the patient's house.

**Comprehensive test menu with wide range of clinical laboratory tests and profiles:** The company offers a comprehensive range of approximately 3,487 clinical laboratory tests and 530 profiles to its patients, as of December 31, 2018. Besides pathology tests, some of its centers also offer non-pathology tests such as ECG, X-ray, ultrasound and stress tests. The company offers 2,799 specialized tests, as of December 31, 2018.

**Strong and established brand with a focus on quality and customer service:** The company has established a well-recognized brand by delivering quality and reliable diagnostic services since 1980. Majority of the machines used in its clinical laboratories are approved by the US FDA and/or CE. Its GRL holds accreditation from the College of American Pathologists (“CAP”) Laboratory Accreditation Program, which is one of the main accreditations in its industry.

**Robust Information Technology Infrastructure with Focus on Improving Efficiency:** The information technology system enables the company to (i) achieve standardization across its operations; (ii) reduce incidence of errors due to human intervention; (iii) monitor technical operations; (iv) closely track its key performance metrics; and (v) provide convenience to its patients and customers, by allowing them to book appointments, complete registration and access test reports online.

**Established track record of successful acquisition and integration in India and overseas:** The company has a track record of acquiring and successfully integrating companies to grow its portfolio of laboratory and service network. It has acquired several companies since 2002, which includes established local chains such as Sudharma Metropolis Health Services Private Limited in Kerala and Golwilkar Metropolis Health Services (India) Private Limited in Pune as well as companies outside India.

### Strategy

**Continue to Focus on Organic Growth Initiatives to Expand its Reach:** The Company has developed a highly differentiated and focused growth strategy of dividing the key target cities in which it operates into focus cities, seeding cities and other key cities, on the basis of its market share, the strength of its brand, operational history. The company has identified 166 other key cities in which it either has its satellite or express laboratories or ARCs. The company intends to use the asset-light model for expanding its service network in Other Key Cities, with primary focus on growth of its ARC network to service institutional customers.

**Continue its Focus on Providing Quality Tests and Services:** The Company intends to continue to improve its value added services to make them more attractive for its existing as well as prospective patients. The company is also actively involved in campaigns focused on creating awareness of particular conditions such as cancer, lifestyle diseases, monsoon diseases, and the importance of periodic testing.

**Focus on the Expansion of its Service Network:** Going forward, the company is focused on using the Third Party PSC model for expanding the geographical reach of its service network, due to its high scalability and limited capital expenditure involved. It also intends to grow its Owned PSCs in Focus and Seeding Cities. It expects that a wider geographic reach will expand its customer base as well as improve its profitability by allowing it to better leverage its infrastructure. It will also continue to seek strategic partnerships with key third-party patient service centers in India, Africa and the Middle East to expand its geographic reach.

**Focus on Increasing its Business from Individual Patients:** Across its Focus Cities, it derived 47.8% of its revenue from operations from individual patients in the financial year 2018 as compared to 41.9% of its revenue from operations in the financial year 2016, representing a CAGR of 20.72%. Its business derived from individual patients helps it to achieve 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 and undertake targeted marketing initiatives

**Pursue New Avenues of Growth:** The company intends to pursue several new avenues of growth, including growing its offering of test packages, Pursuing scientific upselling of tests, Participating in select Public-Private Partnership tenders and Increase focus on contract research. Its work with NACO is expected to provide the company with significant experience, and benefit the company in obtaining additional PPP tenders in the future. Its experience in conducting approximately 473 clinical research assignments, as of December 31, 2018, for contract research organizations and pharmaceutical manufacturers is expected to benefit the company in obtaining additional clinical research assignments in the future.

**Focus on Consolidation Opportunities in a Largely Unorganized Diagnostic Sector:** The company intends to continue to selectively evaluate opportunities to increase its shareholding in its Subsidiaries and expansion opportunities in India, including through acquisitions of regional diagnostic healthcare service providers to, among others: grow in newer markets by increasing its customer base to consolidate its position in markets in which it currently operates, strengthening or expanding technological capabilities; and enabling the company to achieve operating leverage by unlocking potential efficiency and synergy benefits.

#### Risk Factors

**Operations are concentrated in west and south India:** The operations of the company are concentrated in west and south India, and any loss of business in such regions could have an adverse effect on its business, results of operations and financial condition.

**Diagnostics industry in India is highly competitive:** The diagnostics industry in India is highly competitive with several companies present in the market, and therefore it is challenging to improve market share and profitability. Its inability to compete effectively may adversely affect its business, results of operations and financial condition.

**Dependency on third-parties to provide its testing equipment and reagents:** It depends on third-parties to provide its testing equipment and reagents, and any failure to continue to do so or recall of existing testing equipment and reagents could adversely affect its business, results of operations and financial condition.

**Conduct certain business operations on leased premises:** The Company conducts certain business operations on leased premises and its inability to renew such leases may adversely affect its business, results of operations and financial condition.

#### Peer Comparison

Co_Name	Total Income	PAT	EPS	P/E	P/BV	BV	FV	Price	Mcap
Dr Lal Pathlabs	1169.10	192.90	23.15	45.22	9.98	104.89	10	1046.55	8722.12
Thyrocare Tech.	393.98	93.94	17.79	29.64	6.18	85.34	10	527.30	2784.07
Metropolis Healthcare Ltd.	745.74	118.36	23.59	37.31	0.93	950.43	2	880.00	4415.72

Dr. Lal Path & Thyrocare Tech. figures are TTM  
Metropolis Healthcare figures are annualized

## Annexure

### Valuation

Considering the P/E valuation on the upper price band of Rs.880, EPS and P/E of FY2019 are Rs.23.59 and 37.31 multiple respectively and at a lower price band of Rs. 877, P/E multiple is 37.18. Looking at the P/B ratio on the upper price band of Rs.880, book value and P/B of FY19 are Rs. 950.43 and 0.93 multiple respectively and at a lower price band of Rs. 877 P/B multiple is 0.92. No change in pre and post issue EPS and Book Value as the company is not making fresh issue of capital.

### Industry Outlook

The size of the Indian healthcare industry, in revenue terms, was USD 125 billion in the financial year 2015, which is estimated to have increased to USD 171 billion by the financial year 2017. The healthcare industry is expected to grow at a CAGR of 16.9% from USD 125 billion in the financial year 2015 to USD 273 billion in the financial year 2020. India's healthcare market is expected to be among the top three healthcare markets globally, in terms of incremental growth, by the financial year 2020. Despite this growth, India's per capita healthcare expenditure stands substantially lower than its South Asian peers such as Indonesia and China, which had per capita healthcare expenditures of USD 112 and USD 398 in 2016, respectively. From the financial year 2015 to the financial year 2018, the Indian diagnostic industry is estimated to grow at a CAGR of approximately 16.5% to approximately Rs. 596 billion (USD 9.1 billion) in the financial year 2018. For the next two years, India's diagnostic industry is expected to grow at a CAGR of approximately 16% to reach approximately Rs. 802 billion (USD 12.3 billion) in the financial year 2020. Within the diagnostics market, the pathology segment is estimated to contribute approximately 58% of total market, by revenue, in the financial year 2018, while the remaining 42% is estimated to be contributed by the radiology segment.

EVENT	INDICATIVE DATE (On or about)
Bid/ Offer Opening Date	3-Apr-19
Bid/ Offer Closing Date	5-Apr-19
Finalisation of Basis of Allotment with the Designated Stock Ex.	10-Apr-19
Initiation of refunds for anchor investors/unblocking of funds	11-Apr-19
Credit of Equity Shares to demat accounts of Allottees	12-Apr-19
Commencement of trading of the Eq. Shares on the Stock Ex.	15-Apr-19

### Outlook

With fundamentals such as widespread operational network, young patient touch point network, Strong and established brand with a focus on quality and customer service and asset light growth of service network, the company is expected to see good growth going forward. Moreover, the company has shown good revenue growth in the last 5 years. It is a debt free company. Investor should opt the issue.

## Consolidated Financials

### Profit & Loss

Rs. in Cr.

Particulars	9 Months Ended 31-Dec-18	12 Months Ended 31-Mar-18	12 Months Ended 31-Mar-17
Revenue from operations	559.31	643.57	544.72
Total expenditure	416.08	471.03	392.78
Operating Profit	143.22	172.54	151.95
OPM%	25.61	26.81	27.89
Other Income	7.51	7.99	22.94
PBDIT	150.74	180.53	174.88
Depreciation	14.61	19.02	17.23
PBIT	136.12	161.51	157.66
Interest	0.46	1.21	0.39
PBT before Share of profit/(loss) of JV	135.67	160.30	157.27
Share of profit/(loss) of Joint Ventures	-1.04	0.00	2.65
PBT	134.63	160.30	159.92
tax	45.85	50.55	52.66
Profit After Tax	88.77	109.75	107.26

**Balance sheet is on next page**

## Balance Sheet

Rs. in Cr.

Particulars	31-Dec-18	31-Mar-18	31-Mar-17
<b>Non-current assets</b>			
Property, plant and equipment	1141.08	1122.97	1051.59
Capital work-in-progress	0.00	0.00	9.53
Goodwill	785.69	783.69	824.61
Other Intangible assets	180.34	167.74	147.36
Intangible assets	34.37	0.00	0.00
Equity accounted investees	9.10	0.07	60.30
Financial Assets	141.30	134.11	77.15
Deferred tax assets (net)	35.72	52.97	34.31
Other non-current assets	25.30	19.60	85.76
Non-current tax assets (net)	59.22	16.66	9.80
<b>Total non-current assets</b>	<b>2412.12</b>	<b>2297.81</b>	<b>2300.41</b>
<b>Current assets</b>			
Inventories	274.89	211.87	141.30
Financial Assets	3067.95	2734.16	2650.05
Current Tax Asset (Net)	4.84	2.51	0.98
Other current assets	78.95	57.05	58.85
<b>Total current assets</b>	<b>3426.63</b>	<b>3005.59</b>	<b>2851.18</b>
<b>Total Assets</b>	<b>5838.75</b>	<b>5303.40</b>	<b>5151.59</b>
<b>Non-current liabilities</b>			
Borrowings	0.77	2.01	3.64
Others non-current financial liabilities	25.13	24.31	86.62
Provisions	32.35	35.19	31.52
Deferred tax liabilities (net)	29.43	44.44	69.71
<b>Total non-current liabilities</b>	<b>87.68</b>	<b>105.95</b>	<b>191.49</b>
<b>Current liabilities</b>			
Borrowings	2.46	3.70	4.01
Trade payables	830.31	700.45	1242.53
Other current liabilities	62.92	77.21	140.95
Provisions	64.40	43.72	36.79
Current Tax liability (Net)	87.82	81.05	94.27
<b>Total current liabilities</b>	<b>1047.91</b>	<b>906.13</b>	<b>1518.55</b>
<b>Total</b>	<b>1135.59</b>	<b>1012.08</b>	<b>1710.04</b>
<b>NET Worth</b>	<b>4703.16</b>	<b>4291.32</b>	<b>3441.55</b>
Net worth represented by:			
Share capital	100.36	95.44	95.44
Other Equity	4579.99	4052.24	3136.29
<b>Net Worth</b>	<b>4680.35</b>	<b>4147.68</b>	<b>3231.73</b>

## RANKING METHODOLOGY

WEAK	★
NEUTRAL	★★
FAIR	★★★
GOOD	★★★★
EXCELLENT	★★★★★

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