



**GOING PUBLIC**  
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**PROFIT**  
**PRICE**  
**CAPITAL**  
**SELLING**  
**BUY**  
**COMPANY**

**IPO**

**METROPOLIS HEALTHCARE  
LIMITED**

**IPO UPDATE**

**Metropolis Healthcare Limited**

**Industry overview:**

Indian demography plays a very vital role for the survival of the healthcare business. The size of the Indian healthcare industry (in revenue terms) was estimated to be USD171mn by FY2017. The healthcare industry is expected to grow at a CAGR of 16.9% from USD125bn in FY2015 to USD273bn in FY2020. India's per capita healthcare expenditure stands substantially lower than many of its Asian peers. As a result of which many also anticipate, that the Indian healthcare industry would be among the top three healthcare markets globally. (Source: RHP Metropolis Healthcare Ltd).

The health care industry as a whole can be divided into 5 sub sections namely,

- (i) Healthcare Delivery- Hospitals,
- (ii) Diagnostics,
- (iii) Pharma,
- (iv) Medical Devices and
- (v) Health Insurance.

As per the RHP, India's diagnostic industry is expected to grow at a CAGR of about 16% to reach Rs802bn in the FY2020. Now within the same market, the segment related to pathology is estimated to contribute around 58% of total market (by revenue) in FY2018. The rest of 42% is contributed by radiology segment. The urban population of India contributes 65% of the total revenues earned. Some of the factors which will propel the growth of the diagnostic companies in India include, favorable demographics, improvements in health awareness, increased spending on preventive care and wellness, increase in lifestyle-related ailments and increasing penetration of insurance in India.

While, the diagnostics industry remains highly fragmented, there will be intense competition in the industry and diagnostic chains to continue to acquire market share of standalone centers and thus grow in size.

**Exhibit 1: Historical and Estimated trend in size of India's Healthcare Market (in USDbn)**



Source: Frost & Sullivan analysis, RHP Metropolis Healthcare Ltd

**About the Company:**

Metropolis Healthcare Limited (MHL) is one of the leading diagnostics companies with wide spread operations in 19 states with leadership position in western and southern parts of India.

MHL offers a wide range of clinical laboratory tests and profiles used for prediction, early detection, diagnostic screening, and confirmation or monitoring of diseases. Moreover, the company also offers analytical and support services to clinical research organizations.

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SNAPSHOT		
Issue Opens	Wednesday, April 03, 2019	
Issue Closes	Friday, April 05, 2019	
Price Band (Rs)	877 / 880	
Bid Lot	17 shares and multiples thereafter	
Face Value	Rs2	
Listing	BSE & NSE	
Type of Issue	Offer for Sale	
Offer Size (Rsmn)	Fresh Issue	-
	OFS	12,043
	Total	12,043
*Implied Market Cap (Rsmn)	44,157	
*PE (Based on FY18 earnings)	40.2	

\*Note : Implied Market Cap & PE are calculated at higher price band of Rs880

Issue allocation	
Reservations	% of Net Issue
QIB	75
NII	15
Retail	10
Total	100

Object of the offer
<ul style="list-style-type: none"> <li>To achieve the benefits of listing the equity shares on the Stock Exchanges</li> </ul>

Last 3 year Summarized Financials			
Rs(mn)	FY17	FY18	9MFY19
Sales	5,447	6,436	5,593
EBITDA	1,519	1,725	1,432
EBITDA %	27.9	26.8	25.6
Profit After Tax	1,073	1,097	888
Profit Margin %	19.7	17.1	15.9
Earning Per Share	20.5	20.6	17.2
RoNW(%)	33.14	26.43	18.97

Details of Selling Shareholder & No of Shares	
Dr. Sushil Kanubhai Shah	6,272,335
CA Lotus Investment	7,412,760
<b>Total</b>	<b>1,36,85,095</b>

Source: RHP

**IPO UPDATE**

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**About the Company (contd.):**

The company has the capability of offering a broad range of nearly 3487 clinical laboratory tests and 530 profiles. The tests performed by the company are classified into:

**(i) Routine Tests-** such as blood chemistry analysis, blood cell counts, urine examination etc.;

**(ii) Semi-specialized Tests-** such as thyroid function tests, viral and bacterial cultures, histology, cytology and infectious disease test and

**(iii) Specialized Tests-** such as tests for coagulation studies, autoimmunity tests, cytogenetics and molecular diagnostics.

To cater to such a wide population across 197 cities with the help of 115 clinical labs, the company has implemented a hub and spoke model for quick and efficient delivery of services. The company caters to their individual clients via 1,631 patient touch points where, 256 service centers are owned by the company and the rest are third party patient service centres. The company caters to 9,552 institutional customers via approximately 9,000 pick-up points and 552 assisted referral centers.

On international frontiers, MHL has laboratory operations in Ghana, Kenya, Zambia, Mauritius and Sri Lanka. In addition to this, the company has entered into agreements with third parties for collection and processing of specimens in Nepal, Nigeria, UAE and Oman.

**Exhibit 2: Key Financial and Operational Metrics**

Particulars	As of 9MFY19	As of FY18
Clinical Laboratories	115	106
Nos of patient visits (in mn)	6.6	7.7
Owned PSCs	256	251
Third Party PSCs	1375	879
<b>Total Patient Touch Point</b>	<b>1631</b>	<b>1130</b>
Nos of Pick-up points	9000	8500
Nos of ARCs	552	520
Tests Performed (in mn)	12.3	16
Tests/Profiles per Patient Visit	1.86	2.08
<b>Nos of Institutional Touch Points</b>	<b>9552</b>	<b>9020</b>
Revenue per test/profiles (Rs)	454.72	402.2
Revenue per patient visit (Rs)	847.43	835.8

Source: Frost & Sullivan analysis, RHP Metropolis Healthcare Ltd

**Strengths of the Company:** Some of the key competitive strengths of the company are:

**a. Leading Diagnostics Company:-** As of December 31, 2018, the company has widespread presence across 19 states in India, (especially in west and south India; operational network of 83 clinical laboratories; 1,473 patient touch points and 396 ARCs. The company has already started growing their presence in northern and eastern regions of India. MHL has significant presence in five of these eight major cities i.e. Mumbai, Chennai, Surat, Pune and Bengaluru and they are looking forward for expanding in Delhi, Hyderabad and Kolkata. The company is well positioned to leverage the expected industry growth.

**b. Widespread Operational Network:-** The operations are supported by a laboratory network of 115 clinical laboratories. In addition to this, there are 1,631 patient touch points, (256 Owned PSCs and 1,375 Third Party PSCs) which service individual patients and approximately 9,000 pick-up points and 552 ARCs, which cater to institutional customers. The operational network of MHL is spread across 197 cities in India. The company has implemented an asset-light model for growing their service network and has started contracting with third party PSCs with limited capital expenditure.

**c. Wide Range of Clinical Laboratory Tests:-** The company offers a comprehensive range of nearly 3,487 clinical laboratory tests, 2,799 specialized tests and 530 profiles. Significant growth in demand of preventive health checkup in India will further propel growth of this segment. Moreover, the company also offers customized wellness packages to institutional customers.

**d. Strong and Established Brand:-** Metropolis Healthcare is a well-recognized brand since 1980. The company strives for excellence in customer service and delivery.

**e. Robust Information Technology (IT):-** The company makes use of by a cloud-based IT platform for laboratory operations and while rest of the operations are managed using a centralized SAP platform. The IT system allows the company to fully integrate and automate processes starting from registration, bar-coding and billing of specimens to analysis and reporting of test results. Thus the IT system helps achieve standardization, reduce errors due to human intervention, monitor technical operations, help customers book appointments, complete registration and access test reports online.

**f. Successful Acquisition and Integration (in India and overseas):-** The company has a good track record of acquiring and successfully integrating companies to grow its portfolio of laboratory and service network. They have successfully integrated the acquired businesses in the operational portfolio wherein they nurture the acquired lab with industry best practices, standard operating procedures, giving them access to sales and marketing network and thus strengthen their positioning in the local market.

**g. Experienced Senior Management Team: -** The company is propelled by a strong visionary Management team. In addition to the top management, the team of MHL is strengthened with approximately 196 doctors and pathologists and 2,236 scientific officers and phlebotomists (including third-party consultants).

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## IPO UPDATE

### Metropolis Healthcare Limited

#### Risks:

The company has to constantly maintain and grow its brand image. Group company of MHL have incurred losses in the financial years ending March 31, 2016, 2017 and 2018. Operations of the company are concentrated in west and south India and any loss of business in this region could have an adverse effect on the business operations and financial conditions. The diagnostics industry in India is highly competitive; the company constantly has to strive to perform better than the competitors. Inadequacy in collection or delivery of specimens to laboratories could destroy the integrity of such specimens; thus the services have to be very quick. The company has to rely on the performance of third parties and any deficiency in services provided by them could adversely affect the business and reputation. While at the same time, technological advancement may lead to more cost-effective methods and failure to acquire new or improved equipment could adversely affect the business of the company. The company has to be vigilant to protect or use its intellectual property rights. Pricing policies by the Government or other authorities are a major threat to the operations and which can have a direct impact on the margins earned.

#### Financials:

The company is debt free. From FY2016- FY2018, revenue from operations has grown at a CAGR of around 16.3%, while the profit grew with a CAGR of nearly 15.7%. Revenue earned from international business was Rs400mn in 9MFY19 while the same was Rs520.7mn in FY18. The company is expected to raise Rs12001.8mn at lower end of price band and Rs12043mn at upper end. This IPO is an offer for sale and Metropolis will not receive any proceeds from the offering. All the proceeds will be received by the selling shareholders.

#### Outlook:

This will be the first IPO of the current financial year where MHL, which is the second largest diagnostics player by profits in India, is looking at absolute offer for sale by promoters. If we consider consolidated EPS of Rs20.61 for FY18 and a higher price band of Rs880, the P/E works out to 43x and the average of 3 years EPS gives a multiple of 45x. This when compared to Lal Path which is trading at approximately 47x indicates that Metropolis at Rs880 is fully priced. Long term investors can invest in the IPO betting on the positives of consistent revenue performance and margins and a debt free status. With the volatility in the markets, one may or may not get listing gains.

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Registered Office Address:  
Progressive Share Brokers Pvt. Ltd,  
122-124, Laxmi Plaza, Laxmi Ind Estate,  
New Link Rd, Andheri West,  
Mumbai-400053;  
www.progressiveshares.com  
Contact No.:022-40777500.

Compliance Officer:  
Mr. Shyam Agrawal,  
Email Id: compliance@progressiveshares.com,  
Contact No.:022-40777500.