

Scrip Name	Offer Size
Metropolis Healthcare Ltd	Offer for sale : 1204cr

Issue Highlights

Issue Opens	Wednesday, 3rd April 2019
Issue Closes	Friday, 5rd April 2019
Price Band	Rs.870 - Rs. 880
Bid Lot	17 equity shares and in multiples of 17 equity shares thereafter
Face Value	Rs. 2
BRLM	JM Financial, Credit Suisse, Goldman Sachs, HDFC Bank and Kotak Mahindra Capital.

Offer Break-up

Category	Allocation	Rs. In Crs.
QIB	75%	903
Non-Institutional	15%	180.6
Retail	10%	120.4
Total	100%	1204

Promoters of the Company

Sushil Shah
Ameera Sushil Shah
Metz Advisory LLP

Company Overview

Metropolis India Ltd, incorporated in 1980, is one of the leading diagnostics company in India. Through its widespread operational network, Metropolis 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. The company 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. Metropolis conducts its operations through its laboratory and service network. 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 173 cities in India. As of March 31, 2018, its laboratory network consists of 106 clinical laboratories, comprising (i) a global reference laboratory located in Mumbai, which is its main 'hub' and equipped to conduct majority of the tests offered; (ii) 12 regional reference laboratories (out of which two are located outside India), which are equipped to conduct routine, semi-specialized and 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.

The company offers approximately 3,480 clinical laboratory tests and 524 profiles. 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. Tests are classified into (i) 'routine' tests such as blood chemistry analyses, blood cell counts and urine examination; (ii) 'semi-specialized' tests such as thyroid function tests, viral and bacterial cultures, histology, cytology and infectious disease tests; and (iii) 'specialized' tests such as tests for coagulation studies, autoimmunity tests, cytogenetic and molecular diagnostics.

Source – Company DRHP

The offer for sale of 1.3685 crore shares include a sale of up to 0.6272 crore shares by promoter Sushil Shah, besides another 0.7412 crore shares by CA Lotus Investments, an entity managed by Carlyle. The company will not receive any proceeds from the issue, and Shah said the promoters would utilize the proceeds to retire their debt.

Industry Dynamics

The diagnostics industry is **highly fragmented** and a majority of the share is from the unorganized players in the form of standalone diagnostic centers. They constitute 47% of the current market size. The second place is dominated by the hospital based laboratories which constitute 37% of the market share and remaining 16% by the organized diagnostic chains. Of the 16%, 35-40% is the PAN India diagnostic chains while the rest being regional chains.

The hospital based diagnostic centers have an advantage of captive customer base while the regional chains have strong brand name and a regional foothold. Also they are the highest priced service providers amongst the three. The standalone centers often are not equipped to provide the complete test offerings and also the quality of their testing is perceived to be sub-par. The organized diagnostic chains can thus take advantage of lower pricing and better quality testing to gain market share

The organized diagnostic chains will garner market share from standalone diagnostic centers due to (1) unavailability of bouquet of test offerings with the standalone centers (2) pricing efficiency due to a larger scale which helps them have a higher asset utilization compared to the standalone diagnostic chains and (3) higher technology and credibility due to better quality services provided by these branded chains. The **industry is going through a consolidation phase** where the bigger diagnostic chains are acquiring the smaller standalone centers.

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.

Valuations

Carlyle will fetch Rs. 652.3 crore for the shares it has put up for sale. **The IPO values the company at about Rs. 4,400 crore**. Carlyle, which holds a 31.2% stake in Metropolis, will sell close to half of its shareholding in the company. With a valuation of 4400 crores and a PAT of Rs. 109.7 crores for the year ended 31st March 2018, company will be **valued at 40 times its earnings**. This will be benchmarked against its listed peers; Dr. Lal Pathlabs Ltd and Thyrocare Technologies Ltd. Currently Dr. Lal Pathlabs is valued at 52 times its FY2018 earnings whereas Thyrocare Technologies is valued at 28 times its FY2018 earnings.

Industry dynamics make a compelling case for the growth of large diagnostic chains and a higher growth from the listed players' viz. De. Lal Pathlabs, Thyrocare and now Metropolis it seems the future growth has been discounted in their valuations.

KEYNOTE

Profit & Loss account (INR Cr.)

Year ended March 31	FY18	FY17	FY16
Revenue from operations	643.6	544.7	475.5
Total Expenses	471.0	392.8	349.0
Operating Profit	172.5	151.9	126.5
Other Income	8.0	25.6	18.5
Interest expense	1.2	0.4	0.8
Depreciation	19.0	17.2	16.6
Profit Before tax	160.3	159.9	127.5
Tax expense	50.5	52.7	45.6
Profit after tax	109.8	107.3	82.0

Balance Sheet (INRCr.)

Year ended March 31	FY18	FY17	FY16
Net fixed assets	207.4	106.1	106.1
Investments	1.8	1.8	1.8
Other noncurrent assets	20.6	122.2	62.7
Total Noncurrent assets	229.8	230.0	170.6
Inventory	21.2	14.1	15.6
Debtors	100.7	80.3	70.2
Cash & Bank balance & CI	160.5	174.6	127.8
Loans & advances & others	18.2	16.2	11.7
Current assets, Loans & adv.	300.6	285.1	225.3
Total assets	530.3	515.2	395.9
Share Capital	9.5	9.5	9.5
Reserves & Surplus	419.6	334.6	284.3
Net worth	429.1	344.2	293.9
Debt	0.6	0.8	0.9
Deferred tax liabilities	4.4	7.0	7.9
Liabilities	88.3	156.5	87.2
Provisions	7.9	6.8	6.1
Total liabilities	530.3	515.2	395.9

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Cash Flow statement (INR Cr.)

Year ended March 31	FY18	FY17	FY16
PBT	160.3	159.9	127.5
Depreciation	19.0	17.2	16.6
Interest expense	1.2	0.4	0.8
(Inc)/Dec in Working capital	-23.1	-3.9	-0.4
Tax paid	-57.6	-51.3	-40.3
Less: Int / Div income received	-4.0	-7.6	-3.1
Other operating cash flow	8.1	-13.0	-9.7
CF from operating activities	103.9	101.8	91.4
Capital expenditure	-15.6	-16.6	-16.4
In/(Dec) in investments	36.7	-33.7	105.0
Add: Int/Div received	2.9	8.3	5.1
Others	-22.2	-43.8	2.7
CF from investing activities	1.9	-85.8	96.4
Inc/(Dec) in debt	-0.3	-3.8	-5.7
Dividend paid	-63.9	-13.4	-88.8
Others	-23.1	-0.2	-79.3
CF from financing activities	-87.3	-17.3	-173.8
Net Cash flow	18.0	-1.3	13.9
Opening balance	25.5	26.8	12.9
Closing balance	43.5	25.5	26.8

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