

Metropolis Healthcare Ltd

18th July 2023

The ubiquitous focus will foster future growth

Metropolis Healthcare Ltd. (MHL) is India's third-largest diagnostics service provider based on revenue. The Company has a dominant presence in the western and southern regions, contributing ~51% and ~30% of its revenues in FY23, respectively. With a vast network of 175 labs, 2921 Patient Service Centers (PSCs), and 754 Assisted Referral Centers (ARCs) across 20 Indian states and over 220 cities, MHL offers a comprehensive range of 4,000+ clinical laboratory tests and profiles, including advanced diagnostics. MHL revenue contribution from B2C business increased from 38% in FY16 to 59% in FY23, showing a shift in focus to become a B2C player. Going forward, the Company's future expansion plan focuses on adopting an asset-light approach, aiming to unlock the potential of Focus cities and locations beyond them by aggressively expanding its network and implementing an inorganic growth strategy. We expect MHL to grow its core segment by 15%, based on which we initiate coverage on Metropolis Healthcare Ltd. with a BUY rating and a target price of Rs. 1700 (55x FY24E PE).

Expansion through organic and inorganic strategy

In FY22, MHL launched the 90:30 expansion project to set up 90 labs and 1,800 collection centers over 30 months. It actively seeks additional opportunities to provide affordable testing to patients as it expands into Tier II and III cities with a well-established brand. This project will assist MHL in early monetization by accelerating the commissioning of laboratories, providing a wider range of tests to newer and larger markets, and increasing brand penetration and visibility. MHL's current objective is to expand its reach in the North and East regions by expanding its patient service centers. 67% of its existing patient touchpoints were added during FY17- FY21. In the coming years, as this strategy matures, it will further fuel growth for the Company. MHL has a track record of non-organic growth, demonstrated by its recent acquisition, Hi-tech, which has exhibited impressive revenue growth (excl. covid) of 35% on a Y-o-Y basis. This acquisition presents new opportunities for MHL, including B2C market expansion, reduced B2B concentration risk, and establishing a foothold in the Southern region to diversify revenue sources.

Focus on the wellness and specialized test segment

CRISIL Research estimates that the market share for wellness and preventive diagnostics was ~9-10% of the total diagnostic services in FY20. This segment is expected to account for ~11% of the diagnostic industry in FY23, a CAGR of 20-21% over the three years. The Company revenue in the wellness segment has grown at a CAGR of 28% over FY20-23. MHL's premium wellness segment's revenue has seen 45% Y-o-Y growth in FY23, and its contribution towards revenue has increased from 8% in FY22 to 10% in FY23. The Company plans to increase the contribution from the wellness business from 13% in FY23 to 20% going forward.

View and Valuation

We initiate coverage on Metropolis Healthcare with a BUY rating and a target price of Rs. 1,699.5 (55x FY24 PE). We believe that MHL is set to grow its core segment by 15%. The company's aggressive network expansion initiatives are expected to yield a substantial customer base, thus unlocking the potential for high growth. Going forward, we expect the operating margin to increase from 25% in FY23 to 27% in FY24, leading to an 11% growth in net profit.

BUY

CMP Rs. 1,448

TARGET Rs. 1,700 (+17.4%)

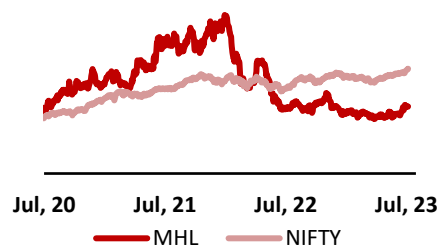
Company Data

MCAP (Rs. Mn)	74,390
O/S Shares (Mn)	51.2
52w High/Low	1,789 / 1,176
Face Value (in Rs.)	2
Liquidity (3M) (Rs. Mn)	459

Shareholding Pattern %

	Mar 23	Dec 22	Sept 22
Promoters	49.75	49.76	49.76
FIIIs	25.67	23.86	25.57
DIIIs	13.64	13.30	12.38
Non-Institutional	10.94	13.09	12.30

MHL vs. Nifty



Source: Keynote Capitals Ltd.

Key Financial Data

(Rs. Mn)	FY23	FY24E	FY25E
Revenue	11,482	12,128	13,947
EBITDA	2,883	3,214	3,919
Net Profit	1,425	1,585	2,122
Total Assets	15,016	15,767	17,231
ROCE (%)	15%	16%	19%
ROE (%)	15%	15%	18%

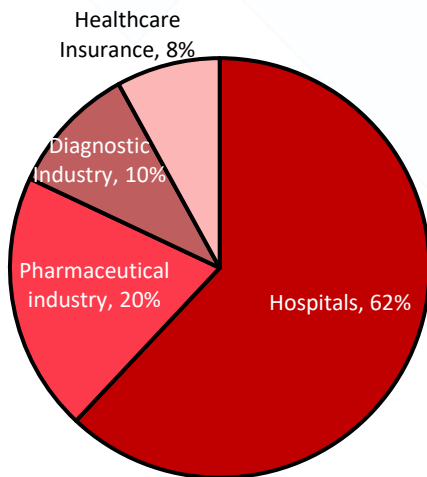
Source: Company, Keynote Capitals Ltd.

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Indian Diagnostic Industry

The healthcare market in India is broadly classified into Hospitals, the Pharmaceutical industry, the Diagnostic industry, and Healthcare insurance.

Market Share of Indian Healthcare Industry (2022)



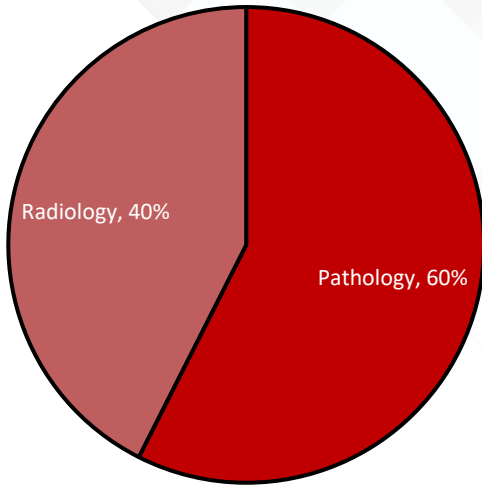
Source: Vijaya Diagnostic, Keynote Capitals Ltd.

In healthcare services, diagnostic services play the key role of information intermediary. They provide valuable insights for accurate disease diagnosis and treatment. Diagnostics are the initial stage in addressing illnesses and remain indispensable throughout the entire process, from detecting the disease to determining the treatment regime and monitoring patients after treatment.

The diagnostic sector is one of the fastest-growing service segments in the healthcare segment due to increasing awareness regarding preventive testing, life expectancy, a rise in the number of diseases, and increasing healthcare spending. Presently, the diagnostic sector is primarily driven by volume. The industry experienced notable growth over the past few years, with a market size of Rs. 730 Bn in FY21 and a CAGR of 13-14% from FY17-20. However, COVID-19-related restrictions caused a deceleration in industry growth to approximately 4% in FY21. Despite this setback, the industry was expected to rebound and continue its growth trajectory. The estimated market size of the diagnostic sector as of FY23 is Rs. 980 Bn, showcasing a CAGR of ~16% from FY21-23. It is expected that this sector will grow at a CAGR of ~14% from FY23-26.

Diagnostic services are broadly classified into pathology and radiology. Pathology includes examination and laboratory analysis of body fluids (blood, urine, etc.) or organs and tissues to diagnose diseases. Radiology involves imaging technologies such as X-rays, radiography, ultrasound, CT scans, and MRI scans to diagnose diseases.

Indian Diagnostic Market Split – FY22



Both pathology and radiology segments grew at a rate of ~13% from FY20-22.

Source: Dr. Lal Pathlabs , Keynote Capitals Ltd.

Comparison between pathology and radiology

Pathology business is highly scalable as samples can be collected from various locations and transported to centralized laboratories for processing, thus allowing players in the segment to opt for a hub and spoke model. This approach enables economies of scale and facilitates handling high-volume, low-value routine tests such as CBC blood and blood sugar tests.

Comparatively, the Radiology segment requires installing high-end diagnostic equipment in specific locations, preferably near the patients. Radiology services cannot be easily centralized, limiting scalability beyond a city or region.

Parameter	Pathology	Radiology
Business Scalability	High	Low
Lab operations	Centralized (Hub and spoke model)	Localized
Patient volume	High	Low
Per patient realization	Low	High
Investment	Relatively low	High
Avg. Ticket size (Rs.) per patient	350	1,100
Gross margin	Comparatively Low	High
Patient interface	Indirect	Direct

Source: Keynote Capitals Ltd.

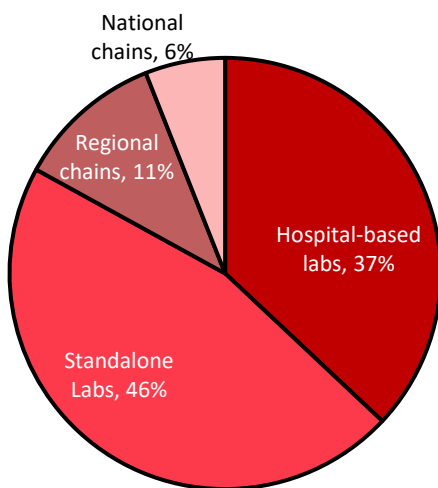
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Due to scalability, hub and spoke model and asset-light business, all the leading diagnostic chains with a pan India presence focus more on pathology business.

The diagnostics market in India is highly fragmented, while organized players are gaining market share

The diagnostic market is highly fragmented, with almost half of it being catered by unorganized standalone centers, while hospital-based diagnostics centers (national and regional chains) account for 37%. Organized diagnostic chains such as Dr. Lal Pathlabs, Metropolis, Thyrocare, Vijaya, Krsnaa, etc., account for 17% of the total market. Of this 17%, the split between regional chains is 11%, and national chains are 6%.

Indian Diagnostics market split – FY22



Source: Dr. Lal Pathlabs, Keynote Capitals Ltd.

However, since the onset of the COVID-19 pandemic, there has been a shift in the industry, with standalone labs increasingly losing market share to organized chains. These labs primarily depend on doctor referrals and typically offer around 100-200 tests on their menu. Due to their smaller size, these labs often need help making substantial investments in advanced technologies. As a result, their testing capabilities are predominantly focused on routine or semi-specialized tests rather than offering a broader range of specialized diagnostics.

Given the strong financial, high cash flow generation capabilities, and greater capital & administrative resources, the organized players have been expanding their presence through strategic acquisition. The diagnostic industry has seen a consolidation trend, with multiple standalone labs/regional chains got acquired by large multi-regional players like Dr. Lal Pathlabs, Metropolis, etc.

Within the organized market, competition is intensifying

Diagnostics is an industry with low-entry barriers, high margins, healthy return ratios, and high cash flow generation. Due to this, it has always been a lucrative business, but the biggest hurdle has been low awareness and a push model regarding doctors' prescriptions.

Standalone labs are small facilities that provide a limited range of tests and operate within a specific micro-market area.

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However, since the onset of the COVID-19 pandemic, people are becoming more aware of their health and well-being. As a result, diagnostic players reported the best-ever volumes and margins. Due to a significant increase in awareness of the diagnosis, people have started prioritizing health, and, therefore, we have seen new prominent players announce their entry either through acquisition or access of new players.

The industry has seen the entry of a few pharma companies (Lupin, Torrent Pharma, Cipla), conglomerates (Reliance, Tata, Adani), and healthcare startups (PharmEasy, Orange Health). These new players are trying to disrupt the market through technology and offering aggressive discounting of the price charged by large players to acquire volume.

Date	New Entrant	Acquisition	% Stake	Amount Invested (Rs. Mn)
Aug'20	Reliance retail	Netmeds.com	60%	6,200
Dec'20	Orange Health	-	New Entrant	-
Jun'21	Tata Digital	1mg	60%	20,000
Jun'21	PharmEasy	Thyrocare	66%	45,460
Sep'21	Morgan Stanley	Sterling Accuris	-	2,500
Dec'21	Lupin Diagnostic	-	New Entrant	-
Feb'22	Torrent Diagnostics Pvt. Ltd	-	New Entrant	-
Jun'22	Cipla	Achira	21%	250

Source: Business Standard, Live mint, VC circle, Keynote Capitals Ltd.

While it's easy to start a diagnostic business, becoming profitable is difficult

As mentioned, there are no entry barriers to start a diagnostic business. While scaling and becoming profitable in this industry is a feat that takes work to attain.

Example: Pathkind Labs was set up in 2016 as a subsidiary of Mankind Pharma. While as of FY22, it had a revenue of Rs. 2,170 Mn and a loss after tax of Rs. 180 Mn. Healthians was launched in 2015; in FY22, it generated a revenue of Rs. 1,670 Mn but suffered a loss of Rs. 1,220 Mn after tax .

Lupin entered the diagnostic space in Dec'21, and in a Q2FY23 analyst call, the company mentioned that their operations are loss-making as the business is small. They will talk about the diagnostic business when it achieves a critical mass.

New entrants are attracting customers by lowering the price.

To attract customers for the first time, pricing plays an important role. Pricing is a simple strategy to drive immediate volume. Thyrocare, supported by PharmEasy, has implemented 15-20% discounts on its offerings to attract customers. Similarly, 1MG, backed by Tata, offered four routine tests (Thyroid, Lipid, Diabetes, and Liver) at flat Rs. 100, which is ~80-85% discount to the industry average of ~Rs. 500-600.

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While the organized labs have no impact on lowering the prices

In an interview, Deepak Sahni, the founder of Healthians, shared his thoughts by stating, *“Pricing is an important driver only for the first time. While service and differentiation play a significant role as it is a repetition business.”* Healthians was incorporated in 2015 and has operated in the diagnostic industry for eight years. Still, it has yet to achieve a profit.

New players are mainly focused on routine pathology tests and the wellness segment. Semi-specialized and specialized tests are typically performed by mid to large-sized players due to the high cost of equipment, low volume but high value, and the high maintenance cost required for maintaining quality standards such as the College of American Pathologists (CAP) and National Accreditation Board for Testing and Calibration Laboratories (NABL).

Prioritizing Doctor’s recommendation Vs. Price of the test

Three types of customers opt for a test: acute, chronic, and preventive. Acute patients are the ones who are suffering from a disease and require immediate treatment. Chronic patients are the ones who need testing at regular intervals to monitor their conditions. At the same time, preventive customers who opt for wellness tests are proactive clients who do not suffer from diseases; this is not an illness space.

As per the report by Bain & Company, acute patients, like one suffering from heart, lung, kidney disease, cancer, or something critical, are the most influenced by doctors and less concerned about prices as improvement in their health is their main concern. For individuals with medical expertise, understanding the differences between various tests, the quality of laboratories, and the components used in testing can be quite challenging. Therefore, the decision maker and chief influencer is the doctor rather than the patients.

Chronic patients, such as diabetes, blood sugar issues, or thyroid disorders, are moderately influenced by doctors and somewhat influenced by prices. They require consistent reporting from a single laboratory to monitor their test results over time and determine their health status. Switching labs solely for the sake of prices and discounts can harm their health, as different laboratories may produce varying results and have different normal ranges due to the use of other equipment.

Wellness consumers are least influenced by doctors and are highly influenced by prices. The new players in the industry who need doctor trust can impact the preventive segment, followed by the chronic segment, to some extent but are highly unlikely to disrupt the acute segment.

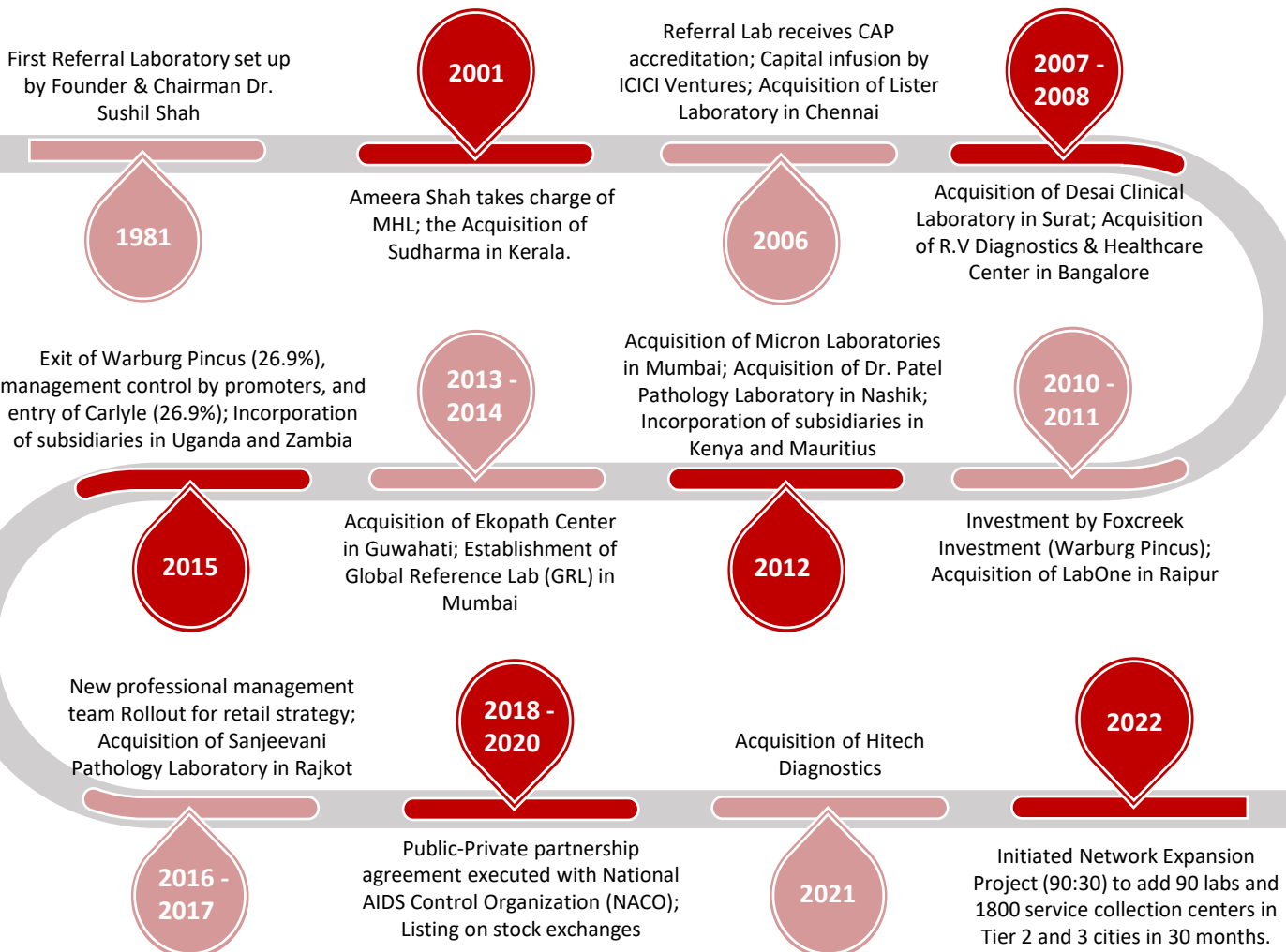
Category	Acute Patient	Chronic Patient	Preventive Customers
Doctor influence	Highest	Moderate	Lowest
Price factor	Lowest	Moderate	Highest
Online aggregators impact	Lowest	Moderate	Highest

Source: Company, Keynote Capitals Ltd.

About the Company

It was established in 1981 by Dr. Sushil Shah as Dr. Sushil Shah's Laboratory and was converted to Metropolis Healthcare Ltd. in 1995. In 2001, Ameera Shah (MD), daughter of Sushil Shah, expanded its footprint from a regional player to pan India and International. MHL has now become India's third-largest diagnostics service provider based on revenue. It has a strong presence in the western and southern regions, contributing ~51% and ~30% of its revenues in FY23, respectively. With an extensive network of 175 labs, 2858 Patient Service Centers PSCs, and 754 ARCs across 20 Indian states and over 220 cities, Metropolis offers a comprehensive range of 4,000+ clinical laboratory tests and profiles, including advanced diagnostics. The Company has a wider test menu, including specialized and complex tests for which the standalone labs usually need the required capabilities. Its largest lab, 'Global Reference Labs,' is in Mumbai, and 13 regional reference labs are nationwide. MHL has expanded its operations globally, offering top-quality diagnostic services to clients in eight countries, including Sri Lanka, Ghana, UAE, Kenya, and Mauritius.

Journey of the Company



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Metropolis Healthcare's Ameera Shah: A Trailblazer in Revolutionizing Pathology Services in India

Ameera Shah completed her education overseas and started working at Goldman Sachs (Investment banking division). At 21, she set out to join her father's business - a standalone pathology lab in South Mumbai.

She began her journey at MHL, starting from the ground up in a customer service role. Through this experience, she gained insight into the operational challenges faced by the business, such as inadequate technology and personnel. On technology, Ameera said, *"Not having that solid bedrock of technology and not investing in the right people early on truly came back to bite us. Technology keeps changing, and the reality is that technology, more than anything else, is the hardest thing to undo and redo"*. To address these issues, she established various departments, hired qualified staff, and implemented technological advancements that transformed the Company's trajectory.

Ameera Shah strategically implemented an inorganic growth plan by acquiring multiple companies, commencing with 'Sudharma' in Kerala in 2003. Subsequently, she expanded the business and secured three rounds of private equity investments. The initial external funding was provided by ICICI Ventures in 2006; later, Warburg Pincus, a well-known global equity firm, invested in Metropolis in 2010 after acquiring ICICI's stake. On PE funding, Ameera said, *"Private equity firm bought professionalism, accountability, and accounting discipline to transform Metropolis from a sole proprietorship to professionally-run corporate house."*

Some of Ameera Shah's key achievements are her first-ever acquisition in pathology in India, securing her first funding, and taking the Company public. However, one of her most difficult challenges and thus her most cherished achievements happened in 2015 when she took on a personal debt of Rs. ~6,000 Mn to acquire a 27% stake from Warburg Pincus and raised the promoter stake in the Company from 36% to 63%.

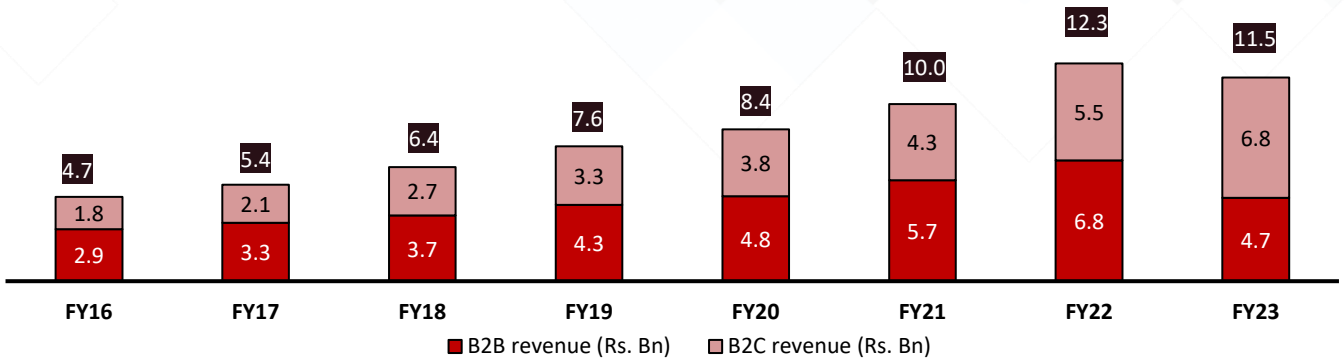
In 2015, Ameera Shah transformed MHL from a promoter-driven chain of pathology laboratories to a promoter-led and professionally-managed organization. Through growth strategies, she expanded the Company's presence from regional to national and even international markets. Her idea is to transform Metropolis from being a brick-and-mortar services firm to a digitally empowered, omnichannel healthcare and wellness-focused company.

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Revenue mix (%) – B2B to B2C

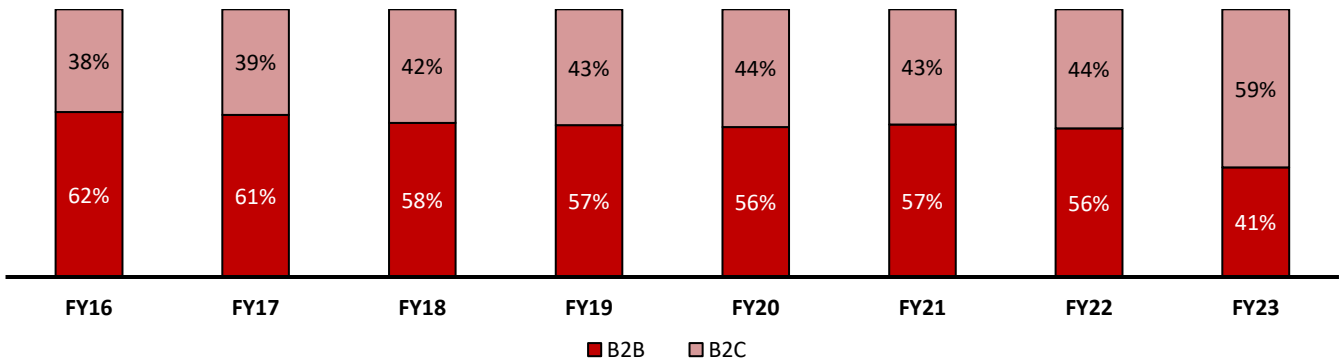
MHL delivered 13% revenue CAGR over FY16-23 as it transformed from a predominant B2B player to a credible B2C brand. B2C revenues were driven by aggressive network expansion (40% CAGR over FY16-23) done by the Company through third-party-owned asset-light patient service centers (PSCs).

Revenue growth has been largely driven by B2C segment growing at a CAGR of 21% over FY16-23 compared to 7% CAGR of B2B segment



Source: Company, Keynote Capitals Ltd.

Revenue split (%) - B2C contribution increased over the years



Source: Company, Keynote Capitals Ltd.

The MHL franchise has a strong track record in the B2B sector and has consistently received high marks from industry bodies such as CAP, KENAS (widely recognized as the standard for lab accreditations), and NABL.

Over the years, the contribution of B2C has been on the rise due to MHL's focus on expanding the network aggressively and brand-building strategies in the minds of both consumers and doctors.

Furthermore, doctors have been educated on Metropolis's quality and service differentiators compared to the unorganized sector, and customer experience has been monitored continuously through NPS, a management tool used to assess the loyalty of a firm's customer relationships.

MHL approach to expand B2C network



Source: Company, Keynote Capitals Ltd.

MHL's strong brand and reputation enable them to effectively engage with doctors and establish trust within the medical community. Their ability to provide superior turnaround time (TAT) and high-quality test reports further enhances this trust. The Company's market go-to strategy will start with educating the doctors, labs, and hospitals and increasing the number of referring doctors through a more efficient sales force leading to more footfalls per center. This increased volume contributes to scaling their operations and allows for the expansion and strengthening of their network.

MHL aims to expand its digital efforts to cater to diverse stakeholders, including more B2C customers. Increasing the percentage of B2C business will improve customer stickiness, enhance brand equity, and is margin accretive for the Company in the future.

Current Landscape for B2B: The diagnostics industry faces financial challenges due to increased competition. This has led to more B2B discounts and decentralized testing. As a result, the industry is experiencing pricing pressure, especially in the B2B semi-specialized segment. Despite expanding intermediate margins or customer discounts, the price remains the same for the customer.

Impact: In FY23, the Company's margins were ~26%, a decrease of ~150 bps compared to pre-COVID levels. One of the factors that contributed to this decline in margins was the pricing pressure on the B2B Chronic Segment, contributing to the decrease of 50 bps out of 150 bps.

Current Landscape for B2C: Over the past 18 to 24 months, the B2C sector has seen notable changes in consumer trends, particularly with the widespread use of digital technology. As a result, unorganized players have seen a decline in volume growth, while larger brands with superior customer experiences have gained more traction among consumers. When it comes to diagnostics, home visits are a significant lever, particularly in India, where home visit services have experienced rapid growth.

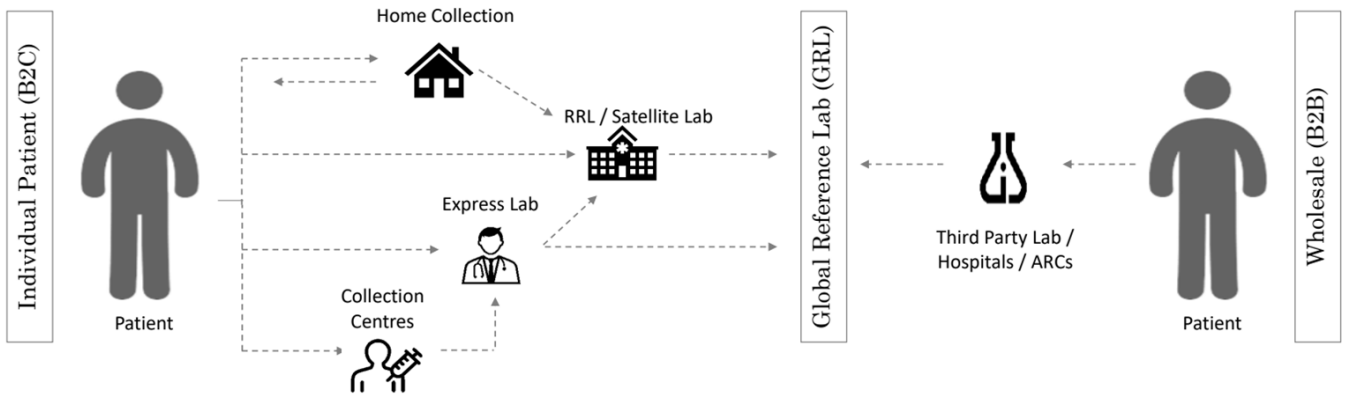
Impact: Regarding customers seeking MHL's services in critical situations involving their health, pricing on the B2C side is not the primary concern. As a result, MHL does not face significant pressure to modify its pricing strategy to retain its customer base. The Company B2C segment generates revenue from home visits and walk-ins at franchisee centers. In FY22, ~25% of MHL's B2C transactions come from home visits; metro cities are the maximum contributor here.

Hi-tech Diagnostics: MHL strategically acquired Hi-tech Diagnostic, a dedicated B2C player generating 65% of its revenue from the B2C business. This acquisition positions MHL to increase its market share and strengthen its leadership position in the Southern India market. With a specific focus on the key cities of Chennai and Bengaluru, the Company aims to enhance its presence in the B2C business segment. The recent acquisition enables MHL to expand its direct-to-customer services and offer a wider range of tests. As part of its expansion plan, the Company plans to introduce an additional 100-200 tests to the existing range of 400-500 tests available in Chennai. Consequently, MHL is poised to broaden its potential customer base and cater to a wider range of individuals seeking diagnostic services.

Forthcoming focus area: The B2C segment of the Company is poised for growth in the coming years, owing to increased brand recognition, a wider and more diverse product selection, and an expanded geographical footprint. The revenue share of the B2C business segment in focused cities for non-COVID stood at 60% in FY23. The near-term target is 65%. MHL's strategy is to prioritize selling high-end premium packages rather than opting for large sales volumes at lower prices. By emphasizing quality and value, the Company aims to drive growth and capture a larger share of the B2C market.

Supply Chain/ Hub and Spoke Model

The hub and spoke model refers to a network structure resembling a bicycle wheel, with a central hub connecting to multiple spokes. Metropolis, a leading healthcare diagnostics company, operates its largest laboratory, 'The Global Reference Lab,' in Mumbai, which serves as the hub. This hub connects to various regional reference labs, Satellite labs, and collection centers, acting as the spokes and strategically dispersed throughout the country to provide comprehensive diagnostic services. This hub and spoke model allows MHL to benefit from economies of scale and remain asset-light at the same time.



Source: Company, Keynote Capitals Ltd.

MHL testing and collection network

Lab type	Count (FY23)	Function/ Test type	Size (sq. ft)	No. of test types that can be processed in the lab
Global Reference Lab (GRL)	1	Main hub located in Mumbai Conducts all ~4,000 tests Routine + Semi-Specialized + Specialized	~40,000	4,000+
Regional Reference Labs (RRLs)	13	Conducts routine, semi-specialized, and few specialized tests	8,000-10,000	500+
Labs	175	Conducts routine test	1,000-2,500	25-150
Collection centers	3,612	Sample collection network – consists of third-party and owned Patient Service Centers (PSCs), Assisted Referral Centers (ARCs)	200-1,000	-

Source: Company, Keynote Capitals Ltd.

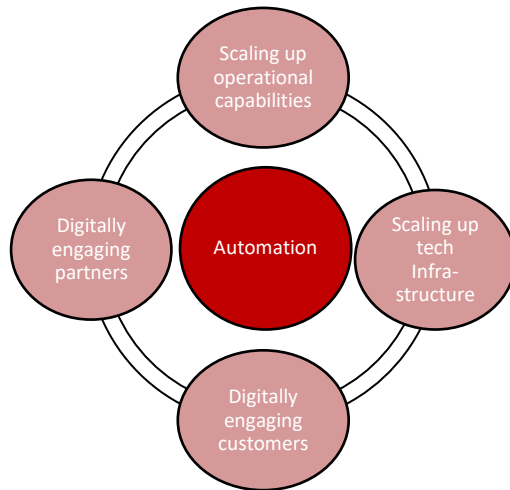
Marketing, Technology, and Automation

MHL has been offering an omnichannel experience to all the customers across all digital touch points like Website, App, Chatbot, WhatsApp, and IVR. The Company upgraded and launched the 'Mobile Patient App' by adding new features like quick home visit booking, tracking phlebotomists, rating phlebotomists, and test recommendations.

MHL strengthened its services and quality and created new ways of engaging with doctors and customers through initiatives such as: Rolling out 'MetroBot' to engage with the medical community via online and offline mediums; and launching a 'Partner Platform' for its B2B partners and franchisors to get ready access to services from the Company.

Over the next two years, MHL will focus its direct investments on marketing, technology, and automation. The investments in technology and automation will cover front-end consumer engagement systems like CRM and Point of Sale platform and backend supply chain systems. Additionally, MHL aims to automate many of its current backend testing processes.

MHL utilizes these technological advancements to eliminate inefficiencies in cost and time. The Company aims to achieve a 33% revenue contribution through digital channel test orders within three years.



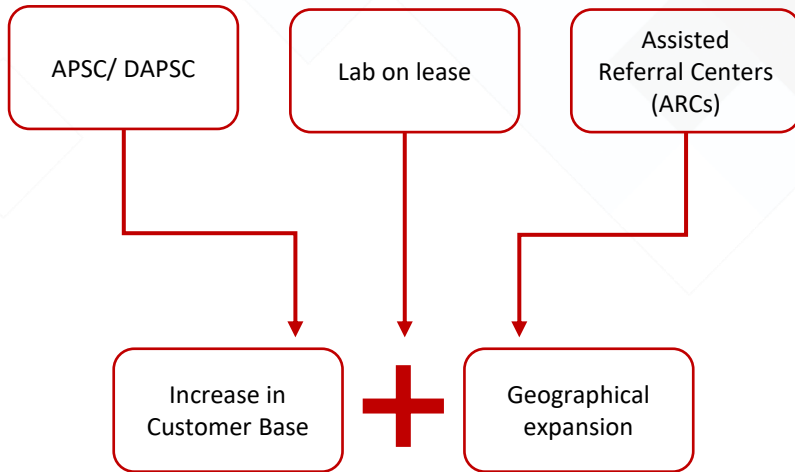
Source: Company, Keynote Capitals Ltd.

MHL enhances its IT infrastructure and establishes itself as a brand-led business, driving direct-to-consumer (D2C) interactions. The Company has cutting-edge technology stack, including a redesigned app, website, and a new communication channel through WhatsApp Messenger, enabling it to serve its customers more efficiently. This upgrade is set to be completed in Q1FY24 and will provide an improved customer experience.

Future expansion plans

1. Asset-light approach

MHL focuses on the asset-light model to achieve geography expansion and expand its patient service network to increase its customer base.



APSCs serve as collection centers for collecting samples and do not conduct any tests. APSCs act as exclusive service providers.

D-APSC are standalone independent laboratories usually run by holders of a Diploma in Medical Laboratory Technology (DMLT) who cannot operate their lab due to regulatory restrictions.

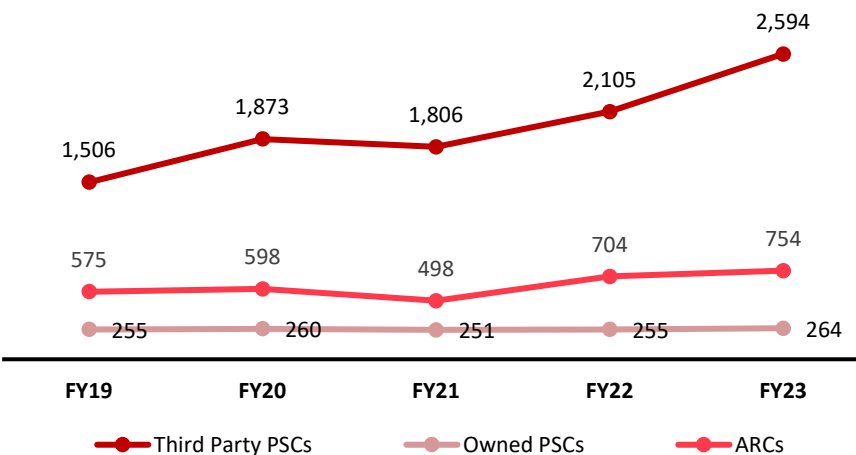
ARCs are third-party referral centers that act as service providers and collect specimens primarily from pick-up points.

Source: Company, Keynote Capitals Ltd.

APSC/DPSC: Metropolis has a strategy to expand its network by setting up its Patient Service Centers (PSCs) and associating them with third-party PSCs, including Associate PSCs (APSCs) and standalone independent laboratories that are converted into Metropolis-branded PSCs (D-APSCs). The original laboratory owner privately operates these laboratories under the guidance of the Company’s quality standards. MHL has provided these PSCs personnel, technician, and marketing support for five years. The Company operates as a revenue-sharing model with PSCs responsible for covering operating expenses like rent and salaries.

Strategic outcome: The A-PSC and D-APSC model will aid the Company in increasing its revenue by providing management and branding support while having an uninterrupted focus on expanding its PSCs. This ‘third-party model’ will help the Company achieve high scalability and a geographical reach in India, Africa, and the Middle East.

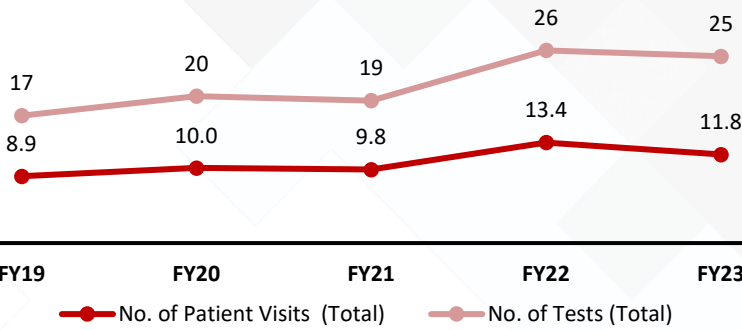
Constant increase in third-party PSCs



Source: Company, Keynote Capitals Ltd.

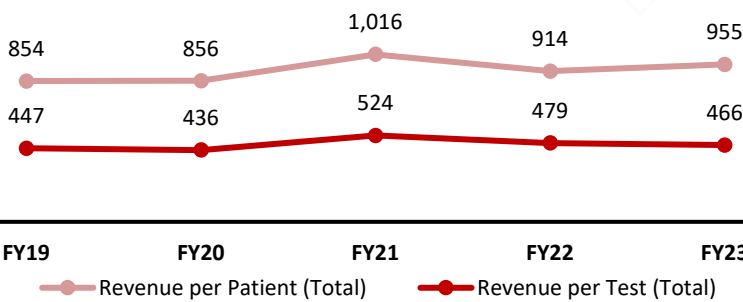
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Increase in patient visit and no. of tests (in Mn.)



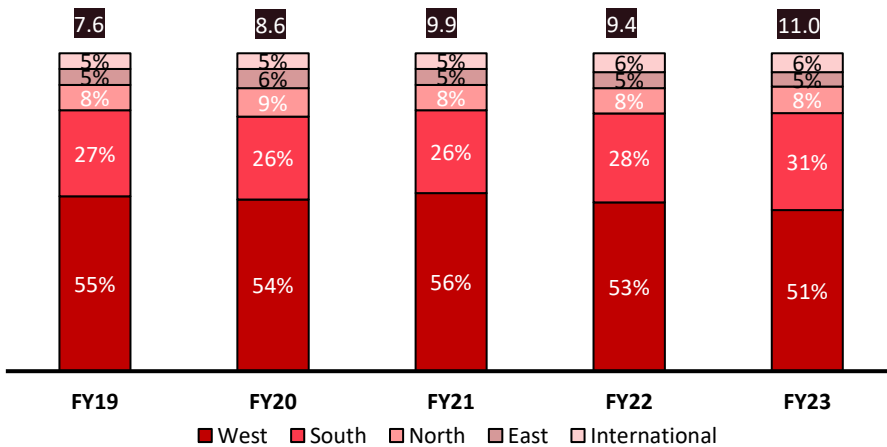
Source: Company, Keynote Capitals Ltd.

Revenue per patient and test (in Rs.)



Source: Company, Keynote Capitals Ltd.

Revenue mix (%) – Non-Covid (Rs. Bn)

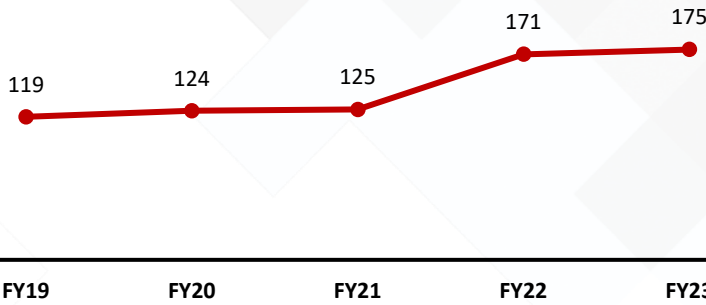


Source: Company, Keynote Capitals Ltd.

Laboratory on lease model: Metropolis has implemented a strategic approach to leasing space from independent private laboratories and utilizing their existing diagnostic equipment. These laboratories adhere to MHL's high-quality standards, with both parties sharing the generated revenue. Metropolis covers daily operational expenses throughout the agreement term, ranging from two to five years, and can be exclusive, co-branded, or branded. Metropolis also oversees the management of laboratory operations housed within hospital facilities.

Strategic Outcome: The lease model will help MHL to expand its geographical reach with limited capital expenditure as it emphasizes leveraging its existing infrastructure.

Constantly increasing lab presence



Source: Company, Keynote Capitals Ltd.

2. Cascading Growth Model: Unleashing Potential of Focus Cities and Seeding Cities

Focus cities: These cities are known as the profitable engines of the Company.

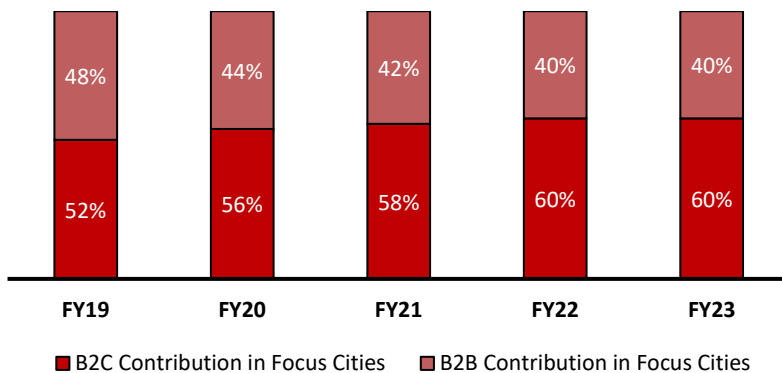
MHL has identified five focus cities - Mumbai, Bangalore, Chennai, Surat, and Pune - with a high-potential market, significant presence, and operational experience.

The Company has established a strong brand presence and gained valuable operational experience. MHL strategically increases the laboratory capacity and expands the test menu by incorporating the latest machines and technology to leverage its potential further.

MHL acquired four front-end labs in Surat during FY19-20 to increase its market share. This acquisition will create synergy and efficiency at the backend while expanding the Company's customer base on the front end.

The Company is actively working on increasing its B2C share of the business and engaging with doctors through medical awareness initiatives. MHL has added 65% of its collection centers in the West region in 2023, particularly in the Focus cities. This move aims to improve the Company's presence in its core geographies and enhance its market share.

Split of Non-covid Revenue in Focus cities



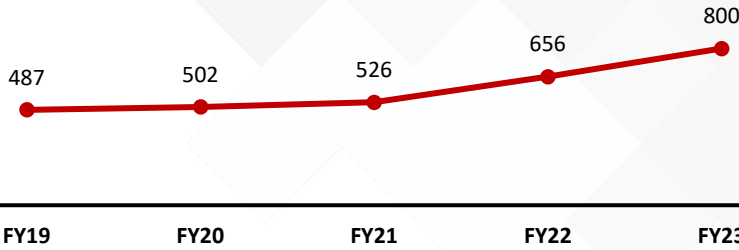
Source: Company, Keynote Capitals Ltd.

*Note: Focus cities constitute 61% of non-covid revenue; this split is further bifurcated out of 61%.

The contribution of B2C business (non-covid) in Focus cities has increased significantly, jumping from almost 43% in FY16 to 60% in FY23, and aims to reach 65% in the short to medium term.

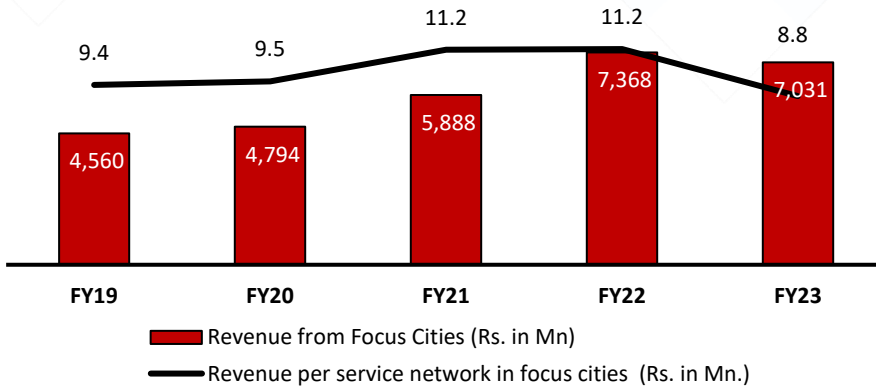
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Rising service network in Focus cities



Source: Company, Keynote Capitals Ltd.

Revenue from Focus cities



Source: Company, Keynote Capitals Ltd.

Seeding Cities: These are known as the high-growth engines for MHL

Rajkot, Nashik, Nagpur, Kochi, Raipur, National Capital Region (“NCR”), Kolkata, and Guwahati – These cities show potential for high growth and become focus cities.

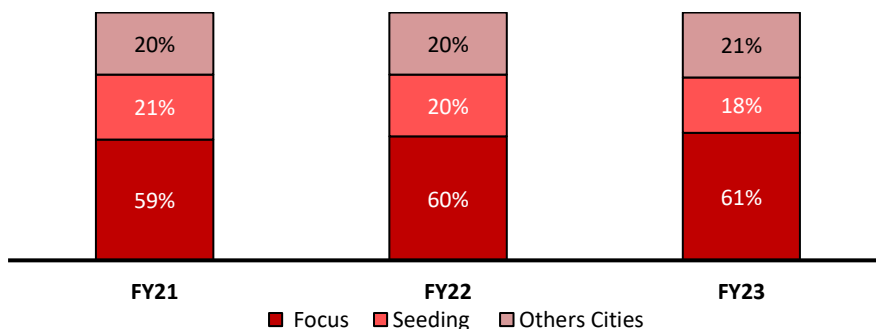
In this model, MHL identifies a market with a high demand for healthcare services and enters markets with less competition from established diagnostic chains. These markets are growing rapidly and offer significant growth potential.

Other Cities: These are known as the future growth engines for the Company

(Lab towns + Non-lab towns) – Tier II/Tier III.

MHL plans to utilize the asset-light model to extend its service network and concentrate on achieving growth of the ARC network for institutional service clients. Additionally, MHL aims to foster expansion into seeding cities.

Non-Covid Revenue mix (%) of the city model



Source: Company, Keynote Capitals Ltd.

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3. The 90:30 expansion project was initiated in FY22: 90 labs and 1,800 collection centres in 30 months.

MHL is committed to addressing the existing gaps in multiple states of India, which include Madhya Pradesh, Maharashtra, Gujarat, Uttar Pradesh, Orissa, West Bengal, Jharkhand, Telangana, Andhra Pradesh, Karnataka, New Delhi, Goa, Punjab, Kerala, Jammu and Kashmir, and Tamil Nadu.

The Company will scout for more opportunities to offer 'affordable' testing to patients as it penetrates Tier II and Tier III cities with an already established brand recognition.

Over the past two years, the Company has successfully established 30 labs and 1,057 centers. MHL relocated and expanded its Delhi regional reference laboratory from 8,000 sq. ft to 15,000 sq. ft. A more extensive and upgraded test menu was processed for its Delhi facility, allowing MHL to further build market share in North India.

Future Prospect: This project will aid Metropolis in early monetization by accelerating the commissioning of laboratories. It will ensure that a more comprehensive range of tests is available to newer and broader markets, leading to increased visibility and brand penetration. Metropolis will also enhance its market position in the North and East by expanding PSCs in these regions.

4. In-organic growth: Acquisitions

MHL has a proven history of successful acquisitions and integrations. The Company can expand its reach in existing and new cities with an inorganic growth strategy. This will allow for a greater presence in multiple locations.

Acquired Companies	Year of Acquisition	Location	Revenue (at the time of acquisition)	Revenue as of FY22	CAGR (%)
Sudharma Metropolis Health Services Pvt. Ltd.	2003	Kerala	Rs. 18 Mn	Rs. 589 Mn	19.05%
Golwilkar Metropolis Health Services (India) Pvt. Ltd.	2006	Pune	Rs. 39 Mn	Rs. 644 Mn	17.93%
Desai Metropolis Health Services Pvt. Ltd.	2008	Surat	Rs. 34 Mn	Rs. 470 Mn	19.14%
R.V. Metropolis Diagnostics Health Services Pvt. Ltd.	2008	Bangalore	Rs. 36 Mn	Rs. 516 Mn	19.42%
Dr. Patel Metropolis Health Services Pvt. Ltd.	2012	Nasik	Rs. 18 Mn	Rs. 186 Mn	29.63%
Sanjeevani Rajkot	2017	Rajkot	Rs. 120 Mn	Rs. 264 Mn	21.79%
Hi-tech Diagnostics	2022	Chennai	Rs. 1240 Mn (Non-Covid: Rs. 740 Mn)	Rs. 1230 Mn (Non-Covid: Rs. 1000 Mn)	

Source: Company, Keynote Capitals Ltd.

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Hi-Tech Diagnostic Center: One of the critical milestones in MHL's acquisition strategy

Hi-tech and its subsidiary 'Centralab Healthcare Services Private Limited' ("Centralab") were acquired. The acquisition was completed on 22 October 2021. Following are the acquisition synergies of Hi-tech:

- Through this acquisition, MHL will be able to expand its market share and solidify its position as a leader in the Southern India market. The Company can capitalize on revenue and cost-related synergies by integrating Hitech's operations with Metropolis.
- Metropolis will be able to boost its direct-to-customer business in Chennai and Bengaluru by acquiring this company. This will help them expand their B2C operations in these focus cities.
- MHL improved its operating leverage by optimizing the Hitech laboratory network. This was done by merging Hi-tech's operations with its network and utilizing Hitech's local lab infrastructure to enhance its valuable customers' TAT. This move will help MHL expand its market size and reach a wider audience.

Improving product mix

Wellness Segment

MHL aims to enhance its consumer brand within its core market, strongly emphasizing fostering consumer engagement. As a part of Metropolis 3.0, the Company is prioritizing the needs and preferences of consumers to the same extent as it does for doctors. The wellness segment will play a crucial role in attracting new consumers. Only 6% of the population is sick at a given time, and for this, MHL already has a powerful brand and presence through its Focus, Seeding, and other city models.

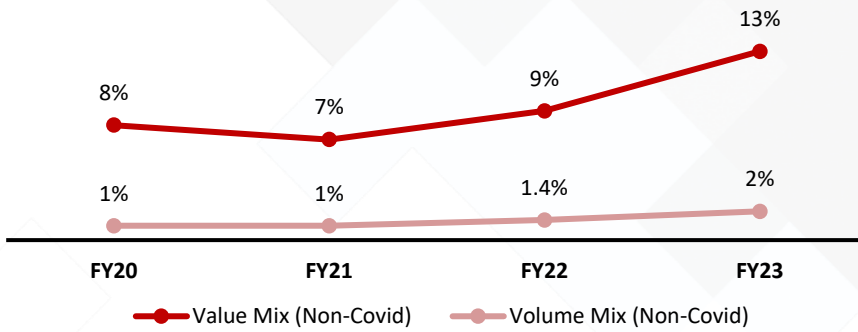
CRISIL Research estimates that the market share for wellness and preventive diagnostics was ~9-10% of the total diagnostic services in FY20. This segment is expected to account for ~11% of the diagnostic industry in FY23, a CAGR of 20-21% over the three years. The Company plans to target the population open to wellness, the fastest-growing market segment. This will enable MHL to focus on the untapped market of affordable wellness, premium wellness, and chronic testing, previously a small focus area.

MHL's premium wellness segment's revenue has seen 45% Y-o-Y growth in FY23, and its contribution towards revenue has increased from 8% in FY22 to 10% in FY23. The Company has successfully developed wellness packages using data analytics and scientific research while educating consumers through its direct-to-consumer engagement approach.

Growth Tilt: The average realization for these premium packages is Rs. 2,000+, which has resulted in additional profits for the Company, which has been further bolstered by the emergence of new health technology companies with significant marketing budgets, leading to an increase in the popularity of preventive health checks and an expansion of the overall market size of the wellness industry. This favorable market trend has enabled Metropolis to build its wellness segment more rapidly, aiming to increase its contribution towards revenue by 20%.

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Wellness as a % of Revenue

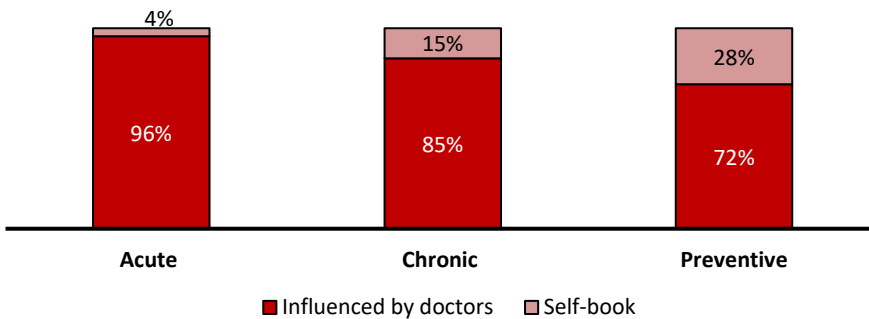


Source: Company, Keynote Capitals Ltd.

Illness business

Metropolis is a specialized laboratory that has always been committed to serving 6% of patients afflicted with acute illnesses. The lab primarily caters to the acute segment, and most of its volume is derived from this area of focus. The Company's main clientele comprises specialty doctors who rely on Metropolis and refer their patients to the lab for high-quality testing. Many of MHL's customers are acute patients requiring high-priority testing.

Acute Patients are highly influenced by doctors (FY23)



Source: Company, Keynote Capitals Ltd.

Acute Patients are the most influenced by doctors and least affected by price.

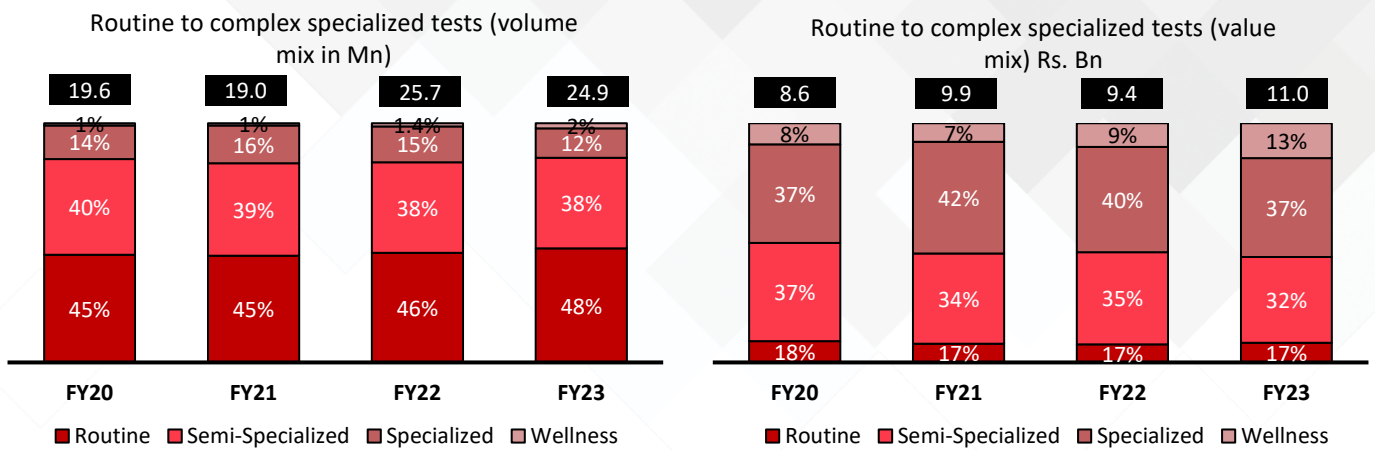
Chronic Patients are moderately influenced by doctors as well as price.

Wellness Customers are the least influenced by doctors and most affected by price.

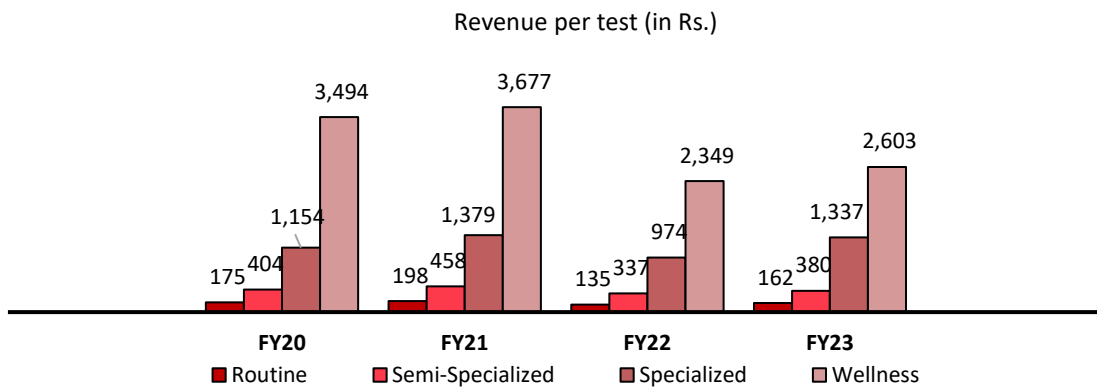
MHL will continue targeting patients with acute illness, especially for specialty tests highly influenced and recommended by the nationwide network of doctors. In FY23, the Company derived ~80% of its volumes from acute patients, which are highly influenced by doctors, where the Company has a strong foothold. Acute patients are least concerned about pricing as health improvement is their priority. Hence, a major chunk of revenue for the Company is stickier & sustainable in nature. MHL continuously expands its doctor network and penetrates deeper into the cities within its service network. Its future goal is to strengthen the sensitive illness business segment by penetrating tier 2 and tier 3 cities.

Growth Tilt: Referring doctors are specialists who seek out labs with specialized testing capabilities, making this business segment less susceptible to increased competition by diagnostic providers and sticky.

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Source: Company, Keynote Capitals Ltd.



Source: Company, Keynote Capitals Ltd.

Specialized Test Segment

This test segment covers various types of medical tests, including Coagulation studies, Autoimmunity tests, Cytogenetics, and Molecular diagnostics.

MHL has developed a niche product in the industry due to increasingly complex and specialized testing. Doctors rely on Metropolis as their go-to brand for specialized tests. MHL has established a sustainable, science-driven business model rather than one focused on discounts and packages. Around 30% of trials fall under the categories of semi-specialized and specialized, and they are experiencing faster growth due to their smaller base. MHL is making discoveries related to various diseases and infections, further fueling this growth. Despite none of these tests having a significant volume, the number of semi-specialized and specialized tests available is much higher in variety. Each test contributes to collective growth, resulting in a faster overall expansion.

The newer centers have experienced a rise in revenue from specialized tests. Aside from COVID tests, ~42% of MHL's revenue in FY22 came from specialized tests, which generate higher revenue per test.

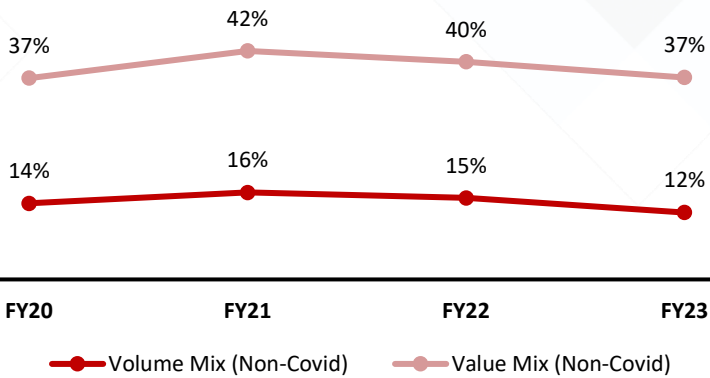
In FY23, MHL incorporated 83 new tests and intends to include one test every three days for the upcoming year. MHL is establishing a sales force to enhance doctor engagement in new geographical areas, build trust with doctors, and increase the volume of specialized tests. The previous year, MHL expanded its operations by establishing five new labs in the North, specifically in Bareilly, Varca, Ambala, Noida, and Faridabad. It has outpaced its competitors in the specialized sector.

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The pricing for MHL varies based on the region's local competition and input costs. To ensure consistency, prices for routine and semi-specialized tests are kept standardized. However, national pricing is used for specialized tests.

MHL successfully conducted 200 Continuing Medical Education (CMEs) in FY23 and aimed to increase the number to over 500 in the upcoming year.

Specialized test as a % of revenue

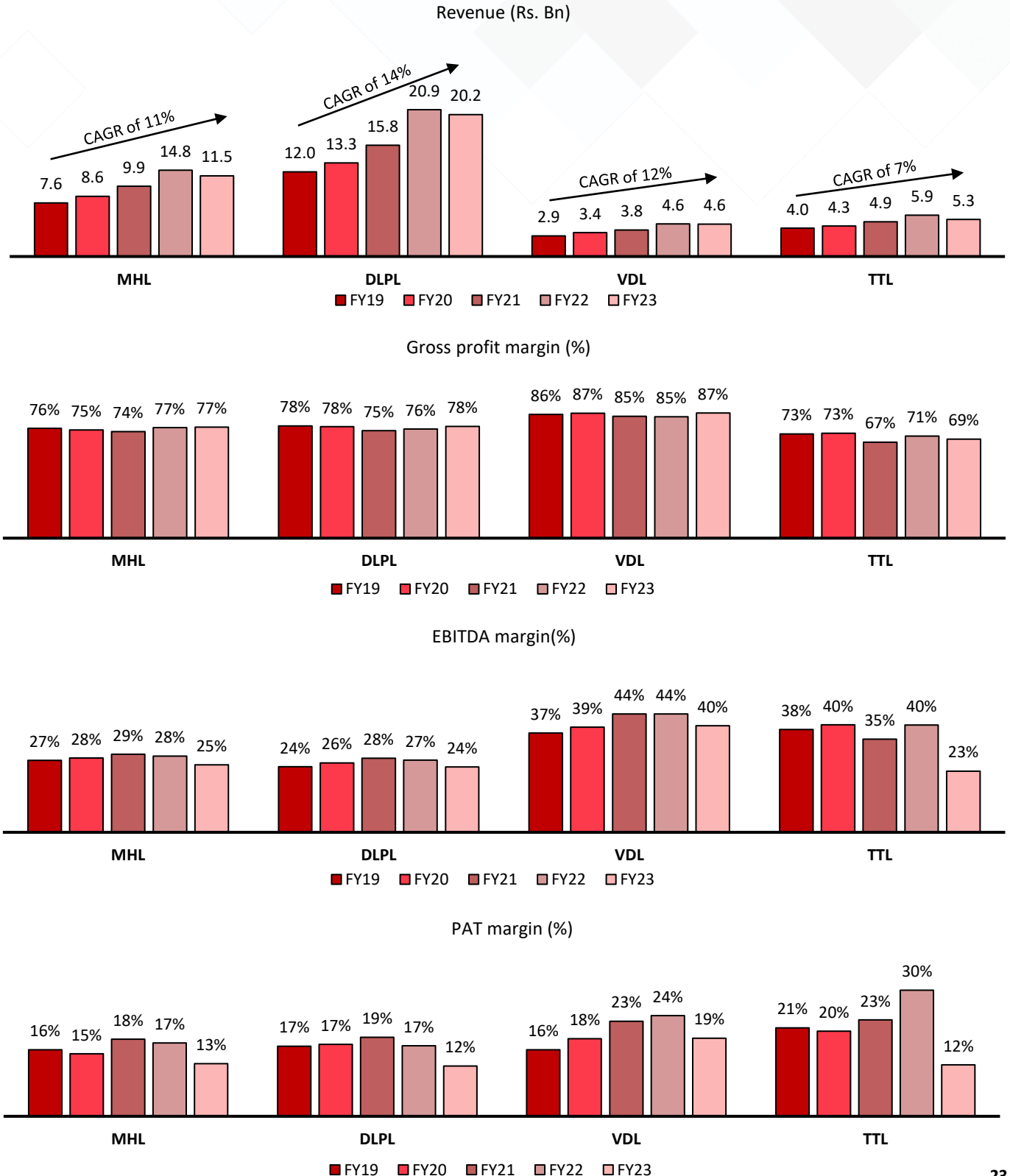


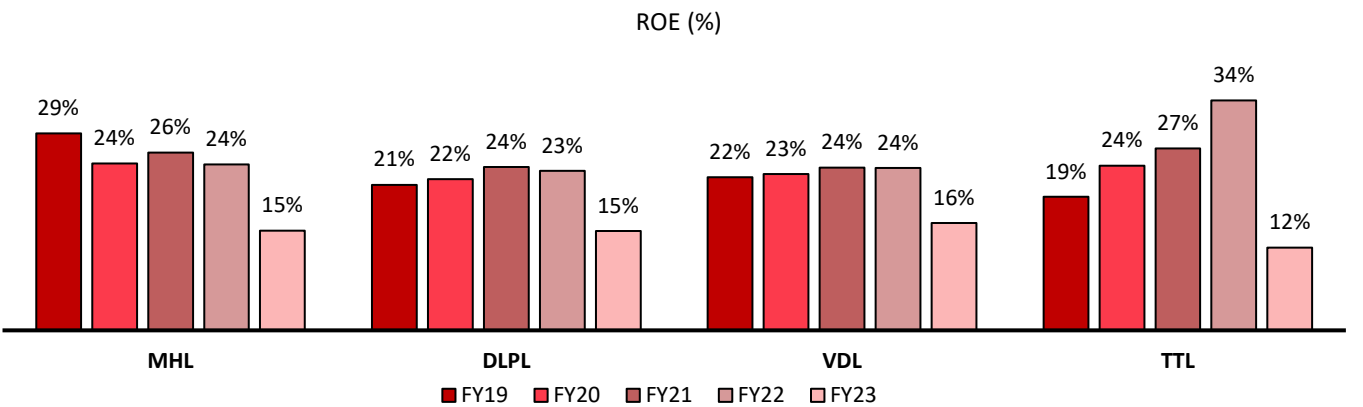
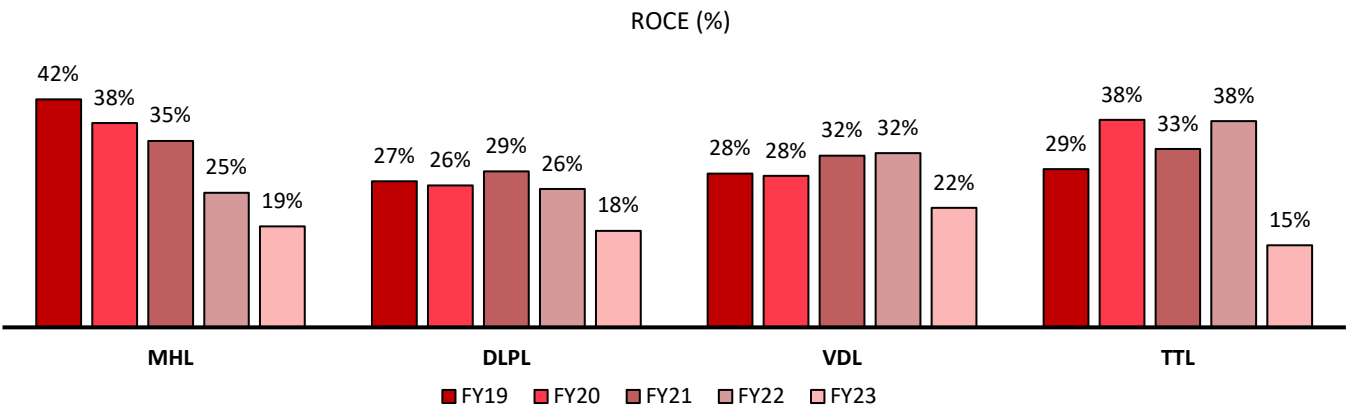
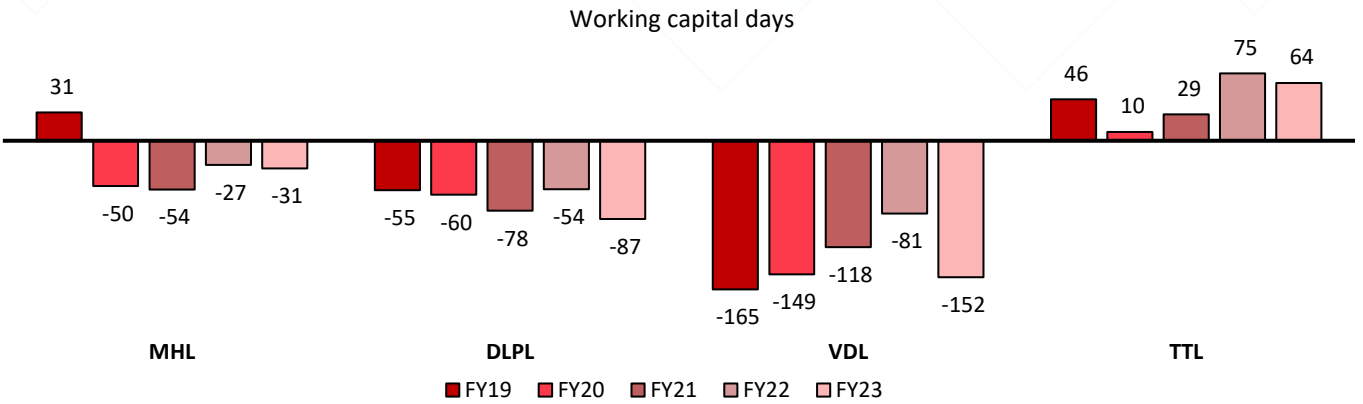
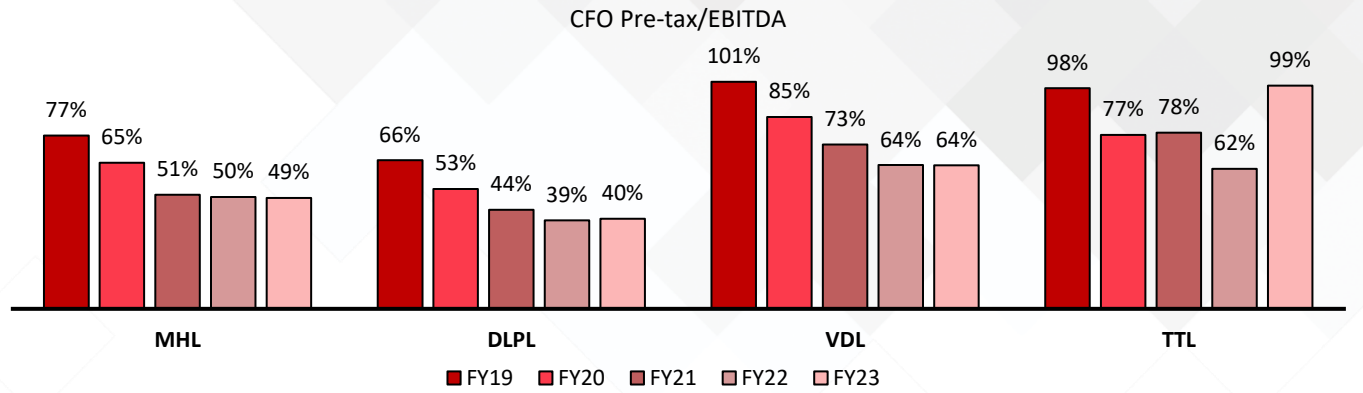
Source: Company, Keynote Capitals Ltd.

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Peer Comparison

We reviewed MHL against its closest peers, Dr. Lal Pathlabs Ltd (DLPL), Vijaya Diagnostics Centre Ltd (VDL), and Thyrocare Technologies Ltd (TTL). We have excluded Krsnaa Diagnostic due to its focus on public-private partnerships backed by the government.





Source: Company, Keynote Capitals Ltd.

Particulars (FY23)	Metropolis	Dr. Lal Pathlabs	Vijaya diagnostics
Revenue per patient	955	749	1,446
Revenue per test	466	279	457
Lab & collection center network			
No. of labs	175	277	12
No. of PSC	3,675	5,102	95
Number of NABL-accredited labs	26	23	15
Channel mix (%)			
B2B % of revenue	41%	28%	5%
B2C % of revenue	59%	72%	95%
Test – In terms of value mix (%)			
Routine + Wellness	31%	50%	NA
Semi-specialized + Specialized	69%	50%	NA
Geography Mix (%)			
North	8%	62%	<1%
East	5%	14%	3%
West	51%	16%	-
South	31%	6%	96%
International	6%	2%	-
Radiology (% of revenue)	<5%	<5%	67%

Source: Company, DLPL, VDL, Keynote Capitals Ltd.

Opportunities

MHL is focused on expanding its reach by exploring untapped opportunities and utilizing various methods to cater to its customers. The company is committed to increasing its market presence and strengthening its brand to become the preferred choice of patients.

Expansion through organic and inorganic strategy

Organic: In FY22, MHL launched the 90:30 expansion project to set up 90 labs and 1,800 collection centers over 30 months. Over the past two years, MHL has successfully established 30 labs and 1,057 centers. It actively seeks additional opportunities to provide affordable testing to patients as it expands into Tier II and III cities with a well-established brand. The Company is dedicated to addressing the existing gaps in healthcare services across multiple states in India.

This project will assist Metropolis in early monetization by accelerating the commissioning of laboratories. This will provide a wider range of tests to newer and larger markets, increasing brand penetration and visibility.

Inorganic: MHL has a track record of successful inorganic growth strategies, where they find players that complement the Company and add value. An example is the recent acquisition of Hi-tech, which will help the Company expand into the South market. Further, MHL is now seeking an acquisition at an entry-level in the West and South.

Focus on the wellness and specialized test segment.

CRISIL Research estimates that the market share for wellness and preventive diagnostics was ~9-10% of the total diagnostic services in FY20. This segment is expected to account for ~11% of the diagnostic industry in FY23, a CAGR of 20-21% over the three years. The Company revenue in the wellness segment has grown at a CAGR of 28% over FY20-23. MHL's premium wellness segment's revenue has seen 45% Y-o-Y growth in FY23, and its contribution towards revenue has increased from 8% in FY22 to 10% in FY23. The Company plans to increase the contribution from the wellness business from 13% in FY23 to 20% going forward.

Omnichannel Presence

MHL is transitioning from a B2B model to B2C to reduce concentration risk in the B2B sector and improve direct customer engagement. The Company is enhancing its IT infrastructure by launching numerous apps and web developments, providing Metropolis customers with an omnichannel presence on every online platform for easy accessibility.

Geographical expansion

MHL has established a strong presence in India's West and South regions, generating ~51% and ~31% of its revenue (non-covid), respectively, from these regions. Its current objective is to expand its reach in the North and East regions by expanding its patient service centers.

MHL has over 12,000+ patient touch points, and its focus is to become an end-to-end digital service provider not only for customers but for all its stakeholders, including doctors, vendors, and healthcare partners. 67% of its existing patient touchpoints were added during FY17- FY21. In the coming years, as this strategy matures, it will further fuel growth for the Company.

Challenges

Competition

The industry is witnessing increased interest from new players, including Large Business groups, Hospital chains, Pharma companies, HealthTech platforms, etc. The diagnostics industry faces moderate entry barriers on account of average capital intensity, resulting in the emergence of numerous diagnostic centers. These diagnostic chains face intense competition from hospital-based and standalone centers, comprising an industry's dominant share (about 85%). MHL recently faced competition in its B2B semi-specialized segment.

DLPL and MHL charge more per routine test than other companies such as PharmEasy, Tata 1mg, and Healthians. Among them, Healthians offers some of the lowest prices in the industry.

Tata 1mg offers a discount for 30-40 routine tests, priced at Rs. 100. While the company has stated that they may increase their prices, even with an increase, they will still be 30-40% less expensive than other non-discounted players. Additionally, Tata's reputation for trust in the diagnostics industry can benefit 1mg's partnership with the company. However, it remains to be seen whether this pricing strategy will be sustainable for Tata 1mg in the long term.

In the diagnostics industry, achieving scale is more important than having financial resources, as trust and quality of service are more crucial, given that doctors play a significant role in prescribing tests.

In sum, while competition may affect the industry in the short term, it is unlikely to significantly impact the profitability of companies such as DLPL and MHL. These companies have demonstrated growth rates of 15%, compared to the industry's growth rate of 12%.

Network expansion and acquisition drag the return ratios

Over the last 2-3 years, MHL is on expansion mode through organic and inorganic ways, while the benefit of this expansion is yet to materialize for the Company. Due to the above factor, the ROCE, which used to be ~42% in FY19, has fallen to ~19% in FY23.

Financial Statement Analysis

Income Statement

Y/E Mar, Rs. Mn	FY22	FY23	FY24E	FY25E	FY26E
Net Sales	12,283	11,482	12,128	13,947	16,039
Growth %	23%	-7%	6%	15%	15%
Raw Material Expenses	2,829	2,598	2,789	3,194	3,657
Employee Expenses	2,332	2,527	2,607	2,929	3,368
Other Expenses	3,711	3,473	3,517	3,905	4,491
EBITDA	3,412	2,883	3,214	3,919	4,523
Growth %	20%	-15%	11%	22%	15%
Margin%	28%	25%	27%	28%	28%
Depreciation	632	892	1,056	1,079	1,097
EBIT	2,779	1,991	2,158	2,840	3,426
Growth %	17%	-28%	8%	32%	21%
Margin%	23%	17%	18%	20%	21%
Interest Paid	250	268	197	163	138
Other Income & exceptional	335	152	152	152	152
PBT	2,864	1,875	2,113	2,829	3,440
Tax	768	450	528	707	860
PAT	2,096	1,425	1,585	2,122	2,580
Others (Minorities, Associates)	-5	-5	-5	-5	-5
Net Profit	2,091	1,420	1,580	2,117	2,575
Growth %	17%	-32%	11%	34%	22%
Shares (Mn)	51.2	51.2	51.2	51.2	0.0
EPS	41.86	27.75	30.87	41.37	50.32

Balance Sheet

Y/E Mar, Rs. Mn	FY22	FY23	FY24E	FY25E	FY26E
Cash, Cash equivalents & Bank	1,669	932	2,214	4,207	6,443
Current Investments	138	131	131	131	131
Debtors	1,355	1,219	1,395	1,674	2,005
Inventory	511	446	418	479	549
Short Term Loans & Advances	569	0	0	0	0
Other Current Assets	98	300	300	300	300
Total Current Assets	4,340	3,027	4,458	6,791	9,427
Net Block & CWIP	10,589	11,207	10,528	9,658	8,801
Long Term Investments	18	18	18	18	18
Other Non-current Assets	980	765	765	765	765
Total Assets	15,927	15,016	15,767	17,231	19,010
Creditors	1,032	941	967	1,139	1,304
Provision	551	189	189	189	189
Short Term Borrowings	999	504	304	199	0
Other Current Liabilities	843	1,015	1,015	1,015	1,015
Total Current Liabilities	3,424	2,650	2,476	2,543	2,509
Long Term Debt	1,587	286	95	0	0
Deferred Tax Liabilities	769	782	782	782	782
Other Long-Term Liabilities	1,266	1,391	1,391	1,391	1,391
Total Non-Current Liabilities	3,621	2,459	2,268	2,173	2,173
Paid-up Capital	102	102	102	102	102
Reserves & Surplus	8,760	9,780	10,891	12,378	14,185
Shareholders' Equity	8,862	9,882	10,993	12,480	14,288
Non-Controlling Interest	20	25	30	35	40
Total Equity & Liabilities	15,927	15,016	15,767	17,231	19,010

Source: Company, Keynote Capitals Ltd.

Cash Flow Statement

Y/E Mar, Rs. Mn	FY22	FY23	FY24E	FY25E	FY26E
Pre-tax profit	2,864	1,875	2,113	2,829	3,440
Adjustments	588	1,041	1,106	1,095	1,088
Change in Working Capital	-164	71	-122	-167	-236
Total Tax Paid	-825	-516	-528	-707	-860
Cash flow from operating	2,464	2,471	2,568	3,050	3,432
Activities					
Net Capital Expenditure	-307	-525	-377	-209	-241
Change in investments	-800	9	0	0	0
Other investing activities	-6,269	984	152	152	152
Cash flow from investing	-7,376	468	-224	-57	-88
activities					
Equity raised / (repaid)	19.7	1.84	0	0	0
Debt raised / (repaid)	2,585	-2,408	-391	-200	-200
Dividend (incl. tax)	0	-410	-474	-635	-773
Other financing activities	-979	-107	-197	-163	-138
Cash flow from financing	1,625	-2,923	-1,062	-998	-1,111
activities					
Net Change in cash	-3,287	16	1,282	1,995	2,233

Valuation Ratios

Particulars	FY22	FY23	FY24E	FY25E	FY26E
Per Share Data					
EPS	42	28	31	41	50
Growth %	17%	-34%	11%	34%	22%
Book Value Per Share	173	194	215	245	280
Return Ratios					
Return on Assets (%)	16%	9%	10%	13%	14%
Return on Equity (%)	27%	15%	15%	18%	19%
Return on Capital Employed (%)	25%	15%	16%	19%	20%
Turnover Ratios					
Asset Turnover (x)	0.9	0.7	0.8	0.8	0.9
Sales / Gross Block (x)	1.5	0.9	0.9	1.0	1.2
Working Capital / Sales (x)	20%	6%	10%	22%	35%
Receivable Days	38	41	39	40	42
Inventory Days	59	67	57	51	51
Payable Days	133	142	126	118	120
Working Capital Days	-35	-34	-30	-27	-27
Liquidity Ratios					
Current Ratio (x)	1.3	1.1	1.8	2.7	3.8
Interest Coverage Ratio (x)	12.1	8.0	11.7	18.4	25.9
Total Debt to Equity	0.3	0.1	0.0	0.0	0.0
Net Debt to Equity	0.1	0.0	-0.2	-0.3	-0.4
Valuation					
PE (x)	48.6	73.4	46.9	35.0	28.8
Earnings Yield (%)	2%	1%	2%	3%	3%
Price to Sales (x)	8.5	9.1	6.1	5.3	4.6
Price to Book (x)	11.8	7.5	6.7	5.9	5.2
EV/EBITDA (x)	30.8	26.0	23.4	19.2	16.6
EV/Sales (x)	8.6	6.5	6.2	5.4	4.7

Valuation

Particulars (Rs. Mn, unless mentioned)	Estimates
Estimate Period	FY24E
Revenue	12,128
Net profit	1,580
Earnings Per Share (Rs.)	30.9
PE Multiple (x)	55
Current Price (Rs.)	1,448
Expected Price per Share (Rs.)	1,700
Upside / (Downside) (%)	17.4%

Source: Company, Keynote Capitals Ltd.

Based on our analysis, we anticipate overall revenue growth of ~6%, primarily driven by core segments (excl., PPP and Covid and allied activities) which is expected to grow at 15%. Furthermore, we project an improved trajectory for margins in the future. This is attributed to strategic talent acquisition, investments in technology and digital advancements, and ongoing cost-efficiency measures implemented by MHL. While the Company is expanding its network, margins may have a short-term impact. However, this expansion is expected to result in a larger customer base, creating the potential for high growth. With a range of organic and inorganic growth levers, the Company is well-positioned to grow its core segment revenue by 15%. Considering all these factors, we have assigned a price-to-earnings (P/E) multiple of 55x to our estimated earnings per share (EPS) for FY24E.

Our Recent Reports

Havells India

PB Fintech

Sheela Foam

Rating Methodology

Rating	Criteria
BUY	Expected positive return of > 10% over 1-year horizon
NEUTRAL	Expected positive return of > 0% to < 10% over 1-year horizon
REDUCE	Expected return of < 0% to -10% over 1-year horizon
SELL	Expected to fall by >10% over 1-year horizon
NOT RATED (NR)/UNDER REVIEW (UR)/COVERAGE SUSPENDED (CS)	Not covered by Keynote Capitals Ltd/Rating & Fair value under Review/Keynote Capitals Ltd has suspended coverage

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