

MANAGEMENT DISCUSSION & ANALYSIS

ECONOMIC OVERVIEW

Global Economy

With gradual improvement in the situation pertaining to the Covid-19 pandemic, there was a sense of cautious optimism at the beginning of 2022. However, the economy still had to grapple with the challenges of high inflation rates, sharply rising interest rates, and a growing energy crisis – induced by geopolitical tensions – leading to supply chain disruption. Nevertheless, the influence of these headwinds has diminished considerably, reflecting improved conditions in developed and emerging economies. Global economy is expected to achieve a growth rate of 2.8% in 2023 and rise further to 3.0% in 2024. Compared to the forecast made in October 2022, the prediction for 2023 has been revised upwards by 0.1% points. For emerging and developing economies, the growth rate is projected to improve modestly, from 3.9% in 2022 to 4.0% in 2023. However, the advanced economies are projected to experience a significant decrease in growth, dropping from 2.7% in 2022 to 1.3% in 2023.

Global financial conditions have improved since October 2022, mainly owing to change in market expectations related to the interest rate cycle. The prompt deployment of vaccination measures and consequent lifting of restrictions have resulted in a faster recovery than initially projected. With quantitative tightening by Central Banks underway, market liquidity is likely to remain a challenge. In addition, rapid spread of Covid-19 pandemic in China has held back growth in 2022.

Global inflation is expected to decrease from 8.8% in 2022 to 6.6% in 2023 and further to 4.3% in 2024. Drop in demand, price discounts to tackle high inventory levels, and a decrease in real estate prices are the factors driving the inflation down. Moreover, the decline in inflation will prompt major central banks to pause and review their recent historic series of interest rate hikes. Overall, the Covid-19 pandemic continues to have an impact, along with the ongoing Russia-Ukraine conflict disrupting growth and further burdening food and energy prices. (Source: <https://www.imf.org/en/Publications/WEO/Issues/2023/01/31/world-economic-outlook-update-january-2023>)

World Economic Outlook Projection (%)

Regional Growth	Year on Year		
	Estimate	Projections	
	2022	2023	2024
World Output	3.4	2.9	3.1
Advanced Economies	2.7	1.2	1.4
Emerging Markets and Developing Economies	3.9	4.0	4.2

Indian Economy

India's belief in its economic resilience has been reinforced in FY 2022-23. This is further bolstered by the Indian economic

growth has been revised to 7.2% in FY 2022-23 maintaining the position of fastest- growing nation.

India has recorded a significant improvement in inflation scenario in FY 2022-23. Though India's inflation rate peaked at 7.8% in April 2022, it fell to 5.7% in December 2022, driven by stable monsoons and the Government's prompt actions, ensuring adequate food supplies. The global economic slowdown and increase in interest rates led to a decline in commodity prices, leading to a significant drop in wholesale price inflation. Core inflation remained at almost 6%, reflecting the second-round effects of the supply shocks that occurred at the beginning of the year.

The RBI Monetary Policy Committee has increased the interest rate under the Liquidity Adjustment Facility (LAF) by 225 basis points, from 4.0% to 6.25%, between May and December 2022. The liquidity surplus that prevailed after November 2019, in response to the Central Bank's conventional and unconventional monetary policy measures, weakened in FY 2022-23.

Private consumption and capital formation were the main drivers of India's economic growth in FY 2022-23. The impact has been recorded in terms of falling unemployment rates in urban areas and faster net contributions to the Employee Provident Fund. The expansion of public digital platforms and ground-breaking policies such as PM Gati Shakti, the National Logistics Policy, and Production-Linked Incentive (PLI) Scheme are expected to enhance output and foster economic growth. (Source: <https://www.indiabudget.gov.in/economicsurvey/doc/eschapter/echap01.pdf>)

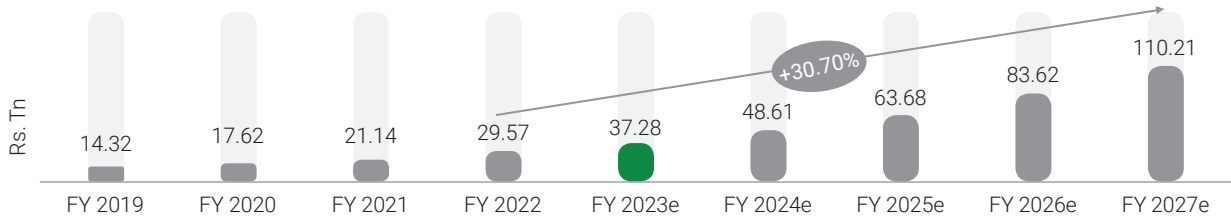
INDUSTRY OVERVIEW

Indian Healthcare Industry

The healthcare sector is among the largest and fastest-growing sectors of the Indian economy. As per economic survey, India's public expenditure on healthcare accounts for 2.1% of the GDP in 2021-22. The industry is growing with the prevalence of chronic and lifestyle-related diseases, the adoption of advanced technologies like telehealth and telemedicine, and the influx of funds from public and private investors into the healthcare ecosystem. The Netscribes Healthcare Market Report 2022-27 highlights that India's healthcare market had a revenue of Rs. 21.14 Tn in 2020-21, while it is expected to attain Rs. 110.21 Tn by 2026-27, registering a CAGR of ~30.70% between 2022-27. According to the Economic Survey 2023, the budgetary expenditure of the Central and State Governments for the healthcare sector increased from 1.6% of the Gross Domestic Product (GDP) in 2020-21 to 2.1% of the GDP in 2022-23.

MANAGEMENT DISCUSSION & ANALYSIS (Contd.)

Market size and growth forecast - Based on value (FY 2019 - FY 2027e)



With substantial investments in state-of-the-art diagnostic facilities, India has become a prominent destination for high-end diagnostic services, catering to a broader spectrum of the population. Adding to the growth trajectory is the e-health market, the size of which is estimated to reach USD 10.6 Bn by 2024-25. The Government continues to support the Indian healthcare industry with a slew of measures, including easing restrictions on Foreign Direct Investment (FDI), boosting funding for healthcare sector, and establishing healthcare infrastructure through Public-Private Partnership (PPP) projects. (Source: <https://www.ibef.org/industry/healthcare-india>)

Furthermore, the Indian Government has set its sight on establishing the country as a global healthcare hub, and despite challenges such as inadequate healthcare infrastructure, limited research and development initiatives, and low health insurance coverage, the healthcare market continues to grow.

Government Initiatives in the Healthcare Industry

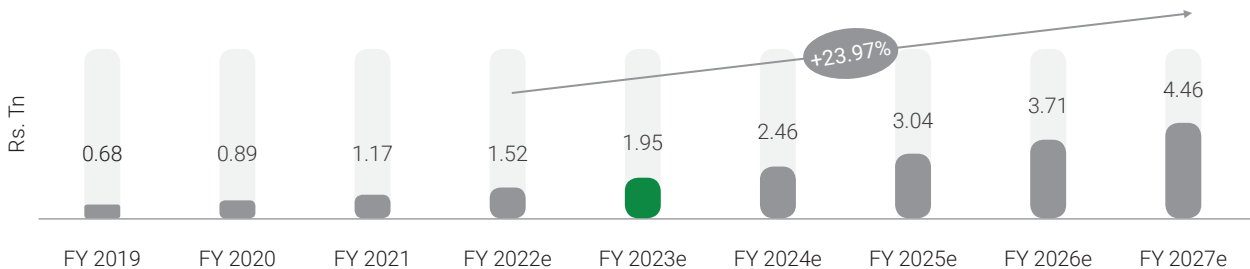
- Rs. 89,155 Crs has been allocated to the Ministry of Health and Family Welfare (MoHFW), under the Union Budget 2023-24, while Rs. 29,085 Crs has been allocated to National Health Mission
- As a part of budget allocation department of Health Research, Rs. 2,360 Crs was allocated to the Indian Council of Medical Research (ICMR) for the encouragement of collaborative research and innovation

- Announced a mission to eliminate sickle cell anaemia by 2047, entailing universal screening of 7 Crs people, aged between 0-40 years in affected tribal areas
- Approved continuation of ‘National Health Mission’ with a budget of Rs. 37,000 Crs and allocated Rs. 5,156 Crs to the newly announced PM-ABHIM – aimed at strengthening India’s health infrastructure and improve the country’s primary, secondary, and tertiary care services
- Announced the plan to allow select facilities under the Indian Council of Medical Research (ICMR) to be used for research by medical college faculty members and private sector R&D teams, in order to encourage collaborative research and innovation

(Source: <https://timesofindia.indiatimes.com/business/budget/budget-2023-24-experts-welcome-increased-allocation-for-health-sector/articleshow/97532938.cms>)

Indian Diagnostics Industry

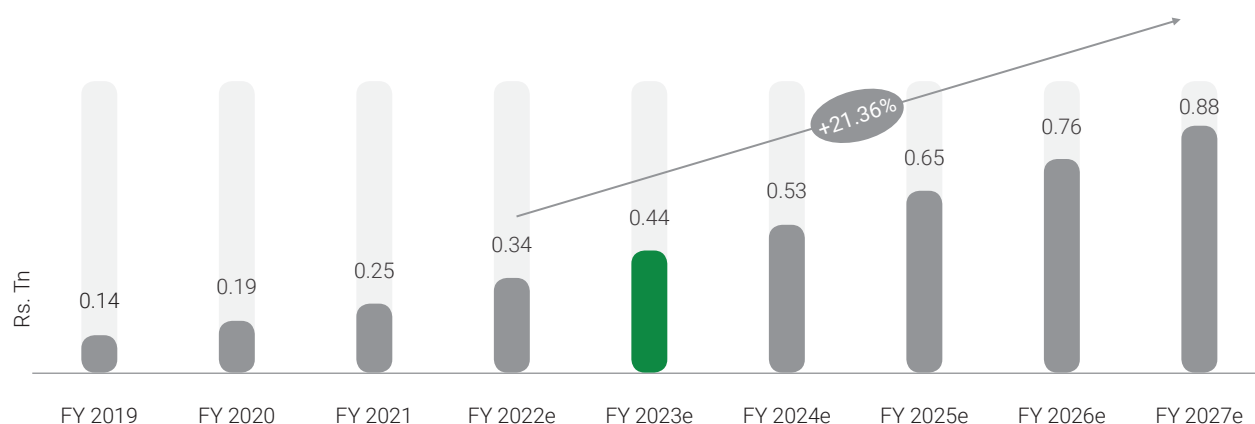
As per the Netscribes Healthcare Market Report 2022-27 the diagnostics services segment was valued at Rs. 1.17 Tn in 2020-21 and is expected to reach Rs. 4.46 Tn by 2026-27, registering a CAGR of 23.97% during the forecast period. The report attributes the growth prospects to the rising demand for home diagnostic services and preventive healthcare, leading to a shift from physical diagnostic laboratories.



With around 150-200K labs in the country, the diagnostics industry in India is highly fragmented. Unorganized, standalone labs make up approximately 73% of the out-of-hospital diagnostics market.

The digital healthcare sector is anticipated to witness a CAGR of 21.36% during 2022-27. The factors driving the growth are the rapid penetration of smartphones and internet, along with supportive Government policies.

MANAGEMENT DISCUSSION & ANALYSIS (Contd.)



In the diagnostics market, pathology tests are the primary method of diagnosis and account for 57% of the total market. Pathology tests have a greater potential for scalability than radiology because samples can be transported for testing, enabling companies to utilize a hub-and-spoke model. In contrast, radiology labs must be strategically located in places where patient-flow is high, and only basic radiology tests can be offered to the customers.

Emerging Trends in the Indian Diagnostics Industry

- Large diagnostic chains are witnessing a higher growth compared to the overall industry growth, due to the increase in their market share and integration with standalone labs. The industry is in consolidation mode; and major multi-regional players like Dr. Lal Path Labs and MHL are acquiring several standalone labs and regional chains
- Many established players in their home markets have significant pricing power, resulting in a higher EBITDA concentration. However, while expanding into new markets, profit margins are likely to decrease due to lower realizations, higher investments in digital initiatives, and greater expenses owing to establishment cost and marketing expenditure
- Newer business models with a patient-centric approach are now being developed to tackle the industry challenges. These models include teleradiology and telepathology services, aimed at enhancing the accessibility, quality, and efficiency of diagnostic services. Additionally, computational pathology solution providers and teleradiology service providers are increasingly gaining traction

MAJOR GROWTH DRIVERS

Increasing Income Level

The rise in disposable income and consumer spending has brought about a change in people's lifestyles. This change has created opportunities to promote healthy living and

preventive healthcare, opening newer prospects for the diagnostics industry.

Prevalence of Chronic and Lifestyle Diseases

Over the past years, chronic and lifestyle diseases such as diabetes, arthritis, hypertension, cardiovascular diseases (CVD) and cancer have increased substantially. Chronic diseases are a significant cause of mortality in India. The growth in demand for healthcare benefits, owing to the expanding patient pool, drives the healthcare market.

Improved Awareness about Good Health

Rapidly evolving lifestyles and increase in the lifestyle-related diseases have made people cautious about health and wellness. The prevalence of chronic and non-communicable diseases is highest among people over 60 years of age. Opting for preventive healthcare services, home healthcare facilities and precautionary care have the potential to reduce the chances of getting affected with such diseases.

Rising Elderly Population

In India, the percentage of elderly population in the total population is increasing. The incidence and complexity of disease appear to increase with age, propelling the need for diagnostic services and preventive care.

Impact of Government Policy

The Government is working on a plan to establish basic standards for regulating the country's diagnostic and wellness services. These laws and rules are set to ensure that best-in-class health and wellness services are available throughout the country. This will serve as a support system for all participants in the sector.

Public-Private Partnerships

The resources the Government needs for healthcare are brought in by Public-Private Partnerships (PPPs), while focusing on building a model that is sustainable in the long-term. PPPs offer the potential to improve the healthcare system by bringing together the expertise and resources of the commercial and public sectors, allowing wider public access and utilization of subsidies.

MANAGEMENT DISCUSSION & ANALYSIS (Contd.)

THREATS TO THE INDIAN DIAGNOSTICS INDUSTRY

Intense Competition and Impact on Pricing

With new competitors entering the diagnostic market, such as health tech companies, large conglomerates, reputable pharmaceutical companies, and startups, there has been a significant level of disruption in both the B2C and B2B market segments. These competitors tried to increase their revenue share in the diagnostic industry by using 'price' as a crucial differentiator.

Decline in Covid-19-related Tests

After the third wave of the Covid-19 pandemic, diagnostic companies are experiencing a decline in demand for Covid-19 tests – one of the top-selling tests that drove up their revenues during the last two fiscal years.

Risk Associated with Debts

While many of the diagnostic chains are expanding their infrastructure and increasing their investments, the scenario after the Covid-19 pandemic must be kept in mind. The focus needs to shift to whether the current debt can be paid down by focusing less on Covid-19-related tests.

Self-Monitoring and Diagnosis

The introduction of newer wearables and self-monitoring tools such as glucometers, oximeters, and technologically-advanced devices pose strong challenges to the diagnostics sector. (Source: <http://bwhealthcareworld.businessworld.in/article/Diagnostic-Industry-Getting-Ready-To-Overcome-Challenges-To-Outshine-In-The-Indian-Healthcare-Space/29-01-2022-419157/>)

COMPANY OVERVIEW

Metropolis Healthcare Limited ('MHL' or 'The Company') is a leading pathology specialist, with pan-India presence. MHL is one of the leading players in the diagnostics space, with footprint in both B2B and B2C marketplace. The Company offers best-in-class pathology and diagnostic services to individual patients, hospitals, other healthcare providers, and businesses. The Company, with a wider presence in South and West India, enjoys a loyal customer base, that reflects on its strength as a brand, providing superior diagnostic testing and services.

The Company has a presence in 20 states across the country. Each year, it reaches a new milestone, touching the lives of numerous patients and healthcare professionals by offering actionable health insights. MHL offers a comprehensive range of 4,000+ clinical tests and profiles. These include advanced tests in the diagnosis of cancer, neurological disorders, infectious diseases, and an array of genetic abnormalities. MHL dedication to quality and accuracy in each test is demonstrated by its steady CAP proficiency score of more than 98% over the last decade. This places it among the top 1% of laboratories in the world for quality assurance. MHL ideology is founded on technological supremacy, patient-centric approach, and dependable diagnostic results.

During FY 2022-23, the Company started to make inroads in the premium wellness segment, focused on enhancing technology, IT, and automation across value chain. MHL has added 14 labs and approximately 548 centers during the year. A brand which is synonymous to scientific excellence over the years, launched the Metropolis Innovation Cell to focus on Molecular Genomics, Superspeciality Pathology, and Companion Diagnostics. The Company's goal has been to nurture and expand the scope for oncology, prenatal testing, transplant immunology, infectious and chronic diseases through Next Generation Sequencing and Artificial Intelligence. Under the Innovation Cell, MHL introduced various specialized tests related to Pregnancy, Cancer, Infectious Diseases and Transplant Management during the year.

As a part of the 3.0 strategy, the Company created an omnichannel presence to engage with customers. During the year, the Company revamped the website and initiated many search engine optimization activities. MHL launched the newer version of Patient Mobile App, WhatsApp Bot to support the patients' easy access to download reports, book tests and find centres. The Phase-2 of the application offers improved technology-enhanced engagement. Hereon, the Company strives to become the 'Go-to-brand' for home testing. With existing brand equity and more engagement with doctors and customers over various digital platforms and active marketing tools, MHL is hopeful of increasing its B2C and D2C revenue with a stickier consumer base. The Company is continuously working on increasing its revenues through digital medium and alongside making its back-end systems stronger for better processes and control for future ready technology.

The Company strategizes to focus on wellness, technology, footprint expansion, while increasing efficiency and productivity. It is also integrating sustainability across the value chain to offer long-term value creation for all its stakeholders. The Company envisages these strategies to unlock growth on new frontiers and drive expansion with the same spirit.

PERFORMANCE OVERVIEW

Business Performance

	2020-21	2021-22	2022-23
Revenue Per Patient	1,016	914	944
Revenue Per Test	524	479	453
Laboratory Network	125	171	175
Service Network	2,555	3,064	3,675

Financial Performance (in Rs. Crs)

	2020-21	2021-22	2022-23
Revenue from Operations	998	1,228	1,148
EBITDA	288	349	293
Profit After Tax	183	215	143



MANAGEMENT DISCUSSION & ANALYSIS (Contd.)

Details of Key Ratios

Key Financial Ratios	2020-21	2021-22	2022-23	Variance
Debtors' Turnover	4.53	8.54	8.00	(6.32)%
Inventory Turnover	30.7	27.18	24.15	(11.15)%
Interest Coverage Ratio	NA	13.43	8.59	(36.04)%
Current Ratio	3.0	1.23	1.05	(14.63)%
Debt Equity Ratio	NA	0.31	0.09	(70.96)%
Operating Profit Margin (%)	28.86%	23.79%	19.26%	(19.04)%
Net Profit Margin (%)	18.34%	17.25%	13.03%	(24.46)%

RISK MANAGEMENT

MHL continues to adopt an effective risk management strategy that allows it to monitor and mitigate various risks, it faces. The strategy seeks to handle existing and emerging risks in a precise manner to ensure seamless operational efficiency.

Risks	Impact	Mitigation
Competition Risk	The Company faces intense competition from new players including large conglomerates, hospital chains, pharma companies, health tech platforms and startup companies, which may weaken the outlook, slow down growth, and put price pressures to bring margin and return ratios under stress.	To mitigate this risk, the Company emphasizes on redefining its cost-base to neutralize some of the stress on returns. It continues to focus on rigorous expansion of lab and customer touch point network. Notably, the core segment of MHL - acute illness - is less at risk from the competition, compared to others.
Technological Risk	The Company operates in a highly technology-driven market. Technological advancements in the field may result in a decline in demand for the Company's products and services.	To mitigate this risk, the Company focuses on offering tests which are more accurate and economical, as compared to those available in the market. Additionally, the Company leverages its thorough analysis to help the patient and the doctor comprehend the criteria in a detailed and more transparent manner.
Regulatory Risk	The Company may face price-capping, that could affect its earnings and cause margin pressures.	The Company mitigates the risk of price-capping through its wide range of testing portfolio. Additionally, the impact of such rules is minimal due to the Company's technological advancements and distinctive business strategy.
IT Disruption and System Failure Risk	Being in a highly time-sensitive business, any malfunctioning of the Company's IT systems might have a significant impact on its capacity to service customers as well as patients. It may result in a breach of personal data, thereby potentially degrading the Company's reputation in the sector.	The Company mitigates this risk through its comprehensive security program. This program assures prevention and detects instances of cyber assault at an early stage, allowing the Company to formulate a response and neutralize it. Furthermore, the Company has put in place processes and regulations to stop the theft of sensitive patient information. In addition, it has an audit framework in place for assessing its risk exposure and risk mitigation readiness.
Skilled Manpower Shortage Risk	The Company's success depends on its ability to find and retain outstanding employees, and failing to do so could significantly harm its performance.	To mitigate this risk, the Company focuses on an engaging HR practice and strives to make it a desirable place to work. An experienced leadership team supports and oversees its training programs. This proactive approach assists the Company in finding, retaining, and motivating people, while rewarding them with performance-linked payment.

MANAGEMENT DISCUSSION & ANALYSIS (Contd.)

<p>Business Continuity of GRL Operations</p>	<ul style="list-style-type: none"> ● System-related ● Natural/man-made disasters ● Transporting of samples ● Loss of skilled manpower ● Critical vendors stop supplying raw materials ● Breakdown of critical instruments 	<p>BCP and DR plan in place covering aspects like:-</p> <ul style="list-style-type: none"> ● Continuity of operations in case of any disaster/incident and resume operations promptly without significant interruptions ● Approach and action plan for any emergency/incident or disaster with preventive, detective, corrective and monitoring measures in place ● Building customer confidence and trust along with other external stakeholders indicating responsiveness of the organization towards ESG ● Ensuring employee safety and security in case of external events such as fire, and earthquake, among others
--	---	---

IT & DIGITAL INFRASTRUCTURE

Digital strategy plays an important role in customer engagement. The Company focuses on enhancing its IT and automation across value chain to create a digital ecosystem for all its stakeholders. MHL has launched WhatsApp bot for all its patients, with easy access to download reports, book tests and find nearest diagnostic centers. In addition, it has launched Phase-2 of the app for offering technology-enhanced engagement for existing and new customers.

Enhancing the 'Phlebotomist home visit application' by adding more features like Phlebo tracking, enterprise-wide adoption of Salesforce CRM, and implementation of the CDP platform aim to improve personalized communication with customers. The Company maintains a robust IT and digital infrastructure to stay ahead of competition and deliver an outstanding performance.

HUMAN RESOURCE MANAGEMENT

With over 5,000 employees, MHL has a strong and diverse team. As an equal-opportunity-employer, the Company provides of its employee with a positive work environment. It provides opportunities for individuals to improve, learn and thrive. The Company strongly believes that its competitive advantage draws strength from its highly skilled workforce. Through a range of development activities, the Company helps its employees nurture their professional skills and leadership abilities, thus charting a clear career path. The automation in HR has significantly improved employee experience, which, in turn, has increased productivity. The vision of the Company's senior leadership guides and shapes the future of MHL. The Company will continue to invest in the talent of its employees to achieve its business goals and fuel expansion.

INTERNAL CONTROL SYSTEM

The Company has an efficient internal control system in place. The policies and procedures, covering all financial and operating functions, are also documented. The system controls are designed to provide reasonable assurance for

maintaining proper accounting records. This reinforces reliability of financial reporting, monitoring of operations, protection of assets from unauthorized use or losses and compliance of regulations.

The scope and coverage of audits include:

- Reviewing and reporting of key process risks
- Adhering to operating guidelines and statutory compliances
- Recommending improvements for monitoring and enhancing efficiency of operations
- Ensuring reliability of financial and operational information

The Audit Committee periodically monitors and reviews the significant internal audit observations. It also reviews compliance with accounting standards, risk management and control systems.

CAUTIONARY STATEMENT

Statement in this Management Discussion and Analysis describing the Company's objectives, projections, estimates, expectations, or predictions may be 'forward-looking statements' within the meaning of applicable securities laws and regulations. Actual results could differ materially from those expressed or implied. Important factors that could make a difference to the Company's operations include global and Indian demand and supply conditions, finished goods prices, input materials availability and prices, cyclical demand and pricing in the Company's principal markets, changes in Government regulations, tax regimes, economic developments within India and the countries within which the Company conducts business and other factors such as litigation and labour negotiations. The Company assumes no responsibility to publicly amend, modify or revise any forward-looking statements, based on any subsequent development, information, or events or otherwise.