



“Metropolis  
Q4 FY2019 Earnings Conference Call”

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**Moderator:** Ladies and gentlemen, good day and welcome to the Metropolis Q4 FY2019 Earnings Conference Call hosted by Kotak Securities Limited. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing “\*” then “0” on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Chirag Talati. Thank you and over to you Sir!

**Chirag Talati:** Good morning everyone. On behalf of Kotak Securities, I thank the Metropolis Management team for giving us the opportunity to host this call. From Metropolis, we have with us today Ms. Ameera Shah, Managing Director, Mr. Vijender Singh, CEO and Mr. Tushar Karnik, CFO. I hand over the call to the management team for their opening remarks. Over to you Madam!

**Ameera Shah:** Good morning to all of you and thank you for joining us here today on our first earnings conference call post the successful completion of our IPO. Our consolidated annual result for FY2019 as a Consumer Diagnostic and Healthcare Company is a continuation of the strategic narrative comprising our strength and strategy shared during our recent IPO road show. We continue to maintain our position in the leader’s quadrant and are ranked amongst the top two companies in the fast growing Indian diagnostic industry. Please note all financial numbers are pertaining to the companies consolidated case.

A little bit about the industry before we delve into the specifics. For the next two years, Indian diagnostic industry is expected to grow at a healthy pace. Within the diagnostics market, the pathology segment is expected to be about 58% of the total market. FY2019 has ended on a positive note for us as the company delivered a faster than industry topline. We are positive about short and mid-term future growth owing to fast paced network expansion and great execution.

Key performance highlights includes consolidated revenue growth of 18.1% in FY2019 and consolidated EBITDA margin of 27.3%. This EBITDA is before one-time expenses of CSR share based expenses, which stands at Rs.2073 million. The PAT before CSR and one time share based expenses stands at Rs.1308 million, which is 130 Crores in FY2019.

I would like to emphasize on two growth parameters, which are key, average realization per test and our network strength. Our volume growth has been about 15.5%, which is the growth in number of patient visits with an increase in revenue per patient of 5.4% and revenue per test of 8.5%. FY2019 has also continued to be a year of aggressive expansion of network for the company in an aim to get closer to the patient. Our patient service network grew over 5.5 times in the last few years.

Moving on to regulations and governance, the corporate governance provision of the SEBI listing regulations will be applicable to us immediately upon listing the equity shares on stock exchanges. Our company is in compliance with the requirements of applicable regulations

*Metropolis  
May 14, 2019*

including the SEBI listing regulations, Company Act and SEBI ICDR regulations in respect to the constitution of our board and committees thereof. The corporate governance framework is based on an effective and independent board, separation of board supervisory role from the executive management team and constitution of the board committees as required under law. Our board is constituted in compliance with Companies Act and SEBI listing regulations and is in accordance with best practice and corporate governance. The board function is either as a full board or through various committees constituted to oversee specific operation areas. The executive management of our company provides the board detailed performance, reports on its performance periodically. Currently our board has six directors comprising of three independent directors, two executive directors including one woman director and one non-independent non-executive director. In other important update, we have launched a wellness initiative called True Health across 36 cities and we are confident that this will help us bolster our position in the fast growing wellness segment.

Customers today are serious about wellness and choose to undergo preventive screening to safeguard their health and diagnose conditions before they turn into complication. This segment as the industry has termed as wellness as oppose to the illness where the patient has to undergo test based on prescription after they fall sick. The overall market for wellness and preventive diagnostics is about 7% to 9% of the overall market in financial year 2018-2019. It is expected that this segment will grow at a CAGR of about 20% over the next three years for financial year even a report by Frost & Sullivan.

Another important thing I would like to highlight is that we have consistently maintained a net promoter score of 85 across the group. Net promoter score is the management tool that helps the company demonstrate its brand loyalty and affinity. 85% of feedback from our customers is solid and they would highly recommend Metropolis to family and friends. This consistent performance has been possible because of our brand equity built on trust and quality, precision in each and every test, quick turnaround time and our panel of doctors who are readily available to solve patient and doctor queries. We are happy to report that we conducted our first MedEngage scholarship summit in December 2018, a program that nurtures medical talent and conducts multiple academic activities throughout the year thus establishing Metropolis in the minds of the younger generation of doctors.

On a closing note, I would like to add that we will continue to increase our retail contribution in focus cities and impact the lives of Indians while assisting them with quality routes for routine and specialized tests. We will walk the extra mile for our patients who trust us during the anxious periods of their lives. In addition, our efforts to differentiating our customer experience, delivering quality results and strengthening our technological capabilities will be given. My team and I are excited for FY2020 and committed to create significant value for our stakeholders.

Let me now hand over to our CEO, Mr. Vijender to share updates on operational performance.

*Metropolis  
May 14, 2019*

**Vijender Singh:**

Thank you Ameera and good morning all of you. My name is Vijender Singh. Today Metropolis has a widespread presence across 19 states in India. In terms of our laboratory network, it has grown to 119 from 106 in FY2018 and majority of this has come through asset light, lab on lease model.

Our network of collection centers which is company-owned centers and third party centers grew by 5.5 times between FY2016 and FY2019 of which 80% were added in last two years time. As this young network matures, it is expected to go on to rapid short-term and mid-term future growth.

Our robust and efficient network has always been our strength and our young individual patient's network has provided significant returns in FY2019. We have witnessed a fourfold growth in our individual patient's touch points. Our testimony is something that we take a lot of pride in because we keep tests that make a difference to the lives of our patients. We offer a comprehensive range of about 3487 clinical laboratory tests, and 530 profiles that includes advanced test and diagnosis of cancer, neurological disorders, infectious disease and area of genetics abnormalities. In FY2019 itself we launched about 24 superspecialized tests. Our commitment to quality and accuracy in each and every test is reinforced by our consistent cap proficiency score of more than 98% over the past decade, which places us amongst the top 1% laboratories world wide for quality assurance.

As of March 2019, the company score scientific team consisted about 201 doctors and technologist with a team of about 2300 scientific offices and laboratories. The company's academic team published about 11 scientific papers in national and international index journals.

Our strategy for growth in focus cities remains strategy of going deeper, casting wider for long-term business outcome. Metropolis concentrated network in Mumbai, Chennai, Bengaluru, Pune, Surat and even Rajkot, Delhi, Nasik, Kolkata etc., now is reaping rich dividends.

Absolute consolidated revenues for each of these focus cities have increased in FY2019 vis-à-vis those in FY2018. The revenue from north and east has been pretty much consistent in terms of our growth because these are the market which are faster growing in our portfolio.

In terms of IT investment, the company has upgraded its core IT infrastructure to improve business revenue generation capabilities, cost optimization, operational efficiencies and customer experience. This initiative is going to take care of our future security of growth. High literacy levels are expected to increase awareness of preventive and curative healthcare and in turn boost the demand for diagnostic services. Also the corporate sector is focusing more on the well being of their employees promoting them to undergo preventive and wellness tests. This will further support the growth of preventive and wellness segment and the diagnostic sector as a whole.

Overall, we are positive about FY2020 and now I would like to hand it over to Mr. Tushar Karnik, our CFO to take us through financial highlights.

**Tushar Karnik:** Thank you Vijender. Good morning. I am Tushar Karnik, CFO Metropolis Healthcare Limited. I will now run you through the important financial highlights and key ratios and metrics. Please note that all the financial numbers pertaining to the consolidated final statements of the company. We have grown 18.1% in the consolidated revenue in FY2019, which is faster than industry rate, and have maintained at double-digit CAGR. The underlying consolidated patient volume for FY2019 stood at 8.9 million, which is representing a growth of 15.5%, compared to FY2018. We are also happy to report an increase in average realization per test. Our revenue per test has gone from Rs.402 per test in FY2018 to Rs.447 per test in FY2019. Additionally, our revenue per patient has also seen an upward trend from Rs.836 per patient in FY2018 to Rs.854 per patient in FY2019. We maintain consistent EBITDA and PAT margin profile in FY2019 not considering the CSR and one-time share based on other expenses.

The consolidate EBITDA before CSR and one time share based on other expenses stood at Rs.2.73 billion in FY2019. PBT came at Rs.1.865 billion in FY2019 compared to Rs.1.637 billion in FY2018. PAT before CSR and one time-share based on other expenses grew by 16.2% to Rs.1.308 billion in FY2019 as compared to Rs.1.126 billion in FY2019.

Earning per share stand at Rs.24.06 for FY2019. We have maintained our margins by delivering operating leverages despite some new projects with low margins. We are continuously further looking at the opportunities to optimize our cost.

That brings to me to the conclusion of my opening remarks and I would now invite the moderator to open the forum for question and answer. Thank you.

**Moderator:** Thank you very much. We will now begin the question and answer session. Ladies and gentlemen, we will wait for a moment while the question queue assembles. The first question is from the line of Vikas Kasturi, an Individual Investor. Please go ahead. Vikas, your line is talk mode; kindly go ahead with your question. Vikas if you have muted yourself from the handset kindly unmute yourself. The first question is from the line of Ashish Tavkar from Motilal Oswal Securities Limited. Please go ahead.

**Ashish Tavkar:** Thanks for the opportunity. One clarification you said the patient volume growth was 15.5%, so what this for the quarter or for the full financial year?

**Ameera Shah:** This was for the full financial year.

**Ashish Tavkar:** Madam, what would be your view on the price hikes in the industry, so how do you see the industry behavior changing because there has not been price hike taken by many other players as well?

**Ameera Shah:** I think again it depends on what is the goal of each organization. I think for us the goal really has been to increase our market share in retail and B2C business, which is why we have been little careful in not taking price hikes that would hit the consumer. We have taken about 2% to 3% sort

of price hike in the last couple of years and we believe that we would reconsider pricing around January of 2020, so we will do some work before that to consider whether we would like to take a price hike there?

**Ashish Tavkar:** Okay, but price hikes are still available in the B2B part of the business?

**Ameera Shah:** Actually the B2C, it depends on B2B again there are two components, one is the semi-specialized piece and one is the specialized piece. In the semi-specialized piece is where you find a little bit more competitive intensity. In the specialized piece you find little less competitive intensity because there are less players who have the operational capabilities to provide those tests, so there is a possibility of having a price hikes on more the specialized side, I would say probably less on the semi-specialized.

**Ashish Tavkar:** Okay and this 2% to 3% price hike you feel that this is doable every year?

**Ameera Shah:** Our strategy is not really to increase prices every year, but probably to increase prices every couple of years in a slightly higher amount than that.

**Ashish Tavkar:** Okay and Madam in your assessment, what would be the patient volume growth at the industry level?

**Vijender Singh:** Probably at the industry level, we do not have any data, but looks like our peer group growing at almost about 15%, 16% in terms of volume, so probably at industry level I do not think if you sort of look at the other piece of fragmented labs probably it will be 8% to 9% not even that as well.

**Ashish Tavkar:** Any other initiatives in terms of whether you might have done any JVs with some other labs during this quarter, the last four, five months?

**Ameera Shah:** We have done a bunch of lab-on-these model, which we have described in the DRHP as mostly managements contracts that we have taken off of the unorganized sector, so we have continued to expand those lab-on-lease model and I think in the last financial year in 2018-2019, I think we have added about 11 new laboratories through the lab-on-lease model.

**Ashish Tavkar:** So I have seen one hoarding, which says Nidan Diagnostic, and I have seen Metropolis written there, so just wondering whether you have acquired that lab or what is the arrangement there?

**Ameera Shah:** We have all kinds of relationship with different parties, some of them happen to be radiology partners that we provide pathology services too. I think the one you are referring to is such a partnership, it is not an equity partnership, it is just a business partnership where it is a radiology provider and we are providing pathology services to their customers.

**Ashish Tavkar:** I have some more questions. I will get back in the queue.

**Moderator:** Thank you. The next question is from the line of Bharat Celly from Equirus Securities. Please go ahead.

**Bharat Celly:** Thanks for the opportunity. So I just wanted to know we have been continuously surpassing the volume growth, so what is the main growth driver when we look at the revenues growth as well as when we look at volume growth, so what is that differential largely?

**Ameera Shah:** Between revenue and volume growth, it is really the test mix. So if you actually see Metropolis has almost 40% of its revenue coming from special and super special tests, which is quite unique in the industry, which actually gives us a higher realization per patient and per test and this test mix is actually what is also a combination of volume and test mix is what is the driving the revenue.

**Bharat Celly:** Madam and that would be the same reason for even increase in the revenue per test for us?

**Ameera Shah:** That is right; there are about three reasons for increase in revenue per test. One is the specialized part increasing. The second is that our international business actually gives us also a higher realization per patient and per test and also institutional business gives us higher revenue per test, so it is a combination of all three.

**Bharat Celly:** Right, but as far as I can see that institutional business is largely constant over the last one year, so that would not be the big factor right?

**Ameera Shah:** Even if the institutional business is constant you still get higher revenue per test from the same customer, it is about how you go to that customer and are able to convince them to move up the value chain and they able to give you more specialized samples.

**Bharat Celly:** Thanks. That is all from my side.

**Moderator:** Thank you. The next question is from the line of Varun Goenka from Reliance Mutual Fund. Please go ahead.

**Varun Goenka:** Good morning and thank you for the opportunity. I had two questions, one what you see the private equity activity for this year, number of new players entering the market or the amount that has been committed by the players in this industry that is one and secondly on a receivables if you could give us a number for September FY2018 and March 2019 how that has panned out and what is the source of our receivables? Thank you.

**Ameera Shah:** I will take the private equity question and I will ask Tushar to comment for the receivables part. On the private equity side, if you see over the last five to six years we saw some corporates come into our industry like Dabur, Vedanta and HCL etc., all sort of who entered the industry into diagnostics and we also saw some private equity players, there were about four private equity deals that have happened in the diagnostic sector over the last five to six years. Some of these

MNSA diagnostic, this is not all pure pathology, most of these have actually happened in the radiology space, a space that we actually do not operate in, which is in the CT/MRI space. For a while of course, these new corporates entering in private equity investments did create some amount of competitive intensity over the last many years. What we have seen actually is that most of these companies have not been able to scale profitably and really been able to build an institution that can potentially be long-term. We are actually seeing some of these firms now up for sales because they have sort of realized that this industry is probably perceived initially and therefore, we are not seeing the same level of entry from new players into this market.

**Varun Goenka:** For FY2019 any numbers you have as to how much of money has been committed to the industry?

**Ameera Shah:** FY2019 actually I do not think there has been any new deals that has happened in the diagnostic space, at least not that I am aware of. There was a sale deed, which had also happened, but which did not happen finally and the deal got called off, but I have not seen any private equity money come into 2018-2019.

**Tushar Karnik:** Probably the interest, if you look at last three to four years private equity funding is primarily basically into those businesses who have been focusing more on semi-specialized and semi-specialized most of those companies are pretty much struggling in terms of making EBITDA margins, so this actually is a disinterest to lot more private equity funds when we talk about semi-specialized segment.

**Varun Goenka:** The question about receivables?

**Tushar Karnik:** Yes, so before getting into receivables, I just wanted to inform you that our B2B and B2C ratio at the company level still we have a 57% of the total revenues coming from the B2B that is the main reason we are able to giving the credit in the market and within B2B 40% of our business is with hospitals wherein we always get paid only when they get paid from the insurances that keep on pushing our DSO a little bit on a higher side.

**Varun Goenka:** If you could give us number for March 2019 also?

**Tushar Karnik:** March 2019 number is 66 days and March 2018 was 57.

**Varun Goenka:** Basically this would be in line with the sales growth of this segment right?

**Tushar Karnik:** Absolutely, so this depends on our business mix also, let us say if our B2B contribution is above 57% and within that hospital segment is growing because you want to target specialized category and that is what exactly we are doing.

**Varun Goenka:** Final point, I mean, capex any plans or any capex commitment going forward?



**Ameera Shah:** On capex, there is usually a maintenance capex that goes into the business, which is not very significant, but we have also over the last three years and continuing we have committed reasonable amount of information technology capex some of which we have detailed in the analyst presentation and what we are trying to accomplish, so between these two, we are expecting about a Rs.20 Crores ongoing capex in this next year and year after potentially, not assuming any acquisition.

**Varun Goenka:** Thank you so much.

**Moderator:** Thank you. The next question is from the line of Vikas Kasturi, an Individual Investor. Please go ahead.

**Vikas Kasturi:** Thank you. Ms. Ameera Shah, congratulations on a successful IPO. You are one of my favorite business leaders and I track Metropolis and you for a long time, so it is good that you completed your IPO now, so I had a couple of questions. So first is in the diagnostics business how much does doctor recommendation play a role?

**Ameera Shah:** Doctor recommendation plays still quite an important role, but you have to see it from two angle. One thing is that you know usually the illness segment, which is majority of the segment in India almost 93% to 95% of the industry illness, which means the patient fall sick and then goes for diagnostic. In that situation, the patient is really reliant on the doctors to make a decision on what tests are required, so while the doctor is a big influencer on whom tests are required, the decision about which lab to go to is usually a decision made by the patient and the doctor together. It leads to the convenience of the patient because obviously the patient wants to go somewhere close to their house. It is also linked to the environment that the patient wants to go to. The patients are not comfortable always going to places where they do not feel hygienic or say for clean, so that plays a role as well, the customer experience and the professionalism and the hygiene behind it. The doctor's opinion of the quality of the result obviously plays a very important role. I would say these three factors play the most important role if the doctor and the patient together deciding which lab to go.

**Vikas Kasturi:** So this is in the case of illness related testing whereas if you wanted to get your blood sugar tests you would probably go with somebody who is convenient or whose price conveniently right?

**Ameera Shah:** Yes and again it depends if you are doing your blood sugar test because you are a diabetic then actually you have an illness right and therefore you want to track your blood sugar correctly every month because if your diabetes results comes wrong to you then obviously there could be other significant consequences to your health, so if we have find actually diabetics actually tend to be some of the most loyal customers because they realize that when they go from lab to another and they change lab, they actually get very different result, which are not comparable, so it is very important as a diabetic, who are comparing from the same lab on a monthly basis. If you are a wellness patient means, you are not a patient who is sick, but just once a year as a person let us say 40-year-old, he says I am traveling a lot, I want to make sure I am fine and say I

am going to into preventive healthcare package, which includes bunch of tests to find out if there is anything wrong in the body that usually tends to be a only a consumer decision not influence by the doctor.

**Vikas Kasturi:** Thank you Madam and one more question. At your global reference laboratory or at your other laboratories at our satellite laboratories, are you logged in with one vendor?

**Vijender Singh:** No, we have different vendors and primarily if you look at we have identified at least almost about four to five vendors who are US FDA approved and to keep our results standardized and uniform, so that is why we have kept about four to five major vendors in our system, so that also gives you your capability and ability to negotiate better with them.

**Vikas Kasturi:** Thank you Madam, I will come back in the question queue. Thank you. Thank you Sir.

**Moderator:** Thank you. The next question is from the line of Ashish Uppanlawar from InvesQ. Please go ahead.

**Ashish Uppanlawar:** Just wanted to understand on this wellness bit because that seems to be the space that there is a lot of confusion from that customer perspective because there are so many packages and so where you do see this heading in terms of consumer opting for one lab over another and is it that the trend is towards more of something like Thyrocare coming and taking your blood sample or is it something a person goes to your outlet in Delhi and get the tests done and what ensures that the customer is sticky with you for numbers of years, so your thoughts on that, please?

**Ameera Shah:** Sure. If we have to look at the customer first as not as one block, we have to look at them in segment right, because as we today that people who will buy Maruti, there will be people who buy Hyundai and there will be people who buy a BMW and Mercedes as well, because each person has different requirement, so if you look at usually the customer segment who believes in coming to Metropolis is usually a customer who is very quality conscious and who is very service conscious, this is the customer who expects professionalism, expects our people to be on time when they come to collect the sample or when they come to our centre they expect to be treated well again with hygiene, with safety, with professionalism. They also expect a certain amount of technology access. They expect that their reports come on their e-mail very quickly with analytics and graph giving them a sense of where do you stand from a wellness perspective and they also expect that all of this will be done in a very quality environment, so what we have seen in the industry is absolutely right, a lot of people have jump in trying to be a wellness provider, but there is always different customers who will bite that date that based on pure advertising and marketing and there will be many customers who will say that look I want to go with a more quality oriented brand that I have known and trusted for the last 30 years for my illness and I would rather go with them for wellness such as Metropolis, so I think we are really focusing on the customer who is quality conscious and where we can also provide them with sort of pre-health checkup and post-health checkup counseling as a way to finally what do you do with that

illness result that you get it, finally you need to act on it. Therefore, we are having also pre and post counseling with the wellness package.

**Aashish Urganlawar:** Great. Madam, also wanted to understand, given the way competition is shaping up and people expecting the market to kind of keep growing at healthy rates for a very long time, so what is your assessment of, how the competition would shape up over the next three to five years, will it be, the newer players going down as you said the PE funded players going down or is it going to be more and more players making an attempt to basically disturb the profitability of the existing other labs?

**Ameera Shah:** My sense is and it is not anyone particular company, it is just across the industry. My sense is that we will see actually a good amount of consolidation in the next few years. See, we have to understand what is happening in the dynamics of the industry. The unorganized players, which are the single labs, are actually struggling to grow. They are having very low digit volume growth; they are not growing very quickly. They are having hard time managing profitability because as we know expenses are increasing and therefore, they are struggling to figure out ways to really attract clients there. That is one thing that is happening. With the introduction of all these new laboratories, which have come in the last five, six years with PE and through corporates, they have also seen further struggles in the market, so what we have seen is that besides bunch of these companies new entrants, which are up for sales, we are also seeing existing unorganized players who are interested in getting consolidated and becoming part of a larger group and showing interest to do that now, of course, that is easier said than done because there tend to quite a lot of compliance issues, which the unorganized players have, either with statutory compliances or with quality compliances and therefore, not all of them can be potential acquisition targets, but we do believe that there will be a good amount of consolidation in the next few years in the industry and really this will become a may be, two, three player industry, which will control at least, if I look over the next 10 years, at least control 20% to 30% of the industry in the market. If you look what happen in the US about 15, 20 years ago, the same situation that we were in India and today if you see the top three chains that the US control almost 45% of the market share of the US, these companies are in \$8 billion, \$10 billion, \$15 billion kind of revenue because there is economies of scale on pathology that come in when you have scale. I believe in India we do not know when, but we probably will head in a similar direction over the next many years.

**Aashish Urganlawar:** So partnering the smaller B2B guys is the way that you guys are looking to or is it probably they think that they would not survive and that is why you might buy them out or may be they have to close there if you do not take any of the options?

**Vijender Singh:** Yes as Ameera mentioned that the industry is going towards may be some, over a period say four to five years you do not know, there is going to be a lot more consolidation happening, but another aspect of business will be shift from unorganized players to organized, now this shift actually if you look at in last 20 years the shift has been very, very slow, but this shift is going to move fast in next five years that is what we hope and that is what we have designed a model

where in we have collaborated with very good pathologist and lab and also technician and labs and we have converted those into Metropolis Centres in the form of Metropolis branded labs and also Metropolis branded collection centres, this model is something, which is helping us in terms of looking at forward growth where inline I have mentioned that the growth is going to also come from shift from unorganized to organized.

**Aashish Uppanlawar:** Lastly, can I ask you, what would be the growth target that the company has over the next two, three years, if you are comfortable sharing what is the minimum growth on the topline that you see for yourself?

**Ameera Shah:** If you see 2018-2019 our growth there has been about 18.1% and if you see 2017-2018 also our growth was approximately 18% as well. We feel quite comfortable at these numbers and potentially little bit more, so these are revenues that we feel quite comfortable with for 2019-2020 and that would be a general outlook.

**Aashish Uppanlawar:** Thank you so much.

**Moderator:** Thank you. The next question is from the line of Neha Manpuria from JP Morgan. Please go ahead.

**Neha Manpuria:** Thank you for taking my question. Just wanted to understand a little bit on the patient growth that we are seeing, if you could probably give us some colour in terms of how much of this growth is coming from focus cities versus your seeding cities or other cities that would be helpful?

**Ameera Shah:** Neha, at this point of time we are not talking much in detail about the separation of growth from different. This is more from, we do not want to put that detail out in the public domain more from a competition standpoint, but what I can tell you is one very interesting statistics, one key strategy of the company has been to increase our B2C ratio in focused markets, which are the markets of Mumbai, Chennai, Bengaluru, Surat and Pune and we have actually increased it in 2017-2018, we were at 48% B2C in these five cities and in 2018-2019 we are at 52%, so we have seen B2C growing at a much faster pace in the focus cities, which is exactly inline with our strategy.

**Neha Manpuria:** It would be fair to assume that a good portion of this growth is coming from the focus cities versus the other two segments, even if I mean, if you not comfortable giving numbers at this point?

**Ameera Shah:** If you talk about growth rates obviously seeding in other cities are a much smaller base, so you will obviously see those markets growing much faster from a growth rate perspective. If you talk about absolute numbers then obviously because our focus cities contribute almost 58%, 59% of our total revenue then obviously just from a matter of arithmetic the focus cities will add more revenue, so it really depends from which angle you are looking at.

- Neha Manpuria:** Okay, I was trying to see in terms of the incremental volumes, is that largely from the focus cities or the newer cities and just to understand in terms of profitability as we continue to grow would this mean that as we are probably getting more volumes from the other cities or seeding cities, there is scope for that margin in operating leverage to play out, is that the right way to look at it?
- Ameera Shah:** That would be some of the right way to look at it, if you look at our regional reference labs that we have mentioned before, what unique about Metropolis is normally to be have a global reference lab in Mumbai, but we have about 12 regional reference labs all across the country. What is interesting about this is that what we have been carrying the cost and the capex is usually the small part of it, but the operating cost we have been carrying now for many years and what we find actually is that all our regional reference labs are profitable, which means and we do not need to start any more regional reference labs at least in the next two to three years, which means that there is no new opex to depress our margin in the next two to three years, we already have the infrastructure in place. But if you look at our labs in Delhi and Kolkata, they probably today have the lowest profitability amongst all the regional reference lab and that because the volume in these two regional reference labs were lower than the others, but with the fast pace that we are seeing a growth in north and east of India for Metropolis we believe that the profitability and the operating leverage will kick in for Delhi and Kolkata labs and this will actually help us from a profitability standpoint.
- Neha Manpuria:** Understood and my second question is just to understand, of the 15.5% growth that we have mentioned is that largely domestic?
- Vijender Singh:** Yes largely if you look at our contribution from domestic is almost by 95%.
- Neha Manpuria:** Because you mentioned that 0.4 your realization increase, so I just wanted to do clarify that this 15% is largely domestic?
- Vijender Singh:** Another point just to substantiate what Ameera mentioned that most of our expansion has happened in focussed cities. When we talk about B2C ratio it is primarily from the network expansion, which is almost by 5.5 times in last three years' time that it helps us in gaining that momentum of growth from each market.
- Ameera Shah:** To your point Neha the domestic growth actually in 2018-2019 has been 18.7%.
- Neha Manpuria:** That is the revenue growth that is mentioned?
- Ameera Shah:** That is right.
- Neha Manpuria:** Thank you so much.
- Moderator:** Thank you. The next question is from the line of Ritesh Poladia from Girik Capital. Please go ahead.

**Ritesh Poladia:** Thanks for the opportunity. My question is again on receivables. I assume majority almost all receivables will be of B2B and now given about 20.5% growth in B2C, so basically the B2B growth should have been 16.5% and your receivables have grown by about 35%, why there is such a high receivables?

**Vijender Singh:** Within this B2B as I mentioned that 40% of our business comes from hospital segment and that is what we said that in our strategy we want to focus on super specialized test primarily 80% of the receivables come through hospitals, so on one side the focus is on specialized through hospitals and hospitals also take advantage in terms of taking higher credits and that is what actually affects the overall impact of our receivables.

**Ritesh Poladia:** Sir but if I take receivables as a number of days only of a B2B it is in excess of three months. I do not think so that even if the insurance money is delayed for the hospitals, in any of the hospital receivables is not more than 30 days, so why such a high receivable days even for the hospitals?

**Ameera Shah:** Actually, if you look at the hospitals receivables days from the insurance sector is much higher, if you look at it as total cash and insurance together, of course, it will look lower, but if you look at the credit piece of the hospitals, you will find a closer to 90. The second thing is we are also done obviously PPP in the last year, which was institutional government business, which also added to some increase in receivables. The good news is that we have actually seen in Q4 this improving quite significantly. And the government receivable starting to come in much faster than earlier, but that definitely has also impacted in 2018-2018, we feel quite comfortable that in 1920 in this number of deals of receivable should come down quite well.

**Ritesh Poladia:** If you can help us what would be the government revenue and government receivable look up this?

**Ameera Shah:** Government, difficult to say the full government revenue, but approximately very small amount of revenue at this point of time. It would be probably less than 5% of our business would be government revenue, but of course the receivables piece of it was almost six-and-half, seven months initially when we started which has of course now come down, but this project was only started in 2018-2019, so therefore you are seeing the slight change increased in receivables in this year.

**Ritesh Poladia:** I have another question on your metrics which you have shown about 8.9 million patients and 19 million tests, now if say someone takes that package which is like one patient equal to 20 tests, how do you incorporate those numbers into those metric?

- Vijender Singh:** For packaging, we count this four package as one and that is what effects are number of tests per patient, but going forward we are also looking at further dissecting this panel wise or package into some kind of analytics also, so basis that analyzed probably we will be able to justify much better to answer these kind of questions, but definitely one package which constitutes almost about 10 to 20 analyze or tests within that package is actually counted as one test.
- Ritesh Poladia:** Okay, got it. That is all from my side. Thank you Sir.
- Moderator:** Thank you. The next question is from the line of Atul Mehra from Motilal Oswal Asset Management Company. Please go ahead.
- Atul Mehra:** Good morning and thanks for the opportunity. Just couple of questions, first is I do not see anything on dividend, so anything that we have in terms of dividend policy framed up?
- Tushar Karnik:** We have already declared and paid dividend in the month of February 2018-2019, I think therefore it will be reconsidered in the next financial year based on our dividend policy and it could be considered towards the end of the next financial year.
- Atul Mehra:** Got it, how much is the payout for this year in that sense?
- Tushar Karnik:** The total gross pay out was Rs.80 Crores including the dividend distribution tax.
- Atul Mehra:** Secondly just one more technical question in terms of the promoter shareholding, which is pledged, so as we understand today how much of the shareholding is still pledged and how much of it is completely free?
- Ameera Shah:** Less than 26% is now pledged, which used to be obviously 50% plus earlier as a private company, so less than 26% now it is pledged and as obviously with the lender we also have an understanding that as the market for the faith in the company and the stock comes to hopefully more realized value, the security cover will actually obviously reduce.
- Atul Mehra:** 26% of the promoter shareholding so, this is not of the company shareholding, 26% of promoter shareholding, is that right?
- Ameera Shah:** No, 26% of the company shareholding which is part of the promoter shareholding.
- Atul Mehra:** Got it, 26% of the total, so for promoter shareholding it will be more than 50% in that sense?
- Ameera Shah:** Let me come back to you on the exact numbers for that. We just make a note of your details and come back to you separately.
- Atul Mehra:** Secondly Madam in terms of the wellness initiatives for us, so given that this business could be completely additive in all forms for us for the current set of infrastructure, so what are our plans here because in terms of do we approach corporates and get this business going in a larger way or



what are our medium term plans for this business given that it is completely additive to what we do in wellness currency?

**Ameera Shah:** What we have seen that the wellness business through corporates and through insurance companies tends to be a very low margin high receivable business, which is not very interesting to us what we find more interesting is to really take the wellness directly to the patient and to really consumerize it rather than going through the corporates and insurance at this point of time, so what we have done is in the Q4 of FY2018-2019, we launched a new brand under Metropolis which we have launched in 36 cities and this is just to start we have seen a good traction from it and therefore we are quite excited about, now we have been able to really increase our wellness revenue in the next few years to come, so besides the marketing and branding spends which we are investing into it, we have also created the innovative packages and services and we are launching it all across the country.

**Atul Mehra:** Got it and anything on the online lot of wellness initiatives had driven in terms of online through lot of these websites who are health focused as well as social media etc., so any of the initiatives on that side?

**Ameera Shah:** We obviously have, we do not sell packages from our side, there is some amount of omnichannel sales that we are doing, but this is not an area that to be honestly we have focused much on the past, but this is definitely in area that we expect to focus on quite a lot in 2019-2020 as part of our wellness initiative, so therefore we are hoping that today our wellness percentage which is almost 5.5% contribution to revenue, I hope to make this much more significant in the years to come.

**Atul Mehra:** Got it, great. Thanks and wish you all the best.

**Moderator:** Thank you. The next question is from the line of Alroy Lobo from Kotak Investment. Please go ahead.

**Alroy Lobo:** Thanks a lot for taking my question. My first question is on Sri Lanka I see that you're scaling down operations in Sri Lanka, my question is what was the intent first in getting into that market and why this scale down?

**Ameera Shah:** Initially, we got into Sri Lanka in 2005, we got into that market because more on opportunistic base where there was a joint venture with the local hospital chain which gave us sort of ready revenues, we made good profits between 2005 and 2017 and the contract was actually renewed twice in the middle, we decided to end that contract and exit, not exit fully from Sri Lanka, but scale down operation, because we actually found that the market structure was not actually supporting, the strategy that we had for the future, so some of the timing in the past we went it certain markets like UAE or Sri Lanka which are actually very different markets from India. India is mostly a private market where you can go to doctors, generate prescriptions and send it, get the patient to come to your closest center or home visit and this helps us driving sort of



private market share. If you see in the country like Sri Lanka most of the business happens inside hospital and therefore the opportunity for a private pathology player outside hospital tends to be lower. Similarly if you see in the UAE for example everything is driven by insurance and receivables tends to be 120 days, 150 days where again it is all insurance driven, it is not necessarily private market driven where the patient is paying. So in terms of our future strategy, we wanted to stick more in countries which had similar dynamics in the industry as India, so we are able to replicate our model rather than going into country where we are to keep creating new business models to operate which is why has the board we took a decision to scale down operations in Sri Lanka even though that we lost a bit of profit by doing this, we felt it was a good long-term idea to stay in industries and markets where we believe that we have long-term focus and growth.

**Alroy Lobo:** The second question is on this lab-on-lease model, one of the reasons is also it is less capital intensive, but I was made to believe at least in this industry many times, the reagents, players give you the equipment literally free of charge and you just pay for the reagents, so it is anywhere low in capital intensity, why this lab-on-lease model?

**Ameera Shah:** The lab-on-lease model when we start a new lab, we have to think about two things right. One thing is the capex and you are right the capex in pathology is actually not a very significant amount for starting a stat lab for starting a small express stat lab right, so the reason is not really about going in from a capex perspective. The bigger thing in pathology is actually the operational cost, because what happens is when you go into a new market where you have to establish your brand amongst and reputation amongst doctors at that point of time, it takes to at least three to four years of operational losses before you actually start making a profit, because you have to generate business from the local trust and local prescription. So the lab-on-lease models it does not help us so much from a capex perspective, it helped us more from an opex perspective where rather than going and setting up a new Greenfield lab in a new market where we will have four years or operational losses and you have to start from scratch and you have to put capex, we felt doing a lab-on-lease model where you already have base revenue, the capex is already invested in and you can take base revenue and grew much faster from there, also having a local talent like a local pathologist with you on your side which is not only reason available actually makes much more sense and we have seen this model scale up quite well.

**Alroy Lobo:** You expect the profitability from the lab-on-lease model to be higher than your corporate profitability in three years' time as mentioned in your presentation?

**Ameera Shah:** We expect it to be similar, so the first the lab-on-lease model will possibly make a small loss or breakeven, the second year we expect to make decent EBITDA, the third year, we expected to be closed to 20% to 25% EBITDA margin. Now having said that it is not like we are doing thousands of these lab-on-lease models, we have done about 21 lab-on-lease totally, most of which was 11, 12 of them happened in 2018-2019, but these are really we have done strategic entry point into markets where traditionally Metropolis does not have a strong brand and this actually helps us as a better platform to launch from.

**Alroy Lobo:** The third is on your employee base. What is the size of your employee base? What is the size of your franchise base and can you give us some numbers on attrition on both these fronts?

**Ameera Shah:** On the franchise base, totally we have about 2400 centers at this point of time of which approximately 1550 are retail centers and balance are about what we call is pure franchise B2B centers, so that in terms of the franchise network, out of the total 2400, only 270 or 280 our owned and operated center, owned and operated by us, the rest are all third party, so therefore it creates this very asset life model. In terms of employees unlike some of our peer group will land up contracting out large number of employee base, we land up actually taking more employees on our peer role and therefore please look at the numbers in some that frame of mind, we have approximately 5000 employees at this point of time and we have given some details on the technical team also in our press meet, if you would like to report to that.

**Alroy Lobo:** What is the attrition number in your franchise network and in your employee base?

**Ameera Shah:** Attrition in healthcare usually in employee tends to be if you have seen hospitals that actually tends to be 50%, which is very, very high, in retail also it tends to be 30%, 40%, we had actually much lesser than that. I cannot quote your specific number, but I can tell you over the last three years, our attrition rate has been only decreasing and we are at a reasonably much lower than industry attrition. From a franchise network, really if you have seen most of this network expunction as Vijender mentioned has happened in the last three years, so we have gone really from having less than 200, 300 centers to having now 2400 centers all in a matter of 2.5 to 3 years, so what happens is anyway expand that network quickly initially you will see a little bit of churn in that network because either you re-land up making mistakes in choosing franchise, we do not followup policy and we therefore terminate their contract or in some cases franchisee, but that initial churn we saw in 10%, we have now seen it come down to 5%.

**Alroy Lobo:** Last question is your IL&FS investment has everything been provided for?

**Tushar Karnik:** We have taken about 30% of the hit towards the diminution in the value of the assets.

**Ameera Shah:** This is as per banker's intention.

**Alroy Lobo:** Thank you.

**Moderator:** Thank you. The next question is from the line of Aadesh Mehta from Ambit Capital. Please go ahead.

**Aadesh Mehta:** If you could define this super specialty tests and specialized tests, which branch, they belong to?

**Vijender Singh:** We have broadly three categories. One is specialised, second is semi-specialized and third is routine. Specialized is more of multispecialty including neurology, including oncology then gastroenterology, so these are some key specialties wherein lot more samples come in this

specialized category then there is semi-specialized category which is basically immunoassay which is like thyroid kind of test which has come down the commodity and these fall in the category of semi-specialized and rest is routine which is basic stat test to the extent of kidney, lipid, etc., etc.

**Aadesh Mehta:** That helps Sir. Thank you.

**Moderator:** Thank you. The next question is from the line of Vinod Makadia an Individual Investor. Please go ahead.

**Vinod Makadia:** I have two questions. Number one, is there any plan in the long term to bring down the pledging?

**Ameera Shah:** Definitely, I think the goal at this point of time as a promoter I am not able to create any securities as a lock in for one year, but post the lock in, there is every intention to actually pay down for the debt and reduce the pledge hopefully into much, much lesser.

**Vinod Makadia:** Thank you and the second question is I missed that part what is the share of organized players in India right now?

**Ameera Shah:** There is really know concrete data available, but there are only estimates available. The estimates is about 10% to 15% of the share through organized players and the balance is unorganized, so therefore the opportunity to really consolidate as I mentioned earlier and really grow the organized section is actually huge.

**Vinod Makadia:** Madam my last question is that there are no annual reports uploaded on your investor relations link on the website, so how do we access the annual reports of past years?

**Ameera Shah:** For past years?

**Vinod Makadia:** Yes.

**Tushar Karnik:** We will look into this, those we have uploaded for your reference.

**Vinod Makadia:** Thank you Madam.

**Moderator:** Thank you. The next question is from the line of Kunal Goyal from Ampersand Capital. Please go ahead. As there is no reply from the current participant we move to the next question, which is from the line of Apurva Mehta from, AM Investments. Please go ahead.

**Apurva Mehta:** Madam, can you just broadly tell us what will be our old laboratory growth network going forward and how helpful it is to scale up the revenue from that?

**Ameera Shah:** When you say old laboratory network, you mean centers?

**Apurva Mehta:** Because this year it is from 106, it is now 119, so is it that we would like to go that and the service network go together or how does it work actually?

**Ameera Shah:** I will just give you a little broad understanding on how the model works. The model is the hub-and-spoke model. If you actually see even if you take 106 labs that we had earlier, out of this 106 labs there is only one which is called global reference lab which does the entire 4000 varieties of tests which is based out of Mumbai, close to BKC then we have about 12 regional reference laboratory which do about 500 to 600 varieties of tests which are in major metros like Delhi, Kolkata, Bengaluru, Chennai etc., so rest of them are what we called as stat lab, stat or express lab, these are much smaller 1500 square feet, 700 to 1500 square feet kind of laboratories which are only doing anything from 20 tests to 150 varieties of tests then you have collection centers where you only collect the sample. So the hub-and-spoke model is let us assuming the patient walks into collection center it then goes to the closest lab where the top 150 varieties of tests are done and from there it goes to the regional reference or the global reference lab depending on what additional tests are required from that patient sample. So as we are moving forward and even if you look at the last three years, you would have seen on network expansion of centers grow from 300 to 2400, but our lab network has only grown by 1.3x while center network has grown by 5.5x, so this is what we are expecting going forward as well, that the center network will keep growing exponentially and the lab network will grow incrementally, now one thing which is interesting to know at even from 106 labs to 119 labs, the difference of these 15, 11 of these has come through the lab on lease model, we have actually only invested in four new labs from our own capital resources.

**Apurva Mehta:** In that case, service network, which is going at last year it was 40%, which was on the third party so how, is the growth related to this addition of third party?

**Vijender Singh:** Since the first point is that that this network has been opened in the last three years wherein 80% of the network in the last two year old, now within that if we feel just to give you some data point, this network of collections centre contributes for almost about 10% of the revenues now and this is one of the fastest growing network. Now as Ameera mentioned that our lab network has not grown to the extent with third party centers which is 5.5x whereas in lab it has grown by 1.3x it means that that we have capacity at the backend only what we have to do is to expand our reach which is closer to patient and customers so to get maximum traction into these centers and bring cooling all these samples to our labs, so in a way it is going to be much more beneficial in long-term, because our capacity utilization still at 60% or 70%, so still lot more scope is there.

**Ameera Shah:** Just to add to that you know the average majority of the collection center is actually about four to five years, so it is only after four to five years of starting the center that gets to a point of peak revenue and peak growth, so from a simple perspective we should think that over 40% is the network growth, we should see 40% revenue, but that takes time for it to become fully productive, so that is why this exponential build up of network in the last two-and-a-half years is actually creating a nice runway of growth for the next few years for us.

**Apurva Mehta:** About the margin expansion over the period, can we see some margin expansion because of your network is growing, service network is growing up, so your cost will come down and so what kind of margin expansion we can see over the next two, three years over the period of time?

**Ameera Shah:** If you see the B2C part of the business, we will definitely create some operating leverage, but if you look at our strategy even in the annual presentation if I can just take you through slide 4, where we have talked about three pillars of our strategy, one is the organic growth B2C and B2B and like you rightly said the B2C we will create operating leverage, the second is acquisition and the third pillar is the new avenues of growth. In the new avenues of growth whether it is PPP or lab-on-lease or the patient wellness, these are new division, which will probably not give us the same equal EBITDA margin in the first year of operation. We will probably give us similar EBITDA margins in the third year of operation, so therefore over the next three years, the benefit that we will get from the operating leverage in the B2C, we will be reinvested into these new avenues of growth which is why we are saying that the margins we believe should be similar to what we are now and we are not really giving any outlook for an expansion of margins.

**Apurva Mehta:** Can we see this B2C consistently growing at from 43% to 52% over the period of time, so in next three years, this run rate will keep on what is your thought on that that we will focus on B2C more?

**Ameera Shah:** We will focus on B2C more. We had increased it from 48% to 52% recently and this will keep adding, I will ask Vijender to come and say few words on this front.

**Vijender Singh:** So basically what you were talking is not growth, it is the B2C ratio, in focus it is the B2C ratio has gone up to 52% from 48% and let us give you little bit more insight that three years back this ratio used to be close to 55%, because of this expansion what we have done in three years, this ratio has gone up 52% and this is pretty much young network and probably this will help us in maintaining our margins, so the B2C growth in focus cities is about 20% and we said that we will continue to maintain this growth from B2C point of view and as far as margins are concerned, definitely they are going to be operating leverage coming out of this network which is young but there are few initiatives which are new avenues of growth where we want to invest in so that our future growth are secure.

**Apurva Mehta:** What about any marketing spend strategy for you, Metropolis, what could be that?

**Ameera Shah:** Unlike FMCG or retail business in our industry, it is not so much A&P or brand marketing which helps us, it is actually more of generating a large technical scientific salesforce like in the pharma world, where they go to doctors, meet doctors and generate prescription. If you actually look at the marketing spend today that we show are quite small, it is about 2% to 3%, but if you combine our sales and marketing cost together is obviously much more which is actually more important for our industry.

**Apurva Mehta:** Thanks a lot and wish you all the best.

- Moderator:** Thank you very much. The next question is from the line of Ashish Thakkar from Motilal Oswal Securities Limited. Please go ahead.
- Ashish Thakkar:** Thanks again. Madam, on the third party expansion, franchise expansion, we have done a lot of expansion in the last two to three years, what has been the reason here, what is assessment here, are there a lot of dropouts here in this case, because of mismatch between what the franchises might earn in terms of revenues and the cost of operations?
- Vijender Singh:** First is, when we started this full aggressive mode in terms of expanding our third party relations initially as Ameera mentioned that there is a little bit of churn, because we are very, very conscious about our experience and quality of services even to our patients, there were certain issues, that time the churn was little high, but as we move forward, learning from experience, the churn has dropped. Now from revenue share point of view, the revenue share given offer to this franchise in the range of 25% to 30% across.
- Ashish Thakkar:** Okay, but in your experience you might have seen a lot of dropouts in the last two, three years?
- Vijender Singh:** In the last one year, there is a very minimal dropout and primarily it is because our stand on certain analytics and certain areas which are more important from quality point of view.
- Ashish Thakkar:** Okay and I presume this would be like for exclusive agreements?
- Vijender Singh:** These are all long-term exclusive agreements to sign with all of them.
- Ameera Shah:** You can turn your attention to slide 22 and 23, it talks about one of the quality assurance of the organization of Metropolis and how we land up doing a lot of audits and we have mentioned a number of audits conducted by back team. The back team is a team that actually goes to all the centers and check on the compliances, so as you can see the number of audits have gone from 665 in 2017-2018 to 1312 in 2018-2019 which means that the centers are getting audited regularly and it is only when we are finding them noncompliance, sometimes we asked them to exit the system is not willing to comply.
- Ashish Thakkar:** Thanks a lot and all the best.
- Moderator:** Thank you. The next question is from the line of Vishal Shah from Mosaic Advisors. Please go ahead.
- Vishal Shah:** Good morning. I had question on the macro segment revenue, what was the contribution of the same in FY2019 and I understand this is an additional revenue stream, so what could be the potential contract size and how it would flow through over the next few years?
- Ameera Shah:** What I can share with you at this point is that this is still a small part of our revenue in 2018-2019 would be less than 5% and we are expecting it to contribute a little bit more in 2019-2020. I

am not able to share specific numbers at this point, but we believe this contract should generate healthy return for us over the next three years.

**Vishal Shah:** You mentioned that the receivable days on this part of the contract is currently higher and you expect it to come down going forward, but in terms of profitability, how would it compare to the company average margins?

**Ameera Shah:** Again where the macro contractors structured usually more PPPs are structured is that in the first year we have not made any significant margin, because we had to put in all the fixed cost, but the volumes were lower. In the second year, we are expecting the volumes to increase quite dramatically and the third year to be even higher and after that it will increase, so therefore we expect if you look at it from a three to five year period, we believe that this will generate very comfortable EBITDA inline with similar to our company's margin.

**Vishal Shah:** Thanks a lot.

**Moderator:** Thank you. The next question is from the line of Aadesh Mehta from Ambit Capital. Please go ahead.

**Aadesh Mehta:** How much percentage of our revenues would be coming from those tests mentioned in the essential diagnostic list?

**Ameera Shah:** The essential diagnostic list is a list created by WHO for all countries across the world for government saying that citizens of our country should have access to these diagnostics in different countries. The essential diagnostic list is not a list which is meant for any sort of price capping or anything of the sort yet, so therefore this is not something which has come to the attention of the private sector to start for calculating as to what percentage of revenue it is, I do not have ready answer for you, but just to clarify the EDL is only about the government providing access to citizens, it is not really about any price capping.

**Aadesh Mehta:** Thank you Madam.

**Moderator:** Thank you. As there are no further questions, I would now like to hand the conference over to the management for closing comments.

**Ameera Shah:** Thank you everybody for joining us for the first earnings call. As we mentioned we have been very pleased to the results for FY2018-2019 and we are even more excited for 2019-2020. Like I said we hope to create value for all stakeholders and Metropolis as an organization while of course commercial success and financial success is an extremely important, we tried ourselves on really maintaining quality being differentiators in the industry, thought leaders and taking care of our patients health. Thank you for joining all of us in this journey.



*Metropolis*  
*May 14, 2019*

**Moderator:** Thank you very much. Ladies and gentlemen on behalf of Kotak Securities Limited that concludes this conference. Thank you for joining us. You may now disconnect your lines.