



# “Metropolis Healthcare Limited Q3 FY-20 Earnings Conference Call”

**February 7, 2020**



**MANAGEMENT: MS. AMEERA SHAH - MANAGING DIRECTOR,  
METROPOLIS HEALTHCARE LIMITED  
MR. VIJENDER SINGH - CHIEF EXECUTIVE OFFICER,  
METROPOLIS HEALTHCARE LIMITED  
MR. RAKESH AGARWAL - CHIEF FINANCIAL OFFICER,  
METROPOLIS HEALTHCARE LIMITED**

**Moderator:** Ladies and gentlemen, good day and welcome to the Metropolis Healthcare Limited Q3 FY20 Earnings Conference Call.

This conference call may contain forward-looking statements about the company which are based on the believes, opinions and expectations of the company as on date of this call. These statements are not the guarantees of future performance and involves risks and uncertainties that are difficult to predict.

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 Ms. Ameera Shah - Managing Director, Metropolis Healthcare Limited. Thank you and over to you.

**Ameera Shah:** Thank you and good afternoon everyone. Thanks for joining us for the Q3 FY20 Earnings Call. I am joined today by Mr. Vijender Singh - CEO; Rakesh Agarwal - CFO and SGA our IR Advisors.

The presentation and press release has been issued to the stock exchanges and uploaded on our company website. I hope everyone had a chance to look at our performance. Let me just give you a perspective on our strategy before I ask Vijender to give you details on our operational and financial performance.

The business momentum continues to be strong. We are happy to report industry leading growth on all parameters. In Q3 we record a revenue growth of 17% on YoY basis and 16.1% on 9 months FY20 basis. The reported PAT a growth of 34.1% growth for Q3 and 26.2% growth for 9 months. The board of directors have also approved a dividend payout of Rs. 8 per equity share totaling to a dividend payout of Rs. 48 crores including DDT.

I would like to cover the following in my opening remarks about market strategy, technology initiatives, acquisition strategy and people initiative. To begin, we are talking about our market strategy at Metropolis it is our strong belief that we need to widen the competitive gap created by us over the years and cement our leadership position. And one of the main pillars to drive this is a widespread reach and trust of our brand with medical fraternity along with best in class **test menu**.

Once our credentials with doctors, who are the most important influencer and guide for the patient, is strongly established then the consistency of our performance and test results leads us to continues the uptick in volumes. To further strengthen this key relationship in Q3 FY20, we conducted 12 CMEs, 8 multispecialty national conferences and 10 round table meetings with maximum participation from practicing well known clinicians.

Number of clinicians reach out for this initiative was 1,882. This of course is separate from what we do with our sales team. Our strategy is also to deeply focus on increasing the B2C share of our revenue especially in the focused city portfolio of Metropolis. Here is where we continue to witness a strong brand recall with medical fraternity and end customer.

This is evident in our performance wherein we have reported 16.3% increase in B2C revenues in focused city. We believe that across our focused cities even with leadership position, our market share is only 10% to 15% and with the increasing level of customer initiatives, higher penetration of our patient and lab network, we are confident of improvement in market share in the time to come.

We believe there is a long runway of growth for the next few years. Considering the large opportunity at hand we have continued to invest and create our patient and lab network, build technology improvement to increase efficiency and create a talent pool ready to address the growth. This has led to over investments in the initial phase which will continue for few more quarters however, we remain confident that the same will be invested via our existing profits and accruals and will enable a stable margin profile going forward.

Let me now talk about our technology initiatives. Technology is a very key focus area for us. We believe it is important to drive change and increase efficiency along with improving customer experience and convenience. These initiatives are as follows.

A registration and invoicing system roll out is currently in progress, this will replace our current point of sale software and makes it far more efficient in the way we are operating with better analytics and visibility. We target to complete the roll out across locations by April 2020. A financial module "Oracle NetSuite" has been identified and implementation process has been initiated. This will help us build better financial controls and get more visibility around our financial system. Target to go live is July 2020.

A new inventory management software has been identified and onboarding process has been initiated. This will help us in having better controls on our inventory and giving us real time consumption analysis which will help us become more effective and efficient with our material costs.

A payment platform implementation has been initiated. This will be implemented along with the registration and invoicing system and allow Metropolis to take payments in all modes available in the market. This will also help in getting better control on payment receipt position.

A new patient app has been rolled out for Android users. We have even included some pictures of it in our presentation that has been uploaded. For iOS users, app will be rolled out in the current month. This will help the patient track their medical history, book test via the app, book appointments for home collection thus catering us to a wide reach of people for the brand at Metropolis.

The app has many inbuilt trackers, not only limited to pathology, like medication track, inner health tracking, notification center, nearby doctor clinics, hospitals and Metropolis lab centers and other health information.

The app will also enable us to use data analytics to provide better representation of medical report better than what we see in the industry giving average amount of patient data. We have completed in-house security risk assessment and all the risks identified have been plugged. This will also bring operational efficiency.

I will now spend a few minutes on our acquisition strategy and recent action. At Metropolis our acquisition strategy revolve around two different models. One, focus on model is about strengthening our leadership position in the market we are already present in and leaders in. Because of this we acquired four frontend labs in Surat in October 2019. This will help us to expand our market share in Surat and allow us to build synergy and efficiency at the backend and expand the consumer franchise on the front end.

The second model for acquisition is entering new geographies via a strong B2C brand. As part of this strategy we have entered into a binding agreement to acquire 51% equity stake in Ahmadabad based Shraddha Diagnostics. Today we have a small presence in Ahmadabad and believe that by partnering with this company, there is good platform for us to leverage the experience of an incumbent and combine our best strategy and test menu to create a compelling proposition for the customer and strengthen the Metropolis brand in Ahmadabad.

This will give us one more B2C market to be able to focus on and really scale up our B2C presence. On the broader front at Metropolis we have completed 23 acquisitions so far and have had great success in organically growing the businesses. Because most of these acquisitions when we acquired were very small and today the size we are at 90% it has been build organically.

All the acquisitions have added tremendous value to our go to market strategy and have not been a drag on our balance sheet and profitability. In fact we have made a good ROI on our acquisitions. We believe the Indian market offers lot of opportunities for national strong brands and at Metropolis will continue to evaluate acquisitions small and large to further increase the quality of our business and push the envelope of growth.

On the people front, we continue to work on improving the productivity and efficiency of our people who are the most important asset in our business. We have also launched a number of key initiatives on the manpower front to develop talent and measure performance and we expect the benefits of this to accrue over the next few years. We at Metropolis strongly believe the growth opportunities are plenty for a focused player like us and these are the following.

A long runway of growth with 82% of our franchise network is young. Continuous efforts to grow the throughput will lead to medium term growth and moving these centers to the matured center category.

Number 2, increasing our market share in focused cities through network expansion and improving productivity per center.

Number 3, continue to grow our business in North and East aggressively using the additional new capacity created in the Delhi lab and by expanding our network to smaller towns in North and East India. These regions are already growing at double the pace of rest of Indian markets but showed lesser growth in Q3 on account of seasonality.

Number 4, scientific up selling, we will leverage our vast capabilities in molecular diagnostics, oncology, cytogenetic where there will be less competition and higher gross margins. due to advanced technology skill manpower and complex processes involved.

And number 5, preventive and wellness services. This is a growing area focus for us. We are targeting healthy individuals with sedentary lifestyles that are prone to diseases like diabetes and cardiovascular and focus on preventive care direct to consumer services will drive growth.

We are rightly placed to make Metropolis brand to be the only choice of patients.

I would now like to handover to Vijender to take you through some of the operational parameters.

**Vijender Singh:**

Thank you, Ameera and good evening everyone. Let me give you a perspective on our operational parameters. Our revenue diversification strategy on back of asset like model and strong test menu has been playing well out for us. Focus City's contribution has moved from 59% in FY19 to 55% in 9 months FY20. On back of increased contribution from seeding and other cities. Seeding cities has remained constant at 21%. Other city's contribution has moved from 22% in FY19 to 27% in 9 months FY20 thus growing at a faster pace. We have a great opportunity on hand to increase market share in focused cities especially through the B2C route and combination of our new network expansion along with improving revenue per center which will drive market share gain for us.

Moving on to revenue mix, we are pleased to share that we continuously growing on the B2C part of our business. Our B2C revenue in focused cities in 9 months FY20 was up by 16.3% on year on basis from Rs. 172 crores in 9 months FY19 to Rs. 200 crores in 9 months FY20. In focused cities B2C revenue share stood at 55% as compared to 52% in 9 months FY19.

The B2C revenue uptick has been growing steadily on account of

- Aggressive network expansion to go closer to patient.
- Integrated brand building campaigns to establish Metropolis as a trusted brand in the mind of consumer and the doctor.
- Building awareness among doctors for quality and service differentiators of Metropolis versus unorganized sectors.

- Obsessively monitoring the customer experience in generating a net promoter's score of 91 across the group.

Our upcoming segment that is wellness has shown strong growth at 60% on year on basis. This segment now contributes 7.9% to overall revenues in Q3 FY20.

Little bit on network highlights.

- Our laboratory network saw an addition of only one lab which was on lab on lease model, being asset light in nature. Overall at end of 9 months FY20 our network count stood at 125 as compared to 119 at the end of FY19. Our focus will be to increase the throughput at our labs which will not only give us revenue uptick but better utilization levels leading to operating leverage and margin increase.
- Our patient service network stands at 2,781 at the end of December 2019 compared to 2712 at the end of Q2 and 2336 at the end of FY19. Third party PSC comprised of 1,898 centers, ARC comprise of 263 centers while own PSC's comprise of 260 centers.
- Our service network is fairly young with an average maturity of 5 years. The 82% young network is expected to grow and contributes significantly going ahead leading to operating leverage and increase in profitability.~91% of center network and ~17% of lab network is in asset light in nature.

Little bit on patient metrics. We continue to deliver robust performance on patient metrics.

In Q3 FY20 number of patient visits stood at 2.42 million, a growth of 14.2% Year-on-Year. On 9 months FY20 basis the growth has been 15.5% Year-on-Year to 7.34 Million. Number of test in quarter 3 FY20 stood at 4.78 Million, a growth of 17.5% Year-on-Year. On 9 months FY20 basis the growth was 19.3% Year-on-Year to 14.29 Million. Revenue per patient in quarter 3 FY20 stood at Rs. 923 which was 2.7% higher on Year-on-Year basis. Revenue per test stood in quarter 3 FY20 remains stable at Rs. 466. While on 9 months FY20 this has stood at Rs. 454 versus Rs. 447 in FY19. A total of 19 new tests, 7 in chemistry, 11 in molecular pathology and 1 in infectious molecular have been validated and added to the test menu in quarter 3 FY20.

Thus expanding our capabilities to conduct more specialized tests. We strongly believe pathology test is our biggest forte and we will continue to spent on R&D and clinical talent to increase our test menu.

Let me now give you highlights of a few awards and accolades that we won in quarter 3 FY20.

- Metropolis won the award for best IT practices at Data Center Submit 2019.

- We won the best logistics network optimization and best use of technology in logistics awards announced at 5th Asian Supply Chain Thought Leadership Summit and awards in Mumbai.
- We won the patient experience team of the year award at PEXA Awards 2019 in Delhi.
- Metropolis won a special mention as the Best Performance Driven Digital Campaign Award at InkSpell Drivers of Digital Awards 2019. Metropolis bagged Excellence in Logistics' Award at CII SCALE Awards 2019.
- Supply Chain and Logistics Excellence Awards are organized by CII.

Besides these awards we are happy to share that our Chairman Dr. Sushil Shah won the Lifetime Achievement Award at South Asia Pacific Healthcare Summit and Business Awards 2019 for his immense contribution to the diagnostics industry.

Further our MD Ms. Ameera Shah won the best woman entrepreneur of the year in Healthcare Sector Awards at ASSOCHAM Women Leadership & Empowerment Summit & Awards for her outstanding leadership and achievements in the diagnostic industry. These awards are testimony to our continuous efforts on ensuring consistent quality of delivery and high customer satisfaction and that is the DNA and foundation of Metropolis brand.

That is all from my side. Now I will ask Rakesh to take you through the financials.

**Rakesh Agarwal:**

Thank you, Vijender. Good afternoon to everyone on the call. Let me give you some highlights for the financial performance. Our consolidated revenue grew 17% from Rs. 190.4 crores in Q3 FY19 to Rs. 222.8 crores in Q3 FY20. In 9 months FY20 consolidated revenue grew by 16.1% from Rs. 559.3 crores in 9 months FY19 to Rs. 649.4 crores in 9 months FY20.

Our reported EBITDA for Q3 FY20 stood at Rs. 62.8 crores registering a growth of 22.8% on Y-on-Y basis. Accordingly the margin stood at 28.2% for Q3 FY20. In 9 months FY20, the reported EBITDA stood at Rs. 180.4 crores registering a growth of 21.8% with a margin of 27.8%.

- The EBITDA margin could have been higher by 0.6% if we excluded the lab on lease for 9 months FY20.
- The lab on lease contract existing in Q3 FY19, 12 in number have moved from 14.6% EBITDA to 17.4% EBITDA margin in Q3 FY20.
- The new lab on lease contract started post Q3 FY19, 9 in number have diluted the total lab on lease EBITDA to 0.2% which was as expected.

Certain leased hold assets to the tune of Rs. 50 lakhs were written off during the period on account of shifting of Delhi lab. This alone has impacted the EBITDA by around 1%. Q3 FY20 PAT is Rs. 42 crores as against Rs. 31.3 crores in Q3 FY19 resulting a growth of 34.1%. Reported PAT margin for the quarter stood at 18.9%.

Nine months FY20 PAT is Rs. 112.1 crores as against Rs. 88.8 crores in 9 months FY19, resulting a growth of 26.2%. Nine months FY20 EPS stood at Rs. 22.29 per equity share. As at 31 December 2019, we had cash and cash equivalent to the tune of Rs. 167 crores. The board of directors have recommended an interim dividend. This amounts to Rs. 8 per equity share. Including DDT the dividend payout is Rs. 48 crores.

That is it from our side. We now leave the floor open for questions.

**Moderator:** Thank you very much, sir. Ladies and gentlemen, we will now begin the question-and-answer session. We have the first question from the line of Chandramouli from Goldman Sachs. Please go ahead.

**Chandramouli:** First question is on the realization per patient number. I can see it has grown about 3% Year-on-Year. Just trying to understand how much of this is due to test mix and how much is the price increase that we took on the B2C tests in October?

**Vijender Singh:** See the price increase in October we took on certain tests in specific markets, the contribution of price increase is about 3% which is definitely helped a little bit towards the increase in revenue per patient. And of course the wellness piece has also gone up to 8%. So these two are the prime reasons of contribution in terms of increase in revenue per patient.

**Chandramouli:** Second question is on the competitive environment, so I think a couple of months back there has been news that Reliance Life Sciences is looking in to enter the diagnostic space. Anything that you are picking up from your conversations with the industry participants and suppliers and does this news have any strategic level thoughts the way you are approaching, your strategy going forward?

**Ameera Shah:** Look I think we will always obviously find new competitors coming into the markets. Whether the news on Reliance Life Sciences is true or not, I think we should wait for Reliance Life Sciences to really confirm or Reliance Industries to really confirm. I think after that news came out a couple of months ago. At least from what we are aware there has been no such confirmation from the house of Reliance one way or the other. So we would at this point leave it at here till there is a confirmation.

Otherwise there has been news also of one or two other new entrants coming into the market. I think from 2010. We have seen lot of new competitors in the market but what we have seen is that eight new competitors have come in between 2010 and 2018. Most of them actually have found it very challenging to build a strong healthcare brand on trust and respect even if some of them have been from the healthcare world because in healthcare we find that everything is not translatable where if you are in hospital it does not mean you will be successful in pathology and vice versa.



Our patients are quite focused on going to specialists in each area and that takes a long time to build that reputation. So we feel quite comfortable that we welcome more and more competitors in to the industry. We feel quite comfortable that we are sitting on a solid brand franchise and with a lot of focus on consumer experience test menu and talent all of which is going to be difficult to replicate.

**Chandramouli:** And the last question on the NACO contract. So I think we are close to 24 months in to the contract this February. Could you just give us some color on how the margin on this contract is progressing, well it would be your corporate margins and I understand this is the three year contract. So is there any thoughts on the renewal process and what you are seeing on the receivable side?

**Ameera Shah:** So we cannot comment too much about the tenure of the contract because we are under confidentiality. But as far as the margins go we feel very comfortable with where the margins are and this contract has been profitable for us.

**Chandramouli:** And just lastly, congratulations to Rakesh. Look forward to working with you.

**Moderator:** Thank you, sir. We have the next question from the line of Sudarshan Padmanabhan from Sundaram Mutual Fund. Please go ahead.

**Sudarshan Padmanabhan:** Ma'am, my question is on this realization per patient. Just taking it from the previous participant. Mean historically and consistently we have been able to grow this by 8% CAGR. As you said a part of it is direct price hike and lot of it is also the mix. I am trying to understand how sustainable is it and what is the kind of growth which one can continue in terms of primarily through the mix part of it?

**Vijender Singh:** So if you look at our strategy, our strategy says that we want to actually focus on retail and that is what the strategy has been working for us very well and as the retail contribution goes up probably today it is almost about 44% at group level, this probably will go up. In focus cities the revenue ratio is about 55% from B2C. So our intention is to take it up to 65% over a period of time. So as this ratio goes up revenue per patient will also go up because our retail contribution of revenue per patient is high as compared to B2B.

**Sudarshan Padmanabhan:** And what would be the differential if I can understand?

**Vijender Singh:** Differential would be close to about 25%.

**Sudarshan Padmanabhan:** And the second one is, if I look at the volume growth which has also been quite encouraging for us in the past growing by about 9% to 10%. Can you give some color on how much has been organic, how much has been inorganic and I also understand that when you acquire something new you initially see some kind of a slow down and then it picks up. So on a normalized level what is the kind of volumes that one can expect from your side?

**Vijender Singh:** See in our portfolio if you look at our three categories of cities which we talk about focus cities, seeding cities and other cities. If you look at other cities, the other cities category has been growing much faster than the other two categories and hence the volume growth is coming primarily from other cities. But over a period of time definitely since our expansion is going to be through third party and what we have seen is that ARC network is actually helping us a lot in terms of our volume growth. So this probably we see a sustainable model and I think that probably if you compare with competition or may be unorganized sectors where the volume growth is sub 10%. In our case 14%, 15% through these initiatives is probably sustainable.

**Sudarshan Padmanabhan:** And one final question is on the industry per se. If one is looking at the last few years it is basically been that very small contribution from the organic players and still the unorganized players being very high. If you can give some color on what is the kind of initiatives which the government should do and what can be the trigger for organized players becoming bigger and also benefitting the end patient by better quality to that extent?

**Ameera Shah:** There are two definite catalysts which we believe will really trigger the industry and make it into moving in a far more organized traction which is; one is like you rightly said, the regulatory framework by the government. If they were to put a policy framework talking about minimum standards, minimum talent required, qualifications, a space, machines etcetera we believe that out of the 100,000 labs in the country a very large number of them probably 90% odd would be under threat for survival to meet the compliances of these regulations.

In absence of these regulations of course most of the labs continue to thrive and flourish. Unfortunately sometimes not based on the best practices and that is actually the biggest challenge to the organization of the industry going at a faster pace. The second catalyst possibly is health insurance becoming a larger part of our industry. Patients have to pay everything out of pocket and what this means is that the doctor sometimes will recommend lesser tests than the patient require, less of specialized test than patient require because of affordability challenges.

As health insurance cover the diagnostics in the future, we will find that the volume of testing done will drastically increase and the amount of specialized tests recommended will also increase as it is needed for the patient. So this will be a second catalyst that will actually drive more volumes towards the larger players who are institutional players, have IT systems, have brands across the markets and usually we have seen across the world the leaders tend to be the biggest winners as health insurance cover diagnostics. The third thing that of course is happening is the consumers themselves is changing and it is becoming more aspirational and wanting to actually go to a brand that they trust.

There is also some incremental movement happening from unorganized to organized because of this, but the transformational movements will happen because of number one and two which is the government regulatory framework and insurance versus third which is more incremental. We are hopeful that in the next five years what is today a 15% market share of the organized players hopefully will become 25%, 30% if some of these initiatives come in place.

**Moderator:** Thank you. We have the next question from the line of Aditya Khemka from DSP Mutual Fund. Please go ahead.

**Aditya Khemka:** Two quick questions. Firstly, on the regulation side so we have had this NLEDT being formulated in India and probably the only country in the world to have a National List of Essential Diagnostic Tests. Any flavor that you have gotten from the government you being a majority shareholder in the industry, any flavor you have got from the government at this or feedback from government or your inputs on what is the list all about and how are they approaching it?

**Ameera Shah:** So National the diagnostic essential list is basically a list which has been adopted from the WHO which is not specific for India, it is World Health Organization (WHO), who has recommended that the right to health for any human being across the planet includes not only certain drugs but mostly includes also certain access to certain diagnostics and test segment. So, India is one of the countries have created its own list from the recommended list of WHO to say that look all Indian will have access to these diagnostics. whether they can afford it or not. Now the government unlike pharma world, where the government does not manufacture any medicine and therefore they chose to put price caps on certain medicines which are lifesaving. It is very different for diagnostics where actually government provides diagnostics facilities in all the government hospitals and districts on their own and therefore any price cap is more applicable to government facilities providing these tests for patients as a benefit for being an Indian citizen.

It is not something today that has been discussed with private sector to either provide fee subsidized or in terms of any sort of price capping at this point of time. And there does not seem to be any intention either from whatever conversations we have had.

**Aditya Khemka:** So just for my knowledge, Is India the only country in the world to have adopted this list or are there other countries in the world which have also adopted the list?

**Ameera Shah:** I do not have an accurate answer to that. So I do not want to just guess but my sense would be we would definitely not be the only who adopted the WHO list. So, I am sure there are many other countries who must have adopted the same.

**Aditya Khemka:** And just again for my information. Do these government hospitals facilities have enough diagnostic abilities to conduct 600, 700 diagnostic tests that are listed there?

**Ameera Shah:** I think the number of tests listed in NLEDT is about 130 or 140 if I am not mistaken and the government facilities have the provisions to provide all.

**Aditya Khemka:** But as of now they were charging for this tests and what the NLEDT is trying to envisages to provide it free of cost, is that the focus?

**Ameera Shah:** Actually even today if you are a poor person who is below the poverty line you can go to a government hospital and get these tests done free of cost. So I think the idea was only to put some structure around it because earlier what was happening is that a doctor let us say recommended free test to a poor patient they can go to a government facility and get the test done.

Now what they are saying is it is about 130 odd tests which all Indians have a right to access rather the government facilities. And hopefully if the doctor writing a prescription it is all available. It is actually they are just putting a structure around may be what they were already doing and scaling it up.

**Aditya Khemka:** Second question on the government side only is the Ayushman Bharat initiative. So government has tried to sort of rope in a lot of complicated procedures within the Ayushman Bharat package and yet from what I understand the normal diagnostic capabilities at these government hospitals have the diagnosis of such complex procedures may not be available at the public facilities. So are you seeing any volume traction on that front and how are you negotiating prices for such patients with the government?

**Ameera Shah:** So to be honest it has not reach that stage yet. Government hospitals traditionally even before Ayushman Bharat has been outsourcing some specialized to people like lab, like us are capable of providing them. In some cases government patients would just walk outside the hospitals and come to centers and in some cases the government hospital would directly do a tie up and sent it to labs like us.

Today I do not think with Ayushman Bharat we have seen any large traction in volume because so far the procedures that are covered have into the diagnostic facilities are already there within these hospitals. So whether that will increase in the future or not the specialized tests is difficult to anticipate.

**Aditya Khemka:** And just in terms of your own revenue mix and your own growth metrics, you have presence across the urban and non-urban India the way I see your map on the presentation. So which of the two sort of urban and non-urban are you seeing growing faster and what would be your primary focus amongst the two halves?

**Vijender Singh:** See if you look at again, I just mentioned that our other cities category which is primarily tier 2 and tier 3 towns is growing much faster and that is driving volume for us whereas the focus cities and seeding cities are driving revenue for us. So, this other cities probably will continue to grow for us as we expand in this category. Hence tier 2 and tier 3 seems to be more growing at volume front. So, the strategy would be to grow volume in other cities category.

**Moderator:** Thank you, sir. We have the next question from the line of Anmol Ganjoo from JM Financial. Please go ahead.

**Anmol Ganjoo:**

Ameera, as an industry leader when you try to analyze your vulnerabilities to the model and analyze the risk of disruption, what is it that you worry about the most? Is it large balance sheet sized players names irrespective trying to growth market share unprofitably and if yes, how much of more we have, is it technology disruption some of the platforms being able to drive greater volumes and therefore incumbents having to catch up with them?

Just your big picture thoughts in terms of what are the disruptive trends that you see people trying to take market share and what are the modes of incumbents like yourself to protect?

**Ameera Shah:**

Look I think what we have seen happening across the world is that centralization has moved really to the centralization in all industries. Even if you look at retail, the more personalization, the more customization and decentralization that is happening,. Fortunately Metropolis has never really followed a centralized model. We have always followed a decentralized model that is closer to the patient. And we believe that is one of the biggest move protecting us because the kind of business that we have built has been very personal relationship driven and very specific to that particular consumer locally.

So it is not have been a factory model, it has been a very customized personalized model and we believe that that is what people enjoy about the experience that Metropolis whether it is a doctor or a consumer and continues to hold our brand in good stead and allows us therefore also to increase our prices every couple of years' at inflationary levels which not everybody else in the industry is able to do.

I see the few companies that are coming in for example, we have seen aggregators come in, we have seen some E-Pharmacy, online pharmacy companies that come in and these guys do have capital that they have to burn. The challenge with that always is that in the short run companies which are well funded may land up burning a lot of capital to do acquisition of customers.

Of course we have seen that not necessarily those customers land up lasting long term but in the short run it may create some disruption. Some of these pharmacy companies have obviously gotten into diagnostics services as well. Some of them are providing services white label, some of them are partnering with other companies. But I believe this could be a slightly disruptive factor in a short term where specifically in the wellness category and specifically in the chronic patient category we may see some switch over from a value perspective because that is the only advantage that these companies are able to offer at this point of time.

On the illness business, which is very strongly protected by your trust and respect that you have earned with the doctor and with the patient I do not see too much of a movement because it takes a long time to win the trust of a doctor and I do not think these companies at this point are attempting to do that. They are doing B2C which is direct to consumer.

So that is one potential threat that I see. We are on our side, like I said continuing to build very strong relationships with doctors and patients. From the other side we believe that we need to

build a very robust digital plan and strategy to go out and really build an omnichannel business which is not only brick and mortar but also online and while we have put little bit of energy in this, in just the last few months we feel we are still very early in this and there is a lot of potential to what we can do. So I think the next year is going to be a lot about that.

**Anmol Ganjoo:**

My second question is around core markets. From some of your peers we have heard commentary to the effect saying that growth in four markets where you attain a critical market share seems to be slowing down and there seems to be a challenge growing the businesses faster than the underlying market at least in the dominant geographies.

Are you facing any such challenges in your strength areas or strength geographies? And if yes, what do you think is the critical market share number beyond which it becomes kind of difficult for a dominant player to increase market share?

**Vijender Singh:**

See in our case we have identified five focus cities and what we have said that we have go closer to patient in a way our maximum expansion has happened in these areas. And 90% of our third party centers are pretty new which are young in network. And at least maturity level it takes about 5 years. So we do not see that as a threat. In the near future they have definitely, because still the focus is to ensure that the revenue per center also grows in these markets. And secondly, the whole objective is to grow our market share and if you look at Bombay and these four, five cities our market share is about 10% to 15%.

So there is still lot more headroom in order to at least gain that market share through these initiatives. And that is what our strategy is to grow our B2C ratio in these markets through network expansion. So the network is pretty young so still we expect that the growth would come from these cities at least on the B2C side.

**Anmol Ganjoo:**

And last is one clarification on the opening remark. You spoke about a margin impact of around 0.6% on account of lab on lease model 14.6% going to 17.4%. Could you just explain what this means in terms of the margin prognosis from next year?

**Ameera Shah:**

See as we see, the lab on lease numbers if you see the ones which we had actually done earlier last year we have seen them actually progress and increase their EBITDA margins. So one which was the existing lab on lease, 12 in number from Q3FY19 have moved from 14.6% to 17.4%. So we are seeing a progression on EBITDA margins in lab on lease as expected. So I do not think there is any worry there but of course the new lab on lease, the 17.4% EBITDA margin is lower than our corporate margin of 27% something to 28% this quarter.

So obviously therefore it will dilute marginally which is what it has done and diluted by 0.6%. The new lab on lease contracts which have started obviously will take a little bit longer to mature. But overall this is in as per our track and our plan. I do not think there is any deviation from what we were expecting.

- Moderator:** Thank you. We have the next question from the line of Sayantan Maji from Credit Suisse. Please go ahead.
- Anubhav:** This is Anubhav here. My first question is I just want to get a very broad idea on margins for the two segments we have. One is wellness and second is the third party centers. When we compare the margins for this two segments, whatever higher there are corporate average are lower?
- Vijender Singh:** Third party again it is all on revenue share and as I said that it is going to take about 5 years to reach that maturity. But the whole objective is not to look at the margin at this stage, the whole objective is to look at our B2C ratio, revenue per center and in a way over a period of time definitely this is going to add to our margins surely because still that network is young.
- Anubhav:** But sir, one clarity, the network is young then how does it matter right? The cost is borne by the third party, right, so we have a certain processing cost and we have a certain ASP that we get. So our margins now versus let us say even 5 years down the line how would that be different for this business?
- Vijender Singh:** See again it is on revenue share. First is revenue share. It does not mean that there is no cost on our head because logistics services we are providing. We are also providing consumables. So these also affect the margin and somehow, it dilute to some extent. So once the center reaches to an optimal level of let us say for example 1.5 lakhs to 2 lakhs then probably you can say that now the margin is at par with the company's margin levels.
- Anubhav:** But what about wellness?
- Vijender Singh:** Yes, wellness again is a strategy where the whole objective is to tap the latent potential because this market seems to grow at 25% to 30% wherein our case it is growing at 60% as of now. But the whole objective is to tap that market and as this wellness goes up, it is going to add lot of volume in terms of test wise and hence bring lot of leverage in terms of economies of scale.
- Anubhav:** But sir, just to get a sense, would it be safe to assume it will be little lower than the corporate average?
- Ameera Shah:** The margin for wellness?
- Anubhav:** Yes.
- Ameera Shah:** I do not think we have an accurate answer for you on that. I think maybe we can come back to you and let you know because at this point of time the cost base is actually the same for all our testing platforms at the backend. So we are not necessarily doing a segment wise profitability. So we will come back to you on that.

- Vijender Singh:** Another point here I want to just add here is that, we have been talking about capacity utilization. So all these initiatives end of the day will improve our capacity utilization which in a way will be an operating leverage.
- Anubhav:** One more clarity I wanted to get is that on gross margins let us say if the company is not taking any price increase what is the possibility of further expansion gross margin from here? Have we already maxed out our contracts on the reagent side or there is further possibility to expand margins?
- Ameera Shah:** There is further possibility to expand margins and there are efforts going on within the company to try to see how using negotiations as well as operational practices we can continue to expand our margins. One thing we have to remember is that gross margin is also reflection of test mix. And as the gross margins on routine tests tend to be higher but gross margins on specialized tests tend to be lower.
- So it is also if we keep expanding our routine tests faster than specialized you will see it automatically go up and also the other way around. So it is a reflection of these three different tools. So while we continue to working on negotiations on operational practices efficiency the test mix is not necessarily completely in our control.
- Anubhav:** Just one little clarity on the same question. Can you just, you have mentioned it is 76% is the gross margin then even at the best case on the routine one what is an average margin like let us say your company was doing 100% routines tests?
- Ameera Shah:** It could be anything from 80% to 85%.
- Moderator:** Thank you, sir. We have the next question from the line of Nikhil Mathur from Ambit Capital. Please go ahead.
- Nikhil Mathur:** My first question is on the hospital based labs. Now there is a quite a bit of market share with hospital-based labs. In a very recent earnings call one of your peers in the North said that in market like Delhi hospital chain is getting a bit aggressive in the retail hospital labs services as well. So do you see any kind of a competition from such initiative by players in your focus cities?
- Vijender Singh:** These are all usual because at hospital level since they have a capacity so they want to do all that they can expand and work in a format what the top players work. But definitely when they come to market their focus is more on primarily on B2B, they may talk about B2C but what my experience say they finally ended up to tapping these B2B opportunity and that too in semi specialized. So from retail point of view I do not think that they would be having that leverage because the perception of a hospital from patient's point of view is different and secondly retail is more about your private practice. And private practice the people usually do not prefer sending a patient to hospital based labs.



**Ameera Shah:** You also have to remember that prices of hospital based labs tend to be much higher than all the national competitors. So if you were to take a simple test like a cholesterol you will find may be a 20%, 25% difference between an unorganized lab in a city and a national chain. May be 15% to 20% but hospital labs tend to be sometimes 2x of a national chain. So it will also be a challenge if they want to go retail to be able to use those prices in a retail market. And if they try to use different prices then it will also cannibalize their existing market in these labs.

**Nikhil Mathur:** And my second question is it might be a bit difficult to answer but I just wanted to check on this. So the gross margins are fairly healthy for the industry. I mean you mentioned that if all the tests were routine it could have been in the 80% to 85% range.

And the EBITDA margins are also fairly healthy for a company which is operating in the healthcare space. Do you feel that there is a risk of a regulatory scrutiny on such kind of profits being made in a healthcare segment?

**Ameera Shah:** There is a possibility of everything in life. So difficult to say no to a possibility. Is there a probability, I would say unlikely a good stage because the government is very focused on wanting to provide access of healthcare services and if we start capping margins then frankly nobody wants to be in this industry and you will not see the investment come in.

So I think the smarter thing if you see and our government is quite smart that they would let the healthcare industry continue to thrive, increase the accessibility across the country so that all people are able to have access to diagnostics. That is what I would expect them probably to go down the direction.

**Nikhil Mathur:** But if hypothetically if there was some price controls to be implemented would that be a state subject or the central government can bring in a blanket white regulation and that has to be followed by all the states? Is there an implementation issue if it were to be a state subject?

**Ameera Shah:** It is a state subject. All healthcare matters are state subject. In the past when there was an epidemic of dengue, just to give you an example, across the country the central government tried to come in and put a cap on pricing on dengue tests and each states then made their own decision about what they wanted to do. Finally when it went to the Court it was listed and it was said that it is unlawful to put a price cap on private services. So from what we have seen that even if there is an epidemic number one, the maximum volumes come to the national players because the government does not only price cap but they actually put a minimum technology requirement.

They put a regulatory framework along with the price cap which they have tried to do for only two tests in the past,. So it comes along with minimum standard which actually helps the national players because it allows us to use our better quality and better technology and garner more volumes. We could at the equal playing field of higher technology, the national player will always win from an economy scale perspective.

**Moderator:** Thank you. We have the next question from the line of Sriram Rathi from ICICI Securities. Please go ahead.

**Sriram Rathi:** Firstly ma'am, from this commentary what I understand is that there are multiple levers for the further margin expansion whether coming from the lab on lease model or increasing B2C and also the focus on the gross margin improvement. So just wanted to understand what could be the potential peak margin for this business for you particularly like because we have been seeing right from the last two, three quarters it has been consistently improving. We are at 28.2% this quarter. So it can be like 32% or 35% something like. Just to get an idea?

**Ameera Shah:** Look I think as we said in our strategy there are goal at this point of time with the top 4 players only being about 15% of market share. The real focus of all of us is to increase market share of the organized sector specifically from the top list. We believe we already are in very healthy position. Our margin expansion is a never ending game. We can keep wanting to expand margins but the key focus right now is to expand market share.

So what we are doing is over investing in to growth which means systems, processes, people, talent, networks because we believe that is the right direction to go in. It is very slightly theoretical question to answer at this stage about what is the peak margin possible because it depends on so many variable factors like if you just do routine tests versus if you do specialized tests but then your business model is completely different. So I would not be able to answer that question to be honest.

**Sriram Rathi:** But this pure trends should ideally continue?

**Ameera Shah:** The stability of our margins will continue.

**Sriram Rathi:** And secondly ma'am, basically if I look at last year also Q4 was very strong. Is it any seasonality because last year we had 29% margin without Ind-AS and this year we have Ind-AS benefit also. So just want to understand is there any seasonality in terms of Q4 being better?

**Ameera Shah:** You know this year has been a very strange year. Actually if you look at the pattern for the last three, four years normally Q2 is a very good quarter for us and Q4 is the best quarter and Q3 is the worst. But this year actually Q2 was not so great, Q3 has been better than Q2. So frankly we do not know what to expect from Q4. The reason for this is because the weather changes and seasonality changes of climate actually directly affect our business.

So when rains comes in late where they stay too long, the winter comes in early stage very long there is literally cold all these things affect our business. So frankly very difficult for us to estimate what is going to happen in Q4. It has been a very unpredictable year. So I would suggest not to have any set expectations around it because we could only find out by end of March.

- Moderator:** Thank you. We have the next question from the line of Deepak Khatwani from Girik Capital. Please go ahead.
- Deepak Khatwani:** One of your competitors in the North has stated that there has been a slowdown in Delhi market. So it will be great if you can comment on your competitive position in Delhi market as to have you gain market share there and how has the business been overall in Delhi?
- Vijender Singh:** See Delhi again falls in our seeding cities and in seeding cities what we have said is that in these markets we want to invest in these markets by upgrading our labs, by upgrading our test menu, investment at people side, investment at other logistics areas so as to improve our B2B business and over a period of time we want to then shift our strategy towards B2C.
- So if you look at our B2B business in North and especially East, both these two markets have been the fastest growing market in the industry not within the Metropolis portfolio but definitely integrated in the industry. So I think that these markets are definitely gaining market share to some extent but definitely over a period of time these markets will be nurtured and then we will shift our gears towards B2C.
- Deepak Khatwani:** Sir, has there been any slowdown in particularly in this quarter, December quarter?
- Ameera Shah:** December definitely these markets because of high degree of winter probably, definitely it has impacted to some extent in these markets.
- Moderator:** Thank you. We have the next question from the line of Sapna Jhawar from IndiaNivesh Securities. Please go ahead.
- Sapna Jhawar:** To start with first, ma'am, you were actually giving up the B2B break up in to focus cities and other cities. We do not seemed to find that in the presentation this quarter around. So could you please share that?
- Ameera Shah:** I do not think we have given that break up in the past season. What are you referring to?
- Sapna Jhawar:** Okay so the B2B break up in to the focus and the other cities?
- Ameera Shah:** We have not given that data.
- Sapna Jhawar:** Secondly, so Metropolis has been having a history in terms of growing through acquisitions. Now we have observed in the past five to eight years that our stake for these acquisitions have gone up. So we as a company how do we justify the valuations in terms of when we go ahead to acquire any particular company be it in the focus cities or in the seeding cities what parameters do we actually look up to which justifies the valuations that we are paying for? If you could help me explain that?

**Ameera Shah:** So firstly when we look at acquisitions the non-financial parameters that we look at, we look at B2C businesses primarily which are run and built based on good practises, good respect, good brand. We are not so interested in businesses which are only based on discounting or commercial. So that is our first parameter. The second is the partners pathologist partners who built the business. We want to have a common wavelength with them mentally where they understands the vision of the business and they are happy to come on board and become part of a larger corporate group.

And third, partners again who are wanting to be compliant and have things done in a very clean and legal manner. So I think these are the kinds of parameters that we look for when we are looking for acquisitions. On the financial side, compared to five, eight years ago everything were cheaper so I think we cannot only expect the labs to be at the same price. Yes, they do deserve a better part on market valuation because also the national players have gotten better valuations in the market. So I think the industry generally is getting a better valuation.

So we are not seeing unreasonable market valuations of some of the smaller firms that are looking to sell or partner. And we usually do it on a multiple of EBITDA for bigger businesses and we do it on a multiple of revenue for smaller businesses. And that is how we usually financially value them.

**Sapna Jhawar:** Ma'am, also when we look at the gross margins particularly, you just spoke about the routine in the specialized one but if we were to break it up in to the B2B and B2C side of the business, how are the gross margins generally placed up there?

**Ameera Shah:** Gross margin is usually a representation of the test mix, not so much of the channel. And therefore it depends much more with test mix and not so much on the channel mix.

**Sapna Jhawar:** So the idea essentially was we have a substantial part of the business that also comes in from hospitals where we manage individual hospitals. How different was this particular business be in terms of the other B2B side? What I wanted to understand is because we get a bulk volume directly from the hospitals and if there was a price cap to come in, in the diagnostic space how that will that shift us particularly the industry?

**Ameera Shah:** If a price cap was to come in it will hit the hospitals the most because obviously the prices that they are charging today 2x or 3x of Metropolis prices and obviously they will be hit the first. Today we anyway get tests from hospitals at transfer prices in B2B and therefore I do not expect that will be as significant a hit as it would be to the retail prices of the hospitals what they charge the patient.

**Sapna Jhawar:** So if we under the B2B contracts if we manage those hospitals, would not that price cut actually hit us?

**Ameera Shah:** You are talking about hospital lab management contract?

- Sapna Jhavar:** Yes.
- Ameera Shah:** We only have a few hospital lab management contracts. I think we have about 7 or 8 hospital lab management contracts. It is not a big part of our revenue. It is less than 5% of our business. So it is not something that we are overly concerned because like we said even the price capping itself is slightly theoretical at this stage.
- Moderator:** Thank you. We have the next question from the line of Divya Gupta from Reliance Nippon Life Insurance. Please go ahead.
- Divya Gupta:** I just wanted to know in your opening remarks you talked about the recent acquisitions that we have completed. I think I missed those comments from you. Can you please help with the same again?
- Ameera Shah:** So we talked about two acquisitions strategy. One was about building in our own market going deeper in our own markets like we have done in Surat and really increasing our market share. And second acquisition strategy we talked about was going into new geographies and buying a B2C brand. That gives us ability to play in the new market in B2C. So I will ask Rakesh to share with you a little detail on our Shraddha diagnostic binding agreement that we announced in January and our logic behind it.
- Rakesh Agarwal:** Yes, so just to give you a background. Gujarat is the second largest market in West India which we consider now as an extension of our MHL home geography. So the recent acquisition was the milestone event which will allow us to cement our position of undisputed leadership in Gujarat market.
- As earlier told target unit is promoted by two young and dynamic MD pathologist who have a fair positioning in Ahmadabad town and have long term perspective on business.
- Their aggression and disciplined approach will surely help us establishing them a strong local guide in Gujarat to handle the competitive market. This technically will also help us to increase our utilization level at our global reference lab in Mumbai via samples processed from existing clients in Ahmadabad giving out as a scale bandwidth.
- So this is the strategy behind us to go and acquire this lab in Ahmadabad.
- Moderator:** Thank you. Ladies and gentlemen, that was the last question. I now like to hand the conference over to Ms. Ameera Shah for closing comments. Over to you, ma'am.
- Ameera Shah:** Thank you for all of you for joining us today. I hope we have been able to articulate our highlights of Q3 and our strategy for the future as well. We rightly said we believe we are on a positive momentum and with market leading financial and operating metrics, we feel good about the direction we are heading in. Look forward to chatting with all of you next quarter.



*Metropolis Healthcare Limited  
February 7, 2020*

**Moderator:** Thank you. Ladies and gentlemen, on behalf of Metropolis Healthcare Limited, that concludes this conference call. Thank you for joining with us and you may now disconnect your lines.