Ref: MHL/Sec&Legal/2021-22/50 October 20, 2021

To,

Head, Listing Compliance Department
BSE Limited
Phiroze Jeejeebhoy Towers Dalal Street,
Mumbai - 400 001.

Scrip Code: 542650

Head, Listing Compliance Department
National Stock Exchange of India Limited
Exchange Plaza, Plot No. C/1. G Block,
Bandra -Kurla Complex, Bandra (East),
Mumbai- 400051

Scrip Symbol: METROPOLIS

Sub: Intimation of Credit Rating.

Dear Sir/Madam,

Pursuant to Regulation 30 of the SEBI (Listing Obligations and Disclosure Requirements), Regulations, 2015, we wish to inform you that CRISIL, a Credit Rating Agency has revised its outlook on the rating from 'CRISIL AA-/Stable' to 'CRISIL AA-/Positive' on the Non-Convertible Debentures and the long-term loan facility of the Company and has also reaffirmed its 'CRISIL A1+' rating to the short-term facility of the Company.

The rating rationale dated October 20, 2021 received from CRISIL is enclosed herewith for your kind reference.

The above is for your information and records.

Yours Faithfully

For **Metropolis Healthcare Limited**

Simmi Singh Bisht

Simmi Singh Bisht
Head – Legal and Secretarial
Membership No. A23360
Encl. a/a

Rating Rationale

October 20, 2021 | Mumbai

Metropolis Healthcare Limited

Rating outlook revised to 'Positive'; Ratings reaffirmed

Rating Action

Total Bank Loan Facilities Rated	**Rs.150 Crore**
Long Term Rating	**CRISIL AA-/Positive (Outlook revised from 'Stable'; Rating Reaffirmed)**
Short Term Rating	**CRISIL A1+ (Reaffirmed)**

Non Convertible Debentures Aggregating Rs.250 Crore	**CRISIL AA-/Positive (Outlook revised from 'Stable'; Rating Reaffirmed)**

1 crore = 10 million
Refer to Annexure for Details of Instruments & Bank Facilities

Detailed Rationale

CRISIL Ratings has revised its outlook on the non-convertible debentures and long-term bank facility of Metropolis Healthcare Limited (MHL; part of the Metropolis group) to **'Positive'** from 'Stable' while reaffirming the rating at '**CRISIL AA-**'. CRISIL Ratings has also reaffirmed its 'CRISIL A1+' rating on the short-term facility of MHL.

The outlook revision follows the expectation that the group's business risk profile will strengthen over the medium term marked by sustained healthy double digit revenue growth while maintaining healthy operating profitability. MHL has also intimated the exchanges on October 15, 2021 that MHL's board has approved the proposal for acquisition of 100% stake in Ganesan's Hitech Diagnostic Centre Private Limited (Hitech) for a consideration of Rs 636 crore. MFL had taken board approval in January, 2021 also for the same acquisition, however, deal could not materialize. While acquisition cost remains broadly the same, mode of consideration for current proposal is for cash only as against a mix of cash and equity shares of MHL earlier. The acquisition is expected to be completed in 6 months, and will be immediately accretive as Hitech is generating healthy revenues and profits.

Operating income grew 17% year-on-year to Rs 998 crore in fiscal 2021 (Rs 857 crore in fiscal 2020)), in-spite of a weak first quarter, wherein revenues had fallen 29% year on year owing to a nationwide lockdown to contain the COVID 19 pandemic. Recovery in the subsequent quarters was driven by substantial contribution from Covid-related tests, which formed ~23% of the total revenue, while contribution from the non-Covid-related portfolio started picking up from the third quarter onwards, with ease of lockdown and return to normalcy. Revenue per patient increased 18.5% year-on-year to Rs 1,015 in fiscal 2021 (Rs 856 in fiscal 2020), driven by better test mix and higher proportion of specialised tests. Operating margin for the fiscal was at a record high of 29.1%, driven by operating leverage on account of increase in the scale of operations, better test mix, higher share of the business-to-consumer (B2C) segment and cost rationalisation measures undertaken by the company.

The growth momentum has continued in the first quarter of fiscal 2022, with the company recording revenue of Rs 326 crore during the period; a year-on-year growth of 128%. This growth was primarily led by 160% year-on-year growth in the non-Covid portfolio, which formed 81% of the total revenue. While revenue from Covid-related tests spiked in April 2021, with the second wave setting in, it moderated in the subsequent months. Non-Covid revenue continued its growth momentum with increasing patient inflow, driven by a strong brand recall, higher tests on offer and customer-centric services. Operating margin was healthy at% through the quarter, driven by further improvement in the share of the B2C segment to 47% during the quarter (43% in fiscal 2021) and continued benefits of cost rationalisation measures. Revenue concentration, although reduced from earlier levels, was considerable, with ~58% of the revenue share coming in from the Western region, where the company is a market leader. Revenue growth is expected to sustain over the medium term with the acquisition of Hitech, along with geographical diversification, further expansion of patient service centres in newer areas and improving brand recall.

Financial risk profile remained strong, supported by healthy networth of Rs 667 crore and a debt-free balance sheet as on March 31, 2021. The company also had sizeable cash surplus of around Rs 461 crore as on June 30, 2021. MHL is expected to prudently fund the Hitech acquisition through a mix of debt and existing cash balances. Leverage, post availing debt for the acquisition is expected to remain under 0.5 time.

To propel growth and expand its geographical reach, the company could consider small-to-medium-sized acquisitions. The group's strong balance sheet and healthy liquidity position provide the flexibility to absorb modest-sized acquisitions without significantly impacting the key credit metrics. However, any large-sized debt-funded acquisition will be a key monitorable.

The ratings reflect MHL's strong position in the diagnostic services market in India, supported by a well-established brand and healthy operating efficiency resulting in strong cash flow generation. The ratings also factor in a healthy financial risk profile, with robust debt metrics, and proven track record of the promoters. These strengths are partially offset by high, albeit reducing, geographic concentration in revenue, market fragmentation and moderate entry barriers in the diagnostics industry.

Analytical Approach

CRISIL Ratings has combined the business and financial risk profiles of MHL and its 18 subsidiaries (collectively referred to as the Metropolis group), as all these entities are in the same line of business, have strong operational and financial linkages and are under a common management. The subsidiaries have been acquired over the years as part of strategic inorganic expansion of MHL.

Goodwill arising from acquisition/mergers/consolidation has been amortised over 10 years given the strong local brand of the acquired entities and expectation of returns being spread over a longer tenure.

Please refer Annexure - List of entities consolidated, which captures the list of entities considered and their analytical treatment of consolidation.

Key Rating Drivers & Detailed Description

Strengths

Strong market position, established brand and large reach: The Metropolis group is among the top three diagnostic chains in India and has a large, well-established, pan-India network of 129 pathology labs and 2,716 service centres. It is a market leader in West India and has significant presence in the South as well. The company has been focussing on enhancing its market position in the North and the East by expanding its patient service centres in these regions.

Healthy operating efficiency driven by prudent working capital management: International and national laboratory accreditations, servicing customers through a hub-and-spoke model, strong quality controls and continuous process improvement through an in-house research and development set-up contribute to healthy operating efficiency. Furthermore, working capital is prudently managed, as reflected in receivables of under two months and minimal inventory. This has resulted in a strong operating margin and return on capital employed of 29% and 44%, respectively, in fiscal 2021. These metrics are expected to remain healthy over the medium term.

Strong financial risk profile: Strong annual cash generation and prudent capital spend have enabled the company to strengthen its balance sheet over time. Adjusted networth stood at Rs 667 crore as on March 31, 2021, while the balance sheet was debt-free. Liquidity remained strong. With the acquisition of Hitech announced, MHL is expected to part fund the acquisition through debt. However, leverage and debt protection metrics are expected to remain comfortable with debt/EBIDTA not expected to exceed 1-1.2x with this acquisition.

Proven track record of the promoters: The founder, Dr Sushil Shah, is a pathologist with industry experience of over three decades. Ms Ameera Shah has played a key role in driving growth of the company through a prudent mix of organic and inorganic expansion, while maintaining a debt-free balance sheet.

Weaknesses

High, albeit reducing, revenue contribution from the B2B segment: The B2B segment has contributed to most of the revenue in the last three years, resulting in a stretched receivables cycle. While the management has taken steps to reduce dependence on the B2B segment, it still contributes to ~53% of the revenue. However, with increasing brand recall, better test mix and improved geographical reach, share of the B2C segment is expected to grow in the near to medium term. The company's strong commitment to improving customer experience and ensuring brand loyalty of customer relations is also reflected by a high Net Promoter Score of 91 as on June 30, 2021.

Exposures to risks related to market fragmentation and moderate entry barriers: The diagnostics industry faces moderate entry barriers on account of average capital intensity, resulting in the emergence of a large number of diagnostic centres. These diagnostic chains face intense competition from hospital-based and standalone centres, which together comprise a dominant share (about 85%) of the industry.

Liquidity: Strong

Unencumbered cash surplus stood at Rs 461 crore as on June 30, 2021, with nil debt. With acquisition being announced, cash surplus is expected to reduce as MHL will utilize the same for part funding the acquisition. Nonetheless, with cash accrual, expected at more than Rs 220 crore per annum, liquidity is expected to remain healthy and should sufficiently cover yearly capital expenditure (capex) of Rs 50 crore as well as repayment of debt to be availed for the acquisition and incremental working capital requirement. Moreover working capital limits were almost negligibly utilized at in last 6 months. However, any further large, debt-funded acquisition and further depletion in surpluses will remain a key monitorable.

Outlook: Positive

The Metropolis group will, over the medium term, sustain its already healthy market position in the diagnostics services industry, supported by its strong brand and widespread network. Financial risk profile is expected to remain strong, backed by healthy cash generating ability.

Rating Sensitivity Factors
Upward Factors
- Sustained revenue growth of 10%-12%, with healthy operating profitability of over 25-27%
- Improvement in the revenue mix, reduction in geographic concentration and sustained increase in revenue share from the B2C segment
- Sustenance of healthy financial risk profile and comfortable debt metrics while pursuing organic and inorganic expansions

Downward Factors
- Decline in revenue by 10-15%, with operating margin declining below 18% on a sustained basis
- Large, debt-funded capex or acquisitions materially moderating key debt metrics, for instance, debt/EBIDTA of over 2.5 time
- Higher-than-expected dividend outflow, cash buyback or capital reduction, or additional acquisition leading to material reduction in liquidity

About the Group
MHL, the flagship company of the Metropolis group, was founded in 1981 by Dr Sushil Shah as a sole proprietorship named Dr Sushil Shah's Pathology Laboratory. It was reconstituted as a public limited company with the current name in 2001. The company provides diagnostic services and operates a chain of centres overseas. Ms Ameera Shah is the Managing Director.

In April 2019, the company was listed. As on June 30, 2021, the promoters held 50.37% and foreign portfolio investors held 28.59%; the remaining was held by others.

The company provides diagnostic services and operates a chain of diagnostic centres in India. It also has overseas presence in eight countries, including Sri Lanka, Ghana, Tanzania, Kenya and Mauritius (~4% of the revenue in fiscal 2021). The company offers more than 4,000 clinical laboratory tests and profiles and has a network of more than 10,000 touch points. As on March 31, 2021, it had a global reference lab in Mumbai, 12 laboratories (13 regional labs) and 2,731 service centres. The reference lab is accredited by College of American Pathologists and National Accreditation Board for Testing and Calibration Laboratories.

In the first three months of fiscal 2022, the company's operating income and profit after tax (PAT) stood at Rs 326 crore and Rs 75 crore, respectively, against Rs 143 crore and Rs 3 crore, respectively, for the corresponding period of the previous fiscal.

Key Financial Indicators

Particulars	Unit	2021	2020
Revenue	Rs.Crore	998	857
Adjusted PAT*	Rs.Crore	177	118
Adjusted PAT margin*	%	17.8	13.8
Adjusted debt/Adjusted networth	Times	--	--
Adjusted interest coverage	Times	26.55	44.54

**Adjusted for goodwill amortisation in line with the analytical approach of CRISIL Ratings*

Any other information: Not applicable

Note on complexity levels of the rated instrument:
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Annexure - Details of Instrument(s)

ISIN	Facility	Date of allotment	Coupon rate (%)	Maturity date	Issue size (Rs.Crore)	Complexity level	Rating assigned with outlook
NA	Non-convertible debentures*	NA	NA	NA	250	Simple	CRISIL AA-/Positive
NA	Proposed long-term bank loan facility	NA	NA	NA	145	NA	CRISIL AA-/Positive
NA	Proposed short-term bank loan facility	NA	NA	NA	5	NA	CRISIL A1+

**Not yet placed*

Annexure - List of Entities Consolidated

Entity consolidated	Extent of consolidation	Rationale for consolidation
Sudharma Metropolis Health Services Pvt Ltd	Full	Subsidiary
Bokil Golwilkar Metropolis Healthcare Pvt Ltd	Full	Subsidiary
Raj Metropolis Healthcare Pvt Ltd	Proportionate	Subsidiary
Desai Metropolis Health Services Pvt Ltd	Full	Subsidiary
R.V. Metropolis Diagnostics & Healthcare Centre Pvt Ltd	Full	Subsidiary
Micron Metropolis Healthcare Pvt Ltd	Full	Subsidiary
Dr. Patel Metropolis Healthcare Pvt Ltd	Full	Subsidiary
Lab One Metropolis Healthcare Services Pvt Ltd	Full	Subsidiary
Amins Pathology Laboratory Pvt Ltd	Full	Subsidiary
Ekopath Metropolis Lab Services Pvt Ltd	Proportionate	Subsidiary
Metropolis Healthcare (Mauritius) Ltd	Full	Subsidiary
Metropolis Star Lab Kenya Ltd	Full	Step-down subsidiary
Metropolis Healthcare Ghana Ltd	Full	Step-down subsidiary
Metropolis Healthcare Lanka Pvt Ltd	Full	Subsidiary
Metropolis Healthcare Tanzania Ltd	Full	Step-down subsidiary
Metropolis Bramser Lab Services (Mtius) Ltd	Full	Step-down subsidiary
Metropolis Histoxpert Digital Services Pvt Ltd	Proportionate	Joint Venture
Metropolis Healthcare Uganda Ltd	Full	Step-down subsidiary

Annexure - Rating History for last 3 Years

	Current			2021 (History)		2020		2019		2018		Start of 2018
Instrument	Type	Outstanding Amount	Rating	Date	Rating	Date	Rating	Date	Rating	Date	Rating	Rating
Fund Based Facilities	LT/ST	150.0	CRISIL AA-/Positive / CRISIL A1+	25-01-21	CRISIL A1+ / CRISIL AA-/Stable	30-09-20	CRISIL A1+ / CRISIL AA-/Stable	27-09-19	CRISIL AA-/Stable	28-09-18	CRISIL AA-/Stable	CRISIL AA-/Stable
Non Convertible Debentures	LT	250.0	CRISIL AA-/Positive	25-01-21	CRISIL AA-/Stable	30-09-20	CRISIL AA-/Stable	27-09-19	CRISIL AA-/Stable	28-09-18	CRISIL AA-/Stable	CRISIL AA-/Stable

All amounts are in Rs.Cr.

Annexure - Details of Bank Lenders & Facilities

Facility	Amount (Rs.Crore)	Rating
Proposed Long Term Bank Loan Facility	**145**	**CRISIL AA-/Positive**
Proposed Short Term Bank Loan Facility	**5**	**CRISIL A1+**

Criteria Details

Links to related criteria
[Rating criteria for manufaturing and service sector companies]
[CRISILs Bank Loan Ratings - process, scale and default recognition]
[CRISILs Criteria for Consolidation]

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For more information, visit www.crisilratings.com

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