

# MANAGEMENT DISCUSSION & ANALYSIS

## ECONOMIC OVERVIEW

### Global Economy

The global economic graph saw some of the worst plunges in 2020-21. However, the proactiveness shown by most of the Governments through stimulus and aggressive vaccination drives allowed most nations to tide over the worst and witness rekindled growth going forward.

Prior to COVID-19 unsettling the world, the global economy was already facing turbulent times. Growing instability in economic trends, highly volatile oil prices and geographical tensions between US and China, UK and other European nations were some of the factors that arrested the growth. The sudden outbreak of the COVID-19 pandemic only added misery to the already existing woes.

While the economy was anticipated to revive after a drop in 2019, the worldwide lockdowns, travel bans, trade restrictions, logistics and supply chain disruptions, caused a contraction of 3.3% in 2020. The COVID-19-induced pandemic forced the world economy to witness a major shake up and exposed various flaws in business operations. This led to a global recession, the magnitude of which was surpassed only by the two World Wars. Causing severe loss of life and jobs, the pandemic pushed millions into extreme poverty.

### Indian Economy

India has vast economic landscape and socio-economic livelihood. It has been most resilient in the past to external hazards of environment. However, the unexpected COVID-19 outbreak brought in ambiguity. It directly impacted the Gross Domestic Product (GDP) of the nation. Sustaining one of the worst economic contractions in 2020, India's economy is, however, showing decisive signs of a 'V-shaped' recovery in 2021. India is now better prepared for a healthy recovery with positive sentiments across the nation. With rapid changes in Government policies to revive the economy, stimulus packages, vaccination drives and eased lockdowns, the nation is slowly recuperating. This has brought back consumer confidence, robust financial markets, an uptick in manufacturing and exports.

After a tough year, the Index of Industrial Production (IIP) witnessed a growth of 22.4% in March 2021. On the other hand, the retail inflation rate measured by the Consumer Price Index (CPI), eased to 4.29% in April 2021, which was recorded at 5.52% in March 2021. The GDP growth witnessed a positive momentum in the last quarter of 2020-21. The Goods and Services Tax (GST) collection for March 2021 touched an all-time high of ₹ 1.23 lakh crores. Exports witnessed a growth of 56.93% to ₹ 2,50,756.40 crores, as compared to ₹ 1,59,784.62 crores in March last year, according to the data compiled by the Department of Commerce.

The Government in Union Budget 2021-22 promoted Atmanirbhar Bharat (self-reliant India) with duty hikes to support its 'Make in India' campaign while also encouraging overseas investments. Additionally, a slew of announcements

across sectors, such as healthcare and core infrastructure, is further expected to boost the growth prospects.

## INDUSTRY OVERVIEW

### Indian Healthcare

The Indian healthcare sector was adversely impacted in financial year 2020-21 with the sudden outbreak of the pandemic. An uncertainty engulfed the sector, adding distress to the already existing economic slump. The virus outbreak resulted in a 70-80% drop in footfall, test volumes. Despite the initial blow, the healthcare system in India managed to withstand the pandemic. The robustness of the Indian healthcare system helped it to quickly innovate and adapt to the rapid transformation. With steep fall in hospital footfalls, the healthcare sector shifted to virtual care, remote medicine, tele consultations and remote monitoring.

India's healthcare industry has been recording a Compound Annual Growth Rate (CAGR) of around 22% since 2016, as per Niti Ayog. At this rate, it is expected to reach USD 372 Billion in 2022. Healthcare has become one of the largest sectors of the Indian economy in terms of revenue and employment. In 2017, the Indian healthcare sector was the fourth largest employer in the Indian economy. Moreover, the sector is witnessing a growing emphasis on the emergence of Public-Private Partnership (PPP) model. A relative cost competitiveness and availability of skilled labour are making it an increasingly favoured destination for Medical Value Travel.

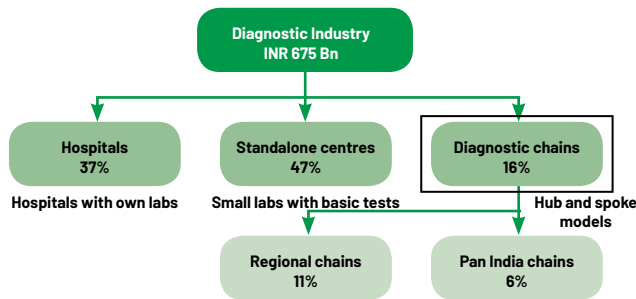
### Indian Diagnostics Industry

The Indian diagnostics industry has emerged as an attractive arena in India's growing healthcare sector. It is one of the fastest growing services in the country. The domestic diagnostics industry is estimated at USD 9 Billion (around ₹ 675 Billion). It is expected to register a CAGR of ~10% over the next 5 years. Growth will be primarily driven by change in demographics, increase in lifestyle diseases, and higher income levels across all strata of society, rise in preventive testing, deeper penetration with asset-light expansion, and spread of healthcare services and insurance. The diagnostics segment is a critical component of the healthcare sector. Globally, ~80% of physician diagnoses are a result of laboratory tests.

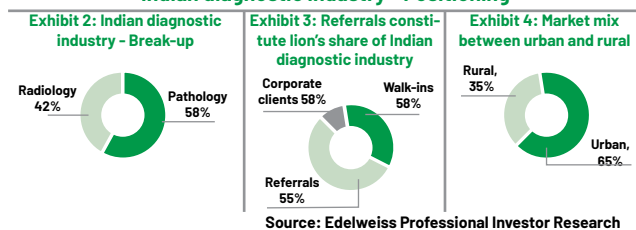
The industry is broadly segregated into pathology testing and imaging diagnostic services. Pathology testing (in-vitro diagnosis) includes sample collection in the form of blood, urine and stool. This is followed by the sample's analysis using laboratory equipment and technology to derive useful clinical information for assisting in patient treatment. The imaging diagnostic segment consists of more complex tests such as computed tomography (CT) scans and magnetic resonance imaging (MRI). It also includes other highly specialised tests such as positron emission tomography (PET)-CT scans. As per estimates, the pathology segment contributes ~58% of the total market revenue.

## MANAGEMENT DISCUSSION & ANALYSIS (Contd.)

**Exhibit 1: Indian diagnostic industry - market structure**



**Indian diagnostic industry - Positioning**



(Source: <https://www.financialexpress.com/budget/budget-2021-indian-medical-device-manufacturers-keep-their-hopes-high-for-a-level-play-to-contribute-for-affordable-accessible-healthcare/2180561/>)

### COVID-19 Impact

Covid-19 made a massive dent in the diagnostics sector with a steep fall in patient volumes since the beginning of 2020. The pandemic developed an eerie sense of fear among people, which eventually impacted hospital/clinic and lab visits. Regular checkups became cumbersome, stressful and time consuming. While the overall diagnostics sector seemed to have suffered a decline, the area of home diagnostics was the silver lining in the new scheme of things.

As the pandemic spread, regional Governments created high awareness among people on the infections, diagnosis, and effective management of the virus. This ultimately accelerated the diagnostic product approvals and testing processes across the nation. Private laboratories increased their focus on home collection services and witnessed a significant growth in home collection for routine samples across all regions. Anywhere, anytime services (home collection services) to offer free round-the-clock lab services at the doorstep, including ECG, were started by certain laboratories. Mobile testing vans and drive-through sites for conducting routine pathological tests and COVID-19 tests also led to a huge surge in demand for testing.

The diagnostic industry on the other hand saw a sharp uptick in growth, benefiting from increased demand for COVID-19 testing. However, towards the end of 2020, the non-COVID services achieved normalcy gradually and the COVID-19 testing started declining with the fall in case load. But with the second wave of COVID-19, more workloads were witnessed, more COVID-19

testing facilities were being created all over India to meet the demand that may arise due to the prolonged pandemic. With non-COVID tests coming back on track, laboratories anticipate a need for more capacity and facilities.

### Outlook

A change in mindset, rising awareness, increased income levels, access to insurance and lifestyle related diseases are unitedly giving momentum to rise of healthcare sector in India. The Indian Government aims at increasing the spending to 3% of the GDP by 2022, which stands at ~1.2% of the GDP. The Government has issued new guidelines to make telemedicine a legal practice. To strengthen National Health Mission, the Government has announced an outlay of ₹ 64,180 crores for detection and for cure of new and emerging diseases, the Ministry of AYUSH was allocated ₹ 2,970 crores up from ₹ 2,122 crores.

The Government has also launched the National Digital Health Mission (NDHM) to address the country's health crisis. The major components of this mission encompass telemedicine, health IDs, health records, along with e-pharmacy and digi-doctor services. All these measures and efforts are seen to usher in an era of digital and technological innovations in the Indian healthcare system.

Post COVID-19, testing for well-being is likely to increase as people will be making a conscious effort to stay fit. However, testing for sick care would still dominate the market. It is expected that preventive care well-being testing segment will propel at a CAGR of approximately 20% over the next three financial years.

### MAJOR GROWTH DRIVERS

#### Aging population

The share of older people in the overall Indian population is rising. In many cases, an increase in age means an increase in the number and complexity of illnesses. Thereby, resulting in more demand for diagnostic services and preventive care.

#### Rising income level

The rise in per capita income has increased the disposable income of people. This leads to high customer expenditure and changes in consumption patterns. This has opened up doors for healthy living and preventive care, which in turn is an opportunity for the diagnostics sector.

#### Corporate screening

The corporate sector is promoting employees to undergo preventive and wellness tests. This is done majorly to support the well-being of their employees and potentially to reduce absenteeism and health risk level. With employer covering the cost of employees' health screening in the packages, the diagnostic industry is surely going to witness a new source of income from this segment.

## MANAGEMENT DISCUSSION & ANALYSIS (Contd.)

### Convenience

The convenience provided to customers through online booking, home collection of samples, and online reporting are the driving factors behind diagnostic services. The success of this model lies in the simple fact that it reduces the common man's burden of travelling for any kind of diagnostic service. This convenience has helped in tapping significant opportunities for entities with a strong network and high-tech lab. Thus, increasing the revenue turnaround time by reporting a quick result.

### Public-private partnership (PPPs)

There is a lack of manpower, inadequate resources such as diagnostics, pathology and stock-outs in the public healthcare institutions operating in rural areas. To bridge this gap, private players come into play. They help deliver efficient services in the Government-run hospitals through PPP model. Thus, using private players to the advantage can help penetrate this untapped market.

### Government policy impact

The Government is making efforts with a proposal to ensure minimum standards in the country's diagnostics and wellness services to regulate the industry. These rules and regulations will help guarantee the delivery of quality diagnostics and wellness services across the country. This will act as a pillar of growth for all the transparent and ethical players of the industry.

### THREATS

#### Problem of ownership

It is often found that doctors and professionals working at hospitals and small labs lack entrepreneurial skills. They lack business knowledge and can thus pose a threat to the diagnostic services companies affiliated with them.

#### Policy deficiencies

India has definitely improved its standing on the list of ease of doing business. However, the nation is still behind many countries because of its complicated regulatory frameworks and time-consuming administrative work. This can be a potential threat to the overall Indian diagnostic eco-system.

#### Company Overview

Metropolis Healthcare Ltd is a leading diagnostics company in India with widespread presence in 19 states of the country. It touches millions of lives each year by providing actionable health insights to patients and doctors. Metropolis offers a comprehensive range of 4,000-plus tests and profiles that include advanced tests in diagnosis of cancer, neurological disorders, infectious diseases, and an array of genetic abnormalities. Metropolis's commitment to quality and accuracy in each test is reinforced by its consistent CAP proficiency score of more than 98% over the past decade. This places it among the top 1% laboratories worldwide for quality assurance. Metropolis's philosophy rests on the pillars of technological superiority, a warm patient-centric approach and reliable diagnostic reports.

## PERFORMANCE REVIEW

### Business performance

	2019-20	2020-21
Revenue per patient	856	1,015
Revenue per test	436	524
Laboratory network	124	125
Service network	2,731	2555

### Financial performance (in ₹crores)

	2019-20	2020-21
Revenue from operation	856	998
EBITDA	232	288
Profit after Tax	124	183

## MANAGEMENT DISCUSSION & ANALYSIS (Contd.)

### Key ratios of Metropolis

KEY FINANCIAL RATIOS	FY 2019-20	FY 2020-21	Variance
Debtors turnover	3.62	4.53	25.1%
Inventory turnover	33.90	30.7	-9.3%
Interest coverage ratio	NA	NA	NA
Current ratio	2.33	3.0	27.9%
Debt equity ratio	NA	NA	NA
Operating profit margin (%)	27.22%	28.86%	1.64%
Net profit margin (%)	14.95%	18.34%	3.39%

### RISK AND CONCERNS

Risks	Impact	Mitigation
Competition	The diagnostics industry in India is highly competitive with several companies present in the market. Therefore, it is challenging to improve market share and profitability. Competitors include diagnostics healthcare service providers in India, hospital based laboratories, independent clinical laboratories, other smaller-scale providers of diagnostics services and international service providers, which may establish and expand their operations in future.	We focus on higher exposure towards specialised test. Thereby helping us to be the frontrunner in the industry. The Company competes on the breadth of test offerings, the geographical reach of its network, ability to accurately process specimens and report data in a timely manner and customer relationships.
Technological advancement	Technological advancement could lead to the development of more cost-effective technologies or non-invasive diagnostic healthcare tests, which are more convenient or less expensive than the tests that offer. The introduction of such technology and its subsequent use by existing and potential patients could lead to a decline in the demand for the Company's services.	Advances in technology may lead to the development of more cost-effective tests that can be performed outside a commercial clinical laboratory. Such tests, however, are restricted in number and also the machines that can conduct such tests come at a cost. Offering a diverse range, the Company's tests are more economical and accurate as opposed to such tests. Also, our detailed analysis helps the patient comprehend its health, which insulates us from such disruptions.
Pricing pressures	Prices that the Company charge for services could become subject to recommended or maximum fees set by the Government or other authorities. For example, the Government introduced 'price list' for COVID-19 test, which were mandatory, this may result in guidance for the prices the Company charge for diagnostic healthcare services.	We are present across the length and breadth of diagnostic industry with presence across nation. Our diverse test offerings help us mitigate any such guidance by Government over such tests. Also, owing to our technological upgradations and unique business model, the impact of such regulations is limited to a smaller impact.
System failure	Information Technology (IT) systems are used extensively in virtually all aspects of our business, including clinical testing, test reporting, billing, customer service, logistics and management of medical data. Our success depends, in part, on the continued and uninterrupted performance of our IT systems. A failure or delay in our IT systems could impede our ability to serve our customers and patients and protect their confidential data. Any disruption or failure of our IT systems could have a material impact on our ability to serve our customers and patients, including negatively affecting our reputation in the marketplace.	Digitisation is one of our focus areas. We have transformed ourselves to ride the wave of digitisation. In this view we have developed and practice an absolute security strategy. Our comprehensive security program assures prevention and detects such events at the early stage of occurrence thereby helping us build response and mitigate it.

## MANAGEMENT DISCUSSION & ANALYSIS (Contd.)

Skilled personnel shortages	Our people are a critical resource. The supply of qualified personnel maybe limited and competition for qualified employees is strong. We may lose, or fail to attract and retain, key management personnel, or qualified skilled technical or professional employees. Our ability to attract and retain qualified employees is critical to the success of our business and the failure to do so may materially adversely affect our performance.	It is important that we continue to strengthen our efficiency to promote our competitive position and to enable us to mitigate the impact on our profitability. This goal is fulfilled by a perfect match of skilled personnel. Exploring recruits for the right place is one of the constants at Metropolis. The experienced leadership team underpins our training programmes. This along with work-based remuneration framework has aided us to retain employees and recruit enthusiastic millennials.
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### IT AND DIGITAL INFRASTRUCTURE

Our core technology differentiator remains in the manner, which allows us to fully integrate and automate the process ranging from registration, bar-coding, and billing of specimens to analysis and reporting of test results. This has helped us in streamlining and optimising the operations as well as minimising human errors. Our digital app enhances customer experience by allowing them to book appointments, complete registration, and access test reports online. This strong IT and digital infrastructure plays an integral role in helping us stay ahead of the industry benchmark performance and ensure we are the easiest place to do business.

### HUMAN RESOURCE MANAGEMENT

Metropolis is made up of more than 4,500 highly skilled, motivated, and solution-driven individuals, who collectively represent our family. Built on the foundation of strong values, we strive to provide a safe, challenging and rewarding environment for our employees. Wherein equal opportunity is provided to everyone, so that each individual regardless of their gender, religion and caste can prosper. During their period at the Company, employees are motivated through various skill-development, engagement, and volunteering programs. As we continue to grow organically, our HR functions are also evolving to provide most effective solutions. For eg., our new HR Management System has automated the processes resulting in improved productivity and ensuring availability of employee data on demand.

### INTERNAL CONTROL SYSTEM

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

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

#### The scope and coverage of audits include:

1. Reviewing and reporting of key process risks
2. Adhering to operating guidelines and statutory compliances
3. Recommending improvements for monitoring and enhancing efficiency of operations
4. Ensuring reliability of financial and operational information. The Audit Committee periodically monitors and reviews the significant internal audit observations. It also reviews compliance with accounting standards, risk management and control systems and profitability.

### CAUTIONARY STATEMENT

*Statement in this Management Discussion and Analysis describing the Company's objectives, projections, estimates, expectations or predictions may be 'forward looking statements' within the meaning of applicable securities laws and regulations. Actual results could differ materially from those expressed or implied. Important*

*factors that could make a difference to the Company's operations include global and Indian demand and supply conditions, finished goods prices, input materials availability and prices, cyclical demand and pricing in the Company's principal markets, changes in Government regulations, tax regimes, economic developments within India and the countries within which the Company conducts business and other factors such as litigation and labour negotiations. The Company assumes no responsibility to publicly amend, modify or revise any forward-looking statements, on the basis of any subsequent development, information or events or otherwise.*