Rating Update

September 17, 2024 | Mumbai

Metropolis Healthcare Limited

Update as on September 17, 2024

This update is provided in continuation of the rating rational below.

The key rating sensitivity factors for the rating include:

Upward Factors:

- Higher-than-expected revenue growth from the non-COVID portfolio while maintaining healthy operating profitability of over 26-28% on sustained basis
- Improvement in the revenue mix; reduction in geographic concentration and sustained increase in revenue share from the B2C segment
- Sustenance of the healthy financial risk profile

Downward Factors:

- Steep decline in revenue or operating margin falling below 20% on a sustained basis
- Large, debt-funded capex or acquisitions weakening the key debt metrics;
- Higher-than-expected dividend outflow or cash buyback or capital reduction

CRISIL Ratings has a policy of keeping its accepted ratings under constant and ongoing monitoring and review. Accordingly, CRISIL Ratings seeks regular updates from companies on the business and financial performance. CRISIL Ratings is, however, awaiting adequate information from Metropolis Healthcare Limited (MHL) which will enable us to carry out the rating review. CRISIL Ratings will continue provide updates on relevant developments from time to time on this credit.

CRISIL Ratings also identifies information availability risk as a key credit factor in the rating assessment as outlined in its criteria ‘Information Availability Risk in Credit Ratings’.

About the Group

MHL, the flagship company of the Metropolis group, was founded as a proprietorship entity -- Dr Sushil Shah’s Pathology Laboratory -- in 1981 by Dr Sushil Shah. It got reconstituted into 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. The promoters held 49.75% share of the company as on June 30, 2023, with the balance held by the public.

The company provides diagnostic services and operates a chain of diagnostic centres in India. It also has presence in eight overseas countries, including Sri Lanka, Ghana, UAE, Kenya and Mauritius (overall 16% of the revenue). 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 June 30, 2023, it had a global reference lab in Mumbai, 12 laboratories (13 regional labs) and 3,730 service centres. The reference lab is accredited by College of American Pathologists and National Accreditation Board for Testing and Calibration Laboratories.

Operating income and profit after tax (PAT) of MHL stood at Rs 277 crore and Rs 29 crore, respectively, during the first three months of fiscal 2023, against Rs 280 crore and Rs 34 crore for the corresponding period of the previous fiscal.

Please note: This advisory should not be construed as a rating reaffirmation.

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Rating Rationale

October 03, 2023 | Mumbai

Metropolis Healthcare Limited

Rating outlook revised to 'Stable'; 'CRISIL A1+' reassigned to Bank Debt

Rating Action

Total Bank Loan Facilities Rated	**Rs.300 Crore**
Long Term Rating	**CRISIL AA-/Stable (Outlook revised from 'Positive'; Rating Reaffirmed)**
Short Term Rating	**CRISIL A1+ (Reassigned)**

Non Convertible Debentures Aggregating Rs.100 Crore	**CRISIL AA-/Stable (Outlook revised from 'Positive'; Rating Reaffirmed)**

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

Detailed Rationale

CRISIL Ratings has revised its outlook on the long-term bank facilities and Non Convertible Debentures of Metropolis Healthcare Limited (MHL) to '**Stable'** from 'Positive' while reaffirming the long-term rating at '**CRISIL AA-**'. CRISIL Ratings has also reassigned its '**CRISIL A1+'** rating to the proposed working capital facility.

The rating action follows moderation in scale of operations owing to steep decline in revenues from COVID and allied segment along with reduction in B2B segment, even as the non-covid segment registered a healthy growth. Further, owing to reduction in scale and increase in fixed costs following expansion undertaken over past 2 fiscals, operating margins and return on capital employed (ROCE) are expected to moderate as against the earlier expectation of further improvement. Nonetheless, the ratings continue to reflect leading position of MHL in the diagnostic services market in India, supported by well-established brand and healthy operating efficiency resulting in strong cash flow. The ratings also factor in strong financial risk profile with robust capital structure and proven track record of the promoters. These strengths are partially offset by high-albeit-reducing geographical concentration in the revenue profile, market fragmentation and moderate entry barriers in the diagnostics industry.

MHLs operating income moderated by ~7% year on year to Rs 1148 crore in fiscal 2023 (fiscal 2022: Rs 1228 crore), on account of moderation in revenues from Covid and allied tests by ~85% to Rs.44 crores (FY22: Rs.289 crores). Apart from this, MHL lost one large contract with NACO in Feb-2023, which constituted ~ 6% (Rs.67 crores) of overall revenues in fiscal 2023. However, it might be noted that revenue from core segment (i.e., excluding revenues from covid & allied tests and from government contracts) grew ~15% in fiscal 2023. For non-COVID segment, the number of tests increased by ~18.5% to 24.5 mn (FY22: 20.6 mn) and revenue per test marginally improved by 0.8% in FY23 to Rs.455/ test. Overall revenue growth for fiscal 2024 is expected to be in single digits. However, growth from the core segment is expected to be in mid teens for fiscal 2024.

Revenue in first quarter of fiscal 2024 stood at Rs.277 crores with marginal de-growth of ~1% (1QFY23: Rs.280 crores) on Y-o-Y basis. Revenue from core business (excluding COVID & allied tests and government contracts) grew ~15% Y-o-Y even as revenue from covid and allied test reported a 71% degrowth in Q1FY24 on Y-o-Y basis to Rs.5 crore.

The operating margin moderated by ~300 bps to 25.7% in fiscal 2023 and further to 24.2% during Q1FY24 compared to 28.5% during fiscal 2022. The margins moderated on account of loss of operating leverage due to reduction in revenues from covid & covid allied tests and Government contract as fixed costs increased due to network expansion and investment in Technology & digital investments. Over the medium term it is expected that margins shall remain rangebound at existing levels.

Financial risk profile continues to be healthy, with networth at about Rs 900 crore as on March 31, 2023 (Rs 833 crore a year ago) and expected to further improve with steady accretion to reserve. Cash accrual projected at ~Rs 180-200 crore per annum -- along with liquid surplus should be sufficient to meet the yearly capex of Rs 50-60 crore , repayment obligations of Rs. 50 crore in fiscal 2024 and Rs. 29 crore in fiscal 2025 and incremental working capital requirements. Debt protection metrics to remain healthy, with interest coverage and net cash accrual to total debt ratios of more than 11-15 times and 5-6 times, respectively, over the medium term.

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

Analytical Approach

CRISIL Ratings has combined the business and financial risk profiles of MHL and its domestic and overseas subsidiaries (as referred in annexures) (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 MHL's strategic inorganic expansion.

CRISIL Ratings has amortised goodwill arising from mergers/consolidation over a period of 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:

Robust market position and strong brand and reach

The Metropolis group is among the top three diagnostic chains in India and has a large, well-established, pan-India network of about 180 pathology labs and 3,793 service centres. It is a market leader in West India and also has significant presence in the South. The group has been focussing on enhancing its market position in the North and East by expanding 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, the working capital cycle is prudently managed, as reflected in receivables of under 40 days and minimal inventory. This has resulted in strong return on capital employed ratio of 16.3%, in fiscal 2023. RoCE are expected to remain at healthy levels over the medium term.

The operating margin stood at 25.7% in fiscal 2023, lower by ~300 basis points as compared to fiscal 2022 owing to loss of operating leverage due to reduction in revenues as fixed costs increased due to network expansion and increased investments in technology & digital investments in a bid to improve customer experience. Over the medium term, margins are expected to sustain at healthy levels of 24-25%.

Strong financial risk profile

Strong annual cash generation and prudent capital spend enabled the company to strengthen its balance sheet over time. Adjusted networth stood at Rs 900 crore as on March 31, 2023. Cash accrual – projected at ~Rs 180-200 crore per annum -- along with sufficient liquid surplus should be sufficient to meet the yearly capex of Rs 50-60 crore , repayment obligations of Rs. 50 crore in fiscal 2024 and Rs. 29 crore in fiscal 2025 and incremental working capital requirement. Debt protection metrics to remain healthy, with interest coverage and net cash accrual to total debt ratios of more than 30-40 times and 6-7 times, respectively, over the medium term.

Proven track record of the promoters

The founder, Dr Sushil Shah, is a pathologist with experience of over three decades. Ms Ameera Shah, his daughter, has played a key role in driving the growth of the company through a prudent mix of organic and inorganic expansion, while maintain a strong balance sheet.

Weakness:

High, albeit reducing, revenue contribution from the B2B segment

The B2B segment had contributed to majority of the revenue over the last three years, resulting in a longer receivables cycle. Management has been taking steps to reduce dependence on the B2B segment, and its share in overall revenues has come down to ~48% currently from ~57% in fiscal 2021. Also, post termination of contract with NACO in February 2023, there is no revenue concentration from any single customer. Further, with strong brand recall, better test mix and improved geographical reach, share of the B2C segment is expected to further improve from current levels of ~52% which also have a positive impact on operating margins thereby mitigating the risk to some extent.

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 numerous 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. Apart from the intense competition from standalone and hospital based centres, the competition from the online players have been increasing especially in wellness segment wherein they have been offering tests at lower prices. However, the share of wellness segment for Metropolis is low at ~12%. Further, owing to good brand recall, it is currently fastest growing segment and registered 45% y-o-y growth in fiscal 2023. Also, MHL derives a significant share of its revenues from specialized (~39% of total revenues in fiscal 2023) and semi-specialized segment (~32% of total revenues in fiscal 2023) where the online players have marginal presence thereby reducing the risk to some extent.

Liquidity: Strong
Unencumbered cash surplus was Rs 112 crore as on March 31, 2023. Cash accrual, expected at ~ Rs 180-200 crore per annum over the medium term, should sufficiently cover capex of Rs 50-60 crore per annum, repayment obligations of Rs. 50 crore in fiscal 2024 and incremental working capital requirement. Further, any large, debt-funded acquisition will remain a key monitorable.

ESG profile
The environment, social and governance (ESG) profile of MHL supports its strong credit risk profile.

The healthcare sector has low environmental impact, primarily in the form of low emissions and water consumption and increasing focus on the usage of sustainable packaging. The sector has moderate social impact because of its direct bearing on the health and wellbeing of its workers and customers.

The company’s increasing focus on addressing ESG risks supports its ESG profile.

Key ESG highlights of MHL:
- The company’s ESG disclosures are in line with the guidelines framed by the Ministry of Corporate Affairs and publish Business Responsibility Report, and it is in the process of further strengthening the disclosures over the medium term.
- The company has installed CNG Kit in 9 vehicles; approximately 2,018 litres of fuel saved and carbon footprint reduced
- The company uses non-toxic and environmentally friendly chemicals for cleaning. Reagent/ Samples – The Company processes reagent/ sample mixed water in an effluent treatment plant before disposing.
- The company has gender diversity, constituting 41.35% of women in total workforce in fiscal 2023.
- The governance structure of MHL s characterised by 57% of independent director, a split chairman and chief executive officer position, extensive financial disclosures, presence of an investor grievance committee and a board comprising three independent directors out of seven members.

CRISIL Ratings believes that as MHLs ESG strategy evolves over the medium term, more quantitative information on relevant parameters and goals is desirable.

There is growing importance of ESG among investors and lenders. The company’s commitment to ESG and embedding sustainability principles across the organisation and its value chain will play a key role in enhancing stakeholder confidence and access to capital markets.

Outlook: Stable
CRISIL Ratings believes the Metropolis group will, over the medium term, continue holding leading market position in the healthcare services industry, supported by its established brand name and widespread network, and will continue to showcase a strong financial risk profile backed by healthy cash accrual, which will only better with time.

Rating Sensitivity Factors
Upward Factors
- Higher-than-expected revenue growth from the non-COVID portfolio while maintaining healthy operating profitability of over 26-28% on sustained basis
- Improvement in the revenue mix; reduction in geographic concentration and sustained increase in revenue share from the B2C segment
- Sustenance of the healthy financial risk profile

Downward Factors
- Steep decline in revenue or operating margin falling below 20% on a sustained basis

- Large, debt-funded capex or acquisitions weakening the key debt metrics;
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Key Financial Indicators

Particulars	Unit	2023	2022
Revenue	Rs crore	1148	1228
Adjusted PAT*	Rs crore	108	200
Adjusted PAT margin*	%	9.4	16.3
Adjusted debt/Adjusted networth	Times	0.09	0.31
Adjusted interest coverage	Times	9.6	14.4

**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:
CRISIL Ratings` complexity levels are assigned to various types of financial instruments and are included (where applicable) in the 'Annexure - Details of Instrument' in this Rating Rationale.

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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	100	Simple	CRISIL AA-/stable
NA	Term Loan	NA	NA	20-Oct-24	295	NA	CRISIL AA-/stable
NA	Proposed Working Capital Facility	NA	NA	NA	5	NA	CRISIL A1+

**Not yet placed*

Annexure - List of Entities Consolidated

Entity Consolidated	Extent of consolidation	Rationale for consolidation
Amins Pathology Laboratory Pvt Ltd	Full	Subsidiary
Ekopath Metropolis Lab Services Pvt Ltd	Proportionate	Subsidiary

Dr. Ganesan’s Hitech Diagnostic Centre P Ltd	Full	Subsidiary
Centralab Healthcare Services P Ltd	Full	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
Star Metropolis Health Services (Middle East) LLC	Proportionate	Associate

Annexure - Rating History for last 3 Years

	Current			2023 (History)		2022		2021		2020		Start of 2020
Instrument	**Type**	**Outstanding Amount**	**Rating**	**Date**	**Rating**	**Date**	**Rating**	**Date**	**Rating**	**Date**	**Rating**	**Rating**
Fund Based Facilities	ST/LT	300.0	CRISIL A1+ / CRISIL AA-/Stable		--	10-10-22	CRISIL AA-/Positive	20-10-21	CRISIL AA-/Positive / CRISIL A1+	30-09-20	CRISIL A1+ / CRISIL AA-/Stable	CRISIL AA-/Stable
			--		--		--	25-01-21	CRISIL A1+ / CRISIL AA-/Stable		--	--
Non Convertible Debentures	LT	100.0	CRISIL AA-/Stable		--	10-10-22	CRISIL AA-/Positive	20-10-21	CRISIL AA-/Positive	30-09-20	CRISIL AA-/Stable	CRISIL AA-/Stable
			--		--		--	25-01-21	CRISIL AA-/Stable		--	--

All amounts are in Rs.Cr.

Annexure - Details of Bank Lenders & Facilities

Facility	Amount (Rs.Crore)	Name of Lender	Rating
Proposed Working Capital Facility	**5**	**Not Applicable**	**CRISIL A1+**
Term Loan	**145**	**Citibank N. A.**	**CRISIL AA-/Stable**
Term Loan	**150**	**HDFC Bank Limited**	**CRISIL AA-/Stable**

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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