"Metropolis Healthcare Limited Q2 FY20 Earnings Conference Call"

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Moderator: Ladies and Gentlemen, Good day and welcome to the Metropolis Healthcare Limited Q2 FY20 Earnings Conference Call. This conference call may contain forward looking statements about the company which are based on belief, opinion and expectations of the company as on the date of this call. These statements are not the guarantees of future performance and involve risk and uncertainties that are difficult to predict.

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I now hand the conference Ms. Ameera Shah – MD, Metropolis Healthcare Limited. Thank you and over to you, ma'am.

Ameera Shah: Hi good evening everyone. Thank you for joining us for the Q2 FY20 Earnings Call, today I am joined by Mr. Vijender Singh – CEO, our senior management team and SGA, our IR Advisors. The presentation and press release have been issued to the stock exchanges and uploaded on our company website. I hope everyone had a chance to have a look at our performance.

Let me give you a perspective on our strategy before I ask Vijender to give you details on our operational and financial performance. We have continued the business momentum of Q1 quite well. In Q2 we recorded revenue growth of almost 16%, accordingly in Q2 our consolidated revenue stood at 223 crores. Our reported EBITDA stood at 62.6 crores a growth of 18.8% on a year-on-year basis. Accordingly, the margins stood at 28% of revenue. The reported PAT for Q2FY20 witnessed a growth of 43.7% on year-on-year basis to 43.1 crores partly aided by lower tax rates. All our financial matrix on H1 basis have been healthy with a revenue growth of 15.6% and growth in reported EBITDA at 21.3%, corresponding margins of 27.6% and PAT growth of 21.9%.

Technology is a key area of focus for us. We believe it is important tool to drive change and increase efficiency. Accordingly, we have been making technology investments at Metropolis in the last 12 to 18 months and the same has gone live recently. These include

- a new front-end registration invoicing system which will enhance speed and put in better control
- An automated human resource management system which would provide analytics to start making better productivity decision.
- A new customer analytics module which would provide visibility and tracking customer behavioral patterns and allow us to have targeted campaigns for better conversion rate,
- Move towards a lean asset light infrastructure using cloud as the main platform,
- Build robustness in operations by implementing software for better data security and business continuity.

One of the key markets for us in North India is Delhi. We believe there is room for us to grow and accordingly we have increased our investment and focus there. Our Delhi regional reference lab has been relocated in the first half of this year and expanded to 15,000 square feet from 8,000 square feet earlier. A larger test menu processed in Delhi will allow Metropolis to build further market share in North India by expanding processing capacity, improvement in turnaround time (TAT) of report and adding more scientific expertise. The rental overlap and transitional cost for the lab at New Delhi has been partially impacted the EBITDA for Q2 and H1 FY20. We do not expect these costs to continue in H2 of this year.

I will now spend a few minutes on our acquisition strategy and recent action. We did an acquisition recently in Surat which is a focus city for Metropolis where we acquire four frontend labs. Our strategy with the acquisition in Surat is to expand our market share. These labs were part of a lab on lease model in FY19 and post-acquisition, signed on September 30th, it will allow us to build synergy and efficiency at the backend and expand the consumer franchise on the front end. While we were not able to do this while it was lab on lease now that we have done the acquisition, we can build the synergies.

These labs reported revenue of 9 crore in FY18, the acquisition cost has been worked out at about 18 crores and will be paid in tranches until September 2021. On the broader front at Metropolis, the acquisition strategy is build on the principle of making an entry point in a promising geography where the infrastructure and brand as good consumer connect, ethical transparent business practices and then work along with the partner to organically grow the business and the market. Our idea here is not revenue acquisition, but inorganic entry and organic growth which typically plays anywhere between three to five years. As a result, most of our acquisition have been smaller in nature and over a period of a period of time with complete integration in Metropolis these grow handsomely. However, we are also exploring options of much larger acquisition as well.

Let me now give you some color on the market share in focus cities:

Let me quantify that this is based on our internal estimates and there is no hard data available. We estimate our market share (which is B2C and B2B both) in Mumbai is about 16% with leadership position, Chennai at 11% with leadership position, Pune at 7% with leadership position, Surat at 16% with leadership position which before the acquisition was around 12% and Bangalore at 5% with number two position. We believe there is a long runway for growth in these markets and strengthen our leadership position on the back of B2C strategy and strong consumer brand as we move forward.

On the test menu, we continue to lead the industry. We have 14 new tests to our menu in the area of genomics, Onco-pathology, New-born screening and transplant pathology. These have been validated and added to the test menu in H1 FY20 thus expanding our capabilities to conduct more specialized test. All these tests are a result of our R&D efforts which has been invested out of our healthy earnings and we expect these to contribute to revenue growth in the coming quarters.

Let me give you details on our operational merger of Histoexpert:

Histoexpert is a one-year-old JV providing digital pathology services to hospital focused on cancer care, with Metropolis holding 65% of the shareholding, the rationale of combining the operations is that it will reduce corporate cost of Histoexpert and provide better synergies for consumer on the front-end. Some of these costs were loaded into H1 which will not continue in H2.

Ours is a people-oriented business. Human Resources is our biggest asset. We have appointed a new Chief Human Resource Officer – Ishita Medhekar. Before joining Metropolis Ishita Medhekar was Head – HR with Sterlite Power. She has (+20) years of experience in varied industry such as telecoms, consultancy and pharma with 15 years of experience in strategy and system designing and operations. In her recent assignments she has been associated with other organizations like Bharti Airtel, Avaya Global Connect, AF Ferguson, etc.

We have also appointed a new CFO for Metropolis Healthcare, Mr. Rakesh Agarwal. He is a Masters in Business Administration with finance specialization from AIM institute and Company Secretary from **ICSI**. He has over 20 years of progressive experience in finance domain including business finance, financial management and operational management. His last assignment was his Bharti Airtel where he was heading the finance controller function for India. Prior to that he was associated with organization like Dishnet Wireless, Usha International Limited. He has extensive experience in

- Consumer Experience,
- Business Partnering,
- Business Analytics and Reporting
- Internal and Statutory Compliance and
- Governance.

We have launched the number of key initiatives on the manpower front to improve productivity, develop talent and measure performance. We expect the benefit of this to accrue over the next few years. We have a high degree of motivated and stable senior management team with average tenure of CXO that is 4.6 years which is direct reporting to the CEO and the next level of n-1 at 5.5 years and n-2 which is at 4.8 years.

We at Metropolis strongly believe that growth opportunities are plenty for a focused player like us. The growth opportunities are as follows:

1. Increase our market share in focus cities through network expansions, improving productivity per center and generating higher revenue from Wellness.

2. Continue to grow our share of B2B in North and East aggressively using the additional new capacity created in Delhi Lab and by expanding our network to smaller towns in North East India.
3. Number three we have seen a good growth in Wellness in Tier-2 towns across India when we launched TrueHealth in 37 cities. Today 8% of our revenues is from Wellness and we are now expanding our Wellness services in focus cities as well.
4. Scientific up selling: We will leverage our vast capabilities in molecular diagnostic, oncology, cytogenetic. So, there is less competition and higher margins due to advanced technologies, skilled manpower and complex processes involved.
5. Prevented and Wellness services: This is an area of growth where we are targeting healthy individuals with **sedentary** lifestyle are prone to diseases such as cardiovascular and diabetes ailments.

Precision medicine, focus on preventive care walk in, customer services will drive growth.

All of this will strengthen the Metropolis brand to be the only choice of patience. I would now like to hand over to Vijender Singh our CEO 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 light model and strong test menu has been playing out well for us. Focus cities contribution has moved from 59% in FY19 to 55% in H1 FY20 on back of increased contribution from other cities. In seeding cities the contribution has moved from 19% to 18% in H1 20. Other cities contribution has moved from 23% FY19 to 27% in H1 FY20. Moving on to revenue mix we are pleased to share that we are continuously growing on the B2C part of our business. Our B2C revenue share in H1 FY20 stood at 44.4% up from 43.6% in H1 FY10. In focus cities B2C revenue have grown to Rs. 131 crores registering a growth of 17% on year-on-year basis. B2C share in focus cities was higher at 56% as compared to 52% in H1 FY19. Our revenue growth is driven by volume and moving the customer up the value chain.

Our upcoming segment i.e. Wellness have shown strong growth at 48% on year-on-year basis. This segment now contributes to 8% of our overall revenue. Due to extreme flood in Maharashtra and Gujarat we lost almost 8 working days where employees and customers were not able to visit the centers. One of our satellite labs also got damaged. Estimate loss of revenue is about 2 crores which could have added another 1% to our overall growth. The growth would have been closure to 17% under normal circumstances.

Network highlights: our network expansion and utilization strategy continues to gain traction. Our laboratory network remain unchanged from Q1 to Q2. Overall at the end of H1 our network counts stood at 124 as compared to 119 at the end of FY19.

I will now share the financial performance for the quarter gone by.

- Our consolidated revenues grew by 15.6% from 193.10 crores in Q2 FY20 to Rs. 223.3 crore in Q2 FY20. In H1 FY20 consolidated revenues grew 15.6% from Rs. 368.9 crores in H1 FY19 to Rs. 426.6. crore in H1 FY20. As mentioned earlier, the growth would have been higher if it were not for the floods which impacted our working for 8 days.
- Our reported EBTIDA for Q2 FY20 stood at Rs. 62.6 crores registering a growth of 18.8% on year-on-year basis. Accordingly, the margins stood at 28% for Q2 FY20. In H1 FY20 reported EBITDA stood at Rs. 117.7 crores registering a growth of 21.3% with a margin of 27.6%.
- Our EBITDA would have been higher however
  - we incurred rental overlap for New Delhi Lab amounting to Rs. 50 lakh for two properties for first half of the year which will not be there for second half of the year. This impacted 1% growth in EBITDA.We also witnessed increase in minimum wages in Maharashtra which had its impact. The Delhi minimum wage has also kicked in from October 19 but will only impact us marginally.
  - The EBITDA margin would have been higher by 0.6% if we exclude the lab on lease for H1 FY20.
  - The lab on lease contract existing in Q2 FY19 which is 11 numbers have moved from 17% EBITDA to 20% EBITDA margin which is a good sort of progress.
  - The new lab on lease contract started post Q2 FY19 which is nine numbers have diluted the total lab on lease EBITDA to 10% which was as expected.
  - The R&D investments in ruling out new test benefit of which will accrue over the next few quarters.
- Q2 FY20 PAT is 43.1 crore as against 30.0 crore in Q2 FY19 resulting a growth of 43.7%.

Reported PAT margins for the quarter stood at 19.3% due to lower tax rates benefits. H1 FY20 PAT is 70 crore as against 57.4 crore in H1 FY19 resulting a growth of 21.9%. On account of IndAS we had the following impacts. We had a positive impact of Rs. 8.4 crore in H1 FY20 while the increase in depreciation and finance cost has been to the tune of Rs. 7.2 crore and Rs. 3.2 crore respective for H1 FY20.

On the balance sheet front, we have created a right to use asset of Rs. 57.3 crores for the long-term lease contracts, whereas on liability side, a lease liability has been created to the tune of Rs. 61.89 crores in favor of lessee as against the assets created. Retained earnings were impacted by Rs. 1.89 crore net of deferred tax. As at 30th September 2019 we had cash and cash equivalent to the tune of Rs. 137.16 crore including Rs. 74 crore of short-term FD maturing within 12 months.

Starting October 2019 we have taken price increase in our test. We expect the same to start playing out in Q3 and fully in Q4 and that is from our side we now leave the floor open for Q&A.

Moderator: Thank you. We will now begin with the question and answer session. The first question is from the line of Chandramouli Muthiah from Goldman Sachs. Please go ahead.

Chandramouli Muthiah: First question is on the EBITDA margin, so I think ex of CSR cost and Ind-AS you had mentioned that various points in the call that there were some costs associated with startup of the Delhi Lab, and I think it was something associated with the acquisition, and there was another point in the call where you had mentioned another impact that if you had excluded you would get to a different normalized margin, so could you just spell out all the adjustments that you had mentioned on the EBITDA margin and what the EBITDA margin would have been if we were to adjust all of those onetime items?

Ameera Shah: So I think they are not onetime items, some of them are expenses which we have incurred in H1 which we may not incur in H2 and some of them are things which are steady state and will be recurring in nature, so just to give you an example of some of thses, one as we said that we have moved our property in Delhi from a 8,000 square foot to 15,000 square foot much larger bigger lab, which meant that for H1 for this year we had two facilities running for six months and infrastructure cost and manpower cost of running both. So that obviously we do not believe will continue in H2 of this year. So that was the part what diluted the EBITDA margin. Number two, we had minimum wage hikes in Maharashtra starting H1 this year which was very specific to obviously Maharashtra being a very core market for us, has probably impacted us a little bit more maybe than some of the peers and that cost has come in additionally. This will obviously be a recurring cost going forward. Number three, we have been doing quite a lot of R&D investment which is we have operational expenditure which has been the new areas of Geonomics, Oncopathology, newborn screening. What happens is when you start a test you have to do months of research and validation on equipment before you are able to launch it, so there has been some impact of cost as far as these go in the first six months of the year and lastly what Vijender mentioned that we had a 0.6% impact on the account of new lab on lease openings, with starting post H1 last year, which have come into the system automatically. These four things primarily, will altogether, and few other smaller issues will altogether sought of substantiate the difference between the slight dilution in EBITDA margin for H1.

Chandramouli Muthiah: Just following up on this if you could just help us quantify what impact this could have been on the margin because, I think doing the comparison it seems like a 100 basis points dilution YoY on the reported numbers, so if you could just help us quantity?

Ameera Shah: So approximately you are right I think the quantification should come around 1% to 1.5% altogether, of which rightly said 0.6% is just a lab on lease model, which as you know as Vijender also mentioned usually what we have seen that in the lab on lease model which are older, the very positive color on it is that the EBITDA margins have improved the one which we started in FY18 and first half of FY19 the EBTIDA margins on those lab on lease have actually increased from 14% to 20%. So we are seeing the progress happening and our expectation was that by the third year of operation it should reach between 20% to 25%, so we seem to be very much on track on that, but any new lab on lease in the first year of operation will of course dilute the margins because we are making a single-digit EBITDA margin on the new lab on lease.

Chandramouli Muthiah: Lastly question on the pricing environment so you had mentioned that you have taken a price increase in October of 2019 if you could just help us quantify across your business and test menus what would be the quantum of price increase you have taken here?

Ameera Shah: So, we have taken a price increase as far as the B2C part that is number one, and it has been taken on the entire test menu or all the test segments so that is first clarification. Second, it is a slightly difficult to really compute at this point of time. We will have to really see how it really plays out, but considering that we had not taken a price increase for two years before that, it is a medium size price increase you would see that would give us some comfortable growth going into Q3.

Chandramouli Muthiah: Would it be in the range of low single-digit is that a fair assumption to make?

Ameera Shah: It will be in single-digit whether low or high honestly we will only discover in Q3 fully so it is difficult to fully estimate.

Moderator: Thank you. The next question is from the line of Sudarshan Padmanabhan from Sundaram Mutual Fund. Please go ahead.

Sudarshan Padmanabhan: Ma'am, my question is to understand if one is looking at not only Metropolis but the other listed player who have reported numbers, I mean the numbers seems to have been a relatively good across the board, one is there a better anti-infective season that has been a tailwind to it or we have been talking about the need for the listed or the organized player gaining market share and unorganized player losing it, I mean are you seeing some sense of competition getting weaker you know more visible in this quarter?

Ameera Shah: So, if you actually look at industry growth rate you know there is again no hard data, but our estimates are around it will be about 10%, 11% industry growth rate at this point of time. So, as you rightly said the listed peers have actually shown reasonably good numbers in Q2 and Metropolis has shown good strong operating matrix in Q2 as well. Probably our operating matrix of 16 plus percent patient volume and 20% plus test volumes are probably the strongest in the market. Honestly, would not attribute much of this to seasonality because normally if the season had been good in Q2, we would have actually seen a higher growth in Q2, but actually because what Vijender said where we actually lost 8 operational days, on account of severe floods in Maharashtra and Gujarat which are very critical areas for us, we believe that we could have been 1% to 2% higher growth in revenues, if we are not seeing such extreme conditions. While Q2 has played out well for us, we believe that the seasonality factor has not aided us in this quarter, may have actually a little bit been obstacles in some way.

Sudarshan Padmanabhan: Ma'am from a trend point of view, I am actually looking at the test per patient, one is from the last year to this year we have moved to slightly better test operations is also giving you some kind of growth. What I am trying to understand here is once comparing India or any other developing countries, in developed countries people tend to bundle up a little bit more and there is a growth that actually comes from higher number of test compared to what happening in the developing market, do you think that probably three years, four years, five years down the line we would see this as also growth driver, patient would come and ask for more and better bundled tests rather than just doing one or two test per patient?

Vijender Singh: See there are two parts of the business, one is illness and second is Wellness. So Wellness is more of preventive in nature and in our previous call also I have specially mentioned that today this Wellness is more a push kind of business where you know everybody is bundling the tests and trying to push through discounts, but overall if you look at the industry I think somewhere down the line there is huge opportunity in terms of growth and also going forward you will see the contribution reaching out to 25% to 30% of overall size of pathology. In our case also if you look at the numbers we started the true health Wellness, which we started somewhere in February this year. Earlier the contribution used to be 2% to 3% and now it has gone up to 8% within six months' time. So, I think going forward this category is growing to grow faster, and it is going to contribute almost close to 25%, 30%.

Ameera Shah: Just to add to that, once insurance come into the industry as a catalyst where today as you guys all know insurance does not cover diagnostics which is unless you are being treated in a hospital. Only 8% of India is insured and in that 8%, only when you are hospitalized you get covered for diagnostics otherwise it is all out of pocket which basically means majority of the population and even the insured population do not get covered for diagnostic. What that results in, actually doctors being more careful in prescribing number of tests because you have to pay from your own wallet. In the US as you rightly said or in Europe what normally happens is that because everybody is covered for diagnostic services by insurance. Even if you see a doctor, he will just say fever panel which will normally have 10, 12 tests in it versus in India the doctor will write one, two, three tests depending on the affordability. So, as insurance comes in a large way and covers more of India and diagnostics get covered then definitely we will see the number of test per patient increasing and then of course it will also increase because of the Wellness case that Vijender said.

Sudarshan Padmanabhan: Ma'am on the insurance part, one is looking at it today. We have lot of unlisted or the mom and pop store you know shops basically that is primarily do not have the infrastructure not necessarily NABL approved, I mean do you think with insurance penetration improving and also we have spoken about regulations in the past that needs to basically improve. Do you think at some point of time we are going to move into a regime where you know the government is going to enforce a certain amount of quality or an NABL approved laboratory because in a sense that will be a push towards the listed or the organized players?

Ameera Shah: Absolutely. I think this is very eminent, exactly when it will happen is very difficult to predict, but the government is making all the right noises and actions to actually give us the indication that they really want to govern this industry which today is completely ungoverned and unregulated and we of course welcome that move from the government., we have seen them pushing to advocating minimum standards and we believe that will really result in much better quality for the industry because a lot of the players which have the individual small labs which are run by unqualified people would possible not be able to meet up to these compliant standard which would significantly shrink the number of labs in the industry and allow for consolidation amongst better quality players. So yes we will definitely look forward to that.

Moderator: Thank You. We will move on to the next question that is from the line of Sriram Rathi from ICICI Securities. Please go ahead.

Sriram Rathi: Ma'am just wanted to check on one thing that our test per patient is less than 2x right now and while for the previous it was closer to two and half times, so is it because we focus more on the specialized test specifically where patient may be coming only for one test and I mean where can we go from here on this particular matrix?

Vijender Singh: See if you look at our test mix our 40% contribution comes from specialized test which is basically a differentiator what at Metropolis we enjoy. So one test equals to higher revenue per patient so in this case this is one of our primary reason that you know number of test per patient is lower than two, but if you look at our numbers it is going up actually earlier this number is 1.85 and currently let me share that it is 1.91. So we are closer to two patients at least in couple of quarters and very soon since we are talking about focus on increased revenue from increased volume from Wellness segment that is probably is also going to contribute a lot in terms of revenue per patient and also number of test per patient.

Sriram Rathi: So basically this trend I really should continue to increase?

Vijender Singh: And third is of course since you are talking about B2C expansion there also we will get more of routine tests so which will also eventually land up in adding more test per patient.

Sriram Rathi: And secondly on the price increase which we talked about, this price increase would have been mainly on the specialized test or it would also be on the routine test?

Ameera Shah: It is on the B2C side, so it is mostly right now on the routine test. So, we have usually done only on the most common test may be about maximum 100, 200 varieties and we still have to work on the other test which possibly may role out little later in the year.

Sriram Shah: Just wanted to get an understanding I mean how will be the EBTIDA margin difference between the B2C and B2B business for Metropolis just a rough idea?

Ameera Shah: We do not do separate P&L, so I cannot give you hard data, but instinctually I do not think the difference between the two. See it all depends again on what kind of B2B you do. If you are doing B2B there you are only focusing on semi specialized test and you are doing it based on a very high deep discounting, then it will be different from Metropolis. I would say the difference between B2C and B2B would probably be a 7% to 8% difference between the two. We do not have this like I said supported by hard data this is just instinct.

Sriram Shah: And ma'am this (+15%) growth that we are reporting every quarter now so I mean this is sustainable kind of growth for the next two to three year perspective. If you look at it, now price increases is also happening and our B2C proportion is increasing so I mean 15% plus growth is what we can expect to continue right.

Ameera Shah: If you see the last two years Metropolis grew 18% plus currently our growth in H1 is closer to 16%. We feel quite positive about H2 as well. So, we do not give any specific guidance, but we feel quite comfortable in the direction we are going.

Vijender Singh: See one point I want to add here is for just too substantiate is that one of our KPIs is to increase the ratio of our B2C, but that KPI is important from profitability point of view as well and stickiness of course.

Moderator: Thank you. The next question is from the line of Keshav Lahoti from Angel Broking. Please g ahead.

Keshav Lahoti: Ma'am I just wanted to understand how are your plans in Eastern part of India and Northern part is it organic, inorganic or combination of both because we already have listed players who have a higher market share in the Northern market?

Vijender Singh: So, if you look at our strategy what we have been talking is we have divided the entire geography into three parts first is focus cities where there are primarily five big cities and the contribution from these cities is quite significant. Second set of cities is seeding cities where Delhi actually falls in this category. Now what seeding city means is that there is going to be lot of investment at the back end and when I say backend investment means that to enhance our test menu, we will enhance, if required, a little bit of space as well, we will enhance our sales and marketing efforts to create that infrastructure. So, Delhi now falls in seeding cities and probably over a period of time like Ameera mentioned that we have shifted our current location which was about 8,000 square feet area now it has the new location is about 15,000 square feet area. So, this will improve our test menu and also improve our efficiency in terms of delivering our services. So, it is an investment phase as of now and second is that we are going to focus more on B2B and going forward probably we will start investing in the front end also which is B2C part. So, once the city is nurtured and becomes ready for becoming a focus city, we will then probably will start focusing more on B2C side.

Keshav Lahoti: As I can see most of the bigger players are targeting Tier-1 or Tier-2 cities so do you think the demand of such services are not so good in Tier-3?

Ameera Shah: Actually, our other cities are growing quite fast for us which would include Tier-2, Tier-3 and smaller towns. So it is not really matter of that the growth is not there, it is there, it is just that we do not probably talk about as much on the call because we have laid out our strategy where our first priority is focus cities, second priority is seeding and then the third is others, but what we are seeing in the other cities which is about 170, 180 other cities is we are either present through a collection center which is usually third-party or through a lab in all these markets and we are definitely seeing our base growing quite quickly which will allow us to then create a bigger presence in these markets and this is if you see the idea is that some of these other cities will move to seeding cities in time when they become bigger and some of the seeding cities will become focus cities for us in time and this total presence of 210 cities which is of course not stagnant but growing will continue this growth engine or growth to continue for the next 10 years.

Keshav Lahoti: One last question as I can see the run rate which the PSC are added is quite good and I believe the fastest in the industry and do you think the tax cut will lead to faster consolidation in the industry you might see the PSC will be added at a better run rate which you are doing right now?

Ameera Shah: Not really, I think that the PSC expansion is not so much a matter of capital because most people are growing through third-party centers, PSCs are really a matter of having a strong consumer brand which makes the third-party desire to become your franchise. So, it is really I would say quite unrelated to the tax cuts and really more based on the strength of your brand and your management execution.

Keshav Lahoti: So, will the tax cut lead to consolidation faster in the industry in the long run do you feel that?

Ameera Shah: I do not really see the connection to be very honest with you, because I think the consolidation is to be driven, it will be driven from two perspective. One thing is from the perspective of better minimum standards coming in form of compliances. Like we said these 1,00 thousand labs in India there will be a huge shrinkage of lab because they will not be able to comply and therefore better quality labs in terms of good brands will see consolidation. The second kind of consolidation will be that if large players like us wants to go out and buy regional players or smaller players and consolidate them in geographies and markets where today we feel we do not have as much of a presence and that could be the second kind of consolidation and of course Metropolis is focusing its energies reasonably on the second type as well.

Moderator: Thank you. The next question is from the line of Anubhav Aggarwal from Credit Suisse. Please go ahead.

Anubhav Aggarwal: One question was on that total patients visits grew for us by about 16%, but for the focus cities can you give that number for H1 year-on-year?

Ameera Shah: Usually we are releasing the data on a quarterly basis because from a competitive standpoint we feel it is not a good idea. We may look at releasing the data more on an annual basis so would request you to bear with us till then.

Anubhav Aggarwal: When you say that other cities are growing faster and focus cities percentage or revenues drop from 59% to 55% that is what I was coming that what is leading to the slower growth in focus cities where most of our new centers are focused on?

Ameera Shah: So, I think constitutional dropping from 59 to 55 is not because the focus cities are growing slower it is because the other cities are growing faster. So, the point is also the base obviously in a focus cities is much bigger and therefore it can never grow at the same pace if you got only Rs. 1 lakh in a city. Like in other cities, for months and obviously if that 1 lakh becomes 2 lakh and you are growing at 100%. So the other city growth will always be higher from a percentage standpoint and we see this as a very positive thing because this means that we are doing a better diversification strategy and while earlier 59% of our revenues came from focus cities now 55% of our revenue come from five cities which actually lead to a more diversified, lesser risky strategy. So, we actually welcome this.

Anubhav Aggarwal: So just to get it right what was the revenue growth in focus areas for us in first half of this year

Ameera Shah: As I just mentioned we do not release this data on a quarterly or half yearly basis, it is there with us at the end of the year.

Anubhav Aggarwal: How do I make out this comment when you say other cities have grown faster when you are not releasing the data I am not getting a sense I understand the diversification argument, but our total growth is 15%.

Ameera Shah: One thing which you could look at is what we have released is the B2C growth rate and if you see in H1 our B2C growth rate is close to 22%. As we have clearly indicated in the past our B2C expansion strategy and growth strategy is primarily in focus cities. So that should give you some indication that our strategy on B2C is working for us in focus cities. And the other thing to look at is also our B2C ratio is increasing as Vijender said where earlier compared to last year our B2C ratio has increased and if you consider H1 we are currently at I think about 56% B2C but last year we were at 52% at this first half of the year. So, both of these indicators to tell you our strategy is working, and focus city is getting the right nurturing and execution it means.

Anubhav Aggarwal: And one doubt also I had about the Wellness, because Wellness has grown so well, so Wellness large part of it my idea will be good part of revenue of Wellness will be coming from focus cities will that be good assumption to have?

Ameera Shah: No, actually that is slightly incorrect assumption because when we launched true health as a new initiative we launched it in about 25 to 30 cities which were all Tier-2, non focus cities, as I mentioned in my speech as well. We launched true health in all smaller market so that growth which is coming from Wellness will actually get attributed to seeding cities and other cities. We are only launching our true health Wellness initiatives and focus cities now.

Anubhav Aggarwal: And just one last clarity when you mentioned that we lost 8 days because of the flood situation in Maharashtra and Gujarat so someone who has to get the test done would have actually got the test done right it would not be that test would not have got done sooner or later it would have got released by either through us or are you referring that instead of visiting Metropolis or nearby center?

Ameera Shah: I mean it is very difficult to predict consumer behavior but yes when there are extreme floods and people have to wait through floods they will possibly go someplace which is right next to their house or in the hospital which is right next to their house versus maybe travelling 5, 10 minutes because that is one reason. The second is in many places our employees were not able to reach or you could not even open the centers. In third cases like places like Maharashtra where Kolhapur, Solapur the entire belt wa could not even open your center forget about actually offering services through it. So, neither patients nor employees were able to actually access the center.

Vijender Singh: In fact I want to add one more point here let us say in Bombay we have a floods and we had started emergency services also in order to cater to certain critical patients. So, there are boys actually had hard time to actually go through, pass through floods and sort of got their samples for emergency cases. So, this was we believe that we should do it on our own and I think lot of patients have appreciated this effort also.

Moderator: Thank you. We will move on to the next question that is from the line of Manoj Bajpai from Barclays. Please go ahead.

Manoj Bajpai: This is again more to do along the strategy part basically on the brand strategy because for the seeding cities we have very clearly mentioned about strengthening the Metropolis brand, so what exactly are we doing to strengthen this brand or what initiatives we are taking to actually make Metropolis a brand to reckon with because as of today personally speaking I have not seen any sort of some major initiative which has come to my knowledge which is at least based towards the brand building and secondly what is any ballpark figure you people have at this time for that percentage of your revenue or profits you will be assigning towards the building brand over next three, four years?

Ameera Shah: See normally when people think of brand building in marketing. normal thought is to do what FMCG companies do where you expect there will be big hoardings and big TV ads and big newspaper ads etcetera that does not work in healthcare. So, the kind of marketing initiatives we do are very below the line. So that is why probably you will feel that there are very few initiatives taken, but let me highlight to you what are the initiatives that we have taken. So for example we do almost 150 to 200 continuing medical education programs per year where our pathologist and our sales team will meet with small groups of doctors in round table kind of a meeting where there will be maybe 10, 20, 30 doctors and they educate them on the latest test why are the tests better, why the quality differs, how to use a particular type test and diagnose the patient, in which situation to use which test etcetera. So that kind of awareness building and education is constantly happening which happens obviously on the brand of Metropolis that is number one from a scientific program perspective. Number two, while we do some amount of marketing we obviously focus more on sales where we are about 300 to 400 sales medical representatives on the ground who go out and meet doctors on a day-to-day basis that is number two. Number three when we talk about consumer connect directly we are again doing below the line activities like camps, education programs, speeches, lectures which keep building the brand of Metropolis along with social media where people who are linked to us on linked in with Facebook, Insta all kinds of social media platforms we are constantly creating educational tools for them to understand what has happened with the test, how to use it to diagnose. On the Wellness side obviously there is a lot pamphlets, inserts, SMS, WhatsApp, email campaign that go out and with what we have tried to do is we have tried to also create good technology analytics at the back end which allows us for measuring different initiatives and what is working for us and what is not working for us. So the goal here is not to try and spend maximum money on branding building because you do not need to spend 100 crores like FMCG companies do in TV ads what we really need to do is more thoughtfully do below the lines activity that engages with the consumer either the doctor or the patient. So, some of these may not be very visible to the layman eye, but there are definitely happening I think we spend about a few percentage points on marketing per year which comes into our P&L as well.

Vijender Singh: So the marketing budget is spend in two ways where the thrust is more on enhancing scientific image of the company rather than going and talking about brand itself.

Manoj Bajpai: But that number that is what is the percentage of P&L you actually prescribe to marketing budget be it in whatever form and shape it is?

Vijender Singh: So currently it is below 2%.

Ameera Shah: That is actually in the industry, we will find that as a reasonably common parameter that is about 2% of sales is spend on marketing plus another 3%, 4% of sales is spent on sales. So, if you actually see if you combine the sales and marketing the total comes to about 6 to 7% of that.

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

Neha Manpuria: I just wanted to understand you mentioned in your opening remarks that you know our market share in a lot of our focus cities, we are at leadership position I know you are not giving growth rates for your focus cities, but do you think there will be a slowdown of or growth would mature is focus cities while we have bunch of these other cities, but they are mostly B2B, so at what point do you think we get to a tipping point where growth matures in focus cities and probably the newer growth which is coming from other cities is not of the same margin profile as your focus cities.

Ameera Shah: So couple of clarification number one in the focus city as we have shared our B2C growth is almost 22% for H1 which means that the growth continuous quite well in these focus city from a B2C front and we do not believe there is any lack of opportunity to continue growing on B2C on focus city at this point of time. Just to give you a simple example one of the other listed peers has closed to 25% to 30% market share in their major city and while we are still only at 10% to 15% in these five focus cities. Therefore, we feel there is enough of an opportunity in the runaway to continue to expand without coming to some sort of a stagnation point where you cannot grow anymore that is point number one. Point number two on the seeding cities actually it is not that it is all B2B a significant portion of our seeding cities is actually retail and B2C. The reason we have put it into a seeding cities is not because it is either B2B or B2C it is a combination of the two. To give you an example a city like Rajkot or Nasik which are both part of the seeding city. We are the number one leader and majority of our revenues in both these markets comes from B2C. So therefore almost half I would say of our business not exactly half, but almost half of our business in seeding cities also comes from retail. So therefore the opportunity to grow B2C is not only in the focus cities, but also in seeding cities.

Neha Manpuria: And would it be fair to assume that the margin profile from these seeding cities is similar to that of focus cities?

Ameera Shah: In some of the ones where the retail percentage is high yes the answer is yes in the places where the B2B is the predominant contributor the numbers would be lower.

Moderator: Thank you. We will move on to the next question that is from the line of Dhruv Jain from Ambit Capital. Please go ahead.

Dhruv Jain: I wanted to know why has the pricing for patients sort of come off. We were seeing the healthy price for patient still about FY19 they had sort of decline in these two quarters, so what has been the reason for that, is it because your other cities growth has improved, and we are sort of underpricing ourselves there?

Ameera Shah: Actually just to correct the data point H1 FY19 and H1 FY20 the average realization for patient is stable it has not declined. So, if you could just reflect back on the numbers.

Dhruv Jain: I was mentioning that we should see a growth earlier till about FY19 that sort of not come in at least in this first half?

Ameera Shah: See I think we have to realize is two things. Firstly, these things are not trackable per quarter because your test mix every quarter changes. Let me give you an example, in Q2 traditionally compared to Q1 you always have a lower average realization for patient. The reason this happens is let us say in Q2 I am sure all of you were on the call at some point in the last three months has had some cough or cold or flu like symptoms. When you have a cough, cold or flu like symptoms the kind of test that you do are more routine in nature and therefore the average realization dip. When you are going for something more significant and critical the average realization increases. So therefore these things are not comparable quarter-to-quarter we would urge you as we had said in the last call to look at these more annually because the test mix will affect the average realization per quarter that is number one. Number two our goal here is not to keep maximizing only average realization per patient at every point of time we have to recognize two things. Number one in healthcare we need to make sure that services stay quite affordable and number two we are also in a market where if you see the rest of industries consumers are getting price conscious about spending more and more. So our goal really at Metropolis is to keep these KPIs quite stable and not focus on increasing test realization per patient but really focus also on increasing and moving patient up to value chain and for us the quality of the business we get is very important because that is what determines profitability and sustainability.

Dhruv Jain: And just another question with respect to cash and conversion it has improved from FY19 reported numbers is this because I mean you had highlighted earlier that we had some pending litigation with some hospital or that sort of improvement should be assume that this should be the new norm going forward in terms of cash conversion?

Ameera Shah: So it is not that everything has been completely resolved, but what we have done from our side as we had guided in the last quarter is that we have been putting more effort and our team has been putting lot of efforts to even improve the collection so you would have actually seen the outstanding in terms of the number of days receivable actually improve by about four, five days and besides seeing the overall daily sales improvement in terms of three, four days if you actually exclude the government contract which we actually land up getting money just a few days after the quarter closed. If you exclude the government contract then actually there has been improvement of almost 10 days. So one is that the cash flow from operations has improved and that is one big reason why you are seeing the FCF improve and now our FCF to EBITDA ratio which was 56% H1 FY19 has gone to 85% H1 FY20.

Dhruv Jain: One last data question what is the share of international revenue in the first half?

Ameera Shah: It is the same as it was pretty much last year there is not much difference. We have been always saying that our international business is about 5% give or take and we do not see that changing practically going forward.

Dhruv Jain: Thank you. The next question is from the line of Deepak Khatwani from Stock Axis. Please go ahead.

Deepak Khatwani: Do you track a metrics like sales growth or like-to-like basis and if you do it will be helpful if I can get the numbers?

Ameera Shah: Again, we do track it somewhat, but we do not have the data that we are able to share at this point of time ready. We are working on it if there are some trends that we can share with you over the next couple of quarters so just bear with us to be able to come back to you with more accurate information.

Deepak Khatwani: So is there a ballpark range that you come across while looking at your own data if there could be a range as well that would be helpful for us?

Vijender Singh: See we do ageing based analysis also which includes the old store and existing store as well. So basis that we have to get into more sort of exercise and then maybe come back with an accurate data, but primarily the new center what we look at is the maturity of new centers whatever centers we open in last three to four years we still have headroom in terms of growth. So that still we believe that there is lot more headroom for growth.

Deepak Khatwani: Sir, I have another question on the revenue split on third-party centers and your own centers if you know if you have that numbers that will be helpful?

Ameera Shah: So again I think we do not have the exact numbers with us, but I think traditionally what we have been seeing is that a smaller percentage of our revenue comes from third-party centers as these centers are still young and that is exactly why Vijender was indicating that there is still a lot of headroom for growth from the new expansion. So therefore there is a lot of opportunity not only in terms of expansion and number of centers as you can see we have been adding almost 200 to 250 centers every quarter, but also the productivity percentage we believe can continue to grow quite well. So still it is a very young network and it takes almost five years before we see some kind of maturity. It will be definitely less than I would say 20%.

Vijender Singh: Contribution is less than 20% but growing at a much faster rate.

Deepak Khatwani: And how much is third-party charged you in terms of percentage of revenue or how is the margin profile there?

Vijender Singh: Average revenue share lies between 25% to 30%.

Deepak Khatwani: Is it the revenue numbers that you give you on the statements is it the gross number or net number after you pay them more?

Ameera Shah: It depends on the kind of center so when we have retail franchise centers we plug it into our gross revenues and when we remove it from expenses the sharing that we give the other centers which we have which are the B2B centers, but just to give you an indication at least 2,700 centers about almost 900 centers are what we call is B2B ARC centers. 600 about our B2B centers which we book on net basis and the balance we book on gross basis and remove the expenses from the P&L.

Deepak Khatwani: I have one final question that has been about the network in Mumbai how great is the network in Mumbai and how much of that is new and at what percentages?

Vijender Singh: See if you look at this is an ongoing exercise in Mumbai and the target release is to reach out to almost about 1200 centers including Panvel and all. So, what to do is that there are two levels of expansions. One is we look at horizontal expansions and if you look at Bombay currently 80% of our new network is third-party network. So this is an ongoing exercise and as a conscious decision, we have taken that in future the expansion is going to be 90% or 99% through third-party only.

Deepak Khatwani: And what percentage of revenue from Mumbai overall revenue?

Ameera Shah: We do not give the separate geography splits of city by city.

Deepak Khatwani: You also shared the market share in Mumbai and if you can share your market share a year ago two years ago it will be helpful for us to understand and how is it growing or you are taking up the market share?

Ameera Shah: To be again very honest with you there is no hard data. I would love to share with you, but there is no hard data available. So what we have done just to share with you guys in an estimate of where we are today and where we believe there is a great run into the future, but I can overall definitely tell you that our market share in Mumbai has been increasing over the last three, four years there is no question about it. Earlier we had less than 100 centers in Mumbai. we had 75 centers in Mumbai and like Vijender mentioned today we have almost 300 patient service centers in Bombay plus another 200, 300 centers which are linked to sort of doctor clinic. So the network expansion has been very rapid, and we believe that we are not close to saturation. Yes there is still big parts of Bombay that we can create new centers along with improving productivity percent.

Deepak Khatwani: How much is market growing in Mumbai, the overall market?

Ameera Shah: Overall India is about 10% like I said again city by city there is no specific data I can tell you that the individual labs in Mumbai, the mom and pop sort of labs which independently operate most of them are actually growing at 5%, 6% a year because there is quite a move from unorganized to organized.

Deepak Khatwani: Even after that is only 5% to 6% I was just wondering it will be higher?

Ameera Shah: I mean those are more anecdotal examples that is why I am not giving you any hard fact because these are only we may have met 20 labs who are saying 5% growth is happening, but like I said overall industry estimate is about 10%.

Moderator: Thank you. The next question is from the line of Ritesh Bafna from RB Securities. Please go ahead.

Ritesh Bafna: I have a question related to the promoter shareholder which I see on the BSE is around 57.41% out of that approximately 45% is encumbered, so just wanted to understand what is the current status post the September have we reduced any pledge share or are there any plans to reduce the pledge, can you just throw some light on that?

Ameera Shah: So before September 30th the pledge percentage was 26% which was the same as the time that we went for IPO there was no difference from the time of April till September, but as of now the pledge has been reduced to less than 20% of promoter pledge and we have released that already and intimated the exchanges accordingly as well.

Ritesh Bafna: And any plans to reduce it more?

Ameera Shah: I mean as I guided last time over the next 18 to 24 months my endeavor will be to reduce the pledge and to be able to ideally become completely unpledged.

Moderator: Thank you. The next question is from the line of Ankur Shah from Quasar Capital. Please go ahead.

Ankur Shah: Ma'am we have been mentioning since the start that you know Metropolis has been focusing on super specialized testing so like as I just think about competition what sort of competition or what is so different from super specialized testing that we are enjoying and the competition is not encouraged to enter that area, is it a test which is available only to us or can you throw some light on that?

Ameera Shah: It is a very good question and we are happy to explain. See when you are talking about specialized and super specialized test what does it mean, it basically means these are tests for cancer, these are test for strokes, these are test for neurological problems when you have a kidney transplant you need a test etcetera right now what happens is when you need these test are tests which actually determine life or death because if you get the wrong diagnosis you would 100% get the wrong treatment which probably will land up in a bad situation for a patient. So therefore these things are very critical it is very important that it is sent to a lab where the doctor fully trust and believes that this result is going to be correct. Now what Metropolis does differently is two, three things. First I will tell you about the hard infrastructure and then I will tell you about the soft infrastructure. The hard infrastructure means that for these test you have to have the ability to get equipment which have the ability to process these test. Now we have not only invested in all of these which required a good amount of CAPEX, but after that you need to have the trained manpower and the expertise on knowing how to interpret these test in a correct manner because it is not an automated test where we just give you a sheet and you just report it these are all requiring great amount of interpretation and expertise which means you have to also have the ability to draw the best talent, the best doctor, the best PhDs, MSc. to your group and be able to retain them and with your experience make that a good learning atmosphere. So that is as far as the technology and the people part of it. The second part of it is that these test do not become commercially viable unless you have large volumes for these test because if you get only one sample a day and you try to run it, it will be so expensive that you will never be able to be competitive in the market. So the only people who are able to do specialize and super specialize test in a commercially viable way are people who have a network all over India and outside to collect samples from all over so that we can batch it in a volume and run these test to make the unit economics viable so that is from a financial perspective and from the softer perspective the soft infrastructure that you probably do not see is that when your sample let us say for a cancer comes to Metropolis, Metropolis will not only do that test on one machine but two technologies. we will have a group of doctors who will interpret it, put the common knowledge together then we will actually call up your doctor discuss the case with your doctor, sent them clinical reprints, discuss what are the other experiences we have had and that is how build the trust and the relationship with the doctor. So the doctor feels comfortable that for the cancer patients in the future they will only sent it to us because they are confident we give a accurate report and we help them making the right diagnosis. Now if you combine these three things together they become very difficult to replicate which is why you are seeing the Metropolis continues to get the largest piece of specialized sample and even though there may be new companies who have tried to come and compete on one of these three fronts had always a gap which they are not able to fulfill. I hope that answers your question.

Ankur Shah: The second question is since we have seen a very aggressive fast network expansion in the last three, four years, are we tracking the network expansion on a trailing basis let us say two year trailing basis or three year trailing basis and how stores are performing and let us say if I consider a scale of 100 centers out of that what has been the success ratio of these stores and how are they scaling, is there any no idea which you can share on that?

Vijender Singh: See one of our strategy of B2B was more focus in focus cities and if you look at our expansion on B2C side majorly most of the centers have come up in these top five cities where we were already enjoying a good brand equity. So we thought that let us leverage upon this brand equity and probably you know try to drive our expansion in these cities. Now since you have some part of brand equity so most of our centers probably I would say that we are doing good in terms of return on investment for the center, but there are couple of centers where we took a conscious call based on quality matrix who are not sort of fitting into our scheme of things there we had to take a call. So net-net if I rate so 90% of our centers probably I would say in these focus city are doing good in terms of growth and in terms of return and investments also for the center.

Ankur Shah: And a third question a small question, the competitor on the call mentioned Dr. Lal Path mentioned that we have seen reducing manpower cost going forward because of AI and automation coming into place, so are the similar ones going to enjoy the Metropolis or it is that we have a different set of like the specialized testing which we have we would not be getting the benefits of that?

Vijender Shah: See if you look at our structure if you look at our Lab structure today we have a one global reference lab which is based out of Bombay and below that we have strong network of regional reference lab which are kind of mini reference labs and if you look at our peer groups you know lab network probably there you may find little different model. So that actually makes us little bit different from the peer because we have 12 labs, but in a way these 12 labs we see in future as one of our key sort of differentiator because at the end of the day you have to compete with regional players also who are as good as you know national player. So in order to compete and have an edge over local competition we thought that let us continue with these regional reference lab. Now in our scheme of things what we think is that see in our company we have been talking about smart and automation that is a life day to day life for us, but what we are thinking is that we want to move from smart to intelligent pathology wherein we want to have lot more value additions in terms of analytics, in terms of bringing stickiness towards our customers especially clinician because they themselves also face lot of competition from their peer and their medical associates. So they also are struggling in terms of having stickiness. We want to actually build a model which talks about intelligence wherein it is not going to just help the clinicians but also help the consumers also in terms of analytics. So this is one direction probably we want to drive in coming years.

Ameera Shah: Just to add to that your specific question around AI you know at this point of time manpower cost is obviously something that we want to continue to look at from our productivity, from a cost efficiency perspective and we are very much doing that whether AI is going to be the solution or there are going to be other ways to the solution I think that will depend on each companies opinions, but from our perspective we definitely believe that there is opportunities for us to be more productive and those are things that initiative that we are taking internally to really see how the manpower cost can be potentially contained going forward.

Moderator: Thank you. Ladies and Gentlemen due to time constraint that was the last question. I now hand the conference over to the management for their closing comments.

Ameera Shah: So just wanted to thank all of you for joining us and like Q1, Q2 has been a very healthy and good growth quarter for us. We very much looking forward to a positive outlook on H2 and with bunch of initiatives we are taking internally from a automation, cost management perspective and also from a consumer facing customer relationship building perspective as well and I just wanted to say that our focus is really to build a responsible sustainable business as we keep moving forward and therefore we would continue to make investment in building robustness of systems and their sustainability because the idea of this talk is that this company is not really only a quarter-to-quarter, but the idea is to build the really solid business long term which can continue generating good cash flow returns over the next 10 years and we would endeavor to keep making the investment today that would enable us to do that and scale up as we move forward. So thank you everybody.

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