

Ref: MHL/Sec&Legal/2020-21/138

Date: October 1, 2020

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

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

Scrip Code: 542650

Scrip Symbol: METROPOLIS

Sub: Intimation of Credit Rating.

Dear Sir/Madam,

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

Further, please note that the Company has neither issued the Non-Convertible Debentures nor availed the long-term or short-term bank facility as aforesaid till date.

The rating rationale dated September 30, 2020 received from CRISIL on October 1, 2020 and accepted by the Company is enclosed herewith for your kind reference.

The above is for your information and records.

Yours Faithfully

For **Metropolis Healthcare Limited**

Poonam Tanwani
Company Secretary & Compliance Officer
Membership No. A19182
Encl. a/a

BLOOD TESTS • DIAGNOSTICS • WELLNESS

METROPOLIS
The Pathology Specialist

Metropolis Healthcare Limited

Registered & Corporate Office: 250 D, Udyog Bhavan, Hind Cycle Marg, Worli, Mumbai - 400 030.

CIN: L73100MH2000PLC192798 Tel No.: 8422 801 801 Email: support@metropolisindia.com

Website: www.metropolisindia.com

Global Reference Laboratory: 4th Floor, Commercial Building-1A, Kohinoor Mall, Vidyavihar (W), Mumbai - 400 070.

Rating Rationale

September 30, 2020 | Mumbai

Metropolis Healthcare Limited

Rating Reaffirmed

Rating Action

Total Bank Loan Facilities Rated	Rs.150 Crore
Long Term Rating	CRISIL AA-/Stable (Reaffirmed)
Short Term Rating	CRISIL A1+ (Reassigned)

Rs.250 Crore Non Convertible Debentures	CRISIL AA-/Stable (Reaffirmed)
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1 crore = 10 million

Refer to annexure for Details of Instruments & Bank Facilities

Detailed Rationale

CRISIL has reaffirmed its 'CRISIL AA-/Stable' rating on the non-convertible debentures and long-term loan facility of Metropolis Healthcare Limited (MHL; part of the Metropolis group). CRISIL has also reassigned its '**CRISIL A1+**' rating to the short-term bank facility of MHL.

The ratings reflect MHL's leading position in the diagnostic services market in India, supported by a well-established brand and strong reach and healthy operating efficiency, driven by robust cash flow and prudent working capital management. The ratings also factor in a strong financial risk profile and the proven track record of the promoters. These strengths are partially offset by exposure to risks related to high, albeit reducing, revenue contribution from the business-to-business (B2B) segment, market fragmentation and moderate entry barriers in the diagnostics industry.

Operating income grew by about 13% in fiscal 2020, with expansion of patient service centres (PSCs) leading to an increase in the number of patients serviced. In fiscal 2020, the number of patients serviced grew 16% to 10 lakh from 8.9 lakh a year earlier. Revenue per patient remained high at Rs 856 in fiscal 2020 (Rs 836 in fiscal 2017). While the Covid-19 pandemic temporarily impacted revenue and margin in April and May 2020, performance normalised from June onwards with easing of the nationwide lockdown and increase in the share of Covid-19 tests, largely offsetting the decline in revenue from specialised tests. Revenue growth is expected to sustain over the medium term, with further expansion of PSCs and the number of patients serviced. Besides, operating margin is expected to normalise and sustain at 22-25% over the medium term (25% in fiscal 2020) owing to various cost rationalisation measures implemented by MHL, including consolidation of testing centres and rationalisation of other overheads.

Financial risk profile remains strong, as indicated by a debt-free balance sheet and comfortable credit metrics. The group also had sizeable cash surplus of around Rs 235 crore as on June 30, 2020, supporting liquidity. To propel growth, the management could consider small-to-medium-sized acquisitions to enhance the geographical presence. The group's strong balance sheet and cash position provide the flexibility to absorb modest-sized acquisitions without significantly impacting the key credit metrics. Nonetheless, any large-sized debt-funded acquisition will be a key monitorable.

Analytical Approach

For arriving at the ratings, CRISIL has combined the business and financial risk profiles of MHL and its 19 subsidiaries (collectively referred to as the Metropolis group), as all these entities are in the same line of business, have strong operational and financial linkages and are under a common management. The subsidiaries have been acquired over the years as part of MHL's strategic inorganic expansion.

In its analytical approach, CRISIL has amortised goodwill arising from mergers/on consolidation has been amortised 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 124 pathology labs and 2,731 service centres. Revenue stood at Rs 856 crore in fiscal 2020.

* **Healthy operating efficiency driven by prudent working capital management:** International and national laboratory accreditations, servicing customers through a hub-and-spoke model, strong quality controls and continuous process improvement through an in-house research and development set-up contribute to healthy operating efficiency. Furthermore, working capital is prudently managed, as reflected in receivables of under two months and minimal inventory. This has resulted in strong operating margin and return on capital employed of 25% and 40%, respectively, in fiscal 2020.

* **Strong financial risk profile:** Adjusted networth was Rs 490 crore as on March 31, 2020. Debt protection metrics are healthy, backed by substantial cash accrual and negligible debt. Liquidity is comfortable because of unencumbered cash and equivalents of about Rs 235 crore as on June 30, 2020.

* **Proven track record of the promoters:** The founder, Dr Sushil Shah, is a pathologist with industry experience over three decades. Ms Ameera Shah has played a key role in driving growth through a prudent mix of organic and inorganic expansion, while availing of minimal debt for funding acquisitions.

Weaknesses

* **High, albeit reducing, revenue contribution from the B2B segment:** The B2B segment has contributed to a majority of the revenue in the last three years, resulting in a longer receivables cycle. While the management have taken steps to reduce dependence on the B2B segment, it still contributed ~56% of revenues in fiscal 2020.

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

Liquidity Strong

Unencumbered cash surplus was Rs 235 crore as on June 30, 2020, with negligible debt. Cash accrual, expected at more than Rs 100 crore per annum over the medium term, should sufficiently cover capital expenditure of Rs 50-60 crore per annum as well as the incremental working capital requirement. However, any large acquisition will remain a rating sensitivity factor.

Outlook: Stable

CRISIL 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

- * Sustained revenue growth of over 10%, with healthy operating profitability of around 25%
- * Improvement in the revenue mix
- * Sustenance of the healthy financial risk profile

Downward Factors

- *Decline in operating margin to below 18% on a sustained basis
- *Large, debt-funded capital expenditure weakening the key credit metrics; for instance gearing deteriorating to more than 0.8-1 time
- * Higher-than-expected dividend outflow.

About the Group

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

In April 2019, the company was listed. As on June 30, 2020, the promoters held 50.81% and foreign portfolio investors held 25.31%; the remaining was held by others.

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 March 31, 2020, it had a global reference lab in Mumbai, 12 laboratories (13 regional labs) and 2,731 service centres. The reference lab is accredited by College of American Pathologists and National Accreditation Board for Testing and Calibration Laboratories.

In the first three months of fiscal 2021, the company's operating income and profit after tax (PAT) stood at Rs 143 crore and Rs 3 crore, respectively, against Rs 203 crore and Rs 27 crore, respectively, for the corresponding period of the previous fiscal.

Key Financial Indicators

Particulars	Unit	2020	2019
Revenue	Rs crore	857	760
Adjusted PAT*	Rs crore	118	116
Adjusted PAT margin*	%	13.8	15.2
Adjusted debt/Adjusted networth	Times	--	0.00
Adjusted interest coverage	Times	44.53	55.88

*Adjusted for goodwill amortisation in line with CRISIL's analytical approach

Any other information: Not applicable

Note on complexity levels of the rated instrument:

CRISIL 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. For more details on the CRISIL complexity levels, please visit www.crisil.com/complexity-levels.

Annexure - Details of Instrument(s)

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

*Not yet placed

Annexure - List of Entities Consolidated

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

Annexure - Rating History for last 3 Years

Instrument	Current			2020 (History)		2019		2018		2017		Start of 2017
	Type	Outstanding Amount	Rating	Date	Rating	Date	Rating	Date	Rating	Date	Rating	Rating
Non Convertible Debentures	LT	0.00 30-09-20	CRISIL AA-/Stable			27-09-19	CRISIL AA-/Stable	28-09-18	CRISIL AA-/Stable	26-09-17	CRISIL AA-/Stable	--
Fund-based Bank Facilities	LT/S T	150.00	CRISIL AA-/Stable/ CRISIL A1+			27-09-19	CRISIL AA-/Stable	28-09-18	CRISIL AA-/Stable	26-09-17	CRISIL AA-/Stable	--

All amounts are in Rs.Cr.

Annexure - Details of various bank facilities

Current facilities			Previous facilities		
Facility	Amount (Rs.Crore)	Rating	Facility	Amount (Rs.Crore)	Rating
Proposed Long Term Bank Loan Facility	145	CRISIL AA- /Stable	Proposed Long Term Bank Loan Facility	150	CRISIL AA- /Stable
Proposed Short Term Bank Loan Facility	5	CRISIL A1+	--	0	--
Total	150	--	Total	150	--

Links to related criteria

[CRISILs Bank Loan Ratings - process, scale and default recognition](#)

[Rating criteria for manufacturing and service sector companies](#)

[CRISILs Criteria for Consolidation](#)

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