Ref: MHL/Sec&Legal/2023-24/70 **Date: November 10, 2023**

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 Transcript of Earnings Call for Q2 and H1FY24

Ref: Intimation under Regulation 30 of SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015

Dear Sir/ Madam,

This is in continuation to our letter bearing Reference No. MHL/Sec&Legal/2023-24/62 dated October 30, 2023. Please find enclosed herewith the transcript of Q2 and H1FY24 Conference Call, as organized by Nuvama Wealth Management held on Monday, November 06, 2023 at 09:00 a.m. (IST) wherein the financial results of the Company for the quarter and half year ended September 30, 2023 were discussed.

The same has also been uploaded on the Company’s website and can be accessed at

http://www.metropolisindia.com/investors

We request you to kindly take the above information on record.

Thanking you,

Yours faithfully,

For **Metropolis Healthcare Limited**

Neha Dilip
Shah

Digitally signed by Neha Dilip Shah
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serialNumber=FEB9E82688FCA5A64C82BFEB23815EE851533EE6
F9EC13C3148D8EB0F9F27734, cn=Neha Dilip Shah
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Neha Shah
Interim Company Secretary &
Compliance Officer
Membership No. A51465

Enclosed: a/a

METROPOLIS
The Pathology Specialist

BLOOD TESTS • DIAGNOSTICS • WELLNESS

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CIN: L73100MH2000PLC192798 Tel No.: 8422 801 801 Email: support@metropolisindia.com
Website: www.metropolisindia.com
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"Metropolis Healthcare Limited
Q2 FY '24 Earnings Conference Call"
November 06, 2023

Disclaimer: E&OE - This transcript is edited for factual errors. In case of discrepancy, the audio recordings uploaded on the stock exchange on 6th November 2023 will prevail.

MANAGEMENT: **MS. AMEERA SHAH – MANAGING DIRECTOR – METROPOLIS HEALTHCARE LIMITED**
MR. SURENDRAN CHEMMENKOTIL – CHIEF EXECUTIVE OFFICER – METROPOLIS HEALTHCARE LIMITED
MR. RAKESH AGARWAL – CHIEF FINANCIAL OFFICER – METROPOLIS HEALTHCARE LIMITED

HOST: **MS. AASHITA JAIN – NUVAMA INSTITUTIONAL EQUITIES**

Moderator: Ladies and gentlemen, good day, and welcome to the Q2 FY '24 Earnings Conference Call of Metropolis Healthcare Limited hosted by Nuvama Institutional Equities. This conference call may contain forward-looking statements about the company, which are based on the beliefs, opinions and expectations of the company as on the date of this call. These statements do not guarantee the future performance of the company, and it may involve risks and uncertainties that are difficult to predict.

As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing star, then zero on your touch-tone phone. Please note that this conference is being recorded.

I now hand the conference over to Ms. Aashita Jain from Nuvama Institutional Equities. Thank you, and over to you, Ms. Jain.

Aashita Jain: Thank you, Michelle, and good morning, everyone. On behalf of Nuvama Institutional Equities, I, Aashita Jain, welcome you all for Metropolis Q2 and H1 FY '24 Earnings Call. With us, we have Metropolis' senior management team, represented by Ms. Ameera Shah, Managing Director; Mr. Surendran Chemmenkotil, CEO; and Mr. Rakesh Agarwal, Chief Financial Officer. Thank you. And over to you Ameera for your opening remarks.

Ameera Shah: Good morning to everyone, and thank you for joining us on the Q2 FY '24 Earnings Call. Today, I'm joined by our CEO, Surendran, Rakesh Agarwal, the CFO; and SGA, our IR advisors. We've uploaded our updated results documents and the exchanges and the company's website, and I hope everyone has had an opportunity to go through the same.

We are happy to report a 13.4% year-on-year revenue growth in our core revenue for Q2 FY '24, mainly contributed by 10.4% patient growth and around 3% by product mix. And very marginally from price increase. However, the performance in Q2 was slightly affected due to the low rainfall in Maharashtra in August, leading to a decrease in dengue and other infectious diseases in the month of September. We absorbed an increase in infectious diseases case during the end of September and October, which has resulted in some of the September revenues carrying over from Q2 to Q3.

We have seen a steady increase in our volume over the last 6 quarters and are optimistic about volume growth going forward. Happy to share that our volume growth currently is trending higher than the pre-COVID level of 9%. Timing of price increases in our industry are company-specific and Metropolis would consider one early next year.

Also, we -- deliberately chose not to increase prices currently if we want to concentrate more on volume growth while the price level can be leveraged at the appropriate time. Let me begin with some industry insights. In the past two years, we've seen the emergence of new players in the e-pharmacy and hospital sectors venturing into diagnostic services. Based on their aggressive pricing strategies, with decent service, they have impacted companies who have built their business, the incumbents I'm talking about on competitive pricing, more than players focused on quality service.

We have observed a consistent decline in competitive intensity over the past two quarters. The new competitors are under margin pressure, forcing them to reduce discounts, reduced marketing budgets and increased prices. Moreover, they are also not finding much traction outside the metro town and metro towns are not showing much growth opportunity, especially since the wellness segment post-COVID has settled down since these companies based their entire business model on wellness.

On the contrary, our ecosystem at Metropolis has demonstrated a marketable stability with significant reduction in attrition rates for both franchise partners and employee talent pool in the current fiscal. The competition that we are primarily experiencing is on the B2B semi-specialized care coming through the B2B channel, accounting for less than 10% of our revenue. Within this segment, there is the head and the tail of the business.

Considering the 80-20 principal, Metropolis concentrates about -- more on the head, which is 80% of the business, which are sticky customers who rely on our quality of testing and services rather than pricing and discounts. We're also happy to report that we have been able to increase our B2B revenues by 12% on a Y-o-Y basis without much dilution entry regardless of this competitive intensity.

Speaking of our strategy going forward. As communicated previously, we remain committed to our three pillars of growth under the Metropolis 3.0 strategy. As we discussed, one of the prime strategies was strengthening our core which is about fortifying our core business and expanding into new markets.

To achieve this, we've been working on a large network expansion plan, which allows us to increase penetration in our core markets and setting up infrastructure in new cities and towns with high growth potential. We're also focused on driving premium value products by offering curated customized packages for accurate diagnosis to our customers. We have also added more than 75 new specialty tests in the first half of this year.

Our second pillar is to expand into adjacencies. As we have mentioned, we are expanding into asset-light basic radiology like ECG, x-ray, phonography and allied services. We have allocated resources for providing these basic radiology services within our existing infrastructure. And therefore, by leveraging our loyal end customer, our extensive customer base, we aim to provide these complementary ancillary services so that it can increase our revenue per patient.

The third pillar has been digital transformation, and we're happy to share that we have launched our new registration platform along with our sales and service CRM, which has now been rolled out across the country. This move will give us an edge in improving customer relationships, enhancing customer services data centralization and better utilization of data pool benefiting the end user.

While we've come a long way in our website, we are still working on some of the other digital teams like the app to improve the experience and enhance it to the next level. But however, our

WhatsApp messenger service has been very successful, allowing us to enhance our customer service and operational efficiencies, providing a seamless experience to our customers.

Lastly, the fourth pillar will be the bolt-on acquisitions to strengthen and complement our existing capabilities, either in new geographies or in existing geographies but with use cases. Despite the limited talent pool available in the industry, we have made a substantial additions and retention in our talent base across all levels. As a result, we have assembled a committable team of senior executives.

And recently, we have also added Mr. Mohan Menon, as Chief Marketing Officer, he carries a rich experience over 20 years, which is last in at Max Hospital. This collective expertise and leadership ability and drive the company forward, creating efficient systems and processes and ensuring that we can continue to deliver high-quality services and our commitment to excellence.

We're building an institution, which is not so much dependent on individuals, but more processes and systems. We have also demarked a clear understanding on roles and responsibilities across the organization, including between myself and Surendran. While I focus more on long-term strategy, governance, acquisitions, alliances and culture, Suren and team will overlook operational excellence, productivity, process systems, digital agenda and control.

We would now like to -- update you a little bit on Hitech, which we acquired in 2021. At that time, we had done this acquisition for three, four primary reasons. Number one, Hitech was the number two brand in the Chennai market with a sticky B2C customer base, they had almost 70%, 75% B2C contribution. But had low overlap in customer base with our brand Mr. Metropolis. As both companies target a different segments with different prices.

Second of all, the promoter had been looking for an exit. And, if any, irrational player, would have purchased the company of Hitech, it could have spoiled the market to irrrational pricing, which would have been all source impacted all the other players including us in the industry, including our pricing and our margin.

Number three, the company we acquired was on the basis of pre-COVID EBITDA numbers and revenue and not on inflated unsustainable COVID revenue margin. And we believe that, therefore, we were buying a sustainable vessel.

And four, in the past, Hitech had not done meaningful expansion for multiple years or pricing increase, and they did not have management expertise in -- besides the promoters. We're not investing much into the business either. And because they have not been investing much, the pre-COVID growth for Hitech was muted at 8% per year with stable margins.

We knew the potential of Hitech had a much larger runway for growth. So in the last two years now, I would like to talk about our performance in Hitech. We're happy to state that we believe this has been a successful acquisition for us, despite the multiple, unexpected faced, by the first year post acquisition from an unethical competitor, who tried to infringe on our brand and poach our team. Since then, we have added more than 35 centers, increasing the total count of centers now to 80 centers across Chennai. We introduced new models of growth such as B2B testing, curated wellness, and home testing, all of which was a very, very small part of Hitech before.

We have integrated Hitech into the parent Metropolis and capitalize on synergies such as procurement efficiency, logistics, manpower management and marketing. And fourth, following the last year's resolution of brand infringement issue, we harnessed Hitech's regional brand trends and have grown our revenue growth of 17% in H1 of this year on a Y-o-Y basis, volume growth of 14% with an expanded EBITDA margin. The way forward for Hitech will be to continue to have see a substantial opportunities by expanding our specialty business as currently most of the business is routine and semi-specialized via B2C.

Second, expanding our network by adding additional 50 centers by the next year end. Thirdly, strengthening our corporate B2B business to maximize the capacities available at our labs. Fourth, expanding your network and brand presence not only in Chennai but across Tamil Nadu through a large franchise network. Fourth, leveraging local synergies between Metropolis and Hitech to expand margins. And lastly, Hitech will continue to be growing positively from a revenue and a margin growth perspective going forward.

On a separate note, we received a whistleblower complaint from an employee in Metropolis, regarding some accounting adjustments in the debtors accounts for FY '22-FY'23 and the current financial year. Upon receipt of the complaint, the matter was referred to an expert third-party auditor as per the whistleblower policy. The auditor submitted their report to the Audit Committee on 4, November, 2023.

As per the report, the Audit Committee noted that three employees were found and have endulged in passing accounting entries, which involved an amount of INR9.28 crores, wherein INR7.18 crores have been adjusted between debit and credit entries in debtor account, and entries of INR2.1 crores were passed in the TDS recoverable account. The entries of INR7.18 crores passed in the debtor and creditor accounts, largely nullified each other, and therefore, the entry do not have any material impact on the accounts of the company.

Having said that, to be conservative and careful a one-time provision for doubtful entry of INR3.34 crores has been provided in Q2 FY '24 to ensure any full estimated impact for the report has taken. Audits have been done across the Group level post this complaint to find if there is any such issue in any other location, and we can confirm the issue have been found in only one region of India done by the selective three employees.

This incident was clearly a deviation from the standard accounting policies and controls and processing defined by the company and our culture of no shortcuts. The company has worked very hard to build strong process and systems and we were disappointed with the employee actions to breach these policies. The irregularity that it did does not involve any misappropriation of funds and therefore, does not require any amount to be recovered from the employees.

The motivation for these employees to go against the processes of the company was to show better individual performance and meet their performance targets. The company has taken appropriate action against the errant employees, including separation with immediate effect when necessary.

We would like to emphasize that while we did encounter this irregularity our robust whistleblowing culture within the organization ensure that this issue came to life from within. Subsequently, we swiftly implemented all the required corrective measures to ensure the right practices. We will continue to further strengthen controls and audit and uphold our culture of integrity and good governance.

With this, I would like to hand over to Surendran for our update on the quarter gone by, along with the execution plans going forward. Suren, over to you.

Surendran C.: Thank you, Ameera, and good morning, everyone. The last three interactions we have guided are near-term objectives. Quarter 2, '24 as largely focused on those objectives. Let me give you an overview. We achieved 13.4 percentage Y-o-Y increase in core business revenue through a combination of increased patient volume growth, which is 10.4 percentage and the revenue per patient of 3 percentage growth.

Our cash volume stood -- growth stood at 8.4 percentage in quarter 2. Over the last five quarters, our core business revenue have consistently experienced double-digit growth, and we are optimistic of the same to continue. Higher volume growth across the territories in the key indicator of increasing market share of Metropolis.

We would like to highlight that historically, the second half of the year has been better than the first half for Metropolis. This year also, we anticipate a similar trend continuing and are confident of even better performance in H2 in terms of both revenue and growth -- revenue, growth and the margin.

Based on our internal estimates, we believe we can achieve a growth pattern in H2 similar to that of the previous year with the revenue growth in mid-teens and enhanced margins on account of better operating leverage.

Talking about B2C performance. Our B2C revenues were 16% year-on-year increase with patient volume growing at 14 percentage and 2 percentage on account of product mix change RPT. Our overall contribution from B2C segment has improved from 47 percentage one year before to 52 percentage when we ended quarter 2.

Mumbai market witness season higher growth of 23% in B2C revenue. Despite new competition in the market, our operational performance in Mumbai market has been exceptional, which has helped us to grow our market share. We continue to add more touch points in Mumbai and bring out more efficiency from existing centers.

We believe there is enough potential to grow touch points in Mumbai going deeper and closer to the patient. In spite of competitive intensity in certain process of the B2B segment, our B2B revenues increased by 12 percentage year-on-year, with patient volume growing at 8 percentage and RPT growth of 4 percentage. We have seen the competition intensity coming down over the last few quarters and are optimistic of higher growth going forward.

We have implemented multiple strategies to increase our share of B2B business, including B2B engagement via digital channels, centralized help desk to build a strong support system for B2B clients and appointing key relationship managers for our key B2B accounts. This clear balancing of portfolios between B2C and B2B is helping us to achieve the desired growth level.

Talking about the Specialized test segment, our revenues from specialized testing grew by 12 percentage year-on-year basis with a volume growth more than 9 percentage. Our B2C specialized testing revenues grew by 18% and our B2B specialized revenue grew by 10 percentage on a year-on-year basis.

For our specialty business, we have established a dedicated sales team, which we talked about in the past calls as well, trained them exclusively to focused specialty portfolios across the nation. We are continuously seeing volume uptick from our Wellness segment and are hopeful of this trend continuing.

Our Premium Wellness segment has been the fastest-growing segment for the company. We have witnessed a 27 percentage year-on-year growth in the quarter 2 with volumes growing by 21 percentage over the same period last year. Contribution from Premium Wellness has increased from 13 percentage when we ended last year to 14 percentage in quarter 2, '24. On geographical split, our revenue from North has grown by 15 percentage on year-on-year basis in quarter 2, outpacing the competition growth.

I would just like to give a glimpse of the network expansion. Under the 90/30 projects, we have successfully added 12 labs during the first half of the fiscal year '24. We plan to incorporate 30 labs during the year and 30 labs during year '25 as well. Our strategic focus in these new newly opened labs, mainly in newer geographies is to drive our B2B business in the specialty segment and expand into B2C market by aggressively establishing a network of centers around this newly opened labs to serve as leader.

Since April '22, we have added 790 new centers, and we plan to incorporate 800 centers during this year and 800 centers in the coming year as well. We are now present in 488 towns as compared to 307 towns at the end of last year, '23. We plan to reach around 600 towns by the end of this year. Labs opened after April '22 have contributed 4 percentage of revenues and 4 percentage of volumes in quarter 2, '24.

As these labs are growing as much -- at a much faster pace, we expect them to contribute much more in the coming years. We are seeing continuous improvement in the margin for the labs and over the period, and we believe these labs can achieve company-level margin in about 24 months. We are equally focused on increasing the productivity of our existing lab and center network, which has shown an impressive during this quarter.

In summary, I would like to highlight that maintaining a healthy equilibrium between our B2C and B2B strategy, along with accelerating are key growth drivers, such as expanding our network, emphasizing on the speciality and wellness segment and implementing technology transition is propelling us swiftly towards our growth objectives.

Now I hand over to Rakesh to take you through the financial highlights. Over to you Rakesh.

Rakesh Agarwal: Yes. Thank you, Suren. Good morning, everybody. Let me share some of the key financial performance for the quarter. Our reported revenue for quarter 2 financial year '24 has grown by 3% on a year-on-year basis. Reported growth for Q2 was largely impacted on account of in-sourcing of large B2G contracts in quarter 4 financial year last year.

Reported EBITDA margin stood at 24.3% as compared to 27% in Q2 last year. Compared to last year, the margin impacted due to more intensity in lab expansion, negative operating leverage because of the loss of PPP contracts and a onetime impact on account of provision for doubtful debt taken. These three elements impact the margin by around 2.5%.

Onetime impact in provision for doubtful debt on account of whistleblower complaint, which has been spoken by Ameera earlier, has been taken with impacted EBITDA by 1.1%. This is a one-time impact, and we have taken the full estimated impact and there is no further impact expected out of it. Excluding this one-time exception, our reported margin stood at 25.4%. Reported PAT margin stood at 11.6% as compared to 13.5% in Q2 last year. Compared to last year, the PAT margin is mainly impacted because of the lower EBITDA margin.

Moving on to the balance sheet. Gross debt stood at INR 44 crores, and cash and cash equivalents stood at INR 108 crores as on 30, September 2023. As earlier confirmed, we plan to repay the balance debt by the end of this financial year. OFC-to-EBITDA for September '23 stood at 93%. Working capital stood at 18 days, marginally higher than the last year of 14 days. The Board of Directors have announced an interim dividend of INR4 per equity share.

That's all from my side. With this, I will open the floor for questions-and-answers. Thank you very much.

Moderator: Thank you very much, sir. We will now begin the question-and-answer session. The first question is from the line of Rahul Agarwal from InCred Capital. Please go ahead.

Rahul Agarwal: Ameera, just one question. Firstly, a bit longer, pardon me for that. But whenever, we are doing channel checks across India, we obviously don't see further entry of new digital labs or online labs, this is the trend the last 15 months, which is good news. But we see regional local labs that started during COVID still trying to be competitive on pricing and taking away tid-bits of market share.

Also I realize patients at large the affordable category mass market, will limited customer understanding of quality and service standards and customers and patients live in ignorance and happy with low pricing and just a name of the lab on the report, no NABL, etcetera, doesn't really matter to them. As a national lab like yours, trying to go into Tier 1, Tier 2 markets, I think patient, education and repeat of this business is the biggest challenge. I just wanted to hear your thoughts on this?

Ameera Shah: Thanks, Rahul. So a couple of things to address it. Look, there's always been competition in this industry. And I think while investors have noticed bigger players coming in the last two years, three years, but frankly, that has been the case for the last 15 years in our industry. Small players have always been there and they have continued to try to take market share locally. But it has never stopped at least our growth in the last 15 years to be able to continue. So I don't believe that, that is some significant change today that will, in any way, impede our growth going forward.

To your point on consumers not recognizing quality mass consumers and only looking at price, largely when it comes to wellness, when it comes to common tests, you're right. Many consumers are not educated on understanding the difference between a good quality lab and not so good quality, which is why 85% of the industry continues to remain in the unorganized sector, right?

But what happens is that when they go to a doctor, especially for critical illness when they have a heart issue, they have a brain issue, they have a stroke or they have a neurological problem. Then the decision about which lab to go to is not really in the hands of the consumer. It is in the hands of the doctor because the doctor realizes the difference in the quality and requires the right quality report to make the right treatment decision because if a doctor gets the wrong report, they may land up removing an organ or doing something, which was actually not required at all. And therefore, the doctor will insist on a good quality lab.

Now the kind of business that Metropolis is focusing on has been always maintained, has been largely illness and have been largely more specialized. So we have always focused on going to the top quality doctors across the country in the Specialized segment. And what happens over time is that as your brand builds to doctor's recommendation for Metropolis.

Over time, that trust moves to consumers and consumers start recognizing that actually this brand is truly differentiated from others, and then they start coming to you directly. So the process, therefore, is a time-taking one, and one which is difficult for any new competitor to come in and suddenly build that kind of trust either with doctors or with consumers.

And which is why you see that pricing has been the main tool used by most of these guys to come in. But while it may give them some short-term benefit in terms of price and some volume accumulation, the reality is the market in which you can only build through price is limited. And if you want to get into a profitable business that is large and gets into scale, there is only one route which is through building trust with doctors and consumers.

Rahul Agarwal: I absolutely, agree. But the point being that most of us are trying to figure out whether the growth for National Labs is actually back to mid-teens. And hence, my sense is that these regional local labs are still doing dirty games but -- anyway, I get your point, I'll move forward. Second question on focus cities -- sorry, go ahead.

Ameera Shah: Yes. Just as Surendran said, H1 for Metropolis is always not the -- it's usually a smaller contribution to the overall year's revenue. And H2 is always a larger contribution to the revenues, and we expect nothing different this year. We do expect H2 to contribute more significantly to the overall year's revenues. And therefore, our target of mid-teen growth like it was pre-COVID remains the same.

Rahul Agarwal: Perfect. Get it. And on focus cities, there was some discussion happened on last quarter about redefining markets and some management focus has to be redefined in new cities. Any update here, please?

Ameera Shah: So as you know, we are expanding a lot into some smaller markets. In fact, majority of the labs, we are starting are like -- 30 labs we are starting this year, I would say, majority of them are markets where we don't have a lab today, right? In fact, probably close to a very high number.

So we -- what we are doing is really trying to recategorize and we didn't want to do this in the middle of the year, which is why we'll probably announce it at the end of the but we will recategorize the focus seating and other cities list at the end of this year. Based on the changes and the trends that we are seeing and the kind of investments that we are making. So we will come out with a new list by the end of the year. So that tracking is easy for us as well as for the investor.

Rahul Agarwal: Got it. And lastly, just sneaking in one smaller one on creditors. I see last two years, every six months, the creditors as a percent of sales is declining. Is there some change with how we're posting stuff from vendors?

Rakesh Agarwal: Yes. So I will take this. Basically, there are a bit of a credit decline because we have made some prearrangements with some of the vendors in terms of discounting and the payment terms. So in -- particularly in the material piece, we have done some maneuvering while we are getting a bit higher discounts from the vendor in view of giving them an advance or a quicker payment. So I think that is the reason why you are seeing a bit of drop in the in the creditors balances, but that is correspondingly helping us to increase the discount from these vendors.

Rahul Agarwal: So gross margin goes up and creditor goes down and ROCE goes up. That's how we look at it.

Rakesh Agarwal: Yes. So gross margin, you will see largely in last two years, you have seen gross margin either remaining stable or increasing. So I think that's the reason why in spite of everything happening around us and dollar appreciating, we are still able to maintain the kind of gross margin we are having.

Rahul Agarwal: Perfect. Thank you so much and have a good festival season. Happy Diwali to all of you. Thank you.

Rakesh Agarwal: Thank you.

Moderator: Thank you. We'll take the next question from the line of Jainil Shah from JM Financial. Please go ahead.

Jainil Shah: My first question is on the EBITDA margin, where do we see our sustainable EBITDA margin going forward?

Ameera Shah: So I mean, we had always indicated that our EBITDA margins this year will be similar to last year. We have to remember that we are having a dilution, as we mentioned, of about 1.2% because of the expanded lab expansion that we did not have in pre-COVID periods. So if that was kept aside, then we would be closer to 26.5% to 27%. We believe that a sustainable margin going forward is going to be -- without this expanded lab expansion, we'll be between 26% and 27%.

And our growth of expansion, this lab expansion will continue till FY '25, post which the lab expansion will then slow down and our collection center expansion will expand. So we are, therefore, quite hopeful that post FY '25, we will see that expansion in margins happening at each year.

Jainil Shah: Sure. So is it fair to assume that over the next three years, we'll see -- if you take a slightly longer term view, three years to four years, we'll see mid-teens revenue growth along with healthy operating leverage play out because then our lab expansion would be done and then that would also come into play. And how would the addition of basic radiology services add to this margin? Or will it increase or dilute the margins?

Ameera Shah: So I think you're right, that's exactly the direction we are targeting. And for the basic radiology services, the goal, as we mentioned, is it going to be continue to be a small part of our revenue. It is not going to become a very large part of our revenue. It is more to complete the service for the consumer when they walk into our center. And therefore, the hope is that we can add on some of the ancillary radiology revenue to the existing patient who walks in, and therefore, that could expand the RPP for that particular patient.

It's completely asset-light. It's not capex heavy at all. And therefore, we believe it strategically makes sense in adding them in our existing infrastructure. That would be -- but considering it will be a small part of the business. I don't see it meaningfully impacting EBITDA or revenue in any significant way, but there -- which hopefully it will impact the RPT.

Jainil Shah: And how much of this mid-teens growth would be from realization?

Ameera Shah: So as we mentioned, about 10.4% is coming from volume. And about 3% -- currently about 3% is coming from product mix, which is realization. Hardly about a -- very marginal amount is coming from price increase because we have not really done a proper price increase this year, which like we said we are targeting maybe for early next year. So out of the mid-teen growth, if you see pre-COVID, we were doing about 9% from volume and about 6% from RPT. Our goal is probably 3%, 4% from RPT and the balance through volume.

Moderator: Thank you. The next question is from the line of Ranvir Singh from Nuvama. Please go ahead.

Ranvir Singh: Sir, two things I wanted clarity. One is that it seems that quarterly number has been restated. So just a book keeping because earlier the reported number in last previous corresponding quarter was INR 300 crores. Now this is showing INR 277 crores. So is there -- has been a restatement or readjustment here on revenue item?

Rakesh Agarwal: We will look into it. But I think what you are referring is that there is one revenue which we are talking about, a core revenue and one is the reported revenue. So I think when you are saying INR 300 crores, you are looking at a reported revenue, and there is a INR 277 crores, which you are looking at a core revenue. So these are the two elements of it. If you look at our investor presentation, Slide number seven, I think you will particularly get the answer of that.

Ranvir Singh: No, I'm not referring to presentation. I'm referring to the reported -- your audited reported number, which is INR 300 crores. Last year, it was INR 277.0911 crore. I think last year, in what model I see that last year, this was INR 300.3493 crore. So there has been some INR 20 crores -- roughly INR 23 crores difference. And even in Q1 also, reported number was INR 277 crores in last time -- sorry, this time it's a INR 300 crores, yes. So -- it seems that there has been either number had been readjusted somewhere or...

Rakesh Agarwal: So I don't think this is the case, but I -- in the audacity of time, we will note down this and we'll come back to you after this call.

Ranvir Singh: Okay. Because otherwise, excluding that PPP...

Rakesh Agarwal: I think maybe you are -- you are not including the NACO. Last year, there was a NACO PPP contract of INR 21 crores. Maybe because of that, you are looking at a different number last year because last year, we have given a core revenue, which was including the NACO revenue. And if you look at this year, when we are talking about is without this PPP contract revenue and we are trying to do apple-to-apple comparisons.

So just Mr. Singh we'll pass this question a bit, but we'll clarify you for sure. There should not be any kind of difference in that.

Ameera Shah: But Rakesh, we have not done any readjustments of statements that.

Rakesh Agarwal: No, nothing. I think we have to clarify this, and I just want to not to just spend time here, but we will clarify for sure up after -- just immediately after this call.

Ranvir Singh: Sure, sir. And secondly, on PPP side, is there any chances we are re-getting that PPP contract or -- do we see any such opportunity going forward? Or are these opportunities gone?

Ameera Shah: See, the government business was never our interest, frankly. This particular contract we did for the last five years, more because it was specialized tests, it was profitable and practices were in line with us. And therefore, we went ahead and did the contract. But otherwise, government business, we are not frankly focusing on. And this particular contract has been enforced by the government. They are doing the testing themselves.

So it has not gone to any other player. But the government has wanted to do it themselves and be a provider. So therefore, now the chances they bought the machines they have set up the staff and the facilities, the chances of this getting outsourced again are extremely low.

Ranvir Singh: Okay, fine. And margin was -- how was the margin there in PPP contract that was better than consolidated our normal margin or has been lower there?

Rakesh Agarwal: Yes. So the margin in the PPP contract was approximately 43% for us, and that business contributed to 7% for us. So therefore, once the business is not there, we are having a 1.1% contract in the margin because of the sale. And Mr. Singh, I think you are referring to quarter two number, which was INR 277 crores in our financial statement, quarter one number. So let us reconcile it, but I think you have INR 277 crores reference is coming from quarter 1 number rather than in our last year numbers. So anyway, we'll confirm you that.

Ranvir Singh: Sure, sir. Thank you. That's all from my side. All the best.

Moderator: Thank you. We'll take the next question from the line of Shyam Srinivasan from Goldman Sachs. Please go ahead.

Shyam Srinivasan: Just in light of the B2G contract going away. And just a request, maybe we can do this after your call as well. Just to see what the overall volume was over like a three years, four years, five-years period, either you want to remove B2G historically and -- or keep it in there?

And just for us to see how the volume growth is over a longer period? I mean, I think you said 9% was what your historical volume growth was. So I just wanted to see maybe we take out B2G out and see it historically or included -- so the idea is just to see what is the like-for-like because when we report core volumes now, we are unable to see what is the B2G volume element. So that's just a request. But the additional question I have is just on test growth has been -- on core volumes, test growth has been slower than patient growth. So anything we need to keep in mind here?

Ameera Shah: So Shyam, we've always mentioned that don't focus on our test growth, please focus on our volume growth. The reason is because each company has their own way of accounting tests. So for example, in Metropolis, one wellness package is accounted as one and not as, let's say, even if it has 30 tests in it, right? So therefore, the -- while other companies may account for it differently, so therefore, we have always mentioned, please focus on patient growth because that is more unique and fair to compare versus test growth may not be appropriate to compare.

Shyam Srinivasan: Got it. And the request on volume growth, if you could have...

Ameera Shah: We'll come back on that post.

Shyam Srinivasan: Yes. Perfect. Just a second question on Hitech. I think a very commendable job of turning around. You mentioned the difficulties in the first year. I don't know whether you have put the subsidiary financials or now it's merged, so we may not get the subsidiary financial, but what is the fiscal '23 number for where revenues was? And also maybe one at -- since you've talked about the 17% growth and margins being better, if you could quantify some of these numbers?

Ameera Shah: So I mean I think the 17% growth, I think, is quite clear. The margins are better than what we acquired than that. We've seen a few hundred basis points expansion. And the idea will be to obviously continue to grow this business well at a higher margin. And too many more details will become a competitive problem for us. So I think we'll probably stick to these numbers as of now. But we can chat offline. If there's any other specific information with it.

Shyam Srinivasan: Got it. And my -- just a last question on the overall guidance. Your ability to grow faster than National Networks. I think also I think one of your slides you've shown you're growing faster in the north. So just maybe talk about your regional strategy in terms of noncore markets, if I can use that term maybe your seeding markets and your other markets. What's the strategy out there? How can we outpace -- continue to outpace competition there?

Ameera Shah: Suren, you want to make that?

Surendran C.: Yes, let me take this. So I think we have mentioned in the past also the strategy of expansion is go deeper in a strong market and go wider in the noncore market. So what we're doing exactly the same thing for let's say, come to the North or the eastern part of the East. We are picking up the strategic locations, and we are putting up the lab there.

And we continue to do that, and we start with the B2B client acquisition first and then we get into some level of volumes, and then we put up the lab and then we put up the center, right? So that's what we are doing, and we are seeing success around that. So we'll continue to do that. We go -- we pick up the strategic locations in both these geographies, which is North and East, and then we will keep adding the centers there.

And if you have seen that I just mentioned that the number of towns that we operate has gone up from 307 to 488. So this is -- most of these new towns have actually come up in the north and the east, right? And the -- west and the south, we keep going deeper. For example, Mumbai, we believe that we can have more centers in Mumbai to geographically becomes stronger. And similarly, let's say, in Chennai at Kerala. So that's largely been the strategy that we're adopting.

Moderator: We'll take the next question from the line of Rishi Mody from Marcellus Investment Managers.

Rishi Mody: Yes. So a couple of quick bookkeeping ones. Firstly, your gross margin has expanded I think you all gave a comment on that. Just could you repeat how was that 2.5% increase gross margin how much of it is structural versus how much is a function of some seasonality element?

Rakesh Agarwal: So I will let you know that this is basically because of the contract which we had on PPP because the majority -- the cost coming in that contract was of material. And once that has gone away, majority 80% of the benefit which you are seeing in the gross margin coming because of that. And 20% of the margin is basically on the price negotiation, which I discussed earlier also and some part of operational efficiency. So whatever gain you have seen, 80% of the gain basically is because of the PPP contract going off, which had a higher material cost in comparison to other material cost.

Rishi Mody: Okay. Got it. Okay. Secondly, in order to understand from Suren -- so we've been seeing that our seeding cities revenue growth has been lagging our focus cities, which is largely our mature markets, the focus cities. Just wanted to understand what -- could you help me understand the disconnect here? The -- ideally our seeding city should run ahead of our focus cities? So if you could just give me an understanding why we have been lagging for the last couple of years out there?

Surendran C : Yes. I think Ameera mentioned this, we're just going to recalibrate the old definitions so on, the focus city, seeding cities and other cities. So we have actually kept our focus mainly on the other cities and new markets, right? So maybe -- I mean, we are not only focused on getting the new labs and centers and productivity from the seeding cities. So at the end of the day, you have to prioritize what you want to do.

So we have just got an expansion on the -- some other cities. If you see the other cities and the growth is substantial, right? So we have -- going to recalibrate the definitions of the seeding cities and the focus cities in the next -- when we get into the next year. But otherwise, this is the reason why in the seeding cities we are not finding significant growth.

Ameera Shah: If I can just add something to that. If you look at the seeding cities, primarily in markets like Delhi, Calcutta, some other markets that are there in the seeding cities, the kind of growth that has been built was B2B and coming primarily from semi-specialized tests. Now I may mention in the competition, not only in the last year but the last many years has been primarily on the B2B semi-specialized space. So therefore, even though you may not see volumes often going down in these markets, but sometimes because of increased discounting, the revenue per patient in these markets may have slightly decreased.

Versus, if you look at the focus cities. The focus cities have been primarily B2C for us. That's how we categorize the focus cities, right? And these markets were all brand-led very B2C-focused. And we've actually gone much deeper and expanded our networks in B2C in these markets, which are Bombay, Pune, Chennai, Bangalore, Surat. And what we've done is we've gone more aggressive on the B2C side, which frankly has not been so impacted in the last few years despite all the competition. So therefore, you are generally seeing a much faster growth in focus and a slightly slower growth in the seeding cities.

As we are now making some B2C headway in seeding cities, we are seeing our B2C contribution in the seeding cities actually increasing. So earlier where it was much, much lower. It has probably now come closer to 25%, 30% of contribution of B2C in the seeding cities, so maybe a little bit higher, which is giving us good opportunities to actually expand this area more and not have only focus on B2B.

Rishi Mody: Okay. So just then the structural one, right? Are we changing our approach to new geographies because you say, right, that B2B semi-specialities, how we enter a new market, and that's always going to be a commoditized market. then how do we intend to geographically expand if we are all in already struggling on this front?

Ameera Shah: See, like you said, the B2B semi-specialized again has a head and a tail. It's not that the entire category is commoditized. We have a lot of B2B semi-specialized business today, which is very profitable for us. So the issue is about whether you get into a market and like we said, 80% of our business traditionally comes from the head. So even that 80% of that business is stable and sticky. But if 20%, which is coming from your tail is churning, you are going to see slower growth, right?

So the strategy now going into most of the market is focusing more and more on the head, focusing more and more on in the semi-specialized segment and focusing more and more on specialized test. So this is naturally more sticky because obviously, not everybody can do it and because the quality of the result is that much more important and critical for the doctor.

So I think, the strategy going into whether the existing seeding markets or into new markets will be to focus on the head of semi-specialized to reduce the tail and second, to focus more on specialized.

Moderator: We'll take the next question from the line of Aashita Jain: from Nuvama Institutional Equities.

Aashita Jain: So just two questions from my side. First is on the Mumbai market and the focus cities market. So you mentioned one comment that you're still going deeper in the Mumbai market and opening more of the touch points. So how do you think that the Mumbai and other focus cities can grow for us in the next two years to four years?

Rakesh Agarwal: Can you just repeat the question? I didn't get the question, Aashita.

Aashita Jain: Sir, you mentioned in your comments that you're still going deeper in the Mumbai market, and there's a lot of headroom in your -- even in the core regions of Mumbai, Pune and other focus cities. My question is, how do you think the Mumbai and other focus cities can grow for us in the next two years to four years?

Rakesh Agarwal: Yes. So exactly what we have done in Mumbai is what we would like to replicate in other cities as well. So we are going deeper in the other cities as well. For example, Chennai, Bangalore, right, on some of these big cities also, we are going deeper. So -- and also the focus on the specialty in all these markets. So what we've done in Mumbai is exactly base -- I don't we would like to do this in the other big focus cities as well.

Aashita Jain: So is it fair to assume that these markets will continue to grow, say in high teens, higher than your overall revenue growth?

Rakesh Agarwal: Yes. That's the fair expectation, right.

Aashita Jain: Okay. And my second question is on the acquisition front. So just your thoughts on the kind of geographies, the size, the target company -- and has the valuation come down compared to the COVID time?

Ameera Shah: The valuations during COVID times were based on COVID revenue and EBITDA, which frankly, if anybody did would have been unsustainable if you bought it on the back of that, right? So clearly, today, with no COVID and revenue and EBITDA, there's a far better chance of it being a sustainable business.

So having said that, a large part of the unorganized market is still not completely compliant with best practices, etcetera. And therefore, it reduces the funnel of possible acquisitions you want to do, otherwise, you landed up in helping with these skeletons with closets. And many of the larger deals that are available, again, I would say the quality of these always available is not great. So here we -- we are very selective about what we buy.

And even if that means paying a slight premium for a good quality business, we would rather do that than buying something cheap, which is a poor quality, and we know 30%, 40%, 50% of the revenue will have to go because either they don't follow good practices or things that we are not in line with.

So I think we'll continue to be selective, but we definitely are building a funnel of potential acquisition targets. Like we said, we are looking at things which are strategically going to add to us either in new geographies or in new skill set. So I think once there is some more -- something to announce, we'll be happy to share more. But at this point, it's more general.

Moderator: Ladies and gentlemen, this will be the last question for today, which is from the line of Kaustav Bubna: from BMSPL Capital.

Kaustav Bubna: So basically, I had two questions. One was on the possible government regulations that could face this industry, I basically wanted to understand what could be -- I know it's a little bit of a futuristic question, but what could be the possible government regulations that could impact. This industry had -- more importantly, how could this benefit players like Metropolis, Dr. Lal, etcetera, the organized player, how could it benefit us?

Because if a majority of this industry is unorganized, I would assume that certain regulations could actually work in advantage for organized players. So could you explain that a little bit? That's the first question. And the second question is basically, what is the company's philosophy on debt going ahead? Do we -- I mean, because there will be acquisition opportunities ahead going into the future and growth opportunities going future, too.

But also, we have the potential to be a negative working capital business with more B2C contribution and generate cash. So I wanted to understand, do we have some goal and aspiration to continue being net cash I mean to be net cash and continue being net cash over the years. So those were the two questions.

Ameera Shah: Sure. So regard of regulation, you're absolutely right I mean this regulation was to come in, I think it would be very advantageous to the larger players because today, we are operating in a completely uneven platform, as an industry, where there are some of us who are following global quality and some who may or may not do the test at all, right?

So it's a uneven platform and therefore the conversations lands up -- going to things like trying other things, which frankly, in health care tend to be less relevant. So if regulation were to come in it would -- could be very beneficial to organizations like us who are already following all the compliances and practices.

And actually, it would create a burden on smaller companies to now come up to a certain quality, which means that we would possibly see a reduction in the number of players or at least an increased cost in their operations, which would not then allow them to spoil the market with very, very poor price. So we have been obviously talking to the government for long time to say, look, please put some minimum standards in our industry, it's very much required. Government has shown a lot of intent and excitement to want to do it. But obviously, we have no control on any of the time lines or when and how that would happen.

I think on your second question around debt and cash flow. So actually, starting this year, we are moving to a bi-annual dividend policy, unlike the last year where we're doing once-a-year dividend. And therefore, we have declared something right now, as Rakesh said, and we would probably declare a dividend at the end of the year as well.

So we're looking to see how, one, we can continue to have a very stable, predictable dividend payout, which we've had for the last many years at about 35% to 40%. And we'll continue to that. We would then like to use our cash to obviously do these bolt-on acquisitions wherever we feel that they can strategically benefit Metropolis going forward.

See, generally, we would like to be a net cash organization where we are very efficient as far as our working capital, and that's the direction that we are wanting to head to. And we continue with net cash but having said that, if there are acquisitions that do come up that require us to take a conservative level of debt in a market that we know is stable.

We are not completely closed to the idea of taking debt as we have seen with Hitech as well. But we are not the organization to use debt an expansion strategy on a regular basis, neither would we do it in any significant multiple of EBITDA. So it would be a conservative approach for us. But generally, we would like to be in a net cash situation.

Moderator: We'll take one more question from the line of Tanmay Gandhi from Investec.

Tanmay Gandhi: Yes. Sorry, I got disconnected for a while. So it's probably, this is repeated. So firstly, are we qualifying what is the impact of dengue in this quarter?

Ameera Shah: Dengue for us has not been a very strong thing because dengue was mostly seen in the north of India, it tends to be a lot around Delhi-NCR. We don't see as much dengue -- at least we haven't this year or the last few years in the west of India. So it's very -- it's not a very significant number.

Tanmay Gandhi: Understood. And just a bookkeeping question. So if we look at our NACO contribution, right? So if we look at what we have disclosed for the entire year in 4Q FY '23. And if we come up so -- and again, we have disclosed for each quarter as well. Based on that annual number minus all the remaining three quarters, so the ideally the base should be INR 17 crores, but this quarter, we have been paying INR 21 crores. So can you help us reconciling that? And is INR 21 crores is the correct number to look at?

Rakesh Agarwal: Yes, INR 21 crores is the correct number to look at because there were two contracts which we had. Majorly the PPP contract, which we are talking about, which has ended last year Feb. And there was another small contract which was there, which was MCGM in Bombay. So these are major contract or one was the major one. One was a very small contract, two contracts taken together, the impact is INR 21 crores.

Tanmay Gandhi: Okay. So INR 17 crores plus INR 4 crores is correct number to look at. Got it. That's all from my end.

Moderator: The next question is from the line of Harith Ahamed from Avendus Spark.

Harith Ahamed: I'm looking at the segmental breakup that you provided B2C, B2B and the other segment. What exactly is this other segment? Is it B2G, 7% of revenues for the quarter?

Rakesh Agarwal: Yes. So this will include your clinical trials, which we have around 2% to 3%. There is a corporate business of 2%, 3%, and there is some government business in. So this all including together, is your -- others.

Harith Ahamed: Okay. And I'm also looking at the revenue per patient growth for the core business for the quarter at 3%. So is it correct to assume that this 3% growth is almost entirely coming from the higher share of premium wellness business. Just trying to understand if there is an element of price increase here. Your competitors had talked about taking price increases in the last few months and that has reflected in their earning potential growth…

Rakesh Agarwal: Yes. So basically, the increase in RPP has come through product mix, rightly, as you said, from a higher volume of wellness revenue and, to some extent, specialty growth. And the price increase is very, very marginal. As we mentioned earlier also, we had a very small marginal increase in price, which is contributing to around 0.7% very, insignificant percentage for the RPP.

Moderator: As there was the last question, I would now like to hand the conference over to the management for closing comments. Over to you.

Ameera Shah: Thank you, everybody, for joining us today and hearing all the experiences over the last quarter, and for all the questions. I just wanted to say a happy Diwali to all of you. We obviously feel very positive about the direction that Metropolis is heading in. Not only do we see a very robust substantial volume growth and RPT growth, but we do believe that H2 will be a better half for the year for Metropolis from a revenue and a margin perspective.

Overall, we feel that the hump of COVID is done with. And while there was -- while it continues to be hump competitive intensity. But regardless of that, we believe that we are on our own track and our own journey and can continue to meet our targets regardless of the market.

We have built a strong leadership team led by Suren and bunch of CXOs, and we feel very confident around the robustness of the processes, system and the kind of momentum and rigor that we are seeing happening in the market and Metropolis being seen as an aggressive player. And the expansion of network that we are doing across all the different towns basically will obviously continue to give us a lot of rewards in the years to come as we open a lot of markets with labs as well as the collection centers.

As we mentioned as FY '25 -- while we continue to add all these collection centers now, that will become even more aggressive post FY '25 as the lab expansion part slows down. But -- we look forward to continuing to engage with all of you outside of these reviews, meetings as well. And again, happy Diwali to all of you, and best wishes to all of your families. Thank you so much.

Moderator: Thank you, members of the management. On behalf of Nuvama Institutional Equities, that concludes this conference. We thank you for joining us, and you may now disconnect your lines. Thank you.