METROPOLIS

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Ref: MHL/Sec&Legal/2024-25/99 **February 11, 2025**

To,

BSE Limited	**National Stock Exchange of India Ltd.**
Scrip Code: 542650	Scrip Symbol: METROPOLIS

Dear Sir/Madam,

Sub: Earnings call transcript for Q3 FY25

Pursuant to Regulation 30 read with Schedule III of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015, please find enclosed herewith the transcript of Q3 FY25 earnings conference call held on Wednesday, February 05, 2025. The transcript is also available on the Company's website i.e. www.metropolisindia.com

You are requested to take the above information on record.

Thanking you,
Yours faithfully,

For **Metropolis Healthcare Limited**

Kamlesh Chandrashekhar Kulkarni
Digitally signed by Kamlesh Chandrashekhar Kulkarni
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"Metropolis Healthcare Limited

Q3 FY '25 Earnings Conference Call"

February 05, 2025

E&OE - This transcript is edited for factual errors. In case of discrepancy, the audio recordings uploaded on the stock exchanges on February 05, 2025 will prevail.

MANAGEMENT: **MS. AMEERA SHAH – CHAIRPERSON AND EXECUTIVE DIRECTOR – METROPOLIS HEALTHCARE LIMITED**
MR. SURENDRAN CHEMMENKOTIL – CHIEF EXECUTIVE OFFICER – METROPOLIS HEALTHCARE LIMITED
MR. ADITYA SHINDE – INTERIM CHIEF FINANCIAL OFFICER– METROPOLIS HEALTHCARE LIMITED

MODERATOR: **MR. RAHUL JEEWANI – IIFL CAPITAL**

Moderator: Ladies and gentlemen, good day, and welcome to Metropolis Healthcare Q3 FY '25 Earnings Conference Call hosted by IIFL Capital. As a reminder, all participant lines will be in 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 touchtone phone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Rahul Jeewani from IIFL Capital. Thank you, and over to you, sir.

Rahul Jeewani: Yes. Hi. Good morning, everyone. I welcome you all to the third quarter earnings conference call of Metropolis Healthcare being hosted by IIFL Capital. From Metropolis, we have with us today Ms. Ameera Shah, Chairperson and Executive Director; Mr. Surendran Chemmenkotil, Chief Executive Officer; and Mr. Aditya Shinde, Interim CFO. Over to you, ma'am, for your opening comments.

Ameera Shah: Thank you, and good morning, everyone. We have uploaded our updated results documents on the exchange and company's website, and I hope everyone has had an opportunity to go through the same. Industry consolidation continues to be a key growth driver, and Metropolis is well positioned to capitalize on evolving landscape. Our recent acquisition of Core Diagnostics is a major milestone, reinforcing our leadership in high-end specialty diagnostics and strengthening our commitment to innovation in advanced testing.

To ensure a smooth integration process, we have set up a steering committee that will work closely with teams from both organizations to maximize synergies and optimize operations. This committee will focus on restructuring the organization while retaining key talent, driving synergies to improve operational efficiencies, integrating IT systems and processes to streamline workflows, and identifying cross-selling opportunities to expand our market presence.

We aim to finalize the acquisition by the end of this month with Core expected to contribute to MHL's revenue starting in March of this financial year. Once Core is fully integrated into Metropolis systems and processes, we anticipate a fair number of operational efficiencies with synergies driving an expansion in margin profile of Core from Q1 FY '26 itself.

Additionally, we are focused on expanding Core's capabilities and enhancing our test offerings across the network, which will provide opportunities to strengthen our specialty testing portfolio. With our proven track record of successful acquisitions and integrations, we are confident that this move will create substantial long-term value for all stakeholders.

We are actively pursuing additional inorganic growth opportunities with several potential targets currently under consideration, especially in northern markets. We are optimistic about achieving early closure on these opportunities. Our strategy is focused on acquiring local labs that have strong brand recognition and deep consumer connections within their regions.

Many of these companies are market leaders at the local city level, but face challenges in scaling due to limited resources. Once integrated into the Metropolis network, we will partner with these local stakeholders to expand their test offerings, improve service quality, shorten turnaround times and drive greater market penetration.

We are in advanced stages of evaluating a few such acquisitions that have successfully built strong B2C brands in North Indian cities. These align well with our goal of expanding our footprint in the region through acquisitions focused on creating a string of pearls that enhance our presence and capability.

While Core Diagnostics remains a specialty-focused business, bringing scale, the other acquisitions we are considering are city-leading B2C businesses in North India with high EBITDA, high ROCE and strong OCF to EBITDA ratios. We see significant value in these acquisitions, not just from a geographical expansion perspective, but also because we are confident that leveraging Metropolis' brand leadership and capabilities will enable us to scale their operations and drive sustainable growth.

While we anticipate Core revenue growth to be strong and margins of Core to move up fairly in year 1 of acquisition, the margin profile will be lower than Metropolis for the first 12 months and will dilute the margin temporarily. It will take up to 2 to 3 years to reach the margin -- Metropolis margin profile. However, it will be EPS accretive from year 1 and the ROI on the Core acquisition should be strong considering the above numbers mentioned.

The second area we continue to focus on is strengthening our specialty diagnostics leadership in the country. Metropolis continues to lead in specialty diagnostics and now with the new focus on genomics, molecular diagnostics and high-end oncology testing, which will be built on the back of existing Metropolis and new core capabilities, we are continuously investing to strengthen our specialty segment by bringing in more senior expertise, expanding product lines and fostering deep collaboration, and advancing next-gen sequencing capabilities to drive scientific progress.

Additionally, we are creating centers of excellence and launching multiple industry-first specialized tests in oncology, genomics and molecular diagnostics. While it's easy to add machines, the secret sauce is really the therapeutic expertise a lab has that becomes a differentiator for doctors to decide to recommend one lab over the other, which is what Core Diagnostics has with oncology. With the integration of Core, we aim to further enhance our oncology portfolio and expand our molecular diagnostics offering, ensuring that Metropolis remains at the forefront of precision diagnostics.

We are also focusing on strengthening our management team and Board, and we'll be making a few additions and changes to add the right skill sets at both levels. Our new CFO, Sameer Patel, will be joining February 10, as already announced. His background is audit services at Deloitte and then business and finance roles in retail chains. His last role being 8 years at a large public listed QSR chain, where he has been CFO for many of those 8 years.

Looking forward at the business performance, Q3 has historically been a challenging quarter across the industry, especially in markets where Metropolis has a significant presence in West and South India. This trend is primarily influenced by festival and holiday season, which impacts patient footfall and diagnostic volume. While revenue growth for Metropolis in Q3 has been similar to peers, we are surprised by the low volume of acute patients. When we try to understand if this is a competitive or seasonal issue, our understanding from the ground and data points of the pharma industry reflects that in Q3, chronic diseases did quite well, but acute illnesses were lower.

Since Metropolis business is majority acute in nature, therefore, the volume impact in Q3 has been surprising for us. However, we consider this a temporary seasonal fluctuation, and early indicators in Q4 suggest a rebound in volumes as we saw in H1. We remain on track to achieve our guidance of approximately 13% revenue growth in Q4 and EBITDA margins in the range of 25% plus for Q4 '25 and going forward, reaffirming the strength of our strategy and execution.

Looking ahead, our key areas of focus will be: number one, accelerating the inorganic growth with a strong pipeline of acquisition opportunities, as mentioned; second, expanding our Specialty diagnostics segment, particularly in genomics and molecular oncology; third, implementing region-specific micro marketing strategies to optimize offerings and enhance productivity. We will also be entering health care verticals such as basic radiology, vital checkups and consultation, Suren will talk a little bit more about this, and enhancing our customer service and analytics.

With this, I would like to hand over the call to Suren to speak about the strategies in detail the key operational and financial performance. Thank you so much. Suren, over to you.

Surendran Chemmenkotil: Thank you, Ameera, and good morning, everyone. Let me begin by sharing key highlights of our quarter 3 performance. In quarter 3, we delivered a strong 11% year-on-year revenue growth, largely driven by 4.1% increase in the patient volumes. The remaining 6.5% of the growth came from strategic adjustments in our product mix and pricing. Excluding institutional business, which is in our focus areas, as I've mentioned in the past, our revenues grew by approximately 13% year-on-year for quarter 3.

For the 9 months ended in December, revenue increased by 12.5% with EBITDA growth surpassing revenue, driven by the advantages of high operating leverage. Our ongoing investments in strategic areas are delivering results, contributing meaningfully to both EBITDA and PAT. Our B2C portfolio continues to gain strong momentum, achieving 8 consecutive quarters of steady growth. In quarter 3, the B2C revenue grew by 15% year-on-year with TruHealth and Specialty testing leading the charge, growing 25% and 20%, respectively.

The B2C segment now accounts to 55% of total revenue, up from 53% in the same quarter last year, reflecting 200 basis point improvement. Maharashtra continues to be a key market for us with B2C segment in the region growing 16% year-on-year. These figures highlight the strength of our brand presence and the loyalty of our customers.

We have seen strong double-digit growth from our existing centers and high single-digit contribution from our newly established centers. As these new centers mature, we expect to see a higher revenue and volume, further boosting the overall contribution and profitability of our B2B segment.

A major contributor to our B2C growth has been our robust clinician engagement strategy. By reinforcing scientific credibility and trust in our offerings, we continue to strengthen our partnerships with the medical community, ensuring that Metropolis remains the preferred diagnostic partner for both specialized and routine testing. Our B2B revenues have increased by 10% for quarter 3 on year-on-year basis. We are focused on deepening engagement with top-tier clients while streamlining the long tail, ensuring improved profitability and efficiency.

As a part of this effort, we have launched a dedicated partner portal, which provides a comprehensive, transparent and efficient digital platform for our B2B partners. This portal enables real-time sample tracking, offering end-to-end visibility across the diagnostic process, along with improving communication and streamlining workflows. By leveraging technology to enhance transparency, operational efficiency and partner engagement, we are strengthening our B2B relationships, improving client retention and increasing our wallet share with key partners.

To address the market challenges and opportunities, we have taken a significant step to customize our approach based on the unique needs of different geographies. To optimize market presence and drive growth, we have introduced the following micro marketing strategies, which will help us grow our market share in Tier 2, 3 and 4 towns.

One, customized market relevant price rationalization strategies to enhance competitiveness; second, revamp partner model and empower partners with great autonomy and resources to increase partner engagement and productivity; three, efficiency improvements, enhance logistic operations and reduce turnaround time to boost service levels; and fourth, market-specific test menus, expanded offerings tailored to the unique demands of each region.

We have launched a series of customer-centric initiatives as well designed to elevate the overall experience, including industry-first offering like integrated testing packages, home-based ECG services, vital parameter checks at our centers, doctor consultation, enabling a seamless end-to-end health care journey. MedAdvisor, our AI-powered recommendation engine that leverages historical data and test combination to improve the accuracy of cross-selling and upselling. Infrastructure improvements in our centers, enhancing the brand experience and reinforcing customer trust.

While most of our peers use franchisee networks as their collection centers, Metropolis gets a large part of the B2C revenue from the centers which are owned and managed by the company. This allows for better customer experience and better influence over the customer choices, demonstrated by high customer NPS scores of 86%, and higher revenue per patient compared to the rest of the industry. While this adds more fixed costs in the short run on the P&L, but as centers mature, it allows more operating leverage and better profitability.

The above micro marketing and customer-focused strategies have already delivered positive results, reflected in a consistent footfall growth every quarter. The net impact of this strategy is expected to deliver a positive 2% increase in overall revenues starting quarter 4, setting the stage for sustainable growth and market leadership.

We have also made significant strides in the final phase of our aggressive network expansion strategy, adding 7 new labs and 125 centers this quarter, bringing our presence to over 750 towns across the country now. With this expanding footprint and continued maturation of our new centers, we anticipate higher throughput, driving further volumes and revenue growth in the coming quarters.

Beyond our core markets, we see major growth opportunities in Tier 3 and Tier 4 cities, where demand for organized diagnostic services is increasing rapidly. Currently, these regions are dominated by stand-alone centers and unorganized players, creating a significant opportunity for Metropolis to introduce high-quality structured services. With our final lap of lab expansion in quarter 4, it will end our lab expansion phase from financial year '25, '26. The focus will be more on accelerated collection centers and allowing gradual EBITDA and margin accretion in the year '26.

We have consistently invested in technology upgrades and digital transformation, and our efforts continue to enhance both operational efficiency and customer experience. One of our most exciting developments in this is the launch of our new mobile app, which now includes personalized health dashboards, offering users insights based on their test history and trends, real-time sample tracking, allowing customers to monitor their sample journey from the collection to result, simplified appointment booking, making scheduling easier and more intuitive.

AI-driven recommendations powered by our advanced recommendation engine will suggest next best action tests based on diagnostic history, enhanced security features, ensuring safe access to test results and easy sharing with health care providers.

Beyond the app, quarter 4 will see significant acceleration in other key technology platforms, including laboratory information management system, enhancements to improve accuracy and efficiency, website upgrades for smoother user experience, advanced AI-powered recommendation engine, further refining test suggestions for personalized health care. Our commitment to leveraging cutting-edge technology will not only enhance patient engagement but also drive higher operational efficiencies, enabling us to scale faster and provide an industry-leading health care experience.

So looking ahead, as we move forward, our focus will remain on accelerating TruHealth portfolio by integrating value-added services like home-based ECGs, health consultations and AI-driven test recommendations, expanding our network presence with a focus on high-growth Tier 3, Tier 4 markets, scaling digital insights to personalize patient experience and optimize clinician engagement.

I now hand over the call to Aditya, who will take you through the financial highlights. Thank you, and over to you, Aditya.

Aditya Shinde:: Yes. Thank you, Suren. Good morning, everyone. Let me share some of the key financial performance for the quarter and 9 months ended FY '25. Revenue for Q3 stood at INR 323 crores, a growth of 10.9% Y-o-Y with 4% patient volume growth. Our test volume growth stood at 6% for the quarter. Revenue per test has increased by 4% on a Y-o-Y basis. In Q3, our B2C revenues stood at INR 178 crores as compared to INR 155 crores in the same quarter last year. That is an increase of 15% Y-o-Y. Our B2C revenues for Wellness grew by 25% and Specialty grew by 20% on a Y-o-Y basis. Patient volume growth for B2C business stood at 5% and test volume growth for B2C stood at 5% on a Y-o-Y basis as well.

Our B2B revenues grew by 10% for the quarter compared to the same quarter last year with B2B Wellness growing by 21% and Specialty growing by 9%. B2B patient volume grew by 4% and test volume grew by 7% Y-o-Y. Revenue share of TruHealth stands at 17%, that is a growth of 25% Y-o-Y for the quarter. Our Specialty segment revenue contribution stood at 37% with a growth of 13% Y-o-Y for the quarter.

Reported EBITDA for the quarter stood at INR 71.6 crores as compared to INR 65.5 crores. That is a growth of 9.4%. Reported EBITDA margin for the quarter stood at 22.2%. PAT for the quarter stood at INR 31.5 crores, that is a growth of 15% Y-o-Y. PAT margin for the quarter stood at 9.8%. Revenue for 9 months grew by 12.5% with patient volume growth of 6% and test volume growth of 8% on a Y-o-Y basis. Reported EBITDA for 9 months stood at INR 241.3 crores at 24.5% margin, a growth of 17.8% Y-o-Y and a growth of 110 basis points Y-o-Y.

Reported PAT for 9 months stood at INR 116.3 crores, indicating a growth of 26.5% and a PAT margin of 11.8%. On to the balance sheet. We have a net cash surplus of INR 205 crores as of 31st of December 2024. We also have a working capital cycle of 13 days. We will be closing the Core Diagnostics transaction by February end and MSL March consolidated numbers should include Core Diagnostics if all goes according to the time line planned. We will be using approximately INR 135 crores of internal cash for this acquisition, and the balance will be a stock swap.

That's all from my side. With this, I open the floor for questions and answers.

Moderator: Thank you very much. The first question is from the line of Prakash Kapadia from Avendus Spark PMS. Please go ahead.

Prakash Kapadia: Two questions from my end. You were contemplating price increases. Could you give us some color? Is it across the board? Is it specific geographies, routine tests, specialized tests? That's the first question. And if you could also highlight some pricing discount competition, what is happening in the industry? How are smaller players doing? And from here on, what kind of volume growth we expect?

Surendran Chemmenkotil: All right, on the pricing, let me just clarify a few things. I just talked about the micro marketing strategy that we have rolled out already for the last 2, 3 months now. What it means is we just look at the -- we adjust the prices according to each of the markets. In the last 2, 3 months, what we have done is, we looked at the pricing versus the competition in each of the markets. And wherever there's an opportunity for us to increase the prices, we have taken the prices a little up.

And wherever we have the need for us to correct the prices downwards, we have done that. So I mean, the net results of this would be upside of about 2%, which is coming in from this quarter. So we did market-specific pricing, not necessarily product specific across the board. So only a few markets, prices have gone up, and a few markets, we corrected the prices downwards. The net impact, like I said, is about 2%.

Coming back to your second question on the discounts. So on the B2B segment, we definitely see continued efforts by some of the players to bring down the discounts, particularly on the tail end of the B2B segment, who really keep pushing the operators for the price discounts. But as far as Metropolis is concerned, we just stayed put with our discounting structure. We have not really increased any discounting to the B2B clients in the last 2 to 3 quarters at least now or maybe more.

Prakash Kapadia: Okay. And what should be the time line for completion of merger of Core Diagnostics?

Surendran Chemmenkotil: Well, I think we are almost in the final stages of the merger. I think maybe another month or a bit more than that, I think 4 to 6 weeks' time.

Moderator: The next question is from the line of Aniket Kulkarni from BMSPL Capital.

Aniket Kulkarni: So since we are actively looking at multiple acquisition opportunities, could you please let us know how much importance you pay to the acquisition being EPS and ROCE accretive to our overall financials, right? So because a lot of companies do acquisitions which compress their ROE, ROCEs for many years to come. So how do we plan to protect ourselves from this situation?

Ameera Shah: So whatever acquisitions we are doing, for example, even Core Diagnostics, will be EPS accretive from year 1. And the reason for this is because Core Diagnostics on its own did not make any significant profit. And obviously, under the Metropolis umbrella, there's a different plan, not only to ramp up the revenue, but to also create operational synergies and, therefore, over time, bring it to a similar Metropolis margin profile.

But obviously, this doesn't happen overnight in a services business, and it does take 2 to 3 years for this to get there. So we do believe that in the first year itself, it will be EPS accretive. And overall, the ROI on this investment will be good, because we have paid a very fair price for it, and it is not an overvalued acquisition.

As far as the other ones which I mentioned about that we are evaluating and in advanced stages, these are independent labs, which are more bolt-on acquisitions. These are not chains, where they are the leaders in their markets or in their city, but they are all independent stand-alone centers with maybe a few collection centers attached to it.

And this is the model that Metropolis has done many times where we obviously buy majority in these businesses, or in some cases, 100%, but usually majority. And the promoter pathologist continues to own a minority in the business and operate it with us over some years to come.

These obviously get purchased at a lower multiple of EBITDA than obviously where the public companies are trading at and tend to be high B2C businesses, which means high sort of operating cash flows to EBITDA, high ROCE and high EBITDA margins. And what we do, why we buy these is because these labs, which are stand-alone, while they are successful in their own cities, they're only able to offer a limited test menu of maybe 300, 400 varieties of tests and cater to certain kinds of doctors.

And when they come under the umbrella of Metropolis, we're able to create a larger base and a bigger scale for these particular independent labs, and it becomes a win-win for both parties. So we are hopeful that some of the talks that we are in will result into concluding transactions in the near term.

Aniket Kulkarni: Got it. Got it. And secondly, so in FY '25, we should approximately be at about FY '22 EBITDA levels on a whole. So the company has now reached the EBITDA level similar to what the company was talking during the COVID peak. So just wanted to understand where do we go from here? And in the next 3 years, where do you envision Metropolis to be in terms of revenue and operating profit? And how do you see the competition panning out also over the next 3 years?

Ameera Shah: See, obviously, COVID was a black swan event, I think for many businesses. For some businesses, obviously, revenue and EBITDA completely crashed. For some businesses, it went artificially high, like it did for health care at the time. So very difficult to keep comparing it to that base. But if you look at our CAGR over the years, obviously, the company has continued to perform well, if you look at it over a 5-, 6-year period or even a 10-year period. I think going forward, as we've mentioned, we have a very positive outlook for continuing to outpace the peers as far as revenue growth and also continue to expand margins.

The last 4 years, as we knew that we were creating more profits, at least during the COVID period we were creating more profits in the business, we decided to use it as a time that we could actually reinvest. And therefore, the last 4 years, we've added almost 90 labs into the system, which was actually almost increasing our lab capacity by 50%, which was a very significant leap forward in terms of lab capacity.

Now as we have said that by the end of FY '24, '25, we will be at the end of this accelerated lab expansion project. And from '25, '26, it will be just a normal lab expansion, which will be few labs a year, probably 5 or 6, but not more significant than that. And that will allow us, therefore, our margin expansion to continue.

Moderator: Mr. Aniket, does that answer your question?

Aniket Kulkarni: Yes, yes.

Moderator: The next question is from the line of Kunal from Axis Capital. Please go ahead.

Kunal: Firstly, can you help me understand this micro market strategy that you spoke of in the presentation? I'm still not completely understanding what this is and whether it's a one-off kind of a growth bump or you expect it to continue in the outer years?

Surendran Chemmenkotil: Micro-marketing strategy has basically 4 objectives, right, basically. So what we have done is all the markets in the country, we have divided to 100, 120 markets. And we looked at 4 specific aspects on each of these markets. So one is what are the prices in these markets versus the competition? And if there's an opportunity for us to correct upwards or downwards, do it. So that's one aspect. And second one is we just revamped our partner model in all these markets to ensure that the partners are more empowered. They have more autonomy. They can work with some or the other clinicians, et cetera, in the market. That's the second one that we have done.

Third one, we looked at the logistics arrangement in each of these towns to make sure that we can provide a much better turnaround time. So every market will have different strategy required for ensuring a better turnaround time. And the fourth one is we looked at the specific test menus in each of these markets. So different parts of the country would require different type of test menu so that they could serve their market better.

So I mean, each of these markets, very carefully, we have just looked at it and whatever correction needs to be done, we started initiating those corrections. So which is, like I said, with respect to price, with respect to distribution, with respect to logistics, with respect to test menu. Now we looked at each of these markets separately and we've done the required course correction, or we are in the process of completing the course correction. So as a result of all this, we will be able to gain a couple of percentage more revenues going forward.

Kunal: I'm sure this must be something that you would have been doing over the years also, right? So I'm just wondering what is driving that additional growth now?

Surendran Chemmenkotil: So, let's say, if I were to take an example, for example, wellness packages of, let's say, INR 5,000, may work in Mumbai, but may not work in a small town in U.P., for example. So we have tailored a product which is suiting that particular market when it comes to wellness, okay? And the price for a particular test in that market may not as our standard Metropolis pricing may be slightly on the higher side in that particular market, and hence, we are not able to drive volumes.

So we just looked at all the operators in that market, and we adjusted the prices accordingly. And some of the markets, let's say, Mumbai or Pune or parts of Maharashtra, where we have much bigger strength, we have an opportunity to take the prices up, right? So we have taken the prices up in the market. So a combination of all these things put together, the net result is an upside on the overall revenue performance.

Kunal: Right. Got it. Second question is on TruHealth. Now how much of this revenue is coming from which channel? Is it largely B2C?

Surendran Chemmenkotil: Well, I think most part of it is coming from the B2C channel. When I say B2C channel, one, of course, you have a digital channel, and then second, you have the brick-and-mortar channel. Both put together is where majority of this B2C revenue is coming from. And then now even the B2B markets, B2B partners also started participating in the TruHealth journey.

So I mean, we start seeing acceleration. You would have seen the number that we just called out, around 20% increase in the TruHealth revenue from the B2B partners as well. So largely contributed by B2C, but I think B2B also started participating in this journey.

Kunal: Sure. And how would the realization be different for the same test across both channels?

Surendran Chemmenkotil: As far as the TruHealth is concerned, I mean, of course, B2C channel will have a relatively better realization. And B2B channel, we operate on a discount basis, right? So I mean, B2B channels will have relatively lesser realization.

Kunal: No. I mean I get that gist qualitatively, but from a quantitative perspective, is it about 15%, 20% lower?

Surendran Chemmenkotil: No, no, not 15%, 20%, maybe 3% to 4% difference.

Kunal: Right. Got it. That's very helpful. And lastly, I believe in your opening remarks, you called out the growth in Maharashtra. Can you specify what your growth in Mumbai was in Q4 and your expectation for the next 2 to 3 years?

Surendran Chemmenkotil: Q3, Mumbai was also 16% growth we had.

Kunal: 16%. Okay. And how do you expect this Mumbai region, MMR region to continue for the next couple of years?

Surendran Chemmenkotil: Yes. I think we are putting all our efforts in terms of further expanding the distribution even in Mumbai. Like I said in some of the earlier calls, our endeavor is to make sure in Mumbai, maybe every 2, 2.5 kilometers, you find a Metropolis collection center. And also, we find opportunities in expanding the peripheries of Mumbai, where the core Mumbai would have been largely down the distribution, but there is a lot of opportunity sitting in the peripheries of Mumbai. So Mumbai will continue to be our focus markets and we'll keep making these investments and keep growing in Mumbai.

Kunal: So just to kind of finish this point, then if you want to, let's say, open a Metropolis every 2.5 kilometers, how many pickup points or collection centers or labs do you intend to kind of go to in the next few years?

Surendran Chemmenkotil: I mean labs, of course, we don't require additional labs in Mumbai. We have 7 labs in Mumbai, and that is good enough to serve the geographies of Mumbai. And we have close to 500 collection centers in Mumbai. So every year, we keep adding around 30, 40, 50 collection centers. And I think that trajectory should continue maybe in the next couple of years as well.

Moderator: The next question is from the line of Nikhil Mathur from HDFC Mutual Fund.

Nikhil Mathur: My first question is on the collection centers to lab count ratio. If I look at 9 months, we had around 22 collection centers per lab, and the number was quite similar in FY '20 as well at around 21, 22. So just wanted to understand, over the course of the next 3, 4 years, do you expect the collection center to lab count ratio to go up meaningfully? And if that were to materialize, would that drive the margin improvement going forward? Would that be the only major driver for margin improvement?

Surendran Chemmenkotil: Yes. Thanks, Nikhil, for asking this. So you're absolutely right. So in the last 2, 3 years, what we have seen is, we were accelerating on both the counts. Number of labs are also going up, number of collection centers are also going up. And as a result, the ratio between the collection centers and the lab remain largely around the range of 20%. Now the larger expansion of the labs is almost over.

We are almost good to serve about top 1,000 towns in the country. So now going forward, in the next couple of years, our focus will be to increase the number of collection centers, not so many labs. You may require 1 or 2 labs here and there, but not many labs, as we did in the last couple of years. So the next 2 years, we'll definitely see the ratio getting better. Maybe at the end of 2 years from now, this could be 30 collection centers for a lab. So that's actually the endeavor. That's the plan that we have in mind.

Nikhil Mathur: And can you quantify some bit of drag on margins, let's say, 9 months from the increase of lab infra that we have done in the last 12, 15 months or so?

Surendran Chemmenkotil: Yes. So I think the standard what we communicated in the past as well, the first year of the lab launch, we normally have a negative single-digit EBITDA. And at the end of year 2, we get into about double-digit positive EBITDA. And about 2.5 years to 3 years, we get normal to the company levels. Now this is at an overall company level. But if you look at market-wise, it could be different.

In a strong market like Maharashtra, Central, South, et cetera, the breakeven normally happens even at 2 years. I mean, the company-wide EBITDA happens even in 2 years. But some markets in East and North, we may take a longer period of time, maybe 3 years. So that's the split of it, but largely, at a company level, in 2 years, we get into the double-digit EBITDA, and about 2.5 to 3 years, definitely get into the company level.

Nikhil Mathur: Okay. The second question is on the growth split across different class of cities. So focus growth ex of institutional business is at around 12%. And B2C Maharashtra is at around 16%. So I suspect that a predominant part of Maharashtra would be part of focus. So where is the growth drag coming from? I mean, is it within Maharashtra cluster or beyond Maharashtra? So if you can help us understand within the focus cities, where is the growth drag coming from?

Ameera Shah: If you look at the B2C growth, it's about 15%, like we said in Q3, and B2B growth is almost 11%. So if you were to just take these 2, we would have been closer to 13%, right? But the drag has obviously come, like we said, from the institutional business, which is not a priority for us. Now within this B2C growth of different markets, like we said, Maharashtra, Gujarat, some markets in South are doing well for us and growing fast.

And obviously, we don't do much of B2C business in the North and very little in the East as well. The business there is more B2B or institutional. So I think these are the markets where we would try to increase the B2C, in the North and the East.

And also once we have these institutional things behind us, which was the loss of some government contracts, going into FY '25, '26, hopefully, the B2C and B2B growth will be really the real growth of the business with no drag from the institutional business. So we are finding generally, if you look at the focus markets out of Maharashtra, Bombay and Pune are the only 2 cities which are included in the focus markets. Everything else in Maharashtra is either in seeding or in others.

Same way every state is broken up into these 3 sort of categories, where you're finding other markets, which is obviously the smaller markets where we have created the new labs are obviously the highest growth, because they are the smallest base, and that's where we are making the investment. But you would also see the focus markets actually have done quite well. It's only the seeding markets which we actually believe that need to be improved and that growth can actually move up.

The reason the seeding markets are not performing as well is because these are markets like where we don't have a large amount of B2C, and the B2B discounting or the B2B price or the B2B competition is impacting some of these markets for the last few years. So we believe that's where, by building better infrastructure, by building deeper networks, better execution, we believe we can pull that up as well. Suren, do you want to add anything?

Surendran Chemmenkotil: No, that's it actually. Just to clarify to you, the focus cities are just 5 cities, Pune, Chennai, Mumbai, Surat and Bangalore. It's not all the towns in Maharashtra. So rest of the details actually Ameera has already shared.

Nikhil Mathur: Understood. Another question I had was on, obviously, great headway has been made in the last 4, 5 years in terms of increasing the share of B2C in the mix. So currently, the company is at 55%. Over the course of next 3 years, where do you think this number can settle at? Can it cross 60%, settle at around 65%, 66%. So any particular range will be quite helpful, if you can give?

Surendran Chemmenkotil: Yes. So sometime back, I was talking to you telling that the next 2 years is the time for us to further expand the centers, right? So you will find a lot of work happening on that and further accelerated pace. And a lot of it has been specifically concentrated on the B2C markets as well. So we should definitely get into around 8% to 10% upside in the next 2 to 3 years' time on the B2C segment.

Nikhil Mathur: So that would mean your gross margin profile will further improve from 80%. Obviously, some headwinds can be there from dollar appreciation, but notwithstanding that, can the gross margin continue to improve over the next 3, 4 years?

Surendran Chemmenkotil: Ideally yes. Yes.

Ameera Shah: The only clarification I want to give there for a little bit more nuance is that the B2C is of 2 varieties. One is obviously the B2C which you do for routine tests, where you are getting self-referrals, you're doing wellness, all of that, which obviously gross margin increases. But we also build the B2C Specialty business, which is the specialized doctors who are referring patients to directly walk into our centers, where you're getting a mix of routine tests as well as specialized tests.

And those specialized tests are very critical for a business, because that's really what creates the stickiness, it creates the brand value, it creates the differentiation in the market. But obviously, the gross margin of specialized tests is slightly lower than it is of routine tests. So we will hope to see a gross margin improvement, but just wanted to give that little nuance.

Surendran Chemmenkotil: Yes. And largely on the organic side of the business. And when we get inorganic acquisition happening, at a group level, it all will be a mix of what you bring on to the side, yes.

Moderator: The next question is from the line of Shyam Srinivasan from Goldman Sachs.

Shyam Srinivasan: Just the first one on the EBITDA margins for the quarter, right, 22.2%. I remember last year quarter, we had the PDD. I think we also had 120 bps of network expansion cost. So I think the number that was quoted in Q3 presentation last year was 24.5%, excluding these 2 things, right? So from 24.5% to 22.2%, if you could explain. I know there could be -- so is there an additional layer of network expansion on top of the 120 bps already there and the PDD is not there. So if you could just help us do the margin walk there, please?

Surendran Chemmenkotil: Yes, sure. So see, first of all, let me put it this way. I mean, the margin of the last 3 quarters put together, we are at 24.5%, which is largely on course as we have been guiding so far this year, very close to our guidance number. So that 3 quarter combined performance, I'm talking about it.

Now coming particularly to quarter 3, 2 things have happened differently. One is between quarter 3 and quarter 4, we really got accelerated on our lab expansion. We've just got in about 13, 14 new labs only in these 2 quarters which has come in. So which has come with an additional cost for the time being and not necessarily the corresponding revenues immediately, right? So that has definitely added some cost on to us in quarter 3.

And secondly, like Ameera mentioned in her opening speech, we have seen some decline in the illness patterns in quarter 3, particularly on the acute diseases. And that used to be relatively higher margin business for us. So that was a surprise to us. Because of these volumes have come down because of seasonality or specific trends that we have observed in the market. So that has actually put in a little bit of dent on the quarter 3 margins. So these are largely 2 reasons why the quarter 3 margins are what it is. But I mean, we're already seeing the trend has been changed in the quarter 4, and we are back to the YTD trends, and we only should get better from there.

Shyam Srinivasan: Helpful. Just the second question is on the test per patient number. I know different companies could be calculating it differently. But any thoughts on how this can likely move? Or can we catch up with some of our peer numbers, let's assume maybe TruHealth is lower than -- say, bundling is lower for us. So what could be some of the drivers to take test volume growth up relative to, say, patient growth? And if I got Aditya's numbers right, for B2C, patient volume growth and test volume growth was the same number, 4% or 5%.

Aditya Shinde: Yes.

Surendran Chemmenkotil: Yes. So I think the patient volume growth, of course, is one of the focus areas for us. We've just seen a temporary decline in the last quarter, particularly because of the declining illness trends in the last quarter. And on a YTD basis, we are at 6%, right? And also this year, we talked about it in the past, we have also defocused on the institutional business, which is largely high volume and lower revenues and lower margin business.

We just had some government contract, which is coming down, and 1 or 2 other institutional businesses, we tried to defocus. So that is what is leading to the volume number into 6%. Otherwise, we used to be on 7%, 8% range in the previous year. So that should come back by the time we close this year.

And 2 things which definitely will help us to increase the patient volume growth. One, of course, our increased collection center expansion strategy. Last quarter, we did 125 new centers, and this quarter a similar number or better number should happen. So as and when we penetrate into larger and newer markets, we should get higher volumes of patients.

That is one thing. And secondly, I just talked about something that we have rolled out in this quarter, which is the recommendation engine, which is basically when a patient walks into a center, he has been advised to do any additional tests, which is the next best action that can be done in his health care journey.

So that will definitely add the number of tests into a patient, right? That will get you more, what you call, revenue per patient. So that's the second initiative that we have done on the test count as well as increasing revenue per patient. So these are some of the initiatives over and above that what we have been doing otherwise.

Moderator: The next question is from the line of Anshul Agrawal from Emkay Global.

Anshul Agrawal: First question is on margins. So while I understand post our network expansion, lab expansion, our margins are expected to sort of expand by 100, 150 basis points in FY '26. But with this acquisition of Core, what would be the margin trajectory going ahead?

Surendran Chemmenkotil: Like Ameera mentioned, the year 1, we will definitely have a little bit of dilution because of the Core acquisition for the group level. And by year 3, it comes down to the company levels of margin -- current levels of margin in the company. So for a couple of years, I think relatively, there will be dilution coming off the Core acquisition, but it comes with a higher upside definitely on the revenue side, right? So that will be the first 2, 3 years. But I think on the third year, you will see that the margins from Core Diagnostics is equal to that of Metropolis.

Anshul Agrawal: So on reported basis, our margins should not expand meaningfully because of these 2 factors. Would that be a correct assumption to make?

Surendran Chemmenkotil: I mean one is our organic business, like we said, we have an opportunity to get the margins better going forward. And also our lab expansion will be slowing down in this coming year. And the year after that, you will get a much better operational leverage by reducing this year's -- when you expand the labs in 1 year, the next year also a little bit of impact will be there. The year 2 will be much lesser impact. So on an organic basis, I think you will get a better margin expansion going forward.

And also, we will also be adding more acquisitions, some of which could be coming at a much better EBITDA level. So I mean, exact number is very difficult to predict at this point of time, but some of the targets that we are talking about is, of course, a higher B2C business and better

EBITDA margins if they come, and there will be a different combination and composition in terms of the overall EBITDA in the company.

Anshul Agrawal: Okay. And have our employee costs have shot up by about 17% Y-o-Y in this quarter. Again, is that trajectory expected to continue given that even by adding many more collection centers, franchise-owned centers as well, the employee costs should be at a run rate of around INR 80 crores, INR 80-odd crores per quarter?

Surendran Chemmenkotil: I think if I'm right, my employment cost on a year-on-year basis have only gone up by about 9%, 9.5%, not 17%. And yes, 9% is normally because of the yearly inflation and increment cycle, et cetera. Nothing extraordinary has happened in terms of the employee cost. On the contrary, we have been driving a lot of productivity enhancements in the company, which is what, despite adding so many labs and so many centers, we are not seeing a corresponding increase in the employment cost as such. I'm not sure about the 17% number, I may have to see that.

Anshul Agrawal: It's just the quarter 3 number. But yes, I'll check up on the 9-month number. The second question that I had was on these micro-market strategies where we have taken price hikes in certain markets. Shouldn't we be prioritizing on volume trajectory in markets where we are already lower in pricing versus competition? Wouldn't that help us grow our -- strengthen our market leadership position in those markets over a longer term period?

Ameera Shah: See, we are assuming that price and volume have a direct linkage. Actually, in health care, we find that, that linkage is not as obvious. So just because you lower price doesn't mean that you're able to pick up larger volumes. So often, we have found in health care, actually where your brand is stronger, you actually are able to make a better mark and you're able to generate better profit.

So yes, while we will continue to expand into newer markets and build the brand in newer territories, because that must be done for future growth engines. But just trying to build volume quickly through price may not necessarily be the best strategy that gives you the best results. But obviously, we are trying to create additional profits out of the existing markets as we make inroads into new markets.

Moderator: The next question is from the line of Rishi Mody from Marcellus Investment Managers.

Rishi Mody: Yes. So on the gross margin front, if I heard you all correctly, you are expecting gross margins to expand on the back of increasing B2C. So from a near-term perspective, are we expecting a hit on gross margins because of the dollar depreciation and hence, repricing? Or we already have gotten that repricing done and it's there in this quarter? Secondly, on the cost front, going forward, like now that the lab expansion is largely done, what is the trajectory that you all are expecting that the absolute cost should grow at?

Surendran Chemmenkotil: All right. So we definitely have some impact of the dollar. There's no doubt about it. But we, at the same time, start figuring out how better negotiation and better efficiencies can chip in. So as a result, largely, we try to kind of take care of the increased pressure because of dollar through our efficiencies and our productivity, et cetera. So I'm not expecting an immediate escalation on the cost because of the dollar as a reason. That's on the first question.

And on your second question on cost, when the next 2 years, we'll have more of center expansion, less of lab expansion, should definitely should have a better productivity on the cost side. So currently, I think at a 12.5% revenue increase, we are roughly 10.8% cost increase. And the gap is roughly 2%. I think going forward, that should further get better. So we have not put the right math around it at this point of time, but I think the cost increase should be relatively lower than the current one as we go forward.

Rishi Mody: Second, on the top line front, right, we've seen 16% top line growth in Bombay and rest of Maharashtra. How much would you reckon is the clawback of, say, market share from these online players? And secondly, is the competitive intensity from any incumbents increasing?

Ameera Shah: See, I think we have to remember that the online players actually took market share not really from the large incumbents like us, they actually took it from the unorganized sector, because really people who are going to the local lab were sort of saying that, look, if I'm able to get the same price from an online brand, which I consider as reputable, then that is a good alternative. Having said that, so therefore, really, it was about the unorganized moving to the incumbents or the unorganized moving to online players. It was really not online players taking business from incumbents, at least what we have seen in our experience.

So I think that pace of taking business from unorganized players has significantly come down for the online guys, because we saw that pace really grow during COVID, but not really sustained post. And really, the market has gone back to where the online players are growing actually at the same pace now as the rest of the industry and not significantly faster. And obviously, they still continue to not make any profit on it.

So I think from our perspective, our focus continues to be on illness patients. And while we have a mix of chronic and acute, we have majority acute patients. We believe those are the ones who genuinely care about the quality of the result and, therefore, are willing to pay also the fair price for the quality that they get.

So not facing really that severe competition at this point. And from new players, I mean, honestly, since '22, we haven't seen any new players enter the market. The last we saw was a couple of hospital chains and pharma chains who came in. And they obviously have their own challenges in the industry. So we feel quite comfortable and confident on our own journey.

Rishi Mody: Right. And from the incumbents like Suburban, Neuberg?

Ameera Shah: I mean, honestly, again, we are outpacing all the peers, including the acquisitions done in Bombay. You'll see from any public data available that Metropolis continues to be the fastest-growing player in Bombay and in Maharashtra.

Rishi Mody: And nothing changes qualitatively versus, say, over the last year for competition from these 2 guys at least?

Ameera Shah: Nothing that is obstructing us, frankly.

Moderator: The next question is from the line of Abdul from ICICI Securities.

Abdul: Just firstly on your institutional business. So I understand that the share has gone down considerably as what we were last year. But going ahead, say, in FY '26 or so, is there any portion where we would be at risk of getting discontinued, whether it's some PPP contract or some short-term contracts which would still be into the base of the first 9 months of fiscal '25?

Surendran Chemmenkotil: So see, at this point of time, there is no such thing that we are seeing in the coming months to happen. I think none of the tenders that we have participated or -- we have been very selective in this segment, places where we can really make enough margin and the whole receivable process is relatively smooth. That's only kind of PPP that we are getting into. Very selectively we are doing it. And we are not actively considering any new contracts as we speak, which can translate into revenue in the next 6 months to 8 months' time, as you're asking.

Abdul: Okay. And secondly, on the lab network addition what you have done. So what is the gross number that you have done in the first 9 months of fiscal '25?

Surendran Chemmenkotil: Gross lab numbers?

Abdul: Yes, lab addition numbers?

Surendran Chemmenkotil: Yes. So we've done 23 numbers -- 23 labs we have done in the first 9 months.

Abdul: Okay. Understood. And lastly, on the consolidation, what we are talking about. So within the peer groups also, we hear there is a sizable level of consolidation happening in the Western and the Southern region. So going ahead, how should we see the landscape? Would it happen that the organized guys will try to bring in more efficiencies by acquiring the smaller ones who are not able to scale up, or at some point of time, you will think that the market is getting saturated and consolidation is the only way to move ahead for?

Ameera Shah: See, I think each player will have their own thoughts, but I think we can tell you from an industry perspective, there is no such saturation, because still, if you look at the top 5 players in the country, the chains, they are less than 5%, 7% of the whole industry, right? So there is a huge opportunity to continue to grow. And the unorganized space is still 85% of the entire industry. So certainly, no cap, no end of runway, no saturation for sure.

Really, your question around is consolidation the only way to grow? Absolutely not. I think organic growth is really, frankly, the mainstay for us. And if you see, in the last many, many years, organic growth has been the primary contributor to our growth. And inorganic is really not about growing the revenue faster, but it's really about strategic entry points into either new testing capabilities or new geographies and really using that as a base to then catapult from there.

And we will continue to do it from a very strategic perspective. But the mainstay will be organic growth, which we believe continues to be a big opportunity going forward. And therefore, as you've seen, our YTD revenue growth is 12.5%, and we expected the Q4 as well to be higher than that.

Moderator: Ladies and gentlemen, that was the last question for today. I now hand the conference over to the management for closing comments.

Ameera Shah: Thank you, everybody, for joining us today. As just mentioned, we continue to believe there's a very long runway for growth for the diagnostics industry in India. And while we've had obviously a fair number of roller coaster rides from 2020 till 2023, '24 because of obviously COVID and then coming off COVID, we do believe there is a certain normalcy now. And while, of course, there has been increased competition in the last few years, but the good quality players continue to be differentiated and stand apart from the rest.

As we've often mentioned, entering this industry is easy, but truly scaling and staying in the industry and building a profitable business in this industry continues to remain a Herculean task. And there are very few of us who are creating good profitable companies with high ROCEs and a real differentiator in the market. And Metropolis is certainly one of the leaders in this space.

Going forward, our expansion will be mostly collection center led and less about lab expansion, which will help us increase our margins. And we are obviously excited about closing the Core Diagnostics acquisition and welcoming them into the family effective March 1, and also closing the other advanced discussions of bolt-on acquisitions that we're having, which will increase our B2C and our presence and relevance and visibility in Northern India.

So look forward to continuing to work with all of you on this journey and look forward to chatting with you at the end of Q4. Thank you.

Moderator: Thank you. On behalf of IIFL Capital, that concludes this conference. Thank you for joining us, and you may now disconnect your lines.