Ref: MHL/Sec&Legal/2023-24/18 **Date: May 24,2023**

To,
Head, Listing Compliance Department
BSE Limited
Phiroze Jeejeebhoy Towers
Dalal Street, Mumbai - 400001.

Scrip Code: 542650

To,
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 Symbol: METROPOLIS

Sub: Intimation of Transcript of Earnings Call for Q4/FY 22-23

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/2023-24/08 dated May 11, 2023. Please find enclosed herewith the transcript of Q4/FY 22-23 Conference Call (i.e. Post Earnings/Quarterly Call), as organized by Axis Capital Limited on Wednesday, May 17, 2023 at 9:00 a.m. (IST) wherein the financial results of the Company for the quarter ended March 31, 2023, were discussed.

The same has also been uploaded on the Company's website which can be accessed at www.metropolisindia.com

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

Thanking you.

Yours faithfully

For **Metropolis Healthcare Limited**

RAKESH KUMAR AGARWAL

Digitally signed by RAKESH KUMAR AGARWAL
Date: 2023.05.24 12:00:37 +05'30'

Rakesh Agarwal
Chief Financial Officer

"Metropolis Healthcare Limited

Q4 FY '23 Earnings Conference Call"

May 17, 2023

Disclaimer: E&OE - This transcript is edited for factual errors. In case of discrepancy, the audio recordings uploaded on the stock exchange on 17th May 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**
MODERATOR:	**MR. PRAKASH AGARWAL – AXIS CAPITAL LIMITED**

Moderator: Ladies and gentlemen, welcome to the Q4 FY 2023 Earnings Conference Call of Metropolis Healthcare Limited, hosted by Axis Capital Limited. 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 touchtone phone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Prakash Agarwal from Axis Capital Limited. Thank you, and over to you, sir.

Prakash Agarwal: Thanks, Ryan, and good morning, everyone. On behalf of Axis Capital, I, Prakash Agarwal, welcome you all for the Q4 Fiscal '23 Earnings Call for Metropolis Healthcare Limited. Today, from the management, we have Ms. Ameera Shah, Managing Director, Mr. Surendran Chemmenkotil, CEO, and Mr. Rakesh Agarwal, Chief Financial Officer.

With this, I hand over the call to Ms. Ameera for her opening remarks. Thank you.

Ameera Shah: Good morning, everyone, and thank you for joining us for the Q4 FY '23 earnings call. As mentioned, I'm joined by Suren and Rakesh and our IR advisors, SGA. We've uploaded our updated investor presentation and press release on the stock exchanges and the website, and I hope you have the opportunity to go through the same.

FY '23 has been a financially challenging year for the diagnostics industry. While we witnessed the entry of many new competitors leading to more B2B discounts and decentralized testing, on the B2C side, the industry witnessed certain changes in consumer trends like the increased adoption of digital technology. At the same time, there was a mismatch in the profit and loss in the first quarter, but COVID revenues fell off steeply, while manpower cost from previous years has increased due to COVID. The new industry trends in the last 18 to 24 months have weakened the unorganized players with decline in volume growth as consumers are shifting to bigger brands and better customer experience.

Further, in the absence of a regulatory environment, consumers are assuming the 2,000 labs who are approved for COVID PCR tests are the more advanced labs compared to the rest of the unorganized sector of 300,000 labs and migrating to these 2,000 due to brand. This will provide a long runway of growth for the organized sector.

Let me update you on the competitive landscape in the industry. Investors have been hearing a lot about competitive intensity in the last year. And while it is certainly true that the entry of many new competitors has brought a different dynamic to the table, the ground reality is that the competitive intensity is more nuanced than general and high in some pockets and not high in some. The industry has been witnessing pricing pressure, particularly in the B2B semi-specialized segment. Where the intermediate margins or customer discounts are expanding, the price is not changing for the customer. And for Metropolis, this segment comprises a single digit of our overall revenue. This is the easier entry point into the industry as the most scientific approach takes great expertise and time to build trust.

We are not facing heat in pricing on the B2C side as customers come to us when they are unwell for critical areas, and pricing is truly not the major factor in their decision making or in the specialized segment in B2B, where, again, trust and quality drive prescription. This business, the value wellness and the highly discounted B2B was never our focus and, therefore, does not dent Metropolis growth prospects. Even in our core markets like Bombay and Pune, there was a fear of competitive intensity impacting Metropolis growth.

We have not seen this to be an obstacle in our growth in FY '23. In fact, our growth in Mumbai and Pune has been extremely strong and outperformed all peers. Equipped with a strong scientific brand and opportunity to build density of centres in these markets, along with strong prescription generation from doctor and B2C activity, we believe a double-digit growth will continue in our key markets.

As more illness volumes increased and as we have already now seen non-COVID normalized, the organized players will be the biggest beneficiary and will grow at a faster pace via vis-à-vis the players which are focusing on discounts and low pricing first rather than science and customers. At Metropolis, we are successful in building this trust amongst the doctor fraternity and our consumers, which will help us with more sticky business and repeat testing.

Specifically, FY '23 was a challenging year for Metropolis but also a critical year for our transitioning to Metropolis 3.0. Some of these challenges were external challenges like the financial impact of a steep drop of COVID test -- PCR testing, higher time for normalization of non-COVID testing, many new competitors entering during COVID, which increased market intensity and the digital adoption by consumers, which itself was new in health care and require the industry to build new capability.

Some were internal challenges like the change of the CEO, the vast rumour surrounding Metropolis and the promoters' intent to raise investments, the unexpected income tax surge faced by us and several large health care players and an unethical competitor using the Hitech brand for nine months and trying to fool consumers despite a legal trademark owned by Metropolis.

While some of these affected the momentum of business in FY '23, the long-term opportunity continues to be robust, and I'm happy to share that despite these challenges, Metropolis successfully reported 18% non-COVID revenue growth, which is the highest amongst leading players in the industry. Even excluding COVID, excluding the government contracts and excluding the acquisition, the growth was 15% similar to pre-COVID.

We continue to keep a laser-sharp focus on execution, and we strengthened the quality of our business last year. We retained and expanded our talent pool, grew our network significantly and built material new capabilities for the future. We have also just concluded our Metropolis 3.0, 3-year strategic planning, and we'll be happy to share details in the next quarter's investor call. However, we would like to touch briefly upon a few of the points.

We will be looking at a very aggressive network expansion in the next three years. We will focus on penetrating deeper in our core geographies by expanding our reach into Tier 2 and Tier 3 towns, and these are locations where Metropolis enjoys brand recognition. We're also widening our geography by entering relatively new markets in North and East and have been able to successfully grow in these markets as well.

In this last year, we have opened five new labs in the North in Bareilly, Varca, Ambala, Noida and Faridabad and have grown faster than competition in the specialized segment. Our growth in North India was at 30% in Q4 FY '23 due to improved brand recognition amongst doctors and hospitals and more D2C activities, taking our brand to the consumer for wellness. We continue to commit our energies and resources to our strategy of opening 90 labs and 1,800-plus centres by 2025 across the country. Of which, we have so far created 30 labs and 1,057 centres in the last 2 years.

The second thing we'll be focusing on will be wellness testing. We've created the right set of wellness packages based on data analytics and science and have been educating consumers via our D2C engagement model for wellness packages. We believe that wellness will be a strong pillar of growth for Metropolis going forward, and we don't use price as a USP like many peers in the industry but the brand promise of better content that you could use to improve your health, the trust that your results are accurate and the ease to engage with Metropolis with the click of a button. Our average realization for these premium packages is INR2,000-plus, and these tests are margin-accretive to Metropolis. We -- in Metropolis 3.0, we will continue to focus on our wellness business and take our current contribution of 15% to closer to 20% in the future.

The third area we will focus on is our specialized test menu as we know that Metropolis has the widest range of test menu on our umbrella, and we are continuously adding more and more. This last year, we added 83 new tests in FY '23. And in this next year, we will continue to engage with the scientific community, educate them on the better and alternative tests available with Metropolis and add one test every three days.

We are also adding people in our sales force to strengthen and accelerate our doctor engagement activities in our new geographies to gain doctor's trust for higher volumes, especially for specialized test. We have increased our doctor outreach program by conducting CMEs, which is continuing medical education programs, and approach new specialized doctors in our core geography and new territories as well.

We have done approximately 200 CMEs in the FY '23 and have approached more than 10,000 new doctors through one-on-one connect and 20,000 doctors digitally through Met robots, especially the doctors practicing in the field of oncology, gastroenterology and neurosurgeons. These are all the specialized doctors in the country. We're happy to inform you that these doctors have been continuously engaging with our teams to exchange thoughts for better outcome. In the next year, we plan to conduct more than 500 CMEs and continue to expand our reach to many doctors on a continuous basis.

The fourth thing that we'll focus on will be to continue to strengthen our IT infrastructure. As we know, we have been driving significant growth via digital channels, and we have adapted from being only scientifically focused pre-COVID and driving doctor-led B2C business to now also being a brand-led business driving D2C, which is direct-to-consumer testing. We have built our new technology stack with new and improved app, redesigned website and a new channel via WhatsApp messenger that will help us serve all our customers better and drive more efficiencies in the business.

Pilots of the new technology have been rolled out and will be completed in quarter 1 of this year across India. This will significantly improve customer experience. Although our NPS is already high, we believe that this can go even further and improve our visibility and data analytics in the business.

If we look at -- the last opportunity will be the inorganic opportunity and a complementary business. Apart from the organic growth, we'll continue to explore bolt-on acquisitions to grow via the organic route. We believe sooner or later, the industry has to consolidate with few large players controlling the majority of the market share on a Pan-India basis, with some regional competition in specified pockets. We continuously look out for opportunities, which will be a strategic fit for Metropolis in terms of culture, DNA, sticky consumer play, but at the right track.

We're also exploring opportunities in the basic radiology space, which is a strategic cross-sell for Metropolis due to its wide reach to its network across the country and brand equity. Basic radiology usually is things like ECG, x-ray, sonography and not MRI and CT.

We are extremely happy and proud to inform that Metropolis is the first diagnostics company certified as a great place to work. In the industry of a short pool of talent, we have been able to retain and add more talent to our organization.

I'd like to just quickly comment on our ESG initiative. And most of our initiatives will be focused on energy conservation, water and waste management, strengthening the diversity and inclusion program and improving the diversity and new hire ratio, launch of an exclusive program on women's leadership. Foster -- we foster diverse and accountable governance by partnering with external consultants to initiate with the consulting firm the process of ISO, continue to maintain high ethical standards, protecting and securing data infrastructure and identity and, from a governance perspective, complete patient privacy and electronic health records. We have enabled the program to set targets for each of these and track our progress against these consistently.

With this, I'd like to hand over to Suren for our update on the year gone by along with the execution plans going forward. He has nicely settled into Metropolis and is bringing in stronger execution rigor, and I'm confident of the success of our plan with the new momentum that I'm seeing.

Over to you, Suren.

Surendran Chemmenkotil: Thank you, Ameera, and good morning, everyone. So on business trend, while our reported numbers show a decline, the underlying story is very promising. Our core business growth, that is revenue excluding COVID testing, Hitech and the PPP contract, which is not our core focus area, our revenues for quarter 4 grew by 15% year-on-year, which is at pre pandemic levels. The same 15% growth was delivered for the whole year as well.

The PPP contract impact was due to government decision to insource a business, which is earlier managed by Metropolis. All tender business will come to an end, depending upon the year it was contracted for. This has impacted quarter 4 numbers. However, the positive news is that the core business revenue is growing faster than the market and the peers, driven by volume growth of 13% and RPP increase of 2% for full year '23.

The quality of growth is strong, as driven by B2C revenue growth, which has been 17% for quarter 4 '23 and 20% for full year '23. We have been able to deliver 18% B2C growth in Mumbai and 23% B2C growth in Pune, highlighting our strength in our core geographies despite competition from existing players and entry of new players. The growth in this market is a mix of volume, RPP and product mix.

At the end of March, we have taken a price increase of approximately 4% on about 900 low-volume tests, which should give a net benefit of -- on overall revenues of approximately 1% for full year '23/'24. And also, we will evaluate a price increase on other cash in the course of the year.

For margins, our operating EBITDA margins are comparable to pre-COVID in the range of 37% while the reported margin is about 25.5%. The cap is on account of new investments in network expansion, which has diluted the margin by about 120 bps.

Despite of this aggressive lab expansion, we have delivered the highest margins amongst similar industry players. This has been a combination of operational efficiency, realization benefits and product mix, giving -- driving specialized test and premium wellness. We believe with normalized volumes and higher productivity from new business -- new investments in the network, we will be able to deliver better margins in the future. In prescriptions from doctors for illness and specialized B2B segment, where accuracy and trust are more critical, we do not envisage much pricing pressure.

We believe technology is important for the evolving business needs, and during COVID, while we saw digital platforms play a super leading role in all industries, including health care, this trend has not continued as significantly post-COVID. Now the use of technology is more inclined for servicing the consumer and enhancing the overall experience less as a customer acquisition tool. While many wellness and affording tech-savvy consumers prefer digital booking and home visit, many middle-class customers on the illness that prefer walking to a centre for the diagnostics requirement or getting a home visit via phone. Hence, we have been deploying equal focus on the digital platform and our network expansion strategy.

A Metropolis customer can access services as comfortably through both options. While home visits continue to grow, this is a normalized growth and not a hockey-stick growth. While most peers do home visits through franchisee centres, at Metropolis, part of it gets accounted directly and part of it is scattered through our retail franchisee centres. Both get accounted as a part of the B2C revenue, but it is difficult to differentiate home visit versus walk-in at the retail franchisee centre level.

Moving on to update on Hitech. As mentioned, Hitech was a strategic fit under the Metropolis umbrella to expand a middle-income brand in Tamil Nadu. As mentioned, poaching by unethical player in the South, which have impacted revenue growth of -- for about nine months. However, we defended our trademark and won and stabilized our operations and brand and still grew positively. We are confident on Hitech business growing. Going forward, our strategy will be add another 50 centres in the next one year, aiming at faster industry growth in full year '24, focus on margin expansion with increased efficiency and productivity to operating leverage playing out.

Margins in Hitech for full year '23 stood at 27%, which we believe will increase going forward. Addition of test menu to attain better product mix and productivity per centre, deployment of talent especially from the scientific engagement perspective to cross-sell more specialized tests, which is currently offered by Metropolis, also by creating a digital journey for customers for acquisition and servicing of customers.

Coming to the strategy for Metropolis going forward. We will have a clear focus on expanding the network aggressively. We aim to expand our lab network in strong states of Karnataka, Gujarat and Maharashtra to provide complete testing services in Tier 2, Tier 3 markets and strengthen our leadership position at the state level.

Additionally, we plan to enter strategic locations to penetrate newer markets, especially in the states of Assam, Bihar, West Bengal, Madhya Pradesh, Uttar Pradesh, Orissa, Jharkhand, Telangana and Andhra Pradesh. We plan to open 30 new labs, around 800 centres in full year '24 as compared to 14 labs and 540 centres last year.

While the largest network will surely drive faster volumes and revenue, we would also want to increase the visibility of Metropolis brand across the country and improve revenue productivity per centre. We have deployed a lot of data analytics in the strategy planning of labs and collection centres and a separate distribution and project team, which will be directly reporting to me, for opening a lab until they reach maturity with a stipulated time frame. With this focus, our goal is to start lab and centres on time and improve success rates on opening new centres.

With stronger execution rigor, we believe the business will be on track to deliver better volumes and growth. Not only our focus will be to expand our network but also, as I mentioned, focus on enhancing the productivity of each centre, especially the young network through our D2C engagement model.

We have been working on -- working to strengthen our digital and technology capabilities over the last one year. We have been introducing various B2C engagement programs via our web, mobile app and social media platforms. Through these engagements, we ensure customer acquisition and educating the customer for the right set of tests, packages or symptom to take an appropriate test. We have recently enabled our system to engage customers via WhatsApp chat box. It's a virtual, which will help to solve most of the queries via WhatsApp chat and cross-sell services. The feature is a function like test booking, centre location optimization, reports with historical trends, suggested test, etcetera, and also be able to track the life cycle of a member, enabling us to have focused engagement.

We believe in our industry, whether for ordering medicine or booking diagnostic tests, these are transaction purchases where some consumers log into the apps only when they need to order something or to book a test. We do not see a much browsing time on the app by how much engagement over content. And this is seen by the low time spent by the consumers on these apps. So while Metropolis is completely omnichannel, we believe this will be used more for servicing our customers and for customer life cycle management. Online customer acquisition will happen primarily via the website, and majority of customer acquisition will be soon off-line.

On the back end, we have been piloted our new sales and service CRM and registration tools which will enable the customer experience. In full year '24, we will roll out significant lab automation and process automation for better productivity and a separate module for our B2B customers for ease of doing business. We are continuously working on increasing our revenues through digital media and alongside making our back-end system stronger for better process and control for enhancing productivity.

Now on the wellness. We have also been -- we have seen volumes picking up from the wellness segment and are hopeful of this trend to continue. Additionally, the spread of health care services and insurance has made the diagnostic industry the critical segment of the industry. The collaboration of various corporates and MNCs, diagnostic centres for the health care check-up for their staff and families will further boost the volume, especially for the large, organized players on a Pan-India basis.

For Metropolis, our wellness segment has grown exceptionally -- shown an exceptional growth of 45% last year, with revenue contribution moving to 15% of the total pie. We believe the opportunity here continues, and we aim to take this number close to 20%.

On the D2C engagements, we have done about 800 number of health check-up camps in the last year and would be accelerating these efforts to engage more direct-to-consumer for targeting customers of repeat testing. These health check-up scans are basically done for large societies or to capture a catchment area within a specified geography. These camps typically add more branding and customer outreach for Metropolis, which will efficiently help us in consumer acquisition and retention. This will act as a funnel for customer acquisition and cross-sell and upsell for chronic as well as wellness testing.

Now to sum it up, we have witnessed a consistent high-teen to mid-teen growth of non-COVID revenues for the last four quarters, not only by continuing to be very respected doctors across the country but also by introducing technology and consumer connect that makes life easier for consumer. In quarter 4, we have seen 15% growth in our core diagnostics business, excluding Hitech and PPP contracts. We believe Metropolis is rightly placed to attain higher market share across geographies and should be able to outperform the industry growth on revenue front with better margins to follow.

With that, I will hand over to Rakesh Agarwal, CFO of Metropolis Healthcare.

Rakesh Agarwal: Yes. Thanks, Suren, and good morning, everyone. I will take you through a few key highlights for the quarter and year-ended full year '23, following which, we will open the floor for Q&A session.

Let me begin with the operational highlights. First, our B2C revenue has grown at 17% for Q4 financial year '23 and 20% for full year financial '23, indicating our strong doctor and consumer connect across markets. Our B2C business for our focus cities like Mumbai and Pune has grown by 18% and 23%, respectively. This is again witnessing our strong brand presence in our core geographies. The growth in focus cities has been a mix of volume and value growth, volume growth indicating increase in market share and the value growth indicating better product mix and sustainable prices.

Revenue share of the B2C business for focus cities stood at 60% in 2023, which stick to our target of 65% contribution from B2C business in focus cities in the short to midterm. Revenue contribution from B2C stood at 50% of the total revenue as compared to 47% in financial year '22 and 42% in financial '20. Our B2C includes revenue from home visit and walk-in at our own and franchisee centres. It does not include B2B collections done by franchisee centres revenue from ARC. That is exclusive to the franchisee centres.

Our specialized and premium wellness segments are the fastest-growing segment. Revenue contribution from specialized test, excluding COVID and allied test, stood at 33% for quarter 4 financial year '23, indicating a growth of 16% on a Y-o-Y basis. Contribution from revenue from wellness increased from 11% in Q4 finance year '22 to 15% in Q4 financial '23, with a growth of 43% on a Y-o-Y basis. And the segment for full year '23 grew by 45%.

We have not only seen growth in our core geographies but also on our noncore geographies. Our revenue in noncore market like North has grown by 30% for Q4 financial year '23 on a Y-o-Y basis. On this, 25% has been account of volume growth and 5% on account of realized benefit.

Of the above core growth of 15%, 14% has been driven by volume growth. And 1% has been on account of the realization benefit.

Let us now come to the Q4 and full year financial year key financial highlights. Total revenue for Q4 financial year '23 stood at INR283 crores and for financial year '23 stood at INR1,148 crores. Non-COVID revenue for financial year '23 stood at INR1,104 crores, at a growth of 18% for financial year '23 on Y-o-Y basis. Non-COVID revenue for Q4 financial year '23 grew by 9% for Q4 financial year '23 and stood at INR276 crores.

EBITDA before CSR and ESOP is at INR72.5 crores in Q4 financial year '23 as compared to INR82.2 crores in Q4 financial '22. EBITDA before CSR and ESOP for financial year stood at INR304.4 crores. EBITDA margin before CSR and ESOP stood at 25.7% for Q4 financial year '23 and 26.5% for financial year '23.

Profit after tax stood at INR33.5 crores in quarter 4 financial year '23. PAT margin has been impacted on account of higher interest costs due to acquisition of Hitech Diagnostic and higher depreciation on account of investment done to fuel the future engine growth. Since we have paid our majority of the debt and balance INR79 crores is planned to be paid in H1 of this year, we expect increase in PAT margin going forward.

PAT for financial year '23 stood at INR143.4 crores as compared to INR214.7 crores, down by 33%. However, we had onetime exception gain in financial year '23 -- '22 of INR16 crores. If you exclude that one-off gain from the base year, PAT will be down by 26%. We envisage PAT margin to grow going forward on the back of low interest cost on account of debt repayment by H1 of this financial year.

Coming to our working capital ratios, our debtor days as on March '23 stood at 30 days, and there is a slight improvement as compared to March '22. Overall, working capital stood at 14 days as of March '23, which is a similar level as compared to March '22. Our OFC to EBITDA is stronger at 102% for financial year '23. Cash and cash equivalents stood at INR106 crores as of March '23. Gross debt stood at INR79 crores as of March '23. We plan to repay this debt by H1 financial year '24.

This is all from our side. We now leave the floor open for Q&A. Thank you.

Moderator: Our first question comes from Tanmay Gandhi with Investec.

Tanmay Gandhi: So my first question is on the PPP revenue. So it accounted for almost 5% to 6% of the revenue in 4Q FY '22, right? So why is this not a core segment for us to focus on, given that it's margin-accretive, realization-accretive? And why were we unable to renew the contract given we have strong presence in specialized testing?

Ameera Shah: Thanks for the question, Tanmay. I think PPP has not been a focus area for Metropolis because, frankly, this contract was a one-off contract, which focused on specialized tests. All the other PPP contracts in India only focus on routine test, and it's very commoditized. And the quality of service is expected, and therefore, the price connection we don't feel matches the kind of product that Metropolis provides. So therefore, it is not a core focus for us.

The NACO contract was a one-off contract, which focused on specialized test, which is why we had bid for it, and we won it for the initial three years, which then got extended for another two years because they were very happy with our work. At the end of five years, the government decided to do this testing on their own. So actually, they have not done a new tender at all, and they have not given it to anybody else either. They decided to insource it.

So tender business, as we know, will come and have a contractual period. And therefore, our focus has always been more on the core business, which is about sort of a continuing revenue, which is not based on a contracted business in short period of year.

Tanmay Gandhi: Understood. And secondly, on the realization front. So if you look at our wellness, the realization, so it has declined by 8% to 9% year-on-year. And even if you look at last three, four quarters, the trend, it has been declining. So anything to read into it? And how do we expect realization growth going forward?

Ameera Shah: See, I think Metropolis has always been in the premium wellness space. And if you just step back and look at that, our earlier realizations were close to 2,800. They are currently close to 2,200. So it's really not in the mass space at all where most mass health check-ups are in 500, 400, 600. So we are very much still in the premium wellness space. We're just based on different markets.

So for example, in our urban city or in a city like Bombay, you may -- we still get much higher realization or Pune, our other market. But in obviously, smaller markets, your realizations would be lesser. So as the geography mix is changing slightly and as we are trying to create even more inclusivity into our packages, our range is really between 2,000 to 3,000, and we'll expect to maintain within that.

Moderator: Our next question comes from Shyam Srinivasan with Goldman Sachs.

Shyam Srinivasan: Just the first one is on volume growth. I think core -- like what you're calling out, core business volume growth of 15%. Can you help us disaggregate it into like same-store plus network? I'm just trying to see what's the impact of the new network additions that we have done over the last couple of years. How -- what is the kind of volumes it's contributing versus the -- our pre-existing stores?

Rakesh Agarwal: So you are right that our core volume growth is around 14% for the full year and 15% for quarter ending Q4. And the total revenue contributed by the new network, which is coming after April '22 is around 4%, and this is increasing as the network is maturing. So whatever came after April '22, the contribution is 4% as of now on the total revenue. And the volume contribution is again in a more or less similar range, and we expect this to grow as we mature in the future.

Shyam Srinivasan: So if I then break it down, 10% has come from old stores before April 2022, and 4% has come from stores after 2022. Is that correct?

Rakesh Agarwal: Yes.

Shyam Srinivasan: So in terms of the 10% growth on the mature stores, if I can use the term, so what is driving growth there for us specifically? Is it penetration increasing at these stores? Or if you can help us understand the dynamics there, please?

Rakesh Agarwal: So yes, definitely, one is obviously the patient coming in per store is increasing for us, and we are seeing that continuously. We are going -- as rightly mentioned earlier also that the D2C, which is -- we are increasing in our core areas, and we are doing a lot of health camps, which is giving us a lot of visibility. So we are continuously seeing the patient per centre going up in our own centre as well as franchisee centre, and that is the major area which is increasing our volume and growth in the current centres.

Shyam Srinivasan: Just last couple of questions. I'll keep it short. Mr. Surendran talked about price increases, 4% price hike in March. So what's the motivation for taking price increases? And when you talk about evaluating price increase for the rest of the portfolio, so what gives us the comfort? I think Ms. Ameera also talked about competition. So just trying to weigh in the competitive dynamics versus the price hike, what we are contemplating.

Rakesh Agarwal: So this price hike of 4% is done basically on a very selected test of 900. So we have not changed the overall portfolio. This 900 test are basically a specialized segment test where there is a low volume, and we feel that the competition pressure is much lower in this 800, 900 test. And that is the reason why we have taken a bit of a moderating price increase in this test, and as said by Surendran, this whole increase of price will give us around 1% of the growth in the coming year, which will be full year '23/'24 and we will contemplate as we go forward in '23/'24 that whether we have further opportunities of price increase because we have seen our competitor actually increasing price more aggressively, but we have been bit muted in this. But we'll see if the opportunity arise, and we'll get this opportunity '23/'24.

Ameera Shah: Just to add to that, we believe that the brand premium is strong and people would accept price increases. But I think the key question to ask at this point is the focus on volume or is the focus on RPP realization. So while we believe that there is an acceptance of price increase, we are choosing at this point to grow the volume without really impacting realization through price and really impacting realizations more through product mix as we keep moving up the ladder and as we keep trying to push more and more specialized test. So I think that's more of our strategy. But we believe like we said that the brand premium can sustain the price increase if we choose to go in that direction.

Shyam Srinivasan: Very helpful. Just the last data point, maybe you can get it off-line as well, but just a split of volume into RT-PCR. I know it's getting smaller PPP contract, core volume when you call it, which is non-COVID, non-PPP, non-Hitech, so if you can get the split, even later is fine, but just a request.

Surendran Chemmenkotil: Yes, yes, we will be get back to you.

Moderator: Our next question comes from Rahul Agarwal with Incred Capital.

Rahul Agarwal: First question to Ameera, essentially on the market behaviour and the sentiment. So in a 3-part question, have you seen entry of new players, specifically in the last 12 months? Because I have seen none.

Second is in terms of employee attrition behaviour. Do you see that has normalized for national brands like you? Because it was -- it seemed like it was higher when there were a lot of entry of new digital labs.

And third is on the -- since normal life is back and the normal infections are back, obviously, that helps non-COVID volumes, do you see next three years better than the last three years specifically on a non-COVIDbusiness? That's the first question.

Ameera Shah: Thank you. Thanks for the question. For sure, I'll start with the last one. I believe the next three years will be definitely superior to the last three years as far as non-COVID goes.

Obviously, the two years of COVID really brought down the non-COVID business. And obviously, this last year of a lot of consumer trends and disruption happening with competitive entry as well as -- it's just the trends changing, and more than anything, non-COVID not coming back to its normalcy was, like I said, a challenging year. So I believe the next three years for the industry for the organized sector will be, I think, quite strong for non-COVID. And I certainly think Metropolis will be ahead of the pack just from a perspective of the opportunity for us as well as the execution plan that we have.

Your second question. As far as new people come in, in the last 12 months, I would say after the announcements that were made of a bunch of pharma companies coming in, hospital companies, etcetera, I think some of them are still in preparation mode. A couple of them have not launched yet. One of them has not launched yet, and I think that launch will happen this year of a pharma company. But I think otherwise, everybody has already launched and is already operating in the market. So we don't -- we are not expecting at this point any new entrants to come in who have not already come in.

And thirdly, your question around attrition. And just one point that even when these new players have come in, like we said, we have not really seen any of the new players do anything in a very different way. It's definitely more of sort of the similar and pursuing two parts of the business. One is the value wellness business, which is around INR500, INR600 patient as well as the B2B discounted business, which is the semi-specialized, where again, the revenue per test tend to be much lower, not only because these tests tend to be less critical clinically but also because of the high discounting. So we are not expecting to see anything very different from that from any new players coming in.

On the last question of attrition, the attrition we saw during the COVID year was more on the scientific side because everybody who wanted to start COVID testing was looking for trained people in the molecular biology department. So we certainly saw technical team attrition at that time. The last year, the attrition we saw was actually not because of the digital players, was more because of the players from hospitals or pharma companies entering and who wanted salespeople in their off-line work, right?

Actually, if you see the people who started as digital players have actually all moved to off-line as well because they've understood that the demand online, which actually spiked during COVID for COVID testing as well as for wellness, has definitely come down, and that demand is now not sustaining that growth of revenues anymore. And therefore, all of them are attempting to again go after the B2B discounted semi-specialized business off-line. And therefore, their cost base is increasing quite dramatically. And without obviously -- or the lack of sort of the large test menu or all of that, the challenges will be obviously different. But I think we're definitely seeing the competitive intensity not be as hectic as it was last year.

Rahul Agarwal: Perfect. And second question is on numbers. Just specifically on PPP, the INR76 crores in fiscal '22 has come down to INR67 crores. What should we expect for fiscal '24? Because I'm not really sure what was a macro annual revenue.

And secondly, on the margins, does that hold up at current levels, 25.5% going forward? Or do you expect more dilution because of your investment into infra and IT?

Ameera Shah: Sure. So on the PPP, we -- like we said, the PPP contract ended in February of '23. And therefore, it has not reflected completely in this Q4 either. It only reflected for one month in Q4. And the two months in Q4, there was no revenue from PPP. Obviously, the business will not continue into FY '23/'24, and that was about INR67 crores for the whole year in FY '22/'23.

As far as the margin goes, we are definitely aspirational that we would continue to protect the current margin. As you know, we are continuing on the expansion, lab expansion. We are adding 30 labs for this year along with 600 to 800 centres. And therefore, we want to continue to focus on expanding our market, our market share and our revenue growth, and we believe that this investment in margin, while it will continue to dilute instead of operational EBITDA at 27%, we have reported EBITDA of 25.5%. This 1.5%, we'll continue to invest back in the business because we know that at the point we stop investing in new labs, we can very easily move back to an operational EBITDA level. So I think that will continue to be our plan over the next couple of years.

Rahul Agarwal: Just a clarification, the INR67 crores was entirely in NACO, is it?

Ameera Shah: Yes, that's right.

Moderator: Our next question comes from Anuj Saleja with ICICI Prudential Life.

Anuj Saleja: Yes. So just one question on the lease liabilities front. If you can just explain -- so I understand that labs have -- more labs have come in, but lease liabilities are up from INR120 crores broadly to about INR186 crores year-on-year. So could you please explain what all is included in these lease liabilities?

Rakesh Agarwal: Yes. So basically, the lease liabilities consist of two, three things. One, obviously, we keep moving from the rental piece of the equipment, which we purchased, so there is a two modelling equipment. One is the purchase model. One is the rental model. The moment we go with the rental model, there is one lease component, which is already included in that. So last year, we have moved a lot of contracts of our -- from outright purchase model to lease model because we had seen a lot of benefit out of it. And you can see overall, our gross margin has increased. So that is one area where the more we shift from a purchase model to a lease model in the -- from the equipment point of view, we will see this lease liability going up.

Obviously, second is that our -- the moment we opened a lot of A-PSC, there is a rent component, which is one of the major component coming into that. So as we increase our centre and we again have an aggressive plan this year, so the moment we increase our -- this centre so that rent component will come as a lease liability.

So these are the two major components. But I will say that this equipment -- change of equipment contracts from outright purchase to a lease model has made some difference in this amount.

Anuj Saleja: Okay. So that's one. Just one last question on the borrowing fees. So borrowings have come down significantly, which is a really big positive from INR259 crores to broadly about INR78 crores, INR80 crores now. So would it be right to say that you've already paid up the loan that you've taken for Hitech?

Rakesh Agarwal: Yes. So there is only INR79 crores left out, which we are planning to pay in H1 this year. And that will also help us to reduce our interest costs, which may reflect and extending our PAT margin as well.

Moderator: Our next question comes from Prakash Agarwal with Axis Capital Limited.

Prakash Agarwal: Just one question on the guidance you gave on double-digit growth. So with the expansion that you're talking about, how do you think the double-digit would shape up? Would it be early teens, mid-teens or high teens or it could cross even that?

Ameera Shah: Look, I mean, I think at this point, the point I mentioned about double-digit growth was actually specifically for Bombay and Pune. Look, I think on the core business side, I think there's a lot that we are doing. There are many, many levers in place as far as growth of business. One is obviously the geographic expansion. The infrastructure we talked about building, also potential realization and product mix improvement, wellness. So there are a lot of levers at play which are all under execution as we speak. And we are hopeful to sort of surprise ourselves this year as to where the core business can reach.

So I just want to be a little bit careful around giving too much guidance. But I think we are very hopeful, like I said, about certainly this year and the next couple of years on the core business just keeping aside the PPP side. But otherwise, I think we are very excited and hopeful about this year and the next couple of years.

Prakash Agarwal: Okay. Great. You also mentioned about your focus is on volumes given the expansion and also spoke about that you're investing 1.5% in the expansion of new centres, etcetera. So do you think with the current competitive landscape, achieving this 25% plus/minus is still achievable? Would that be correct to model it?

Ameera Shah: Like we said, look, the current margin is a reflection of three, four things. One, obviously, the competitive intensity has already been playing out for the last in 18 to 24 months, and that's already captured in the current margin. We are seeing obviously some segments of the business margin is not growing as fast. Some segments of the business margin is growing faster. So it all depends upon which segment, which channel, which product to focus on, and that's going to determine your ultimate margin, but it's also a reflection of some amount of efficiencies and productivity in the system. So as I mentioned, we are hopeful that we can continue to protect the current margin and while we continue to expand on it.

Prakash Agarwal: Lovely. And lastly, on your comment on bolt-on acquisitions. So these are largely North and East. And have the valuations come off versus what you would be seeing in the last two, three years?

Ameera Shah: See, frankly, in the last two, three years, we really did not attempt to do any bolt-on acquisitions because the bolt-on acquisition size would be obviously quite small. And the reality is the level of effort and integration required to do any acquisition big or small is the same. And we never really attempted to do bolt-on in the last two, three years. I think we were too busy with COVID and the craziness in the industry.

But I think going in this next three years, certainly, we would like to do that. That could be entry points into new markets. So some of those could be even in West and South, in markets in which we do not have currently sort of strong leadership. It could be in a small -- it could be in a city in Andhra Pradesh, Telangana. It could be in North and East. It could be Madhya Pradesh. So it would be across the country but basically looking at it from a city level and not looking at it from a state level.

Moderator: Our next question comes from Sayantan Maji with Credit Suisse.

Sayantan Maji: So my first question is on EBITDA margin. I read in your comments -- in your presentation that it will be back to pre-COVID levels once the network expansion that you're doing, they fully mature. So for example, if the network expansion happens in FY '25 and they take, say, the last net incentives that are added in FY '25, if they are maturing in FY '26, '27. So by then, over longer term, you expect the margins back to 27%, 28% that we were doing pre-COVID?

Ameera Shah: So pre-COVID, our margins were approximately between 26.5% to 27%. Yes, our expectation is that once the lab expansion matures and gives us sort of normalized EBITDA, we do hope that we can come back to those places.

Sayantan Maji: Okay. Great. And you mentioned about adding 800 collection centres in FY '24. So we have added 1,000 since we undertook the network expansion. So the remaining 800, most of it is coming in FY '24 while, say, 50 labs, which are remaining out of the 90 labs, 30 are coming in FY '24 and 20 in FY '25. Is that correct?

Rakesh Agarwal: Yes, absolutely, roughly. Actually, 30 labs out of the 90 already come in and 30 more labs planned for this year. So then that we will leave with about 30 more labs to come up from the plan of 90-30.

And on the collection centres, 1,070 collections have already come up, and roughly 800 will more come in this year. So we may be almost completing that aspiration in this financial year itself.

Sayantan Maji: Okay. Got it. And next question is on Hitech. So in Hitech, the revenues have sort of declined from INR100 crores, if I'm talking only non-COVID from INR100 crores to INR88 crores. So is it due to the restructuring that we're doing, the normalization of lab service network? So is it like a temporary thing and we expect the growth to come back to what the company -- overall company is reporting in the next year?

Rakesh Agarwal: Yes, so Hitech I think we have already explained that there were some disturbance last year, which had happened because of the -- some unethical poaching the brand, etcetera. So I think that affected the momentum for us in Hitech for almost nine months. This is now back. If you look at the overall revenue, INR100 crores also included the rub-off, which basically you are not excluding that. So we have moved -- INR83 crores, INR84 crores of revenue had moved to INR84 crores -- INR88 crores, which is not a big number. But yes, we are expecting that this number will in line with or maybe more than what we're expecting in Metropolis this year.

Sayantan Maji: Okay. Got it. And my final question is on other income. So on other income, that has reported a steep decline this quarter. So we used to report INR3 crores, INR4 crores, INR6 crores in the last quarter. This is INR1.2 crores. So what is the reason for this? Is there any one-off impact on this?

Rakesh Agarwal: So see, other income is accumulation of a lot of factors. So one is obviously what is the cash you have in hand and what is the interest income you are earning. So if you look at currently because we are more focused on repaying our loan because that's at a higher interest rate. So that is the focus, and the cash in hand is quite small. So the interest income generated from that cash in hand is lower.

And if you look at quarter-on-quarter, basically last year, we had other income INR1.5 crores, which has come down to INR1.2 crores, which is not a significant drop. But yes, from an overall year also if you look at INR13.4 crores of other income in financial year '22 has actually gone up to INR15.2 crores in financial year '23. So we'll check back the numbers because you are giving a different number. So see why these numbers are showing a decline. Yes, in quarter 3 financial year '23, if you look at INR6.8 crores, there was one-off on gain of some forex exchange and something. So that I think is coming into that. So just we'll explain that. Otherwise, it's in line with what we are looking at every quarter.

Sayantan Maji: Yes. So that's what actually was my next question because in the presentation in Q4 FY '22, it shows INR1.5 crores, but here when we reported, that was 5.7, so there was some dissonance over there. Anyway, so this -- the large part of the decline is mainly due to interest income is what you're saying?

Rakesh Agarwal: Yes.

Moderator: Our next question comes from Girish Shetty with Banyan Tree Advisors.

Girish Shetty: Congrats on a good set of results. I just wanted to know on the breakup like you said -- and said that the PPP revenue will go to 0 from INR67 crores, right? And if I see your core business, which is growing at around 15%, PPP will go to 0, and the COVID business will become negligible. So how do you look at growth for the next year? Is it as a number -- overall base for this year like INR1,148 crores pre-COVID impact or overall growth will be around 5% for FY '24?

Ameera Shah: No, I think that would be definitely more subdued than what our expectation is. So obviously, we are looking at the pieces in three parts. We are looking at, one, COVID, obviously, as we know, is only going down. Even this year, there has been a reasonable contribution from COVID, which obviously, as WHO has declared COVID is over and PCR testing is certainly not happening in any significant numbers. So COVID will certainly go down.

Yes, the NACO PPP will be 0. And now it is going to be really up to the core business to be able to continue to grow through all the levers or to be able to deliver sort of strong numbers. And -- but we certainly don't think that the overall number is going to be as low as 5%.

Girish Shetty: Okay. Now then if I see the number of test, if I compare the non-COVID period 2019, where you used to do in 17 million tests and now we are at 24.5 million. So If I look at the 4-year number, it comes to around 9.5% growth over a 4-year period. So this also includes Hitech. How do we see this? Is this a normal number? Or is the core business still not normal? How do we see this volume growth over a 4-year period and comparing like-to-like as in non-COVID to non-COVID?

Ameera Shah: As you see, we have done about 11% revenue CAGR in this 4-year period, and the volume growth, like you said, is about 9.5%. The challenge with looking at a CAGR, when you are looking in the crisis in the middle for 2.5 years, it's a bit challenging because the reality is that in those two years, the non-COVID obviously crashed. So therefore, it would be a -- it would not be a like-to-like to actually look at a CAGR period for non-COVID alone, but the numbers are the numbers. The whole industry CAGR, obviously, for these four years is very low for the simple reason that there was a crisis for 2.5 years.

So I'm not really sure how to normalize that number. But I think if we look at the next three years of the business for non-COVID, I certainly believe it will be stronger than the last four years, assuming that there is no crisis from an epidemic perspective.

Girish Shetty: Okay. Sure. And just on the core business breakup. So if I just break it up into premium wellness and the other part. So premium wellness has done very well, like 45% growth. And the other part, if I see it's around 12% growth. So fair to say the core business, excluding premium wellness, we can consider 12% to 13% growth as a fair number, and premium wellness is expected to grow at a faster rate going forward. Would that be a fair assumption?

Ameera Shah: See, some of these things are not totally separate. I tell you why. And it's difficult to look at them completely separately because you're also part of premium wellness' bundling of packages. So for example, you have consumers or patients who will walk in, maybe requesting two or three tests and then you will present to them offerings that see they feel they have an advantage to do a larger package since they are getting blood, and they collect blood. It's being collected anyway. And they will choose to move to a wellness package.

So these things are not so separate. Actually, the one feeds into the other in many ways. So while we are calling it premium wellness, it's also including bundling of sort of packages and upselling sort of existing patients or consumers who walk in and then who may choose to move to a larger package. So we have to see these sort of together and not so separate because there is an overlap between the 2.

Girish Shetty: Sure, ma'am. That is helpful. Just last bookkeeping question. So other expenses in FY '23 -- FY '22, we used to do like INR250 crores to INR300 crores, which is like 25% of overall sales, which went up sharply in FY '22 and now in FY '23 as well. So if I break those other expenses out of this, the main cost component is rent, legal and professional and the postage and courier expenses. So what can we classify here as a onetime expense? Or will this be a similar number like 30% of sales going forward as well like we did this year?

Rakesh Agarwal: So other expense obviously has moved up. Mainly, one is obviously because that inflation is there, and that increases the -- all the expenses which we incur, so that obviously is one part of it. And obviously, if you look at the other expense, one component which is increasing was variable rent because we are expanding our network in a big way, and we have to pay a variable rent to be -- of our franchisee partner.

So one component of this other expenses is increasing a bit, other than the other items is the variable rent because if you look at in the last three years, we have expanded our collection centres in a big way, and that is the plan going forward also.

But to your question of whether this will remain at a 30% revenue or it will go down to 25%, which was pre-COVID, so I think this will be a factor of revenue generation and how the revenue move up, so my sense is that somewhere it will remain between 25% to 30%, but it's not expected to go further up.

Girish Shetty: And legal expenses was around INR80 crores this year as well. It used to be in the INR30 crores, INR40 crores range before.

Surendran Chemmenkotil: So just give us some time. I think we'll take this point, and we'll come back to you on this.

Moderator: Our next question comes from Aditya with Securities Investment Management Company.

Aditya: I just had one question. So you mentioned in your opening remarks that we are looking to foray into basic radiologic tests. So earlier when we used to talk to diagnostic companies, they weren't keen on radiology business as it was a capital-intensive business. So I just wanted to understand what has led to this change in your strategy?

Surendran Chemmenkotil: So basically, like Ameera mentioned, we are talking about the basic radiology stuff, right? We're talking about ECG, x-ray and sonography, right? And definitely, ECG doesn't require too much of a capex and it's easy to expand and across the country. That's the first thing that we are trying to take it forward.

And then, of course, we have some assets around x-ray, which we will not been -- I mean, relatively underutilized, and we try to maximize the usage of this and also use it to package along with the wellness packages that we have. And also whatever -- I mean, additional key markets like Mumbai, Pune, Bangalore, Chennai, etcetera, we'll just try to take this forward into some more centres. And sonography, of course, its got its own some amount of limitations, so we will cautiously but carefully go into some of the big markets that we have. So that's the plan around radiology as such. We are just taking some steps as we start this year, and we'll try to expand it as we go forward.

Ameera Shah: Just to add, you have to remember that Metropolis has approximately almost 380 to 400 centres, which are actually owned and operated by us. What we -- and the retail segment call patient service centres. These spaces are utilized purely for blood collection and sample collection at this point. And therefore, we do have an ability to also add radiology into these without adding infrastructural cost in any significant way because we already have the real estate with us. And it's about adding one more service in centres that already exist. So therefore, we believe that this could be an opportunity with the brand trust that the consumers do have for Metropolis. Offering a holistic service of basic radiology plus pathology will give value to the consumer and patients so they don't have to go to two different locations.

Moderator: Ladies and gentlemen, due to time constraints, that was the last question for the day. I now hand the conference over to Ms. Ameera Shah for closing comments.

Ameera Shah: Thank you to all the people for joining us today in this conference call. As mentioned, I think while we have all seen lots of noise and a bit of chaos in the industry in the last 18 to 24 months, we do believe that the dust is settling. COVID has come back -- has sort of -- has left us, and non-COVID, which is our regular business, illness has come back to normalcy. We've also had a chance to put behind some of the challenges of the last year, and we start a fresh with Suren on board as well and a very strong team.

We have a very aggressive plan for the next two to three years on where we would like to go. And we believe this business is all about good management, execution rigor, operational excellence and really being able to fine-tune all the things and be able to make each team stronger. And I think we're very much on track to be able to do that. And we are quite -- like I said, quite hopeful and excited about what we believe the industry will bring.

COVID was a great catalyst for many new people to come in, but it was also a great catalyst for the industry to become stronger from an organized sector perspective because for the first time, consumers started recognizing pathology in a significant way in their lives and started recognizing branded pathology as something which they made a decision on. So we do believe this is going to be a strong inflection point for the industry going forward. And we're very hopeful that as a very strong brand, which is trusted by doctors and consumers, we can go on to capture a significantly higher market share of it.

In our next call, the next Board meeting, we would actually go into a lot of detail around the market and the details and the nuances of the market and help sort of all participants get an even a closer sense on how we plan to navigate this in detail. So very much looking forward to that conversation. And thank you, everybody, for joining us today.

We continue to focus very strongly on our core business growth, which has been very high, even in a challenging year, probably industry leading. And we feel quite hopeful that, that will continue to be the case for this year and the next couple of years as well.

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