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To,

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

Dear Sir/Madam,

Sub: Earnings call transcript for Q2FY25

Pursuant to Regulation 30 of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015, please find enclosed herewith the transcript of Q2FY25 earnings conference call held on November 11, 2024. The transcript is also available on the Company's website i.e. www.metropolisindia.com

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

Thanking you,
Yours faithfully,

For **Metropolis Healthcare Limited**

Kamlesh Chandrashekhar Kulkarni
Digitally signed by Kamlesh Chandrashekhar Kulkarni
Date: 2024.11.16 14:37:57 +05'30'

Kamlesh C Kulkarni
Head – Legal & Secretarial

Encl: A/a

"Metropolis Healthcare Limited
Q2 FY '25 Earnings Conference Call"

November 11, 2024

E&OE - This transcript is edited for factual errors. In case of discrepancy, the audio recordings uploaded on the stock exchange on 11th November 2024 will prevail

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

MODERATOR: **MR. TAUSIF SHAIKH – BNP PARIBAS EXANE RESEARCH**

Moderator: Ladies and gentlemen, good day, and welcome to the Metropolis Healthcare Q2 FY '25 Earnings Conference Call. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing star, then zero on your touch-tone phone. Please note that this conference is being recorded.

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 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.

I now hand the conference over to Mr. Tausif Shaikh from BNP Paribas Exane Research. Thank you, and over to you, sir.

Tausif Shaikh: Thanks, Segal, and good morning, everyone. On behalf of BNP Paribas Exane Research, I, Tausif Shaikh, India analyst for pharma and healthcare services, welcomes you all for Metropolis Q2 FY '25 earnings con-call. Today, we have the senior management of the company represented by Ameera Shah, Chairperson and Executive Director; Surendran Chemmenkotil, Chief Executive Officer; and Avadhut Joshi, Chief Business Development Officer.

I will now hand the call to Ameera ma'am for opening remarks. Over to you, ma'am.

Ameera Shah: Hi. Good morning, everyone, and thank you for joining us on the Q2 FY '25 earnings call today. As mentioned, I'm joined by Surendran, Avadhut and Aditya Shinde, who is the Interim CFO; and SGA, our IR advisors. We've uploaded our updated results documents in the exchanges and the company's website, and I hope everyone's had an opportunity to go through the same.

Let me begin with the industry scenario, so we can set the context for today's call. The Indian diagnostics industry continues to be highly fragmented with over 85% of the market dominated by unorganized and independent diagnostic centers. These centers have succeeded in building a hyper local customer base with repeat clients, but they struggle to attract new customers and are experiencing a decline in volumes as more organized and trusted diagnostic chain entered these micro markets.

Independent centers typically offer a limited range of tests with an average of around 100 tests compared to over the 4,000 varieties of tests that are available at Metropolis. The limited test offerings, the inability to serve specialized doctors, the lack of reach that the local labs have and the inadequate digital and physical capabilities that makes it difficult for them to increase volume and scale.

We continue to see a larger trend of unorganized moving to organized, especially in metro markets. Recognizing this as a significant opportunity, we have been focusing on selective micro markets across India, working to establish trust and credibility with doctors through a comprehensive test menu, accurate results, best-in-class experts for test interpretation and high-touch doctor engagement.

As unwell customers prioritize quality and experience over price, our brand reputation, in-house expertise on every test leading to huge trust and our physical and digital infrastructure have made us the preferred choice. In smaller towns, the local lab is still relevant due to strong local relationships and large chains like Metropolis create relevance for ourselves through specialized testing, which the local labs cannot do.

Speaking of competition from organized players and tech-enabled e-health companies, we have not observed any significant changes compared to the previous quarter. The new age companies continue to face challenges in generating illness-driven volumes. And due to competitive pressures and low conversion rates from wellness to illness services, they have been compelled to raise prices to improve their unit economics.

Additionally, we have witnessed that they have been forced to enter the traditional physical brick-and-mortar model, a process that is both long and challenging, especially when it comes to scaling and achieving profitable growth. There has also been talk about competition from hospital players, but we believe this remains confined to a few geographies like Delhi and Hyderabad, where major hospital chains have had a presence for decades.

Pricing for these hospital chains remains a real challenge as their retail price for a patient outside the hospital is one-third what they charge inside the hospital, leading to huge conflicts with their customer and cannibalization of their own business. This is one of the reasons we believe it will be challenging for hospitals to truly scale their pathology ventures in a profitable manner.

Let me provide some insights on regional competition. A strong regional lab in one city with B2C business would try and expand into other markets close by via the B2B route as they would not have a brand in another city. While capital is available to expand, the ability to build brand, attract talent and management expertise to provide quality and quick results across regions consistently and build a complex test menu that are needed to scale the business are actually the mopes of our industry when you're building a chain, which is why most city-focused businesses have not been able to scale and definitely not scale profitably.

We have been leaders in the West and South regions and continue to experience consistent growth in our core geographies, often exceeding the company's average growth rate. For instance, in Mumbai, our B2C revenues have increased by 17% to 20% over the past 8 quarters, and we remain the fastest-growing player in these regions, well positioned to capture market share even if we see further competition.

This is largely due to the market composition with a significant portion still unorganized, providing ample room for growth if you have execution excellence. We are confident that we will outperform industry growth, gain more market share on the back of the trust and credibility that has been built over the years with doctors and consumers. In noncore geographies, like North and East, where our consumer brand is relatively less established, which often we call them seeding cities, we have been strengthening our presence through our B2B business.

We have built a strong medical reputation amongst recognized grade E hospitals and labs, which choose our services due to our testing capabilities and high-quality offerings with specialized and quality testing at the core of our value proposition. We are also seeing significant growth opportunities beyond the core geographies, especially in Tier 3 and Tier 4 cities, which are becoming increasingly important focal point for us.

We are deepening our presence in emerging markets like UP, MP, Punjab and Assam, where the demand for reliable diagnostics is rapidly rising. With a highly fragmented diagnostics industry, we are strategically focusing on micro markets with minimal organized competition with stand-alone centers and unorganized players are having majority of the market share.

In Tier 3 and Tier 4 cities, we are experiencing strong growth, and we anticipate continued acceleration as health care access and awareness expand. By tailoring our approach to meet the unique needs of these communities, we are ensuring that our reach extends beyond the traditional urban centers, establishing a robust network that serves diverse populations.

In Q2 FY '25, revenue from these towns accounted for over 25% of our contribution with a year-over-year growth rate of 23%. Currently, the revenue for Metropolis from India's top 10 most popular cities comprises nearly half of our revenues, while the top 100 cities contribute around -- close to around 75%. The balanced revenues are contributed by smaller towns and cities, which are growing at a fast pace.

This increase in revenue growth is driven by our aggressive network strategy, adding new locations across smaller cities and finally, being able to earn the trust of doctors to get patients to walk into the center. Today, we are present in over 700 towns with plans to expand to at least 1,000 in the next 12 to 18 months. These cities not only offer promising growth, but also opportunities to build enduring relationships and trust within these communities.

Moving forward, we will prioritize increasing our leadership in our core B2C markets where we have consistently outperformed industry growth. Additionally, we will focus on expanding our presence in Tier 3 and Tier 4 towns, which have limited diagnostic providers and services. By implementing targeted marketing and sales strategies, we aim to enhance our market penetration and establish a strong foothold in these regions, driving overall growth in the coming years.

Let me quickly share some insights into our inorganic expansion strategy. We've been actively pursuing inorganic growth with 2 main objectives. First, to acquire capabilities in advanced specialty testing areas such as genomics, oncology, histopathology and molecular diagnostics. The biggest growth is going to be in these areas in the next 10 years, and therefore, we definitely want to get deeper into these testing capabilities.

Second, to extend our reach in noncore geographies, particularly in North India, where Metropolis has a relatively lower brand presence. These acquisitions will serve as entry points into these specific micro markets, allowing us to then build the business organically after acquisition by implementing Metropolis standards in testing, service and delivery, along with specialized testing an extensive test menu and scientific marketing through doctors.

We are in advanced stages of evaluating potential targets, and we'll keep you updated at the appropriate time. Aligned with the government's focus on workforce development and skill enhancement, we have launched the Metropolis Institute of Laboratory Education and Skilling or what we abbreviatedly called MiLES in partnership with DY Patil University and

Maharashtra State Skills University. to offer specialized fellowship and certificate programs for both MD and DMD students.

Covering fields like advanced clinical chemistry and molecular pathology, these programs blend theoretical learning with hands-on training on advanced diagnostic technologies. MiLES reaffirms our commitment to bridging the health care skills gap and preferring professionals to meet the sector's evolving demands. Before I hand over to Suren to take you through the quarterly highlights, I would like to reiterate the key growth strategies for Metropolis, we will continue to focus on.

Number one, expanding lab and collection center networks in new cities, largely in Tier 3 and Tier 4 cities in India to expand our addressable market. Number two, focus on being the pioneer in new test advancement and amplify our engagement with specialty doctors to grow our specialty volumes. Number three, focus on our TruHealth packages with curated packages and increase our contribution, which is currently 16% of revenue to keep increasing this as we go further.

Fourth, fostering the inorganic growth and foray into adjacencies. And fifth, heighten our service standards and digital marketing initiatives to improve productivity and customer experience. That's all for now, and I'll be happy to chat with you guys more over the question and answers. Suren, over to you.

Surendran Chemmenkotil: Thank you, Ameera, and good morning, everyone, on the call. We have been consistently able to deliver industry-leading growth over the last 8-plus quarters now. Our revenue for quarter 2 financial year '25 grew by 13.4 percentage on a year-over-year basis well within our guided range of 13 to 15 percentage band. Our EBITDA for quarter 2 grew by 22% with an EBITDA margin inching up to 26.2%, an increase of 190 bps year-over-year. Our PAT for the quarter stood at INR46.7 crores, an increase of 31% year-over-year. PAT margin also witnessed a growth of 180 bps year-over-year.

On the broader KPIs, our patient volume growth for quarter 2 stood at 7% and our test volume growth stood at 8% on a year-over-year basis, which stands to be one of the highest in the industry. Our patient and test volume growth for H1 stood at 7% and 9%, respectively. Increase in volumes are on account of increase in market share among the core geographies and expansion and deepening our presence in newer geographies, especially in Tier 3 and smaller towns across the country.

Now moving to a few of the operational KPIs. Our B2C revenue for quarter 2 grew by 21% year-over-year. Patient volumes in B2C segment has grown by 12%, signaling an increased market share driven by extensive test menu, trust and credibility Metropolis brand holds with both doctors and consumers. We have achieved faster revenue growth in our core geographies within the B2C segment. B2B revenue for quarter 2 grew by 13% year-over-year.

Our focused efforts and enhanced engagement programs with the key B2B clients have enabled us to increase our wallet share in this segment. As we have managed to keep discounts at day and enhance our productivity per client, we believe our graded approach to customers can help us growing well and profitably as they look for quality and good services with Metropolis.

The B2C and B2B revenue make up to almost 90% of our business and the combined growth of this segment is around 17% year-over-year. As shared in earlier occasions, we have strategically chosen to disengage with government and institutional clients, resulting in a revenue decline in this segment and impacting overall growth in the last 2 quarters, which may continue for another couple of quarters more.

This decision aligns with our focus on quality over price-sensitive business. Excluding this segment, our combined B2C and B2B patient volume have grown by 8% year-over-year. As a part of our larger strategy, we have been prioritizing the specialty and bundled product segment as dual growth drivers. Our TruHealth portfolio achieved strong year-over-year growth of 23% in quarter 2.

Carefully curated wellness and illness packages and focused marketing efforts have driven the growth in this segment. TruHealth now contributes to around 16% of our total revenue, and we would like to move this towards 20% in the coming few quarters. By upselling to our existing customer base, we have increased the number of tests per patient, leading to higher revenue. This approach also boosts our margins as customer acquisition and servicing costs remain steady.

Metropolis has been a pioneer in the specialized diagnostic services, driving a 16% year-over-year growth in our specialty revenues. And this portfolio growth is bettering quarter after quarter. By introducing new tests and strengthening our relationship with specialized doctors nationwide through education and engagement on the latest testing capabilities, we continue to expand our specialty business.

We have launched, for example, in the last 6 months, next-gen pre-implantation genetic testing for pre-IVF, next-gen panels for oncology to guide targeted therapies and optimize cancer treatment and the fecal immunochemical test, which is a very important test for early screening of issues in the gastrointestinal system.

We have also introduced comprehensive panels for testing in transplant patients and advanced profiles that provide an in-depth analysis of multiple steroid hormones in a single test, enhancing diagnostic accuracy. See, these advancements reflect our commitment to precision and progress across critical health care specialties.

Our scientific approach to selling, combined with omnichannel strategy has enabled us to reach a larger audience and drive significant traffic for specialized testing. In terms of network expansion, we added 7 labs in quarter 2 and 17 labs in H1 with the goal of reaching 25 new labs by the close of financial year '25.

We have also closed down a few labs, which is reflecting in smaller net addition number for this period. This has been done to optimize cost synergies in certain regions. We also added net of 186 collection centers in the H1, bringing our total centers to 4,336 and we are targeting about 500 adjacent centers by the end of this year.

This growth strategy is driven by the increasing presence in tertiary care outside metro cities, extending into smaller cities and towns nationwide. In line with this trend, we have entered over

400-plus new towns in Tier 1 and Tier 2 regions over the past 24 months, focusing on these areas as key growth opportunities.

Our reach has now expanded to nearly 700 towns, and we aim to reach 1,000 towns over the next 12 to 18 months, like Ameera mentioned. This expansion lays a strong foundation for Metropolis' next growth phase. We have made significant progress in boosting our operational efficiency and elevating customer service by heavily investing in our digital and IT infrastructure.

Our focus has been on developing a seamless intuitive platform where customers can easily explore and select tests, schedule appointments, make payments through integrated gateways and receive their reports digitally, enhancing convenience and accessibility at every touch point.

In parallel, we have fostered and consolidated strategic partnerships to establish a center of enablement dedicated to optimizing our mission-critical IT applications. This collaborative efforts enhances efficiency across the organization and position us for long-term sustainable growth. This end-to-end transformation not only enhances operational efficiency, but also strengthen customer loyalty as we provide a faster, more reliable and customer-centric experience.

Lastly, if I speak of our outlook for full year '25 -- financial year '25 and beyond, we are maintaining our revenue growth guidance in the range of 13% to 15% driven by high single-digit patient volume growth. We expect margins to improve as we move forward, benefiting from operating leverage within the business.

As our new labs reach maturity, we expect margin to further enhance through increased throughput and reduced lab expansion-related expenditures. With this, now I hand over to Aditya Shinde for financial updates.

Aditya Shinde: Thank you, Suren. Good morning, everyone. I am Aditya Shinde, and let me share some of the key financial performance for the quarter. Revenue for quarter 2 FY '25 stood at INR349.8 crores, a growth of 13.4% Y-o-Y with 7% patient volume growth. Our test volume growth stood at 8% for this quarter. Revenue per test has increased by 5% on a Y-o-Y basis. Our B2C revenue stood at INR194 crores as compared to INR161 crores in the quarter 2 of last year, which is an increase of 21%.

Our B2C for wellness and specialty grew by 26% and 24%, respectively, on a Y-o-Y basis. Patient volume growth for B2C business stood at 12% Y-o-Y. Our B2B grew by 12.6% for this quarter compared to same period last year, with B2B wellness and specialty growing by 21% and 10%, respectively. B2B patient volume grew by 4% on a Y-o-Y basis. Revenue share of TruHealth segment stands at 15%, indicating a growth of 23% Y-o-Y. Our specialty segment revenue stood at INR129 crores, which is a growth of 16% Y-o-Y.

Reported EBITDA for the quarter stood at INR91.5 crores as compared to INR74.9 crores, a growth of 22.2%. Reported EBITDA margins for this quarter stood at 26.2%, which is a delta of 190 bps. PAT for the quarter stood at INR46.7 crores, a growth of 31%. PAT margins for this quarter stood at 13.4%, up from 11.6% for the same period last year, which is a delta of 180 bps.

Moving on to the balance sheet. We have a net cash surplus of INR185 crores as of 30th September 2024. That's all from my side. With this, I open the floor for questions and answers. Thank you.

Moderator: Thank you very much. We will now begin the question and answer session. The first question is from the line of Shaleen Kumar: from UBS Securities India.

Shaleen Kumar: Congrats on a good set of numbers. Sorry, it's a bit of a long question. So there was a time when your margins were a little higher than the industry-leading peer. But obviously, you got into investment modes and expansion mode, which is great, and we could see the results coming in. But your margins are now tad lower, in fact, reasonably lower than the peer, while your revenue per test or revenue per patient are still higher.

So what I want to understand is you're still in a kind of this expansion mode where you called out your Tier 3 strategy. But how should we think about the margin and the growth balancing effect? Because your growth in Tier 1, Tier 2 city is not that great. A large part of it is coming from Tier 3 city where you need to invest and expand. But at the same time, we look forward for a margin expansion because you still have a reasonable critical mass. So any thoughts on that?

Ameera Shah: So I'll add a couple of thoughts and Suren can add to it as well. So the 2 areas we are seeing good growth is actually in our Tier 1 cities, metros, where we are continuing to -- like we gave you the example of Bombay and Pune and other markets, Bangalore, where we are continuing to see a very positive revenue growth, especially on the B2C side.

So we are finding the growth is very high in the top markets where we have a brand and the growth is high in the Tier 3, Tier 4 markets just because there is that much opportunity, right? And we believe that these 2 areas, geographies will continue giving us a good revenue growth as we go forward.

To your question around margins, see, if you look at pre-COVID, the margins actually for the industry hovered around 26% approximately. And it was during COVID that obviously they went up closer to 28%, 29%. We all knew that was not sustainable. The choice we had post COVID was, as some of the peers have done is not really invest in lab expansion or other areas, but to actually let the operating leverage flow through to the profit.

But that very clearly then reflects in a much smaller growth in volume, patient volume, test volume as well as in revenue growth. The choice that we chose to make is that considering the large opportunity in India at hand, we felt that rather than maximizing margins, that we believe that the opportunity really stood in continuing to increase access and to continue to grow across the country and we will stabilize and build the brand even further.

And therefore, we continued our process from FY '21 till '25 of adding approximately 90 labs, which was increasing our lab capacity by 50% plus and obviously adding centers. Now everybody knows that when you add a new lab, it doesn't become mature in 1, 2 or 3 years. It takes longer than that. And as we've been busy in building labs, while we have built collection centers, we have not built collection centers to feed these labs at the pace that we will be doing going forward.

Now we have to remember the collection center model is an asset-light model. You have -- obviously, we are building some centers at our own fixed rents, etcetera, which are patient service centers, but majority, 90% of our centers are through the franchise route, which is an asset-light model. So from FY '26, you will actually see the lab addition come down to 4 to 5 a year probably. And we will see actually the center expansion move up further, which is on the asset-light model.

We believe that as this continues to mature and our network of the last few years matures, we will continue to see operating leverage and which is why we indicated that we will see margin expansion happening. Finally, business is all about choices, and we believe that margin expansion, frankly, 100 to 200 bps can be done pretty much within our control at any point that we decide to stop expanding.

And therefore, we made the fact to really focus on the revenue expansion. And I think the next 3, 4 years, we will hopefully continue to see revenue expansion still be at our targeted numbers, but see the margins expand as well. I hope that answers your question.

Shaleen Kumar: Yes, yes, yes, Ameera, mostly, so I agree with you, right? That's the way I also look at it that a lot of margin is in your hand because you can take a call of how much you want to invest and claw back and growth. So is there a thumb rule which you play by certain amount -- certain growth you need to target. And beyond that, anything whatever you make that will spill through the margin? And if that's the case, any long-term aspiration on both growth and margin where you're seeing that's the steady state?

Ameera Shah: I mean I think we would like to -- I mean, you can't comment honestly, beyond 2, 3 years for any industry because things change. But at least I can comment for the next 2, 3 years, we are continuing to, like we said, target to 13% to 15% revenue growth and margins at about between 26% to 27% and hopefully, we'll see -- if there is an ability to be able to see further margin expansion, we'll obviously do that.

But at this point of time, we believe that today, we are already between 26% and 27% if I remove the dilution of the lab addition that we have done, adjust for that. And going forward, we also have obviously a potential to expand it further. So I don't want to give any very specific numbers because then that keeps it too tight, but we certainly see an opportunity there.

Shaleen Kumar: All right. Can I ask one last question? Let me go ahead.

Ameera Shah: Yes, please go ahead.

Shaleen Kumar: Any size in mind when you're thinking about acquisition and the payback?

Ameera Shah: Look, I think acquisitions, we are seeing lots of assets available across the country. But as we've always maintained, we find 90% of them, 95% of them, not investments that we would like to do because of poor governance or poor models, etcetera. So we will continue to be very selective.

And the ones we will do will be high-quality businesses, which we believe can make fair profits in time.

I think sizes can be bolt-on acquisitions, which are smaller, but leaders in their cities. They could also be larger regional players or they could be pan-India players. But I think our goal will be to, one, to make sure that we are pricing the acquisition very fairly and correctly from a ROCE perspective. And like I said, second, high-quality businesses, if they are bolt-on, then they have to have majority business coming from B2C, which yields high margins.

If they are B2B businesses, then they have to be non-commoditized B2B businesses, high specialty B2B businesses, which can bring some very tangible quality of customers to the table and specialty volumes. So I don't have any specific numbers for you, but we will certainly keep you guys updated as we move forward.

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

Anshul Agrawal: My first question is on the B2B portfolio that seems to be lagging our B2C portfolio over the say, last 4, 5 quarters, predominantly in terms of volumes. While you have alluded in your opening remarks, the reasons for the same, do you expect this divergence to continue as online players sort of target this portfolio?

Surendran Chemmenkotil: All right. Anshul, B2B portfolio, if you look at it, the overall growth in the last 2 quarters, we are growing at 13% now. I mean -- so in the past quarters, if you look at beyond that, we were at single-digit numbers on B2B. And B2B growth has come on the back of a very, very focused approach towards improving the client experience and our relationship with them, etcetera, getting strengthened and also by controlling the discount.

We have really that sort of long tail that we have in terms of which were giving us a little bit of volumes, but were not giving us enough margins and revenues. So in this transition phase where we are actually trying to get focused in the head part of the B2B client and also hold the discounts and increase revenues, there could be a small phase of time where you will not find volumes going up because those volumes which was coming was not very good margin volume.

So otherwise, if you look at the overall portfolio, it looks good. The revenue per patient is looking good. The overall revenue is looking good. And as we go forward, I think you'll get to see the volumes also stabilizing.

Anshul Agrawal: Okay. So are we saying that B2B volume growth would be lagging B2C volume growth for the next, say, couple of quarters or longer than that?

Surendran Chemmenkotil: Well, I mean, we may take a couple of more quarters to get over with the long tail that story that I was talking about it. We can't equate or I can't make a comment about whether B2B and B2C volume will be going in the same trajectory or not. But I think we are aiming for an overall volume growth of coming close to 2-digit number. That's a high single-digit number as we go forward, and we can clearly see that happening.

Anshul Agrawal: Sure. This is the patient volume, not the sample volume that you're alluding to, correct?

Surendran Chemmenkotil: Exactly. We are talking about the patient volume growth, yes.

Anshul Agrawal: Great. Just one clarification on the number of labs that we have added in H1. Our presentation says a net lab addition of 3. And if I heard you correctly, you said they added 17 labs in H1. So is there a rationalization of almost 14-odd labs on the Hitech portfolio?

Surendran Chemmenkotil: Yes. Actually, that's exactly what I mentioned in my speech as well. We have just -- wherever there are synergies possible between Metropolis and Hitech, we just combine those labs and with the numbers will then be lesser in the total count. And there are also a few other geographies where we could find an opportunity of lab consolidation or the lab was not making sense to us.

So some of those -- in these last 6 months, we just took a call to consolidate that without really impacting whether the revenues or customer experience at all.

Anshul Agrawal: So we'll just add about 8 labs in H2?

Surendran Chemmenkotil: Well, I mean that's the plan. 25 is the number for the year, and I think we are on course.

Anshul Agrawal: Okay. Great. Just one last question. Now our top line while it has grown because of volume as well, but because of RPT improvements, which would be on the back of price hikes that we have taken probably at the start of this year, which would sort of be in the base by, say, Q4. Do you see volume growth to sort of expand materially to keep our top line growing by the 14%, 15% number say, after FY '25 as well? Just broad understanding what it would be useful.

Surendran Chemmenkotil: Yes, that's right. I think our top line growth -- like we mentioned in the speech, it's going to be in the range of 13% to 15%. Maybe a couple of quarters later, the impact of the price increase that we took last year may a little bit fade away. But then I think the volumes should start substituting for that.

Ameera Shah: Just want to add one thing to that, that see the ARPP growth is I think 5% to 6%. Of that, the price increase is only -- the net price benefit is only about 2.3% to 2.4%. So all of it is not coming from price increase. It is actually coming from product mix largely.

Anshul Agrawal: So -- and obviously, considering that we are trying to enhance/seek higher contribution from specialty, wellness portfolio, this should -- RPT should continue to increase sans the price hike numbers.

Ameera Shah: That's right. So the product mix changes will continue to drive the revenue per patient increases as they always have. Obviously, the volume growth, we would like to continue to see it to move on an upswing. And a combination of these 2 is where we believe that the targeted guidance should land between 13% to 15%.

Anshul Agrawal: Got it. Just one small follow-up on this. Our sample per patient number is hovering around 2.07, 2.06 since 3, 4 quarters. Would this significantly improve now that we are focusing more on wellness portfolio?

Surendran Chemmenkotil: In fact, this was in the range of 2.2, 2.3 - 3 to 4 quarters back. On the -- as we keep progressing on the TruHealth and the specialty getting better, now we have come closer to 2.7%, 2.8%. As we keep focusing on this portfolio mix of TruHealth and Wellness, this should start getting better, and we're really driving the bundled products in the last 2, 3 quarters.

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

Nikhil Mathur: So my first question is around the geographic mix of revenues. So I'm on Slide #13 of the investor presentation, which say that Tier 1 and Tier 2 growth was around 8% and 7% in this particular quarter. So just wanted to understand what's happening on the Tier 1 and Tier 2 side. I don't know if you have talked about this on the opening remarks, but the growth seems to be lagging in these important clusters for the company. Is it because of B2B defocus or competitive pressures? If you can just elaborate a bit more on Tier 1 and Tier 2.

Surendran Chemmenkotil: Yes. In fact, if you remember, I just mentioned that we just a little bit defocused on the institutional business and government business, which were normally giving us the lower margins. And this business were largely coming from Tier 1 cities, right? So I mean that's one of the reasons you will find a temporary drop in the Tier 1 revenue growth. And then -- and also the Tier 3 growth is definitely fueled by the increase in number of labs and centers that (Inaudible 36:06) Tier 2, Tier 3 towns.

So I think we -- like I said, 1 or 2 more quarters, we will have a little bit of very focused view on the corporate and institutional business. And post that, I think you will see that the Tier 1 cities also coming to a double-digit kind of a growth.

Nikhil Mathur: So I'm just a bit curious to understand...

Ameera Shah: Yes. Nikhil, if you even in this quarter adjust for the institutional degrowth, like, for example, we had this government contract in Delhi, which was the Mohalla clinics contract, right, which we sort of have been -- which has come down, etcetera, and we are exiting. But for example, these businesses like this, there are 2, 3 contracts, which are all part of the government institutional.

So if you adjust for those and you actually look at the B2C and B2B, the Tier 1 cities are actually doing really well. But on the reported revenue side, it will not show up because like we said, of the degrowth on the institutional, which happened to be in these Tier 1 cities. I hope that clarifies.

Nikhil Mathur: Yes, sure. Also, just curious to understand your B2B customers predominantly would be hospitals, right, if I'm not wrong. And hospitals today are in the pink of health. I mean, if you look at how hospitals are reporting their numbers, they are at top end of the margins that the industry has ever reported.

So is the B2B nongovernment private market now getting more lucrative for diagnostic place for you? Or because they are so doing well, they would rather invest themselves and boost their own diagnostic requirements rather than outsourcing to a company like Metropolis?

Surendran Chemmenkotil: Okay. If I speak -- I mean, just I'll clarify on the B2B segment split. And if you look at the B2B segment split, a large part of B2B, Nikhil, is on the B2B smaller labs. The hospital on the B2B portfolio is relatively much smaller. right? And we keep engaging with the bigger hospitals as well as smaller labs, which is across the country, the wider geographies. So our dependence on the big hospitals is not as high that tomorrow, if they start in-sourcing the test, that will have a huge impact on our performance.

So I mean, we -- at the same time, we keep building volumes from the hospitals where we are already doing business with, and we also start -- keep getting more and more B2B hospitals at the same time. But our focus on B2B clients, which is basically the doctor run pathology labs or the technician run pathology labs, that's the larger in terms of size, and we keep engaging with them and keep giving them better services, as I said. Ameera, please.

Ameera Shah: Yes. I just wanted to give you a little larger context, the hospital business as well, if you have to remember that 85%, 90% of it continues to be smaller hospitals. the guys you see on these listed platforms, listed exchanges are only in the top 5% or 10% of organized players, right, which are a handful. 85%, 90% of the market is unorganized, smaller hospitals like it is in diagnostics.

And really, the -- like to Suren's point, the larger customers come from that 85% to 90%, not from the top 10%, which are the organized listed companies. So the organized listed companies will obviously do their best effort to try and do more and more testing in-house and especially chains will try to consolidate their own volumes.

Now despite all their efforts, still a fair amount gets outsourced from their hospitals because doctors sometimes don't want a hospital a pathology. They want another expert pathology player like us or somebody else. And therefore, still some amount of revenue will get outsourced -- testing will get outsourced.

But that is not our key focus anyway. Our key focus is 85% to 90% of the hospitals and other labs that will outsource the specialized test to us who do not have the capability to do this themselves.

Nikhil Mathur: Understood. And one final question on the Tier 3 market. I mean the growth is phenomenally strong in that market. The strategy of venturing and expanding in these cities is clearly playing out as we can see in numbers. Just wanted to understand we are also seeing on the wider health care penetration side in Tier 2 and Tier 3, especially when I look at hospitals, not just the top 10, but beyond that as well, they're also generating decent ROCEs now in these markets, which was the biggest pain point for the overall sector until now.

So do you see a correlation between more hospitals being set up in Tier 2, Tier 3 that driving your pickup as well in these markets as you are venting in many of these cities? Any case studies, any correlation that you are able to track or understand in these markets?

Ameera Shah: I'll just comment on the broader pattern and Suren can comment on the specifics. Just on the broader pattern, what we've seen for the last 5, 7 years or maybe a little bit more than that, actually 8, 9 years, is that doctors who used to come to metro markets to come and study, let's say, oncology or gastroenterology and would stay back in metros and jobs in the corporate hospitals, started actually migrating back to their hometowns and setting up their own hospitals or their own practices in specialty care in their small cities.

And we started seeing this sort of reverse movement, which is why Metropolis then proceeded to say, look, we need to expand our labs into these cities because the specialist doctors are going back into small towns, it's only a matter of time that those diagnostics will be required there. And that's the reason we went on an aggressive last 4 years lab expansion spree in these markets. It's like you're saying it's paying off for us.

We are now seeing hospitals coming up in these smaller markets as well, and that is increasing volume because the minute you have treatment and therapy be done in a local place, automatically, the diagnostics for that will increase because more of those diseases and symptoms are getting diagnosed and then treated. So we believe this trend will continue for the next at least 2 decades where you'll continue to see sort of strong access to health care in Tier 3, Tier 4 markets, and that will bring about good volumes for diagnostics.

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

Nikhil Mathur: Yes. Can I just squeeze in one last, please?

Surendran Chemmenkotil: Please go ahead.

Nikhil Mathur: Yes. So the bundled testing TruHealth and Tier 3 markets, at a very broad level, now quite a few quarters have passed since you have been seeing traction in both these segments. Now if things have stabilized, what is the impact of these 2 segments on gross margin and EBITDA margin for the company? Are they accretive at both these line items, accretive at dilutive at gross margin, accretive at EBITDA margin? Any broad thought you can share on this?

Surendran Chemmenkotil: Largely, the TruHealth packages, the wellness packages largely in line with the company's margins, right? It's not any dilutive at all, right? And as we -- if we are able to add more tests per patient, then it will be good in terms of revenue -- I mean EBITDA, it will be improving because you don't have to go back and take the samples one more time and you don't have to service it one more time.

So we'll keep focused on increasing the number of tests per patient. That will really help us in terms of improving the margins. But otherwise, neither specialty nor the TruHealth packages are diluting the margins. So in a steady state, it is only going to help us with the overall margin for the company.

Nikhil Mathur: And sir, Tier 3 market?

Ameera Shah: Yes, I just want to make one comment on the Tier 3 market. See, frankly, if you look at Metropolis' strategy currently and in the past, we focused a lot on the Tier 1 markets and then we started expanding our labs, like we said in the last 4 years in Tier 3, Tier 4. And while that is giving us revenues, actually, it's giving us revenue, but without having a very robust sort of franchise network partnership, which operates very well.

And that continues to be an opportunity for us, which I see will play out in the next few years. So I think the kind of franchise model structure that we are building now, the kind of engagement, the kind of marketing support, all of that, we believe will start boosting the revenues from the franchise network. So not only will the productivity of the existing franchise network increase, but the numbers of the network should also increase quite significantly in the time to come.

And all of this will add benefit at the bottom line. So if we are able to get that model really running very well, streamlined and tight like we're intending to do, we believe that it should be over now..

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

Rishi Mody: So Ameera, my first question is on the 3 out of the 5 initiatives that you mentioned that you're going to focus on. First is the wellness package. Second is the foray into adjacencies. And third is the digital initiatives to drive productivity and customer engagement. So if you could just give some more details on what exactly are you all doing for each of these initiatives, that would be helpful.

Ameera Shah: Sorry, could you repeat which 3? You said one was the customer.

Rishi Mody: The wellness one, the adjacencies one and then the digital initiatives one.

Ameera Shah: Okay. I'll ask Suren to take the one around the wellness and the digital, and I'll come in for the adjacencies.

Surendran Chemmenkotil: Yes. So see, what we are doing is on the wellness side, we have actually curated all the packages, which is going to give good benefits in terms of science as well as commercial for all the consumers. We're now doing it for the last 3 quarters, all the wellness package has been absolutely upgraded and it become very, very specific to the consumer segments. And now we are also driving it through multiple channels, omni-channels. One is, of course, on all the centers -- all the centers that we have.

We are actually trained all our phlebotomists in the center to provide good advice to the consumer who walk in about the best package that suit him. We've also recently launched something called recommendation engine, which is when the patient walks into a center with a proper algorithm that's been used on the back end, the phlebotomist will be able to recommend to the patient about what is the next best test that he or she can actually do.

So one on the center -- the physical centers that we have. And second one is on all the digital platform, whether it's an app or website, everywhere when the consumer goes, he will be able to really navigate himself and figure out what is the best solution that he'll be able to get in. But we have actually powered all these digital engines, which is website and app, etcetera, in the last few quarters. So we are able to see much better traction.

And the third one is about the customer data platform that we have, the consumer base that we have. So we are able to engage with our existing customer in a much more programmed way using much better science, and we are able to tell them and remind them at the appropriate time about what kind of the next action that they will be wanting to take.

So the omnichannel presence, which is helping us to engage with the consumer, and we are able to see a very good traction on the customer life cycle management. So these are the initiatives we have taken to get the wellness portfolio right. I mean that's the -- what was the next point you said? One is on the wellness and...?

Rishi Mody: On the digital initiatives to drive productivity

Surendran Chemmenkotil: Yes, not only about digital, the website, the website and our app and also our customer data platform, all this is part of the digital initiative that we have. And we also recently launched something called the recommendation engine, which will be able to advise the customer about the next best action that he can take. So a combination of all this with a good execution focus, we are able to get the traction to the tune of 23%, 25% on this portfolio.

Rishi Mody: Sure. That's helpful on the front-end piece. On the back end, anything for cost optimization where digital is helping you all?

Surendran Chemmenkotil: Yes. See, today, 20% of the revenues are coming on the digital -- from the digital channels that we have. And digital channels, of course, doesn't carry any what you call franchisee margins or anything other than the overall IT operational cost. So that's definitely we are getting much better margin on the as the digital -- digital portfolio grows, we'll get much better margins. And also the consumer experience get that much far superior.

Rishi Mody: Okay. All right. Got it. And where do you think your wellness as a contribution will settle in?

Surendran Chemmenkotil: I said that wellness, I will put it at 2 health together, which is illness and wellness bundles together. Today is at 16% of my total revenue. So we are driving this towards the first milestone we are wanting to cross is 20% in the next few quarters.

Rishi Mody: Okay. Got it. Ameera, if you could just give on the adjacencies, please.

Ameera Shah: See, out of probably all the diagnostic chains that are in India, there's something very unique about Metropolis, which is that majority of the other guys are running all their operations through franchise network. Metropolis also does that in terms of collection centers, but we have about 500-odd collection centers that we actually own and operate ourselves. And one of the goals we've been thinking about is how do you make yourselves more and more relevant to the patient.

Pathology is one part of their entire care paradigm, but they also need other services. So in line with that, we are saying how can we make these 500-odd centers more and more holistic in the experience they provide. So initially, we added basic radiology, talking about the adjacencies in all of these -- so many of these centers. Second of all, we're also experimenting with consultations and other models that we can provide to consumers as well.

So I think our idea will be how holistic care we can provide in these 500 centers. And at this point, we're just piloting, trying different models that could work. And as these work -- if they work well for us, then obviously, we'll continue to expand them. So the inorganic growth will obviously be very focused on pathology and acquiring pathology. And organically, we will then continue to foray into these adjacencies in our own centers, which are owned and operated by us.

Rishi Mody: All right. Second, Ameera, you guided for 26% to 27% EBITDA margin over the next 2, 3 quarters. Is this pre-Ind AS 116 or post-Ind AS 116? Like does it include lease cost? Or does it exclude lease cost?

Aditya Shinde: Yes, I'll take that.

Ameera Shah: Yes, go ahead.

Aditya Shinde: Sorry. So this is blended. This is after the Ind AS lease liability has been pushed below the EBITDA margin. So that's what the guidance is. Whatever you're telling is after the Ind AS, the proper reported audited EBITDA margin guidance.

Rishi Mody: Okay. So Ameera, if I just look at the Ind AS impact, right, it's typically about 250 bps difference that gets flown into the post EBITDA line items. And if I look at your numbers pre-COVID, right, you all were doing about 27%, 28% EBITDA margins, which included the rental expense. So ideally, if you all revert back to that, you all should be 30% plus reported EBITDA margins.

So I'm just trying to understand, is there something which has changed, which is not allowing us to go to those levels? Or if you could just give some understanding there?

Ameera Shah: So firstly, pre-COVID, the numbers were not 27%, 28%, they were 26%. So that's the first thing. The second thing is that we have to remember that while Ind AS changes happened, there are also many other changes that have happened. For example, GST came in. Now while we are GST exempt as an industry, which means we cannot collect GST from the customer, we don't get any of the reverse benefit, which means all our costs, we have a GST impact.

So finally, if you look at the GST cost as a percentage of revenue, it's actually closer to 4%. That's number one. Number two, you have to remember that our materials and all the sort of chemicals that we use for testing are largely imported which are usually from the U.S., Europe, Japan, and there has been a tremendous rupee depreciation in the last 7, 8 years in the country. And that is the other aspect to it.

But still, if you look overall, our margins have remained despite the GST impact, despite the dollar fluctuation, despite that, the margins have actually remained stable and will continue to expand, primarily because of 2 things. People talk a lot about economies of scale in our industry. But what they forget is that it's not only about economies of scale, but it's about the right quality of business.

It's about making sure you're actually getting business from good quality customers who are willing to pay. And I think the metrics of our business have been very strong from that angle, and which is why we believe the unit economics are strong and it will keep growing.

Rishi Mody: Okay. I'm just trying to understand here, right? So all these dollar depreciation issues used to be there pre FY '19. I understand the volatility is higher and all of that. But over the longer term, right, do you think we'll be able to get to those levels of, say, 28%, 29% reported EBITDA margins?

Ameera Shah: See, I mean, honestly, it's always a question of strategy for every business, right? I mean if you're asking me inherently, does the business have the capability to keep expanding margins? The answer is yes. Does Metropolis have the ability to keep moving towards 28%, 29%? Yes. But the question is about choices and what we're wanting to do. I mean, do we want really as shareholders to keep maximizing margins?

Or should we keep reinvesting back in the business of growth? So I think till the time that we believe that, look, margins are there and they can keep expanding, but we want to keep reinvesting in the business. I think we'll -- it will be safer to say that the margins will continue around 26%, 27%. They will be there inherently any time we want to pull, turn a knob and release further margin we can.

But I believe that the next few years will continue to need investments from the company more than anything because we want to be also one of the fastest-growing players from a revenue growth perspective with good quality business. So I think it's about choices, and I think it will be a good balance for us to maximize revenue growth and still maintain good margins.

Rishi Mody: All right. So 26%, 27% EBITDA margin and mid-teens growth is what I think we are comfortable with.

Surendran Chemmenkotil: Yes, that's right.

Moderator: The next question is from the line of Pranav Chawla from Antique Stockbroking.

Pranav Chawla: Congratulations on a good set of results. Ma'am, what would be our regional split between North, South, East, West for the quarter?

Surendran Chemmenkotil: Sorry, what is the regional?

Pranav Chawla: Regional mix between North, South, East, West for the quarter?

Surendran Chemmenkotil: So exact numbers on regional split, I think we will come back to you on the exact split of the region-wise, but the trends are in line with the post -- just a minute, I think I can get some number.

Pranav Chawla: Sure. And have we done -- have we added a focus city in this current quarter?

Surendran Chemmenkotil: Yes.

Pranav Chawla: Because I think that number has inched up significantly.

Surendran Chemmenkotil: Okay. Let me come to your first question. I think our -- West is around half of our total business and then about 25%, 26% is coming from the South and the remaining is from the North and East. That's the contribution from the region-wise, if you ask me. And what you said focus cities, we will not change the focus cities. Focus cities remain the same, Pune, Bangalore, Mumbai, Chennai and Surat, the 5 focus cities. And we are growing 10% on the focus cities in the last quarter year-on-year basis.

Pranav Chawla: Okay. So sir, in the South region, I think our growth has been pretty muted. If I see our base numbers, we have broadly seen a flattish sort of a number. Anything particular that you would like to highlight over this muted growth?

Surendran Chemmenkotil: So in South also, we have had a couple of institutional businesses, which we have to take a call and we have to disengage with. That's one of the reasons. And going forward, we'll keep seeing South also coming and joining the party in terms of the overall growth.

Pranav Chawla: So can you highlight what is the quantum of institutional business in the base year or the quarter so that we get a clearer idea?

Surendran Chemmenkotil: I think when we started the year, it was close to around 10%. And then at the end of the quarter 2, I think we are about 7%, 8%.

Pranav Chawla: Okay. And lastly, what would be the impact from these new centers on our margins as of now?

Surendran Chemmenkotil: So I think we said about 1.2% EBITDA is what it can be rolled as a result of all the new centers and new labs, right? And we -- like we mentioned, we will -- our mega lab expansion will largely end this year by the time we end this year. And next year onwards, we'll only have a handful of labs getting added. But the center addition will continue to happen, but we largely focus on out of the 500 centers get added, roughly 400 centers gets added through the franchisee route, about 100 centers gets added our own centers.

So not too much of a dilution on the center specifically, but a little bit less. So 1.2% is the total impact of the new labs and the new centers put together. And in the next couple of years' time, this will start settling.

Pranav Chawla: So sir, if I see correctly, our major lab addition has happened in FY '22, that is around we have added 20, 25-odd centers in FY '22 and the next big tranche was in FY '24. Has the FY '22 tranche is margin positive as of now?

Surendran Chemmenkotil: Yes. So typically, it takes about 2 years plus to get to margin positive. In year 1, normally, we find a minus 10% kind of an EBITDA in the new labs. And the year 2, we normally see it coming to a little bit positive single-digit positive. And the year 3 onwards, 30th month onwards, we start seeing coming closer to the company margins. But this also has got different split. Geography-wise, this could be different.

And West and South, this could be much lesser time and North and East could be a little longer time. So on an average basis, what I'm telling you. So yes, '23, we added around 14 labs and '24, we added about 24 labs. And this year, so far, we added 17 labs and a little bit of lab consolidation at the same time.

Pranav Chawla: So currently, only probably our lab addition in FY '24 and '25 would be weighing on our profitability, most likely?

Surendran Chemmenkotil: So, 2 things actually get tied up because we said we want to move from 700 to 1,000 towns. So we have just created a plan that how many labs we require to service the 1,000 towns. And that by the end of this year, largely we would have met those objectives and may be left with maybe a few more labs or 8 to 10 more labs, which we will take up in the coming year.

So by the time we exit this year, our focus on 1,000 cities in terms of expansion and those being serviced by the labs that we have will actually be done with. That's the reason we are confidently saying that our strategy on lab addition and strategy on network expansion are going together.

Moderator: Ladies and gentlemen, we will take that as the last question. I would now like to hand the conference over to the management for closing comments.

Ameera Shah: Thank you, everybody, for joining us today. It's been a pleasure to chat with you as always. We obviously feel very positive about the business. We've seen a good growth over the last many quarters. We've seen operational efficiency run through as well. And more importantly, the brand of Metropolis is getting broader, wider, not only in the existing markets in which we are strong, we are getting much deeper.

But we are also getting -- going into many new markets and creating access to patients and health care and building our brand amongst new doctors all over. We believe that a lot of the investments that we've made in the last 3, 4 years, whether it is on technology, on labs, on people, on management will continue to play through for us in the years to come.

We believe not only will Metropolis be able to accomplish good organic growth and operating leverage with it. But our M&A strategy will also play out well for us. And just to remind everyone, we have done a large amount of M&A, about 20-odd deals in -- over the last 20 years. And we have been able to very successfully integrate all our acquisitions and get value from them.

The key is, like we said, is to make sure that the payment date is not -- is fair. And once we have made the fair payment and valuation for these businesses, then it is really up to our team to execute and to drive a good ROI from it. So we're excited. We believe there's a long runway for growth from both these levers.

And we, as a team, will obviously continue to work very hard and be very focused in our attempt to be able to deliver the right value for the organization and to all the shareholders. Thanks, everyone, and talk to you next quarter.

Moderator: On behalf of BNP Paribas Exane Research, that concludes this conference. Thank you for joining us, and you may now disconnect your lines.