METROPOLIS

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To,

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

Dear Sir/Madam,

Sub: Transcript of investor conference call

Pursuant to Regulation 30 read with Part A of Schedule III of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015, please find enclosed herewith the transcript of investor conference call held on December 10, 2024. The transcript is also available on the Company's website i.e. www.metropolisindia.com

You are requested to take the above information on record.

Thanking you,
Yours faithfully,

For **Metropolis Healthcare Limited**

Kamlesh Chandrashekhar Kulkarni
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Head – Legal & Secretarial

Encl: A/a

"Metropolis Healthcare Limited
Business Update Conference Call"
December 10, 2024

E&OE - This transcript is edited for factual errors. In case of discrepancy, the audio recordings uploaded on the stock exchanges on December 10, 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
SGA, INVESTOR RELATIONS ADVISOR – METROPOLIS HEALTHCARE LIMITED

Moderator: Ladies and gentlemen, good morning and welcome to the Metropolis Healthcare Limited Business Update call. 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 are not the guarantees of future performance and involve risks and uncertainties that are difficult to predict.

We request participants to discuss the acquisition announced by the company and refrain from discussion on current quarter performance. As a reminder, all participant lines will remain 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 the operator by pressing star then zero on a touchtone telephone.

Please note that this conference is being recorded. I will now hand the conference over to your host, Ms. Ameera Shah, Chairperson and Executive Director, Metropolis Healthcare. Please go ahead, ma'am.

Ameera Shah: Good morning, everyone, and thank you for joining us today for this important business update call. I'm joined by our CEO, Surendran Chemmenkotil, Avadhut Joshi, Chief Business Development Officer and SGA our IR Advisor. Yesterday, we announced the strategic acquisition of Core Diagnostics, a significant milestone that reinforces our commitment to leadership and specialized diagnostics.

The relevant documents have been uploaded on the exchanges and our company's website, and I hope you've had the opportunity to review them. As you know, throughout our previous discussions, we have consistently emphasized our focus on exploring inorganic growth opportunities from two primary strategies. The first strategy is that we aim to acquire local pathology labs which have strong B2C brand presence in non-core geographies.

This approach would enable us to establish a foothold in that city or region and subsequently grow the business organically by leveraging Metropolis' extensive testing, distribution, and management capabilities. The second strategy is where we have been identifying targets who have built a niche business in a highly specialized testing area. While they have built expertise and trust with doctors in a specific therapeutic area, their scalability remains limited in the absence of a national footprint and distribution network.

Under the Metropolis umbrella, these businesses can scale rapidly and become more profitable, supported by geographical reach and operational efficiency. Our acquisition of Core Diagnostics aligns seamlessly with the second strategy. This move reinforces our commitment to advancing specialized diagnostics, particularly in oncology, a market which is poised for significant growth in the coming years.

The Indian oncology market is one of the fastest-growing sectors, projected to achieve a CAGR of 17.5% over the next five years. This rapid expansion is driven by rising cancer incidences, advancement in treatment technologies, improved healthcare access, and increased public health awareness. There are about eight labs offering specialty cancer testing facilities.

Half of them amongst national players and half of them stand-alone. Cancer testing is one of the many things they do. These players are not just focused on cancer exclusively. Most of these stand-alone, single-specialty labs are operating at subscales, as they don't have a large distribution network, and therefore are not able to get large volumes.

The total cancer diagnostics market in India is estimated to be between INR 4,000 to INR 5,000 crores, but this includes entry-level to specialized oncology testing. With this acquisition, Metropolis is well-positioned to address the increasing demand for advanced cancer testing with Core.

Core Diagnostics is renowned for its excellence in advanced cancer diagnostics, supported by robust infrastructure and a team of world-class experts. This strategic acquisition positions Metropolis to become India's leading cancer testing chain. It also paves the way for the company to become a center of excellence in cancer diagnostics, offering a comprehensive portfolio of tests under one umbrella.

Additionally, Core Diagnostics' strong presence in North and East India enhances Metropolis' ability to connect with leading cancer specialists and hospitals in these regions, deepening our partnership and increasing our penetration into North and Eastern geographies. As cancer continues to grow very fast globally, and in India, and with approximately 1.4 million Indian cancer cases anticipated annually, all we can do is to diagnose faster and better to manage the disease. With new developments in the treatment like targeted therapy, there is a significant need for advanced diagnostic services to support effective cancer treatment.

Growing healthcare awareness and an increasing focus on early detection and prevention are further driving demands for specialized diagnostics in this domain. This acquisition is more than a growth milestone. It represents our continued dedication to scientific excellence, operational growth, and meeting the evolving needs of our healthcare ecosystem.

I'm confident that this new phase of growth will enable Metropolis to better serve patients and strengthen our collaborations with top healthcare providers. Now I'll hand over to Surendran to take you through an overview of Core and its strategic set with Metropolis.

Surendran C.: Thank you Ameera and good morning everyone on the call. Let me give you some more information about Core Diagnostics. Core Diagnostics is a specialized diagnostic chain headquartered in Delhi, NCR, with a significant presence in Northern and Eastern India.

It is recognized as India's leading specialized cancer testing lab chain, supported by some of the most cutting-edge diagnostic technologies, best on-go pathologies, and large number of cancer biobank and data analytics. With a portfolio of over 1,300 plus high-end tests, including 150 plus tests in oncogenomics, Core Diagnostics operates through six sub-specialized divisions which contributes to 85% of the total revenue. Their collection network spans over 200 plus cities, supported by NABL and a CAP Accredited central reference lab in Gurgaon, one regional reference lab in Hyderabad, and seven satellite labs.

51% of the revenue comes from via B2C channels with 1,600 plus oncologists writing prescriptions. Approximately 15% of the business comes from pharmaceutical companies and balance from 1,200 plus B2B labs and hospitals. The top cancer doctors and hospitals of India are their customers.

Since cancer is one of the fastest growing illness segments, cancer testing is very critical for the patient and the supporting doctor in diagnosis and therapy management. It takes several years for the lab to build the trust among oncologists. Having a larger cancer test menu and very accurate reports is fundamentally important for this segment.

However, high-end oncology and oncogenomics testing remains a challenging segment, offered by a very few players in India due to significant entry barriers. This field requires specialized expertise, strong R&D capabilities in oncology, and the ability to scale operations by earning trust from oncologists is particularly challenging and takes time to build. With Core Diagnostics under our umbrella, we believe we can make these services more available and accessible in India for patients suffering from cancer.

For Metropolis, while we work with top oncologists and top hospitals in the West and South, offering them entry level and specialized cancer testing solutions, we currently don't offer the super specialized test menu here. While building these scientific capabilities internally could have happened in two years, but building the same trust with 1,600 oncologists and 1,200 hospitals and clinics predominantly in North and East would have taken us maybe five plus years. This acquisition accelerates our growth and positions us as a leader in end-to-end oncology testing across the country and gives us a great platform in North India to make bigger inroads in specialized testing.

Aligned with our strategy to enhance capabilities and enter niche and super specialized testing domains, this acquisition is a seamless fit within Metropolis portfolio. Through the acquisition of core diagnostics, Metropolis will be able to do the following things. One, deepen our relationship with leading oncologists across the country through 100 plus specialized technical sales team.

Two, strengthen our North and East India operation through their partnership with hospitals and labs. Three, integrate advanced cancer testing and capabilities with state-of-the-art testing solutions, reinforcing our expertise in oncology which is the fastest growing area of the next many years. Four, leverage cross-selling opportunities offering Metropolis extensive test menu to Core Diagnostics hospitals and doctor customers while adopting course super specialized cancer test portfolio for Metropolis oncology clients.

And five, achieve cost synergies through consolidation of overlapping labs, procurement efficiencies, logistic integration and overhead cost reduction which will drive operational efficiencies and improve profitability. Together, Metropolis and Core Diagnostics will emerge as the largest and the most profitable oncology testing provider in India. With 85% of revenues derived from specialized testing, this acquisition now aligns perfectly with our strategic focus.

With this, now I will hand over to Avadhut for financial merits and the integration plan.

Avadhut Joshi: Thank you Surendran. Good morning everyone. As the leading oncology testing lab in the country, Core Diagnostics has demonstrated robust performance with a revenue CAGR of around 22% over FY '22 to FY '24, an average revenue per test of around INR 2,300 and a solid patient base of 4.5 lakhs annually.

Metropolis will acquire a 100% stake in Core Diagnostics at an equity value of INR 246.8 crores representing 2.2x their FY '24 revenues or approximately 2x of current year FY '25 revenues. The company is professionally managed with its majority stake being held by institutional investors comprising Artiman Ventures and Eight Roads.

While Core Diagnostics is marginally profitable at an operating level, we anticipate significant EBITDA growth over the next 2-3 years driven by cost synergies, operational scale and the strength of Metropolis brand. For H1 FY '24, the unaudited revenue stood at INR 59 crores. The acquisition will be financed through a combination of 45% equity swap and 55% cash consideration.

Metropolis remains a zero-debt company with cash and cash equivalents of around INR 187 crores as of September 2024. We expect the acquisition to be EPS-accretive from year one that is FY '26 and ROCE and ROE-accretive from year three that is FY '28 ensuring strong returns for the stakeholders.

While the business is marginally profitable due to subscale, our internal calculations show we are acquiring it at FY '25-'26 estimated EBITDA multiples of 13.9x to 14x showing a strong IRR on the capital deployed. It would take 3-4 years to derive full cost synergies in the P&L and to bring Core Diagnostics margin equivalent to Metropolis.

Because the profit profile has not played out fully at Core Diagnostics, it gives Metropolis a very good opportunity to buy a high-quality specialized business at a very reasonable price and turn it into a valuable profitable company. We have also planned how we will integrate Core with Metropolis over the next 18 months.

The first phase will be of 6 months. To ensure a seamless transition and unlock the acquisition's full potential, we will establish a steering committee to oversee integration and track the progress. The organizational structure will be redesigned, supported by retention plans to secure key talent. Resource optimization efforts will focus on streamlining outsourced test costs, merging overlapping labs, and consolidating resources. IT integration will involve rolling out Metropolis systems, software, and providing comprehensive training to the team.

The test portfolio will be optimized by refining existing tests, while processes will be standardized to align with Metropolis quality standards. Additionally, cross-selling strategies will be launched to promote non-oncology tests and new offerings, driving revenue growth and enhancing client engagement.

The second phase of integration will span between 6 to 18 months. In the second phase, the integration plan will focus on bringing the oncology segment of both the companies together under a common brand name and aligning marketing strategies to establish a unified brand identity. Full business integration will consolidate teams, back-end operations, and support functions into Metropolis systems while implementing unified performance metrics.

International business operations will be centralized to streamline management, enhance scalability, and leverage the expanded network for global outreach. Similarly, pharma alliance operations will be integrated and centralized to maximize efficiency, strengthen collaborations, and expand service offerings with key partners.

These steps will ensure complete operational alignment, enhance efficiency and position the acquired company as a fully integrated part of Metropolis ecosystem. Fortunately, Metropolis has done 24 acquisitions in our journey, and we understand the key drivers to make this acquisition successful.

That's all with me, now I request our Chairperson Ms. Ameera Shah to provide her concluding remarks. Thank you.

Ameera Shah: In conclusion, I'd like to emphasize that the strategic new position of Metropolis as the leader in advanced cancer diagnostics, one of the fastest growing diagnostic segments. It also gives us deep access to top doctors and hospitals in northern eastern India, and allows us to create large shareholder values, so better management and scale of a sub-scale high-quality asset. By reinforcing our leadership in oncology, we're also poised to expand into future-focused areas such as genomics, further enriching our diagnostic portfolio.

Our commitment to high-quality specialized diagnostics drives our vision of shaping the future of healthcare in India. With a strong foundation for sustainable growth, Metropolis continues to solidify its position as the most trusted and respected scientific healthcare brand in the country. We are confident that this acquisition will create long-term value for our stakeholders, enhance patient outcomes, and contribute to the advancement of healthcare for years to come.

We welcome the Core team to the Metropolis family and look forward to a strong partnership. Thank you for your time, and that's all from my side. Now we're happy to answer any questions that you may have.

Moderator: Thank you. Ladies and gentlemen, we will now begin the question-and-answer session. The first question comes from the line of Harith Ahamed from Avendus Spark. Please go ahead.

Harith Ahamed: Hi, good morning. Thanks for the opportunity. So when I look at the profitability of Core Diagnostics over the years, except for maybe the COVID years, it's been loss-making. But your comment on EPA's accretion in FY '26 and the transaction multiple that you mentioned of around 14x, I presume it's on a FY '26 basis, EV EBITDA.

So that implies Core Diagnostics EBITDA margins moving up to a healthy double-digit level. So that's a significant ramp-up. So, first question is why Core Diagnostics was struggling to be profitable over the last few years, and what are some of the drivers that you've seen for such a sharp margin improvement?

Ameera Shah: Sure. Thanks for your question. See globally, let me tell you what a trend that's happening is that there were, in the last 10-15 years, many such companies that started which were focusing on single specialty diagnostics. Oncology was one example, neurology or genomics, etcetera. And what all of them landed up finding was that the cost that it takes, the operating cost that it takes to do high-score customer acquisition at the hospital at the doctor level doesn't always get justified as a single specialty player.

And therefore, you're finding that across the world, single specialty players are getting acquired by larger players like a Quest or a LabCorp in the US, and similarly, a Metropolis in India, because you're able to manage these assets, single specialty much better as part of a larger group, rather than standalone on their own, where the unit economics don't play out completely.

So, we're actually following a similar trend line by bringing in a single specialty diagnostic into a larger benchmark. And if you actually look at '23-'24, while they have been not profitable, in '24-'25, we will be seeing a low single-digit margin profitability in the book, in the operating EBITDA. And obviously, in '25-'26, we expect this to move higher.

Plus, we will add in the cost synergies that will come out of bringing these two businesses together, some of which Avadhut mentioned, like the material procurement cost, some of the overlapping lab infrastructure. There are many areas that we can potentially synergize together and with this we believe over the next 4 years, we will be able to bring the margin of core up to the MHL margin over this period of time, but starting with 2025-2026 itself, which will be the first of operations under Metropolis, it will certainly move up.

Harith Ahamed: Okay. My second question is on one of your slides. You mentioned that in super-specialized onco testing, especially in the therapy monitoring area, core diagnostics is very strongly positioned and in fact it's stronger than Metropolis in this particular segment. So just trying to understand what exactly or if you can give some examples for some tests in therapy monitoring that will make this capability a little bit clearer for us?

Ameera Shah: Avadhut, do you want to explain a little bit about entry-level to super-specialized.

Avadhut Joshi: Yes, I can. So if we look at the overall oncology testing portfolio, we can divide that into three parts. One is entry-level tests, which are typically prescribed by the normal doctors or the physicians when you go and visit them and they are age-appropriate, for example, PSA total and so on. These are blood-based tests. And then there is a second level of testing which happens when the consultant finds something significantly wrong which are typically the tissue-based tests.

So this is a combination of the entry-level tests and then the mid-specialty or specialty tests. The super-specialty tests typically include certain genomics-based testing which is required for the targeted therapy. If we look at the overall journey of oncology treatment over the last 10 years, we have come a long way. And today, the treatment options are primarily based on the targeted therapy, personalized medication and making sure that there is a companionship with the pharmaceutical products, which are prescribed along with the treatment options.

So the super-specialized segment today actually is something which we are not fully catering into, which core diagnostics has emerged over the last 7 to 8 years. And this is how we are looking at combining our ability to perform the entry-level tests, mid-specialty tests and their ability to conduct the super-specialty tests. So there is an overlap of about 30%, but the rest is completely exclusive with both the companies. I hope that answers the question.

Harith Ahamed: Yes, that's helpful. That's all from my side. Thanks for taking my questions.

Moderator: Thank you. The next question comes from the line of Kunal Shah from ANOVA Capital Management. Please go ahead.

Kunal Shan: So my first question is what specific steps are being taken to ensure the seamless integration of core team, technology and infrastructure into Metropolis?

Ameera Shah: So, I'll talk a little bit about the people and I'll ask maybe Avadhut to talk a little bit about the technology and infrastructure. See what we have done as far as the people because at the end of the day you have corporate team, you have a back-end team and a front-end team.

Obviously, the leadership team of core which currently runs the business is aligned to us closely and will be continuing to run the business under our umbrella over the next many years to come. We have put in the long-term incentivization in programs, the kind of cultural alignment that is needed to really get the teams to work closely together. Avadhut do you want to talk a little bit about technology and infra.

Avadhut Joshi: Yes, absolutely. So what we have observed very carefully is while they have a presence in 200 cities, that is also an additional cost for them because they are currently operating at a subscale level whereas we have overlapping collection centers or the lab infrastructure which can very well be utilized when we merge both the operations together. On the people side, what we have noticed is there are overlapping teams where we will see how we can optimize the resources and then the key talent at core diagnostics will continue functioning with us on the similar platform.

Surendran C: If I can just add one or two more things. We have also created a steering committee at teams between Metropolis and core diagnostic team and then we will work together and keep looking at the progress of the integration on a regular basis on all the domain which is technology, which is products, which is people distribution etcetera. So, this will be purely backed up by the Metropolis leadership team for a better execution.

Kunal Shan: And one more question post integration, the labs and logistics they will be overlap. So, how will it be optimized going forward?

Avadhut Joshi: So, with respect to the lab infrastructure currently they have nine odd labs out of them. One of them is the national reference lab which will continue functioning and the satellite labs is where we can see overlap and we can look at merging operations. And this is where the Steer core will come into the play and they will work out the overall seamless integration over the next 6 to 8 months time.

Kunal Shan: Okay. And after this our presence will increase in more than 10 countries, I think. And then the question is how will Metropolis plan to centralize and also expand international operations?

Avadhut Joshi: So, let me take this. So, if you look at the Metropolis current structure of international operations, it can be divided into two parts. One is where Metropolis has made direct investments which is in sub-Saharan African countries. We have presence in five countries through 25 odd labs. And there are around 10 countries where we are doing in sourcing of the specialty test.

So, we have franchise partners in 10 countries who send sample back to our global reference lab in Mumbai. If you look at core infrastructure, the core has exactly the similar structure, which is the franchise operated network and they import or they in source all specialty tests. So, we see a part of overlap, close to about 40% overlap between both the countries. I mean, where the client servicing is happening currently and other 60% are the completely new countries.

And the way it will happen is today, some of the test portfolios which are currently offered by core is not really being offered by us to our customers. So, there is a lot of cross-selling opportunity we can see very clearly. So, the customers what they currently have will get an opportunity to send tests which are there with Metropolis and vice versa.

Kunal Shan: Okay. Thank you.

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

Kunal Randeria: Hello, good morning. So, while I note that this onco market is growing - onco testing market, I'm just wondering how much of this opportunity can be tapped by companies like core because from what I understand a lot of hospital chains are focusing on providing end-to-end Onco services and are also investing in diagnostics. So, just want your thoughts on this?

Ameera Shah: See, even if you look at today all the top hospitals you can think of outsource the specialized pathology, not only in oncology, but across segments. Because a company like Metropolis has 4,000 varieties of tests. The most top hospital in India will have maybe 1,000 to 1,500 varieties of tests. Now, if you are a hospital provider who's competing in diagnostics, you still don't have all the facilities and all the kinds of tests that Metropolis does or core does.

So, even though it appears as if hospitals are investing in diagnostics, what they're investing in is the top 1,000 to 1,500 varieties of tests out of the 4,000 that we already have and obviously with this acquisition, our 4,000 also goes up because we're adding now new varieties of tests to your menu. This situation and trend is not unique to India. It's global. The hospitals actually treatment are focused players and they don't have expertise in pathology and therefore they outsource it to the pathology experts like Metropolis or the equivalent in other countries for super specialized testing.

This is a trend that we don't expect to change. Even if your top one or two hospital chains start in sourcing more tests, there will always be enough tests that they have to continue to outsource because they lack the skill and they lack the technical expertise to be able to do the entire range that we do.

Avadhut Joshi: In addition to that, what I would like to say is in the oncology treatment a lot of these tests are dependent on the therapy and these are not necessarily required when the patient is actually hospitalized. So you would see in the oncology, you have two clear streams. One is the onco-surgery stream and then the medical oncology stream. So medical oncologists are the ones who are clearly using the therapy monitoring test, confirmatory tests and so on. And these are largely the daycare surgeries or daycare procedures or the polyclinics where they are practicing. And this is where you will see even core diagnostics get a lot of these patients directly from the clinicians because they are operating in the OPD environment.

Kunal Randeria: Then how much of your revenue would be coming from these kind of tests?

Avadhut Joshi: So today, if you look at the core speciality, almost 85% of their revenue is based on the oncology, which is into these segments. And look at the overall contribution, today, Metropolis contribution of the oncology is about 4% to its total revenue. With course acquisition, it will jump to around 10%.

Kunal Randeria: Sure. Second question is on the gross margins and from the data that is available, I see that despite overgaining scale in the last decade, the gross margins are somewhere around 60% for this business. So just wondering, is this the kind of margin that these businesses typically operate at?

Ameera Shah: So specialty businesses and specialty diagnostics always operate at a lower gross margin than routine tests. If you were to break up Metropolis' P&L or competing peers' P&L, you will find the same story that the specialized businesses operate at lower gross margin, but the EBITDA per sample obviously is higher because your pricing is higher as well. So we actually find that the right balance for diagnostics is to be able to have a fair amount of routine business, which gives you the high gross margin, but to have a fair amount of specialty business, which gives you the cutting edge brand, and which also gives you the high EBITDA per sample if you're able to get the good quality business, because that's when you're relevant.

If you're only a routine player, you're not relevant in the doctor's mind, because you could be one among 300,000 labs. It's the specialty diagnostics that's actually separating you from all the other peers. I'm talking about unorganized and organized. And therefore, even though you make lesser margins at the subscale level, at a scaled level, your margins can still be good on the specialized platform. And that's one of the reasons why the stand-alone single specialty diagnostics players are not really functioning well economically, partly because of the low gross margin.

Kunal Randeria: Got it. Just one more, if I can squeeze in. You did mention of some cross-selling synergies that you foresee in future. Can you talk a bit more about how you intend to do this?

Ameera Shah: Sure. So, I mean, the synergies will come from two, three places, right? So one, as Avadhut referred to, there are some stat labs, which satellite labs all across the country, where we do believe there is an overlapping infrastructure and potentially you can have a consolidation there. The second key area would be sort of material procurement. Obviously, the prices at the Metropolis get test and some prices at which Core gets test, there is a synergy there and that could be certainly leveraged to be able to overall aid the common sort of combined P&L of the business.

Besides that, the management costs in the diagnostics business have only increased over the last 10 years. Talent has gotten more expensive. The infrastructure, IT has gotten more expensive and therefore you're finding that sub-scale players are not able to operate on a sort of clean unit operating basis on their own. So you'll also find some consolidation in some of these infrastructures and corporate costs. So overall, we believe that as sort of Core lands up becoming a very key segment within the Metropolis umbrella, there will be a fair amount of synergy at the back end that we'll be able to leverage at the operating level and as a company.

Surendran C.: I think the question was around the cross-selling opportunities, right?

Avadhut Joshi: So when we talk about cross-selling opportunities, today Metropolis works with close to 10,000 plus hospitals. And we have close to about 1,000 plus oncologists where we touch base upon. And today, some of these super specialty tests are not in our portfolio and not really being focused, right? And as we mentioned earlier, that it may take a couple of years for us to really build those capabilities. It will take probably four to five years to build that trust. So with Core coming in, the test menu is readily available with Metropolis, which can be easily offered from day one to its existing customer base. So that's one opportunity.

The second opportunity is taking the Metropolis test menu, which typically falls at the entry level screening and allied test, confirmatory test, and then the routine follow-ups, which typically happens after the treatment of any cancer patient can also be offered along with the Core super-specialty test to its customers. Currently, as we mentioned, Core offers their test menu to close to 1,200 plus hospitals and 1,600 plus oncologists, right? So that remains a great opportunity for us to take our test menu of 4,000 tests and actually sell it to them. So this is how the cross-selling opportunity will come in play.

Geographically, the way we are looking at is North and East is extremely strong with Core Diagnostics with great brand equity with oncologists and great hospitals, whereas West and South is very strong with Metropolis. And this is how, again, the cross-sell will play.

Kunal Randeria: Sure. This is a bit of an oversimplification, but do you kind of -- will come up with, let's say, onco packages, new bundled packages for patients with this?

Ameera Shah: See, oncology works primarily through once you've obviously got cancer and you can try to bundle some of these, but frankly, each doctor has its own unique prescription. So we will try to do certain things on the screening side where consumers can make decisions on their own or try to do some for the doctor prescription. But we'll have to see whether doctors still prefer to make their own prescriptions that are customized to each patient or whether bundling can be an option.

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

Shyam Srinivasan: Just the first one is on the CAGR growth that has been provided, right, to 22%. I just want to kind of know if you can in terms of volume and price changes, if any, right, the average revenue per test seems to be 2,300. I just want to understand how these two dynamics, like price and volume have actually changed over the years, even a longer timeframe would be helpful?

Ameera Shah: See, with specialized tests, what usually happens in the portfolio is that when you launch new tests, you're obviously pricing them a little bit higher because you don't have the volume. And over time, actually, as the volume builds, we find that the pricing starts to move downward. This trend happened over the last 10 years in oncology where you'll see that actually the pricing has moved to more affordable levels because you have to remember that in India, the OPT testing, which is not in hospitalization, is still paid out of pocket and is not covered by insurance. And therefore, the more affordable and accessible we are able to make for the specialized testing, the more volumes we're able to actually build.

So traditionally, you would have seen even with Core or with other players, the volumes would have been probably about 10% to 12%. And the rest of it would have come from sort of moving up the value chain, not necessarily from an average revenue per patient, but really moving up the value chain. It's not because the price increases, but because you're selling more complex and more advanced tests. And therefore, you're able to get sort of a higher price for that particular test. So the volume of patients obviously will continue to increase at a fair pace. But more importantly, are you able to get the patient the right test for them at the right time and keeping them moving in the value chain that's required for that. Avadhut, do you want to add anything?

Shyam Srinivasan: Yes, so Ameera, I'm just trying to get the outlook here. So essentially, you're saying price will now stabilize after it has fallen, and then we'll get volume growth, like whatever, cancer incidence is going up. So 11%, 12%, should that be, if you were to make a projection, I'm not asking you to, but I'm just saying, how should we look to model this one out in the path forward in terms of growth?

Ameera Shah: See, like if you take the overall CAGR, I don't want to break it up at this point into volume and price, because we would also like to continue to understand the segment deeper. But if you look at the CAGR of 22% that we cited for the last few years, is actually removing COVID, adjusting for any COVID testing, and adjusting for any non-recurring revenues.

So for example, they may have got a government contract which expired, etc., So 22% has been the CAGR from a B2B and a B2C perspective, which is a pretty fair CAGR. And our goal is obviously going to be to try and uphold that, but with a better quality of earnings and better quality of business. Often what happens in the unorganized space is that without too much governance, there is a focus on growth.

Obviously, when a company like ours comes in and puts even stronger governance parameters, you may see growth moving down 1%, 2%, 3%. But you will also see, because of better management capabilities, the growth moving up. So hopefully, I think this 22% CAGR sounds like a fairly good number to us, even for the future.

Moderator: Thank you. The next question is from the line of Abdulkader Puranwala, from ICICI Securities. Please go ahead.

Abdulkader Puranwala: Thank you for the opportunity. Just first question, if I look at the first half revenue numbers, there seems to be a slowdown as compared to the 22% CAGR what we are talking about. So could you highlight some on it that why there was, say, the first half number was just close to INR 59 crores?

Ameera Shah: Sure. See, if you look last year, the revenue was approximately INR 110 crores. But actually, if you look at one layer beneath, it also included a hospital lab management contract, which actually came to an end before we acquired this business on April 24. And actually, therefore, the base would have reduced to INR 103 crores instead of INR 110 crores.

So if you look at the growth, actually, of what you're seeing today, from INR 103 crores to preferably where it will land at INR 120 crores, INR 122 crores, if you take the run rate of each one. So the growth from INR 103 crores onwards, you can calculate which would be around the same level. And that's why we said that the CAGR 22% is adjusting for COVID and non-recurring businesses.

Abdulkader Puranwala: That's helpful. And the second one is on, I know in your PPT, you mentioned about certain ESOPs being offered to the key team members which are going to come from Core. Could you highlight what could be the incremental hit on the EBITDA and how does that pan out in the 14x EV EBITDA multiple, what you spoke about for FY26?

Ameera Shah: So that's not really being plugged into the Core piece. It will be plugged into the overall Metropolis piece. And the idea is very simple. It's to basically create long-term alignment for the Core team to Metropolis. Because if you want to get them to not only execute the synergies, revenue and cost with Metropolis team, they need to be aligned to the performance of core, but also the performance of Metropolis. So the similar kind of programs that we have done for our Metropolis leadership team has been done for the Core leadership team.

Moderator: Thank you. The next question comes from the line of Anshul Agrawal from Emkay Global. Please go ahead.

Anshul Agrawal: Hi, thank you for the opportunity. So I suspect Core Diagnostics doctor network would be more oncology focused. So how do you plan on cross-selling our non-oncology test bouquet over here? I understand there are cross-selling opportunities around entry-level oncology testing. But how do you plan on sort of cross-selling a routine test menu or other category test menu over here?

Avadhut Joshi: So the cross-selling will happen on two levels. One, if you see, we have mentioned clearly that they have contracts with 1200 plus hospitals and labs, correct? So those 1200 hospitals and labs are not only oncology testing hospitals and labs, but they are multi-specialty hospitals, which also cater to oncology, right?

And what we have seen is that there is barely about 5% to 10% overlap in the client base. That means 90% of those hospitals and labs remain open for us to take all other test menu of Metropolis because they are anyway outsourcing some of these tests to some other labs, correct? The only oncology piece is actually going back to Core. So using that existing relationship, which is built over last 4 years to 5 years can be utilized to sell Metropolis test menu. That's, you know, one on the hospital side.

On the consultant side or on the oncology side, if you look at the patient journey, even at the detection level, you will need to do a lot of blood markers, right? Which are blood-based entry-level tests. And that portion is quite significant. And then you move to the super-specialized test segment when the patient needs the therapy. Once the therapy is over, then the patient moves to survivorship. The survivorship is nothing but the follow-up.

And during the follow-up also, then oncology tests have a sunset. And then again, the routine tests like CBCs and the total blood markers, etc. will follow through. And those tests are typically required at least twice or thrice a year. So what we have noticed in the entire life cycle of a cancer patient, the number of tests required is close to about 3 to 4 times than a normal patient requires.

Out of which, maybe one-third will be contribution from the oncology. But the rest two-third comes in from the routine test, which is the strong or strength of Metropolis. And currently, those patients are being offered only the oncology-based test because Core currently doesn't really deal with that kind of test menu.

Anshul Agrawal: Got it. I take your point on the B2B portfolio. But in the B2C portfolio, is there a use case wherein we can sort of cross-sell non-oncology test packages or test menu to these B2C consultants?

Ameera Shah: Yes, because if you see, for example, like Avadhut said oncologist, let's say when a patient goes to them, first the patient has to get routine tests done, right, in whichever location that oncologist is. And then they get some semi-specialized and specialized tests done to figure out whether the patient first has cancer or not and is the early part of the treatment, right.

Now, Core today doesn't have that infrastructure at all in terms of number of labs across the city to be able to do that entry level and that specialized testing for the patient. And therefore, that doctor is working with some other lab for those entry level and specialty cancer tests. And CORE only comes into the picture when that doctor wants to now outsource super-specialized tests. So, we could potentially leverage that relationship with the doctor to try and capture the entry level and specialized tests, because Metropolis does have labs in 200 labs all across the country, and we are present in 750 cities.

So, by doing the entire journey from entry level to super-specialized, we are able to capture all the prescriptions of the patient via the doctor or via the hospital and continue the relationship from start to finish rather than it being a broken relationship.

Moderator: Thank you. The next question comes from the line of Rishi Mody from Marcellus Investment Managers. Please go ahead.

Rishi Mody: So, my first question was on, if you were to build a bear case scenario for this acquisition, what could go wrong out here? Where do you see near-term headwinds? Like, let's say 50% is B2B.

Do you see any business that you would not want to continue because of receivable management or anything?

Ameera Shah: So, while 51% is B2C, out of the balance 49%, 15% is actually from pharma support programs, where pharmaceutical companies that are providing targeted therapies are in many cases doing the subsidized testing for those patients. And the balance, 35%, is from B2B. Look at the end of the day, the risk here is really on the business execution side, where it's up to now Metropolis and Core management teams to be able to generate the synergies at hand, whether it is the cost synergies, whether it is the revenue synergy.

So, that obviously is one risk that we obviously are on top of and want to make sure that we're able to generate the kind of profits and returns that we would like to do from this deal. I think these synergy is what we're alluding to. We don't see very large because the customer bases are quite different.

But there is some price points which will be different between Metropolis and Core. And while that does not impact in the first year, when we do start to do a full integration, we may see that some of the pricing has to be tweaked to make sure that you're putting out a common pricing in the market. So, that has been already captured into our business model as we have looked at these synergies and we see these synergies of both these businesses coming together.

Rishi Modi: Any other risks or downside cases that you think can or may play out?

Ameera Shah: I mean, theoretically, there are obviously many risks at hand in any transaction you do or any business you do. But I would say these are the ones that we are the most mindful of. While we have identified all the risks, we have tried putting mitigation plans for all of them. Now, will all of them work 100% perfectly? Never does in real life.

So, we'll have to see and try our best to ensure that all the risk mitigation plans are completely put in place and then create the buffers for the situations which are unforeseen.

Rishi Modi: Understood. On the upside, any non-linear optionalities or something which, I heard a gentleman mention that you all have been researching some new testing, but it's just started. So, if you could just give color on what's the upside which is not there in the business today but can come through.

Ameera Shah: See, I think the capabilities in the business, the R&D capabilities and Core in terms of starting new tests and tapping new segments, you know, has been reasonably strong. And we believe that with some amount of capital, with some amount of focus, with some amount of re-energizing the system, we are wondering whether there is an ability to keep sort of doing more and more R&D and sort of really staying ahead in terms of testing.

That obviously will remain unknown at this point. Only once we deep dive and we start to put some energies there, we'll come to know whether there is an option to really create a completely new test menu, not only in oncology but potentially in other areas as well that allows us to then keep expanding.

So, I think that remains an option at this point which could be, like you said, have a very different trajectory, but it's too early to sort of have any commitment to that at this point.

Moderator: The next question comes from the line of Gagan Thareja from ASK Investment Managers.

Gagan Thareja: Sir I have just one question and that pertains to the financing arrangement for the acquisition. In particular, what made you choose a CCPS and a cash structure rather than perhaps an all-cash or a cash-and-debt deal here?

Ameera Shah: So, we looked at a couple of things. I mean, we felt that, we had about INR 187 crores of cash at the end of September and Metropolis has been working all year on a relief funnel of potential M&A that we would ideally like to do. And, usually in our industry, when you're buying businesses from pathologists who are on the ground.

You can't really use your stock as currency as an option to do that because they are not comfortable with stock as an option and they only prefer cash. We felt this was an opportunity to use our stock as currency as well because these are private equity players on the other side. And with them, they have the understanding of how it could work.

And therefore, we thought that instead of using all our cash or debt lines at this point, let us use partly our stock as currency as well. And since we have that availability of usage in this particular case that also leaves things more open for us to do additional M&A if the right deals and targets come about and doesn't really block us from doing anything further.

So really, it's about just using all the different channels at hand. And while we are aware that obviously doing a stock trade as part of it will slightly dilute the ROE and the ROCE and that gives us the ability to recover from that equity, may not. We felt overall doing all the pros and cons using stock as currency also sets potentially a precedent for the future to say that if there are deals that come about, is there a way for us to do it?

So that was really the thought process behind it.

Gagan Thareja: Yes. And just one more question is around the profitability of the acquired entity. Well, I think someone did ask this. I would just like to perhaps try and get more of details here if possible. You know, given their relatively more complex test menu and working in an OPD on-go sort of environment, why have the margins of the company been relatively perhaps lower or still in the last five years being a loss-making entity?

If you could break it down, under cost heads to whatever degree possible for an explanation, it would be helpful.

Ameera Shah: So I mean, if you look at sort of the things that should be diagnostic layer, usually the gross margins, as we talked about, tend to be around 55% to 60%, while margins of let's say a Metropolis or one of our peers would be really more close to between 75% to 80%, right? So one big difference there.

Now, this tends to be the case more because of affordability issues in India, not because of anything else. So because it's not covered by insurance, you're trying to make the test more affordable for Indians, and the minute it goes over a few thousand rupees, that becomes sometimes a challenge.

And therefore, you're not able to price it as the way you're able to price routine tests, because as you're trying to build scale, you need to make it affordable for the volumes of people who need it. So that's one part of it. The second part of it, obviously, is the corporate cost, that when you're functioning at a sub-scale level, you still need the whole shrine of your professional team.

Your compliances, your IT infrastructure, all of that, which obviously then becomes a heavy cost on a sub-scale player. And third, as you're trying to sort of go and do custom acquisition, like we gave you the example of an oncologist, where you're trying to go and get business from. Now, when you go to get to an oncologist and say, doctor can you please give me the super specialized, the doctor will say, Yes.

But I have to give the basic entry and this to somebody else. Why don't you start a lab? So you can do the basic test in the city, because I need the support fast. And then you can take the super specialty to your Gurgaon lab. So you then land up starting local infrastructure, which is sub-optimal and non-productive, to do the local test there.

But you're not able to really compete with all the other players in the market. And therefore, you land up adding infrastructure costs, which is actually not needed. And it's not a shared service that could be potentially, the weight will be between Metropolis and Core in the future. So overall, the way we see it is that if this was a fully mature, profitable lab at 25%, 26% EBITDA.

The value of this business would have been closer to -- between INR 700 to INR 1,000 crores. Today, you're able to get this business at a much more reasonable price, because it has not been fully matured from a profitable perspective. And we have the opportunity to create that value internally in Metropolis as a benefit for the shareholders of Metropolis.

So we believe that mostly good quality assets do not come at this price. And obviously, if it was already mature, it wouldn't. But that's the opportunity at hand for us. And we believe that we should be able to get it to the Metropolis margin in four years time.

Moderator: The next question comes from the line of Alankar Garude from Kodak Institutional Equities. Please go ahead.

Alankar Garude: Firstly, Ameera, is it possible to share some details on the current shareholding structure of Core?

Ameera Shah: Sure, the private equity players that own it, I think 50% is owned by Artiman Ventures. How much is Eight Roads Ventures?

Avadhut Joshi: 34%. Around 34% by the Eight Roads and balance, you know, the small shareholders.

Alankar Garude: So basically, the founder of the company doesn't have any equity right now?

Ameera Shah: Very small, if anything, maybe one or two percent. But not…

Avadhut Joshi: At least 2% to 3%.

Alankar Garude: Understood. Second question, possible to share some basic P&L balance sheet details, particularly lease rentals, net debt and gross block as of first half FY25?

Ameera Shah: If you're okay with it, we'll come back to you offline with the details.

Alankar Garude: Fine. And the final one, what is the payback period you're looking at?

Ameera Shah: So we believe that from a payback period, we think from a EBITDA perspective, it should be about six to eight years and from a PAT basis should be about nine to ten.

Moderator: Thank you. The next question comes from the line of Rishi Maheshwari from Aksa Capital.

Rishi Maheshwari: Congratulations to the team on culminating this. Ameera, I wish to understand basic tests for oncology would be PET scan, CA markers, which are in the vicinity of about INR 9,000, INR 10,000 to about INR 20,000 depending where you're doing it from. So the per unit test at about INR 2,300 that you've suggested or indicated does not necessarily resonate. So if you can bridge that gap, what are we exactly doing over here in terms of the test? So general oncology tests, as we understand, are these. So please help me understand.

Ameera Shah: So I'll add a couple of thoughts and Avadhut will add to it. A PET scan is not an only screening technique firstly. Usually people will do and that's on the radiology side, but people will usually do a sonography or you might find something to a clinical examination which you're then going to get done. On the pathology side, the early entry markers, which are the CA markers, like you rightly said, are priced closer to INR 600-INR 800 per test and not at INR 10,000, which is more for radiology on the PET scan side.

Once you have figured that, yes, you do have some sort of a tumor and some sort of a lump, then you'll get a biopsy done, which is the basic histopathology screening that happens, which is again priced at anything between INR 400 to INR 1,000 approximately and not at higher than that. It's only once you have figured that, yes, I have cancer and now I'm in treatment. Before that, before you're doing surgery and you need to find the targeted area, that's when you do a PET scan and to figure out the next step.

And on the pathology side, and when you're getting treated, you have all of these tests which need to figure out from a surgery and from a treatment perspective how your body is sort of reacting to them and genetically and through molecular genetics, which is where we are finding all these super specialized tests relevant. And the price point for those will be anything between sort of INR 2,000 and INR 5,000, INR 6,000, INR 7,000 per test. So when you're saying INR 2,300, you also have to remember that there is a post-discount, which is passed on from a B2B perspective to hospitals or to labs and therefore it's a metric. Avadhut, is there anything you want to add?

Avadhut Joshi: No, you fairly covered and that's absolutely correct. In fact, what I would like to just add here is these are not the only entry-level tests, but as the patient progresses towards more confirmatory tests, the doctors typically prescribe even more complex tests which are blood-based, right? And it could also include the common tests like HIV, hepatitis B, hepatitis C, vitamin B12, D3. So these are a set of tests which are definitely required for any patient while it goes on to the confirmatory therapy, and this is before the therapy.

During the therapy, also the patient would be required to accompany certain tests every time they go for either radiotherapy or the chemotherapy. And once the patient is into the survivorship, as I mentioned that in, again, you need to conduct at least seven or eight varieties of tests in the bundled packages, minimum twice a year. So there is ample of opportunity and just we mentioned earlier as well somewhere, the used case could be, we can look at how Core has also built over the last two years.

I mean, until two years, they were only into the super specialized segment, but when they realized that there is an increasing demand from the oncologists for certain entry-level tests, they decided to actually do a pilot and they set up six, seven routine labs. And today, almost the routine lab revenue has reached close to about 8% to 10%, which is in and around the specialty tests.

So that can be used as a kind of a used case scenario. Plus with us also, we have typically observed that when we get one patient for cancer markers and we look at the historical data of the patient, there are at least three to four X varieties of tests which are prescribed for the same patient. So we have looked at both the scenarios and actually made the plans around that.

Moderator: The next question comes from the line of Surya Narayan Patra from PhillipCapital. Please go ahead.

Surya Narayan Patra: Congrats for this transaction. My first question is about your entry into the radiology side also. See, because I wanted to have a sense running a diagnostic business targeted for oncology without radiology, how advantages or disadvantages this would be as a strategy? And in the past also you have mentioned about entering into some adjacencies, having some kind of radiology service offering. So should we consider Core is a first step towards entering into the radiology way also?

Ameera Shah: In the past, when we talked about radiology, we talked about basic radiology with the X-ray, ECG and maximum sonography. We, in fact, emphasize that we are not planning to get into advanced radiology, which is PET scans, CTs and MRIs. And that continues to be the standard at this point of time. Core is not a stepping stone into advanced radiology. Core is very much a stepping stone, like you mentioned, for specialized pathology on the cancer side and for the North Indian side.

The radiology business is not one that we favor heavily for many reasons, but primarily one we find the financial metrics on the business to be poorer than pathology. We also find the governance in the sector to be very poor. And frankly, in the last few years, we have seen an overabundance of supply when it comes to things like CTs, especially across the country when

COVID came in. And that has actually landed up in some ways commoditizing some of the industries. And in healthcare, we have to remember that there is an expertise mindset.

So, people often ask the question, oh, hospitals have come in and they can become very good at this business. That's not how it works in healthcare because everybody has to do what they are really good at. And you try to get into somebody else's market and they are really good at it. It doesn't always work. So hospitals are good at certain specialties in treatment and they do really well at that. They may or may not do well in pathology. The same way a radiology player who expands into pathology may not necessarily do well in pathology. And the same way a pathology expert like us going into radiology may not really succeed in that. So it's all about the expertise in each segment and trying to actually go deeper in your segment to build value.

Surya Narayan Patra: Second question is about the kind of volume share what Core is adding to Metropolis. So let's say in terms of the patient volume or the test volume, if you consider, it is low-single digit percentage of now, although it is bringing in the quality super specialty test to our portfolio. But number wise, it is really insignificant at this juncture. So how do you see this addition or the core acquisition will be influential to our overall growth, let's say, over the next two to three years?

Ameera Shah: Yes, I think acquisitions, the way we look at them are more strategic. I don't think they are really looking to go and buy revenue and even their gesture. They're looking at them more strategically as an entry point into something which we can then organically create. So if you look at these 24 acquisitions that we did in the past, we may have acquired a business worth only INR 5 crores annually at some point. But that business today is INR 100 crores in value.

And frankly, for the shareholders of Metropolis, that is a far more advantageous strategy than going in just buying businesses which are fully built out and which already have maximized their revenue and therefore adding a lot of significant revenue and profit to the mix. But you're not then getting a chance to create that on your own, which is frankly where the return on capital employed will be the highest.

So we like this model of going and buying what we may feel as not very significant pieces, but strategically give us a great platform to leap from. And then we are able to create the rest of the journey organically, which is really where, like I said, the value will come in for all of our shareholders. So today, it may not seem very large, but we believe it's a great step for the future.

Moderator: Thank you. Ladies and gentlemen, we take the last question from the line of Naman Bagrecha from IIFL Securities Limited. Please go ahead.

Naman Bagrecha: Ma'am, just a few clarifications. I'm not sure if you highlighted the cancer or oncology testing market. I heard some INR 4,500 crores, INR 5,000 crores kind of market. Is that correct?

Ameera Shah: That's right. It's about when I'm talking about pure oncology. We are talking about a INR 5,000-crores-odd market not counting the routine tests which come along with the prescription, but just the pure oncology test. We can't compare this to the overall revenues that you see of the diagnostic players, but you have to compare it only to the specific cancer tests that are being done.

Naman Bagrecha: And what would be, let's say, this market expected to grow?

Ameera Shah: The CAGR for the next five years is expected to be about 70%-odd.

Moderator: Thank you. Ladies and gentlemen, this concludes our question-and-answer session. I now hand the conference over to Ms. Ameera Shah for her closing comments.

Ameera Shah: Thank you everybody for joining. It's been a very exciting start of the week for us, something we've been working on for a year. And I think it continues in line with the strategy that we highlighted. Metropolis will continue to build a specialty portfolio in a profitable way as we move forward and Core is a clear addition to that. It allows us to become the leading cancer testing facility and chain of labs in the country and really positions us to participate in a segment that is the fastest growing in the country. And also at the end of it, we take care of people who are suffering from this deadly disease.

Along with that, it also positions us very well to go deeper into the North and East of the country, really building specialty business with the top hospitals, with the top doctors in a region where we would like to increase our market share and really go deeper and closer to doctors. The financing for this and the value that will be created from the deal we feel quite strongly and comfortable with. And we believe that going forward, this acquisition will add very well to the return to shareholders. So thank you all of you for joining and look forward to chatting again.

Moderator: Thank you. On behalf of Metropolis Healthcare Limited, that concludes this conference. Thank you for joining us. You may now disconnect your lines.