

# Notes from Interviews of Ameera Shah, MD Metropolis

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## Important Update

- These notes were made to understand the diagnostic industry ecosystem.
- This work is an ongoing work, where I updated it periodically as and when I listen to/read new interview.
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## Indian Entrepreneur's Diagnostics Revolution

<https://www.youtube.com/watch?v=wrQePHHn-jo>

- Metropolis is a multinational chain of pathology laboratories. We are in 7 countries mostly in South Asia, the Middle East, and Africa
- Metropolis Labs was started in 2000. The Actual journey started in 2001 and 2002. Metropolis should reflect a culture of empathy. Patients are anxious, we can hold their hand to be a friend of theirs.
- We treated the patient's sample like my Mother – That feeling of ownership, making sure that every report is correct and done compassionately with the utmost integrity.
- Can I create a group or umbrella, a kind of indigenous Path lab chain.
- Metropolis processes 30 million samples annual, or around 25000 tests a day with samples coming from 350 tests across India
- 700 people work in the reference lab for round the clock
- In this lab there are 100+ technologies
- We do around 4500 varieties of tests and ensure that each one has the minimum volumes
- In India it is a combination of lower regulatory costs and cheap, qualified labour
- A existing company has a legacy of mindset, people, the pattern of doing things
- Came with business knowledge and doing it as a 21-year-old girl was even more challenging
- Entrepreneur is a lonely journey – I was married, I am no longer married now

## 2019: IPO Adda: Metropolis Healthcare

Source: <https://youtu.be/MAhkaF8lEHw>

*March 2019*

*Please share details of your growth levers*

- Lever 1 - Geographical expansion: by going too close to the patient. Currently, a large part of the market is unorganized in the industry. Many people use the small lab in the street to get the test done. The consumers in India are changing and want to go to a more hygienic place, with better quality, and infrastructure. We create the infrastructure close to the patient. By this, they get quality, convenience, and a great experience with us. – Retail Strategy

We are strong in 5 or 6 markets in India. These are markets that are fully penetrated. There are huge opportunities and continue to do our network expansion, which will take us closer to the patient and therefore increase the market share.

- Lever 2 - B2B Growth: There are 9000 touchpoints, hospitals, and labs that send samples daily. We do around 4000 variety of tests. Even the top hospitals do around 400 to 500 variety of tests, as they do not have the capability and outsource to Metropolis. These specialized tests only make our expertise, quality, and credibility very high. That is why we are called the Pathology specialist in the industry. Continuing to increase the touchpoints, pick up points will be the second part of the strategy

- Lever 3 - Product Mix: patients are coming for low-value tests. With the education of doctors and patients, where the patient needs technology for better quality testing. They move up the value chain.
- Lever 4 - Acquisitions: We are good at it

*What are your strategies for growth, especially in the seed cities?*

When focussing on seed cities it is only a matter of allocation of our time, money, and bandwidth. In focus cities, we will get deeper, by having more centres in the market where we are already leaders. We want to double the networks there. But in seed cities, we want to build breadth, as we did not have much presence.

In the acquisition area, we have done about 20 to 25 acquisitions over the last 18 years. We are great partners to Pathological laboratories. Many Pathology labs come and ask partners with them and take them under their umbrella. They enjoy working with us and are also rewarded well. This will continue to be a key strategy.

In Seeding cities, do you look to acquire labs – Would that be the entry point?

In these 13 cities, we already have labs and need not acquire one. It will grow organically. IN new markets outside these 13 cities we will do acquisitions.

*Which are these new markets?*

We are already there in 170 cities. In many markets, we do not have a significant presence, which is an opportunity. Andhra Pradesh and Telangana, we do not have a presence. Here will look for acquisitions. We may look at North India and parts of East India as well. We are open to opportunities all across the country, there is no specific market.

*Would you look to continue with third-party centres or augment your patient centres?*

Most of our revenue comes from our patient centres, but the majority of the network is a third party. This network is very young, about 2 years. The revenues still come from the centres which we owned. This is going to be an opportunity in the future because the new network will continue to give higher revenues in the future. The idea is to grow this network. In terms of expansion, it will be a third party rather than its centre.

*You spoke of pricing pressures, due to competition and similar models by Thyrocare. Tell us more about how you see the pricing sustaining in the future, and how you look to stand out from your peers in the market.*

There are two more listed companies. Our model is very much similar to DLPL and not similar to Thyrocare. The reason for that is we operate mostly in the illness space. We take care of patients when

they are unwell or a little bit unwell. I understand that Thyrocare is more in the wellness space and therefore we do not land up competing much with each other.

Price competition is not there much. Remember when someone is not well in a family, the family members are not shopping around who does the cheapest test, but they are shopping around who will give the correct report. People come to the Pathology lab once or twice a year and the average spend is around 500 to 600 rupees. So this will not bankrupt them nor frequent spending. So people do not go bankrupt due to diagnosis. They spend a lot of money in the hospitals. So price is not a huge concern for patients.

*You are also tied up with Government insurance schemes. Help us to understand more about the partnership pattern*

The CGHS – Central Government Health Scheme, where the Government pays for the people employed by the government for their health care and partner with Metropolis and a few others. We offer our services to the employees at a discount. The employees needing the pathology services can walk into our labs and avail the services at a discount.

Ayushman Bharath is relevant for hospitals and not for diagnostics.

*What is the CAPEX for next year and what is the room for next acquisitions?*

Last year FCF was 150 crore of which Maintenance CAPEX is only 10 - 20 crores. So there is a good amount of cash for acquisitions. Not a big CAPEX cycle in the next few years.

## 2019: IPO Adda: Metropolis Healthcare

Source: <https://www.youtube.com/watch?v=IEt64x6-kCs>

3 April 2019

*The money is going to exiting investors, and nothing is coming to the company. Is the company sufficiently funded to take care of working capital and near-term needs?*

Cash flow is not an issue, it is a sustainable business with a lot of internal accruals. Not only working capital but also growth is managed through accruals in the form of accruals. In case of any large deals in the future, will leverage the balance sheet to get some debt. We are debt-free today and can raise money from capital markets or use stock as currency as well.

*Unorganized still controls a large chunk. The expectation of a shift from unorganized to organized has not yet happened.*

That is the opportunity. Currently, 85 - 90% of the market is with unorganized space. This at one point in time was 100%. Today 15% have moved to organized. This is because of a few players like us who try to

organize the industry. Going forward this will happen at a faster pace if 2 - 3 structural reforms are happening. (1) Some minimum standards on quality. Today there are no minimum standards, which means anyone can operate a pathology lab. They do not have equipment or pathologist or not even do tests. There was a sting operation done on a lab that was claiming to do 1500 tests. (2) Insurance: Today people are paying out of pocket. If they are hospitalized insurance covers it. If you go to a doctor and come for a blood test, you pay out of your wallet. When insurance covers this, the diagnostic volumes jump and this has been a global phenomenon. Specifically, the specialized test volumes jump. In India currently, one patient does 2 - 3 tests, but in developed markets, a patient does 10 - 12 tests. When health insurance covers diagnostics, this will structurally change the industry along with government regulation.

We have three-tier strategies: (1) Organic growth, capturing market from unorganized and asking doctors to refer our brand, (2) Acquisitions, bringing the unorganized players under our umbrella from new markets, (3) Bringing unorganized players under our umbrella not through acquisitions but through contracts, which are asset-light. Due to this reason, our growth is faster than our competitors.

*Volume growth would not come and not have pricing power.*

Think back yourself if tomorrow, you need to get a test done for some disease say cancer for one of your family members. You could not go by promotion or advertisement. But will go to a doctor, and a trustworthy lab to figure out what is going on in my body. People go to a diagnostic lab only once or twice a year. The average spend is 600 - 700 rupees. Pricing is not an issue. When people are sick, they genuinely want to know what is going on in their bodies. I am not interested in who is giving 50 or 100 rupees discount. If your diagnosis is wrong, the treatment also goes wrong. We have spent more than 38 years earning the trust of the consumers and doctors who rely on our report for treatment. It is really difficult for a new entrant to come, simply advertise and earn the trust overnight, unless they have delivered year on year.

*What is the pricing trend? It is stable or moving higher?*

As a brand, we can increase prices, but we have been doing a marginal price increase of 2% in the last few years. But this is not because we do not have the ability, but we are in healthcare and we want to make sure that things are not unaffordable. We are also in a social sector, where we need to see what is good for the citizens of this country. Our strategy is to not increase the price every year drastically and gain from patients, our strategy is to increase the volume and do a small price increase every couple of years and focus on product mix strategy. This means, there are far better tools available for diagnosing the same heart disease. This is good for the patient and also better for the patient to make treatment decisions. We educate the doctors about the new test available and ask them to use more effective diagnostic tools and move the patients up the value chains. As this happens the realization of the metropolis is better and the patient gets a better diagnosis.

*You are strong in South India. If you expand in other areas, you would not have pricing power, let us say if you are going North. You will have to play the pricing game.*

It is a Yes and No

Today we are in 173 cities in India, in 19 states. While we are leaders in the western part of India, it does not mean that we do not have a presence in the North. The key is what strategies you employ when you go to the new cities. In the key markets in the South and West, we use the B2C-led strategy. In North and East, we are not using the B2C strategy. It is important to realize that our B2B is a very differentiated B2B, where we are focused more on the specialized test, where pricing is not a big concern. People are not looking for a few rupees discount when they do a cancer test. They are looking for correct results. As we are focused more on the specialized test, where pricing is not an issue. Our medical reps are meeting and educating doctors. So our brand reaches more patients.

*Would you be able to generate volumes on this?*

If you are looking at volume-led growth, you have to give up on pricing. So our strategy is not volume-led growth, it is a mix of good volume increase, product mix change as well as a small price increase every year.

*There is a brokerage report that the market has become very challenging for the pathology as the competition is very intense and pricing power would not stay. Is the competition becoming intense?*

Need to segment the market

B2C: The trust and credibility, not all can win. Forget Metropolis. Take any private lab, the price of B2C would not go down. The prices will be stable or slight increase which is not even in line with inflation. It is not a huge concern in this segment for everyone in this industry.

B2B: Two segments, semi-specialized and specialized (or superspecialized). In semi-specialized, there are many players in the industry. By mean, I mean 5 or 6 players. Some of them are funded by PE and some of them by corporates. The competition is a little higher in this space. These are mostly automated tests, with no manual intervention or scientific expertise required. The players are competing here on price. This is not our focus area. The specialized bucket is for special disorders or testing, which 99.99% of the market cannot do. Here there are only 3 or 4 players, who are competing with each other. Pricing pressure is not driving the business, but rather it is credibility.

*Margins have declined in the last few years. What is the reason?*

Our margins are stable for the last 3 years. The EBITDA is around 27% and PAT around 16-17%. We have not seen any correction.

*While revenue is growing around 15 – 20% the growth in the profit front has been single digit. Why is it happening?*

The profit growth has not been single digit and has been in line with revenue. There is one year where there is single digit PAT because the year before we had a 24% increase in PAT. This was not due to core operations but due to extraordinary income, which fluctuated the base.

*Why is Other income fluctuating?*

Because it depends on the cash, that is the interest income from it. This year we used the cash to buy out minority shareholding. So less cash led to less interest.

## 2019: Do not See Hyper Competition In Indian Diagnostic Space, Says Metropolis

<https://www.youtube.com/watch?v=c5DxV2CU3ic>

3, April 2019

*What is the industry outlook in Hyper competition?*

There is no hyper-competition. But every industry has competition. Frost and Sullivan report that the industry growth is around 15% and Metropolis grows higher than that. Despite the competition, we have found a place/niche for ourselves, where people are willing to pay for the quality of services and have trust in us. There is a fallacy that a lot of PE money is coming to the market. But in the last 8 years, there are only 5 – 6 deals have happened, which is not a significant amount. Some of these companies are pure pathology players who try to use a deep discount model, due to which some of them do not even manage to break even after many years of operations. Also, PE has invested predominantly in radiology players, which is a different process model than what we do.

*Dr Lals and Thyrocare / Volumes are falling and not able to rise in price*

The industry has large many more players. We have not seen the industry growing at 30 – 35%. Some companies like Dr Lals or Metropolis at some point grew faster, that is the matter of where there was an opportunity. For Metropolis in 5 cities, the B2C business is fairly growing. There is still a way to increase the market share.

*What is your sense in terms of growth in the future?*

We are comfortable with the current growth rates and current margins that we have. We have the opportunity to continue to expand in 5 focus cities, where we are nowhere close to the market share we believe that we can build. The 8 seeding markets also have a lot of growth potential. There are 1600 centres in the metropolis. The revenue from these centres can be potentially much higher.



## 2019: Metropolis Healthcare Makes Stock Market Debut

[https://www.youtube.com/watch?v= Vl9bAzWc18](https://www.youtube.com/watch?v=Vl9bAzWc18)

15, April 2019

IPO is an important milestone for the company. The business remains the same, we focus on taking care of patients, stakeholders, and investors. A few years ago, a little bit of funding was coming to the industry through PE or corporate groups getting into diagnostics. That created a little bit of volatility as there was suddenly some capital. No people have realized that capital is not the big differentiator, but trust, and brand, is the biggest asset. I am nurturing that, which is much harder to do than capital.

*Hospitals are getting into diagnostics, do you see that as the competition in the future?*

Hospitals are experts in the treatment and we are experts in diagnostics. Our brand position is also pathology specialist. It is like me going and being in the hospital space is an advantage? The answer is no. We are not experts in each other areas. If some hospitals get into it, then it is a new space for them. They need to learn the dynamics.

How is the B2B Business?

It has two product lines:

- Semi specialized: Most automated test, which does not have too much scientific expertise requirement. Many companies that are coming are competing in the semi-specialized place.
- Specialized: Metropolis focus here, where it is on serious illness. In this situation, people are not looking for the cheapest price. But they are looking for a quality report to treat the family member.

Are you looking to play the volume game or pricing game?

Volume and price go together. The third aspect is going up the value chain. The healthy part of the growth will come from volumes. Some of this will also come from a change of test mix. Metropolis is known for credibility and specialized test, which is slightly higher priced than a normal routine test. As this mix changes, we will have revenue growth here.

*What about CAPEX? Are you fully funded to go about that?*

There is a lot of cash, which can not only take care of internal CAPEX but also support small acquisitions.

*Will the top line be the same as it was in the past few years?*

The top-line growth has been higher than what we have seen in the last 4 years. We are in different stages (When compared with competitors) and hence believe the current growth rates will be sustainable.

*How do you see the margin? Being a competitive space can margins expand going ahead?*

From a three-year perspective, our margins remained the same. There is some operating leverage going to come out of the B2C part. We are reinvesting the operating leverage into growth to expand our market share. Therefore we will have the 3 years very sustainable.