

MANAGEMENT DISCUSSION AND ANALYSIS REPORT

ECONOMIC OVERVIEW

Global

Instantaneous flow of ideas, information, and products shaped globalisation into success. It played a pivotal role in changing the supply chain dynamics until the rise of protectionist leaders in the past couple years, fetching their focus more towards regional production and consumption. Therefore, rising sanction, Brexit, trade disputes among major trading partners was getting quite apparent. These issues weakened the global economy and reduced the available policy flexibility of many national leaders, especially among the leading developed economies. For the time being, it did offer a glimpse of hope for global economy sustenance with US-China trade deal, monetary activism, and fiscal measures. However, Covid-19 outbreak crippled that optimism leading to lockdown across the globe making it vulnerable to outsized impact. Going forward, the level of economic effects will eventually become clearer. The response to the pandemic could have a significant and enduring impact on the way businesses organize their work forces, global supply chains, and how governments respond to a global health crisis.

India

The growth and developmental strides of India in the last five years has been transformational. Improving from 11th to 5th largest economy in 2020 by solidifying its physical, social, and digital infrastructure. Making it a one of the top destinations for foreign investors with easing FDI norms, improvement in ease of doing business, mammoth population, and low wages workers. Whilst, India has also taken various efforts to ostensibly promote domestic manufacturing by backing out of RCEP deal and increasing tariff wall. These approaches has helped India by staying in align with the 'Make in India' initiative as well as keeping the foreign relations in intact. During the fiscal year, it took various measure along with the RBI to improve the supply as well as demand side situation by reducing interest rate, cutting off the corporate and income tax, injecting liquidity through banks. Before the country was about to see any revival of these measures in the fiscal year 2020-21, Covid-19 caused an unprecedented slowdown in the economic activities. In response to this, the Governments and health professionals constantly calibrated to this pandemic and frequent strategic adjustments were done. One of the important one being the 20-lakh economic package declared with intention of making India self-reliant to tide over the Covid-19 crisis. Majorly, this package will focus on the 4L: land, labour, liquidity and law.

INDUSTRY OVERVIEW

Indian healthcare

The Indian healthcare sector is emerging as mainstay of India's economic growth and is split between private and Government

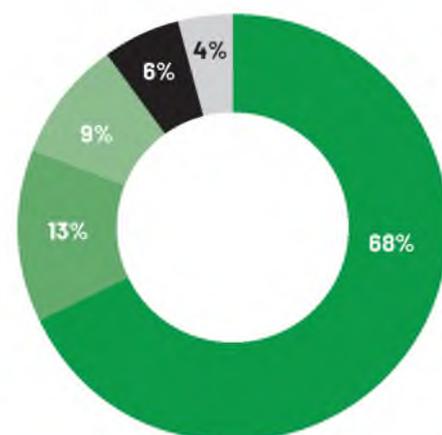
space. Wherein, over 70% of the services is provided by private healthcare, mainly because of the advantage it possess like quick response and scaling innovation (Source: Times of India). This inequitable difference along with emergence of communicable and non-communicable diseases has pushed the Government to increase spending on public healthcare system, which witnessed a CAGR of 15% over the last five years. This has allowed healthcare services in India to be available at affordable rate compare to other countries. Even, the total per capita government expenditure on healthcare increased by ₹ 936 to ₹ 1944 in FY20 compared to five years ago (Source: Livemint). The positive effect of this growing investment has been evident in different parameters such as increasing life expectancy, reduction in mortality rates, improving immunisation, among others. Meanwhile, it has also seen rapid stride in greater health awareness, emerging technologies, health insurance penetration and increased precedence of lifestyle diseases.

Today, it is one of the leading sectors in terms of revenue and employment, creating both high – low skills job. However, with that being said it has its own set of challenges. The existing healthcare infrastructure of India is not sufficient to meet the needs of the rising population. For this, the Government of India is taking efforts and planning to raise public health spending to 2.5 per cent of the country's GDP by 2025. (Source: IBEF). With unprecedented Covid-19 outbreak, the countries have realised the importance of healthcare system and is now placing more emphasis on it to mitigate or abate any future pandemic conditions. In near future, we would see more investment in R&D for effective medicine, hi-tech medical equipment and reinforcement of telemedicine services.

₹ 2.6 TRILLION

Total expenditure by centre and states in FY20

SIZE OF INDIAN HEALTHCARE INDUSTRY (%)



Healthcare Delivery – Hospitals Pharma
 Health Insurance Diagnostics Medical Devices

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OUTCOME OF IMPROVED HEALTHCARE SYSTEM IN INDIA

Life expectancy (from birth) in India from 1800 to 2020



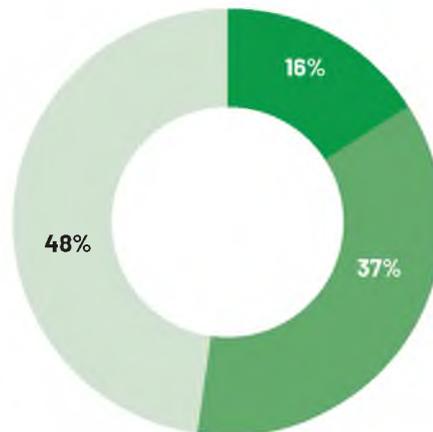
(Source: Statista, 2020)

Indian Diagnostic

The diagnostic space in India has come a long way from twenty years ago. Moving from standalone centre owned by single lab owners towards consolidation to create shared value. With the motive that by becoming as franchisee of large diagnostic entities will unlock the potential to strengthen the overall network and chain for better customer convenience. This consolidation to some extent has aided the industry to cross over \$ 9.5 billion market, which includes of pathology and imaging test. Wherein, about 70% of the market share accounts to pathological tests, with the rest from radiology tests (Source: PharmaBiz, October 2019). These services are priced lowest in the world; therefore, it is largely driven by volumes. In the last five years, the price of the testing has remained flat or at best increased by 5-10%. Mainly because of lack of regulation owing to which there are only about 1000 out of 100,000 diagnostic labs accredited by National Accreditation Board for Testing and Calibration Laboratories (NABL). This has led unorganised players to give out deep discount by skipping the best lab practices. However, with time, the patients have been quality conscious, and they do not mind spending extra bucks to get the most accurate results.

Going forward, the diagnostic services market is estimated to grow at 27.5% for the next five years (Source: Express healthcare, Jan 2020). This growth is likely to be driven by improving healthcare facilities, medical diagnostic and pathological laboratories, private-public projects, and the health insurance sector. In the times of Covid-19, the diagnostic sector emerged as a saviour and remained at the forefront to contain this pandemic. At this time, decline in day to day walk-in business for wellness segment was offset by rising number of Covid-19 testing.

DIVISION OF DIAGNOSTIC INDUSTRY TYPES (%)



■ Standalone centers ■ Diagnostic chains
■ Hospital based labs

COVID-19 Impact

While public policy measures have been implemented to contain the spread of COVID-19, the measures have resulted in significant operational disruption for many companies including those in the Indian healthcare industry. Staff quarantine, supply-chain failures, and sudden reductions in customer demand have generated serious complications for companies across a wider range of sectors than initially anticipated. For most, the revenue lost in this period represents a permanent loss and has put sudden, unanticipated pressure on working capital lines and liquidity.

Despite the current crisis being a healthcare issue, the private healthcare system in the country continues to reel under the negative impact of COVID-19. There has been a significant drop in both in-patient and out-patient footfall for private hospital chains—be it a single speciality, multi-speciality, tertiary-care hospitals or even diagnostics businesses, during this lockdown.

This sudden decline in business has had an immediate effect on hospitals’ ability to sustain fixed costs. The inability of new centres/hospitals to start generating cash, debt repayment obligations, decreased levels of medical tourism, and increased scheme revenues (which represents credit revenue) are some of the many factors impacting cash flow.

Like any other businesses, the diagnostics sector is also facing severe bottlenecks and patient volumes have come down significantly. As the lockdown continues, people seek medical care only for emergency or acute conditions and consequently, demand for diagnostic tests has also reduced. But at the same time, it has opened doors for COVID-19 testing. With the rise in number of cases in India, it provides an ample room for organised players to include COVID testing in their portfolio. This will help them sustain operation in the long term.

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GROWTH DRIVER AND OPPORTUNITIES

Employees health screening

The corporate sector is promoting employees to undergo preventive and wellness tests.

To support the well-being of their employees and potentially to reduce absenteeism and health risk level. With employer covering the cost of employee's health screening in the packages, the diagnostic industry is sure going to witness a new source of income from this segment.

Convenience

Diagnostic service has been driven by the convenience provided to the customers through online booking, home collection of sample and online reporting. This model is seeing a success as it reduces the burden of common men to travel across the places for necessary testing. Meanwhile, it has unlocked greater opportunity for entities having strong network and high-tech lab to increase the revenue turnaround time by reporting a quick result.

Rise in pollution

India's Co2 emissions have doubled since 2005 owing to the rise in the mining and industrial activity. Majorly the respiratory diseases which is triggered by air pollutions. Even if it does not cause diseases, it ends up weakening our lungs and making the mass more vulnerable to respiratory viruses like SARS, MERS and now the novel-corona virus. Thereby, resulting in more demand for diagnostic services and preventive care.

Shift towards gene-based testing

Genomics testing are considered to be transformative and game changer for diagnostic chains growth. Emerging technologies in the diagnostic market, such as liquid biopsy, next-generation sequencing, microfluidics, and multiplex molecular diagnosis are expanding the test menu.

Public-private partnership (PPPs)

Public healthcare institution operating in rural areas lacks manpower and inadequate resources such as diagnostics, pathology services and stock-outs. To close this gap, private player comes in to play to deliver efficient services in the Government run hospital through PPP model. Taking advantage of this, private players can penetrate the untapped market.

Government policy impact

In the last two three years, the Government is taking serious efforts to put across minimum standards and regulate the industry. This rules and regulation will ensure that the quality diagnostics and wellness service is delivered across the country. Whilst, acting as a growth pillar for transparent and ethical players.

Threats

Problem of ownership

Generally, doctors and professional working at hospital and small labs lacks entrepreneurial skills. Thus, they fall behind in term of business knowledge and this can create a threat to the diagnostic services companies affiliated with them.

Policy deficiencies

Despite India improving its position in ease of doing business, it still lags behind many countries due to factors like complicated regulatory framework and time-consuming administrative work. This can be a threat to the overall diagnostic eco-system in India.

COMPANY OVERVIEW

Metropolis Healthcare Ltd (MHL) is the 3rd largest diagnostic player in the country delivering millions of tests every year. Our PAN India presence with prominent position in the west and south India keeps us on the forefront. Wherein, we offer a comprehensive range of clinical laboratory testing, profiles & support services to patients, smaller labs, nursing homes and hospitals. Our vast laboratory network consist of 124 labs (including Global Reference Lab in Mumbai and 13 Regional Reference Labs), ~2,100 Patient Service Centers (PSCs) and ~620 Assisted Referral Centers (ARCs). We follow 'hub and spoke' model for quick and efficient delivery of services. And, given our strong geographical reach and business model, we are well poised to leverage on the opportunities present in the diagnostic space.

PERFORMANCE REVIEW

Business performance

	2018-19	2019-20	Reason for the growth
Revenue per patient	854	856	<ul style="list-style-type: none"> Specialised test leads to higher revenue per test International and institutional customers contributes to higher realization per patient
Revenue per test	447	436	
Laboratory network	119	124	<ul style="list-style-type: none"> Global and national quality accreditation Strong brand value Sustainable co-creation of value with franchisee
Service network	2,336	2,731	

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Financial performance (Crore)

	2018-19	2019-20	Y-o-Y growth
Revenue from operation	760	856	12.63%
EBITDA	200	232	16%
Profit after Tax	124	128	3.22%

Key ratios of Metropolis

Key Financial Ratios	FY 2018-19	FY 2019-20	Variance
Debtors Turnover	3.63	3.62	-0.2%
Inventory Turnover	3.21	3.39	5.5%
Current Ratio	2.44	2.33	-4.5%
Operating Profit Margin (%)	26.32%	27.22%	0.90%
Net Profit Margin (%)	16.32%	14.95%	-1.36%
Return on Net Worth (%)	29.12%	26.99%	-2.13%*

*Net profit after tax in FY 2020 vs FY 2019 increased by Rs 394 Lakhs, but return on net worth in FY 2020 has reduced marginally as compared FY 2019 because of higher base.

RISK AND CONCERNS

Risks	Impact	Mitigation
Pricing pressures	The market is fragmented owing to low entry barrier. Therefore, to gain competitive advantage players engage in low pricing strategy to penetrate the market. This can affect our presence negatively.	Our major focus and higher exposure towards specialised test help us to stay ahead of the curve resulting in higher revenue per patient.
Servicing	Our inability to ensure highest quality standard at every step can affect our brand substantially.	We deliver accurate results in a quick span of time. This has enabled us to earn a strong reputation amongst B2B partners and patients making us an ideal choice.
Skilled personnel shortages	Shortage of specialised diagnostic professionals may impact our service delivery and ability to grow.	We keep on exploring different geographies to recruit best of talents. Our experienced leadership team have profound knowledge, which improves our training effectiveness. This along with work-based remuneration framework has aided us to retain employees and recruit enthusiastic millennials.
Macroeconomic risk	External issues like economic slowdown is beyond our control. During this time, the crisis like situation can lead to change in the behaviour of the consumer spending pattern, ultimately impacting our topline numbers.	First and foremost, our service portfolio is such that it is aligned to the disease's detection, therefore patients are less likely to skimp on it during economic slowdown. Secondly, our focus on asset light third party model ensures effective capital allocation and strengthen our PAN India network to hedge against the financial risk or specific region catastrophe.
Cyber security	In a more and more complex and changing IT landscape, cybersecurity incidents like data breaches could lead to operational disruption and can impact our brand.	We have proper security strategy and a comprehensive security program in place that assures the proper prevention, detection and response.

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IT AND DIGITAL INFRASTRUCTURE

Our core technology differentiator remains in the manner, which allow us to fully integrate and automate the process ranging from registration, bar-coding, and billing of specimens to analysis and reporting of test results. This has helped us in streamlining and optimise the operations as well as minimise the human errors. While, our digital app enhances the customer experience by allowing them to book appointments, complete registration, and access test reports online. This strong IT and digital infrastructure plays an integral role in helping us stay ahead of the industry benchmark performance and ensure we are the easiest place to do business.

HUMAN RESOURCE MANAGEMENT

Metropolis is made up of more than 4,500 highly skilled, motivated, and solution-driven individuals who collectively represent our family. Built on the foundation of strong values, we strive to provide a safe, challenging and rewarding environment for our employees. Wherein, equal opportunity is provided to everyone, so that each individual regardless of their gender, religion and caste can prosper. During their period at the Company, employees are motivated through various skill-development, engagement, and volunteering programs. Moreover, we continue to grow organically and acquisitively, similarly our HR function is also evolving to provide the most effective solution. Like, New HR management System has automated the processes resulting in improved productivity and ensuring availability of employee data on demand.

INTERNAL CONTROL SYSTEM

The Company has an adequate internal controls system in place. The policies and procedures, covering all financial and operating functions, are also documented. The system controls are designed with an aim to provide reasonable assurance for maintaining proper accounting records. This

reinforces reliability of financial reporting, monitoring of operations, protection of assets from unauthorised use or losses and compliance of regulations.

The scope and coverage of audits include:

1. Reviewing and reporting of key process risks
2. Adherence to operating guidelines and statutory compliances
3. Recommending improvements for monitoring and enhancing efficiency of operations and
4. Ensuring reliability of financial and operational information. The Audit Committee periodically monitors and reviews the significant internal audit observations. It also reviews compliance with accounting standards, risk management and control systems and profitability.

CAUTIONARY STATEMENT

Statement in this "Management Discussion and Analysis" describing the Company's objectives, projections, estimates, expectations or predictions may be "forward looking statements" within the meaning of applicable securities laws and regulations. Actual results could differ materially from those expressed or implied. Important

factors that could make a difference to the Company's operations include global and Indian demand and supply conditions, finished goods prices, input materials availability and prices, cyclical demand and pricing in the Company's principal markets, changes in Government regulations, tax regimes, economic developments within India and the

countries within which the Company conducts business and other factors such as litigation and labour negotiations. The Company assumes no responsibility to publicly amend, modify or revise any forward-looking statements, on the basis of any subsequent development, information or events or otherwise.