

### Lower volumes impact performance for the quarter

METROHL delivered a miss on our estimates in Q3FY25. Overall sales grew 11% YoY to Rs3.2bn. EBITDA grew 11% YoY to Rs720mn with margins remaining flat YoY to ~22%. PAT for the quarter was Rs314mn (+16% YoY). Growth was driven by test volume growth of +11% YoY and a modest 2% YoY growth in revenue per test. Moreover, Tier-3 cities (26% of revenues) posted strong growth of 17% YoY on account of network expansion and continues to be a focus area of expansion. Additionally, Core diagnostics acquisition is expected to be completed by end-Feb'25. Going forward, management expects the EBITDA margins dilution on account of Core acquisition. It also plans for inorganic expansion, particularly in North India. Accordingly, we have reduced our earnings estimates for FY25E/26E/27E by 12% each to factor in lower profitability on account of higher expenses due to network expansion. We roll-forward to FY27E valuing METROHL at PE of 39x (v/s 47x earlier) at FY27E EPS to arrive at TP of Rs1,970. Maintain ADD.

#### Network expansion continues to be prime focus

METROHL plans to add more collection centres over the next 2-3 years. However, it does not plan to add large number of labs. Also, in the past, due to accelerated network expansion, the ratio of centres-to-lab has stayed at ~20%. As network addition plans are completed, this ratio is expected to increase to 30%. Since FY21, it has added 84 labs with 10 new lab additions (gross) in 9MFY25. The efforts of network expansion have been visible with Tier 3 segment growing 17% YoY in Q3FY25.

#### Higher share of TruHealth and Specialty to drive growth

In 3QFY25, METROHL's wellness offering TruHealth and Specialty grew 26%/8% YoY contributing 17%/37% of sales respectively. Higher contribution from these segments has led to higher test volumes due to higher tests per patients and bundling of packages is leading to higher realization. With moderating competitive intensity and geographic expansion and with focus on TruHealth/Specialty segment, we expect test volume/RPT to exhibit 6%/9% CAGR over FY24-27E.

#### Core diagnostics to impact profitability in the near-term

With Core diagnostics acquisition, we expect some dilution in profitability. However, this will be offset by slowdown in lab addition post-FY25E with focus on asset-light collection centers. It will likely lead to higher operating leverage as labs mature and investment intensity reduces.

#### Maintain ADD

METROHL management reiterated its guidance revenue growth of 13-15% YoY which will largely be driven by volumes. The growth will be higher share of specialized tests and rising TruHealth contribution, sustained double-digit growth in B2B segment and network expansion into newer geographies, consolidation in core/focus markets. Accordingly, we expect Revenue/EBITDA/PAT to deliver 15%/17%/26% CAGR over FY24-27E. However, EBITDA margins are expected to expand by 140bp to 25%+ over FY24-27E. Moreover, we expect RoE to reach ~17% in FY27E from 12.5% in FY24. We have reduced our earnings estimates for FY25E/26E/27E by 12% each to factor in lower profitability on account of higher expenses due to network expansion. We roll-forward to FY27E valuing METROHL at PE of 39x (v/s 47x earlier) at FY27E EPS to arrive at **TP of Rs1,970. Maintain ADD.**

### Financial and valuation summary

YE Mar (Rs mn)	3QFY25A	3QFY24A	YoY (%)	2QFY25A	QoQ (%)	FY25E	FY26E	FY27E
Revenues	3,228	2,911	10.9	3,498	(7.7)	13,597	15,580	18,189
EBITDA	720	648	11.0	899	(19.9)	3,345	3,864	4,584
EBITDA margin (%)	22.3	22.3	0.2	25.7	(13.2)	24.6	24.8	25.2
Adj. Net profit	314	272	15.5	465	(32.6)	1,646	2,089	2,590
Adj. EPS (Rs)	6.1	5.3	15.5	9.1	(32.6)	32.5	41.3	51.2
EPS growth (%)						26.3	26.9	24.0
PE (x)						53.4	42.1	34.4
EV/EBITDA (x)						26.0	22.1	18.0
PBV (x)						8.0	6.8	5.8
RoE (%)						14.1	15.6	16.7
RoCE (%)						13.6	15.3	16.6

Source: Company, Centrum Broking

Please see Disclaimer for analyst certifications and all other important disclosures.

### Result Update

India I Pharma & Healthcare

05 February, 2025

### ADD

Price: Rs1,738

Target Price: Rs1,970

Forecast return: 13%

Institutional Research

### Market Data

Bloomberg:	METROHL IN
52 week H/L:	2,318/1,551
Market cap:	Rs89.1bn
Shares Outstanding:	51.3mn
Free float:	49.0%
Avg. daily vol. 3mth:	1,70,999

Source: Bloomberg

### Changes in the report

Rating:	Unchanged
Target price:	Rs1,970 from Rs2,230

Source: Centrum Broking

### Shareholding pattern

	Dec-24	Sep-24	Jun-24	Mar-24
Promoter	49.4	49.4	49.6	49.7
FII's	16.7	18.6	18.3	18.9
DII's	30.0	28.0	27.4	24.9
Public/other	3.9	4.0	4.7	6.6

Source: BSE

### Centrum estimates vs Actual results

YE Mar (Rs mn)	Centrum Q3FY25	Actual Q3FY25	Variance (%)
Revenue	3,312	3,228	-3
EBITDA	831	720	-13
EBITDA margin	25.1	22.3	-280bp
Adj. PAT	408	314	-23

Source: Bloomberg, Centrum Broking



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## Thesis Snapshot

### Estimate revision

YE Mar (Rs mn)	FY25E New	FY25E Old	% chg	FY26E New	FY26E Old	% chg
Revenue	13,597	13,855	(1.9)	15,580	16,009	(2.7)
EBITDA	3,345	3,561	(6.1)	3,864	4,178	(7.5)
EBITDA margin	25	26	(110.0)	25	26	(130.0)
Adj. PAT	1,646	1,869	(11.9)	2,089	2,382	(12.3)

Source: Centrum Broking

### Metropolis Healthcare versus NIFTY Midcap 100

	1m	6m	1 year
METROHL IN	(13.0)	(15.4)	4.3
NIFTY Midcap 100	(7.1)	(3.7)	11.2

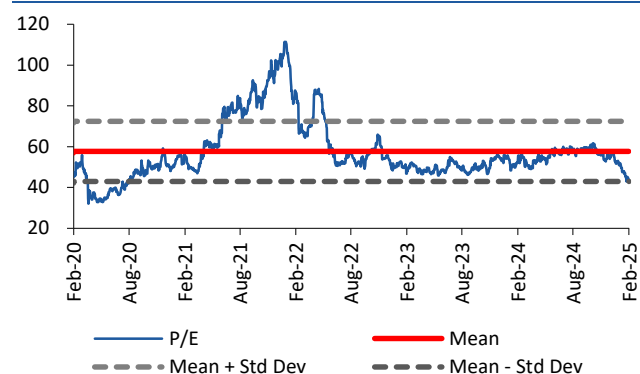
Source: Bloomberg, NSE

### Valuations

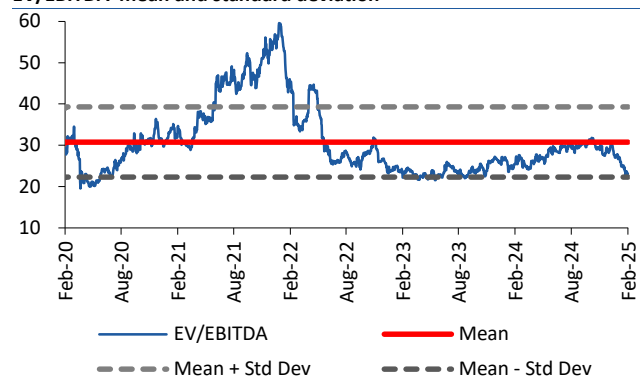
We value METROHL at PE multiple of 39x (vs 47x earlier) on FY27E EPS to arrive at TP of Rs1970. Maintain ADD.

Valuations	Rs/share
Target PE	39x
FY27E EPS	Rs 51
TP	Rs 1,970

#### P/E mean and standard deviation



#### EV/EBITDA mean and standard deviation



Source: Bloomberg, Centrum Broking

### Peer comparison

Company	Mkt Cap	CAGR (FY24-27E)			P/E (x)			EV/EBITDA (x)			RoE (%)		
	(Rs bn)	Sales	EBITDA	EPS	FY25E	FY26E	FY27E	FY25E	FY26E	FY27E	FY25E	FY26E	FY27E
METROHL	89	15	17	26	53	42	34	26	22	18	14	16	17
DLPL	234	13	13	18	53	48	39	33	31	26	22	20	20
VIJAYA	119	23	25	33	71	52	42	42	34	28	23	24	24

Source: Company, Centrum Broking

**Exhibit 1: Quarterly Table**

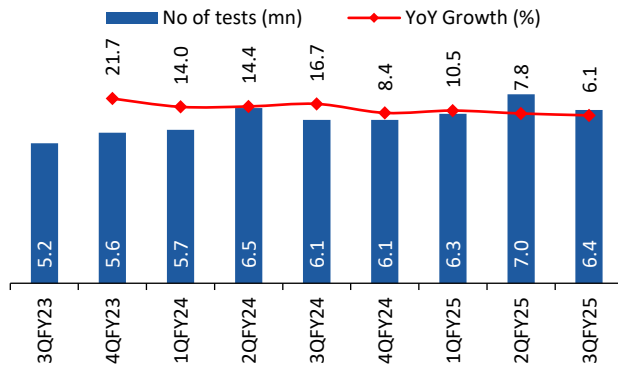
Y/E March	FY24				FY25			FY24	FY25E	Estimates	
(Rs mn)	Q1FY24	Q2FY24	Q3FY24	Q4FY24	Q1FY25	Q2FY25	Q3FY25			Q3FY25E	%var
<b>Net Sales</b>	<b>2,771</b>	<b>3,085</b>	<b>2911</b>	<b>3310</b>	<b>3,134</b>	<b>3,498</b>	<b>3228</b>	<b>12,077</b>	<b>13,597</b>	<b>3312</b>	<b>-3</b>
YoY Change(%)	-1.0	2.7	2.0	17.2	13.1	13.4	10.9		12.6		
<b>EBITDA</b>	<b>629</b>	<b>748</b>	<b>648</b>	<b>848</b>	<b>788</b>	<b>899</b>	<b>720</b>	<b>2,874</b>	<b>3,345</b>	<b>831</b>	<b>-13</b>
EBITDA Margin(%)	22.7	24.2	22.3	25.6	25.2	25.7	22.3	23.8	24.6	25.1	-280bp
YoY Change(%)	-8.1	-5.3	-8.0	20.7	25.2	20.1	11.0		16.4		
<b>Adjusted PAT</b>	<b>288</b>	<b>355</b>	<b>272</b>	<b>390</b>	<b>379</b>	<b>465</b>	<b>314</b>	<b>1,304</b>	<b>1,646</b>	<b>408</b>	<b>-23</b>
Net Margin(%)	10.4	11.5	9.3	11.8	12.1	13.3	9.7	10.8	12.1	12.3	-260bp
YoY Change(%)	-13.8	-12.1	-24.1	17.1	31.8	31.2	15.5		26.3		

Source: Centrum Broking, Company Data

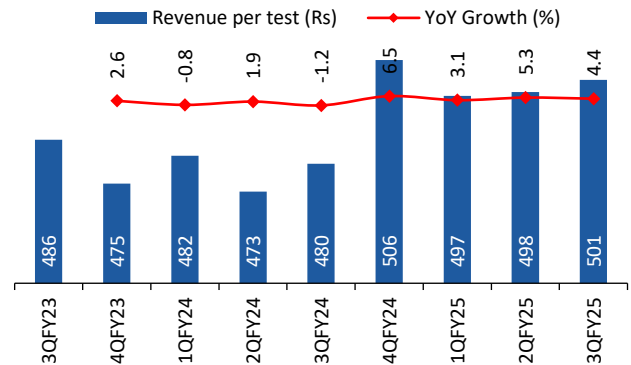
**Exhibit 2: Segment Data**

Segment	FY24				FY25			FY24	FY25E
	Q1FY24	Q2FY24	Q3FY24	Q4FY24	Q1FY25	Q2FY25	Q3FY25		
No of tests (mn)	5.7	6.5	6.1	6.1	6.3	7.0	6.4	23.5	24.4
YoY Change(%)	14	14	17	8	11	8	6		4
Revenue per test	482	473	480	506	497	498	501	497	557
YoY Change(%)	-1	2	-1	7	3	5	4		12
EBITDA per test	110	121	112	140	125	128	112	122	137
YoY Change(%)	-3	1	-2	21	13	6	0		12

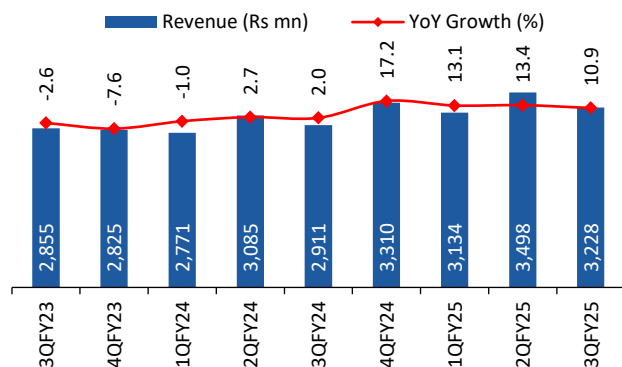
Source: Company Data, Centrum Broking

**Exhibit 3: Core Business Test vol grew 6% YoY in 3QFY25**

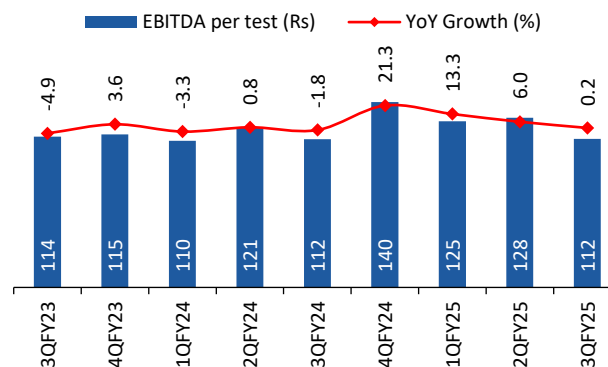
Source: Centrum Broking, Company Data

**Exhibit 4: Core Business RPT grew 4% YoY in 3QFY25**

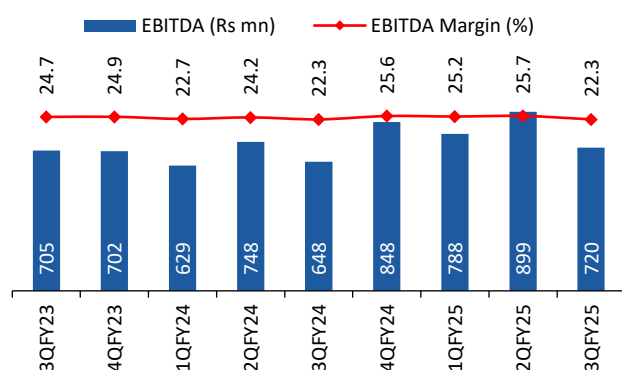
Source: Centrum Broking, Company Data

**Exhibit 5: Revenue grew 11% YoY to Rs3.2bn**

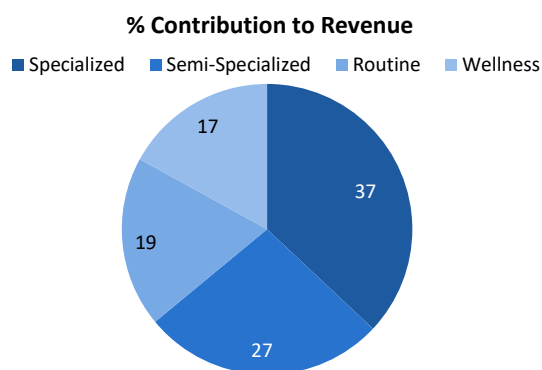
Source: Centrum Broking, Company Data

**Exhibit 6: EBITDA per test was flat YoY in 3QFY25**

Source: Centrum Broking, Company Data

**Exhibit 7: EBITDA margin was flat YoY at 22%**

Source: Centrum Broking, Company Data

**Exhibit 8: Segment wise revenue contribution –Q3FY25**

Source: Centrum Broking, Company Data

**Exhibit 9: Key Concall Takeaways**

Centrum Quarterly Monitor	Q2FY25	Q3FY25	Our Comments
<b>Demand environment</b>	Strong volume growth continues (+8% YoY). Wellness and specialty segment continues to drive higher realisations. Tier 3 market grew 23% YoY	Test volume growth of 6% YoY. Wellness and specialty segment continues to drive higher realisations. Tier 3 market grew 17% YoY.	We expect METROHL to continue to grow above industry average and benefit from its strong B2C portfolio and TruHealth offering.
<b>Outlook and guidance</b>	Maintained guidance for 13-15% revenue growth and EBITDA margin to be in the range of 26-27% in FY25. Margins expected to expand going forward with slower lab additions.	Core diagnostics to be margin dilutive initially for 2-3 years post which it will expand to company level margins. On final stages of completing acquisition in Northern market.	We expect METROHL to post strong revenue growth supported by higher volumes, improving realisation per test and expansion into newer geographies.
<b>Expansion plans</b>	Reiterated plans to 25 labs and 500 centres in FY25 and expand into Tier3/4 micro markets. Added 17 labs in H1FY25 (gross).	Reiterated plans to 25 labs and 500 centres in FY25 and expand into Tier3/4 micro markets. Added 17 labs in H1FY25 (gross).	METROHL continues its strategy on expansion into newer geographies with a focus on tier3/4 markets and strengthening its core markets.
<b>On margins and exceptional items</b>	EBITDA margin expanded by 145bp YoY to 25.7% due to lower operating costs	EBITDA margin was flat YoY at 22.3% due to lower GM offset by lower opex.	We expect EBITDA margin to expand by 140bp YoY to reach 25% by FY27E

Source: Centrum Broking

## Operational Highlights – Q3FY25

- Revenue grew 11% YoY to Rs3.3bn driven by test volume growth of 6% YoY and realisation per test growth of 4% YoY.
- Test volume grew 6% YoY to 6.44mn while RPT grew 4% YoY to Rs501.
- Patient volume grew 4% YoY to 3.06mn with RPP growing 6% YoY to Rs1,053 .
- RPP growth was primarily driven by higher contribution from TruHealth (Wellness) and Specialty segments.
- TruHealth Wellness segment grew 25% YoY with contribution from the segment at 17% of revenue (vs 14% in Q3FY24). The wellness packages have average realisations of over Rs2,500.
- Specialty segment grew 13% YoY with contribution from the segment at 37% of revenue.
- B2C revenue grew 15% YoY to Rs1.8bn driven by patient volume growth of 5% and 10% growth in RPP.
- B2B grew 10% YoY to Rs1.2bn driven by patient volume growing at 4% YoY and RPP growth of 6% YoY. B2B contribution to revenue stood at 36%.
- Revenue from Tier 3 markets grew the fastest by 17% YoY on account of network expansion.

## Network Expansion updates

- Added 23 labs (Gross) during 9MFY25 and 10 labs net of consolidation of labs between Hi-Tech and METROHL.
- In 9MFY25, 300 centres have been added.
- METROHL has a target to add 25 labs and 500 centres in FY25.

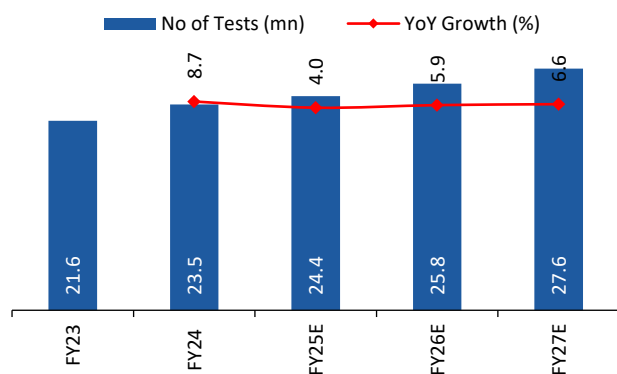
## Concall Highlights

- **EBITDA Margin Guidance:** It expects EBITDA margin to be at current levels for first 2 years due to dilution from core acquisition offsetting the operating leverage effect of maturing of labs.
- **Guidance for 4QFY25E:** Revenue growth of 13% YoY and EBITDA margin of 25-26%
- **GM:** Expect GM to improve in future as B2C contribution increases. But higher specialty contribution can also moderate that improvement specialty tests being lower GM.
- **Potential M&A activity:** Actively pursuing inorganic opportunities with focus on Northern markets. There are potential acquisition talks undergoing which METROHL expects to complete in near future. They are independent labs/centers which are leaders in their micro-markets. The focus is on companies with strong B2C and D2C brand. Since they are standalone labs valuations are lower but being B2C have higher cash flow conversion and better RoCE profile.
- **Core Diagnostics**
  - It is expected to start contributing to revenue from 1QFY26E
  - Margin profile of Core Diagnostics is lower than METROHL margins and will dilute margins as of now. Core Diagnostics will require around 2-3 years to reach margin levels of METROHL. However, the acquisition is EPS accretive
  - Will close the acquisition by Feb end. METROHL will use Rs1.55bn of internal cash and rest stock swap.
- **Seasonality and volume growth:** Q3 is a seasonally weak quarter especially in METROHL's core markets. Majority of METROHL's business is acute in nature which was weaker due to seasonal effects and is generally higher margin business which affected margins too in Q3FY25. Uptick in volume growth is already being seen in January.
- Revenue from new centres is growing at HSD. As these centres mature, METROHL expects growth from these centres in double-digits

- **TruHealth:** Majority revenues coming from B2C segment but B2B has also started growing. Realisation difference between B2C and B2B is 3-4%.
- **Price revision impact:** Taken price increases in select markets and test catalogue which will have a +2% upside impact in RPT.
- **Mumbai:** Region grew 16% YoY in Q3FY25. Focus is on growing network through adding 30-50 centers especially in the peripheral of Mumbai region with no new labs required. Currently, METROHL has 500 collection centers in Mumbai.
- **Labs to collection center ratio:** Due to accelerated network expansion ratio has stayed largely flat at 20%. As network addition plans are complete the ratio is expected to increase to 30%.
- **New Lab profitability trajectory:** After a lab opens, Year 1 has single-digit negative EBITDA margin, Year 2 positive EBITDA (breakeven) while by Year 3 it reaches company level profitability. Market wise, labs in Maharashtra breakeven in 2 years while in non-core markets of East/North it takes longer at 3 years.
- **Seeding category growth:** Seeding category growth is bit muted as METROHL doesn't have large B2c presence and B2B pricing and discounts affecting growth. Planning to improve with addition of B2C capabilities
- **Industry competitive landscape:** New-age (online) labs took share from standalone, unorganized labs rather than larger chains like METROHL. The competitive intensity has reduced and online player's growth has moderated to industry growth. Have not seen new entrants in the industry apart from few hospitals entering diagnostics business.
- **New business segments:** Entering basic radiology, consultation and check-ups.
- **Net Cash** as of 31<sup>st</sup> Dec'24 stood at Rs2bn and had a WC cycle of 13 days.

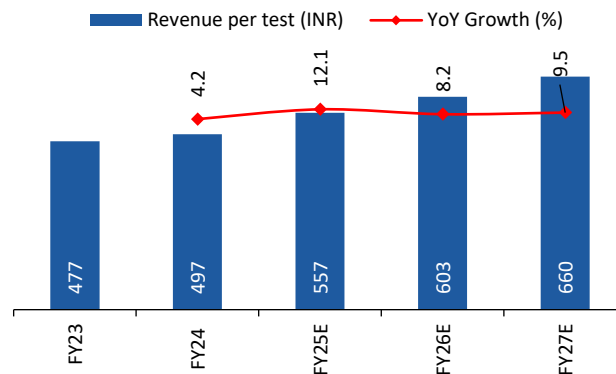
## Story in charts

**Exhibit 10: Test Volumes to exhibit 5% CAGR over FY24-27E**



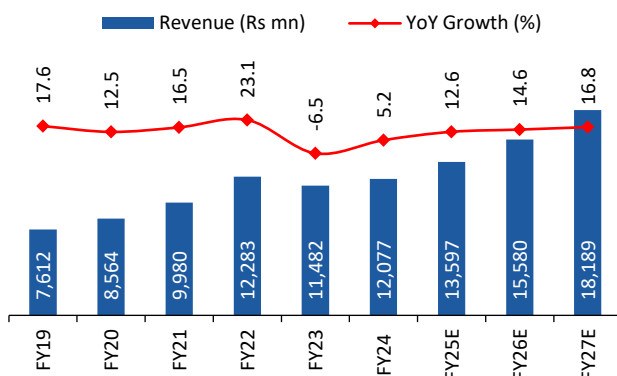
Source: Centrum Broking, Company Data

**Exhibit 11: Revenue per test to exhibit 10% CAGR over FY24-27E**



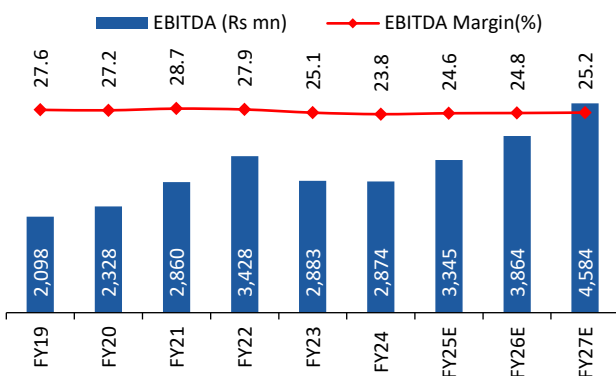
Source: Centrum Broking, Company Data

**Exhibit 12: Revenue to exhibit 15% CAGR over FY24-27E**



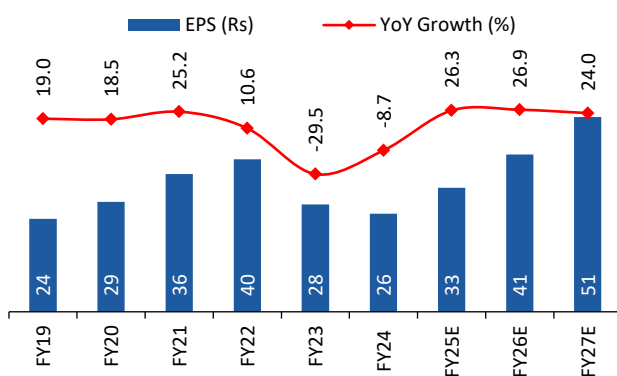
Source: Centrum Broking, Company Data

**Exhibit 13: EBITDA Margin to expand 140bp over FY24-27E**



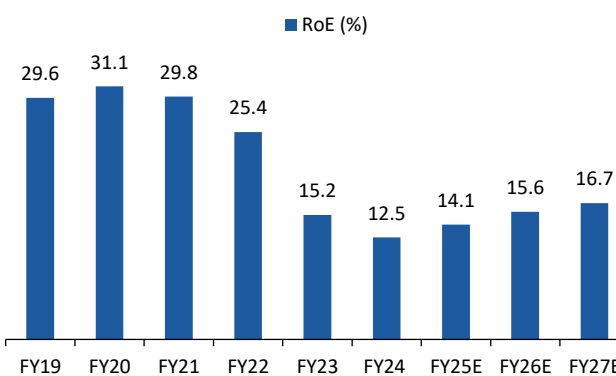
Source: Centrum Broking, Company Data

**Exhibit 14: Expect EPS CAGR of 26% over FY24-27E**



Source: Centrum Broking, Company Data

**Exhibit 15: RoE to expand 420bp to 17% over FY24-27E**



Source: Centrum Broking, Company Data

P&L					
YE Mar (Rs mn)	FY23A	FY24A	FY25E	FY26E	FY27E
<b>Revenues</b>	<b>11,482</b>	<b>12,077</b>	<b>13,597</b>	<b>15,580</b>	<b>18,189</b>
Operating Expense	2,533	2,378	2,719	3,038	3,456
Employee cost	2,527	2,758	3,182	3,661	4,329
Others	3,539	4,068	4,351	5,017	5,821
<b>EBITDA</b>	<b>2,883</b>	<b>2,874</b>	<b>3,345</b>	<b>3,864</b>	<b>4,584</b>
Depreciation & Amortisation	892	945	1,060	1,166	1,290
<b>EBIT</b>	<b>1,991</b>	<b>1,929</b>	<b>2,285</b>	<b>2,697</b>	<b>3,294</b>
Interest expenses	268	238	184	90	49
Other income	152	91	103	187	218
<b>PBT</b>	<b>1,875</b>	<b>1,782</b>	<b>2,204</b>	<b>2,794</b>	<b>3,463</b>
Taxes	441	462	551	699	866
Effective tax rate (%)	23.5	25.9	25.0	25.0	25.0
<b>PAT</b>	<b>1,434</b>	<b>1,319</b>	<b>1,653</b>	<b>2,096</b>	<b>2,597</b>
Minority/Associates	(5)	(6)	(7)	(7)	(7)
<b>Recurring PAT</b>	<b>1,429</b>	<b>1,304</b>	<b>1,646</b>	<b>2,089</b>	<b>2,590</b>
Extraordinary items	0	(35)	0	0	0
<b>Reported PAT</b>	<b>1,429</b>	<b>1,278</b>	<b>1,646</b>	<b>2,089</b>	<b>2,590</b>
Ratios					
YE Mar	FY23A	FY24A	FY25E	FY26E	FY27E
<b>Growth (%)</b>					
Revenue	(6.5)	5.2	12.6	14.6	16.8
EBITDA	(15.9)	(0.3)	16.4	15.5	18.6
Adj. EPS	(29.5)	(8.8)	26.3	26.9	24.0
<b>Margins (%)</b>					
Gross	77.9	80.3	80.0	80.5	81.0
EBITDA	25.1	23.8	24.6	24.8	25.2
EBIT	17.3	16.0	16.8	17.3	18.1
Adjusted PAT	12.4	10.6	12.1	13.4	14.2
<b>Returns (%)</b>					
ROE	15.2	12.5	14.1	15.6	16.7
ROCE	13.0	11.7	13.6	15.3	16.6
ROIC	12.2	11.4	15.4	19.3	23.8
<b>Turnover (days)</b>					
Gross block turnover ratio (x)	2.0	1.7	1.8	1.9	2.0
Debtors	41	38	36	36	35
Inventory	69	64	55	55	56
Creditors	142	149	141	143	144
Net working capital	44	40	58	92	131
<b>Solvency (x)</b>					
Net debt-equity	0.2	0.1	0.0	(0.2)	(0.3)
Interest coverage ratio	10.8	12.1	18.2	42.9	92.7
Net debt/EBITDA	0.6	0.4	(0.2)	(0.7)	(1.2)
<b>Per share (Rs)</b>					
Adjusted EPS	28.2	25.8	32.5	41.3	51.2
BVPS	207.2	229.8	264.7	310.4	367.8
CEPS	45.3	43.9	52.8	63.5	75.7
DPS	7.9	4.0	4.0	4.0	4.0
Dividend payout (%)	28.3	15.8	12.3	9.7	7.8
<b>Valuation (x)</b>					
P/E	62.3	68.3	53.4	42.1	34.4
P/BV	10.2	9.2	8.0	6.8	5.8
EV/EBITDA	37.8	37.7	26.0	22.1	18.0
Dividend yield (%)	0.2	0.2	0.2	0.2	0.2

Source: Company, Centrum Broking

Balance sheet					
YE Mar (Rs mn)	FY23A	FY24A	FY25E	FY26E	FY27E
Equity share capital	102	102	102	102	102
Reserves & surplus	9,780	10,859	12,303	14,189	16,577
Shareholders fund	9,882	10,962	12,405	14,292	16,679
Minority Interest	25	31	31	31	31
Total debt	2,664	1,971	971	471	321
Non Current Liabilities	5	0	0	0	0
Def tax liab. (net)	782	751	751	751	751
<b>Total liabilities</b>	<b>13,359</b>	<b>13,714</b>	<b>14,158</b>	<b>15,544</b>	<b>17,782</b>
Gross block	5,720	6,919	7,599	8,378	9,287
Less: acc. Depreciation	(2,614)	(3,558)	(4,618)	(5,785)	(7,074)
Net block	3,106	3,360	2,980	2,593	2,213
Capital WIP	195	0	0	0	0
Net fixed assets	11,402	11,771	11,391	11,003	10,623
Non Current Assets	569	604	604	604	604
Investments	18	18	18	18	18
Inventories	446	387	431	493	572
Sundry debtors	1,219	1,263	1,422	1,629	1,902
Cash & Cash Equivalents	932	712	1,478	3,183	5,707
Loans & advances	0	0	0	0	0
Other current assets	431	796	830	873	931
Trade payables	941	994	1,108	1,266	1,470
Other current liab.	490	580	612	654	709
Provisions	226	263	296	339	396
Net current assets	1,370	1,322	2,146	3,919	6,537
<b>Total assets</b>	<b>13,359</b>	<b>13,714</b>	<b>14,158</b>	<b>15,544</b>	<b>17,782</b>
Cashflow					
YE Mar (Rs mn)	FY23A	FY24A	FY25E	FY26E	FY27E
Profit Before Tax	1,875	1,747	2,204	2,794	3,463
Depreciation & Amortisation	892	945	1,060	1,166	1,290
Net Interest	211	193	81	(97)	(169)
Net Change – WC	71	55	(58)	(69)	(94)
Direct taxes	(516)	(374)	(551)	(699)	(866)
<b>Net cash from operations</b>	<b>2,471</b>	<b>2,641</b>	<b>2,736</b>	<b>3,096</b>	<b>3,624</b>
Capital expenditure	(525)	(638)	(680)	(779)	(909)
Acquisitions, net	0	0	0	0	0
Investments	932	(272)	0	0	0
Others	61	15	0	0	0
<b>Net cash from investing</b>	<b>468</b>	<b>(894)</b>	<b>(680)</b>	<b>(779)</b>	<b>(909)</b>
<b>FCF</b>	<b>2,939</b>	<b>1,747</b>	<b>2,056</b>	<b>2,317</b>	<b>2,715</b>
Issue of share capital	2	0	0	0	0
Increase/(decrease) in debt	(2,242)	(1,382)	(1,000)	(500)	(150)
Dividend paid	(410)	(205)	(202)	(202)	(202)
Interest paid	(273)	(225)	(184)	(90)	(49)
Others	13	3	96	180	211
<b>Net cash from financing</b>	<b>(2,910)</b>	<b>(1,809)</b>	<b>(1,290)</b>	<b>(613)</b>	<b>(191)</b>
Net change in Cash	29	(62)	766	1,705	2,524

Source: Company, Centrum Broking



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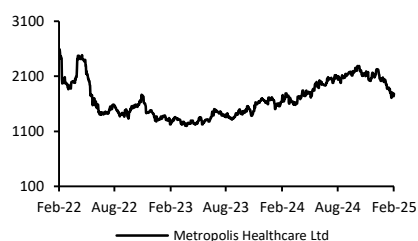
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#### Metropolis Healthcare



Source: Bloomberg

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