

December 10, 2021

Omni-channel focused established retail pharmacy...

About the Company: Medplus operates India's 2nd largest pharmacy retail network of 2,326 stores distributed across Tamil Nadu (475), Andhra Pradesh (297), Telangana (474), Karnataka (546), Odisha (89), West Bengal (224) and Maharashtra (221).

- FY21 Revenue Breakup – Branded pharmaceutical: 76.8%, Private label pharmaceutical: 5.6%, Branded FMCG: 12.9%, Private label FMCG: 4.8%
- Average revenue per store (FY21): ₹ 1.59 crore, Store level operating EBITDA margin for mature stores (FY21): 11%, store level operating ROCE for mature stores (FY21): 60%
- Revenue attributed to Private Label in FY21: 10.4%

Key triggers/Highlights:

- Strengthen the market position by increasing store penetration in existing clusters and developing new clusters
- Further develop the Omni-channel platform with a hyperlocal delivery model with the aim to increase online sales revenue contribution and at the same time optimize profit margins
- Derive higher gross margins by increasing the share of Private Labels
- Enhance revenue and increase customer wallet share through continued investment in technology infrastructure and expansion into adjacent healthcare vertical
- Continue to increase operating efficiency (increase the proportion of product procurement directly through pharmaceutical companies) and enhance supply chain management (increase automation at the warehouses) to drive profitability

What should investors do? Medplus with its clustered store presence is well suited to leverage on Omni-channel platform with a hyper local delivery model. At the upper price band, it is valued at ~43.9x EV/EBITDA and ~3.1x EV/Sales for FY21.

- We assign **SUBSCRIBE** rating given its unique model and decent valuation

Key risk & concerns

- Operations are subject to high working capital requirements
- Changes in product mix can affect margins
- Failure to meet customer expectations might harm the brand



IPO Details

Issue Details

Issue Opens	13th Dec 2021
Issue Closes	15th Dec 2021
Issue Size (₹ crore)*	1398
Price Band (₹)	₹ 780 - ₹ 796
No. of Shares on Offer (in crore)	1.76
QIB (%)	50
Retail (%)	35
Non Institutional (%)	15
Minimum lot size (no of shares)	18

* based on upper price band of ₹ 796

Shareholding pattern

	Pre-Issue	Post-Issue
Promoter Group	43.2%	40.4%
Public Selling Shareholder	25.6%	15.6%
Public Others	30.8%	43.6%
Employee Trusts	0.38%	0.36%

Objects of the issue

Objects of issue	₹ crore
Funding working capital requirements of Optival	467.2
General corporate purposes	*
Fresh Issue	600.0
Offer for Sale	798.3

* To be finalised post issue

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Key Financial Summary

₹ crore	FY19	FY20	FY21	H1FY22	CAGR FY19-21 (%)
Total Revenues	2272.7	2870.6	3069.3	1879.9	16.2%
Adjusted EBITDA	119.1	133.7	216.7	158.7	34.9%
EBITDA Margins (%)	5.2%	4.7%	7.1%	8.4%	
PAT	11.9	2.2	63.9	66.9	131.4%
EPS (₹)	1.0	0.2	5.4	5.6	
P/E (x)	796.6	4356.0	148.7	141.9	
P/B (x)	32.6	17.9	13.0	11.9	
RoE (%)	4.1	0.4	8.7	8.4	
RoCE (%)	17.5	11.9	17.2	13.6	

Source: RHP, ICICI Direct Research

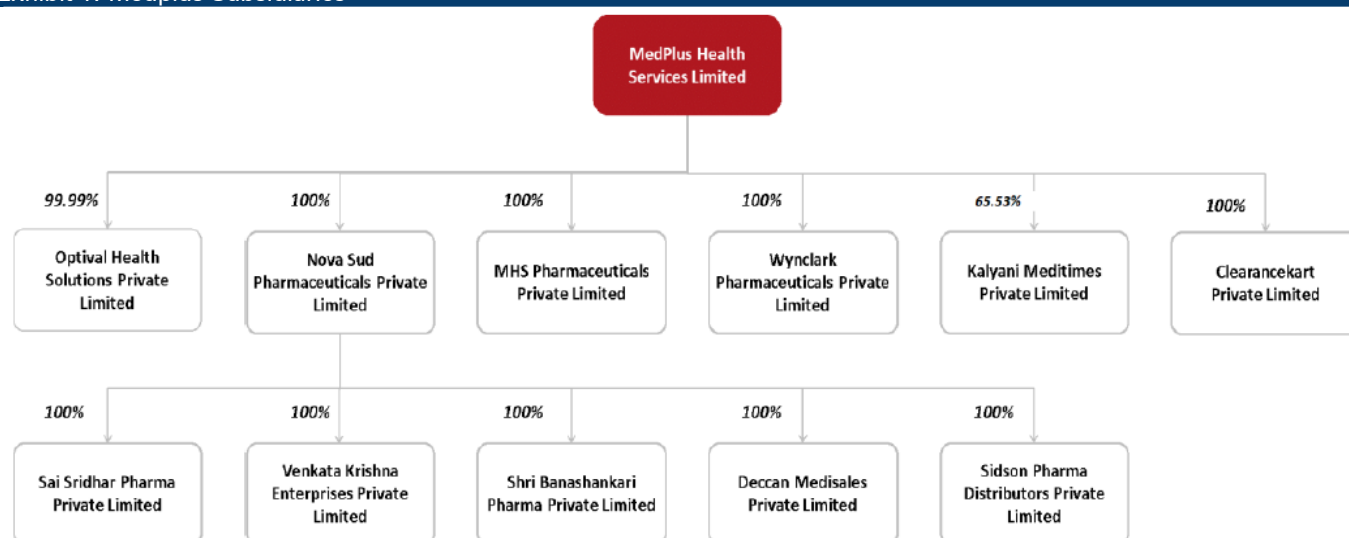
Company Background

Medplus was founded in 2006 by Gangadi Madhukar Reddy (MD and CEO), with the vision to set up a trusted pharmacy retail brand that offers genuine medicines and delivers better value to the customer by reducing inefficiencies in the supply chain using technology. Medplus maintained a strong focus on scaling up the store network, having grown from operating the initial 48 stores in Hyderabad at the conception of the company’s business to operating India’s second largest pharmacy retail network of over 2,000 stores distributed across Tamil Nadu, Andhra Pradesh, Telangana, Karnataka, Odisha, West Bengal and Maharashtra, as of FY21, according to the Technopak Report. Medplus offers a wide range of products, including (i) pharmaceutical and wellness products, including medicines, vitamins, medical devices and test kits, and (ii) fast-moving consumer goods, such as home and personal care products, including toiletries, baby care products, soaps and detergents, and sanitizers.

Business operations are primarily distributed between Medplus and its subsidiary companies, and include the manufacturing and contract manufacturing of private label pharmaceutical, wellness and FMCG products, wholesale and retail sale, import, distribution, and pathology diagnostic laboratory testing.

Private label manufacturing and contract manufacturing business (since December 2020) and pathology laboratory testing business is carried out through the Issuer while the wholesale and retail sales operations, including sales to franchisees, are carried out through Optival Health Solutions Private Limited.

Exhibit 1: Medplus Subsidiaries



Source: RHP, ICICI Direct Research

Cluster Based Stores

Medplus employs a data analytics driven cluster-based approach for store network expansion, whereby they first achieve high store density in a densely-populated residential area within a target city before expanding the store network in the surrounding areas within that city, followed by expansion into other adjacent cities. This cluster-based approach to store network expansion is also driven by company’s understanding of the catchment demographics, market dynamics, and the ability to support store expansion with back-end infrastructure, such as warehouses and distribution centres. Company believes that this approach and understanding allow them to –

- Create brand visibility within the cities where they operate, through focused implementation of marketing and advertising initiatives,
- Increase the market share in the cities where Medplus operates,
- Replicate the growth model in adjacent underserved cities and towns, as company develop presence in those clusters, and
- Generate cost efficiencies due to operating leverage achieved in the supply chain and inventory management.

Between April 1, 2018 and September 30, 2021, company opened an aggregate of 1,158 new stores, and as of March 31, 2021, over 60% and 75% of new stores achieved a positive Store Level Operating EBITDA within the first three months and first six months of operations, respectively. Further, as of September 30, 2021, the mature stores had a median payback period of less than 3 years and demonstrated a compounded average same store sales growth of 8.30% on maximum retail price from FY19 to FY21.

Exhibit 2: Cluster based Store Network

City	No. of stores (FY10)	No. of stores (FY21)	Rank (No. of stores)	Market Share (Organized Pharmacy Retail)
Chennai	62	304	1	30%
Bangalore	110	340	1	29%
Hyderabad	141	331	2	30%
Kolkata	22	224	2	22%

Source: RHP, Technopak Research, ICICI Direct Research

Omni-channel platform

Medplus are the first pharmacy retailer in India to offer an omni-channel platform, according to the Technopak Report. Customers could either visit stores or access company's offerings online, through the website and mobile application. Through this omni-channel model, Medplus seek to –

- Deepen and extend customer reach for each of the stores,
- Enhance “convenience” as a core customer value proposition, and
- Retain customers within Medplus ecosystem.

As part of Medplus focus on “speed” and “convenience” as a customer value proposition for customers who place an order online to receive delivery of their purchased products, company offers delivery for online purchases in the cities in which they have stores, leveraging the dense store network for last-mile delivery from company's stores. Further, with the wholly-managed and operated last-mile delivery infrastructure from Medplus stores, they are now able to deliver the customers' online purchases within two hours of purchase in select cities of Hyderabad, Bangalore, Chennai, Kolkata, Pune and Nagpur.

Pricing**Exhibit 3: Transparent slab-based discounting model**

Average Order Value (Excl. GST)	Discounts on Branded and Private label Pharmaceutical	Discounts on Branded and Private Label FMCG
Greater than ₹ 1,000	Up to 20%	Up to 5%
Between ₹ 200 to ₹ 1,000	Up to 10%	Up to 5%
Below ₹ 200	0%	0%

Source: RHP, ICICI Direct Research

Supply chain and distribution infrastructure

Medplus business operations across the entire value chain are backward integrated and are wholly-managed and operated by them. Operations are supported by technology-driven supply chain and distribution infrastructure, organized in a hub-and-spoke model, which provides them with a strong foundation and significant leverage to continue to scale business.

Exhibit 4: Store and Warehouse Network

State	Number of warehouses	No. of Stores
Telangana	4	474
Tamil Nadu	4	475
Karnataka	3	546
Maharashtra	3	221
Andhra Pradesh	2	297
West Bengal	1	224
Odisha	1	89
Total	18	2326

Source: RHP, ICICI Direct Research

In FY21, Medplus average revenue per store was ~ ₹1.59 crore, as compared to the average revenue per store in the domestic pharmacy retail industry of ~ ₹0.23 crore. For FY21 and H1FY22, the store level operating EBITDA Margin for Mature Stores was 11.0% and 11.58%, respectively, and store level operating ROCE for Mature Stores for the FY21 was over 60%.

Over last 2 years, revenue from online sales channel has steadily increased and for the FY20, FY21 and H1FY22 accounted for 6.99%, 8.98%, and 8.44% of the total revenue from operations, respectively.

As of September 30, 2021, Medplus has a primary warehouse, in each of Bangalore, Chennai, Hyderabad, Vijayawada, Kolkata, Pune, Bhubaneswar, Mumbai and Nagpur. These warehouses are supported by smaller warehouses in cities where they have higher store density. These technologically enabled warehouses form hubs for the stores, and the stores inventories are replenished through centralized inventory management system, which is capable of tracking the sales and inventory levels at both stores and warehouses in real-time.

Medplus manages the fleet of vehicles and delivery personnel to facilitate the transportation of inventory between the warehouses and stores, generally providing for daily inventory replenishment for stores located in densely populated metropolitan areas and thrice per week for stores in other cities. Company procures inventory directly from pharmaceutical companies and their carry forward agents, in an effort to reduce commissions and leakages in the value chain, and offer products at more affordable price points to customers. Product offering is enhanced by the curated selection of private label products, from which Medplus is able to derive higher margins while maintaining quality.

Manufacturing Facilities and Capacity

Medplus has three manufacturing plants in Telangana, located at Jeedimetla, Moosapet and Pashamylaram. At Jeedimetla, company manufacture a range of plastic products including medicine trays, nebulisers, vaporisers, plastic bottles and caps, and other plastic products in relation to the promotions offered by the Company. Medplus manufacture optical frames and spectacles at Moosapet and liquid disinfectants, toiletries and cosmetics at Pashamylara.

Exhibit 5: Installed capacity and capacity utilisation

Location	FY19			FY20			FY21			H1FY22		
	Installed Capacity	Production Capacity	Utilization	Installed Capacity	Production Capacity	Utilization	Installed Capacity	Production Capacity	Utilization	Installed Capacity	Production Capacity	Utilization
Jeedimetla	3049412	NIL	NIL	3581647	12031	0.3%	3581647	30224	0.8%	2042218	86330	4.2%
Moosapet	72000	22218	31.0%	72000	26036	36.0%	72000	22005	31.0%	36000	7238	20.0%
Pashamylara	1140	205.66	18.0%	1320	370.28	28.0%	1320	683.4	51.8%	660	621	94.1%

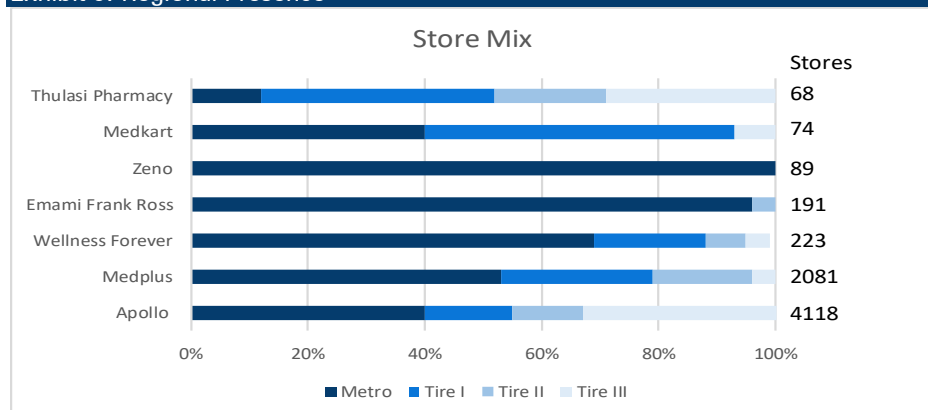
Source: RHP, ICICI Direct Research

Suppliers

Over the last four years, Medplus has stepped up efforts to directly source products from manufacturers and their carry forward agents, and are sourcing directly from more than 150 manufacturers. This enables them to establish control over the supply chain and earn higher margins on sales by eliminating middlemen. This also helps in ensuring the authenticity of the products supplied and reduces the likelihood of tampering or any similar practices. In FY21 and H1FY22 ~ 77% and 77% of the third-party branded pharmaceutical and FMCG products were sourced directly from manufacturers and their carry forward agents, with the remaining 23% and 23% sourced from third-party distributors, respectively.

Competitive Mapping

Exhibit 6: Regional Presence



Source: RHP, ICICI Direct Research

Exhibit 7: Net Store Additions

Players	FY19	FY20	FY21	CAGR FY19-21	3 Year Net Store addition
Apollo Pharmacy	3428	3766	4118	9.6%	690
MedPlus	1653	1775	2081	12.2%	428
Wellness Forever	139	172	223	26.7%	84

Source: RHP, ICICI Direct Research

Exhibit 8: Average Revenue Per Store (₹ Crore)

Player	FY19	FY20	FY21	CAGR FY19-21
Apollo Pharmacy	1.21	1.34	1.42	8.7%
MedPlus	1.45	1.67	1.59	4.9%
Wellness Forever	5.5	5.55	4.68	-7.8%

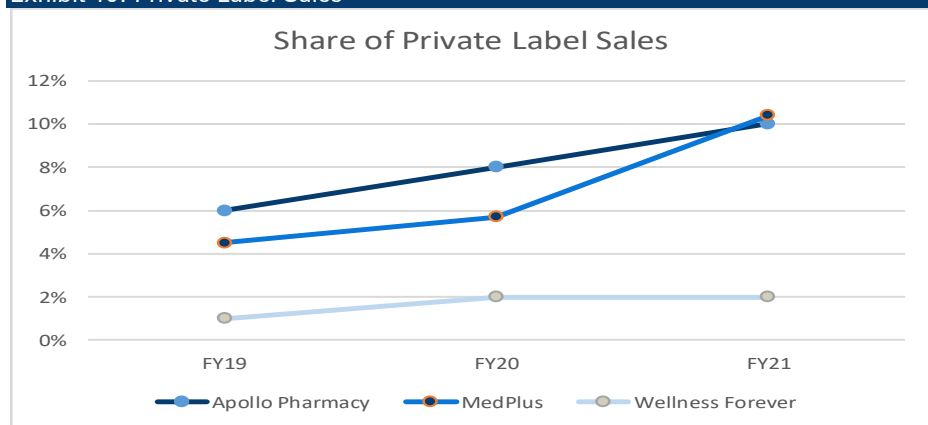
Source: RHP, ICICI Direct Research

Exhibit 9: Average Operating EBITDA Per Store (₹ Lakh)

Player	FY19	FY20	FY21	CAGR FY19-21
Apollo Pharmacy	6.26	8.04	9.11	20.6%
MedPlus	4.18	5.78	9.08	47.3%
Wellness Forever	22.11	20.94	NA	-5.3%

Source: RHP, ICICI Direct Research

Exhibit 10: Private Label Sales



Source: RHP, ICICI Direct Research

Exhibit 11: Revenue and Operating EBITDA

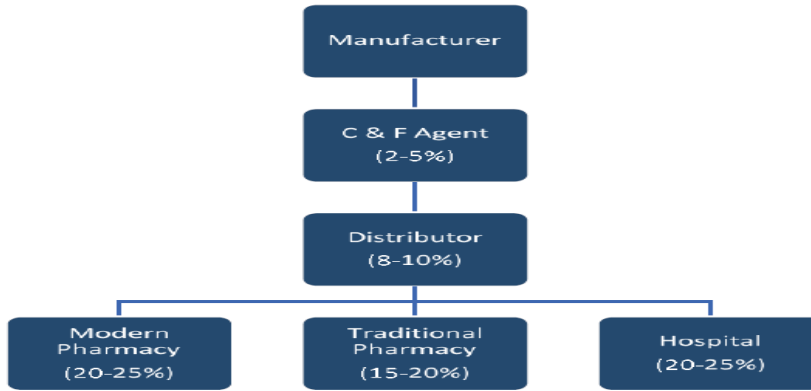
Player	Revenue (₹ Crore)				Operating EBITDA (₹ Crore)			
	FY19	FY20	FY21	CAGR FY19-21	FY19	FY20	FY21	CAGR FY19-21
Apollo Pharmacy	3,886	4,821	5,610	20.2%	202	289	359	33.3%
MedPlus	2,273	2,871	3,069	16.2%	66	99	175	63.2%
Wellness Forever	677	863	924	16.8%	27	33	NA	19.7%

Source: RHP, ICICI Direct Research

Industry Overview

India is an integral part of the global pharmaceutical supply chain, and accounts for exports and imports with more than 200 countries in the world. The pharmaceutical supply chain consists of manufacturing plants, intermediary product suppliers, logistics partners and technology partners. The Indian domestic market consists of a large network of more than 500 medium and large companies (that manufacture/contract manufacture), ~60,000 distributors, and ~8,00,000 pharmacy retail outlets, with more than 1,00,000 pharmaceutical brands available in the market given it's a branded generics market.

Exhibit 12: Pharmaceutical supply-distribution chain with the profit margin spread



Source: RHP, Technopak Research, ICICI Direct Research

The domestic pharmaceutical supply chain typically involves a company appointed carry-forward ("C&F") agent, responsible for handling warehousing and transportation of drugs, and supplying drugs to distributors who then provide these products to retail pharmacies and hospitals. There are multiple variations to this basic chain where a distributor may also distribute through a sub-distributor, and in other cases, an exclusive distributor may be appointed for a particular channel or customer. In some cases, manufacturers supply their products directly to retailers or through exclusive intermediaries.

Pharmacy Retail in India

Pharmacy retail comprises primarily of pharmaceutical products, which include OTC and prescription drugs. However, in addition to selling pharmaceutical products and related services, pharmacy retail stores also sell various FMCG products, wellness products, consumables and medical devices. As of FY20, the pharmacy retail industry was estimated to be worth ~ ₹ 1,725 billion, and expected to grow at a CAGR OF ~ 10% in the next five years. The healthy growth witnessed by the Indian pharmacy retail sector over the past few years has primarily been due to an increasing consumer base and rising healthcare expenditure, the rising demand for OTC and prescription drugs, wellness products and private label products and the outbreak of the COVID-19 pandemic.

FMCG products account for approximately 15-20% of the overall revenue of organised pharmaceutical stores.

Pharmacy Retail Channels

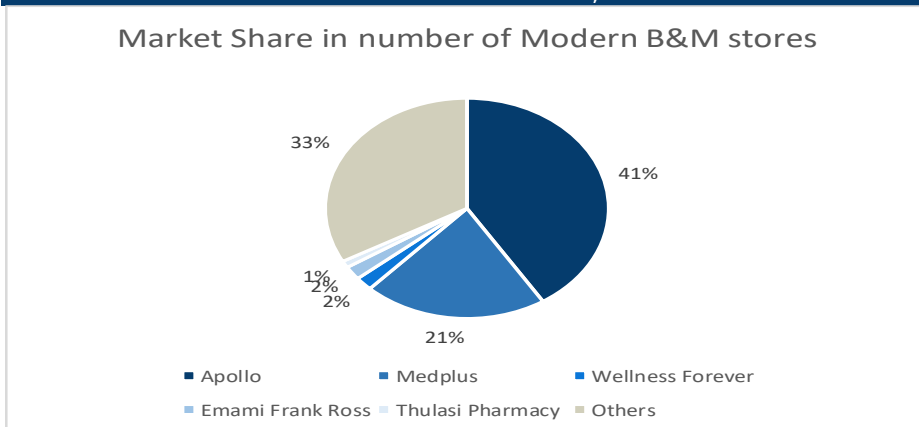
Traditional Channels

The traditional Indian pharmacy retail segment predominantly consists of retail stores operating as family-run medical stores with a store size in the range of 150-1000 square feet. As of FY21, there were ~ 8,00,000 such pharmacy stores operating across the country, each facing similar challenges including lack of documentation, managing SKU proliferation, poor inventory management and inadequate retail environment, non-availability of medicines and in some cases stocking unreliable medicines.

Modern Retail Channels

Brick and Mortar (B&M) Stores

Exhibit 13: Total number of modern B&M stores ~ 10,000



Source: RHP, Technopak Research, ICICI Direct Research

These players typically open multiple outlets in a city and a regional warehouse nearby to cater to these outlets. This model facilitates the implementation of logistics and distribution in a cost efficient manner, ensures accurate demand forecast for that region and improved serviceability ensuring consistent availability of products and timely deliveries. Moreover, this model also provides better fulfillment rates and higher profitability, and the benefit of economies of scale, with a high store count ensuring low unit logistics costs and better operational efficiency due to distributed and balanced demand.

E-Commerce Channel

There has also been a rise in sales through the e-commerce channel with several players such as NetMeds, Tata 1mg and PharmEasy operating in this segment through an online only model alongside omnichannel platforms of B&M retailers such as Apollo Pharmacy, MedPlus. E-commerce has following models:

- **Inventory-led Model for pharmacies with an online only presence:** In an inventory-led model, the inventory of goods and services is owned by the company (and managed through warehouses & fulfilment centres), the goods and services are sold directly to the customers.
- **Hyperlocal model:** For players with an online only presence, this is an inventory-light model where the company only provides the online infrastructure and corresponding logistical support. A partner offline retailer is responsible for managing the inventory.
- **E-Commerce Marketplace:** Online horizontal marketplace platforms are tech-driven platforms that offer a wide variety of product offerings, including products such as electronics, fashion, furniture, home furnishings, cosmetics and wellness products.

Exhibit 14: Market Share of different channels

(₹ crore)	FY15	FY19	FY20	FY21	FY25	CAGR (FY15-21)	CAGR (FY21-FY25E)
Total	110000	157158	172500	181125	272500	8.7%	11%
Modern Retail	5500	13725	17250	20475	53500	24.5%	27%
E-commerce (including omni-channel)	100	1816	3750	5625	23000	95.7%	42%
Omni-Channel Players	1	300	350	600	2500	190.4%	43%
Online Only Players	99	1516	3400	5025	20500	92.4%	42%
B&M	5400	11239	13500	14850	30500	18.4%	20%
Traditional	104500	143433	155250	160650	219000	7.4%	8%
B&M + Omni Channel for Pharmacy	5401	11539	13850	15450	33000	19.1%	21%

Source: RHP, Technopak Research, ICICI Direct Research

Exhibit 15: Market Segmentation of organised Pharmacy

City Type	Pharmacy Retail Market (₹ crore)	Organised Pharmacy Retail Market (₹ crore)	Penetration of Organised Retail
Metro & Mini metros	57960	12648	22%
Tier I	57960	4140	7%
Tier II & beyond	65205	3686	6%
Total	181125	20475	11%

Source: RHP, Technopak Research, ICICI Direct Research

While traditional retail channels historically constituted a large portion of the pharmacy retail market in India, there has been a recent shift towards modern retail channels such as e-commerce and B&M stores, with consumers now increasingly inclined to purchase regular prescription drugs and other wellness products from modern organized pharmacy retail outlets that offer the benefit of an enhanced retail environment, the assurance of authentic drugs, transparent discounts and a wide variety of products.

The top eight cities contributing close to 32% to the total pharmacy retail market and 62% to the total organized pharmacy market in India. The penetration is very low in the rest of the country, contributing to 68% of the overall pharmacy retail. Penetration of modern pharmacy retail is at ~60-70% in United States, ~35-40% in European Union, and ~30-40% in China which further indicates the potential for increase in organized pharmacy market growth.

Exhibit 16: SWOT Analysis

Modern B&M Pharmacy	Traditional/ Unorganized Pharmacy	E-Pharmacy
Strengths		
Improved retail environment and customer experience	Well entrenched	Convenience
Assisted selling	High inventory turns reduces the working capital needs	Range of offering (drug sale, medical equipment and other gadgets, lab consultations)
Wide SKU range with wellness options	Assisted selling	Personalized
Higher gross margins due to scale advantage and vertical integration	Personalized selling	Auto refills
Weakness		
Limited presence	Limited assortment due to SKU proliferation (over 100K SKUs sold in Indian market) resulting in lower fill rates	Difficulty in catering to acute segment (60%+ of the domestic pharma market which requires quick service and is more profitable as it is less price-sensitive) well as well as Tier 2 and beyond cities due to higher turnaround time
Opportunity		
Greater proliferation of private labels	Demand bedrocked in traditional retail as it contributes 90% sales of the industry growing at CAGR of 7%	Growth in internet penetration leading to wider adoption of e-commerce
Growth in demand for wellness products		Ability to cross sell related products and services
Omni channel offering		
Allied offerings like diagnostics		
Threats		
Non tech companies could mismanage inventory resulting in lower turns & lower fulfilment rate	COVID-19 has posed a serious threat to the brick-and-mortar retailers	Competition from physical retail stores

Source: RHP, Technopak Research, ICICI Direct Research

Investment Rationale

India's Second Largest Pharmacy retailer

According to the Technopak Report, India's pharmacy retail market is expected to grow at a CAGR of ~ 11% between FY21 to FY25, from ₹1,81,125 crore to ₹2,72,500 crore while the organized pharmacy retail market's share of India's pharmacy retail market is expected to grow at a CAGR of ~ 27% between FY21 to FY25, from ₹20,475 crore to ₹53,500 crore, in terms of revenue, primarily through a combination of structural growth in underlying market and gaining market share from the unorganized pharmacy retailers. Medplus with (i) well-established brand, (ii) genuine and good quality pharmaceutical products offering, (iii) wide product offering, (iv) ability to achieve high fulfilment rates, (v) offering of neighbourhood convenience with large store footprint, and (vi) ability to offer competitive pricing to the customers, is likely to continue the gains in market share.

Successful Track Record of Expansion Using a Distinct Cluster-based and Replicable Store Unit Expansion Approach

Exhibit 17: Number of Stores

State	FY10	FY15	FY19	FY20	FY21	H1FY22	CAGR(FY10-21)
Telangana	181	288	352	365	435	474	8.3%
Andhra Pradesh	125	152	213	226	263	297	7.0%
Karnataka	166	340	457	485	514	546	10.8%
Tamil Nadu	101	231	348	373	447	475	14.5%
West Bengal	22	105	139	148	183	224	21.2%
Maharashtra	40	65	93	113	166	221	13.8%
Odisha	0	18	51	65	73	89	26.3%
City							
Chennai	62	185	246	264	286	304	14.9%
Bangalore	110	244	281	311	330	340	10.5%
Hyderabad	141	234	259	274	299	331	7.1%
Kolkata	22	105	139	148	183	224	21.2%

Source: RHP, ICICI Direct Research, CAGR calculation for Odisha is from FY15-FY21

Medplus streamlined and methodical store opening process along with focus on the sustainability and profitability of each store, has allowed company to maintain healthy store level economics. Between April 1, 2018 and September 30, 2021, Medplus opened an aggregate of 1,158 new stores, and as of FY21, over 60% and 75% of the new stores achieved a positive store level operating EBITDA within the first three months and first six months of operations, respectively. Further, as of H2FY22, the mature stores had a median payback period of less than 3 years and demonstrated a compounded average same store sales growth of 8.3% on MRP from FY19 to FY21. As of September 30, 2021, Medplus store network comprised of 2,326 stores, of which 55.25% of the total number of stores have been opened since FY18. There is likelihood of increased contribution from such stores as they mature and gradually achieve higher growth rates and improved profitability.

High Density Store Network Enhancing Omni-channel Proposition

Medplus omni-channel proposition leverages existing store networks and supply chain and distribution network to offer a differentiated offering to the customers. Company's omni-channel proposition allows them to (i) deepen and extend customer reach and expand the total addressable market for stores, (ii) further enhance "convenience" as one of the core customer value propositions, (iii) lower incremental cost of operations for online deliveries (as the physical stores act as branding sites and lower cost of online customer acquisition), and (iv) retain offline and online customers within Medplus customer ecosystem.

Lean Cost Structure and Technology Driven Operations

Medplus having (i) scale of operations, (ii) wholly-managed and operated supply chain and distribution infrastructure, (iii) strong and integrated technology backbone, and (iv) focus on maintaining cost efficient operations, gives them an advantage over competitors. Key attributes of operations for Medplus includes –

- Cost efficient procurement
- Efficient management and operation of infrastructure
- Technology driven operations
- Large scale of operations leading to economies of scale

Medplus has the ability to synergise these operational attributes to harness significant economies of scale, which can enable the pathway for better margins.

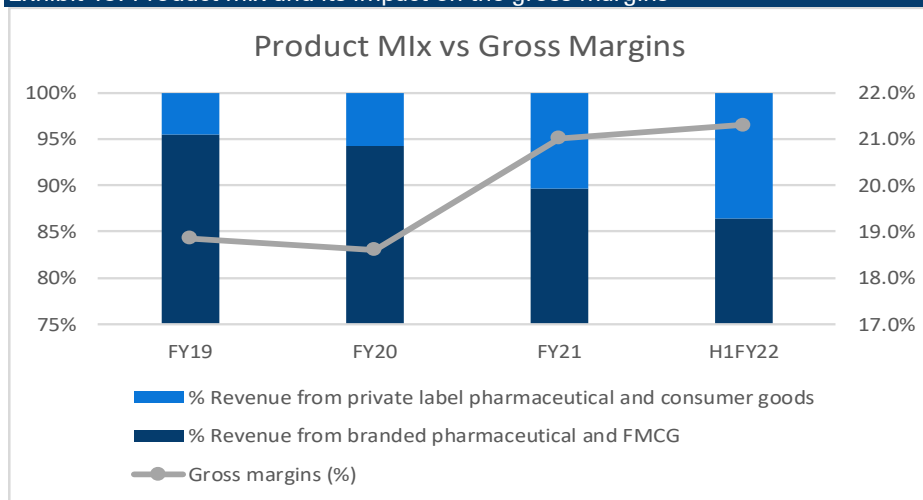
Key Risk

Operations are subject to high working capital requirements, and have incurred substantial indebtedness

Medplus pharmacy business may require significant amount of working capital, and a major portion of the working capital is utilized towards inventories. As of September 30, 2021, company has sanctioned working capital limit of ₹185 crores. With growing scale and expansion, if any, may result in increase in the quantum of current assets. Company’s inability to maintain sufficient cash flow, credit facility and other sourcing of funding, in a timely manner, or at all, to meet the requirement of working capital or pay out debts, could adversely affect the financial condition and result of business operations.

Changes in the product mix may impact the results of operation

Exhibit 18: Product mix and its impact on the gross margins



Source: RHP, ICICI Direct Research

The mix and volume of drugs that Medplus sell are determined by a number of factors, including the mix of patients, mix of pharmaceutical drugs that are routinely stocked, seasonal changes in pharmaceutical and FMCG products and sale of private label products.

Failure to properly manage inventories and anticipate demand may impact the financial performance

Medplus are also exposed to inventory risk in connection with the products, such as FMCG and private label products due to changes in product life cycles, changing consumer preferences, uncertainty of product developments and launches, manufacturer back orders and other vendor-related problems. Net write-downs of Medplus inventories to their net realizable value totalled ₹10.8 crores, ₹8.2 crores, ₹11.7 crores and ₹5.0 crores, respectively, in FY19, FY20 and FY21 and H1FY22 respectively. As for all branded FMCG and private label products sold by Medplus, they may be unable to return unsold inventory to the manufacturers, and may suffer significant inventory write-downs, product expirations, increases in inventory holding costs, and potential negative effects on the liquidity.

Failure to meet customer expectations, needs and requirements may harm the brand and reputation

It is difficult to consistently and successfully predict which products doctors may prescribe and the products and services that the customers may require from pharmacy. Any failure or inability to timely identify or effectively respond to changing preferences in the medical industry, spending patterns of the customers, evolving demographic mixes in markets or obtain and offer particular categories of products could adversely affect the relationships with customers and clients, as well as the demand for company’s products and services. This could also result in Medplus holding an excess inventory of unsold products, which could adversely affect the operating results.

Financial Summary

Exhibit 19: Profit and loss statement ₹ crore

Revenue (₹ crore)	FY19	FY20	FY21	H1FY22
Revenue from operations	2,272.7	2,870.6	3,069.3	1,879.9
Other income	12.2	17.3	21.5	11.0
Total revenue	2,284.9	2,887.9	3,090.8	1,890.9
Raw Material Expenses	1,844.0	2,336.5	2,424.2	1,479.4
Employee expense	211.4	272.4	338.7	179.8
Other expenses	98.2	128.0	89.8	62.0
Total Expenses	2,153.6	2,736.9	2,852.6	1,721.3
Adjusted EBITDA	119.1	133.7	216.7	158.7
Finance costs	50.0	46.8	54.8	31.3
Depreciation and amortisation	58.6	74.8	88.3	54.8
Profit before tax and exception	22.8	29.4	95.1	83.6
Profit before tax	22.8	29.4	95.1	83.6
Total Tax	10.8	27.6	32.0	17.2
Profit after tax before Minority	11.9	1.8	63.1	66.4
Less: Share of Minority interest	0.0	-0.4	-0.7	-0.5
Profit after tax	11.9	2.2	63.9	66.9

Source: Company, ICICI Direct Research

Exhibit 20: Cash flow statement ₹ crore

Cash Flow (₹ crore)	FY19	FY20	FY21	H1FY22
PBT	22.8	29.4	95.1	83.6
Operating profit before working	140.3	184.8	272.5	174.1
Changes in working capital	19.0	-176.5	-240.9	-1.3
Income tax paid	-12.5	-14.9	-28.7	-16.3
CF from operating activities	146.7	-6.6	2.9	156.5
(Purchase)/Sale of Fixed Assets	-21.6	-30.1	-54.0	-41.6
Interest Received	3.6	5.4	4.3	1.6
Investment in bank deposits	-1.3	-2.0	15.0	-58.6
(Purchase)/Sale of Investment	0.0	-0.9	0.2	0.0
CF from investing activities	-19.3	-27.6	-34.5	-98.5
Proceeds from issue of share capital	0.0	204.5	98.0	0.5
Adj. of Loan	-4.0	-32.5	0.0	0.0
Interest Paid	-78.8	-82.2	-103.6	-61.1
CF from financing activities	-82.8	89.8	-5.6	-60.6
Net Cash Flow	44.5	55.7	-37.3	-2.7
Opening Cash	-91.3	-46.8	8.9	-28.4
Closing Cash Flow	-46.8	8.9	-28.4	-31.1
FCF	125.0	-36.7	-51.1	115.0

Source: Company, ICICI Direct Research

Exhibit 21: Balance Sheet ₹ crore

Balance Sheet (₹ crore)	FY19	FY20	FY21	H1FY22
Equity and liabilities				
Shareholders' funds				
Share capital	0.2	0.2	0.4	6.4
Reserves and surplus	291.1	527.6	730.1	794.5
Minority interest	0.0	1.3	0.6	0.0
Non-current liabilities				
Long-term borrowings	0.0	0.0	0.0	0.0
Other non-current liabilities	294.8	338.5	419.6	481.2
Current liabilities				
Short-term borrowings	104.4	105.1	135.2	56.7
Trade payables	158.1	234.2	148.1	223.5
Other current liabilities	98.0	124.8	112.2	165.3
Short-term provisions	12.0	17.1	19.5	18.7
Total	958.7	1,348.7	1,565.7	1,746.5
Assets				
Non current assets				
Fixed assets				
Tangible assets	334.7	376.2	472.0	571.8
Goodwill on consolidation	41.5	41.5	41.5	41.5
Capital work in progress	1.4	2.8	5.5	7.8
Intangible assets	1.2	1.8	3.8	4.6
Intangible assets under develop	0.0	2.2	0.0	0.6
Deferred tax assets (net)	65.7	55.7	50.5	54.1
Other financial assets	39.2	47.3	55.1	61.4
Other non-current assets	5.2	5.5	14.1	17.1
Current assets				
Inventories	394.1	643.6	750.0	810.0
Trade receivables	8.8	6.4	5.4	7.2
Cash and bank balances	49.9	140.7	118.6	96.0
Other current assets	17.0	25.1	49.2	74.5
Total	958.7	1,348.7	1,565.7	1,746.5

Source: Company, ICICI Direct Research

Exhibit 22: Key ratios

Ratio Sheet	FY19	FY20	FY21	H1FY22
Per share data (₹)				
Diluted EPS	1.0	0.2	5.4	5.6
Cash EPS	5.9	6.5	12.8	10.2
BV per share	24.4	44.4	61.3	67.1
Cash Per Share	4.2	11.8	9.9	8.1
Operating Ratios (%)				
Gross Profit Margins	18.9	18.6	21.0	21.3
EBITDA Margins	5.2	4.7	7.1	8.4
PAT Margins	0.5	0.1	2.1	3.6
Inventory days	63.3	81.8	89.2	157.3
Debtor days	1.4	0.8	0.6	1.4
Creditor days	25.4	29.8	17.6	43.4
EBITDA Conversion Rate	123.1	-4.9	1.3	98.7
Return Ratios (%)				
RoE	4.1	0.4	8.7	8.4
RoCE	17.5	11.9	17.2	13.6
RoIC	17.6	12.0	17.3	13.8
Valuation Ratios (x)				
EV / Sales	4.2	3.3	3.1	5.0
EV/EBITDA	80.2	70.8	43.9	59.6
Market Cap / Sales	4.2	3.3	3.1	5.1
P/E	796.6	4,356.0	148.7	141.9
Price to Book Value	32.6	17.9	13.0	11.9
Solvency Ratios				
Debt / EBITDA	0.9	0.8	0.6	0.4
Debt / Equity	0.4	0.2	0.2	0.1
Net Debt/ Equity	0.2	-0.1	0.0	0.0
Current Ratio	1.3	1.7	2.2	2.1
Quick Ratio	0.2	0.4	0.4	0.4
Asset Turnover	6.0	6.8	5.9	3.0

Source: Company, ICICI Direct Research

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