

Medplus Health Services

Strong Q4; growth and margin visibility intact

EBITDA[^] growth (+30% YoY) was led by +19% YoY sales growth (pharmacy was up 18% YoY and diagnostics grew 95% YoY), moderate growth in staff costs (+8% YoY), which was partly offset by flat YoY gross margin (+47 bps QoQ) and 33% YoY rise in SG&A. Operating EBITDA margin (pre IND-AS) came in at 3.9% (+66 bps YoY) as pharmacy margin expanded by 44 bps YoY to 4.0% (+49 bps QoQ) and there was an INR 11 mn loss in diagnostics. MEDPLUS expects to add 600+ stores in FY25 with a focus on expanding its presence in existing as well as new markets. It expects to increase private label share in the overall mix and aims to reach ~20% share in the next few years, led by increasing product offerings. It expects gross margin to see pressure from a shift in product mix in its private label (old private label to own branded generics). It expects the operating margin to see a gradual improvement in FY25. Factoring FY24 performance, we have tweaked our EBITDA for FY25/26E. TP stays at INR 850 (18x FY26E EV/ EBITDA, which implies 29x pre-INDAS EV/E). We reiterate BUY, given its strategic expansion plan with a focus on improving profitability. We also see a gradual improvement in margin led by a better mix with growth in mature stores (2+ years; ~9-10% margin), an increasing share of margin-accretive private-label and Medplus-brand generics, and an efficient supply chain.

- Q4 highlights:** Net revenue grew 19% YoY at INR 14.9 bn as retail pharmacy sales grew 18% YoY at INR 14.65 bn and diagnostics was at ~INR 232 mn (+95% YoY). EBITDA[^] at INR 1.06 bn (+30% YoY) was led by sales growth and muted staff cost (+8% YoY), which was offset by flat GM of 22.6% (+ 47 bps QoQ), a rise in SG&A (+33% YoY), and a loss in diagnostics (INR 11 mn). Operating EBITDA (pre-INDAS) was at INR 581 mn (+43% YoY) as the increase in rental by 13% YoY (new store additions) was offset by sales growth. Operating margin was at 3.9% (+66 bps YoY and +67 bps QoQ). Pharmacy margin expanded by 44 bps YoY to 4% (+49 bps QoQ). Adjusted for one-off, PAT was at INR 300 mn (+78% YoY).
- Q4FY24 operating parameters:** Net new store addition was at 174 (gross store addition was at 199), resulting in a total store count of 4,407 as of Mar'24. Mature store growth was at 11.7% YoY (vs 15.3% in Q4FY23). Mature store operating margin was at 10.3% (vs 10.3% in Q4FY23). Mature store RoCE at 52.2% (vs 60.5% in Q4FY23). Private lab sales as % of total sales increased to 15.2% (vs 14.1% in Q4FY23). Overall RoCE was at ~11.7% (vs 9.4% in Q4FY23). In Q4FY24, OCF was at INR 406 mn and the capex and lease liabilities payments were at INR 236 mn and INR 547 mn respectively, which led to a negative FCF of INR 377 mn.
- Con call takeaways:** The company expects steady growth led by store expansion and traction from its own branded generic private label business. The GMV share of private labels in the pharma category has increased to ~13% in FY24 from 8% in FY23. The operating margin for the pharmacy was impacted by switching from old private labels to own private labels (higher discounts) and advertising spending on promotion of private labels (helped to improve customer traction in core markets). Expanded product offering to 600+ (400+ earlier). In key core south markets, the old private label share has come down to ~1-2%. No major capex is planned in the diagnostics business; no plans to expand beyond Hyderabad in the near term. It expects the tax rate to be at 24-25% over the next few years.

Financial Summary

(INR mn)	4QFY24	4QFY23	YoY (%)	3QFY24	QoQ (%)	FY22	FY23	FY24	FY25E	FY26E
Net sales	14,905	12,530	19	14,415	3	37,793	45,576	56,249	68,458	83,234
EBITDA	1,059	816	30	918	15	2,724	2,657	3,540	4,679	6,230
APAT	300	168	78	137	119	958	400	621	1,116	1,991
EPS (INR)	2.5	1.4	78	1.1	119	8.0	3.3	5.2	9.3	16.7
P/E (x)						86.2	206.3	133.1	74.0	41.5
EV/EBITDA (x)							33.2	33.4	25.8	19.7
RoCE (%)						10	6	7	10	13

Source: Company, HSIE Research. Note: [^] post-INDAS EBITDA

BUY

CMP (as on 29 May 2024)	INR 690
Target Price	INR 850
NIFTY	22,705

KEY CHANGES	OLD	NEW
Rating	BUY	BUY
Price Target	INR 850	INR 850
	FY25E	FY26E
EBITDA %	1.4	0.7

KEY STOCK DATA

Bloomberg code	MEDPLUS IN
No. of Shares (mn)	120
MCap (INR bn) / (\$ mn)	82/989
6m avg traded value (INR mn)	116
52 Week high / low	INR 978/598

STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	(0.9)	(12.5)	(13.8)
Relative (%)	(3.7)	(23.8)	(32.3)

SHAREHOLDING PATTERN (%)

	Dec-23	Mar-24
Promoters	40.45	40.39
FIs & Local MFs	25.18	22.47
FPIs	12.97	14.94
Public & Others	21.4	22.2
Pledged Shares	23.48	21.88

Source : BSE

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Other highlights from the Q4FY24 results

- MEDPLUS expects ~10% growth in mature stores – subject to IPM inflation.
- The company saw strong traction in private label GMV (largely driven by its own branded generics) in its key markets such as Tamil Nadu Q4FY24 exit rate was 19.3% vs 9% earlier and Telangana was at 15.9% vs 6% earlier. Overall GMV growth was at 27% in Q4FY24.
- Old private labels shrunk to ~3% and Medplus’s own branded generic private label have moved to 10% by Q4FY24 end.
- Online peers have lowered the discount for low ticket price orders. No change in discounting for offline/ local companies. The company is seeing no major impact.
- It expects to generate free cash flow in the next 2-3 years, which will be utilised to fund the growth initiatives.
- As of Mar’24, with 4,407 stores the total store area stands at 2.3+ mn sq/ft. The average store size was 530 sq ft – within which 3,234 were less than 600 sq ft and 1,173 higher than 600 sq ft.
- Of the stores that opened between Apr’23 to Sep’23, 70% reached break even in 6 months and on cohort all stores combined achieved break even in 4 months.
- Diagnostics: As of Mar’24, the company has four full-service centres, eight-level II centres, and 120+ collection centres. Centre-level operating EBITDA was at INR 33 mn. It has 133k active plans and covers 247 lives. The renewal rate was at 21%.

Exhibit 1: EBITDA driven by strong sales growth

(INR mn)	Reported					Reported		
	Q4FY23	Q3FY24	Q4FY24	YoY (%)	QoQ (%)	FY23	FY24	YoY (%)
Net sales	12,530	14,415	14,905	19	3	45,576	56,249	23
Material cost	9,700	11,227	11,539	19	3	35,577	43,916	23
Gross profit	2,830	3,187	3,366	19	6	9,999	12,332	23
Staff expenses	1,486	1,595	1,606	8	1	5,451	6,255	15
SG&A	528	674	701	33	4	1,891	2,536	34
Total expense	11,714	13,497	13,846	18	3	42,919	52,708	23
EBITDA (Post INDAS)	816	918	1,059	30	15	2,657	3,541	33
Rent expenses	493	536	556	13	4	1,780	2,125	19
EBITDA (Pre INDAS)	406	466	581	43	25	1,281	1,748	36
Depreciation/Amortisation	558	571	592	6	4	1,816	2,242	23
Interest costs	223	245	251	13	3	830	964	16
Other income	137	98	105	(24)	7	461	400	(13)
PBT	173	200	320	85	60	472	734	56
Tax	(93)	63	(16)	NA	NA	(29)	79	NA
Reported PAT	266	137	334	26	143	498	655	32
Excep. Item	(97)	-	(34)	NA	NA	(97)	(34)	
Adj PAT	168	137	300	78	119	400	621	55
EPS (Rs/share)	1.4	1.1	2.5	78	119	3.3	5.2	55
% of sales								
Gross margin	22.6%	22.1%	22.6%	0 bps	47 bps	21.9%	21.9%	-1 bps
EBITDA (Post IND AS)	6.5%	6.4%	7.1%	59 bps	74 bps	5.8%	6.3%	47 bps
EBITDA (Pre INDAS)	3.2%	3.2%	3.9%	66 bps	67 bps	2.8%	3.1%	30 bps
Staff expenses	11.9%	11.1%	10.8%	-108 bps	-29 bps	12.0%	11.1%	-84 bps
SG&A expenses	4.2%	4.7%	4.7%	49 bps	3 bps	4.1%	4.5%	36 bps
Rent expenses	3.9%	3.7%	3.7%	-20 bps	2 bps	3.9%	3.8%	-13 bps
Income tax rate	-53.9%	31.3%	-4.9%	NA	NA	-6.2%	10.7%	NA

Source: Company, HSIE Research.

Exhibit 2: Revenue mix

INR mn	Q4FY23	Q3FY24	Q4FY24	YoY (%)	QoQ (%)	FY23	FY24	YoY (%)
Sales								
Pharmacy	12,382	14,204	14,653	18	3	45,097	55,431	23
% of sales	99%	99%	98%			99%	99%	
Diagnostics	119	196	232	95	19	305	749	145
% of sales	1%	1%	2%			1%	1%	
Others	28	15	20	-29	32	174	69	-60
% of sales	0%	0%	0%			0%	0%	
Total	12,530	14,415	14,905	19	3	45,576	56,249	23

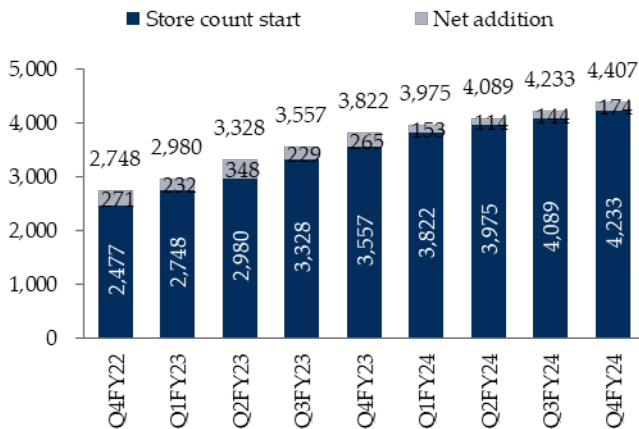
Source: Company, HSIE Research.

Exhibit 3: Segmental operating margin

INR mn	Q4FY23	Q3FY24	Q4FY24	YoY (%)	QoQ (%)	FY23	FY24	YoY (%)
Operating EBITDA								
Pharmacy	447	505	593	33	17	1,462	1,882	29
% margin	3.6%	3.6%	4.0%	44 bps	49 bps	3.2%	3.4%	15 bps
Diagnostics	-37	-34	-11	NA	NA	-175	-121	NA
% margin	-31.1%	-17.4%	-4.9%	NA	NA	-57.2%	-16.1%	NA
Others	-4	-5	-1	NA	NA	-7	-13	NA
% margin	-12.7%	-31.6%	-3.0%	NA	NA	-3.9%	-19.0%	NA
Total	406	466	581	43	25	1,281	1,748	36
% margin	3.2%	3.2%	3.9%	66 bps	67 bps	2.8%	3.1%	30 bps

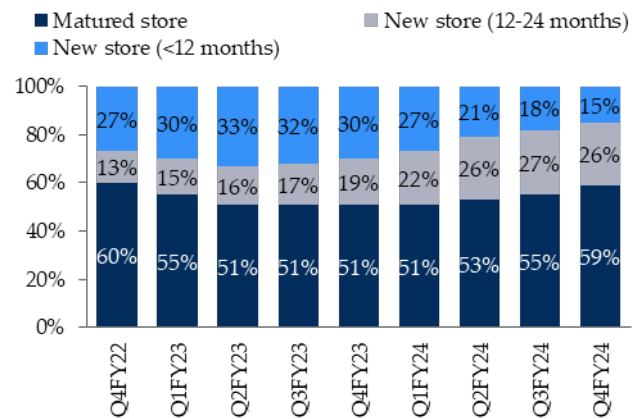
Source: Company, HSIE Research.

Exhibit 4: Store addition



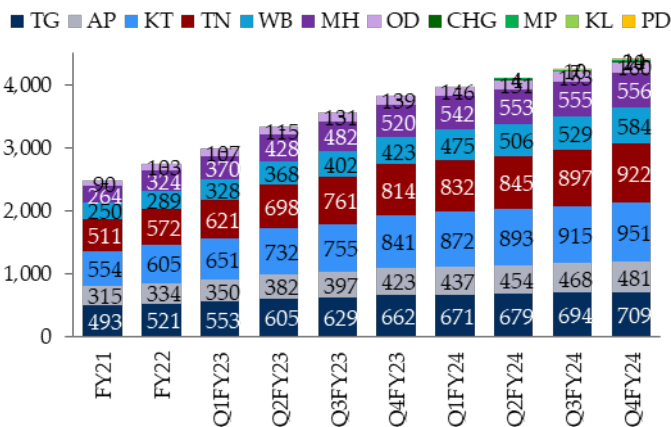
Source: Company, HSIE Research

Exhibit 5: Store mix – maturity wise



Source: Company, HSIE Research

Exhibit 6: Store mix – state wise break-up



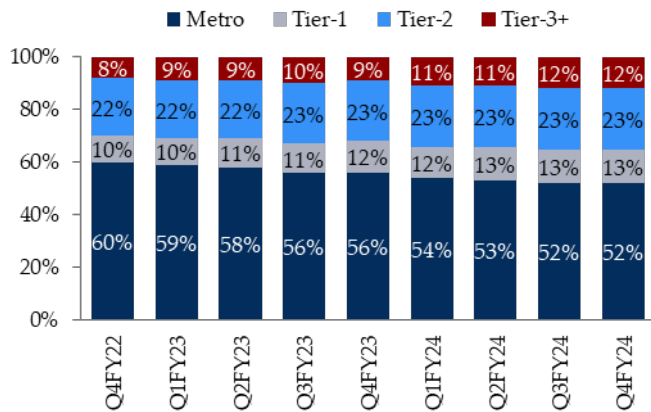
Source: Company, HSIE Research

Exhibit 7: Store closure



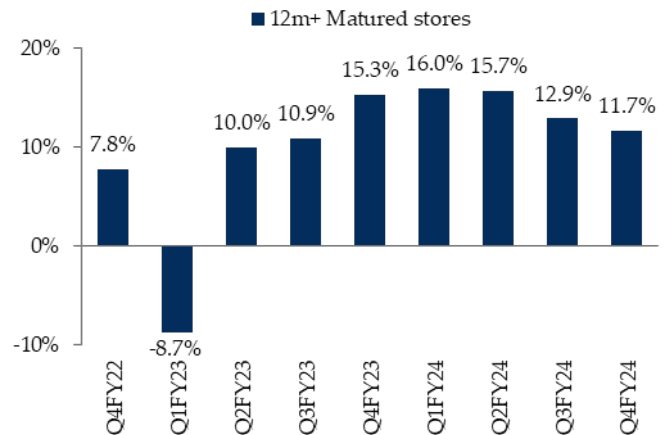
Source: Company, HSIE Research

Exhibit 8: Regional revenue mix



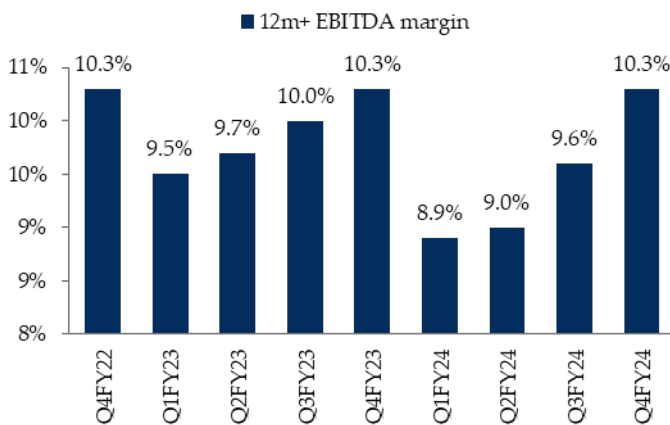
Source: Company, HSIE Research

Exhibit 9: Matured store growth trend



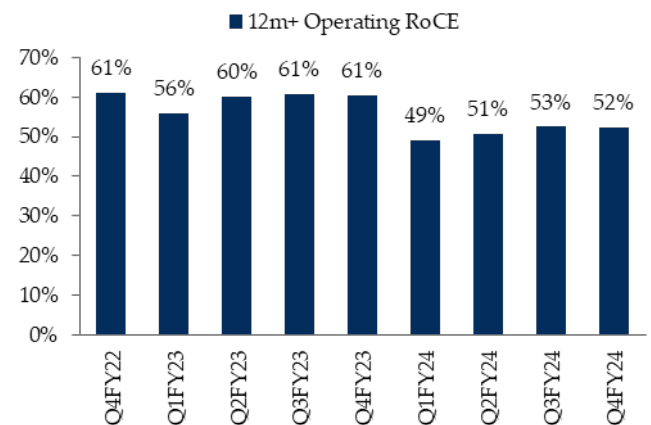
Source: Company, HSIE Research

Exhibit 10: Matured store margin



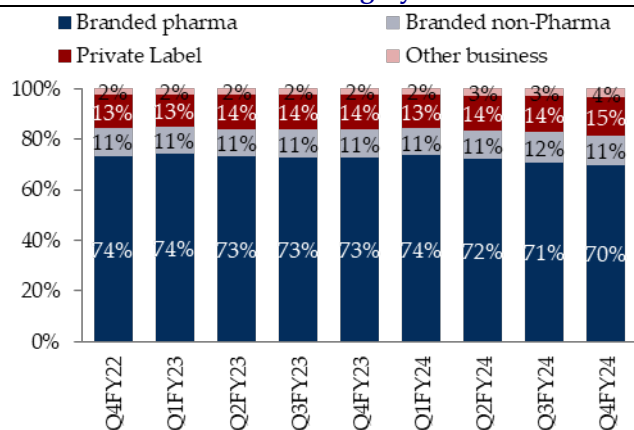
Source: Company, HSIE Research

Exhibit 11: Matured store RoCE



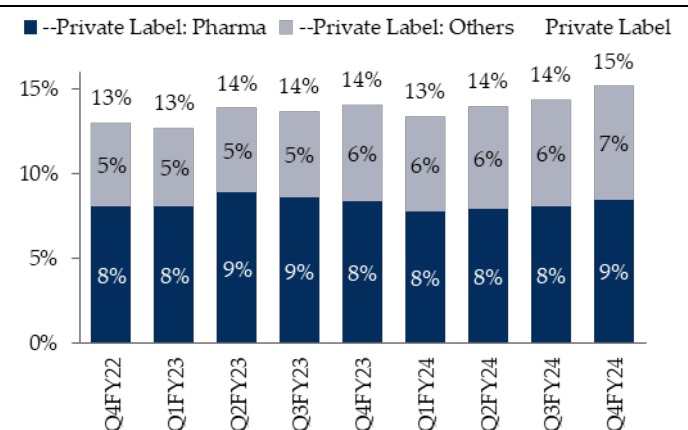
Source: Company, HSIE Research

Exhibit 12: Revenue-mix – category-wise



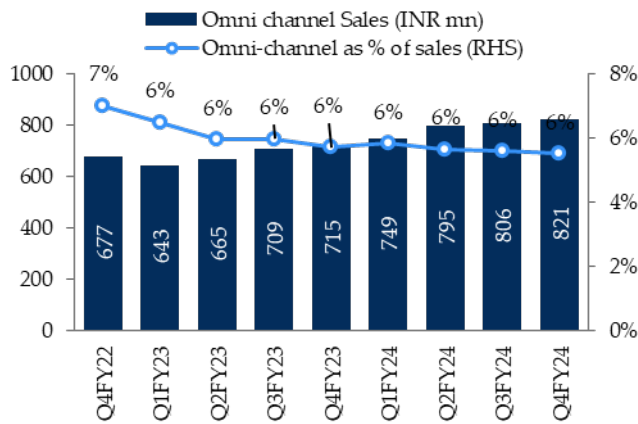
Source: Company, HSIE Research

Exhibit 13: Private label share



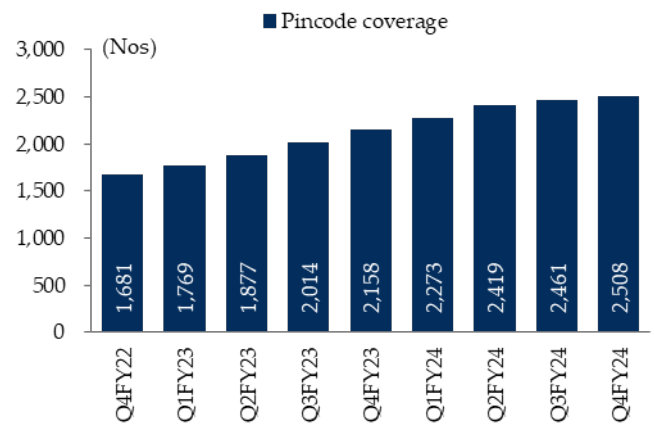
Source: Company, HSIE Research

Exhibit 14: Omni channel sales was steady



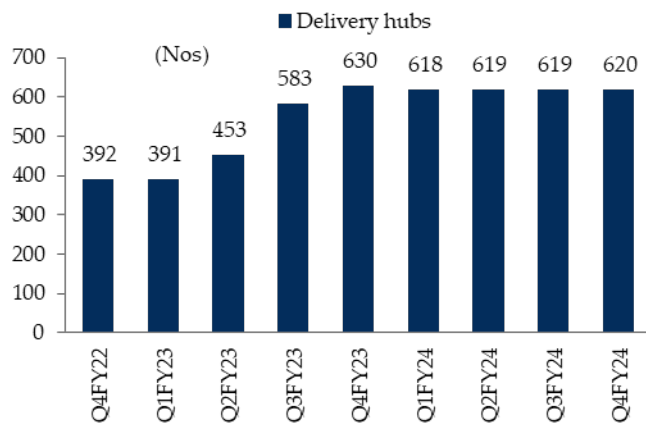
Source: Company, HSIE Research

Exhibit 15: Pin code coverage increasing



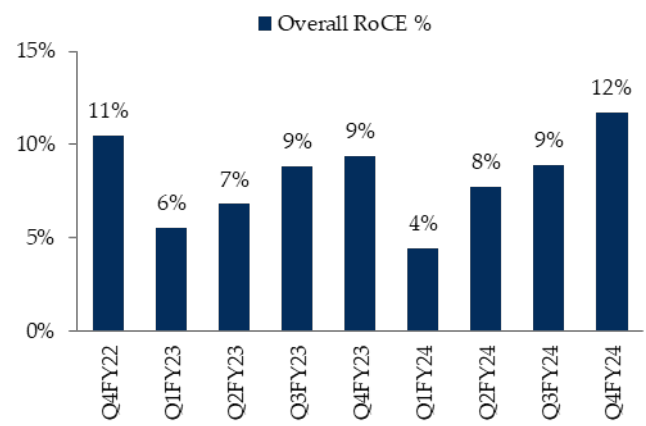
Source: Company, HSIE Research

Exhibit 16: Hub store expanding



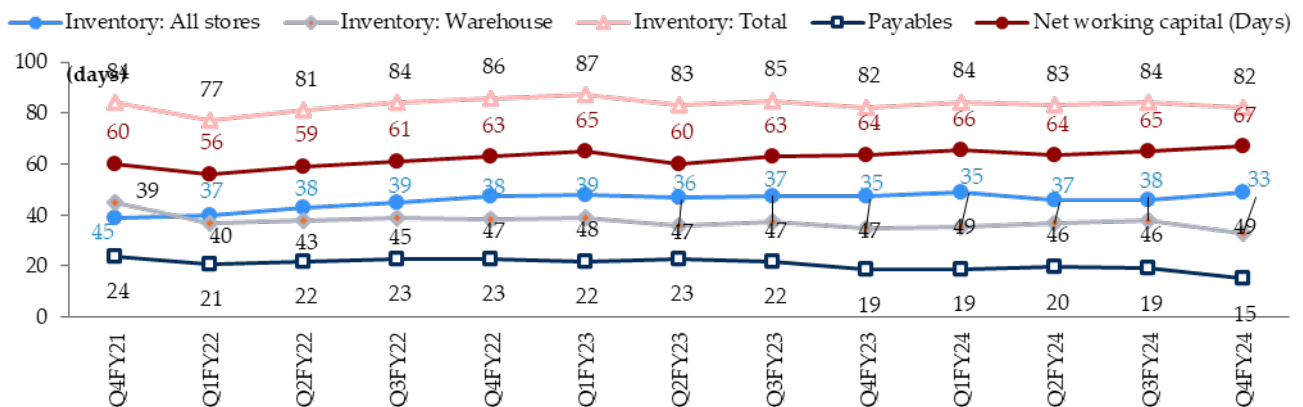
Source: Company, HSIE Research

Exhibit 17: Improving overall RoCE



Source: Company, HSIE Research

Exhibit 18: Steady working capital cycle



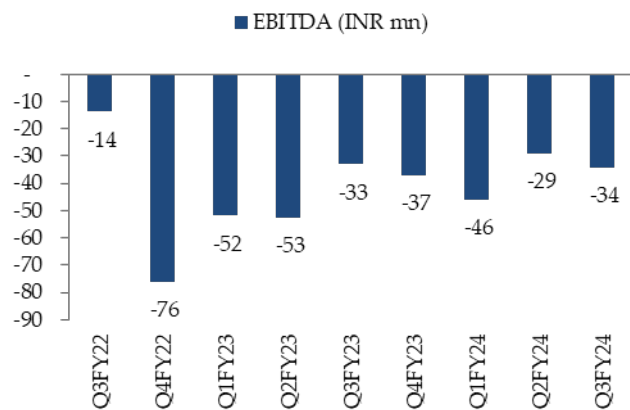
Source: Company, HSIE Research

Exhibit 19: Cash flow cycle

INR mn	Q3FY23	Q4FY23	Q1FY24	Q2FY24	Q3FY24	Q4FY24
PBT+ D&A+ Int. of Lease Liability + non-Cash expenses like ESOP	840	1,011	823	987	1,043	1,188
Change in working capital	703	633	473	588	545	704
Taxes	38	10	52	77	85	78
Operatin cash flow	99	368	298	322	413	406
OCF/Operating EBITDA	27%	91%	102%	79%	89%	70%
Capex	386	348	216	193	183	236
Payment of lease liabilities	450	444	487	505	514	547
FCF	-737	-424	-405	-375	-284	-377

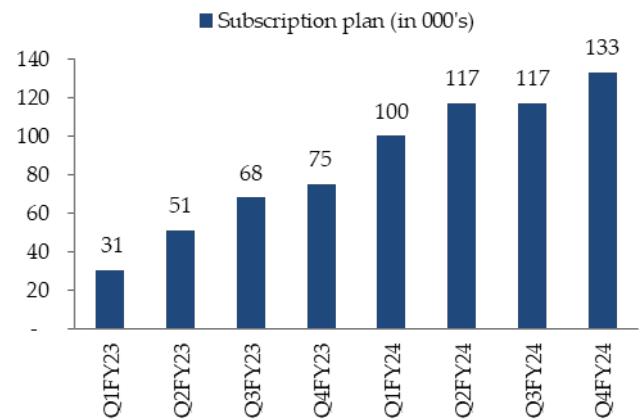
Source: Company, HSIE Research

Exhibit 20: EBITDA loss reducing for diagnostics



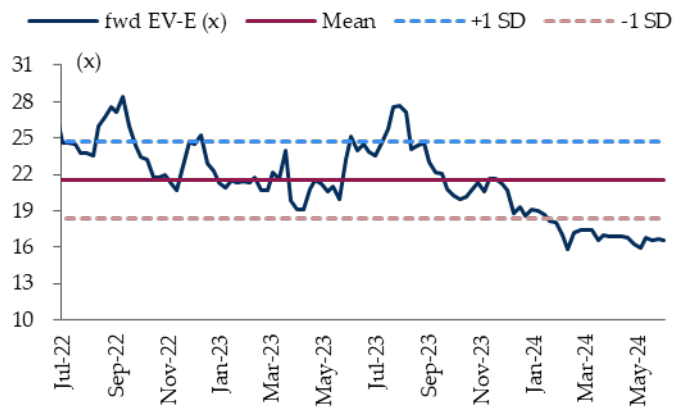
Source: Company, HSIE Research

Exhibit 21: Increasing subscription coverage



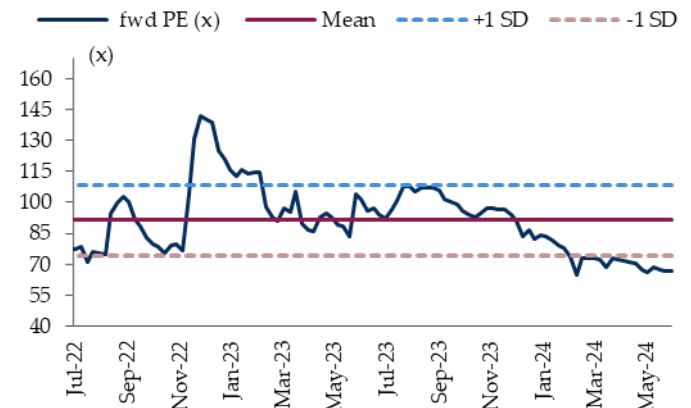
Source: Company, HSIE Research

Exhibit 22: EV/ EBITDA chart



Source: Bloomberg, HSIE Research

Exhibit 23: PE chart



Source: Bloomberg, HSIE Research

Financials (Consolidated)

Profit & loss (INR mn)

March	FY19	FY20	FY21	FY22	FY23	FY24	FY25E	FY26E
Net sales	22,727	28,706	30,693	37,793	45,576	56,249	68,458	83,234
Other operating income	0	0	0	0	0	0	0	0
Total operating income	22,727	28,706	30,693	37,793	45,576	56,249	68,458	83,234
Cost of goods sold	-18,440	-23,365	-24,252	-29,824	-35,577	-43,916	-53,415	-64,902
Gross profit	4,287	5,341	6,440	7,969	9,999	12,332	15,043	18,332
Gross margin (%)	19	19	21	21	22	22	22	22
Total operating expenses	-3,096	-3,681	-4,274	-5,245	-7,342	-8,792	-10,364	-12,102
EBITDA	1,191	1,660	2,167	2,724	2,657	3,540	4,679	6,230
EBITDA margin (%)	5.2	5.8	7.1	7.2	5.8	6.3	6.8	7.5
Depreciation	-586	-748	-883	-1,194	-1,816	-2,242	-2,506	-2,792
EBIT	606	912	1,284	1,530	841	1,298	2,173	3,438
Net interest	-500	-468	-548	-664	-830	-964	-1,083	-1,204
Other income	122	173	215	314	461	400	400	421
Profit before tax	228	294	951	1,179	472	734	1,490	2,656
Total taxation	-108	-276	-320	-232	29	-79	-372	-664
Tax rate (%)	48	94	34	20	-6	11	25	25
Profit after tax	119	18	631	947	501	655	1,117	1,992
Minorities	0	4	7	11	-3	-1	-1	-1
Profit/ Loss associate co(s)	0	0	0	0	0	0	0	0
Adjusted net profit	119	345	639	958	400	621	1,116	1,991
Adj. PAT margin (%)	1	1	2	3	1	1	2	2
Net non-recurring items	0	-323	0	0	97	34	0	0
Reported net profit	119	22	639	958	498	654	1,116	1,991

Balance sheet (INR mn)

March	FY19	FY20	FY21	FY22	FY23	FY24	FY25E	FY26E
Paid-up capital	2	2	4	239	239	239	239	239
Reserves & surplus	2,911	5,276	7,301	13,939	14,673	15,540	16,656	18,647
Net worth	2,914	5,291	7,311	14,173	14,905	15,774	16,889	18,878
Borrowing	4,285	4,773	5,902	8,149	8,999	10,096	11,242	12,343
Other non-current liabilities	30	39	19	10	17	13	14	14
Total liabilities	9,587	13,487	15,656	25,940	27,967	30,048	33,999	38,526
Gross fixed assets	4,414	5,203	6,977	10,709	15,742	18,865	22,528	26,439
Less: Depreciation	-1,055	-1,423	-2,219	-3,136	-4,777	-6,861	-9,367	-12,159
Net fixed assets	3,359	3,780	4,759	7,573	10,965	12,004	13,160	14,280
Add: Capital WIP	14	49	55	204	255	111	105	105
Total fixed assets	3,374	3,829	4,814	7,777	11,220	12,115	13,265	14,384
Total Investment	0	3	0	0	0	0	0	0
Inventory	3,941	6,436	7,500	9,150	11,441	13,402	16,164	18,959
Debtors	88	64	54	60	87	175	216	263
Cash & bank	499	1,407	1,186	344	2,838	1,417	1,387	1,835
Loans & advances	0	0	0	0	0	0	0	0
Current liabilities	2,358	3,384	2,424	3,608	4,046	4,165	5,854	7,291
Total current assets	4,697	8,155	9,230	16,316	14,805	15,675	18,458	21,847
Net current assets	2,339	4,771	6,806	12,708	10,760	11,510	12,604	14,557
Other non-current assets	1,102	1,085	1,197	1,432	1,527	1,844	1,862	1,881
Total assets	9,587	13,487	15,656	25,940	27,967	30,048	34,000	38,527

Source: Company, HSIE Research

Cash flow (INR mn)

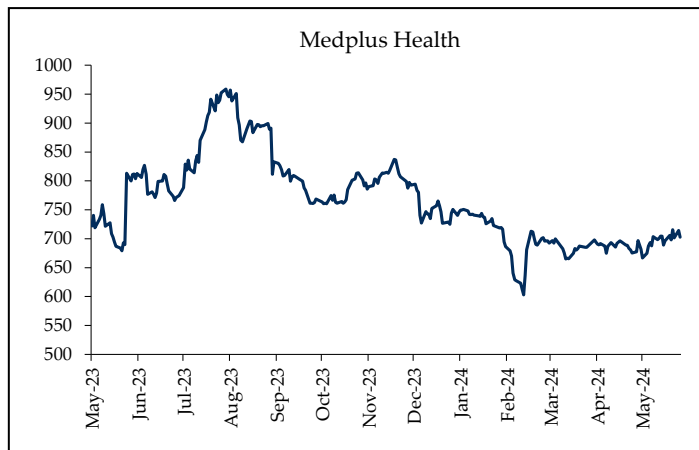
March	FY19	FY20	FY21	FY22	FY23	FY24	FY25E	FY26E
Profit before tax	228	294	951	1,179	472	734	1,490	2,656
Depreciation & Amortisation	-586	-748	-883	-1,194	-1,816	-2,242	-2,506	-2,792
Chg in working capital	190	-1,765	-2,409	-1,024	-2,156	-2,311	-1,101	-1,476
CF from operations	1,467	-66	29	1,699	904	1,437	3,636	4,522
Capital expenditure	-218	-311	-543	-1,177	-1,690	-844	-760	-860
CF from investing	-193	-276	-345	-7,031	4,294	-828	-760	-860
Equity raised/ (repaid)	0	2,045	980	5,725	12	72	0	0
Debt raised/ (repaid)	-687	-750	-651	-1,194	-3,132	-2,053	-2,379	-2,717
Dividend paid	0	0	0	0	0	0	0	0
CF from financing	-828	898	-56	4,404	-1,702	-1,981	-2,379	-2,717
Net chg in cash	445	557	-373	-928	3,496	-1,372	497	945

Key ratios

March	FY19	FY20	FY21	FY22	FY23	FY24	FY25E	FY26E
OPERATIONAL								
FDEPS (Rs)	1.0	2.9	5.3	8.0	3.3	5.2	9.3	16.7
CEPS (Rs)	5.9	6.4	12.7	18.0	19.4	24.2	30.3	40.0
DPS (Rs)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Dividend payout ratio (%)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
GROWTH								
Net sales (%)	-	26.3	6.9	23.1	20.6	23.4	21.7	21.6
EBITDA (%)	-	39.3	30.5	25.7	(2.5)	33.3	32.2	33.1
Adj net profit (%)	-	189.2	85.2	50.0	(58.2)	55.0	79.9	78.4
FDEPS (%)	-	189.2	85.2	50.0	(58.2)	55.0	79.9	78.4
PERFORMANCE								
RoE (%)	-	6.5	10.1	8.9	2.8	4.0	6.8	11.1
RoCE (%)	-	10.7	12.9	10.4	5.6	6.8	9.5	13.0
EFFICIENCY								
Asset turnover (x)	5.1	6.0	5.0	4.3	3.4	3.3	3.3	3.4
Sales/ total assets (x)	-	2.5	2.1	1.8	1.7	1.9	2.1	2.3
Working capital/ sales (x)	-	0.1	0.1	0.2	0.2	0.2	0.2	0.1
Receivable days	1	1	1	1	1	1	1	1
Inventory days	67	87	96	95	97	93	93	90
Payable days	27	32	19	26	22	18	22	23
FINANCIAL STABILITY								
Total debt/ equity (x)	-	1.2	0.9	0.8	0.6	0.7	0.7	0.7
Net debt/ equity (x)	-	0.8	0.7	0.7	0.4	0.6	0.6	0.6
Current ratio (x)	2.0	2.4	3.8	4.5	3.7	3.8	3.2	3.0
Interest cover (x)	1.2	1.9	2.3	2.3	1.0	1.3	2.0	2.9
VALUATION								
PE (x)	692.5	239.5	129.3	86.2	206.3	133.1	74.0	41.5
EV/ EBITDA (x)	72.5	51.8	40.3	33.2	33.4	25.8	19.7	14.9
EV/ Net sales (x)	3.8	3.0	2.8	2.4	1.9	1.6	1.3	1.1
PB (x)	28.3	15.6	11.3	5.8	5.5	5.2	4.9	4.4
Dividend yield (%)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Free cash flow yield (%)	1.5	(0.5)	(0.6)	0.6	(1.0)	0.7	3.5	4.4

Source: Company, HSIE Research

1 Yr Price Movement



Rating Criteria

- BUY: >+15% return potential
- ADD: +5% to +15% return potential
- REDUCE: -10% to +5% return potential
- SELL: > 10% Downside return potential

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