30 January, 2025

INITIATING COVERAGE | **SECTOR: Healthcare**

MEDPLUS HEALTH SERVICES LTD.

MedPlus Health Services Ltd (Medplus), is the second-largest pharmacy retailer in terms of revenue and number of stores in India with 4,552 pharmacies across 12 states as of 30th September 2024. Medplus has 14% market share as of 2023 in the organized Pharma market and holds strong market share in Chennai, Bangalore, Hyderabad and Kolkata of approximately 30%, 29%, 30% and 22%, respectively as of FY21 in organized pharmacy retail market. MedPlus intends to position itself as a one-stop destination for pharmaceuticals, diagnostics, and wellness products, capitalizing on India's growing healthcare needs and the shift toward organized retail through Ecommerce, expansion of private label products and Diagnostics.

Investment positives:

- **Organized Retail in Pharmaceuticals:** The Indian pharmacy market is valued at $50 billion (2023), with organized players like MedPlus holding less than 10% market share, indicating significant room for growth. Consumers increasingly prefer branded pharmacy chains for better service, product quality, and price transparency. The organized pharmacy segment in India has grown from 9% market share in 2018 to 18%+ in 2023, reflecting a shift in consumer preference toward branded pharmacy chains. Similarly, organized players have reported 15-20% CAGR revenue growth, outpacing the overall market growth rate of 8-10% CAGR.

- **Omni-channel growth:** Online channel revenue which is currently 6% of the total revenue as of 2QFY25, has increased with store addition. This strategy offers advantages like low customer acquisition costs as these centers double up as branding and advertising sites. With presence in 2709 pincodes, Medplus is able to reduce the delivery time to 2 hours. Competitors find it difficult due to lack of store physical store count. This proposition also lowers the delivery costs. Due to the hyper local presence, MedPlus can serve both acute and chronic segments which is only 37% of the market, covering the entire spectrum of pharmaceutical needs.

- **Growth strategies:**
  - **Private Label Expansion:** MedPlus has 1,161 SKUs in its private-label portfolio consisting of 787 pharma products and 374 Non pharma products. Private label has ~65% gross margins compared to branded drugs which has ~13% margins. Medplus intends to increase the penetration of private label pharmaceutical products by introducing more therapeutic areas, in particular for sub-chronic and chronic ailments and introduce new private label products in the consumer categories of nutrition and wellness.
  - **Cluster based expansion strategy:** It employs data analytics driven cluster-based approach to store network expansion, whereby the company first achieves high store density in a densely-populated residential area within a target city before expanding store network in the surrounding areas within that city, followed by expansion into other adjacent cities. This has led to higher store concentration in cities like Bangalore, Chennai, Hyderabad and Kolkata.

Reco	:	**BUY**
CMP	:	**Rs. 732**
Target Price	:	**Rs. 874**
Potential Return	:	19**%**

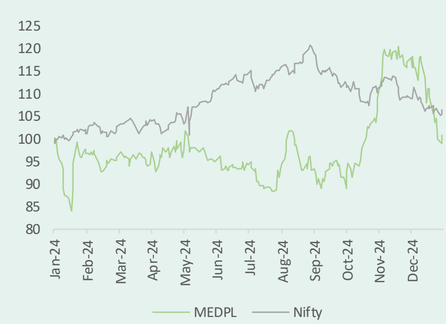
Key Data	
Bloomberg code	MEDPLUS IN
No. of Shares (mn)	120
MCap (Rs bn)	8,772
52 Week high / low (Rs)	877/598

Shareholding (%)	**Dec-24**
Promoters	40.39
FII	15.23
DII	25.66
Public	18.68

Financial Summary

Y/E Mar (Rs mn)	FY24	FY25E	FY26E	FY27E	CAGR
Sales	56,249	66,023	79,368	98,190	20%
EBITDA	3,541	4,889	6,447	8,221	32%
EBITDA Margin	6.3%	7.4%	8.1%	8.4%	208bps
Net Profit	654	1,214	1,925	2,712	61%
EPS	5.5	10.2	16.1	22.7	61%

Relative Price Performance



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Outlook and Valuation

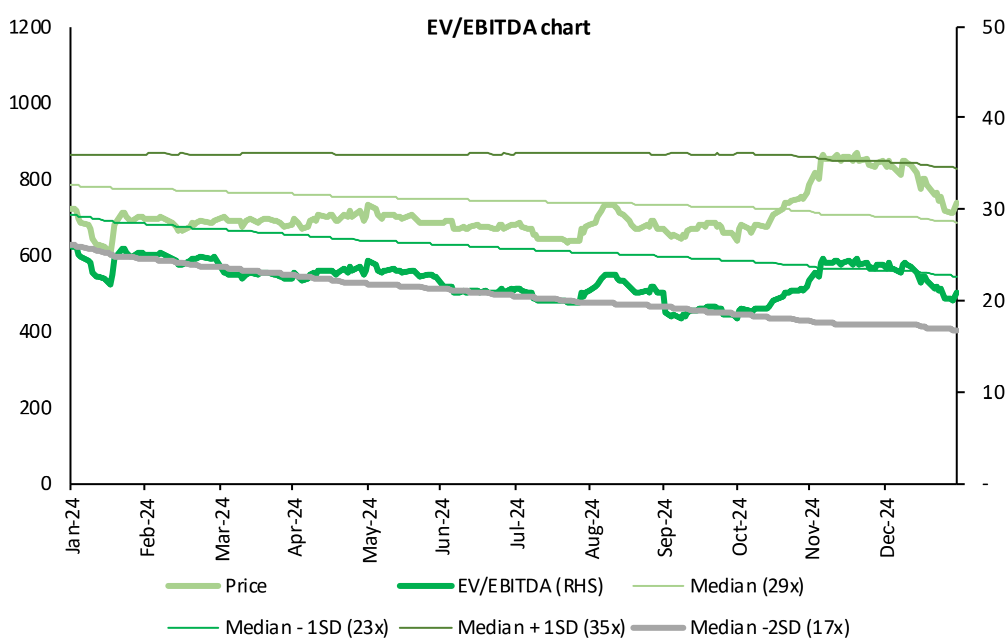
We remain optimistic about Medplus, given its strong positioning within India's consumption growth narrative and the favorable dynamics in the healthcare sector. The essential nature of the industry, combined with a steady transition from unorganized to organized retail, provides a solid foundation for growth. With rising awareness of generic drugs, we expect Medplus to be a major beneficiary of this trend.

Key growth drivers for the company include its aggressive store expansion strategy, which is expected to drive revenue growth, and a growing contribution from its private-label business, which will enhance EBITDA margins. Medplus plans to add 415, 780, and 930 stores across FY25, FY26, and FY27, respectively, targeting both existing markets and new regions like Kerala, Chhattisgarh, and Madhya Pradesh. This expansion is projected to support a revenue CAGR of 20% over FY24-27.

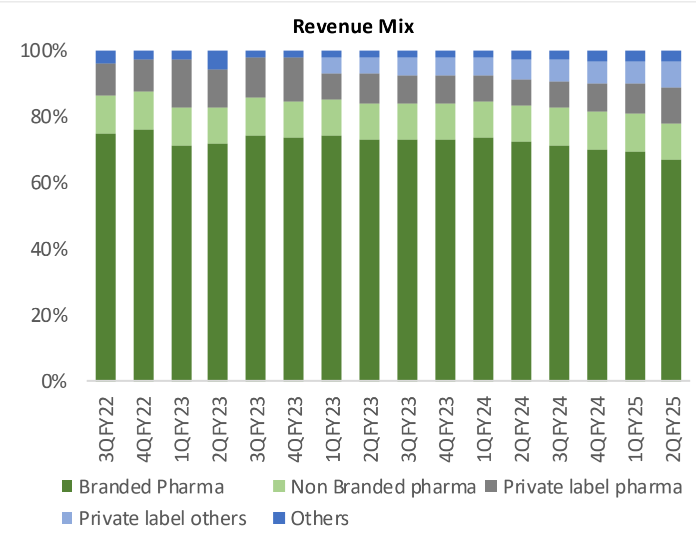
The private-label segment, currently contributing 10.5% of sales, is anticipated to grow by 1-1.5% per quarter, reaching approximately 30% of total sales-consistent with the caps observed in U.S. pharmacy chains such as CVS Health and Walgreens. This shift is expected to result in a quarterly gross margin improvement of 0.5-0.75%, driving a cumulative EBITDA margin expansion of ~200 bps by FY27.

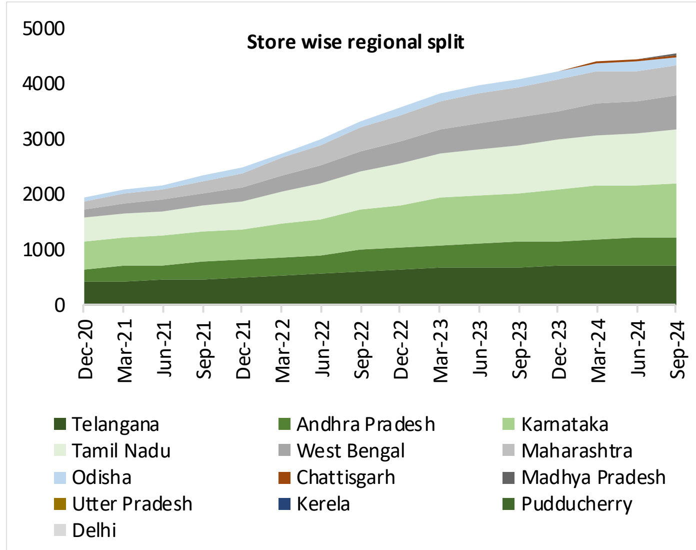
We project a revenue, EBITDA, and PAT CAGR of 20%, 32%, and 61%, respectively, over FY24-27, with PAT expected to more than double from FY25 onwards, supported by these growth drivers and management's guidance.

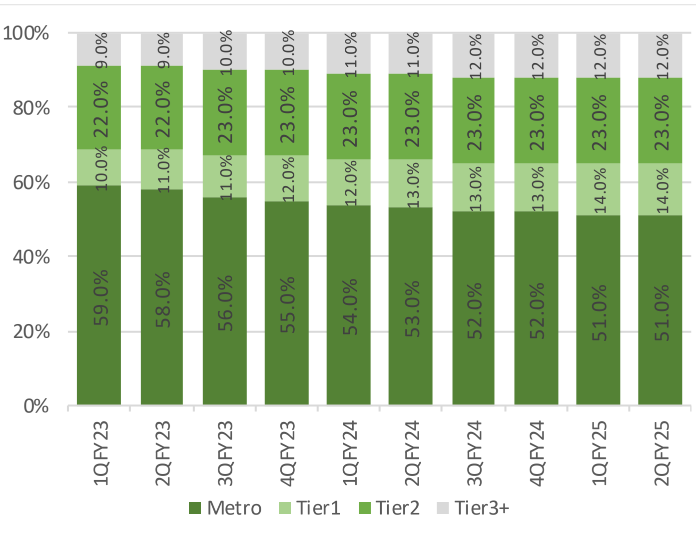
Given the heavy reliance on achieving store addition targets and meeting the six-month breakeven timeline, we apply a conservative 30% discount to the current EV/EBITDA multiple of 21x. As a result, we assign a 15x multiple to the estimated EBITDA of ₹7,541 crore for December 2026, leading to a target price of ₹874.

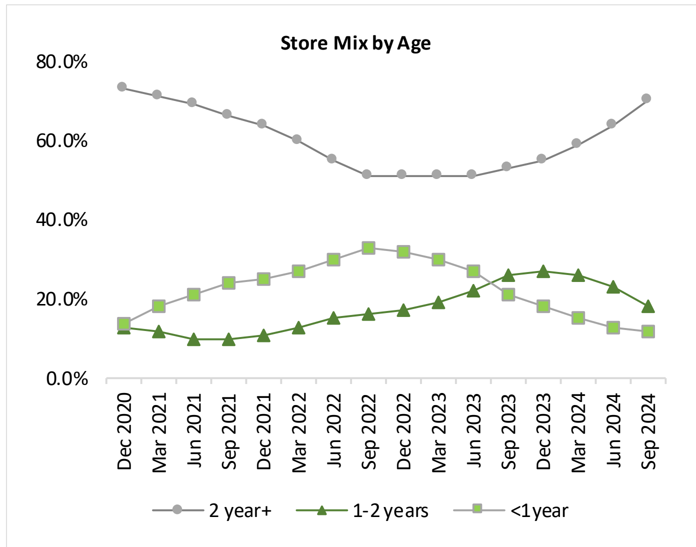


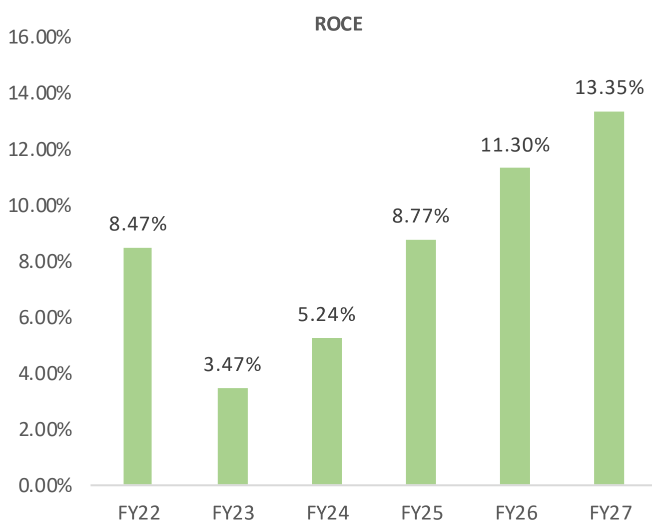
Story in Charts











Industry Overview

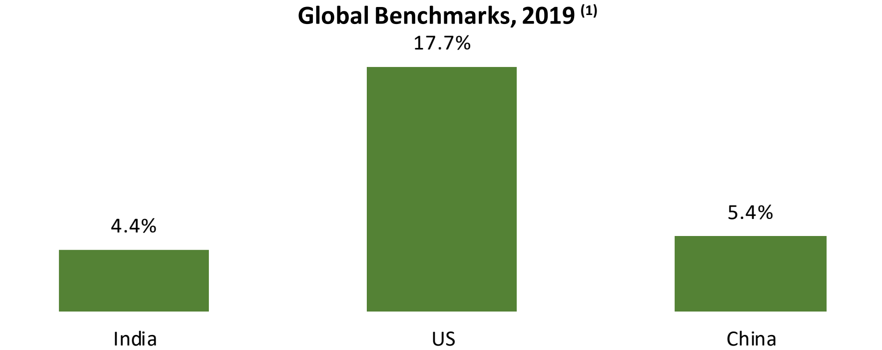
The Indian healthcare sector has become one of India's largest sectors, growing at a CAGR of 22% from 2016 to 2023. This growth is driven by annual population growth of 1.6%, a rising elderly population (4% annually), increased middle-class incomes, and greater market penetration of health insurance providers.

The Indian healthcare sector, valued at $372bn in 2023, is expected to reach $610bn by 2026. (Source: International trade administrations) The sector primarily includes hospitals, pharmaceutical companies and pharmacy, diagnostic services, medical equipment and supplies, medical insurance, and medical tourism.

Although, India has multiple challenges in the Healthcare space:

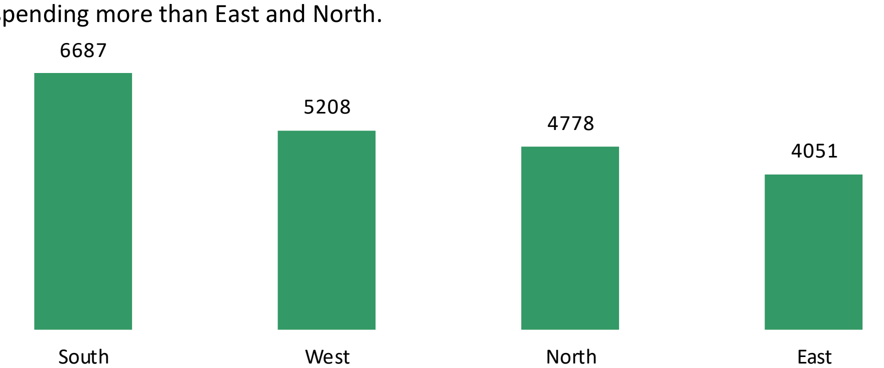
- Affordability: India has one of the lowest per capita incomes globally at $2,600 (2023), compared to the global average of around $13,000 despite rising incomes, and India spends just 3.5% of its GDP compared to the global average of 6.5%.
- Low Government Spending: Government healthcare expenditure is only ~27% of total healthcare spend, resulting in higher out-of-pocket spending for citizens. In comparison, the US and China spend a significantly higher proportion of their GDP on healthcare, at 45% and 56% respectively.

Healthcare Spend (Government + Private) as a % GDP
Global Benchmarks, 2019 (1)



Source: World Bank, office of National Statistics (UK) Centers for Medicare and Medicaid Services (USA), IMF

- Doctor-Patient Ratio: India's doctor-patient ratio is among the lowest globally, with only 9 doctors per 10,000 people and only 4 doctors per 10,000 people in rural areas, compared to 26 in the US and 20 in China.
- Hospital Infrastructure: India has just 7 hospital beds per 10,000 people, far below the global standard of 29 in the US and 43 in China. As a result, 60% of the Indian population does not have access to inpatient healthcare facilities within a 5 km radius.
- Higher out of pocket spending: ~ 60% of the healthcare spend is out-of-pocket (global average of ~18%). This is due to low insurance coverage in India (~20% vs ~90% insurance coverage in the US, UK and China as of 2018). Most health insurance providers & plans in India cover only in-patient care expenses.
- Branded Generics: India's pharmaceutical market is dominated by branded generics (~90%), which are often more expensive than unbranded generics. Doctors tend to prescribe specific branded generics rather than the more cost-effective generic molecules, raising the cost of treatment.
- Regional distribution of per capita health expenditure in unequal with south and west spending more than East and North.



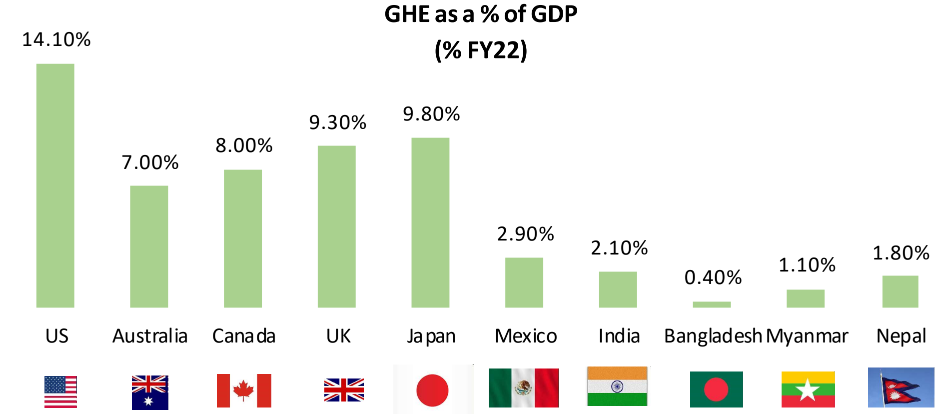
Source: Nathonal Health Accounts,Ministry of Health & Welfare

But there are some green shoots…

- India is undergoing rapid urbanization, from ~30% in FY12 to ~35% in FY22, with more people moving to cities. According to the National Health Accounts Estimates for India (2021-22), per capita healthcare spending in India increased by 82%, rising from Rs 3,638 in FY14 to Rs 6,602 in FY22.
- In FY22, more than 860 million people had health insurance and it is expected that coverage will increase to cover ~70% in the next few years. According to data, between 2020 and 2021, the introduction of health insurance led to a 39% reduction in out-of-pocket expenses for Indian households.
- India has become a popular destination for medical tourism, due to highly complex procedures at relatively low cost. In 2023, ~6.1 million tourists visited for medical reasons
- Life expectancy in India has increased by 6 years to 69.4 years. Elderly population (60+ years) is expected to be ~13% by CY26 up from ~9% in CY16
- Under Union budget FY23-24, the Ministry of Health and Family Welfare has been allocated US$ 10.8B, an increase of 3.4% compared to US$ 10.5B in FY22-23.
- With ~65% of India's population living in rural areas, the government is incentivizing private investments in these regions to create awareness about health and to find cost-effective ways to expand.

Government healthcare expenditure in India is currently underpenetrated at Rs. 984.6bn (~$ 13bn) which is 2.6% of GDP in FY25 (Union budget for 2024-25) but is expected to reach around 3.2% of GDP by FY33, driven by increasing demand for services and the need to improve healthcare accessibility and quality across the country.

Government healthcare expenditure - country comparison
GHE as a % of GDP
(% FY22)



Source: Navigating the future of Healthcare Delivery- Praxis Global Alliance Report

Pharmaceutical market

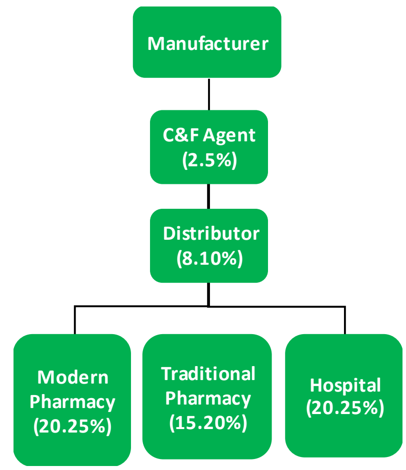
India is known as the "Pharmacy of the World" as it is the largest producer of generic drugs, contributing to over 20% of global generic medicine exports. As per IBEF, Indian pharmaceuticals industry (~20% of total healthcare market) is currently valued at $50 billion and expected to reach $57 billion by 2025 and $130 billion by 2030. (source: sastasunderventures annual report FY24).The growth drivers are low per capita health expenditure, high share of out of pocket expenses and lower penetration across rural areas. The out-Patient market (pharma, diagnostics, over-the-counter (OTC), consultation), is heavily fragmented & inefficient in India, and hence has a strong need for disruption by the digital solutions.

The market is segmented between OTC drugs and prescription drugs. In India prescription drugs can only be sold through a doctor's prescription. During FY20, generic drugs accounted for 75% of the total domestic market, with OTC drugs and branded drugs accounting 18% and 7%, respectively. The National Pharmaceutical Pricing Authority (NPPA) regulates the prices of certain prescription drugs listed in the National List of Essential Medicines (NLEM), which accounts for approximately 15-20% of the domestic market. OTC are not subject to prescription or pricing regulations, providing companies with greater flexibility in pricing and distribution. OTC products are marketed directly to the customers similar to FMCG products.

The pharmaceutical market can also be divided between acute therapy and chronic therapy. Acute conditions are generally severe and sudden in onset such as an asthma attack or a broken bone and therefore patients require medications urgently. The major acute therapies are anti-infective, gastrointestinal, dermatology and vitamin/Nutrient. A chronic condition, by contrast is a long-developing syndrome, such as osteoporosis or diabetes. Chronic therapies are dominated by cardiac, anti-diabetic and Neuro/CNS therapies. Acute therapies account for 63% of the domestic pharmaceutical market. The top 8 metro cities constituted ~23% of the pharma market in 2019, having grown at a ~8% CAGR from 2015. Within the metro segment, the top 3 cities (Mumbai, Delhi NCR and Kolkata) cover more than 50% of the market.

Pharmacies in India

Pharmacies primarily sell pharmaceutical products (OTC and prescription drugs) along with various FMCG products, wellness products, consumables and medical devices. The retail pharmacy market was valued at Rs 2,272bn in FY24, and the unorganised market which include independent, family run chemist shops is large at 82%. The domestic pharmaceutical supply chain typically involves a company appointed carry-forward agent who takes 2-5% margins, responsible for handing warehousing and transportation of drugs, and supplying drugs to distributors (who takes 8-10% margins) who then provide these products to retail pharmacies and hospitals. Pharmacies and hospitals typically charge 20% mark-up on branded medicines.



Organized pharma retailers are able to negotiate lower prices with wholesalers as they purchase most of the products in bulk, owing to superior demand prediction mechanisms. As a result, they retain 25-27% of the pharma MRP share, compared to the ~20% MRP share retained by unorganized retailers. Unlike Indian pharma, more than 90% of the pharma market in the US and the UK is led by the organized channel, indicating a large potential ahead for organized disruption in Indian pharma.

Epharmacy-E-pharmacy in India is valued at around $394 million in 2024, the market is growing at 12.6% CAGR and is expected to reach USD 801 million by 2030 as per TechSci Research report. This growth is driven by the convenience of ordering medicines online, particularly beneficial for the elderly and those in remote areas, and the cost savings offered by these platforms.

Market size breakdown	Rs bn
Size of healthcare market	31,620
size of Pharma companies including pharmacies	4,675
Size of pharmacies	2,272
Unorganised pharmacy Market	1,863
Organised pharmacy Market	409
Ecommerce	114
B&M	295
Medplus Revenue	56
Medplus Market Share	14%

Peer comparison

Medplus's peers include traditional medical shops as well as major national pharmacy chains and e-pharmacy platforms that are expanding rapidly in India. In the organized pharma, Apollo is the largest player with market share of ~19%, followed by Medplus at 14% and later Wellness forever at 4% as of FY24. There are other regional omni-channel players such as Thulasi pharmacy (Tamilnadu), Care Pharmacy (Gujrat), Living Healthy 24 (Kolkata), Sastasundar (Kolkata), Sanjivani Pharmacy while few players only offer generic medicines such as Davaindia, Genmart generic, Zeno health, Zeelab, Medkart, Medbuzz etc

	Apollo Pharmacy		Medplus		Wellness forever	
	store count as of	Revenue from operations	store count as of	Revenue from operations	store count as of	Revenue from operations
FY18	3,021	-	1,488	-	107	-
FY19	3,428	3,886	1,653	2,273	139	677
FY20	3,766	4,821	1,775	2,871	172	863
FY21	4,118	4,876	2,081	3,069	223	924
FY22	4,529	5,361	2,748	3,779	300	1,202
FY23	5,541	6,705	3,822	4,558	350	1,383
FY24	6,228	7,827	4,407	5,625	407	1,500

In order to provide affordable and quality generic medicines to the public, government has launched Jan Aushadhi stores covering 1800 medicines and 285 surgical items from WHO-GMP certified manufacturers which are 50-90% cheaper. As of June 2024, there are currently 12,616 Jan Aushadhi stores in India. The government plans to increase the count to 25,000 stores in FY26 and 50,000 stores by 2030.

CommonMedicine	Jan Aushadhi Price (10 Tablets)	Medplus Generic Price (10 Tablets)
Paracetamol (500 mg)	₹12	₹9
Amlodipine (5 mg)	₹7	₹25
Metformin (500 mg)	₹6	₹20
Atorvastatin (10 mg)	₹9	₹50
Losartan (50 mg)	₹14	₹96

Note: For Medplus members the prices are 30-40% lower.

While **CVS Health** and **Walgreens Boots** are global leaders in the pharmacy sector, their EBITDA margins tend to be lower than those of Indian pharmacy chains.

Particulars	Walgreens Boots Alliance			CVS Health Corporation			Cigna Group		
USD bn	FY22	FY23	FY24	FY22	FY23	FY24	FY22	FY23	FY24
Revenue	1,32,703	1,39,081	1,47,658	3,22,467	3,57,776	3,71,879	1,80,642	1,95,322	2,44,096
GM	21.4%	19.7%	18.1%	16.7%	14.9%	13.8%	16.7%	14.9%	13.8%
EBITDA	6,268	5,002	4,008	19,971	19,995	14,507	11,522	11,980	13,273
EBITDA M	4.7%	3.6%	2.7%	6.2%	5.6%	3.9%	6.4%	6.1%	5.4%
PAT	4,360	3,439	2,491	11,499	11,272	6,679	7,284	7,448	8,077

Key insights from management call

- MedPlus operates 4,552 stores across 12 states and added 108 net new stores in Q2. ~59% of the store openings were in Tier 2 cities and beyond.
- The private label contribution to GMV increased to 16%, with pharmacy private labels at ~10.5%.
- Net working capital stood at 61 days, with new stores showing higher inventory levels due to the ramp-up phase.
- Med Plus aims for 400-450 net new store additions for FY25, revised from earlier guidance of 600 stores. New market entry in Delhi-NCR area, including Noida and Gurgaon, as part of a strategic pilot for national expansion.

- Increased focus on private label products to attract and retain customers with cost-effective options. Efforts to educate customers about the quality and affordability of private label generics.
- Exploring partnerships with insurance companies and corporates for B2B diagnostic offerings.
- Stores older than 12 months contributed 94% of pharmacy revenue in Q2 FY25, amounting to ₹14,438 million.
- For Stores older than 24 months, EBITDA margin of 10.6%. For stores operational between 13-24 months, EBITDA margin of 7.7%. For stores older than 12 months (overall), EBITDA margin of 10.2%. Including allocated non-store-related costs, the operating EBITDA margin for stores older than 12 months drops slightly to 5.2%.
- Stores older than 12 months achieved a store-level operating ROC of 58.1%,
- Stores typically reach break-even within five months. For stores opened between October 2023 and March 2024, 59% achieved break-even within six months.
- While net additions in Q2 were 108 stores, MedPlus closed 24 stores during the quarter, suggesting active monitoring and pruning of underperforming locations.

Company Overview

Medplus, founded in 2006, by Founder, Managing Director and CEO Mr. Gangadi Madhukar Reddy is one of India's largest pharmacy chains offering a wide range of healthcare products, including prescription medicines, over-the-counter drugs, personal care items, healthcare devices, and nutritional products. Medplus operates both through a vast network of over 4500 retail stores across India and an online platform, making it easily accessible to customers across urban and rural areas. Med plus has 14% market share as of 2023 in the organized Pharma market and holds strong market share in in Chennai, Bangalore, Hyderabad and Kolkata of approximately 30%, 29%, 30% and 22%, respectively as of FY21 in organized pharmacy retail market.

The company also operates diagnostic centers which consist of pathology and radiology services only in Hyderabad. The Company has 4 full-service Diagnostic Centers and 8 level-2 Diagnostic Centers as on March 31, 2024. The operations across the entire value chain are backwards-integrated and are managed in-house.

As of FY24, the company has 7 direct subsidiaries- Optival Health Solutions Private Limited (Material subsidiary), Wynclark Pharmaceuticals Private Limited, Kalyani Meditimes Private Limited, Clearancekart Private Limited, MHS Pharmaceuticals Private Limited, Nova Sud Pharmaceuticals Private Limited and MedPlus Insurance Brokers Private Limited, and 5 step down subsidiaries Deccan Medisales Private Limited, Sai Sridhar Pharma Private Limited, Shri Banashankari Pharma Private Limited, Sidson Pharma Distributors Private Limited, and Venkata Krishna Enterprises Private Limited. The subsidiaries are into distribution business and supply its products to the Optival. This helps the group to enhance its penetration by providing discounts and reaching directly to manufacturers which provide superior margins.

Medplus operates ~90% of retail outlets through Optival Health Solutions Private Limited.

Management Information

Dr. Gangadi Madhukar Reddy (MD and CEO)- He is a doctor by profession and had done Masters in business administration from Wharton School of Business. Dr. Reddy is the chief mentor for the MedPlus group companies in their strategic planning and decision making. He has more than two decades of experience in various fields of business and functions like launching and growing IT outsourcing organizations, sales, marketing, fundraising and recruitment. He holds 12.84% in the company

Sujit Kumar Mahato (CFO) - He has been associated with Medplus for more than two years. Previously, he worked with Dr Reddy's Laboratories for 22 years, handling finance function for Germany, Russia and India.

Mr. Cherukupalli Bhaskar Reddy (COO - Outlet Operations)- Dr. Reddy is responsible for the pharmacy store operations strategy, performance, expansion, design and implementation of policies & procedures and employee training, recruitment, and retention. Prior to joining MedPlus, Dr. Reddy, MS & FRCS, was a surgeon with a large practice in Nellore, A.P.

Key milestones

2006: Medplus began with 48 stores in Hyderabad. It began as an online pharmacy with the aim of offering a better and more transparent way of purchasing medicines.

2007: MedPlus expanded into the offline retail market with its first physical store in Hyderabad. The company grew rapidly, opening multiple outlets across major cities in India.

2009: The Company attracted significant investment from private equity firms, which helped fund its expansion. MedPlus raised around $11 million from VenturEast and Seedfund, allowing it to grow its retail presence further.

2010: By the 2010s, MedPlus had expanded in cities like Bangalore, Chennai, and Delhi. The company also enhanced its online presence, enabling customers to shop for medicines and health products conveniently from home.

2014: MedPlus began diversifying its business model by offering additional healthcare services such as diagnostic tests, telemedicine consultations, and health checkups through its MedPlus Health Services.

2018: MedPlus formed strategic partnerships with major pharmaceutical manufacturers to ensure competitive pricing and product availability. It also continued its push to expand its presence in tier 2 and tier 3 cities.

2021: MedPlus focused on strengthening its digital presence by developing mobile apps and online platforms to provide a seamless shopping experience for its customers. The company also continued to expand its physical stores across India.

Investment Rationale

Store Network Expansion and Market Presence

Medplus has expanded its retail footprint from 1488 stores in FY18 to 4,407 stores as of FY24, at a CAGR of 20~. The company is now expanding into new markets like Kerala, Puducherry, Chhattisgarh, Madhya Pradesh, and West Bengal. As of 2QFY25, Medplus plans to add 400-450 new stores in FY25, with planned entry into the Delhi-NCR region.

Medplus has established itself as India's second-largest pharmacy retailer, with a strong presence across Tamil Nadu, Andhra Pradesh, Telangana, Karnataka, Odisha, West Bengal, and Maharashtra. Its 95% stores are present in these states. The company is focused on expanding its footprint and achieving market leadership in the major cities it operates in. In its key cities - Hyderabad, Bangalore, Chennai, and Kolkata - Medplus has a strong market position holding a 22-30% share of the organized retail market based on revenue as of FY21.

Store Additions and Revenue Growth Projections:

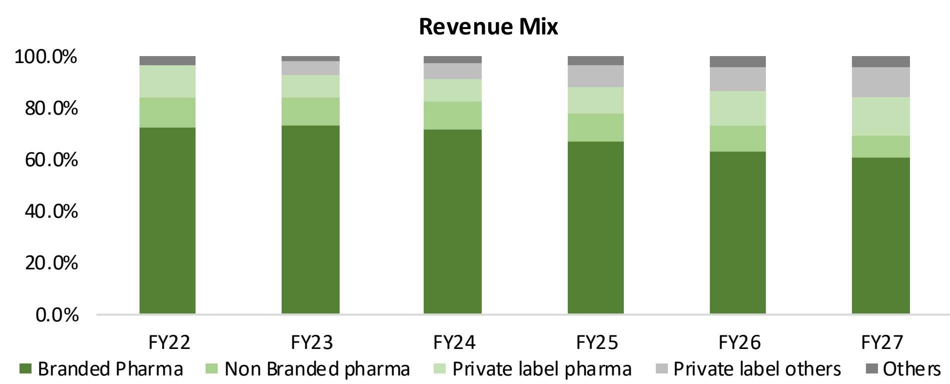
Particulars	FY23	FY24	FY25	FY26	FY27	FY27E
No of stores	2,748	3,822	4,407	4,822	5,602	6,532
Net additions	677	1,074	585	415	780	930
Retail	37,589	45,163	55,491	64,864	77,750	95,914
Diagnostic services	75	306	749	1,145	1,603	2,244
Others	129	103	9	13	15	32
Total Revenue	37,793	45,572	56,249	66,023	79,368	98,190
Gross Profit	8,163	9,962	12,333	15,579	19,543	24,423
EBITDA	2,918	2,620	3,541	4,889	6,447	8,221

Store level Metrics	Jun-23	Sep-23	Dec-23	Mar-24	Jun-24	Sep-24
Revenue/ store (Rs mn)	3.20	3.40	3.36	3.33	3.30	3.40
store level EBITDA margin	9%	9%	10%	10%	9%	10%
Store level Operating ROCE	49%	51%	53%	52%	46%	58%
Inventory (stores) in days	49	46	46	49	48	95
Presence in Metros	54%	53%	52%	52%	51%	51%
2 year + stores	51%	53%	55%	59%	64%	70%

The aggressive store addition strategy has led to some margin pressure, especially with new stores typically taking 6-12 months to break even. However, Medplus has managed an 8% same-store sales growth (SSSG) from its mature stores, and as more stores reach maturity, the company expects higher revenue and profitability from these locations. Medplus aims for 400-450 net new store additions for FY25, slightly revised from earlier guidance of 600 stores. It plans to enter in Delhi-NCR area, including Noida and Gurgaon, as part of a strategic pilot for national expansion. The rate of store additions is expected to increase as the company plans for aggressive expansion. 80% of revenue growth will be led by increase in store count. ~30% outlets are less than 24 months old, which upon maturity will be EBITDA accretive.

Expanding share of private label:

Medplus is focusing heavily on expanding its share of private label products, which offer significantly higher margins compared to branded products. The company currently offers over 1,100 SKUs under its private label, with 787 SKUs in pharmaceuticals and 374 SKUs in non-pharma products such as packaged food, cosmetics, and cleaning products. Private label pharma products provide a gross margin of up to 80%, compared to just 20% for branded pharma products. Medplus aims to increase its private label pharma contribution from the current 10% to 15-20% in the next few years, aligning with the global trends seen in large retailers like CVS and Walgreens, where private label products account for 15-22% of sales.



In June 2023, Medplus launched private-label generics under its own "Medplus" brand in Hyderabad and Telangana, offering significant price discounts of up to 80% on branded generics. This initiative has seen strong traction, with the share of private label pharma increasing from 6.6% in Q1FY24 to 15% in Q3FY24. Based on this success, the company plans to expand the Medplus brand across India, targeting a 20% share of total revenue in the coming years. This expansion is supported by an efficient supply chain, cost-effective manufacturing, and the ability to offer competitive pricing without the added costs of marketing and customer acquisition.

Omni channel platform with a Hyperlocal delivery model

Medplus plans to further develop its Omni channel platform to increase online sales revenue contribution to its total revenue from operations. It intends to leverage its growing store network and focus on deliveries through its growing number of larger format stores, as they tend to be better stocked and more closely linked to its supply chain and distribution infrastructure. Medplus has built an extensive in-house technology platform and on the back of that, it focuses on (1) expanding the target addressable market via Omni channel offering, (2) increasing retention via Omni channel, and (3) operationally extending <2-hour delivery to more locations.

Key Risks:

- The competitive landscape is intensifying with the entry of online players and other pharmacy chains focused on selling generic drugs. Medplus's private-label strategy, while effective, is relatively straightforward to replicate with adequate manufacturing capabilities and capital investment. Additionally, the government's Jan Aushadhi stores provide generic medicines at prices lower than those offered by Medplus, posing a competitive threat. Currently, Medplus primarily targets low-income households, making it more susceptible to price competition in this segment.

- Our growth estimates rely on two key assumptions: a 26% CAGR in store growth, consistent with historical rates, and store-level EBITDA breakeven within six months of opening. Any deviation from these assumptions-such as delays in obtaining store opening approvals or other unforeseen challenges-could pose a significant risk to our projections.

- The company plans to expand its private-label pharmaceutical offerings. However, any quality issues identified by the Central Drugs Standard Control Organization (CDSCO) could severely damage consumer trust in the brand, potentially jeopardizing the company's future prospects.

Financials

Income Statement

Particulars (Rs. mn)	FY24	FY25E	FY26E	FY27E
Sales	**56,249**	**66,023**	**79,368**	**98,190**
Expenses				
Cost of materials consumed	445	279	-	-
Purchases of stock-in-trade	45,378	50,118	59,826	73,767
Changes in inventories	(1,908)	46	-	-
Employee cost	6,255	7,490	9,127	11,292
Other expenses	2,536	3,201	3,968	4,910
EBITDA	**3,541**	**4,889**	**6,447**	**8,221**
EBITDA margin	6.3%	7.4%	8.1%	8.4%
Depreciation	2,242	2,532	3,031	3,531
EBIT	**1,299**	**2,357**	**3,416**	**4,690**
EBIT Margin	2.3%	3.6%	4.3%	4.8%
Other Income	400	423	478	535
Interest	964	1,148	1,320	1,600
Profit before tax	**735**	**1,632**	**2,574**	**3,625**
Tax expense	81	418	649	914
Net Profit	**654**	**1,214**	**1,925**	**2,712**
EPS	5.5	10.2	16.1	22.7

Balance Sheet

Particulars (Rs. mn)	FY24	FY25E	FY26E	FY27E
Equity	15,774	16,988	18,913	21,625
Lease Liabilities	10,096	11,549	13,481	15,677
Trade Payables	2,530	2,894	3,479	4,304
Provisions	632	632	632	632
Other Liabilities	1,017	1,017	1,017	1,017
Total Liabilities	**30,048**	**33,079**	**37,522**	**43,255**
Net Fixed Assets	3,600	3,854	3,906	3,807
Rou	8,773	9,106	9,523	10,091
CWIP	55	55	55	55
Inventory	13,402	15,375	17,396	20,176
Trade Receivables	175	181	217	269
Cash	1,417	1,883	3,800	6,232
Other current assets	2,626	2,626	2,626	2,626
Total Assets	**30,048**	**33,079**	**37,522**	**43,255**

Ratio

Particulars	FY24	FY25E	FY26E	FY27E
Gross Profit	22%	24%	25%	25%
Ebitda Margin	6.3%	7.4%	8.1%	8.4%
PAT Margin	1.2%	1.8%	2.4%	2.8%
ROE	4.3%	7.4%	10.7%	13.4%
ROCE	5.2%	8.8%	11.3%	13.3%
Effective Tax Rate	11.0%	25.6%	25.2%	25.2%
Current Ratio	3.0	2.9	3.0	3.4
Inventory Turnover Ratio	3.3	3.3	3.4	3.7
Fixed Asset Turnover	4.55	5.09	5.91	7.07
Debt to Equity Ratio	0.64	0.68	0.71	0.72
Interest Coverage Ratio	1.35	2.05	2.59	2.93
Net (debt) /cash	(8,679)	(9,666)	(9,682)	(9,446)
Book Value	132	142	158	181
Price-to-Earnings (P/E) Ratio	130	70	44	31
Price-to-Book (P/B) Ratio	5.38	4.99	4.49	3.92
YoY growth				
Sales	23%	17%	20%	24%
EBITDA	35%	38%	32%	28%
PAT	41%	86%	59%	41%

Cash Flow

Y/E Mar (Rs. mn)	FY24	FY25E	FY26E	FY27E
Operating cash flow	1,437	3,279	4,804	5,836
Capital Expenditure	(844)	(3,115	(3,500)	(4,000)
Free Cash Flow	593	164	1,304	1,836

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