Medplus Healthcare Services Ltd.

Nifty: 23,960 CMP: Rs. 600 Target Price: Rs. 866 Rating: Buy

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Healthcare

MedPlus Health Services delivered a strong sequential recovery in 2QFY27, with revenue growing 21.3% YoY (+8.4% QoQ) to Rs 20,371 mn and EBITDA rising 14.3% YoY to Rs 1,701 mn, ahead of our estimates by 8.0% and 12.7% respectively. EBITDA margin expanded 126 bps QoQ to 8.3% (-52 bps YoY), helped by a 59 bps QoQ improvement in gross margin to 25.1%, a stabilisation in private-label pharma, a rebound in private-label non-pharma (mix up to 10.7% from 9.8%) and a one-time Rs 79.6 mn reversal of a store-employee retention bonus provision (company operating EBITDA of Rs 981 mn / 4.8%; Rs 901 mn / 4.4% excluding the reversal). PAT of Rs 561 mn was up 1.0% YoY and 69% QoQ, 21.3% above our estimate, as depreciation (+22% YoY) and finance costs (+27% YoY) on a larger lease book absorbed most of the operating gain. Management guided to FY27 operating profit of Rs 3,800-4,000 mn (+4-9% YoY; earlier plan Rs 4,200-4,400 mn) after absorbing ~Rs 70 mn per month of minimum-wage inflation in Karnataka and Telangana, reiterated its target of 800 net store additions in FY27 and confirmed that non-core capex plans stay withdrawn.

Management call highlights

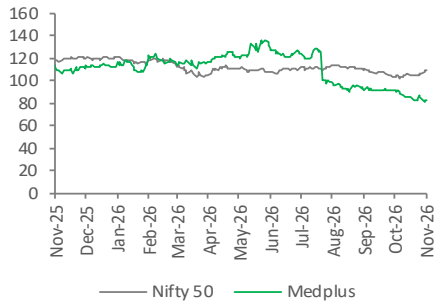
- Network: guidance of 800 net store additions in FY27 reiterated (FY28 to be higher). H1 net adds were 312 (166 in 2QFY27); the network is 5,642 stores (849 franchise), with 71% over two years old. 103 CoCo stores were converted to franchise; franchise revenue rose to Rs 1,160 mn from Rs 830 mn, with economics broadly similar to CoCo stores.
- Private label: 21.4% of revenue (pharma 10.7%, non-pharma 10.7%). Non-pharma grew 18% QoQ as supply and pricing issues were fixed; pharma mix slipped from 11.0% to 10.7% but is seen as having plateaued. Management expects combined mix to improve ~0.5 pp per quarter.
- Margins: gross margin up 60 bps QoQ to 25.1%. Operating EBITDA was Rs 981 mn (4.8%), including a one-time Rs 79.6 mn retention-bonus provision reversal; ex-reversal Rs 901 mn (4.4%). Pharmacy operating EBITDA was Rs 885 mn (4.4%, +120 bps QoQ).
- Guidance: FY27 operating profit guided at ~Rs 3,800-4,000 mn (+4-9% YoY), below the earlier plan of Rs 4,200-4,400 mn after minimum-wage hikes in Karnataka and Telangana (~Rs 70 mn per month). No further wage or discount changes expected; warehouse consolidation and automation target a 0.5-0.75% cost reduction over four quarters.
- Store economics: 12M+ stores (93% of pharmacy revenue) grew 13.2% YoY with a 11.7% store-level EBITDA margin and 72% operating ROCE. Mature-store SSSG is expected at 9-10.5%.
- Working capital and cash: net working capital of 54 days; H1 operating cash flow of Rs 1,622 mn (99% of operating EBITDA) vs Rs 3,153 mn in H1FY26, normalising by year-end. Sep-26 cash, bank balances and investments were Rs 5,439 mn.
- Diagnostics revenue grew 23.5% YoY to Rs 410.5 mn with operating EBITDA of Rs 97.9 mn (23.8%); ~2.16 lakh active plans. Non-core capex (food park, wellness) remains withdrawn.

Valuation and outlook

We remain positive on MedPlus given its leadership in India's organised pharmacy retail market, disciplined store expansion and scalable franchise-led model. 2QFY27 marks an inflection after a weak 1QFY27: private-label pharma has plateaued, private-label non-pharma has recovered, gross margin has rebounded 59 bps QoQ and mature-store (12M+) EBITDA margin held at 11.7% with an operating ROCE of 72%. Management expects combined private-label mix to improve by ~0.5 pp per quarter, targets a 0.5-0.75% reduction in costs over four quarters through warehouse consolidation and AI-led automation, and does not expect further wage shocks or discount changes. That said, FY27 profitability is capped by the minimum-wage reset (Rs 800-850 mn annualised) and by a higher depreciation and finance cost run-rate on the expanding lease book (29% of stores are under two years old). Even so, the 2QFY27 beat lifts our FY27E EBITDA/PAT by 2.2%/3.9% to Rs 6,754 mn/Rs 2,466 mn, consistent with management's FY27 operating profit guidance of Rs 3,800-4,000 mn, while FY28E EBITDA/PAT are broadly unchanged (-0.5%/-0.2%). We expect revenue, EBITDA and PAT to each compound at ~14% over FY26-28E, driven by store additions and operating leverage. We now value the company at 13x EV/EBITDA (from 15x) on four-quarter forward EBITDA to September 2028E (Oct-27 to Sep-28E) of Rs 8,702 mn, which gives a target price of Rs 866 (from Rs 825), implying an upside of approximately 44% from the current market price of Rs 600. We maintain our BUY rating.

Shareholding (%)	Sep-26
Promoters	40.19%
FII	14.38%
DII	29.95%
Public	15.45%

Relative Price Performance



Key Data	
NSE Symbol	MEDPLUS
Bloomberg Code	MEDPLUS
Share outstanding (Rs mn)	120
Mcap (Rs mn)	72,081
Current Market Price (Rs)	600
52-week H/L	1,022/566

Particulars (Rs mn)	FY26	FY27E	FY28E	FY29E	CAGR (FY26-29E)
Sales	68,924	78,938	89,366	100,857	14%
EBITDA	6,074	6,754	7,954	9,581	16%
EBITDA Margin	8.8%	8.6%	8.9%	9.5%	69bps
Net Profit	2,196	2,466	2,864	3,686	19%
EPS (Rs)	18.3	20.6	23.7	30.5	19%
PE (x)	33	29	25	20	

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Quarterly Result update (consolidated)

Particulars (Rs mn)	2QFY27	2QFY26	YoY	1QFY27	QoQ
Revenue	20,371	16,793	21.3%	18,796	8.4%
EBITDA	1,701	1,488	14.3%	1,332	27.6%
EBITDA M	8.3%	8.9%	-52bps	7.1%	126bps
PAT	561	555	1.0%	332	69.0%

Segment Results

Revenue Mix	2QFY27	2QFY26	YoY	1QFY27	QoQ
Branded Pharma	13,257	10,834	22%	12,309	8%
Non Branded pharma	1,834	1,512	21%	1,729	6%
Private label pharma	2,133	2,006	6%	2,024	5%
Private label others	2,133	1,611	32%	1,803	18%
Others	578	477	21%	534	8%

- Branded pharma grew 22% YoY and 8% QoQ to Rs 13.3 bn (66.5% of pharmacy revenue), driven by continued traction in chronic therapies and store additions. Its mix eased marginally from 66.9% in 1QFY27 as private-label non-pharma recovered.
- Non-branded pharma increased 21% YoY and 6% QoQ to Rs 1.8 bn, holding a stable ~9% share of revenue.
- Private-label pharma grew 6% YoY and ~5% QoQ to Rs 2.1 bn (management quotes +5.9% QoQ), but its mix slipped to 10.7% from 11.0% in 1QFY27 and 12.2% a year ago, reflecting the earlier decision to ease in-store promotion of private labels. Management believes the decline has plateaued and expects a gradual increase from here.
- Private-label non-pharma jumped 18% QoQ and 32% YoY to Rs 2.1 bn, lifting its mix to 10.7% from 9.8% in 1QFY27, as supply-chain and pricing issues were resolved. Management sees no cap on growth in the category, supported by new self-service formats and adjacent product categories.
- Others (optical, diagnostics, membership/service fees) were Rs 578 mn, ~2.9% of revenue. Note that from this quarter MedPlus has restated its revenue-mix presentation, reclassifying franchisee revenue previously reported under Others into the respective product categories for all periods; the table above uses the restated mix percentages applied to pharmacy retail revenue (Rs 19,935 mn in 2QFY27, Rs 16,440 mn in 2QFY26 and Rs 18,399 mn in 1QFY27) and is therefore not comparable with our earlier notes.

Changes to our Estimates

Particulars (Rs mn)	Previous		Revised			Change	
	FY27E	FY28E	FY27E	FY28E	FY29E	FY27E	FY28E
Revenue	77,431	87,859	78,938	89,366	100,857	1.9%	1.7%
Ebitda	6,609	7,995	6,754	7,954	9,581	2.2%	-0.5%
Ebitda M	8.5%	9.1%	8.6%	8.9%	9.5%	2bps	-20bps
PAT	2,373	2,869	2,466	2,864	3,686	3.9%	-0.2%
EPS (Rs)	19.8	23.7	20.6	23.7	30.5	3.8%	-0.2%

Our estimates move to reflect the 2QFY27 actuals. The result was ahead of our expectations on revenue (+8.0%), EBITDA (+12.7%) and PAT (+21.3%), which lifts FY27E EBITDA/PAT by 2.2%/3.9%. Our FY27E reported EBITDA of Rs 6,754 mn is consistent with management's FY27 operating EBITDA guidance of Rs 3,800-4,000 mn, which is after lease costs. FY28E EBITDA/PAT are broadly unchanged, as a lower gross margin assumption (25.8% vs 26.0%) offsets the larger revenue base. Management's guidance of ~0.5 pp per quarter improvement in private-label mix and a 0.5-0.75% cost take-out, if delivered, represents upside to our FY28E margin of 8.9%.

Financials

Income Statement

Particulars (Rs mn)	FY26	FY27E	FY28E	FY29E
Sales	**68,924**	**78,938**	**89,366**	**100,857**
Expenses				
Cost of materials consumed	887	419	-	-
Purchases of stock-in-trade	50,305	60,005	66,309	74,634
Changes in inventories	-346	-1,441	-	-
Employee cost	8,845	9,692	10,992	12,103
Other expenses	3,160	3,509	4,111	4,539
EBITDA	**6,074**	**6,754**	**7,954**	**9,581**
EBITDA margin	8.80%	8.60%	8.90%	9.50%
Depreciation	2,829	3,116	3,973	4,534
EBIT	**3,245**	**3,638**	**3,980**	**5,047**
EBIT Margin	4.70%	4.60%	4.50%	5.00%
Other Income	713	824	1,040	1,040
Interest	1,205	1,399	1,440	1,480
Profit before tax	**2,753**	**3,063**	**3,580**	**4,607**
Tax expense	557	597	716	921
Net Profit	**2,196**	**2,466**	**2,864**	**3,686**
EPS	18.29	20.6	23.7	30.5

Balance Sheet

Particulars (Rs mn)	FY26	FY27E	FY28E	FY29E
Equity	19,747	22,213	25,077	28,763
Lease Liabilities	14,244	15,020	15,025	14,557
Trade Payables	3,070	3,460	3,917	4,421
Provisions	829	829	829	829
Other Liabilities	1,437	1,437	1,437	1,437
Total Liabilities	**39,325**	**42,958**	**46,284**	**50,006**
Net Fixed Assets	3,598	3,860	4,083	4,150
Rou	12,268	12,889	12,893	12,492
CWIP	320	320	320	320
Inventory	13,817	15,788	17,873	20,171
Trade Receivables	270	216	245	276
Cash and bank balances	4,622	5,455	6,440	8,166
Other current assets	4,431	4,431	4,431	4,431
Total Assets	**39,325**	**42,958**	**46,284**	**50,006**

Key Ratios

Particulars	FY26	FY27	FY28	FY29
Effective Tax Rate	20.20%	19.50%	20.00%	20.00%
Gross Profit	26.20%	25.30%	25.80%	26.00%
Ebitda Margin	8.80%	8.60%	8.90%	9.50%
PAT Margin	3.20%	3.10%	3.20%	3.70%
ROE	11.80%	11.70%	12.10%	13.70%
ROCE	10.00%	10.20%	10.40%	12.10%
Balance sheet Ratios				
Current Ratio	3	3.2	3.4	3.7
Inventory Turnover Ratio	3.7	3.7	3.7	3.7
Fixed Asset Turnover	4.34	4.71	5.26	6.06
Debt to Equity Ratio	0.72	0.68	0.6	0.51
Interest Coverage Ratio	2.69	2.60	2.76	3.41
Net (debt) /cash	-9,622	-9,566	-8,585	-6,391
Working Capital in days	84	58	58	58
Inventory	99	73	73	73
Trade Receivables	1	1	1	1
Trade Payables	16	16	16	16
Valuation Ratios				
Book Value	164	185	209	240
Price-to-Earnings (P/E) Ratio	33	29	25	20
Price-to-Book (P/B) Ratio	3.65	3.24	2.87	2.50
EV/EBITDA Ratio	13.5	12.1	10.3	8.5
YoY growth				
Sales	12%	15%	13%	13%
EBITDA	25%	11%	18%	20%
PAT	46%	12%	16%	29%

Cash Flow Statement

Particulars (Rs mn)	Mar-26	Mar-27	Mar-28	Mar-29
Net cash from operations (A)	**4,956**	**2,454**	**3,621**	**4,874**
Net cash from investing (B)	**-1,277**	**-1,000**	**-1,200**	**-1,200**
Net cash from financing (C)	**-2,555**	**-623**	**-1,435**	**-1,947**
Net increase / (decrease) in cash and cash equivalents (A+B+C)	**1,124**	**832**	**985**	**1,727**
Opening cash and cash equivalents	861	1,984	2,816	3,801
Closing cash and cash equivalents	1,984	2,816	3,801	5,527
Capital Expenditure	-1,230	-1,000	-1,200	-1,200
Free Cash Flow	3,725	1,454	2,421	3,674

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