Medplus Healthcare Services Ltd.

Nifty: 23,836 CMP: Rs. 717 Target Price: Rs.825 Rating: Buy

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Healthcare

MedPlus Health Services reported a mixed performance in 1QFY27, with revenue growing 21.8% YoY to Rs 18,796 mn, driven by continued store expansion and healthy demand across its pharmacy network. However, profitability remained under pressure, with gross margin contracting 160 bps YoY to 24.5% and EBITDA margin declining 139 bps YoY to 7.1%. The margin compression was primarily driven by a lower contribution from higher-margin private-label products (20.0% vs. 21.5% in 1QFY26), a higher mix of branded medicines (63.8% vs. 63.0%), normalization of inventory provisions, elevated competitive intensity and a sharp increase in employee costs following statutory wage hikes. Despite the near-term margin headwinds, management reiterated its FY27 guidance of 800 net store additions and expects profitability to improve gradually as private-label penetration recovers and recent pricing initiatives begin to support margins.

Management call highlights

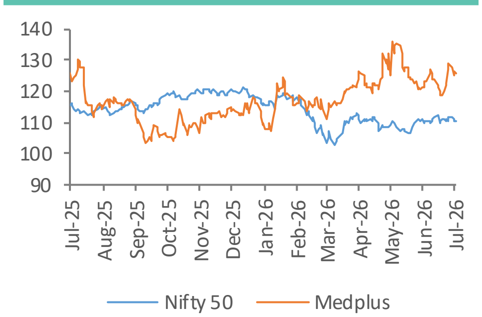
- Management reiterated its guidance of 800 net store additions in FY27, supported by both company-owned and franchise stores. During the quarter, the company added 146 net stores, taking the network to 5,476 stores spread across 2.9 mn sq. ft., with 73% of stores now over two years old. Around 24 COCO stores are being converted to the franchise model, while 95% of these franchise opportunities will be offered to senior employees (>3 years of service).
- Private-label products contributed 20% of revenue (10.7% pharma and 9.3% non-pharma). Management deliberately reduced aggressive in-store promotion of private-label products to improve customer experience, resulting in a temporary decline in mix. Going forward, private-label penetration is expected to recover gradually through marketing initiatives, influencer engagement and improved staff training, rather than sales incentives.
- Gross margin declined due to a combination of lower private-label mix, ~50 bps dilution from the growing franchise business, normalization of inventory provisions, and the absence of year-end supplier discounts. Management expects margins to improve over the remainder of FY27 following the recent changes to the customer discount structure.
- To support margin recovery, effective 7 July, MedPlus reduced customer discounts on purchases above Rs 1,000 from 20% to 19%, with initial customer response remaining encouraging.
- Store-level salaries increased 29.8% YoY, driven by statutory minimum wage hikes, particularly in Karnataka (~60%) and Telangana (>25%), while procurement, supply & distribution costs increased 36.2% YoY owing to network expansion.
- Inventory remained well controlled with 54 net working capital days, comprising 33 warehouse inventory days and 36 store inventory days for mature stores.
- The diagnostics business continued to scale, with revenue increasing to Rs.370.8 mn and operating EBITDA improving to Rs.65.9 mn. Active diagnostic subscriptions reached approximately 200,000, with daily plan sales improving steadily during the quarter.
- Management has put proposed non-core capex projects, including the food park and wellness initiatives, on hold following shareholder feedback. Capital allocation will remain focused on the core pharmacy business, including store expansion, warehousing and private-label development.
- The company continues to focus expansion on underserved markets, with 77% of net store additions during the quarter coming from Tier-2 and Tier-3 cities, where competitive intensity remains relatively lower.

Valuation and outlook

We remain positive on MedPlus given its leadership in India's organized pharmacy retail market, disciplined store expansion strategy and scalable franchise-led expansion model. While near-term profitability has been impacted by wage inflation, lower private-label contribution and inventory provisioning, we believe these pressures are largely transitory. Management has reiterated its guidance of 800 net store additions in FY27, while the increasing share of mature stores (73% of the network is over two years old). However, following management's decision to moderate the pace of private-label penetration in order to enhance customer experience, we have lowered our margin assumptions. We now expect private-label mix to improve more gradually, resulting in a slower recovery in gross margins than previously anticipated. Accordingly, we revise our FY27E/FY28E EBITDA estimates downward by 10.2%/8.0% and PAT estimates by 10.4%/15.1%. Despite these revisions, we expect MedPlus to deliver Revenue/EBITDA/PAT CAGR of 13%/ 15%/14% over FY26-28E, supported by sustained store additions, improving store productivity and gradual operating leverage. We roll forward our valuation to June FY28E and value the company at 15x FY28E EV/EBITDA. Based on our revised June 2027 EBITDA estimate of Rs 7,217 mn, we arrive at a target price of Rs 825, implying an upside of approximately 15% from the current market price. We maintain our BUY rating.

Shareholding (%)	Jun-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)	114,408
Current Market Price (Rs)	717
52-week H/L	1,022/653

Particulars (Rs mn)	FY26	FY27E	FY28E	CAGR (FY26-28E)
Sales	68,924	77,431	87,859	13%
EBITDA	6,074	6,609	7,995	15%
EBITDA Margin	8.8%	8.5%	9.1%	29bps
Net Profit	2,196	2,373	2,869	14%
EPS (Rs)	18.3	19.8	23.7	14%
PE (x)	45	42	35	

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Quarterly Result update (consolidated)

Particulars (Rs mn)	1QFY27	1QFY26	YoY	4QFY26	QoQ
Revenue	18,796	15,426	21.8%	18,644	0.8%
EBITDA	1,332	1,307	1.9%	1,692	-21.2%
EBITDA M	7.1%	8.5%	-139bps	9.1%	-199bps
PAT	332	423	-21.7%	640	-48.1%

Segment Results

Revenue Mix	1QFY27	1QFY26	YoY	4QFY26	QoQ
Branded Pharma	11,738	9,526	23%	11,486	2%
Non Branded pharma	1,637	1,437	14%	1,646	-1%
Private label pharma	1,969	1,936	2%	2,067	-5%
Private label others	1,711	1,316	30%	1,939	-12%
Others	1,343	590	128%	1,152	17%

- Branded pharma grew 23% YoY to Rs. 11.7 bn, driven by continued traction in chronic therapies and an increased contribution from branded medicines, which now account for 63.8% of revenue.
- Non-branded pharma increased 14% YoY to Rs.1.6 bn, remaining broadly stable sequentially as the company moderated the push towards generic products to improve customer experience.
- Private-label pharma grew a modest 2% YoY but declined 5% QoQ to Rs. 2.0 bn, reflecting management's conscious decision to reduce aggressive in-store promotion of private-label products. Management expects private-label penetration to recover gradually through marketing initiatives and better sales training rather than incentive-driven selling.
- Private-label non-pharma increased 30% YoY to Rs. 1.7 bn, although it declined sequentially due to product mix normalization. Management remains positive on long-term growth in the category given its superior margin profile.
- Others grew 128% YoY to Rs. 1.3 bn, supported by ancillary businesses and higher contribution from franchise-related income.

Changes to our Estimates

Particulars (Rs mn)	Previous		Revised		Change	
	FY27E	FY28E	FY27E	FY28E	FY27E	FY28E
Revenue	77,507	88,688	77,431	87,859	-0.1%	-0.9%
EBITDA	7,363	8,691	6,609	7,995	-10.2%	-8.0%
EBITDA M	9.5%	9.8%	8.5%	9.1%	-97bps	-70bps
PAT	2,648	3,380	2,373	2,869	-10.4%	-15.1%
EPS (Rs)	22.1	28.0	19.8	23.7	-10.2%	-15.2%

Our prior estimates baked in a steady mix shift toward high-margin private label (private label carries ~65-75% gross margin vs ~13% for branded pharma). Management has now explicitly dialed back the in-store private-label push to avoid customer friction, and private-label share actually contracted sequentially to 20% (pharma 10.7%, non-pharma 9.3%). Recovery is expected at a slower rate of ~0.3-0.5% per quarter than the ramp we had assumed.

Financials

Income Statement

Particulars (Rs mn)	FY26	FY27E	FY28E
Sales	**68,924**	**77,431**	**87,859**
Expenses			
Cost of materials consumed	887	207	-
Purchases of stock-in-trade	50,305	57,980	65,016
Changes in inventories	-346	-604	-
Employee cost	8,845	9,748	10,894
Other expenses	3,160	3,490	3,954
EBITDA	**6,074**	**6,609**	**7,995**
EBITDA margin	8.8%	8.5%	9.1%
Depreciation	2,829	3,116	3,973
EBIT	**3,245**	**3,493**	**4,022**
EBIT Margin	4.7%	4.5%	4.6%
Other Income	713	828	1,040
Interest	1,205	1,383	1,520
Profit before tax	**2,753**	**2,939**	**3,542**
Tax expense	557	566	673
Net Profit	**2,196**	**2,373**	**2,869**
EPS	18.29	19.8	23.7

Balance Sheet

Particulars (Rs mn)	FY26	FY27E	FY28E
Equity	19,747	22,120	24,989
Lease Liabilities	14,244	14,609	14,613
Trade Payables	3,070	3,394	3,851
Provisions	829	829	829
Other Liabilities	1,437	1,437	1,437
Total Liabilities	**39,325**	**42,388**	**45,718**
Net Fixed Assets	3,598	3,795	4,018
Rou Assets	12,268	12,268	12,268
CWIP	320	320	320
Inventory	13,817	15,486	17,572
Trade Receivables	270	212	241
Cash	4,622	5,876	6,869
Other current assets	4,431	4,431	4,431
Total Assets	**39,325**	**42,388**	**45,718**

Key Ratios

Particulars	FY26	FY27	FY28
Effective Tax Rate	20.2%	19.3%	19.0%
Gross Profit	26.2%	25.6%	26.0%
Ebitda Margin	8.8%	8.5%	9.1%
PAT Margin	3.2%	3.1%	3.3%
ROE	11.8%	11.3%	12.2%
ROCE	10.0%	9.8%	10.5%
Balance sheet Ratios			
Current Ratio	3.0	3.2	3.4
Inventory Turnover Ratio	3.7	3.7	3.7
Fixed Asset Turnover	4.34	4.62	5.18
Debt to Equity Ratio	0.72	0.68	0.60
Interest Coverage Ratio	2.69	2.53	2.65
Net (debt) /cash	(9,622)	(9,419)	(8,434)
Working Capital in days	84	58	58
Inventory	99	73	73
Trade Recievables	1	1	1
Trade Payables	16	16	16
Valuation Ratios			
Book Value	164	184	208
Price-to-Earnings (P/E) Ratio	49	45	38
Price-to-Book (P/B) Ratio	5.47	4.88	4.32
EV/EBITDA Ratio	15.3	14.1	11.7
YoY growth			
Sales	12%	12%	13%
EBITDA	25%	9%	21%
PAT	46%	8%	21%

Cash Flow Statement

Particulars (Rs mn)	Mar-26	Mar-27	Mar-28
Net cash generated from operating activities (A)	**4,956**	**2,585**	**3,705**
Net cash (used in) / generated from investing activities (B)	**(1,277)**	**(1,000)**	**(1,200)**
Net cash used in financing activities (C)	**(2,555)**	**(606)**	**(1,515)**
Net (decrease) / Increase in cash and cash equivalents (A+B+C)	**1,124**	**978**	**990**
Cash and cash equivalents at the beginning of the year	861	1,984	2,962
Cash and cash equivalents at the end of the year	**1,984**	**2,962**	**3,952**
Capital Expenditure	(1,230)	(1,000)	(1,200)
Free Cash Flow	**3,725**	**1,585**	**2,505**

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