

Company Overview

Incorporated in 2006, MedPlus Health Services is India's 2nd largest pharmacy retailer in terms of the number of stores and revenue. The company offers pharmaceutical and wellness products i.e. medicines, vitamins, medical devices, test kits, and fast-moving consumer goods like home and personal care products sanitizers, etc. It is also the 1st pharmacy retailer in India to offer an omnichannel platform wherein customers can purchase products through stores, place orders over the telephone, online orders and a "Click and Pick" facility. The company has maintained a strong focus on scaling up their store network, having grown from operating their initial 48 stores in Hyderabad at the inception of their business to operating a pharmacy retail network of over 2,000 stores distributed across Tamil Nadu, Andhra Pradesh, Telangana, Karnataka, Odisha, West Bengal and Maharashtra, as of March 31, 2021. They have witnessed a massive growth of 17% in store expansion in FY20-21. Medplus started actively focusing on online sales in FY20 and their focus is on "speed" and "convenience" as a customer value proposition for customers who place an order online. They are now able to deliver their customers' online purchases within 2 hours of purchase in select cities of Hyderabad, Bangalore, Kolkata, Pune and Nagpur. Almost 9% of their revenue from operations are from online platform. Company's business operations across the entire value chain are backward integrated and are wholly-managed and operated by them. Their operations are supported by their technology-driven supply chain and distribution infrastructure, organized in a hub-and-spoke model.

Objects of the issue

The IPO proceed will be used towards the following purposes;

- ⇒ Investment into the material subsidiary "Optival" for funding working capital requirement of up-to INR 4.67 Bn
- ⇒ General corporate purposes, balance INR 1.33 Bn

Investment Rationale

Consistently delivering compelling customer value proposition

The MedPlus brand stands for genuine and good quality products. They are able to offer discounts up-to 20% to customers given integrated supply chain and cost efficient model. They cater to a wide range of customers, including discount seekers, customers with urgent needs and customers who value convenience. Their transparent pricing, with discounts based on average order value, allows them to address the needs of different segments appropriately. They have developed a better understanding of their customers requirements through years of operational experience (up-to 15 years), active customer engagement and leveraging the real time data analytics platform. They expect that their well-established brand, quality pharmaceutical products offering, array of products, ability to achieve high fulfilment rates, offering of neighborhood convenience with large store footprint, along with competitive pricing to their customers, will continue to drive their gains in market share.

Successful track record of expansion

They employ a data analytics driven cluster-based approach to their store network expansion, whereby they first achieve high store density in a densely populated residential area within a target city before expanding their store network in surrounding areas within that city, followed by an expansion into neighboring cities. On this basis, MedPlus moved from 48 in stores in 2006 to 2,326 stores as on Sept 30, 2021. Their 51.5% stores are present in core markets as on 30 Sept 2021. They have a streamlined and methodical store opening process that is focused on the sustainability and profitability of every new store that they roll-out. Between April 1, 2018 and Sept 30, 2021, they opened an aggregate of 1,158 new stores, and as of March 31, 2021, over 60.0% and 75.0% of their new stores achieved a positive Store Level Operating EBITDA within the first three months and first six months of operations, respectively. Further, as of Sept 30, 2021, Mature Stores had a median payback period of less than 3 years. For FY21 and six months ended Sept 30, 2021, their Store Level Operating EBITDA Margin for Mature Stores was 11.0% and 11.58%, respectively, and their Store Level Operating ROCE for Mature Stores for FY21 was over 60%.

Valuation and Outlook

Pharmacy retail is the fastest-growing in the overall retail space with an expected growth rate of 25% CAGR over FY20-25 (as per Technopak Report), which is a positive for players like MedPlus. In FY21, MedPlus enjoyed a 22% market share and observed a revenue CAGR of 16% during FY19-21 (while the Indian pharmacy industry grew at a CAGR of just 7.3%) and a gross margin of 21% and 21.3% in FY21 and H1FY22. Their average revenue per store is INR 15.9mn which is much higher when compared with the domestic pharmacy retail industry of approx INR 2.3mn, as per the Technopak Report. The founder, MD and CEO of the company, Gangadi Madhukar Reddy, both a doctor and an entrepreneur, plays an instrumental role. Their shareholders include marquee investors, including Lavender Rose belonging to the Warburg Pincus group and affiliates of Premji Invest. The company has strong financial performance and plans to further strengthen its market position by increasing store penetration in existing clusters and developing new clusters. At the upper price band, the stock is valued at a Price/Sales of 3.09x (on post-issue equity and FY21 financials). Therefore, we give this issue a "SUBSCRIBE" rating for the long term.

Issue Details

Offer Period	13 th Dec - 15 th Dec, 2021
Price Band	INR.780 to INR.796
Bid Lot	18
Listing	BSE&NSE
Issue Size (no. of shares in mn)	17.57
Issue Size (INR. in bn)	13.98
Face Value	2

Issue Structure

QIB	50 %
NIB	15 %
Retail	35 %
BRLM	Axis Capital, Credit Suisse Securities, Edelweiss Financial, Nomura Financial
Registrar	KFin Technologies Pvt Ltd.

Particulars Pre Issue % Post Issue %

Promoter	43.2 %	40.4 %
Public	56.8 %	59.6 %
Total	100%	100%

(Assuming issue subscribed at higher band)

Research Team - 022-61596407



Income Statement (In mn)

Particulars	FY19	FY20	FY21	H1FY22
Revenue				
Revenue from Operations	22,727	28,706	30,693	18,799
Total Revenue	22,727	28,706	30,693	18,799
Expenses				
Purchases of Traded Goods	18,714	25,807	25,214	15,297
Cost of Materials Consumed	17	39	82	74
Increase in Inventories of Finished Goods and Work-in-Progress	(290)	(2,480)	(1,054)	(577)
Employee Benefit Expenses	2,114	2,724	3,387	1,798
Net Loss on Fair Value Changes	-	323	-	-
Other Expenses	982	957	898	620
Total Operating Expenses	21,536	27,369	28,526	17,213
EBITDA	1,191	1,337	2,167	1,587
Depreciation and Amortization Expense	586	748	883	548
Other Income	122	173	215	110
EBIT	728	762	1,499	1,149
Finance Costs	500	468	548	313
PBT	228	294	951	836
Current Tax	119	173	307	206
Deferred Tax Charge	(11)	103	13	(34)
Total Tax	108	276	320	172
PAT	119	18	631	664
Diluted EPS	1	0	6	6

Source: RHP, BP Equities Research

Cash Flow Statement (In mn)

Particulars	FY19	FY20	FY21	H1FY22
Cash Flow from operating activities	1,467	(66)	29	1,565
Cash flow from investing activities	(193)	(276)	(345)	(985)
Cash flow from financing activities	(828)	898	(56)	(606)
Net increase/(decrease) in cash and cash equivalents	445	557	(373)	(27)
Cash and cash equivalents at the beginning of the period	(913)	(468)	89	(284)
Cash and cash equivalents at the end of the period	(468)	89	(284)	(311)

Source: RHP, BP Equities Research



Balance Sheet (In mn)

Particulars	FY19	FY20	FY21	H1FY22
Liabilities				
Share Capital	2	2	4	64
Other Equity	2,911	5,276	7,301	7,945
Non-Controlling Interest	0	13	6	0
Net worth	2,914	5,291	7,311	8,010
Lease Liabilities	2,840	3,193	4,001	4,624
Other Financial Liabilities	26	14	12	11
Long-Term Provisions	82	177	184	177
Total Non Current Liabilities	2,948	3,385	4,196	4,812
Borrowings	1,044	1,051	1,352	567
Trade Payables	1,581	2,342	1,481	2,235
Lease Liabilities	401	529	549	800
Other Financial Liabilities	267	437	373	551
Other Current Liabilities	109	127	109	169
Provisions	120	171	195	187
Contract Liabilities	200	130	82	75
Current Tax Liabilities (net)	4	24	8	58
Total Current Liabilities	3,725	4,811	4,149	4,643
Total Liabilities	9,587	13,487	15,657	17,465
Assets				
Property, Plant & Equipment	470	598	872	1,074
Capital Work in Progress	14	28	55	78
Right of Use Asset	2,877	3,164	3,849	4,643
Goodwill	415	415	415	415
Other Intangible Assets	12	18	38	46
Intangible Assets Under development	-	22	-	6
Other Financial Assets	392	473	551	614
Deferred Tax Assets (Net)	498	402	386	414
Non-Current Tax Assets	159	156	119	127
Other non-current Assets	52	55	141	171
Total Non Current Assets	4,890	5,329	6,426	7,588
Inventories	3,941	6,436	7,500	8,100
Investments	-	3	-	-
Trade Receivables	88	64	54	72
Cash and Cash Equivalents	251	1,139	1,068	257
Bank Balances	248	268	118	704
Other Financial Assets	88	109	360	436
Other Current Assets	83	140	132	309
Total Current Assets	4,697	8,158	9,231	9,877
Net Current Assets	972	3,347	5,081	5,235
Total Assets	9,587	13,487	15,657	17,465

Source: RHP, BP Equities Research

Key Risks

- ⇒ There have been instances of negative cash flows in the last 3 financial years, which is concerning for the business .
- ⇒ Changes in prescription drug pricing and commercial terms could adversely affect their operations and financial performance.
- ⇒ Their operations are subject to high working capital requirement and have incurred substantial indebtedness. Their inability to maintain an optimal level of working capital or financing required may impact their operations adversely.
- ⇒ Any failure to manage the inventories and anticipate demand may affect their financial performance.

**Disclaimer Appendix****Analyst (s) holding in the Stock : Nil****Analyst (s) Certification:**

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