



“MedPlus Health Services Limited
Q3 FY2022 Earnings Conference Call”

February 16, 2022



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Moderator: Ladies and gentlemen good day and welcome to MedPlus Health Services Limited Q3 FY2022 Earnings Conference Call. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing '*' then '0' on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Gangadi Madhukar Reddy from MedPlus. Thank you and over to you Sir!

Gangadi Madhukar R: Thank you Neerav. Good afternoon. On behalf of MedPlus Health Services Limited I extend a very warm welcome to any everyone who has joined us on our call today. I am Madhukar Reddy and I am the CEO of MedPlus. I will now request our CFO to make the necessary disclosure statement.

Hemanth Kundavaram: Thank you Sir. Please note that anything which we say that refers to our outlook for the future is a forward-looking statement which must be read in conjunction with the risks that the company faces. The complete statement is included in our investor presentation dated February 16, 2022 which is available in our website and the BSE and NSE website as well.

Gangadi Madhukar R: Thank you Hemanth. I would like to begin by thanking all of my 16000 plus colleagues for their efforts and diligence that go into providing an essential service to our customers. As you know MedPlus was listed on the Indian Stock Exchange from on December 23, 2021 and this is our inaugural analyst presentation. Before we move to the quarterly update, I wanted to cover a few overview points for those who are new to the MedPlus story.

MedPlus operates in a very attractive space, the pharmacy space. It is one of the fastest growing retail segments out there, faster than I would say even the food and grocery now which typically have been at the forefront of the whole retail revolution in India. There is a large headroom to grow. The business is expected to go up to Rs.2,00,000 Crores by 2025 for a variety of reasons and these are going to be largely affordability, access and various lifestyle reasons for which the businesses continue to actually be on the rise and on top of that the other main reasons for making this space a very attractive one would be the unit technology services itself. Not only is the ROCE one of the highest out here. Actually the highest. The revenue and the cost. The revenue of course, per squares feet is amongst the highest. Pharmacy basically stands anywhere between 35,000 and 55,000 per square feet and the cost of setting up the business itself is not very high. We typically, set up a store capex for our store is around Rs.7 lakhs and lot of the people actually end up doing it in pretty lower cost in some of the mom & pop stores.



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All in all, this remains a very attractive space for new one to enter and the good thing about this is not only is going fast, the penetration that organized retail is among the lowest in the overall retail industry. Today less than 10% of overall industry is in the hands of a couple of large organized retailers and be rest with the online players. That said, the MedPlus story itself we started in 2006 at Hyderabad and over 16 years have been trusted brand across seven states and 280 cities and since inspection we have in fact more than 750 million bills across our 2479 permanent store. Today we have over 16000 employees and across all the pharma and non-pharma, we have 43000 plus active SKUs which we have source from all countries.

So, what this has done for us this cluster-based network has actually enabled us to do very well in the channel side along with the channel not only included in a physical retail side we have also been online., We have also been enabled by software from network and we have one of the most profitable omnichannel presence out there. For us, this network hence we actually serve online only in the cities in which we are selected. What this does for us is reduces the overall customer chain cost we actually spend almost nothing on marketing out here.

Second, given that we are both in the physical and on the online side we are able to take care of both the acute and chronic customers. Now acute has been less than 1000 now. Typically, we will do it for order to break up in part of the year, so we are in the process where we can actually get this working and given the fact that we are present everywhere in some cities, we are in the three main cities in which we have four consumer stores and in the fourth city of Hyderabad. We have over 250 stores, we are able to supply almost 90%-95% of our products in less than two hours. Actually 70% of our orders are supplied under an hour and not only does this allow us to actually reach our customers fast, it also reduces the overall cost of delivery to us.

What this means is, all in all omnichannel service which goes on the back of a dense network, allows us to actually run one of the few profitable omnichannel services in the country. The scale not only allows us to do it, it also allows us to present a very large private play in our space. Today we have over 800 SKUs and we have started a small part of our business at the start. Today we are spread across 800 SKUs and several different categories out there. We have pharma almost all both chronic and non-chronic medication as well. We have complete health related and other foods, we also have skin care, hair care, and everything, and we also have a very significant amount of sales coming in from products which are like baby needs, home health monitoring devices and rehabilitation kind of kits out there.



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What we have achieved over the last 15 years is set up a fantastic platform which allows us to actually grow rapidly and that is what we have seen in the last few years right now. Today, the key pillars of growth for us would be a) growing existing clusters and go deeper into this small area completely, leverage our leadership in the omnichannel platform while increasing to the near to almost and offer to more and more locations to that point I will come back to you with the number of pin codes which you are actually sharing and everything else and finally, continue to expand the share of private label. Here I would like to just point out a couple of things.

India is one of the few places where the overall pharma retail has actually been extremely fragmented. So, this is one of the few places where you actually see literally 50000 distributors more than 500000 retailers and all for that reason the retailer and distributor have had almost no leverage at all and that is the reason why brands actually play such an important role and for that reason, we actually have a situation where there are hundreds and hundreds of different companies producing the same products and that is selling them as branded index fully pharmacy.

Unlike place like in US or UK or wherever where you have got a Walgreens and CVS and a couple of other large chains where they sell only a couple of different things. They sell either a product which is completely based on a patent or it is a CVS or a Walgreens or something the brand is catered. As the brand continues to grow, we expect our share of private label will continue to grow as more and more people accept the product, we will continue to increase this overall private label and those are the three things on which the company will continue to grow forward. For us we are well equipped with all the things which are needed to actually make this happen, our operating cash flow is at around Rs. 37.5 Crores in Q3.

There is a lot of headroom for leverage, since we almost have zero debt and today, we have cash and cash equivalence to the tune of Rs.695 Crores. So, this was something which is lacking in the cost for us, there is something which we have. We have the platform we expected to continue to grow solid.

Now on to the highlights for Q3 for us now on the latest quarters performance our revenue was Rs.933 Crores and this led to a gross margin of Rs.193.8 Crores in an operating EBITDA of Rs.36.6 Crores. So, for us we continue with our store expansion program. We have opened over 537 stores in the last 12 months and out of which one 183 stores were open in the last quarter itself. This is the largest quarter with store openings in our history and we will maintain this space. The highest additions here in Maharashtra and Tamil Nadu 43 and 36 respectively. Also, 50% of store opening this quarter has been in tier-2 and



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beyond. Our ability to grow and operate in this market is proof of our ability to scale and an important element of our cluster-based growth strategy. We have 906 of our 2479 stores in tier 2 and beyond. This quarter there were 32 store closures, but most of them mostly on account of franchise which were withdrawn by us and if you actually look at it something like 19 of these stores were relocation stores where typically we have a store lead which stands for nine years at the end of which we typically are able to renegotiate and stay in the same place, but in some cases where we are not able to do it or where we find that the market has moved we typically end up moving and that is accounted for nearly 19 of the 32 stores which has been relocated.

Please note that the average age of these stores were 9.4 years and it is not something which we opened yesterday and we made a mistake and then we moved on. These are cases where there was a genuine need for us to move, nine of them were franchise stores which were shut down and four of the stores were moved for various other reasons including reasons like some global disturbance or this could have been just selection mislead or something like that, but the small portion of our overall stores.

Our store network now is overall I would say a pretty young store network, 25% are less than 12 months if you look at it and 36% of our overall stores are less than two years., so typically our stores end up reaching a plateau at the 20th month and beyond this they start contributing 10% and more EBITDA which is more at the company level, so for us given the fact that 36% are still not at this stage we have a lot of time for us for further stores to actually start going out there.

The pharmacy part, the network store size we have close of 2477 stores with 1.45 million squares feet. Last Q3 this was 1940 stores with 1.1 billion square feet an addition of around 537 stores overall. The average stores size is now 588 square foot which would be your center spread in store sizes. We have 1615 stores less than 600 and 862 that are greater than 600 squares feet.

Now, on our same store performance, we measure this as stores that have been in operations for 12 months and more as in the last day of the reporting quarter. Revenue from these stores have grown by 4.2% year-on-year. We continue to maintain a store level EBITDA margin in the range of 10%. The store level operating ROCE of these stores are 69% per annum.

Revenue mix; as I mentioned earlier with scale the better poised to increase share of revenue from private label. In Q3, 12% of our revenue came from private label and this compares favorably with 11.1% in Q2 and 10% in Q3 of last year. The trajectory of



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increasing share of our private label in our customers market continues. Our increasing presence in tier 2 and beyond it is affecting in our revenue mix. Typically, we expect more sales of private label to come from the tier 2, tier 3 and that is getting reflected here. This quarter 29% of our pharmacy revenues came from stores in those tiers and this is up from 26% in Q3 of last year.

On the omnichannel side, we continue to extend our coverage has been sourced from where we take orders online. Given that we supply only from where our physical presence is there this is a slightly slower addition of pin codes, but every pin code we add is a profitable addition to us, almost every order which we do, we make money on that. So, the orders are acquired because there is a store which basically is attracting customers out there, some of whom basically then decide to go online and start interacting with us through the online channel and some of them basically continue to do both online and offline over a period of time.

Now what this does is they are all coming from a small area, we are able to deliver it in the shortest possible time in less than two hours and we are also able to do it profitably, but that said, slow but steadily we continue to reach the overall pin codes in our area of service for us. Overall, our online strategy is driven by our conviction that omnichannel is the most suitable and profitable approach in the pharmacy space. We find greater stickiness in those customers who interact with us the omnichannel than those who interact with us purely via the online route. That concludes my update. Now let me request Hemanth our CFO to give the financial update.

Hemanth Kundavaram: Thank you Sir. Our quarterly performance we clocked Q3 revenue of Rs.933 Crores versus Rs.800 Crores last year which is a healthy growth of 17% growth year-on-year mainly driven with an accuracy increase of new stores. On gross level we have added 622 odd stores at a gross level so that has helped increase our majorly a 17% growth.

Secondly on the gross margin, we have registered 20.8% gross margin versus 20.1% last year mainly driven with the private label increase of 10% to 12%. Operating EBITDA of 3.9% this quarter was 5.1% last year again the decrease which was majorly contributed as aggressive growth of stores which means that the cost associated with the number of stores like salaries and rent, have brought down that the overall EBITDA margin majorly driven by a rental cost and salaries by closer to 100-basis point on sales. PAT of Rs.17 Crores versus Rs.23 Crores of last year that is on the P&L.

Coming to the balance sheet, on the inventory, the total inventory as of December is Rs.848 Crores in absolute terms with a net increase of Rs.124 Crores in the last one year. We are at



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net cash positive of Rs.600 Crores odd. In terms of the capex for Q3, we spent around Rs.28 Crores odd out of which Rs.13 Crores only for the new store and Rs.4 Crores to Rs.5 Crores for the work in progress which are in line for the new stores.

Coming to the working capital days, earlier I have touched upon the inventory in absolute terms. Now on the days, the networking capital days are 62 days which has increased from 60 days last year. This networking comprises of inventory days and payable days. Inventories again we would like to present further breakup with low level inventory and warehouse inventory.

The store level inventory days has increased from 39 to 45 days majorly due to the number of stores that have been opened in the last one year. In the last one year, stores have inventory of 85 days versus one year old stores which are 38 days and warehouse inventory has decreased from 45 to 39 days.

Coming to the payable days we are at 23 days which is we were 24 days last year and now it is 23 days. Coming to the cash flow from operation, so we have a healthy cash flow from operations this quarter which is at Rs. 27 Crores which was touched upon earlier from an EBITDA of Rs.36 Crores odd with a conversion ratio of 75% so which means that 75% of our EBITDA is converted into cash some operations, finally ROCE while we are up to 16% at corporate level ROCE as on December end, but if you look at the stores which are one year or more, we are at 69% ROCE.

Moderator: Thank you very much. We will now begin the question-and-answer session. The first question is from the line of Prakash Agarwal from Axis Capital Limited. Please go ahead.

Prakash Agarwal: Thanks for the opportunity. Good evening to all. My first question is on the store level growth that you are showing so this is the same store growth, SSG 4.2% and is it in line with your expectation?

Gangadi Madhukar R: I would say it is slightly muted couple of reasons out there. If you look at it, I would say it is more or less than in the lines which we started. If you look at, in the last year, we have added 537 stores that is almost 25% we have added to the existing store base out there and 200 of these stores have come in just four cities. All these cities require these stores and we have seen the business need for that and once we have gotten set these stores up, but there is going to be some level of quick sales no matter what we do and how far we actually set up the store from each one. What we have done is we have set up the stores in markets and in micro markets which where we have seen new aggregations and then new densities coming up, one and wherever the stores are even if the store is let us say actually 1 km and a half



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away from the existing store that will tend to give away some small portion of customer from the existing store given the fact that we have 20% discount and 60% of the customers who come for their needs for chronic medications and all. These people typically tend to come. Most of them come from a small area around the store, but some of them also come from slightly farther area and so when we set up a store like this, we are bound to see some other stores sales filling out of this new store and so that has been the reason why same store sales growth have not actually taken off to the level that we would one would have expected normal year. In a normal year we have been doing somewhere 150 stores per year, but as I told you it has gone a little bit further. When we do this, when we actually add these stores and we basically see the overall sales growth in stores, but that is something which we can leverage. We are in the markets in which we are we expect to actually gain bigger and bigger market share and that is what basically reach us the power in the overall market and more influence in the overall pharma market one, but more importantly we are driven by only two things. When we set up a new store is it actually getting to break even in the normal expected size, is it basically getting to break even and that answer is always has improved for us over the last year and year two. 60% of all our stores now break even within three months. That continues to give the same and the trajectory for them to actually get to the normal sales level, continues to be more or less same. That is one and two, we also then make sure that when we are doing this our existing stores continue to be profitable? Absolutely as long as both these two criteria are there, SSG or no SSG we will continue to put in more stores to gain more market share.

Prakash Agarwal: Okay, fairly elaborate answer. Thank you for that and just clarification. You mentioned 150 net store addition which is there in the presentation what I want to be confirmed you said we want to sustain this momentum, so 600 for this year and what could be the outlook for next year?

Gangadi Madhukar R: I just want to tell you that every quarter and quarter except for the one full quarter we have been increasing the number of stores per quarter, the number of new stores which have proven. We will continue this acceleration, so which definitely means that it is going to be a much larger number than 600.

Prakash Agarwal: Okay fair enough and my second question is on this quarter we saw some trend reversals so topline growth of 16.5% and our other expenses are up 31% so this is partly due to the additional store expansion a), and are there any other reasons to it which you would like to call out? Just one more if I may add, do you see this trend for the near term given your expansionary store addition plans?



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Gangadi Madhukar R: Unfortunately, Prakash the last six, seven quarters have always come with some kind of a commentary it has been COVID this quarter, no COVID this quarter, COVID this quarter kind of stuff. Even the last quarter was the Q2 also had some element of that. In Q2 we had something like Rs.30 Crores of sales coming in from vaccines and that is the reason why that went up a little bit otherwise it would have been slightly lower and the growth would have been more in line with what would one expect quarter-on-quarter.

Prakash Agarwal: Sir, question was on Q3 that we see a 16% growth versus an expense line of 31% growth so one is the 16% growth versus your presentation slide to where you are saying that organized pharmacy retail growth is about 25%, so commentary one, there and the other thing is on expenses which is higher than the sales growth and do we expect this in the near to medium term?

Gangadi Madhukar R: The organized sales of 25% will probably being compounded over several quarters. I do not think we can just put it only to one that is one and that would also be more I would say you would have to spread over a much larger area. There are several parts of the country in which organized retail is not there at all, so while new investments go in out there and all I am pretty sure some of these areas will see a much larger growth and so you may see that 25% out there. For us the expenses have gone up mainly because of the new additional stores. We would have grown by 25% overall the number of stores and that has basically been the costs for increase in overall costs for us and if you look at it something like 537 stores over the last one year is what has basically increased the overall cost and these are all stores less than a year and when they are less than a year they are when we looked at it the overall cost at the store level are at around 19% versus stores which are more than a year are at an overall cost of around 9% to 10% overall. The EBITDA for stores which are over one year is around 9.7%, 9.8% overall, so what this means is while 19% is breaking even given that our gross margin is around 20.7% or 20.9% it is breaking even. These stores are contributing extremely less and they are also showing the overall cost to be on a slightly higher side.

Prakash Agarwal: Can near to medium term outlooks Sir on this trend of higher cost versus revenue?

Gangadi Madhukar R: For us we continue to expand the overall private label share and that will continue to increase the overall gross margin for us. I am pretty sure that the one-year-old stores will now start to contribute more as we go forward. So, while the near-term thing or near to midterm thing could be flattish, we know that we are investing for the long term and all these stores will actually become super profitable as we go forward.

Prakash Agarwal: Okay, great. Thank you and all the best. I will be in the queue.



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Moderator: Thank you very much. The next question is from the line of Anubhav Agarwal from Credit Suisse. Please go ahead.

Anubhav Agarwal: Sir good evening. Some questions, one is that taking from Prakash question sir, from the same store sales growth if you minus the one year because 4% is including the stores which are just above one year, if you talk about more mature stores let us say five years, seven years, what would be number there if it is 4% for everything what will be number for matured stores?

Gangadi Madhukar R: We will have to come back to you on that, Anubhav. For us again we are less fast as a company about the same store sales growth as we are about gaining and keeping our market share and increasing our market share actually, one. Two, we also more about making sure that every store contributes see in a business in which convenience is more important than anything else. A physical retail which is close by would be visited by people more I would say. Now as the city grows and cities become more and more dense and more pockets of commerce come up, it is important for us to have stores that take the business out there and we continue to maintain the market share. so for us as I said again unlike most retail we worry more about profitability of the store existing store one and the break even and coming to profitability of any new store we set up, so while we can come back to you with those numbers those are not numbers which we look at I would say.

Anubhav Agarwal: My suggestion will be that just taking cue from your point only that it is not for an individual store basis even on a mature basis even if you want to give out a cluster wise number that should be good as well because otherwise you look at your numbers which are reported for past quarter also, in Q3 last year we have 5% growth rate SSG, Q4 was a decline of 7%, Q1 was the only exception which had a lot of COVID sales otherwise Q2 was 3%, now it is 4% so this number is not making sense that because the drop size increase itself is on an average this much, so that is the reason we are asking for a more clearer number, this metric is not helping us to gauge the performance of the business so you can come up with a cluster number as well which will even take care of the point that you are saying that some of the stores which are opening in the same region and they are drawing away sales from some of the older stores which is fine, you can define them as a cluster if that is possible that would help.

Gangadi Madhukar R: I am happy to start talking about the city wise sales and everything else, but I think a more relevant number Anubhav would be this. Our one-year-old stores contributing 10% EBITDA at the store level of our and our new stores basically getting to profitability very quickly or not, those are the two things which we talk about and yes you talked about the overall growth. The inflation itself basically contributes to increase in sales that is right, but

over the last eight quarters we have seen a lot of ups and downs. Q1 of this year was extremely good, because of COVID and because of fears of one or the next two quarters a lot of people ended up buying ahead of time so as much as it was related to let us say specific items being sold for COVID. It is also equally true for people who just bought ahead of time so the next quarter would automatically look back and then again right and this has been happening in the last eight quarters every third quarter, so there is a scare of one, there is a scare of actually people shutting down, there is a scare of supply chains being broken down for which medicines may or may not be available. So, people who buy chronic medication for us, chronic therapies and all, they ended up buying more, so we have seen a lot of spikes and these are not natural and these all have to be explained so nothing in the last two years has been usual this is as usual I would say and in addition to that couple of other reasons have also contributed to, I would say slightly muted sales growth across all the places. We are a company which is very strong in the four, five metros out there, most of our stores are there in Hyderabad, Bengaluru, Chennai and Kolkata almost all these places have a significant population which has been asked to go home and work from home so that is something which we have also seen those cities are yet to return to normal, one and two, as I said are never before addition of stores in our own company has actually led to a muted growth. What we take heart from is only one thing, everything is going on schedule as far as breaking even is concerned and everything is basically delivering the way we actually wanted to at the store level.

Anubhav Agarwal: Sure, absolutely and just two, three more questions. One is on the inventory, it is just a clarity did you say that, now the newest stores, is there a new trend that you are keeping less inventory at the warehouse and more at the store level?

Gangadi Madhukar R: No. Not really. This is again a COVID related situation where we have had a situation in which we have seen that things have started going out of stock for a lot of the products and so we are talking a little bit more for some of the products only that is one and second, we are also getting geared up to open the 70, 80 odd stores which are opening every month so the warehouse itself is actually taking on a little bit more inventory to stock the stores out there. So, both these things happen or are happening out there. Otherwise, no. I think it will all come so while it has come down from 45 days to 39 days, I think it will continue to come down going forward for us, so this is not something which we plan on doing going forward.

Anubhav Agarwal: So, when you expect the 84 days inventory to let us say come down to 70 to 75 days when do you expect that in six months' time or more than a year timeline?



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- Gangadi Madhukar R:** I think we will start seeing the decrease in inventory as we go forward, Anubhav right now. Yes, why do not I come back to you on the exact times and all or what we except the time or what we expect the times will be for us on the inventory part.
- Anubhav Agarwal:** Just clarity to Hemanth. Hemanth in this segment, segment wise asset section you have pathology testing services where the segment assets are up from 30 Crores to 66 Crores in just a quarter do you want to talk about that?
- Hemanth Kundavaram:** There is an increase of close to 27 Crores. We are starting increase our diagnostic stuff so that is the asset that you are seeing there, majorly the last 9 months we have incurred almost 18 Crores in that time and hence you will see an increase on the pathology business that is nothing but I am sure you would have heard about diagnostic business that we are now focusing or will be focusing the expand in a bigger scale for that we have spent to close to 18 odd Crores.
- Anubhav Agarwal:** You want to talk about the way spend, the money which they spend does this mostly creating the large infrastructure care in the collection center because the number is large it is not a small number?
- Gangadi Madhukar R:** Yes, couple of things. We have actually spent money on setting up a small processing center in each of Hyderabad, Bengaluru, Chennai and Nagpur and all. We will continue and we have paid advances for setting it up in Kolkata, Pune and a couple of other places. So, these places will process all the samples which are collected from that city and deliver the results and given that we have got a large portion of people who buy medication for thyroid disorders and diabetes and all these are people who monitors their levels in a regular basis and they form a natural set of people from whom we can draw the clients out there. So that is one. We are also piloting radiology center out there in Hyderabad. This is something on which we have also spent a little bit of money out there. This is going to be an MRI/CT scan and a couple of other things out there but this is strictly in the pilot stage so we are not really put out there.
- Anubhav Agarwal:** For collecting samples, you collecting the samples mostly at pharmacy level or you are putting up the collection center here?
- Gangadi Madhukar R:** No. These are all a portion of our pharmacies which have the facilities and which have the space end up actually doubling up collection center out there so there is no additional cost to it. Typically, people who actually monitor these levels do it in the morning sessions in the morning hours, fasting level and all and that is the time when the stores are not yet at the



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busiest and we find it easy for the store to double up collection center out there. So, it is not additional cost rental or otherwise capex.

Anubhav Agarwal: Normally Sir this business runs on asset turn of 3x, 4x do you think with an investment of about 60 Crores to 70 Crores this can be 250 Crores to 300 Crores business for you in two, three years or three or four years?

Gangadi Madhukar R: There are two parts to the overall business right now. One is we leveraging the network which we have converting a portion of them to become collection centers, delivering services at I would say a lot of value to the customers out there through this that's one and the second part also is the overall piloting of diagnostic center, radiology and all so that is something which we will discuss as we go forward. That is going to be slightly different model so we will once the pilot is done, we will come back with more detail on that.

Anubhav Agarwal: Just last question and then I will join back the queue back. If you continue expand like when it 18 Crores per quarter 700 Crores or 800 Crores annually do you think the EBITDA margin of this quarter is representative means like you have two trends, private labs will increase and the number of stores is also increasing so would you say this close to 4% margin what we expect over the next two years something like that?

Gangadi Madhukar R: The margin expansion is going to be there that is for sure and once that kicks in I think the costs, which are there are directly in line with the number of stores which we have added and the percentage of stores which we have added. As we go forward even if I add let us say another 700 or 800 stores also every year or slightly more it depends on the base of stores which I have so it is going to be a function of both the amount of private label which will increase the overall sales and whatever benefits we get on the backend because as the number continues to grow, I am pretty sure there will be efficiencies both in the warehouse as well as the corporate side so all these will also kick in out here and go I do not think it is going to be business as usual or at least is not going to follow these same trajectory but if you were to really increase the speed and if it go even faster then maybe it will be flattish for a while.

Anubhav Agarwal: Thank you.

Moderator: Thank you. The next question is from the line of Nikhil Mathur from HDFC Mutual Fund. Please go ahead.

Nikhil Mathur: Good evening, everyone. My question is on the margin front you are mentioning that private label share should go up and that will kind of boost margins my question is that you



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talk hyper local being a key differentiator in terms of managing fill rates and then keeping the delivery cost low as well but does not hyperlocal model come with a space or section given that your physical stores are only 400 to 500 square feet so how will you be able to stock so many SKUs which will be required to increase the share of private label in the overall mix?

Gangadi Madhukar R: I am talking about private label for medicine and this actually do not require so much space. Honestly today we already have around 800 private labels and I am pretty sure we will continue to increase these but more profitable addition private label medicines will not take up too much space so that is not a concern. We are not going closer and closer to the customer so that we can basically do slightly faster e-commerce delivery and all. The fact that the business demands that we put on more stores and those happen to be a part of really dense network allow us to actually do this but it is not reduce the delivery time or whatever we are setting up the stores, half a size, half our inventory level that the market demands our 400 square foot or 500 square foot stores are more than capable of holding the inventory required to actually take care of customers in the area and secondly whenever an order hits our omnichannel platform it hits the nearest store and whatever is available in that store or in that hub from where it is getting fulfilled the customer gets a message saying that out of the 10 or 8 or 9 whatever you ask for have got these, if a portion of them are not available the customer gets the message saying that one or two items are not available and they will be fetched from the warehouse and delivered next day so we would not expect to basically fill 100% of everything from the nearest point out there but typically it is 90% to 95% of all the products required for a customer or maybe slightly less but mostly the items which you are asked for usually by people on emergency need for all these steps.

Nikhil Mathur: In terms of you mentioned that private label is going to be more on the pharma side so how is it going to work if a customer comes to the store and orders on omnichannel basis would it be showing alternatives to the customer that these are lower price alternates available non-branded pharma availability is there and then you leave it to the customer whether he wants to opt for the low priced alternative or not or how is it going to work is there demand already for the five private label or you are going to create it by trying to actively substitute though there can be some issues around regulations how that works, how that going to work if you can help me understand this.

Gangadi Madhukar R: Sure, so Nikhil we really do not do anything on the online side as far as private label is concerned. So, the customer uploads the prescription and says he wants X, Y, Z our system basically detects to see if we have the drugs or not if we have it great. If we do not have it, we will tell him about the substitutes out there and all but there is a long and cumbersome process we really do not get in to that because you will also need to change the prescription

itself then that would be an extra call. Basically saying that okay I will need to now get a new prescription, he can either get it from our online consultant out there or he can directly but that is not how it works. Typically, when a walk-in customer comes into store with 10 or 12 or whatever items out there on his prescription list our goal would be to give him as much if not 100% at least as close to 100% but no matter what we do given that there are a few million odd branch out there in the country and these are all getting pushed randomly across all the solutions out there. There is always a new prescription coming with a new drug out there every single day and so those I would say slower moving or newly added drugs to the overall prescription list of a local doctor those who are gone through the list where we basically say this is something which we do not have right now as of now, we could either fetch it from the warehouse or we have a substitute and typically we would in the pass have substituted with another brand we listed what you have asked for is from Cipla I do not have it I will give it to you I will give you something else from Lupin. Today basically I do not have this I think we can fetch from the warehouse or I have an alternative from my own company or some other different company and that is how we do it. It is not an online side, Nikhil, it is too cumbersome, it does not really make for a great customer experience.

Nikhil Mathur: Alright okay and then one small question can you give some guidance on when the online sales share will settle in two years, three years, four years timeframe from current 7% to 8% levels what percentage levels are you targeting for the online contribution?

Gangadi Madhukar R: Honestly speaking I would think that something like 10% to 15% would be the number it would be a little difficult for me hazard a guess out there at this point. I will tell you why. In a normal situation we see that level of customers calling on phone and asking for the product or asking for an alternative channel mainly through your phone or sending someone else or doing online and all the sort of stuff different from walking up to the store and buying the medicine. Right! So, all the people who are basically now doing it on phone and who are also online and as more and more people get online, they will probably use this more often and all the kind of stuff but this is in the absence of someone else. Basically, no one is doing anything silly whereas people will decide to basically sell stuff at a loss for a long-long time so I would think that some of the patients at least would basically go out there for the higher cost and we are seeing a little bit of that. We are not seeing a major dent out there because we continue to take business from the other mom-and-pop stores and all, so our goal would be to only match or beat the discount of mom-and-pop stores and make sure that we are the number one out there on the physical side where on a regular everyday low price side. Also, we need that but we will always see competition basically coming in and doing some promotions, they all think that it is promotional but everyone's one quarter of promotion becomes a full year of promotion for the customer where three to four days



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different people are saying okay I will give you 25% or whatever for this quarter and then someone else comes in with something else so that is going to be a little bit of up and down so I am not really able to tell you but I would say in a normal situation anything from 10% to 15% which is a normal population we should otherwise call on phone or go online with us.

Nikhil Mathur: If I may just squeeze one final one with scale growing, would you be in a better position to get some bonus units or some discounting from the distribution channel or irrespective of scale or cost of procurement would remain the same?

Gangadi Madhukar R: Of all the things that leverage is the one which I think will be the least while we continue to get slightly sourcing margins out there. I think it will probably be the hardest to actually extract any extra and the reason for that is very simple. We are not the guys who basically sitting out there and writing the prescription. We are not really influencing the actual sale of medicine we are only fulfilling it and for that reason I would think that any pharma come to me would hesitate to give out any additional thing. Whatever gains we had, were easy to get earlier in the path mainly because of one thing these are already increasing the margin of the distributor. We acquired the distributor so we got the full margin as such. Now additional margins purely based on scale, yes maybe half percent, 1% that's not going to be substantial jump and that would remain true for everyone irrespective of the scale I would say.

Nikhil Mathur: Got it, thank you so much.

Moderator: Thank you. The next question is from the line of Anuj Suneja from ICICI Prudential Life Insurance Company Limited. Please go ahead.

Anuj Suneja: Sir my broader question is on the lines of the employee cost that has gone up so what would be an apt level it should balance upon and how do we see the ESOP expenses going forward?

Gangadi Madhukar R: Till now I do not think we have any ESOP expenses which have actually slipped for the existing shareholders. Whatever has happened, has happened before the issue. So we see quarterly non-cash expenditure across 6.5 Crores and this is based on the allotment we made just before the IPO. This is granted in November 20, 2021. We do not expect it to be significant but we will revisit this at the end of the year when we had to figure out ways of incentivizing us and employees. On the cost of employee itself it remains more or less steady at the 4% to 5% for all stores which are older than about 2 years, I would say one and two years. The new stores of course as I said overall expenditure in the store is 19%



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overall in which the cost of employee should now be around 10% to 11% it is double of what it should be and typically, they expect our cost in the store to be around 9% to 10% it is 19 it is probably double so probably sitting at around 10% as of now for these stores which are less than a year old.

Anuj Suneja: Sir can I treat this ESOP as one off this time and it should not be a recurring item in your financial statements?

Gangadi Madhukar R: Again, as I said it is non cash. It does not affect anything out there but it is going to be recurring the cost is going to be taken every quarter depends upon.

Anuj Suneja: Then I have to calculate the operating EBITDA I will need to add it probably PAT?

Gangadi Madhukar R: Sir we vested out four years and it has been granted on November 2021 so this is going to basically be there but the only good thing about MedPlus is cash going out of the company on this part.

Anuj Suneja: My third question is on the lines of the diagnostic centers that you are planning so what would be the size of the diagnostic as a percentage of your revenue and if you are focusing Hyderabad as a radiology market what is the market size of Hyderabad radiology market is their other player who already is getting about 85% of share from the Hyderabad market?

Gangadi Madhukar R: I would very much doubt if anyone is getting 85% of anything out there.

Anuj Suneja: 85% of it is about 300 to 320 Crores.

Gangadi Madhukar R: 85% of the revenue comes from Hyderabad, but I should admit it is not 85% of overall market so there is any other market out there but can I take this out to the next quarter. This is the pilot thing we wanted to actually keep all speculation about it right now under control. Why I do not come back to you when I have some more details on this.

Anuj Suneja: My last question would be on the lines of so what would be the typical SSG that which you see as a going concern and secondly what would be the EBITDA margin of mature store what would be our guidance on that?

Gangadi Madhukar R: EBITDA margin of a mature store at the store level is always going to be around 10% and more, 10% is the usual margin. For us what we do is constantly look at our stores to see which ones are delivering 12%, 13% and 14% which ones are we getting more than average sales and then look to see from which catchment are the customers coming to that store for. So if there is a significant number of people coming from a catchment which is slightly



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longer or slightly farther than it is our interest to actually go set up one more store before competition sets up some other store. We are not the only players out there we have got one another major competitor and couple of other local guys. This is convenience business and while we are the number one for most people for their discounts and everything else, we do not just want to get relying only on that. It has always been about quality, convenience and value for us. So, we do not want to just rely one other pillar out there value and say customers have to come us so far. So constant analysis of the places from where the customers are coming in helps us to figure out where the next store is coming in and that one 100% take a little bit of the sales no matter what we do. So, we are not as I said as hung up but to answer one question the way we see it for us to maintain a constant EBITDA whatever is the number is out there we need to just grow by around 4% to 4.5% every year for us to actually be there in that number given that our typical employee cost grew up by around 10% every year and our rents grew up by around 5% every year and our overall margin is 20% and the sales we are talking about is on the base of around 1.6 Crores to 1.7 Crores a year.

Anuj Suneja:

Perfect Sir. Thank you.

Moderator:

Thank you. The next question is from the line of Ritesh Rathod from Nippon India Asset Management Company Limited. Please go ahead.

Ritesh Rathod:

Can you explain when I see your store closure data the relocation being a larger chunk and particularly the matured stores with average age 8 to 9 years so what kind of effect it has on your same store growth or do you open both the stores parallel when one store is closing, the best store is opened parallel how it impacts the profitability, if you can share the experience, it would be great and is the number similar on a last 12 months basis also?

Gangadi Madhukar R:

No. Not really. I think this quarter we have seen slightly more relocation and closures as usual, 32 overall. Out of 32 as I said 19 has been closed because we have relocated the store and the average age of these 19 stores is 9.4 years, overall. So, what it means as I said our typical lease is a nine-year lease and at the end of nine years, we either stay back after renegotiating the rent and lease with the customer or with the landlord or we move. Now we could move if we think that the business has moved or if there is a more let us say more attractive location which has come up in the area and we decide to move there and all. So, it could be for both the reasons but for whatever this does not have any effect out there on this and typically though while we open a new store in the neighboring area we usually keep this dark for at least a couple of months to make sure that some other medical store does not go back, our competitor does not go set up a store out there and then basically starting up the business. So that is something which we will do anyway for us though the closures have



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been mainly because we have shifted because of these reasons or because the market has moved not because it was a mistake which we made in the beginning itself.

Ritesh Rathod: I got that, from your presentation also and usually after 9 years the landlord would ask for a normal rate hike or rental hike so when you see that what impact it would have on your SSG or any anyway you measure this thing, because out of 50% of closure is because of this relocation and if I assume your closure rate of whatever 3% or 2.5% on last 12 months basis a decent chunk is because the stores are getting matured and you will open a store, new store in that region and the new store cost will be there and we would not shut down store immediately sir is there any way you make to measure this Sir?

Gangadi Madhukar R: For us once we actually shut down a store if there is a cost it is only the rent and rent is a very small portion of our overall expense. Typically our overall network has an expense of around 2.75% on rent the older stores would actually have around 1.5% to 2% so it is not a big expense for us once the manpower is more most of the cost has actually gone from that place one, and two when you move to a new store see we are already depreciated the overall asset here in the first five years itself most of it anyway and for us if we look at it, it costs as Rs.6 lakhs to Rs.7 lakhs to setup a new store the capex of the store so it is not a major expense for us and lot of the stuff which we actually take out from a existing store is moved. Most of the cost is towards the fridge, ACs and the computers, printers, and furniture. Almost all of it is reusable. so, there is no big cost when we relocate, we estimate the total cost of relocation to be around Rs.2 lakhs and that is mainly towards some fixed things something which cannot move like painting and everything else hence the cost of getting a license for that location.

Ritesh Rathod: Second one on your omnichannel in that two are hyperlocal delivery is it present across stores which we have 24 higher or is it still to be experimented and how is the fill rate in the areas where you serve?

Gangadi Madhukar R: Sir we are in Hyderabad, Bengaluru, Chennai, Pune, Kolkata and all. Any place where we have a reasonable location, we actually do it. In a city like Hyderabad to give you an example around 37 odd hubs are there from where we deliver so we do not deliver from all the 300 odd stores and as you can see from the 14th slide our deck over there, we have grown this delivery hubs from 174 to 377 we are looking to actually get closer and closer to the customer but not every stores maybe expense of the stores in a city will be delivery hubs.

Ritesh Rathod: Over here what would be the customer acquisition cost and number of registered users any data you have in the omnichannel or the online?



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- Gangadi Madhukar R:** We do not send money on the customer acquisition. We stopped advertising for online. The way it works for us is people walk into a store they buy and every store we basically tell them you can either buy online or offline. We give them the access out there and all and every store has got a prominent thing which says medplusmart.com is also available online and everything else. So, that is how we acquire our customers we did spend a little bit of money maybe June, July but I do not think anything much has been spend in the last quarter on online acquisition.
- Ritesh Rathod:** But we have this data, of registered users or active users or membership users, anyway you track it?
- Gangadi Madhukar R:** We track all of those. Happy to send that across to you.
- Ritesh Rathod:** Thank you.
- Moderator:** Thank you. The next question is from the line of Pathanjali Srinivasan from Mirabilis Investment Trust. Please go ahead.
- Pathanjali Srinivasan:** Sir the first thing I want to know is that your gross margins have kind of gone up compared to the last year but I am not able to understand correctly whether it is because of your increase in private label or is it because the branded pharma has also picked up comparatively?
- Gangadi Madhukar R:** Branded pharma picking up does not really increase the margin very much because the incoming margins have been more or less same and we are actually seeing that more and more people are now going above 1000 and actually getting a slightly higher discount. So, I do not think it is because of that. On the other hand, private label has gone up especially for medicines out there and it has actually gone up from 10% to 12% overall price levels with the medicines alone going up from 5.5 something like that to 7% or more.
- Pathanjali Srinivasan:** Previously you are saying our 10%, 5.5% is only medicines and is now gone up to 7.5%?
- Gangadi Madhukar R:** That is right.
- Pathanjali Srinivasan:** One more thing you have previously mentioned like there was not much benefit we got because of COVID because some segments like operations related medicines and all of that we were not selling because all the surgeries and all had come to a standstill has that part of the business picked up in this quarter?



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Gangadi Madhukar R: I think business is coming back to normal. Although I must say that January was not normal at all but slowly just coming back people are going back to regular consultations and are visiting the pharmacies and everything else and that is one other reason you see a small dip in the overall online customers. Also, people are now happy coming outside and basically going and buying.

Pathanjali Srinivasan: Just one last question our online business the share is kind of been little up and down because of COVID and all of that but will our same stores sales go down or get affected because of this how do you see that happening?

Gangadi Madhukar R: We count it all as one. For us as far as we are concerned, whether it is online or offline, it is goes into the store overall sales. Sales may go up or down in a store due to several reasons but it is not only about online, I would say.

Pathanjali Srinivasan: Thank you.

Moderator: Thank you very much. Ladies and gentlemen, we will take that as a last question. I now hand the conference over to the management for closing comments.

Gangadi Madhukar R: Thanks Neerav. Thanks, gentlemen, for taking the time to be on our first call. You can always get in touch with our Investor Relations team for any further questions and all. Thank you and have a good day.

Moderator: Thank you members of the management. Ladies and gentlemen, on behalf of MedPlus Health Services Limited that concludes this conference. Thank you for joining us. You may now disconnect your lines. Thank you.