



Medplus Health Services Limited

**August 10, 2023**

**The Listing Department  
BSE Limited  
Phiroze Jeejebhoy Towers  
Dalal Street, Fort,  
Mumbai – 400001  
Scrip code: 543427**

**The Listing Department  
National Stock Exchange of India Limited  
Exchange Plaza , 5<sup>th</sup> Floor  
Plot No. C/1, G Block,  
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Bandra (East), Mumbai - 400051  
Symbol: MEDPLUS**

Dear Sir/ Madam,

**Sub: Submission of earning call Transcripts for the quarter ended June 30, 2023.**

Pursuant to Regulation 30 of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015, we enclose herewith transcript of the earnings calls held on August 8, 2023 for the quarter ended June 30, 2023.

Kindly take the same on record. The same is available on Company's website at [www.medplusindia.com](http://www.medplusindia.com)

**For MedPlus Health Services Limited**

**Manoj Kumar Srivastava  
Company Secretary & Compliance Officer  
FCS 7460**



“MedPlus Health Services Limited Q1 FY '24 Earnings  
Conference Call”

**August 08, 2023**



**MANAGEMENT: MR. MADHUKAR GANGADI – CHIEF EXECUTIVE  
OFFICER AND MANAGING DIRECTOR, MEDPLUS  
HEALTH SERVICES LIMITED  
MR. SUJIT MAHATO – CHIEF FINANCIAL OFFICER,  
MEDPLUS HEALTH SERVICES LIMITED  
MR. CHETAN DIKSHIT – CHIEF STRATEGY OFFICER,  
MEDPLUS HEALTH SERVICES LIMITED  
MR. PRASAD REDDY – MEDPLUS HEALTH SERVICES  
LIMITED**

**Moderator:** Ladies and gentlemen, good day and welcome to MedPlus Health Services Limited Q1 FY '24 Earnings Conference Call.

As a reminder, all participants' 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. Prasad Reddy from MedPlus Health Services Limited. Thank you, and over to you.

**Prasad Reddy:** Thank you, Ranjan. Good evening everyone. On behalf of MedPlus, it's my utmost pleasure to welcome you all to the MedPlus Q1 FY '24 Earnings Conference Call to discuss the financial results of MedPlus for the first quarter of Financial year '24 which were announced on August 7, 2023.

We have with us today the Senior Management Team represented by Mr. Madhukar Gangadi – Chief Executive Officer and Managing Director; Mr. Sujit Mahato – CFO and Mr. Chetan Dikshit – CSO.

Before we begin, I would like to mention that some of the statements made in today's discussion may be forward looking in nature and may involve risks and uncertainties. Please note the disclaimer mentioning the risk and uncertainties are on Slide 1 of the investor presentation shared with all of you earlier. Documents relating to our financial performance have been circulated earlier and these have also been posted on our corporate website.

I will now hand over the call to Mr. Sujit. Thank you, and over to you, Sujit.

**Sujit Mahato:** Thank you, Prasad, and good evening everyone. As of June 30th, we have been serving the healthcare and household needs of community in 581 cities across seven states through our extensive network of 3,975 pharmacy outlets. During the current quarter, we have successfully expanded our presence into 29 additional cities.

In addition to our pharmacy operation, MedPlus operates 4 full-service diagnostic centers, 7 level-two centers and 122 collection centers. These facilities play a crucial role in our commitment to providing affordable diagnostic services to our customers.

An important milestone in our diagnostic journey is we have crossed the 1 lakh active membership as at the end of the current quarter covering 180,000 lives are coming from the network.

Our store expansion program remains on track as we continue to balance growth and profitability. Over the past 12 months, we have added a net total of 995 stores with 168 stores opened in Q1.

Notably, West Bengal and Karnataka saw the highest number of store additions with 53 and 32 stores respectively. Of the store openings in Q1, 53% were in Tier-2 cities and beyond reflecting our strategic focus on these markets. Currently, out of our 3,975 stores, 1,762 stores representing 44% are located in Tier-2 cities and beyond. We recognize the potential of these markets and aim to further expand due to the maturity of our operations and robust supply chain capabilities.

During Q1, we experienced 15 store closures. Considering both openings and closures, we achieved the net addition of 153 stores in Q1 compared to 265 store opening in Q4 of the previous year.

In terms of age of our network, approximately 27% of our stores are less than a year old. Around 22% of our store are in the second year of operation. The remaining 51% of our store have been operating for two years or more.

To illustrate the impact of our rapid store expansion on the age distribution of our network, by the end of Q1, approximately 49% of our stores fall between less than two years age bracket. In comparison, during Q1 FY '23, only 45% of our scores were less than two years old. It's important to note that all stores in the less than two years age bracket are still in their ramp up phase. From a financial perspective, they currently have a negative impact on our operating EBITDA.

However, as these stores mature, we anticipate them contributing positively to our profitability. We closely monitor the time it takes for our new stores to break even. For stores opened between July 2022 and December '22, approximately 58% of them achieved breakeven within six months of operation. Additionally, as a cohort, all the stores combined achieved break-even in just four months.

**Network and the store size:**

As at the end of the quarter, our network has grown to 3,975 stores with 2.1 million plus square feet compared to 2,980 stores representing 1.7 million square feet at the end of June '22. The average store size is 542 square feet. To give you a sense of spread in store sizes, we have 2,855 stores less than 600 square feet and 1,120 that are greater than 600 square feet.

With our expanded scale, we are strategically positioned to enhance our revenue share from private label products. Our private label range is designed to offer customers high quality products at affordable prices. Currently, MedPlus offers over 1,300 thoughtfully curated SKUs spanning across pharmaceutical and non-pharmaceutical categories.

Private label sales accounted for 13.3% of our total revenue in Q1 FY '24, we have observed a reduced sale in our private label due to extended summer and delayed monsoon.

Furthermore, our expanding presence in Tier-2 cities and beyond is making a significant impact on our revenue mix. Sales from these markets accounted for 34% of our pharmacy revenue in the current quarter demonstrating an increase from 31% in the same period last year.

**New offering:**

MedPlus has introduced the MedPlus Advantage Pharma subscription plan for its customers in Hyderabad offering several exciting benefits. To become a member of this plan, customers are required to pay an annual subscription fee of Rs. 499. Initially, the company is offering the subscription at Rs. 49. As part of the plan, customers gain access to MedPlus branded products at discounted rates ranging between 50% and 80%. Initially, the plan covered 433 pharma products and the company is now planning to expand the offerings to include more products.

The financial numbers, on our quarter's performance, the consolidated revenue was 12,843 million with a growth of 29.2% year-on-year and 2.5% quarter-on-quarter. Our consolidated operating EBITDA stood at 291 million representing 2.3%. Around 99% of our revenue is from our pharmacy operations. The pharmacy operating EBITDA is 343 million representing 2.7%.

On our store performance, I would like to update you on our stores older than 12 months. Revenue from these stores in Q1 was 11,124 million or 89% of pharmacy revenue. These stores had a store level EBITDA margin of 8.9%. The store level operating ROCE for these stores stood at 49.1%.

A word here on the store level EBITDA margin by age. While stores greater than 12 months had a margin of 8.9%, this was 9.7% for stores greater than 24 months and 6.1% for stores in the 13-to-24-month age bracket. If we allocated the non-store-related cost, then the operating EBITDA for the store greater than 12 months would be 452 million, which translates to a margin of 4%.

On our diagnostic numbers, diagnostics revenue has grown to 139 million in Q1 FY '24 compared to 32 million in Q1 FY '23 which is primarily due to the launch of new centers in Hyderabad. Diagnostic segment recorded an operating EBITDA loss of 46 million compared to a loss of 52 million in Q1 FY '23.

On the working capital details, our networking capital for Q1 was 66 days. The inventory in our warehouse was 35 days. As you are aware, because of the sales trajectory of new stores, their inventory turnover is lower in the first year. In Q1, the inventory level of our first-year store was 114 days. In comparison for our stores older than 12 months, the inventory was 41 days.

Now I request Chetan to update on our diagnostic business. Over to you, Chetan.

**Chetan Dikshit:**

Thank you, Sujit, and good afternoon everyone. To recap what Sujit has already mentioned in our pilot market of Hyderabad, we now have 4 full-service diagnostic centers, 7 level two centers and 122 collection centers.

In July of this year, we made two tweaks to the MedPlus Advantage plan. Firstly, we made the configuration scalable. So, now add-on participants, example, a family member can be included anytime during the one-year tenure of a plan.

Secondly, we increased the price of our plans by Rs. 150. Simultaneously, we introduced the same 150 as a discount for timely renewal. In effect, our old members will have the option to renew on time at the old price. There is no change to the benefits. Any customer of MedPlus Advantage can avail the full range of radiology tests and pathology tests at 75% discount to MRP.

As on 31st March, we had 92,000 active plans and 162,000 underlying lives. As on 30th June, we had 105,000 active plans and 186,000 underlying lives. We are now setting our sites on the 250,000 underlying lives milestone.

For this quarter, in April, we sold 333 gross plans per day. In May and June, this was 308 and 332 respectively. We had launched MedPlus Advantage in March '22. After the completion of one year, our current observed on-time renewal rate is 15%. In 60 days, post expiry, we have observed the renewal to be at 30%. That's an update on diagnostics.

Here I am handing it over to Madhukar now.

**Madhukar Gangadi:**

Thank you, Chetan. On June 17th, we launched a new product line in our stores. It's actually a first on the private label which we had. Earlier our white label or private label products were sold under the name of MHS and Wynclark, and they were offered as substitutes as a convenience to customers for whom we did not have the full set of products on their prescription. These were sold at the same price as the original brands and all, and there was no price advantage. And as I said earlier, these were sold purely in a convenience kind of product out there.

But over the last few quarters, we have been observing that more and more customers are now looking to actually take up or at least have been asking for unbranded or generic products. So, as a response to that and as a response to the fact that the Indian customer is now more aware than ever before and the fact that most of them now realize that 80% of all the drugs which are sold in the country are off-patent and are actually effectively generic products with really no big difference on the efficacy of the drugs and everything else.

So, given that most people have now realized this and they have been asking for this kind of products, we thought it was the right time for us to introduce a set of products under the MedPlus brand.

The big difference now is that while the earlier private labels were offered as just a convenience kind of thing substitute for a brand for which we did not have the stock at the point of time, we have now started offering these actively to customers who are looking to go for a less expensive product than the branded products out there.

So, this comes through a membership plan. The membership plan will beat the Rs. 491 per year kind of thing. We have started it at the Rs. 49 plan as an inaugural offer and what it offers to the customers is 50% to 80% discount on a broad set of medicines. We have started with 433 odd products. We expect that we will extend this to around 800 over the coming months.

We have actually launched it only in Hyderabad and rest of Telangana as of now, and I am happy to tell you that the uptake by the customer has been fantastic. You know, we are actually seeing a large set of customers asking us for these products, asking for the price contract, trusting the MedPlus brand and asking for the substitution.

So, we are happy to tell you that as of July, we are at a total of roughly 14% of all the products sold in our stores today are of the MedPlus brand. While it is sold at a discount, it's still margin accretive to us. It also helps in bringing in new customers into our stores. We also have been seeing a lot of customers who we had actually lost in the past few months walking back to the stores for the promise of the discount and all.

We expect as we go forward that the 14% will continue to increase. We also expect to launch these products across all the seven states in the country, and we expect this to not just add to our margin but also add to the overall top line of the company.

We believe the reason for which we, I would say, believe now we are at a stage where the MedPlus brand is accepted and we will now start selling at least offering customers two things out there. One, the best price on a branded generic product. Two, a MedPlus brand if the customer is so willing at a price which is like 50% to 80% discount to the MRP.

So, that's the update for us for this product. We would like to now take the questions from the audience.

**Moderator:** Thank you. We will now begin the question-and-answer session. The first question comes from the line of Ankit Bansal from AD Private Limited. Please go ahead.

**Ankit Bansal:** My question is, sir, your private label brand which you recently started, so can you please elaborate the kind of manufacturer you have been tied up with or another information which will be helpful for our investors in the growth of the company looking forward?

**Chetan Dikshit:** So, we have shortlisted around 10 different manufacturers across the country. I don't want to give you many, many names out here right now, but these are people who are actually doing it for the largest brands in the country. They have the best, I would say, they have one of the

better facilities in the country and for us, we are very confident that these guys can actually give us quality, which is on par with the best brands out there in the country.

**Ankit Bansal:** My next question is, sir, any idea of expanding to North India? Any in the mind, sir, any your view, sir?

**Madhukar Gangadi:** No, no, we are actually expanding into the contiguous states in which we are already present. We are going into Madhya Pradesh, Chhattisgarh and Kerala. We will definitely be looking at a North India expansion, but not at this time. There's not any plan as of now.

**Ankit Bansal:** Sir, are you seeing a healthy competition or competition is getting more tougher and tougher with the e-commerce like local manufacturers are also I am witnessing a lot of growth in their businesses. How do you see them, sir?

**Madhukar Gangadi:** So, there are two parts to the question, I guess. One is the e-pharmacy side. We are seeing while a couple of players have actually reduced the amount of discounting and definitely reduce the amount of advertising and all, not everyone is doing that obviously. There is one or two players who continue to advertise. On the local manufacturers and all, I can't really comment on that. What we believe is that MedPlus is I would say, the best purveyors for the complete set of branded generics. Our scale allows us to actually give a price which no one else can match. At the same time, we also have a size and scale and capability which allows us to actually make or at least have these drugs contract manufactured at the best facilities across the country and give them at a price at which no one else can match. So, for us, we really don't see any of the smaller and local manufacturers being competition members.

**Moderator:** Thank you. Next question comes from the line of Nikhil Mathur with HDFC Mutual Funds. Please go ahead.

**Nikhil Mathur:** Sir, my question is on the revenue per store that the company is generating. I am looking at the pharmacy count numbers taking the pharmacy revenue, dividing it with the number of stores and kind of analyzing it by multiplying it by four. So, this quarter, the company is at 12.8 million. This has consistently been coming down, not very sharply, but if I look at the previous quarters from 13.2 to 13.3, it was in the first nine months of FY '23, and it's now down to 12.8.

At the same time, if I look at the ageing of stores, the number of stores which are Year 1, as classified in your Investor Presentation, that has come down from 30% to 27%. So, I am not sure what I am missing here that despite the aging profile kind of improving, the revenue per store is trending down, not trending up.

**Madhukar Gangadi:** So, a couple of things. One, the store continues to mature till it actually gets to 24 months while yes, last quarter, we probably would have slightly less number of stores which opened. The overall number of less than two years still is pretty high. It is more than 50% of the overall network, and that is what is actually dragging the overall number down.



For us, we really don't see any other impact other than a small seasonal impact on the Q1 which is normal. This time it has been an extended kind of summer. Typically, April and May by themselves, usually, the summer months don't really have any kind of, I would say, infections or morbidity concerns, which would otherwise result in some kind of medications sold. So, that's one.

And second, the extended summer also basically led to some of it. Other than that, I really don't see any problem.

**Nikhil Mathur:** So, adjustable seasonality, this number would have been much better. That's what you are trying to suggest?

**Madhukar Gangadi:** I would say, no, no, no. See, the big effect is definitely of the 50% stores which are under two years. Seasonal thing is it's a quarter kind of thing. That's all.

**Nikhil Mathur:** So, sir, I mean, we still have 900, I think 800, 900 store addition plans in this year, next year. At what point would there be some leverage available on revenue per store? And I think this is what will drive margins as well, right? Unless your revenue per store increases, I am not sure if the margins can trend up to what some of your companies, I mean, like a listed company which reports the pharmacy margins, they seem to be much, much higher than what MedPlus is at. So, when that kind of breakthrough happens, when the revenue per store increases and that kind of flows through to EBITDA?

**Madhukar Gangadi:** So, as we have been saying since the beginning of the year, last year we said we would actually do in 1,000 and 1,200 stores. We ended up at around 1,045. This year we have been driving towards 800 to 1,000 stores. We are conscious of the fact that margins need to improve and all, but more than that we are actually, I would say, extremely cautious about the money. We want to make sure that there is enough accrual. We don't need to really borrow too much to actually expand. So, for that reason, we are basically going between 800 to 1,000 stores this year. One.

Second, the margin expansion itself will actually come through several things. It's going to come through the maturing of the stores, (Inaudible) 23:45 will basically definitely help the stores become more profitable and as we go forward, as we move from the 4,500-crore top line closer towards the 6,000 odd for the next year, I don't expect that the warehousing and the corporate bus are going to keep in line with that.

So, there will be benefits of scale out there, but more than anything else I think our recent let's say, initiative of bringing on the MedPlus brand of private labels at 50% to 80% discount, I feel extremely confident that this is what is going to actually drive the top line. It's also going to drive the model too. As I said we just launched it in on June 17th and as of now we are basically seeing the overall portion being around 14%. And this has just been launched only in Hyderabad and rest of Telangana.

So, we are very confident that not only will this bring in more customers to the MedPlus store, it will also be extremely margin accretive as we move forward. The platform which we have built will basically now start getting monetized significantly because you require this kind of size to get such a big list of products to be manufactured on your own name.

**Nikhil Mathur:** And sir, one more question I had was, if I look at the employee costs and the other expense, can you give some ballpark indication, what percentage of these costs are sitting in the corporate overheads? And how much of that is in store? The employee expense and the other expenses, what proportion of these expenses are related to the corporate overheads? And what percentage is related to stores?

**Madhukar Gangadi:** Give me a second. See, I am not sure about the exact thing, but let me just give you the numbers. We on a two-year store, we expect a 10% liquidity at the store level and below that we have a 2% corporate expense and a 3% warehousing expense. That is standard.

**Nikhil Mathur:** This is for a two-year store you are saying?

**Madhukar Gangadi:** Exactly. So, the overall expenses, so, Yes, the two-year qualifier was for the EBITDA. So, 2 year to 2.5 year, that's when we hit the 10% EBITDA, but below that then you would always have that. So, no matter what the EBITDA at the store level is, 2% on corporate and 3% on warehousing would be the normal cost.

**Nikhil Mathur:** So, if your entire network system was to be two-year old, MedPlus as a console entity would be reporting a 5% EBITDA margin. Is that the right understanding?

**Madhukar Gangadi:** As of now, yes, but as we go forward with scale benefit and with private label and everything else, we expect this will continue to improve.

**Nikhil Mathur:** And we are talking about pre-Ind-AS, right? Or not?

**Madhukar Gangadi:** Yes, we are. Yes. All rents and everything else taken into account.

**Nikhil Mathur:** Sir, I am not sure if it's there in the press release or Investor Presentation. What is the net debt position as of this quarter?

**Madhukar Gangadi:** Net debt is zero as of this quarter.

**Nikhil Mathur:** Net debt is zero, okay. And one last question. How much inventory is sitting in the stores? And how much inventory is sitting in the warehouses?

**Madhukar Gangadi:** For any store which is more than one year old, 39 days of inventory sits in the store, and roughly around 30 to 35 days sits in the warehouse.

**Nikhil Mathur:** So, for a reasonably mature store, 50% is in the store?

**Madhukar Gangadi:** So, after one year, it pretty much remains the same. I would say, for a store which does more than a lakh of rupees per day kind of stuff, it probably will come down to 28 to 30 days, but on the whole, I would say, across the Board, at the store level, it is roughly around 35 days. But the number starts falling significantly after one year or just after one year. Otherwise, the store starts off with Rs. 18 lakh inventory and a lot of times it ends up doing only Rs. 3 lakh per month, which means a six-month inventory in the initial stage.

**Nikhil Mathur:** And sir, one final comment on discounting, please. I mean, we are hearing various new stories around e-pharmacies being under pressure because of funding constraints and all. Is there anyway to the argument that discounting should come down systematically and that should benefit MedPlus? Or would you keep discounting high in order to gain volume share, which has been the strategy till now?

**Madhukar Gangadi:** See, we are definitely seeing slightly less noise on the discounting side from some of the e-pharmacy companies out there, but as I have been actually maintaining in the past too, e-pharmacy is a small portion of the overall business out there, and what we are seeing is a lot of the small independent operators are selling a lot of trade generics as brands, and they are basically pushing up the discounts out there. So, there is some competition out there, and our own private label is at 50% to 80% discount is I would say kind of move towards conquering the same. That's one.

Our own experience we have been seeing more and more people buying above 1,000. Our bills above 1,000 have actually increased. Hence, the discount has actually gone upside from 17 to 17.1.

**Moderator:** Thank you. Next question comes from the line of Tanmay Gandhi with Investec. Please go ahead.

**Tanmay Gandhi:** Sir, first question is on the store closure. So, this quarter we had almost 15 closures, and the average age is more than seven years. So, did that impact our financials or growth in this quarter?

**Madhukar Gangadi:** No, no. So, that's a pretty standard set of closures, I think, you have. The store, you are talking about store closures, right?

**Tanmay Gandhi:** Yes. So, I think, for eight stores it was because of relocation, but there is another item which is others, and we are not sure what is that. And also, if you can highlight if relocation leads to some different sales for that particular micro markets?

**Madhukar Gangadi:** Yes. No, no, see, if it is not relocation, then it is definitely a business reason. It could be where we have had a problem renewing the lease or something like that. Yes, it could be visibility. It could be several things honestly.

**Tanmay Gandhi:** So, assuming a matured store can do anywhere between 1 Cr to 1.5 Cr a year, right, so does that mean that you would have lost almost 8 to 10 crores of annual sales?

**Madhukar Gangadi:** I don't see it that way because you are already relocating most of the stores. Some of them are actually going somewhere else anyways. So, in all these markets, there is almost no place where we wouldn't have and if it is not exact store to store relocation, we will probably just set up some parallel store. It's unlikely that I would, I wouldn't take that as a thing for losing revenue on them.

**Tanmay Gandhi:** And again on your new pen which you have launched for generics, right, so I understand that our private labels are around 13% and what would be the revenue from these generic products?

**Madhukar Gangadi:** See, earlier when we talked about the 13, 13.5 private label, we were talking mainly about, we are talking about a whole set the complete set which was medicines, non-medicines. So, earlier, if you look at only the pharma side, it is around 8.

Now, that 8 has actually moved to 14% and 14.5% overall but given that the new set of private labels which we have come with a big discount, I am basically comparing this as a MRP sale, which means if the entire sales in the store, the overall sale above Rs. 100 on MRP, the discount would be normally 17% or whatever it is and all. To make sure that the comparison is like-to-like, we are basically saying these products comprise 14, 14.5 out of the 100 on a MRP sale value.

**Tanmay Gandhi:** And our margin profile on this product would be inferior to private labels. Is that correct because your COGS would be similar?

**Madhukar Gangadi:** On an absolute margin, this would be far better than the branded products, but it would definitely be lesser than the old private label which we had.

**Tanmay Gandhi:** But when we sell these generics, so is it fair to assume that it can also cannibalize our private labels, right? Because let's say, if a customer is not comfortable switching, let's say, a third-party brand to some other brand, right, then he would probably wouldn't want to actually go for an unbranded brand. So, is it fair to assume that we might actually it might actually cannibalize your private labels?

**Madhukar Gangadi:** So, see, earlier we had a private label that was being sold at the full price and now we have got the MedPlus brand which is actually sold at a discount. The plan is to go forward and basically merge both these into one.

The reason for that is we want the store employee to be focused on selling this one product and not look to start and not I would say, be inclined to sell that slightly higher cost, higher margin product at the cost of, I would say, confusing the customer basically saying that okay, I don't have this product. I have something else which costs Rs. 80, something else which costs 40,

and both are equally good. So, we don't want that kind of message going out. Hence, we have actually merged them.

Yes, initially the margins would definitely get affected slightly, I would say, but given that we are able, the overall set, if we were selling, let's say, 8% of private label earlier, now it is 14.5% of the combined set, we expect, and this is growing really rapidly, we expect that there will come a time when we would be at least Yes, or even as of now, I would say, the margins are more or less in line with what were earlier.

But the big difference is our announcement of the 50% to 80% discount on the MedPlus brand has actually brought in a lot of new customers, and we are seeing growth in the top line which will take care of all these other issues, if there are any.

**Tanmay Gandhi:** And last question from my end. So, can you share the same store sales growth number for stores more than two years old?

**Madhukar Gangadi:** I am not sure. I think we will come out of the number shortly, but I don't think I can tell you that right now.

**Tanmay Gandhi:** Can you tell us directionally whether it has improved or not? Because probably out of many other our competitors, right, probably we are offering highest discounts. So, has that actually resulted in some volume gains or better same store sales growth? If you can share the direction, that will also work.

**Madhukar Gangadi:** No, no, absolutely. The new private label initiative of MedPlus has definitely resulted in extremely good growth in the small set of, Yes, I would say, not really small. We have actually launched it in Hyderabad and Telangana. So, it is definitely good. So, we have definitely seen growth in July and August.

**Moderator:** Thank you. Next question comes on the line of Mehul Sheth with Axis Capital. Please go ahead.

**Mehul Sheth:** Sir, more on this recent launcher this year your own branded private label on the pharma side, so can you talk more about like how many SKU you are planning, currently have, and what is your expansion plan in that? Apart from that, what will be the exact as a percentage of sale in the current contribution is? And how the unit economics layout in this particular part of a business?

**Madhukar Gangadi:** I'm sorry, Mehul, the question, you are not very clear. I can't really make out. I know you are asking about the private label drug. And can you just repeat that?

**Mehul Sheth:** Let me repeat myself. So, sir, first, I want to know about how many SKU you currently have? And what are your expansion plan in terms of brand coverage? Secondly, how the unit economic works in this part of a business? And thirdly, what is the exact contribution right now from this particular business as a percentage of sales?

**Madhukar Gangadi:** What is the second question?

**Mehul Sheth:** Unit economics. How the unit economics play this part?

**Madhukar Gangadi:** So, we started with 433 odd products. We are now expanding it to 800. We continue to basically receive products from manufacturers across the country and you know, over a period of next three months, we will probably be there closer to that number. 750 to 800 is the number I am looking at. That's the number of SKUs. And these are all over the thing there is oral solids, tablets, capsules, everything out there, including ointments, creams and syrups and all.

The contribution is roughly around 14%, 14.5% as of now in Hyderabad alone, Hyderabad and the rest of Telangana. We expect, and that's the number in July by the way, not in June. And going forward, we expect this number to go closer. Actually, I fully expect that as we increase the overall number of products, the 14.5 can easily go north of 20.

Unit economics? On unit economics side, a Rs. 100 MRP drug has a weighted average discount of roughly 55% to 60%. So, it actually ends up getting a net revenue of 40. Our margin on that would be anywhere from 60% to 70% on the net sales value. If you look at the MRP side, then, obviously, it will be slightly lesser, but on the net sales value it is fairly significant.

**Mehul Sheth:** Secondly, you were guiding your overall top line growth to be somewhere in the range of 25% to 30%. Now you are like, would you like to change your guidance considering there will be a scale up in your branded private label sales?

**Madhukar Gangadi:** Is your question the impact of margins between our traditional private label and the new MedPlus brand? We are struggling to comprehend your question. Did you ask us to make a comparison of the margin between our traditional private label and the new MedPlus brand private label?

**Mehul Sheth:** Yes, sir, that you can obviously provide, but I was also asking that, okay, you can finish this answer. Then I have one more question to ask.

**Sujit Mahato:** Old private label margin structure versus new private label?

**Madhukar Gangadi:** So, let's take both the products are selling at around Rs. 100 MRP. The old one would have had a net revenue of 83 and the new one probably has anywhere between 40 to 45. So, that would be the revenue side.

On the margin itself the products are made at more or less the same cost. So, we would definitely, after GST, after the incentive to employees and after all the other costs, we would land at roughly around 21% to 22% on a MRP upon that. So, let me put it this way. Rs. 21 to Rs. 22 versus Rs. 50 on the whole if the price of the product were to be Rs. 100, and this is after taking into account all costs including GST and employee incentives.

**Mehul Sheth:** So, I was asking about the overall revenue growth for the company. So, our expectation was that company can grow around 25% to 30% range, and now with addition of this new business venture, so would you like to change your top line guidelines or anything, like it will be plus 30% or something?

**Madhukar Gangadi:** No, not really. See, this is going to be a significant but still a small portion of our overall business, but while it can go to 14% to 20% or whatever, it also will help us basically add that many customers. So, I really don't see any need to change the overall top line. I don't see any need. We will definitely let you know if we feel the need as we go forward.

**Moderator:** Thank you. Next question comes from the line of Madhav Marda with Fidelity. Please go ahead.

**Madhav Marda:** Just two questions from my side. The first one was with this the MedPlus branded pharma range which you all are launching, if you just take any one SKU as an example, if somebody buys a branded generic version versus the one that MedPlus is selling, what would be the net saving that the customer gets? Just trying to understand that bit.

**Madhukar Gangadi:** So, it's a little difficult to give an exact number because it would vary depending on the type of drug. If the product is a DPCO kind of product on the price control, then earlier he would normally get a discount of, let's say, 20% if he bought, if his overall bill size was above 1,000. Now, this discount would be anywhere from 30% to 35% or even 40% discount. That's under price control.

On the ones which are not under price control, it could go anywhere from 50% to 90% discount. So, the net saving out there would be, let's say, 52, even if you take it as 80% of the top end, so it would still be a 60% additional discount on the product to the customer.

So, anyway, let me just qualify it by saying one more thing. While the entire range is 50 to 80, what we are seeing is the overall average discount which we are giving is around 60. So, you would say around 40% savings on a typical above Rs. 1,000 purchase of a branded drug right now.

**Madhav Marda:** 40% saving for the customer?

**Madhukar Gangadi:** Yes.

**Madhav Marda:** And just the second question was basically, as we expanded more into the Tier-2, Tier-3 and beyond kind of locations, how does the unit economics change in terms of the kind of investment that we make and the sort of sales the store bit margins, if you could just help us understand that economics there?

**Madhukar Gangadi:** Tier two and Tier-3, obviously, the rents are lower. The overall inventory would definitely be slightly lower and the cost of manpower is also lower out there and which also means that the

top line is also slightly lower by at least 10% to 15%, but what we have seen is given that the product mix is usually better in terms of profitability for us because a lot of people accept the private label out there, we see that on a smaller top line, the net EBITDA is slightly actually higher in a small town at the store level

- Madhav Marda:** EBITDA margin is slightly higher. Okay.
- Madhukar Gangadi:** Yes. That's because the costs are lower and the product mix is better for us. There is no private label out there.
- Madhav Marda:** And what percent, okay, you mentioned how many stores are there in Tier-2, Tier-3 now? You will mention that, right?
- Madhukar Gangadi:** I think, roughly around 30% of our stores now are in Tier-2 and Tier-3.
- Sujit Mahato:** 53%.
- Madhukar Gangadi:** So, it's 53%. A correction out there. It's 44% on Tier-2 and Tier-3.
- Moderator:** Thank you. Next question comes from the line of Bino Pathiparampil with Elara Capital. Please go ahead.
- Bino Pathiparampil:** It's just a follow-up on from Nikhil, I think. This is regarding the revenue per store. You know, I believe many of your new store additions are happening in Tier-2, Tier-3 towns where the population will be more and maybe in distant suburbs of cities where the population will be less. So, is it possible that our revenue per store can remain a bit subdued compared to where it was earlier even if the stores mature?
- Madhukar Gangadi:** You are saying because we have more stores in small towns, the revenue will not grow because we are in not in the bigger...
- Bino Pathiparampil:** Yes, the revenue per store for those stores will be lower compared to our mix of stores which a year back. So, will the overall revenue per store remain a bit subdued compared to what it was earlier?
- Madhukar Gangadi:** No, no, see, it's always going to be slightly lower than a Metro, but the costs out there and the product mix is better for us. Hence it is actually a more profitable store. We end up actually, there is a lot of potential for opening these stores in small towns, and so once the supply chain is set up, once we have the central warehouse in the main capital of the city and once we are getting all the supply line set up out there, it is every additional store is profitable, and hence we pursue that. Yes, the top line will definitely be slightly lower than the ones in a big city.



**Bino Pathiparampil:** Second, on the diagnostic part of the business. So, if I heard rightly, you mentioned that the renewal rate is somewhere in the 15% to 30% range. Are you happy with that? You think that is a sustainable business or what are the benchmarks out there?

**Madhukar Gangadi:** Yes. So, this is not a insurance kind of business where people have to necessarily come and renew on day one. We are seeing other subscription businesses across the world, and we see that wherever people don't need to, there is no big penalty on not insuring in exact time, people tend to renew over a period of six months. So, we are happy with the way things are going. I don't think this is as expected I would say.

**Bino Pathiparampil:** So, the business model as designed by you works fine even if the renewal rate is 15% to 30%. Am I correct?

**Madhukar Gangadi:** See, think of it this way. We have 12 large centers in Hyderabad. 11 actually set up and 12th one will get added on. We have 120 odd collection centers and we also have home service, and these can serve the entire city of Hyderabad which has a population of a crore people. Our model basically is dependent on profit from a subscription base.

And today within the year and most of the, within let's say 18 months where at least for a majority part of this period in which we started the business, since we started the business, we had only two centers. Despite that, we have actually gone to 110,000 members. We see no reason why it cannot be a 250,000 or even a 500,000-membership base as we go forward and from that I know some people there will be a rolling kind of renewal kind of thing out there. We are fine with that.

So, we are looking at a much bigger pool of subscribers as we go forward as the brand continues to grow and as more and more people become aware of the services we have.

**Moderator:** Thank you. Next question comes from the line of Ashita Jain with Nuvama (Edelweiss). Please go ahead.

**Ashita Jain:** Sir, my first question is on gross margin. So, just trying to understand this 130 bips Q-on-Q compression is purely because of the private label dip? Or are there any other factors in play which could reverse and we can see some margin accretion in coming quarters?

**Madhukar Gangadi:** See, the gross margin, if you actually look at it, the direct effect is of the 0.4% extra discount actually, and this is, I will say, kind of seasonal. There is also the, I would say, reduction in the private label itself. Private label typically in Q1 is slightly lesser only because of the reduction in the infectious standard diseases and all, which usually helped in terms of OTC and a lot of the antibiotic drugs.

So, both those combined have actually seen a pretty big dip in the overall gross margin, and we also have a small one-time inventory write down kind of thing, and that has also resulted in a slightly lesser than usual gross margin.

**Ashita Jain:** So, since you have also introduced this MedPlus Pharma Advantage plan and which you are offering at 50% to 80% discount, so is it fair to understand that 21%, 21.5% kind of gross margins are kind of steady space?

**Madhukar Gangadi:** Yes. So, as I said earlier, despite the discount and despite whatever we do out there, it is still margin accretive. It actually is slightly north of 20% out there for us on the MedPlus branded drugs. And the important thing out there is this. This is Agra. The MRP is in our control to a large extent within the guidelines of the government regulations and all, and 50% to 80% discount is also something which is in our control.

So, the goal for us would be to bring in as many customers as possible, increase the overall customer base, and then we would have the perfect kind of platform to increase or decrease the discount as we go forward. 50 to 80 is a pretty wide range. I don't think it would be too difficult for us to increase our profits as we move forward.

**Ashita Jain:** And just lastly on this diagnostic, so excluding the fourth center losses, is it possible to share what was the EBITDA loss for the rest of the three? Do you expect all the four centers to EBITDA neutral? And then what are the steady state margins post that that you are expecting from this entire business?

**Madhukar Gangadi:** Ashita, what we have been saying earlier and we are kind of on track is, we have been saying that these center turn EBITDA neutral from the eighth month, roughly around the eighth month onward. And even though Q1 has been a seasonably weak quarter, we have been seeing the trajectory in that direction. But if you have a more specific question, then we will take it offline, please.

**Ashita Jain:** And just last one, just one clarification since you have launched only in June, this MedPlus Advantage Pharma. Where are you reporting it? In branded pharma only or it's including private label. Your own MedPlus brand?

**Madhukar Gangadi:** Ashita, I think your question is where are we reporting the revenue for the new MedPlus branded pharma? Is that your question?

**Ashita Jain:** Yes, the new plan.

**Sujit Mahato:** It is still, as of now, as of this quarter, it is still included in private label pharma. So, it is part of that earlier group of MHS and Wynclark.

**Madhukar Gangadi:** But its contribution in the last quarter would be really small given that we launched it only in Hyderabad and only on June 17th. So, I expect we probably have a slightly better kind of reporting this quarter, July, August, September.

**Moderator:** Thank you. Next question comes from the line of Nikhil Mathur with HDFC Mutual Fund. Please go ahead.

**Nikhil Mathur:** Sir, I just wanted to extend the argument of Metro the non-Metro store expansion. So, in summary, how should we conclude? Is the EBITDA per store better or worse versus a Metro store in non-Metro cities?

**Madhukar Gangadi:** It's actually better.

**Nikhil Mathur:** EBITDA per store is better?

**Madhukar Gangadi:** Yes.

**Nikhil Mathur:** And what about working capital? I mean, is there any more elongated cycle of working capital in non-Metros?

**Madhukar Gangadi:** Not really. No, because the range of products which are asked for in a non-Metro store are much lesser, both in terms of medicines as well as general goods, and as we go forward, as the private label continues to increase, the MedPlus brand of private label, if we go north of 20%, given the fact that our cost of that product is in the, I will say, low teens on a Rs. 100 product versus a 66 or 67 cost of products for a branded product and given that the small towns will actually sell more, hence you would stock more of that, we actually think that we will have less inventory in store. So, the return on capital would actually be better.

**Nikhil Mathur:** So, basically a non-Metro Storage is accretive on both working capital as well as on EBITDA per store?

**Madhukar Gangadi:** Yes.

**Nikhil Mathur:** And sir, since you have 10 warehouses, can we get to know how well are these warehouses currently utilized? I mean, are your warehouses back to capacities or there is a significant space yet to be properly utilized in these warehouses?

**Madhukar Gangadi:** No, no, I am afraid most of the warehouses are utilized almost fully. We are looking to expand a little bit here and there, but again, that's a little bit of CapEx. I don't think the OpEx will actually increase. As we actually made these warehouses more spacious and more easy to operate in, we expect the cost of running them will actually come down. No, as I answered your question, they are all being utilized well, and I don't really see too much expansion in the overall cost even as we expand the number of stores. It will change as we go, let's say, into newer states and as we expand into Kerala, Chhattisgarh and Madhya Pradesh. Right now we are operating from the warehouses in the states which are adjacent to those, but as we go forward, as the number of stores will become 20 to 50 and so on, we would definitely need to set up somewhere else, but that's not in this year.

**Nikhil Mathur:** And one final question related to this. Is there a scope for a lot of automation in your warehouses? I mean, there are so much technological breakthroughs happening in terms of vertical cladding, energy cost saving. You can do a full dark kind of warehousing without the

requirement of light and energy and all. Are there a lot of technological developments that MedPlus as a company can deploy in its warehouses to kind of draw a lot more efficiencies?

**Madhukar Gangadi:** Absolutely. So, we are now looking to automate our warehouse in Chennai fully, and this will probably happen over the next quarter or so. We, in fact, I would like to tell you that we have actually developed the technology in-house. The proof of concept is already there. In fact, half of the oral or at least half of the tablets and capsules in our warehouse in Hyderabad are now picked from the automatic picking machine which has been developed by us. And the reason why we have not actually extended it fully is because it requires a particular kind of space and we are actually looking to build something in Hyderabad for that. That got delayed. So, we have actually now started to develop this in Chennai. We have rented a place and we are looking to actually automate that fully. So, we will let you know, but I am hoping that at least by the year end we should have it fully working.

**Nikhil Mathur:** In the medium to long term, what kind of implication can this have on your margins? Any broad range that you can share, what kind of savings can be generated?

**Madhukar Gangadi:** Given that our warehousing now is at a 3% overall cost and manpower is a big part of the overall cost, as we automate it and as we make it, first of all, the whole purpose of automation is to also making it super efficient, make sure that products are sent to our stores every single day without taking a break for holidays and vacations and festivals and all that. So, that, of course will make the overall thing much heavier, but we will also be able to save in the range of let's say 0.75% to 1% on the overall cost. So, I would say a 3% cost would probably end up coming somewhere to 2% to 2.25%.

**Moderator:** Thank you. Ladies and gentlemen, due to time constraints, we have reached the end of question-and-answer session. I would now like to hand the conference over to Mr. Madhukar Gangadi for closing comments.

**Madhukar Gangadi:** Thank you. I thank all participants on this call for your interest in the MedPlus journey. Our Investor Relations team can be contacted at [ir@medplusindia.com](mailto:ir@medplusindia.com) for any further queries. Thank you.

**Moderator:** Thank you. On behalf of MedPlus Health Services Limited, that concludes this conference. Thank you for joining us. You may now disconnect your lines.