Medplus Health Services Limited

Date: 10th February, 2023

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National Stock Exchange of India Limited
Exchange Plaza, 5th Floor
Plot No. C/1, G Block,
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SUBJECT: Post-Earning Calls

Dear Sir/ Madam,

This is to inform you that pursuant to Regulation 30 of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015 (as amended), the transcript of the Post earnings call held on 04:00 PM of the 06th day of February 2023, has been made available at the Investor Presentations section of our website:

Https://www.medplusindia.com/corporate.jsp

You are requested to take the same on record.

For and on behalf of MedPlus Health Services Limited

SHILPI KESWANI Digitally signed by SHILPI KESWANI

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"MedPlus Health Services Limited Q3 FY23 Earnings Conference Call"

February 06, 2023

MANAGEMENT: **MR. MADHUKAR REDDY – CHIEF EXECUTIVE OFFICER, MEDPLUS HEALTH SERVICES LIMITED**
MR. SUJIT KUMAR 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 evening and a warm welcome to the MedPlus Health Services Limited Q3 FY23 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. If 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. Thank you and over to you, Prasad.

Prasad Reddy: Thank you, Tanvi. Good evening everyone. On behalf of MedPlus, it's my utmost pleasure to welcome you all to the MedPlus Q3Earnings Conference to discuss the Financial Results of MedPlus for the Third Quarter of Financial Year 2023, which was announced on 3rd February 2023.

We have with us today the senior management team represented by Mr. Madhukar Reddy Gangadi – CEO and MD. 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 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. Please note that we have uploaded the revised presentation to the stock exchanges today,including correction of few typos on Page #8 and #21.

I will now hand over the call to Mr. Madhukar for his opening comments,thank you and over to you Madhukar.

Madhukar R. Gangadi: Thank you, Prasad. Good evening everyone. At MedPlus today we are over 21,000 colleagues. I would like to thank my team for their discipline and hard work that goes into providing a vital service to our customers.

As on 31st December we cater to the healthcare and household needs of neighborhoods in 497 cities, across seven states through a network of 3557 pharmacy stores.We have now expanded into 43 new cities during the current quarter. We are continuing with our store expansion program. We have added 1080 stores in the last twelve months that's called med stores.

In Q3 we have opened 246 stores and the highest additions of 65 and 58 were in Tamil Nadu and Maharashtra, respectively. In Q3 58% of our store openings have been in Tier-2 cities and beyond. We have 1523 of 3557 stores in Tier-2 cities and beyond. These are good markets from our store economics standpoint and MedPlus continues to expand in these markets because of the maturity of its operations and supply chain capability. There were 17 closures in Q3 versus 14 closures in Q2. Overall, there are net additions of 229 in Q3 versus 348 in Q2. For the last twelve months, net additions have been 1080.

To give you an idea of the way our network is split , 32% of all of our stores are less than a year, 17% are between one and two years and 51% of the stores are two years and older. So, we ended Q3 with 49% of our stores been in the less than two years age bracket. In comparison for Q3 FY22, 36% of our stores are less than two-year-old. All stores below two-year age bracket are still in the ramp-up phase and from a financial point they are a drag on the operating EBITDA. However, as they mature we expect these stores to contribute in our profits. We closely track the time to break even for our new stores. The stores opened between July 21 and June 22, 69% of the stores achieved breakeven within six months of operations.

To give you a sense of how rapid the ramp up to breakeven is and to six months and beyond level -79% of stores broke even in the 7th month, andmore than 10% broke even in just one month after that. At the end of the quarter,December 31, 2022 our network has now grown to 3557 stores spread across2 million+ square foot compared to 2477 stores spread across 1.5 million square foot at the end of December 2021.The average store size is 558 square foot. To give you a sense of spec, in store sizes, we have 2474 stores less than 600 square foot and 1083 that are greater than 600 square foot.

With our scale, it is now better, for us to increase our overall share of private label and to increase our overall share of revenue from the private label side and our scale allows us to add new products for which we did not have the minimum order quantity earlier and our scale also allows us to establish a brand which makes all the products much more easier for customers to accept. Our private label range is intended to provide quality products at affordable prices. Thus today we have over 900 curated products across pharma and non-pharma. Private label sales at the end of last quarter were 13.8% of our overall revenue. Overall, the trajectory of increasing share of our private labels in our customer markets continues. Through private label, our pharma range has also been gaining share, 8.6% of pharmacy revenues is from private label pharma. Our increasing presence in Tier-2 cities and beyond is reflected in our revenue mix. Sales from Tier-2 cities and beyond contributed 30% of our pharmacy revenues this quarter. This has increase f from 29% in Q3 of the last quarter.

We continue to extend our range of Pincodes for our online orders. This complements were with our physical stores and our thrust will continue to focus on increasing the coverage of our two hour delivery offering. Store pickups as a share of online orders continue to maintain a higher share than home delivery. Reflective of the convenience and accessibility of our store network, our online strategy remains unchanged. We have not spent heavily to acquire customers online. In fact, in the last quarter we have not spent at all, I would say, on increase of online customers. We will continue to maintain our Omnichannel as a profitable channel. The way we think of our Omnichannel when we set up a store and we enter a neighborhood, is that we will automatically draw 100 customers per day kind of footfall. All of these people will be immediately connected , we let all these customers know that we also have the same service online and we let the customers, according to their convenience, choose to either go online, offline or in a lot of cases go between both.We don't see and given that we are then distributing the products only in that particular neighborhood, for us, every single transaction becomes a profitable transaction. Neither is their cost of acquisition, nor is their extra cost orextra discounting which we give, nor do we spend too much on the delivery side. For us, while we believe that online is a very critical part of the overall supply chain, overall selling process out there, we think that the customers will pick it based on their convenience and there is actually no need to spend a lot of money to acquire customers or at least increasing 10 customers into going online.

With that, I will actually let our CFO give you an update on our numbers.

Sujit Kumar Mahato: Thank you, Madhukar. Now, on the quarter's performance:

Our consolidated revenue was 11,903 million, a growth of 27.5% year on year and 6.2% quarter on quarter. Our consolidated operating EBITDA stood at 371 million, representing 3.1%. This is a 1.2% year on year and 31% quarter on quarter improvement. Around 99% of our revenues is from our pharmacy operations. The pharmacy operating EBITDA was 406 million representing 3.5%.

On our store performance, I would like to update you on our stores older than 12 months, revenue from these stores in Q3 was 9895 million or 85% of our total pharmacy revenue. These stores had a store level EBITDA margin of 10%. The store level operating ROCE of these stores stood at 60.8%, a word here on the store level EBITDA margin by age, while stores greater than 12 months had a margin of 10%, for stores in the greater than 24 months category marginwas 10.6% and for stores in the 13 months to 24 months category margin was 7.2%. If we allocated non-store-related cost, then the operating EBITDA of stores are greater than 12 months which would be 490 million, which translates to a margin of 4.9%.

On working capital, our net working capital for Quarter 3 was 63 days, the inventory in our warehouse was 37 days. As you are aware, because of the sales trajectory of new stores where inventory turnover is lower in the first year. In Q3, the inventory level of our first year stores was 109 days. In comparison to our stores older than 12 months, the inventory was 38 days. On our segmental data I would like to add an important note, in page 17 of our earnings update we have presented the business segments which are different from the regulatory filings. For example, opticals have been grouped under others in the presentation, whereas in the regulatory filings, opticals is grouped under retail. We hope this information will be useful to you.

Now, I request Chetan to update us on the diagnostic business,over to you, Chetan.

Chetan Dikshit: Thanks Sujit. Good afternoon, everyone. I'm Chetan Dikshit and I'm the Chief Strategy Officer of MedPlus. We currently have three full-service diagnostic centers in Hyderabad and over 100 collection centers. Any member can avail themselves of the full range of radiology tests. Example MRI, CT and pathology tests at 75% discount to MRP.

To recap, there are four differences in our models versus our typical tier:

- Firstly, we do not operate via franchisees and so there is no revenue sharing.
- Secondly, our collection centers are housed within our pharmacies, so there are only marginal incremental establishment costs at a consolidated level.
- Thirdly, our plan is designed such, that we do not depend on the referral network for patient walk-ins and lastly we expect our centers to achieve scale faster than peers.

As an indication, the capacity utilization for our advanced radiology machines in six months of operations is nearly twice that of a typical new center in the marketplace. Up to 31st of December, we have sold 68,000 plans with 119,000 underlying lives. In October, November and December, we sold 250, 281 and 275 plans per day respectively.

That's our update on diagnostics, handing it back to Madhukar.

Madhukar R. Gangadi: Thanks, Chetan. So, what can you expect from MedPlus going forward? We operate in the attractive pharmacy space first for growth on the back of our store expansion. Our cluster-based network enables profitable Omnichannel service and scale allows a larger share of our **private label** basket. Our diagnostic project has proven that we can use our pharmacy stores to cross sell other health care solutions. We'd like to explore other avenues that can add incremental sales without increasing costs. With this, I'd like to open up the line for questions.

Moderator: Thank you very much. We will now begin the question-and-answer session. First question is from the line of Arshita Jain from Nuvama Group. Please go ahead.

Arshita Jain: Good evening. My first question is on your ramp up of new stores. About 69% of your stores achieve breakeven within six months versus 75%, 80% seen in the past. Seems like new stores are taking longer to break even, Is the reason of that is related more with the opening of new stores in Tier-2, tier 3 cities or it's just a competition in general? What is your take on the current competitive scenario?

Madhukar R. Gangadi: As I said, 69% of our stores achieved breke even in six months. No, I don't think opening them in Tier-2 is actually a cause for slowing down or even speeding up or whatever I don't think there's any difference out there. While stores in Tier-2, the top line for them is slightly lower. Typically their rents and other costs are also much lower and the share will apparently will, which makes for ourprofitable sales to be actually higher. They end up breaking even at the same time. But there is some variation once in a while it goes between 65% to 75% and sometimes goes higher than 83%. This is not something which we’re too concerned about. As I said in my call, if you look at when we look at the 7th month, the overall breakeven number actually jumped to 79%. Yeah, it’s just, so for us breakeven is exactly meeting all the operational expenses of the store to the last thing. Sometimes there are a few stores which fall short by 500 or go over the 500. I won’t stress too much about that actual number.

Arshita Jain: Sure, this will be helpful. Secondly, on your expansion plans, any new states that you are targeting apart from the one already disclosed on your expansion plans in terms of number of stores for FY24 and 25?

Madhukar R. Gangadi: Yeah, we are actually going to be looking at Kerala, Chhattisgarh and Madhya Pradesh. We'll be seeding stores in Indore, Raipur and Cochin actually, this will either happen this quarter, will probably end up opening some stores this quarter or definitely in the next quarter after that. This year, definitely we will be looking at least three new states to kind of start operations. Take the store count starting with maybe 20 or 30 to 50 or 60 later and get, as you would say, our feet wet in the water out there. Once we are comfortable, then we'll start expanding. That's the plan.

Arshita Jain: Your expansion plans in terms of number of stores remains intact. 1000 stores for 24 and 25?

Madhukar R. Gangadi: More or less. We will have at least 2000 stores, I would say. Yeah fall in line with our current numbers.

Arshita Jain: Okay. Lastly on your discounts, while your blended discounts have remained the same, is there any changes in the discount buckets in any of the regions or the ranges are same, order value?

Madhukar R. Gangadi: The model is the same. We have not seen any big difference in the above thousand or below thousand kind of bill sizes, number of bills. It is more between 16.5 to 17 kind of percentage, but not a significant increase. We have not changed the discount bucket.

Arshita Jain: Thank you so much and congratulations on the good set.

Moderator: Thank you. The next question is from the line of Avnish Khara from VT Capital. Please go ahead.

Avnish Khara: Thank you for taking my question. If I look at the contribution from lower to a city over the past six to eight quarters it's been slowly inching up. What I wanted to understand is, are there any difference in the store economics in the metro cities versus the lower tiers and you are also saying that number is continuously going to be go up. I also wanted to gauge what is the psychological consumers in lower tiers versus metro cities and what our strategy is for those regions.

Madhukar R. Gangadi: If I understood you right, you're asking if there's any particular reason for us to actually go to Tier-2 and Tier 3 right?

Avnish Khara: Correct.

Madhukar R. Gangadi: We have been in the seven states at least in three or four states for quite a while. We're fully established in AP, Telangana, Karnataka, Tamil Nadu and West Bengal where we have our main warehouses in the capital cities of these states. I wouldn't say we are saturated, but we have a fairly good presence in each of these cities. Hyderabad, Bangalore and Chennai we have got over 400 stores and Calcutta, we are now nearing 300. To sweat the asset out there, which is our warehouse, and the supply chain out there, it is right for us to actually go deeper into Tier-2, tier 3 and tier 4, which is what we're doing, because the setting up of warehouse here cost once that is amortized, then you would want to basically do as much as possible in the state and that's the reason why we are going deeper into the Tier-2 and tier 3. Another reason is, we started the Company when we said that there's a lot of fake drugs in the market. 30% of all fake drugs in the market are actually fake is what I had read in a WHO report when we actually started the Company. We think the value proposition which MedPlus has of providing genuine medicines and also of providing a great price driven by our scale of course, is even more that value proposition is even more relevant in a small town where there are a lot of small operators, they don't give as much discounts and there certainly I would say is more prevalence of non-standard or non-quality kind of drugs. On both our main mission of actually doing this to the value proposition resonating with the local public and to making the best use of our asset, I think we are best set we would be a best served by putting in as many stores as possible cater to Tier-2 and tier 3. Now looking from theeconomics perspective, absolutely while the top line is slightly lower than a metro city in a small town, given that the rents and staff costs and the private label mix are all favorable to us in a small town, the EBITDA actually in a small town is much better.

Avnish Khara: Right. Also, I just wanted to understand that is it I mean, from your past experience, do you think that in the lower tier cities it's more easy to push a private label product because they might be a little lower price than the branded ones?

Madhukar R. Gangadi: Our private label is not necessarily lower price. It's almost the same price. No, it is easier because a lot of people do come for OTC kind of drugs and a lot of the OTC kind of medication is sold. A lot of the medication that you sell in private label is OTC. No, it is not about the price as much as the type of customer who walks into a store in a smaller town.

Avnish Khara: Right. I will just squeeze in one last one. You had amalgamated MHS Pharma this quarter. So, what exactly happened over there? Could you just throw some light on that?

Sujit Kumar Mahato: I'll explain that. Thank you for asking this question. The amalgamation was part of an old transaction. In FY20, the Company had disclosed a BT arrangement between MHS and through a **stock 22.24** sale, the Company had acquired the entire business of MHS. It is now only being formally amalgamated. So, there is net impact, there is a payable in the books of MedPlus of 17.5 crores to MHS, which would be set off against this amalgamation. Net-net at a group level, MedPlus would have 17.5 crores of extra cash.

Avnish Khara: Right. Okay, thank you so much. That's all from my side.

Moderator: Thank you. The next question is from the line of Bino Pathiparampil from Incred Capital. Please go ahead.

Bino Pathiparampil : Hi, good afternoon and congrats on continued good performance. Just a few questions on the diagnostic side. The revenue or the cash that you get by selling this membership, how is it recognized? Is it right to recognize as revenue or over a period of year or so?

Chetan Dikshit: Hi this is Chetan I'll just take it up. So, here's what we don't do. When we sell a plan and the cash comes into our system, we don't recognize it as revenue. That's probably the first part, I would like to say. The second question is of specific in nature, but how does it move from the balance sheet into revenue recognition? Well, there are really two buckets to it. There's a 75% bucket and 75% bucket, 25% and 75% bucket. The 25% bucket gets recognized on the first instance of use of the plan. The balance 75% of the bucket is then amortized over the course of one year. You see that the membership plan is a one year plan. It basically gets recognized as deferred revenue.

Bino Pathiparampil: Okay, great. Thank you. Thank you very much.

Moderator: Thank you. The next question is from the line of Prakash Agarwal from Axis Capital. Please go ahead.

Prakash Agarwal: Yeah, hi, good evening. Just one question on the discounting, I know it is already discussed but how is the discounting in the last few quarters? Has it improved, has the pricing improved or the discount remains very high? I hear that there has been some month end kind of discount with increases and then it fades away to 20%,if you could just share some thoughts on the competitive landscape that you are seeing?

Madhukar R. Gangadi: Yeah, for us, of course, it's a standard discount which we operate through the year. If we change it, then we change it for good out there in that state, as we have a 10% discount for all bills under 1,000 and 20% above 1,000. For us, it doesn't really change much. The only way the overall discount can change for us is if a higher portion of people are buying for bill sizes above 1,000. It more or less remains the same for us across all the states. In some states, of course, in West Bengal it's slightly higher, whereas in Telangana it is slightly lower. The bill sizes are slightly lower buton the competition side, we see that competition is in the game of, I would say, offering a discount, which is not really viable, which is 25% discount in the initial stage, which means they can only offer it for a certain amount of time or for a certain number of times. Either they go around saying that okay, we'll give it to you on the first three bills, or sometimes they come in and do a flash sale where they say, okay, we'll do it in the first year or second year or third year, which is all very great. Our only problem is the amount of money required to communicate this kind of message is actually more expensive than the discount itself and it often gets misused most of the time. We don't see much benefit I would say, of doing that. Ours is more like an everyday low price. We continually make the offer better and better for the customers. But we have been kind of steady at the same number for a while now Prakash.

Prakash Agarwal: What I understand is you're saying competition still is at 25%. There is not much of a breather there. Despite that, you are growing (+25%).

Madhukar R. Gangadi: The question is, is the competition still doing 25%? Yes, absolutely. In fact, sometimes even I myself get text messages of various competitors saying that they are willing to offer 30% once in a while. So, yeah, I don't think we have really let up on that.

Prakash Agarwal: Okay. Some color on the growth outlook and margin outlook, because this is the first time where your store addition has been a little softer, which in the right spirit, has also helped in improving some EBID and EBITDA. Would this strategy be followed and would it be at the expense of growth or what is the right balance you want to follow from the next few quarters and years?

Madhukar R. Gangadi: So, Prakash, if you look at our last quarter was around 348, this quarter was around 248. Once in a while these numbers go up and down. The plan is to grow a grade of anywhere between 250 to 300 stores per quarter,could go up or down a little bit. A lot of times it is, this quarter I think were affected little bit by the rate at which the licenses came in. Because of the front 28:12, they did not come in time in some states. So, there's a process of inspection. Sometimes the inspection itself takes a while and then the license is issued. So, sometimes it could take a while that's the only reason.We are not calibrating that right now. We plan to remain steady between the 1000 and1200 kind of number for the year. That's going to be the plan for next year. On the revenue side, I think we can basically say anywhere from 20% to 25% is what we're thinking would be the growth will be our revenue estimate for the next year growth over this year.

Prakash Agarwal: Okay, fair enough. Lastly, in terms of using cash, is there a thought of buying out some of the smaller chains? Are there actually some in the market? If you could give some color there.

Madhukar R. Gangadi: We come across some chains, but we have never found anyone which is priced right honestly, given that we are able to open mostly at the rate of around 100 stores a month, and given that the next largest change is only around 300 stores, we really don't see too much benefit of paying a big premium for that. We have kind of shied away from that given that our ability to open source is pretty good.

Prakash Agarwal: Okay, and one more question, if I may,ask on the diagnostic side. Earlier thought was to have the pilot and still doing okay, but is there any key take away in terms of next 6-12 months plan of adding more pilot projects itself in Hyderabad and how will you take it forward?

Madhukar R. Gangadi: Okay, so it remains a pilot. It is not going to go beyond Hyderabad. The pilot, of course, was an integrated radiology and a back lap kind of service. So, that will always remain only in Hyderabad for now at least. The plan is to open 12 stores. 12 diagnostic centers, four of which will be large ones with MRI and CT and 8 would be smaller ones, so that continues. We need to see at certain number of subscriptions in activity before we can take column opening in other places but of course, I do not expect us to make that decision in this quarter or next quarter on that as of now.

Prakash Agarwal: Okay and of the large four ones stores, three are already open of two are already open and then?

Madhukar R. Gangadi: Right now, we have three large centers open and I think we have at least two smaller ones open out there, currently running.

Prakash Agarwal: Okay, so you have five and your plan is to take it 10.

Madhukar R. Gangadi: Yes, the plan is 12 overall four plus eight.

Moderator: Thank you. The next question is from the line of Sayantan Maji from Credit Suisse. Please go ahead.

Sayantan Maji: Sir, my first question is on other expenses, which has remained flat quarter-on-quarter and I believe that the key components of other expenses are packing and forwarding charges, debit card commission charges and electricity charges which are mostly variable in nature. So, what has cost this other expenses run rate to be the same quarter-on-quarter and do you expect it to increase going ahead?

Madhukar R. Gangadi: No, I do not see any reason to think that will actually too much over there and part of it could be variable and not all of it is variable over there for us the moving expenses do not really change if you add let us say, 5 stores or 10 stores in the same territory and all. The credit card charge is of course a function of the number of bills which go over there, not a significant change, it is a small percentage overall. So, I do not see any difference out there, beside.

Sayantan Maji: And my second question is on this store addition, run rate so we continue to maintain a guidance of 1000 to 1200 stores per year so while we are entering new states, do you see enough clusters for growth in our key state of Andhra Pradesh, Telangana, Tamil Nadu, Karnataka as well where we see sufficient headroom in tier 2, tier 3 towns in these states.

Madhukar R. Gangadi: Yes, see in three of our current states we are very big in the main cities and tier 2 and tier 3, is completely open for us even on those states. In the other states, we are not even big in the tier I, for instance in West Bengal except for Calcutta and even there, we only have slightly under 300 stores compared to the 400 plus stores in Bangalore, Chennai and Hyderabad. I think there is room even for growth in those cities. In almost all of Maharashtra, we are not there at the full prudential even for the larger cities forget about the tier 2, tier 3. So, answer to your question, if there are enough scope of growth in the seven states, absolutely. We are only feeding three new states. Just to make sure, or not to just to make sure. It is just a logical extension; I would say of our overall growth. We are growing in contiguous states. We are leveraging the warehouses in the states before, we just want to add a few, figure out how the market is, get the supply chain all set up and then grow rapidly after that. So, for us, it is not for lack of opportunity in the current states, that is going outside.

Sayantan Maji: And what would be your key focus districts in Maharashtra apart from Mumbai and Pune?

Madhukar R. Gangadi: For us we look at it as two different regions one is the overall Vidarbha region and then there is Marathwada region and then there is region around Bombay and Pune. So, in the Vidarbha region, we are pretty strong in Nagpur. We are now actually extending rapidly into Amravati, Akola and a bunch of other districts around that and similarly around Nanded we have a bunch of stores coming up. Apart from these two, then there are districts around Pune, Bombay of course being place where, we expect that we will go very cautiously with slightly small stores a month**.** There is lot of different areas of growth for us in Maharashtra.

Sayantan Maji: So, what was the average store size, I missed that, for this quarter?

Madhukar R. Gangadi: 558.

Sayantan Maji: 558 and basically the declining trend is mainly due to smaller stores coming up in Maharashtra.

Madhukar R. Gangadi: Smaller not just in Maharashtra but also in the smaller town. We do not necessarily need a very large store in a very small town obviously with the town kind of population and lot of times those locations are also not really available when we go into the Tier-2, Tier-3 kind of locations.

Sayantan Maji: And my last question is on diagnostics. Chetan, you mentioned that you guys are witnessing a fastest scale of operation compared to peers. So, what could be the primary reason for that and basically related question is how have we spend so far, I remember that you had allocated Rs.90 crores for this pilot. So, how much have you spent and what would be the spends in the next one or two quarters?

Chetan Dikshit: So, first on the, why our utilization rates are more. The prices are uncomparable specially at the high-end radiology machines like MRI and CT. 75% discount, when we say that it is to be comparable diagnostic centers. But if you compare it to the rates for these machines within the hospital which is even more stark. So, the price is rising the utilization in all our three centers right up to midnight and we do have patients coming in even after 9 p.m. So, price and hours are two contributors to high utilization of high-end machine. Next question from your side was on how much have we spent? Our budgeted allocation for the financial year April to March was Rs.85-90 crores and we are pretty much on that track. I will just check with Sujith if he wants to add anything further on the capex side. No that is it Sayantan, and we are fine, unless you have a more detailed follow-up on this question.

Sayantan Maji: So, this Rs.85-90 crores is only for FY 2023?

Chetan Dikshit: Yes, that was our guidance for the financial year.

Sayantan Maji: Only for FY 2023, so FY 2024 could have additional spending on top of this.

Chetan Dikshit: As Madhukar said, what we have is an outlay for the project in Hyderabad. So, there really is no material capex that is intended for FY 2024 but within centers we may, for example if we have two Ultrasounds or three Ultrasounds, we may go to a fourth one. So, think about more as regular capex rather than capex which is going to fuel new center or expand the network.

Moderator: Thank you the next question is from the line Kunal Randeria from Nuvama. Please go ahead.

Kunal Randeria: My first question is in the last middle year even a half year, there is (+1000) stores. So, have you, may be because of this, given and size now, have you started to see some procurement benefits?

Madhukar R. Gangadi: See for a while now we have buying directly from the companies while there is still a small set of companies for whom we end up actually purchasing to distributors at a very small check and those companies we are approaching, get it through now and we will end up considering having the 10% in the next two quarters or so. I do not think there is going to be a significant procurement benefit as far as buying from companies is going to be concern. But that said the scale is want to help us benefit on the private label purchases one and also in getting a new products that were otherwise not available to us because we were not able to meet the minimum mode of quantity for purchase of that product. So, those are all coming in with scale more than the purchase benefit. Going forward, as we continue to work with more close limit companies. We expect with sharing of data and we expect with looking at healthy minimum, the new launches and all. We will be able to get some kind of fees out there. We already do get a significant portion on that but we expect to benefit as we move forward. But on the direct purchase I really do not see too much happening.

Kunal Randeria: Then would it be fair to understand that lets say you know may be double within three years, your procurement cost per let say now lot of companies remain the same despite of clear sky, let's say talking of some XYZ or does it get better. May be there is couple of us enjoy discount because of their size.

Madhukar R. Gangadi: I am sorry the question was not very clear, the audio did not come through very well but if I understand it.

Kunal Randeria: Madhukar sir, what I wanted to ask was so may as you increase your sizes on scale will the same company from which you are buying will be offering you slightly higher discounts because of the size.

Madhukar R. Gangadi: No, I do not think anyone has any reason to offer as more because of that, because to be quite honest we do not really influence the overall sales out there. It is the doctors who have to write the prescriptions and companies typically end up spending their marketing money out there but on the supply chain side, when they actually want to launch a product across the country, let's say they want to launch it across 4000 stores. In 7 states, we will be person they will approach and for that we will definitely end up getting slightly better margin and the overall thing. So, in terms of managing expiry. In terms of managing supply chain, in terms of making sure that their products are launched across uniformly in all. I think we would be able to do a better job as we go bigger and bigger and we will definitely be able to get a slight benefit from those companies, that is one. Second as you may have noticed from our presentation, today 13.7% of our overall sales is from private label. Now, here we can definitely understand as the scale continues to grow this is where we continue to benefit from, so when the margins are good right now on these products. I see no reason why they cannot do better we continue to increase ourselves.

Kunal Randeria: Perfect and my second question, I think one of the comments that you made was some of the discounts given by online clearly unsustainable. So, when I take your point, one of the online players has now may be you stated the intention of handling around 2000 pharmacies across India. So, you believe the discount would worsen from here.

Madhukar R. Gangadi: What are the questions, I know one of them is doing 2000 stores but what are the questions you have?

Kunal Randeria: You believe that discounting could may be from 16.5, do you think it could may be go through 17%-18% or you think this discount level is manageable.

Madhukar R. Gangadi: No for us I do not think so, today we are close to 3700 odd stores as of now or slightly more. It is not as if we have taken the whole market. I do not know how the addition of another 2000 stores is really going to affect the overall market. I do not really expect with them coming in that, rate will suddenly change. I do not think that is going to be the case at all. As it is, I am pretty sure whatever advantages we have on scale. They will also get the same but whatever difficulties or whatever cost they are in running stores. Everyone is going to have that, I do not really see anyone else being able to sustainably beat our prices out there and even if they did for a little while we are not too concern because as far as we are concerned the tool aspects to it. Every country in the world has at least 2 or 3 or 4 large players like US has Walgreen, Eyegate, CVS along with Walmart and all doing their own pharmacy and all that certain stuff. So, there is no equivalent of a super store do it, there are also a large chain of pharmacies and most of these countries will require more than one as we have been saying over the last several quarters. It is as Apollo right now, I am pretty sure Netmeds and Tata 1mg and a couple of other guys may come in, that will be at least a fourth player kind of thing, if not for some more super stores also coming in and doing this. So, we fully expect they will come, I do not think the market will completely be upset just because one or two players haveentered out there. I do not think it will push us to give more discounts immediately. For us, given that what we are looking at in the Indian market is a shift from unorganized to organized and given that organized is so small, even if one or two new players are going to enter. There is enough market share for us to gain from the unorganized side and that is what we will be focusing on. So, as long as we are ahead of the other 85% of the market which is there in the hands of non-corporate dealers. I do not see any problem to continue to actually expand the way we wanted to. So, short answer to the Question, Do you want to expand the discount I do not think so.

Kunal Randeria: And just one last one, you have around Rs.320 crores of cash lying on your books, we would have negative free cash of Rs.73 crores in the quarter. So, to fund your expansion you think this is enough or maybe you need to go for funding at some stage?

Management: So, on the cash balance and cash in bank, the store expansion would continue in the same manner and we would use this cash only for our store expansion the way as explained by Madhukar earlier.

Kunal Randeria: Do you think this is enough or you would need to raise some more because you are still investing diagnostics right?

Madhukar R. Gangadi: Yes, as on date, as you are aware, we are debt free, so we have a good headroom if required. So, I think as of now, there is no plan to take up any debt on the balance sheet but as and when required we will definitely consider.

Moderator: Thank you. The next question is from the line of Saion Mukherjee from Nomura. Please go ahead.

Saion Mukherjee: Sir, on the growth that you report for mature stores just above 10% is that something which is a sort of a line with your expectation or slower than your expectation and are there any geographical differences that in certain geographies this is faster than the other geographies or Tier-1 versus smaller cities. Any color you can give on the mature store growth rate.

Madhukar R. Gangadi: No, it is actually in line with what we actually thought. They had been slightly lower than what we thought at the beginning of the year. Last year, the competitive intensity has been fairly high, but other than that now it has kind of become stable. For us, we expect to grow at a rate of inflation on the old stores and we also expect to take some share from the local mono top retailers over there as we continue to play on the value proposition which we have for our customers, great franchise, great availability, and guaranteed return and medicines. So, nowI would say we are completely in line with what we are thinking right now. Is there a significant difference between small and large towns? No, not really, it will be a function of the number of stores we have in that area and that is all there is to it honestly. May be a little bit of cannibalization in some of the larger cities where we set up for the first one month or so. For instance, if we have a store in our neighborhood and we go and open a store which is 500 meters away or 700 meters away. All the people who are coming to that store from that catchment will probably shift to the new store in the first month but after that its kind of sales down. So, nothing which is outside of what we expected.

Saion Mukherjee: And sir, similar question on the private label, on an average numbers are going higher, is again there something, how is the dispersion like across your clusters and towns that you operate. This 13.7 is there a wide variation that you see across regions in India or it is more or less on average?

Madhukar R. Gangadi: Smaller towns definitely has slightly more private label penetration out there. So, the nature of kind of customers who walk-in and the value proposition of our private label non-pharma products resonates more sometimes with the smaller thought by. So, it could possibly have slightly higher ones out there. The range though is most of the stores tend to be between, little bit to say, very few stores have less than 8%-8.5% overall private label. There are some stores which have as high as 20% but the average falls in the 12%-14% kind of in a month.

Saion Mukherjee: And sir, you had guided for this number going up 100 basis point every year. So, you continue to maintain that?

Madhukar R. Gangadi: On the overall, I do not really see any problem at all, 100 basis point should be easy. On the pharmacy side, we will be able to go ahead and give you guidance, may be in the next quarter or so. On the pharma, private label in the whole 13.7% there is a composition of devices, FMCG non-medical products and medicines.

Moderator: Thank you. The next question is from the line of Utkarsh Maheshwari from Reliance General Insurance. Please go ahead.

Utkarsh Maheshwari: Sir, just a housekeeping question, Is there a possibility where you can share the average sales per day for the stores which are like more than two years in operation and which are like less than two year operation?

Madhukar R. Gangadi: Right now, I think we gave you as much data as we can, It is little bit more tougher, for us to share anything out there. So, I believe we are in line with the other retail operators right now. We are trying to stick to the formats which are currently in prevalence across the Indian retail markets.

Utkarsh Maheshwari: And just to reconfirm one thing, as of now I think the diagnostic is that Rs.90 crores odd which we have planned, right? nothing beyond that has been thought about, right? Because that was a pilot for the Hyderabad.

Madhukar R. Gangadi: Absolutely, no further capex outside of the routine maintenance kind of stuff is plan for the integrated cath and radiology kind of centers in Hyderabad in the pilot as we started it.

Utkarsh Maheshwari: Sir, I think the run rate of adding the new people has actually gone little bit slow I think, , we had to plan for 100K plus, right? as the plan or something of that sort and we added something 25,000-30,000 in the first month itself and now we are at 67-70 odd. So, is the equation slow in this particular thing? The new membership additions.

Madhukar R. Gangadi: Not really, so we expected to get all our 12 or if these majority of our 12 stores are up and running, that has taken slightly longer than what we expected probably we delayed by a month or so. I do not see any big difference other than that.

Utkarsh Maheshwari: What is the target for us in terms of number of members we look to enroll.

Madhukar R. Gangadi: The first number which we are kind of looking at is 100,000 members then after that we will see, depending on the pace of expansion of that number from 100,000 to 200,000 we will take a call on whether we plan to go to other states and all.

Moderator: Thank you. The next question is from the line of Amit Kadam from Canara Robeco Mutual Fund. Please go ahead.

Amit Kadam: I have two questions. Just in the initial commentary on the gross margins, sir, Madhukar sir, what is that particular commentary narrative that why gross margin improved sequentially was it a lower discount or mix?

Madhukar R. Gangadi: Sorry, is the question, why is the number sequentially going up gross.

Amit Kadam: Yes, gross margins improved sequentially so the reason for it?

Madhukar R. Gangadi: It is the private label mix; we have not really reduced the overall discount. The discount is made and if anything, it has gone up slightly I would by a fraction of there but it is mainly the mix of products and maybe there is possibly a slight betterment in the procurement side but yes it has not to do with it the redemption of discount.

Amit Kadam: Because private label what I see, was 13.9 in Q2 FY 2023 which is 13.7 % this time. So, hence I thought that sequentially that cannot be the reason for that particular 50 basis point of improvement when the mix or the private label is down 20 basis point sequentially.

Madhukar R. Gangadi: Private label is also a broad basket of products out there with margins ranging anywhere from 30% to 90%-95%. So, it is not a 1:1 mapping of 1% being exactly that, it depends on exactly what we sold in private label that is one. Second, as I said, there could also be a small improvement in the procurement side and third, the other thing was that we also had a COVID loss earlier which is no longer there this time and that will also basically increase the overall margins slightly.

Amit Kadam: But sir, sequentially that will not be the third one, will not be the reason. Sequentially, in the quarter 2 to quarter 3.

Madhukar R. Gangadi: Yes, we took a loss on inventory which was already there bought during COVID and not sold. There is some small inventory that happened in the last quarter and that could be one difference between Q2 and Q3.

Chetan Dikshit: Hi, this Chetan, I just thought I would add to Madhukar's question, if you look at slide no.9 of investor presentation. It gives the gross margins split between the consolidated business and pharmacy. So, in pharmacy from Q2 to Q3. It has only been a 0.3 increase in gross margin and that is in line with the gradual increase in private label that we had seen. I just thought that I would add that one.

Amit Kadam: Okay, and just because I wanted to just check this aspect of the business also like one of the participants also did ask is that this grow in size does that economy of scale or size really starts benefitting us in terms of better procurement and since helping us in terms of margins in terms of gross.

Madhukar R. Gangadi: Sorry, was there a question?

Amit Kadam: No, I will move to the second question, on the SSG where you mentioned that it is 10%. I just wanted to know the difference between price and volume so what would be the inflation part in that SSG?

Madhukar R. Gangadi: It is difficult to split the exact number between price and inflation. Inflation for pharma is typically around 4%.

Amit Kadam: But this year, Madhukar sir, because WPI had been on a higher end where both NLEM and non-NLEM got a good price hike for this particular year hence they were all upwards away odd plus hence I was just checking specifically for this particular quarter what was the price and volume.

Madhukar R. Gangadi: No for us, difficult to split between volume and inflation.

Moderator: Thank you. The next question is from the line of Pathanjali Srinivasan from Mirabilis Investment Trust. Please go ahead.

Pathanjali Srinivasan: Sir, how do we make customer choose our own brand with respect to private label and you had also mentioned that we are not necessarily lower the price. So, how does the customer choose from our brand over a branded pharma?

Madhukar R. Gangadi: See as you are well aware in the Indian pharmaceutical industry there are 100s of 1000s of marking companies which are selling the same products. Every single molecule which we sell has got over a few thousand different marketing company selling the product. The result is this, despite the best efforts on our side, to stock the right product in the right store to make the exact demand with our supply. We often find that out of our prescription which has got 7 or 8 products, we find ourselves not having one or two of them. In the past we would basically this is a product which you have asked for and this product is from a company like Cipla or Ranbaxy or whatever. I do not have it right now and I will be able to give you something from Sun Pharma or someone like that, so we would that they would just give them substitute over there. But over a period of time what we have started doing is basically offering a substitute of the unavailable product with our own product. Customers because they believe us they are able to actually just pick it up and go and that is the one place where private label comes into play and that is why we are not really looking at doing a price substitution. We are not saying that take something else from us, it is actually a lesser cost. Basically, just saying this is not available instead this is something else that is available, that is one of course. And second quite a significant number of people basically come in for pure generic standard, basically come in asking for a headache or cough or cold kind of medication with an OTC products and where if the customer has not asked for Crocin or Calpol. He will also get paracetamol from our company. So, in neither case do we basically use price to sell more of our products.

Pathanjali Srinivasan: So, what would be the mix difference in our private label between chronic and OTG?

Madhukar R. Gangadi: Chronic and this one will be 50:50 as of now.

Pathanjali Srinivasan: And sir did you mention some sales growth guidance during the call from 30%-35% or something for the next year?

Madhukar R. Gangadi: What were you saying?

Pathanjali Srinivasan: Did you give any sale guidance during this call like I could not hear you properly sometime during the call.

Madhukar R. Gangadi: Our overall sales for the next year could be anywhere from 20%-25% over the current affairs.

Pathanjali Srinivasan: 20%-25% okay and what is the store mix Tier-wise?

Madhukar R. Gangadi: Tier wise? Okay let me just pull it up and then I will just give the number. It is there in our presentation.

Pathanjali Srinivasan: Mix is there, I wanted the store mix Tier-wise.

Madhukar R. Gangadi: I think 32% of our stores are in Tier-2 and Tier-3 rest are metro and Tier 1

Pathanjali Srinivasan: 32% are in Tier-2 and Tier-3 and rest are in metro.

Madhukar R. Gangadi: If you are asking about the location of the stores, right?

Pathanjali Srinivasan: Yes, that is right.

Madhukar R. Gangadi: So, non-metro would be 44% versus metro 56%.

Moderator: Thank you. Ladies and gentlemen due to time constraints that was the last question for today. I now hand it over to the management for closing comments.

Madhukar R. Gangadi: Thank you ladies and gentlemen, I thank all participants in this call for your interest in MedPlus journey. Our Investor Relation team can be contacted at ir@medplusindia.com Thank you.

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