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“MedPlus Health Services Limited Q4 FY22 Earnings
Conference Call”

May 31, 2022

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**MANAGEMENT: MR. GANGADI MADHUKAR REDDY – CHIEF EXECUTIVE
OFFICER, MEDPLUS HEALTH SERVICES LIMITED**

Moderator: Ladies and gentlemen, good day and welcome to the MedPlus Health Services Limited Q4 FY22 Earnings Conference Call. As a reminder, all participant lines will be in the listen only mode. There will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing * then 0 on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Gangadi Madhukar Reddy - MD & CEO. Thank you and over to you, Mr. Reddy.

Gangadi M. Reddy: Thank you. Good afternoon. On behalf of MedPlus Health Services Limited, I extend a very warm welcome to everyone who has joined us on the call today. I, Madhukar, and I am the CEO of MedPlus. I now request my colleague, Prasad to make the necessary disclosure statement.

Prasad: Thank you sir. Please note that anything which we say that refers to our outlook for the future is a forward-looking statement which must be read in conjunction with the risks that the company faces. A complete statement is included in our investor presentation dated May 31st, 2022.

Gangadi M. Reddy: Thank you Prasad. I would like to begin by thanking all of my 18,000 colleagues for their efforts and diligence that go into providing an essential service to our customers. As on 31st March, we cater to the healthcare and household needs of neighborhoods in 338 cities across 7 states and from 2748 pharmacy stores in operation.

Our last quarter performance to go over that, our revenue was Rs. 9,659 million and this has led to a gross margin of Rs. 259 million with an operating EBITDA of Rs. 295 million. Over 99% of our revenues come from our pharmacy operations. The pharmacy operating EBITDA was Rs. 397 million, so at the pharmacy segment level, the operating EBITDA was 4.1% for this quarter versus 4.3% in the previous quarter.

I will now cover a few basic points on the full year performance for FY22. In FY22, we opened 747 stores and this is double of what we opened in FY21. On the back of the strong Q1 and our rapid store opening program, we had 23.1% revenue growth over FY21. Our gross margin was 21.1% and our stores greater than 12 months old had a store level EBITDA margin of 10.3% and the store level operating ROCE of 63.1%. In March, we launched our first full-service diagnostic center and have received strong adoption from our existing and new customers. At this stage, we are still in private mode in Hyderabad, we will provide a detailed update on the pilot in Q2 FY23. As we proceed, our aim will be to leverage our existing store network and our existing customer base. With that, let me now continue with the update for Q4. All the network, we are continuing with the rapid store expansion program. As I mentioned, we have opened 747 stores in the last 12 months with 288 stores being opened in Q4. This is the largest quarterly store openings in the company's history and this comes on the back of our previous record of 183 in Q3. The highest additions were in Tamil Nadu and Maharashtra, 65 and 60, respectively. Going forward, MedPlus will continue to be aggressive on the store openings. Also, 50% of the store opening this quarter has been in Tier-2 and beyond and this is proof of our cluster-based

growth strategy. The maturity of our operations and supply chain allows us to grow and operate in these markets profitably. We now have 1073 of our 2748 stores in Tier-2 and beyond. In the last quarter, we had 17 store closures versus 32 store closures in Q3, so overall we have had net additions of around 271 stores in Q4 versus 151 in Q3 and for the full year the net additions of store have been 667 versus 306 for FY21.

Let me go over the age of the network and how it is important to us here. Overall, the store network is split into 27% being less than a year in age, 13% being in the second year of operations and 60% improved 2 years older. So, that means 40% of our stores have not yet reached their full growth potential and they are under 2 years. To give you a sense of the impact of our rapid store expansion on the area for network, we ended Q4 FY21 with just 30% of our stores being less than 2 years while Q4 FY22 it is 40% of our stores are less than 2 years old and this is not much larger number than this. While in the sub-2-year bracket, our stores are still in the rapid phase and so going forward, we expect these stores to contribute to our profits in MedPlus. On the store size we closed Q4 with 2748 stores with 1.61 million square foot and last Q4 this was 2081 stores with 1.2 million square foot. The average store size in Q4 was 588. To give you a sense of spread, we have 1793 stores less than 600 square foot and 955 that are greater than 600 square foot. So, our focus as you can clearly see is all about, you know, opening as many stores as possible and making them as profitable as possible. So, we have been talking about the whole, you know, industry and our own view of the market.

As you all know, India is a large 1,50,000 crores market with very little in the organized side and even for a country of our size, even at this stage when we are the number two pharmacy chain out there, we have just 50 stores. Compare that to a country like US and UK and all, US especially where you have got chains out there in a country which is actually third of our size or may be even lesser. There are chains which are more than 7000 and 8000, so we believe given the fact that the market is large and the penetration is extremely low, we feel it is extremely important for us to grow as rapidly as possible to establish ourselves across and we also believe in growing profitably. If you actually look at it, we are growing in the states in which we already are fully established. We already have an established supply chain network, warehouses, and everything else, so we are just going out there and setting the network even more while we expect that we will continue to add, see some low states going forward. The bulk of our expansion is going to come in these states and the critical thing which we are looking at right now and this is something which we, I am sure will come up in the conversation as we go forward. If there are, this is, I would say a slightly more peculiar market than most markets out there with the channel margin which is kind of contained, it is 20 and 10%. That is all going to change, even it does change, it will change a little bit.

So, for us, given the fact that we have taken our position as the best value retailer in the pharmacy side, we tried ourselves and being able to give the best price and we will continue to do that in 20%. We believe that 20% discounts on all bills above 1000, there is no doubt they will match it on a regular basis or at least we can beat it, but as you all know, there are new players in the market who are now giving some extra discount and all just to gain some market share. We know

that there will be headwinds and there are headwinds on this, but the long-term plan for us, you know, is to continue to grow the network because we know that soon or later it will come back to the baseline which is 205 or wherever it is at that time. So, for us, the benefits of growing the network while it may not increase the margin of the channel margin by too much, it will definitely help us gain efficiency, both on the warehousing side, both on the corporate side as well as increase the presence of the stores, increase the overall acceptance to the brand, which will allow us to increase the private label which is what will drive the profit. Of course, while when I say that the channel margin is fixed it is fixed to a certain level, I am pretty sure that we can, given the sites we should be able to squeeze out the couple, 100 and 150 basis points going forward. So, that has been the thing for us to try and grow this chain as much as possible, but moving back to the same store metrics, we measure this as stores that have been in operations, the same store performance, we measure this as stores that have been in operation for 12 months and more as on the last day of the reporting quarter.

Revenue from these stores in Q4 was Rs. 8,239 million and the growth was 7.8% year-on-year versus 4.2% for Q3. We continue to maintain a store level EBITDA margin in the range of 10%. The store level ROCE of these stores was 61% for us. Revenue mix, so for us with scale, we are better poised to increase share of revenue from private label. Our private label range is intended to provide quality products at affordable prices. MedPlus today has over 850 curated SKUs across pharma and non-pharma. In Q4, 13% of our revenue came from our private label. This compares with 11.9% in Q3, but I have to point out that Q4 also have impact of Omicron, but overall, the trajectory of increasing share of our private labels in our customer's market continues. Our increasing presence in Tier-2 and beyond is reflecting in our revenue mix also. This quarter 30% of our pharmacy revenues came from stores in these tiers. This is up from 26% in Q4 of last year.

On the internet and the online side, we continue to extend our coverage has been sourced from where we take orders online and this compliments well with our stores. Going forward, we will increase the coverage of our 2 hour delivery offering, store pickups and the share of online order continue to maintain a higher shares and home delivery reflective of the convenience and our accessibility of our store network. Overall, our online strategy is driven by our conviction that omnichannel is the more suitable and profitable approach in the pharmacy space. We have not spent heavily on online and in fact we find greater stickiness in those customers who attract with this omnichannel than those attract with us purely via the online growth.

Moving onto our capital efficiency metrics, our net working capital for Q4 was 63 days, this is a drop from 68 days in FY21. In Q4 the inventory in our warehouses was 38 days as well as 39 days in our stores greater than 12 months. Because of the sales trajectory of new stores, their inventory turnover is lower in the first year. In Q4, the inventory level in our first-year stores was 114 days. The store level operating ROCE for our store is greater than 12 months happening around the 60% level amidst the quarters and we will look forward towards maintaining this level. Our operating cash flow for Q4 was negative, Rs. 112 million on account of funding for working capital and CAPEX funding stores.

On our segmental data, I would like to add an important note, in page 18 of our earnings update, we have presented the business segments which are different from the regulatory filings, for example, Optical has been grouped under others in the presentation, whereas in the regulatory filings, Optical is grouped under retail, we hope this will be useful for you.

Situation going forward, as you all know, we operate in the very attractive pharmacy space and we are poised for growth on the back of our store expansion. We have built our base over the last several years. We have warehouses and we have a very strong network that allows us to open stores rapidly and increase our presence out there. We believe that pharmacy is one of those domains where omnichannel will always be there. People will find, people will go, will look for convenience more than anything else and the convenience of having the store in the neighborhood, convenience of having the store that is easy to access and bring, easy to return products or to buy or get products delivered, it is as important as the convenience of being able to operate online. So, what we are seeing from our experience is that customer scope both ways, they are able to go online. When it suits them they buy online and when it suits them, they also go offline and basically interact with us. So, we believe that the best way of actually getting to this market is to actually grow as big as possible to be present everywhere, so that as the customer changes his habits and adopts the online method, he will when he basically split our store in the neighborhood, even if he has not experienced or service before, we will basically look to checking it out. As we all know, there are two or three players out there in the whole cab space, so let us say between the Ola and Uber, neither of them or one of them advertised heavily and the other never advertise at all, but given the fact that the network is already very huge, anyone who has been basically experiencing Ola or whatever, if he has a problem will end up moving to the other service out there. Presence is already established as long as the person, so that is what we see ourselves instead of trying off and spending a lot of money and trying to change the habits of people and acquiring customers in this super expensive kind of rate. We would rather set up stores and be present everywhere and be there profitable, so every store we set up profit around Rs. 30 lakhs. So, I would see that the equivalent of may be acquiring around 300 odd customers, but this whole which we set up actually ends up making us not just acquiring some of those customers over a period of time free of cost, but also basically the profitable thing for us to actually grow, so while we are seeing a lot of competition out there, who are all trying to catch up and set up stores and gain let us say customer base at extremely high cost, we don't really see the need to do that. Honestly, we will continue to basically expand our network and that will be the theme for us and one of the big things about that as we continue to do that will be, we become more accepted, we become more, people are more familiar with our brand and they are more willing to try our private label and everything as that mix is more profitable for us, we continue to grow on the same base of costs, so hopefully that will also drive the economies of scale to us and meanwhile it also helped us get slightly better prices which will also improve our EBITDA as we go forward. So, that would be the thing for us. Growth through the cluster-based network which allows us to build a brand that allows us to bring more private label basket on that along with bringing the other network of scale. With that I would say that is the end of my update. I would now request the host to open the line for questions.

Moderator: Thank you very much. We will now begin the question-and-answer session. The first question is from the line of Ameya Chalke from Haitong Securities. Please go ahead.

Ameya Chalke: Thankyou for taking my question. I have two questions, first question is on the gross margins, so if you compare FY21 to 22, our private label sales contribution has gone up by around 2.5% or 2%, however, gross margins have been largely stable, so want to understand is there negative factor which is pushing these margins down, also if you can comment at the same time how does the private label contribution outlook over next 1 or 2 years considering we are growing exponentially on the Tier-1 and beyond cities where the sales contribution could be on higher side and also the outlook on the gross margin?

Gangadi M. Reddy: Sure, couple of things here and I will have to come back with more data on this to you guys, hopefully you can come back and reach out to Prasad or someone from our team. One, the gross margin has actually not gone up as much as we wanted to or as much as the private label actually shows out there and that is mainly because in the previous quarter, there were some COVID related products, one, which would have definitely not been there in the quarter after that and so those are not necessarily found as private label, but those would still be high margin products. Absence of that would have muted the margin a little bit, one. Second, the overall discount in the system has also gone up a little bit, so for us what we will end up going forward is try and get you data on the actual pharmacy and other non-pharmacy kind of private label out there. Last year April, if you actually look at this thing out there, during the phase of COVID we did not have any discount out there and that resulted in a slightly higher margin and hence if you actually look at it, the margin looks slightly smaller in this side.

Ameya Chalke: And the outlook, sir?

Gangadi M. Reddy: Outlook is of course, as we go forward, we fully expect that the private label uptake in the smaller towns will be much higher and we expect to grow the pharmacy side as the private label quite 0.5 to 1% or even slightly higher every year and other part of course will grow much more significantly as the private label portion of our FMCG thing continues to get great value to the customers.

Ameya Chalke: Sir, second question, I have on the rental cost, for this quarter it has fallen sequentially from around I guess Rs. 30 odd crores plus to somewhere around Rs. 27-Rs. 28 crores considering we are adding more stores etc., but you would have expected to go up, so is there anything which we are missing or we expect it to normalize in coming quarters?

Gangadi M. Reddy: No, actually over the last quarter, it has gone up, right?

Ameya Chalke: If you compare from quarter 3 to quarter 4?

Gangadi M. Reddy: Yes, quarter 3 to quarter 4, the rental expenses are Rs. 35.3 crores to Rs. 33.07 crores.

- Ameya Chalke:** Ok. Sure. Then the other question I have is, the home delivery to store pickup mix, which is moving in favor of home delivery, so going ahead how do you see it will impact margins?
- Gangadi M. Reddy:** Not significantly because we actually charge the Rs. 20 fee to customers for home delivery, one and we usually do it using our own drivers out there in a very small area. Our deliveries are under the 2-hour period and they are from the 37 to 40 hubs which we have and these guys are already posted for and lot of times we are able to batch this delivery, so for us even if there is a slight change, it is not going to be material for us. The Rs. 20 will cover the portion of the cost of the delivery guys and perhaps may be on a 1000 given that our average bill size is around 1000 to 800 on the online site and further Rs. 20 on the delivery will not significantly change.
- Moderator:** Thank you. The next question is from the line of Anubhav Agrawal from Credit Suisse. Please go ahead.
- Anubhav Agrawal:** Sir, one clarity on this other subsegment which you talked about, sir, this quarter you have recorded about Rs. 5 crores revenue, do you just want to give us rough split of that, how much is Optical and what others are grouped under this segment?
- Gangadi M. Reddy:** I will just ask my colleague to answer this, the actual distribution of this.
- Management:** It combines the wholesale distribution and the revenue from Optical.
- Anubhav Agrawal:** How much will be Optical over there?
- Management:** Optical will be around Re. 1 crores for this quarter.
- Anubhav Agrawal:** Second question is on the pathology segment, so segmented assets, you spend about Rs. 80 crores already, can you just give very rough split of how this Rs. 80 crores has been spent so far?
- Gangadi M. Reddy:** You mean segmental assets include write-off used assets as per Ind AS we have to create the write-off used assets on the leased property and actual CAPEX for the pathological division was around Rs. 32 crores this year.
- Anubhav Agrawal:** But Rs. 32 crores, can you just talk about let us say, roughly how much you spend in radiology versus pathology or let us say how have you gone about spending this so far?
- Gangadi M. Reddy:** This is money spend on the two, the one which we opened a full serviced thing which we opened last quarter and the one which we opened in this quarter as of now and the advances and all which we paid for 2 more centers which are coming up in Hyderabad. All of these have MRI, CT, and everything else.

- Anubhav Agrawal:** Just a recap, sir, right now you have two labs which can offer both radiology and pathology service and both have CT, MRI and I don't know whether it have PET scan or not, can you just update that?
- Gangadi M. Reddy:** They don't have PET scan, so CT, MRI, Ultrasound, X-ray, BMD and all the other machines which are of much less cost there, the TMT and all, the ECG, EEG, PFT and all, so we don't have PET anywhere else, anywhere in the company right now. There is one central processing lab in Hyderabad, for that we have placed orders for the machines and all and we have paid for that. So, that is something which is coming up, so that is the pathology part, otherwise the pathology itself is a smaller portion of a diagnostic center where all you are doing is collecting samples, so that is not really too much on the CAPEX, most of it is radiology as of now.
- Anubhav Agrawal:** Just to get it right, in terms of network you have one center processing lab for pathology and you have two labs right now, both are in Hyderabad?
- Gangadi M. Reddy:** Both are in Hyderabad; both are in different parts of Hyderabad. Hyderabad is obviously a large city and we will put two more at least in this city before we start putting in labs in other cities. Again, I have to stretch this to your work that this is still under the pilot stage, we will come out with full details as we go forward. All I can tell you that the initial adoption has been fantastic. We have a subscription based super disruptive kind of model and we are finding great acceptance across the people in Hyderabad.
- Anubhav Agrawal:** And just one clarity on this private label, when you talk about 13% for this quarter, 12% for the previous quarter, this is for the network as a whole, what will be this percentage for stores which are more than year to plus stores?
- Gangadi M. Reddy:** Not too dissimilar, but I am happy to get back to you with the actual number out there, we don't see it like that, but I think the percentage will be more or less same, but happy to get back to you for that.
- Moderator:** Thank you. The next question is from the line of Ashita Jain from Edelweiss Financial Services. Please go ahead.
- Ashita Jain:** Sir, my question is on diagnostics only, sir what is the expected investment that we are expecting in say next 2 years on pathology as well as in radiology in the coming 2 years?
- Gangadi M. Reddy:** I have to repeat my earlier answer which is we are still in a pilot mode here; I will come back to you with full details by next quarter at least for sure. I can only repeat the same thing which is great acceptance, but we have still not fully finalized the plan.
- Ashita Jain:** My second question is on the private label, sir of the 13% what proportion would be from the pharma and what proportion would be from the FMCG side?

Gangadi M. Reddy: Typically 60% comes from pharma and the balance comes from surgical goods, devices and FMCG.

Ashita Jain: And just the last one, on your store guidance, how should we see it say in the next 2 to 3 years, how should we see this store additions happening in the next 2 to 3 years?

Gangadi M. Reddy: This year for sure we will do more than 1000, March we already closed with the run rate of, we ended March with over 100 net additions in March, so that means we are at a run rate which is exceeding 1000 and we will get that number easily. I don't want to give you any guidance on the years going forward, but all I can tell you is you all know that it is a large market, we are just catching the surface here. As long as we can operate profitably and grow fast, why not, we will probably grow faster going forward.

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

Avnish Khara: My first question is on the pulmonary lists in the pharmacy, so will you base the pulmonary list on the basis of the doctors in that area or is it based on the product margin?

Gangadi M. Reddy: No, I wish we could basically do it on the basis of what we want to do, then we would all have 80% discount of margin out there, but it is strictly based on the demand in each local area, so every store which we set up we have a good idea of what is being sold in this report we start off with a forecast and as we go forward, as the demand from the local area comes in through prescriptions and through enquiries and through online surges, we fine tune the product mix in that store, not the product, there is a full range of SKUs in this store, so completely based on what the local doctor is writing out there.

Avnish Khara: And my second question is on the franchisee model, so do you expect something like that to pick up for your future growth in the next 2 to 3 years or do you think that you are more comfortable only setting up your own store?

Gangadi M. Reddy: No, on the franchisee stores, we have tried it several times for various reasons, but we have never really found any great success in it because it is such a price competitive market and the margins are low that it is really not enough for us to share between, let us say, the company and what independent entrepreneur, so we much prefer setting up the stores ourselves and running it.

Moderator: Thank you. The next question is from the line of Ankit Bhansal from AB Private. Please go ahead.

Ankit Bhansal: Sir, my question is, the kind of model you are applying, I have one concern that sir, you are operating multiple stores in the same location, sir, one wrong behavior from one of your employee with the customer will deplete all the good work done by other stores, so don't you think this is a loophole in your model, I want to just know your comment on that?

Gangadi M. Reddy: No, I don't agree at all because this is an operationally intensive business and this is also a logistics business out here, so it is easy to maintain stores in areas in which you already have management and supervisors out there and all and in areas in which you are already known, it is much more easier to attract customers, but I can tell you that when we started first in Hyderabad, it would take us much longer for people to recognize our stores, but today, when we open stores out in Hyderabad, 60%-70% of our stores breakeven in three months.

Ankit Bhansal: Sir, my next question is, sir, at the time of the IPO you said in the interview, this is the starting, the picture is still remaining. Can I background that comment?

Gangadi M. Reddy: Absolutely.

Moderator: Thank you. The next question is from the line of Miyush Gandhi from Propulsion Capital. Please go ahead.

Miyush Gandhi: Sir, I just wanted to take your view on the SSG that the business can deliver, more than 12-month-old stores in the last 3 quarters have had low single digit SSG, what is your experience in the past and I understand the base, lot of one-offs and things like that, what would be your steady state SSG that you would expect from your stores?

Gangadi M. Reddy: I have to give you a slightly longer answer to this out here. I know all the analysts will have this whole SSG thing and all. The way we look at it is when we set up a store, is that going to breakeven really quickly, is it going to deliver the amount of EBITDA which we want from the store or not in the expected timeline and directly the ROCE guidelines for us. So, as long as stores get to let us say, 60% of them are getting to break-even in three months, 75% in 6 months and then the overall 10% EBITDA level is achieved from the second year onwards and the overall network is at all stores above 12 months are at 10% above, we are fine. So, we don't really stress as much about SSG for only one reason. When you set up a store out there in a neighborhood, you get a catchment, you get customers from a reasonable from some expected catchment. Over a period of time, what we have seen is cities in which we operate, most of them are growing really rapidly, they end up actually becoming more and more denser and then opens up opportunities which we did not otherwise see in that very catchment towards the edge of periphery of that catchment. So, when you go and set up a store there, they will end up taking some sales from our existing store out here and for us, it is okay, as long as one plus one, actually becomes more as we go forward, we are still okay as long as on the combined level, both stores are profitable, the new store is getting to breakeven quickly, the new store is also getting to profitability, the old store is at 10% and above. We are perfectly okay with that and because we know if we did not set up a store in a catchment which would take a store, we fully expect competition will take it. So, given that ours is a business which not only realize or our brand be known for giving general medicines at a great price, it is also a business of convenience, so we are forced to basically set up stores out there to capture more in the market, so we would rather do that, so given that one, and given the fact that we have been growing faster than ever before in our history, we will see little bit of split sales out there. But added to that we are also seeing

a lot of headwinds out there in the market right now, everyone is out there trying to capture market share by passing on unviable discounts and everything else and also on top of advertising heavily, so while we expect this is all continue for a while. We expect this will go on for a little while. As long as we are able to maintain our profitability and as long as we are able to maintain our growth and continue to maintain the metrics which we look for, we are fine. So, the SSG which we delivered was around 7.3 or slightly more. We fully expect that as long as the market continues to be like this, we are probably around that number only, but the goal for us would be to make sure that the network grows profitably and our one year plus stores continue to be delivering EBITDA in the range of around 10%.

Miyush Gandhi:

Sir, given the kind of store network layout that you are planning for next one year, we will probably end up spending around Rs. 400 odd crores and with diagnostic CAPEX as well, so we might probably run out of the cash that we have in next 6 quarter, so how should we see the balance sheet going forward, would we open to raising more capital? Are we open to more, may be a tie-up or something with diagnostic players, any road map there would be helpful?

Gangadi M. Reddy:

Sure, so couple of things here, one, we raised money mainly for setting up stores and we will continue to do that. Our opening or not opening our diagnostic center is not going to come in the way of our opening stores, so we will be well funded for opening the stores. If we decide to embark on a plan which is quite additional capital for the diagnostic side, we will figure out the way of raising additional money for that part through debt or equity or something else, but that has not gone to compromise the growth of our stores, no matter what, so that will continue. Yes, we have cash in the bank, we also are accumulating cash and we don't have any debt at all, so we can easily go and raise debt, so I really don't foresee the need for us to do anything extra to grow our stores, diagnostics rather matters. Now, coming to diagnostic side, do we really want to go and tie-up with someone else, yes we will be open to looking at all those things out there, but we believe that as the world is moving towards a more kind of one stop shop kind of playing, bringing the online doctor consult, the diagnostics and labs and home collection of lab samples and everything else along with home delivery as well as pharmacies would be the way to go, full on OPD play is absolutely necessary for us as we go forward and we will figure out the best way of funding it either through tie ups or either through vendor financing or some other methods, but that is not going to impact the growth of our stores.

Miyush Gandhi:

Sir, just one last question from my side, are there any specific geographies or regions where we are planning to expand for the next 1 year, if you could highlight something on those lines?

Gangadi M. Reddy:

We are growing in the 7 states in which we are already there, we will continue to open stores both in the Tier-1 and Tier-2, Tier-3, Tier-4, more way towards the Tier-2, Tier-3 and Tier-4 that they are one I would say, but we are not ruling out the opening of our few stores in neighboring states, just to seek something out there, so that at some point, we would like that to slowly tap off and grow, so we possibly opened a few in the neighboring states of possible Kerala or to may be Chhattisgarh or Madhya Pradesh, but otherwise majority of the growth is going to come from states in which we are already present.

Miyush Gandhi: Sir, Kerala still the policy has not changed, if I am not wrong, they didn't allow more than one store, has that changed and how do we?

Gangadi M. Reddy: It has changed, the government is open, we have already talked to people out there, so there are chains now, so we could possibly go out there.

Miyush Gandhi: Is there any seasonality in our business in terms of quarter?

Gangadi M. Reddy: Little bit, during monsoons and during the rainy seasons and all, across the country and sometimes in the winters and all, there is going to be more infection, there is going to be more fevers due to cold and cough and everything else, but that apart, we are not much, I would say little bit. The effect of seasonality is in a few percentage points here rather than the huge difference which you see in businesses like garments and everything else.

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

S. Mukherjee: Sir, just one question on the geography mix, like you are going to smaller cities, Tier-2, Tier-3 and below, how should we think about revenue per store or store level margins, how should the mix and margin profile change as you go to less dense areas?

Gangadi M. Reddy: Definitely, less dense areas are places which buy medicines actually I don't know if there is anything like less dense in India, but definitely places which have lesser buying capability, end up actually buying a little less both in FMCG and in medicines also. So, the topline would be slightly lesser, but the fact is our brand in the states in which we are known is well known and when we end up going to these small towns specially with additional listing of guarantying in genuine medicines along with the best possible price out there in the market. We see a lot of people coming to us, we do get a outsized share of the overall market out there in those small towns. Given that the costs are lower, both in terms of rent, manpower cost and everything else and given also the people here are more likely to buy private label drugs and all, we and the product mix is slightly more favorable in the small town. We actually see that the margins in small towns, EBITDA margins are actually better than in the bigger cities, but the topline may be slightly lesser, the overall margin is actually better, at least say if not better.

S. Mukherjee: And sir, one more question on your expansion, it seems like at least in the near term you would focus on the key states, the 7 states that you are there, with the learning that you have, the infrastructure that you have, the backend that you have, when would you think about getting into some of the other bigger states which were not addressing today because I would assume the competition there would also not be very intense, so why is it that you want to essentially focus on these 7 states and not venture into new geographies?

Gangadi M. Reddy: For us, we see it as a business of logistics more than anything else given the fact that our supply chain is fully set up, we are already supplying to several Tier-2, Tier-3, Tier-4 towns in these states. It is much more easier for us to string along the set-up shops along the same route than

go and establish our completely new city and all that, not that we are opposed to doing it, but given the capital, given the time frame and given the fact that we would like to grow profitably, I think we are better off actually to going in the states which were there.

S. Mukherjee:

And sir, in these 7 states you would be adding 1000 plus stores and that intensity would be there for how many years you think, I mean is there an assessment as to what is the number of stores that you can eventually set up in these 7 states, say like 2700 odd now, so at what point you think you will be sort of saturating in these 7 states, any assessment there?

Gangadi M. Reddy:

I can tell you this for sure, much before we saturate here, we would have already seen in all the neighboring states including places like Delhi and all and we would have started our operations in those places and continue the good practices of this place into that place. So, that is something which we will do while we will not expand in those places, we would have seeded them and we would be ready to start. Now, on the question of saturation, slightly unlikely that we will be able to do it any time soon, mainly because we expect that the overall margin in the country by 2025 is going to be Rs. 2 lakh crores, so if you take it as Rs. 2 lakh crores and if you take these states as having around 45% of the overall market, that is at least Rs. 90 thousand crores market out there, so for us till we get to 20-25% of the overall this thing, I don't think we will be very happy, so if you are looking at a Rs. 27 thousand crores which is around 20-22% of the overall market in these places, you are still talking about at least 10,000 stores, say we are talking about 1500 stores per year or slightly more also. That is easily another 5 or 6 years before or at least another 4 years before the event will get saturated. By the way, it is not just want to be as we grow bigger and as the network grows bigger and bigger in small towns. Our growth is not going to be purely based on pharmacy only, it will also come from sale of FMCG, sale of private label and the modeling of the store into our convenience kind of store where people will end up buying lot of other things. So, slowly the mix will shift and we will have access to a larger market than just the pharmacy market. So, in that sense, I am not necessarily dependent on only the size of the pharma market.

Moderator:

Thank you. The next question is from the line of Anubhav Agrawal from Credit Suisse. Please go ahead.

Anubhav Agrawal:

Sir, some data points actually, again going back to diagnostic disclosure that you have in your presentation where this quarter losses about Rs. 7.6 crores, just trying to get some clarity there if we break up into two segments, the rent as well as the other costs which is leading to this little higher loss of Rs. 7.6 crores, if you can break this up into some component that will be helpful?

Gangadi M. Reddy:

Sure, actually Rs. 4 crores of that went into marketing alone, into the brand ambassador and all the other advertisements which we have created, the brand, the software and everything else which we developed for the entire diagnostic side. So, lot of it is CAPEX and marketing out there for us. So, it is not all operating loss out there.

Anubhav Agrawal:

And how much will be the quarterly rent which would be coming in this?

- Gangadi M. Reddy:** Rs. 63 lakhs for the quarter.
- Anubhav Agrawal:** And secondly, again on the other segment where you have Rs. 2.5 crores loss, so is this largely coming from the optical side because as we assume that the wholesale segment should not be making a loss?
- Management:** Optical is almost at a break even. The main losses coming in the other division was mainly in the distribution company where we are passing all the margin to the pharmacy, all the expenses was setting in that distribution segment.
- Anubhav Agrawal:** So, that is exactly my concern was, then why are we showing it separately because this is effectively, by clubbing into others we are not capturing the profit correctly, right?
- Gangadi M. Reddy:** Still having a third-party sales that is why for the time being we kept there.
- Anubhav Agrawal:** And just coming on the normal business, this is like for the pharma drugs which is about 74-75% of our revenues what will be trade generics as a percentage of that segment which is nonprivate label for you guys, but trade generics?
- Gangadi M. Reddy:** As of now, I don't think it is more than 1% to 1.5% and we don't normally sell trade generics, but there are some trade generics which have become brands over a period of time and so people ask for those and we have to actually sell them, but I think it is under 1% is what I would think.
- Anubhav Agrawal:** And very roughly, what is the average discount which you are giving on the pharma segment overall?
- Gangadi M. Reddy:** On the pharma segment?
- Anubhav Agrawal:** Yes.
- Gangadi M. Reddy:** Across the board, I think the discount now sits at around 16% or 16.5% because more than 60% of our sales come from, 16.3% is the actual discount out here, you know that most of our sales comes from ticket sizes which are more than 1000 and there we give 20% discount and that is the reason why we charge.
- Anubhav Agrawal:** So, what will be roughly average order value for us?
- Gangadi M. Reddy:** Average order value across and I am not talking only about pharma, it is around Rs. 440 is the actual thing..
- Anubhav Agrawal:** And this is with the doubt comes like if such a large portion is coming from orders which are more than 1000, then would average order value come to 440, so how do we reconcile that two numbers?

- Gangadi M. Reddy:** So, the bill size, the average order as I said it 440, right, what is the actual doubt out there for you?
- Anubhav Agrawal:** If majority of our sales is coming from orders where bill size is more than Rs. 1000, let us say even 60% is coming, that itself will be Rs. 600 average order value, right?
- Gangadi M. Reddy:** So, the number of bills on the lower side are actually much higher and hence if the average value tends to be slightly lower than 1000 out there.
- Anubhav Agrawal:** Just lastly on this clarity, the 16% how this would have let us say a couple of quarters back 2Q or 3Q, is that discount same or that has gone up?
- Gangadi M. Reddy:** The discount has been more or less same. Actually, it was, let me just read out from the thing out here, it was 16.6% last quarter. Anubhav, can I get back to you on this question?
- Anubhav Agrawal:** Absolutely, sorry for this data related question, one last question is Hemanth here, our other income if you exclude the interest income, this is roughly about Rs. 5- 6 crores per quarter, what are the just nature of this other incomes, can you just give qualitatively some idea?
- Gangadi M. Reddy:** Can we come back to you on this, Anubhav?
- Anubhav Agrawal:** Yes.
- Moderator:** Thank you. The next question is from the line of Harshal Patli from Share Khan. Please go ahead.
- Harshal Patli:** Most of the questions have been answered, just need a clarification, just I think I would have missed it, sir, on the margins front, if I have to go ahead, basically in 23 and 24, how is it that we should be looking around considering that you would be adding 1000 odd stores, so any qualitative comment or directional comment around that?
- Gangadi M. Reddy:** Since we will continue to add stores and obviously some of it will pull down the overall EBITDA little bit, I would expect that we would probably be seeing EBITDA in the same range going forward, but on the plus side, we continue to add sales to our private label side that will push the margin up, so unless there is any big difference in the market, I expect that the downward pull of the new stores will be compensated by the higher margins of private label as well as the maturing of the 40% of stores which are now under two years overall.
- Harshal Patli:** And sir lastly, if you could just give me CAPEX number basically for '23 and '24 if at all you have the total CAPEX including diagnostics as well?
- Gangadi M. Reddy:** Total CAPEX for the entire year of 22?
- Harshal Patli:** '22 and '23?



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Gangadi M. Reddy: For 23, we will have to come back.

Moderator: Thank you. In the interest of time, that was the last question. I would now like to hand the conference over to Mr. Reddy for closing comments.

Gangadi M. Reddy: Thank you. I thank all participants on this call for your interest on the MedPlus journey. Our investor relations team can be contacted at ir@MedPlusindia.com for any questions out there. Thank you.

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