MedPlus Health Services Limited

**Date: June 1, 2023**

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

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

Dear Sir/ Madam,

**Sub: Submission of earning call Transcripts**

Pursuant to Regulation 30 of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015, we enclose herewith transcript of the earnings call of Q4 & FY 2022-23 held on May 26, 2023.

The same is available on Company's website at www.medplusindia.com

Kindly take the same on record.

**For MedPlus Health Services Limited**

Manoj

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

MEDPLUS HEALTH SERVICES LIMITED HYDERABAD

“MedPlus Health Services Limited

Q4 FY’23 Earnings Conference Call”

May 26, 2023

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

**Moderator:** Ladies and gentlemen, good evening, and welcome to the MedPlus Health Services Limited Q4 FY '23 Earnings Conference Call. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing star then zero 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, sir.

**Prasad Reddy:** Thank you, Faizal. Good evening, everyone. On behalf of MedPlus, it's my utmost pleasure to welcome you all to the MedPlus Q4 FY '23 earnings conference call to discuss the financial results, which were announced on 25, May 2023.

We have with us today the senior management team represented by Mr. Madhukar Reddy Gangadi, Chief Executive Officer and Managing Director, Mr. Sujit Kumar Mahato, Chief Financial Officer, and Mr. Chetan Dikshit, Chief Strategy Officer.

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 these risks and uncertainties on Slide 1 of the initial presentation shared with all of you earlier. Documents relating to our financial performance have been circulated earlier, and these have also been posted on our corporate website.

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

**Madhukar Gangadi:** Thank you, Prasad. Good evening, everyone. At MedPlus, we are proud to have a dedicated team of over 22,000 people who constantly demonstrate discipline and hard work in delivering essential services to our valued customers. As of March 31, we have been serving the healthcare and householdings for communities in 552 cities across 7 states through our extensive network of 3,820 pharmacy stores.

During the current quarter, we have successfully expanded our presence into 55 additional cities. In addition to our pharmacy operations, MedPlus operates three integrated radiology centers, four slightly smaller radiology centers, which have up to the ultrasound machines and over 100 collection centers. These facilities play a crucial role in our commitment to providing affordable diagnostic services to our customers.

Our store expansion initiatives remain on track, and we continue to grow our results. Over the past 12 months, we have added a network - net total of 1,074 stores with 284 stores opening in Q4 alone. Notably, Karnataka and Tamil Nadu saw the highest number of store additions with 88 and 54 stores, respectively. Of the store openings in Q4, 58% were in Tier 2 and beyond, reflecting our strategic focus on these markets. Currently, out of our 3,822 stores 1,675 are located in Tier 2 cities and beyond, which are advantageous in terms of store economics to us. We will recognize the potential of these markets and aim to further expand due to the maturity of our operations and robust supply chain capabilities.

During Q4, we experienced 19 store projects, slightly higher than the 17 in Q3. However, taking into account both openings and closures, we achieved a net addition of 265 stores in Q4, compared to 229 in Q3. Over the course for the next 12 months, or the past 12 months, we have successfully added a total of 1074 stores.

In terms of age of our store network, we have categorized our network expanding's. Approximately 30% of our stores are less than a year old, around 19% of our stores are in the second year of operation and the remaining has been operating for more than two years. To illustrate the impact of our rapid store expansion in the age distribution of the network by the end of Q4, approximately 49% fall within extent two years. In comparison, during Q4 FY '22, only 40% of our stores were less than two years.

It's important to note that also within less than two years age bracket are still in the ramp-up pace. And from a financial perspective, they currently have a negative impact on our operating EBITDA. However, as these stores mature, we anticipate them contributing positively to our profitability.

We closely monitor the time it takes for our new stores to break even for stores opened between April '22 and September '22, approximately 65% of them achieved break even within six months of operations. Additionally, around 71% of our new stores break even within 12 months of opening. At the end of the quarter, our network is grown to 3,822 with 2 million-plus square foot compared to 2,748 and 1.6 million square feet at the end of March 2022. The average store size was 537 square foot. To give you a sense of spread, we have 2,715 stores less than 600 and 1,107 stores that are greater than 600 square feet.

With our expanded scale, we are strategically positioned to enhance our revenue share from private label products. Our private label range is designed to offer customers high-quality products at affordable prices. Currently, network offers over 900 thoughtfully curated SKUs to expanding both pharmaceutical and non-pharmaceutical categories. Private label sales accounted for 14.1%.

**Moderator:** Sorry to interrupt, Sir. This is the operator. The audio is not very clear, Sir - request if you can keep the mic slightly close to you.

**Madhukar Gangadi:** Sure. We're pleased to report that our efforts to increase the share of private label products in our customer shopping basket are progressing positively. Notably, our private label pharmaceutical range has shown promising growth contributing to 8.4% of our overall revenue. Further, our expanding presence in Tier 2 cities and beyond is making a significant impact on the revenue mix. Sales from these markets accounted for 33% of our revenues in the current quarter, demonstrating an increase of 30% in the same period last year. This indicates the success of our expansion strategy and the growing acceptance of our offerings in this market.

We continue to expand our coverage of pin codes for our online orders. This complements well with our physical stores. MedPlus will continue to focus on increasing the coverage of our two-hour delivery period or two-hour delivery offering. Store pickups as a share of online orders continues to maintain a higher share than home delivery, reflective of the convenience and accessibility of our store network. Our strategy on online remains unchanged. We have not spent heavily to acquire customers online and we'll continue to maintain our omnichannel as a profitable channel.

Now I request Sujit to give an update on our numbers.

**Sujit Kumar Mahato:** Thank you, Madhukar. Now on our quarter's performance. Our consolidated revenue was INR12,530 million, which has a growth of 29.7% on a year-on-year basis and 5.3% quarter-on-quarter. Our consolidated operating EBITDA stood at INR 406 million, representing 3.2%. This is a 37.6% year-on-year growth and 9.6% quarter-on-quarter improvement. Around 99% of our revenues is from our pharmacy operation. The pharmacy operating EBITDA was INR 447 million, representing 3.6%.

Our stores performing. I would like to update on a store older than 12 months. Revenue from these stores in Q4 was INR 10,737 million, or 88% of our pharmacy revenue. These stores had a store level EBITDA margin of 10.3%. The store level operating ROCE of these stores stood at 60.5%. A whole year on the store level EBITDA margin by age and vintage, while stores greater than 12 months had a margin of 10.6%, this was 11% for stores greater than 24 months. and 7.8% for stores in the age bracket of 13 months to 24 months.

If the allocated non-store related costs, the operating EBITDA of store greater than 12 months would be INR537 million, which translates to a margin of 5%. Our net working capital for Q4 was 64 days which comprised of the following: the inventory in our warehouse was 35 days. As you are aware, because of the same trajectory of new stores, their inventory turnover is lower in the first year. In quarter 4, the inventory level of our first-year store was 114 days. In comparison for our stores older than 12 months, the inventory was 39 days.

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

**Chetan Dikshit:** Thank you, Sujit, and good afternoon, everyone. At the end of March '23, in our pilot market of Hyderabad, we had three full-service diagnostic centers, four Level 2 centers. So that's seven. Plus, we had just over 100 collection centers. In Q1 of FY '24, we expect to open our fourth full-service diagnostic center, and we have already gone live with three additional Level 2 centers. So that's seven at the end of Q4, being currently 10 and expected to be 11 by quarter end.

Here the short recap for those who are not already acquainted with our approach in diagnostics. Any customer of MedPlus advantage plan can avail the full range of radiology tests and pathology tests at 70% --75% discount to MRP. There are three differences in our model versus our typical peer. Firstly, we do not operate via franchise. Secondly, our collection centers are housed within our existing pharmacies. And thirdly, our plan is designed such that we do not depend on the referral network of patient walk-in.

We have launched the Network Advantage plan in February '22 up to 31st March '23, we have sold a gross of 75,000 plans. Since these plans are of one-year validity, going forward, we will be disclosing active plans and underlying lives. As on 31st Marchwe had 93,000 active plans and 163,000 underlying lives. While we expect seasonality headwinds in Q1, we have crossed the milestone of 100,000 access plannings, and we are now setting our sights on the 150,000 milestone.

Plan renewal is an important area for us. Given that diagnostics is not a high frequent usage, say, like grocery, our preferred metric for monitoring renewals will be renewed within six months from expiry. At this stage, it is early days for us to draw a trend. However, we will provide an update in next quarter's call.

That's our update on diagnostics. Handing back to Madhukar.

**Madhukar Gangadi:** Thank you, Chetan. So going forward, what can we expect from that cluster? We currently operate in a very attractive pharmacy space and our poised for growth on the back of our store expansion. We have a platform of 4,000-odd stores right now. And this allows us scale benefits, which we will continue to reap as we go forward. So our expansion plans continue to remain in place for the next one...

**Moderator:** Sorry to interrupt you, sir, the audio is not clear to us.

**Madhukar Gangadi:** Okay. Our cluster-based network enables profitable omnichannel service and we continue to expand this every quarter. Scale allows a larger share for our private label basket. And our diagnostic project has proven that we can use our pharmacy stores to cross-sell our healthcare solutions and we will explore other revenues that can add incremental sales without increasing cost.

So that's the end of our update. I request you to open the lines for questions.

**Moderator:** Thank you very much. The first question is from the line of Prakash Agarwal from Axis Capital. Please go ahead.

**Prakash Agarwal:** My first question is, I'm not sure if you already said, but what is your store opening guidance for fiscal '24?

**Madhukar Gangadi:** It will remain on the same lines Prakash, most likely anywhere from 800 stores to 1,000 stores.

**Prakash Agarwal:** Okay. And this year, we closed at 1,074 nets?

**Madhukar Gangadi:** At 1,074 nets, yes.

**Prakash Agarwal:** Okay. And these are largely in the existing states, or you plan to introduce any new state?

**Madhukar Gangadi:** Going forward definitely. We are looking to expand into Chhattisgarh, Kerala, and Madhya Pradesh but these will be small for us, we could say, between 20 stores and 25 stores in each of the three cites of Cochin, Indore, and Raipur. We will stabilize the operations and then look to expand from there.

**Prakash Agarwal:** Okay. But currently, in these states, there is no store as of now, is it?

**Madhukar Gangadi:** These are completely new states for us, and we are going here because they are contiguous to the states in which we operate in a major way.

**Prakash Agarwal:** Okay. Perfect. And one clarity on the SSG growth of 12-month-plus stores, 15% is a very strong number. Just trying to understand, is there any one-off? How to read this, is this sustainable?

**Madhukar Gangadi:** See, definitely Q3 and Q4 are slightly better months for us, normally, I would say. So seasonality effect would be there to some extent. You obviously can't expect the same in Q1. Outside of that, a little bit of seasonality, there's nothing more to it. There is no one-off to the growth.

**Prakash Agarwal:** On a full year basis, how would this number?

**Madhukar Gangadi:** Full year basis, I can give you guidance on the same. We expect that we'll grow at least 20%, 25% at least for the full year. On the overall number, I'm not talking about the same store sales.

**Prakash Agarwal:** Yes. So if you got to pen in like SSG growth for 12-month-plus, that should be, what, 5% to 10% range or...

**Madhukar Gangadi:** Yes. I would assume at least that much.

**Prakash Agarwal:** Okay. Got it. And lastly, on the diagnostics, so quite a faster ramp-up now on the access and the membership. So -- and I think in one, two quarters, you'll be EBITDA neutral also. So what's the way forward? I mean, so would we expect to explore a new city, or we'll go more deeper within this place, or what is the plan here?

**Madhukar Gangadi:** We will fully expand into Hyderabad right now. We have around 10 centers at this point of time. We will add two more, and that will cover Hyderabad fully for us. We will continue to expand the membership. And I don't think, we will venture into a new city till we have grown significantly from this number. We currently, we're happy to tell you that we have around 100,000 members right now.

The plan is now for us to actually get moving on the B2B segment. Now almost 99% of it is B2C. And we think with the full network being set up across the city. We will be in a position to make the offering available to our B2B customers.

I'll let Chetan answer this, if you have anything to add Chetan.

**Chetan Dikshit:** No, I think, Madhukar, that's fine. Prakash if you have a follow-on, I can take it up.

**Prakash Agarwal:** Okay. If I may squeeze last one here. Omnichannel Q-on-Q growth is flattish. Has online being little muted and we are back to off-line or how to read this data?

**Madhukar Gangadi:** Our omnichannel actually, if you look at the pure online segment of our omnichannel spike, that has been in fact, for various reasons. There are a certain set of customers who want to go online and there are -- and 18:25 minutes unfortunately, there's a lot of competitors out there who are moving them with higher discounts than you find. So those who are inclined towards that are probably going out there. Those who are there with us continue to stay with us and we're growing slowly out there. But I think until the noise of all the people drops significantly, I don't think we will see any significant growth on there.

**Prakash Agarwal:** Noise is dropping? If you see most online guys are reducing discounts and noise, I guess, is dropping so...

**Madhukar Gangadi:** So we will see the effect of it, hopefully, going forward, Prakash.

**Moderator:** Thank you. The next question is from the line of Arshita Jain from Nuvama Group. Please go ahead.

**Arshita Jain:** **Hello, Good evening,** Congratulations on the good set. So my question -first question is on cash generation. So when I look at your three expansion plans, almost 1,000 stores in FY '24 maybe similar until FY '25? And with cash on this of about INR280 crores and when I see a average year-on-year after these -- negative INR8 crores. Just wanted to understand when can we see a good cash generation from our existing stores? And also, is there any plan to raise fund in the near future?

**Sujit Mahato:** I'll take this question. So on the balance sheet, as you are right, we have around INR280 crores of cash. And if you observe our books are net debt fee, which means that there is enough headroom for leverage. But on an asset basis with the expansion that the company is going up. Easily, we can target 700 stores to 800 stores with the existing cash. We are mindful of the cash, but we would, at a certain point in time, go out for a line of credit for the working capital requirement.

**Arshita Jain:** Okay. And any plan for Q3 or just the working capital credit that you are looking for?

**Sujit Mahato:** At this point, it's only working capital.

**Arshita Jain:** Okay. Thank you. And secondly, you mentioned that there is some seasonal benefit in Q3 and Q4. Is that the reason why our private label non-pharma contribution received this quarter is from 5.1% to 5.7%, or is this something which is sustainable even in the coming quarters? Any kind of on that...

**Madhukar Gangadi:** Private label non-pharma does not have any seasonal kind of benefit out there. It is just that we are focusing on that a little bit more. We were at around 3%, 3.5% last year. And the effort is to actually get it up to 7% or 8% over the period of this year. Yes. So by non-pharma, what I mean is the portion which I'm talking about, the FMCG part of 3%, 3.5%. The focus is to make that come to 7% or 8%.

**Arshita Jain:** Okay. And what will lead to that? Is it our existing mature Tier 1? Or as we move to Tier 2, Tier 3, that will lead to that continuation?

**Madhukar Gangadi:** No, no. It's just a focus on it, which basically means we're expanding the range of products making them slightly better visible in the stores. We're also changing the format of some of the new stores out there to make it easier for customers to pick-up these products earlier. Most of our stores, almost all stores were served from behind the counter in the general goods are also served from behind the counter, makes it slightly more tougher for customers to pick those up. So our new stores are coming up with the self-serve model in the front, which makes it easier for us to sell the general goods on that.

**Arshita Jain:** Okay. Very helpful. And then just last one on diagnostics. Now, I think you started last year in February, now we are in the, almost more than one year over now. Is there any renewal rate that we are tracking for diagnostic customers or subscribers? It would be really helpful if can share that data?

**Chetan Dikshit:** Arshita, just to recap. In the past, we have said that we will intend to maintain the average quarterly loss at INR5 crores. We expect that phase to at least continue till end of Q2. You see it's important for these new centers that have been open to follow the same trajectory. So we expect to improve from Q3 onwards. But the phase that we had described earlier, that will at least continue till the end of Q2 of FY '24.

**Arshita Jain:** Okay. But my question in terms of the patients are already subscribing to our plans. Have they renewed it? Those who would have subscribed in February '22 or March '22?

**Chetan Dikshit:** All right. So that's a fair question. And I'm sorry, I misunderstood your question. So yes, we will talk more about renewals as we go forward. What I had mentioned was that the right way, we have determined that the right way to look at renewals is not exact on-time renewals, but renewals within a six months of the plan expiry. So it's still early days for us to give a guidance. What we have seen is that we are having 33% renewal from the March '22 cohort, and that's just 60 days since the plans expire. But this is very early. We need more time to form a view and subsequently to give you, our guidance.

**Moderator:** Thank you. The next question is from the line of Harith Ahamed from Avendus Spark. Please go ahead.

**Harith Ahamed:** Can you share the blended discount rate for the pharmacy retail segment that we're seeing currently for the quarter? And do you see this trending down basis or what you're seeing with respect to competition and then some of the challenges that they're taking, especially the online players.

**Madhukar Gangadi:** See, our discount now stands at 17.1% overall. Unfortunately, it does not come down as yet. While we are seeing slightly less advertisement from one or two of our competitors. There are at least two of them who are making in applies right now. And they're all talking about a 25% discount for the first three purchases even today. So we all know about the struggles of one of our competitors at least on the online site, but the thing is, it's not across the book. There are still people active. So that's the thing. Are we seeing any dropping in discounts, a little bit, but that has not really affected us as of now?

**Harith Ahamed:** And on the operating EBITDA margin for the Pharmacy Retail segment again. So we are around 3.5%, 3.6% for the last couple of quarters. How should we look at this number for FY '24, given that we'll have a higher percentage of our shares, which are above 12 months. So, and then the 1,000-odd store additions that we're targeting. So overall, any guidance on this number?

**Madhukar Gangadi:** Going forward, although I can't speak for Q1 right now because Q1 typically is not a great quarter for us. But over the period of one year, I think we will slowly start to see an increase in the overall margin. For us, we'll still have a significant number of stores which are below two years. Two years is where the actual potential of the store is seen. We expect a 10% kind of EBITDA at the two-year level. And today, 50% of our stores are under two years at this point.

Given that we are going to be adding anywhere between 800 stores to 1,000 stores this year also, I don't expect a significant change. If any change were to happen, that most likely happen because of the benefits of scale on, let's say, reducing the corporate cost or maybe reducing warehousing cost or possibly increase in the margin on private label. But the downward track will continue to be good.

**Harith Ahamed:** Okay. And one on the diagnostics business. Chetan, you mentioned something a number for level 2 centers. So just trying to understand how different are these from the full-service centers and if you can also share the total gross block or investment in diagnostics till date?

**Chetan Dikshit:** Right. So I'll take the first part of your question. You see we are currently describing our centers as full-service diagnostic centers. Those are the ones that have MRI, CT and downwards. The next definition we use is level 2 centers. These are diagnostic centers, which have ultrasound and below. And in one case year or day, it may have an MRI, or it may have a CT. So these are our level 2 centers.

The third is the collection center, which is an extremely interesting feature because our collection centers are housed within our pharmacy. So going in the reverse order. Currently, we have over 115 collection centers in Hyderabad. And we currently have seven Level 2 centers. We have three full-service diagnostic centers live. And this quarter, we expect one more full-service center to go live. So at the end of the quarter, we will have four plus seven, and any new collection center that we open.

On your question on gross block, I'll request Sujit to step in.

**Sujit Mahato:** So on gross block as of 31, March for the diagnostic business, it's around INR96 crores, and the net block is around INR90 crores.

**Harith Ahamed:** So those number of around INR170-odd crores that we are seeing on the balance sheet as assets under the segment? So what makes the difference?

**Sujit Mahato:** Sure. I can clarify that. So a large part of that close to INR77 crores is the right of use asset, which is the lease asset for our premises and centers. And there are other small components of other items.

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

**Prakash Agarwal:** I just wanted to check on if there's an update on that automated warehouse that we were planning?

**Madhukar Gangadi:** Yes. So Prakash, as you know, the Hyderabad warehouse today sends out 50% of all the tablets and all through the automated stuff. We were having a little bit of an issue with building of the new warehouse in Hyderabad. Hence, we have actually moved the first part to Chennai. Chennai, we have just taken the premises which is ready to go. We are looking to set it up with full automation. I hope that we should be able to get it out in possibly four to five months from now to lead that.

**Prakash Agarwal:** Okay. So the Hyderabad site, it's not happening anymore...

**Madhukar Gangadi:** It will happen. It will probably be the second one to go on. Hyderabad, we were planning to actually build the facility and then house the entire thing. So that has entered into a little bit of a stack, I would say, with the possession issues and all. So hence, we have leased the premises in Chennai and we're starting that out right away.

**Prakash Agarwal:** Okay. And the way we would be entering Madhya Pradesh, Chhattisgarh and Kerala would be like to start with the supply from adjoining states and to follow with their own warehouse or what is the plan?

**Madhukar Gangadi:** That's right. That's right. That's exactly right. So they are adjacent. So we'll be supplying from Nagpur for these two places, both Chhattisgarh and Madhya Pradesh and from Chennai for the Cochin side. Little inefficient, but we believe it will be much better than setting up a full year us for a 25-store kind of operation. So till that becomes stable and profitable, we will not actually set up a warehouse.

**Moderator:** Thank you. The next question is from the line of Divya Daga from Vijit Global Securities. Please go ahead.

**Divya Daga:** **Hello Sir,** I have two questions. The first question is, sir, can you explain me about inventory? What about the inventory we have that gets old or expired?

**Madhukar Gangadi:** Sure. So all pharma branded inventory is bought on a fully returnable basis. So at expiry it is return to the manufacturer for full cost recovery out there. They exchange it for some other product.

**Divya Daga:** And what about private label, Sir?

**Madhukar Gangadi:** Private label that, of course, we have the inventory risk. So if we don't sell it, it basically just gets dump.

**Divya Daga:** Okay. And can you provide me the number that in this year happened?

**Madhukar Gangadi:** The private label expiry you are saying?

**Divya Daga:** Yes, sir.

**Madhukar Gangadi:** I think a total -- okay. Give me a second. So can we come back to you offline on this. This year, the number is slightly higher, I must say, and that is mainly because of the onetime COVID kind of inventory. Otherwise, it is usually manageable. Typically, we see that the overall profits on private label are so high. The gross margin is 80%. We are easily able to take a small inventory risk on that.

**Divya Daga:** Okay. My next question is, are we expecting 7% of operating profit margin sustainable in near future that we have in this quarter?

**Madhukar Gangadi:** So if you're talking about EBITDA growth from here where we are at around operating EBITDA of around 3.5%, 3.6%, that's going to be slightly more gradually, and it is going to be a result of both operating benefit as well as increase of new products coming in and the stores maturing. It will - so as of now, I can tell you that for all -- if the networks are all two years and more, we would actually be at an overall missing of around 7%. That's in December. Otherwise, if you take out the rents and everything else and if we account for regular operational EBITDA, that's going to be around 5%, for stores, which are above two years. The entire thing is 3.5%.

**Moderator:** Thank you. The next question is from the line of Ankit Bansal from AV Investments. Please go ahead.

**Ankit Bansal:** My question is the kind of model you are pursuing like operating in some of the states like in the South, when you will move to bigger cities or newer cities like Delhi, in North India, where like I can say of myself, I've never heard of MedPlus before the IPO. So what is your strategy? How will you go deep into that market? How will you operate? How you will attract customer of getting medicines from you rather than from the established player in the north, like Apollo is a very well-established player in the North. What are your views on that?

**Madhukar Gangadi:** Sure. See, we currently operate in seven states, and we're going to three new states this year. But don't get the seven number fully out there. I know it's a smaller word, this thing of the overall 29 states, which we have. But the seven states account for around 40%, 45% of the overall market in the country. We are also there in all the big cities except Delhi. In six of the top seven cities in the country, we are there. We have 450 stores in Hyderabad, Bangalore, and Chennai, around 300 in Calcutta, 250-odd in Pune and roughly around 100 stores in Bombay. So except for Delhi, we are everywhere.

So the plan is for us to, we believe that the markets in which we are there are big enough for us to grow for the next several years, but that doesn't mean that we'll not continuously expand, slowly into the contiguous states. So we'll continue to grow. We will take a call in Delhi when the time comes. As of now, we have more than enough market to actually grow into at this point.

**Ankit Bansal:** But sir, it will take your deep research to get into the Delhi market because it's a very unorganized market. People like to buy from their 1% type medicine shop. You have to change, I think your model, I don't know how would you do that. But on this strategy of opening new store and new stores. I don't think it's going to work out in states like North India. Because they are -- I have seen people, they are very much organized with the buying of their medicines from the particular shop. Instead of buying from a player like you, where they have not heard a single, name of you before the IPO. What are your comments? How could you will penetrate into like this market?

**Chetan Dikshit:** Ankit. This is Chetan. You've made some very good points, and we'll reflect on them. Could we move to the next question?

**Moderator:** Thank you. We'll take the next question from the line of Siddhant Choudhary from Perpetuity Ventures. Please go ahead.

**Siddhant Choudhary:** So my first question is, we have seen a gross margin improvement of around 40 basis points quarter-on-quarter. So sir, what could be the possible reasons for it? And like what part of it is contributed by private label?

**Sujit Mahato:** On the private label, I think in the earlier portion of the speech, it was clarified that we have around 14% in terms of the total share in the sale. In terms of gross margin improvement, yes, we have seen some efficiencies in inventory management and lower provisions. So that contributed to an increase. And I think it was explained earlier as well.

**Siddhant Choudhary:** So, can I get a breakup of this expansion for private label. Is there any data related to this?

**Sujit Mahato:** I think we can do that off-line.

**Siddhant Choudhary:** Okay. No problem. My next question is the full year capex for this year was around INR170 crores. Can you give a breakup between the diagnostic and pharmacy business?

**Sujit Mahato:** So on the diagnostics, I will clarify because that will help you. On the diagnostics as on 31, March the gross block is around INR96 crores, and the net block as on 31, March is around INR90 crores. The balance in the -- if you are referring to the segment results, there is a write-off use asset, which is under Ind AS 116 the lease assets and therefore, you can now make your calculation.

**Siddhant Choudhary:** Do we have a guidance for the next year for both pharmacy and diagnostics?

**Management:** When you see for the Diagnostics business -- for the most part, we have already announced our plans. There may be small investments here and there within the existing centers or some additional collection centers that we opened. But in context of what we have spent so far, no material move is expected in the next -- in the FY '24.

**Siddhant Choudhary:** And for the pharmacy business?

**Madhukar Gangadi:** For the pharmacy side, as we said, we're going to add anywhere between 800 stores to 1,000 stores. And each store typically takes an investment of roughly around INR30 lakhs and that includes the inventory in it. So doing the math, it should be from INR240 crores to INR300 crores.

**Siddhant Choudhary:** Sir, my last question is for the diagnostic business. Do we have a data for the number of tests that were conducted during the last quarter?

**Madhukar Gangadi:** Yes, we do have that, but I just don't have it handy. We can probably take it offline.

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

**Amit Kadam:** Okay. So I just wanted to check with the management team. What was the reason for changing the reporting in terms of your segments?

**Sujit Mahato:** So I'll take that. So I think if you observe, there is no significant change. Earlier, there were three reporting segments, wholesale, retail, and diagnostic. We have now merged because we have merged the wholesale also into retail because wholesale is not the main business for the company. And though it continues to be an operating segment, it no longer qualifies to be a reportable segment and that's the only change. That's not a significant number.

**Amit Kadam:** And like just maybe -- if I just take the diagnostic and if I move to the a segmental profit line. So this quarter, maybe assuming that like last -- for last quarter, we had reported in this diagnostic testing services somewhere around profit for the segment at 46.8 million. Whereas now, if I just check the same number, what is it for the December quarter, it is something in the 62.69 million. Just wanted to know how to reconcile these two numbers?

**Sujit Mahato:** So I think what you have also you'll observe is we have now clarified on the un-allocable finance cost, which was earlier going as part of pharmacy alone. So that presentation we have corrected it along with the segment change.

**Amit Kadam:** Okay. So maybe I'll just come back. I just held up with this reconciling this particular...

**Madhukar Gangadi:** Sure. We will do it offline.

**Moderator:** Thank you. We will take the next question from the line of Neelam Punjabi from Perpetuity Ventures. Please go ahead.

**Neelam Punjabi:** First of all, congratulation for some good set of numbers. So my first question is on the corporate cost. So if I back calculated since the disclosures that you have provided, it seems that our corporate costs have gone up sequentially. Could you please explain what is the reason behind this sir?

**Madhukar Gangadi:** Demand gone up slightly. I'm not sure if it is a significant number. We expect that the cost will come down as we go forward as the scale increases. But let me look it up and then come back to you on this.

**Neelam Punjabi:** Got it. Okay. Secondly, sir, in our operating EBITDA break slide, there are some preoperative expenses for pharmacy business of about INR4 crores for the quarter. What is it pertaining to?

**Sujit Mahato:** I think they represent two parts. One is the property, which the company leases, which have a gestation period of two to three months to operate, right, from the way -- from the time we sign up. And second is the higher considerable number of employees, which is required for opening the new stores on a go-forward basis. So that from our presentation perspective and an operational perspective, we call it out as preoperative.

**Neelam Punjabi:** Understood. Okay. My next question is on the diagnostic business. Could you just highlight your strategy for incentivizing our existing subscribers to renew their existing plans? How are we incentivizing them?

**Chetan Dikshit:** Neelam, that's a very good question. So you're right, in bringing the focus on renewals. Currently, there is absolutely no differential between a customer who is renewing and who is buying a new plan. And this was actually done intentionally because we wanted to gather data on what is the natural pace of renewals. In the coming months, we will introduce a differential between renewals and new sign-ups, which will automatically incentivize existing customers to renew on time.

**Neelam Punjabi:** Got it. Okay. And lastly, could you give a broader level outlook for the aspirations for top line growth and margins for the next two to three years?

**Madhukar Gangadi:** So I'm not going to talk about the next two to three, but for this year, definitely, we expect a top line growth of at least anywhere between 20% to 25% that would be the minimum. On the margin side, I expect it will more or less be flattish mainly because we will have a significant number of new stores coming up even now. If there is any benefit, it's going to come out of any automation which we do on the back end or the scale benefits which come out of increasing top line for us.

**Moderator:** Thank you. Ladies and gentlemen, that was the last question for today. I would now like to hand the conference over to the management for closing comments.

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

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