Medplus Health Services Limited

June 01, 2024

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 for the quarter and year ended March 31, 2024.

Pursuant to Regulation 30 of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015, we enclose herewith transcript of the earnings calls held on May 29, 2024, for the quarter and year ended March 31, 2024.

Kindly take the same on record. The same is available on Company's website at www.medplusindia.com

For MedPlus Health Services Limited

MANOJ KUMAR SRIVASTAVA

Digitally signed by MANOJ KUMAR SRIVASTAVA
Date: 2024.06.01 19:36:09 +05'30'

Manoj Kumar Srivastava
Company Secretary & Compliance Officer
FCS 7460

"MedPlus Health Services Limited
Q4 FY'24 Earnings Conference Call"
May 29, 2024

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. SRINIVAS – MEDPLUS HEALTH SERVICES LIMITED

Moderator: Ladies and gentlemen, good evening, and a warm welcome to the MedPlus Health Services Limited Q4 FY '24 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 this conference call, please signal an operator by pressing star then zero on your touch-tone phone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Srinivas from MedPlus. Thank you, and over to you.

Srinivas: Thank you, Yashashri. Good evening, everyone. On behalf of MedPlus, it's my utmost pleasure to welcome you all to the MedPlus Earnings Conference Call to discuss the financial results of MedPlus for the fourth quarter of FY '24, which were announced on 28th May. 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 these risks and uncertainties on Slide 1 of the investor presentation shared with all of you earlier. Documents relating to our financial performance were circulated earlier, and these have also been posted on our corporate website.

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

Sujit Mahato: Thank you Srinivas and a very good evening everyone, on this call. We are pleased to share that as of March 31, 2024, we have been serving community in over 640 cities across 10 states through our network of 4,407 outlets. Also, the company operates 4 full-service diagnostic centers, 8 level 2 centers and over 110 collection centers, offering essential diagnostic services at affordable rates.

On the update of the network, over the past 12 months, the company has added a net total of 585 stores, gross additions being 670 stores with 199 stores opened during Q4 alone. Most of the new stores were opened in West Bengal and Karnataka with 55 and 37 stores, respectively, during the Q4. This reflects our commitment to meet the evolving needs of our community while maintaining a focus on sustainability and financial health. We expect the new store openings for the fiscal year '25 to be around 600 stores.

In the fourth quarter, 54% of our store openings were in Tier 2 cities and beyond, underscoring the company's emphasis on these markets. At present, out of our 4,407 stores, 2,008 stores, approximately 45%, are situated in Tier 2 cities and beyond. We acknowledge the growth potential inherent in these markets. Throughout Q4, there were a total of 25 store closures. Taking into account both openings and closures, we achieved a net addition of 174 stores during the quarter compared to 144 stores added in the previous quarter 3.

In terms of our store network age, around 41% of our stores are operational for less than 2 years. And the remaining 59% of our stores have been operational for 2 years or more. It is noteworthy that all stores in the less than 2 years age bracket are still in their ramp-up phase. As these stores mature, we anticipate a positive contribution to our profitability.

As a guardrail, we closely monitor the time frame for our new stores to reach breakeven. For stores opened between April 2023 and September 2023, approximately 70% of them achieved breakeven within the first 6 months of operations. As a cohort, all stores combined reached breakeven in just 4 months.

In terms of our store side, as at the end of the quarter, our network has grown to 4,407 stores with 2.3 million plus square feet compared to 3,822 stores with 2 million square feet at the end of March '23. The average store size was 530 square feet. To give you a sense of spread in store sizes, we have 3,234 stores, less than 600 square feet and 1,173 outlets that are greater than 600 square feet.

In terms of the revenue update, we are strategically positioned to increase our revenue share from private label products. Our private label range is crafted to provide customers with high-quality products at competitive prices. Presently, MedPlus offers over 1,100 carefully selected SKUs spanning across pharmaceutical and non-pharmaceutical category.

Private label sales for quarter 4 FY '24 constitute 15.2% of our total reported revenue. Moreover, our growing presence in Tier 2 cities and beyond is significantly impacting on our revenue mix. Sales from these markets comprised 35% of our pharmacy revenues in the current quarter, marking an increase from 33% in the same period last year. The following is the impact of the launch of MedPlus branded products across our network.

In Q1 FY '24 prior to the launch, the share of private label pharma stood at 7.9% of total gross merchandising value compared to 13.6% during the current quarter. The increase in the private label GMV share indicates the positive reception from customers and validates our commitment to delivering high-quality products under the MedPlus brand umbrella.

Now on our financial numbers. On our quarter performance, our consolidated revenue was INR14,905 million, with growth of 19% year-on-year and 3.4% quarter-on-quarter. Our consolidated operating EBITDA stood at INR581 million, representing 3.9%. Around 99% of our revenue is from our pharmacy operations. The pharmacy operating EBITDA is INR593 million, representing 4%.

On our store performance, I would like to update on our stores older than 12 months. Revenue from these stores in Q4 was INR13,532 million or 94% of our pharmacy revenue. These stores had a store level EBITDA margin of 10.3%. The store level ROCE of these stores stood at 52.2%. A word here on the store EBITDA margin by age, while stores greater than 12 months had a margin of 10.3%, this was 10.7% per store greater than 24 months and 7.6% for stores in the 13 to 24 months age bracket.

If we allocated non-store related costs, then the operating EBITDA of stores greater than 12 months would be 685 million, which translates to a margin of 5%. Our diagnostics numbers. Diagnostics revenue grew to 232 million in quarter 4 FY '24 compared to 119 million in quarter 4 FY '23. Diagnostic segment recorded an operating EBITDA loss of 11 million compared to a loss of 37 million in Q4 FY '23. However, it is noteworthy that -- I'm happy to report that the central level operating EBITDA stood at 33 million.

On our working capital, our net working capital for Q4 was 67 days. The inventory in our warehouse constituted 33 days. In Q4, the inventory level of our first year store was 118 days in comparison for our older stores, the inventory was 47 days.

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

Chetan Dikshit: Thank you, Sujit, and good afternoon, everyone. As you know, Q4 is a seasonally strong quarter for Diagnostics. In January, we sold 361 gross plans per day. In February and March, this was 369 and 357, respectively. As on 31st December, we had 127,000 access plans and 228,000 underlying lives. As on 31st of March, we had 133,000 access plans and 247,000 underlying lives. Our current observed on-time renewal rate was 21% in Q4 versus 19% in Q3.

That concludes our update for the quarter. I request that the host open the line for questions.

Moderator: Thank you very much. We will now begin the question-and-answer session. We'll take a first question from the line of Kunal Randeria from Axis Capital.

Kunal Randeria: Just firstly on the revenue side. If I take an average revenue per store, it seems to be consistently sort of going down. For FY '24, it was around 37,000 per day. And a couple of years back, it was 40,000. I don't think the store maturity can be a factor here none of mature stores still have gone up. So what do you attribute this to? Is it because you have more stores in Tier 2 where the revenue is lower per day, what exactly can explain this factor?

Madhukar Reddy: Sure. So it's probably a combination of both, stores -- smaller stores in Tier 2, Tier 3 areas, which we always expect will be slightly lesser any way. That proportion has been growing. And second, with the introduction of the new private label products, the top line also would have compressed a little bit. I wouldn't say it is a huge impact given that it has only gone up from 7% to 13.7% overall. So -- but both factors would be there. For us, though, we tend to look more at the EBITDA and to see if the stores are in line for a 24 month to 30 month EBITDA margin of around 10% at the store level.

Kunal Randeria: Okay. Secondly, just to take this private label point that you mentioned, our private label contribution is around 15.2% by the end of Q4. I believe the private label gross margin should be higher than your average. But if I see on a year-on-year basis, the consol gross margin is pretty similar. I just want to understand what has changed. Is there some extra provision that you have taken if you can just explain this?

Madhukar Reddy: No. Actually, there is a significant change in our private label strategy in the last one year or so. We used to sell our medicine private label earlier at the same price as the regular brands and the same discount as regular brands. While we continue to maintain the MRP at the same level, we have increased the discount significantly now.

And for medicines, the discount now has gone up from 17% to nearly 55%. While this is a great way for us to attract new customers, and we are doing that, we're seeing a huge response to that, it definitely means that the margins would have gone down slightly. And even on the general goods also, where given the fact that we have roughly around 250 to 270 products. These products are doing very well. They're high-quality products made for us specifically.

While they match the quality of the regular brands, we thought that it would be a great idea for us to give a customer one more reason for them to actually buy this product. And we are not normally a destination for people to come and buy toothpaste or dish washes or any other home cleaning or other equipment and all. We are in a position where we can basically be seen as a convenience store almost, where we have a customer walking in. We would like to encourage them to spend a little bit more in our stores and hence, we're encouraging them by basically reducing the price slightly.

We've seen a pretty big impact because of that, and we continue to see it. But that's one of the reasons why the private label margins would have not really bumped up the overall margins for us.

Kunal Randeria: Got it. I mean so if I were to summarize, it is because WYNCLARK margins would have been higher than made by MedPlus, and that is why you're not seeing that jump?

Madhukar Reddy: Yes. No, no, absolutely. So on both accounts, actually, we have also gone towards market share growth from the strategy on the private label non-pharma also. So both of them and we are actually seeing fantastic revenues out there. It is yet -- again, the impact will be seen as we go forward, but we are seeing the growth, yes, for both the reasons. MedPlus would have had slightly higher margins, and so would have our older private label non-pharma products.

Kunal Randeria: Sure. And just one more, if I can squeeze in. So a month ago, there were some news items saying that there are a couple of association with chemist in Karnataka and Telangana who have been pushing the CDSCO to take action against MedPlus. So if you help us understand what exactly happened and where things stand now today.

Madhukar Reddy: So every time we go there and do this kind of, let's say, I won't say disruption, but at least logical progression. We have built the scale and now we are ready to launch our own products. And obviously, because we can pass on the benefit to gain more market share, we are doing that. There will be some people hurt and that's what has happened with the smaller stores. They have gone and approached all the -- both their local associations, local drug bodies from which nothing actually happened.

So ended up writing a letter to the CDSCO. Nothing concrete out there but given that we have been advertising our 50% to 80% discount quite prominently everywhere. I think in some cases, some of the departments have picked up the samples to check which -- we are more than happy to let them do. So that's about it. I don't think there has been any other impact as of now.

Kunal Randeria: So there is no litigation I think legal kind of court cases going on now?

Madhukar Reddy: Absolutely none not at all. See Kunal while we all know that the government is behind this. Government wants everyone to basically go towards the generic side. Government wants everyone to basically pick one and save money on that and that's been their thing out there. And the drug departments and everyone recognize the fact that -- this is going to be a part of the overall business as we go forward.

I don't think anything which benefits the customers so in such a large fashion I don't think this is going to really find any kind of opposition from the government. Yes traders and all may get affected and may approach them, but I don't see any action happening from that side.

Kunal Randeria: Okay got it. Thanks and all the best.

Madhukar Reddy: Thank you.

Moderator: Thank you. We'll take our next question from the line of Harith Ahamed from Avendus Spark. Please go ahead.

Harith Ahamed: Hi, good afternoon. Thanks for the opportunity. So my first question is on the private label, the pharma private label number that you shared which is at 13-%odd percent of GMV for the quarter. So will you be able to give a breakup between the old private label and the new MedPlus brand private label for this 13-%odd number? And some colour on how this number or how the share has ramped up in different geographies, maybe in Telangana where you've launched earlier and in other states, how the progress has been?

Madhukar Reddy: Sure. So I'll try and get you the exact breakup, but to my knowledge at least from what I remember I don't think old Wynclark is now more than 1% or 2% of the overall sales maybe 2% of overall sales is what I think will be the number, but I'll get back to you on that. On the launch itself while October, November we launched this across the country. We have gone about using advisement only in very selective areas.

And so we started in AP, Telangana where we advertised and then we basically did it in Tamil Nadu and now in West Bengal. In all these places, it has actually gone up pretty significantly. In -- let me actually -- Sujit why don't you step in and give the actual numbers, if you have any, for the different states Tamil Nadu and all.

Sujit Mahato: So in Tamil Nadu where we launched it post our marketing campaign March exit on pharma GMV sales we are at 19.3%. And in Telangana we ended at 15.9% and for all the other details maybe we can connect offline and can share the data.

Harith Ahamed: Okay. And Madhukar for -- previously you had shared a goal of around 20% share from a private label. Do you still maintain that?

Madhukar Reddy: Absolutely. We continued to increase the number of products out there. There's been a slight delay in bringing all the products into the market. We started off with around 433. Now we are around 550, 560. I think we are adding another 200 products. So that process is on and we are also seeing a larger number of people coming to buy from our stores. There will always be some people who will probably drop out for whatever reason, the doctors would have told them or whatever.

But we have seen the ever increasing number of new people and the existing ones. So we're tracking that. And for us the 20% number should not be a difficult one to beat. If you actually look at only the medicine part, given that 80% of our sales is medicines and given that something like 15.6% even in Telangana and slightly more in Tamil Nadu is already from this, you could say that 20% of all which we sell in medicines is already MedPlus private label.

Harith Ahamed: Okay. And one more question on the margin profile of our pharmacy retail segment. So when I look at the maturity profile of our stores and less than 12-month stores which accounted for 30% of our overall stores in March '23 now it's around 15%, but we haven't seen a commensurate improvement in our margins for pharmacy retail segment.

It's broadly in line with what we -- where we were last year. I know there are a lot of moving parts. But if you can help us understand how we should think about this trajectory going forward FY '25 as well, we have a lower number of store additions so that will aid maturity mix even further. So some broad sense on how we should think about margin profile for just the pharmacy business?

Madhukar Reddy: Sure. So a couple of reasons why the margins have not gone up to the level which we would have normally expected. One, we switched from our old private label to new private label. In the initial stage it would basically remain a slight decrease in overall margin. So if you actually look at it our overall margin on private label has come down slightly because of a huge mix of the new ones which are coming out there. So that's one.

The second thing is we also spent a little bit of money on advertising these. So compared to what we would have normally spent there has been an increase in marketing. And while it is not really significant, but it is enough to basically offset that small increase we would have had. We're happy to tell you that, that advertisement is really paying off. More and more people are coming to ask and request for the MedPlus brands in AP, Telangana and Tamil Nadu out there, but that's the past. That's something which we have taken initially.

Harith Ahamed: Understood. That’s all from my side. Thanks for taking my question. Thank you.

Moderator: Thank you. The next question is from the line of Jatin Chawla from RTL Investments. Please go ahead.

Jatin Chawla: So the first question is on the new private label side what are the sort of retention rates that you're seeing I know the absolute numbers are going down, but are you tracking retention rates for people who are subscribing and how is that panning out?

Madhukar Reddy: We are tracking. We're not sharing the numbers right now. I don't think that is being -- we will try and see if we can do it at a later date, but right now no. The retention rates are in line with the usual rates which we have for all customers. It is no different.

Jatin Chawla: Okay. Got it. On the pharma GMV share numbers that you shared for Telangana and Tamil Nadu, it seems Tamil Nadu has done far better despite the new private label strategy there being there for a shorter period of time. So what are you doing right there? And is there any learning that you can kind of extrapolate to other states?

Madhukar Reddy: So a couple of things. Yeah so one thing, of course, we have to note that Tamil Nadu started with a base of around 9.6% private label and then that went up to 19%, whereas Telangana started with a much smaller base at around 6.9% and it has gone up. And the second thing is in Telangana, we really did not spend too much money on any kind of advertisement. We just did a couple of press conferences and did a little bit of unpaid kind of advertisement.

And a very low level newspaper kind of ads, whereas Tamil Nadu, we decided to step it up a little bit and actually, I would say, spent at least twice or thrice of what we had spent in Telangana. So two things, the base as well as increased exposure, both of them are actually working in Tamil Nadu. We expect -- and we were running at Tamil Nadu just to see if the spend will actually yield the way we want it to.

We are still to decide on that once we are fully convinced, and that's what we decide -- that's what we end up doing across the country.

Jatin Chawla: Got it. When I look at your mature store ROCE number that you share every quarter, if I look at an annual basis, it seems that number has gone down from like 60% on an average to close to 50%. So this 10% decline, is this largely driven by the margin impact on the private label? Or is there any other factor which is driving that?

Madhukar Reddy: It's unlikely that it is mainly the margin impact, I would say, possibly some of it, but it is actually largely because of slight increase in store level inventory. And that is because we have introduced around 550 to 600 new products. Each of these products have gone to existing stores. We have not yet -- or over a period of time, our overall inventory of the other brands as this displaces that, that will come down.

But meanwhile, there's a slight increase in inventory, and that is what is resulting in the decreased ROCE out there. But as you go forward, given that our cost of private label is so much lesser than the branded drugs and all, as we figure out which portion of the branded drugs is actually coming down as we start to reduce that inventory, I think it will come back to normal.

Jatin Chawla: Okay. Just one last question. So you said that your -- so both private label pharma and private label non-pharma margins have come down this year. Between the two, which of it has a bigger impact on gross margins this year?

Madhukar Reddy: Possible -- definitely, the private label pharma, I would say, because we were at around 8%, 8.5% private label with 70%, 75% kind of margin or slightly more than 80% of kind of margin out there. Now that portion, which is at 80%, has come down to something like 1% or 2%. And it is all filled up by the new product, which is at roughly around 70% margin overall.

But this 70% also is on a lower top line. So what used to sell at roughly around INR83 on INR100 MRP, now sells at roughly around INR45 to INR42 -- INR42 to INR45. So it is slightly lesser margin on the new private label. But even the slightly lesser margin is on nearly half of the overall thing. So this would have impacted it significantly.

Jatin Chawla: And this impact when in Tamil Nadu, you reached like 19% share -- GMV share, has that share -- is this impact now negative? Or do you need still higher share for this impact to be negative?

Madhukar Reddy: No. I think more or less negative because in Tamil Nadu, we probably are at around 1%, 1.5% or less than 2% of the old private label. And if that comes down to 1% or 2% or less, then -- and we are still maintaining the same margin. So from there, any growth in the new private label is going to see a growth in margin for us.

Jatin Chawla: Okay. Thank you for answering my questions.

Moderator: Thank you. We'll take our next question from the line of Madhav Marda from Fidelity. Please go ahead.

Madhav Marda: Hi good evening thank you so much for your time. I had a question on the -- two questions. First one was on the GMV growth. Could you help us understand how much is the GMV growth, which in my understanding would be a proxy for volume growth for the company's…

Madhukar Reddy: Sure. As Sujit actually said that the overall GMV for pharma is roughly around 13.7%, I think. And in states where we have gone and advertised and actually made big, I think it is in excess of around 16% in Tamil Nadu and all.

Madhav Marda: And I mean the GMV growth, the mix -- I got the mix, but how much has this growth...

Madhukar Reddy: Got it. The mix, which I told you about was 16%, when you look at it on GMV basis. Let me just come back to you on the actual growth itself. So yeah… Sujit, go ahead.

Sujit Mahato: On a year-on-year basis, that is 27.4% in terms of the revenue in terms GMV.

Madhav Marda: Which I should take as proxy for volume growth, right, in a sense that 27% growth in volume growth...

Madhukar Reddy: Yes.

Madhav Marda: Okay. And then my second question is on the margins. I think in the morning in the television interview, you did mention that we spent about INR10 crores extra on promotions for the new private label in Tamil Nadu. So just wanted to understand that -- and I think you also mentioned that in FY '25, if I picked it up right, we expect the pharmacy operating margins to be 4.5% to 5%. So just wanted to check, first did I pick the comment right? And if you could share your outlook on this for FY '25 for the pharmacy operating EBITDA margin.

Madhukar Reddy: Got it. So I'm not sure if the exact number is 10% for last year. I think some of it would have actually gone to this year also. But I think the overall increase in spend last year was more than INR10 crores extra than -- more than usual. Not sure if it is exactly in Tamil Nadu. I'll come back to you on that, Madhav.

We started the campaign in Tamil Nadu on February 25th. So entire February -- that last part of February and March would have gone to last year. But the number INR10 crores or slightly higher were spend for private label across the country before that. And on the growth itself. So if you -- I think we exited the year with around 4% overall. We expect that we'll at least grow this by at least 1% as we go forward, given that we're adding lesser number of stores, and we'll also get some more operational benefits now as we go forward. For the full year.

Madhav Marda: Sir, which was my question was that in quarter four, you're saying we were at 4%. For FY '25 as a whole, can this number be, I think, 4.5% to 5%. Is that what you said in the television? Or if you could just share your guidance for FY '25 for the full year, given we have lesser stores coming in as well.

Madhukar Reddy: So definitely we're higher than what we are and probably exit at least at 1% higher than this. But for the full year, we may go slightly above where we are because we'll still see the impact of the private label -- the old private label coming down slightly, and that will be there. But right now, at this point, why -- I don't want to give you the full margin guidance right now, but you can definitely expect some improvement out there.

Madhav Marda: FY '25 to be higher than exit of FY '24, you're saying, right?

Madhukar Reddy: Yes, definitely.

Moderator: Thank you. We'll take our next question from the line of Ashish Jindal, an individual investor. Please go ahead.

Ashish Jindal: Sir, I saw a few of your podcasts and it was a great way to market. I would appreciate if you could do more such podcasts in more languages. I guess it would give MedPlus more receptibility in newer territories. Sir, my question is that what are the challenges in getting B2B diagnostic business provided that you offer such a value to our customers?

Madhukar Reddy: The B2B part is not like the usual business of the other diagnostic companies. And other diagnostic companies say that -- they're basically saying that they are picking up samples from other small centres and processing it, and that's their B2B business. For us, the B2B is in subscription. Our business is selling subscriptions. Today, we sell B2C for -- subscriptions to people who come to our stores, who come to our diagnostic centres and who go online to buy. And the B2B would mean we would go to large companies and sell this as part or as -- or on a like-to-like basis, we would say, equal to insurance kind of product.

Companies normally pay INR25,000 a year for a family to get there to get themselves covered for health insurance. We are basically saying maybe they could pay INR1,000, INR500 or some number like that for the family for them to get covered for the diagnostic part. So that's the B2B part. Obviously, it's good to get that business going, and that's what we are looking to do this year. But the selling cycle out there is much longer, and it does take a while to convince them. B2C on the other hand is doing very well for us. B2B is what we're looking to crack this year.

Moderator: Thank you. We have our next question from the line of Bino Pathiparampil from Elara. Please go ahead.

Bino Pathiparampil: Hi good afternoon, sir. A couple of questions. First, I was looking at your deck, the share of private label in pharma has not changed much from last year's level, 8.4%-8.5%. The increase has come from private label others.

Could you put that in perspective because I thought with the private label pharma launch, that should have gone up, right?

Madhukar Reddy: Yes. So it looks like it has not gone up too much because you are looking at the net prices. Our prices on the new private label have actually gone down significantly, as I said earlier. What we used to sell at INR83 on a INR100 market, today we sell it around INR72 to INR75. So you would have seen a decrease because of that.

But if you look at the GMV part, last year where we ended at 8.1% -- or last year was 8.1%. This year is 13.7%. And this got started only in the later part of the year for the rest of the country. But you're still seeing the growth. On the FMCG side, it used to be -- it has gone up there around 1.4% on the FMCG side.

Bino Pathiparampil: Understood. On the diagnostics market side, what is our latest plan and thoughts? Are you planning to expand it further? Or still we are in the figuring out the business model stage?

Madhukar Reddy: I'm going to let Chetan answer that question.

Chetan Dikshit: Yes, sure. On Diagnostics, we will continue to focus the model here in Hyderabad before we look at expanding in meaningful way outside of Hyderabad.

Bino Pathiparampil: Understood. But within Hyderabad, you're adding more labs or centres or anything like that?

Chetan Dikshit: There will be some maintenance capex type additions like ultrasound or something similar, but there is no large scale capex that is currently scheduled for Hyderabad. So no big diagnostic centres of -- no heavy capex changes, something more like maintenance capex.

Bino Pathiparampil: Understood. And just a bookkeeping. The consol level, the tax rate this year is around 10% odd. Could you let us know how it could progress over the next 2, 3 years at the consol level tax rate?

Madhukar Reddy: Over the next couple of years, we expect the tax rate to be normalized between 24%, 25% of the guidance.

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

Madhav Marda: Thank you for the follow-up. My only other question was that if you -- like do you think from like a 3-, 5-year view on the pharmacy operating EBITDA margin, which is at 4% in quarter 4. As we have slow maturity and I guess the new private label once it starts giving you the volume growth that there are some signs as that scales up across the country. And I think our stores in the smaller towns, you all have indicated in the past that it's better margin.

Just wanted to get like where could the sort of company-level operating EBITDA margin look like in 3, 5 years. If you could give us some sense. And are we thinking of the drivers correctly for the margins? Or are we missing something?

Madhukar Reddy: Yes, definitely. Same-store sales growth as the stores mature and go forward; 2, slightly better EBITDA in the smaller towns and all and 3 -- even when the top line is slightly lesser; and 3, private label. While private label comes with a couple of caveats out there, we still have to get the old private label completely out of the system. And as we get it out, you will lose a little bit of margin out there.

And it will also come with a little bit of spend. We will end up spending a little bit of money just to get the word out. What we think is this, Madhav, we're building a brand and we're getting people to come in and ask for the MedPlus brand out there. We're giving with discount. We feel as we go forward, we can play around with the discount a little bit. We can definitely play around with MRP. We allow to increase the MRPs every year and all. So all those will be great leverage for us.

But in the near term, though, while we build a brand, the margins may be flattish or grow up slightly. In the very near term, this thing, you will see some seasonality effect. Q1 is typically expected to be slightly lower because of seasonality and all that. But otherwise, on the overall side, I would say we will continue to grow and get better margins. The levers are, as we said, smaller stores, smaller towns, slightly better EBITDA and private label.

Madhav Marda: Okay. So, the old private label in quarter 4, you said it was 1% to 2% for GMV, is that right?

Madhukar Reddy: In some of the places, I would say in Tamil Nadu and all probably down to that level. But in other places like Maharashtra and a couple of other places where we have not fully launched it with any kind of advertisement, it may still be slightly higher than that at this point.

Madhav Marda: Okay. And we plan to straddle it anyway, right? Like in most of the part -- most of our stores, except 1 or 2 states, we do plan to keep the old private label as well? Or what's the plan?

Madhukar Reddy: But it will probably come down to just the acute kind of products being sold in that. So, what we would say is we sell a subscription plan to people want to buy the chronic -- who want to buy the MedPlus brand. So, our thing is okay, we differentiate between the person who is really price sensitive and he wants to become a member and he wants to take the full advantage, he will get that.

But someone who is not -- who is seeking only convenience and fast service and not really looking to become a member and is just buying it one off, will probably end up buying some of our private label in the old brand for acute needs. So, it will probably give us different margin. But I don't expect that to be more than 1% or so as we go forward.

Moderator: Thank you. We have our next question from the line of Lakshminarayanan from Tunga Investments. Please go ahead.

Lakshminarayanan: A couple of questions. First, when you say your store is mature, at what stage you call the store as mature is it after 2 years or after 3 years?

Madhukar Reddy: So, 24 to 30 months would be the stage, slightly. It depends on the place and all. Smaller towns tend to plateau much faster. They will not grow beyond a certain level, whereas the larger cities like Bangalore or Bombay or something like that will tend to continue to grow even after like 24 to 30 months. And it is needed too because these stores typically come with a much higher rent and all we expect them to do a lot more. So, they continue to grow at 30 months. Yes, 30, 36 months.

Lakshminarayanan: And when it comes to around 30, 36 months, from that what is the typical same-store sales growth? I mean usually, what nominally attracts?

Madhukar Reddy: Typically, we would say inflation plus. But given the fact that we have a big price advantage over other competitors and all, we expect that we're at least grow at around 10% of those stores.

Lakshminarayanan: Okay. When you say inflation, it is the pharma inflation or the general inflation, you usually model it?

Madhukar Reddy: Pharma inflation, 20% of it is the general goods. So, it's come with general goods plus pharma inflation that are up there.

Lakshminarayanan: Got it. And you say 10%, is it -- I mean, including the taxes? Or how do you think because what we understand is that the pharma companies themselves can take their prices up in that range inflation, right? So if you're growing at inflation, I just want to understand whether it is including taxes, excluding taxes and how does the pharma inflation play a role in this?

Madhukar Reddy: Pharma inflation is the main thing out there. One of the other things is also -- I won't say inflation at least we keep adding new categories out there and all. So that also caused a slight bump. Unfortunately, pharma inflation also comes with I would say, a reverse this thing out there. It comes with the DPCO price rules, which rise from time to time and we extend to drop the prices a little.

So it is not always going up or it is not always going up for the entire set of products there are a set of products which go up and some which could actually get moderated or even come down a little bit. So, on the whole -- because we would definitely be dependent on the pharma inflation and taking some market share from the other competitors, I would say 10% would be a good number to shoot for.

Lakshminarayanan: 10% is our realization net of taxes?

Madhukar Reddy: Growth. Yes.

Lakshminarayanan: Yes. And second, from an operating cash flow point of view what is your goal or aspiration for the next couple of years? When I say operating cash flows, I mean net of lease rentals and so on. How do you think that would pan out? What's the aspiration for the management for not just 1 year but like 2, 3 years down the line?

Sujit Mahato: So over a period -- the way we think is -- you are right. From the operating cash flow, if you remove the lease rentals, which goes back to the pre-indale and then also look at the capex which the company is currently investing. Because we are in the growth phase it would continue to be minus and then we would leverage whatever working capital is required through a separate credit line as and when needed. But once we reach a stability that's the point where the company starts generating operating free cash flows.

Lakshminarayanan: And typically, in your expectation, how far we are? Are we 2 years out or it's like it will take out the 5 years?

Sujit Mahato: See, if we grow at the current speed I think in a couple of years, we will be adding surplus cash because the base starts growing and the base gets maturing then the level of cash inflows versus what we spend on an average of 600 stores per year, it would definitely inch towards the surplus cash.

Lakshminarayanan: Sorry to again harp on that point. Are we -- I mean, we are in -- 2025 started. So we expect by '27, '28? Or I mean how should investors look at it?

Madhukar Reddy: Okay. So for us, if you look at it, as Sujit said if we were to go only at the rate of around 600 stores a year or even 800 stores a year then the overall investment for us would be in a year within INR200 crores to INR220 crores. That is taking the investment around INR25 lakh to INR30 lakh per store.

Given that we are at something like INR170 crores on EBITDA right now and we should expect to grow pretty significantly as we go forward, I don't think it will be too long before because below the EBITDA, we don't have any debt as of now. There's only a timing mode of depreciation. Otherwise, it's just taxes.

So for us to actually get to this number, it's not going to be too far. And it all depends on what else happens in the company. If the margin were to go up by 1%, obviously at 1%, 1.5% as we bring in leverage -- the benefits of leverage and private label, then this, of course, can be achieved much faster. But on a conservative level it is what Sujit said in the next 2 to 3 years we should be having enough cash to fund any kind of growth.

Lakshminarayanan: All right. My third question is related to discounting. Just want to understand how the discounting has actually panned out for the industry in the last 1 year. What we anecdotally see is that discounting has reduced in some pockets. Just want to hear your thoughts on the discounting process both online as well as offline? And how are you thinking about as we move forward?

Madhukar Reddy: Sure. So, if you look at the discounts, I'm pretty sure given the amount of money which online payers usually spend on advertising and all they have a very high level of visibility. And so what they do tends to basically be seen as the industry's numbers. Definitely, they reduced their discount a little. Across the board, I think, they have all reduced their discount, at least for the lower tickets have reduced the discount.

But please bear in mind that the overall online business is actually less than 5% for the country, which basically means the rest of the business is in the hands of the mom-and-pop operators and the other brick-and-mortar operators. And there, we haven't seen any signs of reduction of discounts. If anything, people are now selling more and more generic drugs. They are mixing prescriptions with generics and are able to offer 20 and at times even 25% discount.

So on the ground, it is a mess. People are using at least -- stores seem to be using all sorts of techniques to basically offer a higher and higher discount. And a lot of times, it is by just mixing either. I won't say, yeah, generics mainly. So, on the, and to answer your question, yes, the online guys have reduced it. No significant impact to us, honestly, whether they've reduced or increased. The offline players, though, are where they are, if anything, they're actually increasing the discounts.

Lakshminarayanan: Thank you, so much for your detailed answers.

Moderator: Thank you. We have our next question from the line of Saion Mukherjee from Nomura Securities. Please go ahead.

Saion Mukherjee: Just one question on private label farmers. So the reported number is 8.5% for the quarter. If you were to split it between old and new, can you do that just to understand how much of cleanup of the whole private label is still left?

Madhukar Reddy: I can't give you the exact number right now, Saion, but I think it is roughly around 2% right now. But to give you an idea, I think -just hold for one second. Yes, probably around 2%. I'll come back to you with the GMV equivalent for the private label.

Saion Mukherjee: So this 2% is new -- or is it new, sir?

Madhukar Reddy: Sorry, the 2% is old or new. Okay. Sujit has the numbers. Why don't I ask him to answer the question?

Sujit Mahato: So in terms of GMV for the whole year, the breakup is 5.3% is the new product, and the old private label, because we launched it only in October, still continues for the whole year at 5.4%. For the quarter, it should be a different number, just give me a second. I'll give you that as well. And for the quarter, the old private label has shrunk to 2.9%, and the MedPlus brand has moved to 10.7% in terms of GMV.

Saion Mukherjee: Okay. So a large switch has already happened. Yes. Sir, just to give -- get some colour, when you think about this new private label, the volumes that you've got, how much of this volume has come from new customers who are not -- who didn't buy earlier from MedPlus and how much is from the existing customer? So do you look at the mix of the new private label currently?

Madhukar Reddy: A little difficult to split that exactly but in the states where we have seen the private label taking off primarily because we have advertised it slightly better out there, we have seen a slight growth in the overall sales, and we're also seeing a lot of new customers walking into our stores. So difficult for me to tell you. But yes, there's a certain percentage of people who are converting existing rights. And there's also significant people -- number of people who are coming in, who are otherwise not buying with us or who had stopped buying for whatever reason.

Saion Mukherjee: Okay. You don't have the split at this point. But do you think -- just qualitatively, like more than 50% you think would be new customers? Or it is old customers, which would be the majority of this new private label currently?

Madhukar Reddy: Up to 50% could be new people.

Saion Mukherjee: Okay. And you mentioned it's more sort of focused on chronic, right? So is there a disproportionate contribution from chronic here?

Madhukar Reddy: So I would say it is definitely represented more by people who are buying for MRP values, which are more than thousand and more. The reason I say that it is everyone who comes in to buy chronic medication also has some parts of acute also or some parts of general you would say you know you basically have a bunch of products like pantoprazole and vitamins and everything else, which are not necessarily chronic.

And they could also have some of the other acute products. But the lesser ticket value, the guy who walks in for just immediate need that definitely is slightly lesser on the retrospect. And the reason being that guy doesn't have time to actually listen to the explanation of our pharmacists. Neither is he is going to go become a member paying any kind of money as small as it is to get that advantage because ticket size is small, discount really doesn't matter, and we've not really changed the brand at that point.

Saion Mukherjee: Thank you.

Moderator: Thank you. Ladies and gentlemen, we'll take that as a last question for today. I would now like to hand the conference over to management for closing comments. Over to you.

Madhukar Reddy: Thank you, ladies and gentlemen. I thank all the participants on this call for your interest in the MedPlus journey. Our Investor Relations team can be contacted at IR at www. medplusindia.com

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