

Medplus Healthcare Services

Healthcare | India

IPO | 10 December 2021

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Healthcare Retailer on Expansion Mode; Attractive Valuation

About the Company

Medplus Healthcare Services (MedPlus) is the second-largest pharmacy retailer in India offering a wide range of products, including medicines, vitamins, medical devices, home & personal care products, baby care products, soaps & detergents, and sanitizers. The company was founded in 2006 by Gangadi Madhukar Reddy with the vision to set up a trusted pharmacy retail brand to deliver better value to the customer by reducing inefficiencies in the supply chain using technology. MedPlus maintained a strong focus on scaling up store network, having grown from operating 48 stores initially in Hyderabad to operating India's second-largest pharmacy retail network of 2,326 stores distributed across Tamil Nadu, Andhra Pradesh, Telangana, Karnataka, Odisha, West Bengal and Maharashtra. MedPlus has a market share of ~30% each in Chennai, Bangalore, Hyderabad and ~22% in Kolkata. As of Sept'21, the company operates 546 stores in Karnataka, 475 in Tamil Nadu, 474 in Telangana, 297 in Andhra Pradesh, 224 in West Bengal, 221 in Maharashtra and 89 stores in Odisha. During the last decade, the number of stores in Chennai grew ~5x from 62 to 304, Bangalore grew 3x from 110 to 340 stores, Hyderabad grew over ~2x from 141 to 331 stores, and Kolkata grew ~10x from 22 to 224 stores. In terms of number of stores as of FY21, MedPlus ranked 1st in Chennai and Bangalore and 2nd in Hyderabad and Kolkata.

Financials in Brief

The company recorded a CAGR of 16% from FY19-FY21, with growth driven from new stores and a strong SSSG of 8%. Gross margin improved to 21% in FY21, from 18.6% in FY20. Operating EBITDA margin stood at 7.1% in FY21, as compared to 4.7% in FY20. PAT grew at a CAGR of 130% over FY19-FY21, with a profit margin of 2.1% in FY21, against 0.5% in FY19. The company has high growth opportunities in non-metro cities where pharmacy penetration is only ~7%. As of Sept'21, 47% of the stores are located in tier-2, 3 and 4 cities. In comparison to other market segments, pharmacy retail has lower inventory costs and greater turnover. MedPlus plans to open 600-700 stores annually versus 882 stores opened over FY18-21. With its large market size and ability to drive the change from unorganized to organized, MedPlus is able to get higher volume discounts from distributors and effectively price its products. The company was at ~4.9% private label in 2019 and has moved to ~12% currently and should continue to grow. Contract manufacturers contribute to ~6.5% of the medicine sales. Platforms like MedPlus Mart, MedPlus Lens and Labs enable customers to view and purchase products through the website and apps.

Our View: SUBSCRIBE

We believe the premium multiple will sustain led by strong business model and higher growth rates. On FY22 annualized numbers, the IPO is attractively valued at 29.8x EV/EBITDA, 2.5x EV/sales, which is at a discount to other listed retail brands. MedPlus has a market share of ~21% in organized pharma retail. With its in-house integrated technologies, algorithm driven supply chain and centralized inventory management, the company is able to achieve optimum inventory levels. MedPlus would continue to sustain its cluster-based strategy with a strong focus on execution. It also plans to expand its hyper-local delivery stores to cater to even more people who can take advantage of the 2-hour delivery system. The retail pharma market is expected to grow at 9% CAGR to reach US\$36bn by FY25E, from US\$22bn in FY20. The growth in this segment will certainly bring several opportunities for MedPlus in the future. **In view of the high growth potential amid scope to expand into non-South regions of India, likely margin expansion, higher returns and attractive valuation compared to other listed retail entities, we recommend SUBSCRIBE to the issue with a long-term perspective.**

IPO Details

Price Band (Rs)	780-796
Face Value (Rs)	2
Issue Open/Closing Date	13 Dec 21 / 15 Dec 21
Fresh Issues (mn)	7.5
OFS (mn)	10.0
Total Issue (mn)	17.6
Minimum Bid Qty. (Nos)	18
Issue Size (Rs bn)	14.0
QIB / HNI / Retail	50%/15%/ 35%
Implied Market Cap (Rs bn)	95.0

Object of the Issue

- ▶ Working Capital requirement of subsidiary - 'Optival'
- ▶ General corporate purposes

Key Risk

- ▶ Risks of expansion into new markets.
- ▶ High working capital requirements
- ▶ Negative cash flows in the last three financial years.

Shareholding (%)	Pre-Issue	Post-Issue
Promoters	43.2	40.4
Public	56.8	59.6

Key Financials

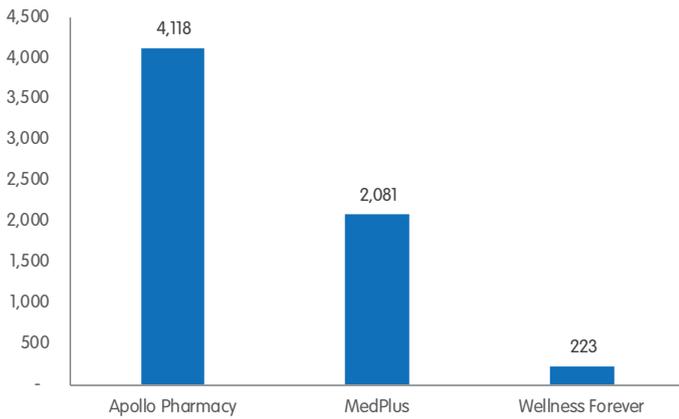
(Rs mn)	FY19	FY20	FY21
Revenue	22,727	28,706	30,693
EBITDA	1,191	1,337	2,167
EBITDA Margin (%)	5.2	4.7	7.1
PAT	119	18	631
PAT Margin (%)	0.5	0.1	2.1
EPS (Rs)	1.0	0.2	5.3
Net Worth	2,914	5,291	7,311
RoE (%)	4.1	0.3	8.6
Gross Debt	1,044	1,051	1,352
Net Block	470	598	872
P/E (x)	797	5,293	150
EV/EBITDA (x)	80	71	44
EV/Sales (x)	4.2	3.3	3.1
Net Asset Turnover (x)	48.3	48.0	35.2

Source: RHP

Senior Research Analyst:
Vikas Jain

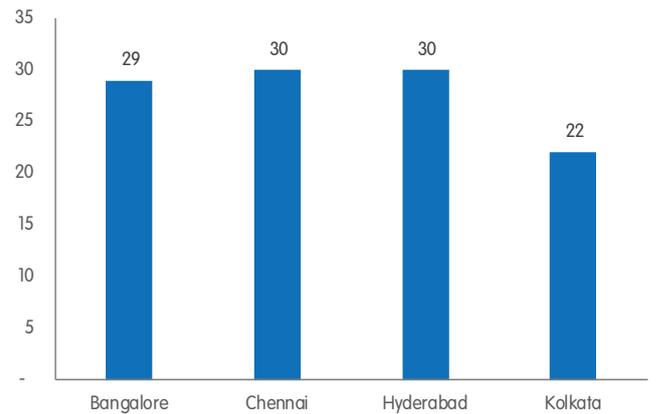
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Exhibit 1: No of Store as of FY21



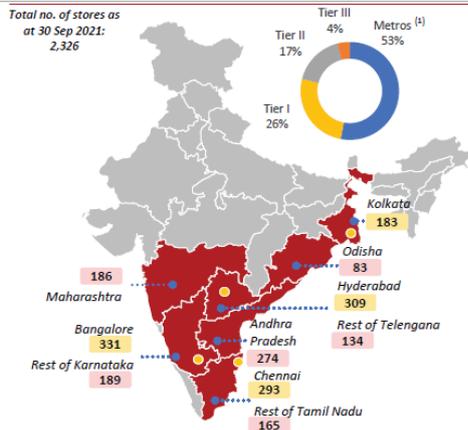
Source: RHP

Exhibit 2: Market share in Organized Retail Pharmacy



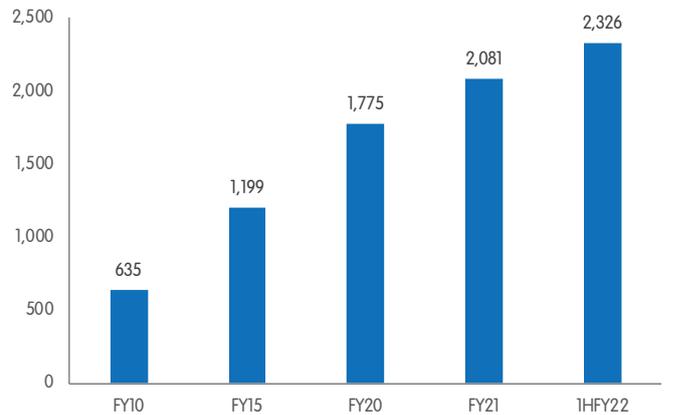
Source: RHP

Exhibit 3: Present in seven states in India



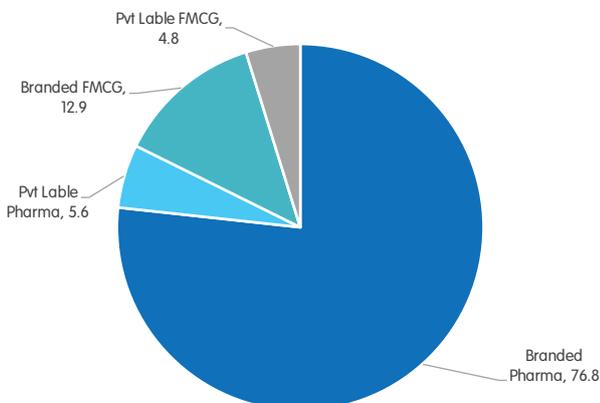
Source: RHP

Exhibit 4: Store expansion



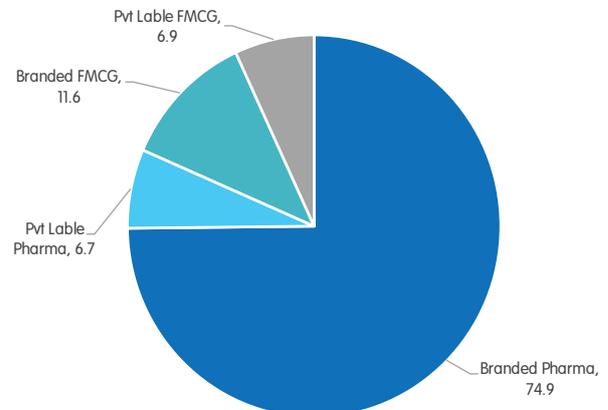
Source: RHP

Exhibit 5: Revenue Mix FY21 (Rs30.5bn)



Source: RHP

Exhibit 6: Revenue Mix 1HFY22 (Rs18.6bn)



Source: RHP

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