MHSL | Initiating Coverage Report

High Conviction Report

KEYNOTE

Medplus Health Services Ltd.

13th January 2025

Maturing store network: Recent expansion set to yield results

Medplus Health Services Limited (MHSL) is the second-largest player in India's retail pharmacy segment, operating a robust network of 4,552 stores as of H1FY25 and holding an organized market share exceeding 10%. Its store network spans across 12 states, with a strong focus in southern India, which accounts for ~70% of its outlets. MHSL has been actively expanding its presence into Tier 2 and smaller cities within its core markets, tapping into high-growth potential areas. In the recent years, MHSL has accelerated the store opening process and has been aggressive on that front. MHSL generates ~99% of its revenue from pharmacy operations, the remaining generating from other ancillary segments like diagnostic and optical. It offers a mix of branded and private-label products, with private-label growth being a key focus area due to its higher margins. In June 23, MHSL has also launched 'Medplus' brand generics which is expected to boost sales as well as profitability. MHSL has a fully-integrated supply chain with in-house procurement strategy, dedicated warehouses and own fleet of vehicles which helps to enhance operational control. Over the years, MHSL has built a scalable business model centered on cost efficiency, private-label expansion, omnichannel integration, and customer loyalty through affordability.

Store expansion to drive growth

The Company has undertaken significant store expansions over the past few years, with the stores growing at a CAGR of ~25% since FY22. This rapid expansion positions the Company for substantial revenue growth as these stores are expected to mature within 24-30 months, which is when they start contributing EBITDA margin at their full potential. As of H1FY25, 70% of total stores are mature (Year 2+), a figure expected to rise to 84% by FY27. This shift will positively impact unit economics, driving higher profitability across the store network.

Scaling private-label revenue to enhance profitability

MHSL's private-label products under the MedPlus brand offer discounts of 50-80% and deliver higher gross margins of ~62% compared to ~18% for branded products. Unlike branded products, which are typically purchased on a fully returnable basis (allowing unsold/expired inventory to be returned for a refund), private-label products place the entire inventory risk on MHSL. Despite this added risk, the higher margins and growing acceptance of generic medicines present an attractive opportunity for revenue growth and profitability. The Company plans to increase private-label sales contribution from ~17% in H1FY25 to ~25% in coming years, further boosting profitability.

View & Valuation

Considering MHSL's extensive presence as the second-largest retail pharmacy chain in India and its maturing store network, we expect significant growth in revenue per store, which would lead to a growth of 17% CAGR over FY24-27E in the overall revenue. Improvements in EBITDA margins are likely to be supported by an increasing share of private-label products and a higher proportion of matured stores, which typically deliver better profitability. Based on these factors, we initiate coverage on MHSL with a BUY rating, valuing the business at 20x EV/EBITDA on FY27E, implying an upside of 64.4%.

BUY

CMP Rs. 815

TARGET Rs. 1,340 (+64.4%)

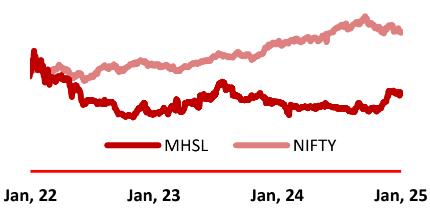
Company Data

Bloomberg Code	MHSL IN
MCAP (Rs. Mn)	97,800
O/S Shares (Mn)	120
52w High/Low	876/ 599
Face Value (in Rs.)	2
Liquidity (3M) (Rs. Mn)	341

Shareholding Pattern %

	Sept 24	Jun 24	Mar 24
Promoters	40.4	40.4	40.4
FIIs	14.7	14.9	14.9
DIIs	28.0	22.2	22.5
Non-Institutional	16.9	22.6	22.2

MHSL vs Nifty



Source: Keynote Capitals Ltd.

Key Financial Data

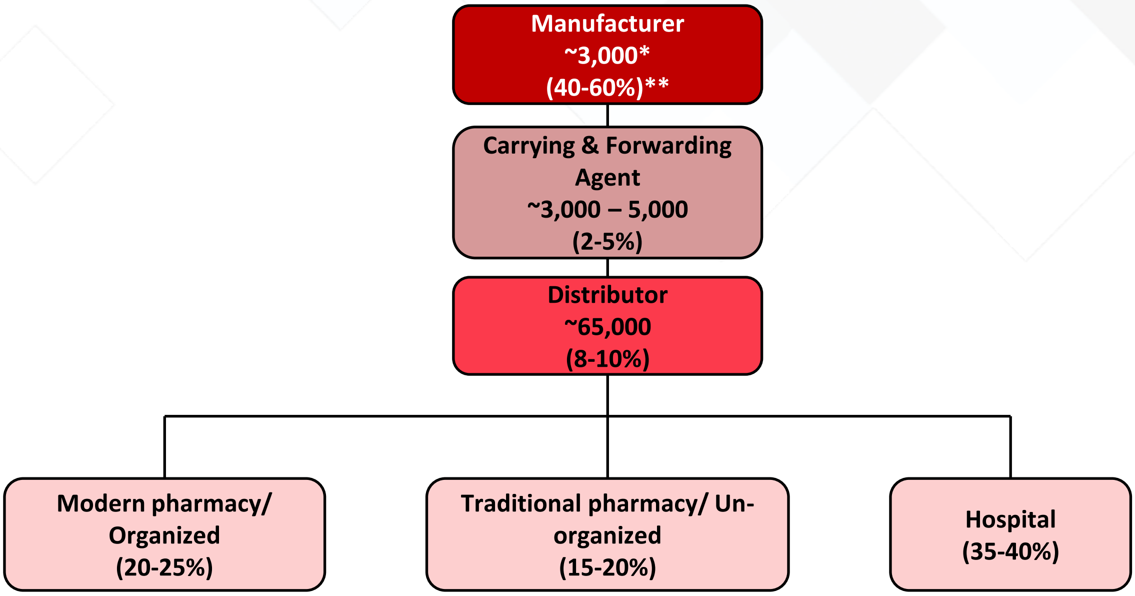
(Rs Bn)	FY24	FY25E	FY26E
Revenue	56,249	64,426	75,780
EBITDA	3,541	4,381	5,835
Net Profit	657	903	1,767
Total Assets	29,430	31,637	34,271
ROCE (%)	10%	12%	17%
ROE (%)	5%	6%	10%

Source: Company, Keynote Capitals Ltd.

Karan Galaiya, *Research Analyst*
Karan@keynotecapitals.net

Pharmaceutical industry supply chain in India

The pharmaceutical supply chain in India is a critical framework ensuring the availability of drugs for patients through a network of pharmacists and healthcare providers. It comprises multiple stakeholders, including drug manufacturers, intermediaries, logistics partners, technology enablers, and retail pharmacies.



** - number indicates the number of players in the industry*
*** - % indicates gross margins earned by each intermediary*
Source: Company, Entero Healthcare Solutions Ltd., Keynote Capitals Ltd.

The domestic supply chain typically begins with pharmaceutical manufacturers supplying products from their production facilities to company-appointed Carry-Forward (C&F) Agents. These agents manage warehousing and transportation, operating as company-owned or self-operated warehouses. The C&F agents then distribute stock to distributors, who further supply to standalone pharmacies, pharmacy chains, and hospitals.

There are variations to this traditional model, depending on the requirements of specific channels or customers. For instance, distributors may work through sub-distributors for broader market coverage. Exclusive distributors might be appointed for specific channels, customers, or specialized therapies. In certain cases, manufacturers deal directly with hospitals or pharmacy chains through exclusive intermediaries to streamline operations.

Margin dynamics

The pharmaceutical supply chain in India is highly fragmented, with gross profit margins varying based on roles and responsibilities. Manufacturers earn the highest margins (40–60%) as they control production, pricing, and benefit from economies of scale. C&F agents, focused on storage and logistics, earn the lowest margins (2–4%) due to limited value addition. Distributors, handling inventory and regional supply, earn moderate margins (8–15%) but face credit risks and operational expenses. Retailers (20–25%) gain from direct consumer sales, while hospitals secure the highest retail-level margins (35–40%) by negotiating bulk procurement and charging premiums for convenience.

Retail pharmacy industry in India

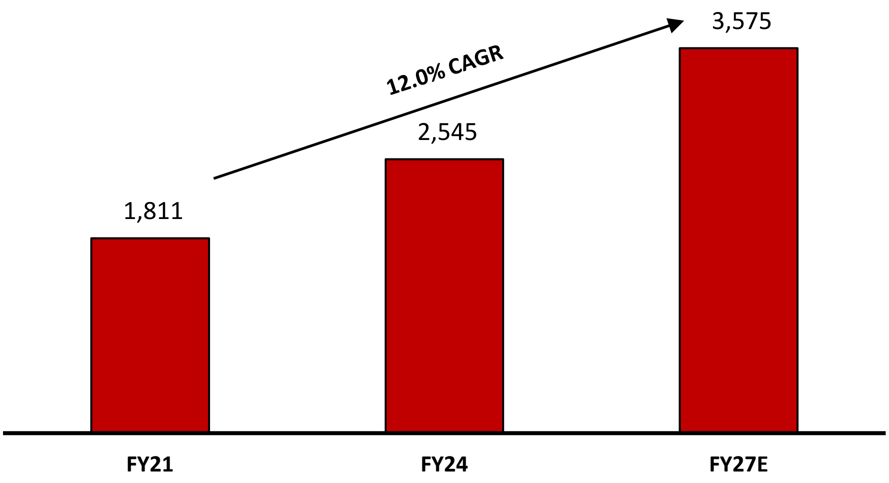
The pharmacy sector in India primarily includes pharmaceutical products such as Over-The-Counter (OTC) and prescription drugs, along with a range of FMCG items, wellness products, consumables, and medical devices.

Its growth in recent years has been driven by an expanding consumer base, rising healthcare expenditure, increasing demand for OTC and prescription drugs, wellness products, private-label offerings, and the impact of the COVID-19 pandemic which has led to a digital shift in this industry.

In FY20, OTC drugs made up ~7% of the total domestic market, while prescription drugs accounted for the remaining 93%.

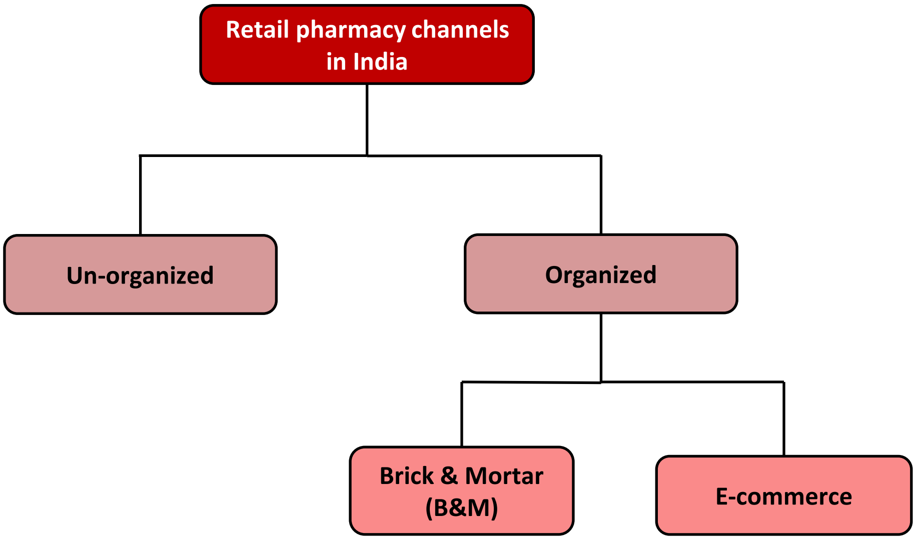
In FY24, the retail pharmacy and wellness market in India was valued at Rs. 2,545 Bn, accounting for ~3% of the country's overall retail market. The sector is projected to grow at a CAGR of ~12% to reach Rs. 3,575 Bn by FY27, outpacing overall retail market growth.

Indian retail pharmacy & wellness market (Rs. Bn)



Source: Baazar Style Retail Ltd.-DRHP, Keynote Capitals Ltd.

Retail pharmacy channels



Source: Company, Keynote Capitals Ltd.

Traditional channels (un-organized)

A significant portion (~82% in FY23) of India's retail pharmacy and wellness market is dominated by unorganized retail chains. This segment primarily comprises family-run medical stores with sizes ranging from 150 to 1,000 square feet.

These traditional pharmacies, spread across the country, face common challenges such as inadequate documentation, difficulties in managing SKU proliferation, poor inventory control, suboptimal retail environments, medicine unavailability, and, in some cases, the stocking of unreliable drugs. Despite their widespread presence, these issues limit their efficiency and service quality.

Modern channels (organized)

1. Brick & Mortar (B&M) stores

The organized retail pharmacy growth is primarily driven by B&M chains expanding their reach and adopting omnichannel strategies. These stores leverage regional warehouses to ensure cost-effective logistics, consistent product availability, and timely deliveries. By scaling operations, they improve profitability, fulfillment rates, and operational efficiency through economies of scale.

2. E-commerce channel

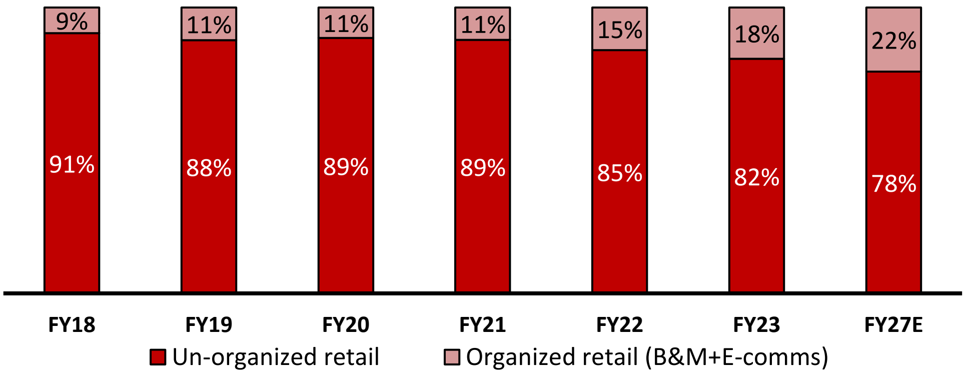
The e-commerce channel in pharmacy retail is growing through online-only players and omnichannel platforms of B&M retailers. It operates through three primary models:

i. Inventory-led model: The company owns and manages inventory through warehouses and fulfillment centers, selling directly to customers.

ii. Hyperlocal model: The inventory-light model operates by offering online infrastructure and logistics support, while offline partner retailers handle inventory management. This approach requires minimal capital investment but involves shared profit margins, which can affect overall profitability.

iii. E-commerce marketplace: Online marketplace platforms are gradually exploring the pharmacy retail segment, though regulatory challenges may affect the speed of their entry.

Market segmentation of retail pharmacy industry in India



Source: Baazar Style Retail Ltd.-DRHP, Keynote Capitals Ltd.

Over FY23-27E, the organized retail pharmacy market is expected to grow at CAGR of ~18%.

Trends in retail pharmacy industry in India

1. Shift towards organized pharmacy: India's retail pharmacy sector, historically dominated by the unorganized segment, is witnessing a steady transition towards organized retail. Consumers are increasingly drawn to modern pharmacies for their enhanced customer experience through omnichannel offerings, higher number of SKUs, value-added services, and transparent pricing.

2. Rapid growth of e-commerce and omni-channels: E-commerce and omni-channel retail, which integrate online and offline models, are among the fastest-growing segments in the pharmacy market. Omni-channel pharmacies are rapidly emerging as a key growth driver, offering customers a seamless shopping experience across both digital and physical platforms. B&M stores are well-positioned to capitalize on this trend by adopting digitally integrated platforms that connect physical stores and warehouses, enabling faster and more scalable expansion.

3. Improved unit economics in organized pharmacy stores: Organized pharmacy stores benefit from better unit economics by leveraging efficient inventory management and a hub-and-spoke model. These practices optimize inventory turnover, reduce holding costs, enhance sales per square foot, and improve working capital efficiency through economies of scale.

Heads (share of net sales)	Pharmacy led retail chains	Independent pharmacy
Store size (sq. ft.)	200-700+	150-500+
Average sales/Day** (Rs.)	30,000-50,000	4,000-6,000
SKUs	4,000-10,000	2,000-6,000
Gross Margins (%)	17-22%	12-14%
Store level operating EBITDA	9-12%	3-6%
Retail discounts (on MRP sales)*	0-20%	0-10%
Capex on initial build and opening (Rs, Mn)	0.4-0.8	0.1-0.4

Source: Company, Keynote Capitals Ltd.
** Discounts based on MRP of products retailed from pharmacy*
*** Based on per stores metrices for major retailers*

4. Expansion of private labels: Private labels, or store brands, are retailer-owned products designed to offer consumers quality at competitive prices while delivering higher margins to retailers. By streamlining costs and managing the product lifecycle, retailers achieve higher margins while enhancing customer loyalty and brand identity.

5. Loyalty programs in retail pharmacy: Retail pharmacies employ loyalty programs to strengthen customer acquisition and retention. Through data analytics and targeted discounts, these initiatives encourage cross-selling opportunities and build lasting customer relationships.

About the Company

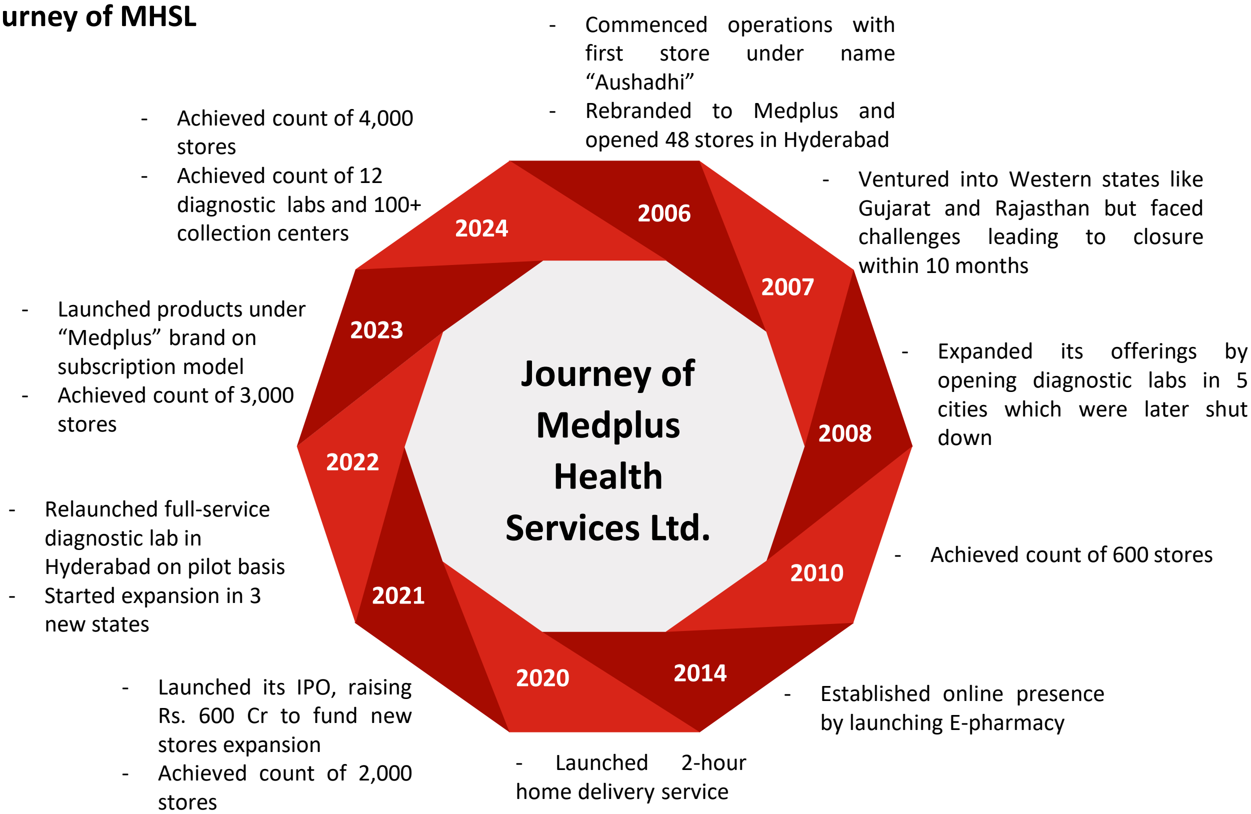
MedPlus Health Services Limited (MHSL) is India's second-largest pharmacy retail chain, commanding over 10% of the organized pharmacy market. MHSL was founded by Gangadi Madhukar Reddy in 2006, starting with an initial network of 48 stores. It offers a wide range of products, including (i) pharmaceutical and wellness products, including medicines, vitamins, medical devices and test kits, and (ii) fast-moving consumer goods, such as home and personal care products.

The Company operates an omnichannel business model, seamlessly integrating offline and online retail with a strong focus on private-label products. It has developed over 1,100 private-label SKUs across pharmaceutical and non-pharmaceutical categories, which offer higher margins compared to branded products and contributed ~17% of total revenue in H1FY25.

As of H1FY25, MHSL has a network of 4,552 stores across 12 states with ~70% of its stores concentrated in southern India and 40-45% of its stores in Tier 2 cities and beyond where the penetration of organized retail is very low. MHSL has accelerated its store expansion in the recent years, and it follows a data driven cluster-based approach for its store expansion. This strategy enhances scalability and ensures effective utilization of resources across procurement, warehousing, logistics, and distribution.

This widespread physical network ensures that it can efficiently fulfill online orders, often offering two-hour delivery services in major cities like Hyderabad, Bangalore, Chennai, and Kolkata. MHSL generates ~6% of its revenue from online operations as of H1FY25 and by using its stores as delivery hubs, the Company minimizes additional logistics costs and avoids the need for standalone warehouses dedicated solely to online operations.

Journey of MHSL



KEYNOTE

Business segments of MHSL

Business Segments

Pharmacy operations ~ *99% revenue share*

Others ~ *1% revenue share*

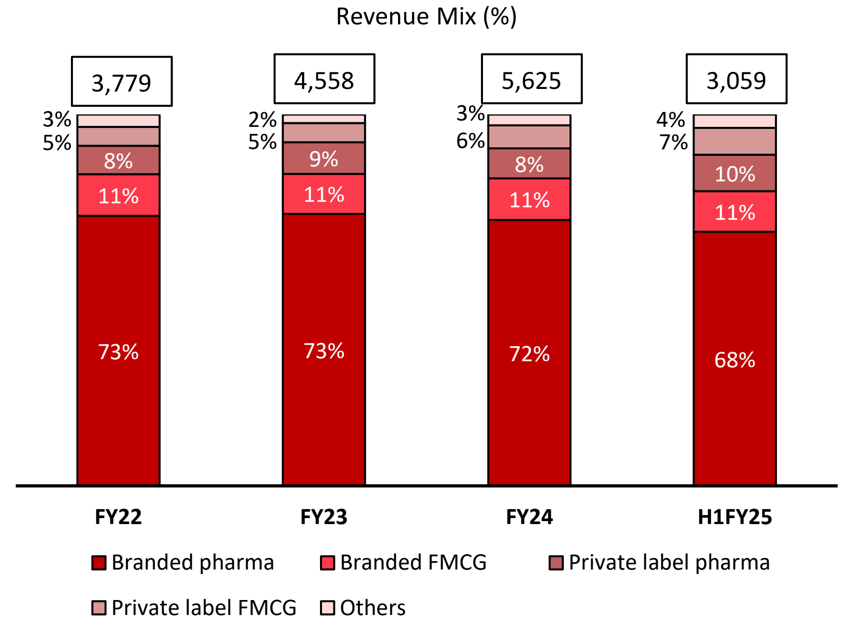
Operates through its own retail chain

Diagnostics

Optical

Insurance broking

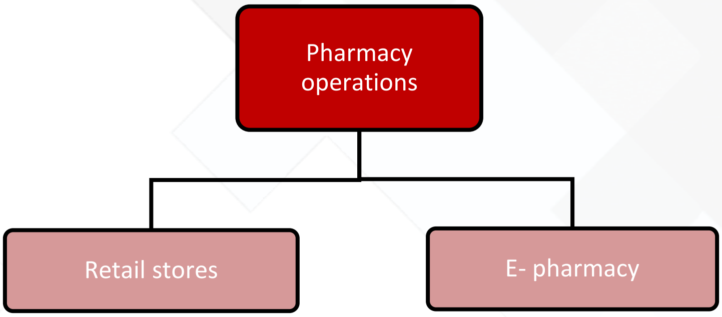
Source: Company, Keynote Capitals Ltd.



Source: Company, Keynote Capitals Ltd.

Pharmacy operations

MHSL is the second-largest retail pharmacy chain in India, with a total of 4,552 stores as of H1FY25 with an area of ~2.3 mn sq ft. These stores are located across 12 states, encompassing metro areas as well as tier-1 and tier-2 cities. The Company has adopted a cluster-based expansion strategy, which focuses on creating dense store networks within specific regions before expanding to neighboring regions. Additionally, the Company operates an e-pharmacy, providing customers with the convenience of purchasing products online. MHSL offers a diverse range of products, having over 46,000 SKUs as of H1FY25 that cater to various customer needs.



Source: Company, Keynote Capitals Ltd.

Retail store operations

Setting up of stores – identifying location

The Company employs a systematic and technology-driven process for identifying and opening new store locations, ensuring efficiency and consistency in its expansion strategy. It incentivizes its employees to suggest potential locations for new stores, leveraging their on-ground insights and familiarity with local markets. Once a location is proposed, the business development team conducts thorough inspections to evaluate its viability based on factors such as customer demographics, accessibility, and competition. Following this evaluation, the Company enters into negotiations with the property owner to finalize lease terms. The final decision to proceed with the store opening is made by the Chief Retail Officer, ensuring a high level of oversight and strategic alignment.

MHSL has an in-house app called "Shutter App" that simplifies the process of selecting and approving new store locations. It ensures every step, from suggesting a location to final approval, is done in an organized and efficient way.

This structured approach aligns with the Company's cluster-based expansion strategy, where it focuses on creating high-density store clusters within specific regions before expanding into adjacent peripheral areas. This ensures that new stores benefit from established brand presence and optimized warehousing and logistics infrastructure thereby following a hub and spoke model. By combining employee-driven insights, rigorous evaluation processes, and technology integration, MHSL has created a scalable and efficient model for expanding its footprint across India's organized pharmacy retail sector.

Capex required

The Company operates all its stores on a leasehold basis, with an average store size of ~530 sq ft. Of the 4,452 stores as of H1FY25, nearly 74% are less than 600 sq ft, reflecting the Company's focus on compact and efficient store formats that cater to urban and semi-urban areas. Each store typically employs 3-5 personnel, ensuring optimal staffing for smooth operations and customer service.

The CAPEX required to open a single store is ~ Rs. 3 Mn, covering lease deposits, interiors, inventory, and other setup costs.

Expenditure	Amount (in Rs. Mn.)
Build the store – interiors + repairs	0.6-0.8
Security deposit	0.2-0.3
Inventory	2.0
Total	**3.0**

Source: Company, Keynote Capitals Ltd.

MHSL pays an average of Rs. 47,000 – 48,000 as rental expense per month per store.

For FY25, the Company has provided a guidance to open 450 new stores, requiring a capital expenditure of Rs. 1,350 Mn. In subsequent years, it plans to maintain an annual addition of around 600 stores, with a corresponding capex of Rs. 1,800 Mn.

Historically, 2-3% of the total number of stores have been shutdown/relocated annually. The Company has designed its operations to be highly flexible and cost-efficient, particularly when it comes to relocating stores. Store relocations may occur due to reasons such as lease renewal challenges or the need for better visibility and footfall. In such cases, the Company incurs minimal costs of <Rs. 0.2 Mn per relocation as most of the inventory is recoverable, and 80-90% of the modular furniture can be reused at the new location. Additionally, security deposits from the previous lease are refunded, further minimizing cost.

This lean and adaptable model focuses on maintaining cost efficiencies while scaling its operations. The Company's ability to relocate stores with minimal disruption ensures that it can respond swiftly to optimize its store network for maximum profitability.

Franchise Model

MHSL primarily operates through leased stores, with the franchise model being utilized selectively in locations that are challenging to access. In retail operations where scaling is a priority, the franchise model can serve as an effective tool. However, within the retail pharmacy segment, where store-level EBITDA margins are relatively thin at ~10%, sharing these margins with franchise owners was previously deemed unfeasible. Recognizing this limitation, MHSL has historically focused on maintaining company-owned stores to ensure higher profitability.

Company-owned stores also enable MHSL to deliver consistent customer service, including standardized discounts, while safeguarding its reputation for providing genuine medicines at competitive prices.

Shift in Franchise Strategy

While MHSL had earlier phased out its franchise model due to low margins, the introduction of its new high-margin generic plan which generates higher margins has prompted a strategic reconsideration. This approach would allow MHSL to adopt an asset-light model, making it a viable strategy for entering new markets with minimal investment. Therefore, MHSL will consider franchise model going forward.

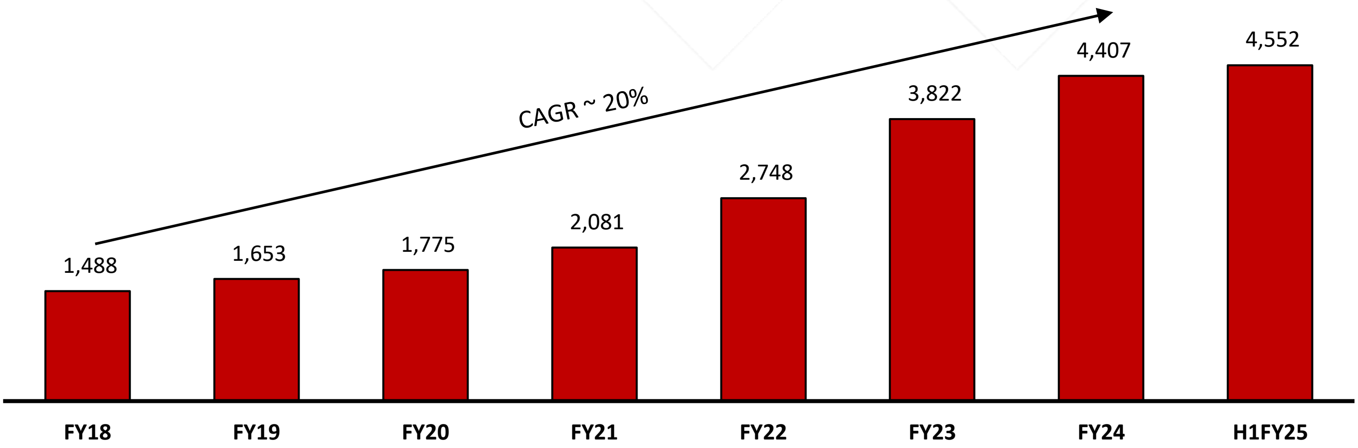
Format and design of store

The stores have a uniform design and format. This uniform design allows for a very short lead time between identification of store and commencement of its operations.

Further, the Company is changing the format of some of the new stores. Earlier, almost all the stores were served from behind the counter but now it will have a self-serve model for some of the general FMCG goods which will help to enhance the sale of private label goods.

Earlier, the furniture requirements of the stores were met by Custom Furnish, which is a group company as it was founded by the promoter of MHSL, who is still a majority shareholder. Now, the Company has set up its own furniture making unit which will cater to the needs of MHSL going forward.

Store Count



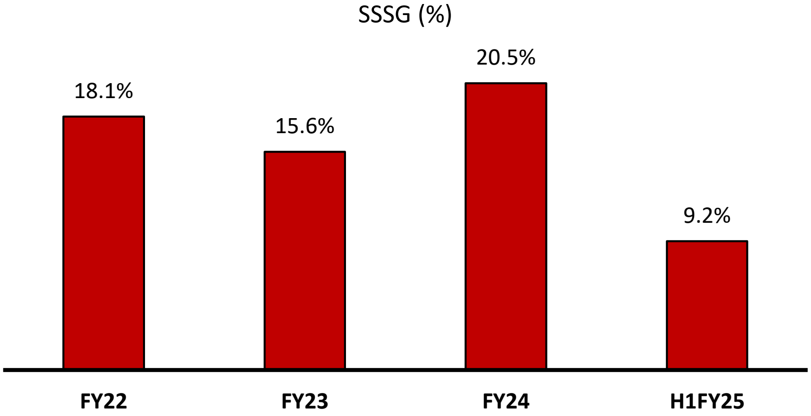
Source: Company, Keynote Capitals Ltd.

MHSL has shown remarkable growth since its inception, expanding from 48 stores in 2006 to 4,552 stores as of the H1FY25. This significant increase underscores the Company's strategic focus on enhancing store convenience, which is crucial for a retail pharmacy chain aiming for widespread accessibility.

In recent years, MHSL has aggressively expanded its presence, achieving a store count CAGR of ~25% since FY22. This expansion is expected to fuel revenue growth, with plans to open an additional 450 stores in FY25, of which 145 were launched in H1FY25. Store openings typically accelerate during Q4.

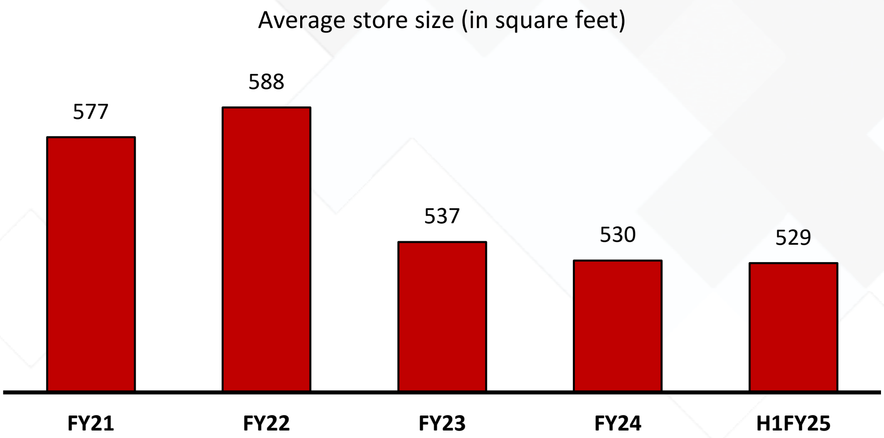
Time period	Store count CAGR growth
FY10 – FY15	~14%
FY16 – FY20	~8%
FY21 – FY24	~25%

Same Store Sales Growth (SSSG)



Source: Company, Keynote Capitals Ltd.

Store Size

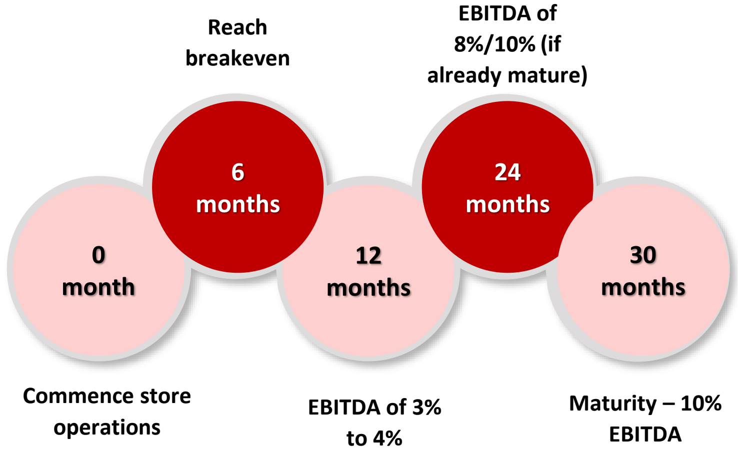


Source: Company, Keynote Capitals Ltd.

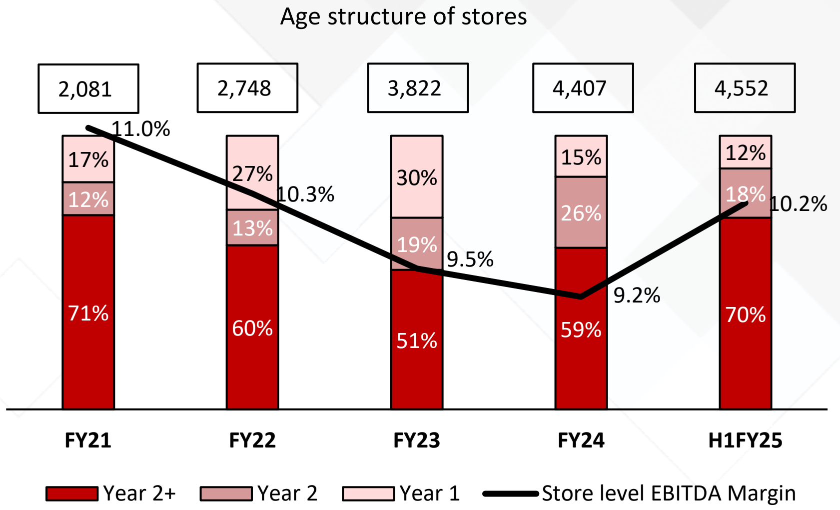
MHSL focuses on delivering value to customers through attractive pricing and convenience. The Company does not prioritize building large stores; as a result, its store sizes are relatively small. Furthermore, the expansion into smaller cities—tier 2 and beyond—has contributed to a trend of decreasing average store size, as these areas typically feature smaller retail spaces compared to metro cities.

Maturity of stores

The stores of MHSL reach maturity typically between 24 to 30 months where it reaches a store level Operating EBITDA margin of 10%. So, any store below this age is in its ramp up stage. About 70% of the stores achieve breakeven within the first 6 months of operations. A mature store caters to ~10,000 to 15,000 customers in the region each month.



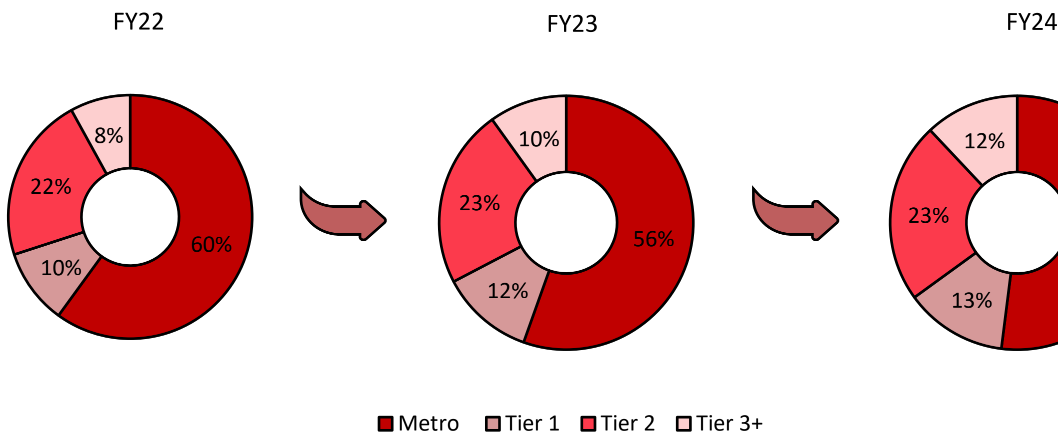
Source: Company, Keynote Capitals Ltd.



Source: Company, Keynote Capitals Ltd.

The increase in the proportion of stores less than 24 months old from FY21 to FY23, driven by rapid expansion, led to a decline in store-level EBITDA margins during this period. However, as these ramp-up stage stores reach maturity, revenue and margins are expected to improve, a trend already evident in FY24 and H1FY25.

Presence across Tier 2 and beyond



Source: Company, Keynote Capitals Ltd.

The Company is strategically expanding its footprint into Tier-2 cities and beyond, a move aimed at enhancing the brand's accessibility and tapping into underserved markets. While the revenue generated from these regions are generally lower compared to metro cities, the EBITDA margins for these stores are significantly higher. This is attributed to several factors, including a higher contribution of private-label products, which offer superior margins, as well as reduced operational costs such as lower rental expenses due to smaller store sizes and lower employee costs.

The expansion into Tier-2 and beyond cities also allows the Company to deepen its market penetration and strengthen its presence in regions where organized retail pharmacy chains are still underpenetrated. By leveraging its cluster-based expansion strategy, MHSL ensures that these new stores benefit from existing supply chain infrastructure. In addition, the higher adoption of private-label products in these regions enhances customer loyalty.

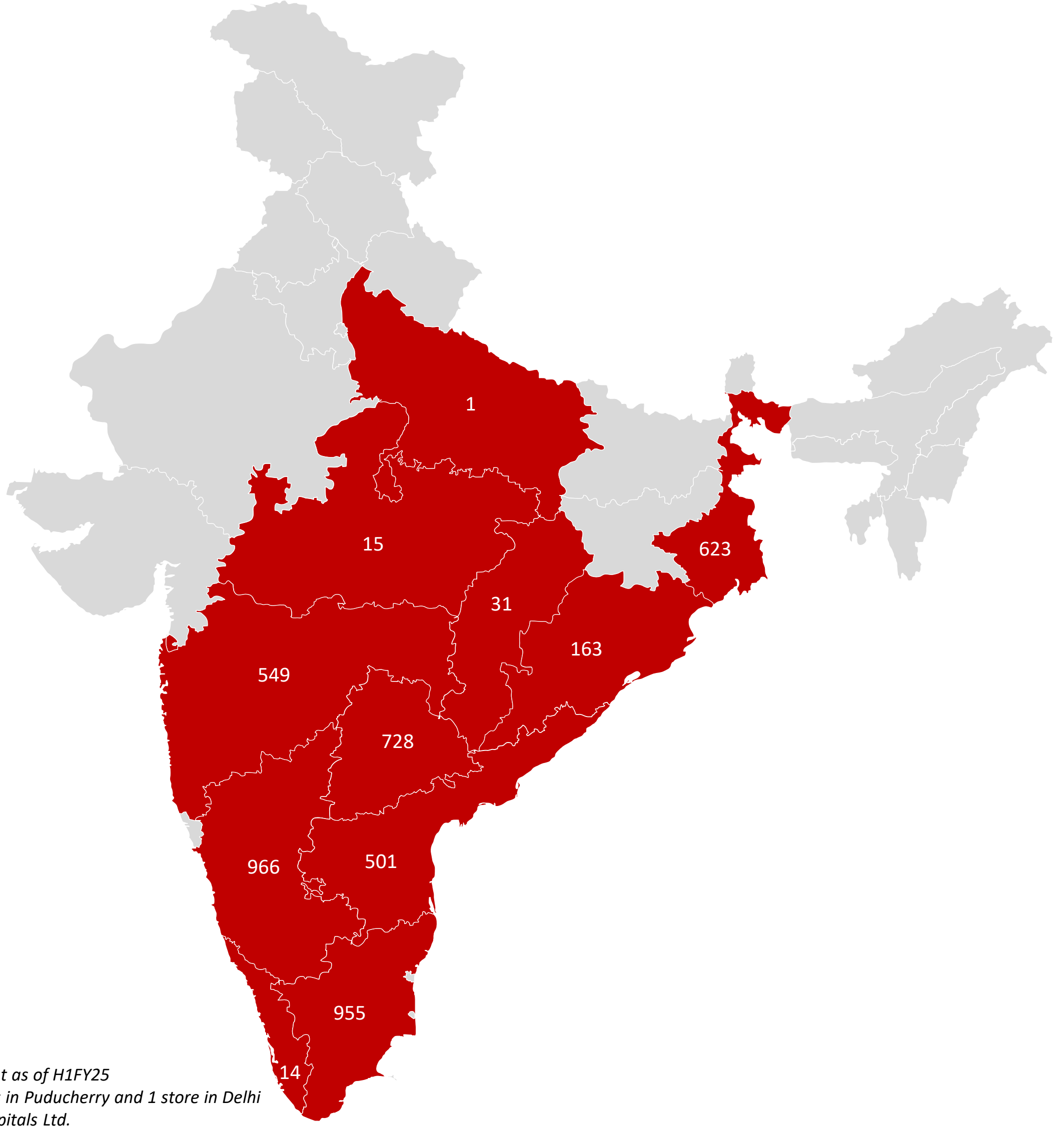
Cluster based approach of expansion

MHSL adopts a cluster-based approach for expansion of its stores where the Company first establishes a high density of stores in a particular region using its replicable store rollout process. Once this is done, then the Company expands into the neighboring peripheral areas of the region. This approach ensures that before moving to outside areas, a brand presence is already established in the region. It also provides benefit of warehousing and logistics.

Currently, MHSL is expanding into new states including Madhya Pradesh, Chhattisgarh and Kerela and has 15, 31 and 14 stores respectively as of H1FY25. Historically, MHSL has achieved significant success in its established markets by operating a minimum of ~500 stores per state, and the Company plans to replicate this proven cluster-based expansion strategy in these new regions. Expansion in new states can lead to cost efficiency and better inventory management.

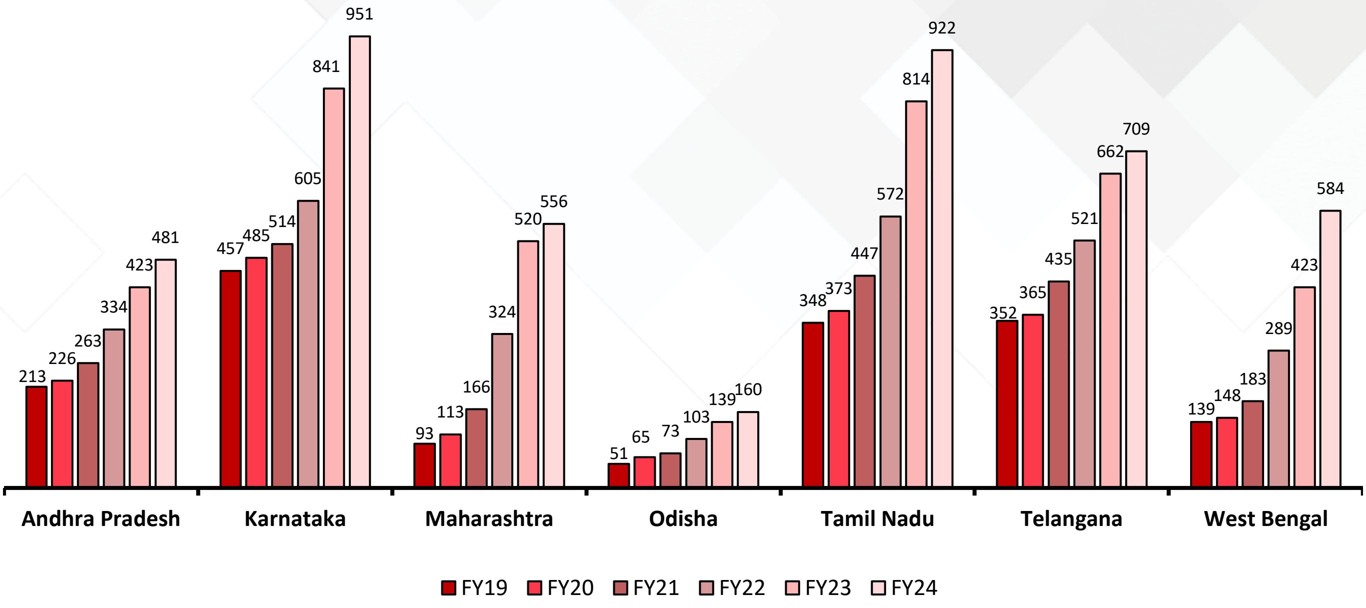
Due to this approach, MHSL is expanding into the neighboring states gradually and is currently concentrated in the southern and central India. However, the Company is gradually expanding in the North as well.

MHSL began operations in Kerala in FY24, opening 8 stores after regulatory changes lifted earlier restrictions that limited the number of pharmacies a single entity could operate, aimed at preventing monopolies. Kerala presents strong growth potential due to its advanced healthcare infrastructure and high literacy rates.



Number represents store count as of H1FY25
In addition, MHSL has 5 stores in Puducherry and 1 store in Delhi
Source: Company, Keynote Capitals Ltd.

State-wise stores growth



Source: Company, Keynote Capitals Ltd.

Warehousing

MHSL operates through a network of 10 primary warehouses as of FY23, strategically located in major cities across India. These primary warehouses are further complemented by additional smaller warehouses, which also function as delivery hubs for the Company's online orders. This integrated network ensures efficient inventory management and seamless delivery operations.

The Company maintains its own fleet of vehicles and delivery personnel, enabling it to manage the movement of inventory from warehouses to stores effectively. This system allows for daily replenishment of inventory in densely populated urban areas and thrice-a-week replenishment in other cities, ensuring consistent product availability across its store network. The Company's control over its logistics operations enhances efficiency and minimizes dependency on third-party providers.

To further optimize its supply chain, MHSL is actively investing in warehouse automation. The Company currently operates a fully automated warehouse in Chennai, while another warehouse in Hyderabad is at 50% automation. The automation process is expected to significantly reduce warehousing costs, which currently account for ~3% of total costs. Once fully automated, warehousing costs are projected to decline to 2-2.25% of total costs, contributing to improved profitability.

MHSL ensures robust inventory management across its extensive store and warehouse network. Each store typically stocks between 4,000 to 5,000 SKUs, ensuring that a wide range of products is readily available to customers. At the backend, the Company's warehouses maintain a significantly larger inventory, holding anywhere between 25,000 to 30,000 SKUs to support seamless replenishment of store stock. This inventory management system enables real-time tracking of stock levels and demand patterns, allowing the Company to optimize inventory turnover while minimizing the risks of stockouts and wastage.

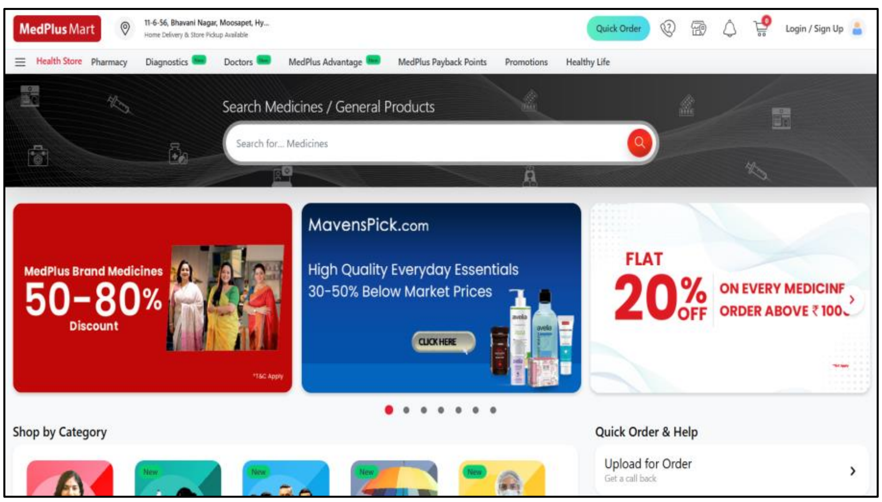
Online presence

MHSL launched its E-pharmacy in the year 2014 thereby taking an omnichannel approach for its operations. The stickiness of customers is higher in case of omnichannel approach than the only online approach.

For its online operations, MHSL operates 3 platforms:

MedPlus Mart	***MedPlus Lens***	***MedPlus Labs***
For purchasing pharmacy products	*For purchasing optical products*	*For diagnostic services*

Source: Company, Keynote Capitals Ltd.

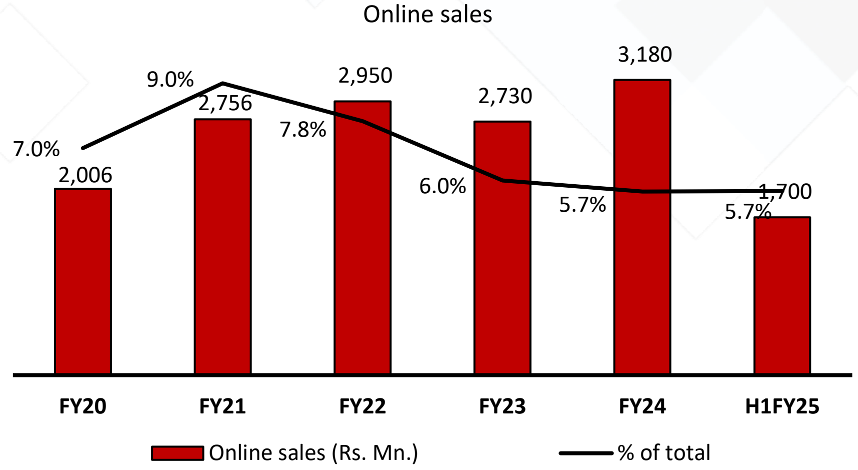


Source: Company, Keynote Capitals Ltd.

The Company has developed an efficient delivery model for its online orders, leveraging its extensive physical store network and strategically located delivery hubs. These hubs, which are typically 10% of the total number of stores in a city, serve as centralized points for batching and dispatching deliveries to ensure cost efficiency. For instance, in Bangalore, where it operates over 400 stores, there are ~37-40 delivery hubs. This setup allows the Company to streamline logistics while maintaining service quality. Customers are charged a flat fee of Rs. 20 per delivery, making the service affordable and accessible.

In addition to home delivery, it offers customers the option of in-store pickup through its "Click and Pick" service. This feature is particularly popular among customers who value the flexibility of collecting their orders at their convenience.

MHSL also offers a 2-hour delivery model in some of its major cities like Hyderabad, Chennai, Bangalore and Kolkata. This rapid delivery model is made possible due to dense store network across this states, which acts as a competitive advantage over online-only players. Unlike pure e-commerce platforms that face logistical challenges in replicating this speed and efficiency, MHSL's hybrid model ensures faster last-mile delivery by utilizing its physical stores as fulfillment centers.



Source: Company, Keynote Capitals Ltd.

Strategy for online presence

The Company has adopted a conservative yet strategic approach to its online business operations, prioritizing customer convenience and leveraging its extensive physical store network rather than focusing on aggressive customer acquisition. The Company’s online platform is designed primarily to serve as a value-added service for existing customers, offering them the ability to place orders online and enjoy the convenience of home delivery or in-store pickup through its "Click and Pick" feature.

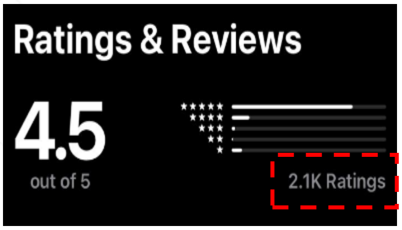
MHSL’s strategy recognizes that customers greatly value the accessibility of having a nearby store, allowing them to seamlessly switch between online and offline channels based on their immediate needs. This omnichannel model ensures that its extensive store network, comprising over 4,552 stores as of H1FY25, functions effectively as an alternative to a purely online model. This approach not only enhances customer convenience but also reduces the need for heavy investments in online infrastructure and customer acquisition campaigns.

Rather than allocating significant resources to advertising and acquiring new online customers, the Company views its physical store network as a powerful marketing tool. The visibility and accessibility of its stores inherently drive brand awareness and attract footfall, effectively serving as a form of advertisement. This strategy enables the Company to optimize its resources by focusing on expanding its store network, which not only strengthens its market presence but also supports its online operations by acting as fulfillment hubs for digital orders.

By maintaining this balanced approach, it ensures sustainable growth while keeping operational costs under control. This strategy aligns with the Company’s broader goals of enhancing customer loyalty, optimizing profitability, and leveraging its strengths in supply chain efficiency and omnichannel integration.

Reviews of Medplus Mart app

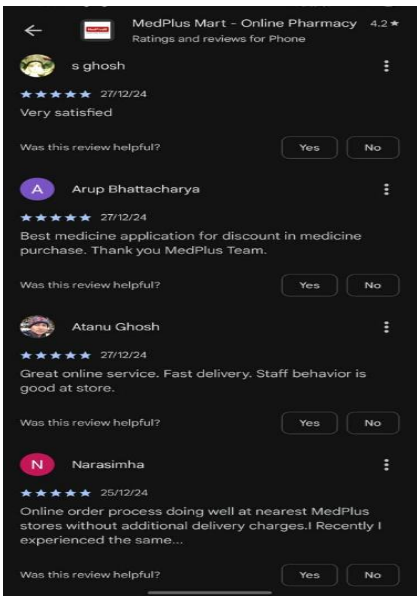
The Medplus Mart app has garnered both positive and negative reviews. However, given its strong overall rating backed by a substantial number of users, we remain confident that the Company is providing quality service through its platform.



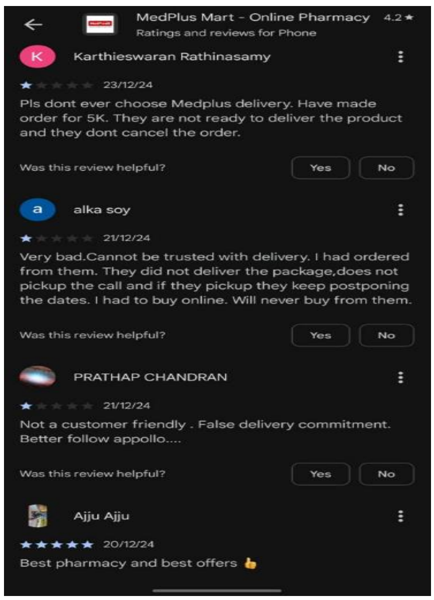
App store review

Google play store review

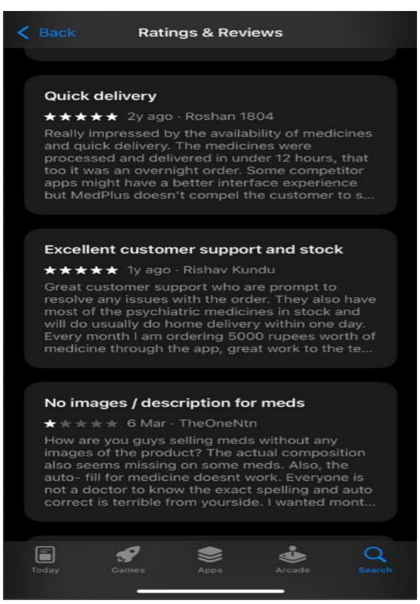
The app has more than 5 Mn downloads on Google Play Store.



Positive reviews

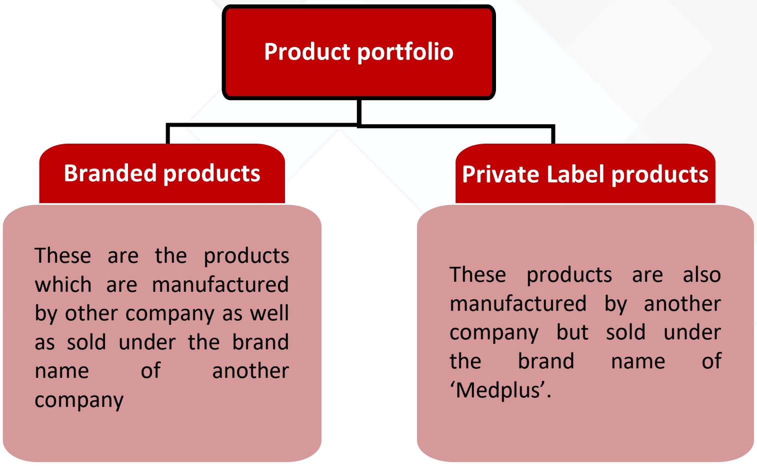


Mixed reviews

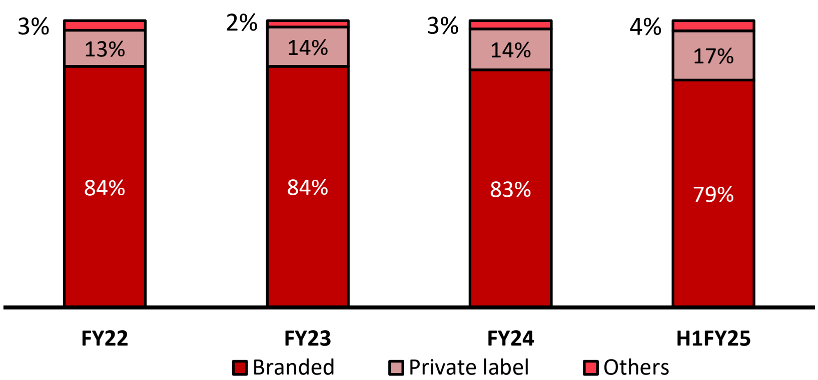


Mixed reviews

Product profile



Rising share of private label (Revenue mix)



Source: Company, Keynote Capitals Ltd.

Branded products

MHSL sells various branded pharmaceutical as well as FMCG products. The EBITDA margin from sale of such products is lower than the private label products. These products are purchased on a fully returnable basis where the product is returned to the Company at expiry in exchange for full refund. In contrast, private-label products—an area of strategic focus for the Company—are not returnable and bears the entire inventory risk.

MHSL sources 90% of its products directly from pharmaceutical companies' carry forward agents and the rest is sourced from distributors. The Company is trying to source this remaining portion also directly from companies' agents to accrue any cost benefits available.

Dolo – 500 tablet

Discount structure for branded products

Average Order Value – AOV (Rs.)	Discount %
Below 200	0
200 – 1,000	Upto 10%
Above 1,000	Upto 20%

The average discount provided for branded products is 17-18% as most of the orders have an AOV greater than Rs. 1,000.

Private label products

MHSL initially marketed its private-label pharmaceutical and FMCG products under the brands Wynclark and MHS Pharmaceuticals. These products were positioned as substitutes for branded medicines, particularly in cases where prescribed branded drugs were unavailable at the store. However, these private-label products were priced similarly to their branded counterparts, limiting their competitive edge in terms of affordability.

MHSL sources its private label products through established third-party contract manufacturers. These manufacturers are large, reputable companies that also produce branded products for major brands, ensuring a high standard of quality.

In June 2023, MHSL introduced a strategic shift by launching a subscription-based model under the 'MedPlus' brand, aimed at capitalizing on the growing consumer awareness and demand for generic medicines. This initiative offers customers substantial discounts ranging from 50% to 80% on a curated range of MedPlus-branded pharmaceutical products. The subscription plan is priced at an affordable Rs. 49 annually, making it highly accessible to a broad customer base. Currently, the average discount provided under this category stands at 60%, offering significant cost savings to customers while encouraging loyalty to the MedPlus brand.

This move aligns with the Company's strategy to increase the penetration of its private-label products, which offer higher profit margins compared to branded alternatives. Despite the added risk of expiry of inventory, the higher margins and growing acceptance of generic medicines present an attractive opportunity for revenue growth and profitability.

Contrast of margins for Branded and Private Label products

Particulars (Rs.)	Branded products	Private Label products – Medplus brand
MRP	100	100
Discount	17-18%	60%
Sale value	82	40
Cost of purchase	66-67	Low teens – assuming 15 (Mentioned by the Company)
Gross Profit	15	25
Gross Profit Margin %	**~18%**	**~63%**

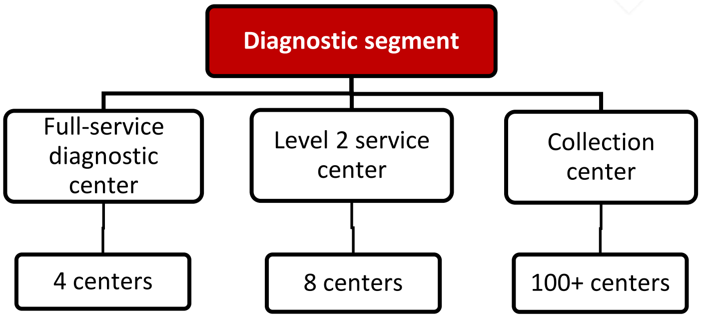
Source: Company, Keynote Capitals Ltd.

Prescription filled rate

The prescription fill rate is a critical performance metric in the retail pharmacy industry, representing the percentage of prescriptions successfully filled and dispensed at a pharmacy. A high fill rate is essential for ensuring customer satisfaction and loyalty, as it reflects the pharmacy's ability to meet customer needs promptly. The Company has consistently maintained an impressive prescription fill rate of ~90%, showcasing its operational efficiency and commitment to customer service.

Diagnostic segment

MHSL re-launched its diagnostic services segment in Hyderabad in 2023 as a pilot project with an initial investment of Rs. 1,100 Mn.



Full-service diagnostic center

These center provide a comprehensive range of diagnostic services like pathology tests, radiology tests and medical imaging services. These centers also provide MRI and CT scan.

Level 2 service center

Similar to full-service centers, these facilities provide pathology and radiology services but do not include MRI and CT scan capabilities.

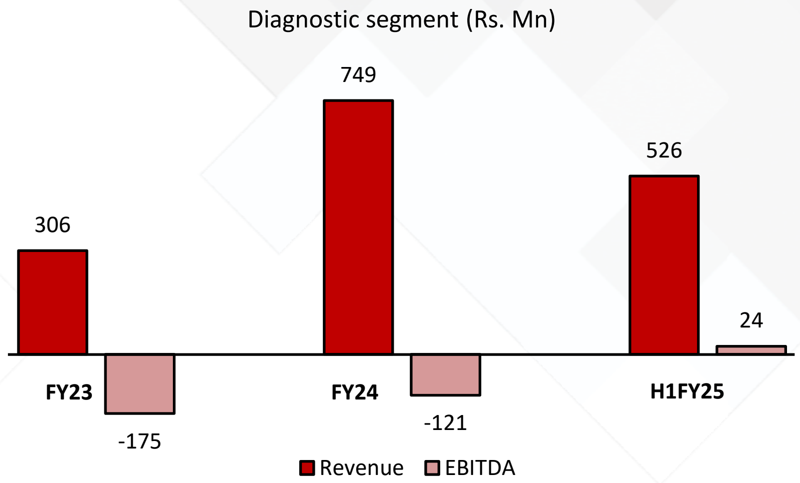
Collection center

Focused solely on sample collection for various tests like blood test, urine test, etc. The Company strategically sets up these collection centers within its pharmacy stores, incurring only marginal incremental costs for establishment.

Profitability: Full-service centers and level 2 centers typically achieve breakeven within 6-8 months of operations, while collection centers reach breakeven within just 2 months. After 12 months of operations, both are expected to generate an EBITDA margin of ~20%. However, the current scenario reflects a deviation from this benchmark, with EBITDA margins significantly lower at ~4.5% in FY24.

Medplus Advantage plan

The company's diagnostic segment operates through a subscription model, offering customers a 75% discount on tests. These plans are sold via its pharmacy network and the current focus has expanded from B2C to B2B, targeting corporate clients.



Source: Company, Keynote Capitals Ltd.

Future outlook

Currently, the Company is not planning to expand this diagnostic segment outside Hyderabad. However, it is aiming to focus on the B2B segment and tie up with companies as well as insurance providers. The revenue from the labs setup in Hyderabad is expected to increase with increased utilization as they are currently in their ramp up stage. However, the margins are expected to remain stable.

Management Analysis

Key Managerial Personnel

Name	Designation	Promoter / Professional	Experience with MHSL (Yrs.)
Mr. Gangadi Madhukar Reddy	Chairman, Managing Director and Chief Executive Officer	Promoter	18+
Dr. Cherukupalli Bhaskar Reddy	Whole Time Director and Chief Operating Officer	Promoter	17+
Mr. Sujit Kumar Mahato	Chief Financial Officer	Professional	2+
Mr. Chetan Dikshit	Chief Strategy Officer	Professional	3+
Mr. Kandasamy Vairaperumal	Head, Supply chain	Professional	15+
Mr. Venugopal Siripuram	Chief Technology Officer	Professional	13+
Mr. Lakshman Kandarpa	Chief Retail Officer	Professional	4+

Source: Company, Keynote Capitals Ltd.

Compensation and Skin in the Game

Particulars	FY22	FY23	FY24
% Promoter Holding (~)	40.43%	40.43%	40.39%
MD's salary (Rs Mn)	11.78	4.0	9.01
As a % of PAT (~)	1.24%	0.80%	1.37%

Source: Company, Keynote Capitals Ltd

Top Shareholders with >1% stake (%)

Stakeholders	FY22	FY23	FY24	H1FY25
Lavender Rose Investment Limited	17.2%	17.2%	11.4%	-
PI Opportunities Fund I	14.1%	14.1%	8.2%	5.8%
Nippon India Mutual Fund	-	3.1%	7.0%	6.9%
SBI Mutual Fund	10.4%	8.7%	5.2%	4.9%
Arisaig Asia Fund Limited	-	-	1.9%	2.1%
Government of Singapore	-	-	1.8%	1.3%
Steadview Capital Mauritius Limited	-	-	1.7%	-
Pravesa Holding Private Limited	1.5%	1.5%	1.5%	1.5%
Fidelity Funds	-	-	1.5%	-
Goldman Sachs Fund	-	-	1.0%	1.1%
ICICI Prudential Pharma Healthcare and Diagnostic	1.1%	-	-	4.8%
HDFC Life Insurance Company Limited	-	-	-	1.2%

Source: Company, Keynote Capitals Ltd.

Peer Analysis

For peer comparison, we have considered Apollo Hospitals Enterprise Ltd. (AHEL), Wellness Forever Medicare Ltd. (WFML) and API Holdings Ltd. – PharmEasy (AHL). AHEL is an integrated healthcare provider and has presence in hospitals, pharmacies and diagnostic clinics. It is the largest player in retail pharmacy segment and also has an online platform providing services 24/7. WFML is also exclusively engaged in the retail pharmacy segment and is the third largest player.

Metrics	MHSL	AHEL	WFML	AHL
Position in healthcare segment	Retail pharmacy + diagnostics on pilot basis	Integrated player – hospitals, pharmacy, diagnostics	Retail pharmacy	Online pharmacy
24/7 operations	No	Yes	Yes	Yes
Franchise stores	Negligible ~5% of stores	Yes	Yes	NA
Number of stores	4,407	6,030	407	NA
Private label sales contribution	14.3%	16.3%	NA	NA
Revenue (Rs. Mn)	56,249	78,269*	15,033	5,137
EBITDA margin (%)	6.3%	7.6%**	5.9%	(82.3%)
PAT margin (%)	1.2%	(2.5%)	(4.8%)	(419.9%)
Diagnostic segment				
Diagnostic labs	12	103	NA	NA
Collection centers	103	2,263	NA	NA
Revenue (Rs. Mn.)	749	4,605	NA	NA

Data as of FY24

(*) Pharmacy segment revenue

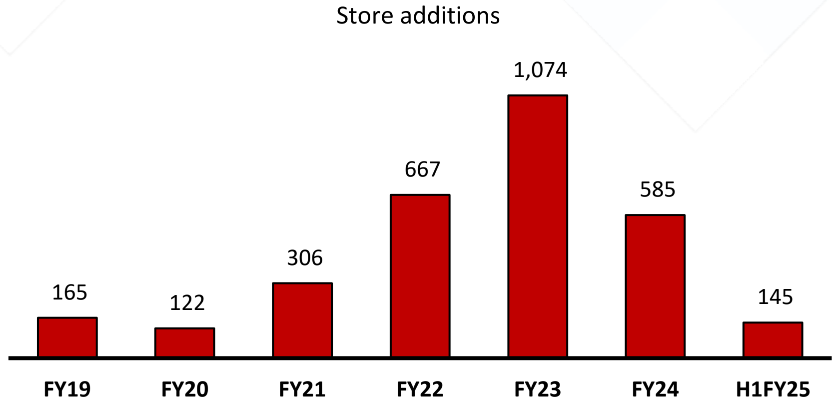
(**) Excluding 24/7 operating costs

Source: Company, AHEL, WFML, AHL, Keynote Capitals Ltd

Opportunities

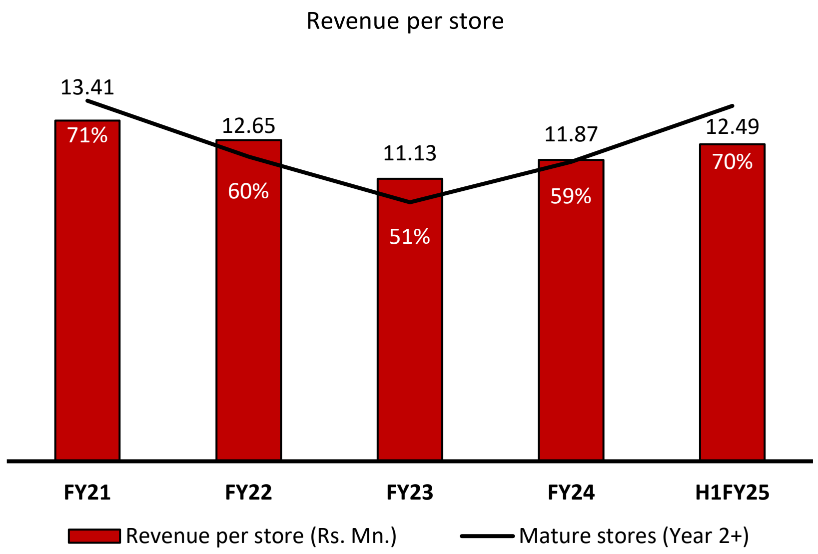
Store expansion to drive growth

MHSL has undertaken significant store expansion efforts in recent years, positioning itself for substantial revenue growth. Over the recent years, MHSL has accelerated its store expansion process, achieving a store count CAGR of ~25% since FY22. This rapid growth has been a key driver of its expanding footprint and overall growth, as new stores typically mature within 24-30 months, reaching their full EBITDA-generating capacity.



Source: Company, Keynote Capitals Ltd.

As of H1 FY25, 70% of the Company's stores are mature, and this proportion is expected to improve as the Company moderates its pace of store openings in the coming years. This shift will positively impact unit economics, driving higher profitability across the store network.



Source: Company, Keynote Capitals Ltd.

Going forward, the Company plans to add 450 new stores in FY25, bringing its total store count to ~4,850 by year-end. Of these, an estimated 3,750 stores (77%) will be mature, contributing revenue at their full potential. This strategic balance between expansion and maturity ensures sustainable growth while optimizing operational efficiency.

The store opening process of MHSL is expected to normalize to 450-500 stores from FY26. In addition to expanding its network in established markets, MHSL is making significant inroads into new geographies. It has entered states like Madhya Pradesh, Chhattisgarh, and Kerala. Historically, MHSL has succeeded in its core markets by operating a minimum of ~500 stores per state, and it plans to replicate this cluster-based expansion strategy in these new regions.

To support these new markets during the initial stages of expansion, MHSL is currently managing inventory through warehouses located in neighboring states. However, as operations scale and a critical mass of stores is achieved in these regions, the Company plans to establish dedicated warehouses to improve inventory management and supply chain efficiency. This phased approach minimizes upfront investment while ensuring seamless operations.

Further diversifying its footprint, MHSL has also entered the northern market with the opening of three stores in Delhi NCR during H1 FY25. By expanding into these geographies alongside its southern and central India focus, MHSL aims to maintain or improve its market share.

With a growing proportion of mature stores contributing to profitability and a disciplined approach to entering new markets, MHSL is well-positioned for sustainable growth in the coming years.

Scaling private-label revenue to enhance profitability

In June 2023, MHSL launched a subscription-based model under the MedPlus brand, offering significant discounts of 50% to 80% on select MedPlus-branded pharmaceutical products. Priced at just Rs. 49 annually, this initiative aims to enhance affordability and drive customer loyalty. Previously, the Company's private-label products under Wynclark and MHS Pharmaceuticals faced limited competitiveness due to pricing comparable to branded alternatives.

This strategic shift aligns with the Company's objective to boost the penetration of its private-label products, which yield higher profit margins compared to branded alternatives. Unlike branded products—typically purchased on a fully returnable basis, allowing unsold or expired inventory to be returned for a refund—private-label products place the full inventory risk on MHSL. Despite this added risk, the higher margins and increasing acceptance of generic medicines present a promising opportunity for driving revenue growth and enhancing profitability.

The Company aims to increase the contribution of private-label products to overall sales from 17% in H1FY25 to 22-25% in the coming years, further enhancing its profitability.

Challenges

Increasing competitive intensity

The retail pharmaceutical market is currently dominated by unorganized players who provide high discounts. Recently, a lot of online players like PharmEasy and Tata 1mg have established themselves in the market and they are planning to adopt an omni channel approach by opening brick & mortar stores as well. The online players advertise heavily about the discounts provided to attract customers. Moreover, Flipkart Minutes is also planning to enter the retail pharmacy space where it will collaborate with local mom and pop stores and deliver medicines under 10 minutes. Thereby, the competitive intensity in this space is on the rise which in turn will lead to increasing discount leading to possibility of shrinking margins.

High debt burden at the group level

The promoter of MHSL has created two Special Purpose Vehicles (SPVs), Lone Furrow Investments Private Limited (LFIPL) and Agilemed Investments Private Limited (AIPL), to buy shares in MHSL. These SPVs don’t have any business operations or income of their own. The funding for these share purchases came from the issuance of Non-Convertible Debentures (NCDs). The repayment of this debt depends on either dividends from MHSL shares or refinancing the loans. However, since MHSL doesn’t pay dividends and the SPVs lack any income, they face difficulties in repaying the debt, increasing financial pressure.

Together, the SPVs raised Rs. 6,320 Mn (Rs. 3,570 Mn by LFIPL and Rs. 2,750 Mn by AIPL). While AIPL has repaid its debt, LFIPL still carries a significant burden. Although this setup keeps the debt off MHSL’s balance sheet, it creates a high debt load at the group level, weakening the overall financial health of the group. Additionally, using debt for ownership is generally seen as risky.

To refinance these debts, the promoter has pledged 20.26% of MHSL’s shares (which is 50.18% of their total shareholding) as collateral. This increases risk because if the promoter fails to repay or refinance the debt, lenders could take control of these pledged shares. This situation poses a serious risk to MHSL’s stability despite its strong operational performance.

Closure of mature stores

MHSL faces a potential risk from store closures, with ~2-3% of the total number of stores shutting down annually over the past three years, primarily mature stores (operating for over two years). While the Company’s cost-efficient relocation model minimizes financial impact to less than Rs. 0.2 Mn per relocation, an increase in the closure rate beyond 4-5% could pose significant risks. Such a trend may indicate inefficiencies in site selection or market saturation, potentially impacting long-term profitability and operational stability.

Financial Statement Analysis

Income Statement

Y/E Mar, Rs. Mn	FY23	FY24	FY25E	FY26E	FY27E
Net Sales	**45,576**	**56,249**	**64,426**	**75,780**	**89,330**
Growth %		23%	15%	18%	18%
Raw Material Expenses	35,577	43,916	49,608	58,123	68,159
Employee Expenses	5,451	6,255	7,216	8,336	9,826
Other Expenses	1,891	2,536	3,221	3,486	3,573
EBITDA	**2,657**	**3,541**	**4,381**	**5,835**	**7,772**
Growth %		33%	24%	33%	33%
Margin%	6%	6%	7%	8%	9%
Depreciation	1,816	2,242	2,485	2,674	2,850
EBIT	**841**	**1,299**	**1,896**	**3,161**	**4,921**
Growth %		54%	46%	67%	56%
Margin%	2%	2%	3%	4%	6%
Interest Paid	830	964	1,093	1,206	1,318
Other Income & exceptional	461	400	400	400	400
PBT	**472**	**734**	**1,202**	**2,355**	**4,003**
Tax	-22	64	301	589	1,001
PAT	**494**	**671**	**902**	**1,766**	**3,002**
Others (Minorities, Associates)	3	1	1	1	1
Net Profit	**497**	**672**	**903**	**1,767**	**3,003**
Growth %		35%	37%	96%	70%
Shares (Mn)	119.3	119.5	119.5	119.5	119.5
EPS	**4.17**	**5.48**	**7.55**	**14.78**	**25.12**

Balance Sheet

Y/E Mar, Rs. Mn	FY23	FY24	FY25E	FY26E	FY27E
Cash, Cash equivalents & Bank	2,838	1,417	3,143	4,799	7,436
Current Investments	0	0	0	0	0
Debtors	87	175	168	197	232
Inventory	11,441	13,402	15,378	18,018	21,129
Short Term Loans & Advances	342	538	538	538	538
Other Current Assets	99	143	143	143	143
Total Current Assets	14,807	15,676	19,370	23,695	29,479
Net Block & CWIP	11,619	12,473	10,986	9,294	7,472
Long Term Investments	0	0	0	0	0
Other Non-current Assets	1,219	1,282	1,282	1,282	1,282
Total Assets	**27,645**	**29,430**	**31,637**	**34,271**	**38,234**
Creditors	2,601	2,530	3,611	4,253	4,989
Provision	271	311	311	311	311
Short Term Borrowings	0	0	0	0	0
Other Current Liabilities	1,893	2,418	2,418	2,418	2,418
Total Current Liabilities	4,766	5,259	6,340	6,982	7,718
Long Term Debt	0	0	0	0	0
Deferred Tax Liabilities	-658	-850	-850	-850	-850
Other Long Term Liabilities	8,632	9,247	9,472	9,697	9,922
Total Non Current Liabilities	7,974	8,397	8,622	8,847	9,072
Paid-up Capital	239	239	239	239	239
Reserves & Surplus	14,673	15,540	16,442	18,208	21,210
Shareholders' Equity	14,912	15,779	16,681	18,447	21,449
Non Controlling Interest	-7	-6	-7	-8	-9
Total Equity & Liabilities	**27,645**	**29,430**	**31,636**	**34,269**	**38,230**

Source: Company, Keynote Capitals Ltd. Estimates

Cash Flow

Y/E Mar, Rs. Mn	FY23	FY24	FY25E	FY26E	FY27E
Pre-tax profit	472	734	1,202	2,355	4,003
Adjustments	2,728	3,306	3,179	3,480	3,769
Change in Working Capital	-2,156	-2,311	-663	-1,802	-2,186
Total Tax Paid	-139	-292	-301	-589	-1,001
Cash flow from operating Activities	**904**	**1,437**	**3,417**	**3,445**	**4,585**
Net Capital Expenditure	-1,688	-828	-998	-983	-1,029
Change in investments	5,758	-136	0	0	0
Other investing activities	225	136	400	400	400
Cash flow from investing activities	**4,294**	**-828**	**-598**	**-583**	**-629**
Equity raised / (repaid)	12	72	0	0	0
Debt raised / (repaid)	0	0	0	0	0
Dividend (incl. tax)	0	0	0	0	0
Other financing activities	-1,714	-9,494	-1,093	-1,206	-1,318
Cash flow from financing activities	**-1,702**	**-9,422**	**-1,093**	**-1,206**	**-1,318**
Net Change in cash	3,496	-8,813	1,726	1,656	2,638

Valuation Ratios

	FY23	FY24	FY25E	FY26E	FY27E
Per Share Data					
EPS	4	5	8	15	25
Growth %		31%	38%	96%	70%
Book Value Per Share	125	132	139	154	179
Return Ratios					
Return on Assets (%)	2%	3%	3%	5%	8%
Return on Equity (%)	5%	5%	6%	10%	15%
Return on Capital Employed (%)	9%	10%	12%	17%	22%
Turnover Ratios					
Asset Turnover (x)	1.7	2.0	2.1	2.3	2.5
Sales / Gross Block (x)	3.3	3.2	3.4	3.8	4.2
Working Capital / Sales (%)	23%	18%	18%	20%	22%
Receivable Days	1	1	1	1	1
Inventory Days					
Payable Days	24	20	22	24	24
Working Capital Days	-24	-20	-21	-23	-23
Liquidity Ratios					
Current Ratio (x)	3.1	3.0	3.1	3.4	3.8
Interest Coverage Ratio (x)	1.8	1.9	2.1	3.0	4.0
Total Debt to Equity	0.0	0.0	0.0	0.0	0.0
Net Debt to Equity	-0.2	-0.1	-0.2	-0.3	-0.3
Valuation					
PE (x)	243.2	185.2	110.3	56.3	33.1
Earnings Yield (%)	0%	1%	1%	2%	3%
Price to Sales (x)	1.7	1.5	1.5	1.3	1.1
Price to Book (x)	5.2	5.2	6.0	5.4	4.6
EV/EBITDA (x)	28.1	22.8	23.0	17.3	13.0
EV/Sales (x)	1.6	1.4	1.6	1.3	1.1

MHSL's Valuation

Valuation	
Expected (in Rs. Mn , otherwise stated)	**FY27E**
Revenue	89,330
EBITDA	7,772
EBITDA Margin %	8.7%
EV/EBITDA (x)	20
Enterprise Value (Rs. Mn)	1,55,434
Debt (Lease Liability)	2,749
Cash	7,436
Estimated Mcap	1,60,121
No. of Shares (In Mn)	119.5
Target Price (Rs.)	1,340
Current Market Price (Rs.)	815
% Upside/(Downside)	64.4%

Source: Company, Keynote Capitals Ltd. estimates

The Company is the second-largest retail pharmacy chain in India and has a strong presence across the country, particularly in the southern region with 4,552 stores as of H1FY25. We believe that MHSL's aggressive expansion strategy is expected to yield results as newly opened stores will start to mature, which typically takes 24-30 months. The proportion of such matured stores will increase from 70% in H1FY25 to 84% in FY27 which will drive the revenue per store from Rs. 12.5 Mn to Rs. 15.5 Mn, respectively. This increase in revenue per store, driving an overall revenue CAGR of ~17% over FY24-27E.

Additionally, EBITDA margins are projected to improve due to an increasing contribution from private-label products, which offer significantly higher gross margin of ~62% as compared to branded products which offer gross margin of ~18%. Further margin expansion is expected from operational efficiencies, including a reduction in warehousing costs from 3% to 2-2.25% of total costs through automation, as well as scaling benefits from its growing network.

Based on these factors, we initiate coverage on MHSL with a BUY rating, valuing the business at 20x EV/EBITDA on FY27E, implying an upside of 64.4%.

KARAN KAMLESH GALAIYA

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Date: 2025.01.13 14:25:35 +05'30'

Our Recent Reports


Allcargo Gati Limited | Initiating Coverag
KEYNOTE
Allcargo Gati Limited
3rd January 2025
Speeding In Race Of Express Logistics
BUY
CMP Rs. 90
TARGET Rs. 140 (~56%)

Allcargo Gati Ltd.


Mangalore Chemicals and Fertilizers Ltd. | Spec
KEYNOTE
Mangalore Chemicals and Fertilizers Ltd.
10th December 2024
Special situation: Merger arbitrage
Arbitrage
CMP Rs. 162.1

Mangalore Chemicals and Fertilizers Ltd.


MTPL | Initiating Coverage Report
KEYNOTE
Mold-Tek Packaging Ltd.
13th November 2024
Driving growth through expansion and diversification
BUY
CMP Rs. 679
TARGET Rs. 1,047 (+54%)

Mold-Tek Packaging Ltd

Rating Methodology

Rating	Criteria
BUY	Expected positive return of > 10% over 1-year horizon
NEUTRAL	Expected positive return of > 0% to < 10% over 1-year horizon
REDUCE	Expected return of < 0% to -10% over 1-year horizon
SELL	Expected to fall by >10% over 1-year horizon
NOT RATED (NR)/UNDER REVIEW (UR)/COVERAGE SUSPENDED (CS)	Not covered by Keynote Capitals Ltd/Rating & Fair value under Review/Keynote Capitals Ltd has suspended coverage

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Compliance Officer: Mr. Jairaj Nair; Tel: 022-68266000; email id: jairaj@keynoteindia.net

Registered Office: 9th Floor, The Ruby, Senapati Bapat Marg, Dadar West, Mumbai – 400028, Maharashtra. Tel: 022 – 68266000.

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