

## Medplus Health Services Ltd.

5<sup>th</sup> February 2025

Improving margins on the forefront

In Q3 FY25, Medplus Health Services Limited (MHSL) delivered an 8% YoY revenue growth, along with a 212 bps YoY improvement in EBITDA margins, which rose from 6% to 8%. Store-level EBITDA margin for stores older than 12 months reached 11%, supported by higher private label sales and a maturing store network. During the quarter, the total store count grew to 4,612, with a gross addition of 87 stores and net addition of 60 stores. To strengthen operations, the Company also established 4 new warehouses, enhancing product availability at existing outlets and facilitating the launch of new stores. With growing adoption of its private label products and steady sales of branded medicines, MHSL is well-positioned to sustain its growth trajectory in the coming quarters.

### Private Label and maturing store network propel EBITDA margins

In Q3 FY25, MHSL achieved a store-level EBITDA margin of 11% for stores older than 12 months, up from 9.6% in Q3 FY24. This expansion was driven by the increased contribution of private label sales, which rose from 14.4% to 19.6% on a YoY basis, supported by the success of its private label subscription plan. Private label contributions are expected to reach at least 25% over the next two years as per management's guidance. Additionally, the maturing store network (stores older than 24 months) contributed to margin growth, with its share increasing from 53% to 73% on a YoY basis. Typically, stores achieve a 10% EBITDA margin after 24-30 months of operation.

### SSSG Moderation Driven by Store Age Dynamics

In Q3 FY25, MHSL recorded a Same-Store Sales Growth (SSSG) for stores > 12 months of 4.4%, down from 12.9% in Q3 FY24. This moderation was primarily attributed to a reduced proportion of stores in the 12-24 months category, which typically experience high revenue growth. Additionally, for mature stores, there is a natural capping in growth as they stabilize over time, further contributing to the moderation in SSSG. Going forward, SSSG is expected to stabilize in the range of 4-5%.

### Store Expansion to Regain Momentum

For FY25, MHSL's management revised its net store addition guidance from 450 to 300 stores, citing a temporary slowdown as it focuses on other priorities, including expanding private label products across India. Despite this, the growing store network remains a key performance driver, with net store additions expected to accelerate to 600 annually from FY26 onwards.

### View & Valuation

MHSL has reported a quarter of modest revenue growth accompanied by robust margin expansion, driven by the continued success of its private label initiatives. Margins remain on an upward trajectory, reflecting the effectiveness of the Company's strategy. However, close monitoring of execution will be critical to ensure that the store expansion plans align with guidance, as this is pivotal for the Company's long-term growth prospects. We have revised our estimates and reiterate our BUY rating on Medplus Health Services Limited, with a target price of Rs. 1,232, based on a 20x FY27E EV/EBITDA multiple.

**BUY**

CMP Rs. 790

TARGET Rs. 1,232 (+55.9%)

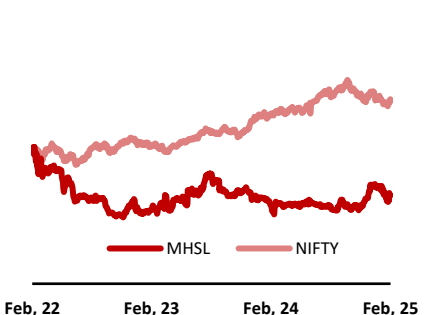
### Company Data

Bloomberg Code	MHSL IN
MCAP (Rs. Mn)	91,207
O/S Shares (Mn)	120
52w High/Low	877 / 598
Face Value (in Rs.)	2
Liquidity (3M) (Rs. Mn)	342

### Shareholding Pattern %

	Dec 24	Sep 24	Jun 24
Promoters	40.4	40.4	40.4
FIIIs	15.2	14.7	14.9
DIIIs	25.7	28.0	22.2
Non-Institutional	18.7	16.9	22.6

### MHSL vs Nifty



Source: Keynote Capitals Ltd.

### Key Financial Data

(Rs Mn)	FY24	FY25E	FY26E
Revenue	56,249	61,247	77,814
EBITDA	3,541	4,716	6,048
Net Profit	656	1,172	1,929
Total Assets	29,430	31,553	34,168
ROCE (%)	10%	14%	17%
ROE (%)	5%	7%	11%

Source: Company, Keynote Capitals Ltd.

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Q3 FY25 Result Update

Result Highlights (Rs. Mn)

Particulars	Q3 FY25	Q3 FY24	Change % (Y-o-Y)	Q2 FY25	Change % (Q-o-Q)	9M FY25	9M FY24	Change % (Y-o-Y)	FY24
Revenue	15,614	14,415	8%	15,762	-0.9%	46,264	41,344	12%	56,249
COGS	11,706	11,227	4%	12,019	-2.6%	35,320	32,377	9%	43,916
Gross Profit	3,909	3,187	23%	3,743	4.4%	10,944	8,966	22%	12,332
<b>Gross Profit %</b>	<b>25%</b>	<b>22%</b>	<b>292 Bps</b>	<b>24%</b>	<b>128 Bps</b>	<b>24%</b>	<b>22%</b>	<b>197 Bps</b>	<b>22%</b>
Employee Cost	1897	1595	19%	1803	5%	5,318	4,649	14%	6255
Other Opex	687	674	2%	695	-1%	2,119	1,835	15%	2,536
EBITDA	1,325	918	44%	1,244	6.5%	3,507	2,482	41%	3,541
<b>EBITDA %</b>	<b>8%</b>	<b>6%</b>	<b>212 Bps</b>	<b>8%</b>	<b>59 Bps</b>	<b>8%</b>	<b>6%</b>	<b>158 Bps</b>	<b>6%</b>
Depreciation	625	571	9%	631	-1%	1,856	1,650	13%	2242
EBIT	700	347	102%	613	14%	1,651	832	98%	1,299
<b>EBIT %</b>	<b>4%</b>	<b>2%</b>	<b>208 Bps</b>	<b>4%</b>	<b>60 Bps</b>	<b>4%</b>	<b>2%</b>	<b>156 Bps</b>	<b>2%</b>
Finance Cost	260	245	6%	251	3%	757	713	6%	964
Other Income	125	98	28%	116	8%	328	295	11%	400
PBT	566	200	183%	478	18%	1,221	415	195%	734
Tax	107	63	71%	91	18%	233	94	146%	79
<b>PAT</b>	<b>458</b>	<b>137</b>	<b>234%</b>	<b>387</b>	<b>18%</b>	<b>989</b>	<b>320</b>	<b>209%</b>	<b>656</b>
<b>EPS</b>	<b>3.84</b>	<b>3.24</b>		<b>1.15</b>		<b>8.3</b>	<b>2.7</b>		<b>5.5</b>

Segment Highlights (Rs. Mn)

Particulars	Q3 FY25	Q3 FY24	Change % (Y-o-Y)	Q2 FY25	Change % (Q-o-Q)	9M FY25	9M FY24	Change % (Y-o-Y)	FY24
<b>Revenue</b>									
Retail pharmacy	1,546	1,422	9%	1,547	0%	4,626	4,082	13%	5,549
Others	30	19	59%	29	4%	84	52	62%	75

Metrics for stores

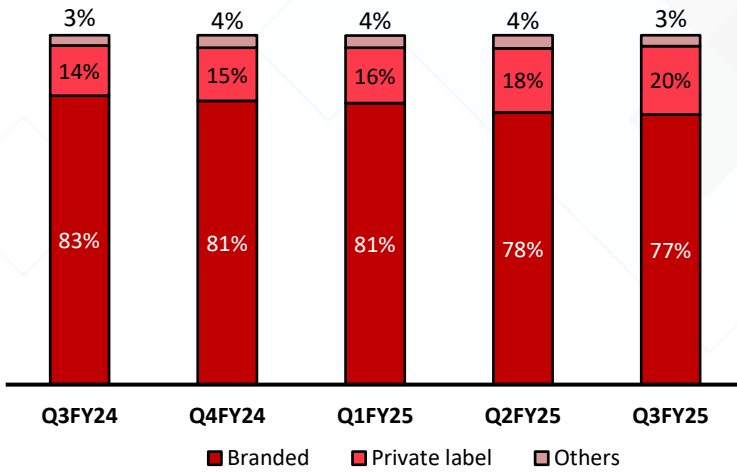
Stores > 12 months	Q3FY24	Q4FY24	Q1FY25	Q2FY25	Q3FY25
Revenue growth (%)	13%	12%	10%	7%	4%
Store level MRP growth (%)	19%	19%	18%	14%	9%
Store level EBITDA Margin (%)	10%	10%	9%	10%	11%
Store level Operating ROCE (%)	53%	52%	46%	58%	62%

Source: Company, Keynote Capitals Ltd.

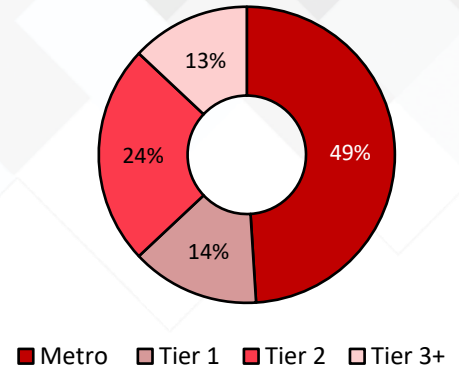
## MHSL | Quarterly Update

### Quarterly Business Progression

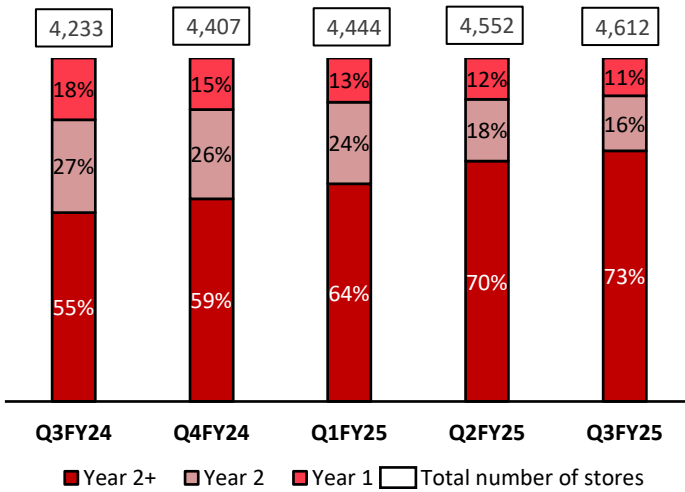
Rising share of private label (%)



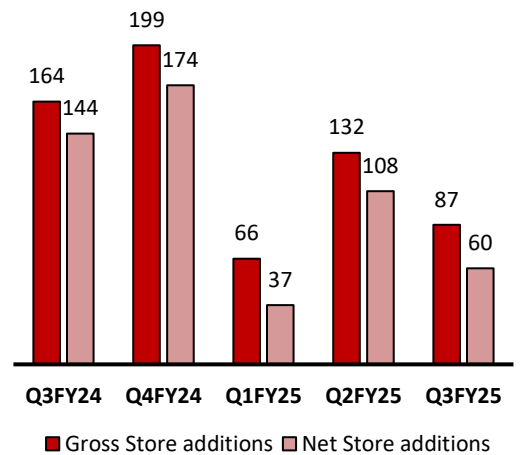
Geographical revenue mix



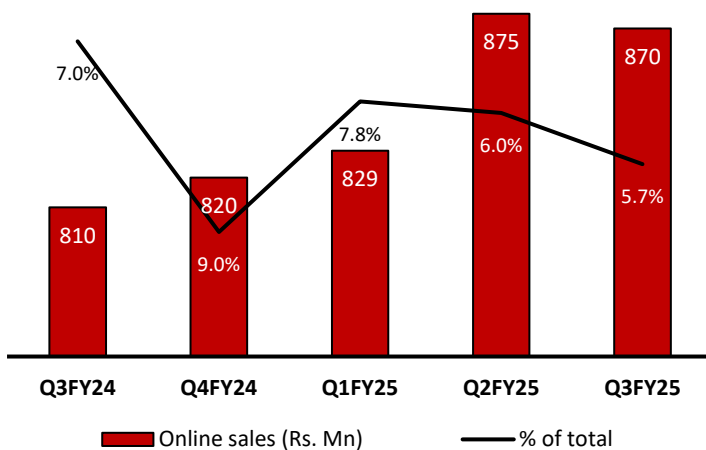
Age structure of stores



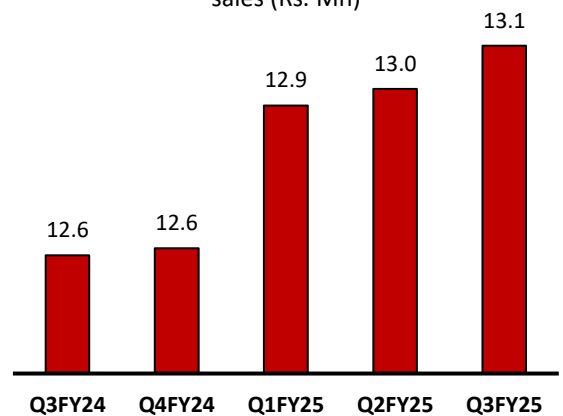
Store additions (No.)



Online sales



Revenue per store excluding online sales (Rs. Mn)



## Q3 FY25 Conference Call Takeaways

### Financial performance

- MHSL reported a 12.3% growth in pharmacy revenue on a GMV basis for the quarter; however, this did not translate proportionately into revenue growth, which grew by 8% on a YoY basis, due to the higher contribution of private label sales, which are offered at significant discounts compared to branded products.
- All the new stores achieved break even on an EBITDA basis within 6 months of operations.
- Private label sales accounted for 19.6% of MHSL's total revenue in Q3 FY25, up from 14.4% in Q3 FY24. This led to a 130-bps improvement in gross margin, increasing from 22.1% on a YoY basis, while the store-level EBITDA margin also rose to 11%.
- This improvement in gross margin also drove the store-level EBITDA margin for stores older than 12 months to 11%, with stores older than 24 months achieving 11.3% and those in the 13 to 24-month age bracket recording 8%.

### Private Label

- The MedPlus subscription plan, launched on a pan-India basis in November 2024, which provided 50-80% discount for private label products, has driven its contributions to 17.6% of revenue on a gross basis and 11.6% on a net basis in the pharma segment in Q3FY25.
- The management expects private label contribution to the total revenue to continue growing by ~1% per quarter, which is projected to add an incremental margin of 15-20 bps per quarter over the next eight quarters.
- Private label adoption is higher in smaller towns and rural areas, such as those in Telangana, Odisha, and West Bengal (~20%), compared to larger cities like Maharashtra (7-8%), driven by MHSL's longer operational presence and established markets in these older states.
- Efforts are underway to expand the product portfolio, aiming to increase medicine coverage from 68% to 75-77%. However, with 10% being insulins and 5% brand-specific medicines unsuitable for private labeling, the maximum target is 85%.

### Store Count

- MHSL recorded a net addition of 60 stores during the quarter, with a gross addition of 87 stores.
- The net store addition guidance for FY25 has been revised from 450 to 300 stores. From FY26, net store additions are expected to return to the earlier pace of 600 stores per year.

*The increasing proportion of store closures in recent quarters is a slightly concerning trend.*

### Warehouse

- In states with over 1,000 stores, MHSL is dividing regions into two parts, requiring new warehouses. This quarter, four new warehouses (30,000 to 50,000 sq. ft. each) were set up to improve supply efficiency and speed up new store launches. The company plans to add three or four more in Q4FY25 and to bring the total to 10 new warehouses by FY26.
- Gross margin improved by 130 basis points compared to the previous quarter, but the EBITDA margin increased by only 40 basis points. This smaller rise was due to higher costs, such as expenses for opening new warehouses and increased employee costs, which reduced some of the gross margin benefits.

### Others

- The average discount on private label products is 51%, driven by the fact that most high-selling items are offered at a 50% discount. In comparison, branded products typically have a discount of 17-18%.
- Q3 is seasonally a weaker quarter for diagnostics, with revenue declining by ~3% on a QoQ basis. However, the observed on-time renewal rate improved slightly from 25% to 26% on a QoQ basis.
- There are no plans to shift the two-hour delivery model to a quick commerce format. The two-hour delivery service will remain focused exclusively on urban areas.
- Net working capital for Q3 stood at 61 days. Inventory in warehouses was 36 days, while first-year stores had an inventory level of 88 days. For stores older than 12 months, inventory was reduced to 40 days.

Financial Statement Analysis

Income Statement

Y/E Mar, Rs. Mn	FY23	FY24	FY25E	FY26E	FY27E
<b>Net Sales</b>	<b>45,576</b>	<b>56,249</b>	<b>61,247</b>	<b>69,521</b>	<b>77,814</b>
Growth %		23%	9%	14%	12%
Raw Material Expenses	35,577	43,916	46,548	52,627	58,828
Employee Expenses	5,451	6,255	7,227	7,856	8,793
Other Expenses	1,891	2,536	2,756	2,989	3,190
<b>EBITDA</b>	<b>2,657</b>	<b>3,541</b>	<b>4,716</b>	<b>6,048</b>	<b>7,003</b>
Growth %		33%	33%	28%	16%
Margin%	6%	6%	8%	9%	9%
Depreciation	1,816	2,242	2,478	2,713	2,919
<b>EBIT</b>	<b>841</b>	<b>1,299</b>	<b>2,238</b>	<b>3,335</b>	<b>4,084</b>
Growth %		54%	72%	49%	22%
Margin%	2%	2%	4%	5%	5%
Interest Paid	830	964	1,075	1,162	1,262
Other Income & exceptional	461	400	400	400	400
<b>PBT</b>	<b>472</b>	<b>734</b>	<b>1,563</b>	<b>2,573</b>	<b>3,222</b>
Tax	-29	79	391	643	806
<b>PAT</b>	<b>501</b>	<b>656</b>	<b>1,172</b>	<b>1,929</b>	<b>2,417</b>
Others (Minorities, Associates)	-3	-1	-1	-1	-1
<b>Net Profit</b>	<b>498</b>	<b>655</b>	<b>1,171</b>	<b>1,928</b>	<b>2,416</b>

Balance Sheet

Y/E Mar, Rs. Mn	FY23	FY24	FY25E	FY26E	FY27E
Cash, Cash equivalents & Bank	2,838	1,417	4,122	6,650	9,779
Current Investments	0	0	0	0	0
Debtors	87	175	159	181	202
Inventory	11,441	13,402	14,430	16,314	18,237
Short Term Loans & Advances	342	538	538	538	538
Other Current Assets	99	143	143	143	143
Total Current Assets	14,807	15,676	19,392	23,826	28,899
Net Block & CWIP	11,619	12,473	10,880	9,062	7,043
Long Term Investments	0	0	0	0	0
Other Non-current Assets	1,219	1,282	1,282	1,282	1,282
<b>Total Assets</b>	<b>27,645</b>	<b>29,430</b>	<b>31,554</b>	<b>34,170</b>	<b>37,224</b>
Creditors	2,601	2,530	3,330	3,816	4,252
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	6,059	6,545	6,981
Long Term Debt	0	0	0	0	0
Deferred Tax Liabilities	-658	-850	-850	-850	-850
Other Long Term Liabilities	8,632	9,247	9,397	9,597	9,797
Total Non Current Liabilities	7,974	8,397	8,547	8,747	8,947
Paid-up Capital	239	239	239	239	239
Reserves & Surplus	14,673	15,540	16,713	18,642	21,059
Shareholders' Equity	14,912	15,779	16,952	18,881	21,298
Non Controlling Interest	-7	-6	-5	-4	-3
<b>Total Equity &amp; Liabilities</b>	<b>27,645</b>	<b>29,430</b>	<b>31,554</b>	<b>34,170</b>	<b>37,224</b>

Cash Flow

Y/E Mar, Rs. Mn	FY23	FY24	FY25E	FY26E	FY27E
Pre-tax profit	472	734	1,563	2,573	3,222
Adjustments	2,728	3,306	3,154	3,477	3,782
Change in Working Capital	-2,156	-2,311	-62	-1,221	-1,307
Total Tax Paid	-139	-292	-391	-643	-806
<b>Cash flow from operating Activities</b>	<b>904</b>	<b>1,437</b>	<b>4,264</b>	<b>4,186</b>	<b>4,892</b>
Net Capital Expenditure	-1,688	-828	-885	-895	-900
Change in investments	5,758	-136	0	0	0
Other investing activities	225	136	400	400	400
<b>Cash flow from investing activities</b>	<b>4,294</b>	<b>-828</b>	<b>-485</b>	<b>-495</b>	<b>-500</b>
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	-1,075	-1,162	-1,262
<b>Cash flow from financing activities</b>	<b>-1,702</b>	<b>-9,422</b>	<b>-1,075</b>	<b>-1,162</b>	<b>-1,262</b>
<b>Net Change in cash</b>	<b>3,496</b>	<b>-8,813</b>	<b>2,705</b>	<b>2,528</b>	<b>3,129</b>

Valuation Ratios

	FY23	FY24	FY25E	FY26E	FY27E
<b>Per Share Data</b>					
EPS	4	5	10	16	20
Growth %		31%	79%	65%	25%
Book Value Per Share	125	132	142	158	178
<b>Return Ratios</b>	2%	3%	4%	6%	7%
Return on Assets (%)	5%	5%	7%	11%	12%
Return on Equity (%)	9%	10%	14%	17%	18%
Return on Capital Employed (%)					
<b>Turnover Ratios</b>	1.7	2.0	2.0	2.1	2.2
Asset Turnover (x)	3.3	3.2	3.2	3.5	3.7
Sales / Gross Block (x)	23%	18%	19%	22%	25%
Working Capital / Sales (x)	1	1	1	1	1
Receivable Days					
Payable Days	24	20	22	24	24
Working Capital Days	-24	-20	-21	-23	-23
<b>Liquidity Ratios</b>					
Current Ratio (x)	3.1	3.0	3.2	3.6	4.1
Interest Coverage Ratio (x)	1.8	1.9	2.5	3.2	3.6
Total Debt to Equity	0.0	0.0	0.0	0.0	0.0
Net Debt to Equity	-0.2	-0.1	-0.2	-0.4	-0.5
<b>Valuation</b>					
PE (x)	243.2	185.2	78.4	47.6	38.0
Earnings Yield (%)	0%	1%	1%	2%	3%
Price to Sales (x)	1.7	1.5	1.5	1.3	1.2
Price to Book (x)	5.2	5.2	5.4	4.9	4.3
EV/EBITDA (x)	28.1	22.8	19.7	15.4	13.3
EV/Sales (x)	1.6	1.4	1.5	1.3	1.2

Source: Company, Keynote Capitals Ltd. estimates

KEYNOTE Rating History

Date	Rating	Market Price at Recommendation	Upside/Downside
13 <sup>th</sup> January 2025	BUY	815	+64.4%
5 <sup>th</sup> February, 2025	BUY	764	+55.9%

Source: Company, Keynote Capitals Ltd. estimates

**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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