

# Medplus Health Services

## Growth drivers intact; generics scale-up key

In its FY24 annual report, Medplus has highlighted key levers of growth such as (1) deeper penetration in its core markets with a focus on tier-2 and beyond locations (~50% of stores in these markets) to optimise operational processes and inventory management; plans to add 600+ stores in FY25; (2) increasing private label share by capitalising its scale and expanding its product range; looking to scale-up its own branded generics under “Medplus” brand; GMV# was at INR 7.47 bn; represented 10.70% of pharmacy sales on a GMV basis and 8.31% on net sales in FY24; (3) expanding customer engagement by leveraging its local presence and diversified product offerings; and (4) strengthening operating efficiencies in supply chain, infrastructure enhancement (automation of warehouses), and direct procurement approach from pharma manufacturers to help gross margin improvement. We see a gradual margin improvement, led by a better mix with steady growth in mature stores (2+ years; ~9-10% margin), an increasing share of margin-accretive private-label and Medplus-brand generics, and an efficient supply chain. We have marginally tweaked our EBITDA for FY25/26E and retain TP to INR 820 (17x Q1FY27E EV/ EBITDA, which implies 28x pre-INDAS EV/EBITDA). Reiterate BUY, given its strategic expansion plan and a focus on profitability improvement.

**Well-placed in the growing retail pharmacy market:** As per the annual report, India’s retail pharmacy market is expected to see ~10% CAGR over 2022-30 with organised pharmacy penetration at ~23% by FY27 (~18% in FY23; implying a CAGR of 19% over FY23-27). MedPlus is well-placed in this growing market, focusing on diversifying product offerings (through private labels in pharma and FMCG), slab-wise discounting, and a cluster-based approach for expansion to achieve better unit store economics and profitability.

**Store expansion will be the backbone for growth:** It has the second-largest network of organised retail pharmacies with a store count of 4,444 (as of Jun’24; the largest is Apollo Pharmacy with 6,074 stores). It is further looking to expand deeper into core markets. It aims to add ~600 stores p.a. for deeper penetration in existing clusters of key seven states across and expansion in tier 2 and beyond. It has also started expansion in new states like Kerala, MP, Chhattisgarh, and Puducherry and is looking to increase its store count over the next few years.

**Focus to scale-up private-label Medplus branded generics:** In Jun’24, MEDPLUS launched Medplus brand generics (at 50-80% discounts); in FY24, the revenues from these products stood at INR 7.47 bn on a GMV basis, represented ~10.7% of pharmacy revenues on a GMV basis and 8.31% on net revenues. MEDPLUS’s focus on increasing its private-label share and scale-up in its Medplus brand generics across the existing market would help support growth and margin.

**Diagnostic business is achieving break-even:** The company is scaling up its diagnostics business with increasing coverage through a subscription model and B2B tie-ups; in Q1FY25, it has turned around the business with positive operating EBITDA of INR 3 mn; it expects to improve profitability in subsequent quarters.

### Financial Summary

YE March (INR bn)	FY21	FY22	FY23	FY24	FY25E	FY26E	FY27E
Net Sales	31	38	46	56	65	80	94
EBITDA	2.2	2.7	2.7	3.5	4.5	6.1	7.6
APAT	0.6	1.0	0.4	0.6	0.9	1.8	2.6
Diluted EPS (INR)	5.3	8.0	3.3	5.2	7.8	15.1	22.0
P/E (x)	130.8	87.2	208.7	134.5	89.7	46.4	31.7
EV / EBITDA (x)	40.7	33.5	33.8	26.0	21.0	15.7	12.6
RoCE (%)	13	10	6	7	9	12	14

Source: Company, HSIE Research, # Gross Merchandising Value

## BUY

CMP (as on 3 Sep 2024)	INR 699
Target Price	INR 820
NIFTY	25,280

KEY CHANGES	OLD	NEW
Rating	BUY	BUY
Price Target	INR 820	INR 820
	FY25E	FY26E
EPS %	0.9	1.3

### KEY STOCK DATA

Bloomberg code	MEDPLUS IN
No. of Shares (mn)	120
MCap (INR bn) / (\$ mn)	83/995
6m avg traded value (INR mn)	269
52 Week high / low	INR 854/598

### STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	(0.7)	0.3	(15.8)
Relative (%)	(15.2)	(11.5)	(41.6)

### SHAREHOLDING PATTERN (%)

	Mar-24	Jun-24
Promoters	40.39	40.39
FIs & Local MFs	22.47	22.17
FPIs	14.94	14.85
Public & Others	22.2	22.59
Pledged Shares	21.88	21.88

Source: BSE

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## Growth levers

- **Deeper than wider:** MedPlus is capitalising on the transformation within India's pharma retail sector which is shifting from unorganised to organised. With a focus on tier 2 and beyond locations, the company has strategically expanded its presence. This approach entails opening 50% of its stores in these areas, leveraging the trend of increasing consumer familiarity with organised retail and the improving availability of medicines. Medplus is utilising a proven technology framework, allowing efficient replication across different cities to optimise operational processes and inventory management as well as enhancing customer engagement through digital channels. By standardising its technology deployment, MedPlus achieves economies of scale, reducing the incremental expansion cost.
- **Increasing the private label share:** By capitalising on its scale, MedPlus is effectively expanding its product range in the pharma and FMCG categories, providing customers with high-quality offerings at optimal value. The company is actively increasing the sales of private-label products, which generates higher gross margins. Given the substantial purchasing capacity at its disposal, Medplus is well-positioned to introduce a broader range of private-label products. In FY24, the company launched 'MedPlus' branded pharma products in several therapeutic areas covering acute and chronic ailments. This strategic evolution not only diversifies the product mix but also enables Medplus to curate an improved selection of products for its customers.
- **Boosting revenue and expanding customer engagement:** Medplus with its strategic neighbourhood presence uniquely positions the company to tap into this advantage by introducing an extended array of products in closely related categories such as Wellness and FMCG. This strategic move allows the company to seamlessly serve as a convenient refill hub for its valued customers' immediate requirements. By strategically leveraging its local presence, the company is enhancing revenue streams and deepening its connection with customers through a diversified range of offerings.
- **Strengthening operating efficiency:** Medplus's ongoing expansion strategy involves enhancing its supply chain framework and bolstering operational efficiency through targeted infrastructure enhancements. By investing in the automation of its warehouses, the company can unlock heightened operational efficacy and cost-effectiveness. Additionally, its direct procurement approach from pharma manufacturers will play a pivotal role in realising elevated gross margins. These combined initiatives synergistically contribute to an improved profitability outlook.

## Highlights from the chairman's speech and MD&A

- **The company view on India's retail pharmacy and outlook:** India's retail chain pharmacy sector is poised for remarkable growth, and Medplus is strategically positioned to capitalise on this opportunity. As a capital-intensive industry, pharmacy retailing demands significant investment in prime locations and operational infrastructure. However, Medplus's robust financial foundation and industry expertise enable it to easily navigate these challenges. With a deep understanding of market dynamics and the demographics in its core markets, the company has established a strong backend infrastructure, comprising warehouses and distribution channels. This solid foundation, combined with its vertically integrated operations, technology-driven approach, and omnichannel presence, sets the company up for exponential growth. As the company continues to expand

its store footprint, it expects to gain a larger share of the organised pharmacy retail market.

- In FY24, the company launched 'MedPlus' branded pharma products in several therapeutic areas covering acute and chronic ailments. These medicines are being manufactured in the same factories that cater to the needs of large pharma companies in India, ensuring product quality and genuine medicines.
- The company continues to focus on providing a pharma, wellness and FMCG products range guided by the three core principles: (1) providing genuine products, (2) offering unparalleled convenience to all consumers (with its omnichannel model) and, (3) ensuring superior storage conditions while maintaining competitive pricing.
- MEDPLUS has expanded its reach to over 640 cities across Telangana, Andhra Pradesh, Karnataka, Tamil Nadu, West Bengal, Orissa, Maharashtra, Madhya Pradesh, Chhattisgarh, and Kerala. It is the second-largest network of organised retail pharmacies with a physical store count of 4,444 as of Jun'24 (the largest is the Apollo Pharmacy with 6,074 stores).
- The company has 46,000+ SKUs across pharma and non-pharma; 1,100+ private label products covered under the pharma category including chronic, acute, and OTC; 320+ private label products covered in non-pharma segments including packaged food, baked goods, dry goods, cleaning products, cosmetics, and toiletries.
- Diagnostic network: The presence is in the core market of Hyderabad with four full-service centres, eight level-II centres, and 100+ collection centres. As of Jun'24, the company has 141k active plans and covers 270k underlying lives; the renewal rate was at 24% in Q1FY25.

### Key drivers for the retail pharmacy industry in India

- **Convenience** drives growth for omnichannel pharma retail companies by enhancing customer satisfaction and loyalty. Offering services like easy-to-access locations, online ordering, and home delivery meets the growing demand for hassle-free experiences. By making it simpler for customers to obtain medications and health products, pharmacies attract and retain a broader clientele, increase sales, and strengthen their market position, all while improving overall customer engagement.
- **Expanding geriatric population:** The increasing number of elderly people, who often require chronic medication, drives growth for pharma retail companies. These people require medicines at their doorstep because of mobility challenges and other issues. As this demographic expands, the demand for ongoing pharma care and medications rises, boosting sales and creating opportunities for omnichannel pharmacy retailers.
- **More health-conscious people:** Growing awareness of healthcare and wellness fuels growth for pharma retail companies by increasing demand for health-related products and services. This trend drives higher engagement and spending in the sector, allowing pharma retailers to expand their offerings and enhance customer loyalty, boosting overall business growth.

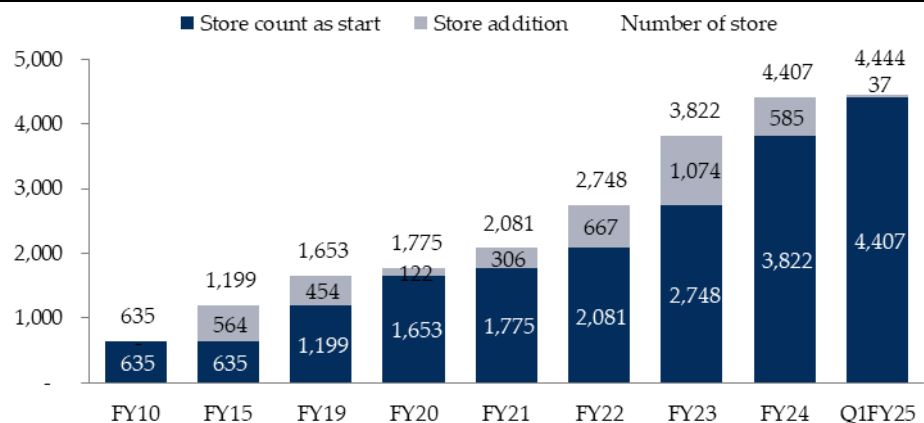
### Key trends for the retail pharmacy industry in India

- Entry of organised retail:** The entry of big organised retail companies in the pharma retail sector is creating a ripple expanding market reach and enhancing competitive dynamics. Large retail chains bring advanced supply chains, extensive distribution networks, and significant marketing power, which often leads to increased consumer access and higher sales volumes. Their presence stimulates innovation and efficiency in the sector, benefitting all players and boosting overall market growth and customer engagement.
- Growth of private labels:** Private labels, or store brands, are retailer-owned products offering consumers quality at competitive prices. By controlling the entire product lifecycle, retailers enjoy higher profit margins due to reduced costs in distribution, shelf space, overhead, and marketing. This allows them to offer greater value to customers. Additionally, private labels provide product variety and can foster customer loyalty, strengthening the retailer's brand identity.
- The transformation from pharmacy to wellness centres:** By positioning themselves as 'wellness centres' rather than just pharmacies, organised players aim to spread fixed costs over a larger revenue base and benefit from economies of scope on the customer side. This approach encourages people to visit the store not only for curative medicines but also for preventive wellness products and health supplements, helping organised pharma retailers increase their share of customer spending and boost overall profitability.

### Key charts – operating and financial highlights

MedPlus is offering its services in 10 states and one union territory through 4,444 stores which are spread across Telangana, Andhra Pradesh, Karnataka, Tamil Nadu, West Bengal, Maharashtra, Orissa, Madhya Pradesh, Chhattisgarh, Kerala, and Puducherry. MedPlus employs a data analytics driven cluster-based process to expand its store network. The cluster-based approach to store network expansion is also driven by its understanding of the catchment demographics, market dynamics, and its ability to support store expansion with back-end infrastructure, such as warehouses and distribution centres.

**Exhibit 1: Store addition accelerated in last few years**



Source: Company, HSIE Research

**Exhibit 2: Store-wise regional split**

State	Number of Stores, as of								
	FY10	FY15	FY19	FY20	FY21	FY22	FY23	FY24	Q1FY25
Telangana	181	288	352	365	435	521	662	709	716
Andhra Pradesh	125	152	213	226	263	334	423	481	485
Karnataka	166	340	457	485	514	605	841	951	955
Tamil Nadu	101	231	348	373	447	572	814	922	925
West Bengal	22	105	139	148	183	289	423	584	596
Maharashtra	40	65	93	113	166	324	520	556	553
Odisha	0	18	51	65	73	103	139	160	160
Chhattisgarh								20	26
Madhya Pradesh								14	14
Kerala								8	8
Puducherry								2	3
<b>Total</b>	<b>635</b>	<b>1,199</b>	<b>1,653</b>	<b>1,775</b>	<b>2,081</b>	<b>2,748</b>	<b>3,822</b>	<b>4,407</b>	<b>4,444</b>

Source: Companies, HSIE Research.

**Exhibit 3: State-wise store addition over the last few years**

State-wise store addition	FY10-15	FY15-19	FY20	FY21	FY22	FY23	FY24	Q1FY25
Telangana	107	64	13	70	86	141	47	7
Andhra Pradesh	27	61	13	37	71	89	58	4
Karnataka	174	117	28	29	91	236	110	4
Tamil Nadu	130	117	25	74	125	242	108	3
West Bengal	83	34	9	35	106	134	161	12
Maharashtra	25	28	20	53	158	196	36	-3
Odisha	18	33	14	8	30	36	21	0
Chhattisgarh							20	6
Madhya Pradesh							14	0
Kerala							8	0
Puducherry							2	1
<b>Total</b>	<b>564</b>	<b>454</b>	<b>122</b>	<b>306</b>	<b>667</b>	<b>1074</b>	<b>585</b>	<b>37</b>

Source: Companies, HSIE Research.

**Exhibit 4: Segment-wise revenue trend**

INR mn	Q3 FY22	Q4 FY22	Q1 FY23	Q2 FY23	Q3 FY23	Q4 FY23	Q1 FY24	Q2 FY24	Q3 FY24	Q4 FY24	Q1 FY25	YoY (%)	QoQ (%)	FY23	FY24	YoY (%)
<b>Sales</b>																
Pharmacy	9,284	9,596	9,850	11,100	11,765	12,382	12,690	13,885	14,204	14,653	14,629	15	(0)	45,097	55,431	23
% of sales	99%	99%	99%	99%	99%	99%	99%	99%	99%	98%	98%			99%	99%	
Diagnostics	14	14	32	58	97	119	139	182	196	232	242	74	4	305	749	145
% of sales	0%	0%	0%	1%	1%	1%	1%	1%	1%	2%	2%			1%	1%	
Others	36	50	55	49	42	28	14	20	15	20	17	19	-16	174	69	-60
% of sales	0%	1%	1%	0%	0%	0%	0%	0%	0%	0%	0%			0%	0%	
<b>Total</b>	<b>9,335</b>	<b>9,659</b>	<b>9,937</b>	<b>11,206</b>	<b>11,903</b>	<b>12,530</b>	<b>12,843</b>	<b>14,086</b>	<b>14,415</b>	<b>14,905</b>	<b>14,888</b>	<b>16</b>	<b>-0</b>	<b>45,576</b>	<b>56,249</b>	<b>23</b>

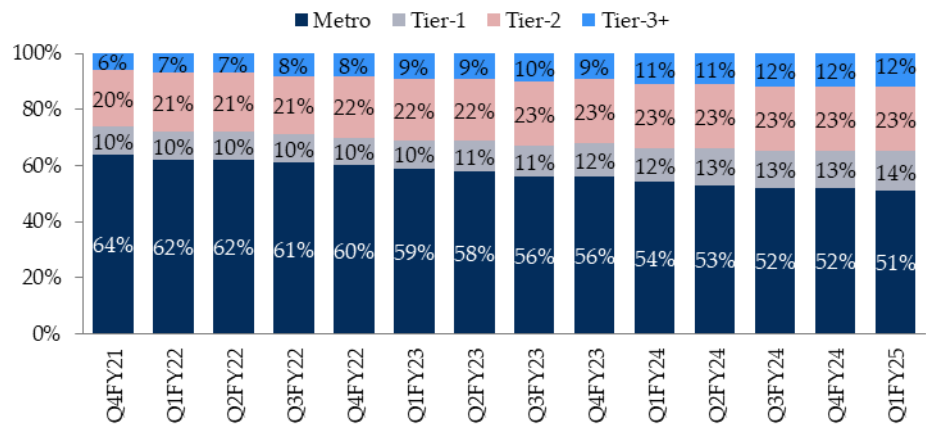
Source: Companies, HSIE Research.

**Exhibit 5: Segment-wise operating performance**

INR mn	Q3 FY22	Q4 FY22	Q1 FY23	Q2 FY23	Q3 FY23	Q4 FY23	Q1 FY24	Q2 FY24	Q3 FY24	Q4 FY24	Q1 FY25	YoY (%)	QoQ (%)	FY23	FY24	YoY (%)	
<b>Operating EBITDA</b>																	
Pharmacy	396	397	274	336	406	447	343	440	505	593	432	26	(27)	1,462	1,882	29	
% margin	4.3%	4.1%	2.8%	3.0%	3.5%	3.6%	2.7%	3.2%	3.6%	4.0%	3.0%	25 bps	-110 bps	3.2%	3.4%	15 bps	
Diagnostics	-14	-76	-52	-53	-33	-37	-46	-29	-34	-11	3	NA	NA	-175	-121	NA	
% margin	-97.9%	-546.8%	-164.8%	-91.3%	-34.1%	-31.1%	-33.2%	-16.0%	-17.4%	-4.9%	1.4%	NA	NA	-57.2%	-16.1%	NA	
Others	-16	-25	-0	-0	-3	-4	-7	-1	-5	-1	1	NA	NA	-7	-13	NA	
% margin	-45.2%	-51.1%	-0.2%	-0.8%	-6.3%	-12.7%	-46.1%	-6.2%	-31.6%	-3.0%	4.2%	NA	NA	-3.9%	-19.0%	NA	
<b>Total</b>	<b>366</b>	<b>295</b>	<b>222</b>	<b>283</b>	<b>371</b>	<b>406</b>	<b>291</b>	<b>410</b>	<b>466</b>	<b>581</b>	<b>436</b>	<b>50</b>	<b>(25)</b>	<b>1,281</b>	<b>1,748</b>	<b>36</b>	
% margin	3.9%	3.1%	2.2%	2.5%	3.1%	3.2%	2.3%	2.9%	3.2%	3.9%	2.9%	66 bps	-97 bps	2.8%	3.1%	30 bps	

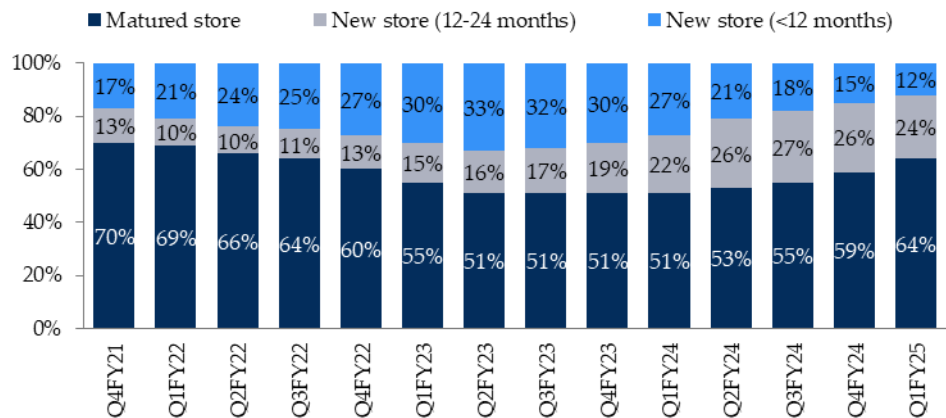
Source: Companies, HSIE Research.

**Exhibit 6: Regional revenue mix**



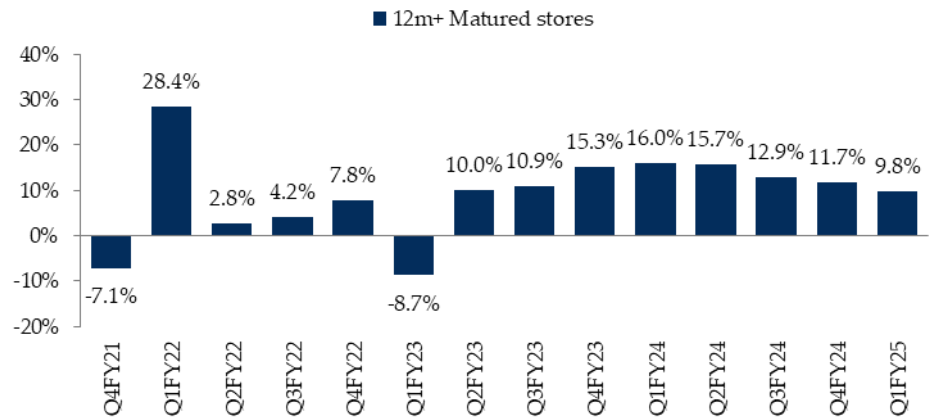
Source: Company, HSIE Research

**Exhibit 7: Store mix age-wise**



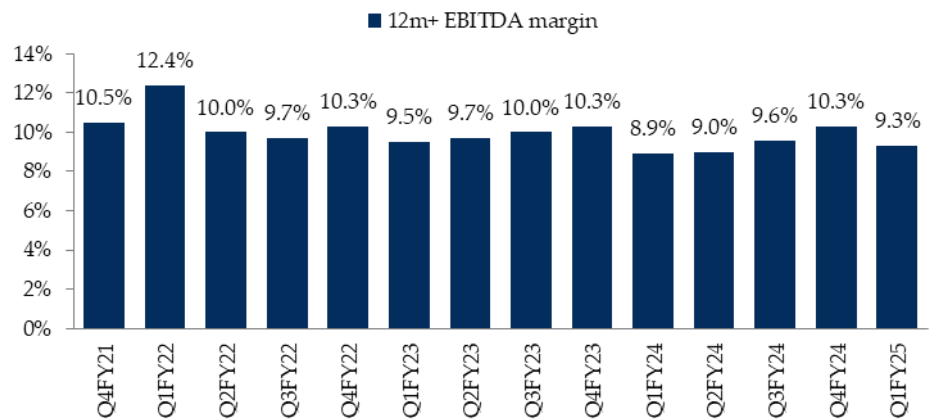
Source: Company, HSIE Research

**Exhibit 8: Mature store growth trend**



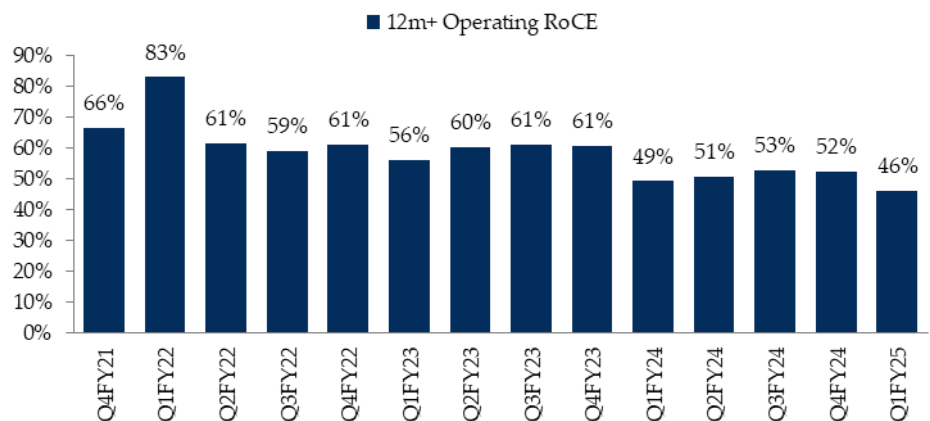
Source: Company, HSIE Research

**Exhibit 9: Mature store operating margin**



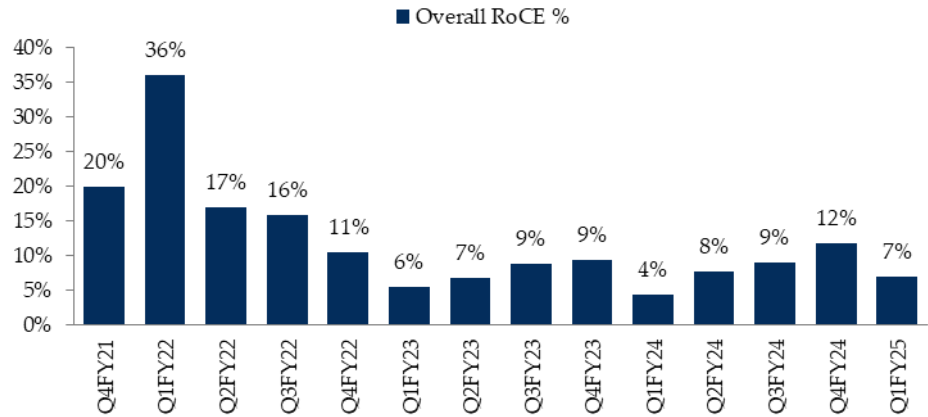
Source: Company, HSIE Research

**Exhibit 10: Mature store RoCE**



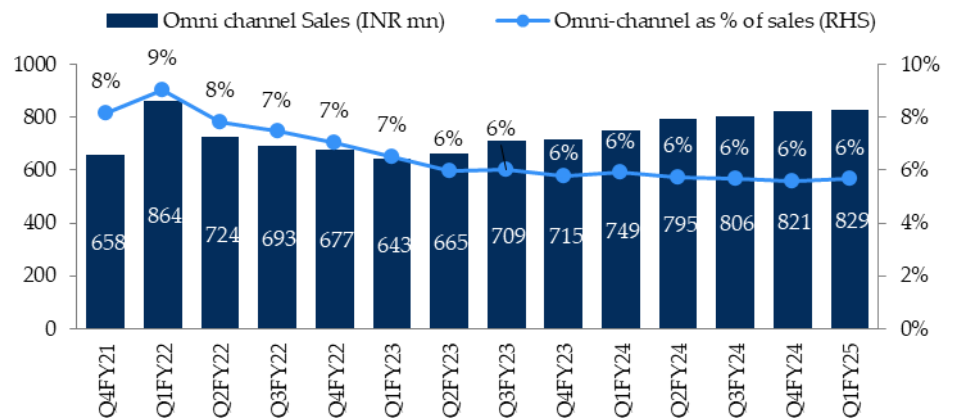
Source: Company, HSIE Research

**Exhibit 11: Overall RoCE trend**



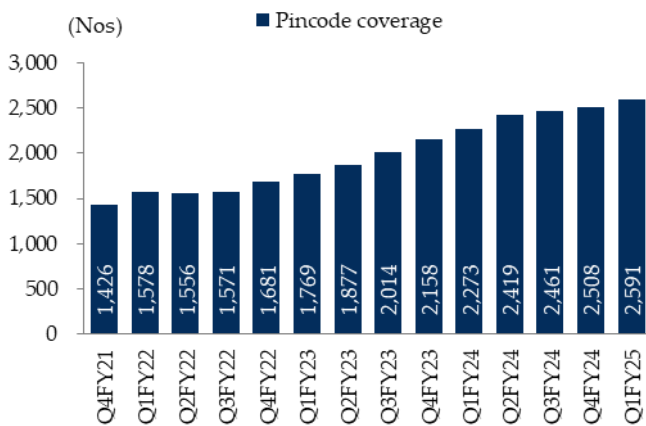
Source: Company, HSIE Research

**Exhibit 12: Steady growth in omnichannel sales**



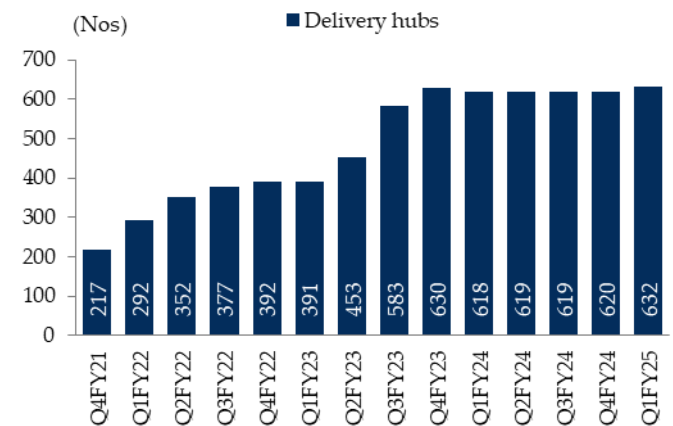
Source: Company, HSIE Research

**Exhibit 13: Increasing pin code coverage**



Source: Company, HSIE Research

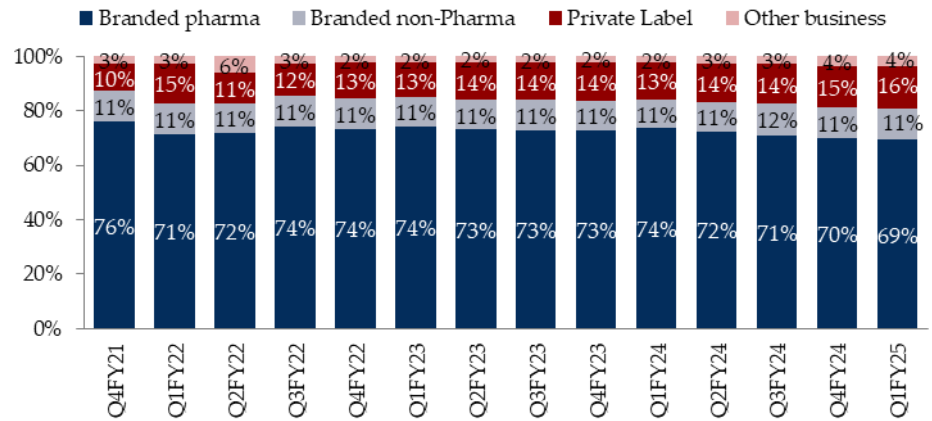
**Exhibit 14: Expanding hub store to support omnichannel**



Source: Company, HSIE Research

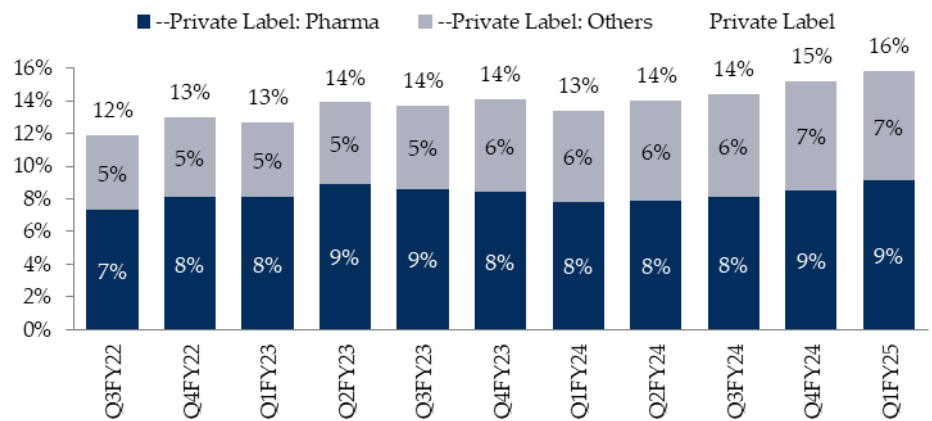


**Exhibit 15: Business mix for Medplus, private label sales on rise**



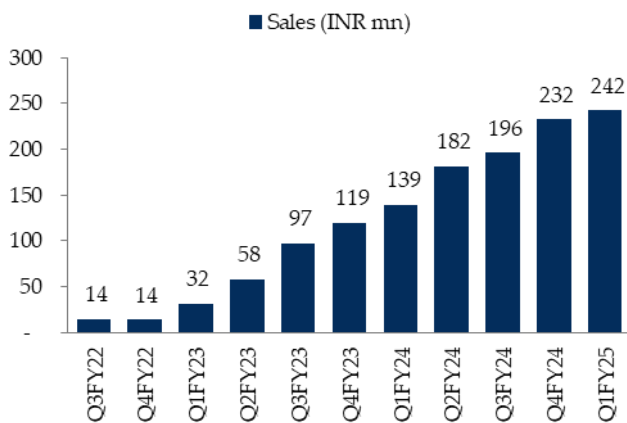
Source: Company, HSIE Research

**Exhibit 16: Private label sales break-up**



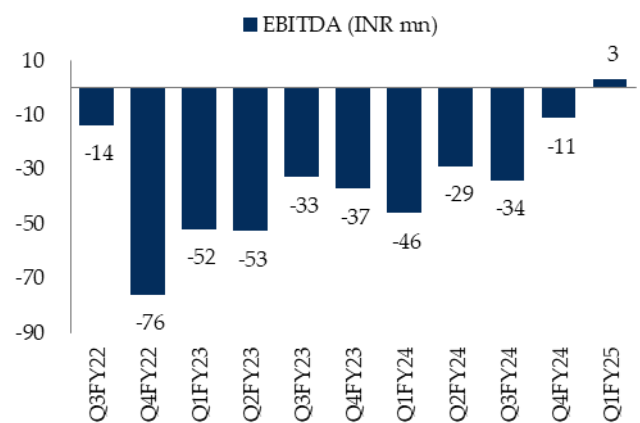
Source: Company, HSIE Research

**Exhibit 17: Steady scale-up in diagnostics sales**



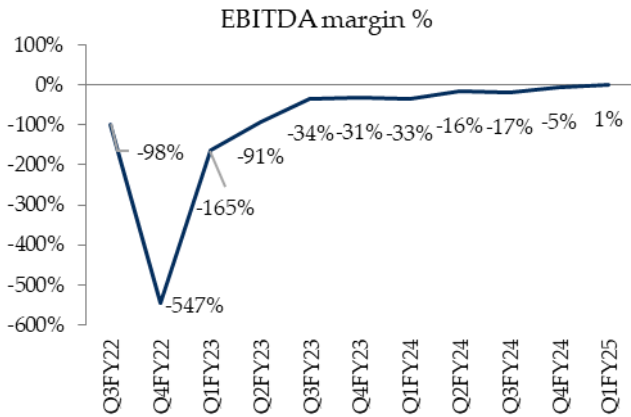
Source: Company, HSIE Research

**Exhibit 18: EBITDA loss is reducing for diagnostic**



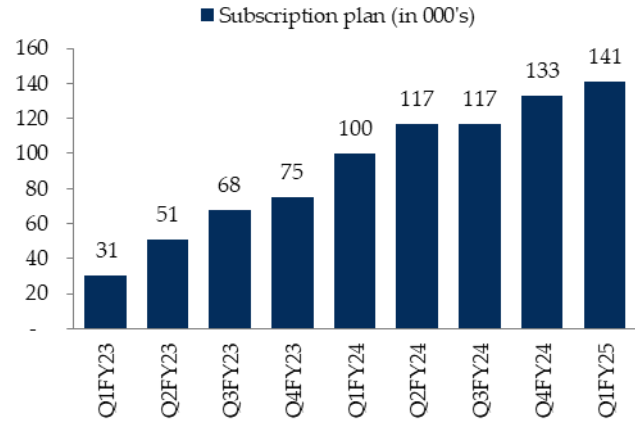
Source: Company, HSIE Research

Exhibit 19: Margin trend



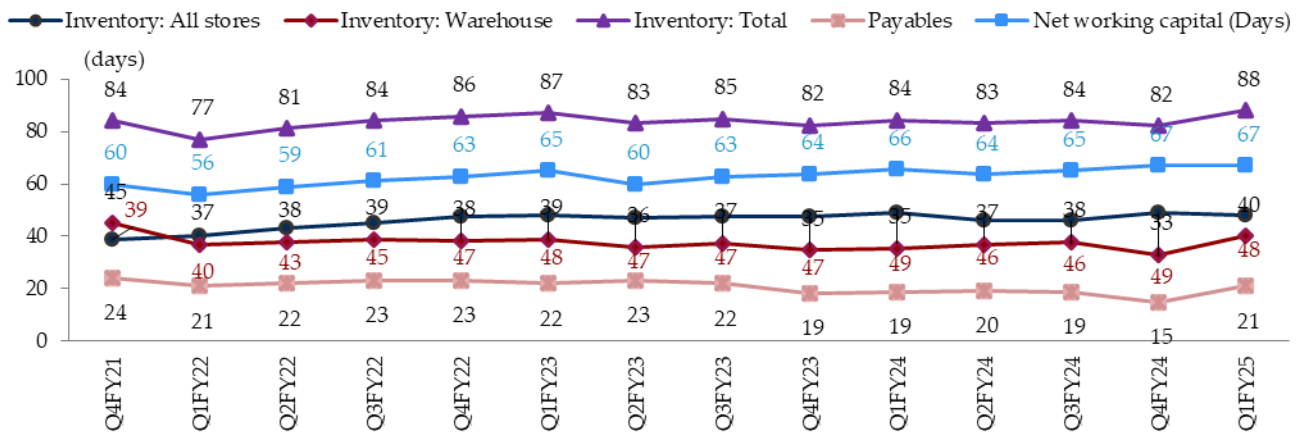
Source: Company, HSIE Research

Exhibit 20: Steady improvement in active plans



Source: Company, HSIE Research

Exhibit 21: Inventory days increased due to new store additions



Source: Companies, HSIE Research

Exhibit 22: Cash flow cycle

INR mn	Q3FY23	Q4FY23	Q1FY24	Q2FY24	Q3FY24	Q4FY24	Q1FY25
PBT+ D&A+ Int. of Lease Liability + non-Cash expenses like ESOP	840	1,011	823	987	1,043	1,188	1,043
Change in working capital	703	633	473	588	545	704	396
Taxes	38	10	52	77	85	78	62
<b>Operating cash flow</b>	<b>99</b>	<b>368</b>	<b>298</b>	<b>322</b>	<b>413</b>	<b>406</b>	<b>585</b>
OCF/Operating EBITDA	27%	91%	102%	79%	89%	70%	135%
Capex	386	348	216	193	183	236	126
Payment of lease liabilities	450	444	487	505	514	547	558
<b>FCF</b>	<b>-737</b>	<b>-424</b>	<b>-405</b>	<b>-375</b>	<b>-284</b>	<b>-377</b>	<b>-99</b>

Source: Company, HSIE Research

## Key charts – operating and financial highlights

## Exhibit 23: Gross block addition

INR mn	FY19	FY20	FY21	FY22	FY23	FY24
Gross block total	4,414	5,203	6,977	10,709	15,742	18,205
Tangible	1,136	1,399	1,816	2,763	4,438	5,324
Right-of-use-of assets	3,241	3,754	5,083	7,832	11,178	12,756
Intangible	36	50	78	114	125	125
<b>Accumulated depreciation total</b>	<b>1,055</b>	<b>1,423</b>	<b>2,219</b>	<b>3,136</b>	<b>4,777</b>	<b>6,201</b>
Tangible	666	801	945	1,145	1,555	2,139
Right-of-use-of assets	365	589	1,234	1,940	3,156	3,982
Intangible	24	32	40	51	65	80
<b>Net block</b>	<b>3,359</b>	<b>3,780</b>	<b>4,759</b>	<b>7,573</b>	<b>10,965</b>	<b>12,004</b>
Tangible	470	598	872	1,619	2,883	3,186
Right-of-use-of assets	2,877	3,164	3,849	5,892	8,022	8,773
Intangible	12	18	38	63	60	45
CWIP	14	28	55	204	239	55
CWIP as % of total gross block	0%	1%	1%	2%	2%	0%

Source: Company, HSIE Research

## Exhibit 24: Lease payment

INR mn	FY20	FY21	FY22	FY23	FY24
Total lease payment	756	953	1,268	1,707	2,054
% of sales	2.6%	3.1%	3.4%	3.7%	3.7%
YoY growth	17%	26%	33%	35%	20%
Number of stores	1,775	2,081	2,748	3,822	4,407
Store addition	122	306	667	1,074	585
Lease per store	0.43	0.46	0.46	0.45	0.47
YoY growth	9%	8%	1%	-3%	4%

Source: Company, HSIE Research

## Exhibit 25: Lease liabilities addition and interest trend

INR mn	FY20	FY21	FY22	FY23	FY24
Lease Liability	3,722	4,550	6,723	8,999	10,096
Addition	481	827	2,173	2,277	1,096
Interest on lease liability	402	465	612	821	964
% of Lease liability	10.8%	10.2%	9.1%	9.1%	9.5%

Source: Company, HSIE Research

## Exhibit 26: Depreciation, amortisation and ROU

INR mn	FY20	FY21	FY22	FY23	FY24
Right-of-use asset	3,164	3,849	5,892	8,022	8,773
Addition	287	685	2,043	2,130	751
ROU per store	1.78	1.85	2.14	2.10	1.99
Depreciation of ROU	589	708	942	1,353	1,574
% of ROU	18.6%	18.4%	16.0%	16.9%	17.9%
Depreciation on tangible assets	151	166	240	446	650
% of gross block (tangible)	10.8%	9.1%	8.7%	10.0%	12.2%
Amortisation of intangible assets	8	8	11	17	18
% of gross block (intangible)	15.4%	10.4%	9.9%	13.7%	14.6%

Source: Company, HSIE Research

Key subsidiaries financial highlights

**Exhibit 27: Optival sales and PBT margin improved**

Optival Health Solutions (INR mn)	FY22	FY23	FY24
Sales	37,283	45,151	55,384
YoY growth %		21%	23%
PBT	1,026	289	611
PBT margin %	2.8%	0.6%	1.1%
Tax	206	(101)	92
Tax rate %	20%	-35%	15%
PAT	820	390	519
PAT margin %	2.2%	0.9%	0.9%
% of shareholding	99.99%	99.99%	99.99%

Source: Company, HSIE Research

**Exhibit 28: Wynclark – private label manufacturing**

Wynclark Pharma (INR mn)	FY22	FY23	FY24
Sales	543	759	434
YoY growth %		40%	-43%
PBT	48	74	42
PBT margin %	8.9%	9.8%	9.7%
Tax	3	19	11
Tax rate %	7%	25%	26%
PAT	45	56	31
PAT margin %	8.2%	7.3%	7.2%
% of shareholding	100%	100%	100%

Source: Company, HSIE Research

**Exhibit 29: Deccan Medisales – distribution business**

Deccan Medisales (INR mn)	FY22	FY23	FY24
Sales	1,324	1,565	1,636
YoY growth %		18%	5%
PBT	10	13	10
PBT margin %	0.8%	0.8%	0.6%
Tax	3	3	3
Tax rate %	25%	25%	26%
PAT	8	10	7
PAT margin %	0.6%	0.6%	0.4%
% of shareholding	100%	100%	100%

Source: Company, HSIE Research

**Exhibit 30: Sai Sridhar – distribution business**

Sai Sridhar Pharma (INR mn)	FY22	FY23	FY24
Sales	3,261	4,454	4,447
YoY growth %		37%	0%
PBT	33	43	25
PBT margin %	1.0%	1.0%	0.6%
Tax	8	11	6
Tax rate %	26%	25%	25%
PAT	24	32	18
PAT margin %	0.7%	0.7%	0.4%
% of shareholding	100%	100%	100%

Source: Company, HSIE Research

**Exhibit 31: Sidson – distribution business**

Sidson Pharma Distributors (INR mn)	FY22	FY23	FY24
Sales	1,467	1,760	1,597
YoY growth %		20%	-9%
PBT	18	20	12
PBT margin %	1.2%	1.1%	0.7%
Tax	4	5	3
Tax rate %	25%	25%	26%
PAT	13	15	9
PAT margin %	0.9%	0.8%	0.5%
% of shareholding	100%	100%	100%

Source: Company, HSIE Research

**Exhibit 32: Venkata Krishna – distribution business**

Venkata Krishna Enterprises (INR mn)	FY22	FY23	FY24
Sales	5,288	6,351	4,983
YoY growth %		20%	-22%
PBT	54	77	51
PBT margin %	1.0%	1.2%	1.0%
Tax	14	20	13
Tax rate %	26%	25%	26%
PAT	40	57	38
PAT margin %	0.8%	0.9%	0.8%
% of shareholding	100%	100%	100%

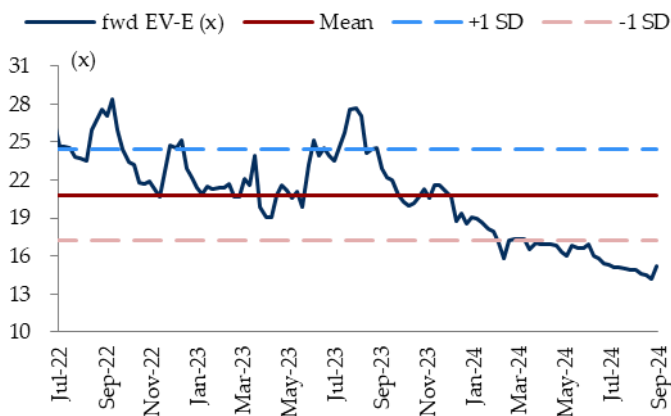
Source: Company, HSIE Research

**Exhibit 33: Revenue and EBITDA assumptions**

INR mn	FY20	FY21	FY22	FY23	FY24	FY25E	FY26E	FY27E
<b>Number of stores</b>	1,775	2,081	2,748	3,822	4,407	5,007	5,607	6,207
<b>Store addition</b>	122	306	667	1,074	585	600	600	600
<b>Retail Pharmacy revenues</b>	28,511	30,546	37,589	45,097	55,431	64,079	78,544	92,121
<b>YoY growth</b>	27%	7%	23%	20%	23%	16%	23%	17%
<b>% of sales</b>	99%	100%	99%	99%	99%	98%	98%	98%
<b>Pathology testing services</b>	28	23	75	306	749	1,011	1,213	1,432
<b>YoY growth</b>	11%	-19%	228%	309%	145%	35%	20%	18%
<b>% of sales</b>	0%	0%	0%	1%	1%	2%	2%	2%
<b>Others</b>	167	124	129	174	69	68	67	67
<b>% of sales</b>	1%	0%	0%	0%	0%	0%	0%	0%
<b>Total revenues</b>	28,706	30,693	37,793	45,576	56,249	65,158	79,825	93,620
<b>YoY growth</b>	26%	7%	23%	21%	23%	16%	23%	17%
<b>Gross profit</b>	5,341	6,440	7,969	9,999	12,332	14,449	17,741	20,853
<b>Gross margin %</b>	18.6%	21.0%	21.1%	21.9%	21.9%	22.2%	22.2%	22.3%
<b>Post-INDAS EBITDA</b>	1,660	2,167	2,724	2,657	3,541	4,460	6,063	7,578
<b>YoY growth</b>	39%	31%	26%	-2%	33%	26%	36%	25%
<b>EBITDA margin %</b>	5.8%	7.1%	7.2%	5.8%	6.3%	6.8%	7.6%	8.1%
<b>Rent expenses</b>	756	953	1,268	1,707	2,054	2,380	2,798	3,253
<b>YoY growth</b>	17%	26%	33%	35%	20%	16%	18%	16%
<b>% of sales</b>	2.6%	3.1%	3.4%	3.7%	3.7%	3.7%	3.5%	3.5%
<b>Operating EBITDA</b>	904	1,214	1,456	950	1,487	2,080	3,264	4,326
<b>YoY growth</b>	66%	34%	20%	-35%	57%	40%	57%	33%
<b>EBITDA margin %</b>	3.1%	4.0%	3.9%	2.1%	2.6%	3.2%	4.1%	4.6%

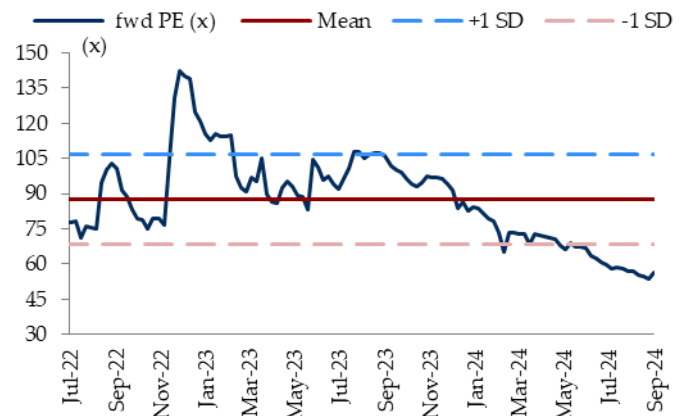
Source: Company, HSIE Research.

**Exhibit 34: EV/ EBITDA chart**



Source: Bloomberg, HSIE Research

**Exhibit 35: PE chart**



Source: Bloomberg, HSIE Research

## Financials (Consolidated)

### Profit & loss (INR mn)

March	FY20	FY21	FY22	FY23	FY24	FY25E	FY26E	FY27E
<b>Net sales</b>	<b>28,706</b>	<b>30,693</b>	<b>37,793</b>	<b>45,576</b>	<b>56,249</b>	<b>65,158</b>	<b>79,825</b>	<b>93,620</b>
Other operating income	0	0	0	0	0	0	0	0
<b>Total operating income</b>	<b>28,706</b>	<b>30,693</b>	<b>37,793</b>	<b>45,576</b>	<b>56,249</b>	<b>65,158</b>	<b>79,825</b>	<b>93,620</b>
Cost of goods sold	-23,365	-24,252	-29,824	-35,577	-43,916	-50,710	-62,084	-72,766
Gross profit	5,341	6,440	7,969	9,999	12,332	14,449	17,741	20,853
Gross margin (%)	19	21	21	22	22	22	22	22
Total operating expenses	-3,681	-4,274	-5,245	-7,342	-8,791	-9,989	-11,678	-13,275
<b>EBITDA</b>	<b>1,660</b>	<b>2,167</b>	<b>2,724</b>	<b>2,657</b>	<b>3,541</b>	<b>4,460</b>	<b>6,063</b>	<b>7,578</b>
EBITDA margin (%)	5.8	7.1	7.2	5.8	6.3	6.8	7.6	8.1
Depreciation	-748	-883	-1,194	-1,816	-2,242	-2,523	-2,830	-3,150
<b>EBIT</b>	<b>912</b>	<b>1,284</b>	<b>1,530</b>	<b>841</b>	<b>1,299</b>	<b>1,937</b>	<b>3,233</b>	<b>4,428</b>
Net interest	-468	-548	-664	-830	-964	-1,084	-1,209	-1,331
Other income	173	215	314	461	400	357	316	323
<b>Profit before tax</b>	<b>294</b>	<b>951</b>	<b>1,179</b>	<b>472</b>	<b>734</b>	<b>1,210</b>	<b>2,340</b>	<b>3,420</b>
Total taxation	-276	-320	-232	29	-79	-278	-538	-787
Tax rate (%)	94	34	20	-6	11	23	23	23
Profit after tax	18	631	947	501	656	931	1,802	2,633
Minorities	4	7	11	-3	-1	0	0	0
Profit/ Loss associate co(s)	0	0	0	0	0	0	0	0
<b>Adjusted net profit</b>	<b>345</b>	<b>639</b>	<b>958</b>	<b>400</b>	<b>621</b>	<b>931</b>	<b>1,802</b>	<b>2,633</b>
Adj. PAT margin (%)	1	2	3	1	1	1	2	3
Net non-recurring items	-323	0	0	97	34	0	0	0
<b>Reported net profit</b>	<b>22</b>	<b>639</b>	<b>958</b>	<b>498</b>	<b>655</b>	<b>931</b>	<b>1,802</b>	<b>2,633</b>

### Balance sheet (INR mn)

March	FY20	FY21	FY22	FY23	FY24	FY25E	FY26E	FY27E
Paid-up capital	2	4	239	239	239	239	239	239
Reserves & surplus	5,276	7,301	13,939	14,673	15,540	16,472	18,274	20,907
Net worth	5,291	7,311	14,173	14,905	15,774	16,705	18,507	21,141
Borrowing	4,773	5,902	8,149	8,999	10,096	11,266	12,413	13,538
Other non-current liabilities	39	19	10	17	13	14	14	15
<b>Total liabilities</b>	<b>13,487</b>	<b>15,656</b>	<b>25,940</b>	<b>27,967</b>	<b>30,048</b>	<b>33,170</b>	<b>37,445</b>	<b>42,552</b>
Gross fixed assets	5,203	6,977	10,709	15,742	18,205	21,901	25,877	30,180
Less: Depreciation	-1,423	-2,219	-3,136	-4,777	-6,201	-8,724	-11,554	-14,704
Net fixed assets	3,780	4,759	7,573	10,965	12,004	13,176	14,323	15,477
Add: Capital WIP	49	55	204	255	111	105	105	105
Total fixed assets	3,829	4,814	7,777	11,220	12,115	13,281	14,428	15,581
Total Investment	3	0	0	0	0	0	0	0
Inventory	6,436	7,500	9,150	11,441	13,402	15,385	18,626	21,585
Debtors	64	54	60	87	175	206	252	295
Cash & bank	1,407	1,186	344	2,838	1,417	1,339	1,039	1,925
Loans & advances	0	0	0	0	0	0	0	0
Current liabilities	3,384	2,424	3,608	4,046	4,165	5,185	6,510	7,858
Total current assets	8,155	9,230	16,316	14,805	15,675	17,613	20,723	24,656
Net current assets	4,771	6,806	12,708	10,760	11,510	12,428	14,212	16,798
Other non-current assets	1,085	1,197	1,432	1,527	1,844	1,862	1,881	1,900
<b>Total assets</b>	<b>13,487</b>	<b>15,656</b>	<b>25,940</b>	<b>27,967</b>	<b>30,048</b>	<b>33,171</b>	<b>37,446</b>	<b>42,552</b>

Source: Company, HSIE Research

## Cash flow (INR mn)

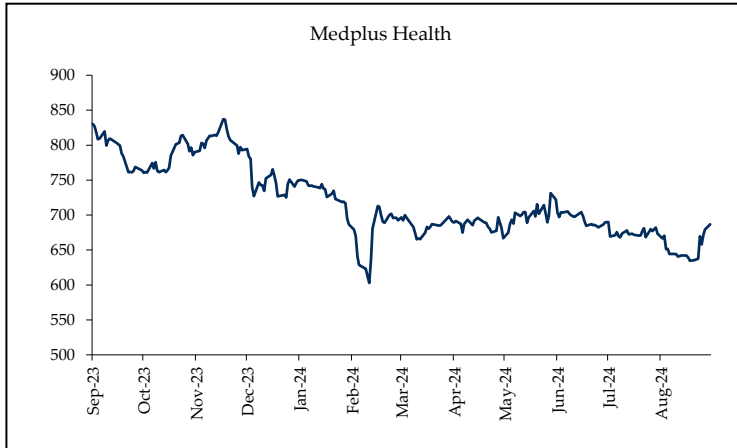
March	FY20	FY21	FY22	FY23	FY24	FY25E	FY26E	FY27E
Profit before tax	294	951	1,179	472	734	1,210	2,340	3,420
Depreciation & Amortisation	-748	-883	-1,194	-1,816	-2,242	-2,523	-2,830	-3,150
Chg in working capital	-1,765	-2,409	-1,024	-2,156	-2,311	-984	-2,056	-1,675
<b>CF from operations</b>	<b>-66</b>	<b>29</b>	<b>1,699</b>	<b>904</b>	<b>1,437</b>	<b>3,554</b>	<b>3,826</b>	<b>5,508</b>
Capital expenditure	-311	-543	-1,177	-1,690	-844	-755	-855	-1,005
<b>CF from investing</b>	<b>-276</b>	<b>-345</b>	<b>-7,031</b>	<b>4,294</b>	<b>-828</b>	<b>-755</b>	<b>-855</b>	<b>-1,005</b>
Equity raised/ (repaid)	2,045	980	5,725	12	72	0	0	0
Debt raised/ (repaid)	-750	-651	-1,194	-3,133	-2,054	-2,380	-2,798	-3,253
Dividend paid	0	0	0	0	0	0	0	0
<b>CF from financing</b>	<b>898</b>	<b>-56</b>	<b>4,404</b>	<b>-1,702</b>	<b>-1,981</b>	<b>-2,380</b>	<b>-2,798</b>	<b>-3,253</b>
Net chg in cash	557	-373	-928	3,496	-1,372	419	173	1,251

## Key ratios

March	FY20	FY21	FY22	FY23	FY24	FY25E	FY26E	FY27E
<b>OPERATIONAL</b>								
FDEPS (Rs)	2.9	5.3	8.0	3.3	5.2	7.8	15.1	22.0
CEPS (Rs)	6.4	12.7	18.0	19.4	24.2	28.9	38.7	48.4
DPS (Rs)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Dividend payout ratio (%)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
<b>GROWTH</b>								
Net sales (%)	26.3	6.9	23.1	20.6	23.4	15.8	22.5	17.3
EBITDA (%)	39.3	30.5	25.7	(2.5)	33.3	26.0	35.9	25.0
Adj net profit (%)	189.2	85.2	50.0	(58.2)	55.2	50.0	93.5	46.1
FDEPS (%)	189.2	85.2	50.0	(58.2)	55.2	50.0	93.5	46.1
<b>PERFORMANCE</b>								
RoE (%)	6.5	10.1	8.9	2.8	4.0	5.7	10.2	13.3
RoCE (%)	10.7	12.9	10.4	5.6	6.8	8.5	12.0	14.5
<b>EFFICIENCY</b>								
Asset turnover (x)	6.0	5.0	4.3	3.4	3.3	3.2	3.3	3.3
Sales/ total assets (x)	2.5	2.1	1.8	1.7	1.9	2.1	2.3	2.3
Working capital/ sales (x)	0.1	0.1	0.2	0.2	0.2	0.2	0.2	0.1
Receivable days	1	1	1	1	1	1	1	1
Inventory days	87	96	95	97	93	93	92	92
Payable days	32	19	26	22	18	19	20	21
<b>FINANCIAL STABILITY</b>								
Total debt/ equity (x)	1.2	0.9	0.8	0.6	0.7	0.7	0.7	0.7
Net debt/ equity (x)	0.8	0.7	0.7	0.4	0.6	0.6	0.6	0.6
Current ratio (x)	2.4	3.8	4.5	3.7	3.8	3.4	3.2	3.1
Interest cover (x)	1.9	2.3	2.3	1.0	1.3	1.8	2.7	3.3
<b>VALUATION</b>								
PE (x)	242.3	130.8	87.2	208.7	134.5	89.7	46.4	31.7
EV/ EBITDA (x)	52.4	40.7	33.5	33.8	26.0	21.0	15.7	12.6
EV/ Net sales (x)	3.0	2.9	2.4	2.0	1.6	1.4	1.2	1.0
PB (x)	15.8	11.4	5.9	5.6	5.3	5.0	4.5	4.0
Dividend yield (%)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Free cash flow yield (%)	(0.5)	(0.6)	0.6	(0.9)	0.7	3.4	3.6	5.4

Source: Company, HSIE Research

1 Yr Price Movement



Rating Criteria

- BUY: >+15% return potential
- ADD: +5% to +15% return potential
- REDUCE: -10% to +5% return potential
- SELL: > 10% Downside return potential



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