

Medplus Health Services

Strong Q2, steady growth and margin to improve

EBITDA[^] grew 46% YoY, led by 12% YoY sales growth (pharmacy was up 11% YoY and diagnostics grew 56% YoY) and gross margin expansion (+163 bps), which was offset by higher staff (+14%) and SG&A costs (+13%). Operating margin* came in at 4.7% (+178 bps YoY) as pharmacy margin was up 147 bps to 4.6% and positive INR 21 mn EBITDA in diagnostics. Medplus expects (1) the store addition rate to pick up in H2 and to add 400-450 stores in FY25 (earlier guided for 600 stores); to add higher number of stores from FY26, (2) to increase pharma private label share over next few quarters (targets to achieve ~25% GMV share in mid-term vs. ~16% in Q2FY25) which will help in improving operating margin, and (3) to optimize the working capital which will help in steady OCF/FCF generation over next few years. 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 private-label and Medplus-brand generics, and an efficient supply chain. Factoring EBITDA beat, we have raised FY25E EBITDA by 7% but tweaked for FY26E. Rolled forward TP at INR 830 (15x Q3FY27E EV/ E, which implies 25x pre-INDAS EV/E). Reiterate BUY, given its strategic expansion plan with a focus on improving profitability.

- Q2 highlights:** Sales grew 12% YoY at INR 15.7 bn as retail pharmacy sales grew 11% YoY to INR 15.4 bn and diagnostics was at INR 283 mn (+56%). EBITDA at INR 1.24 bn (+46% YoY) was led by higher GM at 23.7% (+163 bps), which was partly offset by higher costs (staff/ SG&A was up 14/13% YoY). Operating EBITDA was at INR 739 mn (+80% YoY) as the increase in rental by 11% was offset by higher GM. Operating margin was at 4.7% (+178 bps YoY). Pharmacy margin was up 147 bps YoY to 4.6% and diagnostic reported EBITDA of INR 21 mn. Reported PAT was at INR 387 mn (+166% YoY).
- Q2 operating metrics:** Net new store addition was at 108 (gross store addition was at 132), resulting in a total store count of 4,552 as of Sep'24. Mature store growth was at 6.8% YoY (vs 15.7% in Q2FY24). The mature store operating margin was at 10.2% (vs 9% in Q2FY24). Mature store RoCE at 58.1% (vs 50.6% in Q2FY24). Private lab sales as % of total sales increased to 18.4% (vs 14% in Q2FY24). Overall RoCE was at ~15.4% (vs 7.7% in Q2FY24). In Q1FY25, OCF was at INR 2.14 bn, and capex and lease liabilities payment at INR 162 mn and INR 554 mn respectively, resulting in positive FCF of INR 1.4 bn.
- Key takeaways from con call:** The retail pharmacy GMV growth was at 18% YoY (vs. reported net sales growth of 11%). Pharma private label share was at ~16% - Medplus's own brand share was at ~15% and the old private label share was at ~1%. Pharma private label mix had 50+% share from chronic basket. It is looking to add 150+ products in private label portfolio (vs ~787 in Q2). Diagnostics: As of Sep'24, it has 148k active plans/covers 299k lives; renewal rate at 25%. Diagnostic business had restructuring related one-off cost of ~INR 19 mn, of which INR 11.7 mn was non-cash item.

Quarterly financial summary

(INR mn)	2QFY25	2QFY24	YoY (%)	1QFY25	QoQ (%)	FY23	FY24	FY25E	FY26E	FY27E
Net Revenue	15,762	14,086	12	14,888	6	45,576	56,249	63,554	75,365	89,141
EBITDA	1,244	851	46	938	33	2,657	3,541	4,780	6,007	7,595
APAT	387	146	166	144	170	400	621	1,252	1,887	2,844
EPS (INR)	3.2	1.2	166	1.2	170	3.3	5.2	10.5	15.8	23.8
P/E (x)						204.3	131.6	65.3	43.3	28.8
EV/EBITDA (x)						33.1	25.5	18.8	15.1	11.9
RoCE (%)						6	7	10	12	15

Source: Company, HSIE Research, PAT adjusted for one-offs. [^] post-INDAS EBITDA *pre-INDAS.

BUY

CMP (as on 13 Nov 2024)	INR 684
Target Price	INR 830
NIFTY	23,559

KEY CHANGES	OLD	NEW
Rating	BUY	BUY
Price Target	INR 820	INR 830
EPS %	FY25E	FY26E
	7.2	(0.9)

KEY STOCK DATA

Bloomberg code	MEDPLUS IN
No. of Shares (mn)	120
MCap (INR bn) / (\$ mn)	82/968
6m avg traded value (INR mn)	318
52 Week high / low	INR 849/598

STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	6.2	(2.1)	(15.9)
Relative (%)	7.8	(8.9)	(35.6)

SHAREHOLDING PATTERN (%)

	Jun-24	Sep-24
Promoters	40.39	40.39
FIs & Local MFs	22.17	27.98
FPIs	14.85	14.72
Public & Others	22.59	16.91
Pledged Shares	21.88	21.88

Source: BSE

Mehul Sheth

mehul.sheth@hdfcsec.com

+91-22-6171-7349