



MedPlus Health Services Limited

Issue Opens	Monday, Dec 13, 2021
Issue Closes	Wednesday, Dec 15, 2021
Price Band (in Rs)	780 - 796
Bid Lot	18 shares and multiples thereafter

Industry Overview:

Healthcare Sector:

The healthcare sector in India primarily includes hospitals, pharmaceutical companies and pharmacy retail, diagnostic services, medical equipment and supplies, medical insurance, telemedicine companies and medical tourism. Whilst the per capita health expenditure in India is one of the lowest in the world; with total health expenditure comprising 3.5% of India's GDP (and as compared to the global average of 6.5%), there is a high potential for growth given an increasing awareness, affordability and acceptability of health services leading to an increased spending on healthcare.

Indian Retail Pharmacy:

Pharmacy retail comprises primarily of pharmaceutical products, which include OTC and prescription drugs. However, in addition to selling pharmaceutical products and related services, pharmacy retail stores also sell various FMCG products, wellness products, consumables and medical devices. As of FY20, the pharmacy retail industry was estimated to be worth approx. Rs1,725bn, and is further anticipated to grow at a CAGR of ~10% in the next five years; attributed to increasing consumer base and rising healthcare expenditure, the rising demand for OTC and prescription drugs, wellness products and private label products and the outbreak of the pandemic.

Retail Channels:

(a) Traditional Channels: The traditional Indian pharmacy retail segment predominantly consists of retail stores operating as family-run medical stores with a store size in the range of 150-1000 sq.ft. As of FY21, there were around 800,000 such pharmacy stores operating across the country.

(b) Modern Channels:

⇒ **Brick and Mortar (B&M) Stores:** The organized retail sector primarily comprises of B&M stores operated by established players such as Apollo Pharmacy, MedPlus and Wellness Forever, and other smaller players like Emami Frank Ross Pharmacy, Thulasi Pharmacy, and Sagar Drugs & Pharmaceuticals (Planet Health). These players typically open multiple outlets in a city and a regional warehouse nearby to cater to these outlets.

⇒ **E-commerce Channel:** There has also been rise in sales through the e-commerce channel with several players such as NetMeds, Tata 1mg and PharmEasy operating in this segment through an online only model (e-pharmacy) alongside omni-channel platforms of B&M retailers such as Apollo Pharmacy, MedPlus.

⇒ **Omni-channel presence in organized pharmacy retail:** The benefits of operating an omni-channel retail approach are the ability to deliver a consistent brand experience, irrespective of the channel used, to meet the customer demand.

Evolving Trends in the Pharmacy Retail Industry in India:

Gradual transition towards modern formats (offline + online): Penetration of modern retail in pharmacy is relatively lower than most other categories except food and grocery. However modern pharmacy retail is estimated to grow at a rate of 25%, growing faster than other categories.

Rapid development of online channel: The e-commerce and omni-channel retail is expected to grow at a CAGR of 44%, with pharmacy e-commerce expected to be one of the fastest growing segments after food and grocery.

Organized pharmacy retail operates with better unit economics: Pharmacy retail operates on high inventory turns and can take advantage of economies of scale due to a reduction in the cost of holding, improving sales per square foot and working capital efficiency.

Emergence of self-diagnostic devices: India accounts for almost 2% of the global nutraceutical market, and the Indian nutraceutical market is estimated to be around Rs532.5bn in FY20, and estimated to be worth approximately Rs1,290bn by FY25 at a CAGR of 19-20%.

Ecosystem play: Besides dispensing pharmaceutical and FMCG products, modern pharmacies are now building up a complete ecosystem of related services in order to acquire customers by offering value-added services like doctors appointments.

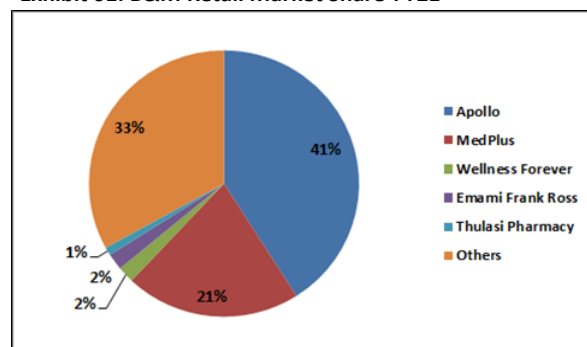
SNAPSHOT		
Issue Opens	Monday, Dec 13, 2021	
Issue Closes	Wednesday, Dec 15, 2021	
Price Band (Rs)	780/796	
Bid Lot	18 shares and multiples thereafter	
Face Value	Rs2	
Listing	BSE & NSE	
Type of Issue	Fresh Issue & OFS	
Offer Size (Rs Mn)	Fresh Issue	6,000
	OFS	7,983
	Total	13,983
*Implied Market Cap (Rs Mn)	94,962	
P/E (based on FY21 Earnings)*	150.47	

*Note: Implied Market Cap & P/E are calculated at upper price band of Rs796

Issue Allocation	
Reservations	% of Net Issue
QIB	50
NIB	15
Retail	35
Total	100
Employee Reservation: Rs50mn	

Object of the Offer
<ul style="list-style-type: none"> Investment in to material subsidiary for funding working capital requirements General corporate purposes

Exhibit 01: B&M Retail Market Share-FY21



Source: Company RHP, Progressive Research

About the company:

Incorporated in 2006, MedPlus Health Services Limited is **India's second-largest pharmacy retailer** in terms of the number of stores and operational revenue for FY21. The company offers pharmaceutical and wellness products i.e. medicines, vitamins, medical devices, test kits and FMCG products such as home and personal care products, baby care products, sanitizers, soaps, and detergents, etc. It is also the first pharmacy retailer in India to offer an omni-channel platform wherein customers can purchase products through stores, place orders over the telephone, online orders, and a Click and Pick facility. The number of stores has grown since the conception of its business and as of 30th Sept, 2021, they have 546 stores in Karnataka, 475 stores in Tamil Nadu, 474 stores in Telangana, 297 stores in Andhra Pradesh, 224 stores in West Bengal, 221 stores in Maharashtra and 89 stores in Odisha. The company operates an online sales platform; commenced in 2015, wherein the customers could either visit the company's stores or access its offerings online, through the website or mobile application. For FY21, and H1FY22, the company derived Rs2,757mn and Rs1,586mn of revenue from sales through the online sales channel, respectively. MedPlus operations are primarily distributed between the Issuer and its subsidiary companies and include the manufacturing and contract manufacturing of private label pharmaceutical, wellness and FMCG products, wholesale and retail sale, import, distribution and pathology diagnostic laboratory testing. Within the pharmacy retail business, the company's product mix primarily comprises of branded pharmaceutical products, private label pharmaceutical products, branded fast-moving consumer goods and private label consumer goods. For FY21 and H1FY22, over three-quarters of the revenue was derived from the sale of branded pharmaceutical products (76.8% and 74.9%, respectively), with private label pharmaceutical products including trade generics (5.6% and 6.7%, respectively), branded fast-moving consumer goods (12.9% and 11.6%, respectively) and private label fast-moving consumer goods (4.8% and 6.9%, respectively) constituting the rest.

Strengths:

(i) India's second largest pharmacy retailer: The company operate 2,326 stores distributed across Tamil Nadu, Andhra Pradesh, Telangana, Karnataka, Odisha, West Bengal and Maharashtra as of September 30, 2021. In addition to being the second largest pharmacy retailer, it focuses on growing and achieving market leadership in the key cities where it operates. The company has also extended its leadership position from offline sales of pharmaceutical products to online sales of pharmaceutical products. Overall, the large scale of operations, value proposition to customers, business model with successful track record of expansion using a distinct cluster-based and replicable store unit expansion approach alongwith high density store network enhancing omni-channel proposition and cost efficient operations have driven the growth and have allowed the company maintain being profitable, despite its pricing and discounting strategy.

(ii) Established brand and value proposition to customers: The MedPlus brand has a history and track record of over 15 years, and over a period of time it has become a well-established brand that has positioned itself to stand for genuine and good quality pharmaceutical products that are offered at affordable prices. The company offers strong value proposition to its customers via value pricing, convenience and fulfillment, 2 hour delivery capability and engagement. The core of the focus, which the company believes is the driving force behind its success, has been the ability to consistently deliver compelling value propositions to its customers.

(iii) High density store network enhancing omni-channel proposition: Commencing in 2015, the customers could either visit the stores or access offerings online, through the company's website and mobile application. The customers have multiple options, including (i) purchasing products at one of the stores, or (ii) placing an order through a telephone call to receive delivery of their purchased products, or (iii) placing an order online to receive delivery of their purchased products, or (iv) Click and Pick, by placing an order online and picking up their purchased products from one of the stores. The omni-channel proposition to the customers leverages the existing store networks and supply chain and distribution network to offer a differentiated offering to the customers. It allows the company to (i) deepen and extend customer reach from, and expand the total addressable market for, each of our stores, (ii) further enhance "convenience" as one of the core customer value propositions, (iii) lower incremental cost of operations for online deliveries (as the stores act as branding sites and lower cost of online customer acquisition), and (iv) retain offline and online customers within the customer ecosystem.

Strategies:

(i) Strengthen the market position: The company intends to increase the penetration of mobile and internet usage in India, and strengthen its market position by (i) increasing the store penetration and customer reach in existing clusters and (ii) developing new clusters in other states and cities. For FY21, the company had an aggregate share of approximately 8% of the pharmacy retail market for its key cities in which they operate, comprising of Hyderabad, Bangalore, Chennai and Kolkata. The company intends to leverage its replicable store roll-out process and well-developed supply chain and distribution infrastructure to increase the market share in the states in which they already have established clusters, firstly in Tier 1 cities, including Chennai, Bangalore, Hyderabad and Kolkata, and, subsequently in Tier 2 cities and beyond.

Exhibit 02: Breakup Of The Store Count

Retail Players	No. of Stores (as of)					
	FY10	FY15	FY19	FY20	FY21	Sept, 2021
Telangana	181	288	352	365	435	474
Andhra Pradesh	125	152	213	226	263	297
Karnataka	166	340	457	485	514	546
Tamil Nadu	101	231	348	373	447	475
West Bengal	22	105	139	148	183	224
Maharashtra	40	65	93	113	166	221
Odisha	0	18	51	65	73	89
Total	635	1199	1653	1775	2081	2326

Source: Company RHP, Progressive Research

Strategies (contd.):

(ii) Develop the omni-channel platform with a hyperlocal delivery model: With a further aim to increase the online sales revenue contribution, the company intends to leverage its store network and focus on deliveries through growing number of larger format stores. The company also aims to enhance the delivery infrastructure in order to achieve higher rate of online delivery purchases.

(iii) Enhance revenue and increase customer wallet share through continued investment in technology infrastructure: The company intends to enhance the sales volumes and increase its customer wallet share through continued investment in technology infrastructure, including investing in and enhancing customer facing mobile application and customer facing features on its website.

Financials:

Leveraging on the omni-channel platform, the company has been actively focusing on online sales since FY20. Over the last two years, the revenue from the online sales channel has steadily increased and accounted for 6.99%, 8.98%, and 8.44% of the total revenue from operations for FY20, FY21 and H1FY22, respectively. The total operations grew at a CAGR of 16.2% (from FY19-21) from Rs22,727mn to Rs30,693mn in FY21, as opposed to the Indian pharmacy retail industry, which grew at a CAGR of 7.3% for the same period. MedPlus has accounted for the second highest operational revenue amongst other major retail pharmacy players in India.

Exhibit 03: Financial Snapshot

Parameters (Rs mn)	FY19	FY20	FY21	6MFY22
Sales	22,727	28,706	30,693	18,799
EBITDA	1,191	1,337	2,167	1,587
EBITDA Margin %	5.2	4.7	7.1	8.4
PAT	119	18	631	664
PAT Margin %	0.5	0.1	2.1	3.5
EPS	1.3	0.2	6.0	6.2
RoNW (%)	4.1	0.4	8.7	5.2

Source: Company RHP, Progressive Research

Exhibit 04: Revenue (Rs in cr) for Retail Players

Retail Players	FY19	FY20	FY21	CAGR (FY19-21)
Apollo Pharmacy	3886	4821	5610	20.2%
MedPlus	2273	2871	3069	16.2%
Wellness Forever	677	863	924	16.8%
API Holdings	NA	668	2335	NA
Tata 1mg	202	358	309	23.7%
Emami Frank Ross	405	447	NA	NA
Netmeds	302	217	NA	NA
Thulasi Pharmacy	125	139	NA	NA

Source: Company RHP, Progressive Research

Risks and Concerns:

- Failure to properly manage inventories and anticipate demand may impact the financial performance
- Failure to meet customer expectations, needs and requirements may harm the brand and reputation, ability to retain and grow customer base and operating results
- Changes in the product mix may impact the results of operation
- Changes in prescription drug pricing and commercial terms could adversely affect our operations and financial performance
- Any delay or failure to obtain or renew such required regulatory approvals, registrations or any change in the regulatory environment in relation to marketing our products in regulated markets may significantly impact our business and strategy

Outlook and Recommendations:

Medplus is the second largest pharmacy retailer in India, in terms of the number of stores as of March 31, 2021, as well as revenues from operations. It has a strong execution track record of stores expansion, from 48 stores in 2006 to more than 2300 stores in 2021. Value proposition to customers is in terms of the fast delivery (2-hour delivery), competitive pricing and a wide range across Pharmaceutical and FMCG products. It is the first pharmacy retailer in India to offer an omnichannel platform i.e. customers can visit the stores or place the order online by mobile application or website. On the other side, there is the threat of increase in competition, from offline as well as online companies like Apollo Pharmacy, Tata 1mg, Netmeds etc. The company could face challenges in expanding its retail chain in other geographies than the ones it is already present in. Maintaining the double digit revenue growth post Covid normalization would also be another challenge. Based on H1FY22 numbers, the IPO is priced at a EV/EBITDA of 27.5 times and price to sales at 2.5x at the upper price band of the IPO. We are betting on the omnichannel platform that the company has adopted which will help deliver strong growth going forward. The company is well positioned with strong consumer recall value and technology driven operations. We recommend **Subscribe** to the IPO with a long term perspective to see how the efforts actually shape up for the company.

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