



SMC Ranking

★ ★ ★ ☆ ☆ (2.5/5)

Issue Highlights

Industry	Pharmacy
Offer for sale (Shares)	10,028,894
Fresh Issue (Shares)	7,537,688
Employee Reservation	62,814
Net Offer to the Public	17,566,583
Issue Size (Rs. Cr.)	1370-1399
Price Band (Rs.)	780-796
Employee Discount	78
Offer Date	13-Dec-21
Close Date	15-Dec-21
Face Value	2
Lot Size	18

Issue Composition

	In shares
Total Issue for Sale	17,566,583
QIB	8,783,291
NIB	2,634,987
Retail	6,148,304

About the company

Incorporated in 2006, Medplus Health Services is **India's second-largest pharmacy retailer** in terms of the number of stores and revenue. The company offers pharmaceutical and wellness products i.e. medicines, vitamins, medical devices, test kits, and fast-moving consumer goods i.e. 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 omnichannel platform wherein customers can purchase products through stores, place orders over the telephone, online orders, and a Click and Pick facility. As of June 31, 2021, the company has a strong pharmacy retail network of 2,165 stores across Tamil Nadu, Andhra Pradesh, Telangana, Karnataka, Odisha, West Bengal, and Maharashtra. In fiscal 2021, its share of the organized pharmacy retail based on revenue from operations in Chennai, Bangalore, Hyderabad, and Kolkata reported at 30%, 29%, 30%, and 22% respectively. It follows a cluster-based approach for store network expansion wherein it first opens high store density in a populated residential area within a target market. The company's warehouses are located in Bengaluru, Chennai, Hyderabad, Vijaywada, Kolkata, Pune, Bhubaneswar, Mumbai, and Nagpur.

Strength

India's Second Largest Pharmacy retailer: The company is the second largest pharmacy retailer in India, in terms of (i) revenue from operations for the financial year 2021, and (ii) number of stores as of March 31, 2021. For the financial year 2021, its total revenue from operations represented approximately 15% share of the organized pharmacy retail market in India. The company operates 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, the company focuses on growing and achieving market leadership in the key cities where the company operates. For the financial year 2021, its share of the organized pharmacy retail market based on revenue from operations in Chennai, Bangalore, Hyderabad and Kolkata stood at 30%, 29%, 30% and 22% respectively. In terms of number of stores as of March 31, 2021, the company ranked 1st in Chennai and Bangalore, and 2nd in Hyderabad and Kolkata, according to the Technopak report. The company expects that its (i) well-established brand, (ii) genuine and good quality pharmaceutical products offering, (iii) wide product offering, (iv) ability to achieve high fulfillment rates, (v) offering of neighborhood convenience with large store footprint, and (vi) ability to offer competitive pricing to its customers, will continue to drive its gains in market share.

Established Brand and Value Proposition to Customer: Its "MedPlus" brand has a history and track record of over 15 years, and the company believes that it has positioned to stand for genuine and good quality pharmaceutical products that are offered at affordable prices. Besides, the company believes that it offers a strong value proposition to a wide range of customers, including Value Pricing, Convenience and Fulfillment, 2-hits delivery capability. Its stores present a consistent and uniform customer experience of offering genuine and good quality pharmaceutical products and fast-moving consumer goods at affordable prices. Its stores are operated by trained staffs, who are aided by its real time data customer analysis and data, that the company believes results in high levels of customer engagement.

Shareholding Pattern (%)

Particulars	Pre-issue	Post-issue
Promoters & promoters group	43.16%	40.43%
QIB	56.46%	51.85%
NIB	0.38%	2.57%
Retail	0.00%	5.15%
Total	100.00%	100.00%

*calculated on the upper price band

Objects of the Issue

Funding working capital requirement of subsidiary, Optival; and
General corporate purposes.

Book Running Lead Manager

- Axis Capital Limited
- Credit Suisse Securities (India) Private Limited
- Edelweiss Financial Services Ltd
- Nomura Financial Advisory And Securities (India) Pvt Ltd

Name of the registrar

- KFintech Private Limited

Successful Track Record of Expansion Using a Distinct Cluster-based and Replicable Store

Unit Expansion Approach: The company has grown from operating its initial 48 stores in Hyderabad at the conception of its business in 2006 to operating India's second largest pharmacy retail network of over 2,000 stores, distributed across Tamil Nadu, Andhra Pradesh, Telangana, Karnataka, Odisha, West Bengal and Maharashtra, as of March 31, 2021. The company employs a data-analytics driven cluster-based approach to its store network expansion, whereby the company first achieve high store density in a densely-populated residential area within a target city before expanding its store network in the surrounding areas within that city, followed by expansion into other adjacent cities. The company focuses on extending and maintaining an efficient supply chain and distribution network to support the growth of established and new clusters. Its technology based monitoring of inventory gives it multiple advantages, including (i) maintaining optimum inventory levels at the store, (ii) visibility of stock that is close to expiring, and (ii) enabling it to strategically transfer slow moving inventory from one store to another store, where the same inventory is experiencing higher demand.

High Density Store Network Enhancing Omni-channel Proposition: Its customers have multiple options, including (i) purchasing products at one of its 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 its stores. Its "Click and Pick" proposition allows its customers the ease of showing their prescription at a store, in cases where uploading the prescription online becomes a challenge. Its omni-channel proposition to its customers leverages its existing store networks and supply chain and distribution network to offer a differentiated offering to its customers. Its omni-channel proposition allows it to (i) deepen and extend its customer reach from, and expand the total addressable market for, each of its stores, (ii) further enhance "convenience" as one of its core customer value propositions, (iii) lower incremental cost of operations for online deliveries (as its stores act as branding sites and lower cost of online customer acquisition), and (iv) retain offline and online customers within its customer ecosystem.

Lean Cost Structure and Technology Driven Operations: The company believes that its (i) scale of operations, (ii) wholly-managed and operated supply chain and distribution infrastructure, (iii) strong and integrated technology backbone, and (iv) focus on maintaining cost efficient operations gives it an advantage over its competitors. Key attributes of its cost structure and technology driving its operations includes Cost efficient procurement. Efficient management and operation of infrastructure, Technology driven operations, and Large scale of operations leading to economies of scale.

Strategy

Strengthen Its Market Position by Increasing Store Penetration in Existing Clusters and

Developing New Clusters: The company intends to capitalize on the shift from unorganized to organized retail of pharmaceutical products in India, taking advantage of the low base of organized pharmacy retail penetration and increasing penetration of mobile and internet usage in India, and strengthen its market position by (i) increasing its store penetration and customer reach in existing clusters and (ii) developing new clusters in other states and cities. The company intends to leverage its replicable store roll-out process and well-developed supply chain and distribution infrastructure to increase its market share in the states in which the company has established clusters, firstly in Tier 1 cities, including Chennai, Bangalore, Hyderabad and Kolkata, and, subsequently in Tier 2 cities and beyond. The company also plans to replicate the success the company has had in its key cities, in cities that it has penetrated but have yet to become the leading pharmacy retailer, such as Mumbai and Nashik, as well as across Tier 2 cities and beyond in the existing seven states that the company is present. The company also intends to enter into one to two new states every year. To establish its

presence in new geographies, it intends to use its cluster based approach and replicable store roll-out process, as well as concurrently develop the required supply chain and distribution infrastructure, including establishing primary warehouses in these states to serve as distribution hubs, building fleets of delivery vehicles and hiring delivery personnel.

Further Develop Its Omni-channel Platform with a Hyperlocal Delivery Model: The company plans to further develop its omni-channel platform with the aim to increase online sales revenue contribution to its total revenue from operations. The company intends to leverage its growing store network and focus on deliveries through its growing number of larger format stores, as they tend to be better stocked and are more closely linked to its supply chain and distribution infrastructure. The company also aims to enhance its delivery infrastructure and to achieve a higher rate of online delivery purchases reaching its customers within two hours. The 2-hits delivery services were started in the financial year 2021, and recent pilots in July 2021 have showed promising results where 93% of online delivery purchases were delivered within two hours in select micro-markets of Hyderabad. The company expects to expand its ability to deliver online purchases within two hours of purchase in such as Mumbai by December 31, 2021. The company aims to leverage (i) its ability to offer competitive prices and high rates of online delivery purchases reaching its customers within two hours to increase customer stickiness and retention and (ii) its online sales channel as a strategic avenue to increase the scale of its business and at the same time optimize its profit margins.

Increase Its Share of Private Labels and Enhance Its Stock Keeping Unit (“SKU”) Mix: The company generally derives higher gross margins from sales of private label products and The company intend to increase the range of private label products the company offers to enable sales of private label products to grow steadily. The company believes that the company is well-positioned to purchase and stock more private label products, as the company is less constrained by minimum order quantity requirements imposed by suppliers due to the scale of the purchases the company is able to make. This would, in turn, allow it to offer its customers a wider range of private label products and, hence, potentially increase its customer wallet share and increase its gross margins. The company intends to (i) increase the penetration of its private label pharmaceutical products by introducing private label products for more therapeutic areas, in particular for sub-chronic and chronic ailments and (ii) introduce new private label products for fast moving consumer goods (“FMCG”), in particular, in the consumer categories of nutrition and The wellness. To increase its sales of private label products, the company also plans to (i) market and advertise its private label products as good quality products offered at competitive prices and (ii) conduct training of its sales staff and award them with financial incentives for identifying customer needs and cross-selling its private label products, and continue to support them with its technology framework that provides them with point-of-sale assistance and prompts.

Enhance Revenue and Increase Customer Wallet Share Through Continued Investment in Technology Infrastructure and Expansion into Adjacent Healthcare Vertical: The company intends to enhance its sales volumes and increase its customer wallet share though continued investment in its technology infrastructure, including investing in and enhancing its customer facing mobile application and customer facing features on its website. The company believes that this initiative would allow it to better analyze and manage customer interactions and related data and insights throughout the customer lifecycle, with the goal of understanding their requirements, creating a long-term relationship with customers, building customer retention and driving sales. The company expects that leveraging its technology infrastructure to gather and analyse customer data and insights would allow it to understand its customers’ consumption patterns and preferences, which would allow it to employ more targeted advertising and provide its customers with prompts for refills and/or relevant new product recommendations. The company also expects that this would provide it with additional monetization opportunities with pharmaceutical companies, as the company would be able to provide them with insights for analysis of their product performance and progression

at a therapy and molecule level. The company also anticipates that its extensive retail presence across the country coupled with its strong position in the organized pharmacy retail segment will enable it to expand into adjacent verticals in the healthcare industry, including diagnostics, pathology, and other healthcare service.

Continue to Increase Operating Efficiency and Enhance Supply Chain Management to Drive Profitability: The company intends to continue improving its supply chain and distribution infrastructure to increase its operating efficiency and to enhance its supply chain management. As one of its key initiatives to increase operating efficiency, the company plans to increase automation at its warehouses, for processes such as sorting, labelling and packaging, which the company expects that it would allow it to optimally utilise its workforce at its warehouses, increase efficiencies, scale its operations and reduce cost. The company also plans to increase the proportion of its product procurement conducted directly through pharmaceutical companies or their carry forward agents, as the company expects this would enable it to increase its gross margins. The company also aims to benefit from an enhanced operating leverage as large numbers of stores that were opened within the last few years and the new stores that the company is rolling-out as part of its cluster approach gradually mature.

Risk factors

- There have been instances of negative cash flows in the last three financial years.
- Changes in prescription drug pricing and commercial terms could adversely affect its operations.
- Its operations are subject to high working capital requirements, and have incurred substantial indebtedness.
- The company relies on third-party manufacturers for the supply of its products.

Peer comparison

As per HP, there are no listed companies in India that comparable in all aspects of business and services that it provides.

Valuation

Considering the P/E valuation, on the upper end of the price band of Rs.796 the stock is priced at pre issue P/E of 67.02x on an estimated annualised FY22 EPS of Rs.11.88. Post issue, the stock is priced at a P/E of 71.54x on its EPS of Rs.11.13. Looking at the P/B ratio at Rs.796, pre issue, book value of Rs. 71.67 of P/Bvx 11.11x. Post issue, book value of Rs.123 of P/Bvx 6.47x.

Considering the P/E valuation, on the upper end of the price band of Rs.780, the stock is priced at pre issue P/E of 65.68x on an estimated annualised FY22 EPS of Rs.11.88. Post issue, the stock is priced at a P/E of 70.10x on its EPS of Rs.11.13. Looking at the P/B ratio at Rs.780, pre issue, book value of Rs. 71.67 of P/Bvx 10.88x. Post issue, book value of Rs. 123 of P/Bvx 6.34x.

Industry overview

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 financial year 2020, the pharmacy retail industry was estimated to be worth approximately ₹ 1,725 billion, and expected to grow at a CAGR of approximately 10% in the next five years. The healthy growth witnessed by the Indian pharmacy retail sector over the past few years has primarily been due to an 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 COVID-19 pandemic.

Outlook

MedPlus Health Services is into pharmacy retail and health support services and this business is largely working capital intensive. The company adopts an omnichannel strategy in that it offers online selling as well as brick-and-mortar selling services through a centralized mechanism. However, there has been an instance of negative cash flows in the last three financial years. Its operations are subject to high working capital requirements, and have incurred substantial indebtedness. Cash surplus and long term investors may consider investing in the issue.

An Indicative timetable in respect of the Issue is set out below:

EVENT	INDICATIVE DATE (On or about)
Bid/Offer Opens Date	Dec 13, 2021
Bid/Offer Closing Date	Dec 15, 2021
Finalisation of Basis of Allotment with the Designated Stock Exchange	On or about Dec 20, 2021
Initiation of refunds (if any, for Anchor Investors)/unblocking of funds from ASBA Account	On or about Dec 11, 2021
Credit of Equity Shares to depository accounts of Allottees	On or about Dec 22, 2021
Commencement of trading of the Equity Shares on the Stock Exchanges	On or about Dec 23, 2021

Consolidated Financials

Profit & Loss

Rs. in Cr.

Particulars	Period ended 30-Sep-21 (6 Months)	Period ended 31-Mar-21 (12 Months)	Period ended 31-Mar-20 (12 Months)
Revenue from operations	1879.92	3069.27	2870.60
Total expenditure	1721.26	2852.60	2736.93
Operating Profit	158.66	216.67	133.68
OPM%	8.44	7.06	4.66
Other Income	10.98	21.55	17.28
PBDIT	169.64	238.21	150.96
Depreciation	54.76	88.27	74.81
PBIT	114.88	149.94	76.15
Interest	31.32	54.85	46.80
PBT	83.55	95.10	29.36
Tax	17.19	31.99	27.57
Profit After Tax	66.37	63.11	1.79

Balance sheet is on next page

Balance Sheet

Rs. in Cr.

Particulars	As on 30-Sep-21	As on 31-Mar-21	As on 31-Mar-20
Non-current assets			
Property, plant and equipment	107.45	87.17	59.81
Capital Work in Progress	7.75	5.54	2.78
Goodwill	41.45	41.45	41.45
Other Intangible assets	4.56	3.82	1.78
Intangible assets under development	0.64	0.00	2.16
Right-of-Use asset	464.31	384.87	316.42
Financial Assets			
Other Financial Asset	61.41	55.06	47.34
Deferred tax assets (net)	41.40	38.61	40.16
Non Current tax assets (net)	12.73	11.94	15.55
Other non-current assets	17.09	14.13	5.47
Total non-current assets	758.77	642.58	532.92
Current assets			
Inventories	810.01	749.96	643.56
Financial Assets			
Investments	0.03	0.03	0.25
Trade receivables and contract assets	7.21	5.37	6.40
Cash and cash equivalents	25.68	106.82	113.92
Bank balances other than above	70.37	11.78	26.78
Other Financial assets	43.56	35.96	10.87
Other Current assets	30.86	13.16	14.01
Total current assets	987.72	923.08	815.78
Total Assets	1746.49	1565.66	1348.70
Non-current liabilities			
Financial liabilities			
Lease Liabilities	462.43	400.11	319.34
Other Financial Liabilities	1.11	1.16	1.43
Deferred tax Liability (net)	0.00	0.00	0.00
Provisions	17.69	18.35	17.74
Total financial liabilities	481.24	419.61	338.51
Current liabilities			
Financial liabilities			
Borrowings	56.75	135.24	105.05
Lease liabilities	80.02	54.87	52.90
Trade payables			
Total outstanding dues of micro enterprises and small enterprises	0.82	0.23	1.50
Total outstanding dues of creditors other than micro enterprises and small enterprises	222.69	147.87	232.66
Other Financial liabilities	55.06	37.34	43.72
Other current liabilities	16.92	10.95	12.70
Provisions	18.69	19.45	17.11
Contract liabilities	7.55	8.24	13.02
Current tax liabilities (net)	5.77	0.76	2.43
Total current liabilities	464.26	414.94	481.09
Total	945.50	834.55	819.59
NET Worth	800.99	731.10	529.10
Net worth represented by:			
Share capital	6.44	0.45	0.19
Other Equity	794.54	730.11	527.61
Non Controlling Asset	0.02	0.55	1.30
Net Worth	800.99	731.10	529.10

RANKING METHODOLOGY

WEAK	★
NEUTRAL	★★
FAIR	★★★
GOOD	★★★★
EXCELLENT	★★★★★

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