



Impressive background and business model..

Medplus Health Services Limited ("Medplus") was incorporated on November 30, 2006. The Company was founded by Gangadi Madhukar Reddy, the Managing Director and Chief Executive Officer, with the vision to set up a trusted pharmacy retail brand that offers genuine medicines and delivers better value to the customer by reducing inefficiencies in the supply chain using technology. The Company's operations are primarily distributed between the Issuer and Subsidiaries.

Medplus is the 2nd 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. Medplus offers a wide range of products, including (i) pharmaceutical and wellness products, including medicines, vitamins, medical devices and test kits, and (ii) fast-moving consumer goods, such as home and personal care products, including toiletries, baby care products, soaps and detergents, and sanitizers.

Medplus started actively focussing on online sales in the financial year 2020. As part of their focus on "speed" and "convenience" as a customer value proposition for customers who place an order online to receive delivery of their purchased products, the Company offers delivery for online purchases in the cities in which it has stores. The Company is now able to deliver their customers' online purchases within 2 hours of purchase in select cities of Hyderabad, Bangalore, Kolkata, Pune and Nagpur. Medplus employs a data analytics driven cluster-based approach to their store network expansion. Their cluster-based approach to store network expansion is also driven by their understanding of the catchment demographics, market dynamics, and their ability to support store expansion with back-end infrastructure, such as warehouses and distribution centres.

Company stores

The company has maintained a strong focus on scaling up their store network, having grown from operating their initial 48 stores in Hyderabad at the conception of their business to operating India's 2nd largest pharmacy retail network of over 2,326 stores (through its subsidiaries) in 261 cities as of September 30, 2021, across the states of Telangana, Andhra Pradesh, Karnataka, Tamil Nadu, West Bengal, Maharashtra and Odisha, with an aggregate retail space of approximately 1.36 million square feet ('msf'). The Company's store network is spread across urban and rural areas, with stores located in corporate campuses, retail parks, malls, high streets and corner stores. Over 95 percent of its stores are operated and managed exclusively by them, with the rest through a franchisee-network.

Focus on growing and achieving leadership in the key cities

Stemming from its focus on growing and achieving leadership in the key cities where it operates, for the financial year 2021, their share of the organized pharmacy retail market, based on revenue from operations, in Chennai, Bangalore, Hyderabad and Kolkata stood at approximately 30%, 29%, 30% and 22%, respectively. Their number of stores has grown since the conception of their business and, as of September 30, 2021, they operated 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.

Pricing

Medplus offers one of the highest discounts that are unmatched by any online or offline pharmacy retailer in India. Further, its strategy allows them to effectively segment the market by offering higher discount to the pricesensitive chronic customers who typically purchase medication for a longer duration and thereby have a higher average order value. At the same time, the Company offers lower discounts to other customers who value convenience. For products other than branded pharmaceutical and FMCG

Issue date	Dec. 13 - Dec. 15, 2021
Listing date	Dec.23, 2021
Price Band	₹780 - ₹796 (Face value:₹ 2)
Employee discount	₹78 per share
Bid lot	18 equity shares and in multiple thereof
Issue size and type	Fresh issue: ₹600 Crore Offer for sale of upto: ₹798.30 Crore
Issue structure	QIB - 50%, NIB - 15%, Retail -35%
Post issue shares	11.93 Crore equity shares
Promoters	Pre IPO: 43.16% Post IPO: 40.43 %
Public - Selling shareholder	Pre IPO: 25.61% Post IPO: 15.59%
Public - other selling shareholder	Pre IPO: 30.85 % 43.62%
Employee trust	Pre IPO: 0.38% 0.36%
Post issue market cap	₹9,497 Crore
BRLMs	Axis Capital, Credit Suisse Securities, Edelweiss Financial, Nomura Financial
Registrar to the issue	KFin Technologies Pvt Ltd

Particulars (₹ Crore)	6MFY22	FY21	FY20	FY19
Topline	1,880	3,069	2,871	2,273
EBITDA	170	238	151	131
EBITDA (%)	9.02	7.76	5.26	5.78
Profit after tax	66	63	*1.79	11.92
Equity share cap.	6.44	0.45	0.19	0.19
Networth	801	731	528	291
Short Term Debt	58	135	105	104
Book value (₹)	72	66	49	31
Post issue EPS (₹)	11.06^	5.28	0.15	0.99
P/E (x)	72	151	445	67
RoNW (%)	8.35	8.74	0.41	4.09

Source: RHP, ^6MFY22 annualised EPS, *FY20 profitability was impacted led by Net loss on fair value changes - Rs. 32 Crore

products, the discounts are varied at a product level.

Marquee investors

The Company's shareholders include marquee investors, including Lavender Rose, belonging to the Warburg Pincus group, and affiliates of Premji Invest.

Investment recommendation and rationale

At the upper end of the price band of ₹796, the Company's IPO is valued at P/E of 72x at H1FY22 annualised EPS and P/E of 151x on FY21 EPS which looks expensive but will enjoy scarcity premium. However, in terms of Market Capitalization/Sales the issue looks attractive at multiple of 3.0x at FY21 sales and 2.53x at H1FY22 annualised Sales. Investors with higher risk appetite may "SUBSCRIBE for listing gains" due to the following factors : a) Big opportunity in the India organized retail pharmacy market as the penetration of the organised space is low as compared to developed economies like US and China, b) India's second largest pharmacy retailer, c) established brand and value proposition to customers, d) successful track record of expansion using a distinct cluster-based and replicable store unit expansion approach, e) high density store network enhancing omni-channel proposition, f) lean cost structure and technology driven operations, g) Well qualified, experienced and entrepreneurial board and senior management team, h) investors fancy for Companies having unique and differentiated business model with strong moat, i) the Company raised Rs. 418 Crore from anchor investors. However, the sustainability of performance which was witnessed in H1FY22 and FY21 during pandemic has to be seen going forward.

Objects of the issue

The objects of the Offer are as follows:

Fresh issue: Rs. 600 Crore

Proposed utilisation of Net Proceeds from fresh issue

- Investment into its Material Subsidiary, Optival for funding working capital requirements of Optival - Rs. 467.17 Crore
- General corporate purposes

Offer for sale: Rs. 798.3 Crore - Offer for sale by investors and Promoters

Offer for sale	
PI Opportunities Fund – I - The Investor Selling Shareholder	₹623 Crore
SS Pharma LLC	₹107 Crore
Shore Pharma LLC	₹32 Crore
Natco Pharma	₹10 Crore
Time Cap Pharma Labs	₹10 Crore
A. Raghava Reddy	₹7.12 Crore
K. Prakurthi	₹4.22 Crore
Navdeep Patyal	₹2.16 Crore
Sangeeta Raju	₹1.47 Crore

and R. Venkat Reddy, T.K. Kurien, Nithya Venkataramani, Atul Gupta, Manoj Jaiswal, Rahul Garg, Kollengode Ramanathan Lakshminarayana and Bijou Kurien also participating in OFS (very small amount).

Source: RHP

On December 8, in a pre-offering period, Medplus' largest shareholder and investor Lavender Rose Investments sold a 6.18 percent stake in the company ahead of its initial public offering and anchor book openings.

Lavender mobilised Rs. 550 crore by selling 69,09,548 equity shares to SBI Mutual Fund, Motilal Oswal Mutual Fund and Malabar Mutual Fund on December 8, at an upper price band of Rs 796 per share, as per the company's addendum (notice to investors) published in newspaper on December 10.

Competitive strengths

India's second largest pharmacy retailer

Medplus is the 2nd largest pharmacy retailer in India, in terms of revenue from operations for the financial year 2021, and number of stores as of March 31, 2021. The Company expects that its well-established brand, genuine and good quality pharmaceutical products offering, wide product offering, ability to achieve high fulfilment rates, offering of neighbourhood convenience with large store footprint, and ability to offer competitive pricing to their customers, will continue to drive their gains in market share. Company's large scale of operations, value proposition to customers, business model and cost efficient operations, has driven their growth and has allowed them to be profitable, despite their pricing and discounting strategy.

Established brand and value proposition to customers

The "MedPlus" brand has a history and track record of over 15 years, and it has become a well-established brand that it has positioned to stand for genuine and good quality pharmaceutical products that are offered at affordable prices. Medplus offers a strong value proposition to a wide range of customers, including:

Value Pricing: Over a period of time, as they have built scale, they have continued to further reduce their costs that have allowed them to deliver more value to customer in the form of discounts. They offer lower discounts to customers with time-sensitive acute therapeutic needs and lower order value, as compared to higher discounts for price sensitive customers with chronic therapeutic needs and larger order value.

Convenience and Fulfilment: Medplus focuses on offering convenience to their customers by making a wide range of products available across their offline and online channels. This has helped the company to stock the appropriate selection and amount of products at their stores and also make helpful product suggestions to their customers, to target high fill rates.

2-hour delivery capability: With their wholly-managed and operated last-mile delivery infrastructure from their stores, Medplus was able to deliver their customers' online purchases within 2-hours of purchase, in select cities.

Engagement: Company's stores present a consistent and uniform customer experience of offering genuine and good quality pharmaceutical products and fast-moving consumer goods at affordable prices. Their stores are operated by trained staff.

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

Medplus has grown from operating their initial 48 stores in Hyderabad at the conception of their business in 2006 to operating India's 2nd largest pharmacy retail network of over 2,000 stores. The Company's focus on extending and maintaining an efficient supply chain and distribution network to support the growth of established and new clusters. Leveraging their cluster based expansion approach; they have experienced substantial growth in terms of their number of stores. At the same time, their streamlined and methodical store opening process, and focus on the sustainability and profitability of each store, has allowed them to maintain healthy store level economics.

Between the April 1, 2018 and the September 30, 2021, the Company opened an aggregate of 1,158 new stores and as of March 31, 2021, over 60 percent and 75 percent of their new stores achieved a positive Store Level Operating EBITDA within the first 3 months and first 6 months of operations, respectively. Further, as of September 30, 2021, their Mature Stores had a median payback period of less than 3 years and demonstrated a compounded average same store sales growth of 8.3 percent on MRP from financial year 2019 to financial year 2021.

High density store network enhancing omni-channel proposition

The omni-channel proposition to its customers leverages their existing store networks and supply chain and distribution network to offer a differentiated offering to their customers. The omni-channel proposition allows them to (i) deepen and extend their customer reach from, and expand the total addressable market for, each of their stores, (ii) further enhance "convenience" as one of their core customer value propositions, (iii) lower incremental cost of operations for online deliveries (as their stores act as branding sites and lower cost of online customer acquisition), and (iv) retain offline and online customers within their customer ecosystem. Medplus is well-positioned to benefit from a fast-growing India e-commerce pharmacy retail market, especially given their significant existing online operations, their pricing and discounting strategy, and their last mile delivery capabilities. Company's business model, large scale of operations and cost-efficient operations allow them to be profitable, as compared to many of the major e-pharmacy players, despite their pricing and discounting strategy.

Lean cost structure and technology driven operations

The Company's scale of operations, wholly-managed and operated supply chain and distribution infrastructure, strong and integrated technology backbone, and focus on maintaining cost efficient operations gives them an advantage over their competitors.

Key attributes of their cost structure and technology driving their operations includes:

- a) Cost efficient procurement;
- b) Efficient management and operation of infrastructure;
- c) Technology driven operations;
- d) Large scale of operations leading to economies of scale.

Key concerns

- 1) **It has to be gauged whether there would be sustainability of earnings performance witnessed in in H1FY22 and FY21 during COVID-19 pandemic. The performance in FY20 was subdued led by store network expansion, depreciation charge and increase in finance costs.**
- 2) **The Company's business is working capital intensive and it funds the majority of its working capital requirements in the ordinary course of its business from its internal accruals, equity and financing from banks by way of working capital facilities. Cash flow from operating activities was affected in FY20 and FY21 owing to working capital changes.**
- 3) **Competition from Online Pharmacy players, players like Apollo Pharmacy, Wellness Forever, Emami Frank Ross and Thulasi Pharmacy may affect its pricing power and market share. However, it may be noted that the Company enjoys highest share from private labels and operating profitability is also good.**

Background

Company and Directors

The company was incorporated as 'MedPlus Health Services Private Limited' at Hyderabad on November 30, 2006. Gangadi Madhukar Reddy, Agilemed Investments Pvt Ltd; and Lone Furrow Investments Pvt Ltd are the promoters of the company, Currently, the Promoters cumulatively hold 48,233,135 Equity Shares constituting 43.16% of the issued, subscribed and paid-up pre-Offer Equity Share capital of the company.

Brief Biographies of Directors

Gangadi Madhukar Reddy is the **Managing Director and Chief Executive Officer of the company**. He is one of the Promoters of the company and has been a Director of the company since incorporation on November 30, 2006.

Anish Kumar Saraf is the **Non-Executive Director of the company**. He is the managing director of Warburg Pincus India Pvt Ltd and has been in the employment of the company for 15 years.

Atul Gupta is the **Non-Executive Director of the company**. He has over 13 years of experience in the investment industry.



Murali Sivaraman is the **Non-Executive Independent Director of the company**. He was previously associated with Philips Lighting.

Madhavan Ganesan is the **Non-Executive Independent Director of the company**. He has over 34 years of experience in various companies in the retail, technology and the industrial sectors.

Hiroo Mirchandani is the **Non-Executive Independent Director of the company**. Her business career has primarily been in the healthcare and consumer goods sectors.

Key Managerial Personnel

Cherukupalli Bhaskar Reddy is the **Chief Operating Officer – outlet operations of the company**. He joined the company on March 1, 2007. He has over 14 years of experience in the pharmaceutical industry.

Surendranath Mantena is the **Chief Operating Officer – MedPlus Mart of the company**. He joined the company on October 1, 2010.

Hemanth Kundavaram is the **CFO of the company**. He joined the company on January 2, 2021. He has over 15 years of experience in corporate finance and accounting in various industries.

Parag Jain is the **Company Secretary and Compliance Officer of the company**. He joined the company on March 10, 2014. He has 14 years of experience as a company secretary.

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