Medplus Health Services Limited

February 7, 2024

The Listing Department
BSE Limited
Phiroze Jeejebhoy Towers
Dalal Street, Fort,
Mumbai – 400001
Scrip code: 543427

The Listing Department
National Stock Exchange of India Limited
Exchange Plaza , 5th Floor
Plot No. C/1, G Block,
Bandra - Kurla Complex
Bandra (East), Mumbai - 400051
Symbol: MEDPLUS

Dear Sir/ Madam,

Sub: Submission of Earning Call Transcripts for the quarter ended December 31, 2023.

Pursuant to Regulation 30 of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015, we enclose herewith transcript of the earnings calls held on February 5, 2024 for the quarter ended December 31, 2023.

Kindly take the same on record. The same is available on Company's website at www.medplusindia.com

For MedPlus Health Services Limited

MANOJ KUMAR SRIVASTAVA Digitally signed by MANOJ KUMAR SRIVASTAVA

Manoj Kumar Srivastava
Company Secretary & Compliance Officer
FCS 7460

"MedPlus Health Services Limited

Q3 FY'24 Earnings Conference Call"

February 05, 2024

MANAGEMENT: **MR. MADHUKAR REDDY GANGADI – CHIEF EXECUTIVE OFFICER AND MANAGING DIRECTOR – MEDPLUS HEALTH SERVICES LIMITED**
MR. SUJIT MAHATO – CHIEF FINANCIAL OFFICER – MEDPLUS HEALTH SERVICES LIMITED
MR. CHETAN DIKSHIT – CHIEF STRATEGY OFFICER – MEDPLUS HEALTH SERVICES LIMITED
MR. PRASAD REDDY – ASSISTANT FINANCIAL CONTROLLER – MEDPLUS HEALTH SERVICES LIMITED

Moderator: Ladies and gentlemen, good evening, and a warm welcome to the MedPlus Health Services Limited Q3 FY '24 Earnings Conference Call. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing star then zero on your touchtone phone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Prasad Reddy from MedPlus. Thank you, and over to you, Mr. Reddy.

Prasad Reddy: Thank you, Michelle. Good evening, everyone. On behalf of MedPlus, it's my utmost pleasure to welcome you all to the MedPlus Q3 FY '24 Earnings Conference Call to discuss the financial results of MedPlus for the third quarter of financial year 2024, which were announced on 2nd February 2024.

We have with us today the senior management team represented by Mr. Madhukar Reddy Gangadi, Chief Executive Officer and Managing Director; Mr. Sujit Mahato, CFO; and Mr. Chetan Dikshit, CSO.

Before we begin, I would like to mention that some of the statements made in today's discussion may be forward-looking in nature and may involve risks and uncertainties. Please note the disclaimer mentioning these risks and uncertainties are on Slide 1 of the investor presentation shared with all of you earlier. Documents relating to our financial performance was circulated earlier, and these have also been posted on our corporate website.

I would now hand over the call to Sujit, the CFO. Thank you, and over to you, Sujit.

Sujit Mahato: Thank you, Prasad, and good evening, everyone, on this call. We are pleased to share that as of December 31st, we have been serving community in over 600 cities across 10 states, including the 3 new states of Madhya Pradesh, Chhattisgarh and Kerala through our network of 4,233 pharmacy stores. Additionally, in Hyderabad, MedPlus operates 4 full-service diagnostic centers, 8 level 2 centers and over 120 collection centers offering essential diagnostic services at affordable rates.

Let me cover the network in terms of openings and closures of our outlets. As informed during the last quarter, we have taken a thoughtful approach towards store expansion, prioritizing scale-up of MedPlus-branded pharma and non-pharma products and also maintaining a balance between overall growth and profitability.

Over the past 12 months, we have added a net total of 676 stores. On a gross basis, this was 758 stores, with 164 stores opened during Q3 alone. Most of the new stores were opened in Tamil Nadu and Telangana with 55 and 24 stores, respectively.

This strategic focus of growth reflects our commitment to meet the evolving needs of our community while maintaining a focus on sustainability and financial health. We expect the new store openings for the fiscal year 2024 to be around 600 stores.

In the third quarter, 59% of our store openings were in Tier 2 cities and beyond, underscoring our strategic emphasis on these markets. Presently, out of our 4,233 stores 1,908 stores, representing 45%, are situated in Tier 2 cities and beyond. We acknowledge the growth potential inherent in these markets.

Throughout Q3, there were 20 store closures. Taking into account both openings and closures, we achieved a net addition of 144 stores during the current quarter, a notable increase compared to the 114 added in the previous Q2 quarter.

In terms of the network age. Approximately 18% of our scores are in the first year of operation, around 27% of our stores are in the second year of operation and the remaining 55% of our stores have been operational for 2 years or more. It is noteworthy that all stores in the less than 2 years age bracket are still in their ramp-up phase. From a financial standpoint, they continue to exert a negative impact on our operating EBITDA.

However, as these stores mature, we anticipate a positive contribution to our profitability. We closely monitor the timeframe for our new stores to reach breakeven. For stores opened between January 2023 and June '23, approximately 59% of them achieved breakeven within 6 months of their operations.

As a cohort, all stores combined reach breakeven in just 4 months. In terms of the store size as at the end of the quarter, our network has grown to 4,233 stores, covering 2.2 million square feet compared to 3,557 stores over 1.9 million square feet as of the end of December '22. The average store size was 535 square feet. To give you a sense of spread in store sizes, we had 3,082 stores less than 600 square feet and 1,151 stores that are greater than 600 square feet.

In terms of revenue mix, with our expanded scale, we are strategically positioned to increase our revenue share from our private label products. Our private label range is crafted to provide customers with high-quality products at competitive prices.

Presently, MedPlus offers over 1,000 carefully selected SKUs spanning across pharmaceutical and non-pharmaceutical category. Private label sales currently constitute 14.5% of our total net revenue. However, our growing presence in Tier 2 cities and beyond is significantly impacting our revenue mix. Sales from these markets comprise 35% of our pharmacy revenue in the current quarter, marginal increase from 33% in the same period last year.

I'm pleased to provide an update on the impact of the launch of MedPlus-branded products in Telangana state. In quarter 1 FY '24, prior to the launch, the share of private label pharma stood at 6.61% of the total GMV in Telangana. However, following the launch and in quarter 3 FY '24, the gross merchandising value notably increased to 15.03% of the total GMV in Telangana.

Following the promising results observed in Telangana, the company initiated the launch of MedPlus branded products in other states starting October '23 onwards. Prior to the introduction of MedPlus-branded pharma products, sales of private label pharma products accounted for 8% of the gross merchandise value in quarter 2 of FY '24.

However, subsequent to the launch and throughout the reported period, the private label share of GMV surged to 11.2%. The increase in private label GMV indicates the positive reception from customers and validate our commitment to delivering high-quality products under the MedPlus-brand umbrella.

Now coming to the financial numbers. On our quarter performance, our consolidated revenue was INR14,415 million with a growth of 21.1% year-on-year and 2.3% quarter-on-quarter. Our consolidated operating EBITDA stood at INR466 million, representing 3.2%. Around 99% of our revenue is from our pharmacy operations.

The pharmacy operating EBITDA is INR505 million, representing 3.6%. In terms of our store performance, I would like to update on our stores older than 12 months. Revenue from these stores in quarter 3 was INR12,953 million or 91% of pharmacy revenue.

These stores had a store level EBITDA margin of 9.6%. The store level operating ROCE of these stores stood at 52.5%. A word here on the store level EBITDA margin by age. While stores greater than 12 months had a margin of 9.6%, this was 10.1% for stores greater than 24 months and 7.2% for stores in the 13 to 24 months age bracket.

If we allocated the non-store related costs, then the operating EBITDA of stores greater than 12 months to the INR588 million, which translates to a margin of 4.5%. Quick numbers. Diagnostic revenue has grown to INR196 million in Q3 '24 compared to INR97 million in Q3 of FY '23, which is primarily due to launch of the new centers across Hyderabad.

Diagnostics segment recorded an operating EBITDA loss of INR34 million compared to a loss of INR33 million in quarter 3 of fiscal year '23. Our net working capital for quarter 3 was 66 days. The inventory in our warehouse was 38 days.

As you are aware, because of the same trajectory of new stores, their inventory turnover is lower in the first year. In Q3, the inventory level of our first year store was INR111 million. In comparison for our stores older than 12 months, the inventory was 42 days.

Now I request Chetan to share an update on our diagnostic business. Over to you, Chetan.

Chetan Dikshit: Thank you, Sujit, and good afternoon, everyone. As you know, Q3 is a seasonally weak quarter for Diagnostics in great part due to the festival and holiday season. However, we have 8% quarter-on-quarter growth in Q3. In October, we sold 405 gross plans per day. In November and December, this was 369 and 357, respectively.

As on 30th September, we had 117,000 active plans and 207,000 underlying lives. As of 31 December, we had 127,000 active plans and 228,000 underlying lives. Our current observed on-time renewal rate was 19% in Q3 versus 15% in Q2.

That concludes our update for the quarter. I request the host to open the line for questions.

Moderator: Thank you very much. We will now begin the question-and-answer session. The first question is from the line of Ashita Jain from Nuvama. Please go ahead.

Ashita Jain: My first question is on your store opening guidance. I think for this year, your store down to 600. What is the store opening guidance for the next 2 to 3 years or 3 years for FY '25? Can you give color on that?

Madhukar Gangadi: Sure. Thanks, Ashita. So as Sujit said earlier in this call, we have focused primarily on increasing the overall private label, both in pharma and non-pharma. That's going to be our focus for the first 1 or 2 quarters this year also. We've just introduced over 600 products. And even as the product line is expanding, we are also making sure that products are available across the entire network and all.

And we're also ensuring that our employees are fully trained and are able to sell and everything else. So as I said, the primary focus is going to be on this. We will most likely end up doing only around 600 to 700 stores the next year, the coming year, too. But we will keep you guys updated as soon as our figures are finalized.

Ashita Jain: And secondly, you just spoke about last few quarters about entry into the newer market. What's the update on that?

Madhukar Gangadi: It is still early going for the three states, one is Kerala, Chhattisgarh and Madhya Pradesh, but we are, I would say, pretty encouraged by the response in all these places. We will put up a small -- a very small working kind of warehouse to make sure that we are able to service all our stores properly and all.

But in general, both Madhya Pradesh and Chhattisgarh are doing well. We expect to grow faster than that. There are -- I would say, the growing is a little bit slower in Kerala for us, but we continue to expand in that state also.

Ashita Jain: Any particular reason for this Kerala -- slower uptick in Kerala?

Madhukar Gangadi: So see, a lot of the initial store opening depends on the regulator over there. There are some regulators who are slightly more sticky about every single detail. And in some states, it is not as much. It is a state-wise thing. So it is a slow growing in the beginning stages, I would think. But yes, that's about it is. Otherwise, it's not an issue. The market itself is pretty good in Kerala.

Ashita Jain: Understood. And I think phenomenal job on the private label side, now we're close to 14.4% pharmacy presence. How do you think this number would settle in the next year, given our initiatives on the MedPlus branded labels?

Madhukar Gangadi: It's really difficult to say. We are very encouraged with the way the initial two states have responded with the initial two regions where we started in June have responded. And also under the early listing out there in the other states, it is following the same path. Just on the pharma side alone.

I think given that 80% of our sales comes from pharma right now, and we will be able to hit or at least we'll be able to, I would say, have substitutes for at least 60% of the entire inventory, which is 70% at least of the medicines. I think for us to get to 20% will not be very tough on the pharma side over the next one year.

Moderator: Thank you. The next question is from the line of on Saion Mukherjee from Nomura. Please go ahead.

Saion Mukherjee: Sir, on the private level, the MedPlus brand. So I mean what you see at a GMV level, how the ratio has moved? If you get your share at an overall company level like how much it was before, let's say, when you launched in first quarter and now?

Sujit Mahato: Yes, I'll take that, Saion thank you for the question. In quarter two, in terms of the GMV, the private label pharma was 8.96% overall. And end of quarter three, the same percentage on the same basis of GMV reflects at 11.78% If this is helpful.

Saion Mukherjee: So this is for the overall, entire pharmacy...

Sujit Mahato: Overall. Only for the private label pharma.

Saion Mukherjee: Understood. Okay. And the other question I wanted to check with you is that you have provided stores less than 12 months revenue split. How has been the revenue growth for stores, which are, let's say, more than two years old? I mean, is that growth very slow? I mean, is that a right assessment that it's in single digits?

Sujit Mahato: In fact close to the inflation number. If we get all stores put up to FY21 end, it is inflation-plus.

Saion Mukherjee: Okay. But generally, the pharma market growth is around 9%, 10%, right? And if there is price increase that is also there in pharma. So I was wondering why this number is a bit lower? Is there sort of a de-stabilization with the new store opening? How do you sort of read this number?

Madhukar Gangadi: Yes. So Saion, while definitely there is some price inflation and unfortunately the DPCO rules which kick in once every while, also reduce the prices a little bit. So there's also that impact. For us, I expect that the growth will be slightly over inflation as we go forward. There may be some cannibalization in some existing states, but I don't really expect that to mute the sales any more than it should.

For us, the other main reason could be also this. We are not really -- except for places where we're reporting the private label, we are not taking the GMV route to actually explain the sales growth. So in some of those cases where private label medicines have actually taken off, you would see a slight dip in the top line because of the lower value at which we sell the discounted private label products, the new pharma private label products.

Saion Mukherjee: Right. Sir, is it possible to share the growth numbers on a like-to-like basis at the GMV level? Is that possible to -- like you reported 21% growth, how much would have been the growth at a like-to-like basis?

Madhukar Gangadi: Sujit, do you want to take that?

Chetan Dikshit: Madhukar, I'll take that. Saion, our reporting what we have done is we've benchmarked it to peers. But we'll take your feedback on board. And see if there's more disclosure that we can give going forward.

Saion Mukherjee: Okay. And finally, are there any changes in the discounting in your normal branded products due to competition and behaviour of online players? Any changes that you have witnessed in the recent past?

Madhukar Gangadi: We have not increased the discounts anywhere. And if your question was, if the competition is actually coming down, are you taking by decreasing it? No, not as of now.

Saion Mukherjee: Okay. Thank you.

Moderator: Thank you. We'll take the next question from the line of Gaurav Nigam from Tunga Investments. Please go ahead.

Gaurav Nigam: Sir, first question was on, I was looking at your presentation, you used to give this private label number of pharma SKUs. That number from Q2 to Q3 presentation is dropped from almost 1,100 to 783. Just wondering, is this a correct number to look at? And what's the reason if this is correct?

Madhukar Gangadi: We will have to come back to you. I don't think we have really decreased the overall number. If anything, given that we have been continually increasing the pharma private label and also looking at other product, I guess not to decrease the overall number of products. Sujit, do you want to add anything else?

Sujit Mahato: I will come back in a while.

Gaurav Nigam: Understood, sir. Another question was on, can you provide the average level of pharma discounts that was there in Q3? And has it quarter-on-quarter, has it increased or reduced, any sense of direction?

Madhukar Gangadi: Pharma discounts on branded products has not really increased significantly. There may be a little bit of increase in 1 state, West Bengal, where the earlier hurdle was -- after the earlier hurdle we used to give a 10% discount, we moved it to 15%, but that was at least 2 to 3 quarters ago. Otherwise, I see no reason for any increase in discount.

If as a blended this thing it is coming out a slightly higher discount, it could be because of our private label products. Our private label products, the new ones sell at an average of 50%. So if you combine the entire pharma products, then that could increase the discount. But I think if you look at purely the branded ones, there should be no increase or there should be very little increase.

Gaurav Nigam: Understood, sir. And sir, what is the guidance for diagnostics capex in FY'24 and '25, sir?

Madhukar Gangadi: Do you want to take that Sujit or Chetan?

Chetan Dikshit: Yes, sure. I can take it. Apart from maintenance level capex, we don't have anything really planned in terms of big machines or new centers. If there is a change in view, we will definitely update you.

Gaurav Nigam: In FY'25, sir, as well, you're saying?

Chetan Dikshit: Yes. For the foreseeable horizon, our capex program has been rolled out. In some of the centers, we may have minor capex maybe an additional ultrasound, ambulance. So which is why I cannot spoke about it like maintenance capex. But there is no plan on the cards for new centers or new cities or new big machines. We will update as and when anything like that is on the cards.

Gaurav Nigam: Understood, sir. And sir, just a last question. Is there any update on the QIP? I think you have taken a shareholder approval. So just wondering if there is anything in the plan going forward.

Chetan Dikshit: Thank you for asking that question. We maintain our stance that what we have taken was shareholder enabling provision just to keep that optionality and that is for a full duration of 12 months. As and when the circumstances require us to raise additional funds, we will then have the option of both looking at equity and debt. As of now, it is an enabling provision, and there is no action expected on it in the near-term.

Gaurav Nigam: Understood, sir. Thank you for answering my question.

Moderator: Thank you. We'll take the next question from the line of Kunal Randeria from Axis Capital. Please go ahead.

Kunal Randeria: Thanks for taking my question. Madhukar, your private label sales contribution on the pharma side has actually gone down on a year-on-year basis, right? But your GMV has gone up, I believe, so does that mean Wynclark MHS had a lot less discount than made by MedPlus brand?

Madhukar Gangadi: Yes. So earlier Wynclark and even a little bit of the a trade generics which we sold, were sold at the same price as branded products. Since then, we have decided to basically go with a store generic thing, promote MedPlus brand and give it the full discount. So while a response to this has been very good, there has also been a little bit of cannibalization of our original Wynclark brand. And so in some places, that has come down a little bit. And so overall margin will have come down because of that.

Kunal Randeria: Okay. So do you still sell under Wynclark.

Madhukar Gangadi: Sorry?

Kunal Randeria: Do you still sell under the Wynclark brand or have you stopped it?

Madhukar Gangadi: No, we do. So we will continue that at least in the acute kind of therapies and all. In Telangana, the entire state of Telangana, we have reduced the price of Wynclark to the level of the MedPlus brand. So we sell it at the same price, all the products have been sold at the same price. But in the states in which we have started after this, in the rest of the country in the seven states, Wynclark continues to sell at the old price.

It is some of the chronic -- for some of the chronic therapies, the sales has come down. Most likely it will come down to next to nothing or zero in a while, we'll let that happen over a period of time. But we will continue to actually sell the Wynclark private label at the full price for acute therapies.

The idea is that for those who are not very price sensitive, those who are not members of the MedPlus discount plan and all, and those who need the -- and those who are seeking early convenience, from them, we will get the full price. Otherwise, anyone else who is price sensitive will get the MedPlus brand at the full discount.

Kunal Randeria: Got it. And just one last one on this. So this is more like your -- it's been a few months since you launched Made by MedPlus. Let's say, as it gets bigger and people recognize the brand, do you plan to reduce discounting slightly, let's say, from 70% to a 60% or something like that?

Madhukar Gangadi: So today, our overall discount is at around 60%. We would say 50% to 80%, but the average falls at 60%. That is something we will see as we go forward, depending on how the market is evolved. Our primary thing right now concerns to grab market share and increase the top line.

Once it is fully established, people understand the quality of the product and people are buying MedPlus -- are asking for it by name and then coming and buying it. Then we could always play around either with the top line, either with the MRP price, increase it slightly or perhaps decrease the discount to a slightly lower number. But that is not something which we are going to decide right now.

Kunal Randeria: Got it. Just one more if I can. Have you introduced it across the states or is it just Telangana at the moment?

Madhukar Gangadi: No, it is across all the seven states right now. As I said, only in Telangana, we have killed our old private label. Everything is now available at the new MedPlus private label brand rate. But in the other states, both co-exist.

Kunal Randeria: Got it. Thank you and all the best.

Moderator: The next question is from the line of Harith Ahamed from Avendus Spark. Please go ahead.

Harith Ahamed: I joined the call a bit late, so my apologies if this was asked before. So my first one is on store additions. I see that we are tracking around 400 stores added year-to-date FY'24. So I remember that previously, we had guided for roughly 1,000 stores addition, 800-plus. So what would be the updated number for FY'24? And is there a revision in the guidance for FY'25 and beyond in terms of net additions?

Madhukar Gangadi: Sure. The number of stores, the gross additions this year will be close to 600, around the 600 mark, the net additions may be slightly lower. And for the coming year though, the number could be around the same number. The focus this year is going to be on private label. We want to make sure that we get it to the 20% kind of mark on the pharma side. So that's going to be the thing -- both by increasing the range, increasing the awareness and also increasing the education level of our own employees in being able to sell this product.

Harith Ahamed: So based on your experience so far on the MedPlus branded private label side, can you share some of the lessons or challenges that you've encountered in this foray? Is it on the sourcing side or is it in terms of getting subscribers? And if you can comment on the willingness that you're seeing among patients to switch from the brand to the private label, so if you could share some of the takeaways on these areas, that would be helpful.

Madhukar Gangadi: Sure. So you have seen a pretty good response to our products in Telangana where we launched it first. The results from this are only a quarter. Actually we started only in the middle of October or late October in the rest of the country. So the numbers are still not there. But in Telangana, we have seen a very good response.

What I think is that the early adopters, people are buying the fact that all the products available in the market are generic only. And MedPlus is able to give a very good price only because it does not have any marketing or distribution costs. So people are getting that. So some of the early adopters have come on board.

We think as we go forward -- but there still remain some questions. I think we have our work cut out in trying to educate the customer. The common question we encountered is this. Whenever our guys have gone and said 50% to 80% discount on our brands, they have said customers have come back and said is this a generic product?

So we are taking the time to explain that all the products in the country are generic. There's really no difference. It's all the same product anyway. The only way you can differentiate one from the other is on the quality of its make. So we are countering that using several different explanations out there. And we are seeing a lot of people converting once that happens.

So this will happen not just through our stores, but also through media, influencers and all sorts of other testimonials and all. Again, to come back to your question, how is the response? Pretty good. The early adopters are on board. People like the fact that they are saving a lot of money. We're seeing a steady increase. But I think if you want to hit the next, let's say, level of growth, we'll have to answer some of these questions, which we are now in that process today.

Harith Ahamed: Okay. Just a clarification, Madhukar, you mentioned that you've launched it across all the states that you operate in, but in select stores. So I was just wondering that from an operations standpoint, wouldn't it be easier to launch it across all the stores in a certain market versus launching it in select stores?

Madhukar Gangadi: No, I may have communicated it wrongly. We have actually launched it across all states, all stores.

Harith Ahamed: All states, all stores.

Madhukar Gangadi: I don't know why it came out like that. Yes, yes, now it is all states, all stores.

Harith Ahamed: And last one, I didn't get 1 number that you shared previously, the store level margins for stores of more than 24 months of maturity?

Madhukar Gangadi: Yes, Sujit, do you want to take that?

Sujit Mahato: Yes. It's around 10.1, Harith.

Harith Ahamed: Alright. Okay. That's all from side. Thank you.

Moderator: Thank you. The next question is from the line of Madhav Marda from Fidelity International. Please go ahead.

Madhav Marda: My first question basically was that as we target this 20% private label mix in the pharma portfolio, how do you see the gross margins for the company trending, say, in the next -- I think you said that you can hit the 20% mark over the next year-or-so. So if you look a couple of years out once we have that Mark, how do you see the gross margin profile? Like I think we're trending at about 21.5%, 22%. How do you see this changing for the company?

Madhukar Gangadi: So Madhav, we'll try and give you a guidance as we go forward on that. So it's going to be a function of 2 things. One, as we replace the branded product, we will see an increase of around 0.1 or 14%, overall...

Madhav Marda: Sorry, I didn't get you, you said half...

Madhukar Gangadi: No, no. As we replace the branded product, right, on the branded product, post-GST, post everything and all, we probably get around 13% overall margin and this one basically gets us around 22% to 23%. So there'll be that increase as we replace that. But in the initial phase, though, we may end up replacing some of our own private label, which is Wynclark. While we continue to basically run both of those, I think the consumers who are buying chronic product, the medicines for chronic ailments and who are buying the Wynclark brand on that, may switch over to MedPlus brand.

And there, for every one person, we will probably end up losing around 0.3%. So in the conversion -- if you convert maybe 2% or 3% out there, you'll probably end up losing 1% gross margin on the Wynclark side. But after that, it will all be a gain.

Madhav Marda: Okay. No, sir, you're saying Wynclark...

Madhukar Gangadi: So Madhav, sorry to interrupt there. See, our goal in trying to actually get this MedPlus brand popular and get the word out to everyone about the quality and the pricing of that is not to convert the existing customers into the MedPlus brand, but we actually get customers to increase their top line by bringing in customers from the other mom-and-pop and other organized stores.

We are seeing a lot of people actually doing that. So we expect the benefit to us is going to be more on the top line than on actual margin side.

Madhav Marda: Okay. Okay. Understood. So -- got it. So would that mean that if earlier, like you said the store level EBITDA margin for 24 months plus stores were actually 10.1%. Essentially, what we're saying is that there is gross margin and then there's EBITDA margin. So in your view, if we get higher volumes at the existing stores, would you have a view on where the store level margins for the mature stores could move? Because I guess that's what we are finally trying to target?

Madhukar Gangadi: Sure, sure. So for us, I mean just -- if we were to increase our sales by, let us say, 10%, over the current level, right, the average store, let's say, is doing around INR15 lakh out there, if you were to increase the top line without really changing anything else by 10%, that's -- that will increase sale by INR1.5 lakhs. The margin will be INR30,000 extra. And that would actually increase the overall EBITDA by 2%.

Madhav Marda: Okay. Okay. So basically, the sort of older version versus the new version of stores, you could get 200 basis points higher margin, as this mix of private label goes up because we'll sell more basically at the same stores, right?

Madhukar Gangadi: The idea is to be able to sell more because if it was purely for margin accretion, then we will just continue and the old private label and just continue that. What we feel is introducing a store generic concept for the first time in India, getting people to -- see, our ability to convert a normal customer into the Wynclark customer for a higher margin is only so much given that our pricing was not any lesser than the other brands.

Now when we talk about it and when we tell people about the MedPlus brand and its quality and we also talk about the price advantage to them, we see a lot more people, a lot more receptors. So, A, conversion of our existing customers; but B, more importantly, we have only about 15% to 20% of any other markets in this city, even though we are really big.

We feel the balance 80%, do you feel we'll be able to win over at least 10% to 20% of the balance 80% who are not shopping with us based on the price. And that's what we're looking for. Yes.

Moderator: The next question is from the line of Sayantan Maji from UBS Group.

Sayantan Maji: My first question is on the portfolio of private labels. How much of it -- sir, how much of the current pharma sales are these private label seeing? So I remember a number that you had given earlier was somewhere around 55%. So has it increased now, now that we have launched it nationally? Or is it still somewhere in that range?

Madhukar Gangadi: No, it has increased slightly. So earlier when we talked about it, it was 80% of our overall sales comes from medicines and for 55% of that we had a substitute. So on the overall scale, we had substitute for 44%. Now that 55%, I think, has now moved to around 60% or 62%, but we have also placed an order for a lot more medicine. So I expect that it will give you up to 70% as we go forward.

Sayantan Maji: Okay. So if I say, let's say, 70% of 80%, which is, say, 55%, so out of this 50%, 55%, you are expecting a 20% share of pharma private label or is it on the total sales?

Madhukar Gangadi: No, we are expecting on the total thing. See, on this 56%, the 20% is already there almost because even leaving aside Telangana, the rest of the country is at 11.2%. So out of the 56%, 20% would be only 11.2%, right? So we already have that. And in Telangana it is actually 14%. So the number is slightly higher. So when I'm talking 20%, I'm talking 20% on the overall number, so which will actually become 20% and 56%.

Sayantan Maji: Okay. Okay. So this is basically the share of GMV, not the net revenues?

Madhukar Gangadi: Yes.

Sayantan Maji: Okay. Got it. And also, I think in the opening remarks, you had mentioned that the share of pharma private labels has increased from 8% to 11.2%. And later in the call, you said 8.96% to 11.78%. So is it the difference between the timing? Or is it -- can you just explain like where is the difference coming from?

Madhukar Gangadi: Sure. Sujit, do you want to take that?

Sujit Mahato: Yes. We had the first number, 6.61% to 15% was an update on only Telangana, which we have launched end of June. And the second one, 8%, going up to 11.2% is all states put together, excluding Telangana. It's the only once during October, and that's relevant to the quarter.

Sayantan Maji: Okay. Understood. Okay. That's clear. And my second question is on Diagnostics. So in Diagnostics, we are ramping up in Hyderabad. So -- and I remember you're saying that it is a pilot. And once the pilot is successful, you will expand to other cities. So when do we -- when -- at what point will the decision be taken to expand into other cities based on the results of the pilot in Hyderabad.

Madhukar Gangadi: Sure. Chetan, I'll take this. So yes, no, this continues to be a pilot still. We today are at around 120,000 subscribers serving roughly around 220,000 people out there. The goal is for us to get to at least 200,000 number before we can take a call on expanding in the current situation.

Sayantan Maji: Okay. Thank you so much for taking the questions.

Moderator: We'll take the next question from the line of Tanmay Gandhi from Investec.

Tanmay Gandhi: Hi sir. Thanks for taking my questions. Sir, firstly, if you can clarify the private label pharma sales on the right. So is it possible to split it between MedPlus branded and the normal private labels which we used to have even earlier on a net revenue basis?

Madhukar Gangadi: Sure. We'll see if you can do that. But for Telangana, that is Hyderabad and rest of Telangana state, all of them are lumped into 1 category right now. To the customer, it doesn't matter because he's getting the same price. To us also, it doesn't matter. So we're just not differentiating them on there, but we should be able to give you the actual split.

In the other places out of the 11.6% or 11.7%, I think around 5% is probably the old Wynclark. I'm not sure, Sujit, do you -- if you have the right numbers, you can just go ahead.

Sujit Mahato: So it's around 11.2% on a net revenue basis, the old and the new put together.

Tanmay Gandhi: No, sir, actually. No, no, sir, actually, I want it on a net revenue business which we report, right? So I want to split off...

Sujit Mahato: I mentioned it is on a net revenue basis. I'm mentioning on a net revenue basis. But both the old as well as the new put together, as Madhukar explained that in the state of Telangana, we have not differentiated between the erstwhile model and the current MedPlus brand. And therefore, on a total basis, this is around 11.2% net.

Tanmay Gandhi: Okay. Got it. Okay. And secondly, now that we are -- the pace of store addition has come down. So how should we look at the corporate level operating margins? So should we see a meaningful uptick or you plan to invest in some other initiatives like Diagnostics or the MedPlus-branded generics which you have launched?

Madhukar Gangadi: Okay. See, on the Diagnostics, as we said earlier, we're not going to be doing any other investments. We want to -- I think we are fully invested, except for some small maintenance capex, as Chetan said earlier. We will be wait to see how it is shaping up. We are doing well on the B2C side. We also want to see some traction on the B2B and post that we will figure out how to actually expand either on investments in the same place or in going to new cities.

On the private label side, there is no significant investment for us. The cost of the medicines is not very high, and it is just replacing one part from the other that's all. So I think the benefit of adding lesser stores, should be, I would say, more on allowing us to focus on the private label and possibly on the profitability also as we go forward.

Tanmay Gandhi: Sure. So sir, if we look at your operating EBITDA bridge that you provide, right, what are the various drags on the reported numbers. So I think the biggest drag comes from the new store additions and given that now we have a bigger base and obviously, the addition will also be lower in FY '25. So is it fair to assume that there will be a significant uptick in EBITDA margins? Or it will be steady expansion on this?

Madhukar Gangadi: No please. assume for now it is going to be a steady growth only in that. We will see how the private label and all the top line and all go up. I know the cost will be slightly lower, but I don't think that will -- I think the bigger driver for us is -- are the first 2 which is top line and private label component.

Chetan Dikshit: Tanmay, I think you have the modelling inputs over the last many quarters. The reason why you heard Madhukar say what he said was because we do see the new private label having a fairly large opportunity. And we may have additional non store operating costs like marketing, etcetera, which is what Madhukar said, what we said.

Moderator: Mr. Gandhi, we were not able to hear sir.

Tanmay Gandhi: Sorry, I lost you Chetan, sir, but my question was that given that we are right now just giving our store addition guidance, should we assume good uptick in margins because as Madhukar had said that we are not spending a lot on private label side? Sorry, I missed you. I didn't expect [inaudible].

Moderator: Sir I would request you to kindly unmute yourself and speak. Chetan sir and Madhukar sir.

Chetan Dikshit: I am afraid we couldn't comprehend what was being said. At least at our end it was quite garbled.

Moderator: Mr. Gandhi I would request you to kindly use your handset to ask question please.

Tanmay Gandhi: Yes, is there any better?

Moderator: Yes.

Tanmay Gandhi: Sir, so my question was that, so because we are reducing our store additions for the next year, and obviously, now we have a better base as well, right, larger base, so should we assume a significant uptick given that we are not spending much on marketing as Madhukar has said, right? So I just wanted to clarify that what are the various drags on the margins?

Because if we are lowering our store additions, then ideally there should be -- the gap between 12-month-plus stores margins and the reported margins for -- at the company level should be narrower, right?

Madhukar Gangadi: No, what you're saying is right, Tanmay. Logically, if we have lesser new stores, yes, definitely. But for us, the drag of that was never very big anyway. We will continue to report stores, which have more than one year old and all. I think it should definitely be slightly better as we go forward.

Moderator: The next question is from the line of Neelam Punjabi from Perpetuity Ventures. Please go ahead.

Neelam Punjabi: My question is on the Diagnostics business. So if I look at the latest quarter, we have already reached an INR80 crores annualized run rate for the diagnostic business. However, we are still reporting our losses segmentally. So by when can we turn profit in our Diagnostic franchise?

Madhukar Gangadi: Yes, sure. Chetan, do you want to take that?

Chetan Dikshit: Yes, sure. I can take the first crack at it. Neelam, the Diagnostics business also has a similar structure like pharmacy in the sense that a lot of operating costs sit both at the center and outside the centers. So because the Diagnostics business has costs which are at the HO level, which are currently not diversified across many cities, the segment continues to be dragged by those costs.

The improvement in the performance of the centers naturally, will make up for some of that. And we do expect to report the segment as profitable. But what we haven't disclosed so far is the center level profitability for diagnostics as we do in pharmacy which is why if you can just keep that framework in mind that what's ramping up is the revenue and the profitability of the diagnostic center.

But the HO level costs, which are actually at a multicity level that degree of preparation, whether it is procurement or absorb various lines of sub business, that continues to be a drag because our current operations are limited to Hyderabad.

Neelam Punjabi: Okay. But however, then can you help us understand what's the center level EBITDA margin, at least like for the mature center, the oldest -- first the Gachibowli center, if that will be helpful for us to understand then?

Chetan Dikshit: Sure Neelam. If you allow us, we'll do that in the next quarter.

Neelam Punjabi: Sure. Okay. And 1 clarification I needed. For the private label for our pharmacy business, we gave a target of about 20%, right? So is that on the net revenue or GMV basis?

Madhukar Gangadi: Sujit?

Sujit Mahato: Yes. I think we are talking on a GMV basis, please.

Moderator: We'll take the next question from the line of Lokesh Manik from Vallum Capital. Please go ahead.

Lokesh Manik: I have just one question from my end is being on the store addition in this quarter is net addition of 144 stores, but the rent expense is flat at INR53 crores. So can you please help me reconcile this?

Chetan Dikshit: Yes, I'll take that. So if you observed last year for the similar period, over the period, we opened around 1,100 outlets at various points in time during the year. And in the current year, during the nine months, we have opened 400-plus outlets. So that is the full impact taking care of the timing issue. But for that, there is no -- but for that, I would say we have the 5% to 7% annual contract base increase. So that's the major reason for the variance in the rental expense.

Lokesh Manik: Okay. But for this quarter, we should have expected a higher rent expense I mean because we are in line for the stores which are not there in the last quarter. So quarter-to-quarter, it's flat Q2, Q3 it's INR53 crores.

Chetan Dikshit: Yes?

Lokesh Manik: Yes, Q2, Q3 is flat at INR53 crores, and there is an increase in store addition of INR144 crores. I'm just trying to understand how the rent expense is...

Chetan Dikshit: Yes. It's in line with the contracts which we have entered the lease rent till and there's no exceptions in those numbers.

Moderator: Ladies and gentlemen, that was the last question for today. I would now like to hand the conference over to the management for closing comments. Over to you, sir.

Sujit Mahato: I thank all participants on this call for your interest in the MedPlus journey. Our Investor Relations team can be contacted at ir@medplusindia.com. Thank you, and have a great day.

Moderator: Thank you, members of the management. Ladies and gentlemen, on behalf of MedPlus Health Services, that concludes this conference call. We thank you for joining us, and you may now disconnect your lines. Thank you.