MedPlus Health Services Limited

November 16, 2024

The Listing Department
BSE Limited
Phiroze Jeejeebhoy Towers
Dalal Street, Fort,
Mumbai 400 001
BSE Scrip Code: 543427

The Listing Department
National Stock Exchange of India Limited
Exchange Plaza,
Bandra Kurla Complex,
Bandra (East), Mumbai – 400 051
NSE Symbol: MEDPLUS

Dear Sir/ Madam,

Sub: Submission of Transcripts of Earnings Call held on November 13, 2024:

In continuation of our earlier letter dated October 25, 2024 and November 12, 2024 regarding the investor call on November 13, 2024 and pursuant to Regulation 30 of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015, we enclose herewith transcript of the earnings conference call held with analyst on November 13, 2024 for the quarter and half year ended September 30, 2024.

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

Thanking You
Yours faithfully
For MedPlus Health Services Limited

MANOJ KUMAR SRIVASTAVA
Digitally signed by MANOJ KUMAR SRIVASTAVA
Date: 2024.11.16 13:03:54 +05'30'

Manoj Kumar Srivastava
Company Secretary & Compliance Officer
FCS 7460

"MedPlus Health Services Limited

Q2 FY25 Earnings Conference Call"

November 13, 2024

Management: **Mr. Gangadi Madhukar Reddy - Chief Executive Officer and Managing Director**
Mr. Sujit Kumar Mahato - Chief Financial Officer,
Mr. Chetan Dikshit - Chief Strategy Officer,
Mr. DRN Srinivas - Sr. Manager Finance

Moderator: Ladies and gentlemen, good day and welcome to the MedPlus Health Services Limited 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 "*" and then "0" on your touchtone phone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Sreenivas. Thank you and over to you, sir.

Sreenivas: Thank you. Good evening, everyone. On behalf of MedPlus, it's my utmost pleasure to welcome you all to MedPlus Q2 FY25's Earnings Call to discuss the Financial Results of MedPlus for the 2nd Quarter of FY25, which was announced on 12th November 2024.

We have with us today the senior management team represented by Mr. Madhukar Reddy – CEO & MD; 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 on slide one of the investor presentation shared with all of you earlier. Documents relating to our financial performance were circulated earlier and these have also been posted on our corporate website.

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

Sujit Mahato: Thank you, Srinivas. And good evening, everyone, on this call.

We are pleased to share that as of September 30th, we have been serving communities in over 680 cities across 12 states through our network of 4,552 pharmacy stores. Also, the company operates four full service diagnostic centers, eight level two centers, and over 100 collection centers offering essential diagnostic services at affordable rates. In terms of the update on our network, over the past 12 months, we have added a net total of 463 stores, gross 561 store additions with 132 stores open during quarter two and 198 stores open during the first half of the current fiscal. In the 2nd Quarter, 59% of our store opening were in tier 2 cities and beyond. At present, out of our 4,552 stores, 2,102 stores are situated in tier 2 cities and beyond. We continue to acknowledge the growth potential inherent in these markets. Throughout Q2, there were 24 store closures. Taking into account both opening and net of closures, we achieved a net addition of 108 stores during the quarter compared to 37 stores added in quarter one. In terms of our store network age, around 30% of our stores are operational for less than two years and the remaining 70% of our stores have been operational for two years and more. It's noteworthy that all stores in the less than 2-years age bracket are still in the ramp up phase. As these stores mature, we anticipate a positive contribution towards profitability. As a guardrail, we closely monitor the timeframe for our new stores to reach breakeven. For stores open between October

23 and March 24, approximately 59% of them achieve breakeven within six months of operation. As so far, all stores combined reached breakeven in just five months.

In terms of the store size, as at the end of the quarter, our network has grown to 4,552 stores with 2.4 million plus square feet compared to 4,089 stores and 2.1 million square feet at the end of September 23. The average store size was 529 square feet. To give you a sense of spread in store sizes, we have 3,357 stores less than 600 square feet and 1,195 stores that are greater than 600 square feet.

In terms of revenue mix, we are strategically positioned to increase our revenue share from private label products. Our private label range is crafted to provide customers with high quality products at competitive prices. Presently, MedPlus offers over 1,100 carefully selected SKUs spanning across pharmaceutical and non-pharmaceutical categories. Private label sales for Q2 constitute 18.4% of our total revenue. Moreover, our growing presence in tier 2 cities and beyond is significantly impacting on our revenue mix. Sales from these markets comprise 36% of our pharmacy revenues in the current quarter, marking an increase from 34% in the same period last year. The following is the impact of the launch of MedPlus branded products across our network.

In quarter one, FY24, prior to the launch, the share of private label pharma stood at 7.9% of total GMV compared to 16.3% during the current quarter. The increase in the private label GMV share indicates a positive reception from customers and validates our commitment to delivering high quality products under the MedPlus brand umbrella.

Now on our quarter performance in terms of the financial numbers, our consolidated revenue was Rs. 15,762 million with growth of 11.9% year-on-year and 5.9% quarter-on-quarter. Our consolidated operating EBITDA stood at Rs. 739 million representing 4.7% pre IndAS. Around 99% of our revenue is from our pharmacy operations. Revenue from pharmacy operations grew by 18.4% year-on-year on GMV basis and by 11.9% year-on-year on net basis. The pharmacy operating EBITDA stood at Rs. 717 million representing 4.6%.

Our stores performance, I would like to update on our stores older than 12 months. Revenue from these stores in Q2 was Rs. 14,438 million, 94% of pharmacy revenue. These stores had a store level EBITDA margin of 10.2%. The store level operating ROC of these stores stood at 58.1%.

A word here on the store level EBITDA margin by age. While stores greater than 12 months had a margin of 10.2, this was 10.6 for stores greater than 24 months and 7.7 for stores in the 13 to 24 month age bracket. If we allocated non-store related costs, then the operating EBITDA of stores greater than 12 months would be 752 million which translates to a margin of 5.2%. On our diagnostic segment, diagnostic revenue grew to Rs. 283.1 million in quarter two compared to 181.5 million in quarter two of this last fiscal. Diagnostic segment recorded an operating EBITDA of 21 million, 7.4%, compared to a loss of 29 million in Q2 last year. However, central level operating EBITDAs stood at 62 million. We did a restructuring of our legacy diagnostics operations in Nagpur, Bengaluru, and Vijayawada. This has resulted in a one-time expense of Rs. 19.7 million, of which Rs. 11.3 million is non-cash in nature. The net operational savings from closure of these centers is around Rs. 7.5 million per quarter. If we exclude the one-time expenses from Q2, then the revised operating EBITDA would be 11.1%, or Rs. 31.5 million instead of the 7.4% mentioned earlier.

An update on our working capital, our net working capital for Q2 was 61 days. The inventory in our warehouse was 38 days. In Q2, the inventory level of our first year stores was 95 days. In comparison, for our stores older than 12 months, the inventory was 40 days.

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

Chetan Dikshit: Thank you, Sujit, and good afternoon, everyone. Q2 is a seasonally positive quarter for diagnostics. In July, we sold 459 gross plans per day. In August and September, this was 466 and 461, respectively. As on 30th of June, we had 141,000 active plan and 270,000 underlying lives. As on 30th of September, we had 148,000 active plans and 299,000 underlying lives. Our current observed on-time renewal rate was 25% in Q2 versus 24% in Q1.

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

Moderator: Thank you We will now begin the question-and-answer session. We have the first question from line of Prakash Kapadia from Spark PMS. Please go ahead.

Prakash Kapadia: A couple of questions from my end. No as we scale our private label and expand stores what kind of working capital cycle can we envisage because if I see last few years inventory days have been around 83 days on an average and payable days 18 days, is there a scope of improvement on this. If yes then how will that happen, that's my first question. Private level contribution has been increasing. So, if you could give us some more sense is it scaling across pharma, wellness, FMCG all parts of the business ,where do you see the margin improvement trajectory if this contribution increases? And lastly of the 600 stores which we are planning to add, is it all leased? Is there franchisee of the current 4,500 stores? What is on lease or franchisee? And incrementally, how do we look at free cash flow generation this year and say next year considering our expansion plans? So, these were my three questions. Thank you.

G. Madhukar Reddy: I'll take the first two questions. I think the first one was on the overall inventory and payable and working capital. So, inventory levels are also a function of the number of new stores. If I open, let's say, 200 stores in a quarter, each store is going to have at least 18 plus 18, that is 36 stores.

And given that the sales in the first quarter are going to be less, it's going to look like a lot of inventory days for the amount of sales out there on that day. We haven't opened as many stores in the last two quarters, so working capital would have gone down slightly. As we go forward, obviously, that is not the only thing only lever on the working capital, we also have been optimizing inventory in warehouses, as well as in the stores. That is something which we will continue to improve. But that said, one should remember that MedPlus, as with any pharmacy store, the success of such a store depends purely on the fill rate or your reputation of getting the right fill rate. So, you can't cut it too fine and not have enough stock and turn away customers.

The cost of lost sales is far higher than the cost of inventory. So, we are always mindful of that. So, we try to optimize it. We don't, we try to make sure that the fill rate is right. So, that's all.

The impact of private label on the other hand, is going to be really good, but it'll take a while for it to happen. The reason is that the private label basically costs us on a product or on a typical product which costs Rs. 100 in MRP, PL cost is roughly around Rs. 12 versus branded pharma costs around Rs. 68. So, if you were to replace the branded pharma sales by private label pharma sales over a period of time, you would definitely see a huge decrease in the working capital. But we are not at the stage as of now. We started only last year in June. And in fact, across the country, we only launched it in October or November. So, right now, whatever private label we have, is in addition to the branded pharma. So, we really don't know which brand, see while we know what category we are selling, we are selling around 700 odd products and for the top 100 products we have a significant, in fact for almost everything which we have, we probably are the largest sellers in that category. But we don't know, we are probably taking up sales of all the 10 brands which are out there. So, we can't really start stocking any of those. It will be a while before we understand and we get to a new model in which we can decrease the inventory. So, the impact of private level inventory while it is going to be there, it's going to take a while for it to actually clear out.

Prakash Kapadia: Private level contribution will increase over a period of time, so what could be the margin trajectory for us with increased private level?

G. Madhukar Reddy: So, private level is two components one is the pharmacy side, I think of which the 17% which you see out there that is a net sales. Pharmacy component would be around 10 or 10.5 and the rest would be non-pharma part which is 10.5 and 7.9, that's the split for private label right now. 10.5 is private label pharmacy, and 7.5 is the FMCG products out there. Both of them are going up. We expect that on a net sale basis, this will increase by maybe around 0.5% to around **0:16:27 __** every quarter. And additional margin which you get on that is 50%. So, if you increase it by 0.7, you probably increase your margin by 0.3 or 0.35. The margin of private label is 50%. Now, but we also look at these numbers on a MRP basis. The reason is that a product which we would otherwise sell at 83. On a Rs. 100- MRP, where we give a discount of 17 and sell it at 83. Now the same product is getting sold at 45 on a discount of 50% or 55% out there. So, obviously the net sales is going to be lower when you do this, so the percentage grows slower. But to get a apple-to-apple kind of comparison, we usually do a MRP thing. And right now, I think we have MRP, which counts the volume, is at around 16%. We ended the quarter with a 16% sale, and we expect that we will grow this by 1% to 1.25% every quarter. So, that's on the pharmacy side. And obviously, every quarter, we are going to see a small increase in margin because of this. The second thing is, on the general goods, while we are increasing the overall sales, the margin on those is actually the same as the rest of the company. It is not hugely margin accretive. The way we see it is, it adds to our customer base. There are a lot of products which we sell, it's obviously it's our own brand and our strategy in that area is to make sure that we sell those products at a price which is unavailable in the market. For instance, and the reason we do that is because we feel that a customer has got several different options to go and buy a soap or shampoo or toothpaste from. And the reason they would actually pick it up from our store is because, A, it is convenient, they come to us and B, if they pick it up, we want them to come back for the product. We don't want it to be a one-time purchase. And we want them to come back because the product is great and it is available at a price at which no one else sells. So, our private labels actually sell at a price which is lesser than any other private label in the market. So, much lesser than the brands. And that's one reason why it has been growing. But there it brings us customers, loyal customers. It adds to our topline, but the margin is still 20% or 21%. So, it really doesn't add too much to the margin.

Prakash Kapadia: And lastly, the free cash flow and the operating metrics in terms of franchisee or lease stores? How do we look forward and what kind of free cash flow can we expect this year and in the medium term?

G. Madhukar Reddy: So, all our stores are leased. A very small portion of our stores are franchised. We don't know how that will play out. We will see as we go forward. But in the past, we have basically franchised our stores only in locations where it was difficult for us to reach and service that place. So, we would actually do it in smaller locations. But we are now trying it out in some of the larger cities, too. But it is a very small portion of our overall stores. Every one of our stores is leased. And on the free cash flow, I'll actually let Sujit answer that question on how the free cash flows will play out.

Sujit Mahato: I think based on our networth we have presented, you would have observed 1,425 million for the quarter. And this has the components of two things, one, less number of new stores opened, so that has helped us accrue cash. But otherwise, at least a significant portion of this will continue to accrue as we move forward.

Prakash Kapadia: You alluded to cash flow being better because of slightly lower stores which were added during the quarter. If I were to take the broader annual guidance of say around 600 stores, will this free cash flow accretion happen despite the addition is what we are saying?

G. Madhukar Reddy: I think with lower editions we were able to do this. If we continue with the planned additions, this will be a bit lower.

Moderator: Thank you. We have the next question on the line of Yash from Stallion Asset. Please go ahead.

Yash: My first question is that you've seen almost 200 basis point gross margin expansion right, 23.7 So, this number sustainable going forward?

Sujit Mahato: See this is on the back of the growth in private label. I don't see any reason why it should not continue, the gross margin.

Yash: And how many stores in terms of percentage are able to do the less than two-hour delivery?

G. Madhukar Reddy: Right now, it is across 3 or 4 cities, Hyderabad, Bangalore, Chennai, and Calcutta. But we have been facing a little bit of a problem in getting people as delivery boys and all. So, we have actually decreased it to a little, to a small extent in some of the cities. So, I think what we typically do is have roughly around 30 to 40 hubs in each city, around 10% of our stores. And these are designated as delivery hubs and from there we do the two-hour delivery. I think I will have to get back to you, but we may have decreased a few hubs in the recent past.

Yash: And since you've opened slightly less number of stores, so any sort of guidance on could be the store opening run rate going forward, are you satisfied with the number of stores that you've opened this quarter or will this sort of be maintaining this sort of run rate?

G. Madhukar Reddy: So, we opened around 145 stores, we shut down around 30-35. So, that would mean around 108 stores which we opened net this quarter. And I think the overall thing for this year is probably around 145 right now. We had actually guided to a 600 store number, but we could not achieve our usual number in the first quarter because of elections and a couple of other things. So, that will be lost. We will most likely in this year do a store count of anywhere between 400 to 450 stores of net addition. That's the plan for us.

Yash: And last question, the tax rates have been very volatile. So, is there some sort of a sustainable tax rate number that you can sort of let us know?

G. Madhukar Reddy: I think the tax rate what we are talking into the quarter will sustain.

Yash: Because I think 19% is something that's sustainable, going forward?

G. Madhukar Reddy: That's a factor of the extra deduction what the company claims on section 80JJAA, which is directly linked to the additional number of employees which we hire for our store opening. And that's been a factor of our new store openings as well.

Moderator: Thank you. We have the next question from the line of Jatin Chawla from RTL Investments. Please go ahead.

Jatin Chawla: My first question is, you spoke about the fact that on a GMP basis, your private label share is 16% and you see scope for a 1% increase every quarter. Till what level do you see this scope? How do you see this evolving, let's say, 18 to 24 months from now? Do you see it going to like over let's say 8 quarters 24%-25%.

G. Madhukar Reddy: I see no reason why it should not. 1% is a fairly conservative kind of estimate, I would think. Today we have substitutes for roughly around 75% of the products which we sell as medicines.

We will try to increase this a little bit. But more importantly, we are finding that some of the smaller towns in all filed a little late. But with all of them coming on board, and in some of the newer states obviously where MedPlus is not as well known, we saw that the uptake was not as high, while the rest of the country, there are places where we have as high as 20% private label contribution on MRP basis. We saw some of the newer states at around 8% to 10% and all. We are putting in efforts to get the whole message out about the brand and everything else in those places. We see as they also continue to pick up over a period of time, the overall number will definitely go up. And 8 to 10 quarters, 1% each, I think obviously difficult to say that far out. But I see no reason to believe that it will not be done.

Jatin Chawla: And it's been a year now, so what are your learnings on this? Your hits and misses and any areas of improvement on this? And second question related on the subscription price that the customer pays for getting private labels. So, any thoughts on how that could shape up?

G. Madhukar Reddy: We were always reasonably sure that the chronic patients, the guys who are buying medicines for their chronic ailments would actually buy these and that has been actually proven. But we are also, I would say pleasantly surprised why those who would otherwise buy only the acute, they also are buying in reasonably large numbers. So, across the board, sales of our products are reasonably high. For us, I think the only thing we need to do is to just make sure that the product is available in every one of our stores, and we continue to increase the range of products available. Today, I think we are probably around close to 700, but we could add another 150 products as we go forward to increase the overall percentage. On, I think the second question was?

Jatin Chawla: Subscription price and how do you see that shaping up?

G. Madhukar Reddy: We started off at 49 in Telangana and I think a couple of months back, we increased it to 99 in Tamil Nadu, Rs. 99, so we left it there. So, this quarter we've added up a couple places, but Yes, we are going to slowly experiment with this, increasing the subscription price as we go forward.

Jatin Chawla: Just one last question, on the sustainability of margins that we have seen this quarter, so when I look at your last few years of results that you have shown, 2Q-3Q, it's not as if the revenues go down materially. They are either like flattish or marginally up, and then 4Q is normally seasonally a very strong quarter. So, going forward, looking out over the next two quarters, do you see this 2Q kind of margin sustainable or are there some one-offs that you would like to call out?

G. Madhukar Reddy: No, I don't think there's anything out there. The gross margin is going to be equally good, if not better. I see no reason for it to come down. And the sales, as you mentioned, should be flat or slightly up. No reason for it to be any worse than the 2nd Quarter.

Moderator: Thank you. We have the next question from the line of Umakant Sharma from SAFE Enterprise. Please go ahead.

Umakant Sharma: So, I have a few questions Firstly, could you just through some color that there are you know? Many of these quick commerce companies are planning to enter the pharmacy retail space. So, could you just throw some color as to how do you plan to compete with them and do you also have any plans to establish an online presence for yourself? Secondly, in terms of brand building standpoint, could you just highlight what activities are we undertaking in terms of getting that brand awareness, building that brand awareness, brand recall and all of that? Here are the first two questions.

G. Madhukar Reddy: So, I don't think we'll actually do anything on the quick commerce side as of now. We are going to wait and watch and see how that comes along. So, we have been online for a long time, since 2014. 7% of our business now I think comes from online side. We have not given any additional discount or given any additional benefits for online buyers. Hence it has been where it is. On the quick commerce side, if pharmacy is tough for e-pharmacy or for the internet side. I think it'll be even more tougher for quick commerce, but we will see. We'll wait and see how that plays out. Honestly, we don't want to really jump onto anything right now. On the brand building side, no, actually, whatever we are doing, we are doing in the stores, we are actually creating a little bit of testimonial kind of thing. We are trying to give as much information as possible to the customer. We are talking about the fact that 90% of all medicines sold, even in a country like US, are generic. And what we have in India is all generic. So, we believe that our best bet is for people to get educated on the whole aspect. We are not really doing anything on no extra spend for us, outside of that.

Umakant Sharma: But are we picking up any marketing efforts from our side to educate them about the private labels and all of that?

G. Madhukar Reddy: We are doing a little bit of the influencer stuff, some podcasts, a lot of information going out to our regular customers, very pinpointed kind of thing, but nothing ATL. I don't think we spent anything, I think we spent around a crore or so last quarter. So, I don't see us spending a little more than that, a couple of crores last quarter. So, that's going to be the extent of the effort for us.

Umakant Sharma: And sir, on our private label pharmacy side, could you just, like you said, on a GMV level, we are at 16% right now, correct? Could you just split that number between the discounted private label and the non-discounted private label?

G. Madhukar Reddy: So, everything is discounted, but some of it is to members who are, and that is the 50%-55% discount. That is roughly around 14.6 and the other is probably around 1.5-1.6.

Umakant Sharma: And sir, would it be, like I believe you mentioned that incrementally we should see the scaling up of the private label discounted fees going up incrementally as well, could you share some insights, let's say, from the stores which we had launched in the very initial stages? What would be the level of penetration within those stores, let's say in Hyderabad, Telangana side? What would be our private label penetration within those stores?

G. Madhukar Reddy: I think in Hyderabad it's probably north of 17 and Telangana it is over 20%, rest of Telangana.

Umakant Sharma: And sir just one bookkeeping question which is rental cost per store per month I am talking about, per store per month, and this quarter it has gone to about 43,800 levels. So, is there any one-off or is there, could you just throw some color around those rental costs?

G. Madhukar Reddy: Now there's no one off, but we will look at it and come back to you if there's anything out there.

Moderator: Thank you. We have the next question from the line of Vijay Shah from RCL Investments. Please go ahead.

Vijay Shah: My question is the MedPlus brand which you are primarily selling only at your stores, can you expand it to other stores like primarily the stores which are not chain and they are like mom & pop stores?

G. Madhukar Reddy: No, we are not thinking about it right now. We'll give it a thought. But no, I believe people have access to different kinds of generics out there. They probably buy from Cipla, one of the good brand anyway. The MedPlus brand is sold at a 50%-55%-60% discount rate. And most of the small independent operators sell generics at full cost. And that's how they survive. They have low throughput, Rs. 3 or 4 lakh a month. They sell 50% of their stuff at a full margin of 60% or 70%. Now, if they were to take MedPlus product and that is openly available in MedPlus stores and we advertise it extensively as being available at a 50% to 80% discount, that won't really work well for an independent operator, so I doubt if anyone would actually pick it up.

Vijay Shah: And secondly, I mean, see quick commerce has shown a lot of success across many categories. So, what would you be looking for in quick commerce to actually go on that platform? So, what are the data points which will convince you decisively that whether you should be on that platform or not?

G. Madhukar Reddy: We'll see how the customers are responding to it because there is a need of prescription. Someone has to upload a prescription, right? And that takes a while. And that doesn't really make it possible for people to deliver in 10 minutes. So, that automatically increases the time. And then again, the range of products required in medicines are far too many. They are not like the generic 500 or 1,000 brands which are or 1,000 SKUs which are sold in quick commerce across all locations. So, for us, it is several hundred brands, and each one, each zip code has a different one and fill rate is a very critical thing for a lot of people. So, if you're buying medication for your monthly needs, then your long list of medication, every one of them has to be there, otherwise they won't really go out there, and they are not really looking for that very quickly. The only guys who are looking for that really quick 10-minute delivery would be the guys who are probably suffering from headache or diarrhea. And those are all mostly OTC products. I am not really sure if the need for the commerce is as high as it is when you are missing a critical component of something you're cooking out there in your home or some urgent need. But that said, we'll look at it. We don't know. We could be surprised by how the customers take to it. So, we are monitoring it closely. We'll see what happens.

Vijay Shah: Just being a customer for my parent, one of the things which we find is that they can't go down many times. When you are sick, you don't want to go down to the medical store. Even the medicine definitely comes in 30 minutes, it is a really good proposition because most of the local stores do not deliver even in 30 minutes and you have to call them so many times. So, it actually the delivery of medicine for sick people and older people might be a very good proposition.

G. Madhukar Reddy: Absolutely I agree. We will see how the people will react.

Moderator: Thank you. We have the next question from the line of Raghavendra, who's an investor. Please go ahead.

Raghavendra: Madhukar Reddy sir, so a special question for you regarding diagnostics. So, in one of the conference calls, you have mentioned that you're exploring B2B channels for diagnostic penetration. So, now given the OPD policies are common across IT employers and as well as all are linked to the TPS. Any plans of seeing collaboration with the TPAs and ITAs in place for the diagnostic process? It's a very complicated.

G. Madhukar Reddy: We are exploring all options, including working with brokers, insurance brokers, insurance companies, TPAs, and going directly to companies and having this as an add-on product to whatever they have. So, typically, an OPD product costs around Rs. 5,000 to 6,000 for each company. A lot of companies find it very difficult to pay that money, given that their overall outflow on the basic insurance now is around 25,000, and that's quite an expense. And the OPD then is either a hit or miss in the sense that there could be some people who use it, and they could use it to the extent of 10,000, but what they are seeing is a large portion of people don't use it at all. So, it's actually a last-minute proposition for the employer who pays that money. So, I am not sure how many people are really taking it up at that expense. There are obviously some very, I would say, profitable companies who will do it. But we feel that if we were to offer our product, which actually costs Rs. 2000 for a family of two plus two to get a 75% discount on every single diagnostic test they can think of for the year and that 2000 then is also converted into wallet points which they can use at a full price, MRP. If that product were to be available to companies at maybe at a discounted price of 30% to 40% or even 50% discount for depending on the size of the employer and all that. We feel that there'd be a pretty good reason for companies to actually buy. We have approached a bunch of them. We have a pretty decent set of small to medium sized companies based in Hyderabad who have actually taken it up and have given that option to their customer, to their employees. We think as we go forward, more and more people will sign up.

Raghavendra: To follow up on this, so on the diagnostic full-service centers, we still miss OPG. So, and only for the OPG, for example, myself, I am a subscriber, so I need to mark the other competitors do. So, is there a plan of when you actually say it as a full-service diagnostic center,

G. Madhukar Reddy: We are looking at that, but Yes, not an immediate thing.

Raghavendra: So, we found that the majority of the interiors are actually done by your own company, CustomFurnish. So, just wanted to understand the relationship between CustomFurnish and also by MedPlus and how much we are actually paying as competitive pricing?

G. Madhukar Reddy: I was the founder of CustomFurnish and a majority shareholder of that company. And that company used to supply lot of the furniture needs for MedPlus at a time when we were not growing in that space. Now Medplus has set up its own furniture making unit. It's a small unit, but it supplies all of MedPlus' needs and going forward, it will also supply all of the diagnostic needs. So, I am not sure exactly what is the value, but I can tell you this for sure. The price at which CustomFurnish sold MedPlus is not a price you can find anywhere else in the market. It is the least possible listing out there.

Moderator: Thank you. The next question is from the line of Mehul Sheth from HDFC Securities. Please go ahead.

Mehul Sheth: One question on gross margin side. So, when you are saying that you will be able to sustain the gross margin, so should we consider that as an H1 gross margin or the Q2 gross margin?

Chetan Dikshit: Historically as you know, we've been used to talk about 21, 22. Currently this is 23 plus. If you want to be conservative, you could take the average for Q1 and Q2 as H1. But if you want a management sense, we are actually optimistic above the H1 number.

Mehul Sheth: One more question on your private level when you say you have around 16% of GMV contribution can you split between acute and chronic side? Even if chronic can be more of a like a sticky in nature, so can you split between that too?

G. Madhukar Reddy: Chronic is actually 50% or more and the reason why that is, while one would expect that people who are buying medication for a long-standing kind of disease are a little less open to changing over, the fact of the matter is they are the people who are actually spending a lot of money, month-on-month. And they are probably coming to our store regularly and they know our store employees well. And so when we talk to them about the product and the fact that it is made in the best factories and it is exactly the same as everything else out there and given the fact that the spend is much higher per month and they can save a lot more by switching, they are the ones who actually listen, who take the time to actually understand and basically switch. So, the chronic for us is actually slightly more than 50%. So, that's where it is and that's the good part. Again the question which 22.7 is actually split into the MedPlus pharmacy and the diagnostic margin. So, I don't know if the diagnostic margin can go much further, mainly because we already are optimized out there. Now it's just going to go on the topline. The MedPlus is actually 22.7. So, you will see the pharmacy component continuing to grow.

Mehul Sheth: And one last question on your expansion. So, from your presentation, we can see you recently opened a store in Uttar Pradesh. So, are you looking to expand it further in that state, so given it's a much larger state?

G. Madhukar Reddy: No, we actually 3 stores. one in Delhi, one in Noida, and one in Gurgaon. So, it is Delhi, NCR. While it is in UP, it is more or nearly the NCR area. So, we are just testing it out. We are looking to see how well they grow and everything else and all. Delhi is the last of the remaining big seven cities in which we are not there, in the top seven cities. So, we said, let's just open one and figure out how things are right now and all. All the three stores are actually doing well. We will monitor it a little bit more and then maybe do 4 or 5 or 6 stores in each of those regions to slowly start gaining, let's say a foothold in that area. Two reasons actually, one, it is the last of the big cities in which we are not there. And second, as we, at some point, whenever we decide to do ATL, if at all we decide to do ATL for MedPlus we want to make sure that we are there in every one of the capitals so that we can supply online in that state. So, being in Noida, if we were to get an order from anywhere in UP, allows us to tie up with the courier and send the MedPlus products out across the state. So, that's the reason for it. But Yes, we are not really immediately looking to expand in any big way out there.

Moderator: That was the last question. I'd like to hand it over to the management for closing comments.

Srinivas: Thank you. I would like to thank all the participants on this call for your interest in the MedPlus journey. Our investor relations team can be contacted at ir@metplusindia.com. Thank you.

Moderator: Thank you. On behalf of MedPlus Health Services that concludes this conference. Thank you for joining us and you may now disconnect your line.