

MedPlus+

Medplus Health Services Ltd

Leading player in a high growth market.



VENTURA

Kyon ki bhaiya, sabse bada rupaiya.

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SUBSCRIBE @ Upper Price Band of INR 796

Leading player in a high growth market.

Founded in 2006, Medplus Health Services Ltd (MHSL) is the 2nd largest pharmacy retailer in India in terms of revenue (INR 3,069 cr) as well as number of stores (2,081) as of FY21. It offers products ranging from pharmaceutical and wellness like medicines, medical devices, testing kits to FMCG such as home and personal care products. As of 30th Sept, 2021 the company operates 2,326 stores in 261 cities across 7 states in India.

The company prefers to establish stores in densely populated locations, the selection of which is operated and managed through its in-house, data driven "Shutter app" which integrates the entire store opening process. The company plans to open ~2,500 stores in the next 2-3 years.

MHSL has a strong omni channel platform (store, website, app, telephone ordering, order online, pick physically) which enables it to leverage the strong offline presence to establish and grow its online channel. An increase of 1% in private labels improve margins by ~0.5%. The company currently has a 6.5% contribution from private labels and plans to grow this further in the near future.

We forecast revenue/EBITDA/PAT to grow at 29.1%/32.9%/55.7% to INR 6,600 cr/INR 508 cr/INR 238 cr by FY24. EBITDA/PAT margins are expected to expand by 60 bps/160 bps to 7.7%/3.6%. This is expected to further improve as the stores breakeven and the company increases contribution of private labels.

We initiate with a Subscribe for long term with a 24-month target of INR 1,195 per share (60X FY24 earnings) representing an upside potential of 50.1% from the upper band of the issue price at INR 796/share. Post the INR 1,398 cr public offering, the promoter's holding will stand reduced to 48.4%.

Industry	Pharma Retail
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Issue Details

Listing	BSE & NSE
Open Date	13 th Dec 2021
Close Date	15 th Dec 2021
Price Band	INR 780-796
Face Value	INR 2
Market Lot	18 shares
Minimum Lot	1 Lot

Issue Structure

Offer for Sale	57%
Fresh Issue	43%
Issue Size (Amount)	INR 1398 cr
Issue Size (Shares)	1,75,66,520
QIB Share (%)	≤ 50%
Non-Inst Share (%)	≥ 15%
Retail Share (%)	≥ 35%
Pre issue sh (nos)	11,17,61,165
Post issue sh (nos)	11,92,98,853
Post issue M Cap	INR 9,496 cr

Shareholding (%)	Pre (%)	Post (%)
Promoter	43.2	40.4
Public	56.8	59.6
TOTAL	100.0	100.0

Key Financial Data (INR Cr, unless specified)

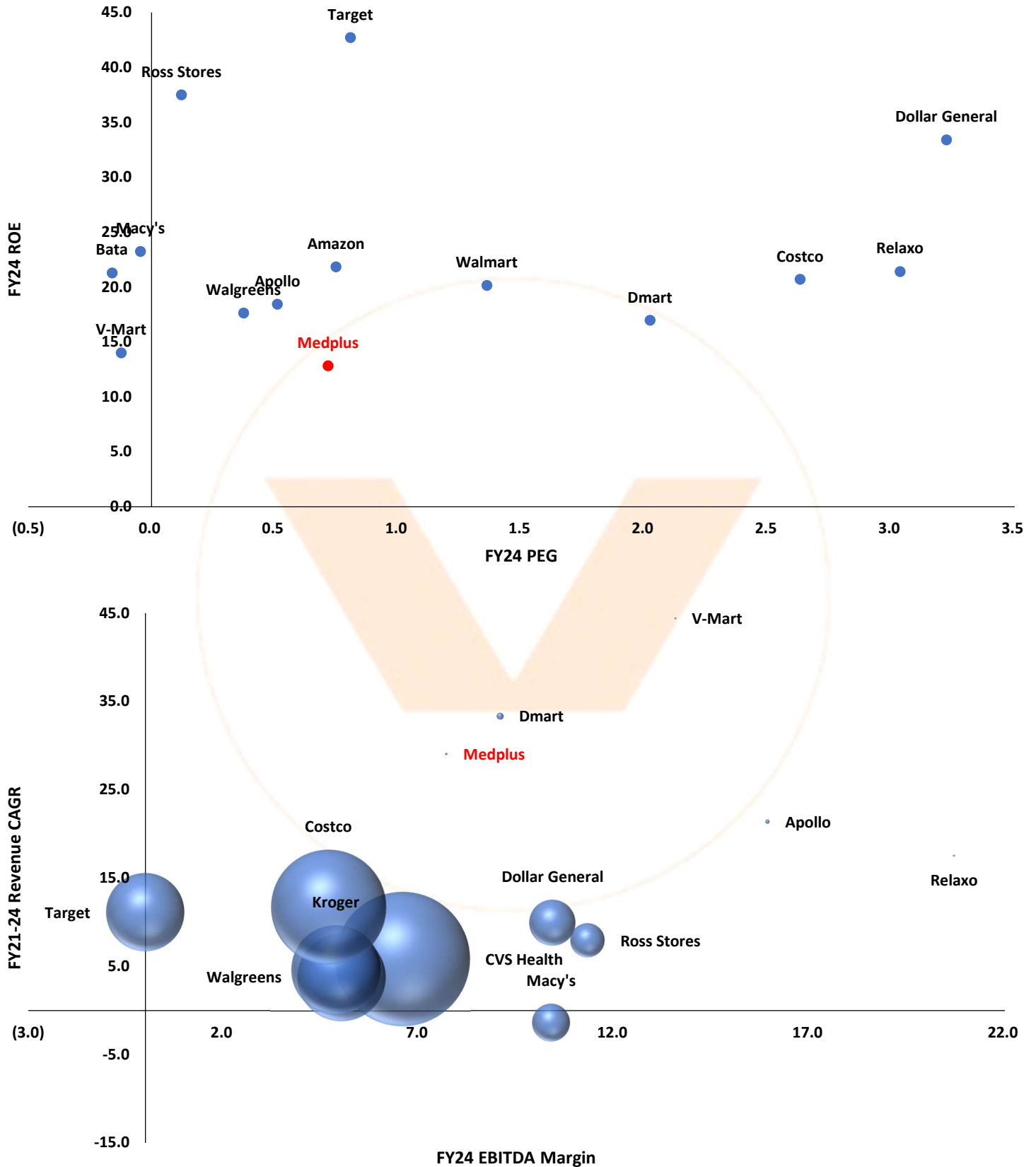
	Revenue	EBITDA	Net Profit	EBITDA (%)	Net Profit (%)	EPS (₹)	BVPS (₹)	RoE (%)	RoIC (%)	P/E (X)	P/BV (X)	EV/EBITDA (X)
FY20	2871	134	2	4.7	0.1	0.2	44.4	0.3	12.0	5305.1	17.9	70.8
FY21	3069	217	63	7.1	2.1	5.3	61.3	8.6	17.2	150.5	13.0	43.9
FY22E	3881	295	111	7.6	2.9	9.3	120.9	7.7	23.2	85.3	6.6	30.1
FY23E	5076	386	176	7.6	3.5	14.8	135.6	10.9	26.0	53.9	5.9	22.9
FY24E	6600	508	238	7.7	3.6	20.0	155.6	12.8	30.9	39.9	5.1	17.3

Valuation and Comparable Metric of Global Peers

Figures as mentioned				P/E (X)				EV/EBITDA (X)				P/BV (X)				RoE (%)				RoC (%)				Sales				EBITDA Margin (%)				Net Margin (%)					
Company Name	Mkt Cap	Price	PEG 2021-24	2021	2022	2023	2024	2021	2022	2023	2024	2021	2022	2023	2024	2021	2022	2023	2024	2021	2022	2023	2024	2021	2022	2023	2024	2021	2022	2023	2024	2021	2022	2023	2024		
Domestic Peers (Fig in INR Cr)																																					
Medplus	9,496	796	0.7	150.5	85.3	53.9	39.9	43.9	30.1	22.9	17.3	13.0	6.6	5.9	5.1	8.6	7.7	10.9	12.8	17.2	23.2	26.0	30.9	3,069	3,881	5,076	6,600	7.1	7.6	7.6	7.7	2.1	2.9	3.5	3.6		
Apollo	78,134	5,447	0.5	519.6	93.8	68.0	56.2	70.8	37.6	30.6	25.6	17.0	14.3	12.1	10.4	3.3	15.3	17.7	18.4	8.0	24.4	30.2	36.7	10,560	14,301	16,321	18,884	10.8	14.7	15.7	15.9	1.4	5.8	7.1	7.4		
Dmart	3,10,961	4,787	2.0	282.8	189.8	119.8	91.8	178.5	119.7	77.3	59.4	25.5	22.4	18.8	15.6	9.0	11.8	15.7	17.0	10.7	17.9	23.8	26.3	24,143	31,955	44,886	57,258	7.2	8.1	8.9	9.1	4.6	5.1	5.8	5.9		
Relaxo	31,656	1,272	3.0	108.6	100.1	76.9	62.0	63.4	58.7	46.7	38.4	20.1	19.4	16.5	13.3	18.5	19.4	21.4	21.4	28.7	36.6	44.0	53.9	2,359	2,818	3,363	3,834	21.0	18.8	19.7	20.7	12.4	11.2	12.2	13.3		
Bata	24,404	1,901	-0.2	(273.2)	157.7	53.3	45.1	150.1	49.5	26.2	25.5	13.9	13.1	10.8	9.6	(5.1)	8.3	20.3	21.3	(6.1)	25.9	57.2	61.6	1,708	2,440	3,444	3,745	9.5	19.4	25.9	24.1	(5.2)	6.3	13.3	14.5		
V-Mart	7,601	3,851	-0.1	(1,225.2)	195.5	63.8	48.4	59.7	37.7	20.7	16.4	9.2	8.8	7.8	6.8	(0.8)	4.5	12.3	14.0	2.7	14.4	32.0	40.3	1,075	1,631	2,648	3,239	12.2	11.9	13.3	13.6	(0.6)	2.4	4.5	4.8		
Global Peers (Fig in USD mn)																																					
Walmart	3,91,200	141	1.4	29.0	21.7	21.1	19.8	12.0	11.3	10.8	10.5	4.9	4.6	4.3	4.0	17.0	21.4	20.3	20.2	18.0	23.9	23.7	24.5	5,23,964	5,59,151	5,70,968	5,87,939	6.5	6.5	6.5	6.4	2.4	3.2	3.2	3.2		
CVS Health	1,30,501	99	1.7	12.3	11.9	11.1	10.5	9.5	8.8	8.2	-	1.7	1.6	1.5	-	14.1	13.5	13.6	-	12.3	15.7	17.7	-	2,68,706	2,89,607	3,04,007	3,18,571	6.5	6.4	6.4	6.6	3.7	3.6	3.7	3.7		
Walgreens	42,765	50	0.4	16.8	10.1	9.6	9.1	8.8	7.8	7.1	6.6	1.8	1.8	1.7	1.6	10.9	17.6	17.7	17.7	6.2	14.9	16.3	17.5	1,21,982	1,32,509	1,30,971	1,36,323	6.5	5.0	5.0	5.0	1.9	3.2	3.3	3.3		
Amazon	17,46,738	3,444	0.7	56.9	46.3	31.9	25.4	26.1	21.3	17.0	14.6	13.6	10.5	8.0	5.6	23.9	22.7	25.2	21.9	14.3	14.8	15.5	14.3	3,86,064	4,70,561	5,55,560	6,49,563	14.6	15.3	16.8	17.8	6.5	6.8	8.4	9.3		
Kroger	32,792	45	6.2	12.7	12.4	13.0	12.6	8.1	6.6	6.4	6.1	3.5	3.4	3.0	2.6	27.8	27.4	23.0	20.5	9.9	17.8	17.3	17.1	1,22,286	1,32,498	1,37,570	1,40,003	4.8	5.0	4.9	4.9	2.0	1.9	1.8	1.8		
Costco	2,47,800	559	2.6	49.5	44.4	40.7	36.8	28.0	25.1	22.6	20.5	14.0	11.3	9.2	7.6	28.4	25.5	22.7	20.7	42.2	49.7	44.7	40.0	1,66,761	1,95,929	2,16,478	2,32,437	4.5	4.4	4.5	4.7	2.6	2.6	2.6	2.7		
Target	1,14,118	238	0.8	26.1	17.4	18.0	17.0	12.9	10.6	10.7	10.6	8.3	8.5	7.6	7.3	31.6	49.0	42.3	42.7	32.0	45.0	40.0	37.7	78,112	93,561	1,03,655	1,07,183	10.0	10.9	10.5	10.4	4.7	6.3	5.9	6.0		
Macy's	7,999	27	-0.0	(2.0)	5.4	6.5	7.1	(4.6)	3.3	3.5	3.6	3.3	2.5	1.8	1.6	(160.3)	46.4	27.4	23.3	(49.6)	41.2	33.3	27.5	25,331	18,097	24,192	24,300	(17.3)	12.7	10.6	10.4	(21.8)	6.1	5.1	4.6		
Dollar General	51,532	222	3.2	19.4	21.3	20.2	18.7	11.6	14.3	13.2	12.2	8.0	8.3	7.1	6.2	41.4	39.0	35.4	33.4	19.1	33.4	33.4	34.1	27,754	33,747	34,253	36,839	16.3	11.3	11.2	11.3	7.9	7.0	6.9	7.0		
Ross Stores	39,877	113	0.1	467.0	23.6	21.3	19.5	33.3	13.6	12.4	11.6	12.2	9.8	8.2	7.3	2.6	41.6	38.4	37.5	4.5	205.2	136.5	108.9	16,039	12,532	18,916	20,161	9.8	14.3	14.7	14.8	0.7	8.9	9.3	9.6		

Source: Ventura Research & Bloomberg

MHSL is available at a significant discount to peers

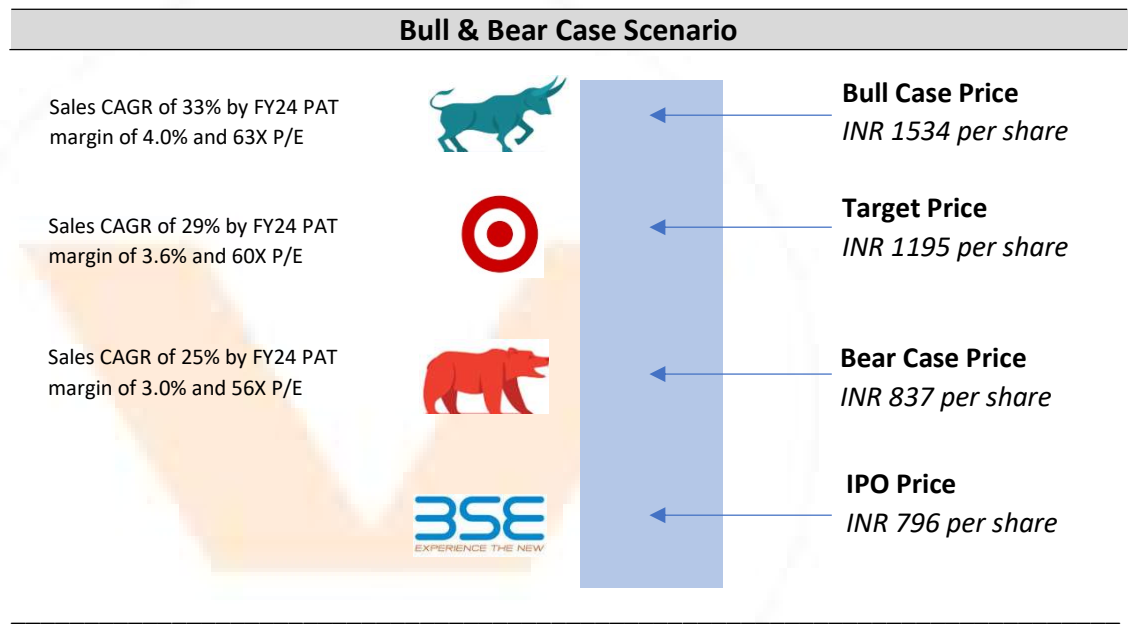


Source: Ventura Research, ACE Equity & Bloomberg

Our Bull and Bear Case Scenarios

We have prepared a Bull and Bear case scenario based on MHSL's FY24 Sales CAGR, PAT margins and P/E valuation.

- Bull Case:** We have assumed a 33% revenue CAGR to INR 7,260 cr by FY24 and PAT margin of 4.0%, along with the valuation re-rating to 63X P/E, which will result in a Bull Case price target of INR 1533.5 per share (an upside of 93% from the upper band IPO price of INR 796 per share).
- Bear Case:** We have assumed a 25% revenue CAGR to INR 5,940 cr by FY24 and PAT margin of 3.0%, along with the valuation de-rating to 56X P/E, which will result in a Bear Case price target of INR 836.5 per share (a upside of 5% from the upper band IPO price of INR 796 per share).



Financial Analysis and Projections

Over the period FY19-21, MHSL reported a revenue CAGR of 16.2% to come at a revenue of INR 3,069 cr driven by a 12.2% CAGR in total stores to 2,081 in FY21. EBITDA/net profit grew at 95.3%/73.8% to INR 217 cr/INR 63 cr respectively.

EBITDA/net profit margin improved by 460 bps/110 bps to 7.1%/2.1%. Return ratios ROE and ROIC also improved by 220 bps and 590 bps to 8.6% and 17.2% respectively.

Over the period FY21-24E, we expect MHSL to grow its revenues at a CAGR of 29.1% to INR 6,600 cr driven by a 27.4% CAGR in total number of stores to stand at 4,300 stores by FY24.

EBITDA/PAT are expected to grow at a faster CAGR of 32.9%/55.7% to INR 508 cr/INR 238 cr respectively. EBITDA and PAT margins are set to expand by 60bps and 160 bps to 7.7% and 3.6% respectively. This is majorly due to lesser tax expense as the company is expected to shift to the new tax regime of 25.2%.

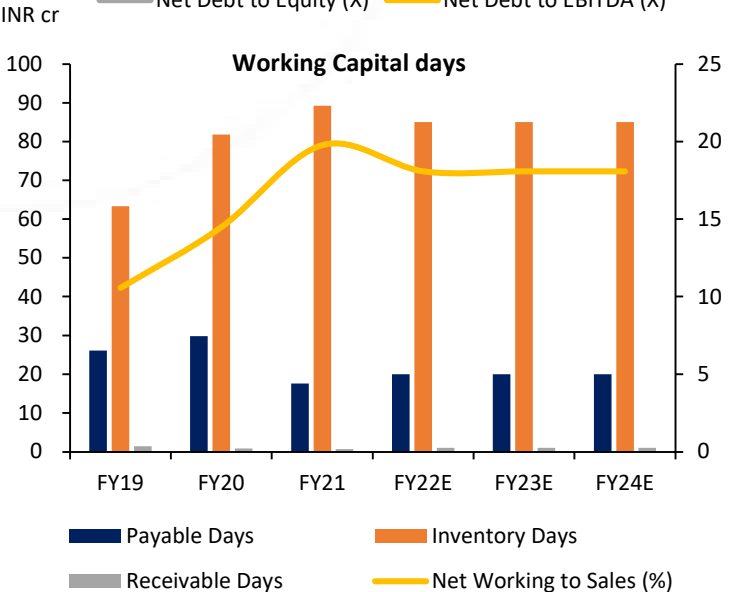
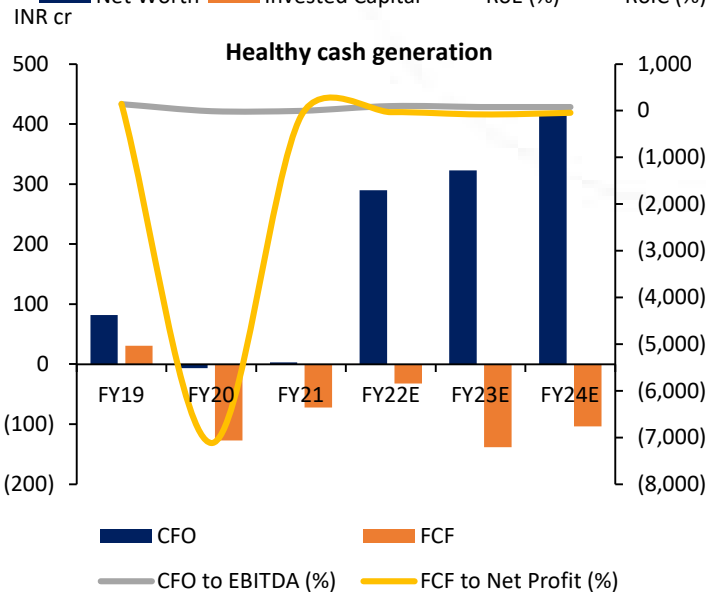
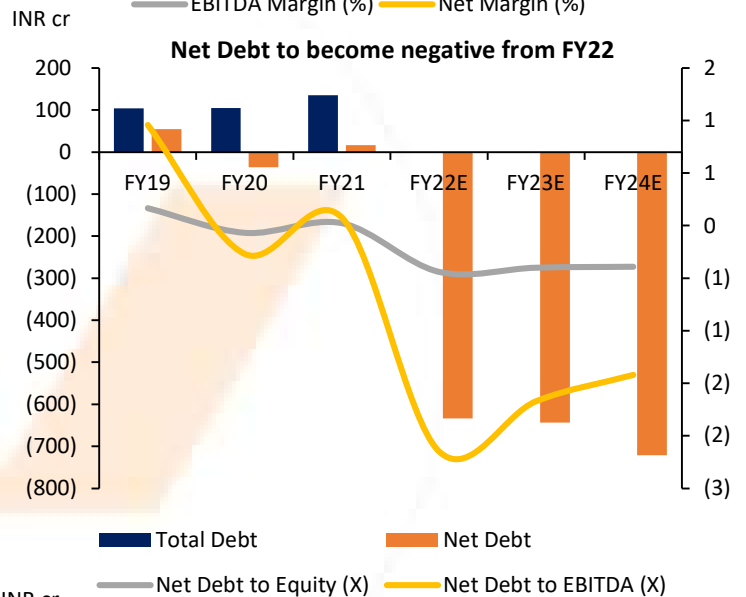
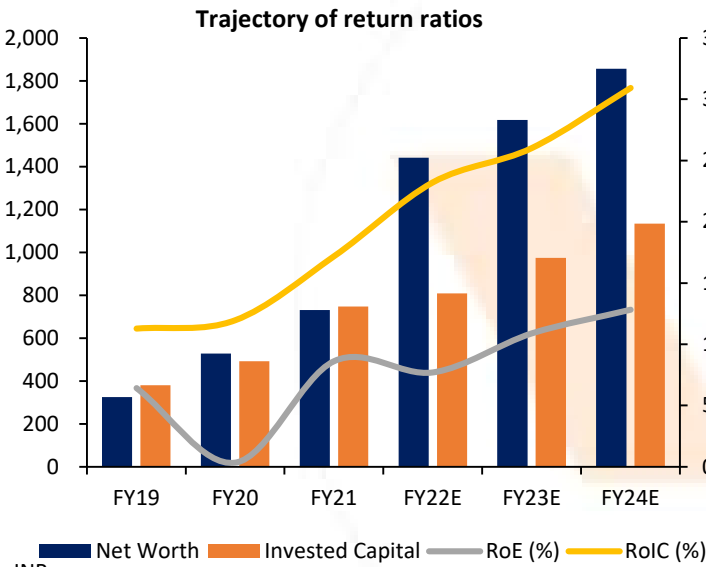
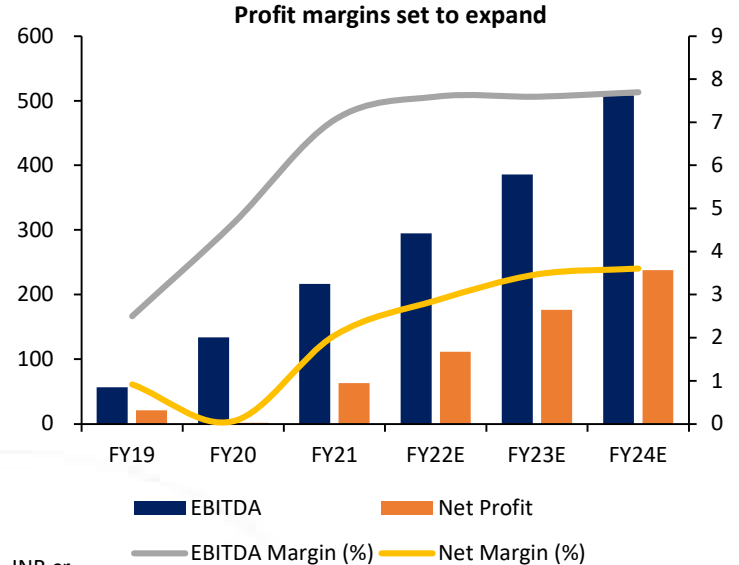
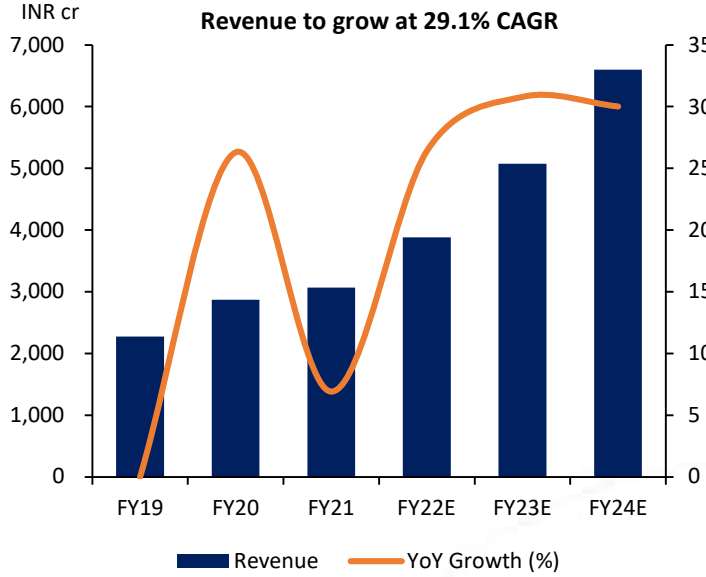
The company plans to roll out 2,500 stores in the next couple of years which are expected to keep the profit margins from improving too drastically. After FY24 however, as more and more of the company's stores become old enough to breakeven and earn profits, we expect margins to go up till 8%. Typically, a store takes up to 3 years to earn 10% EBITDA margin at the store level. The more contribution of private labels there is, the higher the margins become. This is why the company is also planning on increasing contribution from private labels.

Return ratios ROE and ROIC are expected to expand by 420 bps and 1370 bps to 12.8% and 30.9% by FY24.

MHSL's Financial Summary

Fig in INR Cr (unless specified)	FY19	FY20	FY21	FY22E	FY23E	FY24E	FY25E	FY26E	FY27E	FY28E	FY29E	FY30E
Revenue from operations	2,272.7	2,870.6	3,069.3	3,880.6	5,076.0	6,599.8	8,349.0	10,222.9	12,188.4	14,214.2	16,306.6	18,472.0
<i>YoY Growth (%)</i>		26.3	6.9	26.4	30.8	30.0	26.5	22.4	19.2	16.6	14.7	13.3
Raw Material Cost	1,844.0	2,336.5	2,424.2	3,065.7	4,010.0	5,213.8	6,595.7	8,076.1	9,628.8	11,229.3	12,882.2	14,592.9
<i>RM Cost to Sales (%)</i>	81.1	81.4	79.0	79.0	79.0	79.0	79.0	79.0	79.0	79.0	79.0	79.0
Employee Cost	211.4	272.4	338.7	388.1	502.5	646.8	809.8	981.4	1,157.9	1,336.1	1,516.5	1,699.4
<i>Employee Cost to Sales (%)</i>	9.3	9.5	11.0	10.0	9.9	9.8	9.7	9.6	9.5	9.4	9.3	9.2
Other Expenses	160.5	128.0	89.8	131.9	177.7	231.0	292.2	357.8	426.6	497.5	570.7	646.5
<i>Other Expenses to Sales (%)</i>	7.1	4.5	2.9	3.4	3.5	3.5	3.5	3.5	3.5	3.5	3.5	3.5
EBITDA	56.8	133.7	216.7	294.9	385.8	508.2	651.2	807.6	975.1	1,151.4	1,337.1	1,533.2
<i>EBITDA Margin (%)</i>	2.5	4.7	7.1	7.6	7.6	7.7	7.8	7.9	8.0	8.1	8.2	8.3
Net Profit	20.9	1.8	63.1	111.3	176.3	238.0	314.9	405.4	510.6	629.5	763.5	913.5
<i>Net Margin (%)</i>	0.9	0.1	2.1	2.9	3.5	3.6	3.8	4.0	4.2	4.4	4.7	4.9
Adjusted EPS	1.8	0.2	5.3	9.3	14.8	20.0	26.4	34.0	42.8	52.8	64.0	76.6
<i>P/E (X)</i>	454.4	5,305.1	150.5	85.3	53.9	39.9	30.2	23.4	18.6	15.1	12.4	10.4
Adjusted BVPS	27.3	44.2	61.2	120.9	135.6	155.6	182.0	216.0	258.8	311.5	375.5	452.1
<i>P/BV (X)</i>	29.2	18.0	13.0	6.6	5.9	5.1	4.4	3.7	3.1	2.6	2.1	1.8
Enterprise Value	9,550.7	9,460.3	9,512.8	8,862.8	8,852.6	8,774.6	8,608.7	8,307.3	7,856.6	7,243.3	6,454.9	5,478.0
<i>EV/EBITDA (X)</i>	168.1	70.8	43.9	30.1	22.9	17.3	13.2	10.3	8.1	6.3	4.8	3.6
Net Worth	325.2	527.8	730.6	1,441.9	1,618.2	1,856.2	2,171.0	2,576.5	3,087.1	3,716.6	4,480.1	5,393.6
<i>Return on Equity (%)</i>	6.4	0.3	8.6	7.7	10.9	12.8	14.5	15.7	16.5	16.9	17.0	16.9
Capital Employed	429.6	632.9	865.8	1,441.9	1,618.2	1,856.2	2,171.0	2,576.5	3,087.1	3,716.6	4,480.1	5,393.6
<i>Return on Capital Employed (%)</i>	5.7	0.6	9.8	9.7	11.7	14.1	16.1	17.5	18.2	18.3	18.1	17.6
Invested Capital	379.7	491.9	747.2	808.4	974.6	1,134.6	1,283.5	1,387.6	1,447.5	1,463.7	1,438.9	1,375.4
<i>Return on Invested Capital (%)</i>	11.3	12.0	17.2	23.2	26.0	30.9	36.5	43.4	51.8	62.1	75.1	92.1
Cash Flow from Operations	82.0	(6.6)	2.9	289.6	322.7	415.5	532.5	667.6	817.4	980.5	1,156.2	1,345.3
Cash Flow from Investing	(20.0)	(27.6)	(34.6)	(219.0)	(301.3)	(321.0)	(335.8)	(313.8)	(289.2)	(262.1)	(234.2)	(205.7)
Cash Flow from Financing	(72.1)	89.8	(5.6)	405.3	(68.6)	(89.4)	(114.5)	(142.3)	(171.7)	(202.2)	(233.8)	(266.4)
Net Cash Flow	(10.1)	55.7	(37.3)	475.9	(47.1)	5.0	82.2	211.5	356.6	516.2	688.1	873.2
Free Cash Flow	30.7	(127.3)	(72.0)	(32.5)	(138.2)	(103.7)	(34.9)	93.3	236.0	391.2	552.7	720.8
<i>FCF to Revenue (%)</i>	1.4	(4.4)	(2.3)	(0.8)	(2.7)	(1.6)	(0.4)	0.9	1.9	2.8	3.4	3.9
<i>FCF to EBITDA (%)</i>	54.1	(95.3)	(33.2)	(11.0)	(35.8)	(20.4)	(5.4)	11.5	24.2	34.0	41.3	47.0
<i>FCF to Net Profit (%)</i>	146.9	(7,114.1)	(114.1)	(29.2)	(78.4)	(43.6)	(11.1)	23.0	46.2	62.1	72.4	78.9
<i>FCF to Net Worth (%)</i>	9.4	(24.1)	(9.9)	(2.3)	(8.5)	(5.6)	(1.6)	3.6	7.6	10.5	12.3	13.4
Total Debt	104.4	105.1	135.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net Debt	54.5	(35.9)	16.6	(633.4)	(643.5)	(721.6)	(887.5)	(1,188.9)	(1,639.6)	(2,252.9)	(3,041.3)	(4,018.2)
<i>Net Debt to Equity (X)</i>	0.2	(0.1)	0.0	(0.4)	(0.4)	(0.4)	(0.4)	(0.5)	(0.5)	(0.6)	(0.7)	(0.7)
<i>Net Debt to EBITDA (X)</i>	1.0	(0.3)	0.1	(2.1)	(1.7)	(1.4)	(1.4)	(1.5)	(1.7)	(2.0)	(2.3)	(2.6)
<i>Interest Coverage Ratio (X)</i>	2.7	1.3	2.3	3.2	3.7	3.9	4.1	4.2	4.4	4.5	4.6	4.8

Source: Company RHP and Ventura Research



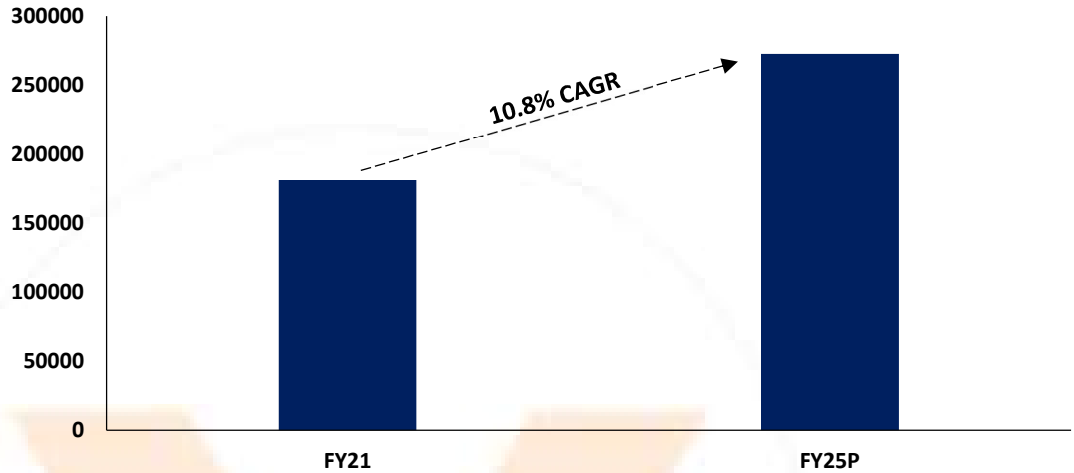
Source: Company Reports and Ventura Research

Key Growth Drivers

2nd largest player in a fast-growing industry

India's pharmacy retail market is expected to grow at a CAGR of approximately 11% between FY21 to FY25, from INR 1,81,125 cr to INR 2,72,500 cr, in terms of revenue.

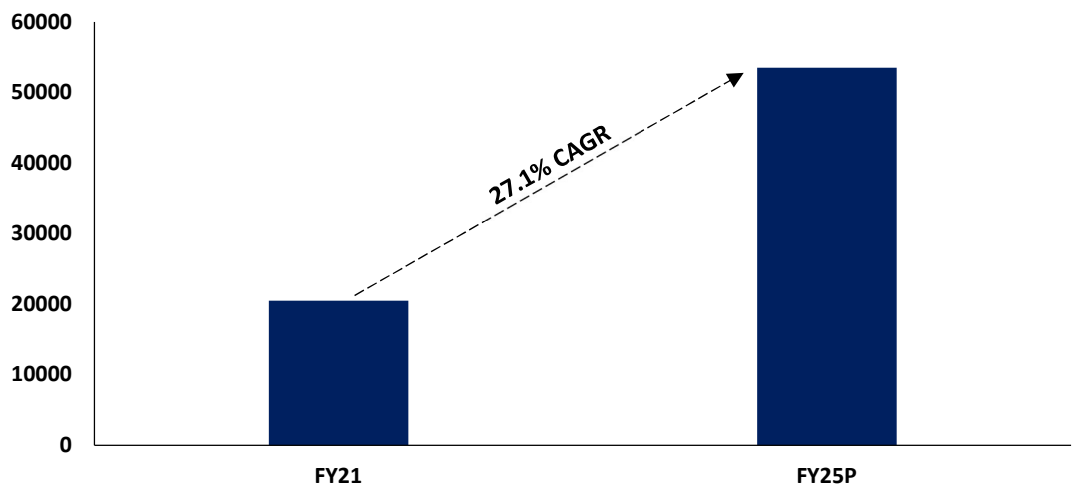
Growth in India's pharmacy retail market (in terms of revenue)



Source: Company RHP

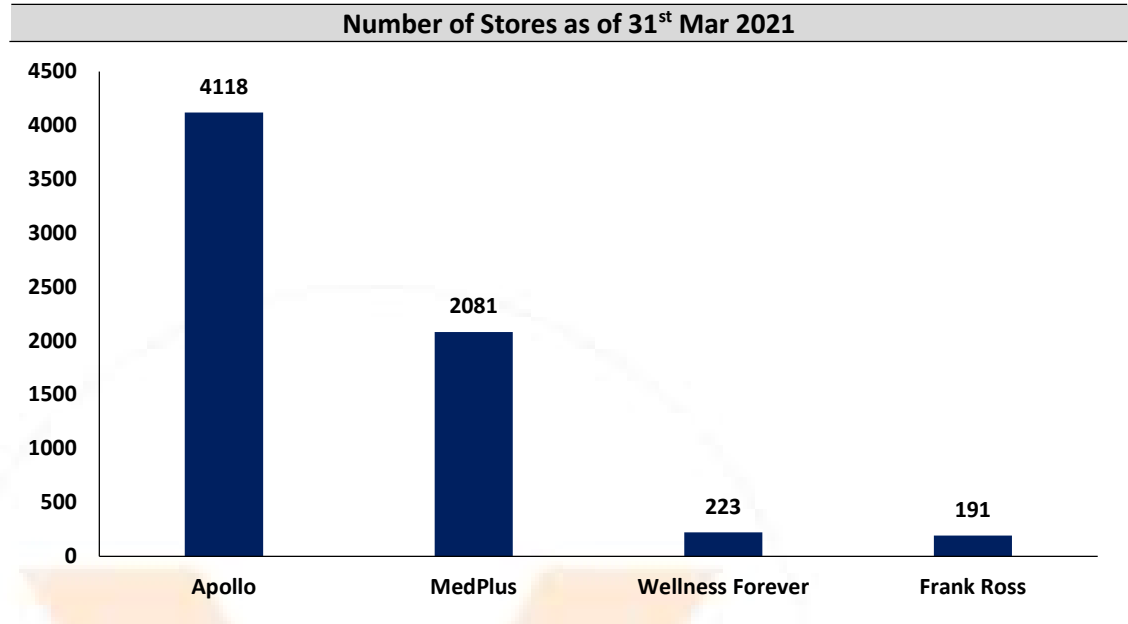
Further, the organized pharmacy retail market's share of India's pharmacy retail market, in terms of revenue, increased from approximately 5% in the financial year 2015 to approximately 11% for the financial year 2021. The organized pharmacy retail market is expected to grow at a CAGR of approximately 27% between financial year 2021 to financial year 2025, from INR 20,475 cr to INR 53,500 cr, in terms of revenue, primarily through a combination of structural growth in the underlying market and gaining market share from the unorganized pharmacy retailers.

Growth in the organized pharmacy retail market (in terms of revenue)

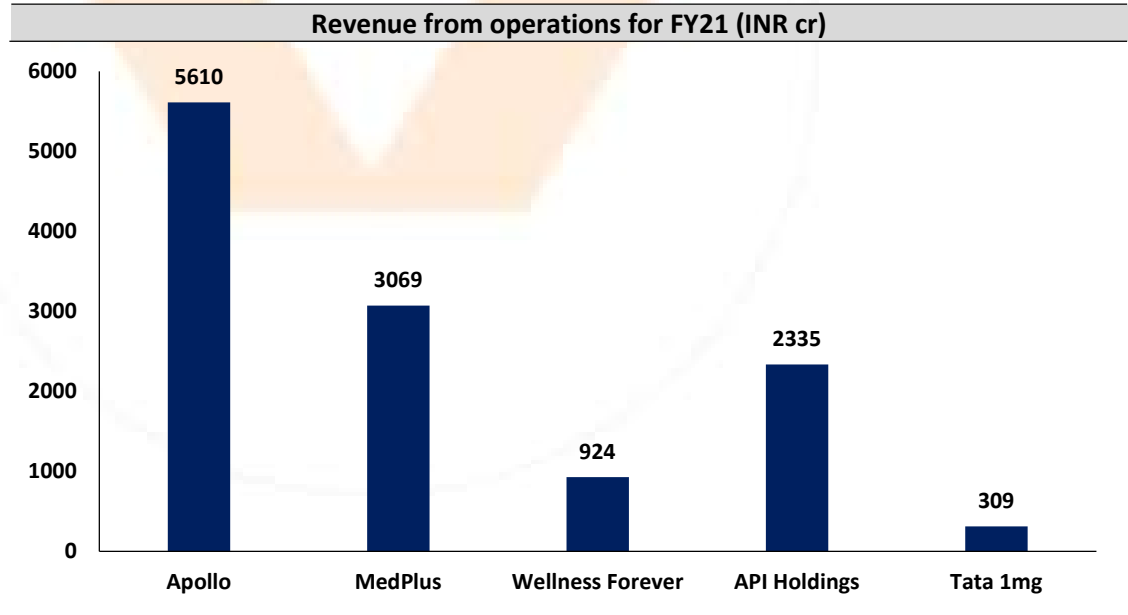


Source: Company RHP

MHSL is the second largest pharmacy retailer in India, in terms of
 (i) revenue from operations for FY21, and
 (ii) number of stores as of March 31, 2021



Source: Company RHP

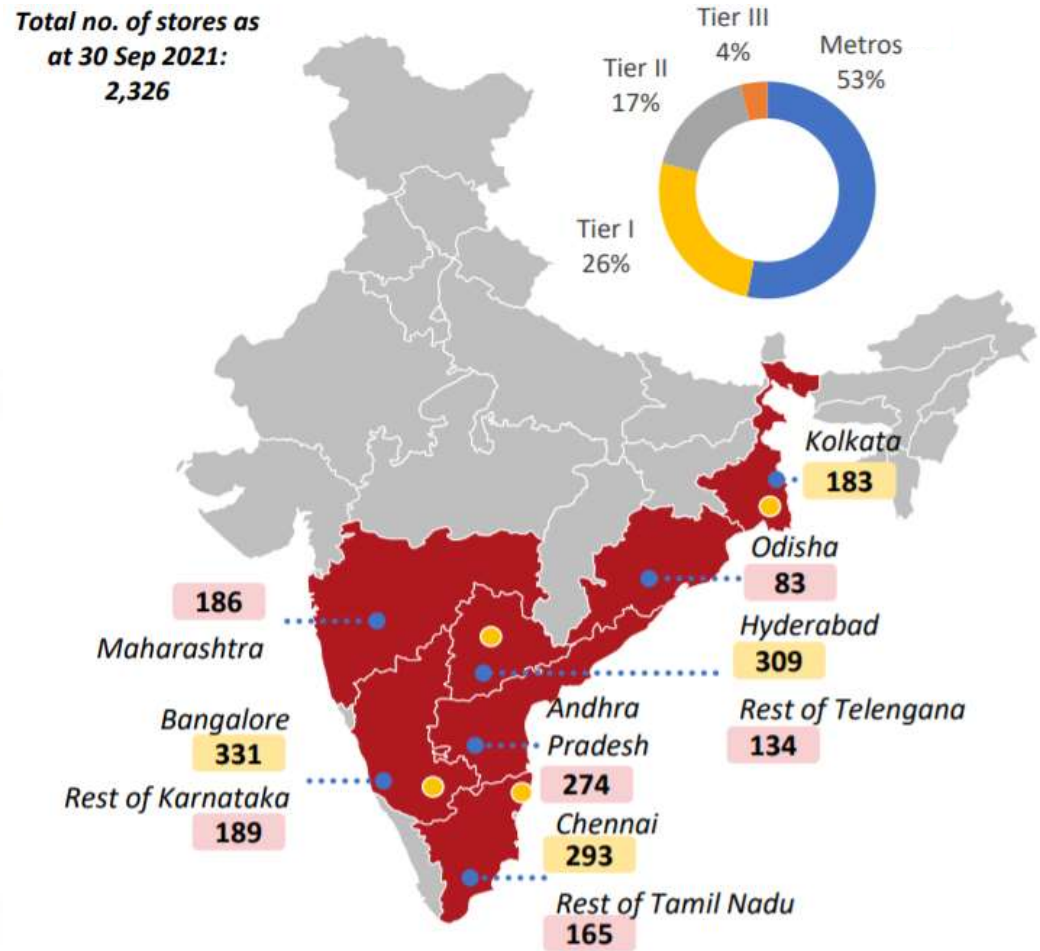


Source: Company RHP

The company operates 2,326 stores (as of September 30th) distributed across Tamil Nadu, Andhra Pradesh, Telangana, Karnataka, Odisha, West Bengal and Maharashtra. In addition to being the second largest pharmacy retailer, it is also focusing on growing and achieving market leadership in the key cities where it operates. For FY21, its share of the organized pharmacy retail market based on revenue from operations in Chennai, Bangalore, Hyderabad and Kolkata

stood at 30%, 29%, 30% and 22% respectively. In terms of number of stores as of March 31, 2021, it ranked 1st in Chennai and Bangalore, and 2nd in Hyderabad and Kolkata.

Presence in 7 states – evenly distributed among metros and other cities



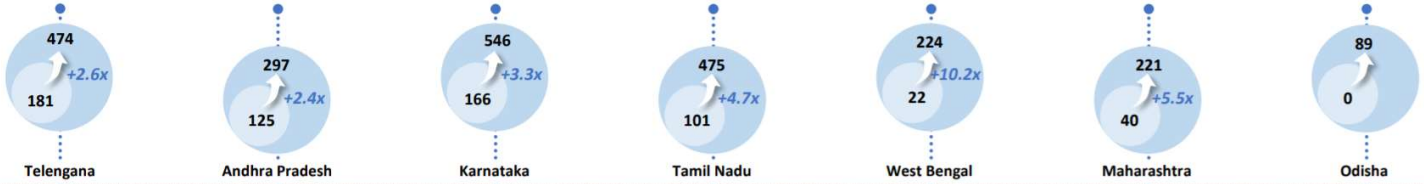
Source: Company Reports

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

MHSL has grown from operating 48 stores in Hyderabad in 2006 to operating India’s second largest pharmacy retail network of over 2,000 stores as of FY21. It employs a data-analytics driven cluster-based approach to its store network expansion, where it first achieves high store density in a densely-populated residential area within a target city before expanding its store network in the surrounding areas within that city, followed by expansion into other adjacent cities. The company ensures that each new store would be in a catchment area serving at least 10,000 to 15,000 people.

MHSL employs a data-analytics driven cluster-based approach to store expansion

Leveraging a cluster based approach, MedPlus has expanded from **48** stores in 2006 to **2,326** stores as at 30 September 2021



MedPlus has focused more on increasing presence in key core markets ⁽¹⁾



51.5%
% of stores in core markets as at 30 September 2021

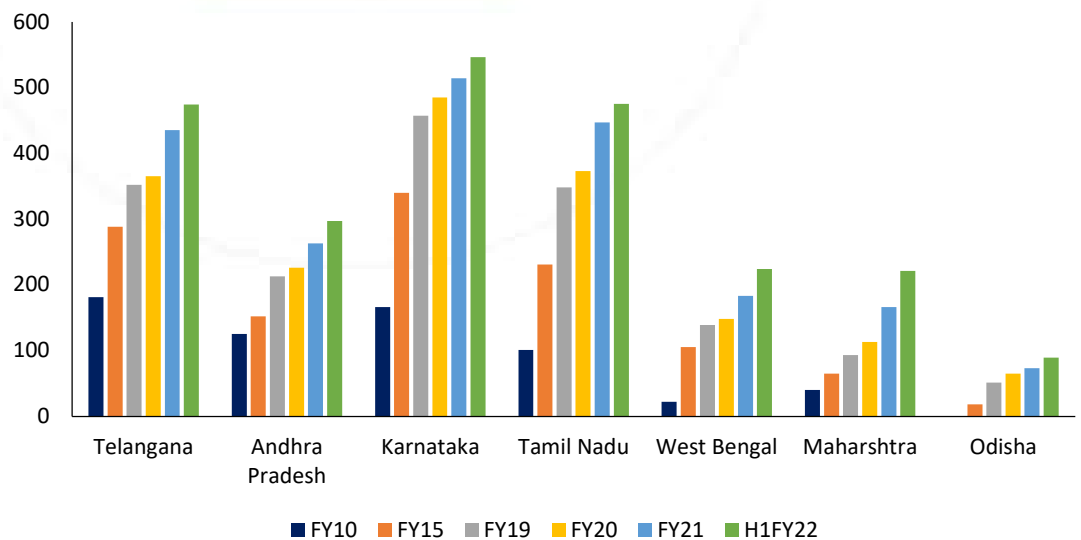


Source: Company Reports

This approach -

- (i) allows the creation of high brand visibility for customers within key cities,
- (ii) leads to achieving a leading market share in these key cities,
- (iii) enables replication of similar success in adjacent under-served cities and areas, as it develops its presence in existing clusters and develops new clusters, and
- (iv) increases cost efficiency due to economies of scale achieved in supply chain and inventory management.

Growth in terms of no. of stores and states in which they were located



Source: Company RHP

Further. The company intends to capitalize on the shift from unorganized to organized retail of pharmaceutical products in India, taking advantage of the low base of organized pharmacy

retail penetration and increasing penetration of mobile and internet usage in India, and strengthen its market position by (i) increasing store penetration and customer reach in existing clusters and (ii) developing new clusters in other states and cities.

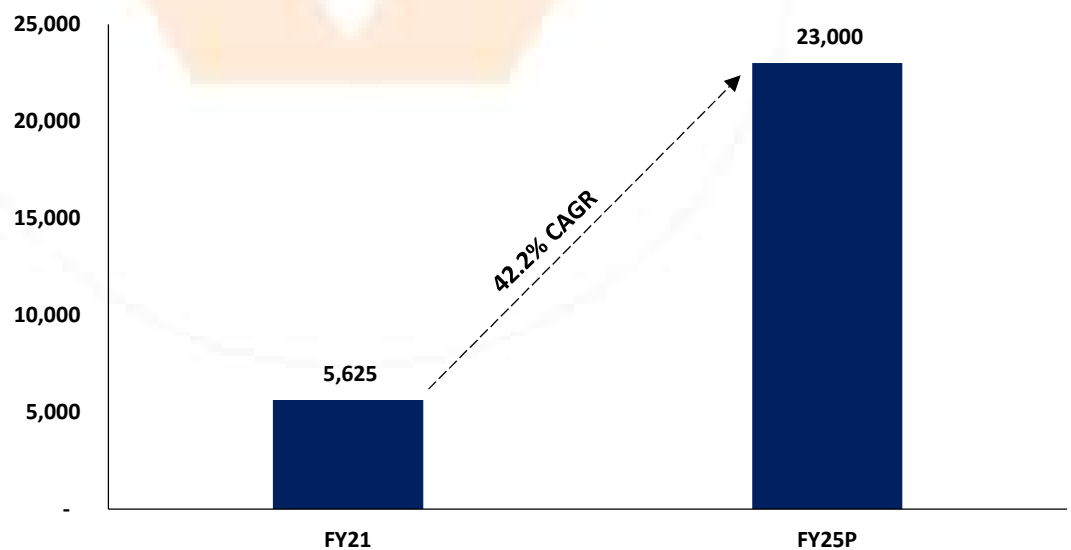
High Density Store Network Enhancing Omni-channel Proposition

Customers can either visit Medplus stores or access its offerings online through the website or the mobile application. They can even place orders through the telephone, or place an order online and choose to pick up from the store. This kind of an omni-channel proposition to its customers leverages the existing store network and supply chain and distribution network to offer a differentiated offering to its customers. It allows the company to

- (i) deepen and extend customer reach from, and expand the total addressable market for, each store,
- (ii) lower incremental cost of operations for online deliveries (as the stores act as branding sites and lower cost of online customer acquisition), and
- (iii) retain offline and online customers within the customer ecosystem.

India’s e-commerce pharmacy retail market is expected to grow at a CAGR of approximately 42% between FY21 to FY25, from INR 5,625 cr to INR 23,000 cr.

Growth in the e-commerce pharmacy retail market (in INR cr)



Source: Company RHP

We believe that the company is well-positioned to benefit from a fast-growing India e-commerce pharmacy retail market, owing to its significant existing online operations, pricing and discounting strategy, and delivery capabilities. The large scale

of operations and the cost-efficient nature of it allows the company to be profitable, despite its pricing and discounting strategy.

Further, it aims to enhance its delivery infrastructure and achieve a higher rate of online delivery purchases by reaching customers within two hours. The 2-hour delivery services were started in FY21, and recent pilots in July 2021 have showed promising results where 93% of online delivery purchases were delivered within two hours in select micro-markets of Hyderabad. The company expects to expand its ability to deliver online purchases within two hours of purchase in big cities such as Mumbai by December 31, 2021.



MHSL's Management Team

KMP	Designation	Description
Gangadi Madhukar Reddy	MD & CEO	He holds a bachelor's degree in medicine and surgery from the Sri Venkateswara University and an MBA degree from the Wharton School, University of Pennsylvania.
Anish Kumar Saraf	Non-Executive Director	He is a CA and holds a PGDM from the IIM, Ahmedabad. He is the MD of Warburg Pincus India Pvt Ltd and has been in the employment of the company for 15 years.
Atul Gupta	Non-Executive Director	He holds a B-Tech from the IIT, Bombay and a MBA from the Walter A. Haas School of Business, University of California, Berkeley. He has over 13 years of experience in the investment industry.
Cherukupalli Bhaskar Reddy	COO	He holds a bachelor's degree in medicine and surgery from Sri Venkateswara University and a master's degree in surgery from Faculty of Medicine, Kasturba Medical College, Manipal Academy of Higher Education. He was previously a fellow of the Royal College of Surgeons, Edinburgh. He has over 14 years of experience in the pharmaceutical industry.
Surendranath Mantena	CEO - MedPlus Mart	He holds a bachelor's degree in medicine and surgery from Faculty of Modern Medicine, University of Health Sciences, Andhra Pradesh, served as a resident in internal medicine at St. John Hospital and Medical Centre, Detroit and has an MBA degree from the University of Illinois, Chicago. He was a resident and fellow of internal medicine in USA for 5 years.
Hemanth Kundavaram	CFO	He holds a bachelor's degree in commerce from Sri Venkateswara University and a master's degree in business administration from the Periyar Institute of Distance Education, Periyar University. He is an associate of the Institute of Chartered Accountants of India and has over 15 years of experience in corporate finance and accounting in various industries
Kandasamy Vairaperumal	Head - Supply Chain (Optival)	He holds a bachelor's degree in engineering from Coimbatore Institute of Technology, Bharatiar University and a PGPM from the ISB, Hyderabad. He has previously worked with Wipro Ltd and has 15 years of work experience in supply chain management and software engineering.
Lakshman Kandarpa	Chief Retail Officer (Optival)	He holds a diploma in hotel management from the National Council for Hotel Management and Catering Technology, New Delhi, a BBA degree from Le Magnus University, a PGD in business administration from Magnus School of Business, Hyderabad and has completed a certificate programme in strategic retail management from ISB and has over 24 years of work experience in operations management.

Source: Company Reports

Issue Structure and Offer Details

The proposed issue size of MHS's IPO is INR 1,398.3 cr, out of which INR 798.3 cr is an offer for sale and the balance is fresh issue. The price band for the issue is in the range of INR 780-796 and the bid lot is 18 shares and multiples thereof.

Issue Structure		
Category	No. of shares offered	% of Issue
QIB	87,83,260	Not more than 50%
Non Institutional Bidders	26,34,978	Not less than 15%
Retail	61,48,282	Not less than 35%
Total	1,75,66,520	100%

** Number of shares based on higher price band of INR 796*

Source: Company Reports

Shareholding Pattern		
Category	Pre Issue	Post Issue
Promoters	43.16%	40.43%
Public	56.84%	59.57%
Total	100.00%	100.00%

Source: Company Reports

Objects of the Issue	
Particulars	Amount in cr
Investment into material subsidiary, Optimal for funding working capital requirements of Optival	467
General Corporate Purposes	[●]
Total	[●]

Source: Company Reports

Key Risks and Concerns

- Changes in prescription drug pricing and commercial terms could adversely affect operations and financial performance and therefore our estimates.
- One of the promoters, Lone Furrow Investments Private Limited, has pledged a portion of its shareholding with certain lenders under various loan and security agreements. Any exercise or enforcement of this pledge could dilute the shareholding of Lone Furrow Investments Private Limited, which may adversely affect the business and future prospects and is a downside risk to our forecasts.

Financial Analysis & Projections

Fig in INR Cr (unless specified)	FY20	FY21	FY22E	FY23E	FY24E	Fig in INR Cr (unless specified)	FY20	FY21	FY22E	FY23E	FY24E
Income Statement						Per share data & Yields					
Revenue	2,870.6	3,069.3	3,880.6	5,076.0	6,599.8	Adjusted EPS (INR)	0.2	5.3	9.3	14.8	20.0
YoY Growth (%)	26.3	6.9	26.4	30.8	30.0	Adjusted Cash EPS (INR)	6.4	12.7	18.3	25.8	33.1
Raw Material Cost	2,336.5	2,424.2	3,065.7	4,010.0	5,213.8	Adjusted BVPS (INR)	44.4	61.3	120.9	135.6	155.6
RM Cost to Sales (%)	81.4	79.0	79.0	79.0	79.0	Adjusted CFO per share (INR)	(0.6)	0.2	24.3	27.1	34.8
Employee Cost	272.4	338.7	388.1	502.5	646.8	CFO Yield (%)	(0.1)	0.0	3.0	3.4	4.4
Employee Cost to Sales (%)	9.5	11.0	10.0	9.9	9.8	Adjusted FCF per share (INR)	(10.7)	(6.0)	(2.7)	(11.6)	(8.7)
Other Expenses	128.0	89.8	131.9	177.7	231.0	FCF Yield (%)	(1.3)	(0.8)	(0.3)	(1.5)	(1.1)
Other Exp to Sales (%)	4.5	2.9	3.4	3.5	3.5	Solvency Ratio (X)					
EBITDA	133.7	216.7	294.9	385.8	508.2	Total Debt to Equity	0.2	0.2	0.0	0.0	0.0
Margin (%)	4.7	7.1	7.6	7.6	7.7	Net Debt to Equity	(0.1)	0.0	(0.4)	(0.4)	(0.4)
YoY Growth (%)	135.4	62.1	36.1	30.8	31.7	Net Debt to EBITDA	(0.3)	0.1	(2.1)	(1.7)	(1.4)
Depreciation & Amortization	74.8	88.3	107.2	132.0	157.3	Return Ratios (%)					
EBIT	58.9	128.4	187.8	253.8	350.9	Return on Equity	0.3	8.6	7.7	10.9	12.8
Margin (%)	2.1	4.2	4.8	5.0	5.3	Return on Capital Employed	0.6	9.8	9.7	11.7	14.1
YoY Growth (%)	37.4	118.1	46.2	35.2	38.3	Return on Invested Capital	12.0	17.2	23.2	26.0	30.9
Other Income	17.3	21.6	20.4	50.4	56.6	Working Capital Ratios					
Finance Cost	46.8	54.9	59.4	68.6	89.4	Payable Days (Nos)	30	18	20	20	20
Interest Coverage (X)	1.3	2.3	3.2	3.7	3.9	Inventory Days (Nos)	82	89	85	85	85
Exceptional Item	0.0	0.0	0.0	0.0	0.0	Receivable Days (Nos)	1	1	1	1	1
PBT	29.4	95.1	148.7	235.6	318.1	Net Working Capital Days (Nos)	53	72	66	66	66
Margin (%)	1.0	3.1	3.8	4.6	4.8	Net Working Capital to Sales (%)	14.5	19.8	18.1	18.1	18.1
YoY Growth (%)	(19.7)	224.0	56.4	58.4	35.0	Valuation (X)					
Tax Expense	27.6	32.0	37.4	59.3	80.1	P/E	5,305.1	150.5	85.3	53.9	39.9
Tax Rate (%)	93.9	33.6	25.2	25.2	25.2	P/BV	17.9	13.0	6.6	5.9	5.1
PAT	1.8	63.1	111.3	176.3	238.0	EV/EBITDA	70.8	43.9	30.1	22.9	17.3
Margin (%)	0.1	2.1	2.9	3.5	3.6	EV/Sales	3.3	3.1	2.3	1.7	1.3
YoY Growth (%)	(91.5)	3,445.5	76.4	58.4	35.0	Cash Flow Statement					
Min Int/Sh of Assoc	0.0	0.0	0.0	0.0	0.0	PBT	29.4	95.1	148.7	235.6	318.1
Net Profit	1.8	63.1	111.3	176.3	238.0	Adjustments	167.3	131.2	272.8	362.6	453.0
Margin (%)	0.1	2.1	2.9	3.5	3.6	Change in Working Capital	(175.7)	(191.4)	(94.5)	(216.1)	(275.5)
YoY Growth (%)	(91.4)	3,425.7	76.4	58.4	35.0	Less: Tax Paid	(27.6)	(32.0)	(37.4)	(59.3)	(80.1)
Balance Sheet						Cash Flow from Operations	(6.6)	2.9	289.6	322.7	415.5
Share Capital	0.2	0.4	23.9	23.9	23.9	Net Capital Expenditure	(30.1)	(54.0)	(185.7)	(244.0)	(248.0)
Total Reserves	528.9	730.7	1,418.0	1,594.3	1,832.3	Change in Investments	2.5	19.5	(33.3)	(57.3)	(73.0)
Shareholders Fund	529.1	731.1	1,441.9	1,618.2	1,856.2	Cash Flow from Investing	(27.6)	(34.6)	(219.0)	(301.3)	(321.0)
Long Term Borrowings	0.0	0.0	0.0	0.0	0.0	Change in Borrowings	(67.9)	(48.8)	(135.2)	0.0	0.0
Deferred Tax Assets / Liabilities	(40.2)	(38.6)	(38.6)	(38.6)	(38.6)	Less: Finance Cost	(46.8)	(54.9)	(59.4)	(68.6)	(89.4)
Other Long Term Liabilities	320.8	401.3	507.3	663.6	862.8	Proceeds from Equity	204.5	98.0	600.0	0.0	0.0
Long Term Trade Payables	0.0	0.0	0.0	0.0	0.0	Buyback of Shares	0.0	0.0	0.0	0.0	0.0
Long Term Provisions	17.7	18.4	21.0	27.2	35.0	Dividend Paid	0.0	0.0	0.0	0.0	0.0
Total Liabilities	827.5	1,112.1	1,931.6	2,270.4	2,715.5	Cash flow from Financing	89.8	(5.6)	405.3	(68.6)	(89.4)
Net Block	419.5	517.3	595.8	707.8	798.6	Net Cash Flow	55.7	(37.3)	475.9	(47.1)	5.0
Capital Work in Progress	2.8	5.5	0.0	0.0	0.0	Forex Effect	0.0	0.0	0.0	0.0	0.0
Intangible assets under development	2.2	0.0	0.0	0.0	0.0	Opening Balance of Cash	24.5	8.9	(28.4)	447.5	400.4
Non Current Investments	0.0	0.0	0.0	0.0	0.0	Closing Balance of Cash	80.2	(28.4)	447.5	400.4	405.4
Long Term Loans & Advances	68.3	81.1	102.5	134.1	174.3						
Other Non Current Assets	0.0	0.0	0.1	0.1	0.1						
Net Current Assets	334.7	508.1	1,233.2	1,428.4	1,742.4						
Total Assets	827.5	1,112.1	1,931.6	2,270.4	2,715.5						

Source: Company RHP and Ventura Research

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Corporate Office: I-Think Techno Campus, 8th Floor, 'B' Wing, Off Pokhran Road No 2, Eastern Express Highway, Thane (W) – 400608