Medplus Health Services Limited

August 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: Transcripts of Analyst / Earning Call / Conference Call:

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 August 5, 2024 for the quarter ended June 30, 2024.

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

Thanking You,
For MedPlus Health Services Limited

MANOJ KUMAR SRIVASTAVA
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Manoj Kumar Srivastava
Company Secretary & Compliance Officer
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Encl. a/a

"MedPlus Health Services Limited

Q1 FY'25 Earnings Conference Call"

August 05, 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. Srinivas - Sr. Manager Finance

Moderator: Ladies and gentlemen, good day, and welcome to the MedPlus Health Services Limited Q1 and FY '25 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. Srinivas. Thank you and over to you sir.

Srinivas: Thank you, Shajal. Good evening, everyone. On behalf of MedPlus, it's my utmost pleasure to welcome you all to the MedPlus Q1 FY '25 earnings call to discuss the financial results of MedPlus for the first quarter of FY '25 which were announced on the 2nd August 2024. We have with us today the senior management team represented by Mr. Madhukar Reddy Gangadi, CEO and 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 1 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 would now hand over the call to Sujit. Thank you. And over to you, Sujit.

Sujit Mahato: Thank you, Srinivas, and a very good evening to everyone on the call. We are pleased to share that as of June 30, we have been serving communities in over 650 cities across 10 states through our network of 4,444 pharmacy outlets. Also, the company operates four full service diagnostic centers, eight level two centers and over 110 collection centers, offering essential diagnostic services at affordable rates.

I would now brief upon the openings and closures of our outlet. Over the past 12 months we have added a net total of 469 gross 568 store editions with 66 stores opened during quarter one. However, planned new store openings for FY '25 remains at 600. In the first quarter, 44% of our store openings were in tier 2 two cities and beyond. At present, out of our 4,444 stores, 2,031 representing 45% are situated entire two cities and beyond. We continue to acknowledge the growth potential inherent in these markets.

Throughout Q1, there were 29 store closures. Taking into account both openings and closures, we achieved a net addition of 37 stores during the quarter, compared to the 174 stores added in Q4. In terms of our network, the age of the network is around 36% of our stores are operational for less than two years and the remaining 64% of our stores have been operational for two years or more. It's noteworthy that all stores in the less than two years age bracket are still in their ramp up phase.

As these stores mature, we anticipate a positive contribution to our profitability. As a guardrail, we closely monitor the timeframe for our new stores to reach breakeven. For stores opened between July 2003 and December '23, approximately 64% of them achieved breakeven within six months of operation. As a cohort, all stores combined reach breakeven in just four months.

In terms of our store size, as at the end of the quarter, our network has grown to 4,444 stores with 2.3 million plus square feet compared to 3,975 stores representing 2.1 million square feet at the end of June 2023. The average store size was 529 square feet. To give you a sense of spread in store sizes, we have 3,269 stores, less than 650, and 1,175 stores that are greater than 600 square feet.

On our 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 880 carefully selected SKUs panning across pharmaceutical and non-pharmaceutical categories.

Private label sales for quarter one FY '25 constitute 15.8% 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 comprised 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 product across our network. In quarter one FY '24, prior to the launch, the share of private label pharma stood at 7.9% of total GMV compared to 15% 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 the financial numbers. On our quarter performance, our consolidated revenue was INR14,888 million with growth of 15.9% YoY and remains flat quarter-on-quarter. Our consolidated operating EBITDA stood at INR435 million representing 2.9%. Around 99% of our revenue is from our pharmacy operations. Revenue from pharmacy operations grew by 24% year-on-year on GMV basis and by 15.3% year-on-year on net basis. The pharmacy operating EBITDA stood at INR432 million representing 3%. The pharmacy operating EBITDA adjusted for special marketing spend of INR95 million stood at INR527 million, representing 3.6%.

Now on our stores performance, I would like to update on our stores older than 12 months. Revenue from these stores in quarter one was INR13,604 million or 94% of pharmacy revenues. These stores had a store level EBITDA margin of 9.3%. The store level operating ROCE of the stores stood at 46.1%.

Award year on the store level EBITDA margin by age, while stores greater than 12 months had a margin of 9.3%, this was 9.7% for stores greater than 24 months and 6.8% for stores in the 13month to 24month age bracket. If we allocated non-store related cost, then the operating EBITDA of stores greater than 12 months would be INR525 million, which translates to a margin of 3.8%.

On our diagnostic numbers, diagnostic revenue grew to INR242 million in quarter one FY '25 compared to INR139 million in quarter one of FY '24. Diagnostic segment recorded an operating EBITDA of positive INR3.3 million compared to a loss of INR46 million in quarter one FY '24. However, central level operating EBITDA stood at INR31 million.

Working capital. Our net working capital for Q1 was 69 days. The inventory in our warehouse stood at 40 days. In quarter one, the inventory level of our first year store was 104 days. In comparison, for our stores older than 12 months, the inventory was 47 days.

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

Chetan Dikshit: Thank you Sujit, and good afternoon, everyone. As you know, Q1 is a seasonally weak quarter for diagnostics. With that context, in April we sold 406 gross plans per day. In May and June, this was 408 and 442 respectively. As on the 31 March, we had 133,000 active plans and 247,000 underlying lives covered under our plans. As on the 30 June, we had 141,000 active plans and 270,000 underlying lives. Our current observed on time renewal rate was 24% in Q1 versus 21% in Q4. That concludes our update for the quarter. I request the host to open the line for questions.

Moderator: Thank you very much. The first question is from the line of Tanmay Gandhi from Investec. Please go ahead.

Tanmay Gandhi: Hi, sir, the quarter looks a relatively weaker one, and I understand that this is a relatively weaker quarter on a seasonal basis, but I just want to understand.

Moderator: Sorry to interrupt you sir. May I request you to please use your handset?

Tanmay Gandhi: Yes. Sir, my question is that, you know, whether do we need to revisit our guidance or are we reiterating our guidance of 20% plus top line growth and, you know, maintaining 4Q level margins?

Madhukar Reddy Gangadi: No, I don't think we need to change anything out there. As we mentioned earlier, Q1 is typically slow, and that's what it is. I don't think there's anything more to look beyond that honestly.

Tanmay Gandhi: Sure. And the 16% growth looks very weak, given specifically if you look at pharma companies' growth, even the largest player had reported almost 16% year-on-year growth. So just wanted to understand that, have you plateaued in terms of market share against even our same store sales growth also looks a little tepid. Just wanted to understand that, you know, is it something, is it a market specific trend or there is someone off in our numbers?

Madhukar Reddy Gangadi: No, no, Tanmay, it's actually 23%. You know, given that significant portion of our sales is now coming from MedPlus private label, and these are all selling at, you know, half the price of our regular brands, right. So, any growth in this is going to definitely affect the overall top line. So, if you look at it MRP to MRP, and if you compare like to like out there, our growth is actually 23%.

Tanmay Gandhi: Understood. So GMV growth is 23%. Got it. So, the 20% plus growth which you have guided for, that is for reported revenue or that is for GMV revenue?

Madhukar Reddy Gangadi: No, that's actually for normal reported revenue only for this year.

Tanmay Gandhi: Understood. And sir, you know, our store generics are relatively better in terms of gross margins, right, but still, we have seen a good 50 bps decline sequentially. So just wanted to understand that, you know, is there any inventory write off during the quarter?

Madhukar Reddy Gangadi: See, while the private label margin is definitely better than the regular branded margin and all, there are two things happening here. One, we are cannibalizing into the old private label, which had a slightly higher margin.

And this one, as you know, while it is better, it is not as good as the old private label. We actually have 52% to 55% overall discount on this product. So, the margin is not going to be as accretive. So, if you look at a INR100 MRP equivalent for private label and for a branded generic, the regular one, if after the discount on a branded generic, we get something like 13 or 0.13 or 13% or something like that.

On the new private label, you end up getting anywhere from 23 to 26. This is on the INR100 MRP. If you look at on the net sales, it is going to be around 60, 64. So, it's not going to be as accretive. On the inventory and all. I'll let actually Sujit answer that, to see if there's any other adjustment. As far as I know, the private level growth is definitely accruing to us. The margins.

Sujit Mahato: Yes. In addition, what I would like to highlight is since we are speaking on the sequential quarter, Tanmay, in terms of the other business income and the data fee which we had recorded in quarter four, we had also highlighted during that time that to the extent of 0.3% of the gross margin. There is a shortfall, which means that that was a Q4 event, which we also expect during the current fiscal. To that extent it has impacted our gross margin, and some amount of inventory provisioning has also impacted, which is another 0.3%.

Tanmay Gandhi: Sure. Got it. That's all from mine. Thank you.

Moderator: Thank you. The next question is from the line of Adrit Chaturvedi from Nomura Financial Services and Securities. Please go ahead.

Adrit Chaturvedi: Hello. Good evening. Yes, I was just trying to gauge the baseline margin performance of the stores. So, what I'm looking at is in 1Q FY '24, the overall retail pharmacy had an operating EBITDA margin of 2.7%. And on the like for like basis, if I look at 12 month plus operating EBITDA margin that is reported in this quarter, that's 3.8%.

So that's roughly like 110 bps of increase on these stores, the baseline stores, excluding the stores that were not added particularly. So, I was just trying to understand if you could qualitatively let me know how much of this 110 bps is just your efficiency in terms of margin profitability, and how much is it just ramp up of a lot of stores that were on the platform at 12welve months. Or if you could just give me a number at how much is the operating EBITDA margin for 24month plus stores as of now?

Sujit Mahato: Yes, sure. So, in terms of year-over-year, the way we have to look at is due to the change in the private label pharma mix, which has increased from 7.98% to 9.5%, there was an additional margin. Net of the cannibalization of our old private label, we were able to increase the gross margin by 60 basis points.

Additionally, we had an impact, what I just mentioned a few moments ago, we had an unusual inventory provision around 0.3% which impacted our gross margin. In addition to that, on our private label non-pharma products, due to the mix change from 5.7 up to 7%, we had a positive gross margin impact of another 25 basis points. So, with this, you will be able to broadly reconcile the year-on-year gross margin.

Adrit Chaturvedi: Okay, so what is your sense, just to follow up quickly, that out of this 110 bps increase that we are seeing on the baseline stores, how much could be attributed to just organic margin improvement and how much could be attributed to the ramp up of the new stores that were there on the platform last year? So, if you could, like out of the 110 bps, is there some sort of attribution that could be done?

Sujit Mahato: I think we'll take that up offline, please. I don't have that handy.

Adrit Chaturvedi: Okay. And just finally for me, could you share the private label at MRP growth for the new and the old?

Madhukar Reddy Gangadi: Yes. So as of last quarter, the private label stands at 15%. This is on GMV. I think it moved from 13.5% to 15%. So, the growth over the quarter was 1.44.

Adrit Chaturvedi: And like a YoY growth? Could there be a YoY growth in the private label, new and old?

Sujit Mahato: Last year, it stood at 7.9% overall and now it stands at 15.

Adrit Chaturvedi: Okay. And how much of this could be the new one, the new private label? And how much is old? Are you only talking about the new private label because there's obviously cannibalization?

Sujit Mahato: Yes. Out of this, I think, Yes. The old private label is at around 1.8% and the balance is new private label.

Adrit Chaturvedi: Okay, thanks a lot. Thank you. That'll be it.

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

Madhav: Hi, good evening. Thank you so much for your time. I wanted to understand that given that there's a big product mix, category mix change which is playing out in the company, is it more accurate to look at the company on a per store? Like should we look at EBITDA per store or gross profit per store?

Would that be a better reflection of the profitability? Because if you look at that special marketing spend which we're doing of INR9.5 crores in quarter one, and if you assume that that's not going to be a recurring expense, EBITDA up a sort of, in my understanding, probably improves quite well on a year-over-year basis. So firstly, am I thinking in the right direction? If you could share your thoughts.

Sujit Mahato: Sure, Madhav. See, as we had said earlier, we were running a pilot in Tamil Nadu, and that on that ground we ended up spending INR9.5 crores. While it is, you know, we didn't get what we expected, I don't think we're going to go and spend any more money or at least to this level in the next in the coming quarters. So, this is not a recurring expenditure.

So, if you take that out, definitely from a two -- I think from a 3, it goes up to 3.6 for MedPlus pharmacy and EBITDA. And as your question about, you know, should we do it store by store? That, Yes, we can take it offline. I don't think -- we don't have the data right now, but, Yes, that would be one way of looking at it.

Madhav: Got it. And then just a second question was, I think you all said that the GMV growth was about 24% versus 15%, 16% on a sales basis. So that 24% basically reflects volume growth at the network level, right? Is that how we should read into it?

Sujit Mahato: Absolutely. Absolutely. Yes. It is just the Delta between 83, which is the selling price for us at INR100 MRP for a branded generic, versus 42 to 43, which is for the MedPlus brand. So, every time you do that, the percentage of these drugs which are sold at 42 INR100 MRP are going to be reflected in a slightly higher GMV growth.

Madhav: Got it. And just the last question was that in some of the stores, like in Tamil Nadu or West Bengal, where the net plus private label mix, you know, has probably, like, you know, is higher versus some other parts of the network. If, you know, maybe, if not now, maybe in the quarter two call, if you could give us some more color in terms of how the profitability is in those stores, given that, you know, you would have like, probably good product mix change that played out. So just let me know directionally how the network would look two, three years out for the company as a private label.

Madhukar Reddy Gangadi: We will try and, you know, do it as we go forward. But right now, while the growth has been very encouraging and it is something which we are banking on, I can't give you the exact numbers, like model but certainly we can work out at least.

Madhav: Thank you.

Moderator: Thank you. The next question is from the line of Vinod Chandra, who is an Individual Investor. Please go ahead.

Vinod Chandra: Thank you for the opportunity, sir. I have two questions. One is generally we receive a notice about our store suspension, and there are a lot of notices about comes in a month. So, is there a specific reason behind those store suspension or can we not control well in advance before receiving these notices? So that is the first question. Should I ask the second on as well? Okay, Yes. The second question is about like, I know, like you are reporting and showing the store level operating EBITDA, right. Or ROCE, we say around 46%. So, is it like something, if you can give us the ballpark figure about like what would be the store level ROE figure rather than operating ROCE? So, these are the two questions I have. Thank you.

Madhukar Reddy Gangadi: Okay, great. And answer to your first question, it's see the suspensions, unfortunately, some of them are at least a part of the business, given a large network of 4,444 stores. And as you know, healthcare, especially pharma retail is a highly regulated business. And there's always some small issue or the other for which you receive a small suspension.

For us, it is not material and it never came up earlier because it was not, any nonmaterial stuff was not supposed to be. We were not asked to report any nonmaterial, you know, kind of events.

Now, of course, without changing the rules, we're doing everything out there. But again, as an answer, these are largely documentary issues, documentation kind of issues. So, this is something which we try to actually keep pace and try to reduce them.

And other thing is, in a bunch of the suspensions which we received, which were for slightly higher number of days, we have actually gone to the court and gotten a stay. So, I don't think that's going to really impact us too much. We will fight that and get it out.

But Yes, it is, I would say, unfortunately, something which we have to live with, not material, and we are trying our best to basically keep it under control as much as possible. We will definitely evaluate the store level ROE figure. We'll try and come back to you. Right now, we have -- we are reporting what we see RPI supported right now, but we will consider this, then come back.

Vinod Chandra: Okay. Thank you.

Moderator: The next question is from the line of Akansha Gupta from Solidarity Investment Managers. Please go ahead.

Akansha Gupta: Hello. Yes, so my question is around the gross margins. Could you please give us the breakup of the gross margin segment wise? That is the private label pharma, the private label non-pharma and the branded pharma and brand FMCG businesses.

Sujit Mahato: Yes. As a reference, for branded pharma, we will guide between 13% and 13.1%, private label Pharma, which was our old private label in the range of 74% to 76%. The newly launched MedPlus store level brand in the range of 64% to 66% gross margin. Branded non-pharma products in the range of 10.5% to 11%, and private label non-pharma product in the range of 16% to 18%.

Akansha Gupta: Okay. Okay, thanks. That's all from my side.

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

Harith Ahamed: Hi, good evening. Thanks for the opportunity. In terms of store additions, this quarter seems to be on the lower side. While we had guided for around 500 stores, 600 stores for FY '25, are we still maintaining that number?

Madhukar Reddy Gangadi: Yes, Harith, so there's no change in guidance. If you have seen the last couple of years also, we usually do slightly better in the second, third and fourth quarters usually. This year, Q1 was unduly, I would say, kind of depressed because there were a couple of reasons. One of the main reasons was elections, I would say.

We actually had a lot of attrition and we had a lot of people -- and we were finding it a little difficult to hire the right kind of people during that month. And so almost everything, due to various things, actually, it got a little delayed. And I had already mentioned that our overall focus on MedPlus brand has increased a lot. And while that is not the main reason, that's where the company has been focused. For us, the guidance remains the same, one.

We are looking at our complete network. And in addition, so this year, while the net will remain more or less the same, we could have a few more closures than usual, because we have added quite a few stores in the last three years, could be anywhere from 30 to 50 more than usual, if we are looking at the entire network out there, and so that may change the number a little bit, but I don't think the addition itself will be affected too much.

Harith Ahamed: Okay. And this 15% GMV share of the pharma private label, how should we think about this number progressing over the next few quarters? And probably where do you see this reaching by FY '26?

Madhukar Reddy Gangadi: I think we'll probably be able to see the trajectory a little bit more clearly after this quarter. You know, when we started initially, obviously there were a lot of early adopters who came in immediately, and after that, it has been moving steadily at around 1.5% to 2% per quarter. If you look at it, I think last quarter was at around 13.56% and today it is 15%. That's 1.44% growth. We expect as we go forward, it will maintain at this level and also go up slightly, but I will come back to you guys with the guidance on growth quarter on quarter maybe in the next quarter or so. Probably have a more clearer idea.

Harith Ahamed: Thanks, Madhukar. One question for Sujit, in the slide where you've shown the IndAS adjustments in the interest income line for the quarter, the IndAS, adjusted interest income is lower by around INR2 crores versus the reported interest income of around INR4.3 crores. So exactly is this adjustment, if you could give some color.

Madhukar Reddy Gangadi: I would say these adjustments are for the security deposits, what we have placed for the property. But I will just look into this and review the details offline.

Harith Ahamed: Right. Thank you very much. That's all my side.

Moderator: Thank you. The next question is from the line of Aejas Lakhani from Unifi Capital. Please go ahead.

Aejas Lakhani: Yes, hi. So firstly, could you call out what was the entire ad and marketing expense for the quarter versus same thing last year and last quarter?

Madhukar Reddy Gangadi: Sure. As this year, we ended up spending around INR9.5 crores in this quarter versus Q1 of last year was INR1.3 crores.

Aejas Lakhani: Okay. And so, what was the same number for the previous quarter?

Madhukar Reddy Gangadi: Previous quarter was 8.5.

Aejas Lakhani: Okay. So, you know, I just want to understand that, you know, you made these spends in a timeframe when, you know, you just said on call that elections and there were some challenges and delays and attrition on account of that. So how do you measure the effectiveness of the spends?

Madhukar Reddy Gangadi: No, no effectiveness so, I said the store openings did not happen because of that. Keep that aside. That has nothing to do with the effectiveness aspect, right.

Aejas Lakhani: Okay. But, sir, could I understand that when you think of these, you know, these larger spends, which is more than normal course of business, how do you measure the effectiveness? And then what is the outlook for this line item for FY '25?

Madhukar Reddy Gangadi: We are not going to be doing any more of this in the next two quarters for sure. We actually spent this money in two different states. One was in West Bengal and the other was Tamil Nadu. Largely the money was spent in Tamil Nadu. And for us, we are internally looking at a couple of things.

One, the number of new customers we have acquired and the growth of private label, MedPlus plan private label. So, those two would be the three key criteria for us to actually decide if the ad is worth spending on or not. But obviously, you can only get the, I would say you can only assign so much value to the immediate growth, the benefit to the brand and the benefit to the MedPlus brand. It is, you know that is going to come over a period of several quarters, much more difficult to actually much more difficult to measure.

Aejas Lakhani: Got it. And sir, the private label pharma, which is 9.1, could you just tell me that what is the split of 9.1 in old and new?

Madhukar Reddy Gangadi: Sure. So, the 9.1, which you're talking about is the net sale return number. I think the old one is around 1.8 and the balance goes to a new one.

Aejas Lakhani: Okay. And sir, when do you expect this runoff of the 1.8? I mean, do we expect it during the course of FY '25 or do you expect a sharper rundown?

Madhukar Reddy Gangadi: We will most likely see a slightly more sharper rundown as we go forward. Maybe in the next two quarters it should actually go down, but it will probably be always there to some extent. But from now, I think we'll probably end up going to slightly under one in the next two quarters.

Aejas Lakhani: Got it. And sir, I just want to understand more at the strategy level that why this decision to run down that old brand and replace it or replace it with MedPlus, because as you would I mean, there has been an impact on margins on account of this entire movement. And why not just introduce the MedPlus brands, and let that automatically or naturally run down or progress with time? Why have we done this intervention which has been sort of forced to run that down and increase the MedPlus? Could you just help me triangulate that at a strategy level?

Madhukar Reddy Gangadi: No, no. It is not a question of running it down intentionally. We always had two different brands, but when customers walked in and they saw the entire see, the customers who are buying the old private label were people who are willing to take a substitute. The customers who are willing to take the new one are also the same set. Now, given that there is an alternative where they can get a discount for a small membership fee, most of them have chosen to go here.

Aejas Lakhani: Got it. Okay. Got it. So, sir, from here on, we are expecting, your growth guidance is 20% for, on a reported basis for FY '25, correct?

Madhukar Reddy Gangadi: That's right.

Aejas Lakhani: And sir, operating margins. What is the outlook there?

Madhukar Reddy Gangadi: So, we'll continue to grow from here. Q1 typically is our slowest quarter normally. So, it should definitely be better than what it was last year. So, Yes, that's all I can tell you.

Aejas Lakhani: Okay, thank you and all the best.

Moderator: Thank you. The next question is from the line of Kunal Randeria from Axis Capital. Please go ahead.

Kunal Randeria: Hi, just one question, continuing on the previous participant's question. Madhukar, do you expect a sharper impact from canalization of your private label brand the next one or two quarters? And after that, that impact should completely go?

Madhukar Reddy Gangadi: I think so. Kunal. It will be there for a while because we have inventory. There are customers who are willing to buy. As you remember, as we told in the past, our previous set of private label also had the full set of chronic medicines too. So, some of them where, you know people who are on drugs like atenolol, telmisartan and all, they'll probably continue.

We have the stock. We'll probably switch them over to this at some point of time or they may themselves basically ask for this. So that part, that tailed stuff will continue, but most of the acute stuff will probably end in the next two quarters or so. But for us, whatever the impact may be of cannibalizing, this slightly more profitable portion of our business will most likely start coming down in the next two quarters.

As we continue to grow this. This is also accretive to us. This also gives us more margin, but as long as it comes at the cost of branded generics, it is good for us. If it comes at the cost of our old private table, not obviously. So that impact, I think will go down in the next two quarters.

Kunal Randeria: Sure. And just with the older private labels, have you changed the discounting practice or is it still, you know, trying to get in line with MedPlus discounting or same old method?

Madhukar Reddy Gangadi: So, if you're talking about my old private label, in the state of Telangana the old private label has always been sold at the same price as MedPlus as a new one. But in the rest of the states, we'd actually continue to sell it at the old rate out there. So, there was some confusion. We'll probably end up, you know, taking out some of that and, you know, redoing it in the MedPlus side as we go forward. Was that the question, Kunal?

Kunal Randeria: Yes, that was the question. Basically, I just wanted to understand whether on the old label also, are you giving a 50% to 80% kind of discount as you are giving it on made by MedPlus?

Madhukar Reddy Gangadi: Yes. In Telangana, yes, we are. We started on that note. We started off with that value proposition earlier to the customers. But in the rest of this country, while we started with maintaining the old private label at the old discount. There are some products, maybe out of the 600 odd products, probably around 200 odd, which we will end up actually moving to the new pricing, the MedPlus pricing. This is just to expedite the overall sale of the inventory and to make sure that nothing goes into expiry. For us, obviously, we have both the inventories. We want to make sure that everything sells and we are left with nothing end of the day. And so part of that will be moving into a new price.

Kunal Randeria: Got it. Thanks.

Moderator: Thank you. The next question is from the line of Vilina Jain from Perpetuity Ventures. Please go ahead.

Vilina Jain: Hi. In your opening commentary, you mentioned INR95 million of special marketing spend. Could you elaborate on that? Also, secondly, you have been talking about Q1 being seasonally weak. If you could highlight some of the reasons for the same.

Madhukar Reddy Gangadi: Sure. The INR95 million got spent in Tamil Nadu and West Bengal, largely in Tamil Nadu. I think around INR7 million to INR7.5 million probably got spent there and INR2 million to INR2.5 million got spent in West Bengal. This ad expenditure was spent on, mostly on newspapers, some bit on TV, very little, some on radio and little bit on the social media, YouTube and everything else, and a little bit on podcasting and influencers and all those other things. That's one.

And I think, Yes, on the seasonality side, see typically April and May, the sales actually fall for two reasons. People end up actually leaving large cities in which we are largely placed. They move out, they go out for vacations, they go out of town and everything else and all. Even the senior citizens do end up actually, or, you know, people who are in their 50s also end up going back to their home towns and all once a vacation start for kids, that's one.

And second, in general, the overall burden of, I would say, disease on the infection side is much, much less. And so that whole set of antibiotics and painkillers and fever tablets and everything else, which are sold normally throughout the year and especially so in June, July and August are almost nil in April and May. And that's why Q1 is usually weak.

Vilina Jain: Okay, so regarding the marketing spend, is this more to do with the private label increase that is happening and going forward, how should we see the marketing spend increasing?

Madhukar Reddy Gangadi: So, we are probably bringing it down to a maintenance level of around something like INR10 million a quarter, which is INR1 crores, INR1.2 crores. But Yes, all the money has been spent on private label only. So, the whole idea is trying to get educate customers as many as them as possible, to kind of make them aware that all medicines sold in India, 90% of medicine sold in India are just generics, we're just buying them under different brand names, MedPlus now makes the same medicines.

And because MedPlus doesn't have any marketing spend or any, let us say, the channel spend, we sell it through our own stores, we are able to offer this big discount, and that's the value proposition to the customer, and that's what we have been pitching, and that's something which will continue all the way to a much, much lower level.

Vilina Jain: Understood. Thanks a lot.

Moderator: Thank you. The next question is from the line of Vinayak Mohta from Axis Bank. Please go ahead.

Vinayak Mohta: Hello? Yes, hi. Good evening. I just have this one question on the store numbers for the greater than 12 months. So, accounting for the INR9.5 crores of advertisement expense, one time advertisement of expenses, if we removed that, then is it fair to assume that the operating margin for the greater than 12year, 12months stores would be more towards the 4.5% to 5% range like from the 3.8% that you have reported in the current quarter?

Madhukar Reddy Gangadi: Actually, it will go up by 0.6%.

Vinayak Mohta: Understood. 0.6% or 4.4%, perfect. And sir is it fair to assume that -- so when we look at the metrics on a standalone basis from what the quarter has been reported, they look to be deteriorating. But it would be fair to assume that x of those onetime expenses and considering how the quarters would pan out going forward now on a YoY basis, we should continue to see an improving trajectory on the margins front for the stores, on a store level, that would be a right assumption to have?

Madhukar Reddy Gangadi: Definitely.

Vinayak Mohta: Understood, and so just wanted to understand from a longer term perspective, while your aspiration would be to be at 100% own brands, maybe, maybe not. But just wanted to understand over the next three to five years, where do you see this own brands for yourself settling down in the entire mix of your business? What's your aspiration out there for us to be able to visualize? How could the mess as a whole look like maybe three to five years forward from respect to private brands specifically?

Madhukar Reddy Gangadi: See, it is not yet one year since we have launched the brand across the country. We are already at around 15% overall. i feel very confident that this number will go up significantly, but to give you the actual trajectory, I think we'll have to wait a couple of quarters. So, it is possible that the early adopters have all come in and basically bought while we are seeing a gradual increase every quarter.

I just want to wait for a couple of quarters before I can predict that. But just to give you an answer, while it looks like store brands and all are typically capped at around 20%, 30%, 40% and all, the one number we should actually bear in mind is that even in a country like U.S. and places like Walgreens and CVS and all, 90% of what the store actually fills prescriptions are generic, and these are all, you know, the law, of course, basically allows them to actually substitute.

And the store then basically decides whether it wants to do its own private label or it has a preferred player, which is also a generic. There's no brand, right. So, the aspiration would be to go to that level over a period of time, but that will mean, you know, a lot of education of customers and maybe at some point the government comes in and basically changes the rule a little bit for us to do it.

But, Yes, even if it were not to go to that number, I see no reason why you cannot settle somewhere in the 30s or 30% plus kind of number. But again, I will reserve that overall, this thing for at least another couple of quarters before I actually can make prediction out there on that.

And the reason why we are super excited about the whole thing is we are making slightly lesser margin than our old private label, but please bear in mind that people are now buying the MedPlus brand. They are seeing it. It's not a substitute, it's not something else which we are just giving them. It is the MedPlus brand.

And now, as they get used to it and as they start buying it, and all, we have in our hands an ability to change the MRP every year and the government allows us to do that. You are allowed to do it by 5% or 10% odd. And we also have a chance to basically move the discount around a little bit to make it closer to 50, today it's 50 to 80, we can move it closer to 50, or we can even shift it. So, for those two reasons, we feel that the entire thing is going to be based around this whole strategy of private label.

Vinayak Mohta: Understood. And is there any reference in the global context wherein pharmacy has been able to replicate what you are trying to do? Because please do correct me if I'm wrong. From what I had read a couple of on a couple of pharmacies, none of these pharmacies were able to cross the 20%, 22% mark on the private label side. So, do you have any reference on the similar company that I might have missed out on? Maybe my data is not correct. So, if you could just help me out there.

Madhukar Reddy Gangadi: Okay, so two things here. So one is, you know, is the store selling it on its own name? Right, then, Yes, maybe 20%, 30% probably is the number. Walgreens and CVS and all do that much, and I'm pretty sure other pharmacies across the world also have at least that much. But the number to actually bear in mind is that while these people may not sell on their name, when the patient walks into the store and hands in a prescription, all the pharmacist is asking him is, okay, your insurance says it has to be, it can be generic or your doctor has written, dispensers is written.

If the doctor says dispensers written, then it is exactly given, the brand is given, but then the copay is very high and all that sort of stuff. But in 90% of the prescriptions, the pharmacist is filling a generic only. And the generic is not, let's say X company's generic or Y company generic or Z company generic. It is the generic which is chosen by Walgreens. And as far as the customer is concerned, it is the store generic only. It could be made by whoever it is, right? It is a store generic. So, yes, you know, you could actually go all the way up to 70%, 80% also in such cases.

Vinayak Mohta: Got it. And one last question. Have we in the recent one year stage, any kind of regulatory problems or something on the MedPlus brand products, like any complaints or any action on that front on the products part?

Madhukar Reddy Gangadi: No, no. Obviously what we are doing is, you know, doesn't go very well with the thousands and hundreds of thousands of modern part retailers, so they've all got a complaint. You know, drug authorities have come, they picked up the samples, they've tested them, everything is fine.

So, for us, obviously, you know, we are disrupting a big market. It is going to have some people who are not going to be super happy about it. So, there have been people who have been calling on us and, you know, checking out all the things and all, but, Yes, that's about it. Because whatever you're doing is 100% worship.

Vinayak Mohta: Perfect, perfect. Great. Thank you so much and all the best.

Moderator: Thank you. Ladies and gentlemen, we will take that as the last question. I would now like to hand the conference over to Mr. Madhukar for closing comments.

Madhukar Reddy Gangadi: Thank you. 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.

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