MedPlus Health Services Limited

February 06, 2025

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 Transcript of Earnings Call :

Pursuant to Regulation 30 of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015, we enclose herewith transcript of the Earnings Call held with analyst/ institutional investors on February 03, 2025 for the quarter ended December 31, 2024.

The same will be available on the website of the Company at www.medplusindia.com and also on the websites of BSE Limited and National Stock Exchange of India Ltd. viz. www.bseindia.com and www.nseindia.com respectively.

Thanking You
Yours faithfully

For MedPlus Health Services Limited

MANOJ KUMAR SRIVASTAVA
Digitally signed by MANOJ KUMAR SRIVASTAVA
Date: 2025.02.06 11:25:30 +05'30'

Manoj Kumar Srivastava
Company Secretary & Compliance Officer

“MedPlus Health Services Limited

Earnings Conference Call”

February 03, 2025

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 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 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.

DRN Srinivas: Thank you, Sagar. Good evening, everyone. On behalf of MedPlus, it's my utmost pleasure to welcome you all to MedPlus Q3 FY '25 Earnings Conference Call to discuss the financial results of the company, which were announced on January 31, 2025. We have with us today the senior management team represented by Mr. Madhukar Reddy, Gangadi, Chief Executive Officer and Managing Director; Mr. Sujit Mahato, CFO; and Mr. Chetan Dikshit, CSO.

Before we begin, I would like to mention that some of the statements made in today's discussion may be forward-looking in nature and may involve risks and uncertainties. Please note, the disclaimer mentioning these risks and uncertainties 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 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. Our company remains committed to balance growth with profitability, while continuously enhancing our operational efficiency. We are strategically strengthening our back-end operations and infrastructure to support long-term scalability and ensure seamless execution.

As we prepare for the next phase of expansion, we remain focused on optimizing our existing network, while laying the strong foundation for opening new stores across the 13 states in which we operate. As an update, we have added four additional warehouses to enhance their availability at our existing outlet and further supporting our endeavour in opening new stores. This disciplined approach will enable us to drive sustainable growth and enhance value for all the stakeholders.

On our network, we opened 87 stores during the current quarter. Over the past 12 months, we have added a net total of 379, gross of 484 store additions. Throughout quarter 3, there were 27 store closures. Taking into account both openings and closures, we achieved a net addition of 60 stores during the quarter, compared to the 108 stores added in quarter 2 and 37 stores in quarter 1, totaling 205 stores on YTD basis. We expect a total of 300 net store additions in the current financial year.

In terms of our network -- in terms of our stores' network age, around 27% of our stores are operational for less than 2 years, and the remaining 73% of our stores have been operational for 2 years or more. As a guardrail, we closely monitor the time frame for our new stores to reach breakeven.

For stores opened between January 2024 and June 2024, approximately 55% of them achieved breakeven within 6 months of operations. As a cohort, all stores combined reached breakeven in 6 months. These include stores which have been opened in the new states.

In terms of our store size, at the end of the quarter, our network has grown to 4,612 stores with 2.4 million plus square feet compared to 4,233 stores and 2.2 million square feet at the end of December '23. The average store size is 528 square feet.

On the revenue mix, presently, MedPlus offers over 1,200 carefully selected SKUs spanning across pharmaceutical and nonpharmaceutical categories. Private label sales for quarter 3 FY '25 constitutes 19.6% of our total revenue. The following is the impact of the launch of MedPlus brand products across our network. In Q1 FY '24, prior to the launch, the share of private label pharma stood at 7.9% of total GMV compared to 17.7% during the current quarter.

On the financial numbers, now on our quarter's performance, our consolidated revenue is INR 15,614 million with growth of 8.3% on a Y-o-Y basis and a degrowth of 0.9% on a quarter-on-quarter basis. Our consolidated operating EBITDA stood at INR 799 million, representing 5.1%.

Around 99% of our revenue is from our pharmacy operations. Revenue from pharmacy operations grew by 12.3% year-on-year on GMV basis and 7.9% year-on-year on net basis. The pharmacy operating EBITDA stood at INR 780 million, representing 5.1%.

On a store performance, I would like to update on our stores older than 12 months. Revenue from these stores in quarter 3 was INR 14,388 million, representing 94% of pharmacy revenue. These stores had a store level EBITDA margin of 11%. The store level operating ROCE of these stores stood at 61.7%.

A word here on the store level EBITDA margin by age. While stores greater than 12 months had a margin of 11%, this was 11.3% for stores greater than 24 months and 8% for stores in the 13- to 24-month age bracket. If the allocated non-store related cost, then the operating EBITDA of stores greater than 12 months would be INR 815 million, which translates to a margin of 5.6%.

On our Diagnostics numbers, Diagnostics grew -- revenue grew to INR 274.7 million in quarter 3 compared to INR 196 million in quarter 3 of the last year. Diagnostics segment recorded an operating EBITDA of INR 22.1 million, representing 8.1% compared to a loss of INR 34.1 million in quarter 3 last year. However, central level operating EBITDA stood at INR 49 million.

On working capital, our net working capital for Q3 was 61 days. The inventory in our warehouse was 36 days. In Q3, the inventory level of our of first-tier stores was 88 days. In comparison, for our stores older than 12 months, the inventory was 40 days…

Moderator: Sorry, sir, we have lost the audio from your line. Ladies and gentlemen, the line for the management seems to have disconnected. Please stay connected while we reconnect the line back.

Ladies and gentlemen, we have the line for the management reconnected. Please go ahead, sir.

Sujit Mahato: Our update on the working capital. Our net working capital for Q3 was 61 days. The inventory in our warehouse was 36 days. In Q3, the inventory level of our first year stores was 88 days. In comparison for our stores older than 12 months, the inventory was 40 days.

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

Chetan Dikshit: Thank you, Sujit, and good afternoon, everyone. Q3 is a seasonally weak quarter for Diagnostics. In October, we sold 413 gross plans per day. In November and December, this was 433 and 419, respectively.

As on 30th of September, we had 148,000 active plans and 299,000 underlying lives. As on 31st of December, we had 152,000 active plans and 315,000 underlying lives. Our current observed on-time renewal rate was 26% in Q3 versus 25% in Q2.

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

Moderator: Our first question comes from the line of Saion Mukherjee from Nomura Securities.

Saion Mukherjee: So my question is around the growth in the Pharmacy business. So you mentioned, the GMV growth of 12.3% this quarter, now, obviously, there is some slowdown in new store addition that might have played a role. And also the -- if I look at the branded business, right, branded pharma number, probably, we are growing in low single digit, which is obviously much lower than what the pharma market growth is.

So can you just throw some color on how the dynamics with respect to private label is playing out? Is there a very significant substitution that's happening from private label to branded, which is leading to very slow growth in branded? And now going forward, how are you thinking about the overall GMV growth in the pharmacy in the quarters ahead, please?

Gangadi Madhukar Reddy: So if you look at the growth in the pharma...

Moderator: Sir, we have lost the audio from your line once again.

Gangadi Madhukar Reddy: I think you have to reconnect.

Moderator: Ladies and gentlemen, the line for the management seems to have been disconnected. Please stay connected while we reconnect the line for the management back. We have the line for the management reconnected. Please go ahead, sir.

Gangadi Madhukar Reddy: Thank you. So as I was saying, we actually look at the overall pharma sales. And for us, it is not -- there's no real division between private label and brands and all. Growth is growth. We offer the customer an alternative when it comes to the store. We tell them, "Okay, we have got what you requested for." And we also have an option in the private table, and that is at a 50% to 80% discount.

Now one thing may get substituted for the other, depending on the customer's comfort with the overall thing and all. So for us, as long as we are growing the overall pharma pie, we are fine. Now the growth itself, I know, was a little muted actually this quarter, and that is partly because the actual net sales would be slightly muted, I would say, mainly because the private label sells at a much lower rate and all.

But yes, outside of that and a little bit of seasonal, I would say, effect having plenty of holiday season and all, especially in January and all, we did see a slightly, I would say, lesser sale than expected, but I expect that to get back.

Saion Mukherjee: Are you willing to guide any number for the GMV growth? Or how should we think about it over the next year or so?

Gangadi Madhukar Reddy: So it should be the usual listing of inflation plus kind of thing or it should be in line with the typical pharma market growth out there. So as we keep saying that for us, it is more important that we maintain the store-level EBITDA of 10% or 11% rather than just trying for same-store sales growth and all.

Some amount of cannibalization is always going to be there when we do this when we set up so many stores. But I'm fairly comfortable in saying that we should growth on the 2-plus year stores also at; inflation and slightly above that.

Saion Mukherjee: Right. And my second question would be on your private label and gross margin. In this quarter, we have seen a significant pickup in private label, which is also reflected in gross margins, much higher than what you had guided in the previous quarter. So how should we think about that going forward?

Gangadi Madhukar Reddy: So think about the private label as going up by roughly around 1% every quarter on the volume basis, which is on MRP basis, which means additional margin of roughly around 15 to 20 basis points maximum per quarter. We could have 1 or 2 slightly better than normal kind of quarters and all, but I'm fairly comfortable we should be able to do 1% every quarter.

Moderator: The next question comes from Sudarshan Agarwal from Axis Capital.

Sudarshan Agarwal: Yes. So continuing on the previous participant's question, apart from the fact that your share of private label will kind of go up, what are your thoughts about the discounting policy in the private label?

I know right now, you are at 60, 65. At what levels do you think that maybe you could take a lower discount into consideration? And additionally, adding to this point, so let's say, the final brand that you are discounting against takes a hike, does that get reflected in your discount price also?

Gangadi Madhukar Reddy: Okay. About our private label discount itself, we advertise a 50% to 80% discount based on the molecule. And I think the average discount tough comes out to around 50%, 51%, that's all, because most of the higher selling drugs are all around the 50% discount.

On -- I don't expect that we'll really reduce this at any point of time. It may go down slightly over a longer period of time, I would think. But as of now, given where the discounting is on various generic products and all, I don't think we'll be able to reduce this much lower than what it is right now.

I think the second part of the question, if I understood it right, was, is the discount reflective of what the original brands we're substituting for. Not -- if that is what -- that was your question, no, not necessarily. We set the price based on the average price of the top 2 or the leader -- the brand leader out there because most of the people would end up actually buying those.

And in places where the thing is fragmented a lot more, the market is fragmented a lot more, and there are 1 or 2 or 3 players, all of them having more than 20%, 25% market share, then we will probably take an average outcome somewhere towards to the middle of that and then set the price -- set the discount such that the net price to the customer is around that. The discount is off the average of these 3.

Sudarshan Agarwal: Got it, got it. And one more additional. While I understand the net store addition this year you have trended. For next year, are you guiding any number that we should kind of take into account, 500, 600 or it could be lower than that?

Gangadi Madhukar Reddy: No, I think it will be at least 600 stores for -- I don't think it will be less than 600 stores. This year, we have had a few things which we had to actually take care of because of our focus on private label and a couple of other things.

We also are -- as Sujit spoke in this call, we are also in the process of strengthening the back end. We have actually launched a bunch of warehouses across the state, in which we are there right now.

These will help us actually reach the stores faster and help us to actually grow faster, too. So a lot of that work is on. I expect that we'll be done in this quarter and we'll be able to start with the usual growth next year onwards.

Moderator: The next question comes from Tanmay Gandhi from Investec.

Tanmay Gandhi: Congrats on a good set of numbers. Sir, my question is again on private labels, right? So on the GMV, which is they are already at around 20% level, right, for the Pharmaceuticals, so my question is that do we need to put in more efforts to actually increase the contribution of the private labels from here on? Or do you think that, that it is going to be more organic?

Gangadi Madhukar Reddy: Tanmay, if you mean are we going to spend a lot of money advertising, I don't think so. What we'll end up doing is probably increasing the number of products which we have in private label. We are today, for the overall set of medicines, we probably are there at roughly around 68%.

I expect insulins, which cover around 10% of the overall medicine sale, and some branded products will be another 5%, so which means that leaves at least around 85% to be targeted. I expect, if not 85%, it will probably take the 68% to maybe 75% to 77% or so.

So increasing the number of products would be one thing. Making this available on a much better level than what we have been able to would be another thing.

And third, as the number of people who buys these continue to increase, I expect that over a period of time, the word will spread, and we will basically see a lot more people asking for the product. It may not be -- we may not really need to push as much as we are doing right now at this point.

Tanmay Gandhi: Yes. So sir, is it fair to assume that for the next year, the core focus area for the management will be store addition?

Gangadi Madhukar Reddy: The focus will be definitely on adding new stores also, 600 stores odd. And then same-store sales growth. Private label will be -- will continue to grow anyway. So that's going to be 1% per quarter is what we're aiming at. It could be slightly better, but I think we'll be actually able to hit that number easily without too much of a profit.

Tanmay Gandhi: And sir, one more question. The 4 new warehouses which you have launched, right, so that is largely for the upcoming stores, which you are planning to add in FY '26. Are these also to cater to your own private labels and overall increase the volumes at your existing stores?

Gangadi Madhukar Reddy: No, no. These are actually to increase the overall operational efficiency. For instance, that we have actually added around 3,000 stores in the last 4 years. In some of the states, we have got now around 1,000 stores each. Karnataka, we got 1,000 stores. Tamil Nadu, we have 1,000 stores. And AP Telangana combined, we have more than 1,200 stores.

So some of states are big, and we have not been able to reach the extreme parts as easily. And so supplies have not been as good as we wanted it to be. And so sales have suffered a little bit.

So now we're setting up a warehouse in Hubli, one in Madurai. And 2 in Agra, 1 in Vijayawada, 1 in Vizag and 1 in Kapai and so on. So dividing up the states into 2 parts now. At least, our main area from where we operate and manage around 60%, 70% of the stores and a subarea from where you manage around 25% to 30% of the stores. So West Bengal, we probably have 1 warehouse in Asansol area and so on.

So this is -- we'll do 2 things. It will supply our current stores better. And with the operational heads sitting out there in that area, we probably would be able to launch new stores faster in those areas, too.

Tanmay Gandhi: Understood. So what is the plan for warehouse addition for next couple of years?

Gangadi Madhukar Reddy: So I think I pretty much told you where all we're going to put. We are adding a few more, let's say -- actually, there's one more coming up in Nagpur. In the new states, we're adding warehouse, a small one in Raipur and 1 in Indore. That will help us actually go deeper into Madhya Pradesh as we go forward.

But I would think most of these, we have already acquired. So you're probably already seeing the rents in the cost already, but we probably will add 3 or 4 more warehouses. I think a total of 10 smaller warehouses, anywhere between 30,000 to 50,000 square foot kind of leases. That includes the ones I've already talked about.

Moderator: The next question comes from Madhav from Fidelity.

Madhav: So I had a slightly longer-term question. So now that our new MedPlus private label has been in the market for about 6 or 7 quarters, maybe 6 quarters, if I'm not wrong, so I think -- and it reached about high teens or almost 20% of our sort of volumes. So my sense is that it's kind of stabilizing within our network over the last few quarters now.

Now that some of this has been absorbed into the system, could you give us some sense on a 3-year view if you think about network expansion, if you think about how gross margins would change for us?

And EBITDA margin has crossed 5% for the Pharmacy business, which is quite healthy. So is this a sustainable ways to work with for us? As we think 2, 3 years, can it go a bit higher? Could you give us some sense because we've done a big transition in terms of the product mix, but how are we thinking 3 years will be really, really helpful?

Gangadi Madhukar Reddy: So Madhav, as I said earlier, even if you take it for the next 8 quarters, I fully expect that we will be able to grow the level of 1% per quarter on the MRP basis, right? I expect -- see, this is something which we feel we can achieve without too much of a problem.

Now we could get benefited from the network efforts of these. A large number of people using it, being happy about it, maybe talking about it, one. Two, government pushing the generic products even more aggressively. And three, possibly competition also taking these up and talking up the generic -- the value of generic products out there. So all these could see, I would say, a disproportionate increase.

It is possible for it to happen that way, but I'm not -- I wouldn't bank on it. I would say, by our own thing, just by increasing the product -- increasing the range of products and also pushing it a little bit, we should be able to get that 1% for every quarter easily.

And that would mean possibly -- and if nothing else changed, I would say 1% growth in gross margin because every 1% in MRP, I think, increases our margin by around 20 basis points.

Madhav: So essentially, gross margins from here only have scope to move as the private label or MedPlus brand private label sort of improve. I understand that bit. If you're adding 600 stores, it seems like we can grow our network at, let's say, 12% -- 11%, 12% network expansion each year. So that's low double digit.

So is it fair to assume that if you have some SSSG as well, we're looking at 15%, 16% sales growth with margins expanding for us from here? Or do you think the 5.1% margin has any elements, which can bring it down? I understand seasonality of the business, which would be a different quarter would have different seasonality. But are we at a fairly sustainable base now? Or how should we think about margins going ahead? Can you be 5.5%, 6% in 3 years?

Gangadi Madhukar Reddy: No, I think we are at a fairly sustainable kind of margin level for the company out there. Now the only reason which can change it is if we add a ton of stores -- new stores. But as you said, the number of stores, which we add are going to be much lesser than the base which we have.

So I really don't see a significant dip out there. What we can do is we can call out that number as we go forward. But the current set of stores should only be at this level or should get better -- sorry, it's not going to be a significant dip. There will always be a drag as we add stores, but it's not going to be significant.

Madhav: And if the Pharmacy GMV growth, which is 12%, which is kind of proxy for volumes, do you think that should grow in line with our store expansion? Or can it grow a bit faster? I don't know how -- is that the right way to think about the Pharmacy GMV growth?

Gangadi Madhukar Reddy: It's a little difficult to tell you, but I am sure that as the new warehouses come into play and as our supply chain also become slightly more efficient, I think we should be able to get some benefit. But I can really commit anything. We will maybe guide you in the next couple of quarters on any efficiency coming from that side.

Madhav: Sir, how much cost can these warehouses save for us? Is it any incremental cost savings which will come through or it's only sort of to kind of help the next leg of growth for the company?

Gangadi Madhukar Reddy: It is only to help the next level growth, that's all.

Moderator: The next question comes from Harith Ahamed from Avendus Spark.

Harith Ahamed: I joined the call a bit late, so my apologies if it's repetitive. The first question is on Pharma private label GMR. What exactly was the share of Pharma private label as percentage of our total GMV for the quarter.

And Madhukar, your comment that we are looking to increase this by 1 percentage point every quarter, is there a level that we're targeting and beyond which probably any further increase would be difficult given that branded generics will still be a significant part of our overall business and a significant part of the overall market?

Gangadi Madhukar Reddy: Yes. So the private level itself on a GMV basis is around 17.6% right now on the Pharma side. If you look at the net sales side, I think it's around 1.6%. The non-Pharma is also pretty significant now, around 8% overall. So we are a little under 20% right now for the overall private label on a net sales basis.

On our aspiration for growth, I have always been saying this. If the customer actually starts to believe that the product is same and if we can actually put in substitutes for all of products, I know there are some which we will not be able to do for a long time, insulin and some -- obviously, leave the patented products aside. Other than that, only insulin is something which we will not be able to do a substitution for.

But outside of that, if you are able to put everything out there and over a period of time, over the next 2, 3, 4, people are not going to be, I would say, completely blind to the fact that these are all the same products being made in the same factory. And across the world, this is what actually sells. If you look at a country like U.S. and all, 90% of what they sell is generic, and that's all store generic. That's just one -- any one store basically selling their products.

So people are not going to be completely blind to all this. I expect as we go forward, this will go all the way up to whatever numbers there are across the world. I don't see any limit to it. But over the next 7 or 8 quarters, I would still say, maybe 1% every quarter.

Harith Ahamed: Okay. Got it. My second question is on discount rates. So earlier, before we launched the branded Pharma private label, we used to share that number of around 16%, 17% as the discount rate -- blended discount rates across our various formats. Now my first question is, what is the current discount -- blended discount rate in the Pharma private label? And what is that rate for rest of the business, which used to be at that 16%, 17% level in the past?

Gangadi Madhukar Reddy: Okay. For the Pharma private label, it is around 51% right now. For the rest, I don't see any reason why it should be any different. It used to be around 17% or 18%. It will probably be the same number even today. But I'll tell you -- I'll come back to you with the numbers.

Harith Ahamed: Okay. Last one on the provision, the MRP level growth that you've shared for the quarter, it's around 8.5% and a decline versus Q2 where we had 13%, 14%. So any reason -- compared to the lower store addition could be reason that, that was the case even in 2Q? So I'm just wondering what has led to this lower growth rate on a sequential basis.

Gangadi Madhukar Reddy: A little bit of effect of seasonality, holiday season and everything else. And honestly, I can't think of any other reason out there. Possibly, some of the stuff which we're doing on the warehousing and everything else will add a little bit of efficiency and all. Possibly that our super quick addition of stores may have compromised the supply chain a little bit. And that also could have cost it, but I'm not sure. But I feel that -- I believe it's largely seasonal effect, nothing more.

Moderator: The next question comes from the line of Prateek Poddar from Bandhan Asset Management Company.

Prateek Poddar: I was just wondering if you could give me SSSG basis GMV? What could be SSSG growth basis GMV? Hello? Am I audible?

Gangadi Madhukar Reddy: Yes, yes. No, we can hear you. Outside of what is there in the slides we have given, we have to come back to you with the more granular breakdown. I think on the GMV slide you're seeing, the growth is year-on-year 8.3, but we will come back to you with the actual SSSG.

Prateek Poddar: Yes, please. The second question is distribution of private label, right? Obviously, the average is 10.7 for the system. But maybe you could give us a sense in terms of the median number or, let's say, what's the difference between the highest store and the lowest store? Just trying to get to -- get an understanding as to where are we trending. I understand you called out 1% per quarter, but just that would help.

Gangadi Madhukar Reddy: Yes. Sure. So if you see across the board, the smaller towns and the rural areas are going to have a higher private label than the bigger cities, one.

Second, the older states in which we have been functioning are going to be higher than the newer states in which we have gone to. For instance, Madhya Pradesh and Chhattisgarh are going to be at a slightly lower private label number than AP, Telangana or West Bengal or Orissa, where we've been for a long time.

To give you an idea, I think Maharashtra, which is as urban as you can get, it's probably at around 7% or 8%. I think Bombay and all are at 7% or 8% for us on the Pharma side private label or maybe slightly less. On the other hand, a smaller town in Telangana or in Orissa or West Bengal is probably close to 20%.

Prateek Poddar: 20, 2-0, right?

Gangadi Madhukar Reddy: Yes.

Prateek Poddar: And this is on a net sales basis, correct?

Gangadi Madhukar Reddy: Yes. It's on net sales basis.

Prateek Poddar: Okay. And the last question. Look, when I see your gross margins, a sequential improvement of 130 basis points. And when I look at your operating EBITDA margin for stores older than 12 months, only a 40 basis point of improvement, can you help me understand where does this 80 basis point go? Or where have you reinvested?

Gangadi Madhukar Reddy: Sorry. Could you just repeat the question?

Prateek Poddar: No. So when you look at -- Madhukar, when you look at your gross margins, right, on an overall basis, 130 basis points of improvement on a sequential basis, correct? But when I look at store operating EBITDA margins, which is post all the unallocated -- I mean, corporate costs, et cetera, went up from 5.2% to 5.6%, so 40 basis point improvement. I'm just trying to understand why a lot of it didn't flow down. What am I missing here?

Sujit Mahato: Sure. In terms of the movement, I would say around 60 basis points came in because of our increase in the private label Pharma share mix. 20 basis points came in because of the non-Pharma private label share mix.

And due to lower inventory provision, we had a 60 basis positive impact during the current quarter. And your observation is right. The entire thing did not flow down to EBITDA as certain costs also went up.

For example, in Tamil Nadu, the minimum wages increased by 28%. This has also eaten away some portion of our store-level EBITDA. And we also set up, as we had explained earlier, certain warehouses, which has costed us some amount of money.

Moderator: Next question comes from Prakash Kapadia from Spark BMS.

Prakash Kapadia: A couple of questions from end. What exactly is the store-level revenue growth which is reported in the PBT? Because if I take the absolute revenue growth of mature stores, it doesn't come to 4.5%.

Typically, most of the retail companies break sales down into SSSG growth, new store addition and sales from new stores. So if we can do that, it will give a lot of clarity to investors. As you know, retail, that's the key metric. Because here, it's very difficult to understand the number, 4.3, 4.4. So if you could give some insight, that would be helpful.

And secondly, as I see net store additions were 60 during the quarter, which brings us to around 205 stores. So what has changed? Because in every quarter, we are scaling down the expected store addition. So those are my 2 questions.

Gangadi Madhukar Reddy: Yes. So for us, I know this year, we have been a little up and down on the new store opening and all. A lot of our bandwidth has been taken up by focusing on the private label, one. And two, on setting up the new warehouses and everything else, we have seen that some of the supplies have suffered a little bit because of the super fast growth, which we have had in the last few years. So some of that, we are already getting done.

On the EBITDA, it's -- on the same-store sales growth itself, for us, we actually -- and this is something which we have been talking about even before the IPO and all. For us, we always look at the overall store-level EBITDA. And to us, that is the most important thing.

The reason I say that is in markets like Hyderabad, Bangalore and Chennai and all, where we already have 300, 400, 450 kind of stores, we have to put in new stores because new markets keep coming up. And no matter how much of a different catchment it is, it ends up cannibalizing some of our stores anyway. And so there is always that effect.

So if you were to basically look at it, a store which is doing, let's say, INR 1 lakh per day, if we -- is probably bringing in more customers from slightly farther than what you would want. And so if you go and set up a new store in that catchment, maybe 500 -- 750 meters away, we will always see some decrease in sales. We're not really concerned about that.

When we set up a new store, we try to figure out whether it will breakeven in 3 or 4 months or not, and whether it will actually get to the expected level of EBITDA within 2 or 2.5 years, which is around 10% at the store level.

And two, on the existing stores, we -- let us say, even if the sales were to dip a little bit, our goal would be to make sure that these are -- the store is doing 10% or more.

So overall, we will continue to gain market share and everything else in that area. But for us to mention exclusively SSSG would be a little bit more tough given how we operate. So for us, it's more the market level and the 10% EBITDA kind of thing, which we actually look at.

Prakash Kapadia: I do understand the point of profitability. But typically, that's the standard retail metrics, which is the key performance indicator. And it becomes difficult to evaluate businesses and cycles over a period of time. So think about it, I think maybe the SSSG breakup, new store addition and store -- sales from new stores would really be helpful to investors. That's my suggestion.

Gangadi Madhukar Reddy: We'll definitely consider that.

Moderator: The next question comes from Akhil Parekh from B&K Securities.

Akhil Parekh: Congratulations on a good set of numbers and healthy operating cash flow generation. On the penetration level of private label, you did highlight that the penetration levels are different across small versus larger towns. But going forward, so next 2, 3 years, how are you seeing the private labels? Will it be because of the increasing depth of private label in the existing stores? Or more by increasing the breadth of presence of private label in the stores?

Gangadi Madhukar Reddy: So both. We definitely increased the range of products, which we have out there. And we definitely try and convert more customers into our private label. But I also hope that some of the positive benefits, which the private label has on consumer population out there will get talked about and more new customers will walk in from neighboring stores to our stores. And so that will also help us in basically increasing our overall sales growth.

For us, it's going to be a combination of all 3. And I think the longer we are in the market, the more likely it is that we continue to actually grow.

Akhil Parekh: Second question on store expansion, right? In answering the previous participant, you highlighted that the focus is more on the profitability rather than growth and more on gaining the market share within that particular geography.

So we have seen a reduction or decline in SSSG over the last 4 or 5 quarters over Q3 of FY '24 versus Q3 of '25. I believe it's part to do with the increasing sales contribution from private label. But are we monitoring if there is a cannibalization of sales because we are expanding aggressively within a similar cluster?

Gangadi Madhukar Reddy: So we are, but the thing which concerns us even more is that each individual store is basically sticking to the profitabe-- profitability numbers we should expect to have. So that would be the first thing we should actually look at, one.

Second, one of the things which probably is showing up as less efficiency and all for us is also this, that we've always been talking about stores, which are more than 1 year. The number of stores which are between, let me say, 12 months to 24 months have been decreasing constantly.

And that number -- the -- those number of stores -- the stores between 12 and 24 are going to be growing much faster. And so decrease in those number of stores would have probably shown a decreasing overall number. But I don't think the overall mature stores themselves are behaving any differently from what they were earlier.

Akhil Parekh: Okay. Sir, should we assume that SSSG of, whatever, 4%, 5%, is that a sustainable rate the next 2, 3 years perspective? Because SSSG certainly helps in terms of absorption of fixed cost, right? At one end, we want to improve the profitability. And at other end, if we're not focused on SSSG, it may not help us in terms of absorption of fixed costs, right? That's how typical retail model works. So what would be a normalized SSSG growth rate if we were to expand at 500, 600 outlets every year for next 2, 3 years?

Gangadi Madhukar Reddy: So I think we'll be at least at the level currently where we are. I don't really see dipping any further and all. I don't think that's got to be a problem because we are not going to be adding -- so we are looking to add additional stores next year. So around...

Akhil Parekh: Sorry. Just to clarify. You're saying 3% to 4% is the base -- new base at least.

Gangadi Madhukar Reddy: 4% to 5% is what we are looking at, actually. That is a number at least we can be at a steady state as far as the profitability is concerned.

Moderator: The next question comes from the line of Prolin B. Nandu from Edelweiss Public Alternatives.

Prolin B. Nandu: While you have talked a lot about private label, but my question is also on the same. So Madhukar, you mentioned about the difference between metros and nonmetro-s, but are you positively surprised by how fast the private labels are taking off? Can you give us some instances as to what are the products within Pharma, which are tough to crack? And have you had customers come asking for private labels in those kind of products as well?

And in some of these stores where you have introduced private label much earlier than rest of your network, are you probably surprised by, let's say, that number from a net sales point of view reaching maybe 25-odd percent? Can you give some qualitative color on private label and whether it is surprising your internal estimates there?

Gangadi Madhukar Reddy: Not really. We expected this growth. I actually expected a slightly higher growth, honestly. But yes, this is not out of -- I would say, it's not surprising. And as I said earlier, the numbers are smaller towns to slightly better and all. And across the country now, we are almost at the same level, I would say, because it's now been more than, I would say -- we started in June of '23, it's almost 1.5 years right now. The full country started in November. So even for the full country, it's still more than 4 quarters right now. So not much out there.

But to give you an idea, the number of -- I would say, the private label share of chronic versus acute is exactly the same as it is for the regular brands. So I think 60% to 70% of our sales are private label comes from the chronic segment. And so people are buying all those Telmisartan Atenolol and everything else also at the same level. The top 10 molecules probably will have at least 6 chronic and 4 acute molecules.

Prolin B. Nandu: Okay. That's clear. Now the second quest is more on competition, let's say, from quick commerce side. While what is appreciated that a typical quick commerce versus a quick commerce for pharma requires a very different kind of a setup.

But in case if the competition were to ramp up and you were to match their service levels in terms of 2 hours or whatever for all your stores, which you are doing for some part of your stores, how much of a drag will it be on margin? How soon you will be able to ramp up, right, to probably meet the standards of quick commerce?

Let's say, even if you were to launch 2-hours delivery from your stores, right, how soon can you do it? And what kind of a drag will it create on your margins?

Gangadi Madhukar Reddy: Yes. As long as the customer is willing to pay the delivery fee, I don't think there will be a drag at all. If the delivery were to be 100% free, today we charge around INR 20. If we shift to a 0 delivery fee and also try to kill ourselves by doing a 10-minute delivery, then, yes, it would be a drag. But I don't foresee that happening. If we decide to do a 10- or a 20-minute delivery, it would bring on delivery partners. We're looking at the prices right now. The prices are not something which a customer will not pay. So I don't really expect this to be a drag.

Prolin B. Nandu: Right. But how soon will it take, Madhukar, for you to ramp up, let's say, where you are offering a 2-hour delivery all your stores?

Gangadi Madhukar Reddy: No, no. We'll never do all our stores at any point of time because customers across all the 600, 700 small towns in which we are there don't really expect this service and don't really want to pay that kind of delivery fee also. It will always be there in the urban areas, in the highly dense networks where we can actually go and supply. I don't think it's going to -- so we already have a 2-hour thing.

Now do we want to ramp it up to a much faster delivery time or not? That's something which we have not yet decided. But we are monitoring the situation right now, and we'll figure out the best way forward in the next...

Prolin B. Nandu: Sure. But Madhukar, a couple of quarters back, you had probably ramped down this, right, in the number of stones or whatever your reach was. And right now, what I understand is that you're not sensing any reason for you to ramp up, right? Am I correct in terms of competition and in terms of what the market is doing?

Gangadi Madhukar Reddy: See, we are monitoring the place -- space right now. We will see, depending on how the whole -- so it all depends. If we are able to get some delivery partners or able to do it at a very good price -- at a price at which the customer is willing to pay, then we would do it all right. But yes, we will have to figure that out.

Moderator: Ladies and gentlemen, we would take that as our last question for today. I now hand the conference over to Mr. Sujit for closing comments.

Sujit Mahato: Thank you, Sagar. Thank you, ladies and gentlemen. I thank all the 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. You may now disconnect your lines.