Optival Health Solutions Private Limited

January 06, 2022

Ratings

Facilities/Instruments	Amount (Rs. crore)	Rating[1]	Rating Action
Long Term Bank Facilities	175.00	CARE A; Stable (Single A; Outlook: Stable)	Revised from CARE A-; Stable (Single A Minus; Outlook: Stable)
Short Term Bank Facilities	10.00	CARE A1 (A One)	Revised from CARE A2+ (A Two Plus)
Total Bank Facilities	**185.00 (Rs. One Hundred Eighty-Five Crore Only)**		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The revision in the ratings assigned to the bank facilities of Optival Health Solutions Private Limited (Optival) is primarily driven by successful completion of IPO of Medplus Health Services Limited (Medplus), which derives 98% of revenue contribution from Optival on consolidated basis. The IPO had a fresh issue of Rs 600 crore. The proceeds of fresh issue are envisaged to be used for funding working capital requirements of Optival. The ratings further derive strength from improved operating income and profitability margins during FY21 (FY refers April 01 to March 31) along with healthy liquidity profile. The ratings remain underpinned by strong promoter group, established market position of 'Medplus' brand, geographically diversified retail stores and favourable industry growth prospects. The rating strengths are, however, partially offset by highly fragmented industry with intense competition from existing organized and unorganized players.

Rating Sensitivities

Positive Factors - Factors that could lead to positive rating action/upgrade:

- Notable improvement in scale while maintaining a PBILDT margin of more than 7% on a sustained basis.

Negative Factors- Factors that could lead to negative rating action/downgrade:

- Any un-envisaged external debt availed by the company resulting in deterioration of its solvency metrics. Overall gearing (excluding lease liability) deteriorating beyond 0.25x, in future.
- Any significant decline in total operating income (TOI) or profits by more than 30% y-o-y, going forward

Detailed description of the key rating drivers

Key Rating Strengths

Successful completion of Medplus IPO

IPO of Medplus Health Services was open for subscription during December 13- 15, 2021. Medplus is the second largest pharmacy retailer in India. The company mobilized Rs 1,398 crore from its public issue, which includes a fresh issue of Rs 600 crore which would primarily be used for working capital requirements of its subsidiary Optival Health Solutions Pvt Ltd. Optival has envisaged to open around 1000 retai stores over the next two years.

Strong, qualified promoters and established brand name

The key promoter of Optival; Dr. Madhukar Reddy, is a doctor by profession and had done master's in business administration from Wharton School of Business. Optival is a subsidiary (equity stake of 99.99%) of MedPlus. Dr. Reddy is the chief mentor for the MedPlus group companies in their strategic planning and decision making. He has more than two decades of experience in various fields of business and functions like launching and growing IT outsourcing organizations, sales, marketing, fundraising and recruitment. Mr. Murali Krishna is another director of Medplus group who has close to two decades of experience in different fields of retail and wholesale businesses. He handles day-to-day operations at corporate and store level. The group has an established brand name and strong market presence.MedPlus at standalone level is into pathlab business and has 30 collection centres and about 146 patient service centres as on November 30, 2021 at various locations.

Healthy TOI with improving profitability margins during FY21

Optival had booked a healthy TOI of Rs 3072 crore during FY21 by registering a CAGR of 24% from FY17-FY21 backed by addition of new stores over the years. Online sales contribute around 15% to Optival's operating income. PIBLDT margin of the company also improved by 239 bps in FY21 as the company is now directly procuring from super stockist as against stock being procured from distributors earlier. Furthermore, company is branding products under 'Medplus' brand resulting in relatively better margins.

[1]Complete definition of the ratings assigned are available at www.careedge.in and other CARE Ratings Ltd.'s publications

Diversified geographical reach
The retails stores of the company are spread across seven states viz., Telangana, Andhra Pradesh, Karnataka, Tamilnadu, Maharashtra, West Bengal and Odisha. Optival has over 2326 pharmacy outlets and 29 optical stores as on September 30, 2021. Majority of the stores of the company are located in urban areas. The company strategically positions its stores in prime commercial areas to create better brand awareness. However, the prime locations have higher lease rentals and fierce competition from other organised and unorganised players.

Sourcing arrangement; terms with supplier and return policy on expiry drugs
The company has been procuring traded goods from distributors, C&F agents and directly from reputed pharmaceutical companies in India for more than a decade and has established long term relations with them. Optival procures the goods in bulk state wise and stores them in the warehouses at each state and distributes the material from central warehouse to the individual retail stores. Further, by virtue of procuring bulk quantities from them, the company was able to avail additional discount from the suppliers. Apart from that as part of contract terms, the company can replace the near-to-expiry products and expired products from the suppliers.

Satisfactory capital structure and coverage ratios
The capital structure of the company marked by overall gearing ratio continues to remain stable at 1.11x as on March 31, 2021 (PY:1.09x). Around 77% of the debt comprises lease liability amounting to Rs. 446.92 crore and remaining pertains to working capital bank borrowing. The tangible net worth of the company is healthy at Rs.524.58 crore as on March 31, 2021 backed by prolonged operations and profits.
The coverage ratios of the company improved and remained satisfactory marked by total debt/GCA stood at 3.75x in FY21 (PY:4.45x) and PBILDT interest coverage ratio improved from 3.15x in FY20 to 3.44x in FY21 at the back of improved PBILDT levels.

Stable industry outlook
The operations of pharma industry being considered Essential, came under the ambit of essential manufacturing during the lockdown induced by Covid-19. This had kept production activities at many pharma companies largely unaffected. Also easing of restrictions in different phases of lockdown is believed to have supported the operations of pharma companies. During this period, while the domestic market for antibiotics, cold and cough gained traction, demand from segments like women healthcare and orthopaedic were impacted as the treatment for such ailments were believed to be kept on hold. Also, inbound logistics constraints restricted the movement in exports to an extent during lockdown. With relief in various restrictions, the industry is expected to see pent up demand for treatments that were postponed which will support the demand for drugs. Moreover, the demand for medicines will increase during the monsoon season as the distributors and retailers normally stock drugs for the season. These parameters will augur well for pharma industry. In addition to this, the industry will continue to see demand from the domestic as well as international markets for some of the antivirals, antimalarials and antibiotics given the spread of Covid-19. Apart from this, the huge population of the India combined with rise in medical problems, greater insurance coverage, enhanced medical treatment facilities to treat both acute and chronic diseases and government raising the health care spending automatically provides further significant growth opportunities for retail chain pharmacies. Apart from above increase in health care spending, change in consumer attitude, etc., has significantly contributed in rapid growth of this segment

Liquidity: Strong
The company expected to generate adequate cash accruals of Rs.188 crore during FY22 as against nil repayment obligation (except for lease liability which is already accounted in expenses). The current ratio of the company improved from 1.56x as on March 31, 2020 to 1.78x as on March 31, 2021. The liquidity is further supported by free cash and bank balance of Rs.16.73 crore and fixed deposit of Rs.30.50 crore, unutilised working capital limits coupled with positive cash flows from operations of Rs.77.20 crore as on March 31, 2021. The operating cycle remains at around two months because of inventory holding although the average utilisation of working capital lines remained low at 32% during last 12 month period ended September 2021. The proceeds of IPO is expected to further strengthen company’s liquidity position.

Key Rating Weaknesses

Highly fragmented industry
The Indian pharmacy market continues to be highly fragmented in nature due to the presence of unorganized pharmacies, with organized sector estimated to account around 3-5% of the total business. The pharmacy retail market in India is projected to reach INR 2,330.2 billion by 2024. The tough competition from online retailers and organised players is likely to rearrange the Indian pharmacy market. E-pharmacies have been making inroads into the market for the past few years. Essentially, they are technological innovations that offer a patient the benefit of convenience ordering through easy to use apps. However, with the market and customer pool becoming so diverse today, there is a need for pharmacies to offer and ace at all modes of service. However medplus is having around 15% revenue from online business and likely to increase further in coming years.
The unorganised retail consist of small retail stores operating on the lower scale with slight or no standardisation and selling goods in split quantities to the local consumers within a small geographical area. Unorganized retail stores do not use any technology or maintain processes in their businesses. However, competition from unorganized players still exists.

Analytical approach: Standalone (factoring linkages with Medplus Heath Services Limited)

Applicable Criteria
Policy on default recognition
Factoring Linkages Parent Sub JV Group
Financial Ratios – Non financial Sector
Liquidity Analysis of Non-financial sector entities
Rating Outlook and Credit Watch
Short Term Instruments
Retail
Wholesale Trading

About the Company
Optival Health Solutions Private Limited (Optival) was incorporated in July 2005. Optival is a subsidiary of MedPlus Health Services Limited (MedPlus), promoted by Dr. Madhukar Gangadi. MedPlus is spread across Telangana, Andhra Pradesh, Tamil Nadu, Karnataka, Odisha and Maharashtra . MedPlus is India's second largest pharmacy retail chain.
Optival operates in various businesses including retail sale of pharma products, FMCG and private label products- (own brand). MedPlus at standalone level is into Pathological laboratories (Pathlabs) business and the major retail business (Medplus Pharmacy outlets) of the group is operated by its subsidiary, Optival Health Solutions Private Limited (Optival).

Brief Financials (Rs. crore)	31-03-2020 (A)	31-03-2021 (A)	6MFY22(Prov.)
Total operating income	2,864.66	3,072.32	1848.73
PBILDT	144.49	228.35	154.84
PAT	13.43	54.98	55.83
Overall gearing (times)	1.09	1.11	0.99
Interest coverage (times)	3.15	3.44	5.10

A: Audited
Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Rating History for last three years: Please refer Annexure-2

Covenants of rated instrument / facility: Detailed explanation of covenants of the rated instruments/facilities is given in Annexure-3

Complexity level of various instruments rated for this company: Annexure 4

Annexure-1: Details of Instruments / Facilities

Name of the Instrument	ISIN	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based - LT-Cash Credit		-	-	-	175.00	CARE A; Stable
Non-fund-based - ST-Bank Guarantees		-	-	-	10.00	CARE A1

Annexure-2: Rating History of last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2021-2022	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019
1	Fund-based - LT-Cash Credit	LT	175.00	CARE A; Stable	-	1)CARE A-; Stable (14-Dec-20) 2)CARE A-; Stable (20-Nov-20)	1)CARE BBB+; Stable (23-Aug-19)	1)CARE BBB+; Stable (28-Dec-18)
2	Non-fund-based - ST-Bank Guarantees	ST	10.00	CARE A1	-	1)CARE A2+ (14-Dec-20)	-	-

* Long Term / Short Term

Annexure-3: Detailed explanation of covenants of the rated instrument / facilities: Not Applicable

Annexure 4: Complexity level of various instruments rated for this company

Sr. No	Name of instrument	Complexity level
1	Fund-based - LT-Cash Credit	Simple
2	Non-fund-based - ST-Bank Guarantees	Simple

Annexure 5: Bank Lender Details for this Company:
To view the lender wise details of bank facilities please click here

Note on complexity levels of the rated instrument: CARE Ratings Ltd. has classified instruments rated by it on the basis of complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careedge.in for any clarifications.

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With an established track record of rating companies over almost three decades, we follow a robust and transparent rating process that leverages our domain and analytical expertise backed by the methodologies congruent with the international best practices. CARE Ratings Limited has had a pivotal role to play in developing bank debt and capital market instruments including CPs, corporate bonds and debentures, and structured credit.

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