Optival Health Solutions Private Limited

March 31, 2023

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long Term Bank Facilities	6.00 (Reduced from 175.00)	CARE A; Stable	Reaffirmed
Short Term Bank Facilities	12.00 (Enhanced from 10.00)	CARE A1	Reaffirmed

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

The reaffirmation in the ratings assigned to the bank facilities of Optival Health Solutions Private Limited (optival) continue to derive strength from strong parentage, established brand image of 'Medplus' with 3557 stores network as at Dec 2022, geographically diversified presence across more than five- states, growing scale of operations with 22% growth registered during FY22 (refers to the period April 01 to March 31), adequate liquidity position (reduced the working capital limits from Rs.175 crore to Rs.6 crore), comfortable capital structure and coverage indicators coupled with stable industry outlook. The rating strengths are however partially offset by low profitability margins, highly fragmented and competitive nature of industry.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

- Significant improvement in total operating income while maintaining PBILDT margins not less than 7% on a sustained basis.

Negative factors

- Overall gearing (for bank debt) deteriorating beyond 0.6x
- Significant Decline in TOI by more than 30% or PBILDT margin falling below 5%

Analytical approach: **Standalone (while factoring parent linkages with Medplus)**

Outlook: Stable

CARE Ratings Limited (CARE Ratings) believes that the entity will continue to benefit from the infusion of funds from its holding company for expansion of business resulting in improved financial risk profile.

Key strengths

Vast experience of promoters with strong brand image

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 give full name. 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 at various locations.

Strong holding company, Medplus

MedPlus, is the holding company of the MedPlus group. MedPlus at standalone level is into pathlab business and has 30 collection centers and about 146 patient service centers at various locations. The company has its own pathology centers located within its subsidiary stores. In March 2022, Medplus launched its first Diagnostic Centre in Gachibowli, Hyderabad. The Diagnostics business

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

is an extended service to the existing pathology business of the Company. MedPlus's basic business model is based upon adding large volumes of customers through Optival's pharmacy operations and then cross-selling the pathology services to those customers. The group has ten subsidiary companies which are into distribution business and supply its products to the Optival. This helps the group to enhance its penetration by providing discounts and reaching directly to manufacturers which provide superior margins.

Established pharma player in the market with diversified geographical presence

Optival has enhanced its market potential by increasing its stores from 2748 as on March, 2022 to 3557 till Dec 2022**.** 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. Although, the prime locations have higher lease rentals and fierce competition from other organised and unorganised players.

Arrangement with supplier for procurement 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 quantities 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 supplier.

Large and growing scale of operations

The total operating income of the company witnessed a growth of 22% in FY22 i.e., from Rs.3054 crore in FY21 to Rs.3732 crore in FY22 on account of net increase in stores of around 667 at various states with average revenue per store of Rs.1.37 crore p.a. in FY22. The profitability of the company marked by PBILDT and PAT continues to remain satisfactory at 7.39% and 2.20% respectively in FY22 (PY:7.45% and 1.80%). The margins of the company improved over the review period on account of margins are relatively better for own brand products compared to other regular branded products. The company focusing on private label products(own brand) which are given on contract manufacturing (to the subsidiaries of Medplus- MHS Pharmaceuticals Private Limited, Nova Sud Pharmaceuticals Pvt Ltd and Wynclark Pharmaceuticals Private Limited) where the margins are relatively better on account of absence of marketing expenses

Comfortable capital structure and coverage indicators

The capital structure of the company marked by overall gearing ratio at 1.26x as on March 31, 2022 (PY:1.11x). The tangible networth of the company remained healthy and increased from Rs.525 crore as on March 31, 2021 to Rs.617 crore as on March 31, 2022 at the back of improved profits over the years. The company has total debt of Rs.777 crore as against Rs.582 crore, however 82% of the debt pertains to lease liability (Rs.634 crore) and remaining 18% working capital bank borrowings. Due to increase in number of stores the lease liability has been increasing. However, backed by adequate cash generated by the company and surplus funds available, company has reduced its working capital limits from Rs.175 crore to Rs. 6 crore. The company maintains on an average of two to three month of inventory for smooth flow of business operations.

The coverage indicators of the company marked by TD/GCA and PBILDT interest coverage continues to remain comfortable at 4.08x and 3.42x in FY22.

Favourable industry outlook

The Indian pharma sector ranks third globally in terms of volume and fourteenth globally in terms of value. By 2030, the Indian pharm industry is anticipated to grow at a CAGR of 9–11% and reach $130 billion. A growth in the frequency of chronic diseases, increased per capita income, better access to healthcare facilities, and the penetration of health insurance are all factors that have benefited the domestic pharma business. Modern pharma retail has witnessed robust development, owing mostly to increased demand for OTC and prescription drugs, wellness items, and private label products. Pharma retail outlets do, however, also sell a variety of FMCG items, consumables, and medical equipment in addition to pharma and related services. The retail pharma sector is anticipated to expand at a CAGR of 10% over the next five years. Due to a sedentary lifestyle, there is a rising tendency of diseases that are caused by lifestyle. One of the greatest proportions of diabetic patients are seen in India. Obesity and disorders associated with it are becoming more and more common. These trends are causing the customer's medical demands to change, which might make that category the largest.

Key weaknesses

Presence in highly fragmented and competitive nature of industry

The company is engaged in trading of pharma and other FMCG products which is highly fragmented in nature due to presence of both organised and unorganised players in the industry. Potential risk arising out of new competition owing to differentiated products and new entrants of varying sizes and store formats operating in unexplored semi-urban and rural markets. Nevertheless, medplus is the second largest pharma retailer in the country having strong presence with more than 3500 stores spread across Southern India (except Kerala), Odisha, Maharashtra and West Bengal. Furthermore, by making a wide variety of items available through both offline and online channels, the Company focuses on providing convenience to the consumers and is always striving to maintain brand visible distinctiveness through private brand campaigns and numerous other activities. However, competition from unorganised players continues to exist to some extent.

Liquidity: Adequate

Optival has been generating adequate cash accruals and does not have any long term bank debt in its books. The gross cash accruals of the company increased from Rs.155 crore in FY21 to Rs.190 crore in FY22. The company had free cash and bank balance of Rs.48.45 crore as on March 31, 2022 with almost nil utilisation of working capital limits during the last 12 months ended Feb 2023.

Assumptions/Covenants: NA

Environment, social, and governance (ESG) risks: Nil

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
Policy on Withdrawal of Ratings

About the company and industry

Industry Classification

Macro Economic Indicator	Sector	Industry	Basic Industry
Consumer Discretionary	Consumer Services	Retailing	Distributors

Optival Health Solutions Private Limited (Optival) was incorporated in July 2005. Optival is a subsidiary (equity stake of 99.99%) of MedPlus Health Services Limited (MedPlus), promoted by Dr. Madhukar Gangadi. MedPlus is operating over 3557 stores in more than 300 cities spread across Telangana, Andhra Pradesh, Tamil Nadu, Karnataka, Odisha, West Bengal, 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).

Brief Financials (₹ crore)	March 31, 2021 (A)	March 31, 2022 (A)	9MFY23(UA)
Total operating income	3,054.60	3,732.01	3296.22
PBILDT	227.58	275.66	186.16
PAT	54.98	82.01	NA
Overall gearing (times)	1.11	1.26	NA
Interest coverage (times)	3.43	3.42	3.28

A: Audited; UA: Unaudited; NA: Not Available; Note: 'the above results are latest financial results available'.

Status of non-cooperation with previous CRA: Nil

Any other information: Not Applicable

Rating history for the last three years: Please refer Annexure-2

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

Complexity level of the various instruments rated: Annexure-4

Lender details: Annexure-5

Annexure-1: Details of instruments/facilities

Name of the Instrument	ISIN	Date of Issuance (DD-MM-YYYY)	Coupon Rate (%)	Maturity Date (DD-MM-YYYY)	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Fund-based - LT-Cash Credit		-	-	-	6.00	CARE A; Stable
Non-fund-based - ST-Bank Guarantee		-	-	-	12.00	CARE A1

Annexure-2: Rating history for the last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating History			
		Type	Amount Outstanding (₹ crore)	Rating	Date(s) and Rating(s) assigned in 2022-2023	Date(s) and Rating(s) assigned in 2021-2022	Date(s) and Rating(s) assigned in 2020-2021	Date(s) and Rating(s) assigned in 2019-2020
1	Fund-based - LT-Cash Credit	LT	6.00	CARE A; Stable	-	1)CARE A; Stable (06-Jan-22)	1)CARE A-; Stable (14-Dec-20) 2)CARE A-; Stable (20-Nov-20)	1)CARE BBB+; Stable (23-Aug-19)
2	Non-fund-based - ST-Bank Guarantee	ST	12.00	CARE A1	-	1)CARE A1 (06-Jan-22)	1)CARE A2+ (14-Dec-20)	-

*Long term/Short term.

Annexure-3: Detailed explanation of the covenants of the rated instruments/facilities:NA

Annexure-4: Complexity level of the various instruments rated

Sr. No.	Name of the Instrument	Complexity Level
1	Fund-based - LT-Cash Credit	Simple
2	Non-fund-based - ST-Bank Guarantee	Simple

Annexure-5: Lender details

To view the lender wise details of bank facilities please click here

Note on the complexity levels of the rated instruments: CARE Ratings 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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About us:
Established in 1993, CARE Ratings is one of the leading credit rating agencies in India. Registered under the Securities and Exchange Board of India, it has been acknowledged as an External Credit Assessment Institution by the RBI. With an equitable position in the Indian capital market, CARE Ratings provides a wide array of credit rating services that help corporates raise capital and enable investors to make informed decisions. With an established track record of rating companies over almost three decades, CARE Ratings follows a robust and transparent rating process that leverages its domain and analytical expertise, backed by the methodologies congruent with the international best practices. CARE Ratings has played a pivotal role in developing bank debt and capital market instruments, including commercial papers, corporate bonds and debentures, and structured credit.

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