Optival Health Solutions Private Limited

January 05, 2024

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long-term bank facilities	6.00	CARE A; Stable	Reaffirmed
Short-term bank facilities	12.00	CARE A1	Reaffirmed

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

The ratings assigned to the bank facilities of Optival Health Solutions Private Limited (Optival; a 99.99% subsidiary of MedPlus Health Services Limited) remain underpinned by established brand of 'Medplus' in the retail pharmacy space with presence of more than 4000 stores across the country. The number of stores has been increasing y-o-y with a likely addition of 800 new stores in the current year. The revenue from operation has also been on a growing trend, with Optival registering a growth of 21% y-o-y in FY23 to achieve a revenue of ₹4,515 crore. The revenue is expected to remain upward of ₹5,000 crore in the current fiscal backed by company's increasing geographical coverage coupled with healthy demand. The growth in number of stores has been funded from the IPO proceeds of Medplus, also with the available liquidity, Optival has significantly reduced its borrowings during FY23 and presently has no reliance on Bank debt resulting in a strong credit risk profile.

The rating strengths are however partially offset by presence in highly fragmented and competitive industry leading to low profitability margins. The profit before interest, lease rentals, depreciation and tax (PBILDT) margin of the company declined to 5.71% for FY23 from 7.29% during previous year because of the cost associated with opening of over 1000 new stores during the year along with discounts offered to capture the market.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

- Total operating income increasing to Rs 5000 crore while maintaining PBILDT margins not less than 5% on a sustained basis.
- Ability to improve average revenue per store from existing level of around ₹1-1.5 crore, on a sustained basis.

Negative factors

- TOL/TNW deteriorating beyond 1.5x, going forward
- Elongation in inventory holding period to more than 100 days on a sustained basis.

Analytical approach: Standalone (Factoring linkages with Medplus Health Services Limited)

Outlook: Stable

CARE Ratings Limited (CARE Ratings) believes that the entity will continue to benefit from its growing presence in the market while maintaining a strong financial risk profile.

Detailed description of the key rating drivers:

Key strengths

Increased scale of operations with moderate profitability margins:

Revenue from operations of the company witnessed a significant 21% y-o-y growth in FY23 from ₹3,728.28 crore in FY22 to ₹4,515.12 crore. Scale of operations is expected to increase further backed by revenue from operations of ₹2,655.81 crore for the half year ended September 30, 2023. This growth is attributed to net addition of 1,074 stores during FY23 and 267 stores during H1-FY24. The company witnessed a marginal decline in profitability margins during FY23 marked by PBILDT margin of 5.71% from 7.29% in FY22 and PAT margin of 0.86% from 2.20% in FY22 attributable to rapid addition of stores leading to increase in incidental expense, rent and employee costs. However, the same is expected to be stable going forward.

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

Satisfactory financial risk profile

The financial risk profile of the company stood satisfactory marked by absence of term debt. The overall gearing of the company improved from 1.26x as on March 31, 2022 to 0.72x as on March 31, 2023. This improvement is on account of infusion of equity funds by Medplus leading to increase in net worth base by ₹467.17 crore during FY23. The entire debt pertains to the lease liability relating to the store properties taken on lease.

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. Murali Krishna is another director of the 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 has taken steps to explore the market of diagnostics. This includes establishment of three integrated radiology centres, four low-end radiology centres, a central path laboratory, and over 100 collection centres. However, around 98% of the Medplus's consolidated revenue is derived from stores run by Optival.

Established pharma player in the market with diversified geographical presence

Optival has enhanced its market potential by increasing its stores from 2,748 as on March 31, 2022 to 4,089 as on September 30, 2023. 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 even though the prime locations have higher lease rentals and fierce competition from other organised and unorganised players.

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 4,089 stores as on September 30, 2023 across southern India.

Liquidity: Adequate

Adequate liquidity is supported by negligible reliance on bank borrowings for working capital purpose. Average working capital limit utilisation for the 12 months ending September 2023 stands low at 4%. Liquidity is further supported by current ratio of 2.52x as on March 31, 2023 and cash and liquid investments of ₹128.18 crore as on September 30, 2023.

Assumptions/Covenants: NA

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

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 and industry

Industry classification

Macro-economic Indicator	Sector	Industry	Basic Industry
Consumer discretionary	Consumer services	Retailing	Distributors

Optival, incorporated in July 2005, is a subsidiary (99.99%) of MedPlus Health Services Limited (MedPlus), promoted by Dr. Madhukar Gangadi. Optival is the flagship company of the Medplus group contributing to around 99% of the group's revenue and profits. MedPlus is one of the leading pharmacy retailers in India and operates over 4000 stores in 300 cities spread across Telangana, Andhra Pradesh, Tamil Nadu, Karnataka, Odisha, West Bengal, and Maharashtra.

Brief Financials (₹ crore)	March 31, 2022 (A)	March 31, 2023 (A)	H1-FY24 (UA)
Total operating income	3,728.28	4,515.12	2,655.81
PBILDT	271.92	257.85	150.55
PAT	82.01	39.05	17.33
Overall gearing (times)	1.26	0.72	0.75
Interest coverage (times)	3.38	2.78	2.93

A: Audited; UA: Unaudited. Note: 'the above results are latest financial results available'

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: 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 2023-2024	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
1	Fund-based - LT-Cash credit	LT	6.00	CARE A; Stable	-	1)CARE A; Stable (31-Mar-23)	1)CARE A; Stable (06-Jan-22)	1)CARE A-; Stable (14-Dec-20) 2)CARE A-; Stable (20-Nov-20)
2	Non-fund-based - ST-Bank guarantee	ST	12.00	CARE A1	-	1)CARE A1 (31-Mar-23)	1)CARE A1 (06-Jan-22)	1)CARE A2+ (14-Dec-20)

Annexure-3: Detailed explanation of covenants of the rated instruments/facilities – Not applicable

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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