Optival Health Solutions Private Limited

July 29, 2024

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long-term bank facilities	50.00	CARE A; Stable	Assigned
Long-term bank facilities	150.00 (Enhanced from 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

Ratings assigned to bank facilities of Optival Health Solutions Private Limited (Optival; a 99.99% subsidiary of MedPlus Health Services Limited [MedPlus]) remain underpinned by established brand of 'Medplus' in the retail pharmacy space with over 4,400 stores across the country. The revenue from operations also been on a growing trend, with Optival registering a growth of 23% y-o-y in FY24 to achieve a revenue of over ₹5,500 crore. The company's financial risk profile stands comfortable with absence of term loans, adequate liquidity marked by cashflow from operations (CFO) of over ₹130 crore and nil utilisation of working capital borrowing limits. However, for additional operational needs with projected growth in number of stores the company has been sanctioned enhancement in its working capital limit, which it may utilise, going forward. This, and an increase in lease liability pertaining to addition of stores, may impact its leverage structure. Lease rentals form a significant portion of company's operational expenditure, increasing rentals can impact company's profitability. Although, company has a free cash balance of about ₹75 crore as on March 31, 2024, and has been generating adequate accruals, its ability to continue maintaining a healthy credit risk profile will remain a key monitorable.

Rating strengths are partially offset by presence in highly regulated, fragmented and competitive industry along with low profitability margins.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

- Improving average revenue per store from existing level of around ₹1-1.5 crore, on a sustained basis.
- Return on capital employed (ROCE) improving beyond 10%.

Negative factors

- Total operating liabilities to total net worth (TOL/TNW) deteriorating beyond 1.5x, going forward.
- Elongating inventory holding period to more than 100 days on a sustained basis.
- Significantly declining operating income or profits, going forward.

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 steady CFO.

Detailed description of key rating drivers:

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

Key strengths

Growth in scale of operations with stable profitability margins

Revenue from operations significantly grew ~23% y-o-y from ₹4,515.12 crore in FY23 to ₹5538.40 crore in FY24. This growth is attributed to addition of 671 stores in FY24. Average revenue per store improved to ₹1.26 crore per annum in FY24 from ₹1.18 crore per annum in FY23. The company maintained stable profitability margins with marginal improvement in profit before interest, lease rentals, depreciation, and taxation (PBILDT) margin to 6.06% in FY24 from 5.71% in FY23 considering better absorption of fixed overheads.

Comfortable financial risk profile

The company's financial risk profile stands comfortable, marked by the absence of term debt and an overall gearing of 0.77x as on March 31, 2024 (0.72x as on March 31, 2023). The entire debt as of March 31, 2024, pertains to lease liability accounted for in accordance with IndAS. Other coverage metrics are also comfortable, although moderated marginally due to an increase in lease liability, as reflected in TOL/TNW of 1.23x as on March 31, 2024 (1.16x as on March 31, 2023). However, with more retail stores being added in the future, the company is expected to utilise its enhanced working capital limits. This, and an increase in lease liability pertaining to the addition of stores, affecting the company's financial risk profile would remain a key monitorable.

Vast experience of promoters with strong brand image

The key promoter of Optival; Dr. Madhukar Reddy, is a doctor by profession and has a 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 businesses and functions including launching and growing IT outsourcing organisations, 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 levels. The group has an established brand name and strong market presence. At a standalone level, MedPlus has taken steps to explore the diagnostics market. This includes establishment of three integrated radiology centres, four low-end radiology centres, a central path laboratory, and over 100 collection centres. However, ~98% of the Medplus' 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 4,444 stores as on June 30, 2024. Majority company stores are in urban areas. The company strategically positions its stores in prime commercial areas to create better brand awareness even though 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 pharma and other FMCG products, which is highly fragmented due to presence of 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. Medplus is the second largest pharma retailer in the country having strong presence with 4,444 stores as on June 30, 2024, across southern India, West Bengal, Maharashtra and Orissa.

Liquidity: Adequate

The company is able to generate adequate cash flows, marked by a CFO of over ₹130 crore as on March 31, 2024. Liquidity is further supported by nil utilisation of working capital limits, a current ratio of 2.33x, and cash and liquid investments of ₹73.49 crore as on March 31, 2024.

Assumptions/Covenants – Not applicable

Environment, social, and governance (ESG) risks - Not applicable

Applicable criteria

Definition of Default
Factoring Linkages Parent Sub JV Group
Liquidity Analysis of Non-financial sector entities
Rating Outlook and Rating Watch
Financial Ratios – Non financial Sector
Retail
Short Term Instruments
Wholesale Trading

About the company and industry

Industry classification

Macro-economic indicator	Sector	Industry	Basic industry
Consumer discretionary	Consumer services	Retailing	Distributors

Incorporated in July 2005, Optival is a subsidiary (99.99%) of 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 4,444 stores as on June 30, 2024, in 300 cities across Telangana, Andhra Pradesh, Tamil Nadu, Karnataka, Odisha, West Bengal, and Maharashtra.

Brief Financials (₹ crore)	March 31, 2022 (A)	March 31, 2023 (A)	March 31, 2024 (A)
Total operating income	3,728.28	4,515.12	5,538.40
PBILDT	271.92	257.85	335.54
PAT	82.01	39.05	51.91
Overall gearing (times)	1.26	0.72	0.77
Interest coverage (times)	3.38	2.78	3.16

A: Audited. Note: these are latest available financial results

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

Rating history for last three years: Annexure-2

Covenants of rated instrument / facility: Annexure-3

Complexity level of 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		-	-	-	150.00	CARE A; Stable
Fund-based - LT-Working Capital Demand loan		-	-	20-01-2025	50.00	CARE A; Stable
Non-fund-based - ST-Bank Guarantee		-	-	-	12.00	CARE A1

Annexure-2: Rating history for 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 2024-2025	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
1	Fund-based - LT-Cash Credit	LT	150.00	CARE A; Stable	-	1)CARE A; Stable (05-Jan-24)	1)CARE A; Stable (31-Mar-23)	1)CARE A; Stable (06-Jan-22)
2	Non-fund-based - ST-Bank Guarantee	ST	12.00	CARE A1	-	1)CARE A1 (05-Jan-24)	1)CARE A1 (31-Mar-23)	1)CARE A1 (06-Jan-22)
3	Fund-based - LT-Working Capital Demand loan	LT	50.00	CARE A; Stable				

LT: Long term; ST: Short term

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

Annexure-4: Complexity level of instruments rated

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

Annexure-5: Lender details

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

Annexure-6: List of entities consolidated - Not applicable

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

Contact us

Media Contact	Analytical Contacts
Mradul Mishra Director **CARE Ratings Limited** Phone: +91-22-6754 3596 E-mail: mradul.mishra@careedge.in **Relationship Contact** Saikat Roy Senior Director **CARE Ratings Limited** Phone: 91 22 6754 3404 E-mail: saikat.roy@careedge.in	Karthik Raj K Director **CARE Ratings Limited** Phone: +91 80-46625555 E-mail: karthik.raj@careedge.in Nivedita Anirudh Ghayal Associate Director **CARE Ratings Limited** Phone: +91-040 40102030 E-mail: nivedita.ghayal@careedge.in Sainandan S Pavansri Analyst **CARE Ratings Limited** E-mail: Sainandan.Pavansri@careedge.in

About us:
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