

Optival Health Solutions Private Limited

March 13, 2018

Ratings

Facilities	Amount (Rs. crore)	Rating ¹	Rating Action
Long term bank facilities	105.00	CARE BBB+; Stable (Triple B Plus; Outlook – Stable)	Revised from CARE BBB- (Triple B Minus)
Total Facilities	105.00 (One Hundred and Five crore only)		

Details of instruments/facilities in Annexure-1

CARE in its analysis has considered the consolidated financials of MedPlus Health Services Private Limited (MedPlus), the holding company of Optival Health Solutions Private Limited (Optival). The consolidated financials of MedPlus comprises financials of Optival and five other subsidiaries namely Ritemed Pharma Retail Private Limited (Ritemed), Medsupply Distributors Private Limited MHS Pharmaceuticals Private Limited Ritecure Pharma Private Limited and PanIndia Pharma Distributors Private Limited. All the companies together have operational and financial linkages as they are into same line of business and are managed by same promoters. Further Optival and Ritemed together contribute about 98% of total operating income at consolidated level.

Detailed Rationale & Key Rating Drivers

The revision in the rating assigned to the long term bank facility of Optival Health Solutions Private Limited takes into account, at consolidated level, healthy growth in the total operating income during FY17 (refers to the period April 1 to March 31) and improvement in the profitability margins, capital structure and debt coverage metrics. Further, the ratings factor in significant equity infusion at MedPlus group level during 11MFY18 which was utilized to redeem the entire Non-Convertible Debentures and Preference shares (outstanding at Rs. 81.74 towards NCD as on February 02, 2018 and Rs. 23.35 crore towards Preference shares as on December 15, 2017) which has significantly improved the financial position and debt coverage metrics of Medplus group. The rating also factors in experienced and resourceful promoters, established market position of the group, geographically diversified stores and revenue stream, majority of the outlets being profit-generating units, stable operating cycle, comfortable liquidity position and favorable industry prospects.

The ratings strengths are, however, tempered by thin profitability margins and highly fragmented industry with competition from existing organized and unorganized players. The ability of the company to reduce the breakeven period and stabilize the operations at upcoming pharmacy outlets, improve profitability margin, maintain the capital structure and manage its working capital efficiently are the key rating sensitivities.

Detailed description of the key rating drivers

Key Rating Strengths

Healthy growth in total operating income and profitability margins

On a consolidated basis, Medplus group registered a substantial y-o-y growth of 15.94% in total operating income during FY17 amounting to Rs.2014.96crore (Rs. 1737.73 crore in FY16). PBILDT margin of Medplus group improved by 133 bps to 4.02% in FY17 from 2.69% in FY16. The PAT margins of Medplus group improved by 91bps to 1.43% in FY17 from 0.52% in FY16. Furthermore, owing to trading nature of business the profitability margins are relatively on the lower side.

¹Complete definition of the ratings assigned are available at www.careratings.com and other CARE publications

Improved leverage and coverage indicators

The overall gearing of Medplus group improved to 2.02x as on March 31, 2017 from 2.36x as on March 31, 2016. Significant improvement in the GCA levels of the group marked by improved PAT in absolute terms has led to improved total debt to GCA during FY17. The PBILDT interest coverage ratio improved from 2.15x during FY16 to 3.18x in FY17 despite increase in interest costs on account of higher cash accruals at operating level.

Significant equity infusion with further improvement in debt coverage indicators

The entire debt of Medplus group as denoted by NCD and preference shares was redeemed by issuing fresh equity shares (incl. Share premium) amounting to Rs. 105.08 crore as on February 2018. Furthermore, Medplus made fresh issue of equity shares amounting to Rs. 7 crore as on December 2017. The capital structure of Medplus group has improved as on February 2018 as the entire long term debt of Medplus group are redeemed.

Experienced and resourceful Promoters

The key promoter of Medplus group; Dr. Madhukar Reddy, is a doctor by profession and had done masters in business administration from Wharton School of Business and has more than two decades of experience in various fields of business. The promoters of the group are resourceful and have been infusing funds as and when it was required.

Second largest pharma retail chain with geographically diversified stores and revenue stream

At group level MedPlus has 1,403 pharmacy outlets which it operates through Optival and Ritemed. Of the total pharmacy outlets 1099 outlets are operated by Optival and the remaining 304 outlets are operated by Ritemed. Majority of the stores of the group are located in urban areas. The company strategically positions its stores in prime commercial areas to create better brand awareness.

Improvement in operational efficiency:

Over the years (FY13-17), the number of outlets as well the revenue per outlet has been increasing reflecting the improvement in the operational efficiency of the retail stores. Apart from aforementioned the break even for every new outlet has improved significantly from 15 months during FY13 to 3 months in FY17.

Stable operating cycle and liquidity position

MedPlus group has a satisfactory operating cycle despite its operation in working capital intensive business. The operating cycle has been between 1-1.5 months on an average. The liquidity profile has also been satisfactory and with adequate gross cash accrual generation and satisfactory operating cycle. The average working capital utilization (Consolidated) has been at around 54% during the 12 month period ended January 31, 2018.

Key Rating Weaknesses***Thin profitability margins***

The profitability margins of the company remain thin on account of trading nature of business.

Highly fragmented industry

The Indian pharmacy market continues to be highly fragmented in nature due to the overwhelming presence of unorganized pharmacies, with organized sector estimated to account for only 3-5% of the total business.

Analytical approach: Consolidated; The consolidated financials of MedPlus comprises financials of Optival and five other subsidiaries namely Ritemed Pharma Retail Private Limited (Ritemed), Medsupply Distributors Private Limited MHS Pharmaceuticals Private Limited Ritecure Pharma Private Limited and Pan India Pharma Distributors Private Limited. All the companies together have operational and financial linkages as they are into same line of business and are managed by same promoters. Further Optival and Ritemed together contribute about 98% of total operating income at consolidated level.

Applicable Criteria:

[Criteria on assigning Outlook to Credit Ratings](#)

[CARE's Policy on Default Recognition](#)

[Rating Methodology: Factoring Linkages in Ratings](#)

[CARE's methodology for Wholesale Trading](#)

[Financial ratios – Non-Financial Sector](#)

About the Company

Optival Health Solutions Private Limited (Optival) was incorporated in July 2005. Optival is a subsidiary of MedPlus Health Services Private limited, promoted by Dr. Madhukar Gangadi. At group level, MedPlus is operating around 1403 stores under 'MedPlus' brand and is India's second largest pharmacy retail chain. Out of the total stores, 304 outlets are operated by Ritemed located in three cities (Hyderabad, Bengaluru and Chennai) and the remaining 1099 by Optival Health Solutions Private Limited.

MedPlus operates in various businesses including retail sale of pharma products, FMCG and private label products. MedPlus at standalone level is into Pathological laboratories (Pathlabs) business and the major retail business of the group is operated by its subsidiary companies viz, Optival Health Solutions Private Limited and Ritemed Pharma Retail Private Limited. Furthermore, the Medplus group has 6 subsidiaries and five step down subsidiaries as on date.

Brief Financials (Rs. crore)	FY16 (A)	FY17 (A)
Total operating income	1737.73	2014.69
PBILDT	46.75	80.89
PAT	9.05	28.83
Overall gearing (times)	2.36	2.02
PBILDT Interest coverage (times)	2.15	3.18
PBIT Interest Coverage (times)	1.69	2.73

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

Note on complexity levels of the rated instrument: CARE has classified instruments rated by it on the basis of complexity. This classification is available at www.careratings.com. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.

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About CARE Ratings:

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Disclaimer

CARE's ratings are opinions on credit quality and are not recommendations to sanction, renew, disburse or recall the concerned bank facilities or to buy, sell or hold any security. CARE has based its ratings/outlooks on information obtained from sources believed by it to be accurate and reliable. CARE does not, however, guarantee the accuracy, adequacy or completeness of any information and is not responsible for any errors or omissions or for the results obtained from the use of such information. Most entities whose bank facilities/instruments are rated by CARE have paid a credit rating fee, based on the amount and type of bank facilities/instruments.

In case of partnership/proprietary concerns, the rating /outlook assigned by CARE is based on the capital deployed by the partners/proprietor and the financial strength of the firm at present. The rating/outlook may undergo change in case of withdrawal of capital or the unsecured loans brought in by the partners/proprietor in addition to the financial performance and other relevant factors.

Annexure-1: Details of Instruments/Facilities

Name of the Instrument	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based - LT-Cash Credit	-	-	-	105.00	CARE BBB+; Stable

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 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016	Date(s) & Rating(s) assigned in 2014-2015
1.	Fund-based - LT-Cash Credit	LT	105.00	CARE BBB+; Stable	-	1)CARE BBB- (10-Oct-16)	1)CARE BBB- (08-Oct-15)	1)CARE BBB- (05-Nov-14)

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