Management Discussion

Srinivas - Senior Manager, Finance, MedPlus Health Services Limited
Thank you. Good evening, everyone. On behalf of MedPlus, it's my utmost pleasure to welcome you all to the MedPlus Q2 FY27 earnings conference call to discuss the financial results of MedPlus for the 2nd quarter of FY27, which were announced earlier. We have with us today the senior management represented by Mr. Madhukar Reddy Gangadi, CEO and MD, and Mr. Sujit Mahato , CFO. Before we begin, I would like to mention that some of the statements made in today's discussion may be forward-looking in nature and may involve risks and uncertainties.

Please note the disclaimer mentioning these risks and uncertainties on slide 1 of the investor presentation shared with all of you earlier. Documents relating to our financial performance were circulated earlier, and these have also been posted on our corporate website. I would now hand over the call to Sujit. Thank you, and over to you, Sujit.

Sujit Kumar Mahato - Chief Financial Officer, MedPlus Health Services Limited
Thank you, Shrinivas. And good evening everyone on this call. An update on our network in terms of openings and closures. We have opened 219 stores and there were 53 store closures including 14 relocation cases and 23 franchisee outlet closures. We achieved a net addition of 166 stores including net addition of 82 franchisee outlets during the quarter. Compared to the 146 stores added during the last quarter. We continue with the outlook for adding 800 net new stores, including the franchisee outlets, in FY27. An update on the store network: in terms of our store network age, around 29% of our stores have been operational for less than 2 years, and the remaining 71% of our stores have been operational for 2 years or more.

In terms of the store size, at quarter end, our network consists of 5,642 stores including 849 franchisee outlets spanning over 3 million square feet. This compares with 5,476 stores including 664 franchisee outlets as of June 2023. The average store size stood at 539 square feet. During the quarter, we added 82 franchisee stores and converted 103 CoCo stores to franchisee model. An update on the revenue mix. Presently, MedPlus offers a large range of SKUs spanning across pharma and non-pharmaceutical categories.

Private label sales for Q2 FY27 constitute 21.4%, pharma being 10.7% and non-pharma 10.7% of our total revenues. Private label non-pharma sales grew by 18% quarter on quarter, with the sales mix improving from 9.8% to 10.7%, primarily due to improvement in supplies post quarter 4 FY26. We plan to further expand the product range to drive growth and increase the private label non-pharma sales mix. Private label pharma sales grew by 5.9% quarter on quarter, while the sales mix declined marginally from 11% to 10.7%.

Gross margins increased from 24.5% in Q1 FY27 to 25.1% in Q2 FY27, driven by a higher private label sales mix and lower discounts. During the quarter, we updated the presentation of revenue mix by product category on slide 13 of the investor presentation by reclassifying revenues from franchisees previously included under others into the respective product category. To ensure comparability and consistency, the same reclassification has been applied retrospectively to the preceding quarters covering all the periods presented.

Our consolidated revenue for the quarter stood at 20,371 million. Our consolidated operating EBITDA for the quarter stood at 981 million, representing 4.8%. This quarter included a one-time benefit of 79.6 million. This relates to the reversal of retention bonus provision for store employees. Excluding this reversal, consolidated operating EBITDA for the quarter would have been 901 million,

representing 4.4%. Revenue from pharmacy operations grew by 21.3% on a year-on-year reported basis. The pharmacy operating EBITDA stood at 885 million, representing 4.4%.

An update on our store performance. Stores older than 12 months revenue from these stores in Q2 was 17,325 million, representing 93% of pharmacy revenue. These stores had a store-level EBITDA margin of 11.7%. A word here on the store-level EBITDA margin by age. While stores greater than 12 months had a margin of 11.7%, this was 11.9% for stores greater than 24 months and 8.4% for stores in the 13 months to 24 months age bracket. On allocating all non-store-related costs, the operating EBITDA of stores greater than 12 months would be 945 million, which translates to a margin of 5.4%.

An update on our working capital: our net working capital for Q2 was 54 days. The inventory in our warehouse was 34 days. In Q2, the inventory level of our first-year stores was 86 days. In comparison, for our stores older than 12 months, the inventory was 34 days. An update on our diagnostic numbers. Diagnostics revenue for the current quarter grew to 410.5 million compared to 332.5 million in Q2 FY26. Diagnostic segment recorded an operating EBITDA of 97.9 million, representing 23.8%, compared to 50.9 million in Q2 FY26.

In July, we sold 648 plans per day. In August and September, this was 640 and 657 respectively. As on 30th September, we had around 2.16 lakh active plans. That concludes our update for the quarter. I request the host to open the line for questions.

Questions & Answers

Operator
Thank you. We will now begin the question and answer session. [Operator Instructions] Participants are requested to use handsets while asking a question. Ladies and gentlemen, we will wait for a moment while the question queue assembles. The first question comes from the line of Paresh Chaudhary with Latent Advisors PMS. Please go ahead.

Paresh Chaudhary - Analyst, Latent Advisors PMS
Hi, can you hear me?

Operator
Yes, Paresh, please go ahead.

Paresh Chaudhary - Analyst, Latent Advisors PMS
Yeah, so, uh, in the previous calls we had given a commentary that we expected the franchises to have a higher sale, a higher share of private label products as compared to the CoCo. So how has it played out on ground? If you could give some like-to-like comparison of, let us say, some geography.

Gangadi Madhukar Reddy - Founder, Managing Director and Chief Executive Officer, MedPlus Health Services Limited
Uh, so we'll have to come back to you with details on that. Uh, maybe starting next quarter we'll actually start spitting out the franchisee numbers for all of you. But for now, I think it is more or less in line with what the company has. The private label, uh, sales are a function of 2 things. Typically the region in which the store is, and the vintage of the store. So for a rural franchisee, the private label is bound to be higher versus a city store. And obviously, the while we expect that the franchisee will do more private label as we move forward, initially it is still going to be less.

So given that most of our guys are still new, it may still not be at the same level as the overall company.

Paresh Chaudhary - Analyst, Latent Advisors PMS
Got it. That's it from my side.

Operator
[Operator Instructions] The next question comes from the line of Sudarshan Agarwal with Axis Capital. Please go ahead.

Sudarshan Agarwal - Analyst, Axis Capital Limited
Hey, hi, um, just checking on the private label mix. So this quarter we have seen steadying on the private label pharma side, I guess. So where do you see this going ahead in quarters ahead, uh, on the private label pharma? And secondly, on non-pharma also we are seeing consistent growth, right, on a Y-on-Y basis as well. So where do you see this kind of moving in the next, uh, let's say 3 to 4 quarters?

Gangadi Madhukar Reddy - Founder, Managing Director and Chief Executive Officer, MedPlus Health Services Limited
Sure. So, uh, On the pharma side, uh, as we mentioned in the past, uh, the sale growth got muted. In fact, it actually went down a little bit in absolute in percentage terms because we wanted to make sure that our customers, that our employees were not mis-selling, or not mis-selling, I would say that they're not, uh, being, uh, too aggressive in pushing the franchise, uh, in pushing the private labels. Uh, that was causing a little bit of a problem with our regular customers. Hence we got it muted down.

Hence over the last 3 or 4 quarters, you would have seen that we had gone down by around 0.5 or 0.6 quarter on quarter. This quarter though, I think that largely got arrested, that the growth was much smaller. And in absolute terms, the number was actually higher than what we had sold in, uh, Q2. The big difference was Uh, yeah, so the, the big difference was though was that, um, the brand sale went up. So while even, uh, the private label sale went down slightly on the pharma side, overall it actually, uh, grew in absolute terms.

That's one. On the non-pharma side, that was a problem more of supply chain and pricing being not quite right and all that. Uh, so both of those have been corrected now. I think it went up from 9.8% to 10.7% quarter on quarter. Uh, this is now going to be just a function of us adding as many new categories as possible. Obviously we cannot we have to do only the adjacent categories. You can't just do sell anything out there. It is also going to be a function of how many, uh, stores come up in the newer format which has got a self-service kind of thing.

Which is slightly more amenable to, uh, the private label non-pharma kind of sales. But I don't see any cap on that. I don't see any reason why it should not continue to grow.

Sudarshan Agarwal - Analyst, Axis Capital Limited
Yeah, but I think a few quarters back you used to kind of allude to the fact that, you know, maybe we can increase the private label mix by 50 to 100 basis points, uh, on either net or, you know, the other basis Uh, on a quarter-on-quarter basis. So does that trajectory now start back? Um, given that, yeah,

Gangadi Madhukar Reddy - Founder, Managing Director and Chief Executive Officer, MedPlus Health Services Limited
if you, uh, take both the components of private label, which is pharma and non-pharma, I don't see any reason why we should not grow in the range of around 0.5% every quarter, um, maybe slightly less. But yeah, on the whole, I think that's the number we'll be at. If you combine both. The pharma side may actually grow slightly lesser, maybe at 0.2, 0.3, uh, but the other one maybe 0.1 or 0.2 or something like that. The balance will be made up by the non-pharma side where it is not a question of substitution, it is just a question of adding new products and taking a larger share of the wallet.

Sudarshan Agarwal - Analyst, Axis Capital Limited
Got it. And lastly, I think I saw that your discounting has come down a bit, 1-odd percent on, you know, broadly. Membership or otherwise. Um, this is in relation to the wage hikes, to kind of offset the wage hikes, etc., that has happened. And I mean, will this kind of remain at these levels, the discounting? And is there a similar trend being observed in the industry as a whole, uh, that discount rates are coming off a little bit?

Gangadi Madhukar Reddy - Founder, Managing Director and Chief Executive Officer, MedPlus Health Services Limited
No, not really. Um, so, um, we, we kind of had this in our thing even earlier. Uh, unfortunately, the increased wage hike did not let us get the full benefit of this. Uh, otherwise we should have had a slightly higher EBITDA, obviously. Uh, but no, uh, given that we are the biggest discounters out there, um, I don't think anyone else is really following us out there. I don't think there's anything it's not a general trend in the industry, let me put it that way. This is part of a plan for us to decrease the discount.

Over a period of time.

Sudarshan Agarwal - Analyst, Axis Capital Limited
Got it, got it. Yeah, that's it from my side. Thank you.

Gangadi Madhukar Reddy - Founder, Managing Director and Chief Executive Officer, MedPlus Health Services Limited
Thank you.

Operator
[Operator Instructions] The next question comes from the line of Rikant Singh, an Individual Investor. Please go ahead.

Rikant Singh - Analyst, Individual Investor
Hello sir sir [Foreign Speech] profitable margin [Foreign Speech] 2 to 2,000 near about 2,000 crore [Foreign Speech] sale [Foreign Speech] net profit 56 crore [Foreign Speech] improve improve [Foreign Speech] means [Foreign Speech] last quarter [Foreign Speech] supply chain [Foreign Speech] at least should be near about ten percent as an investor [Foreign Speech]

Sujit Kumar Mahato - Chief Financial Officer, MedPlus Health Services Limited
I think thank you for your question Rikant. It's a it's a journey if you look at the retail business. I think what you alluded is ten percent pack. That's a wishful thinking but yeah the process to it is between what we have been there for last two years you would see a continuous steady improvement on the pack levels. And that journey will continue, as Madhukar explained, as in how we expand the EBITDA

margin that flows down to the PAT, and that continues to increase. But definitely we would not allude anywhere between 10% of PAT.

Currently we are at 2.5% and 3%, 3.5%, and that's the trajectory we would take and slowly increase.

Rikant Singh - Analyst, Individual Investor
Okay, sir. Okay, thank you, sir.

Operator
[Operator Instructions] The next question comes from the line of Akhil Parekh with 360 ONE Capital . Please go ahead.

Akhil Parekh - Analyst, 360 ONE Capital
Yeah, thanks for the opportunity. [Foreign Speech] on the margins price last quarter you have said you will be in better position to guide how the EBITDA margins will look like for remainder of the year and going forward in 2028 if you likes to guide on the EBITDA margins price that would be helpful

Gangadi Madhukar Reddy - Founder, Managing Director and Chief Executive Officer, MedPlus Health Services Limited
Uh, I expect that we'll only get better in the next coming quarters. I cannot tell you exactly how much, but it'll definitely improve as we do 2 things. One, streamline the cost, and more importantly, actually improve the product mix. So both of those are happening. I expect it'll increase. Um, I think for the year though, the overall EBITDA may be in the range of, you know, I would say conservatively around 380 to 400 crores. Is what I think the number will be, uh, depending on how the next 2 quarters are.

But yeah, you know, that is something which we can easily commit to. I don't think that's a challenge. The AOP though, I think which, uh, got, uh, you know, by mistake circulated out there, had a slightly higher number. And unfortunately, after that AOP, we saw a huge increase in the salaries across Karnataka and Telingana and all. And that has actually been a pretty big impact, I would say. Uh, if it were not for that, we should definitely be a much higher number. But yeah, uh, as a percentage basis though, the EBITDA will continue to grow.

I would say that the last quarter was a aberration. This quarter we'll probably be back in the 4.8, 4.5 kind of thing as we go forward.

Akhil Parekh - Analyst, 360 ONE Capital
so 380 to 400 any annual pre-index EBITDA would roughly we can make it basic?

Gangadi Madhukar Reddy - Founder, Managing Director and Chief Executive Officer, MedPlus Health Services Limited
Yes.

Akhil Parekh - Analyst, 360 ONE Capital
Second on the cash flows, right? For first half there softer as compared to last year because of the increasing working capital needs. While if I look at last couple of year 500 to 548 crore. Uh, is it fair to assume our cash flow generation for full year '27 and '28 will get back to what we have delivered in terms of, say, EBITDA to OCF conversion will be similar to what we did in '25-'26?

Sujit Kumar Mahato - Chief Financial Officer, MedPlus Health Services Limited
So a fair portion, uh, yes, because if you also look at it, it's a function of the number of new stores what we are adding, because as and when we add new stores there is a gestation period of when the store starts, you know, delivering positive cash. So to that extent, subject to that, uh, absolutely we'll be back on track.

Akhil Parekh - Analyst, 360 ONE Capital
Great, that's very good to hear. Last 2 questions from my side. Uh, one is on the aging structure, right, of our stores that has kind of deteriorated from 79% to 71% if I look at it for last 4 quarters, obviously because we're adding stores at an aggressive pace. Uh, do you think the streamlining of cost and private label going up, uh, that can get offset because of the inferior aging structure of our stores, uh, going forward? Will that play a role on the margins?

Sujit Kumar Mahato - Chief Financial Officer, MedPlus Health Services Limited
So I think for a growing company like ours, that trade-off will always be there. That's historically we are that's the only reason we explain the details about the network age because as you rightly pointed out there will be a play between the mature stores versus the stores which we believe are still in the nascent stage. And to that extent that drag as the network size increases versus our growth for sure will offset and still we should be able to deliver a positive growth net.

Akhil Parekh - Analyst, 360 ONE Capital
Okay, sure, that's helpful. And lastly, the, uh, uh, promoter pledging of the shares. Uh, given that our business fundamentals are so strong, uh, uh, as an analyst, I feel we're not getting the right multiple, and probably the share pledge is one of the overhangs. Any thoughts on that? That would be helpful. And if any corrective measures will be taken by the promoters, that I think that can lift up the price pressure of the stock.

Gangadi Madhukar Reddy - Founder, Managing Director and Chief Executive Officer, MedPlus Health Services Limited
So the pledging is only a function of the pricing of the stock. Unfortunately, uh, we're not really selling or taking any cash or doing any extra loans or whatever stuff. Um, I believe it is the wrong time for me to, you know, sell any stock and get the debt down, although that is in, uh, on the cards, but it is not going to be immediate or it's not be in the next quarter or so. Uh, we'll probably do other things to make sure that the price goes up, but, you know, eventually it is the overall, I would say, performance of the company which will take the share price up, is my belief.

Uh, one of the things which we think is that, you know, the, the whole thing around the private label and our ability to sell a high-value product like a medicine and make it in our own brand and be able to sell is not getting communicated properly, I guess. I'm sure eventually the message will go. Uh, just look at the fact that today, out of the 650 to 670 crores which we sell every month, 21% comes from private label and 70 crores is general goods. So if you take it, that's almost 800 crores of, um, you know, our own brand selling out there.

In general goods, and an equal amount selling in the medicine side, which is again a pretty substantial amount. We're seeing a small but steady growth in both these things. I think this is what will, you know, help us get the EBITDA up, get the overall percentage up, and get the shares as well.

Akhil Parekh - Analyst, 360 ONE Capital
Appreciate your detailed answers, sir. Thanks a lot, and wish best luck for the coming quarters.

Gangadi Madhukar Reddy - Founder, Managing Director and Chief Executive Officer, MedPlus Health Services Limited
Thank you.

Operator
The next question comes from the line of Akash Shah with Investec Capital Services. Please go ahead.

Akash Shah - Analyst, Investec
Sir,

Operator
yes, now you are.

Akash Shah - Analyst, Investec
Yeah, yeah, sir. Uh, in first quarter you had guided for seems to growth to remain at 9 to 10% for FY27. Uh, do you maintain that? And second is you had alluded to quarter-on-quarter improvement of 30 to 50 bps in the share of overall private label going ahead. So just wanted your confirmation on these 2 things. Thank you.

Gangadi Madhukar Reddy - Founder, Managing Director and Chief Executive Officer, MedPlus Health Services Limited
Yeah, so private label pharma, non-pharma combined, I think that should be pretty easy to get. We have already seen that in this quarter. Private label pharma, which had actually dipped for a while, has now basically started to plateau out. And although it is growing in terms of absolute numbers, as a percentage it's actually dipped a little bit. But I think this will be the end. We'll probably start seeing a growth out there in that also as a percentage. All right,

Akash Shah - Analyst, Investec
so 0.5 percentage points improvement, uh, every quarter should be achievable in your opinion, right?

Sujit Kumar Mahato - Chief Financial Officer, MedPlus Health Services Limited
That ballpark number should be achievable.

Akash Shah - Analyst, Investec
All right. And on SSSG growth, sir?

Sujit Kumar Mahato - Chief Financial Officer, MedPlus Health Services Limited
On the mature stores, we continue to believe it will be between 9% and 10%, 10.5%.

Akash Shah - Analyst, Investec
All right, sir. And, uh, sir, last question, uh, any thoughts on the, uh, CAPEX plans that we had withheld?

Gangadi Madhukar Reddy - Founder, Managing Director and Chief Executive Officer, MedPlus Health Services Limited
Uh, no, I, I don't think we are going to be visiting that anytime soon. Uh, CapEx now is out of the question. Um, our focus will be only on opening new stores and doing that privately.

Akash Shah - Analyst, Investec
All right, sir. And so just lastly, uh, in 4th quarter you had mentioned in 4th quarter of FY26 you had mentioned that you would be maintaining the gross and EBITDA margins which was back then. Uh, so should we assume that the, the percentages that were reported in 4th quarter could be normalized from FY28 and onwards?

Gangadi Madhukar Reddy - Founder, Managing Director and Chief Executive Officer, MedPlus Health Services Limited
Should be. I mean, this year also we would have been able to do it fairly easily if not for the 2 events which happened. One, of course, was the huge increase in salaries across a couple of states, and in fact, you know, across the board also we had seen several different, uh, revisions to all sorts of things on the wage bill. Uh, so if not for that, we should have been able to do it easily. But yeah, going forward,

Akash Shah - Analyst, Investec
Right, uh, see, I think for FY27 it, uh, it is impacting because it is impacted because of that private label issue and the salaries. That's what you wanted to allude, right?

Gangadi Madhukar Reddy - Founder, Managing Director and Chief Executive Officer, MedPlus Health Services Limited
That's right.

Akash Shah - Analyst, Investec
All right, all right. Thank you, sir. Thank you. That's it.

Operator
The next question comes from the line of Ashutosh Parashar with MIT. Please go ahead. Ashutosh, please unmute your line in case if you're on mute.

Ashutosh Parashar - Analyst, MIT
Hello?

Operator
Yes, Ashutosh, please go ahead with your question.

Ashutosh Parashar - Analyst, MIT
Uh, yeah, uh, question from the gross margin front. Given that the mix improvement on the private label side will largely come from non-pharma versus pharma, so how should we expect that to play out in the gross margin front? Firstly on that, and on the EBITDA margin front, given that we have a huge headwind of minimum wage hike, so apart from the discounting that we have reduced, what else are we doing? And I have a couple more questions that I'll ask in the follow-up.

Gangadi Madhukar Reddy - Founder, Managing Director and Chief Executive Officer, MedPlus Health Services Limited
Sure. So, um, the impact of the general side is not going to be very high, I must say. It'll just help us grow the sales because that will be a larger share of the wallet, private label, uh, general goods, because the margin is roughly in the range of what we actually get normally. But that doesn't mean that we are not going to grow the private label pharma side. The overall growth will be around 0.5, but we expect that the private label non-pharma will also pharma will also end up growing. And there

the impact is going to be much better for us.

So that's one. On the I, I think you had one more question. Um,

Ashutosh Parashar - Analyst, MIT
uh, yeah, just on the apart from discounting, what else are we trying to do?

Gangadi Madhukar Reddy - Founder, Managing Director and Chief Executive Officer, MedPlus Health Services Limited
I don't think there's going to be any more, uh, shocks on the wage side. I don't think we really want to do anything more out there. I think now it's just going to be improvement in the same-store sales growth. Adding new stores and product mix and streamlining our costs at the backend. These are going to basically do it. I don't think we're going to do anything on the discounting side as of now.

Ashutosh Parashar - Analyst, MIT
Okay. On the store addition side, given that we are close to around 300 feet in the first half, so are we on track towards that 800-store addition this year and next year also probably? And in terms of the size also, Are we doing something different there in terms of new stores we are opening, uh, let's say higher, bigger size stores in order to accumulate more of the non-pharma private label stuff, etc.? So any tweaks are we doing there? And then lastly, on the diagnostic front, we have seen very good margin pickup over the last 2 quarters.

So what are the plans there? That would be it.

Gangadi Madhukar Reddy - Founder, Managing Director and Chief Executive Officer, MedPlus Health Services Limited
Yeah, for us, um, I think we have a net addition of 340 stores, I think, overall. So that makes it around 458. We are we will easily, uh, get the number of 800 for this year. Uh, next year we will guide you maybe next quarter or so. I think the number is going to be higher next year. It's not, uh, definitely 800, but I would think much higher than that. Um, on the, uh, size of the store, uh, we have around 100-150 large format stores now, and, uh, but What has happened is over a period of time, our size of store has actually grown significantly.

So every store which we add right now has a space for us to display our private label non-pharma products outside the counter. And so that is anyhow happening. So irrespective of what size, how many large format stores we have, uh, the non-pharma side is still going to grow. That's how it is.

Ashutosh Parashar - Analyst, MIT
Got it. Just last follow-up, if I may. What would be the minimum kind of SSG that you need in order to keep that?

Operator
Sorry to interrupt, Ashutosh, you're not audible. Could you please use your phone on the handset mode in case if you are using a hands-free device?

Ashutosh Parashar - Analyst, MIT
Hello, is this better?

Operator
Yes.

Ashutosh Parashar - Analyst, MIT
Yeah, uh, just last question on the SSG front. So just wanted to understand what would be the minimum kind of SSG that we need in order to continue, continue that, uh, operational EBITDA margin expansion. So we are currently at double digit, but that base will also get a bit stiffer in the second half. So what kind of SSG do we expect, and what would be the minimum threshold that will allow us to kind of continue getting that margin expansion?

Gangadi Madhukar Reddy - Founder, Managing Director and Chief Executive Officer, MedPlus Health Services Limited
So for us, given our gross margins and everything else, and given that the given that the rents increase by roughly around 5% every year and salaries increase by roughly around 6 to 7% at the store level, uh, overall growth of around 4% is enough to actually keep it in the keep us steady at the same EBITDA level. For a steady store.

Operator
Does that answer your question, Ashutosh? Yes. The next question comes from the line of Paresh Chaudhary with Latent Advisors PMS. Please go ahead.

Paresh Chaudhary - Analyst, Latent Advisors PMS
Oh yes, thanks for the follow-up. I just wanted the current quarter's number, if you could give the EBITDA margin breakup across categories. Across branded pharma, private label, and both for private label pharma and branded pharma?

Gangadi Madhukar Reddy - Founder, Managing Director and Chief Executive Officer, MedPlus Health Services Limited
That's a little difficult to give right now, the fantastic. We can, uh, maybe you can reach out to us later and then we'll come back to you.

Paresh Chaudhary - Analyst, Latent Advisors PMS
Okay, for that I'll connect offline. And other question was regarding the quantum of the one-time benefit which we got. What was it for exactly? And the amount was 8 crores, right?

Sujit Kumar Mahato - Chief Financial Officer, MedPlus Health Services Limited
Yeah, yeah, the amount is right. It was related to the store-level, uh, retention plan, employee retention plan. Post the increase in the minimum wages and the other factors, the company evaluated. The first change was effective 1st of March where new enrollments had stopped. This quarter there was a modification to the existing plan for all the existing employees. The company gave an option of encashing the accrued benefit to the employees, which most of the employees exercised. And due to that, future cost related to this plan was reversed in the current quarter.

Paresh Chaudhary - Analyst, Latent Advisors PMS
Okay, got it. Thank you.

Operator
[Operator Instructions] The next question comes from the line of Vireesh Sangwan, an individual investor. Please go ahead.

Vireesh Sangwan - Analyst, Individual Investor
Oh, hi, uh, I'm a bit new to the company, uh, just, uh, wanted to know on, on the franchisee model, if

I'm not wrong, like I, I heard you, uh, stating like, uh, once we refine this model, we easily can grow it at a pace of approximately 3,000 franchisees a year. I just wanted to know, like, where are we at that, uh, are we finding, and what is stopping us to press the accelerator on that?

Gangadi Madhukar Reddy - Founder, Managing Director and Chief Executive Officer, MedPlus Health Services Limited
Uh, so we'll probably so, uh, as we said earlier, we'll come out to the numbers maybe starting next quarter or so. But, uh, the model itself is more or less done. It'll take us maybe, you know, when we guide you for the next year, we'll let you know how many more franchises we can put and how fast we can actually start accelerating.

Vireesh Sangwan - Analyst, Individual Investor
Okay, okay. And, uh, on, on the diagnostic business, like, I have been hearing, like, uh, we are still in planning stage, but do you want to share any, any developments on that? Like, uh, or, or for how long will we stay in that planning or watch mode?

Gangadi Madhukar Reddy - Founder, Managing Director and Chief Executive Officer, MedPlus Health Services Limited
Uh, the diagnostic, I think, see, um, we had actually started this on a subscription model basis. For it to really work effectively and to get the level of returns which we want, uh, we would have needed at least 300,000 to 400,000 subscriptions on an annual basis. So by now we should have had that. Given the fact that we are at still 216,000, we're still waiting. So the day we hit that at least, you know, 300,000 number, then we'll be ready to take a call on any further investments in that. Otherwise, it is a profitable business, it is growing, uh, and this but we're still, you know, figuring out what are the best way for us to go forward on that is.

Vireesh Sangwan - Analyst, Individual Investor
Okay. And, and do we have any large format stores as well, like, uh And if, like, I've seen, uh, I'm based in Australia actually, and the good the big players here, they, they open large format stores which help in building the brand and the premiumness of the brand. So do we have such things or plan such thing in at least good catchment area or where our sales are good?

Gangadi Madhukar Reddy - Founder, Managing Director and Chief Executive Officer, MedPlus Health Services Limited
Yeah, actually we do. Our large format stores are roughly around 1,200 to 1,500 square foot. Some of them are as large as 2,000 square foot too. I think we have around 80 of these stores now functional. The plan is to basically open maybe another 70, 80 this year. We will see how it is working for us. And then, but largely, they have been quite effective, um, both as, you know, being profitable ventures and also for building the brand. So we will most likely continue this format as we go forward.

Vireesh Sangwan - Analyst, Individual Investor
And lastly, if I may, uh, any revival of the plans for CapEx, like which you highlighted last quarter, something like concierge or wellness? No, no, so

Gangadi Madhukar Reddy - Founder, Managing Director and Chief Executive Officer, MedPlus Health Services Limited
we have withdrawn the plan. I don't think we're going to be doing that.

Vireesh Sangwan - Analyst, Individual Investor
Okay, yeah, thanks, thanks for your answer.

Gangadi Madhukar Reddy - Founder, Managing Director and Chief Executive Officer, MedPlus Health Services Limited
Thank you.

Operator
The next question comes from the line of Harith Ahmad with Avendus Spark . Please go ahead.

Harit Ahmad - Analyst, Avendus Spark
Hi, uh, good evening. Thanks for the opportunity. Uh, so under the franchisee model, uh, this quarter the net store addition I see is around 80. It's a bit lower than what we had done in previous quarters. So, uh, you know, what is the outlook here? And Sujit, if you could share the, uh, you know, revenue from franchisee stores which you had shared for the last quarter, so what would that number be for this quarter? And then related question also, if you could provide some color on the economics under the franchisee model, uh, what would be the revenue per store compared to our own stores and the gross margin as well as the EBITDA margin profile from franchisee stores, whether it's currently dilutive to the overall margins?

Sujit Kumar Mahato - Chief Financial Officer, MedPlus Health Services Limited
Sure, sure, Harit. Thank you for the question. So in terms of the revenue, from the last quarter it was 83 crores or 830 million, and current quarter is 116 crores. This is the net revenue from the franchisee, uh, business. And, uh, the other details, as you mentioned, we also plan to, you know, bring out these details, uh, on a regular basis from maybe next quarter. But at these very high level, as we had explained the model, the same 100 MRP, when we sell to the franchisee, the gross margin there's a split.

If the gross margin of pharmacy business, let's say, is 24%, we retain around 13-14% and we pass on 10-11% to the franchisee I'm sorry, we retain around 10-11% and we pass on around 14-15% to the franchisee, which means we recognize revenue of 85 and we have a margin of absolute 10 or 11, which translates to more or less the similar store-level margin when compared to the COCO store. But more details in terms of what you also asked, I've made a note of it. Going forward, we would maybe provide that on a quarter-on-quarter

Harit Ahmad - Analyst, Avendus Spark
basis. And just to confirm, Sujit, majority of these franchisee stores will be in the less than 12-month cohort as of today, right?

Sujit Kumar Mahato - Chief Financial Officer, MedPlus Health Services Limited
Yes.

Harit Ahmad - Analyst, Avendus Spark
So their revenue profile will be a bit lower on a per-store basis.

Sujit Kumar Mahato - Chief Financial Officer, MedPlus Health Services Limited
Absolutely.

Harit Ahmad - Analyst, Avendus Spark
Okay. And the second one is on the operating EBITDA margin. Good to see the sharp improvement on a quarter-on-quarter basis. Given that we've seen, you know, the private label, pharma private label share stabilizing now going forward, and also some of the cost impacts in terms of wages, etc., is already in the 2nd quarter and the 1st half numbers, how should we think about the margin profile, the operating EBITDA margin profile in the 2nd half and for FY28?

Gangadi Madhukar Reddy - Founder, Managing Director and Chief Executive Officer, MedPlus Health Services Limited
So, uh, Harit, uh, whatever, you know, this thing, um, we have taken the hit as you said already. So it is going to impact the overall EBITDA for the year, unfortunately. What had what we had actually planned for around 420, 440 and all is now going to be around 380 to 400 is what I think it will be. Uh, the obviously the, the percentage is going to be in a similar line, 4.8 will probably go up to 5% max. But the goal though is for us to, you know, keep going from here, uh, both by streamlining our costs at the back end and also by increasing the private label overall in the front end.

While it has stabilized, uh, it does not mean that it is going to be there at that number. It is definitely going to start growing. Right now, uh, we are feeling very confident that we can grow the private label both on the pharma and non-pharma side. Pharma, a little, I would say, with a slightly smaller increment every quarter, but definite growth.

Harit Ahmad - Analyst, Avendus Spark
Okay, thanks, Madhukaran. Last one, not sure if you've explained this previously, but the increase in inventory that I'm seeing in the first half, you know, what exactly explains that?

Sujit Kumar Mahato - Chief Financial Officer, MedPlus Health Services Limited
I think on a full year basis, I think this should be taken care of. What happened is previous quarter, at the fag end of the quarter, we had certain purchases for which there was also payables outstanding as of 30th June, and therefore from a cash flow perspective, it shows an adverse number. And this quarter, those payables as well as the normal payables got paid off, and there is an increase in inventory. So you're seeing a net working capital increase. So what I've looked into that and discussed internally also, I think going forward by the year end we should be again coming back to the normal level.

Harit Ahmad - Analyst, Avendus Spark
Got it. Thanks for taking my questions.

Operator
[Operator Instructions] The next question comes from the line of Jatin Chawla with RTL Investments. Please go ahead.

Jatin Chawla - Analyst, RTL Investments
Yeah, hi, good evening and thanks for the opportunity. My first question is on the franchisee side. When I look at your store closures, I see that, you know, franchisee withdrawn, that's a very large share on the store closures. You know, as a franchisee, as a percentage of the total stores would be much smaller number than that. So is this a recurring feature? Is this something that we should expect going forward as well, or Are these kind of initial teething troubles as you are kind of getting the model, franchisee model right?

Sujit Kumar Mahato - Chief Financial Officer, MedPlus Health Services Limited
I think your observation is right. This is part of the initial setup, I would say, or readjustments. So this is an initial teething issue which we believe going forward it would stabilize, the number of store closures on the franchisee part.

Jatin Chawla - Analyst, RTL Investments
Got it. So this 116 crore revenue from franchisees that you said, how many total franchisee stores did you have at the end of the quarter?

Sujit Kumar Mahato - Chief Financial Officer, MedPlus Health Services Limited
It's around 849 active.

Jatin Chawla - Analyst, RTL Investments
Okay, um, second question, uh, on the, you know, uh, hit to from, you know, the 2 states where there was a big increase in wage cost, what is the absolute amount hit that you have seen for the full year on account of that?

Gangadi Madhukar Reddy - Founder, Managing Director and Chief Executive Officer, MedPlus Health Services Limited
I think it's roughly around 7 crores a month.

Jatin Chawla - Analyst, RTL Investments
7 crores a month. Okay, so roughly around 80-85 crores for the year. Um, you said in terms of, you know, trying to improve your EBITDA margins, 2 things. One is, um, you know, increasing the private label share, and second, streamlining costs. Now on the cost side, uh, what are the areas where you are looking for, you know, uh, cost reduction, and, uh, over what period should we start, uh, you know, seeing some of those benefits?

Gangadi Madhukar Reddy - Founder, Managing Director and Chief Executive Officer, MedPlus Health Services Limited
See, over a period of 4 quarters is what I'm thinking. Uh, 2 things. One, um, we are using AI, uh, and we will basically we are using it to do a lot of stuff on the backend to automate a lot of our work. And this will basically this, we are already seeing the benefits of that. Uh, 2, over a period of time, we have also grown a little haphazardly as far as our uh, warehouses were concerned. Uh, you know, every time we added we needed to add 20,000-30,000 square foot, we kept on adding it. And the result is that in most of the cities in which we started early, we have several warehouses.

And that is actually a lot of extra cost, both in terms of transportation, manpower costs, and everything else. We are now looking to basically consolidate all of them into one place each. In each of these places, we expect a lot of benefit to come from that. So both on the warehousing as well as on the overall operational costs, we expect that we'll be able to use technology better and get to a slightly more rationalized cost on the on this side.

Jatin Chawla - Analyst, RTL Investments
Got it, got it. And over a 4-quarter period, any kind of rough ballpark number in terms of what kind of cost reduction we could see?

Gangadi Madhukar Reddy - Founder, Managing Director and Chief Executive Officer, MedPlus Health Services Limited

So on, uh, the entire thing, uh, I see no reason to believe that we should not get at least a 0.5 to 0.75% reduction in cost.

Jatin Chawla - Analyst, RTL Investments
Thanks a lot. That was very useful.

Operator
Ladies and gentlemen, that was the last question for today. I would now like to hand the conference over to the management for the closing remarks.

Sujit Kumar Mahato - Chief Financial Officer, MedPlus Health Services Limited
I thank all participants on this call for your interest in the MedPlus journey. Our investor relations team can be contacted at ir@medplusindia.com. Thank you.

Operator
[Operator Closing Remarks]