

Healthcare

Pharmeasy: HealthTech Player with Supply Chain Presence

10 December 2021

Key Takeaway

API Holdings is India's largest digital healthcare platform with FY21 GMV of USD1.05bn. B2C operations added 21% to FY21 GMV while 72% was B2B. API serves as a wholesaler of pharma and OTC products using Retailio 1P (30% of GMV), as distributor using Retailio 3P (35%) and as medical supplier to hospitals/clinics using Aknamed (8%). Other major services for the company are diagnostics (Thyrocare), ERP systems (Redbook & Marg ERP), EMR & Teleconsult (Docon).

API Holdings Limited is India's largest digital healthcare firm based on FY21 GMV of USD1.05bn. The company provides services like teleconsultation, diagnostics, B2B and B2C sale of pharma products, EMR systems. API is the parent entity of various healthcare platforms like Retailio, Redbook, Aknamed and Thyrocare.

API is the brand owner of Pharmeasy, marketplace run by Axelia: API holding's wholly owned subsidiary Threpsi Solutions is the owner of the Pharmeasy brand. Threpsi Solutions has licensed the brand Pharmeasy to Axelia that operates the Pharmeasy marketplace. Axelia is 100% owned by Aarman Solutions and API holding has 19.99% stake in Aarman Solutions. The marketplace is the largest epharmacy platform in India by GMV and had a registered userbase of 25m as of Jun-21. In FY21/1QFY22, 8.8m/4.4m orders were transacted on the platform by 2.4m/2.1m unique customers resulting in GMV of INR10.6bn/5.2bn. As of Jun-21, 58% customers on the platform were from Tier II, III cities.

API Holding's B2B ops account for more than 2/3rd of total GMV: In FY21, 35% of API's GMV came from Retailio 3P (third party), a digital platform used by pharmacies to order medicines. Retailio 1P (first party) accounted for 30% of GMV where API serves like a wholesaler; procures a wide range of pharma & OTC products directly from manufacturers and delivers them to retailers. As of Jun-21, 3,261 wholesalers (~5% of all domestic pharma wholesalers) used Retailio to transact with 87,194 pharmacies (11% of all pharmacies in India). On the digital platform, Retailio 1P is listed as one of the wholesalers. API also acts as a medical supplier to hospitals, doctors, clinics and medical centres. The business was scaled-up by the acquisition of Aknamed in Sep-21 which serviced 926 hospitals in 1QFY22. Currently, Retailio 3P earns revenue through advertisements on the platform.

Other major areas of operation: API acquired Thyrocare in Sep-21 and has now become the largest diagnostic test provider by volume in the country. Thyrocare had a comprehensive portfolio of 283 diagnostics tests and 17 labs in India. API provides Electronic Medical Record (EMR), practice management software and teleconsult tools to doctors through its proprietary and AI driven predictive software called Docon (teleconsultation also available on mobile app Docon). During Jun-21, 4,617 prescribing doctors used Docon software and the teleconsultation tool.

India's HealthTech play is now getting integrated and most players are trying to provide various healthcare services under one roof. Though discounts remain important for attracting customers, equally important is the customer convenience, quality of service due to the innate nature of healthcare industry.

Abhishek Sharma *

Equity Analyst

+91 98196 86016

asharma9@jefferies.com

Dhawal Khut *

Equity Associate

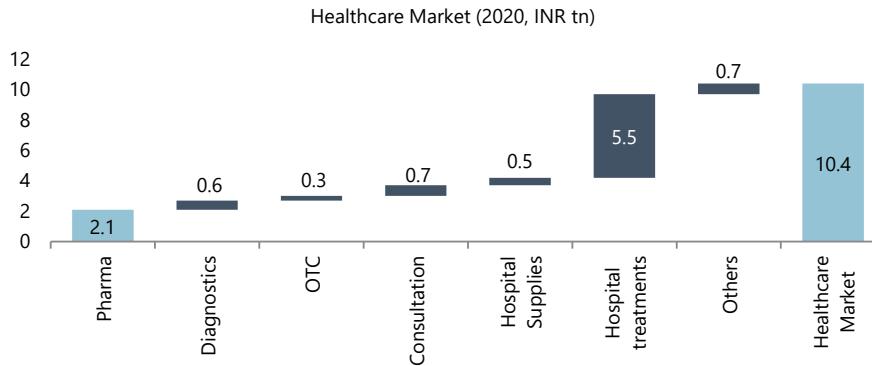
+91 9619388649

dkhut@jefferies.com

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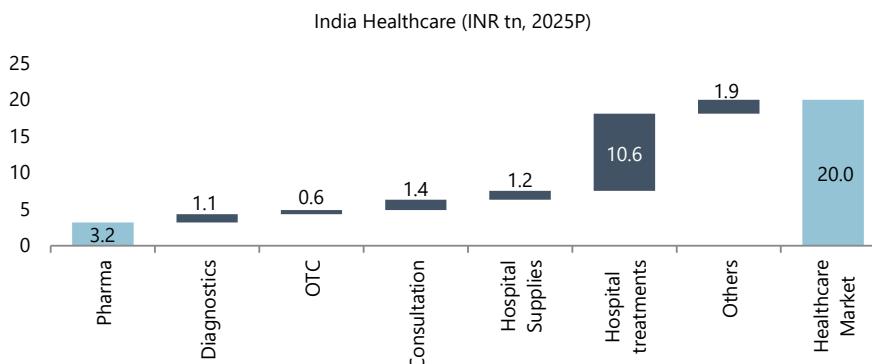
Exhibit 1 - As per RedSeer, India's current healthcare market size is estimated at ~USD149bn



Source: RedSeer, Jefferies

1. Pharma includes the pharma IPD portion of the hospital supplies market
2. Hospital supplies only includes consumables, medical devices and equipment; pharma IPD has been included in pharma
3. Others includes medical insurance and alternative medicine

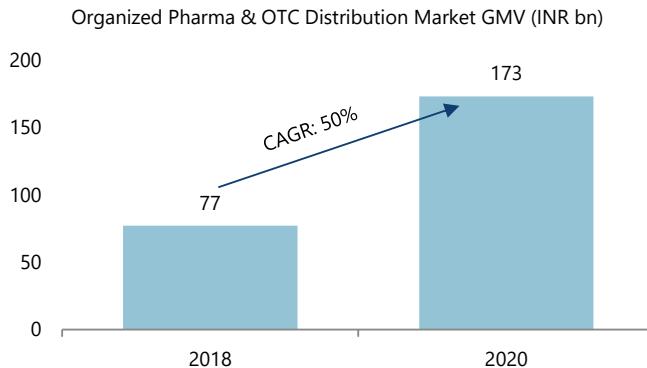
Exhibit 2 - By 2025, India's healthcare market is expected (by RedSeer) to reach USD267bn growing at 14% CAGR



Source: RedSeer, Jefferies

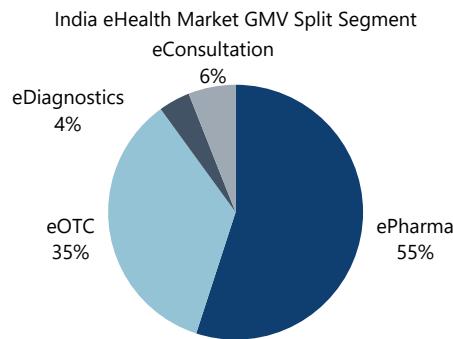
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Exhibit 3 - Organized pharma & OTC distribution has clocked 50% CAGR during 2018-20



Source: RedSeer Research, Jefferies

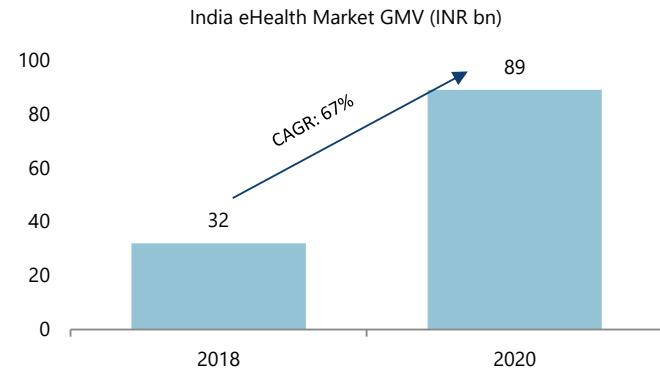
Exhibit 5 - Pharma accounts for more than half of India's eHealth GMV



Source: RedSeer Research, Jefferies

Note: GMV indicates gross GMV at selling price post discount

Exhibit 4 - India eHealth GMV registered 67% CAGR in past two years



Source: RedSeer Research, Jefferies

Exhibit 6 - API holding: Operational Snapshot

	Unit	Value
Total GMV (1) (2)	INR bn	78.7
Pro forma revenue (1)	INR bn	43.2
Active Pharmacies (3)	#	87,194
Active Wholesalers (3)	#	3,261
Prescribing Doctors (3)	#	4,617
Hospitals (4)	#	926
Digital Prescriptions generated (1)	Million	10.7
Daily Clinical Investigations (1)	#	565,000
eConsultations Conducted (1)	Million	3.4

Source: API Draft Red Herring Prospectus, Jefferies

1. For Fiscal 2021

2. GMV is defined as follows: (i) For products and services (other than Retailio 3P), GMV refers to API's revenue for such products and services as per API's books of accounts, grossed up for applicable taxes, (ii) for Retailio 3P, GMV refers to the gross merchandise value of products and services transacted using Retailio (excluding Retailio 1P GMV).

3. For the month of June 2021

4. For the three month period ended June 30, 2021.

Exhibit 7 - In FY21, 35% GMV was from Retailio 3P and 30% was from Retailio 1P

	Unit	FY20	FY21	1QFY22
Active pharmacies on Retailio (1)	#	47,527	80,449	87,194
Total Hospitals serviced by Aknamed (2)	#		780	926
GMV by products and services (3)				
Distribution to Retailers (A) + (B)	INRm	15,541	16,725	5,252
(A) On Pharmeasy Market Place (4)	INRm	7,140	10,661	5,185
(B) Medlife digital distribution + Medlife digital pharmacy marketplace (5)	INRm	8,401	6,064	67
Retailio 1P (Distribution to Chemist/Institution)	INRm	19,934	23,418	7,821
Aknamed (Distribution to Hospital)	INRm	265	6,061	2,375
Retailio 3P (6)	INRm	10,329	27,139	13,013
Thyrocare diagnostics (7)	INRm	4,343	4,946	1,646
Medlife diagnostics	INRm	357	366	155
Total	INRm	50,769	78,655	30,263

Source: API Draft Red Herring Prospectus, Jefferies

1. For the month of March 2020, March 2021 and June 2021.

2. For the three month ended as of March 2020, March 2021 and June 2021. API acquired Aknamed effective September 2021.
3. GMV is defined as follows: (i) For products and services (other than Retailio 3P), GMV refers to API's revenue for such products and services as per API's books of accounts, grossed up for applicable taxes, (ii) for Retailio 3P, GMV refers to the gross merchandise value of products and services transacted using Retailio (excluding Retailio 1P GMV).
4. These retailers are typically registered sellers on the PharmEasy marketplace.
5. In January 2021, API acquired Medlife. Medlife's digital pharmacy business has since been integrated with PharmEasy
6. Retailio 3P GMV is the GMV of products transacted using Retailio (excluding Retailio 1P GMV).

In September 2021, we acquired Thyrocare.

Exhibit 8 - API holding has positive contribution margin

	FY21	1QFY22
	% of Pro Forma Revenue from Operations	
Pro Forma Revenue from Operations (A)	100%	100%
Cost of Material Consumed (B)	-4%	-3%
Purchases of Stock-in-Trade (C)	-85%	-91%
Changes in Inventories of Stock-in-Trade (D)	4%	8%
Warehousing and Lab Cost (E)	-8%	-7%
Other Direct Cost (F)	-2%	-2%
Direct Operating Costs (G=B+C+D+E+F)	-95%	-95%
Pro Forma Contribution Margin before sales promotion and marketing expense(H=A+G)	5%	5%

Source: API Draft Red Herring Prospectus, Jefferies

Exhibit 9 - Repeat transacting users went up from 0.8m in FY21 to 1.3m in 1QFY22

	Unit	FY20	FY21	1QFY22
Transacting users with fulfilled orders on PharmEasy	Million	2.0	2.4	2.1
Repeat transacting users with fulfilled orders on PharmEasy	Million	0.4	0.8	1.3
Unique users with fulfilled orders - Medlife	Million		1.7	0.5
Fulfilled Orders on PharmEasy	#	7,345,122	8,827,952	4,424,161
Fulfilled Orders on Medlife	#		5,738,136	869,187

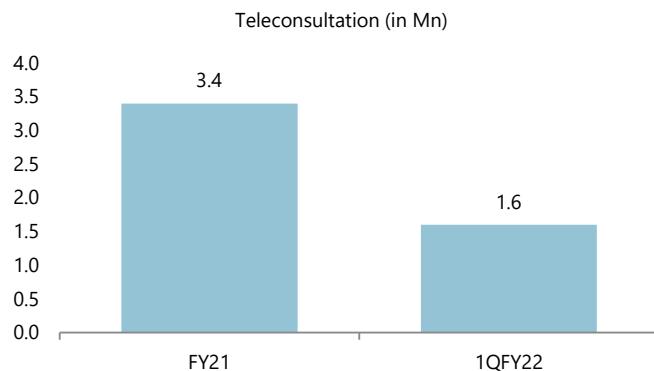
Source: API Draft Red Herring Prospectus, Jefferies

Exhibit 10 - 3.7 orders per transacting user were generated on an average in FY21

Consumer business Metrics	Units	Value
Total Registered users (as of June-21)	Million	25.0
Annual transacting users (FY21)	Million	2.4
Online Pharmacy orders Fulfilled (FY21)	Million	8.8
Share of Repeat User GMV (1QFY22)	%	79.0%
Pin Code Coverage (for Jun-21)	%	97.3%
Share of Orders outside top 50 Indian cities (1QFY22)	%	37.8%

Source: API Draft Red Herring Prospectus, Jefferies

Exhibit 11 - Covid 2nd wave led to lot of traction for Teleconsultations



Source: API Draft Red Herring Prospectus, Jefferies

Exhibit 13 - Business per retained customers goes 3x in 3 years time on Pharmeasy

Pharmeasy Cohorts - GMV per Retained User				
	Y1	Y2	Y3	Y4
FY18	1.0x	3.0x	3.6x	3.1x
FY19	1.0x	2.8x	2.9x	
FY20	1.0x	2.7x		
FY21	1.0x			

Source: API Draft Red Herring Prospectus, Jefferies

GMV per User is at maximum retail price for all fulfilled orders

Exhibit 15 - API holding is a tech-driven company

Technology Metrics	Units	Value
Datapoints processed daily (for Jun-21)	Million	700+
Health Records Digitized (as of Jun-21)	Million	54.9
Products & Service Listings (for Jun-21)	Million	40+
End Users connected monthly (for Jun-21)	Million	17.40
Microservices provided (for Jun-21)	#	200+
ERP Software (at Wholesale) Integrated (as of Jun-21)	#	49

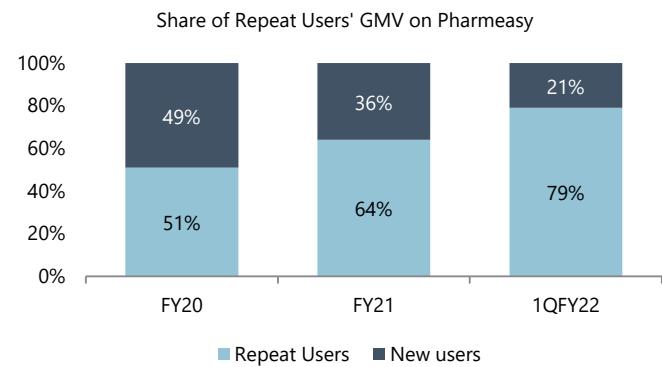
Source: API Draft Red Herring Prospectus, Jefferies

Exhibit 17 - API holding has 5,713 employees on its payroll

Employees by function	As of Jun-21
Technology and Product	481
Operations	2,924
Sales and sales enablement	1,674
Corporate Functions	634
Total	5,713

Source: API Draft Red Herring Prospectus, Jefferies

Exhibit 12 - Business from repeat users have continuously increased for Pharmeasy market place



Source: API Draft Red Herring Prospectus, Jefferies

Exhibit 14 - Even on Retailio platform GMV reaches 3x in 3 years

Retailio Cohorts - GMV per Retained Pharmacy			
	Y1	Y2	Y3
FY19	1.0x	3.0x	3.0x
FY20	1.0x	3.5x	
FY21	1.0x		

Source: API Draft Red Herring Prospectus, Jefferies

Exhibit 16 - API has pan India supply chain presence with 82 warehouses

Warehousing and Procurement Metrics	Values
Warehouses Pan India (as of Jun-21)	82
Warehouse Personnel (as of June-21)	10,886
Warehousing Space (Sq.ft) (as of Jun-21)	699,000
Last Mile Delivery Partners (for Jun-21)	1,879
Daily Delivery/Personnel (for Jun-21)	26.4
Daily Orders Fulfilled (for Jun-21)	76,000
Deliveries within 24 hours (for Jun-21)	85%

Source: API Draft Red Herring Prospectus, Jefferies

Exhibit 18 - API holding Proforma P&L statement

Proforma P&L INRm	FY21	1QFY22
Revenue from operations	43,192	15,689
Cost of material consumed	(1,624)	(523)
Purchases of stock-in-trade	(36,644)	(14,230)
Changes in inventories of stock-in-trade	1,512	1,199
Gross Profit	6,436	2,136
Gross Margin	15%	14%
Employee benefits expense	(5,279)	(1,863)
Other expenses	(9,201)	(2,874)
EBITDA	(8,044)	(2,601)
EBITDA Margin (%)	-19%	-17%
Depreciation and amortisation expense	(1,886)	(448)
EBIT	(9,930)	(3,049)
Other income	440	216
Finance costs	(4,471)	(1,310)
Impairment of Goodwill	(1,031)	-
Impairment of Software acquired through business acquisition	(53)	-
Share of profit / (loss) of associates	(1)	1
Exceptional items		(49)
PBT	(15,045)	(4,191)
Tax	(440)	(61)
Minority Interest	(116)	(294)
Profit for Majority	(15,601)	(4,547)

Source: API Draft Red Herring Prospectus, Jefferies

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(Article 3(1)e and Article 7 of MAR)

Recommendation Completion December 10, 2021 , 12:36 ET.

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