

Management Meet Note

15th January 2025

The super distributor a re-rating candidate on higher capex and acquisition

We met the management of Entero Healthcare Solutions Ltd. to better understand the healthcare products distribution space and future business prospects. We believe India's healthcare sector is on the cusp of a transformative revolution driven by government initiatives, technological advancements, and growing awareness about the importance of accessible and quality healthcare. As the Indian pharmaceutical distribution landscape moves toward consolidation, organized players have a growing opportunity to gain market share. Increased market concentration has benefited many industries, and we anticipate similar outcomes here. The company is one of India's largest and fastest-growing healthcare product distribution platforms. The market is highly fragmented, with 65,000 distributors and the top-three national distributors like Keimed, Ascent and Entero having only ~8-10% market share. We, thus, believe that Entero Healthcare Solutions looks attractive in the healthcare products distribution space on the back of extensive pan-India reach, high fill rates, and product offering, coupled with a strong technology platform and proven ability to execute acquisitions successfully.

Following are the key takeaways from the interaction:

Differentiated business model offers a one-stop solution provider

Entero Healthcare's extensive nationwide distribution network, well-developed integrated technology platforms, relationships with retail pharmacies and hospitals, and trained sales force and business support teams can offer various opportunities for brands to expand their footprint in India cost-efficiently. Additionally, the company is a comprehensive, one-stop solution for healthcare products, providing pharmacies, hospitals, and clinics with diverse offerings - including pharmaceuticals, nutraceuticals, medical devices, surgical consumables, over-the-counter medicines, and vaccines. Leveraging its scale, extensive distribution network, and hub-and-spoke model, Entero ensures competitive pricing, high product availability, and reliable fulfilment rates. By broadening its portfolio with private label products such as nebulizers, digital thermometers, blood pressure monitors and adult diapers to pharmacies, hospitals and clinics, Entero not only expands its product range but also achieves significant improvement in gross margins, offering retailers a wider selection and higher profitability, making meeting all their healthcare procurement needs easier.

Focus on acquisitions to accelerate growth

Since its inception, Entero has completed 39 acquisitions and aims to finalize five more by Q3FY25 in the healthcare products distribution industry. The company remains committed to pursuing M&As, focusing on regional expansion, entering new markets in India's North, East, and Western regions - consolidating its position in existing markets in the South and North and adding new SKUs, particularly in the medical devices segment. The company while evaluating acquisition targets considers several factors such as the size of the market where the target company operates, their customer base, supplier relationships, product portfolio, synergies with existing network, historical financial performance and future opportunities for growth. The company has been doing acquisitions at reasonable valuations, generally ranging between 5-7x EV/EBITDA. The acquired companies have grown exponentially after the acquisition, delivering healthy growth. The company, thus, believes in continuously evaluating M&A opportunities to enhance geographic reach and expand product offerings.

Industry wise consolidation on cards to drive business performance

With over 65,000 players, the Indian pharmaceutical distribution market is highly fragmented, leading to inefficiencies and high costs. As the industry consolidates due to GST implementation and the entry of large and organized players, Entero Healthcare is positioned to capitalize on this shift. With large-scale operations and a proven ability to integrate smaller distributors, Entero offers a broader range of products, high fill rates, and consistent service. Additionally, access to capital, better resource management, scale advantage and superior technology are key advantages for national players over local distributors, and it is common for such players to grow by consolidating smaller distributors. Entero Healthcare Solutions has pursued an aggressive inorganic growth strategy to solidify its position in the pharmaceutical distribution market. Since its inception, the company has made more than 40+ acquisitions, demonstrating its ability to identify and integrate valuable targets at a reasonable cost effectively. Leveraging technology and robust execution capabilities, Entero is set to become a major player in the evolving distribution landscape.

Sector Outlook

Positive

Stock

CMP (Rs.)	1,425
NSE Symbol	ENTERO
BSE Code	544122
Bloomberg	ENTERO IN
Reuters	ENTE.BO

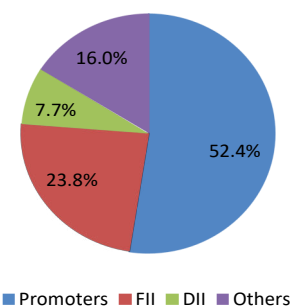
Key Data

Nifty	23,176
52WeekH/L(INR)	1584 / 970
O/s Shares (Mn)	43.5
Market Cap (INR bn)	62
Face Value (INR)	10

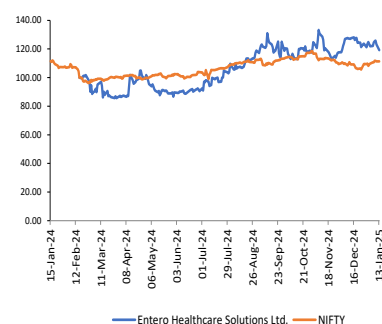
Average volume

3 months	69,960
6 months	90,690
1 year	111,770

Share Holding Pattern (%)



Relative Price Chart



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Entero Healthcare Solutions Ltd.

Healthy financial performance to aid positive OCF and improved return ratios

Entero Healthcare's base business continues to outpace IPM growth, driven by new customer additions and wallet share gains, which a robust pipeline of acquisitions would further support. With a strong balance sheet, Entero is uniquely positioned as the sole player dedicated to healthcare distribution. These acquisitions are made at attractive valuations and margin-enhancing opportunities. On the operational front, Entero has successfully reduced its working capital cycle to 67 days in FY24, down from 71 days in FY21. The company expects to stabilize its working capital at 60 days in mid-to-long term. The management believes six working capital cycles in a year are ideal for the industry. Additionally, on the financial front, Entero is focused on improving its EBITDA margin to 5% in FY26 from 2.9% in FY24. This improvement will be driven by a better product mix (increasing share from the medical devices business), procurement efficiencies, and operating leverage. The company also expects to turn Operating Cash Flow positive in FY26 and anticipates an improvement in ROCE to reach mid-double digits in the near term (RoCE was 10.2% in FY24). Given the strong growth prospects and industry-wise consolidation, we expect strong financial performance for the company.

Valuation & Outlook

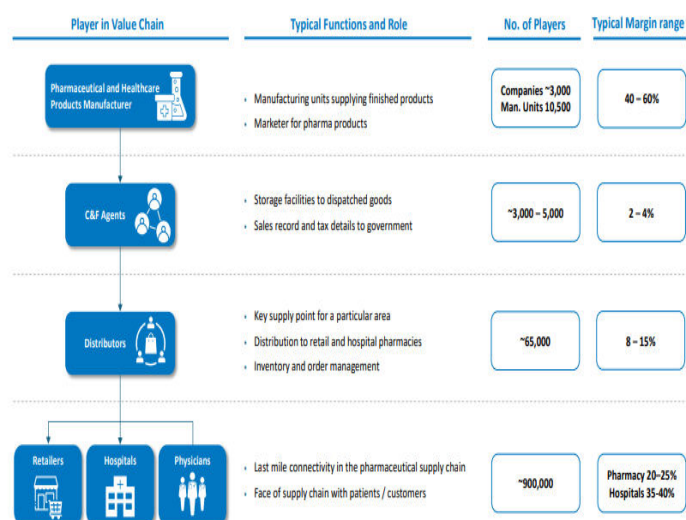
Entero Healthcare Solutions facilitates healthcare product manufacturers by providing access to pharmacies, hospitals, and clinics through its integrated and technology-driven distribution platform. Similarly, clients (pharmacies, hospitals, and clinics) gain access to a broad range of healthcare products through the distribution infrastructure and established relationships with healthcare product manufacturers. Since its inception, the company has quickly emerged as a prominent player in India's healthcare distribution market. The company's strategic focus on acquisitions, robust technological integration, and efficient operations have significantly contributed to its rapid growth and market presence. On the financial front, we expect Rev/ EBITDA/PAT to grow at 21.3%/57.4%/61.5% CAGR over FY24–26E, led by strong deal pipeline, better product mix, an increasing share from its high-margin medical devices business, rapid expansion in its geographical presence, operational efficiencies in both organic and acquired companies, strong technology platform and improved return ratios. While aggressive expansion has led to negative operating cash flows in the short term, the base business's robust growth and improved margin profile are expected to turn operating cash flow positive. **We, thus, expect Entero Healthcare Solutions to generate sustained growth and profitability over the long term, and is trading at a PE of 84.8x/59.6x on FY24e/25e EPS estimates.**

Entero Healthcare Solutions Ltd.

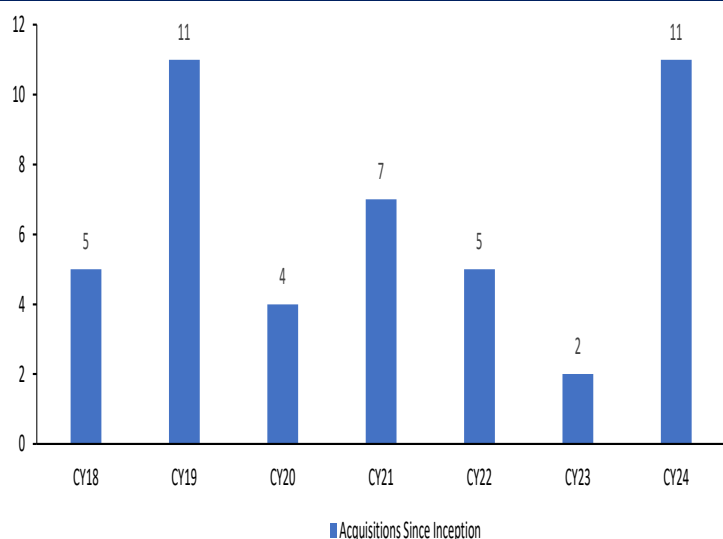
Diversified metrics across pharma distribution

Key Metrics	FY21	FY22	FY23	FY24	H1FY25
Expanding retail customer base	39,500	64,200	81,400	86,300	79,500
Expanded hospital coverage	1,600	2,500	3,400	3,500	3,100
SKU's Handled	44,400	56,500	64,500	68,900	71,400
Expanded procurement relationships	1,100	1,700	1,900	2,000	2,300
Warehouses	44	60	73	79	95
Districts covered	420	463	495	550	485

Pharma supply chain in India is highly fragmented



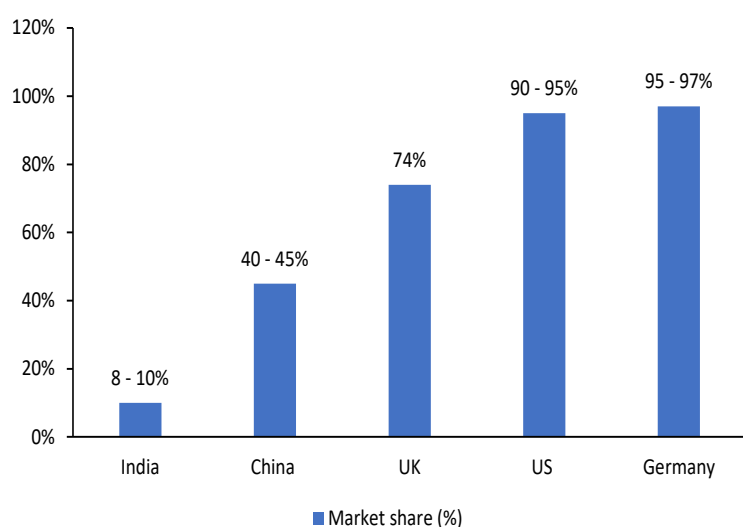
Strategic acquisitions to drive growth



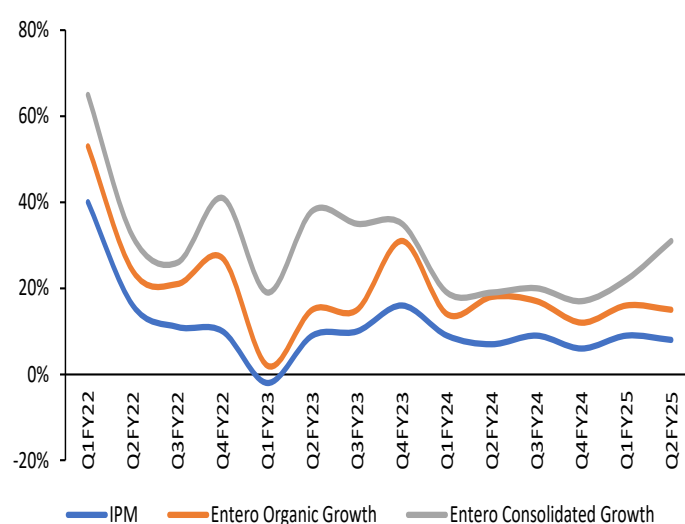
Track record of acquired companies

Distributor Name	Date of Acquisition	Location	FY21-23 Growth
R.S.M Pharma	14-Aug-18	Bengaluru	~69%
Getwell Medicare Solution	26-Dec-18	Kochi	~66%
Galaxystar Pharma Distributors	21-Feb-19	Mumbai	~60%
Vasavi Medicare Solutions	31-May-19	Coimbatore, Madurai	~88%
Millennium Medisolution	07-Aug-19	Gurugram	~61%
Sesha Balajee Medi-solutions	13-Jan-20	Visakhapatnam	~66%

Organized pharma distribution across countries



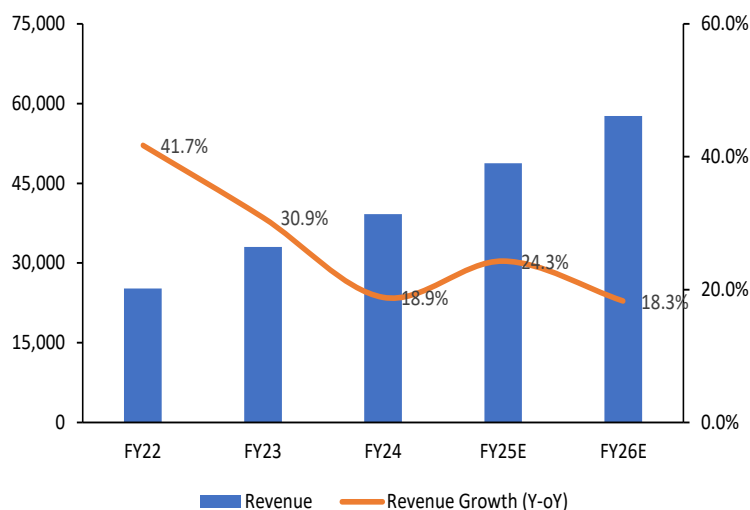
Company grow faster than Industry



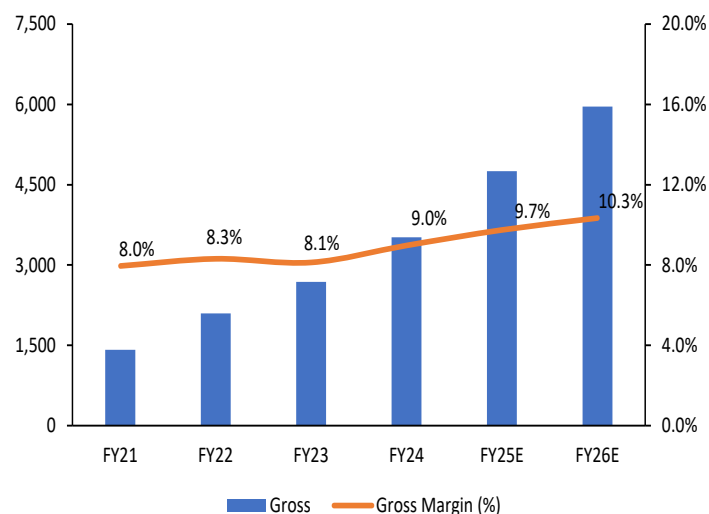
Source: Company, BP Equities Research

Entero Healthcare Solutions Ltd.

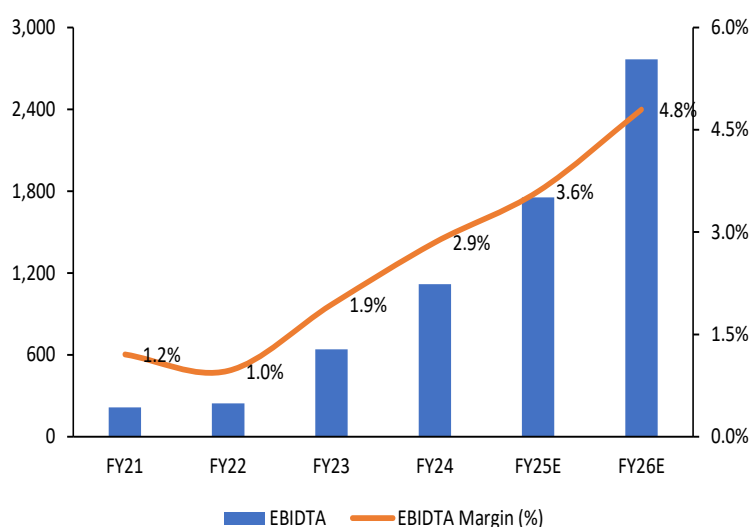
Strong revenue growth



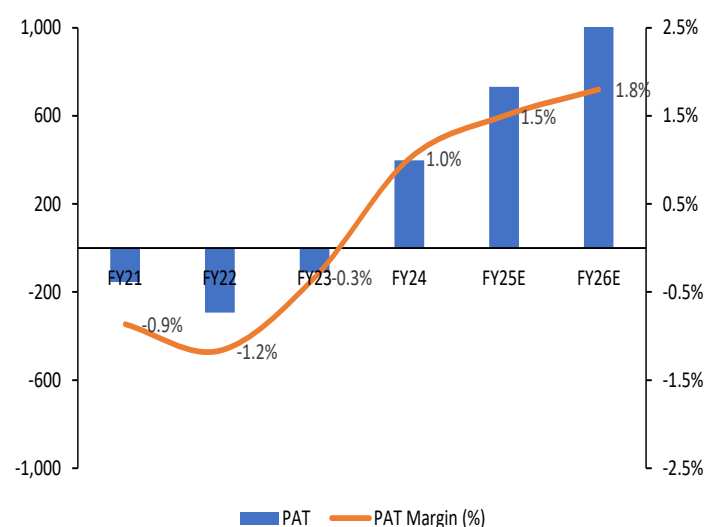
Steady improvement in gross margin



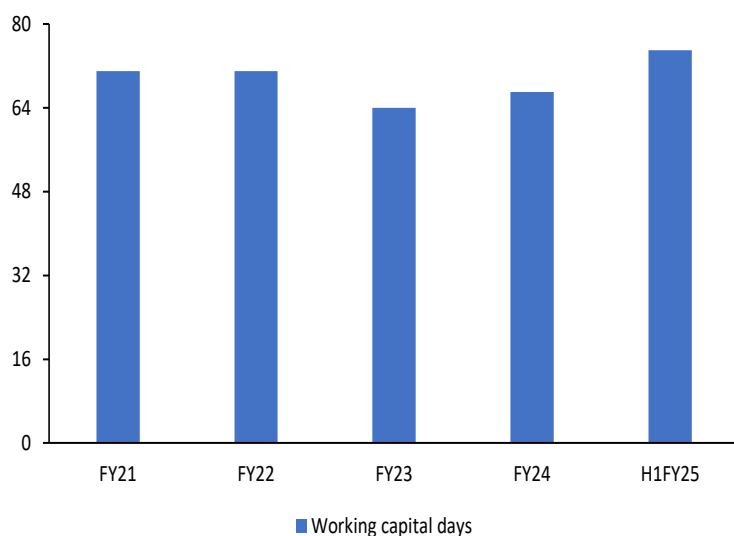
Strong EBITDA growth; margin improved



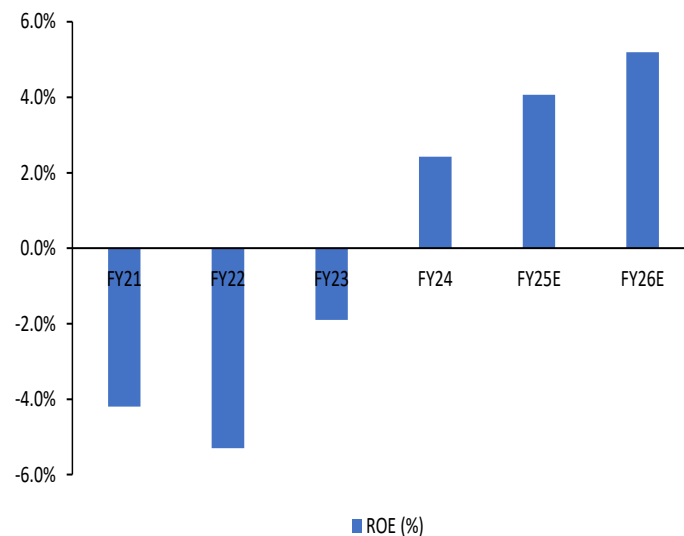
Turned PAT positive from FY24 onwards



Focus on reducing working capital days



Improved return ratio



Source: Bloomberg, Company, BP Equities Research

Entero Healthcare Solutions Ltd.

Key Financials						
YE March (Rs. Crs)	FY21	FY22	FY23	FY24	FY25E	FY26E
Revenue	17,797	25,221	33,002	39,223	48,754	57,676
Revenue Growth (Y-o-Y)		41.7%	30.9%	18.9%	24.3%	18.3%
EBIDTA	215	244	640	1,118	1,755	2,768
EBIDTA Growth (Y-o-Y)		13.5%	162.3%	74.7%	57.0%	57.7%
Net Profit	-154	-294	-111	398	731	1,038
Net Profit Growth (Y-o-Y)		-90.9%	-62.2%	458.6%	83.7%	42.0%
Diluted EPS	(3.5)	(6.8)	(2.6)	9.0	16.8	23.9
Diluted EPS Growth (Y-o-Y)		-94.3%	-61.8%	445.8%	86.9%	42.3%
Key Ratios						
EBIDTA margin (%)	1.2%	1.0%	1.9%	2.9%	3.6%	4.8%
NPM (%)	-0.9%	-1.2%	-0.3%	1.0%	1.5%	1.8%
RoCE (%)	-4.2%	-5.3%	-1.9%	2.4%	4.1%	5.2%
Valuation Ratios						
P/E (x)	-407.1x	-209.6x	-548.1x	158.5x	84.8x	59.6x
EV/EBITDA	307.9x	280.8x	109.0x	48.6x	33.6x	20.3x
P/BV (x)	-193.8x	-106.9x	-89.8x	3.8x	3.4x	3.1x
Market Cap. / Sales (x)	3.4x	2.4x	1.8x	1.5x	1.2x	1.0x

Source: Bloomberg, BP Equities Research



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