

Ref: 24/SE/LC/2024-25

Date: June 06, 2024

To,  
**Head, Listing Compliance Department**  
**BSE Limited**  
Phiroze Jeejeebhoy Towers Dalal Street,  
Mumbai - 400 001.

**Head, Listing Compliance Department**  
**National Stock Exchange of India Limited**  
Exchange Plaza, Plot No. C/1. G Block,  
Bandra -Kurla Complex, Bandra (East),  
Mumbai- 400051  
**Scrip Symbol: ENTERO**

**Scrip Code: 544122**

Dear Sir/Madam,

**Subject: Intimation under Regulation 30 of the SEBI (Listing Obligations and Disclosure Requirements), Regulations 2015 - Transcript of Earnings Call/ Conference Call.**

In Continuation to our letter dated May 24, 2024, bearing reference no. 13/SE/LC/2024-25, and pursuant to Regulation 30 and Regulation 46(2) of SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015, the transcript of the Earnings Call/ Conference Call held on May 30, 2024 at 15.00 hrs (IST) to discuss the Company's financial results for the Quarter and Year ended March 31, 2024 is annexed herewith.

This is for your information and records.

Yours faithfully,

**For Entero Healthcare Solutions Limited**

Jayant Prakash  
**General Counsel, Company Secretary & Compliance Officer**  
(Mem: F6742)



“Entero Healthcare Solutions Limited  
Q4 FY '24 Earnings Conference Call”

May 30, 2024

Disclaimer: E&OE - This transcript is edited for factual errors. In case of discrepancy, the audio recordings uploaded on the stock exchanges on 30<sup>th</sup> May 2024 will prevail.



**MANAGEMENT:** **MR. PRABHAT AGARWAL – MANAGING DIRECTOR,  
CHIEF EXECUTIVE OFFICER AND CO-FOUNDER  
MR. PREM SETHI – WHOLE-TIME DIRECTOR AND  
CHIEF OPERATING OFFICER AND CO-FOUNDER  
MR. CV RAM – CHIEF FINANCIAL OFFICER**

**ANALYST:** **MR. NITIN AGARWAL – DAM CAPITAL ADVISORS**

**Moderator:** Ladies and gentlemen, good day and welcome to Entero Healthcare Solutions Limited Q4 FY '24 Earnings Conference Call hosted by DAM Capital Advisors Limited. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing star then zero on your touchtone phone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Nitin Agarwal from DAM Capital Advisors Limited. Thank you and over to you, Mr. Agarwal.

**Nitin Agarwal:** Thank you. Hi, good afternoon everyone and a very warm welcome to Entero Healthcare Solutions Limited Q4 FY '24 Earnings Call hosted by DAM Capital Advisors Limited. On the call today, we have representing Entero Healthcare Solutions, the management team comprising of Mr. Prabhat Agarwal, Managing Director and CEO, Mr. Prem Sethi, Whole-Time Director and COO and Mr. CV Ram, CFO. I will hand over the call to the management team to make the opening comments and then we'll open the floor for questions. Please go ahead, sir.

**Prabhat Agarwal:** Well, thank you. Thank you, Nitin, so much for making the introductions and good evening everyone and thank you for joining our conference call to discuss the operational and financial performance for quarter 4 as well as for full year financial year 2024. On this call, I am joined by Prem, Whole-Time Director, COO and Co-Founder of the company, Mr. CV Ram, Group CFO and also our colleagues from SGA, Investor Relations Advisors. I hope everyone has had an opportunity to go through the financial results and investor presentation which has been uploaded on the stock exchanges and on our company's website.

I shall briefly provide a brief introduction to our company along with the key operational highlights after which Prem will take you through our acquisition growth strategy and Ram will delve into our financial performance. Just to recap briefly, Entero Healthcare Solutions Limited has swiftly emerged as one of India's largest and fastest growing healthcare product distribution platforms. Our vision is to create an organized pan-India technology-driven and integrated healthcare product distribution network that adds value to the entire healthcare ecosystem.

Our growth strategy has been two-fold; organic expansion and strategic acquisitions. We have made 35 acquisitions since our foundation which has significantly bolstered our market presence and operational capabilities. Additionally, yesterday we announced three more acquisitions which were approved by the Board of Directors.

Since our inception six years ago, Entero has rapidly expanded its footprint across India. As of March 31, 2024, we operate 79 warehouses spread across 39 cities serving over 86,300 retail pharmacies and 3,500 hospitals. This gives us the widest customer reach in the entire country.

Our extensive network includes relationships with more than 2,000 healthcare product manufacturers giving us access to over 68,900 stock-keeping units. This robust infrastructure positions Entero as one of the top three healthcare product distributors in India by revenue. Our vast product range coupled with technology-driven inventory management and customer service

helps us to deliver very high fill rates for our customers and thereby creates very sticky value proposition for our business.

Our nationwide geographic presence along with our propriety technology helps us to provide extensive distribution reach and valuable insights for the manufacturers and brands that work with us. Driving on our unique business model in just six years, our operations experienced remarkable growth with our revenue reaching INR3,922 crores in FY '24.

Further, FY '24 has been an eventful year for us with total operating revenue of INR39,223 million which is an increase of 19% over last year against a pharmaceutical industry growth rate of 7.6% and accompanied by an expansion in margins which led us to turn back positive for the year. Similarly, in the fourth quarter of FY '24, the company registered 17% year-on-year increase in revenues reaching INR1,034 crores, again delivering a growth which outpaced the Indian pharmaceutical market growth rate of 6% for the quarter.

Looking ahead, our focus is on driving growth through both organic and inorganic opportunities. With the successful completion of our IPO in February 2024, we have strengthened our balance sheet giving us the financial flexibility to pursue these strategic initiatives. We are very confident of delivering 35% to 40% revenue growth in FY '25 driven by organic growth of 20% against an expected IPM growth of 8% to 10% and at least INR1,000 crores of distributed acquisitions. We have acquired up to now four entities which had historical revenues of INR170 crores.

There is a robust pipeline of acquisitions which we are working on and are confident to close in the next few months. This revenue expansion driving operating leverage, apart from our procurement efficiencies and product mix, can help us to deliver 100 basis point improvement in EBITDA margins in FY '25. We have already delivered 100 basis point improvement in margins in FY '24 over FY '23.

With this, I will now request Prem to share his thoughts on our acquisition growth strategy.

**Prem Sethi:**

Great, thank you Prabhat and good evening everyone. Entero aims to capitalize on industry consolidation, leveraging its access to capital, better resource management, scale advantage and superior technology. The recent fundraise from the IPO positions Entero well to acquire distributors and expand its market further.

Our strategy involves acquiring distributors at reasonable valuations, scaling up the acquired businesses by increasing SKU counts, expanding to new territories, enhancing customer reach. Well, this strategy not only provides immediate market entry but also drives substantial post-acquisition growth. Post-acquisition, Entero focuses on integrating the acquired businesses with its existing operations, optimizing processes and leveraging its technological infrastructure to enhance service delivery and operational efficiencies.

In the year FY '24, we have continued to focus on strategic acquisitions to enhance our market position and expand our product offerings. The acquisitions of Dhanvantri and RS Enterprises have been successfully integrated, contributing to our revenue growth and expanding our

geographic footprint. In May 2024, we acquired 80% equity stake in Avenir Lifecare, a strategic move that aligns with our growth objectives and strengthens our foothold in the state of Telangana.

The acquisition of Avenir marks a significant step in expanding our footprint in specialty medicines such as oncology, critical care and blood plasma segments. I am also very pleased to announce that we have secured board approval for three acquisitions of distributors located in Noida, Bijapur which is part of Karnataka and Ahmedabad. These acquisitions align with our strategic objective to diversify our portfolio, enhance our market presence and capitalize on new growth opportunities.

The acquisition of the distributor in Ahmedabad will open up new avenues in the medical device and consumables in cardiology segment. The acquisition in Bijapur will expand our geographical reach and customer base. In Noida, our acquisition of the distributor will complement our existing business centers in the NCR region. The newly acquired entities will add Ahmedabad and Bijapur to our operational network. This acquisition will increase our total presence to 41 cities across India.

The financial impact of these four acquisitions will be noteworthy as we expect to add close to INR170 crores plus annualized revenue from these acquisitions. We have acquired Lifecare in Hyderabad with about last year revenue of INR51 crores, Suprabhat in Bijapur with revenue of about INR26 crores, INR11 million annualized, and Visionary in Ahmedabad and Amar Drugs in Noida.

Entero also has a robust acquisition pipeline. The company plans to acquire at least INR1,000 crores of acquisition in FY'25. As we speak, we are working with various potential acquisition targets which are at various stages of acquisition process right now. We are working hard to close these in the first half of this year.

With this, I will now ask Ram to summarize the company's financial performance for Q4 and FY '24. Thank you.

**CV Ram:**

Thank you Prem. Good evening everyone. This is Ram, Group Chief Financial Officer. To summarize financial performance for Q4 FY '24, we have delivered a revenue growth of 17%, EBITDA growth of 42% on year-on-year basis, whereas for the year FY '24, our revenue growth has been 19% and EBITDA growth has been 75% on year-on-year basis.

Coming to Q4 FY '24 consolidated financial highlights, revenue for Q4 FY '24 stood at INR1,034 crores with a growth of 17% on year-on-year basis. Gross margin of 9% in Q4 FY '24 vis-a-vis 8% in Q4 FY'23, an improvement of 95 basis points. EBITDA for the quarter stood at INR29 crores with a growth of 42% on year-on-year basis. EBITDA margins stood at 2.8% which improved by 49 basis points. The improvement in operating profitability can be attributed to better gross margins. Profit after tax for the quarter is INR21 crores as compared to loss of INR4 crores in the same quarter last year.

Now coming to FY '24 consolidated financial highlights, revenue for FY '24 is at INR3,922 crores with a growth of 19% on year-on-year basis. We have grown significantly at a higher pace as compared to IPM growth. The robust growth in revenue was on account of addition of new customers, new districts, new SKUs as well as new healthcare product manufacturers that we have added.

Gross profit margin stood at 9% for the year, an improvement of 84 basis points from last year. This enhancement in gross margin can be attributed to procurement efficiencies which have allowed us to manage costs more effectively and increase service fee income from our third-party marketing business. EBITDA for FY '24 is at INR112 crores, an increase of 75% on year-on-year basis.

Operating margin for FY '24 is at INR2.9%, which is an improvement of 91 basis points compared to last year. This margin expansion is primarily due to higher gross margins and operating leverage. PAT for FY '24 is at INR40 crores as against loss of INR11 crores corresponding last year. This improvement in profitability is driven by higher EBITDA, interest income from the IPO proceeds in the last one and a half months and deferred tax provisions.

On the working capital front, our working capital days as on 31<sup>st</sup> March 2024 stood at 67 days as compared to 64 days last year. During FY '24, we have witnessed a strong improvement in our return profile of the company with a normalized ROCE improving from 6.1% to 10.2%, whereas our normalized return on equity improved to 6% (to be read as 5.8%) from a negative last year. With this, I would like to conclude the presentation and open the floor for questions and answers.

**Moderator:** Thank you. We will now begin the question and answer session. The first question comes from the line of Gautam Gosar with Monarch AIF. Please go ahead.

**Gautam Gosar:** Hi sir, thank you for the opportunity. I have only one question on working capital. Your net working capital days is around 73-74 days which were around 67-68 days last year. Any reason why these working capital days have gone up?

**Prabhat Agarwal:** So if you calculate your working capital on an annualized basis, it will look higher. But if you just look at the quarter four numbers, using quarter four revenue, then our working capital is around 64 days. Because there is a significant scale-up of revenues from quarter 1 to quarter 4 and part of the acquisitions that were done during the year whose entire working capital has been consolidated in financials but entire year revenues have not been consolidated that has also led to an increase in number of days on a consol basis.

**Gautam Gosar:** But this year we have not done many acquisitions in FY '24, then too our working capital has gone up. So, I didn't understand any reason for that going up.

**Prabhat Agarwal:** The two acquisitions that happened in FY '24, that happened towards the second half of the year. Only partial revenues could be consolidated.

**Gautam Gosar:** In the presentation, you have given our working capital as 67 days but you have calculated including GST. If you exclude GST, it is a 73-74 days number. So, why including GST you have calculated the working capital? Any comment on that?

**CV Ram:** Yes, the GST -- the receivables and payables if you look at it includes GST. So, to have a standardized practice, we have been doing this for the past one year in terms of adding the GST to the revenue. That gives the correct picture. The receivables and payables include the GST component as well in the working capital.

**Gautam Gosar:** Okay. And sir, also one more thing on working capital. So, out of the INR951 crores you have raised from the IPO, you have already utilized around INR158 crores if I am not wrong already in the working capital.

So, sir, could you highlight where this working capital has gone? Because organically also, we do not require that much working capital and inorganic acquisitions also, there was not much in FY '24. So, sir, where have you utilized this INR158 crores?

**CV Ram:** Yes. So, this amount we have used for the purchasing of material/goods after IPO, that is after February 16<sup>th</sup> till 31<sup>st</sup> March. So, that we have better utilized those funds for the purchase of bills in terms of goods, in terms of working reduction in capital there, while the collections has reduced our working capital limits.

That is what you can see in the reduction in the debt for us. So, that has resulted in the interest cost optimization as well for that one and a half month. So, basically, we have utilized it for the working capital for the current month at the same time the collections that we have used to reduce the debt.

**Gautam Gosar:** Okay, sir. Thank you so much.

**CV Ram:** It is not over and above the working capital that we already have. That is what I meant.

**Moderator:** Okay. Thank you. Next question comes from the line of Chintan Sheth with Girik Capital. Please go ahead.

**Chintan Sheth:** Thank you and congratulations on the successful IPO and a good set of numbers. Hope I am audible.

**CV Ram :** Yes.

**Chintan Sheth:** Yes. Thank you. So, basically, I was just looking at the full year numbers, the 100 basis point improvements in EBITDA margin which we have seen a large part of it has come from the gross margin improvement, right?

So, 90 basis point improvement we have seen in improving gross margins. But despite 18%-19% revenue growth our OPEX has kind of stayed flat be it interest costs or other operating expenses, where we have not been able to see the leverage which one would have expected with

the growth in revenues. Could you highlight going forward when you guide 100 basis point improvements, how much it will be leveraging from more better sourcing, better procurement, as well as from the operating leverage?

**Prabhat Agarwal:** So, going forward because in the next year or FY '25, we are expecting a significant revenue expansion, right? Because both last year a large part of the growth was organically driven, right? Inorganic component was very small.

This year, we have both the levers organic plus inorganic, right? So, a large part of revenue expansion would happen and a large part of that will deliver operating leverage for us, right. So, in this year, as I guided in the beginning of the call that we are looking at 100 basis point improvement gain in this year, over last year.

So, it will be a mix of gross margin expansion which will be delivered through procurement efficiencies and product mix and operating leverage. But the operating leverage component could be bigger in this year as compared to last year.

**Chintan Sheth:** Okay. Got it. Secondly, on the white label part that was one of the key levers for gross margin expansion. If you can highlight or provide some detail, how was the mix this year versus last year? And what is 90 basis point, how much of it is coming from white label expansion in our revenue? And how should we, one should look share a white label going forward in terms of growth?

**Prabhat Agarwal:** So, see, white label has never been a very major contributor to gross margin expansion historically also. And we haven't guided that white label would be the big contributor of that, right? Our product mix is driven by those products which inherently give more margin, for example, consumable or medical devices which carry a gross margin which are 1.5x to 2x of pharma gross margin, right.

So, when I speak of product mix, it's not only private label, it includes moving the product mix towards higher gross margin products which are let's say non-pharma category. That's the last part and that journey is continuous this year for example, the acquisition that we did Visionary in Ahmedabad, Visionary Healthcare is primarily medical device distributor, right? So, that category typically enjoys 1.5x to 2x of pharma gross margins. So, these kind of acquisitions and these kind of organic initiatives from our side would help us to expand gross margins further.

**Chintan Sheth:** Sure and last on the thousand crore revenue, inorganic revenue addition, what is outlay we are planning to spend on expanding that growth?

**Prabhat Agarwal:** So, typically we have guided that based on historical averages if we look at typically our enterprise value is like one-fourth of the revenue. So you can expect INR250 crores to INR300 crores enterprise value for a thousand crore of revenue in that ballpark range.

**Moderator:** Mr. Sheth are you done with your questions? Since there is no reply from the line of Mr. Sheth. We have a question from the line of Amey Chalke with JM Financials. Please go ahead.



**Amey Chalke:** Yes thank you it's Amey Chalke and congrats to the management for the result. So first question I have is would it be possible for you to explain how things have changed in a particular region or location once the consolidation has started happening? Is there any anecdotal evidence or some experience you can share where you have gained good market share post-acquisition etc.?

**Prabhat Agarwal:** Yes there are many markets where we have gained very good share in post-acquisition. For example in Bangalore our market share will be between 15% to 20%. In Vizag our market share will be in double digits. In Cochin our market share will be in double digits. In Goa our market share will be in double digits. So there are many markets where we now have a significant market share in that territory.

**Amey Chalke:** And what do you think would be the scope for you to keep gaining market share in these regions like do we have to keep acquiring more distributors or organically itself we can keep gaining market share as well?

**Prabhat Agarwal:** So as I told you our organic growth target is 20%. The market is not going to grow by 20%. So market is going to grow probably half of it. So naturally the additional delta 10% growth is going to come from gaining market share only. And our market share gains are basically driven by our unique value proposition which is for our customers which is a very wide product range and delivered to the customers at a very convenient three times, four times during the day.

So naturally it gives a very sticky value proposition for us because the customers, they want the entire basket at one place and delivered in time. And that's how most of these even good commerce businesses or any businesses are being built where you get a good product range and certain timely delivery.

**Amey Chalke:** Sure. The second question I have is on the INR1000 crores target we have in mind for the inorganic thing. What would be the execution risk related to these inorganic routes? What things could basically delay some of these acquisitions and what would be our second plan for this thing?

**Prabhat Agarwal:** So we have enough pool of targets to acquire. So it's not that we are relying on few targets to meet those INR1000 crores targets. So we have ample pipeline available and the market conditions are such that we are one of the few buyers who are ready to buy a distribution business.

And there are many people who are feeling the heat and either because of business pressures or because of succession issues they are willing to transact and we don't see that changing in near term. Maybe I'll ask Prem to kind of add to it.

**Prem Sethi:** Sure. Thanks, Prabhat. So we have a very robust pipeline as Prabhat mentioned that means in every single micro market that we are currently looking at acquiring we are talking to multiple partners in the micro market. So even if one transaction or one particular deal doesn't happen, we have alternate plan B, plan C available in the same micro market to actually go ahead and then conclude on those transactions.

So we have a fairly decent numbers as well as micro market targets available which is what we said that we're very confident of doing about INR1000 crore plus acquisition within next few months.

**Amey Chalke:** Sure. And the last thing on the chart which you have shown of where the India map is there, the locations I believe are related to warehouses etc. So in Maharashtra in particular we see only present in Mumbai. So is there a good scope for you to grow in Maharashtra? Is that how we should see it or like?

**Prabhat Agarwal:** Yes why not because the locations on the map is only where we have physical warehouses. So we have now physical warehouses in 39 cities even though we are from those 39 cities we are supplying in 540 odd districts in India. So these are only supply hubs, these are not necessarily only the places where we are serving customers, we are serving customers in much wider geographic area.

So in Maharashtra, for example, we would want more centers to be open, we are exploring in Pune, in Nasik, in Aurangabad, in Jalgaon various other micro-markets.

**Amey Chalke:** Sure, got it. Thank you so much.

**Moderator:** Thank you. Next question comes from the line of Chintan Sheth.with Girik Capital. Please go ahead.

**Chintan Sheth:** Yes thank you. Sorry my line got disconnected. So you mentioned EV of INR250 crores to INR300 crores that's the target for INR1000 crores kind of addition?

**Prabhat Agarwal:** Yes in one part.

**Chintan Sheth:** Okay, got it. And in terms of to bring this INR1000 odd crores of revenue, how much working capital which will get blocked incrementally for us? If you can just run us through how working capital will shape up with the kind of growth we are envisaging going forward?

**Prabhat Agarwal:** So when we said INR300 crores of enterprise value that includes the working capital that comes along with INR1000 crores of revenue. It includes that.

**Chintan Sheth:** Okay. But typically it won't materially change the working capital structure as we have currently?

**Prabhat Agarwal:** Sorry, can you repeat the last part, please?

**Chintan Sheth:** So I'm saying whether that can change the working capital profile of our company materially?

**Prabhat Agarwal:** So we are as of now we are at 60 days, 65 days. So more or less these acquisitions are in that ballpark range only.

**Chintan Sheth:** Because what is happening is like you mentioned in your earlier remarks that the acquisition happened at the fag end of the period where your working capital was booked for that acquiring assets fully while the revenue recognized was for the partial period and that the profile the similar effects can happen?

**Prabhat Agarwal:** That is determined by the timing of acquisition. So if you do more towards end of the year, you will have an impact on the closing working capital reported. It is just a timing thing. It will normalize over the next few quarters.

**Moderator:** Thank you. Mr. Sheth we request you to please join back the queue for more questions. Next question comes on the line of Tushar Sarda from Athena Investments. Please go ahead.

**Tushar Sarda:** Yes. Thank you for the opportunity. Since your strategy is acquisition-led, I have a few questions related to that. One is what price do you pay for this acquisition as multiple of sales or profit? What is the payback period and how do you account for the acquisition cost in the P&L over what period do you write off?

And then related to this is how does the economics work for you? Do you see a jump in gross margin because you are a much larger organization? So if you can throw some light on this aspect, that would be helpful?

**Prabhat Agarwal:** So I had kind of explained acquisition economics in part of my road show also and maybe even in our last investor call. First of all we should not say that our strategy is acquisition-led. I would say that acquisition is a means to achieve an all India presence. It's a means to achieve a wide product segment, wide customer base. So that's not the end. Acquisition gives us a market entry and a wider customer base, a wider product segment base on which we want to create a pan India distribution platform.

Now, coming to using inorganic to do that as I told you typically we buy these targets on an EV EBITDA multiple basis and EV EBITDA multiple basis could be mid to high EV EBITDA single digit, mid to high single digit, EV EBITDA multiple basis and if you look at economics of return.

Typically, let's I give you an example. For example, if you buy a distributor whose sales is, for example, INR100 and let's say he's making INR4 of EBITDA for example, or INR5 of EBITDA. Let's use, for example, INR4 of EBITDA. Even if we value him at 6 times or 7 times let's say 6 times then we will be like INR24 of enterprise value. To run a INR100 business he would have definitely employed INR15 to INR16 of working capital.

So we are paying INR24 to acquire a revenue of INR100 which will deliver us an EBITDA of INR4 and along with it we are also getting INR16 of working capital. So the goodwill, the intangible part that we are paying is around INR8 and if we -- even if we don't do much with the business and the business continues to deliver only INR4 we will get back our money in 2 years.

And if we grow the business that the way we have grown our business historically where we had a very high organic growth rate it can come in less than 2 years that the entire goodwill amount, the intangible amount.

**Tushar Sarda:** Okay. And how do you account for the acquisition cost? Do you write it off over a period of time? What is your policy on that?

**CV Ram:** You mean the diligence costs and all. Diligence costs will be...

**Tushar Sarda:** The goodwill, goodwill which you pay either carrying it in the books or you write it off over period?

**CV Ram:** We do carry in the books and then it will be tested for impairment at every closing.

**Tushar Sarda:** Okay. So versus organically growing, if you were to grow organically you would have incurred costs which would have been expense. So these acquisition costs are not getting expense?

**Prabhat Agarwal:** Yes. So if you would have taken -- first of all you would have taken a much longer year to grow organically to that size, you would have might incur some operating losses in the first few years at the time when you are building it up. So the goodwill premium that you pay is basically to take care of that.

**Tushar Sarda:** No, that I understand. I'm just saying expensing out that goodwill premium because it's a, ultimately a cost of building business organically versus acquiring it organically. right?

**Prabhat Agarwal:** Right. So it will be in the balance sheet. I think we are carrying what INR190 crores.

**CV Ram:** INR190 crores as of March yes.

**Prabhat Agarwal:** So, you just imagine is INR190 crores of goodwill we have paid and on that we have built INR4000 crores business.

**Tushar Sarda:** Yes I understand that. What I'm saying is that it shouldn't be written off over a period of time over 3 years, 5 years, over some time because it is kind of cost of building a business organic versus inorganic. It's a cost of building the business.

**CV Ram:** Yes we are following the accounting standards. I think that permits only for the goodwill to test for impairment for the future growth and that we test it at every balance sheet date and then we carry that. There is no option to build.

**Tushar Sarda:** Okay, thanks a lot.

**Moderator:** Thank you. Next question comes from the line of Jayesh Shah with OHM Portfolio Equity Research Private Limited. Please go ahead.

- Jayesh Shah:** Again, going back to the acquisition economics how do you relate it in terms of price to book? And my issue is that while you say that the payback period is 2 years, 2.5 years it is not visible on your ROE and ROCE. So, what are we missing out?
- Prabhat Agarwal:** I am not able to understand your calculations. Can you elaborate, please?
- Jayesh Shah:** My first question is when you do these purchases on EV EBITDA what do you pay in terms of price to book value?
- Prabhat Agarwal:** Book value in the sense the net asset value?
- Jayesh Shah:** Yes, of the acquired company.
- Prabhat Agarwal:** So, that's what I said, we are paying a goodwill over the asset value. So, that's it, we are putting in our books and goodwill also we are recording in our balance sheet.
- Jayesh Shah:** Yes, but let's say you bought an asset, a company which had a revenue of 100 EBITDA of 4 and a balance sheet size or, you know, gross block of whatever, 20, 30, because that could be just the office or you don't buy their offices and stores?
- Prabhat Agarwal:** No, we don't have, we don't buy, you know, these land and buildings and all those kinds of things. We only take over, you know, the operational assets, which is working capital and, you know, some computers and all those kinds of stuff.
- Jayesh Shah:** Okay, so you're not buying out the whole company, you're only buying out the working capital and the investment from the company?
- Prabhat Agarwal:** Yes, if the owner was operating on his own land and building, we would not buy the land and building, we would rent it from him.
- Jayesh Shah:** Okay, so that is clear. And my second part of the question is on, if the payback period is 2 to 2.5 years, why is it not showing up in your ROEs and ROCEs, which are in single digit?
- Prabhat Agarwal:** So, you know, at an operating level, for example, as I told you, in our books, there is INR190 crores of goodwill, right? Lying and our operating EBITDA, gross of our corporate cost would be around that. So, that amount of cash flow, I mean, that amount of profit is being generated by acquired entities already, right? But we have a corporate cost on top of it, which, dilutes their operating profit to an extent, our corporate cost is close to a 1% right now. And so that gets deducted from the operating margins of the subsidiaries.
- Jayesh Shah:** No, that I can understand in terms of margins. So, when you look at return on investment, I'm saying you have not bought any assets, you have only bought the business. And whatever you have paid in goodwill, you are recovering it within two to three years, because you said your payback is 2 to 2.5 years. In that case, your return ratio should have been much more stronger and visible?

- Prabhat Agarwal:** When I'm saying 2 to 2, I'm talking about 2 to 2.5 years to get back the goodwill part, the networking capital stay invested, no?
- Jayesh Shah:** Yes, but the networking capital then goes back into sales, right? Over time. So, your networking capital when I see on the balance sheet, again, is only 67 days, it's not very high?
- Prabhat Agarwal:** So, we are calculating, Ram, why don't you explain in the formula how we calculate our return ratio?
- CV Ram:** Yes, return on investment, return on capital employed is the same formula, which is standard in terms of equity plus debt that we have deployed, right? So and undeployed money, we are not considering there. And which is 10.2% at present, we consider the PBT plus the interest cost for the EBIT.
- Jayesh Shah:** No, I understand the accounting standards. Anyway, I think I'll make a request and perhaps take this offline. Thank you very much.
- Prabhat Agarwal:** Yes, please connect offline and see where the disconnect is coming from.
- Moderator:** Thank you. Next question comes from the line of Dhruv Shah with Ambika Fincap. Please go ahead.
- Dhruv Shah:** Yes, hi, thank you for the opportunity. Team, I have one question pertaining to we had, you know, tied up with Roche for marketing distributing their four nephrology drugs. Can you say what's the status and is any other such kind of pipeline? Do we have such products in the pipeline? Because this would be a higher margin product for us, right?
- Prabhat Agarwal:** So, we have two contracts like that, which is currently in operation. One is, of course, the Roche one and another is with Abbott. Those two are continuing while we are working on with other similar propositions with other companies, but others have not been concluded yet.
- Dhruv Shah:** And ideally, this would be a high margin product for us?
- Prabhat Agarwal:** Yes, the Roche margin for this will be higher.
- Moderator:** Thank you. Our next question comes from the line of Alok Dalal with Jefferies India Private Limited. Please go ahead.
- Alok Dalal:** Yes, good afternoon, everyone. Two, three questions. So, first is on the EBITDA margin guidance of 100 basis point. So, Prabhat, this will be on the reported EBITDA margin of 2.8%, right? Or this is a pro forma number?
- Prabhat Agarwal:** No, reported.
- Alok Dalal:** Okay. And with this kind of margin improvement, should one look at mid-teen kind of ROCs for FY '25?

- Prabhat Agarwal:** I think yes, yes, should be. We haven't done the calculation, but it should be.
- Alok Dalal:** Okay. And Prabhat, what is the current sales force that goes to retailers and asks for business? And how does the overall sales force expand based on the organic growth that you're targeting?
- Prabhat Agarwal:** So, we have around 1000 people, which is sales plus delivery, some people double up as sales as well as delivery, right? So, together we have around 1000 people in the company who is doing the job of sales plus delivery, which is booking the order, collecting the money and sometime delivering the product also.
- Alok Dalal:** Okay and this number will more or less remain unchanged?
- Prabhat Agarwal:** No, it will change. It will go up to a certain extent.
- Alok Dalal:** Okay. Thank you, Prabhat.
- Moderator:** Thank you. Our next question comes from the line of Sriram R, an Individual Investor. Please go ahead.
- Sriram R:** Thank you for the opportunity. My question is on the ROE. In FY '24, we ended with 6% ROE. So, after factoring margin improvement and also post-acquisition, what would be a sustainable ROE range? I'm sure you'll have a target ROE range two to three years down the lane. So, what is that number?
- Prabhat Agarwal:** 20% plus.
- Sriram R:** 20% plus, is it?
- Prabhat Agarwal:** Yes.
- Sriram R:** Okay. Thank you. Thank you. All the best.
- Moderator:** Thank you. Next question comes from the line of Utsav Jaipuria with DAM Capital. Please go ahead.
- Utsav Jaipuria:** Hi, sir. Thanks for the opportunity. Just a few questions from my side. Firstly, on this private label piece, what's the status here? What are our plans for the next few years? And how do you think this will contribute to growth margins going forward?
- Prabhat Agarwal:** I think I answered this question before also that private label is not the biggest driver of our growth, nor of the margins. So, our gross margin expansion is more driven by the way we buy the price at which we buy and also from the product mix, which is related to non-pharma, which is more medical devices and surgical consumables. So, private label is not a very big part of our business. It's contributing 1% right now. And I don't see that will become a huge part of our business in going forward as well.

- Utsav Jaipuria:** Thanks. And secondly, on this INR1,000 crores acquisition guidance, this INR1,000 crores revenues, right?
- Prabhat Agarwal:** Yes, that's correct.
- Utsav Jaipuria:** So, on that we can assume like a INR4,000 crore sort of outlay for the next year.
- Prabhat Agarwal:** Sorry, INR1,000 crores you're saying what?
- Utsav Jaipuria:** So, on the INR1,000 crores revenue that we're guiding through acquisitions, we can assume like a INR4,000 crore sort of outlay for the acquisition, sorry...
- Prabhat Agarwal:** It's one, it's the other way around. You should have, we said INR250 crores to INR300 crores of outlay.
- Utsav Jaipuria:** Yes. Okay. Thanks.
- Moderator:** Thank you. Next question comes from the line of Nitesh Dutt with Burman Capital. Please go ahead.
- Nitesh Dutt:** Hi, thank you for this opportunity. I just have one question. So, our employee expenses plus opex in FY '24, it's close to INR240 crore. So, I just want to understand if you can provide some sort of breakup on what would be the fixed cost as in the corporate overheads, etc. And what is the variable cost out of it?
- CV Ram:** Sorry, can you just, I understood the fixed cost, variable cost breakup that you asked. What was the initial part of it? It was not clear.
- Nitesh Dutt:** For the employee cost and the other expenses, which total to be around INR240 crores.
- CV Ram:** Correct. Okay. What is the question?
- Nitesh Dutt:** The question is the employee expenses and other expenses. I want to understand if you have any bifurcation on what are the fixed costs and variable costs out of this INR240 crores.
- CV Ram:** Yes, out of total 6% of the total operating expenses that we have. So, you can expect, about 0.8% to 1% is variable cost and rest is all fixed costs.
- Nitesh Dutt:** Okay. So, out of 6, 5 is variable and 0.8 to 1 is, 5 is fixed and 0.8 to 1 is variable. So, does it mean that, let's say your revenue gets double over the coming years, 6% would come down to 3%, 3.5% to 4%?
- CV Ram:** It depends on the revenue increase. Definitely the fixed cost will have the operating leverage. The 5% will always have the operating leverage, while the 1% is variable.
- Nitesh Dutt:** Understood. And that variable, is it dependent on the number of pharmacies, etc. You will be having? Just want to understand what is this linked to number of SKUS, number of providers?



**CV Ram:** Revenue, it is distribution cost and other...

**Prabhat Agarwal:** Sales commission and delivery cost.

**Nitish Dutt:** Correct. And, sir, amongst the fixed costs, what would be your biggest spend in terms of employee cost? So, is it like tech expenses, corporate overheads? So, out of roughly INR150 crore of employee expenses, if you are saying 70%-80% of that is fixed. So, where exactly is that going into?

**CV Ram:** No, manpower cost is the biggest one. Further, I will simplify for you. Out of this 5%, 1% is corporate. So, 4% is fixed at the unit level. 1% is variable and 1% is corporate cost. That is how you should read it. And this 4% predominantly will have manpower cost.

**Prabhat Agarwal:** And manpower is largely warehousing, receiving, inverting, dispatching, packing, all this.

**Nitish Dutt:** Understood. Thank you.

**Moderator:** Thank you. Next question comes from the line of Nitin Agarwal with DAM Capital. Please go ahead.

**Nitin Agarwal:** Hi, can you hear me?

**Prabhat Agarwal:** Yes, Nitin.

**Nitin Agarwal:** Okay. Prabhat, two things. One is, A, on our acquisition strategy, now when we are currently doing about 86,000 retailers are we reaching out to? So, when you think about your acquisition plans over the next 2-3 years -- you did highlight the fact that you are looking to add more specialty formats and distributors going forward.

Barring that, is there a number of retailers you want to reach out to over the next 2-3 years, which sort of gives you the critical mass from there on? You don't need to probably; you need to start to become very selective beyond that when your coverage becomes sufficient from a network perspective?

**Prabhat Agarwal:** So, Nitin, you are looking guidance on what's the tipping point beyond where we reach a threshold of retailer reach and beyond that we don't have to really go and acquire, at least for retailer acquisition. Is that what you're saying?

**Nitin Agarwal:** Yes.

**Prabhat Agarwal:** Once you have to -- our next 2-3 years, if we reach 200,000-250,000 retail reach that will be a substantial reach within the country. After which your new geography additions could be very limited.

**Nitin Agarwal:** And how much will you need to spend to get to this number? I mean, obviously, in your assessment based on whatever you've seen for the market?

- Prabhat Agarwal:** So, part of it will come to organic growth that we are having and part of it will, new geography expansion, for example let's say we acquired this guy in Bijapur, he will add certain number of retailers to our retail base or we acquired in Hyderabad or in Ahmedabad. So, they will give us new customers that were not existing for us. So, together, both organically we are also trying to drive higher retail reach and through inorganic as well.
- Nitin Agarwal:** But broadly, your sense is by FY '27, if you put some time to it, you would be largely done with your, retailer reach perspective. I can assume from a retailer reach to get to a desired level of retailer reach perspective?
- Prabhat Agarwal:** I think it's more than the timing is the number of retailers, right? So, for example, somebody asked question on today that, in Maharashtra, we have only in Mumbai. So, from Mumbai, we are only reaching out to a limited number of retailers in Maharashtra. So, if we open more branches, acquire more entities within Maharashtra, our retailer reach will grow up significantly.
- But beyond the point, you would be able to service additional retailers from those supply points only, you won't need to go to, we won't need to acquire, keep on acquiring to reach every large retailer in the country.
- Nitin Agarwal:** And secondly, how much of our business currently is coming from trade generics or is there a proportion increasing for you?
- Prabhat Agarwal:** This proportion is insignificant right now. For us, trade generic is not a substantial part of our business today. But this is a growth area, we are seeing good traction in that business. So, even our some of our acquisition strategy could also be to, acquire certain of those distributors.
- Nitin Agarwal:** And last, if I can, as you keep increasing the scale, do you have in your experience over the years, have you seen that increases your ability to take higher gross margins from the manufacturers?
- Prabhat Agarwal:** Yes.
- Nitin Agarwal:** And this is in lieu of what? What do you provide them? It's just, is there something that you more that their ability to any services, our ability to provide certain sort of services increases with the increase?
- Prabhat Agarwal:** Primarily two things, one is data and the second is the ability to give them higher growth.
- Nitin Agarwal:** Okay. And is there a number that we can put to it in terms of, as you get scale, what is the incremental amount of gross margins that you can probably start to achieve on some of your on an overall basis on this account, or just on the benefit of scale?
- Prabhat Agarwal:** I won't guide right now on what could be the, incremental margin impact coming from that initiative only because I've given an overall guidance on, gross margin expansion and part of that gross margin expansion is coming through this only.

- Nitin Agarwal:** Okay. Got it. Thank you so much.
- Moderator:** Thank you. Our next question comes from the line of Nitesh Dutt with Burman Capital. Please go ahead.
- Nitesh Dutt:** Hi, just to follow up on my previous question regarding fixed versus variable cost. So if I look at FY '24 versus FY'23, our total revenue has gone up by 19-odd percent and the employee plus other expenses has gone up by 18%. So you mentioned that fixed cost is roughly 80%-90%. So two questions here. One, why is the leverage not visible yet in historic one, two year numbers? And second, under what circumstances in future do you expect the leverage to come through?
- CV Ram:** Yes, so this leverage is visible. Actually, if we see, I think last year to current year, you see a lesser visibility here because we have done Q4 reflects the total revenue reflects only in a part of the acquisitions that we did, whereas you have the costs that have come in. Only 20 bps of improvement that has been visible in the current year. But in the previous year, if you see, we were at 7.4%. We came down to 6.2% to now 6.1%. So that is a trajectory on the total operating expenditure, including unit level and corporate level.
- Nitesh Dutt:** And going forward, you expect leverage to play out from FY'25 onwards?
- CV Ram:** Definitely, because of the inorganic growth will directly result into this corporate cost, we'll dial in that leverage there. And also most of our cost is fixed, as I mentioned, 4%, which includes predominantly the staff costs and admin costs on the ground. So they will definitely dial in the leverage.
- Nitesh Dutt:** All right. Thank you.
- Moderator:** Thank you. Ladies and gentlemen, that was the last question for today. We have reached the end of question-and-answer session. I would now like to hand the conference over to the management for closing comments.
- Prabhat Agarwal:** Well, thank you very much, everyone, for joining this call. I hope we have been able to address all your queries. As I said in the call, we remain extremely confident about the future financial performance of the company and we thank you for your interest. We also thank, our Investor Relations Advisors, Strategic Growth Advisors and we request you, if you need further information, kindly get in touch with them. Thank you once again and have a great day. Thank you.
- Moderator:** Thank you. On behalf of DAM Capital Advisors Limited, that concludes this conference. Thank you for joining us. You may now disconnect your lines.