Entero
Healthcare Solutions Limited

Ref: 15/SE/LC/2023-24 **Date:** March 15, 2024

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

Scrip Code: 544122

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

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 March 11, 2024, bearing reference no. 13/SE/LC/2023-24, 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 March 11, 2024 at 16.00 hrs (IST) to discuss the Company's financial results for the Quarter and Nine months ended December 31, 2023 is annexed herewith.

This is for your information and records.

Yours faithfully,

For **Entero Healthcare Solutions Limited**

JAYANT PRAKASH
Digitally signed by JAYANT PRAKASH
Date: 2024.03.15 16:53:41 +05'30'

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

“Entero Healthcare Solutions Limited Q3 FY '24 Earnings Conference Call”

March 11, 2024

Disclaimer: E&OE - This transcript is edited for factual errors. In case of discrepancy, the audio recordings uploaded on the stock exchange on 11th March 2024 will prevail.

MANAGEMENT:	**MR. PRABHAT AGRAWAL - MANAGING DIRECTOR AND CEO**
	MR. C. V. RAM – GROUP CFO
ANALYST:	**MR. ABDULKADER PURANWALA – ICICI SECURITIES**

Moderator: Ladies and gentlemen, good day and welcome to Q3 FY '24 Earnings Conference Call of Entero Healthcare Limited hosted by ICICI Securities.

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 '*' then '0' on your touchtone phone. Please note that this conference is being recorded.

Please note, this conference call may contain forward-looking statements about the company, which are based on the belief, opinions and expectations of the company as on date of this call. These statements are not the guarantees of future performance and involve risks and uncertainties that are difficult to predict.

I now hand the conference over to Mr. Abdulkader Puranwala from ICICI Securities. Thank you and over to you.

Abdulkader Puranwala: Hi. Good afternoon, everyone. Thank you for joining us on Q3 and 9 months FY '24 Earnings Conference Call of Entero Healthcare Limited.

On the call today, we have with us Mr. Prabhat Agrawal - Managing Director and CEO and Mr. C. V. Ram – Group CFO.

I will now hand over the call to the management for the opening remarks and then we will open the line for Q&A. Thank you.

Prabhat Agrawal: Thank you, Abdul. Hi, this is Prabhat here from Entero. Good evening, everyone, and thank you for joining on our first Earnings Conference Call to discuss the "Operational and Financial Performance" for Quarter 3 and nine months ended FY '24.

On this call, I am joined by Ram, our Group CFO, and SGA, our Investor Relation 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 also on our company's website.

In February 2024, our company achieved a significant milestone with its successful listing on stock exchanges. We hereby express our sincere appreciation to all our shareholders, capital market participants, and all other stakeholders for their steadfast support on this remarkable journey.

For those joining us for the first time, allow me to provide a brief introduction to our company, after which Ram will delve into our financial performance. Entero Healthcare Solutions Limited was founded in 2018 by Prem and myself with a clear vision to build an organized pan-India, technology-driven, and integrated healthcare products distribution platform that delivers value across the healthcare ecosystem.

The company focuses on serving healthcare product manufacturers by offering them access to pharmacies, hospitals, and clinics across India. Additionally, the company offers comprehensive commercial solutions such as sales, marketing, and supply chain services to pharmaceutical companies, medical device companies, and other healthcare product manufacturers.

Today, Entero is one of the top healthcare product distributors in India with a pan-India network serving retail pharmacies, hospitals, and clinics.

As of December 31, 2023, the company has 78 warehouses located across 38 cities in 19 states and union territories and a customer base of over 79,400 plus pharmacies, which translates to Entero supplying to approximately 1 out of 10 pharmacies in India and 3,300 plus hospitals, which makes us the largest hospital distributor in the country. The company has very wide geographical presence covering 501 districts across India.

With supply relationships established with over 1,900 plus healthcare product manufacturers providing access to over 67,100 product stock keeping units (SKUs), we aim to provide a one-stop shop to our customers' healthcare product needs.

Leveraging our pan-India warehouse and delivery infrastructure backed by strong relationship with pharmacies, hospitals and clinics as well as with healthcare product manufacturers, We deliver Everything in Pharma…Everywhere in India…

Our commitment to compliance ensures that our warehouses adhere to the highest standards providing safe and secure storage for pharmaceutical products and devices.

Our integrated systems and technologies provide manufacturers with valuable insights enabling informed decision-making and targeted strategies for sales and marketing. We are not just distributors; we are partners in growth, offering end-to-end solutions that encompass both demand generation, distribution and marketing support.

To grow our operations and bring efficiencies in the healthcare products distribution ecosystem, we adopted a technology-focused approach, which is anchored on our proprietary integrated technology platforms and business intelligence tools and solutions. We see opportunities to enhance efficiency in various aspects of the supply chain within the healthcare industry through digitization leading to benefits for the entire ecosystem. For example, the company's technology platforms provide a positive buying experience through our digital solutions such as Entero Direct B2B application where customers have real-time visibility of product range, pricing, inventory levels, order status, outstanding balances, promotional offers. Entero Direct can be used for order management, 24 hours a day, 7 days a week. Using these tools, the company strives to streamline its internal operations, boost sales and delivery performance and enhance inventory management and procurement efficiencies.

To strengthen our capabilities, we have consistently invested in improving our technology platform.

Our aim is to capitalize on the fragmented distribution market by providing integrated tech driven distribution solutions, expanding our product offerings and forming strategic relationships with manufacturers, pharmacies, hospitals and clinics. This comprehensive approach has enabled us to scale operations rapidly, reporting significant increases in operating income, customer base and product SKUs managed.

Within five years of operations, we have rapidly scaled up our operations to reach revenue of about 3,300 crores in FY '23. In Q3 of FY '24, the company's revenue increased by 20% year-on-year to Rs. 993 crores, significantly outperforming the IPM, which is Indian pharmaceutical market growth rate of 9%.

Entero has consistently outperformed the growth of the IPM achieving a significant increase in revenue and market share. This consistent performance can be attributed to our unique and differentiated business model in a highly fragmented market and robust supply chain capabilities.

Our growth trajectory has been fueled by both organic expansion and strategic acquisitions. With 34 acquisitions since our inception, we have consolidated our market presence across India expanding our geographical reach and market share.

Entero's inorganic growth strategy includes acquiring smaller distributors to increase our geographical reach and customer base and enhancing our product portfolio. This inorganic approach has helped us to enter new geographies, acquire local know-how and relationships and create a pan-India distribution platform in a very short time.

Post acquisition, we deploy our growth strategies such as product portfolio expansion, increased customer reach, improved service levels and technology-based solutions to increase our market share. The acquired entities also benefit from our technology infrastructure, manufacturer relationships, central procurement support and banking relationships. This helps the subsidiaries to grow their business and increase their market share in their respective local markets.

Given our track record in acquiring and integrating smaller distributors across India, we have been able to continuously attract distributors to become acquired by and integrated with us. We have dedicated team on ground across regions to identify acquisition opportunities in the market for entry or expansion. As we speak, we are working with multiple potential acquisition targets which are at various stages of the acquisition process. With the robust balance sheet post IPO, we would aim to accelerate our pace of acquisition, which would further enhance our growth opportunities.

Entero's growth levers focuses on benefiting from market consolidation through strategic acquisitions, enhancing market position by increasing customer base, wallet share and geographic penetration. We aim to forge comprehensive marketing and distribution collaborations with healthcare product manufacturers and continue investing in and leveraging our technology. Additionally, the company plans to expand its product adjacencies, private label and service offerings to drive efficiencies and profitability.

We are focused on enhancing margins through various initiatives such as leveraging scale for better procurement outcomes, optimizing product mix, improving operating leverage and operational efficiencies in our distribution network.

With this, I will now ask Ram to summarize the company's financial performance for Q3 and 9M FY24, as well as give an update on the recently concluded IPO of the company.

C. V. Ram: Thank you, Prabhat. Good evening, everyone. This is Ram, Chief Financial Officer, Entero Healthcare. We have completed our IPO in February 2024 and were listed on NSE and BSE on 16th February 2024. We thank all the stakeholders for their support. We raised Rs. 1,000 crores through fresh issue of shares. The monies raised through IPO will primarily be utilized for funding working capital, pursuing inorganic growth opportunities and repayment of borrowings.

Coming to "Financial Performance":

In Q3, FY '24, we have delivered a revenue growth of 20%, EBITDA growth of 54% on a year-on-year basis, whereas for 9M, FY '24, our revenue growth has been 20%, EBITDA growth of 90% on a year-on-year basis.

To detail Q3, FY '24 consolidated financial highlights, revenue stood at Rs. 993 crores with a growth of 20% on a year-on-year basis. The robust growth in revenue was on account of the addition of new customers, new districts, new SKUs, as well as new healthcare product manufacturers that we could add.

Gross profit margins stood at 9.1% vis-a-vis 8.3% in Q3, FY '23, an improvement of 81 basis points. The improvement in gross margins was largely due to a change in product mix and procurement efficiencies.

EBITDA for the quarter is at Rs. 29 crores, with a growth of 54% on a year-on-year basis. EBITDA margins stood at 2.9%, which improved by 64 basis points. The improvement in operating profitability can be attributed to better gross margins as explained above.

Profit after tax for the quarter is at 7 crores, a growth of 96% compared to last year.

Now coming to 9 months, "FY '24 Consolidated Financial Highlights":

Revenue for 9 months, FY '24 is at Rs. 2,888 crores with a growth of 20% on a year-on-year basis. Gross profit margins stood at 9%, an improvement of 80 basis points. EBITDA for 9 months is at 83 crores, an increase of 90% on a year-on-year basis. Operating margins for 9 months, 2.9%, which is an improvement of 107 basis points.

Profit after tax for 9 months, FY '24 is at 19 crores as against a loss of Rs. 7 crores in the same period last year.

On the "Working Capital Front":

Our working capital days as on 31st December 2023 stood at 66 days. During the 9 months, FY '24, we have witnessed a strong improvement in return profile of the company with an annualized ROCE improving from 5.6% last year to 10.3% whereas our annualized return on equity improved to 5.5% from negative last year.

With this, I would like to conclude the presentation and open the floor for questions and answers.

Moderator: Thank you very much. We will now begin the question-and-answer session. We have a first question from the line of Yash Goenka from Awriga Capital Advisors LLP. Please go ahead.

Yash Goenka: So, my question is, what is the targeted ROCE for the company over next 3 to 5 years? And will it be through the numerator or denominator largely? That's all.

Prabhat Agrawal: Yes. So, the improvement in ROCE is supposed to come from both numerator and denominator. Under numerator, we are working on expansion of operating margins and on denominator, we are working on reducing or improving the capital efficiency in the business. So, both these combined levers, with this, we expect over the next 2–3-year period, the ROCE to increase above 20%.

Moderator: Thank you. The next question is from the line of Sriram R, an investor. Please go ahead.

Sriram R: Thank you for the opportunity. The present industry structure of the pharma retail as well as distribution is fragmented, right? So, what is your outlook on the future of the pharma retail industry? Because if consolidation happens in the pharma retail, is that not a negative for us because they will have more command on pricing, right?

Prabhat Agrawal: Yes, this is Prabhat here. So, pharma consolidation we have been witnessing for last 20 years, but it has reached only a limited potential, right? Because in India, the retailing is extremely fragmented. There are more than 900,000 pharmacies and only 10,000-12,000 pharmacies belong to the chain, right? So, less than 2% on store count front is consolidated into chains and we believe that in the near to long future, we don't see a massive consolidation happening on retail.

Sriram R: Okay, but whereas you expect the rate of consolidation to be faster in the distribution space. Is that right?

Prabhat Agrawal: Yes, I think the distribution space is more conducive for consolidation as compared to the retail space.

Sriram R: So, how does it work in developed countries like U.S.? Can you throw some light on that?

Prabhat Agrawal: See, U.S., both retail and distribution is consolidated. You know, the U.S. top three distributors have more than 90% market share.

Moderator: Thank you. The next question is from the line of Saion Mukherjee from Nomura. Please go ahead.

Saion Mukherjee: Hi, Prabhat. Just wanted to understand the organized wholesale distribution, I think you mentioned about 10% is organized. So, how you see that share going and within that how is Entero positioned today and if you can throw some light on expansion, particularly, inorganic, what are the sort of areas which are missing? How much more you grow through acquisition and what type? I am just asking Prabhat, how should we think about growth in terms of acquisition, what is the kind of network that you want to establish, let's say three, five years down the line, I mean, if you have any targets around that?

Prabhat Agrawal: Yes. See, if you look at today, the organized distribution is in single digits, right? Because there are only very, very few players who are working on a pan-India national level, right? If you look at the industry report of CRISIL, which was published as part of the IPO process, over next five years, they expect that this organized distribution would take up to 20% to 30% market, right? And we believe there are few people who will drive that, and we will be on the forefront of it.

Saion Mukherjee: And so, in terms of inorganic acquisitions, if you can, so will that be a large part of it, or you can do it organically? And if you have to do inorganically, like, how should we think about the kind of capital allocation that you have for inorganic expansion?

Prabhat Agrawal: So, it will be a combination of both organic and inorganic, right? And last five years, you would have seen that we have done almost 34 acquisitions and post IPO where our balance sheet is more robust than before, we would be pretty aggressive in pursuing inorganic opportunities.

Saion Mukherjee: And if you have like of the 34 acquisitions, if you, I mean, how have they worked in general? Are there situations where you found that acquisitions have not worked for you? If you can share your experience on that, what kind of returns you have earned, and what should you expect going forward? Is there a valuation challenge here in the sector?

Prabhat Agrawal: So, largely, if I have to detail out the history for last five years, the 34 acquisitions that we have done, and if you look at our growth rate for last few years, last few years, our CAGR has been 36% and out of which 22% has been organic growth rate and 14% has been inorganic.

So, all the entities that we have acquired have grown very well and the reason why they grow well is because there is a clear right to win. Right to win exists from basically a huge product range that we offer to our customers, where the customers are anyway feeling a challenge on the fill rate, right?

So, with our kind of one-stop shop solution for our customers, where we expand product portfolio, we expand the customer base, we make the buying much more easier for our customers - these things are difficult to be offered by smaller distributors, right? So, that's the reason we kind of gain market share on that front and that will continue to happen in times to come as well. So, over the next few years we will use the mix of both organic and inorganic growth to drive consolidation, as what we have done in the past as well.

Saion Mukherjee: And so typically, what's the kind of valuation multiple that prevails Prabhat at this point - that's if you have to acquire a distributor in terms of EV-EBITDA multiple or EV-sales, I don't know what kind of valuation is used, but typically have the valuations gone up, down? And what is the typical range that you get?

Prabhat Agrawal: Typically, it's a single digit, and we evaluate case by case depending on the growth potential of potential acquisition targets, but it's in single digits.

Saion Mukherjee: And just one last question on the margin levers. We have seen margin expansion happening, gross margin as well as EBITDA margin. So, how should we think about these? And what are the key drivers in terms of the key ones that you can think of, which will drive this going forward? And where do you expect this number to sort of settle at maturity? The gross and EBITDA margins?

Prabhat Agrawal: So, in next two years, three years we are targeting to reach EBITDA margin of 5% plus, and that would be driven by both operating leverage as we continue to grow our scale, and secondly, expansion in gross margins, which is through more value-added services, better procurement drive, share of private label and multiple other factors. So, through a combination of operating leverage, operating efficiencies and product mix and value-added services and procurement efficiencies, we expect that in the next two years, we should target 5% plus kind of an EBITDA margin.

Saion Mukherjee: So, you would be the second largest distributor currently in India?

Prabhat Agrawal: We would believe that, Saion. I don't have publicly available information on others because we are the only listed player, right?

Saion Mukherjee: Also typically we see distribution margins to sort of pre-cut around 5 odd percent. So, since you are expecting 5% over the next couple of years, I was wondering, is this an aspiration target or you think it is very realistic and when you really think the margins can even go beyond 5%, let's say, 4-5 years down the line?

Moderator: Yes, nothing stops us from increasing the margins in a longer period, right? But our immediate next two-year target is to reach 5% levels.

Moderator: Thank you. We have our next question from the line of Harshi Shah from Paragon Partners. Please go ahead.

Harshi Shah: I have a couple of questions. So, just on the top line, looking at the last two years, the growth has been phenomenal, but when I see the nine months top line growth this year, it seems muted. So, could you guide us on what has happened this year, maybe less acquisitions and what part of the growth came from organic growth and what is the steady state growth that we are expecting in the next two years?

Prabhat Agrawal: This year, inorganic element was very less no? We didn't do much of an acquisition this year. We did only two acquisitions up to now that also towards later part of the year, right? So, it has been primarily organic led.

Harshi Shah: So, any particular reason for lower acquisitions this year?

Prabhat Agrawal: Because we were in the process of raising more money and that's the reason we didn't do much of acquisition this year. So, we wanted to secure more funding and then pursue acquisitions. We had disclosed in our IPO document prospectus that we have signed almost 17 term sheets. So, the pipeline building was going on, but we didn't conclude, because we wanted to secure the funding before we go for a big spree on acquisitions.

Harshi Shah: Right. So, these potential acquisitions are all smaller distributors or are we looking at other tech platforms that are also into medical device distribution or some other side of the value chain?

Prabhat Agrawal: There is not much of tech platforms available in this market. What kind of tech platforms you are referring to?

Harshi Shah: So, a couple of other platforms that, again, do a lot of supply chain services, have their own generics business. So, on those terms. So, what are the acquisitions mainly going to be on the smaller distributor side or maybe some other businesses, maybe forward integration?

Prabhat Agrawal: No, mostly distributors because we want to expand our network. We want to reach more parts in India, right? We are there physically in 38 cities only, right? So, we want to expand our presence to many more cities and districts of India. So, our acquisition strategy is more focused towards expanding in areas where we are not there present today or in those product segments where we are not there today. But I am open, we are open to look at any other acquisition which could potentially add value or be synergistic to our business portfolio.

Harshi Shah: Understand. And some more color on private level, I understand the mix has changed and that's aided our margins. So, what is our plan going forward? Just some more color on what are those sort of new product additions that we are doing that side?

Prabhat Agrawal: Private level is not a very - it's a very small part of our business today, less than 1%, right? And as our business grows in those product categories where there is not much of a conflict with our manufacturers and where the products are sold without prescription in OTC, surgical devices - those kind of space, we are looking to grow our business.

Moderator: Thank you. We have a next question from the line of Tanmay Gandhi from Investec. Please go ahead.

Tanmay Gandhi: Sir, firstly, can you give some color that how various business segments have performed like, how has the healthcare segment has performed, private labels and your third-party marketing?

Prabhat Agrawal: So, we are reporting consolidated revenue, right? And the distribution services, which is the primary or the majority part of our business and most of the revenue growth is driven by that. Private label, as I told you, is a very small part of our business as of now. Okay. So, that growth rate is not going to impact significantly our overall growth rate.

Tanmay Gandhi: Sure. And sir, for the acquired entities, how do we look at organic growth, let's say two, three years after the acquisition? So, I think this quarter we did 17%, but again, there could be some benefit of calendarization and some scale up. But generally, how much time it takes to scale up the business and over the long term, what kind of organic growth do we expect for the business?

Prabhat Agrawal: So, we target 2x of industry growth rate, and traditionally, last three years, organically we have grown 22%, right? So, 20% kind of organic growth rate is what we target.

Tanmay Gandhi: So, sir, I think this quarter, it was only 17%. So, I just wanted to check that if there is any one-off or there is some volatility on a quarterly basis.

C. V. Ram: There is no one-time in this. 17% is organic growth, there is no one-time revenue in this.

Tanmay Gandhi: And sir, for the gross margin expansion, right, we have already seen a very good improvement of almost 100-110 bps for the year so far. Just wanted to check that what are the additional levers which are available for expansion? Is it largely coming from a private label, or we think that even healthcare distribution has more room for expansion?

Prabhat Agrawal: Even healthcare distribution has more room for expansion because all the procurement efficiencies are not kicked in up to now, and as we grow our scale, we expect more efficiencies to lie in.

Tanmay Gandhi: And sir, lastly, given this is our first quarter, would you be able to give us some guidance on how are we looking at FY '25 in terms of revenue growth, acquisitions or you can give us some color that how should one look at the business?

Prabhat Agrawal: See, as I told you, organically, with the kind of capabilities we have, the kind of differentiated business model that we have, we expect to drive organic growth rate around 20%, right? And inorganic - we will complement that growth rate with inorganic, right? And inorganic, as we said, post IPO with a stronger balance sheet, we will be more aggressive than what we were there in the past.

Tanmay Gandhi: And generally, sir, whenever we do acquisitions, those are generally margin accretive, right?

Prabhat Agrawal: Yes, yes.

Moderator: Thank you. We have our next question from the line of Faisal from H.G Hawa And Company. Please go ahead.

Faisal: So, sir, most of these acquisitions that we do, apart from the EV-EBITDA that you give, is it like an NAV basis, like, they are debtors minus creditors, multiply by like 1.5x and why would these owners want to actually even sell? That's one. Second is, our ROCE remains very poor. So, how can we really go up to 20% in a short period of time? And third is that, do these pharma companies have very rigid rules as to giving distributorship to a new distributor or would you be able to probably enter into any pharma distribution company and take the distributorship up?

Prabhat Agrawal: Let me try to break your question in two, three parts, right? The first question that you asked was on the valuation methodology, right? And why are these distributors selling off, right?

Faisal: Yes, yes.

Prabhat Agrawal: So, we give EV-EBITDA multiple. So, we value the business based on the EBITDA, delivered EBITDA by them, right? And apply a multiple to it and then calculate the entire enterprise value for the organization and that's how we value a distributor acquisition.

Secondly, why do they sell is for a variety of reasons. Sometimes the issue is related to succession planning where there is no second generation available to carry on that business. Sometimes people are more keen to be part of a larger platform like us and then continue to grow with us. So, there are various reasons why we have been able to acquire and integrate the smaller distributors.

Secondly, on the ROCE, as I told you ROCE is 10% for the nine months, right? So, we have reached the double-digit numbers. And we said that as we continue our journey of expansion in margins, this ROCE target for next two, three years, we expect easily we should be able to move towards 20% plus.

Faisal: And sir, as far as our expansion into cities is concerned, would it not make more sense to go deeper into these 38 cities and where we have, because like it or not, distributorship in India involves a lot of understanding of customers, geography, how various customers' payment patterns are, and even doctors for that matter. So, would it not make more sense to go deeper into these 38 cities rather than expand city wise and then having to undergo the learning curves?

Prabhat Agrawal: So, precisely for that learning curve only we acquired distributors in those new cities, because when we acquire a distributor, we get a readymade team, we get an understanding of the market, the know-how and everything. That's the reason why we are pursuing inorganic route to enter into new cities, right? In the cities where we are present, we are not looking for much acquisition opportunity. There we can grow organically above the industry growth rate.

Faisal: But once the owner is gone from the company, the kind of, I mean, that personal element is also gone. So, how much does that affect us?

Prabhat Agrawal: No, so, not every time the owner goes. The owner also continue. Most of the owners have continued also. And it's always a team. It's not a one man show. Distribution is not a one man show. Most of the time the team continues, and the customers in those markets get a better value proposition when we join hands. They get a much better product range. They get a much better fill rate. They get a much better service level. They get better technology to interact on. They get a wider product range. So, there is a lot of positives that the customers experience in those markets and that's how we have been not only able to retain the customers, but also grow the customers in those markets where we have entered.

Faisal: And sir, lastly, will we be able to take debt also to expand our businesses that the ROCE also improves there and if at all yes, what kind of levels of interest rates that we could get?

C. V. Ram: Yes, definitely there is a lot of room for taking additional debt, but we would continue to balance debt and equity in terms of leveraging that for the working capital requirement. So, there is a lot of room. Currently, we have leveraged 30% to 40% on the working capital that we currently have. So, we will continue to balance this part from the interest cost perspective and also from the debt equity perspective, exposure point of view.

Faisal: Do we have any kind of tie-ups with any MBA colleges or pharma colleges to have a continuous stream of people coming into our company for more marketing professionals that we need?

Prabhat Agrawal: There are no strategic tie-ups with any colleges, but we continue to hire from both tier one and tier two MBA schools in the country. Most of our top leadership as well as the middle management, even city level leadership is from good MBA colleges.

Faisal: And sir, we have doubled our sales in the last two years. So, would it be a fair assumption to make that we will probably double our sales again in the next two years?

Prabhat Agrawal: I have given overall guidance on organic growth and inorganic, right? So, with a combination of both, why not?

Faisal: It is a fair possibility to pencil into our estimates.

Prabhat Agrawal: Ultimately, these are all forward-looking statements, right? So, I have told you what our strategies, what our growth levers are. So, you can factor it in your models.

Faisal: Correct.

Moderator: Thank you. We have our next question from the line of Alok Dalal from Jefferies India. Please go ahead.

Alok Dalal: Prabhat, you gave guidance of 5% EBITDA margin over the next two, three years. Can you talk us about the EBITDA margin over a slightly longer term? Let's say if you take fiscal '29, fiscal '30, which is five years out, how do you see a distribution business like yours growing organically and inorganically achieve margins beyond the 5%?

Prabhat Agrawal: It is very difficult for me to forecast till 2030, Alok. I don't know in 2030 how the situation could be. We gained significant market share in this country where our position is extremely well strengthened, right? And that could lead to higher margins than 5%, right? Or the market goes generic and there are a lot of uncertainties over a longer-term period. So, it is difficult for me to give guidance over a long term.

I would rather say that in the next two years, this is what our target is. There is much more visibility on that front, right? But nothing stops us from increasing, I am not saying that our journey will end at 5%, right? The journey will happen as we continue to grow, operating leverages will keep on happening. Private label share will keep on growing. Procurement efficiencies will keep on dialing. Nothing stops at 5%, right?

Alok Dalal: Yes. So, Prabhat, 5% is not the peak margin for the business. That's what I was trying to ask.

Prabhat Agrawal: Yes, it's not the peak.

Alok Dalal: Good. And Prabhat, in the DRHP, there was a mention that the working capital days will reduce to about 53, 54 in the next 2, 3 years. Are you on track to achieve that? And what will be the catalyst to achieve those numbers?

Prabhat Agrawal: We are right now at around 65, right? 65, 66 kind of a thing, right, as of now. And the catalyst for reducing is again the scale. Scale brings everything. We can better optimize our inventories. Today we are at 34, 35 days of inventory. There is scope for 5, 7 days reduction over there. We can improve our payment terms as we grow bigger and bigger. We could enjoy better terms with the manufacturers. So, there are multiple avenues available to improve our working capital.

Moderator: Thank you. The next question is from the line of Jagannathan from Jagan M and Company. Please go ahead.

Jagannathan: You mentioned about some of the wholesaler, distributor coming on your platform. In those cases, are they selling their business and coming to your platform, continuing the business or they do own the business, but just simply come on your platform?

Prabhat Agrawal: So, in the past, a lot of distributors have sold the business and continued with us. So, they sold the business to us and reinvested a part of the proceeds in Entero shares, right? So, around 3% of Entero is owned by these distributors, who at the same time sold the business and at the same time bought shares in Entero with those proceeds.

Jagannathan: And are there any purely distributors who just come on your platform, just to use the platform?

Prabhat Agrawal: No, there is no such thing that you can just come on the platform and use the platform. I mean, we have to acquire the company. We have to acquire the distribution business. There is no other way to join the platform.

Jagannathan: Understood. The second question is on the EBITDA 5% margin. So, I have a few relatives who are distributors. So, sir, I was asking, there are a few relatives of mine who are in this business. They are distributors. They have been in the business for 15-20 years and what I see is that they generally make a margin of about 3-4% max and that's been consistency performance for last many years because of the reason that one, on the supply side, the manufacturers, they provide the margin. And as well as on the retailer side, they have to provide a certain margin. So, from that perspective, when you say 5% or even more margin as possible, is it because of the platform that you have, or it is because of the pan-India presence that you are going to have? How is it going to happen?

Prabhat Agrawal: It is because of the scale. You are right about your relatives, but they are not enjoying the same level of scale that we are enjoying, right? They don't have that kind of relationships with the manufacturers that we have.

Jagannathan: One, because of the relationship with the manufacturer. Second, because of the system and the scale, which will give you that additional margin.

Prabhat Agrawal: Yes.

Moderator: Thank you. The next question is from the line of Devanshi Vaghela, an investor. Please go ahead.

Devanshi Vaghela: Sir, I had the same question regarding the profitability in the future, like where do we see the top line going forward in the next year? Where do we see FY '25 and where can we close FY '24 from the point of view of revenue?

Prabhat Agrawal: Devanshi, I think I have answered this question in terms of guidance on profitability as well as guidance on growth.

Devanshi Vaghela: Like do we have a figure, certain figures? Do we have that?

Prabhat Agrawal: We can't give specific figures. No, it's not possible to give specific figures, right?

Devanshi Vaghela: No estimates going forward?

Prabhat Agrawal: I have given you some guidance on growth and on margin expansion.

Devanshi Vaghela: And, sir, another question is that do we have some major acquisitions in the next coming year in FY '24 and FY '25, some major acquisition?

Prabhat Agrawal: We are continuously looking for acquisition opportunities. I have given this thing that we have signed some term sheets. So, we will be pursuing those opportunities and converting them into actual acquisitions.

Devanshi Vaghela: Sir, you have given, in your presentation, the IPO proceeds, you have left a significant amount for utilization in FY '25. So, any guidance on what is the plan for this 4,750, sorry, 475 crores?

Prabhat Agrawal: Just one second.

C. V. Ram: So, hi, this is Ram. So, the Rs.1,000 crores is what we raised primary. Out of that, Rs.951 crores post IPO expenses is the net proceeds company has received and the utilization plan for FY '25, I think, towards, you could see that for working capital, about Rs.250 crores and then pursuing the growth opportunities, which is including inorganic growth is about Rs.177 crores in FY '25, if you are referring to the specific slide, and general corporate purposes is about Rs.48, because we would have repaid Rs.142 crores that we have stated in our objects by this year-end itself. So, other three objects are these. So, any other specific question that you have? This is part of the plan and part of the objects that we have stated in the prospectus.

Devanshi Vaghela: That's all from my side.

Moderator: Thank you. The next question is from the line of Nishid Shah from Ambika Fincap.

Nishid Shah: So, Prabhat, thanks for taking my question. First of all, your IPO came at Rs.1,258. Currently the price hovers around maybe 15%, 20% lower. Just wanted to understand what was the benchmarking for the IPO, the sanctity of the price that you arrived at? And to start with, that is my first question.

Prabhat Agrawal: You know, pricing was all based on this investor feedback and merchant banker consultations and all that. I don't have any new comment to offer on pricing.

Moderator: Mr. Nishid, does that answer your question?

Nishid Shah: No, I am not fully satisfied on the answer, but Prabhat has a right to stand where he wants to. The other question is, how will the margins improve, Prabhat? If you can give me a roadmap apart from the efficiencies and the scale of the business, which I understand that as you improve the scale and efficiencies, your margins will improve. What are the key things you are looking at beyond 5%, what will that be? Will it be a private label? Will it be third-party distribution? What else?

Prabhat Agrawal: Well, the two big levers as I told you before is the scale and procurement efficiency and third-party services, value-added services, the product mix, share of private label and operating leverage. So, it's all a combination of all four, five factors that can bridge the gap between current 3% EBITDA margin to 5% target, right.

And coming back to your comment, pricing, it's an investment in a longer term, right? So, as I told you, this market is very, very ripe for consolidation and in the last five years we have proven that from zero to Rs.4,000 crores kind of a company we have been able to create in a five-year timeframe with a limited capital. So, now we are much better positioned in this space, right? And space is evolving. So, it's a very futuristic business.

Nishid Shah: Well, the point here is very simple, you know. We left nothing on the table for the investors and in fact, investors are minus 15%, 20% to start with. So, that's where I'm coming with, you know. I mean, it doesn't leave a good taste and good image for us, when we start with such a steep pricing.

Prabhat Agrawal: Again, I have no more comments to add to that, Nishid.

Moderator: Mr. Shah? Are you through with your question?

Nishid Shah: Yes, please.

Moderator: Thank you. We have our next question from the line of Faisal from H.G Hawa And Company. Please go ahead.

Faisal: So, for previous to this, we did not have any kind of experience or even background in a pharma company before 2018 and all this has been achieved in five years' time. And sir, the second is that what is called a kind of training that we impart to the people who come new to our organization in marketing? And how much time does it take them to be on the bench while they are being trained?

Prabhat Agrawal: Can you repeat? I didn't understand the first part of your question that we didn't have any experience prior to...

Faisal: So, your presentation says that we are incorporated in 2018.

Prabhat Agrawal: Correct.

Faisal: So, previous to that, do you have some kind of a partnership company or some background in pharma? Or it was just that you started this company, and it has reached the Rs.4,000 crore turnover?

Prabhat Agrawal: The company only came into existence in 2018. Prior to that, I was the CEO for Alkem Labs. So, in terms of personal background in healthcare, we all had it. But the company was started in 2018.

Faisal: But no background as such in distribution?

Prabhat Agrawal: No, not as a separate distribution company. But most of my team, personally, my background has been, I was the CEO for Alkem Labs, as I said before. Prem was the director in IQVIA, which is a healthcare consulting company. And the top leadership, if you look at our this thing, everyone has come from healthcare background, right? So, everyone knows this space very, very well. And you asked about training. A lot of people that we have, they are all coming from this space only. So, they are coming with requisite expertise. Of course, we do continuous training and all that, but then it's not that they are coming with zero knowledge on this sector. They are coming with a very good knowledge on this business.

Faisal: Yes, I am not doubting that, but in each profession, there is a lot of fine tuning that has to be done. So, a guy may be an MR with a pharma company, but here he has to now deal with retailers. So, that's again a different cup of tea. But in any case, I mean, to build up a company and reach Rs.4,000 crore revenue, even if it's a distribution company, it's like a real kudos to your management team and to yourself also. I mean, this is something really commendable.

Prabhat Agrawal: Thank you so much. And I can only tell you the future is looking even brighter than before.

Faisal: And we have examples of Redington, Ingram Micro, who have totally dominated this industry even globally. I mean, you are absolutely right. There is a super opportunity, and it will consolidate even more because it's a difficult business with a very low margin. So, for any proprietary guy to really sustain it will be tough.

Prabhat Agrawal: And in this business, the beauty of that is that both the supply side is also very fragmented, and the customer side is also very fragmented. So, if we are able to consolidate in between, we add a lot of value both to the manufacturers as well as to the customers.

Faisal: Correct. But fragmentation itself also has its own problems. I mean, there is another business called OfBusiness who have also tried the same distribution model, but at least their supplier side is very consolidated. They are into steel distribution. So, you are solving the problem on both ends. So, sir, what is the contribution of our top five suppliers to our total revenue?

Prabhat Agrawal: So, see, we will be reflecting, or we are reflecting kind of the market shares of individual companies, right? So, as we become bigger, anyone who enjoys X percentage market share in overall, will reflect X percent market share in our business also. So, we kind of mirror the image of their national market shares.

Faisal: No, my question was, what is the contribution of your top five suppliers to your revenue as a percentage?

Prabhat Agrawal: I don't have this figure right now handy with me, but probably it could be anywhere between 25%.

Faisal: 20% to 25%.

Prabhat Agrawal: Yes, 20%.

Faisal: Yes, I just needed a range.

Moderator: Thank you. We have a next question from the line of Raghav from JM Financial. Please go ahead.

Amey Chalke: So, this is Amey here from JM Financial. I just... I just had one question. So, basically, what had changed over the last 5-6 years that made you think that the consolidation could be the way for distributors to grow in India and why it has not happened so far in these many years and if you can explain?

Prabhat Agrawal: Look, consolidating distribution at a national level requires a very organized effort, a very corporate effort. You have to have access to institutional capital. You need to have access to talent at top level, technology. So, all these things were not there. I mean, people who were very meritorious or who were very good in business, they could grow their market shares in their local markets. I haven't seen much of a distributor where a Calcutta distributor has ever thought of opening a shop in Bombay or a Bombay distributor thinking of going to Chennai, right?

So, to consolidate at a national level, you have to create an entity at a national level. You need to have a plan and a vision to set up your base all across the country. For that you need institutional money. All this has happened over the last 4-5 years only. We were there. A couple of, one or two more players were there who could raise money at a national level, could get good founders with a vision so that a pan-India distribution play can be created in India. So, prior to that, we didn't have any such kind of effort in my view.

Amey Chalke: Right. And so going ahead, you expect the more competition to come in, bigger players to come in this play or do you think that this might not be attractive enough for them to come into this segment?

Prabhat Agrawal: So, various people have come and gone. You know, Udaan was also there and they came with a much bigger capital but couldn't make a big dent in business. You know, Reliance also tried its hands in some way or the other. This is a business that requires a lot of focus, attention and day-to-day execution. You know, it's not another vertical to build it. I mean, healthcare is not - you can't do healthcare along with fashion and telecom, right? It has never been done like that in any part of the world. So, it requires a very focused effort. It can't be part of a conglomerate.

Amey Chalke: Right. So, going ahead, should we expect you to stay limited to the distribution space only and we won't be forward integrating ourselves or retailers or et cetera? What would be your thoughts on that?

Prabhat Agrawal: So, we have a more engaging platform to engage with retailers without actually owning the shops, right? So, we have talked about a little bit in our document also about a Health Edge program, which is like a quasi-franchisee program for retailers, right? So, the retailers can come onto this platform and enjoy certain benefits of scale, right? But as of now, we don't have any plans to actually go and open our own retail shops.

Amey Chalke: The last question is on the margin front. We said that the product mix can rise the margin, but how much really is in distributors' hand to change the product mix or is it the market which like rise it basically?

Prabhat Agrawal: So, we engage with a lot of manufacturers and give them value-added services in exchange of which we get better margins, right? So, you don't have to really only change the product mix. You can also work with the same set of manufacturers and provide them more value-added services for which you can enjoy more margins.

Amey Chalke: So, these margins are basically driven by your contract with the manufacturers and not the product mix, right?

Prabhat Agrawal: Different products enjoy different margins. So, it's to an extent a combination of both. Let's say for a lot of surgical devices and surgical items, or medical devices, the margins are higher than pharma. So, that's a more product led. In terms of supplier led is where you, for example, Roche, we are doing end-to-end marketing, promotion, distribution for them, right? So, there the margins are higher. So, it's a combination of both how you engage with the manufacturer, and at the same time there are certain product categories where in spite of your different levels of engagement, the margin profile is higher. So, it's a combo of both.

Amey Chalke: But at the same time, the demand should also be there from the retailer side, right..

Prabhat Agrawal: So, we are only taking products which sells in the market. We are not kind of creating demand. We will take up those products where the demand is already there. Retailers are asking for those products.

Moderator: Thank you. Ladies and gentlemen, that was the last question for today. I would now like to hand the conference over to management for closing comments. Over to you, sir.

C. V. Ram: We would like to thank everybody for joining the call. I hope we have been able to address all your queries. For any further information, kindly get in touch with Strategic Growth Advisors, our Investor Relations Advisors. Thank you once again and have a great day.

Prabhat Agrawal: Thank you.

Moderator: Thank you, sir. On behalf of ICICI Securities, that concludes this conference. Thank you for joining us, and you may now disconnect your lines.