

| | |
|--------------------------------------|---------------------------------------|
| Retail Research | IPO Note |
| Sector: Healthcare | Price Band (Rs): 1,195 – 1,258 |
| 07th February 2024 | |

Entero Healthcare Solutions Limited

Company Overview:

Entero Healthcare Solutions Limited is amongst the top three healthcare products distributors in India in terms of revenue in FY22. The company was established in 2018 with the aim of creating an organized and technology-driven healthcare product distribution platform that serves the entire healthcare ecosystem pan-India. The company facilitates healthcare product manufacturers by providing access to pharmacies, hospitals, and clinics through its integrated and technology-driven distribution platform. Similarly, clients (pharmacies, hospitals, and clinics) gain access to a broad range of healthcare products through the distribution infrastructure and established relationships with healthcare product manufacturers.

Key Highlights:

1. Pan India presence: The company operates 77 distribution warehouses spread across 38 cities in 19 states and union territories, with an aggregate size of 4,64,112 sq. ft. As of 1HFY24, the company serves a customer base of over 73,700 pharmacies and 2,800 hospitals spread across 501 districts, which provides vast access to healthcare product manufacturers. Additionally, the company has established supply relationships with more than 1,900 healthcare product manufacturers, and access to over 63,900 product SKUs, as of 1HFY24.

2. Better retail experience through technology-based solutions such as direct B2B applications and web platforms: Entero Direct, its B2B application has improved the buying experience for customers. It offers real-time visibility of product range, pricing, inventory levels, order status, outstanding balances, and promotional offers. Entero Direct enables pharmacies to place orders, track their status, make online payments, and arrange for returns and claim settlements through a 'single-click' system. The company's ERP systems integrate with various B2B applications for seamless order management. Using data collected from the pharmacy, hospital, and clinic customers, it develops business intelligence tools that help healthcare product manufacturers with product placement, channel marketing, and sales force management. By analysing procurement trends and forecasting stock demand, the company ensure efficient inventory management with better fill rates.

3. Track record of inorganic expansion and integration to grow geographic reach: The company has acquired 34 entities in the Indian healthcare products distribution industry since its inception in FY18. The company's pan-India approach to acquiring and integrating smaller distributors has increased the geographic reach and has grown customer base. The company use growth strategies such as product portfolio expansion, increased customer reach, improved service levels, and technology-based solutions to increase its market share. This approach is replicated by the company while expanding into new geographies and continuously attracts collaborations from the distributors.

Valuation: The company is valued at FY23 EV/Sales multiple of 1.7x at the upper price band on post-issue capital. The company plans to raise Rs 1,000 crore through a fresh issue which will be used to fund its working capital requirements and reduce its debt levels from Rs 489 cr to Rs 346 cr, thereby reducing the financial cost. The company's revenue has grown at a CAGR of 36.2% from FY21 to FY23. Looking at the industry growth, the share of Large/National Distributors is expected to grow from 8%-10% in FY23 to 20%-30% by FY28.

| Issue Details | |
|-------------------------------|--|
| Date of Opening | 09 th February 24 |
| Date of Closing | 13 th February 24 |
| Price Band (Rs) | 1,195-1,258 |
| OFS | 47,69,475 equity shares |
| Fresh Issue (Rs cr) | 1,000 |
| Issue Size (Rs cr) | 1,570-1,600 |
| No. of shares | 1,31,37,674-1,27,18,601 |
| Face Value (Rs) | 10.0 |
| Post Issue Market Cap (Rs cr) | 5,247-5,471 |
| BRLMs | ICICI Securities, DAM Capital Advisors, Jefferies India, JM Financial, SBI Capital Markets |
| Registrar | Link Intime Pvt Limited |
| Bid Lot | 11 shares and in multiple thereof |
| QIB shares | 75% |
| Retail shares | 10% |
| NIB shares | 15% |

| Objects of Issue | |
|--|---|
| | Estimated utilization from net proceeds (Rs cr) |
| Repayment/prepayment, in full or part, of certain borrowings availed of by our Company | 142.5 |
| Funding of long-term working capital requirements of the Company and its Subsidiaries during Fiscals 2025 and 2026 | 480.0 |
| Pursuing inorganic growth initiatives through acquisitions [^] | - |
| General corporate purposes [^] | - |
| Total proceeds from fresh issue | - |

[^] To be finalized upon determination of the Offer Price and updated in the Prospectus prior to filing with the RoC. The amount utilized for general corporate purposes and inorganic growth initiatives shall not individually exceed 25% of the Gross Proceed respectively, and shall not exceed 35% of the Gross Proceeds of the Fresh Issue collectively.

| Shareholding Pattern | | |
|---------------------------|--------------------|--------------|
| Pre-Issue | No. of Shares | % |
| Promoter & Promoter Group | 2,74,06,428 | 77.1 |
| Public & Others | 81,36,770 | 22.9 |
| Total | 3,55,43,198 | 100.0 |

| Post Issue @Lower Price Band | | |
|------------------------------|--------------------|--------------|
| No. of Shares | % | |
| Promoter & Promoter Group | 2,28,07,166 | 51.9 |
| Public & Others | 2,11,04,233 | 48.1 |
| Total | 4,39,11,399 | 100.0 |

| Post Issue @Upper Price Band | | |
|------------------------------|--------------------|--------------|
| No. of Shares | % | |
| Promoter & Promoter Group | 2,28,07,166 | 52.4 |
| Public & Others | 2,06,85,158 | 47.6 |
| Total | 4,34,92,324 | 100.0 |

Source: RHP, SSL Research

Key Financials

| | FY21 | FY22 | FY23 | 1HFY24 |
|--------------------------------|--------|--------|--------|--------|
| Revenue from operation (Rs cr) | 1,780 | 2,522 | 3,300 | 1,896 |
| EBITDA (Rs cr) | 22 | 24 | 64 | 54 |
| Adj. PAT (Rs cr) | -15 | -29 | -11 | 12 |
| EBITDA Margin (%) | 1.2 | 1.0 | 1.9 | 2.9 |
| Adj. PAT Margin (%) | - | - | - | - |
| EPS | -4.3 | -8.3 | -3.1 | 3.3 |
| ROE (%) | (-3.2) | (-5.2) | (-1.9) | 1.8 |
| ROCE (%) | 1.5 | 1.1 | 4.7 | 4.0 |
| Total Debt / Equity | 0.3 | 0.5 | 0.6 | 0.7 |

** Not Annualized*

Source: RHP, SSL Research

Risk Factors

- **Acquisition:** The company has acquired distributors in India to expand the business and customer base. However, if the company face obstacles in expanding through acquisitions, it could negatively impact the business, finances, and prospects.
- **Negative cash flow:** The company has experienced negative cash flows from operating, investing and financing activities in the past and may continue to do so in the future.
- **Return of product:** The company may incur losses and reputation may be adversely affected by the return of the products by customers, arising from the distribution of expired, unsafe, defective, ineffective or counterfeit products, and product spoilage, breakage and damage during transportation or in storage. The company may also be subject to product liability claims.
- **Capital-intensive business:** The company's operations are subject to high working capital requirements, and have incurred substantial indebtedness. Any inability to maintain an optimal level of working capital or financing required may impact the operations and profitability adversely.

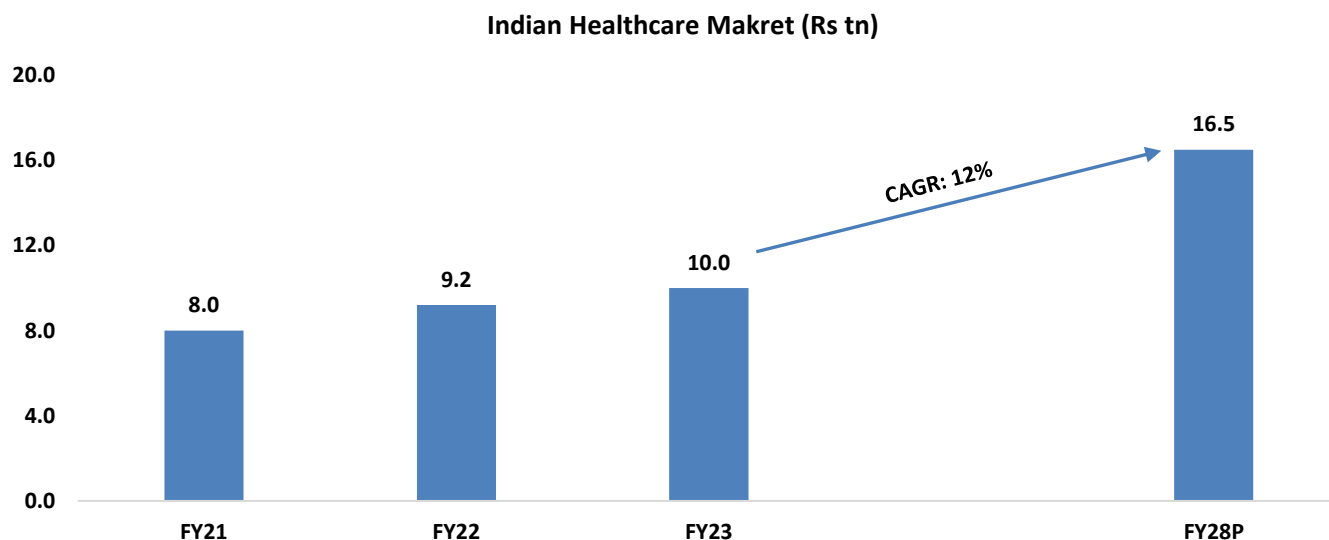
Growth Strategy

- Benefit from healthcare products distribution market consolidation with strategic acquisitions.
- Strengthen market position through increase in customer base, wallet share and geographic penetration.
- Pursue comprehensive marketing and distribution collaborations with healthcare product manufacturers.
- Expand the product adjacencies, private label and service offerings.
- Continue to invest in and leverage the technology, scale and synergistic adjacencies to drive efficiencies and profitability.

Industry Overview – Healthcare Market

Indian Healthcare Market

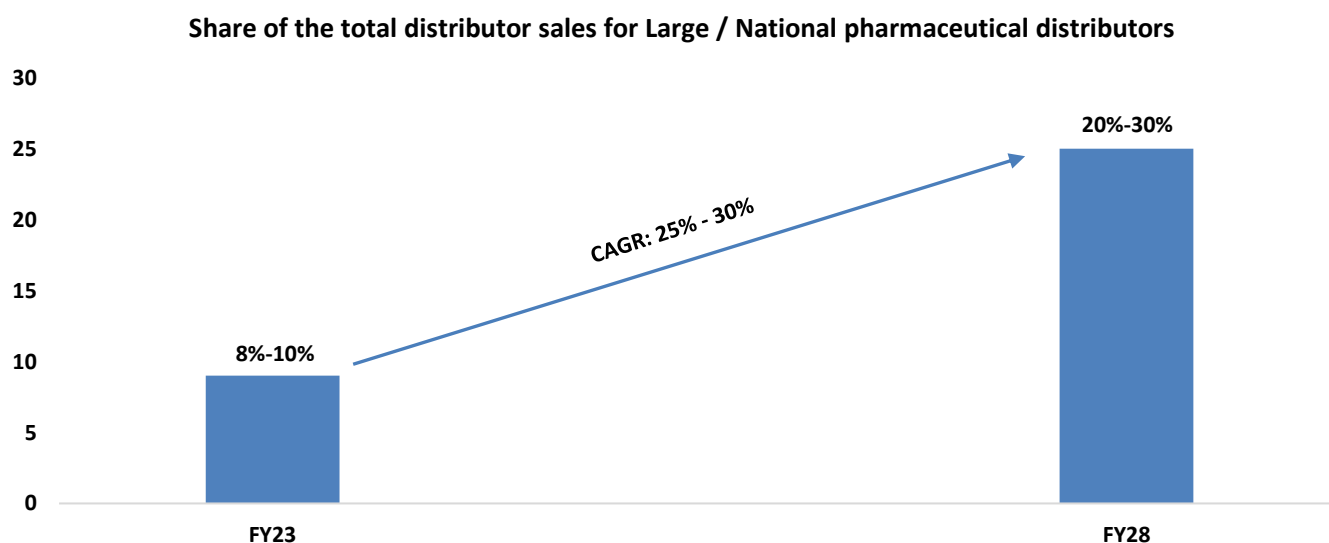
Indian Healthcare market consisting of the pharmaceuticals, hospitals, medical devices, diagnostics and health insurance segments valued at Rs 10.0 tn in FY23 and is expected to grow at a CAGR of 12% between FY23 – FY28 to reach Rs 16.5 tn by FY28.



Source: RHP, SSL Research

Share of Large/National Pharmaceutical Distributors

The Indian Pharmaceutical distribution market is highly fragmented and competitive with presence of ~65,000 distributors. In FY23, Large/National pharmaceutical distributors accounted for 8-10% share of the total distributor sales and are expected to gain market share at a CAGR of 25%-30% between FY23-FY28 to 20%-30% market share by FY28.



Source: RHP, SSL Research

Financial Snapshot

| INCOME STATEMENT | | | |
|-----------------------------------|---------------|---------------|---------------|
| (Rs cr) | FY21 | FY22 | FY23 |
| Revenue from Operations | 1,780 | 2,522 | 3,300 |
| YoY growth (%) | - | 41.7 | 30.9 |
| Cost of Revenues (incl Stock Adj) | 1,638 | 2,312 | 3,032 |
| Gross Profit | 142 | 210 | 268 |
| Gross margin (%) | 8.0 | 8.3 | 8.1 |
| Employee Cost | 76 | 115 | 128 |
| Other Operating Expenses | 44 | 70 | 76 |
| EBITDA | 22 | 24 | 64 |
| EBITDA margin (%) | 1.2 | 1.0 | 1.9 |
| Other Income | 4 | 4 | 6 |
| Net Interest Exp. | 20 | 29 | 49 |
| Depreciation | 16 | 20 | 24 |
| Exceptional Items | 0 | 0 | 0 |
| PBT | -11 | -20 | -4 |
| Tax | 5 | 10 | 7 |
| PAT | -15 | -29 | -11 |
| PAT margin (%) | (-0.9) | (-1.2) | (-0.3) |
| EPS | -4.3 | -8.3 | -3.1 |

| BALANCE SHEET | | | |
|---|------------|------------|--------------|
| (Rs cr) | FY21 | FY22 | FY23 |
| Assets | | | |
| Net Block | 97 | 107 | 97 |
| Capital WIP | 0 | 1 | 0 |
| Intangible Assets under development | 5 | 4 | 4 |
| Other Non current Assets | 100 | 163 | 185 |
| Current Assets | | | |
| Current Investment | 0 | 0 | 0 |
| Inventories | 244 | 310 | 342 |
| Trade receivables | 242 | 375 | 515 |
| Cash and Bank Balances | 83 | 105 | 107 |
| Short-term loans and advances | 1 | 1 | 1 |
| Other Current Assets | 63 | 60 | 59 |
| Total Current Assets | 633 | 851 | 1,023 |
| Current Liabilities & Provisions | | | |
| Trade payables | 97 | 140 | 211 |
| Other current liabilities | 23 | 54 | 53 |
| Short-term provisions | 27 | 20 | 18 |
| Total Current Liabilities | 147 | 214 | 282 |
| Net Current Assets | 486 | 637 | 742 |
| Total Assets | 686 | 912 | 1,027 |
| Liabilities | | | |
| Share Capital | 517 | 623 | 668 |
| Reserves and Surplus | -32 | -62 | -73 |
| Total Shareholders Funds | 485 | 561 | 595 |
| Minority Interest | 2 | 2 | 3 |
| Total Debt | 142 | 285 | 374 |
| Long Term Provisions | 3 | 4 | 5 |
| Other Long Term Liabilities | 53 | 58 | 50 |
| Net Deferred Tax Liability | 2 | 2 | 1 |
| Total Liabilities | 686 | 912 | 1,027 |

| Cash Flow (Rs cr) | FY21 | FY22 | FY23 |
|-------------------------------------|------|------|------|
| Cash flow from Operating Activities | -69 | -35 | -45 |
| Cash flow from Investing Activities | -31 | -162 | -49 |
| Cash flow from Financing Activities | 89 | 211 | 73 |
| Free Cash Flow | -78 | -45 | -51 |

| RATIOS | | | |
|---------------------------------|---------|---------|---------|
| | FY21 | FY22 | FY23 |
| Profitability | | | |
| Return on Assets (%) | (1.8) | (2.6) | (0.8) |
| Return on Capital (%) | 1.5 | 1.1 | 4.7 |
| Return on Equity (%) | (3.2) | (5.2) | (1.9) |
| Margin Analysis | | | |
| Gross Margin (%) | 8.0 | 8.3 | 8.1 |
| EBITDA Margin (%) | 1.2 | 1.0 | 1.9 |
| Net Income Margin (%) | (0.9) | (1.2) | (0.3) |
| Short-Term Liquidity | | | |
| Current Ratio (x) | 2.2 | 1.8 | 1.6 |
| Quick Ratio (x) | 1.3 | 1.2 | 1.1 |
| Avg. Days Sales Outstanding | 50 | 54 | 57 |
| Avg. Days Inventory Outstanding | 50 | 45 | 38 |
| Avg. Days Payables | 20 | 20 | 23 |
| Fixed asset turnover (x) | 18.4 | 23.5 | 34.1 |
| Debt-service coverage (x) | 0.1 | 0.1 | 0.2 |
| Long-Term Solvency | | | |
| Total Debt / Equity (x) | 0.3 | 0.5 | 0.6 |
| Interest Coverage Ratio (x) | 0.5 | 0.3 | 0.9 |
| Valuation Ratios | | | |
| EV/EBITDA (x) | 210.3 | 190.3 | 74.0 |
| EV/Sales (x) | 2.5 | 1.8 | 1.4 |
| P/E (x) | (291.2) | (151.9) | (402.7) |
| P/B (x) | 9.2 | 8.0 | 7.5 |

Source: RHP, SSL Research

Peer Comparison

| | Entero Healthcare Solutions Ltd | Medplus Health Services Ltd |
|--------------------------|---------------------------------|-----------------------------|
| CMP | 1,258.0 | 643.0 |
| Sales (Rs cr) | 3,300.2 | 4,558.0 |
| EBITDA (Rs cr) | 64.0 | 266.0 |
| Net Profit (Rs cr) | (-11.1) | 50.0 |
| M.Cap (Rs cr) | 5,471.3 | 7,682.0 |
| Enterprise Value (Rs cr) | 5,738.0 | 8,444.0 |
| EBITDA Margin (%) | 1.9 | 5.8 |
| Net Margin (%) | - | 1.1 |
| PE (x) | - | 153.6 |
| EV/EBITDA (x) | 89.6 | 31.7 |
| EV/Sales (x) | 1.7 | 1.9 |
| RoE (%) | -1.9 | 3.3 |
| RoCE (%) | 4.7 | 5.5 |

The data is based on FY23 financial data.

For Entero Healthcare Services Limited the Market cap, EV/EBITDA (x) and EV/Sales (x) are calculated on post-issue equity share capital based on the upper price band.

CMP as on 07th February'24.

Source: RHP, SSL Research

SBICAP Securities Limited

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SEBI Registration No.: Stock Broker: INZ000200032 | CDSL: IN-DP-314-2017 | NSDL: IN-DP-NSDL-369-2014 | Research Analyst: INH000000602

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| Name | Qualification | Designation |
|------------------|--------------------------------|--|
| Sudeep Shah | MMS-Finance | DVP- Technical & Derivative Research |
| Sunny Agrawal | B.E, MBA (Finance) | DVP - Fundamental Research |
| Rajesh Gupta | PGDBM (Finance), MA (Bus. Eco) | AVP - Fundamental Research |
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| Harsh Vasa | CA | Research Analyst - Equity Fundamentals |
| Sumeet Shah | B.E., CFA | Research Analyst - Equity Fundamentals |
| Sweta Padhi | MBA (Finance) | Research Analyst - Equity Fundamentals |
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| Gautam Updhyaya | MBA (Finance) | Research Analyst - Equity Derivatives |
| Vinayak Gangule | BE (IT) | Research Analyst - Equity Technicals |
| Pratik Patni | BSc (Biotech Entire) | Research Analyst- Equity Derivatives |
| Ghanshyam Gupta | MBA (Finance) | Research Analyst- Currency Derivative |
| Sagar Peswani | B.Tech (ECE) | Research Associate - Equity Technicals |
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