Ref: 78/SE/LC/2024-25 **Date:** November 19, 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 November 07, 2024, bearing reference no. 67/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 November 13, 2024 at 03:30 pm (IST) to discuss the Company's financial results for the Quarter and Half year ended September 30, 2024 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: 2024.11.19 19:23:14 +05'30'

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

Encl. Earnings Call Transcript

"Entero Healthcare Solutions Limited Q2 FY25 Earnings Conference Call"

November 13, 2024

E&OE - This transcript is edited for factual errors. In case of discrepancy, the audio recordings uploaded on the stock exchange on 13th November 2024 will prevail.

MANAGEMENT: **MR. PRABHAT AGRAWAL – MANAGING DIRECTOR AND CEO**
MR. C. V. RAM – CHIEF FINANCIAL OFFICER

ANALYST: **MR. RAHUL DANI – MONARCH NETWORTH CAPITAL**

Moderator: Ladies and gentlemen, good day and welcome to Entero Healthcare Solutions Limited Q2 FY25 Earnings Call hosted by Monarch Networth Capital.

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.

This conference call may contain forward-looking statements about the company, which are based on the beliefs, opinions and expectations of the company as on date of this call. These statements are not guarantees of future performance and involve risks and uncertainties that are difficult to predict. I now hand the conference over to Mr. Rahul Dani from Monarch Networth Capital, Thank you and over to you, sir.

Rahul Dani: Thank you. On behalf of Monarch Networth Capital, we are delighted to host the senior management of Entero Healthcare Solutions for the Q2 FY25 Earnings Call.

On the Call, we have representing Entero Healthcare Solutions, the management team comprising of Mr. Prabhat Agrawal - Managing Director and CEO and Mr. C. V. Ram - CFO of the company and SGA, the IR Advisors.

I will hand over the call to the management for the Opening Remarks and then we move to Q&A. Thank you and over to you, sir.

Prabhat Agrawal: Good evening and thank you everyone for joining our Earnings Conference Call to discuss the Operational and Financial Performance for Quarter 2 of Financial Year '25.

On this call, I am joined by Ram - Group CFO and SGA our Investor Relations Advisors. I hope everyone 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 website.

I shall provide a brief overview of the Key Operational Highlights, after which Ram will take you through the highlights of our Quarter 2 FY25 Financial Performance.

We are delighted to announce another quarter of strong industry-leading growth. Our consolidated revenues for Quarter 2 FY25 stood at Rs. 1,301 crores, marking a robust 31% year-on-year increase from Rs. 996 crores in Quarter 2 of Financial Year '24. This performance significantly outpaced the Indian Pharmaceutical Market (IPM) growth, which grew by 8% over the same period. Our growth was driven by both organic expansion and contributions from our strategic acquisitions, reflecting our strong execution of a dual growth strategy.

The significant revenue growth was accompanied with EBITDA margin improvement of 40 basis points to 3.3% and as a result, our EBITDA grew by 49% over last year reaching Rs. 42 crores for the quarter.

The EBITDA margin improvement was driven primarily by gross margin expansions through our continued efforts towards driving procurement efficiencies, a better product mix and cost optimization.

Entero has strategically positioned itself as one of the largest players in India's fragmented healthcare product distribution landscape. The healthcare distribution market valued at $33 billion, has ample room for consolidation, which we believe will be transformative for the sector. To capture the massive consolidation opportunity in this fragmented market, we have adopted a mix of both organic and inorganic strategies.

Leveraging our extensive India reach and network, which is growing continuously, which at present comprises of 95 warehouses, 3,100 plus hospital coverage and access to over 79,500 pharmacy retailers nationwide, we continue to add significant value to healthcare brands. We have been actively working to deepen our market presence across Tier 2 and Tier 3 cities, thereby unlocking new growth opportunities and increasing our wallet share in underserved regions.

We remain extremely excited about the potential and the opportunities that Entero's all India distribution network infrastructure and capabilities can bring to enhance the healthcare access and supply chain efficiency in the country.

Our strategic priorities are clearly defined for us and guide us towards our future actions. We would continue to grow our geographical penetration, customer base and product basket. We would continue to add more product categories like Specialty Pharma, Medical Devices, IVD Equipments, Surgical Consumables, etc., to truly become one-stop shop procurement partner for our customers. We would continue to expand our service offerings in terms of more value-added services such as marketing, promotion for healthcare brands, HealthEdge, etc.

All of the above will help us to deliver market beating organic growth and become a partner of choice for both the brands and also the customers that is pharmacies and hospitals. Our internal target for organic growth is to deliver at least two times of market growth rate using the above mentioned organic growth strategies.

We also remain committed to expanding our operating margins where the prime levers are better product mix in terms of product and service level offerings, procurement efficiencies and operating leverage. We are committed to deliver quarter-on-quarter improvement in these metrics.

On the inorganic front, we are continuously evaluating M&A opportunities, which enhances our geographic reach or expand our product and service offerings. We are evaluating margin accretive acquisition opportunities mostly and have built good pipeline of potential targets. In FY25, we have completed 9 acquisitions which had collectively Rs. 750 crores in annualized revenue in FY24 and added newer product categories like diagnostic consumables and equipments, medical devices, etc., and added newer geographies as well. Full revenues and earnings from these acquisitions would be recorded from quarter 3 as some of these acquisitions happened during the middle of Quarter 2.

Further, we have signed binding MoUs with two entities in Kerala and Haryana which has been disclosed yesterday. So, we are on course to achieve Rs. 1,000 crores of annualized revenue as per our guidance.

Our unique business model and value proposition in this fragmented healthcare supply chain market along with strong and committed leadership team and strong balance sheet post IPO, gives us the confidence to deliver strong shareholder returns.

I would like to thank our team for their relentless efforts and our shareholders for their continued support.

With this, I will now ask Ram to summarize the company's financial performance for Quarter 2 FY25.

C. V. Ram: Thank you, Prabhat, and good evening everyone. Coming to Q2 FY25 consolidated financial highlights. Revenue for Q2 FY25 is at Rs. 1,301 crore, registering a growth of 31% year-on-year basis. 15% of this growth is organic and 16% is from inorganic growth. So, as mentioned by Prabhat, we have completed 9 acquisitions so far in FY25 and we have recorded Rs. 128 crores revenue from these new acquisitions for Q2 FY25.

We recorded gross profit margin of 9.4% in Q2 FY25 vis-a-vis 9% in Q2 FY24. An improvement of 39 basis points, our gross margin growth reflects our initiatives in procurement efficiencies and improving our product mix.

EBITDA for the quarter stood at Rs. 42 crores with the growth of 49% year-to-year basis. EBITDA margin in Q2 FY25 is at 3.3% vis-a-vis 2.9% in the same quarter previous year. Recording an improvement of 40 basis points, this is primarily on account of high margin acquisitions and other gross margin improvement initiatives we have taken during the quarter.

We continue to make investments in talent to facilitate integration and expansion of acquisitions and to improve operating efficiencies in organic business. While these expenses are crucial to fostering long-term growth, they have had temporary moderating impact in our operating margins and operating leverage. Despite that, we have been able to improve our margins from product mix and procurement efficiencies.

Profit after tax for the quarter is at Rs. 26 crores, increasing by nearly four times on year-to-year basis. The spurt is on account of higher EBITDA and optimized net finance costs.

The significant influence of our recent acquisitions will begin to show prominently in our financial results from Q3 FY25, with partial effects already dialed into Q2 FY25. Integrating these acquisitions into Entero's operations will enhance margins and operating leverage by expanding scale and refining our business mix for greater efficiency.

Now, coming to H1 FY25 consolidated financial highlights. Revenue for H1 FY25 is at Rs. 2,398 crores with the growth of 26% on year-to-year basis. Gross profit margin stood at 9.3%, an improvement of 34 basis points. EBITDA for H1 FY25 is at Rs. 73 crores, an increase of 34% on a year-on-year basis. Operating margins for H1 FY25 is 3%, which is an improvement of 16 basis points. Profit after tax for H1 FY25 is at Rs. 47 crores, an increase of 300% against the same period last year.

On the working capital front, in Q2 FY25, our net working capital days stood at 69 days. When we exclude the impact of our recent acquisitions working capital days stood at 65 days. We could optimize 4 days of working capital compared to Q1 FY25. In H1 FY25, our working capital days stood at 75 days. If we exclude the impact of recent acquisitions completed, the working capital days stood at 68 days.

This highlights our core business efficiency and consistent focus on cash flow optimization. This balance reinforces the financial resilience of our core business as we continue expanding through strategic acquisitions. Our commitment to disciplined working capital management remains central to our strategy.

During Q2 FY25, we have witnessed an improvement in the return profile of the company with an annualized ROCE stood at 11% and return on equity stood at 7.6%.

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. The first question is from the line of Gautam Gosar from Monarch AIF. Please go ahead.

Gautam Gosar: Sir, my question is on acquisitions. So, firstly, sir, we have spent around roughly Rs. 500 crores to do a revenue buy out of around Rs. 750 crores. This is what I am referring from your Slide #11 from the PPT where the IPO proceeds have been used for working capital as well as inorganic growth. So, sir, this if we calculate it is around 0.7x of sales valuations, the acquisitions have been done. So, sir, my question is more on the side that this valuation seems to be a bit expensive from our previous acquisitions of around 0.3x sales. So, sir, if you could comment on this?

Prabhat Agrawal: Gautam, the acquisitions that we have done during this year, post IPO is almost on the same valuation multiples that we did before and we are valuing companies as EBITDA multiple and not as revenue multiple. So, if you triangulate from EBITDA multiple point of view, they are in mid-single digits.

Gautam Gosar: Also, sir, one clarification on your acquisition. So, I just wanted to understand the acquisitions you have done in this quarter like, from August you have done Gaurav Medical, Sai Pharma, etc. So have these been included in your quarter results or will it be deferred into quarter 3? So, basically we wanted to understand how many of acquisitions have already been included in this quarter and how many will be coming from the next quarter?

Prabhat Agrawal: So, as what Ram mentioned that Rs. 128 crore of revenue has been included in Quarter 2, right, but this is not the full impact of acquisitions because some of these acquisitions happened during different timeframes within this quarter. So, the full impact will be felt from next quarter onwards.

Gautam Gosar: So, in your press releases, you have mentioned that the acquisition to be completed by, for example, 30th September. So, for these acquisitions, should we consider like these will be coming from 1st October onwards in your revenue topline?

C. V. Ram: See, I think 8 acquisitions we have already completed before Q2 itself and then we will have complete revenue and complete set of finances reflected in Q3. And there is one acquisition that is completed in October and then the other two we just announced recently.

Gautam Gosar: Sir, my next question is on the organic growth. So earlier like couple of quarters back, you were doing around 18%-20% organic growth and in this quarter we have done around 15%. So, sir, have the revenue growth slowdown or is in line with our expectations? And if you could guide on this going forward, it would be really helpful?

Prabhat Agrawal: So, Gautam, we have always guided that our internal target for organic growth is 1.5-2 times of market growth rate. So, for the last quarter, if you look at, the market has grown by 8% and we have grown by 15%, so more or less we are within that target range. The market also has last one or two quarters, little bit slowed down in terms of growth rate, right. So, that is the reason we always give guidance in relation to the market growth rate.

Gautam Gosar: Sir, lastly, again on acquisitions, I basically wanted to understand are we getting the targets easily or the market has become very competitive, and it is difficult to find on the acquisition targets because the valuation multiple according to me seems a bit high and we have around more Rs. 300 odd crores left from the IPO proceeds. So, how much revenue expectations should we assume from the Rs. 300 crores which we have left for the acquisitions to be spent?

Prabhat Agrawal: So, Gautam, let me first answer your apprehension that the market is becoming more competitive for acquisition. That is entirely not true, and our valuation multiples have also not expanded. We are still buying acquisition in, as I told before, 5-8 times of EBITDA multiple, not more than that. None of our acquisitions have exceeded that kind of multiple threshold and it is not difficult to buy targets. Now, we have become much more selective in acquiring because we have already reached many geographies which were not before, we have expanded product portfolio. So, we are very selective on acquisitions. It is much easier in fact I would say to find targets and valuation also has not expanded, valuation multiple I mean. So, we gave guidance that this year we will complete Rs. 1,000 crore plus acquisition. We have already done Rs. 750, another Rs. 60 we have already announced and balance we will complete before end of this year. Your calculations on, your valuation multiple is not true. You might want to separately connect with Ram offline on that.

Gautam Gosar: Sure, I will do that offline.

Moderator: Thank you. The next question is from the line of Chintan Sheth from Girik Capital. Please go ahead.

Chintan Sheth: My question is on cash flows. If you see despite our efforts in terms of improving margins and improving working capital to some extent, we are still on half yearly basis, there was a year-on-year operating cash has been negative, negative operating cash has expanded. If you can comment on how are you looking at what are our strategy to improve turnaround of operating cash flow to kind of gives us an internal field to expand internally from the internal presentation?

Prabhat Agrawal: So, basically, there are two levers to turn from a negative operating cash flow to positive operating cash flow. The number one lever is of course expansion in margin. So, we need to have more internal accruals to fund working capital requirements. And secondly, is to reduce the working capital cycle. And on both these things, you would have noticed some improvement in this quarter. The margins have improved from 2.8 to 3.3, which meant more internal accruals and the working capital cycle also reduced from 68 days to 65 days. So, 3 days of improvement in working capital cycle. And in this quarter, even though we are not giving quarter by quarter cash flow figures to you guys, but you can understand that in this quarter, the operating cash flow would have been much better than the operating cash flow of the first quarter, right, and we will continue to work on that margin expansion and reduction in working capital. Both these combined together, we will give positive operating cash flow.

Chintan Sheth: And the acquisitions which we did, say lot of acquisitions we did in August and the ones we have announced recently. If you can split the stated between the institutional side of the business, revenue coming from them and the revenue going to the retail pharmacy business because certain acquisitions are targeted mainly for hospitals and institutions and some are targeted to cover our presence, expand our presence for the retailer part, if you can highlight that?

Prabhat Agrawal: More of the acquisitions have happened for the trade market, which supplies to retail pharmacies. One or two acquisitions have a product category which reflects more of a business towards hospital, right for example, the diagnostic consumables and equipment business is more targeted towards labs and hospitals, right, while acquisitions like Sai Pharma in Hyderabad or Devi Pharma in Trivandrum, they are more targeted towards retail pharmacies or the one in Jaipur or the one in Khammam or the one in Ujjain, they are all more targeted towards retail pharmacies.

Chintan Sheth: And you mentioned in your opening remarks related to the investments required for preparing the business for future growth, the resources or employee and cash investment. If you can highlight, what sort of OPEX expansion absolute you will expect going forward in a quarterly basis or the runrate for Q2 is what we should go by as an expense line item?

Prabhat Agrawal: See first of all, as I told, Ram also told, and I also mentioned that acquisitions happened during different times during the quarter. So, the full impact of revenue is not there, right. So once this entire revenue unfolds into our quarterly results, which would happen from quarter 3, you would see the OPEX going down as a percentage of revenue.

Chintan Sheth: And the investments towards employees, we should expect the run rate to normalize or it will have natural growth left more addition towards the resource planning?

Prabhat Agrawal: As a percentage of revenue, it will go down.

Moderator: Thank you. The next question is from the line of Nitin Agarwal from DAM Capital. Please go ahead.

Nitin Agarwal: Prabhat, on the acquisition that you have done for the year, how many of them have been for devices?

Prabhat Agrawal: One of them is mostly for devices.

Nitin Agarwal: Is this a Pan India player, this is a regional player that you called?

Prabhat Agrawal: It is a Pan India player.

Nitin Agarwal: And so, this particular space, are we intending to double down on it or do similar acquisitions in this space going forward? Do we have something in the pipeline?

Prabhat Agrawal: Yes, we have more of such in pipeline as well. This is the first acquisition we did in that space and we like this space. It has a lot of synergy with our existing business because at the end of the day, they provide us the products while we provide them the customers. So, it is a good synergy between their product and our customers. So, such kind of synergistic opportunities we would pursue more in future as well.

Nitin Agarwal: These are hospital based diagnostics device supplies or these are retail devices. Where would these supply?

Prabhat Agrawal: These are mostly hospital and lab based, not retail. So, these are like diagnostic equipment, they have blood glucose monitors and things like that, which are mostly sold in hospitals and labs and other IVD products, vacuum collection tubes and all that. Those are mostly sold in hospitals and labs.

Nitin Agarwal: And you see the opportunity to really build this business meaningfully from the scale that you have already got from here?

Prabhat Agrawal: Yes, this business is growing. So, we will definitely want to add to that.

Nitin Agarwal: And secondly, in terms of the number of retailers that we will probably be reaching out to after the ground of acquisitions that you have done so far. I think we mentioned we are reaching about 63,000-65,000 retailers by end of FY24. How would that number moved up by now?

Prabhat Agrawal: So, in first half, we sold to 80,000 retailers around, retail pharmacy.

Nitin Agarwal: And where do you see this number really reaching over the next - what are the plans you have in mind over the next year and a year and a half?

Prabhat Agrawal: Nitin, it is difficult to give the exact number because again you will hold me accountable for it. So, what we are saying, we are pursuing both growth in customer base as well as growth in wallet share. But if you look at our historical numbers, it is growing by 10% year-on-year.

Nitin Agarwal: This is including the acquisitions?

Prabhat Agrawal: Including acquisitions, yes.

Nitin Agarwal: And in terms of, when you are looking for your future acquisitions, are there any particular regions that you are targeting? Or basically, so when you are looking out for newer targets, is it region agnostic or you are looking at whatever good comes your way or you are specifically focused on filling gaps in certain regions and going after looking for retailers and those distributors in those regions?

Prabhat Agrawal: Yes, we are trying to fill some gap with every acquisition, either it is a region or it is a product. So, if you look at 7-8 acquisition that we have done this year, let us say Peerless Biotech, which is the device company, it helped us to improve our gap in the device sector. On the region front, we took an acquisition in Trivandrum. We were not present there. We bought a distributor in Khammam. We bought a distributor in Ujjain, we bought a distributor in Bijapur. So all these are region specific because we had no presence in those regions.

Nitin Agarwal: And if I can take it further, what proportion of the pin code are we covering now, with the distributors that you have acquired?

Prabhat Agrawal: See, you should look at that we are covering around 500 districts in India, out of 750 districts. So, ideally all the pin codes in that district we can cover. So, India has 20,000 pin codes. I don't have this number readily that in those 500 districts, how many pin codes are there? But probably, I would say two third of the total pin codes.

Nitin Agarwal: So, basically, I was coming more from that is about two-thirds of the districts we are already covering from the network that you created so far?

Prabhat Agrawal: Right.

Nitin Agarwal: And lastly, Prabhat with what you see on the network, we have been growing at 15%, which is almost 2x the market for the last few quarters now. With your ability to increase wallet share and to reach out to more retailers, if you take a 2–3-year view, what is the kind of sustainable organic growth we can keep maintaining in the business?

Prabhat Agrawal: Let's maintain 2x of market growth rate.

Nitin Agarwal: That to your mind is very doable?

Prabhat Agrawal: Yes. The opportunities are of course - addition of retail and wallet share, but also a lot of companies are doing lot more business with us, right. So, there are a lot of opportunities that come because of this extensive network that we have created and that all adds to organic growth.

Nitin Agarwal: Ram, if I can take one last one, is it possible for you to segregate the margin improvement which has come through in terms of maybe add on of higher margin businesses and maybe how would the organic margin move really speaking in the business versus last year?

C. V. Ram: There has been consistent improvement in both organic business as well in terms of gross margin from the procurement efficiencies because that is predominantly happening in organic business. And inorganic, obviously with lucrative margins, with the acquisition profiling itself, we are having the higher margin acquisitions. So, that is also adding to the overall thing.

I think we are not at the moment disclosing the segment wise or any kind of a logical separation there. The main reason is it is not fully dialed in and it is very too early to differentiate between both.

And going forward also because there will be lots of internal transactions between like Prabhat mentioned, we have customers, and they have products. At the same time, in some other geographies, there are customers, we are like Trivandrum and all of that, whereas we can always use the product portfolio of other locations. So, this will create a lot of internal transactions and lot of internal profits and all. That is the reason we see a combined gross margin improvement and combined efficiencies.

Prabhat Agrawal: But as a guidance, Nitin, as a strategy you should take note of that we are only pursuing opportunities or acquisitions which are margin accretive. We are not pursuing any opportunity which is margin dilutive.

Nitin Agarwal: And if I can, last one up, we have already got to 9.4% gross margins now. How realistic is it to expect like a double digit gross margin at some time over the next year or so?

Prabhat Agrawal: All the levers that I mentioned before, which is better product mix and procurement efficiency, you were seeing that in the results for last few quarters. That is the reason why our gross margins have expanded continuously from 8%-8.5% to now reaching almost 9.5%, right. The juice is not finished. Still, there are opportunities quite a bit to expand from here on as well.

Moderator: Thank you. The next question is from the line of Krupa Desai from Electrum Capital. Please go ahead.

Krupa Desai: Sir, my question was like with the complete impact of acquisition visible in H2 and as those acquisitions are high margin acquisitions, so will we see further improvement in EBITDA margins? Like in H1, we did 3%. So, can we expect on a consolidated level 3.3% to 3.5% of EBITDA margin?

Prabhat Agrawal: So, you should look at quarter-on-quarter, so for example, quarter 1 was 2.8, now Quarter 2 is 3.3, so 50 basis points has already happened in one quarter. So, we are projecting that trajectory to continue, right, because the full impact of recent acquisitions will dial in from quarter 3. Plus the other initiatives or margin expansion is in work in progress. So, all in all, this expansion of margins would continue quarter-on-quarter.

Krupa Desai: So, we can expect 20-30 basis point improvement Q-on-Q on margins. Is that what you are trying to say?

Prabhat Agrawal: I mean difficult to give exact basis point improvement but yeah, if you look at my earlier guidance, we had said that in FY25, we should be approaching 4%, right. So last year, we did close to 3%. So this year, quarter-on-quarter, we should move on to those numbers.

Moderator: Thank you. The next question is from Shivkumar Prajapati from Ambit Investment Advisors Private Limited. Please go ahead.

Shivkumar Prajapati: Sir, I would like to understand the filtration criteria for our acquisitions. Sir, could you please explain this?

Prabhat Agrawal: So, the filtration criteria is very simple. Basically, any acquisition that we are looking at should bring something new to the network, right, because what is valuable is the network. And either the acquisition has to bring in new geography that we are not servicing today. So, it expands our geographical reach or it has to bring a new product category that we are not doing till now, like for example, we added Peerless, we added diagnostic equipment and consumables. So, our filtering criteria is basically anything that we look at to add to our network, should bring something new to the network that we were not doing before.

Shivkumar Prajapati: And sir, you have around Rs. 280 crores of unutilized fund including Rs. 45 crores for this acquisition like inorganic growth and you also have mentioned that you have already done like Rs. 750 crores of acquisition and 160 was announced. But does that mean in Q4 we won't see any acquisitions and like post this year like in FY26, the pace for acquisitions will go down?

Prabhat Agrawal: No, we think that still lot of opportunities exist in the market, there are lot of virgin spaces still left, lot of places where we can expand to. So, I don't expect at least this year, next year, our acquisitions gravity will not slow down. Maybe after FY26, we will have a look at it where more we want to execute on the M&A space. But this year and next year, I don't think that intensity will go down.

Shivkumar Prajapati: And when can we expect our operating cash flow to be positive?

C. V. Ram: Yes. I think with the margin improvement and then optimization on the net working capital days that we are continuously targeting, I think by next year, this should be positive.

Shivkumar Prajapati: And sir, so the promoter holding is currently 53% to 54%. as per our strategy, we will give some portion to the people who are handling the acquired firms. so can you give what percentage of shares do they hold, like the acquired firms' owner?

Prabhat Agrawal: I think it is 2%-3%, right. When we acquired them, we offered them this shareholding. We paid them the entire money and they used that proceeds to buy shares in Entero. So, cumulatively, I think anywhere between 2%-3% they must be holding now.

Shivkumar Prajapati: And sir, just want to understand something on this HealthEdge platform. So, how we are planning to monetize this?

Prabhat Agrawal: The HealthEdge platform, basically the idea is to connect the retail pharmacies to our warehouses, whereby the technology that is being used by those retail pharmacies as is provided by us, so they can compete more effectively in the market. Monetization would happen through supply of our products to this. So, it helps us to improve the wallet share in those pharmacies.

Moderator: Thank you. The next question is from the line of Alok Dalal from Jefferies India Private Limited.

Alok Dalal: Just to confirm a few points, for FY25, you have earlier given the guidance of 35%-40% revenue growth, is that still on?

Prabhat Agrawal: Yes, still on.

Alok Dalal: And based on your comments, by end 4Q FY25, the company should be around 4% EBITDA margins, is that correct?

Prabhat Agrawal: Yes, that is our target.

Alok Dalal: And then, what can we expect the working capital days for March 2025?

Prabhat Agrawal: Our target will be somewhere between 60-65 days.

Moderator: Thank you. The next question is from the line of Romil Jain from Electrum PMS. Please go ahead.

Romil Jain: Sir, just two questions from my side. One is on the hospital business, just how much would that business be currently and at what rate it is growing at?

Prabhat Agrawal: Around 24% is our hospital business today.

Romil Jain: And what were the growth rates in the first half?

Prabhat Agrawal: Similar to what, our overall organic growth rate is 15%, right, so more or less in that vicinity.

Romil Jain: And sir, secondly, I just want to understand on the competitive landscape because obviously the market is pretty large and there are a lot of unorganized players also and there are a lot of other larger players also which are kind of organized. So, how do you see the competitive landscape if you can just help us understand that?

Prabhat Agrawal: See, if you look at, when we are saying organized playerS, we are talking about people like MedPlus and Apollo, right, chain pharmacies, isn't it?. If you look at them, the net store additions of these players have only slowed down, right. So, the pace at which they were trying to organize the market earlier has slowed down. Everyone is now focusing on improving their financial metrics rather than increasing the store count. See, we believe that India by and large will remain fragmented on the pharmacy side, because it is very difficult to organize the pharmacies across India. There are so many unorganized players. They have been in existence for last 20-30 years and all the stores belonging to organized pharmacy not more than 15,000, right, all put together out of, let us say 900,000 to a million pharmacies in India. So, hardly, 1.5% to 2% in terms of store count belongs to chain pharmacies or organized buyers. Rest of it is still unorganized, after 20-30 years of effort that has gone towards this. So, that gives me confidence that market would largely remain unorganized on the retail pharmacy front.

Romil Jain: Sir, how is your non-medicine portfolio doing and are we trying to even grow that, let us say the surgical, equipments, etc?

Prabhat Agrawal: Yes, today, if I look at the product level cut, almost 10% of our revenues are coming from non-pharmaceutical products which are non-medicines. So, it includes products like coronary stents, it includes products like implants, other medical devices, diagnostic equipments, surgical items which are non-medicines, so almost 10% of our revenues are non-medicines, I would say.

Moderator: Thank you. The next question is from the line of Krishna Kiran from Creaegis. Please go ahead.

Krishna Kiran: Sir, two questions, one on working capital, on the slide 11 indicates that around Rs. 300 crore increase in working capital. So, I just want to check whether all these Rs. 300 crores is inorganic route or our base business also or organic business also in the same or increased working capital in absolute terms?

C. V. Ram: Yes, in absolute terms, it includes for both. Actually, it is towards the working capital of the existing entities we have funded, but indirectly I think we also have internal accruals coming in from there that we can always use for the acquisitions. So, because these are all subsidiaries, we have about 46 subsidiaries and we fund their working capital and the efficiencies will use that for internal accruals, which we will use for acquisitions.

Krishna Kiran: The question is, I am just trying to catch your flight, so the increase in the working capital in the last 6 months is around Rs. 300 crores as per the presentation. Is it possible to mention that or break up that how much would have been for organic and how much would have been inorganic one - because Rs. 750 crores of acquisition revenue, Rs. 350 looks like 150 days of working capital, it looks high, somewhere my calculations are wrong. Just want to get more sense there?

C. V. Ram: Yes, half of it you can take for the existing.

Prabhat Agrawal: Slide number 11 is not is not the right slide.

C. V. Ram: No, this is not the right slide. But out of this fund, he is asking me this thing.

Prabhat Agrawal: So, this time in the 6 months, we have given the balance sheet also, right you can figure out the balance sheet.

C. V. Ram: That includes inorganic-organic, that is the reason from the funds side. So, you can assume 50% Krishna.

Krishna Kiran: Sir, just one clarification because if I remember correctly like 35%-40% growth on topline and margin 100 basis points, that is like 100 basis points is exit run rate or FY25 completely?

Prabhat Agrawal: Exit run rate.

Krishna Kiran: And lastly, if I can, because on the minority interest, like we have seen significant jump in minority interest compared to previous quarters. So, compared with number has actually gone up, can you help us?

C. V. Ram: Yes, we did recent acquisitions. If you have noticed the announcements, we have acquired 70% and 80% about 4-5 acquisitions, which we have announced. So, this is the minority interest from there.

Moderator: Thank you. The next question is from the line of Aman Jain from Arihant Capital. Please go ahead.

Aman Jain: Sir, just wanted to understand, so in this quarter, we have seen good improvement in our gross margins by around 40 basis points and we have guided for about 100 bps expansion in EBITDA. So just wanted to understand that in H2, do we expect gross margins to further improve or like you said that we are working in some operational efficiencies or that will drive the margin expansion or we expect gross margins to further improve from here?

Prabhat Agrawal: So, further expansion of EBITDA margin from here on will be a combination of both gross margin and operating leverage.

Aman Jain: So, we can expect the gross margins to further improve by about 20 to 30 basis points?

Prabhat Agrawal: The exact breakup of that we are not giving that guidance. But what we are saying if we have to reach exit run rate of 4% plus EBITDA margins, so naturally, we are at 3.3 in Quarter 2, right, so that 70 basis points, part of it will come from operating leverage and part of it will come from expansion in gross margins.

Moderator: Thank you. The next question is from the line of Vaibhav Khandelwal from Laburnum Capital. Please go ahead.

Vaibhav Khandelwal: My first question was regarding the medical devices, basically the non-medicine split. Do we have any target from 3 to 5 years horizon - what the revenue share from non-medicines that is these medical devices and surgical devices and so forth would be on the revenue split?

Prabhat Agrawal: No, we don't have any specific guidance on that.

Vaibhav Khandelwal: One more question I had was regarding organized retail. So I acknowledge your points you made earlier on. Also wanted to understand from incrementally, all these Jan Aushadhi Stores coming in, I just wanted to understand the impact that Entero might have from these stores, let us say from 3 to 5-years horizon?

Prabhat Agrawal: Are you talking about generic stores?

Vaibhav Khandelwal: Yes, Jan Aushadhi stores.

Prabhat Agrawal: At the end of the day, we are not supplying to Jan Aushadhi Stores, so they are not built into our customer base anyways, right. So that market we always count out, right. So, we don't count in our market only from beginning.

Vaibhav Khandelwal: No, I understand that my question was more an impact from a competitive standpoint?

Prabhat Agrawal: I don't see that Jan Aushadhi Stores will occupy any significant chunk of overall market going forward as well.

Vaibhav Khandelwal: Wanted to understand the rationale on that, Sir?

Prabhat Agrawal: They are different customer segments. Jan Aushadhi Centers are satisfying the needs of a different class of customers, right, not everyone is going to Jan Aushadhi Stores. People who are prescription driven are going mostly to the retail pharmacies, right. India still has a lot of belief or the patients believe in the doctor driven prescription. They don't choose the medicines, they are not brand agnostic or they don't switch or they don't substitute, most of the people.

Moderator: Thank you. The next question is from the line of Chintan Sheth from Girik Capital. Please go ahead.

Chintan Sheth: I am trying to understand the guidance part which you mentioned that 35% for this year the revenue growth. The IPM growth seems to have slowed down a little bit in terms of from low double digit to now single digit trend and if we are aspire 2x of our IPM growth, it implies mid to high organic piece of the business and remaining, you are expecting coming from inorganic growth. If you look at our first half, we are kind of integrated the consolidated around Rs. 200 odd crores of inorganic growth in the first half, you can correct me if I am wrong. That implies the second-half will be a little lumpy in terms of consolidating the revenue in our numbers. If you can throw some light on the current year and if you also tell us what is the pipeline for next year to be looked into for our understanding in terms of inorganic?

Prabhat Agrawal: So, yes, as Ram and me both said that some of these acquisitions happened during different times in first half, so the full impact will come in the second-half, right. So, you would see more inorganic numbers in Quarter 2 even if we don't do anything more from now, right. But we will continue to add more, even new acquisitions, every quarter. So, of course, the inorganic component would increase in H2 of the year compared to H1 of the year. Secondly, next year again, as we guided that this year we are looking at Rs. 1,000 crores, so we should be pursuing similar number of acquisition targets for FY26 as well.

Chintan Sheth: Sorry, come again.

Prabhat Agrawal: So, as we gave the guidance during beginning of this year that in FY25 we should be targeting to acquire Rs. 1,000 crores. So, similarly, for next financial year, we should also be similarly looking for such kind of numbers in the FY26 also.

Moderator: Thank you. The next question is from the line of Harshi Shah from Beas Capital. Please go ahead.

Harish Shah: Just a quick question, what is our blended margin for the acquisitions we have made this quarter? Is it still in the range of 6% to 8%?

Prabhat Agrawal: Yes.

Moderator: As there are no further questions, I now like to hand the conference over to management for closing comments.

C. V. Ram: I 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 our Investor Relations Advisors. Thank you once again and have a great day.

Moderator: On behalf of Monarch Networth Capital, that concludes this conference. Thank you for joining us and you may now disconnect your lines.