

Ref: 58/SE/LC/2024-25

Date: 10/09/2024

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

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

Scrip Code: 544122

Dear Sir/Madam,

Subject: Intimation regarding Credit Rating under SEBI (Listing Obligations and Disclosure Requirements), Regulations 2015

Pursuant to Regulation 30 read with Schedule III of the Securities and Exchange Board of India (Listing Obligations and Disclosure Requirements) Regulations, 2015, we wish to inform you that India Ratings and Research (Ind-Ra), a Credit Rating Agency has upgraded its Long-term Issuer Rating of the Company to '**IND A-/Stable**' from '**IND BBB**'. Copy of Rating Letter is enclosed herewith.

The Credit Rating Letter is also available on website of the Company at www.enterohealthcare.com.

This is for your information and records.

Yours Faithfully,

For Entero Healthcare Solutions Limited

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

Encl: As above

India Ratings Upgrades Entero Healthcare Solutions to 'IND A-/Stable; Withdraws Bank Loans' Rating

Sep 09, 2024 | Pharmaceuticals

India Ratings and Research (Ind-Ra) has upgraded Entero Healthcare Solutions Limited's (formerly known as Entero Healthcare Solutions Private Limited; Entero) Long-term Issuer Rating to 'IND A-' from 'IND BBB'. The Outlook is Stable. The detailed rating actions are as follows:

Details of Instruments

Instrument Type	Date of issuance	Coupon Rate (%)	Maturity Date	Size of Issue (million)	Rating assigned along with Outlook/ Watch	Rating Action
Long-Term Issuer Rating	-	-	-	-	IND A-/Stable	Upgraded
Term loans*	-	-	FY27	INR750	WD	Withdrawn

WD – rating withdrawn

*Withdrawn on the receipt of a no dues certificate from lenders

Analytical Approach

Ind-Ra continues to fully consolidate Entero and [its subsidiaries](#), together referred to as the Entero group, on account of the strong legal, operational, and strategic linkages among them.

Detailed Rationale of the Rating Action

The rating upgrade reflects continued strong growth in Entero group's scale of operations and operating profitability in FY24, with significant growth in its revenue and an improvement in the EBITDA margin and Ind-Ra's expectation of further growth in FY25 and over the medium term, backed by the heavy capital infusion into the company. In February 2024, Entero raised INR10,000 million from its initial public offer (IPO) for funding expansion through acquisitions and managing its intense working capital requirement over the medium term. Backed by the unutilised amounts from the IPO proceeds, the group was net cash positive at FYE24 with a significant reduction in its overall debt levels due to the full repayment of Entero's long-term debt in March 2024. The continued expansion into newer geographies strengthening its pan-India presence and growth in customer and product portfolio during the year also support the rating.

The rating is, however, constrained by the inherent limitations of distributorship and the inherent risks of the pharmaceuticals industry. The negative free cash flows since inception, and the group's brief track record of operations also constrain the rating.

List of Key Rating Drivers

Strengths:

- Pan-India presence; further diversification in customer and product portfolio
- Favourable industry outlook
- Group likely to remain net cash positive in the near term
- Significant growth in scale of operations; growth likely to continue in the medium term
- Improvement in operating profitability; further improvement likely in the medium term

- Return on capital employed competitive with industry peers

Weaknesses:

- Negative free cash flows due to high working capital requirement
- Future acquisitions not yielding desired results could impact profitability
- Exposed to inherent risks in the pharmaceuticals segment
- Brief track record of operations

Detailed Description of Key Rating Drivers

Pan-India Presence; Further Diversification in Customer and Product Portfolio: Entero group has a wide and growing presence throughout India. At FYE24, the pharmaceuticals distributor group supplied pharmaceutical products, medical equipment, and surgical consumables to more than 540 districts through 79 warehouses located in 39 cities across 19 states and union territories of India. The group's customer portfolio spanned more than 86,300 retail pharmacies and over 3,500 hospital customers in FY24, including associations with recognised hospitals and hospital brands in the country. The group has established relationships with more than 2,000 healthcare product manufacturers and partnerships with reputed labels; it has access to more than 68,900 stock keeping units (SKUs) to back its growing clientele. With the successful completion of its IPO in February 2024, the management has laid out plans for further expansion into newer geographies and customer acquisition.

Favourable Industry Outlook: The pharmaceutical distribution segment in India is an extremely fragmented with no clear market leader. The industry is dominated by the traditional, unorganised players at the local and regional level. The market share of large and national level distributors, although growing, is limited at present. However, there is a growing trend towards market consolidation and a huge scope for growth in the market share of large players with the need for a technology-driven and integrated distribution network. In terms of revenue, Entero group is among the largest pharmaceutical distributors in India and stands to benefit from its market consolidation strategy with the rising favourable environment for bigger players in the segment.

Group likely to Remain Net Cash Positive in the Near term: With the completion of IPO in FY24, Ind-Ra expects Entero group's credit metrics to improve significantly in FY25 and remain strong in the medium term. The group raised INR10,000 million in February 2024 from a fresh issue of shares, out of which around INR6,400 million remained unutilised at FYE24, resulting in the group being net cash positive for FY24 (FY23: net leverage of 6.44x; FY22: net leverage of 10.65x) as the overall debt including lease liabilities also reduced to INR3,379.64 million (INR4,377.59 million; INR3,546.31 million). With the expected rise in internal accruals and a long runway of IPO funds, the agency expects Entero group to remain net cash positive in FY25 and the net leverage (Ind-Ra adjusted net debt/operating EBITDAR) to remain below 1x in the medium term. In FY24, Entero group's interest coverage (operating EBITDA/gross interest expense) remained modest despite improving to 1.7x (FY23: 1.31x; FY22: 1x), on account of high interest costs which increased to INR656.84 million (INR489.72 million; INR289.78 million) mainly due to total unlisted non-convertible debentures (NCDs) of INR900 million issued in April 2023 and June 2023 to fund the acquisitions made during the year and meet the working capital requirement. After the completion of the IPO, the NCDs were fully redeemed by Entero along with the prepayment of significant long-term debt of the group which reduced to INR497.67 million in FY24 (FY23: INR1,404.24 million). The reduction in the overall debt levels and the redemption of NCDs is likely to result in significant savings of interest costs as the agency expects the interest coverage to rise above 3.5x in FY25 and above 4x in the medium term.

Significant Growth in Scale of Operations; Growth Likely to Continue in the Medium Term: The Entero group's revenue grew at a CAGR of 30.45% over FY20-FY24 with continued organic revenue growth and inorganic growth from the acquisition of new entities. In FY24, the group's revenue increased to INR39,223.1 million (FY23: INR33,002.1 million; FY22: INR25,265.48 million) as two new subsidiaries were acquired by it, increasing its total size to 40 entities including Entero. Led by the topline growth, the group's EBITDA, too, increased significantly in FY24 rising to INR1,118.43 million (FY23: INR640.07 million; FY22: INR289.21 million). With the IPO proceeds at the management's disposal, Ind-Ra expects the scale of operations to continue to grow in the medium term, led by continued organic growth and further expansion through acquisitions planned by the management. The Entero group's 1QFY25 revenue and EBITDA were INR10,970.36 million and INR301.73 million, respectively.

Improvement in Operating Profitability; Further Improvement Likely in the Medium term: Entero group's EBITDA margin improved to 2.85% in FY24 (FY23: 1.94%; FY22: 1.14%) due to improved operational efficiencies and an increase in its gross margin to 8.97% (8.13%; 8.47%). The gross margin improvement was backed by the increase in the concentration of high-margin non-pharmaceutical products into the product mix. The management expects the EBITDA margin to increase further by at least 90bp over the medium term with further growth in the scale of operations. Ind-Ra expects a further rise in the gross margin, which has expanded to 9.11% in 1QFY25, and the higher absorption of the operating fixed costs to facilitate a further improvement in the EBITDA margin over the medium term.

Return on Capital Employed Competitive with Industry peers: Entero group's weighted average return on capital employed (RoCE) increased significantly to 8.32% in FY24 (FY23: 4.1%; FY22: 1.1%), led by the improved profitability and growth in the scale of operations. Adjusting for the IPO proceeds undeployed into the business at FYE24, the RoCE for FY24 was 9.01%. As per Ind-Ra's research, Entero group's RoCE in FY24 was competitive with peers in the pharmaceuticals distribution and retailing segment based on the information available in public domain. The agency expects the RoCE to remain above 7% in the near-to-medium term despite the rise in the employed capital due to the likely rise in the revenue and profitability.

Negative Free Cash Flows due to High Working Capital Requirement: Entero group's cash flow from operations has been negative since the first full year of its operations in FY19 due to the intense working capital requirement and modest yield nature of its business. The cash flow from operations remained negative at INR932.24 million in FY24 (FY23: negative INR901.97 million; FY22: negative INR608.04 million) due to the increase in working capital requirement with growth in the scale of operations. The group's net working capital cycle elongated to 78 days in FY24 (FY23: 74 days) but remained in line with the peers in the pharmaceuticals distribution segment. The cash flow from operations and free cash flow are likely to remain negative, in the agency's view, in the near-to-medium term with a more significant negative impact of the increase in working capital in FY25 due to the likely growth in business volume.

Future Acquisitions not Yielding Desired Results could impact Profitability: Entero acquires distributors in strategic locations throughout India as a part of its growth strategy to expand its business and customer portfolio. The management has planned acquisitions in FY25 and the medium term to utilise a part of the remaining IPO proceeds, which is likely to facilitate further growth in the group's scale of operations and geographic presence. However, the acquisitions not yielding the desired results and meeting the targets set out by the management could impact the profitability and lead to lower-than-Ind-Ra-expected growth in the EBITDA margin, impacting the free cash flows further in the near-to-medium term. Nevertheless, historically, the management's acquisition strategy has yielded positive results.

Exposed to Inherent Risks in the Pharmaceuticals Segment: Entero group is exposed to the risks inherent in the healthcare business such as the risk of financial loss and the loss of reputation due to the distribution of expired, unsafe, damaged, defective, or ineffective products. Although Entero does not manufacture the products it sells, it bears the risks from negative customer perception as the group promotes and distributes these products. Furthermore, a small proportion of Entero's revenue also comes from products manufactured under its private label, wherein the risks are more significant.

Brief Track Record of Operations: Entero was established in 2018 and has a track record of less than a decade in the pharmaceutical distribution business. However, this risk is mitigated by the experience of one of its promoters, Prabhat Agarwal, who served as the Chief Executive Officer of one of the leading pharmaceutical manufacturers, in the pharmaceutical industry.

Liquidity

Adequate: Entero group had unencumbered cash and cash equivalents of INR8,773.84 million at FYE24 (FYE23: INR253.62 million; FYE22: INR465.08 million) backed by the unutilised IPO proceeds. Furthermore, the group had encumbered deposits of INR212.38 million at FYE24. Although Entero does not have avail any working capital financing from banks, its subsidiaries avail working capital facilities. The group's consolidated average maximum

utilisation of its fund-based working capital limits for the twelve-months ended July 2024 was 81.52%. The group's current ratio improved significantly to 3.4x in FY24 (FY23: 2x; FY22: 2.2x). The group had repayment obligations, including repayment of lease liabilities, of INR176.8 million and INR187.1 million in FY25 and FY26, respectively; Ind-Ra believes Entero has more than enough liquidity to meet its debt-servicing obligations in the medium term.

Rating Sensitivities

Positive: A further improvement in the scale of operations and profitability, maintaining the adequate liquidity position, and the interest coverage rising above 4x, all on a sustained basis will be positive for the ratings.

Negative: A significant decline in the scale of operations, significant deterioration in the liquidity, or the interest coverage remaining below 3x, all on a sustained basis, will be negative for the ratings.

ESG Issues

ESG Factors Minimally Relevant to Rating: Unless otherwise disclosed in this section, the ESG issues are credit neutral or have only a minimal credit impact on Entero, due to either their nature or the way in which they are being managed by the entity. For more information on Ind-Ra's ESG Relevance Disclosures, please click [here](#). For answers to frequently asked questions regarding ESG Relevance Disclosures and their impact on ratings, please click [here](#).

About the Company

Established in 2018 by Prabhat Agarwal and Prem Sethi, Entero is a supply-chain partner and aggregator for pharmaceutical products, medical equipment, and surgical consumables. Entero is a large group and consists of 39 entities at FYE24, having presence throughout India. The company went public in FY24 and got listed on the exchange in February 2024.

Key Financial Indicators

Particulars (Consolidated)	FY24	FY23
Revenue (INR million)	39,223.1	33,002.07
EBITDAR (INR million)	1,118.43	640.07
EBITDAR margin (%)	2.85	1.94
Gross interest coverage (x)	1.7	1.31
Net leverage (x)	n.m.	6.44
Source: Entero; Ind-Ra n.m: not meaningful		

Status of Non-Cooperation with previous rating agency

Not applicable

Rating History

Instrument Type	Rating Type	Rated Limits (million)	Current Ratings	Historical Rating/Outlook	
				3 August 2023	9 May 2022
Issuer Rating	Long-term	-	IND A-/Stable	IND BBB/Stable	IND BBB/Stable
Term loans	Long-term	INR750	WD	IND BBB/Stable	-

Bank wise Facilities Details

[Click here to see the details](#)

Complexity Level of the Instruments

Instrument Type	Complexity Indicator
Term loan	Low

For details on the complexity level of the instruments, please visit <https://www.indiaratings.co.in/complexity-indicators>.

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About India Ratings and Research: India Ratings and Research (Ind-Ra) is committed to providing India's credit markets accurate, timely and prospective credit opinions. Built on a foundation of independent thinking, rigorous analytics, and an open and balanced approach towards credit research, Ind-Ra has grown rapidly during the past decade, gaining significant market presence in India's fixed income market.

Ind-Ra currently maintains coverage of corporate issuers, financial institutions (including banks and insurance companies), finance and leasing companies, managed funds, urban local bodies and project finance companies.

Headquartered in Mumbai, Ind-Ra has seven branch offices located in Ahmedabad, Bengaluru, Chennai, Delhi, Hyderabad, Kolkata and Pune. Ind-Ra is recognised by the Securities and Exchange Board of India, the Reserve Bank of India and National Housing Bank.

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For more information, visit www.indiaratings.co.in.

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APPLICABLE CRITERIA

Parent and Subsidiary Rating Linkage

Evaluating Corporate Governance

Corporate Rating Methodology

The Rating Process

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