



SMC Ranking
★☆☆☆☆ (1/5)

Issue Highlights

Industry	Health Care
Offer for sale (Shares)	4,769,475
Fresh Issue (Shares)	7,949,125
Net Offer to the Public	12,718,600
Issue Size (Rs. Cr.)	1519-1600
Price Band (Rs.)	1195-1258
Employee discount	119 per share
Offer Date	9-Feb-24
Close Date	13-Feb-24
Face Value	10
Lot Size	11 Shares

Issue Composition

	In shares
Total Issue for Sale	12,718,600
QIB	9,538,950
NIB	1,907,790
Retail	1,271,860

Shareholding Pattern (%)

Particulars	Pre-issue	Post-issue
Promoters & promoters group	77.11%	52.44%
QIB	22.89%	40.25%
NIB	0.00%	4.39%
Retail	0.00%	2.92%
Total	100.00%	100.00%

*calculated on the upper price band

Objects of the Issue

The company proposes to utilize the Net Proceeds from the Fresh Issue towards funding the following objects:

- Repayment/prepayment, in full or part, of certain borrowings availed of by the company and its Subsidiaries.
- Funding the long term working capital requirements.
- Pursuing inorganic growth initiatives through acquisitions.
- General corporate purposes.

Book Running Lead Manager

- ICICI SECURITIES LIMITED
- DAM CAPITAL ADVISORS LIMITED
- JEFFERIES INDIA PRIVATE LIMITED
- JM FINANCIAL LIMITED
- SBI CAPITAL MARKETS LIMITED

Name of the registrar

- Link Intime India Private Limited

About the company

Incorporated in 2018, Entero Healthcare Solutions Limited is a distributor of healthcare products in India. The company's technology-driven platform provides healthcare product distribution services to pharmacies, hospitals, and clinics throughout India. During the fiscal years 2021, 2022, and 2023, the company served over 39,500, 64,200, and 81,400 retail customers, respectively. Additionally, the company also served over 1,600, 2,500, and 3,400 hospital customers during the same period. Entero Healthcare Solutions has relationships with over 1,900 healthcare product manufacturers, giving them access to over 64,500 product stock-keeping units as of March 31, 2023. The company has 73 warehouses in 37 cities across 19 states and union territories, and its customer base includes over 81,400 pharmacies and 3,400 hospitals in 495 districts as of March 31, 2023.

Strength

Operates in the large and highly fragmented Indian healthcare products distribution market and expect to benefit from market consolidation: Operating in the vast and fragmented Indian healthcare distribution market, Entero Healthcare Solutions envisions capitalizing on the upcoming consolidation by strategically acquiring local distributors. Its competitive edge lies in a nationwide, technology-driven network, partnerships with over 1,900 manufacturers offering 63,900+ SKUs (as of Sept 30, 2023), and an experienced management team. These strengths position the company to capture the market shift towards organized healthcare distribution and scale its business across India.

One of India's largest and fastest growing healthcare products distribution platforms: Launched in 2018, Entero Healthcare Solutions has climbed to become one of India's top three healthcare product distributors by revenue in FY2022, generating an impressive Rs.2,522.07 Crore operating income. Its success stems from a scalable, technology-driven model focused on network expansion, efficient execution, and cost-effectiveness. This approach empowers the company to fulfill diverse demands within the healthcare industry. It has established a vast footprint, partnering with key players like manufacturers, pharmacies, hospitals, and clinics. Its B2B ordering app, Entero Direct, seamlessly integrates with third-party applications, effortlessly onboarding new customers by offering transparent product ranges and pricing. As of September 30, 2023, its 77 warehouses (spanning 464,112 sq. ft.) across 38 cities in 19 states/territories cover 501 districts. Additionally, the company has secured supply partnerships with over 1,900 manufacturers, granting access to over 63,900 product SKUs.

Track record of inorganic expansion and integration to grow its geographic reach, revenues and scale: Entero Healthcare actively seeks market consolidation opportunities, strategically acquiring and integrating smaller distributors across India. This "pan-India" approach expands its reach and deepens customer relationships. Since 2018, the company has successfully acquired 34 entities, with a dedicated team constantly scouting for new opportunities. Post-acquisition, the company implements proven growth strategies: expanding product portfolios, increasing customer access, enhancing service levels, and leveraging technology to gain market share. This successful track record attracts further acquisitions, fueling its continuous expansion.

Differentiated business model offering comprehensive and integrated commercial and supply chain solutions: Entero's nationwide network, integrated technology platforms, and strong relationships with pharmacies and hospitals create a cost-effective gateway for brands to expand in India. Its trained sales force and experienced support teams (marketing, branding, supply chain, finance) further enhance the value proposition.

Beyond distribution, Entero leverages synergies to offer manufacturers marketing and promotion services. This not only gets products to patients but also builds brands, ultimately improving medication access across India. Connecting brands with their target audience becomes seamless through Entero's technology, customer apps, and sales force. Manufacturers can effectively communicate product and brand messages to pharmacies and hospitals within the network.

Proprietary technology platform with integrated business intelligence tools and solutions: Entero embraces technology to streamline healthcare distribution, tackling inefficiencies in ordering, sales, payments, and more. Its proprietary platforms and business intelligence tools digitize the supply chain, benefiting the entire ecosystem. Committed to continuous improvement, Entero invested heavily in technology: Rs.645.20 crore (FY21), Rs.10.76 crore (FY22), Rs.9.60 crore (FY23), and Rs.3.77 crore (H1 FY24). Additionally, its comprehensive business intelligence tools analyze sales data from its nationwide network. This empowers them to provide healthcare product manufacturers with valuable insights on sales, inventory, and micro-market trends, enabling better sales planning and incentivization.

Strategy

Benefit from healthcare products distribution market consolidation with strategic acquisitions: Since its 2018 launch, Entero has aggressively grown through 34 strategic acquisitions, and they're not stopping there. The company plans to fuel further expansion by acquiring regional and local distributors with strong brands, market presence, and growth potential. This focus includes entering new markets and consolidating its share in existing ones. Entero meticulously evaluates potential targets, considering factors like market size, customer base, supplier relationships, product range, network synergies, past performance, and future potential. This ensures it acquires businesses that seamlessly integrate and accelerate their overall growth.

Strengthen market position through increases in customer base, wallet share and geographic penetration: It intends to grow sales through its existing distribution network, taking advantage of the low penetration of scaled up and efficient healthcare products distribution platforms and strengthen market position by (i) increasing customer base through the addition of new pharmacies, hospitals and clinics in both existing and new territories, (ii) expanding geographic reach through a "hub and spoke" model which connects warehouses and supply points across districts, (iii) increasing wallet share from existing pharmacies and hospitals by offering larger product portfolios, deeper customer engagement through technology and digital solutions, and (iv) offering procurement efficiencies and economies of scale advantages. As such, it believes that there is significant opportunity for growth of its existing distribution network. It plans to replicate the success it has had in its key operating cities (i.e. cities that contribute to a significant portion of its revenue) such as Bengaluru, Mumbai, Delhi National Capital Region, Cochin and Vizag, in cities that it has penetrated but have yet to become the leading healthcare products distribution platform, as well as across other cities, states and union territories that it has not currently penetrated.

Pursue comprehensive marketing and distribution collaborations with healthcare product manufacturers: Leveraging its extensive distribution network, strong pharmacy and hospital access, and established industry relationships, the company empowers pharmaceutical and healthcare brands to expand in India. Tailored commercial solutions, encompassing sales, marketing, promotion, and supply chain management, are delivered by its expertly trained sales force and experienced business support team. This ensures each brand receives a cost-effective and resource-efficient solution that maximizes patient access within the Indian market.

Expand product adjacencies, private label and service offerings: Entero Healthcare isn't just expanding its distribution network; it's also actively widening its product and service offerings for both existing and new customers. Currently specializing in pharmaceuticals, the company plans to venture into additional synergistic healthcare categories. Leveraging its established customer base, market expertise, infrastructure, reach, and manufacturer relationships, and the company aims to enter and flourish in new product segments relevant to pharmacies and hospitals. To achieve better sales synergies, Entero Healthcare intends to significantly expand its portfolio. This includes pharmaceuticals, nutraceuticals, generic medicines, medical devices, surgical consumables,

diagnostic consumables, hospital capital equipment, and OTC products sold in pharmacies and hospitals. Additionally, the company plans to launch and grow its own private label products and brands in relevant categories like medical devices, surgical consumables, and other fitting medical products. This leverages its distribution strength and customer connections for further success.

Continue to invest in and leverage technology, scale and synergistic adjacencies to drive efficiencies and profitability: Entero Healthcare aims to strengthen its customer relationships and boost profitability through strategic technology investments. This includes enhancing its Entero Direct app, ERP systems, CRM, Teqtic data warehouse, and other innovations. By digitally connecting with customers, Entero Healthcare expects to deliver cost savings, efficient inventory management, and better interactions, attracting new customers, retaining existing ones, and increasing their spending. Optimizing operations in warehousing, logistics, sales, inventory, and receivables through technology is anticipated to further enhance efficiency, productivity, and transparency. Additionally, Entero Healthcare believes its technology investments, combined with increasing scale, higher-margin product offerings, and private label initiatives, will drive profitability and improve margins.

Risk factor

- Since its inception, it has completed a number of acquisitions of distributors in India to expand business and increase its customer base, and may continue to complete more acquisitions in the future
- Entero Healthcare has experienced negative cash flows from operating, investing and financing activities in the past and may continue to do so in the future.
- Entero Healthcare may incur losses and reputation may be adversely affected by the return of its 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.
- Entero Healthcare operations are subject to high working capital requirements, and have incurred substantial indebtedness.
- It does not have long term agreements with its customers, which could adversely impact its business as its customers can terminate their relationships with the company without notice.

Peer comparison

Co_Name	Total Income	PAT	EPS	P/E	P/BV	BV	FV	Price	Mcap
MedPlus Health Services Limited	5387.34	58.66	4.91	130.49	5.03	127.39	2	640.7	7658.73
Entero Healthcare Solutions Limited	3791.00	23.28	5.35	234.98	3.29	381.80	10	1258.00	5471.33

*Peer comparison are based on TTM

**Entero financials are estimated Annualised FY24

Valuation

Considering the P/E valuation, on the upper end of the price band of Rs.1258, the stock is priced at pre issue P/E of 192.03x on estimated annualised FY24 EPS of Rs.6.55. Post issue, the stock is priced at a P/E of 234.98x on its EPS of Rs.5.35. Looking at the P/B ratio at Rs.1258, pre issue, book value of Rs. 185.84 of P/Bvx 6.77x. Post issue, book value of Rs. 381.80 of P/Bvx 3.29x.

Considering the P/E valuation, on the lower end of the price band of Rs.1195, the stock is priced at pre issue P/E of 182.42x on estimated annualised FY24 EPS of Rs.6.55. Post issue, the stock is priced at a P/E of 223.21x on its EPS of Rs.5.35. Looking at the P/B ratio at Rs.1195, pre issue, book value of Rs. 185.84 of P/Bvx 6.43x. Post issue, book value of Rs. 381.80 of P/Bvx 3.13x.

Industry Outlook

The target addressable market for pharmaceutical distributors in India is valued at Rs.2.7 trillion in the Financial Year 2023 and is expected to grow at 10% to 11% CAGR from the Financial Year 2023 to the Financial Year 2028. The distribution of pharmaceutical products in India is extremely fragmented with approximately 65,000 distributors, as of March 31, 2023, that generally service limited local areas only, unlike developed markets where large nationwide distributors occupy a dominant market position. In the Indian pharmaceutical distribution market, traditional local distributors have a 90-92% market share while large/national distributors have a 8-10% market share.

Outlook

Entero stands out as one of India's top three healthcare product distributors, poised to capitalize on the fragmented market landscape. The company has demonstrated aggressive growth through both internal initiatives and strategic acquisitions. Notably, its nationwide presence, robust technology platform, and experienced leadership fuel its strong position. However, potential investors should consider the risks associated with high expenses, working capital demands, and ambitious expansion plans.

An Indicative timetable in respect of the Issue is set out below:

EVENT	INDICATIVE DATE (On or about)
BID/ISSUE OPENS ON	09-February-24
BID/ISSUE CLOSSES ON	13-February-24
Finalisation of Basis of Allotment with the Designated Stock Exchange	14-February-24
Initiation of refunds (if any, for Anchor Investors)/unblocking of funds from ASBA Account	15-February-24
Credit of Equity Shares to demat accounts of Allottees	15-February-24
Commencement of trading of the Equity Shares on the Stock Exchanges	16-February-24

Annexure

Consolidated Financials

Profit & Loss

Rs. in Cr.

Particulars	Period ended 30-Sep-23 (6 Months)	Period ended 31-Mar-23 (12 Months)	Period ended 31-Mar-22 (12 Months)
Revenue from operations	1895.50	3300.21	2522.07
Total expenditure	1841.14	3236.20	2497.63
Operating Profit	54.37	64.01	24.44
OPM%	2.87	1.94	0.97
Other Income	3.48	5.51	4.48
PBDIT	57.84	69.52	28.92
Depreciation	11.88	24.24	19.75
PBIT	45.96	45.28	9.17
Interest	32.29	48.97	28.98
Profit before tax	13.67	-3.69	-19.81
Tax	2.03	7.42	9.63
PAT	11.64	-11.10	-29.44

Balance sheet is on next page

Balance Sheet

Rs. in Cr.

Particulars	As on 30-Sep-23	As on 31-Mar-23	As on 31-Mar-22
Non-current assets			
Property, plant and equipment	41.99	43.18	45.66
Right-of-use assets	48.38	53.69	61.66
Capital work-in-progress	0.00	0.00	0.59
Goodwill	168.31	167.03	150.24
Other Intangible assets	3.57	3.84	4.40
Intangible assets under development	0.00	0.00	0.05
Financial Assets			
Other Financial Assets	12.31	7.95	6.75
Deferred tax assets (net)	7.07	2.01	0.68
Non Current tax assets (net)	8.25	7.87	4.86
Other non-current assets	0.00	0.00	0.21
Total non-current assets	289.86	285.56	275.10
Current assets			
Financial Assets			
Inventories	387.46	341.63	310.16
Financial assets			
Trade receivables	630.49	514.88	374.60
Cash and cash equivalents	51.93	25.36	46.51
Bank balances other than cash and cash equivalent	78.43	81.48	58.89
Loans	0.11	0.59	1.02
Other financial assets	2.94	1.41	1.54
Other current assets	64.73	57.82	58.16
Total current assets	1216.09	1023.17	850.88
Total Assets	1505.95	1308.73	1125.98
Non-current liabilities			
Financial liabilities			
Borrowings	113.48	31.07	37.13
Lease liabilities	46.29	49.97	57.69
Provisions	6.31	5.40	4.43
Deferred tax Liabilities (net)	1.05	0.67	1.74
Total non-current liabilities	167.13	87.11	100.99
Current liabilities			
Financial Liabilities			
Borrowings	375.20	342.45	247.90
Lease liabilities	12.53	13.48	11.92
Trades Payable - MSME	3.03	4.40	2.34
Trade Payables - other than MSME	221.83	206.10	137.44
Other financial liabilities	39.70	30.95	41.06
Other current liabilities	18.81	20.16	11.93
Provisions	3.07	4.65	7.96
Current tax liabilities (net)	4.11	1.78	1.23
Total current liabilities	678.28	623.96	461.78
Total	845.41	711.07	562.77
Net worth represented by:			
Equity Share Capital	16.07	4.11	3.85
Instruments entirely equity in nature	702.64	663.61	618.99
Other equity	-61.08	-72.70	-61.80
Non-controlling interests	2.91	2.63	2.18
Net Worth	660.55	597.66	563.22

RANKING METHODOLOGY

WEAK	★
NEUTRAL	★★
FAIR	★★★
GOOD	★★★★
EXCELLENT	★★★★★

E-mail: researchfeedback@smcindiaonline.com



Corporate Office:
11/6B, Shanti Chamber,
Pusa Road, New Delhi - 110005
Tel: +91-11-30111000
www.smcindiaonline.com

Mumbai Office:
Lotus Corporate Park, A Wing 401/402,
4th Floor, Graham Firth Steel Compound,
Off Western Express Highway, Jay Coach Signal,
Goreagon (East) Mumbai - 400063
Tel: 91-22-67341600, Fax: 91-22-28805606

Kolkata Office:
18, Rabindra Sarani,
Poddar Court, Gate No.-4, 5th Floor, Kolkata-700001
Tel: 91-33-39847000, Fax: 91-33-39847004

Investments in securities market are subject to market risks, read all the related documents carefully before investing. Registration granted by SEBI and certification from NISM in no way guarantee performance of the intermediary or provide any assurance of returns to investors. The securities quoted are for illustration only and are not recommendatory. SMC is a SEBI registered Research Analyst having registration number INH100001849. CIN : L74899DL1994PLC063609.

SMC Global Securities Ltd. (hereinafter referred to as "SMC") is regulated by the Securities and Exchange Board of India ("SEBI") and is licensed to carry on the business of broking, depository services and related activities. SMC is a registered member of National Stock Exchange of India Limited, Bombay Stock Exchange Limited, MSEI (Metropolitan Stock Exchange of India Ltd) and M/s SMC Comtrade Ltd is a registered member of National Commodity and Derivative Exchange Limited and Multi Commodity Exchanges of India and other commodity exchanges in India. SMC is also registered as a Depository Participant with CDSL and NSDL. SMC's other associates are registered as Merchant Bankers, Portfolio Managers, NBFC with SEBI and Reserve Bank of India. It also has registration with AMFI as a Mutual Fund Distributor.

SMC is a SEBI registered Research Analyst having registration number INH100001849. SMC or its associates has not been debarred/ suspended by SEBI or any other regulatory authority for accessing /dealing in securities market. SMC or its associates or its Research Analyst or his relatives do not hold any financial interest in the subject company interest at the time of publication of this Report. SMC or its associates or its Research Analyst or his relatives do not hold any actual/beneficial ownership of more than 1% (one percent) in the subject company, at the end of the month immediately preceding the date of publication of this Report. SMC or its associates its Research Analyst or his relatives does not have any material conflict of interest at the time of publication of this Report.

SMC or its associates/analyst has not received any compensation from the subject company covered by the Research Analyst during the past twelve months. The subject company has not been a client of SMC during the past twelve months. SMC or its associates has not received any compensation or other benefits from the subject company covered by analyst or third party in connection with the present Research Report. The Research Analyst has not served as an officer, director or employee of the subject company covered by him/her and SMC has not been engaged in the market making activity for the subject company covered by the Research Analyst in this report.

The views expressed by the Research Analyst in this Report are based solely on information available publicly available/internal data/ other reliable sources believed to be true. SMC does not represent/ provide any warranty expressly or impliedly to the accuracy, contents or views expressed herein and investors are advised to independently evaluate the market conditions/risks involved before making any investment decision. The research analysts who have prepared this Report hereby certify that the views /opinions expressed in this Report are their personal independent views/opinions in respect of the subject company.

Disclaimer: This Research Report is for the personal information of the authorized recipient and doesn't construe to be any investment, legal or taxation advice to the investor. It is only for private circulation and use. The Research Report is based upon information that we consider reliable, but we do not represent that it is accurate or complete, and it should not be relied upon as such. No action is solicited on the basis of the contents of this Research Report. The Research Report should not be reproduced or redistributed to any other person(s) in any form without prior written permission of the SMC. The contents of this material are general and are neither comprehensive nor inclusive. Neither SMC nor any of its affiliates, associates, representatives, directors or employees shall be responsible for any loss or damage that may arise to any person due to any action taken on the basis of this Research Report. It does not constitute personal recommendations or take into account the particular investment objectives, financial situations or needs of an individual client or a corporate/s or any entity/s. All investments involve risk and past performance doesn't guarantee future results. The value of, and income from investments may vary because of the changes in the macro and micro factors given at a certain period of time. The person should use his/her own judgment while taking investment decisions. Please note that SMC its affiliates, Research Analyst, officers, directors, and employees, including persons involved in the preparation or issuance of this Research Report: (a) from time to time, may have long or short positions in, and buy or sell the securities thereof, of the subject company(ies) mentioned here in; or (b) be engaged in any other transaction involving such securities and earn brokerage or other compensation or act as a market maker in the financial instruments of the subject company(ies) discussed herein or may perform or seek to perform investment banking services for such company(ies) or act as advisor or lender/borrower to such subject company(ies); or (c) may have any other potential conflict of interest with respect to any recommendation and related information and opinions. All disputes shall be subject to the exclusive jurisdiction of Delhi High court.