



IPO Report

09th Feb'24

Snapshot

Entero Healthcare Solutions Ltd is amongst the top three healthcare products distributors in India in terms of revenue in Financial Year 2022, and reported an operating income of ₹25,220.65 million in Financial Year 2022. Further, company also achieved the fastest scale-up of operations among healthcare products distributors in India (between Financial Year 2019 to Financial Year 2022), and reached ₹25,000 million of operating income within four years of operations

VALUATION

Company is bringing the issue at price band of Rs 1195-1258 per share at p/e multiple of more than 100x on post issue annualized H1FY24 PAT basis.

Company operate in the large and highly fragmented Indian healthcare products distribution market and expect to benefit from market consolidation. Company is one of India's largest and fastest growing healthcare products distribution platforms. Company have a track record of inorganic expansion and integration to grow its geographic reach, revenues and scale. Company have a differentiated business model offering comprehensive and integrated commercial and supply chain solutions. Company have a proprietary technology platform with integrated business intelligence tools and solutions.

Hence ,looking after all above we recommend "Long term Subscribe" on issue.

Price Band (Rs./Share)	1195-1258
Opening date of the issue	09th Feb '2024
Closing Date of the issue	13th Feb '2024
No of shares pre issue	35,543,198 Eq Shares
Issue Size	Rs 1570-1600 Cr
Fresh issue	Rs 1000 Cr
Offer For Sale	4769475 Equity shares
No of Shares	13145080-12725244 Eq Shares
Face Value (Rs/ share)	Rs 10/share
Bid Lot	11

BIDDING DETAILS

QIBs (Including Anchor)	50% of the offer (Approx 9491256 Eq Shares)
Non-Institutional	15% of the offer (Approx 1898251 Eq Shares)
Retail	35% of the offer (Approx 1265500 Eq Shares)
Lead managers	ICICI Securities, DAM Capital, Jefferies India, JM Financial, SBI Capital Markets
Registrar to the issue	Link Intime India Pvt Ltd

WHAT WE LIKE

Company is one of India's largest and fastest growing healthcare products distribution platforms

Having commenced business in 2018, company is amongst the top three healthcare products distributors in India in terms of revenue in Financial Year 2022, and reported an operating income of ₹25,220.65 million in Financial Year 2022 (Source: CRISIL Report). Further, company also achieved the fastest scale-up of operations among healthcare products distributors in India (between Financial Year 2019 to Financial Year 2022), and reached ₹25,000 million of operating income within four years of operations (Source: CRISIL Report). During the Financial Years 2021, 2022 and 2023, and for six months ended September 30, 2023, company's retail customers amounted to over 39,500, 64,200, 81,400 and 73,700, respectively, and its hospital customers amounted to over 1,600, 2,500, 3,400 and 2,800, respectively

Track record of inorganic expansion and integration to grow company's geographic reach, revenues and scale

Company have adopted a pan-India approach towards acquiring and integrating smaller distributors to expand its geographic reach and increase the wallet share from its customers. Since the inception of Company in the Financial Year 2018, company have acquired 34 entities in the healthcare products distribution industry.

Experienced, committed and qualified founding and professional management team with deep industry expertise and backed by healthcare focused investor

Company's co-founder, Promoter, Managing Director and Chief Executive Officer, Prabhat Agrawal, is a qualified chartered accountant from the Institute of Chartered Accountants of India and is a Chartered Financial Analyst with the Institute of Chartered Financial Analysts, USA and holds a master's degree in management from Indian School of Business, Hyderabad. advertisements on behalf of global technology brands in technology and consumer media publications and regularly participate in media events. In Fiscal 2023, company received 483 media mentions.



COMPANY BACKGROUND

Company was founded in 2018 by Prabhat Agrawal, its Promoter, Managing Director and Chief Executive Officer, and Prem Sethi, company's Promoter, Whole-time Director and Chief Operating Officer, with the vision to create an organized, pan-India, technology driven and integrated healthcare products distribution platform that can add value to the entire healthcare ecosystem. Company add value to the healthcare product manufacturers that work with company by providing them reach and accessibility to pharmacies, hospitals and clinics through its integrated and technology driven, pan-India healthcare products distribution platform. As of September 30, 2023, company's 77 warehouses located across the country, last-mile delivery infrastructure and relationships with pharmacies, hospitals and clinics enables healthcare product manufacturers to make their products available to a wide range of customers. Similarly, the pharmacies, hospitals and clinics that company service get access to a wide range of healthcare products through its distribution infrastructure and its healthcare product manufacturer relationships. During the Financial Years 2021, 2022 and 2023, and the six months ended September 30, 2023, company catered to over 39,500, 64,200, 81,400 and 73,700 retail customers, respectively, and over 1,600, 2,500, 3,400 and 2,800 hospital customers, respectively. Further, as of September 30, 2023, company have supply relationships with over 1,900 healthcare product manufacturers that gives company access to over 63,900 product stock-keeping units ("SKUs").

Company's business operations are led by an experienced and driven team, comprised of professionals with experience in the healthcare and pharmaceutical industries. Company's co-founder, Promoter, Managing Director and Chief Executive Officer, Prabhat Agrawal, and its co-founder, Promoter, Whole-time Director and Chief Operating Officer, Prem Sethi, both with extensive experience in company's industry, play instrumental roles in the strategic direction and growth of company's business. Company's shareholders include OrbiMed Asia III Mauritius Limited, a healthcare-focused fund, which has provided company continuous support through its growth in business. Company have grown its business through both organic and inorganic means (i.e. through acquisition of distributors). As part of its inorganic growth strategy, company have endeavoured to take advantage of the market consolidation opportunities available in the Indian healthcare products distribution market. Accordingly, company have adopted a pan India approach towards acquiring and integrating smaller distributors to expand its geographic reach and increase the wallet share from its customers. Since its inception in the Financial Year 2018, company have acquired 34 entities in the healthcare products distribution industry. Subsequent to the completion of an acquisition, company deploy its growth strategies such as product portfolio expansion, increased customer reach, improved service levels, and technology-based solutions to increase company's market share. Given company's track record in acquiring and integrating smaller distributors across India, company have been able to continuously attract distributors to become acquired by and integrated with company. Post such integration, company derive synergies from the acquisition, which helps in the overall growth of company's business. Company's Subsidiaries purchase pharmaceutical / healthcare products from product manufacturers or their appointed CFAs and sell the products to the pharmacies and hospitals in their respective local markets. Company's Subsidiaries benefit from its technology infrastructure, manufacturer relationships, central procurement support and banking relationships. This helps the Subsidiaries to grow their business and increase their market share in their respective local markets. Further, company also engage in the marketing of third-party brands and sale of its private label brands at a national level (a part of such sales is to company's Subsidiaries and inter-company revenues are eliminated at a consolidated level)..



INVESTMENT RATIONALE

<p><i>Company operate in the large and highly fragmented Indian healthcare products distribution market and expect to benefit from market consolidation</i></p>	<p>According to the CRISIL Report, the target addressable market for pharmaceutical distributors in India is valued at ₹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. According to the CRISIL Report, 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. The Indian pharmaceutical distribution market remains very fragmented with traditional local distributors having a market share of 90% to 92%, with large / national distributors having a market share of 8% to 10% (Source: CRISIL Report). According to the CRISIL Report, market consolidation in India’s pharmaceutical distribution market is expected to be supported by factors such as introduction of the Goods and Services Tax regime and benefits presented by the consolidation of the segment, such as access to additional capital, better resource management, advantages of scale, procurement and operational efficiencies and management expertise, establishment of a technology-driven country-wide distribution network, better infrastructure, quick turnaround times and high fill rates. According to the CRISIL Report, large / national pharmaceutical distribution players accounted for 8% to 10% share of total distributor sales in Financial Year 2023, and is expected to rise to 20% to 30% by Financial Year 2028. In the developed markets, established pharmaceutical distributors have focused on consolidation and account for a market share of over 90% to 95% of the overall pharmaceutical distribution market in the United States and approximately 95% to 97% in Germany.</p>
<p><i>Track record of inorganic expansion and integration to grow its geographic reach, revenues and scale</i></p>	<p>Company have endeavoured to take advantage of the market consolidation opportunities available in the Indian healthcare products distribution market. Accordingly, company have adopted a pan-India approach towards acquiring and integrating smaller distributors to expand its geographic reach and increase the wallet share from its customers. Since the inception of Company in the Financial Year 2018, it have acquired 34 entities in the healthcare products distribution industry. Company have an on-ground acquisition team to identify acquisition opportunities in the markets for entry or expansion. Subsequent to the completion of an acquisition, company deploy its growth strategies such as product portfolio expansion, increased customer reach, improved service levels, technology-based solutions to increase its market share. Company’s established, data and process-driven and well tested acquisition, integration and growth approach is replicable in the existing markets it is present in and in the new geographies that company choose to enter. Given its track record in acquiring and integrating smaller distributors across India, company have been able to continuously attract distributors to become acquired by and integrated with company.</p>
<p><i>Differentiated business model offering comprehensive and integrated commercial and supply chain solutions</i></p>	<p>Through its expansive nationwide distribution network, well-developed integrated technology platforms, coupled with company’s relationships with retail pharmacies and hospitals, trained sales force and experienced business support teams (including marketing, branding, supply chain and finance teams), company is able to offer a variety of opportunities for brands to expand their footprint in India in a cost-efficient manner. Further, company is in a position to benefit from synergies, and complement its distribution services with marketing and promotion offerings with healthcare product manufacturers to not only distribute but also market and promote their brands to provide better access to medicines for patients in India. For example, in June 2020, company entered into an agreement with Roche Products (India) Private Limited for rights of promotion, marketing and distribution of its four nephrology drugs in India.</p>



OBJECTS OF OFFER

The Offer comprises of the Fresh Issue of Equity Shares, aggregating up to ₹ 10,000 million by Company and an Offer for Sale of up to 4,769,475 Equity Shares by the Selling Shareholders.

Objects of the Fresh Issue

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

1. Repayment/prepayment, in full or part, of certain borrowings availed of by Company.
2. Funding of long-term working capital requirements of the Company and its Subsidiaries during Fiscals 2025 and 2026.
3. Pursuing inorganic growth initiatives through acquisitions.
4. General corporate purposes.

RISKS

Company have experienced negative cash flows from operating, investing and financing activities in the past and may continue to do so in the future.

Source:RHP

INDUSTRY OVERVIEW

Key trends for the Indian pharmaceutical distribution market

Consolidation in the distribution industry

The Indian pharmacy distribution market is highly fragmented, with regional players. Currently, pharmaceutical and healthcare product manufacturers have considerable distributors across the value chain. Manufacturers, as well as retail pharmacies, may prefer lesser distributors for better supply chain operational efficiencies with reduced complexities. These operational efficiencies can be achieved through reduced logistics costs as a result of streamlined procurement and distribution, as provided by large/national distributors. The industry incurs 4-6% of revenue as logistics costs, and thus, with operational efficiencies in the pharmaceutical supply chain, these costs can be reduced. The pharmacy distribution industry has companies that usually operate regionally and have a limited portfolio of products. In recent times, however, the industry has seen consolidation, with larger/national players acquiring smaller and local traditional distributors. This allows players to have a wider product portfolio, as well as greater geographical reach, in a particular market. Consolidation has also helped the supply chain from the perspective of suppliers (pharmaceutical and healthcare product manufacturers) and retail pharmacies. Large/national players also typically provide higher fill rates to retail pharmacies. Consolidation is expected to positively impact the overall pharmaceutical distribution supply chain, with faster and convenient order placement and increased operational efficiencies.

Technological advances to support operational efficiencies in distribution

Over the past few years, technology has become an integral part of industries, ranging from automobiles to pharmaceuticals. Technological advancements, such as artificial intelligence and data analytics, are used in pharmaceutical distribution to enhance customer offerings, given that they help develop better insights that would help further in inventory management, improving fill rates, and generating efficient recommendations for enduser segments such as retailers, creating demand for the distribution segment. In addition, technology would aid faster deliveries, helping reduce logistical barriers and improve the operational efficiency further. From end consumers' point of view, technology, especially Internet, is playing a critical role in determining how services are offered by businesses. From B2B businesses to retail customers, the usage of Internet in delivering product services is critical. India has witnessed a significant surge in Internet users over the past few years, with penetration as a percentage of the total population reaching ~64% in fiscal 2023 from less than 20% in fiscal 2015. CRISIL MI&A Research expects the total number of Internet subscribers to reach 1,000 million by fiscal 2026, resulting in ~75% Internet penetration. The use of Internet and allied technology in businesses will be a key success factor for companies.

Omnichannel adoption to improve demand for pharmaceutical distribution

The term omnichannel refers to an engagement that integrates events and channels (offline and online models) through which customers buy medicines. In recent times, retail pharmacies have been adopting omnichannel strategies to expand their user base across regions. With the advent of technology in the space and increase in Internet penetration in the country, e-retailers have seen keener penetration. In addition to offline pharmacies, e-pharmacies are starting to penetrate the Indian pharmacy distribution market. This omni-channel presence would back demand for the distribution segment, as retail players try to expand their customer base through online and offline distribution channels.

Higher demand for surgical and medical devices

Surgical and medical devices are sold through retail pharmacies, along with pharmaceutical products. These devices include syringes, needles, and diagnostic devices, and are also often pushed through the distributors' channels already used for pharmaceutical products. Increased health awareness and a changing attitude towards preventive healthcare have helped demand in the surgical and medical devices space. Growth in the segment can benefit pharmaceutical distributors, as surgical and medical devices are often pushed through these same pharmaceutical distribution channels to retail pharmacies and hospitals.



Consolidated Financials

(Rs in Mn)

	FY21	FY22	FY23	H1FY24
Total Revenue (A)	17797.37	25220.65	33002.00	18955.00
Total Expenditure (B)	17581.92	24976.27	32362	18411.35
EBIDTA	215.45	244.38	640.00	543.65
EBIDTA Margin	1.21	0.97	1.94	2.87
Other Income	39.31	44.83	55.14	34.76
Depreciation	162.76	197.54	242.37	118.79
EBIT	92.00	91.67	452.77	459.62
Interest	200.38	289.78	489.72	322.91
PBT	-108.38	-198.11	-36.95	136.71
Tax	45.16	96.28	74.16	20.30
PAT	-153.54	-294.39	-111.11	116.41
NPM	-0.86	-1.17	-0.34	0.61
ROE%	-3.15	-5.22	-1.87	1.79
EPS	-5.29	-9.22	-3.10	2.95
Eq Cap	1.00	38.50	41.12	160.67
Net Worth	4,881.10	5,642.28	5,931.07	6,506.44

(Source: RHP)

Peer Comparison

Company Name	Face value	P/E	Revenue from operations (Rs in Mn)	EPS	NAV	ROE %
<i>Entero Healthcare Solutions Limited</i>	<i>10</i>	<i>NA</i>	<i>33057.21</i>	<i>-3.43</i>	<i>174.21</i>	<i>-1.86</i>
Peers						
MedPlus Health Services Limited	2	177.21	46036.54	4.17	124.93	3.36

(Source: RHP)



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