

Entero Healthcare

10 August 2026

Operator: Ladies and gentlemen, good day and welcome to the Q1 FY27 earnings conference call of Entero Healthcare Solutions Ltd., hosted by Monarch Network Capital Limited. As a reminder, all participant lines will be in 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 the operator by pressing star and then zero on your touchtone phone. Please note that this conference is being recorded. Please note that this conference call may contain forward-looking statements about the company, which are based on the beliefs, opinions, and expectations of the company as of the 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 Network Capital Limited. Thank you, and over to you, sir.

Rahul Dani – Monarch Network Capital: Thank you, Julius. Good afternoon, everyone, and a warm welcome to Entero Healthcare Solutions Ltd.'s Q1 FY27 call. On today's call, we have, representing Entero Healthcare Solutions, the management team comprising Mr. Prabhat Agrawal, Managing Director and CEO, and Dr. Balakrishna Kaushik, Group CFO. We also have SGA, the IR partner. I will hand the call to management for the opening remarks, and then we will move to the Q&A. Thank you, and over to you, sir.

Prabhat Agrawal – MD & CEO: Thank you. Good afternoon, everyone. Thank you for joining our earnings conference call to discuss the performance of Q1 FY27. My name is Prabhat, and I am joined by Balakrishna Kaushik, Group CFO, and SGA, our investor relations advisors, on the call. I hope everyone had an opportunity to go through the financial results and investor presentation, which have been uploaded on the stock exchanges as well as on our company's website.

We have started FY27 on a very strong footing. Consolidated revenue grew 38.2% year-on-year to Rs. 1,940 crore, and on a like-for-like basis, which adjusts for the impact of revenue recognized on a net margin basis and the divestment of a subsidiary in the base period, growth was even stronger at 40% year-on-year. This top-line performance was accompanied by continued and meaningful margin improvement, with EBITDA margin reaching 5% for the quarter. We are pleased to have delivered our full-year FY27 EBITDA margin guidance in the very first quarter of the year.

Now, coming to the composition of this revenue growth, organic revenue growth for the quarter was 17.8% on a reported basis and 19.6% on a like-for-like basis, comfortably ahead of the underlying pharmaceutical market's growth of 13.8%. Inorganic growth was 20.4%, and the entirety of this growth came from the calendarization of acquisitions completed last year. There were no new acquisitions during Q1 FY27. As we also discussed in our last earnings call, we completed a significant volume of M&A over the preceding 2 years, and our stated priority for this year is to consolidate, integrate, and organically build upon the platform we have already created. We remain open to compelling opportunities should they arise, especially in the last quarter of this financial year.

Also in our last earnings call, we had communicated about certain low-margin businesses that we were consciously exiting to release working capital for deployment into higher-return opportunities. That process continued during this quarter and impacted our reported growth by around 2.5%.

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Gross margin expanded 147 basis points year-on-year to 11.4%, and EBITDA margin expanded 130 basis points to 5%, while EBITDA grew 94% year-on-year, nearly two and a half times our revenue growth rate. This margin expansion was driven by three levers: scale-led procurement economies, a growing share of revenue from the MedTech business, where we play a full commercial role rather than a pure fulfillment role, and the deliberate exit from certain low-margin accounts. Having achieved the 5% EBITDA margin in the first quarter itself means we are already tracking well against our full-year FY27 guidance, and our focus for the upcoming quarters will be on sustaining and, where possible, building further on this margin base.

Profit after tax for the quarter was 52 crore, up 72% year-on-year, with a PAT margin of 2.7%. Profit after tax attributable to owners was Rs. 38 crore, up 37% year-on-year. I would like to provide some clarification regarding the non-controlling interest, which stood at Rs. 14 crore for the quarter, or approximately 27% of profit before minority interest. As many of you are aware, our acquisition structure in a few acquisitions involved a majority buyout but not a full 100% stake. We have a pre-agreed, contractually defined call option, subject to certain conditions, to acquire the residual minority stake over a defined time horizon, exercisable at a valuation multiple consistent with the multiple paid at the time of the original acquisition. A non-wholly owned subsidiary that outperforms will show a larger minority interest, and this is a function of that business doing well, not of value leaking out to third parties. We always retain full operational and cash flow control over every one of these entities, and the minority share of profit is always reinvested in the business and not paid out. The minority interest could be bought out by the company as per the contractually agreed call option terms over a period of time.

Net working capital days improved to 61 days from 66 days a year ago, continuing the structural efficiency gains from the initiatives we have been taking over the past few quarters. Return ratios showed significant improvement in this quarter. ROCE nearly doubled year-on-year from 11.5% to 21.1%, and ROE moved from 9% to 20.4%. Both figures are also comfortably ahead of our full-year FY26 numbers, which shows the improvement in the returns structure. This is the clearest evidence that our growth is combined with capital efficiency.

Our MedTech segment will continue to be the most important structural lever in our medium-term margin story. MedTech revenue is on track to cross 1,000 crore in FY27 on an organic basis and continues to carry higher gross and EBITDA margins than our core pharmaceutical distribution business. Our focus for the year is on deepening these existing relationships and building organic capability in this segment. Operationally, our platform continues to scale. We now serve over 72,000 retail customers and more than 2,300 hospital customers, distribute over 83,400 SKUs, and maintain relationships with more than 3,000 healthcare product manufacturers, supported by 138 warehouses across 475 districts in 19 states. This scale and the two-way network effect it creates between our supplier base and our customer base remain, in our view, the core and extremely difficult-to-replicate moat that anchors this business.

We remain firmly committed to our stated FY27 guidance of consolidated revenue growth of approximately 25% year-on-year, excluding any contribution from new acquisitions, alongside an EBITDA margin of 5% and EBITDA-to-operating-cash-flow conversion of 50%. Beyond FY27, we believe Entero has built a differentiated, scalable, and resilient healthcare distribution platform that is well-positioned to compound over the long term. The Indian healthcare products market remains

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large and fragmented and is expected to continue growing at a healthy double-digit pace, creating significant opportunity for industry consolidation and market share gains. Our pan-India distribution network, expanding MedTech portfolio, technology-enabled supply chain, and disciplined capital allocation provide a strong foundation for sustainable growth. We are confident that the platform we have built today positions Entero to become India's leading integrated healthcare product distribution company over the next decade, thereby creating sustainable long-term value for our shareholders. With this, I close my opening remarks and invite people to ask questions. Thank you.

Operator: Thank you. We will now begin the question-and-answer session. Anyone who wishes to ask a question may press star and one on their touchtone telephone. If you wish to remove yourself from the question queue, you may press star and two. Participants are requested to use handsets while asking a question. Ladies and gentlemen, we will wait for a moment while the question queue assembles. Thank you. The first question is from the line of Bharat Shesha from BCS Capital Advice Private Limited. Please go ahead.

Bharat Shesha – BCS Capital Advice Private Limited: Hi, Prabhat. I think the first quarter is just a reflection of the strategic outline that you have been painting over a period of time, so I am delighted to see clearer fruition of that. I have a couple of questions. First, if our inorganic activity is going to be somewhat muted, as you have strategically decided and outlined, and the focus will be on consolidating the existing operations over the next 3 to 5 years, if we assume that no more acquisitions are made and, let us say, IPM growth is approximately 7–9%, what kind of growth rate for Entero can we assume?

Prabhat Agrawal – MD & CEO: Thank you. The industry structure in which we operate and the right to win that we have in a very fragmented industry structure, I believe, give us an opportunity to grow in excess of 20% over the medium term, both organically and inorganically combined. As of now, our focus is mainly on organic growth because we believe that we have created enough moat, platform, opportunities, relationships, and customer base to help us grow organically very well in the near term. This year, our focus has primarily been on organic growth. At the same time, we continue to look for inorganic opportunities that can add value to our network. So, coming back to your question, in the near term we believe that we should be able to grow in excess of 20%.

Bharat Shesha – BCS Capital Advice Private Limited: By near term, do you mean 3 to 4 years?

Prabhat Agrawal – MD & CEO: Three to 4 years, yes.

Bharat Shesha – BCS Capital Advice Private Limited: Okay. And if we assume no acquisition, would you still envisage this kind of growth?

Prabhat Agrawal – MD & CEO: Yes, this is our internal target for us to deliver.

Bharat Shesha – BCS Capital Advice Private Limited: Okay. And I was delighted to see the improvement [inaudible]

Bharat Shesha – BCS Capital Advice Private Limited: ...on return on capital employed and return on equity. There is still a long way to go, but supposing we continue with the same question, if we make no more acquisitions, theoretically speaking, and we grow at 20% over, let us say, the next 3

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to 4 years, at the end of the third or fourth year, what kind of return on capital employed would you think would be possible?

Prabhat Agrawal: Anywhere in the range of 25% to 30%.

Bharat Shesha – BCS Capital Advice Private Limited: 25% to 30%. Okay. And margin improvement, I suppose, has happened due to MedTech business growth. Is that assumption correct?

Prabhat Agrawal: It is a combination of all the reasons that I outlined in my speech, but MedTech was an important contribution.

Bharat Shesha – BCS Capital Advice Private Limited: And the last thing: while you have many times outlined clear strengths as a distribution house and your own moats, what I am still curious to understand in greater depth is what makes us improve our market share or, in other words, grow much faster than the IPM. If you can explain that in deeper detail, that would be helpful.

Prabhat Agrawal: This is a question that we have been addressing for many years now. In fact, this is the question that we asked ourselves when we started this company: what is it in Entero that can help us grow faster than the industry? That is the whole basis for forming this company. I will repeat again for everyone's benefit that we have a unique value proposition, and that helps us outpace the market growth rate. We have a unique value proposition both for our customers and for the principal companies that we work for.

For the customers, our unique value proposition is the range, the number of products that we carry. We are working with more than 3,000 companies in India whose products we distribute. For the customers, it is like a one-stop shop. They can get such a wide product range from one distributor, which makes them come back to us again and again, because the alternative for them is to buy from a fragmented distributor base, which means they have to work with many distributors to assemble that product range. The product availability, the fill rate that we can provide, and the service levels that we provide through our technology create a very strong, unique value proposition for our customers.

For the principal companies, we provide them with all-India access and all-India reach. By working with us, they get access to such a large geography in India. They get access to such a large customer base. So, it is a two-way moat. We have so many companies because we have so many customers, and we have so many customers because we have so many companies. It is a two-way network that we have created that gives us the right to win.

Bharat Shesha – BCS Capital Advice Private Limited: Clearly, you have explained it many times along similar lines. If you permit me just one last point, your relatively lower emphasis on inorganic activity going forward, unless something meaningful and attractive comes up, is it more because you think acquisition opportunities per se are going to be fewer compared to the past, or is it a reflection of the internal strategy of growing the business from within?

Prabhat Agrawal: There is no dearth of opportunities to acquire inorganically. There are enough distributors in India who are willing to transact. There are many sellers where there are not many buyers. The buyers are basically limited to one or two organized players like us, but there are a lot of

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organized and unorganized distribution companies that are willing to sell. So, it is not a dearth of opportunities; it is basically our own internal strategy to focus on building what we have already created.

An acquisition serves a purpose. It is not an end in itself; it is a means to an end. In the initial years, we focused more on acquisitions because we wanted to build a network. Now we have substantially built a network. There are a lot of organic opportunities that can be created over this network. But, again, as I said, we keep our ears and eyes open to acquisition opportunities, and we will proceed when we believe an acquisition has something to add to our network.

Bharat Shesha – BCS Capital Advice Private Limited: Sure, thank you, Prabhat. I hope Entero achieves many of the future value-creation points. Thank you, and all the best.

Prabhat Agrawal: Thank you.

Operator: Thank you. A reminder to all participants: please restrict yourself to 2 questions. The next question is from the line of Arnav Sakunja from Ambatt Capital. Please go ahead.

Arnav Sakunja – Ambatt Capital: Hi, thanks for taking my questions. My first question is that now that our subsidiaries have started generating cash flows, what is the mechanism for bringing the cash flow back to the parent company to further fund acquisitions?

Prabhat Agrawal: Most of these subsidiaries have been funded through inter-company deposits or inter-company loans. Once they start generating money, we pull back those inter-company loans, which gives us cash flow in the parent company to acquire more businesses.

Arnav Sakunja – Ambatt Capital: Got it. I would also like a clarification on one thing that you mentioned in your opening statement about the non-majority buyout of these subsidiaries. I noticed that this value was included in the presentation, but compared to previous presentations, is there any new development, or has the language for this buyout option always been there and just been added for clarification purposes?

Prabhat Agrawal: No, it was always there. When we acquire a majority stake in any company, we also create a path to acquire the rest because, at the end of the day, there is nobody else who can acquire that balance stake from that distributor. Whenever we do a transaction where we are not buying 100%, we already have a defined path, method, formula, valuation, and everything agreed upon at the beginning itself. There is no single agreement that we have signed for any M&A opportunity where we have not defined that.

Arnav Sakunja – Ambatt Capital: On average, what would be the defined time horizon for each of these acquisitions?

Prabhat Agrawal: It could be anywhere between 2 to 5 years.

Arnav Sakunja – Ambatt Capital: Okay, that is all for the strong set of results. Thanks for taking my questions.

Prabhat Agrawal: Thank you.

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Operator: Thank you. The next question is from the line of Akshat Mehta from Seven Rivers Holding. Please go ahead.

Akshat Mehta – Seven Rivers Holding: Hello, sir. Am I audible?

Operator: Yes, sir.

Akshat Mehta – Seven Rivers Holding: My first question is regarding the margins. If you can help us understand sequentially, from Q4 to Q1, the improvement in distribution margin, what are the key factors that have led to that improvement? On a ballpark basis, was it the MedTech acquisition that we completed in Q4, some operational efficiencies, or a product-mix change? Since we have already achieved a 5% margin in Q1, can we look at further improvement in the later quarters of FY27? That is my first question.

Prabhat Agrawal: From Q4 to Q1, we were already close to 5%. If you remember, we had also given a clarification that there were certain one-off items in Q4 that brought down our margins. If you remove these one-off items, we were already close to 5%. Going forward, our aspiration and target is to improve margins further from here.

Akshat Mehta – Seven Rivers Holding: Secondly, I also want to understand, since we are not doing any major acquisition this quarter, how should we look at two kinds of expenses? One is operating expenses, including employee costs and other expenses, and the other is interest costs for the rest of the year.

Prabhat Agrawal: For employee expenses, most of the impact comes in Q1 because that is when the increment cycle takes place, effective from April 1. So you should not expect any major increase in employee expenses from here onward. As for interest cost, why don't you respond to that?

Management: On interest cost, we had taken debt for the last acquisition that we completed. The increase in interest cost that we are seeing from Q4 to Q1 is primarily because of the full-quarter impact of the interest. We had taken the disbursement around the end of January or early February in Q4, and now we are seeing the full impact for the quarter. We had also taken about {? 200 crores ?} of debt for the acquisition. So, it is primarily because of that.

Akshat Mehta – Seven Rivers Holding: How should we look at this for the rest of the year? Should it decline on a quarter-on-quarter basis?

Management: This will broadly remain in the same range. We do not expect it to decline significantly, but it will broadly remain in the same range. We do not expect it to increase either.

Operator: Sorry for interrupting, Mr. Akshat. Please rejoin the queue for more questions. The next question is from the line of Khushi from Nuvama. Please go ahead.

Khushi – Nuvama: I have one question. What is the acquisition pipeline for FY27?

Prabhat Agrawal: I have already clarified this question. We are not looking for any major acquisition in FY27. We have a pipeline, but we do not see ourselves doing large acquisitions during this year.

Khushi – Nuvama: Okay, thank you.

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Operator: Thank you. The next question is from the line of Sheetal from Girik Capital. Please go ahead.

Sheetal – Girik Capital: Thank you to the team for the opportunity, and congratulations on the good set of numbers. We started this quarter with a very strong print. I have a couple of questions. The first is on other operating expenses, which I believe had a higher sequential impact in Q4 because of the one-off. There was 55–56 crore, including 11.5 crore of one-off items. This quarter, we have reported a similar trend. Is this a clean level of other operating expenses, and is this what we should expect going forward?

Prabhat Agrawal: The 11 crore that we mentioned did not go entirely into other expenses. Part of it also went into gross margins. The one-off items that we disclosed earlier, relating to the closure of certain businesses and so on, did not go fully into other expenses; only part of them went into other expenses.

Sheetal – Girik Capital: So, is this 55–60 crore level largely sustainable as a percentage? Also, if I look at the sequential inorganic component, in the last quarter we reported almost 340-odd crore of growth, which contributed almost 26% to our Q4 revenue growth. This quarter, that number is around 20.4%, which translates into a difference of almost 70-odd crore or 60-odd crore. Why should the revenue from the new acquisition not largely translate into calendarization in the current quarter? Ideally, it should. Last quarter, you mentioned that the supply to the diagnostic PPP contract was contributing to a high base in Q4. Was that one of the reasons, or is there anything else you would like to highlight?

Prabhat Agrawal: No, that is the primary reason. In the last call, I also said that there were certain government projects that we were executing, and there was a postponement of billing in the last quarter because government budgets were being closed. As a result, part of the Q1 revenue was pulled into the Q4 revenue of last year.

Sheetal – Girik Capital: Got it. I will join back in the queue. Thank you.

Operator: Thank you. The next question is from the line of Alok Dalal from Jefferies. Please go ahead.

Alok Dalal – Jefferies: Yes, hi. Good afternoon, and congratulations on a very good quarter. I have a couple of questions. Of late, we have seen an improvement in IPM. Apart from GLP-1, is there anything else driving this?

Prabhat Agrawal: We are also very pleased to see higher growth in IPM over the last 2 quarters. Earlier, it used to be around 7–9%, and now it has moved to double-digit growth, primarily driven by volume growth. Earlier, volume growth was muted or even negative, and now it has turned positive. It is an all-round improvement, and we are seeing higher growth across therapy areas than before.

Alok Dalal – Jefferies: Is it specific to any region, or—

Alok Dalal – Jefferies: Is there any specific factor that you have come across that is leading to this sudden shift in IPM growth?

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Management {? Prabhat ?}: We are not able to decipher the exact reason for the meaningful change in the growth rate. Even though we are experiencing that growth, we are not able to isolate any specific reason or factor for it.

Alok Dalal – Jefferies: Do you think this is a sustainable growth number, or could it start reverting to the mean after a couple of quarters?

Management {? Prabhat ?}: You mean the IPM growth rate?

Alok Dalal – Jefferies: Yes, the IPM growth rate.

Management {? Prabhat ?}: I cannot forecast what the IPM growth rate could look like in the next few quarters. But what I can say is that we are confident about the growth rate that we are projecting. In fact, we had built our organic forecast on a lower industry growth rate.

Alok Dalal – Jefferies: All right. Despite that, you achieved 19% on a like-for-like basis, which is a very healthy number.

Management {? Prabhat ?}: To be honest, this number was {? 22% ?}, because we consciously cut down 2.5% of growth.

Alok Dalal – Jefferies: Correct. You mentioned that. My second question is on working capital. Given the significant improvement in the first quarter itself versus last year, is there new guidance for working capital days for FY27?

Management {? Prabhat ?}: No, we will stay with our guidance. I am not revising any guidance numbers based on Q1 performance. Perhaps after we complete one more quarter, we might discuss what the guidance could be for the rest of the year and the second half.

Alok Dalal – Jefferies: All right. My last question is regarding the revenue growth—

Operator: Sorry for interrupting, Alok. Please rejoin the queue for more questions. Thank you. Alok, you can connect with us separately. Thank you. The next question is from the line of Vansh Solanki from RHPL Ventures. Please go ahead.

Vansh Solanki – RHPL Ventures: Hi, Prabhat. Good morning. Good afternoon, actually. My question is on depreciation. In the last call, management said that depreciation had increased due to the acquisition of Anand Chemical, Anand. The business model involves supplying machines to customers. However, on a quarter-on-quarter basis, depreciation has decreased. What will be the range going forward?

Management {? Prabhat ?}: There were certain machines in the last quarter on which we had taken depreciation because we wanted to accelerate the depreciation of those machines, given the kind of revenue those specific machines were generating. Going forward, the number you are seeing now is what you will see broadly as depreciation going forward. What you are seeing in Q1 is what you will see going forward, subject to any new major capex.

Vansh Solanki – RHPL Ventures: Okay. My second question is on income tax. Do we have any deferred tax asset balance with the company? If I assume that by the end of FY27 or in FY28, we

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will have a normalized effective tax rate of 25%, is that assumption correct?

Management {? Prabhat ?}: Currently, we do have deferred tax assets. The guidance we have given for FY27 is 22.5%. We will discuss guidance for FY28 and beyond when we are closer to the end of FY27.

Operator: Thank you. Sorry for interrupting, Mr. Vansh. Please rejoin the queue for another question. The next question is from the line of Simran Thakur from Bace Capital. Please go ahead.

Simran Thakur – Bace Capital: Thank you for taking the question. There was a deal that you completed through a BTA with Vishal {? Vyasai ?} Pharma. Could you please let us know what the deal is about, the consideration size, its revenue and margin profile, and how it would contribute to the top line and margins going forward? Also, is it in the diagnostics space, cardio, or surgical consumables?

Management {? Prabhat ?}: That is a fairly small deal compared to the size of operations we have today. It is an acquisition that we have completed in the state of Andhra Pradesh to build on the surgical consumables business profile. It will be integrated with one of our businesses in Andhra Pradesh, and it will help that business diversify into the surgical consumables space, which is typically a higher-margin business than pure pharmaceuticals.

Simran Thakur – Bace Capital: What revenue and margin profile can you mention, and what is the consideration size?

Management {? Prabhat ?}: The revenue is not meaningfully large and does not contribute any significant number to our overall business size.

Simran Thakur – Bace Capital: Understood. Thank you.

Operator: Thank you. The next question is from the line of Akhil Parekh from 361 Capital. Please go ahead.

Akhil Parekh – 361 Capital: Thanks for the opportunity, and many congratulations on the strong execution. My first question is on market share. Can you provide some color on where our market share stands [inaudible]?

Operator: Sorry to interrupt, sir. Please use your handset. Sir, your voice is not audible. Hello, sir? There is still some [inaudible] disturbance. Just one second. Sorry, sir, your voice is not audible. Please rejoin the queue for more questions. The next question is from the line of Kumar Saurabh from Scientific Investing. Please go ahead.

Kumar Saurabh – Scientific Investing: Hi, Prabhat. Congratulations on a great set of numbers. My question is around the point that we have reached a level where, for incremental growth of more than 20%, whatever incremental working capital is required, if I remember your guidance correctly, we want to convert 50% of EBITDA to OCF, which gives us only around 100 crores. My sense is that we are at a point where, because of our margin improvement, we should be able to take care of the incremental working capital through our internal accruals. If we are able to do that, it means we will be able to convert a higher percentage of EBITDA to PBT. We have already made significant

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progress; 2 years ago, we were at 33% PBT to EBITDA, and now we are around 60%.

Do you think that over the next 2 to 3 years, first, we will not need incremental debt if we are not pursuing further acquisitions? Second, do you see the possibility of reducing this debt over a period of time if we are not pursuing incremental acquisitions? How do you see this developing over the long term? Do you see that you will return to acquisition mode, or will you be more interested in paying down the debt and improving your PBT-to-EBITDA ratio, which would ultimately give us operating leverage on the profitability side versus revenue growth?

Management {? Prabhat ?}: First of all, let me clarify what I mean by OCF. OCF is after accounting for changes in working capital. When I say that 50% of EBITDA is converted to OCF, it means that EBITDA minus changes in working capital, whatever remains, is supposed to be 50% of EBITDA. Being OCF-positive does not, by itself, mean that you have enough internal accruals to fund your working capital changes.

If we are saying that this year we will have 50% remaining after accounting for working capital changes, that money could be used for acquisitions, paying off debt, or buying out minorities. There are multiple uses for that extra cash flow. We need to assess and compare which option gives us the greatest incremental improvement in EPS, and accordingly we will deploy that money. We could either pay off debt or pursue an acquisition, which should help us increase our sales growth rate. Either way, it should boost our PAT.

Of course, the money will not be kept idle, and we are not proposing to declare a dividend or anything like that. That money will be reinvested in the business, and it could be reinvested in ways that create maximum shareholder value.

Kumar Saurabh – Scientific Investing: Got it. My second and last question is on IPM growth. One gentleman also asked this question, and you have been in this industry for a long time. Can you educate us on the cyclicity of this industry? IPM growth fluctuates between 7% and 14%, and the last time, in 2023, it did not sustain; it came down from 16%. Can you educate us on the cyclicity and, usually, how volume compares with value? What has the contribution been over the long term?

Management {? Prabhat ?}: If you look at cyclicity within a year, typically Q2 is the quarter in which the maximum contribution to IPM occurs. If you take the 4 quarters as 25% each, Q2 is typically the highest. Q1 is approximately 22–23% of total sales, and then volume and everything else typically picks up in Q2 in the pharmaceutical industry.

If you are asking for my view on the long-term growth trend, we were in a cycle of 10–12%, then we went down to 7–9%, and we have again returned to a 10–12% growth rate in IPM. As Alok asked me earlier about my view or forecast, I said I was unable to provide a forecast because I am not able to isolate any specific factor that has led to this change.

Operator: Sorry for the interruption, Mr. Kumar. Please rejoin the queue for more questions. The next question is from the line of Deepak Ajmera from IGE India. Please go ahead.

Deepak Ajmera – IGE India: Thank you for the opportunity, and congratulations on the good set of numbers. On the capital distribution side, I want to ask what has been the source of our excess

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growth over IPM? Is it therapeutic areas or something else?

Management {? Prabhat ?}: It is primarily an increase in wallet share from customers or growth in the number of customers. The increase in wallet share is primarily coming from our USP, which is the better fill rate, better product availability, and the better range that we offer to our customers. It is also coming from the additional collaborations we are able to establish with companies.

Deepak Ajmera – IGE India: Secondly, the participation of generic drugs has been consistently increasing in the overall pharmaceutical market. In that environment, how can we be so certain about maintaining or expanding margins?

Management {? Prabhat ?}: I am sorry, I lost you during the first part of your sentence. Can you please repeat the question?

Deepak Ajmera – IGE India: My question is that the participation of generic drugs is consistently increasing in the overall pharmaceutical retail market. In that environment, as other companies such as Dawaa India are struggling to maintain or expand margins, how can we be so certain of margin expansion and maintenance?

Management {? Prabhat ?}: The Indian generic drug market is primarily divided into 4 categories of drugs. One is patented drugs, the second is branded generics, the third is trade generics, and the fourth is pure generic-generic drugs. We participate in the first 3 segments: patented drugs, branded generics, and trade generics. We do not participate significantly in pure generic-generic drugs.

However, 98–99% of the Indian pharmaceutical industry consists of the first 3 segments, and we are represented in all 3. So, if trade generics are growing, we are also benefiting from that growth rate.

Operator: Sorry for interrupting, Mr. Deepak. Please rejoin the queue for more questions. The next question is from the line of Niten Agarwal from DAM Capital. Please go ahead.

Niten Agarwal – DAM Capital: Hi, thanks for taking my question, Prabhat. Congratulations on hitting the 5% EBITDA margin mark. We have now had the MedTech acquisition with us for some time. In your experience, what kind of value-creation opportunities do you see in these MedTech transactions as you integrate them, compared with the prior transactions or prior acquisitions of pharmaceutical distributors? Do you see more opportunities for synergies and value creation in MedTech businesses versus traditional pharmaceutical businesses? What kind of opportunities do we see from here?

Management {? Prabhat ?}: Both segments create opportunities for us or present opportunities for us. In the case of MedTech, we can establish many pan-India or national-level collaborations. Those opportunities are much more available in MedTech compared with pharmaceuticals. In MedTech, we can also play a commercial role, where we are responsible for end-to-end demand generation and fulfillment. Those kinds of opportunities are plentiful in this segment.

MedTech distribution is limited to very few players. There are a much larger number of distributors in pharmaceuticals than in MedTech. Therefore, collaboration with companies in MedTech could be more meaningful, more value-added, and more comprehensive. That is what I see going forward.

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Niten Agarwal – DAM Capital: In this business, assuming hypothetically that—

Niten Agarwal – DAM Capital: Now that we are not pursuing any more acquisitions in MedTech, what kind of growth can one achieve in this business over a 3–5 year period?

Management: We can definitely target 20% growth rates in MedTech because the opportunities are also large. There is not enough competition in MedTech compared with pharmaceuticals.

In pharmaceuticals, there are many distributors because the role of the distributor is demand fulfillment, which is related to warehousing, logistics, and so on. In MedTech, we play a meaningful role in creating demand for the product. In such a scenario, the opportunities are greater.

Niten Agarwal – DAM Capital: I was trying to understand whether it is possible for us to grow much beyond 20% on the current platform that you have created without making further acquisitions, or whether that is purely unrealistic.

Management: I think it is a fair assumption to build 20% into our model. If we do better than that, of course everyone would be pleased. But from a modeling perspective, and to arrive at a reasonable forecast about which everyone is confident, you should build in 20%. Thank you.

Operator: Thank you. The next question is from the line of Siddharth Meghani from CWC. Please go ahead.

Siddharth Meghani – CWC: Congratulations on a very good performance, and thank you for taking my questions. I am assuming that most of the low-margin business that was shut down involved hospital supplies, given that the customer base has reduced year-on-year even after the acquisitions. On that, are you seeing any more low-margin businesses that you believe you can exit, which could further unlock a reduction in networking capital? That is my first question.

My second question is broadly about the pharmaceutical customer base, or the overall customer base. There have been 1,000 new customers added year-on-year even after the acquisitions that were made. I am assuming that a lot more of the growth has come from higher wallet share rather than from adding more customers. Are you seeing that continuing to be the case, or do you see an opportunity for further distribution expansion with your current set of relationships?

The third question is on the call options that you mentioned. Will the exercise of these call options require you to raise capital at the HoldCo level, or are there buyback arrangements under which the subsidiary can buy back equity at its level from the minority owners from whom you acquired it? Those are my 3 questions.

Management: You have asked 3 questions. The first question was about the businesses that we exited because of low margins. They did not primarily come from hospitals; they came primarily from the consumer distribution business. There are opportunities to take out some additional business, but our first priority is always to improve the margins in those businesses before we decide to let them go. We will first try to improve and renegotiate our terms. If we can obtain better terms, we will do so; if not, then we will decide whether we want to let the business go.

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The second question was about growth going forward: whether it will come from a larger number of customers or from greater wallet share. The contribution to growth from wallet share is always higher than the contribution to growth from new customers. When new customers join, they do not allocate a high wallet share to us at the beginning because they want to experience our service levels and other aspects before increasing their wallet share. Once we have been with them for a few quarters, there is a significant opportunity to increase our wallet share with them.

Your third question was about the buyout of minority interest. We will evaluate the best way to acquire the minority interest, whether it should be funded by the parent company or by the subsidiary. We have all the options available. The contract does not define how we have to fund the acquisition of the minority interest. It only defines the valuation multiples that we have to pay and the time period.

Operator: Thank you. Sorry for interrupting, Siddharth. Please rejoin the queue for more questions. The next question is from the line of Pinoy Cheriwala from Upachaya Investments. Please go ahead.

Pinoy Cheriwala – Upachaya Investments: Thank you for the opportunity. I have one bookkeeping question. Could you help me with the gross debt number, net debt number, and OCF for this quarter?

Management: We do not have our balance sheet reviewed or audited by the auditor on a quarterly basis. This is done twice a year, in September and March. We will disclose those numbers at that time.

Pinoy Cheriwala – Upachaya Investments: What about OCF?

Management: OCF is essentially a function of the balance sheet. So, again, you will get those numbers in September.

I also want to make one general point to the broader investor base: we should not look at OCF on a quarter-on-quarter basis; we should look at it on an annual basis. That is how I have given the guidance that, on an annual basis, we will convert 50% of our EBITDA to OCF. The reason is that there is some seasonality in the pharmaceutical business. Q2 is typically a higher-business quarter for the industry as a whole, so companies prepare for that in terms of inventory and getting ready for the high season.

However, we provide working capital numbers every quarter because that is an important parameter for everyone to see that the working capital numbers are not deteriorating.

Pinoy Cheriwala – Upachaya Investments: I appreciate it. Thank you. That is all.

Operator: Thank you. The next question is from the line of Alok Dalal from Jefferies India Private Limited. Please go ahead.

Alok Dalal – Jefferies India Private Limited: Thanks for the follow-up. Prabhat, you mentioned that 20% organic growth is achievable over 3 years. Would that also imply that your EBITDA margin should be around 6% at that time?

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Management {? Prabhat ?}: When I said 20%, I meant 20% total growth in the business without any meaningful acquisitions. Some small acquisitions might happen within that 20%. As we grow 20%, our cost base is not going to grow at 20%, so we will gain some operating leverage. At the same time, gross margin expansion would also happen because of the scale we achieve and the procurement benefits we receive as we grow. Therefore, at a 20% growth rate over the next 3–4 years, there should also be good expansion in EBITDA margins.

Alok Dalal – Jefferies India Private Limited: From 5%, the required increase is only 30 basis points every year, which I believe should be achievable. So, 6% is not at all a big task.

Management {? Prabhat ?}: Why should we limit ourselves to 6%?

Alok Dalal – Jefferies India Private Limited: I am saying that 6% is easily achievable.

Management {? Prabhat ?}: Yes, our internal aspiration and target would definitely be more than 6%.

Alok Dalal – Jefferies India Private Limited: Understood.

Operator: All right, thank you, Mr. Dalal. The next question is from the line of Rashmi Goyal from Arihant Capital. Please go ahead.

Rashmi Goyal – Arihant Capital: I would like to ask about the MedTech revenue run rate. Can you please confirm the quarterly trajectory needed to achieve MedTech revenue of more than 1,000 crore in FY27, so that it can be modeled as a segment with its own growth and margin profile?

Management: We are comfortably above the 1,000–crore level for the full year.

Rashmi Goyal – Arihant Capital: What percentage of full-year growth is expected from organic execution versus acquisitions, given the zero inorganic contribution in Q1 FY27?

Management: The full-year growth guidance we gave for this year is 23%. That included around 11–12% from the calendarization of last year's acquisitions, with the remainder being organic.

Rashmi Goyal – Arihant Capital: My next question is related to the EBITDA margin exit-rate target for FY27, which is 5%. Is 5% the floor, or should the model build in further sequential expansion through the end of the last quarter of FY27?

Management: We are always targeting higher margins quarter-on-quarter. However, for the full-year guidance, we continue to maintain 5%. As I said earlier, after Q2 I might provide a different number if, based on the first-half performance, I believe the second-half performance could be better than our guidance.

Operator: Thank you. The next question is from the line of Nikhil from {? Kezu Naval ?}. Please go ahead.

Nikhil – {? Kezu Naval ?}: Thank you for giving me the opportunity. I have one question. We have a non-controlling interest call option on all the acquisitions that we have made. Are we going to acquire the remaining stake this year, and how are we going to fund that?

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Management: We cannot acquire all of it in this year itself. There is a defined timeline in the agreement. All of it is not falling due in this year.

Nikhil – {? Kezu Naval ?}: Can we expect the remaining stake to be acquired next year or the year after, as per the agreement?

Management: We have said 2 to 5 years. Two to 5 years is the normal timeline that we have given.

Nikhil – {? Kezu Naval ?}: Thank you, sir. That is all from my side.

Operator: Thank you. The next question is from the line of Karan Gupta from Ashish C Mehta. Please go ahead.

Karan Gupta – Ashish C Mehta: Hi, am I audible?

Operator: Yes, sir, you are. Please go ahead.

Karan Gupta – Ashish C Mehta: I have 2 questions. The first is on the margin side. Regarding the gross margin expansion of close to 160 basis points, can you segregate it by segment between core pharmaceuticals and MedTech? If you can share the numbers in percentage terms, that would be helpful, but you can also share the directional margin trend for MedTech and core pharmaceuticals. For modeling purposes, I need to understand whether the major contribution to the 11.4% gross margin is coming from MedTech or core pharmaceuticals.

Management: As I told you, to be honest, the gross margin profile is not very closely related to the product category. It is more related to the role we play in that business. Wherever we play a demand-generation role rather than only a demand-fulfillment role, our opportunity to expand gross margins is much higher.

Even in pharmaceuticals, if we are executing a marketing contract, as we are doing for certain companies, the gross margin profile is much higher. Therefore, it is more related to the role we are playing than to the product category. It just happens that in MedTech we play that role to a much greater extent than in pharmaceuticals. In pharmaceuticals, the majority of our business is demand fulfillment, while in MedTech a large part of our business is demand generation.

The increase in gross margin is taking place in both pharmaceuticals and MedTech. In pharmaceuticals, it is primarily driven by scale and procurement efficiencies. In MedTech, it is driven by obtaining more business opportunities and establishing more collaborations with companies for demand generation.

Karan Gupta – Ashish C Mehta: Understood. My second question is on wallet share. Some channel checks suggest that, in IPM for the core pharmaceutical segment, distributors or pharmaceutical retailers maintain approximately 5-10% supplier diversification for individual suppliers. Is that correct, or are we seeing a different picture? How are we increasing our wallet share from individual accounts? Is 10% supplier diversification the right figure, or could there be another picture?

Management: I am not able to understand your data point when you say 10% supplier diversification. What does that mean?

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Karan Gupta – Ashish C Mehta: I am referring to core pharmaceutical medicines. The IPM is diversified by 10% across each supplier to diversify the supplier base. Are we increasing our wallet share in the same way, by taking on a marketing role for companies or providing more platform-based services to distributors or retailers? What is our blended wallet share in this context?

Management: Wallet share is—

Management: —a direct reflection of the value proposition that you provide to retailers. If your value proposition is higher for a retailer, the retailer will allocate a greater share of its business to you. Our internal target has been to increase our value proposition every year. That is why we are adding more companies, adding more warehouses, and providing a better experience for retailers to purchase from us. That is how we are targeting higher wallet share year-on-year.

Operator: Thank you. Sorry for interrupting, Mr. Karan. Please rejoin the queue for more questions. The next question is from the line of Akshat Mehta from Seven Rivers Holding. Please go ahead.

Akshat Mehta – Seven Rivers Holding: I just want to understand one small point. Why has minority interest declined on an absolute basis quarter-on-quarter?

Management: I think it was 17 crores last quarter and 14 crores this quarter.

Akshat Mehta – Seven Rivers Holding: Yes, 17 and 14 crores.

Management: It depends on how much profit they have generated. It is a simple formula for minority interest. As I told you, in Q4 we had a significant preponement of revenue in one of our subsidiaries, which led to a higher profit share attributable to them.

Akshat Mehta – Seven Rivers Holding: Okay. Thank you.

Operator: Thank you. Ladies and gentlemen, due to time constraints, we will take this as the last question for today. I would now like to hand the conference over to management for the closing comments. Thank you, and over to you, sir.

Management: Thank you, everyone, for joining this call, and thank you for your faith and confidence in our company. If any questions have remained unanswered during this call, please feel free to reach out to our investor relations team. Thank you once again. Have a good day. Goodbye.

Operator: Thank you. Thank you, sir. On behalf of Monarch Network Capital Limited, that concludes this conference. Thank you for joining us. You may now disconnect your lines.

Note: {? ... ?} indicates a figure or name where audio clarity was insufficient for confident transcription. Verify against the source audio or the company's published filings.