Entero Healthcare Ltd I BUY I TP: Rs.1,345 I Upside: 20%

Company Update

MONARCH NETWORTH CAPITAL

Scaling Up, Cautiously

We maintain our positive view on Entero Healthcare with a BUY rating and a target price of Rs. 1,345, supported by meaningful improvement in profitability. The company reported strong like-for-like growth, comfortably ahead of IPM, and achieved a key milestone with EBITDA margins crossing 4% in the quarter. With continued progress on working capital (inventory days at 43days in H1 vs 47days in FY25) and improving discipline around collections and inventory management, we expect OCF to turn decisively positive in FY26, backed by stronger cash conversion in H2. Importantly, MedTech now accounts for nearly 60% of Entero's M&A pipeline and is set to become a key growth and margin contributor, with meaningful revenue addition expected over the next 12–18 months. While we remain constructive on the long-term consolidation opportunity in healthcare distribution, we stay selectively cautious on the rising acquisition costs, front-loaded funding requirements, and the risk of a slower pace of deal closures. Even so, Entero's consistent outperformance vs IPM, improving return ratios (ROCE: 14.9% vs 7.1% currently), and accelerating MedTech scale-up continue to reinforce our positive stance on the stock.

- **Acquisition drive growth:** Entero reported a Q2FY26 performance with consolidated revenue of Rs. 15,709 mn, up 21% YoY, supported by 23.4% YoY like-to-like growth and 13.4% organic growth, which was ~1.8x the IPM growth rate of 7.3%. Gross profit rose 32% YoY to Rs. 1,607 mn, with gross margin improving to 10.2% (vs 9.4% in Q2 FY25) driven by procurement efficiencies and a more optimized product mix. EBITDA grew 46% YoY to Rs. 621 mn, with EBITDA margin expanding from 3.3% to 4.0% YoY. PAT for the quarter stood at Rs. 316 mn, up 34% YoY, reflecting improved operating leverage. ***Management reiterated its FY26 revenue growth guidance of ~30% on a like-to-like basis, supported by steady organic traction and contributions from recently announced acquisitions.***
- **Acquisitions -** Entero accelerated its MedTech-focused acquisition strategy, with MET now forming ~60% of the M&A pipeline. The company has already closed five acquisitions in FY26YTD (proforma revenue: ~Rs. 5.45bn) and signed two more MET deals pending due diligence. Entero is on track to add ~Rs. 10bn of acquired revenue in FY26, positioning MET as a meaningful contributor over the next 12–18 months. MET assets carry double-digit EBITDA margins, offering 50–75bps margin uplift post integration. Acquisition spends stood at Rs. 0.8bn in H1 with Rs. 4bn+ expected in H2, funded through internal accruals, existing cash and incremental debt, though rising acquisition costs and funding needs may moderate the pace of future deal closures.
- **View:** We remain constructive on Entero given its consistent outperformance vs IPM, improving profitability, and expectation of positive OCF in FY26. The accelerating scale-up of MedTech offers medium-term margin and growth tailwinds. However, we stay selectively cautious, as rising acquisition costs, higher funding requirements, and the possibility of a slower deal-closure pace could weigh on near-term execution. Core operations remain stable with healthy like-to-like growth and EBITDA margins above 4%, providing comfort on the underlying business trajectory.
- **Valuation:** At CMP of Rs.1121, the stock is trading at 24x FY27E and 18x FY28E our estimates. We value the stock at 25x Q2FY28E of Rs.54 post which we arrive at our TP of Rs.1345.

Target Price	1,345
CMP	1,121
Upside	20%

Price Performance (%)	1M	6M	1Yr
ENTERO:IN	3.3	-23.4	-16.5
NIFTY	1.3	3.6	10.5

Key Data	
Bloomberg Code	ENTERO: IN
Curr Shares O/S (mn)	43.5
Diluted Shares O/S(mn)	43.5
Mkt Cap (Rsbn/USDmn)	48.8/588
52 Wk H / L (Rs)	1565/1039
Daily Vol. (3M Avg.)	75023

Source: Bloomberg, MNCL Research

Shareholding pattern (%)

	Sept-25	Jun-25	Mar-25	Dec-24
Promoter	52.4	52.4	52.4	52.4
DIIs	9.6	10.2	9.6	8.8
FIIs	14.7	17.2	19.9	22.2
Others	23.3	20.1	18.0	16.6

Source: BSE

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Y/E Mar (Rs mn)	Q2FY26	Q2FY25	*YoY%*	Q1FY25	*QoQ%*
Net sales	15,709	13,007	*20.78*	14,038	*11.91*
EBITDA	621	424	*46.21*	501	*23.96*
EBITDA margin (%)	*3.95%*	*3.3%*	*69 Bps*	*3.6%*	*38 Bps*
PBT	446	348	*28.32*	364	*22.72*
PAT	366	260	*40.59*	302	*21.06*

Source: Company, MNCL Research

Y/E Mar (Rs mn)	Revenue	YoY (%)	EBITDA	EBITDA (%)	Adj PAT	YoY (%)	Adj EPS	RoE (%)	RoCE (%)	P/E (x)	EV/EBITDA (x)
FY24	39,223	*18.9%*	1,118	*2.85%*	398	*-458.4%*	9.15	*2.4%*	*6.0%*	112.7	34.6
FY25	50,958	*29.9%*	1,715	*3.37%*	1,074	*169.9%*	24.70	*6.1%*	*7.1%*	54.0	34.1
FY26E	64,680	*26.9%*	2,571	*3.98%*	1,502	*39.8%*	34.53	*7.8%*	*9.9%*	32.5	19.7
FY27E	81,462	*25.9%*	3,666	*4.50%*	2,168	*44.3%*	47.08	*10.1%*	*13.3%*	23.8	14.2
FY28E	94,903	*16.5%*	4,555	*4.80%*	2,761	*27.3%*	60.71	*11.4%*	*14.9%*	18.5	11.0

Source: Company, MNCL Research estimates

Concall key highlights

- **Business & Segment Highlights**
  - The core pharma distribution business continues to operate stable, improving margins, supported by stronger procurement discipline and mix optimization.
  - The company has made multiple acquisitions across diverse MedTech segments, all of which are margin-accretive given their double-digit EBITDA profiles.
  - Post-acquisition margins may see a short-term dilution during the integration phase, before recovering as scale synergies flow through.
  - MedTech will form ~60% of Entero's FY26 M&A portfolio, up sharply from ~25% in FY25, marking a clear strategic shift toward higher-margin verticals.
  - Over the next 12–18 months, MedTech is expected to contribute ~14–15% of consolidated revenue, supporting EBITDA margin expansion from the current 4% toward ~4.5% as MET mix increases.
- **Financials & Growth**
  - Management reiterated confidence in achieving the ~30% like-to-like revenue growth guidance for FY26, of which 27.8% has already been delivered in H1 (adjusted for revenue recognition change).
  - Organic revenue growth stood at 13.4% in Q2 and 13.8% in H1, ~1.8x the IPM growth of 7.3%—reflecting consistent market share gains.
  - Net Working Capital days improved to 63 days in Q2, driven by tighter credit monitoring and improved inventory discipline.
  - The company expects positive operating cash flow (OCF) of Rs. 100 crore+ in FY26, with the bulk of the improvement in H2 as receivables convert at 5% GST.
  - Entero had ~Rs. 2.80bn of cash on books (not Rs. 600 crore), with flexibility to raise additional debt to fund acquisitions as needed.
  - Revenue recognition was changed at the start of FY26, impacting reported YoY growth but not underlying business performance.
- **Acquisitions**
  - Entero expects ~Rs. 10bn of incremental inorganic revenue from seven FY26 acquisitions.
  - ~80% of these deals will close in H2, while ~20% were completed in H1, leading to a back-ended contribution this year.
  - The largest acquisition (Anand Chemiceutics + BioAid + others) was conducted at single-digit EV/EBITDA multiples, consistent with Entero's historical discipline.
  - Entero typically acquires ~63% ownership, with call options to acquire the remaining stake over the next 2–5 years.
  - Anand Chemiceutics: MET distributor with mid-double-digit gross margins and double-digit EBITDA margins (post-normalization for promoter salary/rent).
  - The Suprabhat acquisition was reversed due to misalignment with the seller; the entire amount was refunded along with interest.
- **Operational & Strategic Updates**
  - Working capital movements were driven by higher receivables and inventory, consistent with the purchase cycle where certain entities procure 3–4 times a year.
  - ~15 days of Q2 were impacted due to the shift from 12% to 5% GST.
  - Management estimated ~1% revenue loss from the GST transition.
  - H2 will see the full benefit as receivables convert at 5% GST, improving cash flows by ~7% in absolute terms.
  - GLP-1 category: Entero has a higher market share in GLP-1 drugs relative to its overall pharma share, with strong engagement with Eli Lilly and Novo Nordisk.
  - HealthEdge App (not "HealthAge"): Under development, aimed at improving customer engagement, loyalty, and digital ordering experience.
- **Guidance & Outlook**
  - The next quarter (Q3/Q4) will be focused on closing pending acquisitions, which are key for delivering full-year growth.
  - Management remains committed to expanding into high-growth, synergistic, margin-accretive segments—with MedTech being the core priority.
  - Management remains optimistic about margin improvement, positive OCF, and stronger financial performance in H2FY26 and beyond, supported by the expanding MET portfolio.

Quarterly financials

Exhibit 3: Quarterly Financials

Y/E March (Rs mn)	Q2FY24	Q3FY24	Q4FY24	Q1FY25	Q2FY25	Q3FY25	Q4FY25	Q1FY26	Q2FY26
Particulars									
Net sales	9,963	9,926	10,342	10,970	13,007	13,590	13,391	14,038	15,709
Raw materials consumed	9,066	9,024	9,416	9,971	11,785	12,256	12,083	12,642	14,102
Staff cost	373	399	379	436	501	534	520	576	592
Other operational expenses	238	217	258	262	297	300	298	319	395
Operating EBITDA	**286**	**286**	**289**	**302**	**424**	**500**	**489**	**501**	**621**
Depreciation	59	60	71	66	75	81	85	89	98
Other income	21	18	91	134	113	75	73	58	48
EBIT	**247**	**244**	**309**	**370**	**462**	**494**	**477**	**470**	**570**
Interest	179	161	173	97	115	100	105	107	124
Profit Before Tax	**68**	**83**	**136**	**273**	**348**	**394**	**372**	**364**	**446**
Tax	16	13	-76	68	87	100	58	61	80
Profit after Tax	**52**	**70**	**212**	**205**	**260**	**294**	**314**	**302**	**366**
Growth (%)									
Revenue		19.7%	-155.6%	-287.1%	30.6%	36.9%	29.5%	28.0%	20.8%
EBITDA		53.8%	-126.0%	-738.6%	48.6%	74.9%	69.4%	65.9%	46.2%
PAT		95.7%	-118.1%	15.0%	399.4%	321.8%	48.4%	47.3%	40.6%
Margin (%)									
EBITDA	2.9%	2.9%	2.8%	2.8%	3.3%	3.7%	3.7%	3.6%	4.0%
EBIT	2.5%	2.5%	3.0%	3.4%	3.6%	3.6%	3.6%	3.3%	3.6%
PAT	0.5%	0.7%	2.0%	1.9%	2.0%	2.2%	2.3%	2.2%	2.3%

Source: Company, MNCL Research

Financials

Exhibit 4: Income Statement

Y/E March (Rs mn)	FY22	FY23	FY24	FY25	FY26E	FY27E	FY28E
Net Revenues	**25,221**	**33,002**	**39,223**	**50,958**	**64,680**	**81,462**	**94,903**
Materials cost	23,124	30,319	35,704	46,095	58,061	72,990	84,938
% of revenues	*92%*	*92%*	*91%*	*90%*	*90%*	*90%*	*90%*
Employee cost	1,148	1,281	1,511	1,990	2,495	2,607	2,847
% of revenues	*5%*	*4%*	*4%*	*4%*	*4%*	*3%*	*3%*
Others	704	762	890	1,157	1,553	2,199	2,562
% of revenues	*3%*	*2%*	*2%*	*2%*	*2%*	*3%*	*3%*
EBITDA	**244**	**640**	**1,118**	**1,715**	**2,571**	**3,666**	**4,555**
EBITDA margin (%)	***1.0%***	***1.9%***	***2.9%***	***3.4%***	***4.0%***	***4.5%***	***4.8%***
Depreciation & Amortisation	198	242	250	307	399	432	486
Other income	45	55	144	395	206	216	227
EBIT	**92**	**453**	**1,012**	**1,804**	**2,379**	**3,451**	**4,297**
Interest expense	290	490	657	416	457	560	616
PBT	**-198**	**-37**	**356**	**1,387**	**1,922**	**2,891**	**3,681**
Taxes	96	74	-42	313	420	723	920
Effective tax rate (%)	*-49%*	*-201%*	*-12%*	*23%*	*22%*	*25%*	*25%*
Reported PAT	**-294**	**-111**	**398**	**1,074**	**1,502**	**2,168**	**2,761**

Source: Company, MNCL Research estimates

Exhibit 5: Key Ratios

Y/E March	FY22	FY23	FY24	FY25	FY26E	FY27E	FY28E
Growth Ratio (%)							
Revenue	*42%*	*31%*	*18.9%*	*29.9%*	*26.9%*	*25.9%*	*16.5%*
EBITDA	*13%*	*162%*	*74.7%*	*53.4%*	*49.9%*	*42.6%*	*24.3%*
Adjusted PAT	*92%*	*-62%*	*-458.4%*	*169.9%*	*39.8%*	*44.3%*	*27.3%*
Margin Ratios (%)							
EBITDA	*1%*	*2%*	*2.9%*	*3.4%*	*4.0%*	*4.5%*	*4.8%*
PBT from operations	*-1%*	*0%*	*0.9%*	*2.7%*	*3.0%*	*3.5%*	*3.9%*
PAT	*-1%*	*0%*	*1.0%*	*2.1%*	*2.3%*	*2.7%*	*2.9%*
Return Ratios (%)							
ROE	*-5%*	*-2%*	*2%*	*6%*	*8%*	*10%*	*11%*
ROCE	*1%*	*4%*	*6%*	*7%*	*10%*	*13%*	*15%*
Turnover Ratios (days)							
Debtors	54	57	57	59	55	55	55
Inventory	45	38	39	47	44	43	43
Creditors	22	25	24	31	31	31	31
Cash conversion cycle	77	69	73	75	68	67	67
Solvency Ratio (x)							
Debt-equity	0.5	0.6	0.2	0.2	0.2	0.2	0.2
Interest coverage ratio	0.3	0.9	1.5	4.3	5.2	6.2	7.0
Gross debt/EBITDA	11.7	5.8	2.5	1.7	1.5	1.2	0.7
Current Ratio	1.8	1.6	3.3	2.5	2.2	2.2	2.2
Per share Ratios (Rs)							
Adjusted EPS	-76	-27	9	25	35	47	61
BVPS	1,463	1,453	377	407	442	491	555
Valuation (x)*							
P/E (adjusted)	-14.4	-40.7	112.7	54.0	32.5	23.8	18.5
P/BV	0.8	0.8	2.7	3.3	2.5	2.3	2.0
EV/EBITDA	24.7	11.2	34.6	34.1	19.7	14.2	11.0

Source: Company, MNCL Research estimates

Exhibit 6: Balance Sheet

Y/E March (Rs mn)	FY22	FY23	FY24	FY25	FY26E	FY27E	FY28E
SOURCES OF FUNDS							
Equity Share Capital	39	41	435	435	435	435	435
Reserves & surplus	5,572	5,909	15,946	16,806	18,309	20,477	23,237
Shareholders' fund	**5,610**	**5,950**	**16,381**	**17,241**	**18,744**	**20,912**	**23,672**
Minority Interest	22	26	33	462	462	462	462
Lease and Liability	696	634	624	864	864	864	864
Total Debt	2,850	3,735	2,756	2,988	3,808	4,308	4,738
Def tax liab. (net)	17	7	0	0	0	0	0
Other Liabilities	44	54	71	201	201	201	201
Total Liabilities	**9,240**	**10,407**	**19,865**	**21,757**	**24,079**	**26,747**	**29,938**
Gross Block	1,253	1,664	1,852	1,798	2,098	2,398	2,698
Less: Acc. Depreciation	179	696	921	1,228	1,626	2,058	2,543
Net Block	1,073	969	931	570	471	340	154
Capital WIP	6	0	0	0	0	0	0
Net Fixed Assets	1,079	969	931	570	471	340	154
Right to Use Asset				751	751	751	751
Goodwill	1,502	1,670	1,928	4,240	5,920	6,445	6,795
Inventories	3,102	3,416	4,212	6,598	7,797	9,597	11,180
Sundry debtors	3,746	5,149	6,154	8,304	9,746	12,275	14,300
Cash	1,054	1,068	8,932	2,604	1,824	1,088	1,573
Investment				576	576	576	576
Loans & Advances	10	6	1	1	1	1	1
Other assets	766	809	1,293	3,383	3,383	3,383	3,383
Total Current Asset	**10,181**	**12,119**	**22,519**	**25,705**	**29,247**	**33,364**	**37,807**
Trade payables	1,398	2,105	2,299	3,973	4,931	6,199	7,214
Other current Liab.	542	529	1,256	1,268	1,431	1,481	1,533
Provisions	80	46	29	27	27	27	27
Net Current Assets	8,161	9,438	18,934	20,437	22,857	25,657	29,033
Total Assets	**9,240**	**10,407**	**19,865**	**21,757**	**24,079**	**26,747**	**29,938**

Source: Company, MNCL Research estimates

Exhibit 7: Cash Flow Statement

Y/E March (Rs mn)	FY22	FY23	FY24	FY25	FY26E	FY27E	FY28E
Operating profit bef working capital changes	-353	-453	-366	-769	837	148	1,321
Trade and other receivables	-682	-1,337	-667	-1,088	-1,443	-2,529	-2,025
Inventories	-301	-194	-582	-1,466	-1,199	-1,800	-1,583
Trade payables	185	576	16	1,055	958	1,268	1,015
Others	337	-66	-247	-689	163	50	52
Direct taxes	-109	-124	-131	-381	-420	-723	-920
Cash flow from operations	**-353**	**-453**	**-366**	**-769**	**837**	**148**	**1,321**
Net Capex	-99	-55	-47	-104	-300	-300	-300
Others	-148	-240	-6,640	6,042	-300	-300	-300
Cash flow from investments	**-1,617**	**-486**	**-7,051**	**2,198**	**-1,980**	**-825**	**-650**
FCF	-451	-508	-413	-872	537	-152	1,021
Increase/(decrease) in debt	1,433	885	615	0	820	500	430
Others	2,174	793	10,306	-595	363	-60	-186
Cash flow from financing	**2,112**	**728**	**8,629**	**-737**	**363**	**-60**	**-186**
Net change in cash	141.9	-211.5	1,212.1	692.8	-779.9	-736.6	484.9

Source: Company, MNCL Research estimates

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