“Zota Healthcare Limited

Q4 FY25/ FY25 Earnings Conference Call”

May 30, 2025

MANAGEMENT: **MR. HIMANSHU ZOTA** – FOUNDER AND WHOLE TIME DIRECTOR – ZOTA HEALTHCARE LIMITED
MR. MOXESH ZOTA – MANAGING DIRECTOR – ZOTA HEALTHCARE LIMITED
DR. SUJIT PAUL – GROUP CHIEF EXECUTIVE OFFICER – ZOTA HEALTHCARE LIMITED

MODERATOR: **MR. AJIT MISHRA** – ERNST & YOUNG - INVESTOR RELATIONS

Moderator: Ladies and gentlemen, good day and welcome to Zota Healthcare Limited Q4 FY25 Earnings Conference Call. As a reminder, all participant lines will be in the 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 an operator by pressing star then zero on your touchtone phone. Please note that this conference is being recorded.

I now hand over the conference over to Mr. Ajit Mishra. Thank you and over to you, sir.

Ajit Mishra: Thank you. Good morning to all the participants on this call. I am Ajit Mishra from Ernst & Young, Investor Relations. Before we proceed to the call, let me remind you that the discussion may contain forward-looking statements that may involve known or unknown risk, uncertainties and other factors. It must be viewed in conjunction with our business risk that could cause future result performance or achievement to differ significantly from what is expressed or implied by such forward-looking statements.

Please note that we have mailed the press release, presentation, results and the same are available on the exchange and company website. In case if you have not received the same, you can write to us and we'll be happy to send the same over to you. To take us through the results and address your questions today, we have the top management of Zota Healthcare Limited represented by Mr. Himanshu Zota, Founder and Whole Time Director, Mr. Moxesh Zota, Managing Director and Dr. Sujit Paul, Group Chief Executive Officer.

We will start the call with an opening remark on brief overview of the company, performance for the quarter and year gone past, followed by question and answer session. With that said, I will now hand over the call to Moxesh Zota. Over to you, sir.

Moxesh Zota: Good morning, everyone. Thank you for joining us today for Zota Healthcare Limited Q4 FY25 Earning Call. I am Moxesh Zota, Managing Director of Zota Healthcare Limited and I am pleased to be here along with Mr. Himanshu Zota, Founder and Whole Time Director, Dr. Sujit Paul, Group CEO. We truly appreciate you taking out time to be with us this morning. I'd like to begin by giving you a brief overview about Zota Healthcare Limited. The company was incorporated in 2000 and is headquartered in Surat, Gujarat.

Our mission is simple, to make healthcare affordable for all. This goal has driven our journey towards becoming a trusted name in the pharmaceutical space. Over the years, we have focused on manufacturing, marketing, export a wide range of pharmaceutical, ayurvedic, nutraceutical, and over-the-counter products.

Zota Healthcare operates through four key verticals, retail pharmacy chain- Davaindia, domestic marketing business, export business and Everyday Herbal Group. Let me now briefly walk you through each of these verticals.

Retail Pharmacy Chain – Davaindia

Our retail pharmacy chain, Davaindia, dedicated to delivering a high-quality generic medicine is rapidly grown into India's leading private sector generic pharmacy chain, starting with three stores to 1582 stores as on 31st March 2025. And currently as on 16th of May, it has reached to 1637 active stores. Fundamentally driven by providing a quality generic medicine at sustainable, cost-effective price, remarkably 30% to 90% lower than the branded counterparts. Focuses exclusively on private label products in medicinal, OTC and ayurvedic categories with a significant emphasis on chronic therapeutics and ailments.

We operate Davaindia stores in two formats, COCO stores and FOFO stores. Now I'll take you through both the formats. Starting with company-owned, company-operated or COCO stores, these stores are operated by our wholly owned subsidiary, Davaindia Health Mart Limited. They are designed as a modern walk-in outlet, offering customers a superior shopping experience compared to traditional counter-based pharmacies. As on 16th of May, we have 901 operational COCO stores across the country. The COCO format continues to be a core part of our long-term growth strategy and we are steadily expanding our presence through this model. We have also launched Davaindia online B2C platform via an app and website to ensure convenient doorstep delivery of medicines. The platform currently offers over 2,000 SKUs, including medicines, cosmetics, ayurvedic and OTC products.

This e-commerce solution follows a hyper-local delivery where our COCO stores serve as a fulfillment center. In initial phase, the app has been launched in selected cities with 60-minute delivery and will be gradually expanded Pan India along with the COCO store footprint. We also operate 736 franchise-owned, franchise-operated means a FOFO store as on May 25 across the country, following an asset-light franchise model which allows for a scalable and wide expansion.

These are compact 200-300 square feet over-the-counter stores optimized for space and customer interaction. Starting from Q4 FY23, all our new FOFO outlets are being designed as walk-in stores to enhance customer engagement and improve the overall customer shopping experience.

Coming to domestic market business

Domestic Marketing Business

It is the oldest one and one of the most important vertical of Zota Healthcare. In this vertical, we directly distribute our branded medicines OTC and other wide range of pharmaceutical products across the country. We have built a strong nationwide distribution network in this business. Our products are sourced as a finished dosage form from well-known domestic formulation manufacturers who are WHO GMP certified. We have a portfolio of around 4,000 products covering all the major therapeutic categories. Our product goes through thorough quality checks before being packed and sold under the brand name of Zota, ensuring consistency and trust. Currently, we distribute directly from more than 1,050 distributors across the country. All marketing, sales, distribution, promotional activities are carried out ethically through our distribution network helping us maintain transparency and credibility into the market.

Coming on to export business

Exports Business

We started export business in the year 2010. Over the years, we have built a strong presence in more than 30 countries with a key focus on markets in the CIS region, Latin America, Africa and Asian countries. Our manufacturing facility located in Sachin Surat plays a crucial role in this vertical. From this plant, we manufacture over 250 generic formulations aligned with the dossiers we have registered across the global market. As of now, we have received 325 product approvals out of 586 dossiers submitted. These approvals have largely come from semi-regulated and regulated markets, which reflects the growing acceptance and trust of Zota's products internationally.

Let me now talk you through about Everyday Herbal Group segment

Everyday Herbal Group

In 2024, we acquired a 56% stake in Everyday Herbal Group, which is licensed by the Khadi and Village Industry Commission. This acquisition is a strategic step towards backward integration and aims to strengthen our OTC and cosmetic product portfolio. The products under this brand category carry the prestigious brand Khadi India Mark, which is added edge to the brand's trust, authenticity and credibility in the eyes of the consumer.

With these four verticals in place, we are confident to drive long-term sustainable growth. Our focus remains on expanding reach, improving store-level performance and staying committed to our mission to make healthcare truly affordable and accessible to everyone.

Now I will hand over the call to Mr. Himanshu Zota to take you through our financial and operational highlights. Thank you.

Himanshu Zota: Thank you. Good morning, everyone. I am Himanshu Zota, Founder and Whole Time Director of Zota Healthcare Limited. I will now take you all through our yearly financial followed by a few key operational highlights.

Starting with the yearly financial performance,

Financial Performance

Our consolidated revenue from operations recorded impressive growth of 62% year-on-year, reaching to INR292.98 crores from INR180 crores in financial year 2024.

Davaindia is key in this revenue. Davaindia continues to be the largest contributor to our revenue mix accounting for 64% of total revenue came from davaindia, which stood to INR186 crores, registering 80% year-on-year growth. Our domestic sales stood to INR63 crores, growing 11% year-on-year, with a revenue share of 22%. The export business also shown a positive trend, growing at 59%, reaching to INR32 crores contributing to 11% of total revenue. Our newly acquired Everyday Herbal Group contributed INR11 crores to the revenue this year. Our gross profit increased by 86% year-on-year, reaching to INR155 crores compared to INR84 crores in financial year 2024.

Now, I would like to share a few key operational highlights in financial year 2025.

Operational Highlights

Zota Healthcare continued to strong growth momentum through the year by expanding a Davaindia network to 1,582 operations store as on 31st March 2025. This includes 852 company-owned company-operated stores and 730 franchisee-owned franchisee-operated stores. During financial year 2025, we added 702 new stores with a strategic focus on scaling our COCO format. We opened 599 new COCO stores, reflecting our commitment to driving a better customer experience and operational control. FOFO also grew with 103 new stores, reinforcing our new thoughts in the asset-light model. Customer footfall increased from INR97.7 lakh compared to INR51.8 lakh in financial year 2024, showing the growing trust and brand visibility of Davaindia across India.

Additionally, our GMV gross merchandise value rose sharply to INR245 crores from INR137 crores, highlighting higher customer engagement and larger basket size, indicating a positive sign of maturing store performance. These numbers clearly reflect strong demand for affordable, quality healthcare products and success of our strategic expansion effort. The Indian retail pharma market is undergoing a major shift towards generic medicine, driven by their cost-effectiveness, supportive government policy and the rising burden of chronic diseases.

This trend aligns perfectly with our vision, and we believe Zota Healthcare is well-positioned to lead this transformation through Pan India expansion journey with Davaindia. With that, I would now like to open the floor for question and answer session. Thank you.

Moderator: Thank you very much. We will now begin with the question and answer session. The first question is from the line of Parikshit Kabra from Pkeday Advisors, LLP. Please go ahead.

Parikshit Kabra: Thankyou for the opportunity and congratulations for a good set results, I had a couple of questions. The first one, I wanted to understand the receivables number. I'm assuming Davaindia does not have any receivables. So in which case, why do we have such a high receivable of the other two businesses?

Himanshu Zota: The console receivable period is nearly 50 days that is not so much higher. In the Davaindia franchise business, receivables typically range between 15 to 30 days. The COCO (Company-Owned Company-Operated) model operates entirely on a cash basis. So, across the export, domestic, and Davaindia franchise businesses, the overall consolidated receivable cycle of approximately 50 days is not so high.

Parikshit Kabra: I thought Davaindia does not have any receivables, but okay, it is in the franchisee business.

Parikshit Kabra: Second, in terms of Davaindia how do you gather footfall? If you open a store, people are coming. But besides that, is there a marketing strategy? Is there a channel strategy about going to doctors or any other referral mechanism that you are getting to get footfall to your stores?

Dr. Sujit Paul: Yes. So, what happens is that when we open the stores, we do a lot of BTL campaigns in and around the stores. We do not go to the physicians or the clinicians because still now if you see how India is unfolding itself is that. In India still not all physicians or clinicians prefer writing molecule. There are a lot of places where they still go ahead and write brands. So, we do a lot of BTL activities on ground and of course at times it is supplemented by ATL activities as well towards garnering the footfalls at the stores.

Parikshit Kabra: Is it possible to elaborate on what kind of BTL activities or ATL activities you do when you launch a new store?

Dr. Sujit Paul: I will. So, when I say ATL, you must have seen television commercials or newspaper advertisements for the generic push that we have initiated as well as different radios all across the country and their respective pockets and clusters. When we speak about below the line it is primarily either the local campaigns of leafleting either the local health camps that we do in the nearby areas, catchments, parks, etcetera or maybe things like auto rickshaw branding at a local level and similar and more.

Parikshit Kabra: Got it. All right. Great. Just one last thing. I don't know if you will be able to share it this time or maybe next time but my request would be is it possible to share store count by ageing?

Himanshu Zota: That's fair enough. Starting next quarter, we will definitely provide the store count along with ageing details.

Parikshit Kabra: Perfect. Thank you, sir. Thank you so much.

Moderator: Thank you. The next question is from the Gaurav Agrawal from Nine One Capital. Please go ahead.

Gaurav Agrawal: Sir, this time in the press release we have guided for a very aggressive COCO store edition I think 800-900. I was going through your previous decks also. We have been quite active in sharing our PPTs. Sir, historically we have missed, earlier we were guiding for very aggressive expansion, but then we realized some mistakes or some problems and then we had to cut back on our plans.

Sir, this time after going through all these learning curves in the past 5 years, 6 years, are we confident of achieving the guidance that we are giving in our PPTs?

Dr. Sujit Paul: So, when you say your first part of the statement could you please elaborate about that?

Gaurav Agrawal: I think sir, I don't remember the timeline, but I think let's say there was a time when we guided for 3,000 stores for COCO I think in the past. I'll get back on when exactly that was and then in

Q1 FY24 I remember that we were trying to get 2,000 stores FOFO stores, COCO maybe by 500 by FY24 I think that couldn't happen. So that was the context of asking this question?

Himanshu Zota: First of all, in the last financial year, we had already committed to opening 600 COCO stores. In FY25, which has just concluded, we successfully opened 599 stores, effectively fulfilling that commitment. So, over the past two years we have delivered whatsoever we have committed and last year we have committed for 600 stores and we have consistently delivered on our target with FY25 now closed at 600 COCO stores, we believe that's a fair and solid achievement

Dr. Sujit Paul: What we are trying to say is many years ago what Himanshu bhai is saying last year we had planned for 600 on company operated stores kind of close 600 that was closed. So, it kind of targets versus actual what was achieved.

Gaurav Agrawal: Thank you for that. Secondly, we have disclosed the numbers of Davaindia I think for the last two quarters. So, we have done INR63 crores under Davaindia. So I did a very broad calculation INR63 crores upon your average yearly opening ending average I try to calculate the monthly revenue and I arrive at around INR1.7 lakh per store FOFO, COCO both put together. While in mature what we target is around INR5.5 lakh kind of revenue.

So sir what is the way forward this INR1.7 lakh monthly revenue that on an aggregate that we are generating right now. In how much time do you think will it converge to the INR5.5 lakh revenue that a mature store makes. I hope I am able to make my question understand to you?.

Himanshu Zota: Definitely. So, if we Davaindia you are calculating COCO and FOFO combined revenue. If I calculate COCO revenue compared to number of stores currently, so recently we have published GMV in recent PPT.

Gaurav Agrawal: We have INR42 crores.

Himanshu Zota: Our old 234 stores are currently generating an average GMV of INR3.2 lakhs per store per month. This figure is slightly lower than usual because these stores vary in age — some are 12, 15, 24, and 36 months old. We've categorized them into four age groups. For example, the 3-year-old stores (around 30 Stores) are generating approximately INR6.42 lakhs per month.

We had presented this data in the previous PPT, and it is also clearly shown in the current one. If you look at the growth trajectory, stores typically reach around INR2-2.3 lakhs in monthly GMV within 12 months. By 24 months, this increases to INR3.5–4 lakhs, and by 36 months, it reaches close to INR6 lakhs per month.

Now, if you look at the broader picture, we have 850 FOFO stores, out of which 600 were opened in the last year. In the quarter before this one, we added 99 more. So, out of the total 850 stores, nearly 700 are less than a year old on average. Naturally, if you calculate the average revenue across all these stores, it will appear lower due to the high proportion of newly opened outlets.

Gaurav Agrawal: Okay, sir. This is great and just one feedback if we can hire our reputed and good auditor. We changed our auditor in September last year 2024 and the auditor does not audit any other listed company as per my understanding. Sir now we have good investors in our cap table, we are growing nicely.

So, it will give investor community a lot of comfort if we hire a good, reputed investor probably Big 4 if you guys like. So this is just my humble feedback to you. I think in your filing it was mentioned that the auditor has come for 5 years so if you can think about it and break something?

Himanshu Zota: Definitely we can think and thank you for your suggestion.

Gaurav Agrawal: Okay, sir. Thank you. All the best.

Moderator: Thank you. The next question is from the line of Brajesh Nirala from 3P Investment Managers. Please go ahead.

Brajesh Nirala: So many congratulations to the management on a posting a very decent set of result this quarter. I have a few questions. So first thing in FY25 we added close to roughly around 1.6 COCO stores per day, so are we planning to add the stores in FY26 on the similar run rate or are we going to aim for faster run rate in FY26?

Dr. Sujit Paul: It would be similar and more and faster.

Brajesh Nirala: So more than 1.6.

Dr. Sujit Paul: Yes.

Brajesh Nirala: Okay. Got it. And then this quarter we saw hit of around 500 bps on gross margin. So after many years of sustained increase in gross margin if we look at the past trends of over many quarters the gross margin has been below 40% now it is above 50% closing around 55%. So this quarter it is close to 50% gross margin so is it any structural pressure which we are facing on gross margin or is it just one off and what was the reason for that?

Himanshu Zota: This is due to the closure of around 18–19 COCO stores in the last quarter. As a result, there were some inventory-related losses and other associated costs, which have already been accounted for. However, this impact is limited to a single quarter. Going forward, we expect our gross margins to improve steadily.

Brajesh Nirala: So, this gross margin, it was mainly because of inventory losses on some of the closed COCO stores?

Himanshu Zota: Yes, for 18-19 COCO store.

Brajesh Nirala: 18-19 will close this quarter?

Himanshu Zota: Yes.

Brajesh Nirala: What was the reason for closer, sir?

Himanshu Zota: Some of store we have relocate, somewhere about seven, eight store.

Dr. Sujit Paul: See what happens sometimes is that we come across stores that were opened nearly 1,000 days ago. Over time, we reassess their performance and cost structure. In some cases, especially with older stores, we find that the rental costs have become quite high sometimes around INR1.5 to INR2 lakhs per month. So, when we identify such cases, we initiate a plan to relocate these stores to more viable locations. So those are the stores where we thought we will relook it back to a little different places to ensure that on long term it's much more sustainable and profitable ahead.

Brajesh Nirala: Okay. So after four quarters of EBITDA level losses, this quarter in Q4 we turned EBITDA positive again and that was even though gross margins were lower, but employee expenses and other expenses were quite lower compared to that hit. So is it like still we are looking at EBITDA negative for FY26 or are we seeing because FY24 was EBITDA positive for us. So are we like going to a EBITDA breakeven level in 27 or 26?

Himanshu Zota: EBITDA may remain flat for the current financial year, similar to the previous year, primarily because we are in an aggressive expansion phase. For example, last year we opened around 600 COCO stores, and this year we are planning to open approximately 800 to 900 more. As long as this expansion momentum continues, EBITDA will likely remain at similar levels. However, once we complete this phase and take a pause for two or three quarter the overall financial picture is expected to change significantly, with improved profitability and operational leverage.

Brajesh Nirala: And last question from my side sir, I did some channel shift, and we found out that we were very quick to introduce Empagliflozin at the end of March. So, on March 26 it went off patent and we were very quickly able to introduce it to our store. So, do we have any plan to launch injectable or insulin products? Are we thinking in that direction?

Himanshu Zota: We currently do not offer injectable products because our focus is primarily on chronic diseases. Patients who require hospitalization typically obtain their medications from in-hospital pharmacies. As a result, injectables are not a strategic priority for us at this time.

Brajesh Nirala: But insulin, Insulin or other products related to diabetes?

Himanshu Zota: We are planning to expand into insulin and other diabetes-related therapies. As you mentioned, we actively track off-patent opportunities. For example, Empagliflozin went off-patent just two months ago, and we've already launched our version. Looking ahead to FY26, many more products are expected to go off-patent. As soon as a product gets off-patent, we will definitely add it to our portfolio to ensure timely and affordable access for patients.

Dr. Sujit Paul: See, we have to understand it all depends in what products that will be needed for the end consumers in terms of fast moving and the relative relevant product of the chronic disease management, be it Diabetic, Cardio, Geriatric, Gastro, Nephro, whatever it is.

Brajesh Nirala: Okay, sir. That's all from my side. Thanks for taking my questions. And again, wish you all the best for next quarter.

Moderator: Thank you. The next question is from the line of Swaraj Mehta from Perpetual Capital Advisors. Please go ahead.

Swaraj Mehta: Sir, I wanted to understand how are the margins across different segments like export, domestic, COCO and FOFO and what are the contributions on the FOFO side?

Himanshu Zota: Consolidated margin is somewhere about 50% to 53%. If we talk about segment-wise margin, in domestic business, we have roughly 30% gross margin. In export business, we have roughly in between 40% to 50% gross margin.

In Everyday Herbal Group, we have a gross margin of around 30%. For Davaindia, the COCO model gives us a gross margin of 60%, while the FOFO model, which is franchisee-owned and franchisee-operated, gives us nearly 40%. So overall, the combined gross margin comes to about 50% to 55%, mainly because Davaindia has a higher margin and currently contributes 63% to the business, with its contribution steadily increasing year after year.

Swaraj Mehta: And sir, what are the contributions of the FOFO side?

Himanshu Zota: Sorry? Please repeat your question.

Swaraj Mehta: How are the agreements with the franchise operators? How do they work?

Himanshu Zota: We typically enter into a 3-year agreement with our franchisees, which is subject to renewal. Under this arrangement, we sell products to the franchisee upfront, offering them a gross margin of approximately 30% to 35% on the MRP.

Swaraj Mehta: And in the other expenses side, what are commission expenses and consultancy charges in other expenses? And the difference between commission on sales and commission expenses?

Himanshu Zota: So, we have hire supply chain agency that will take care of entire supply chain of Davaindia. And that will nearly 10% of our sales. So, commission expenses it is not purely commission expenses. It is a supply chain expense.

Swaraj Mehta: Okay. And consultancy charges are?

Himanshu Zota: These consultancy charges typically arise when we open a new store or engage a new broker. We usually acquire the store premises on rent through a brokerage, and all such related expenses are categorized under consultancy charges.

Swaraj Mehta: Okay, thank you. I will return to the queue.

Moderator: Thank you. The next question is from the line of Siddesh Chaudhari from Maximal Capital. Please go ahead.

Siddesh Chaudhari: Sir, could you please specify about the same-store sales-store growth for both COCO and FOFO?

Himanshu Zota: If I talk about age-wise same-store sales growth for COCO stores; So, For stores opened three years ago, which are now 36 months old, same-store sales growth is around 15% to 20%.For stores that are two years old, same-store sales growth is around 18% to 20%.

For one-year-old stores, same-store sales growth is around 40% to 50%.this I have talked about COCO.

Siddesh Chaudhari: And for FOFO?

Himanshu Zota: And for franchisee owned FOFO store, it will be roughly 10% to 15% year-on-year.

Siddesh Chaudhari: 10% to 15%?

Himanshu Zota: Yes.

Siddesh Chaudhari: Okay. And, sir, one more question. We are funding this aggressively. What will be that payback period for COCO and FOFO store, any idea on that?

Himanshu Zota: That will be broadly after maybe third year. Third year onwards. Payback maybe between 24 months to 36 months.

Siddesh Chaudhari: Thank you. This is very helpful. All the best.

Moderator: Thank you. The next question is from the line of Mohit Bansal from Sama Partners. Please go ahead.

Mohit Bansal: Sir, my question is actually on store additions. We are adding stores so fast. There will be such stores where we are not getting that traction. So, what will be the criteria for store closures and what is your view on this?

Dr. Sujit Paul: So, if you see the history of last 1,000 days and where we stand and based on your question. So, in last 1,000 days, there is a very, very minuscule number of stores that we have closed. Now, why have we closed it as what I mentioned a while ago. It's primarily because the rentals of the stores were extremely high. And there is where we felt it judicial and noteworthy for us to kind of take a call there.

But if you see the entire ergonomics of the existing COCO stores, the average rentals are all close to an approximate value of only INR35,000. So, by far most of the stores would make sustainable movement ahead and there is almost very, very negligible risk that we would have for the same.

Mohit Bansal: Okay. So, whenever we open a store, what data do we use to open a store?

Dr. Sujit Paul: Whenever we shortlist a store, we ensure that the cluster in which the store is getting opened have enough amount of potential from the perspective of the medicines and pharmacy. And the way to understand the analytics is as follows. Number one, we ensure that it has a mix of commercial and residential. Number two is that we ensure that it has certain other catchments like nearby schools, colleges, malls, etcetera.

And most important is that it stays sustainable towards ensuring enough amount of visibility and catering to the neighborhood at large. So, these are the broad parameters that is always taken into when we open. We also do understand that when we are opening a store, we try to understand which are the nearby pharmacies who are present there to understand the nearby locality of the cluster.

Himanshu Zota: To add to your first question regarding store closures, let me give a simple example.

For our 12-month-old COCO stores, the average GMV (Gross Merchandise Value) is typically between INR2,20,000 and INR2,30,000. If the GMV is INR2,30,000, the reported revenue would be around INR1,80,000-1,90,000. With a gross margin of 60%, the gross profit at the store level comes to approximately INR1,00,000-INR1,10,000. Now, if we look at the typical monthly expenses for a COCO store: Rent is around INR35,000, Two pharmacists cost about INR65,000, Other expenses are around INR15,000. So, the total monthly expense ranges between INR1,00,000-INR1,20,000. After 12 to 15 months, the store usually reaches a GMV of INR2,30,000 to INR2,40,000.

As for store closures, we had to shut down or relocate around 16 to 17 stores mainly due to high rental costs. In the initial phase, rent was around INR82,000, but now it has gradually down to INR35,000. So, the closure ratio is very low maybe around 2% to 3% and can be considered negligible.

Mohit Bansal: Okay. So, this means that we have opened almost 1,000 stores in the last one and a half year. So, none of the stores, other than rental criteria, are showing us any pressure in sales or anything else?

Himanshu Zota: There can be one or two stores that we have closed. But normally, if, for example, assume that they are selling at INR 2,75,000 maybe, then my loss will be hardly INR10,000 or INR15,000 and that too is growing by 15%, 20% year-on-year.

Mohit Bansal: Yes. This is a very good thing, sir. This means that your store selection criteria is working very well. Sir, I had one last question. We have started the mode online. So, can you tell us about online sales traction?

Dr. Sujit Paul: Online, we have just started the beta pilot in April. We told earlier that we will start in April. And we started exactly in April on the beta. The beta has moved to a full-fledged Android and IOS in the month of May. So, we are standing almost in the end of May. So, it's too early for us to comment on the online traction at this point of time.

Mohit Bansal: Yes, I agree. Okay, sir. Thanks a lot for answering all my questions. All the best.

Moderator: Thank you. The next question is from the line of Harsh Kumar from MIV Investment Management. Please go ahead.

Harsh Kumar: Hi. So, I wanted to understand what would be our capex and working capital per store for both COCO and FOFO?

Himanshu Zota: For COCO the capex will be somewhere about 17 - 18 lakhs, including inventory. Normally, it's a store of 350 to 400 square feet. So, here, it's INR8 lakh to INR10 lakhs for fixtures, furniture and all these things. And INR5 lakh to INR6 lakhs for inventory. So, capex in COCO stores will be nearly INR15 lakh to INR17 lakhs per store. And in franchise store we don't have any capex because the capex is set by the franchisee. They just buy the goods from us.

Harsh Kumar: Yes. Okay. And, sir, for your all matured stores, what would be the unit economics like ROC, margins for these stores which are 36 months plus?

Himanshu Zota: For our 36-month-old stores—of which we have 30—the average GMV per store is around INR6.4 lakhs per month. If we take one store as an example, the GMV is INR6.4 lakhs. After deducting GST, which is roughly 12% to 15%, the reported revenue comes to about INR5.6 lakhs. The monthly expenses for such a store including rent, two pharmacists, and one helper are approximately INR1.25 to INR1.5 lakhs. Since it's an older store, the rent after three years is usually around INR40,000 to INR50,000. With a reported revenue of INR5.5 lakhs and a gross margin of 60%, the gross profit is around INR3 lakhs per month. After deducting expenses of INR1.5 lakhs, the store-level EBITDA is approximately INR1.5 lakhs per month per store.

Harsh Kumar: INR1.5 lakhs per month, right?

Himanshu Zota: Yes, per month. It will be somewhere about INR15 lakh to INR18 lakhs per annum per store. Store-level EBITDA.

Harsh Kumar: So, finally, the store expansion that we are doing, at what point do we see the store expansion start slowing down like t what point do we see that we have reached a certain limit, now we want to slow down and make our stores profitable? Would it happen in the next 2-3 years, or do we have a runway for the next 4 years, 5 years?

Dr. Sujit Paul: Okay. So, if you see India at large, India has close to 8.5 lakh to 9 lakh registered pharmacies. And if you see the organized pharma retail chain numbers, which is kind of approximately around 10,000 numbers that we have in the country. So, there is a huge opportunity that you really have in India towards ensuring that you scale up and spread yourself well.

So, at this point of time, we are in the spree of ensuring that the networks are well spread in the country towards making high quality generic medicines affordable to the end consumer. But as we are growing, maybe in terms of the business strategy, in coming financial years, we may think for a short pause, if at all towards ensuring some consolidation.

Mark my words in statement, short pause and if at all are the two statements that I said. Otherwise, I think we are good growing and the run rate that we are growing would actually be not only sustainable, but it will also be scalable towards what we are aspiring for towards the organizational objectives and goals.

Harsh Kumar: But is there like an internal target that at 3000 stores, we will start slowing down a little bit or we are just going by how things are going?

Dr. Sujit Paul: I don't think that's the right way to look into it because currently at a large company level, we have COCO and FOFO both put together. So, at this point of time, like for this current financial year, we have already told you the numbers that we are planning for moving ahead in terms of scalability. That would continue for another one or two years, but yes depending on, at that point of time how the business really looks like. And if you feel so, definitely that can be worked out.

Harsh Kumar: All right. Great. Yes, that's all from me. Thanks.

Moderator: Thank you. The next question is from the line of Neerav an Individual Investor. Please go ahead.

Neerav: Thank you for taking my question. One question that I wanted to understand is that the supply chain currently is outsourced to, I understand, an Ethics group of companies and I think they also cater to a few of us. I just wanted to understand your thought on going forward if we are planning to take the supply chain operations on our own or we would be continuing with this.

And currently we have a central warehouse. Would that be -- is there a possibility of setting up child warehouses going forward? So how does the supply chain look like going forward?

Dr. Sujit Paul: Right. So, if you see that you're absolutely right currently the supply chain is outsourced and that's how we are growing. But the way the expansion is happening and the current run rate that we are going at this point of time, maybe the business needs would definitely need much more supply chain efficiencies at a regional level.

And the way business is going, there may be an opportunity to look for a much stronger strategy towards ensuring that we enhance the supply chain with a much more enforcement towards ensuring that the medicine movements are much speedier, faster and it reaches appropriately to the pharmacies and the end consumers. So, the answer to you is yes, we are definitely willing to explore better efficiencies.

Neerav: Okay. And so just a follow up question on this. In terms of this, can you also help me understand what are the sort of inventory days at your Surat warehouse and what are the kind of fill rates we are able to achieve at the moment for our coco stores?

Himanshu Zota: So, inventory days at Surat warehouse is somewhere about 80 days to 90 days, because of high growth stage, new stores are opening. So, it will be somewhere about 80 days to 90 days in the central warehouse. And now we are expanding it further. In Delhi, maybe in the next very short time, we are opening another warehouse with Ethics only. So, in the future, there will be two warehouses. So, there will be a lot of improvement in fill rate as well.

Neerav: And currently, sir, what is our fill rate?

Himanshu Zota: Fill rate is mostly 95% to 98%.

Neerav: Okay. Got it. And sir, just one more question, if I may. What is the next market that we're looking at? You said we are expanding in Delhi. Is there anything else in Delhi that we will expand?

Dr. Sujit Paul: If you mark my statements what I stated a while ago, we are looking to build efficiencies across. So, I had just given an example of Delhi where we want to build furthermore efficiencies towards catering for Northern part of the country. So, in terms of efficiency buildup, we are just trying to ensure that the efficiencies are there all across the country.

Neerav: Got it. Understood. And sir future expansion would be from which area?

Dr. Sujit Paul: Future expansion would continue across the country with a focus in Northern part, maybe places like Uttar Pradesh and similar. And there would also be a focus in Eastern part of the country with a focus in West Bengal and similar. However, if you see, there will be a unified expansion matrix that will go through with the vision of the organization towards ensuring that across East, West, North and South, we cut through well towards building up the appropriate presence for Davaindia so that it can actually reach out and ensure that every patient in India can actually get the high quality generic medicine at the doorsteps.

Neerav: Got it. Thank you, Sir. All the best.

Moderator: Thank you. The next question is from the line of Bhagwan Chaudhary from Shubh Capital. Please go ahead.

Bhagwan Chaudhary: Yes. So, congratulations Himanshu bhai for the good expansion and future guidance. Few questions I have. One is what is the reason for putting the COCO into the subsidiary side and the FOFO into the standalone? Any particular thought behind that?

Himanshu Zota: Because in the future, if I want to separate Davaindia, maybe in future terms, If COCO will not be in the subsidiary, then I will have to change all the licenses of the company-owned, company-operated store. And that is why we have kept COCO in the subsidiary from day one.

Bhagwan Chaudhary: So, FOFO can also be a part of that?

Dr. Sujit Paul: Yes, but basically if you see, the company's focus is very strongly on COCO. So, that is the reason why we are saying that.

Himanshu Zota: And whenever we want to separate Davaindia, we can step down FOFO easily because they don't have any rent agreement or anything. So, we can step down easily there.

Bhagwan Chaudhary: Okay. Secondly, can you just highlight about the balance sheet? What is the strength currently? How much we can expand from the current cash we are having or planning to have some debt or so, comfortably?

Himanshu Zota: We currently have around INR200 crores in cash on hand. With the pending warrant conversion and the cash in hand we have currently, this amount is approximately INR220 to INR225 crores. We have enough cash for opening next 800 to 1,000 stores. So, we have enough cash for next one year or one and a half year.

Bhagwan Chaudhary: Okay. And apart from that, is there any plan to go from cash plus some debt funding to 1500 or 2000 further store expansion?

Himanshu Zota: Our plan for the current year is to open around 800 to 900 stores. After that, we intend to observe the performance for two to three quarters before making any further decisions. As of now, we haven’t finalized the next steps beyond that period—we’ll evaluate and decide based on how things progress.

Bhagwan Chaudhary: Got it. And my last question. If you can just share from your team that this rising e-commerce like Zepto and others which are into the market. Now they are selling everything, and they are into this race as well to get the medicines also on the board or they might have received. So, do you see any threat in future in longer term from such kind of e-commerce?

Dr. Sujit Paul: There is a huge opportunity that we see in this. If I do a SWOT analysis in this, the Opportunity portion increases the weight of the whole thing. And the reason for the same is as follows. That the players name that you mentioned, they are primarily operating either in branded or at the most into branded generics. But what we do is that we are there in molecule-molecule with generic-generic. So, on one hand, they are trying to do something.

But again, it is not easy to get into this kind of portfolio when you are actually selling grocery or when you are selling FMCG. The whole business dynamics is very different right from storage to execution to picking, packing, etcetera, but it will give a huge impetus to the end consumer who are shifting their buying habits to online as well.

So, there is where we get an advantage. So, someone else has been a catalyst for you to ensure that the buying habits sustain, and you just leverage out of that.

Bhagwan Chaudhary: The question is, your point is they are not into the generic-generic space, but eventually they can come into that. So, my point is rather than having multiple apps in my phone, if I am getting the one e-commerce app, that will be most preferable for me rather than finding out for every new thing a new app. So, any thought on that?

Dr. Sujit Paul: Got it. So, for that, I have to give you some history and context of data for you to get into it. So, currently, there are three major players in India who is operating into a mobile technology front for supplying medicines. All of them are primarily a branded player. Now, if you see a little bit of history in the last almost more than a little more than 1,000 days, there are three, four people who also tried to come into the space, but none of them could actually get into the space because of the complexities of the space, etcetera.

So, your perspective to say is that, okay, if I have one mobile app in my phone and if that can sustain to give me grocery and medicines, will that not be better? Medicine in India, psychologically and traditionally is more like a barber shop. It is very, very focused and specialized. So, people are very careful from where they actually take the medicine and if you do a little bit of research, you will see that people are more confident to get medicines from the place where only medicines are sold.

That is typically the Indian psychology and mentality of people, for whatever reasons it is. Of course, I can elaborate, but time may not permit. So, we at Davaindia, we don't do everything like, you know, we don't do groceries, we don't do this and that and apples, etcetera. We are specialized in medicines, and we'll continue to do that. And the end consumers know that these are the people who are specialized in their medicines, and they can do it.

I will also come to an added sustenance of my statement, which is that to launch completely into molecule-molecule is a Hercules task by itself when you have to launch into so many therapeutic segments, Diabetes, Gastro, Nephro, Cardiac, etcetera. So, that is the reason most of them are into either branded generic or brand and not into generic- generic.

Bhagwan Chaudhary: Okay.

Moderator: Thank you. The next question is from the line of Swaraj Mehta from Perpetual Capital Advisors. Please go ahead.

Swaraj Mehta: Yes. So, I just wanted to understand what is our largest store or largest pipeline stores? How much time since inception and how much revenue do they generate? And are they concentrated in any region?

Himanshu Zota: In terms of revenue or in terms of size?

Swaraj Mehta: Both, any would do?

Himanshu Zota: Yes, our largest store may be one store at Delhi, one store may be at MP.

Dr. Sujit Paul: See, we have a good four, five stores which are there. And by far, if you see the aging-wise also, most of these stores have been doing extremely well.

Swaraj Mehta: And how much revenue do they generate like the top store?

Himanshu Zota: Yes. It is around INR8 lakh to INR10 lakh per month.

Swaraj Mehta: Okay. And one headwind for the companies, doctors don't recommend generic medicine. So, how do we plan to address that?

Dr. Sujit Paul: See, what happens is that in a post-COVID, the end consumers have become smarter and smarter towards using their mobile telephones, etcetera. And our prime focus, though it's been into chronic, like diabetic or cardio. So, end consumers are well aware that if they consume high-quality generic medicines, that would not only be safe, that would be of high quality and would also be cost-effective.

So, that is giving a huge impetus. So, once the entire revolution of common people comes in the country, I don't think doctors can actually stop you on the way. And that is the reason, probably if you see the data matrix, the growth of generic-generic is substantial if you compared to brands.

Swaraj Mehta: Right. And which are the core therapy areas or top-selling molecules in which we sell?

Himanshu Zota: Cardio and diabetics.

Swaraj Mehta: And does the product mix change across Domestic export and Davaindia?

Dr. Sujit Paul: Export is completely different. Definitely, it depends on country to country and what is required. But for domestic, again since the model is different in terms of distribution model, definitely there's a wide slice of variety that you get through. And Davaindia, since it is more of a neighborhood kind of store, definitely the dynamics would get through different. Again, that would be further sliced and diced based on which region you're operating at.

Moderator: Thank you. As there are no further questions, I would now like to hand the conference over to the management for closing comments.

Dr. Sujit Paul: Thank you all that who were part of this session. We are deeply grateful towards being associated. And the mission that we are trying to unveil in India is to ensure that India at large becomes not only healthy, but India at large also understands the value of high-quality generic medicine. It is not only a business for us. It's also a business with purpose. There could be two things.

One is when you do only business and when you do business with purpose. When you do business with purpose is what we are doing in Davaindia at large to ensure that every nook and corner, be it rural or urban in the country, we deeply enter towards the network of penetration with any of our models, be it COCO, FOFO, B2C and similar with only one objective that we build a better India towards ensuring that India is much more healthy.

At large in Zota Healthcare, we are thriving well with the entire export portfolio that we do, with our domestic business that we do, with COCO, with FOFO of Davaindia and definitely with the new entrant of B2C. And that's the mission and that's what we are marching at. I again thank all of you out towards giving us the opportunity also to showcase how we are building a better healthcare ecosystem in the country. Thank you so much. Jai Hind.

Moderator: Thank you. On behalf of Zota Healthcare Limited, that concludes this conference. Thank you for joining us and you may now disconnect your lines.

(Note: This transcript has been edited, without altering the content, to ensure clarity and improve readability.)