

## Piramal Healthcare Limited Q3 & 9M FY2012 Analyst Conference Call

February 6, 2012







Moderator

Ladies and gentlemen good morning and welcome to the Piramal Healthcare Limited Q3 and 9M FY2012 Analysts Conference Call. As a reminder for the duration of the conference, all participants' lines are in the listen-only mode and there will be an opportunity for you to ask questions at the end of today's presentation. Should you need assistance during the conference call, please signal an operator by pressing \* and then 0 on your touchtone telephone. Please note that this conference is being recorded. At this time, I would like to hand the conference over to Mr. Sagar Gokani. Thank you and over to you sir.

Sagar Gokani

Good morning to all of you. Welcome to Piramal Healthcare Limited's FY2012 Third Quarter Results Conference Call. At the outset we apologise to reschedule this call twice and reschedule it at a short notice. We were trying to time this call in such a way that we discuss the Vodafone Investment along with the quarterly results.

Joining me on the call are Mr. Ajay Piramal, Chairman, Ms. Nandini Piramal, Executive Director, Mr. Vijay Shah Executive Director & Chief Operating Officer and Mr. Rajesh Laddha, Chief Financial Officer.

We hope you have received the press release, results in the stock exchange format and analyst presentation that we have sent out. These are also posted on our website www.piramalhealthcare.com on the investors section. We will be using the analyst presentation as reference document. It is appropriate to mention here that the discussion today may include some forward-looking statements and these must be viewed in conjunction with the risk that our businesses face. The duration of this call is one hour, I would request you to send your queries which remain unanswered during the call to our email id investor.relations@piramal.com.



Mr. Rajesh Laddha will now take us through some of the financials for the quarter and then Mr. Piramal will talk about broad outlook of the company and the recent Vodafone investment.

Rajesh Laddha

Good morning to all of you. At the outset, I would like to bring to your notice that the de-merger of R&D Division of our PLSL into PHL has been completed during this quarter. The merger which was effective from 1<sup>st</sup> April 2011, hence all expenses of this unit for the first 9 months of FY12 which is at Rs. 94 crores at EBITDA level has been booked as NCE R&D expense in P&L account of Piramal Healthcare during this quarter.

The numbers for H1FY12 did not include sales and expenses of healthcare solutions and pathlabs businesses. Hence the 9 month numbers are not comparable, but we have presented the numbers for the continuing businesses in the analyst presentation.

If you look at Slide 4 of the analyst presentation, you will see the business mix for continuing businesses:

- Starting with the Pharma solutions business which has reported a strong growth of around 57.4% with revenue of Rs. 367.3 crores for the quarter and pharma solutions sales from India grew by 68.9% to Rs. 224.0 crores for the quarter. We have seen a strong growth in our formulations and API generic businesses. We have also recorded good growth in our pharma solution sales from facilities outside India. This is primarily due to increase in early phase businesses at Morpeth as well as some of the revenues which we could not complete in quarter two have come in quarter three. Favorable currency movements both in pound and Canadian dollar have aided this growth.
- Sales from Critical Care business were flattish at Rs. 98.0 crores. We are seeing lower than expected growth in this business due to delay in launch of sevoflurane in European countries, some of the regulatory



approval delays and due to some pricing pressure on sevoflurane in the US market.

- OTC and Allergan sales are up by around 5% to Rs. 57.1 crores, however for the 9 months these businesses continue to grow upwards of 30%.
- We have commenced lending from our NBFC business. As of 31st December 2011, we have been able to create a book of about Rs. 131 crores. Financial services income as shown in Slide 4 includes interest income on this lending as well as income from Indiareit fund. We will be showing financials from pharma business and financial services businesses separately starting from the next financial year. The investment income will not appear starting from the first quarter of next financial year, because we would have invested all our surplus funds by then.

If we come to page 5,

- You will see total operating income from the continuing businesses has grown by 15.5% in quarter three FY12 to Rs. 617.6 crores.
- As I have told earlier, the NCE expense for all three quarters of FY12 which was Rs. 94.0 crores have been booked in this quarter as the merger was completed during this quarter and was effective from 1st April, 2011.
- Income from investment / finance for the quarter was lower at Rs. 58.9 crores as compared to Rs. 132.2 crores in quarter three FY11 due to the investments we have made to the tune of Rs. 2,856 crores towards equity in Vodafone India, the tax payments we have made during the last quarter and the buyback which we did during the last financial year.
- We have a Forex gain of Rs. 28.0 crores mainly towards a Forex cover on receivables from Abbott. We will continue having this Forex gains



in the coming quarters till the time all outstanding amounts have been received from Abbott.

- Due to NCE R&D expenses and lower investment income as discussed ago, operating profit for the quarter was lower at Rs. 36.6 crores as compared to Rs. 114.1 crores for quarter three FY11.
- There was a write-back in tax for the quarter to give effect to merger of NCE R&D Unit; however for the 9 months ended 31st December, tax rate was under 10%.

If you look at the Balance sheet,

We have reverted to the earlier format which is simple and easy to understand. The changes in some items are due to demerger of NCE division of PLSL into PHL and due to lending from our NBFC business.

- The debit balance of the P&L account, which pertains to Piramal Life Sciences, has resulted into lower network for PHL as on 31st December as compared to 30th September.
- Loan funds have increased by Rs. 84 crores due to taking over of loan of Rs. 100 crores due to de-merger of NCE unit of PLSL.
- Net fixed assets were higher by Rs. 254 crores mainly due to consolidation of Rs. 227 crores of net fixed assets of NCE unit of PLSL.
- Other current assets are lower due to the following reasons a) restatement of receivables from Abbott, was at a higher INR rate; b) the loan given to PLSL by PHL; and c) decrease in some of the cash balances.
- Current liabilities are higher by Rs. 394 crores mainly due to realignment of foreign exchange contracts at current rates.

If you look at some of the balance sheet ratios,

• Debt to equity continues to be negligible at about 0.1 and



• Book value per share is Rs. 690.3.

This is all from my side. I would like to hand over to Mr. Piramal for the future outlook of the company now.

**Ajay Piramal** 

Good morning. Firstly, I would like to talk about the change in the senior management at our end. Mr. Santhanam, who had spent more than a decade with us and was aged 63, has now retired and Mr. Vijay Shah will now lead the Pharma Solutions and Critical Care business as Chief Operating Officer and Executive Director of PHL. Vijay has been with the group since the last 24 years and was the Managing Director of Piramal Glass for the last 6 years. Before that, he was Head of the Health Care Solutions business for 5 years and was also instrumental in PHL's entry into the critical care space.

Coming to Saturday's announcement, we have now invested a further 3,006 crores to buy an additional 5.5% stake in Vodafone India Limited. With this purchase, our total investment in Vodafone is now 11%. As we have said in the past, the idea here is to utilize surplus money for short term to invest in globally reputed companies in high growth sectors in India with intent to generate higher returns that can be earned rather than investing in fixed deposits and fixed maturity plans. Just to make it clear, this is not a strategic investment, we have no plans of entering the telecom sector and we hope to exit this investment in the next 12-18 months either through an IPO or a stake sale.

The performance of this quarter and in 9 months has to be viewed keeping in mind that we are in an investment mode. We are investing heavily in our R&D and OTC business. In the next 2-3 years, I am very confident that the investments in the R&D will pay returns and the OTC is fast becoming a strong robust business, where we are building good brands. Even our investment in Vodafone which is today almost 6,000 crores is not going to show any returns in the current year and therefore,



the investment income or the interest income for this year will be affected because of that, but you need to keep in mind that this should give us adequate returns in the next 12-18 months.

Coming to the performance of the Pharma solutions business in this quarter, we continue to see good growth from both sales in facility in India and those outside India. While some growth in this quarter has also come from a favorable exchange movement which is unlikely to recur, we think for the full year, we will have a growth of around 30% for the pharma solutions business.

In the Critical care business, while we are on track to achieve our longterm growth target, the growth in this business has been lower than expected due to delays in regulatory approvals in Europe and due to some pricing pressure for Sevoflurane in the US. For the full year 2012, we expect to achieve mid-single digit growth in this business.

In the OTC and ophthalmology business, we are investing in building brands and in creating sales and distribution infrastructure. While growth has been muted in this quarter, for the full year we would have grown around 20%.

For the R&D, we continue to make good progress. As we discussed in the last call, we have filed with the British health authorities for approval of our cartilage repair gel BST CarGel. We have been in touch with the regulators and satisfactorily answered their queries and we expect to get a positive hearing in the next three to four months. This approval will allow us to commercialize this product in all countries that are part of the European Union. We have several other interesting molecules in the pipeline but I am restricting my updates here on the CarGel.

In the financial services business, we now have a good team in place for our NBFC - Piramal Finance under the leadership of Mr. A.K. Purvar, the ex-Chairman of SBI. We have commenced operations, and loan



books as on 31<sup>st</sup> December was Rs. 131 crores and we expect to go up to Rs. 600 crores by the end of this financial year. While building this business, we have strong emphasis on having a high quality asset book and we believe we now have adequate systems and processes to closely monitor that.

For our real estate fund - Indiareit, we have commenced road shows for our offshore standing investment funds which will be marketed to offshore investors primarily in the Middle East and South East Asia. The anticipated size of this fund is \$ 200 million and this fund recently been launched in most of the jurisdiction. We have also begun tie-ups with domestic distributors. For a Rs. 350 crores, Mumbai Redevelopment Fund, this will be launched by end of February.

So overall, if I can say that our company today is in an investment mode. We have as you know invested 6,000 crores in Vodafone. The returns of which will not be seen in the P&L this year. We have invested in R&D, the returns again I expect to see in the next 24 months. We have also investing in developing strong OTC brands. We are confident that the future of the company is on the right track. Thank you and now we are ready to take your questions.

Moderator

Thank you very much sir. We will now begin with the question and answer session. We will take our question from the line of Mr. Ranjit Kapadia from Centrum Broking. Please go ahead.

Ranjit Kapadia

Hearty congratulations on the Vodafone deal. I have two questions, one is, we have established a subsidiary called Piramal Systems & Technologies Private Limited during the quarter, what is the business of this and how it's going to help the company? And my second question relates to the CRAMS business outlook, if you can give an outlook. We have achieved the phenomenal growth of 57%. So how is the outlook both in India as well as outside India?



**Ajay Piramal** 

Piramal systems and technologies business, we have established that and one of the areas that we would be looking at is in homeland security as well as in defense and we will talk about it once the plans are finalized at beginning of the financial year, that is financial year FY13, I think we will be in a position to give you much more color on what we are doing. Coming to the CRAMS outlook, the growth this year has been exceptional. One of it is because yes the market has improved but we have also got some benefit that last year was not such a good year. So I think on an overall basis, there is a positive outlook for the CRAMS business, but I would say that in your projections you should take in anywhere between 15%- 20% as a long-term growth in this business over the next 5 years.

Ranjit Kapadia

Sir, regarding remaining business of Piramal Life Science, does it make a sense to have a company with a market cap of 24 crores with a huge equity capital and share price have already come down to less than Rs.10.

**Ajay Piramal** 

I think it's a valid point and we will look at it and in due course we will tell you what we are going to do.

Moderator

Our next question is from the line of Mr. Nimish Desai from Motilal Oswal. Please go ahead.

Nimish Desai

Just two to three questions, one was Rajesh made a comment in his initial remark that early next year by FY13, you expect your entire surplus funds to be invested or deployed and hence the investment income will not be recurring. So what I wanted to know is besides all the businesses, which Mr. Piramal highlighted just now, are there any other businesses that we planned to enter or this is about it or we have our plate full?

**Ajay Piramal** 

In the future, these are the businesses that we will in, one is in the pharmaceutical segment, where we are including drug discovery because



hopefully we expect that the drug discovery will go towards launch and we will become a fully integrated pharmaceutical company in the truest sense. So the drug is going in to launch, that's one area in pharmaceuticals. We will be in the CRAMS, the OTC and critical care. These are the businesses as far as the pharmaceutical areas are concerned. We have also entered the financial services and when I mean the financial services, it is the NBFC; it is the private equity real estate fund in Indiareit and I also termed investments in the area like Vodafone as financial services and then we will introduce to you something different as I spoke earlier in Piramal Systems and Technologies as far as homeland security, defense and we will talk about it when we have the call at the end of this financial year and for the next year. So these are going to be our business areas. I do not expect to have any other investment as of now. If we make any investment like Vodafone in any other business of equity investments, as of now we are looking at them all as short term investments, as financial investments.

Nimish Desai

The second thing was may be slightly short-term in nature, your growth targets for FY12 in certain businesses that was highlighted, pharma solutions 30% and OTC roughly 20% but if I see the 9-month figure and then I compare it with the full year numbers, they don't seem to connect. I mean pharma solutions have grown at 43%. I understand that 3Q you would have some currency benefit also here. OTC for 9 months, you have grown by 32% and the overall annual guidance is much lower than that. So I just wanted to understand where the disconnect is?

Rajesh Laddha

Disconnect, I think it's also a question of how the quarter 4 of last year was, Nimish. The pharma solution, if you see the quarter four for last year was very big. And though 9 months, we are running at 43%-44%, we expect quarter four to be much lower, lower in the sense from a growth perspective.

Nimish Desai

Understood. And OTC?



Rajesh Laddha

OTC also, the quarter four was big last year. It could be 25%, but we are just trying to be little cautious here, nothing more than that. Pharma solutions definitely because the quarter four, we have seen in the past as well, they are usually very big. So quarter four, the growth would be much lower.

Nimish Desai

And Rajesh, just one more thing, now that the NCE research arm is merged with Piramal healthcare, obviously there you would enjoy tax benefit on the R&D expenditure being incurred?

Rajesh Laddha

Yes weighted average tax deduction.

Nimish Desai

So could you guide as to what will be the overall tax rate for the merged entity for FY12 and 13?

Rajesh Laddha

FY12 would be in the range of about 5%-6% and FY13 would be again 7%-8%.

Moderator

Our next question is from the line of Mr. Sanjay Natekar. Please go ahead.

Sanjay Natekar

I am an investor of Piramal healthcare. First of all to Ajay Piramal heartiest congratulations for a grand deal for the second time. It was a really great surprise. I have two questions. One, do you intend to rename the company because it will now look more as an investment company? Second thing, are you envisaging any buyback in the near future?

**Ajay Piramal** 

So first of all, thanks very much for your compliment. Let me just say that we are not going to be a purely investment company. I said, we are in the investment mode but we are investing in businesses for the future where we are talking about the pharmaceutical business and I talked about the Piramal Systems and Technologies. In addition, yes, we will be investing in financial services whether it's the NBFC and looking at investments of the Vodafone type, but these are short term investments



but we will continue to do opportunistically. So in that sense, it will be a mix bag as a company whether we change the name or not we have to still think. There is no discussion on Board yet on a buyback. I am not in any position to comment on that.

Sanjay Natekar

The company Piramal Healthcare is gradually moving towards becoming India's first Berkshire Hathaway. My personal congratulations to you once again.

Moderator

Our next question is from the line of Mr. Rajeev Agarwal from Eureka. Please go ahead.

Rajeev Agarwal

Sir my question pertains to the Piramal Life Sciences New Chemical Entity which was demerged into the company. Sir, what would be the sales of this New Chemical Entity of Piramal Life Sciences in this quarter and for the nine months?

**Ajay Piramal** 

There was no sales in this quarter for any new chemical entity. We will talk about it in next year when we meet for the annual call.

**Moderator** 

Our next question is from the line of Mr. Rohit Dokania from B&K securities. Please go ahead.

Rohit Dokania

Just a few questions on the telecom space particularly. Could you share with us the kind of investments in GBP terms that we had done in Vodafone India in the last year and currently?

**Ajay Piramal** 

Yeah; what are the other questions?

Rohit Dokania

So the questions are follow-on to that basically, I was just wondering last time, if I am not wrong, we invested about 3400 crores in rupee terms. This time we are investing about 3000 crores in rupee terms again. So are we valuing the 5.5% at a different value than what we were valuing it earlier, because my reading would be that in the interim term,



the tax case has also been reserved and now the 122 licenses have also been cancelled which probably will bring some rationality to the competitive space in the telecom space. So shouldn't the valuations be actually on an uptake rather than a constant or a down-take, so if you could please comment on that?

**Ajay Piramal** 

So we have invested in almost similar terms as we did in both the transactions that we have done with Vodafone India and we feel that that's been a fair sort of thing for us. You have to also recognize that in the current situation, there are not many people who have availability of cash and therefore there are certain advantages that we have because of the reputation that we enjoy and the liquidity that we have.

**Rohit Dokania** 

So basically just to reconfirm it, we are valued on very similar terms as what was valued the last time.

**Ajay Piramal** 

Yes.

Moderator

Our next question is from the line of Mr. Suvikas Bhandari from Cyber Finance. Please go ahead.

Suvikas Bhandari

My question is actually a little bit of follow-on. The difference in numbers between Vodafone, previous 5.5% acquisition, is that just a currency exchange fluctuation and is it otherwise being on the same term or is it something else?

Ajay Piramal

It's near similar.

Suvikas Bhandari

Ok. The second question is going forward in the annual results, would you be breaking out the Life Sciences businesses expenses and all that or would that be totally merged in as one entity within Piramal Health?

**Ajay Piramal** 

We have already shared with you the numbers for these 9 months, which are separately done. 94 crores as we have said have come in; this is the



expense that we have incurred till now. So we will probably continue with this.

**Moderator** Our next question is from KC Suri from Span Capital. Please go ahead.

KC Suri

This is with regards to CarGel, you said you filed with the UK

authorities, what about the launch in India? When do we see that?

**Ajay Piramal** So first, we will have a global launch. It will actually be an European

launch first then we will do a Canadian launch and then we will do it in

India.

**KC Suri** And what are the absolute cash levels in the balance sheets? I mean you

clubbed it under current assets?

Sagar Gokani After the Vodafone deal, we would not have any cash balance, we will

be taking our debt of around 1800 crores.

KC Suri And then again the debt level would again go up with the further

investment in the homeland security business?

Ajay Piramal Not significantly and do remember that every year we do get inflow

from Abbott, so that's due in September.

**KC Suri** Okay and what's the level of Forex gain booked into the revenues,

because you said that the assets outside India growth included the Forex

gain. So what's the number percentage wise, if we could get that?

Sagar Gokani Yes for Pharma solutions business, where there is a major Forex gain,

about 7% growth is coming from currency related movement.

**KC Suri** And that's the only element which has Forex gain, right?

**Sagar Gokani** That is the largest element.



Moderator

Our next question is from the line of Mr. Nishit Rathi from Trust Capital. Please go ahead.

**Nishit Rathi** 

One question, I just wanted some more color on the OTC business; how is the market growing and what are we doing to grow this business?

**Ajay Piramal** 

OTC business, we are building big brands in this, so our big brands in this business are Lacto Calamine, i-Pill, Saridon, Supractiv Complete and we are investing in both growing all these brands and introducing some new brands. The market growth is in the region of 13%-14% and we are growing, if you look at it, about 18% in the like-to-like basis if I take the Nielson report. So we are about 5% higher than what the market is growing as of now. We will continue to invest in this and as you know in the OTC, investment means investing in building brands, investing in sales and distribution and this is a long term play for us. So we expect that for the next 2 years at least, this business is not going to contribute to profitability, it will only contribute to growth in top line.

Moderator

Our next question is from Manoj Garg from Edelweiss. Please go ahead.

Manoj Garg

Can you just provide us an update on desflurane, the legal case which is going on? Any color on that?

Sagar Gokani

Manoj we have announced in the past that the desflurane has been settled now. According to the terms of the settlement, we can launch desflurane in the US starting from 1<sup>st</sup> January 2014 And we can also launch desflurane in Europe starting from actually 1<sup>st</sup> January this year. So we are in the process of applying for registrations in the European countries but the launch actually will happen only in the next financial year.

Manoj Garg

The second thing about this Vodafone deal, as in the opening remark you have indicated probably down the line in the next 12-18 months, do we expect the IPO of Vodafone by the time or in whatever the



circumstances, we make an exit in the next 12 - 18 months, how do we look at the returns, whether returns are assured, any comments on that?

**Ajay Piramal** 

So we don't know when the IPO will take place, so this is subject to whatever the IPO, market conditions are, whatever the regulations, regulatory position is, but we expect somewhere, I am just trying to give you an indication between 12-18 months, it could be a little longer as well, it could be 24 months. And we expect as we had said earlier, we expect the return in the range of 17%-20% and we are reasonably confident that we should get that.

Moderator

Our next question is from Gaurav Jalan from Avanth garde Wealth management. Please go ahead.

Gaurav Jalan

Could you give us some color on the financials of Vodafone India, I mean trailing 12 months revenue and EBITDA of the company.

**Ajay Piramal** 

It's a private company, it's not disclosed, so we are not in a position. You should ask this question to Vodafone India.

Gaurav Jalan

One other question, on the financial services revenue that you are reporting, is that net interest margin or is that just the interest income?

Sagar Gokani

So those that, which are included in sales, are actually gross interest as well as some processing fees which we would have received.

**Moderator** 

Our next question is from the line of Neha Kothari from Standard Chartered. Please go ahead.

Ravi

Hi Good morning this is Ravi here. Congrats on this acquisition. One question actually, we are now going to move to a stage where our income from investment is now coming, just some medium term outlook for the EBITDA margins for the company.



**Ajay Piramal** These things we will talk about when we meet at the beginning of the

next financial year in April. That's the appropriate time.

Moderator Thank you. Next question from the line of Jaydees Waran, as an

investor. Please go ahead.

**Jaydees Waran** I think as of now we have around 1200 crores in the balance sheet and I

think we need to pay around 3000 crores for the Vodafone deal, I would

like to know how we are going to pay for this deal?

**Rajesh Laddha** So out of 3000, we have as I said about 1200-1250 crores of surplus

funds available with us and the balance we are going to do some external

borrowings.

**Jaydees Waran** And at what interest rates we are going to borrow further?

**Rajesh Laddha** We are still working those out and will come back to you with the exact

rates and all.

**Jaydees Waran** And the second question, can you please talk a little bit about the Indus

Growth Partner which we saw on a separate website?

**Ajay Piramal** Indus Growth Partners is an entity which is in the US, where we are also

involved in and that is looking at investing into new opportunities and

we will look into those opportunities within the pharmaceutical space

and homeland security.

**Moderator** Next question is from the line of Nishchal Shah from Reliance. Please

go ahead.

Nishchal Shah Can you please throw some light on the NBFC business, the asset

classes that you entered in and the kind of ticket size you look at?

Ajay Piramal So we are looking at the assets, the first area that we entered into is in

the real estate space and we are looking at various ticket size, there are



prudential norms that we have set up. We are following all the guidelines of the RBI as far as the NBFC is concerned. We are going to expand this into other spaces, but at this time, I would not be in a position to share with you those and at an appropriate time, we will be happy to do that.

**Nishchal Shah** So this is largely the builders funding?

**Ajay Piramal** Yes as of now.

**Moderator** Sir we will take our last question, there is a question from the line of

Arpit Ranka. Please go ahead.

**Arpit Ranka** Just one question, we mentioned that we will be taking on debt of 1800

crores for the Vodafone deal, so is it on top of 1200 that we have right

now or the total debt will go up to 1800 crores?

**Ajay Piramal** So this is the incremental part. So 1800 will be the debt for the Vodafone

deal which is a 3000 crores deal, which is incremental on the balance

sheet, you are right.

**Moderator** Participants that was the last question. I would now like to hand the

conference over to Mr. Gokani for closing comments.

**Sagar Gokani** Thank you everyone for attending this call. Please feel free to reach us in

case you have any further questions. Thank you.

**Moderator** On behalf of Piramal Healthcare Limited that concludes this conference

call.