

"Piramal Enterprises Limited Q1 FY2013 Results Analyst Conference Call"

August 14, 2012





MANAGEMENT: MR. AJAY PIRAMAL – CHAIRMAN

Ms. Nandini Piramal – Executive Director Mr. rajesh laddha -- Chief Financial Officer



Moderator

Ladies and gentlemen good day and welcome to the Q1 FY13 Result Analyst conference call for Piramal Enterprises Limited. As a reminder for the duration of the conference, all participant lines are in listen-only mode. There will be an opportunity for you to ask questions at the end of today's presentation. Should you need assistance during this 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 handover the conference to Mr. Sagar Gokani from Investor Relations team. Thank you and over to you Sir.

Sagar Gokani

Good evening to all of you. Welcome to Piramal Enterprises Limited's FY2012. Joining me on the call are Mr. Ajay Piramal, Chairman, Ms. Nandini Piramal, Executive Director, and Mr. Rajesh Laddha, Chief Financial Officer.

We hope you have received a press release results in the stock exchange format and analyst presentation that we have sent out. These are also posted on website www.piramalhealthcare.com on the investors section.

We will be using the analyst presentation as a reference document. It is appropriate to mention here that the discussion today may include some forward looking statements and this must be viewed in conjunction with the risk that our business is faced. The duration of this call is one hour and I would request you to send your queries which remained unanswered during this call to our email id investor.relations@piramal.com.



Mr. Piramal will talk about the performance of different businesses for the quarter and then Mr. Rajesh Laddha will take us through some of the financials for the quarter. I would like to handover to Mr. Piramal now.

Ajay Piramal

I would now refer to the presentation and if you can turn to Slide #4 of the analyst presentation, you will see that the business mix number for continuing businesses.

- Pharma Solutions business reported a strong growth of 32.5% with revenues of Rs. 384.6 crores for the quarter. The revenues from Indian assets grew by 38.5% for the quarter while sales from facilities outside of India grew by 23.9%. The favorable currency movement both US dollars to Indian rupees and the Sterling to Indian rupees has also aided this growth. During the quarter we have added six new customers for the early phase work. We have seen an increasing demand from our existing customers across the facilities. We have also signed a long-term contract with a new customer at our Morpeth facility and we expect to commence supplies in the next year. In addition to this, Morpeth and Grangemouth facility successfully cleared the MHRA audit without any major observation in this quarter. So overall we have seen a good growth in both early and late phase business and we expect this business to continue to record good growth for this year.
- Revenues from the Critical Care business have grown by 61.2% to Rs. 146.9 crores against Rs. 91.1 crores in the previous quarter. The growth was driven by increased volume sales of Sevoflurane and Isoflurane. We have also renewed in this quarter major GPO contracts for next two years. Prelaunch activities have commenced for launch of Sevoflurane in major EU countries and we have



received an encouraging response. We are on track to launch Sevoflurane in the EU in the second half of 2013.

- The OTC & Allergan sales were up by 28.6% to 71.7 crores in this quarter. In the OTC business we have seen good growth across all the brands. We are now ranked 7th in the Indian OTC market. We remained focused in building strong brands. We have launched a new women care product i-sure, which has got a good response from distributors and retailers. And we have a strong pipeline of new products which will continue to give us good growth in the remaining year.
- In our Life Sciences business, we have started Phase II clinical trial for P276 for reduction of serious Radiation-Induced Mucositis in patients of head and neck cancer receiving chemoradiation. We are on track to file an ANDA with the USFDA and EMEA for Florbetaben which came from acquisition of Bayer's Imaging Portfolio. We have started preparing for launch of our cartilage repair gel; CarGel in Europe and sales will commence by Q4 of the current financial year.
- Coming to the Financial services business, which includes NBFC and Indiareit Fund, income from that has been Rs. 42.4 crores for the quarter. Indiareit has mobilized 370 crores in a tough fund raising markets from domestic investors for the Mumbai redevelopment fund and is expected to close fund raising by mid August 2012. Indiareit is also planning to launch a domestic scheme-5 with targeted fund size of 750 crores in the second half. In our NBFC business we have built a loan book of 500 crores as of 30th June 2012. During the quarter we have started lending to the education sector; loans are sanctioned and is expected to disburse



soon. We expect to build a loan book of about 1600 crores by the end of this year.

Coming to the recently acquired Decision Resources Group, PEL completed the acquisition of DRG on 6th of June 2012 for \$635 million. The consolidated revenues for 24 days have been Rs. 57.7 crores. The company now operates as a wholly-owned subsidiary of PEL. The revenues for the nine months left in this year are expected to be \$130 million and on the full year basis we should get a turnover of \$160 million.

I will now hand it over to Mr. Rajesh Laddha, our Chief Financial Officer.

Rajesh Laddha

At the outset I would like to bring into your notice that the number for Q1 financial year 2013 that you are seeing are not comparable with the same period last year due to demerger of NCE R&D unit of Piramal Life Sciences which merged into Piramal Healthcare during Q4 of FY12. And also the acquisition of Decision Resources Group that was announced in May and got completed on 7th of June.

• If you refer to Page #5 of the Analyst Presentation you will see that the total operating income for the continuing businesses has grown by 46.0% in Q1FY13 to Rs. 747.2 crores. You would recollect that demerger of the NCE R&D unit of Piramal Life Sciences was completed in Q4FY2012. NCE related R&D expenses for the quarter was Rs. 33.0 crores as compared to nil for last year. Hence, operating profit was constant at Rs. 78.4 crores in spite of increased sales. If you were to add back the NCE R&D spent the operating profit margin would have been 15% which is comparable to the operating profit margin in Q1-FY2012. The non-operating other



income shown here is FOREX gain of Rs. 57.5 crores towards amortization premium on FOREX cover for receivables from Abbott. We will have these FOREX gains coming every quarter till the time all outstanding amounts have been received from Abbott. Interest cost has increased from Rs. 11.0 crores in Q1FY2012 to Rs. 87.5 crores in Q1FY2013 mainly due to increase in debt for acquisition of DRG and acquisition of stake in Vodafone. Depreciation was higher at Rs. 41.1 crores in the current guarter as compared to Rs. 27.0 crores in Q1FY12 due to increased depreciation on account of DRG, NCE R&D unit and increased CAPEX on account of vaporizers in our Critical Care business. Tax rate for the quarter was closer to MAT rate at 12.6% due to weighted average tax reduction available to us and carried forward losses on NCE R&D unit. Due to lower EBITDA, higher interest and depreciation cost, net profit that is profit after tax for the guarter was lower at Rs. 4.1 crores as compared to net profit of Rs. 89.2 crores in Q1FY12.

• If you look at the balance sheet on Page #6, major changes are as follows: Reserves and surplus have gone down by Rs. 683 crores due to consolidation of debit balance of P&L of NCE R&D unit of Piramal Life Sciences and due to payment of dividend this year. Debt has gone up from Rs. 987 crores in Q1FY2012 to Rs. 5,838 crores in Q1FY13 that is an increase of 4,851 crores resulting largely from acquisition of DRG and investment in Vodafone financed by debt. Net fixed assets have gone up by Rs. 4,150 crores, mainly due to acquisition of DRG business which is 3,600 crores and other including fixed assets from NCE R&D business, acquisition of Indiareit and ongoing CAPEX. Investments have gone up mainly due to investment in Vodafone of Rs. 5,900 crores. Sundry debtors have gone up by Rs. 388 crores mainly towards



receivable at DRG of Rs. 233 crores, increased sales and restatement of debtors at higher foreign exchange rate. Other current assets have gone down by Rs. 4,400 crores, mainly due to receipt of first tranche of payments from Abbott which is Rs. 2,000 crores in September 2011 and discounting of second tranche of Abbott another 2,000 crores in January 2012. Current liabilities and provisions have gone up by Rs. 1,200 crores due to increase in current liabilities from DRG which is Rs. 410 crores, increase in FOREX liability towards forward cover from Abbott receivable Rs. 670 crores.

• If we turn to Page #7, we look at some of the balance sheet ratios. Debt-to-Equity ratio has gone up from 0.08 to 0.52 due to debt increase on account of acquisition of DRG. Book value per share is slightly lower at Rs. 665 due to carried forward losses from NCE R&D unit of PLSL and dividend payment provision. Sales-to-net fixed assets ratio has declined from 1.1 to 0.7 due to acquisition of DRG. The inventory and receivables days shown here are only with respect to Pharma businesses. The inventory days are lower for Q1FY13 as compared to Q1FY12 as increase in inventory is lower as compared to sales. Most of our inventory is in Indian rupee as compared to sales in USD hence lower inventory days. The receivable days are constant similar to Q1FY12.

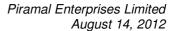
That is all from my side. We are now ready to take questions.

Moderator

Thank you. The first question is from the line of Ritesh Nambiar from UTI Mutual Fund. Please go ahead.

Ritesh Nambiar

Wanted to know, the funding of DRG which is done, whether it is done through domestic debt or overseas debt?





Rajesh Laddha Right now we have taken a temporary funding which is completely

in US dollar is has been taken in the United States.

Ritesh Nambiar And it is in the book of DRG?

Rajesh Laddha No, it is in the book of our subsidiary right now.

Ritesh Nambiar What is the quantum like, it is totally funding by debt?

Rajesh Laddha Yes, currently, \$640 million.

Ritesh Nambiar What is the tentative interest rate out there?

Rajesh Laddha Close to about 5%.

Ritesh Nambiar Did you hedge this exposure?

Rajesh Laddha No, because this is a US-based asset and our revenues and profits

are going to be in US dollars. So, I do not think there is any point in

hedging it.

Ritesh Nambiar What is the outstanding forward contracts you have in USD for the

receivables which you have?

Rajesh Laddha That is about \$1.2 billion. But the 400 million is going to get over on

7th September 2012, so remaining after 7th September would be

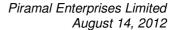
about 800 million.

Ritesh Nambiar What is the mark-to-market gain which is accumulated out here on

these forwards?

Rajesh Laddha The total net gain on these forwards is 57 crores which we have

separately disclosed.





Ritesh Nambiar That is for the quarter, right?

Rajesh Laddha Exactly right.

Ritesh Nambiar But on the other comprehensive income, how much would be the

amount? I mean, year-to-date what was the kind of quantum because there is a provision of amortizing all these gains also? Did

you amortize it or you have taken it upfront?

Rajesh Laddha On Abbott cover, we have booked a gain of about 57 crores. For

the full year this amount will be about 150 crores. Last year this was about 220 crores. As we are receiving the money, this amount is going to reduce but it will continue happening till the time we

receive our last tranche from Abbott.

Ritesh Nambiar If you could give us the breakup of your debt within, how much is

bank, how much is capital markets, how much is overseas?

Rajesh Laddha We have some CPs which is about 1200 crores, we have as I said

this DRG loan which is about \$640 million and we have another round 1000 crores of borrowings from banks which is again overseas for our other operations into Piramal Critical Care, our UK operations and a little bit for our Imaging operations now in Germany, balance would be some working capital loans in terms of

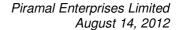
CCc and PCFCs.

Ritesh Nambiar What is the approximate cost of this domestic debt?

Rajesh Laddha Domestic debt will be about 9% for CPs.

Ritesh Nambiar Could you throw some color on your NBFC in which you want to

aggressively grow, what kind of businesses they are into?





Ajay Piramal

In NBFC, today we are focusing on two major verticals. One is real estate and the other is education. And we believe that in this space we have some deep knowledge of that business so we can assess risk better and this is an area where the banks are not willing to lend because of certain regulations that have been put. So there is an opportunity for us to do it.

Ritesh Nambiar

But current 500-odd crores is entirely real estate?

Ajay Piramal

Yes.

Ritesh Nambiar

What is the profile like of these real estate, establish ones or?

Ajay Piramal

Yes, these are all established players, we have a very rigorous method of appraising them and also we have several levels of security that we are taking. So, we are doing it in a very conservative basis to see that the risk is managed.

Ritesh Nambiar

This quarter the entire financial services income was from this subsidiary, how is it?

Ajay Piramal

No, partly it is also from the Indiareit; the income which we get from the fees from Indiareit is also included in this.

Moderator

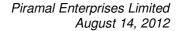
Thank you. The next question is from the line of Nirjhar Handa from M3 investment. Please go ahead.

Nirjhar Handa

I have a question on your borrowing. You mentioned that you have 640 million of debt in the US. Is that correct?

Rajesh Laddha

That is right.





Nirjhar Handa So this is the entire amount for DRG was funded by local US dollar

debt?

Rajesh Laddha That is correct.

Nirjhar Handa So this Abbott second tranche which you mentioned was going to

come in September this year but was already discounted in January; that would have been another about 1800, 1900 crores if I

am not wrong?

Rajesh Laddha Yes, that would have been another 2000 crores but that money we

utilize to buy the stake the second tranche of Vodafone; 5.5% we

bought in February.

Nirjhar Handa That was used there?

Rajesh Laddha Yes.

Nirjhar Handa Now there are only two more tranches is September '13 and

September '14?

Rajesh Laddha Effectively yes.

Nirjhar Handa Your results note mentioned some acquisition of Bluebird Aero

Systems in Israel. Can you talk a bit about this and how this falls

into your strategy for the defense services kind of business?

Ajay Piramal This is a small investment that we made in this Israeli company. It

is in the unmanned space. It is only about 25% of the equity of that

business that we have got into. So, we are still trying to let us say

wet our feet into the water as far as defense services is concerned

and want to understand this space a bit better before we make any



major investments. So, at this stage it is a very small investment and we are playing a passive role to understand the space better.

Nirjhar Handa

And finally, on your NBFC, you mentioned you are lending to education sector. Can you explain that a bit more; which part of the education sector are you funding?

Ajay Piramal

We will be funding those institutions which are either they are colleges or schools where we can see that there is clear cash flow. So many education institutions want to expand and that is what we are going to fund those people. So we are going to fund institutions not individuals in this.

Nirjhar Handa

Is this a very large opportunity because you mentioned banks are not allowed because of some reasons?

Ajay Piramal

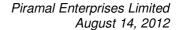
That is what I talked about in real estate. There is a lot of scope in this but the real estate is going to be the biggest sector we are investing in and real estate is a place where banks are not allowed to invest today.

Nirjhar Handa

Because of your group's knowledge about the real estate business over the years do you think that is the main reason why you will be able to get because that is a competitive field lending to real estate sector? So why do you believe you will be able to get a better ROE?

Ajay Piramal

The reason why we could get better because we have a fairly deep understanding of this space, one. Second, we will also be able to assess risk better. Thirdly, they are not that many now people left





funding the real estate space anymore. So, you can get reasonably attractive return.

Nirjhar Handa

Because the sector itself is in such a bad shape, many of the lenders have withdrawn?

Ajay Piramal

There is a lot of liquidity issues in the system.

Moderator

Thank you. The next question is from the line of Anuj Shah from JP Morgan. Please go ahead.

Anuj Shah

My question was on the Bluebird Aero Systems which was partially answered. But I wanted to know have a little more idea about what do we plan to do in this sector going forward? And is this just a strategic stake or are we planning to have a manufacturing facility in India for this as well?

Ajay Piramal

This is as I said a really small strategic stake at the moment and therefore I do not think we have too many plans as far as this Bluebird is concerned at the moment. We want to just feel our way into it and understand the space a bit better and this gives us an insider's view of that space. So investment as you can see is just \$7 million. We are going to see it in the future and then decide. Similarly, the defense though we have said in the past that we are going to invest but we are still looking at it and have not yet made any concrete plan. So we will let you know once the plans are more concretized.

Moderator

Thank you. We have a follow-up question from the line of Ritesh Nambiar from UTI Mutual Fund. Please go ahead.





Ritesh Nambiar Wanted clarity on the liquidation of your Vodafone investment.

What is the kind of timeline which is left and what is the earliest we

could see as far as exit is concerned at least on the first tranche?

Ajay Piramal As we said, when we first made the investment which is about 12

months ago, this is a short to medium term investment and our

horizon was about two to three years. So, out of that one year is

over. It is in the next one to two years that we will see the

liquidation. So whatever we said last year still remains unchanged.

Ritesh Nambiar And your agreement with the Vodafone promoters, wanted to know

what is the kind of buyback clause which is there within the

structure?

Ajay Piramal As I said previously there are several options for us to exit. One of

which is of course the IPO. Second is that subject to all regulations;

they can buy back from us. Or third, they will find an alternative

holder.

Ritesh Nambiar But within these two or three years there is a definite exit?

Ajay Piramal Yes.

Ritesh Nambiar As you have mentioned in the past blended deal somewhere

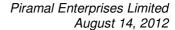
around 17 to 20-odd per cent. Is the same?

Ajay Piramal Yes, I said that we expect a return in 17 to 20% and we still hold

that.

Ritesh Nambiar That is on a ROCE level or on an ROE level?

Ajay Piramal It is on this amount invested.





Moderator

Thank you. The next question is from the line of Purvi Shah from

Dalal & Broacha. Please go ahead.

Purvi Shah

Wanted to ask about P276 if you could give us some more insight as to how big is this opportunity post this Phase, and do we plan to out-license it or what is the prospect going forward?

Ajay Piramal

We are doing multiple trials as far as P276 is concerned in different areas because as you know in the space of oncology you can do in more than one area. So the one which is in the Phase-II which I talked about it is in what is called as Radiation-Induced Mucositis. When a patient undergoes radiation there is some Musocitis and therefore this is towards that. I am giving you approximate, we expect that trial should be done in the next year and if things go as we hope that they would go; sometime in the timeframe of 2014-2015 you could see a launch of a product. Whether we need to go for a partnership or not we will decide little after the Phase-II is completed and then when we have a better handle on what is the expected outcome of this.

Purvi Shah

The NDA that you have said that you plan to file with US as well, what is the timeline that we are looking?

Sagar Gokani

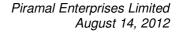
The Phase II of our P276 for this trial is RIM. It will be completed in the next six months and then you have maybe nine months to 12 months for Phase-III. After that we will be filing.

Purvi Shah

So over one, one and a half year of period is you are looking at post that?

Sagar Gokani

Yes.





Purvi Shah Till then we are planning to get a partner or something?

Sagar Gokani Not for this indication. As a strategy what we have stated is for

smaller indications we plan to do it ourselves. For some of the very large indications we may rope in partners. But RIM is not a very,

very large indication. So our Phase-III will not be a very large trial.

Purvi Shah Wanted to know two things; one is about the tax rate going forward

and the other is the average cost of debt; I mean, domestic debt is

at 9% but if you could also give the average cost of debt?

Rajesh Laddha The tax rate, in fact we have the carried forward losses available in

PEL now. So for next 3-4 years we do not expect any taxes to be

paid by PEL. As I said this whole US-based loan we have about 5%

rate of interest and India would be about 9% so the blended could

be 6 to 7% depending upon the amount.

Moderator Thank you. We have a follow-up question from Nirjhar Handa from

M3 Investment. Please go ahead.

Nirjhar Handa I remember you said net fixed assets have gone up because of the

DRG acquisition. Is this primarily intangible asset?

Sagar Gokani Yes.

Nirjhar Handa Can you quantify the amount of tangible assets that have been

added to your book because of that acquisition?

Sagar Gokani It is largely intangible assets.





Rajesh Laddha About 300 crores would be net asset increase on account of DRG

which is tangible in nature that could be in the form of fixed assets, net working capital, etc., and the balance will be coming as

intangible.

Nirjhar Handa So the total tangible asset including working capital is only Rs. 300

crores?

Rajesh Laddha Yes.

Nirjhar Handa What kind of margin profile does this business have?

Rajesh Laddha As a policy we do not share businesswise margin at this stage and

we will continue maintaining that. However, we will be happy to talk

about the company level margins.

Nirjhar Handa But since this is the subsidiary of Piramal Enterprises; at the year-

end along with the annual report wont you have to give the account

of DRG as well?

Rajesh Laddha Yes, we will have to.

Nirjhar Handa So till that time you prefer to?

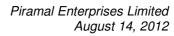
Rajesh Laddha Yes.

Moderator Thank you. At this time I would like to hand the conference over to

Mr. Sagar Gokani for closing comments. Thank you.

Sagar Gokani Thank you for all your time for attending this call. If you have any

further questions please feel free to reach us.





Moderator

Thank you. On behalf of Piramal Enterprises Limited that concludes this conference. Thank you for your joining us.