

"TAKE Solutions Q2 FY17 Earnings Conference Call"

November 3, 2016

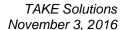
MANAGEMENT: MR. SRINIVASAN H.R. - VICE CHAIRMAN & MD,

TAKE SOLUTIONS

MR. RAM YELESWARAPU - CEO AND PRESIDENT,

TAKE SOLUTIONS

MODERATOR: MR. SAGAR RASTOGI – AMBIT CAPITAL





Moderator:

Ladies and gentlemen good day and welcome to TAKE Solutions Q2 FY17 earnings conference call hosted by Ambit Capital. 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 '*' then a '0' on your touchtone telephone. Please note that this conference is being recorded. I now hand the conference over to Mr. Sagar Rastogi from Ambit Capital. Thank you, and over to you sir.

Sagar Rastogi:

Thanks. Good afternoon everyone. And welcome to Take Solutions 2Q FY17 earnings call. I now hand the call over to the management team led by Sri. Over to you Sri.

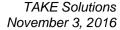
Srinivasan HR:

Thank you Sagar. Good afternoon everybody for participating in the earnings call for Q2 of FY17 of take solutions. The headline from my side are that we had a very satisfying quarter as far as the management is concerned generally on the lines of what we have done.

So the revenue is about 328 crores. If you look at the headline numbers in US dollar terms it is 3.3% increase and 3.4% Q-on-Q in INR terms. So what is important to note is that Life Sciences segment that the company focuses on has actually grown 6.6% Q-on-Q. And year-on-year it is 51% growth. And if you further dissect that and look at the Life Sciences growth which is on organic basis which is subtracting Ecron Acunova that we acquired in Q4 of last year, the Q-on-Q growth is actually 7.6%. The deal that we had won, the ramp of that has started. So the revenues have kicked in. We certainly had a marginal de-growth in the supply chain business to the extent of about 5%, on expected lines. They were to remain flat but looks like we had a marginal de-growth there. But I expect it to be stable from hereon, de-grow but not grow substantially.

In terms of EBITDA, we had an expansion of about a percent on the EBITDA, this would have been much better actually if you report the adjusted EBITDA it would have been 23% somewhere later I am going to talk to you about the strategic initiatives that the company has embarked on which is a very important source of the journey. About 10 clients were added during the quarter. More importantly Ecron Acunova returned to profitability I had guided at the end of last quarter that we were aiming for a break even during the current quarter. And I am happy to say it's become marginally profitable. So we will see an uptick in Ecron margins in Q3 and Q4.

We added 10 new clients, of course we won special award for corporate governance at the Golden Peacock award in London which was received by our CFO, so if you look just to recap, ever since we focused on the Life Sciences businesses, our Life Sciences business on the organic basis from Q1 of FY15 has grown at a compounded quarterly growth rate of 9.6%. So we really built a high class of Life Science business as such and IP as we move along. Important for me to flag that the company engaged a global consulting firm to entered into a strategic initiative basically to look at the medium and long-term plans of the company.





The management believes that the Life Sciences business hold enormous potential and having achieved a size of a little over 100 million we wanted to see how we can maximize the capability of the building blocks that we have already put in place. We are all well aware that many companies, once they reach a particular size, they tend to stagnate at this level. So it was important for us to look at methods where we gain the escape velocity to move to the next level of orbit and the management and the board felt that it is important to rope in consultant at a global level, so that we map out the landscape, we map out the strategy, we evaluate what are our current strengths and weaknesses, what is the disruptive trends or technologies that are playing by and then come out with a strategy that goes forward.

So, during the quarter we ended up spending about a crore and a half towards that, but as we move ahead, some of this ramp up in terms of consulting fees or getting on boarding people, is going to be sharper over the next few quarters. And that may have an impact on the margins. However, we will strive to see that we report adjusted EBITDA as a separate figure to you. So that the investment community can have a very transparent view of what is happening to the core operations and what is the cost that is really associated with different strategic initiatives.

With this to speak more about the Life Sciences business in granularity, I am going to call upon my colleague Ram who is also on the first round. Over to you.

Ram Yeleswarapu:

Thank you Sri. Good afternoon ladies and gentlemen. Very clearly excited with prospects and opportunities in the Life Sciences industry, lots of different factors contributing to our excitement and enthusiasm.

Let me touch upon briefly a few of the initiatives we are actively pursuing. And where we see a significant opportunity as we look at next 5 - 6 plus years in some cases. Let me start with IDMP, we have been discussing and talking about Identification of Medicinal Products, this is a regulatory initiatives in Europe. It is going to be impacting pretty much every pharmaceutical manufacturer who has authorized products that's commercially available in any of the EU countries. Very clearly this is aimed at solving a Real Time business issue. The entire premises IDMP is to improve patient safety. Basically it is to describe the medicinal product, where it is authorized, how it works, where it's individual components come from which is in this case is active pharmaceuticals ingredients etc. IDMP compliance will require presenting over 1100 fields with about 243 characteristics and this information is to be pulled in from a wide variety of source systems. It's a truly cross functional approach impacting the company in a significant manner. Data needs to be pulled in from clinical trial management systems to regulatory information management, lab information management, pharma cognitive systems, the electronic common technical document systems, the trial master files systems, so on and so forth. The number of desperate source systems which these freeing the characteristics needs to be aggregated from is significantly large. Roughly about, just to give you a context of the complexity of problem, about 20% of these data attributes I just described, they reside in a structured format, another 20% in a possible semi structured format and the rest of the 60% in unstructured format which is where the challenge is. The unstructured content can exist in



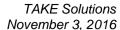
word documents or pdf files or image files, etc. And hence you need special technologies and special skills to be able to really extract and assimilate the master data.

So all in all, as a company we of course have this very strong on providing process advisory strategy consulting, really strong on technology initiative, data governance and of course functional services as well. We kind of really bundling this and taking a holistic approach towards addressing this particular industry challenge. A quick note on the timelines, this particular initiative IDMP, is actually going to stretch all the way till end of 2018. A significant time frame within which there is going to be plenty of opportunity. And we also believe that this initiative from Europe will also be impacting the US FDA own implementation of this initiative which might start of right about that time frame.

So all in all, you are looking at the next 4-6 years as I said, significant opportunity here. A quick note, we established a very strategic partnership with Sparta systems and we are bundling in a very unique solution for addressing this IDMP initiative. Advantage for not only our strengths but also taking advantage of track wise customers. The good news is through this strategic partnership, we have access to almost about 250 plus pharmaceutical companies, who are currently customers of Sparta but who also need to address IDMP. So certainly we have access to that community of captive customers.

In addition to this (+250), is another 1500 odd customers that have been identified already who is certainly going to be approaching in a joint manner along with Sparta. So significant opportunity, I just wanted to touch upon this, we have been of course doing joint presentations with Sparta, we have been participating in the user conferences, we have been running a number of Webinar and we certainly believe that our solutions are far superior to may be some of the competitions who have very specific view on this particular initiative. Another thing on track and trace in Serialization, very similar to IDMP in Europe, there is a significant initiative in US which touches upon track and trace in Serialization and the good news here is pharmaceuticals manufacturers have to be complaint with a drug supply chain security Act in request. And they have time till end of 2017 for the first phase of it. The second phase kicks in right about 18 to 2030 and third phase rounds up with 2022 plus kind of a time frame.

So again this is a very forward looking, next 4-6 years of significant opportunity in US. We have been winning significant deals, we have been implementing very comprehensive solutions. US market place is very excited with our trace legacy issue there. A quick note on the third component, clinical data integration and aggregation, we have touched upon this in the past. We are very excited, there are very unique and differentiated solutions we bring to the market place is exciting customers all around and prospects. I have been doing a number of pilot engagements. Certainly working with some of the largest companies and also very complex oncology clinical trial data, which is probably a very complex set of data attributes among a variety of other therapeutic areas and indications.





All in all, significant opportunity, we have won significant deal on the QMS CAPA system, again working closely with Sparta Systems and their track wise software. We have added partnerships to our bouquet of strategic partners. One partner happens to be in the area of business process management, which we consider a very key work flow enabled kind of software. And other partner is in structure content offering which is again where we believe, the regulators as well as the industries headed towards. Lastly marketing, these of course been a part of several thought leadership forums are being authoring and putting several white papers out there and being participating actively in US, Europe as well as in India.

We recently concluded our India meeting which got launched earlier in the 2016. So these are some of the initiatives that we are working on very clearly, a lot of excitement out there. A lot of tailwinds propelling growth and with that I would like to hand it over back to Sri.

Srinivasan HR:

Thank you Ram. I think net-net the tailwinds in the Life Sciences segment are pretty strong and that is evident in the very strong order book position that we ended on 30th September. Order book stands at about 114 million of which 101 million is from the life Sciences segment and just to point out that comparable last year was 60 million. So it's almost 75% growth in the order book compared to last year which augers well with the growth of the Life Sciences business that we are focusing on. I think that would be the management commentary at this point of time, but the team and I are here and we will be happy to address questions that are there.

Moderator:

Ladies and gentlemen we will now begin with the question and answer session. We will take the first question from the line of Madhu Babu from Centrum Broking. Please go ahead.

Madhu Babu:

How much of revenue came from that large deal ramp up and could you talk of more about large deal and how is this going to shape up in 2H?

Srinivasan HR:

So roughly about 750K revenue came from that deal and we would estimate that it would ramp up may be about twice the size during the next quarter. And we take it from there because the first element in the first half, there is a lot of work that's on consulting span on the business process. And consulting while is on time, it's not like the business process where you handled the process and then that sets in. So that part of the business is kind of ramping up now. You will see as you move into the next few quarters, the acceleration of this reflecting on the revenues.

Madhu Babu:

And steady state would be a 10 million annually right from FY18?

Srinivasan HR:

It will be 12 million.

Madhu Babu:

So by FY18, the steady state can come in?

Srinivasan HR:

Yes.





Madhu Babu: And sir, second thing you said that margins will be impacted over next 2-3 quarters by

almost 200 to 300 basis points. So are you saying that EBITDA margin would be reported

would be around 18% over next 2-3 quarters?

Srinivasan HR: So what we will do just to give a sense of comparables, we will report the EBITDA margin

and we will report the adjusted EBITDA margin also after taking into accounts costs that are

associated with projects and we will report that in separate line head.

Madhu Babu: And sir just last 2 questions, on this order book of 101, what are the drivers, is it the top client

or are we seeing the next level of clients also, we are not giving larger orders and one more question on this product R&D expenses, I think that again has increased this quarter in the

amortization, around 14 crores, it was around 10 – 11 crores, it is now 14 crores?

Srinivasan HR: These are two different questions. So let me address it differently. If you look at the increase in

order book, the existing customer basically awarded about 22 different projects or renewals

across clin, reg and medical safety functions. In terms of new customer there were 10 additions, some of them on pharmaREADY but the good thing is that there were the generic

customers or bio similar they were 23 new projects that have been enabled. The size of the

projects on generics are generally small but they are very important and bio similar is

something where the industry is expected to grow from 3 million size to may be 10-fold over the next 3-4 years. So it is an area that we are betting on big and is good to have customer

traction there. On the second part of it, I think you will have to look at it on the CAPEX side

and amortization half year as a whole, because in the first quarter, there wasn't much of

capitalization on this. So it was work in progress at that point of time. So the capitalization will

happen in the second quarter, so if you normalize it across the half year, you will not see a

major variance.

Moderator: Thank you. We take the next question from the line of Pritesh Chedda from Lucky Investment.

Please go ahead.

Pritesh Chedda: Can you give the break-up of the other income on the H1 basis? H1 last year is about 18.7, H1

this year is about 4.6, so if you could give some details there.

Srinivasan HR: Last year the 18 crores was really the sale of our investment in a joint venture. So that was a

one-time income of 18 crores, that was in the other income category. This year it is more in

terms of interest earned on deposits.

Pritesh Chedda: And can you give the H1 dollar number, the size of Life sciences business and the size of

SCM business?

Srinivasan HR: H1, the dollar number is 96.44 half year and 76 million is the Life Sciences business. And

that's comparable to 52 million in H1 of the previous year.





Moderator:

Thank you. We take the next question from the line of Rohan Advant from Multi Act. Please go ahead.

Rohan Advant:

I just wanted to understand how the guidance of 2.5 to 3% drop in EBITDA margin has been arrived at. Basically a 3% on a quarterly revenue of 330 crores is about 10 crores per quarter and we said it would last for 3-4 quarters. So do we expect to spend around 40 crores on strategic initiatives or may be more over the next 3-4 quarters and are these in the nature of one time spent, if you could just explain how this expenditure is going to span out?

Srinivasan HR:

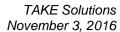
So there are two types of spends here, one is what we call one-time spent which are associated with the consulting fees or advisory fees which will be in the nature of one-time expenses and I expect that for the forthcoming quarter it may be in the region of about 6-6.5 crores because many of the consulting expenses actually come up front. Now after that, there are 2 parts of which will be an ongoing expense, so the first part of it is where we engage the consultant to support in the implementation of the project which will need oversight and help because it's a transformational initiative. So we will need oversight and help and that may last for 12 - 18 months. At this point of time, I am not able to quantify that but that would depend on the touch point. The second aspect of it which would be continuing is really when you onboard salesforce. So for example now if we have to get to the numbers that we are initiating, we are talking of something like tripling the salesforce for over the next 12 months. Tripling the salesforce one is the numbers, but one is actually getting them effective so there are number of initiatives that need to take place in doing that. So when you on board somebody especially the hunters then the hunters take anywhere between up to 12 months to become effective in earning back in to the system. But there is an opportunity out there, and so these costs have to come up front. So this is currently an estimate that it would be but as the EBITDA goes up may be it may be a little softer than what it is but it's important to give a sense of why we are doing this and also what is the range of expenditure that is possible.

Rohan Advant:

And on the EA front, in the last call you had alluded to second half like EA has likely seasonal sort of revenue, then second half the revenues are higher and Q4 you expect an exit EBITDA in the range of mid-teens somewhere around that, so do you still expect that?

Srinivasan HR:

Of course. Just to give you how the H1 has been for EA, they have done about 73 crores for the first half of the year which is about 28% higher, than H1 of last year for them. So the revenue uptick which is what we were trying to push has picked up. Now there has to be some automation, some cost management and then the EBITDA will kick. So I am quite bullish that we will look at EBITDA in the mid-teens at the exit of this FY. One thing I must say that in all our businesses, Europe is continuously a bit challenging in terms of revenue growth. We have grown very well in Americas, we have grown very well in Asia. Europe, we have not been able to register the kind of growth, actually it has been quite flattish in our system. So that's the data point. But it will not have an impact on any short-term revenue or results.





Pritesh Chedda: And so in spite of EA doing far better margins we expect a consolidated margin drop of around

250 – 300 basis points on account of strategic initiatives?

Srinivasan HR: EA is a very small percentage on the total business. So it is about 10% or may be little over

10%. So that will not impact too much.

Pritesh Chedda: Sir lastly on the 4-5 large contracts upwards of 10 million that we are pursuing any update on

that and lastly effective tax rate guidance for the year?

Srinivasan HR: The 4-5 contracts that we are pursuing are all live so we have not come off any of them. So I

guess I had also mentioned that we expect finalization during Q3. So I am just hoping that we will have some good news at the next call or even before that. And on the tax rate it will be

around 14 - 14.5% is the guidance that we would like to give.

Moderator: We take the next question from the line of Nirav Dalal from Maybank. Please go ahead.

Nirav Dalal: Most of my questions have been answered, it is just regarding this strategy cost related to the

strategy, as I understand over the next 3 quarters, your margins would come down, so in Q3, your margins would be down 250 - 300 basis points on an average, is that the right

assumption.

Srinivasan HR: Yes, it would be a correct assumption. But what we will do just for you to have an apple-to-

apple comparison, we will also report the adjusted EBITDA and what we are spending on this

initiatives separately.

Nirav Dalal: Right and as per the management expectation, when do you see the benefits of this starting to

show in terms of numbers? When do you see the completion of tripling of your salesforce

happening?

Srinivasan HR: Tripling of the salesforce will happen over 12 months. I don't think it is going to happen then

but the salesforce, let's say as during Q4, of this year we expect them to become very effective from Q3 or Q4 of the following FY. That's how it will, you can see the impact on revenue quickly may be by Q2 - Q3 of next FY you will be able to see impact on revenue but the cost

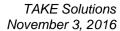
will have to be upfront on this.

Nirav Dalal: Okay and what is the current salesforce?

Srinivasan HR: The current salesforce actually comprises of two sets, if you look at in absolute terms, the

salesforce is about 63 but we have also have our consulting principles who double up as salesforces. We add them, then they are substantially more but there are limitations in which how much we can grow in this because one of the things that is evident from the study is that

while we have a lot of accounts, we need to penetrate these accounts better with many of our





offerings. So the opportunity to cross sell is significantly high. And that's how we have to attack, so there is a different strategy that we are developing for that.

Nirav Dalal: In terms of Ecron Acunova, you expect H2 to be seasonally stronger than H1?

Srinivasan HR: Yes H2 will be much stronger even basis the orders that we have today, it will be much

stronger.

Nirav Dalal: No, where I am coming from is that it is already been very strong H1 and seasonally H2 is

stronger for EA, so that will remain.

Srinivasan HR: Yes.

Moderator: Thank you. We take the next question from the line of Komal Maheshwari from Pi Square

Investments. Please go ahead.

Komal Maheshwari: My question is on the inorganic growth, do we have any planned inorganic growth in couple of

years.

Srinivasan HR: The answer to that is yes, but we don't have anything on the table yet. If we are to grow to a

global opportunity size which make enormous shareholder value, inorganic growth has to be a part of it. And we will look at initiatives sometime down the line but there is nothing on the

table yet.

Komal Maheshwari: And what is our total planned spend in terms of strategic initiatives that we have taken for 3 –

4 years that we see opportunity that are coming in, so how much are we planning to spend for

all this?

Srinivasan HR: I think we will have to take it in phases. So the first phase is creating the strategy. So creating

have to look at it differently as to what are the execution time lines, what are the pilots, what are the touch points? What do we have in house, what is it that we need on an advisory basis at

the strategy itself would be somewhere in the region of 10 - 11 crores and the execution will

that point of time. So we have been little conservative in therefore giving a guidance around what we estimate will be required. So we will move it from quarter-to-quarter, we will have

very strong visibility on what we are going to be doing ahead.

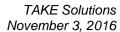
Komal Maheshwari: So our margins will still remain under pressure for the next one year or so until and unless we

are done with all the spends.

Srinivasan HR: I won't say margins will remain under pressure. Actually margins are expanding and because

of the opportunity size that gives us an advantage to go out there and say how we can become bigger and better. So I would rather say that this is an investment for expanding both revenue

and margins and it is not that the margins are under pressure, we are able to spend on this





because we are seeing a strong uptake in margins. So for example, if we adjust for an expense of about 1.5 crores this quarter, consol EBITDA is 23% despite Supply Chain being fairly weak and below 10. So the Life Science EBITDA has been very strong. I think it's a fit investment case to operate in a global scenario.

Komal Maheshwari: And the supply chain business we were initially talking about hiving it off, any progress on

that?

Srinivasan HR: We were not talking of hiving it off, we were talking of selling it off, which is what we are

trying to do. There is progress on that but nothing that has come to a deal as yet but we are

hoping to conclude something in reasonably quick time.

Komal Maheshwari: And my last question is on the debt part, how much is our total debt on the book?

Srinivasan HR: Total debt is a little upwards of 200 crores but net debt is about 0.1 to equity.

Moderator: Thank you. We take the next question from the line of Pritesh Chedda from Lucky

Investments, please go ahead.

Pritesh Chedda: Sir on your DSO days, we had a thought of reducing the same but when I am looking since the

last 2 - 3 quarters, it is actually expanding?

Srinivasan HR: It is not expanding, it is just staying where it is, and it is about 98 or 99 days. The fact remains

that we have not been able to bring it down and that's an industry dynamic they are currently grappling with, but its applicable to all players in this segment who are dealing with pharma

and Life Science companies.

Moderator: Thank you. We take the next question from the line of Sarvesh Gupta from Trivantage Capital.

Please go ahead.

Sarvesh Gupta: Sir I wanted to know if you have been able to put your arms around what can be the impact of

Brexit on your business and especially for EA?

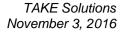
Srinivasan HR: I think there has been no major impact of Brexit except that Europe has been generally slow

for us and we have not been able to register growth in Europe. For Continental Europe, I don't think there will be impact. As far as UK is concerned, our major customer there is GSK, I don't think we have been seriously impacted on the UK front, but fact remains that we have not been able to show growth in Europe yet, and we are making all attempts hopefully for the

next few quarters we will be able to register a decent growth in Europe.

Sarvesh Gupta: So what percentage of Europe is coming from UK and continental Europe right now and

what's been the growth in H1 YoY and these 2 geographies?





Srinivasan HR: Actually it's been flat.

Sarvesh Gupta: And what percentage of revenue comes?

Srinivasan HR: Total percentage of revenue from Europe for us is about 8% of which largely more than 8% of

it comes from Continental Europe.

Sarvesh Gupta: 8% in total is it?

Srinivasan HR: Yes.

Sarvesh Gupta: EA has grown by 28%, so this growth has also come from US rather than Europe, is it?

Srinivasan HR: US and Asia.

Sarvesh Gupta: So even for EA, the growth is coming from outside of Europe?

Srinivasan HR: Yes.

Sarvesh Gupta: The reason why we acquired EA, was to get revenue increase in Europe rather than Asia or

America, right? So we have not been able to execute the strategy for which we acquired the

company.

Srinivasan HR: There are two parts to it. First is we acquired EA for capability in certain select lines and that

capability can be applied to revenue anywhere in the world including US or India. So that part of it is working out well. Having said that, we certainly had an intra-strategy where Europe being much bigger than what it is today and that part of it has not worked out. But it's still early days, its only 2 quarters into what we have done. So I think we are hopeful that before

the end of the year, we will be able to correct that piece.

Sarvesh Gupta: Understood, And overall you don't see a major impact of Brexit on this?

Srinivasan HR: No we don't. See we are a very US centric company. About 80% of our business is in the US.

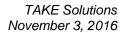
And 12 - 13% is in Asia. So, Brexit at this point of time will not impact us at all.

Moderator: Thank you. There are no further questions. I now hand the conference over to the management

for their closing comments.

Srinivasan HR: Thank you very much for participating in this conference. We have enjoyed answering your

questions. If you have any further questions, please reach out to us. I would also like to make one more comment at the end of it, on the 2nd of December, we are having an Analyst Meet in Mumbai. So, I would encourage you to come over. We are going to have someone share an industry perspective and then the management will give a commentary on why our strategy stands vis-a-vis industry perspective. So I welcome all of you on this call and any other of your





colleagues who would be interested in participating to join us in Mumbai. Thank you very much.

Moderator:

Thank you. On behalf of Ambit Capital, that concludes this conference. Thank you for joining us. You may now disconnect your lines.