



“Piramal Healthcare Ltd Conference Call”

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MODERATORS: **MR. AJAY PIRAMAL, CHAIRMAN – PIRAMAL HEALTHCARE**
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MR. PRANEET SINGH, DIRECTOR – HEALTHCARE SOLUTIONS – PIRAMAL HEALTHCARE
MR. RAJESH LADDHA, PRESIDENT – FINANCE – PIRAMAL HEALTHCARE
MR. VIJAY SATHYE, PRESIDENT M&A AND INVESTOR RELATIONS – PIRAMAL HEALTHCARE
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Moderator

Ladies and gentlemen good evening, and welcome to the Q1FY2009 conference call with the management of Piramal Healthcare Ltd. As a reminder all participants lines will be in the listen-only mode and there will be an opportunity for you to ask questions at the end of today's presentation. Should anyone need assistance during this conference call you may signal an operator by pressing * and then 0 on your touchtone telephone. Please note that this conference is being recorded. I would now like to hand the conference over to Mr. Vijay Sathye, President M&A and Investor Relations of Piramal Healthcare Ltd. Thank you and over to you sir

Vijay Sathye:

Good evening everybody. Thank you for joining the conference call for our results for the 1st Quarter for FY2009. In the Piramal Healthcare team we have with us today Mr. Ajay Piramal, the Chairman of our company. Mr. N Santhanam our Executive Director and Chief Financial Officer. Mr. Praneet Singh, Director Healthcare Solutions and Mr. Rajesh Laddha, President Finance, and along with the team is Sagar Gokani and Prasad Mhatre my colleagues in Investor Relations team. I now request Mr. Santhanam to take you through the financial highlights of the quarter and thereafter Mr. Piramal would talk about the outlook and the broad progress for the quarter.

N. Santhanam:

Thank you Vijay. Good evening to all of you. I have pleasure in sharing the financial highlights for the 1st Quarter of 2008-2009 which are based on the consolidated financial results. The consolidated numbers apart from including the operation from Piramal Healthcare the parent company also contains the results of subsidiaries and joint ventures in the pharmaceutical subsidiaries located in UK, Torcan Chemicals in Canada, Allergan JV, Arkray Piramal the new joint venture which we have made with the Japanese company and the Pathlabs businesses. With this background let me now take you through the numbers.

- Total revenue that is net sales and services for the 1st Quarter had gone up by 16.5% to Rs.7.1 billion from the earlier figure of Rs.6.1 billion.
- Healthcare Solutions earlier called Domestic Formulations registered a growth of 20% over the corresponding previous quarter. Healthcare solution sales were Rs.3.5 billion for the current quarter.
- Pharma Solutions that is custom manufacturing sales for the 1st Quarter have grown from Rs.2 billion to Rs.2.3 billion registering a growth of 14.2%. The aggregate sales from contracts from India, Indian assets amounted to Rs.588.8 million for this quarter compared to Rs.274 million during the corresponding quarter of last year, registering an increase of 115%.
- I would like to remind the listeners that the current quarter financial results are strictly not comparable with that of the corresponding previous quarter because of the operations of Piramal Life Science Ltd. which demerged from the parent company with effects from 1st April 2007, the effect of which was given only in the last quarter of the previous financial year.
- Operating profit before interest, depreciation and tax for the current quarter amounted to Rs.1.195 billion compared to Rs.840 million during the same quarter last year.

- During the quarter I must highlight that we have accounted for forex loss of 229.6 million this includes a net unrealized loss on a mark-to-market basis of Rs.208.2 million by reinstating the foreign currency liabilities or as per the rates prevailing on 30th of June 2008 that is the quarter ending. If I were to take today's currency rates instead of 30th of June the corresponding unrealized loss has come down sharply to 121.4 million. These unrealized mark-to-market loss mainly on account of the foreign currency loans that were taken by the company which have maturity dates ranging from April 2010 to May 2013 that was the reason why we have decided not to cover these liabilities from the forex point of view.
- Tax rate inclusive of deferred tax and fringe benefit tax for the 3 months ended June 2008 is at 11.3% of the profit before tax.
- Debt as of 30th June 2008 was Rs.10.2 billion with a debt equity ratio of 0.9.

These are some of the financial highlights. I would now like to handover to Mr. Ajay Piramal for his business wise highlights.

Ajay Piramal:

Good evening and welcome and thank you for participating in our quarterly results call. You have seen the 1st Quarter results and as you would have noticed

- Our consolidated revenues have gone up to Rs. 7.1 billion driven by strong growth in our Healthcare Solutions business.
- The operating profit before interest depreciation and tax for the 1st Quarter amounted to Rs. 1.19 billion compared to the Rs. 840 million during the same quarter last year. And therefore the operating margin was up from 13.8% in the last quarter to 16.9% in this quarter. The operating profit shows the growth of 42% compared to the same period last year. This profit as Mr. Santhanam has explained has been calculated after providing for the mark-to-market unrealized loss of Rs. 208 million on foreign currency borrowings. Excluding this provision the operating profit margin for the quarter would have been 19.8% compared to 13.8% in the same quarter of last year.
- Our net profit has increased to Rs. 680 million as compared to Rs. 434 million in the same period last year. And therefore the EPS for the quarter is up by 59% to Rs.3.3 per share. This is consistent with the progressive expansion of profitability that we mentioned in our guidance for the fiscal year 2009.
- Now coming to each of these businesses, we have achieved a strong performance in the domestic formulations business where this business has grown by 20.4% to Rs.3.5 billion. We did well in the cardiac, dermatology, anti-infectives, and the respiratory segment. During the quarter we acquired 2 brands CEFI and Anafortan brand groups from Khandelwal Labs. For this the sales have not been significant in the 1st Quarter they have only been about Rs. 70 million in this quarter, because of the transition that has taken place. I am also happy to inform you that the government has given us a license to manufacture codeine and we shall start process. We have also recently launched a new division which will focus on marketing of Derma cosmetic products and we recently entered into a collaboration with the Pierre Fabre group over which we have already existing relationship.

- In the Pharma Solutions business or the custom manufacturing business the 1st Quarter revenues have grown by 14%, but what I would like to highlight is that the growth of the assets of the business of assets out of India have grown at 115% to reach Rs.589 million. Our Diagnostic Services business continues to grow at sales of Rs. 405 million and registered a growth of 60.8%.

This summarizes our financial performance we had indicated to you in our guidance for the performance in the second half of the year would be higher than that of the first half and we continue to believe in that. We had given a sales guidance of 16% for the year and we have done 16.5 for the quarter. We had said we will do Rs.4 billion worth of sales from Indian assets in the Custom Manufacturing business for the whole year and for this quarter we have done Rs.588 million. And our operating margins in our guidance we had mentioned that 20.5% and we have done 19.8% excluding the unrealized foreign exchange mark-to-market losses. So we believe that we will stick to our guidance and as you will see progressively profitability will improve in the 3rd and the 4th Quarter. Now we are all happy to take whatever questions you have. Thank you.

Moderator: Thank you very much sir. Ladies and gentlemen we will now begin the question and answer session, at this time if you have a question please press * and then 1 on your touchtone phone. The first question is from the line of Monica Joshi from Avendus Capital. Please go ahead.

Monica Joshi: Hi and congratulations on the great set of numbers. Let me start by actually having a clarification that your Q1 of last year's result do not carry, the NCE R&D cost is that right.

Sagar Gokani: Yeah hi Monica, this is Sagar here. It does carry the Q1 numbers of last year does carry NCE related expenditure.

Monica Joshi: Okay can we have, I mean I believe it was about 35 to 36 odd Crores in R&D cost.

N. Santhanam: No if you want to look at the 1st Quarter only for comparison the expenditure part included Rs.16 Crores of R&D expenditure, and the depreciation on R&D assets is around 2 to 3 Crores. So all put together last year's profits, the last quarter's profit were depressed by Rs.19 Crores.

Monica Joshi: There would also be some employee cost also which would have been added.

N. Santhanam: When I meant expenditure it includes everything the 16 Crores is all inclusive, it is a one number which I am giving you.

Monica Joshi: Great. Just moving ahead in the guidance you have said that you would be about Rs.4 billion 400 Crores from the India pharma and Mr. Piramal again highlighted that H2 would be better, but if you could take us through the logic of, you expect about 588 million to go to 4 billion so can we see what would be driving this growth.

- Ajay Piramal:** Well really we have visibility on what contracts we have and therefore that is what is going to drive, the contracts are in such a way that they keep building up during the year and that is why we can say with some confidence it will be 400 Crores.
- Monica Joshi:** And that would be a figure that we would then grow on in the later years from next year onwards.
- Ajay Piramal:** Yes.
- Monica Joshi:** Does this business typically have a cyclical in terms of the first half being depressed or it is just a build up of contracts that are coming in the second half.
- Ajay Piramal:** No it really depends on the contracts that we have, it depends on what the customer also wants so it is not, there is no you can't say that is cyclical.
- Monica Joshi:** Okay the second question, actually relates to the what sort of Haemacel brands that we bought it is about 7 and 7.7 to 7.8 million euros. Sir how do you see the payback on any brand acquisitions that you do of this magnitude.
- Ajay Piramal:** We look at brand acquisitions the payback is about 5 years. In this we have got global rights for this brand we already had rights for India for Haemacel and we were manufacturing this. Here the advantage is that this was been manufactured in Germany till now and in the next 2 years we will shift all the manufacturing to India. Therefore the operating margins would also improve. And we believe that this brand has also scope to increase on the top-line, till now this was not an area of focus for the company which we acquired it from so we think that there will be benefits both in terms of growing the top-line as well as reducing cost by shifting the manufacturing from Germany to India.
- Monica Joshi:** Sir related, if you can take us ahead how has been the growth in the portfolio for Haemacel over the last 2 or 3 to 4 years.
- Ajay Piramal:** In India you are talking about the domestic market.
- Monica Joshi:** Since you would have the global rights so I assume you would be selling it in multiple geographies. So what has been the portfolio Haemacel growing globally.
- Ajay Piramal:** As far as we were concerned we were really in India and globally this brand was pretty flat because the company which had acquired it from did not have much of interest in this and also the margins were pretty low because of the high manufacturing cost in Germany.
- Praneet Singh:** This is Praneet here, the India growth has been pretty steady last 4 to 5 years we have been doing about 9% to 12% CAGR on the brand.
- Monica Joshi:** Okay and which Indian manufacturing facility would we it shifted to.

- Ajay Piramal:** We are shifting it to Baddi. Actually this is all being manufactured in our facility in Mulund and we have shifted that Mulund facility to Baddi just now. So this will be manufactured out of Baddi.
- Monica Joshi:** Okay good, Mr. Santhanam on the borrowing portfolio we have seen a sharp jump from March to now. If you could just throw some light on that.
- N. Santhanam:** No the borrowing has gone up by around Rs.300 Crores mainly because of around 100 and odd Crores have been spent as paid out and dividend which is coming in the 1st Quarter. Then the rest of the things are basically the acquisition cost of the brands of around 126 Crores which we have paid what we talked about the Khandelwal brand and the balance are the normal capital expenditure.
- Monica Joshi:** But the end of the year where do see this number actually settling.
- N. Santhanam:** We have given a guidance so it will be around 0.7 or 0.75 that will be the debt equity ratio.
- Monica Joshi:** So it would come down from that.
- N.Santhanam:** Yeah it will come down because one full year dividend has gone in the 1st Quarter.
- Monica Joshi:** Just one last thing is this exceptional items of 40 million that is about 4 Crores what does this relate to.
- N. Santhanam:** This is basically we have been restricting the exceptional items for the last 2 to 3 years only to the voluntary retirement payments which we are making to the employees on separation. So this is purely VRS payments.
- Monica Joshi:** And these are amortized payments or this is flat...
- N. Santhanam:** No we have an accounting policy of writing off the entire amount in one year or the quarter in which where we are making the payment.
- Monica Joshi:** Great so this is not a recurring kind of thing.
- N. Santhanam:** No it is not recurring it is a one time that is why we have classified under exceptional.
- Monica Joshi:** Right, thank you so much sir.
- N. Santhanam:** Thank you.
- Moderator:** Thank you Ms. Joshi. The next question is from the line of Ms. Rohita Sharma from Enam Securities. Please go ahead.
- Rohita Sharma:** Hi would it possible to get a split of your sales in terms of PDS payments and MMBB.

- Sagar Gokani:** Yeah hi Rohita this is Sagar here, the PDS sales for the quarter were up by 1% to 327 million. PMS sales are up by 16% to 1928 million and MMBB sales were up by almost 1% to 409 million.
- Rohita Sharma:** Okay thank you.
- Moderator:** Thank you Ms. Sharma. The next question is from the line of Mr. Ranji Kapadia from Prabhudas Liladhar. Please go ahead.
- Ranjit Kapadia:** Good afternoon and a hearty congratulations. Two sets of questions, one is what is the current strength of field force and second set of question relates to Phensedyl what was the growth rate during the quarter and the codeine phosphate which we are likely to manufacture what is the installed capacity and will it only be for captive mills or you will be selling to others also.
- Praneet Singh:** Yeah first of all I think on Phensedyl we do not want to discuss specific brand wise numbers but let me assure that we have normal sales, we are back to normal sales now for the last whatever 5 months. So this quarter was normal sales of Phensedyl so we are showing a growth versus last year. On codeine currently we are not making codeine for ourselves yet we are still getting it from the government or importing it through the government, but we do have visibility on what we are going to get and our visibility cycle now is at least 6 to 9 months. So we have a comfort level that we will continue getting our raw material. We have recently got the license for codeine manufacture and we are still in the process of figuring out the capacity and the potential customers etc. even the manufacturing location. So that I think plan is in a planning stage we would not like to discuss that at this point.
- Ranjit Kapadia:** And Praneet what is the field force currently.
- Praneet Singh:** Field force with our mass market pilot we are currently running at about 3800 reps.
- Ranjit Kapadia:** And there is no contract field force.
- Praneet Singh:** No contract this is all company owned.
- Ranjit Kapadia:** Okay thank you and all the best.
- Praneet Singh:** Thank you.
- Moderator:** Thank you Mr. Kapadia. The next question is from the line of Chirag Dagli from Deutch Bank. Please go ahead.
- Chirag Dagli:** Good evening, sir one question I had was on the India's CMG business would you say that India CMG is on the EBITDA margin level it is much above the company...

- Ajay Piramal:** It is above, the company average is what 19.8%, if you take it is around that margin.
- Chirag Dagli:** It is around that margin.
- Ajay Piramal:** So little higher than that.
- Chirag Dagli:** So for the rest of the year I mean your guidance we 20.5% EBITDA margins in a not so strong quarter you are already at 19.8% with the India business coming through you know growth coming through do you see a reason to you know sort of I mean upgrade your guidance on because the way I see it your are comfortably reach your guidance.
- Ajay Piramal:** But today we want to stick to the same guidance because as you know there are uncertainties today in the environment, the uncertainty is in terms of raw material cost going up and the environment not being so favorable as it was before. So we want to just remain with the guidance that we had given you.
- Chirag Dagli:** But there is no uncertainty on the order book per-say right I mean it is not...
- Ajay Piramal:** No there is no uncertainty on the order and in my view even in the domestic market I do not feel that there is an uncertainty on the top-line. I feel top-line growth continuing.
- Chirag Dagli:** Sure and sir your outlook on the outside India CMG business if you can throw some light I mean ...It will help
- Ajay Piramal:** Outside business, it is doing I think we have definitely turned the corner in that we are trying to attract more business over there as well as transfer some business from the UK into India as well. So it is a dual strategy there are some customers who want to give business in the UK which we are trying for and those customers who are willing to shift or allow us to shift from the UK to India we are trying to do that as well. And as far as the Pfizer business is concerned it is on track whatever was estimated is going on track which is the Morpeth facility.
- Chirag Dagli:** So would you say 1st Quarter of 2009 in terms of the margins outside India is the kind of base that you would see sustainable over the next 3 quarters or would you grow on that.
- Ajay Piramal:** Say it again, ask you question again please.
- Chirag Dagli:** On the margins outside India for the CMG business would you say that the 1st Quarter of 2009 is the base on which you would sustain or would you grow on that base.
- Ajay Piramal:** I think we will sustain these margins.
- Chirag Dagli:** Okay sir thank you so much sir.

- Moderator:** Thank you Mr. Dagli. The next question is from the line of Bhavin Shah from Dolat Capital. Please go ahead.
- Bhavin Shah:** Hi, thanks my question has been answered thank you.
- Moderator:** Thank you Mr. Shah. The next question is from the line of Nimish Mehta from MP Advisors. Please go ahead.
- Nimish Mehta:** Yeah Good evening and thanks for taking my question. Firstly I would like to know we had some issues related to Phensedyl in the last quarter that is Q1 FY2008 if I am not wrong. So what would be a normalized sales growth for domestic formulation this quarter.
- Praneet Singh:** See if you normalize for the abnormal loss of sales for last quarter I think the Phensedyl upside that we are getting now because of normal sales now is about 5% to 6% so our growth is about in the healthcare solutions about 20.4% if you remove 5% to 6% from that the rest of the business is alone by about 15% or so. And if you, you must have had the ORG-IMS is reporting a market growth now in this quarter of about 10% or so.
- Nimish Mehta:** And we do not have high contribution from this acquired brands in this quarter, am I correct.
- Praneet Singh:** Not yet.
- Nimish Mehta:** Okay, second I wanted some color on the Morpeth contract and out of all the 3 business of PDS, PMS, and MMBB we see PMS growing the fastest is Morpeth the largest contributor and how do we see that panning out in terms of acquiring new contracts for the same facility
- Ajay Piramal:** I see most of the PMS growth is really in the India asset not so much in Morpeth. The Morpeth is more steady; the India assets are growing in PMS. Going forward into the future in the next few quarters we see that there will be significant growth in the PDS as well.
- Nimish Mehta:** And how do you plan for Morpeth Pfizer contract replacement because that is a big contract that can impact.
- Ajay Piramal:** We are in conversation with Pfizer to actually extent the contract and we have had some success in that and what was originally a 5 year contract it will be extended beyond 5 years.
- Nimish Mehta:** Fine and are we in talks with any of the new customers for that contract.
- Ajay Piramal:** Yes we are in talks with several other companies as well for that.
- Nimish Mehta:** Okay thanks a lot.

- Moderator:** Thank you Mr. Mehta. The next question is from the line of Mr. Sonal Gupta from UBS. Please go ahead.
- Sonal Gupta:** Hi Good evening, just a couple of questions, one was what is the contribution of the acquisitions in this quarter specially the K-labs and I thing how much would it ...
- Ajay Piramal:** It is about in the region of 5 Crores.
- Sonal Gupta:** Okay and if I look at the assets outside India in terms of the pharma solutions business there is a 2% decline in rupee terms which roughly I think would be more than, round about say 8% to 10% in dollar terms so is not that, I mean is there a sort of decline happening in those businesses because of partly shifting part of that business to India.
- Ajay Piramal:** Yeah partly it is because we are shifting some of the business into India so to some extent it is because of that as well.
- Sonal Gupta:** Okay thank you very much.
- Moderator:** Thank you Mr. Gupta. The next question is from the line of Amit Hiremath from Enam Asset Management. Please go ahead.
- Amit Hiremath:** Yeah hi thanks for taking my questions. Just wanted to know the Healthcare Solutions business has grown by 20.4% this quarter can we expect this particular business grow by the same rate for the whole year.
- Praneet Singh:** No like an earlier question was addressed this growth has Phensedyl upside built in because of the abnormal losses that we had last corresponding quarter, but we do expect a growth of around 14% to 15% for the year and that has generally been our guidance on the Healthcare Solutions business.
- Amit Hiremath:** Okay could you please give me the breakup of your PDS pipeline that would be Phase I, Phase II and Phase II.
- Vijay Sathye:** We give the PDS and the PMS pipeline every 6 months. So we would not have an update for the quarter at this time, but we will share at the end of 6 months .is that what we do.
- Amit Hiremath:** Okay thanks that is all from my side.
- Moderator:** Thank you Mr. Hiremath. Ladies and gentlemen if anyone has questions they may press * and 1 at this time, thank you. The next question is from the line of Alok Dalal from Religare. Please go ahead.
- Alok Dalal:** Sir from which quarter onwards do we see growth kicking in from the UK facility.

- Ajay Piramal:** So we have UK facility I think they will for the whole UK facility they may generally remain flat for the year, that is what we think. So the growth will come from the Indian assets which is a strategy.
- Alok Dalal:** Okay and is restructuring at UK essentially over or over the next 2 to 3 quarters we will have some VRS impact.
- Ajay Piramal:** We may have another VRS of about the same amount, total for the whole year will be between 10 to 12 Crores. So 4 Crores we have done this quarter.
- Alok Dalal:** Okay and sir what is the dollar denominated loans that we carry.
- N. Santhanam:** We have a ECB of around \$40 million and we have PCFC which we always take, which does not have forex impact that is around 60 million and some buyers credit and all other things put together around 25 million.
- Alok Dalal:** Okay sir thank you very much.
- Moderator:** Thank you Mr. Dalal. Our next question comes from the line of Shekhar Singh from Goldman Sachs.
- Shekhar Singh:** Can you just comment on the margins for your PDS and PMS business and is there any risk of those margins that will be coming under pressure.
- Ajay Piramal:** As of now there is no risk on these margins coming under pressure in fact the margins that is why we said that the margin of the second half should go up because the constitution of mix of the business will change in the second half where there will be more PDS and those margins are higher than the PMS.
- Shekhar Singh:** No if you were to maintain the ratio as it is currently, in that scenario will there be hit on the margins because of all the base chemical prices actually going up. So who bears the cost of the increase.
- Ajay Piramal:** It depends at times we have been able to discuss with customers and pass on those margins and at some other times we cannot, but by and large I think we should be able to maintain the margins, we feel comfortable as of now.
- Shekhar Singh:** Okay sir thanks a lot.
- Moderator:** Thank you Mr. Singh. The next question is from the line of Vinod Pushpanathan from Reliance Money. Please go ahead.
- Mr. Surya:** This is Surya from Reliance Money. Sir in fact I just wanted to check in recent past in the recent quarter possibly we have added couple of clients for the Morpeth facility so at what sales all those are there?

- Ajay Piramal:** They are there in the early stage of development for the PDS business.
- Mr. Surya:** Okay and we have also added couple of customers in our for our domestic facilities also. Are we seeing some kind of growth out of that also?
- Ajay Piramal:** Yeah, as you see in the domestic facility the growth has been actually 115% so and you will see greater growth in the third and the fourth Quarters here.
- Mr. Surya:** And one more last question that is, In the PDS revenue front you are expecting significant growth coming in the second half of the year.
- Ajay Piramal:** Yeah.
- Mr. Surya:** On what assumption you are expecting that?
- Ajay Piramal:** That we have one is that we have increased in the capacity which will go into operation in the third Quarter and because of the visibility that we are saying in some of the contracts.
- Mr. Surya:** Where exactly you have expanded capacity sir?
- Ajay Piramal:** This is our facility Ennore near Chennai.
- Mr. Surya:** Okay, okay thank you sir. Thanks a lot
- Moderator:** Thank you Mr. Pushpanathan. The next question is in the line of Arvind Bothra from Merrill Lynch. Please go ahead.
- Arvind Bothra:** Hi, this is Arvind here. I just had a small question on the recent change in your accounting policies of brands. Just wanted to have an idea whether you would follow it up with other brands in the future also in terms of extending the time line from 10-15 years of similar like wise I mean is this something of an exceptional nature or to take on a case-to-case basis.
- N. Santhanam:** This will be on a case-to-case basis then we acquire brands we evaluate what is the possible life of this brands and in the past of course we went even though the past brands are given 20-30 years of life, we stuck to 10 years only as you know as provided in the accounting standard. Now we are applying the exception and we are evaluating what is the life of these brands so any at future acquisition will be evaluated on a case-to-case basis.
- Arvind Bothra:** Okay, another thing that based on your you know the revenues from India has assets to grow etc., just wanted to know would that impact full year tax rate, effective Tax Rate by an chances if you make it or you know Tax free zones or also something like that.
- N. Santhanam:** We estimate that the Tax Rate will be around 12% for the full year.

- Arvind Bothra:** Thank you so much. That's it for me from my side.
- N. Santhanam:** Thank you.
- Moderator:** Thank you Mr. Bothra. The next question is from the line of Ms. Rohita Sharma from Enam Securities. Please go ahead.
- Rohita Sharma:** Hi, could you just share the EBITDA margin that of Avecia?
- Vijay Sathye:** Hi, this is Vijay. We would not be able to share exact EBITDA margin but the EBITDA margin have been similar to what we have mention for FY08 the previous year so this year we are not expecting any significant change in the EBITDA margin.
- Rohita Sharma:** Okay fine, and that Morpeth also should be at similar level?
- Vijay Sathye:** Yes, Morpeth they would slightly increased because of the VRS that we have been able to do.
- Rohita Sharma:** Yeah, Okay, so what would be the improvement if you could quantify that ?
- Vijay Sathye:** We cannot state a number but they would be a material improvement in margins at Morpeth..
- Rohita Sharma:** Okay, fine, thank you.
- Moderator:** Thank you Ms. Sharma. The next question is from the line of Minar Mazumdar from Kotak PMS. Please go ahead.
- Minar Mazumdar:** Hi, Good evening to the management. I did not get the Analyst Presentation with with me so you can help me with the break up of the sales figures for the Quarter?
- Sagar Gokani:** Sure. Healthcare Solutions business that is the domestic formulations business that registered a growth of 20.4% and the sales for the Quarter were Rs.350 Crores.
- Minar Mazumdar:** Okay.
- Sagar Gokani:** The Pharma Solutions business registered a growth of 14.2% and the sales were Rs. 227 Crores.
- Minar Mazumdar:** Yes.
- Sagar Gokani:** The Pathlabs business that is registered a growth of 61% and the sales were Rs. 40 Crores.
- Minar Mazumdar:** Okay.

- Sagar Gokani:** And the others you know there was a slight de-growth 3% and you know the sales were Rs. 90 Crores.
- Minar Mazumdar:** Alright, the second question that I have in my mind is on primarily on path labs business. We have seen more or less flat kind of a growth in the past 3 Quarters that is from Q2, last year to Q4 and this year it has been around 40 Crores you said right so are we maintaining the growth or what are the plans in future regarding that segment?
- Sagar Gokani:** Sorry, but I think you know we have delivered 50% or more growth rate in the last 3 Quarters if you see. The business model here is acquisition led and you know that's where the growth is around 50% in the last 3 Quarters.
- Minar Mazumdar:** Yeah, Are you maintaining that stand the growth in future could be close to around 50% for atleast the next couple of years.
- Vijay Sathye:** This is Vijay Sathye. If you see the annual numbers for FY07 we had Pathlabs revenues were 69 Crores.
- Minar Mazumdar:** Yes.
- Vijay Sathye:** For FY08 that is the previous year our numbers were about Rs.129 Crores of revenues versus of the 69 Crores and this year we are expecting Pathlabs revenues to be between 180-190 Crores. So the growth momentum is pretty much expected to maintain.
- Minar Mazumdar:** Ok would that be acquisition led again or you have any organic growth initiative there?
- Vijay Sathye:** Organic growth tends to be you know upwards of 15% but the model is primarily acquisition led. It is driven by acquisition of series of small Pathlabs or sometimes a larger Pathlabs chain. So yes acquisitions would continue to be driver of the business.
- Minar Mazumdar:** Right, And finally the last question that I have is on the guidance figures since I don't have the presentation. Can you repeat that for FY09?
- Sagar Gokani:** The guidance, we are continuing with the guidance that we had given earlier.
- Minar Mazumdar:** Yes.
- Sagar Gokani:** we have expect sales to grow by 16% we have done 16.5% for the Quarter. We expect Pharma solution sales from Indian assets that is a custom manufacturing sales from Indian assets to reach 400 Crores for this year. We have done about 59 Crores this Quarter.
- Minar Mazumdar:** Yes.

- Sagar Gokani:** The operating profit margin you know we have expect it to be around 20.5% for the full year excluding the forex unrealized mark to market loss we did about 19.8% this Quarter EPS we expect to do about Rs.21/- for this year.
- Minar Mazumdar:** Okay.
- Sagar Gokani:** And we have already done 3.4.
- Minar Mazumdar:** Yeah, that's all from my side. Thanks a lot and all the best for the future.
- Moderator:** Thank you Mr. Mazumdar. The next question is from the line of Mr. Vivek Kumar from Tata capital. Please go ahead.
- Vivek Kumar:** Hi, my question is respect to NCE R&D effects for molecule P979 and just wanted to know when actually we are getting into the Phase I trial for this particular molecule?
- Vijay Sathye:** Vivek, we would request we could answer that question off-line. It would be better to discuss it in the Piramal Life Sciences discussion.
- Vivek Kumar:** Okay, not a problem. last one is with respect to your R&D spend which is 3.1% of the overall sales. What I wanted to know what has been your can you just break this into process R&D and NCE R&D?
- Vijay Sathye:** This is all process R&D.
- Vivek Kumar:** Thanks.
- Moderator:** Thank you Mr. Kumar. The next question is from the line of Akshat Vyas from Emkay Global. Please go ahead.
- Akshat Vyas:** Hello, sorry for repeating the question that could you just tell me how much is the forex debt as on books?
- N. Santhanam:** External commercial borrowings are on \$45 million.
- Akshat Vyas:** Yes sir.
- N. Santhanam:** And PCFC that is the Packing Credit and Foreign Currency.
- Akshat Vyas:** Yes sir.
- N. Santhanam:** That is on \$60 million.
- Akshat Vyas:** Okay.

- N. Santhanam:** And buyers' credit and others all put together on \$25 million.
- Akshat Vyas:** Yes sir and how much would be reinstated?
- N. Santhanam:** How much would be reinstated?
- Akshat Vyas:** Yes sir since being yet.
- N. Santhanam:** You know as per the accounting policy.
- Akshat Vyas:** Yes sir.
- N. Santhanam:** Every accounting period that is Quarter ending we have to reinstate based on the prevailing currency rate on the close of the accounting period.
- Akshat Vyas:** Okay.
- N. Santhanam:** So every time that is the reason why what we are saying is unrealized loss is these loans are payable, ECB loan for instant is payable part in 2013.
- Akshat Vyas:** Okay.
- N. Santhanam:** And the balance in 2010-2011.
- Akshat Vyas:** Okay.
- N. Santhanam:** So till such time this will be only a notional profit or loss.
- Akshat Vyas:** Okay.
- N. Santhanam:** Based on the prevailing rate and that particular Quarter we have to keep booking. So this Rs. 23 Crores out of which is only 2 Crores is a realized loss.
- Akshat Vyas:** Okay.
- N. Santhanam:** And Rs.21 Crores of rupees is the notional book loss.
- Akshat Vyas:** Okay.
- N. Santhanam:** Infact I have said earlier in my remarks that if I were to take today's rate of exchange.
- Akshat Vyas:** Yes sir.
- N. Santhanam:** This Rs.21 Crores of already come down to Rs.12 Crores.
- Akshat Vyas:** Okay sir. Thank you sir.

- N. Santhanam:** Thank you.
- Moderator:** Thank you Mr. Vyas. The next question is from the line of Mr. Sonal Gupta from UBS. Please go ahead.
- Sonal Gupta:** Yeah. I just relating to forex and others for could you tell me if there were any forex gains in the corresponding Quarter last year and what was the number for forex gain for the whole of fiscal year as well last year?
- N. Santhanam:** The current corresponding previous Quarter was around 4 Crores of rupees for the gain.
- Sonal Gupta:** Right.
- N. Santhanam:** And the entire year was around 10-11 Crores of rupee.
- Sonal Gupta:** Yeah, okay thank you very much.
- Moderator:** Thank you Mr. Gupta. The next question is on the line of Mr. Amit Hiremath from Enam Asset Management. Please go ahead.
- Amit Hiremath:** Yeah, thanks for taking my question again. Just want to know regarding the recent venture /deals you have done with bioelectronics space as well as Pierre Fabre of France could you please comment upon the business opportunity as well as the profitability associated with it?
- Praneet Singh:** I will talk about Pierre Fabre first. Pierre Fabre is our big initiative in the derma cosmetics space we believe this was the high growth niche area developing within the dermatology space so this will be a niche business and it will not be a very big business in term of rupee Crore number in the short term but you believe it's a great opportunity and an option that we buying for a future large business. The profitability in this business is fairly good almost as good as our core business mainly because we are importing the raw material from the Pierre Fabre but we are doing the packaging which is actually the bigger cost on these kinds of products in India itself.
- Amit Hiremath:** Yes.
- Praneet Singh:** On the bioelectronics space that in-licensing I think it's probably a bit premature to talk about that we have signed the deal but the real marketing will start in 2-3 months time again this is in the ortho space which is a kind of pad which relives musculoskeletal pain and we believe that again could be a big opportunity it's a very unique product but I think we will comment on this more closer to the launch of the product.
- Amit Hiremath:** Thanks a lot.
- Praneet Singh:** Yeah.

- Moderator:** Thank you Mr.Hiremath. The next question is from the line of Mr. Vikas Mantri from B&K. Please go ahead.
- Vikas Mantri:** Good evening sir.
- Praneet Singh:** Yeah good evening.
- Vikas Mantri:** Sir, can you just give us a brief outlook about the pharmaceutical industry in one or two years time on an industry on industry basis? How do you see the pharmaceutical industry going?
- Ajay Piramal:** Okay, If you look at let me just divide it into two businesses that we are in domestic market as well as into the custom manufacturing business so in the domestic market we have expect that the growth will be in the region of 10% to 12% if GDP growth falls down significantly there may be some impact but we have believe at least 10% to 12% should be the growth in the market place.
- Vikas Mantri:** Okay.
- Ajay Piramal:** This will be driven mainly because there are lots of areas, lots of parts of the population which have not yet been covered with modern medicine and actually geographically expand that will be in the domestic market.
- Vikas Mantri:** Okay.
- Ajay Piramal:** As for as the Custom Manufacturing business is concerned we see that there is big there is a thrust towards shifting of manufacturing to a lower cost location like India.
- Vikas Mantri:** Yeah.
- Ajay Piramal:** And India is gaining ground because of all the pressure of the cost that you have find in the international pharmaceutical industry as products more and more products go off pattern that pressure only increases and therefore this growth is going to be even more significant.
- Vikas Mantri:** And sir what are the challenges that you see in terms of raw material cost, staff cost, and other such cost which may have effect on that EBITDA margin?
- Ajay Piramal:** Raw material cost today if you ask me is not the right time because today we have see a peaking of the cost.
- Vikas Mantri:** Okay.
- Ajay Piramal:** Really one is because as you probably may be aware that lot of raw material which were coming out of China there is a sudden freeze on those items because of the Olympics taking place.

- Vikas Mantri:** Yes sir.
- Ajay Piramal:** A lot of manufacturing capacities are been frozen there, secondly because of the high cost of petrol, the petroleum products all the solvent costs have also gone up.
- Vikas Mantri:** Yes sir.
- Ajay Piramal:** So today is not the right think but I think that going forward we believe that there will be some rationality in the cost and we should be able to pass those reasonable cost increases even to customers.
- Vikas Mantri:** Sir, Is there any kind of hedging that we do for sustain such rise in the cost?
- Ajay Piramal:** We do it to a great extent but we cannot do I mean the extra sudden increase in cost to some extent we are hedged but not totally.
- Vikas Mantri:** Okay, thanks a lot sir.
- Moderator:** Thank you Mr. Mantri. At this time there are no further questions in the question queue. I would now like to hand the floor over to Mr. Vijay Sathye in the management for their closing comments.
- Vijay Sathye:** Thank you every body to all our participating all our call if there are any additional questions are details that you would like to have, you could let us know at investor.relations@piramal.com. Thanks again. Bye.
- Moderator:** Thank you Mr. Sathye, thank you gentlemen of the management. Ladies and gentlemen on behalf of Piramal Healthcare Limited that concludes this evening's conference call. Thank you for joining us on the Chorus Call Conferencing Facility and you may now disconnect your lines. Thank you.