



“Piramal Healthcare Limited Q2 FY09 Earnings Conference Call”



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Moderator: Ladies and gentlemen, good evening and welcome to the Second quarter results with the management of Piramal Healthcare Limited. All participants' 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. If you should need assistance during this conference, please signal an operator by pressing "*" and then "0" on your touchtone phone. Please note that this conference is being recorded. I would now like to turn the conference over to Mr. Vijay Sathye, President M&A and Investor Relations of Piramal Healthcare Limited. Please go ahead sir.

Vijay Sathye: Good evening all of you on the call. Thanks for listening to us on the conference call for Q2 FY'09 results. The results are today being discussed on the call with Mr. Piramal, Chairman of our company, Mr. M. Santhanam, Executive Director and Chief Operating Officer. We also have on the call Mr. Murari Rajan who is the Executive Director of our group holding company Piramal Enterprises Limited. We have Mr. Rajesh Laddha who is the President Finance and who is now the head of our finance and accounts team and also with me are Sagar Gokani and Prasad Mhatre from our Investor Relations Team. We hope you received press release the results in Stock Exchange format and the analyst presentation that we have prepared for this discussion and those have been mailed to participants on our mailing group and there as well as on our site. You can refer to our website www.piramalhealthcare.com for any of these papers and I would request you to send any queries which remain unanswered after this call to investor.relations@piramal.com. On the call Mr. Rajesh Laddha will discuss the financial highlights for the quarter and then we will request Mr. Ajay Piramal our Chairman to speak about the broad developments for each of the businesses as well for the outlook for the businesses going forward. I now hand over the call to Mr. Rajesh Laddha to discuss the financial highlights.

Rajesh Laddha: Thank you Vijay. Good evening to all of you on the call. The financial highlights are based on the consolidated financial results of Piramal Healthcare Limited. The consolidated financials include the results of Piramal Healthcare Limited, the parent company and also the results of all its subsidiaries and joint venture companies, which include Torcan Chemical Canada, NPIL Pharmaceutical UK Limited, Allergan India Private Limited, Arkray Piramal Joint Venture, Piramal Diagnostic Business and Tangent Data srl. The current quarter and half year financial results are strictly not comparable with that of corresponding previous quarter and half year because of the demerger of operations of Piramal Life Sciences Limited from our company. As you would recollect the demerger was effective from April 1, 2007, but the financial reporting separation began only in the last quarter of the previous financial year. I will now provide a summary of our financial results for the quarter 2.

- Total revenue that is net sales and services for Q2 have registered a growth of 16.8% to Rs.8.9 billion from Rs.7.6 billion.
- Healthcare Solution earlier called as Domestic Formulations registered an impressive growth of 26.8% over the corresponding previous quarter. Healthcare Solutions sales were Rs.4.5 billion for the quarter.
- Pharma Solutions earlier called as custom manufacturing group or CMG registered a growth of 8.5% over the corresponding previous quarter. Pharma Solutions sales were Rs.2.7 billion for the quarter. The aggregate sales from contracts from Indian assets amounted to Rs.912 million for this quarter compared to Rs.694 million during the corresponding quarter of the last year. Thus registering an increase of 31.5%.
- The operating profit before interest, depreciation and tax and without the forex loss, which I am going to discuss in a minute for the quarter ended September 30, 2008 amounted to Rs.1.8 billion compared to Rs.1.3 billion during the same quarter last year.
- Similarly operating profit margin before forex loss related losses was up to 20.5% from 17% in Q2 FY'08.
- During the quarter we have accounted for a forex loss of Rs.408 million. This includes a net and realized loss of Rs.285 million due to a mark-to-market reinstatement of foreign currency liability and assets. The foreign currency loans basically ECBs taken by our company have maturity dates ranging from April 2010 to May 2013. The Operating profit before interest, depreciation and tax for the quarter ended 30th September 2008 amounted to Rs.1.4 billion compared to Rs.1.3 billion during same quarter last year. Operating profit margin was 16% for Q2 FY'09 as compared to 17.5% in Q2 FY'08. If you were to add forex loss of about 4%, operating margin goes to about 20% in Q2 FY'09.
- Our tax rate inclusive of deferred tax and fringe benefit tax benefit tax for the quarter was 13.2% of profit before tax.
- Net profit was Rs.734 million during the Q2 FY'09 as compared to Rs.848 million in the same period last year. This number is again after the forex loss of about Rs.40 crores for the quarter.
- Thus the EPS after the forex loss for the quarter was Rs.3.5 per share.

I will just touch pace on the half-yearly numbers for FY'09:

- Total revenues that is net sales and services for first half have registered an impressive growth of 17.1% to Rs.16 billion from Rs.13.6 billion for H1 FY'08.

- Healthcare solution earlier called Domestic Formulation registered a growth of 23.9% over corresponding previous half year. Healthcare Solution sales were Rs.8 billion for the half year.
- Pharma Solutions earlier called Custom Manufacturing Group registered a growth of 11% over the corresponding previous half year. The sales were Rs.5 billion for the half year. The aggregate sales from contracts from all our Indian assets amounted to Rs.1.5 billion for the first half year compared to Rs.968 million during the corresponding half year of last year. Thus registering an increase of 55%.
- The operating profit before interest, depreciation and tax and without considering forex related impacts for the half year ended September 30, 2008 amounted to Rs.3.5 billion compared to Rs.2.1 billion during the same period last year. Similarly Operating profit margin before forex related losses was up to 20.4% from 15.3% in H1 FY'08. During the half year we have accounted for a forex loss of Rs.638 million. This includes a net unrealized loss of Rs.493 million due to a mark-to-market reinstatement of foreign currency liabilities and assets. The Operating profit before interest, depreciation, and tax for the half year ended September 30, 2008 amounted to Rs.2.6 billion compared to Rs.2.2 billion during same period last year. This number is again after the forex loss adjustment. Operating profit margin was 16.5% for H1 FY'09 as compared to 15.9% in H1 FY'08. If we were to exclude forex loss this will be 20.5% against 15.9% of last year.
- The tax rate inclusive of deferred tax and fringe benefit tax for the half year ended September 30, 2008 was 12.3% of profit before tax.
- Net profit was Rs.1.4 billion during the first half of FY'09 as compared to Rs.1.3 billion of the same period last year and we have registered an EPS for the first half-year Rs.10.1 per share. If you were to exclude the forex impact on the net profit our net profit will be Rs.2.1 billion in H1 FY'09 versus Rs.1.24 billion in FY'08 first half thus registering a growth of about 17%.
- Our debt situation as of September 30, 2008 is Rs.11.6 billion with a debt equity ratio of 0.9 and we expect this debt equity to come back to the level of 0.7 by March 2009 at the end of financial year.

These are the financial highlights. I would now like to hand over to Mr. Ajay Piramal our Chairman for business wise highlights. Thank you.

Ajay Piramal:

Good evening and welcome to our quarterly call and thank you for participating. As you would have seen from our results we continue to maintain the growth momentum.

- Our consolidated revenues have gone up by 17% for the second quarter.

- Sales of the Healthcare Solutions business, which is the domestic business, were up 27% in this quarter at Rs.4.5 billion and for the half-year were up 24% to 8 billion.

I would like to take your attention to slide #12 of the presentation where you would see that we have outperformed the market in almost all therapy areas and have grown particularly well in cardiovascular, CNS, gastrointestinal and Ophthalmology therapy areas.

- We continue to invest in sales and marketing as a result of which you would see that our marketing spend as a percentage of total sales has increased from 10.4% in the first half of last year to 12.6% and this has also seen the increase in marketing has resulted in the increased sales.
- During the first half of this year we have completed the integration of CEFI and Anafortan brands which we have acquired from Khandelwal laboratories. Sales from these brands during the quarter were Rs.142 million.
- In the Pharma Solutions business or the Custom Manufacturing Business Q2 revenues have grown by 8.5% to Rs.2.8 billion for the half year sales were up by 11% to Rs.5 billion. Sales from Indian assets grew by 31% during the quarter to reach Rs.912 million and totally were Rs.1.5 billion for the first half, registering a growth of 55% compared to the same period last year. The progress of this business remains on track.

During the quarter we have received UK-MHRA approval for the clinical trial packaging at our Morpeth UK facility. You would recollect that we had received two contracts for clinical batch manufacturing in Morpeth. With this approval we will now be able to provide end-to-end solutions to our clients for clinical batch to commercial manufacturing. As you would see in slide #13,

- We have added a significant number of molecules to our Pharma Solutions business in the last six months. We are now working on six phase three molecules, which are close to commercialization. Five of these in India and one in Morpeth. We expect that two of six molecules could be launched in 2010 financial year while the remaining might be launched from 18-24 months.
- Coming to our diagnostic services business this has recorded a sales of Rs.453 million for the quarter registering a growth of 45%. Sales of this business for the half-year has been at Rs.858 million.

With this I complete the summary of our business wise highlights. Let me just come back to the guidance that we had given to you at the beginning of the year and we have said if you would recollect that our second half of the year would be stronger than that of the first half.

- We had given a guidance of 16% on the top line out of which we have achieved a sales of 17% in the first half and we are confident of achieving the 16% for the whole year.
- We had said that we would do Rs.4 billion in Pharma Solutions sales from India assets and we have achieved Rs.1.5 billion in each one and we expect to again meet this target as well.
- The operating profit margin we had said would be 20.5% and it is today 20.5% if you exclude the foreign exchange related impact.
- We will deliver we had said an EPS before exceptional items of Rs.21 per share for the year. At the end of the half year the EPS is Rs.10.1 per share without considering the foreign exchange and other exceptional items loss.

Therefore we do believe in summary that we are on track to meet our full year guidance. There are what are the risks for any guidance, one if of course if there is an up normal increase in funding costs and second is there is an adverse increase in material cost. With this we will be happy to take any questions that you have. Thank you.

Moderator:

Thank you. Ladies and gentlemen, we will now begin with the question and answer session. At this time if you would like to ask a question please press “*” and then “1” on your touchtone phone. If you decide you want to withdraw your question from the questioning queue please press “*” and then “2” to remove yourself from the queue. Participants who have a question may press “*” “1” at this time. The first question is from the line of Mr Chirag Dagli of Deutsche Bank. Please go ahead.

Chirag Dagli:

Good evening sir. If I could just understand slide #13 of your presentation are you saying that is that the end of you know that you have one incremental nine contracts or nine phase three contracts so basically you mean to say that at the end of fiscal 2008 you had 18 contracts and only one incrementally nine contracts in the first half. Is that correct assessment?

Vijay Sathye:

Chirag this is Vijay. That is correct. The row at the end highlights the new wins which have been there in the first half and therefore the gross number would be 18+9, which would be 27, total 33 projects, but we also need to highlight along with that is this number currently does not account for any projects that might have concluded. You know we normally give a summary number at the end of the year, which includes the opening wins during the year and projects concluded, so therefore a net number. We did not have the full net number with us at this moment that is still under compilation because it is across different assets and it is across development and services as well as commercial manufacturing. So what we have shared here is the new wins after the end of the last financial year and therefore of the 27 gross there are six which are now in Phase III which are expected to move to commercial manufacturing and just to expand on that the six, you know, we have got one in Morpeth, we had two in Avecia, which we will probably be

migrating to India and we have three wins from India so it is a fairly well spread number of conversions from Phase III hopefully to commercial manufacturing across our sites.

Chirag Dagli: Okay fair point. Thanks so much, that explains and one last thing on the domestic formulations business obviously 23% kind of an organic growth has been a very strong number. For the full year I know you have retained your guidance but you know is there a fair amount of channel pushing in this quarter or do you expect the trend to move back to the 16%-17% kind of for the rest of the year?

Ajay Piramal: No there is no channel pushing. We actually monitor both primary and secondary sales and they are both matching. So there is no channel pushing. There has been good, you know, the investments that we have made in the sales and marketing front are obviously paying results.

Chirag Dagli: Sir, can you break the group between tier I and tier II cities and the metros?

Ajay Piramal: We do not have that number as of now.

Chirag Dagli: But it is surprises to say that you know that when you say your marketing efforts largely obviously you built the marketing presence in the tier II cities would that explain a lot of the kind of growth that you are seeing now?

Ajay Piramal: We have increased investments across different geographies, so I would not say it is tier II which is contributing this as tier I as well.

Chirag Dagli: Thank you so much.

Moderator: Thank you, Mr. Dagli. The next question is from the line of Cheenu Gupta of ING Investment Managers. Please go ahead.

Cheenu Gupta: Yes, sir. I just wanted to know what is the current sales force strength in India?

Ajay Piramal: We have about 3500 people.

Cheenu Gupta: What was the number same time last year?

Ajay Piramal: We have added about 200 people in the core business this year.

Cheenu Gupta: 200 in the entire year you are saying.

Vijay Sathye: See actually the gross labor in all places would be about 3800. That is the number you would find in our annual report, which is the number across different divisions.

Cheenu Gupta: Okay and regarding your subsidiaries the foreign subsidiaries the VRS expenses that we are incurring every year how long is it expected to continue?

- Ajay Piramal:** For this year we do not expect any more VRS on this account, but you know it is a continuous process we try and see that we maximize the productivity of these assets, so as of this year I do not see anything more, but I cannot say that for the future.
- Cheenu Gupta:** And what has the reduction in number been from what level to what?
- Ajay Piramal:** 40 people have gone in this year.
- Cheenu Gupta:** So currently the number stands at?
- Ajay Piramal:** There are 400 people that we have in UK, 100 in Canada plus of course the sales force across the globe is extra.
- Cheenu Gupta:** Okay and up till now how many people have taken VRS?
- Ajay Piramal:** 120.
- Cheenu Gupta:** That is a fair number and sir what is the reason of our debt levels are going up by almost Rs.500 crores?
- Ajay Piramal:** If you look at the reasons for the debt levels going up, first of all we had some major acquisitions that we did, we acquired the Khandelwal laboratories two brands in addition to that we have acquired the Haemacel brand on a global basis. We have acquired some new pathology laboratories. We have invested in the codeine project. So these are all if I would say new investments that we have made. In addition to that networking capital has gone up by about Rs.70 crores this is basically to support the growth in sales that we have had and the dividend pay out of Rs.100 crores.
- Cheenu Gupta:** Okay and yes sir, coming to your working capital that was my next question. Why is that suddenly gone up from 79 to 94, and would this that be the reason for our good sales growth in India? Have we changed our strategy on some ground?
- Ajay Piramal:** No if you look at the net working capital, actually it has not gone up if you look at inventories have actually reduced and our receivables have gone up only by three days compared to the same period last year. So it is not a significant increase. It is the growth in sales. Also because we were seeing robust growth of sales in the first six months we did not want to go out in terms of inventories, but I guess at the end of the year, you will see that it will come back to the same levels in number of days as we were as of March 31, 2008.
- Cheenu Gupta:** And sir what would be...okay our cash and debt levels year-on-year have already given. Okay sir. Thanks a lot.
- Moderator:** Thank you Ms. Gupta. The next question is from Mr. Bhavin Shah of Dolat Capital. Please go ahead.

- Bhavin Shah:** Thanks for taking my question. Sir my query is on the assets in Morpeth and Avecia how do you see the profitability improving by restructuring efforts undertaken all this one?
- Ajay Piramal:** We have actually continuously been increasing the profitability particularly as far as Morpeth is concerned. We have been able to cut down significantly plus improve through a various measures improvement in terms of the raw material cost as well as operational expenses. Now we are focusing how to increase the top line over there and that is why you would see I mentioned also about the clinical trials packaging which has just started now in this quarter. As far as the Avecia is concerned we are looking at ways of actually reducing costs further.
- Bhavin Shah:** Okay and as far as the codeine project is concerned when do you see that coming across in terms of commercialization?
- Ajay Piramal:** You know we are still in the planning stage. We would give you a better idea when we have the next quarter call, but I estimate about 24 months from now, but we will give you a better idea towards in the next call that we have.
- Bhavin Shah:** Okay sir and sir further additional debt would perhaps is required for new acquisitions if not for now, I mean the potential ones for now I think for all the investments that you just listed is pretty much comfortable with what you have right now?
- Ajay Piramal:** Yes, in fact if we do not make any acquisition then in the next six months you will see that our debt levels will come down and our debt equity ratio would go down to about 0.7. If we make any new acquisition then that is another subject, but given the existing plans that we have for capital expenditure and looking at the cash flows that we have we should bring down the debt to a debt equity level of 0.7.
- Bhavin Shah:** Okay sir. Thank you so much.
- Moderator:** Thank you Mr. Shah. The next question is from Ms. Bhavita Nagrani from MP Advisors. Please go ahead.
- Bhavita Nagrani:** Good evening everybody. My first question is on the gross profit margin. I suppose gross profit margin includes higher rupee realization, okay, so yet gross margins have not improved it is around previous years level only, so what could be the reason for the same?
- Ajay Parimal:** Well if you look at it actually the material cost has improved. We have improved by 1% point for the first half of the year so we had at the same period our material cost last year was about 37.5% and this is 1% point lower this year. So gross margins have gone up. Secondly we must keep in mind that actually the costs have gone up significantly on the materials in the Q2 mainly because of you know what happened we are importing a lot of stuff from China and import prices and because of commodity prices going up.

- Bhavita Nagrani:** Okay and secondly can you give some colour on your hedging position at what rate have you hedged your revenues and till what period?
- Rajesh Laddha:** In fact whatever this forex loss is coming, is coming from the borrowings we have not taken any hedging position on our any export volumes or imports. So it is purely coming from our borrowings since we had to mark-to-market as of a particular date and because of the adverse moment of rupee-dollar parity, this loss is coming.
- Bhavita Nagrani:** Okay and can you give me sales from MMBB segment for this quarter?
- Vijay Sathye:** We do not report by MMBB or by PDS, PMS format anymore, so unfortunately we cannot provide that data.
- Bhavita Nagrani:** Okay. Can you give me some guidance for the tax rate for the full year?
- Ajay Piramal:** Should be similar at about 12.3% for consolidated because this is the annual tax rate we are using even for H1 between the range of about 12.5% for the whole year.
- Bhavita Nagrani:** How much was the sales on Haemaccel brand for this quarter?
- Vijay Sathye:** The acquisition
- Bhavita Nagrani:** Haemaccel brand.
- Ajay Piramal:** Heamaccel has already sold existing in India as well, now we have just acquired global rights.
- Bhavita Nagrani:** I am asking about globally.
- Ajay Piramal:** It is about 8 crores that has come in this quarter.
- Bhavita Nagrani:** Eight crores this quarter. Okay, thank you.
- Moderator:** Thank you Ms. Nagrani. The next question is from Mr. Rahul Baijal of Voyager Capital; please go ahead.
- Rahul Baijal:** I had one question on the leverage, this debt figure of Rs.11570 million, is it possible to give some flavor in terms of what is the breakdown in terms of short-term debt and term loans in this and also the currency, INR, dollar and British pound?
- Rajesh Laddha:** We have about 100 million of loans in dollars. We do not have any other currency loan and apart from that it is all short term, we do not have any kind of term loans in this.
- Rahul Baijal:** The remaining is all short-term rupee debt is it?
- Rajesh Laddha:** That is right.
- Rahul Baijal:** In terms of US dollars 105 million of term loans?

- Rajesh Laddha:** No it is between ECB and some packing credit, etc.
- Rahul Baijal:** So packing credit would be I guess working capital for the foreign operations.
- Rajesh Laddha:** That is right because for our exports in future.
- Rahul Baijal:** In terms of longer duration loan it is just a 45 million dollar ECB.
- Rajesh Laddha:** 45 million ECB, yes.
- Rahul Baijal:** Okay, thank you very much.
- Moderator:** Thank you Mr. Baijal. The next question is from Ms. Rohita Sharma of Enam Securities; please go ahead.
- Rohita Sharma:** Hi, just one question, could you explain the rise in the other expenses for the quarter.
- Ajay Piramal:** Rise in the other expenses actually includes the foreign exchange losses which are there and it also explains the extent of, foreign exchange losses are the main difference.
- Rohita Sharma:** Even excluding that I think there has been a rise on the other expenses?
- Vijay Sathye:** Rohita which slide are you referring to.
- Rohita Sharma:** Actually if we remove the portion of the foreign exchange losses even then there is a rise.
- Ajay Piramal:** For the other expenditure that is the sales promotion and marketing expenses I talked to you.
- Rohita Sharma:** Okay. Will this continue in the coming quarters as well?
- Ajay Piramal:** We will keep the same level of marketing and selling expenses for the next six months.
- Rohita Sharma:** Okay, fine, thank you.
- Moderator:** Thank you Ms. Sharma. The next question is from Mr. Nikhil Agarwal of Motilal Oswal Securities; please go ahead.
- Nikhil Agarwal:** Mr. Piramal if I understand correctly you said that you are open for acquisition, can you tell me in which particular business of your company are you planning to make acquisitions?
- Ajay Piramal:** Let us look at our major businesses that we are in. In the domestic market there are acquisitions, which like these two brands that we got. If there are similar such brands and we would be open to them, provided there is a strategic fit, they do not clash with our existing brands and we get them at a reasonable valuation. Similarly we are looking at custom-manufacturing space so there are if you have seen even in the past we have acquired assets which are in the western hemisphere and we would do that provided there is some

technology gap that we fill or there is some large customer base that we can get because of them.

Nikhil Agarwal: Okay and sir what is the size of acquisition you are looking at?

Ajay Piramal: You know, it is too early frankly so let us see what the acquisitions are and then we would decide. It also frankly would depend. We have to be now a little more prudent in what we are going to do and so we will see.

Nikhil Agarwal: Sure. Thanks sir.

Moderator: Thank you Mr. Agarwal. The next question is from Ms. Cheenu Gupta of ING Investment Managers; please go ahead.

Cheenu Gupta: Yes, just one follow back question on the net working capital, your other current assets primarily have increased by around Rs.200 crores. What are these other current assets?

Ajay Piramal: Yeah, just one minute. We will give you that answer in a few minutes if you can come back please, so let us continue, we will just get that answer.

Cheenu Gupta: Yes sir and whatever loans that we have on short-term borrowing that you mentioned, what is the borrowing rate?

Ajay Piramal: Borrowing rate is 9.5% today.

Cheenu Gupta: On short term loans that you have?

Ajay Piramal: Yeah

- Rajesh Laddha:** Coming back to your question on the current asset it is primarily advances given to subsidiaries.
- Cheenu Gupta:** And which are those subsidiaries?
- Rajesh Laddha:** We give it to, some of it is to Pathlabs, PLSL is another one if not exactly the subsidiary. We have given the advances to Piramal Life Sciences.
- Cheenu Gupta:** Okay, how much that would be?
- Rajesh Laddha:** That is about Rs.60-65 crores incremental in the first half.
- Cheenu Gupta:** And in future, do we have any plans as in what is the lifeline of these loans given to Piramal Life Sciences?
- Rajesh Laddha:** In fact, in October, it is already reversed. We have taken external borrowings for PLSL directly, so in future I think we expect this to come back and current assets will reduce significantly.
- Cheenu Gupta:** Okay sir, thank you.
- Moderator:** Thank you Ms. Gupta. The next question is from Mr. Sriram Rathi of Centrum Broking; please go ahead.
- Sriram Rathi:** Hello. Congratulations on a good set of numbers. You have forex loss of Rs.408 million during the quarter. I just wanted to know what is the MTM loss after this.
- Vijay Sathye:** The MTM loss is about Rs.28.5 crores, that is unrealized loss.
- Sriram Rathi:** And the rest is realized.
- Vijay Sathye:** Yes
- Sriram Rathi:** Can you give me the breakup of your pharma solution business in to PDS, PMS, and MMBB?
- Rajesh Laddha:** We have stopped tracking in that old format because internally we have realigned the SBU and the business unit, now we have consolidated everything as CMG as one unit, as one business unit.
- Sriram Rathi:** Okay that is just fine, thanks. So far as Morepeth's facility is concerned it is operating on how much capacity? Is it 60%?
- Vijay Sathye:** This is Vijay. The capacity utilization is about 50%.
- Sriram Rathi:** 50%?
- Vijay Sathye:** Yes

- Sriram Rathi:** Are you taking other orders apart from Pfizer?
- Rajesh Laddha:** Other business opportunity for example this clinical packaging and other things coming up, the capacity utilized of the entire facility is going to go up.
- Sriram Rathi:** Okay, I mean we can expect around 70-75% capacity utilization?
- Rajesh Laddha:** To that extent it will gradually go up.
- Sriram Rathi:** Okay fine. Thanks.
- Moderator:** Thank you Mr. Rathi. The next question is from Mr. Nitin Agarwal of IDFC-SSKI; please go ahead.
- Nitin Agarwal:** Good evening. Following from a question about assets in pharma solutions business from assets outside India, in terms of understand shifting from projects from Avecia to India facilities what is the game plan really speaking for Morepeth we are talking about clinical trial packaging and all other services coming in, for Avecia I mean where do we see incremental business really coming in to substitute really the business that is being shifted to India?
- Ajay Piramal:** Our major focus at the moment is really to see that we shift the business to India and then we would see what to do with the Avecia site and Morepeth focus is to increase the top line by getting more business other than Pfizer business.
- Nitin Agarwal:** In first half we have seen a marginal decline in the business really from the assets, do we see this kind of situation really persisting for a while or do you think it is going to reverse anytime soon?
- Ajay Piramal:** There will be some reversal, there would not be huge growth but there will be reversal because as I said from Morepeth we will see some increase in top line.
- Nitin Agarwal:** Okay sir, thank you.
- Moderator:** Thank you Mr. Agarwal. The next question is from Ms. Bhavita Nagrani of MP Advisors, please go ahead.
- Bhavita Nagrani:** Yeah, just a clarification on MTM losses. You earlier mentioned that the forex loss is only because of the borrowings. Right?
- Rajesh Laddha:** That is right.
- Bhavita Nagrani:** And this 285 is for what? Is it for hedging position you have taken?
- Rajesh Laddha:** What is that sorry, come again?
- Bhavita Nagrani:** You have mentioned that out of 408, 285 is MTM?

- Rajesh Laddha:** That is a number for unrealized losses. Out of 40 crores, 12 has been realized during the quarter.
- Bhavita Nagrani:** So it did not relate to this MTM?
- Vijay Sathye:** See whatever is what you book on packing credit would often tend to be realized because it is a rolling transaction and that tends to be realized at the end of the quarter but longer term loans will only be repaid in 2012 or 2013, they are being marked to market simply, those are not realized losses.
- Bhavita Nagrani:** Ok so this is not at all related to your MTM, right?
- Vijay Sathye:** No, You mean MTM as in the total forex loss or what is not realized?
- Bhavita Nagrani:** Yes, in the total forex loss.
- Vijay Sathye:** Yes, within the total forex loss there is a part which is mark-to-market but is not actually going out of our pocket, which is unrealized portion that is 28.5 crores and the remaining 11.5 crores is again marked to market but it is realized. It is the number has been out of book sets.
- Bhavita Nagrani:** As you mentioned about the packing credit.
- Vijay Sathye:** Yes.
- Bhavita Nagrani:** Okay and this 285 is for the longer-term loans, right?
- Vijay Sathye:** Right.
- Bhavita Nagrani:** Okay. Thank you Ms. Nagrani.
- Moderator:** Participants who have a question may press “*” “1” on your touchstone phone. The next question is from Shantala Shenoy of Span Capital; please go ahead.
- Kasey:** Hi, this is Kasey here, I mean as you have explained that the MTM portion is about 28 out of the 40 odd crores, so EPS which you have given below the net of forex that you have also added back to your realized forex losses, right?
- Vijay Sathye:** Yes for that we have taken the whole forex losses as a factor.
- Kasey:** Yes, thanks. I am done with my question thanks.
- Moderator:** Thank you Mr. Sheno. The next question is from Mr. Jesal Shah of JM Financial. Go ahead.
- Jesal Shah:** My question is on your PDS and PMS businesses and on the slide, which you have given where we talked about incremental wins. I see that in 2008 the incremental number was lower whereas what we see in the first half is actually quite remarkable, so basically it is in

two parts, do we see the year end, I think you explained something about gross and net which I was not fully clear about, if you can just explain that and also give us an idea about where do you see the full year number, should we consider it fully incremental or will it go back down to the incremental numbers that we saw for 2008.

Vijay Sathye:

Jesal, hi this is Vijay. If you look at the difference between 2007 and 2008 as we were explaining earlier the way we calculate numbers at the year end is the opening number of molecules for the year in each quadrant. The number of wins during the year and the number of projects that would have been concluded are then deducted from that gross number, so if you look at the PDS space in preclinical or Phase I, the project life is only about a month or two and therefore there will be number of projects that will roll during the year. In Phase II there would be some projects which would go on for a period of may be more than three to six months and in Phase III certainly we have projects which could run to even a years duration, so we still had to complete an audit of all the projects that have been completed at the half year stage, so we could not deduct from the number those projects which would have been concluded and for which billing would stop as a result of which for the half year we have given only the new wins number. Ideally what we need to do is if I take for example the Phase I number the opening number was 29, wins during the six months is 49, so we would get 78 as the gross number, whatever Phase I projects would have been completed need to be then deducted from the 78 number, so in that sense the net numbers would be lower than 180+134 in total. In terms of numbers that we expect going forward it is difficult to say a number but if you look at our trendline over the last three years we have been getting a net increase in number of molecules of between 50 to 60 across the time period and here if you see between 2007 and 2008, we had got an increase of about 36, but this year the momentum is gaining, so we are likely to gain much more in terms of number of molecules.

Jesal Shah:

Right is there any particular thing, which has changed such as increased momentum for the current year?

Ajay Piramal:

No, what we have done really is that we have increased first of all our business development efforts, so we have increased the team on a global basis. We have also increased capacity as far as the PDS business is concerned in our Ennore facility and we are increasing the capacity as far as PDS formulations business, which will go in to stream in January of next year.

Jesal Shah:

Right, just a little bit on the Phase III molecules, you know there is obviously PMS which would also then, once a molecule goes in to commercial manufacturing, would you transfer on that to PMS.

Vijay Sathye:

Yes, we would.

- Jesal Shah:** Okay. I remember the last time we had a significant proportion of the turnover really coming from PMS, if you were to look at the growth so far in the first half of current year would it be fair to say that growth is really happening more on PDS rather than PMS?
- Ajay Piramal:** Yeah, focus is to increase the PDS portfolio.
- Jesal Shah:** Right. And as far as your products which are being supplied for commercial supplies, some of them as you mentioned here are more than five years in life cycle, so what kind of contribution do they give you, is it significant or is it not very significant?
- Ajay Piramal:** You mean contribution in terms of turnover.
- Jesal Shah:** Yeah.
- Ajay Piramal:** Today, the late life cycle actually has a larger proportion less than five years.
- Jesal Shah:** And are these products already off patent or they are still to go off patent?
- Ajay Piramal:** It is a combination of both off patent and on patent.
- Vijay Sathye:** Generally the off patent products would be the originator branded products.
- Jesal Shah:** Do you envisage some risk if these products kind of were to loose patent protection?
- Ajay Piramal:** No those are actually taken in to account generally by these companies and as we have said we only deal, all of these are with the originator themselves.
- Jesal Shah:** Right, and the molecules which are currently in Phase III which you expect to move to commercial manufacturing and you mentioned one will be moving to commercial manufacturing in FY10, would you like to give us some idea about what kind of scale we are talking about, is it like single digit million dollars or is it tens of millions of dollars.
- Ajay Piramal:** It is still uncertain, these are still Phase III not necessary that they will grow, so we do not want to hazard a guess and we have seen too many changes in this phase.
- Jesal Shah:** But these are penultimate stages or these are like final bulk?
- Vijay Sathye:** Number of them are final bulk also.
- Jesal Shah:** Final bulk also?
- Vijay Sathye:** Yes.
- Jesal Shah:** Okay, but it is mainly bulk and not so much formulations.
- Rajesh Laddha:** Yes. Currently it is mainly bulk.
- Jesal Shah:** Okay. Thank you so much.

- Moderator:** Thank you Mr. Shah. The next question is from Mr. Milind Bhangle of Tata Securities; please go ahead.
- Vivek:** Hi, this is Vivek here from Tata Securities. I just wanted to understand what has been the closing cash for the second quarter?
- Ajay Piramal:** Closing cash. In the sense, I didn't understand
- Rajesh Laddha:** Cash balance is about 10 crores.
- Ajay Piramal:** I did not understand the significance of that.
- Rajesh Laddha:** We have about 1150 crores of debt, so.
- Vivek:** Okay, second thing I just wanted to understand is Avecia is running around how much, I mean around 50%?
- Ajay Piramal:** No, it is lower than that.
- Vivek:** Lower than that, so I expect that the margins have not yet been, on a sustainable basis the margins have not yet been achieved of a double-digit figure.
- Ajay Piramal:** Those margins are there. Yeah.
- Vivek:** Okay, thanks.
- Moderator:** Thank you Mr. Bhangle. The next question is from Mr. Sonal Gupta of UBS, please go ahead.
- Sonal Gupta:** Hi. Thanks a lot. Just a couple of questions. One was again coming back to the forex loss; from what I have understood these are MTM losses, but these are significant currency moves last quarter as well, so there was no loss last quarter. I just want to understand why is it?
- Ajay Piramal:** Could you say again, sorry?
- Sonal Gupta:** There was no MTM related forex loss in the first quarter.....
- Ajay Piramal:** In the first quarter....
- Sonal Gupta:** Yeah.
- Ajay Piramal:** No, there was a loss of 23 crores, the total loss that we have is 64 crores in the first six months, 23 was in the first quarter.
- Sonal Gupta:** Also, there has been a significant talk of domestic market slowdown in terms of the growth and numbers that IMS suggesting, so any thoughts that you can give on that as to how you

are seeing the growth and what is your expectation going forward of growth in the domestic market?

Ajay Piramal:

In the IMS numbers if you see I think first of all you have so much variations, very difficult to come to a definite conclusion, but the reason why last month is low in IMS because the same month previous year was very high and therefore it is just that effect of the month. We are not still seeing any slowdown in the market share. If you see, our growth rates have been pretty good.

N. Santhanam:

Just this afternoon only the September IMS has come and the market has come and the market has grown at 14.5% and we have grown at 18.3%.

- Sonal Gupta:** Thank you sir.
- Moderator:** Thank you Mr. Gupta. The next question is from Mr. Hamish Kanani of JM Financial; please go ahead.
- Hamish Kanani:** My question is already answered thanks.
- Moderator:** The next question is from Ms. Sapna Jhavar of Sharekhan; please go ahead.
- Mallika:** Good afternoon sir, this is Mallika from Sharekhan, actually I have a question on your guidance. I know that you have been guiding for 16% topline growth and in H1 you have reported 17%, are you anticipating a slowdown in the second half and I mean if you got you right I think in the opening remarks you mentioned that the second half is expected to be better than the first half?
- Ajay Piramal:** I think we are just being conservative. We are not yet seeing any slowdown frankly and as Mr. Santhanam just gave you even numbers for September are good even, so we are not seeing a slowdown but we just want to be conservative in an uncertain environment.
- Mallika:** Okay and I mean the 16% growth that you are guiding towards is taking in to account the weaker currency.
- Ajay Piramal:** Yes.
- Mallika:** Okay. Thank you.
- Moderator:** Thank you Ms. Jhavar. The next question is from Mr. Amit Hiremath of Enam Asset Management, please go ahead.
- Amit Hiremath:** Hi. Thanks for taking my question. It is related to the PDS business. Now out of the new wins we have got in the first half of this year, is it possible to distribute between Torcan and the Indian assets and Indian operation?
- Vijay Sathye:** No we do not have that data with us at the moment.
- Amit Hiremath:** And the next question is again related to Torcan business because the last year the growth was impacted due to the unfavorable exchange rate, now since the USD has appreciated quite sharply against the Canadian dollar have you seen a commensurate growth in the PDS business from Torcan.
- Ajay Piramal:** Yeah. Actually it is 15% growth over the same period last year.
- Amit Hiremath:** And regarding the domestic formulation business, now in the last quarter we have got a growth of 20%, this quarter we have got a growth of 27%, so going forward for the whole year, can we expect domestic formulations growing by more than 20%?
- Ajay Piramal:** We expect 20% would be a fair number to look at for the year.

- Amit Hiremath:** And regarding the CEFI and Anafortan on business now you mentioned that when you realized during the quarter was around 14 crores. Right?
- Ajay Piramal:** For the whole since its acquisition, 14 crores yeah.
- Amit Hiremath:** In the last quarter it was quite insignificant, around 1 or 2 crore probably.
- Ajay Piramal:** 21 crores for the first six months.
- Amit Hiremath:** Can we expect the same run rate going forward?
- Vijay Sathye:** 14 crores for the quarter is a good run rate, so that is about 56 crores on a run rate basis.
- Amit Hiremath:** Thank you. Thanks a lot.
- Moderator:** Thank you Mr. Hiremath. The next question is from Ms. Rohita Sharma of Enam Securities, please go ahead.
- Rohita Sharma:** On Avecia I just wanted to know whether there has been any improvement in margins over the previous quarter and by when do you think you would be able to achieve double-digit margins for Avecia?
- Ajay Piramal:** Avecia, there has not been improvement compared to previous quarters till now. There has been improvement in margins as far as Morpeth is concerned.
- Rohita Sharma:** And would you like to share what Morpeth margins are currently?
- Ajay Piramal:** We do not give that data.
- Rohita Sharma:** Okay and by when do you think you would be able to see an improvement in margins for Avecia?
- Ajay Piramal:** I think we will be able to answer that better in the next quarter.
- Rohita Sharma:** And on the top line front if you could you just tell us what has been the growth excluding the currency impact?
- Ajay Piramal:** In.....
- Rohita Sharma:** In sales for the quarter. Overall sales.
- Rajesh Laddha:** Currency impact would amount to about 1.5% in totality; 1 or 1.5%
- Rohita Sharma:** Okay fine, thank you.
- Moderator:** Thank you Ms. Sharma. Participants who have a question may press “*” and “1” on their touchtone phone. Ladies and gentlemen if you have a question you may press “*” and “1” on your touchtone phone. Mr. Sathye we do not have any further questions.

Vijay Sathye:

We would like to thank everybody on the call and in case you have any additional questions for us please do let us know on our investor relations mail ID. Thank you for joining today.

Moderator:

Thank you. Ladies and gentlemen on behalf of Piramal Healthcare Limited that concludes this evening's conference call. Thank you for joining us and you may now disconnect your lines.