



## “Q4 FY09 & Annual FY09 Results Conference Call”



**MODERATORS:**

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**MR. N. SANTHANAM, EXECUTIVE DIRECTOR & COO**  
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**MR. PRASAD MHATRE, INVESTOR RELATIONS TEAM – PIRAMAL HEALTHCARE**



**Moderator:**

Ladies and gentlemen, good evening and welcome to the Piramal Healthcare Limited's Q4FY09 and Annual FY09 Results Conference Call. This is Mellisa, the Chorus Call conference operator. As a reminder, for the duration of the conference, all participants' lines are in the listen-only mode and there will be an opportunity for you to ask questions at the end of today's presentation. If you should need assistance during the conference call, please signal an operator by pressing "\*" and then "0" on your touch-tone phone. Please note that this conference is being recorded. At this time, I would like to hand the conference over to Mr. Sagar Gokani, Manager, Investor Relations of Piramal Healthcare Limited. Thank you and over to you, sir.

**Sagar Gokani:**

Good evening to all of you. Welcome to Piramal Healthcare Limited's fourth quarter and FY09 results Conference Call. Joining me on the call are Mr. Ajay Piramal, Chairman; Ms. Nandini Piramal, Executive Director; Mr. N. Santhanam, Executive Director and COO; Mr. Murari Rajan, Executive Director, Piramal Enterprises Limited; Mr. Sudarshan Jain, Director, Healthcare Solutions Business; Dr. R. Ananthanarayanan, Director, Pharma Solutions Business; Mr. Rajesh Laddha, the Chief Financial officer; and Prasad Mhatre from our Investor Relations team. We hope you have received the press release results in the stock exchange format and Analysts Presentation that we sent out earlier. These are also posted on our website [www.piramalhealthcare.com](http://www.piramalhealthcare.com) on the investors section. I would request you to send your queries, which remain unanswered during the call to the email [investor.relations@piramal.com](mailto:investor.relations@piramal.com).

This year we have changed the format of our presentation. As a result of the acquisition of Minrad and RxElite which we completed this year, we will begin to report the Global Critical Care business separately. After a brief introduction by Mr. Piramal, each of the business head will discuss the development in their businesses during the year. I would now like to hand over to Mr. Piramal.

**Ajay Piramal:**

Good evening. Before we begin, I thought I would just introduce to you the management team which is really a blend of very experienced people both who have remained within the company for several years as well as who have come from outside. So heading the Healthcare Solutions as well as the Global Critical Care business is Mr. Santhanam who is the Executive Director and Chief Operating Officer. The Pharma Solutions business is Nandini Piramal who is the Executive Director and Dr. Ananthanarayanan who is the Director of Pharma Solutions and the CFO is Mr. Rajesh Laddha. The Healthcare Solutions is run by Mr. Sudarshan Jain, Director. Since the acquisition of the Minrad facility in March last



year, we have now divided our business into three major businesses – The Healthcare Solutions business which Mr. Sudarshan Jain will take us through, the Pharma Solutions business which Dr. Ananth anarayanan will take us, and the Global Critical Care business which Mr. Santhanam will share with us. After that, Rajesh Laddha, our CFO, will give you an overall of the finance. So let me hand it over now to Sudarshan Jain.

**Sudarshan Jain:**

Thank you, Chairman. Good evening to all of you. I will be talking about the highlights of the Healthcare Solutions business. We have got the leadership position lifting and caring as far as healthcare with significant scale is concerned. We are the fourth largest domestic brand business with increasing market share. In terms of product portfolio, we have got 13 brands which are among top 300 in the Indian pharmaceutical industry. These brands have got long life cycles and our largest brand Phensedyl is the second largest brand in the Indian pharmaceutical industry. We have got the strong infrastructure, which we have built over the years. We have got the largest field force 4000 territory business managers who cover more than 150 thousand doctors. In fact, everyday we meet around 40,000 doctors per day. We have got systems which have been created over the years of experience system. Ours is the only company, which works on secondary sales system and that is demand driven system. We have got the independent structure to service demand, which is generated by the demand team. We have got consistent success in mergers and acquisitions. In fact, we have track record of seven value accretive acquisitions.

If you look at our performance, our performance record has been significantly better and we are among the fastest growing companies, among top 5 companies in Indian pharmaceutical market. Our MAT growth is 17.4% compared to the industry growth of 10.1%, the only company which is recording higher growth than us among top 10 companies is Mankind, otherwise our record has been significantly high. If we look at monthly phase performance over the year, every month we have been consistently improving our market share. It used to be around 3.6% in the month of April last year. It has gone to as high as 4% at the end of the year. During the last five months, we have recorded growth of around 29% compared to the industry growth of 13%. If we look at our performance in the marketplace and record of Piramal Healthcare with the customers, we have got the maximum franchise with the consulting physicians and consulting physicians are the dominant segment in the Indian pharmaceutical industry. They are the core segment and their prescription support has got ripple effect on other segments of the population. We are also the second largest company in the dentist segment, which is again a very important segment from antibiotic point of view and nutrition point of view. If we look at our performance and the key reason of good performance has been the contribution of new products,



which have instantly increased over these years. And new product has been one of the key drivers as far as our performance of FY09 is concerned. The contribution of new products has gone up from 5.2% in FY07 to 7.9% in FY09. We will be among the top 3 companies in the Indian pharmaceutical market in terms of new product contribution to growth. Our growth has also outperformed quarter by quarter during the year. If we look at slide no. 9 where it is every quarter we are outperforming the market growth. In the last quarter which is around 27.7% compared to the market growth of 15.3%. If we look at segment-wise performance, our performance in all the segments wherever we operate, we have been performing better than the market. Respiratory segment, anti-infective segment which have significant contribution to our growth and our salience, our performance has been better than the industry performance. The only area where performance has been relatively low has been nutrition where the contribution to the segment is also low. This is primarily because of the Vitamin C and Haemaccel, one of the volume expander product which we have in our portfolio. Our top 10 brands contribute to 24.3% to our business. Lifestyle products, chronic therapy products where emphasis has been there over the years; their contribution is 31.4% to the business. And the significant reason for good performance for the year has been the launch of new products. We have launched 42 new products which contribute 7.9% of the sales. Looking forward for FY10, given the status for Indian market, our emphasis stays on volume growth through brand building efforts because what we see in the coming years, the key driver for the Indian pharmaceutical growth will be brand building and life cycle management. We will also be laying lot of emphasis on the key thrust areas i.e. portfolio optimization. We will be concentrating our efforts on the therapeutic areas, that is Antibiotics, Diabetes care, CNS business which are comparatively attractive market in the Indian pharmaceutical market. We will continue to focus on new products which will be the key driver for the next two years as far as Indian pharmaceutical market is concerned. Also, there will be high emphasis on driving efficiency, that is working capital management and field force productivity. We have added around 800 people last year. We will continue to drive productivity as far as field force is concerned. In addition, we will be also exploring new avenues of business in terms of products and customer growth. So new products will continue to be the key driver of the Indian pharmaceutical market.

**Sagar Gokani:**

Thank you, Sudarshan. I would now like to hand over to Dr. R. Ananthanarayanan for a discussion on Pharma Solutions business.

**Ananthanarayan:**

Thank you, Sagar. Good evening, everyone. The Pharma Solutions business within Piramal Healthcare continues to be a full service CMO across the drug life cycle. We are present right from pre-



clinical development through to the launch and commercial manufacture present in the pre-clinical phase. We are present in both APIs and finished dosage forms through our assets that are based in Canada, UK and Morpeth facility, in India Ennore, and also the facility that we set up newly in Ahmedabad, that offers formulation. We are also present in the clinical development phase, Phase-I, Phase-IIa, Phase-IIb, and Phase-III both on finished dose formulations as well as on API. And I have also added in this process here clinical trial packaging services as well to cater to the segment. And in launch scale, we are present through our sites in Digwal, Ennore, Morpeth, Torcan, and Pitampur. So, all across, we are present as a full service CMO providing service to our customers globally and providing service a] across the entire life cycle of the product but through also integrating across APIs and finished dose formulations.

Some of the key developments that we had in the financial year 2009, just like to present those to you. One of the key aspects was the expansion of our business development efforts and business development team by expanding about 12 people in terms of UK assets in Morpeth we have already done an extension of the contract from Pfizer at Morpeth, of all the contracts about 25% of them have been extended. We have already started negotiations with Pfizer for the remaining contracts well in advance before the term comes to an end and we expect it to close fairly soon. We have completed the commissioning of clinical packaging services and within the first five to six months of starting the operations, we have already secured six contracts, which really gives us a boost for the clinical trial services going forward. In terms of our Avecia assets, we have announced the decision to shut down Huddersfield sites to rationalize our manufacturing network and thereby improve profitability of the entire business. Year 2009 has also been a key focus area for us in terms of our efforts on early phase business as we have indicated, we had a strategic shift in focusing and improving a lot of pipeline in early phase. We clearly believe that our focus on early phase will build us a healthy pipeline to get products on Phase-III launch and commercial manufacture. In addition to that, the ability for us to be present early on with the customers also ensures customer stickiness, the ability for us to provide better processes, involve much earlier on and for a longer time with the customer, provide customer benefits right through the early phase through to launch and thereby reap the benefits for both the customer as well as for ourselves, enhance the cumulative business that comes in would be a combination of all the businesses that would be right from Phase-I through to the off patent and as it goes towards end of life rather than just focusing on benefits from when the product starts degrowing through to when it goes into generic. So, it is really capturing the value across the entire cycle, product life cycle right from Phase-I through to end of life. As we said, investments have been made significantly in



building up early phase business in terms of people, we have expanded a scientific team from 35 to 85 people in FY09. We have also created and commissioned the new early phase development facility at Ahmedabad which currently is going through several customer audits. In fact, there are four major customers who already visited and carried out customer audits as we speak.

In terms of our business pipeline our business portfolio globally has seen a significant traction across all the stages. And if you look at right from pre-clinical through to late life cycle across, we have been able to do about 239 projects across in 2009 and a significant increase coming in from Phase-I, Phase-II, building up a lot of pipeline as well in addition to continuing our emphasis and efforts on Phase-III. So, clearly our focus that we have put in in terms of early phase has started giving us results in terms of building a very healthy pipeline. So, we do have good traction, a very healthy pipeline of about 239 molecules across the business pipeline. FY09 also shows strong sales growth from our Indian assets. If you look at the comparison of three years FY07, we had about 76 crores, 77 crores from our Indian asset that grew to about 225 crores in FY08 and FY09 has been about 392 crores. So, a good traction in our Indian assets, a significant growth that we are seeing, that is happening and we expect that to continue to happen going forward. And that mixed with the fact that we have taken a decision to close Huddersfield will contribute significantly to a better product basket and a better profitability going forward this year as well as the next year. For the financial year 2010, we have got some key initiatives that should drive profitable growth. We continue to focus on scaleup of our early phase intermediates and API business. At Ennore having created a centre of excellence there, generation of new business from early phase formulations at Ahmedabad, further ramp-up of clinical trial packaging at Morpeth where we are certainly encouraged by the results we have seen in the first six months of getting six initial contracts. We are also seeing a significant number of contracts for clinical trial packaging in the pipeline and so we are certainly encouraged by the ramp-up capability there. We continue to have significant development and significant investment and business development effort, both in terms of expanding the team as well as improving our productivity and sales effectiveness from the business development team and most importantly our emphasis for the year FY10 is on significant improvement in profitability. We expect our EBITDA margins to increase by about 6%-8% in the financial year FY10 as a result of all these initiatives that we plan to take up. Over to you, Sagar.

**Sagar Gokani:**

Thank you, Ananth. Now, we would like to hand over to Mr. Santhanam for the discussion on the Global Critical Care business.



**N. Santhanam:**

Thank you. I will spend few minutes on the inhalation anesthetic market on a global structure. This is a five-product market with only three players being Abbott, Baxter and Piramal-Minrad combination. This has a market size of over a billion dollar and you know Sevoflurane which is the main thing where all the three players are present, Abbott, Baxter and Piramal is around 750 million dollars. And desflurane is another product which is enjoying currently 210 million dollars market-size where Baxter is very much in that scene and Piramal-Minrad is entering the scene. If we were to trace back our history into the GCC business, way back in the financial year 2005, we acquired Rhodia's Inhalation Anesthetics and we recorded a sale of Rs. 91 million which kept on increasing year after year which really took a sizeable improvement once we shifted the Halothane plant into India and Isoflurane started stabilizing and for the year 2009 the sales clocked a billion rupees, Rs. 1,315 million to be precise. So, the profitability expanded significantly over a period of time and this has encouraged us into acquiring the Minrad and RxElite businesses. Now, we had already explained to you what are the business synergies behind the acquisition of Minrad as well as RxElite. And as you know, Minrad is enjoying a unique position worldwide with patented process of Sevoflurane, also has a unique manufacturing know-how for all four inhalation anesthetic products. It has its own experienced team and more importantly enjoying a worldwide Sevoflurane registration. RxElite which has been the distributor for Minrad for many years has been present for more than 8 years in the US giving 100% service level to the US market. It has excellence in contracting, servicing and distribution capabilities with a very strong and experienced business development team. So, with all the three put together coming together as a combination, the strategic intent being to expand the profitability into a broader critical care businesses as well as enhancing the supply chain efficiency of all the three. Now, the initiative which we have taken to drive this profitable growth, first and foremost we would like to ramp up the production at Minrad facility at Bethlehem and Pennsylvania. With a significant improvement in the yield which we are planning to do this year, thus we will be achieving a sourcing efficiency and leverage better prices of raw material and packing material through sourcing from India and China. That is going to help us in the bottom line to a significant extent. And we shall be investing and installing the vaporizers and upgrading our plant in Bethlehem to drive the sales growth and of course we will be leveraging the non US sales and marketing network of the existing business to grow Sevoflurane because Piramal also has presence in the worldwide market and we will be synergizing the presence of Minrad in this worldwide market.



Now, what are the projections for Minrad for 2010? We would like to inform our friends that Baxter sued Minrad in January 2009 on desflurane bottle closure system. If you recollect, we signed the agreement for the takeover of Minrad in December 2008 and we did the closing somewhere on 28<sup>th</sup> of February 2009 and in between after we met the analysts in the Month of January 2009, Baxter sued Minrad on the ANDA file for the bottle closure system. This is a para IV challenge which they have filed and we have retained Reed Smith, our attorneys and we are defending the para IV challenge. We have been advised by our attorneys that as the matter is subjudice, we will not be in a position to share more information in this regard. Suffice it to say that we are defending and we hope, we should get benefit out of our defense against Baxter. So one thing is clear that for the year 2010 earlier we plan to launch desflurane. In view of this litigation this financial year, we will not be in a position to launch desflurane. Hence, our strategy is to maximize sevoflurane and isoflurane sales. In view of this development, we are revising our outlook on Minrad business and so the performance and outlook for the year 2010 will be revenues from the Minrad and RxElite will be around \$55 to \$60 million and EBITDA will be in the range of 20% to 22% and this acquisition for this year will still be EPS accretive in the very first year itself. Over to you, Sagar.

**Sagar Gokani:**

Thank you, Mr. Santhanam. Now I would like to hand over to Rajesh for discussion on the financials.

**Rajesh Laddha:**

Good evening, everyone. Before I start talking about the results, I must clarify that in Q4 of FY08 after we got the approval for PLSL, Piramal Life Sciences Limited demerger, an amount of Rs. 60 cores was reversed during the quarter four of FY08 and as a result of that the results which you people are seeing in the SEBI format does not offer a like-to-like comparison. What we have done in the presentation on slide 27 and 28, we have restated the numbers to make it more comparable. Coming back to the results, during the quarter,

- Healthcare Solution has registered an impressive growth of about 28% and for the whole year the growth is about 24% taking the total turnover to Rs. 1604 cores.
- Pharma Solutions assets from India again has registered an impressive growth of over 74%. Overall basis, the growth is 5%. The assets from outside India have degrown by over 14%-15%, again the reason being Huddersfield plant at UK where we have about Rs. 100-125 cores shortfall.
- The Pathlab business which is our diagnostic business has registered a growth of about 41%
- With GCC inclusive of Minrad now is about 33% growth and others showing an insignificant amount of growth of about 10%



negative. So, overall basis, the company has achieved a growth of about 14.5% for the year.

Profit and loss account on a like-to-like comparison basis given effect for the PLSL demerger last year, as I explained, the total operating income has grown by 14.4%. Our EBITDA before forex losses has grown by 24% for the whole year. We have had about Rs. 82 cores of forex loss for the whole year out of which Rs. 85 cores is realized and Rs. 3 cores is unrealized gain. We have booked all the losses as of 31<sup>st</sup> March and we don't have any pending derivative of forward contract going forward. We have also adopted AS-11, as a result of which we have capitalized about Rs. 34 cores of forex loss to our fixed assets on which we will be providing depreciation for next 10 years. If this was not the case, our forex loss would have been about Rs. 110 crores in totality. Our interest expense has gone up from Rs. 46 crores to about Rs. 84 cores. I am going to explain the reasons, when I will come to the balance sheet with regards to the investments and acquisitions made during the year. We have booked the exceptional items of about Rs. 45 crores primarily coming from Huddersfield closure and Morpeth VRS and there is a small gain at Minrad by settling the note holders at a lower amount. So the net impact is about Rs. 45 cores of exceptional item loss.

- Without considering the forex expenses in the exceptional items, we have registered an EPS of Rs. 21.3 against Rs. 17.1 last year, thus registering a growth of about 24% for the whole year.
- Slide 28 on profit and loss account margin, we have been able to improve our material cost by about 0.5%. Our staff cost has decreased by 1.1%. We have reinvested this amount into our marketing and selling expenses by way of higher sales promotion and increased field force in our domestic formulation business and our research and other expenditure are lower. Hence our EBITDA margins have shown an improvement of about 1.5% without considering the forex loss and exceptional items.
- Coming to the balancesheet, on the liability side, our loan funds have increased by about Rs. 620 crores for the year primarily coming from... we have had about Rs. 700 crores of acquisitions during the year mainly coming from Minrad and RxElite about Rs. 420 crores, Khandelwal Labs brand acquisition Rs. 125 cores, Path lab acquisitions Rs. 85 cores, Haemaccel business in Germany about Rs. 30 crores, and some small codeine and other things about Rs. 40 cores. We have also had capital expenditure to the tune of about Rs. 200 crores and we had this dividend payment of about Rs. 100 crores. The total expenditure was about Rs. 1000 crores and we had internal accruals to the tune of about Rs. 400 crores, so that is why our loan funds have gone up by Rs. 600 crores in totality.
- Other current assets have gone up by about Rs. 200 crores. We have higher cash balance due to the Minrad acquisition in our US accounts by about Rs. 40 crores. We have had advanced tax increased about Rs. 40 crores. We also have MAT credit



entitlement increase of about Rs. 30 crores and then we have some fundings ICDs given in the routine cost of business of about Rs. 80-90 crores. So that is the reason our current other current assets have increased by Rs. 200 crores for the year.

- Inventories, sundry debtors and net current assets are by and large on the same level. Net current assets are 72 days last year and this year as well. Inventories are 53 days for 31<sup>st</sup> March, 2009 and receivables are 54 days for the year ended 31<sup>st</sup> March, 2009 which are in line with last year.
- After providing the dividend, our debt-equity ratio is 1:1. Our expectation was 1.1, so we have been slightly better than the projection last time. Our return on capital employed without considering the exceptional items and forex is slightly low and the reason being Minrad and RxElite acquisitions during February and March this year. If you were to calculate this without that acquisition, we would be better than 27%, which was last year.

**Sagar Gokani:**

Thank you, Rajesh. Now I would like to hand over to Mr. Piramal.

**Ajay Piramal:**

The results of FY09 should be viewed in the context of an uncertain business environment where we had unexpected volatility in commodity prices and depreciation of the Rupee. In the second half, we also had some of the larger pharma companies rationalizing the inventories which affected our performance in the custom manufacturing business. Our diversified business portfolio and robust business model has enabled us to deliver results in line with our expectations. Let me just give you a brief of what our performance is compared to what we had given you a guidance when we met.

We said that we would have growth in the domestic formulations business and we have had strong growth which is really the domestic formulations business grew by 24%. We had sales on newly acquired Anafortan and Cefi brands, we introduced a derma-cosmetic division, we increased geographic reach and we launched new OTC products. We said that CMG operations would be focused around profit growth and we got commencement of revenues from new contracts and improving capacity utilization and by increasing profitability of overseas assets. Indian operations have shown a strong growth of 80%. We have taken significant restructuring measures to improve the profitability of overseas assets. We said that acquisitions which we would acquire would be for further growth our niche assets these acquisitions would be and filling gaps in our portfolio in the domestic business. We acquired Cefi and Anafortan brands in the early part of the year. If you look at our guidance, we have said that continuing business growth would be 16%, our continuing business grew 14.4%. Pharma Solutions business from Indian assets are sales we had guided at Rs. 370 crores, actually sales from Indian assets have been Rs. 390 crores. Operating margin was to be 20.4%, operating margin is



20.2%. EPS without exceptional items was to be Rs. 21, EPS is Rs. 21.3. Capex was to be Rs. 1.5 billion, Capex was Rs. 1.9 billion and acquisition-related spend was Rs. 7.1 billion. All these numbers of course are without considering foreign exchange losses and exceptional items. I just want to add one more thing since this is a matter of concern nowadays is on the quality and the US FDA audits. I am happy to say that whatever FDA audits we have had or whatever audits we had have been without any 483s or any observations. The last audit which we did was in the last month in Morpeth which had a US FDA clearance without any 483.

I will come now to the guidance for this year 2010. The environment is a difficult environment still, both from the financial side as well on the operation side. We expect sales growth to be in the region of 16% to 17% from existing businesses. Healthcare Solutions will contribute between 14% to 16% of growth. Pharma Solutions will be in the same region as this year about Rs. 1000 crores sales and the sales from the Indian operations will grow by 15%. The Global Critical Care business, we expect will contribute Rs. 450 crores to the turnover. The operating margins, we expect to be in the region of between 21% and 22% and the profitability of the Pharma Solutions business that is the custom manufacturing business will improve between 6% to 8%. Capex will be Rs. 175 crores. We will take all steps to improve the working capital and under these circumstances we expect the EPS to be in the region of between Rs. 23.5 to Rs. 24. Thank you and now we would be open to questions.

**Moderator:**

Thank you, sir. Ladies and gentlemen, we will now begin with the question and answer session. Anyone who wishes to ask a question may press "\*" and "1" on their touch-tone telephone. If you wish to remove yourself from the question in queue, you may press "\*" and "2." Participants are requested to use their handsets while asking your questions. The first question is from the line of Neelkanth Mishra of Credit Suisse. Please go ahead.

**Neelkanth Mishra:**

On the balancesheet, your current liabilities are up very sharply quarter-on-quarter and also quarter-on-quarter the net fixed assets went up by about \$90 million. Could you please provide a breakdown for both of these?

**Rajesh Laddha:**

Okay. The current liabilities if you compare from last March to this March, creditors, I mean, in India, India business has increased by about Rs. 90 to Rs. 100 crores. We have also provided for the entire restructuring expenses in UK to the tune of about Rs. 75 crores which is lying in current liabilities right now and we also have had... Minrad and RxElite acquisition. So there was no inventory and other expenditure going on there and we started incurring those expenses, so the current liability has increased there



- as well substantially by about Rs. 50-60 crores. So that is the reason. It is about Rs. 200 plus crores increase in current liabilities.
- Neelkanth Mishra:** I have got it. I was actually looking at the quarter-on-quarter trend and even the net fixed assets have gone up by about Rs. 430 crores.
- Sagar Gokani:** Yes. Neelkanth, that amount is due to fixed assets of Minrad coming in.
- Neelkanth Mishra:** That is about it, right.
- Rajesh Laddha:** Yes. And we also have had 200 crores of fixed asset increase.
- Neelkanth Mishra:** Sorry, I was focusing on the quarter-on-quarter trend and not...
- Rajesh Laddha:** Q4 is big largely because of Minrad and RxElite.
- Neelkanth Mishra:** Okay, but because the acquisition amount was only about 40 million dollars, right?
- Rajesh Laddha:** No, no. 40 odd million plus we had RxElite separately.
- Neelkanth Mishra:** Which was also not a very big amount. But you know because the increase quarter-on-quarter was 439 crores.
- Rajesh Laddha:** 40 million was the one-tranche payment. We have also given 12 million before that which is the working capital and the fixed assets improvement. 40 plus 1252 plus RxElite. So an excess of 60-65 million, plus there are some acquisition-related expenses, etc. which is not a part of this.
- Neelkanth Mishra:** Okay, understood. And one more question and then I will join back the queue. How much of the 6%-8% improvement in EBITDA margins in Pharma Solutions that you are targeting is due to the mix of locations that is revenue not growing or degrowing outside India and growing in India and how much of it is because you are getting into better products or you are putting in some cost controls?
- R. Ananthanarayanan:** Because of not doing the products in the foreign sites and moving out to the Indian sites, that would make a benefit of about 3% and the remaining about 4%-5% and the product mix was early phase business.
- Neelkanth Mishra:** Ok. Thanks
- Moderator:** Thank you. The next question is from the line of Balaji Prasad of Goldman Sachs. Please go ahead.



**Balaji Prasad:**

Just had questions on your domestic business. You have been growing in spite of talk of degrowth in the domestic sector. You said that this has been achieved by new products. So, does it mean that the volume's growth is a challenging scenario in the domestic market and if you did not have this new product launches what would have been the volumes growth scenario?

**Sudarshan Jain:**

If you see FY09 of the industry growth, the industry has grown only 1% by volume where our performance had been given both by new products as well as the field expansion which we have taken in. That had contributed to the good growth of Piramal Healthcare.

**Balaji Prasad:**

If you exclude the new products, what could have been the growth?

**Sudarshan Jain:**

42 crores have come from the new products which have contributed, 41 products that contributed 42 crores FY09 business is concerned

**Balaji Prasad:**

Okay. On the same business gain, you also spoke what increased your field force for productivity. What exactly are you doing to achieve those?

**Sudarshan Jain:**

Basically, as a company in India, the critical question is the field force. What we are doing? We are doing a systemic exercise. Where to place the field force? We are doing a lot of work on doctor selection because a critical question in the Indian market, there are 600,000 doctors but how do we select 100,000 doctors is a very important exercise, in what context to target to these doctors and there is systemic exercise which has been done by us this year to find it out which markets to concentrate, which doctor group to concentrate and which product to concentrate and we expect this process to improve the productivity every territory and that is why overall productivity.

**Balaji Prasad:**

Okay, thank you. Also another question on the desflurane expectations, what exactly are your expectations from this product for FY10 and 11?

**N. Santhanam:**

FY10, what we had earlier included? We had earlier, if you recollect, we have given a guidance of around 65 million dollars on the top line immediately on acquisition or signing the agreement for acquiring the target which is now coming down to around 60 million. So, around 6-6.5 million dollars... what is the desflurane contribution from this year.

**Balaji Prasad:**

Okay, thank you. If I may, then I will jump in the queue, one last question is on guidance. Your EBITDA for FY09 was close to around 20.5% and despite the 6%-8% margin improvement that you are foreseeing for Pharma Solutions business, your guidance is



around 21%-22%, its kind of seems to be a business overreacts. Could you explain that, please?

- Ajay Piramal:** I think looking at the general conditions, we are not very certain of what will happen on raw material prices which I think that in our view today the margin improvement should be about in this region of 1-1.5% points compared with the last year.
- Balaji Prasad:** Thank you.
- Moderator:** Thank you, Mr. Prasad. The next question is from the line of Sarabjit Kaur of Angel Broking. Please go ahead.
- Sushant Dalmia:** Hi. This is Sushant. Just wanted to know a couple of things. First is regarding the organic growth in the domestic market for the whole year excluding the acquisition of brands?
- Sagar Gokani:** Sushant, Khandelwal brand has contributed only Rs. 42 crores towards the domestic formulation sale. So, it is only 2.5%. So, the 22% growth is organic growth.
- Sushant Dalmia:** And with regard to your tax reversals in the 4<sup>th</sup> quarter and the tax rate for the quarter is down. Any light on that?
- Rajesh Laddha:** We had some gains in terms of the deferred tax asset creation as a UK entity. So, that is the reason the entire reversal has come in Q4.
- Sushant Dalmia:** Okay and what would be for the full year going forward? You were saying that 9%-10% range or...?
- Rajesh Laddha:** Yes, it will be 11-12% going forward.
- Sushant Dalmia:** And just last one question. Some light on the foreign exchange gain of Rs. 16 crores in this quarter?
- Rajesh Laddha:** The foreign exchange gain has come again on account of the AS-11 introduction as I explained. We have been able to capitalize on ECB borrowings. Whatever loss was coming, we have capitalized it to our fixed assets based on the new AS-11 guidance which is about 34 crores.
- Sushant Dalmia:** It would be flowing to P&L in terms of 16 crores that would be capitalized?
- Rajesh Laddha:** This was lying as unrealized loss as of 31st December. So, from unrealized loss, it has moved to fixed assets during this quarter.
- Sushant Dalmia:** Ok. Thanks you.



- Moderator:** Thank you, Mr. Kaur. The next question is from the line of Ranjit Kapadia of HDFC Securities. Please go ahead.
- Ranjeet Kapadia:** This question relates to the domestic market. We had about 4000 field force in the last year and out of which 800 were added during the year. So, almost 25% added during the year which does not reflect in our top line. And in the next year also if all the field force is effectively utilized, the sales growth is not improving, it is not being reflected in the guidance. Can you throw some light on this?
- Sudarshan Jain:** Basically, the field force were added towards the later half of the last year and hence the productivity was realized only towards half of the year and you understand that the field force it takes time to stabilize in the Indian industry. You have to maintain contact with the doctors and compare to others and that have been one of the critical drivers for the growth this year as far as our growth is concerned.
- Ranjeet Kapadia:** The second question relates to Phensedyl. If you can throw some light on codeine situation. We have got a license to manufacture codeine and what is the development on the project and how soon we can get the benefit of it?
- R. Ananthanarayanan:** The process of setting the facility to be able to manufacture is ongoing. We are at the stage where we are getting all the tech transfer done through our partners. We should be able to have the facility hopefully ready in the next around 14-15 months' period.
- Ranjeet Kapadia:** And who are the partners?
- R. Ananthanarayanan:** That is from J&J.
- Ranjeet Kapadia:** Okay, J&J.
- R. Ananthanarayanan:** Noremco which is the control substances division of J&J.
- Ranjeet Kapadia:** And are we to pay some royalty to them?
- R. Ananthanarayanan:** No, not really.
- Ranjeet Kapadia:** Thank you very much and all the best.
- Moderator:** Thank you, Mr. Kapadia. The next question is from the line of Rohita Sharma of Enam Securities. Please go ahead.
- Rohita Sharma:** Hi. I have a couple of questions. First on the crams side. Just wanted to know have you witnessed any fresh delays in orders or cancellation or any kind of pricing pressure and the second on the domestic market, you been growing in an excess of 20% for the



last I mean FY09. So, any particular reason that you are giving an outlook of around 14%-15% growth?

**R. Ananthanarayanan:** I will respond on the crams one first. I think from the last that we have discussed, Rohita, that there has been no further delays or no impact from what we disclosed last.

**Rohita Sharma:** Ok

**Sudarshan Jain:** Basically, I was talking about the domestic market there is uncertainty at the moment regarding the growth projections of domestic market. The growth is around 10% of the market and we are talking on 14%-17% growth which is 50% more than the market growth.

**Rohita Sharma:** Thank you.

**Moderator:** Thank you, Ms. Sharma. The next question is from the line of Bhavita Nangrani of MP Advisors. Please go ahead.

**Nimish Mehta:** Hi. This is Nimish Mehta from Mehta Partners. I have a couple of questions on Minrad. First of all, you have mentioned about litigation on desflurane and I understand that the revenue guidance would be lower than what it used to be earlier but why do we also lower the EBITDA margin guidance for Minrad which was earlier 25% and now it is in the range of 20%-22%?

**N. Santhanam:** The answer is in your question itself. Desflurane has a higher margin. So, with the drop in the sales of Desflurane and also to some extent the litigation cost has pulled down with... we proposed our projected EBITDA margin.

**Nimish Mehta:** Okay and desflurane's contribution to total sales would be how much as of now?

**N. Santhanam:** We will not be able to give you that much of breakup. Today actually in the projection we have not taken any desflurane sale at all.

**Nimish Mehta:** I see, okay. And in the projections that you had given earlier you had kind of considered the...

**N. Santhanam:** Around 6.5 million dollars.

**Nimish Mehta:** Which was considered earlier?

**N. Santhanam:** Yes.



**Nimish Mehta:**

Okay. Second about the cost of acquisition of Minrad, you mentioned earlier that it was about 40 million dollars and some 7-8 million dollars including our RxElite and that 40 million also included 12 million dollars that you have provided for Minrad. So, I mean, any clarification on why it is now upward of 60 million dollar or so?

**N. Santhanam:**

Because it includes you know... even earlier we have said that we have given an interim funding of 12 million dollars.

**Nimish Mehta:**

That was in the way of a debt, right?

**N. Santhanam:**

It is in the way of loan which we had given earlier which is for the purpose of meeting certain capital expenditure as well as meeting the working capital requirement. So, the total cost of acquisition for us, the total money which we have spent on acquiring this is 62 million dollars.

**Nimish Mehta:**

62 million dollar. Okay, one last question on the exceptional item or on the 440 crores of expense towards VRS for the year... it is in the press release, in the accounts you have mentioned that it is related to the shutting down of Huddersfield facility but this expense has been incurred right from the first quarter of this year. So, does that mean that the facility was scaled down right from the first quarter of the year?

**Rajesh Laddha:**

There are two parts to that. One, we have had the small VRS running at our UK Morpeth side which is different from Huddersfield. The Huddersfield part is the entire closure cost which includes the redundancies which includes certain long-term agreement payments, etc., etc. So, there are two parts. One is the VRS which we have been paying in first, second, and third quarters and the last part is coming from the Huddersfield closure which happened in quarter four. We have provided for everything but it has not been paid. So, the process is on now. By 31<sup>st</sup> July we believe that everything will be sorted out.

**Nimish Mehta:**

I see. And in the first three quarters also as I see the exceptional item is roughly to the extent of 73 crores and in that... I do not know whether the number...

**Rajesh Laddha:**

No, no. The total amount also is 45 crores. It is in million, so...

**Nimish Mehta:**

Okay, fine. And finally, but I would like to know that you mentioned about scale down even in the Morpeth facility. So, how many people have been reduced?

**Rajesh Laddha:**

That is not a scaledown. That is to optimize the productivity there about 30 people during the year have gone at morpeth site. So, it is



not a scaledown really from that perspective. All production levels and in fact we have increased the activity at Morpeth. It just the productivity improvement exercise which has happened at morpeth..

- Nimish Mehta:** Ok Thanks
- Moderator:** Thank you. The next question is from the line of Akshat Vyas of Emkay Global. Please go ahead.
- Manoj Garg:** Yeah, if you see that you have given the top line guidance of 16%-17% and EBITDA margin improvement of 100-150 basis points and still you... especially the year I mean it is in the range from 12%-13% kind of growth. Do you see increase, depreciation or increased interest rate? What could be the reason why, you know the earnings will be only in the line by 12-13% even despite increase in the revenue and EBITDA margins?
- Rajesh Laddha:** The interest cost will go up because the Minrad acquisition which has happened in only February-March period. Last year interest includes on that acquisition account only for 1-1.5 month. The impact of that for next year will be the entire 12 months. And also depreciation will significantly go up because of the Minrad acquisition because we will be installing vaporizers for our Sevoflurane product significantly.
- Manoj Garg:** So, this 175 crores kind of capex which you have estimated this year. Is it primarily relating to installation of vaporizers and all?
- Rajesh Laddha:** Yes, about 75-100 crores of this will be on account of Minrad.
- Manoj Garg:** On account of Minrad. And the balance 100 would be?
- Rajesh Laddha:** Balance will be a routine capital expenditure in India and a little bit in UK.
- Manoj Garg:** Okay. Another question like the time of your last Conference Call, you spoke of around 71 crores kind of one-time hit for this Huddersfield facility but if you see that the actual hit for this year comes some around Rs. 33 crores. So, do we expect some more hit in the next quarter?
- Rajesh Laddha:** No, hit has been lower this year because we have had some gain in US. We do not expect any exceptional hit in next year.
- Manoj Garg:** So, the total hit on account of Huddersfield facility would be Rs. 33 crores?



- Rajesh Laddha:** Net will be Rs. 30 crores. We have booked everything on account of Huddersfield. We have provided for this year.
- Manoj Garg:** If you see the last three months' performance of Phensedyl, I think the growth has been in the range of 49%-50%. Even despite of the higher base. And I have assumed that even the last quarter there was not shortage of codeine in Q4FY08 also. So, how have we been able to manage such a high growth in products like Phensedyl which is more of a mature kind of product?
- Sudarshan Jain:** Like say if you see, last year growth was relatively less because of the stock issues. So if you see, it is more of a comparative figure. There is no exceptional increase as far as Phensedyl is concerned and you also need to take it into account that it is a seasonal product. So, the growth in winter month is relatively higher than the other months.
- Manoj Garg:** Okay. Sir, like I think Dr. Swati Piramal has just indicated a few days back that you are looking for an acquisition US or Europe. Anything which you would like to put some light on that?
- Ajay Piramal:** No, I think that was...what was meant was that if there is some strategic acquisitions which create value, we may look at it. There is nothing definite in that.
- Manoj Garg:** That's from side. Thank you.
- Moderator:** Thank you, Mr. Vyas. The next question is from the line of Vinod Puspanathan of Reliance Money. Please go ahead.
- Vinod Puspanathan:** Hello. In fact, all my questions have been answered but I just wanted to know what was the incremental revenue contribution from the Heamaccel this year?
- N. Santhanam:** 30 crores. What is the target which we acquired... I suppose you are talking about that? PlasmaSelect, the German company, that is 30 crores.
- Vinod Puspanathan:** Thank you.
- Moderator:** Thank you, Mr. Puspanathan. The next question is from the line of H.R. Gala of Quest Investment Advisors. Please go ahead.
- H.R. Gala:** Hi, congratulations for good set of numbers. Just wanted to know a couple of things. How much is the total at consolidated level, cash and equivalents that we have in the balance sheet?
- Rajesh Laddha:** About 100 crores. 90-100 crores.



- H.R. Gala:** The second question is this GCC sales you have started showing in the press release only from this quarter, so, can you tell me how much was in the December quarter if you have that number against 56.34 crores.
- Rajesh Laddha:** GCC would be about 30 crores in quarter three.
- H.R. Gala:** 30 crores, okay. And the reason for not giving any growth on GCC, is it because of the Pfizer issue that you have not been able to renew all the contracts?
- Ajay Piramal:** GCC is the inhalation anesthetic business and Haemaccel business. On that, we have said is 450 crores. Pfizer comes in what is the Pharma Solutions or the custom manufacturing.
- H.R. Gala:** Yes, I am sorry. I was referring to Pharma Solutions, 1000 crores.
- Ajay Piramal:** We have said that that will be the same because we still expect that there will be some inventory reduction and so on.
- H.R. Gala:** Thanks
- Moderator:** Thank you, Mr. Gala. The next question is from the line of Neelkanth Mishra of Credit Suisse.
- Neelkanth Mishra:** Thanks. I have a couple of questions. One is the concept of para IV challenges, I mean one of the reasons why you stayed away from this was to keep your customers in CRAMS comfortable. Now, you are getting back into that game again. Is there any strategic conflict or you think this is a one of and one-occur again?
- Ajay Piramal:** No, first of all, there is no strategic conflict. Please understand that this Para IV challenge is only in the space of inhalation anesthetics which is a niche area. None of our customers are really in that area. As you see, there is only Abbott and Baxter who are playing in this inhalation anesthetic space. And Abbott does not have any intellectual property as far as desflurane is concerned. So there is no conflict. We still continue with our strategy of not doing Para IV challenges in the mainline custom manufacturing business.
- Neelkanth Mishra:** Thank you. And in the domestic sales growth I was looking at the contribution by therapeutic area. The four therapeutic areas of respiratory, anti-infectives, anti-diabetic and others are about 80% of the total domestic market growth. Now, anti-diabetic, I can understand that seems to be a very fast growing therapeutic area. Most others are growing at...the market growth itself is of 10%. So, it is you know it is extremely good that you are growing fast but how sustainable is this growth?



**Ajay Piramal:**

That is why if you see we have projected only 16% next year but really the reason why we have grown in the respiratory is because in the previous year there were some issues on Phensedyl availability which were removed this year. We have got the new brands in anti-infectives which you have been able to significantly grow early on, when they were with Khandelwal, they were not putting in as much effort as we have done. So, that is the reason why these growth rates are there.

**Neelkanth Mishra:**

Understood, and what would be the contributors to others if I may ask I know it is not very important but just curious?

**Ajay Piramal:**

So, you want others on which the therapeutic area breakup?

**Neelkanth Mishra:**

Yes, that contributes to others.

**Rajesh Laddha:**

Any brand which cannot be classified in the above TAs...have been classified as others.

**Ajay Piramal:**

Some are gynecological products and certain others.

**Rajesh Laddha:**

Some of those products are really doing well in the market.

**Neelkanth Mishra:**

So, you think gynecology is the big part of that?

**Rajesh Laddha:**

Two to three TAs are there, I mean like that. One is...

**Sudarshan Jain:**

Relatively very small TA is there

**Neelkanth Mishra:**

Okay, but those...so the growth in others is completely market driven?

**Ajay Piramal:**

Yes.

**Neelkanth Mishra:**

See, if you look at your release to the stock exchange, what we actually take us completely as material costs. If you split it between consumption of raw materials and purchase of traded goods, the purchase of traded goods year-on-year, there is almost doubling.

**Rajesh Laddha:**

All new products which we are launching initially we are not manufacturing it ourselves. We are buying it initially for some period of time before we stabilize the product in-house. And our new products are really doing well for the last 12 to 18 months. That is the reason that component is going up. Though the component is smaller in relative terms but that is the reason and eventually we then move it to our plants either at Baddi or Mahad depending upon the other...



**Neelkanth Mishra:**

That sounds logical. But this is doubled. And the new product you said is only about 7% of sales.

**Rajesh Laddha:**

This is about new products launched during this year. There are products which were launched last year as well are really doing well now. Normally, we take two years 24-months definition for new products, products which got launched during last financial year are really doing well now.

**Neelkanth Mishra:**

Thank you.

**Moderator:**

Thank you, Mr. Mishra. The next question is from the line of Lokesh Agrawal of ICICI Bank. Please go ahead.

**Lokesh Agrawal:**

Good evening, everyone. Can we get some sense on the geographical breakup of the Healthcare Solutions revenues?

**Sudarshan Jain:**

No, we do not have at this moment.

**Lokesh Agrawal:**

Okay, now can we also understand this clinical trial packaging business which Piramal is going into, can we understand the business on this, clinical trial packaging?

**R. Ananthanarayanan:**

When you say clinical trial services or clinical packaging, what that means is when clinical materials are manufactured, be it tablets, veils or ampoules, they all need to be packed in a customized fashion to be able to then go in for clinical trials. Now, each of those packaging requirements are very specific to the type of clinical trials, are specific to the phase of clinical trial, and have to undergo very specific packaging requirement in that they are either packed unit-wise, they are packed with certain labeling instructions, their blisters are voluted and they need distribution in cold chain so that very, very controlled, very sort of label-specific activity that goes on, that needs to be designed and packed in line with the clinical trials that take place. So, that is the kind of services that we are offering at Morpeth

**Lokesh Agrawal:**

Okay, and what are the revenues we are expecting from this?

**R. Ananthanarayanan:**

It is still at the little early stage which is why at this point of time we are just building and ramping it up. I think clearly in terms of revenue projections, it will take little bit more time to really work out and present what it would really entail.

**Lokesh Agrawal:**

Okay, now coming to the therapeutic breakup which you have given this time and this quarter the others part which the previous analyst was also referring to. Now this others part has decreased by around 44% in this quarter from the year-on-year. So, what has been the reason behind that?



- Rajesh Laddha:** You are talking about the business mix?
- Lokesh Agrawal:** Yes, business mix. Sorry, not therapeutic...
- Rajesh Laddha:** For business mix, we have divested some of the business which was there in quarter 4 of last year which is not included in this year's result. That's the primary reason. Plus rest of the reason is that other businesses are actually degrowing in this quarter, diagnostic and the MMBB part of it.
- Lokesh Agrawal:** Thanks
- Moderator:** Thank you, Mr. Agrawal. The next question is from the line of Girish Bakhru of JM Financial. Please go ahead.
- Girish Bakhru:** Yes, hi. I just wanted to get a sense on this molecule distributional of phase 1, phase 2, and phase 3. If you can give an idea of how much revenue contribution are we getting from these different phases?
- R. ananthanarayanan:** We do not show it differently, but obviously in terms of early phase, the size of revenues from the projects are much smaller compared to the late phase or launch products, but more importantly the reason why we present this is that it is significantly important to show the presence in the early phase, growth in early phase, and health of the business pipeline because presence more here is what is going to give us the flow through from a funnel into phase 3 launch and post-launch manufacture. So, it is more important to look at in terms of the health of the pipeline rather than look at the revenues per se.
- Girish Bakhru:** Right. I just wanted to reconfirm how much of the growth in the Indian assets is transferred from Huddersfield facility?
- R. ananthanarayanan:** At this point, we just have some validations going on. So, really out of this growth, it's none of them has been growth from transfer to other field facilities. So only being validated and the validation will go on and get completed during this financial year.
- Girish Bakhru:** So, by that standard, the full year growth rate of 74% or quarter growth rate are stumbling of doubt, this will be carried out in the similar line?
- Ajay Piramal:** No. When we have projected for next year, we felt 15% growth rates from assets out of India.
- Girish Bakhru:** Right, within India, how will it shape up in the next quarter. Can you give a sense on that?



- Ajay Piramal:** The whole year we will grow by 15% in India assets.
- Girish Bakhru:** All right. And just lastly on the others category in this year's mix, what exactly does it contain, which businesses are in the other's category?
- Rajesh Laddha:** These are some of our API business. We also have vitamin business and are equipment for lab diagnostic and patient care business.
- Sagar Gokani:** Also includes other operating income
- Girish Bakhru:** Thanks.
- Moderator:** Thank you. The next question is from the line of Amit Hiremath of Enam Asset Management. Please go ahead.
- Amit Hiremath:** Yes, hi. Thanks for taking my question. It is related to the global business portfolio where we have got now 239 molecules under our agies. According to the first half release, we had some 134 molecules in our kitty and now it has increased to 239. So, at that time it was specifically mentioned that there were new wins and not the finalized contracts. Now, if you can just give me a distribution from these 239 molecules, how much are finalized and which are still new wins?
- R. Ananthnarayanan:** It's little difficult that way because really the numbers come all through the year in terms of some products that either fail in some of the clinical phases and followup. There are some that are new projects that commenced. So, it is a combination or net impact of some that do not go through from one phase to the other, some that fail in clinical trial plus new wins that commenced. So, to that extent it is always going to be a bit difficult to quantify exactly how much is new and how much is sort of old ones.
- Amit Hiremath:** And, even in the second half if we go by the quantity, we have got fewer molecules compared to the first half. Any reason behind that?
- Sagar Gokani:** Amit, these are the net numbers. The slide that we had in the first half is only our new wins. There was no dropouts, which are included in those numbers. So, it is strictly not comparable.
- Amit Hiremath:** Okay. Great. Now, moving towards this Healthcare Solutions business, we in this particular business lifestyle products contributed some 31.4% of the overall sales. Now, for this FY10, have you set any target to increase it further to, say 35% or 40%?



- Sudarshan Jain:** Generally, it will be difficult to give that number, but given the fact that, Diabetes care is a good area in the Indian market and cardiovascular is a good area, our thrust is on that business.
- Amit Hiremath:** And from the field force of 4000 guys, what percentage is actually concentrated on this lifestyle?
- Sudarshan Jain:** I may not like to get those details, but overall the very fact is that there is a thrust on the business. We would like to go that way.
- Amit Hiremath:** Thanks
- Moderator:** Thank you, Mr. Hiremath. The next question is from the line of Sriram Rathi of Centrum Broking. Please go ahead.
- Sriram Rathi:** Yes, hi. Congratulations on good set of numbers. This forex loss of Rs 82 crores is fully realized. Right?
- Rajesh Laddha:** It is fully realized.
- Sriram Rathi:** Fully realized. Okay. Now taxes for the full year is very low. I mean it is just 5.2% effective tax rate coming out to be... What could be the reason of this? Is it because of Minrad losses or?
- Rajesh Laddha:** We got some deferred tax asset. We have been able to create that, because of that it has been lower this year.
- Sriram Rathi:** So, if I look at the past four years, it has been consistently decreasing. So, what could be taken as an assumption for this?
- Rajesh Laddha:** Assumption, we have been saying about 11%-12% should be the rate.
- Sriram Rathi:** 11%-12% should be the rate effectively. Okay. And this exceptional item of 45 crores, you indicated that Huddersfield facility closure will take around 71 crores kind of one-time expense and plus there is some 14 crores of VRS?
- Rajesh Laddha:** Yes, we have had some gain in U.S. So, this is the net amount and what we are saying is that the entire 71 of 75 crores Huddersfield has been provided for this year.
- Sriram Rathi:** gain, what on account of some...?
- Rajesh Laddha:** Through Minrad acquisition.
- Sriram Rathi:** Thanks



- Moderator:** Thank you, Mr. Rathi. The next question is from the line of Bhavin Shah of Dolat Capital. Please go ahead.
- Bhavin Shah:** Good evening and congratulations on the results. Sir, if you could share what would be the Minrad's contribution of the GCC business, of 132 crores roughly?
- Ajay Piramal:** We have combined, both the Minrad's and Inhalation Anesthetics business in India as well, it will be difficult to separate. Now, it will become part of the whole thing, but Minrad will be between 55-60 million dollars.
- Bhavin Shah:** That's the future projection. Right, sir?
- Ajay Piramal:** No, for 2010.
- Bhavin Shah:** Yes, 2010 but for this quarter, is it possible for you give us a sense how much...?
- N. Santhanam:** Minrad, we got into this only on 28<sup>th</sup> of February 2009. So, it is just a month's result of Minrad is included in this.
- Bhavin Shah:** Okay. So, for one month, you really not make much?
- N. Santhanam:** Yes. There is only one month's sales and profit.
- Bhavin Shah:** Thanks
- Moderator:** Thank you, Mr Shah. The next question is from the line of Saion Mukherjee of Nomura. Please go ahead.
- Saion Mukherjee:** Thanks for taking my question. My question is related to Minrad. What is the operational, like, are we already seeing 20%-22% EBITDA margin at Minrad?
- N. Santhanam:** Right now, the production volume is lower. We are working on ramping up the production as we have set the initiative for the year 2010. The yield is lower. In the past, Minrad's operation, when they were operating it was incurring a loss. So, we are working on these things and it is actually giving a positive EBITDA right now.
- Saion Mukherjee:** Okay, but it would be much lower and for the full year you expect it to end at 20%-22%?
- N. Santhanam:** That's right.
- Saion Mukherjee:** Okay and the second question is related to desflurane. What is the timeline for launching this product now?



- N. Santhanam:** Under the U.S. law, if anyone is challenging whatever the ANDA which we have filed, there is an automatic 30 months stay. But we are hopeful of... that is the reason why we are working with our lawyers and other strategies, as I said earlier; we will not be in a position to share. We have been advised by the U.S. attorneys not to share those details. So, we are hopeful of getting that earlier.
- Saion Mukherjee:** Okay. On the patent on which you have been sued, what is the expiry date for that patent?
- N. Santhanam:** This is only the closure of the patent, which will be expiring in 2011.
- Saion Mukherjee:** Thanks
- Moderator:** Thank you, Mr. Mukherjee. The next question is from the line of Nimesh Desai of Motilal Oswal Securities. Please go ahead.
- Nimesh Desai:** Yes, good evening everybody. I have a few questions. One was on what would be your debt equity target for next year FY10 because last time there was some indication coming through that, you will be looking at reducing that in FY10?
- Ajay Piramal:** So, it will be about between 0.6 and 0.7.
- Nimesh Desai:** 0.6 to 0.7. Okay. Second question was on this impact of inventory reductions being undertaken by customers in the CMG business. How long do we expect this impact to last?
- Ajay Piramal:** I think it in the first quarter to six months.
- Nimesh Desai:** First quarter to six months. So, second half onwards probably this impact may not be so significant.
- Ajay Piramal:** Yes.
- Nimesh Desai:** So, in that context the 15% growth in India-based supplies, should we assume that second half would be much better than first half in terms of...?
- Ajay Piramal:** The growth will be more in second half compared to first half year.
- Nimesh Desai:** Okay, but first half we do expect positive growth?
- Ajay Piramal:** Yes, In India business, yes. Overall, we have said that we will be flat at the same level.
- Nimesh Desai:** Okay. The third question was this of late we are seeing some large global M&A deals being announced in the Pharma space, Pfizer



acquiring Wyeth, and Merck acquiring Schering. You think this will in any ways impact your early phase or developmental pipeline in the CMG business?

**Ajay Piramal:** Frankly, in this space, there should be growth in the future because I think one of the biggest issues, if you see that they have announced is always cost reduction. The way they are justifying the acquisition is cost reduction. One of these will be through closing probably sites or shifting some production. So, in the long run...

**Nimesh Desai:** That is as far as the manufacturing part or the commercialized molecules go. I am taking about the developmental pipeline.

**Ajay Piramal:** Even in development phase, they will do some cost reduction. In fact there will be significant cost reduction, I think. Secondly, but just to tell you that the integration itself will take some time. It may not happen in this year.

**Ajay Piramal:** And also the pipeline will go up, both of them combined. That is what they hope.

**Ajay Piramal:** I do not see any impact in the current financial year, frankly. I do not think the integration will also be done in this year.

**Nimesh Desai:** Okay, fine. And just a couple of more questions. One was... you have done quite a bit of acquisitions in the Pathlab space in the last year. This trend will continue in FY10 or we should not expect that to continue?

**Ajay Piramal:** This year we will not do as many acquisitions there. We will not do probably hardly any acquisition if not at all. But I think now, this year we will do more of integration.

**Nimesh Desai:** Okay. And the last question was in your guidance. Could you share with us what exchange rates have been assumed, specifically in respect to US dollar and British pound?

**Ajay Piramal:** These are rates which... frankly they are conservative rates.

**Nimesh Desai:** Okay. So, conservative in the sense they are lower than the current prevailing rate. Is that the way we should understand that?

**Ajay Piramal:** Yes.

**Nimesh Desai:** Okay. And the related question to that is any forex hedges, anything that could impact FY10 numbers?



- Ajay Piramal:** No, now there is nothing which is unrealized which has not been accounted for. Everything that is there has been accounted for now.
- Nimesh Desai:** Thanks a lot.
- Moderator:** Thank you, Mr. Desai. The next question is from the line of Mr. Nitin Agarwal of IDFC SSKI. Please go ahead.
- Nitin Agarwal:** Hi, just one... on the phase 3 pipeline in the pre-launch molecules you were talking about, is there anything that we can expect which can get into commercialization over the next 12 to 18 months?
- R. Ananthanarayanan:** Potentially, it could. There are three projects out of those which are in pretty advanced stages of the phase 3 work as we have been disclosing. So far, no negative results on them. So, sometimes no news is good news in phase 3 and it continues that way. So, still keeping fingers crossed on that.
- Nitin Agarwal:** And secondly on the forex gain that you have reported for the quarter, what is that forex gain on account of?
- Rajesh Laddha:** This is the AS-11, new provision for accounting standard 11. We have, on the long-term liability, external commercial borrowing, we have capitalized about 35 crores which was lying in unrealized losses until 31<sup>st</sup> December. So, that is the impact, which has come during the quarter.
- Nitin Agarwal:** Okay, do you think none of these impacts would be really visible from here on...
- Rajesh Laddha:** Yes.
- Nitin Agarwal:** I mean, what is the outstanding forex liability which is there?
- Rajesh Laddha:** Nothing.
- Nitin Agarwal:** You know, but in terms of your ECBs and forex loans that would be around?
- Rajesh Laddha:** Unless rupee-dollar adversely moves further, it goes to 60 rupees or something like that, then there will be an impact and that is all the...
- Nitin Agarwal:** I understand but what is the amount of these liabilities?
- Rajesh Laddha:** ECB is about 40 million. ECB plus 5 million of FCNR.
- Nitin Agarwal:** Sir, 45 million dollars of forex loans are there.



- Rajesh Laddha:** Yes, in India.
- Nitin Agarwal:** And are there some other loans that are sitting under... some of the other subsidies?
- Rajesh Laddha:** We do have in GBP at swiss level. But, that is given in GBP. So, there is no adverse movement there.
- Nitin Agarwal:** But how much would that be?
- Rajesh Laddha:** Our total borrowing in currency other than rupees is about Rs. 660 crores out of 1340.
- Nitin Agarwal:** 660 crores
- Rajesh Laddha:** And 680 is in Indian rupees.
- Nitin Agarwal:** 660, so about 45 you are saying is in dollars. The remaining is in GBP.
- Ajay Piramal:** Yes, but you need to understand there is no exchange variation in GBP.
- Nitin Agarwal:** Fair enough
- Ajay Piramal:** Not because of GBP but nature of that taking. Because It is taken for UK operation, therefore, irrespect of what happened, it remains the same.
- Nitin Agarwal:** Got it thanks.
- Sagar Gokani:** Can we have last question, please?
- Moderator:** Yes, sir. Thank you, Mr. Agarwal. The last question is from the line of Akshat Vyas of Emaky Global. Please go ahead.
- Akshat Vyas:** Thanks. My question has been answered. Thank you very much.
- Moderator:** Thank you, Mr. Vyas. Ladies and gentlemen, that is the last question of the day. I would now like to hand the floor back to Mr. Sagar Gokani for final remarks.
- Sagar Gokani:** Thank you for your time. Please feel free to get in touch with us in case you have any other clarifications or details required. Thank you.
- Moderator:** Thank you. Thank you, gentlemen of the management of Piramal Healthcare Limited. Ladies and gentlemen, on behalf of Piramal



Healthcare Limited, that concludes this conference call. Thank you for joining us and you may now disconnect your lines.