



“Piramal Healthcare Limited Q3 FY09 Earnings Conference Call”



MODERATORS : **MR. AJAY PIRAMAL, CHAIRMAN – PIRAMAL HEALTHCARE**
MR. N. SANTHANAM, EXECUTIVE DIRECTOR & CHIEF OPERATING OFFICER – PIRAMAL HEALTHCARE
MR. MURARI RAJAN, EXECUTIVE DIRECTOR, PIRAMAL GROUP
MR. RAJESH LADDHA, CHIEF FINANCIAL OFFICER – PIRAMAL HEALTHCARE
MR. SAGAR GOKANI, INVESTOR RELATIONS TEAM – PIRAMAL HEALTHCARE
MR. PRASAD MHATRE, INVESTOR RELATIONS TEAM – PIRAMAL HEALTHCARE

Moderator: Ladies and gentlemen good evening and welcome to the Piramal Healthcare Limited Q3 FY09 results-analyst conference call. This is Rochelle, the Chorus Call, conference operator. As a reminder for the duration of this presentation, all participants' lines are in the listen-only. 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 call, please signal an operator by pressing * and then 0 on your touchtone phone. Please note that this conference is being recorded. At this time I would like to turn the conference over to Mr. Sagar Gokani from Investor Relations. Thank you and over to you Mr. Gokani.

Sagar Gokani:: Good evening to all of you. Welcome to Piramal Healthcare Limited's third quarter results conference call. Joining me on the call Mr. Ajay G. Piramal, Chairman; Mr. N. Santhanam, Executive Director and Chief Operating Officer; Mr. Murari Rajan, Executive Director, Piramal Enterprises; Mr. Rajesh Laddha, 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 analyst presentation that we have sent out. These are also posted on our website www.piramalhealthcare.com on the investor section. I would request to kindly send your queries which remain unanswered during the call to our email ID investor.relations@piramal.com. As usual Mr. Rajesh Laddha will discuss the financial highlights for the quarter and then the Chairman will speak about broad developments and outlook for each of our businesses. I would now like to handover to Mr. Rajesh Laddha.

Rajesh Laddha: Thank you Sagar. Good evening to all of you. I am going to take you through the Quarter 3 and nine months' financial results for Piramal Healthcare. The financial highlights are based on consolidated financial results of Piramal Healthcare Limited.

The consolidated numbers apart from including the operations of Piramal Healthcare Limited, the parent company, also contain the results of its subsidiaries and joint venture companies, namely Torcan Chemical and NPIL Pharmaceuticals UK Limited, Allergan Joint Venture, Arkray-Piramal Joint Venture, Piramal Diagnostic Business, and Tangent Data SRL.

With this background, let me now take you through the numbers for the quarter.

- Total revenue that is net sales and services for Q3 has grown by 14.9% to Rs.8.3 billion from Rs.7.2 billion.
- The operating profit before interest, depreciation, and tax and without considering FOREX related losses for the 3 months ended 31st December, 2008, amounted to Rs.1.6 billion compared to Rs.1.1 billion during the same quarter last year. Similarly, operating margin before FOREX related losses was up from 15.7% in Q3 FY08 to 19.2% in Quarter 3 of FY09.
- During the quarter, we have accounted for the FOREX loss of Rs. 351.5 million. The operating profit before interest, depreciation, and tax for the 3 months ended 31st December, 2008, amounted to Rs. 1,246.3 million compared to Rs.1,211.8 million during same quarter last year. Operating profit margin and this is after accounting for FOREX losses is 15.0% for Q3 FY09 as compared to 16.7% in Q3 FY08.
- Tax rate inclusive of deferred tax and fringe benefit tax for the 3 months ended Dec 31st, 2008, is at about 10.4% of profit before tax.
- Net profit stands at Rs. 598.7 million in the third quarter of 2009 as compared to Rs.726.4 million in the same period last year and this drop is primarily on account of FOREX loss as I mentioned earlier.
- So, net profit without considering FOREX was Rs.918.9 million as compared to Rs.710.7 million for the same period last year.

- EPS for the quarter is at Rs.2.9 per share after accounting for the FOREX loss as compared to Rs.3.5 per share for the same period last year.
- Correspondingly, EPS before FOREX loss for the quarter is Rs.4.4 per share as compared to Rs.3.4 per share for Q3 FY08, thus registering a growth of about of 30.0%.

I will take you through some balance sheet highlights before I move through YTD numbers.

- Total debt as of 31st December, 2008, was Rs.12.7 billion with a debt equity-ratio of approximately 1.0. There has been an increase of debt by Rs.5.5 billion in the last 9 months. This along with the cash that we have generated in the 9 months of Rs.3 billion would have total cash available to us at about Rs.8.5 billion and the utilization of this cash is as follows:
 - We have incurred capital expenditure of about Rs.1.3 billion out of this cash.
 - We have done acquisition and spent on acquisition of about Rs.3 billion.
 - Our operating working capital has gone up by Rs.1.3 billion.
 - We have had a dividend pay out of about Rs.1 billion during this 9-month and
 - We have increase in our other current assets to the tune of about Rs.1.9 billion.
- The other current assets primarily have gone up during the last 9 months and the major items for this increase are:
 - there is an inter-corporate deposit to Piramal Life Sciences of Rs.750 million.
 - We have given working capital funding for recent acquisition which is yet going through the process of Rs.650 million.
 - We have also extended a loan to another acquisition target in US, RxElite Rs.161 million and

- We have a MAT credit and advance taxes to the tune of about Rs.130 million.

These were the major items, which contributed to increase in the current assets during the 9 months.

I will now quickly take you through the YTD 9 months' numbers.

- The total revenue that is net sales and service for 9 months have gone up by 16.3% to Rs.24.3 billion from Rs.20.9 billion.
- The operating profit before interest, depreciation, and tax and without considering FOREX related impact for the 9 months ended 31st December, 2008, amounted to Rs.4.8 billion compared to Rs.3.2 billion during same period last year.
- Similarly, operating profit margin before FOREX related losses was up from 15.4% in 9 months of FY08 to 20.0% in nine months of FY09. During the 9 months, we have accounted for a FOREX loss of Rs.990.1 million. This includes a net unrealized loss of Rs.590 million due to mark-to-market restatement of foreign currency liabilities and assets.
- The operating profit before interest, depreciation, and tax for the first 9 months ended 31st December, 2008, amounted to Rs.3.9 billion compared to Rs.3.4 billion during the same period last year. Operating profit margin was 15.9% for first 9 months of FY09 as compared to 16.2% in 9 months of FY08.
- For consolidated results, the tax rate inclusive of deferred tax and fringe benefit tax for the 9 months ended 31st December, 2008, was 11.7% of profit before tax.
- Net profit for the 9 months was flat at Rs.2 billion after accounting for all FOREX losses and hence net profit without considering FOREX losses is up to Rs.3 billion as compared to Rs.1.9 billion for the 9 months of FY08.

- EPS for 9 months is constant at Rs.9.6 per share after accounting for all FOREX losses and hence EPS without considering FOREX was Rs.14.5 per share as compared to Rs.9.2 per share for the same period last year, thus registering a growth of about 58%.

These were the financial highlights. I would now like to handover to Mr. Ajay Piramal, the Chairman for business wise highlights. Thank you.

Ajay Piramal:

Good evening, welcome and thank you for participating in our quarterly results call. The third quarter results are with you. In the third quarter, our consolidated revenues have increased by 14.9% to Rs.8.3 billion. Revenues are up by 16.3% for the whole year to Rs.24.3 billion for the first 9 months.

The domestic formulations business, I will talk to you about.

- We continued to witness strong growth in the domestic formulations business:
 - There have been some concerns in the press about the slowdown in the domestic formulations business; however, our performance continues to be robust. The sales of the healthcare solutions business, which is the domestic business, were up by 21.9% to Rs.4.1 billion for this quarter and are up by 23.2% to Rs.12.1 billion for the first 9 months.
 - As you can see from slide #12 of the presentation, we have outperformed the market in almost all the therapy areas and have grown particularly well in cardiovascular, dermatology, gastrointestinal, and respiratory therapy areas. We have 12 brands in the top 300 brands, all have shown good growth.
 - We continue to invest in sales and marketing and you have seen that marketing spend as a total percentage has actually gone up from 11.6% to 13.5%. That is because all the savings that we are doing in terms of staff cost, all the savings in terms of other expenditure, G&A we are investing back into the business, investing in marketing and sales.

- During this year, we also did the acquisition of 2 brands from Khandelwal Labs, CEFI and Anafortan and I am very happy to say that they have been seamlessly integrated into our operations.
- I would like to say that in the last 2 or 3 years, when a lot of people had doubts about the domestic business is when we have been investing in it, investing in increasing the field force, investing in more activities in the market place to sales promotion and marketing and these are now bearing fruit in this year.
- Our share in the market has actually gone up from 3.7% in November 2007 to 4.3% in the current year. We continue to remain excited about this domestic market and we feel that our strong presence in the field in terms of a large field force, strong brands and a robust new product pipeline should help us to continue to grow in this phase.

I now come to the Pharma Solutions Business.

- In the Pharma Solutions Business or the Custom Manufacturing Business, the focus as we have been saying all through out the year has been on growing profitability, on growing the sales out of the assets in India, and whereas the Revenues for the third quarter have gone up by 3.6% to Rs.2.6 billion. The revenue from assets out of India in this quarter have gone up by 45% or for the first 9 months, these have gone up by 51% compared to the same period last year.
- The growth in this business should have been higher than what it is and it is lower than our expectations. The reasons for this are as follows:
 - First of all we do find that in the large pharmaceutical companies that we are serving, there is a bit of a slowdown in the sense of their reducing the inventories in the supply chain. They are cleaning up these inventions and therefore what we see is that there are lower orders than what there were before. After talking to them, they still feel confident about the sales that they are making to customers but they would want to rationalize on their inventory.

- A small part of our business from Canada, which constitutes about 4% of our total turnover is dedicated to smaller and emerging biotechs in the United States. There is a slowdown in those businesses as capital funding for them dries up and therefore we are finding that going forward, there is some stress on the sales out of Canada which as I said is only about 4% of our sales. The sales in the Canada operation Torcan is about Rs.120 Crores.
- There were some questions on Morpeth, as what happens on the Pfizer contract....and I am happy to say that we have negotiated with Pfizer successfully for products which were up for renewal in November 2008 and we are in the process of negotiating the further contract for products, which were to lapse in this year and we feel confident that Pfizer and other customers put together the turnover of Morpeth would be increasing. The total dependence on Pfizer contract in the next, from 100% two years ago, will go down to 65% in the next couple of years.
- Our diagnostic services recorded sales of Rs.425 million, which is a growth of 35%.
- And therefore, if I was to summarize our performance and let me come to the guidance now:
 - At the beginning of the year we had said that we would grow our top line at 16%. For the first 9 months we are at this level of 16%.
 - We have said that sales from CMG assets would be Rs.400 Crore for the year. We have done Rs.230 Crores in the first 9 months and we believe that for the whole year, we should be near a number of Rs. 370 Crores.
 - We had said that operating profit margin at the beginning of the year would be 20.5%. We are at the end of the first 9 months at 20% and we believe that for the full year, we should meet our guidance.
 - EPS for the full year was guided at Rs.21.0 per share. At the end of the first 9 months without any FOREX loss, it is Rs.14.5 and we believe that for the year we should be in line with our guidance.

Therefore, overall if I would say that we will meet our guidance on most of the parameters and the Branded Formulations Business in India with Custom Manufacturing, Branded Formulations, and Pathlabs we have a balanced business Portfolio to ensure that there is no volatility in revenues and earnings in this challenging times, we are now ready to take your questions.

Moderator: Thank you very much. Ladies and gentlemen, we will now begin the question and answer session. Anyone who wishes to ask question at this time may press “*” and then “1” on their touchtone phone. To withdraw question from the queue, you may press “*” and “2”. Participants are requested to use only handset while asking a question. Anyone with a question may press “*” and ‘1’ at this time. The first question is from the line of Prashant M of Nomura, please go ahead.

Saion: Hi, this is Saion from Nomura Just I missed on this increase in current assets that you mentioned. Can you just repeat that to the various subsidiaries and for acquisition the money that has been given?

Rajesh Laddha: Yes, as we have said that the current assets have gone up by Rs.190 Crores approximately out of which we had given a loan to our associate company Piramal Life Sciences of about Rs.75 Crores. Our working capital loan, which we had given for the purposes of acquisition of Minrad which we announced last December, we have given our working capital funding or a lifeline of about Rs.65 Crores. These are the numbers of first 9 months. So, we have also given a loan to RxElite, which is a distributor of Minrad in US, which is about Rs.16 Crores and we have some MAT credit and advance tax increase to the tune of about Rs.13 to Rs.14 Crores. So, these are the main contributors to current assets increase basically.

Saion: Do you think this Piramal Life Sciences, there would be further increase in the loan given over the rest of the year and in FY10.

Ajay Piramal: Let me answer that question. As far as Piramal Life Sciences is concerned, as you are aware we had spun it off last year and there was a plan to raise private equity or get strategic investor in it. There was a lot of interest as far as that funding was concerned, but with the tumbledown in the markets, we were not getting the valuation that we felt or the company felt that they needed to get. And therefore we have given them a temporary loan. This number is as Rajesh said about Rs.75 Crores. I think it may go up a bit in the next few months, but it would be around probably Rs.100 Crores in the next few months and I think that after that they are making arrangements, I understand to get alternative funding, which should be in place over the next 3 to 6 months.

Saion: Do you earn any interest and you are booking any interest from this loan?

Ajay Piramal: Yeah, so we are booking interest. In fact the interest that we charge is higher, is at least a 200 basis point higher than what other cost that we are incurring.

Saion: So how much would be the interest income this year from this loan this quarter?

Ajay Piramal: Yeah. We will give you that number. It will be about Rs.2.5 Crores for the quarter.

Saion: And my second question is on domestic market. Do you think this growth rate would continue going forward?

Ajay Piramal: You know we have grown pretty well in the first 9 months at 23%. Going forward on a sustained basis, we look at growth rate of about 15%. I think this is also because of the investments that we had made last 2 or 3 years, we are having its effect now, but I think on a sustained basis I would look at more like 15%.

Saion: Okay. And my last question is regarding Morpeth. You know you mentioned that over the next couple of years, the dependence of Pfizer

would go down and you will have almost 65% from Pfizer. Can you just throw some light on the initiative there and what kind of utilization levels that you are looking at down the line and what is the visibility of those contracts nearly coming through?

Ajay Piramal: One is that there is Pfizer contracts. As you know that some of the Pfizer contracts were to taper off starting from November 2008. One what we are doing is just try and see that these contracts actually get renewed and we have had success in that and we believe that by the end of the next 6 months, we should see further visibility on the contracts, which are already existing in Morpeth. In addition to this, we are also looking at expanding the basket of product that we are giving to Pfizer. Besides that we have also introduced a new area of business, which is on clinical trial supply, which you will see revenues coming in in the next year as well as there is some early phase work or development work that we are also doing there. And finally there would be some other work that we would do for other company for formulation. As a combination of all these, you will see that Morpeth revenues are on the upward trend.

Saion: Can you give any guidance on that? What kind of growth one can expect in Morpeth?

Ajay Piramal: I think we will talk a little more about guidance for the future in the next call for the year, but I can say that Morpeth, it is a robust business model there.

Saion: Okay. Thank you.

Moderator: Thank you. Our next question is from the line of Alok Dalal of Religare Securities. Please go ahead.

Alok Dalal: Thank you. Sir, can you give outlook, some color on Indian CRAMS for FY10 please.

Ajay Piramal: As far as the guidance for FY10 is concerned, as I said, let us do it as is the usual practice as when we do the full year results, but overall what I see, I can give you a general view on the CRAMS business.

Alok Dalal: Yes sir.

Ajay Piramal: First of all, I find that with all the pressures in the developed world, on terms of cost, there is definitely a move towards doing more manufacturing out of India than was ever before. But, people are, at this moment, most of the large pharmaceutical companies particularly who did not look at working capital or did not care much about inventory. So we find that in more than one customer, they are looking at reducing inventory and this effect may continue for, I think, at least first half of next year. Generally, the demand still is robust. As far as small biotech companies, if you are serving them, then there is a slowdown in demand for those. The next observation I want to make is that there is definitely now a greater recognition that you need to get manufacturing done out of assets in India because the cost here are lower and they are comfortable with quality. And therefore we are finding that there is now more and more customers are accepting that we should shift our production from European facilities into India. In our case, we will find that Huddersfield which is one of the site that we have and which was doing API and intermediate manufacturing, there will be some restructuring that we will undertake in the next year. That is the overall sense, numbers I would like to give you when we meet in the next quarterly call.

Alok Dalal: Ok, Sir can you also throw some light on how you will achieve this Rs.6.5 for the next quarter?

Ajay Piramal: We have seen what the businesses we have in hand. There is a line of sight on that. We also understand what is the expectation in the domestic market, and that is how we will achieve it and this should be a good quarter for us. We had said it. If you probably remember the beginning of the year as well that we will have a better third and fourth quarter.

- Alok Dalal:** Correct, Sir the Rs.16 Crore for RxElite, I believe there were some litigation also with RxElite from Minrad. So, is that behind us now?
- Ajay Piramal:** RxElite is the exclusive distributor as far as Minrad is concerned for the United States market. Before we acquired the business, there were some dispute between Minrad and RxElite and that will be sorted out when we take over. So, this process of take over has not yet happened, but we are ensuring that there is no such litigation and in fact both these companies frankly, if the take over goes on successfully, will become 100% our companies.
- Alok Dalal:** And last question, you have done Rs.130 Crore CAPEX till date. Can you tell us how much is specifically for Indian CRAMS?
- Ajay Piramal:** We had forecast Rs.150 Crores for the year and we will be within that and I will just give you the exact numbers for Indian CRAMS. It is about Rs.95 Crores for Indian CRAMS approximately.
- Alok Dalal:** Okay, thank you very much.
- Moderator:** Thank you Mr. Dalal. The next question is from the line of Monica Joshi of Avendus Capital. Please go ahead.
- Monica Joshi:** Hi, Good evening gentlemen. Just 2 quick questions. One is you indicated that you have began and also completed some process of negotiations with Pfizer and you also later on mentioned that big pharma is looking at outsourcing more now than ever before. Two questions on this is do you think now the attractiveness of India is increased? Number 2, have you kind of felt some downward pressure on the contract rate, so that essentially means how much margins you will earn from Morpeth. So are they exerting Pfizer or any of the other companies you are talking of, are they saying we want to lower prices or something like that?
- Ajay Piramal:** There is definitely a trend towards more custom manufacturing than before. But as I said, the intentions are there and it will happen, I think it will still take 6 to 9

months more because people are still running down inventory. What when we are looking at business in Morpeth, what we find now is that people want a combination of supplies between India and Morpeth put together as a package. And therefore where we are actually one of the value propositions we have is that we are saying that we can get part manufacturing done in India, part in the UK and therefore are able to offer a more attractive price which means that to some extent there is a pressure on the top line but this is more than made up by higher margins on the bottom line, so rather in this business, rather than looking too much at top line for business out of UK, we should look at what is the bottom line and profitability of the business.

Monica Joshi: Okay, that is perfect. The other question is related to your guidance. I believe a 4 billion is what you are projecting out of Indian assets or it is just about 2.2 odd billion in 9 months, what do you think is going to happen in Q4 that is going to add.

Ajay Piramal: So, as I said instead of Rs.4 billion will be Rs.3.7 billion and what is going to add is that they are concrete orders that we have and that is why I can say with some confidence that we will achieve those numbers in the last quarter.

Monica Joshi: Okay sir, it is 3.7 that is what. It is okay, thank you sir, thank you so much.

Moderator Thank you Ms. Joshi. Our next question is from the line of Bhavita Nagrani of MP Advisors, please go ahead.

Nimish Mehta Hi, this is Nimish Mehta for MP Advisors. My first question is related to Morpeth, you have mentioned that there are some contracts up for renewal and you have been successfully renewing that contracts which have come from November 2008. Can you just share with us as to you know what is that as a percentage of current Morpeth contract and what would be the you know capacity utilization once you foresee all of these whatever renewals you are anticipating as you come through?

Ajay Piramal: So the renewal today is about approximately 25% of contract with Pfizer. We are presuming that in the next six months we should get renewal on

most of these products. Because if you look at it frankly, they have not developed any alternative supplier and they are very happy with the sort of quality of service that you are giving, so that makes me and they are engaged in serious discussions with us, so that makes me how the confidence that it should get renewed.

Nimish Mehta: Okay, and this 25% is basically the value that you are talking about right.

Ajay Piramal: Yeah.

Nimish Mehta: I see okay.

Nimish Mehta: Currently, the capacity utilization is about 50% if I am not wrong and do you think that that is likely to increase because we are also negotiating some other products with Pfizer or it will remain the same.

Ajay Piramal: This may remain the same as far as Pfizer is concerned but as I told you, we are trying to use the capacity there in doing early phase formulations work and to do clinical trial supply.

Nimish Mehta: Okay fine and contracts that we are talking about for Pfizer, are these products now off patent or are likely to get off patent in the next two to three years, can you throw some color on it?

Ajay Piramal: No it is a mixture of both, some of them off patent and some of them on patent.

Nimish Mehta: Okay, and what I am trying to actually understand is that from where we started how much would be on patent and now when you are renewing how much would be on patent roughly as a mixture.

Ajay Piramal: I think we will have fixed contracts, so I do not have the numbers between frankly on patent and off patent but it does not really matter because we will have fixed contracts and we will understand what the margins that we would get in that.

- Nimish Mehta** So, the margins at least would be different between the on patent products and off patent products. It that a fair understanding, right?
- Ajay Piramal:** Yeah but you see again, you have to look at it that some of them we will do a fair amount of manufacturing in India as well and therefore the margin overall may not get that affected.
- Nimish Mehta:** Okay fine, will you have to incur any additional CAPEX for Morpeth to attract other contracts, clinical trial contracts sir?
- Ajay Piramal:** We have done some marginal; already we had incurred that CAPEX in the current year, it is not significant.
- Nimish Mehta:** Okay, fine. As regards to Minrad acquisition and the issue with RxElite, the distributor, do you foresee the investments in vaporizer to be done on your own in addition because in addition to whatever you have forecasted in the last presentation because RxElite either would take away the vaporizers or would ask you to invest in that so that you can own it as Minrad can own it..
- Ajay Piramal:** No, so therefore in addition to what we have done with Minrad, we are also looking at acquiring RxElite. We are in discussions with them and therefore we should do that as well and which will not be a significant investment, we will be able to whatever the investments we have done in vaporizer, we will have to pay around the same amount of money, so there is no additional investment beyond that what is already being done.
- Nimish Mehta:** I see sir, okay fine. So we can anticipate RxElite also to be a part of Minrad and a part of Piramal Group very soon.
- Ajay Piramal:** That is what we are hoping to do its not yet done so lets wait.
- Nimish Mehta:** Okay fine, finally in fact one or two questions on domestic business. I would like to know what is the organic growth this quarter if you exclude the Khandelwal?
- Ajay Piramal:** Khandelwal contribute about 4% of the growth number.

- Nimish Mehta:** Of the growth number.....
- Ajay Piramal:** 23% is the growth; you could attribute 4 to 5% approximately by the year end for Khandelwal brand.
- Nimish Mehta:** I see and are not you getting affected because of the credit crisis and does channels not willing to stop more inventory and thus affecting your sales, don't you see that happening?
- Ajay Piramal:** No, so we monitor as far as the domestic business is concerned both primary sales which we we make to stockiest and the secondary sale, we find that there is not a mismatch between the primary and secondary sales which means that inventory is not building up in the system. Another way of looking this is that the debtors that we have today in the system, they have not gone up, so at the beginning of the year, the number of days debtors that we have, it still continues at the same level and therefore, we feel that there is still a good flow of product to the ultimate customer.
- Nimish Mehta:** I see, so basically your secondary sales matches with the primary sales growth.
- Ajay Piramal:** Yeah, I just want to highlight to you that we perhaps are the only company in the industry which incentivises its sales force on secondary sales and not primary, so there is no incentive for build within the system to push out primary sales.
- Nimish Mehta:** Correct, correct, yeah I understand and do you see a large part of the growth coming from rural market or it is I am just trying to understand the chemistry of it.
- Ajay Piramal:** No, we are also wondering why we have grown so much compared to the industry because I was see ORG-IMS our growth is 30% in December. So, I think it is still across all the markets.

- Nimish Mehta:** I see Okay. If I can take one more liberty to ask one more question, I would like to understand the pattern in the gross margin which is declining in the last three quarters, so it has been down by about 200 basis points on which quarter roughly. Any thoughts regarding that why is it?
- Ajay Piramal:** Well, the gross margin decline is one of the reasons for the gross margin decline is that the cost in the beginning of the year and especially the second and third quarter as far as the raw materials are concerned had gone up significantly and there is a gap, there is a time lag between sales increase and between price increase as well as the material cost but I am surprised actually if you see the margin at the beginning of the same period last year was 39.6% on material cost and now we are 39.5%, so there is not much difference.
- Nimish Mehta:** Yeah, I know but the current year numbers would also include the positive impact of the foreign exchange at least on the gross margin right, so that should kind of take care of that.
- Ajay Piramal:** But to some extent yes, but the other cost which had also gone up during the year, so in fact if I look at the domestic business, the Rupee depreciation of 20%, so by and large it makes up, there is no significant difference.
- Rajesh Laddha:** It was also post a 20 to 30% expense.
- Ajay Piramal:** Yeah, so you know it does not make that much of a difference but since you are talking about margins, what we have been able to do is actually significantly bring down all other costs, so whether it is in terms of conversion cost, whether it is in terms of G&A and all such costs, as a result of which we find that and we have invested our staff costs have also come down and this reduction in cost, we have been able to invest in marketing and selling expenses, so we are really investing for the future.
- Nimish Mehta:** Okay, in the foreign exchange number of about 351 million, how much would be the translation losses, how much would be the hedging related

losses and out of the translation hedging, how much would be the losses pertaining in the next 12 months.

Rajesh Laddha: So if you were able to give me the total picture for the 9 month, we are showing a Rs.99 Crores of loss, if you look at the consolidated numbers, out of which we are saying that it is about Rs.40 Crores which is the realized one and Rs.59 Crores which is the unrealized, this pertains to outstanding packing credit as of December 31, 2008 and also the long-term loans such as ECBs and FCNRs, so that is about Rs.59 Crores, in terms of translation your specific question.

Nimish Mehta: Sir just the unrealized one, that would be better.

Rajesh Laddha: Unrealized is Rs.59 Crores.

Nimesh Mehta: Sir out of the unrealized how much would be for the next 12 months.

Rajesh Laddha: This unrealized will get converted into realized, so whatever balance we have PCFC which is about Rs.25 Crores unrealized will get converted into realized in the fourth quarter.

Nimish Mehta: All of these 59 Crores will get converted.

Rajesh Laddha: No, Rs.25 Crores is packing credit out of Rs.59 Crores, which will get realized. Most of it will get realized in quarter 4. Rs.34 Crores is on account of long-term liabilities such as external commercial borrowings and FCNR, that is due only in 2012 and 2013, so that will continue but we have booked everything as of December 31st at the prevailing rate which was close to 49 Rupees to a Dollar.

Nimish Mehta: Okay fine, thank you very much and best of luck.

Moderator Thank you. Our next question is from the line of Bhavin Shah of Dolat Capital, please go ahead.

- Bhavin Shah:** Thanks a lot, I just had this question on domestic business, so what would be your figure for FY10 possibly, do you think it probably maintain the growth momentum going forward?
- Ajay Piramal:** Yeah, we think so. We are at about 23% for the 9 months. We expect that for the whole year, we will be about 20%.
- Bhavin Shah:** Okay and sir in the international assets front we seen de-growth in the 9 months. Do you think that this will take a turn around in the next year?
- Ajay Piramal:** Sorry say it again.
- Bhavin Shah:** In the international assets, we have seen de-growth of about 4% in revenue.
- Ajay Piramal:** No, I think our focus really in international assets is really to push more and more into India, so you will continue to see a de-growth in the assets outside India. That is part of a strategy as well.
- Bhavin Shah:** Sir would you comment on how many shipment would you be adding to the first half, I believe we have done about 7 so, would you comment on any may be 2 or 3 shipments that would take your figure to 3.7 Billion as your stating?
- Ajay Piramal:** I do not know where you got that seven shipments, but let me say that we meet our figure to 3.7 that we have said.
- Bhavin Shah:** Okay sir, thank you so much, thank you.
- Ajay Piramal:** Thank you.
- Moderator:** Our next question is from the line of Mr. Sonal Gupta of UBS Securities, please go ahead.
- Sonal Gupta:** Thank you, just couple of questions, one was on the Morpeth's renewals, sir what is the duration of the renewal of these contracts, I mean for what period are they been running for.

- Ajay Piramal:** You know they keep varying but between three to five years on renewal.
- Sonal Gupta** So it is on various products but somewhere between 3 to 5 years and again on the domestic business, I guess most of been answered but what is this sort of additional investment you would look at for RxElite if you want to sort of acquire it successfully?
- Ajay Piramal:** Sir, the RxElite additionally investment would be in the region of about \$7 million. In a way, you know I want you to look at that investment more in terms of really Minrad's working capital and because RxElite we are not acquiring any assets, we are just acquiring their business, so we are acquiring the contracts, we are acquiring the inventory that they have of the vaporizers, so there is no great goodwill or there is no fixed assets that we are acquiring.
- Sonal Gupta:** Okay, understood, thank you.
- Moderator:** Thank you Mr. Gupta. Our next question is from the line of Manoj Garg of Emkay Shares, please go ahead.
- Manoj Garg:** Good evening sir. This is regarding like last con-call you indicted that probably you know you are likely to have a phase III contract. Contract will be continued in phase III and likely to get some commercial launch. Any comment on that sir.
- Ajay Piramal:** I think we will talk in detail about this whole thing when we do the annual call or the annual meeting rather.
- Manoj Garg:** Okay. Another thing if you see on Q-on-Q basis, your employ cost has come down from 1421 million to 1172 million. Can you just highlight like how this?
- Ajay Piramal:** We have done some rationalization which we have talked about earlier in terms of the Morpeth plant and some other things in the UK and that has really been basically the reason why these has come down.

- Manoj Garg:** Total number of people in Morpeth right now?
- Ajay Piramal:** It is about 290 people.
- Manoj Garg:** And similar like you see R&D expense also which has come down from 231 million to 200 million.
- Ajay Piramal:** No, it is not I mean it is just a phasing, I would not give any significant importance to that.
- Manoj Garg:** Okay, thanks, that is all from my side. Thank you very much.
- Moderator:** Thank Mr. Garg. Our next question is from the line of Rohita Sharma of Enam Securities.
- Rohita Sharma:** Hi, just couple of questions. Sir, I just wanted to know what is the reason to be rise in interest cost in the last quarter and on the CRAMS business, what is the receivable days in this particular segment and have you seen any rise in the past few months?
- Ajay Piramal:** So, let me say, I will answer the first on the CRAMS business, there is no receivables that have increased as far as in the last quarter is concerned because almost one thing I have found in these global companies, the large companies, they honor all there commitments on the due date, so you don't have to worry on that, so we have not seen any change in that and interest, I will ask Rajesh to answer it.
- Rajesh Laddha:** Okay, so there are two components with that in quarter three we had huge surge in terms of interest rates because of the crisis which happened at the end of September and also other reason is that the overall debt level which was about Rs.950 Crores on an average basis during quarter two had gone up to about Rs.1250 Crores on an average basis during quarter three, so this is about Rs.300 Crores increase has contributed to the extent of about Rs.6 Crores in interest increase and about Rs.3 Crores is on account of the

interest rate increase, so that takes up from Rs.17 Crores in quarter 2 to Rs.26 Crores in quarter 3.

Rohita Sharma: Okay and could you give us split of your debt in terms of Rupee debt and FOREX debt?

Rajesh Laddha: Yes, so we have about 40 million of ECB which is there currently here in the books of PHL and on consolidation basis, we have got about 11 million GBP which we have taken in UK for the Morpeth acquisition and we have small FCNR around about 5 million USD. So, in total if I were to tell you about 45 million USD plus about 12 million GBP.

Rohita Sharma: Okay and what could be the repayment schedule for this broadly?

Ajay Piramal: Swiss loan is for five years from the date of acquisition of the debt, so the two years is over, now the two and a half year the repayment will start and ECB is due only in 2012 to 2013, so it is a long term and another four years to go. Rest all is in Indian currency locally raised.

Rohita Sharma: Thank you.

Moderator: Thank you Ms. Sharma. The next question is from the line of Mr. Amit Hiremath of Enam Asset Management, please go ahead.

Amit Hiremath: Yeah, thank you for taking my question. You have anyway toned down the guidance for the assets from India in pharma solutions, just wanted to know that regarding the overseas business, will the run rate be same in the next quarter as it is in the current quarter.

Ajay Piramal: In this sense; yeah.

Amit Hiremath: In absolute sense, I mean currently it is 176 Crores we have got in this particular quarter, so will it be the same figure repeating in the next quarter likely.

Rajesh Laddha: Outside India?

- Amit Hiremath:** Yeah outside India.
- Rajesh Laddha:** In quarter four no it will be slightly lower in quarter four.
- Amit Hiremath:** Okay, alright.
- Rajesh Laddha:** And for the CMG business you know we cannot take you know the run rate from any quarter because sometimes it is lumpy in nature, so one quarter we might have surge in one particular contract, so it is really not predictable as to whether you can take this quarterly run rates as annual run rates.
- Amit Hiremath:** So, you are expecting any new contract to be initiating in the next quarter so that it would be lumpy?
- Ajay Piramal:** No, I do not think the next quarter will get any new contract because it is more frequently ramp up.
- Amit Hiremath:** My another question, I do not know whether you will be able to share the information but you have about few wins in the first half as per the presentation and they were not the final contracts, so if you can update regarding any of them getting finalized.
- Ajay Piramal:** You know, now a days, we have got a few contracts which are finalized but we now stopped sharing details of contracts because I think our customers are not very happy with that, so we will give you a general sense as I gave you an overall outlook on CMG and as I said we will give a little more color of it in the annual meeting.
- Amit Hiremath:** Alright sir and third question is regarding the FOREX loss; I am sorry I missed the number over there, what is the realized amount?
- Rajesh Laddha:** The realized loss for the first 9 month is about 40 Crores and the unrealized portion is 59 Crores.
- Amit Hiremath:** Alright and what will be the tax rate for the whole year sir?

- Rajesh Laddha:** It remains at the same level of about 11.5% at consolidated level. We do not see any change from first 9 months.
- Amit Hiremath:** Alright, thanks that is done from my side.
- Moderator:** Thank you Mr. Hiremath. Our next question is from the line of Purvi Shah of Dalal & Broacha, please go ahead.
- Purvi Shah:** Thank you. Sir my question is regarding the extended loan to Piramal Life Sciences. This time we have given a loan of around 75 Crores but if I am not mistaken in the last con-call, you had said that it was reversed in around October, so I just wanted to have some clarification on this.
- Ajay Piramal:** Yeah, we had said that but you know the condition in the market place have been adverse and they spoked to us and since we felt that it was anyway we were not incurring any loss in fact there was a margin in terms of the interest, we decided to continue the loan there and as I said previously this loan may go up by Rs.20 to Rs.25 Crores more and then as Piramal Life Science is working towards getting alternative funding.
- Purvi Shah:** Okay sir, thank you so much.
- Moderator:** Thank Ms. Shah, our next question is from the line of Vinod Pushpanathan of Reliance Money, please go ahead.
- Vinod:** Yeah, thank you. Hello sir, I just wanted some clarification on the interest cost again, I dismissed on that part.
- Ajay Piramal:** Can we answer this question separately just in fairness to all since we just answered it, so if you can ask Sagar he will share with you the details
- Vinod:** Okay sir. That is okay. That is it from my side, thank you.
- Moderator:** Thank you, may we move on to the next question.
- Sagar:** Yeah.

Moderator: Thank you, next question is from the line of Rajesh Prabhudesai of Dipan Mehta Stock Broking, please go ahead.

Rajesh Prabhudesai: Yeah, good evening sir, sir debt equity ratio is around 1 at this point of time, what could be the peak level in say next 6 months to 12 months?

Ajay Piramal: Sir, if you take debt equity ratio, it will go up a little bit to about 1.1 when the Minrad acquisition takes place, if it is consumated and after that I see it coming down to below one level by the end of 2010.

Rajesh Prabhudesai: Okay sir, thanks.

Moderator: Thank you Mr. Prabhudesai. The next question is from the line of Mr. S. Ranganathan of LKP Securities, please go ahead.

S. Ranganathan: Yeah, good evening, my questions have been answered. Just wondering whether Mr. Piramal could share some color on how he sees the outlook on the Piramal Glass particularly. I know you cannot but if you....

Ajay Piramal: So then I cannot, you know it.

S. Ranganathan: Okay, fine, all the best.

Moderator: Thank you Mr. Ranganathan. The next question is from the line of Vivek Kumar of Tata Securities, please go ahead.

Vivek Kumar: I just wanted to know what will be sales for your K-Labs?

Ajay Piramal: As I said it is a Khandelwal Labs approximately it is about 4% of turnover; 4% of growth; so we will be in the region of Rs.30 to Rs.35 Crores.

Vivek Kumar: Okay and what has been the total strength of your employee for Avecia plus Morpeth?

Rajesh Laddha: About 450 people including the Grangemouth facility.

- Vivek Kumar:** And what was the strength in 2008 March, I mean the last year which has gone?
- Rajesh Laddha:** It was approximately about 525 people roughly.
- Vivek Kumar:** Thanks
- Moderator:** Thank you Mr. Kumar. The next question is from the line of Prashant Nair of Citigroup. Please go ahead.
- Prashant Nair:** Yeah, I just wanted to check regarding your debt and cost of debt, now this quarter has been a spike, do you see this level of interest cost continuing for a while or do you think it will come off in the near future?
- Ajay Piramal:** See, look at the interest rates coming off a bit, so people are talking now let the banks do it between 200 and 300 basis points people are talking about in the next three to six months. The utilization will actually go up a bit because we will be investing in our acquisition of Minrad and to some extent we will have some saving in terms of working capital going down so it will be net-net I think you will see a slight increase in debt level.
- Prashant Nair:** Okay and on the staff cost line again I mean third quarter seems out of trend, it has come off a bit, now what level should we assume on a continuing basis, are some of these savings sustainable or will it go back to say earlier level.
- Ajay Piramal:** These are sustainable staff cost.
- Prashant Nair:** Okay, fine, thanks a lot sir.
- Moderator:** Thank you Mr. Nair. The next question is from the line of Prashant M of Nomura, please go ahead.
- Prashant M:** Hello sir. What is the outstanding hedge position in the company now?

Ajay Piramal: We have answered this question on foreign exchange in detail. If you have any question on the same, let me not repeat it, please ask Sagar, he will share with you.

Prashant M: Sure sir. Thanks a lot.

Moderator: Thank you. We have no further questions on the participants connected to the audio conference service. I would now like to hand the floor over to Mr. Sagar Gokani for closing comments.

Sagar Gokani: Hi, thank you all for joining us on the conference. If there are any questions which remained unanswered, please feel free to contact us anytime. Thank you.

Moderator: Thank you Mr. Gokani, thank you gentleman of the management. Ladies and gentleman, 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. Thank you.