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Piramal Healthcare: Clarity emerging

Akash Joshi / Mumbai June 29, 2010, 0:21 IST

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Acquisition of strategic over-the-counter brands and building muscle in biotechnology seem to be emerging trends.

Concerns regarding the future of Piramal Healthcare's residual business emerged when the company sold its healthcare solutions segment to Abbot Labs for \$3.72 billion (around Rs 17,000 crore), a phenomenal nine times the sales value. This division accounted for 54 per cent, or Rs 2,000 crore, of its revenues.

With this gone, and the management sitting on piles of cash, speculation was rife over building up of revenues. However, analysts at Goldman Sachs reckon that these concerns were 'overdone'. They also said the residual business, which comprised CRAMS, critical care (GCC) and Pathlabs, remained undervalued.

The management has now made its intentions clear; it will be acquiring niche companies in the biotechnology segment. Recently, it announced the acquisition of one such small company, BioSyntech, for Canadian dollars 3.9 million, or Rs 17.5 crore. The company's upcoming blockbuster (BST-CarGel) is in the advanced stage of clinical trials and is expected to be an alternative to knee replacement, say analysts. The deal is valued at 22 times the nine-month revenues (Canadian dollars 176,000) of CY2009.

The company has been losing revenues and high-research expenses have been stifling. For Piramal Healthcare, the deals would buttress the business, especially the critical care division, which currently contributes around nine per cent of its revenues. It has also acquired the contraceptive i-pill from Cipla, which will supplement its over-the-counter business. Analysts do not expect it to acquire companies in the CRAMS space, as it already has excess capacity and is currently operating at 45 per cent utilisation.

The cash generated from the sell-off will enable the company to wipe off Rs 1,300 crore worth debt and turn debt-free. The CRAMS business is also expected to pick up after witnessing a 4.3 per cent dip in FY10, as restocking of inventory takes place, say analysts at Goldman Sachs. Moreover, investors can expect a huge dividend payout from the cash inflow. Therefore, Piramal Healthcare is in a strong position to re-invent its business in the coming days.