



## PHARMACEUTICALS EXPORT PROMOTION COUNCIL

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### **Piramal gets Rs 12,000 cr to dabble with**

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<http://economictimes.indiatimes.com/markets/stocks/stocks-in-news/Piramal-gets-Rs-12000-cr-to-dabble-with/articleshow/5960315.cms>

*ET INTELLIGENCE GROUP*

After persistent rumours of a sell-out to various multinational pharma players, Piramal Healthcare has finally chosen to hawk its domestic formulations business to US-based Abbott Laboratories. For Piramal, the deal is indeed an attractive one.

The domestic business which generates annual revenues aggregating Rs 1,800 crore and having one of the largest sales force in the country is the most profitable part of the business.

While divesting it probably may not be the best decision for the company given the size of revenues, selling it at over nine times its revenues means that the company has clinched a good deal. For Piramal Healthcare, this will translate into a large cashpile.

The transaction will lead to fund flows of Rs 17,000 crore into the company. Assuming the company pays Rs 3,750 crore towards long-term capital gains tax and utilises a further Rs 1,300 crore for retiring debt on its books, Piramal Healthcare will be left holding free cash of close to Rs 12,000 crore.

The company plans to use this cash for paying a special dividend to its shareholders while the balance will be used to fund the growth plans of its remaining businesses of contract manufacturing, critical care, over-the-counter (OTC) products, API business, vitamin and fine chemicals, diagnostic services; devices and clinical research services.

The company's management, however, is yet to provide full details about new business areas that it proposes to enter into using the cash pile generated through the sale.

The reaction of the street, which appeared to a knee-jerk one, has been negative. The company's stock has shed the gains recorded over the last four trading sessions — sliding over 12%.

Piramal Healthcare, trading at a market cap of Rs 11,000 crore, could well see a further drop in its stock price in the near term following the divestment of the company's core business. The cash in hand of close to Rs 12,000 crore may help in propping the stock value in the near term until it declares the special dividend. However, as the company unveils the plans for deployment of cash in the existing and new businesses, there could be greater clarity on future earnings of the company.

For investors in Piramal Healthcare, it may make sense to hold on for a while considering that the company is still left with promising businesses such as contract manufacturing and OTC businesses. With the fresh inflow of funds, the company would be in a position to scale up these businesses.

The special dividend, which is likely to be quite generous given the size of the deal, may also be a clincher.