

Piramal Health Care*The Story is yet to Shape Up*

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Price (Rs.)	366
Market Cap (Rs.Crs.)	6212
52 High / Low (Rs.)	550/341.6
Mcap/Sales TTM	5.98
Book Value (Rs.)	709.10
TTM PE	15.09
P/BV	0.52
FV	2.00
BSE	500302.00
NSE	PIRHEALTH

Yearly Financials

	FY 2011	FY 2010
Sales	251.0	362.4
Other Operating Revenue	2.4	0.3
Operating Expenses	253.4	305.8
Operating profit (loss)	-0.1	56.9
Interest Expense	10.0	18.4
Forex Losses (Gains)	-9.9	-1.4
Non-Operating Losses (Gains)	-1656.6	-10.0
Pretax Income	1656.3	50.0
- Tax Provision	368.0	1.8
Income Before XO Items	1288.4	48.2
Net profit (loss)	1288.3	48.2
Abnormal Losses (Gains)	-1622.1	0.7
Normalized Income	-333.7	48.9
Basic EPS	573.7	23.1
Diluted EPS	573.7	23.1

Price 366**Buy****Target 496**

It is rare to rarest case when one gets the opportunity to buy a business at 17-18% discount of Net current assets value.

Investment rationale

- ~ Market cap is below net current assets – Ample Margin of Safety
- ~ Growth of Existing Business
- ~ Financial Investment in Vodafone Essar Limited,
- ~ Management Capability

Company Description

Piramal Healthcare Limited, a primal group healthcare company established in 1988, engaged in manufacturing and Marketing of bulk drugs and formulations across the world. With the diversified portfolio across 14 therapeutics area, company was the fourth largest domestic healthcare company in FY10, before selling of its domestic formulations business to Abbott.

Company now has critical care and OTC division under its portfolio. Primal in FY11 bought I-pill the leading OC brand in India from Cipla.

Stock is quoting below its net current assets – Ample Margin of safety

In case of Piramal Healthcare Total Current Assets on books as on 30th Sep, 2011 is Rs. 8353.68 Crores while current liabilities are Rs. 933.67 Crores. It means net current assets are Rs. 7420.01 While Market cap is Rs. 6212.7 crores. Stock is quoting at almost 17% discount of its Net current Asset value and if we club other investments which is around Rs. 3917.5 crore, stock offers more margin of safety.

It means that market is giving good opportunity to buy a business at bargain price.

Growth of Existing Business

Total income from continued operations grew by 32% to Rs 534.7 crore for the quarter ended September 2011, on the back of robust growth across Pharma solutions (CRAMS), Critical care and OTC businesses. Revenues from Pharma Solutions (CRAMS) business grew by 32% to Rs 305.1 crore and Critical care business grew by 43% to Rs 91.5 crore contributing 57% and 17% to the total sales respectively. In CRAMS business, the revenues from Indian facilities surged by 82.7 % to Rs 187.4 crores for the same period

Quarterly Financials	FQ2 2012	FQ1 2012
Sales	477.6	435.0
Other Operating Revenue	6.71	5.98
Operating Expenses	536.16	359.8
Operating profit (loss)	-51.88	81.18
Interest Expense	19.58	10.69
Forex Losses (Gains)	-102.59	-76.38
Pretax Income	80.52	116.87
Net profit (loss)	52.43	89.23
Abnormal Losses (Gains)	10.8	0
Diluted EPS	3.1	5.3

and it expects to see strong growth in commercial manufacturing assets in India driven by increased sales.

Piramal has obtained a license to the the Baxter patent at issue in the lawsuit, pursuant to which the parties agree that Piramal may launch its generic desflurane product in the US as of January 1, 2014, subject to US regulatory approval. Piramal has agreed not to make, use, sell or offer for sale in the US, or import into the US, this product prior to January 1, 2014. However, Piramal has taken a license under the patent pursuant to which the parties agree that Piramal may manufacture its generic desflurane product in the US as of April 24, 2012, solely for sale outside the US in markets where it has obtained or will obtain regulatory registrations.

Biosynth, a Canadian subsidiary of PHL has been working on a cartilage repair gel which is planned to be launched in the next financial year. The merger of Piramal Lifesciences' New Chemical Entity (PLSL – NCE) unit will be completed by the end of Q3FY12.

During the quarter, it has received registration approvals for EU countries for Sevoflurane and supplies are expected to commence soon.

Financial Investment in Vodafone Essar Limited

In the current quarter Q2FY12, the company purchased 5.5% stake in Vodafone Essar Limited (Vodafone India) for a consideration of \$640 million. We believe this is temporary parking of surplus fund and can not be considered as a strategic investment since it neither entails any control in the operations nor any representation on the board of Vodafone Essar Limited.

It's a financial investment where the company expects a return of 17% pre-tax with an option to sell the stake if there is no IPO for the currently unlisted entity. This is true to what the company had mentioned about buying stakes in growing, high quality, global businesses as a way to use surplus cash.

This deal shows the how Piramal's are good to grab a good deal at discounted price. Deal is at a discount as Essar sold Vodafone 33 percent at 5.46 Billion. The 5.5 percent Piramal bought works out to 910 million for which he paid only \$640 million a significant discount.

Share Holding	30/06/2011	30/09/2011	% Change
Foreign	25.04	24.16	-0.88
Institutions	8.32	8.76	0.44
Promoters	53.32	53.32	0
Public & Others	13.31	13.75	0.44

Management Capability

Ajay Piramal's Track Record Speaks for Itself. Over the last 23 years, investors in Ajay Piramal's flagship company have compounded their money at an average annual rate of 28%. In contrast, Sensex compounded at only 17% a year. The difference between compounding money at 17% a year and at 28% a year becomes truly staggering over time. While Rs 100 became Rs 3,700 with Sensex in 23 years, they became Rs 29,230 with Mr. Piramal instead. Ajay Piramal bought Nicholas Laboratories from its foreign parent in 1988; the company's market value was only Rs 6 cr. This launch pad into the drug space enabled him to ride on the wave of huge subsequent growth of the Indian pharma industry. After several brilliant acquisitions, mergers, spinoffs, and other corporate restructuring transactions orchestrated by him over the next 23 years, the company morphed into what became known as Piramal Healthcare.

In May 2010, he stunned the business world by announcing that he has sold part of Piramal Healthcare's business, constituting about half the company's revenues, for a staggering \$3.8 billion, or about Rs17,140 crores, to Abbott Labs of USA. Two months later, he sold the company's diagnostic business to Super Religare for Rs 600 crores. These two deals, having an aggregate value of Rs 17,740 crores delivered an upfront cash of about Rs 10,200 crores to the company. The balance Rs 7,540 crores — almost all of it due from Abbott — would be received over the next 42 months.

As revealed in the previous quarter's management comments, the company expects a topline of Rs. 10000 crores by FY2016-17. The current market valuation values this business at less than 1x Sales. The business expects to earn a return of an average 15-18%. The current valuation (Reflected by Market Cap) indicates market has doubt about future plans of Mr. Piramal. We'll need an equivalent time horizon for this business to observe how these expectations turn out.

Valuation

We valued the Piramal Health care on the basis of liquidating value. Then assigned a % to each assets and liabilities and got the fair value of the company around Rs. 496 which is 36% upside from current price. We think story will shape up (cash deployment decision unfold) in future and hence we recommend to buy at CMP for atleast 18-24 months perspective

Tota Assets	Amount	Assumptions	Conservative Liquidating Value
Cash & Near Cash Items	735.12	100%	735.12
Accounts & Notes Receivable	351.85	75%	263.8875
Inventories	455.62	75%	341.715
Other Current Assets	6811.09	75%	5108.3175
LT Investments & LT Receivables	3917.53	100%	3917.53
Net Fixed Assets	1717.86	0%	0
Total Assets	13989.1		10366.57
Total Liabilities			
Short-Term Liabilities	933.67	100%	933.67
Long-Term Liabilities	1135.03	100%	1135.03
Total Liquidated Value availbale to shareholders (Estimated)			8297.87
Market Cap.			
Shares Outstanding			16.72
Per share Value			496.28
Market Price			366
Conservative upside			36%

All Figures are in crores (INR)

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