



Piramal Healthcare
knowledge action care

ANNUAL REPORT 2011-2012

THE BOARD OF DIRECTORS

Ajay G. Piramal, *Chairman*

Swati A. Piramal, *Vice - Chairperson*

Amit Chandra

Keki Dadiseth

Nandini Piramal, *Executive Director*

S. Ramadorai

Deepak Satwalekar

Vijay Shah, *Executive Director and Chief Operating Officer*
(w.e.f 1st January, 2012)

R.A. Mashelkar
(w.e.f 21st December, 2011)

Goverdhan Mehta
(w.e.f 21st December, 2011)

N. Vaghul

AUDITORS

Price Waterhouse

SOLICITORS

Crawford Bayley & Co.

REGISTERED OFFICE

Piramal Tower,
Ganpatrao Kadam Marg,
Lower Parel.
Mumbai – 400 013, India

BANKERS

Allahabad Bank

Axis Bank Limited

Bank of Baroda

BNP Paribas

Citibank N.A.

Corporation Bank

Credit Agricole Corporate and Investment Bank

HDFC Bank Limited

ICICI Bank Limited

Kotak Mahindra Bank Limited

Punjab National Bank

Standard Chartered Bank

State Bank of Hyderabad

The Hongkong & Shanghai Banking Corporation Limited

Yes Bank Limited

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CHAIRMAN'S LETTER



Dear Shareholders,

My warm greetings to all of you.

Financial Year 2012 marked a steady year for our Company amidst a highly uncertain global environment. During the tough business environment, we focused our efforts on gaining the knowledge and capabilities to build tomorrow's enterprise.

Following the sale of healthcare solutions business in September 2010, our Company continues to grow the existing pharma businesses while evaluating to enter new business sectors. We are looking for opportunities which would provide sustainable returns in sectors that have high growth potential and where we can derive significant advantage through our presence in India. In the past year, we have looked at several different sectors, studied some in depth and performed a detailed evaluation of few specific opportunities.

India has witnessed strong GDP growth in past decade and is likely to continue with 7-8% GDP growth rate for the next decade. The financial services sector is poised for strong growth given India's domestic consumption led economy with sound economic fundamentals, rising disposable income and growth of credit oriented culture. To participate in this growth story Piramal Healthcare has decided to foray into the financial services sector.

Update on Financial Services businesses:

During the year, we acquired INDIAREIT Fund Advisors Private Limited & INDIAREIT Investment Management Company. These Companies are advisors to domestic and an offshore real estate funds. INDIAREIT has a demonstrated track record of raising and deploying effectively large sums of capital in real estate sector in India. As on 31st March 2012, they had ~₹ 4,200 crores of assets under management.

During the last year, our Company commenced lending to the real estate sector through a Non Banking Finance Company – PHL Finance Pvt. Ltd. The objective behind focusing on lending to real estate was to capitalise on the deep domain knowledge and understanding of the real estate sector in India that the Piramal Group possesses. We have put a strong team of experienced and reputed professionals to drive this business. A credit committee comprising of highly experienced and knowledgeable senior people is overseeing the operations and adequate processes and systems are in place.

Update on Pharma businesses:

The pharmaceutical industry globally continues to face challenging time. Large pharma companies are facing patent expiries of blockbuster drugs and on the other hand fewer new products are being approved. These companies are looking at various ways to reduce costs. PHL's Pharma Solutions business is well placed to capitalise on this trend given our good relationship with global pharma companies and excellent regulatory and execution track record. Revenue from this business grew by 33% to ₹ 1,355 crores in last year. This growth was driven by strong rebound in the business from Indian facilities where revenue grew by 53% to ₹ 801 crores.

In the Critical Care business, we continue to strengthen our infrastructure in 102 countries where we sell anesthetic and other critical care products to hospitals. This business is poised for strong growth as we are expanding geographic presence for sevoflurane and preparing for forthcoming launch of desflurane, the latest generation inhalation anesthetic drug. Revenue from our Critical Care business grew by 6% to ₹ 413 crores in last year. The growth was lower due to pricing pressure on sevoflurane in some markets and delayed regulatory approvals.

We continue to grow our OTC business which has a strong brand portfolio. As awareness levels among Indian consumers rise and they rely on more self care medication, the OTC sector in India has potential of continued high growth. We are investing in the OTC business to build power brands. Our Ophthalmology business is the market leader in India. Sales from our OTC and Ophthalmology business grew by 12.3% to ₹ 220 crores in last year.

During the year, the NCE R&D unit of Piramal Life Sciences was demerged into our Company. We now have a strong pipeline of 17 drugs with 11 drugs in clinical trials phase. We have state-of-the-art R&D laboratories built over 200,000 square-feet of space in Mumbai where about 400 scientists are engaged in drug discovery and development in four therapeutic areas – Cancer, Diabetes, Inflammation and Infectious Diseases.

We have received an approval from British Health authorities to market our cartilage repair gel - BST-CarGel® in April 2012. This approval will enable us to commercially launch BST-CarGel® in all countries in European Union. We are now beginning to see the fruits of our investment in research and development and are making significant strides towards creating a truly innovation driven global pharmaceutical business.

We acquired worldwide rights to the molecular imaging development portfolio of Bayer Pharma AG in April 2012. Its lead compound – florbetaben has completed Phase III studies and has shown encouraging results. Florbetaben is a PET tracer for the detection of beta-Amyloid plaque deposition in the brain, which will lead to early diagnosis of Alzheimer's disease in patients. We believe florbetaben addresses a significant unmet medical need and will help improve lives of millions of patients globally.

Vodafone investment:

During the year, our Company acquired ~11% stake in Vodafone India Limited for a consideration of ₹ 5,864 crores (US\$ 1.2 billion). The objective behind this investment was to deploy surplus funds available from sale of the healthcare solutions business to Abbott. We believe this investment would generate an attractive return for our Company.

Acquisition of Decision Resources Group:

In May 2012, our Company has acquired Decision Resources Group (DRG), a US based company in the healthcare information segment, for a consideration of approximately US\$ 635 million (~₹ 3,400 crores). DRG provides high quality, web-enabled research, predictive analytics via proprietary databases and consulting services to the global healthcare industry. It is a fast growing healthcare information business with CAGR of 20% from 2006 to 2011 in the US\$ 5.7 billion global healthcare information industry.

DRG brings long standing relationships with 48 out of top-50 pharma companies with very high customer renewal rate. PHL will benefit from DRG's stable revenue base of high value offering that enables customers to make fully-informed key investment and cost containment decisions in each phase of life sciences lifecycle. The business has high barriers to entry, high operating leverage and strong free cash flows. With strong domain knowledge and network in India and emerging markets, deep relationship with global pharma companies and strong balance sheet, we are well poised to grow this business.

We have taken significant steps towards building a strong global business enterprise that will create shareholder value over the long term. I thank you for your continued faith in us over the past years and want to assure that we are working hard to make sure that we deliver on our promise.

Warm regards,

Ajay G. Piramal

Chairman

Date : 14th June, 2012

10 YEARS FINANCIAL HIGHLIGHTS

Details (₹ in Crores)	FY2003	FY2004	FY2005	FY2006	FY2007	FY2008	FY2009	FY2010	FY2011	FY2012
Profit & Loss Account										
Total Income	1,402	1,413	1,342	1,623	2,472	2,879	3,288	3,777	2,009	2,352
EBITDA	333	304	203	238	384	548	589	833	379	471
Interest	61	24	19	17	31	46	84	184	89	215
Profit Before Tax	146	203	211	148	267	373	341	500	16,415	121
Profit after Tax	116	200	164	124	228	334	316	482	12,736	115
Earnings per Share	30.3	52.1	8.5*	5.8	10.3	15.9	15.1	21.4	572.2**	6.6

* Face value of shares changed to ₹ 2 per share from ₹ 10 per share post share split in ratio of 1:5

** Includes gain on account of sale of the healthcare solutions business and sale of subsidiary - Piramal Diagnostics Services Private Limited

Details (₹ in Crores)	FY2003	FY2004	FY2005	FY2006	FY2007	FY2008	FY2009	FY2010	FY2011	FY2012
Balance Sheet										
Share Capital	53	91	91	95	80	42	42	42	34	35
Reserves & Surplus	410	367	462	919	1,006	1,051	1,275	1,643	11,803	11,208
Minority Interest	111	-	4	3	1	5	7	-	6	10
Debt	667	356	368	311	639	716	1,339	1,295	757	2,047
Net Deferred Tax	61	38	60	84	89	90	73	57	48	50
Total Liabilities	1,302	852	985	1,412	1,815	1,903	2,736	3,037	12,647	13,349
Net Fixed Assets	868	563	728	1,042	1,224	1,259	2,039	2,113	1,582	2,089
Investments	8	5	4	29	29	65	28	33	1,482	6,964
Net Current Assets	426	284	253	342	563	580	669	891	9,584	4,297
Total Assets	1,302	852	985	1,412	1,815	1,903	2,736	3,037	12,647	13,349

MANAGEMENT DISCUSSION & ANALYSIS

FY2012 KEY HIGHLIGHTS:

- Demerger of NCE R&D unit of Piramal Life Sciences into Piramal Healthcare
- Entry into Financial Services business by setting up an NBFC
- Acquisition of INDIAREIT Fund Advisors and INDIAREIT Investment Management
- Financial investment in Vodafone for \$1.2 billion (acquired ~11% equity stake)

Demerger of PLSL's NCE research unit into PHL:

During the year, the NCE R&D unit of Piramal Life Sciences Limited (PLSL) was demerged into PHL as per the scheme of arrangement approved by the Bombay High Court. Under the scheme, each shareholder of PLSL was allotted one fully paid up equity share of ₹ 2 of PHL for every four shares of ₹ 10 each held in PLSL. All assets and liabilities of the NCE division were transferred to PHL at book value.

The rationale behind the demerger of PLSL's R&D unit into PHL is to get access to the innovative platform of PLSL through which PHL can build its innovative discovery and commercialisation business. PHL can better utilise its manufacturing infrastructure and leverage its marketing experience with products from the division.

The detailed discussion on the pipeline is given in the subsequent parts of Management discussion & analysis section.

Entry into Financial Services Sector:

Piramal Healthcare has been evaluating various sectors to invest proceeds received on sale of the Healthcare Solutions business, in a way that results in long term value creation for shareholders. With this objective in mind, PHL has forayed in Financial Services sector. India has had strong GDP growth in the past decade and is likely to continue with 7-8% GDP growth rate for the next decade. Given sound economic fundamentals, rising disposable income and growth of credit oriented culture; the financial services sector is poised for strong growth in India. To participate in this growth story, PHL has decided to invest in the financial services sector.

To begin with, PHL has commenced lending to real estate sector and other sectors such as education through a Non Banking Finance Company – PHL Finance Pvt. Ltd.

Acquisition of INDIAREIT Fund Advisors & INDIAREIT Investment Management:

Towards building a strong financial services business, Piramal Healthcare has acquired INDIAREIT Fund Advisors Pvt. Ltd. and INDIAREIT Investment Management Company for the total consideration of ₹ 225 crores. INDIAREIT Fund Advisors Pvt. Ltd. is advisors to the INDIAREIT Fund which is a domestic real estate private equity fund focused on the Indian markets. INDIAREIT Investment Management Company is manager to offshore real estate private equity funds investing in India through the FDI route. They have a demonstrated track record of raising and deploying effectively large sums of capital in the real estate sector in India. As on 31st March, 2012, the total fund size under management for these funds is ₹ 4,187 crores.

Investment in Vodafone India:

After the sale of Healthcare solutions business to Abbott, PHL has significant funds which will be invested in growing existing businesses and building new businesses. However, the whole process of finding the right strategic investment opportunity will take time. In the interim, PHL has acquired ~11% stake in Vodafone India Limited for a consideration of ₹ 5,864 crores (US\$ 1.2 billion) in two tranches, first ~5.5% for ₹ 2,858 crores in August 2011 and second ~5.5% for ₹ 3,006 crores in February 2012. The rationale for this investment was to utilize surplus funds from sale of healthcare solutions. We believe this investment will generate attractive return.

FINANCIALS - FY2012: (CONSOLIDATED) AT A GLANCE

The Management Discussion & Analysis presented below and in the subsequent pages is prepared for continuing businesses (i.e. excluding financials of Healthcare Solutions business and Piramal Diagnostic Services Pvt. Ltd. for FY2011).

Summary - consolidated:

• Total Operating Income	: ₹ 2,352.3 crores
• R&D Expenses	: ₹ 233.1 crores
• EBITDA	: ₹ 471.3 crores
• Net Profit	: ₹ 115.3 crores
• Gross margins (sales less material costs)	: From 65.5% to 60.6% in FY2012
• EBITDA Margin	: From 18.9% to 20.0% in FY2012

Revenue and Profits - consolidated:

• Total Operating Income growth	: 17.1%
• Pharma Solutions sales growth	: 32.7%
• Piramal Critical Care sales growth	: 6.4%
• OTC & Ophthalmology sales growth	: 12.3%
• EBITDA growth	: 24.4%

OPERATIONS HIGHLIGHTS – Consolidated

Pharma Solutions:

- New contract signed for commercial manufacturing of off-patent product on an exclusive basis for a large pharma company
- Significant ramp-up in volumes from a key customer for an ongoing contract at Digwal site
- Capacity utilisation of oral solid dosage improved significantly
- Our facilities at Pithampur, Digwal and Toronto cleared USFDA audit successfully

Piramal Critical Care:

- Settled patent litigation with Baxter related to generic version of Baxter's SUPRANE® (desflurane)
- Increased market share in US for sevoflurane
- Received registrations for sevoflurane in 28 EU countries

OTC & Ophthalmology:

- Rank moved from 9th to 7th in OTC market in India, market share increased from 1.3% to 1.5% in FY2012
- Lacto Calamine and Saridon were elected as superbrands during the year
- Extended i-pill franchise across women's intimate range of products

Innovative Discovery & Commercialisation:

- Completed a Phase I/II trial for P276 in combination with gemcitabine for pancreatic cancer in India
- Completed Phase I trials of P1446, an oral Oncology molecule in India and Canada
- Received European CE mark approval in April 2012 for innovative bio-orthopaedic product for cartilage repair BST-CarGel®

Financial Services Business:

- Commenced lending to real estate companies; highly experienced team in place
- Built high quality loan book of ₹ 351 crores as on 31st March 2012
- INDIAREIT received a mandate from Trafalgar/F&C Reit to manage their India investment (Amount: US\$ 36 million)

Net Sales Analysis (Consolidated):

PHL's Pharma Solutions business grew by 32.7% to ₹ 1,354.5 crores against ₹ 1,020.6 crores for FY2011. Revenue from Critical Care grew by 6.4% to ₹ 412.6 crores as compared to ₹ 387.7 crores in FY2011. Sales from OTC & Ophthalmology segment was ₹ 220.0 crores as compared to ₹ 195.8 crores in FY2011 registering growth of 12.3% for the year. Income from Financial Services business was ₹ 53.4 crores for the year.

The break-up of aggregate Total Operating Income is as under:

₹ In Crores

No.	Total Operating Income Break-up	% Sales	Year ended		% Growth
			31 st March 2012	31 st March 2011	
1	Pharma Solutions	57.6	1,354.5	1,020.6	32.7
	From assets in India	34.0	800.8	524.5	52.7
	From assets outside India	23.5	553.7	496.1	11.6
2	Piramal Critical Care	17.5	412.6	387.7	6.4
3	OTC & Ophthalmology	9.4	220.0	195.8	12.3
4	Financial Services	2.3	53.4	-	-
5	Investment Income	9.3	219.4	335.8	(34.7)
6	Others	3.9	92.6	68.9	34.4
Total		100	2,352.3	2,008.8	17.1

BUSINESS PERFORMANCE

PHARMA SOLUTIONS (CUSTOM MANUFACTURING)

Market commentary:

The global pharma outsourcing market grew at 15% CAGR from US\$ 44 billion in 2007 to US\$ 67 billion in 2010 (Source: CRAMS India report of ICRA Limited dated June 2011). The global outsourcing trend is likely to continue fuelled by the mounting healthcare costs in developed economies and decreasing profitability of pharma companies due to patent expiry of several blockbuster drugs. Strong growth prospects for the industry are backed by cost pressures for innovative companies and increasing genericisation. The de-stocking exercise of client companies is over and the industry is back to its normal growth trajectory. Established relationships & trust with innovators, quality infrastructure, good regulatory track record and low production & R&D cost will aid strong growth for the Indian companies operating in this sector.

Piramal Healthcare's performance:

The revenues from Pharma Solutions business grew by 32.7% to ₹ 1,354.5 crores in FY2012 as compared to ₹ 1,020.6 crores in FY2011. The revenues from Indian assets grew by 52.7% to ₹ 800.8 crores against ₹ 524.5 crores in FY2011. The sales from assets outside India increased to ₹ 553.7 crores, up by 11.6%.

Significant growth in API business:

Pharma Solutions sales from API division registered significant growth on the back of ramp up of sales in an existing contract with a key customer. A new contract was signed for commercial manufacturing of off-patent product on an exclusive basis for a large pharma company. During the year, DMFs were filed for five new APIs.

Scale-up of packaging business at Morpeth:

Over the last few years, we have built a robust clinical trial packaging business at our Morpeth, U.K. facility. During the year, we secured contract for packaging for Pfizer's key formulation in the U.S. market. The site has now end to end supply chain service.

Increased capacity utilisation at formulation facility:

Capacity utilisation for solid oral dosage has seen significant improvement during the year.

Audits done/Awards won:

During the year our sites at Digwal, Pithampur and Toronto went through successful USFDA inspection.

PIRAMAL CRITICAL CARE

Revenue from Critical Care business was ₹ 412.6 crores as compared to ₹ 387.7 crores in FY2011 registering growth of 6.4%. The growth was lower due to pricing pressure on sevoflurane in some markets and delayed regulatory approvals.

Settlement of patent litigation with Baxter:

During the year, PHL settled the patent litigation with Baxter Healthcare Corporation related to generic version of Baxter SUPRANE® (desflurane), inhalation anaesthetic agent typically used in the hospital. Under the settlement, PHL may launch desflurane in the United States as of 1st January 2014, subject to US regulatory approval. However, PHL may manufacture generic desflurane from 24th April 2012 solely for sale outside the United States in markets where it has obtained or will obtain regulatory registrations.

Increased market share in US for sevoflurane:

PHL's market share for sevoflurane in US has increased from 20% in March 2011 to 25% in March 2012 in volume terms.

Expansion in European Union:

During the year, PHL has received registrations for sevoflurane in 28 countries in European Union. PHL is currently focusing on preparing to launch sevoflurane in top 6 markets in EU.

OTC & OPHTHALMOLOGY

Sales from OTC & Ophthalmology business grew by 12.3% to ₹ 220.0 crores in FY2012 as compared to ₹ 195.8 crores in FY2011. PHL's rank improved from 9th to 7th in OTC market in India in FY2012. The market share has also gone up from 1.3% to 1.5%. During the year, PHL has extended i-pill franchise across women's intimate range of products.

INNOVATIVE DRUG DISCOVERY & COMMERCIALISATION

During the year, the NCE R&D unit of Piramal Life Sciences Limited (PLSL) was demerged into PHL.

This is product focused biopharmaceutical unit specializing in the discovery and development of novel small-molecule drugs. The strategy is to discover and optimize compounds to meet important unmet medical needs in the target markets of cancer, metabolic disorder, inflammatory and infectious diseases. The operating spend on NCE R&D expense for FY2012 was ₹ 138.1 crores.