



Piramal Enterprises Limited
ANNUAL REPORT 2012-2013

THE BOARD OF DIRECTORS

Ajay G. Piramal, *Chairman*

Swati A. Piramal, *Vice - Chairperson*

Gautam Banerjee
(*w.e.f. April 1, 2013*)

Amit Chandra

Keki Dadiseth

R.A. Mashelkar

Goverdhan Mehta

Siddharth Mehta
(*w.e.f. April 1, 2013*)

Nandini Piramal, *Executive Director*

S. Ramadorai

Deepak Satwalekar

Vijay Shah, *Executive Director and Chief Operating Officer*

N. Vaghul

BANKERS

Allahabad Bank

Australia & New Zealand Banking Group Limited

BNP Paribas

Citibank N.A.

Credit Agricole Corporate and Investment Bank

HDFC Bank Limited

Kotak Mahindra Bank Limited

The Hongkong & Shanghai Banking Corporation Limited

Yes Bank Limited

AUDITORS

Price Waterhouse

SOLICITORS

Crawford Bayley & Co.

REGISTERED OFFICE

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

“Values determine how we engage with others,
what we identify with,
what we care about and
what we deem worth fighting for.”

At the Piramal Group, our core values of 'Knowledge, Action and Care' have been an integral part of our guiding philosophy. We believe that living by our values is not just important but imperative.

To ensure consistent understanding and alignment of behaviours with our values across the entire organization, during the last year, we took up an exercise to articulate the precise definitions of 'Knowledge, Action and Care' and subsequently arrived at the behaviours which we need to exhibit at the workplace in order to truly live our values. The output from this exercise will shape key processes like customer management, strategy formulation, performance management, recruitment, induction, talent development, etc. Through a series of employee focus group discussions, structured workshops, culture assessment questionnaires and leadership discovery interviews, our core values have been defined as:

Knowledge

Expertise: We strive for a deeper understanding of our domain.

Innovation: We aspire to do things creatively.

Action

Entrepreneurship: We are empowered to act decisively and create value.

Integrity: We are consistent in our thought, speech and action.

Care

Trusteeship: We protect and enhance the interests of our customers, community, employees, partners and shareholders.

Humility: We aspire to be the best, yet strive to be humble.

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This Annual Report can also be accessed at the Company's website, www.piramalenterprises.com

CHAIRMAN'S LETTER



Dear Shareholders,

My warm greetings to all of you.

During the financial year 2013, we made the transition from exploring opportunities for deploying capital to defining and executing growth strategies for our existing and new businesses. We laid the foundations for building a strong and sustainable global enterprise as under:

Focus on three sectors

We have now committed to building our presence in three sectors: Pharmaceuticals, Financial Services and Information Management. We made significant investments in each of these areas during financial year 2013:

- We acquired Decision Resources Group, US (DRG) as the growth platform for our Information Management business. DRG is the gold standard provider of syndicated research, information and analytics to the global healthcare industry with a strong management team.
- We acquired Bayer's Molecular Imaging business and successfully hired key Bayer employees, ensuring a smooth transition to Piramal Imaging. This team has achieved a significant milestone with the US Food and Drug Administration (USFDA) and the European Medicines Agency (EMA) submissions for approval of Florbetaben, a diagnostic imaging agent for diagnosing Alzheimer's disease better.
- We substantially grew our NBFC business in the Real Estate Sector and started lending to the Education Sector as well. We made two structured investments in the Infrastructure Sector aggregating ₹ 925 Crores.

Quality and Depth of Management Team

We enhanced the quality and depth of our management team by:

- Making senior appointments in existing businesses,
- Bringing onboard best-in-class leaders in our new lines of business,
- Adding depth to our corporate functional departments and
- Building our talent pipeline by bringing in experienced managers and reorganizing operating responsibilities in specific areas.

The leadership team at Piramal Enterprises Limited (PEL) is focused on execution and building a performance-oriented organization. We are starting to see early results from the leadership changes and from the renewed focus on operating metrics in each of our businesses.

We have also formulated sub-committees of the Board and constituted Advisory Boards which play an active role in both strategy formulation as well as in critical operational decisions. This is enabling us to bring world class thinking into our diverse businesses.

Building our Governance Systems and Enterprise Risk Management Capability

We have strengthened our governance systems to match the changing profile of the company. We undertook a project to assess the issues related to governance, risk and compliance. This is enabling us to put in place adequate systems and processes for identification, reporting and mitigation of risks, and for ensuring compliance.

We have further strengthened our Board of Directors with the additions of:

- **Siddharth N. Mehta**, who brings senior executive level experience and extensive knowledge of the banking industry and financial markets to our Board of directors. Mr. Mehta is a former President and Chief Executive Officer of Transunion. He was also the Chief Executive Officer of HSBC Finance Corporation and HSBC North America Holdings, Inc. He has served

as a Senior Vice President at the Boston Consulting Group in Los Angeles and co-leader of Boston Consulting Group's Financial Services Practice, where he developed retail, insurance and investment strategies for a variety of financial service clients. He also serves on the board of directors of TransUnion LLC, DataCard Group, the Chicago Public Education Fund, the Field Museum and the Myelin Repair Foundation. Mr. Mehta has an undergraduate degree from the London School of Economics and an MBA from the University of Chicago.

- **Gautam Banerjee**, who has extensive experience in the realm of finance, accounting and management. Mr. Banerjee is currently a Senior Advisor with Blackstone Group and Chairman of Blackstone, Singapore. Mr. Banerjee has held various positions during his association with Pricewaterhouse Coopers ('PwC'), from 1982 to 2012. Mr. Banerjee has been a member of various statutory boards / committees of the Government of Singapore and has also been a member of several Industry Associations in Singapore. He was a Nominated Member of Parliament in Singapore from 2007 to 2009. He is also an Independent Director of Singapore Airlines Limited, the Government of Singapore Investment Company Ltd. and the Straits Trading Company Ltd. He is a graduate from the University of Warwick, England and is a member of the Institute of Chartered Accountants in England and Wales and also a member of the Institute of Certified Public Accountants, Singapore.

'One Piramal' Values and Purpose

We initiated the process for building the 'Piramal Way' that brings together its people and stakeholders. We articulated our values as 'Knowledge, Action, Care'. We defined the *One Piramal* purpose as 'Doing Well and Doing Good – Making a positive difference, serving people and living our values'. We are in the process of making our values and purpose an integral part of the way we work and engage all our stakeholders at PEL.

Our efforts in laying the foundations for a sustainable growth have started showing results, and are reflected in PEL's overall financial results. Our FY2013 revenues have increased by 51% to ₹ 3,544 cr. The rest of this letter highlights our key financial achievements in the three sectors - Pharmaceuticals, Financial Services and Information Management:

Update on Pharmaceutical businesses

After a robust growth in FY2012, revenue from Pharma Solutions business continued to grow in FY2013. This increase in revenue came from across our operations in India and outside India. The contract development and manufacturing market continues to expand, driven by Pharmaceutical industry's need for reducing costs and improving R&D productivity. PEL's Pharma Solutions business with its asset mix that offers a combination of eastern and western assets, proximity to target market, good relationship with global pharmaceutical companies, excellent regulatory and execution track record is well placed to leverage this trend.

The Critical Care business grew revenues at an impressive rate in FY2013. This growth came primarily from increase in share of Sevoflurane market in the US. The business is poised for further growth in the next few years with the launch of Sevoflurane in Europe and potential launch of Desflurane in the coming years. The Critical Care business has an infrastructure to sell anesthetic products and other critical care products to hospitals in over 100 countries. We continue to strengthen this marketing, sales and distribution infrastructure.

Sales from our OTC and Ophthalmology businesses increased at above industry growth rates in FY2013. Our OTC business has a strong brand portfolio, which we continue to develop through new launches. This portfolio should drive growth over the long term, given low penetration levels and high growth profile of the Indian market. We are also looking to expand our portfolio through inorganic initiatives. Our JV with Allergan in India for Ophthalmology products has a leading market share in India and continues to benefit from the expanding market in India.

During the year, we acquired worldwide rights to the molecular imaging development portfolio of Bayer Pharma AG. We filed the New Drug Application (NDA) for our lead compound, Florbetaben, during the year. This NDA has been accepted by USFDA and EMA for review. Florbetaben is used for early diagnosis of Alzheimer's disease through detection of beta-Amyloid plaque deposition in the brain. We believe Florbetaben addresses a significant unmet medical need and will help improve lives of millions. We would look to obtain regulatory approval for Florbetaben in the US and Europe and prepare for launch in Q4 of FY2014.

Our New Chemical Entity (NCE) unit in Mumbai has a strong pipeline of 13 drugs with 11 drugs in clinical trials phase and is focused on three therapeutic areas – Cancer, Diabetes and Inflammation. We will continue developing our clinical and pre-clinical NCE and Imaging pipeline according to plan and also pursue inorganic opportunities in the future.

Update on the Financial Services businesses

During the year, we have substantially grown our lending operations for the Real Estate Sector and have also started lending to the Education Sector. This enabled us to grow our loan book to ₹ 1,591 Crores as at March 31, 2013 from ₹ 351 Crores as at March 31, 2012. During the coming year, we will continue to scale up the NBFC business and evaluate opportunities for entry into other high growth areas of the financial services landscape in India. We believe that the NBFC business offers significant growth opportunities for PEL over the long term.

PEL made its first two structured investments in the Infrastructure Sector aggregating ₹ 925 Crores. Of this, ₹ 425 Crores were invested before March 31, 2013 while the rest were invested in April 2013. During the coming years, we will build a sustainable business model for making such investments.

Our real estate fund management platform, INDIAREIT had ₹ 4,257 Crores under management as of March 31, 2013. INDIAREIT successfully raised another fund for Mumbai Redevelopment projects of ₹ 400 Crores under difficult market conditions during the year. INDIAREIT is also in the process of making exits worth ₹ 440 Crores for some of the earlier funds.

Update on Information Management business

We completed acquisition of DRG in June 2012 for a consideration of US\$ 635 million (~₹ 3,400 Crores). DRG is a growth platform for our Information Management business and we further strengthened it through acquisition of Abacus International, UK in December, 2012. This acquisition will help our information management business to grow in Europe. DRG has approximately 200 analysts, including 100+ highly experienced PhDs, MDs, MPHs and other key industry experts. DRG has an organic growth strategy in place and we would continue to make tuck-in acquisitions to expand our presence in the information management industry.

While PEL continues to grow across the three sectors with long term growth opportunities, we continue to pursue initiatives that co-opt its stakeholders and build a sustainable global enterprise. The *One Piramal* purpose of 'Doing Well' and 'Doing Good' is reflected in the work undertaken by PEL through the Piramal Foundation. The Foundation today operates at scale with wide reaching impact as under:

- **Healthcare:** Health Management and Research Institute (HMRI) reaches 50 million patients across 6 states.
- **Education:** The education leadership programs reach 120,000 school children through 750 principals and 250 Piramal fellows.
- **Water:** Sarvajal provides clean drinking water to over 100,000 people every day.
- **Rural empowerment:** Source for Change, a rural BPO, has created rural empowerment for over 400 beneficiaries.
- **Other initiatives:** We support Annamrita (ISKON Food Relief Foundation) in providing meals to 50,000 students daily. In addition, we continue to actively support Pratham and Chinmaya Mission, amongst others, in their endeavors.

We are focused on building a strong and sustainable global business enterprise that will create shareholder value over the long term. I thank you for your continued faith and support.

Warm regards,

Ajay G. Piramal

Chairman

Date : May 3, 2013

10 YEARS FINANCIAL HIGHLIGHTS

Details (₹ in Crores)	FY2004	FY2005	FY2006	FY2007	FY2008	FY2009	FY2010	FY2011	FY2012	FY2013
Profit & Loss Account										
Total Income	1,413	1,342	1,623	2,472	2,879	3,288	3,777	2,009	2,352	3,544
EBITDA	304	203	238	384	548	589	833	379	471	611
Interest	24	19	17	31	46	84	184	89	215	575
Profit Before Tax	203	211	148	267	373	341	500	16,415	121	-193
Profit after Tax	200	164	124	228	334	316	482	12,736	115	-227
Earnings per Share (₹)	52.1	8.5*	5.8	10.3	15.9	15.1	21.4	572.2**	6.6	-13.2

* 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)	FY2004	FY2005	FY2006	FY2007	FY2008	FY2009	FY2010	FY2011	FY2012	FY2013
Balance Sheet										
Share Capital	91	91	95	80	42	42	42	34	35	35
Reserves & Surplus	367	462	919	1,006	1,051	1,275	1,643	11,803	11,208	10,689
Minority Interest	-	4	3	1	5	7	-	6	10	15
Debt	356	368	311	639	716	1,339	1,295	757	2,047	7,688
Net Deferred Tax	38	60	84	89	90	73	57	48	50	-46
Total Liabilities	852	985	1,412	1,815	1,903	2,736	3,037	12,647	13,349	18,381
Net Fixed Assets	563	728	1,042	1,224	1,259	2,039	2,113	1,582	2,089	6,081
Investments	5	4	29	29	65	28	33	1,482	6,964	7,877
Net Current Assets	284	253	342	563	580	669	891	9,584	4,297	4,423
Total Assets	852	985	1,412	1,815	1,903	2,736	3,037	12,647	13,349	18,381

MANAGEMENT DISCUSSION & ANALYSIS

FY2013 KEY HIGHLIGHTS:

Acquisition of Decision Resources Group, Inc. (US) and Abacus International (UK)

Piramal Enterprises Limited (PEL) completed acquisition of Decision Resources Group (DRG), a US based provider of high quality, web-enabled research, predictive analytics via proprietary databases and consulting services to the global healthcare industry, for a consideration of approximately US\$ 635 million (~ ₹ 3,400 Crores) in June 2012. With 20% revenue CAGR for the last five years, it is one of the fastest growing companies in the US\$ 5.7 billion global healthcare information industry. It has 48 of the top 50 global pharmaceutical companies as its customers. The overall customer retention rate is 94%. The company, now a subsidiary of PEL, generated revenues of ₹ 649.6 Crores in FY2013. In December 2012, DRG acquired Abacus International, a UK based pioneer in evidence-based global market access solutions for many of the world's leading healthcare companies.

Acquisition of Bayer's Molecular Imaging Development Portfolio

PEL acquired worldwide rights to the molecular imaging research and development portfolio of Bayer Pharma AG through its newly created subsidiary – Piramal Imaging SA in April 2012. The portfolio includes rights to Florbetaben amongst a pipeline of other molecules. Florbetaben is a PET tracer for the detection of beta-Amyloid plaque deposition in the brain, which is the pathological hallmark of disease in probable Alzheimer's disease patients. Phase III trial showed that PET imaging with Florbetaben reliably detects beta-Amyloid in the brain during life with great accuracy and thus shows value as a potential tool to aid in the diagnosis and assessment of Alzheimer's disease. The molecule has been accepted for review by the US Food and Drug Administration (FDA) in March 2013 and by the European Medicines Agency (EMA) in January 2013.

Expansion of Financial Services Business

During this year, PEL started lending to the education sector and has explored new geographies like Bhopal, Coimbatore and NCR. The loan book to Real Estate and Education Sectors has increased to ₹ 1,591 Crores as on March 31, 2013 from ₹ 351 Crores as on March 31, 2012. PEL has also made two structured investments aggregating to ₹ 925 Crores. The first investment of ₹ 425 Crores was made in March 2013 through Optionally Convertible Debentures in Navayuga Road Projects Pvt. Ltd. (NRPL), the road subsidiary of the ₹ 3,000 crore Navayuga Engineering Company (NECL). Another investment of ₹ 500 Crores was made in April 2013 through Optionally Convertible Debentures in Green Infra Ltd., one of the largest clean energy Independent Power Producers (IPPs) in the country funded by IDFC Private Equity.

INDIAREIT, which manages funds for investments in real estate sector, has ₹ 4,257 Crores under management as on March 31, 2013. INDIAREIT raised ₹ 400 Crores for Mumbai Redevelopment Fund during FY2013 and is currently raising a new domestic fund with targeted fund size of ₹ 750 Crores along with green shoe option of ₹ 250 Crores.

Change of Name to Piramal Enterprises Limited

With effect from July 31, 2012, the name of the company stands changed from 'Piramal Healthcare Limited' to 'Piramal Enterprises Limited'. The change in the name was done in order to appropriately reflect the changing business profile of the Company.

BUSINESS PERFORMANCE

Pharmaceuticals Businesses

Pharma Solutions

The market for Global Outsourcing is expected to grow to US\$ 45 Bn by 2015 at a compounded annual growth rate of 12% per year (*Source: Scrip Insights 2012). The global outsourcing trend is likely to continue, driven by the rising healthcare costs in developed countries and reducing profitability of pharmaceutical companies due to patent expiry of various blockbuster drugs. Long term prospects for the industry are backed by cost pressures for innovative companies and increasing genericisation. Established relationships and trust with innovators, quality infrastructure, good regulatory track record and low production and R&D costs should place PEL in a good position to take advantage of this trend.

In the context of this market outlook, PEL's revenues from Pharma Solutions business grew by 14.7% to ₹ 1,553.3 Crores in FY2013 as compared with ₹ 1,354.5 Crores in FY2012. The revenues from both Indian assets and assets outside India grew by 14.7% to ₹ 918.5 Crores against ₹ 800.8 Crores in FY2012 and to ₹ 634.8 Crores against ₹ 553.7 Crores in FY2012, respectively.

Continued contract flows into overseas facilities:

Increase in demand for existing products was seen during the year. Order booking for the late phase commercial business increased in FY2013 as compared with FY2012. Long term commercial contracts were signed at Morpeth in FY2013. Our relationship with PEL's key partner, Pfizer, at Morpeth, continued to grow. The year saw a strong pipeline of enquiries, especially for the ADCs business at Grangemouth. In October 2012, PEL entered into a strategic alliance with Fujifilm Diosynth Biotechnologies, whereby the two parties intend to offer seamless contract development and manufacture of ADCs, a growing niche in the development of biopharmaceuticals.

Regulatory Audits:

The MHRA Audit at Morpeth and Grangemouth and EU-GMP Audit at the Formulation Development site at Ahmedabad were completed successfully.

Recognition:

The Pithampur facility was awarded the 'Platinum Award – Pharma Sector, Medium business' by India Manufacturing Excellence Awards (IMEA) in partnership with Frost and Sullivan while the Digwal facility was awarded the 'Best Audit Performance' award in the category of Occupational Health and Safety Award – 2012.

Critical Care

Revenue from Critical Care business was ₹ 616.1 Crores as compared with ₹ 412.6 Crores in FY2012, registering a growth of 49.3%. The high growth rate is on account of gaining greater share of the Sevoflurane market in the US and some other emerging markets. PEL's market share in terms of volume for Sevoflurane in US has increased from 25% in March 2012 to 30% in March 2013. Major Group Purchasing Organization (GPO) contracts have been renewed for next two years in the US. PEL has more than 50% market share in some of the emerging markets. There has been a meaningful increase in market share in countries such as Turkey and Indonesia. Several tenders were won this year in emerging markets including Mexico, Peru, Kazakhstan and South Africa. Sevoflurane was also launched in the European markets this year. The product will be marketed by direct field force in some countries while association with marketing partners will continue in most of the other countries. Isoflurane sales volumes were also higher as compared with last year.

OTC and Ophthalmology

Sales from OTC and Ophthalmology business grew by 23.3% to ₹ 271.2 Crores in FY2013 as compared with ₹ 220.0 Crores in FY2012. The OTC sales force and distribution network now covers 400,000 retailers in 485 'one-lakh+ towns' in India. New products and brands were launched through FY2013 – Lacto Calamine Reneu, Lacto Calamine Sun Screen, Polycrol+, extensions of Jungle Magic brand of perfumes and Jungle Magic Mosquito Bandtiz. 'Lacto Face wash' was awarded the 'Star 2012' for excellence in packaging by Indian Institute of Packaging. We launched several new OTC products and brands in FY13, viz. Lacto Calamine Reneu, Lacto Calamine Sun Screen, Polycrol+, extensions of Jungle Magic brand of perfumes and Jungle Magic Mosquito Bandtiz.

Allergan India Limited (AIL) is a 51:49 Joint Venture for Ophthalmic products between Allergan Inc., USA and PEL. Total revenues of AIL were ₹ 205.4 Crores (FY2012 Total Revenue: ₹ 168.6 Crores). The Operating Profit for FY2013 was ₹ 45.6 Crores as compared with ₹ 40.3 Crores in FY2012. Profit after Tax for FY2013 was ₹ 29.2 Crores as compared with ₹ 25.6 Crores for FY2012.

Life Sciences

PEL is working on discovering and optimizing compounds to meet important unmet medical needs in the target markets of cancer, diabetes and inflammation. Spend on R&D expenses for FY2013 was ₹ 286.7 Crores vis-à-vis ₹ 233.1 Crores in FY2012.

NCE Research:

The broad highlights of progress made in key therapy areas are given below:

- **Oncology:**

During the year, the Oncology portfolio has made progress with the completion of two clinical trials for P276-00 for Head and Neck Cancer: a Phase II trial with P276-00 as a single agent and Phase I/II in combination with radiation. Also, the Phase