

PIRAMAL ENTERPRISES LIMITED



# Annual Report 2016-17



**24% CAGR**

of Annual Revenues  
over the last 29 years<sup>1</sup>

**30%  
Annualised  
return**

to shareholders over the  
last 29 years<sup>2</sup>

**29% CAGR**

of Net Profit over the  
last 29 years<sup>1</sup>

**Over  
₹ 48,900  
Crores**

Current market  
capitalisation<sup>3</sup> of  
the Company

**Over  
₹ 54,800  
Crores**

Total value created

**Over  
₹ 5,900  
Crores**

Capital returned to  
shareholders through  
dividends and  
buybacks till date



Notes:

1. 1988 revenue and PAT numbers were for the year ending June 30, 1988. 1988 numbers are as per Indian GAAP; FY2017 numbers are reported as per IndAS.
2. Total shareholder returns compounded annually from Factset as on May 19, 2017 (assumed dividend reinvested in the stock on ex dividend date, price adjusted for stock splits and special dividend)
3. Market capitalisation as on May 19, 2017

Forward-looking statement

In this Annual Report, we have disclosed forward-looking information to enable investors to comprehend our prospects and take investment decisions. This report and other statements- written and oral- that we periodically make, contain forward-looking statements that set out anticipated results based on the management's plans and assumptions. We have tried, wherever possible, to identify such statements by using words such as 'anticipate', 'estimate', 'expect', 'project', 'intend', 'plan', 'believe', and words of similar nature in connection with any discussion of future performance. We cannot guarantee that these forward-looking statements will be realised, although we believe we have been prudent in our assumptions. The achievements of results are subject to risks, uncertainties and even inaccurate assumptions. Should known or unknown risks or uncertainties materialise, or should underlying assumptions prove inaccurate, actual results could vary materially from those anticipated, estimated or projected. Readers should keep this in mind. We undertake no obligation to publicly update any forward-looking statement, whether as a result of new information, future events or otherwise.

# SCIENCE BEHIND

# consistency

## CONTENTS

<b>STRATEGIC OVERVIEW</b>	<b>1 - 29</b>
Company at a Glance	2
Chairman's Message	4
FY2017 Highlights	8
Key Performance Indicators	10
Our Integrated Value Creation Model	12
Values-Driven Culture	14
Efficient Capital Allocation	15
Constantly Building Businesses	16
Governance	18
Building Trusted Relationships	22
Constant Innovation Driving Operational Excellence	23
Delivering Value To All Stakeholders	
• Employees	24
• Customers	25
• Investors	26
• Society	27
Future Roadmap	28
<b>MANAGEMENT DISCUSSION AND ANALYSIS</b>	<b>30-87</b>
Financial Review	31
Operation Review – Financial Services	34
Operation Review – Pharma	48
Operation Review – Healthcare Insight and Analytics	62
Risk Management	68
Human Resources	72
Information Technology	78
Environment, Health and Safety	80
Corporate Social Responsibility	82
10-Year Financial Highlights	86
Awards and Recognition	87
<b>BOARD &amp; MANAGEMENT PROFILES</b>	<b>88-95</b>
Board of Directors	88
Management Team	93
<b>STATUTORY REPORTS</b>	<b>96-157</b>
Report on Corporate Governance	96
Board's Report	110
Annexures to Board's Report	117
<b>FINANCIAL STATEMENTS</b>	<b>118-373</b>
<b>Standalone</b>	
Independent Auditors' Report	158
Balance Sheet	164
Statement of Profit and Loss	165
Statement of Changes in Equity	166
Cash Flow Statement	167
Notes to Financial Statements	169
Form AOC-1	250
<b>Consolidated</b>	
Independent Auditors' Report	253
Consolidated Balance Sheet	258
Consolidated Statement of Profit and Loss	259
Statement of Changes in Equity	260
Consolidated Cash Flow Statement	261
Notes to Consolidated Financial Statements	263
Notice	374

**"AT PIRAMAL ENTERPRISES, CREATING VALUE FOR ALL STAKEHOLDERS, INCLUDING OUR SHAREHOLDERS HAS BEEN A DEFINING ELEMENT OF OUR IDENTITY. OVER THE PAST 29 YEARS, SINCE THE ACQUISITION OF NICHOLAS LABORATORIES, WE HAVE DELIVERED ANNUALISED SHAREHOLDER RETURNS OF 30%, A MILESTONE VERY FEW INDIAN COMPANIES HAVE ACHIEVED.**

The consistency of our performance is the outcome of an integrated value creation model, wherein multiple parameters and metrics work in tandem with financial and operating performance to realise sustainable growth for the long-term.

**Our performance is underpinned by a values-driven culture, efficient capital allocation, strong corporate governance and an entrepreneurial spirit. We are in a state of continuous transformation through a strong drive for innovation, while remaining focused on talent development, quality, compliance and effective risk management.**

Our unblemished track record and our integrity in dealing with stakeholders are key factors that inspire multiple global collaborations with reputed partners, across our businesses."

# Company at a Glance

## PIRAMAL ENTERPRISES



### FINANCIAL SERVICES

Wholesale Lending

Alternative Asset Management

Housing Finance

Investments in Shriram



### PHARMA

Global Pharma

India Consumer Products



### HEALTHCARE INSIGHT AND ANALYTICS

Decision Resources Group



## FINANCIAL SERVICES

PEL's Financial Services segment offers a comprehensive suite of financial products to meet the diverse and evolving needs of its customers. The Company has created its unique positioning in the financial services space through its strong presence in the following sub-segments:

### Wholesale Lending

- **Loan book of ₹24,975 Crores** - lending to real estate developers and under Corporate Finance Group (CFG) providing financing solutions to various businesses across varied sectors
- **Consistently expanding product portfolio** across both Real Estate developer financing and Corporate Financing platforms

### Alternative Asset Management

- **₹7,157 Crores of alternative assets** under management
- **Strategic alliances** with large reputed partners like APG, CPPIB, Bain Capital Credit and Ivanhoé Cambridge (a real estate subsidiary of CDPQ)

### Housing Finance

- **Applied to National Housing Bank** for incorporating a Housing Finance Company (HFC)
- **Will leverage PEL's strong relationship** with Real Estate developers to diversify its lending into retail finance

### Investment in Shriram Group

20% stake in Shriram Capital (SCL)

~10% stake in Shriram City Union Finance (SCUF)

~10% stake in Shriram Transport Finance (STFC)

Mr. Ajay Piramal is the Chairman of Shriram Capital

## PHARMA

In Pharma, PEL enjoys a strong presence in Global Pharma and India Consumer Products businesses.

### Global Pharma

- **Strong portfolio of differentiated branded generic products**, API generics and vitamins
- **Provides end-to-end contract development** and manufacturing capabilities across APIs and formulations
- **Large distribution network** in 110+ countries

- **13 manufacturing facilities in North America, Europe and Asia** - all key sites are periodically approved by USFDA
- **Strong presence** in the US, Europe, India and Japan
- **Only global company** with all four generations of inhalation anaesthesia products

### India Consumer Products

- **Strong brand portfolio** with 6 brands among the top 100 brands of India
- **Wide distribution network** reaching 420,000 outlets across 2,000 towns with 20,000+ population
- **Asset-light model** with third-party manufacturing
- **JV with Allergan** - India leader in ophthalmology

## HEALTHCARE INSIGHT AND ANALYTICS

PEL's Healthcare Insight and Analytics business, Decision Resources Group (DRG), is a best-in-class, decision support platform in the healthcare information services space.

It provides indispensable insights to life sciences companies, and healthcare providers and payers, through a variety of high value-added data and analytics, research reports and knowledge-based services. These offerings enable customers to make informed investment, cost containment, commercial optimisation and strategic business decisions in their chosen markets.

- **Product categories** - Data and Analytics, Research Products and Global Consulting Services
- **Headquartered in the US**, with presence in Canada, Europe, Hong Kong, Japan, China and India
- **Clients include most of the top 50 pharma companies**

- **Strengthening presence** in payers and providers market
- Strong revenue visibility
- **Over 70% of revenue is recurring** in nature
- **~96% revenue retention by value** across entire customer base



# Chairman's Message

## DEAR SHAREHOLDERS,

My warm greetings to all of you.

At Piramal Enterprises, creating value for all stakeholders, including our shareholders has been a defining element of our identity. Over the past 29 years, since the acquisition of Nicholas Laboratories, we have delivered annualised shareholder returns of 30%, a milestone very few Indian companies have achieved. The consistency of our performance is the outcome of an integrated value creation model, wherein multiple parameters and metrics work in tandem with financial and operating performance to realise sustainable growth for the long-term. Our performance is underpinned by a values-driven culture, efficient capital allocation, strong corporate governance and an entrepreneurial spirit. We are in a state of continuous transformation through a strong drive for innovation, while remaining focused on talent development, quality, compliance and effective risk management. Our unblemished track record and our integrity in dealing with stakeholders are key factors that inspire multiple global collaborations with reputed partners, across our businesses.

## ANOTHER YEAR OF STRONG FINANCIAL PERFORMANCE

Our Company continues to consistently deliver excellent set of results during the year. Revenue for the year was 34% higher at ₹ 8,547 Crores. Our net profits increased by 38.4% to ₹1,252 Crores for the year. Consistent improvement in our performance is a clear reflection of the strength in our businesses and the focus on execution of our long-term growth plans. We announced a dividend of ₹ 21 per share for the year.

## FINANCIAL SERVICES

The Financial Services segment delivered robust growth during the year. Our loan book grew 87% to ₹ 24,975 Crores. Significant growth in our loan book is attributable to the consistent expansion of the product portfolio. During the year, we started providing construction finance and lease rental discounting in commercial

space. Construction finance is now 60% of our real estate lending portfolio. Under Corporate financing, we started providing sector agnostic lending beyond the infrastructure space and moved down the risk curve by introducing products such as senior lending, etc. We also announced our plan to enter Retail Housing Finance. The Company entered a strategic partnership with Ivanhoé Cambridge, a real estate subsidiary of CDPQ, to provide long term equity capital to blue chip residential developers. Also, during the year we launched a distressed asset fund in a joint venture with Bain Capital Credit, the credit arm of Bain Capital.

We have built stringent controls to maintain our asset quality. These controls, amongst others, include bringing industry experts on Investment Committees, following strict criteria on developer and project selection, ensuring independence of legal and risk functions, building project developmental capabilities within the platform, and having independent local asset monitoring teams to monitor projects and detect early warning signals. Also, Brickex, our in-house real estate distribution arm, provides contextual market intelligence and independent perspective on all real estate financing deals. With these effective controls, our gross non-performing assets stood at only 0.4%. Robust growth and superior asset quality performance have enabled this business segment to deliver an ROE of over 25% during the year.

Our partnership with the Shriram Group has enabled us to diversify across retail segments of Financial Services. We continue to work with the Shriram team in developing a long-term strategy for the financial services businesses.

## PHARMA

Our Pharma businesses continue to deliver significant year-on-year growth. Since the Abbott deal, this business has grown at a CAGR of 17%. We continue to maintain a strong focus on customer centricity, quality and compliance. The quality team works independent from operations and reports directly to a Board



member. In the last one year, there were 28 regulatory agency inspections, including 5 USFDA audits across plant locations. All of these audits were cleared successfully without a single day of production stoppage.

During the year, we added two niche differentiated product portfolios in our Global Pharma products business. We acquired a portfolio of five branded products in the injectable anaesthesia and pain management area from Janssen and a portfolio of intrathecal spasticity and two pain management products under development from Mallinckrodt LLC. We continue to work towards adding more products to better leverage our global distribution network. We also plan to launch first generic version of Desflurane, the latest generation inhalation anaesthesia product, in FY2018.

We continue to build our capacities for future growth. During the year, we acquired the Ash Stevens facility at Michigan, US, which specialises in manufacturing of High Potency APIs (HPAPIs). Our recent capacity expansion at Grangemouth and discovery services facility is witnessing commercial success. We also expanded capacity at our API plants to handle higher volumes and the Phase I expansion of our injectables capacity at Lexington is nearing completion. The team is working towards further expanding its capacity in Lexington.

The India Consumer Product business expanded its geographical presence to 4.2 Lakh outlets across 2,000 towns of India. To leverage this large distribution network, we have added more products both organically and through acquisitions. During the year, we acquired four consumer product brands from Pfizer. We also launched new brands such as Stop AllerG All day, Quikkool-D, Polycrol Paan, Tetmosol Total and i-Pill Daily. All three acquisitions done in past two years (i.e. product portfolios from MSD, Pfizer and Little's) have been successfully integrated and have surpassed their erstwhile annual sales within 8 months of their launch.

#### **HEALTHCARE INSIGHT AND ANALYTICS**

Globally, healthcare spending as a percentage of GDP has been rising. The increasing cost of bringing drugs and devices to the market and

greater regulatory scrutiny are resulting in an increased demand for high-quality information and analytical decision support tools. DRG is progressing well on its strategy to position itself as a leading provider of data & analytics, research and knowledge-based services.

During the year, we started increasingly delivering our products and services through user-centric technology platforms. Our delivery modality has shifted from large, static research reports to digitally delivered, modular content that enables clients to obtain 'just in time' answers. Our new, dynamic, web-based 'Ask DRG' Insights and Content Platform provides 9,000+ users both the ease of web browser-like searching and the ability to drill deep into the Company's proprietary data sets.

Over the past few years we have increasingly invested in technology, data assets and analytics capabilities. These investments are expected to enable us to increase our penetration and growth within the addressable market of USD 16 billion. During the year, we continued with our initiative to transform a global talent pool by expanding further in India. With two offices in Bengaluru and one office in Gurugram, the business now employs over 250 people in India. This deep and diverse talent pool enables the Company to accelerate growth and increase our capabilities beyond existing products and services, improve customer delivery and response time and realise cost efficiencies.

#### **STRENGTHENING SUPPORT FUNCTIONS**

At PEL, employees are given the opportunity to accelerate their growth and development to the next level through the **ASCEND** and **SUMMIT** Platforms. Today, we have 170 high performers who have undergone the ASCEND development journey. 51 of them have been identified as 'high potentials' across PEL and are being groomed for roles at the next level. The SUMMIT leadership program focuses on preparing senior leaders to become successors to the CEOs of PEL Businesses. 31 senior leaders have undergone the SUMMIT program in the past one and a half years.

PEL has initiated project ASPIRE to help achieve the objective of IT-enabled business



## We remain committed in acting as trustee to create long-term value for our stakeholders.

transformation. As PEL leverages its technical knowhow, IT is transforming the organisation by focusing on strengthening the core systems, innovation and digital transformation. Significant investments are being made to upgrade infrastructure across the sites and strengthen core business applications. Digital Transformation journey will enable us to leverage emerging technologies such as Internet of Things (IoT), Mobile, Analytics and Cloud. This will enable PEL to transform its operations, enhance the customer experience, improve partner & vendor relationships and generate new revenue models.

Risk and Legal teams strengthened their independent roles in evaluating various transactions. During the year, our Risk Management and Treasury teams further strengthened the Asset-Liability Management process for Financial Services.

### DOING WELL AND DOING GOOD

Our purpose at the Piramal Group is ***Doing Well and Doing Good***.

During the year, the Piramal Foundation has further expanded the scope and depth of its projects to create sustainable impact for the communities that it seeks to serve. Our teams currently serve around 1 million beneficiaries every day, across 21 states through a combination of direct field support, remote health advisory and community outreach programmes.

Piramal Swasthya now caters to beneficiaries across 11 states besides operating the National AIDS Helpline and implementing projects with the World Diabetes Foundation (in Assam) and Plan International (in Rajasthan). A Public Private Partnership (PPP) in Andhra Pradesh – Chandranna Sanchara Chikitsa – serves beneficiaries in over 13,000 villages every month. Two pilot projects that Piramal Swasthya has undertaken in Araku, Andhra Pradesh (on tribal maternal health) and in Digwal, Telangana

(on non-communicable diseases) are helping build replicable models that can address these complex problems.

Piramal Foundation for Education Leadership (PFEL) and its associates continue to work with over 3,400 government schools and over 558,000 students, delivering significant improvement in Student Learning Outcomes. PFEL continues to attract high quality talent through its Fellowship and its alumni are making meaningful contributions through their organisations in other sectors. During the year, PFEL has deepened its relationship with the government and is closely working with various agencies in strengthening the focus on education leadership across multiple states.

Piramal Sarvajal is serving over 3.8 lakh beneficiaries every day through a network of over 610 purification units and 200 water ATMs. During the year, Piramal Sarvajal implemented an urban PPP project in Bhubaneswar providing safe drinking water to the common citizen through a network of 40 ATMs in the city.

The Foundation is investing serious efforts in creating a technology backbone for all its initiatives, which we believe, can positively contribute to the sector in the medium-term. We have, also, continued to expand our partnership portfolio, domestically and internationally, in our mission to create innovative and meaningful solutions.

We remain committed in acting as trustee to create long-term value for our stakeholders. I thank our shareholders and other stakeholders – employees, customers, partners and Government – for their continued trust and support.

Sincerely,

Ajay G. Piramal  
Chairman

# FY2017 Highlights

GROWTH IN REVENUES

## 34%

TO ₹ 8,547 CRORES

GROWTH IN NET PROFIT

## 38%

TO ₹ 1,252 CRORES

## FINANCIAL SERVICES

### 87%

Growth in  
Loan Book

### 0.4%

Gross NPA  
ratio

### 25%+

RoE

Applied for  
**Housing Finance licence**

JV with  
**Bain Capital Credit**  
for Distressed Asset Investing

Launched  
**Construction Finance  
& Lease Rental  
Discounting (LRD)**  
under commercial real estate

Strategic partnership with  
**Ivanhoé Cambridge**  
to provide long-term equity capital  
to Tier I residential developers

## PHARMA

### 20%

Global Pharma  
EBITDA margin

Acquired  
**Ash Stevens,**  
a US based CDMO focused on HPAPIs

Acquired a portfolio of  
**intrathecal spasticity and  
pain management drugs**  
from Mallinckrodt LLC

Acquired a portfolio of  
**injectable anaesthesia and  
pain management products**  
from Janssen Pharmaceutica

Acquired  
**four brands from Pfizer**  
in the Consumer Product business

**Little's, MSD and Pfizer  
brand portfolios**  
have surpassed their erstwhile  
annual sales in less than 8 months

## HEALTHCARE INSIGHT AND ANALYTICS

### 250+

positions  
on-boarded in  
India offices

Launched  
**a new dynamic,  
web-based delivery  
platform**  
for all DRG research reports