“TAKE Solutions Limited Q3 FY 2017 Earnings Conference Call”

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MODERATOR: **MR. SAGAR RASTOGI – AMBIT CAPITAL.**

Moderator: Ladies and Gentlemen Good Day and Welcome to the TAKE Solutions Q3 FY17 Earnings Conference Call hosted by Ambit Capital. As a reminder, all participants' lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing '*' then '0' on your touchtone telephone. Please note that this conference is being recorded. I would now like to hand the conference over to Mr. Sagar Rastogi of Ambit Capital. Thank you and over to you Mr. Rastogi.

Sagar Rastogi: Thanks Karuna, Good Afternoon Everyone and Welcome to TAKE Solutions 3Q FY17 Earnings Call. I now hand the call over to the management team led by Sri. Thank you and over to you Sri.

Srinivasan H.R.: Thank you Sagar, Good Afternoon Everybody. It is a pleasure for me and the Management Team of TAKE Solutions to bring you the Third Quarter Results for FY17. Overall, we have had a very satisfactory quarter which is very much in line with what we had expected, so we have revenues of Rs. 343 crores which is up 4.5% Q-o-Q in INR terms and about 3.8% in dollar term. But more importantly before we go digging that surface, the Life Sciences businesses grew at 6.6% Q-o-Q. The margins were very much in line with what we had thought, a little better than what we had anticipated. If you will recall, in the last analyst call I have indicated, we would be in the 18% EBITDA range. We have done better than that, we are at about 19% and that is despite the fact that during this quarter we spent $1.4 million on the strategic initiative Project Pinnacle **t**hat I had spoken of. So there has been a margin expansion. The revenue growth augers well Q-o-Q on the Life Sciences business. We had a marginal de-growth in SCM business in absolute terms.

Another significant highlight of the quarter is that the order book grew very strong. The total order book now stands at 129 million that is a 13% growth in order book Q-o-Q. This is on the back of some very significant deals that we have won in Europe and some significant deals in US as well and as we move into the current quarters and the year ahead, the deal pipeline looks very strong.

We have been invited to more and more campuses for multi offerings services deal which indicates that the ability to cross sale is taking shape; that was one of the important considerations for the strategic initiative.

In line with our ambitious growth plan we are also making management changes, so very significantly we have had the addition of Ms. Subhasri Sriram today who comes in as the Finance Director and CFO at TAKE Solutions and our current CFO Ms. Shobana moving to the US to take charge of some of the Pinnacle initiatives that we will be doing in the US. We will also have the addition of a very senior Sales Resource in the very near future based out of the US around the end of the current ongoing quarter. This is really to accelerate the revenue trajectory of the company and I think the overall trajectory is very much in line with what we had predicted. Just to sum up, my statement for the nine months we have done about Rs. 989 crores on the revenue

side and about Rs. 192 crores on EBITDA. This compares well with Rs. 1030 crores of revenue for the whole of last year. Overall growth has been significant but to talk more in depth about the Life Sciences business and its performance in last quarter, I invite my colleague Ram to take over.

Ram Yeleswarapu: Thank you Sri, good afternoon ladies and gentlemen. During Q3 fiscal '17, TAKE added a total of 14 new customers and secured 16 new orders on existing customers, clearly reflecting a very positive surge in opportunities across the Life Sciences Industry. This also reinforces our commitment to customers as a trusted partner which is extremely critical in this particular vertical. The activity levels across all product and service offerings picked up significantly and a robust pipeline of close to US $100 million reflects a very positive shift that Sri has mentioned. We secured new members for our industry networks along with renewals, by the existing network members. We won several Drug Safety multi-tenant deals from global customers, added customers for IDMP, 'Track and Traces' and the pharmaREADY Software Suite. We won projects for Bio-similar compounds based on the strength of our domain expertise on the subject.

We also enhanced our library of IP assets by adding several new development methods and we continue to make significant progress in securing pilot engagements with customers for solving business challenges surrounding clinical data aggregation and integration. We have in the past mentioned about this very advanced clinical data integration and aggregation platform that is delivering some exceptional results for the industry. This quarter continued to reflect the same and we are certainly building a very robust pipeline on the strength of this very exciting technology platform. Our pioneering work in stem cell trials and our recognition as an industry expert in understanding global regulations are key catalysts for our growth. This is especially true as Global regulatory laws and guide lines continue to evolve.

We are doing more projects increasingly the areas mentioned above in addition to actively being engaged in several bio-similar products which we believe is the future given growth in the Biologics industry. We forged a partnership with the industry leader in clinical analytics tools. This set of tools and the suite is specially designed for clinical research studies. The function is to essentially harness the power of data, both structured and unstructured. So data can drive research decision making process.

This clinical analytics tool platform essentially helps in delivering integrated data for consumption by researches as well as the Federal Regulator in the US. As you are aware cutting edge advantage in big data practices and technology pack have been leveraged in our platform to ease the challenges surrounding data integration and also to ensure that feeds from data acquisition systems surrounding clinical research have met with appropriately.

Few quick comments about events and our marketing presence; we have exhibited at the CPHI worldwide in Barcelona, attended the Bio-similar conference in Mumbai, presented at the prospects on Stem Cells conference in Malaysia and attended the Clinical trial excellence forum and partnerships in clinical trial.

During the quarter, Ecron Acunova celebrated its 30th year anniversary in Frankfurt, Germany and besides conducting several network meetings, we attended the HDA and the Pack Expo Conferences for 'track and trace' serialization and made poster presentations at the DIA Europe, QPPV Conference. Of course, through our webinars we continue to deliver knowledge across a range of topics including medical device, combination of products and IDMP, This serves as a mechanism to attract the right attention to decision makers at the customer end. We have had some phenomenal attendance at some of these webinars.

Lastly, TAKE also joined Avoca Quality Consortium as a contributing member for the development of quality standards surrounding clinical research, again a testimony to the fact that our subject matter expertise is being recognized increasingly by the industry and partners in industry. We also attended the Annual Gartner's symposium in Orlando in Florida.

With those remarks, I will hand it over back to Sri.

Srinivasan H.R.: Thank you Ram. Before I open the floor for questions that we are happy to take, there is one current topic which everybody actually has been telephoning to ask me which is on the H1B. So I just want to upfront inform all of you that we are not affected by this. The total number of H1B that we TAKE is only 6, out of our workforce of 1600. So it is not a business model for us and we are not affected by that one. I think that these are my comments at this point in time. My team and I are very happy to take questions.

Moderator: Ladies and gentlemen, we will now begin the question and answer session. First question is from the line of Anil Sarin from Edelweiss, please go ahead.

Anil Sarin: I wanted to know what is the size of the IDMP and 'Track and Trace' market?

Ram Yeleswarapu: If you look at the impact from an industry's perspective or the impact to the industry perspective, IDMP initiative is an initiative led by the European Medicines Agency and its being rolled out in multiple phases and this stretches across multiple years. This is going to impact pretty much every single Pharmaceutical company; generic or branded, which we anticipate at least upwards of several million dollars of 'Spend' depending upon the size of each company as well as the number of products in their data base or approved products that they contain. So the math adds up significantly as you can very well imagine, many of this generic pharma as well as branded companies, certainly target the European union as destination for their approved products. With regards to 'Track and Trace' and serialization, it is a US FDA initiative unlike the IDMP which is a EMA led initiative, at the US for Track and Trace and serialization, it is also being implemented in multiple phases, by the end of 2017 the manufacturers are supposed to be in line with adoption of solutions to address Track and Trace serialization. It is a muti-billion dollar opportunity, it totals up to several billion dollars in size from a total opportunity perspective because it is not just the manufacturers who have to comply by end of 2017 and-through 2018 and 2019, the distributors and the wholesalers have to also abide, where- by ultimately leading up to 2020 to 2022 where the hospitals, Pharmacies and the Retail Pharmacies also have to fall

in line. So between this year, and leading up to 2022 there has got to be a complete coverage all the way from manufacturers up to the Retail Pharmacy Units and this is a multibillion dollar opportunity impacting the entire industry.

Anil Sarin: Okay, so just a follow up, given the tight timelines and the very vast numbers, what is the captive, what is the realistic share that you can take out of it, given that we are talking about 12 months, 18 months' windows and the sizes being as large as you just suggested they are?

Ram Yeleswarapu: So our approach to this is very clearly a multi prong approach, we have multiple channels to reach into the market. Yes, we understand it is a good window but it is also an aggressive window and obviously, this has been in-play for a while, so we are already executing on deals and customers that we have already won. We are not just executing directly into the market, we are also strategically partnering with appropriate vendors so that we have the ability to reach into customers much faster through multiple channels. So yes it is exciting, it is challenging because of the window and the timelines that I just mentioned but the opportunity is significantly large. So, percentage points of moving up into the market share will make a huge dramatic impact and we are excited because we have the right solutions and we are forging the right partnerships.

Srinivasan H.R.: So just to add what to Ram said, there are two aspects to it. When we do the first part of IDMP it is an assessment and this customer specific, the second part Track and Trace is a product. It is an assessment which is customer specific, so the roll-out we can actually capture quite a bit of the market and there are not too many solutions out there and our solution currently seems retroactive and we are seeing significant traction.

Anil Sarin: Great and just one thing from the previous conference call where Sri you had indicated that you are significantly increasing the sales team in the EA part of the business. So have those people joined and when do you think they are going to become effective such that EBITDA margins no longer suffer a drag?

Srinivasan H.R.: See, for first sales team - what we are doing is we are making an integrated sales team, which will comprise of offerings of the traditional TAKE system as well as the EA system and while several of them are already on board, we expect significant additions to it starting commencing March is when the joining will happen. Very specifically coming onto EA, I have to say that the EA business has been very encouraging for the quarter, the EA revenues were Rs. 40 crores, which was about 8.5% Q on Q increase and the EBITDA is around 9.5% which is very significant, in the Q1 it was actually minus, in Q2 it was marginally plus, so the trajectory that we felt would happen is actually happening and in the order book especially in Europe in EA is growing, so you will see some very good numbers coming out of the EA system.

Moderator: Thank you. We take the next question from the line of Neerav Dalal from May Bank. Please go ahead.

Neerav Dalal: I had few questions, one is regarding the regarding IDMP and the track and trace, you would be wining deals currently in these four areas?

Srinivasan H.R.: Yes.

Neerav Dalal: And would that be the growth driver of the order book or outside of this you have seen growth?

Srinivasan H.R.: No, we have seen growth outside of this as well, so we have seen growth across. We have seen growth in the bio similar segment; we have seen growth in our clinical offerings, in our regulatory submissions, in our data standardization offerings. So, it has been all round but certainly these are productized offerings and they have a window and a regulatory push, so it just occupies top of the mind recall.

Neerav Dalal: And in terms of the large deal that you had won early last year, how is the traction in that?

Srinivasan H.R.: I think it is going very well and the deliveries have happened without any issues, so I think we are tracking good progress on that, so we do not see any concern for that being a very stable driver of business as we move into the next year.

Neerav Dalal: Okay so, on a full year basis you would be doing the 10-12 million that was supposed to be done?

Srinivasan H.R.: Yes absolutely.

Neerav Dalal: Okay and in terms of the investments into the strategic moves, you have done 1.4-1.5 million this quarter that trajectory would continue for the next couple of quarters or could increase from this level?

Srinivasan H.R.: Yes, I had said that the total outlay will be about Rs. 31 crores that we will need to absorb over 3-4 quarters, so this number was just mentioned in relation to that which is what we have already spent but we are consistent with that number and it won't exceed that.

Neerav Dalal: Right, so it would suffice to say that the decline in margins going ahead would be lower or you could even see improvement?

Srinivasan H.R.: Possibly, even now as against 18 that I had guided during the last call, we are above that and that is on the back of better volumes and better gross margins.

Neerav Dalal: Right and what would be the split of the order book, into Life Sciences and SCMs?

Srinivasan H.R.: So, the order book for the Life Sciences is 116.4 and SCM is 30.

Neerav Dalal: And in terms of EA it would be about?

Srinivasan H.R.: So, EA is subsumed in this but I guess it would be somewhere in the region of 20.

Neerav Dalal: So, because I think when you started it was 8 million in the first quarter operations. Okay finally in terms of the SCM stake sale any indication in terms of that?

Srinivasan H.R.: Yes, on one of our businesses we have got active interest, there is some transaction possibility before the end of FY. There is a company that is taking a hard look at the numbers, meeting the management, so hopefully we will have a transaction before the end of year on part of the business.

Neerav Dalal: Part of the business not the entire business but do you have the Board mandate for the sale, and any indication as to when this would be completed?

Srinivasan H.R.: That is what I am saying for one part of the business actually there is a transaction, the prospective buyer is looking at the asset now, so we have a term sheet, so that is the stage for one part of the business. For another part of the business hopefully before the end of the year we will get term sheet for that as well. The Middle East part of the business alone we have not made much progress on the sale of the unit.

Neerav Dalal: And finally, on the split of revenues between consulting, functional and technology, if you could?

Srinivasan H.R.: Functional services continues to be around the 60% bracket, consulting will be slightly south of 20 and the balance would come from the tech.

Moderator: Thank you. Next question is from the line of Sagar Rastogi from Ambit Capital. Please go ahead.

Sagar Rastogi: Sir any update on the large deals that you are pursuing, any color that you can give us there?

Srinivasan H.R.: Yes, Sagar on one of them we are in the final two and we are hopefully expecting an answer in the next couple of days not weeks. The other two I think they are still there because they have solutions that were developed before and the kind of up there in receiving approval, but I cannot put a date to that but at least one of them we should have some answers in the next couple of days.

Sagar Rastogi: Right and sir, if this large deal comes through, for FY18, if we think about organic growth, what kind of a number would you say. I note that in the last press release you had given us growth guidance, which you have comfortably overshot but I was wondering how do you think about FY18?

Srinivasan H.R.: I say that we should look at 25% growth. That is the range 23-25% growth is what we should look at.

Sagar Rastogi: And sir any comment on EBITDA margin as well for FY18?

Srinivasan H.R.: Once the expenses stabilize on the strategic initiative, you should see a very smart uptake in EBITDA margins by at least 300-400 basis points from the current state.

Sagar Rastogi: And lastly sir you have changed your CFO, what is the thinking and reasoning behind that?

Srinivasan H.R.: So, as a part of the Pinnacle Process we are building managerial capabilities across the globe for building the business and building the value and Shobana has been with the business right from inception she has held operating assignments, she has held finance assignments, so she is best positioned to represent our interests in the US in a particular way because of her understanding of the entire landscape and that becomes very vital to Pinnacle and here we need again a person with credentials on strong governance, finance and accounts reporting and Subhasri is a well-known face in the industry, so we are happy to have her on board. In fact, both Shobana and Subhasri on the call.

Moderator: Thank you. We have next question from the line of Sarvesh Gupta from Trivantage Capital. Please go ahead.

Sarvesh Gupta: Sir while you explained about H1B, you said you have only 6 employees under H1B, that is one facet of how some of the companies which are doing outsourcing business in some shape and form can get affected by what is happening in the US but are there other dimensions, if you can put some color on the other dimensions which can possibly be effected for a company like yours because of the developments in the US?

Srinivasan H.R.: See first let us narrow it down to what can affect us. There are only two things that can affect us if our customers stop giving us business or we do not have capacity to address the business that has been given to us by the customers. So, the first part of it currently the momentum is good so I am not assuming that as a concern area. The second part of it how do we have the capacity to address the business requirements of the customers which means where does the manpower come from. So, we have people in India, we have people in Europe, we have people in US. Our US workforce largely comprises of either local, which means they are American citizens or people with Green Card who are permanent residents of the US. When I say Green Card they are not necessarily Indians, they could be from other countries as well but they are permanent residents of the US. The current proviso which applies to 7 countries I can also state that we do not have anybody from those 7 countries, so we are not seeing any risk at this point of time but if something does change in the environment we will keep you posted. So at the moment we do not believe we are affected by the travel ban or the entry ban of people of the particular country origin.

Sarvesh Gupta: Understood. And sir I do not know whether the IT analogy would be right in this case but what is the proportion of the work that is carried out from India for your clients in the US?

Srinivasan H.R.: See, that analogy does not apply but nevertheless I will answer the question. See currently the extent of off-shoring that we are able to do is about anywhere between 30 and 35%. Even in a best-case scenario that can go up to 50%. Due to the nature of the work there are, what we call, there is need for a particular degree of specialization with reference to one therapeutic area, the comfort of the research director of the customer to eyeball that on a continuous basis. So, what we do is very specialized and it is not a mechanical process where you can offshore and do a wage arbitrage. It needs a lot of interactive environment, so I do not anticipate that off-shoring will ever be more than 50% in our company.

Sarvesh Gupta: And sir my final question is your proportion of revenues by geography, so we have seen a steady improvement for US, while I was under the impression that probably you are trying to grow faster than rest of the world, which includes Europe. So, is this trend going to continue or how are we seeing things going forward?

Srinivasan H.R.: So, let us take it into two parts, first what we are reporting is what is actually there. So, we are not trying to control that we should grow only in US and grow only in Europe; the way it is happening that is how the numbers pan out, having said that you will see an improvement in Europe numbers over the next few quarters because after the US the biggest pharma-biotic R&D market is Europe. However, the momentum is very accelerated towards US and that is why you see strong US numbers.

Moderator: Thank you. Next question is from the line of Varshit Shah from Centrum Broking. Please go ahead.

Varshit Shah: What are you seeing typical or average deal sizes in IDMP and the 'track and trace' market? And how a typical sale cycle operates in these segments, is it different form other parts of the business?

Ram Yeleswarapu: So basically, if you look at the IDMP as Sri has mentioned short while ago, clearly it starts of as an assessment, the idea is to first do an assessment, do a gap analysis, take inventory of the master data attributes that customers need to assimilate for regulatory reporting purposes. So, typically deal sizes would start off by an assessment, which could be anywhere from sub-$1 million engagement, then take it onto a full stack deployment of the technology solution leading up to quite a hefty sized deal, if you add up in its totality. So, the assessment could be smaller. By the time till we follow through the deployment of the technology solution post the assessment, it will add up to certainly a significant size, so that is on the IDMP. On the 'track and trace' serialization, it follows a similar methodology except that this part of 'track and trace' serialization at least being a USFDA mandate, it also depends upon a number of other attributes. It kind of depends upon; a) the numbers of product that the customer has; b) As we get into the addressing the issues and bringing the wholesalers and distributors into compliance; it also means how many warehouses do they have, how many such distribution channels do they have, etc. So, it kind of multiplies based on that. So, each of these could separately stack up to at least

being multi-million dollar deals, just to give you a ballpark sense of what the order sizes could be but they could start off small but stack up as we go along with a full suite deployment.

Varshit Shah: And sir if I see in the Life Science business, if I see excluding EA, I think this has been a little bit of a slower quarter in terms of growth, so is there anything specific out there or it is just, should not read too much into that?

Srinivasan H.R.: When EA has grown 8.5% Q-o-Q that is on a very low base but if you look at the organic growth I think Q-o-Q has been pretty significant even on the organic side. I think, the trajectory is quite fine.

Varshit Shah: Okay. So, we should not read anything much into that.

Srinivasan H.R.: Yes.

Varshit Shah: And just one last question are these 6 people on H1B which you just mentioned are from sales? And can that affect our sale cycle in case if they are sales people?

Srinivasan H.R.: None of them are sales people. They are all delivery people, so they are on the consulting side and the technology side.

Moderator: Thank you. We take next question from the line of Avinash Sharma from Dalal & Broacha. Please go ahead.

Avinash Sharma: I have a couple of questions. One is could you just explain the nature of these strategic initiative costs? And second question is related to the EA business where we have seen some substantial improvement in margins but on the current state of business what would your outlook be on the steady state margins possibility on the business over the medium-term?

Srinivasan H.R.: The first one, the nature of the costs are really three-fold. The first is the cost of the consulting engagement itself. The second is the cost of the agencies, when I say agencies for example, you want to do senior hires and you end up paying retailers to people so, there is a cost that comes upfront to it. And third cost is the capacity cost because let us say you are building a sales force, if they are hunters before they become effective you are going to have cost for six months before you start seeing any result from them. So, these are typically the three costs that are involved in this strategic initiative.

Avinash Sharma: Okay. And sir, these are all related to the IDMP and the 'track and trace'?

Srinivasan H.R.: No. This is for the company as a whole redefining from becoming a verticalize to horizontal which is how, you do an account-based expansion. So, it is more of a strategic nature, it has nothing to do with IDMP or 'track and trace' which are of course parts of the growth engine. Second question that you asked on EA, I am not aware whether you were in previous calls but

just to refresh everyone who were there. EA, the idea is to move them from a time and material base to a technology base delivery solution that is when the margin expansion will take place. Obviously, it is a long process, it does not happen on one day and we have initiated that. We are seeing some results of that. In the steady-state, it would gather the same margin profile as the rest of the TAKE System but we are a little away from that yet.

Avinash Sharma: Okay, great, sir. Sir, and just one question on the initiate strategic question which you mentioned. Sir, timeline for these would you expect them to go on for at least all of FY 2018?

Srinivasan H.R.: Not all of FY 2018 but we have planned this for four quarters of which one quarter is up, and at least another three quarters from here. But the total expense that we budgeted under that head is about Rs. 31 crores and I think we pretty much be around that.

Moderator: Thank you. We have follow-up question from the line of Neerav Dalal from May Bank. Please go ahead.

Neerav Dalal: I just wanted to get some flavor in terms of cross-selling of EA, how is EA in that way planning out?

Srinivasan H.R.: I think there is some very exciting cross selling engagements that are taking place. May be Ram you want to give a flavor of one or two of, how we doing it.

Ram Yeleswarapu: Certainly, so, very clearly EA's set of customers and EA's credentials around conducting and being a part of several large scale clinical studies is a great platform for the cross-selling opportunities that the rest of the organization has been engaged in. We are actively engaged now in discussing regulatory publishing which as you may recall it as a core competence for the organization. We have been delivering significant value to some of the largest biopharma companies. So, in the area of regulatory operations or regulatory publishing, we are having good success and good conversions with cross-selling that too particularly as an offering to the EA customer base. And similarly, in the area of drug safety and a number of other initiatives by TAKE, has clearly established beachhead in terms of capabilities and credentials we are kind of extending those to the EA set of customers and vice versa as well. So, short answer is, we are having a significant amount of pipeline build up right now as a consequence of cross-selling both to the customer base of Ecron Acunova as well as to the rest of the customer base within the TAKE Organization. So, that is coming along very well and it is very comfortable in actually kind of blending the subject matter knowledge that we possess across the isles if you will and that allows for a seamless conversation. So, Reg Ops, safety conservations, executing clinical studies for the customer base on the TAKE end so these are all the number of different conversations that are happening very effectively.

Moderator: Thank you. Ladies and gentlemen, this was the last question for today. I would now like to hand the floor back to the management for their closing comments. Thank you and over to you, sir.

Srinivasan H.R.: Ladies and gentlemen, thank you very much for being on the call today. If you have any supplementary questions, please feel free to reach out to me or my team and we will be very happy to address all of them. Thank you very much.

Moderator: Thank you very much, sir. Ladies and gentlemen, on behalf of Ambit Capital that concludes this conference call. Thank you for joining us and you may now disconnect your lines.