

TAKE Solutions Limited

Q2 FY2012 Results Conference Call

September 30, 2011

Moderator

Ladies and gentlemen, good day and welcome to the TAKE Solutions Q2 FY 12 Earnings Conference Call. As a reminder, for the duration of this conference, all participant lines will be in the listen-only mode. And there will be an opportunity for you to ask questions at the end of today's presentation. Should you require assistance during this conference call, please signal an operator by pressing * and then zero on your touchtone telephone. Please note that this conference is being recorded. I would now like to hand the conference over to Mr. Harjit Singh Sethi from Almondz Global. Thank you and over to you sir.

Harjit Singh Sethi

Thank you and good afternoon everyone. We welcome you to this conference call organized to discuss TAKE Solutions operating performance and financial results for Q2 FY 12, which were announced earlier. We have with us the senior management team of TAKE Solutions Limited. I now invite Mr. H.R. Srinivasan to provide an overview of the highlights and business environment for the quarter. Over to you sir.

H. R. Srinivasan

Good afternoon everybody. On behalf of Take Solutions, it is our pleasure to welcome you to the Q2 FY12 earnings call. The highlights of Q2 were that we clocked second quarter revenue of 170.9 crore which is about 44% up Y-o-Y and 6.3% up Q-o-Q. For the quarter, our profit after tax and minority interest stood at 20.2 crore, up by 24% Y-o-Y. EBITDA margins were at 22.56%, marginally up from the previous quarter, but very consistent with the guidance that we have given. The profit after tax this quarter was lower because of the higher incidence of tax. The tax for the quarter was at 22.5%, substantially up Y-o-Y and Q-o-Q.

On the business front, we have had some very good things to report, so first of all, I should begin by saying that we were recognized as one of the leaders by IDC on the life sciences segment, which is the key focus area of our company. For the quarter, our revenues from life sciences have been around 51% and supply chain management around 45%. This is again consistent with the trend that we had indicated in the past. Having said that, it is important to understand what the macro business situations are prevailing before us and the kind of impact we have had on the quarter results of the company and what it would board for us as we move ahead.

While we are talking about the macro headwinds in the western market, the US operations continue to do well, so while there is no significant growth in order book in the US, the revenues from the US continue to remain buoyant. And at this point of time, we are quite confident to state that as we move ahead the revenues over the next two quarters are also expected to remain in line with what we have projected already. However, there were a bit of headwinds in Europe. Our Europe performance has been below budget. However, overall the company has performed better

than the budgets that were projected due to higher growth in both US and Asia Pacific compensating for lack of growth in Europe.

As we move ahead that's how it's going to be for the following quarter as well. We may see headwinds in Europe, but US and Asia should continue to do well. There has been an impact of currency over this quarter. On the revenue terms, it's not very significant, it's 0.9% as far as revenue is concerned where there has been a positive impact of currency, however on the balance sheet, there has been an impact of almost 10% compared to the previous period.

The outlook continues to be, I use word cautiously optimistic, and we continue to do well in life sciences. We are seeing good traction from our existing customer's especially large pharma. We have done exceedingly well in supply chain in the last quarter and we look forward to a decent performance down the line. With these words, I will now request my colleague Ram first to speak on the life sciences business and then Sridharan to speak on the supply chain business. Ram, over to you.

Ram Yeleswarapu

Good afternoon everyone. I will start off by highlighting the fact that IDC Health Insights is one of the leading industry analysts out of the US for life sciences. It has done an assessment of vendors in the R&D area of life science outsourcing. And they took a set of about 13 leading vendors in the space and they did ranking based on the strength and capabilities of these vendors in the R&D outsourcing space of life sciences. We are proud to report that TAKE has been ranked as one of the leaders and absolutely belongs in the top right hand quadrant. Among the set of vendors that were actually compared and contrasted here, you have some of the leading logos of companies like Accenture, Cap-Gemini, CSEs, IBM's etc. We are extremely proud of this accomplishment and certainly feel extremely strong in terms of the outlook that such an assessment would present to the marketplace and anticipating an increased opportunity landscape out in the market both from our current customers as well near prospects of that. So once again this assessment is a strong reflection of TAKE's steady focus and investments in the life sciences R&D space and takes into account several customer references that provided to IDC and these were independently verified and checked. And hence the ranking and results are fairly in tune with what we have been consistently saying all along. So this is a good testament to the good work we have been doing out in the marketplace. And on the heels of this assessment, we do anticipate increased opportunities for TAKE in the life sciences R&D outsourcing space both solutions and business solutions.

Having said that, Mr. H. R. Srinivasan indicated, the outlook in the US while it continues to be buoyant, the headwinds in Europe actually calls a little bit of stippling for order book and do not anticipate in the long term impact for that stuff because fundamentally, our coverage of the life sciences R&D space has been extensive. As you are aware, we have an absolutely 60 degree coverage of life sciences R&D space today, covering the clinical regulatory and safety function areas extremely well. We are fairly comfortable, but in the long run, we do anticipate without getting back in terms of the order book positioning. We are also very conscious of the fact that since we are touching a very sensitive aspect of our clients R&D clinical data, we have been with a very conscious effort

investing in creating infrastructure and building our own infrastructure for handling and hosting our clients' very proprietary clinical data, moving away from public infrastructure and those investments have been happening steadily.

In anticipation of some of the increased opportunities out in the marketplace, we have been also trying to ramp up and build capacity, trying to anticipate some of the increased opportunities we have been steadily investing in capacity building as well. All in all, the quarter has been good. From US perspective, we have won several orders. There have been more activities with existing customers, clearly again a testament to the fact that our mining efforts under strong leadership and very creative insights tells our marketing capacities have landed us more opportunities in adjacent squares with our existing customers and simultaneously have opened up new avenues with new prospects. With that, I would like to hand over to my colleague Sridharan for a commentary.

S. Sridharan

Thank you Ram. Good evening ladies and gentlemen. This quarter has been on expected lines for the SCM part of the business. We have documented 43% of our revenue and 76 crore for this quarter. As far as the geographical performance is concerned, the US performed on expected lines, we did expect to do on budget in US and we did perform on expected lines in US. Middle East continued to show good growth, we are seeing traction and the growth happening in the Middle East market. In India, we are also seeing good traction. The same logic of the ERP following the SCM investment following the ERP, the same trend is happening in India. We expect some good traction in the Indian market.

As far as the offerings are concerned, the collaboration part of the business continues to witness good traction. We have got some good deals from existing customers. We are also seeing the pipeline for this part of business growing well. Our cloud infrastructure offering of OneSCM is seeing good traction. The Auto ID part of the business is showing growth because of device proliferation. We have seen iPads and devices coming in to the market. It's creating a lot of demand for mobility in supply chain. We continue to invest on these areas and we see this to be a good growth area.

A couple of quarter's back we upgraded our Gemini product to be compatible with Oracle implementations and that has paid rich dividends. All our customers who upgraded to Oracle have continued to upgrade with Gemini. That is good news, because we want to create lot of services revenue and upgrade license revenue and maintenance revenue.

As far as business service is concerned, we continued to have a good growth. The engineering services part of the business services continues to have good traction and we are seeing some good orders uptake on that area. We continue to build up capacity for engineering services part of the business.

As far as the outlook is concerned for the forthcoming quarter's, we see that the order book is stable. Usually, the Q4 and Q1 are the time we see some order uptake and Q3, sometimes we see that budgets are getting prepared and we watch for this quarter to see how things pan out.

H. R. Srinivasan

Thank you Sridharan. In terms of outlook, we expect 6% to 7% Q-o-Q growth in revenue as we move ahead. We will continue to focus on organic growth till we are very certain how the macroeconomic headwinds are there and that would be the outlook in the near term. Thank you. With this, we are now open to questions.

Moderator

The first question is from the line of Mithul Mehta from Lucky Securities Please go ahead.

Mithul Mehta

My question is pertaining to the goodwill number. From March balance sheet to September balance sheet, we have seen some accretion to goodwill. Can you just take us through what is that accretion?

H. R. Srinivasan

It is fully Forex translation on that date to 30th September. So it is 45.398 to 49.739, its complete only SCTR translation, there is no impact other ways

Mithul Mehta

Ok. As far as your pharma life science business goes, can you just take us through the sales pipeline in US and Europe and how does it look. What is the kind of traction do you see in the existing customers and as well as any new buildup on the new customer side?

Ram Yeleswarapu

In terms of our focus of the vertical industry of life sciences R&D space, we have a set of marquee large pharma customers that continue to give us additional business and we have been adding additional solutions and services. One of the recent press releases we have done is around the launch of SafetyReady trademark set of solutions and services in the pharma space. Large pharma community of customers continue to yield core business for us and some of the things that have certainly been happening and have happened actually in the next couple of quarters are some additional visits by large pharma, some additional conversations which obviously not at liberty to share at this point in time, but certainly very encouraging bits of news.

The outsourcing area is on campus. So we will steadily accrue more trust in the process and we are anticipating some business by large pharma to our campus back in Chennai. We anticipate on the heels of those visits and the comfort we are able to lend, we are certainly expecting to see more growth and more opportunities. At the same time, I would also say that there is also a market out there for us to tap into, fresh set of prospects. These may not be the large pharma, the large biotech, but these are the small and mid-sized or there is a significantly large volume of such prospects just to give you a perspective in terms of numbers. There are roughly about 250 small to medium biotech companies located in the San Diego, South Francisco Bay Area. And we have been actively investing and trying to penetrate that geography with much focused sales and inside sales kind of representation. We have been doing work with the large pharma in the US, we are kind of witnessing an opportunity for US to continue and carry this conversation to Europe with the same company. And likewise, some of those conversations are actually now stretching to India as well because many of these companies have set up captive centers back in India. So net-net, there is overall awareness, overall brand awareness of TAKE and an increase in mindshare of TAKE within these large pharma communities. And we are certainly expecting to see more work and more coverage and solutions and services.

Mithul Mehta

Ok. Sir my last question will be on the hiring side, what are your hiring plans in the pharma for co-vigilance business and how do you see that ramp up happening over next two years? And also you mentioned in your opening remark that in Europe, we did see some new performance in the European market. Can you also share the outlook of that part of the continent for next two quarters?

H. R. Srinivasan

As far as Europe is concerned; we may end up at about 70 odd crore for the year as opposed to 85-90 that we were budgeting. So we may be in the 70-72 crore range based on what we have achieved in the first half of the year and the kind of order book buildup that is happening. I think there are some very serious self-efforts on, but the macroeconomic environment in Europe unless it improves; we think that it will be cost for muted growth, so that's one part of the answer.

As far as hiring is concerned, we anticipate that we may increase our headcount by about 400 employees before the year is over and predominantly they would be in the life sciences areas, maybe in the ratio of about 275-125 between life sciences and supply chain.

Mithul Mehta

Ok. Thank you.

Moderator

The next question is from the line of Sangam Iyer from AlfAccurate Advisors. Please go ahead.

Sangam Iyer

Could you give me the average realized rate for the quarter in terms of the rupee dollar for the P&L.

H. R. Srinivasan

For the P&L it is Rs. 46.198.

Sangam Iyer

Okay sir. If I look at the order book for the LS segment, the fresh order intake has slowed down for the last two quarters, for Q1 and Q2 as compared to last year. Are we seeing stagnation in the interim period currently in terms of the saturation in the current clients?

H. R. Srinivasan

You will have to look at the WCI order book. The Europe order book has gone down during the course of the current quarter, that's typically kind of business and you have to also understand that macro headwinds in Europe. But overall the life sciences order book in the US has gone up and so also limited that what we do in Asia has gone up. I don't want to see a trend in this, so I would not as yet want to comment on that. For the order book of Europe, we will have to wait and watch.

Sangam Iyer

Just for better understanding, last quarter we had \$15.8 million worth of fresh order intake in LS, could you break up between WCI and others? Also for this quarter as well?

On the margin front, if I were to compare it on a sequential basis, we had these headwinds of 200 basis points which we had indicated and articulated during the call as well. And post that we still managed around 21.4% at the EBITDA level. But this quarter, we have seen 50 bps dip in the margins even when these kinds of headwinds were not there and currently were favorable for us. Could you help us or run through what led to this decline?

Sir on the outlook for the amortization and depreciation going forward, do we see this quarter trend to continue for the coming quarter as well.

H. R. Srinivasan

This is on the percentage of expense which you were computing on the margins, the Forex income on account of change would come into the other income whereas the loss it gets booked on account of product. On account of MPM now which India would have built with the US gets it on the expenditure side. So that accounts for around 0.6-0.7% and once we add that up to the 25 crore it would be more or less on the same line.

This quarter you will have to normalize that by 10% only on FCTR, Foreign Currency Translation. So the balance sheet is stated as 49.73. So you will have to knockoff of about 10% just on foreign currency translation and then evaluate that is how it will be the trend. So this trend is basically a currency issue, it is not a cash issue.

Sangam Iyer

What would be the tax rate for full year? Why has the Minority Interest and current liabilities increased this quarter?

H. R. Srinivasan

The full year tax rate should be around 22%. As far as minority interest is concerned, there were two JVs one the ATI in US where we own 51% which is in the life science space and our Middle Eastern JV, TAKE MEA, where again we own 51% sales. These two JVs did very well; their growth and profitability were very good, so minority interest has gone up for the quarter.

The current liability would be the general trade payable and also the current liability on provision which includes the tax provisions and those expenditures still will be there.

Sangam Iyer

Ok. Thank you. One last question on Capex, in H1 FY2012 how much have we incurred so far in terms of R&D and fixed assets.

H. R. Srinivasan

It is 24 crore out of which product development cost would be 9.5 crore.

Sangam Iyer

Ok. Thank you.

Moderator

The next question is from the line of Anurag Purohit from Systematix Shares. Please go ahead.

Anurag Purohit

In the MD&A you have mentioned that the debt is Rs.1,866 million whereas in balance sheet the secured and unsecured combined together is 205 crore. I just wanted to understand the correct figure for debt.

H. R. Srinivasan

No the debt portion is payable to the bank. So that is the total liability which will also include earn outs and other payments which is not to the bank it is a long term liability. The classification in the US there is no loans it comes under unsecured or secured loans

Anurag Purohit

Okay. Secondly, the debtor level still continues to remain high when should we expect it to normalize and what strategy is being employed take care of debtors?

H. R. Srinivasan

It has been almost similar to last quarter, it has been around 82 days our intention is to be able to bring it down to about 74 days which is what prevailed during the large part of last year. So by the time we go into the next quarter, we intend that it should be within 72-74 days

Moderator

The next question is from the line of Piyush Chhadha from Edelweiss Securities. Please go ahead

Piyush Chhadha

We are looking at 6% revenue growth. Given that in the last quarter US dollar rate was almost 6% below than what it is today, is that 6% in foreign currency terms or local terms?

H. R. Srinivasan

It will be even for the last quarter our dollar growth rate has been about 5.4. The impact of the increase in foreign currency has only been to the extent of 0.87%. In dollar terms we will grow by 5-6%.

Piyush Chhadha

Okay thank you sir.

Moderator

Thank you. The next question is from the line of Niraj Dalal from Almondz Global Securities. Please go ahead.

Niraj Dalal

Sir can you throw some light on the traction that you are seeing on the cloud based SME offering that you have launched last quarter. What is the traction we are seeing there and you can highlight any revenue contributions from this offering that we have had so far?

H. R. Srinivasan

OneSCM was launched about a year back which is on the SaaS platform for our SEM. We have about 20,000 odd suppliers on the system already. Now we are trying to capitalize on these SME sectors, so our cloud offerings are now especially to the SME sector and trying to make them pay for it. So now the caution is that it takes time. SaaS offerings we are seeing good traction, the buying customers are getting into play but I think it is some time before we can reveal the revenue figures but the traction is good given the right direction that is.

Niraj Dalal

Okay. The other question is on WCI, have you seen any improvement in the pick in revenues as compared to last quarter because the last quarter we had a negative growth from WCI.

H. R. Srinivasan

No it has been stagnant vis-à-vis the last quarter and we don't think Q3 will be too different either. May there is a marginal growth as far as Q3 is concern. We should see some sizable impact in Q4 on WCI

Niraj Dalal

Ok. Can you indicate the cash that has been generated from operations this quarter?

H. R. Srinivasan

The cash generation for the half year will be around (-8) crore. The free cash flows cash generation from operations will be for 28 crore. Our operation cost is 28 crore, which is for the quarter and for the first half it will be close to 55-57 crore. We are currently negative but we should be positive. We should be marginally negative on free cash for the first half of the year and we are expecting it to turn positive in the next half.

- Moderator** The first question is from the line of Mithul Mehta from Lucky Securities Please go ahead.
- Mithul Mehta** Sir just wanted to ask you that what is our debt paid on plans as we move along and we scale up and we enter into a relatively low capital expenditure plan. So any plans on paid on debt over next two years? And my other question is then is it fair to assume that we would be entering into a phase whereby we will spend less money on Capex
- H. R. Srinivasan** Okay I will answer this question in three parts. First is the debt paid on plan, I think we will paid down the debt from operating cash flows. So our focus is going to be pay down the debt from operating cash flow and the movement we have sufficient cash flow to paid down the debt and that is what we will be doing.
- Mithul Mehta** Any numbers sir you would like to say?
- H. R. Srinivasan** For numbers there is a term of the loan so during the 10-year of the loan we will paid down the debts so I don't want to quote on the table now but we are comfortable paying down the debts from operating cash flows. We will not need any infusion of cash to pay down the debt. Second as far as your Capex is concern we can classify them into one is Capex from M&A and other is Capex for increasing capacity. Capex for increasing capacity you just heard Ram and Sridharan say that now there are some commitments to certain large both in the pharma and FCM space that they are wanting us to expand capacity. To the extent of those requirements we will make CapEx but as far as CapEx for M&A is concern I think we will focus at the moment as a period of consolidation.
- Mithul Mehta** So then you said in the first half we spent about 24 crore now what is budget for second half and if you have any budget in mind for the next year?
- H. R. Srinivasan** The total budget for the year was about 32-33 crore. For the next year the budgeting is still in process.
- Mithul Mehta** Ok. Thank you.
- Moderator** Thank you. The next question is from the line of Avnish Kanani from JM Financials. Please go ahead.
- Avnish Kanani** My question is, we are seeing some kind of headwinds in terms of growth from Europe. I was wondering whether what kind of environment has led to this because some of the large cap peers have not shown any kind of decline or deceleration in growth let's call it trade and considering the kind of vertical that you operate and which is health care, it is little bit concerning why should Europe be a headwind for you particularly when your offering is in the health related segment.
- H. R. Srinivasan** First, our offering is in life sciences and not in healthcare. In life sciences, our particular offering is in life sciences R&D and when you say peers and the larger peers, I think that there the nature of services they provide is different.

It's a kind of link to what is the general Capex environment in Europe and not so much to the Opex environment. So that's being constraint. It's not that we are leaving any stone left unturned, but perhaps it will take a little more effort on our part to make that happen. So I won't say we are seeing de-growth, but I would rather say we are seeing stagnation and we should be able to have a growth environment there over the next couple of quarters.

Avnish Kanani

So if I have to ask you further on this, whether are we selling it to those new start-up which are backed by PE or which are having some issues on funding or those kind of Biotech enterprises which are struggling to get funding in that environment. Are we saying that the large pharma companies like Glaxo of the world are also a kind of grooming down their expense on the Capex side on the R&D? I wanted to understand whether the large-cap pharma is having a headwind or it is all that start up Biotech kind of environment which is finding issues.

H. R. Srinivasan

We have a combination of the large, small and the medium pharma Biotech. So clearly it is not that the large are being very aggressive in their outlook and spend in Europe as well. So we are clearly trying to stay away from people who are PE funded or who would require funding because that kind of growth will lead us to a different set of issues. So we rather focus on healthy growth that generates cash.

Avnish Kanani

So are we saying that even the large-cap pharma companies are also facing some headwind on the Capex R&D side?

H. R. Srinivasan

They are cautious. So maybe it should ease up by the time we move into the next budget cycle.

Ram Yeleswarapu

Allow me to substantiate with one example. One of the large pharma company two days ago, announced a reduction in their headcount out of Basle, Switzerland and the local paper had almost 6 pages of coverage on this particular topic, but the interesting thing for someone like us is when you look through the fine print, they are essentially doing the reduction in data management, which is an area of strength for TAKE and that they will be outsourcing more. Clearly, I think, it has come out very clearly that they will be looking at outsourcing more and more intentionally. So that is the kind of environment that the large pharma companies are facing.

Avnish Kanani

Okay, the environment is a bit of a lull and it could mean maybe in future a higher R&D outsourcing, but at the moment, there is little bit of uncertainty.

Ram Yeleswarapu

Yes, outsourcing certainly is on the radar screen and we certainly are working extra hard in trying to kind of utilize our relationship with customers to try and be at the forefront of such opportunities

Avnish Kanani

Okay. Thank you.

Moderator

Thank you. The next question is a follow up question from Sangam Iyer from AlfAccurate Advisors. Please go ahead.

Sangam Iyer

Sir, just could you give some guidance on the margin outlook going forward? How much was the average realized rate in the last quarter?

H. R. Srinivasan

We would expect the EBITDA to be in the same range. We don't anticipate any sharp increases. The average realized rate in the last quarter was 45.282.

Moderator

Thank you. The next question is a follow-up from the line of Anurag Purohit from Systematix. Please go ahead.

Anurag Purohit

You mentioned that first half cash flow from operation was just to 55 crore and Capex was 25 crore. Essentially wouldn't that mean that we are already free cash flow positive. I was just trying to understand that.

S. Sridharan

There has been an increase in the working capital

Anurag Purohit

Ok. Thank you.

Moderator

Thank you. The next question is a follow up question from Kavita Vempalli from Nirmal Bang. Please go ahead.

Kavita Vempalli

In your press release you have mentioned about two projects. One is the project in Middle East and the other one is the OneSCM order from LS customer in US. Could you give us an idea about the size of these two projects and what is the nature of these projects?

H. R. Srinivasan

The Middle East customer is approximately a million dollar pipeline, which got added to the order book for this year and the customer in the US is from a track and trace product within the Gemini range should be starting in a both 500,000.

Kavita Vempalli

Okay, so both these projects are included in the SEM segment, right.

H. R. Srinivasan

Yes, they have been reported separately as they are unique in nature. One is a retail break. We were not strong in retail in the past. This is our first major retail break. Second is track and trace is a very important part and we have been trying over the last 6 months to sell track and trace to all our life science customers. So from a cross selling perspective, it is a very important break. That is why these two are highlighted amongst all other aspects. Traceability has a concept, which would get mandated in the coming years. So once the FDA mandate happens, we would have clear case studies to go back and do it. So we will be first out of the block on that area. So that is why it is critical

Kavita Vempalli

Okay. And Sir, one more thing, could you give us some outlook on your FY13. You mentioned that TAKE is going to grow 6 to 7% Q-o-Q. So will this be for the next two quarters or it will be even for FY13?

H. R. Srinivasan

At the moment, we will restrict it into two quarters. FY13, our budgeting process is only expected to get over by the time may be the next earnings call is there. So we will be able to tell something then.

Kavita Vempalli

Okay. Thank you.

Moderator

Ladies and gentlemen that was the last question. I would now like to hand over the conference to Mr. Harjit Singh Sethi for closing comments

Harjit Singh Sethi

On behalf of Almondz Global Securities Ltd, I thank Mr. H.R. Srinivasan and the team for their valuable time and providing insights about the company. I would also thank all the participants for joining in the call. Thank you very much.

H. R. Srinivasan

Thank you very much for participating in the earnings call.

Note: This document has been edited to improve readability.