

February 21, 2019

TAKE/BSE/2018-19

The Manager
Dept. of Corporate Services-Listing
Bombay Stock Exchange Limited,
P. J. Towers, Dalal Street,
Mumbai - 400001
Scrip Code: 523890

TAKE/NSE/2018-19

The Manager-Listing Department
National Stock Exchange of India Limited
Exchange Plaza,
Bandra - Kurla Complex, Bandra (East),
Mumbai - 400051
Scrip Code: TAKE

Dear Sir/ Madam,

Sub: Transcript of the conference call with Investor(s) and Analyst(s)

With reference to the intimation dated February 11, 2019, please find enclosed the transcript of the conference call with Investor(s) and Analyst(s) held on February 13, 2019 at 04:00 pm (IST) to discuss the unaudited Financial Results of the Company for the third quarter (Q3 FY:2018-19) and nine months ended December 31, 2018.

This is for your reference and record.

Thanking you.

Yours Sincerely,
For TAKE Solutions Limited



Avaneesh Singh
Company Secretary



Encl: As above



“TAKE Solutions Limited Q3 FY ‘19 Earnings Conference Call”

February 13, 2019



MANAGEMENT: **MR. H. R. SRINIVASAN, VICE CHAIRMAN AND MANAGING DIRECTOR, TAKE SOLUTIONS LIMITED**
MR. RAM YELESWARAPU, PRESIDENT AND CHIEF EXECUTIVE OFFICER, TAKE SOLUTIONS LIMITED
MR. D. V. RAVI, DIRECTOR, TAKE SOLUTIONS LIMITED
Ms. SUBHASRI SRIRAM, EXECUTIVE DIRECTOR AND CFO, TAKE SOLUTIONS LIMITED
Ms. N. S. SHOBANA, EXECUTIVE DIRECTOR, TAKE SOLUTIONS LIMITED

MODERATOR: **MR. ADITYA BAGUL – AXIS CAPITAL LIMITED**

Moderator: Ladies and Gentlemen, Good Day and Welcome to the TAKE Solutions Limited Q3 FY '19 Earnings Conference Call hosted by Axis Capital Limited. As a reminder, all participant 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 '*' and then '0' on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Aditya Bagul from Axis Capital. Thank you and over to you, Sir.

Aditya Bagul: Thank you, Lizanne. Good Evening Ladies and Gentlemen. On behalf of Axis Capital, a warm Welcome to the 3Q FY '19 conference call of TAKE Solutions Limited. We have from the management team, Mr. H. R. Srinivasan – Vice Chairman and Managing Director; Mr. Ram Yeleswarapu – President and CEO; Mr. D. V. Ravi – Director; Ms. Subhasri Sriram – Executive Director and CFO; and Ms. N. S. Shobana – Executive Director. I shall hand over the call to Mr. Srinivasan to give us a brief overview on the quarter, post which we will open the floor for Q&A. Thank you, and over to you, Sir.

H. R. Srinivasan: Thank you very much, Aditya. Good Afternoon Ladies and Gentlemen, and welcome to the Q3 earnings call of TAKE Solutions. We've had a satisfactory quarter as far as the management goes. Our revenues in Rupee terms were 521.6 crores, that is up nearly 28% year-on-year, but in Dollar terms we have had a flattish quarter compared to Q2. It is usually Q3 which sometimes tends to be flattish and we have had some soft response in the European revenue for Q3 and it is also the holiday season and some of the projects we did not complete the milestones for us to bill during the quarter. Having said that, the order book continues to be very good. The order book stands at USD 240 million of which USD 233 million is the Life Sciences order book, which is a 46.5% growth year-on-year. The other color to the revenue that I want to add is that this quarter 93% of our revenue came from the Life Sciences segment and 7% from the supply chain management, so in our quest to become a full Life Science company, I think we are almost very much there.

I also want to give a color on the margins-there has been some anxiety on what happened to the margins, so I want to say that at the adjusted EBITDA level, we are almost at the same level, but we have had USD 2.5 million of exceptional expenses during this quarter of which USD 1.5 million pertains to the two acquisitions that we have done and that is an expense that pertains to DD, the lawyer fees, the banker fees, which all have been accounted for during the current quarter in the P&L. There is another USD 1 million which pertains to the movement of foreign exchange which in the earlier period was at 72 and now is at 70, so there is a Rs. 2 difference and this is a notional amount that is on the foreign currency translation, but it does go through the P&L, and therefore, you see an impact of about a million Dollars on account of that. Otherwise, I think the revenue numbers are quite in line with the annual budgeting that we have had. The margin profile also looks all right from the operating standpoint of view and for those of you who had the opportunity to go through our MD&A, we have given the impact of the adjustment. On the PAT, I have to call out that during the quarter we have had a 300 basis point movement on the tax front to about 19% and that has impacted the PAT.

Overall, the business continues to be very strong, our delivery capabilities continue to be very strong and that is evidenced in the fact that we added seven new logos during the current quarter. We have also had a renewal from a big five Pharma company of our regulatory business for another three years; this is a deal valued at about 15 million USD. There was also significant participation in our NETs forum both in New York and London, and we also conducted a forum in Mumbai and we have received a value rating of 91% on that. So the management is quite pleased with the performance of the company as very stable during the quarter and the quarter also had the coming in or the conclusion of two acquisitions- KAI Research, which is a CRO based out of Maryland, and DataCeutics, which is a clinical data science firm based out of Philadelphia. To give more color to our Life Sciences business which has been growing at a compounded quarterly growth rate of nearly 8%, I am going to invite my colleague, our President and CEO, Ram Yeleswarapu to take you through a bit of detailing on both the organic and the inorganic side of the business that we are targeting. Over to you, Ram. Thank you.

Ram Yeleswarapu:

Thank you, Sri. Good Afternoon Ladies and Gentlemen. I want to take a couple of minutes to actually lay the foundation essentially giving you an outlook on the business to start with, then delve into our organic growth and also certainly touch upon the two targets that we are close to consummating. The outlook for the business is quite positive, very healthy trends in the industry, and these all point to continued investments in novel therapies for rare diseases and ultra-rare diseases. Given that our business is about serving biotech and pharmaceutical companies, this is quite significant for us in our line of business. Major pharma is well-positioned with strong, robust new product pipelines, biotech funding remains extremely strong at near record levels. I was recently in the JP Morgan conference in San Francisco in January and it was heartening to see the excitement which is palpable in terms of emerging biotech's as well as growth stage in large companies. I think the pipelines are really looking very healthy across immuno-oncology, rare diseases, and ultra-rare diseases as I mentioned earlier and all portending extremely strong interest in the market in terms of investment levels as well as spending.

Pharma is increasingly outsourcing R&D as internal affairs certainly are largely unproductive, increase the emphasis on emerging markets and commercialization for enhanced revenues of approved and established products in newer markets. Both of these signal very well for our core lines of businesses. On the clinical line of business of that division, we certainly are going after clinical trials as you are aware and so investment and emphasis on trying to take approved drugs to newer markets for commercialization essentially lends itself to additional clinical trials being designed and conducted; that is a significant opportunity. At the same time, this has an offshoot affect in our post approval support services division which is the Regulatory PVs division. What we do there essentially is do lifecycle management of approved established product dossiers as well as provide post-marketed safety services and once again the more markets the products are commercialized in, the better it gets in terms of outsourcing efforts in these areas. New innovation cycles in Bio-Pharma are kicking in, customers are looking for differentiation both in terms of strategy and better design of clinical trial protocols, better site selection for study conduct, and again with our emphasis on technology with our OneClinical platform and little bit of enhancement

of the IP that I am going to be talking about, clearly I think we are well-positioned as a well differentiated CRO in the industry.

We continue to believe that tech and automation will play a vital role in enabling study setup, conduct, and close out. Especially as studies are increasingly being designed by being aware of regulatory norms and availability of patient population. Just to simplify this statement, essentially you think about this, a number of Biotech and Pharma competing in the space to launch a drug wanting to be the first ones to get to market are increasingly competing for the existing patient population with the set of disease criteria, so it is absolutely evident that the sooner and faster a company is able to spot relevant clinical sites and also recruitable patients and they are able to get to those geographies as quickly as possible, it just helps them get to market so much more faster. Strong fundamentals of R&D spending especially amongst MidCap biotech customers, outsourcing penetration rates, and robust pipelines are fueling near-record backlog levels with opportunities for consolidation and benefits to scale. This coupled with an evolving value proposition like flexible construct such as fixed price contract, functional service providers, you would have heard of this terminology earlier from us and this company is certainly very adept at all these different channels of constructs of contracts.

The increasingly growing understanding of the genetic basis of disease is enabling precision medicine approach and obviously this has a potential to reduce healthcare costs and of course lead to improved outcomes, so we are very aware that the market is transforming and we are absolutely staying aligned with some of these evolving trends and our business is absolutely being positioned to ensure that we take advantage and leverage of these continuously changing trends in the industry, so we are excited as you look ahead with a very positive outlook, so all these trends as I said earlier portend well for our Life Sciences business given our multipronged approach to the market, consulting technology nets and the services across clinical, generic, and Reg-PV are all doing well into each other complementing the strength of our offerings to our customers and we see that as a consequence of all the account money exercises we have been doing all along, we are witnessing that the number of opportunities in our pipeline through cross selling actions, the pipeline is looking extremely healthy.

A quick note about technology's adoption of OneClinical is quite promising and we are able to identify additional used cases for the platform. We are continuing our development and enhancement of the IP related one clinical as I mentioned earlier. We have developed process maps for full-service clinical trials and not to sound too technical, but the typical bottleneck in any clinical trial are the first portion of the study start-up where customers would like to engage in trying to evaluate what clinical sites would be pertinent for the clinical trial and whether those sites can actually yield the kind of patients that they would like to recruit to satisfy the protocol criteria, and in this exact space which happens to be a traditional bottleneck in the industry, we as a company have solved it using technology and automation by breaking down the process. We are extremely excited about it, we are actually in very advanced stages of conversation with a reasonably large sponsor out of Europe and we have been awarded the feasibility portion of the study and the initial results are so well and so good and compelling that we are extremely hopeful

that we will be the front-runner in this particular opportunity. More on this as we look ahead over the next quarter or so when we provide updates.

One interesting thing I want to share is essentially that tech and automation continue to play a role, differentiation is key, and customers are really absorbing quite happily essentially as to our approach to this particular market. Regarding sales and marketing, our account mining strategy as I mentioned is boosting cross selling opportunities, ultimately our goal is to have enhanced revenue per customer and that is yielding results. We have a number of different offerings across Clinical, Generics, Reg-PV and post approval phase of drugs and we are certainly able to have many more conversations across the campus and in some instances across geographies for the same logo. I mentioned earlier about being in the JP Morgan conference. We are also looking forward to actually being at the DCAT Forum in New York City later in March and we are excited not just to re-engage or engage with our customers, but also look at prospects, especially as the generic industry is transforming to concept generics looking at sterile products and more patient based PV studies, we are absolutely close to witnessing the revolution of trends and staying close to these trends so as to be able to align to customers' expectations.

On organic front I covered a bunch of different areas, I am happy to answer questions later, but quickly switching to inorganic, we talked earlier about doing acquisitions in the clinical space and with the two that Sri talked about and that we have announced DataCeutics and KAI Research, this particular attribute that we want to check off has been finally checked off. We also talked to you all about doing these acquisitions in the North American geography, which is a check for us now. Thirdly, we talked about doing this as a full-service CRO and acquiring the full-service CRO that is a check as well. So just to summarize now we see the acquisitions, we will have the North American geographical presence in the clinical space with acquisition of a full-service CRO as well as a data science specialized CRO. A quick couple of bullet points about DataCeutics. They are a data science company providing high-end statistical programming, clinical coding, and data management. They service the marquee customers like Astra Zeneca, Genzyme, Genentech, Alexion so on and so forth, and the team is well grounded, they have been around for a long time, very reputed brand and with DataCeutics coming into our family, I think we are excited at additional cross selling opportunities, building a very integrated delivery model, and of course this complements our existing domain strength.

A brief note about KAI Research, it is a niche specialized full-service CRO. As Sri mentioned, it is based in Maryland. The good news is this particular company brings medical device clinical trials to us. Earlier and up until now, our experience has been with drug-related clinical trials. With addition of medical devices clinical trials, it opens up a new segment of business opportunity for us, we are extremely excited. It is also important to note that KAI works with the US FDA, the National Institutes of Health, Centre for Disease Control, Department of Defense. They have long-term relationship with many of these healthcare bodies and Government agencies etc., we are extremely excited that this will open up again relationship with Federal Agencies in the US, some of these are extremely long-term contracts and we are extremely excited, so with this essentially I

would like to summarize and probably hand off to my colleague, Subhasri, to about talk about the performance and the numbers. Over to you, Subhasri.

Subhasri Sriram:

Thank you, Ram. As Sri had indicated, this quarter has had several new positions in terms of Forex. We had an extremely volatile period after having gone up all the way in September, I think October and thereafter it has been quite fluctuating, so quarter end, we were at a closing lower than the previous, but the average has been much higher during this quarter, so there are certain reinstatements in terms of balance sheet had to be done and that has resulted in some of those translation losses. This obviously is more a notional and there is no actual loss or there is no outgo of the company and this will depend again on March ending depending on how the currency stays at the end of March 31st. As per the accounting practice of the company, all expenses in terms of the M&A or any of those initiatives like legal, due diligence fees and all the expenses incurred during this acquisition have all been provided for in the books and we have not capitalized any of them. Right now, we are excited and working towards the closure of these two transactions during this quarter and obviously we will see a lot more excitement in March. As far as the accounting compliance, we have been able to maintain and continue to follow all the accounting standards, and hopefully, by March we should be able to realign a few of our subsidiaries and that should be able to bring in more synergy and more business, I would say more reasonable data points for the investors. This is something where we have been looking forward to and working at, I think that should help in bringing more transparency into the data for us. Happy to answer and we look forward to your questions.

Moderator:

Thank you. Ladies and Gentlemen, we will now begin the question and answer session. The first question is from the line of Devansh Nigtoia from Securities Investment Management. Please go ahead.

Devansh Nigtoia:

Sir, my question was actually relating to the acquisitions that we have done. In a press release you have mentioned that you have acquired DataCeutics for INR 318 crores and for KAI Research is it INR 200 crores?

H. R. Srinivasan:

The total consideration including the payouts will be for both put together USD 72 million of which approximately USD 55 million is upfront payment and the balance is in earn-outs till early 2021.

Devansh Nigtoia:

The payments to these entities have been done before December 31st?

H. R. Srinivasan:

No, they were not paid before 31st December.

Subhasri Sriram:

Some of them we have done the advances while finding the thing, but the full payment is to go during this quarter.

H. R. Srinivasan:

There are some CPs that are usually there in the agreements which get fulfilled and the payment is linked to the CPs being satisfactorily completed.

- Devansh Nigtoia:** From which quarter can we start seeing the results of KAI Research and DataCeutics?
- H. R. Srinivasan:** Hopefully in the month of March; we should be able to start at least with DataCeutics in the current year.
- Devansh Nigtoia:** Can you share a few balance sheet figures? I wanted cash, current investment on balance sheet, receivables, advances, other current assets and others in other financial asset.
- Subhasri Sriram:** The current receivable is about 620 crores, which is about 109 days receivables. With reference to cash on hand, it is approximately about INR 350 crores. In terms of other current assets, there has not been a very significant movement, there is very marginal reduction but some of them are work in progress and we do hope to see some changes during March ending. And as far as the investments in CAPEX, we had close to about 57 to 58 crores of investment during this nine-month period. It is lower than our normal because the previous years have been around close to about 140 to 150 crores. Probably since we have done a lot of work on the acquisition, our investments in the organic has been slightly muted last few quarters, but certain projects are work in progress, we will see how they accelerate during this quarter.
- Devansh Nigtoia:** And unbilled receivables?
- Subhasri Sriram:** It is more or less in line with the previous quarter, there hasn't been significant change, like what Sri had indicated in his opening remarks, because of certain milestones not being able to move to unbilled right now, so that probably is also a reason that our revenues are slightly muted than expected.
- Devansh Nigtoia:** Since we follow percentage completion method for booking revenues and you said that we billed few milestones this time, so can we expect a significant bump up in coming quarters?
- Subhasri Sriram:** While it is logical to extend that, yes, those are actually in the first, now it is almost 40 to 50 days of the quarter. Yes, we have been able to, both in terms of realization and unbilled, but definitely March ending also will be a lot of activities, lot of transaction work will be on, while our endeavour is obviously to bill and not necessarily keep it as unbilled and that is what we will work at.
- H. R. Srinivasan:** I also want to call out that even where it is, the revenue growth is nearly 28% from the previous year, so it is a significant revenue growth despite the fact that it is not showing up on the quarter. If you look at it on a nine-month basis, it is 28% up from the previous year.
- Moderator:** Thank you. The next question is from the line of Nirav Dalal from Maybank. Please go ahead.
- Nirav Dalal:** Couple of questions, one is we have seen a decline in the Europe revenues in this quarter vis-a-vis the first quarter, so any comments there or is that also a reason why the revenues saw a decline?

H. R. Srinivasan: Yes, I think Europe revenues have been a little soft and the costs have been little hard, those are the two points that I would like to start the introduction with. Some of the spillover of the project that we spoke of not reaching the milestones are significantly in Europe. We hope that in the forthcoming quarter that will get corrected, however, that brings me to an opportunity to explain a new data point which perhaps; we have also considered that we will restructure Europe a bit because the opportunities for moving some of the services that we do in Europe to better destinations, low-cost destinations like India and Poland exist and we are working very actively on that, so there is an active engagement today going on to reduce the workforce and develop western Europe by about 60 to 65 on the headcount and move that quantum of work on an off-shore basis to locations that can offer us better margin, so this may lead to a one-time cost that may be there in Q4 but that entire cost will be recovered in a period of 12 months, by moving the work out, and on an ongoing basis, it will give a very strong fillip to the margin.

Nirav Dalal: Just staying on to Q4 and the previous person also asked the same thing, should we expect a bump up in Q4 because if we see this year, first quarter was slightly weak, second quarter was very strong, and third quarter we had this slight revenue moving, so how should we expect Q4 to pan out?

H. R. Srinivasan: Q4 will certainly see a bump up in revenue, but I also want to say that there is an eminent possibility of a one-time cost with reference to the European restructuring that I just spoke of, being there on the bottom line and impacting the bottom line in Q4, but revenue you will see an uptick in Q4.

Nirav Dalal: Could you quantify or is there a number to what could be the impact to the bottom line?

H. R. Srinivasan: We are trying to arrive at the closing figures on the provisioning and we are working with the requisite agencies, the works council and the lawyers, but we estimate that it may be around USD 2 million.

Nirav Dalal: Okay, so similar to what we had in this quarter, we had about USD 2 to USD 2.5 million sort of a one-off in this quarter?

H. R. Srinivasan: Yes.

Moderator: Thank you. The next question is from the line of Nihal Kumar from Axis Securities. Please go ahead.

Nihal Kumar: I want to ask about the growth in the clinical business, so has the revenue component changed between clinical and regulatory and pharmacovigilance this quarter?

Subhasri Sriram: Yes, we have been seeing a sequential growth in the clinical vertical of our business, so today we have been where we started off the year almost around 30%. Now, this quarter alone the clinical vertical which includes BA/BE and other services is close to about 35% to 36% of our total Life Science vertical revenue. Again, in terms of pharmacovigilance, yes, it has again been one of our

fastest growing segments and we continue to see, but currently this is being tracked together as a regulatory and pharmacovigilance and that is around 55% of our total revenue.

Nihal Kumar: To summarize, clinical business growth was over than the pharmacovigilance and regulatory together?

H. R. Srinivasan: Yes.

Nihal Kumar: Second, what was the Rupee impact on the EBITDA due to one-off?

Subhasri Sriram: About INR 15 to INR 16 crores and in terms of USD million it was USD 2.1 million to USD2.2 million.

Nihal Kumar: What will be the revenue impact from those two acquisitions that you have done?

Subhasri Sriram: Top line, it is close to about 35 to 37 million USD on a full-year basis.

Nihal Kumar: The impact of the same will be seen in TAKE's revenue from this quarter, Q4, right?

Subhasri Sriram: Q4, yes, but it will be probably for a month or less than a month. One, we should be able to get it, hopefully we are targeting to close by the end of this month. So March it should be on boarded and the other transaction probably at the fag end or middle of March.

Moderator: Thank you. The next question is from the line of the Dharmik Patel from Active Alpha. Please go ahead.

Dharmik Patel: I have couple of questions, first other expenses increased by 13% quarter over quarter, so just wanted to know was this USD 1.5 million of acquisition expense was the driver for this or there are other factors?

Subhasri Sriram: There are two parts to it as I clarified earlier, one was on the acquisition and the expenses with reference to the acquisition. The other was more in terms of the currency translation and as against for Q2 to Q3, but this is more notional and there is no cash outflow or hedging involved, it was a purely entry transition.

Dharmik Patel: Second is how has Ecron Acunova performed in this quarter, what would be the revenues for this quarter and the PAT margins?

Subhasri Sriram: I think we discussed this in the last call, so let me restate that it is almost end of three years since our acquisition of Ecron and in fact the last one to one-and-a-half years, we have taken a lot of initiatives to, as Ram had said about cross-sell, and therefore, it is the brand as Navitas and go to market part of it and we are obviously using the Ecron clientele, and therefore, there is no specific tracking of Ecron anymore, but if you were to use that as synonym to clinical business, I think we just now clarified - that is the vertical which we were in a smaller level at prior Ecron acquisition.

Today, it is more than 30% of our revenue, and therefore, I think it augurs well to how we have managed the acquisition and it is now a significant part of our business.

Dharmik Patel: The last one, what would be your CAPEX plans for FY '20?

Subhasri Sriram: Let me split that into two parts, one is the current business as usual and without acquisition, so business as usual for the current business, we will surely not be doing anything more than 100 to 110 crores or at best 120, but definitely we will have to look at the investments required for the acquisition in these entities and our past experience is that we definitely need to put it to make it work, it does not work on its own, so we continue to keep track of that as well.

Dharmik Patel: Can you quantify in terms of what would be your CAPEX in terms of new acquisition?

Subhasri Sriram: Currently, it is too early, I think we should be able to come back to you not even by Q4, probably beginning of next year.

Moderator: Thank you. The next question is from the line of Anil Sarin from Edelweiss. Please go ahead.

Anil Sarin: I wanted clarity on a few points that is CAPEX for the fourth quarter, what is that going to be?

Subhasri Sriram: Close to about 20 to 30 crores. Let me split this into two parts, I think one we are going to talk about the tangible assets and the intangible assets which are work-in progress and where we have current assets and where we are in the stage of capitalizing those assets, so one is returns of translation into fixed assets and capitalizing and the other is in terms of fresh investments or cash outgo. In terms of cash outgo, it may only be about 20 odd crores while there may be certain work under progress in different stages where we will be able to capitalize it by end of this year.

Anil Sarin: Okay, that would be around 10 crores?

Subhasri Sriram: That I am unable to figure in because it is in terms of certain levels of completeness before which we can capitalize those assets, but it may not necessarily translate into a cash outflow for us, those are interest rates, work in progress in our current assets which we probably will capitalize and move to our fixed assets.

Anil Sarin: What is the outlook for the CAPEX in the coming year?

Subhasri Sriram: As indicated, I think we still look at about 120 crores for FY '20, it is actually lower than the previous year of about 140 to 150 and this is without considering any requirement on the new acquisitions.

Anil Sarin: On a medium-term basis, I wanted the CAPEX outlook because in the last few years we have been spending quite large sums of money around 140 to 150 for the past few years and this year it will

be a little lower, but then next year again 100 to 120, when do we come to a point, being a services organization, where the CAPEX is relatively modest on an ongoing basis?

H. R. Srinivasan:

I think we will have to break it into two parts, if you actually look at CAPEX as percentage of revenue, even in the current FY we will come down from about 9 odd percent that was there, so as percentage of revenue, it will be much lower, maybe seven or thereabouts, but it will be there, because in the business that we are in, we are a CRO business while you talk of services business, the CRO business is not an asset-light business that is done only with computers or servers. We need other forms of equipment, we need hospital facilities, beds to be there, and the size that which we are, sometimes we make these investments because clients give us long-term contracts only when we can secure the asset for them, so this is in the initial growth phase, we are conscious of that, but from 7% we will certainly look at bringing it down. So when Subhasri indicated that it will be 110 odd crores, as percentage of revenue, it will be going down from 7% to maybe around 5% or thereabouts in the next FY and that would be in tune with many of the very large CROs which are there, but our endeavor because we use a lot more of technology is to keep driving this down. Today, we have the issue of creation of capacity, which is where we are doing this CAPEX, but as the capacity utilization goes up, today in several places our capacity utilization is only around 50%, but to bring the revenue curve up, we sometimes do this capacity addition to enable us to get long-term contracts. I am sure that as we move in the quarters, you will see the capacity utilization go up and that translating directly into EBITDA, certainly in FY '20.

Subhasri Sriram:

Just to add, I am sure you already observed it that while we have our investments, our amortization depreciation policy is quite aggressive and if you look at the nine-month period, our depreciation and amortization is over about 113 crores, and it is almost like it is OPEX and not as CAPEX or in fact more, so this is probably while we continue to invest, we are conscious to see to it, that it is being charged off at the earliest.

Anil Sarin:

Speaking a little bit about the European part, like you have already said in your opening comments that there was a little bit of slippage and which would hopefully be caught up in the coming quarter that has been mentioned, but are these two things linked this pending transfer of some jobs from the European geography to lower cost geographies and the slippage of the milestones, are they, in some manner, related?

H. R. Srinivasan:

There is certainly a relationship, but I will not hold that as the reason for this. It is just that some of the milestones we could not accomplish, there could be a variety of reasons that we could not finish the database lock, we could not recruit the requisite number of patients, so each project has a different thing. The movement that I was talking about was more from a long-term cost benefit. The understanding is that if whatever task can be done remote and which do not need local expertise or oversight and can give benefit of margins to the customer, even if we have some short-term cost to be taken care of that, we need to move that to a place where the margins are very sustainable and this involves, one, selling to the customer because sometimes especially with the GDPR issues, it is not easy for us to shift suo moto, we need to get the customer buying first and that took a bit of time, so once the customer has developed confidence in us saying that whether

we do it in India or we do it in Poland, we'll do an equally good job. Once we got that handle going, then we said okay now we can make movement on the manpower front and that will pay for itself very quickly.

Anil Sarin: There is an upfront cost of around USD 2 million, what is the ongoing saving due to the differential in the costs, ongoing on a yearly basis?

H. R. Srinivasan: Ongoing on a yearly basis, the savings is almost about USD 3 million, so I will recover this in 12 months or less.

Anil Sarin: And it would be a sustained savings on an annual basis, right?

H. R. Srinivasan: Yes.

Anil Sarin: Is this the first part of a move which will continue in the coming quarters that more jobs can be relocated?

H. R. Srinivasan: It is a great question, unfortunately I do not have a perfect answer for that yet, because I want to do this and see that the delivery capability remains at the same level that we have been able to do I think all of us here me, Ram, and the team are very confident that we are doing the right thing, the customers have bought it, but maybe two quarters into next year we will be able to see whether there are further opportunities of such kind.

Anil Sarin: On a separate note, in the last many quarters one has seen that, there has been a very, very strong growth in the order book of Life Sciences, this is unusual the kind of growth that is there, however, it is not reflecting itself into the delivered revenue for the past few quarters. Obviously it cannot continue indefinitely that the order book just keeps on swelling, but the revenue delivery is lagging, so when do you see some kind of a congruence between the order book addition and the revenue momentum?

H. R. Srinivasan: We will have to interpret this as very positive in a very different way, it means that we are getting longer tenure, multi-country studies, and therefore that certainty of those studies comes up front. So as the clinical bucket goes, the contract tenures will move three, five, those are the kind of tenures that you will get in the contracts and they get captured in the order book because they are finite and given, but it is not necessary that all of them should convert into revenue because if there is a study which is a three-year study and let us say it is USD 5 million, this year I will be able to recognize only USD 1 million, so I want you to see that it represents a mix of longevity of the contracts and the expanding nature of the contracts, however, I want to call out that the revenue growth is by no means trivial, it is a 27.85% revenue growth year-on-year which at least it is much higher than the budgeted amounts that we've put in. Now, this is a business which you will need to execute carefully, so unless you have the requisite qualifications to execute, it is not just the availability of orders but it is how well we perform on the campus, that becomes important, so you

will see a revenue uptick, but it cannot be in the same proportion the way in which the order book is going up. The order book signifies that you are getting bigger contracts, longer tenure contracts.

Anil Sarin: Just as a suggestion on a going forward basis, if you can describe some kind of granularity in your revenue not on the table but as a side note that so much of the revenue came from CRO, so much came from PV, and so much came from the rest, so that will give us a better understanding about how the business is progressing.

H. R. Srinivasan: It is a good point, we will make an addition to that, but now I can tell you that 54.8% of the revenue came from regulatory and PV, about 10% came from consulting and NETs and the balance came from clinical.

Anil Sarin: How much came from consulting?

H. R. Srinivasan: 10%.

Anil Sarin: So it was 35% from CRO, and last year same quarter what would this figure have been for CRO?

Subhasri Sriram: This would have been probably closer to 30 or just below 30. The Q1 was around 30 odd percentage, so Q4 would have also been closer to the 30%.

H. R. Srinivasan: Marginally lower than 30%.

Anil Sarin: In terms of the margins between these two to three segments, CRO we understand is a lesser profitable segment or is it the most profitable segment of the three?

Subhasri Sriram: It is a way of looking at it, I think from a standalone EBITDA, yes, you are right, considering that our regulatory PV is in the mid-20s, clinical is definitely not in that range right now, but if you look at the CRO industry, it is extremely differentiated. There are CROs in early teens or even sub 15 and there are also CROs with EBITDAs over 20. We definitely are aspiring and working towards what Ram had said earlier with our tech intervention, we should be able to get a better margin in our CRO business, while correctly we are not in which scale, but we are also looking at bringing the EBITDA margins, while they may not be in line with our regulator PV in mid-20s, but at least move to 20s.

Anil Sarin: As you consolidate these two acquisitions, the overall EBITDA margin would go up or it will temporarily come down?

Subhasri Sriram: It will temporarily come down, but overall the long-term objective and definitely the intention is to take it up.

H. R. Srinivasan: Both the acquired entities have EBITDA margins between 15.5 and 16. We think that in the case of DataCeutics, there can be a short-term impact on improving the EBITDA because they have no

off-shoring and several of those pieces of business can be off-shored. So you will see an EBITDA impact in short time, but in the case of KAI Research, it is going to take a bit more time because they do not use too many points of technology, so we have to introduce that, we have to start running it parallelly, that is going to take a little more time to get the EBITDA up in KAI.

Moderator: Thank you. The next question is from the line of Deepak Poddar from Sapphire Capital. Please go ahead.

Deepak Poddar: Sir, just wanted to know first on the R&D expense, so what was the R&D expense this quarter and outlook for next year FY '20 and how much of that expense we capitalize and how much of that is being expensed?

Subhasri Sriram: First of all, there is no specific as an R&D at this point of time, with our initiatives and what we call them as capital work in progress where project development or product development cost which is not yet capitalized, and you may call them as R&D, but definitely there is work under progress and in the case of generics there are expenses in terms of development of methodology, these at this point in time are part of our REVEX and we are not capitalizing, it is part of our routine business as usual expense which is in terms of our generic.

H. R. Srinivasan: If you look at the MD&A deck, maybe Slide 16 actually gives you the capitalization and the amortization and you will find that the amortization and depreciation is far greater than the capitalization by almost 2.5 times.

Deepak Poddar: So the expense would be about 70% to 80%, right?

H. R. Srinivasan: Yes.

Deepak Poddar: You mentioned that this quarter your tax rate was higher at about 19%, so any kind of outlook you have that you can share with us in terms of tax rate outlook for this year as well as next year?

Subhasri Sriram: We had indicated that we hoped to keep it between 16% to 17%. While Q3 we did have a tax in terms of fixing which geography with legal entities the tax was around 19 odd percent, but as of March '19, considering what we have in terms of our tax benefit, in terms of our carry forward losses in some of our legal entity, we still believe that if not 16 we should be able to have an ETR at least sub-19%, so it should be around 17% to 18% we should have our tax rate for the year as a whole.

H. R. Srinivasan: But going forward, you will see may be more in the 19% bracket because the entities of Ecron Acunova that we had acquired which had carry forward losses, we have taken advantage of all of that, so we will move closer to the marginal tax rate.

Moderator: Thank you. The next question is from the line of Nikhil Upadhyay from Securities Investment Management. Please go ahead.

Nikhil Upadhyay: We were looking at three acquisitions and now two of the acquisitions are done and with the kind of business these companies which we have acquired, basically KAI Research, which gives us a space in the US in terms of a CRO. So in terms of a CRO offering, in terms of our ability to execute, we would be now complete across US, Europe, and Asia-Pacific. So are we looking at any new acquisition in terms of geographical reach now from the CRO perspective?

H. R. Srinivasan: No, we are not looking at any acquisitions in the near future because we will have to work on consolidating these and doing a good job of what we have acquired. So we will not be looking at any acquisitions now.

Subhasri Sriram: I at least can say that considering what we are in terms of internal accruals and the money promoters have brought in through preferential allotment end of last year, I think we would be fully utilized and we are in no hurry to add-in additional debt in a large way, so probably we will wait for this acquisition to start turning around before we get into fresh acquisitions or investment.

H. R. Srinivasan: Just to call out, after acquiring this, there is a lot of work that needs to be done with the assets that you are acquiring. So it is a lot of management time, attention and the post-merger integration is quite hands on work, I do not think we have bandwidth to look at or absorb any more acquisitions.

Nikhil Upadhyay: Just a continuation then, our focus of reaching that 500 million probably with the current set of things, how we are, we should be able to reach without any further acquisition?

H. R. Srinivasan: Yes, that is our current thought process.

Nikhil Upadhyay: Subhasri ma'am, this INR 350 crores of cash which we have that will probably go out in this March quarter for the USD 55 million?

Subhasri Sriram: We have already more or less in US, right now it is a matter of few days away to be transferred, and for the acquisition, we have few undrawn lines during this year. We will be using up those as well, not additional debt, but more on existing lines which we have not utilized during this year and that should be good enough for our acquisition.

Nikhil Upadhyay: If I look at it, we are generating a cash flow with the acquisition and everything and probably our debt is around INR 300 to 350 crores and max can reach at INR 400 crores. With the kind of setup of the businesses which we have and the way we are looking at scaling up, do you see that this balance sheet deleveraging from 400 to bringing it to 200 to 250 can happen over next year?

H. R. Srinivasan: Nikhil, I am just drawing your attention in case you have the MD&A deck to Slide 14, which gives you the borrowings. You will note that almost all our debt is Dollar disseminated debt, they are not debt here, so we do not have any expensive debt that is sitting, and all this debt is being serviced and it is being paid off by internal accruals, it is not that the debt is being replaced by another debt. We will of course look at doing what is the best option with the capital, currently we have applied

capital to the acquisition, and it is not that we want cash sitting idle on the balance sheet. Wherever there is an opportunity to deleverage as the cash flow comes in, we will certainly do that.

Moderator: Thank you. The next question is from the line of Nihal Kumar from Axis Securities. Please go ahead.

Nihal Kumar: Can you throw some light on the supply chain management; we were supposed to carve out the last unit that we have remained with, so what is the progress in that. Can we expect by FY '19 to be completely 100% Life Sciences business?

H. R. Srinivasan: No, you cannot expect. This is the last bit, it is a JV and a subsidiary, so we do not have any transaction at the moment that is anywhere close to closure, so it is going to stretch into FY '20.

Nihal Kumar: In FY '20 will you be pursuing for the same or will you remain with the last unit in the business?

H. R. Srinivasan: We do not want to keep it, first let me describe the asset to you. It is a debt-free asset, it is generating cash, it is a subsidiary and it gives us dividend that is about roughly 400% every year, so it is not a drag on the TAKE's balance sheet in any form. We have to dispose it, and therefore, there is an opportunity to dispose it at the right value and our ownership in this JV is 58%, so there is a 42% partner, so we also have to be cognizant of the rights of the partner and how we want to exit the JV in a proper fashion. So given that there is no financial stress on that asset, we are trying to do it in the best possible manner and we could not execute it in FY '19, but I have to say that we did execute two of the supply chain pieces in FY '19, so we will try and certainly exit this in FY '20.

Nihal Kumar: And on the receivable days, so working capital has been stressed for quite some time, so do we have any strategic focus on that or will we remain on that level only?

Subhasri Sriram: I do not think we are working towards remaining in that, our endeavor is to bring that down, so all effort is to bring and bring below 90 that is our objective, but more and more we move towards Life Science vertical, more and more we move into mid and small Pharma, obviously, the current position is not favorable to bring that down. This is not just to mid or small Pharma, the scenario is more or less similar even in the case of very large ones. Currently we are not stressed on our debt or borrowings and borrowing cost is not significant, so we have not engaged with our clients with reference to any amount of discounting or factoring, but yes, that is an option available and we will examine at an appropriate time. It will have a cost to it, but we will evaluate at an appropriate time.

Nihal Kumar: Have you seen large client addition this quarter?

H. R. Srinivasan: Total number of clients added this quarter is seven.

Nihal Kumar: Can we say that they can be contributing among the top client of TAKE Solutions?

H.R.Srinivasan: No, that is not the assumption. Big Pharma have already been clients of ours for very long period of time, so they are not new clients of us. We have renewal businesses from them. All these seven are in the small and mid Pharma range and with the coming-in of DataCeutics and KAI, we will get a different set of logos which are not present in the TAKE system.

Moderator: Thank you. The next question is from the line of Nirav Dalal from Maybank. Please go ahead.

Nirav Dalal: Couple of questions, one is on the other income; other income was lower in this quarter, so just wanted to understand about the cash that was there on the books.

Subhasri Sriram: We are not active in the domestic market and whatever we saw on the unsurity and the nervousness in the Indian debt market, so we were not too keen on holding in as much of funds in investments during this September-October and more of it, as transactions were getting to be more actively in US. We have taken a conscious call to move away from our investments and there was very limited investment and even whatever was there was probably extremely low risk and probably low return during this period.

Nirav Dalal: Next quarter, the payment would be made so we would not have much cash?

Subhasri Sriram: The other income is more or less, this is what has been in the past. The last three quarters or probably last two quarters was a bit of an unusual because of the, what we should not be doing, Treasury income, but we have been doing more of that.

Nirav Dalal: Just finally, what would be the EBIT margins for the two acquisitions, would it be similar to what we are having or would it be lower because I get DataCeutics would have a lower depreciation and amortization whereas KAI might be having a higher depreciation and amortization. Despite they having 15.5% to 16% EBITDA margins whereas we are 20%, but at the EBIT level would it be similar or not?

Subhasri Sriram: You are right, they are not too much in terms of their non-cash related expenses and we do definitely expect, but I think as you said the first two quarters is going to be quite critical for us in terms of transition and then we will be able to provide this information with more certainty.

Moderator: Thank you. Ladies and Gentlemen, that was the last question. I now hand the conference over to the management for their closing comments.

H. R. Srinivasan: Ladies and Gentlemen, thank you very much on behalf of Ram, Subhasri, and Shobana. Thank you very much for participating in this call and taking time to ask questions. If you have any further clarifications, feel free to reach out to us and we will be very happy to provide additional information. Thank you very much and have a wonderful day.

Moderator: Thank you. Ladies and Gentlemen, on behalf of Axis Capital Limited, that concludes today's conference. Thank you for joining us and you may now disconnect your lines.



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