



**“Take Solutions Limited
Q1 FY2020 Earnings Conference Call”
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Moderator: Good day, ladies and gentlemen, and welcome to the Q1 FY2020 Earnings Call of TAKE Solutions Limited, hosted by ICICI Securities 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. Vinay Bafna of ICICI Securities Limited. Thank you, and over to you, Sir.

Vinay Bafna: Good evening, ladies and gentlemen. On behalf of ICICI Securities, a warm welcome to the Q1 FY2020 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; and Mrs. Subhasri Sriram, Executive Director and CFO.

I shall hand over the call to Mr Srinivasan, to give a brief overview of the quarter, post which, we will open the floor for question and answers. Thank you, and over to you, sir.

H R Srinivasan: Thank you. Good afternoon, ladies and gentlemen and thank you for joining our Q1 earnings call for FY2020. Let me begin by saying that at the outset we have now, both in BSE and NSE, been reclassified in the pharmaceutical domain. Earlier we were shown as computer and software, so now we have been given the right classification, which is in the pharmaceutical domain.

In terms of the quarter itself, I think it has been largely in line with our expectation, perhaps a little better. The revenue stood at \$84 million or 582 Crores and this was 9.14% up Q-o-Q and 25% up year-on-year. This is the first quarter where both the acquisitions, KAI Research and DataCeutics were included. They brought in revenues of \$6.7 million for the quarter. Without them, our growth is 1.4% in dollar terms Q-o-Q and 10.4% Y-o-Y in dollar terms.

The EBITDA for the quarter was \$15.7 million or INR 109 Crores which was 10% up Q-on-Q and 17.5% up year-on-year. Of this EBITDA, 1 million came from the DataCeutics and the KAI Research Inc. The EBITDA margins of DataCeutics and KAI Research were 14.9%, the organic EBITDA margin was 19.2% and the blended EBITDA margin therefore stood at 18.8%. We expect this to be the trend as we move forward during the year.

The quarter produced a very satisfactory level of net new awards. The addition to the order book for the quarter was \$24.5 million of which \$20 million is attributable to the acquisitions. The life science’s order book stood at \$269.5 million, which is 10% Q-on-Q and 42% Y-on-Y.

Overall the business environment for the CRO business remains very stable. We have had a steady RFP flow and the new business award continue to be very well diversified. The concentration of the top 10 clients was 24.4%. This quarter saw two over-\$10-million deals being awarded to us by two of the top 5 pharma, one was a renewal and one was a fresh one, both going into 2022.

The post merger integration of both KAI Research and DataCeutics is proceeding as planned. In the case of KAI Research we are seeing increasing strength of RFP activity, which I believe will be leading to a very strong order book for FY2021, just to refresh, KAI Research the sales cycle times are a little long for phase II, III trials. So as we begin the activity now, there will be very few that will converted during the current financial year.

In the case of DataCeutics we are seeing very strong conversions and there have been a slew of fresh orders that have come in. The off shoring is on track. We have got some of the team in place, and by Q3 we will start off shoring a good chunk of the business, which will help us improve the margins.

I have to call out that during the quarter, there was a very favorable mention by an industry research agency called Everest Consulting Group based in Dallas, Texas and their peak matrix assessment provides the analysis and insight to enterprises to make critical selection decisions about global service providers, and in that, in the clinical service provider, we have been classified as a major contender.

Just to recall, we started our strength in our clinical practice only in 2016 with the acquisition of Ecron Acunova, and since then we have made tremendous strides, and it is very heartening for the management to note that a reputed organization like Everest has classified us as major contender along with the likes of IQVIA, Parexel, etc.

Our capabilities in the innovative use of technology is setting us apart, and we continue to invest in robust technology in making the business operations more efficient

These were the highlights for the quarter. With this, we would like to throw open the floor to questions. My colleagues and I are here to take any questions. Thank you.

Moderator: Thank you very much Sir. Our first question is from Devangsh Nigotia of SIMPL. Please go ahead.

Devangsh Nigotia: Sir my question was mainly related to KAI and DataCeutics. Sir in earlier corporate announcement, we classified that aggregate sales of both the entities were \$30 million as on December 2017, if that is a right number, and so based on that there seems to be a de-growth in the merged entities, both DataCeutics and KAI. So what would the reason be for that?

H R Srinivasan: No, I do not think, it can be viewed as de-growth because it changes across quarters. So the number you have is for the year and you should not be able to link it to the quarter. So I think there will not be a de-growth and actually the growth is about 6%, if we were to compare Q-on-Q.

Devangsh Nigotia: So there is some cyclicity in the numbers of December 2017?

- H R Srinivasan:** I would not use the word cyclical, it is based on the completion of projects, so sometimes they get to lump up, but it should overall be a growing business, there is no de-growth in this.
- Devangsh Nigotia:** And can I have few balance sheet numbers- cash on balance sheet, other advances unbilled receivable, trade receivable, is it possible for you to share?
- Subhasri Sriram:** Yes, I think we have, it is part of our presentation, that the trade receivables as at June ending it is about 107 days as against 94. There hasn't not been significant reduction in our unbilled receivables and as far as our payables, there have been an increase from March year ending, which is very similar because March there are lot of pressure both sides in both the receivables and payables. So it is as much as like what you have seen some interest spike in our receivables or payables as well to an extent have gone up as on June ending.
- Devangsh Nigotia:** That is it from my side, thank you.
- Moderator:** Thank you very much. Our next question is from Sandeep S of Petunia Capital. Please go ahead.
- Sandeep S:** The question I have is more long-term. If I have a look at your latest annual report, in the consolidated cash flow statement, I find that we roughly generate about 100, 120 Crores of operating cash after adjusting for working capital, is that right?
- H R Srinivasan:** Yes, okay go ahead. Yes.
- Sandeep S:** As far as the long-term will you be able to improve this ratio of EBITDA to operating cash flow, so I want to know if this unbilled receivable is seasonal? Generally every sector will have a ratio for the cash generation to EBITDA. So I want to know since we are growing is this a phase where the ratio is particularly a little low or how do you see it going forward. So I hope I have conveyed my question?
- H R Srinivasan:** Yes. So, see currently we have been creating capacity because one of the fundamental issues in getting business for us especially higher value deals is that you need to have more sites, you need to have more facilities. So there is an investment going in creation of capacity. At this point of time, our capacity utilization is around 55%, as this capacity utilization goes up, the cash to EBITDA ratio will improve. We expect that should happen over the next two years. So long-term certainly this will be very, very cash accretive.
- Sandeep S:** Because we are doing very well at an operating level it is about 100 Crores every quarter EBITDA, but as you know the value increases per shareholders when it translates to cash flow. So I just wanted to know, so you are saying in another two years this will improve?
- H R Srinivasan:** Yes, because see we have currently investing in revenue growth. So we can either optimize for cash flow and reduce revenue growth then this....

- Sandeep S:** Yes, yes, I understand. That is precisely my question. So in order to grow business at the movement we are focusing on that. Whereas so over long-term what in your assessment will be the ratio will it be 50% of EBITDA can I assume that operating cash flow will be at least 50% of EBITDA?
- H R Srinivasan:** Yes, around that.
- Sandeep S:** Thanks, that is it from my side, congratulations on a great set of numbers.
- Moderator:** Thank you very much. Our next question is from NihalNihal Kumar of Axis Securities. Please go ahead.
- NihalNihal Kumar:** So I am talking about other expense, it is on the higher side this quarter also. So if you can throw some light on this?
- Subhasri Sriram:** Actually as a percentage to revenue it has been actually quite moderated and I would not look at it as on the higher side. I think this is also probably the way we see it, this is probably the way it is going to be going forward in ratio between employee cost and cost of revenue with a lot of workforce coming as contract and others, it will be probably more in the other expense than on the employee side.
- Nihal Kumar:** So can we assume that this will be the run rate going forward as a percentage of revenue?
- Subhasri Sriram:** Yes, sir. Yes, this I would say this quarter would be a more a representative quarter of going forward because this actually also has the full revenue of two of our recent acquisitions, and so it is probably is a more representative of the coming quarters.
- Nihal Kumar:** So exactly I wanted to ask that, that if the acquisition cost has been absorbed completely or it has fallen into this quarter also?
- Subhasri Sriram:** No, this is more of business related, so if there has been, it is very small and marginal more in terms of PMA related cost, but I suppose the PMA related cost is going to be going forward in a couple of more quarters as well. So it is not just an exclusive or only for the quarter.
- Nihal Kumar:** Madam in terms of clinical trials, can you throw some light on how it is going to be, I mean, more of innovator drugs or more of BA/BE study-what is the focus area and how it is at present in terms of breakup if we talk about in clinical trials?
- Ram Yeleswarapu:** It is going to cover a couple of different areas; clearly we are working with generics so we will continue to do the BA/BE studies for generic pharma. We will also do patient based studies, which are clinical end point studies for generic pharma so those are the two sets of offerings in the trial space focused on generic manufacturers. When you move to innovators we of course do Phase II, Phase III and Phase IV studies for both the biotech companies and pharma and so we will continue to kind of look into that space as well. So the short answer is it will cover both

generics and innovatives, pharma and biotech and now medical devices as a segment has also been added as a consequence of KAI Research.

Nihal Kumar: Sir if you can just give a brief, I mean, which is the major segment area for Take Solution at present, if you talk about, say in terms of ratios it is 50/50 or 40/40, 40/20 something?

H R Srinivasan: Currently the clinical business is about 40% of our total revenue, 52% comes from regulatory and safety and the balance comes from the consulting services that we have.

Nihal Kumar: Sir actually I want within clinical it is more of innovator drugs driven or generics driven?

Subhasri Sriram: Out of a 40% about or 33% is innovator drugs and about 7% is on the generics, which is largely the healthy volunteer trials.

Nihal Kumar: And going forward it will be at this rate only or the innovator drugs are going to dominate?

H R Srinivasan: So, innovator drugs will obviously dominate because the value of the Phase II, Phase III trials are the largest piece and they will go up and even when the biosimilars are there, the cost of the trials is much higher than that associated with generics. So you will see both the innovator and the biosimilars dominate.

Subhasri Sriram: In the case of generics, currently the trials are largely with reference to our facility which is of 208 bed facility. So it typically at this point and we operate within that capacity constraint so that is only can be a little bit of price flexibility but cannot be exponential growth in that.

Nihal Kumar: And what about the newer acquisition in US, so they have produced on generics or innovators or the same ratio which we are accounting?

H R Srinivasan: The KAI Research largely deals with federal agencies and innovator companies, the other one is a clinical data sciences company, again deals with largely innovator drugs.

Nihal Kumar: Thank you so much sir. Thanks a lot and congrats for the good set of numbers.

Moderator: Thank you very much. The next question is from Tushar Bohra of MK Ventures. Please go ahead.

Tushar Bohra: I just want to understand going through some of the competitors or clinical research companies' outlook and they seem to have mentioned a lot of traction on PV as a space, pharmacovigilance, I want to know your comments also and how do you look at that segment in particular let us say over the next two to three years?

Ram Yeleswarapu: I think if I understood the question correctly, I think clinical drug development, clinical research and the clinical trial space will certainly see a lot more growth. There is a significant opportunity in that segment and PV will continue to be a required service offering alongside so we will

continue to deliver PV alongside doing trials also. But that is how we see it, the main growth will come in through the trials process itself.

Tushar Bohra: Can you help segment the order book into clinical trials and PV reg?

H R Srinivasan: See, I would say at this point of time it would be more or less reflective of the clinical order book would be about because of the longitivity of the contract, it would be about 50% to 55%. The balance would be in PV side, but the consumption of the clinical order book takes a longer time than the PV reg order book.

Tushar Bohra: So about \$270 million 55% of that would be in the clinical research?

H R Srinivasan: Yes, but see the consulting has the shortest consumption time, you normally turn around an order book almost twice or thrice a year in the case of consulting, in the case of clinical, PV takes roughly about a year but the clinical takes much longer in average.

Tushar Bohra: And so just one metric that we are just tracking for clinical research companies globally, I think the book to bill ratio or the conversion ratio is roughly about 1.3, 1.4 if I'm not mistaken, whereas for us it was probably closer to 0.8, 0.85. So how do we propose to increase that, what is the outlook on that particular metric?

H R Srinivasan: Yes, see that is the metric that we track quite meticulously at our end, because we moved from the reg PV space where typically it is 0.7, 0.8:1 the most mature of clinical research companies will have about 1.5:1. I think by the year end we should tend to about 1:1 and hopefully take it from there, because as we get multi country studies, higher value studies you will see the clinical bucket going up and that is when you will more or less tend to the ratio of 1.5:1, but in our case I would say maybe 1.3 is a good one because the regulatory and PV is always going to be very strong for us, so by year end we should tend to 1:1 that will be the short answer.

Tushar Bohra: Sir interestingly you mentioned that just in terms of understanding whether more clinical research also helps us in more regulatory and PV and maybe earlier lead into the regulatory and PV business,-do clients also reach out to you at the start of clinical trials and then you can take the end-to-end piece for us are you seeing more conversations on those lines?

H R Srinivasan: It is the small and mid tier clients, they typically tend to club everything together but the larger clients have preferred providers for each set of activity so they may do trials with one they may do regulatory and PV with the other-that is the general buyer behavior, but in the mid tier segment, yes, the opportunity to get the whole business end-to-end is very high.

Tushar Bohra: If I may slip one last question, you mentioned two deals of greater than 10 million that we won this quarter. Could you help us with what would be the total number of deals today that we are executing that above 10 and maybe how the pipeline that we are bidding for, how that number is moving up, in terms of size and the quality of engagement?

- H R Srinivasan:** I will give a more maybe descriptive view of this because I may not have an exact deal numbers on the table, but first let me talk of these two deals. One of them is a renewal of the customer who has been with us for quite a period of time. One is a net new addition to the business from a top five pharma, a different segment of business that we have not been traditionally doing. Typically our deal sizes for the Phase II, Phase III have been in the region of let us say \$5 to \$8 million that seems to be the sweet spot, but as we hit more multi country trials which are, let say 15 countries or so, the ability to push this up beyond 10 million rises. There are a few opportunities that we are currently pursuing in the RFP stage maybe, don't hold me to it, but maybe about 10 would be in the region of over \$10 million deals in the RFP stage that we are pursuing, but typically our wins have been in the \$5 to \$8 million range.
- Tushar Bohra:** So when we say \$10 million sir greater than \$10 million even be let us say a \$20, \$25 or \$30 million for one or two of these deals, just trying to understand the scale vis-à-vis what we have been doing in the past?
- H R Srinivasan:** I think the largest of them would be in the 25 bracket we have not gone beyond that but we cannot at this point of time say that we will be successful on that or not, but typically they are all about 10 and below 25 that is the range.
- Tushar Bohra:** What is the number of new clients added to the business? Do we track that?
- H R Srinivasan:** We track that I will mail that to you.
- Tushar Bohra:** Thanks for the opportunity.
- Moderator:** Thank you. Our next question is from Dharmik Patel of Active Alpha. Please go ahead.
- Dharmik Patel:** My question is to Ms. Subhasri. How much debt have we repaid in this quarter?
- Subhasri Sriram:** Debt repayment?
- Dharmik Patel:** Yes, for this quarter?
- Subhasri Sriram:** No we did not have any loan maturity during the quarter other than the normal working capital. We have not taken any fresh loans during the quarter, I may say that way. Other than the normal maturity and the working capital limits, which we have been using on and off.
- Dharmik Patel:** That is it from my side. Thank you.
- Moderator:** Thank you. The next question is from Pankaj Bobade of Axis Securities. Please go ahead.
- Pankaj Bobade:** Well Sir this is Pankaj, I have three questions right now. One, wanted to understand what is the reason for pressure on margins, I mean, last year same quarter we had margins of around 13.1% this quarter we are having around 9.5%. Second thing how are our new acquisitions doing and

how are they faring in terms of profitability and when would they contribute meaningfully to our consolidated entity. And third we had a vision of reaching \$0.5 billion of topline, just wanted to understand where do we stand right now and what is our trajectory to achieve the same?

H R Srinivasan: Now first of all to tell you the acquisitions that we have done are progressing very satisfactorily. KAI has tremendous RFP activity that is taking place and DataCeutics has already started registering wins and so the low hanging fruits are already coming in. Once the off shoring starts, the margin should pickup so they are on the growth curve and they are as planned. As far as your question on the margins is concerned, there are three reasons for that. The first is there is a 1.5% reduction in EBITDA this is one because of the blend that has happened on the two acquisitions that has happened besides some expenses that have increased in the normal course of business. In the last year we had about 1.5% which was due to the other income because we had cash on the balance sheet that was earning income and we used the cash to acquire the company so that cash is no longer registering any other income that is there and there is a general increase of about 1.1% in other expenses in headcount, capacity creation, etc. So that is why it is there, once the capacity improves and the two acquisitions start getting scaled I think we should be back to better margins.

Pankaj Bobade: Sir when do we see these two new acquisitions kicking in with full vigor and contributing to the consolidated entities. If you look, six months back onwards if you see we were delivering some 8% higher single digit CQGR growth and we are faltering for last two, three quarters so we just wanted to understand when do we see that animal spirits regained as far as our performance is concerned?

H R Srinivasan: No, I am not sure, I understood the question, can you come again?

Pankaj Bobade: Well, if I am not wrong, we were growing at 8% odd CQGR, say it happened from 2016 to 2018 and mid of 2019 and thereafter we are faltering so just wanted to understand when do we reach that level?

H R Srinivasan: See, I do not think it can be taken as faltering because you will have to understand that we are growing well above the industry standard so at a smaller base obviously the percentage looks much better, but as we grow, I am not sure whether that pace of growth can be kept on. I think we are doing pretty well, it is above the budgeted figures that we have and above the guidance that we had given. So I am entirely in agreement that growth rate can be maintain going forward.

Pankaj Bobade: So we had some vision of reaching \$0.5 billion of topline?

H R Srinivasan: Yes.

Pankaj Bobade: When are we likely to touch that magical number?

H R Srinivasan: See we closed last year at \$292 million, we will hopefully be closer to 370-380 this year and maybe we will outdo that, once we achieve that we will have a very good indication of where we will be in the following years, but we should be pretty much on target there and thereabouts I do not think we have a cause of concern.

Pankaj Bobade: And with improving margins, right?

H R Srinivasan: We have taken over two units where the average margins are low they are sub 15% and so it is not likely that in this year you are going to see an improvement in margin, I think it will be flattish from where we are currently.

Pankaj Bobade: My final question we had hired few top level executives and we had expected some really good traction coming from after they joined. So just wanted to understand what is the status?

H R Srinivasan: Well, the status is already reflected in the numbers so whatever we have done is the effort of the combined management team, so I think we are quite satisfied with the output that we have been receiving from several of our senior colleagues.

Pankaj Bobade: Thank you sir. Thanks a lot and good luck for the future.

Moderator: Thank you. Our next question is from Harsh Jhawar of Centrum PMS. Please go ahead.

Harsh Jhawar: Sir my question is can you give us the Capex guidance for the year?

Subhasri Sriram: As for our budget we do expect in terms of our tangible assets in terms of assets investments in our facilities and others, including certain replacements and refurbishments, we expect something close to about 120-odd Crores, while we still, as we had indicated last time in terms of our IPs and investments of intangibles, it has been quite muted in the past two years. There are several works which is right now under progress and there maybe some investments capitalization possible during this year. Now for the first quarter close to about 20-odd Crores, 20 to 22 Crores has been towards Capex, but obviously we will have to see how the next two quarters pan out in terms of our investments and that obviously will depend up on the growth and the order book levels.

Harsh Jhawar: Thank you madam. That is it from my side.

Moderator: Thank you. We have a follow-up question from Sandeep S, Petunia Capital. Please go ahead.

Sandeep S: I am sorry I missed out asking one particular question. See the question I have is, this is of course my personal opinion, that your valuations are very attractive from an investor perspective. My only question is that has the management thought of a possibility of buyback at all, of course now they tax buyback, but have you even thought of it or there is nothing in the offing or is it a suggestion that you can take?

- H R Srinivasan:** I think we are investing in growing the business so I do not think this point of time there is no need for allocating capital to buyback.
- Sandeep S:** Understood, fair enough, it is just a suggestion I had, but I understand that your focus is on growth. So okay that is about it. Thanks.
- Moderator:** Thank you very much. Ladies and gentlemen that is all that we have time for questions today. I would like to hand the conference back to the management for some closing comments.
- H R Srinivasan:** Ladies and gentlemen, thank you for being on the earnings call of Q1 FY2020 of Take Solutions Limited. If you have any further queries, please feel free to reach out to us and we in the management will be delighted to share with you further information and clarifications. Thank you very much and have a wonderful day.
- Moderator:** Thank you very much. Ladies and gentlemen, on behalf of ICICI Securities Limited, that concludes this conference. Thank you for joining us and you may now disconnect your lines.

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