Chairman's AGM Speech – Aug 1, 2017

My Dear Shareholders,

Good afternoon to each one of you.

It gives me a great pleasure to welcome you to the Annual General Meeting of Piramal Enterprises Limited.

The Company's accounts for the year ended March 31, 2017, along with the Directors' and Auditors' report, a Letter to the Shareholders, and Management's Discussion and Analysis, have already been circulated to you.

With your permission, I would like to take them as read.

At Piramal Enterprises, creating value for all our stakeholders, including our shareholders, is considered as our prime responsibility and has been a defining element of our identity.

Over the past 29 years, since the acquisition of Nicholas Laboratories:

- Our Company's revenue has grown at a CAGR of 24% and net profit has grown at a CAGR of 29%.
- In this period of last 29 years, more than 90% of the key capital allocation decisions made by our company turned out to be successful.
- Company has made over 50 acquisitions till date. Most of these acquisitions were successful.
- Over this period of nearly 3 decades, the company has demonstrated a strong ability to build businesses from scratch.

    - Our company has built 8 businesses successfully so far and 2 businesses (i.e. Housing Finance and Stressed Asset Fund) are currently in built-up phase.

Through these milestones, our company has delivered an **annualised return** of 30% to its shareholders for a period of 29 years, a milestone very few Indian companies have achieved for such a long period.

- Rs. 1 Lac invested in the company in 1988 has created a value of over Rs.21 Crores for its shareholders.

For any period of 1 year, 2 years, 3 years, 5 years, 10 years or 20 years, our company's returns to its shareholders has significantly outperformed those of its benchmark indices.

Another year of strong financial performance

Our Company continues to consistently deliver excellent set of results since the Abbott deal with an average revenue growth of 29% and average net profit growth of 62% over last 5 years.

- Revenue for FY2017 was 34% higher at Rs. 8,547 Crores on back of growth across business segments.
    - Top-line growth was higher than 25% in all four quarters of FY2017.
- Our net profits increased by 38% to Rs.1,252 Crores for the year FY2017

Q1 FY2018 Financial Performance

Revenue for the Q1 FY2018 is up by 27% at Rs.2,254 Crores and net profit for the quarter is 31% higher at Rs.302 Crores.

  - Net profit excluding key exceptional items grew over 30% in each of the last 9 quarters.

Dividend

- Since the Abbott deal, Company has returned over Rs.5,200 Crores i.e. 1/3rd of our current book value to its shareholders in form of dividends, special dividend and buyback.

- For the year FY2017, the Board had recommended, subject to your approval, a dividend of Rs. 21 per share at a dividend payout ratio of 29%.

Corporate Governance, transparency and ethics

- Piramal Enterprises, its Board of Directors and its Management team remains fully committed in ensuring the highest standards of corporate governance and transparency. We remain fully aligned with the interest of all our shareholders.

- Our Board constitutes 5 Executive Directors and 8 Independent Directors. All our Independent Directors are highly reputed personalities and carry a lot of high quality experience. Either they are well-known Scientists or they are former CEO /Chairman of large reputed Indian or global companies.

- Our business Board / Investment committees constitute not just Business CEOs and Executive Directors, but also Independent Directors and External Industry Experts, who all carry extraordinary experience in the sectors where we operate.

- The promoter and his family continue to remain fully committed to the company and the group as well as to all its stakeholders. Promoters of the company have never divested shares of the company and have not invested outside the Piramal group.

- Our risk, legal, compliance and quality teams don't report to SBU heads but these teams independently report directly to the Board members.

- Although the company is one of the largest lenders in Real Estate space, there is no single instance of any inter-corporate lending to our Group's unlisted realty development arm i.e. Piramal Realty.

- Our company's Annual Report got a reputed global recognition for its quality and transparency of its disclosures made to our shareholders.

Conservative Accounting

- The company follow most conservative principles of accounting.

- We are among the early adopters of IndAS accounting in the country.

- In our Financial Services business, we follow 90 days provisioning as compared with current RBI requirement of 120 days.

- We continue to maintain a provision of over 2% of the amount invested/lent under our Financial Services business.

Index movements

- Before I move ahead to discuss on individual businesses, I would like to highlight few key index movements that our company had during the year :

- MSCI has moved Piramal Enterprises to its India Domestic Index from MSCI India Domestic Small Cap Index

- FTSE Russell has added Piramal Enterprises to its Large Cap Index

- NSE had added PEL into **Nifty 100** Index and **Nifty Next** 50 Index during the year

- NSE and BSE have also added Piramal Enterprises to the list of companies where F&O was introduced.

Financial Services

Industry Growth outlook

Under the new regime, India is now the fastest growing large economy of the world. It is expected that this kind of growth momentum will continue for a couple of years.

In any emerging market, the financial services sector generally grows at more than double the country's Nominal GDP growth rate. India's existing banking set-up is currently burdened by significant asset quality issues and hence it may not be able to adequately feed the huge demand for the capital for India's rapid growth in next few decades. This situation offers a significant opportunity for many years for players like us to expand their reach and leverage this untapped potential.

Overall Financial Services

We are well-positioned to take advantage of this huge opportunity that our country currently offers.

Our Financial Services business is among the fastest growing large Financial Services businesses of India, including banks and NBFCs.

- During the year FY2017, our loan book had an excellent growth rate of 87%, taking its size from Rs. 13,339 Crores to Rs. 24,975 Crores.

- Again during Q1 FY2018, our loan book had at an extraordinary growth rate of 79%, taking its size to Rs. 28,648 Crore.

Real Estate Financing

Significant growth in our Real Estate developer loan book was on account of consistent expansion of the product portfolio. This expansion of product portfolio has not just boosted our growth rate but also enabled us to enhance diversification of our loan book.

During the year, we also started providing construction finance and lease rental discounting in commercial space. Construction finance is now around 59% of our real estate lending portfolio.

- We will continue to rapidly grow the real estate loan book by maintaining our strong focus on
  - Further growing existing portfolio including the recently launched products and
  - Constantly launching relevant, innovative and customized solutions for our customers.

Corporate Financing

- We continue to enhance our focus on Corporate Finance lending that give loans to sectors other than real estate. The Corporate Financing loan book has nearly doubled during the year.

- Under Corporate financing, we started providing sector agnostic lending beyond the infrastructure space and moved down the risk curve by introducing products such as senior lending, etc.

- This focus on multiple sectors and addition of multiple products under our Corporate Financing will enable us to grow at a rapid pace in coming years.

Emerging Corporate Lending

- Now, we have also entered into lending to emerging & mid-market space committing Rs. 400 crores across eight deals.

Housing Finance

- Having successfully scaled up our presence in wholesale financing, the Company has established a blueprint for growth within the retail housing loan as well.

- Looking at the Government's strong focus on affordable housing through initiatives like Pradhan Mantri Awas Yojana, Housing for all etc., we now feel that this is the opportune time for us to make a foray into retail housing finance.

- We expect to get the housing finance licence soon.

- Individual housing loans are both a diversification strategy as well as a natural extension of our real estate lending business, completing its suite of products.

- We believe that Housing Finance is a B to B to C business and not just a B to C business. Hence, PEL will effectively leverage its existing relationships with 85+ development partners, investments in 275+ projects across key geographies, its understanding of micro markets and a large repository of proprietary primary data.

- The teams are also working on digitalisation of the entire process for a seamless and glitch-free experience for its customers.

- We expect to rapidly and significantly scale up our Housing Finance book through leveraging our developer relationships and technology.

Partnerships

- The company has always remained the most trusted and preferred partner for multiple large Indian and global institutions. Our key partners include APG, CPPIB and Shriram among others.

- During the year, the Company entered a strategic partnership with Ivanhoé Cambridge, a real estate subsidiary of CDPQ, to provide long term equity capital to blue chip residential developers.

- We also launched a distressed asset fund in a joint venture with Bain Capital Credit, the credit arm of Bain Capital.

Asset quality and ROE

The company has built stringent controls to maintain the asset quality. With these effective controls, our gross non-performing assets now stand at merely 0.2% that we reported today.

Overall Outlook

- Robust growth and superior asset quality performance have enabled us to consistently deliver an ROE of over 25% for last many quarters.

- For our overall Financial Services vertical, we expect to consistently deliver strong growth rates, maintain strong focus on asset quality and generate superior returns.

Shriram

Our partnership with the Shriram Group had enabled us to diversify across retail segments of Financial Services.

We continue to work with the Shriram team in developing and executing a long-term strategy for the financial services businesses.

Recently, Shriram Group had announced the intention of evaluating the merger of its group companies with the companies of IDFC Group.

Shriram teams are currently evaluating the possibility of entering into this transaction in 90 days from the date of this announcement.

Overall Pharma

The new Avatar of our Pharma business is a completely transformed version from the one that we sold in 2010. What we sold was the India focused Domestic Formulation business. Currently, the pharma business that we are scaling up is a more global one, with a significant presence in North America, Europe, Japan and a decent presence in India as well.

Invested for future

Post the Abbott deal, the pharma vertical has grown largely organically at a CAGR of 17% generating revenue of Rs. 3,893 Crores in FY2017. To provide further boost to our future growth, we have carried out 7 acquisitions, investing over half a billion dollar in the last 2 years. We plan to leverage these significant investments in global pharma and India consumer product businesses. These investments are expected to significantly improve our performance in coming years.

Global Pharma

Strong positioning

With a product portfolio of niche differentiated branded generic products that are difficult to manufacture, sell and distribute; end to end manufacturing capabilities both for APIs and Formulations and a large global distribution network reaching to over 100 countries, our global pharma business is very well-positioned to become one of the large and most profitable pharma businesses of India.

Around 70% of total assets of this business are located in North America and Europe and around 70% of revenues from this business are realised from these two geographies.

Focus on Quality

The Company has a strong quality governance model, with the Quality function reporting independently to a Board member. Quality is part of the KRAs of employees including the business CEO and the entire leadership team. Most of the key facilities are US FDA approved. Our focus on quality and compliance gets reflected in our performance. The outcome is that we have an excellent track record with all the regulatory authorities including US FDA.

In last 6 years, we have successfully cleared all 28 USFDA inspections, 78 other regulatory inspections and 568 customer audits. There has been no single instance of stoppage of production or any negative publicity due to any issue raised by US FDA or other regulatory authorities. Infact, the company, the business head and the quality head has been individually recognized at reputed global and domestic forums. We continue to maintain strong focus on quality and regulatory compliance framework.

Moving up the value chain

In our Global Pharma business, we are now focused towards rapidly moving up the value chain. To deliver on this strategy

<u>Acquired Facilities (i.e. businesses)</u>

- We acquired two global businesses with niche capabilities in Injectables and HPAPI, both in North America, along with technically qualified team and a pool of loyal customers.

Expanding capacities

- We are investing in expanding the manufacturing capacities in niche areas of ADC, Injectables, Inhalation Anaesthesia and discovery services.

Acquiring niche products

- We are also adding differentiated niche hospital generic products both organically and inorganically. The products that we are adding have high entry barrier, as they are difficult to manufacture, sell and distribute, resulting in limited competition. We recently acquired two differentiated niche hospital generic product portfolios in the areas of controlled substances, injectable anaesthesia, and intrathecal and pain management.
    - One portfolio we have acquired from Janssen and
    - The other one from Mallinckrodt.
- These products complements well with our existing Inhalation Anaesthesia product portfolio. We are in process of effectively integrating these acquisitions.
- The combined product portfolio that we are creating will effectively leverage our large global sales force and distribution network.
- We also plan to launch first generic version of Desflurane, the latest generation inhalation anaesthesia product, in FY2018.

These transformational initiatives towards moving up the value chain are expected to deliver strong topline growth and significant improvement in our margins.

Revenue growth

Global Pharma business revenue grew at 16% CAGR over last 6 years. With these strategic initiatives, we believe that we will continue to deliver stronger growth in future.

EBITDA

The global pharma business has generated an EBITDA margin of 20% last year. The margin profile has been improving consistently in this business since the Abbott deal. By FY2020, through differentiated offerings, operating leverage, higher capacity utilization, backward integration and other cost improvement initiatives, we expect to deliver EBITDA margins in line with better players in the industry.

India consumer product business

Our India Consumer Product business, which largely sells OTC products, is well positioned to take advantage of India's growth story. India's demographics, increasing urbanisation, rising income levels and increasing confidence in self-care creates a huge opportunity for us to rapidly grow in the OTC space.

Strong positioning

We have a solid brand portfolio that has been created organically and through acquisitions focused on niche areas of routine disruption. All these brands are either no.1 or no.2 in their respective niches. Infact, we have 6 brands among top 100 OTC brands of India.

Over last few years, we have also significantly strengthened our distribution network which is now comparable to the top three OTC players in the industry. We are now present in 4.2 Lac outlets in 2,000 towns of India. We have a large field force of around 2000 people. This large field force is keeping in mind our goal of becoming a top 3 player in the industry.

Our strategy

We are adding products both organically and inorganically. Also, there is a clear well planned strategy behind what kind of products we are adding organically and what kind of portfolios we are adding through acquisitions.

Organically, we are focusing on adding more brand extension, where without spending a lot on brand promotion, we can quickly boost our top line. Over last few quarters, we have launched multiple such products organically.

Inorganically, we have added three brand portfolios in last two years i.e. 4 brands from Pfizer; 5 brands from Organon India & MSD and Baby care brand - Little's.

We will continue to develop and acquire new brands and products to effectively leverage our large India-wide distribution network.

Growth track record

The India Consumer Product business revenue grew at 21% CAGR over last 9 years, improving its ranking from 40th in FY09 to 5th currently. Our strategy has been working well and the Consumer Products business is evolving into a strong player in the Indian OTC market. During FY2017, the business has grown by 44% and existing portfolio witnessed 26% YoY organic growth.

PEL's ambition is to become one of the top three OTC players by 2020. Through the integration of acquired products, addition of more products both organically and inorganically, and tapping e-commerce, exports & alternate opportunities, the business targets to deliver Rs.1,000 Crores revenues by FY2020. Such strong growth in sales will significantly improve profitability margins through leveraging our India-wide distribution network.

Overall Pharma – Revenue and EBITDA

For the overall Pharma Vertical, from a turnover of Rs. 3,893 Crore that we achieved during FY2017, we target to achieve revenue in a range of Rs.6,500 Crore to Rs.7000 Crore in FY2020, delivering an EBITDA margin in a range of 20% to 25%.

Healthcare Insight and Analytics

Globally, healthcare spending as a percentage of GDP has been rising. The increasing cost of bringing drugs and devices to the market and greater regulatory scrutiny are resulting in an increased demand for high-quality information and analytical decision support tools.

DRG is progressing well on its strategy to position itself as a leading provider of data & analytics, research and knowledge-based services.

During the year, we started increasingly delivering our products and services through user-centric technology platforms. Over the past few years, we have increasingly invested in technology, data assets and analytics capabilities.

Payers and providers

We had also made acquisitions for entering into payers and providers market. These investments are expected to enable us to increase our penetration and grow within the addressable market of US$16 billion.

India Office

During the year, we continued with our initiative to transform a global talent pool by expanding further in India. With two offices in Bengaluru and one office in Gurugram, the business now employs over 250 people in India. This deep and diverse talent pool enables the Company to accelerate growth and increase its capabilities beyond existing products and services, improve customer delivery and response time and realise cost efficiencies.

With these initiatives, we expect to have good growth and margin enhancement in this business in coming years.

In the medium term, the Board also expect to unlock the value of this business through its listing in US.

CSR

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

- **Served 83 million beneficiaries till date**
- **Sarvajal-** Touching **382,000** lives every day
- **PFEL** - **3,400** Schools, **558,000** Students impacted everyday with our education initiatives.
- **50,000+** Mid-day meals served daily
- **1,000+** volunteers from Piramal group
- **3,500+** employees in Piramal foundation