60% of cash will be used in Thyrocare buyback, 40% in capex for new businesses: A Velumani

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*Since the stock has been down for almost six months and is almost 20% lower than its peak rate, we felt it is the right time for a buyback, **A Velumani**, CMD & CEO, **Thyrocare**, tells ET Now.*

Edited excerpts:

What prompted the company to come out with a open offer? Is this an indication that you feel the stock is underpriced and you need to use the cash?

There are three things about this buyback. Number one is dividend. Roughly around 30% of cost is in getting the dividend into pocket. So, that is a costly route to take the profits out. Number two, the stock has sold at the lowest price for the last three months. So, we felt that it is right time for us to buy back. The third thing is there is no better avenue of utilising this money. So, we felt that buying back is better option and we have gone ahead with it.

Your promoters would also be participating in this tender offer/buyback?

No, promoters are not permitted because in the buyback there are two routes. The route which we have adopted is company can buy only from the third parties and not from the promoters. The promoters do not want to sell either.

I know your existing business model does not need cash. You have done your capex. It is all about gaining market share and increasing a distribution reach. But you have also expanded outside your core business which is essentially in the diagnostic space. You have moved into speciality healthcare. Those businesses will require a lot of upfront payment. So, when you say you do not need cash, are you accounting for the cash requirement of other businesses also?

The balance sheet is throwing out around Rs 100 crore per annum. We might need a maximum of Rs 25-30 crore into the capex intensive business and we do not want to put all money there. We have decided either to declare a dividend or to put it in the capex. Since there are costs involved, around 60% of the cash is used in buyback and the remaining 40% is put into capex in the nuclear business.

Will this be a regular thing? Are we going to see a buyback announcement at intervals of almost a year from you?

It is difficult to predict but this time we felt we will buyback and the next time, if we do not need more funds for the nuclear business, we will be buying back. But we do not want to commit to that right now.

You do not want to commit on that but you pretty much have that as part of your plans?

Yes, when you get cash, either you invest or you buyback stocks if the stock is available at a lower price. If the stock is at a higher price, we do a dividend declaration also. I am not against it. But this time around, since the stock has been down for almost six months and is almost 20% lower than its peak rate, we felt it is the right time to go ahead and buy it.

What are the capex needs at this juncture and what sort of cash flows are you expecting to generate on a yearly basis?

This year in March, we have done a Rs 350 crore capex and we had a 42% EBITDA. As a company, there was not much of depreciation or interest and so we could literally get around Rs 90 crore odd as a PAT. This would continue to grow as the business grows. If the business grows 20%, PAT should also grow 20%. We expect in next three years to have roughly around Rs 400 crore of PAT in hand.

Your return on capital and return on equity would ultimately stabilise because if you are doing a buyback, your total equity will come down. I am assuming that the buyback is at a very attractive price and it will get a strong response from the minority shareholders. What is the long-term plan and where would your return on equity and return on capital stabilise?

They have been fairly well stabilised. Buyback will not change anything other than the share price. We do not expect any changes there but if there is room, they will get optimised. I believe that it has been already done.

How is the business looking because it is that time of the year where we have onset of viral/dengue and seasonally diseases? From a business standpoint, is this quarter looking good?

This quarter is not going to be looking good because of dengue, malaria. In our business, the dengue, malaria contribution is only 5-6% whereas for our competitors it is around 20% of their total revenue. So for us, it might be a percentage or two higher in this quarter compared to any other quarter. Last year first quarter was a very powerful quarter and this year, we expect the second quarter to be better and ratio wise quarter-to-quarter we should be doing well.

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