

Buy

27 August 2009

Face Value	Rs 10
Last Price	Rs 87
Target Price	Rs 120
Potential Gain	40%
Industry P/E	11.5

Industry: Chemicals

Market Cap (Rs Crs)	82
Year High/Low (Rs)	97/32

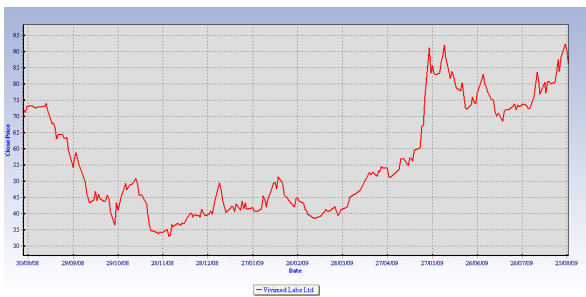
Holding Pattern (%)

Promoters	58.4
Foreign	1.7
Institutions/Mutual Funds	0.2
Corporate	5.6
Public	34.1

(As on 30 June 2009)

Performance (%)	3M	6M	12M
Stock (VLL)	2.3	100	20.5
BSE 200	7.3	65	21.3
BSE 500	8.0	66	20.4

Price Chart: (One-Year)


<http://www.vivimedlabs.com>

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Company Description:

Hyderabad-based VLL is a leading manufacturer and exporter of an API, viz. Triclosan and other Specialty Active Ingredients such as Avis, Chlorophenesin, NDGA and CaGP (Calcium Glycero Phosphate). It caters to both domestic as well as export markets. VLL tapped the capital market with a public issue of 25 lakh equity shares of Rs 10 each at a premium of Rs 60 per share aggregating Rs 17.50 crore in 2005 to part finance its expansion project costing Rs 27 crore. Its five units are located at Hyderabad, Bidar (Karnataka), Hardwar (UP), Bonthapally (Andhra Pradesh) and Kashipur (Uttaranchal).

Highlights:

Its various APIs products include Triclosan (an anti-bacterial drug used in toothpaste and soap etc.), Chlorophenesin (an anti-fungal preservative used in cosmetics, fibres and foodstuffs), AVIS (an effective sunscreen chemical used in body creams and lotions), NDGA (a new anti-oxidant developed by the company, which find use in cosmetics and food & beverage industry) and CaGP (used in oral care formulations for protecting dental enamel).

In the specialty pharmaceuticals segment, it manufactures niche products catering to ailments such as psoriasis, arthritis, muscular disorders, among others.

VLL's customers include Anchor Healthcare, Marico Industries, Unilever, Harmet International (USA), Collaborative Laboratories Inc. (USA), Pharmed, Arnaud Group (France) Hindustan Unilever, Kreglinger Europe S. A., Belgium, Engelhard USA, Benckiser (North America) etc.

VLL acquired Creative Health Care Private Limited from Uttaranchal State Financial Corporation, which has become its subsidiary.

Vivimed had raised \$12 million through foreign currency convertible bonds (FCCB). It used the funds along with internal accruals for acquiring a specialty chemicals company abroad.

Key Financial: (Consolidated)

(Rs Crore)

Year End March	Q1FY10	FY08	FY09	FY10E
Sales	79.0	181.0	276.1	375.0
PBIDT	16.9	32.1	46.7	67.5
Interest	5.3	6.7	15.6	22.0
PBDT	11.6	25.4	31.0	45.5
Depreciation	1.9	4.0	4.2	7.6
Tax	2.7	5.4	4.8	10.8
PAT	7.0	16.0	22.0	27.1
Equity		9.4	9.4	9.4
Reserves		73.1	93.5	120.6
Book Value (Rs)		87.8	109.5	138.3
EPS (Rs)	7.4	17.0	23.4	28.8
OPM (%)	21.3	17.7	16.9	18.0
NPM (%)	8.9	8.8	8.0	7.3
P/E			3.7	3.0



Improved Q1FY10 results

During Q1FY10, sales are higher by 51% to Rs 79 crore onY0Y basis and net profit by 63% to Rs 7 crore. OP & NP margins stood at 21.3% and 8.9% against 17.4% and 8.2 % respectively in the same period last year.

During FY09, on YoY basis sales surged by 53% to Rs 276 crore and net profit by 38% to Rs 22 crore. OPM declined from 17.7% to 16.9% but and NPM to 8% from 8.8%.

Foreign Acquisition

VLL acquired James Robinson in January 2008, a company in Europe for \$21.15 million to expand its global reach and product portfolio. The acquisition would allow the company to complement its portfolio of active ingredients in personal care products segment and foray into global hair dye segment. The acquisition is in line with Vivimed's corporate strategy of achieving leadership in the global personal care activities industry.

Contract Manufacturing

Vivimed's contract manufacturing initiatives include specialty chemicals for biocides, plastics and water treatment which find various applications in the cosmetic and industrial segments. Due to its lower cost base, Vivimed provides contract manufacturing facilities at competitive rates compared to companies in Europe or North America. For contract-manufacturing space it is working with six global majors.

Making inroads into Europe & North America

Major share of the world market for Home & Personal Care Products is held by Companies based in North America, Europe and Far East. Vivimed started its specialty chemicals business with a well known anti-microbial -Triclosan (VIV20). The product is targeted at home & personal care and industrial sectors. With VIV – 20, VLL made inroads into North America and Europe. It gradually introduced other products and broadened the range of Oral Care, Hair Care, Skin Care and preservatives products.

Vivimed's capabilities in synthetic organic chemistry and R & D enabled it to become a knowledge partner (a contributor of ideas as an innovator) to certain large multinationals, such as Unilever and L'Oreal. VLL plans to expand its presence to 50 countries by 2010 from the existing 25-30. Japan, China, Korea and the Gulf countries are new destinations contemplated.

Complete Solution initiatives

Vivimed has been proactive both in focusing on its core business and exploring emerging business trends. It has continuously developed and introduced new, value-added products at regular intervals. Along with product manufacturing, the company offers complete solutions to meet client requirements by providing life cycle management and R&D services. Vivimed's diversified product portfolio with stable margins caters to niche segments of the market.

The company's large product portfolio, regulatory approved manufacturing facilities, ability to scale up production of active ingredients quickly and tie-up with international logistics companies would help it grow fast in the booming personal care industry both domestic and global.

Domestic growth drivers

Indian cosmetics and toiletries market is valued at \$950 million. The key growth drivers for the cosmetics and toiletries market in India are rapid urbanization, increase in disposable incomes, and changes in people's tastes.

According to a McKinsey report, India will emerge as the 10th largest pharmaceutical market by 2015 overtaking Brazil, Mexico, South Korea and Turkey.

From a market size of around US\$ 7 billion, the Indian pharmaceutical market is projected to grow to about US\$ 20 billion by 2015. In fact the incremental growth of US\$ 13 billion is likely to be the 3rd largest among all markets after US and China.



Outsourcing Opportunities

The global life sciences manufacturing outsourcing opportunity is estimated at around US \$20 billion and is expected to reach US \$31 billion in 2010. India has emerged as a hub for global players due to the availability of world class facilities and quality products at competitive prices. In the R&D sector the value of the outsourced business is expected to be about US\$ 7 billion by 2011.

Global Potential

The global market for cosmetics anti toiletries sales was around US \$277 billion currently and is expected to expand at a compound annual growth rate (CAGR) of 3.7 percent to reach US\$ 325 billion by 2011. Additionally, the emergence of new markets for Home and Personal Care (H&PC) products in Russia, UAE and other Asian countries are likely to provide fresh avenues of growth.

Valuation & Recommendations

Vivimed's wide range of specialty chemicals, leading global clientele base in the FMCG space, sizable demand of its products, outsourcing potential and improving performance give strong visibility to revenue & profitability in the future.

At the CMP of Rs 87, the share is trading at a P/E of 3.7x on FY09E and 3x on FY10E. We recommend BUY with a target price of Rs 120 in the medium term.



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