

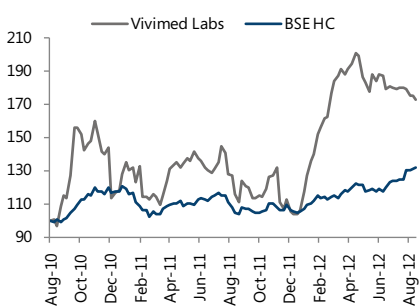
Result Update – Q1FY13

Buy

Reco	Maintained
CMP	₹ 375
Target Price	₹ 669
Upside Potential	78%

Price Performance

52 wk Hi/Lo	445/212
All time Hi/Lo	445/33
6 mnth Average Vol	29142
Stock Beta	0.72



Valuation

	FY12	FY13P	FY14P
P/E (x)	8.3	6.3	5.6
EV/EBIDTA (x)	8.2	5.3	4.8
RONW (%)	19.1	16.1	17.9
ROCE (%)	13.2	13.3	14.6

Peer Valuation (FY13P)

	Ajanta Pharma
PE	7.5
EV/EBIDTA	1.0

Equity Data

Market Cap. (₹ bln)	5.2
Face value (₹)	10
No of shares o/s (mln)	14

	Jun'11	Jun'12	Δ%
Promoters	49.84	45.16	-9.39
DFI's	2.58	1.56	-39.53
FII's	4.07	18.17	346.44
Public	43.51	35.11	-19.31

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Vivimed labs

Strong operating performance

Vivimed's Q1FY13 results were above our estimates. Total income grew up by 127% y-o-y to ₹ 2740mln primarily due to consolidation of Uquifa & improvement in domestic business. Excluding Uquifa's revenues, total revenues grew by 6%. EBIDTA grew by 151% y-o-y to ₹ 619mln on consolidated basis & EBIDTA margins stood at 22.6% up by 210bps y-o-y. Excluding Uquifa, EBIDTA margins expanded by 1070bps y-o-y on account of supplying high margin products in hair care segment. PAT grew by 111% y-o-y on strong operating performance and PAT margins stood at 10%.

Specialty Segment posted subdued growth

Specialty segment grew by 3% y-o-y to ₹ 1052mln during the quarter on account of lower demand seen in imaging chemical business & suncare segment. Demand in imaging chemicals business is impacted due to increased digitalization phase and the company has posted revenue loss of around ₹ 110-120mln. Sales in suncare segment have also seen a dip on account of end of sun care season & slow volume pick up in its major UV filter product Octyl Methoxycinnamate (OMC). We believe demand from OMCs would come down due to huge demand pressure in European Union & America in terms of usage levels. However margins in specialty segment improved on account of supplying high margins products in hair care segment. Company has bagged big order for high margin hair care products of almost more than 5 tons from South Korea. Approval for antimicrobial Triclosan from Colgate is expected by Oct-Nov 2012 which we believe will drive growth in specialty segment. We expect Specialty business to show 22% CAGR over FY12-14P.

Pharma Segment posted strong growth on back of Uquifa consolidation

Pharma business grew by 406% y-o-y led by Uquifa consolidation which has contributed ₹ 1460mln during the quarter. Uquifa's margins have improved by 100bps to 15% and are expected to gradually improve through cost cutting initiatives to be taken by the management & shifting of production facilities to India. On a standalone basis, pharma business has shown a dip primarily due to one month shut down of its Jeedimetla plant undergoing upgradation. Regulatory audit is over for the plant and management is expecting the plant approval in next few months which will cater to regulated & semi regulated markets & will improve standalone revenues. We expect Pharma business to show 50% CAGR over FY12-14P.

Valuation

We believe that Vivimed, backed by multiple growth triggers and trading at attractive valuations, is a sound investment option. With the strategic acquisitions in Pharma segment, consistent growth in specialty segment on back of new launches and increase in global clients we expect earnings CAGR of 30% over FY12-14P & EPS of ₹ 66.9 in FY14P. At CMP of ₹ 375, the stock is trading at attractive levels at around 6.3x FY13P EPS and 5.6x FY14P EPS. We maintain our Buy rating with a revised target price of ₹ 669 (10x FY14P).

Summary Financials

₹ in Mln	FY11	FY12	FY13P	FY14P
Net Sales	4169	6710	10963	12515
OPBDIT	850	1330	2033	2372
Net Profit	488	632	823	1075
EPS	48.0	45.3	59.1	66.9
Networth	1878	4724	5498	6516
Debt	3077	6019	6369	6369
Fixed Assets	1815	5496	5642	5779
Net Current Assets	2464	4857	5835	6716

Exhibit 1: Quarterly Financials

(in ₹ Mln)	Q1FY13	Q1FY12	y-o-y	Q4FY12	q-o-q
Total Income	2743	1206	127.0	2520	9.0
EBIDTA	619	247	151.0	472	31.0
EBIDTA %	22.6	20.5	210bps	18.7	390bps
Depreciation	141	26	442.0	135	4.4
Interest cost	159	65	145.0	81	96.3
Tax	58	32	81.3	33	75.8
PAT	261	124	111.0	223	17.0
EPS	18.8	12.2	54.1	16.0	17.5

Outlook in specialty business looks positive

Vivimed is expanding Specialty chemical facilities at a cost of ₹ 250m to cater to growing global demand for specialty chemicals. Company has already expanded Bonthapally facility to add more hair dye segments mainly a product called TDS for which trial production has already started. Company is planning to supply 30-40 tons to TDS mainly to L'Oréal & P&G. Sales in sun care segment impacted due to demand slowing for OMC product in EU & America. Company has created a facility for 1000 tons but due to demand pressure it will restrict volume of OMC production to 300-400 tons. Company is expecting approval for Triclosan (contributed 17% revenues in FY11) its major product in oral care segment from Colgate in H2FY13 which will drive the growth in future. Company has also launched new products like Vividine which are high margin products in hair care segment. We expect specialty business to show 22% CAGR over FY12-14P on back of new product launches, penetration of existing products in new markets and adding of new global clients.

Exhibit 2: Revenue by business segment (in ₹ mln) (Excluding Inter segment)

	Q1FY13	Q1FY12	y-o-y %
Specialty	1052	1025	3.0
Pharma	1908	377	406.0
Total	2960	1402	111.0

Inorganic strategy in Pharma business to drive growth in future

Vivimed, after acquiring Octantis & Klar Sehen in branded retail formulation business, is operating primarily in Ophthalmology & general therapeutic segments with 350 MRs and it is planning to add more product pipeline and increase its PAN India presence. Acquisition of Uquifa in API space will complement Vivimed's formulation business thus making a fully fledged pharma company. Uquifa contributed around ₹1460m during the quarter & we expect revenues of around ₹ 4928m & ₹ 5421m in FY13P & FY14P respectively. Uquifa currently have margins of around 14-15% and is expected to gradually improve through cost cutting initiatives to be taken by the management & shifting of production facilities to India. The company has already identified some of intermediates to be transferred to Indian facility & we believe these products to be manufactured in India by end of FY13.

Outlook

We believe that Vivimed, backed by multiple growth triggers and trading at attractive valuations, is a sound investment option. With the strategic acquisitions in Pharma segment, consistent growth in specialty segment on back of new launches and increase in global clients we expect earnings CAGR of 30% over FY12-14P & EPS of ₹ 66.9 in FY14P. At CMP of ₹ 375, the stock is trading at attractive levels at around 6.3x FY13P EPS and 5.6x FY14P EPS. We maintain our Buy rating with a revised target price of ₹ 669 (10x FY14P).

Financial Summary

Profit & Loss

Particulars (₹ in mln)	FY10	FY11	FY12	FY13P	FY14P
Total Income	3500	4169	6710	10963	12515
Total Expenditure	2804	3319	5380	8931	10143
EBIDTA	696	850	1330	2033	2372
EBIDTA %	19.9	20.4	19.8	18.5	19.0
Interest	212	206	284	446	414
OPBDT	484	644	1046	1587	1958
Depreciation	87	91	268	504	544
OPBT	396	553	778	1083	1414
Other Income	0	0	0	0	0
Extraordinary Costs	0	0	0	0	0
PBT	396	553	778	1083	1414
Tax	86	64	147	260	339
PAT	310	488	632	823	1075
APAT	310	488	632	823	1075
Adj EPS	31.9	48.0	45.3	59.1	66.9
Sales Growth %	25.6	19.1	60.9	63.4	14.2
Op. Profit Growth %	46.4	22.1	56.5	52.8	16.7
APAT Growth %	60.2	57.5	29.3	30.3	30.6

Balance Sheet

Particulars (₹ in mln)	FY10	FY11	FY12	FY13P	FY14P
Shareholders Fund					
Share Capital	100	102	139	139	161
Preference Shares	0	0	1309	1309	639
Reserves & Surplus	1349	1865	3299	4073	5740
Secured Loans	2345	3070	5701	5701	5701
Unsecured Loans	7	7	318	668	668
Deferred Tax Liability	162	147	134	134	134
Total Liabilities	3963	5191	10901	12025	13044

Application of Funds

Fixed Assets	1619	1815	5496	5642	5779
Intangible Assets	940	846	542	542	542
Investments	0	0	7	7	7
Current Assets	1941	3147	6948	8490	9839
Current Liabilities	594	683	2091	2655	3124
Net Current Assets	1347	2464	4857	5835	6716
Misc. Expenses	58	67	0	0	0
Total Assets	3963	5191	10901	12025	13044

Cash Flow

Particulars (₹ in mln)	FY10	FY11	FY12	FY13P	FY14P
Internal Accruals	397	580	900	1327	1618
Inc. in Net Current Assets	-59	1062	2141	515	786
Cash flow from Operations	456	-482	-1242	812	832
Inc. in debt	-652	724	2942	350	0
Inc in Equity	6	2	1282	0	-649
Other Adj	81	-7	868	-49	592
Cash flow from financing	-565	719	5092	301	-56
Fixed asset formation	92	193	3645	650	681
Inc. in Investments	0	0	7	0	0
Cash flow from Investing	92	193	3652	650	681
Net cash	-201	44	199	463	95

Ratio

Valuation Ratio	FY10	FY11	FY12	FY13P	FY14P
P/E	11.8	7.8	8.3	6.3	5.6
P/BV	2.7	2.0	1.1	1.0	0.9
EV/EBIDTA	8.7	8.0	8.2	5.3	4.8
EV/Sales	1.7	1.6	1.6	1.0	0.9
Dividend Yield (%)	4.7	4.2	6.6	5.1	4.5
Adj EPS	31.9	48.0	45.3	59.1	66.9
DPS	1.5	2.0	3.0	3.0	3.0
Book Value	140.4	184.8	339.0	394.6	405.7
ROE	25.8	29.8	19.1	16.1	17.9
ROCE	15.0	16.6	13.2	13.3	14.6

Solvency Ratio (x)

Debt/Equity	1.7	1.6	1.3	1.2	1.0
Debt/EBIDTA	3.4	3.6	4.5	3.1	2.7

Turnover Ratio (x)

Asset Turnover	0.9	0.8	0.6	0.9	1.0
Fixed Asset Turnover	2.2	2.3	1.2	1.9	2.2
Current Ratio	3.3	4.6	3.3	3.2	3.1
Inventory (days)	84	74	135	100	100
Debtors (days)	100	112	121	90	95

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Key ratings:

Rating	Expected Return
Buy	> 15%
Accumulate	5 to 15%
Hold	-5 to 5%
Sell	< -5%
Not Rated	-

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