

MANAGEMENT: **MR. SANTOSH VARALWAR – MD & CEO**

MR. KRISHNA YEACHURI – DIRECTOR (CORPORATE FINANCE)

MR. K. S. SASTRY – SR. VP (FINANCE)

MODERATOR: **MS. RASHMI SANCHETI – ANALYST, MARWADI SHARES & FINANCE LIMITED**

Moderator

Ladies and gentlemen good day and welcome to the Vivimed Labs Limited Q1-FY13 Earnings Conference Call hosted by Marwadi Shares and Finance Limited. As a reminder, all participant lines will be in the listen only mode. There will be an opportunity for you to ask questions at the end of today's presentation. If you should need assistance during this conference call please signal an operator by pressing "*" then "0" on your touch tone telephone. Please note that this conference is being recorded. I would now like to hand the conference over to Ms. Rashmi Sancheti from Marwadi Shares and Finance Limited. Thank you and over to you ma'am.

Rashmi Sancheti

Good morning everyone and a very warm welcome to Vivimed Labs Q1-FY13 post results conference call. On the call today we have representing Vivimed Labs Mr. Santosh Varalwar – MD and CEO; Mr. Krishna Yeachuri – Director, Corporate Finance and Mr. KS Sastry – Senior VP, Finance. Now I would like to hand over the call to the management to take it forward, please go ahead sir.

Santosh Varalwar

Thank you for joining this call. As part of the Q1 as you have seen we have probably recorded record sales for the Vivimed Labs which is about 272.51 crores as compared to last quarter 120 crores. These have come in the backing of complete consolidations of the new business acquired by Vivimed which is Uquifa, Spain and Mexico and also improvements in business back in India. So I think, in this full quarter that we have done in terms of subsidiaries all performing and as you know again sub-segment in the whole business I think we are three primary segments which is API business and Pharma business and Personal Care and Specialty Chemical business. So Specialty Chemical business overall up to still going through a consolidation phase as you are seen there is a slight dip in the Specialty Chemical which is owing to primarily trying to phase out the Imaging Chemicals which I think, I mentioned in the last call also. But Imaging Chemicals is black-and-white

and color photography business which because of the digitalization, I think the demand is coming down and we had at least 11 to 12 crores of revenues loss in Imaging Chemicals. And as a strategy I think, we will continue to support some customers like Fuji, Kodak and other things but on a strategy basis, we expect that even imaging business going forward will come down and the Sun Care segment typically end of season so we have not, as I mentioned last time OMC or Octyl Methoxycinnamate which is a UV-A filter that is not going as per the schedule volume this thing and along with that obviously is also because of end of Sun Care season we have seen less sales of Sun screen and that is one of the reasons why you have seen a little a dip in the specialty chemicals business. But however, going forward there is a pipeline of products which have just got some... Going forward, we do have starting from August-September again the Sun Care season picking up so we will probably see good sales coming and also some of the products which are in the pipeline we are waiting for the final approval and one of the approval's is also for antimicrobial Triclosan from Colgate which is expected to come by October-November. So once these are in place I'm sure we will outperform our numbers what we have indicated.

Now coming back to the Pharma Brand Retail you are all aware they had acquired two companies one is Klar Sehen and Octantis Nobel and last year if I take the full-year consolidation I think it is about 23 crores we have done in branded retail formulations and we have kept a reasonable good growth target this year which is almost close to 40 to 50% growth in branded retail formulations and as expected this it is performing pretty okay ,we have done about 8.5 crores which is in line with our budget going forward. I'm specifically talking about API last quarter we have done 141 crores and we have bettered this quarter with 146 crores but as part of our budget it is definitely doing as per budget and we have also envisaged business improvement plan because post acquisition of Uquifa we were supposed to do some integration benefits as they come, one is in purchases, other is in transfers of intermediates but so far out of the purchases benefit we envisaged about \$1.34 million of savings to come during this year and out of \$1.34 million we have achieved about 11% of our target but going forward I guess we are on course we are waiting for some more product approvals once they come and I'm sure I think the business improvement plan of increasing the profitability by \$1.3 million which is post-integration plan should be in place. And the second of course benefit which we are yet to see so far is transfer to set in pharma intermediates to India I mentioned last time the plant is still coming up and the plant will probably go into trial production by middle of September but not until end of October and we will not see a commercial production coming in so

once the commercial production coming in we have already identified three such intermediates which will be transferred which will have a significant savings, so going forward again Q3, Q4 we will see full benefit of this integration plan which is what we have envisaged now. Now as far as the profitability is concerned, as far as the EBITDA margin is concerned the business is good, there is a lot of changes we have done post acquisition and we have initiated certain changes in terms of espousing up technology and adding up some more manpower and we have also started we will be starting a new research and development centre for specifically for APIs in India so which will start will commence by October this year so that will enhance the filing capability of the company per se so which is in the offering. Now that is a bit of brief and if you have seen a little dip in the Pharma business we did see a dip in stand-alone business that is primarily because of one of the plants in India which is based in Hyderabad was going through a regulatory audit where we had almost one month shut down taking care of regulatory approvals and audit successfully got completed and we're hoping that the final approval will come in the next few months which will definitely look up in terms of our Eastern Europe and **(Inaudible) 7.49 plant** so that is a little brief about it. If anybody has any questions I will be glad to answer.

Moderator

Ladies and gentlemen we will now begin the question and answer session. Anyone who has a question at this time may press "*" and then "1". The first question is from KC Suri from Span Capital, please go ahead.

KC Suri

Could you throw some light on the pharma aspect of your business the branded and the APIs in terms of therapeutic areas and you have a branded retail foot print so what is the kind of marketing foot print that you have states your profiling just to indicative idea that will be great?

Santosh Varalwar

Just to sub segment the Pharma business again, we have an API business, we have a branded retail formulations in India and then we have also a bit of contract manufacturing and regulatory and non-regulatory business outside India. Talking about branded retail business I think it is primarily in the area of ophthalmology and general therapeutic segments where we're are operating predominantly in the North Eastern states starting from Calcutta up north to Guwahati, Bihar and we have a ground force of close to about 350 people on ground now covering almost 7 to 8 states and we are expanding to some more areas but predominately I think this business was acquired business last year and our

focus obviously is adding up new product lines which we are doing has been speaking now some more additions and also expanding its pan India carefully to see that the business plan is taken care of. We have a reasonably good optimistic plan this year to grow this business almost by 40 to 50% and as the first quarter indicates that I think that we are online with it. The second part of the business obviously is a contract manufacturing we do make some products for companies like Novartis, Merck and other companies and primarily this is like B2B business and it is a brand transfer business and some of the products which you see in the market Otrivin, Nasivion these are the products which we handle, we manage the brand completely and then supply to the customers that business is kind of a steady flow we have not tried to emphasize too much on it but whatever is being there historically we continue to do that but the area where we had consolidated where we are emphasizing obviously taking known Vivimed brands up there that is the Eastern European countries particularly and since the regulatory mechanisms have tightened up in the Eastern Europe particularly Ukraine, Russia and other countries we are subjected to certain audits and that went fine and our focus will continue to be in those areas because we feel it is still in terms of margins, in terms of FOREX profiling I think we are still better off there before we get into the major regulatory markets like the US and Europe. The third segment obviously is an API business that I was talking to you this business acquired last year they have totally 3 plants which are US FDA approved plants two in Spain and one in Mexico and they have close to about 100-150 Drug Master File filed but about 50 of them active. Predominantly this segment is more than 40% is Anti ulcer segment but rest of them are kind of distributed right from oncology to HIV to general therapeutics and even certain quaternary APIs like Albendazole and few things, so I think it is a distributed segment which constitutes the degeneration generic and as well as the old ones this is the sum of all our pharma business.

KC Suri And just two things for the API will said 50% of which therapeutic area you said?

Santosh Varalwar Anti Ulcer.

KC Suri And the other thing in terms of clientele for the API visits like you have certain manufactures who have you listed as sole supplier or one of the few suppliers or it is just per order based selling, how is it?

Santosh Varalwar Good thing about this company is that we have been on the files of almost all the major multinationals and today like our customer profile is pretty good in terms of names may have Pfizer, we have GSK, we have Teva, we have Baxter, we have (Inaudible) 13.04, I think we have really good customers, Mylan is one of our major customer again so it is a good spread of customers across ranging from anti-ulcers which are Omeprazole, Ranitidine to products like Albendazole I think it is widely spread but I think GSK and Pfizer constitute to be our very important customers.

KC Suri And since you had for this for a quarter and a few more and about a month more and you are talking about first part is actually taking the intermediate transfers to India, do you also see that subsequently see that you might end up having the whole APIs values chain wholly manufactured out of India because of the evident cost benefits?

Santosh Varalwar I think you're right. I been in the first phase of our plan was to do something savings on the purchases obviously that is on course trying to use Indian negotiating skills and second phase is obviously would mean bringing intermediates for which investment has gone and I think we will be ready in the next couple of months which will also bring in savings and the third phase again investments are going on as you speak it as creating an API subsidiary internal which would eventually have a site transfer so that target always there are certain molecules which are under margin pressures because of the Indian suppliers we would definitely looking at transferring such products and wherever is the niche molecules are there wherever strategically need to be there we will continue to be there. I very clearly I think the products API this will be under pressure will move to India and whereas the value add is better will stay there and Vivimed/Uquifa will focus on definitely on certain customers who want our presence over there in Europe for various reasons and we leverage those plants mainly for that.

KC Suri You spoke about the three phases of investment, what is the size of the investment you are talking about here?

Santosh Varalwar The first phase is obviously purchases do not really require any major investment but the intermediate plant which is about 60 crores we have targeted that is almost over and then we're talking about the first API facility again which needs the investment of another 60 crores and that is underway as you speak we speak. I think by end of this year we would have completed this intermediate and as well as investment on the API business.

KC Suri I'm just going through your presentation which has come along with the results, you are like almost 2/3rd Pharma and 1/3rd specialty, how do you see this panning out in over three years horizon and how does it pan out over? What is your internal outlook on that?

Santosh Varalwar If we look at it, it is about 40% Spchem, and 60%, last year it was almost like 50%-50% but because of the API business obviously it swung more towards Pharma but definitely as I mentioned in the last call also the emphasis and focus of Vivimed will continue to be there on both the segments because Pharma has its own opportunity of growth and we are been in Pharma business from many-many years so we don't want to be miss out on that and obviously the new businesses specialty chemical and which we clearly see an opportunity because of the emerging markets and also cost competitiveness of Indian manufacture and more so we might have spent more than 10-15 years investing in this segments so we definitely focus and take it to a logical conclusion going forward, will even add certain areas like as I mentioned in the last call, I did say we are penetrating into certain segments like automotive segments and some semiconductor industry so these are areas where there is a niche areas where I don't see any competition coming from internally and they are few players in the world but that is a good place to be there, I will continue to focus on those areas also.

KC Suri I understand there about the niche and the specialty chemicals and where you actually have proven track record on that but on the pharma side if you see API is becoming highly commoditized with very great pressure on the margins, I might say and we have plethora players in the domestic market with a molecule being profiled by more than 20 players in both in the organized and the localized players. So do you think the trigger for growth would essentially be an expanded footprint in the other East European markets, what is the company's thought on that?

Santosh Varalwar My personal opinion is that there is trend towards companies which have got a strong footprint in APIs can be better in terms of going forward and Uquifa acquisition and our API business that we are in today definitely can give an edge over lot of other companies which don't have this kind of thing so I am sure there is still opportunity, if you see at the gross margins that we might have mixed it I think we're not selling cheap we are still in a pretty good and whatever pipeline we have created is also good going forward. But in my opinion what really important here is that relationship with the customers and number of files like you are in and then obviously as you mentioned there is a great opportunity rest

of the world so you leverage your API strength and be more cost competitive and enter into that phase. So I think we really have to do all these things to be predominantly present everywhere.

KC Suri

I was just looking at like last year is it a seasonality in your business because last year also in the sense you are right now tracking about 1000 crores of turnover if we simply analyzes the quarter. What do you see as the next milestone and how far are we from that?

Santosh Varalwar

The guidance you gave this year about 1100 crores little lower than in 1100 crore and I think we should definitely achieve the target as we see the trend coming from first-quarter now only Q3, Q4 are better for specialty chemicals so we could see a little ramp up in sales and obviously the addition of facilities, at least one facility would come handy to me that will also added some revenues. I'm sure, the number we're talking is easily achievable.

KC Suri

On the debt side how are we placed in terms of funding and debt repayment schedules, could you just throw some light on that, financing part?

Santosh Varalwar

Working capital of course is a **(Inaudible) 20.32** but if you really see a long-term loans we have exposure from IFC recently and obviously some exposure when we already acquired Uquifa which is sitting in Spanish books and some long-term loan sitting in UK now really speaking the UK long-term loan and the Spain long-term loans are self-liquidating because the cash flows in those subsidiaries companies are good enough to take of that and in terms of the long-term loans that we borrowed from IFC which is coming recently, it is going for implementation and the present profitability and the cash flow should be able to take care of that. Working capital, yes we have seen from rise in the working capital in the last because we know that we have to step up on supply of intimidates to Uquifa and also some new product lines which are there are so this quarter particularly lot of beefing up of stock has happened because of the new products in the pipeline so that will be continuing to be there but eventually next 2- 3 months to come, on the business flows and the sales and marketing happens for what we have done, I think it should come back to the normal levels, I think, in terms of cash flows we are pretty okay.

Moderator

The next question is from Sunil Rao from Sushil Finance, please go ahead.

Sunil Rao The query that I had is that your specialty chemicals business on a stand-alone basis has de-grown but on YOY basis but in terms of your margins there is an increase, any specific reason for the same or would imaging chemicals only be a sole reason for that?

Santosh Varalwar So if you look at it, as I just mentioned imaging chemicals are low margins business so they are dwindling which means the top-line is coming down and the bottom-line is really not impact and OMC which is again a sun screen which again saw some pressures on margins that was not there in our projected sales and because of the margin we have dogged down but there were some new products like Vividine is one of the product which we started supplying it is a hair growth products obviously this year we have bagged big order of almost more than 5 tons from South Korea and this kind of products have very good margins so the product mix is really determines profitability. I guess the first thing that we are eventually having is definitely improving in terms of margins so even if there is a pressure on the top-line, I don't think, we will see the pressure on the bottom-line.

Sunil Rao In terms of your CAPEX plan just wanted to know about your facilities that you are expanding in Bonthapally and Bidar where have they reached and when that would be expected to come into the revenue of the company?

Santosh Varalwar I think, Bonthapally we have expanded the facility primarily to add couple of more hair dye segments mainly product called TDS that the trial production have already started so that investment it has been done, I think we have around 30 to 40 tons of TDS which predominantly supplies to L'Oreal and P&G that is on course, this month we would end up doing about 8 to 9 tons but next one or two months whole thing comes to stability we will wrap up to 30 to 40 tons which is what our target all about. And in terms of Bidar I just mentioned the intermediate plant is almost getting ready, I think we are expecting it to be ready by September ending so which means in October we will start the trail production, by November I guess, we should start utilizing substantial capacity.

Sunil Rao In terms of your Jeedimetla facility for your pharmaceutical business where has that reached?

Santosh Varalwar Jeedimetla facility has gone into upgradation last year and the beginning of this year and which are mainly as I just mentioned that because of the regulatory audit and other things we had to invest a lot of money and raise the bar there in the whole pants of Vivimed and

that is all done now and we had a successful audit about a month back and now it is getting back on course and now this strategy obviously would be that we will use that facility more for semi-regulated or regulated markets and whereas the other facilities will cater to the domestic needs.

Moderator The next question is from Rashmi Sancheti from Marwadi Shares and Finance Ltd, please go head.

Rashmi Sancheti I wanted to know how much of Uquifa contributed in this quarter and sir, can you let us know Uquifa margins currently like whether it has improved from 14% to 15% level?

Santosh Varalwar Uquifa if you have seen in last quarter we have done 141 crores and in this quarter we have done 146 crores and this also we had a not very good month April was not a good month in terms of profitability and revenues for whatever reasons so in spite of that we did manage to do it. And in terms of EBITDA margins we have seen an increase of about 1% EBITDA margins but I think, it does not reflect the true picture because as I have just said it the purchases integration plans we have only accomplished 11% of our target and which still has to happen and then again the intermediate transfers haven't really happened so what probably I guess is that Q3 and Q4 impact on margins would be better reflection than what we are trying to show it to you right now.

Moderator The next question is from Sunil Rao from Sushil Finance, please go ahead.

Sunil Rao Just wanted to know your debt number as of now, gross debt and the net debt?

KS Sastry On a consolidated debt we will be touching anything around **530 27.43** crores.

Sunil Rao How much do you intend to spend on the CAPEX for the whole year?

KS Sastry We intent to spend anything between 75 to 100 crores that includes our API plants and some other small debts that are going on at Bonthapally, Santosh will give more detail on what is happening in Spain and Mexico CAPEX.

Santosh Varalwar As we have already said, we are envisaging some new orders and new business like Spain and in Mexico, we have initiated about rather we have approved about €3.5 million investment in Mexico primarily to support the new projects which is likely to come on the

board by the end of this year and this is for one of our existing customers so that is where we are adding up more of a drawing facilities and the additional blending subsidies and two reactors mainly to increase the capacities of the existing thing. So there we have already decided to spend about €3.5 million by the end of this year.

Sunil Rao

But how much they would that add to your revenue of the company in terms of just an incremental figure, you can tell percentage of something like that?

Santosh Varalwar

Just €3.5 million should give us 3 times of that in terms of revenues next year we should do about more than 10 million of incremental revenue from the investment that we are making.

Sunil Rao

Just one more question I wanted to know how is your alliance with the ISP going?

Santosh Varalwar

ISP alliance primarily it was meant for sun screen so out of that OMC which is Octyl Methoxycinnamate was the major product and somehow we haven't been too lucky with that product in terms of margins and in terms of demand that is going on because if somebody has caught up with the news, OMCs are under a lot of pressure in European union as well as in America from in terms of usage levels are concerned. So what we guess is that there will be less demand for this product and I don't think we would focus much on OMC, however, we have created a facility for almost 1000 tons but we are now trying to use the facility for something else and restrict the volume of OMC production to bare minimum maybe 300 to 400 tons this year. And in terms of other products like **(Inaudible) 30.18** and Avobenzone I think we are on course and it is going on but you should all remember that ISP is now acquired and there is a lot of changes that are happening, the strategies are changing rapidly so we have to be careful we do not want to put all our eggs in one basket and face the situation so it is better for Vivimed like face the customer or increase the volume of shares from direct customers rather than piggyback on ISP so we're going slow at this point of time.

Sunil Rao

Any specific guidance for EBITDA margins going forward?

Santosh Varalwar

One thing obviously we did mention that the EBITDA margins in the existing Vivimed business is pretty good but EBITDA margins on the API business are low and obviously the measures that we have initiated and which will eventually like accomplish in the next few quarters will pep up the margins over there from 13 to 14% level even going up to 16 to

17%. So my guess on a consolidated basis this year you might see a marginal improvement in EBITDA but next year you might have a full benefit of that.

Moderator The next question is from Amish Kanani from JM Financial, please go ahead.

Amish Kanani I wanted to understand the export versus domestic breakup of the business, what was it last year and what was it in the first quarter?

KS Sastry Last year we were around 55-45% of domestic and export fund for the first quarter we are around 60:40 on the exports.

Amish Kanani 60 is in favor of?

KS Sastry In favor of domestic versus export.

Amish Kanani Then why is that domestic portion has increased from 55 to 60?

KS Sastry All in all it keeps on changing like some of the sunscreens and products moving out of India they are picked up more in the Q3 and Q4 so these percentages will dynamic and keep changing quarter-on-quarter so we expect that the export will pick up during Q2, Q3 and Q4 and then probably we could see a ratio of same earlier years or 50-50 also.

Amish Kanani And I wanted to understand whether this recent depreciation of rupee have you benefited significantly and how do you find typically hedged both your paid side and balance sheet side?

KS Sastry For this quarter we had net loss of about 2 crores on the exchange side and obviously on the balance sheet side the existing loan will get revalued and will get added. So there is not much impact on that the P&L has taken for the quarter is nearly 2 crores of hit. We are every conservative we have been saying earlier con-calls also that we operate very conservatively on this side so we do not do much of hedging and we leave it open as much as possible so that we will gain upward benefit on the exports.

Amish Kanani So on the export side you do not hedge but your balance sheets side sometimes gets hit because of this and hence you probably neutralize this for the 1st quarter, right?

KS Sastry That is right.

- Amish Kanani** The gross debt of 550 crores that you said on the consol thing how much is rupee how much is FOREX loan sitting in various subsidiaries?
- KS Sastry** When you see in fact most of our loans even in India they are in foreign currencies because we would like to take the advantage of interest rates so except for working capital also we normally would prefer to utilize the foreign currency debt in India so out of like 530 our rupee term all over could be between 80 to 100 crores and rest all is there in the foreign currency exposure.
- Amish Kanani** So in that context is the rest of the foreign currency majority in Euro or in dollar?
- KS Sastry** Dollars.
- Amish Kanani** And they have been mainly coming due to the acquisition of Uquifa?
- KS Sastry** And majority yes and like Santosh said there is an existing loan in UK and some in James Robinson. And also in Uquifa acquisition there have been couple of loans.
- Amish Kanani** But largely in dollar not if Euro, right?
- KS Sastry** That is right. If there is dollar then there is no loss.
- Amish Kanani** And in that context I wanted to understand I think the first quarter there has been a decent jump in interest cost so if you can just explain that in context?
- KS Sastry** Interest cost there have been like one timers which is E-zone generally in the sense during beginning of the quarter all the facilities, working capital, long-term everything gets renewed and obviously there will be some renewal charges on that and up front things and all. Recently like IFC loan came in this quarter and we have draw down of IFC loan so there is an increase on that front. And also a little bit of increase in the working capital enhancement so that has also added increase in interest, so out of the 4 crores of increase we expect that about 1.5 to 2 crores are one timers and the rest is increased because of the additional interest.
- Amish Kanani** Is it due to the rate effect. It is mainly due to the volume in the sense higher utilization?

- KS Sastry** It was not actually rates are more or less frozen in all cases so basically volume that has been an increase IFC loan has come in and also there is enhancement in the working capital.....
- Amish Kanani** And what is the rate of interest generally in the foreign loans?
- KS Sastry** And an average we end up around 7.5 to 8%.
- Amish Kanani** And which is what you're saying you do not generally hedge but your exports is a naturally hedge?
- KS Sastry** That is right.
- Moderator** Thank you. As there are no further questions from the participants I would now like to hand over the conference back to Ms. Rashmi Sancheti for closing comments.
- Rashmi Sancheti** On behalf of Marwadi Shares and Finance I would like to thank the management of Vivimed Labs and everybody for participating in the call. Now I would like to hand it over to management for the closing comments.
- Santosh Varalwar** Gentlemen I guess we did give you a brief on the Q1 performance. As I said, Q1 did better than what we expected but then in line with our targeted budget this year. Better things to come in Q2, Q3 and Q4, particularly Q3 and Q4. So I'm sure you're able to see better numbers going forward. Thank you very much for being with us today.
- Moderator** Thank you very much. On behalf of Marwadi Shares and Finance Ltd. that concludes this conference call. Thank you for joining us and you may now disconnect your lines. Thank you.