



Vivimed Labs Limited

Q1 FY2015 Earnings Presentation

August 13, 2014



Vivimed

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The Company is hosting a conference call for analysts and investors on August 14, 2014 (Thursday) at 3:00 PM IST to discuss the performance. Please find below the dial-in details:

Conference Dial-In Numbers

Primary Number	+91 22 6746 5864
Secondary Number	+91 22 3960 0664
<i>The numbers listed above are universally accessible from all networks and all countries</i>	



Where Chemistry and Quality Matters

Unique Business Model

- Uses chemistry to create ingredients which touch human life on a daily basis
- Focused on the Health Care, Personal Care, Home Care and Industrial segments globally
- Multiple manufacturing and R&D centers provides efficient platforms in India across business segments
- Product portfolio caters to over 75% of the personal care ingredient market
- Combination of stable margin and high growth global businesses

Best-in-Class Operations

- 12 manufacturing facilities and 5 R&D centers across the world
- 4 US FDA approved sites
- Healthcare revenues: Regulated markets 85% and Semi Regulated markets 15%
- High entry barriers: Long standing customer relationships and in house knowledge base
- Flexible manufacturing across API and Active Ingredients

Attractive Industry Dynamics

- India is expected to be the third largest global generic API market by 2016, with a 7.2% market share
- Between 2011 and 2016 patent drugs worth \$255 billion are estimated to go off-patent
- Indian pharmaceutical industry to reach \$45bn in 2020, a CAGR of 12%

Robust Financial Performance

- 5-year Net Sales CAGR of 40% and EBITDA CAGR of 32%
- R&D investments: 4% of FY2014 Revenues
- Short-term bank facilities rated A3 and long term facilities rated BBB- by CARE Ratings
- Strong transnational management team with proven track record of delivering growth & profitability



Business Segments

Healthcare

75.8% of Q1 FY15 sales



- Active Pharmaceutical Ingredients (API)
- Finished Dosage Formulations (FDF)



Personal Care

14.5% of Q1 FY15 sales

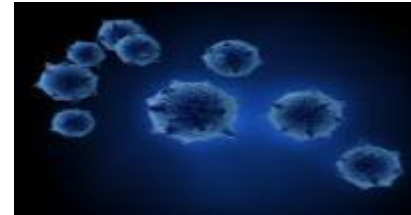


- Sun Care
- Skin Care
- Hair Care
- Oral Care
- Naturals



Home Care

7.0% of Q1 FY15 sales

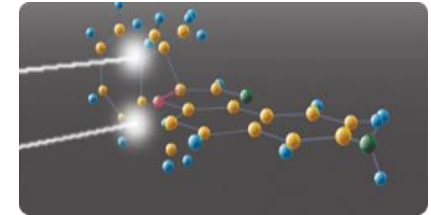


- Antimicrobials
- Specialty Intermediates
- Preservatives



Industrials

2.7% of Q1 FY15 sales



- Photo Chromic Dyes
- Imaging Chemicals



Q1 FY2015 Net Sales of Rs. 3,678 million (up 6.9% y-o-y)

EBITDA of Rs. 581 million (up 18.9% y-o-y) at margin of 15.8% (up 159 bps)

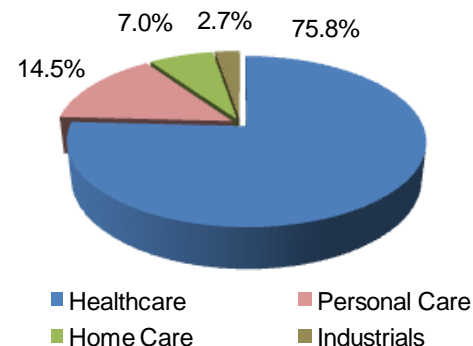


Consolidated Financial Performance

Performance Highlights

- Net Sales of Rs. 3,678 million
 - Increased 6.9% y-o-y
- EBITDA of Rs. 581 million (up 18.9% y-o-y)
 - EBITDA margin of 15.8% (up 159 bps)
- Net Profit of Rs. 171 million and margins of 4.7%

Q1 FY2015 Revenue Breakup



Management Commentary

Commenting on the performance, **Mr. Santosh Varalwar, MD and CEO of Vivimed Labs** said:

“We are pleased to report that Vivimed started the year on an encouraging note with improved operational and financial performance. Our ongoing revenue productivity, better product mix and cost optimization initiatives have started to yield results which is reflected in the 159 bps improvement in EBITDA margins. In the healthcare segment, Vivimed continues to strengthen its CMO engagements in the API segment. After the recent PIC/S approval, we have started production of several finished dosage formulations for supply to the CIS markets and expect meaningful contribution in the second half of the fiscal year. As our US FDA approved Alathur facility gains traction from the US markets, we expect increasing revenues from this business during the year. In the Specialty Chemicals segment, management has strategically defocused the high volume, low margin products which is reflected in the sales decline of 10%. Despite this our EBIT grew by over 19%, with a margin improvement of 493 bps. Outlook for this segment remains strong and growth will be driven through a combination of new product launches, increased market share and new customer acquisitions. Our past investments have started to yield results and we expect to move to the next level of growth for Vivimed from here.”



Financial Performance

Consolidated Financials

(Rs. million)	Q1		y-o-y	Q4		Full Year		y-o-y
	FY2015	FY2014	Growth (%)	FY2014	Growth (%)	FY2014	FY2013	Growth (%)
Net Sales	3,678	3,439	6.9%	3,721	(1.2)%	13,590	11,207	21.3%
EBITDA	581	488	18.9%	584	(0.6)%	2,133	1,976	7.9%
Margin (%)	15.8%	14.2%		15.7%		15.7%	17.6%	
Net Profit	171	200	(14.3)%	110	55.1%	664	836	(20.6)%
Margin (%)	4.7%	5.8%		3.0%		4.9%	7.5%	
Basic EPS (Rs.)	10.57	12.44	(15.0)%	6.81	55.1%	40.97	52.04	(21.3)%

Note: Net Sales includes Other Operating Income

Key Observations

- Revenue growth in Q1 FY2015 was primarily due to the continued traction in the healthcare businesses. Sales growth in the healthcare business (76% of Q1 revenues) was 14.6% y-o-y driven by the momentum in the API business and better traction in the FDF segment. Specialty chemicals business (24% of Q1 revenues) declined (9.9)% y-o-y as the Company strategically reduced volumes from low margin, high volume products to focus more on the core home & personal care segments
- However, EBITDA margin improved by 159 bps on a y-o-y basis to 15.8% due to improved profitability across both the Specialty Chemicals and the Healthcare segments. Specialty Chemicals segment margins improved significantly compared to Q1 FY2014 despite decline in sales as portfolio rationalization and cost optimization efforts start to yield results. Healthcare segment margins improved due to the ongoing revenue productivity, better product mix and cost optimization initiatives
- Finance costs increased 86.7% on y-o-y basis to Rs. 184 million due to higher rupee borrowings on account of acquisition of APMPL and foreign currency fluctuations
- Effective Tax Rate stood at 26.0% for the quarter which is in line with management's earlier guidance

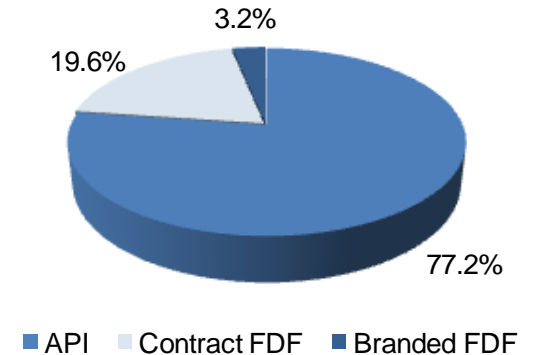


Segment Highlights

Healthcare Segment

- EBIT margins increased from 7.9% in Q1 FY2014 to 8.5%, an improvement of 61 bps. Efforts on higher revenue productivity and cost optimization have started to yield results
- In the API segment, manufacturing volume has shown consistent improvement over the last year based on the current generic product pipeline as well as scale-up at a key CMO account
- In the FDF segment, after the recent PIC/S approval, production has started at the Jeedimetla facility. Expect meaningful revenue contributions in H2 FY2015
- In the FDF segment, Vivimed has now started sales to the US generic markets with one ANDA from the Alathur facility. Three new acquired ANDAs to be commercialised from early CY2015
- Branded FDF business remained stable with increased off-take expected given new product launches, broader portfolio and better MR productivity

Q1 FY15 Revenue:
Rs. 2,779 mn

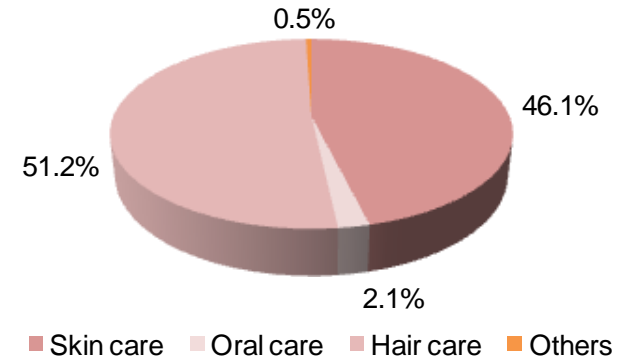


Segment Highlights

Personal Care Segment

- Overall, sales declined y-o-y as the Company strategically reduced volumes from low margin, high volume products to focus more on the core home & personal care segments. Typically, the business is seasonally stronger in the second half of the financial year
- Key segments such as hair dyes and skin care remained stable; oral care generated significant revenue growth
- Hair care, sun care and skin care are expected to lead segment growth through a combination of new product launches, increased market share and new customer acquisitions in H2 FY2015
- New distributor appointments have started to make revenue contribution in the underpenetrated markets – LatAm and AMET
- Focus on Tier II clients and penetration with existing clients is ongoing
- Revenue visibility for key products in the sun care and hair care segments is strong. New product launches and customer ramp-ups are expected to drive growth in H2 FY2015

Q1 FY15 Revenue:
Rs. 530 mn

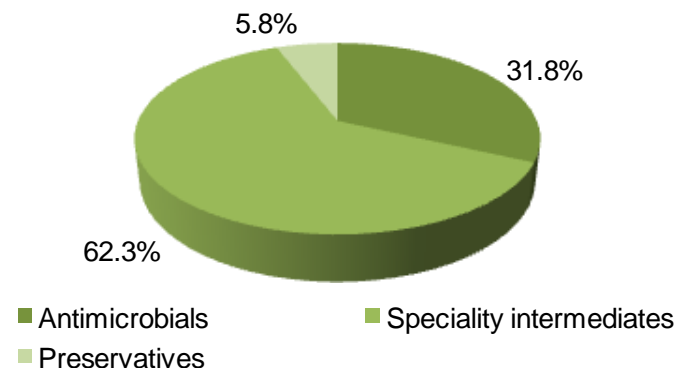


Segment Highlights

Home Care Segment

- Strategic defocus on trading of specialty intermediates resulted in loss of sales of low margin products
- Partly offset by encouraging off-take in preservatives as a new product starts to make contributions
- Outlook remains strong with likely off-take from new products such as BZC in the coming quarter

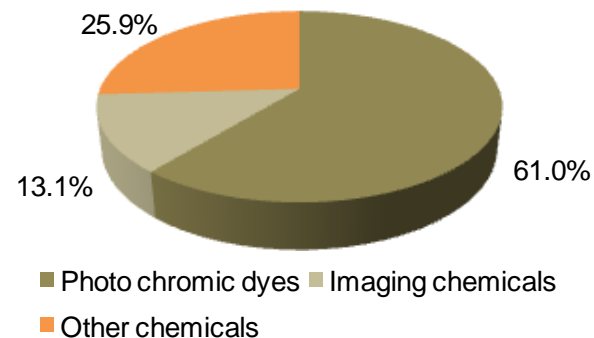
Q1 FY15 Revenue:
Rs. 258 mn



Industrials Segment

- Photochromic sales showed increasing traction during the quarter (+18% y-o-y) due to new technology launches and better market share at existing customers
- Imaging Chemicals business continues to face industry challenges
- Outlook of this segment is strong with greater volumes expected from current as well as new customers

Q1 FY15 Revenue:
Rs. 98 mn



Segment Highlights

(Rs. million)	Q1		y-o-y	Q4		q-o-q	Full Year		y-o-y
	FY2015	FY2014	Growth (%)	FY2014	Growth (%)	FY2014	FY2013	Growth (%)	
Segment Revenue	3,665	3,408	7.6%	3,682	(0.4)%	13,508	11,088	21.8%	
Specialty chemicals	886	983	(9.9)%	1,184	(25.1)%	4,143	3,704	11.9%	
Healthcare	2,779	2,424	14.6%	2,498	11.2%	9,365	7,384	26.8%	

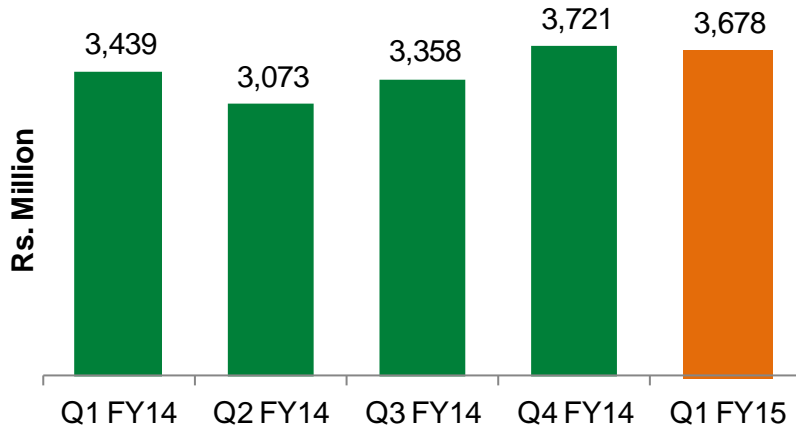
EBIT	416	342	21.6%	413	0.7%	1,471	1,388	6.0%
Margin (%)	11.3%	10.0%		11.2%		10.9%	12.5%	
Specialty chemicals	179	150	19.2%	237	(24.5)%	826	683	21.0%
Margin (%)	20.2%	15.2%		20.0%		19.9%	18.4%	
Healthcare	237	192	23.5%	176	34.4%	645	705	(8.5)%
Margin (%)	8.5%	7.9%		7.1%		6.9%	9.6%	

Capital Employed	14,685	12,926	13.6%	14,740	(0.4)%	14,740	12,929	14.0%
Specialty chemicals	8,159	7,913	3.1%	8,003	2.0%	8,003	7,772	3.0%
Healthcare	6,526	5,014	30.2%	6,737	(3.1)%	6,737	5,157	30.6%

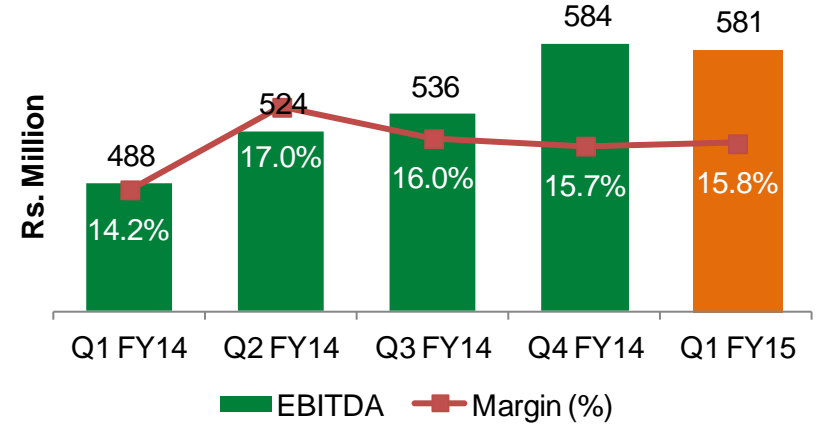


Quarterly Financial Trends

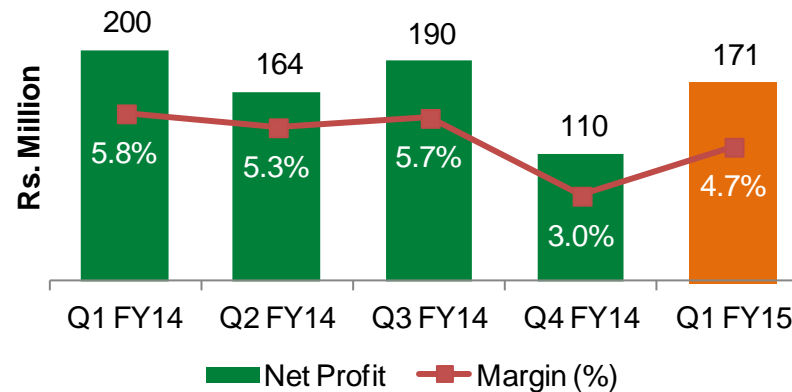
Net Sales



EBITDA and Margins

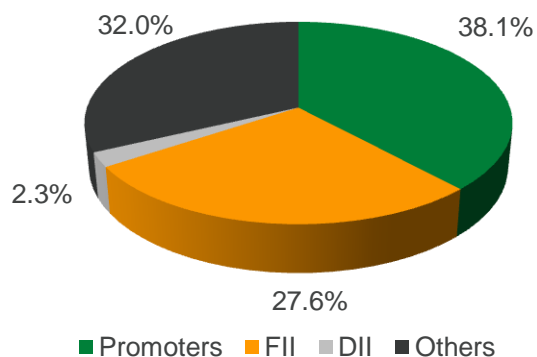


Net Profit and Margins



Capital Markets

Shareholding Structure



Key Institutional Investors



Shareholding Pattern Trend

Shareholders	Jun-13	Sep-13	Dec-13	Mar-14	Jun-14
Promoters ¹	39.8%	37.8%	37.8%	38.1%	38.1%
FII / FDI	27.4%	27.5%	27.5%	27.5%	27.6%
DII	2.5%	2.4%	2.4%	2.3%	2.3%
Others	30.3%	32.3%	32.3%	32.1%	32.0%
Total	100.0%	100.0%	100.0%	100.0%	100.0%

Note:

1 IFC holds FCCBs



Vivimed

Strategic Direction

Where Chemistry and Quality Matters

Continue to **strengthen engagements** with marquee customer base through superior product development and delivery capabilities

Move up the **value chain through vertical integration in Healthcare** (R&D to manufacturing of API / FDF / brands) and target **niche opportunities in the Specialty Chemicals** segment

Optimize utilization of existing global manufacturing platform to enhance capital efficiencies and shareholder returns

Increase penetration in existing **regulated and semi regulated Healthcare markets** and target selected new geographies

Focus on early stage **innovative R&D** and **product development** to drive monetization of business opportunity across all segments

Leverage the strengthened management team to support the future growth aspirations and deliver sustainable returns over the longer term

Successful integration of recent initiatives which will bring scalability through a larger opportunity space and a platform to address the same



Global Reach

A multinational global platform that provides Vivimed access to markets and significant cost advantage



Note: Names in **Green** indicate facilities which are US FDA approved

Facilities		Mexico	Spain	UK	China	USA	India	Total
Healthcare – API	●	1	2					3
Healthcare – FDF	●						7	7
Specialty Chemicals - Active Ingredients	●						2	2
Total Facilities		1	2				9	12
R&D Facilities			1	1			3	5
Global Support Offices			1	1	1	1	1	5

Strong Transnational Management Team

Key Management	Profile
Santosh Varalwar <i>Managing Director & Chief Executive Officer</i>	<ul style="list-style-type: none"> • First generation entrepreneur • Business growth strategy and leadership; Focus on key global client relationships • Previously associated with Shipping Corporation of India
Subhash Varalwar <i>Vice Chairman</i>	<ul style="list-style-type: none"> • Responsible for technology and new product development in the Active Ingredients segment • Previously associated with Fertilizer Corporation of India for 15 years
Sandeep Varalwar <i>Executive Director</i>	<ul style="list-style-type: none"> • Associated with Vivimed since its incorporation and leads Vivimed's Healthcare FDF division • Over 19 years of experience in manufacturing and marketing in the Healthcare industry
Vaidyanathan Mahadevan <i>Chief Financial Officer</i>	<ul style="list-style-type: none"> • Has over two decades of experience in project finance, private equity, IPO, structured finance, cross-border M&A, taxation, business planning and strategy • Previously worked with Hostmann-Steinberg, Bayer, Stock Holding Corporation of India and A. F Ferguson & Co.
Mark I Robbins <i>Chief Executive, Uquifa, Vivimed's API Division</i>	<ul style="list-style-type: none"> • Associated with Chemicals and API industries for over 24 years • Previously a member of the management executive committee of Yule Catto, UK • Previously worked with Johnson Matthey for 10 years • Member of the Institute of Marketing and Engineering , UK
George Polson <i>COO, Specialty Chemicals, VLI, USA</i>	<ul style="list-style-type: none"> • Leads the operations of the Global Specialty Chemicals Division and has • Industry experience of over 30 years with reputed companies such as Lonza and DSM • Holds ~40 US and World patents • Member of the American Chemical Society (ACS), the Society of Cosmetic Chemists (SCC), and Society of Investigative Dermatology (SID) and American Society of Pharmacognosy
Saurabh SG <i>Director, Corporate Strategy and Business Development</i>	<ul style="list-style-type: none"> • Responsible for the Vivimed Group's overall strategic initiatives; and business operations of the healthcare segment • Has more than ten years of experience across Investment Management with global firms such as Prudential Financial, Kotak Mahindra and Credit Suisse

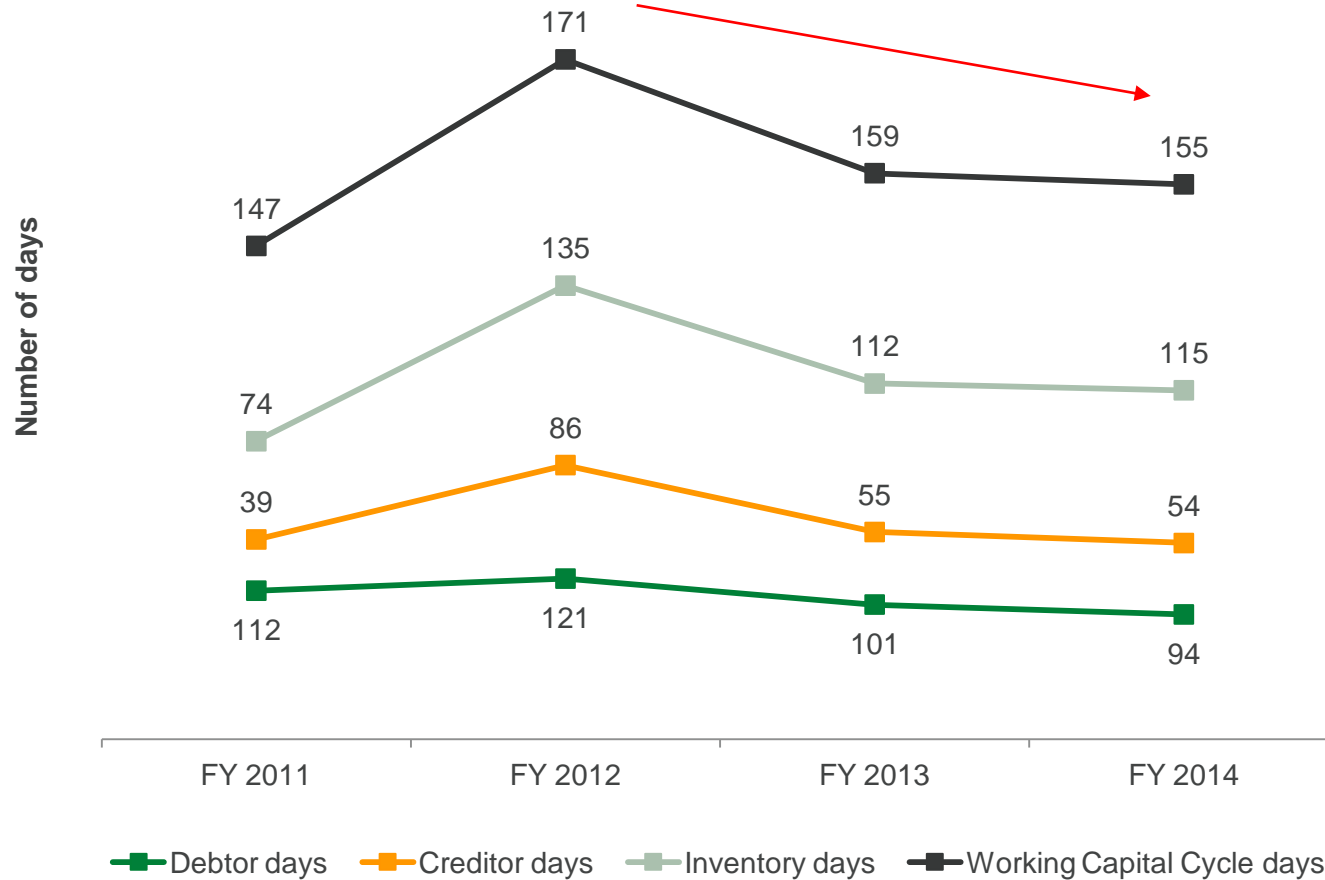


Annexure – Quarterly Consolidated P&L Statement

Profit & Loss Statement (Rs. million)	Q1 FY14	Q2 FY14	Q3 FY14	Q4 FY14	Q1 FY15
Revenues					
Net Sales / Income from Operations (Net of Excise Duty)	3,408	3,066	3,353	3,682	3,665
Other Operating Income	32	6	5	39	12
Total Revenues	3,439	3,073	3,358	3,721	3,678
Expenses					
Cost of Raw Materials Consumed	1,504	1,461	1,748	1,903	1,876
Other Expenditure	789	626	774	1,119	894
Changes in Inventories of Finished Goods, WIP and Stock in Trade	272	123	(149)	(299)	(145)
Employee Benefit Expenses	386	339	449	412	472
Total expenses	2,951	2,549	2,822	3,136	3,097
Operating Profit (EBITDA)	488	524	536	584	581
Depreciation and Amortisation Expenses	147	174	169	171	165
EBIT	342	350	367	413	416
Finance Costs	99	172	156	176	184
PBT	243	179	210	237	232
Tax Expenses	43	15	20	126	60
PAT	200	164	190	110	171
Basic EPS (Rs)	12.44	10.11	11.72	6.81	10.57
Margins (%)					
Gross Margins	48.4%	48.5%	52.4%	56.9%	52.9%
EBITDA margins	14.2%	17.0%	16.0%	15.7%	15.8%
PAT margins	5.8%	5.3%	5.7%	3.0%	4.7%
Y-o-Y Growth (%)					
Total Revenues	25.4%	11.4%	22.4%	25.6%	6.9%
EBITDA	(21.2)%	(2.8)%	44.3%	29.3%	18.9%
PAT	(23.5)%	(35.9)%	12.2%	(26.3)%	(14.3)%
Q-o-Q Growth (%)					
Total Revenues	16.1%	(10.7)%	9.3%	10.8%	(1.2)%
EBITDA	8.0%	7.3%	2.3%	9.0%	(0.6)%
PAT	33.3%	(18.0)%	15.9%	(41.8)%	55.1%
Effective Tax Rate	17.8%	8.3%	9.6%	53.3%	26.0%



Annexure – Working Capital Cycle



Annexure – Key Ratios

	FY2012	FY2013	FY2014
Net Worth (Rs. million)	4,748	5,091	5,604
Net Debt (Rs. million)	5,079	5,741	7,775
Fixed Assets (Rs. million)	5,953	7,090	8,079
ROE (%)	18.4%	18.8%	13.4%
ROCE (%)	8.1%	9.4%	7.7%
Interest Coverage Ratio (x)	3.74	3.39	2.44
Net Debt to EBITDA (x)	3.82	2.91	3.65
Net Debt to Equity (x)	1.07	1.13	1.39

Notes:

- 1 Interest Coverage Ratio: EBIT / Finance Cost
- 2 ROE: Net Income / Shareholders Equity excluding Preference Share Capital
- 3 ROCE: EBIT * (1 – ETR)/ (Total Assets – Current Liabilities excluding Short Term Borrowings)



Glossary

- ANDA: Abbreviated New Drug Application
- API: Active Pharmaceutical Ingredients
- CEP: Certificates of Suitability to the monographs of European Pharmacopoeia
- CMO: Contract Manufacturing Organization
- DMF: Drug Master File
- FDF: Finished Dosage Formulation
- H&PC: Home and Personal Care
- MRs: Medical Representatives
- MA: Marketing Authorization



Thank You

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