

November 30, 2012

VIVIMED LABS LTD

BUY

Vivimed Labs Ltd, (Vivimed) established in 1989, is a diversified global company with a unique portfolio of products in Specialty Chemicals and Pharmaceuticals. The product offering comprises of Hair care, Skincare, Oral Care, Antimicrobials & Preservatives, Photo Imaging Chemicals & Photo Chromic, Specialized Formulations such as Ophthalmic, Anti Ulcer, Antehelminth and other health care segments.

- Vivimed has adopted the acquisition led growth strategy. On the back of various acquisitions in the past, it aims to achieve top line of Rs 10bn in FY13. We believe successful integration of these acquisitions will catapult Vivimed into high growth trajectory.
- The company counts some of the top pharma and personal care companies among its client such as Merck, Cipla, Novartis, AstraZeneca, Lupin, Wockhardt, Unilever, P&G, Johnson & Johnson, L'Oreal, Microban etc. We believe that this augurs well for the company as this business has certain entry barriers such as stringent quality and product controls which Vivimed has established successfully.
- Vivimed is building sector-specific special economic zone (SEZ) in Srikakulam district in Andhra Pradesh to support its growing demand from the export markets and plans to set up a pharmaceutical formulation plant in Chouttuppall, Andhra Pradesh to manufacture tablets and capsules in accordance with USFDA and cGMP (Current Good Manufacturing Practice) standards.
- Considering the revenue visibility, Vivimed is trading at undemanding valuation of 4.1x and 3.4x based on estimated EPS of Rs 81.7 and Rs 97.3 in FY13E and FY14E and 0.8x and 0.7x based on estimated BVPS of Rs 418 and Rs 509 in FY13E and FY14E.

Based on a consolidated FY14 P/E multiple of 4x, the fair value of the company works out to be Rs 389/share

Financial Snapshot (Consolidated)

Projections (Rs Mn)	FY10A	FY11A	FY12A	FY13E	FY14E
Net Sales	3,435	4,160	6,683	10,708	12,075
Y-o-Y Growth %		21%	61%	60%	13%
Operating Expenditure	2,797	3,295	5,380	8,544	9,584
EBIDTA	638	866	1,303	2,164	2,490
Y-o-Y Growth %		36%	51%	66%	15%
Adjusted PAT	310	488	632	1,138	1,355
Y-o-Y Growth %		57%	29%	80%	19%
EPS Rs	31.1	48.1	45.4	81.7	97.3
BVPS Rs	104	141	341	418	509
EBIDTA %	18.6%	20.8%	19.5%	20.2%	20.6%
NPM %	9.0%	11.7%	9.5%	10.6%	11.2%
ROE %	21%	25%	13%	20%	19%
PER x				4.1	3.4
P/B Ratio				0.8	0.7

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Recommendations	<= 1 year	1 - 2 yrs	2 - 5 yrs
Strong Buy			
Buy			
Hold			
Reduce			
Sell			

Strong Buy – Expected Returns > 20% p.a.

Buy – Expected Returns from 10 to 20% p.a.

Hold – Expected Returns from 0 % to 10% p.a.

Reduce – Expected Returns from 0 % to 10% p.a. with possible downside risk

Sell – Returns < 0 %



STOCK DATA

BSE / NSE Code	532660 /VIVIMEDLAB
Bloomberg Code	VILA IN Equity
No. of Shares (Mn)	14
Sensex / Nifty	18,842/5,727

PRICE DATA

CMP Rs (27th Nov 12)	333
Beta	0.7
Market Cap (Rs mn)	4,641
52 Week High-low	445 / 212
Average Daily Volume	25,873

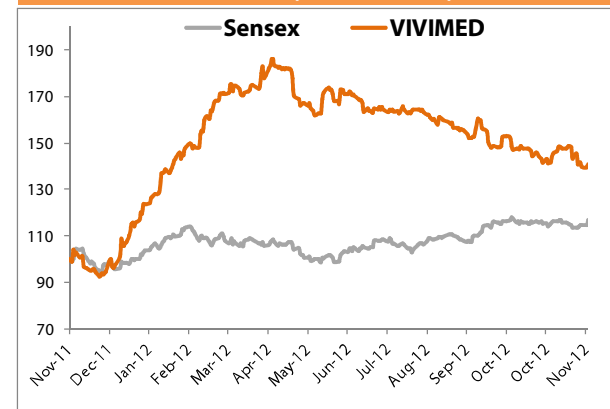
STOCK RETURN (%)

	30D	3M	6M	1Y
VIVIMED	-0.3	-9.8	-18.0	44.1
Sensex	1.2	6.6	16.2	20.1
Nifty	1.1	7.1	16.4	21.6

SHARE HOLDING PATTERN (%)

Promoter	45.2
Institutional	2.5
Non Institutional	52.3
Total	100.0

1 Year Price Performance (Rel. to Sensex)



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BUSINESS PROFILE

Vivimed Labs Ltd, (Vivimed) established in 1989, is a diversified global company with a unique portfolio of products in Specialty Chemicals and Pharmaceuticals. The company is engaged in the manufacturing and marketing of active ingredients used in home and personal care and industrial products. The company operates in two segments: specialty chemicals and pharmaceuticals. The specialty chemicals segment is a supplier of active ingredients for a range of home and personal care and industrial products. Pharmaceutical segment is engaged in contract manufacturing services as well as the manufacturing and marketing of branded formulations.

The formulations business consists of key therapeutic areas of oncology, tuberculosis, antimalarials and pain management. Its product basket consists of more than 55 active ingredients which cater to a range of different applications.

The company in the recent past has done several acquisitions:

- November 2011 – Uquifa (USD 55mn)
- September 2011 - Klar Sehen (Rs 240mn)
- September 2011 - Octtantis Nobel Labs (Rs 50mn)

These acquisitions will significantly increase Vivimed's presence across the pharmaceutical value chain and management's approach from here on is to integrate these acquisitions, reduce costs by achieving manufacturing synergies and expands sales and profitability by increasing market and client penetration.

Vivimed's major acquisition Uquifa, based out of Spain has products in over 15 therapeutic classes distributed across 70 countries and over 100 customers. It also supplies to the top 10 generic pharmaceuticals players in the world having strong relationships with leading innovator companies.

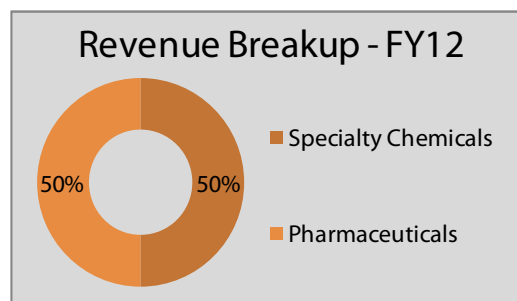
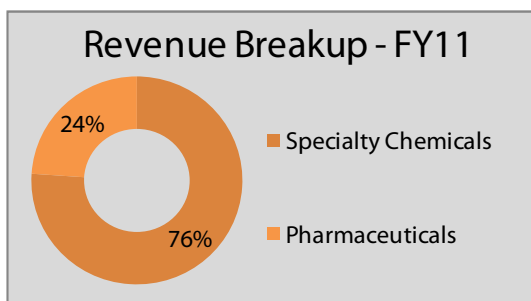
With the other new acquisition of Octtantis Nobel Labs & Klar Sehen, a market study is under way to introduce a few formulations in new segments of Orthopedics, Neurology and Dermatology. A new molecule, which finds its application in the anti-ageing segment, is being developed at R&D centre and is currently undergoing its product stability testing.

The company may not be contemplating any further acquisitions unless and until it finds any suitable synergistic deal in times ahead.

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INVESTMENT RATIONALE

Expansion Plans

With the help of its own sector-specific special economic zone (SEZ) in Srikakulam district in Andhra Pradesh, Vivimed will support its growing demand from the export markets and also from upcoming industries for manufacture of specialty chemicals as well as APIs. The company has received in principle approvals from the authorities and has acquired 327 acres of land for the same purpose. The total capex for the project would be around Rs 1,200mn.

Vivimed also plans to set up a pharmaceutical formulation plant in Chouttuppall, Andhra Pradesh to manufacture tablets and capsules in accordance with USFDA and cGMP (Current Good Manufacturing Practice) standards. Land acquisition for the same has been completed and the plant is expected to start production by FY14. The total cost of the project is Rs 400mn.

In addition to these plants, the company also plans to expand the existing facilities at its Bidar and Bonthapally manufacturing facilities to cater to the growing global demand for specialty chemicals. Vivimed is also undergoing de-bottlenecking and upgrading to cGMP standards of its pharmaceutical manufacturing facility at Jeedimetla. The cost of this expansion will be ~ Rs 300mn which will be completed by FY13.

Acquisitions to boost revenue

Vivimed's major acquisition Uquifa, based out of Spain, has more than 150 active DMFs filed and strong presence in antiulcer products, which contributes 40% to the total sales. Vivimed wants to integrate Uquifa's operations to complement its own formulation business through backward integration. In addition to this, the company will have automatic access to Uquifa's marquee client base (which includes top 10 global pharma companies) and pipeline filings. The management has guided revenue of Rs 10bn in FY13 on the back of integration with Uquifa.

The acquisition of Klar Sehen, which has strong presence in eastern India, will boost Vivimed's domestic presence in specialty chemicals business. The company has 50 trademarks and several well known brands which will help Vivimed to shift focus from contract manufacturing to branded formulation.

The acquisition of Hyderabad based Octantis Nobel Labs, which has strong presence across Nutraceutical segment (especially for women and children), has led to a marketing field force to 300 personnel in domestic market.

Strong presence in the specialty chemical business

Vivimed is an approved supplier of specialty chemicals to some of the big global personal care MNC's such as L'Oreal, Johnson & Johnson, Unilever, P&G etc. which are used in oral care, skin care, hair care, anti-ageing elements etc. The company has passed some of the most stringent quality norms and product requirements over the years to become the preferred supplier, which can be considered as entry barriers in itself. Such entry barriers will offer strong revenue visibility going forward.

The industry, which is growing at around ~25% currently, is expected to sustain this growth momentum in the next few years.

With the help of its own sector-specific SEZ in Andhra Pradesh, Vivimed will support its growing demand from the export markets

The company also plans to set up a pharmaceutical formulation plant in Chouttuppall, Andhra Pradesh

The acquisition of Klar Sehen, which has strong presence in eastern India, will boost Vivimed's domestic presence in specialty chemicals business

BUSINESS PERFORMANCE

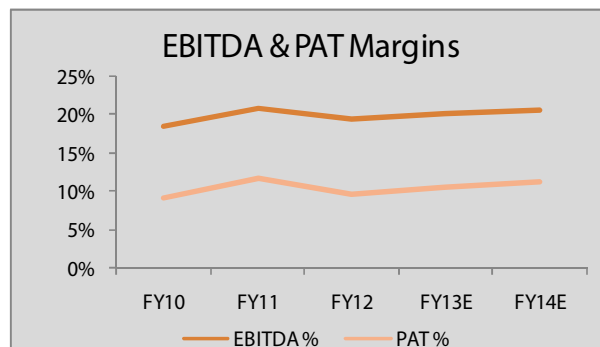
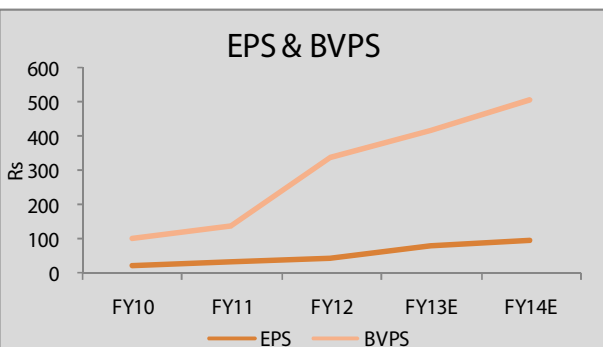
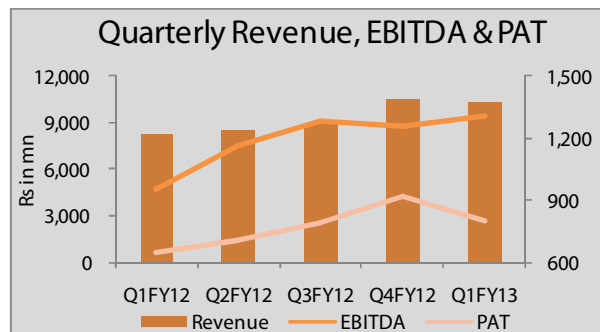
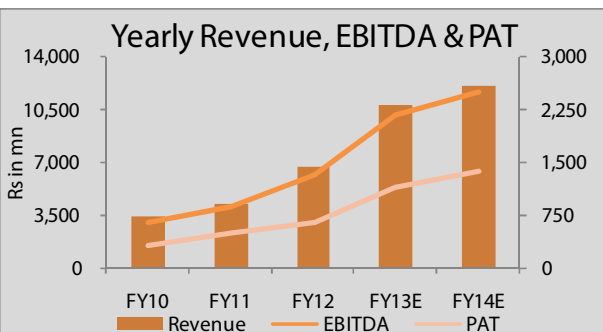
In Q2FY13, Vivimed reported 107% jump in consolidated revenue to Rs 2,661mn on a Y-o-Y basis on the back of integration with Uquifa. The company reported 2% decline in consolidated revenue on a Q-o-Q basis, on the back of muted performance from pharma division. Following the same trend, PAT showed jump of 106% to Rs 255.4mn on a Y-o-Y basis while de growth of 2% on a Q-o-Q basis.

Going forward, the company expects to ramp up the business due to synergies arising out of Uquifa and other acquisitions. It has guided for the top line of Rs 10bn+ for FY13E, which it will be achieving quite comfortably in our opinion.

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Vivimed is on track on most of the expansion plans as of now which means there is no immediate risk of any unwanted delay in executing these plans



Risks & Concerns

- Delay in the expansion plans undertaken by the company will impact the business and growth prospects going forward. Vivimed is on track on most of the expansion plans as of now which means there is no immediate risk of any unwanted delay in executing these plans.
- Higher working capital cycle can impact the cash flows going forward but we have seen that the company is trying hard to reduce its debtor days and manage the working capital more efficiently.
- Delay in integration with Uquifa, which is one of the most important acquisition done by Vivimed recently, could impact the revenue growth.

VALUATION

We expect Vivimed's revenue to grow at CAGR of 34% from FY12 to FY14E to Rs 12.1bn and PAT to grow at a CAGR of 46% to Rs 1.4bn in the same period. We expect Pat margin to improve from 9.5% currently to 11.2% by FY14E on the back of synergies arising out of integration with Uquifa and shifting focus from contract manufacturing to branded formulations.

Considering the revenue visibility, Vivimed is trading at undemanding valuation of 4.1x and 3.4x based on estimated EPS of Rs 81.7 and Rs 97.3 in FY13E and FY14E and 0.8x and 0.7x based on estimated BVPS of Rs 418 and Rs 509 in FY13E and FY14E.

The company for the last two year has traded at a 2 year forward PE multiple of 4 and we expect the same to continue going forward.

Based on a consolidated FY14 P/E multiple of 4x, the fair value of the company works out to be Rs 389/share.

We recommend a "BUY" rating on the stock.

We expect Vivimed's revenue to grow at CAGR of 34% from FY12 to FY14E to Rs 12.1bn and PAT to grow at a CAGR of 46% to Rs 1.4bn in the same period

Profit & Loss Statement (Consolidated)

Particulars (Rs Mn)	FY10A	FY11A	FY12A	FY13E	FY14E
Net Sales	3,435	4,160	6,683	10,708	12,075
Operating Expenditure	2,797	3,295	5,380	8,544	9,584
Depreciation	87	102	268	380	395
EBIT	550	764	1,035	1,784	2,095
EBIT Margin (%)	16%	18%	15%	17%	17%
Interest Expenses	219	221	284	498	557
Other Income	65	10	27	93	103
Profit Before Tax	396	553	778	1,378	1,641
Less: Tax	86	64	147	240	286
Adjusted PAT	310	488	632	1,138	1,355
PAT Margin (%)	9.0%	11.7%	9.5%	10.6%	11.2%
ROE (%)	21%	25%	13%	20%	19%
EPS (Rs)	31.1	48.1	45.4	81.7	97.3
BVPS (Rs)	104	141	341	418	509

Valuation Ratios (x)

	FY13E	FY14E
PER x	4.1	3.4
P/B Ratio	0.8	0.7

Ratio Analysis (Consolidated)

Particulars (Rs Mn)	FY10A	FY11A	FY12A	FY13E	FY14E
Current Ratio	3.3	4.8	3.0	3.4	3.2
Cash Ratio	0.1	0.2	0.2	0.1	0.2
Interest Coverage Ratio	0.4	0.3	0.3	0.3	0.3
Debt Equity Ratio	1.6	1.6	1.2	1.1	0.9
ROCE	11%	13%	8%	12%	13%



November 30, 2012

Balance Sheet (Consolidated)

Particulars (Rs Mn)	FY10A	FY11A	FY12A	FY13E	FY14E
Application of Funds					
Fixed Asset (Net)	2,547	2,643	5,953	6,573	6,678
CWIP	11	17	84	84	84
Investments	0	0	7	7	7
Other Assets	0	67	477	477	477
Inventories	794	845	2,479	2,901	3,472
Sundry Debtors	939	1,276	2,216	3,253	3,792
Cash & Bank Balance	56	111	363	222	701
Loans & Advances	152	916	1,413	1,413	1,413
Total	4,557	5,874	12,992	14,929	16,623
Sources of Funds					
Share Capital	100	102	139	139	139
Convertible Pref share Cap	0	0	1,310	1,310	1,310
Reserves & Surplus	1,299	1,777	3,275	4,347	5,618
Minority Interest	50	89	24	24	24
Total Debt	2,353	3,070	5,766	6,477	6,330
Other Liability	0	17	36	36	36
Net Deferred Tax	162	147	134	134	134
Current Liabilities	424	487	1,977	1,958	2,464
Provisions	170	186	332	504	569
Total	4,557	5,874	12,992	14,929	16,623

Cash Flow Statement (Consolidated)

Particulars (Rs Mn)	FY10A	FY11A	FY12A	FY13E	FY14E
Profit Before Tax	397	553	778	1,378	1,641
Total Adjustments	308	323	552	879	952
Change in Working Capital	59	(1,512)	(2,208)	(1,305)	(539)
Direct Taxes Paid	(212)	0	0	(240)	(286)
Gain on Forex Trans.	0	876	1,330	0	0
Cash Flow from Operations	551	(637)	452	711	1,768
Net Investment in GFA	(215)	(281)	(3,614)	(1,000)	(500)
Sale of Fixed Assets	257	(6)	0	0	0
Others	(114)	(437)	(627)	0	0
Cash Flow from Investment	(71)	(724)	(4,242)	(1,000)	(500)
Proceed from LT Borrowings	108	724	2,118	1,000	500
Proceed from ST Borrowings	0	0	931	0	0
Repayment of f the LT Borrowings	0	0	0	(288)	(648)
Repayment of f the ST Borrowings	(760)	0	0	0	0
Dividend Paid	(15)	0	0	(66)	(84)
Interest Paid	0	0	0	(498)	(557)
Cash Flow from Financing	(620)	540	4,042	147	(789)
Net Cash Flows	(140)	(821)	252	(142)	480
Op bal of cash	170	56	111	363	222
Transferred to B/S	30	(765)	363	222	701



Board Of Directors

Director Name	Current Position	Description
V. Manohar Rao	Executive Non-Independent Chairman of the Board	Dr. V. Manohar Rao is the Executive Non-Independent Chairman of the Board of Vivimed Labs Ltd. He Retired as Joint Director of "The Veterinary Biological and Research Institute" (VBRI) has done his post-graduation in Veterinary Sciences from Edinburgh University, U.K. He has more than 30 years experience in The Municipal Corporation of Hyderabad and Department of Animal Husbandry, Government of Andhra Pradesh
Santosh Varalwar	Chief Executive Officer, Managing Director, Executive Non-Independent Director	Mr. Santosh Varalwar is the Chief Executive Officer, Managing Director, Executive Non-Independent Director of vivimed Labs Ltd. He is a Management Graduate. He is the driving force behind the phenomenal growth of Vivimed Labs Limited. He worked in Shipping Corporation of India (SCI) and had an opportunity to understand in depth mercantile trade and had global exposure, which helped him subsequently to focus on international marketing. He served Mercantile Marine for about seven years before embarking on entrepreneurial journey.
Subhash Varalwar	Whole Time Non-Independent Vice Chairman of the Board	Mr. Subhash Varalwar is the Whole Time Non-Independent Vice Chairman of the Board of Vivimed Labs Inc. He is a Post Graduate in Chemical Engineering and a Management Graduate from Leeds University, U.K. After his post graduation he joined The Fertilizer Corporation of India (FCI) in 1974 as Asst. Project Engineer (Chemical). He held various positions in FCI and worked on various areas like designing & commissioning of fertilizer plant, production etc.
Raj Dhar	Whole Time Non-Independent Director, Director-Technical	Dr. Raj Kumar Dhar is the Whole Time Non-Independent Director, Director-Technical of Vivimed Labs Ltd. He has done his Post Doctoral Studies at Marburg, Germany, he started his career with Hoechst R&D Germany and ever since has been involved in Organic Synthetic Chemistry for more than three decades.
S. Raghunandan	S. Raghunandan	Mr. S. Raghunandan is the Director - Operation, Whole-Time Non-Independent Director of Vivimed Labs Ltd. He is a Science Post Graduate, began his career with Chandra Pharmaceuticals – the producers of Ibuprofen in India at that time and was with them handling various aspects of Production.
Sandeep Varalwar	Whole Time Non-Independent Director	Mr. Sandeep Varalwar is the Whole Time Non-Independent Director of Vivimed Labs Ltd. He has completed his Graduation in B.Pharmacy. After completion of graduation, he gained more than two decades of experience in manufacturing and marketing divisions of Pharma industry. He is the main strength behind the growth of Pharma division of the company and took an active role in VVS Pharmaceuticals and Chemicals Pvt Ltd.
Srinivas Chidambaram	Non-Independent Nominee Director	Mr. Srinivas Chidambaram serves as the Non-Independent Nominee Director of Vivimed Labs Ltd. He is a qualified Chartered Accountant, he is the Managing Director and CEO of Jacob Ballas Capital India Pvt Ltd (JBC), a India focused private equity firm based in New Delhi. JBC advises three India focused private funds with above \$600 million under management. Mr. Chidambaram joined JBC in 2005. He has 22 years of financial services and industry experience, including 14 years in private equity.
Nixon Patel	Non-Executive Independent Director	Mr. Nixon Patel is the Non-Executive Independent Director of Vivimed Labs Ltd. He holds B.Tech (Hons.) from Indian Institute of Technology, Kharagpur and has done his MS in Computer Science from New Jersey Institute of Technology. Mr. Nixon Patel, is an entrepreneur with a proven track record for growing start up businesses to millions of US\$ in annual sales, over a timespan of 20 years.

