



Vivimed



Vivimed Labs Limited

Q1 FY2015

Earnings Conference Call

Management:

Mr. Santosh Varalwar, Managing Director and CEO

Mr. Vaidyanathan Mahadevan, CFO

Mr. Saurabh SG, Director, Corporate Strategy

Mr. Phaninder Nath, General Manager, Corporate Accounts

Mr. Raghu Iyer, Vice President, Corporate Strategy

Moderator: Ladies and gentlemen, good day and welcome to the Vivimed Labs Limited Q1 FY2015 earnings conference call. As a reminder, all participant lines will be in the listen-only mode. There will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference, please signal an operator by pressing * then 0 on your touch tone telephone. Please note that this conference is being recorded. Joining us on the call today are Mr. Santosh Varalwar – MD & CEO; Mr. Vaidyanathan – CFO; Mr. Saurabh SG – Director, Corporate Strategy; Mr. Phaninder Nath – GM, Corporate Accounts and Mr. Raghu Iyer – Vice President, Corporate Strategy.

Before we begin, I would like to mention that some of the statements made on today's call may be forward looking in nature and may involve risks and uncertainties. For a list of such considerations, please refer to the earnings presentation. I now hand the conference over to Mr. Varalwar. Thank you and over to you sir.

Santosh Varalwar: Good afternoon every one for joining us on this call today. Hope you had a chance to go through the earnings presentation and financial results which are also available on the company website. In this call today, I would first like to introduce our new Group CFO, Mr. Vaidyanathan Mahadevan, who has joined Vivimed recently. He brings with him over two decades of experience in project finance, private equity, IPO, structured finance, cross-border M&A, taxation, business planning and strategy. We believe that his addition will further strengthen our senior management team.

Moving to the discussion of the performance of the quarter, I will start by providing the overview of our financial performance and strategic initiatives. Then I will pass on the call to my colleague Saurabh to provide you detailed operational overview.

Vivimed started the fiscal year 2015 on an encouraging note as ongoing revenue productivity, better product mix and cost optimization initiatives have started to yield results. Our team has worked really hard during the last year focusing on integration and consolidation across business

lines, to deliver improved and sustainable profits as we move forward to the next phase of growth.

We are pleased to report an improved operational and financial performance during the quarter. Q1 FY2015 Consolidated revenues were Rs 3,678 million representing a growth of 6.9% compared to Q1 FY2014. This was primarily due to the continued traction in the healthcare business. Healthcare business revenue was Rs 2,779 million (or 76% of the Q1 revenue) with a 14.6% year-on-year growth. This was driven by the momentum in the API business and better traction in the FDF segment. Specialty Chemicals business reported revenue of Rs. 886 million (or 24% of Q1 revenue) that is a decline of 9.9% year-on-year. The Company has strategically reduced volumes from low margin high volume products to focus more on the core Home and Personal Care segment, which has resulted in a decline in sales.

Our consolidated EBITDA margin expanded by 159 bps on a year-on-year basis to 15.8% with 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 have started to yield results. Healthcare segment margins improved due to the ongoing revenue productivity, better product mix and cost optimization initiatives.

Finance cost increased 86.7% on a year-on-year basis to Rs. 184 million due to higher rupee borrowing on account of acquisition of Actavis Pharma Manufacturing (APMPL) and foreign currency fluctuations. Effective tax rate stood at 26% for the quarter which was in line with management's earlier guidance.

As you are aware that we had received the PIC/S GMP approval for our facility in Hyderabad in May 2014 to supply finished formulations to the CIS region. I am pleased to report after the approval, we have now 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. Our US FDA approved Alathur facility continues to

gain traction in the US markets and we expect increasing revenues from this business during the year.

In the Specialty Chemicals segment, we have 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. With this, I would now hand over the call to Saurabh. Thank you.

Saurabh SG:

Thank you, Mr. Santosh for the introduction and overview. Good afternoon everybody on the call and thank you for taking the time to join us. I will start with providing you the overview of the Healthcare business which is our biggest segment in terms of revenue contribution. This segment constituted about 76% of consolidated sales in the Q1 FY2015. EBIT margins in the business have increased on a year-on-year basis by close to 60 bps and we are now at around 8.5% margin. On a sequential basis it has been better, we have moved from 7.1% in EBIT to 8.5% and this is largely attributable to better revenue productivity from our manufacturing facilities and the initiatives on cost optimization which have now started to yield results.

In the API segment within Healthcare, manufacturing volume has shown a consistent improvement over the last year based on our current generic product pipeline as well as scale-up at a key CMO account. So what we have been expecting in terms of better market share for generic products as we have become more competitive that seems to be working out in our favour. CMO business growth through the ramp-up has been pretty encouraging and in line with what we had estimated when we began the year.

In the FDF segment after the recent PIC/S approval, production has now started in Jeedimetla facility and we expect sales from this facility

to start making meaningful contributions in the second half of the FY2015. We are now in the process of consummating all the tech transfers of the key products and we hope that second half of the year is when the revenue contributions will come through from this PIC/S approval. Also within the FDF segment, we have now started sales to the US generic market with one ANDA from the Alathur facility. We have also acquired three new ANDAs which will be commercialized from early CY2015. So we believe that gradually over a period of time the capacity utilization from Alathur should increase and our revenue contribution from the regulated markets within the Formulation segment will also tend to go upwards in line with how we monetize these ANDAs, as we start filling our bouquet with new ANDA approvals. On the branded FDF business, it has largely remained stable this year. Though going forward, we are expecting a few product launches and a broader portfolio to help growth and we believe that we will grow in line with industry which is around 15% for the branded FDF business.

In the Specialty Chemicals segment, overall sales as you would have seen in the declared results, has declined on a year-on-year basis. This is on strategic intent as we have reduced volumes from low margin, high volume products to focus more on the core Home and Personal Care segments where we believe we have a strong positioning and that is where we want to drive growth from the market. So this churn in product mix and rationalization is something which we have been working on for the last 3-4 quarters and this is an ongoing exercise. We are heartened by the fact that despite the decline in sales, we have been able to significantly improve our operating profits and this is something which we will strive to build on. In terms of the key segments within Specialty Chemicals, hair dyes and skin care have remained stable and the growth parameters look pretty encouraging whereas oral care has generated significant revenue growth which is slightly better than what we expected. Going forward for the rest of the year, we believe our key segments like Hair Care, Sun Care and Skin Care will lead the segment's growth and most of the growth which we are expecting is a factor of increased market share which we believe our Specialty Chemicals franchise will garner versus what incumbents are

today having. We have also been able to make new customer acquisitions and the launch of the new products in the second half should make the pipeline pretty strong. On the distributor side also, as we have spoken last couple of times that we have made new appointments in LATAM and AMET region and that is helping us pick up sales at least in the tier II markets. Looking forward, the visibility for key products in the Sun Care and Hair Care segment remains quite strong and we believe it will drive growth in the H2 FY2015.

For the current financial year, we have identified certain initiatives to enhance our sales and marketing efforts to strengthen our R&D platform and increase operating efficiency. We all believe that these are all means to the end of trying to improve our return ratios in terms of financial performance. So better capacity utilization from the manufacturing platform which we have, higher margin products and better working capital, we believe will be three key drivers for us to realign our return ratios over the next couple of years. And on the investment and manpower in the human resources side, we have been continuously strengthening our operations team through senior level appointments to both our business segments and we believe that we are building a team which will take both the businesses to the next level over the medium term.

With this, I would now like to open up the floor for interactive Q&A. Thank you.

Moderator: Thank you very much sir. Ladies and gentlemen, we will now begin the question and answer session. Our first question is from Ashok Shah of Labdhi Securities. Please go ahead.

Ashok Shah: Sir my question relates to the interest cost. I have seen that the interest cost has gone up from Rs. 9.85 crores to 18.46 on y-o-y basis. How is the Company planning to reduce this cost and debt also?

Vaidyanathan: This is Vaidyanathan here, we are looking at a few initiatives. One, we are looking at some debt rebalancing. We have debt in the standalone entity but the assets are in the subsidiaries particularly the overseas

subsidiaries. So we are trying to do a refinancing whereby we put the debt down to the operating subsidiaries overseas, and the secondly as earnings improve, we will use the cashflow to repay the debt. This cannot happen immediately and may take a period of around next 6 months.

Saurabh SG: I think Mr. Shah, just to add to the CFO's point, if you see over the last one year our rupee debt has gone up. Prior to last year, our average borrowing cost was roughly 7% to 8% and we have primarily foreign currency debt but last year especially when we completed the Alathur acquisition and the consequent support which we gave that has led to rupee borrowings going up and as CFO mentioned, we are trying to work it out in such a way so that this effective cost of borrowing comes down for us in terms of rupee and whereas also on the debt side, I think as probably Mr. Santosh alluded on couple of other occasions too. We are basically looking to generate enough cash flow from operations I think that is what should happen in this year and next year which will help us retire debt gradually over a period of time.

Ashok Shah: Actually how much effect will be there on interest reduction approximately if you can give some rough idea?

Saurabh SG: I think if you just do rough calculation, for example for this around Rs. 150-160 crores of rupee borrowing which has come we are able to get better alternative in terms of foreign currency and better costing of the loan that itself should give us some sort of 7%-8% sort of gap and 7%-8% on Rs. 150 crores will probably Rs. 10 – 12 crores on an annual basis.

Ashok Shah: So on Rs. 150 crores, it will be around more than Rs. 10 crores per year.

Vaidyanathan: Yes, it will be about Rs. 10-12 crores.

Ashok Shah: And when it will start or approximately what time it should be available in current year or next year?

Saurabh SG: No, I think the effect would be visible only towards end of this year.

Santosh Varalwar: Second half I think it should be effective. I think probably you will see that impact in the H2.

Vaidyanathan: We have already started work on that. So hopefully by the end of this financial year, but I think that we will see the larger effect only in the next financial year.

Ashok Shah: Okay. One more question. Regarding this, we had acquired company in Chennai Alathur, that is regarding US FDA plant and we do have some plant in Spain and Mexico. So what is the benefit realized out of Alathur plant during the quarter and in future?

Saurabh SG: If you see 2011 when we actually started focusing more capital and investment on the Pharma business also. When in 2011 we started the journey we had a presence through Uquifa in the regulated markets on the API side. Since then what we have done is we have also done a bit of backward integration so we have set up intermediates manufacturing facility in India which supplies to the API business and gives them a cost advantage. So we did a backward integration there. Then going forward, we created an API R&D here in Hyderabad which is around 65 scientists. Then we have created a formulation R&D which is around 45 scientists and we always had a presence as far as the semi-regulated markets are concerned in terms of formulation. So for us to be an integrated sort of an end-to-end player, the only missing part as of last year was that we did not have regulated market approved formulations facility and that was the gap which we have filled with the Alathur acquisition. And from business perspective, today we have all the moving parts which are required to build an integrated pharma company and we are now focusing and consolidating all moving parts and make sure that we move to the next level. And specifically if you are talking about Alathur, I think the value which we get from Alathur, right now we are running at probably 25%-30% capacity utilization. So the numbers which are coming out of Alathur today are not fully representative of what potential is there because today we have around 5 ANDAs and as we keep filing for new ANDAs and get approvals, I think this facility on its own will be for all regulated markets be it US, Korea, Japan, or Europe in terms of formulations and we will be able to leverage our

captive API strength also to become much more focused and much more competitive when we enter the formulations market. So we will be able to capture much better margins from Alathur over a period of time and I think for the formulations part of the whole picture to play out, we are probably 18 months away or so but in terms of where we are, I think we have all the building blocks from intermediates to APIs to dedicated research team for API as well as formulation and on the formulation manufacturing platform, we have semi-regulated markets as well as regulated markets in Alathur for the US market and in Jeedimetla for PICS. So that is what we have sort of attempted to do last couple of years.

Ashok Shah: So Alathur capacity utilization would be increased to 50% at least by the end of the year?

Saurabh SG: No, I think what we are basically looking at is in terms of current capacity, we are at around 1.2 billion SOD per annum and as I said we are right now at around 25%-30% utilization. So as we start to pick up business from our own ANDAs like Losartan, Donepezil, I think we should get close to that number by end of the year.

Santosh Varalwar: Adding to what Saurabh said, presently we have commercialized only three products at the Alathur facility which approximately I assume about 25% of the capacity volumes. But then there are another three projects which are under technology transfer waiting for CBE30s which I guess should be available to us by December. And then there are also another 4 upcoming projects which probably one of them is Day and Night Sachet for a Canadian company. I think that will come into commercial sales by December and other four projects also we expect to come by the last quarter. So even if we get all these products into production mode by the end of this year, I think the visibility of revenue coming from the ones which are already in hand besides what we are intending to file is more than 100 crores in terms of annualized revenue. So obviously this is what we have already done and under progress, but besides this we are also filing ANDAs from the site. So our target is about 7 to 8 ANDAs to be filed in 12 months' time and at least about 4 or 5 will be filed before the calendar year. So 12 months-18 months

down the line we would see additional revenues coming up. So the focus on capacity utilization of this facility where we have almost spent about 150 crores and obviously whatever debt that you talk about it today has mainly increased on account of this. So what we would see that as we file ANDAs with our own APIs and also see that we commercialize ANDAs that we already have. And third work with certain partner companies to see that we have some kind of custom manufacturing opportunities in this. So eventually like the capacity that we have created which will be fully utilized and we are also aware of the fact that since there is a pipeline of ANDAs coming in the next 12-18 months, we are sure that we will outgrow the capacity and anticipating that this FDA approved facilities and regulatory approval times are very important here. So we have also initiated some kind of a capacity balancing. So we start adding some equipment over there which will give us that additional cushion in case if the volumes ramp up as we envisaged in the near future. So these are the activities going on. Of course Finoso which is our R&D arm has also expanded its capacity of filing dossiers from, last year they had about 9 or 10 products per year capacity. They have doubled the capacity. They added more stability capacity chambers and other equipments. So I guess with capacities and the dossier filing facility and also rationalization of strategic equipment in Alathur, we are preparing this unit to really go full guns when we start getting the required volumes in terms of meeting the demands in the US market and other generic markets.

Ashok Shah: Regarding this Hyderabad expansion, you just stated that the GMP approval has been received and I think few months back CIS approval was received. So what is the benefit being addressed in current year and next year?

Santosh Varalwar: The PIC/S approval, primarily we got it because of our markets in Ukraine and Russia. Without any PIC/S approval or US approval we cannot supply medicines there. So I think many of the Indian companies either had to shut down or had to upgrade their facility that means you have to really go back and invest in a facility and see that the facility raise up to the standard of the PIC/S approval and USFDA. We have spent more than about Rs. 25 crores on that plant. Finally in May 2014

as we said in our last meeting, we have got the approval and we have about 6 products that are already registered there in Ukraine and I think there are about 8 more products which are in the pipeline to be filed for registration. With that kitty of products that we intend to sell in Ukraine is doubling up in next one year. We are very optimistic that all this offtake which we are anticipating in the next three quarters should happen as per plan and the new product filings that are happening in Ukraine should see traction of sales more in next year rather than this year. We are also leveraging the same plant to file for Russia. I think we have also got about two products filed in Russia, another two to go before the calendar year. We are also adding something else to this. From one of our facilities in North India which we have, we started filing lot of products. We filed about 6 dossiers from that facility in Africa and North Africa. So it's the work in process right now, leveraging the capacities that we have, the capabilities that we have, and approved facilities that we have, I think we are just filing products now which probably you will not see most of that income coming this fiscal year, but definitely we will see in the coming 1 to 3 years.

Ashok Shah: Next sir, a few months back, we had a talk regarding the land sale, is this on line or what is going to happen? I think the Company had a land at Vizag.

Santosh Varalwar: Yes, we do have close to 300 acres of SEZ land. We got all approvals, all environment approvals, industrial approvals. A conscious decision has been taken by the board that probably we should retain about 80-100 acres of land and this was out of the balance land of about 200 acres. We have given the mandate to Knight Frank and the work is in-process as of now. We expect something to come at least end of this quarter we can share the good news with you. Of course the purpose of the initiative is to target reduction of debt and plans are moving in line with our strategy.

Ashok Shah: Any projects or forward looking statement or something like that if you can give idea rough about sales and margins?

Saurabh SG: On financial performance, we have shown that last couple of years we have been able to grow 15%-20%. I think we should be able to keep that run rate in terms of sales growth and margins we should gradually inch up. So we are at around 16% level. So with better contribution from API business and all the initiatives on the Formulations side and Speciality Chemical side which we have spoken about, I think margins probably will be around 16%-18% and the significant jump will probably come in the year after that.

Moderator: Thank you. Our next question is from Kunal Sabnis of VEC Investments. Please go ahead.

Kunal Sabnis: It is good to see pharma performance being improved. My question was on the pharma growth. Just wanted to understand, last couple of quarters it has been growing at about say 10% sequentially. Where is this especially coming from, is it API or FDF?

Saurabh SG: So Kunal, I think if you see our Healthcare business, probably you would have seen the numbers, etc., and the large part is API business. I think nearly two-thirds will be API business and one-third is like the formulations business. So what we have been seeing is growth has been consistent on both. I think specifically in this quarter, API has contributed to growth because we have gained some market share in some generic products and also CMO engagement has been shaping up quite decently. So I think that has happened, but going forward what you should expect is also the formulation business, especially since we have now got the PIC/S approval and we are looking at initiatives from Alathur and from other formulation facilities. That should also now start to pick up a little bit and that should also start contributing to growth.

Kunal Sabnis: So based on these drivers in the formulations as well as the CIS and API growth that we are expecting, I mean a sequential growth of about 5%-10% odd for the near term is possible right? I mean going forward for a few quarters at least.

Saurabh SG: Sequential, I think is bit difficult in our business. But I think on a year-on-year basis if you see, what we are targeting for us what we have

mentioned is that we should comfortably deliver the sort of growth that we have been saying.

Santosh Varalwar: Adding to what Saurabh said, yes, I think the commentary I just gave in terms of the initiatives taken by the Company with filing dossiers in different geographies are definitely the outlook for future would be good because these are all very high yielding and interesting markets and that too as the world will be more regulated. I think the number of people that would come in competition are going to be limited in even these areas unlike what in the past where I think regulatory approvals were required only to sell in Europe or in US and rest of the CIS countries and Asian countries and Africa were little off, but now I guess everything is falling into a regulatory zone. I think the companies which have advantage of filing dossiers with approved facilities should see much better coverage of sales in these areas and adding to this, I also would like to make a statement that Saurabh said API sales is growing up. Yes, I think if you see we are still basking on the glory of API products which were there in the kitty of Uquifa for the last three years but we have really not yet seen the new initiatives taken by the companies in the last two years where we started filing new drug master files and other things. So I think in the next 12 months we should start getting approvals for the new DMFs where again we have lots of partners with whom we are working. So with those things coming up, I guess 12 months – 18 months you will really see a ramp up in API sales than what you are seeing. The sequential growth may be far better and the other initiative which we have done, I think I mentioned about it in last quarter was also the CMO activity. So we have off late seen a very good response or very good demand from the CMO activity particularly for the European based manufacturing companies and for LATAM based manufacturing companies. So I guess we will take advantage of that way and we are engaged with 3 or 4 very large companies and with these initiatives underway, again I see it is not something which will happen in the next quarter, but a quarter or two later but. These are some projects which are going on with some big multinational companies. So I am sure like even 30%-40% of those projects if they fructify, then we will really see that growth coming even

from that segment. So overall I would say that yes the domestic FDF business from where we started in 2012 with about 17 crores revenue has risen to, as probably will do about +40 crores revenue this year and again with Alathur facility and PIC/S approved facility, we will start seeing revenues from them and then whatever I told them about API and CMO facility Europe that we should also see. I am very optimistic that we might not capture all the value in the current year but definitely going forward all these will have to happen.

Kunal Sabnis: And on the margin front where it was interesting to see the EBIT margins jump to 8.5% for Pharma, so is it safe to assume that the worse is over and from here margin should just head higher as the sale growth and the utilizations rise in API as well as FDF?

Saurabh SG: Yes, basically Kunal, margins if you see at least on the API and formulation side are more factor of how best we are able to drive capacity utilization. So obviously since we are seeing a pretty good pipeline in terms of generic as well as CMO and also activities around PIC/S and Alathur, I think this number should be stable and as we are able to introduce new products and able to introduce better capacity utilization, this number should go up because on overall basis I think still we have good bit of headroom as far as margin is concerned.

Santosh Varalwar: API, if you have seen last few years, we have seen EBIDTA margin of about 10 odd percent. I think that if you have seen and observed this quarter, that has gone up to more than 13% and I think we are projecting better going forward in the next three quarters. So maybe we can safely assume that we should do better than what we have been doing in the past.

Kunal Sabnis: On the Speciality Chemical side when we are focusing now on high margin revenues and we have let go of low margin high volume business, is it safe to assume that most of that business is now behind us and in future, is there a similar business left over of that portion which we are trying to run down?

Santosh Varalwar: See again in Speciality Chemical, there has been one big doubt that was looming large on us about the Triclosan product. Triclosan product is facing lot of negatives in the market. So we are seeing the volumes going down in terms of Triclosan. But good news is that at least whatever drop we have seen in Triclosan, it did not really impact the main products because we did somewhere better. But what conscious call that has been done is that wherever there were products which were more commodity in nature where margins were below our expectations and we have decided to drop those products because it really does not justify running plants, spending utilities and trying have a negative impact on our margin.. So now what has happened is that because we believe we have some extra capacities available in the Speciality Chemical particular in our Bidar facility, Karnataka where we have gotten rid of certain products which are not really worth it. So that also has brought down certain expenses from that. That is why probably the impact you see the EBIT margins have gone up. Going forward, we will be very selective in terms of what we intent to do. Yes, there are certain products as I mentioned always we have become cost leaders and we will focus on that. And then one projection which we made at the beginning of this year was a contract which we have done with Unilever for Zinc Pyrithione (ZPTO), certain approval processes were delayed particularly from Middle East and Turkey, AMET areas. The ramp up of volumes did not happen in the first quarter and we do not oversee that happening in the second quarter but definitely by beginning of third quarter we will start seeing that, which will give us some opportunity plus certain capacities which are still available in Bidar. So going forward, I think it is safe to assume that Vivimed will not focus on commodity range of chemicals or specialty chemicals but will choose very niche ones and the pipeline that we are building up in the near future is also pretty exclusive pipeline which I would not expect them to like show off in this year but in the coming year I am sure these are products which are going to really add lot of value for your EBIT margin.

Kunal Sabnis: Okay. So these commodity type products, what proportion of revenues would they consist of?

Saurabh SG: Kunal, this number has been constantly trending down because one of the things post the James Robinson acquisition in 2008 and in the years 2010-2011 what we consciously focused on is try to be more aligned to Home, Personal Care segment because that is where we saw significant opportunity and also our franchise strength is quite good in that. So we have consciously let go of revenues in those areas. So if you would say I think at one point probably this was nearly 20% of what we used to do but we have now sort of got this number down and probably we are close to where we want this to be and this is probably product line and revenue line which we want to aggressively grow and as Mr. Santosh said we have all new launches which are aligned to these Home and Personal Care segments and this is one part of the business I think which we should do quite well.

Santosh Varalwar: If I make quantification I would say this may be still in the existing kitty. We should be having about 4%-5% of sales coming from this kind of products. I think eventually the next three quarters, we might have even rationalize that but that is subject to of course utilization of capacity for better product mix.

Kunal Sabnis: But I was just trying to understand that some part of your Speciality Chemical business have been growing very well and then there was this part which you were not trying to focus on. So the average growth was taking a drag because of this business. So just wanted to understand about the proportions of 5%, it is pretty small.

Saurabh SG: Okay. I understand Kunal. So basically if you see FY12 and FY13, the Speciality Chemical business was pretty flat, I think 7%-10% sort of growth that was because we were letting go off all these revenues. But you were to say like-to-like basis if you were to exclude, what we do not want to be and exclude what we defocus and how that residual part of business has been growing. It has been growing at 15%-20%. That is what has been happening.

Kunal Sabnis: And what would be the debt number in June, total debt?

Vaidyanathan: The total debt number on a consolidated basis is about Rs. 898 crores.

- Kunal Sabnis:** The warrants which the Company is going to issue and the money is to be raised, will this go into repaying debt or mainly to fund R&D or something else?
- Vaidyanathan:** This will be actually utilized for working capital requirements. So to that extent, we may supplement our working capital which we may not need to borrow high cost CC funds. So it is not going for an investment but for the working capital needs.
- Kunal Sabnis:** And the two ANDAs that we had, Donepezil and Losartan, you had launched one. Have you also launched the other?
- Santosh Varalwar:** Donepezil, we have still not launched because as I said last time we are changing the source of supply. It was earlier US vitamin. I think the cost will be they were trying to offer us was not helping us compete in the market. So we found a better source and I think we already filed for a change. Once we get an approval, I think we will have Donepezil also in the market and as I also mentioned we had three other ANDAs, Amlodipin, Zolpidem, and Metronidazole. These are all work under process. As I said by end of current year, we should have most of them ready to sell in the US market.
- Moderator:** Thank you. The next question is from Ashwini Agarwal of Ashmore India. Please go ahead.
- Ashwini Agarwal:** Pretty decent set of numbers given the balance sheet at this point and I think the strategy is beginning to pay off. Two specific questions, how big is Triclosan today and how much more revenue sort of consolidation needs to come out of scaling down Triclosan?
- Santosh Varalwar:** Triclosan last year was about Rs. 40 crores, but this year we budgeted around Rs. 30 crores in terms of our overall consolidated revenues. But we are not sure, as I see the trend of the first quarter it was really good because whether we will also do Rs. 30 crores was the question. But one positive side of Triclosan is that Colgate India which uses this product for Colgate Total continues to be bullish on it and we presently cater to the need of Colgate India here and Colgate is also keen to qualify us for the US market for which the qualification process is on. If

that happens and I am talking of the trend reversing now. The volumes that Colgate has are much higher volumes and in such case volumes might go up. But today as I really see the prospect, I think this product will eventually get phased out.

Ashwini Agarwal: And in terms of the margin profile of Triclosan, how does that compare with the margin profile of the aggregate Speciality Chemical business?

Saurabh SG: Just to answer on margins, it is less than what the overall Speciality Chemical portfolio mix.

Ashwini Agarwal: The real issue as it is quite evident, last year if you look at the full year and if you look at the first quarter, the EBITDA growth is coming through, the consolidation of the product portfolio is visible in the financials and the key issue really is the financial cost and my only comment on trying to shift Rs. 100-150 crores of debt from Indian books to overseas books would be the kind of FX volatility that it will bring on a quarter-to-quarter basis. So I think you have a little bit of natural hedge there, but I am just wondering if there are any other ways including liquidating some assets or bringing in some investors into other pieces of the business to reduce the indebtedness because I think that is the real issue at this point.

Vaidyanathan: From a FOREX point of view, I think we do not see the volatility because when we shift the borrowings overseas we expect to pay out from the overseas cash flows. For example, if you put something to any of our overseas subsidiaries who are having dollar revenues, so when we borrow in dollars and it is getting repaid out of the cash flows which are from dollars. So we do not see that as a forex fluctuation, this fluctuation would be there only if you are going to pay from the Indian cash flows. But the idea is to pay them from the overseas cash flows.

Ashwini Agarwal: So the idea is for your overseas subsidiaries to raise the debt independent of the parent.

Vaidyanathan: That is right.

Moderator: Thank you. Our next question is a follow up from Kunal Sabnis of VEC Investments. Please go ahead.

Kunal Sabnis: Just a quick question on the shareholding. There has been an uptick in the pledged shares. Is this related to business borrowings or something else and what would be the plan to redeem these?

Santosh Varalwar: See as last time there was a discussion on this most of the shares that are there are pledged with a bank as a security not really as a borrowing. Some initiatives are already being done. So I am guessing that most of the pledged shares that are visible today, more than 50% of that should vanish away by end of next quarter because we are trying to get that loan cleared off and then release our shares. The component of loan is very small and that is also not retiring borrowing of promoter or promoter group. It is just given as collaterals.

Moderator: Thank you. As there are no further questions from the participants, I now hand the floor back to the management for closing comments.

Santosh Varalwar: Thank you everybody for being so patient and I guess we have given you a reasonable idea in terms of where Vivimed is heading to in the few quarters and in the next few years. As management team, I think there are three verticals that we are focusing on. Number one is Specialty Chemicals where I think the focus is on Home and Personal Care and we are also foraying into certain other interesting areas, and also spending a lot of time and money on new research and development initiatives again engaging with lot of our major clients. Yes, I think Specialty Chemicals going forward I do see a lot of new products coming, and adding value in the near future. In terms of FDF, there are multiple activities going on. As I always said, there is a domestic FDF business where our own branded formulations particularly in Ophthalmic segment, we have expanded those areas and again that looks to be pretty decent and poised to grow. The new initiatives of filing in CIS, Africa, and US generic market, I am sure that should also see us growing it and API vertical as I mentioned with new DMF filings and international CMO business, I think in the near future I am sure this business should come in. Our focus has been primarily on

R&D. I think the 1st Phase of spend R&D is also going up. But I am sure you will see the result of all this efforts to come back in say 12-18 months' time. As management we are pretty bullish about it. We do see some concerns from various analysts and investors on debt. But I think we are addressing those concerns also, how we should bring down the cost of borrowings and how we can rationalize all those things and I am sure in the coming quarters we will see those initiatives coming in and paying off, and overall make a better picture of Vivimed's future growth story. Thank you very much.

Moderator: Thank you very much sir. Ladies and gentlemen, on behalf of Vivimed Labs Limited that concludes this conference. Thank you for joining us and you may now disconnect your lines.

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Note: This transcript has been edited to improve readability

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