FY2012 Result Update

# Vivimed Labs

June 5, 2012

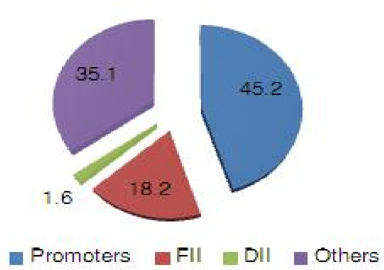
## BUY

| | |
|---|---|
| CMP | Rs400 |
| Target Price | Rs575 |
| **Stock Info** | |
| Sector | Pharmaceuticals |
| Market Cap (Rs cr) | 557 |
| 52 Week High/Low | 445/212 |
| Avg. Daily Volume (3m, '000) | 37 |
| Avg. Daily Value (3m, cr) | 1.5 |
| Dividend Yield (%) | 0.9 |
| Sensex | 15,988 |
| Nifty | 4,848 |
| BSE Code | 532660 |
| NSE Code | VIVIMEDLAB |

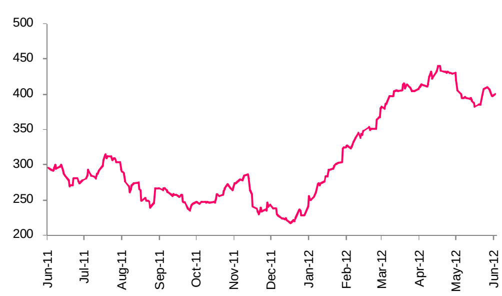
**Stock Performance**

| (%) | VIVIMED | NIFTY |
|---|---|---|
| 1-week | (2.5) | (0.8) |
| 1-month | (1.4) | (4.7) |
| 1-year | 35.0 | (12.1) |

**Shareholding Pattern (%)**




**Stock Price Chart**




*Note: *CMP as on June 4, 2012*

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## Poised for growth

### Key highlights of the result

- **Top-line beats estimate:** Vivimed reported a robust top-line growth of 60.7% yoy (against our estimate of 45.9%) for FY2012. The top-line growth is largely attributed to consolidation of Uquifa revenue for 4 months (contributed Rs170cr, 25% of total sales). However, the formulations business grew by a modest 6.3% yoy due to lower off-take from the ISP alliance. On a like-to-like basis, the revenue grew by 15.9% yoy.
- **Margins contraction - an aberration:** Integration of 3 acquisitions in FY2011 led to the contraction of EBITDA margin by 70bp to 19.5%, in-line with our estimate. However with growth drivers in place, we believe that FY2012 margin contraction is a temporary blip and expect it to rebound to ~20-21% in FY2013E.
- **RPAT in-line with estimate:** Vivimed reported Net Profit of Rs63.1cr in FY2012 (against our estimate of Rs60.9cr), despite higher tax rate and depreciation charges.
- **Concall takeaways:** (1) The company has envisaged a growth plan by focusing more on innovative led R&D products in specialty chemicals, thereby giving scope for margin expansion. (2) It also plans to exit low margin contract job works and use the facilities for enhancing brand retailing in formulations. (3) Improvement in the working capital cycle is bound to happen gradually with credit period ranging between 90-100 days amongst various geographies. (4) The manufacturing base of Uquifa will take ~2-3 years to shift to India, subject to regulatory clearances. Besides, Vivimed is currently building an API facility in Karnataka and has recently completed the upgradation of formulations facility at Jeedimetla. (5) Vivimed hedges only 20-30% of its exports, thereby benefitting from rupee depreciation.

### Outlook and Valuation

FY2012 results have come in-line with our estimates on the operational front. The management has re-iterated its revenue target of Rs1,000cr+ based on the Uquifa integration. Besides, relentless focus on IP and biotech related products (which ensures high gross margins of ~60-70%), enforces our confidence on the management's growth strategy going ahead.

At present, Vivimed is addressing only 5-10% of the areas of growth, whereas the target is to address a bigger market over the next 5-10 years. The company plans to build upon the area of providing molecules as per client requirements. In our view, this should pave way for a higher ROE model. We remain positive on the company and roll over our price target on FY2014E. **We maintain our Buy rating on the stock with a revised price target of Rs575.**

### Risks to the view

- High working capital cycle could impact future cash flows
- Delay in Uquifa integration could impact revenues

| Year End | Net Revenues | | EBITDA | | Net income (reported) | | RoE | RoCE | EPS | Valuations (X) | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | (Rs cr) | % growth | (Rs cr) | % margin | (Rs cr) | % growth | % | % | (Rs) | P/E | EV/EBITDA |
| FY2011 | 416 | 21.1 | 84 | 20.2 | 49 | 57.5 | 24.8 | 14.6 | 48.0 | 8.3 | 8.3 |
| FY2012 | 668 | 60.7 | 130 | 19.5 | 63 | 29.3 | 13.3 | 10.0 | 45.3 | 8.8 | 8.2 |
| FY2013E | 1,098 | 64.3 | 220 | 20.0 | 115 | 81.7 | 19.6 | 15.8 | 71.7 | 5.6 | 5.4 |
| FY2014E | 1,229 | 12.0 | 252 | 20.5 | 131 | 14.6 | 18.5 | 16.3 | 82.2 | 4.9 | 4.6 |

**Exhibit 1: Quarterly Performance (Consolidated)**

| (Rs cr) | 4QFY12 | 4QFY11 | % yoy | 3QFY12 | % qoq | FY2012 | FY2011 | % yoy |
|---|---|---|---|---|---|---|---|---|
| **Net Sales** | **251.1** | **119.7** | ***109.7*** | **168.0** | ***49.4*** | **668.3** | **416.0** | ***60.7*** |
| Material cost | 117.3 | 62.1 | *88.8* | 82.4 | *42.3* | 337.4 | 237.0 | *42.4* |
| *% of net sales* | *46.7* | *51.9* | | *49.1* | | *50.5* | *57.0* | |
| Staff costs | 13.9 | 3.6 | *286.3* | 8.4 | *66.1* | 14.2 | 20.0 | *(29.0)* |
| *% of net sales* | *5.5* | *3.0* | | *5.0* | | *2.1* | *4.8* | |
| Other expenses | 73.6 | 33.2 | *122.1* | 45.6 | *61.4* | 186.5 | 75.0 | *148.6* |
| *% of net sales* | *29.3* | *27.7* | | *27.2* | | *27.9* | *18.0* | |
| **Total operating exp.** | **204.8** | **98.9** | ***107.1*** | **136.4** | ***50.2*** | **538.0** | **331.9** | ***62.1*** |
| Operating profit | 46.3 | 20.9 | *121.6* | 31.6 | *46.3* | 130.3 | 84.1 | *55.0* |
| OPM (%) | *18.4* | *17.4* | | *18.8* | | *19.5* | *20.2* | |
| Interest | 8.1 | 7.0 | *15.1* | 5.9 | *38.3* | 28.4 | 20.6 | *37.8* |
| Depreciation | 13.5 | 3.6 | *277.1* | 6.9 | *95.1* | 26.8 | 9.1 | *192.9* |
| **EBIT** | **24.7** | **10.3** | ***140.5*** | **18.9** | ***31.0*** | **75.1** | **54.3** | ***38.3*** |
| Other Income | 0.9 | 0.8 | *9.1* | 1.6 | *(43.2)* | 2.7 | 0.9 | *187.4* |
| **PBT** | **25.6** | **11.1** | ***130.7*** | **20.5** | ***25.3*** | **77.8** | **55.3** | ***40.8*** |
| Total tax | 3.3 | (1.1) | *(411.1)* | 4.4 | *(24.4)* | 14.7 | 6.4 | *128.2* |
| Tax Rate (%) | *13.0* | *(9.6)* | | *21.5* | | *18.9* | *11.6* | |
| Minority Interest | 0.0 | 0.0 | - | 0.0 | - | 0.0 | 0.0 | - |
| **Adjusted PAT** | **22.3** | **12.2** | ***83.1*** | **16.1** | ***38.9*** | **63.1** | **48.8** | ***29.3*** |
| Net profit margin (%) | *8.9* | *10.2* | | *9.6* | | *9.4* | *11.7* | |
| Extra-ordi. Items | 0.0 | 0.0 | - | 0.0 | | 0.0 | 0.0 | - |
| Forex (loss)/gain | 0.0 | 0.0 | - | 0.0 | | 0.0 | 0.0 | - |
| Others | 0.0 | 0.0 | - | 0.0 | | 0.0 | 0.0 | - |
| **Reported Net profit** | **22.3** | **12.2** | ***83.1*** | **16.1** | ***38.9*** | **63.1** | **48.8** | ***29.3*** |
| **Reported EPS (Rs)** | **16.0** | **12.0** | | **11.5** | | **45.3** | **48.0** | |

*Source: Company, RSec Research*

## Key Highlights

*Slower off-take from ISP alliance led to slowdown in specialty chemicals growth in FY2012.*

**Specialty Chemicals:** The specialty chemicals comprise 50% of the total sales and have grown by mere 6.3% yoy in FY2012. The slowdown in growth is largely attributed to lower off-take from ISP alliance (as ISP got acquired by Ashland in August 2011). However, the management seems confident of a pick-up in FY2013E through this alliance with the new partners. With its relentless focus on the Indian market (60% revenues of specialty chemicals) and partnerships based on innovative led R&D molecules (gross margins of ~60-70%), we estimate a 16% CAGR over FY2012-14E.

*Uquifa contributed Rs170cr (4 months of revenue) comprising 25% of total sales.*

**Pharma:** The pharma business sky-rocketed 233.2% yoy in FY2012 based on 4 months' Uquifa revenues (Rs170cr). The other acquisitions of Klar Sehen and Octantis Nobel contributed Rs15-16cr in FY2012. Excluding the 3 acquisitions, the pharma segment clocked a growth of 47.6% yoy. Besides, the company has decided to exit from the low margin contract job works and use these facilities for formulations brand retailing, which should boost the revenues going forward. We expect Uquifa margins to pick-up to 17-18% in FY2013E from the current 14-15%.

**Exhibit 2: Segment wise sales performance**

| Particulars (Rs cr) | 4QFY12 | 4QFY11 | % yoy | 3QFY12 | % qoq | FY2012 | FY2011 | % yoy |
|---|---|---|---|---|---|---|---|---|
| Specialty Chem. | 81.4 | 86.4 | *(5.8)* | 84.0 | *(3.1)* | 336.3 | 316.3 | *6.3* |
| Pharma | 170.6 | 33.4 | *410.9* | 84.0 | *103.0* | 332.1 | 99.7 | *233.2* |
| **Total Sales** | **252.0** | **119.7** | ***110.4*** | **168.0** | ***50.0*** | **668.4** | **416.0** | ***60.7*** |

*Source: Company, RSec Research*

## Outlook and Valuation

FY2012 results have come in-line with our estimates on the operational front. The management has re-iterated its revenue target of Rs1,000cr+ based on the Uquifa integration. Besides, relentless focus on IP and biotech related products (which ensures high gross margins of ~60-70%), enforces our confidence on the management's growth strategy going ahead.

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## Profit & Loss Statement

| Y/E March (Rs cr) | FY2011 | FY2012 | FY2013E | FY2014E |
|---|---|---|---|---|
| **Net Sales** | **416** | **668** | **1,098** | **1,229** |
| **Total Expenditure** | **332** | **538** | **878** | **977** |
| Cost of Materials | 237 | 337 | 562 | 631 |
| R&D Expense | 12 | 20 | 35 | 39 |
| Personnel | 20 | 14 | 33 | 43 |
| Others | 63 | 166 | 248 | 264 |
| **EBITDA** | **84** | **130** | **220** | **252** |
| *% chg* | *33.3* | *55.0* | *68.5* | *14.8* |
| *(% of Net Sales)* | *20.2* | *19.5* | *20.0* | *20.5* |
| Depre. & Amortisation | 9 | 27 | 38 | 43 |
| **EBIT** | **75** | **104** | **182** | **209** |
| *% chg* | *37.9* | *38.1* | *75.5* | *15.1* |
| *(% of Net Sales)* | *18.0* | *15.5* | *16.5* | *17.0* |
| Interest & other Chg | 21 | 28 | 37 | 42 |
| Other Income | 1 | 3 | 2 | 2 |
| *(% of PBT)* | *1.7* | *3.4* | *1.4* | *1.2* |
| **Recurring PBT** | **55** | **78** | **147** | **169** |
| *% chg* | *39.4* | *40.8* | *89.0* | *14.6* |
| Tax | 6 | 15 | 32 | 37 |
| *(% of PBT)* | *11.6* | *18.9* | *22.0* | *22.0* |
| **Reported PAT** | **49** | **63** | **115** | **131** |
| *% chg* | *57.5* | *29.3* | *81.7* | *14.6* |
| *(% of Net Sales)* | *11.7* | *9.4* | *10.5* | *10.7* |
| **Basic EPS (Rs)** | **48.0** | **45.3** | **82.3** | **94.4** |
| **Fully Diluted EPS (Rs)** | **30.5** | **39.5** | **71.7** | **82.2** |
| *% chg* | *57.5* | *29.3* | *81.7* | *14.6* |

## Balance Sheet

| Y/E March (Rs cr) | FY2011 | FY2012 | FY2013E | FY2014E |
|---|---|---|---|---|
| **SOURCES OF FUNDS** | | | | |
| Equity Share Capital | 10 | 14 | 16 | 16 |
| Preference Capital | 0 | 131 | 131 | 131 |
| Warrant application | 9 | 2 | 2 | 2 |
| Reserves& Surplus | 178 | 328 | 436 | 562 |
| **Shareholders' Funds** | **197** | **475** | **586** | **711** |
| Total Loans | 307 | 570 | 563 | 566 |
| **Total Liabilities** | **504** | **1,045** | **1,148** | **1,277** |
| **APPLICATION OF FUNDS** | | | | |
| Gross Block | 223 | 612 | 632 | 662 |
| Less: Acc. Depreciation | 44 | 70 | 108 | 151 |
| **Net Block** | **180** | **541** | **523** | **510** |
| Capital Work-in-Progress | 86 | 63 | 63 | 63 |
| **Investments** | **0** | **1** | **1** | **1** |
| Current Assets | 315 | 647 | 922 | 1,105 |
| Inventories | 84 | 248 | 379 | 431 |
| Sundry Debtors | 128 | 222 | 316 | 364 |
| Cash | 11 | 36 | 8 | 27 |
| Loans & Advances | 92 | 141 | 220 | 283 |
| Other | 0 | 0 | 0 | 0 |
| Current liabilities | 69 | 241 | 394 | 436 |
| **Net Current Assets** | **246** | **406** | **528** | **670** |
| Misc. Expense | 7 | 48 | 48 | 48 |
| Net Deferred Tax | (15) | (13) | (13) | (13) |
| **Total Assets** | **504** | **1,045** | **1,148** | **1,277** |

## Key Ratios

| Y/E March | FY2011 | FY2012 | FY2013E | FY2014E |
|---|---|---|---|---|
| **Valuation Ratio (x)** | | | | |
| P/E (on FDEPS) | 8.3 | 8.8 | 5.6 | 4.9 |
| P/CEPS | 7.0 | 6.2 | 4.2 | 3.7 |
| P/BV | 2.1 | 1.2 | 1.1 | 0.9 |
| Dividend yield (%) | 0.5 | 0.9 | 0.8 | 0.8 |
| EV/Sales | 3.7 | 3.2 | 2.8 | 0.0 |
| EV/EBITDA | 8.3 | 8.2 | 5.4 | 4.6 |
| EV / Total Assets | 1.4 | 1.0 | 1.0 | 0.9 |
| **Per Share Data (Rs)** | | | | |
| EPS (Basic) | 48.0 | 45.3 | 82.3 | 94.4 |
| EPS (fully diluted) | 30.5 | 39.5 | 71.7 | 82.2 |
| Cash EPS | 57.0 | 64.5 | 95.4 | 109.1 |
| DPS | 2.0 | 3.6 | 3.1 | 3.1 |
| Book Value | 193.5 | 340.7 | 366.1 | 444.6 |
| **Returns (%)** | | | | |
| RoCE | 14.6 | 10.0 | 15.8 | 16.3 |
| RoIC | 20.0 | 13.6 | 20.1 | 21.0 |
| RoE | 24.8 | 13.3 | 19.6 | 18.5 |
| **Turnover ratios (x)** | | | | |
| Asset Turnover (Gross Block) | 1.9 | 1.1 | 1.7 | 1.9 |
| Inventory / Sales (days) | 74 | 135 | 126 | 128 |
| Receivables (days) | 112 | 121 | 105 | 108 |
| Payables (days) | 54 | 140 | 145 | 144 |
| WCC (days) | 206 | 202 | 173 | 191 |

## Cash Flow Statement

| Y/E March (Rs cr) | FY2011 | FY2012 | FY2013E | FY2014E |
|---|---|---|---|---|
| Profit before tax | 55 | 78 | 147 | 169 |
| Depreciation | 10 | 27 | 38 | 43 |
| Change in Working Capital | (105) | (135) | (150) | (122) |
| Others | (3) | 49 | 0 | 0 |
| **Cash Flow from Operations** | **(43)** | **18** | **35** | **89** |
| (Inc.)/ Dec. in Fixed Assets | 19 | 364 | 20 | 30 |
| (Inc.)/ Dec. in Investments | 1 | 40 | 0 | 0 |
| **Cash Flow from Investing** | **(18)** | **(324)** | **(20)** | **(30)** |
| Issue of Equity | 5 | 90 | 2 | 0 |
| Inc./(Dec.) in loans | 72 | 263 | (7) | 3 |
| Dividend Paid (Incl. Tax) | 2 | 6 | 6 | 6 |
| Interest / Dividend (Net) | 8 | 16 | 32 | 37 |
| **Cash Flow from Financing** | **67** | **331** | **(44)** | **(40)** |
| Inc./(Dec.) in Cash | 5 | 25 | (29) | 20 |
| **Opening Cash balances** | **6** | **11** | **36** | **8** |
| **Closing Cash balances** | **11** | **36** | **8** | **27** |