

BUY

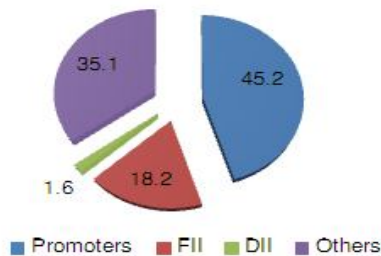
CMP	Rs400
Target Price	Rs575

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				%	%
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.

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

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.

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

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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

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

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

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