

December 13, 2012

Key Result Highlights

Recommendation

Rating	Buy
CMP	335.50
Target Price	440.00
Upside	31%

Market Data

	Speciality
Sector	Chemical
Face Value (Rs.)	10.00
Share Outstanding (Cr)	1.39
Market Cap (Rs. Cr)	466.72
P/E on TTM Earnings (x)	5.18
Book Value (Rs./share)	244.41
Dividend (%)	30
Average 6 months volume	18406
Beta -Sensex	0.7244
52 Week H/L	444.00 / 213.00

Shareholding Pattern

Promoters	45.16%
Foreign	23.70%
Institutions	0.22%
Non Promoter Corp	5.50%
Public	25.28%

Price Performance



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- Consolidated net sales of Vivimed grew by sharp 107% yoy to Rs. 266 crore in the quarter ended September 2012 from Rs. 129 crore in the quarter ended September 2011 mainly driven by revenue jump from pharma business (whopping 338% growth due to integration with Uquifa).
- Revenue from speciality chemicals grew only 10% as Europe and US business was stressed due to scale down of Triclosan by its major users coupled with closure of Jeedimetla facility.
- Other operating income was substantially higher due to one off item (Spanish company received some grant from government).
- EBIDTA margin for the quarter contracted by ~ 140 basis points to 20% primarily due to larger contribution from low margin earning pharma business due to higher contribution from low margin high commoditised API. Closure of Jeedimetla facility for about a month coupled with issues with regard to Triclosan also pulled down the margin.
- After increase in interest outgo by 36% to Rs. 10 crore and depreciation cost by sharp 271% to Rs. 14 crore, the net profit growth was limited to 106% yoy to Rs. 26 crore in Q2FY13.
- Vivimed plans to spend Rs. 100-120 crore as capex in FY13.

Outlook & Recommendation

The management has held up its revenue guidance at Rs. 10 billion for FY13 (with an equal share of specialty chemicals and pharmaceuticals in revenue) which seems to be achievable. The Company is optimistic about its earnings in the last two quarters of the current financial year with the starting of new capacities. Speciality chemical segment is poised to grow as offtake in sun care chemicals to peak up in H2FY13. Vivimed has secured some first time orders from Henkel Europe and L'Oreal. There is also a strong pipeline of new products in the oral care and hair care segments with good margin. Colgate is in final stage of completing the process approval, which might give additional volume in oral care segment. Going forward, the Company will focus on branded formulation leveraging successful integration of Uquifa operation. The Company expects to see debt coming down after 2014.

At the current market price of Rs.335.05, the stock is trading at 4.32x FY14E EPS. **We re-iterate our buy rating but considering the muted stock market performance, we are reducing our target price to Rs. 440 from Rs 590.**



Latest Results (Consolidated)

Income Statement

Rs. In Crore	Q2FY13	Q2FY12	VAR [%]	H1FY13	H1FY12	VAR [%]
Net Sales	266.09	128.70	106.75	538.61	249.24	116.10
Other Operating Income	9.74	0.11	8754.55	11.55	0.20	5675.00
Total Income	275.83	128.81	114.14	550.16	249.44	120.56
Raw Material Consumed	124.98	80.70	54.87	264.67	150.90	75.39
Stock Adjustment	5.23	-6.57	-179.60	-24.52	-13.20	85.76
Employee Expenses	12.40	7.13	73.91	26.65	11.99	122.27
Other Expenses	79.32	19.66	303.46	167.52	47.14	255.37
TOTAL EXPENDITURE	221.93	100.92	119.91	434.32	196.83	120.66
PBIDT	53.90	27.89	93.26	115.84	52.61	120.19
Interest	10.75	7.91	35.90	26.64	14.42	84.74
Depreciation	14.07	3.79	271.24	28.20	6.43	338.57
PBT	29.08	16.19	79.62	61.00	31.76	92.07
Tax	3.53	3.79	-6.86	9.32	6.95	34.10
Reported Profit After Tax	25.55	12.40	106.05	51.68	24.81	108.30
EPS (Rs.)	18.33	9.98	83.67	37.08	19.94	85.96

Segment Revenue

Rs. In Cr	Q2FY13	Q2FY12	VAR [%]	H1FY13	H1FY12	VAR [%]
Revenue:						
Speciality Chemicals Business	119.35	108.61	9.89	224.52	211.13	6.34
Pharma Business	175.77	40.10	338.33	366.61	77.88	370.74
Total	295.12	148.71	98.45	591.13	289.01	104.54
PBIT:						
Speciality Chemicals Business	18.96	16.23	16.82	38.66	31.27	23.63
Pharma Business	20.86	7.89	164.39	48.97	14.91	228.44
PBDIT Margin (%)						
Speciality Chemicals Business	15.89	14.94	+94*	17.22	14.81	+241*
Pharma Business	11.87	19.68	-781*	13.36	19.14	-579*

* Basis Points



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