



Vivimed

Initiating Coverage

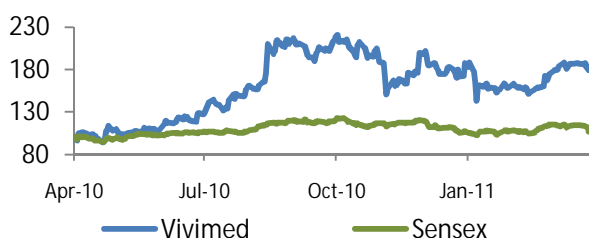
Vivimed Labs Ltd

Recommendation	BUY
CMP (5 May 2011)	Rs. 287
Target Price	Rs. 384
Sector	Pharmaceuticals

Stock Details

BSE Code	532660
NSE Code	VIVIMEDLAB
Bloomberg Code	VILA IN
Market Cap (Rs cr)	291
Free Float (%)	49.6
52- wk HI/Lo (Rs)	351/145
Avg. volume BSE (Quarterly)	12,850
Face Value (Rs)	10.0
Dividend (FY 10)	15 %
Shares o/s (Cr)	1.0

Relative Performance	1Mth	3Mth	1Yr
Vivimed	2.4%	5.8%	82.7%
Sensex	1.8%	0.7%	6.6%



Shareholding Pattern	31 st Mar 11
Promoters Holding	50.4%
Institutional (Incl. FII)	7.3%
Corporate Bodies	7.3%
Public & others	35.0%

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Year	Net Sales (Rs cr)	Grow th (%)	EBITDA (Rs cr)	Margin (%)	PAT (Rs cr)	Margin (%)	EPS (Rs)	PE (x)	ROE (%)
FY10A	343.5	24.4%	63.1	18.4%	31.0	9.0%	26.6	10.8	25.1%
FY11E	408.3	18.9%	85.4	20.9%	43.9	10.8%	37.7	7.6	26.3%
FY12E	507.6	24.3%	106.5	21.0%	55.9	11.0%	47.9	6.0	25.1%
FY13E	654.2	28.9%	137.5	21.0%	76.5	11.7%	65.7	4.4	26.2%

Company Overview

Vivimed Labs Ltd (VLL) is a specialty chemicals company and has a wide range of products (active ingredients). It is preferred vendor for leading global manufacturers of Beauty Care products (like Hair care, skin care, sun care and oral care products) and Industrial care products (such as Anti-Microbial, anti-fouling agents and biocides). It has strong relationships with global majors like Unilever, P&G, Johnson & Johnson, L'Oreal, Novartis & Astra Zeneca.

Investment Rationale

- High entry barriers restrict competition: Specialty chemicals players in a Personal care industry have to face huge entry barriers, as they have to follow stringent quality standards. An approval from any customer takes at least 2-3 years. Vivimed has legacy of 20 years plus and already made investment in terms of years. Today it is one of certified supplier and preferred vendor for large FMCG players like P&G, L'oreal, Unilever etc.
- Consistent growth: We expect Vivimed's sales to grow at CAGR of 24.0% from FY10 to FY13E while net profit is expected to move with higher CAGR of 35.1% during the same period. It has strong return ratios - ROE has always been above 20% in the past six years.
- Rich client mining capabilities: The Company has started business with large players with one-two products in the initial years. Over the years, it has not only increased supplies of the same products but has also collaborated with the players for different products thereby increasing the product basket and revenue share from an individual customer.

Valuation & Recommendation

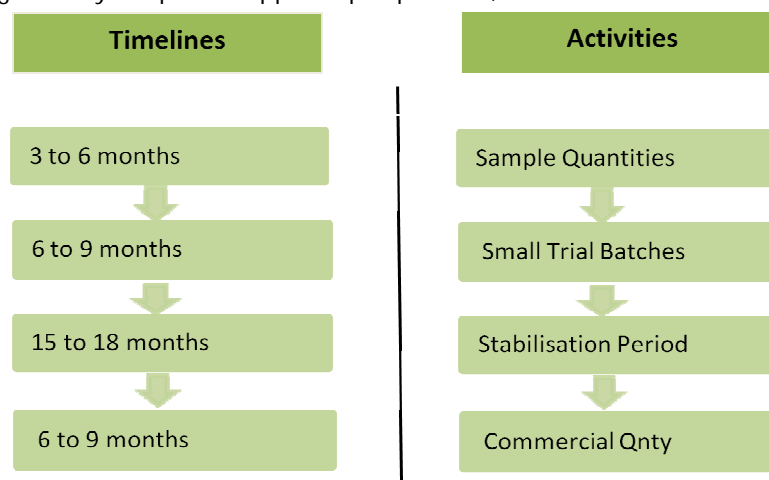
We expect VLL's net revenues to grow at CAGR of 24.0% during FY10-13 with bottom-line growing at higher pace at 35.1% CAGR during the same period. At the CMP of Rs. 287, VLL is trading at a PE of 6.0x FY12E and 4.4x FY13E EPS, which looks attractive for investment basis. Based on our EPS of Rs. 47.9 for FY12E and a target multiple of 8x we arrive at target price of Rs. 384. We recommend "BUY" on Vivimed Labs Limited with a target price of Rs. 384 indicating a potential upside of 34%.

Investment Rationale

High entry barriers

Specialty chemicals players in a Personal care industry have to face huge entry barriers, as they have to follow stringent quality standards. For supplying to the giants of the world (like Unilever, P&G, L'oreal etc) a manufacturer has to go through a series of approvals which is time consuming (minimum 2-3 years) and requires to follow rigorous process set up by these titans.

The customers are very conscious about quality standards in the highly competitive industry and places great importance and significance in scrutiny of the suppliers and generally keep two suppliers per product, in extreme cases three.



Source: Company, Nirmal Bang Research

Vivimed has a legacy of over 20 years and has already made investment in terms of years. Today it is one of certified supplier and preferred vendor for large FMCG players like P&G, L'oreal, Unilever etc.

Consistent growth

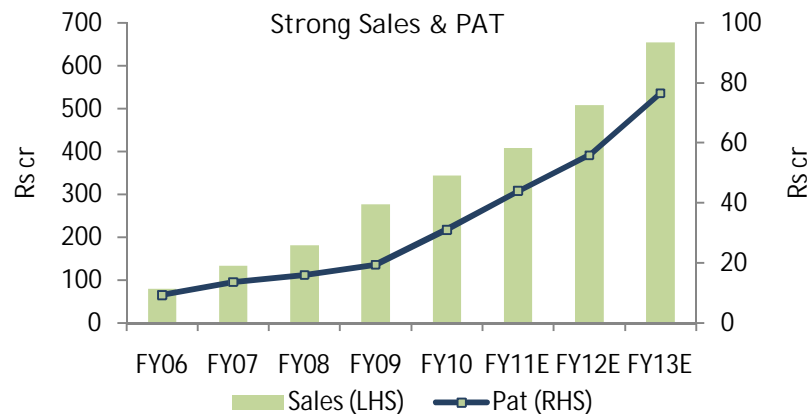
The company's sales have consistently grown at a CAGR of 45.8% over the period FY05-10. The profit has also grown at an equally strong pace of 45.2% CAGR during the same period. Vivimed has come a long way from being a manufacturer of bulk drug to specialty manufacturer. The company has chosen to be a large player in niche segment. We believe Vivimed has been able to grow exponentially over the years because of strategic partnership with their partners and its focus on research and innovation.

VLL has strong return ratios with ROE being more than 20%. However, we are expecting that ROE for the company would decline from FY11 levels as it is incurring large capex (Rs 190 cr) during FY12 and FY13. To fund the same it will raise funds via equity and debt. In addition, pending warrants are being converted in FY12. We believe these factors will put temporary pressure on the ROE of the company for next two years. We expect return ratios to improve from FY14 onwards as the full benefit of the increased capacity would start kicking in then.

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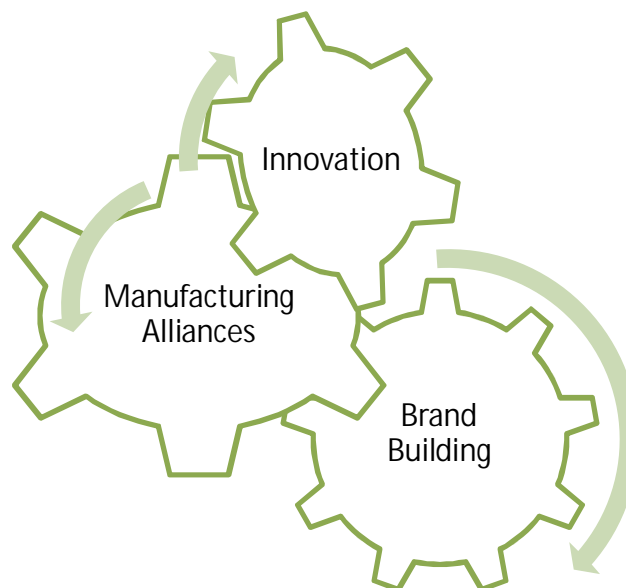
We expect Vivimed's sales to grow at CAGR of 24.0% from FY10 to FY13 while net profit is expected to move with higher CAGR of 35.1% during the same period. The company has showed improvement in EBITDA margins in the first 9MFY11 which resulted in higher PAT growth.



Source: Company data, Nirmal Bang Research

We believe that the strong performance is due to the strategy, which the company has adopted since inception. It has focused on important three engines of growth

- o Innovation: through development of new molecules and applications in its present area of expertise
- o Manufacturing Alliances: to have a large exposure to untapped markets
- o Brand Building: for various products in specialty chemicals and pharmaceuticals to have strong recall among customers



Source: Company, Nirmal Bang Research

Pharmaceuticals - Another feather in the hat

Currently Vivimed is deriving 24% of revenues from Pharma division. It is supplying products to global Pharma giants on contract manufacturing basis. The company is supplying broad range of products including Capsules/ Tablets, Syrups/Liquids, Small Volume parentals etc. Vivimed has operations in Eastern Europe, South East Asia along with India. All these markets are growing at an impressive pace. It has forayed into formulation exports to Russia/CIS countries and expected high growth from these market. The company has filed registrations in eight African countries and has appointed front-end team (sales team) for marketing of these products. Vivimed is present in niche segments like Oncology, Arthritis and Tuberculosis. It has a notable clientele like Novartis, Cipla, Merck, Lupin, Ranbaxy etc.

To capture the potential growth VLL is expanding its capacities for Pharma division. It is setting up USFDA compliant plant near Hyderabad with investments of \$7mn (part of overall capex of \$42 mn planned over two years). The facility is expected to be operational by end of FY13.

Inorganic initiatives aiding the overall organic growth

Vivimed has acquired James Robison Ltd (renamed Vivimed Labs Europe Ltd) in 2008 for \$21 mn. James Robison (JR) is a leading global supplier of dyes used in Home and Personal Care (H&PC) and consumer products ranging from hair dyes, pharmaceuticals and photographic films, ophthalmic glasses etc. With the acquisition of JR, Vivimed was able to broaden its product portfolio and gain wider access to developed market.

Vivimed made its second acquisition in 2009 worth \$6mn of Harmet International in US. Harmet is 15 year old Sales and Distribution Company (front end) with established customer base. The acquisition has provided a direct entry into a huge customer base in the developed market where typically the client acquisition cycle is around 3-5 years.

Alliance with ISP: In June 2010, International Specialty Products (ISP) and Vivimed jointly announced a manufacturing alliance for the production of UV absorbers. The manufacturing alliance has allowed the two companies to jointly market specific products used in sprays and lotions that include UVA and UVB protective properties from Oct'10. Vivimed will benefit from tapping into ISP's global sales, marketing and technical service team, extending ISP's distribution worldwide for a product portfolio that already numbers more than 500 chemicals. In turn ISP will add more products to its portfolio.

Rich client mining capabilities

Vivimed has managed to prove its rich client mining capabilities. The company has started business with large players with one-two products in the initial years. Over the years, it has not only increased supplies of the same products but has also collaborated with players for different products thereby increasing the product basket and revenue share from an individual customer.

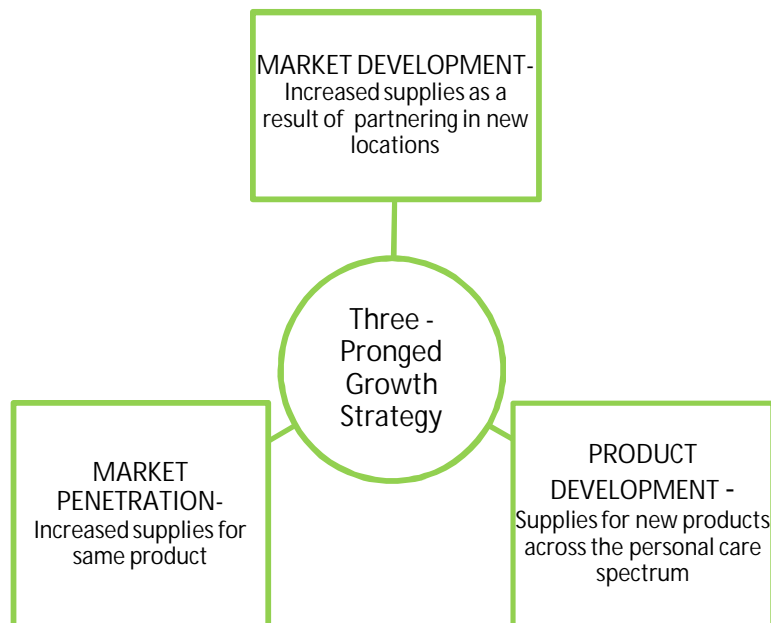
Vivimed is a research driven company, which enabled it to broaden its product basket without compromising quality standards. The company has recently started a new R&D

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center near Hyderabad and currently has 75 scientists. The facility takes care of specialty chemicals as well as pharmaceuticals need and provides Vivimed an edge over its competitors in the industry. Focus on innovation has helped the company in expanding its relationship with its customers manifold.

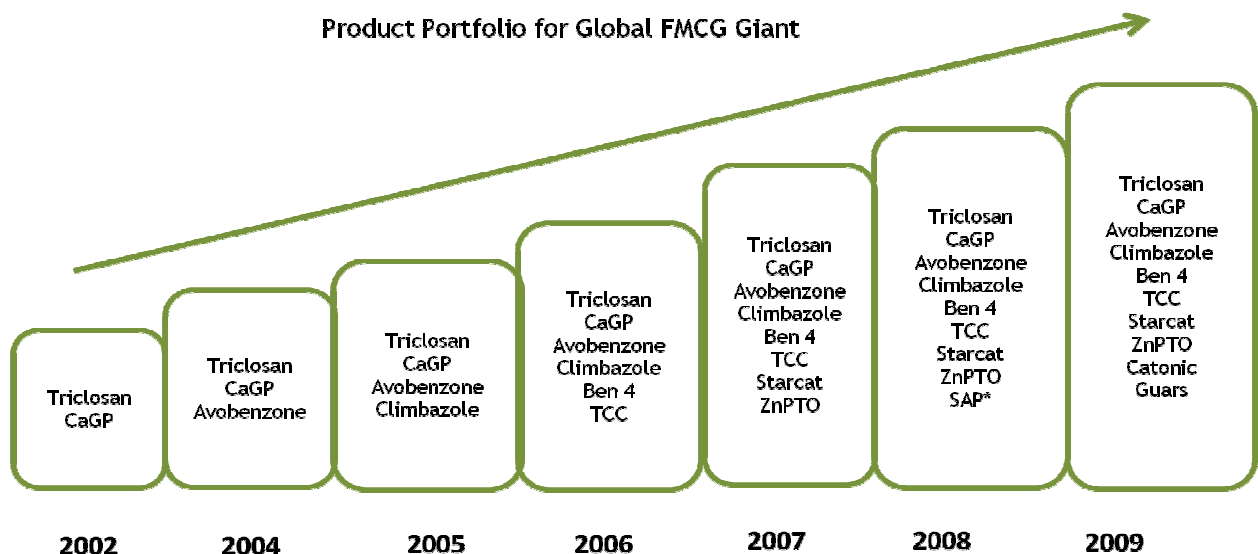
Vivimed defines this approach as “Three Pronged Growth Strategy”



Source: Company, Nirmal Bang Research

Vivimed has been able to retain its customers and have grown along with them over the years. For example, Vivimed started relationship with a FMCG giant by supplying one product for a single location in 2002. In seven years, Vivimed has taken the relationship to much higher level and currently supplies a basket of product to them across the globe.

Product Portfolio for Global FMCG Giant



Source: Company

Recent Development

Vivimed has recently announced \$42 mn capex for FY12 and FY13. Part of this will be utilized towards setting up a plant in Hyderabad for expansion of Pharma products and remaining for SEZ at Vizag. IFC (International Finance Corporation) has approved the planned expenditure of the company and is expected to invest \$15 mn in it by way of both debt and equity. We have not incorporated any of these numbers in our model.

Risks and Concerns

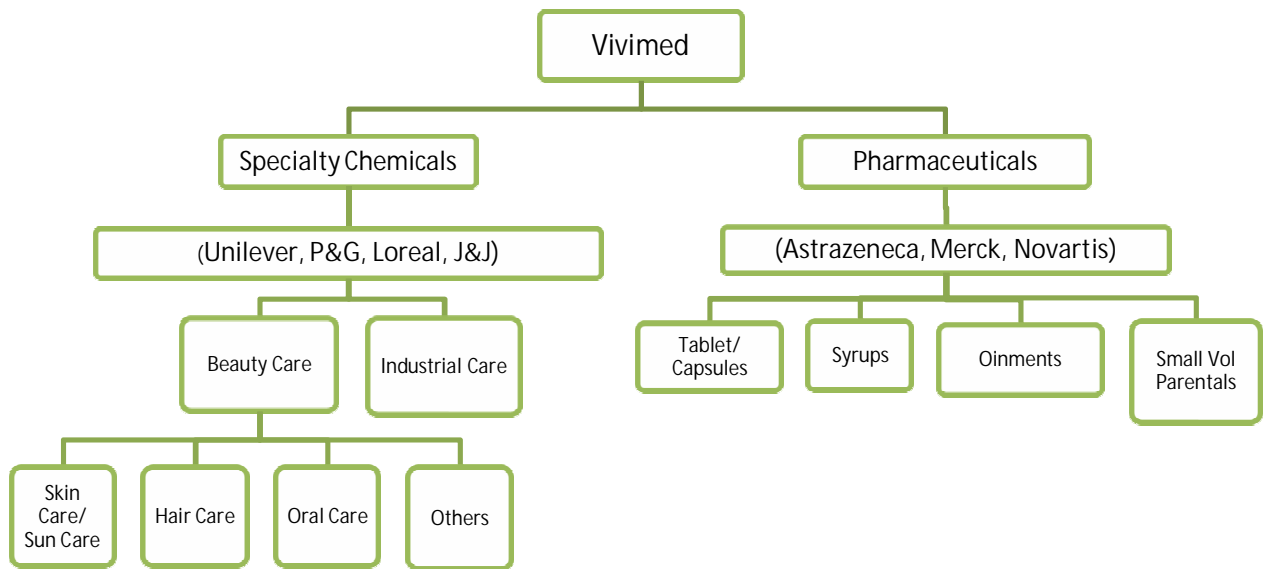
- Slow down in global economy: Economy slowdown or meltdown will affect the growth prospects of personal care industry and in turn would adversely affect the growth of Vivimed.
- Adverse currency movement: Vivimed operates in many countries and gets ~50% of its revenues from exports. Any adverse currency movement could affect the realizations and profitability for the company.
- Loss of client/s: Vivimed deals with global giants of personal care industry who are extreme quality conscious. Any quality issue from Vivimed's end or product related problem could halt the long relationship with those players and in turn would affect the revenues growth of the company.

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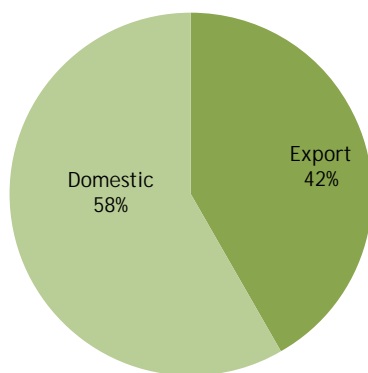
Vivimed is a research driven company and does consistent investments in innovation. Recently it has commissioned a new R&D facility near Hyderabad and has strength of 75 scientists.

It has strong relationships with global majors like Unilever, P&G, Johnson & Johnson, L’Oreal, Novartis & Astra Zeneca.

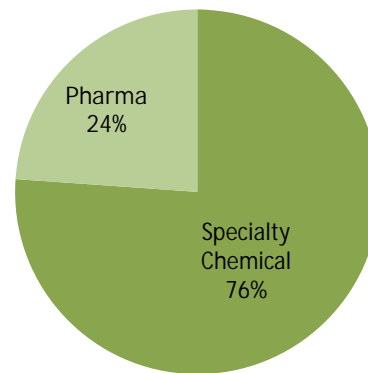


Source: Nirmal Bang Research

Revenues (FY10) - Rs 343 cr



Source: Nirmal Bang Research



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Peer Comparison

Vivimed Labs has two business divisions - Specialty Chemicals and Pharmaceuticals. There is no listed company, which can be directly compared to Vivimed Labs; hence, we have selected a set of companies, which can be compared to the individual divisions of VLL.

We have taken Vinati Organics and TN Petro Products for comparison as they are in specialty chemicals business. Indoco Remedies has been selected to highlight the relative valuations for Pharmaceuticals division.

Vivimed Labs has one of the lowest P/E despite having strong margins. We believe that VLL should trade at higher valuations considering its strong return ratios, impressive growth rates and higher profitability.

	Sales (Rs in Cr)	EBITDA (Rs in Cr)	Margin (%)	EPS (Rs)	Price (Rs)	Mcap (Rs in Cr)	EV (Rs in Cr)	PE (x)	EV/S (x)	EV/ EBITDA (x)	P/BV (x)
Vinati Organics	297.1	66.6	22.4	9.4	74.8	369.3	445.2	7.9	1.5	6.7	3.1
T N Petro product	1,080.7	78.0	7.2	3.3	16.5	148.5	192.8	5.0	0.2	2.5	0.4
Indoco Remedies	486.6	72.3	14.9	41.5	420.6	516.9	563.3	10.1	1.2	7.8	1.5
Vivimed Labs	380.9	81.2	21.3	44.0	286.7	291.4	556.3	6.5	1.5	6.8	1.8

TTM basis

Source: Capital Line, Nirmal Bang Research

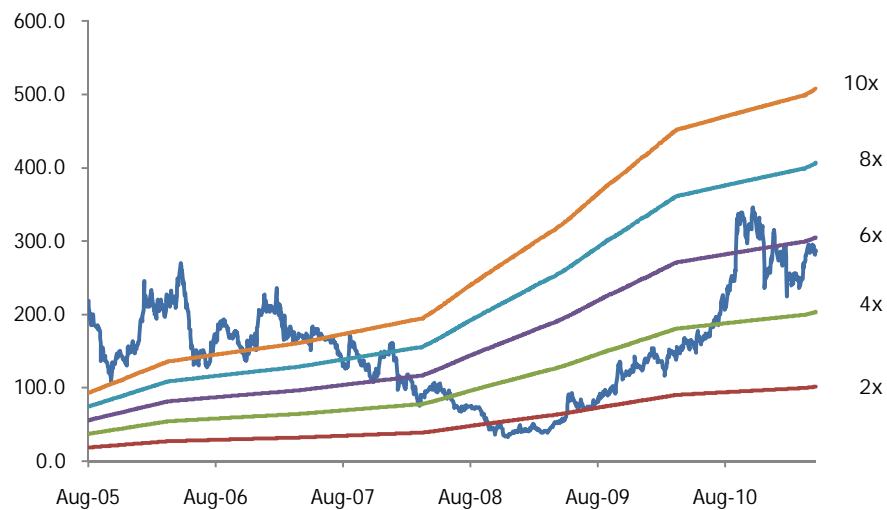
Valuation and Outlook

Vivimed has proven its manufacturing skills with highest standard of quality. Because of its efforts, it now enjoys the preferred vendor status from many global giants. Stringent quality standards, customer’s preference for one-two suppliers and long payback period creates high entry barriers for new players in the industry.

We expect VLL’s net revenues to grow at CAGR of 24.0% during FY10-13 with bottom-line growing at higher pace at 35.1% CAGR during the same period. We expect the company to earn an EPS of Rs. 47.9 in FY12E and Rs. 65.7 in FY13E. At the CMP of Rs. 287, VLL is trading at a PE of 6.0x FY12E and 4.4x FY13E EPS, which looks attractive for investment basis.

Based on our EPS of Rs. 47.9 for FY12E and a target multiple of 8x we arrive at target price of Rs. 384. We recommend “BUY” on Vivimed Labs Limited with a target price of Rs. 384 indicating a potential upside of 34%.

One year forward P/E Chart



Source: Nirmal Bang Research

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Financials - Consolidated

P&L (Rs. Cr)	FY10A	FY11E	FY12E	FY13E
Net Sales	343.5	408.3	507.6	654.2
% change	24.4%	18.9%	24.3%	28.9%
EBITDA	63.1	85.4	106.5	137.5
EBITDA margin (%)	18.4%	20.9%	21.0%	21.0%
Depn & Amort	8.7	10.4	14.0	15.1
Operating income	54.3	75.0	92.4	122.4
Interest	21.2	21.1	24.6	28.7
Other Income	6.5	1.0	2.0	2.0
PBT	39.6	54.9	69.8	95.7
Tax	8.6	11.0	14.0	19.1
MI	0.0	0.0	0.0	0.0
Adj PAT	31.0	43.9	55.9	76.5
PAT margin (%)	9.0%	10.8%	11.0%	11.7%
Sh o/s - Diluted	1.2	1.2	1.2	1.2
Adj EPS	26.6	37.7	47.9	65.7
EPS growth (%)	60.2%	41.7%	27.2%	37.0%
Cash EPS	34.1	46.6	60.0	78.7
Quarterly (Rs Cr)	Mar.10	Jun.10	Sept.10	Dec.10
Net Sales	84.6	85.0	105.7	105.6
EBITDA	18.1	17.6	21.4	24.2
Dep & Amorz	4.6	1.9	2.1	1.5
Op Income	13.5	15.6	19.3	22.6
Interest	5.3	3.8	3.8	6.0
Other Inc.	1.9	0.0	0.0	0.1
PBT	10.1	11.9	15.6	16.7
Tax	2.1	2.1	2.0	3.4
EO	0.0	0.0	0.0	0.0
PAT	8.0	9.8	13.5	13.3
EPS (Rs.)	7.9	9.7	13.3	13.1
Ratios	FY10A	FY11E	FY12E	FY13E
EBITDA margin (%)	18.4%	20.9%	21.0%	21.0%
PAT margin (%)	9.0%	10.8%	11.0%	11.7%
PAT Growth (%)	60.2%	41.7%	27.2%	37.0%
Price Earnings (x)	10.8	7.6	6.0	4.4
ROE (%)	25.1%	26.3%	25.1%	26.2%
ROCE (%)	11.7%	13.8%	13.6%	14.7%
Debt/Equity Ratio (x)	1.6	1.5	1.4	1.2
Price/BV (x)	2.0	1.5	1.1	0.9
EV / Sales	1.7	1.4	1.3	1.1
EV / EBITDA	9.0	6.8	6.0	5.0

Balance Sheet (Rs Cr)	FY10A	FY11E	FY12E	FY13E
Share Capital	10.0	10.2	11.7	11.7
Reserves & Surplus	129.9	171.3	244.8	316.8
Warrant Applctn Money	5.0	8.0	0.0	0.0
Net Worth	144.9	189.5	256.4	328.5
Net Deferred Tax Liab	16.2	16.2	16.2	16.2
Total Loans	235.3	281.7	352.3	388.0
Total Liabilities	396.3	487.3	624.9	732.7
Net Fixed Assets	160.7	185.4	196.4	201.2
Goodwill	94.0	94.0	94.0	94.0
Capital WIP	1.1	1.1	98.3	163.1
Investments	0.0	0.0	0.0	0.0
Cash & Bank	5.6	46.3	45.7	30.7
Debtors & Other CA	188.4	221.7	265.2	337.4
CL & P	59.4	65.9	78.1	96.0
Net CA	134.7	202.2	232.7	272.0
Misc Exp	5.8	4.6	3.5	2.3
Total Assets	396.3	487.3	624.9	732.7
Cash Flow (Rs. Cr)	FY10A	FY11E	FY12E	FY13E
Operating Cash Flow				
Op CF before tax & WC	63.1	86.6	107.6	138.7
Change in WC	-0.5	-26.8	-31.2	-54.3
Tax	-5.6	-11.0	-14.0	-19.1
CF from Operation	57.0	48.8	62.4	65.3
Investing Activities				
Capex	4.3	-35.0	-122.2	-84.8
Oth Income	6.5	1.0	2.0	2.0
CF from Investing	10.8	-34.0	-120.2	-82.8
Financing				
Dividend Paid	-1.7	-2.6	-3.3	-4.5
Share Capital	3.2	3.2	14.4	0.0
Loans & Others	-80.6	25.2	46.1	7.0
CF from Financing	-79.1	25.9	57.1	2.6
Net Chg. in Cash	-11.4	40.7	-0.7	-15.0
Cash at beginning	17.0	5.6	46.3	45.7
Cash at end	5.6	46.3	45.7	30.7
Per Share Data	FY10A	FY11E	FY12E	FY13E
Adj EPS	26.6	37.7	47.9	65.7
BV per share	124.3	162.6	220.0	281.9
Cash per share	4.8	39.8	39.2	26.4
Dividend per share	1.3	1.9	2.4	3.3

Note

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