

Vikram Thermo (India)

11 January 2018

Reuters: VKMT.BO; Bloomberg: VKTI IN

We had a meeting recently with the management of Vikram Thermo (India) based in Ahmedabad to understand its business model and growth plans. Vikram Thermo is a niche player which is into the manufacture of methacrylic acid copolymer-based range of products used in the pharmaceutical industry to address specific drug delivery requirements. These polymers are essentially meant to control the release of API in solid dosage form so as to achieve the desired therapeutic effect. In addition the company also manufactures Diphenyl Oxide (Diphenyl Ether) which is used as a perfumery stabiliser and for manufacturing heat transfer fluid. The company is one of the pioneers in the manufacture of Diphenyl Oxide and there are only a few players in the space. The key takeaways from the meeting are as follows:

- The company achieved revenues of Rs500mn in FY17, out of which 75% comes from sales of Methacrylic Acid Copolymer, while Diphenyl Oxide contributes the rest. Revenues from Diphenyl Oxide have been stable for years, while revenues from the sale of drug-coating polymers have been growing. Currently, the company is operating at almost 100% of its capacity.
- In the drug coating category, the company has its products available in four different formats - organic solution, powder, granules and ready coat. The various pharmaceutical applications of these products include:
 - Sustained release
 - Enteric coating
 - Moisture protection
 - Taste masking
 - Immediate release film coating for protection and aesthetics.
- In drug coating segment, exports have been negligible to the tune of Rs35mn in FY17. However, the company is looking to expand this segment of its business. It has recently invested in additional capacities which are CGMP-compliant with an objective to build the export business. With the expansion in place, the manufacturing capacity now stands doubled. The company has received EXCIPACT and HALAL certifications for its manufacturing facilities. In addition the company also has made a DMF (drug master filing) for its product so as to tap business opportunities in the US as and when they arise.
- From a market share perspective, Vikram Thermo (India) believes it can achieve high single-digit market share in India. The leading player in this business is a Germany-based company - Evonik - which is a global leader. Vikram Thermo (India) believes its product quality is at par with global peers, but it needs to work on the perception. It has made efforts to ramp up sales and marketing expenditure so as to expand business volume and client base. Currently its client base in India comprises mainly small to mid-sized pharmaceutical companies.
- In terms of expansion plan, the company prefers to go slow and prefers not to leverage beyond a point. The next project that it envisages is putting up a manufacturing facility for making carbomers used in gels and diapers.

NOT RATED

Sector: Pharmaceutical

CMP: Rs133

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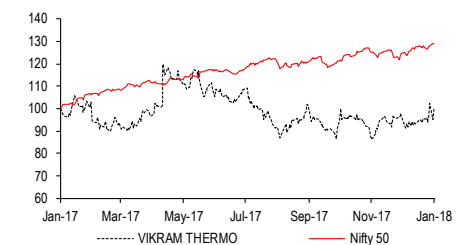
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Key Data

| | |
|--------------------------|----------|
| Current Shares O/S (mn) | 5.6 |
| Mkt Cap (Rsbn/US\$m) | 0.7/11.7 |
| 52 Wk H / L (Rs) | 152/101 |
| Daily Vol. (3M NSE Avg.) | 11,249 |

One -Year Indexed Stock Performance



Price Performance (%)

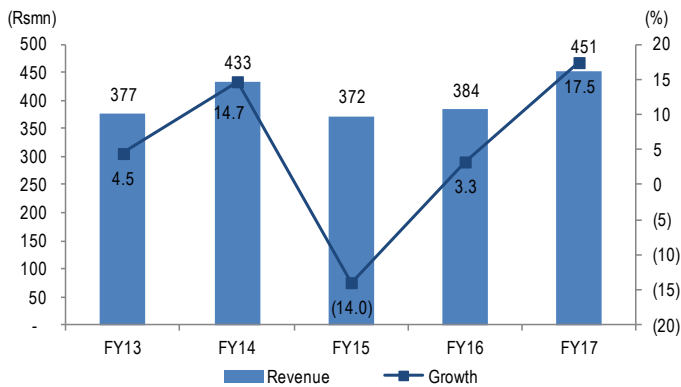
| | 1 M | 6 M | 1 Yr |
|---------------|------|-----|------|
| Vikram Thermo | 13.9 | 1.0 | 11.0 |
| Nifty Index | 3.6 | 8.8 | 28.3 |

Source: Bloomberg

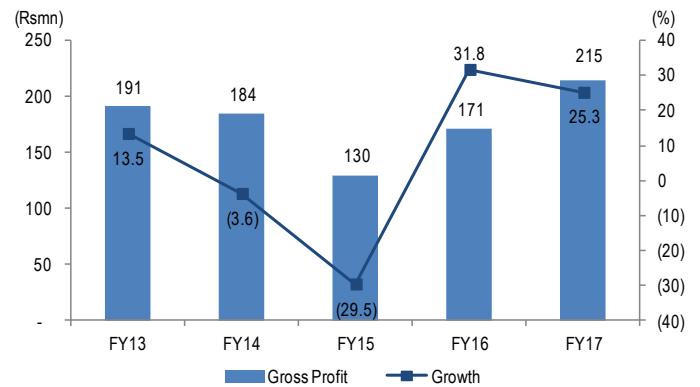
Exhibit 1: Key financials

| Y/E March (Rsmn) | FY13 | FY14 | FY15 | FY16 | FY17 |
|-------------------|-------|------|--------|------|------|
| Net sales | 377 | 433 | 372 | 384 | 451 |
| EBITDA | 91 | 91 | 54 | 77 | 86 |
| Net profit | 56 | 57 | 31 | 42 | 49 |
| EPS (Rs) | 10.1 | 10.2 | 5.6 | 7.6 | 8.8 |
| EPS growth (%) | (2.7) | 1.6 | (45.4) | 36.1 | 16.0 |
| EBITDA margin (%) | 24.1 | 21.0 | 14.5 | 20.0 | 19.0 |
| PER (x) | 13.2 | 13.0 | 23.9 | 17.5 | 15.1 |
| P/BV (x) | 3.4 | 2.8 | 2.6 | 2.3 | 2.1 |
| EV/EBITDA (x) | 8.1 | 8.0 | 14.0 | 9.7 | 9.4 |
| RoCE (%) | 39.8 | 31.8 | 14.8 | 19.6 | 19.3 |
| RoE (%) | 29.0 | 23.7 | 11.3 | 13.9 | 14.4 |

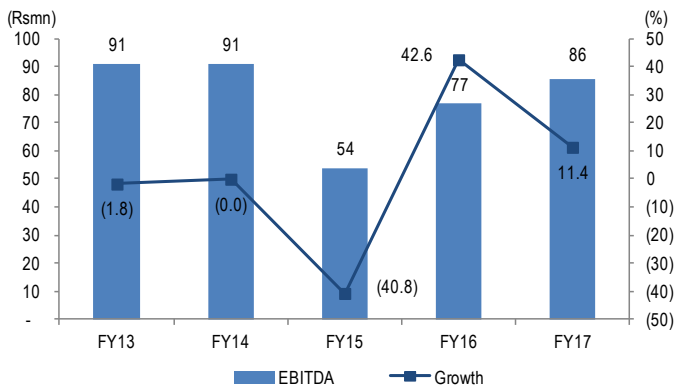
Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 2: Revenue trend


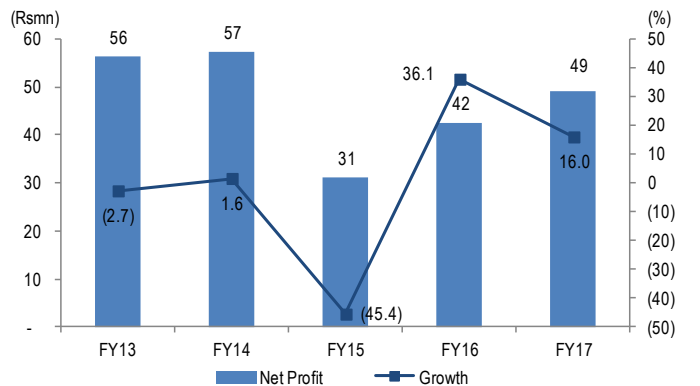
Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 3: Gross profit trend


Source: Company, Nirmal Bang Institutional Equities Research

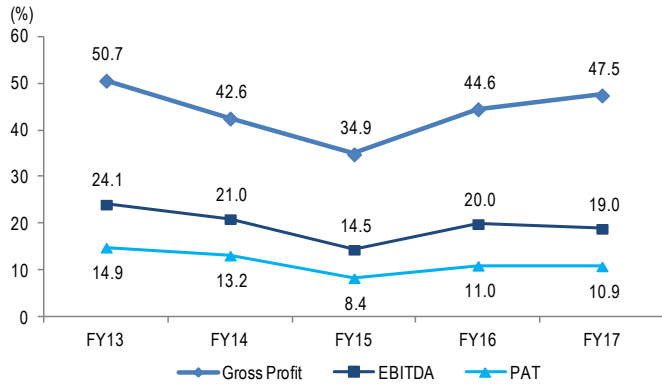
Exhibit 4: EBITDA trend


Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 5: Net profit trend


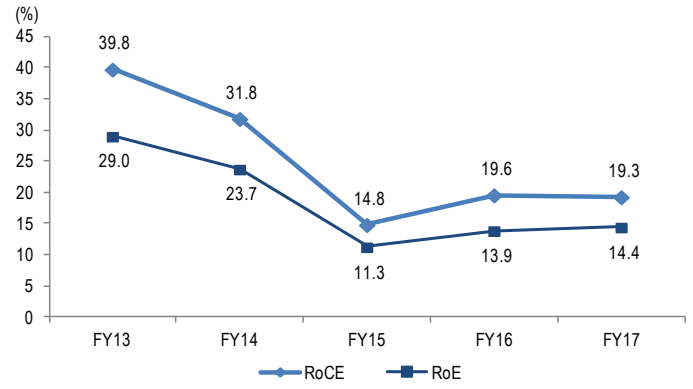
Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 6: Margins



Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 7: Return ratios



Source: Company, Nirmal Bang Institutional Equities Research

Financials

Exhibit 8: Income statement

| Y/E March (Rsmn) | FY13 | FY14 | FY15 | FY16 | FY17 |
|------------------------|-------------|-------------|------------|------------|------------|
| Net sales | 377 | 433 | 372 | 384 | 451 |
| Growth (%) | 4.5 | 14.7 | (14.0) | 3.3 | 17.5 |
| Raw material costs | 186 | 248 | 242 | 213 | 237 |
| Employee expenses | 28 | 33 | 37 | 41 | 49 |
| Other expenses | 72 | 60 | 39 | 54 | 80 |
| Total expenditure | 286 | 342 | 318 | 307 | 366 |
| EBITDA | 91 | 91 | 54 | 77 | 86 |
| Growth (%) | (1.8) | 0.0 | (40.8) | 42.6 | 11.4 |
| EBITDA margin (%) | 24.1 | 21.0 | 14.5 | 20.0 | 19.0 |
| Other income | 1 | 3 | 3 | 2 | 4 |
| Interest costs | - | - | 2 | 2 | 1 |
| Depreciation | 8 | 8 | 9 | 13 | 13 |
| PBT | 84 | 85 | 47 | 64 | 75 |
| Tax | 28 | 28 | 16 | 22 | 26 |
| Effective tax rate (%) | 33.1 | 32.7 | 33.7 | 34.1 | 34.2 |
| PAT | 56 | 57 | 31 | 42 | 49 |
| Growth (%) | (2.7) | 1.6 | (45.4) | 36.1 | 16.0 |
| EPS (Rs) | 10.1 | 10.2 | 5.6 | 7.6 | 8.8 |
| EPS growth (%) | (2.7) | 1.6 | (45.4) | 36.1 | 16.0 |

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 10: Balance sheet

| Y/E March (Rsmn) | FY13 | FY14 | FY15 | FY16 | FY17 |
|--------------------------------------|------------|------------|------------|------------|------------|
| Equity | 56 | 56 | 56 | 56 | 56 |
| Reserves | 161 | 209 | 234 | 266 | 305 |
| Net worth | 217 | 264 | 290 | 322 | 360 |
| Short-term Loans | 19 | 18 | 37 | 2 | 15 |
| Long-term Loans | - | - | 1 | 4 | 44 |
| Total Loans | 19 | 18 | 38 | 6 | 59 |
| Deferred tax liabilities | 6 | 8 | 11 | 18 | 18 |
| Other non-current liabilities | - | - | - | - | - |
| Total Liabilities | 243 | 290 | 339 | 346 | 437 |
| Fixed assets including CWIP | 128 | 163 | 187 | 182 | 277 |
| Intangible assets | 0 | 0 | 0 | 0 | 0 |
| Long Term Loans & Advances | 1 | 0 | 1 | 1 | 1 |
| Other Non Current Assets | - | - | - | - | - |
| Inventories | 35 | 42 | 43 | 37 | 64 |
| Debtors | 88 | 109 | 133 | 146 | 143 |
| Cash and cash equivalents | 31 | 33 | 28 | 4 | 3 |
| Other current assets | 22 | 12 | 13 | 36 | 43 |
| Total Current Assets | 175 | 195 | 217 | 224 | 252 |
| Creditors | 50 | 58 | 56 | 47 | 74 |
| Other current liabilities/provisions | 13 | 11 | 11 | 14 | 19 |
| Total current liabilities | 62 | 68 | 67 | 61 | 93 |
| Net current assets | 113 | 127 | 150 | 163 | 159 |
| Total Assets | 243 | 290 | 339 | 346 | 437 |

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 9: Cash flow

| Y/E March (Rsmn) | FY13 | FY14 | FY15 | FY16 | FY17 |
|---------------------------------------|------------|-------------|-------------|-------------|-------------|
| PBT | 84 | 85 | 47 | 64 | 75 |
| (Inc.)/dec. in working capital | (18) | (6) | (19) | (41) | (3) |
| Cash flow from operations | 66 | 79 | 28 | 24 | 71 |
| Other income | (1) | (3) | (3) | (2) | (4) |
| Other expenses | 13 | (4) | (6) | 2 | 3 |
| Depreciation | 8 | 8 | 9 | 13 | 13 |
| Tax paid | (32) | (28) | (9) | (16) | (23) |
| Net cash from operations | 54 | 53 | 19 | 20 | 61 |
| Capital expenditure | (46) | (41) | (36) | (8) | (110) |
| Net cash after capex | 8 | 11 | (17) | 13 | (49) |
| Other investment activities | 1 | 3 | 4 | 2 | 5 |
| Cash from financial activities | (2) | (12) | 9 | (38) | 42 |
| Opening cash balance | 24 | 31 | 33 | 28 | 4 |
| Closing cash balance | 31 | 33 | 28 | 4 | 3 |
| Change in cash balance | 7 | 2 | (5) | (24) | (2) |

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 11: Key ratios

| Y/E March | FY13 | FY14 | FY15 | FY16 | FY17 |
|-------------------------------|-------|------|--------|-------|-------|
| Per share (Rs) | | | | | |
| EPS | 10.1 | 10.2 | 5.6 | 7.6 | 8.8 |
| Book value | 39 | 47 | 52 | 58 | 65 |
| Valuation (x) | | | | | |
| P/E | 13.2 | 13.0 | 23.9 | 17.5 | 15.1 |
| P/sales | 2.0 | 1.7 | 2.0 | 1.9 | 1.6 |
| P/BV | 3.4 | 2.8 | 2.6 | 2.3 | 2.1 |
| EV/EBITDA | 8.1 | 8.0 | 14.0 | 9.7 | 9.4 |
| EV/sales | 1.9 | 1.7 | 2.0 | 1.9 | 1.8 |
| Return ratios (%) | | | | | |
| RoCE | 39.8 | 31.8 | 14.8 | 19.6 | 19.3 |
| RoE | 29.0 | 23.7 | 11.3 | 13.9 | 14.4 |
| Margins (%) | | | | | |
| Gross margin | 50.7 | 42.6 | 34.9 | 44.6 | 47.5 |
| EBITDA margin | 24.1 | 21.0 | 14.5 | 20.0 | 19.0 |
| EBIT margin | 22.1 | 19.1 | 12.1 | 16.7 | 16.0 |
| PBT margin | 22.3 | 19.6 | 12.6 | 16.8 | 16.6 |
| PAT margin | 14.9 | 13.2 | 8.4 | 11.0 | 10.9 |
| Turnover ratios | | | | | |
| Asset turnover ratio (x) | 1.4 | 1.3 | 1.0 | 0.9 | 1.0 |
| Avg. inventory days | 65.2 | 56.5 | 63.8 | 68.5 | 77.7 |
| Avg. collection period (days) | 85.3 | 83.1 | 118.8 | 132.6 | 116.8 |
| Avg. payment period (days) | 86.2 | 78.7 | 85.4 | 88.0 | 92.9 |
| Solvency ratios (x) | | | | | |
| Debt-equity | 0.1 | 0.1 | 0.1 | - | 0.2 |
| Growth (%) | | | | | |
| Sales | 4.5 | 14.7 | (14.0) | 3.3 | 17.5 |
| EBITDA | (1.8) | - | (40.8) | 42.6 | 11.4 |
| PAT | (2.7) | 1.6 | (45.4) | 36.1 | 16.0 |

Source: Company, Nirmal Bang Institutional Equities Research

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BUY > 15%

ACCUMULATE -5% to 15%

SELL < -5%

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