“Vivimed Labs 4QFY12 Results Conference Call”

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MODERATOR: **MS. CYNDRELLA CARVALHO – RESEARCH ANALYST, B&K SECURITIES**

Moderator: Ladies and gentlemen good day and welcome to the Vivimed Labs Q4FY12 results conference call hosted by Batlivala & Karani Securities. As a reminder for the duration of the conference, all participant lines are in the listen-only mode and there will be an opportunity for you to ask questions at the end of today's presentation. Should you need assistance during the conference call, you may signal for an operator by pressing * and then 0 on your touchtone phone. Please note that this conference is being recorded. Joining us in the call are Mr. Santosh Varalwar – MD and CEO, Mr. Krishna Yeachuri – Director (Corporate Finance) and K. S. Sastry – Sr. VP (Finance) at Vivimed Labs. At this time, I would now like to hand the conference over to Ms. Cyndrella Carvalho - Research Analyst at B&K. Thank you and over to you Ma'am.

Cyndrella Carvalho: Thanks Raveena. Good afternoon everyone. On behalf of B&K Securities, I welcome the management of Vivimed Labs and participants in the call. Mr. Santosh Varalwar, Mr. Krishna Yeachuri and Mr. K.S.Sastry. Thank you very much for joining us today. Now I would like to request Mr. Santosh Varalwar to give us a brief overview of the latest developments in the company post the results and then we can start the question and answer session. Over to you sir.

Santosh Varalwar: Yes. Good afternoon everybody on the line and my name is Santosh Varalwar. I am the Managing Director and Chief Executive of Vivimed Labs. So this being the first conference call we are hosting I would like to start with the brief introduction about the company and its kind of activity. I am sure most of you who are here should be knowing about it, but still I would like to take you through that. Primarily, Vivimed is in the space of specialty chemicals and pharmaceuticals and historically the company was started in 1991 as a pharmaceutical company making finished dosage formulations and then moved to being an API player and somewhere in the mid 90s we moved to the space of specialty chemicals focusing on the personal care industry, but ever since it has been a long journey for us. We moved into various specialty chemicals ranging from personal care, to photochromic dyes to industrial chemicals and microbials. So if you really look at Vivimed today, I think Vivimed is a blend of pharmaceuticals and also specialty chemicals. So primarily, we will talk about specialty chemicals.

The segments that we cover are personal care. When I mean personal care the ingredients that go into the day to day needs like toothpastes, shampoos and white skin lighteners or skin creams. We are a global supplier to many large companies and we are also into photochromatics. When I say photo chromatic, it is a specialized chemistry by which we make ingredients which are going to the photo chromatic lenses and different applications and then we are also into microbial and biocides which means antimicrobials which have varied applications right from incorporating into plastics to impregnating into tiles to various surface coatings to give you a hygiene antimicrobial production and then we are also into imaging chemicals which means creating the chemicals of the black and white and color photography, that is the image of specialty chemicals. But we continue to foray into newer segments as probably it would have been mentioned somewhere we started now following into some of the automotive specialty chemicals. We started making products which would subsequently be used into high quality chemicals which are used in airbags and other things and we are also into some antioxidants which we started making off late. So I think the aim in the objective of Vivimed is to foray into more specialized areas without losing focus on our prime activities - that is the home and personal care segment.

Coming to pharmaceutical, historically yes, Vivimed has been a finished dosage formulation company and initially we focused more on contract manufacturing. But from the recent activities as you would have observed, we have moved from contract manufacturing to own branded formulations. Historically we were also substantial player for APIs, but then the API activity mellowed down and was dominated by the specialty chemicals. Recent acquisition of Spanish company Uquifa has again put us back into the carton in terms of API offerings. So if you really look at Vivimed as far as Pharma offering is concerned, today I guess we are a full fledge company with finished dosage formulations which have CRAM's applications, which have a brand retailing and a domestic retailing application. We also have generics which is going to unregulated market and we are yet to explore into regulated markets and in terms of API post acquisition of Uquifa obviously, I think we have found presence in many major sectors. One of the major sector that today we are in is anti-ulcer segment. I am sure we are one of the largest players in the world on anti-ulcer segment and we enjoy support of large companies like Teva, Pfizer, GSK and I guess we are also one of the companies which really has large number of DMF today - 150 diagnostic files – which is significantly good for any Indian company and we continue to file about 5-10 DMFs year-by-year. So that is the things about pharma segment and specialty chemical segment.

Last year was full of activity, very eventful for Vivimed, because it has done a lot of inorganic growth in terms of acquisition of Uquifa, in terms of acquisition of Klar Sehen, a brand retailing company in ophthalmology and Octtantis Nobel. We have had partial year for these companies and on consolidation also a partial year of Uquifa as well as other companies. But I think the initiation process is on and 4-6 months from there now, we can feel that we are right on top of it where things are moving in the right direction. I think that is a brief bit about it and if somebody has any questions I will be glad to answer them or I will just ask Krishna Yeachuri to move on to the financials.

Moderator: Mr. Varalwar, are we opening the session for Q&A?

Santosh Varalwar: Yes, sure.

Moderator: Our participants will begin the question and answer session. Participants are requested to use handsets while asking a question. Anyone who has a question may enter * and 1. Our first question is from the line of Mr. Sanjay Shah from KSA Shares. Please go ahead.

Sanjay Shah: Just I would like to understand the progress of our new acquisition in the status of that plant and the acquisition formalities and all.

Santosh Varalwar: Sanjay, new acquisition as we are aware we have completed on November 28, so we had first four months of operations and the first four months, obviously the focus was to look at the plants, its capacities, its business plan and whatever acquisitions they have made. In the first 12 months we have seen that everything is good, the plant of course needs a bit of investment, but not really right away. All the three plants are US-FDA approved facilities and all the three plants have got good capacity and the first four months of the year and the projections that we have made and achievements that we have done is absolutely better than what we expect it and going forward I guess I think we too have a reasonable plan, I won't say aggressive plan going forward, but we also identified areas where we might well step in and do a value add, whether it is in terms sourcing of raw material from India or trying to get some of the intermediates transferred to India for cost cutting or in term of some kind of technological improvements. So in the last four months we have definitely identified some of the low hanging fruits and we are working towards that and I am sure that the business plan does not reflect all the business improvement plans right away, but I think at the end of 6 months we are going to review how we are going forward and probably give a new guidance in terms of our achievements and that I think I can only tell all the investors here interesting acquisitions are up and things are going exactly the way we wanted.

Sanjay Shah: But sir in this current scenario which we appreciate your hard work but this currency volatility, commodity prices and the Euro is in deep trouble, how do you foresee our company's future in these prospective?

Santosh Varalwar: Again Sanjay if we look at, our markets are predominantly in Europe and America and our component particularly if you look at India, *per se* we are net exporters. So any currency that is going the way it is going on right now would not really like impact entering in the negative side on the contrary on the positive side and now the matter of fact how it is going to impact in Europe because it is trading in Euro currency. There are also again the sales in Spain which are 50% is in Euro and 50% in dollars. So any impact that will happen, it will have and the major expenses are all in Euros. So, again we did look at how it is going to impact. It may not be too significant and the sale that we do from Mexico is predominantly in dollars. So, again there will be too much of fluctuation in resident Peso and dollar. So that would probably like gives us immunity that I guess may be to sum it up I can say that the currency fluctuations that we are going through, definitely yes. India is mostly impacted, but I think being a net exporters I think it is not going to affect our negativity, but we have active treasury whereby we do take call in terms of forwards wherever advantage is there and I think we don't play too much derivates but we just focus and mainly on forwards to the extent of whatever is expected to come during the next months whatever is expected come during next months to the **fortune 11.28** of the company.

Sanjay Shah: Great, sir right now we have different verticals. In our all the verticals which you feel most challenging and exiting for the years ahead to come for the company?

Santosh Varalwar: See specialty chemicals area which is definitely less explored from this part of the world. The reason is India is definitely turning to be a net importer of specialty chemicals because applications from this country are increasing, the needs of this country are increasing. So if we continue to focus on specialty chemical and try to continue to expand our business in various segments, primarily yes, the goal will be to compete with the large ones and compete in Europe and USA, but India is going to be like a new market. I think it is going to be advantageous and it is going to be beneficial for us and we have seen that in the past and going forward as the economy improving and the needs in India improving having specialty chemical applications in various segments are going to go up and the India's requirements is going to be substantial. So I think we continue to expand that area and broaden the base and we have to we very good strategy going forward.

Moderator: Our next question from the line of Rashmi Sancheti from MSFL. Please go ahead.

Rashmi Sancheti: Sir can you give an update on alliance with ISP like how many products have been launched till date and how much it has contributed to FY12 revenues?

Santosh Varalwar: ISP agreement was signed last year Rashmi, but the whole idea was the license of agreement was to get into a partnership for supply of sun screens manufactured by Vivimed and marketed by ISP worldwide and we identified 6 sunscreens primarily UVA and UVB absorbers and we started with two of them last year, but unfortunately or fortunately ISP got acquired by Ashland Distribution. So there was a bit of slowness in terms of decision making. Exactly after this agreement was signed few months later, ISP was under negotiation with Ashland International and finally acquired this company. Now it is again, we are back into negotiation in terms of what is the strategy, because now Ashland has now a larger pie of the whole market. They are much bigger. So we are looking at it different way. So we are in a kind of a negotiating mode. When we started, our expectations from this business is very high and we did not get to see that because of this change in the whole situation, but nevertheless I think efforts that we might put and the plant that we have installed in Vivimed and the capacity that we have created for various sunscreens, I think they will come handy during this year and it is going to grow, but just to give a dimension about number of products, out of 6 products we have already taken 4 of them on commercial and in terms of sales compared to last year, on a apple to apple to basis we have grown by 154%, but the intention was to definitely grow much beyond that number which we have not seen it and we expect to see that during the current year.

Rashmi Sancheti: Okay and sir what about the total inventory and debt that is for the company as a whole.

Santosh Varalwar: Krishna, would you take over the question.

Krishna Yeachuri: Yes, actually on a consolidated basis we are around about 6 months actually on the inventory and the turnover.

Rashmi Sancheti: Yes.

Krishna Yeachuri: And on a standalone basis we are actually slightly better placed on a consolidated basis if this is effective still going to come, because you Uquifa as you are aware that it will come only towards the end of November and by the time we have some kind of improvement on that it will take sometime, but inline with what we have said last time actually to most of our investors community, we have been working on the debtors on the and the inventory on the standalone basis and we have brought in little bit of improvisation there compared to a 6 plus average period earlier we are almost close to about 5-1/2 months now in comparison to the inventory and in comparison to the turnover.

Rashmi Sancheti: And sir in this quarter how much revenue from Uquifa is contributed. I mean what percent?

Krishna Yeachuri: Yes Uquifa would be contribution on an average about 130-140 crores per quarter.

Rashmi Sancheti: 130-140 crores. Okay, thank you very much.

Krishna Yeachuri: Yes.

Moderator: Anyone who has a question may press * and 1. Our next question is from the line of Sunil Rao from Sushil Finance. Please go ahead.

Sunil Rao: Thank you. Good afternoon sir. Congratulation on great set of numbers. Sir can I have the numbers in terms of, if you got to see the numbers, specialty chemicals have only grown by single digit number this year. Any specific reasons for the same sir?

Krishna Yeachuri: Yes, as basically as we said some of the upsides which we expect during this year. Last year, ISP was a big upset, which we were expecting. We did not perform to the extent that we wanted and then if you recall the continuous focus on trying to probably get rid of some of those low margin high volume products, I think which systematic last few years, I think we are getting rid of it, mainly in the photo fluorescent and few other things like fuel markets and all. So we met by the end of this year, almost we have quit from those, high volume and low volume business. So exiting those business and expected you sunscreen businesses to go up and particularly one more project which was suppose to have begin with Unilever for a skin lightener, that was suppose to be started in September 2011, but ultimately it did start, it started in March 2012. So think, these are the primarily three factors which influenced the lesser run rate compared to what we were expecting, but as I speak I think most of those are addressed and I guess the going forward should be better than what we are expecting.

Sunil Rao: Sir, can you put a number to the probably growth expected going forward in FY13 and FY14?

Krishna Yeachuri: I think we will continue to do the 25-30% Sunil, as we said sunscreens does give lot of promise and there is a lot of pipeline again which is being there and as we always said, the only thing that happens in this segment is that the approval cycles pretty very long with the companies and sometimes the indications are given for certain quarters but you know sometimes slips down, but I think they are all in place and most of them I think whatever we expected last year they have come in almost at the fag end of the last quarter. So we should see the full bloom of that this year.

Sunil Rao: Sir in terms of your CAPEX done, how much have you done in FY12 sir.

Santosh Varalwar: We have spend about 140 crores actually in FY12.

Sunil Rao: And can you give a bifurcation of that because in terms of CAPEX you had plan to do a Bonthapally and Jeedimetla in Bidar in this year, if I am not wrong.

Santosh Varalwar: Yes that is right. We have added facilities for both for organic as well as accommodating the backward integration plan relating to Uquifa, but essentially out of the 140 about 50 crores are drawn into the SEZ land acquisition process completion. About 80 crores have gone into productive asset in terms of buildings as well as the plant and machinery at the Bandapalli, and Bidar units and partially Jeedimetla also.

Moderator: Our next question is from the line of Rajendra Shah from Fidelity Management Services. Please go ahead.

Rajendra Shah: With all your growth how are you managing the management bandwidth and controls with such breakneck throughout?

Santosh Varalwar: Good question. It is very important today as I said we do have two segments, one is pharmaceutical other is specialty chemicals. Again in terms of management we have subdivided pharmaceutical into two sub segments, one, we call it FTF, finished dosage formulation, other we call it API. So what we have is that our specialty team is headed by chief operating officer, by Dr. Richardson. So, he has the P&L responsibility and he is responsible of the all the specialty chemical hubs which we say is India and UK which is Huddersfield, and third is USA. So, he handles the complete sales and P&L responsibility and he assisted by chief marketing officer, Dr. Louis Crascall and again assisted in terms of finance and other things fields people, so he is responsible for that and when it comes to finished dosage formulations again we have one plant in Hyderabad and one plant in Haridwar and then we have a plant in Kashipur and then one or two new plants coming up in and around Hyderabad. So this is managed by Sandeep Varalwar, who has been in the company for almost more than 18-19 years and he is a full time pharmacy graduate and management and focus on this division and is responsible for the P&L of this. So under him again we have a complete set of QA, RA, finance, business management, business development, and marketing. So they all function as if like independent units, hands off and they are responsible for the P&L and coming back to API, which is again a new entity to the existing thing and other than few products which we had here, now that is handled by Mark Robins who sits in Spain. Again, he coordinates with the Indian team; he has a set of Indian team now. He has a research and development initiative here; he has a production team here and then various in Mexico and UK. So he is responsible for P&L there and he is well assisted by board of Directors over subscribing in different areas. So they all report to me and I report to the Chairman and board of the same and I think we have of course an interesting, we have a monthly review of things which he was pretty insight with the whole thing I think the way we are doing I guess pretty robust and good system over there.

Rajendra Shah: And controls?

Santosh Varalwar: Yes?

Rajendra Shah: Financial controls?

Santosh Varalwar: Yes, I think the company has got SAP now, I think effective from April 1st, 2012 we have implemented SAP through out and we do have a control now. In terms of financial control again what we have done is that the API has a finance Director who is responsible for day to day financial and Specchem again has a separate financial controller and for FTF we have separate financial controller. We intent to go to the corporate finance, Krishna, like he has an overall view of it and he reports to me and they all work independently, even if subsidiaries also, they work absolutely within the arms length distance. We have such a subsidiary like creative healthcare or you know mid USA or in mid UK, they all work at arms length distance even product transfer happen again it is kind of negotiation involves both companies that you want to work with that kind of a discipline.

Rajendra Shah: We have borrowed 20 million dollars from IFC, will this rupee depreciations have a significant impact on that or because your earnings are in foreign currency.

Krishna Yeachuri: Yes, I think the first 7.5 million that we got was in the month of September which obviously came at Rs. 46-47 and that is a FCCB and hopefully IFC will convert into shares, so which means it might not have that much of impact, because the value of INR is already known to you and coming back to the term loan which is $12.5 million out of which we have as of now we took about half of that. So it came at Rs. 54 and the balance is yet to be drawn and it is a long term loan which is 8 years pay back. So, as again, correctly said I think we stream our net exporters than importers. So all these term loans or working capitals that we are borrowing in US dollars are well in line in terms of our inflows. So we will not get impacted even if there is like wide shrinkage in there.

Moderator: Our next question is from the line of Sapna Jhawar from Reliance. Please go ahead.

Sapna Jhawar: Good afternoon gentlemen, few questions in my line. Sir, if you could just state your revenues in terms of percentage within Indian market as well as the export market that will be helpful.

Santosh Varalwar: Krishna, can you split in terms?

Krishna Yeachuri: Yes.

Santosh Varalwar: Okay. I will just give little bit because the revenues that come from APIs in last year is probably about 140-150 crores are all income outside and the standalone revenue which was about in the range of about 380 crores came from India and 380 crores, more than 50% of the export revenue and the balance was the domestic revenue.

Sapna Jhawar: And sir who would be our direct competitors in the specialty chemicals business in terms of companies be it in India or abroad?

Santosh Varalwar: In specialty chemicals interestingly we have different segments, if you see we are into hair care segment, we are into sunscreen segment and we are into skin care segment. Now typically if you see globally we have companies like BASF, we have companies like Ciba, which is again acquired by BASF now and we have Merck, we have Roman Haas, we have Clariant, we have DSM, we have Cognis again acquired by BSF. So these are typical companies you know with whom we compete in different segments. I would rather tell you that most of the segments broadly reduced companies and are direct competition from them, but if you really ask me a question pinning down to India then I wouldn’t really pick up anybody very significantly, because we haven’t seen anyone addressing the spectrum segment the way we are at this thing, but they do. We do have some comparisons, like there are one or two companies who deal with sunscreens from Bombay, the company called Chemspec again makes you sunscreen, but primarily again makes pharma intermediates they are not dedicated spectrum player. Then we have another company out in Bangalore called Kumar, again he is more into antimicrobial side and he is not addressing full broad spectrum that we do. So I think if you really ask me a question, I think no body compared with these companies outside India ...

Sapna Jhawar: So in that case, what would be your market share as in this larger pie Vivimed Lab stand in terms of market share in specialty chemical?

Santosh Varalwar: Okay, now as I said, specialty chemicals, let us talk predominantly on home and personal care because that becomes the largest pie of our specialty chemicals. How much personal care, if you look at it, I think we do have a more than 50-60% share in Indian market. Again, I think you should make a note that we are not a commodity player and we are only acting ingredient player. So we do not make subtractions, we don’t make fillers, so we are only making those chemicals which are active which actually go and work on a skin which are antimicrobial thing. So if you look at that, Indian market pie is pretty big, because I think we were the first trendsetters in India trying to give solution on import substitution, but again if you look at the global scenario, I think this industry the cosmetics and toiletries market is $350 billion industry and if you look at the ingredient space I think it is about $15-20 billion again if you again split that into active ingredients and other things may be it is about $5-8 billion, I think we are too small when compared to that and there is long way to go again.

Sapna Jhawar: As you mentioned earlier that because slow down in the ISP alliance, the specialty chemicals took a hit this year in terms of numbers. So we were wondering what could be the other growth drivers, I think, besides the top three customers that we have in terms of the personal care, what are the other major growth drivers that you know would see the growth coming into specialty chemicals, because in terms of revenue it is seen that the equilibrium is shifted more on the API side oppose the Uquifa acquisition. So how do we see our specialty chemical panning ahead in the near future?

Santosh Varalwar: Interesting, you know, actually sometimes it takes too long particularly in a segment like this where you know you are talking about putting ingredients into a multibillion dollar brands whether it is Oil of Olay or it is **(Inaudible) 30.35** as you talk about Fair & Lovely or something. Now, the time it takes to get in, the time it takes to like win the hearts of the large companies that you are a static supplier and you can mean a lot to them it really has taken a long time for us and good new is that we were invited last month by Unilever to participate in a summit so which is a great achievement for the company like Vivimed, because Unilever calls about 100 people from across the world whom they feel are the most potential partners for them for their own growth and we were one of the Indian companies, may be one of the only Indian companies who are invited by this partner to be in summit and they have told us how important it is for us to work with them. So I think these kind of recognitions will definitely drive us to a next level and followed by that we have been now a constant supplier to L'Oreal for the last six years now, but I would say we have a large bigger pie in the business of L'Oreal, but again L'Oreal did the same thing to us this year and I will be attending that summit on 12th and 13th of June. So we were again selected as the top 100 suppliers of L'Oreal, where they intent to corporate with us on much broader segments, much larger portfolio products. I think to come to this stage it probably took us about 8-10 years, I am sure we are still probably on the surface of the opportunity and there is lot of depth in the whole industry and India being still a cost effective manufacturing place with a deep understanding about the regulatory markets and about product knowledge, I am sure going forward will be the preferred partners for all the large companies and will get much better to share than what we are talking today.

Sapna Jhawar: Right, sir just to get a sense of how this whole thing whole thing hands out and if L'oreal gives us an order, how is it executed and what is the time-span between the order gaining as well as the final product getting out of our inventory. So is there something like regulatory checks, what happens in the other normal formulations business or do these companies do a check on their own in our factory facility.

Santosh Varalwar: Okay, so one thing if you like you are seeking entry into a me-too product when I say me-too the ingredients we were already using it so that they are trying to entertain Vivimed as a possible supplier as an alternative supplier, which means they already have a existing supplier so there the stand is pretty well known, because they know what kind of **power they need, what sandwich 33.29** they need, so if they find that we are good they approach us and ask us to bid it, we bid for the price and then once they find that we are good enough, then they come for the audit of the facility and typically the R&D people come in, followed by purchase people will come in, and once the audit is over then they take the sample, verifies and once it is all done, typical negotiation for the supply is done once in a year an they have a period of my volumes known for these me-too products, they know how much they are consuming across the globe and approvals are typically global approvals. So in the first year of entry you cannot expect more than 5-10% of their required or their volumes and let us say they 100 tonnes requirement of product x then you might get about 5 or 10 times as initial, but if your performance is good you deliverables are good, then you tend to increase year by year. So this is typically what happens when you try and make an entry for the first time and you are just getting in, but again when I am now talking about some kind of partnership, then here we talked about something very innovative. Now they identify Vivimed as a possible supplier for some interesting new ingredients which will probably replace the old ones into one of the large brands, then we work in partnership. The R&D team of L'oreal and the R&D team of Vivimed will work in partnership and typically like molecule is identified and we work and that might take about 6 months time and later on we do some safety studies, that might take about 6 months' time, 12 months' time, then they start homologation which is incorporating with the branch and then trying it out. So from the day you start till the product hit the market then we get our order, it would be anywhere from 18 months to 24 months and what is important for Vivimed is how many such projects we are engaged with customer, that is very, very important and now a days Procter and Gamble or Unilever or Johnson & Johnson or **(Inaudible) 35.29** so much do we have is very important and the hit ration can be anywhere 20-30% so I think the primary goal and aim of this company will be to engage with these companies to as many segments as many growth as possible, because some of don't take at our levels, some of them do not take of their level, some of them phase out, so we actually 20-30% situation this kind of the thing and that is what happens with regulatory.

Sapna Jhawar: So how are margins panned out? I mean for the innovative partnership we would have a separate margin criteria and for the normal the orders that we receive from which the companies you already have the desired raw materials or the margins would be in a different sections, is my understanding correct?

Santosh Varalwar: Yes, absolutely right, because whenever you talk about innovative product line you know there is no pressure on pricing, the reason is that the since the ingredients that we are talking is probably anywhere from 0.2% to 1 or 2% max, so which means in terms of cost additions to the brand is very little. So what you create a value is kind of benefit that we give to them in terms of product line and product advantage that will be more important and price may not be important on innovative product brand or something which we are working together and often they comeback and say that target price is this and when they say target price is this and we are pretty comfortable and I don't think we still have a 60-70% gross margins in products like that, but when you are talking about a me-too obviously that we generate is gone through the rock of 10 years or 12 years or for now like supply chains by different companies, or may be innovative company itself. So let us say it is coming out of innovative company and we are the second supplier then there is a still good clean left in the product. So let us say innovative company has come out of that, the second supply is already there, but you are now bidding for the third supplier and then I think that is the time when you don't have too much of advantage in pricing, you are just entering, you want to be there, you want be normal supply chain there, you want to take certain volumes, and you want to take advantage of Asia growing and all those things. So definitely the margins are different for me-too, the margins are different for the second supplier, the margins are different when you are entering as a new product altogether.

Sapna Jhawar: Right, and sir now few questions from the Uquifa side. Since post the acquisitions are we trying to shift the manufacturing to India in order to gauge to leverage the benefits from the margin side or the whole manufacturing was still be constructive in the Spain.

Santosh Varalwar: When we acquired this company, my historical experience, when we bought James Robinson in 2008. What we did is that, the moment we bought the company we said 6 months we should close down German custody and move all the production to India and exactly that is what we have done. I think in 2008 May we bought the company and by 2008 October – November we closed **Leppersdorf** **(Inaudible) 38.48** plant in Germany and moved everything back to India and that is of course because that is the specialty chemicals where regulatory issues are not really paramount and the customers only are center to you, go to customer, talk to him, that you want to move, and if he likes it then it is fine if he gives the green signal you go and make it, but when it comes to API as we are all aware again there is a lot of regulatory happens here. There is US FDA, there is MHRA, there is CGA, there is a whole lot of ANVISA**,** plenty of agencies which work on it and primarily we all knew that it is not so easy to like shut and open because we know that it is going to take at least two to three years before we shut the first shop, so that is the kind of a understanding we had and when we made our business plan, we exactly made according to that, but as we now spend four months now, I think this in the 5th month for us now and as we spend time we realize that there are three plants out there, one is the Mexico plant which has a definitely a lot of potential and it is definitely situated in a very advantage position and catering to the North American market and South American market. So primarily which means like we should invest back in Mexico rather than peter out from there. So that is number one and coming back to the Spain, again there are two plants in Spain Sant Celoni and Lliçà and these two plants probably handles two third of the Uquifa's turnover and but as I see interestingly Uquifa last couple of years has been focusing quite a bit on contract fashion CRAMs model. Now when it comes to CRAMs there is a specific preference given by CRAMs partner to make the product in certain geographical place and some of the partners have shown interest to continue in Spain. So if you really ask me today, if the our CRAMs business expands to the extent that it makes sense to run those plants, then I think we will continue to run those plants, but as far as we are concerned I think our action is already started in terms of building a facility back in India and try and transfer as many products which are already under margins test to India and then use the facilities in Europe and Spain to more cater to the CRAMs business. That way like you know we will take the benefit of moving to India and yet you know run those plants for sometime and then already there are two sets of indication which is possible that is moving intermediates from Spain to India which already isn't started now. That doesn't need any regulatory approvals. So, that already is there and some of them like key intermediates simply starting with this have already moved to India now.

Sapna Jhawar: Sir in terms of CRAMs then what kind of products do we supply and who would be our lead customers over there?

Santosh Varalwar: See again CRAMs the customers Uquifa has got is really worth mentioning because they have Pfizer, they have GSK, they have Teva, they have Baxter, they have Abbott, they have whose who of the thing and if we really look at it they are really working with most of these companies with different forward segments and interestingly I think most of them are as a key starting materials for some new products or existing product and some of them are key intermediates for this product. So in terms of regulatory there won't be too many hassles other than the customer approvals, but I think the customers are too productive to make those products in that geographical zone rather than shifting to India but that is an advantage.

Sapna Jhawar: Alright and in terms of the geographic expansion, could you just inform us as on what would be the working capital cycle in across the geographies, which is the geographies where you will be facing a very out strict working capital cycle?

Santosh Varalwar: In terms of working capital, again, India could be relatively less because, your transfer time is less, your payments comes within 60-90 days time, but let's say you are supplying to customer Johnson & Johnson in Brazil then the transfer time is almost 55 days, again stock and sell that is one still doubt and particularly whenever you are supplying to all these companies like Unilever, P&G, all the big names. There are really, really big names, but I think it is very clear that they all want 90 days credit. No one wants to pay you in 30 days and 60 days. So you are talking about making most of the production being done in India and then being supplied to these companies. So obviously stretch on working capital is very high as Krishna just mentioned, I think this year is about 5 – 5.5 months compared to last year but we are trying our best to see how best you can still streamline on it, but some areas like in pharma they are good. I think they are very positive, Spechem, I think customers expect a long credit. I think we are being the **(Inaudible) 44.17** both these things you know.

Sapna Jhawar: Right, sir in that terms, we have raised the debt about $45 million. So 25 is straight away gone for the Uquifa acquisition. Now the besides that what do we intend to do with the balance debt, I mean do you intend to put it in a CAPEX rebuild our facilities, or more acquisitions or how does it plan out?

Santosh Varalwar: See this CAPEX, Krishna has already given you a breakup of CAPEX, and going forward this year as I said number one priority obviously is to we are trying to build up API facility in Karnataka and now there is a **(Inaudible) 44.54** propped up because SEZ which we have acquired land in Vizag. It is taking some time to get all the approvals in place particularly in the environmental controls systems and all those things where these law related things are taking there own time. We thought we would be able to start the plant in March of 2013, but I think we should not expect all the approvals to come before August and we do not intent to postpone our possible things in terms of products transfers of products from Spain to India. So what we initiated is a plant in Bidar which we have already started constructing and which we intent to complete in next 6 months. So a part of CAPEX will definitely go over there and there is also like month I think post August, we will again start the work in SEZ where are going to spend the money it and in terms of formulations we have completed CAPEX spend on our existing plant in Bidar in Jeedimetla, but going forward I think there is one more pending agenda that is you know to create a facility for the regulated markets and formulations which again is a required to have done some work on it but again internally the board feel that if you can get a ready made plant which has already got approval then the gestation period can come down. So we are just waiting in for the final negotiate. If we get something we will do, otherwise we probably will have to go and put the money and start building our own.

Sapna Jhawar: Yes sir, now the questions from my side in terms of the overall margins on our consolidated business, I mean it is understandable that the margins have come down from FY11 because of the acquisition we would have done in this year, but going forward as the acquisitions integrate into our business, how do we see it because since it will be some time for Uquifa our manufacturing to shift to India and plus we would be still building our base in terms of facility so our CAPEX again would be or a little occupied over there. So do we see some threshold still continuing on the margin or in terms of our sales mix we expect something extraordinary to happen.

Santosh Varalwar: See if you look at Uquifa margins, we were having about 14-15% EBITDA margin compared to the other businesses of Vivimed which were in the range of about 18-20% EBITDA margin. I think Uquifa if we do a bit of home work in terms of integration has already happened, particularly I was talking about intermediates and some sourcing from here we should probably improve EBITDA from 14-15 to 17% and then the product mix that we are seeing in FY13 definitely if we recall what I just said moving out of more of innovative product lines from me-too range so that is already in the process. So we would see some margins improving on our side. So, I think, going forward we are definitely seeing a margin improvement rather than depression in margin.

Sapna Jhawar: So we would expect something better in the lines of around 20-21% range in FY13..?

Santosh Varalwar: I think that at least I expect.

Moderator: Our next question is from the line of Umesh Matkar from Major Trend Capital. Please go ahead.

Umesh Matkar: Sir, you have mentioned that company is moving from CRAMs to branded formulation. So currently what is the percentage of revenue that you are getting from branded formulation?

Santosh Varalwar: See, again let me make a little clarity here for people to understand. If we will look at revenues for FY13 out of the 668 crores as Krishna mentioned about 148 from APIs. So you are talking about 428. Out of the 428 like I think he had formulation business FTF was about 140 crores. Am I right Krishna?

Krishna Yeachuri: 149.

Santosh Varalwar: So 149 crores if we see sub-segmentation we have done in 149 crores formulation. Is that what you are asking. Am I right Krishna?

Krishna Yeachuri: Yes.

Santosh Varalwar: Okay. Now we are addressing out of 668 crores, we are only addressing only 149 crores of revenue. Am I right?

Krishna Yeachuri: Yeah. Of that CRAMs is that 149 crores…

Santosh Varalwar: Okay. 149 crores, I think, were we have a branded formulation. We had something in the range of about 12-13 to about 15-16 crores, I guess, which primarily came about half year, less then half year working of new acquired companies like Octtantis Nobel and Klar Sehen. Otherwise, the revenue split is primarily CRAM and the institutional export business. Now, out of that, if we take our 149, say around 134, out of 134 about 100 crores comes from CRAMs business and 34 comes from exports and other institutional business . Now when we talk about CRAMS we are just again a point relevant here is we were talking about one is primarily making products branded formulations for large companies. Then second we are talking about some kind of a new delivery system or new development that we have done on a formulation which we have contacted with trademark owner and we are making efforts for them on a contractual basis. And third is the purely like just somebody has this product, their formula we just make it and give it, it is more like contract manufacturing. So if you will look at that, I think, out of the 100 crores revenue that we have, the Novartis contract is which we have making the Otrivin which is the major product, I think, that is more than 50%. So that is the thing. And other two things, so our whole aim is that we like to make an exit from contract job working which is not in line with our strategy because we would like to use our capacities more for building our own brand retailing or getting into a like more where we can use formulations for our own export in regulated the market. So that is what we do. We want to exit from the contract job and move towards our own branded formulations.

Umesh Matkar: Sir, with new formulations plant coming up, you have mentioned that the CAPEX has been completed. Can we see more of our revenue coming from that facility this year itself?

Santosh Varalwar: You will see because still some regulatory clearances are yet to happen. Now we had the first audit about 3 weeks back and if the audit results are okay and if we get the clearances, then we will see some revenues coming this year and a couple of more audits to happen in the next about 6 months to come. So I think, the revenue growth coming from these plants will be directly proportional to how many approvals we will get in the next few months' time. The investment has been made and then now it is all upgraded to a level where regulatory markets can come and inspect that, so that is what we are waiting for it. If that happens one or two approvals will kick-off, then I am sure will get some revenues this year. At least, next year we are sure we are going to get some revenue.

Umesh Matkar: Okay. And sir would like to know about your hedging policy means out of what percentage of your revenue is hedged?

K.S. Sastry: See, we go in a very conservative basis because being the net exporter. So in terms of revenue from we just hedge a very small portion of it in the form of forward contracts. It could be, let us say about 20-30%, and rest all way leave it open for market forces to take care.

Umesh Matkar: So means depreciation of revenue actually benefits you?

K.S. Sastry: That is right.

Umesh Matkar: Okay. And sir what was the revenue for UK for 2012?

K.S. Sastry: See four months of revenue has gone no? It is about 170 crores that has gone into the four months.

Umesh Matkar: Any sort of guidance you like to give for FY13?

K.S. Sastry: Well, the targets are in place. We are targeting about 1000 crores of turnover consolidated basis. So we should be achieving that.

Moderator: Thank you. Our next question is from the line of Rajendra Shah from Fidelity. Please go ahead.

Rajendra Shah: Sir with Europe being discussed and If some companies or facilities are available at a very attractive price, which though you are busy integrating this thing, is it on the horizon?

Santosh Varalwar: See, again we have to look at opportunities. We do look at Spechem, definitely is a some areas where it makes sense or else, because we have seen out of our own experience that getting into a new segment of specialty chemicals and trying to get the customer over there and then get into the supplier mode and growth mode in our own case, we have seen it can take anywhere from 5 to 10 years. As a strategy we might intent to grow both these Spechem and Pharma and Spechem because just mentioned in the previous question, India itself is going to be a exciting market for the specialty chemicals. So with that in mind and with the know-how, with the application knowledge to be gained, I think, we have met with always in lookout for some of the new opportunities of no expand into new specialty chemicals whereby we are hopeful of getting knowledge, hopeful of getting application knowledge, product knowledge as well as market knowledge. So that is really very interesting and exciting for us. Otherwise, I think, the life will go on this way and we focus to see our primarily to consolidate our revenue from all the segments and there is enough meat in all of them, enough opportunity to grow in all of them and that is where we want to focus.

Moderator: As there are no further questions, I would now like to hand the conference over to the management of Vivimed Labs for their closing comments.

Santosh Varalwar: There was a question of course asked by somebody going for guidance. As far as the guidance are concerned, I would like to mention here is that there is a lot of people do ask me questions in terms of what is the strategy, growth or what is the strategy and all. Here I think let me be clear that we may intense to grow definitely on the specialty chemicals as they mentioned is so many unexplored segments, so many unexplored areas where there are lot to get it and either will work on organic front, either will work on a R&D front or we work on inorganic front, but I think it is loud and clear message to investor that we would like to grow in this area and we would like to be one of those Indian companies who really excelled in terms of specialty chemicals and in terms of pharma strategy, I think, again it is clearly spelled out as far as we feel and we mean, I think, it is all chemistry. Whether it is pharmaceutical chemistry or personal care chemistry or photochemical chemistry, it is all chemistry. That is why our website says UDF chemistry. So, I think, we will continue to focus on core areas of building on APIs, getting into expanding our domestic market, reaching out to the relative market and try and come with new molecules and try and create more IP and look at those additional biotechnology-oriented products. So that is where we intent to grow and that is the strategy going forward. So we are going to focus on both the segments equally and intend to grow both of them equally going forward.

Cyndrella Carvalho: On behalf of B&K Securities, I specially thank the management of the Vivimed Labs for giving us the opportunity and time and I thank every one else for participating in this call. Thank you so much.

Moderator: Participants, with that we conclude the conference. Thank you for joining us. You may now disconnect your lines.