Vivimed Labs Limited

Q4 and Full Year FY 2013 Earnings Conference Call

Management:

Mr. Santosh Varalwar, Managing Director and CEO

Mr. Krishna Yeachuri, Director, Vivimed Labs Spain SL

Mr. Saurabh SG, Associate Director, Corporate Strategy

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Moderator: Ladies and gentlemen, good evening and welcome to the Vivimed Labs Limited Q4 and Full Year FY2013 Earnings Conference Call. As a reminder all participants' lines will be 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 any assistance during the conference call you may signal for an operator by pressing "*" followed by "0" on your touchtone telephone. Please note this conference is being recorded. We have with us today Mr. Santosh Varalwar (MD & CEO), Mr. Krishna Yeachuri (Director, Vivimed Labs Spain S.L.), Mr. Saurabh S.G., (Associate Director, Corporate Strategy), Mr. K.S. Sastry (Senior Vice President, Finance & Accounts) and Mr. Ramchandra Beltur (VP Finance & Accounts).

Before we begin, I would like to mention that some of the statements made in today's call may be forward looking in nature and may involve risks and uncertainties. For a list of which consideration please refer to the earnings presentation. I would now like to hand the conference over to Mr. Santosh Varalwar. Thank you and over to you Sir.

Santosh Varalwar: Good evening everybody and welcome to the Q4 FY2013 Earnings Call. In Q4 FY2013, we recorded net sales of Rs. 2,961 million representing a YoY growth of 17.5% and 8% sequentially. Overall, during the fiscal year 2013, the net sales of the company crossed Rs. 11,200 million representing a strong growth of 67% as compared to last year. Health care segment contributed to 67% of the net sales, personal care 20%, home care 9% and industrial segment contributed 4%. Our EBITDA grew by 49% and net income by 32%. EBITDA margins during the year declined from 19.8% to 17.6%, this was mainly due to the increasing contribution from the Healthcare business, product specific issues in Specialty Chemicals and certain exceptional items and product mix changes in the Healthcare segment.

Earnings per share improved from Rs. 45.31 in FY2012 to Rs. 52.04 in FY2013. As our continuous commitment to provide returns to shareholders, the Board of Directors of the Company has also recommended a dividend of Rs.3 per share.

I would now take the opportunity to talk about the focus areas for the company over the next 12-24 months. Interestingly, if you look at Vivimed's segments, they are a combination of high growth and stable margins businesses. We believe Heathcare will give the acceleration to our growth trajectory and Specialty Chemicals will be niche stable margin activity for us. Acquisitions have been a key part of our strategy and after having successfully integrated them Vivimed is focused on optimal utilization of our manufacturing platform and leverage our global scale, which will also help to expand our margins going forward. Going forward, consolidation, driving synergy and extracting greater economic value are the key firm-wide initiatives for FY2014. To achieve the next level of growth, we have started building upon the senior management team on global scale and have added highly experienced professionals in the Personal & Home care, Healthcare, API and R&D teams.

Improving our capital efficiency ratio, return on equity and ROCE are three business objectives for us over the next 24 months. We believe that an increase in this metric will be a factor of higher asset turnover, better profitability, low working capital intensity and lesser capital intensity which should add to our cash generation efforts. Overall, we want to attain a ROC of 15% plus in the next two to three years.

As I mentioned earlier, innovation is at the heart of Vivimed and is driving the development of new business areas. In addition, Vivimed's investment in research are set to build a pipeline which will create value over the next few years as they enter the commercialization phase. Overall, the Company is well positioned to achieve its growth aspirations and to that extent we are geared up whether it is innovation, manufacturing or any other human capital and human asset required..

I would like to thank you all and I now hand over the floor to Saurabh to talk about the key corporate developments of our business during the last quarter.

Saurabh SG: Thank you Mr. Santosh and welcome again to everybody on the call. We would now take the opportunity to touch briefly upon the developments our core business segments have seen over the last quarter or so. Let me first begin with the Healthcare segment, which is the major part for our revenues. As Mr. Santosh mentioned, nearly two-thirds of our revenues now are from the Healthcare segment. In the Healthcare segment most of our efforts have been focused on two key areas, one is to bring about process improvements and the second is to improve procurement efficiencies, both are aimed at making the businesses more profitable. So in line with this objective we have continued to deliver process improvement in our manufacturing facilities in Spain and Mexico by leveraging the India based R&D team, which we have built up over the last 12 months. Also on the procurement side as I mentioned earlier we have recently commissioned our API intermediate plant in Bidar which will now provide greater cost competitiveness as far as our API products are concerned. On the business development side for the Healthcare segment, we received a large CMO order from one of the largest healthcare companies in the US. We see this order as a major win and this is a testimony to our manufacturing expertise and brand salience which we believe our API business has in continental Europe. Our ongoing initiatives in this segment include targeting other blue chip customers in the CMO space and we are also on the verge of rolling out our finished formulation business in Europe. On the regulatory side, we have completed successful FDA and Spanish health authority inspection across both the businesses. On the FDF, finished formulation side, especially in the domestic market we have now launched drugs with combination therapies and from what we see in the market we are enthused by the reception which these new launches have seen. So that is as far as the health care segment is concerned.

I will now briefly talk about the Home & Personal care segment. In this segment, we have benefited from a strong traction in the skin care and sun care products range. In the hair care segment, hair dyes continue to face competitive challenges but I think the hair care segment is seeing pretty decent traction as far as greater customer penetration and cross-selling activity is concerned. Significantly, we are proud to report that we have entered into a partner-to-win list of Unilever and have now started developing new products for them which we believe will be able to fill our pipelines over the next 12 to 18 months. Similarly we are in discussions with consumer MNCs to commercialize applied-for patents for innovative natural products. As Mr. Santosh mentioned innovation is the key for this segment and Vivimed in the Home & Personal care segment, is in the forefront of trying to fortify our competitive advantage, which is chemistry and quality. The new product pipeline where we hope to have few good launches over the next 12 to 24 months include peptides for anti-ageing and a category of skin whiteners.

In the Industrial chemicals segment, which is the third major business segment for us, the photochromic business continues to remain flat which has major clients like Corning. So the issue here definitely seems to be the market itself and the fact that we need to get more competitive in the process and drive for client penetration deeper. In this segment, which is around 7 or 8% of revenues we will continue to focus on licensed technologies through open innovation and strategic partnerships with our end customers.

During the quarter we have allotted 2.1 million equity shares of Rs.10 each fully paid up at a premium of Rs. 305 per share to NYLIM Jacob Ballas India Fund III, this is against the conversion of 0.67 million

CCPS which were held by them. With the allotment of these shares the equity base of the Company has now increased to 16.1 million equity shares versus the 13.9 earlier.

I will now touch upon the key aspects of financial management and balance sheet before we move to the Q&A. As of March 31, 2013, the Company has a net debt of around Rs. 607 Crores; the net debt level increased during the year mainly because of the CAPEX that was incurred in the API business and the up-gradation of the India finished-formulation facilities which we invested significantly for approvals towards the EU and the CIS market. The net debt to equity was around 1.2 times and our ROE has improved from 18.4% in FY2012 to 18.8% in FY2013.

Successful operational measures taken on working capital front, such as productivity management accurate sales forecasting and attractive credit policy have helped to reduce the overall working capital cycle days from 171 to 157, which has released some cash to the business. At the same time the management team is aware of the fact that we need to bring greater optimization as far as working capital is concerned there are firm wide initiatives, which we hope will bear fruit over the next 12 months.

Let me also touch upon the margin which has declined. Mr. Santosh briefly alluded to the same fact. Let me give some granularity as far as the margin movement is concerned. In FY2013, margins have moved from 19.8% to 17.6%, which are roughly around 220 bps movement. Most of this loss in margins is attributable to the Healthcare segment. The contribution of this segment in terms of revenues have moved from 33% to 66% over the last two years and there has been some challenges to the margin levels in the Healthcare segment. So the drop in margins has primarily been on account of the business mix. As far as Healthcare is concerned, the reasons why we have seen the decline in margins is a combination of three or four factors - the first is the combination of certain one-off and exceptional, which we saw in Q3 of this financial year the quantum of which was around 8% to 10%, i.e. approximately 1% of our trailing year sales. The second factor is that in our domestic formulation business for the better part of the second half, one of our facilities was under up-gradation of process equipment etc., and was then awaiting regulatory approval for the CIS markets. So this also contributed to revenue loss, which is nearly 0.7% to 0.8% of our sales. As Mr. Santosh has been mentioning on earlier calls about the process of portfolio rationalization of our API business which has led to a degree of revenue loss and also contributed to the challenges in margins in the Healthcare segment. We believe that this is behind us and we now expect utilization levels in this segment to increase. Overall, as far as going forward is concerned, our margins on a full year basis will remain stable with an upward bias. As far as initiatives are concerned, we are very keenly driving to get the margins back to the original levels, the prime of which is the process optimization. As far as the Healthcare segment is concerned, this is an area where active efforts are on and current initiatives cover products that contribute around 25% to 30% of the revenues already. We expect results to start coming through in the next couple of quarters.

The second area, which I have touched upon, is the procurement efficiencies. This is work in progress at the firm level and the recent commissioning of the Bidar intermediate facility, we hope, will get the procurement efficiencies to a higher level. Just to give some context, the API business which we have, makes raw material purchases of close to Rs. 300 crores per annum on an average and we see our backward integration which we are carrying out in Bidar to start substituting for may be one-thirds of these purchases in the next couple of years.

The third most significant aspect from the business development perspective is R&D and our efforts to move up the value chain. We are focused on niche and new generic filings in the Healthcare segment and we believe this will lend us a better margin profile over the next 12 to 15 months. On a quantitative perspective we expect that 7 to 10 new DMF filings will be done over the next 12 months. Our formulation activities too are about to pick up steam and we have commenced our finished formulation rollout in Europe where we have received an MRP for Omeprazole. As far as the finished formulation business in Europe is concerned the first focus will be on in house APIs. At the same time we are enthused by the performance of our domestic branded formulation business and that too will be an area of investment for us. So combination of these factors we hope will help us to drive profitability and growth over the medium term. I would now like to open the lines for question and answer session.

Moderator: Thank you very much Sir. Participants we will begin the question and answer session. We have the first question from the line of Ms. Amelie Thevenet from Jupiter Asset Management. Please go ahead.

Amelie Thevenet: Hi, good afternoon. My question is on the working capital front of which the last quarter you registered quite significant improvement. I just wanted to have more color on where the stress was and which were the initiatives you took and what are the further initiatives you can take going forward to even improve it further?

Santosh Varalwar: If you look at our customer profile we do supply large amounts to major customers in Specialty Chemicals, e.g. Unilever, P&G and L'Oreal and in Pharma again we have GSK, Pfizer, Teva and all the large ones and in general I think the trend of purchases, we do not have too much of liberty in that because they are all annual contracts and they are fixed time contracts and typical payment terms are 90 days from the date of delivery. So what we have done since last time is that earlier for many long distance supplies we used to supply directly from India in the other manufacturing centers to the customer and then it will inculcate transit time of 55 days if it is going to Latin America and other places. So we decided, particularly in the far off places to have more distribution networks, so we could just sell to a distributor and recover our money on time and then they can in turn stock the material and give it to the end-customer. In terms of the domestic, I guess we are with the small and medium customers we were trying to be little more quicker in terms of realization and that is also leading to slight improvement and going forward we still feel that there is a scope of further improvement and as we promised in the last few quarters we are putting every effort to see that for the sharp tuning is done so that we come to at least 120, 130 levels.

Moderator: Thank you. Our next question from the line of Mr. Sriram Rathi from Anand Rathi. Please go ahead.

Sriram Rathi: Thanks for taking my question. My question is pertaining to your branded formulation business in the Healthcare segment. Basically right now it is very small. So what is the strategy to grow it from here on and what are the geographies which you are targeting to develop this business?

Santosh Varalwar: Branded formulation business, if you look we have been active for the last about 18 months. It all began with the acquisition of Klar Sehen which is in ophthalmic segment and also acquisition of a small branded formulation company in Hyderabad called Octtantis. So what we have done in the recent past, particularly last one quarter is that for optimizing and improving the whole efficiency cycle we tried to merge both the sales teams of Octtantis as well as Klar Sehen and also expanded the areas. It was more of attraction to the Northeast but then we now expanded the teams from Northeast to South India and parts of Northern India also. If you recall probably we had about 180 medical representatives from there I think we increased our strength to close to 320. The strategy going forward is that we are definitely focusing on existing good brands and also last one or two months have seen some new niche products being launched in the branded segment and with the geographical expansion and the new products coming in there and optimization of the manpower, we expect to see some interesting results. Year-on-year if you look at the business, we have definitely done about 40% growth in branded formulation and going forward we will be able to maintain the same thing and slowly but very consolidated and very carefully we will expand the geographical footprint and we will not be in hurry to do pan India all at a time until we have clear-cut results from ongoing initiatives. There is another strategy is that in terms of the number of products that we are marketing I think there were quite a lot of products that we are marketing and wherever we felt optimization of products had to be done, we did drop some products and gave more focus to better products and where better chance of sales growth was there. So a lot of measures had been taken in terms of branded formulation and we really see that next few years I think branded formulation we should continue to grow at the speed at which we have been growing last year.

Sriram Rathi: Three to four years it can become a sizable business for you.

Santosh Varalwar: I guess so, I think it is supposed to grow well because whatever new formulation we are launching are all research based formulations and we will see the response to those products in the next few quarters. We have acquired formulation development company which should play a very major role in terms of coming with some innovative formulations for our branded formulation market also.

Sriram Rathi: Second question is on the margins of the Healthcare segment, which has declined in this quarter and the previous quarter also. The reasons, which you have mentioned one of that was basically some one time impact in Q3 which has continued in Q4 so what exactly was that ?

Saurabh SG: Sriram, the one-time impact was with respect to Q3 and as far as Q4 is concerned there was no one off or exceptional in Q4 as far as the API business is concerned. As far as margins growth is concerned, we have mentioned two or three drivers which are working on and will hopefully see margins coming back to the levels that have been earlier. So the one-time item, to answer your question was limited to the third quarter, in the fourth quarter more or less, operations have normalized.

Santosh Varalwar: Adding to what Saurabh said is that if you really see the mix of our business today, if you compare to last year versus this year or even last quarter we can clearly see that the quantum of API business is definitely much larger in the overall pharma segment.The API business predominantly comes from Europe and the European EBITDA margins were not comparable to Indian EBITDA margins.

We are working towards those things in terms of R&D, new filings, process improvement and process optimizations. It is still work under process and until those things happen we would not see those spikes; that is also one of the reasons.

Sriram Rathi: So in your view how much time can it will take to go back to 14% odd kind of margin level in this segment?

Santosh Varalwar: There are few actions being taken from our side. What we are doing is that we looked at the process optimization of all the APIs that have been manufactured in Spain and Mexico and as part of our integration process 30% to 40% products have been taken care of. But I think still 60% to 70% are to be attended and there are certain cases where products are under old route of synthesis. So unless we try and refile the DMF and improve the whole thing we cannot improve overall efficiency in the product costing. So in my opinion that is an 18-month cycle, typically we apply for a new site transfer and then get the approval from FDA. What really can happen in the short-term is the intermediate business, which Saurabh mentioned is close to about Rs. 290 to 300 Crores of purchases that our European factories do. That optimization can happen without too much of a hang up. However the FDA now has also put a condition that even for key starting materials we need to obtain approvals, but there are certain exemptions where we can manage it and try to optimize it and we are just in the process of doing it. We are targeting only about Rs. 30 to 40 Crores of intermediate sourcing during the current financial year but in the next two to three years I think that volume will jump and that is where we can see the benefit coming from this side. We also see benefit coming from process optimization and if we really see the number of products we are making, for the last one-and-a-half to two years we have not seen a new drug master file having been filed. So that is under acceleration mode, once we file these new DMFs and there are already some partnerships going on with various customers. Once we get these things I think overall you will see improvement in the efficiencies and margins.

Sriram Rathi: Final question is on the leverage side that your net debt equity currently is around 1.2 times. So what will be your target or what will be your comfortable level of debt equity and what is the strategy to achieve the same?

Saurabh SG: Net debt equity is around 1.2 times. We believe in terms of absolute debt levels probably we will not be going up from where we are and given the accretion in profit we would assume that over a period of 24 months we should be comfortably below 1. As Mr. Santosh mentioned, the firm wide initiative is to drive ROCE and there are three components which will go into that, one is of course getting the profitability of the business up, the second is to ensure that we sweat our assets better, and the third one is to make sure that the business becomes much more lighter in terms of working capital. So all these three factors put together will help us to get capital efficiency up to industry standards and we will also see net debt equity becoming much more favourable than what it is today.

Moderator: Thank you. Our next question is from the line of Mr. Ashok Shah from Pragya Securities. Please go ahead.

Ashok Shah: My question pertains to the SEZ. What is the present status of the SEZ plant? Second question is in last quarter our margin has gone down, so are there any provisions being made and third one is regarding dividend distribution which is still lying at around 5% of the PAT, when do you plan to increase it?

Santosh Varalwar: Thank you Ashok Shah. Just a quick update on SEZ, I think we have been talking about this for a few quarters but due to all the regulatory requirements, things are getting delayed. Recently, about two weeks back we finally got much awaited marine disposal certification because one of the major things what we might bank on in terms of futuristic thought process is that unless we get the marine disposal of the treated water I think it is as good as having a plant at Hyderabad. The SEZ that we propose to have in Pydibhimavaram is geographically about three miles away from the sea and unless the Government of India gives us the permission to dispose of the treated water, the whole idea of going so far and putting up a plant have been defeated. Finally we got a marine disposal clearance from Government of India and we are just waiting for some more clearances from local pollution control board and once they are in place which I guess would be in September or October, then we will have to probably go for a renewal of SEZ permission. We filed for that because normally the permission is valid for one year and we already finished one year and we will be reapplying for it. Once we get that I think we can start the project.

In terms of margins for last quarter, it is a multiple impact as Saurabh also explained. The impact largely came from pharmaceutical Healthcare side, the margins have dropped on account of various factors, sourcing and some products, one off products cost and in Speciality Chemicals, we have had drop in antimicrobial requirements which also impacted some margins.

The third point, the dividend of 5%. I think if you really look at last year and current year also we might have been spending substantial money in capital expenditure to maintain our future growth curve in terms of revenues. This year also we have kept at the same level but I am sure going forward, particularly the current year I think we have put our capital expenditure at a very optimum level which would also give us a chance to see that in future we will meet the expectations of investors.

Ashok Shah: Can you quantify the special bigger provision made in the last quarter?

Santosh Varalwar: In Q3, in the Healthcare segment there was a provision of around Rs. 9 to 10 Crores which is 1% of the full year sale, so that was the one off or exceptional item in Q3. As far as Q4 is concerned I do not think there is anything exceptional and business has sort of normalized.

Moderator: Our next question is from the line of Mr. Shubhankar Ojha from SKS Capital. Please go ahead.

Shubhankar Ojha: Thanks for taking my question. I have few bookkeeping questions. Sir just going back to your balance sheet what would be our average cost of debt?

Santosh Varalwar: The average cost of debt is 7%.

Shubhankar Ojha: Out of the Rs. 613 Crores borrowings that we have, how much of that would be in foreign currency?

Santosh Varalwar: A big chunk is in foreign currency including the short-term borrowings and long-term borrowings, out of 600 Crores I would say about 100 Crores will be in INR and rest all will be in foreign currency.

Shubhankar Ojha: In terms of our hedge, do we get a natural hedge in terms of our Forex revenue, net of Forex revenue and Forex expenses?

K.S. Sastry: We are certainly net exporter so obviously there is a natural hedge and we do get benefited from that, on hedging we have been saying repeatedly that we are quite conservative and we do not really get into any other techniques in hedging.

Shubhankar Ojha: Do you have an M2M loss kind of that?

K.S. Sastry: No we do not have.

Shubhankar Ojha: Okay that is good. Sir you talked about your capex program that you have done in FY2012 and FY2013, so what was your capex amount in FY2013 and what would be the same for FY2014?

K.S. Sastry: In FY2013, we had a capex of about Rs. 100 and 120 Crores and going forward unless we take up any specific expansion, right now we have capital work in progress of about 10 Crores which is for API plant which has been implemented at one of our factory locations, so we expect that balance capital expenditure on this account will be about another Rs. 30 to 40 Crores so that is the one in pipeline. Apart from this if SEZ comes up with all the regulatory clearances as Mr. Santosh said probably will have, we have drawn up our plans but the capex is not yet committed on that side.

Shubhankar Ojha: Okay so 30, 40 Crores is something which you have planned out already.

K.S. Sastry: Yes, which is planned and in pipeline.

Shubhankar Ojha: Yes, that is one and sir just the last theoretical question would be the promoter holding has comedown I think below 40% after the conversion of that warrants. So are the promoters comfortable with that level?

Santosh Varalwar: Right now we are at plus 40% from 45% so I guess we will live with it for sometime unless we bring in more warrant or something but nothing has been planned in the immediate future.

Shubhankar Ojha: Sir your FY2014 expected tax rate?

K.S. Sastry: The current tax rate will continue to remain around MAT level at 20% and we expect a little bit of drop in deferred tax which would be around another 3%, 4% of the PBT.

Moderator: Thank you. We have our next question from the line of Ms. Sapna Jhavar from Reliance Securities. Please go ahead.

Sapna Jhavar: Good evening to all of you. Sir my question would be about Finoso, have we completed the closure of that acquisition?

Santosh Varalwar : We have not yet completed. We are in the final phase. We have got some small legal verifications to be done not about the company per se because company auditors have already done the legal due diligence and the financial due diligence, but some of the IPs that the company is holding which are there because we have agreements with other companies. Couple of things which are not in the interest of Vivimed so we are trying to see that we get clarity on those aspects from legal lawyers in US and India so I guess it will all be done in the next couple of weeks and we should be in a position to close that. So we do not want to sign off on the dotted line and then find out that we cannot market those products because this company has already done the formulation development IP and stands with some other company and once it becomes a subsidiary 100% subsidiary of Vivimed then we will have restriction in marketing those products. We are just trying to get clarity on that aspect or may be we will seek amendment from the person and then finally put up the dotted line and close it, otherwise everything is done.

Sapna Jhavar: What would be the kind of product that would come in as would it be under formulation and if yes what could be the specific therapies that we are looking in?

Santosh Varalwar: See Finoso is a dossier development company. It develops formulations for the regulated and non-regulated markets. Before we entered obviously the present course of business of Finoso is mainly to develop the dossier for various pharma companies across the world. It is a Health Canada approved facility and they have filed lot of dossiers for Canadian FDA and USFDA. So the whole idea of acquisition of Finoso came in as we are entering into the phase dosage formulation and mainly so we are targeting the regulated markets, so you got to have back-end operations where you are able to file your own dossiers, otherwise it is going to be expensive exercise going forward. Also Finoso is a five year old company with a robust strength of scientists and experience of delivering products and developing new dosage forms so from that perspective this will be a perfect fit for Vivimed and it comes under pharmaceutical formulation plan.

Moderator: Thank you Sir. We have our next question from the line of Mr. Srihari from PCS Securities. Please go ahead.

C. Srihari: Could you please provide guidance for the two divisions, the growth target for the two divisions and secondly in the Healthcare segment what is the kind of growth you expect in APIs and formulations?

Santosh Varalwar: Thank you Srihari. If you look we have been growing 30% YoY and I guess we should be in a position to maintain the same level of growth and in terms of divisions, Specialty Chemicals, and Pharmaceuticals I think in our opinion both of them are growing at a same pace, so we should be able to maintain the same things.

C. Srihari: And the mix of APIs and formulations?

Santosh Varalwar: If you look in the overall healthcare picture I think today more than 70% is API business and formulation business, as I explained to you earlier constitutes branded marketing as well as our export marketing. I guess that should grow much faster and we are targeting to grow at least 40% in that business. API business will see a 20%, 25% growth.

C. Srihari: So would the mix be roughly 60:40 current fiscal?

Santosh Varalwar: Yes.

Moderator: Thank you. We have our next question from the line of Ms. Sapna Jhavar from Reliance Securities. Please go ahead.

Sapna Jhavar: Hi again, I just got disconnected. So continuing about your further plans for the Company, what is the kind of capex that we are looking at now over the next two years? I understand you have told us that Rs. 30 to 40 Crores has been planned but apart from that are we looking at any more acquisitions for filling up product pipeline, channels or is it going to be an organic growth strategy from here on?

Santosh Varalwar: I think as we mentioned, for the next one year our strategy will be to optimize our various businesses particularly the API business that we acquired last year and in terms of cost & process optimizations, I think the focus for Vivimed the whole year and the coming year will be more on the research and development center whether it is formulations or specialty chemical or on API, we are definitely spending money on these three areas. Spending money on APIs development I think as Saurabh said our target is to least file 8 to 10 DMF and with Finoso being in our kitty now at least target 8 to 10 ANDAs and also at the same time develop and go into more Specialty Chemicals. Last one quarter there has been a lot of activity at that front, new labs have been opened in Hyderabad and more new centers have come on board. So I think the major spend for next 12 to 24 months will be more innovation, more on R&D rather than putting hard assets on the ground. But at the same time I think what Saurabh mentioned that we have also initiated spend on API factory in Karnataka. We have also done some investment last year at the FDA facility for up-gradation to EU requirements and we have to spend some more money on the regulated side improvisations so that we can get in to the market, so that will be the major thing. The third side is that as the API business is gaining traction we are trying to put some clients to do some expansions in Mexico and we have done something in Spain already last year but Mexico I think we are adding some more product lines, new products so we will probably end up spending some money in Mexico also but overall I think the focus will be more on R&D more on IP rather than hard assets.

Sapna Jhavar: In that case what would be R&D as a percentage of our sales now?

Santosh Varalwar: Right now it is about 3% of the sales and that will likely to go up to 4% next year.

Sapna Jhavar: So would our margins in that case remain same or they would remain under a little pressure because we have seen currently about some 200 basis points on an annual basis so would we continue to see some depression in the margins or are there some growth levers which will keep them at least steady if not growing.

Santosh Varalwar: In spite of spending on the R&D because of the product mix that we are working on in almost all the product lines whether it is specialty chemicals or API and we talked about process optimizations in APIs in Spain and Mexico we are not foreseeing any dip in the margins going forward.

Sapna Jhavar: You mentioned that we have increased our field force from 180 to 320 for our branded formulations segment and we are even looking for a lot of other filings as well, so this would be particularly in India or would it be across all the other geographies as well?

Santosh Varalwar: The force of medical representatives that we talked about 180, 320 is predominantly in India there is no additional sales force outside India, but the DMF and ANDA we talked about those filings are only for outside India.

Sapna Jhavar: So are we also looking into some direct selling or would it be only through our channel partners or distributors?

Santosh Varalwar: No I think at least for this moment, we will be selling through the channel partners. As we have already seen, we got one MRP in Europe for Omeprazole, which is an API that we only make it and we are using some third party at least to make the formulation and distributing through channel partners. In next couple of years, I think Vivimed will focus on distribution partners until some critical volumes are achieved for all our sales of formulations outside India.

Sapna Jhavar: In that case what would be our focus on which therapies again I understand it would be in to chronic therapy but specifically any niche areas that we are currently focusing on?

Santosh Varalwar: I think Sapna basically the initial phase of focus would be leveraging our own APIs. So if you really look at Vivimed API business we are pretty strong in anti-ulcer segment and we are pretty good at sartan family of molecules (Beta blockers) and so I think that is where I guess we will first try our own API stands to file for ANDAs and then get into the market. So I think instead of targeting on particular therapy I think we will target more on Vivimed's own API strengths to get into the formulation market because you know very well that we are entering much later in this space and with all our competitiveness in the generic business and until initially we have our feet firm on the ground with our own API profiles and our own cost competitive API. I do not think we will find firmness in the ground.

Sapna Jhavar: Sir my last question about Uquifa, since we have completely integrated it, how is the progress there? What is the kind of margins that you prefer to make prior to our acquisition, so is it in line with our Company's margins now or how is it, some more color on that?

Santosh Varalwar: See if you really look at apple-to-apple comparison since last year to this year there was more of spend on Uquifa front. Previous to Vivimed's acquisition it was just growing, they were not looking progressive, they were not spending money on capex but after we got into it I think we changed the scenario. The impact of that is it just affects the margins but going forward we spend money only to see that improvement happens going in the next two years and we will see all those things coming back in the current financial year so we will see the margins going up. We are operating at 12% to 13% EBITDA margins and we expect those margins to go up in the next few years when we fully implement all the initiatives that we have already taken up.

Sapna Jhavar: Do we capitalize some part of our R&D or it is completely expensed in our P&L?

K.S. Sastry: We have been capitalizing part of the R&D which has long-term benefits whereas the other routine ones we charge.

Sapna Jhavar: What is the portion of the R&D that we capitalized or any percentage sense that you can give us?

KS Sastry: Well it is almost about around 12 to 14 Crores that is what we have capitalized.

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

Rajendra Shah: I just have a question. Have there been any foreign exchange losses last year and the exposure and what kind of risks there are in the next two to three years. Any guidance in terms of sales and PAT for the current year?

KS Sastry: On the exchange front in fact we gained overall about Rs. 15 Crores on a consolidated level. We are dealing in various currencies, almost in five, six, currencies so overall there has been an exchange of about 15 Crores or so.

Santosh Varalwar: In terms of our growth trends we have seen sales growing at 20% to 30% in past. So this year we see with all initiatives that we have taken in Specialty Chemicals and Healthcare segments, I am sure about 25% growth is expected from where we are and PAT margins should be better. Last year particularly with our expanded operations and more manpower joining in our profitability was impacted. Going forward employee cost and the other cost will be distributed over the larger turnover, so I am sure with the new product mix also coming in we will definitely see a better PAT margins going forward.

Rajendra Shah: And then foreign exchange risk for the future with dollar loans at a much lower rupee level that have been taken which has to be paid back in four years, so would that be a major issue?

Santosh Varalwar: See most of the loans that we have are outside India. What we have done when we acquired Uquifa we have loan sitting in Vivimed Spain which has got a natural hedge and also in India most of the dollar loans that we have has a natural hedge because our India sales more than 60% is export sales so obviously we have natural hedge. So we are able to take care of that.

Moderator: Thank you. Our next question from the line of Mr. Srihari from PCS Securities. Please go ahead.

C. Srihari: Thanks for taking my follow up question. Can you please tell us what is our MR productivity currently and what is the level you would be comfortable with and any plans to expand the field force in the current fiscal?

Santosh Varalwar: I think last year we have increased the field force from 180 people to 320 people. We have also expanded in certain geographies. We were only present in the North Eastern India and then we moved down to South, we covered Tamil Nadu, Andhra and Karnataka and we have also gone up on North, Bihar and UP. So the older areas I think we have a PCPM of more than 1.7, 1.8 Lakhs and the newer areas are in the range of 0.6 to 0.7 Lakhs. With new product range and certain product optimizations and focus on the newer geographies I guess on an average we should be able to get to more than 1.5 Lakhs PCPM this year.

Moderator: Thank you. Our next question from the line of Mr. Ashok Shah from Pragya Securities. Please go ahead.

Ashok Shah: Thank you for taking my question again. My question is regarding any idea or any view on the business, as the Company has grown in pharma sector in last one year to sizable level, to split the company in one in pharma sector and another in a specialty chemical or the HPMC sector. Thank you.

Santosh Varalwar: Ashok Shah thank you for your suggestion, but as you can see the trend in the world the great value addition comes from keeping both the segments together. I think if you really see from the critical mass I think specialty chemicals and pharma are still not a very big portion. As a company we really need to grow much bigger from where we are before we could even entertain the thought of splitting. I guess if you see the world model I think they both coexist because most of the skill sets required is similar, regulatory requirements or plant requirements are pretty similar. So I think in terms of operational efficiencies we do not see any conflict in both the things except the applications are changing. So for the moment I guess we will stay like this and we will review as we go forward. Thanks very much.

Moderator: Thank you. As there are no further questions I would now like to hand the conference over to Mr. Santosh Varalwar for closing comments.

Santosh Varalwar: Thank you ladies and gentlemen. Thanks for your patient hearing on this Q4 and full year earnings call. As I said Vivimed is committed to grow both the verticals, Healthcare, as well as Specialty Chemicals. We have been focusing quite a bit on research and development and if you have seen in last few years, we have moved from me-too (commoditised) range of products to more IP range of products and more innovations. This year particularly lot of investments has gone into developing new product ranges which are under approvals with our major clients. Going forward, Vivimed is fully geared to meet the challenges of our customers, challenges from the competition and I think we are doing the right thing at the right place. In terms of organizational structure, in terms of management bandwidth, we are all geared for this year and the coming years. We assure that we will be going to do much better in the near future. Thank you again everybody for being with us today.

Moderator: Thank you Sir. On behalf of Vivimed Labs Limited that concludes this conference. Thank you for joining us you may now disconnect your lines. Thank you.

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Note: This document has been edited to improve readability