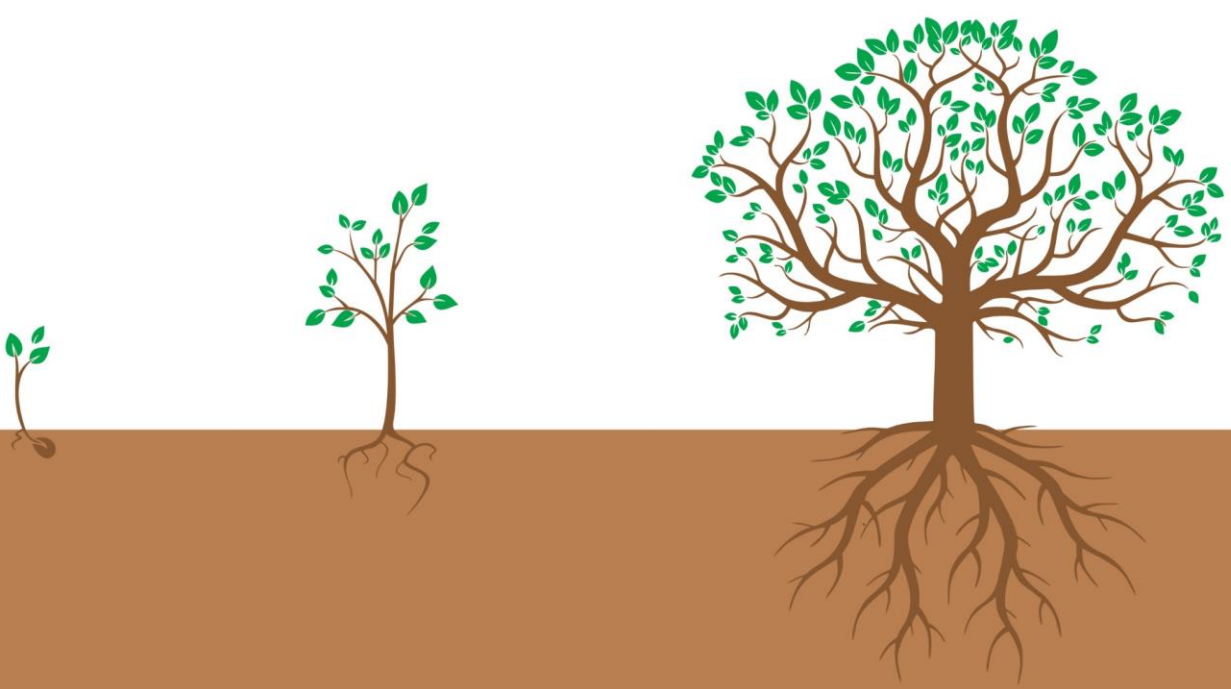




Earnings Conference Call

Q4 and Full Year FY2016

June 1, 2016

Mr. Santosh Varalwar, Managing Director

Mr. Pavan Kumar, Chief Executive Officer

Mr. Ramesh Challa, Chief Financial Officer

Mr. Saurabh SG, Director – Corporate Strategy



Moderator: Ladies and gentlemen good day and welcome to the Vivimed Labs Q4 and Full Year FY2016 Earnings Conference Call. We have with us today on the call Mr. Santosh Varalwar – Managing Director, Mr. Pavan Kumar – CEO, Mr. Ramesh Challa – CFO and Mr. Saurabh SG – Director, Corporate Strategy. As a reminder all participant lines will be in the listen-only mode. There will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing ‘*’ and then ‘0’ on your touchtone phone. Please note that this conference is being recorded.

Before we begin, we 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 more details on such considerations kindly refer to the earnings presentation. I would now like to hand the conference over to Mr. Santosh. Thank you and over to you sir.

Santosh Varalwar: Good afternoon everyone and thank you for joining our Q4 and Full Year FY2016 Earnings Conference Call. We are interacting on this platform after a long time. Last time when we spoke was after the announcement of the sale of certain product lines of our Specialty Chemicals business to Clariant, India. It took us some time to get through the deal. In January 2016, we completed the first stage of the transaction which is a transfer of products to Clariant. We will discuss that in detail shortly.

The performance for the year has been encouraging and we continue to invest and preparing ourselves for the next phase of growth. While we improved our all-round financial performance, we further strengthened our operation platform. Vivimed is an integrated global healthcare company and is recognized as one of the preferred vendors to the regulated markets due to a track record of regulatory compliances. We have witnessed a strong order book growth for our API business given increasing preference from our customer base for a manufacturing platform based in Europe and North

America. We are leveraging our chemistry skills and manufacturing platform to scale up CMO and generic opportunities.

We are also focused on strengthening our filing pipelines with new DMFs and ANDA filings. These projects are expected to be commercialized from FY2018 onwards. Furthermore, on the FDF side we envisage a strong pick up in exports to CIS region during FY2017. Progress on new Generic product development has been in line with our expectations and we believe we will drive growth in the medium term.

In the Specialty Chemicals business, we continue to focus on a differentiated product mix and look for opportunities to drive growth. We have a strong product pipeline in the Hair dyes and Photochromic segment which is anticipated to accelerate growth and profitability going ahead.

As we transition into the next phase of growth, we have enhanced management bandwidth with several senior level appointments has highlighted in our presentation as well.

Before we get into the details of financials I wanted to provide a quick update on the status of the Clariant deal. During January 2016 we closed the first stage of the transaction and received Rs. 258 crores as part of the sale proceeds. The proceeds have been utilized for repayment of debt and also for capital expenditure at our FDA approved facility in Alathur. And also part of the funds is used to reduce the debt at a subsidiary level as envisaged merging of certain subsidiaries as we go forward. Second stage of business transfer is progressing as per schedule and is expected to be completed by Q1 FY2017. We expect to receive the second tranche by July 2016.

Moving on to the financial performance for the year, though our top line for the year declined by 2.1% compared to FY2015, we are able to improve our profitability. EBITDA increased by 9% to Rs 2,429 million at 17.9%

margin. This resulted in a 180 bps improvement in margins. Our net profit for the year was Rs. 837 million which is a 16% growth over the last year. Margin improved by about 100 bps to 6.2%. Decline in revenues is primarily due to the change in product mix in Specialty Chemical business and eventual divestiture of certain identified products segments to Clariant India. Healthcare segment recorded a growth of 4.3% to reach Rs. 9,742 million and this growth is primarily driven by improved performance of the FDF business coupled with a steady growth in the API segment. Growth in the API business was around 15% on a constant currency basis. Margins in healthcare business improved from 7.1% in FY2015 to 11.7% FY2016. This was driven by robust performance of both the API and FDF divisions in Healthcare vertical.

Outlook for margins is positive as healthcare business is expected to benefit from higher utilization, improved product mix and cost optimization in the medium term. New product filings and sustained investments in R&D remains a focus area for the healthcare vertical. Post the Clariant deal, the Specialty Chemicals business will continue to focus on niche chemicals for hair dyes, photochromic dyes and pharma intermediates. With this I would now like to open up the line for question and answers.

Moderator: Thank you very much Sir. Ladies and gentlemen we will now begin the question and answer session. Our first question is from the line of Keval Shah of Labdhi Finance, please go ahead.

Keval Shah: While going through the balance sheet and profit and loss account which has been declared, profit has gone up and EPS has also gone up by approximately Rs. 84 crores to be precise but while going through this page of consolidated balance sheet, reserves has only gone up by Rs. 26 crores.

Santosh Varalwar: That is mainly because of the translational reserves.

Keval Shah: You know it is a Rs. 479 crores for last year reserves and current year reserves as on 31st March 2016 is only Rs. 505 crores.

Santosh Varalwar: Right, because of the forex translational reserve. That is why you do not see that, it is suppressed.

Keval Shah: It is a notional.

Santosh Varalwar: Notional, yes.

Keval Shah: And second thing is regarding this liquidity position, dividend has not been declared so what will be your dividend distribution policy henceforth?

Santosh Varalwar: I think last year also we could not declare dividend as there was a lot of debt in the book, so we are trying to down size it. We are waiting to do a second closure very soon probably by July end 2016. I think once we have received the funds, the board will definitely consider some plan of interim dividend.

Keval Shah: How much this amount will be received on the second closure?

Santosh Varalwar: Second closure we are expecting another Rs. 120 odd crores to come.

Keval Shah: Out of that you will be planning to utilize for giving some distribution of a dividend?

Santosh Varalwar: That is exactly what the board has thought over.

Keval Shah: Okay that could be by end of first quarter?

Santosh Varalwar: Yes I think after the first quarter results, after the board meeting we will take the decision.

Keval Shah: And regarding this hair dye and photochromic, what are the plans whether any of the chemicals or this research based products has been sold to the Clariant or it is fully owned by the company?

Santosh Varalwar: In the Clariant deal we only sold Personal care products whereas the Hair dye business is completely retained by Vivimed and where we have customers like Henkel, Loreal, P&G, Wella and many other domestic and the second tier customers. So I think in that we have definitely expanded our product range, we have recently launched a new product called MBB specifically for Wella, P&G range, so we will see the traction from those products coming through and we also got a pipeline of some more new hair colors which we will be marketing again to our existing clientele. At the photochromic we have really seen a good traction in terms of demand. I think photochromic business which was sort of muted last few years, we suddenly see there is a surge in the demand and I think it is mainly because of new product pipeline that we have developed and recently we have also come to an understanding with Mitsui Chemicals, a Japanese company where we are going to supply them some key photochromic and that will also result in some kind of an operation back in India. So as far as the photochromic business is concerned that we are definitely seeing a good traction and photochromic business as you know it is a highly profitable business so obviously it will take care of the margins and other things in Specialty Chemicals segment.

Keval Shah: Regarding your debt position as I observed, was a long term debts have gone down from Rs. 483 crores to Rs. 257 crores, so what will be current year's plan as soon as we receive an amount from the Clariant deal?

Santosh Varalwar: I think basically the Rs. 120 odd crores that we are expecting to get it, part of that will go for debt reduction and of course retaining some amount for IP because as you are aware the company is in the full steam ahead in terms of filing new ANDA for our Alathur plant for US FDA products. So I think it is

justifiable to say that total amount will not be used for debt reductions but definitely majority of this amount will be used to debt reduction and some amount will go for utilizing for filing new ANDAs.

Keval Shah: And how much you see your interest cost amount to be saved in current year?

Santosh Varalwar: The interest element as we see on an annualized basis will come to something like a Rs. 25 crores savings and our weighted average cost of capital post all these deals will be somewhere in the range of 7% to 8%.

Keval Shah: And last question, how many molecules were submitted for the approval in last year and what will be situation in the current year and what is the CAPEX for this approval with the US FDA?

Santosh Varalwar: I would like to split my answer in two things; one for API, API we have filed four new DMF and at least we have six DMFs in pipeline. So as we always said I think we will continue to maintain about 6 to 8 new filings, drug master files, either filing from Spain or Mexico, so that rate will continue to be there because we also have CMO projects with different companies like Pfizer, GSK and all of them we obviously will have to keep our R&D operations preoccupied for CMO.

So, it is justifiable to say that we will continue to maintain 6-8 filings DMFs new filings, new products and projects which are going off patent 2019 to 2022, so I think we are already in the process. When it comes to ANDAs, I think about six ANDAs is justifiable in the existing situation, the filing of about 6 ANDAs per annum is a good rate for us and most important thing obviously what the company is trying to do is that whatever the new DMF filings that are coming up, we are trying to see that there is integrated with the FDFs, so the DMFs, so whatever new ANDA filings are coming, it primarily going to be with the internal API. So, that way I think we will probably complete our integration within FDF as well as API more correctly.

Keval Shah: And CAPEX to be done in current year for these filings, the approval phase?

Santosh Varalwar: As I said some money out of the first receipts we will use for that and we feel that if we are talking about 6 ANDA filings then it is another Rs. 15-20 crore investment on ANDA filings. As far as CAPEX is concerned I think we have already incurred CAPEX in Alathur plant, the US FDA plant, now we do not envisage any CAPEX going forward. So as we mentioned in the past meetings also, we increase our Solid dosage capacity from 1.2 billion to 2.2 billion, so we have sufficient capacity to take care of our at least next 2 years of our filings and expected volumes of generics that we are going to sell. And coming back to other areas like in API, yes we did incur certain CAPEX in Mexico and certain CAPEX in Spain, particularly on account of sudden surge of demand for generic APIs. As I mentioned in my opening remarks, it is mainly because the climate turned favorable for us as lot of companies which are selling their generic formulations are looking at source from Europe and North America. So, I think Vivimed benefitted because we have two plants in Barcelona and again one plant in Mexico, API plants. So definitely in last few months we have seen a positive traction towards existing product pipeline that we are already selling for more off take and I think this trend will continue to be there as the concerns of FDA and all of them which are paramount in this country that is what you are seeing all the, probably that impact will come along there. So, and then since we see that there is like a long list of pipeline for CMO projects, we need to be prepared to also maintain production levels for the coming molecules, so we have incurred CAPEX in both these plants and going forward I think we will have to spend some more money.

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

Shubhankar: There was a sharp de-growth in your Specialty Chemical business, on a sequential as well as year on year basis, so this Rs. 119 crores, is this the normal run rate for you now, going ahead or what is the kind of revenue run rate per quarter from Specialty Chemical?

Santosh Varalwar: Yes, I think Specialty Chemical if you see we had from peak of about Rs. 400 odd cores so it has come down, so about Rs. 160-170 crores of Specialty Chemical business has been transferred to Clariant, so to that extent obviously you will see the impact coming in the full year this year but anyways there is an organic growth which will also take care of that, I just discussed about Hair Dyes and Photochromic, maybe one or two quarters there will be a muted growth but after that there is a pipeline which is there, which probably will take care of that and then as you said the Specialty Chemicals will also comprise of certain Pharma intermediates which are going to be supported for our overseas Pharma activity also for certain new customers so that growth will come from that segment whereas today it is hardly anything from that segment. You might see muted numbers in the next two quarters but probably after that you will see some improvised numbers coming from Specialty Chemicals growth.

Shubhankar: Secondly is that Rs. 258 crores has been received, out of that how much you have used for the debt repayment and how much gone into CAPEX?

Santosh Varalwar: If you see that roughly about Rs. 146 crores went for debt repayment. And balance went into, certain part of it we paid for part taxation and partly it went into the CAPEX.

Shubhankar: So of the balance 120 odd crores if you use mostly into debt repayment, what is the gross borrowing number going to be at the end of H1, I think you will be giving your balance sheet at the end of second quarter, what is the target debt level that you have by March '18 or September '16 say?

Santosh Varalwar: I think is that at least the impact will be overall about Rs. 225 crores debt will reduce out of the whole proceeds at the end of H1 probably that is more appropriate because even if we close the second tranche in July then the inflows will come in and we will adjust some more debt repayments. So if you really see from where we were prior to the deal and where we will be after the deal, I think at least about Rs. 225 crores of debt would have reduced so that is why I said the impact of that will be about Rs. 25 crores of interest impact will come to us. So we will have a saving of Rs. 25 crores of interest.

Saurabh SG: Just to add to Mr. Santosh's point I think from now till the closure of the transaction which should be H1 you should see debt going down by another Rs. 70 crores to Rs. 75 crores.

Shubhankar: So by the end of H1 we will be about Rs. 600-610 crores.

Saurabh SG: Yes that is right.

Shubhankar: And finally did you say anything about the dividend declaration which may happen?

Santosh Varalwar: See we discussed this with the board level and more tried that after the second tranche funds come they would like to look at positively on the interim dividend, so once I think we close it we will be in a better position to comment on that.

Moderator: Thank you. Our next question is from the line of Kunal Sabnis of VEC Investments Please go ahead.

Kunal Sabnis: Could you detail why there was an interest outlay of Rs. 25 crores in Q4, was this normal or there were a couple of one-off in it?

Saurabh SG: The interest cost has gone up in this quarter and as you mentioned there is some one-time elements which are there which contributed to this and I

think it would be fair to assume that one-time elements were to the tune of nearly €1 million to €1.1 million, so this is pertaining to something the foreign subsidiary so these would get normalized from the current quarter onwards.

Kunal Sabnis: So that should not be there in the following quarter?

Saurabh SG: That is right and in fact we used to pay around Rs. 18 - 19 crores of interest consistently and once the debt is gone down and we should see reduction in the interest payments also as Mr. Santosh mentioned to the tune of Rs. 20 crores, Rs. 25 crores per annum.

Kunal Sabnis: And just wanted to confirm one thing that the entire repayment of debt has happened in the New Year is it, in quarter 1?

Santosh Varalwar: In the last quarter, Q4.

Kunal Sabnis: Since the last debt numbers, since September I think the debt has just moved down by Rs. 70 crores to Rs. 80 crores, so does that mean that it had increased and then goes repaid?

Saurabh SG: Kunal I think the number which you are saying, if you see in our presentation also, our net debt was close to Rs. 985 crores in March 2015 and that has come down to around Rs. 860-odd crores. So as I mentioned there is a reduction into that extent in the net debt but there would be different moving parts in long-term, short-term and other long-term liabilities so there would be some change in classification but net-net I think we have been able to reduce the debt by the number which was mentioned by Mr. Santosh.

Kunal Sabnis: And just final question on the margins, I guess the margins in quarter 4 was slightly lower both in Spec Chem and Pharma, is 4th quarter generally a weaker quarter or how should I look at it because sequentially the Spec Chem margins dropped quite a bit.

Santosh Varalwar: The Spec Chem margins was mainly because see we are at the transition phase today where we have certain expenses still on us, where we are rendering transactional services to Clariant, so I think this will probably get over by June ending or something. This is not going to be a consistent because margins are mainly on account of Spec Chem and employment expenses and all of them which are impacting, otherwise the product margin levels nothing has impacted.

Kunal Sabnis: So, that should go back to 18-20% levels right, on the EBIT margins?

Santosh Varalwar: At least 20% my guess.

Kunal Sabnis: As a part of the deal we were still to supply some products to Clariant right? How much of that is a proportion of our current Spec Chem revenue?

Santosh Varalwar: See, what we are going to supply them is one product which is Zinc Pyrithione but however Clariant is having an active discussion with us on two more products on ongoing basis, so if only Zinc Pyrithione is there then it will be probably about 10-11% of our overall Spec Chem revenues but if other two products which probably then add up another Rs. 40-50 crores to the top line. If they consider giving two more products which they are contemplating, one I think the revenue contribution additional Rs. 40-50 crores which will signify about 20-25% of their overall Spec Chem business in that case.

Kunal Sabnis: So, as a full fiscal 2017, on Spec Chem side, does Spec Chem should grow by 10% or it should be higher?

Santosh Varalwar: I think it should be about 15-20%, it should be able to grow from where it is left after deducting the Clariant business.

Moderator: Thank you. Our next question is from the line of Suhani Doshi of Edelweiss. Please go ahead.

Suhani Doshi: In the balance sheet there is an increase in the long term liabilities by Rs. 250 crores what would this be?

Santosh Varalwar: Since the whole structure is a slump sale and asset is still not transferred to Clariant and whatever funds we have received, we have not put it up as profitability straightaway, so we have put that into the long term liabilities. So this gets knocked off when we do the second closing and the assets gets back to them. So it is only a movement into the long term liabilities at this point of time.

Suhani Doshi: Okay and second thing is you said the CIS revenues would start picking up in this financial year, can you give a guidance as to what type of revenues would we get from CIS?

Santosh Varalwar: See last year and prior years in spite of getting a Ukraine approval the revenues were practically zero because of whatever the local situation was there but coming this quarter we have just received an order of about Rs. 3.5-4 crores and we expect that to continue every quarter, so we are hoping that at least Rs. 15-20 crores revenue should come from the CIS even at a conservative level. However, we are hopeful that at least the four new products approvals we got for Russia, so we are also expecting some sales from there but as far as our present guidance is concerned we can clearly see that it is Rs. 15-20 crores revenue will come from Ukraine itself.

Suhani Doshi: And another thing, in your segmental numbers the Specialty Chemicals capital employed is increasing quarter on quarter in spite of the sale, so is there new CAPEX which is done in this segment?

Santosh Varalwar: No I think we need to of course look into that but this is something which is continuing to be there. Now I think once we do the second closing, all the assets and other related things go away then that impact will probably come in the next quarter, maybe over first half I guess.



Suhani Doshi: So the quarter 4 revenues also cannot be considered as the base revenues, does that still involves certain revenues which would go to Clariant?

Santosh Varalwar: Yes because we have done the closing in January, so we could not consider that and still there is some transitional sales being given to them so the impact is still there. So the real impact is probably seen post first half H1.

Suhani Doshi: So the first half is also be more of a transitioning?

Santosh Varalwar: Right because H1 I see by July then there will be still some transitional services will be there, some impact will continue to be there till July, I guess.

Suhani Doshi: And one last question is on the pharma segment, the margins in this quarter have been the lowest, so going ahead what would your margins guidance for pharma sector considering the CIS revenues coming in and other plants getting more utilized, Alathur plant?

Santosh Varalwar: If you see the revenues from Alathur plant in FY2016 was practically like hardly anything and from where that is we are almost seeing a significant jump in this current year, so obviously revenues and margins from that segment will look far better and CIS is now having picked up that will add up and also at the API level you have seen that our margins have grown from 9.1% to 14.2%, so we are also hopeful that in the coming quarters that 14% also should see a traction of growth. So I am definitely seeing that with all these key factors the margins in pharma business should look far better.

Suhani Doshi: Would that be reflected right from quarter 1 or do you see more of it will be over the quarters?



Santosh Varalwar: I guess it will start looking up from quarter 1 but as a full blown situation, you can probably see from quarter 2, where like Alathur revenues going to pick up more.

Moderator: Thank you. As there are no further questions from the participants I now hand the floor back to Mr. Santosh Varalwar for closing comments, over to you Sir.

Santosh Varalwar: Thank you ladies and gentlemen for listening to us patiently. We promise to come back to you again quarter on quarter updating you what things are but definitely I can say that company is putting best efforts to address the debt situation. One of the actions taken by us clearly demonstrate that and then the big story is that we are a fully integrated pharma company right from API intermediates to Pharmaceutical formulations in domestic market as well as US generic. The complete advantage of this is still to be taken and we are just in the process of it, so over the coming quarters, in the coming years I am sure when the full integration happens, there will be lot more good news to be shared with all of you. At the company level we are very upbeat because we have facilities which are world class and today we have four US FDA approved facilities and whatever the climate that exist today in spite of that we have been lucky that all our four facilities have inspected during the last financial year and all of them have come out with flying colors and we continue to invest on human capital, we continue to invest on intellectual capital and I am sure the coming years to come whatever initiatives that as a company we have taken you will see some interesting things happening. Thank you very much.

Moderator: Thank you members of the management. Ladies and Gentlemen on behalf of Vivimed Labs that concludes this conference. Thank you for joining us and you may now disconnect your lines.

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Note: This transcript has been edited to improve readability

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