



Tomorrow!

Vivimed Labs Limited

Q2 FY2015 Earnings Presentation

November 12, 2014



Vivimed

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The Company is hosting a conference call for analysts and investors on November 17, 2014 (Monday) at 3:30 PM IST to discuss the performance. Please find below the dial-in details:

Conference Dial-In Numbers	
Primary Number	+91 22 6746 5864
Secondary Number	+91 22 3960 0664
<i>The numbers listed above are universally accessible from all networks and all countries</i>	



Where Chemistry and Quality Matters

Unique Business Model

- Uses chemistry to create ingredients which touch human life on a daily basis
- Focused on the Health Care, Personal Care, Home Care and Industrial segments globally
- Multiple manufacturing and R&D centers provides efficient platforms in India across business segments
- Product portfolio caters to over 75% of the personal care ingredient market
- Combination of stable margin and high growth global businesses

Best-in-Class Operations

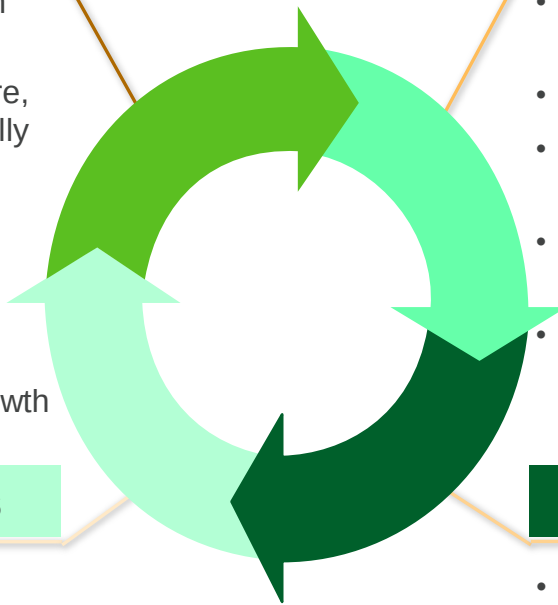
- 12 manufacturing facilities and 5 R&D centers across the world
- 4 US FDA approved sites
- Healthcare revenues: Regulated markets 85% and Semi Regulated markets 15%
- High entry barriers: Long standing customer relationships and in house knowledge base
- Flexible manufacturing across API and Active Ingredients

Attractive Industry Dynamics

- India is expected to be the third largest global generic API market by 2016, with a 7.2% market share
- Between 2011 and 2016 patent drugs worth \$255 billion are estimated to go off-patent
- Indian pharmaceutical industry to reach \$45bn in 2020, a CAGR of 12%

Robust Financial Performance

- 5-year Net Sales CAGR of 40% and EBITDA CAGR of 32%
- R&D investments: 4% of FY2014 Revenues
- Short-term bank facilities rated A3 and long term facilities rated BBB- by CARE Ratings
- Strong transnational management team with proven track record of delivering growth & profitability



Business Segments

Healthcare

68.5% of Q2 FY15 sales



- Active Pharmaceutical Ingredients (API)
- Finished Dosage Formulations (FDF)



Personal Care

15.0% of Q2 FY15 sales

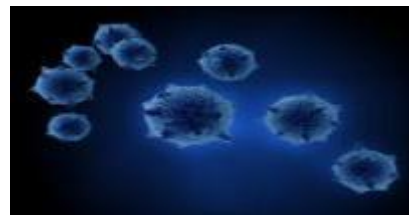


- Sun Care
- Skin Care
- Hair Care
- Oral Care
- Naturals



Home Care

12.5% of Q2 FY15 sales

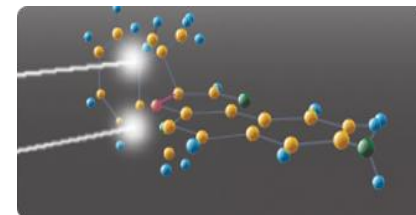


- Antimicrobials
- Specialty Intermediates
- Preservatives



Industrials

3.8% of Q2 FY15 sales



- Photo Chromic Dyes
- Imaging Chemicals



Q2 FY2015 Net Sales of Rs. 3,168 million (up 3.1% y-o-y)
EBITDA of Rs. 518 million (flat y-o-y) at margin of 16.3%



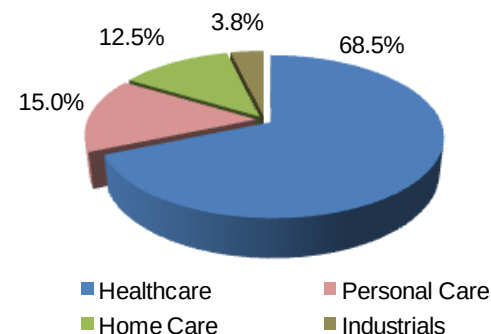
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Consolidated Financial Performance

Performance Highlights

- Net Sales of Rs. 3,168 million
 - Increased 3.1% y-o-y
- EBITDA of Rs. 518 million (flat y-o-y)
 - EBITDA margin of 16.3%
- Net Profit of Rs. 164 million and margins of 5.2%

Q2 FY2015 Revenue Breakup



Commenting on the performance, Mr. Santosh Varalwar, MD and CEO of Vivimed Labs said:

"Q2 FY2015 has been a mixed bag for us. While some of our operations were impacted by one-off events dragging our growth rate down, overall we are quite pleased with how the operations have moved during the last quarter. In the Healthcare segment, key account scale ups are as per expectations for generics as well as custom manufacturing. Recent successful completion of the FDA audit at our Mexico facility will give a fillip to our outlook for both the CMO and the generic businesses. We hope to capitalize on this meaningfully with results evident in the next 12-18 months. On the Formulations side, although volumes in CIS were impacted by the current geo-political scenario in the region, we have moved aggressively to finish scale up activities and are ready to launch even at a short notice. We expect this to start making meaningful contribution from Q1CY15. In the Specialty Chemicals segment, we see significant growth opportunities across home & personal care and the industrial segments. Our order book is strong and we expect to gain momentum in the second half of the year. Half way through the year, we are confident of meeting our year end goals."



Financial Performance

Consolidated Financials

(Rs. million)	Q2		y-o-y	Q1		H1		y-o-y
	FY2015	FY2014	Growth (%)	FY2015	Growth (%)	FY2015	FY2014	Growth (%)
Net Sales	3,168	3,073	3.1%	3,678	(13.9)%	6,846	6,512	5.1%
EBITDA	518	524	(1.1)%	581	(10.8)%	1,099	1,012	8.5%
Margin (%)	16.3%	17.0%		15.8%		16.0%	15.5%	
Net Profit	164	164	0.2%	171	(4.2)%	335	364	(7.8)%
Margin (%)	5.2%	5.3%		4.7%		4.9%	5.6%	
Basic EPS (Rs.)	10.13	10.11	0.2%	10.57	(4.2)%	20.70	22.44	(7.8)%

Note: Net Sales includes Other Operating Income

Key Observations

- Revenue growth in Q2 FY2015 was impacted due to slower growth across both the businesses. Healthcare segment growth was impacted due to (1) lower capacity utilization at Mexico facility on account of planned maintenance and preparation for the FDA audit. However, Spain reported 23% y-o-y growth; (2) Slower than expected ramp up in the CIS markets due to the ongoing geo-political scenario. Specialty Chemicals segment growth was impacted by prolonged approval periods for some key products
- EBITDA margin was 16.3% driven by significant improvement in the Specialty Chemicals margins. Healthcare segment margins were impacted due to higher cost of production and overheads allocation over a lower sales base
- There was a tax credit during the quarter of Rs. 8 million on account of excess provision created in the earlier quarter and deferred tax impact at subsidiary level
- Net debt as of Sept 30, 2014 Rs. 7,578 million vs. Rs. 7,606 million in Mar 31, 2014

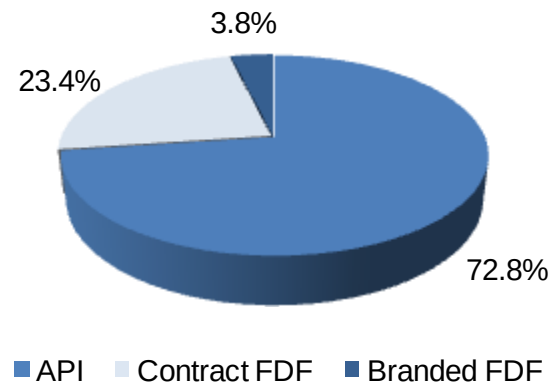


Segment Highlights

Healthcare segment

- Total revenue of Rs. 2,150 million up 3.7% y-o-y; EBIT margin of 5.5%
- In the API segment, manufacturing volume showed consistent improvement over Q2 FY2014 based on the current generic pipeline. Growth in Spain (23% y-o-y) was offset to a certain extent by lower utilizations at Mexico facility due to planned maintenance and preparation for the FDA audit. Normalized for this, Mexico operations growth was 15% y-o-y
- In the FDF segment, growth was driven by higher utilization of the contract FDF facilities. Due to the current situation in the CIS region, ramp up was slower than expected; CIS volumes are expected to gain momentum in Q3 FY2015 onwards
- At Alathur facility, Vivimed was focused on filing new products during the quarter as well as third party high value contract manufacturing
- Branded FDF business performance was strong given new launches and broader portfolio. Expect to perform better in H2 FY2015 as new launches start to make full contribution and consolidation of recently acquired brands in the chronic pain segments

Revenue Breakup (Q2 FY2015)

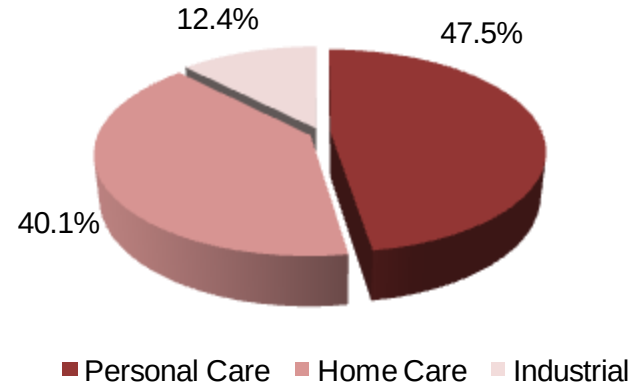


Segment Highlights

Specialty Chemicals segment

- Total revenue of Rs. 987 flat y-o-y but up 11.3% q-o-q; EBIT margin of 23.8% (up 256 bps)
- Margins have improved due to portfolio rationalization, cost optimization and efficient capacity utilization. Increased revenue from high margin photochromics and imaging products have also contributed to margins
- Q2 FY2015 growth was impacted by prolonged approval periods for some key products and orders were postponed to H2 FY2015. Given the nature of the business, it has long gestation periods. Expect to gain momentum by the end of the fiscal year
- In the personal care segment, skin care and hair care continue to drive the growth. However, sun care and hair dyes volumes were under pressure
- In the home care segment, antimicrobials revenues declined due to reformulation by large players while approvals for replacement continue to take longer than expected
- In the industrial segment, photochromics and imaging product volumes continue to remain robust. Strategic initiatives with key customers in place for continued growth

Revenue Breakup (Q2 FY2015)



Segment Highlights

(Rs. million)	Q2		y-o-y	Q1		q-o-q	H1		y-o-y
	FY2015	FY2014	Growth (%)	FY2015	Growth (%)		FY2015	FY2014	Growth (%)
Segment Revenue	3,136	3,066	2.3%	3,665	(14.4)%		6,802	6,474	5.1%
Specialty chemicals	987	994	(0.7)%	886	11.3%		1,873	1,977	(5.3)%
Healthcare	2,150	2,073	3.7%	2,779	(22.6)%		4,929	4,497	9.6%

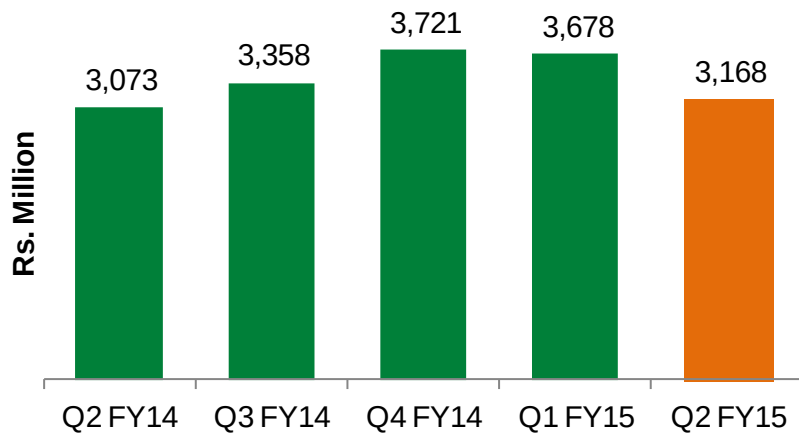
EBIT	353	350	0.7%	416	(15.2)%		768	692	11.0%
Margin (%)	11.2%	11.4%		11.3%			11.3%	10.7%	
Specialty chemicals	235	211	11.3%	179	31.5%		414	361	14.6%
Margin (%)	23.8%	21.3%		20.2%			22.1%	18.3%	
Healthcare	117	139	(15.4)%	237	(50.4)%		354	331	7.1%
Margin (%)	5.5%	6.7%		8.5%			7.2%	7.4%	

Capital Employed	14,311	14,151	1.1%	14,685	(2.5)%		14,311	14,151	1.1%
Specialty chemicals	7,911	8,067	(1.9)%	8,159	(3.0)%		7,911	8,067	(1.9)%
Healthcare	6,400	6,084	5.2%	6,526	(1.9)%		6,400	6,084	5.2%

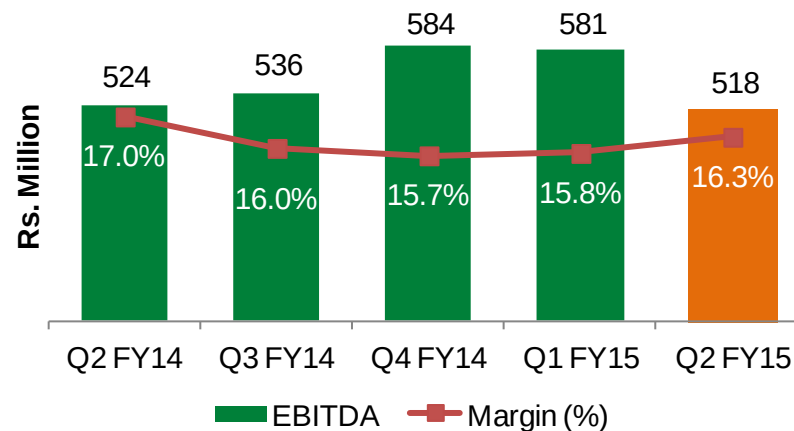


Quarterly Financial Trends

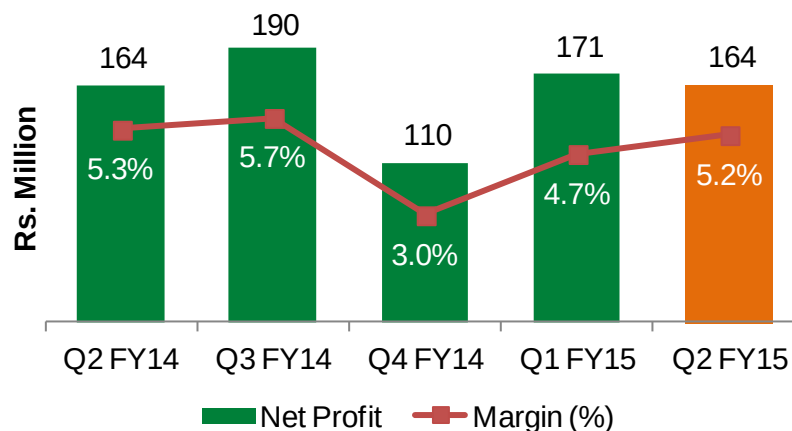
Net Sales



EBITDA and Margins

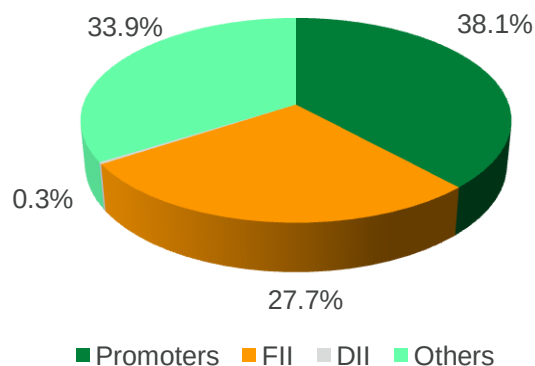


Net Profit and Margins



Capital Markets

Shareholding Structure



Key Institutional Investors



Shareholding Pattern Trend

Shareholders	Sep-13	Dec-13	Mar-14	Jun-14	Sep-14
Promoters ¹	37.8%	37.8%	38.1%	38.1%	38.1%
FII / FDI	27.5%	27.5%	27.5%	27.6%	27.7%
DII	2.4%	2.4%	2.3%	2.3%	0.3%
Others	32.3%	32.3%	32.1%	32.0%	33.9%
Total	100.0%	100.0%	100.0%	100.0%	100.0%

Note:

1 IFC holds FCCBs



Vivimed

Strategic Direction

Where Chemistry and Quality Matters

Continue to **strengthen engagements** with marquee customer base through superior product development and delivery capabilities

Move up the **value chain through vertical integration in Healthcare** (R&D to manufacturing of API / FDF / brands) and target **niche opportunities in the Specialty Chemicals** segment

Optimize utilization of existing global manufacturing platform to enhance capital efficiencies and shareholder returns

Increase penetration in existing **regulated and semi regulated Healthcare markets** and target selected new geographies

Focus on early stage **innovative R&D** and **product development** to drive monetization of business opportunity across all segments

Leverage the strengthened management team to support the future growth aspirations and deliver sustainable returns over the longer term

Successful integration of recent initiatives which will bring scalability through a larger opportunity space and a platform to address the same



Global Reach

A multinational global platform that provides Vivimed access to markets and significant cost advantage



Note: Names in **Green** indicate facilities which are US FDA approved

Facilities	Mexico	Spain	UK	China	USA	India	Total
Healthcare – API 	1	2					3
Healthcare – FDF 						7	7
Specialty Chemicals - Active Ingredients 						2	2
Total Facilities	1	2				9	12
R&D Facilities		1	1			3	5
Global Support Offices		1	1	1	1	1	5



Strong Transnational Management Team

Key Management	Profile
Santosh Varalwar <i>Managing Director & Chief Executive Officer</i>	• First generation entrepreneur • Business growth strategy and leadership; Focus on key global client relationships • Previously associated with Shipping Corporation of India
Subhash Varalwar <i>Vice Chairman</i>	• Responsible for technology and new product development in the Active Ingredients segment • Previously associated with Fertilizer Corporation of India for 15 years
Sandeep Varalwar <i>Executive Director</i>	• Associated with Vivimed since its incorporation and leads Vivimed's Healthcare FDF division • Over 19 years of experience in manufacturing and marketing in the Healthcare industry
Vaidyanathan Mahadevan <i>Chief Financial Officer</i>	• Has over two decades of experience in project finance, private equity, IPO, structured finance, cross-border M&A, taxation, business planning and strategy • Previously worked with Hostmann-Steinberg, Bayer, Stock Holding Corporation of India and A. F Ferguson & Co.
Mark I Robbins <i>Chief Executive, Uquifa, Vivimed's API Division</i>	• Associated with Chemicals and API industries for over 24 years • Previously a member of the management executive committee of Yule Catto, UK • Previously worked with Johnson Matthey for 10 years • Member of the Institute of Marketing and Engineering , UK
George Polson <i>COO, Specialty Chemicals, VLI, USA</i>	• Leads the operations of the Global Specialty Chemicals Division and has • Industry experience of over 30 years with reputed companies such as Lonza and DSM • Holds ~40 US and World patents • Member of the American Chemical Society (ACS), the Society of Cosmetic Chemists (SCC), and Society of Investigative Dermatology (SID) and American Society of Pharmacognosy
Saurabh SG <i>Director, Corporate Strategy and Business Development</i>	• Responsible for the Vivimed Group's overall strategic initiatives; and business operations of the healthcare segment • Has more than ten years of experience across Investment Management with global firms such as Prudential Financial, Kotak Mahindra and Credit Suisse



Annexure – Quarterly Consolidated P&L Statement

Profit & Loss Statement (Rs. million)	Q2 FY14	Q3 FY14	Q4 FY14	Q1 FY15	Q2 FY15
Revenues					
Net Sales / Income from Operations (Net of Excise Duty)	3,066	3,353	3,682	3,665	3,136
Other Operating Income	6	5	39	12	32
Total Revenues	3,073	3,358	3,721	3,678	3,168
Expenses					
Cost of Raw Materials Consumed	1,461	1,748	1,903	1,876	1,672
Other Expenditure	616	774	1,119	894	747
Changes in Inventories of Finished Goods, WIP and Stock in Trade	123	(149)	(299)	(145)	(192)
Employee Benefit Expenses	349	449	412	472	423
Total expenses	2,549	2,822	3,136	3,097	2,650
Operating Profit (EBITDA)	524	536	584	581	518
Depreciation and Amortisation Expenses	174	169	171	165	165
EBIT	350	367	413	416	353
Finance Costs	172	156	176	184	197
PBT	179	210	237	232	156
Tax Expenses	15	20	126	60	(8)
PAT	164	190	110	171	164
Basic EPS (Rs)	10.11	11.72	6.81	10.57	10.13
Margins (%)					
Gross Margins	48.5%	52.4%	56.9%	52.9%	53.3%
EBITDA margins	17.0%	16.0%	15.7%	15.8%	16.3%
PAT margins	5.3%	5.7%	3.0%	4.7%	5.2%
Y-o-Y Growth (%)					
Total Revenues	11.4%	22.4%	25.6%	6.9%	3.1%
EBITDA	(2.8)%	44.3%	29.3%	18.9%	(1.1)%
PAT	(35.9)%	12.2%	(26.3)%	(14.3)%	0.2%
Q-o-Q Growth (%)					
Total Revenues	(10.7)%	9.3%	10.8%	(1.2)%	(13.9)%
EBITDA	7.3%	2.3%	9.0%	(0.6)%	(10.8)%
PAT	(18.0)%	15.9%	(41.8)%	55.1%	(4.2)%
Effective Tax Rate	8.3%	9.6%	53.3%	26.0%	(5.4)%

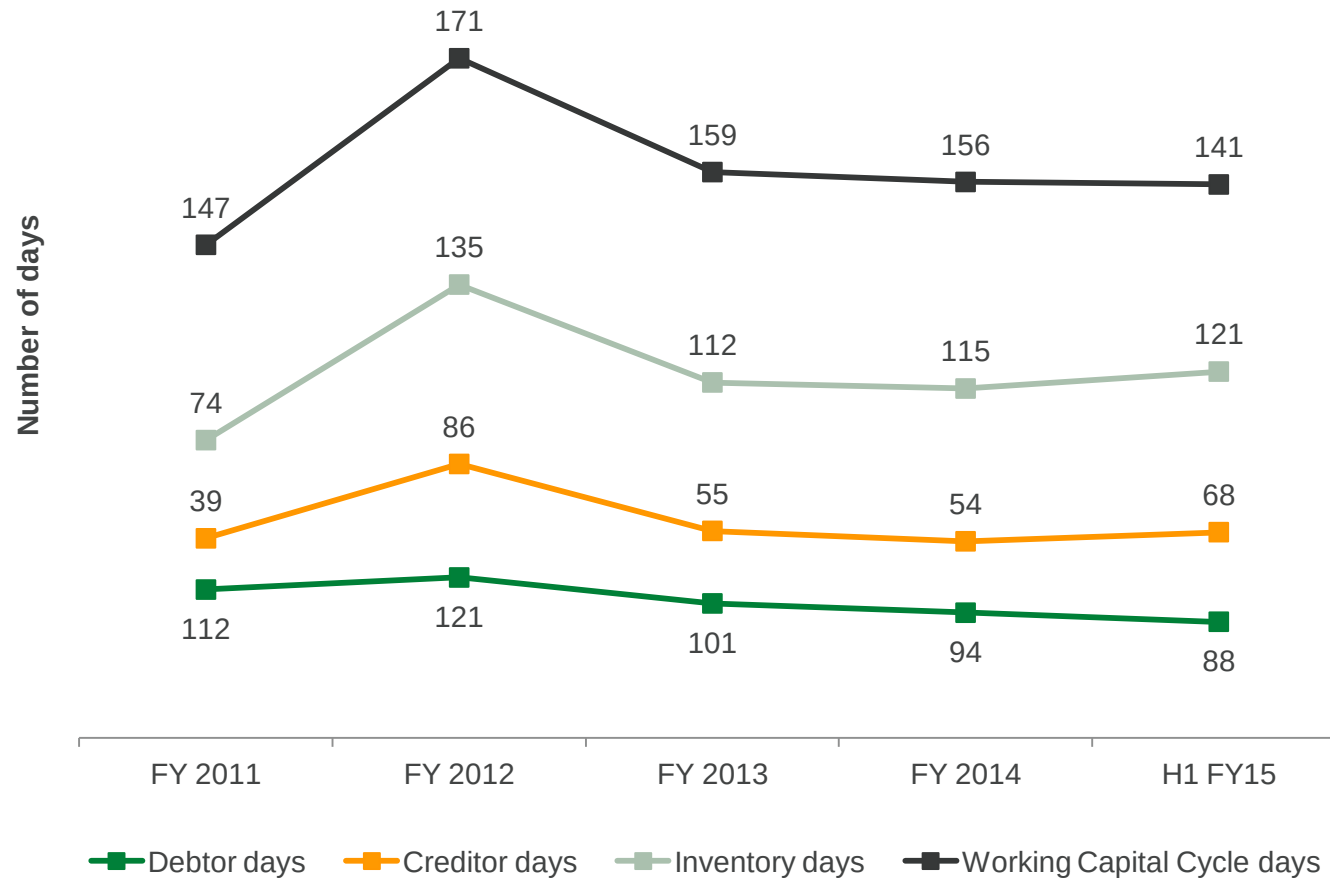


Annexure – Consolidated Balance Sheet

Liabilities (Rs. million)	Mar 31, 2014	Sep 30, 2014
Shareholders funds		
Share capital		
Equity share capital	162	162
Preference share capital	639	639
Reserves and surplus	4,778	4,528
Money received against share warrants	24	
Total Shareholders Funds	5,604	5,330
Non current liabilities		
Long term borrowings	4,197	4,365
Deferred tax liabilities	255	185
Other long term liabilities	485	733
Long term provisions	52	52
Total Non Current Liabilities	4,988	5,334
Current liabilities		
Short term borrowings	3,755	3,647
Trades payable	1,994	2,563
Other current liabilities	1,632	1,823
Short term provisions	348	415
Total Current Liabilities	7,729	8,449
Liabilities total	18,321	19,113

Assets (Rs. million)	Mar 31, 2014	Sep 30, 2014
Non current assets		
Tangible assets	7,078	7,013
Intangible assets	1,001	978
Tangible and Intangible assets	8,079	7,991
Capital work in progress	381	758
Non current investments	2	27
Other non current assets	202	207
Total Non Current Assets	8,665	8,983
Current assets		
Inventories	4,267	4,593
Trade receivable	3,496	3,322
Cash and bank balance	346	434
Short term loans and advances	1,325	1,499
Other current assets	223	283
Total Current Assets	9,656	10,130
Assets Total	18,321	19,113

Annexure – Working Capital Cycle



Annexure – Key Ratios

	FY2012	FY2013	FY2014	H1 FY2015
Net Worth (Rs. million)	4,748	5,091	5,604	5,330
Net Debt (Rs. million)	5,079	5,741	7,606	7,578
Fixed Assets (Rs. million)	5,953	7,090	8,079	7,991
ROE (%)	18.4%	18.8%	13.4%	13.6%
ROCE (%)	8.1%	9.4%	7.8%	8.2%
Interest Coverage Ratio (x)	3.74	3.39	2.44	2.17
Net Debt to EBITDA (x)	3.82	2.91	3.57	3.42
Net Debt to Equity (x)	1.07	1.13	1.36	1.42

Notes:

- 1 Interest Coverage Ratio: EBIT / Finance Cost
- 2 ROE: Net Income / Shareholders Equity excluding Preference Share Capital
- 3 ROCE: EBIT * (1 – ETR)/ (Total Assets – Current Liabilities excluding Short Term Borrowings)
- 4 H1 FY2014 ratios are based on LTM figures



Glossary

- ANDA: Abbreviated New Drug Application
- API: Active Pharmaceutical Ingredients
- CEP: Certificates of Suitability to the monographs of European Pharmacopoeia
- CMO: Contract Manufacturing Organization
- DMF: Drug Master File
- FDF: Finished Dosage Formulation
- H&PC: Home and Personal Care
- MRs: Medical Representatives
- MA: Marketing Authorization



Thank You

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