



Investor's Delight

3rd January, 2011

Company	Vivimed Labs Ltd.
BSE Code	532660
FV	Rs. 10
Equity Capital (Rs in mn)	99.7
Reserves (Rs in mn)	1,289
Market Capitalization (Rs in mn)	3,170
CMP	Rs. 312
Recommended entry price (for high margin of safety)	Rs. 280
Target Price/Fair Value	Rs. 400
Upside	More than 30%

A) About the company

Background

Incorporated in 1989, Vivimed Labs is engaged in manufacturing of speciality chemicals in the Home and Personal Care segment. In addition to this, it has presence in manufacturing of pharmaceutical API's and formulations.

Manufacturing facilities: The company has five manufacturing plants in southern and northern India. In addition to this, the company has R&D centres at Hyderabad and Huddersfield.

Loaction	Segment
Bidar, Karnataka	Specialty Chemicals
Bonthapally, Hyderabad	Specialty Chemicals
Jeedimetla, Hyderabad	Formulations and R&D
Haridwar, Uttarakhand	Formulations
Kashipur, Uttarakhand	Formulations

B) Investment Rationale

- 1) Strong presence in speciality chemicals segment:** This segment has huge entry barriers for new players. This is mainly because of a) stringent quality norms, b) Vivimed's early mover advantage and strong relationships with clients like – L'Oreal, Unilever, P&G, Marico and many others
- 2) Expansion plans in place, strong revenue guidance:** The company has been on an expansion spree since 2007. It has witnessed gross block addition CAGR of 38% over FY07-FY10. It recently undertook brownfield expansion at its existing plant at Bonthapally, Hyderabad catering to segments like Skincare, Hair and Oral care. The company is also setting up a greenfield project at Choutuppal, Hyderabad which it plans to get approved by USFDA to foray in regulated markets like USA and Europe. It has a new commercial production facility for manufacturing sunscreens at Karnataka. Assuming a 70-80% capacity utilization, the management expects to achieve revenue of Rs. 4.25bn in FY11E and Rs. 6.25bn in FY12E on a consolidated basis with substantial contribution in the revenue from the new plant.



- 3) **Marquee clients:** The company has key clients which are one of the best players in their domain. It supplies products to companies like L'Oreal, Unilever, P&G, and Jonson and Johnson etc., wherein the contracts are long term in nature. In addition to this, it caters to companies like Merck, Lupin, Novartis, Cipla, and Astra Zeneca through its specialty pharmaceuticals division.
- 4) **Strategic Alliance with ISP:** The company has entered into a manufacturing alliance with International Specialty Products Inc. (ISP) USA, in June 2010
About ISP: It is a leading global supplier of specialty chemicals and performance enhancing products and produces more than 500 specialty chemicals which it markets and sells worldwide.
- 5) **Outlook and Valuation:** The company witnessed revenue CAGR of 37% over the period FY07-10. Management expects revenue CAGR of 33.6% over the period FY10-12E. As on Q2FY11, the company had healthy OPM of 22.6% and PAT margin of 12.5%. At CMP, the stock currently trades at a P/E of 11x at annualized H1FY11. We believe that the company is well placed to cater companies present in cosmetics space. With due consideration to factors like a) strong presence in speciality chemicals space, b) strategic alliance with ISP, c) volume growth due to strong capex plan of over Rs.1.25 bn over the next three years, d) established relationships with marquee clients, we recommend a '**BUY**' with a target price of Rs.400 (14x at annualized FY11 EPS) for investors with a six months horizon.



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