



Buy

Vivimed Labs (VLL)

Face Value	Rs 10
Last Price	Rs 105
Target Price	Rs 160

Industry: Chemicals

Market Cap (Rs Crs)	98.7
Year High/Low (Rs)	239/91

Holding Pattern (%)

Foreign	10.3
Institutions/Mutual Funds	0.3
Corporate Holding	8.3
Promoters	46.6
Public	34.5

(As on 31 December 2007)

Performance (%)

	3M	6M	12M
Stock (JKLCL)	-37	7	-28
BSE-200	-8.3	18	32.2
BSE-500	-7.7	18.5	32.8

Price Chart: (Weekly)



The upper trendline in the above chart is the resistance line for the stock. A parallel trendline to it starting from the July 2006 has corrected at Rs 120. The stock is currently in a short-term downtrend has support at the lower trendline at around Rs 86. The rally can take the price to Rs 191.

Company Description:

Hyderabad-based VLL is a leading manufacturer and exporter of an API, viz. Triclosan. It also manufactures other Specialty Active Ingredients such as Avis, Chlorophenesin, NDGA and CaGP (Calcium Glycero Phosphate). It caters to both domestic as well as export markets. VLL tapped the capital market with a public issue of 25 lakh equity shares of Rs 10 each at a premium of Rs 60 per share aggregating Rs 17.50 crore in 2005 to part finance its expansion project costing Rs 27 crore. Its five units are located at Hyderabad, Bidar (Karnataka), Hardwar (UP), Bonthapally (Andhra Pradesh) and Kashipur (Uttaranchal).

Highlights:

Its various APIs products include Triclosan (an anti-bacterial drug used in toothpaste and soap etc.), Chlorophenesin (an anti-fungal preservative used in cosmetics, fibres and foodstuffs), AVIS (an effective sunscreen chemical used in body creams and lotions), NDGA (a new anti-oxidant developed by the company, which find use in cosmetics and food & beverage industry) and CaGP (used in oral care formulations for protecting dental enamel).

VLL's customers include Anchor Healthcare, Marico Industries, Unilever, Harmet International (USA), Collaborative Laboratories Inc. (USA), Pharmed, Arnaud Group (France) Hindustan Unilever, Kreglinger Europe S. A., Belgium, Engelhard USA, Benckiser (North America) etc.

The company acquired Creative Health Care Private Limited from Uttaranchal State Financial Corporation, which has become its subsidiary.

The company had raised \$12 million through foreign currency convertible bonds (FCCB). It intends to use the funds along with internal accruals for acquiring a specialty chemicals company abroad.

VLL has recently approved allotment of 4.70 lakh and 14.10 lakh share warrants to promoters and non-promoters, respectively, at Rs 169 per warrant of face value of Rs 10. It will also raise up to \$ 75 million by way of foreign currency convertible bonds (FCCB)/ADRs/GDRs in one or tranches for further expansion and acquisitions.

Key Financial: (Consolidated)

(Rs Crore)

Year End March	9 months FY08	FY07	FY08E	FY09E
Income	141	137	215	300
Other Income	0.1	0.3	0.3	0.5
PBIDT	29.6	24	44.9	59.4
Interest	5	5	8	10
PBDT	24.6	19	36.9	49.4
Depreciation	5.9	6	8	8
Tax	4.7	3.3	7.5	10.4
PAT	14	9.7	21.4	31
Equity		9.4	9.4	9.4
Reserves		57	78.4	112.4
Book Value (Rs)		70.6	93.4	129.5
EPS (Rs)		10.3	22.7	36.2
OP Margin (%)	21	17.5	20.9	19.8
NP Margin (%)	9.9	7.1	9.9	10.3
P/E (x)			4.6	2.9



Valuation & Recommendation:

VLL has a robust pipeline of at least 23 products such as Triclosan (oral care), Avo Benzene (sunscreen), and skin, hair care, etc. It is the country's top producer of the active ingredients that are necessary to manufacture health & personal care as well as industrial products. With the market for these products growing substantially in the country, VLL has set itself on a consolidation and expansion mode.

The global market for active ingredients in H & PC products is estimated to be about \$25 billion, out of the total cosmetic care industry size of about \$250 billion. VLL plans to expand its presence to 50 countries by 2010 from the existing 25-30. Japan, China, Korea and the Gulf countries are new destinations contemplated. It had recently entered the contract-manufacturing space and is working with six global majors.

The company's large product portfolio, regulatory approved manufacturing facilities, ability to scale up production of active ingredients quickly and tie-up with international logistics companies would help it grow fast in the booming personal care industry both domestic and global.

The share is trading at Rs 105 at a P/E of 4.6x on FY08E and 2.9x on FY09E. We recommend BUY with a target of Rs 160 in the medium term.

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