

Vimta Labs Limited

Registered Office
142, IDA Phase II, Cherlapally
Hyderabad-500 051, India
T : +91 40 2726 4141
F : +91 40 2726 3657



VLL\10\S-004\2019\
Date : 19.11.2019

Listing Centre
B S E Limited
P J Towers, Dalal Street
Mumbai: 400001
Scrip Code No.524394.

Asst Vice President
National Stock Exchange of India Limited
"Exchange Plaza", Bandra
Kurla Complex, Bandra (E)
Mumbai – 400 051
Kind Attn: Mr. K Hari.
Trading Symbol : VIMTA LABS

Dear Sirs,

Ref: Regulation 30 of SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015
Sub: Transcript of the Q2-2020 earnings/investor call held on 15th November 2019

Please find enclosed herewith the transcript of the Q2-2020 earnings/investor call held on Wednesday, 15th November, 2019.

Further, pursuant to Regulation 46 of the Listing Regulations, the aforesaid information is available on the website of the Company i.e, www.vimta.com.

This is for your information and necessary records.

Thanking you,

Yours faithfully,

for VIMTA LABS LIMITED

Sujani Vasireddi
Company Secretary

Encl: as above.



“Vimta Labs Limited
Q2 FY2020 Earnings Conference Call
November 15, 2019



ANALYST:

**MR. VISHAL MANCHANDA – NIRMAL BANG
EQUITIES PRIVATE LIMITED**

MANAGEMENT:

**MRS. HARITA VASIREDDI - MANAGING DIRECTOR –
VIMTA LABS LIMITED
MR. AMIT PATHAK - CHIEF FINANCIAL OFFICER-
VIMTA LABS LIMITED
MR. SURESH KUMAR – PRESIDENT – VIMTA LABS
LIMITED
MS. SUJANI VASIREDDI - COMPANY SECRETARY -
VIMTA LABS LIMITED**

November 15, 2019

Moderator: Ladies and gentlemen, good day and a very welcome to the Vimta Labs Limited Q2 FY2020 Earnings Conference Call hosted by Nirmal Bang Equities Private Limited. As a reminder, all participant lines will be in the listen-only mode and 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 “*” then “0” on your touchtone phone. Please note that this conference is being recorded. I will now hand the conference over to Mr. Vishal Manchanda from Nirmal Bang. Thank you and over to you Sir!

Vishal Manchanda: Hi good afternoon everyone. On behalf of Nirmal Bang Institutional Equities, I welcome you to Vimta Labs Q2 FY2020 earnings conference call. I thank the Vimta Labs management for giving us an opportunity to host the call. Today, we have with us the senior management of the company represented by Mrs. Harita Vasireddi - Managing Director, Mr. Amit Pathak - Chief Financial Officer, Mr. Suresh Kumar – President, Ms. Sujani Vasireddi - Company Secretary. I will now handover the conference to the Vimta Labs Management!

Harita Vasireddi: Thank you Vishal. A very good morning to everyone. Thank you for joining this earnings call related to our second quarter of FY2020. This is our first such call and for the benefit of all investor, I would like to start with a very brief overview of the company followed by a high level snapshot of the business during the quarter and H1 also since Q1 and Q2 have been similar and then summarize the new business opportunities for Vimta and related investment plan. Post my briefing, I will ask Amit to walk you through the Q2 and H1 financial performance in a little more detail and then we will take up questions. So to start with, we are in the business of contract research and testing. Our service portfolio includes preclinical, clinical research, analytical support for pharma and biotech companies. We are also in the business of food testing and environmental testing and clinical diagnostic, so this whole thing is one segment for us. We are a 35 year old organization with headquarters in Hyderabad. We have a team of close to 1100 people and serve customers across the globe.

Coming to the second quarter of FY2020 our revenue stood at Rs.424.53 million with an EBITDA of around 15% and PAT of about 2%. This quarter has been flat compared to last quarter and significantly lower than the last years Q2. Reduction in revenues and profit is mainly due to the pricing pressure that we are experiencing that some of our services and temporary slowdown in project pipeline from some of our major customers; these are the primary reasons why we are seeing a slowdown in the last two quarters.

During H1 we started strengthening our leadership, we brought on board Mr. Suresh Kumar as President. He brings with him close to two decades of experience in global testing inspection and certification industry. He was heading operations for South Asia at TUV SUD prior to joining us.

November 15, 2019

We also brought in leaders for electrical and electronics testing services and IT solutions development. We also strengthen our HR leadership. The IT solutions development team has been brought in view to automate and make our processes more efficient. During this period we also had two successful FDA audit one in Q1 for GMP and another one in Q2 for our GCP. In the last board meeting we formalized plans to foray into electrical and electronics testing which would help us respond to the changing regulatory landscape in medical devices and other evolving market opportunities in IT, telecom, electrical vehicle, etc. The board approved acquisition of Emtac Laboratories Pvt Ltd to fast track our entry into this segment. Emtac is a start up with established safety testing capabilities for electrical and electronics products, IT products, telecom and physical security products. It has accreditations and approvals from NABL, NABCB which is National Accreditation Board for Certification Bodies, BIS and TEC.

To sum up, the year so far has been low; however we are confident of improving the numbers and have already taken steps to make the business more resilient going forward.

So with this brief introduction, I will now hand it over to Amit, our CFO to share with you more details on the financials.

Amit Pathak:

Thanks Harita. Good morning everyone. I will start with a brief commentary on the reported performance for the Q2 FY2020 covering revenue, EBITDA and PAT. I will just start by qualifying that during the call we may make some forward looking statement. These statements are considering the business environment we see as of today, so therefore there could be risk and uncertainties that could cause the result actually to vary materially from what we are discussing on the call and we would not always be able to update those forward looking statement.

Revenue for Q2 FY2020 is down by around 2.5% to Rs.425 million compared to Rs.435 million in Q1 FY2020. Further revenue for H1 FY2020 is also down by 21% to Rs.860 million compared to Rs.1084 million in H1 FY2019. Primary reasons as Harita mentioned for the fall in H1 is slowdown in project pipeline from few key customers and also pricing pressure in competitive market.

Now let me talk about the cost element. The operational cost of the company as a percentage of revenue is almost same on quarter-on-quarter basis that is approximately 30%. However, the operational cost the year on H1 is increased by around 3% due to competitive pricing pressure in some services. The human resource cost of the company has remained almost flat on quarter-on-quarter basis and also on year-on-year basis. There is no material change in the number of headcount in Q1 and Q2. The cost also remains the same in spite of investment in senior leadership team of the company. The quarter-on-quarter other expenses has increased mainly due to incurrence of professional charges for few projects whose revenue will accrue to the company

November 15, 2019

in Q3 FY2020. Year-on-year actual other expenses has decreased by around Rs.34 million due to creation of impairment loss on receivables in H1 FY2019 in compliance with Ind AS.

EBITDA for quarter-on-quarter basis has marginally decreased as I can say that it is almost flat where as EBITDA for year-on-year basis has decreased by 13% just because mainly the decrease into the topline and slight increase into the operating cost. Finance cost of the company for Q2 has increased mainly due to higher utilization of working capital in Q2, however on year-on-year basis it has been reduced from Rs.38 million in H1 FY2019 to Rs.16 million in H1 FY2020 due to foreign exchange impact in our FCNR loan. We have also invested heavily in our plant and machinery and other assets around 150 million plus from October 2018 to September 2019, which has impacted the increase in depreciation cost from Rs. 96 million to Rs.104 million in H1 FY2020. The company was also elected to exercise the option permitted under section 115 BAA of the income tax act as introduced by taxation law (Amendment) ordinance 2019. Accordingly, the company has recognized provision for income tax for the period ended September 30, 2019 at the new rate prescribed in this section and remeasured by deferred tax asset at the rate prescribed in this section. The full impact of this change has been recognized in the statement of financial result for the quarter ended September 30, 2019. Accordingly, PAT for the Q2 FY2020 is 2.11% versus 2.68% in Q1 FY2020, the H1 FY2020 PAT is around 2.40% versus 12.19% in H1 FY2019.

Coming to balance sheet, we have invested approximately Rs.58 million in plant and machinery and other asset in H1 FY2020. Further, the company is also doing substantial investment in its IT infrastructure which will be completed by the end of this year. The outstanding from especially MSME vendors has reduced in H1 FY2020 substantially to comply the MCA notification released in February 2019. Company is also paying all its banks and statutory dues well within the due date and the working capital utilization of the company has increased from Rs. 49 million in Q1 FY2020 to Rs.100 million in Q2 FY2020 due to slowdown in revenue. The overall H1 has been slow; however we expect to turn it around Q3 onwards. With this I will handover back to operator and we would be happy to take question.

Moderator: Thank you very much. Ladies and gentlemen, we will now begin the question and answer session. The first question is from the line of Nisarg Vakharia from Lucky Investment Managers. Please go ahead.

Nisarg Vakharia: Good morning everyone, since this is our first interaction, I may have some basic questions. So if I look at your company history from 2010 to 2019, we always have reported a 0.5 times gross block turnover and or working capital as a percentage to sales is 30%, approximately 25-30% is my assessment correct?

November 15, 2019

- Amit Pathak:** Yes so what you are saying is the last couple of year, what you are saying is right, but definitely for the earlier years, we cannot comment right now, because the numbers are not very much handy with us.
- Nisarg Vakharia:** So Sir is this a very capital intensive business because if we do a turnover, for a 100 Crores turnover if we have to invest 200 Crores is there a lot of capital intensity which is going to continue or you are doing something to change it?
- Harita Vasireddi:** So some of the services that we have are capital intensive and some are not, so we have a good mix of services that have different sales cycle and some of them we have very good margins and these margins come from early investments that we make in technology that usually puts us ahead of the curve and therefore we are constantly upgrading our technology. So I would say yes partially we are a technology intensive organization.
- Nisarg Vakharia:** Madam because of this the reason is that the return on capital of our company in any point of time is never gone above 16-17% so is this the fair return on capital that we expect in our business or do you think this can materially change?
- Harita Vasireddi:** It is a good return I would say.
- Nisarg Vakharia:** It is a good return okay. Secondly what is the reason for this slowdown in delay is this because of the broader economic sentiment which is down or it was it because of some US FDA inspections that you had that customers hold on, what is the exact reason for this?
- Harita Vasireddi:** As I have already mentioned the two key reasons that we have concluded for this slowdown is one is our project are little slow moving in the pipeline, we have about 20% of our business coming from top five customers and we see that they are going a little slow for their own internal reasons now whether those reasons are connected to any economic slowdown for them or not, I will not able to comment but that has been the reason because many projects have been in the pipeline for almost now 5-6 months and they are just beginning to move, the last one or two months.
- Nisarg Vakharia:** Okay, typically what is the profile of your customers so who are your top five customers who contribute 20% of your revenues?
- Harita Vasireddi:** That is confidential, I would not able to share that information, but they are typically from the pharma industry.

November 15, 2019

- Nisarg Vakharia:** Okay and what is the ultimate addressable market for us, so lets say these pharma companies are generally they are quite large in what they do, so we are roughly about 200 Crores revenue today, so where do you see the ultimate visibility over the next five years and if you have to reach to that point then do you have to invest more capital or would you be okay with the current assets?
- Harita Vasireddi:** Next five years on the pharmaceutical side we probably would need to make some additional investments on certain service lines because unless you invest this business does not grow, their entry barriers have to constantly increased else you competition quickly catches up, especially on the analytical side of the services and clinical research side of the services, so investment, we anticipate would be needed at least every once in five years.
- Nisarg Vakharia:** Okay and typically how much would you need to invest once in every five years?
- Harita Vasireddi:** It all depends on the emerging opportunities. It is all regulatory driven for us so it would be very difficult to comment on that.
- Nisarg Vakharia:** Okay last question is that the investment that you mentioned in technology is it something that you constantly need to like very stupid example but like an MRI scan machine people have to invest a lot of money upfront to just match up to the competition but that same machine becomes irrelevant or over a period of five years, so is your business similar where your technology investment keeps going up to match up to the standards of these large organizations?
- Harita Vasireddi:** Yes more or less, that is a time frame even we look at 5-7 years to replace our technology. Again this is very regulatory driven, as regulation get more and more stringent, the technologies that you would use to meet those regulations would also have to be upgraded.
- Nisarg Vakharia:** And the US FDA is as stringent in inspecting our facilities as it is to some of the pharmaceutical companies?
- Harita Vasireddi:** I would expect so.
- Nisarg Vakharia:** Thank you for answering my questions.
- Moderator:** Thank you. The next question is from the line of Ayush Mittal from MAPL Value Investor Fund. Please go ahead.
- Ayush Mittal:** Good morning everyone. Good to see this con call initiative. I hope the company repeats the same going forward. To make up the question Mam we have been taking about the pricing pressure we have facing in our business so can you explain more about it and how do you plan to

November 15, 2019

overcome this part, because once the pricing is deteriorated or is it gone how do we make up for that, what are we doing to come over this problem?

Harita Vasireddi: One way to address the pricing pressure is to increase the volumes and the other way is to constantly innovate your services. During the last 35 years Vimta has launched different types of testing concepts, relevant to the then emerging market needs and we have demonstrated to be a resilient business model, so until 2005 we were offering mechanical and building material testing services post 2005 we invested heavily in life sciences focusing more on food and pharma and now we are making plans to invest in electrical and electronic testing assessment so as the market opportunities evolve I think the industry such as ours would need to reinvent itself continuously that is the way to be on the top of the curve.

Ayush Mittal: Okay this pricing pressure is more on the CRO and analytical side or is it also on the food business side?

Harita Vasireddi: It is in analytical both food and pharma?

Ayush Mittal: It is from the analytical side both food and pharma?

Harita Vasireddi: Yes.

Ayush Mittal: Okay and it was also mentioned that in the coming quarters we plan to grow and make up for this slowdown, so what do you expect to come back to the revenue of 53-55 Crores that we were doing earlier and something on that guidance what kind of margins do you see and what kind of numbers do you expect to come back to in a quarter or so?

Harita Vasireddi: No efforts are being spared to come back to those numbers and yes we hope we will be able to reach them in a quarter or two.

Ayush Mittal: And what about the margin profile once we are able to come to those numbers will the margin remains at these level we are witnessing today or they should also go back to 25% kind of numbers.

Harita Vasireddi: Margins will be beaten in certain areas but we would have to compensate for that beat by pushing higher margin services mostly outside India, so we have already initiated efforts for that.

Ayush Mittal: Last three years we saw very good growth in our company, going forward can you share your plans for the next 3 years what kind of revenue growth do we envisage or target to for the company?

November 15, 2019

- Harita Vasireddi:** We have traditionally not made any forward looking statements, but my expectations is growth that we saw in the last 5-6 years was about 16-22% so we hope to maintain the same growth rate once we catch with this slowdown that we experienced in these two quarters.
- Ayush Mittal:** This new venture we are talking about in the electrical testing space it is some of from outside looks something new and unrelated to what you have been doing till now, can you share some more thoughts on it and what kind of investment we will have to make or will it be related to what you are doing, in the same facility or something more about it?
- Harita Vasireddi:** Yes the reason we forayed into this new field is we understand there are quite a few emerging opportunities with the lot of initiates coming from the government. Government of India is already ceased with the task of regulating medical devices for which the eco system has not fully developed and there is an eminent need to address capacity building in testing assessment of medical devices. We do support this industry through our safety toxicology services, but we do not have the full gamut of testing facilities which include environmental testing, safety testing, EMI, EMC testing, so that is the reason we thought this was very good opportunity and the best time to be is to be ahead of others.
- Ayush Mittal:** Okay thank you.
- Moderator:** Thank you. The next question is from the line of Abhishek Agarwal from Prithvi Firmmart. Please go ahead.
- Abhishek Agarwal:** My question is relating to US FDA so I think these observation was in the month of May, so what is the status right now because when we met at our AGM you said that there was a warning and there was not such impact on the facility so is there any impact of that and how the observation, is everything is clear, can you through some light on it?
- Harita Vasireddi:** Yes. First of all there was no warning letters from FDA. FDA came for inspection twice during the last two quarter. Both the audit has gone through quite successfully. We did have a few observations that were very well handled by the company. We also have our EIR from FDA which means the concerns no longer exist from the regulatory point of view.
- Abhishek Agarwal:** So is there any impact because of that we have lost any client or anything or that plant is running as usual?
- Harita Vasireddi:** FDA audit is the norm for a testing laboratory and we have faced close to 70 regulatory audit so far, 17 from US FDA itself, so these keeps happening and as long as there is no untoward

November 15, 2019

outcome from the audit this usually does not impact the business and for us the outcomes very quite good.

Abhishek Agarwal: If we see financial from last 5-6 years, we have not seen such a fall in our revenue, so suddenly we are seeing that so much pricing pressure that our revenue has fallen by 20-25%, so this pricing power is coming from the existing player or new entrants, how it is?

Harita Vasireddi: Our business is typically a multibasket service model, usually when one business is low the other typically tend to make up for it, unusually for us this time all services were a little low adding to that bigger scale dip in sales, but the pipelines like I said are moving and pricing pressures are due to increase in number of GMP labs in the country. Over the last 3-4 years, I think at least a dozen GMP labs have mushroomed so obviously there will be some pressure on the prices.

Abhishek Agarwal: So can we can say that there is a structural change in that because of that competitiveness or it is just a temporary scenario, how we will see this scenario?

Harita Vasireddi: See it all depends on which player survived, but the fact that so many people are entering into this arena itself means that the opportunities are definitely there and the quality players are the ones that will be there for the long haul.

Abhishek Agarwal: We recently done an acquisition, so you have given revenue detail, so can you say that how much PAT we are doing and what EBITDA margin and at valuation we have acquired this business?

Harita Vasireddi: Its current paid up capital is about 3.41 Crores and Rs.10 share of this business have been evaluated at Rs.18 and that the purchase price of this business. The Emtac also as I mentioned earlier has approvals from NABL, NABCB, BIS & TEC and therefore there is some inherent value in the time that we save when we acquire such a business which already has all the accreditations in place so what we are buying is actually a two year lead time into this business.

Abhishek Agarwal: Can you share the PAT number? You shared the revenue numbers, so can you share the PAT number or what the EBITDA margin from this business?

Amit Pathak: Yes this company has almost flat I will say around 10 lakhs of negative cash profit excluding depreciation with depreciation have a PBT of around 26 lakhs of loss in last financial year.

Abhishek Agarwal: Okay. This evaluation how you justifying this kind of evaluations means we are seeing huge opportunity or how it is because this company is making loss and we have paid around 6 Crores for this business?

November 15, 2019

- Harita Vasireddi:** Actually we have studied the company from its inception; it is a 4-year old company. The first two years the company has made really good progress. It has a service line that is very unique in the country. There is hardly any competition for this company in that product line of testing and like I said there is a immense value in the accreditations that this company has for itself, to the one to be noted is the NABCB accreditation which is from the National Accreditation Board for Certification Bodies, so with this certification we think that the opportunity that exist in the market for products certification can be well utilized by Vimta and its brand.
- Abhishek Agarwal:** Thanks a lot that is from my end. All the best.
- Moderator:** Thank you. The next question is from the line of Amit Doshi from Sushil Financial. Please go ahead.
- Amit Doshi:** Yes. Good morning everyone. I have a few questions. Firstly you mentioned there was a degrowth due to pricing pressure and low orders from the client. Is it possible for you to quantify how much degrowth was due to volume and how much was due to price?
- Harita Vasireddi:** I do not have those numbers readily with me, so we will not able to comment on that right away.
- Amit Doshi:** Okay and what kind of capacity utilization do we have in the facilities and what kind of order book do we have if you have the numbers readily with you?
- Harita Vasireddi:** There is enough capacity since we have not been utilizing it fully the last many months, there is enough capacity. I would not be able to give a single number because we have multiple services, some are probably at 60%, and some are probably at 90% so it really does not make sense to give a common number for all the services. The other question on was on?
- Amit Doshi:** Order book?
- Harita Vasireddi:** Order book I will not be able to get into the specifics.
- Amit Doshi:** Okay if you may Madam, what is the order book pipeline scenario in year-on-year, how is the business looking this year and the current quarters compared to last year if you can guide something on that?
- Harita Vasireddi:** I think a very good comparison that I can give you is what we have in hand right now compared to the last two quarters, it is more than double.
- Amit Doshi:** More than double?

November 15, 2019

- Harita Vasireddi:** Yes.
- Amit Doshi:** Okay and Madam you have shared there is good opportunity in the electronic technology testing business is it possible for you to quantify what kind of opportunity size are we looking at?
- Suresh Kumar:** Just to give a perspective on the electrical and electronics, with respect to this Make in India campaign push, the government is estimating this industry would be around 400 billion by 2025, and the government also pushing various regulation be it the business standard the wireless regulations so there is lot of regulations also getting pushed. If you just talk about a number as of today of the regulatory compliant industrial related to electronic products, this could be around 800-900 Crores overall India potential.
- Amit Doshi:** Okay Sir. If you could kindly provide me the break up between the domestic and the export business and second the food testing business and the pharma testing business it would be great?
- Harita Vasireddi:** Our exports are typically about 30% and since we treat our business as a single segment, we will be unable to break it up for you.
- Amit Doshi:** Okay Madam and I believe all you labs have not been approved by the US FDA so what is the approval status of the labs which have not been approved or pending approval or something like that?
- Harita Vasireddi:** I think I wish to clarify US FDA does not approve laboratories they come, inspect, and based on the findings, they accept the data that comes out of this laboratory, so we have one GMP facility which has been inspected by US FDA and this is since 2010 and we have a GCP facility, our clinical facility which is also successfully inspected by US FDA.
- Amit Doshi:** Okay Madam that is all.
- Moderator:** Thank you. The next question is from the line of Nimesh Mehta from Research Delta Advisors. Please go ahead.
- Nimesh Mehta:** Yes, thanks for the opportunity. I am trying to understand the business and the business model. Mam what is the best way to kind of break up the sales from your perspective, so is that analytical pharma related services revenue, diagnostic service revenue and food testing, what is the best way to kind of look at the business and then if you can quantify each of the bucket break up in terms of percentage that will be helpful?

November 15, 2019

- Harita Vasireddi:** We do not demarcate lines between our various services because the facilities including the technologies and people that we deploy are used across multiple services, so we do not do that kind of bifurcation and therefore breakup would not be available.
- Nimesh Mehta:** But Madam some sort of business divisions would be there for you right, from the management perspective, I am not asking from a customer perspective, from a management perspective if you decide certain capex or certain you would have some revenue line going up down there must be some business way of looking at it?
- Harita Vasireddi:** For us we treat it under one P&L account because like I said the resources are quite common and the mix also keeps changing for us, so there was no point in quantifying just the topline when you do not get the details of the bottom line and getting the middle part is very difficult because of the dynamic nature of what we do.
- Nimesh Mehta:** Okay. The other thing I wanted to know about the pricing nature again so lot of this contract services are based on FTE models so our is FTE model or if there is a kind of a contractual pricing that we decide, how does it go?
- Harita Vasireddi:** We have both kinds of service models with us both FTE and Fee for service.
- Nimesh Mehta:** Okay and largely speaking what would be dominating or it is kind of equal?
- Harita Vasireddi:** Fee for service would be more.
- Nimesh Mehta:** Sorry I thought FTE also fee service so how do you differ between FTE in that?
- Harita Vasireddi:** Fee for service is for example if you take a sample, you would charge for sample where as FTE you would charge for the number of people you deploy and the time irrespective of the numbers of samples that they would give you to test.
- Nimesh Mehta:** So fee for services are larger portion of ours?
- Harita Vasireddi:** Yes.
- Nimesh Mehta:** So like our attempt is to increase the fee for service kind of businesses or the FTE or it does not matter where is the higher margin usually speaking?
- Harita Vasireddi:** FTE of course there is an advantage the relationship, the project tends to be more long term in nature but the margins across both of them would be equally good for us, so it does not matter. It all depends on what the customers want; we are very flexible on the service model.

November 15, 2019

- Nimesh Mehta:** Okay and lastly if you can also explain the stickiness of our customers how do you think, to stay for long obviously there will be ups and down in terms of pricing but what are the critical factor for the customers to kind of continue or not continue with our service?
- Harita Vasireddi:** We have very high customer retention. Our repeat business is typically 90% plus from repeat customers.
- Nimesh Mehta:** Okay what are the critical factors that impact your customer retention?
- Harita Vasireddi:** See we are a very quality conscious organization and that is the kind of customer we tend to attract and the relationship is usually based on the service level that you maintain for them so it is a combination of everything I would say, the quality, the service level, and of course pricing and the timeline are important.
- Nimesh Mehta:** So the quality level if I were to kind juxtapose the quality versus pricing if I go down the quality or at no matter what is the price would be there will go away or kind of pricing is more important then the quality of services typically in our business?
- Harita Vasireddi:** It is very subjective and depending on the service that they are seeking from us. If it is something very unique, something very critical high regulatory impact, then price is not a challenge, but if you have good number of competition around you, then pricing of course is very important.
- Nimesh Mehta:** Okay. Can you name a couple of services which are of high value nature where competition may not be very high from our perspective for all our business?
- Harita Vasireddi:** Yes preclinical services are of high value, analytical is a huge range you have low value to high value, clinical research are again quite high value projects.
- Nimesh Mehta:** Clinical research are high value. Thank you very much and then lot of questions but this helpful to understand. Thank you very much.
- Moderator:** Thank you. The next question is from the line of Dhruvesh Sanghvi from Prosperotree. Please go ahead.
- Dhruvesh Sanghvi:** Hello. Yes my question is what is the capex that we envisage over the next one to two years?
- Harita Vasireddi:** Capex with respect to especially electronic and electrical which is new for us- We have a three year plan we are estimating about 90-100 Crores. The regular business that we are already executing that would probably be about 15 to 20 Crores.

November 15, 2019

- Dhruvesh Sanghvi:** Okay nearly 110 to 120 Crores is what is the plan over the next three years as you are seeing so again this capex will start immediately or are we looking to stabilize our current business over the next one year and then out of that cash flow use this to built that, if you can highlight some aspect on those area?
- Harita Vasireddi:** For electronics and electrical division we would start investing later maybe from Q4 onwards, the investments would pickup as we enter into the second and third year.
- Dhruvesh Sanghvi:** Okay and I understand that you have never given the bifurcations but following company over the years, we realize that food business which was almost nonexistent before 3-5 years probably is around 15-20% of the current revenue, it is a very ballpark number, can you say that food business standalone which I assume is more sampling related, will automatically move to the leagues of 100 Crores mark over the next 2-3 years is it a safe assumption to keep in the mind. It is an assumption it is forward looking I understand, but we just want some clue in terms of food business because there was a lot of news about FSSAI and we were on the board of FSSAI at some point in time as a advisor etc., so you are more closer to that in terms of your guidance could be helpful for us to understand that?
- Harita Vasireddi:** Two to three years would be too soon, may be five to seven would be realistic.
- Dhruvesh Sanghvi:** One last question, how frequently will you be doing the con calls, is there a plan and what was the sudden shift from being a completely closed in terms of talking on the AGM days to opening up now to investors, is it because of the effects coming in are we looking to tap equity market again?
- Harita Vasireddi:** I think we took one feedback from some of the investors very positively; it is a similar feedback that you are giving right now. We do not want to be called or known as company that is much closed and had we gotten this feedback earlier, probably we would have started the calls earlier but since there is a good response to this today, we probably do it every quarter.
- Dhruvesh Sanghvi:** Thanks a lot.
- Moderator:** Thank you. The next question is from the line of Rohit Balakrishnan from Vrddhi Capital. Please go ahead.
- Rohit Balakrishnan:** Thank you for the opportunity. Madam just couple of questions, so if I look at your balance sheet over the last 2 years the gross block have gone up to 100 Crores to 180 Crores so just want to understand and if you could probably classify this in which segment of for this money sort of invested in was it more on the food side or on the pharma side, if you can guide me to that and

November 15, 2019

also I mean has to potential being achieve for the kind of investment that would made in the last couple of years.

Harita Vasireddi: 70% of that has actually gone to our food lab expansion and the other 30% is for the rest of the service lines that we have. In terms of achieving the potential, I think we are yet to see the potential coming fully. It is little less than our expectation but as somebody earlier was talking about the regulations that are being pushed by the Indian regulator, the opportunity seems to be fast growing.

Rohit Balakrishnan: Got it that is helpful Madam. The second question was in addition to what a previous participation had asked in terms of some of the services being high value and hence low completion and hence had margins so I mean if you broadly sort of very broadly, I do not want a very specific number but what portion of your business could you classify to be that part like that kind of business where there is very limited competition for you both in India and maybe also globally, so what portion of your revenue is it 10%, 20% if you can just give some on numbers on that?

Harita Vasireddi: The competition since we serve the global customers, competition is not only from the Indian players, but even the global players, but of course being in India you have the India advantage. The margins are there from the large projects but again if you are competing globally and you are trying to win projects from MNCs then there again the margins probably would not be that big as you would anticipate if you were serving a smaller company, so it is all quite dynamic even within a service line.

Rohit Balakrishnan: Understood and so this electrical testing that you are getting into so you see this opportunity more from the domestic market or the export market?

Harita Vasireddi: Domestic.

Rohit Balakrishnan: Are there any players who are doing it or anybody who you would like to sort of main so that you can sort of understand a bit more or you be only one right now?

Suresh Kumar: There are many players that are doing it in this field also on the export driven business, but beyond the likes of few more companies, but our interest right now to enter and also play as a domestic player is due to the fact that there is a lot of push from government on improving our manufacturing and a lot of push on the domestic regulation so the regulatory driven business is growing very fast.

Rohit Balakrishnan: Understood that is it from my side. Thank you very much all the best.

November 15, 2019

- Suresh Kumar:** Thank you.
- Moderator:** Thank you. The next question is from the line of Kushal Rughani from HDFC Securities. Please go ahead.
- Kushal Rughani:** Thanks for the opportunity. Actually my question was related to margins, so if see in FY2018 it was around 24% then in 2019 it was around 27 and in H1 it is around 16% right so what kind of sustainable margins should we for Vimta going forward?
- Harita Vasireddi:** I think the last few years' margins that we have seen those are good expectations even going forward. These are very topline driven margins that if you increase your topline your margins would reappear.
- Kushal Rughani:** Okay so there is enough operating leverage in our business?
- Harita Vasireddi:** Yes that is the reason we continuously keep on expanding our services just maintain those margin.
- Kushal Rughani:** Okay sure and the next question was with respect to your capex, which you have lined up around 120 Crores over the next three, three and a half years, so what kind of I mean to say you would go for debt you will generate enough cash flows and you deploy that?
- Harita Vasireddi:** We will be going for some mid-term loans.
- Kushal Rughani:** So it will mix of debt and equity?
- Amit Pathak:** Yes definitely.
- Kushal Rughani:** That is it from my side.
- Harita Vasireddi:** It is not going to be equity. I will just wish to clarify that.
- Amit Pathak:** Equity means it is a combination of debt and equity means with the internal accruals and by debt also.
- Kushal Rughani:** Thank you.
- Moderator:** Thank you. The next question is from the line of Ravi Naredi from Naredi Investments. Please go ahead.

November 15, 2019

- Ravi Naredi:** I attended last AGM and I had given the suggestion to start con call and you are making it, it is wonderful thing. Madam WHO conducted inspection is respect of clinical test of AIDS medicine on behalf of Ranbaxy what was the result?
- Harita Vasireddi:** You are talking about which years inspections. We have had multiple inspections by WHO?
- Ravi Naredi:** WHO conducted inspection, WHO, World health organization?
- Harita Vasireddi:** See WHO conducts GCP inspections, we had multiple of them and they also conduct GMP inspections.
- Ravi Naredi:** Regarding the clinical test of its AIDS medicine on behalf of Ranbaxy.
- Harita Vasireddi:** Yes okay. Okay you are referring to the 2004 study?
- Ravi Naredi:** It was so long.
- Harita Vasireddi:** Yes 2004.
- Ravi Naredi:** It is not recent one.
- Harita Vasireddi:** No.
- Ravi Naredi:** Secondly your bad debt figure is always high, 51 lakhs in September 30, 2019, 1.68 Crores in September 30, 2018, 4.4 Crores in March 31, 2019, what was the reason Madam?
- Harita Vasireddi:** The collections are little disappointing for us. I think the economic slowdown is having some sort of an impact across all industries. People are taking a little more time than they normally do to pay up that is why you see a slightly increase there.
- Ravi Naredi:** So we do not take 100% advance before the test?
- Harita Vasireddi:** Not for the projects. On the food side which is more retail we do work on cash.
- Ravi Naredi:** Madam, you just mentioned what was the this order position just you can give some direction in next 2 quarter or what will happen to the company because in last two quarters it has drastically down topline by 13% and bottomline by 87%?
- Harita Vasireddi:** The numbers are definitely moving up, they will be better than the last two quarters in Q3, by Q4 we expect a normalized situation.

November 15, 2019

- Ravi Naredi:** It employs like in Q4 of 2018. It is like that.
- Harita Vasireddi:** Yes we expect to come back to that in these next two quarters.
- Ravi Naredi:** Thank you to start this concall on my request. I came in the AGM, in Hyderabad and I attended well. Thank you Madam.
- Harita Vasireddi:** You are welcome.
- Moderator:** Thank you. The next question is from the line of Deepak Kapoor from Benchmark Capital. Please go ahead.
- Deepak Kapoor:** I just have a question regarding the material cost. Q2 FY2019 and FY2020 our revenue have fallen almost maybe 20% to 23%, but the cost of material is down barely 7% to 8%. Can you help me understand how this material cost works, is it not a variable component, is that a fixed component to it or shall I assume that most of the drop was a pricing drop?
- Harita Vasireddi:** The material cost is usually dependent on the mix of services that we have, so that is quite dynamic and therefore it is very difficult to comment on why specifically it happened it. It all depends on what are the services that you are proving during that time period.
- Deepak Kapoor:** As expect normalization in a couple of quarters, do we expect material cost not to move substantially just like did not fall substantially?
- Harita Vasireddi:** Yes it will be similar to what you have seen in the earlier quarters.
- Deepak Kapoor:** Okay. The drop of revenue of 22% year-on-year, is it fair to assume that most of it would have been pricing pressure, not so much of project loss?
- Harita Vasireddi:** It could be a combination of both.
- Deepak Kapoor:** Would be able to give an approximate set of how much impacting from pricing, how much from maybe volume in a way?
- Harita Vasireddi:** I do not have that granularity of numbers with me right here.
- Deepak Kapoor:** My second question is to do with the people you mentioned about 1100 in the organization, can you give rough idea of how you see the number and cost of people moving up in the next two to three years?

November 15, 2019

- Harita Vasireddi:** We have been quite good at maintaining the team size around 1000 to 1100 over the last few years. There will be a little increase in number of people because we are going to add a new service line. We have also started investing in creating our own IT solutions and products, there will be a slight increase in there, but hopefully the investment that we are going to make in our IT solutions could help us bring up the productivity, drive the productivity.
- Deepak Kapoor:** Okay is that generally easy for you to find ready talent for your industry or you have an internal training organization or something?
- Harita Vasireddi:** We have very robust internal training program. Some skills are readily available, the entry level is readily available but good experienced people are still in scarcity.
- Deepak Kapoor:** Experience in terms of sales or in scientific skills?
- Harita Vasireddi:** We are a service industry so we would need a mix of both techno commercial attributes so that we have a challenge.
- Deepak Kapoor:** Thank you so much.
- Moderator:** Thank you. The next question is from the line of Dhruvesh Sanghvi from Prosperotree. Please go ahead.
- Dhruvesh Sanghvi:** My question was taken up by somebody else, so it was answered. Thank you.
- Moderator:** Thank you. The next question is from the line of Viral Bansali from Individual Investor. Please go ahead.
- Viral Bansali:** Good morning every one. I have a couple of questions. The first question is about a business segment of your which is pathology testing. I presume Vimta is already into pathological testing having seen your pamphlets in Hyderabad. Do you have any plans to scale up this segment as this segment seems to be pretty low lying fruit for many established players like Vimta considering the numbers that Dr. Lal, Thyrocare, etc., and Metropolis etc., have posted. The positive of this business is that it is zero working capital kind of a business, it may help us ease the working capital situation and do we have plans in this regard?
- Harita Vasireddi:** Pathology business happens to be a noncore business for us, it is actually incidental which is off shoot of the clinical research arm that we have. We are a B2B business model where as pathology is more B2C and that is the reason for us it is not a focus.
- Viral Bansali:** So we do not have any plans to any scale that up?

November 15, 2019

- Harita Vasireddi:** Nothing aggressive. It is doing fine. It is doing well and there is a good growth year-on-year.
- Viral Bansali:** What percentage of our revenue would be coming from pathology testing?
- Harita Vasireddi:** As I said this is an off shot of our clinical research, so again that lines, bifurcation lines are not very definite.
- Viral Bansali:** My second question is having gone through your shareholding pattern, I see a German giant, Euro Fin Analytics as having a substantial stake around 20% in your company, is this stake strategic in nature where they have bought stake and you are getting some contractual business from them or it is just investment for them?
- Harita Vasireddi:** No we have no strategic relationships with them.
- Viral Bansali:** Any plans to have strategic relationship with them?
- Harita Vasireddi:** Not as of now.
- Viral Bansali:** Thank you so much.
- Moderator:** Thank you. We will take the last question from the line of Abhishek Agarwal from Prithvi Finmart. Please go ahead.
- Abhishek Agarwal:** I missed out the capex number, can you tell it.
- Harita Vasireddi:** We plan to invest around 100 Crores to 120 Crores in the next 3 to 4 years.
- Abhishek Agarwal:** But do we have so much operating cash flow because it look on a higher side that capex what we are doing and with current revenue and profitability, do you think this much capex is viable for us.
- Harita Vasireddi:** It will be a stretch. We intend to fund it through midterm loan. It will be a stretch but I think we should be able to manage it. We have not yet leveraged our balance sheet fully, so we should be able to manage it.
- Abhishek Agarwal:** Thank you.
- Moderator:** Thank you that was the last question. I now hand the conference over to the management for their closing comments.

November 15, 2019

Harita Vasireddi: Thank you all for joining us today. I appreciate all the questions that have come up and I hope the answers were purposeful and also like I said we would be happy to do this quarter-on-quarter because it seems to be helping the investor group. We will be happy to continue this, so thank you all once again and have a very good day. Thank you Vishal!

Moderator: Thank. Ladies and gentlemen, on behalf of Nirmal Bang, that concludes this conference call for today. Thank you for joining us and you may now disconnect your lines.