

Vimta Labs Limited

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Date : 29.06.2020

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

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

Dear Sirs,

Ref: Regulation 30 of SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015

Sub: Transcript of the Q4-2020 earnings/investor call held on 25th June 2020

Please find enclosed herewith the transcript of the Q4-2020 earnings/investor call held on Thursday, 25th June, 2020.

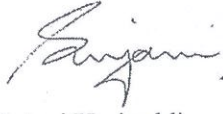
Further, pursuant to Regulation 46 of the Listing Regulations, the aforesaid information is available on the website of the Company i.e, www.vimta.com.

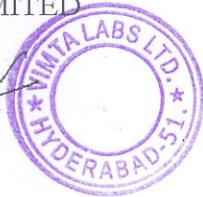
This is for your information and necessary records.

Thanking you,

Yours faithfully,

for VIMTA LABS LIMITED


Sujani Vasireddi
Company Secretary



Encl: as above.



“Vimta Labs Limited
Q4 FY2020 Conference Call

June 25, 2020



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

MANAGEMENT: **MS. HARITA VASIREDDI - MANAGING DIRECTOR – VIMTA LABS LIMITED**
MR. AMIT PATHAK - CHIEF FINANCIAL OFFICER- VIMTA LABS LIMITED
MR. NEERUKONDA SATYA SREENIVAS - EXECUTIVE DIRECTOR - VIMTA LABS LIMITED
MS. SUJANI VASIREDDI - COMPANY SECRETARY - VIMTA LABS LIMITED

- Moderator:** Ladies and gentlemen, good day and welcome to the Vimta Labs Limited Q4 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 now hand the conference over to Mr. Vishal Manchanda of Nirmal Bang Equities. Thank you and over to you Sir!
- Vishal Manchanda:** Thanks Sayeesha. Good morning everyone. Welcome to the Q4 FY2020 earnings call of the Vimta Labs Limited. We thank the Vimta management for giving us an opportunity to host the call. Today, we have with us the senior management of the company represented by Ms. Harita Vasireddi - Managing Director, Mr. Amit Pathak - Chief Financial Officer, Neerukonda Sathya Sreenivas - Executive Director and Ms. Sujani Vasireddi - Company Secretary. I will now handover the call to the company Management. Over to you Mam!
- Harita Vasireddi:** Thank you Vishal. Good morning everyone. First and foremost I wish and hope you are well and keeping safe. Thank you for joining us in our Q4 results discussion. I will start by sharing a very brief overview of the financial performance and give a business update then Mr. Amit Pathak will get into the details of the financial performance in his narration. After this we can get into an interactive mode for question and answer. Company’s total income for Q4 of this financial year stood at 432 million versus 515 million during Q3 and 536 million in previous year same quarter. The income reduced by about 16% quarter-on-quarter. This has impacted PBT we are close to breakeven while EBITDA is 15%. But for pandemic situation Q4 should have been better than Q3. In the backdrop of the risk of COVID-19 infection we had actually drastically cut travel of our business development staff and also pulled out from our commitments in exposition and road shows from end of February itself. The lockdown in Asian countries which were ahead of us in the pandemic situation was also a reason for low revenues in Q4. Further we were almost completely shutdown in operations at all our 17 laboratory locations during the last week of March when lockdown was imposed across India. This too has had a significant impact on the sales in the quarter. As lockdown was implemented, our first priority was people safety of course in addition to business continuity to handle essential services. In April except for the main sites in Hyderabad and we have two here, almost all branch locations were closed due to last mile connectivity for our people. Even in Hyderabad operations were run very lean during the first couple of weeks in April that were ramped up around 60% towards end of May. We have been following all government orders and guidances in the conduct of our operations. All functions that are capable of working from home for us have been asked to do so however being in the laboratory business, majority of the work force cannot work from home for us. So as of now about 70 to 80% staff are working on site. All social distancing norms, sanitation, and hygiene practices are

being implemented. Since we are serving the essential sectors of pharma, health, and food we are well placed to get back to normal sooner when compared to many other business sectors. Although operationally we were lean in April and May, our business continued to be active and quite encouraging with respect to orders and enquiries from our customers. We are seeing now close to normal situation in June, hopefully this is just a beginning of normalcy. On our plans for expansion in to electronics and electrical testing, we are progressing, however, with a delay of about three months because of this lockdown in India and Europe. Future prediction of business would be difficult because it is an unpredictable situation, but in summary we have been no exception to the pandemic situation, business was impacted in Q4. We are hopeful of normalcy in Q2 as business has turned upward from June after a lull in April and May. So with this brief note, I will now handover to Amit who will share the financial details.

Amit Pathak:

Thanks Harita. Good morning everyone. I will start with a brief commentary on the reported performance for Q4 FY2020 covering revenue, EBITDA and profit after tax and then we will be happy to take the questions. 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, 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 these forward-looking statement.

Coming to our total income, first I will just talk about revenue from operations, so revenue from operations for Q4 FY2020 is decreased by 16% to Rs.432 million compared to Rs.515 million in Q3 FY2020. Further revenue on y-o-y basis is decreased by around 14%. Other income on quarter-on-quarter basis has been increased by around 8 million mainly due to net forex fluctuations on our receivables and payables. However other income on y-o-y basis has been increased by around 10 million mainly due to forex fluctuation on our receivables and payables. Now let me talk about some of the cost element. So the operation cost as percentage of revenue is increased in quarter-on-quarter basis due to lower capacity utilization at around end of the quarter in the month of March and change in the product mix. However, the operational cost on year-on-year basis has increased by around 2% plus due to lower capacity utilization, change in product mix and competitive price pressures in some of our services. The human resource cost of the company is flat on the quarter-on-quarter basis however human resource cost of the company has increased marginally on year-on-year basis due to normal increment cycle. There is no major increase in headcount on year-on-year basis. Now coming to our expenses, if you are talking on the revenue of around 42 to 43 Crores kind of thing we have around 80 to 85 million of other expenses in Q4 2020 which is around 42 to 43 Crores of sales revenue level but the other expenses for Q4 2020 has increased by around 10 million that is around 95 million mainly due to incurrence of CSR expenses of around 3 million and spending of around 10 million on our repair and maintenance including some new AMC's expenses and to increase the life

and efficiency of the older equipment. The year-on-year other expenses has decreased by around 20 million due to reduction in to the impairment loss on the receivable last year we have created one-time impairment loss on the receivable in compliance with the Ind-AS which has been reduced by around 33 million in this current year which has been offset by increase in repair and maintenance cost by around 15 million and professional expenses for some our project by around 12 million.

Coming to EBITDA, EBITDA for quarter-on-quarter basis has decreased by around 9% that is from 24% versus 15% due to decrease in topline whereas EBITDA year-on-year basis has also decreased by around 9%, that is 28% versus 18% mainly due to decrease in the topline. The finance cost of the company for Q4 is increased by around 3 million due to exchange impact on our foreign currency loan and on year-on-year basis the finance cost is reduced by around 8 million which is also mainly because of the repayment of the term loan during the year. In terms of investment, the company has invested mainly into the plant and machinery and some other assets of around 170 million plus in this financial year. The major investment is into the plant and machinery is around 70 million and our IT infrastructure is around 75 million. During Q4 we have also capitalized our Noida Food Labs which is getting operational and Cisco IT infrastructure. PAT for Q4 FY2020 is almost flat due to lower sales level. Now coming to in terms of the investment in one of our subsidiary we have completed the acquisition of Emtac Laboratories Private Limited, which is now the 100% wholly owned subsidiary of the company on March 4, 2020. Accordingly, we have merged performance of our subsidiary post acquisition in our consolidated financial result that is for around 26 days. As a precautionary measure we have availed the first moratorium option in March 2020 for the payment of principal and interest on our term loans and working capital loans in line with the relaxation given by the RBI during lockdown. But on the other side we have not availed the second moratorium option which has been extended by RBI in the month of May 2020, additionally other benefits announced by the Government of India Finance Ministry during the COVID-19 period for the delayed payment of the tax obligation both direct and indirect tax have also been availed by the company to maintain the liquidity during the lockdown period. I am happy to say the collection of the company during the COVID-19 period was satisfactory hence we do not expect any cash flow trends going forward and confident to serve all the debts and financial arrangement on time going forward including the extension plans of the company. Lastly, we can say that due to impact of COVID-19 we are not expecting our performance for Q1 FY2021 in line with the performance of the earlier quarters, but having a healthy order book in hand and reopening of the business segment from June 2020 onwards, we expect that our business will come back on track from Q2 FY2021 onwards. With this, I will handover back to the operator and would be happy to take questions.

Moderator:

Thank you very much. We will now begin the question and answer session. The first question is from the line of Ravi Naredi from Naredi Investment. Please go ahead.

- Ravi Naredi:** Hello Harita Vasireddi I met you in last AGM personally, how Delhi expansion is going on and how much capacity we are working now?
- Harita Vasireddi:** Hello Mr. Naredi. Delhi expansion is going fine. We were actually all set with filing for our NABL accreditation, but because of the lockdown period the accreditation body could not facilitate an audit of our facility so now we have this in July. Once we have the audit and receive the accreditation then we can catch up with our business plans.
- Ravi Naredi:** How is working in our Pune and Hyderabad lab?
- Harita Vasireddi:** Pune again is a food branch laboratory; Pune was working even during lockdown. We are close to the Mumbai port there so the inspection samples continue to come there. They in fact asked us to keep the lab open so that we could support them in clearing the imports. Hyderabad lab was operational; the main food laboratory is in Hyderabad so that remained operational throughout the lockdown period.
- Ravi Naredi:** What is the write-off figure of debtors, debt was 44 million in 2018-19 and 34 million in 2017-18 how is the current financial year 2019-20?
- Amit Pathak:** It is on very lower side; it is somewhere around 10 million.
- Ravi Naredi:** Any more major write-off we are looking in this current financial year 2021 or cannot say anything?
- Amit Pathak:** Look the write-off is part and parcel of the business, there always some write-offs are there in the normal business situations but looking after the current situation we are not looking the same kind of past trend what we have seen in the earlier years, the high write-off, so we had the good controls and good churning into the debtors so we are not expecting very high kind of write-off in future.
- Ravi Naredi:** Thank you very much and the last one capex plan for 2021?
- Harita Vasireddi:** Capex plan we are not as of now having any aggressive numbers in mind, but of course there will be certain expenditure with respect to new technology investments, being a laboratory we have to continuously meet the regulatory requirements so there will be some investments. We are thinking this could be below 10 Crores but on the electrical and electronic side our plan was to invest about 20 Crores so that plan is on.
- Ravi Naredi:** Okay and the last question from my side in this financial year, our turnover, topline, bottomline everything does take a hit on, so Harita will you give some words what will happen in next one year, two years, three years, can you give some thought?

- Harita Vasireddi:** This year like I said we have been no exception to the pandemic situation so Q1 is way below normal, Q2 onwards we are hoping that we will be able to catch up with wherever we stopped in Q3.
- Ravi Naredi:** All the best madam, thank you for giving reply to all my questions.
- Harita Vasireddi:** Thank you.
- Moderator:** Thank you. The next question is from the line of Yogansh Jeswani from Mittal Analytics. Please go ahead.
- Yogansh Jeswani:** Thanks for the opportunity. Madam can you please share utilization you are running on in FY2020 barring the last one-week shutdown for the overall company?
- Harita Vasireddi:** Utilization in terms of?
- Yogansh Jeswani:** Your capacity whatever labs and food that you have, you mentioned in April, May the utilization for your capacity was at 60%. So in FY2020 for the whole year what kind of number we are doing? The operations were down to 40% level you mentioned in your opening remark for April and May so just want to compare it what is the kind of dip hence asking how much was it in FY2020?
- Harita Vasireddi:** Just the laboratory space itself it is the largest installation in the country. We have about 4 lakhs square feet in terms of laboratory space and this is with respect to capacity it is quite elastic and it does not take a lot of time to ramp up capacities. It is a question of buying them and installing them and with our good relations with the vendors we can increase capacities on the fly, so we do not operate really at huge cushions. We ramp up as needed but just to give a very arbitrary number / guess number, I would say because I do not have the exact statistics with me it could be maybe around 80 to 85% of the capacity main laboratory. Food laboratories probably could be little lower maybe around 70% of capacity utilization.
- Yogansh Jeswani:** Then you also mentioned about having order books in our case how do we look at this order book, is it like a quarterly order book that we get or is to more like an annual contract that we get with our clients?
- Harita Vasireddi:** It is a mix.
- Yogansh Jeswani:** So if we have to get a broad sense of the kind of the order book that we have what kind of revenue visibility do we have for the year going forward madam?

- Harita Vasireddi:** As a policy we do not make any forward-looking statements and I hesitate to do it even now because of the situation that we are in, I am sure you are following the news some governments are already getting back into a second lockdown phase so we do not know yet how other states will react. We are practically in almost many many states. We cannot really predict how much the impact can be and how long it could be or if we are lucky then we may not experience an impact as well because we are in the essential services segment so we are hopeful that if they allow us to continue doing business like this then Q2 onwards it should be good.
- Yogansh Jeswani:** Fair enough madam. So safe to assume that we are not seeing any reduction or any kickbacks on the customer in terms of order, we are not seeing any canceling so far? Is it a safe assumption madam?
- Harita Vasireddi:** There are no cancelations so far in this year. Enquiries and order books have been better than what we expected during the lockdown period and now they are almost at normal levels June onwards but then there are certain services that are yet to take off for us because we are also in environmental testing services and things like that where people need to travel so travel is highly restricted so there is a small portion of our business that is not yet anywhere close to normal level.
- Yogansh Jeswani:** Understood. One last question it is a bit broad based question madam. I was going through your almost four to five years of balance sheet and we see that we have ramped up fixed assets from 80 to 90 odd Crores to 130 to 140 odd Crores and we have been basically putting in 20 to 40 Crores of fixed asset every year and on top line if I see, we have grown in the same time period from 140 to 150 odd Crores to 200 odd Crores now. So in our kind of business what kind of asset terms do we get with our capacity and can you also let us know what kind of capex was your growth capex and what kind of capex was your maintenance capex in these last three to four years if I say that every year if you are putting in 20 Crores so how much of it is for maintenance and how much of it is for growth?
- Harita Vasireddi:** Typically, unless you are talking about our investments in the food laboratory network that were between the years of 2014 to 2017 that is for the growth. You know food labs we have taken separate term loans and all those things to facilitate that but we tend to utilize the depreciation for upgrading our technologies. Especially on the pharma side and food side, technology obsolescence is quite rapid. So we keep investing the depreciation amount.
- Yogansh Jeswani:** I think you are right that the major portion 40 Crores jump that we saw was in 2018 when we capitalized this so I think that part is your food business right in 2018? Post 2018 the 15 to 20 Crores investments that is pending is the maintenance capex that is getting set off with depreciation that you mentioned?
- Harita Vasireddi:** I do not have the numbers.

- Yogansh Jeswani:** Can you just throw some more light on your plan for this electronics and electric business wherein you are putting 20 Crores kind of investments what is this business exactly and what kind of turnover and margins can we expect from this business, will it be in line with the so far the food and pharma testing business wherein we have been to achieve respectable 20% plus operating margins. So is it the same kind of business or is it a bit different?
- Harita Vasireddi:** Just to address first the question on the margins here in this segment there are some routine safety tests, there are some high end tests such as the EMI-EMC test which require heavy investments so on the EMI-EMC part, the margins are quite significant. We understand from the competitive industries there could be around 25 to 30% of margins in those type of tests. There is a lot of regulatory driven testing also that gets done on the safety and environmental impact for the electronic and electrical items so there the margins could be around 20%. Some are very, very competitive so they could be even may be around 15%. So that would be the range I would say 15 to upwards of 30%
- Yogansh Jeswani:** So I think on a blended basis we would be able to maintain 20 to 25% kind of operating margin for the overall firm?
- Harita Vasireddi:** Yes, that is our goal.
- Yogansh Jeswani:** Madam revenue wise what kind of revenue potential does this have?
- Harita Vasireddi:** Revenue potential- the market is huge there are some very big players, international players in this segment, we have estimated the market to be 1000 plus Crores. There are lot of small players also but who do not have the EMI-EMC capability so there is a potential for this business to grow in the next five years to 100 Crores for us.
- Yogansh Jeswani:** Sorry I meant madam with this 20 Crores of initial investment what is the kind of revenue that we can clock? Is it in the range of 25 5to 30 Crores or a bit higher?
- Harita Vasireddi:** First year we are not anticipating any great inflows. First year I think it is a year of installation because now there is 3-month delay in the project so maybe our qualification will complete by February so commercialization will be only towards the fag end of the year. So this year we are not expecting any revenues. Post that we have to wait and see how our marketing plans pan out. Like I said we as a company do not make any forward-looking statements, so I will refrain from that.
- Yogansh Jeswani:** Fair enough madam. That is, it from my side. I will get back in the queue for any follow-ups. Thank you.
- Harita Vasireddi:** Welcome.

Moderator: Thank you. The next question is from the line of Ayush Mittal from Mittal Analytics. Please go ahead.

Ayush Mittal: Good morning madam. Some of my questions have already been answered. Broadly in the previous con call you talked about some of the customer consolidation going on which had impacted some part of our revenue are those things back to normal and can you let us know how our order book is shaping up as of now?

Sreenivas: Order book as Harita was mentioning and Amit was also mentioning, comes from our major target industry that are pharma and food now both of them come under the essential segments of industry. We work with all the top 100 pharma companies locally supporting major part of their business. Overall we work with more than 300 companies in the pharma segment and support their global submissions in the three major regulated markets which are the Canadian market, US market, and Europe. we also serve customers exporting to the nonregulated markets like China, Malaysia, Middle East and Russian market. If you go back to the last five years, the pharma industry has been on a steady growth path and this growth path is an opportunity for CROs like us. The variety of services that Vimta offers makes it a one stop shop for pharma services. There are not many such integrated CRO like Vimta globally, you can count them on your fingers. I think there would be, less than 10 companies globally which are as integrated as Vimta in terms of providing services to the pharma industry. We try to bring in the same mix for the services to the food industry as well. Today, for food testing, most of the business is generated locally.

With pharma growing and this pandemic affecting globally, this phenomenon is not local anymore, I mean it is the same situation if you go far east or far west, they are facing the same issues of lockdown, they are facing the issues of lesser capacities, lesser utilizations, and things like that. In this situation pharma is in the limelight because of the nature of the business. Because they only can provide the way out of this situation. Unless pharma, biotech or medical devices companies can come out with solutions or help use the existing array of drugs to help fight the pandemic, there is no way out of it. So pharma is functioning, both the local industry and the global industry, they have not stopped being the essential service segment they have continued to work. Due to their requirements and need to fast track their projects, they have to rely on the CROs, and with lesser utilization capacities in CROs globally, the inflow of work for CROs increases all across. It is about how you utilize your capacities to get the best out of it. In this backdrop of events, the order is flowing in well. This is coming in spurts now, as during the first 60 days of lockdown with logistic challenges, things were a little dull, but now after these things have opened up a bit, the couriers have started functioning, the global logistics have started operating we are seeing steady inflows of samples as well. Most of the pharma that we deal with, are the big pharma or the ones working in regulatory markets, none of them to my knowledge have given any projections on to the market about reducing

their targets or reducing their goals for this financial year. So they are continuing to run their programs as usual, which brings in more opportunity for us. Orders are coming in now at a good pace and if the situation, at least continues like this without any further lockdown, I think we should be in a good situation moving forward.

Ayush Mittal:

Good to hear to that. Sir just to continue on the question of the pervious participant, I think the worrying point of the investors has been that though we recognize that Vimta is a leader in its space and we continue to make investments in new technologies, but we do not get to see the revenue growth in last five years if I look at the investment into plant and machine it is almost close to 100 odd Crores while the turnover have increased at hardly 70 to 80 odd Crores so given the investments that we continue to make, I think what investors are looking for is maybe the growth potential going forward from the same setup that we have or maybe better margins when we utilize it well what are the management thoughts on this? See compared to maybe Syngene might not be a relevant comparison, but some of the players in this space have very high margins due to very high fixed asset and very high investments needed in this business?

Harita Vasireddi:

It is not a like-to-like comparison with other competition if you are comparing us with Syngene they are into manufacturing they are CMO we are core laboratory. Laboratory wise, I think our sales are one of the highest in the country because on the manufacturing side value of projects are quite steeply different so I do not think there is a comparison. Coming to the ROI the return if you notice the growth from 2014 onwards it has been a continuous steady growth year-on-year. The only challenge was last year. Last year also pharma I think we saw slowdown right from Q1 itself but then now its warming up again so the returns have been good I would say. On the food side yes there is a little more delay than we expected. Food the market has to really pickup but the food potential is huge and we are first mover so we are there. Tomorrow when things come up then we are there to grab the opportunities already for any pan India project. We are counted on by almost most of the big MNCs to handle those projects and we do not tend to pick up a lot of retail projects because of the margins that are involved especially in food so on returns we are hoping at least a breakeven it may take a year to year plus but once the break even happens, the growth in food can be much, much bigger than pharma that is what I keep on repeating. The potential in food is really big.

Ayush Mittal:

To grow on the food business we will have to invest more?

Harita Vasireddi:

Our investments are good I think, good for about three to four years. Only we might have to add machines but facility wise I think we are good.

Ayush Mittal:

Madam on the pharma research side, barring the current crisis that you are running in, in a normal scenario without investing more into this business is there a scope for further growth by maybe 20 to 30 odd percent?

- Sreenivas:** Investment usually goes hand-in-glove because of the newer regulatory requirements which come in. So investments always are a part-and-parcel of this business and growth then follows by, investing into futuristic technology. If you look at the case of a very commonly used over-the-counter medicines which is used the world over, with the introduction of a new guideline on limit of permissible impurities, most of the products available in the market do not meeting the new requirements. To give an example of couple of drugs like ranitidine and metformin which are very commonly used for gastrointestinal problems and diabetes management respectively fall in this category. So when the demand from regulatory agencies is for detection of impurities at much lower levels than earlier, the investment into newer technologies is the need of the hour. This also has a futuristic approach as these investments may not yield immediately but as the time goes by, more and more and products get added to the list, newer requirements keep coming up in for more products and that helps us maintain a steady growth pattern year-on-year.
- Moderator:** Thank you. The next question is from the line of Samir Rachh from Reliance Mutual Fund. Please go ahead.
- Samir Rachh:** If I look at your longer term track record and vis-à-vis if I look at your last year performance, your last year performance seems to be really bad. Just want to know exactly the reasons why the performances have suffered so much and are any of these things turning around you just mentioned that pharma was very bad and may be pharma is coming back to track. So if one looks at your longer term track record there were so many quarters wherein you made like EBITDA of 13 Crores, 14 Crores per quarter but this year I think in most of the quarters it has been very bad. So assuming we will go back to normalcy from June will we return back to old level of profitability?
- Harita Vasireddi:** We will certainly return back to old level of profitability. The first two quarters of the last year were an exception to the earlier six years that we had. If you see Q3 we were more or less catching up with the previous year's sales. Q4 also we expected to do better than Q3. So the first two quarters there was a lull in the demand for services the orders were not high enough therefore you see those low numbers but that has picked up from middle of Q2 itself and therefore you see Q3 coming back to normal.
- Samir Rachh:** Right, in food business we are still perhaps in an investment phase and you just mentioned that opportunity for that business is much larger kind of overall scheme of things so what will be the proportion of food in our last year's business and how do you see overall that increase in years to come?
- Harita Vasireddi:** We do not bifurcate our businesses into various segments so we report it as one segment because the resources, people, technologies they are all interchangeable.

- Samir Rachh:** Can food become larger than pharma in the next two years?
- Harita Vasireddi:** Not maybe next two years but in a five-year range there is a possibility.
- Samir Rachh:** In electronics, what are the opportunities you think, we have just made our first move there what could be the medium term game plan there?
- Harita Vasireddi:** The opportunities immediately for us would be medical devices. We already offer lot of other testing that is required for medical devices in terms of pre clinical testing so we want to offer the whole package and the missing component was the electrical and electronic testing. So while we are setting up these facilities for medical devices we also want to take advantage of being in the defense segment here in Hyderabad. There are some opportunities there. Telcom, IT, these are all areas where there are opportunities because it is a regulatory driven business and also the R&D investment in India the last few years have been quite significant in this area. There is a government thrust also in the future so anticipating that this industry will grow further, we have decided it is good to move into that segment and expand our portfolio.
- Samir Rachh:** So I am to sum up if I understood correctly right now we are not having any demand issues the only problem is due to COVID we are not able to execute to our full capacity, but if things go back to normal there as such we do not have any problem of demand we should be able to go back to our old level of performance very fast?
- Harita Vasireddi:** Yes, most of the services. Like I said there would be few exceptions where we will need the whole country to be really coming back to normal. Like our environment even the clinical diagnostics I do not think patients are really fully going to the doctors. The comfort of going and getting checked up that is still not there I think with the patients. The couriers are not really fully back into the game so there will be some impact on those one or two services that we offer, but pharma and food are quite good as of June.
- Samir Rachh:** Right madam. Thank you so much and wish you very best.
- Moderator:** Thank you. The next question is from the line of V.P. Rajesh from Banyan Capital. Please go ahead.
- V.P. Rajesh:** Thanks for the opportunity and hopefully I am audible to you. I just wanted to go back to an earlier question how should one think about the asset turns from the business so let us say you are investing 20 to 30 Crores for example in the electronics segment what kind of capacity does it create can you have your laboratories working more than one shift for example so if you can just comment and give us some color on this capacity utilization of the capex that you do that will be helpful to start with?

- Harita Vasireddi:** That is a very broad question. I will try to answer it to the best possible. Now some of our labs...., we have totally 17 locations...., some of our labs are geared up for round-the-clock operations so right now in such locations we are operating only one shift and very minority portion in the second shift so there is a lot more we can do in terms of utilizing the same resources if there is more business. Coming to return on assets it would be very different for different types of services, I do not think I would be able to comment on that directly unless I go back and look at those services separately.
- V.P. Rajesh:** If you were to just make an assessment for example when you say the food is very huge potential now in that business what kind of capex have you done and let us say four years or five years what is the revenue you see from there would be margin associated with that revenue so that we get a sense of okay business would take two to three years to ramp up and then in the fourth or fifth year once it becomes a little bit more normalized this is the kind of return one can expect on this capex so that is really what where I am coming for?
- Harita Vasireddi:** In terms of food labs, our labs depending on the size that they are, we invested about 3.5 to 4.5 Crores in each lab. Now these labs again depending on their size have the potential to earn about 2 to 3 Crores if you push it maybe 3.5 Crores per annum if they are running at one shift, one-and-a-half shift I would say.
- V.P. Rajesh:** Okay and the margin something like that would be you are talking about earlier now 20% margin so we should assume it will be 20% margin kind from each lab?
- Harita Vasireddi:** Margins would purely depend on the volumes that you are able to drive.
- V.P. Rajesh:** But in your assessment you must be assuming certain level of margin right given the experience you have in the business, so I am just saying is it closer to 20 or is it closer to 25 just to get a ballpark what it looks like?
- Harita Vasireddi:** It is again I would say seasonal; food is a seasonal business so average if you ask me it would be between 15 to 20 depending on the volume.
- V.P. Rajesh:** Thank you that is all for now.
- Harita Vasireddi:** You are welcome.
- Moderator:** Thank you. The next question is from the line of Neeraj Tamsekhar, an individual investor. Please go ahead.
- Neeraj Tamsekhar:** When will see 50 Crores revenue rendered quarterly?

- Harita Vasireddi:** We expect to come back to those numbers Q2 onwards.
- Neeraj Tamsekhar:** From Q2 onwards we can see 50 Crores revenue quarterly right?
- Harita Vasireddi:** We expect to, given the situation is conducive to run operations continuously.
- Neeraj Tamsekhar:** What is the current competitive scenario, market situations?
- Sreenivas:** Market situation is dynamic and there is competition everywhere and we are not any different, there is a spurt of CROs or testing laboratories which keep coming up in the six segments that we serve, so we have competition coming up in every segment. There are more food labs coming up, more pharma testing labs coming up, more environmental testing labs coming up, clinical diagnostic labs coming up. And then the industry itself is a competition to us also because of their in-house capacities as pharma has in-house capacities, food has in-house capacities, hospital networks have their own diagnostic centers, the bigger corporations have their own environmental monitoring teams, so competitions is there and it is increasing but we try to keep rising above them every year by investing into newer technologies, getting into futuristic businesses in all these segments so that we maintain that edge over the competition.
- Neeraj Tamsekhar:** Okay. Thank you.
- Moderator:** Thank you. The next question is from the line of Gaurang Sakare from Nirmal Bang. Please go ahead.
- Gaurang Sakare:** So my question is lately there have been increasing concerns around cancer causing NDMA impurities in various products like ranitidine and metformin so has it anyway translated into higher revenue stream for Vimta Labs?
- Sreenivas:** Thank you for that question. That was the point I was mentioning about more and more commonly used drugs becoming source of impurities which are carcinogenic to the humans, and more so these commonly used drugs become focal point is the because of the length of their use they are mostly for chronic diseases. Drugs like Ranitidine which is mainly used for gastrointestinal disorder or metformin or similar products which are used for the lifetime of a patient fall in this category. As we have been very strong into this particular segment of business, trace analysis segment we were ready with methods at least six months before even this thing started hitting the market, so yes, there was good yield that we could get in the last six to seven months in this segment.
- Gaurang Sakare:** As I understand the growth in the overall opportunity size for company like Vimta depends on the extent of regulatory requirements and scrutiny so could you share your comments on how the

regulatory environment is evolving and are there any pockets of opportunity that you see for Vimta to tap?

Sreenivas: It is two things for us not only regulatory, but also statutory, half of our business it is mostly because of the statutory requirements. If you look at the food segment which is equally big for us they have to be standard. The regulatory part is an ever revolving subject, with more and more requirements coming up to adapt advanced technologies to detect any impurities or any carcinogens at lower trace levels. With the on-going research, mainly in the developed countries and, India being the pharmacy for the world, so this definitely has a temporary as well as long term impact on the export business for the pharma companies which is an opportunity for CROs like Vimta. We cannot predict about the new regulations, as of the current ones can become obsolete tomorrow and what was not there yester years can suddenly become a requirement. Again an example of ranitidine that you bought up is manufactured by almost everyone major generic pharma Company in the world. if you observe ranitidine is a part of their portfolio, metformin is a part of their portfolio and these companies have multimillion dollar exports just for these products so any changes in regulatory testing requirements for these products becomes an opportunity.

Gaurang Sakare: Okay. Thanks that's it from my side.

Sreenivas: Thank you.

Moderator: Thank you. The next question is from the line of V.P. Rajesh from Banyan Capital. Please go ahead.

V.P. Rajesh: My question if you look at your gross block what is the maximum revenue potential you see from that in a year?

Harita Vasireddi: It is again very difficult to comment on that these are all investments made with a futuristic outlook based on some opportunities that we anticipate, so it is very difficult to answer that question.

V.P. Rajesh: Because I think your asset turns have fluctuated from wide batch, just trying to understand forgetting about this year which you explained as being not a normal year, if the asset turn has potential to grow higher like you are doing 80 to 100 Crores of gross block could you be doing let us say 300 to 400 Crores of revenue that is what I am really trying to get a sense for?

Harita Vasireddi: Again it will depend on the opportunities that will come up in the following years so we have to respond to the opportunities whether we will be able to respond it with what we have or we need to invest more and how that will impact the gross block it is all very futuristic and quite dependent on the opportunities that will pan out.

- V.P. Rajesh:** But generally okay let us say if you look at your competitiveness what is your sense from looking at their businesses or what kind of revenue are they able to generate from the new area that you are getting in on the investments you are making?
- Harita Vasireddi:** As I was mentioning earlier we do not have like-to-like competition from anybody. We are a very widespread contact research and testing organization, our competitors are only in one or two of the segments that we are in so we cannot really compare.
- V.P. Rajesh:** Okay, alright, thank you so much.
- Harita Vasireddi:** You are welcome.
- Moderator:** Thank you. The next question is from the line of Vimal Sampath, an individual investor. Please go ahead.
- Vimal Sampath:** Two questions. One is you were saying our food business will take five years to mature, food testing, so is it correct to load your balance sheet with another 20 to 30 Crores you know getting to electrical are you assured of so much of profits to support this new capex?
- Harita Vasireddi:** When I said five years for food business, it was to outgrow the pharma business. It has nothing to do with maturity so my comment was not on maturity of business. Coming to electronics like I said our primary goal is to address the medical devices.
- Vimal Sampath:** So it is an adjacent business you already have the customers correct?
- Harita Vasireddi:** Yes, from the medical devices we wanted to extend it and it is also a way to grow the business.
- Vimal Sampath:** My second question is we have two shareholders one is Eurofins Analytical Services and second is LCGC Chromatography so any business relationship with them or they are just strategic investor or just financial investor?
- Harita Vasireddi:** Eurofins has been just a financial investor; LCGC they are actually our vendors also but as such no strategic tie-ups with them.
- Vimal Sampath:** Okay, right, thank you very much.
- Harita Vasireddi:** You are welcome.

Moderator: Thank you. As there are no further questions, I would now like to hand the conference over to Mr. Vishal Manchanda for closing comments.

Vishal Manchanda: Thanks everyone for taking time out for the call. I look forward to see you again on the Q1 FY2021 call. Thank you.

Harita Vasireddi: Thank you Vishal.

Moderator: On behalf of Nirmal Bang Equities, that concludes this conference. Thank you for joining us. You may now disconnect your lines.