

Vimta Labs Limited

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



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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
Trading Symbol : VIMTA LABS

Dear Sirs,

Ref: Regulation 30 of SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015
Sub: Transcript of the Q3-2020 earnings/investor call held on 7th February 2020

Please find enclosed herewith the transcript of the Q3-2020 earnings/investor call held on Friday, 7th February, 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
Q3 FY2020 Conference Call

February 07, 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
MS. SUJANI VASIREDDI - COMPANY SECRETARY -
VIMTA LABS LIMITED**

Moderator: Ladies and gentlemen, good day and a very welcome to the Vimta Labs Limited Q3 FY2020 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 from Nirmal Bang Equities. Thank you and over to you Sir!

Vishal Manchanda: Thanks Faizan. Good morning everyone. On behalf of Nirmal Bang Institutional Equities, I welcome you to Vimta Labs Q3 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 Ms. Harita Vasireddi - Managing Director, Mr. Amit Pathak - Chief Financial Officer and 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 and once again thank you all for joining us in our Q3 results discussion. To start, I will give a very brief overview of the financial performance and business update. Mr. Amit Pathak will get into the details of the financial performance in his narration. To start with company’s total income for Q3 of this financial year stood at 523 million versus 428 million during last quarter Q2 and 507 million in previous year same quarter. The income grew by about 22% quarter-on-quarter. EBITDA grew by around 8% quarter-on-quarter to 123 million. Profit for the quarter is at 47 million versus 9 million in the previous quarter and 51 million of Q3 of last year. Coming to business updates, our plan for expansion into electronics and electrical testing is progressing well. Our site is getting ready in Hyderabad for installation of required instrumentation. Food lab that we started our expansion in the north in Delhi has been going a little slow than we expected, but we are in the process of seeking accreditation for the lab and we expect this to be completed in the next 3-4 months. Our order books are growing well and we especially have a strong inflow of orders in the pharma analytical services for both large and small molecules. Highlight during the quarter was a successful audit outcome from US FDA for our GLP operations that is pre-clinical services, which has reinforced statement of our strong quality and the compliance culture. In summary, Q3 as anticipated has been a good quarter as compared to the first half and has been inline with the growth phase the company has experienced till last year. We expect this momentum to continue, so with this I will handover Amit Pathak, who will share a little more detail on the financials.

Amit Pathak: Thanks Harita. Good morning everyone. I will just start with a brief commentary on the reported performance for Q3 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 based 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 statements.

Now coming to revenue from operations for Q3 FY2020, it has increased by 21% to Rs.515 million compared to Rs.425 million in Q2 FY2020. Further, revenue for Q3 FY2020 has increased by 2% on year-on-year basis. Revenue from Q3 FY2020 is back on track and comparable to average quarterly revenue what the company has generated in FY2019. Further we would like to inform, the company is maintaining a good combination of domestic and export segment and that is in the range of 75% from the domestic market and 25% from the export market. Let us now talk about some of the cost elements.

First, I will talk about the operating cost. So, our operational cost, as a percentage of revenue is slightly reduced on quarter-on-quarter basis due to increase in topline; however, the operational cost for 9 months year-on-year basis is increased by around 3% due to competitive pricing pressure in some services. Coming back to our human resource cost of the company, that has been increased by around 8 million on quarter-on-quarter basis mainly due to half yearly increment cycle in the company. The quarter-on-quarter other expenses have increased by 10 million, mainly due to incurrance of CSR expenses of around 2 million in this quarter, spending of Rs.4 million in repair and maintenance expenses of some of the older equipment to increase the life and efficiency of these equipment. Further, we are also expanding our business into the global market for which we have hired some professionals, so the cost of around 4 million has been increased for professional, hired for business development in overseas market. The 9 months FY2020 versus 9 months FY2019, other expenses have decreased by Rs.31 million mainly due to the creation of the impairment loss on receivable during last year in compliance with IND-AS the new accounting standards. Now coming to EBITDA, EBITDA for quarter-on-quarter basis has increased by 8% and in current quarter we are at around 24% whereas in last quarter we were at around 16% EBITDA has increased due to topline increase in this quarter. EBITDA for 9 months year-on-year basis has been decreased by 9%, 19% in this year 9 months versus 28% in last year 9 months mainly due to decrease in topline during the 9 months of this year.

Now, finance cost of the company in Q3 is almost flat compared to Q2 because the company has not taken any new loans, and company has stick with the existing term loan and the borrowing in the working capital has also remained at the same level; however, in the 9 months basis it is at around 25 million in the current year versus 42 million in the last year due to foreign exchange impact on the FCNR loan. Now, in terms of investment in our fixed assets, we have invested around 70 million plus in our plant and machinery and other assets in this financial year in 9 months and out of this 70

million majorly around 55 million we have invested into the plant and machinery and 15 million in some other assets.

Further, we would also like to inform that the company has around 75 million of CWIP, which is going to be capitalized very shortly probably by end of this quarter or early next quarter, which the company has invested in building the IT infrastructure facility and also the Noida food lab and diagnostic lab. PAT for the Q3 FY2020 has improved; it is at 9% versus 2% in last quarter. As we have briefed during the last investor call Q3 has been good and we expect the growth momentum to continue in Q4 FY2020. With this, I will handover this call to the operator and we would be happy to take question.

Moderator: Thank you very much. We will now begin the question and answer session. The first question is from the line of Dhruvesh Sanghvi from Prospero Tree. Please go ahead.

Dhruvesh Sanghvi: Can you please share what does it mean by the momentum is continuing, are you saying the growth of quarterly run rate, the way we increased almost 40, 50 million, will it like increase to 55 Crores of run rate or some rough range also a good if you can help us?

Harita Vasireddi: Yes, you are more or less guessing it right, Dhruvesh. We expect the next quarter to be better than the current quarter and I would not be able to share the exact numbers, but we expect definitely the improvement to continue.

Dhruvesh Sanghvi: What I meant is that you are saying the momentum of growth will continue, not the stability of current numbers?

Harita Vasireddi: Growth will continue, yes.

Dhruvesh Sanghvi: One more part, I think last quarter, the September quarter, we lost one of the large client, so this kind of lumpy client going away, what kind of risk something like that again happen to us that is okay, one client goes away and we lose a very significant chunk, because that has not happened for last many years that we found the topline number when we see, but in September 2019, that was the case, something like that can happen very often or that is not the usual case for the future?

Harita Vasireddi: I would like to correct that statement that you have made, we have not lost any customers. We made a statement that the projects from the customers were slow, the pipelines were not getting converted as fast as they typically do into an order book, so we have not lost any clients and as such the company has a strategy of de-risking, so we are always increasing our market penetration to add more and more customers as we progress into years, so it is always good to have big ones and small ones, the float is always there because we are a contact research organization and driven by the individual needs of

many, pharma companies, so the needs are not always consistent from all the pharma companies, but overall because we play with a lot of customers it nets out and also grows over a period of time.

Dhruvesh Sanghvi: One more question related to the employee, if you can just help understand what are the number of employees as on date including the full-time and if it all we hire on contract and does that full numbers for 9 months translate into this 46 Crores that we are looking at?

Harita Vasireddi: The number of employees that we have right now is around 1100, there would be around 100 and odd contracts staff, which is basically to support our clinical diagnostic business where we have a lot of courier people helping you transfer samples, so 1100 plus 100 that is probably around 1200 people that we have right now and the later half of your question is not clear, if you can please explain.

Dhruvesh Sanghvi: Sure, for example as you are saying that 100 staff is the contract staffs, even though contractual staff cost is as a part of employee benefit expense or it translates to another expense item?

Amit Pathak: No, the contract staff is not the part of the employee expenses, it is a part of the other expenses because when you are into the contract, you are hiring them as a professional so that it is the part of the professional expenses and apart from that as we were mentioning we have some of the courier boys, which is directly the operational expenses, which is going in our operating expenses as a data generation cost.

Dhruvesh Sanghvi: Sure, how has been the last four years trend in employees and now you are giving comments about potential future growth, I believe we are very labor intensive sector and the organization, so does it automatically move in proportional to the order received if you can throw some light on that?

Harita Vasireddi: The movement of the number of employee is not proportional to the growth, we always gain efficiencies when we are doing higher volumes, so the only spike that we have seen in the recent few years is when we started our network of food laboratories where we put up 9 laboratories so that was the biggest pipe that we have had, otherwise the growth of staff has been nominal and more or less this number of 1000 to 1100 is being maintained by us for about 3 years now.

Dhruvesh Sanghvi: Thanks. I will back in the queue.

Moderator: Thank you. The next question is from the line of Ravi Naredi from Naredi Investment. Please go ahead.

Ravi Naredi: Good morning, can you give a broader picture of next 5 year how much capex we want to do and where you want to bring this company to at next level?

Harita Vasireddi: We have never made those kinds of forward-looking statements.

Ravi Naredi: It is not forward looking, just I am asking how much capex you have in your mind and what is your plan for company, I am not asking any forward looking statement ?

Harita Vasireddi: During my last call, I am not sure if you were there, but during my last call, we did mention our capex plan for the next 3 years, we said it could be in the range of 100 Crores to 120 Crores.

Ravi Naredi: 100 Crores to 120 Crores for the next 3 years?

Harita Vasireddi: Yes, during the next 3 years.

Ravi Naredi: Will take some long debt or we will do within internal accrual?

Amit Pathak: It is a combination of both, we will take some term loan also and it will be from some of the internal accruals also.

Ravi Naredi: And in last conference call I was there, still price pressures are you getting and how are you dealing such pressure?

Harita Vasireddi: Price pressure is always unidirectional, if it starts going down then it only goes down, so we are just focusing more on our efficiencies, focusing more on building the volumes.

: And you are confident you will overcome with this problem headwinds, right?

Harita Vasireddi: We should.

Ravi Naredi: You have included VRS expenses is right, you are telling something?

Amit Pathak: Not VRS, we do not have any scheme of the VRS.

Ravi Naredi: So, for salary you have mentioned some other expenses also what is that?

Amit Pathak: So, in the company we have 1100 people around who are in the payroll of the company, apart from that also certain professionals.

Ravi Naredi: Yes, which you have just mentioned I have listened, what is your plan for employees, how employees in next one year or 2 years any thinking in our cards?

- Harita Vasireddi:** Our plans are just getting prepared may be we will be able to answer that with a good number during the next call after this quarter.
- Ravi Naredi:** And thank you, this conference call you have initiative on my request when I attended the AGM and I thank you very much for this.
- Harita Vasireddi:** Welcome.
- Moderator:** Thank you. The next question is from the line of Ashish Kacholia from Lucky Investment. Please go ahead.
- Ashish Kacholia:** You know I used to track your company about 4-5 years ago, at that point of time I think your big revenue was from CRO and we were doing the testing for the drug concentration and people, so what is your business model now, if you can just talk a little bit about the business model?
- Harita Vasireddi:** Our business is 60% pharma and then of course the rest of the 40% we have our diagnostics, food testing and environmental businesses and that pie has not really changed much over the years.
- Ashish Kacholia:** So, what is the size of the market and who are the other players in the market?
- Harita Vasireddi:** In which market?
- Ashish Kacholia:** In the food and other testing market?
- Harita Vasireddi:** Food, there are 100s of players, full list of laboratories is available on the NABL website, there are 1000s of laboratory, but at least a dozen big players, half a dozen very big players mostly multinationals.
- Ashish Kacholia:** So, the likes of SGS and all those kind of players?
- Harita Vasireddi:** Yes.
- Ashish Kacholia:** What is our advantage or game play to kind of grow?
- Harita Vasireddi:** Our advantage is our experience in the market, we have been in this market for 35 years, no one else has been there for so long, relationship is there with the customers. We also have largest network of laboratories in the country, which is unparallel and we are also very closely walking with the regulators, our quality, our brand is very strong in the country, so these are our USP.
- Ashish Kacholia:** And what is the role of Mr. S.P. Vasireddi if I am not mistaken?

- Harita Vasireddi:** He is our Chairman.
- Ashish Kacholia:** He continues to be in operational role or he is kind of now non-executive?
- Harita Vasireddi:** Non-executive.
- Ashish Kacholia:** Alright. All the very best. Thank you so much.
- Moderator:** Thank you. The next question is from the line of Dhruvin Upadhyay from Social Finance. Please go ahead.
- Dhruvin Upadhyay:** Madam, I just have a couple of questions. First is, what is the kind of progress that we have seen in terms of client addition?
- Harita Vasireddi:** I would not be able to share the exact numbers that is a competitor sensitive information, but typically our business tends to have a lot of repeat business close to 80 plus, 90% is repeat business especially in some of our services and always there is a continuous penetration into the market and that happens continuously. I do not think I can answer that question specifically with a number, I do not have those numbers with me.
- Dhruvin Upadhyay:** Any percentage increase or something you can share?
- Harita Vasireddi:** I would not be able to give that information, may be next time we will have it ready.
- Dhruvin Upadhyay:** Alright, not a problem and how many projects are ongoing right now, if it is possible for you to answer?
- Harita Vasireddi:** May be 100s because there are several departments, each has its own projects, there will be 100s of them currently ongoing.
- Dhruvin Upadhyay:** And you had mentioned top 5 clients contributed around 20% of your revenue, is the mix still the same or has it increased or decreased somewhere?
- Harita Vasireddi:** There has been a little change in the top 5, but most of them are still there.
- Dhruvin Upadhyay:** And the business, which was first slow moving from their end, has it now picked up?
- Harita Vasireddi:** It has picked up, not from everyone, but from some of them it has picked up.
- Dhruvin Upadhyay:** Alright and will there be a kind of order book right now that you have with you?

- Harita Vasireddi:** Yes, there is a significant order book that we are carrying as we walked into Q4.
- Dhruvin Upadhyay:** And is it possible for you to number it, madam?
- Harita Vasireddi:** No, again that is very competitor sensitive information, we would not be able to share it.
- Dhruvin Upadhyay:** Madam, a question related to the in Emtac lab, how is it progressing, any business breakthrough in that segment?
- Harita Vasireddi:** Our acquisition is yet to complete, we had taken 4 months' time to complete the process, so we expect to close it early March.
- Dhruvin Upadhyay:** Alright and compared to the pharma and the food segment, which segment is growing faster, is it possible for us to answer that?
- Harita Vasireddi:** Just with respect to this particular quarter, as I said earlier the maximum push has been from the pharma analytical sales, close behind where the food services, which are also analytical services.
- Dhruvin Upadhyay:** And for the food business for food labs, what is the planned capex that we have for the next 2 to 3 years?
- Harita Vasireddi:** There is no significant plan or capex because we invested considerably during the last 3-4 years, so we do not anticipate any major investment for at least the next 2 years.
- Dhruvin Upadhyay:** And what was investment that we had done in the last 2, 3 years?
- Harita Vasireddi:** The total project was about 60 Crores.
- Dhruvin Upadhyay:** 60 Crores investment was done and what is kind of the regulatory scenario in the pharma sector, can you just share some light on that, Madam?
- Harita Vasireddi:** We have to comply with various regulations based on the services that we offer, so like for the analytical services we are supposed to comply with GMP, good manufacturing practices, for our pre-clinical services, which are conducted on animals, we have to follow good laboratory practices and for the clinical study we have to follow good clinical practices, now these GLP and GCP, India has its own regulation. US FDA has its own regulation. OECD would have its own regulation. EMMA, that is the European countries would have their regulation, more or less the spirit of the regulation is fine, but based on where your data is getting submitted the regulator performs audit depending on the number of datas that are getting submitted to them, typically we get audited by US FDA at least once

in a year sometimes twice also and Indian authorities also come once in two years, so it is a regular process that the company goes through and it is a very important for the business of the company as well to perform well in these audits.

Dhruvin Upadhyay: Right, another question, Madam, Eurofins and LCGC have a considerable stake in our company, which kind of role do they play, are they mere investors, or they play an advisory role of something like that?

Harita Vasireddi: They are mere investors.

Dhruvin Upadhyay: And when do we see our number passing up peak revenue in margins, we had around 27% odd EBITDA in 9 months FY2019, is there any chance we can surpass this number in the next year or so?

Harita Vasireddi: Our best efforts are to do the same at least during the next year, this year of course because of the hit during the first half even if we do well in Q3 and also in Q4, we will not be able to come close, but next year that is definitely our goal.

Dhruvin Upadhyay: In Delhi, you mentioned you are adding a couple of labs, is it possible for you to name them and capacity or something that you can share with us?

Harita Vasireddi: In Delhi, we are opening up a food lab, it is under the same name our company name and part of the space is also allocated for a diagnostics business.

Moderator: Thank you. The next question is from the line of Dhruvesh Sanghvi from Prospero Tree. Please go ahead.

Dhruvesh Sanghvi: Sorry, this is Dhruvesh. My line got disconnected. One more aspect is about the food labs, how many of the food labs do also have analytical services as a separate space attached to it so far, I mean the way you explained about Delhi coming up in a similar way?

Harita Vasireddi: Food lab is entirely analytical. There is of course chemical testing and microbiological testing. All the food labs have analytical components, that is the only component.

Dhruvesh Sanghvi: Sorry, I meant related to pharma?

Harita Vasireddi: See, these labs are equipped with all the necessary instrumentation, right now we are not doing any pharma testing in these food labs, but tomorrow if the opportunity comes in that geographic area and we want to expand these labs then we can certainly do that and add those products as well.

- Dhruvesh Sanghvi:** Similar point is that, how should we look at our depreciation ahead in the context that every 3 to 5 years the technology and the machines will change and naturally we being the leader we will also be doing something like that, so is it fair to assume that our entire capex that we have done let us say 60 Crores out of that, let us say plant and machineries around 30 Crores to 40 Crores, so with 30 Crores, 40 Crores will naturally get replaced every 3 to 4 years, is that a fair assumption or cycle is much longer?
- Harita Vasireddi:** The cycle is longer, typically it is 5 to 7 years, so the technologies are robust, but on the other side the regulations if they change, for example, in food if there are contaminants and we need to measure them at much, much lower level of detection then of course we could have to invest in higher kind of technologies, so that is a kind of investment also which happens other than just replacing the old equipment.
- Dhruvesh Sanghvi:** And in terms of the capex for the next 3 years that was said 100 Crores to 120 Crores, is there the broader thought, I understand that not everything is materialized or it is under the planning stage, but will this be more required towards food side or what areas?
- Harita Vasireddi:** Majority of the investment is planned for our new division, electronics and electrical division, so 70 Crores to 80 Crores is going to be there, the balance we expect that it will be consumed for our routine other existing activities.
- Dhruvesh Sanghvi:** This location will again be the same Hyderabad, or they are planning somewhere else?
- Harita Vasireddi:** For electronics and electricals initially it will be in Hyderabad, and we expect that we open more centers in the future.
- Dhruvesh Sanghvi:** How has been the food business overall, all the labs so far become operationally breakeven or some metrics or that kind or may be some number related to the total food labs revenue or something like that?
- Harita Vasireddi:** They have been growing well, and overall the division we look at it selectively, overall they are doing fine, but definitely scope for adding more business in some of our locations.
- Dhruvesh Sanghvi:** Madam, so can I say that, when you say that the scope of addition is there, it means they are almost getting utilized fully is that the message?
- Harita Vasireddi:** No, we can still comfortably do at least 40% to 50% more business there.
- Dhruvesh Sanghvi:** Collectively out of the total labs so far?

- Harita Vasireddi:** Yes.
- Dhruvesh Sanghvi:** Madam, if I see let us say three years back, we were doing 40 Crores to 50 Crores of revenue even today we are doing after a 60 Crores capex of 40 Crores to 50 Crores and yet best there is a 10 Crores to 15 Crores potential addition out there, so this entire capex has led to what, only 10 to 15 Crores of additional quarterly revenue, which translates into one time gross sales, so is that the only maximum potential that can be achieved in this set up?
- Harita Vasireddi:** Food business as such has tremendous scope we estimate that the market could be as big as 5000 Crores, yes, our growth has not been at the speed at which we anticipated it to be, but today the regulators enforcement or their sampling and testing is less than 2% or 3% in the market and if they even double that then the whole business for labs likes ours just explodes, so that is yet to happen, I think government is still in the process of strengthening its machinery, but it is inevitable, it is slowly going to change, but surely.
- Amit Pathak:** One thing to add to what you are talking about in the down the line see we are in the same range of revenue, so revenue was in the range of around 40 around 3 years back when we are talking about 16-17, it has grown to the level of 50 to 54 Crores in the current year. Regarding food labs, I think may be, I just correct your understanding, when we are talking about the investment in food labs of around 60 Crores that has not been just in last two years, it was just done before that also, so entire investment in food lab is around 60 Crores in the last 4 years kind of thing.
- Harita Vasireddi:** And 2 years it takes to get established and get all the accreditation also in place.
- Dhruvesh Sanghvi:** No, my point was that before and after the capex, let us say the 3 or 4 year batch period, we are only up by 10 Crores quarterly revenues, so this is where I was coming from that ever after spending so much of our revenues have not, and the scope of upgradation in revenue is very limited the way you are saying is what I was trying to understand from that context?
- Harita Vasireddi:** No, I was trying to explain that the scope is good, but the speed is a little disappointing, but it should pickup.
- Dhruvesh Sanghvi:** Right and from the answer that you said, a large portion of our food business is regulatory dependant or in the sense that do regulator become our client that okay, they want to sample something and they will send it and get it to us or we are also looking at a very large pie from the private market?
- Harita Vasireddi:** It is driven by both. We also get samples from the regulators directly, but what has to be understood is once the regulator strengthens their compliance monitoring, every industry, every company is more

alert and is typically going to spend more on checking their quality of products, so definitely the scope for all the laboratories in that environment increases.

Dhruvesh Sanghvi: Fine, thanks a lot.

Moderator: Thank you. The next question is from the line of Viral Bhansali, an individual investor. Please go ahead.

Viral Bhansali: Good morning, Madam. Congratulations on a good set of number and sticking to your word of bouncing back in the third quarter itself. My question is regarding your new segment that you are exploring, which is the electrical and the electronic devices, can you explain what kind of business you would be doing in this space?

Harita Vasireddi: The theme of our business continues, so we will be checking products for compliance to the regulation, compliance to safety requirements and quality requirement. Just the products are going to be different, which is electrical or electronic products, because even this industry is governed by a lot of regulations for example, PEC, EEE, BIS, so there are lot of regulations that are slowly engulfing more and more products into their fold, so we expect regulatory market to grow in this particular industry and when the regulatory market grows then of course the self testing also increases within the industry. A lot of R&D setups also that are coming up in cities like Bengaluru, Chennai, Pune lot of multinational big companies have set up and having an R&D center close to them is very beneficial to such companies because typically not everything is available for them for testing in-house, so they tend to outsource, so these are the kind of avenues that we are looking at to get business from.

Viral Bhansali: What exactly are the kind of equipments would it be medical devices, can you just throw some light on this, what exactly you could be doing as a business in this?

Harita Vasireddi: Definitely medical devices, there are lot wi-fi equipment out there, IOT is involved in the lot of products. There is a lot of opportunity to support the defence equipment, telecom equipment, so the industries are really, really wide, anything that has an electronic or electrical component on it, which is governed by regulations would need safety environment then EMC testing to be done.

Viral Bhansali: From what I gather, you are expecting a capex from 70 Crores to 80 Crores for the segment?

Harita Vasireddi: Yes.

Viral Bhansali: So, what could be the asset turn, what is the revenue generating potential of this capex?

- Amit Pathak:** So, basically in the initial stage what we are seeing for the electrical business, initially the revenue will be low, but we are very confident to get return in the next 5 years.
- Viral Bhansali:** What I mean to say is, say 70 Crores to 80 Crores capex is capable of generating how much revenue, that is what I want to know?
- Harita Vasireddi:** The thumb rules that are typically followed is 1:1 in 5 to 7 years depending on the industry or 1:1.5 again depends on the industry, so these are the investment thumb rules that we follow.
- Viral Bhansali:** So, at max we can generate a revenue of 120 Crores from this capex of 80 Crores?
- Harita Vasireddi:** Yes, in that period.
- Viral Bhansali:** And what kind of margins can these kind of businesses fetch?
- Harita Vasireddi:** I would not be able to comment on that, as we are yet to.
- Viral Bhansali:** Just an industry benchmark as to what kind of margins that the industry would be working at?
- Harita Vasireddi:** Industry margins are based on the research that we have done in the range from 8% to even 25%.
- Viral Bhansali:** On a gross level?
- Harita Vasireddi:** Net level.
- Viral Bhansali:** Net level okay. Madam, just a follow up on the last conference call question that I asked you about diagnostic labs, have you thought about the space?
- Harita Vasireddi:** We are in the diagnostic business for a long time, like I said it is not our primary focus, but we are steadily growing, our network is steadily expanding, we have a lot patient service centers almost 500 centers in the country, we have 7 satellite labs at various places, so we are again starting on the alliance lab model in some new cities, so it is continuously growing business, it is just that we are not as aggressive as some of the big players, they have a different kind of focus, which we don't.
- Moderator:** Thank you. The next question is from the line of Vishal Manchanda from Nirmal Bang Equities. Please go ahead.
- Vishal Manchanda:** Thanks for the opportunity. On the diagnostic lab basically you have 500 patient service centers, how would this compare to the other large players?

- Harita Vasireddi:** They would have 1000s I would assume, I know some of the big players having multiples of 1000s.
- Vishal Manchanda:** Is that true that you ventured into the space much earlier than the other large players?
- Harita Vasireddi:** Yes, for us it was incidental business because for our clinical research activities where we work with healthy volunteers we are suppose to ensure the health of these volunteers before we take them or enroll them into a study, so we have to do some diagnostic testing to verify their selection criteria, so we had a lot of spare capacity and we started offering them locally and slowly, slowly that business grew to a national level.
- Vishal Manchanda:** Right, so any reason for not looking to build the business up because the market so far, large part of this market is still very unorganized and the organized segments seems to be growing much faster than unorganized segment, so any reason for not looking at this stage?
- Harita Vasireddi:** We are a B2B business model, this one mostly runs on a B2C model and that would need tremendous amount of investments and also holding strength because to get returns in this industry is not easy, people like even Quest diagnostics who have come they have not done too well, so it needs a different kind of strategy focus attention and we always thought that, this is not our core strength B2C is not our core strength, we are really good at what we do otherwise, at the same time, being a very quality conscious company we are very happy with the kind of services we are providing to our limited customers, most of the customers are very old, stay with us, so it has been going well, may be we will look for opportunity sometime in the future to think aggressively on this, but right now this is how it is.
- Vishal Manchanda:** On your earlier comments, you said pharma is 60% and the rest 40% is food or even that is not food 40%, right?
- Harita Vasireddi:** See, it could be a mix of diagnostic, food and environmental services.
- Vishal Manchanda:** So, also said that there is a large scope for the food business to multiply depending on regulatory changes or depending on the percentage of samples that are evaluated?
- Harita Vasireddi:** Right.
- Vishal Manchanda:** Other than in your regulatory changes to that extent, which kind of enforces the larger proportion of samples to be evaluated?
- Harita Vasireddi:** The regulator which is FSSAI, they have about 60 government laboratories, food testing laboratories across the country, so I think there has been a recent initiative of upgrading their infrastructure in

terms of bringing the current technologies in there and putting strong quality management systems, training people on the methods that are required to test various products so that is, I think, going to take some time for the government, but again there is also state driven, some states are quite aggressive and progressive, they are doing well, so all this will take a little time, but when this happens their reach through their own food inspectors will also have to be strengthened, they will need more trained manpower because of the sheer size of our country and economy that is there in this industry, the number of people that the government right now has to be deployed here I think is very limited, but they surely have plans to strengthen this and they are making progress year on year, we see it and as they make more and more progress the business in this industry for the laboratory is only going to increase.

Vishal Manchanda: Finally on this electronic and electrical testing business that you are investing, when would the employee cost kick in for this business into the operating cost?

Harita Vasireddi: We have taken a leader and the next set of employees, 2 or 3 employees will join us in the month of July or August, because the initial phase is entirely for selecting the vendors for the equipment, very specialized equipment that comes from overseas, so the equipment are custom built especially the testing chambers that are used are custom built, they have long lead time of 9 months and after that instillation qualification that takes a little time, so we have plenty of time where we can onboard people, it is not expected that people will be added significantly in the next 6 months.

Vishal Manchanda: Overall, with whatever existing capacities and infrastructure you have can this business be scaled up say 1.5X of where it is today?

Harita Vasireddi: The current business?

Vishal Manchanda: Yes, with just what you have in existing infrastructure?

Harita Vasireddi: Infrastructure, yes, but we may have to have addition in terms of human capital.

Vishal Manchanda: Right, okay. I think that is all from my side. Thank you very much.

Moderator: Thank you. The next question is from the line of Dharmik Prajapati from Prospero Tree. Please go ahead.

Dharmik Prajapati: What has been the attrition for us over the last recent time a year or so?

Harita Vasireddi: Attrition has actually increased for us during the last year typically they tend to be between 18% to 20%, but we have seen them getting pushed to mid 20s and even little higher.

- Dharmik Prajapati:** In terms of the potential people, because there was used to be time when getting quality talent was difficult and I think in the AGM, it was mentioned that how Vimta becomes a training ground for many others to recruit from, so if that continues and if this is the kind of attrition, even if we get right amount of orders, I mean what are we doing to address this because we will need some more people as you said?
- Harita Vasireddi:** We have HR strategies in place to address this problem and this problem is not unique to Vimta, it is a problem that is faced by the entire industry and probably even other industries, that seems to be the trend especially in the millennials where attrition is inevitable after somebody spends 3 years in a company, so we try to counter that by having very strong induction and onboarding training, our culture of quality is very, very strong, so we do not have any issue there, so every person that we take especially for the scientific work is qualified before they are deployed at work, periodically re-qualified and as any good business we do take care of the talent that is precious for the company so the right people at the right time are identified, nurtured and grown, so nothing new that Vimta does, but we do follow the best practices that are there HR to retain good talent.
- Dharmik Prajapati:** Right and how many of this 1100 people would be customer facing in terms of marketing, getting new orders, some thought on this?
- Harita Vasireddi:** I think Vimta has always focused more on the quality of people that we have, less focus is on just a number, so again I will be unable to give specific numbers because that is competitor sensitive, but the quality of people that we have in the market is very good, attrition is low in these areas.
- Dharmik Prajapati:** I got it, thanks a lot.
- Moderator:** Thank you. The next question is from the line of Viral Bhansali, an individual investor. Please go ahead.
- Viral Bhansali:** Thanks for the opportunity. My question is regarding your pharma business, what proportion of total revenues would be the pharma business?
- Harita Vasireddi:** It is around 60%.
- Viral Bhansali:** And what kind of capacity do we have to grow in this, do we need to do some further capex to grow or do we have enough capacity for the pharma sectors to grows 20%, 30% more for the next 2 years?
- Harita Vasireddi:** As I was saying earlier, the capacities are in place and they are quite scalable in nature, because you can run a lab for one shift or two shifts, or three shifts, so we do have scalable infrastructure in place, the demand also is not always steady, it keeps fluctuating, but we are capable of meeting those

demand fluctuations also, regarding new capex investment that is a continuous process for us because we are always trying to add newer and newer services, regulations also have an impact on the services that we keep adding, so whenever there is a regulation, that requires a new kind of technology or much sensitive technology than we typically invest into that and we are usually market leader in those kind of activities in our segment.

Viral Bhansali: So, what I mean to ask is, say at the current capacity regards the capital investment is concerned and even the human resources, if we increase our shifts, how much can we grow in the pharma space?

Harita Vasireddi: It all depends on the opportunities that are available. I am saying that we do not need significant investments in capex, other than when the need is driven by a new technological requirement, so the one that we have right now and our capex spending is typically we take it out of depreciation, the depreciation that we have is enough to fund our new capex for the next year.

Viral Bhansali: So, can I assume the pharma segment can grow 100% without a significant capex?

Harita Vasireddi: No.

Viral Bhansali: It would need a capex?

Harita Vasireddi: It would need it and it all depends on what are the opportunities that are coming up there.

Viral Bhansali: Fine, thank you.

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

Harita Vasireddi: Thank you all for joining today's call. I hope we were able to answer your queries well. If you have any questions, do feel free to get in touch with us, have a good day.

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