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VIMTA LABS: MILESTONE OF INDIAN LABORATORY TESTING

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ABSTRACT

Dr. Vassireddy's Vimta Labs is one of the major laboratory testing houses in the analytical testing industry. The various needs of the companies seeking for the laboratory testing are now met by Vimta Labs. This synopsis covers a wide scope of the feasibility of the establishment of Vimta Labs, its growth and various other aspects. An attempt has been made to find the key factors associated with its success. The main objective was to trace in details the various aspects of Vimta Labs i.e, in respect of investment, growth, market, profitability, performance and the strategies followed by Vimta Labs.

Objectives

- To know the reason behind the establishment of the Vimta Labs.
- To trace out its success story.
- To analyse the growth and performance of Vimta Labs with respect to investment, market and profitability.
- To study the pricing strategies adopted by Vimta Labs.
- To figure out the management processes and systems of Vimta Labs.

Methodology: In the present study, an attempt has been made to measure, evaluate and compare the financial performance, strengths during establishment, growth and scope and the challenges faced by VIMTA LABS (HYDERABAD). The study also focuses on the pricing strategies and the management strategies of VIMTA LABS. The study is based on secondary data that has been collected from annual reports of the respective company, magazines, journals, documents, online database and other published information. The study covers the period of initiation of the company i.e from 1992 to 1999. The data used in this report have been taken from financial statements i.e., the PROFIT & LOSS ACCOUNT, BALANCE SHEET and various other reports collected for the relevant years. The procedural details have been collected from the respective manuals, booklets etc.

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INTRODUCTION

In India, there were a large number of small firms undertaking a variety of tests. To conduct such tests there was a need of analytical laboratories. But the fact was that there were only a few such laboratories. Although there were private and government run laboratories engaged in such testing and providing services across the country, the services provided by them were not satisfactory on the part of the clients. Dr Vasireddy, founder of Vimta Labs took this as an entrepreneurial opportunity and decided to establish the testing laboratory. He started his career as a lecturer in 1972. But he wanted to work more on the area of rare earth's complexes in the industrial field. In 1976, he joined Mineral Exploration Limited (MEL), Nagpur.

But he was quite dissatisfied for the underutilization of his skills in the company. And taking this as an advantage he started exploring other research departments. In 1979, he got a transfer to his home town, Hyderabad. But he could not get sufficient scope to work and face new challenges. So with dissatisfaction and an unclear view of the entrepreneurial activity he would do, he resigned the job in 1984.

FINDINGS

Idea conception: In India, there were a large number of small firms undertaking a variety of tests. To conduct such tests there was a need of analytical laboratories. But the fact was that there were only a few such laboratories. Although there were private and government run laboratories engaged in such

testing and providing services across the country, the services provided by them were not satisfactory on the part of the clients. To have a clear idea, among all the private laboratories, Sri Ram Institute of Industrial Research was the most significant player situated in New Delhi. Apart from the private laboratories there were a number of large government run laboratories set up across the country to serve. But those laboratories were lacking updated technology and equipment. Apart from the technical deficiency the rules and procedures followed by them gave rise to delay in the results and also the quality of results was not assured.

These limitations of the existing laboratories in India gave Dr. Vasireddy an entrepreneurial opportunity to be taken into consideration. But it was not that easy. The new entrants were facing an entry barrier in the form of obtaining various clearances in multi-level channels. Also, the existing laboratories were giving tough competition to each other. They were having reduction in the fees charged by them by comparing the same with that of others. The reason for this was to attract more and more clients by charging lower fees for testing. Dr. Vasireddy took the lacunas of the government run laboratories as an opportunity to establish a testing laboratory. Also with this opportunity Dr. Vasireddy also had his qualifications (MsC. Chemistry and PhD) and also his industrial work experience in the research department as his strength. He had an exposure of both theoretical and practical aspect. This led to the establishment of the Vimta Labs and the start of entrepreneurial activity by Dr. Vasireddy in July, 1984.

The success story

- With the inception of idea during his working period in Mineral Exporation Limited. Nagpur and later at Hyderabad branch, he named his lobaratory "Vimta Labs".
- The Initial Investment for "Vimta labs" was contributed by Dr. Vasireddy and his brother-in-law. Both of them pooled up all their savings counting to Rs 0.4 Millions. They devoted initially to test the geological samples and water. Vimta Labs initially got clients like Nalco and MEL.
- The major barrier faced initially by Vimta Labs was getting itself registered as an Industrial enterprise.
- In the year 1985, he introduced further Capital investment of Rs 0.9 Million which he took on loan. With that capital he imported equipment's for the testing's to ensure the quality of service.
- In 1986, he took a loan of Rs. 1 Million to get more equipment of better technology.
- In 1987, the Vimta lab was certified to test hazardous materials by the Dept. of environment, Govt. of India.
- In 1988, Dr.Vassireddy sold almost all his personal properties and invested the realised money.
- Vimta Labs achieved its 2nd milestone when it was the fourth Organisation in the Country to have a plasma emission Spectrometer. It also proved its capabilities for testing of drugs for pharmaceuticals Industry.
- In 1990, Vimta Labs relocated to a new factory in Cheralipalli, Hyderabad. It also converted it from "PVT LTD" to "LTD".
- In 1991, Vimta took loan of Rs 62 Million from IDBI comprising of Rs 5 Million as equity and the balance as foreign currency loan.

- But this fund was not sufficient Dr.Vassireddy had a finance gap of Rs 13 Million. This gap occurred due to rupee devaluation and custom clearance for equipment. This gap was filled with the help of Vassireddy's friends.
- In 1993, Vimta became a public company and raised a finance of Rs 27 Million.
- In 1994, it relocated to a longer building which was fully equipped with all the technological advancements.
- Vimta continued to be the best rated laboratory for doing environmental studies in 1999.
- Now the client list of Vimta Includes Larsen & Taubro, Gujarat Ambuja cement, ACC, Hindalco, ITC, CMPDI of Coal India, NMDC, NTPC and many other domestic firms.
- Among the International Firms, Vimta took assignments for ERM, Tetra Tech (USA) and Gibb Environmental (UK).
- In the area of clinical approach it had in its list a no. of pharmaceutical companies like Rabaxy, Cipla, Dr.Reddy's Pfixer Sun and IPCA among domrestic firms. Among International firms it had Lagap pharmaceuticals (UK), Ethyparam (france) and Zenith Goldline (USA).
- It also has joint venture with Gosstandart of Russia from 1988, and it is known by the name of Vimta Rastest (P) Ltd.
- In 1999, Vasireddi was the Vice President of the drugs and Pharmaceuticals Association of Andhra Pradesh.

Performance of Vimta labs:

a) In terms of profitability (sales and profit).

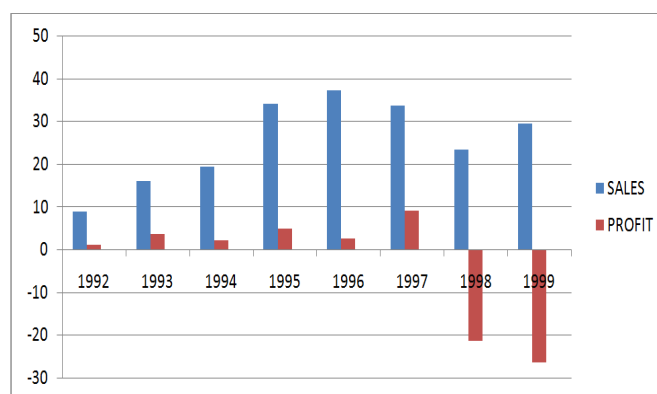


Fig.1. Growth of sales and profit

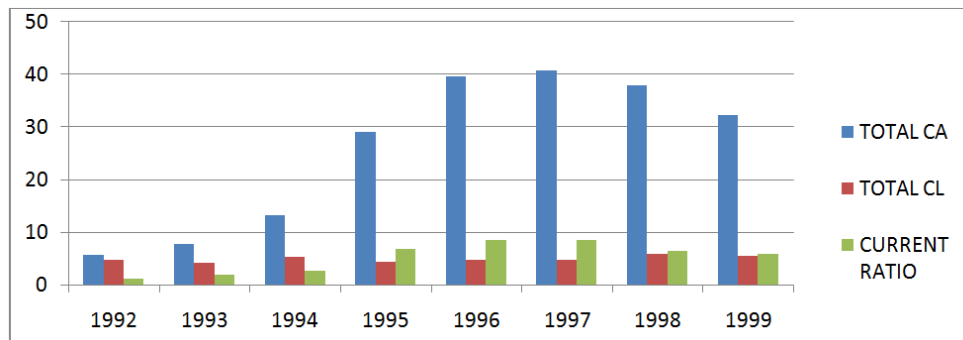
The profitability of any organization is measured in terms of its sales and corresponding profit. In case of Vimta Labs, the sales graph shows a shape similar to that of a bell. It starts rising slowly achieves its saturation point and then starts declining. But the decline is not a stiff decline for Vimta Labs. It is seen that again in the year 1999 the sales is increasing. On the other hand, the profit of the organization was having aupward trend till 1997. From 1998 onwards the company has started to suffer loss. The main reason for this is the increase in the administrative and other office expenses. According to convention, current ratio should be 2:1, i.e., every current liability of Re. 1 should be backed by current asset of Rs. 2. If the ratio is more than this, it means the working capital position is sound.

b) In terms of liquidity

Table 1. Calculation of Current Liabilities

Year	1992	1993	1994	1995	1996	1997	1998	1999
Total ca	5.6	7.66	13.26	29.08	39.56	40.69	37.88	32.26
Total cl	4.7	4.2	5.2	4.26	4.7	4.78	5.91	5.44
Current ratio	1.19	1.82	2.55	6.83	8.42	8.51	6.41	5.93

Fig. 2. Fluctuations in Current Ratio



c) In terms of solvency

Table 2. Calculation of debt-equity ratio

Year	1992	1993	1994	1995	1996	1997	1998	1999
Total liabilities	19.8	48.86	44.89	59.84	67.65	78.85	91.08	107.66
Stock holders equity	11.4	16.95	35.2	36.07	36.07	36.07	36.07	36.07
Debt-equity ratio	1.74	2.88	1.28	1.66	1.88	2.19	2.53	2.98

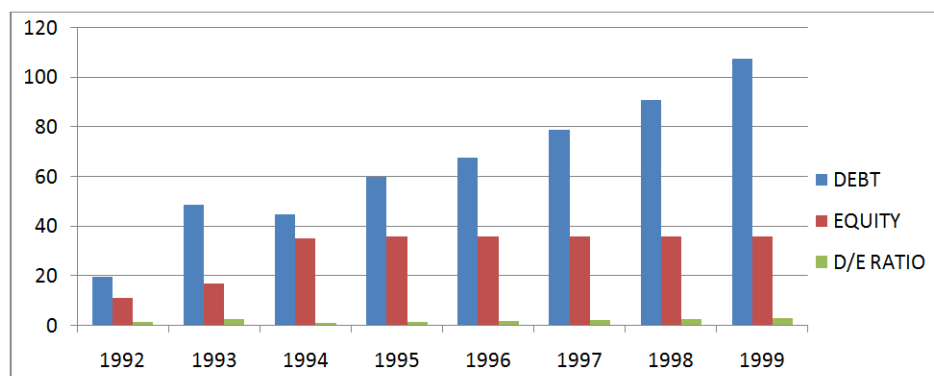


Fig. 3. Composition of debt and equity of Vimta Labs

If current ratio is less than this, i.e., 2:1, there is a need to investigate whether the position is satisfactory or not. As a matter of fact, a ratio higher than 2:1 may be unsatisfactory from the point of view of profitability though it may be satisfactory from the viewpoint of solvency. The graph shows that the company has a satisfactory ratio for all the years. The ratio is improving and increasing day by day. It signifies the strong liquidity of the organization. But it is as a result of the increase in the total current assets than that of the current liabilities. On one side it shows the high liquidity of the company but on the other side it indicates improper management of the current assets. The current assets are more than required which indicates that the current assets (resources) of the company are remaining idle or unutilized. The debt-equity ratio of the company shows the proportion of debt capital and equity capital in the total capital structure of the company. It has been seen that in Vimta Labs, the debt capital has the maximum portion in the total capital structure of the company. During the years 1992-1999 the debt-equity ratio is having a higher rate of growth. It is seen that the debt portion of the company has a rapid growth but the equity of the capital has a constant growth during those years.

As the maximum proportion of capital is provided by the creditors the share holders will be at a benefit through the high debt to equity ratio.

Factors contributing towards Vimta's success

There are various factors which are responsible for the success of VIMTA lab .it includes the internal factors i.e efficient management, expert and skilled employee, proper HR policy, work efficiency of the company. These factors has major role in its success .due to its dedicated skilled employee, it was able to provide quicker service. The leadership lead by Dr.Vasireddi was much influenced. They have managed excess of man power and experts in the teams. The management team also worked efficiently which helped the company to provide testing in various divisions such as analytical, pharmaceutical and also in different assignments as per order. The external factors include less competition during establishment i.e there were few competitors in the analytical laboratories sectors including the Govt.-run firms whose service was slower due to various regulations that were needed to complete.

But Vimta's performance and service was quicker and customer satisfactory. It has maintained good relation with the suppliers of chemicals and various inputs so it never faced any shortage of materials. Vimta lab was much focused on technological improvement. It had been upgrading its equipment with latest technologies as per requirements in the meanwhile it had received various financial assistance from various banks, venture capitals including IDBI bank, ICICI venture etc. for financial support. The growing requirements of various testing laboratories in the 1990s due to globalization and increasing various companies was also one of the key factors of VIMTA lab. The other factors such as government support, expanding business in different fields like environmental issues, clinical testing labs etc. contributed to VIMTA's success.

(a) Internal Factors

- Enthusiastic and experienced leader
- Adequate financial support and management
- Efficient employees
- Proper HR policy
- Work efficiency of the company

(b) External Factors

- Less competition during establishment
- Good relation with supplier and clients
- Growing analytical laboratory industry
- Modern and latest equipment up gradation
- Venture capital assistance
- Expanding business in different emerging fields like environmental studies, pharmaceuticals industry etc
- Governmental support

Pricing strategies

- The main aim of every organization is to maximize profits by effectively getting the products of the shelf.
- Pricing strategy is a way of finding a competitive price of a product or a service
- This strategy is combined with the other marketing strategy
- This strategy comprises of one of the most significant ingredients of the mix of marketing as it is focused on generating and increasing the revenue of an organization, which ultimately become profit making for the company
- Understanding the market conditions and the unmet desires of the consumer along with the price, that the consumer is willing to pay to fulfill his unmet desires the ultimate way of gaining success
- However to maximize the profits along with retaining your consumer you have to make sure that you have choose the right price strategy which will help to attain the objectives
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Pricing strategies followed by Vimta

The pricing strategies used by Vasireddi based on combination of various factors

- Client attitude
- Urgency
- Prevailing market price
- They follow a flexibility price for new customer.
- Initially they provided credit payment for bulk order but then they choose 'no money', 'no service' strategy.
- No expenses for advertising.

Penetration pricing – when it entered to the market it provided the product at a lesser price from the competitors, in this case the competitors are PSU.

Pricing strategy for product line – the Vimta lab. Charges different price for different service.

Pricing strategy for promotion – it is not doing any promotional activities so it do not need any expense and promotional strategy for its services.

Dynamic pricing – according to the customer it make price changes as like flexibility for new customer.

- Pricing strategy for procurement of raw material – during the procurement of raw material the company can avail 30 days credit.

'No money', 'No service' scheme

- The industrial slow down in late 1990s' showed that Vimta faltered in collection.
- In 1997-98, Vasireddi stopped giving credit altogether.
- Then he decided that he would not proceed the work unless paid for advance.
- If they client paid a part of the money then Vimta would do only for that much work.
- In exceptional the client may pay in installment when the assignment had different phases.

Key entrepreneurial characteristics of Dr. Vassireddy

- Risk tolerance
- Initiation
- Leadership
- Awareness about the current market scenario
- Market research

- Competitive mindset
- Motivation
- Creativity
- Persuasiveness
- Vision
- Decisiveness
- Collaboration or team spirit
- Dynamic
- Hard work
- Desire for high achievement
- Highly optimistic
- Perseverance
- Self confidence
- Spirit of challenge
- Ability to manage failure

Management strategies of Vimta Labs

- Initiation strategy: Dr Reddy, had a clear vision about the operations of Vimta Labs. He took the quantitative risk and initiated the establishment of Vimta Labs. The strategy used for initiation was giving a competition to the established private and government run laboratories with efficient technology, superior quality and time bound services.
- Strategy for investments: Dr Vassireddy took the charge of investing maximum capital in the technical aspect of the laboratory. Initially, almost all of the investments were done for the updated technology and equipments. Later, slowly he started making investments in the infrastructure (buildings) of Vimta Labs.
- Pricing strategy: the pricing strategy adopted by Vimta Labs was very dynamic in nature. It had different prices for different services. It had an unique strategy of “no money”, “no service”.
- HR strategy: the personnel of Vimta Labs constituted of scientists, engineers, doctorates, technicians, administrative and supportive staff. The engineers and scientists were rotated to different divisions depending upon the need and nature of the work. The strength of the HR of Vimta Labs was that the scientists themselves took care of the marketing activities of the laboratory. The personnel of Vimta Labs were treated completely with their respect and worth.
- Organizational strategy: the organization was divided into 6 broad divisions which was later restructured to 3. Dr Vassireddy was the lead leading the organisation. The technical part was handled by Harriman and the commercial part was handled by Prasad. The MIS department was taken care of by the wife of Dr Vassireddy. In the MIS department, a three page comprehensive report regarding the financial operations, situations in the operations and market conditions of the previous day.
- Competitive strategy: The competitive strategy of Vimta Labs includes, providing time bound services, using superior technical equipments and unadulterated quality of results.

Conclusion

1. Due to less competition in the market, the Vimta Labs got a boost in the entrepreneurial opportunity.

2. The main strengths for the establishment were:
 - Demanding clients
 - Lack of technologically updated laboratories
 - Lack of initiative by other entrepreneurs
3. In the initial operating years Vimta Labs was backed mostly by borrowed capital.
4. It has a wide scope in market from national to international boundaries.
5. The company was one of the best 20 laboratories in the world with a client strength of 6000.
6. In middle 1990s, its income from operations got raised and it had tried to modernise its equipment with latest technology so that to provide better and quick service.
7. Vimta Lab has performed well overall; it has created a special name in the analytical and clinical testing industry with supporting various national and global firms.
8. The pricing strategy of Vimta Labs is quite dynamic. It changed from time to time, from penetrating pricing to dynamic pricing.
9. They also had an exceptional strategy of “no money”, “no service”.

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