INVESTMENT RESEARCH

DARK HORSE - VIKAS ECOTECH Ltd

Dated : 19th Dec. 2017

ACCUMULATE	
Price ₹	34
Multibagger	
Upside	-
Div Yield	0.15%
Tenure	2-3 years
Sensex	33836.74
Nifty	10463.20
Group/Index	**B / S&P BSE SmallCap**

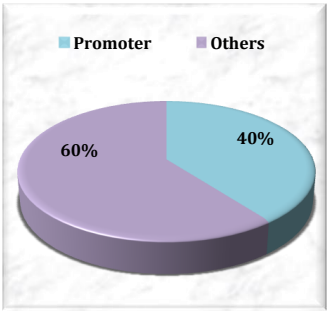
Stock Details	
M.cap (₹ in cr)	952
Equity (₹ In cr)	27.99
52 wk H/L ₹	48.50/15.85
Face Value ₹	1.00
NSE code	**VIKASECO**
BSE code	530961

Key Valuation Ratios	
RONW	28.25%
P/E	22.22
P/BV	6.3
EV/EBIDTA	17.89

IN ₹

Key Financial Data	
EV (₹in cr)	1042.94
BV (₹in cr)	5.40
NW(₹in cr)	151.16
Adjst.EPS (TTM)	1.53

Share Holding Pattern



Investment Rationale

The only Indian manufacturer to possess Green technology for the manufacture of non-toxic Organotin stabilizers in India that are used in manufacturing of PVC pipes. These accreditations give companies products an added edge in the global and local markets, ***Unlike in case of Maggi(from Nestle) couple of years back, which was contaminated with lead content coming from chemicals used in PVC pipes. Shift from toxic lead stabilisers to non-toxic stabilisers (Organotin stabilizers are the only alternative to lead-based stabilizers to be approved by the US (FDA) agency) would give boost to VIKAS in the coming years.***

Recently, company has acquired Mexichem, the global leader of polyvinyl chloride (PVC) pipes & one of the largest chemical & petrochemical companies in Latin America. This achievement will have a multiplier effect on sales in South America.

Capacity Expansion- *expecting revenue generation from Organotin at 90 to 100 crores in current year.*

VIKAS is planning to enhance its current capacity. **Dahej,** the first phase will have the capacity for **Organotin stabilizers** wherein Company plans to **double** the current capacity. The current being at 3,000 MT a year, will have another 3,000 tones of Organotin capacity. And for the first phase, for **Specialty compounds**, Dahej will have 5,000 to 10,000 tonnes p.a. of capacity addition and all this is targeted to get commissioned by this year-end and completely operational by the middle of first quarter of next year.

On the margins front, compounds having 20% plus and additives aggregating to a 25% gross margin levels, would maintain that levels going forward. But the new product SOE compounds, where it had witnessed a growth of more than 30% for the last two years and is expected to maintain something like 30% to 40% over the next two years as well.

On the receivable end, it is expected to bring it down to around 140 days by March end and after March by June, a further reduction of 10 to 15 days is expected by the management, on a whole to bring it down to around 120 days.

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New Product Addition

Thermoplastic Rubber (TPR) compound (substitute of rubber technology). This compound, which is typically used in the manufacture of shoes by **brands such as Crocs and Skechers,** will be hardened to suit the requirements of the shoe industry.

Company in the pilot phase of this product and will be launching it commercial later this fiscal. Company is anticipating commendable traction from this product over the next 3-4 years. The footwear industry is one of the main consumers of TPR compounds. Company supply TPR compounds that go into the end products of many leading Indian and global footwear brands including **Relaxo, Liberty, Zara, Hush Puppies, Bugati etc.**

VET aims to produce bio plastic by using waste cooking oil through a technology called Wastol-P, and with this make itself one of India's leading eco-friendly company. Also, it had entered into a contract with Haldiram, India's largest and reputed snack manufacturers for supply of waste cooking oil. During the year, the company's performance was affected by two major external events: demonetization and an accidental fire outbreak at one part of Shahjahanpur manufacturing plant in Rajasthan. However, both these events did not have a lasting impact on either operations or financial performance. The loss due to the fire impacted the profitability as a one-time extraordinary item, however, this loss will be recovered as insured claims in the coming year.

Source: Google

Corporate Governance Transparency Ratio's				
Year End	**201703**	**201603**	**201503**	**201403**
Tax Rate %	35.03	35.00	39.00	22.50
Receivable day	149	167	123	113
Div. Payout %	4.27	4.99	51.84	13.71

DEMERGER : SIMPLIFYING STRUCTURE

By March FY18, Vikas Ecotech's business will possibly be demerged into two public companies {**Vikas Ecotech Limited (VEL) and Vikas Multicorp Limited (VML)**} with the purpose of improving strategic focus, simplifying operating structures and inducing more efficiency in capital allocation and structuring.

KEY EVENTS DURING THE YEAR

RESULTS CORNER

Q2 FY18 RESULTS

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Company delivered quite good set of numbers during Q2FY18. Despite the second quarter being the lean period, despite the GST effects, despite all the hiccups this year so far, company have been able to achieve whatever targeted.

Company made it up with an increased contribution from exports which has been about 60% of the sales Q-o-Q & around 65 crores of exports against some 40 crores in the Q2 of last year, an increase of about 50% on Y-O-Y basis, reason being that the company could foresee a few problems and a bit of slowdown in the domestic market & thereby, geared up itself and focused more on the exports and was able to maintain target. Its performance has improved in an increased in ratio of manufacturing turnover from 85% versus 80% year-on-year. In the export markets, the margins are a bit higher as compared to the local market. EBITDA margins in manufacturing are also in the range of 20%.

Graphical presentation Q2 FY 2017-18 & FY 2017 Results

Results Snapshot — ₹ in crores

Particulars	Standalone Results Quarter Ended			% Change (Q-O-Q)	% Change (Y-O-Y)	Standalone Results Year Ended		% Change
	Q2 FY 18	Q1 FY 18	Q2 FY 17			FY 17	FY 16	
Revenue	110.21	115.10	86.48	-4.25%	27.44%	371.36	307.15	20.91%
EBITDA	21.18	17.08	15.26	24.00%	38.79%	52.94	53.99	-1.94%
EBITDA %	**19.22%**	**14.84%**	**17.65%**	-	-	**14.26%**	**17.58%**	-
PBT	17.21	13.10	11.37	31.37%	51.36%	35.66	39.26	-9.17%
PBT%	**15.62%**	**11.38%**	**13.15%**	-	-	**9.60%**	**12.78%**	-24.87%
PAT	11.15	8.67	7.41	28.60%	50.47%	32.81	25.43	29.02%
PAT %	**10.12%**	**7.53%**	**8.57%**	-	-	**8.84%**	**8.28%**	6.71%
Diluted EPS	0.4	0.3	0.3	33.33%	33.33%	1.2	0.90	33.33%

GROWTH DRIVERS

- Transforming waste into profits through recycling Specialized machinery and strong technical has enabled VEL to convert non-prime raw materials to virgin material standards.

- Company manufactures **ATH (flame retardants)** used in wires and cables to protect wires from catching fire. The tag line that **Havells uses – "Wires that don't catch fire"** is the magic of the chemical manufactured by Vikas Ecotech.

- Game changer Compound - **MTM - Methly tin mercaptide** Polymer compounds are used in various industries like rubber (footwear industry) and plastic industry (pipe industry), PVC, wire and cable industry. VEL manufactures large range of polymer compounds which go into different industries. **This helps the company to diversify its product concentration.**

- Polymer compounds require continuous developments in the products, which is possible for VEL with its' in- house R&D.

Industry Structure & Development

The Indian Specialty Chemical Industry is experiencing a force multiplier effect in India and is fast emerging as global specialty chemicals manufacturing hub. India is 3rd after China and Japan in terms of chemical production & 6th globally in volume terms.
India currently is the 3rd largest consumer of polymers. The growth of this segment is likely to be driven by infrastructure, agriculture, automobiles and white goods consumption.

Indian specialty chemicals firms will gain over China due to strict implementation of environmental norms and safety standards in China which lead to closure of many small unorganized firms. China's clampdown on the polluting chemical industry has already led to a slowdown in its chemical exports. **Chinese export slowdown seems the key exports booster for India.**
Make in India initiative will facilitate growth in the industry and consequent flow of FDI to this sector. The India demand for Organotin Stabilizers at 6,000 MT p.a. (growth 20%) and PVC heat stabilizer (60,000 MT p.a.) and global PVC heat stabilizer market demand are growing continuously, and their expansion plans are in line with domestic and international demand.

Indian specialty chemical players will contribute 6-7% of the global demand by 2023, which is almost double the current market share. During the current year VET's market share in India for Organotin Stabilizers was 10%. Their vision is to attain 25% share of the expanded market in the near future.

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Business Overview

VEL is engaged in the business of manufacturing and distribution of eco-friendly Specialty Polymer Compounds and Additives. **It is the only Indian manufacturer of Methyl Tin Mercaptide (Organotins Stabilizer)**, a lead free heat stabilizer used in the processing of PVC. These high end products are used in Agriculture/Infrastructure Components (eg. Pipes & Fittings), Wires & Cables, Auto Parts, Textiles, Electrical Goods, Medical Goods, Writing instruments, Organic & Inorganic chemicals, Footwear, Packaging.

With the help of R&D and new technology efforts, **the Company is planning to introduce new products in the market. The Company's new manufacturing units at Kandla SEZ and at Dahej-II, Industrial Estate, District-Bharuch, Gujarat** will cater to the markets in Western & Southern India and exports of specialty compounds.

Clients include RR Kabel, RelaxoF'wear, Liberty Shoe Escorts, KEI, Havells, Action Intl., Apollo Pipe, SRF.

STRENGTHS

➢Good R&D that works with prospects and current customers to develop new products and solutions. The recent revenue upswing is the successful result of several years of solid R&D.

➢ Massive capacity addition from Dahej, Bhuj and Noida plants will be beneficial for the company.

➢A good domestic focus on substitution for expensive imported niche chemicals.

➢Exports focus is high potential with a massive target market and achieve a good success.

➢There exists a good synergy between trading, importing, chemicals agency business and mfg.

RISKS AND CONCERNS

➢The raw materials used by VET are crude oil derivatives. Any rise in crude oil prices will significantly increase the input cost and subsequently the margins.

➢ Low promoter holding - Promoter holding is less than 50%

➢VET's mfg. plant in Rajasthan suffered in a fire in April 2017. The damage could be Rs. 15-20 cr. But these assets were insured. One plant in J&K is in a sensitive area, there have been terrorist attacks recently which is a big concern for the company.

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➢Chinese chemical producers can be competitive on price and volume. The other massive player in the sector is Reliance Industries. VET has potential as a niche chemicals player as long as other larger players do not enter these segments. However these segment volumes may not be attractive for RIL.

Valuation Conclusion

The only Indian manufacturer to possess Green technology for the manufacture of non-toxic Organotin stabilizers in India that are used in manufacturing of PVC pipes, Moreover, shift from toxic lead stabilisers to non-toxic stabilisers would give boost to VIKAS in the coming years.
Further, VET aims to produce bio plastic by using waste cooking oil through a technology called Wastol-P, and with this make itself one of India's leading eco-friendly company. Also, it had entered into a contract with Haldiram, India's largest and reputed snack manufacturers for supply of waste cooking oil.
Eying on the industry side, ***Indian specialty chemical players will contribute 6-7% of the global demand by 2023, which is almost double the current market share. During the current year VET's market share in India for Organotin Stabilizers was 10%. Their vision is to attain 25% share of the expanded market in the near future.***
Taking into consideration company's capacity Expansion plans, targeting revenue generation from Organotin at 90 to 100 crores in current year, New additions to products , decrease in receivable turnover to around 120 days would further enhance company's margins & growth in future years.
Therefore, we **recommend to accumulate the stock for long term.**

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