

Vikas EcoTech Ltd. (VEL)

Going on high pitch ; Maintain BUY

Vikas Ecotech Ltd., (VEL) posted 4QFY17 result with a revenue growth of ~6.5% / ~21.9% YoY / QoQ, respectively, to Rs. 1,033mn led by normalization of demonetization effect and increase in manufacturing activity. The manufacturing revenue contributed 87% vs 83% (Q4FY16) of total sales to Rs.896.5mn and trading revenue contributed 13% vs 17% (Q4FY16) to Rs.136.5 mn. EBITDA stood at Rs.208mn with margins of 20.2%, an expansion of ~ -106 bps / ~228 bps YoY/QoQ, respectively. VEL's recurring PAT was Rs 154mn vs Rs 106mn in 4QFY16, a YoY/QoQ growth of ~45%/107% respectively. The reported PAT was negative to Rs. - 8mn vs Rs.103mn last year due to one-time exceptional loss of Rs.16.3cr. led by a fire incident that occurred on 31st March 2017. The company has claimed insurance for the same which would be added to the P&L going forward.

Improved Revenue and Earnings: VEL's revenue grew by ~6.5% to Rs 1,033mn due to increase in manufacturing activity and normalization of the effect of demonetization. EBITDA stood at Rs.208mn, a marginal growth of ~1.2%, and margin contracted by ~106bps YoY backed by increase in raw material cost, staff cost and other expenses. Recurring PAT stood at Rs.154mn with a growth of ~45%/107% YoY/ QoQ, respectively, even after a high interest cost (Rs.47 vs Rs.23 last year) which was compensated by negative tax.

For FY17, VEL reported strong growth of Rs.3,725 mn (~21% YoY) backed by increased contribution from manufacturing activity. EBITDA grew by 40% to Rs.687mn with margin expansion of ~250 bps to 18.4% vs 15.9% last year led by improving operational efficiency. Adjusted PAT was Rs.395 mn with ~56% YoY growth. However, reported PAT slipped to negative due to a one-time expense on account of a fire accident in its Shahjahanpur unit (insured). We expect the demand from pipe manufacturers to grow post NGT's declaration (extensive use of LEAD in PVC pipe is hazardous to human health), increase in exports coupled with new products in pipeline, and capacity addition would boost the revenue/earnings by ~41%/91% CAGR over FY17p-FY19e.

De-merger of Specialty Chemical business and Recycled Compounds & Trading Division to expand margins: The company's management has announced demerger of Vikas Ecotech Ltd. (VEL) (Demerged company) and subsequent amalgamation with Vikas Multicorp Ltd. (VML) (Resulting Company). VML contributes 33% of the total turnover of VEL. As per management, this demerger would help surge the EBITDA margins of VEL (high margin Specialty chemicals business) and VML (low margin Recycled Compounds and Trading Division business) would grow on the back of high volume. Low margin business has huge market and the company is confident to capture it, led by increased capacity. The de-merger is with effect from April 2017, hence we will consider this in to our valuation in Q1FY18 result update.

Valuation: The stock currently trades at 16.7x / 11x / 7.8x of FY17p / FY18e / FY19e EPS. We believe, increasing demand for toxin free stabilizers, growth in PVC industry, opportunities in export markets, capacity expansion would create huge opportunity for VEL's revenue/ earning to grow at a CAGR of ~41%/91% over FY17p-19e. We maintain our BUY recommendation with a price target of Rs 42 implying upside of 80%. (14x on FY19e EPS).

SECTOR: SPECIALITY CHEMICAL

 1st June, 2017

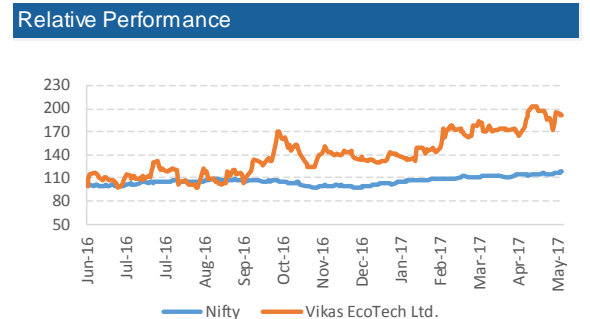
Price	Price Target	Up/Down (%)
Rs. 24	Rs. 42	80%

Bloomberg Code	Reuters Code
VKEC IN	VKGL.NS

Share Holding (%)	As on March 2017
Promoters	39.5
Public	60.5

Stock Data	
Nifty	9,616
Sensex	31,138
52 week high/low	25.5/10.9
Market Cap (Rs. bn)	6.6
Face value	1

Price performance (%)	1M	3M	6M	1Y
Absolute	15.2	10.1	30.3	90.7
Relative to Sensex	11.2	2.7	13.0	74.1



Source:-Bloomberg

Exhibit 1: Financial summary (Rs mn)

Y/E March	FY14	FY15	FY16	FY17p*	FY18e	FY19e
Net sales	2,500	2,110	3,072	3,725	5,609	7,395
Growth (%)	-0.9	-15.6	45.6	21.3	50.6	31.8
EBITDA margin (%)	5.3	7.9	15.9	18.4	18.2	18.6
PAT	37	38	255	232	598	847
Adjusted PAT	36	38	254	395	598	847
EPS (Rs)	0.4	0.1	1.0	1.4	2.1	3.0
Growth (%)	-1.5	4.7	570.2	55.6	51.4	41.6
P/E(x)	66.1	157.8	23.5	16.7	11.0	7.8
ROE (%)	9.1	8.9	46.3	40.0	43.0	45.4
ROCE (%)	10.6	9.4	24.5	24.2	27.4	29.0
Debt/equity (x)	1.59	1.53	1.38	0.82	1.05	0.68
P/Bv (x)	5.7	13.8	9.0	5.0	4.5	2.9

Source: Company, BOBCAPSe

NGT declares Lead in PVC pipes affecting human health: National Green Tribunal (NGT) declares extensive use of LEAD in PVC pipe is hazardous to human health. NGT directed the Ministry of Environment and Forests (MoEF) to phase out LEAD in Polyvinyl Chloride (PVC) pipes within four months which is used to stabilize thermal degradation. Noting the harmful effects of LEAD, the Green panel have given instructions for withdrawal of PVC pipes, containing lead-based heat stabilizer, out of market and banning the use of such stabilisers. We feel, top 5 PVC pipe companies would affect this decision as they contribute ~50% of Indian PVC market. If they shift to tin based stabilizer, the demand would drive up to ~25,000MT. We believe, with the above NGT's directions, eco-friendly stabilizers like tin-based stabilizers will become the industry's preferred choice. In India, the current market share of PVC Heat Stabilizers is ~76% which can be acquired by eco-friendly stabilizer like Organotin, which augurs well for VEL.

Shift from LEAD to drive enormous opportunity for VEL: VEL would be the only beneficiary as it is the only Indian company that manufactures tin based eco-friendly heat stabilizer (Organotin) which is a substitute for lead based stabilizer. Considering the growth prospects VEL has planned capacity expansion of 3000MT from current 3000MT in FY18. It has fully integrated technology with in house R&D facility. The company sees huge growth opportunities as it has direct competition only from Chinese and USA players. However, VEL has become client's preferred supplier on account of Chinese product's quality issues and USA product's higher landing cost. We believe, with the total capacity of 6000 MT, it can easily scale up in a few months to grab the opportunity available in the market.

Exhibit 2: Quarterly Financials

(Rs Mn)	4QFY17	4QFY16	YoY (%)	3QFY17	QoQ (%)
Net Sales	1,033	970	6.5	848	21.9
Raw material consumed	727	701	3.7	645	
(%) of net sales	70	72		76	
Staff cost	16	6	153.6	14	
(%) of net sales	2	1		2	
Manufacturing & Other Expenses	82	57	44.2	37	
(%) of net sales	8	6		4	
EBITDA	208	206	1.2	152	37.4
Depreciation	11	9		11	
EBIT	197	197	0.1	141	40.1
Interest	47	23	103.7	27	72.7
Other Income	2	0		1	
PBT	152	174	-12.5	114	33.3
Less: Taxation	-2	67		39	
Less: Minority Interest	0	0		0	
Recurring PAT	154	106	44.9	75	106.6
Exceptional items	-163	-4		0	
Reported PAT	-8	103	-108.1	75	-111.1
Key Ratios (%)					
EBITDA Margin	20.2	21.2	-106	17.9	227.6
Tax / PBT	-1.4	38.8		34.6	
NPM	14.9	11.0	396	8.8	612.2
EPS	0.6	0.4		0.3	

Source: Company, BOBCAPS

Financials

Exhibit 3: Income Statement

Y/E Mar (Rsmn)	FY14	FY15	FY16	FY17p*	FY18e	FY19e
Net sales	2,500	2,110	3,072	3,532	5,609	7,395
<i>growth (%)</i>	(0.9)	(15.6)	45.6	15.0	58.8	31.8
COGS	2,199	1,760	2,372	2,657	4,175	5,445
Staff Cost	38	37	33	41	72	95
R&D Cost	-	-	-	-	-	-
SG&A Cost	130	146	177	207	351	494
EBITDA	133	166	490	626	1,010	1,361
<i>growth (%)</i>	27	25	194	28	61	35
Depreciation	22	34	34	45	79	108
EBIT	111	132	456	581	931	1,253
Other income	28	37	48	41	44	48
Interest paid	92	107	113	128	192	191
Extraordinary items	-	-	2	-	-	-
PBT	48	62	391	493	784	1,109
Tax	11	24	137	173	275	389
Minority interest	1	-	-	-	-	-
PAT	37	38	255	320	509	720
Non-recurring items	-	-	(2)	-	-	-
Adjusted PAT	36	38	254	320	509	720
<i>growth (%)</i>	(1.5)	4.7	570.2	26.2	58.8	41.5

Exhibit 4: Balance Sheet

Y/E Mar (Rsmn)	FY14	FY15	FY16	FY17p*	FY18e	FY19e
Cash & Bank balances	5	8	44	249	315	407
Other Current assets	1,304	1,251	1,950	1,783	2,732	3,549
Investments	0	0	0	0	0	0
Net fixed assets	229	210	279	644	875	857
Goodwill	-	-	-	-	-	-
Other non-current assets	3	3	4	2	2	2
Total assets	1,541	1,473	2,277	2,678	3,924	4,815
Current liabilities	447	378	703	685	941	1,158
Borrowings	669	662	912	1,029	1,542	1,539
Other non-current liabilities	3	0	-	-	-	-
Total liabilities	1,120	1,040	1,615	1,714	2,482	2,697
Share capital	102	254	254	254	254	254
Reserves & surplus	319	179	408	709	1,187	1,864
Shareholders' funds	420	433	662	963	1,442	2,118
Total liabilities	1,541	1,473	2,277	2,678	3,924	4,815

Source: Company, BOBCAPSe

*p - Provisional

Exhibit 5: Cash Flow Statement

Y/E Mar (Rsmn)	FY14	FY15	FY16	FY17p*	FY18e	FY19e
Profit after tax	36	38	255	320	509	720
Depreciation	22	27	29	45	79	108
Chg in working capital	(140)	(17)	(373)	150	(694)	(599)
Total tax paid	0	(4)	(2)	-	-	-
Cash flow from operations	(82)	44	(90)	515	(107)	228
Capital expenditure	(53)	(8)	(98)	(410)	(310)	(90)
Change in investments	(0)	(0)	(0)	-	-	-
Cash flow from investments	(54)	(8)	(98)	(410)	(310)	(90)
Free cash flow	(135)	36	(188)	105	(417)	138
Issue of shares	1	153	-	-	-	-
Net inc/dec in debt	130	(8)	250	117	513	(3)
Dividend (incl. tax)	(6)	(15)	(15)	(19)	(30)	(43)
Other financing activities	10	(163)	(11)	2	(0)	0
Cash flow from financing	135	(34)	224	100	482	(46)
Inc/(Dec) in Cash & Bank bal.	(0)	3	36	205	65	93

Exhibit 6: Ratio analysis

Y/E Mar	FY14	FY15	FY16	FY17p*	FY18e	FY19e
Per share data (Rs)						
EPS	0.4	0.1	1.0	1.3	2.0	2.8
CEPS	0.6	0.3	1.1	1.4	2.3	3.3
DPS	0.1	0.1	0.1	0.1	0.1	0.2
BV	4.1	1.7	2.6	3.8	5.7	8.3
Profitability ratios (%)						
Gross margins	10.5	14.8	21.7	23.6	24.3	25.1
Operating margins	5.3	7.9	15.9	17.7	18.0	18.4
Net margins	1.4	1.8	8.3	9.1	9.1	9.7
Valuation ratios (x)						
PE	49.9	119.2	17.8	14.1	8.9	6.3
P/BV	4.3	10.4	6.8	4.7	3.1	2.1
EV/EBITDA	18.6	31.0	11.0	8.5	5.7	4.1
EV/Sales	1.0	2.4	1.8	1.5	1.0	0.8
RoE	9.1	8.9	46.3	39.4	42.3	40.4
RoCE	10.6	9.4	24.5	22.6	25.4	25.4
RoIC	3.3	2.5	19.2	19.4	23.0	24.2

Source: Company, BOBCAPSe

*p - Provisional

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