

Vikas Ecotech Ltd

Specialty Chemicals

Investment Rationale

Niche play on the high growth, specialty chemicals business; Vikas Ecotech has over the years migrated from being a trading company to manufacturing of high quality specialty chemicals and specialty compounds. Trading business which contributed ~64% of revenues in FY13 has come down to 20% in FY16. Specialty compounds and specialty additives accounted for 59% and 22% of the business for the company.

Capacity expansion will lead to revenue and earnings growth; In FY16 the company reported a 46% jump in revenues and to keep up with the growth momentum and meeting the incremental demand the company is adding new capacity. Currently the company has a capacity to manufacture 1800 MTPA of Organotin, which will be expanded to 3000 MTPA by FY17 end and further 6000 MTPA by FY18. We expect the company to report 35% CAGR in revenues over FY16-19.

Increasing contribution from exports increasing the margin profile of the company; While the company started the export division in 2011 only, in a short period of time it has been able to scale up in a big way and now it exports to over 20 countries. The share of exports in total revenues has gone up from 36% in FY15 to 48.5% in FY16. With increasing traction in the overseas markets, the share of export revenue is expected to further increase. Higher export contribution is expected to be margin accretive for the company.

Better product mix and higher operating leverage will ensure margin expansion and EBITDA growth; A favorable product mix and higher operating leverage, together with higher contribution from overseas market has enabled in margin expansions. The EBITDA margins has gone up from nearly 5% in FY14 to ~16% by FY16. We expect the margins to scale up further in the years to come. By FY19E the company is likely to report ~2.5x EBITDA compared to FY16.

Outlook and valuation: At the CMP of Rs17, the stock is trading at 8.1X its FY18E EPS and 5.2x its FY19E EPS . On EV/EBITDA basis the stock is trading at 5.5x and 3.7x its FY18E and FY19E EBITDA respectively. With increasing scale of operations the return ratios of the company are likely to see improvement. With niche business operations and scalability of business model we feel the stock is undervalued and is a candidate for re-rating. We recommend BUY on the stock with a target price of Rs 25 over the next one year.

Financial Performance of the Company

Particulars (Rs in Mn)	FY15	FY16	FY17E	FY18E	FY19E
Net Sales	2,110	3,072	3,901	5,656	7,919
EBITDA	167	490	702	1,032	1,485
PAT	39	254	378	533	824
EPS	0.2	1.0	1.5	2.1	3.2
P/E	110.7	17.0	11.4	8.1	5.2
RoE %	9%	38%	37%	36%	36%
RoCE%	9%	20%	24%	24%	27%

Source: Company, ULJK Research

Initiating Coverage

BUY

VKEC.IN

CMP: Rs 17

Price target: Rs 25

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ULJK Financial Services Private Limited

Market Data

Market Cap. (Rs Mn)	4,297
Outstanding Shares (Mn)	25.4
52 Week High/Low	23/ 11
Avg. Weekly Volume (Mn)	2.1
Face Value	1

Shareholding	%
Promoter	45.0
Public	56.49

Sensex and Stock Movement



Please refer to the important disclosures and analyst certifications at the end of the document

Company Back ground :

Started in 1984 Vikas Ecotech is an emerging player in the specialty chemical business. While the company started as a trading ventures over the years it has evolved as a leading player in the manufacturing of eco friendly specialty chemicals and polymers. It is the leading producer of Organotin, which is a lead free alternative additives being largely accepted in the PVC pipe industry in India. The company's products find applications in a diverse range of industries like Agriculture, Automobile, Cables & Wires, Organics & Inorganic Chemicals, Polymers, healthcare Industry as well as other plastic products.

Key Milestones of the Company :

1984– Started as a NBFC– Vikas Leasing

1995– Listed on BSE & NSE

1998-Started trading and distribution of petrochemical products

2008– Backward integration into manufacturing. Commissioned 2 units in Jammu for TPR Compounds and Organotin Stabilisers. Commissioned production facility to manufacture Mineral fillers for Rubbers & Plastics in Rajasthan. Name Changed to Vikas Global One Ltd



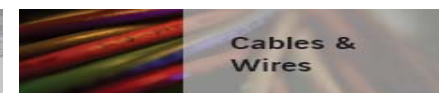



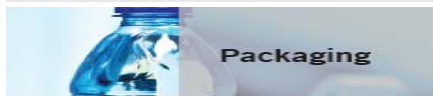
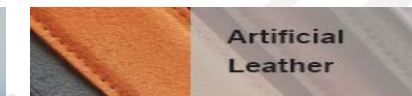

2009– Commissioned production facility to manufacture Bio Plasticiser

2011-Established the export division, Vikas Garg took over as the Managing Director.

2015– Added facility to manufacture Organotin Stabilizers in Rajasthan. Rebranded the company as Vikas Eco Tech, with a focus on eco-friendly specialty Chemicals.

2016– Commenced construction of the state of the art manufacturing plant and R&D Center at Dahej Gujarat. Capacity to produce 6,000 MT of Organotin Stabilizer and 5,000 MT of special polymer compounds annually.

Serving a Diversified range of Industries

 <p>Agriculture</p> <p>Products Used</p> <ul style="list-style-type: none"> Organotin Stabilizers Plasticizers PVC Compounds 	 <p>Automobiles</p> <p>Products Used</p> <ul style="list-style-type: none"> Plasticizers Flame Retardants TPR Compounds 	 <p>Cables & Wires</p> <p>Products Used</p> <ul style="list-style-type: none"> Plasticizers Flame Retardants EVA & PVC Compounds
 <p>Organic & Inorganic Chemicals</p> <p>Products Used</p> <ul style="list-style-type: none"> Chlorinated Paraffin DMTDC 	 <p>Polymers</p> <p>Products Used</p> <ul style="list-style-type: none"> Organotin Stabilizers Plasticizers Chlorinated Polyethylene 	 <p>Healthcare Industry</p> <p>Products Used</p> <ul style="list-style-type: none"> Organotin Stabilizers Plasticizers PVC Compounds
 <p>Packaging</p> <p>Products Used</p> <ul style="list-style-type: none"> Organotin Stabilizers Plasticizers Recycled PET 	 <p>Artificial Leather</p> <p>Products Used</p> <ul style="list-style-type: none"> Plasticizers Flame Retardants TPR Compounds 	 <p>Footwear</p> <p>Products Used</p> <ul style="list-style-type: none"> Plasticizers TPR Compounds PVC Compounds

Source: Company, ULJK Research

Increasing contribution from exports increasing the margin profile of the company;

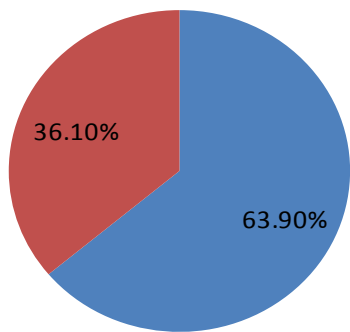
The company's new plant in Gujarat will not only cater to the incremental demand from India, but will be able to help in growing the exports business as the new plant will have better access to ports facility. Since Organotins are US FDA approved there is enough scope for the product to scale up in the future.

Many developed countries have stringent regulations with regards to lead content in the products that comes in contact with human. With Indian players eyeing higher growth from the developed markets like North America and EU they will also have to meet the stringent requirements and Organotins stabilizers being lead free is likely to result in incremental demand for the products of Vikas Ecotech.

While the company started the export division in 2011 only, in a short period of time it has been able to scale up in a big way and now it exports to over 20 countries. The share of exports in total revenues has gone up from 36% in FY15 to 48.5% in FY16. With increasing traction in the overseas markets, the share of export revenue is expected to further increase.

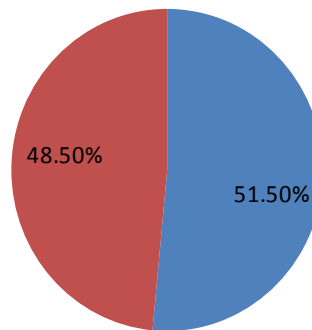
Revenue Contribution Domestic & Exports

FY15– Domestic & Exports Revenues



■ Domestic ■ Exports

FY16– Domestic & Exports Revenues



■ Domestic ■ Exports

Source: Company, ULJK Research

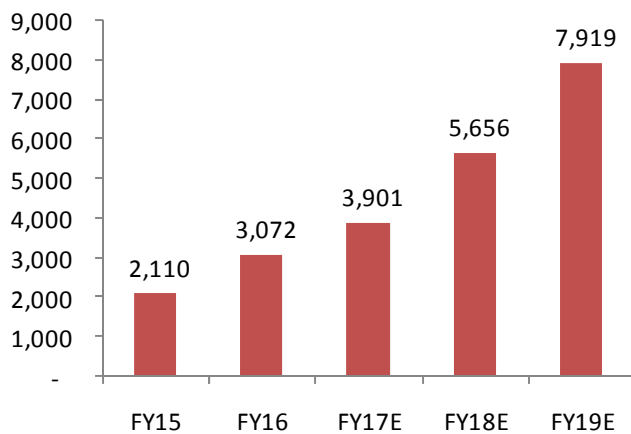
Revenue Contribution Rs Cr	FY15	FY16	FY17E	FY18E	FY19E
Domestic	135	158	190	263	342
% Growth YoY	-39%	17%	20%	39%	30%
as % of revenues	63.9%	51.5%	48.7%	46.5%	43.2%
Exports	76	149	201	302	450
% Growth YoY	163%	95%	35%	50%	49%
as % of revenues	36.1%	48.5%	51.6%	53.4%	56.8%
Total Revenues	211	307	390	565	792
% Growth YoY	-16%	46%	27%	45%	40%

Source: Company, ULJK Research

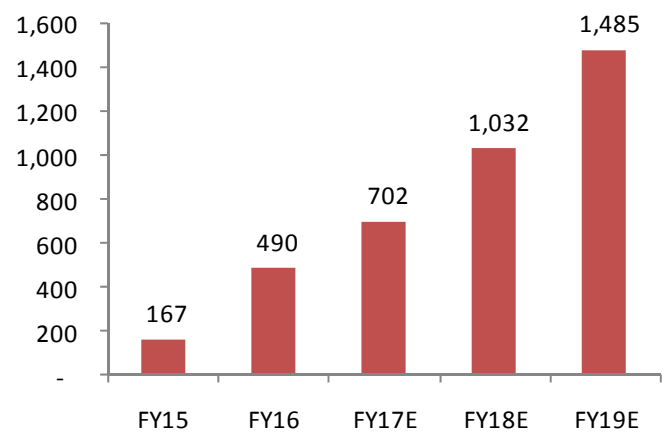
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Net Sales Trend

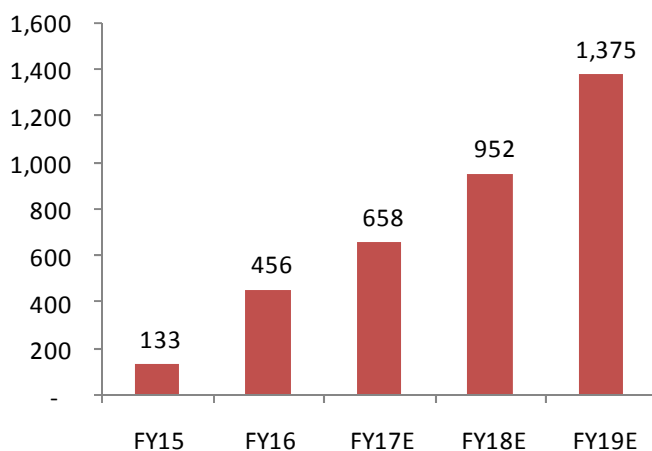


EBITDA Trend

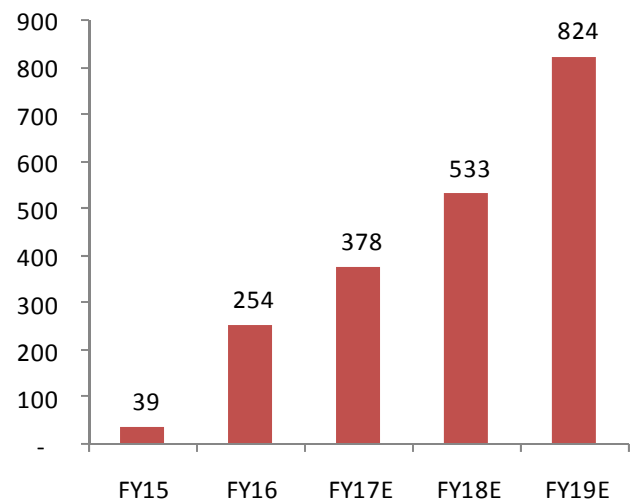


EBIT Trend Rs Mn

EBIT



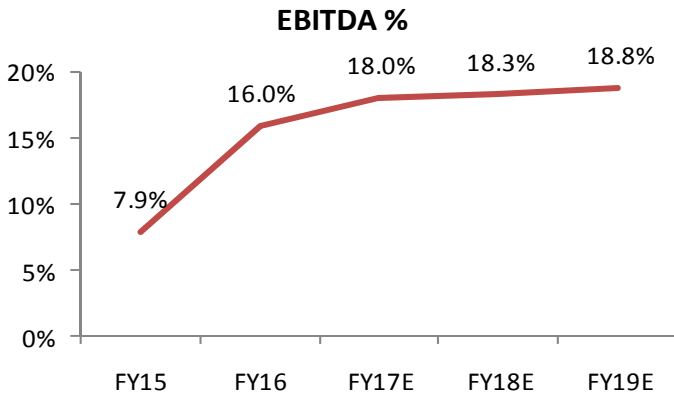
PAT Trend Rs Mn



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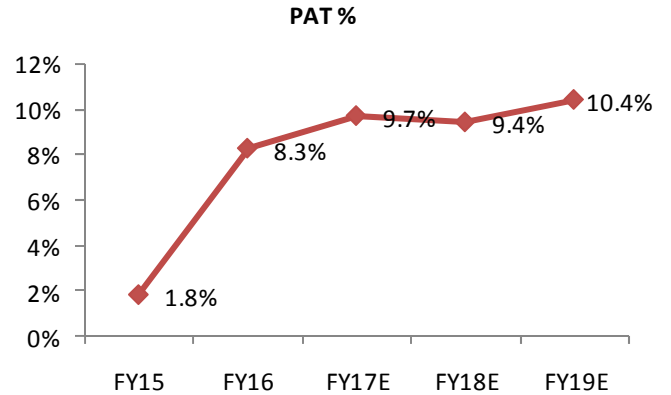
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EBITDA Margins Trend



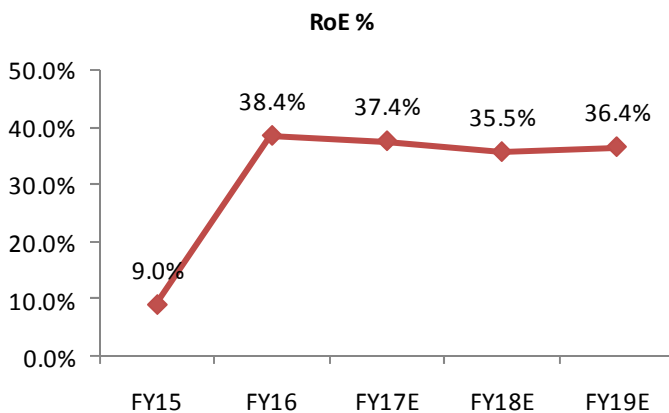
Source: Company, ULJK Research

PAT Margin Trend %



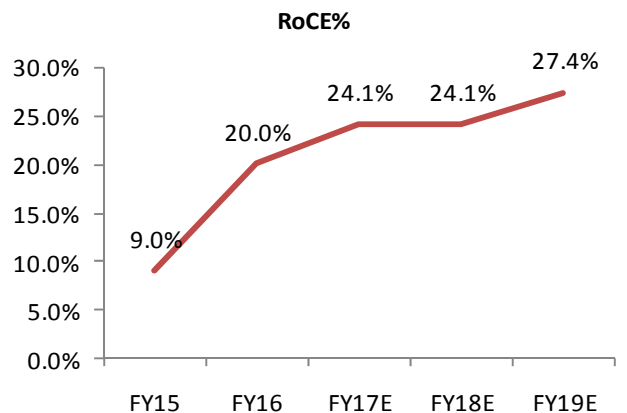
Source: Company, ULJK Research

ROE % Trend



Source: Company, ULJK Research

RoCE% Trend



Source: Company, ULJK Research

Outlook & Valuation:

At the CMP of Rs17, the stock is trading at 8.1X its FY18E EPS and 5.2x its FY19E EPS . On EV/EBITDA basis the stock is trading at 5.5x and 3.7x its FY18E and FY19E EBITDA respectively. With increasing scale of operations the return ratios of the company are likely to see improvement. With niche business operations and scalability of business model we feel the stock is undervalued and is a candidate for re-rating. We recommend BUY on the stock with a target price of Rs 25 over the next one year.

Key Management Person:

Vikas Garg: He is the promoter and Managing Director– He is a commerce graduate with more than 18 years of experience in the field of polymer and polymer compounds and chemicals. He has been the force behind the growth of the company and successful diversification into many profitable products.

Vivek Garg:Promoter & Executive Director– Has over 16 years of experience in the filed of business.

Ashutosh Verma-CEO & Whole Time Director– He has over 34 years of experience in the field of plastics and polymers.

Jagdish Capoor– Independent & Non Executive Director– He was the former Deputy Governor of RBI.He has served on the board of BSE and several banks including SBI, BoB and NABARD.

Key Risks & Concerns:

Volatility in raw material prices– The key raw materials and out put of the company have high correlation with crude oil prices and any sharp movement in crude prices can impact the profitability of the company.

Currency fluctuations– The company derives a large part of the revenues from exports and adverse currency movement can impact the earnings and margins.

Delay in capacity expansion– The company is undertaking huge capacity expansions and any delay in commencing the operations will impact the ability of the company to growth in the medium term.

Financial Statements

Rs in Mn

Income Statement	FY15	FY16	FY17E	FY18E	FY19E
Net Sales	2,110	3,072	3,901	5,656	7,919
<i>% Growth YoY</i>	<i>-16%</i>	<i>46%</i>	<i>27%</i>	<i>45%</i>	<i>40%</i>
Raw materials	1,760	2,372	2,926	4,242	5,939
<i>as % of Sales</i>	<i>83%</i>	<i>77%</i>	<i>75%</i>	<i>75%</i>	<i>75%</i>
<i>% Growth YoY</i>	<i>-20%</i>	<i>35%</i>	<i>23%</i>	<i>45%</i>	<i>40%</i>
Employee Cost	37	33	59	85	99
<i>as % of Sales</i>	<i>1.8%</i>	<i>1.1%</i>	<i>1.5%</i>	<i>1.5%</i>	<i>1.3%</i>
<i>% Growth YoY</i>	<i>-3%</i>	<i>-11%</i>	<i>77%</i>	<i>45%</i>	<i>17%</i>
Other Expenses	146	177	215	297	396
<i>as % of Sales</i>	<i>6.9%</i>	<i>5.8%</i>	<i>5.5%</i>	<i>5.3%</i>	<i>5.0%</i>
<i>% Growth YoY</i>	<i>12%</i>	<i>21%</i>	<i>21%</i>	<i>38%</i>	<i>33%</i>
Total Expenses	1,943	2,582	3,199	4,624	6,434
<i>% Growth YoY</i>	<i>-18%</i>	<i>33%</i>	<i>24%</i>	<i>45%</i>	<i>39%</i>
EBITDA	167	490	702	1,032	1,485
<i>% Growth YoY</i>	<i>26%</i>	<i>193%</i>	<i>43%</i>	<i>47%</i>	<i>44%</i>
EBITDA %	7.9%	16.0%	18.0%	18.3%	18.8%
Depreciation	34	34	44	80	110
<i>% Growth YoY</i>	<i>55%</i>	<i>0%</i>	<i>29%</i>	<i>82%</i>	<i>38%</i>
EBIT	133	456	658	952	1,375
EBITDA %	6.3%	14.8%	16.9%	16.8%	17.4%
Other Income	37	48	40	45	50
<i>% Growth YoY</i>	<i>32%</i>	<i>30%</i>	<i>-17%</i>	<i>13%</i>	<i>11%</i>
Interest Expenses	107	113	125	190	195
<i>% Growth YoY</i>	<i>16%</i>	<i>6%</i>	<i>11%</i>	<i>52%</i>	<i>3%</i>
PBT	63	391	573	807	1,230
<i>% Growth YoY</i>	<i>34%</i>	<i>521%</i>	<i>47%</i>	<i>41%</i>	<i>52%</i>
Tax	24	137	195	274	406
Tax Rate %	38.1%	35.0%	34.0%	34.0%	33.0%
PAT	39	254	378	533	824
PAT %	1.8%	8.3%	9.7%	9.4%	10.4%

Financial Statements

Rs in Cr

	FY15	FY16	FY17E	FY18E	FY19E
Balance Sheet					
Equity	254	254	254	254	254
Reserves & Surplus	179	408	757	1,245	2,009
Net Worth	433	662	1,011	1,499	2,263
Borrowings	662	912	1,010	1,450	1,575
Current Liabilities	378	703	710	995	1,185
Total Liabilities	1,473	2,277	2,731	3,944	5,023
Fixed Assets	210	279	675	885	895
Cash & Bank Balances	8	44	66	129	473
Other Current Assets	1,251	1,950	1,985	2,925	3,650
Other Non Current Assets	4	4	5	5	5
Total Assets	1,473	2,277	2,731	3,944	5,023

Financial Statements

Rs

Per Share Data	FY15	FY16	FY17E	FY18E	FY19E
EPS	0.2	1.0	1.5	2.1	3.2
CEPS	0.3	1.1	1.7	2.4	3.7
BVPS	1.7	2.6	4.0	5.9	8.9
DPS	0.1	0.1	0.1	0.2	0.2
Profitability Ratio	FY15	FY16	FY17E	FY18E	FY19E
EBITDA %	7.9%	16.0%	18.0%	18.3%	18.8%
PAT %	1.8%	8.3%	9.7%	9.4%	10.4%
RoE %	9.0%	38.4%	37.4%	35.5%	36.4%
RoCE%	9.0%	20.0%	24.1%	24.1%	27.4%
Valuation Ratios	FY15	FY16	FY17E	FY18E	FY19E
P/E	110.7	17.0	11.4	8.1	5.2
P/CEPS	59.2	15.0	10.2	7.0	4.6
P/BV	10.0	6.5	4.3	2.9	1.9
EV/EBITDA	29.8	10.6	7.5	5.5	3.7
EV/Sales	2.4	1.7	1.3	1.0	0.7

Research Desk

Tel: 022 - 3028 4703

Institutional Sales Desk

Tel: 022 - 30284711

Disclosure Appendix

ULJK Financial Services Pvt Ltd: (Time range– 12 months)

BUY: Returns>20%; **ACCUMULATE:** 5%<Returns<20% ; **HOLD:** -5%<Returns<5%, **REDUCE** -20%<Returns<-5% and **SELL:** Returns<-20%

Analyst(s) holding in the Stock : Nil

Analyst Certification

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