

Vikas EcoTech Ltd. (VEL)

SECTOR: CHEMICAL

 10th November, 2016

Continued traction in performance; Maintain BUY

Vikas Ecotech Ltd., (VEL) reported 2QFY17 result with a strong operational efficiency. Net sales for the company stood at Rs. 835mn with a growth of 16.5% YoY and -17.3% QoQ led by higher contribution from PVC compounds and overall exports (61%/52% respectively of total sales) even after the slow seasonal demand. EBITDA margin stood at 17.9% and expansion of 673 bps/28bps YoY/QoQ. VEL reported PAT of Rs 74mn vs Rs 33mn in 2QFY16 a YoY/QoQ growth of 122%/-16% respectively.

Revenue growth of 16.5% YoY: Even after the slow seasonal demand VEL reported revenue of Rs 835mn, a YOY/QoQ growth of 16.5%/-17.3%. PVC compound / specialty additives / trading contribution to total sales stood at 60.8%/18.4%/20.8% in 2QFY17 vs 52.5%/25/24.5% in 2QFY16. (Organotin contribution reduced YoY led by shifting of demand from clients due to firming up of tin prices; although VEL expects normalization in demand in due course of action as it is an important stabilizer for toxin free PVC pipes)

The company is focusing on manufacturing activity with reducing the trading exposure. Also the company is exploring newer opportunities through tie-ups and appointment of channel partners for distribution of products in Europe and other global markets (participated in "K – Trade Fair", Germany). We expect, VEL to grow at a CAGR of ~41% over FY16-18e led by increasing demand from organotin stabilizer, uniquely positioned in compound with R&D expertise, increasing demand from exports.

EBITDA margin expansion by 673bps YoY: VEL posted EBITDA of Rs 149mn a YoY/QoQ growth of 86%/-16% respectively with an EBITDA margin expansion of 673/28.8bps YoY/QoQ to 17.9% in 2QFY17 led by reduction in the trading activity, lower raw material prices due to change in product mix.

Valuation: The stock currently trades at 13.3x/8.5x of FY17e/FY18e EPS. We believe that increasing demand for toxin free stabilizers, growth in PVC industry, opportunities in export markets and capacity expansion will create enormous opportunities for VEL's revenue/earning to grow at a CAGR of 41%/49% over FY16-18e. We maintain our BUY recommendation with a price target of Rs 31.2 implying upside of 64%. (14x on FY18e EPS).

Exhibit 1: Financial summary (Rs mn)

Y/E March	FY14	FY15	FY16	FY17e	FY18e	FY19e
Net sales	2500	2110	3072	3901	6102	7888
Growth (%)	-0.9	-15.6	45.6	27.0	56.4	29.3
EBITDA margin (%)	5.3	7.9	15.9	17.7	18.0	18.4
PAT	37	38	255	363	566	779
Adjusted PAT	36	38	254	363	566	779
EPS (Rs)	0.4	0.1	1.0	1.4	2.2	3.1
Growth (%)	-1.5	4.7	570.2	42.9	56.2	37.5
P/E(x)	53.4	127.4	19.0	13.3	8.5	6.2
ROE (%)	9.1	8.9	46.3	43.5	44.6	41.0
ROCE (%)	10.6	9.4	24.5	24.7	27.0	26.2
Debt/equity (x)	1.59	1.53	1.38	1.03	1.00	0.68
P/Bv (x)	4.6	11.1	7.3	4.8	3.1	2.1

Source: Company, BOBCAPSe

Price	Price Target	Up/Down (%)
Rs. 18.97	Rs.31.2	64%

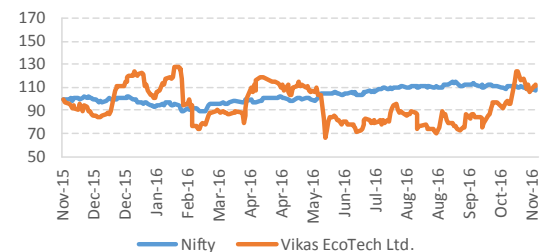
Bloomberg Code	Reuters Code
VKEC IN	VKGL.NS

Share Holding (%)	As on Sept 2016
Promoters	46.0
DII's	0.19
FII's	-

Stock Data	
Nifty	8,432
Sensex	27,253
52 week high/low	25.4/10.85
Market Cap (Full) (Rs. bn)	4.80

Price performance (%)	1M	3M	6M	1Y
Absolute	15.5	51.2	-2.7	12.0
Relative to Sensex	17.0	51.7	-10.0	4.7

Relative Performance



Source: -Bloomberg

Exhibit 2: Quarterly Financials

(Rs Mn)	2QFY17	2QFY16	YoY (%)	1QFY17	QoQ (%)
Net Sales	835	717	16.5	1,010	-17.3
Raw material consumed	637	570	11.8	778	-18.2
(%) of net sales	76.3	79.5		77.1	
Staff cost	12	9	31.2	10	16.4
(%) of net sales	1.4	1.3		1.0	
Other Expenses	37	58	-36.6	44	-15.8
(%) of net sales	4.4	8.1		4.3	
EBITDA	149	80	86.6	178	-16.0
Depreciation	11	8		10	
EBIT	139	72	93.1	168	-17.3
Interest	28	29	-6.0	28	
Other Income	2	2	12.1	0	
PBT	113	44	155.7	140	-19.3
Less: Taxation	39	14		48	
Less: Minority Interest	0	0		0	
Recurring PAT	74	30	146.7	92	-19.5
Exceptional items	0.0	3.3		-0.8	
Reported PAT	74	33	122.0	91	-18.8
Key Ratios (%)					
EBITDA Margin	17.9	11.2	673.3	17.6	28.8
Tax / PBT	34.6	32.3	236.8	34.4	20.8
NPM	8.9	4.2	468.4	9.1	-24.0
EPS	0.29	0.12		0.36	

Source: Company, BOBCAPS

Financials

Exhibit 3: Income Statement

Y/E Mar (Rsmn)	FY14	FY15	FY16	FY17e	FY18e	FY19e
Net sales	2,500	2,110	3,072	3,901	6,102	7,888
<i>growth (%)</i>	<i>(0.9)</i>	<i>(15.6)</i>	<i>45.6</i>	<i>27.0</i>	<i>56.4</i>	<i>29.3</i>
COGS	2,199	1,760	2,372	2,935	4,542	5,808
Staff Cost	38	37	33	46	79	102
R&D Cost	-	-	-	-	-	-
SG&A Cost	130	146	177	229	382	526
EBITDA	133	166	490	691	1,099	1,451
<i>growth (%)</i>	<i>27</i>	<i>25</i>	<i>194</i>	<i>41</i>	<i>59</i>	<i>32</i>
Depreciation	22	34	34	45	79	108
EBIT	111	132	456	646	1,020	1,343
Other income	28	37	48	41	44	48
Interest paid	92	107	113	128	192	191
Extraordinary items	-	-	2	-	-	-
PBT	48	62	391	559	873	1,200
Tax	11	24	137	196	306	421
Minority interest	1	-	-	-	-	-
PAT	37	38	255	363	566	779
Non-recurring items	-	-	(2)	-	-	-
Adjusted PAT	36	38	254	363	566	779
<i>growth (%)</i>	<i>(1.5)</i>	<i>4.7</i>	<i>570.2</i>	<i>42.9</i>	<i>56.2</i>	<i>37.5</i>

Source: Company, BOBCAPSe

Exhibit 4: Balance Sheet

Y/E Mar (Rsmn)	FY14	FY15	FY16	FY17e	FY18e	FY19e
Cash & Bank balances	5	8	44	168	246	393
Other Current assets	1,304	1,251	1,950	1,951	2,958	3,774
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	2,765	4,081	5,026
Current liabilities	447	378	703	732	1,003	1,220
Borrowings	669	662	912	1,029	1,542	1,539
Other non-current liabilities	3	0	-	-	-	-
Total liabilities	1,120	1,040	1,615	1,761	2,545	2,759
Share capital	102	254	254	254	254	254
Reserves & surplus	319	179	408	749	1,281	2,014
Shareholders' funds	420	433	662	1,003	1,536	2,268
Total liabilities	1,541	1,473	2,277	2,765	4,081	5,026

Source: Company, BOBCAPSe

Exhibit 5: Cash Flow Statement

Y/E Mar (Rsmn)	FY14	FY15	FY16	FY17e	FY18e	FY19e
Profit after tax	36	38	255	363	566	779
Depreciation	22	27	29	45	79	108
Chg in working capital	(140)	(17)	(373)	28	(736)	(600)
Total tax paid	0	(4)	(2)	-	-	-
Cash flow from operations	(82)	44	(90)	436	(91)	287
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)	26	(401)	197
Issue of shares	1	153	-	-	-	-
Net inc/dec in debt	130	(8)	250	117	513	(3)
Dividend (incl. tax)	(6)	(15)	(15)	(22)	(34)	(47)
Other financing activities	10	(163)	(11)	2	(0)	0
Cash flow from financing	135	(34)	224	97	479	(49)
Inc/(Dec) in Cash & Bank bal.	(0)	3	36	124	78	147

Source: Company, BOBCAPSe

Exhibit 6: Ratio analysis

Y/E Mar	FY14	FY15	FY16	FY17e	FY18e	FY19e
Per share data (Rs)						
EPS	0.4	0.1	1.0	1.4	2.2	3.1
CEPS	0.6	0.3	1.1	1.6	2.5	3.5
DPS	0.1	0.1	0.1	0.1	0.1	0.2
BV	4.1	1.7	2.6	3.9	6.0	8.9
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	9.3	9.3	9.9
Valuation ratios (x)						
PE	53.4	127.4	19.0	13.3	8.5	6.2
P/BV	4.6	11.1	7.3	4.8	3.1	2.1
EV/EBITDA	19.5	32.9	11.6	8.2	5.6	4.1
EV/Sales	1.0	2.6	1.9	1.5	1.0	0.8
RoE	9.1	8.9	46.3	43.5	44.6	41.0
RoCE	10.6	9.4	24.5	24.7	27.0	26.2
RoIC	3.3	2.5	19.2	21.2	24.0	24.9

Source: Company, BOBCAPSe

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