Detoxing to success

Vikas Ecotech catches the eyes of international investors

Recently, the spotlight of 'lead poison' was on Nestle's Maggi noddles, which has increased the awareness of this deadly metal. However, in India, this poison could be ubiquitous in modern day life and go unnoticed. It could be even coming through the tap water that is being carried through PVC pipes. "According to the investigations by the Quality Council of India, 33 per cent of over 370 samples of water from the top 26 cities of India have tested positive for harmful content of the metal, while another 2 per cent of the samples failed to meet even the lenient Indian norms of 50 parts per billion (ppb)," explains the 41-year-old Vikas Garg, MD, Vikas Ecotech Ltd (VEL), formerly Vikas Globalone Ltd. "Out of these, 31 per cent of samples have even failed to adhere to WHO standards of lead content of less than 10 ppb.

Lead contamination due to PVC pipes is one of the major contributing factors to ground water pollution in India". To solve the problem, Garg advocates a ban on the use of toxic materials like lead, barium and cadmium-based heat stabilisers in PVC processing.

Garg recommends pushing for toxin-free stabilisers, such as organotin, which means use of methyl tin mercaptide (MTM) stabilisers, which are lead-free, non-toxic, safe and eco-friendly. This material is sanctioned by most international legislations, as in the US and European countries, for potable water pipes and fittings. Even China's PVC pipe-makers are under pressure to give up lead stabilisers. In India, while there is no legislative mandate to phase out lead-based heat stabilisers, the National Green Tribunal is pushing for one.

In India, progressive companies that are opting for replacements are expected to do well. So, where do

Garg: lead should be banned

Garg and VEL come in? The company makes rubber-plastic compounds and additives that include thermoplastic rubber (TPR), MTM stabilisers, plasticisers, flame-retardant additives and a host of other PVC and PET compounds. In fact, most of the product lines can be used as recycled raw materials. VEL also converts used cooking oils to specialty additives. "Recycling is our forte. We even have a tie-up with Haldiram Ethnic Foods for supply of their used oil," says Sunil Dhameja, vice-president, VEL.

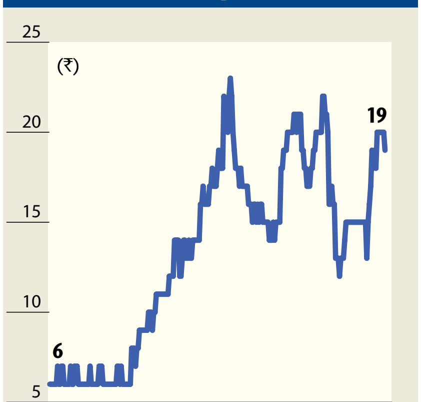
VEL, a BSE and NSE listed entity, has started gaining investors' attention, with Merrill Lynch Capital Markets ESPANA SA SBV reportedly buying 1.9 million shares of VEL at ₹20.85 (paid up: ₹1) in February alone. The share touched its 52-week high of ₹24 on 11 January 2016, moving from a low of ₹5.75 on 10 March 2015. Currently, with 50 per cent of the company's stock in the promoter's hand, the counter is trading at ₹20, accounting for a market capitalisation of slightly over ₹500 crore.

"Lead is banned in the US and Europe in food-based PVC pipes. With awareness on the increase, India and other Asian countries are expected to follow suit, banning lead-based pipes here too. Vikas Ecotech's MTM product could see a significant increase in demand in such a situation," says Madhusudan Sarda, research analyst, Vallum Capital Advisors, a Mumbai-based financial services firm, which sees VEL as a good investment candidate.

Finance to products

In its earlier avatar, VEL was a non-banking finance company, which got listed on the BSE during the leasing boom of the mid-1990s. Subsequently, the five Garg siblings had a business separation, with Nand Kishore Garg inheriting the leasing business. He had been heading the company till then and had started trading and distribution of petrochemicals and petrochemical products in 1972. "We merged whatever we got into one listed entity," informs Vikas, the eldest son of Nand Kishore. Today, Nand Kishore is retired and into philanthropy in the education space. The company, which started as agent for Reliance, SRF, GNFC, Nirma and other MNCs like Mitsui of Japan, Arkema of France, etc, is now the principal

Share price



1 Apr 2015 – 21 Apr 2016

representative for a host of companies in the north India market.

However, Vikas is inclined to move to manufacturing where, he feels, there would be good money to be made, as India has the potential of becoming a manufacturing hub. "Several global companies were phasing out manufacturing in the 1990s," says Vikas. "So, on trips abroad, I started meeting technical people and scouted for technology for fine specialty chemicals". He has been entrenched in the business since 1994. And, today, apart from heading strategy formulation, he guides the company in day-to-day activities. With his experience in polymer compounds and chemicals spanning close to two decades, he has been responsible for VEL's diversification into those areas. During this time, Vikas, with his team, has put up manufacturing units in Jammu and Rajasthan.

VEL, which backward-integrated into manufacturing in 2003, has been making high-end products, used in the manufacture of agriculture and infrastructure components, wires & cables, auto parts, textiles, electronic goods, medical, writing instruments, as also organic & inorganic chemicals. The company has been exporting its products to 20 countries, including Bangladesh, Pakistan, Sri Lanka, China, the UAE, Turkey, Spain, Singapore, Germany, Vietnam, Turkmenistan, Egypt, Tunisia, and Ukraine, among others.

"Our products go into diverse industries ranging from pipes, wires & cables, packaging, polymers, automotive and even footwear," says Ashutosh Verma, ED, VEL, who has over 34 years of experience in the field of plastics raw material and polymer compounds, and is responsible for business development and technical support to customers. "Our clientele includes some renowned names such as RR Kabel, Relaxo Footwear, Liberty Shoes, Escorts, KEI Industries, Havells India, Action International, Apollo Pipes and SRF."

"We have been working with VEL since last year. Based on its material, we are doing development projects at our Ghauranda plant. It is a conscious supplier," observes Yashbir Singh, head, material management division, Liberty Shoes, one of VEL's customers, which is continuously doing innovation in products.

Making widely used high end products

"VEL's product quality and consistency in performance are on a par with products available in international markets. Its timely service and customer-oriented approach is what we appreciate the most. As India's leading pipe manufacturer, we rely on them for using organotin stabilisers to remove the harmful effects of lead in food grade PVC and CPVC plumbing and water systems," says Neeraj Jindal, plastics chemist, Prince Pipes.

Expression

On the financial front, VEL posted a total income of ₹214.72 crore last year (2014-15) going up from ₹171.59 crore. The net profit too has moved up – from ₹3 crore to ₹3.78 crore. In fact, for the last two quarters, VEL's financial results have been healthy, in terms of increase in topline as well as bottomline growth. "At times, the topline growth has improved by close to 75 per cent quarter on quarter, while the operating profit (EBIDTA) has gone up by 35 per cent," adds Vikas. "We are sure that this trend and consistency will be sustained.

As much as 80 per cent of our revenues are generated from three key products – polymer compounds, methyl tin mercaptide and epoxidised soyabean oil – a plastic stabilizer, as also plasticiser. All these products have huge potential and we are increasing our product-base, both in terms of value and volume. While expecting better returns, we are mindful of the fact that the revenue mix will remain the same as far as our products are concerned at least for some more years. For the past few years, we were focussed on our growth path, achieving a CAGR of close to 25-30 per cent every year."

Vikas wants to expand VEL's product base, customer base and manufacturing. "We are trying to capture new markets," he says. Vikas has started work on setting up a manufacturing base in Dehej, Gujarat, with the company already being allotted eight acres of land there. "This will be twice the current capacity and help us cater to the markets of western and southern India. Proximity to the port will allow us to increase exports of products like MTM and epoxidised soya bean oil too".

The expansion is expected to go on stream in the next 12 months. However, a back-of-the-envelope calculation shows that, with a capex of ₹100 crore, at full capacity, the revenues could increase several fold.

◆ LANCELOT JOSEPH
lancelot.joseph@businessindiagroup.com