



“Vikas Ecotech Limited Q2 FY18 Earnings Conference Call”

November 17, 2017



MANAGEMENT: MR. VIKAS GARG - MANAGING DIRECTOR
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Moderator: Ladies and gentlemen, good day and welcome to Vikas Ecotech Limited Q2 FY18 Earnings Conference Call. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing * then 0 on your touchtone phone. Please note that this conference is being recorded. I would now like to hand the conference over to Mr. Sunil Dhameja. Thank you and over to you, sir.

Sunil Dhameja: Good morning, ladies and gentlemen. This is Sunil Dhameja from Vikas Ecotech Limited, the Vice President, Business Development. And we are all here to discuss how Vikas Ecotech performed in the second quarter this year, and we are very happy to announce that the EBITDA margins that you people would see have increased and Vikas Ecotech has kept us with the pace that we have promised and despite all the setbacks and the hiccups that the GST and demonetization have posed to the market, we are able to grow the revenues by almost 29% this quarter and there are a few more developments that we would share with you. We will start with the capacity enhancements that we have taken up. The 10,000 MT capacity enhancement for Specialty Compounds at Rajasthan plant is almost complete and the trial runs are expected to start within the next month which is December and the second big announcement is that we got a go-ahead from the SEBI for the scheme of arrangement we had planned between Vikas Ecotech Limited and Vikas Multicorp Limited.

As you can see, the financials are quite promising and Vikas Ecotech has been able to deliver during this quarter. Despite the second quarter being the lean period, despite the GST effects, despite all the hiccups that have seen this year so far, we have been able to achieve whatever we were targeting for ourselves. And during this quarter, we made it up with an increased contribution from exports which has been about 60% of the sales. But if we see year-on-year then it is almost increased by 50%. So, we did around 65 crores of exports against some 40 crores in the Q2 of last year and the reason for the increase in export was that we could foresee a few problems and a bit of slowdown we had in the domestic market, that is how we geared up ourselves and focused more on the exports and we were able to maintain the kind of target that we had set for ourselves. As you can see, our performance has improved in increased ratio of manufacturing turnover from 85% versus 80% year-on-year. Our EBITDA margins in manufacturing are also in the range of 20% maintaining what we have been projecting and we have been planning it to be. In the export markets, the margins are a bit higher as compared to the local market and that is how we are able to sustain through the tough times and we are very happy and we hope all our associates are also quite happy and upbeat about Vikas Ecotech maintaining the kind of performance that it has been in this quarter.

So just in case anybody has any questions, we are ready to take it up.

Moderator: Thank you very much, sir. Ladies and gentlemen, we will now begin with the question and answer session. We will take the first question is from the line of Vinod Malviya from Florintree Advisors. Please go ahead.

- Vinod Malviya:** My question is regarding you know, there is a recent order which has been released by NGT which says that the implementation of, I mean the lead ban has to happen maybe before the next 6 weeks. So how is the way forward? Will the other party go ahead, I mean take the case to the higher court or they have to implement this thing within the 6 weeks from here?
- Vikas Garg:** Hi everyone. This is Vikas Garg here. I would like to answer this question. Just two days' back we have also learned that the NGO which was taking up this issue has filed an execution cum contempt kind of petition with NGT and NGT has passed an order 2-3 days back asking the government to complete the process of doing it within the next 6 weeks and regarding your question that someone would like to appeal for it, that we cannot foresee and we cannot stop, but the only forum for remedial action after NGT is the Supreme court only. NGT's order is not appealable anywhere less than Supreme Court. And up till now in the history of NGT, no order of NGT has been stayed or modified by Supreme Court and this is a public interest cause. I don't think even the pipe manufacturers would be interested in going against it.
- Vinod Malviya:** Right. The second thing was on the receivable side. Can you just provide some view? How do you plan to bring down the overall receivables of the company, maybe by end of FY18 or by end of FY19?
- Vikas Garg:** Last one year basis, there were some geopolitical reasons like, first demonetization and then this GST which is hampering our efforts. But we are expecting that by March end we should be able to bring it to around 140 days and after March let us say by June, we are expecting reduction of further 10 to 15 days. It is our endeavor to bring it down to around 120 days as quick as possible.
- Vinod Malviya:** And sir just one clarification, the NGT order which has come, is it only applicable in Delhi or it is pan India?
- Vikas Garg:** No. It is pan India. NGT has jurisdiction pan India. It is not restricted to Delhi only.
- Moderator:** Thank you. We will take the next question from the line of Padmaja Ambedkar from Bank of Baroda Capital Markets. Please go ahead.
- Padmaja Ambedkar:** Sir, can you guide us on margin front and topline growth what you are looking going ahead?
- Sunil Dhameja:** On the margins front, as the thumb rule we have been taking it as compounds having 20% plus and additives aggregating to a 25% gross margin levels and we are able to maintain that despite the kind of growth that we are witnessing currently.
- Padmaja Ambedkar:** Thank you sir. And one more thing, can you just throw some light on industry growth and competitors in this industry?
- Sunil Dhameja:** See, when we say industry growth, I mean we definitely have to look at it with the perspectives of different products that we carry. If we look at the additives division, the Organotin is the prime thing that we look at and there the industry organically is kind of growing by say 20%

for the last 3-4 years. But with NGT in view, the next year could be quite different for this product. For the other division which is compounds, we have been growing by 20%-25% as far as the thermoplastic rubbers and thermoplastic elastomers are concerned. But the new product, SOE compounds, there we are witnessing a growth of more than 30% for the last two years and we are expecting to maintain something like 30% to 40% over the next two years also. And for the new kind of compounds which we have installed the capacity and it is already under trial, we are expecting that the next quarters you will be seeing the start of a few new products which could be as interesting the others we have in compounding division.

Moderator: Thank you. We will take the next question from the line of Dinesh Nagda from Harsh Investments & Securities. Please go ahead.

Dinesh Nagda: There are two questions. One is regarding the demerger. Can you give me some light on the timing, I mean when it would be done and at what rate it would happen?

Vikas Garg: Recently, just few days back, we have received the mandatory stock exchange and SEBI approvals and within the next week we are filing the scheme with NCLT. So, the timeline given by our consultants which we feel is practically possible is 3-4 months with NCLT and another one month with stock exchanges to finally list the shares of new entity Vikas Multicorp. So in any case we tend to wind up this process by March.

Dinesh Nagda: Okay sir. And sir second clarity would be regarding the new capacity coming up at Dahej and Kandla. So I would like to know what would be its capacity and its consumption.

Sunil Dhameja: See, the capacities at Dahej in the first phase we have planned to double the capacity for the Organotin stabilizers that we have. The current capacity is 3,000 MT p.a. and the first phase at Dahej will add another 3,000 MT p.a. to Organotin capacity and in the second stage at Dahej, we plan to...I hope you can hear me Mr. Dinesh and for the sake of repetition I would say that, talking of Dahej, the first phase will have the capacity for Organotin stabilizers wherein we plan to double the current capacity. The current being at 3,000 MT a year. Dahej first phase will have another 3,000 tonnes of Organotin capacity. And for the first phase, for Speciality compounds, Dahej will have 5,000 to 10,000 tonnes p.a. of capacity addition and all this we are expecting, we are targeting to get commissioned by this year-end and completely operational by say the middle of first quarter of next year.

Dinesh Nagda: And sir, for Kandla?

Sunil Dhameja: For Kandla, we are starting with a new product there and the product details we will share with the market at a later stage.

Moderator: Thank you. We will take the next question from the line of Hardik Vyas from ETIG. Please go ahead.

Hardik Vyas: Sir, my question is what is the revenue in rupee terms are we deriving from Organotin at current levels?

- Sunil Dhameja:** For this quarter, the revenue from Organotin has been 23 crores.
- Hardik Vyas:** So is it a seasonal business or around 100-120 crores will be yearly figure for Organotin?
- Sunil Dhameja:** See, answering the first part of the question, no, it is not a seasonal this thing. But this year has been exceptional, you can say that there is an impact, a temporary impact over Q1 and Q2 owing to various reasons and general and then most of the industries are facing that. So that would be a worse thing. Otherwise there is not seasonal impact on the sales of Organotins at least.
- Hardik Vyas:** Okay. So in the first half, how much would be the total sales of the company?
- Sunil Dhameja:** For Organotin's first half?
- Hardik Vyas:** Yes.
- Sunil Dhameja:** The total is aggregating to something like 38-39 crores.
- Hardik Vyas:** Okay. Still we have done better in the second quarter as compared to the first one?
- Sunil Dhameja:** Yes.
- Hardik Vyas:** So the 3,000 tonnes capacity is fully operational?
- Sunil Dhameja:** It is fully operational and we are hoping that we target to fill in this capacity by the end of this financial year.
- Hardik Vyas:** No, so the 3,000 is fully operational and 3,000 will be adding. So 6,000 will be fully operational by something what you guys have for the first quarter?
- Sunil Dhameja:** You can say June 2018.
- Hardik Vyas:** Okay. So it will be safe to say that we will be able to double our revenues from Organotin. So it is in the range of maybe 100 crores now. So the revenues from Organotin would go up to 200 crores.
- Sunil Dhameja:** See, what happens is the capacity despite being operational it will take some time to fill in, in terms of revenue, so we are expecting that the revenue generation there will be something like 90 to 100 crores in the current year.
- Hardik Vyas:** Okay. So that is what I am saying. So 90 to 100 crores there and existing capacities also the same. So totally would be around anywhere between 175 and 200 crores, after the expansion?
- Sunil Dhameja:** The additional capacity we are expecting to utilize at about 50% for the first year.

Hardik Vyas: Okay. Got your point. And the specialty compounds that we are talking about, the capacity that would come up at Dahej, 5,000-10,000 tonnes per annum, so what is the current capacity that we have for these compounds, thermoplastic elastomers and...

Sunil Dhameja: See, all compounds put together the current capacity is about 36,000 tonnes.

Hardik Vyas: And we will add about 10,000 maximum?

Sunil Dhameja: Yes.

Hardik Vyas: And we had what revenue contribution from the compounds in the first half?

Sunil Dhameja: See in the first half, we can expect 25% utilization of the additional capacity. So the revenue addition would be something about 10%-12% there.

Hardik Vyas: No, sir what I asking is in the first half, that the 6 months that we have gone by, what was the contribution from that in that period from the compounds?

Sunil Dhameja: From the compounds, it is about 100.

Hardik Vyas: Above 100 crores?

Sunil Dhameja: Yes.

Hardik Vyas: For 6 months?

Sunil Dhameja: Yes.

Hardik Vyas: Okay. So 100 crores of compounds and 38 crores of Organotin that you are talking about?

Sunil Dhameja: That is right.

Hardik Vyas: And trading part is entirely different, which will go to the Vikas Multicorp?

Sunil Dhameja: Yes.

Hardik Vyas: Okay, and next year this time we will be having 3 manufacturing capacities which will be at Alwar, Dahej and Kandla. And trading outfits more or less would be in Jammu and Kashmir and Noida if I am not wrong?

Sunil Dhameja: See, Noida is already operational and Noida is more operating as an exporting oriented unit for Organotin and one of the product which we are processing there which is PVC compounds.

- Hardik Vyas:** Okay. To summarize what I have already asked, what kind of annual revenues are we looking at in this year FY18 and what would be looked at in FY19? So what is the guidance that you may give?
- Vikas Garg:** Can you repeat please?
- Hardik Vyas:** Yeah, my question is what is the kind of guidance that you could give us for the remaining part of the year and then next year for revenues?
- Vikas Garg:** See, what we can easily foresee is that CAGR of 25% to 30% should be achievable and we expect that for next 2 to 3 years we would be able to achieve this kind of growth through our existing products and few new products which we may introduce in the future.
- Hardik Vyas:** Okay. And Organotin, do we have any other than this 3,000 tonnes per annum that we are adding, do we have anything in the pipeline that we are going to add anymore?
- Vikas Garg:** Another 3,000 we are adding at Dahej, because there will be some impact of NGT order plus we are in a process of opening up USA market for us also. So post all those things, we are putting up a new capacity of 3,000 tonnes a year.
- Hardik Vyas:** Yeah. That will come up in June, but other than that are we looking at anything extra? So after 6,000 tonnes is operational, are we looking at 3,000 or 6,000 extra?
- Vikas Garg:** Maybe another 3,000 tonnes a year, depending on how next 6-9 months take shape.
- Moderator:** Thank you. We take the next question from the line of Ashwin H, an Individual Investor. Please go ahead.
- Ashwin H:** Two questions from my side. The first one is regarding your fire insurance claim. When do you expect to receive it and what would be the likely amount if that can be estimated?
- Vikas Garg:** I will answer your first question. We are in the final as of submitting the final proposal with the insurance company. Only thing which is left now is the valuation and settlement of salvage.
- Ashwin H:** Okay. And so you should receive it by the end of this fiscal?
- Vikas Garg:** Within March we expect. If everything goes as per expectation, which is going at present, we expect to receive the money of around 14-15 crores in-hand by March end, within the March period.
- Ashwin H:** Okay. Thank you. The next question is about you had given a press release about the Mexichem order. What would be the rough size of the order on an annual basis and when do you start shipping this same?

- Sunil Dhameja:** See, regarding Mexichem, currently what is happening is that they have already approved the material and they also tried a commercial quantity and now they have a plan to visit us to make a long-term agreement. And we are discussing some dates and it might happen in December because this is the first time we will be having the customer making or asking for a long-term commitment or contract. So they will be visiting us during December and that is when we expect it to take shape for the future for us.
- Ashwin H:** Okay. Then finally on the working capital, after that if there are any questions I will come back in queue. The working capital over the last 2-3 years has been consistently increasing. Have we had any issues of bad debts, i.e. receivables not coming as planned, despite the longer credit period?
- Vikas Garg:** See, the requirement of more working capital is mainly because of growth in the company. But there are absolutely no instances of amount being stuck or bad debt. I think this amount is only one 25 lakhs for which we have approached the appropriate court to settle and that is also expected to be complete within next 12 months except that one account of 25 lakhs there is no amount which is stuck or which is pending or which is potentially a bad account. And these kind of things do happen when you are in the mode of new customers acquisition, but still we will bring it down to very reasonably levels and we are trying our best.
- Moderator:** Thank you. We will take the next question from the line of Suhani Doshi from Edelweiss. Please go ahead.
- Sohani Doshi:** Sir, when do we expect the orders because of the NGT order and the US market coming in for Vikas Ecotech?
- Vikas Garg:** See, NGT has already passed an order in the month of May this year, but maybe some bureaucratic angle was delaying these kinds of things and recently the NGO has again approached with an execution cum contempt petition again with NGT. And NGT has finally given 6 weeks' time to Ministry of Environment to complete the process and do the needful. And as per our understanding that this time the government is surely going to implement it. So, we expect the positive outcome of this order within these 6 weeks.
- Sohani Doshi:** So, does it mean that during this 6 weeks or post this 6 weeks there will be an announcement by the government to all the pipe makers to use the tin based compound rather than the lead based. Or is there something else after this step for the pipe makers to start using?
- Vikas Garg:** Reasonably what the government is going to do is pass an order whereby they will ban officially use of lead based stabilizers. They will not recommend that what you are going to do and from where you are going to buy, but they will ban it from using in the PVC pipes.
- Sohani Doshi:** But sir, will the government give these pipe makers some period to start implementing some other compound or will it be an immediate ban?

- Vikas Garg:** Normally the NGT orders which are appealable only in Supreme Court and Supreme Court up till now has given no relief against NGT orders. They normally don't give these kind of time, maximum time would be let say one week, two weeks or one month....so, let's see.
- Sohani Doshi:** So immediately after the order, does that see that in one month, the pipe makers are legally not allowed to use the lead base.
- Vikas Garg:** Yes. Legally they might not be allowed, but India is a very big country. So, monitoring and super vision may take some time, but the big pipe manufacturers who are more Law abiding and who have all the resources to do this transition, we will be more than happy to do it at the earliest.
- Sohani Doshi:** And when do we expect orders from the USA market for Organotin?
- Vikas Garg:** We are discussing with few distributors as well as users and let us hope we can crack USA also in a very short time.
- Moderator:** Thank you. We will take the next question from the line of Harsh Shah from PM Securities. Please go ahead.
- Harsh Shah:** My question was regarding Organotin with our Indian players. Are we supplying to Supreme Industries, I believe we had started some commercial orders with them. Can you please guide on that line?
- Vikas Garg:** Yes. Supreme is definitely they are with us. The thing is that somehow their supplier had some long-term contracts with them, which we according to our understanding based on a calendar year, so we are expecting it to be restarted for us in January 2018.
- Harsh Shah:** Okay. And about Flame Retardants, could you tell us how much would that be right now to the topline contribution or it is still very minimal?
- Sunil Dhameja:** See, the contribution is still small to the topline because the topline itself is growing by 30%. So we are quite on track. We are expecting it to happen very soon with the Flame Retardants also. So the value of that product is so small that despite the increase in the volume, it doesn't reflect that much on the final figures.
- Moderator:** Thank you. We will take the next question from the line of Pradeep Mehtani, an Individual Investor. Please go ahead.
- Pradeep Mehtani:** One question I had was about your advisors. You have two advisors on helping you right now. Could you give us sense of how often you are able to meet them and whether you are planning to take on any more advisors going forward?
- Vikas Garg:** See, presently we have a Board of advisors but, up till now there are informal meetings going on with these advisors and their teams. Our first full-fledged Advisory board meeting will

happen on 27th of this month. But, they themselves are very much available as and when required.

Pradeep Mehtani: Okay. So right now, you have Mr. Bajpai and Mr. Alag, those are the only two advisors you have right now?

Vikas Garg: No, there are few more people who have specialized in their respective fields. A list can be provided to you.

Moderator: Thank you. We will take the follow up question from the line of Ashwin H, an Individual Investor. Please go ahead.

Pradeep Mehtani: This is more a book keeping question. Would it be possible to get the revenue split between your 3 divisions that is Compounds, Additives and Upcycled and not necessarily on the call now? If we send an email, could we get that information along with the current capacities and the planned expansion?

Sunil Dhameja: We can give you the macro figures here and if you want more details we can always email it to you. Macro level the Speciality compounds have contributed something like 58% to the revenue, additives 20% and trading about 22%.

Pradeep Mehtani: That is helpful. I will anyway follow up with an email for the details.

Sunil Dhameja: Sure.

Moderator: Thank you. As there are no further questions from the participants, I would now like to hand the conference over to Mr. Vikas Garg for the closing comments.

Vikas Garg: Yeah. I would like to thank our participants for joining us on this concall. Thank you everyone.

Moderator: Thank you very much sir. Ladies and gentlemen, on behalf of Vikas Ecotech Limited that concludes this conference. Thank you for joining us and you may now disconnect your lines.