18-Oct-2020

NILKAMAL LIMITED

CASE STUDY

ABOUT THE COMPANY

Nilkamal Limited is engaged in the manufacturing and retail sales of moulded plastic furniture and material handling products. It is an industry leader in the moulded furniture and material handling products with diversified product portfolio. The company caters to different industries and a large customer base including household customers, industrial customers and retail buyers.

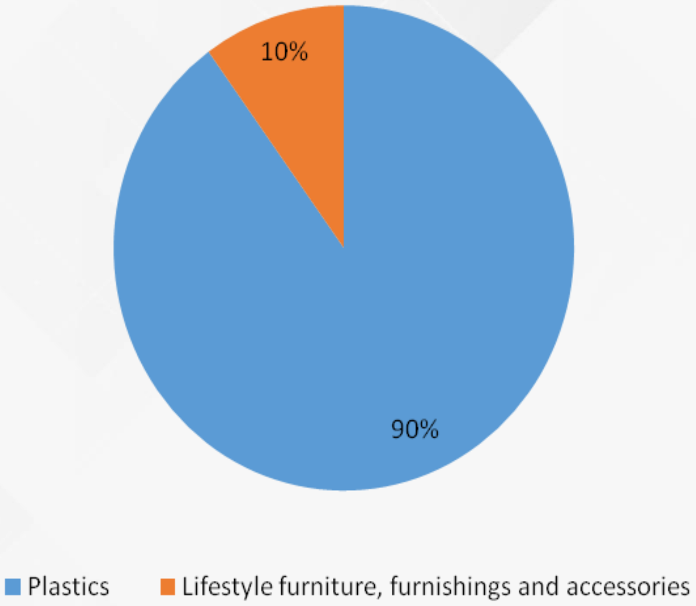
The company has two business segments - plastics and lifestyle furniture, furnishing & accessories. The products of lifestyle furniture, furnishings and accessories are sold through the company's retail chain "@home". The company is also present in the mattress business, which is relatively smaller in size.

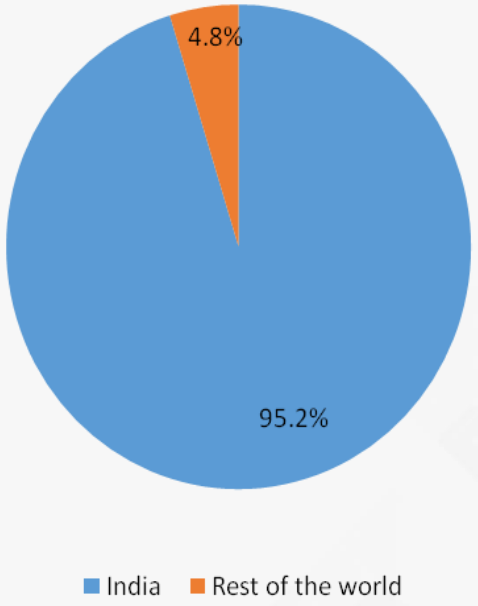
The company's manufacturing plants are located at Barjora (West Bengal), Bhiwandi and Sinnar (Maharashtra), Dharuhera (Haryana), Hosur (Tamilnadu), Jammu (Jammu and Kashmir), Kharadpada and Vasona (Union Territory of Dadra and Nagar Haveli), Noida (Uttar Pradesh) and Puducherry (Puducherry). Its retail store chain "@home" operates 26 stores across India with a total retail space of 3.25 lakh sq.ft.

The company has 1100 Distributors, 20,000+ Dealers and 42 Depots across India. Brand Nilkamal has created waves not only in India, but also in the international markets. From developed and sophisticated markets of North America and Australia, to developing markets in Africa, South America and GCC, Nilkamal products are available in as many as 30 countries.

ABOUT THE COMPANY

SEGMENT REVENUE AND GEOGRAPHICAL BREAK-UP (FY20)





SALES GROWTH

In FY20, the net sales fell by 4.5% to ₹2,257 cr from ₹2,362 cr in FY19. Plastic segment sales declined by 5% and lifestyle furniture, furnishing & accessories segment (@home) sales increased by 2%.

In Q1 FY21, the net sales declined by 53.2% YoY to ₹251 cr due to COVID-19 lockdown. The business activity was severely impacted during the first two months of Q1 FY21. Whereas, since June 2020, the company commenced most of the operations in a phased manner.

Plastics segment sales declined by 51% YoY to ₹236.7 cr. Lifestyle furniture, furnishings & accessories segment (@home) sales declined by 70% YoY to ₹15.3 cr.

5 Year CAGR: 3.6%

EBITDA GROWTH

In FY20, the EBITDA grew by 31.8% to ₹281 cr from ₹213 cr in FY19. EBITDA increased because of decline in raw material cost by 16.3%. The raw material cost had declined because of fall in crude oil price.

The key raw materials used for moulded plastic are high density polyethylene (HDPE) and Polypropylene. The prices of these raw material are linked with crude oil price.

In Q1 FY21, the company reported a EBITDA loss of ₹10.03 cr because of lower sales.

The combined sales for the month of April & May, 2020 was 25% which increased to 75% in month of June, 2020 as compared to the corresponding period of the previous year.

5 Year CAGR: 13%

PAT GROWTH

In FY20, profit after tax was at ₹136 cr v/s ₹110 cr in FY19 i.e., a rise of 23% because of increase in operating profit and decline in tax outgo by 19%.

The company's retail business '@home' reported a loss of ₹7.8 cr as against a profit of ₹1.2 cr in FY19. Loss on sales happened during the March quarter because of lockdown along with an increase in operational expenses.

In Q1 FY21, the company reported net loss of ₹28.4 cr. However, the company anticipates a 100% normalcy in its business from Q3 FY21 onwards.

5 Year CAGR: 22%

GROWTH EDGE METER: 3

An Edge Meter is a graded measurement of certain aspects of a company on a scale of 1 to 5, 5 denoting the highest rating. Since judgement on equity is subjective because different people will have different expectation from their investments, it is better to study each aspect and give an individual grading to arrive at the final evaluation of a stock.

PROFITABILITY

EBITDA MARGIN

The EBITDA margin of the company expanded by 353 bps to 13.2% in FY20.

EBITDA margin improved because of decline in raw material cost (-469 bps) and other expenses (-29 bps) as a percentage of sales.

Value added segments like mattresses and bubble guard witnessed traction in FY20 and going forward they are likely to impact margins positively.

In Q1 FY21, the EBITDA margin of the company stood at -3.2% a contraction of 1,676 bps as compared to 13.5% in Q1 FY20.

PAT MARGIN

In FY20, the PAT margin expanded by 135 bps to 6.03% as compared to 4.68% in FY19. PAT margin of the company during the year improved because of high improvement in operating profit margin and benefit from lower tax expense.

Effective tax rate during the year was lower at 22.3% as compared to 30.4% in FY19.

In Q1 FY21, the PAT margin of the company stood at -11.3% i.e., a contraction of 1,676 bps as compared to 5.4% in Q1 FY20.

ROCE

The return on capital employed of the company increased from 18.25% in FY19 to 19.46% in FY20.

During the year, EBIT of the company increased by 15% to ₹204 cr from ₹177 cr in FY19. On the other hand, capital employed of the company increased by 19% to ₹1,285 cr in FY20.

Nilkamal Ltd. has a strong market position backed by its widespread distribution network. Its ability to introduce new products such as mattresses, bubble guard, office storage products etc may help in increasing the EBIT and improve the ROCE.

ROE

The return on equity of the company increased from 12.3% to 13.8% in FY20, because of increase in net profit.

Net profit of the company increased by 23% YoY to ₹136 cr. On the other hand, net worth of the company increased by 10% to ₹1,032 cr in FY20.

Good operating performance and decline in tax has helped the company in increasing the profit and improving the return on equity.

PROFITABILITY EDGE METER: 4

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EFFICIENCY

CASH FLOWS

Cash flow from operation of the company increased by 43% YoY to ₹251 cr from ₹175 cr in FY19 because of higher profit.

Acquisition of property, plant and equipment of ₹99.5 cr and investments is subsidiary company of ₹51 cr led to cash outflow from investing activities.

Principal and interest paid on lease liability of ₹41.5 cr (accounting adjustment) and high payment of dividend of ₹42.5 cr led to cash outflow from financing activities.

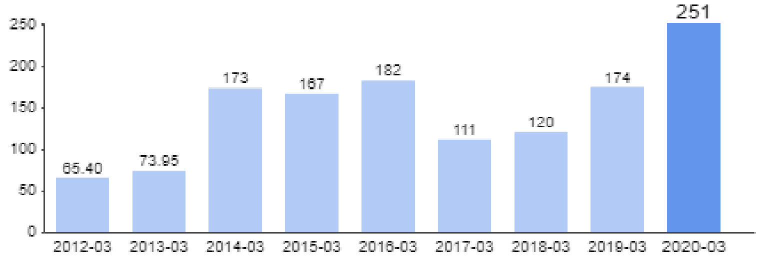
Nilkamal Ltd.

Updates | Technicals | Fundamental | Financials | Shareholding | MF Holding | Outlook

Chart | B/S | P/L | C/F

Cash Flow — Consolidated | Standalone

Particulars	9 years	2016-03 Rs. Cr.	2017-03 Rs. Cr.	2018-03 Rs. Cr.	2019-03 Rs. Cr.	2020-03 Rs. Cr.
+ Cash Fr. Operatn.		183	112	121	175	252
Cash Fr. Inv.		-41	-70	-96	-106	-152
Cash Fr. Finan.		-142	-38	-20	-73	-100



WORKING CAPITAL CYCLE

In FY20, working capital days of the company increased to 89.4 days.

Working capital days of the company has increased because of increase in inventory days from 59 days to 64 days due to Covid.

During the year FY20, inventories of the company increased by 3%, trade receivables increased by 5% and trade payables increased by 14% YoY.

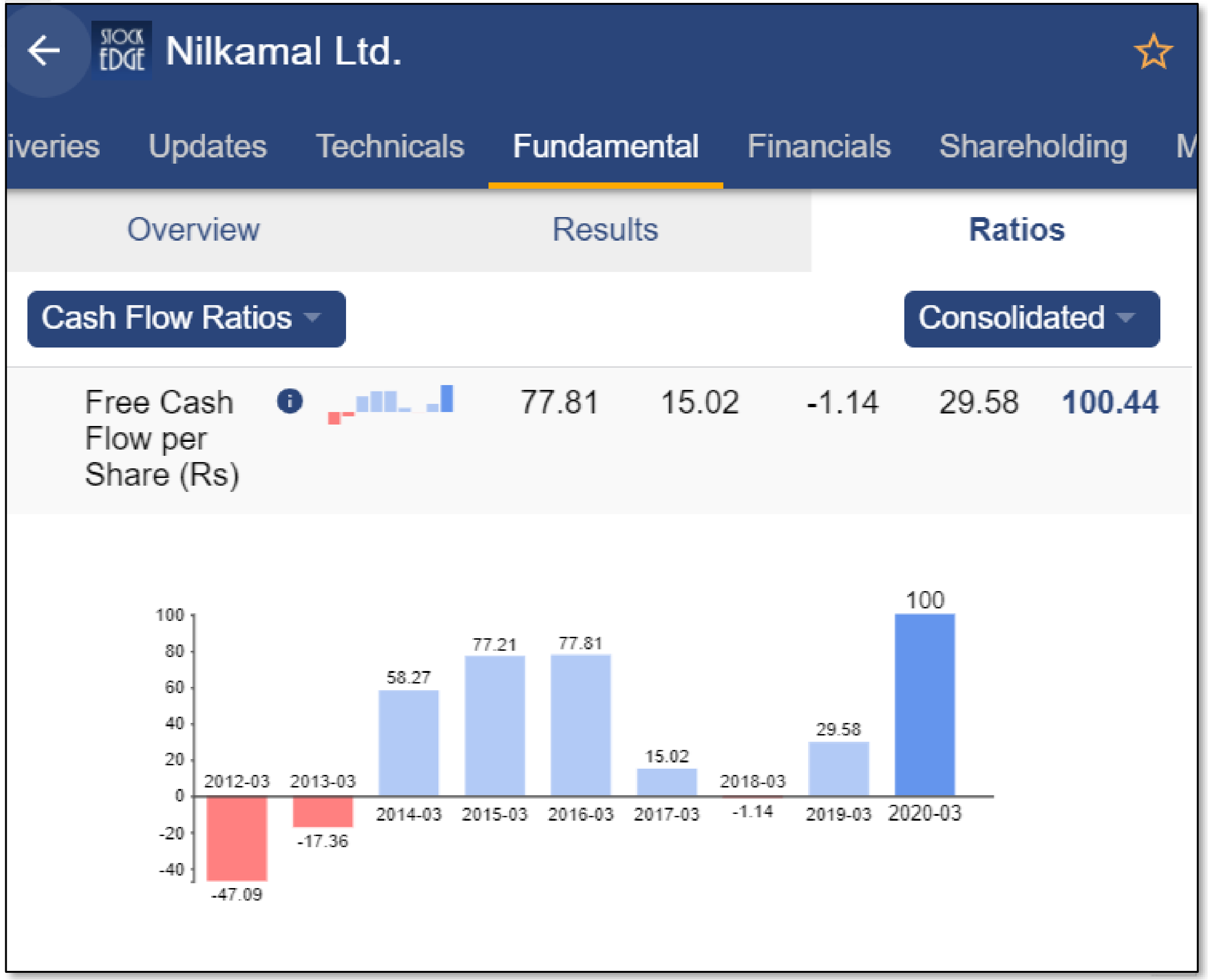
During the period of pandemic, the company took several steps to effectively counter the situation such as managing the fixed cost, management of inventory by resorting to need based production against stocking, improvement in debtors recovery cycle & collection of old overdue.

FREE CASH FLOW

In FY20, company's free cash flow per share increased to ₹100.4/share from ₹29.5/share because of higher increase in cash from operation and lower capex of ₹102 cr as compared to ₹114.3 cr in FY19.

During FY20, the company incurred a capex of ₹102 cr which has been majorly utilized towards addition of injection and rotational moulding machines, dies & moulds, factory building, office and factory equipment, furniture and fixtures etc.

The capex spend for Q1 FY21 stood at ₹3.58 cr. The company estimated a total capex of approx. ₹100 cr during FY20-21. The said capex will be towards increase in manufacturing capacity of racking & storage, MDF and plastic business.



ASSET TURNOVER RATIO

For FY20, the asset turnover ratio of the company declined to 1.59 from 1.86 in FY19 due to decline in sales and sharp increase in total assets.

During the year FY20, total sales of the company declined by 4.5% YoY to ₹2,257 cr. On the other hand, total assets of the company increased to ₹1,550 cr. However, most of the increase was a result of change in accounting treatment for leases as per AS 116.

EFFICIENCY EDGE METER: 3

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SOLVENCY

Case Study

DEBT TO EQUITY

In FY20, debt to equity ratio of the company remained flat at 0.06.

Healthy cash flows have enabled the company in reducing its borrowings thus, resulting in sharp decline in debt to equity ratio over the years.

The company’s total debt as on March 31, 2020, was ₹66 cr, out of which company’s long term debt was ₹47.9 cr.

Net worth of the company increased from ₹941 cr to ₹1,032 cr i.e., a rise of 10% YoY because of rise in reserves due to rise in profits.

INTEREST COVERAGE RATIO

The interest coverage ratio for FY20 is 7.08 times as compared to 9.67 times for FY19.

In FY20, EBIT of the company increased by 15% to ₹204 cr. On the other hand, interest payment increased to ₹28.8 cr as a result of recognition of interest expense on lease liabilities of ₹13.6 cr.

The interest coverage ratio of 7.08x suggests that the company is generating enough operating profit to service its interest burden.

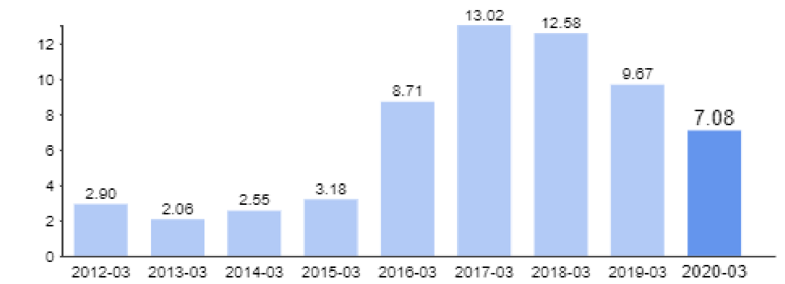
Nilkamal Ltd.

Deliveries | Updates | Technicals | Fundamental | Financials | Shareholding | MF Hold

Overview | Results | Ratios

Solvency Ratios | Consolidated

Interest Coverage Ratio	8.71	13.02	12.58	9.67	**7.08**



EBIT	180.85	187.15	195.65	177.22	**204.14**
Interest payments	20.76	14.37	15.55	18.33	**28.84**

SOLVENCY

Case Study

CURRENT RATIO

Nilkamal Ltd. has a current ratio of 3.23 in FY20 v/s 3.61 in FY19.

Current assets of the company increased from ₹779.4 cr in FY19 to ₹859.8 cr in FY20 i.e., a rise of 10% YoY because of increase in inventories, trade receivables, current investments and other current assets.

On the other hand, the current liabilities of the company increased from ₹216 cr in FY19 to ₹266 cr in FY20 i.e., a rise of 23% YoY because of increase in trade payables (trade outstanding dues of creditors other than micro and small enterprises) and other financial liabilities.

SOLVENCY EDGE METER: 4

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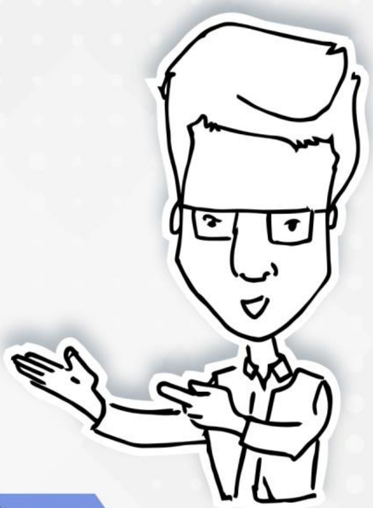
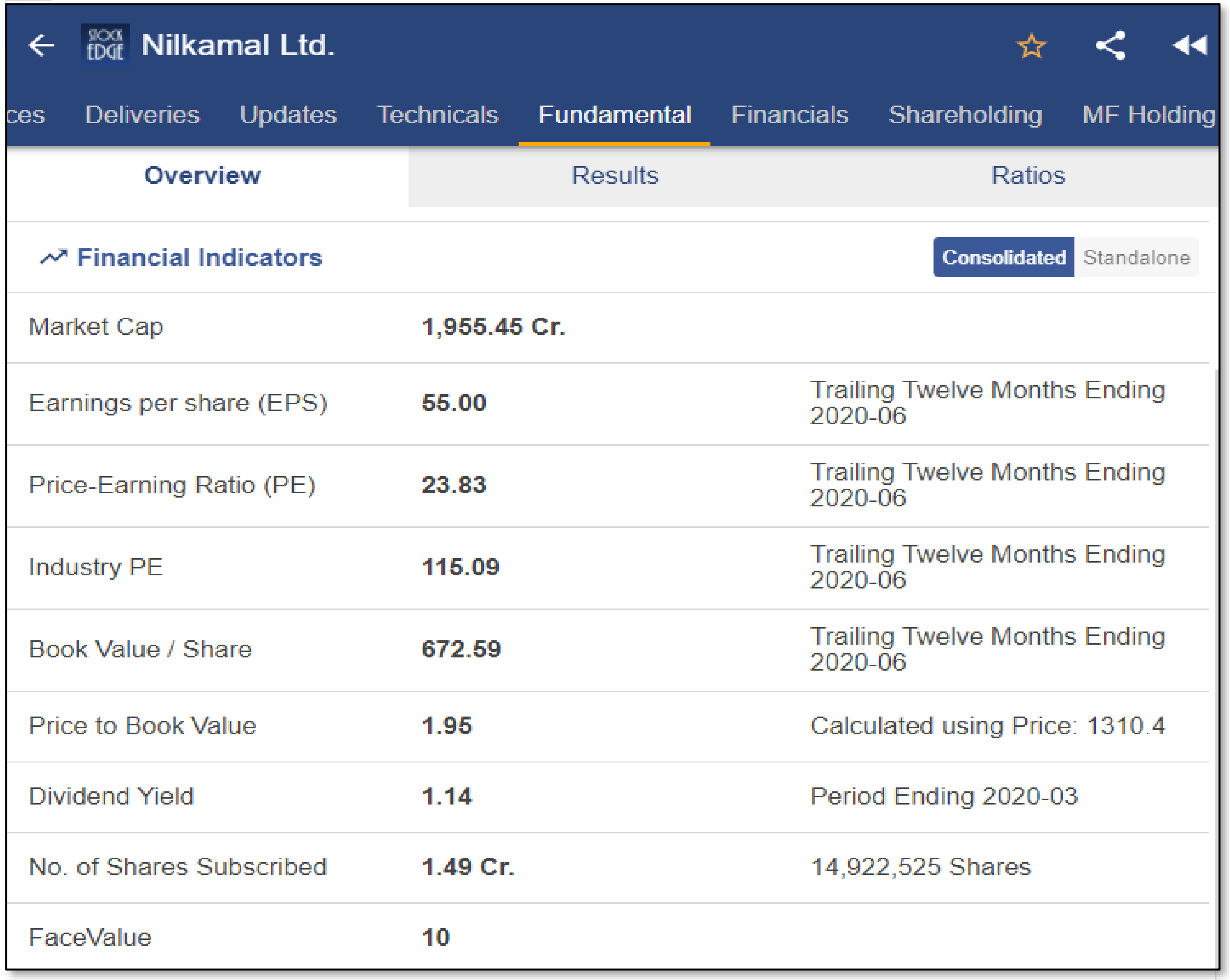


PE RATIO

Currently, the stock is trading at a trailing twelve months PE of 23.8x.

This high PE is due to the loss incurred in Q1 FY21, which has resulted in reduced EPS for the last four quarters.

The stock has run up 11.4% to ₹1310 in last three month.


Nilkamal Ltd.

ces | Deliveries | Updates | Technicals | Fundamental | Financials | Shareholding | MF Holding

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Financial Indicators — Consolidated | Standalone

Market Cap	1,955.45 Cr.	
Earnings per share (EPS)	55.00	Trailing Twelve Months Ending 2020-06
Price-Earning Ratio (PE)	23.83	Trailing Twelve Months Ending 2020-06
Industry PE	115.09	Trailing Twelve Months Ending 2020-06
Book Value / Share	672.59	Trailing Twelve Months Ending 2020-06
Price to Book Value	1.95	Calculated using Price: 1310.4
Dividend Yield	1.14	Period Ending 2020-03
No. of Shares Subscribed	1.49 Cr.	14,922,525 Shares
FaceValue	10	

DIVIDEND YIELD

The company had declared interim dividend twice during FY20.

The first interim dividend of ₹5 per equity share (50%) on November 13, 2019 and the second interim dividend of ₹10 per equity share (100%) on March 14, 2020, thus aggregating to ₹15 per equity share (150%) for FY20 against total dividend of ₹13 per share given in FY19.

At the current share price of ₹1310, this results in a dividend yield of 1.14%.

Nilkamal Ltd.

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TECHNICAL ANALYSIS

Nilkamal Limited has been in a medium term downtrend since making a high of ₹2275 in May 2017.

The stock has made a double bottom formation near ₹900 which was the low made in Aug 19 and then was re-tested in Mar 20.

A move beyond the 1450-1530 band is likely to trigger a fresh upswing in the stock. On the other hand, 1080-1200 may act as a good support zone.

VALUATION EDGE METER: 3

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MANAGEMENT

Mr. Vamanrai V. Parekh is the co-founder and one of the promoter of Nilkamal Limited with over six decades of experience in the plastics industry.

The management focus is on maintaining leadership in its market segments through a keen focus on quality, its core values, hard work and meeting dynamic market demands.

QUALITY

Case Study

SHAREHOLDING PATTERN

The promoter group holds 64.33% stake in the company.

FII shareholding increased marginally to 2.13% (v/s 2.12% in March 2020) while DII shareholding decreased to 16.75% (v/s 16.93% in March 2020).

Non-Institution shareholding increased to 16.79% (v/s 16.64% in March 2020)

<u>Top Public Shareholding:-</u>

DSP small cap fund	7.09%
HDFC small cap fund	7.05%
Kotak small cap fund	2.28%

Nilkamal Ltd.

nicals Fundamental Financials **Shareholding** MF Holding Outlook Scans

Pattern Shareholders BOD

	9 Qtrs	2019-06 (%)	2019-09 (%)	2019-12 (%)	2020-03 (%)	**2020-06 (%)**
+ Promoter		63.97	63.97	63.97	64.31	**64.33**
− Public		36.03	36.03	36.03	35.69	**35.67**
FII/FPI		2.38	2.01	1.62	2.12	**2.13**
DII		14.24	14.96	15.73	16.93	**16.75**
Non Institution		19.42	19.06	18.68	16.64	**16.79**
+ Depository Receipts		0.00	0.00	0.00	0.00	**0.00**
Promoter Holding Pledge (%)		0.00	0.00	0.00	0.00	**0.00**

SECTOR POTENTIAL

- Indian plastic industry provides immense growth potential in the coming years, given the low per capita consumption, shifting consumer preference towards branded plastic products and increased usage of plastics by manufacturing segments.
- In India per capita plastic consumption was 11 kg per person per annum in 2015 compared to about 90-100 kg in the US and 50 kg in Europe. An estimate by the ministry of petroleum and natural gas suggested that the annual per capita consumption in India would be 20 kg by 2022. The growth will be aided with rise in availability of polymers as petrochemical companies increase their capacity and range of products.
- **Moulded plastic industry**: The modular plastic items industry is highly fragmented and consists of micro, small and medium units and hence, highly competitive with few entry barriers due to a large presence of unorganized players and commoditized nature of product.
- With improvement in economic cycle, plastic business is expected to grow. Changing preferences towards lifestyle and furnishing requirements of consumers paves opportunity for large players.
- **Material Handling Business**: Growth of E-commerce has resulted in increase in demand for larger warehouses requiring usage of material handling products, especially for pallets backed by industry’s shift to plastic pallets from conventional wooden pallets. Further, rise in E-commerce provides better prospects for companies offering material handling solutions in warehousing.

COMPETITIVE LANDSCAPE

Nilkamal Ltd. is a market leader in the moulded furniture and material handling products with diversified product portfolio.

Company's extensive distribution network, direct connect with the industrial customers, manufacturing of quality products and strong brand recall amongst retail customers will enable it to overcome the crisis and perform well going forward.

Supreme Industries Ltd. is the nearest peer of the Nilkamal Ltd. which also manufactures moulded furniture, storage & material handling products for consumers and industries.

Plastic Products

All Stocks | Industries | Gainers | Losers | News

MCAP PE P/BV D/E ROE ROCE **SALES** PAT

Stock Name	Statement	Year Ending	Net Sales (Rs. Cr.)	LTP
Supreme Industries Ltd.	Consolidated	2020-03	5,511.54	1,395.00
Astral Poly Technik Ltd.	Consolidated	2020-03	2,577.90	1,150.05
EPL Ltd.	Consolidated	2020-03	2,760.07	253.75
Finolex Industries Ltd.	Consolidated	2020-03	2,985.98	519.00
Responsive Industries Ltd.	Consolidated	2019-03	775.04	125.60
Kama Holdings Ltd.	Consolidated	2019-03	7,743.56	4,897.50
Prince Pipes & Fittings Ltd.	Standalone	2020-03	1,635.66	228.80
Polyplex Corporation Ltd.	Consolidated	2020-03	4,487.10	740.75
Huhtamaki PPL Ltd.	Standalone	2019-12	2,582.37	297.20

FUTURE OUTLOOK

- In FY20, in order to establish the brand of mattress business, the company had incurred advertisement expenditure by way of print and television media and has also introduced several varieties of mattresses across all price range. The company will also go aggressive in appointing new dealers to increase the brand footprint across India.
- The company has also increased its focus on franchise store rollout extending its reach to multi-brand outlets to get closer to the customers.
- In FY20, the company's bubble-guard business achieved a sale of ₹16.34 cr as against ₹12.63 cr in FY19 i.e., a double-digit growth of 29%. During the lock down period, the company launched innovative bubble guard products like Travel Guard (Transport), Virus Guard (for office, cafeteria, education) and patient bed to help the fight against Covid-19.
- The sales for the month of July and August, 2020 stood at almost 85% as compared to the corresponding period of the previous year. The performance of the company is expected to normalize gradually towards the end of the calendar year.
- In view of the current scenario and fast changing retail environment, the company is focusing on strengthening its E-commerce presence with better supply chain measures, warehousing and depot. It is focusing on new product development due to changing consumer preferences.
- The company will be investing into product categories like utility, storage, organizers, kitchen utility and home office range in the coming year.

QUALITY EDGE METER: 3

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STOCK EDGE

FINAL EDGE MATRIX

Edge Meter Aspects	Grade
Growth	3
Profitability	4
Efficiency	3
Solvency	4
Valuation	3
Quality	3
TOTAL	**20**

The maximum grade for a company could be 30. Any company above grade 20 is worth considering. A grade below 15 is considered to be poor.

STOCK EDGE

THANK YOU

This document and the process of identifying the potential of a company has been produced only for learning purposes. Since equity involves individual judgements, this analysis should be used for only learning enhancements and cannot be considered to be a recommendation on any stock or sector. Our knowledge team has limited understanding and we all are learning the art and science behind this.

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