Nilkamal Limited

August 18, 2022

Ratings

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long-term bank facilities	374.59 (Enhanced from 274.59)	CARE AA; Stable (Double A; Outlook: Stable)	Reaffirmed
Short-term bank facilities	150.00	CARE A1+ (A One Plus)	Reaffirmed
Total bank facilities	**524.59 (₹ Five hundred twenty-four crore and fifty-nine lakh only)**		
Non-convertible debentures	100.00	CARE AA; Stable (Double A; Outlook: Stable)	Assigned
Non-convertible debentures	100.00	CARE AA; Stable (Double A; Outlook: Stable)	Reaffirmed
Total long-term instruments	**200.00 (₹ Two hundred crore only)**		
Commercial paper (Carved out)*	50.00	CARE A1+ (A One Plus)	Reaffirmed
Commercial paper (Carved out)*	50.00	CARE A1+ (A One Plus)	Reaffirmed
Commercial paper (Carved out)*	100.00	CARE A1+ (A One Plus)	Reaffirmed
Total short-term instruments	**200.00 (₹ Two hundred crore only)**		

*carved out from sanctioned working capital limits
Details of instruments/facilities in Annexure-1

Detailed rationale and key rating drivers

The ratings assigned to the bank facilities, short-term instrument and non-convertible debentures (NCD) of Nilkamal Limited (NKL) continue to derive strength from its strong and leading market position and wide distribution network in domestic-moulded furniture segment and organised furniture retail, and is one of the major players in the material handling business. Over the years, NKL has successfully built strong brands like 'Nilkamal' and '@home' in moulded furniture and organised furniture retail segment, respectively. The promoters have long-standing experience in the furniture segment and have demonstrated their capability to successfully diversify (in furniture-related segments) and optimise the product mix to improve NKL's market share in the organised furniture retailing segment. The ratings also continue to factor in the strong financial risk profile marked by low leverage, strong liquidity and comfortable debt coverage indicators.

These rating strengths are, however, tempered by susceptibility of NKL's profitability margins to volatility in the raw material prices, its presence in the highly competitive moulded plastics industry and foreign exchange fluctuation risk. Despite partial debt-funded capex, both leverage and debt coverage metrics are expected to remain comfortable over the medium term.

Rating sensitivities

Positive factors – Factors that could lead to positive rating action/upgrade:

- Sustainable improvement in the operating margins above 15% over the medium term.
- Sustenance in return on capital employed (ROCE) above 25% and improvement in interest coverage ratio (ICR) above 14.00x.

Negative factors – Factors that could lead to negative rating action/downgrade:

- Decline in the PBILDT margin below 5% on a sustained basis.
- Any significant increase in the working capital requirement or any unforeseen debt-funded capex/acquisition leading to deterioration of the total debt/PBILDT beyond 2.00x.

Detailed description of the key rating drivers

Key rating strengths

Well-established and experienced promoters: NKL, which is into manufacturing and marketing of moulded plastic products across India and abroad, is promoted by Vamanrai V. Parekh and Sharad V. Parekh, who have over 50 years of experience in the plastics industry. The day-to-day operations of the company are handled by a team of qualified and experienced professionals headed by S.V. Parekh (Non-Executive Chairman). Hiten V. Parekh (Managing Director), Manish V. Parekh (Joint Managing Director), and Nayan S. Parekh (Executive Director) oversee new project development and operations at all plant locations.

[1]Complete definition of the ratings assigned are available at www.careedge.in and other CARE Ratings Ltd.'s publications

Strong market position in moulded plastic industry: Over the years, NKL has established itself as a reputed brand in plastic products, material handling and lifestyle furniture. The company provides a diversified product profile catering to customers across different end-user segments and geographies. With a total installed capacity of 109,862 MT per annum as on June 30, 2022, NKL is one of the largest producers of injection-moulded plastic in India. The major contribution to the revenues of NKL comes from the plastics division (94% of the operating revenue of FY22 [refers to the period April 1 to March 31]) followed by lifestyle furniture, furnishing and accessories division (6% of the operating revenue of FY22).

Wide distribution network and strong market position: NKL has an established track record and strong market position, backed by its widespread distribution network and the ability to introduce new products periodically (such as mattress, bubble guard, office storage products, etc.). The company focusses extensively on the marketing and branding activities to increase awareness and visibility by improving its presence pan India through a nationwide distribution network and presence of dealers in all parts of the country, which will help in managing the complex supply chain network at a lower cost compared to the industry. The company has a network of nearly 1,200-plus channel partners and over 20,000 dealers pan India. Furthermore, NKL's material handling business has strong nationwide presence with strong customer base serving across industries. During FY22, NKL has added 28 stores (10 own stores and 18 franchise stores) under Plastic Division and 8 stores under its Lifestyle segment. These showrooms showcase all the verticals marketed by the company. NKL also plans to add additional more than 50 franchise showrooms in FY23. During Q1FY23, NKL has added 17 franchise stores. Also, under its moulded plastic business, the company keeps introducing new products, which helps the company in sustaining top line growth in a highly competitive environment.

Improving total operating income and healthy operating margins: During FY22, NKL reported a total operating income (TOI) of ₹2,730 crore on a consolidated basis, registering a Y-o-Y growth of 30%. The improvement was on account of volume and value growth of 12% and 33% (standalone), respectively, in the plastic business. The revenue from plastic segment which contributed about 94% of the total revenue in FY22 improved by 32% on a Y-o-Y basis. The revenue from lifestyle products, which account for the balance, improved by 13% on a Y-o-Y basis. NKL's PBILDT margin witnessed decline of 403 bps to 8.20% in FY22 driven by high volatility of over 30% in the prices of both of its key raw materials, viz., polypropylene and polyethylene. During Q1FY23, NKL reported operating profit of ₹71.23 crore on TOI of ₹742.46 crore resulting in PBILDT margin at 9.59%. However, the margins are expected to improve going ahead with improved realisation and higher volumes due to increased demand.

Comfortable leverage and debt coverage indicators: NKL's financial risk profile is driven by comfortable capital structure and strong debt coverage metrics. The overall gearing continued to remain comfortable at 0.32x as on March 31, 2022 (PY: 0.24x). The company's debt coverage indicators continued to remain comfortable despite marginal deterioration on account of increase in the total debt primarily due to issuance of NCD to fund capex and increase in the working capital utilisation. PBILDT interest coverage ratio continued to remain healthy at 7.25x as on March 31, 2022 (PY: 9.77x), which improved to 8.39x as on June 30, 2022. The capex for FY23 is envisaged to be funded with a mix of internal accruals and term loan. Despite partial debt-funded capex, both leverage and debt coverage metrics are expected to remain comfortable in the medium term.

Healthy cashflow generation despite working capital intensive operations: NKL's operations are working capital intensive, as NKL has to extend credit period of 45 days on an average to its customers, however, most of its vendors demand upfront payment. Furthermore, it has to maintain an inventory of two months, which leads to high working capital requirement. During FY22, the working capital cycle improved to 103 days as against 119 days in FY21 on account of improvement in the inventory and collection days. Historically, the working capital cycle has remained in the range of 95-105 days. On account of decline in the operating margins and increase in inventory in absolute terms (due to increase in raw material prices) during FY22, NKL reported net CFO after working capital changes of ₹69.07 crore in FY22 as against ₹202.96 crore in FY21 and ₹251.95 crore in FY20.

Key rating weaknesses

Susceptibility of profitability margins to volatility associated with raw material prices and working capital intensive nature of business: NKL has a wide range of products due to which its raw material requirement is varied, ranging from polypropylene copolymer (PPCP) and polypropylene homo-polymer (PPHP) for glossy finishing in furniture and high-density polyethylene (HDPE) and linear low-density polyethylene (LLDPE) for more sturdy material handling goods. Hence, margins of NKL continue to remain susceptible to volatility in the raw material prices. Furthermore, NKL has a wide network of distributors and dealers in the furniture segment, which allows it to minimise this risk by managing its inventory based upon demand. Also, NKL locally procures most of its raw materials, which are backed by orders, thereby mitigating exposure to fluctuation in the raw material prices to an extent.

Susceptibility to foreign exchange rates fluctuation: NKL is exposed to the foreign exchange risk on account of its borrowings and other payables like export and import of goods in foreign currency. NKL uses forward exchange contracts and cross currency interest rate swaps to hedge its foreign exchange risk. Moreover, foreign exchange risk arising from imports of raw material is naturally hedged against the exports to a certain extent, as total exports in FY22 were ₹52.06 crore (₹42.32 crore in FY21). During FY22, NKL has reported foreign exchange loss of ₹2.66 crore as against foreign exchange gain of ₹0.09 crore in FY21. The company hedges to an extent of 98% of imports, thus remaining partially exposed to forex risk.

Susceptible to competition in moulded plastic industry: The modular plastic items industry is highly fragmented and consists of micro, small and medium units. Hence, it is a highly competitive industry with few entry barriers due to large presence of unorganised players and the commoditised nature of the product. The plastic business is expected to grow with improvement in the economic cycle. Changing preferences towards lifestyle and furnishing requirements of consumers paves opportunity for players like NKL. Furthermore, rise in e-commerce provides better prospects for companies offering material handling solutions in warehousing.

Liquidity: Strong

NKL continues to operate with strong liquidity marked by consistent and healthy cash accrual generation and moderately utilised working capital limits. NKL has generated cash accruals of ₹183.07 crore in FY22 and ₹55.94 crore in Q1FY23 against moderate term debt repayment obligations of ₹18.39 crore in FY23. The company has unencumbered cash and liquid investments of ₹64.93 crore as on March 31, 2022. The company also has additional headroom available in the form of undrawn working capital lines of around ₹200 crore.

Analytical approach: Consolidated

CARE Ratings Limited (CARE Ratings) has considered consolidated financials for arriving at the ratings owing to the operations in similar line of business and business linkages that exists with its subsidiaries. The list of entities included in the consolidated financials is given below:

Name of Company	Holding/Subsidiary/Associate	% of Holding	Country of Incorporation
Nilkamal Storage Systems Pvt. Ltd (formerly known as NBSSL)	Subsidiary	100%	India
Nilkamal Crates and Bins, FZE	Subsidiary	100%	UAE
Nilkamal Foundation	Subsidiary	98%	India
Nilkamal Eswaran Plastics Pvt. Ltd	Subsidiary	96.28%	Sri Lanka
Nilkamal Eswaran Marketing Pvt. Ltd	Step-down Subsidiary	96.28%	Sri Lanka

Applicable criteria

Policy on default recognition
Consolidation
Factoring linkages parent Sub JV group
Financial ratios – Non-financial Sector
Liquidity analysis of Non-financial sector entities
Rating outlook and credit watch
Short-term instruments
Manufacturing companies

About the company

NKL, promoted by Vamanrai Parekh and Sharad Parekh, was incorporated in 1985. NKL manufactures and markets injection-moulded plastic products in India and abroad. NKL's business can broadly be divided into two segments - plastics division and lifestyle furniture, furnishing and accessories division. NKL is one of the major players in the moulded plastic products and material handling segments. NKL's manufacturing facilities are located in the states/union territories of West Bengal, Dadra and Nagar Haveli, Jammu and Kashmir, Uttar Pradesh, Puducherry, Maharashtra, Tamil Nadu and Haryana. The total installed capacity of the company was 109,862 MT as on June 30, 2022.

NKL, vide its exchange filing dated August 23, 2019, has completed the acquisition process of acquiring entire shareholding of BITO Lagertechnik, Bittmann GmbH in Nilkamal BITO Storage Systems Private Limited (NBSSPL). Consequent to which, NBSSL, now known as Nilkamal Storage Systems Pvt Ltd, has become the wholly-owned subsidiary of NKL w.e.f. August 22, 2019.

The Board of Directors of NKL and NSSPL has approved the Scheme of Amalgamation of NSSPL with NKL on February 09, 2021. NKL has filed the said Scheme of Amalgamation with the Hon'ble National Company Law Tribunal, Ahmedabad Bench, for its approval.

Brief Financials (₹ crore)	31-03-2021 (A)	31-03-2022 (A)	30-06-2022 (UA)
Total operating income	2,092.30	2,730.09	742.46
PBILDT	255.91	223.79	71.23
PAT	113.15	83.42	28.63
Overall gearing (times)	0.24	0.32	NA
Interest coverage (times)	9.77	7.25	8.39

A: Audited; UA: Unaudited; NA: Not available

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

Disclosure of Interest of Independent/Non-Executive Directors of CARE Ratings Ltd.: Not applicable

Disclosure of Interest of Managing Director and CEO: Not applicable

Rating history for last three years: Please refer Annexure-2

Covenants of rated instruments/facilities: Detailed explanation of covenants of the rated instruments/facilities is given in Annexure-3

Complexity level of various instruments rated for this company: Annexure-4

Annexure-1: Details of instruments/facilities

Name of the Instrument	ISIN	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Fund-based - LT-Cash credit	-	-	-	-	240.00	CARE AA; Stable
Non-fund-based - ST-BG/LC	-	-	-	-	150.00	CARE A1+
Term loan-Long term	-	-	-	Feb 2024	134.59	CARE AA; Stable
Debentures-Non-convertible debentures	Provided below	-	-	Provided below	100.00	CARE AA; Stable
Proposed debentures-Non-convertible debentures#	-	-	-	-	100.00	CARE AA; Stable
Commercial paper-Commercial paper (Carved out)#	-	-	-	7-364 days	50.00	CARE A1+
Commercial paper-Commercial paper (Carved out)#	-	-	-	7-364 days	50.00	CARE A1+
Commercial paper-Commercial paper (Carved out)#	-	-	-	7-364 days	100.00	CARE A1+

*includes proposed loan

Details of non-convertible debentures

ISIN	Date of issue	Coupon Rate	Maturity Date	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
INE310A07012	March 08, 2022	6.80%	March 07, 2025	50.00	CARE AA; Stable
INE310A07020	March 08, 2022	7.40%	March 08, 2027	49.00	CARE AA; Stable
Proposed	-	-	-	1.00	CARE AA; Stable
Total				100.00	

#**Details of commercial paper issue:** There is no outstanding CP as on August 17, 2022.

Annexure-2: Rating history of last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating History			
		Type	Amount Outstanding (₹ crore)	Rating	Date(s) and Rating(s) assigned in 2022-2023	Date(s) and Rating(s) assigned in 2021-2022	Date(s) and Rating(s) assigned in 2020-2021	Date(s) and Rating(s) assigned in 2019-2020
1	Commercial paper-Commercial paper (Carved out)	ST	50.00	CARE A1+	-	1)CARE A1+ (21-Dec-21) 2)CARE A1+ (05-Oct-21)	1)CARE A1+ (07-Oct-20)	1)CARE A1+ (30-Sep-19)
2	Fund-based - LT-Cash credit	LT	240.00	CARE AA; Stable	-	1)CARE AA; Stable (21-Dec-21) 2)CARE AA; Stable (05-Oct-21)	1)CARE AA; Stable (07-Oct-20)	1)CARE AA; Stable (30-Sep-19)
3	Non-fund-based - ST-BG/LC	ST	150.00	CARE A1+	-	1)CARE A1+ (21-Dec-21) 2)CARE A1+ (05-Oct-21)	1)CARE A1+ (07-Oct-20)	1)CARE A1+ (30-Sep-19)
4	Term loan-Long term	LT	134.59	CARE AA; Stable	-	1)CARE AA; Stable (21-Dec-21) 2)CARE AA; Stable (05-Oct-21)	1)CARE AA; Stable (07-Oct-20)	1)CARE AA; Stable (30-Sep-19)
5	Commercial paper-Commercial paper (Carved out)	ST	50.00	CARE A1+	-	1)CARE A1+ (21-Dec-21) 2)CARE A1+ (11-Nov-21)	-	-
6	Commercial paper-Commercial paper (Carved out)	ST	100.00	CARE A1+	-	1)CARE A1+ (21-Dec-21)	-	-
7	Debentures-Non-convertible debentures	LT	100.00	CARE AA; Stable	-	1)CARE AA; Stable (21-Dec-21)	-	-
8	Debentures-Non-convertible debentures	LT	100.00	CARE AA; Stable	-	-	-	-

*Long term/Short term

Annexure-3: Detailed explanation of covenants of the rated instruments/facilities: Not available

Annexure-4: Complexity level of various instruments rated for this company

Sr. No.	Name of Instrument	Complexity Level
1	Commercial paper-Commercial paper (Carved out)	Simple
2	Debentures-Non-convertible debentures	Simple
3	Fund-based - LT-Cash credit	Simple
4	Non-fund-based - ST-BG/LC	Simple
5	Term loan-Long term	Simple

Annexure-5: Bank lender details for this company
To view the lender wise details of bank facilities please click here

Note on complexity levels of the rated instruments: CARE Ratings has classified instruments rated by it on the basis of complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careedge.in for any clarifications.

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