

Nilkamal Limited

August 17, 2023

Facilities/Instruments	Amount (₹ crore)	Rating ¹	Rating Action
Long-term bank facilities	373.75 (Reduced from 374.59)	CARE AA; Stable	Reaffirmed
Short-term bank facilities	200.00 (Enhanced from 150.00)	CARE A1+	Reaffirmed
Non-convertible debentures	100.00	CARE AA; Stable	Reaffirmed
Non-convertible debentures	100.00	CARE AA; Stable	Reaffirmed
Commercial paper (Carved out)*	50.00	CARE A1+	Reaffirmed
Commercial paper (Carved out)*	50.00	CARE A1+	Reaffirmed
Commercial paper (Carved out)*	100.00	CARE A1+	Reaffirmed

Details of instruments/facilities in Annexure-1.

*carved out from sanctioned working capital limits

Rationale and key rating drivers

The ratings assigned to the bank facilities and debt instruments of Nilkamal Limited (NKL) continue to derive strength from its strong market position in plastic moulded products, wide distribution network and being one of the major players in the material handling business. The company has established strong brand presence under 'Nilkamal' and '@home' in moulded furniture and organised furniture retail segment, respectively. The promoters have long-standing experience in the material handling segment and 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: Factors likely to lead to rating actions.

Positive factors

- Sustainable improvement in the profit before interest, lease rentals, depreciation and taxation (PBILDT) 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

- 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.

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

Analytical approach:

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 as on June 30, 2023 included in the consolidated financials is given below:

Name of Company	Holding/Subsidiary/Associate	% of Holding	Country of Incorporation
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
Cambro Nilkamal Private Limited	Joint venture	50%	India

Outlook: Stable

The stable outlook reflects the sustenance of the improvement in the operating and financial risk profile of the company amidst healthy cash flow generation from operations and absence of any large debt-funded capex or acquisition plans in the medium term.

Detailed description of the key rating drivers:

Key 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 the new project development and operations at all plant locations.

Strong market position in moulded plastic industry: Over the years, NKL has established itself as a strong 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. The major contribution to the revenues of NKL comes from the plastics division (82.28% of the operating revenue of FY23 [refers to the period April 1 to March 31]) followed by lifestyle furniture, furnishing and accessories division (17.72% of the operating revenue of FY23).

Wide distribution network: NKL has an established track record of its widespread distribution network and the ability to introduce new products periodically (such as mattresses, 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 FY23, NKL has added 32 stores under Plastic Division while reduced 5 stores under its Lifestyle segment. NKL also plans to add additional more than 25-30 franchise showrooms in FY24. These showrooms showcase all the verticals marketed by the company.

Improving total operating income and healthy operating margins: During FY23, NKL reported a total operating income (TOI) of ₹3,145.80 crore on a consolidated basis, registering a Y-o-Y growth of 15%. The improvement was on account of volume and value growth of 8% and 15% (standalone), respectively, in the plastic business. The revenue from the plastic segment which contributed about 82.28% of the total revenue in FY23 improved by 15% on a Y-o-Y basis. The revenue from lifestyle products, which account for the balance, improved by 28% on a Y-o-Y basis. NKL's PBILDT margin witnessed recovery of 181 bps to 10.38% in FY23 as a result of softening in the prices of key raw materials used, viz., polypropylene and polyethylene. During Q1FY24,

NKL reported operating profit of ₹77 crore on TOI of ₹786 crore resulting in PBILDT margin at 9.82%. 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 0.28x as on March 31, 2023 (PY: 0.32x). The company's debt coverage indicators continued to remain comfortable despite increase in the total debt primarily due to term loan being availed to fund capex. PBILDT interest coverage ratio continued to remain healthy at 8.19x as on March 31, 2023 (PY: 7.25x), which improved to 8.48x as on June 30, 2023. The capex for FY24 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 FY23, working capital cycle remained same at 107 days as against 103 days in FY22. Historically, working capital cycle has remained in the range of 95-105 days. During FY23, NKL's reported positive net CFO after working capital changes of ₹ 190 crore in FY23 as against ₹ 69 crore in FY22.

Key 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, the 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 FY23 were ₹67.49 crore (₹52.06 crore in FY22). During FY23, NKL has not reported any foreign exchange loss/gain as against the foreign exchange loss of ₹2.66 crore in FY22. The company hedges to an extent of 98% of imports, thus remaining partially exposed to forex risk.

Susceptible to high 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 ₹ 250 crore in FY23 and ₹60.81 crore in Q1FY24 against moderate term debt repayment obligations of ₹19 crore in FY24. The company has unencumbered cash and liquid investments of ₹ 28.94 crore as on March 31, 2023. The company also has additional headroom available in the form of undrawn working capital lines of around ₹200 crore.

Environment, social, and governance (ESG) risks

Particulars	Risk factors
Environmental	<p>The company faces environmental risks related to compliance that are inherent to the furniture industry as a result of plastic usage. The company's financial strength and long-term approach gives it the ability to invest in sustainable initiatives with an ambition to be at the forefront of change.</p> <p>NKL has to the extent possible, focused on reducing its environmental and social risks and is moving towards sustainable development by reducing the carbon emission and mitigating the adverse impacts on environment. The Company's strategy is to combat adverse climate change, transitioning to low a carbon emission and thereby reduction in carbon footprint and taking the required initiatives to monitor and reduce energy consumption. The Company is continuously driving towards the usage of more and more green energy for its manufacturing activities.</p>
Social	<p>NKL undertakes its welfare activities directly and through its implementing Agency Nilkamal Foundation. The Company has focused primarily on Upgradation of educational facilities, educational assistance to downtrodden and economically deprived students of the society, promoting healthcare including sanitation and preventive healthcare, employment enhancing vocation skills amongst industrial workers etc.</p>
Governance	<p>No governance issues as per auditor's report nor any qualified opinion.</p>

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](#)

[Policy on Withdrawal of Ratings](#)

About the company and industry

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 135520 MT as on June 30, 2023.

Nilkamal Storage Systems Private Limited, earlier the wholly- owned subsidiary of the Company is amalgamated with the company effective from April 22, 2023. The appointed date of the Amalgamation is October 1, 2022.

Industry classification

Macro Economic Indicator	Sector	Industry	Basic Industry
Consumer Discretionary	Consumer Durables	Consumer Durables	Furniture, Home Furnishing

Brief Financials (₹ crore)	March 31, 2022 (A)	March 31, 2023 (A)	Q1FY24(UA)
Total operating income	2,730.09	3,145.80	786
PBILDT	223.79	326.43	77.18
PAT	83.42	134.00	32.46
Overall gearing (times)	0.32	0.28	-
Interest coverage (times)	7.25	8.19	8.48

A: Audited UA: Unaudited; Note: 'the above results are latest financial results available'

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

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

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

Complexity level of various instruments rated: Annexure-4

Lender details: Annexure-5

Annexure-1: Details of instruments/facilities

Name of the Instrument	ISIN	Date of Issuance (DD-MM-YYYY)	Coupon Rate (%)	Maturity Date (DD-MM-YYYY)	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Commercial Paper- Commercial Paper (Carved out)#	-	NA	NA	7 to 365 days	50.00	CARE A1+
Commercial Paper- Commercial Paper (Carved out)#	-	NA	NA	7 to 365 days	50.00	CARE A1+
Commercial Paper- Commercial Paper (Carved out)#	-	NA	NA	7 to 365 days	100.00	CARE A1+

Name of the Instrument	ISIN	Date of Issuance (DD-MM-YYYY)	Coupon Rate (%)	Maturity Date (DD-MM-YYYY)	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Debentures-Non Convertible Debentures*	Proposed			>365 days	100.00	CARE AA; Stable
Debentures-Non Convertible Debentures*	Proposed			>365 days	1.00	CARE AA; Stable
Fund-based - LT-Cash Credit*	-	-	-	-	260.00	CARE AA; Stable
Non Convertible Debenture	INE310A07012	08-Mar-2022	6.80%	07-Mar-2025	50.00	CARE AA; Stable
Non Convertible Debenture	INE310A07020	08-Mar-2022	7.40%	08-Mar-2027	49.00	CARE AA; Stable
Non-fund-based - ST-BG/LC*	-	-	-	-	200.00	CARE A1+
Term Loan-Long Term	-	-	-	March 2028	113.75	CARE AA; Stable

*Includes proposed limits

#**Details of commercial paper issue:** There is no outstanding CP as on August 17, 2023.

Annexure-2: Rating history for the 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 2023-2024	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
1	Commercial Paper-Commercial Paper (Carved out)	ST	50.00	CARE A1+	-	1)CARE A1+ (18-Aug-22)	1)CARE A1+ (21-Dec-21) 2)CARE A1+ (05-Oct-21)	1)CARE A1+ (07-Oct-20)
2	Fund-based - LT-Cash Credit	LT	260.00	CARE AA; Stable	-	1)CARE AA; Stable (18-Aug-22)	1)CARE AA; Stable (21-Dec-21)	1)CARE AA; Stable (07-Oct-20)

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating History			
		Type	Amount Outstanding (₹ crore)	Rating	Date(s) and Rating(s) assigned in 2023-2024	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
							2)CARE AA; Stable (05-Oct-21)	
3	Non-fund-based - ST-BG/LC	ST	200.00	CARE A1+	-	1)CARE A1+ (18-Aug-22)	1)CARE A1+ (21-Dec-21) 2)CARE A1+ (05-Oct-21)	1)CARE A1+ (07-Oct-20)
4	Term Loan-Long Term	LT	113.75	CARE AA; Stable	-	1)CARE AA; Stable (18-Aug-22)	1)CARE AA; Stable (21-Dec-21) 2)CARE AA; Stable (05-Oct-21)	1)CARE AA; Stable (07-Oct-20)
5	Commercial Paper-Commercial Paper (Carved out)	ST	50.00	CARE A1+	-	1)CARE A1+ (18-Aug-22)	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+ (18-Aug-22)	1)CARE A1+ (21-Dec-21)	-
7	Debentures-Non Convertible Debentures	LT	100.00	CARE AA; Stable	-	1)CARE AA; Stable (18-Aug-22)	1)CARE AA; Stable (21-Dec-21)	-
8	Debentures-Non Convertible Debentures	LT	100.00	CARE AA; Stable	-	1)CARE AA; Stable (18-Aug-22)	-	-

*Long term/Short term.

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

Annexure-4: Complexity level of the various instruments rated.

Sr. No.	Name of the 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: Lender details

To view the lender wise details of bank facilities please [click here](#)

Note on the 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.

Contact us.

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About us:

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