Nilkamal Limited (Revised)

July 30, 2024

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long-term bank facilities	343.75 (Reduced from 373.75)	CARE AA; Stable	Reaffirmed
Short-term bank facilities	8.21	CARE A1+	Assigned
Short-term bank facilities	200.00	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 reaffirmation of ratings for bank facilities and instruments of Nilkamal Limited (NKL) derive strength from its leading market position in moulded plastic products including material handling business. The company has successfully built strong brands such as 'Nilkamal' in moulded furniture. Promoters have extensive experience in the furniture segment and have demonstrated their ability to diversify successfully within furniture-related segments and optimise the product mix to enhance NKL's market share in organised furniture retailing. Ratings further factor in the wide-spread distribution network with 1200+ channel partners and 20,000+ dealers across India. Ratings also reflect NKL's strong financial risk profile, marked by low leverage, strong liquidity, and comfortable debt coverage indicators.

In FY24, the plastic division contributed approximately 94% of the total operating income (TOI), while the lifestyle furniture, furnishing, and accessories division contributed the remaining 6%. The plastic furniture business saw muted growth, the material handling business excluding the racking business witnessed a volume growth of 16%. Racking business and @home business saw a de-growth of 16% and 15% respectively. Financial risk profile is supported by comfortable capital structure and adequate liquidity with overall gearing at 0.29x and cash and cash equivalents of ₹117 crore as on March 31, 2024. The company is undertaking capex to expand its manufacturing capacity for modular furniture, mattresses, foam, and rigid packaging in FY25. CARE Ratings Limited (CARE Ratings) believes extensive marketing and branding activities for its organised furniture retail segment, capacity expansion and addition of value-added products are expected to improve revenue in the medium-to-long term.

However, these strengths are tempered by NKL's susceptibility to raw material price volatility, its presence in the highly competitive moulded plastics industry, and foreign exchange fluctuation risks. Despite debt-funded capital expenditure, NKL's leverage and debt coverage metrics are expected to remain comfortable in 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.

[1]Complete 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 rating owing to operations in similar line of business and business linkages that exists with its subsidiaries. NKL has five subsidiaries or JVs as on March 31, 2024, which have been consolidated. The list of entities included in consolidated financials are given in Annexure-6

Outlook: Stable

The stable outlook indicates that the company is expected to maintain its operating and financial risk profile, supported by healthy cash flow generation from operations and the absence of significant debt-funded capital expenditure or acquisition plans in the medium term.

Detailed description of key rating drivers:

Key strengths

Well-established and experienced promoters

NKL is into manufacturing and marketing moulded plastic products across India and abroad and is promoted by Vamanrai V Parekh and Sharad V Parekh, who have over 50 years of experience in the plastics industry. The company's day-to-day operations are handled by a team of qualified and experienced professionals headed by Sharad 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 furniture 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 NKL's revenues comes from the plastics division (94% of the operating revenue of FY24) followed by lifestyle furniture, furnishing and accessories division (6% of the operating revenue of FY24).

Wide distribution network

NKL has an established track record of its widespread distribution network and ability to introduce new products periodically (such as mattresses, bubble guard, and office storage products, among others). 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. NKL's material handling business has a strong nationwide presence with a strong customer base serving across industries. In FY24, NKL closed seven showrooms under its Plastic division and reduced three stores under its Lifestyle segment, however, the company has tied up with 170 Large Furniture Outlets till March 31, 2024, and an additional 90 stores in Q1FY25. About 100+ franchisee stores are expected to be added in FY25. These showrooms showcase all verticals marketed by the company.

Stable total operating income and moderate operating margins

In FY24, the company reported TOI of ₹3,196 crore, registering a growth of 2.09% in the last year. The plastic business contributed ₹3,003 crore (including ₹125 crores of mattress segment), while @home contributed ₹193 crore. The racking business declined by 16%, and the @home business declined by 15%, however, the B2B business excluding the racking business, saw volume growth of 16% and value growth of 4% in FY24. The company's operating profit moderated to ₹293.58 crore mainly led by increase in freight and forwarding costs and other expenses. The lifestyle furniture, furnishings and accessories segment reported loss of ₹7.62 crore in FY24 as against profit of ₹5.84 crore in FY23. This is attributed to lower footfall and closure of stores in FY24. However, margins are expected to improve going ahead backed by capacity expansion, backward integration, and marketing and branding activities undertaken by the company in the medium-to-long term period.

Comfortable leverage and debt coverage indicators

NKL's financial risk profile is driven by comfortable capital structure and strong debt coverage metrics. Overall gearing continued to remain comfortable at 0.29x as on March 31, 2024, against 0.27x as on March 31, 2023, despite increase in term loan to fund capex. The company's debt coverage indicators continued to remain strong despite term loan of ₹45 crore availed for capex in FY24. The capex for FY25 is envisaged to be funded with a mix of internal accruals and term loan/NCD. Despite partial debt-funded capex, 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 vendors demand upfront payment. It has to maintain an inventory for two months, which leads to high working capital requirements. In FY24, the working capital cycle increased to 110 days, compared to 107 days in FY23 and 103 days in FY22. Historically, the working capital cycle has remained within the range of 95-105 days.

Key weaknesses

Profitability margins susceptible to raw material price volatility and working capital intensive 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. NKL's margins continue to remain susceptible to raw material price volatility. 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 on demand. NKL locally procures most of its raw materials, which are backed by orders, mitigating exposure to fluctuation in the raw material prices to an extent.

Susceptible to foreign exchange rates fluctuation
NKL is exposed to foreign exchange risk considering its payables such as 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. Foreign exchange risk arising from imports of raw material is naturally hedged against exports to certain extent, as total exports (consolidated) in FY24 were ₹55.44 crore (₹67.49 crore in FY23). The company hedges to an extent of ~98% of imports, remains 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 such as NKL. Rise in e-commerce provides better prospects for companies, offering material handling solutions in warehousing.

Liquidity: Strong

The company's liquidity profile is marked strong with cash and cash equivalents of ₹116.68 crore as on March 31, 2024. The estimated gross cash accruals (GCA) for FY25 is expected to be sufficient for debt repayment of ₹100.25 crore and capex of approximately ₹250-300 crore. Capex of ₹250-300 crore will be funded through debt of ₹100 crore and balance internal accruals/available cash. In Q1FY25, the company has pre-paid ₹24.37 crore of debt out of ₹100.25 crore to be repaid for the entire year. The company has ₹260 crore of fund-based working capital limits, average utilisation of these limits for 11 months ended May 2024 was 4.34%, providing sufficient cushion to meet shortfalls.

Environment, social, and governance (ESG) risks

NKL has undertaken initiatives and efforts towards mitigating its environmental and social impact and strengthening its ESG profile.

Key ESG Highlights
Environmental Risks
The company faces environmental compliance risks inherent to the industry due to plastic usage. However, its financial strength and long-term approach enable it to invest in sustainable initiatives, aiming to lead in this area. NKL has focused on minimising its environmental and social risks and is working towards sustainable development by reducing carbon emissions and mitigating environmental impacts. The company's strategy includes combating climate change, transitioning to lower carbon emissions, reducing its carbon footprint, and implementing initiatives to monitor and reduce energy consumption. The company is committed to increasing the use of green energy that is solar and wind power and recycle materials and water in its manufacturing activities and distribution centres. Thereby, also supporting customers in their ESG initiatives.

Social Risks
NKL undertakes its welfare activities directly and through its implementing Agency Nilkamal Foundation. The company has focused primarily on upgrading educational facilities, educational assistance to downtrodden and economically deprived students of the society, promoting healthcare including sanitation and preventive healthcare, and employment enhancing vocation skills for industrial workers, among others.

Governance Risks

NKL's governance structure is characterised by majority of its Board of Directors comprising independent directors, and extensive disclosures. Company has four independent directors (50% of the total eight directors) with one-woman independent director among them.

Applicable criteria

Definition of Default
Liquidity Analysis of Non-financial sector entities
Rating Outlook and Rating Watch
Manufacturing Companies
Financial Ratios – Non financial Sector
Short Term Instruments
Consolidation

About the company and industry

Industry classification

Macro-economic indicator	Sector	Industry	Basic industry
Consumer discretionary	Consumer durables	Consumer durables	Furniture, home furnishing

Promoted by Vamanrai Parekh and Sharad Parekh, NKL was incorporated in 1985. NKL manufactures and markets injection-moulded, roto-moulded, blow-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 moulded plastic products and material handling segments. NKL's manufacturing facilities are in West Bengal, Dadra and Nagar Haveli, Jammu and Kashmir, Uttar Pradesh, Puducherry, Maharashtra, Tamil Nadu and Haryana.

Nilkamal Storage Systems Private Limited, earlier the wholly owned subsidiary, has been amalgamated with the company effective from April 22, 2023. The appointed date of amalgamation is October 01, 2022.

Brief Financials (₹ crore)	March 31, 2022 (A)	March 31, 2023 (A)	March 31, 2024 (A)
Total operating income	2,730.09	3,130.88	3,196.33
PBILDT	223.79	311.51	293.58
PAT	83.42	134.00	122.43
Overall gearing (times)	0.30	0.27	0.29
Interest coverage (times)	7.25	7.81	7.32

A: Audited; Note: these are latest available financial results

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

Rating history for last three years: Annexure-2

Covenants of rated instrument / facility: Annexure-3

Complexity level of 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)	Proposed	-	-	7-365 days	50.00	CARE A1+
Commercial Paper-Commercial Paper (Carved out)	Proposed	-	-	7-365 days	50.00	CARE A1+
Commercial Paper-Commercial Paper (Carved out)	Proposed	-	-	7-365 days	100.00	CARE A1+
Debentures-Non Convertible Debentures	Proposed	-	-	-	100.00	CARE AA; Stable
Non Convertible Debenture	Proposed	-	-	-	1.00	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
Fund-based - LT-Cash Credit		-	-	-	260.00	CARE AA; Stable
Non-fund-based - ST-BG/LC		-	-	-	200.00	CARE A1+
Non-fund-based - ST-Forward Contract		-	-	-	8.21	CARE A1+
Term Loan-Long Term		-	-	March 2028	83.75	CARE AA; Stable

#**Details of commercial paper issue:** There is no outstanding CP as on July 15, 2024

CareEdge RATINGS

Annexure-2: Rating history for 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 2024-2025	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
1	Commercial Paper-Commercial Paper (Carved out)	ST	50.00	CARE A1+	-	1)CARE A1+ (17-Aug-23)	1)CARE A1+ (18-Aug-22)	1)CARE A1+ (21-Dec-21) 2)CARE A1+ (05-Oct-21)
2	Fund-based - LT-Cash Credit	LT	260.00	CARE AA; Stable	-	1)CARE AA; Stable (17-Aug-23)	1)CARE AA; Stable (18-Aug-22)	1)CARE AA; Stable (21-Dec-21) 2)CARE AA; Stable (05-Oct-21)
3	Non-fund-based - ST-BG/LC	ST	200.00	CARE A1+	-	1)CARE A1+ (17-Aug-23)	1)CARE A1+ (18-Aug-22)	1)CARE A1+ (21-Dec-21) 2)CARE A1+ (05-Oct-21)
4	Term Loan-Long Term	LT	83.75	CARE AA; Stable	-	1)CARE AA; Stable (17-Aug-23)	1)CARE AA; Stable (18-Aug-22)	1)CARE AA; Stable (21-Dec-21) 2)CARE AA; Stable (05-Oct-21)
5	Commercial Paper-Commercial Paper (Carved out)	ST	50.00	CARE A1+	-	1)CARE A1+ (17-Aug-23)	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+ (17-Aug-23)	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 (17-Aug-23)	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 (17-Aug-23)	1)CARE AA; Stable (18-Aug-22)	-
9	Non-fund-based - ST-Forward Contract	ST	8.21	CARE A1+				

LT: Long term; ST: Short term

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

Annexure-4: Complexity level of 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	Non-fund-based - ST-Forward Contract	Simple
6	Term Loan-Long Term	Simple

Annexure-5: Lender details

To view lender-wise details of bank facilities please [click here]

Annexure-6: List of entities consolidated

Sr No	Name of the entity	Extent of consolidation	Rationale for consolidation
1	Nilkamal Crates and Bins, FZE	Full	Subsidiary
2	Nilkamal Foundation	Full	Subsidiary
3	Nilkamal Eswaran Plastics Pvt. Ltd	Full	Subsidiary
4	Nilkamal Eswaran Marketing Pvt. Ltd	Full	Step-down subsidiary
5	Cambro Nilkamal Private Limited	Proportionate	Joint venture

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

Contact us

Media Contact	Analytical Contacts
Mradul Mishra Director **CARE Ratings Limited** Phone: +91-22-6754 3596 E-mail: mradul.mishra@careedge.in	Ranjan Sharma Senior Director **CARE Ratings Limited** Phone: +91-022-6754 3453 E-mail: ranjan.sharma@careedge.in
Relationship Contact Saikat Roy Senior Director **CARE Ratings Limited** Phone: 91 22 6754 3404 E-mail: saikat.roy@careedge.in	Pulkit Agarwal Director **CARE Ratings Limited** Phone: +91-022-6754 3505 E-mail: pulkit.agarwal@careedge.in Sonal Bhageria Assistant Director **CARE Ratings Limited** Phone: 912267543631 E-mail: sonal.bhageria@careedge.in

About us:

Established in 1993, CARE Ratings is one of the leading credit rating agencies in India. Registered under the Securities and Exchange Board of India, it has been acknowledged as an External Credit Assessment Institution by the RBI. With an equitable position in the Indian capital market, CARE Ratings provides a wide array of credit rating services that help corporates raise capital and enable investors to make informed decisions. With an established track record of rating companies over almost three decades, CARE Ratings follows a robust and transparent rating process that leverages its domain and analytical expertise, backed by the methodologies congruent with the international best practices. CARE Ratings has played a pivotal role in developing bank debt and capital market instruments, including commercial papers, corporate bonds and debentures, and structured credit.

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