

Nilkamal Limited

December 21, 2021

Ratings

Facilities	Amount (Rs. crore)	Rating ¹	Rating Action
Long-term Bank Facilities	274.59 (Enhanced from 213.59)	CARE AA; Stable (Double A; Outlook: Stable)	Reaffirmed
Short-term Bank Facilities	150.00 (Reduced from 170.00)	CARE A1+ (A One Plus)	Reaffirmed
Total Bank Facilities	424.59 (Rs. Four hundred twenty four crore and fifty nine lakh only)		
Non-convertible Debentures	100.00	CARE AA; Stable (Double A; Outlook: Stable)	Assigned
Total Long-term Instruments	100.00 (Rs. One hundred crore only)		
Commercial Paper (Carved out)*	100.00	CARE A1+ (A One Plus)	Assigned
Commercial Paper (Carved out)*	50.00	CARE A1+ (A One Plus)	Reaffirmed
Commercial Paper (Carved out)*	50.00	CARE A1+ (A One Plus)	Reaffirmed
Total Short-term Instruments	200.00 (Rs. Two hundred crore only)		

*carved out from sanctioned working capital limits

Details of instruments/facilities in Annexure-1

Detailed Rationale & 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 organized furniture retail, and is one of the major players in material handling business. Over the years, NKL has successfully built strong brands like 'Nilkamal' and '@home' in moulded furniture and organized 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 optimize the product mix to improve NKL's market share in the organized 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.

The capex and long-term working capital for FY22 (refers to the period April 1 to March 31) was earlier envisaged to be funded entirely through internal accruals. However, now the same will be funded with a mix of internal accruals and NCD amounting to Rs.100 crore. 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 above 14.00x.

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

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

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

Detailed description of the key rating drivers**Key Rating Strengths****Well-established and experienced promoters**

NKL, promoted by Mr Vamanrai V. Parekh and Mr Sharad V. Parekh, is into manufacturing and marketing of moulded plastic products across India and abroad. Mr V.V. Parekh and Mr S.V. Parekh bring in 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 Mr S.V. Parekh (Non-Executive Chairman). Mr Hiten V. Parekh (Managing Director), Mr Manish V. Parekh (Joint Managing Director), and the executive directors, Mr Nayan S. Parekh and Mr Mihir H. Parekh, oversee new project development and operations at all plant locations.

Healthy market position in moulded plastic industry

Over the years, NKL has established itself as 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. NKL with a total installed capacity of 113,680 MT per annum is one of the large producers of injection-moulded plastic in India. The major contribution to the revenues of NKL comes from the plastics division (93% of the operating revenue of FY21 [refers to the period April 1 to March 31]) followed by lifestyle furniture, furnishing and accessories division (7% of the operating revenue of FY21).

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 is focusing extensively on 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 lower cost compared to industry. The company has a network of nearly 1,100-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 FY21, NKL has added 18 showrooms under Plastic Division and 3 stores under its Lifestyle segment. These showrooms showcase all the verticals marketed by the company. NKL also plans to add additional 30 franchise showrooms in FY22. 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.

Sustained healthy margins despite muted revenue growth

During FY21, NKL reported total operating income (TOI) of Rs.2,109.36 crore on a consolidated basis, registering a YoY decline of 7.18%. The decline was on account of plastic business which recorded volume and value de-growth of 2% and 7%, respectively, impacted by lockdown in April and May 2020 due to outbreak of COVID-19 pandemic. The revenue from plastic segment which contributed about 93% of total revenue in FY21 declined by 5.11% on a YoY basis. The revenue from lifestyle products which account for the balance declined by 27.07% on a YoY basis. NKL's PBILDT margin witnessed marginal decline of 23 bps to 12.94% in FY21 driven by steep increase in raw material prices in Q4FY21. During H1FY22, NKL reported operating profit of Rs.101.74 crore on TOI of Rs.1,234.76 crore resulting in PBILDT margin at 8.24% on account of second wave of Covid-19 in April and May 2021 and also due to increase in the raw material prices (PPCP, PPHP, HDPE and LLDPE) by more than 30% in Q2FY22. However, the margins are expected to improve going ahead with improved realization and higher volumes due to increased demand.

Comfortable leverage and debt coverage indicators

NKL's financial risk profile is driven by generation of comfortable cash-flows consequent into comfortable capital structure and strong debt coverage metrics. Overall gearing continued to remain comfortable at 0.23x as on September 30, 2021 vis-à-vis 0.20x as on March 31, 2021 and 0.22x as on March 31, 2020. The company's debt coverage indicators continued to remain comfortable despite marginal deterioration on account of increase in the total debt primarily due to increase in the working capital utilization. PBILDT interest coverage ratio continued to remain healthy at 7.54x as on September 30, 2021 vis-à-vis 10.42x as on March 31, 2021 and 10.37x as on March 31, 2020.

The capex and long-term working capital for FY22 was earlier envisaged to be funded entirely through internal accruals. However, given the additional working capital requirement for manufacturing readymade furniture, racking systems and higher inventory cost on account of increase in raw material prices, now the same will be funded with a mix of internal accruals and NCD of Rs.100 crore. 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. This leads to high working capital requirement. During FY21, working capital cycle stretched to 119 days as against 106 days in FY20 on account of increase in the inventory and debtor levels. However, during H1FY22, working capital cycle improved to 108 days on account of decrease in the inventory and debtor levels. Historically, working capital cycle has remained in the range of 95-105

days. On account of stretched working capital during FY21, NKL reported net CFO after working capital changes of Rs.202.96 crore in FY21 as against Rs.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 raw material prices. Furthermore, NKL has wide network of distributors and dealers in furniture segment which allows it to minimize this risk by managing its inventory based upon demand. Also, NKL locally procures most of its raw material which are backed by orders thereby mitigating exposure to fluctuation in raw material prices to an extent.

Susceptibility to foreign exchange rates fluctuation

NKL is exposed to 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 exports to a certain extent. During FY21, NKL has earned foreign exchange amounting to Rs.48.73 crore (PY: Rs.54.89 crore) as against foreign exchange usage of Rs.214.42 crore (PY: Rs.317.33 crore). The company hedges to an extent of 95% of imports, thus remains 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, and hence, highly competitive industry with few entry barriers due to large presence of unorganized players and commoditized nature of product. With improvement in the economic cycle, plastic business is expected to grow. 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 utilized working capital limits. NKL has generated cash accruals of Rs.208.34 crore in FY21 and Rs.78.77 crore in H1FY22 against moderate term debt repayment obligations of Rs.43.38 crore in FY22. The company has cash and cash equivalents of Rs.13.88 crore as on September 30, 2021. The company also has additional headroom available in the form of undrawn working capital lines of around Rs.50 crore. Furthermore, enhanced working capital limits are likely to augur liquidity cushion.

Analytical approach: Consolidated

CARE Ratings Ltd has considered consolidated financials for arriving at the rating 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 Mr Vamanrai Parekh and Mr 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 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 113,680 MT as on March 31, 2021.

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, NBSSPL, 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 (Rs. crore)	31-03-2020 (A)	31-03-2021 (A)	H1FY22 (UA)
Total operating income	2272.50	2109.36	1234.76
PBILDT	299.24	272.97	101.74
PAT	142.43	113.15	29.96
Overall gearing (times)	0.22	0.20	0.23
Interest coverage (times)	10.37	10.42	7.54

A: Audited; UA: UnAudited

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

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 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 (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based - LT-Cash Credit	-	-	-	-	240.85	CARE AA; Stable
Non-fund-based - ST-BG/LC	-	-	-	-	150.00	CARE A1+
Term Loan-Long Term	-	-	-	-	33.74	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+

Annexure-2: Rating History of last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2021-2022	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019
1	Commercial Paper-Commercial Paper (Carved out)	ST	50.00	CARE A1+	1)CARE A1+ (05-Oct-21)	1)CARE A1+ (07-Oct-20)	1)CARE A1+ (30-Sep-19)	1)CARE A1+ (31-Dec-18)
2	Fund-based - LT-Cash Credit	LT	240.85	CARE AA; Stable	1)CARE AA; Stable (05-Oct-21)	1)CARE AA; Stable (07-Oct-20)	1)CARE AA; Stable (30-Sep-19)	1)CARE AA; Stable (31-Dec-18)
3	Non-fund-based - ST-BG/LC	ST	150.00	CARE A1+	1)CARE A1+ (05-Oct-21)	1)CARE A1+ (07-Oct-20)	1)CARE A1+ (30-Sep-19)	1)CARE A1+ (31-Dec-18)
4	Term Loan-Long Term	LT	33.74	CARE AA; Stable	1)CARE AA; Stable (05-Oct-21)	1)CARE AA; Stable (07-Oct-20)	1)CARE AA; Stable (30-Sep-19)	1)CARE AA; Stable (31-Dec-18)
5	Commercial Paper-Commercial Paper (Carved out)	ST	50.00	CARE A1+	1)CARE A1+ (11-Nov-21)	-	-	-
6	Commercial Paper-Commercial Paper (Carved out)	ST	100.00	CARE A1+	-	-	-	-
7	Proposed Debentures-Non Convertible Debentures	LT	100.00	CARE AA; Stable	-	-	-	-

Annexure-3: Detailed explanation of covenants of the rated instrument / 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

Note on complexity levels of the rated instrument: CARE Ratings Ltd. 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.

Annexure 5: Bank Lender Details for this Company

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

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About CARE Ratings Limited:

Established in 1993, CARE Ratings Ltd. is one of the leading credit rating agencies in India. Registered under the Securities and Exchange Board of India (SEBI), it has also been acknowledged as an External Credit Assessment Institution (ECAI) by the Reserve Bank of India (RBI). With an equitable position in the Indian capital market, CARE Ratings Limited provides a wide array of credit rating services that help corporates to raise capital and enable investors to make informed decisions backed by knowledge and assessment provided by the company.

With an established track record of rating companies over almost three decades, we follow a robust and transparent rating process that leverages our domain and analytical expertise backed by the methodologies congruent with the international best practices. CARE Ratings Limited has had a pivotal role to play in developing bank debt and capital market instruments including CPs, corporate bonds and debentures, and structured credit.

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