Nilkamal Limited

September 30, 2019

Ratings

Facilities	**Amount (Rs. crore)**	**Rating**[1]	**Rating Action**
Long term Bank Facilities	283.59	CARE AA; Stable (Double A; Outlook: Stable)	Reaffirmed
Short term Bank Facilities	100.00	CARE A1+ (A One Plus)	Reaffirmed
Total Facilities	**383.59 (Rupees Three Hundred eighty three crore and fifty nine lakhs only)**		
Commercial Paper*	50.00	CARE A1+ (A One Plus)	Reaffirmed
Total	**50.00 (Rupees Fifty 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 and commercial paper of Nilkamal Limited (NKL; CIN No. L25209DN1985PLC000162) continue to derive strength from its strong and leading market position and wide distribution network in domestic molded furniture segment and organized furniture retail. Over the years, NKL has successfully build the strong brand like 'Nilkamal' and '@home' respectively in molded furniture and organized furniture retail segment. Promoters have long standing experience in 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 organized furniture retailing segment.

Ratings continue to derive strength from comfortable overall gearing (as on Mar. 31, 2019) and strong debt coverage indicators. Despite some moderation in operating profit margin (PBILDT margin %) during FY19 owing to inclusion of one time low value orders, the cash flow from operations improved owing to optimization of working capital changes.

These rating strengths are, however, tempered by susceptibility of NKL's profitability margins to volatility in raw material prices, its presence in highly competitive moulded plastics industry and foreign exchange fluctuation risk.

Improvement in operational performance of retail segment business and expansion in margins would be the key rating monitorables. Further, any large sized debt-funded capex, mergers or acquisitions or unrelated diversification adversely impacting the capital structure, or a substantial decline in revenues or profitability margins would be key rating sensitivity.

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 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 (Managing Director). Mr. Hiten Parekh, joint managing director, and the executive directors Mr. Manish V Parekh and Mr.Nayan S. 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 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 91,995 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 (91% of the operating revenue of FY19) followed by lifestyle furniture, furnishing & accessories division (9% of operating revenue of FY19).

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[1]*Complete definition of the ratings assigned are available at www.careratings.com and other CARE publications*

Wide distribution network and strong market position

NKL has an established track record and strong market position, backed by its widespread distribution network and ability to introduce new products periodically (such as mattress, bubble guard, office storage products etc.). The company is focusing extensively on marketing & 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 network of nearly 1000-plus channel partners and over 15,000 dealers pan India.During FY19, NKL has added 18 franchise showrooms, which is in addition to the existing 44 Nilkamal Home Ideas and furniture ideas showrooms. These showrooms showcase all the verticals marketed by the company. NKL also plans to add additional 20 franchise showrooms in FY20. Also, under its moulded plastic business the company has introduced 10 new products, which has helped the company in achieving a top line growth in FY19 in a highly competitive environment.

Stable operational performance

During FY19, NKL reported Total Operating Income (TOI) of Rs.2,382 crore on a consolidated basis, registering a YoY growth of 11.62% on a YoY basis.The growth was on account of new product introduction in FY19 (introduction of office workstations, office furniture, office storage etc. in FY19), addition of franchise stores coupled with execution of one time orders (Rs.100 crore- Electronic Voting Machine (EVM) orders) in FY19.The revenue from plastic segment which contributed about 91% of total revenue in FY19 grew by 9.78% on a YoY basis, led by improved volume. The revenue from lifestyle products which account for the balance showed a decline of 1.81% on a YoY basis in FY19 led by sluggish demand from the segment. However, NKL's PBILDT margin witnessed a decline of 192 bps to 9.91% in FY19. The decline in PBILDT margin in FY19 was led by firming up of the raw material prices with limited scope of passing on the price rise owing to stiff competition coupled with execution of lower margin orders such as EVMs in FY19. During Q1FY20 NKL's TOI declined by 8.3% on a YoY basis led by lower sales of its plastic division, while its PBILDT margin improved to 182 bps to 11.83% in Q1FY20 (on a comparable basis) mainly led by better product mix in Q1FY20.

Comfortable leverage and debt coverage indicators

Gearing as on March 31, 2019 remained negligible with low debt and robust networth. Debt coverage indicators as on March 31, 2019 also remained strong due to steady net cash accrual and are expected to remain robust over the medium term given the moderate capex plan and steady accrual. NKL's Net worth was Rs.947.30 crore as on March 31, 2019 and the gross cash accruals for FY19 was at Rs.178 crores albeit; lower compared to FY18 levels, but continued to remain robust. Overall gearing ratio continued to remain very comfortable and further improved to 0.06x as on March 31, 2019 as against 0.11x as on March 31, 2018. PBILDT interest coverage ratio continued to remain robust; albeit marginal decline at 12.87 xs for FY19 as compared to PBILDT interest coverage ratio of 16.22x for FY18.

Ongoing capex to enhance product diversity

During our last review, NKL had announced capex during FY19-FY21, amounting to Rs.301.85 crore across its various plant location. As against the said expansion the company has incurred a total capex of Rs.111 crore in FY19 primarily towards addition of moulds across its facilities in FY19 and factory building at its Sinhar, Kharadpada and Hosur facilities). Given the relatively moderate size of project to be incurred in FY20-21 (i.e., Rs.193 crore (including maintenance capex of Rs.50 crore per year) accounting for 20% of total tangible net worth as on March 31, 2019, successful execution of similar projects by management in the past and coupled with stable projected Gross Cash Accruals (GCA) of Rs.180 crore to Rs.239 crore per annum in coming years up to FY22 and the project risk remain moderate to low. As on September 24, 2019 the company has incurred about Rs.50 crore towards the said project.

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 PPCP (polypropylene co-polymer)), PPHP (polypropylene homo-polymer)) for glossy finishing in furniture and HDPE (High density polyethylene)and LLDPE (linear low density polyethylene)for more sturdy material handling goods. Hence, margins of NKL continue to remain susceptible to volatility in raw material prices. The prices HDPE and LLDPE which are the main raw materials have largely stable in FY19, despite volatility in crude oil prices. Further, 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.

Working capital intensive nature of 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 like RIL demand upfront payment. Further it has to maintain an inventory of two months. This leads to high working capital requirement. However, led by better inventory and receivable management, NKL's working capital cycle improved to 95 days in FY19 as against 103 days in FY18. NKL funds the working capital requirements using bank lines and CP (carved out of the sanctioned working capital limits). The average utilisation of fund based limits for the last 12 months ended August 2019 was low at 17.19%, while the average non fund based limits for the last 12 months ended August 2019 was at 47%.

Susceptibility to foreign exchange rates fluctuation
NKL is exposed to foreign exchange risk on account of its borrowings and NKL being a net importer 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 ta certain extent, as total exports (standalone) in FY19 were Rs.51.44 crore (Rs.69.48 crore in FY18) as against imports (Standalone) of Rs.363.62 crore in FY19. The company hedges to an extent of 96% of imports. During FY19 NKL had availed an ECB loan from SBI of USD 5 million (Rs.34.59 crore) and ECB loan from DBS of USD 5 million (Rs.35.14 crore) for its capex requirement which is completely hedged.

Stiff competition prevalent 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 economic cycle, plastics business is expected to grow. Changing preferences towards lifestyle and furnishing requirements of consumers paves opportunity for players like NKL. Further, rise in e-commerce provides better prospects for companies offering material handling solutions in warehousing.
Liquidity Strong: NKL's liquidity position remains strong on the back of unencumbered cash and bank balance of Rs.16.65 crore as on March 31, 2019, unutilized bank limits to an extent of 83% (i.e. Rs.145 crore) and with envisaged gross cash accruals of Rs.181 crore in FY20. Against, this NKL has fixed repayment obligations of Rs.7.45 crore for FY20 and internal accruals committed capex of Rs.81 crore for FY20. NKL has sufficient liquidity to cover the repayment and capex obligation in medium term. Further, with low gearing, NKL also has capability to raise the funds / debt to support the operations if needed.

Analytical approach: Consolidated,
CARE 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 and Joint Ventures.
The list of subsidiaries and JV companies are provided below:

Subsidiaries	Country	Shareholding (%)
Nilkamal Eshwaran Plastic Pvt. Ltd.	Sri Lanka	76
Nilkamal Eshwaran Mktg. Pvt. Ltd (Step Down)	Sri Lanka	76
Nilkamal Crates AND Bins-FZE	Ajman-UAE	100
Nilkamal Foundation	India	98
Joint Ventures		
Nilkamal Bito Storage System Private Limited (Nilkamal BITO)	Indo-German*	50
Cambro Nilkamal Private Limited	Indo-US	50

*W.e.f August 22, 2019 has become a wholly owned subsidiary of NKL.

Applicable Criteria
Criteria on assigning Outlook to Credit Ratings
CARE's Policy on Default Recognition
Criteria for Short Term Instruments
Rating Methodology-Manufacturing Companies
Financial ratios - Non-Financial Sector
Rating Methodology: Factoring Linkages in Ratings

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 & 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, Uttar Pradesh, Pondicherry, Maharashtra, Tamil Nadu and Haryana. The total installed capacity of the company was 91,995 MT as on March 31, 2019.

On April 24, 2006, NKL had entered in to 50:50 JV with Bito Lagertechnik Bittmann GmbH and had formed Nilkamal Bito Storage Systems Private Limited (NBSSL); Rated **CARE A; Stable/CARE A1**, which is primarily in to Material Handling Storage System. Further, vide its exchange filing dated July 06, 2019, NKL had made an announcement to acquire its balance stake of 50% in one of its JV, Nilkamal Bito Storage Systems Private Limited for a purchase consideration of Euro 6.5million (~ Rs.51 crore). Subsequently, 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. Consequent to which NBSSL has now become the wholly owned subsidiary of NKL w.e.f August 22, 2019.

Brief Financials (Rs. crore)	FY18 (A)	FY19 (A)	*Q1FY20
Total operating income	2,133.85	2,382.00	538.24
PBILDT	252.26	235.96	63.65
PAT	123.86	117.69	31.05
Overall gearing (times)	0.11	0.06	--
Interest coverage (times)	16.22	12.87	17.11

*A: Audited, *Comparable basis based on adjusted for AS 116*

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

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

Annexure-1: Details of Instruments/Facilities

Name of the Instrument	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based - LT-Cash Credit	-	-	-	175.00	CARE AA; Stable
Non-fund-based - ST-BG/LC	-	-	-	100.00	CARE A1+
Term Loan-Long Term	-	-	Feb 2024*	108.59	CARE AA; Stable
Commercial Paper	-	-	7-365 days	50.00	CARE A1+

*Includes multiple loans with last installment on Feb 2024.

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 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017
1.	Commercial Paper	ST	50.00	CARE A1+	-	1)CARE A1+ (31-Dec-18)	1)CARE A1+ (06-Oct-17)	1)CARE A1+ (15-Sep-16)
2.	Fund-based - LT-Cash Credit	LT	175.00	CARE AA; Stable	-	1)CARE AA; Stable (31-Dec-18)	1)CARE AA; Stable (06-Oct-17)	1)CARE AA (15-Sep-16)
3.	Non-fund-based - ST-BG/LC	ST	100.00	CARE A1+	-	1)CARE A1+ (31-Dec-18)	1)CARE A1+ (06-Oct-17)	1)CARE A1+ (15-Sep-16)
4.	Fund-based - LT-Term Loan	LT	-	-	-	-	1)Withdrawn (06-Oct-17)	1)CARE AA (15-Sep-16)
5.	Fund-based - LT-Term Loan	-	-	-	-	-	-	-
6.	Term Loan-Long Term	LT	108.59	CARE AA; Stable	-	1)CARE AA; Stable (31-Dec-18)	-	-

Note on complexity levels of the rated instrument: *CARE has classified instruments rated by it on the basis of complexity. This classification is available at www.careratings.com. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.*

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