

Nilkamal Limited

October 6, 2017

Ratings

Facilities	Amount (Rs. crore)	Rating ¹	Rating Action
Fund Based-LT-Term Loan	0.00 (25.57)	-	Withdrawal
Fund Based- LT- CC	175 (211.00)	CARE AA; Stable (Double A; Outlook: Stable)	Reaffirmed
Non-Fund Based-ST-LC/BG	100.00 (100.00)	CARE A1+ (A One Plus)	Reaffirmed
Total	275.00 (Rs. Two hundred Seventy Five crore only)		
Commercial Paper (carved out)	50.00 (50.00)	CARE A1+ (A One Plus)	Reaffirmed

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The reaffirmation of the ratings assigned to bank facilities of Nilkamal Limited (NKL) continue to derive strength from well-established market position of NKL in moulded plastic industry, reputed brand in plastic material handling & furniture segment, strong distribution network, healthy capital structure, comfortable debt coverage metrics and steady operational risk profile. The strengths are further underpinned by NKL's experienced promoters, strong management team, long standing operational track record.

These rating strengths are however tempered by susceptibility to volatility of raw material prices, exposure to forex risk, presence of high competition prevalent in moulded plastics industry and lower returns from retails segment i.e. 'lifestyle, furniture' and 'others' division.

Improvement in operational performance of retail segment business and sustained margins would be the key rating monitorable.

Any large debt funded capex/merger/acquisition or unrelated diversification adversely impacting capital structure or 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 into 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).

Reputed brand in plastic material handling and furniture segment: NKL over the years has established as reputed brand in plastic material handling and furniture segment. The company provides a diversified product profile catering to customers across different geographies. The business of Nilkamal can broadly be divided into two segments plastics division and lifestyle furniture, furnishing & accessories division. The major contribution to the revenues of NKL continues to come from the plastics segment (FY17: 90%) followed by retail segment (i.e. lifestyle/furniture/accessories at 10%)

¹Complete definitions of the ratings assigned are available at www.careratings.com and in other CARE publications.

Branding, Marketing and Supply Chain Management (SCM): 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 it in managing the complex supply chain network efficiently.

Steady operational performance: During FY17, NKL reported 5.6% growth in revenue as compared to 3.9% in FY16. PBILDT of the company marginally increased from Rs.230.88 crore in FY16 to Rs.232.29 crore in FY17. However, the company reported decrease in PBILDT margin, from 12.39% in FY16 to 11.80% in FY17, on account of higher additional spend towards the advertisement activity for brand reinforcement. This has also impacted Q1FY18, further June, 2017 also saw an impact on sale volume due to GST being rolled-out with effect from July, 2017. Gross cash accruals increased from Rs. 152.02 crore in FY16 to Rs. 163.83 crore in FY17.

Healthy financials risk profile: NKL's financial risk profile continued to improve in FY17. Interest coverage ratio of the company significantly improved from 11.17 times in FY16 to 16.34 times in FY17 on account of higher PBILDT levels and lower interest cost due to lower debt levels. Overall gearing ratio improved marginally from 0.17 times in FY16 to 0.11 times in FY17 and Total debt to GCA of the company also improved from 0.69 times in FY16 to 0.51 times in FY17, since the company has repaid/prepaid its entire term loans. Going forward any large debt funded capital expenditure would be key rating sensitivity.

Key Rating Weaknesses

Susceptibility to volatility associated with raw material prices: The Company minimizes this risk by managing its inventory based upon its past experience. Also, NKL locally procures raw materials, which are backed by orders; few of the top vendors of NKL include RIL, IOCL, GAIL etc.; thereby mitigating exposure to fluctuation in raw material prices to an extent. The company passes on the variability in the prices of raw materials to its customers. The ability of the company to manage its operating cost and maintain sales realization amidst uncertainty in the raw material prices is a key monitorable.

Susceptibility to foreign exchange rates fluctuation: NKL is exposed to foreign exchange risk as it imports raw materials and also exports small part of the finished products. To mitigate forex risk which largely is on account of imports, and the company enters into forward contracts. In FY17, to hedge against the foreign exchange exposures arising from transactions like import of goods, forward contracts outstanding amounts to USD 0.21 crore compared to USD 0.26 crore in FY16. The company has Nil foreign currency loans in FY17 and has not used interest rate swaps compared to USD 0.46 crore in FY16. Ability of the company to manage forex risk remains a key monitorable.

Analytical approach:

CARE has followed a consolidated approach while arriving at rating linkages between NKL has its subsidiaries which are operating into similar line of businesses.

Applicable Criteria

[Criteria on assigning Outlook to Credit Ratings](#)
[Criteria for Short Term Instruments](#)
[CARE's Policy on Default Recognition](#)
[CARE's methodology for manufacturing companies](#)
[Financial ratios - Non-Financial Sector](#)
[Rating Methodology: Factoring Linkages in Ratings](#)

About the Company

Nilkamal Limited (NKL), promoted by Mr. Vamanrai Parekh and Mr. Sharad Parekh, incorporated in 1985, manufactures and markets injection moulded plastic products across India and abroad. The business of Nilkamal can broadly be divided into two segments - plastics division and lifestyle furniture, furnishing & accessories division. NKL is one of the reputed players in moulded plastic products and material handling segments. The major contribution to the revenues of NKL comes from the plastics segment (90% of the total revenues from Plastics and balance from lifestyle, furniture, furnishing & accessories division in FY17). It has its manufacturing facilities are located in 5 different states West Bengal, Dadra and Nagar Haveli, Uttar Pradesh, Pondicherry and Maharashtra.

Brief Financials (Rs. crore)	FY16 (A)	FY17 (A)
Total operating income	1933.19	2031.31
PBILD	245.44	242.52
PAT	115.87	124.37
Overall gearing (times)	0.17	0.11
Interest coverage (times)	11.82	16.87

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

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

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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****For detailed Rationale Report and subscription information, please contact us at www.careratings.com**

About CARE Ratings:

CARE Ratings commenced operations in April 1993 and over two decades, it has established itself as one of the leading credit rating agencies in India. CARE is registered with the Securities and Exchange Board of India (SEBI) and also recognized as an External Credit Assessment Institution (ECAI) by the Reserve Bank of India (RBI). CARE Ratings is proud of its rightful place in the Indian capital market built around investor confidence. CARE Ratings provides the entire spectrum of credit rating that helps the corporates to raise capital for their various requirements and assists the investors to form an informed investment decision based on the credit risk and their own risk-return expectations. Our rating and grading service offerings leverage our domain and analytical expertise backed by the methodologies congruent with the international best practices.

Disclaimer

CARE's ratings are opinions on credit quality and are not recommendations to sanction, renew, disburse or recall the concerned bank facilities or to buy, sell or hold any security. CARE has based its ratings/outlooks on information obtained from sources believed by it to be accurate and reliable. CARE does not, however, guarantee the accuracy, adequacy or completeness of any information and is not responsible for any errors or omissions or for the results obtained from the use of such information. Most entities whose bank facilities/instruments are rated by CARE have paid a credit rating fee, based on the amount and type of bank facilities/instruments.

In case of partnership/proprietary concerns, the rating /outlook assigned by CARE is based on the capital deployed by the partners/proprietor and the financial strength of the firm at present. The rating/outlook may undergo change in case of withdrawal of capital or the unsecured loans brought in by the partners/proprietor in addition to the financial performance and other relevant factors.

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+
Fund-based - LT-Term Loan	-	-	-	0.00	Withdrawn
Commercial Paper	-	-	-	50.00	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 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016	Date(s) & Rating(s) assigned in 2014-2015
1.	Commercial Paper	ST	50.00	CARE A1+	-	1)CARE A1+ (15-Sep-16)	1)CARE A1+ (15-Jul-15)	1)CARE A1+ (17-Oct-14)
2.	Fund-based - LT-Cash Credit	LT	175.00	CARE AA; Stable	-	1)CARE AA (15-Sep-16)	1)CARE AA- (15-Jul-15)	1)CARE AA- (17-Oct-14)
3.	Non-fund-based - ST-BG/LC	ST	100.00	CARE A1+	-	1)CARE A1+ (15-Sep-16)	1)CARE A1+ (15-Jul-15)	1)CARE A1+ (17-Oct-14)
4.	Fund-based - LT-Term Loan	LT	-	-	-	1)CARE AA (15-Sep-16)	1)CARE AA- (15-Jul-15)	1)CARE AA- (17-Oct-14)
5.	Fund-based - LT-Term Loan	-	-	-	-	-	-	-

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