Nilkamal Limited

October 07, 2020

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) continues to derive strength from its strong and leading market position and wide distribution network in domestic molded furniture segment and organized furniture retail and is one of major player in material handling business. 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. The ratings also continue to factor in the strong financial risk profile marked by low leverage, strong liquidity and strong debt coverage indicators. Despite reporting the weak Q1FY21 results, Cash flow from operations remained robust on back of strong control over its inventory and debtors, as a result liquidity indicator continued to remain strong.

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 remain key rating monitorable. Further, any large sized debt-funded capex, mergers or acquisitions or unrelated diversification adversely impacting the capital structure would be key rating sensitivity.
Operating performance is likely to remain impacted in FY21, as the Covid-19 pandemic is expected to affect overall demand along with economic slowdown. Although the production activities have resumed from June 2020, albeit the pace of capacity utilization is expected to gradually improve going forward. CARE believes that though Operating Income and operating margins are expected to moderate in FY21 due to muted demand, the operating profit margins are expected to remain at healthy levels. Further, with no debt raising plans in near term, both leverage and debt coverage are expected to remain comfortable in medium term.

Rating Sensitivities

Positive Factors

- Sustainable improvement in operating margins above 15% over the medium term
- Sustenance in RoCE above 25% and improvement in interest coverage ratio above 14.00x

Negative Factors

- Decline in PBILDT margin below 5% on sustained basis.
- Any significant increase in working capital requirement or any unforeseen debt funded capex/acquisition leading to sustained and major deterioration in its leverage and debt coverage indicators

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.

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

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 Parekh, managing director, and the executive directors Mr. Manish V Parekh, Mr.Nayan S. Parekh and Mr Mihir 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 (90% of the operating revenue of FY20) followed by lifestyle furniture, furnishing & accessories division (10% of operating revenue of FY20).

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 1100-plus channel partners and over 20,000 dealers pan India. Further NKL's material handling business has strong nationwide presence with strong customer base serving across industries. During FY20, NKL has added 14 franchise showrooms under Plastic Division and 5 stores under its Lifestyle segment. These showrooms showcase all the verticals marketed by the company. NKL also plans to add additional 5-6 franchise showrooms in FY21. Also, under its moulded plastic business the company keeps introduced new products, which helps the company in sustaining top line growth in a highly competitive environment.

Sustained healthy margins despite muted revenue growth

During FY20, NKL reported Total Operating Income (TOI) of Rs.2272.50 crore on a consolidated basis, registering a YoY decline of 4.60%. The decline was on account of plastic business which recorded volume and value de-growth of 11% and 11% respectively impacted by lower demand and COVID 19 lockdown in March 2020. The revenue from plastic segment which contributed about 90% of total revenue in FY20 decline by 5.08% on a YoY basis. The revenue from lifestyle products which account for the balance showed an improvement of 2% on a YoY basis in FY20 led by improved demand. However, NKL's PBILDT margin witnessed sharp improvement of 326bps to 13.17% in FY20. The improvement in PBILDT margin in FY20 was led by drop in average raw material prices. Furthermore, net cashflow from operations improved to Rs 251.95 crore in FY20 as compared to Rs 174.82 crore in previous year. During Q1FY21 owing to CoVID -19 lockdown, TOI declined by 52.95% to 253.25 crore as compared to Q1FY20. Business operations were mostly closed during April and May 2020 and were started from June onwards in phased manner. Consequently, NKL reported operating loss of Rs 8.12 crore in Q1FY21 resulting in negative PBILDT margin at 3.21% due to low volume and realization.

Comfortable leverage and debt coverage indicators

Despite the adoption of IND AS 116 which resulted in higher debt levels in FY20 due to inclusion of leasing liabilities, gearing as on March 31, 2020 remained low at 0.22x supported by robust networth. Further debt coverage indicators as on March 31, 2020 also remained strong due to steady net cash accrual and are expected to remain healthy over the medium term given the moderate capex plan and steady accruals. NKL's Net worth was Rs. 1024.87 crore as on March 31, 2020 and the gross cash accruals for FY20 was at Rs.231.18 crores which improved significantly by 30.55% y-o-y. PBILDT interest coverage ratio continued to remain healthy at 10.37x (12.87x in FY19) despite slight moderation due to IND AS 116 adoption resulting in higher interest and debt levels.

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.244 crore upto FY20 primarily towards addition of moulds across its facilities and factory building at its Sinhar, Kharadpada and Hosur facilities). Given the relatively moderate size of project to be incurred in FY21 (i.e., Rs.50-60 crore accounting for 5-6% of total tangible net worth as on March 31, 2020, successful execution of similar projects by management in the past and coupled with stable projected Gross Cash Accruals (GCA) of Rs.168 crore to Rs.230 crore per annum in coming years up to FY23 and the project risk remain moderate to low.

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. Further it has to maintain an inventory of two months. This leads to high working capital requirement. During FY20 working capital cycle stretched to 106 days as against 95 days in FY19 on account of increase in debtor and inventory levels given the sudden COVID 19 lockdowns in March 2020. Historically, working capital cycle has remained in the range of 95-105 days. Despite stretched working capital during FY20, NKL reported improved net CFO after working capital changes of Rs 251.95 crore in FY20 as against Rs 174.83 crore in FY19 driven by improved PBLIDT levels. Further during Q1FY21, substantial recovery of receivables and reduction in inventory generated positive cashflow of Rs.150 crore (standalone) albeit operating loss.

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 of raw materials had decline in FY20 following the fall in prices of 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.

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 ta certain extent, as total exports (standalone) in FY20 were Rs.47.80 crore (Rs.50.77 crore in FY19) as against imports of Rs.450.84 crore in FY20. 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 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 continues to operates with strong liquidity marked by consistent and healthy cash accrual generation, unutilized working capital limits, and sizable unencumbered liquid investment.

NKL is expected to generate the gross cash accruals in the range of Rs.150-180 crore for FY21 same would be more than sufficient to cover the repayment obligations of Rs.50.89 crore for FY21. Further, the working capital limits of Rs.140 crore had largely remained unutilized for trailing twelve months ended June 2020 providing the liquidity cushion.

Owing to strong control over its receivables and inventory, NKL was able to generate the cash flow from operations of Rs.150 crore during Q1FY21. Same also elevated the unencumbered liquid investment from Rs.40.69 crore (as on Mar.31, 2020) to Rs.140 crore (as on 30th June 2020).

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. The list of subsidiaries are provided below:

Name of Company	Holding/Subsidiary/Associate	% of Holding	Country of Incorporation
Nilkamal Storage Systems Private Ltd* (formerly known as Nilkamal Bito Storage System Pvt Ltd, NBSSL)	Subsidiary	100%	India
Nilkamal Crates and Bins, FZE	Subsidiary	100%	UAE
Nilkamal Foundation	Subsidiary	98%	India
Nilkamal Eshwaran plastics Pvt. Ltd	Subsidiary	96.28%	Sri Lanka
Nilkamal Eshwaran Marketing Pvt. Ltd	Step Down Subsidiary	96.28%	Sri Lanka

*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]
[Financial ratios – Non-Financial Sector]
[Rating Methodology-Manufacturing Companies]
[Criteria for Short Term Instruments]
[Rating Methodology: Factoring Linkages in Ratings]
[Liquidity Analysis of Non-Financial Sector Entities]

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, 2020.
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 NBSSL now known as Nilkamal Storage Systems Pvt Ltd has now become the wholly owned subsidiary of NKL w.e.f August 22, 2019.

Brief Financials (Rs. crore)	FY19 (A)	FY20 (A)	Q1FY21 (UA)
Total operating income	2382.00	2272.50	253.25
PBILDT	235.96	299.24	-8.12
PAT	117.69	142.43	-28.95
Overall gearing (times)	0.06	0.22	NA
Interest coverage (times)	12.87	10.37	-1.31

A: Audited, UA – Unaudited, as published on stock exchanges

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*

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	-	-	February 2024*	108.59	CARE AA; Stable
Commercial Paper-Commercial Paper (Carved out)	-	-	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 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018
1.	Commercial Paper-Commercial Paper (Carved out)	ST	50.00	CARE A1+	-	1)CARE A1+ (30-Sep-19)	1)CARE A1+ (31-Dec-18)	1)CARE A1+ (06-Oct-17)
2.	Fund-based - LT-Cash Credit	LT	175.00	CARE AA; Stable	-	1)CARE AA; Stable (30-Sep-19)	1)CARE AA; Stable (31-Dec-18)	1)CARE AA; Stable (06-Oct-17)
3.	Non-fund-based - ST-BG/LC	ST	100.00	CARE A1+	-	1)CARE A1+ (30-Sep-19)	1)CARE A1+ (31-Dec-18)	1)CARE A1+ (06-Oct-17)
4.	Fund-based - LT-Term Loan	LT	-	-	-	-	-	1)Withdrawn (06-Oct-17)
5.	Term Loan-Long Term	LT	108.59	CARE AA; Stable	-	1)CARE AA; Stable (30-Sep-19)	1)CARE AA; Stable (31-Dec-18)	-

Annexure 3: Detailed explanation of covenants of the rated facilities- Not Applicable

Annexure 4: Complexity level of various instruments rated for this company

Sr. No.	Name of the Instrument	Complexity Level
1.	Commercial Paper-Commercial Paper (Carved out)	Simple
2.	Fund-based - LT-Cash Credit	Simple
3.	Non-fund-based - ST-BG/LC	Simple
4.	Term Loan-Long Term	Simple

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

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About CARE Ratings:
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