Nilkamal Limited

December 31, 2018

Ratings

Facilities	Amount (Rs. crore)	Rating[1]	Rating Action
Long term Bank Facilities	283.59 (enhanced from 175.00)	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 reaffirmation of the ratings assigned to bank facilities of Nilkamal Limited (NKL) continue to derive strength from the company's Well established and experienced promoters, well-established market position of NKL in moulded plastic industry, reputed brand in plastic material handling & furniture segment, and wide distribution network. The ratings also factor in NKL's stable operating performance, its strong financial risk profile and healthy liquidity position, albeith working capital intensive operations.

These rating strengths are, however, tempered by susceptibility of NKL's profitability margins to volatility in raw material prices and forex risk, and stiff competition in the moulded plastics industry.

Improvement in operational performance of retail segment business and sustained 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 across business segments

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 geographies.

The major contribution to the revenues of NKL comes from the plastics division (90% of the operating revenue of FY18) followed by lifestyle furniture, furnishing & accessories division (10% of operating revenue of FY18).

The Plastic segment has shown growth in business due to growth in material handling segment as a result of turnkey solutions provided by NKL in storage and warehousing solutions. This is further aided by the growth in furniture segment due to expansion of its distribution and dealership network and introduction of new products with better aesthetics and

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

space saving attributes. The lifestyle furniture segment has shown a marginal decline due to GST implementation during FY18 which led to decreased demand.

Wide distribution network and strong market position

NKL has an established track record and strong market position in each segment it operates in, backed by its widespread distribution network and ability to introduce new products periodically (such as mattress, bubble guard 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. Strong country-wide presence helps reduce freight cost and lead time for products to reach the customers.

Stable operational performance

During FY18, NKL reported 5.05% growth in total operating income. PBILDT of the company increased from Rs.242.52 crore in FY17 to Rs.252.26 crore in FY18. However, PBILDT margin remained stagnant at 11.82% in FY18. The PAT margin marginally declined to 5.80% in FY18. In H1FY19, NKL reported a growth in total operating income by 20% as compared to H1FY18 on account of 29% growth in sales in the plastics division. However, PBIT margin and PAT margin reduced by 138 bps and 38 bps respectively in H1FY19 as compared to H1FY18.

Strong financial risk profile

NKL's financial risk profile is backed by comfortable net worth, low gearing, and strong debt coverage ratios. Net worth was Rs.854.66 crore as on March 31, 2018 with steady growth in cash accrual during the year. Overall gearing ratio continued to remain low at 0.11x as on March 31, 2018. Further, debt coverage indicators also continued to remain strong in FY18, with interest coverage and total debt to GCA ratios at 16.22 times and 0.52x respectively in FY18.

In H1FY19 NKL announced capex during FY19-FY21, amounting to Rs.301.85 crore for undertaking company-wide maintenance and capacity expansions. The same is expected to be funded by raising debt of Rs.108.59 crore and balance through internal accruals. NKL has incurred Rs.57.68 crore for capex purposes upto September 30, 2018, funded by raising External Commercial Borrowings (ECBs) of Rs.34.59 crore and the balance through internal accruals. NKL's overall gearing ratio increased to 0.21x as on September 30, 2018 while the total debt to GCA increased to 0.65 times in H1FY19 on account of the debt funded capex and increase in the working capital borrowings. Although the increase in the debt resulted in a marginal deterioration in the capital structure and the debt coverage indicators, NKL's financial risk profile continues to remain strong. Going forward any large sized debt-funded capex, mergers or acquisitions or unrelated diversification adversely impacting the capital structure would remain a key monitorable.

Key Rating Weaknesses

Susceptibility of profitability margins to volatility associated with raw material prices

During FY18, polymers have seen huge fluctuation in prices in line with the fluctuation in the crude oil prices. 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 as it imports some portion of raw material and also exports finished goods. NKL uses forward exchange contracts and cross currency interest rate swaps to hedge its foreign exchange risk.

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:

NKL's operations are working capital intensive as NKL has to extend credit period of 45-60 days on an average to its customers; however, all of its raw material vendors demand upfront payment. Further it has to maintain an inventory of two months. This leads to high working capital requirement. NKL working capital cycle stood at 103 days in FY18 as against 96 days in FY17. NKL funds the working capital requirements using bank lines and CP (carved out of the sanctioned working capital limits).

NKL's financial flexibility is marked by liquid investments of Rs.1.91 crore and free cash and bank balance of Rs.20.40 crore as on March 31, 2018. Further, NKL's average working capital utilization was 64% in the 12 months ending October 2018.

Analytical approach:

CARE has followed a consolidated approach while arriving at rating linkages between NKL and its subsidiaries and joint ventures which are operating into similar line of businesses. List of companies that are consolidated to arrive at the ratings are as mentioned below:

a. Nilkamal BITO Storage Systems (P) Ltd.
b. Cambro Nilkamal (P) Ltd.
c. Nilkamal Eswaran Plastics (P) Ltd.
d. Nilkamal Eswaran Marketing (P) Ltd.
e. Nilkamal Crate and Bins FZE
f. Nilkamal Foundation

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.

Brief Financials (Rs. crore)	FY17 (A)	FY18 (A)
Total operating income	2031.31	2133.85
PBILDT	242.52	252.26
PAT	124.35	123.86
Overall gearing (times)	0.11	0.11
Interest coverage (times)	16.87	16.22

A: Audited

Status of non-cooperation with previous CRA: NA
Any other information: NA
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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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	-	-	August 2025	108.59	CARE AA; Stable
Commercial Paper*	-	-	7 days to 1 year	50.00	CARE A1+

**carved out from sanctioned working capital limits*

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 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016
1.	Commercial Paper*	ST	50.00	CARE A1+	-	1)CARE A1+ (06-Oct-17)	1)CARE A1+ (15-Sep-16)	1)CARE A1+ (15-Jul-15)
2.	Fund-based - LT-Cash Credit	LT	175.00	CARE AA; Stable	-	1)CARE AA; Stable (06-Oct-17)	1)CARE AA (15-Sep-16)	1)CARE AA- (15-Jul-15)
3.	Non-fund-based - ST-BG/LC	ST	100.00	CARE A1+	-	1)CARE A1+ (06-Oct-17)	1)CARE A1+ (15-Sep-16)	1)CARE A1+ (15-Jul-15)
4.	Fund-based - LT-Term Loan	LT	-	-	-	1)Withdrawn (06-Oct-17)	1)CARE AA (15-Sep-16)	1)CARE AA- (15-Jul-15)
6.	Term Loan-Long Term	LT	108.59	CARE AA; Stable	-	-	-	-

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CIN - L67190MH1993PLC071691