

Nilkamal

7 April 2014

Reuters: NKML.NS; Bloomberg: NILK IN

We had a meeting recently with the management of Nilkamal, a company listed on the bourses in 1991 and currently operating in three main segments - material handling, moulded furniture (together accounting for 80% of FY13 sales) and furniture retail (12%). We believe all negatives like aggressive capex, moderation in volume and the pressure on margins is factored in its valuation at 6.9x/4.0x FY14E P/E and EV/EBTIDA, respectively. Likely improvement in volumes and margins and free cash flow generation can lead to a re-rating of the stock. Following are the key takeaways:

Significant scope for operating leverage: Nilkamal's consolidated EBITDA margin stands compressed from 11%/12.1% in FY09/FY10 to 8%/8.6% in FY13/9MFY14, respectively, largely on account of the losses incurred by its retail venture @Home, pressure on modular furniture division from unorganised players and muted volume in its key business of material handling following the moderation in industrial activity. @Home has already achieved break-even in 9MFY14. In the long run, each division has the potential to post improvement in margin. EBITDA/PAT, which declined 14.1%/41.2%, respectively, in FY13, posted growth of 22.9%/29.5%, respectively, in 2QFY14 and 11.2%/30.5%, respectively, in 3QFY14.

Material handling segment has the potential to report healthy growth/margin: Nilkamal is the market leader in moulded plastic products and plastic crates. The products offered by its largest division, material handling, are sold (on B2B basis) directly by its more than 350 sales personnel to engineering, automobile, pharmaceutical industries etc. The company enjoys a market share of ~60% in this segment, with the second-largest player being Supreme Industries (SIL). The material handling division's revenue, which posted a 17.7% CAGR over FY11-FY13, is expected to remain flat in FY14E. Prospects for this division could turn brighter with likely revival in the economy (tentatively by FY16), thereby leading to expansion in volume and EBITDA margin.

Value addition to moderate competition in furniture and mattress businesses: The contribution from moulded furniture business declined by 350bps over FY11-FY13, while the profitability reduced on account of increased competition from unorganised players (over 70 players), apart from companies like SIL, Cello etc. Revenue growth moderated to 8.4% over FY11-FY13 and is likely to be at 6.4% in FY14E. Nilkamal, which serves 12,000-15,000 dealers/distributors, has started offering value-added products like polycarbonated chairs etc. The company ventured into mattress business in FY12, which has an asset-light model and enjoys low working capital requirement of ~25 days. With a rising share of premium products, the margin of this division is expected to improve in future.

Limit on @Home's cash burn: Nilkamal's @Home division, which posted FY13 revenue of Rs2,039mn, has a presence across India through 19 large store formats having an average size of 20,000-25,000 sqft. The company invested ~Rs1bn in @Home till now, which contributes negatively to the return ratios and profitability. Nilkamal has decided to go slow in @Home business and we believe it may look at divesting its stake also to focus on its core business.

Likely to turn free cash flow positive: Nilkamal went for aggressive capex of Rs4.6bn over FY07-FY13 and consequently, free cash flow was negative in five out of the past six years. With enough capacity in each division, annual capex is expected to moderate to Rs250mn only and consequently, Nilkamal is likely to generate free cash flow from FY14 onwards and the D/E ratio is also expected to fall significantly from the current level of 0.8x.

NOT RATED

Sector: Plastic

CMP: Rs193

Jignesh Kamani, CFA

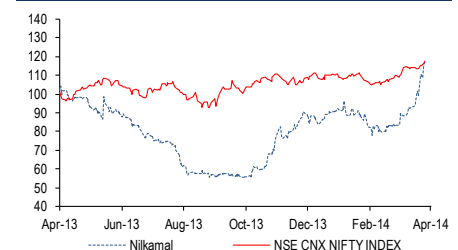
jignesh.kamani@nirmalbang.com

+91-22-3926 8239

Key Data

| | |
|--------------------------|----------|
| Current Shares O/S (mn) | 14.9 |
| Mkt Cap (Rsbn/US\$mn) | 2.9/47.8 |
| 52 Wk H / L (Rs) | 211/95 |
| Daily Vol. (3M NSE Avg.) | 35,409 |

One-Year Indexed Stock Performance



Price Performance (%)

| | 1 M | 6 M | 1 Yr |
|-------------|------|-------|------|
| Nilkamal | 24.5 | 100.3 | 11.8 |
| Nifty Index | 6.3 | 13.3 | 20.1 |

Source: Bloomberg

Exhibit 1: Key financials

| Y/E March (Rsmn) | FY10 | FY11 | FY12 | FY13 | FY14E |
|------------------|--------|--------|--------|--------|--------|
| Revenue | 10,950 | 13,181 | 15,165 | 17,022 | 17,513 |
| YoY (%) | 14.6 | 20.4 | 15.1 | 12.2 | 2.9 |
| EBITDA | 1,320 | 1,363 | 1,603 | 1,373 | 1,494 |
| EBITDA (%) | 12.1 | 10.3 | 10.6 | 8.1 | 8.5 |
| Reported PAT | 515 | 534 | 611 | 371 | 423 |
| Adj. PAT | 528 | 537 | 618 | 389 | 423 |
| FDEPS (Rs) | 41.3 | 36.0 | 41.4 | 26.1 | 27.7 |
| YoY (%) | 375.0 | (12.9) | 15.2 | (37.1) | 6.3 |
| RoE (%) | 22.7 | 17.5 | 16.0 | 9.1 | 9.2 |
| RoCE (%) | 12.4 | 13.1 | 13.6 | 9.4 | 8.6 |
| P/E (x) | 4.7 | 5.3 | 4.6 | 7.4 | 6.9 |
| P/BV (x) | 1.0 | 0.8 | 0.7 | 0.6 | 0.6 |
| EV/EBITDA (x) | 3.9 | 3.8 | 3.7 | 4.6 | 4.0 |

Source: Company, Nirmal Bang Institutional Equities Research

Financials (consolidated)

Exhibit 2: Income statement

| Y/E March (Rsmn) | FY10 | FY11 | FY12 | FY13 | FY14E |
|------------------------|--------|--------|--------|--------|--------|
| Net sales | 10,950 | 13,181 | 15,165 | 17,022 | 17,513 |
| Growth (%) | 14.6 | 20.4 | 15.1 | 12.2 | 2.9 |
| Raw material costs | 6,673 | 8,131 | 9,242 | 10,707 | 10,978 |
| Power & fuel costs | 624 | 818 | 970 | 1,103 | 1,133 |
| Staff costs | 355 | 406 | 443 | 490 | 519 |
| Other costs | 1,979 | 2,463 | 2,907 | 3,349 | 3,389 |
| Total expenditure | 9,630 | 11,818 | 13,562 | 15,649 | 16,019 |
| EBITDA | 1,320 | 1,363 | 1,603 | 1,373 | 1,494 |
| Growth (%) | 25.4 | 3.3 | 17.7 | (14.4) | 8.8 |
| EBITDA margin (%) | 12.1 | 10.3 | 10.6 | 8.1 | 8.5 |
| Other income | 23 | 36 | 16 | 28 | 43 |
| Interest costs | 263 | 310 | 406 | 449 | 396 |
| Gross profit | 1,080 | 1,088 | 1,214 | 951 | 1,141 |
| Growth (%) | 102.3 | 0.8 | 11.5 | (21.6) | 19.9 |
| Depreciation | 351 | 351 | 431 | 476 | 537 |
| Profit before tax | 729 | 737 | 782 | 476 | 604 |
| Growth (%) | 293.7 | 1.1 | 6.1 | (39.2) | 27.0 |
| Tax | 209 | 197 | 163 | 97 | 173 |
| Effective tax rate (%) | 28.6 | 26.7 | 20.9 | 20.4 | 28.7 |
| Net profit | 521 | 541 | 619 | 379 | 431 |
| Growth (%) | 371.6 | 3.9 | 14.5 | (38.8) | 13.7 |
| Minority Interest | 6 | 7 | 8 | 7 | 7 |
| Extraordinary items | (13) | (3) | (7) | (18) | - |
| Adjusted PAT | 528 | 537 | 618 | 389 | 423 |
| Growth (%) | 375.0 | 1.7 | 15.2 | (37.1) | 8.8 |

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 4: Balance sheet

| Y/E March (Rsmn) | FY10 | FY11 | FY12 | FY13 | FY14E |
|---------------------------|--------------|--------------|--------------|--------------|--------------|
| Equity | 128 | 149 | 149 | 149 | 149 |
| Reserves | 2,408 | 3,445 | 3,992 | 4,300 | 4,653 |
| Net worth | 2,536 | 3,595 | 4,141 | 4,449 | 4,803 |
| Minority interest | 29 | 34 | 40 | 47 | 54 |
| Short-term loans | 2,876 | 1,955 | 2,214 | 2,537 | 2,337 |
| Long-term loans | - | 708 | 1,114 | 1,132 | 1,132 |
| Total loans | 2,876 | 2,663 | 3,328 | 3,669 | 3,469 |
| Deferred tax liability | 146 | 167 | 192 | 227 | 250 |
| Liabilities | 5,587 | 6,457 | 7,701 | 8,392 | 8,576 |
| Gross block | 4,869 | 5,633 | 6,743 | 7,350 | 7,992 |
| Depreciation | 2,529 | 2,849 | 3,254 | 3,698 | 4,235 |
| Net block | 2,340 | 2,784 | 3,489 | 3,652 | 3,757 |
| Capital work-in-progress | 87 | 383 | 88 | 42 | 43 |
| Long-term Investments | 41 | 16 | - | - | - |
| Inventories | 1,679 | 2,370 | 2,889 | 3,262 | 3,314 |
| Debtors | 1,429 | 1,559 | 2,117 | 2,467 | 2,380 |
| Cash | 170 | 290 | 229 | 274 | 342 |
| Other current assets | 1,136 | 844 | 1,017 | 1,030 | 1,109 |
| Total current assets | 4,414 | 5,063 | 6,252 | 7,032 | 7,146 |
| Creditors | 1,137 | 715 | 912 | 1,017 | 1,096 |
| Other current liabilities | 158 | 1,073 | 1,217 | 1,317 | 1,273 |
| Total current liabilities | 1,295 | 1,788 | 2,129 | 2,334 | 2,370 |
| Net current assets | 3,119 | 3,275 | 4,124 | 4,698 | 4,776 |
| Total assets | 5,587 | 6,457 | 7,701 | 8,392 | 8,576 |

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 3: Cash flow

| Y/E March (Rsmn) | FY10 | FY11 | FY12 | FY13 | FY14E |
|---------------------------------------|--------------|--------------|--------------|--------------|------------|
| EBIT | 969 | 1,011 | 1,172 | 897 | 957 |
| (Inc./dec. in working capital | 467 | (36) | (909) | (530) | (9) |
| Cash flow from operations | 1,435 | 975 | 263 | 368 | 947 |
| Other income | 23 | 36 | 16 | 28 | 43 |
| Depreciation | 351 | 351 | 431 | 476 | 537 |
| Deferred liabilities | (2) | 21 | 25 | 36 | 23 |
| Interest paid (-) | (263) | (310) | (406) | (449) | (396) |
| Tax paid (-) | (209) | (197) | (163) | (97) | (173) |
| Dividend paid (-) | (75) | (69) | (69) | (70) | (70) |
| Minority interest (P&L) | (6) | (7) | (8) | (7) | (7) |
| Net cash from operations | 1,256 | 800 | 89 | 283 | 904 |
| Capital expenditure (-) | (208) | (1,091) | (842) | (593) | (643) |
| Net cash after capex | 1,048 | (290) | (753) | (310) | 261 |
| Inc./(dec.) in short-term borrowing | 172 | (922) | 259 | 323 | (200) |
| Inc./(dec.) in long-term borrowing | (1,152) | 708 | 406 | 19 | - |
| Inc./(dec.) in preference capital | - | - | - | - | - |
| Inc./(dec.) in borrowings | (980) | (213) | 665 | 342 | (200) |
| (Inc./dec.) in investments | (41) | 25 | 16 | - | - |
| Equity issue/(buyback) | 2 | 4 | 6 | 7 | 7 |
| Cash from financial activities | (10) | 25 | 5 | 2 | - |
| Extraordinary Items | (1,029) | (159) | 693 | 350 | (193) |
| Others | 0 | 569 | 0 | 4 | 0 |
| Opening cash | 150 | 170 | 290 | 229 | 274 |
| Closing cash | 170 | 290 | 229 | 274 | 342 |
| Change in cash | 20 | 120 | (61) | 45 | 68 |

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 5: Key ratios

| Y/E March | FY10 | FY11 | FY12 | FY13 | FY14E |
|-------------------------------|-------|------|------|--------|-------|
| Per share (Rs) | | | | | |
| EPS | 41.3 | 36.0 | 41.4 | 26.1 | 27.7 |
| Book value | 198 | 241 | 278 | 298 | 322 |
| Valuation (x) | | | | | |
| P/E | 4.7 | 5.3 | 4.6 | 7.4 | 6.9 |
| P/sales | 0.2 | 0.2 | 0.2 | 0.2 | 0.2 |
| P/BV | 1.0 | 0.8 | 0.7 | 0.6 | 0.6 |
| EV/EBITDA | 3.9 | 3.8 | 3.7 | 4.6 | 4.0 |
| EV/sales | 0.5 | 0.4 | 0.4 | 0.4 | 0.3 |
| Return ratios (%) | | | | | |
| RoIC | 11.9 | 12.5 | 13.2 | 8.9 | 8.1 |
| RoCE | 12.4 | 13.1 | 13.6 | 9.4 | 8.6 |
| RoE | 22.7 | 17.5 | 16.0 | 9.1 | 9.2 |
| Margins (%) | | | | | |
| EBITDA margin | 12.1 | 10.3 | 10.6 | 8.1 | 8.5 |
| PBIT margin | 8.8 | 7.7 | 7.7 | 5.3 | 5.5 |
| PBT margin | 6.7 | 5.6 | 5.2 | 2.8 | 3.4 |
| PAT margin | 4.8 | 4.1 | 4.1 | 2.3 | 2.4 |
| Turnover ratio | | | | | |
| Asset turnover ratio (x) | 2.0 | 2.0 | 2.0 | 2.0 | 2.0 |
| Avg. inventory period (days) | 63 | 72 | 77 | 75 | 75 |
| Avg. collection period (days) | 47 | 43 | 50 | 52 | 48 |
| Avg. payment period (days) | 42 | 22 | 24 | 23 | 33 |
| Solvency ratios (x) | | | | | |
| Debt-equity | 1.1 | 0.7 | 0.8 | 0.8 | 0.7 |
| Interest coverage | 3.7 | 3.3 | 2.9 | 2.0 | 2.4 |
| Debt/EBITDA | 3.7 | 3.3 | 2.9 | 2.0 | 2.4 |
| Growth (%) | | | | | |
| Sales | 14.6 | 20.4 | 15.1 | 12.2 | 2.9 |
| EBITDA | 25.4 | 3.3 | 17.7 | (14.4) | 8.8 |
| PAT | 375.0 | 1.7 | 15.2 | (37.1) | 8.8 |

Source: Company, Nirmal Bang Institutional Equities Research

Disclaimer

Stock Ratings Absolute Returns

BUY > 15%

HOLD 0-15%

SELL < 0%

This report is published by Nirmal Bang's Institutional Equities Research desk. Nirmal Bang has other business units with independent research teams separated by Chinese walls, and therefore may, at times, have different or contrary views on stocks and markets. This report is for the personal information of the authorised recipient and is not for public distribution. This should not be reproduced or redistributed to any other person or in any form. This report is for the general information for the clients of Nirmal Bang Equities Pvt. Ltd., a division of Nirmal Bang, and should not be construed as an offer or solicitation of an offer to buy/sell any securities.

We have exercised due diligence in checking the correctness and authenticity of the information contained herein, so far as it relates to current and historical information, but do not guarantee its accuracy or completeness. The opinions expressed are our current opinions as of the date appearing in the material and may be subject to change from time to time without notice.

Nirmal Bang or any persons connected with it do not accept any liability arising from the use of this document or the information contained therein. The recipients of this material should rely on their own judgment and take their own professional advice before acting on this information. Nirmal Bang or any of its connected persons including its directors or subsidiaries or associates or employees or agents shall not be in any way responsible for any loss or damage that may arise to any person/s from any inadvertent error in the information contained, views and opinions expressed in this publication.

['Access our reports on Bloomberg Type NBIE <GO>'](#)

| Team Details: | | | |
|-----------------|------------------|--------------------------------|---|
| Name | | Email Id | Direct Line |
| Rahul Arora | CEO | rahul.arora@nirmalbang.com | - |
| Hemindra Hazari | Head of Research | hemindra.hazari@nirmalbang.com | +91 22 3926 8017 / 18 |
| Dealing | | | |
| Ravi Jagtiani | Dealing Desk | ravi.jagtiani@nirmalbang.com | +91 22 3926 8230, +91 22 6636 8833 |
| Pradeep Kasat | Dealing Desk | pradeep.kasat@nirmalbang.com | +91 22 3926 8100/8101, +91 22 6636 8831 |
| Michael Pillai | Dealing Desk | michael.pillai@nirmalbang.com | +91 22 3926 8102/8103, +91 22 6636 8830 |
| Umesh Bharadia | Dealing Desk | umesh.bharadia@nirmalbang.com | +91-22-39268226 |

Nirmal Bang Equities Pvt. Ltd.

Correspondence Address

B-2, 301/302, Marathon Innova,
 Nr. Peninsula Corporate Park
 Lower Parel (W), Mumbai-400013.
 Board No. : 91 22 3926 8000/1
 Fax. : 022 3926 8010