

Nilkamal

Rs 1250
From plastic products to complete furniture manufacturer

Sensex: 37,389

Nifty: 11,050

FINANCIALS SUMMARY

	SALES	OPM (%)	OP	OTHER INC.	PBIDT	INT	PBDT	DEP.	PBT	TOTAL TAX	PAT	SHARE OF PROFIT OF JV	MI	NET PROFIT	EPS (Rs)*
1903 (12)	2362.36	9	213.4	12.99	226.39	15.84	210.55	51.66	158.89	48.26	110.64	7.06	0.36	117.34	74.2
2003 (12)	2257.19	12.5	281.19	14.42	295.61	26.1	269.51	94.21	175.3	39.15	136.15	6.28	0.34	142.09	95.5
2103 (12P)	2058.09	10	206.77	15.71	222.49	28.39	194.1	105.22	88.88	22.66	66.21	3.47	0	69.68	46.7
2203 (12P)	2469.7	12.5	308.71	17.75	326.47	32.36	294.1	113.64	180.46	46.02	134.45	6	0	140.45	94.1

* Annualized On current Equity Of Rs 14.921 Crore of face value of Rs 1 each
(P): Projections. Figures in crore, Source: Capitaline Database

Nilkamal, promoted by Mr. Vamanrai Parekh and Mr. Sharad Parekh, was incorporated in 1985. The company 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. Nilkamal is one of the major players in moulded plastic products and material handling segments. The company's plants are located at Barjora (West Bengal), Bhiwandi and Sinnar (Maharashtra), Dharuhera (Haryana), Hosur (Tamilnadu), Jammu (Jammu and Kashmir), Kharadpada and Vasona (Union Territory of Dadra and Nagar Haveli), Noida (Uttar Pradesh) and Puducherry (Puducherry).

Brand Nilkamal has created waves not only in India, but also in the International Markets. From developed and sophisticated markets of North America and Australia, to developing markets in Africa, South America and GCC, Nilkamal products are available in as many as 30 countries. The brand has been recognised by the Government of India as well for its export business.

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).

From Plastic products to Complete Furniture Solution Provider

Nilkamal furniture business has transformed from plastic furniture to complete furniture solution provider for home furniture, office furniture, education furniture, health care furniture and CSR furniture in various materials and upholstered products. Furniture business have four major verticals – Moulded furniture, Ready furniture, Mattress and KAT (Key Account Team- B2B Sales).

The Ready Furniture business is serviced through 3 broad channels, namely, Exclusive Brand Outlets (EBO), Trade and Large Furniture Outlet (LFO) and E-commerce. Ecommerce sale of Ready furniture grew by more than 200%. EBO channel added 14



STOCK DATA

BSE Code	:	523385
BSE Group	:	A
NSE Code	:	NILKAMAL
Bloomberg	:	NILK.IN
Reuters	:	NKML.BO
Par Value	:	Rs 10
52-week High/Low	:	Rs 1544 / Rs 911
Sector	:	Plastic products

SHAREHOLDING PATTERN *

Category	% of equity
Foreign	: 3.04
Institutions	: 16.75
Govt Holding	: 0.00
Corporate Holding	: 1.71
Promoters	: 64.33
Public & Others	: 14.18

* as on 30/06/2020
Source: Capitaline Databases

stores last year taking the total count of stores to 44. Most of the new stores are franchisee owned. The company added more than Fifty thousand sq.ft. of retail space in FY20. In order to improve trade and LFO business, the company had invested in local sofa manufacturers to ensure localization of design and reduction in cost. The liquidity crunch in the market is expected to make many small businesses unviable. This will give the EBO's a great opportunity to capture market share. The company will support the EBO business with proper advertising inputs to drive business in the immediate catchment. For the FY 2020 - 2021 the company is planning to add 25 additional Franchisee outlets which will add an additional 50000 – 75000 sq.ft. retail foot print in the market.

Targeting manufacturing of all kinds of furniture under one roof

Nilkamal already has world class infrastructure and quality testing facilities for moulded furniture which has helped company to retain the market leader position year after year. The company is now in process of creating world class -state of the art infrastructure for Steel furniture, Wooden modular furniture and Mattress manufacturing. The company strongly believe that these are the new areas for growth to support Country's growing Retail, Housing, Education, Healthcare and Commercial Infrastructure. The company clearly see a gap in the market for National brand for various type of Furniture and the company already enjoys high Brand Recall, Trust of customers and Large Distribution Network which will give it leverage to build the various verticals for supply of Quality Products to the customer at best prices. It is in the process of creating a company which is unique and have all kind of Furniture Manufacturing capabilities under one roof.

Wide distribution network

Nilkamal 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.

Brand @Home aggressively going digital

The Lifestyle Furniture, Furnishing and Accessories Division (@home) registered a revenue of Rs 215 crore in FY20 against Rs 210 Cr in FY19. The marginal growth came in the background of a very tough market condition where the overall economy saw a consistent decline quarter on quarter. At the end of the Financial year, @home had 26 stores across India with a total retail space of 3.25 lac sq.ft. The business consciously focused on adding Franchisee stores (FOFO) in FY20. 6 new FOFO stores were added in the year taking the total count to 8. The brand ventured into 4 new markets, namely, Lucknow, Madurai, Salem and Hassan in FY 2019 - 2020. The initial response from all these markets have been very positive for the brand. The balance 18 stores are owned and operated by the company.

Nilkamal furniture business has transformed from plastic furniture to complete furniture solution provider for home furniture, office furniture, education furniture, health care furniture and CSR furniture in various materials and upholstered products

The Ready Furniture business is serviced through 3 broad channels, namely, Exclusive Brand Outlets (EBO), Trade and Large Furniture Outlet (LFO) and E-commerce

@home has invested significantly in the online space with specific new product development for the online channel, presence in all significant market places, an aggressive pricing strategy based on market mapping and a well targeted marketing campaign round the year to attract the online buyers and ensure a great buying experience. @home achieved 67% growth in the e-commerce business with Rs 42 crore revenue in FY 2019 - 2020.

Overall, the marketing mix for the brand has shifted towards creating a strong digital footprint to ensure the brand is discovered by potential consumers during their online research. The Pandemic has forced both consumers and businesses to think differently. Work from Home will be the new norm for the foreseeable future. This changing world order is surely going to change the way consumers shop and also the kind of products they will need in the coming year. In view of the current scenario and fast changing retail environment, the business will focus on strengthening its e - commerce presence with better supply chain measures to ensure a quicker turnaround time, introduction of more futuristic technology to give consumers a unique buying experience and new product development in line with changing consumer preferences. The Company will be investing on product categories like utility, storage, organizers, kitchen utility and home office range in FY21. The Company will also focus on indigenisation of panel board assortment to go lean on inventory and reduce procurement time. Consumers are expected to defer discretionary purchases and hence the Company plans to increase the entry price point products to ensure large scale affordability for consumers.

Loss in Q1FY21 but expects normalcy in business from Q3FY21

Nilkamal net sales fell 53% to Rs 251.34 crore for quarter ended June'20 compared to corresponding previous year period. Operating margins of the company were negative at 4% compared to 13.2% in Q1FY20 resulting loss at operating level to Rs 10.03 crore compared to profit of Rs 70.854 crore. Other income rose 9% to Rs 1.91 crore. Interest cost was up 5% to Rs 6.18 crore. Depreciation rose 11% to Rs 23.47 crore. PBT reported loss of Rs 37.77 crore. Net profit reported loss of Rs 28.95 crore compared to profit of Rs 31.07 crore.

The slowdown in economic activity in view of the unprecedented lockdown to arrest the spread of COVID-19 pandemic impacted the business severely during the first two months of Q1FY21. The combined sales for the month of April & May, 20 was 25% which increased to 75% in month of June.

The sales of the Company's plastic business stood at Rs 198.67 crore whereas the retail business '@home' stood at Rs15.39 Crore against Rs 449.58 crore and Rs 51.95 crore respectively. Further the mattress business achieved sales of Rs 8.05 crore as against Rs 17.59 crore. While the sales of Bubbleguard business dropped to Rs 0.98 Crore vis-a-vis Rs 4.33 crore.

The business operations of the Subsidiary & Joint venture companies were also impacted to a great extent, however, the business of the said Joint Venture and Subsidiary Companies is negligible as compared to the standalone business of the company. Nilkamal Storage Systems Private (formerly known as Nilkamal Bito Storage Systems Private)- the company's wholly owned Indian subsidiary recorded turnover of Rs 21.63 crore for Q1FY21 vis-a-vis Rs 52.84 crore for

Nilkamal already has world class infrastructure and quality testing facilities for moulded furniture which has helped company to retain the market leader position year after year

The sales for the month of July and August, 2020 stood at almost 85% as compared to the corresponding period of the previous year. The company anticipates a 100% normalcy in its business from Q3FY21 onwards

Q1FY20. The company's subsidiary company at Sri Lanka and Ajman, UAE showed a subdued performance. Further Cambro Nilkamal Private Limited- the Company's US Joint Venture has recorded a turnover of Rs 2.97 crore during Q1FY21 vis-a-vis Rs 13.98 for Q1FY20.

For year ended Mar'20, net sales fell 4% to Rs 2257.19 crore compared to corresponding previous year period. Operating margins of the company rose 350 bps to 12.5% leading a 32% increase in operating profit to Rs 281.19 crore. Other income rose 11% to Rs 14.42 crore. Interest cost was up 65% to Rs 26.1. Depreciation rose 82% to Rs 94.21 crore. PBT as a result rose 10% to Rs 175.3 crore. Tax expense was down 19% to Rs 39.15 crore. Net profit rose 21% to Rs 142.08 crore.

The capex spend for Q1FY21 stood at Rs 3.58 crore, whereas the company estimates a total capital expenditure of approx. Rs 100 crore during FY20-21. The said expenditure will be towards increase in manufacturing capacity of Racking & Storage, MDF and Plastic business.

Outlook

The sales for the month of July and August, 2020 stood at almost 85% as compared to the corresponding period of the previous year. The company anticipates a 100% normalcy in its business from Q3FY21 onwards.

The company foresees huge activity in the following sectors.

Ecommerce: The company has been supplying crates, pallets, racks and material handling equipment to many ecommerce players for their fulfilment centres. The next challenge faced by them will be to manage the increasing throughputs efficiently by automation. Automation needs high precision racking products which Nilkamal has geared up for. It has also developed smart boxes which can be used in return logistics, for transport of food, rations and other supplies.

Pharmaceuticals: As this sector is increasingly moving towards using plastic pallets, Nilkamal has developed special hygiene pallets and export pallets. It also supplies racking solutions and material handling equipment compliant with GMP requirements.

Food processing, Dairy and FMCG: Nilkamal already supplies a whole range of crates, containers and pallets for these sectors. Now it has taken a step ahead by adding smart technology RFID tags for quick identifying and sorting of perishable essentials, saving huge costs and time for its customers.

Fruits & Vegetables, Fisheries: Nilkamal has a huge range of products for these sectors. Its range of crates, pallets, racking solutions and equipment are there to help with transportation, storage in cold stores and exports of these perishables.

Healthcare: Nilkamal vaccine carriers and cold boxes are ready to deliver the COVID vaccine once it is developed, all across the country, through the Ministry of Health and local health bodies.

Sanitation & Hygiene: With sanitisation and hygiene the key words now on, the company has added to its range of waste collection and disposal bins, hand wash sinks and industrial cleaning equipment. FSSAI standards are going to be enforced more strictly and the company is ready to meet the market demands of clean storage of perishables with a range of products for hygienic food transport and service.

The company has been supplying crates, pallets, racks and material handling equipment to many ecommerce players for their fulfilment centres

Nilkamal has developed special hygiene pallets and export pallets. It also supplies racking solutions and material handling equipment compliant with GMP requirements

Will benefit from government's emphasis on Atmanirbhar Bharat

Under government's Atmanirbhar Bharat plans, imports of furniture is likely to require licences soon, a measure the government hopes will reduce imports and encourage domestic production

To boost manufacturing of the furniture in India, no import duty on raw materials like wood logs, saw wood, etc has been suggested. In the long term, the suggestion is to make the furniture sector organised with its ancillary units. The plan is also to make India a global furniture hub by bringing in plug and play infrastructure around the ports.

All these will be big positive for Nilkamal in the long run.

Valuation

In FY 2021 we expect the company to register consolidated sales and net profit of Rs 2058.09 crore and Rs 69.68 crore respectively. The sales and net profit are expected to increase to Rs 2469.7 crore and Rs 140.45 crore in FY2022. EPS works out to Rs 94.1 for FY2022. The scrip trades at Rs 1250. P/E on FY 2022 projected consolidated EPS works out to around 13 times.

Under government's Atmanirbhar Bharat plans, imports of furniture is likely to require licences soon, a measure the government hopes will reduce imports and encourage domestic production

NILKAMAL: SEGMENT RESULTS								
SEGMENTS	2006 (3)	1906 (3)	VAR. (%)	% TO TOTAL	2003 (12)	1903 (12)	VAR. (%)	% TO TOTAL
Sales								
Plastics	236.79	485.54	-51	94	2046.21	2155.50	-5	90
Lifestyle Furniture, Furnishings and Accessories	15.39	51.95	-70	6	215.11	210.89	2	10
TOTAL	252.18	537.49	-53	100	2261.32	2366.39		100
Less: Intersegment Revenues	0.84	1.01			4.13	4.03		
Revenue from Operatons	251.34	536.48			2257.19	2362.36		
PBIT								
Plastics	-22.28	52.55	PL	71	208.13	176.44	18	101
Lifestyle Furniture, Furnishings and Accessories	-8.97	0.30	PL	29	-1.52	1.26	PL	-1
TOTAL	-31.25	52.86	PL	100	206.60	177.70	16	100
Less: Interest	6.18	5.91			26.10	15.84		
Less:Net Unallocable expenditure	0.35	1.48			5.20	2.97		
Less: EO item	0.00	0.00			0.00	0.00		
PBT	-37.77	45.47			175.30	158.89		
PL: Profit to Loss, LP: Loss to profit. Figures in Rs crore								
Source: Capitaline Databases								