

December 01, 2011

BUY

MEDIUM RISK

PRICE Rs.237

TARGET Rs.400

PLASTICS

EARLIER RECO

Buy	
Price	Rs.257
Target	Rs.480
Date	Aug 12, 2011

SHARE HOLDING (%)

Promoters	61.03
FII	2.94
FI/MF	17.63
Body Corporates	4.26
Public & Others	14.14

STOCK DATA

Reuters Code	NKML.BO	
Bloomberg Code	NILK@IN	
BSE Code	523385	
NSE Symbol	NILKAMAL	
Market Capitalization*	Rs. 3536 mn US\$ 68 mn	
Shares Outstanding*	14.92 mn	
52 Weeks (H/L)	Rs.369 / 212	
Avg. Daily Volume (6m)	3606 Shares	
Price Performance (%)		
1M	3M	6M
(8)	(3)	(17)

200 Days EMA: Rs.276

*On fully diluted equity shares

 Part of  Bonanza


ANALYST

 Bhavika Shah | +91 22 4093 5054
bhavika.shah@sushilfinance.com

SALES:

 Devang Shah | +91 22 4093 6060/61
devang.shah@sushilfinance.com

Nilkamal Ltd. is one of the leading company manufacturing injection moulded plastic products like furniture, plastic crates-used for material handling, storage & distribution and custom mouldings. Additionally, the company has made a successful foray into the lifestyle furniture retailing business through “@home”, a home solution store. **We recently had a telecon with the Management of the Company to discuss its financial performance during Q2FY12 and outlook for ensuing period. The key takeaways of the Telecon are hereunder:**

- Nilkamal Ltd. has delivered decent set of numbers for the quarter ended 30th Sep, 2011 (Q2FY12). It has posted net sales (on a standalone basis) of Rs.3522.1 mn, registering a growth of 10.6% YoY. Its EBITDA grew by 11.3% YoY to Rs. 406 mn and EBITDA margins were almost flattish at 11.5%. Its RPAT fell marginally by 3.8% to Rs. 154.2 mn mainly on account of foreign exchange loss of Rs. 17.9 mn. Its AEPS for Q2FY12 stood at Rs. 11.53.
- During H1FY12, Nilkamal’s net sales (on a standalone basis) increased by 11.5% to Rs. 6735.3 mn. Its EBIDTA increased by 9% at Rs. 745.6 mn, while the EBIDTA margins decreased by 26 bps to 11.07%. Its APAT stood flattish at Rs. 294.5 mn. It’s RPAT decreased marginally by 5.3% to Rs. 276.6 mn. Its AEPS for H1FY12 stood at Rs.19.7. The company has incurred a CAPEX of approximately Rs. 400 mn in H1FY12.
- Its EBIDTA margins during Q2FY12 would have been higher but for a 17.5% YoY rise in other expenditure. The increase in other expenditure was contributed by items like high advertising & marketing costs, high initial new @Home stores opening expenses (at Kochi & Pune), increased carriage outward charges, etc. Moreover, its Raw material cost might get impacted in the H2FY12 due to the sharp 15% depreciation in the rupee against the US Dollar, to the extent company is unable to pass on the cost increases over the coming months. Another reason for flattish APAT was the rise in interest & depreciation cost as a result of increase in cost of funds and capital expenditure incurred during the previous financial year (FY11).
- During the quarter, the net sales in plastic business increased by 10% YoY to Rs. 2992 mn and the EBIT margins in plastic business continued reflecting the path of recovery by achieving a margin of 12.36% in Q2FY12 as compared to 12.24% Q1FY12. However this was achieved with the help of the volume and the value growth of 2% and 10% respectively. The retail segment (@ Home) Revenues during the quarter increased by 14% YoY to Rs. 536.4 mn and posted an EBIT of Rs. 12.8 mn.
- Nilkamal has started its mattresses business in the western and southern part of India and has received a good response from the market. The Company has launched for the first time in India, a new Dual surface mattress i.e. Firm and soft on the same side of the mattress. Further, the Company is gearing up to start the manufacturing of mattresses by the end of Q3FY12.

OUTLOOK & VALUATION

Nilkamal, with its strong market presence and brand value, continues to dominate the industry in its plastic business. Going forward, we expect new product launches, rise in volumes of value added products and capacity expansion to drive its Revenues.

After considering its performance in H1FY12 and the possible impact of the sharp rupee depreciation on the volumes & margins of the company, we have reduced our estimates of FY12 and FY13. We now expect its FY12 & FY13 revenues to grow 12.2% & 15.6% and its FY12 APAT to be flattish and thereafter grow by 10.8% in FY13. At the CMP of Rs.237, the stock is available at an attractive valuation of 5.9x its FY13E earnings of Rs.40. We maintain our “BUY” Rating on the stock with a reduced Target price of Rs.400 (10x its FY13E earnings of Rs. 40).

KEY FINANCIALS (Consolidated)

Y/E Mar.	Revenue (Rs mn)	APAT (Rs mn)	APAT (%Ch.)	AEPS (Rs.)	P/E (x)	ROCE (%)	ROE (%)	P/BV (x)
FY10	10950.0	515.0	382.4	40.3	5.9	12.4	20.5	1.2
FY11	13177.9	534.1	3.7	35.8	6.6	12.2	15.0	1.0
FY12E	14791.6	537.9	0.7	36.0	6.6	11.9	13.5	0.9
FY13E	17105.0	596.3	10.9	40.0	5.9	12.3	13.4	0.8

QUARTERLY STATEMENT (Standalone)

Rs.mn

Y/E March	Q2FY11	Q2FY12	H1FY11	H1FY12
Net sales	3047.5	3522.1	6039.3	6735.3
Growth %	22.4	10.0	26.8	11.5
Total Expense	2751.1	3116.3	5354.9	5989.6
EBITDA	296.4	405.9	684.5	745.6
Growth %	(14.9)	11.3	10.4	8.9
Margin %	9.7	11.5	11.3	11.1
Interest	68.3	88.5	121.6	173.1
Depreciation	84.3	99.5	158.2	192.2
Other Income	6.1	0.0	0.0	3.1
PBT	149.8	217.9	404.7	383.4
Margin %	4.9	6.2	6.7	5.7
Tax	34.1	45.8	112.6	88.9
Rate %	22.8	21.0	27.8	23.2
APAT	115.7	172.1	292.2	294.5
Margin %	3.8	4.9	4.8	4.4
Extraordinary items	0.0	17.9	0.0	17.9
RPAT	115.7	154.2	292.2	276.6
Margin %	3.8	4.4	4.8	4.1

PROFIT & LOSS STATEMENT (Consolidated)

Rs.mn

Y/E March	FY10	FY11	FY12E	FY13E
Net sales	10950.0	13177.9	14791.6	17105.0
Raw Material	6659.5	8131.0	8875.0	10314.3
Employee Cost	627.0	818.2	981.9	1129.2
Other Expenses	2354.6	2870.3	3386.9	3895.0
EBITDA	1308.9	1358.4	1547.8	1766.5
Interest	262.6	274.7	379.7	436.6
Depreciation	350.9	351.1	421.3	473.9
Other Income	33.8	4.6	5.0	7.0
PBT	729.2	737.2	751.9	863.0
Tax	208.7	196.6	206.8	258.9
APAT	520.6	540.7	545.2	604.1
Minority Interest	(5.6)	(6.6)	(7.3)	(7.8)
CONAPAT	515.0	534.1	537.9	596.3
Extraordinary items	0.0	0.0	0.0	0.0
RPAT	515.0	534.1	537.9	596.3

BALANCE SHEET STATEMENT (Consolidated)

Rs.mn

As on 31 st March	FY10	FY11	FY12E	FY13E
Equity Share Capital	127.8	149.2	149.2	149.2
Reserves and Surplus	2407.8	3445.3	3875.4	4342.6
Net worth	2535.6	3594.5	4024.7	4491.8
Minority Interest	29.2	33.6	36.9	40.6
Secured Loans	2876.2	2888.6	3033.0	3108.8
Unsecured Loans	0.0	165.0	0.0	0.0
Capital Employed	5441.1	6681.6	7094.6	7641.2
Net Block	2339.9	2771.0	2899.7	2925.8
Cap. WIP	86.9	443.4	20.0	50.0
Investments	41.1	16.1	16.1	16.1
Inventories	1679.3	2372.1	2662.5	3078.9
Sundry Debtors	1428.8	1529.7	1717.0	1985.6
Cash & Bank Bal	169.8	296.8	614.4	522.0
Loans & Advances	1136.4	781.1	876.8	1013.9
Curr Liab & Prov	1295.2	1362.0	1528.7	1767.8
Net Current Assets	3119.1	3617.8	4342.0	4832.6
Def. Tax Assets (Net)	(145.9)	(166.7)	(183.3)	(183.3)
Misc Expenditure	0.0	0.0	0.0	0.0
Total Assets	5441.1	6681.6	7094.6	7641.2

FINANCIAL RATIO STATEMENT (Consolidated)

Y/E March	FY10	FY11	FY12E	FY13E
Growth (%)				
Net Sales	15.1	20.3	12.2	15.6
APAT	382.4	3.7	0.7	10.9
EBITDA	24.4	3.8	13.9	14.1
Profitability (%)				
EBITDA Margin	12.0	10.3	10.5	10.3
Adj. PAT Margin	4.8	4.1	3.7	3.5
ROCE	12.4	12.2	11.9	12.3
ROE	20.5	15.0	13.5	13.4
Per Share Data (Rs.)				
Adj. EPS	40.3	35.8	36.0	40.0
Adj. CEPS	67.6	59.3	64.3	71.7
BVPS	198.4	240.9	269.7	301.0
Valuations (X)				
PER	5.9	6.6	6.6	5.9
PEG	0.0	(0.6)	9.3	0.5
P/BV	1.2	1.0	0.9	0.8
EV / EBITDA	4.4	4.6	3.8	3.5
EV / Net sales	0.5	0.5	0.4	0.4
Dividend Yield (%)	2.1	2.2	2.6	3.1
Turnover Days				
Debtors days	48	42	42	42
Creditors days	32	38	32	32
Gearing Ratio (x)				
Total Debt to Equity	1.1	0.8	0.8	0.7

Source: Company, Sushil Finance Research Estimates

Rating Scale

This is a guide to the rating system used by our Institutional Research Team. Our rating system comprises of six rating categories, with a corresponding risk rating.

Risk Rating

Risk Description	Predictability of Earnings / Dividends; Price Volatility
Low Risk	High predictability / Low volatility
Medium Risk	Moderate predictability / volatility
High Risk	Low predictability / High volatility

Total Expected Return Matrix

Rating	Low Risk	Medium Risk	High Risk
Buy	Over 15 %	Over 20%	Over 25%
Accumulate	10 % to 15 %	15% to 20%	20% to 25%
Hold	0% to 10 %	0% to 15%	0% to 20%
Sell	Negative Returns	Negative Returns	Negative Returns
Neutral	Not Applicable	Not Applicable	Not Applicable
Not Rated	Not Applicable	Not Applicable	Not Applicable

Please Note

- Recommendations with "Neutral" Rating imply reversal of our earlier opinion (i.e. Book Profits / Losses).
- ** Indicates that the stock is illiquid With a view to combat the higher acquisition cost for illiquid stocks, we have enhanced our return criteria for such stocks by five percentage points.
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