

Nilkamal Plastics

 Rs192
OUTPERFORMER
RESULT NOTE

Mkt Cap: Rs2.45bn; US\$58.5m

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Result: FY08

Comment: Growth story continues...attractive valuations!

Key valuation metrics

Year to March (Rs m)	Sales	Growth (%)	Net profit	Growth (%)	EPS (Rs)	Growth (%)	PER (x)
FY06	3,623	11.9	79	(38.8)	9.2	(38.8)	21.4
FY07	5,154	27.2	52	(11.9)	6.1	(11.9)	32.2
FY08	8,379	62.6	540*	939.8	42.8	604.1	4.6
FY09E	10,200	21.7	404	(25.7)	31.8	(25.7)	6.0
FY10E	12,750	25.0	587	45.3	46.2	45.3	4.2

Source: IDFC-SSKI Research; Note: FY08 profits includes one-time gain of Rs466m; FY08, FY09E & FY10E EPS computed on a higher equity base of 12.7m shares

Above our estimates Nilkamal Ltd reported a strong 63% growth in consolidated revenues at Rs8.37bn. Revenues for the year grew on the back of a 59% growth in the core plastics business and a robust 120% growth in the lifestyle furniture and furnishings segment which operates under the '@ home' brand. On a consolidated basis, EBITDA in FY08 came in at Rs852m. During the year (in Q3FY08), the company also reported a one a one-time exceptional item of Rs464m from the sale of investments in its subsidiary Nilkamal Bhoomi Developers Private Limited, resulting in a PAT at Rs 540m for the year. Excluding the gain on the sale of land, PAT grew by 240% at Rs179m. For the quarter, Nilkamal reported a 74% growth in revenues at Rs2.37bn, EBITDA of Rs231m and PAT of Rs58m, a growth of 108%.

While continuing to dominate the moulded plastic furniture segment with a ~30% market share, Nilkamal continues to take strong strides in the lifestyle furniture space under the '@ home' brand. The successful foray in the retail space is borne out by the company adding 5 stores during the year for a total of 12 stores in FY08 (a further 3 stores were added post March 08 taking the total to 15 stores currently) and a 120% growth in revenues in the financial year. Additionally, the company continues to add new growth levers with its entry in the nascent material handling space and has entered into JVs with global companies in material handling, solid waste handling and storage retrieval systems. With a dominant share of the plastics business, strong growth in lifestyle furniture and furnishings and a first mover advantage in the material handling business, we expect Nilkamal to post a 35% revenue CAGR over FY07-10. With the stock currently trading at 4.2x FY10 earnings, we maintain our Outperformer rating.

KEY HIGHLIGHTS OF FY08 AND Q4FY08 RESULTS

Key result highlights

- Nilkamal reported a 62% growth in revenues at Rs8.37bn and EBITDA of Rs852m in FY08 on a consolidated basis.
- During the year the company reported a one-time exceptional item of Rs466m from the sale of investments in its subsidiary Nilkamal Bhoomi Developers Private Limited, resulting in a PAT at Rs 540m; excluding this gain, PAT on a like-to-like basis grew by 240% at Rs179m.
- The core operations of plastics (moulded furniture and crates & bins) reported a 59% increase in revenues at Rs7.7bn.
- The lifestyle furniture & furnishings segment - "@home" continued its strong growth momentum and reported a 120% growth in revenues to Rs570m.
- During the year the company added 5 '@ home' stores (3 in Q4FY08) taking the total for the year to 12 stores.
- The contribution from the other business segments was Rs90.5m.

Revenue contribution

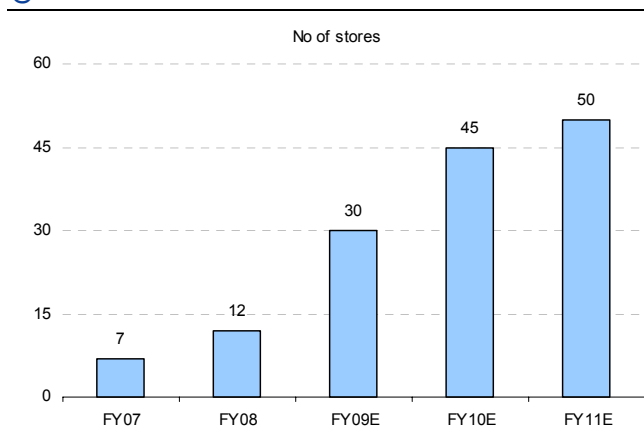
Revenues (Rs mn)	FY08	FY07	Change (%)
Plastics	7,737	4,867	59
Lifestyle furniture	570	258	120
Other	91	30	
Less inter-segment revenue	19	-	
Total Revenues	8,379	5,154	63

Source: Company

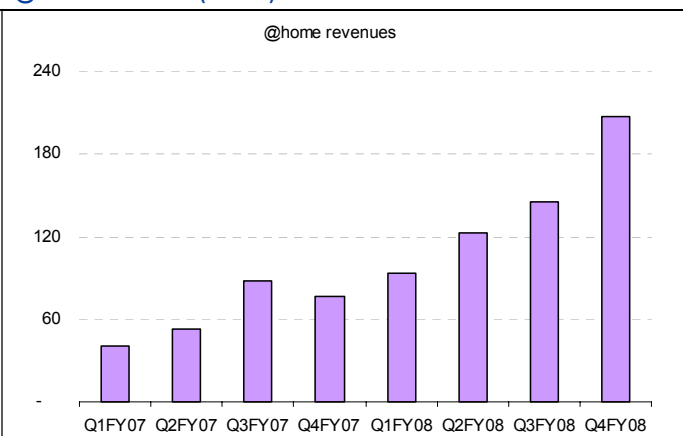
@home – growth momentum continues

In Q4FY08 the company added 3 more "@home" stores, taking the total to 12 stores for the year. (The company currently operates 15 stores with 3 new stores added after March 2008). The company plans to add a further 35 stores by FY11 taking the total number of stores to 50. Having identified the growth opportunity in the lifestyle furniture and furnishings space, the company plans to cash in on this potential opportunity by offering products and services on the lines of IKEA's model, where high-end home furniture is available at affordable prices. In line with the growth in store count, the revenues from '@ home' have also shown consistent growth. With the planned ramp up in the number of stores, we expect Nilkamal to report a 105% CAGR in revenues over FY08-10.

@ home store count



@ home revenues (Rs mn)



Source: Company, IDFC-SSKI Research

□ Material Handling Business - capitalizing on expertise

Nilkamal has identified the nascent organized material handling business as a new growth lever going forward. We expect Nilkamal to source growth in this sector on the back of a sustainable growth in manufacturing and other services like organized retail, warehousing and logistics. In this regard, the company has the following new initiatives:

- JV with BITO Lagertechnik of Germany, called Nilkamal BITO to manufacture material storage systems and provide state-of-the-art material handling services (commercial production has started at the company's Jammu plant)
- JV with Plastics Omnimum Systems of France for solid waste handling systems
- JV with Conteyor Multibag Systems NV of Belgium for value-added material handling systems focused on the automotive industry
- JV with Hanel GmbH, Germany for vertical automatic storage retrieval systems

We expect the material handling division to report a revenue CAGR of 52% over FY07-10. The organized material handling services is a nascent industry and we believe Nilkamal will capture first-mover advantage in this sector.

□ Valuations & view

With a dominant share of the plastics business, strong growth in lifestyle retail and first mover advantage in the material handling business, we expect Nilkamal to post a 35% revenue CAGR over FY07-10. We expect profits to grow exponentially going forward as the lifestyle furniture starts contributing to the bottom-line. With the stock currently trading at 4.2x FY10 earnings, we maintain our Outperformer rating.

Quarterly results (Rs m)

Quarterly Results	Q4FY07	FY07	Q1FY08	Q2FY08	Q3FY08	Q4FY08	FY08	FY09E	FY10E
Net Sales	1,367	5,154	1,321	2,182	1,886	2,379	8,379	10,200	12,750
Expenditure	1,288	4,801	1,223	1,907	1,690	2,147	7,527	8,944	11,185
EBITDA	79	353	98	275	196	231	852	1,256	1,565
Depreciation	38	173	37	64	61	71.128	266	387	381
Interest	12	125	31	85	67	83.47	298	275	314
Other Income	3	4	3	5	3	3.68	3	15	15
PBT	32	60	33	131	71	80.3	292	609	885
Exceptional Item		-			466		466		
Tax	4	8	7	46	130	22.21	218	205	298
PAT	28	52	26	85	407	58	540	404	587

Source: Company, IDFC-SSKI Research

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2. Neutral: Within 0-10% to Index
3. Underperformer: Less than 10% to Index

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