

January 25th, 2010

BUY

MEDIUM RISK

PRICE Rs.247

TARGET Rs.380

PLASTIC

EARLIER RECO

Buy	
Date	Rs.230
Reco Price	Rs.380
Target	5 th Jan, 2010

SHARE HOLDING (%)

Promoters	71.25
FII	0.01
FI / MF	3.53
Body Corporates	5.70
Public & Others	19.51

STOCK DATA

Reuters Code	NKML.BO	
Bloomberg Code	NILK@IN	
BSE Code	523385	
NSE Symbol	NILKAMAL	
Market Capitalization	Rs.3156.7 mn US\$ 68.4 mn	
Shares Outstanding	12.78 mn	
52 Weeks (H/L)	Rs. 285 / 42	
Avg. Daily Volume (6m)	105760 Shares	
Price Performance (%)		
1 M	3M	6M
24	63	181
200 Days EMA Rs.146		



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.

Excellent Q3FY10 performance

- Nilkamal Ltd. has delivered excellent numbers for the quarter ended 31st Dec, 2009 (Q3FY10). It has posted net sales (on standalone basis) of Rs.2489.9 mn, registering a growth of 27% YoY. Its EBITDA grew by 132.3% YoY to Rs. 348.1 mn and EBITDA margins increased by 634 bps to 14%. Its APAT stood at Rs. 167.6 mn, registering a growth of 708.6% YoY.
- During the first 9 months of FY10, Nilkamal's net sales (on standalone basis) increased by 11.5% YoY to Rs. 7252.1 mn. Its EBITDA increased by 47.7% to Rs. 951.9 mn, while the EBITDA margins increased by 322 bps to 13.1%. The Profit before Tax (including Other Income) increased by 415.6% YoY to Rs. 544.7 mn on year to date basis. Its APAT stood at Rs. 401.7 mn, registering a growth of 479% YoY while its EPS for 9 months stood at Rs. 31.4. The company has declared an interim dividend of 20% (FV=Rs. 10).
- The robust growth in net sales was mainly driven by high volume growth, as the polymer prices remained low compared to the previous years' prices. Its high APAT growth was also aided by a substantial reduction in its interest cost.

OUTLOOK & VALUATION

Nilkamal is witnessing strong growth in its line of business. With the introduction of VAT, some of structural issues (mainly the presence of large number of unorganized players) which were stunting the growth of the industry have been taken care of. Going forward, the industry is expected to grow at 12 to 15% and companies like Nilkamal, with its strong brand & national presence, are expected to grow at a much faster pace. On the margins front, the company enjoys EBITDA margins of around 14-15%, but after absorbing the loss of @ Home, margins are a bit lower at around 13%. Moreover, with a capex of Rs.2.3bn already through in the past 2 years & no major capex planned going forward, we expect strong cash accruals, which along with a strong improvement in its working capital, will result in sharp reduction in its borrowings as well as Interest costs. After incorporating its 9 months performance, we have increased our FY2010 Earnings estimates substantially but have marginally increased our FY11 Earnings estimate, mainly due to an increase in tax estimate for FY11. We now expect its FY2010 & FY2011 revenues to grow 10% and 15% respectively & its FY2010 & FY2011 consolidated APAT to grow at 372.5% & 21.6% respectively. At the Current Market Price of Rs.247, the stock is available at an attractive valuation of 6.3x & 5.1x its FY10E & FY11E earnings of Rs.39.5 & Rs. 48 respectively. We retain 'BUY' rating on the stock with a target price of Rs. 380 (8x its FY11E Earnings).

KEY FINANCIALS (Consolidated)

Y/E	Revenue	APAT	AEPS	EPS	PER	ROCE	ROE	Price / BV
Mar.	(Rs mn)	(Rs mn)	(Rs.)	(% Ch.)	(x)	(%)	(%)	(x)
FY09	9513.3	106.8	8.4	(46.5)	29.6	7.5	5.2	1.5
FY10E	10464.6	504.4	39.5	372.4	6.3	13.1	20.1	1.2
FY11E	12034.3	613.4	48.0	21.6	5.1	15.6	20.2	1.0

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QUARTERLY RESULTS (Standalone)

(Rs.mn)

Y/E March	9 mths FY09	9 mths FY10	Q3 FY09	Q3 FY10
Net Revenue	6502.3	7252.1	1960.1	2489.9
% Ch. YoY	-	11.5	-	27.0
RM Cons.	4055.5	4323.3	1305.1	1475.9
% Ch. YoY	-	6.6	-	13.1
% STO	62.4	59.6	66.6	59.3
Staff costs	386.6	418.4	128.4	143.2
% Ch. YoY	-	8.2	-	11.5
% STO	5.9	5.8	6.5	5.8
Other Exp.	1415.8	1558.5	376.8	522.8
% Ch. YoY	-	10.1	-	38.8
% STO	21.8	21.5	19.2	21.0
Total Exp.	5857.9	6300.2	1810.3	2141.9
% Ch. YoY	-	7.6	-	18.3
% STO	90.1	86.9	92.4	86.0
EBITDA	644.4	951.9	149.8	348.1
% Ch. YoY	-	47.7	-	132.3
% Margin	9.9	13.1	7.6	14.0
Interest	303.0	189.9	107.3	54.8
% Ch. YoY	-	(37.3)	--	(48.9)
% STO	4.7	2.6	5.5	2.2
EBDT	341.3	762.0	42.6	293.3
% Ch. YoY	-	123.2	-	588.7
% Margin	5.2	10.5	2.2	11.8
Depreciation	236.9	240.5	79.1	80.9
% Ch. YoY	-	1.5	(0.2)	2.3
% STO	3.6	3.3	4.0	3.2
PBT excl. OI	104.4	521.6	(36.5)	212.3
% Ch. YoY	-	399.6	-	(681.1)
% Margin	1.6	7.2	(1.9)	8.5
Other Income	1.3	23.2	0.0	18.7
% Ch. YoY	-	1726.0	-	#DIV/0!
PBT incl OI	105.7	544.7	(36.5)	231.0
% Ch. YoY	-	415.6	-	(732.2)
% Margin	1.6	7.5	(1.9)	9.3
Tax	36.3	143.0	(9.0)	63.4
% Ch. YoY	-	294.3	-	(804.4)
% PBT	34.3	26.3	24.6	27.4
APAT	69.4	401.7	(27.5)	167.6
% Ch. YoY	-	479.0	-	(708.6)
% Margin	1.1	5.5	(1.4)	6.7
Extraordinary Exp./ (Inc)	52.1	0.0	0.0	0.0
RPAT	17.3	401.7	(27.5)	167.6
% Ch. YoY	-	2218.2	-	(708.6)
% Margin	0.3	5.5	(1.4)	6.7

Source: Company, SFSPL Research Estimates

PROFIT & LOSS (Consolidated)

(Rs. mn)

Y/E March	FY08	FY09	FY10E	FY11E
Net Revenue	8150.6	9513.3	10464.6	12034.3
% Ch. YoY	59.7	16.7	10.0	15.0
RM Cons.	5306.8	5850.6	6278.8	7220.6
% Ch. YoY	40.6	10.2	7.3	15.0
% STO	65.1	61.5	60.0	60.0
Staff costs	406.7	567.2	623.9	717.5
% Ch. YoY	98.3	39.5	10.0	15.0
% STO	5.0	6.0	6.0	6.0
Other Exp.	1588.3	2043.4	2196.7	2471.2
% Ch. YoY	106.1	28.7	7.5	12.5
% STO	19.5	21.5	21.0	20.5
Total Exp.	7301.8	8461.3	9099.4	10409.3
% Ch. YoY	53.7	15.9	7.5	14.4
% STO	89.6	88.9	87.0	86.5
EBITDA	848.8	1052.0	1365.3	1625.0
% Ch. YoY	140.4	23.9	29.8	19.0
% Margin	10.4	11.1	13.0	13.5
Interest	300.7	527.3	316.4	332.2
% Ch. YoY	141.1	75.4	(40.0)	5.0
% STO	3.7	5.5	3.0	2.8
EBDT	548.2	524.7	1048.9	1292.7
% Ch. YoY	140.1	(4.3)	99.9	23.3
% Margin	6.7	5.5	10.0	10.7
Depreciation	265.9	348.8	383.7	422.1
% Ch. YoY	54.0	31.2	10.0	10.0
% STO	3.3	3.7	3.7	3.5
PBT excl. OI	282.3	175.9	665.2	870.7
% Ch. YoY	406.8	(37.7)	278.2	30.9
% Margin	3.5	1.8	6.4	7.2
Other Income	0.6	9.4	36.0	37.8
% Ch. YoY	(86.5)	1483.6	284.7	5.0
PBT incl OI	282.9	185.2	701.2	908.5
% Ch. YoY	370.9	(34.5)	278.5	29.6
% Margin	3.5	1.9	6.7	7.5
Tax	79.8	74.9	192.8	290.7
% Ch. YoY	874.5	(6.2)	157.6	50.8
% PBT	28.2	40.4	27.5	32.0
APAT	203.1	110.4	508.3	617.8
% Ch. YoY	291.4	(45.7)	360.5	21.5
% Margin	2.5	1.2	4.9	5.1
Sh of P/L in ass cos	0.0	0.0	0.0	0.0
Minority Int.	(3.6)	(3.6)	(4.0)	(4.4)
CON APAT	199.6	106.8	504.4	613.4
% Ch. YoY	281.2	(46.5)	372.4	21.6
% Margin	2.4	1.1	4.8	5.1
Extraordinary Exp./ (Inc)	(340.4)	(0.2)	0.0	0.0
RPAT	540.0	107.0	504.4	613.4
% Ch. YoY	931.5	(80.2)	371.5	21.6
% Margin	6.6	1.1	4.8	5.1

BALANCE SHEET (Consolidated)

(Rs.mn)

As on 31 st Mar.	FY08	FY09	FY10E	FY11E
SOURCES OF FUNDS				
Share Capital	127.8	127.8	127.8	127.8
Reserves	1876.9	1977.2	2406.7	2930.2
Sh.Holders Funds	2004.7	2105.0	2534.5	3058.0
Minority Interest	19.4	26.8	29.4	32.4
Total Debt	3375.4	3856.3	2716.8	2418.7
Total Liabilities	5399.6	5988.1	5280.8	5509.1
Fixed Assets	2526.9	2569.5	2551.4	2429.3
Goodwill on Consolidation	0.0	0.0	0.0	0.0
Investments	0.1	0.0	0.0	0.0
Sundry Debtors	1383.9	1125.9	1424.3	1637.9
Cash and Bank	161.2	150.2	168.6	178.2
Loans & Adv.	647.3	612.6	673.9	775.0
Inventory	1733.8	2616.1	1870.5	2151.1
Current Assets	3926.2	4504.9	4137.3	4742.2
Current Liabilities	761.8	827.8	1138.2	1374.4
Provisions	167.0	111.1	122.2	140.5
Current Liab.	928.9	938.9	1260.4	1514.9
Net Curr. Assets	2997.3	3566.0	2876.9	3227.3
Deferred Tax Assets (Net)	(124.7)	(147.5)	(147.5)	(147.5)
Misc. Exp.	0.0	0.0	0.0	0.0
Total Assets	5399.6	5988.1	5280.8	5509.1

FINANCIAL RATIOS (Consolidated)

Y/E March	FY08	FY09	FY10E	FY11E
Growth (%)				
Net Sales	59.7	16.7	10	15
Adjusted Net Profit	291.4	(45.7)	360.5	21.5
EBITDA	140.4	23.9	29.8	19
EPS	155.7	(46.5)	372.4	21.6
CEPS	159.2	(42.8)	87.1	16.6
Gross Fixed Assets	69.8	11.3	6.2	7.8
Capital Employed	82.1	10.9	(11.8)	4.3
Valuation				
EPS (Rs.)	15.6	8.4	39.5	48
CEPS (Rs.)	64.9	37.1	69.5	81
BVPS (Rs)	156.8	164.7	198.3	239.2
PER (x)	15.8	29.6	6.3	5.1
PEG (x)	0.1	-0.6	0	0.2
P/CEPS (x)	3.8	6.7	3.6	3
P/BV (x)	1.6	1.5	1.2	1
EV/EBITDA (x)	7.5	6.5	4.2	3.3
EV/Net Sales (x)	0.8	0.7	0.5	0.4
Profitability				
ROCE (%)	10	7.5	13.1	15.6
ROE (%)	10.1	5.2	20.1	20.2
EBIDTA Margin(%)	10.4	11.1	13	13.5
EBDTA Margin (%)	6.7	5.5	10	10.7
NP Margin (%)	2.5	1.2	4.9	5.1
Tax/PBT (%)	28.2	40.4	27.5	32
Turnover				
Debtor Days	62	43	50	50
Creditor Days	34	32	40	42
Inventory Days	78	100	65	65
N. Fixed Assets (x)	3.2	3.7	4.1	5
Total Assets (x)	1.5	1.6	2	2.2

Source: Company, SFSPL Research Estimates

Rating Scale

This is a guide to the rating system used by our Equity 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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