

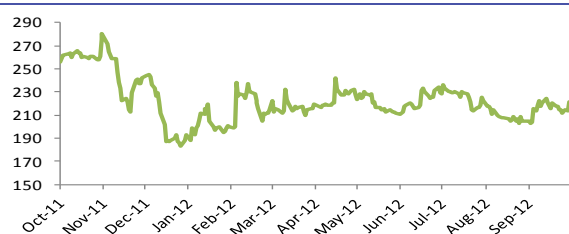
Nilkamal Ltd

Recommendation	BUY
CMP	Rs. 225
Target Price	NA
Sector	Plastic Products

Stock Details

BSE Code	523385
NSE Code	NILKAMAL
Bloomberg Code	NILK IN
Market Cap (Rs crs)	330
Free Float (%)	37.81%
52- wk Hi/Lo (Rs)	298/177
Avg. volume BSE (Quarterly)	3,356
Face Value (Rs)	10
Dividend (FY12)	40%
Shares o/s (Crs)	1.49

Relative Performance	1Mth	3Mth	1Yr
Nilkamal	8.0%	-3.5%	-13.5%
Sensex	9.6%	9.4%	20.7%

Shareholding Pattern 30th Jun. 12

Promoters Holding	62.19%
Institutional (Incl. FII)	17.98%
Corporate Bodies	3.09%
Public & others	16.74%

Kavita Vempalli	(+91 22 3926 8173)
Research Analyst	kavita.vempalli@nirmalbang.com
Amrita Burde	(+91 22 3926 8223)
Research Associate	amrita.burde@nirmalbang.com
Sunil Jain	(+91 22 3926 8196)
Head Retail Research	sunil.jain@nirmalbang.com

Year	Net Sales (Rs crs)	Growth (%)	EBITDA (Rs crs)	Margin (%)	PAT (Rs crs)	Margin (%)	EPS (Rs.)	P/E (x)
FY09A	951.3	16.7%	105.2	11.1%	10.7	1.1%	8.4	26.9
FY10A	1095.0	15.1%	132.0	12.1%	51.5	4.7%	40.3	5.6
FY11A	1318.1	20.4%	136.4	10.3%	53.41	4.1%	37.5	6.0
FY12A	1516.5	15.1%	160.3	10.6%	61.10	4.0%	41.0	5.5

Re-rating on cards...

Nilkamal Ltd (NKL) is the largest manufacturer of material handling plastic crates and a leader in the moulded furniture segment. The company forayed into lifestyle furniture business in 2005 through its brand '@Home' and is now expected to breakeven in the coming quarters after making on and off losses since Q2FY11. In addition, it has also started asset light mattress business in FY12 and added additional capacity recently. With most of the investments in place and improving financials, ROCE of the company is expected to rise from the current levels of ~ 16% going forward. Moreover, rupee appreciation would aid the margins of the company which had got affected with rising raw material costs. At CMP, the stock is trading at a FY12 P/E of 5.5x which is way below its peers (reason being lower ROCE). We believe with improving financials, the valuation gap would be narrowed down and recommend BUY on the stock for 15-20% returns in medium term.

Expanding the Value added Product Portfolio of the Furniture Business

The Plastic Furniture Business enjoys a leadership position with a market share of ~ 38%. The company consistently enhances its product portfolio by introducing new value added products which are also well received in the market due to its strong brand value. In addition, the company is now introducing premium products in this division which would augur well for the company in value terms.

Enhancing the coverage of the Material Handling Business

Nilkamal is the market leader in the material handling segment with a strong PAN India presence and a strong sales and distribution system. The increasing scarcity of labour and resulting wage inflation remains a major growth driver for this segment to do well. In addition, government's thrust towards food processing and food storage segment has fared well for this division with increase in demand for crates, pallets, material handling equipment and rakes. Recently, Nilkamal has introduced light, easy to erect and quick to dismantle low cost products in the market which also has received good response.

ROCE of the company to improve with Retail division nearing breakeven

The retail business of the company which is operating through the brand '@Home' is expected to breakeven in FY13E. Gross Margins in this business are more than 45%. Currently company owns 20 stores across 11 cities and the company plans to open one more store in FY13. The Indian furniture industry is highly fragmented with dominance of 90% market share by the unorganized players. The organized market is growing at a CAGR of 30% and this division stands to gain. ROCE of the company is lower at ~ 16% as in FY12 as compared to its peers due to the retail division drag which is expected to improve going forward.

Nilkamal Ltd

Company Profile

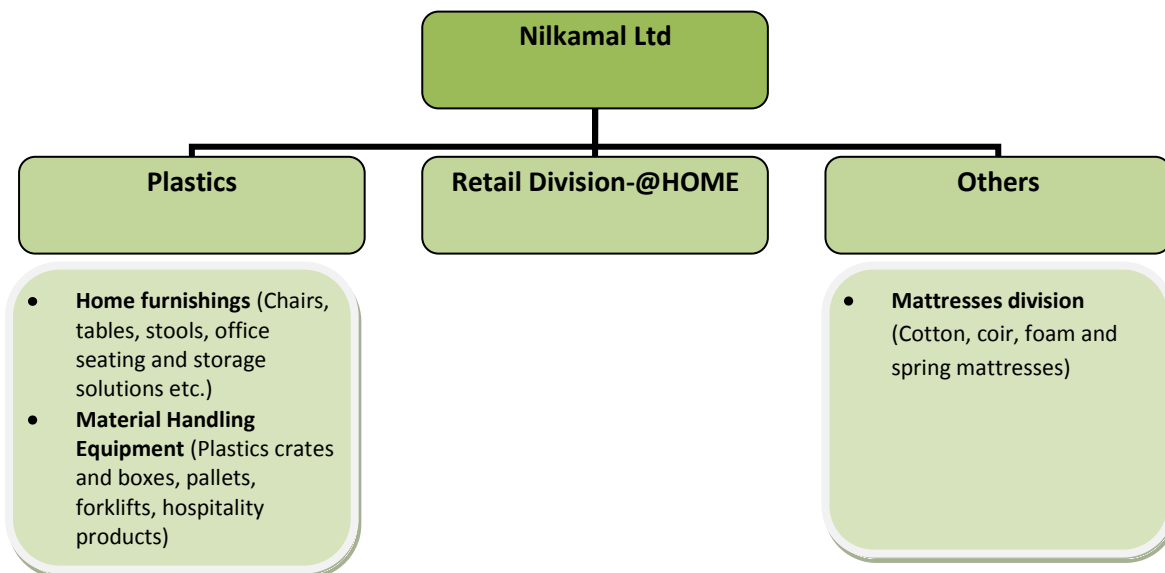
Incorporated in 1985 and promoted by Parekh family, Nilkamal Ltd. is the leader in moulded plastic products like furniture, plastics crates-used for material handling, storage and distribution and custom moldings. In the plastic furniture business, the company enjoys a markets share of 38%. In 2005 the company successfully forayed into lifestyle furnishing retailing business through “@home”, a home solution store. Currently, company owns 20 @home stores in 11 cities covering a retail space of over three and a half lakh sq. ft. The company’s quality is widely accepted internationally and also exports to most major markets in Europe and Americas. With installed capacity of ~95000 mtpa, NKL also outsources some of its production to approved vendors.

Nilkamal has also forayed into mattresses business in Q1FY12 by starting a manufacturing unit at Hosur in Tamil Nadu. Machineries were imported from Germany and Switzerland the company has introduced a full range of rubberized coir, foam and innovative spring mattresses. The company clocked revenues of Rs.12 crore in FY12 and expected to reach Rs.35 crore in FY13E. Mattress Industry in India is of ~Rs.54 bn and is growing at a CAGR of 15% p.a.

The company has started selling light, easy-to-erect & quick-to-dismantle injection molded plastic formwork systems with a lower cost of ownership compared to the wood & metal formwork that is universally used in construction projects recently. NKL is in the process of scaling up this product line. In conjunction to this, the company in FY12 also started a mass housing project funded by the JNNURM scheme for the economically weaker group in Gujarat using most effective and quick construction technique. This project is nearing completion.

In 2012, NKL also formed a JV with Cambro Inc to market hospitality products in India. This JV made Revenues and profits of Rs.7.94 crore and Rs.1 crore in FY12.

NKL also has a JV with Bito Lagertechnik Bittmann GmbH, Germany to manufacture & supply steel storage & racking systems which became profitable in FY12. It clocked Revenues and PAT of Rs.49 crore and Rs.4 crore respectively.



Source: Company data, Nirmal Bang Securities

Nilkamal Ltd

Peer Comparison

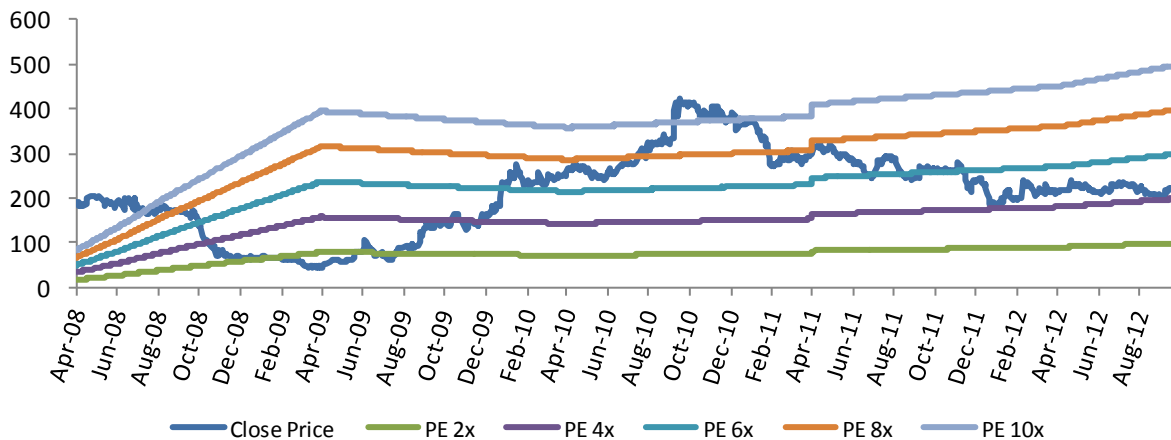
Rs. in Crore	Sales		EBITDA		ROE		ROCE		EV/EBIDTA		EV/Sales		PE	
	FY11A	FY12A	FY11A	FY12A	FY11A	FY12A	FY11A	FY12A	FY11A	FY12A	FY11A	FY12A	FY11A	FY12A
Nilkamal	1318.1	1516.5	136.4	160.3	17.4%	15.8%	17.2%	16.2%	4.4	4.2	0.5	0.4	6.0	5.5
Supreme Inds*	4453.5	4483.7	717.7	815.5	35.4%	37.4%	32.2%	38.0%	5.1	5.6	0.9	0.9	16.2	24.3
Astral Poly	437.0	611.5	56.6	83.7	25.0%	24.0%	27.1%	33.7%	5.8	5.4	1.7	1.3	13.1	11.1

* Supreme Ind follows June ending FY

Valuation and Recommendation

At CMP, the stock is trading at a FY12 P/E of 5.5x which is way below its peers (reason being lower ROCE). We believe with improving financials, the valuation gap would be narrowed down and recommend BUY on the stock for 15-20% returns in medium term.

One Year Forward P/E Band Chart



Nilkamal Ltd

Consolidated Financials

Profitability (Rs. In Cr)	FY09A	FY10A	FY11A	FY12A
Revenues	951.3	1095.0	1318.1	1516.5
% change	16.7%	15.1%	20.4%	15.1%
EBITDA	105.2	132.0	136.4	160.3
% change in EBITDA	22.7%	25.4%	3.4%	17.5%
Depn & Amort	34.88	35.09	35.11	43.14
Operating income	70.3	96.9	101.3	117.2
Interest	52.7	26.3	31.0	40.5
Other Income	0.94	2.31	3.54	1.56
PBT	18.5	72.9	73.9	78.2
Tax	7.5	20.9	19.7	16.3
Tax rate%	40%	29%	27%	21%
PAT	10.7	51.5	53.4	61.1
CEPS	35.7	67.8	59.3	69.9
EPS	8.37	40.29	37.47	40.95

Quarterly (Rs. In Cr)	Sept.11	Dec.11	Mar.12	Jun.12
Revenue	352.2	345.6	415.5	393.7
EBITDA	38.8	36.8	39.0	37.9
Dep	10.0	10.6	10.7	11.4
Op Income	28.8	26.2	28.3	26.5
Interest	8.8	9.6	11.7	11.1
Other Inc.	0.0	0.0	1.2	0.3
PBT	20.0	16.6	17.9	15.7
Tax	4.6	3.0	3.5	4.4
PAT	15.4	13.6	14.4	11.3
EPS (Rs.)	10.33	9.09	9.62	7.54

Performance Ratio	FY09A	FY10A	FY11A	FY12A
Adj PAT growth (%)	44.8%	381.5%	3.7%	14.4%
EBITDA margin (%)	11.1%	12.1%	10.3%	10.6%
PAT margin (%)	1.1%	4.7%	4.1%	4.0%
ROCE (%)	12.5%	17.4%	17.2%	16.2%
ROE (%)	5.2%	22.2%	17.4%	15.8%

Valuation Ratio	FY09A	FY10A	FY11A	FY12A
Price Earnings (x)	26.9	5.6	6.0	5.5
Price / Book Value (x)	1.4	1.1	0.9	0.8
EV / Sales	0.7	0.5	0.5	0.4
EV / EBITDA	6.7	4.5	4.4	4.2

Source: Company, Nirmal Bang Research

Financial Health (Rs. In Cr)	FY09A	FY10A	FY11A	FY12A
Share Capital	12.8	12.8	14.9	14.9
Reserves & Surplus	197.7	240.8	344.5	399.2
Minority Interest	2.68	2.92	3.35	3.98
Loan Funds	385.6	287.6	305.4	368.9
Other Liabilities	0	0	3.72	4.98
Total Liabilities	598.8	544.1	671.9	792.0
Net Fixed Ass (Incl WIP)	257.0	242.7	316.6	357.7
Investments	0.0	4.1	1.6	0.0
Inventories	261.6	167.9	237.0	288.9
Sundry Debtors	112.6	142.9	155.9	211.7
Cash & Bank	15.0	17.0	29.0	22.9
Loans & Advances	61.3	113.6	40.8	50.4
CL & P	93.9	129.5	136.0	171.7
Net Deferred tax assets	(14.8)	(14.6)	(16.7)	(19.2)
Other assets	0	0	43.57	51.3
Total Assets	598.8	544.1	671.9	792.0

Cash Flow (Rs. In Cr)	FY09A	FY10A	FY11A	FY12A
Operating				
OP before WC	105.2	132.0	136.4	160.3
Change in WC	(60.4)	97.1	(87.6)	(65.9)
(-) Tax	(7.5)	(20.9)	(19.7)	(16.3)
CF from Operation	37.4	208.2	29.1	78.1
Investment				
Capex	(4.3)	14.3	(74.0)	(41.1)
Other Investment	0.0	(4.1)	2.5	1.6
Other Income	0.9	2.3	3.5	1.6
Total Investment	(3.3)	12.5	(67.9)	(37.9)
Financing				
Dividend Paid	(2.6)	(6.4)	(6.0)	(6.0)
Change in Equity	0	0	2.14	0
Change in Borrowings	48.1	(98.0)	17.7	63.6
Others	(27.9)	(88.0)	67.8	(63.4)
Total Financing	(35.1)	(218.7)	50.8	(46.3)
Net Chg. in Cash	(1.1)	2.0	12.0	(6.1)
Cash at beginning	16.1	15.0	17.0	29.0
Cash at end	15.0	17.0	29.0	22.9
Per Share Data	FY09A	FY10A	FY11A	FY12A
BV per share	164.7	198.4	240.9	277.6
Dividend per share	2.0	5.0	4.0	4.0

Disclaimer:

This Document has been prepared by Nirmal Bang Research (A Division of Nirmal Bang Securities PVT LTD). The information, analysis and estimates contained herein are based on Nirmal Bang Research assessment and have been obtained from sources believed to be reliable. This document is meant for the use of the intended recipient only. This document, at best, represents Nirmal Bang Research opinion and is meant for general information only. Nirmal Bang Research, its directors, officers or employees shall not in anyway be responsible for the contents stated herein. Nirmal Bang Research expressly disclaims any and all liabilities that may arise from information, errors or omissions in this connection. This document is not to be considered as an offer to sell or a solicitation to buy any securities. Nirmal Bang Research, its affiliates and their employees may from time to time hold positions in securities referred to herein. Nirmal Bang Research or its affiliates may from time to time solicit from or perform investment banking or other services for any company mentioned in this document.

Nirmal Bang Research (Division of Nirmal Bang Securities Pvt. Ltd.)

B-2, 301/302, Marathon Innova,
Opp. Peninsula Corporate Park
Off. Ganpatrao Kadam Marg
Lower Parel (W), Mumbai-400013
Board No. : 91 22 3926 8000/8001
Fax. : 022 3926 8010