

Nilkamal

SELL

Impressive performance over Q1FY21, expensive valuation

Summary

Nilkamal Ltd.'s (NILK) Q1FY22 result was below our estimates on key parameters. After a robust demand recovery in Q4FY21, statewide lockdown amid second wave of Covid-19 weighed on product off take. However, on a low base of Q1FY21, earnings improvement is encouraging. Net sales shot up by 96% YoY to Rs4,923mn, while EBITDA came at Rs299mn, up by 398% YoY. The company reported net profit of Rs17mn compared to net loss of Rs289mn in Q1FY21. We believe the company is poised to rebound as opening up of economies and pent up demand would aid earnings growth in near term. We have broadly maintained our net sales/PAT estimates for FY22E/FY23E. Maintain SELL with a revised TP of Rs2,266, assigning 17x PER on FY23E.

Key Highlights and Investment Rationale

Higher sales volume supported net sales

NILK reported a robust recovery on YoY led by strong recovery in plastic segment. The sales of the company's plastic business stood at Rs4,128mn whereas the retail business @home sales stood at Rs186mn against Rs1,998mn and Rs154mn respectively. Further the mattress business achieved sales of Rs143mn as against Rs72m. Sales of Bubble-guard improved substantially from Rs10mn to Rs40mn. In order to achieve its growth plans as well as for further building its competitive advantage in the business in which it operates, the Company estimates a total Capital expenditure of ~ Rs2,450mn during FY21-22.

Positive operating leverage aided EBITDA margin

The company reported EBITDA margin of 6.1%, a substantial improvement 1,010bps over Q1FY21. Despite 27% increase in raw material prices from Q4FY21, the company's strong leadership aided to pass on 85% of the increase in price hike with a lag of couple of months. We expect EBITDA margin to be in the range of 12%-13% in near term.

Expensive valuation, SELL with a TP of Rs2,266

Though we like NILK owing its strong brand recall, extensive products folio and distribution reach, we believe a sharp run up in the stock price, we believe value is priced in at current level. SELL with a TP of Rs2,266.

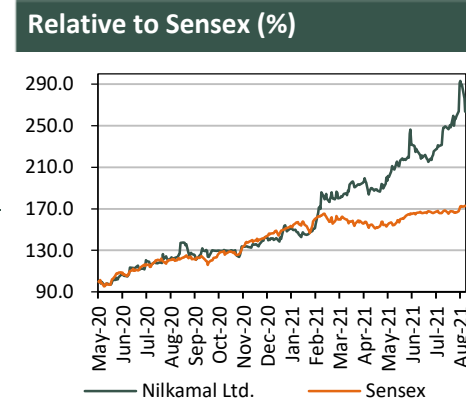
TP	Rs2,266	
CMP	Rs2,662	
Potential upside / downside	-15%	

V/s Consensus		
EPS (Rs)	FY22E	FY23E
IDBI Capital	104.7	133.3
Consensus	120.8	145.7
% difference	(13.3)	(8.5)

Shareholding Pattern (%)	
Promoters	64.5
FII	2.1
DII	18.4
Public	15.0

Price Performance (%)			
	-1m	-3m	-12m
Absolute	14.2	27.9	113.8
Rel to Sensex	10.1	17.7	70.9

Key Stock Data	
Bloomberg / Reuters	NILK IN / NKML.BO
Sector	Plastic Building Material
Shares o/s (mn)	15
Market cap. (Rs mn)	39,719
Market cap. (U70S\$ mn)	573
3-m daily avg Trd value (Rs mn)	47.6
52-week high / low	Rs3,174 / 1,214
Sensex / Nifty	54,555 / 16,280



Financial snapshot					
	(Rs mn)				
Year	FY19	FY20	FY21	FY22E	FY23E
Revenue	23,624	22,572	20,922	24,994	28,743
EBITDA	2,134	2,812	2,532	3,187	3,779
EBITDA (%)	9.0	12.5	12.1	12.8	13.1
Adj. PAT	1,106	1,362	1,115	1,563	1,989
EPS (Rs)	74.1	91.3	74.7	104.7	133.3
EPS Growth (%)	(5.9)	23.1	(18.1)	40.1	27.3
PE (x)	31.0	25.2	30.7	21.9	17.2
Dividend Yield (%)	0.6	0.7	0.4	0.5	0.7
EV/EBITDA (x)	16.2	12.3	13.3	10.1	8.1
RoE (%)	12.4	13.8	10.3	13.0	14.6
RoCE (%)	15.4	15.8	11.6	14.5	16.0

Source: IDBI Capital Research;

Exhibit 1: Financial snapshot

(Rs mn)

Particulars (mn)	Q1FY22	Q4FY21	QoQ (%)	Q1FY21	YoY (%)
Total revenues	4,923	6,799	(27.6)	2,513	95.9
Total expenditure	4,623	6,010	(23.1)	2,614	76.9
EBIDTA	299	789	(62.1)	(100)	398.3
<i>EBIDTA margin (%)</i>	<i>6.1</i>	<i>11.6</i>	<i>(550)bps</i>	<i>-4.0</i>	<i>1010bps</i>
Depreciation	239	252	(5.1)	235	1.9
Interest cost	68	70	(2.7)	62	10.7
Other income	20	20	1.5	19	5.6
PBT	12	486	(97.6)	-378	103.2
Tax	1	120	(99.2)	-94	101.0
Minority interest and exceptional items	6	15	-	-5	-
Adj. net profit	17	382	(95.6)	-289	105.8
Adj. EPS (INR)	1.1	25.6	(95.6)	-19.4	105.8

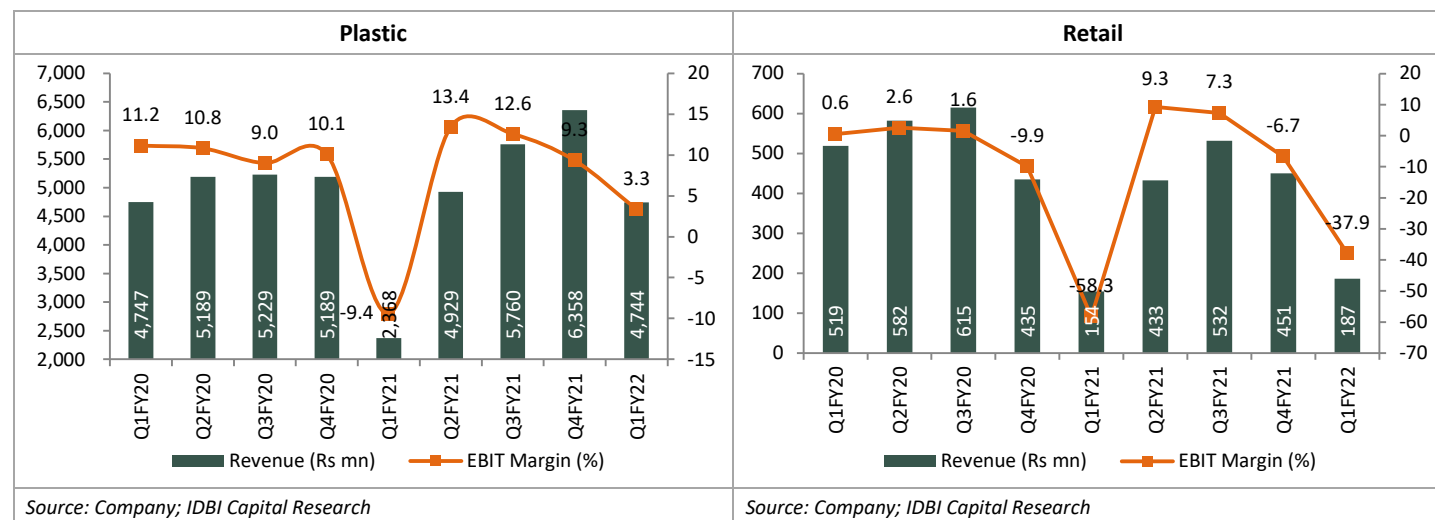
Source: Company; IDBI Capital Research

Exhibit 2: Actual vs. estimates

(Rs mn)

Particulars (mn)	Q1FY22A	Q1FY22E	Variance (%)
Net Sales	4,923	5,643	-12.8
EBITDA	299	685	-56.3
<i>EBITDA Margin (%)</i>	<i>6.1</i>	<i>12.1</i>	<i>(600)bps</i>
Net Profit	17	286	-94.1
EPS, Rs	1.1	19.2	-94.1

Source: Company; IDBI Capital Research

Exhibit 3: Division wise Revenue and EBIT margin performance

Financial Summary

Profit & Loss Account

(Rs mn)

Year-end: Dec.	FY20	FY21	FY22E	FY23E
Net sales	22,572	20,922	24,994	28,743
<i>Growth (%)</i>	<i>(4.5)</i>	<i>(7.3)</i>	<i>19.5</i>	<i>15.0</i>
Operating expenses	(19,760)	(18,390)	(21,806)	(24,964)
EBITDA	2,812	2,532	3,187	3,779
<i>Growth (%)</i>	<i>31.8</i>	<i>-10.0</i>	<i>25.9</i>	<i>18.5</i>
Depreciation	(942)	(972)	(1,035)	(1,130)
EBIT	1,870	1,560	2,153	2,649
Interest paid	(261)	(235)	(265)	(241)
Other income	144	160	200	250
Pre-tax profit	1,753	1,485	2,089	2,658
Tax	(391)	(370)	(526)	(669)
<i>Effective tax rate (%)</i>	<i>22.3</i>	<i>24.9</i>	<i>25.2</i>	<i>25.2</i>
Minority Interest	-	-	-	-
Net profit	1,362	1,115	1,563	1,989
Exceptional items	-	-	-	-
Adjusted net profit	1,362	1,115	1,563	1,989
<i>Growth (%)</i>	<i>23.1</i>	<i>(18.1)</i>	<i>40.1</i>	<i>27.3</i>
<i>Shares o/s (mn nos)</i>	<i>15</i>	<i>15</i>	<i>15</i>	<i>15</i>

Cash Flow Statement

(Rs mn)

Year-end: Dec.	FY20	FY21	FY22E	FY23E
Pre-tax profit	1,753	1,485	2,089	2,658
Depreciation	942	972	1,035	1,130
Tax paid	(461)	(377)	(473)	(602)
Chg in working capital	215	(193)	(374)	(356)
Other operating activities	-	-	-	-
Cash flow from operations (a)	2,449	1,887	2,276	2,830
Capital expenditure	(2,941)	(1,308)	(756)	(1,006)
Chg in investments	(157)	10	(11)	(17)
Other investing activities	-	-	-	-
Cash flow from investing (b)	(3,098)	(1,298)	(767)	(1,023)
Equity raised/(repaid)	-	-	-	-
Debt raised/(repaid)	(35)	(171)	(44)	(23)
Dividend (incl. tax)	(269)	(179)	(215)	(269)
Chg in minorities	(63)	1	-	-
Other financing activities	1,089	53	64	-
Cash flow from financing (c)	722	(296)	(195)	(292)
Net chg in cash (a+b+c)	73	293	1,314	1,515

Balance Sheet

(Rs mn)

Year-end: Dec.	FY20	FY21	FY22E	FY23E
Net fixed assets	6,122	6,459	6,180	6,056
Investments	171	161	173	190
Other non-curr assets	239	255	255	255
Current assets	8,976	10,363	12,378	14,638
Inventories	4,063	4,980	5,228	5,542
Sundry Debtors	3,250	3,081	3,389	3,660
Cash and Bank	240	905	2,238	3,815
Marketable Securities	-	-	-	-
Loans and advances	413	347	399	438
Total assets	15,509	17,238	18,985	21,139
Shareholders' funds	10,321	11,394	12,742	14,461
Share capital	149	149	149	149
Reserves & surplus	10,172	11,245	12,592	14,312
Total Debt	480	309	265	241
Secured loans	479	285	243	218
Unsecured loans	1	23	22	23
Other liabilities	2,038	2,376	2,584	2,773
Curr Liab & prov	2,662	3,149	3,384	3,653
Current liabilities	2,550	3,032	3,264	3,528
Provisions	111	117	120	125
Total liabilities	5,179	5,834	6,233	6,667
Total equity & liabilities	15,509	17,238	18,985	21,139
Book Value (Rs)	288	288	288	288

Source: Company; IDBI Capital Research

Financial Ratios

Year-end: Dec.	FY20	FY21	FY22E	FY23E
Adj EPS (Rs)	91.3	74.7	104.7	133.3
Adj EPS growth (%)	23.1	(18.1)	40.1	27.3
EBITDA margin (%)	12.5	12.1	12.8	13.1
Pre-tax margin (%)	7.8	7.1	8.4	9.2
ROE (%)	13.8	10.3	13.0	14.6
ROCE (%)	15.8	11.6	14.5	16.0
Turnover & Leverage ratios (x)				
Asset turnover (x)	1.6	1.3	1.4	1.4
Leverage factor (x)	1.4	1.5	1.5	1.5
Net margin (%)	6.0	5.3	6.3	6.9
Net Debt/Equity (x)	0.0	(0.1)	(0.2)	(0.2)
Working Capital & Liquidity ratio				
Inventory days	66	87	76	70
Receivable days	53	54	49	46
Payable days	28	38	35	33

Valuation

Year-end: Dec.	FY20	FY21	FY22E	FY23E
PER (x)	25.2	30.7	21.9	17.2
Price / Book value (x)	8.0	8.0	8.0	8.0
PCE (x)	14.9	16.4	13.2	11.0
EV / Net sales (x)	1.5	1.6	1.3	1.1
EV / EBITDA (x)	12.3	13.3	10.1	8.1
Dividend Yield (%)	0.7	0.4	0.5	0.7



Notes

Dealing

(91-22) 6836 1111

dealing@idbicapital.com

Key to Ratings Stocks:**BUY:** 15%+; **HOLD:** -5% to 15%; **SELL:** -5% and below.**IDBI Capital Markets & Securities Ltd.****Equity Research Desk**

6th Floor, IDBI Tower, WTC Complex, Cuffe Parade, Colaba, Mumbai – 400 005. Phones: (91-22) 2217 1700; Fax: (91-22) 2215 1787; Email: info@idbicapital.com

SEBI Registration: BSE & NSE (Cash & FO) – INZ000007237, NSDL – IN-DP-NSDL-12-96, Research – INH000002459, CIN – U65990MH1993GOI075578**Compliance Officer:** Christina D'souza; Email: compliance@idbicapital.com; Telephone: (91-22) 2217 1907**Disclaimer**

This report has been published by IDBI Capital Markets & Securities Ltd.(hereinafter referred to as "IDBI Capital") for private circulation. This report should not be reproduced or copied or made available to others. No person associated with IDBI Capital is obligated to call or initiate contact with you for the purposes of elaborating or following up on the information contained in this report. The information contained herein is strictly confidential and meant for solely for the selected recipient and may not be altered in any way, transmitted to copied or distributed, in part or in whole, to any other person or to the media or reproduced in any form, without the prior written consent of IDBI Capital.

Recipients may not receive this report at the same time as other recipients. IDBI Capital will not treat recipients as customers by virtue of their receiving this report.

The information contained herein is from the public domain or sources believed to be reliable, but we do not make any representation or warranty that it is accurate, complete or up-to-date and it should not be relied upon as such. While reasonable care has been taken to ensure that information given is at the time believed to be fair and correct and opinions based thereupon are reasonable, due to the very nature of research it cannot be warranted or represented that it is accurate or complete and it should not be relied upon as such. In so far as this report includes current or historical information, it is believed to be reliable, although its accuracy and completeness cannot be guaranteed.

Opinions expressed are current opinions as of the date appearing on this material only. While we endeavor to update on a reasonable basis, the information discussed in this material, IDBI Capital, its directors, employees are under no obligation to update or keep the information current. Further there may be regulatory, compliance, or other reasons that prevent us from doing so.

Prospective investors and others are cautioned that any forward-looking statements are not predictions and may be subject to change without notice.

IDBI Capital, its directors and employees and any person connected with it, will not in any way be responsible for the contents of this report or for any losses, costs, expenses, charges, including notional losses/lost opportunities incurred by a recipient as a result of acting or non-acting on any information/material contained in the report.

This is not an offer to sell or a solicitation to buy any securities or an attempt to influence the opinion or behavior of investors or recipients or provide any investment/tax advice.

This report is for information only and has not been prepared based on specific investment objectives. The securities discussed in this report may not be suitable for all investors. Investors must make their own investment decision based on their own investment objectives, goals and financial position and based on their own analysis.

Trading in stocks, stock derivatives, and other securities is inherently risky and the recipient agrees to assume complete and full responsibility for the outcomes of all trading decisions that the recipient makes, including but not limited to loss of capital.

Opinions, projections and estimates in this report solely constitute the current judgment of the author of this report as of the date of this report and do not in any way reflect the views of IDBI Capital, its directors, officers, or employees.

This report is not directed or intended for distribution to, or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction, where such distribution, publication, availability or use would be contrary to law, regulation or which would subject IDBI Capital and associates to any registration or licensing requirement within such jurisdiction. The securities described herein may or may not be eligible for sale in all jurisdictions or to certain category of investors. Persons in whose possession this report may come are required to inform themselves of and to observe such restriction.

E-mail is not a secure method of communication. IDBI Capital cannot accept responsibility for the accuracy or completeness of any e-mail message or any attachment(s).

This transmission could contain viruses, be corrupted, destroyed, incomplete, intercepted, lost or arrived late. IDBI Capital, its directors or employees or associates accept no liability for any damage caused, directly or indirectly, by this email.

Analyst Disclosures

We, Archana Gude and Jyoti Amonkar, hereby certify that the views expressed in this report accurately reflect my personal views about the subject companies and / or securities. I also certify that no part of our compensation was, is or will be directly or indirectly related to the specific recommendations or views expressed in this report. Principally, I will be responsible for the preparation of this research report and have taken reasonable care to achieve and maintain independence and objectivity in making any recommendations herein.

Other Disclosure

IDBI Capital Markets & Securities Ltd.(herein after referred to as “IDBI Capital”) was incorporated in the year 1993 under Companies Act, 1956 and is a wholly owned subsidiary of IDBI Bank Limited. IDBI Capital is one of India’s leading securities firm which offers a full suite of products and services to individual, institutional and corporate clients namely Stock broking (Institutional and Retail) , Distribution of financial products, Merchant Banking, Corporate Advisory Services, Debt Arranging & Underwriting, Portfolio Manager Services and providing Depository Services. IDBI Capital is a registered trading and clearing member of BSE Ltd. (BSE) and National Stock Exchange of India Limited (NSE). IDBI Capital is also a SEBI registered Merchant Banker, Portfolio Manager and Research Analyst. IDBI Capital is also a SEBI registered depository participant with National Securities Depository Limited (NSDL) and is also a Mutual Fund Advisor registered with Association of Mutual Funds in India (AMFI).

IDBI Capital and its associates IDBI Bank Ltd. (Holding Company), IDBI Intech Ltd. (Fellow Subsidiary), IDBI Asset Management Ltd. (Fellow Subsidiary) and IDBI Trusteeship Services Ltd. (Fellow Subsidiary).

IDBI Group is a full-serviced banking, integrated investment banking, investment management, brokerage and financing group. Details in respect of which are available on www.idbicapital.com IDBI Capital along with its associates are leading underwriter of securities and participants in virtually all securities trading markets in India. We and our associates have investment banking and other business relationships with a significant percentage of the companies covered by our Research Department. Investors should assume that IDBI Capital and/or its associates are seeking or will seek investment banking or other business from the company or companies that are the subject of this material. IDBI Capital generally prohibits its analysts, persons reporting to analysts, and their dependent family members having a financial conflict of interest in the securities or derivatives of any companies that the analysts cover. Additionally, IDBI Capital generally prohibits its analysts and persons reporting to analysts from serving as an officer, director, or advisory board member of any companies that the analysts cover. Our sales people, traders, and other professionals may provide oral or written market commentary or trading strategies to our clients that reflect opinions that are contrary to the opinions expressed herein, and our proprietary trading and investing businesses may make investment decisions that are inconsistent with the recommendations expressed herein. In reviewing these materials, you should be aware that any or all of the foregoing, among other things, may give rise to real or potential conflicts of interest. Directors of IDBI Capital or its associates may have interest in the Companies under recommendation in this report either as Director or shareholder. Additionally, other important information regarding our relationships with the company or companies that are the subject of this material is provided herein. This material should not be construed as an offer to sell or the solicitation of an offer to buy any security in any jurisdiction where such an offer or solicitation would be illegal. We are not soliciting any action based on this material. It is for the general information of clients of IDBI Capital. It does not constitute a personal recommendation or take into account the particular investment objectives, financial situations, or needs of individual clients. Before acting on any advice or recommendation in this material, clients should consider whether it is suitable for their particular circumstances and, if necessary, seek professional advice. The price and value of the investments referred to in this material and the income from them may go down as well as up, and investors may realize losses on any investments. Past performance is not a guide for future performance, future returns are not guaranteed and a loss of original capital may occur. We and our associates, officers, directors, and employees, including persons involved in the preparation or issuance of this material, may from time to time have “long” or “short” positions in, act as principal in, and buy or sell the securities or derivatives thereof of companies mentioned herein. For the purpose of calculating whether IDBI Capital and its associates holds beneficially owns or controls, including the right to vote for directors, 1% or more of the equity shares of the subject issuer of a research report, the holdings does not include accounts managed by IDBI Asset Management Company/ IDBI Mutual Fund.

IDBI Capital hereby declares that our activities were neither suspended nor we have materially defaulted with any Stock Exchange authority with whom we are registered in last five years. However SEBI, Exchanges and Depositories have conducted the routine inspection and based on their observations have issued advice letters or levied minor penalty on IDBI Capital for certain operational deviations. We have not been debarred from doing business by any Stock Exchange / SEBI or any other authorities; nor has our certificate of registration been cancelled by SEBI at any point of time. IDBI Capital, its directors or employees or associates, may from time to time, have positions in, or options on, and buy and sell securities referred to herein. IDBI Capital or its associates, during the normal course of business, from time to time, may solicit from or perform investment banking or other services for any company mentioned in this document or their connected persons or be engaged in any other transaction involving such securities and earn brokerage or other compensation or act as a market maker in the financial instruments of the company(ies) discussed herein or their affiliate companies or act as advisor or lender / borrower to such company(ies)/associates companies or have other potential conflict of interest. This report may provide hyperlinks to other websites. Except to the extent to which the report refers to the website of IDBI Capital, IDBI Capital states that it has not reviewed the linked site and takes no responsibility for the content contained in such other websites. Accessing such websites shall be at recipient's own risk. IDBI Capital encourages the practice of giving independent opinion in research report preparation by the analyst and thus strives to minimize the conflict in preparation of research report. Accordingly, neither IDBI Capital nor Research Analysts have any material conflict of interest at the time of publication of this report. We offer our research services to primarily institutional investors and their employees, directors, fund managers, advisors who are registered with us. The Research Analyst has not served as an officer, director or employee of Subject Company. We or our associates may have received compensation from the subject company in the past 12 months. We or our associates may have managed or co-managed public offering of securities for the subject company in the past 12 months. We or our associates may have received compensation for investment banking or merchant banking or brokerage services from the subject company in the past 12 months. We or our associates may have received any compensation for products or services other than investment banking or merchant banking or brokerage services from the subject company in the past 12 months. We or our associates may have received any compensation or other benefits from the Subject Company or third party in connection with the research report. Research Analyst or his/her relative's may have financial interest in the subject company. IDBI Capital or its associates may have financial interest in the subject company. Research Analyst or his/her relatives does not have actual/beneficial ownership of 1% or more securities of the subject company at the end of the month immediately preceding the date of publication of Research Report. IDBI Capital or its associates may have actual/beneficial ownership of 1% or more securities of the subject company at the end of the month immediately preceding the date of publication of Research Report. The Subject Company may have been a client during twelve months preceding the date of distribution of the research report. Price history of the daily closing price of the securities covered in this note is available at www.bseindia.com; www.nseindia.com and www.economictimes.indiatimes.com/markets/stocks/stock-quotes.