

10 February 2025

Nilkamal

Revenues in line, profitability a miss; retaining a Buy

Nilkamal's Q3 revenue grew 6.3% y/y to Rs8.5bn. Input-cost tailwinds helped the gross margin expand 126bps y/y to 43.3%. Higher employee expenses and other operating expenses pulled EBITDA down 12.9% y/y to Rs634m. PAT was down a significant 26.4%.

Revenue growth led by the B2B segment. Revenue in the B2B segment was up 7.6% y/y to Rs7.6bn; in the retail & e-commerce segment it was 2.7% lower y/y to Rs979m.

Retail & e-commerce cuts into overall profitability. Though profitability in the B2B segment increased 8% y/y to Rs576m at the EBIT level, the margin was broadly the same at 7.6%. Losses in the retail & e-commerce business jumped 4.4x to Rs 181m. This led to overall profitability at the EBIT being 19.8% lower y/y.

Capex, borrowings. Production of rigid packaging commenced at Puducherry; production of wooden furniture at Hosur would commence by Q4 FY25. The company spent Rs610m as capex in Q3 and Rs2.3bn in 9M FY25. Its net borrowings rose 13.3% q/q to Rs3.5bn.

To enhance ad-spends to increase visibility. Ad-spends were up 58.7% y/y to Rs309m. Management guided to vigorous ad-spends to enhance visibility of its products by focusing on brand engagement and brand building.

Outlook, Valuation. We anticipate 8%/14% revenue/earnings CAGRs over FY24-27. At the CMP, the stock trades at 26.2x/20.1x/14.4x FY25e/26e/27e earnings. We arrive at a lower 12-mth TP of Rs2,694, 22.5x FY27e earnings (earlier Rs2,759, 22.5x FY27e earnings). **Risks:** Economic slowdown, keener competition, raw material availability and pricing.

Key financials (YE Mar)	FY23	FY24	FY25e	FY26e	FY27e
Sales (Rs m)	31,309	31,963	33,446	36,243	40,636
Net profit (Rs m)	1,339	1,222	983	1,281	1,786
EPS (Rs)	89.8	81.9	65.8	85.8	119.7
PE (x)	19.2	21.0	26.2	20.1	14.4
EV/EBITDA (x)	8.9	9.3	9.9	8.5	7.0
P/BV (x)	2.0	1.8	1.7	1.6	1.5
RoE (%)	10.6	9.0	6.8	8.4	10.8
RoCE (%) - after tax	9.2	7.8	6.3	7.2	8.9
Dividend yield (%)	1.2	1.2	1.2	1.2	1.2
Net debt/equity (x)	0.1	0.1	0.2	0.2	0.1

Source: Company, Anand Rath Research

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Rating: **Buy**

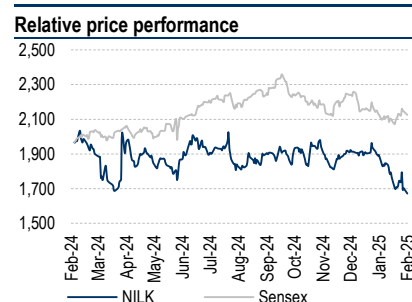
Target Price (12-mth): Rs.2,694

Share Price: Rs.1,681

Key data	NILK IN / NKLM.BO
52-week high / low	Rs.2,138 / 1,630
Sensex / Nifty	77,312 / 23,382
3-m average volume	\$0.1m
Market cap	Rs.25bn / \$285.3m
Shares outstanding	15m

Shareholding pattern (%)	Dec'24	Sep'24	Jun'24
Promoters	64.5	64.5	64.5
- of which, Pledged	-	-	-
Free Float	35.5	35.5	35.5
- Foreign Institutions	1.1	1.1	1.1
- Domestic Institutions	14.4	14.3	17.7
- Public	20.0	20.1	16.7

Estimates revision (%)	FY25e	FY26e	FY27e
Sales	0.5	0.3	0.1
EBITDA	(9.6)	(9.1)	(8.6)
EPS	(13.4)	(7.1)	(2.4)



Source: Bloomberg, Anand Rath Research

Rishab Bothra
Research Analyst

Quick Glance – Financials and Valuations

Fig 1 – Income statement (Rs m)

Year-end: Mar	FY23	FY24	FY25e	FY26e	FY27e
Net revenues	31,309	31,963	33,446	36,243	40,636
Growth (%)	14.7	2.1	4.6	8.4	12.1
Direct costs	18,846	18,464	18,813	20,245	22,541
SG&A	9,381	10,595	11,811	12,685	14,096
EBITDA	3,082	2,904	2,822	3,313	4,000
EBITDA margins (%)	9.8	9.1	8.4	9.1	9.8
- Depreciation	1,134	1,154	1,359	1,472	1,524
Other income	110	133	167	181	203
Interest expenses	366	369	418	453	508
PBT	1,693	1,514	1,212	1,569	2,172
Effective tax rates (%)	25.4	25.3	25.0	25.0	25.0
+ Associates / (Minorities)	77	91	73	104	158
Net income	1,339	1,222	983	1,281	1,786
Adj. income	1,339	1,222	983	1,281	1,786
WANS	14.9	14.9	14.9	14.9	14.9
FDEPS (Rs)	89.8	81.9	65.8	85.8	119.7
FDEPS growth (%)	60.7	(8.7)	(19.6)	30.3	39.5
Gross margins (%)	39.8	42.2	43.8	44.1	44.5

Fig 3 – Cash-flow statement (Rs m)

Year-end: Mar	FY23	FY24	FY25e	FY26e	FY27e
PBT	1,693	1,514	1,212	1,569	2,172
+ Non-cash items	1,134	1,154	1,359	1,472	1,524
Oper. prof. before WC	2,827	2,668	2,571	3,041	3,695
- Incr. / (decr.) in WC	(1,009)	(179)	(268)	(710)	(1,137)
Others incl. taxes	(33)	58	115	61	(35)
Operating cash-flow	1,785	2,546	2,418	2,392	2,524
- Capex (tang. + intang.)	(1,968)	(1,236)	(2,603)	(1,847)	(1,686)
Free cash-flow	(183)	1,310	(184)	544	837
Acquisitions	-	-	-	-	-
- Div. (incl. buyback & taxes)	(298)	(298)	(298)	(298)	(298)
+ Equity raised	-	-	-	-	-
+ Debt raised	140	587	625	473	568
- Fin investments	35	(386)	-	-	-
- Misc. (CFI + CFF)	(136)	(608)	(539)	(471)	(467)
Net cash-flow	(443)	605	(397)	249	640

Source: Company, Anand Rathi Research

Fig 5 – Price movement



Source: Bloomberg, Anand Rathi Research

Fig 2 – Balance sheet (Rs m)

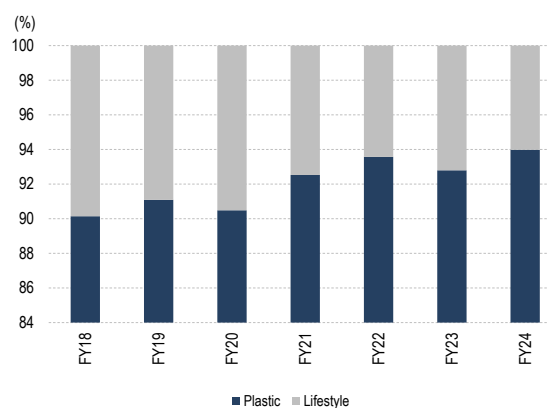
Year-end: Mar	FY23	FY24	FY25e	FY26e	FY27e
Share capital	149	149	149	149	149
Net worth	13,142	14,099	14,783	15,765	17,253
Debt	1,887	2,474	3,099	3,573	4,141
Minority interest	8	10	10	10	10
DTL / (Assets)	153	159	159	159	159
Capital employed	15,190	16,742	18,051	19,507	21,563
Net tangible assets	7,745	7,674	8,924	9,424	9,736
Net intangible assets	11	5	5	5	5
Goodwill	68	68	68	68	68
CWIP (tang. & intang.)	222	381	375	250	100
Investments (strategic)	274	379	379	379	379
Investments (financial)	46	327	327	327	327
Current assets (excl. cash)	1,253	1,935	2,406	2,546	2,766
Cash	240	845	448	697	1,338
Current liabilities	3,308	3,314	3,471	3,497	3,592
Working capital	8,639	8,443	8,591	9,309	10,437
Capital deployed	15,190	16,742	18,051	19,507	21,563
Contingent liabilities	501	1,336	-	-	-

Fig 4 – Ratio analysis

Year-end: Mar	FY23	FY24	FY25e	FY26e	FY27e
P/E (x)	19.2	21.0	26.2	20.1	14.4
EV / EBITDA (x)	8.9	9.3	9.9	8.5	7.0
EV / Sales (x)	0.9	0.8	0.8	0.8	0.7
P/B (x)	2.0	1.8	1.7	1.6	1.5
RoE (%)	10.6	9.0	6.8	8.4	10.8
RoCE (%) (post-tax)	9.2	7.8	6.3	7.2	8.9
RoIC (%) (post-tax)	9.7	8.3	6.7	7.7	9.6
DPS (Rs)	20.0	20.0	20.0	20.0	20.0
Dividend yield (%)	1.2	1.2	1.2	1.2	1.2
Dividend payout (%) - incl. DDT	22.3	24.4	30.4	23.3	16.7
Net debt / equity (x)	0.1	0.1	0.2	0.2	0.1
Receivables (days)	50.5	52.9	50.0	50.0	50.0
Inventory (days)	76.5	68.0	68.8	68.8	68.8
Payables (days)	26.3	24.6	25.0	25.0	25.0
CFO : PAT %	133.2	208.3	246.1	186.8	141.3

Source: Company, Anand Rathi Research

Fig 6 – Revenue mix



Source: Company, Anand Rathi Research

Financial highlights

Fig 7 – Financial (consolidated)

(Rs m)	Q3 FY24	Q2 FY25	Q3 FY25	Y/Y (%)	Q/Q (%)	9M FY24	9M FY25	Y/Y (%)	FY23	FY24	Y/Y (%)
Revenue	8,035	8,218	8,543	6.3	4.0	23,621	24,187	2.4	31,309	31,963	2.1
Raw material costs	4,654	4,647	4,841	4.0	4.2	13,699	13,715	0.1	18,846	18,464	(2.0)
Employee costs	634	686	696	9.9	1.5	1,857	2,062	11.1	2,216	2,494	12.5
Other expenses	2,019	2,111	2,372	17.5	12.3	5,976	6,438	7.7	7,165	8,100	13.1
EBITDA	728	774	634	(12.9)	(18.1)	2,090	1,972	(5.6)	3,082	2,904	(5.8)
Other income	22	26	31	43.4	19.8	113	95	(15.8)	110	133	20.6
Depreciation	294	297	303	3.0	2.0	868	890	2.6	1,134	1,154	1.8
Finance costs	97	96	107	9.9	11.1	280	295	5.4	366	369	1.0
Share of profit from Associates	20	21	24	19.0	18.3	72	65	(10.6)	77	93	20.2
PBT	380	428	280	(26.1)	(34.6)	1,127	946	(16.1)	1,770	1,607	(9.2)
Tax	86	102	64	(25.3)	(37.2)	258	220	(14.8)	430	382	(11.1)
MI	1	1	1	110.5	48.5	1	3	135.1	0	2	273.1
PAT	293	325	215	(26.7)	(34.0)	867	723	(16.7)	1,339	1,222	(8.7)
EPS (Rs)	19.6	21.8	14.4	(26.7)	(34.0)	58.1	48.4	(16.7)	89.8	81.9	(8.7)

As % of sales				y/y (bps)	q/q (bps)			y/y (bps)			y/y (bps)
Material cost	57.9	56.5	56.7	(126)	13	58.0	56.7	(129)	60.2	57.8	(243)
Gross margins	42.1	43.5	43.3	126	(13)	42.0	43.3	129	39.8	42.2	243
Employee expenses	7.9	8.3	8.1	26	(19)	7.9	8.5	67	7.1	7.8	72
Other expenses	25.1	25.7	27.8	264	207	25.3	26.6	132	22.9	25.3	246
EBITDA margins	9.1	9.4	7.4	(164)	(200)	8.8	8.2	(69)	9.8	9.1	(76)
Other income	0.3	0.3	0.4	10	5	0.5	0.4	(8)	0.4	0.4	6
Depreciation	3.7	3.6	3.5	(11)	(7)	3.7	3.7	1	3.6	3.6	(1)
Finance costs	1.2	1.2	1.2	4	8	1.2	1.2	4	1.2	1.2	(1)
PBT margins	4.7	5.2	3.3	(144)	(193)	4.8	3.9	(86)	5.7	5.0	(63)
Effective tax rates	22.6	23.8	22.9	25	(96)	22.9	23.3	34	24.3	23.8	(50)
PAT margins	3.7	4.0	2.5	(112)	(144)	3.7	3.0	(68)	4.3	3.8	(45)

Source: Company, Anand Rathi Research

Fig 8 – Segment details

Particulars (Rs m)	Q3 FY24	Q2 FY25	Q3 FY25	Y/Y (%)	Q/Q (%)	9M FY24	9M FY25	Y/Y (%)	FY24
Segment revenues									
Business to Business	7,028	7,312	7,564	7.6	3.4	20,685	21,493	3.9	28,218
Retail & Ecommerce	1,006	906	979	(2.7)	8.1	2,936	2,694	(8.2)	3,746
Total	8,035	8,218	8,543	6.3	4.0	23,621	24,187	2.4	31,963
Segment EBIT									
Plastics	534	546	576	8.0	5.6	1,509	1,490	(1.3)	2,172
Lifestyle	(41)	(4)	(181)	339.6	4,011.8	(67)	(223)	232.5	(135)
Total	493	541	395	(19.8)	(27.0)	1,442	1,267	(12.1)	2,037
Revenue mix (%)									
Plastics	87	95	89	106	(627)	88	89	129	88
Lifestyle	13	5	11	(106)	627	12	11	(129)	12
Total	100	100	100			100	100		100
EBIT margins (%)									
Plastics	7.6	6.8	7.6	2	80	7.3	6.9	(36)	7.7
Lifestyle	(4.1)	(0.9)	(18.5)	(1,442)	(1,763)	(2.3)	(8.3)	(600)	(3.6)
Overall	6.1	6.6	4.6	(151)	(196)	6.1	5.2	(87)	6.4

Source: Company, Anand Rathi Research

Q3 FY25 Results Analysis

In line revenues, miss on profitability

- Revenue grew 6.3% y/y to Rs8.5bn, supported by the B2B business as the retail business was soft
- Easing input costs and the product-mix change helped the gross margin to inch up 126bps y/y to 43.3%. Hence, gross profit was up 9.5% y/y to Rs9.7bn
- Increase in employee expenses (up 9.9% y/y) and in other operating expenses (up 17.5% y/y) led to operating leverage. Hence, the EBITDA margin contracted 164bps y/y to 7.4%. EBITDA was 12.9% lower y/y to Rs634m
- Lower operating profit impacted PAT significantly, 26.4% lower y/y to Rs216m.

Performance by segment

- **Business to Business.** Revenue grew 8% y/y to Rs7.4bn, while offtake was slightly lower, down 1% y/y
- **Retail.** Revenue was down 4% y/y to Rs970m
- The material-handling business grew 5% y/y while the mattress business grew 46% y/y to Rs340m
- E-commerce sales grew 6% y/y to Rs420m.

Capex & borrowings

- Production of rigid packaging commenced at Puducherry
- The wooden furniture manufacturing plant at Hosur would commence production in Q4 FY25
- Capex for Q3 FY25 was Rs610m; for 9M FY25, Rs2,330m. Net borrowing increased 13.3% q/q to Rs3.5bn.

Other details

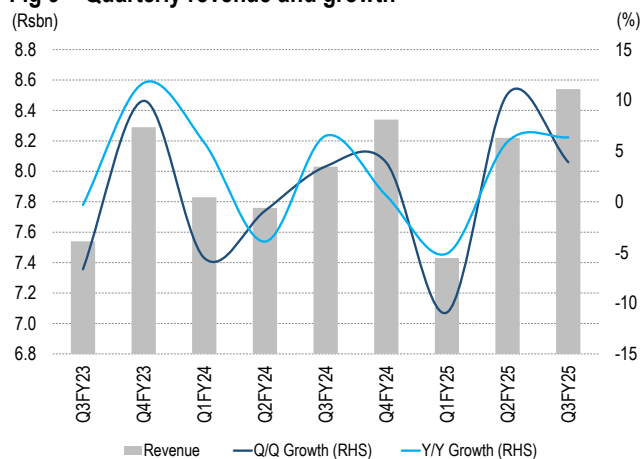
- With net addition of 487 LFOs/MBOs/EBOs, the company widened its presence and distribution reach to 1,555
- The store network has been re-organized to 98, which hurt revenue and profitability. Store network expansion would continue
- Management guided to vigorous ad-spends to increase visibility of its products, focusing on brand engagement and brand building. Ad-spends increased 58.7% y/y to Rs309m.

Re-structured segment reporting

- The company is mainly into furniture & home solutions, mattresses, material-handling solutions and allied products
- In Q3, it rebranded its retail division into 'Nilkamal Homes' under the mother brand 'Nilkamal'. Post-rebranding, it has re-evaluated the way operating results will be reviewed
- Business will be reviewed as i) **Business to Business** (industrial customers and channel partners) and ii) **Retail & e-commerce** (sales to customers from stores operating under the Nilkamal brand and e-commerce).

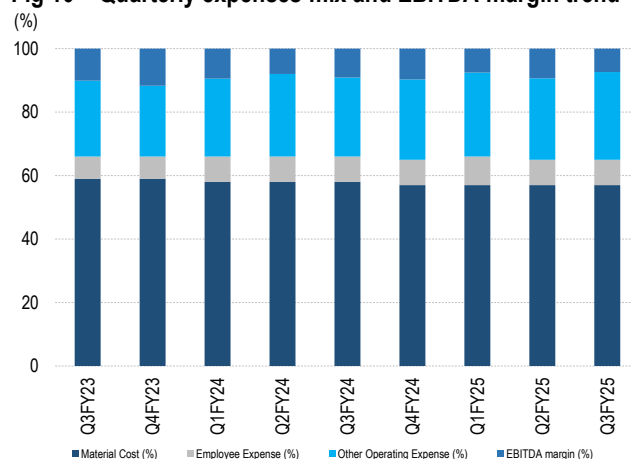
Story in charts

Fig 9 – Quarterly revenue and growth



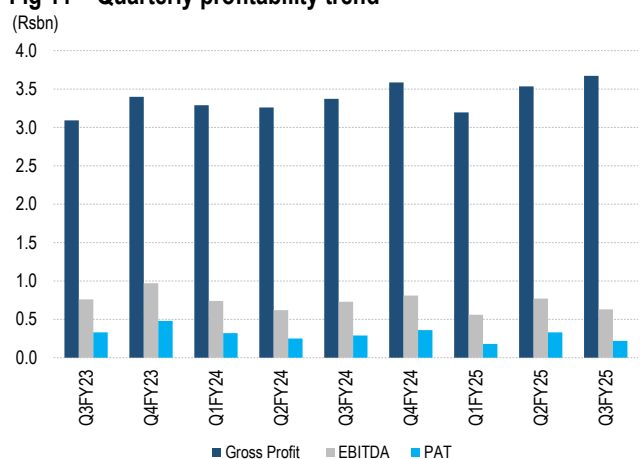
Source: Company, Anand Rathi Research

Fig 10 – Quarterly expenses-mix and EBITDA-margin trend



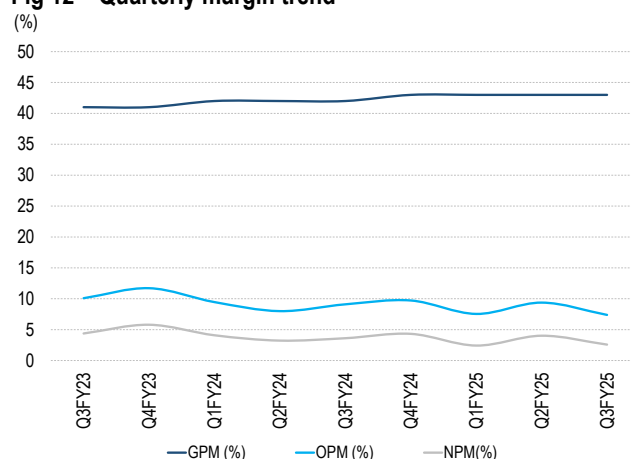
Source: Company, Anand Rathi Research

Fig 11 – Quarterly profitability trend



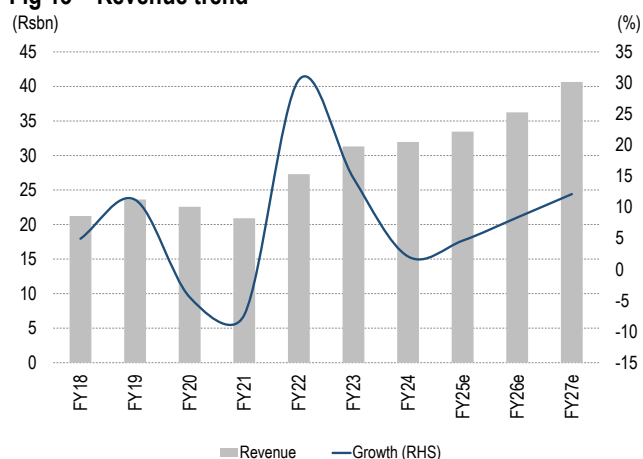
Source: Company, Anand Rathi Research

Fig 12 – Quarterly margin trend



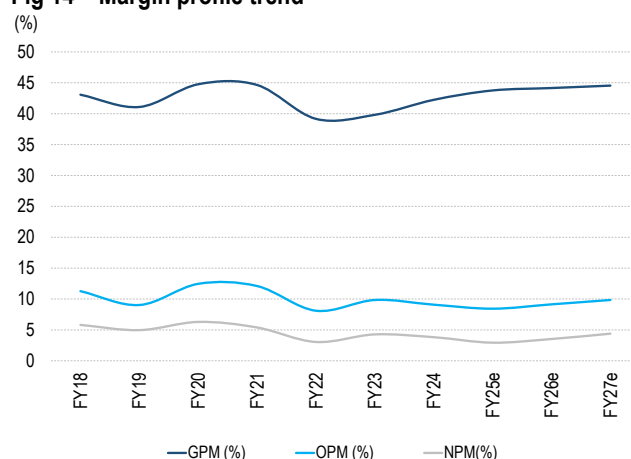
Source: Company, Anand Rathi Research

Fig 13 – Revenue trend



Source: Company, Anand Rathi Research

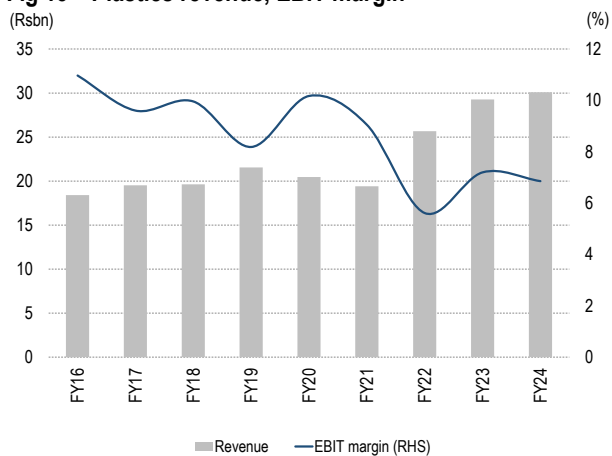
Fig 14 – Margin profile trend



Source: Company, Anand Rathi Research

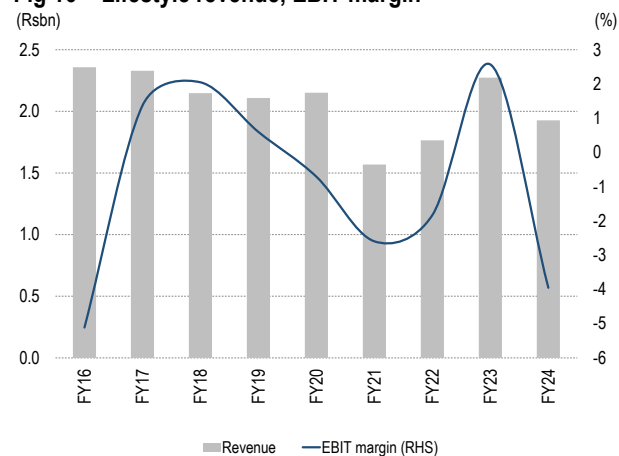
Story in charts continues

Fig 15 – Plastics revenue, EBIT margin



Source: Company, Anand Rath Research

Fig 16 – Lifestyle revenue, EBIT margin



Source: Company, Anand Rath Research

Outlook and Valuations

We see bright prospects for Nilkamal due to market-share gains from the informal sector, a sharper focus on non-plastic furniture and online sales, rising industrial activity and deeper e-commerce penetration. Its wide distribution network, plants at various locations and lean balance sheet are its key strengths.

We believe the demand-pricing environment would improve in the B2B segment. Also, higher ad-spends to increase visibility of products would drive revenues in the retail and e-commerce segment, coupled with revenue contribution from wooden furniture manufactured at Hosur.

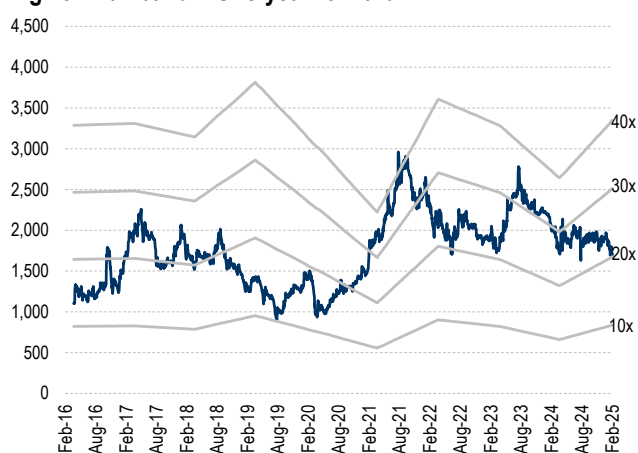
We expect 8%/14% revenue/earnings CAGRs over FY24-27. At the CMP, the stock trades at 26.2x/20.1x/14.4x FY25e/26e/27e earnings. We arrive at a lower 12-mth TP of Rs2,694, 22.5x FY27e earnings (earlier Rs2759, 22.5x FY27e earnings).

Fig 17 – Change in estimates

(Rs m)	Old			New			Variance %		
	FY25e	FY26e	FY27e	FY25e	FY26e	FY27e	FY25	FY26	FY27
Sales	33,294	36,152	40,612	33,446	36,243	40,636	0.5	0.3	0.1
EBITDA	3,121	3,643	4,379	2,822	3,313	4,000	(9.6)	(9.1)	(8.6)
EBITDA margins (%)	9.4	10.1	10.8	8.4	9.1	9.8	(94)	(94)	(94)
PAT	1,134	1,379	1,830	983	1,281	1,786	(13.4)	(7.1)	(2.4)
EPS (Rs)	76.0	92.4	122.6	65.8	85.8	119.7	(13.4)	(7.1)	(2.4)

Source: Anand Rath Research

Fig 18 – P/E band – One-year-forward



Source: Company, Anand Rath Research

Fig 19 – P/E band – Mean and standard deviation



Source: Company, Anand Rath Research

Key risks

Upside

- **Exploring new business opportunities.** The company has been attempting to make a foray into a related vertical to increase and diversify its products (to non-plastic furniture). Revenue growth momentum from the ramp-up and faster scalability would be an upside risk.

Downside

- **Slowdown in the economy, industrial capex.** Slow recovery in industrial capex could curb demand for material-handling products, while low economic growth would dampen consumer spending on furniture, etc.
- **Higher input cost, inability to pass through.** Higher key input costs (polyethylene, polypropylene ~50% of raw material costs) and the company's inability to fully pass them on would eat into profits
- **Mounting competition.** Keener competition from non-regulated as well as regulated manufacturers could restrain growth and margins.

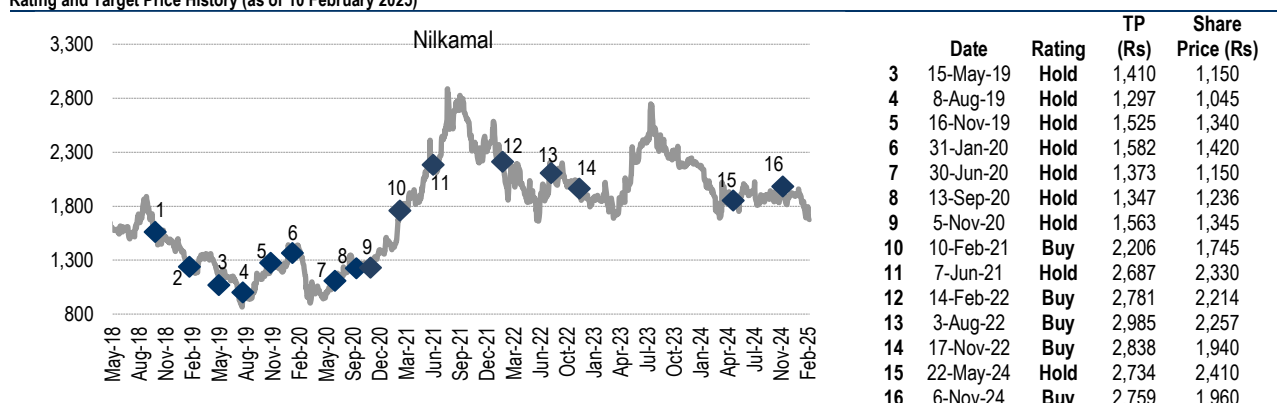
Appendix

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	Buy	Hold	Sell
Large Caps (Top 100 companies)	>15%	0-15%	<0%
Mid Caps (101st-250th company)	>20%	0-20%	<0%
Small Caps (251st company onwards)	>25%	0-25%	<0%

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