

CMP: INR 125

Outlook: Positive

Stock Info

BSE	526159
NSE	NIKHILAD
Bloomberg	NA:IN
Sector	Speciality chemicals
Face Value (INR)	1
Mkt Cap (INR Bn)	5.97
52w H/L (INR)	91/167
Avg. Yearly Volume (in 000')	28

Shareholding Pattern %

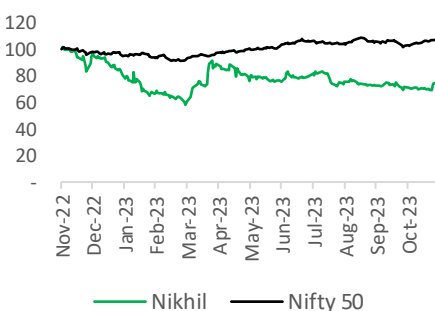
(As on Sept, 2023)

Promoters	54.44
DIs	-
FIs	-
Public & Others	45.57

Stock Performance (%) 1m 3m 12m

Nikhil Adhesives	14.69	5.2	-18.16
Nifty 50	6.57	5.6	10.62

Nikhil Adhesives Vs Nifty 50



Source: Arihant Research, Company Filings

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About the company

Nikhil Adhesives, a multi-product company based in Mumbai, was founded in 1982 and produces, markets, and exports a range of adhesives and emulsions for use in a variety of applications. Additionally, it trades chemicals used in the adhesive and emulsion industries. The company has 23 warehouses and 5 manufacturing units.

Product Portfolio

- The company produces and markets goods in two categories: consumer goods and industrial items. It includes paint emulsions, textile emulsions, and construction chemicals within its industrial product category mitigating the risk from concentration in any one particular segment and further diversification into manufacturing of Re-dispensible polymer from H2FY24.
- Adhesives are sold under the consumer products category. The company also engages in the trading of chemicals, solvents, and monomers.
- In FY22 the segment wise volume mix was: Paint -34%, Consumer Products -22%, Textiles -7%, Industrial Adhesives -11%, Construction chemicals -24%, and Exports -2%.
- In FY23 the segment wise volume mix was: Paint -30%, Consumer Products -26%, Textiles -10%, Industrial Adhesives -11%, Construction chemicals -21%, and Exports -2%.

Brands

In the consumer segment company has Mahacol, Formisol, Mahaquick & Mahabond. In the Industrial segment the company has Emdilith, Emdicryl, Emditex, and Emdibind, all these brands are well known in the market.

Exports

- Company export's adhesives and emulsions to Nepal, Taiwan, Bangladesh, Philippines and Kenya which contributes to 2% of the total volume sales of the company.
- 78% of the Paint emulsion (EMDILITH, EMDICRYL) sales is supplied to large corporate paint manufacturers & the balance through distribution channels.

Guidance

The company has guided for increase in the revenue by INR 35-40cr in FY24 and by INR 120 cr of revenue by FY25 through the company's new project, EBIDTA margins expecting to be in the range of 10 to 12% going forward.

Re-dispensible Polymer (RDP)

This market is growing at 15-20% and is partially replacing cement plasters, internal and external walls. RDP is used for manufacturing wall putty; it gives a property of adhesion & flexibility. Internationally, it is mainly used in manufacturing of tile adhesives & other construction chemicals. The company is developing Proprietary technology of Re-Dispensible Polymer (RDP) used on wall putty which can be a substitute for import. This project is under progress at Dahej with a manufacturing capacity of 12,000 tonnes per annum. It's a 100% import substitute.

Q2FY24 performance

- The company reported INR 196 cr of revenues flattish YoY/-12.5% QoQ mainly due to reduction in RM prices. Operating profits stood at INR 7.5cr down by -7.4% YoY/-11.9% QoQ, margins at 5.2% as revenue were adversely affected.
- The company managed to bring down its employee cost by 8% YoY which stood at INR 4.63 cr, finance cost increased as borrowings increased due to expansion plans.

Exhibit : Company Detail Background
Company Snapshot

Company Background	<p>The company engages in manufacturing specialty adhesives and emulsions, and it also trades chemicals used in the emulsions and adhesives industry. It operates from five strategically located units in Dahanu, Silvassa, Dahej, Tumkur, and Mehatpur. With an annual production capacity of 120,000 tons, the company caters to various industries, including paints, textiles, packaging, and furniture. In 2003, Nikhil Adhesives acquired the emulsion business of M/s. Mafatlal Dyes & Chemicals Ltd., adding established products to its portfolio. The company has a strong global presence, exporting to Asia, Africa, and the Middle East, and is committed to building enduring business relationships.</p>	
Promoter Background	<p>Rajendra Jayantilal Sanghavi serves as the Executive Whole-Time Director at Nikhil Adhesives Ltd and is a board member at Sanghavi Logistics Pvt. Ltd. Formerly, he held the role of Executive Chairman at Nikhil Adhesives Ltd</p> <p>Tarak Jayantilal Sanghavi is the Executive Whole-Time Director at Nikhil Adhesives Ltd.</p> <p>Umesh Jayantilal Sanghavi holds the positions of Executive Chairman and Managing Director at Nikhil Adhesives Ltd. Additionally, he serves on the board of Sanghavi Logistics Pvt Ltd.</p>	
Promoter Holdings (Total - 54%)	<p>Vasantben J. Sanghavi Rekha Tarak Sanghavi Mrunalini Rajendra Sanghavi Anita Umesha Sanghavi Rajendra Jayantilal Sanghavi Tarak Jayantilal Sanghavi Umesh Jayantilal Sanghavi</p>	<p>10.89% 9.70% 9.42% 6.58% 2.61% 2.45% 2.08%</p>
Revenue Mix	<p>Manufacturing of Adhesives & Emulsions Trading in chemicals & others</p>	<p>82% 18%</p>
Market Share	<p>Paints Emulsion Consumer & Contract Manufacturing Adhesives Construction Chemicals Industrial Adhesives Textile Emulsions Export (Nepal, Taiwan, Bangladesh, Philippines and Kenya)</p>	<p>30% 26% 21% 11% 10% 2%</p>
Key Customers	<p>Akzo Nobel, Asian Paints, Kansai Nerolac and Dow Chemicals</p>	

Peer comparison

Particular	ROCE (%)		P/BV (x)		PE (x)		D/E (x)
	FY22	FY23	FY22	FY23	FY22	FY23	FY23
Nikhil Adhesives	39.00%	24.00%	4.6	4.8	12.6	23	0.6
Jyoti resins and adhesives	46.00%	73.00%	19	21	46	41	0

Particular	CMP (INR)	M.Cap (INR Cr)	Revenue (INR Cr)		EBITDA (INR Cr)		EBITDA Margin (%)		PAT (INR Cr)	
			FY22	FY23	FY22	FY23	FY22	FY23	FY22	FY23
Nikhil Adhesives	118	542	814	743	43	35	5.00%	5.00%	25	17
Jyoti resins and adhesives	1,605	1,926	182	261	61	79	13.00%	23.00%	20	46

Source: Arian Research, Company Filings

FY23 highlights

- The revenue from manufacturing division Trading Division was INR 743 cr as compared to INR 813 cr, due to reduction in raw material prices, volume has increased by 10.69% YoY stood at 93306 MT. PAT was reported at INR 17 cr against the net profit after tax of INR 25 cr in FY22.
- Trading Division reported INR 133.83cr in FY23 vs INR 167 cr in FY22.
- The company did expansion at manufacturing units viz Tumkur, Mehatpur & Dahej factories.
- The company opened many warehouses/ godowns in Gujarat, Maharashtra, Punjab, Madhya Pradesh, other places for quicker logistics and wider customer reach.
- In paint emulsion the business got impacted due to flat demand, the main clients of the company are Akzo Nobel, Asian Paints & Dow.
- In textiles the company reported volume increase by 2600 MT driven by introduction of new products like printing binders along with improvement in performance of existing products, on time delivery and increase in distributor network.
- The company is working continuously to enhance its digital platform by geo tagging all the shops, plan to pay out incentives using UPI & Bank transfer, the customers are encouraged to have mobile apps.
- Brands “MAHACOL” “FORMISOL” and “EMDILITH” enjoy a very strong position and popularity in the adhesive market.
- Debt service coverage ratio stood at 1.81x in FY23 as compared to 2.83x in FY22, Term loan taken for expansion in the current year has been partly repaid, EBITD remaining constant. Short-term debt stood at INR 16 cr and long-term stood at INR 16 cr as of Mar’23. No major debt funded capex over the medium term.
- ROE decreased from 34.53% in FY22 to 18.21% in FY23 due to dip in NP as there was crash in international prices of the products dealt by the company, including loss arising out of forex fluctuation, sales volume has increased and remained unaffected.

Outlook: The company is working towards double digit growth in emulsion segment, in trading the company wants to perform cautiously as there is high volatility in chemical prices. In exports NAL is expanding its horizon by adding new products and territories. On 20th Sep 2023 the company announced that they have successfully started the trials of its new product RDP (Re-dispensible Polymer Powder), the trail success can be a game changer for the company. By FY25 the company is expected to reach to its full capacity of 1,20,000 tones pa. We believe, the addition of new product, category along with increasing its capacity utilisation will add significantly to the company’s revenues and growth which will also help in margin expansion.

P&L

INR cr	Q2FY24	Q1FY24	Q2FY23	YOY	QOQ	FY23	FY22
Net Revenue	143	142	196	-27.0%	0.7%	743	814
EBITDA	8	7	8	-6.9%	12.5%	35	43
EBITDA margin %	5.3%	4.7%	4.1%	114bps	55bps	5%	5%
PBT	5	4	6	10.2%	-19.3%	24	34
PAT	3	3	4	-18.4%	12.4%	17	25
PAT margin %	2.4%	2.2%	2.2%	25bps	25bps	2.3%	3.1%
EPS (Rs)	0.75	0.67	0.92	-18.5%	11.9%	4	6

Source: Arianth Research, Company Filings

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Stock Rating Scale

BUY

ACCUMULATE

HOLD

NEUTRAL

REDUCE

SELL

Absolute Return

>20%

12% to 20%

5% to 12%

-5% to 5%

-5% to -12%

<-12%

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