Nile Ltd.

BSE Code: 530129

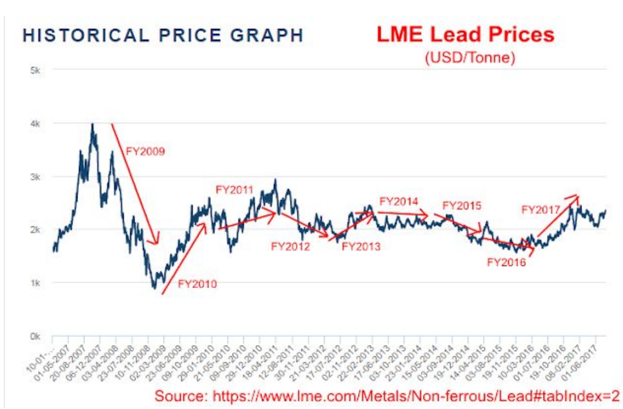
5th JANUARY 2020

Incorporated in 1984, Hyderabad-based Nile is promoted by V Ramesh (chairman and managing director). The company commenced commercial glass-lined equipment production in 1987. In 1995, it installed a 2MW wind farm in Ramagiri, Andhra Pradesh. In 1999, it established a non-ferrous division for the secondary manufacture of lead and lead alloys from used batteries and other lead-bearing scrap. The glass-lined equipment division was transferred to De Dietrich Process Systems India Private Limited on 21 June 2012. Lead recycling plants are in Andhra Pradesh, one each in Choutuppal and Tirupati. Early 2000s the lead recycling capacity was 3,000 TPA which currently stands at 82,000 TPA. The windmill division clocks very less revenue; Rs. 51 lacs vs total revenue of Rs. 570 Crs. So we will be mostly focusing on lead recycling business.

BUSINESS ANALYSIS

Volatile Raw Material Prices: Nile's sales rate is determined by the previous month's average LME lead price, plus a fixed premium. The company takes between two to three months to deliver the finished product once order is placed by the customer. Any sharp fall in the LME prices from the day of procurement of raw materials will dent the company's profitability.

Company's major customer is Amara Raja Batteries which contributed around 80% of the total revenue. Nile sells to Amara Raja Batteries on a contractual basis. The contract renews every year with Amara Raja Batteries and has a minimum offtake clause i.e. Amara Raja will buy at least a minimum agreed quantity and therefore, Nile Ltd can plan its inventory purchases accordingly. The selling price is determined by the previous month London Exchange Price (LME) plus a fixed premium. Profit margin suffers significantly if the prices of lead fall between and the day of procurement of raw material and the day of delivery of metal.



Period	Lead Prices	OPM of Nile Ltd
FY2009	Sharp decline	Operating losses
FY2010	Sharp increase	Sharp improvement in OPM
FY2011	Mild increase	Decline in OPM
FY2012	Decline	Decline
FY2013	Increase	Increase
FY2014	Stable	Stable
FY2015	Decline	Decline
FY2016	Mile decline	Stable
FY2017	Sharp increase	Sharp improvement in OPM
FY2018	Sharp increase	Sharp improvement in OPM
FY2019	Sharp decline	Sharp Decline in OPM

Source: Dr. Vijay Malik's Analysis

From the above graph and data we can conclude that the profit margin is directly linked with the lead price movement on the exchange.

The sharpest fall in LME lead price is around 77% in a year, which peaks on November 2007 at $3975 per tonne and the bottoms on December 2008 at $881 per tonne. In that year (FY09) the company had reported a net loss of Rs. 2 Crs. of with interest charges cost around Rs. 3.6 Cr. yet operationally profitable with 0.3% as OPM.

	Mar-08	Mar-09	Mar-10	Mar-11	Mar-12	Mar-13	Mar-14	Mar-15	Mar-16	Mar-17	Mar-18	Mar-19
OPM	12.66%	0.31%	7.63%	5.45%	4.87%	5.98%	6.08%	4.38%	4.46%	9.04%	7.21%	4.76%
Average OPM	**6.07%**											

Also, the average operating profit margin from the last many years is around 6%.

Source: Screener.in

Lead prices comprise 50-60% of the cost of making a lead-acid battery. (Source)

	Mar-08	Mar-09	Mar-10	Mar-11	Mar-12	Mar-13	Mar-14	Mar-15	Mar-16	Mar-17	Mar-18	Mar-19
Amara Raja Total Expenses	904	1,144	1,176	1,504	2,025	2,508	2,877	3,509	3,795	4,467	5,176	5,841
Expense on lead (55% of total)	497	629	647	827	1114	1379	1582	1930	2087	2457	2847	3213
Nile Revenue	115	96	145	254	275	258	277	386	425	579	633	571
% contribution of Nile as total requirement of Amara Raja	**23%**	**15%**	**22%**	**31%**	**25%**	**19%**	**17%**	**20%**	**20%**	**24%**	**22%**	**18%**

Among that, Nile contributes around 20% of total Amara Raja's requirement.

The Company endeavors to manage the environmental impacts of organizational activities, products and services. The Company uses recycled lead in the manufacture of the products and has in place a structure to collect the used batteries and recycle the same at the approved vendors. The Company has systems in place to mitigate the exposure risk of hazardous materials during manufacturing, application and disposal at all our plants.

Amara Raja AR states that they have a system in place for the collection of old batteries. 60% of lead consumed in India is derived from recycled or reused material and remaining from ores. The organised battery manufacturers such as Exide and Amara Raja Batteries collects batteries from their customers through exchange offers and give them discounts on new purchases.

- Positioned our franchisees into our progressive partners
- Initiated reverse logistics for carrying scrap batteries from our franchisees' establishments
- Opened our distribution centers (30 pan-India) for collecting scrap batteries sent by the franchisees
- Increased participation in auctions for purchasing the recycled lead.

These scrap and old collected batteries are then given to companies like Nile and Gravita India to recycle it. Lead recyclers perform various steps shown below.

Fig. Different Recycling Steps

Recycling of lead is a commodity type business. The expenses are mostly on raw material (+80%).

Nile always faces difficulties in procurement of raw material. In FY17 the company has taken approval from the government to import old lead acid batteries.

Earlier in FY2010 the company had also entered into joint venture (JV) in the Republic of Georgia with a local partner for raw material supplies of Lead. The very next year JV went into some trouble due to the financial position of the local JV partner. The company was unsuccessful in saving the JV. In FY2013, the company acknowledged that it was not a good capital allocation decision and it started to recognize the losses by making provisions for the investment of ₹91 lac done in the JV. It recognized 50% loss in FY2013 and the remaining 50% in FY2014.

Particulars	As at 31st March,2014	As at 31st March,2013
11) Non-current investments		
Investments in equity instruments - non trade - At cost - unlisted - fully paid-up:		
(i) Equity shares of GLW Ltd (a joint venture) (19.55% of Capital) [Previous year – 19.55%]	**91.16**	91.16
Less : Provision for Diminution	**91.16**	45.58
Total	**-**	45.58

Source: Dr. Vijay Malik's Analysis

Nile's recycling facilities are strategically placed near the factory of Amara Raja. But in 2017 one of the direct competitors Gravita India Ltd. also opened up a facility in Chittoor near Amara Raja Plant with a capacity of 13,000 TPA (~12,000 MTA). Gravita's total capacity is 1,37,000 TPA spread across the globe while Nile has 82,000 TPA capacity in Telangana and Andhra Pradesh. Gravita's investor presentation tells that they collect raw material mostly from the international market.

Gravita India Ltd Unit –IV

- Established at Chittoor, Andhra Pradesh
- Manufacturing of Pure Lead and Lead Alloys
- 160 KM from Chennai Port for efficient logistics
- 12,000 MTPA Capacity

- Gravita collects domestic scrap from various large corporate clients in India such as Airtel, Vodafone, Indus Tower, TCS, Nxtra Data, Sukam etc.
- Gravita has entered into back to back buying of scrap from battery recycling companies like Amara Raja Batteries and HBL Power Systems and selling of recycled goods to them.
- In FY19, company collected 83% of the scrap from the International market and 17% from Indian market.

Recently, Gravita has signed a MoU in FY19 to obtain raw material from Amara Raja's collection centre, recycle it and sell it back to Amara Raja. The order volume is low (8,800 TPA) but one has to have a constant look on the changing scenario.

Gravita has signed a contract with Amara Raja Batteries Limited for Lead Acid Battery Scrap Collection and Recycling arrangements. Under this contract Gravita shall collect/purchase Lead Acid Battery scrap from designated locations of Amara Raja. It is a joint initiative towards environment protection and sustainability under which used batteries shall be recycled and Pure Lead/Lead Alloys will be supplied back to Amara Raja.

Gravita targets supply of approx. 8000 MT of Lead to Amara Raja under the said contract which will help the company to strengthen its top line in FY 2018-19 coupled with cost effective recycling and long term business association with Amara Raja. The supplies under this contract will be effected during F.Y. 2018-19.

Source: Gravita India Ltd.

The current capacity of Nile Ltd. stands at 82,000 TPA. In FY12 Annual Report company stated that it has taken approval from the Andhra Pradesh Pollution Control Board for expansion of the Choutuppal plant to 50,000 TPA out of which it has created 32,000 TPA until FY2019.

Key Business Risks

1. Price Fluctuation Risk: If the price of lead falls sharply then the company will face margin pressure and profitability will be impacted.
2. Customer Concentration Risk: 80% of total revenue comes from one customer. The contract with Amara Raja renews every year. Though they have more than a decade old business relations still don't hold any long term contracts in place.
3. Raw material Procurement and Import Regulation Risk: Company had faced difficulty in procuring raw material. Imported raw material as a percentage of total raw material consumed is decreasing constantly from 57% in FY09 vs 26% in FY19.

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Imported raw material as a % of total material consumed	**57%**	**42%**	**61%**	**50%**	**45%**	**47%**	**42%**	**39%**	**41%**	**31%**	**26%**

Also, India was a net importer of lead but from the last couple of years the country exports surpass the import by a small margin. Company and export/import data shows that there is sufficient availability of raw material in the domestic market.

	Production*	Change (%)	Consumption	Change (%)	Exports	Change (%)	Imports	Change (%)
FY17	390	10.2%	424	6.3%	77	20.3%	111	1.8%
FY18	462	18.4%	457	7.9%	125	61.2%	120	8.3%
FY19	530	14.6%	510	11.6%	138	10.3%	118	-1.5%

Source: Ministry of Commerce, CARE Ratings

Though minimum offtake agreements and sufficient raw material availability of raw material in the domestic market helps Nile to plan inventory accordingly.

4. Competitor Risk: Gravita India obtained an order from the battery maker and their plant is located near the customer's plant.
5. Overall Demand Risk: Battery manufacturing companies are innovating and finding new ways to reduce the amount of lead in batteries.

> The Company continuously strives to optimize the manufacturing process thereby effectively utilizing/reducing the consumption of the raw materials. The Company has reduced the consumption of lead ranging from 2% to 5% per battery for various products in both industrial and automotive battery division.

Source: Amara Raja Batteries Annual Report 2019

Note:

One can also think that Lithium-ion batteries will replace the lead acid batteries and demand of lead batteries will come down. But the reality is something different. For the same power capacity Li-ion batteries are lighter in weight when compared with lead acid batteries. So lithium batteries will replace lead in areas where total weight of the end product is a concern on efficiency like in automobiles. But Li-ion batteries won't replace lead acid batteries required in street lights, telecom towers, auxiliary batteries in automobiles, etc. Also at this current juncture Li-ion batteries are expensive and low lifecycle when compared with lead batteries.

Lithium-ion batteries and Lead Acid batteries to co-exist

Contrary to general perceptions, electric cars have a 12v lead-acid battery (LAB) as an auxiliary battery for SLI (starter, lighting, and ignition) applications. Going forward, the LAB will continue to be relevant even in the EV world.

Source: Amara Raja annual report

FINANCIAL ANALYSIS

	Mar 2008	Mar 2009	Mar 2010	Mar 2011	Mar 2012	Mar 2013	Mar 2014	Mar 2015	Mar 2016	Mar 2017	Mar 2018	Mar 2019
Share Capital +	3.00	3.00	3.00	3.00	3.00	3.00	3.00	3.00	3.00	3.00	3.00	3.00
Reserves	24.55	22.19	24.87	31.36	36.19	53.86	57.92	64.46	70.44	96.64	117.45	128.58
Borrowings	21.01	35.75	37.63	61.27	65.90	40.97	51.69	31.43	24.01	22.24	61.28	45.51
Other Liabilities +	18.06	16.53	35.80	51.04	25.53	17.36	29.84	14.18	12.43	18.07	12.82	10.82
Total Liabilities	**66.62**	**77.47**	**101.30**	**146.67**	**130.62**	**115.19**	**142.45**	**113.07**	**109.88**	**139.95**	**194.55**	**187.91**
Fixed Assets +	14.74	14.54	26.80	27.20	46.23	36.38	33.99	34.44	34.93	34.04	33.95	31.05
CWIP	0.97	13.11	0.81	6.82	0.00	0.01	0.06	0.66	0.56	2.42	0.01	0.82
Investments	0.00	0.86	0.91	0.91	0.91	0.46	0.00	0.00	0.00	0.00	0.00	0.02
Other Assets -	**50.91**	**48.96**	**72.78**	**111.74**	**83.48**	**78.34**	**108.40**	**77.97**	**74.39**	**103.49**	**160.59**	**156.02**
Inventories	34.97	37.46	51.8	54.33	41.31	25.07	37.02	35.61	28.01	52.4	59.98	87.13
Trade receivables	9.67	3.77	12.8	41.14	19.33	27.55	53.27	20.41	15.71	29.35	92.46	56.1
Cash Equivalents	1.83	1.55	1.21	2.35	9.16	4.46	1.57	6.52	0.31	6.8	0.75	0.1
Loans n Advances	4.44	6.18	6.97	9.35	12.34	9.78	7.03	14.54	29.43	13.41	5.97	11.42
Other Assets etc	0	0	0	4.57	1.34	11.48	9.51	0.89	0.93	1.53	1.43	1.27
Total Assets	**66.62**	**77.47**	**101.30**	**146.67**	**130.62**	**115.19**	**142.45**	**113.07**	**109.88**	**139.95**	**194.55**	**187.91**

Here is the snapshot of the balance sheet of the last 12 year.

Assets: Most assets of Nile Ltd. are in the form of working capital (83%). Inventory and trade receivables are the major components of working capital requirement.

- Inventory: Nile Ltd. has been able to properly manage its inventory, as it procures inventory according to the minimum offtake policy with Amara Raja. In FY14 Annual report, the company stated that 70% of raw material purchased are order backed. This is also visible from the inventory turnover which increases from 3.5 in FY08 to 7.8 in FY19.

Inventory Turnover	3.53	2.64	3.25	4.78	5.74	7.77	8.91	10.62	13.37	14.41	11.27	7.76

  Currently, the company holds inventory of Rs. 87 Cr.
- Trade Receivables: Most of the receivables will be payable by Amara Raja. As Amara Raja always has an upper hand on Nile because of its large size.

Strong Liquidity: Nile's average maximum working capital facility utilisation was about 13.7% for the 12 months ended July 2019. The company is using bill discounting for its working capital requirements which helps in controlling their interest costs. Its cash flow from operations remained positive at INR27.7 million for FY19 (FY18: INR21.3 million). Unutilised fund-based limits and adequate drawing power facilitate healthy resource mobilisation capability.

While going through the credit rating report of Nile Ltd, published by India Ratings in August 2019 shows that Nile Ltd is using bill discounting facilities to get its receivables at an earlier date than scheduled.

Under bill discounting, a company which has sold its product to a reputed customer, goes to a bank, shows the bill and the acceptance of goods by the customer and the amount, which the customer has agreed to pay to the company after agreed amount of days.

The bank takes the comfort of the reputation of the customer and in turn agrees to give the company money against the security of this bill after adjusting for its interest/fee charges. The company gets the money early and the bank receives the repayment of the money given to the company when the “reputed customer” makes the after agreed number of days.

As per FY19 Annual Report, it has a discounted bill of Rs. 28 Cr. in FY19. This amount is shown under Other Non-Financial Liabilities as “Current maturities of Bills discounted with bank”.

Guarantees and letters of credit:

(a) Letters of Credit issued by Bankers – Rs. NIL/- (Previous year - Rs.45.72 lakhs) .

(b) Customers bills discounted with Banks backed by LC – Rs. NIL/-

(Previous year NIL)

(c) Customers bills discounted with Banks – Rs. 2810.66 lakhs (Previous Year Rs. 4378.75 lakhs)

- <u>Fixed Assets</u>: Below data shows that Net Fixed Asset Turnover (NFAT) of the company increased in the last decade except during the period of FY12, when the company first completed the expansion of the Tirupati plant from 20,000 TPA to 50,000 TPA and then immediately next year expanded the Choutuppal plant from 12,000 TPA to 22,000 TPA.

Year	Mar-08	Mar-09	Mar-10	Mar-11	Mar-12	Mar-13	Mar-14	Mar-15	Mar-16	Mar-17	Mar-18	Mar-19
Net Fixed Asset Turnover	7.8	6.6	5.4	9.3	5.9	7.1	8.1	11.2	12.2	17.0	18.6	18.4

The improvement in the NFAT after capacity addition indicates that the company has been able to time its capacity additions well with the customer demand so that the new capacity does not have to remain idle waiting for customer orders.

Moreover, an investor would notice that the NFAT levels Nile Ltd being more than 10-20 are very high when compared to the usual levels of NFAT prevalent in the manufacturing industry.

Industries having high NFAT (more than 5) are characterized as low capital intensive operations. In such industries, if this advantage of low capital intensively is not a result of some unique advantage like patents, brand etc., then such companies face a lot of competition from unorganized sector. This is because a lot of entrepreneurs are able to put up capacities by raising finance from friends & families and in turn able to compete with large organized players as the manufacturing process does not involve high technological barriers.

We have already seen increasing competition such as Gravita India setting up plant in the same geography.

Liabilities: Borrowing, trade payable and equity are three major components on the liability side of the balance sheet. Total liabilities except equity capital stands at Rs. 56 cr.

- Borrowing: Loans are from three sources - Banks, Sales tax deferment loan and Loans from management. Total borrowing stands at Rs. 50 Cr.
  - Loans from Banks: For working capital and bill discounting. Amounts to Rs. 41 Cr.
  - Loans from Sales tax deferment loan: Company can retain sales tax on Choutuppal plant upto Rs. 4 Cr. without any interest charges. Current amount stands at Rs. 2.5 Cr.
  - Loans from management: Management has given short term loan of Rs. 6 Cr. at 12% interest rate. While the loan from the bank stands at an interest rate of 8-9%. The credit limits with the bankers are much more than the current utilization of funds. This might not be a negative sign if the company is in urgent need of funds.
- Trade payable: Stands at around Rs. 2 Cr.
- Others: Other liabilities consist of Deferred Tax Liabilities, Dividend payable, Adv. to employees, etc. Total of all constitutes around Rs. 4 Cr.

Here is the snapshot of the Profit and Loss Statement of the last 12 year.

	Mar 2008	Mar 2009	Mar 2010	Mar 2011	Mar 2012	Mar 2013	Mar 2014	Mar 2015	Mar 2016	Mar 2017	Mar 2018	Mar 2019
Sales +	114.91	95.64	144.88	253.61	274.60	258.03	276.72	385.72	425.25	579.36	633.12	570.83
Expenses +	100.36	95.34	133.82	239.80	261.22	242.60	259.89	368.82	406.29	526.99	587.45	543.67
Operating Profit	**14.55**	**0.30**	**11.06**	**13.81**	**13.38**	**15.43**	**16.83**	**16.90**	**18.96**	**52.37**	**45.67**	**27.16**
OPM %	12.66%	0.31%	7.63%	5.45%	4.87%	5.98%	6.08%	4.38%	4.46%	9.04%	7.21%	4.76%
Other Income	0.18	2.34	0.54	2.44	2.11	15.34	1.68	5.64	2.58	0.78	1.11	0.54
Interest	3.29	3.63	5.03	5.28	6.05	5.31	6.98	7.05	6.86	9.46	7.41	4.51
Depreciation	1.15	1.15	1.71	1.25	1.41	3.07	3.14	3.33	3.41	3.42	3.88	3.85
Profit before tax	**10.29**	**-2.14**	**4.86**	**9.72**	**8.03**	**22.39**	**8.39**	**12.16**	**11.27**	**40.27**	**35.49**	**19.34**
Tax %	37.22%	-0.93%	33.33%	26.23%	29.39%	11.57%	37.90%	33.22%	37.36%	34.62%	35.05%	35.32%
Net Profit	**6.46**	**-2.16**	**3.24**	**7.17**	**5.67**	**19.79**	**5.21**	**8.12**	**7.06**	**26.32**	**23.05**	**12.51**
EPS in Rs	20.87	0.00	10.63	23.57	18.57	65.61	16.85	26.45	22.92	87.08	76.78	41.67
Dividend Payout %	18.58%	-0.00%	9.26%	8.37%	10.58%	3.03%	17.27%	11.08%	12.75%	3.42%	6.51%	7.19%

We already discussed fluctuating operating profit margin which averages around 6%. Company has increased its turnover from Rs. 96 Cr. in FY09 to Rs. 571 Cr. in FY19.

In the last decade, from FY09 till FY19 the price of lead has not increased at all. During the same time the turnover of the company has grown by 6 times (20% CAGR for 10 years). This shows good project execution skills by the management.

	Mar 2008	Mar 2009	Mar 2010	Mar 2011	Mar 2012	Mar 2013	Mar 2014	Mar 2015	Mar 2016	Mar 2017	Mar 2018	Mar 2019
Cash from Operating Activity -	**7.10**	**3.15**	**4.19**	**-3.83**	**22.26**	**16.52**	**-6.30**	**37.78**	**14.51**	**21.26**	**9.27**	**6.98**
Profit from operations	15.45	2.24	10.7	14.18	13.38	14.88	18.28	21.95	20.95	52.21	46.37	27.13
Working Capital Changes	-1.52	1.84	-6.13	-19.57	10.22	-27.78	-21.71	19.41	-2.95	-19.61	-19.55	-12.91
Taxes paid	-6.83	-0.93	-0.38	-0.2	-3.68	-1.58	-2.87	-3.58	-3.48	-11.34	-17.55	-7.24
Cash from Investing Activity -	**-2.02**	**-14.34**	**-1.92**	**-12.44**	**-10.66**	**9.85**	**-0.89**	**-4.89**	**-3.80**	**-4.54**	**-1.39**	**-1.81**
Fixed Assets Purchased	-2.09	-13.51	-1.9	-12.22	-10.68	-1.07	-0.89	-4.95	-3.8	-4.57	-1.79	-1.9
Fixed Assets Sold	0.07	0.03	0.03	0	0.09	0	0	0.06	0	0.03	0.4	0.09
Investments purchased	0	-0.86	-0.05	0	0	0	0	0	0	0	0	0
Cash from Financing Activity -	**-4.51**	**10.91**	**-2.62**	**16.77**	**-3.98**	**-30.97**	**3.73**	**-27.76**	**-15.85**	**-10.23**	**-13.93**	**-5.81**
Proceeds from Borrowings	0	15.6	5	27.31	6.92	0	6.88	0	-11.41	0.51	0	0
Repayment of Borrowings	-3.28	-0.86	-3.12	-3.67	-6.02	-21.61	0	0	0	0	-0.47	-0.34
Interest Paid	0	-3.13	-4.5	-6.67	-5.16	-4.71	-6.3	-6.45	-6.27	-8.43	-7.14	-4.22
Dividends Paid	-1.23	-0.7	0	-0.35	-0.7	-0.6	-0.6	-0.9	-1.8	-0.9	-1.5	-0.6
Net Cash Flow	**0.57**	**-0.28**	**-0.35**	**0.50**	**7.62**	**-4.60**	**-3.46**	**5.12**	**-5.13**	**6.49**	**-6.05**	**-0.64**

Here is the snapshot of the Cash Flow Statement of the last 12 year.

Total cash flow from operations in the last 10 years is Rs. 126 Cr. which is inline with total Net Profits in the last 10 years i.e. Rs. 116 Cr. Total cash flow from operations (10 years) = Rs. 126 Cr. and Cash spent on fixed asset purchase (10 years) = Rs. 47 Cr. This translates into Free cash flow (FCF) of Rs. 79 Cr.

Nile Ltd has used the FCF to meet its interest expense requirements of about Rs. 63 Cr. in the last 10 years and remaining FCF to pay dividends to equity shareholders. I also checked several parameters where there is a scope of creative accounting; but haven't spotted anything unusual.

Key Financial Risks

1. Interest Coverage: Nile Ltd. may face operating losses because of falling lead prices. During this time the company will face difficulty in paying interest/ loan amount and produce liquidity issues. Though the company has a loan issue of Rs. 90 Cr. which will be sufficient to fund losses for sometime.

MANAGEMENT ANALYSIS

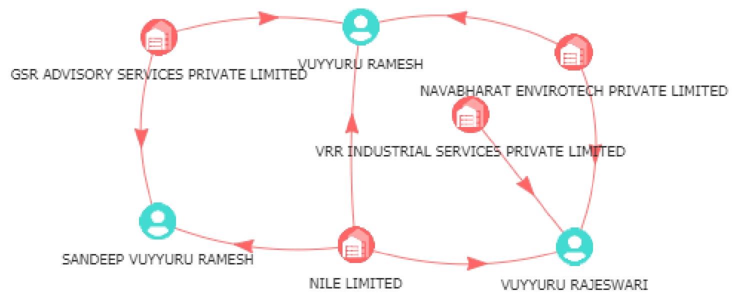
S. No.	Shareholder's Name	Shareholding at the beginning of the year		
		No. of Shares	% of total Shares of the company	% of Shares Pledged /encumbered to total shares
1	V. Rajeswari	8,01,836	26.71	-
2	Sandeep Vuyyuru Ramesh	4,06,928	13.56	-
3	V. Ramesh	2,89,208	9.64	-
4	Kode Swetha	200	0.00	-
5	V. Shilpa Family Trust	15,719	0.52	-
	Total	**15,13,891**	**50.43**	**-**

Nile Ltd. is owned and run by a family entity. V Ramesh is the Chairman & MD of the company, Sandeep Ramesh, son of V Ramesh is the Executive Director, Smt. V. Rajeswari, wife of V Ramesh is also on the board. Current shareholding by the promoter family stands at 50.43% which haven't changed significantly from the last many years.

We analyse the management on three parameters - energy, intelligence and integrity.

Energy: There are two major parameters to look at. One is concentration and the other one is succession/age.

- Concentration: We need to know if the person focuses on one business or venturing into many different unrelated businesses.



  The management of the company is involved in three other businesses.
  VRR Industrial Services Pvt. Ltd. and Navabharat Envirotech Pvt. Ltd. are 28 and 38 year old companies respectively. Both the companies are strike off means they don't perform any operations anymore. GSR Advisory Services Pvt. Ltd. is a relatively new entity incorporated in 2010, having capital of approx Rs. 15 Lakh and involved in Legal, accounting, book-keeping, auditing and tax consultancy. FY19 annual report states that Sandeep Ramesh resigned from the Board as a Director.

- Succession/Age: In this case we need to look if the management has enough runway left to work and compound money before retiring or any succession plan in place so that company can operate smoothly. Here we can see that the son of the MD & Chairman is the Executive Director of the company and has been working for many years.

Intelligence/ Talent: Past track record of excellent execution and good results are the signs of talented management.

- Good project execution: Nile has increased the manufacturing capacity from 3,000 TPA in 2000s to 82,000 TPA in 2019 indicates a good project execution skills by the management of the company.
- Increased focus on the Lead business: In FY13, Nile sold off its glass lining division and decided to focus on the lead business. Increased attention of the management on any line of business indicates that they tend to specialize in it.

Also, if the business economics is good/decent and the person is a first generation entrepreneur; started the business from scratch then I gave him full credit for the talent. If the person was not talented then the chances are he/she won't be able to make something out of nothing.

Integrity: Most important as Mr. Kiewit says “If the person doesn't have integrity then the other two [intelligence & energy] will kill him”. And my grandfather says “Talent can take you to the top but integrity is what that keeps you at the top.” We can analyse by observing:

- Management’s behaviour towards minority shareholders
- Management’s behaviour towards employees and workers
- Different intangibles like what their belief system is, what drives them in running the business, what they think their moral responsibilities are, etc.

But in the case of Nile, there isn’t much information about the management in the public domain to come to a solid conclusion.

Key Financial Risks

Remuneration: Initially there was a ceiling on management remuneration which is 5% of the net profit. But in FY19 the company amended it and removed the upper limit.

Remuneration payable to Executive Directors over and above 5% of the Net Profits of the Company:

VALUATION

First consider only liquid assets and calculate liquidation value of the company.

Items	Rs. (in Cr.)	Adjusted (in Cr.)
Inventory	87	87
Trade Receivables	56	56
Other current Assets	13	0
Total libilities (excluding shareholder's equity)	56	56
Adjusted value of liquid assets		**87**

- Inventory : No write off as lead is a commodity and can be sold easily in the open market.
- Trade Receivables: Amara Raja is the major customer and almost all of the receivables are from them. Chances of defaulting of Amara Raja Batteries seems to be a black swan moment to me, as Amara Raja is a debt free company with positive net cash.
- Other Current Assets: Writing off to zero
- Total Liabilities except shareholder capital: Need to be completely repaid.

Liquidation value comes out to be Rs. **87** Cr. and current Market Cap. of the company is Rs. **70** Cr.

A there are some major risks involved because of customer concentration, commodity type business and lack of information about the management.

Therefore, one needs to allocate capital accordingly.

CONCLUSION

Nile Ltd. is clearly a cheap Graham type stock. Trading at less than the liquidation value. Inventory is rock solid i.e. lead. High chances of getting receivables as most of them are from Amara Raja Batteries.

There are majorly two types of risk involved. Those risks that will cause permanent loss of capital and those which will cause loss of opportunity cost.

- Permanent loss of capital: If lead metal prices fall sharply, the management will siphon out money or management will behave silly at the time of any major business catastrophe like Amara Raja revoking, lead price fall, etc.
- Opportunity Cost: I invest in stocks with the aim of generating 25% return (copied from Mohnish Pabrai). If a company fails in delivering that then I will have a loss of a potential upside, though I don't lose my invested capital.
  Events that causes opportunity loss of capital are Amara Raja Batteries revoking the contract, trouble in procuring raw material or limited growth because of demand slowdown
  Why? Because of these factors Nile Ltd. may face major headwinds and the market will not reward as per expectation.

One needs to keep these risks in mind while allocating capital.