

CMP: ₹ 284

Target: ₹ 360 (27%)

Target Period: 12 months

BUY

August 29, 2023

## Capacity enhancement to support long-term growth story!

**About the stock:** Nitin Spinners (NSL) has graduated from a small pure spinning company to a company with a sizeable presence in India's yarn market (3 lakh+ spindles). Forward integration into knitted and finished woven fabrics (~ 27% of revenues) in its product portfolio, which yields more superior margins than spinning has fortified its presence across the textile value chain.

- NSL invested in capacity building over the last decade, more than quadrupled its spinning capacities and forward integrated with the addition of fabric capacities. The company has been able to sweat its assets effectively and has maintained average utilisation of 85%+

### Key Investment Thesis:

- Geared up well to capture robust opportunities:** In a bid to capture long term growth opportunities and to further strengthen the product range, NSL had embarked on a brownfield expansion and outlined capex worth ₹ 900 crore to enhance capacities across segments. It is enhancing yarn capacity by 47% (from 75000 to 110000 tonnes), knitted fabric by 22% (from 9000 to 11000 tonnes) and woven fabric by 33% (from 30 to 40 million meters). At optimum utilisations (at an average yarn realisation of ~₹ 280/kg), company could generate incremental revenue of ~ ₹ 1100 crore (peak revenue: ₹ 3500 crore). Commissioning of weaving and knitting fabric capacities are completed and is expected to be ramped up soon. Yarn capacity is expected to be commissioned by Q2FY24E.
- Higher RoCE to create value for longer term:** For FY23-25E, we build in volume CAGR of 26% for yarn segment (76000 tonnes in FY25E, CU: 87%), 14% for woven segment (37 mn meters in FY25E, CU: 93%) and 46% CAGR for knitted segment on a lower base (7800 tonnes in FY25E, CU: 70%). Efficient asset utilisation (1.3x AT/O) coupled with positive improvement in yarn spreads would enhance profitability. We build in EBITDA margins of 14-15% in FY24-25E (vs. 12% in FY23) on account of superior product mix and improvement in yarn spreads. We expect NSL to generate RoCE of ~15% in FY25E (vs. average RoCE: 10-12%) and in-turn lead to higher value creation.

### Rating and Target Price

- Government initiatives like signing of FTAs with multiple countries, stability in export incentive policy to provide opportunity for Indian exporters across textile value chain to gain market share in global textile trade.
- With steady recovery from FY24E onwards, we build in revenue and EBITDA CAGR of 15% and 27%, respectively in FY23-25E.
- We ascribe **BUY** rating on the stock.
- We value NSL at ₹ 360 per share (based on 9x FY25E EPS)



### Particulars

Particulars	Amount
Market Capitalisation (₹ crore)	1,596.6
Total Debt (FY23) (₹ crore)	979.7
Cash (FY23) (₹ crore)	0.4
EV (₹ crore)	2,575.9
52 Week H / L	294 /182
Equity Capital (₹ crore)	56.2
Face Value (₹)	10.0

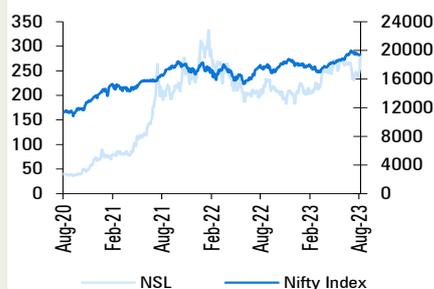
### Shareholding Pattern

	Jun-22	Sep-22	Dec-22	Mar-23	Jun-23
Promoter	56.4	56.4	56.4	56.4	56.4
FII	4.3	3.8	3.8	2.4	2.2
DII	5.0	5.6	5.4	6.3	8.5
Others	34.3	34.3	34.4	34.9	32.9

### Risks to our call

- Inability to maintain optimum utilisation levels
- Sharp rise in Cotton prices

### Price Performance



### Research Analyst

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### Key Financial Summary

Financials	FY19	FY20	FY21	FY22	5 Year CAGR (FY17-22)	FY23	FY24E	FY25E	2 Year CAGR (FY23-25E)
Net Sales	1,242.5	1,438.1	1,624.4	2,692.3	24.0%	2,406.7	2,625.3	3,162.0	14.6%
EBITDA	178.1	169.8	257.3	647.1	17.0%	297.1	371.5	481.9	27.4%
Adjusted PAT	64.1	23.8	68.9	326.2		164.8	150.7	226.0	17.1%
P/E (x)	24.9	67.1	23.2	4.9		9.7	10.6	7.1	
EV/EBITDA (x)	13.8	15.5	9.9	3.5		8.7	7.6	5.4	
RoCE (%)	9.4	5.9	11.0	35.9		10.6	10.9	14.7	
RoE (%)	13.3	4.8	12.2	37.2		16.0	12.9	16.3	

Source: Company, ICICI Direct Research

## Company Background

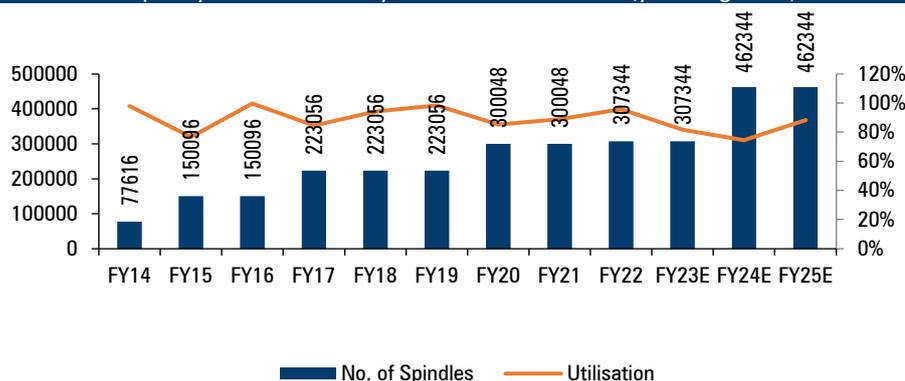
Nitin Spinners over the years has expanded its operations to include open-end yarns, ring-spun yarns, blended yarns, knitted fabrics, and finished woven fabrics. The company was incorporated in 1992 in Bhilwara with a small capacity of only 384 rotors. The company currently has an installed capacity of 3,07,344 Spindles and 3,488 Rotors, producing 75,000 tons of yarn per annum. It also has an installed capacity of 63 Knitting Machines, producing 9000 tons of knitted fabrics per annum and 168 looms and dyeing, printing, and finishing capacities to make approximately 300 lakh meters of fabrics per annum. The company is headquartered in Bhilwara, Rajasthan with a comprehensive in-house capability across the value chain (from spinning to finished fabric). The company is spread across the state of Rajasthan, its two state-of-the art manufacturing facilities are strategically situated at key cotton growing belts of India and in proximity to major ports, providing it logistics and cost advantages. The Company has a vast product presence across India and exports to over 50 countries spread across the globe. Consistent improvement in financial performance of NSL in spite of cyclical nature of textile industry signifies NSL's ability of optimum asset utilisation leading to sustainable profit growth. **We believe that NSL with its presence across textile value chain (Yarn to Fabric) is well poised to capture the export opportunity in global textile trade**

## Investment Rationale

### Proven track record of healthy utilisation levels...

Nitin spinners over the last decade has shown resilient performance with yarn volumes (production) increasing at a CAGR of 12% during FY14-23. Focus on stringent quality control has resulted in company having material presence in global markets (exporting to more than 50 countries) with 50-60% revenue coming from exports. The robust dominance is visible with export revenue enhancing by 6.5x during FY12-22, while overall India's yarn exports during the same period grew by ~2.8x (resulting in consistent market share gains). NSL has been gradually enhancing focus on value added yarn with capability to produce superfine compact premium cotton yarns and also blended yarn. **NSL embedded future readiness by building capacity over the years. It expanded its yarn spindles ~4x from 77616 spindles (21000 tonnes) in FY12 to 307344 spindles (75000 tonnes) as on FY23.** In tandem with increased capacity, operational utilisation for spindles over the last decade has been 90%+ resulting in swifter new capacity absorption. Apart from being pioneers in yarn segment, NSL has forward integrated into knitted and woven (greige and finished) fabric production which yields superior margins (400-500 bps higher than yarn division). While the knitted segment is more than decade old, NSL in FY18 had established a greenfield integrated textile complex park (from fibre to finished fabric) which included facilities of weaving, dyeing, finishing and printing of woven fabrics (capacity: 30 million meters). **The plant was commissioned in FY20 and the capacity utilisation for the same has already reached 90%+. This proves the testimony of the business model to sweat its assets effectively.** As on FY23, yarn segment commands lion's share of 66% (FY12: 85%), whereas fabrics contributed 27% to revenue (FY12: 10%).

Exhibit 1: Capacity trend over the years & utilisation rate (yarn segment)



Source: Company, ICICI Direct Research

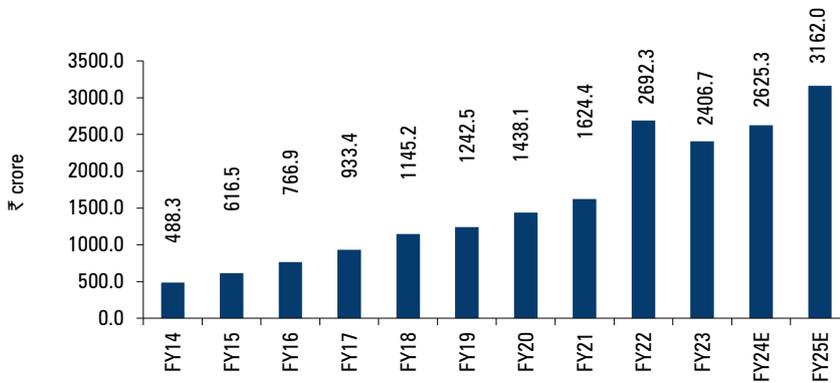
## Undergoing capex to fuel revenues over the next 2-3 years...

In a bid to capture long term growth opportunities and to further strengthen the product range, NSL had embarked on a brownfield expansion in FY22 and outlined capex worth ₹ 900 crore to enhance capacities across segments. It is enhancing yarn capacity by 47% (from 75000 to 110000 tonnes), knitted fabric by 22% (from 9000 to 11000 tonnes) and woven fabric by 33% (from 30 to 40 million meters). At optimum utilisations (at an average yarn realisation of ₹ 280/kg), company could generate incremental revenue of ~ ₹ 1100 crore (peak revenue: ₹ 3500 crore). Commissioning of weaving and knitting capacities are completed and is expected to be ramped up soon. Yarn capacity is expected to be commissioned by Q2FY24E.

For FY23-25E, we build in volume CAGR of 26% for yarn segment (76000 tonnes in FY25E, CU: 87%), 14% for woven segment (37 mn meters in FY25E, CU: 93%) and 46% CAGR for knitted segment on a lower base (7800 tonnes in FY25E, CU: 70%).

Out of the total ₹ 900 capex, company has already incurred ₹ 425 crore in FY23 and the balance is expected to be incurred in FY24E. We expect the capex to be funded partially through internal accruals (OCF generation: ₹ 470 crore in FY23-24E) and the rest through subsidised long term debt worth ₹ 570 crore (average cost: ~4%). We expect peak debt levels at ₹ 1260 crore in FY24E and with improved cashflows generation in FY25E we expect debt to reduce by ~₹ 250 crore (D/E: 0.7x). NSL is well geared to capture long term opportunities in textile segment and garner higher market share from unorganised space.

Exhibit 2: Overall Revenue Trend



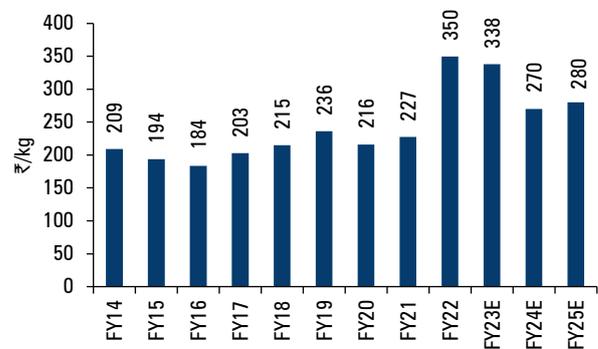
Source: Company, ICICI Direct Research

Exhibit 3: Yarn volumes to grow 26% in FY23-25E driven by revival in exports and commissioning of new capacities



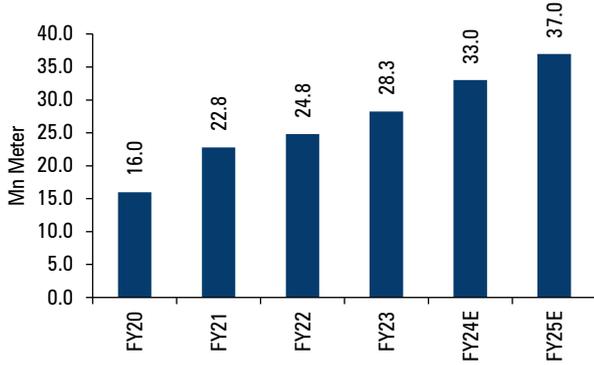
Source: Company, ICICI Direct Research

Exhibit 4: Yarn realisations expected to correct in FY24E



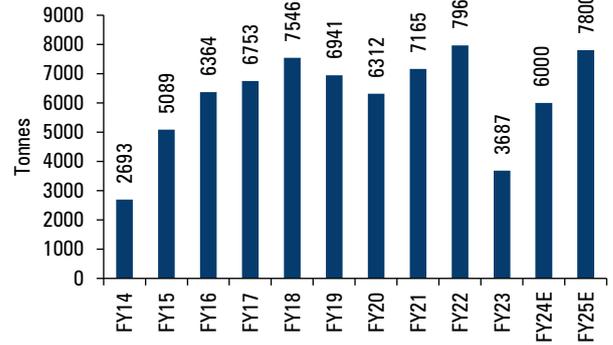
Source: Company, ICICI Direct Research

**Exhibit 5: Woven division expected to be the key growth driver going forward with utilisation rate expected at 90%+. Volumes expected to grow at CAGR of 14% in FY23-25E**



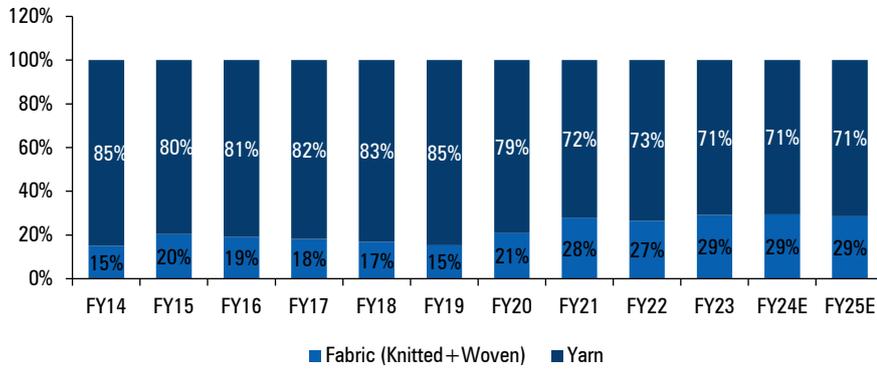
Source: Company, ICICI Direct Research

**Exhibit 6: Knitted division was one of the worst impacted segments in FY23 owing to significant decline in athleisure-wear products globally post lockdown relaxations. We expect the segment to recovery gradually going forward.**



Source: Company, ICICI Direct Research

**Exhibit 7: Revenue Mix**



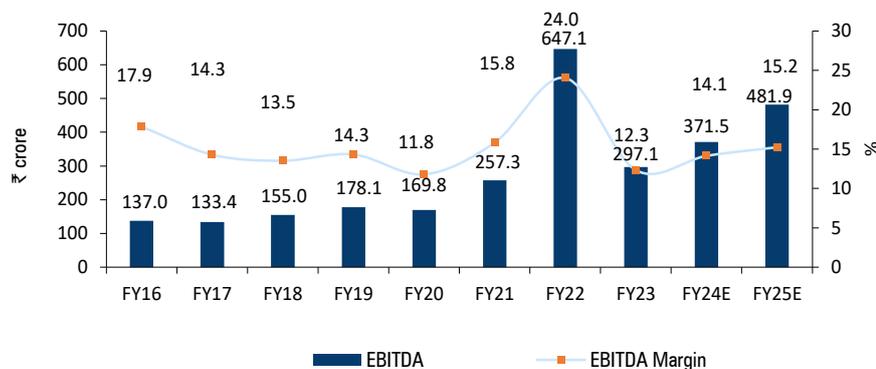
Source: Company, ICICI Direct Research

## Most of the negatives behind; strong macroeconomic opportunities provide larger growth canvas

Owing to robust pent-up demand post relaxation of covid restrictions, closure of nearly 6-10% spindle capacity in India and ban on Xinjiang cotton region by the US, cotton yarn players registered their highest ever profitability in FY22 (Yarn spreads for the company stood at ~₹ 140/kg in FY22 vs. long term average of ₹ 65-70/kg). We believe the profitability recorded in FY22 was a decadal phenomenon and replicating performance would be challenging.

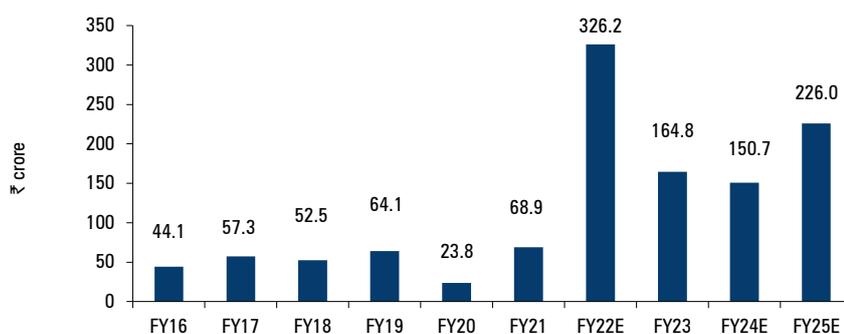
FY23 turned out to be a turbulent period for Indian textile value chain owing to spiralling domestic cotton prices (reached an all-time high of ₹ 290/kg) and weak global demand (retailers being saddled with excess inventory and inflationary pressure). Domestic cotton prices have softened in the recent times with prices declining by ~15% YTD to ₹ 160/kg (down ~40% YoY). More importantly, disparity between the domestic and international cotton prices have drastically reduced with domestic cotton prices now trading at a premium of only 5-6% (down from peak of nearly 35%). Subsequently, **India's yarn utilisation levels improved steadily from 60% in Q3FY23 to ~85-90% currently. Recovery could also be gauged from the fact that India's yarn exports which had fallen to nearly 30 million kgs in month of July 2022 has reverted to back to its long-term average run-rate of 90 million kgs in June 2023.** With most of the negatives behind us, we expect company could witness gradual improvement from H2FY24 onwards. Efficient asset utilisation (1.3x asset T/O) coupled with positive improvement in yarn spreads would enhance profitability. We build in EBITDA margins of 14-15% in FY24-25E on account of superior product mix and improvement in yarn spreads. We expect NSL to generate superior RoCE of ~15% in FY25E (vs. average RoCE: 10-12%) and in-turn lead to higher EVA creation.

Exhibit 8: EBITDA Trend...



Source: Company, ICICI Direct Research

Exhibit 9: Net Profit Trend...



Source: Company, ICICI Direct Research. Effective tax rate in FY23 was 6.3%, which is expected to normalise at 25%

## Key risk and concerns

### Elevated cotton prices can impact margins negatively

Cotton is the major raw material for NSL and volatility in cotton prices can impact the margin profile of the company. Cotton prices have been volatile owing to supply crunch in the domestic market. Disparity in Indian and international cotton prices has declined with premium of Indian cotton prices to international cotton prices reduced from 35% earlier to ~ 5% currently. Any increase in Indian cotton price premium to international cotton prices could lead to lowering the competitive position of Indian cotton yarn players and lead to lower profitability

### Inability to maintain optimum utilisation levels

The company is adding significant capacity across segments. Hence maintaining optimum utilisation levels is the key to sustenance of profit margins. If the company is unable to penetrate newer markets and/or generate incremental revenues from existing markets (some key markets are witnessing recessionary trends) it can lead to sub optimal utilisation level of its expanded capacity. Lower utilisation of expanded capacity can lead to under absorption of fixed cost, which can negatively impact the margins of the company.

### Delay in capacity expansion can subdue revenue growth

Nitin Spinners has a track record of operating its plants at capacity utilisation of 85%+ and its yarn capacity is currently operating at 90%+. Hence to attain future revenue growth, NSL is aggressively expanding its capacity and any delay in operationalisation of planned capacity expansion projects can impact the expected revenue growth.

## Financial summary

Exhibit 10: Profit and loss statement				
	₹ crore			
(Year-end March)	FY22	FY23P	FY24E	FY25E
Net Sales	2,692.3	2,406.7	2,625.3	3,162.0
Growth (%)	65.7	(10.6)	9.1	20.4
Total Raw Material Cost	1,476.2	1,631.0	1,671.0	1,965.5
Gross Margins (%)	45.2	32.2	36.3	37.8
Employee Expenses	132.7	133.2	152.3	186.6
Other Expenses	436.3	345.5	430.5	528.1
Total Operating Expenditure	2,045.2	2,109.7	2,253.8	2,680.1
<b>EBITDA</b>	<b>647.1</b>	<b>297.1</b>	<b>371.5</b>	<b>481.9</b>
EBITDA Margin	24.0	12.3	14.1	15.2
Interest	55.3	37.7	63.5	50.8
Depreciation	87.4	86.8	109.5	132.0
Other Income	1.8	3.3	3.0	3.0
Exceptional Expense	-	-	-	-
PBT	506.2	175.9	201.5	302.1
Total Tax	180.0	11.1	50.8	76.1
<b>Profit After Tax</b>	<b>326.2</b>	<b>164.8</b>	<b>150.7</b>	<b>226.0</b>

Source: Company, ICICI Direct Research

Exhibit 11: Cash flow statement				
	₹ crore			
(Year-end March)	FY22	FY23P	FY24E	FY25E
Profit/(Loss) after taxation	326.2	164.8	150.7	226.0
Add: Depreciation	87.4	86.8	109.5	132.0
Net Increase in Current Assets	-145.0	-42.9	-12.5	-69.2
Net Increase in Current Liabilities	59.7	-18.4	37.0	20.7
<b>CF from operating activities</b>	<b>328.3</b>	<b>190.4</b>	<b>284.7</b>	<b>309.5</b>
(Inc)/dec in Investments	0.0	0.0	0.0	0.0
(Inc)/dec in Fixed Assets	-38.1	-426.2	-519.7	-76.0
Others	-60.5	-11.5	0.0	0.0
<b>CF from investing activities</b>	<b>-98.5</b>	<b>-437.7</b>	<b>-519.7</b>	<b>-76.0</b>
Inc / (Dec) in Equity Capital	0.0	0.0	0.0	0.0
Inc / (Dec) in Loan	-273.1	291.2	290.0	-253.9
Others	43.1	-44.0	-7.3	-8.8
<b>CF from financing activities</b>	<b>-230.0</b>	<b>247.2</b>	<b>282.7</b>	<b>-262.7</b>
Net Cash flow	-0.2	-0.2	47.6	-29.2
Opening Cash	0.8	0.6	0.4	48.1
<b>Closing Cash</b>	<b>0.6</b>	<b>0.4</b>	<b>48.1</b>	<b>18.9</b>

Source: Company, ICICI Direct Research

Exhibit 12: Balance sheet				
	₹ crore			
(Year-end March)	FY22	FY23P	FY24E	FY25E
Equity Capital	56.2	56.2	56.2	56.2
Reserve and Surplus	819.6	972.7	1,115.9	1,332.8
Total Shareholders funds	875.8	1,028.9	1,172.1	1,389.0
Total Debt	688.6	979.7	1,269.7	1,015.8
Non Current Liabilities	130.1	97.8	98.0	98.3
<b>Source of Funds</b>	<b>1,694.4</b>	<b>2,106.4</b>	<b>2,539.8</b>	<b>2,503.1</b>
Gross block	1,394.8	1,480.9	2,280.9	2,356.9
Less: Accum depreciation	383.0	469.8	579.2	711.2
Net Fixed Assets	1,011.9	1,011.1	1,701.6	1,645.6
Capital WIP	0.1	340.3	60.0	60.0
Intangible assets	-	-	-	-
Investments	-	-	-	-
Inventory	406.3	492.0	481.9	493.8
Cash	0.6	0.4	48.1	18.9
Debtors	240.7	222.7	237.4	285.9
Loans & Advances & Other C	104.4	79.5	87.5	96.2
Total Current Assets	751.9	794.6	854.8	894.8
Creditors	82.1	52.3	86.3	104.0
Provisions & Other CL	47.9	59.3	62.2	65.3
Total Current Liabilities	129.9	111.6	148.6	169.3
Net Current Assets	622.0	683.0	706.2	725.5
LT L& A, Other Assets	60.5	72.0	72.0	72.0
Other Assets	0.0	0.0	0.0	0.0
<b>Application of Funds</b>	<b>1,694.4</b>	<b>2,106.4</b>	<b>2,539.8</b>	<b>2,503.1</b>

Source: Company, ICICI Direct Research

Exhibit 13: Key ratios				
(Year-end March)	FY22	FY23P	FY24E	FY25E
<b>Per share data (₹)</b>				
EPS	58.0	29.3	26.8	40.2
Cash EPS	73.6	44.8	46.3	63.7
BV	155.8	183.0	208.5	247.1
DPS	3.0	2.5	1.3	1.6
Cash Per Share	0.1	0.1	8.6	3.4
<b>Operating Ratios (%)</b>				
EBITDA margins	24.0	12.3	14.1	15.2
PBT margins	18.8	7.3	7.7	9.6
Net Profit margins	12.1	6.8	5.7	7.1
Inventory days	55.1	74.6	67.0	57.0
Debtor days	32.6	33.8	33.0	33.0
Creditor days	11.1	7.9	12.0	12.0
<b>Return Ratios (%)</b>				
RoE	37.2	16.0	12.9	16.3
RoCE	35.9	10.6	10.9	14.7
RoIC	35.9	12.8	11.4	15.2
<b>Valuation Ratios (x)</b>				
P/E	4.9	9.7	10.6	7.1
EV / EBITDA	3.5	8.7	7.6	5.4
EV / Sales	0.8	1.1	1.1	0.8
Market Cap / Revenues	0.6	0.7	0.6	0.5
Price to Book Value	1.8	1.6	1.4	1.1
<b>Solvency Ratios</b>				
Debt / Equity	0.8	1.0	1.1	0.7
Debt/EBITDA	1.1	3.3	3.4	2.1
Current Ratio	5.8	7.1	5.4	5.2
Quick Ratio	2.7	2.7	2.2	2.3

Source: Company, ICICI Direct Research

## RATING RATIONALE

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Buy: >15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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