

Nitin Spinners Ltd

Capacity expansion to propel future growth, Strong fundamentals intact

Nitin Spinners Ltd (NSPL) came out with improved set of numbers on sequential basis during Q3FY23. Operational performance was slightly below estimates in a challenging business environment, but profit was ahead of estimates, helped by lower tax outgo. As difference in international cotton and India cotton prices narrowed down, some recovery at exports front already started. Slowdown in the US market and geo-political situation in the European region are still posing challenges however the company has started hitting higher utilization levels in spinning and woven fabric businesses. With improved utilization in yarn and woven fabric segments, the company registered sequential growth of 6.2%/5.4%/8.5% at sales/EBITDA/PAT levels with stable margins. The capex plan of Rs9.5bn in on track which will support strong growth during FY24 & FY25. With cotton prices stabilising at current rates and expectation of demand recovery, we believe QoQ performance would continue to improve. Considering moderation in the profitability levels and stabilization of cotton prices at lower levels, we have toned down our estimates and rolled over valuation multiple to FY25e earnings. **Maintain BUY rating with target price of Rs407 per share, 8x FY25e EPS.**

Improved performance in a challenging environment

- During the quarter, the company posted a growth of 32.3% QoQ at Yarn sales volume front as utilizations improve with some demand recovery. Knitted fabric sales volume continued to be poor and witnessed further decline of 21.7% QoQ.
- Woven fabric business remained strong with its sales volume grew by 15.2% QoQ. With economic activities back on track post covid, demand for woven fabric remains good.
- With correction in cotton prices, realization moderated across the segment. Realization in Yarn/knitted fabric/woven fabric segments was down by 18.9%/18.9%/7.9% QoQ.

Textile demand should be on track, capacity addition to propel medium term growth

- Channels are getting emptied and post Christmas, there is demand recovery at exports front. With cotton prices stabilizing at lower levels, order flow should be back on track.
- Not much capacity is getting added in spinning industry and hence pricing comfort should be there in the future.
- The company has announced a capex of Rs9.5bn. With this capex, the company would be adding 1.5 lakhs spindles, 2500 MT/PA knitted fabrics and 10 mn Metres woven fabric over the next 8 months time.
- New capacity in knitted and woven fabric segments is expected by the end of FY23 whereas new spinning capacity will come on stream by Q2FY24.

Valuation and risks

- With announcement of new capex, Nitin Spinners growth path is clear from here till FY25.
- Increasing share of processed woven fabric will further improve the margin profile.
- We assign **8x PE multiple to FY25E earnings** and arrive at a **target price Rs407 per share, offering 101% upside from current levels**. Hence, we maintain our **Buy** rating.
- Risk to our call is continuation of price disparity in India and cotton prices.

Y/E Mar (Rs mn)	Q3FY23	Q3FY22	YoY (%)	Q2FY23	QoQ (%)	Q3 FY23e	Var. (%)
Revenues	5,372	7,049	-23.8	5,059	6.2	5,849	-8.2
Gross profit margin (%)	24.2	38.3	(1,414) bps	23.9	28 bps		
Employee expense	341	348	-2.0	293	16.6		
Other expense	355	571	-37.7	345	3.0		
EBITDA	601	1,781	-66.2	570	5.4	690	-12.9
EBITDA Margin (%)	11.2	25.3	(1,407) bps	11.3	(8) bps	11.8	-61 bps
Depreciation	218	219	-0.1	219	-0.4		
Interest	74	135	-45.0	85	-13.1		
Other Income	3	4	-34.7	8	-65.4		
Exceptional item	0	0	NA	0	NA		
PBT	312	1,432	-78.2	274	13.7		
Tax	-4	500	NA	-17	NA		
Effective Tax Rate (%)	-1.3	34.9	(3,618) bps	-6.1	486 bps		
PAT	316	933	-66.1	291	8.5	292	8.2

Source: Company, SMIFS research

Y/E Mar (Rs mn)	Revenue	YoY (%)	EBITDA	EBITDA (%)	Adj. PAT	YoY (%)	Fully DEPS	RoE (%)	RoCE (%)	Adj P/E (x)	EV/EBITDA (x)
FY21	16,244	13.0	2,573	15.8	689	189.2	12.3	13.0	6.8	4.3	4.9
FY22	26,923	65.7	6,516	24.2	3,295	378.5	58.6	47.6	22.2	3.6	2.9
FY23E	23,531	-12.6	3,078	13.1	1,691	-48.7	30.1	17.8	10.7	6.7	6.8
FY24E	28,568	21.4	4,685	16.4	2,025	19.8	36.0	18.2	10.7	5.6	5.1
FY25E	36,536	27.9	6,138	16.8	2,859	41.2	50.9	21.6	13.0	4.0	3.7

Source: Company, SMIFS research estimates



Rating: **Buy** Upside/(Downside): **101%**

Current Price: **202** Target Price: **407**

| Earlier recommendation

Previous Rating:	Buy
Previous Target Price:	388

| Market data

Bloomberg:	NSPL:IN
52-week H/L (Rs):	346/182
Mcap (Rs bn/USD bn):	11.8/14
Shares outstanding (mn):	56.2
Free float:	44.0%
Daily vol. (3M Avg):	150K
Face Value (Rs):	10

Source: Bloomberg, SMIFS research

| Shareholding pattern (%)

	Dec-22	Sep-22	Jun-22	Mar-22
Promoter	56.4	56.4	56.4	56.3
FII's	3.8	3.8	4.3	4.8
DII's	5.4	5.6	5.0	4.6
Public/others	34.4	34.3	34.3	34.3

Source: BSE

| Promoters pledging (%)

Pledged shares	0.0	0.0	0.0	0.0
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Source: BSE

| Price performance (%) *

	1M	3M	12M	36M
Nifty 50	-2.1	-1.1	1.7	52.6
Nifty 500	-3.8	-3.4	-1.1	55.0
Nitin Spinners	-3.7	-2.2	-35.4	281.1

* As on 3rd Feb 2023; Source: AceEquity, SMIFS research

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Q3FY23 – Key takeaways from the management call

Cotton prices stabilising, Industry set to improve utilization level

- Demand slowdown continued due to geopolitical tensions coupled with inflation in US and Europe economies.
- Both domestic and international cotton prices have dropped, and the market has become less volatile over the past two months.
- Increased cotton production has stabilized the supply side for Indian textile companies, with domestic cotton prices correcting by 40% to reach Rs.63,000 per candy.
- The difference in domestic and international cotton prices has narrowed down, as spinning industry utilization has improved to almost normal levels.
- The price difference between the Indian market and international market is still 5-7% higher, giving a disadvantage to Indian textile players. However, improved retail consumption and reduced inventory in the downstream channel have improved the overall situation compared to the past 6 months.
- The reopening of China is expected to boost this export.

Capex, Expansion and Utilization

- Expansion will happen as per plan where the total outlay would be Rs. 9.6 bn out of which Rs7 bn would be spent on expanding the spinning capacity (45% increase in capacity), Rs 1.6 bn for Knitting and Weaving facility.
- The capital expenditures are on schedule and are expected to begin as planned.
- This capex will be funded by way of Rs. 3 bn of internal accruals and Rs. 6.5 bn by way of borrowings.
- The cost of debt stands at 3% which is net of the state investment subsidy, 7% on working capital loans and blended cost stands at 4.5%. Even the new capex will be applicable to get state investment subsidy.

Capacity Utilization

- Currently, spinning capacity utilization is at 90%, knitting utilization is at 45% (usually operates at 75-80%), and weaving utilization is at 95%.
- The spinning division started operating at maximum capacity utilization and demand from exports, especially from China, Europe, and Latin America, has increased.
- Despite the improvement in demand, the knitting division have yet to see an increase.
- To penetrate the domestic market, the company plans to introduce more value-added products.
- The global spinning utilization has returned to normal levels, which was around 55-60% in previous quarters.

Operation Margins

- The management continues to maintain its long-term EBITDA margin in the range of 16%-20% in the normal demand environment.
- Margins continue to remain under pressure during Q3FY23 because of sharp decrease in the yarn market and weak export demand.

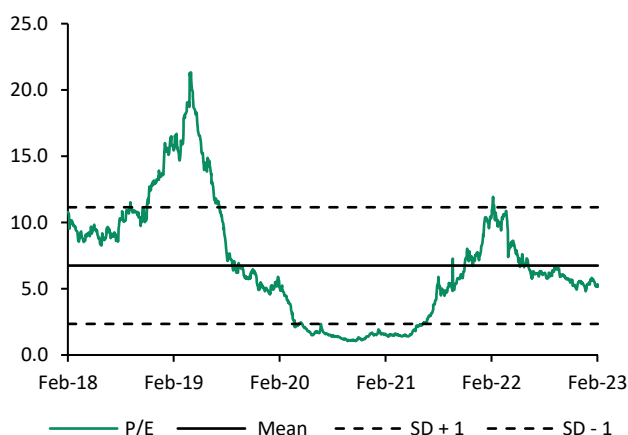
Cotton Price and Inventory

- The arrival of cotton has improved since mid of January which not seen in previous months.
- The farmers are still hoarding cotton in the expectation of higher prices as they had enjoyed good prices last season.
- The management continue to remain rational and not taking any view on cotton prices to save themselves from cotton price volatility.
- They had just one month of cotton inventory at the end of Q3FY23 and now inventory levels have improved.
- As per management, they too have thought about backward integration to get more confort on cotton side but as contract farming laws are still in limbo and hence, they have not taken any steps in this regard.

Other Highlights

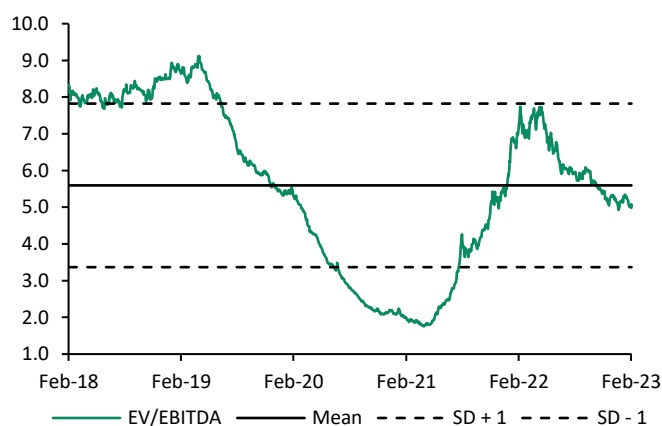
- In Q3 the average yarn realization stood at Rs.303/kg and cotton price around Rs.200/kg, cotton is now around Rs.175/kg in Q4.
- The company's fixed asset turn is around 1.4 and current asset turn is around 3.4 (as compared to 2.5 of Industry).
- The company is getting many new clients for its fabric business at export front as they are expanding capacities.
- Earlier fabric business was totally domestic oriented, now 25% is getting exported.
- Overall business is getting balanced between domestic and exports as pain at export front is still there.

Fig 1: 1-year forward P/E



Source: AceEquity, SMIFS research

Fig 2: 1-year forward EV/EBITDA



Source: AceEquity, SMIFS research

Changes in Estimates:

Rs mn	New Estimates			Old Estimates			Change (%)		
	FY23e	FY24e	FY25e	FY23e	FY24e	FY25e	FY23e	FY24e	FY25e
Revenue	23,531	28,568	36,536	24,635	31,153	38,128	-4.5	-8.3	-4.2
Gross Profit	6,019	8,399	10,888	6,709	9,159	11,439	-10.3	-8.3	-4.8
Gross Margin (%)	25.6	29.4	29.8	27.2	29.4	30.0	(165) bps	(0) bps	(20) bps
EBITDA	3,078	4,685	6,138	3,623	5,109	6,482	-15.0	-8.3	-5.3
EBITDA Margin (%)	13.1	16.4	16.8	14.7	16.4	17.0	(162) bps	0 bps	(20) bps
Adj PAT	1,691	2,025	2,859	2,033	2,323	3,134	-16.8	-12.8	-8.8
EPS (Rs)	30.1	36.0	50.9	36.2	41.3	55.7	-16.9	-12.8	-8.7

Source: Company, SMIFS research estimates

Quarterly financials, operating metrics & key performance indicators

Y/E March (Rs mn)	Q4FY21	Q1FY22	Q2FY22	Q3FY22	Q4FY22	Q1FY23	Q2FY23	Q3FY23
Net Sales	5,116	5,536	6,647	7,049	7,691	7,088	5,059	5,372
Raw Materials	3,339	3,361	4,037	4,349	5,106	5,174	3,851	4,074
Employee Costs	296	331	323	348	324	348	293	341
Other Expenditure	439	558	512	571	586	477	345	355
EBITDA	1,042	1,286	1,775	1,781	1,674	1,089	570	601
Depreciation	221	222	218	219	215	218	219	218
Interest	158	137	142	135	140	115	85	74
Other Income	2	2	7	4	5	8	8	3
Exceptional items	0	0	-45	0	0	0	0	0
PBT	664	929	1,376	1,432	1,324	765	274	312
Tax	236	329	502	500	470	109	-17	-4
Tax rate (%)	35.5	35.4	36.5	34.9	35.5	14.3	-6.1	-1.3
PAT	429	600	874	933	855	656	291	316
YoY Growth (%)								
Revenue	34.6	152.6	55.7	51.0	50.3	28.0	-23.9	-23.8
EBITDA	91.6	446.2	220.3	140.4	60.7	-15.3	-67.9	-66.2
PAT	557.4	-755.7	633.0	301.2	99.4	9.3	-66.7	-66.1
QoQ Growth (%)								
Revenue	9.6	8.2	20.1	6.1	9.1	-7.8	-28.6	6.2
EBITDA	40.7	23.4	38.0	0.4	-6.0	-34.9	-47.7	5.4
PAT	84.4	40.0	45.6	6.7	-8.4	-23.3	-55.6	8.5
Margin (%)								
RMC/revenue (%)	65.3	60.7	60.7	61.7	66.4	73.0	76.1	75.8
Gross margin (%)	34.7	39.3	39.3	38.3	33.6	27.0	23.9	24.2
Employee cost/revenue (%)	5.8	6.0	4.9	4.9	4.2	4.9	5.8	6.4
Other expenses/revenue (%)	8.6	10.1	7.7	8.1	7.6	6.7	6.8	6.6
EBITDA margin (%)	20.4	23.2	26.7	25.3	21.8	15.4	11.3	11.2
PAT margin (%)	8.4	10.8	13.1	13.2	11.1	9.3	5.8	5.9

Source: Company, SMIFS research

Key Assumptions:

Operating Details	FY19	FY20	FY21	FY22	FY23e	FY24e	FY25e
Sales Volume Data							
Yarn (in MT)	41,689	48,903	48,180	53,709	45,901	62,500	80,000
Knitted Fabrics (in MT)	6,941	6,320	7,165	7,966	3,609	6,800	10,400
Woven Fabrics (in Lac Mtr)	0	160	228	248	270	341	380
Sales (Rs mn)							
Yarn	9,842	10,545	10,952	18,784	15,611	18,438	24,000
Knitted Fabrics	1,781	1,513	1,832	2,928	1,392	2,244	3,432
Woven Fabrics	0	1,266	2,406	3,867	5,008	5,968	6,650
Others	803	1,057	1,055	1,344	1,520	1,919	2,454
Total Sales	12,425	14,381	16,244	26,923	23,531	28,568	36,536
YoY Growth (%)	NA	15.7	13.0	65.7	-12.6	21.4	27.9

Source: Company, SMIFS research estimates

Financial Statements

Income Statement					
YE March (Rs mn)	FY21	FY22	FY23e	FY24e	FY25e
Revenues	16,244	26,923	23,531	28,568	36,536
Raw Materials	11,249	16,853	17,512	20,169	25,648
% of sales	69.2	62.6	74.4	70.6	70.2
Personnel	1,118	1,327	1,283	1,428	1,827
% of sales	6.9	4.9	5.5	5.0	5.0
Manufacturing & Other Expenses	1,305	2,227	1,658	2,285	2,923
% of sales	8.0	8.3	7.0	8.0	8.0
EBITDA	2,573	6,516	3,078	4,685	6,138
Other Income	19	18	29	62	56
Depreciation & Amortization	910	874	885	1,313	1,532
EBIT	1,681	5,661	2,222	3,434	4,662
Finance cost	616	553	395	719	829
Core PBT	1,046	5,089	1,798	2,653	3,777
Exceptional Income/(Expense)	0	-45	0	0	0
PBT	1,065	5,062	1,827	2,715	3,833
Tax-Total	376	1,800	136	690	974
<i>Tax Rate (%) - Total</i>	<i>35.3</i>	<i>35.6</i>	<i>7.5</i>	<i>25.4</i>	<i>25.4</i>
Reported PAT	689	3,261	1,691	2,025	2,859
Adjusted PAT	689	3,295	1,691	2,025	2,859

Source: Company, SMIFS research estimates

Key Ratios					
YE March	FY21	FY22	FY23e	FY24e	FY25e
Growth Ratios (%)					
Net Sales	13.0	65.7	-12.6	21.4	27.9
EBITDA	51.5	153.3	-52.8	52.2	31.0
Adjusted PAT	189.2	378.5	-48.7	19.8	41.2
Margin Ratio (%)					
Gross Profit	30.8	37.4	25.6	29.4	29.8
EBITDA Margin	15.8	24.2	13.1	16.4	16.8
EBIT Margin	10.3	21.0	9.4	12.0	12.8
Core PBT Margins	6.4	18.9	7.6	9.3	10.3
Adj PAT Margin	4.2	12.2	7.2	7.1	7.8
Return Ratios					
ROE	13.0	47.6	17.8	18.2	21.6
ROCE	6.8	22.2	10.7	10.7	13.0
Turnover Ratios (days)					
Gross Block Turnover (x)	1.2	1.9	1.4	1.3	1.5
Adj OCF / Adj PAT (%)	135	114	141	82	70
Inventory	70	52	65	66	67
Debtors	36	28	35	36	37
Creditors	15	14	15	14	15
Cash Conversion Cycle	90	65	85	88	89
Solvency ratio (x)					
Debt-equity	1.7	0.8	1.0	1.1	0.8
Net Debt-Equity	1.7	0.8	0.9	1.1	0.8
Gross Debt/EBITDA	3.7	1.1	3.3	2.8	1.9
Current ratio	3.1	3.4	2.6	2.3	2.8
Interest coverage ratio	2.7	10.1	5.6	4.8	5.6
Dividend					
DPS (Rs.)	1.5	4.0	3.6	4.3	7.6
Dividend Yield (%)	2.9	1.9	1.8	2.1	3.8
Dividend Payout (%)	12.2	6.9	12.0	12.0	15.0
Per share (Rs.)					
Basic EPS (reported)	12.3	58.0	30.1	36.0	50.9
FDEPS (adjusted)	12.3	58.6	30.1	36.0	50.9
CEPS	28.4	73.6	45.8	59.4	78.1
BV	100	156	182	214	257
Valuation					
P/E	4.3	3.6	6.7	5.6	4.0
P/BV	0.5	1.3	1.1	0.9	0.8
EV/EBITDA	4.9	2.9	6.8	5.1	3.7
EV/Sales	0.8	0.7	0.9	0.8	0.6
Adj Mcap/Core PBT	2.8	2.3	6.1	4.2	3.0
Adj Mcap/Adj OCF	3.1	3.1	4.6	6.6	5.6

Source: Company, SMIFS research estimates

Balance Sheet					
YE March (Rs mn)	FY21	FY22	FY23e	FY24e	FY25e
Sources of funds					
Capital	562	562	562	562	562
Reserves & Surplus	5,071	8,196	9,684	11,466	13,896
Shareholders' Funds	5,633	8,758	10,246	12,028	14,459
Total Loan Funds	9,616	6,885	10,041	12,941	11,481
Non-Current Liabilities	732	1,301	1,301	1,301	1,301
Total Liabilities	15,982	16,944	21,588	26,270	27,240
Application of funds					
Gross Block	13,781	13,921	18,922	23,422	23,722
Net Block	10,597	10,119	14,235	17,422	16,190
Capital WIP	16	1	0	0	0
Investments	0	0	30	30	30
Other non current assets	117	581	581	581	581
Inventories	3,547	4,063	4,190	5,166	6,707
Sundry Debtors	1,658	2,407	2,256	2,818	3,704
Cash & Bank Balances	8	6	335	223	90
Other current Assets	820	1,067	932	1,132	1,448
Total Current Assets	6,033	7,543	7,714	9,339	11,948
Sundry Creditors	765	1,294	967	1,096	1,501
Other Current Liabilities	16	5	5	6	7
Total Current Liabilities	781	1,299	972	1,102	1,509
Net Current Assets	5,252	6,243	6,742	8,237	10,439
Total Assets	15,982	16,944	21,588	26,270	27,240

Source: Company, SMIFS research estimates

Cash Flow					
YE March (Rs mn)	FY21	FY22	FY23e	FY24e	FY25e
Operating profit before WC changes	2,439	5,549	2,942	3,995	5,165
Net chg in working capital	(890)	(1,234)	(170)	(1,606)	(2,335)
Cash flow from operating activities (a)	1,549	4,314	2,772	2,389	2,829
Adj OCF	933	3,761	2,377	1,670	2,000
Capital expenditure	(124)	(925)	(5,000)	(4,500)	(300)
Adj Free Cash Flow	808	2,836	(2,623)	(2,830)	1,700
Cash flow from investing activities (b)	(112)	(859)	(5,001)	(4,438)	(244)
Debt	(788)	(2,731)	3,156	2,900	(1,461)
Dividend	34	169	203	243	429
Interest and lease	616	553	395	719	829
Cash flow from financing activities (c)	(1,438)	(3,453)	2,558	1,938	(2,719)
Net chg in cash (a+b+c)	(1)	2	329	(111)	(133)

Source: Company, SMIFS research estimates

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