



NITIN SPINNERS LTD.



East India Securities Ltd
Excellent | Investment | Solutions

NITIN SPINNERS LTD.
HEAD OFFICE: 17/17A, 17/17B, 17/17C, 17/17D, 17/17E, 17/17F, 17/17G, 17/17H, 17/17I, 17/17J, 17/17K, 17/17L, 17/17M, 17/17N, 17/17O, 17/17P, 17/17Q, 17/17R, 17/17S, 17/17T, 17/17U, 17/17V, 17/17W, 17/17X, 17/17Y, 17/17Z, 17/17AA, 17/17AB, 17/17AC, 17/17AD, 17/17AE, 17/17AF, 17/17AG, 17/17AH, 17/17AI, 17/17AJ, 17/17AK, 17/17AL, 17/17AM, 17/17AN, 17/17AO, 17/17AP, 17/17AQ, 17/17AR, 17/17AS, 17/17AT, 17/17AU, 17/17AV, 17/17AW, 17/17AX, 17/17AY, 17/17AZ, 17/17BA, 17/17BB, 17/17BC, 17/17BD, 17/17BE, 17/17BF, 17/17BG, 17/17BH, 17/17BI, 17/17BJ, 17/17BK, 17/17BL, 17/17BM, 17/17BN, 17/17BO, 17/17BP, 17/17BQ, 17/17BR, 17/17BS, 17/17BT, 17/17BU, 17/17BV, 17/17BW, 17/17BX, 17/17BY, 17/17BZ, 17/17CA, 17/17CB, 17/17CC, 17/17CD, 17/17CE, 17/17CF, 17/17CG, 17/17CH, 17/17CI, 17/17CJ, 17/17CK, 17/17CL, 17/17CM, 17/17CN, 17/17CO, 17/17CP, 17/17CQ, 17/17CR, 17/17CS, 17/17CT, 17/17CU, 17/17CV, 17/17CW, 17/17CX, 17/17CY, 17/17CZ, 17/17DA, 17/17DB, 17/17DC, 17/17DD, 17/17DE, 17/17DF, 17/17DG, 17/17DH, 17/17DI, 17/17DJ, 17/17DK, 17/17DL, 17/17DM, 17/17DN, 17/17DO, 17/17DP, 17/17DQ, 17/17DR, 17/17DS, 17/17DT, 17/17DU, 17/17DV, 17/17DW, 17/17DX, 17/17DY, 17/17DZ, 17/17EA, 17/17EB, 17/17EC, 17/17ED, 17/17EE, 17/17EF, 17/17EG, 17/17EH, 17/17EI, 17/17EJ, 17/17EK, 17/17EL, 17/17EM, 17/17EN, 17/17EO, 17/17EP, 17/17EQ, 17/17ER, 17/17ES, 17/17ET, 17/17EU, 17/17EV, 17/17EW, 17/17EX, 17/17EY, 17/17EZ, 17/17FA, 17/17FB, 17/17FC, 17/17FD, 17/17FE, 17/17FF, 17/17FG, 17/17FH, 17/17FI, 17/17FJ, 17/17FK, 17/17FL, 17/17FM, 17/17FN, 17/17FO, 17/17FP, 17/17FQ, 17/17FR, 17/17FS, 17/17FT, 17/17FU, 17/17FV, 17/17FW, 17/17FX, 17/17FY, 17/17FZ, 17/17GA, 17/17GB, 17/17GC, 17/17GD, 17/17GE, 17/17GF, 17/17GG, 17/17GH, 17/17GI, 17/17GJ, 17/17GK, 17/17GL, 17/17GM, 17/17GN, 17/17GO, 17/17GP, 17/17GQ, 17/17GR, 17/17GS, 17/17GT, 17/17GU, 17/17GV, 17/17GW, 17/17GX, 17/17GY, 17/17GZ, 17/17HA, 17/17HB, 17/17HC, 17/17HD, 17/17HE, 17/17HF, 17/17HG, 17/17HH, 17/17HI, 17/17HJ, 17/17HK, 17/17HL, 17/17HM, 17/17HN, 17/17HO, 17/17HP, 17/17HQ, 17/17HR, 17/17HS, 17/17HT, 17/17HU, 17/17HV, 17/17HW, 17/17HX, 17/17HY, 17/17HZ, 17/17IA, 17/17IB, 17/17IC, 17/17ID, 17/17IE, 17/17IF, 17/17IG, 17/17IH, 17/17II, 17/17IJ, 17/17IK, 17/17IL, 17/17IM, 17/17IN, 17/17IO, 17/17IP, 17/17IQ, 17/17IR, 17/17IS, 17/17IT, 17/17IU, 17/17IV, 17/17IW, 17/17IX, 17/17IY, 17/17IZ, 17/17JA, 17/17JB, 17/17JC, 17/17JD, 17/17JE, 17/17JF, 17/17JG, 17/17JH, 17/17JI, 17/17JJ, 17/17JK, 17/17JL, 17/17JM, 17/17JN, 17/17JO, 17/17JP, 17/17JQ, 17/17JR, 17/17JS, 17/17JT, 17/17JU, 17/17JV, 17/17JW, 17/17JX, 17/17JY, 17/17JZ, 17/17KA, 17/17KB, 17/17KC, 17/17KD, 17/17KE, 17/17KF, 17/17KG, 17/17KH, 17/17KI, 17/17KJ, 17/17KK, 17/17KL, 17/17KM, 17/17KN, 17/17KO, 17/17KP, 17/17KQ, 17/17KR, 17/17KS, 17/17KT, 17/17KU, 17/17KV, 17/17KW, 17/17KX, 17/17KY, 17/17KZ, 17/17LA, 17/17LB, 17/17LC, 17/17LD, 17/17LE, 17/17LF, 17/17LG, 17/17LH, 17/17LI, 17/17LJ, 17/17LK, 17/17LL, 17/17LM, 17/17LN, 17/17LO, 17/17LP, 17/17LQ, 17/17LR, 17/17LS, 17/17LT, 17/17LU, 17/17LV, 17/17LW, 17/17LX, 17/17LY, 17/17LZ, 17/17MA, 17/17MB, 17/17MC, 17/17MD, 17/17ME, 17/17MF, 17/17MG, 17/17MH, 17/17MI, 17/17MJ, 17/17MK, 17/17ML, 17/17MM, 17/17MN, 17/17MO, 17/17MP, 17/17MQ, 17/17MR, 17/17MS, 17/17MT, 17/17MU, 17/17MV, 17/17MW, 17/17MX, 17/17MY, 17/17MZ, 17/17NA, 17/17NB, 17/17NC, 17/17ND, 17/17NE, 17/17NF, 17/17NG, 17/17NH, 17/17NI, 17/17NJ, 17/17NK, 17/17NL, 17/17NM, 17/17NN, 17/17NO, 17/17NP, 17/17NQ, 17/17NR, 17/17NS, 17/17NT, 17/17NU, 17/17NV, 17/17NW, 17/17NX, 17/17NY, 17/17NZ, 17/17OA, 17/17OB, 17/17OC, 17/17OD, 17/17OE, 17/17OF, 17/17OG, 17/17OH, 17/17OI, 17/17OJ, 17/17OK, 17/17OL, 17/17OM, 17/17ON, 17/17OO, 17/17OP, 17/17OQ, 17/17OR, 17/17OS, 17/17OT, 17/17OU, 17/17OV, 17/17OW, 17/17OX, 17/17OY, 17/17OZ, 17/17PA, 17/17PB, 17/17PC, 17/17PD, 17/17PE, 17/17PF, 17/17PG, 17/17PH, 17/17PI, 17/17PJ, 17/17PK, 17/17PL, 17/17PM, 17/17PN, 17/17PO, 17/17PP, 17/17PQ, 17/17PR, 17/17PS, 17/17PT, 17/17PU, 17/17PV, 17/17PW, 17/17PX, 17/17PY, 17/17PZ, 17/17QA, 17/17QB, 17/17QC, 17/17QD, 17/17QE, 17/17QF, 17/17QG, 17/17QH, 17/17QI, 17/17QJ, 17/17QK, 17/17QL, 17/17QM, 17/17QN, 17/17QO, 17/17QP, 17/17QQ, 17/17QR, 17/17QS, 17/17QT, 17/17QU, 17/17QV, 17/17QW, 17/17QX, 17/17QY, 17/17QZ, 17/17RA, 17/17RB, 17/17RC, 17/17RD, 17/17RE, 17/17RF, 17/17RG, 17/17RH, 17/17RI, 17/17RJ, 17/17RK, 17/17RL, 17/17RM, 17/17RN, 17/17RO, 17/17RP, 17/17RQ, 17/17RR, 17/17RS, 17/17RT, 17/17RU, 17/17RV, 17/17RW, 17/17RX, 17/17RY, 17/17RZ, 17/17SA, 17/17SB, 17/17SC, 17/17SD, 17/17SE, 17/17SF, 17/17SG, 17/17SH, 17/17SI, 17/17SJ, 17/17SK, 17/17SL, 17/17SM, 17/17SN, 17/17SO, 17/17SP, 17/17SQ, 17/17SR, 17/17SS, 17/17ST, 17/17SU, 17/17SV, 17/17SW, 17/17SX, 17/17SY, 17/17SZ, 17/17TA, 17/17TB, 17/17TC, 17/17TD, 17/17TE, 17/17TF, 17/17TG, 17/17TH, 17/17TI, 17/17TJ, 17/17TK, 17/17TL, 17/17TM, 17/17TN, 17/17TO, 17/17TP, 17/17TQ, 17/17TR, 17/17TS, 17/17TT, 17/17TU, 17/17TV, 17/17TW, 17/17TX, 17/17TY, 17/17TZ, 17/17UA, 17/17UB, 17/17UC, 17/17UD, 17/17UE, 17/17UF, 17/17UG, 17/17UH, 17/17UI, 17/17UJ, 17/17UK, 17/17UL, 17/17UM, 17/17UN, 17/17UO, 17/17UP, 17/17UQ, 17/17UR, 17/17US, 17/17UT, 17/17UU, 17/17UV, 17/17UW, 17/17UX, 17/17UY, 17/17UZ, 17/17VA, 17/17VB, 17/17VC, 17/17VD, 17/17VE, 17/17VF, 17/17VG, 17/17VH, 17/17VI, 17/17VJ, 17/17VK, 17/17VL, 17/17VM, 17/17VN, 17/17VO, 17/17VP, 17/17VQ, 17/17VR, 17/17VS, 17/17VT, 17/17VU, 17/17VV, 17/17VW, 17/17VX, 17/17VY, 17/17VZ, 17/17WA, 17/17WB, 17/17WC, 17/17WD, 17/17WE, 17/17WF, 17/17WG, 17/17WH, 17/17WI, 17/17WJ, 17/17WK, 17/17WL, 17/17WM, 17/17WN, 17/17WO, 17/17WP, 17/17WQ, 17/17WR, 17/17WS, 17/17WT, 17/17WU, 17/17WV, 17/17WW, 17/17WX, 17/17WY, 17/17WZ, 17/17XA, 17/17XB, 17/17XC, 17/17XD, 17/17XE, 17/17XF, 17/17XG, 17/17XH, 17/17XI, 17/17XJ, 17/17XK, 17/17XL, 17/17XM, 17/17XN, 17/17XO, 17/17XP, 17/17XQ, 17/17XR, 17/17XS, 17/17XT, 17/17XU, 17/17XV, 17/17XW, 17/17XZ, 17/17YA, 17/17YB, 17/17YC, 17/17YD, 17/17YE, 17/17YF, 17/17YG, 17/17YH, 17/17YI, 17/17YJ, 17/17YK, 17/17YL, 17/17YM, 17/17YN, 17/17YO, 17/17YP, 17/17YQ, 17/17YR, 17/17YS, 17/17YT, 17/17YU, 17/17YV, 17/17YW, 17/17YZ, 17/17ZA, 17/17ZB, 17/17ZC, 17/17ZD, 17/17ZE, 17/17ZF, 17/17ZG, 17/17ZH, 17/17ZI, 17/17ZJ, 17/17ZK, 17/17ZL, 17/17ZM, 17/17ZN, 17/17ZO, 17/17ZP, 17/17ZQ, 17/17ZR, 17/17ZS, 17/17ZT, 17/17ZU, 17/17ZV, 17/17ZW, 17/17ZX, 17/17ZY, 17/17ZZ

Nitin Spinners Ltd Initiating Coverage



Manufacturers of 100% Cotton Yarns and Cotton Fabrics

Awanish Chandra

e-mail: awanishc@eisec.com

+91 22 22721083



Contents

Nitin Spinners Limited: Spinning Profits	3
Nitin Spinners – Key Milestones	4
Business Segments	5
Product Overview	5
NSL Strengths	6
Growth Drivers	9
Richer Product Mix will Help Margin Improvement Going Forward	11
For Nitin - It's Not Just About TUFs and Incentives	11
Successful Exit from CDR Reaffirms Management's Credibility	12
Senior Management with Rich Experience	12
Outlook	13
Valuation	13
Peer Comparison – Financial Parameters	14
Peer Comparison – Overall	15
Financial Statement (Consolidated)	16
Indian Cotton Textile Industry Overview	18

Nitin Spinners Limited

Spinning Profits

Nitin Spinners Ltd. (NSL), is a Rajasthan based manufacturer of 100% cotton yarn and knitted fabrics. The company was incorporated in 1992 and commenced production in 1993 with a small open-end facility and since then it has become one of the leading cotton yarn producers in India. Nitin has an installed capacity of 150,096 spindles, 2,936 rotors and 49 knitting machines, which can produce 37,800 tonnes of cotton yarn and 8,600 tonnes of knitted fabric per annum. The company's sales, EBITDA and adjusted PAT have grown at a CAGR of 13.3%, 12.6% and 16.4% respectively during FY11-FY16. During FY16, the company's total revenues stood at Rs 7,669 Mn (Cotton yarn – 77%, knitting – 19%, other sources such as trading, waste and job works – 4%). Nitin generated 69% of its revenues from exports and enjoys presence in more than 40 countries across the globe. Domestic revenues contributed 31% and NSL has marquee clients like Arvind, Siyaram, Raymond, D'décor, Donear, etc.

Investment Rationale:

- Pedigreed, Prudent and Visionary Promoters** – NSL is promoted by Mr. R. L. Nolkha who has spent around 25 years in the industry before setting up NSL. Over the last 25 years, the Nolkha family has grown the business very efficiently and have successfully navigated the challenges and threats. NSL's expansions have been prudently planned in order to keep gearing in check and the management has consciously capped the interest cost to sales at 5%. The management's long term vision is to reach half a million spindles of yarn capacity. As a part of forward integration, the company also plans to enter fabric processing and value added products which will boost profitability.
- Healthy returns** – The company has been successful in maintaining best among the industry operating metrics resulting in a healthy RoAE (FY16 – 23.7%, FY15 – 27.4%) and RoACE (FY16 – 17.7%, FY15 – 16.7%) consistently during past couple of years. We believe that NSL will further enhance return ratios on account of richer product mix.
- Well timed capacity expansion** – NSL timed its capacity expansion very well by doubling capacity in 2014 to 150,096 spindles which helped it capture the textile up cycle. The company's yarn utilization level has already reached 100% and NSL is adding another ~73,000 spindles by March 2017. These expansions would give a big boost to earnings.
- Attractive valuations** – NSL is trading at 4.4x FY18E earnings which is very cheap considering the many merits and strengths. We initiate coverage with a buy rating and a TP of Rs 155.

Key Risks:

- Commodity risk** – The company is a 100% cotton yarn manufacturing company and cotton is its major raw material (60% of sales). Significant change in cotton prices may affect margins.

Year	Revenue (Rs Mn)	EBIDTA margin (%)	PAT (Rs Mn)	EPS	PE	PBV	EV/EBIDTA	ROCE %	ROE %
FY14	4,883	19.2%	348	7.6	8.4	2.2	6.9	22.5%	29.9%
FY15	6,165	16.1%	410	8.9	7.2	1.8	6.5	16.7%	27.4%
FY16	7,669	17.9%	442	9.6	6.6	1.4	4.7	17.7%	23.7%
FY17E	7,926	17.5%	516	11.3	5.7	1.2	4.7	14.1%	22.6%
FY18E	10,477	18.9%	674	14.7	4.4	1.0	3.3	17.3%	24.1%

Source: Company, EISEC Research

Buy TP: Rs. 155

CMP: Rs. 64.5
Potential Upside: 140%

Stock Data

CMP	64.5
Mcap (Rs Mn)	2,958.6
Avg Vol (6M) '000	185.7
FV	10.0
Beta	1.3
52 week H/L	107.3 / 48.9
Bloomberg/ Reuters	NSPL IN / NISP.BO
Group	B / S&P BSE SmallCap

Year	FY14	FY15	FY16
Promoter	63.74	64.01	64.21
Public	35.40	35.9	35.65
FII	--	--	0.13
DII	0.86	0.09	0.01

ABS%	3M	6M	1Yr
Nitin	13.7	7.9	10.7
Sensex	7.9	6.9	1.1

Awanish Chandra
+91 22 22721083
e-mail: awanishc@eisec.com



East India Securities Ltd
Excellent | Investment | Solutions

Nitin Spinners – Key Milestones

The company is based out of Hamirgarh, a taluka in Bhilwara district of Rajasthan. The company was registered as a 100% Export Oriented Unit (EOU) earlier. However, with the withdrawal of several incentive schemes for EOUs, the company converted itself to a DTA (Domestic Tariff Area) unit. Currently, the company operates from a single location on ~70 acres of land.



Spinning Facility Floor



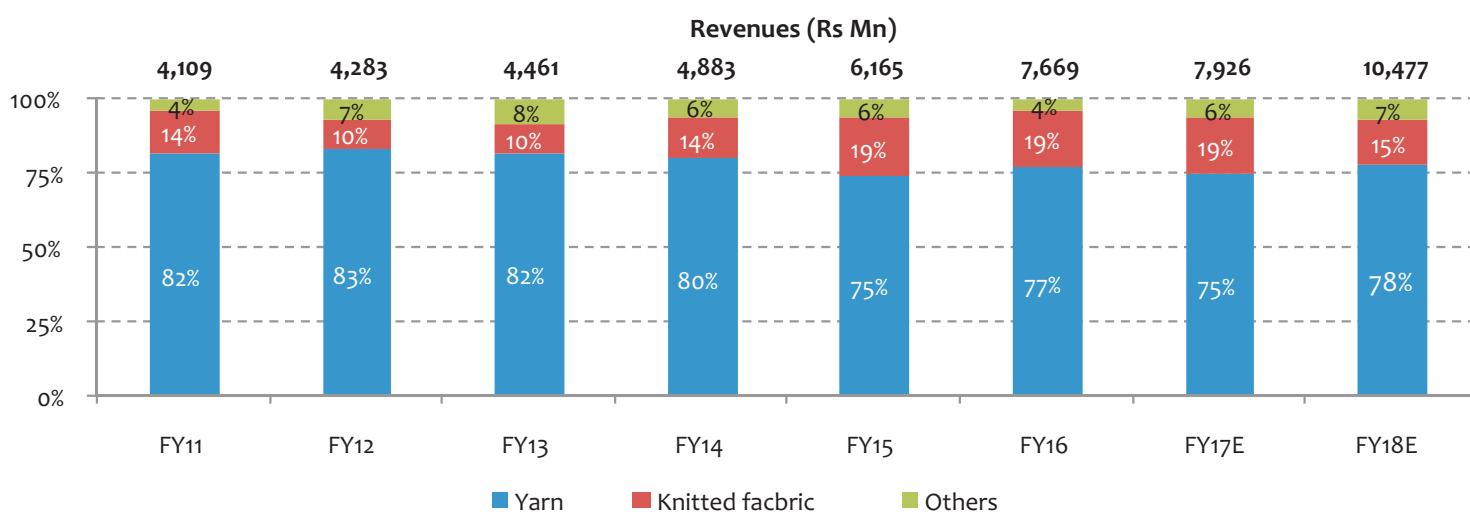
Knitting Facility Floor

- 1992 – Incorporated as a private limited company on 15th October, 1992.
- 1993 – Commenced operations with 384 rotors i.e. open end spinning.
- 1994 – Became a public limited company.
- 1995 – Entered automated open end spinning and completed first expansion adding 216 rotors. Total capacity increased to 600 rotors.
- 1997 – Completed second expansion adding 480 rotors. Total capacity increased to 1,080 rotors.
- 1998 – Completed third expansion adding 384 rotors. Total capacity increased to 1,464 rotors.
- 1999 – Achieved 100% EOU Status. Government recognized export house.
- 2002 – Completed fourth expansion. Enters into ring spinning and undertakes forward integration into knitted fabrics. Total installed capacity – 14,112 spindles, 1,464 rotors and 7 knitting machines.
- 2004 – Completed fifth expansion. Added 13,104 spindles and 6 knitting machines. Total installed capacity – 27,216 spindles, 1,464 rotors and 13 knitting machines.
- 2005 – Completed sixth expansion. Adds 408 rotors spindles and 2 knitting machines. Total installed capacity – 27,216 spindles, 1,872 rotors and 15 knitting machines.
- 2006 – Raised Rs 490 Mn via IPO. Gets listed on BSE and NSE.
- 2007 – Completed seventh expansion. Adds 50,400 spindles and 12 knitting machines. Total capacity – 77,616 spindles, 1,896 rotors and 27 knitting machines.
- 2008 – Completed eighth expansion. Adds 2,000 rotors. Total installed capacity – 77,616 spindles, 3,896 rotors and 27 knitting machines. Completed installation of 10.5 MW coal fired power plant for captive consumption.
- 2009 – Company entered the Corporate Debt Restructuring (CDR) mechanism.
- 2013 – Company exits the Corporate Debt Restructuring (CDR) mechanism.
- 2015 – Completed ninth expansion. Adds 72,480 spindles and 18 knitting machines. Total installed capacity – 150,096 spindles, 2,936 rotors and 49 knitting machines.
- 2016 – Announced tenth expansion. To add 72,960 spindles by FY17.

Business Segments

The company's business is split into 2 segments – yarn and knitted fabrics.

- **Yarn** – The company started as a 100% coarse cotton yarn producer and subsequently ventured into ring spinning by installing spindles to produce combed and carded cotton yarns. At present the company has a total installed capacity of 150,096 spindles and 2,936 rotors, which can produce 37,800 tonnes per annum. Yarn business accounts for 77% of NSL's Sales.
- **Knitted fabrics** – As part of its forward integration programme, the company diversified into knitted fabrics. At present, the company has an installed capacity of 49 knitting machines producing 8,600 tonnes of fabrics per annum and accounts for 19% of NSL's Sales.



Note: Others represents revenue from Trading, Waste and Job works.

Product Overview



Yarn



Knitted Fabric

Yarn offerings

- Open end yarns from Ne 5/1 to Ne 24/1
- Multifold open end yarn
- Ring spun combed yarn from Ne 12/1 to Ne 50/1
- Multifold ring spun yarn
- 'S' and 'Z' twist yarn
- Dyeable cheese cones
- 100% organic cotton yarns and blends
- Compact yarn
- Fancy slub yarn
- BCI and TBC cotton yarn
- Contamination free yarn from Australian and US cotton
- Core spun yarn
- Siro yarns

Fabric offerings

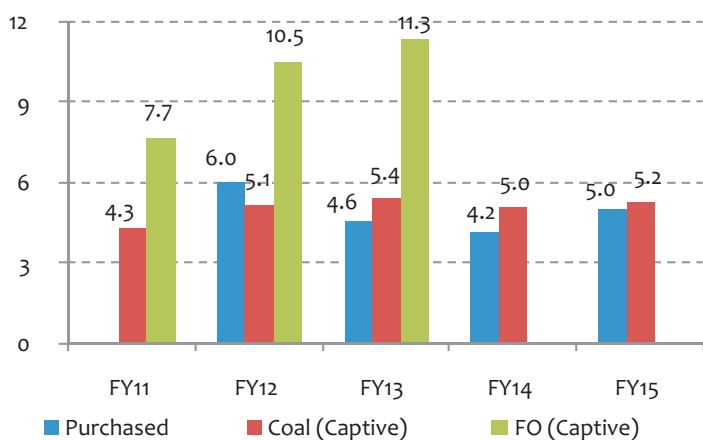
- Single jersey
- Pique structures
- Interlock structures
- Rib structures
- Three thread fleece
- Stretch fabrics

Source: Company, EISEC Research

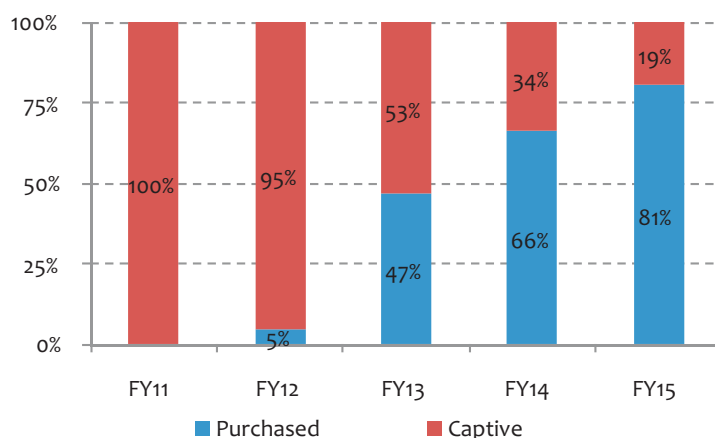
NSL Strengths – 1 -> Power

- Spinning is a power intensive business and consumes ~3.3 to 3.9 unit of electricity for each kg of yarn produced while fabric consumes another 0.3 to 0.5 unit of electricity per kg.
- The company operates in Rajasthan, which is self sufficient in power.
- The company has a captive 10.5 MW coal fired power plant, which is sufficient to meet half of its current power requirements.
- With the introduction of Energy Exchanges, the company has been able to meet its power requirements at much cheaper rates as compared to producing power from its captive coal power plant. Hence, the reliance on power from captive has reduced.

Power Cost/unit (Rs)



Purchase vs Captive



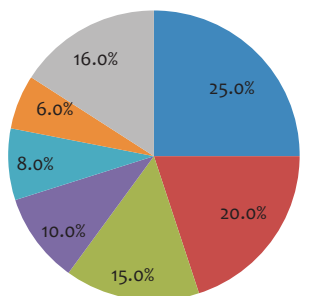
Source: Company, EISEC Research
Note: FO Stands for Furnace Oil

- With declining thermal coal prices, NSL has the option of increasing the share of captive power if that becomes cost effective.
- In order to further diversify its energy sourcing, the company has installed solar panels (based on OPEX model) on the roof tops of factory shed which can generate 300kw of power. The capacity will further be increased to add another 2,000 KW and reach a total capacity of 2,300 KW.
- NSL's diversified sourcing of power is a key strength as power is a crucial input for the spinning business.

NSL Strengths – 2 -> Proximity to Textile Hub

- NSL's plant is located ~16 kms away from Bhilwara District in Rajasthan, which is one of the textile hubs of the country. This proximity ensures ample availability of skilled and unskilled manpower as well as timely availability of cotton.
- The company procures ~60% of its cotton from surrounding areas like Bhilwara, Bijaynagar, Asind within Rajasthan itself. Of the balance, ~30% is procured from Gujarat, Maharashtra, Madhya Pradesh and other states while ~10% is imported from the US, Greece, Australia and other countries.

Major Export Destinations



Source: Company, EISEC Research

NSL Strengths – 3 -> Diverse Customer Base

- Exports contribute 69% of the company's topline. The company has presences in more than 40 countries across the globe including the European Union, North America, Latin America, Middle East, China and other Far East Asian countries with no particular economic bloc accounting for more than 25% of its revenue.
- Domestic revenues contribute 31% and its clientele include marquee names like Arvind, Siyaram, Raymond, D'décor, Donear, etc. In the long run, the company plans to reduce its exposure to the international markets to ~50% to have an equally balanced revenue profile.



Source: Company, EISEC Research

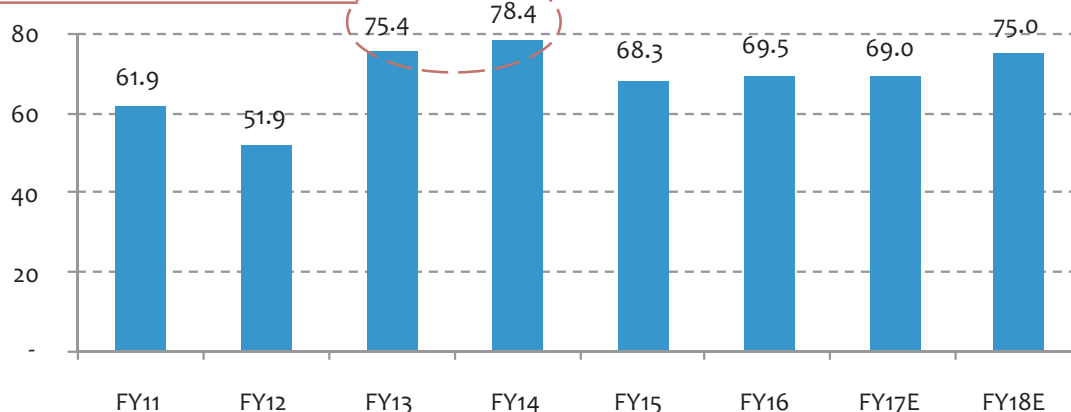
- The ability and experience to sell its products in local as well as global markets gives NSL enough cushion to handle demand supply mismatches and economic volatility.
- The company is effectively using its diversified customer base to market its fabric which will help grow the knitting business.

NSL Strengths – 4 -> Well Positioned to Increase Cotton Spread

- NSL is putting a conscious effort to position itself as a premium yarn manufacturer in order to move up the value chain.
- NSL's capacity expansion will increase the share of finer yarns to ~27% from existing ~12%. This will generate higher spread for NSL as finer yarns generate ~30% higher spread as compared to regular compact and coarse yarns.
- Better product mix coupled with efficient cotton procurement will lead to higher spreads going forward.

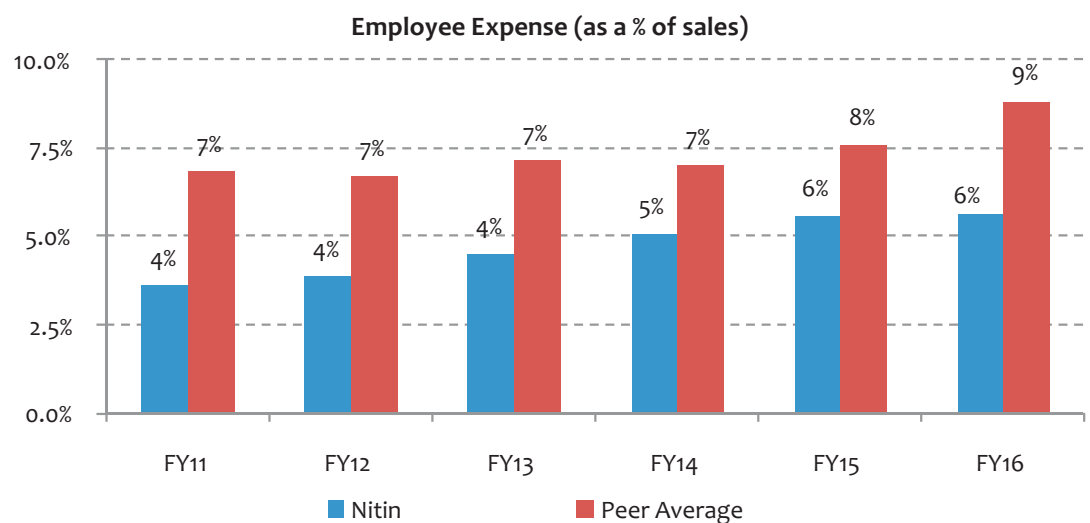
Average spreads earned (Rs/Kg)

Sudden jump was due to high China exports



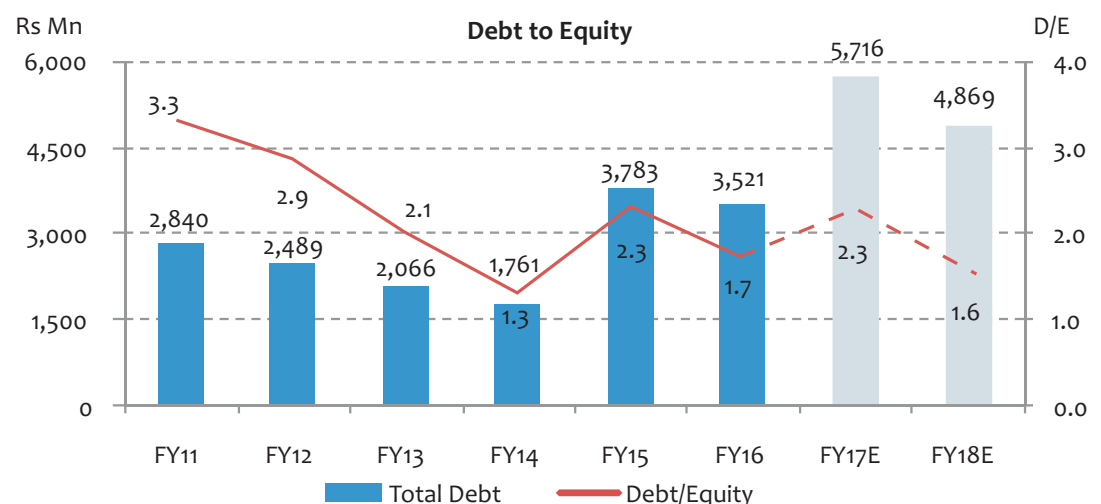
NSL Strengths – 5 -> Labour

- As of March 2016, the company employs 2,335 permanent employees of which 2,100 – 2,200 employees are blue collar employees. Apart from this the company employees 200 – 300 temporary workers.
- Bhilwara being a textile hub ensures availability of skilled and unskilled labour at salary levels that are better than the Industry average. Average salary for the workers is ~Rs 10,000 per month.
- The company provides for recreational and housing facilities to its migrant labourers which helps reduce the attrition level.
- This is further reflected in operational productivity of the company with 6 year average employee cost as a % of sales being as low as 4.7% as compared to peer average of 7.5%



NSL Strengths – 6 -> Sustainable D/E Ratio

- Spinning is a highly capital intensive industry requiring significant investments in plant and machinery. Besides the capital investment, inventories also consume a lot of capital as spinning mills have to stock inventory during the cotton arrival season. On an average, NSL stocks cotton inventory for 55 - 60 days.
- NSL has achieved a commendable task of reducing its D/E ratio by 50% despite doubling the capacity in last 6 years.
- NSL is further enhancing its capacity by 50% funded by debt of Rs 2,150 mn and we expect the D/E ratio of the company to reduce to 1.6x by FY18E from 1.7x in FY16.



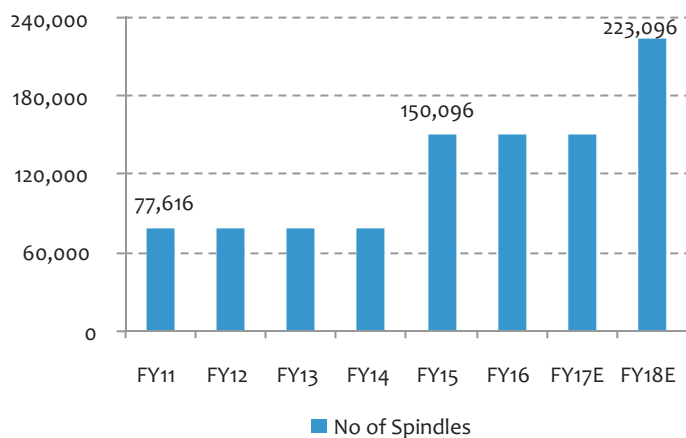
Growth Driver 1 – Capacity Expansion



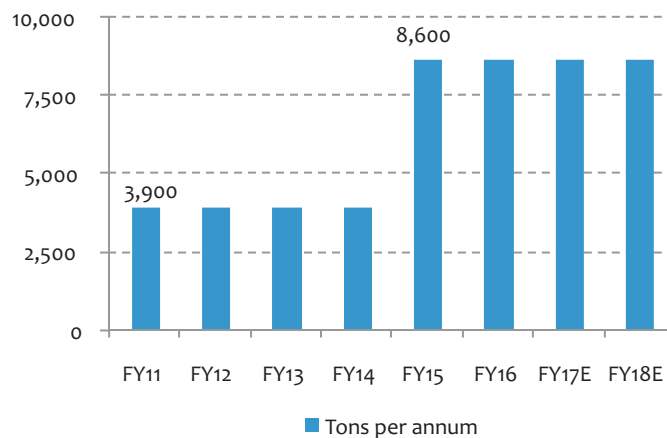
Spindles

- The company has been expanding its capacity on a regular basis. In 2014, the company doubled its capacity from 77,616 spindles to 150,096 spindles with a capex of Rs 2,810 mn. The company also increased its knitting capacity by increasing the number of knitting machines to 49 from 31.
- The company is undertaking Rs 2,900 mn capex to add another 73,000 spindles and reach a total capacity of 223,096 spindles. The project is expected to come on stream by March 2017.
- Capacity utilisation of the spinning business has always been above the optimum level of 90% and provides further headroom for growth. The company aspires to reach capacity of half a million spindles.

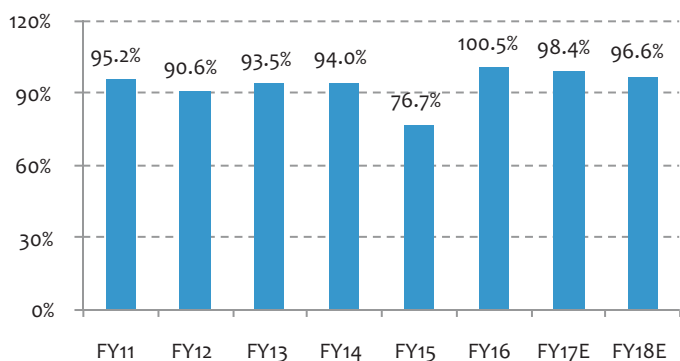
Yarn Capacity



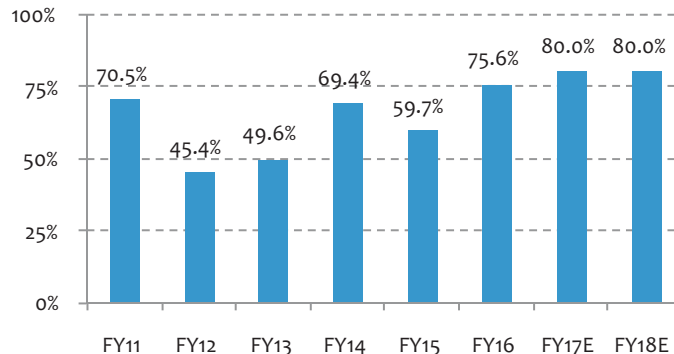
Knitting Capacity



Yarn Capacity Utilisation



Knitting Capacity Utilisation



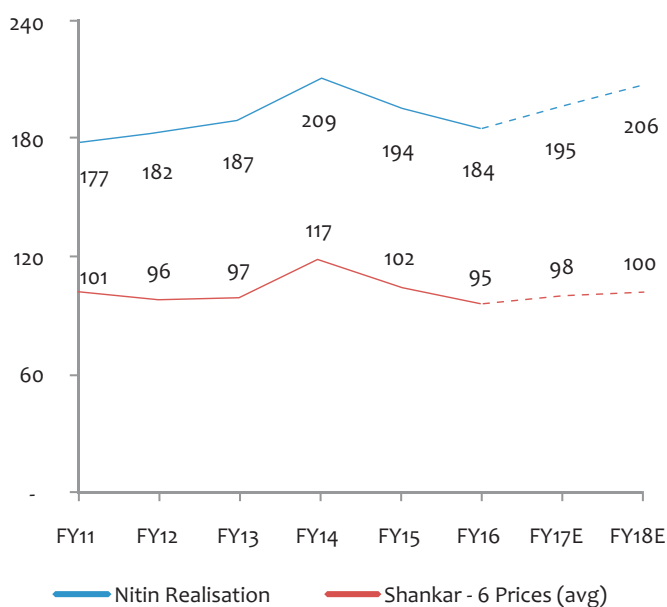
Source: Company, EISEC Research

- Drop in 2015 utilisation levels in FY15 is due to expansion in the yarn as well as the knitting segment which came on-stream in 4QFY15.
- In FY17 and FY18 also we are projecting a slight dip in the overall utilisation levels due to addition in capacity.
- In the knitting segment, we expect the company to move towards optimum utilisation of 80% by FY17.

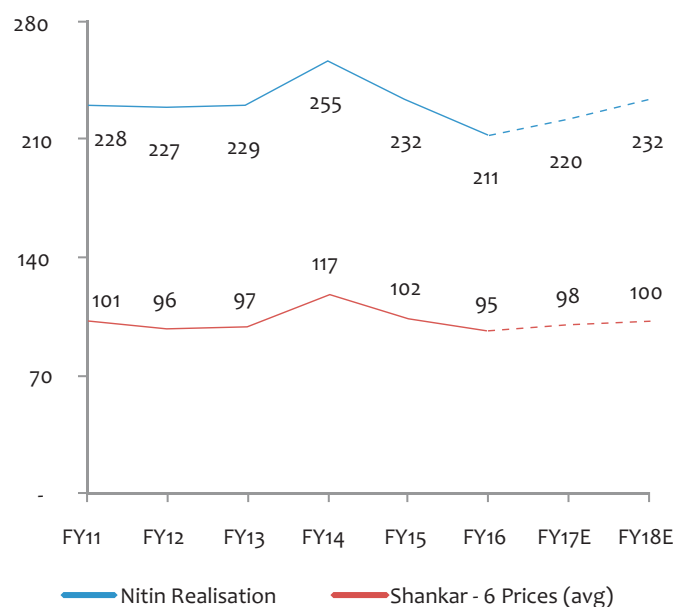
Growth Driver 2 – Value Added Products

- Nitin Spinners has historically focused on producing cotton yarn with thread counts in the range of 8 – 30 which is a very commoditised space and is vulnerable to cotton price movement
- In order to insulate itself from cotton price volatility, NSL is increasing its product mix towards value added yarns including slub and compact yarn and finer count yarn.
- Post the proposed capacity expansion, 42% (15% fabric, 27% yarn) of NSL’s revenue will come from value added products as compared to 30% in FY16 (18% fabric, 12% yarn).
- Besides insulating from cotton price volatility, value added products have better margins which will help improve NSL’s overall business margins. We expect the EBITDA margin of the company to improve from the current 17.9% in FY16 to 18.9% in FY18.

Yarn Realisations (Rs/Kg)



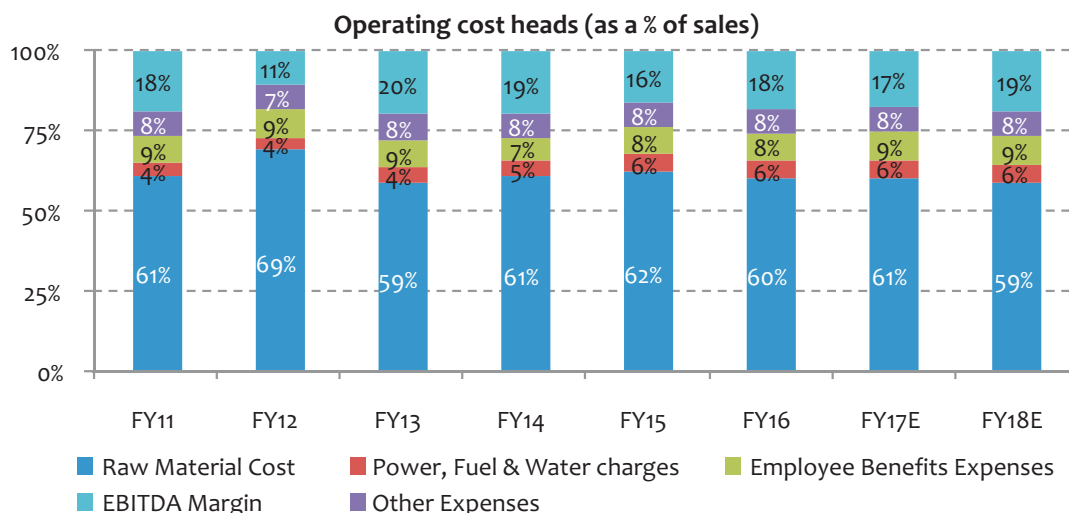
Knitting Realisations (Rs/Kg)



Source: Company, EISEC Research, www.texmin.nic.in

Richer Product Mix will Help Margin Improvement Going Forward

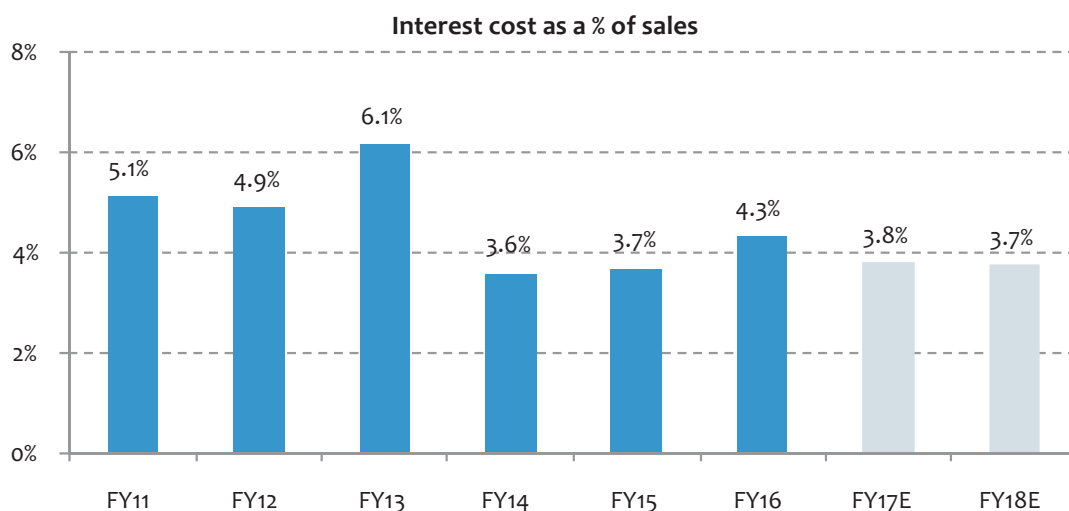
- With the capacity expansion which was completed in FY15 and the upcoming capacity expansion which is expected to be on-stream by March 2017, NSL is consciously shifting its positioning from a commodity player to speciality player by tilting the product mix towards value added yarns.
- We expect this is going to improve the EBITDA margin of the company from the current 17.9% in FY16 to 18.9% in FY18.



Source: Company, EISEC Research

For Nitin - It's Not Just About TUFs and Incentives

- Many textile units exist and survive merely due to the incentives offered by central and state governments and are quite vulnerable to change in the said government policies.
- While Nitin also avails benefit of TUF, Rajasthan Investment Promotion Scheme (RIPS), the management is fully geared to survive and thrive in a subsidy less scenario.
- The management of the company adheres to a very strict policy of capping their interest cost to 5% of sales. So instead of depending on subsidised credit, NSL wants to cap its dependence on debt itself.
- NSL management is clear that its expansion plans will not be based on the incentives made available by the government but its interest capping policy.
- Excluding incentives, the company would still be able to manage a healthy RoAE of 18.2% and RoACE of 15.4% over the next 2 years on average.



Source: Company, EISEC Research

Successful Exit from CDR Reaffirms Management's Credibility

- The Company went through Corporate Debt Restructuring (CDR) mechanism in March 2009 due to forex losses and adverse business scenario in 2007-08.
- The company is one of the very few companies to have successfully exited the CDR mechanism. The CDR exit process was completed in July 2012 by paying the recompense amount of Rs 165.4 Mn.
- This turnaround was achieved in a short period of three and half years and is one of the shortest turnaround in the history of CDR mechanism.

Senior Management with Rich Experience

- **Mr. R. L. Nolkha, Chairman and Managing Director:** Sh. R. L. Nolkha aged 69 years is one of the key promoters of the Company. He is the Director of the Company since its incorporation and is a member of all three pioneer institutions i.e. Institute of Chartered Accountants (ICAI), Institute of Company Secretary of India (ICSI) and Institute of Cost Accountants of India. He has vast experience of more than four decades in the Textile Industry. He was earlier associated with Surya Roshni Ltd., RSWM Ltd. and BSL Ltd. at senior positions. He was the Managing Director of BSL Ltd. for eight years before joining Nitin Spinners Ltd. as a Whole-Time Director in the year 1997. He is a member of various Chamber/Organizations relating to trade and industry and presently he is the Chairman of Rajasthan Textile Mills Association. He was the Chairman of North India Textile Research Association (NITRA) and Mewar Chamber of Commerce and Industries. He received the prestigious Udyog Patra in 2003.
- **Mr. Dinesh Nolkha, Managing Director:** Mr. Dinesh Nolkha, aged 44 years is a Chartered Accountant and Cost and Works Accountant by qualification. He is the elder son of Mr. R. L. Nolkha and is currently the Managing Director of the Company and on the Board since the inception. He has been involved in setting-up all the projects of the Company and managing day-to-day operations. He is also the Vice President of Mewar Chamber of Commerce and Industry.
- **Mr. Nitin Nolkha, Executive Director:** Mr. Nitin Nolkha, aged 39 years is a Bachelor of Commerce and Master of Business Administration (MBA). He has more than seventeen years of experience in the textile industry. His functional experience covers Plant Operations, Procurement/Sourcing, Administration and Management.
- **Mr. P. Maheshwari, Vice President (Finance) and CFO:** Mr. Maheshwari, aged 54 is a Bachelor of Commerce (Honours) and a Chartered Accountant. He has more than 3 decades of experience in the textile industry. He is associated with Nitin Spinners Ltd. from 2006 and is currently the Vice President (Finance) and CFO. Before joining Nitin Spinners, he was the Vice President (Finance) at BSL Ltd., a LNJ group company, where he served for 20 years.

Average vintage of top 10 professional managers within the company is 15 years.

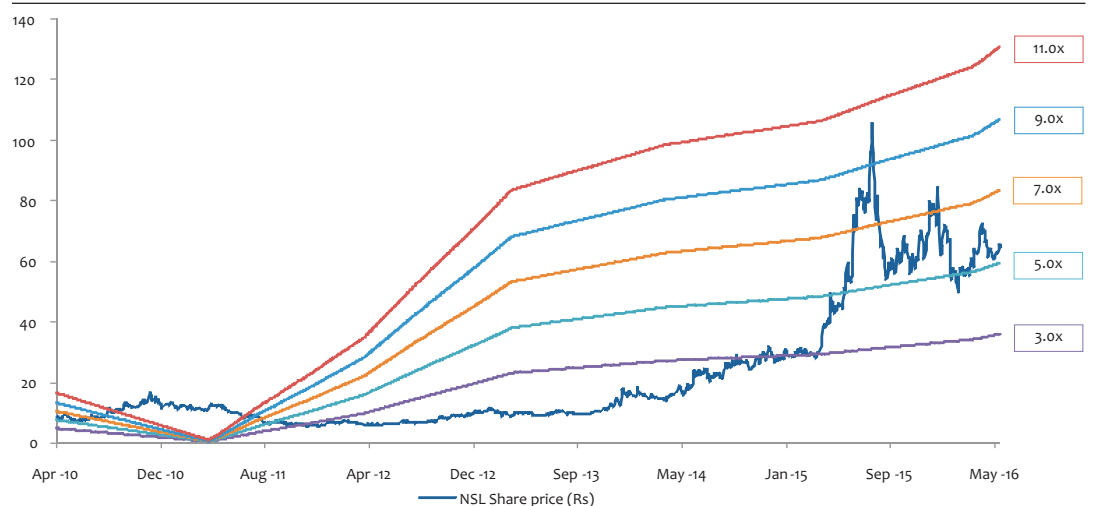
Outlook

- Nitin Spinners is a very well run and managed company with the promoter family fully involved in the business with complete focus and commitment.
- The promoters have built the business from scratch with extreme prudence and vision which is amply reflected in the fact that:
 - They have been constantly increasing the capacity without increasing the leverage
 - All the expansions have been well timed and the product mix is gradually moving up the value chain
 - NSL has best in the Industry operational and financial ratios and has been growing at better than Industry average
 - NSL's business being exposed to commodity as well as currency volatility, the promoters have put in robust risk management policies particularly after learning from the past experience with currency losses in 2007-08
- **Going by their past track record, NSL is all poised to grow its yarn capacity to 500,000 spindles providing an excellent opportunity for equity investors to participate in NSL's growth story.**

Valuation

- Based on FY16 reported earnings, NSL trades at:
 - P/E multiple – 6.7x
 - P/B – 1.4x
 - Price to Sales – 0.39x
- Based on our projected numbers for FY18, NSL trades at:
 - P/E Multiple – 4.4x
 - P/B – 1.0x
 - Price to Sales – 0.28x
- The company has consistently made a healthy RoAE and RoACE in the past 4 years. For FY16, its RoAE stood at 23.7% while RoACE stood at 17.7%.
- We expect the company's sales and PAT to increase at a CAGR of 16.9% and 23.5% respectively during FY16-FY18E with improvement in return ratios.
- NSL's strong fundamentals and robust growth prospects coupled with margin expansion gives us confidence that NSL will see a very strong earnings growth which could be coupled with an expansion in the PE ratio. We initiate coverage with a buy rating and a price target of Rs 155 (10.5x FY18E EPS) implying an upside of 140% from CMP.

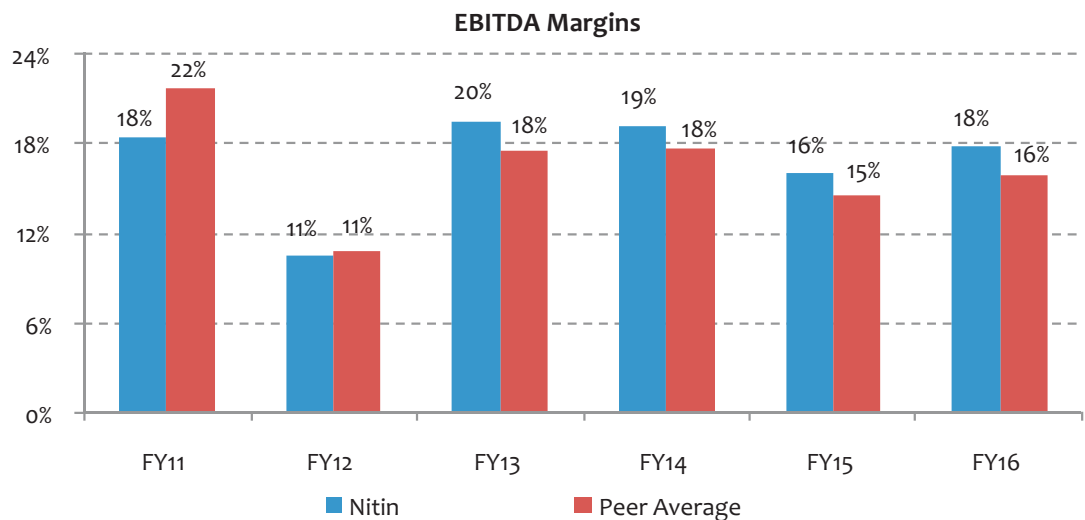
1 year forward PE band chart



Peer Comparison – Financial Parameters

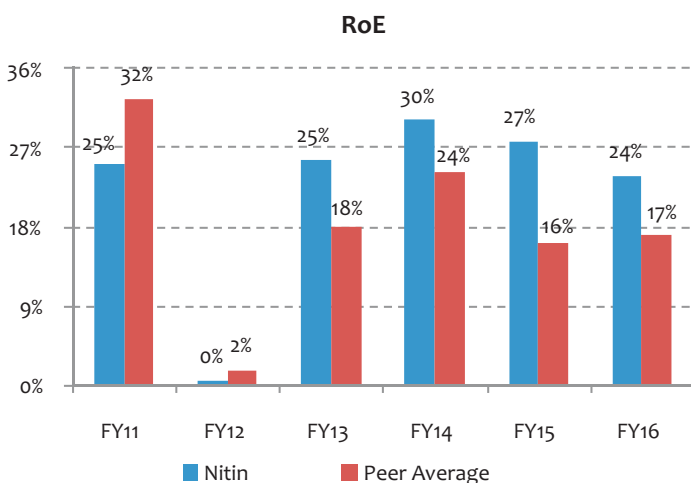
Strong operational efficiency

- The company's EBITDA has grown from Rs 758.1 Mn in 2011 to Rs 1,370.4 Mn in 2016 implying a health CAGR of 12.6% as compared to a peer average of 4.5%.
- With increasing revenue share of value added products coupled with other factors such as lower employee expenses and other manufacturing costs have helped the company to achieve higher EBITDA margins than its peers.



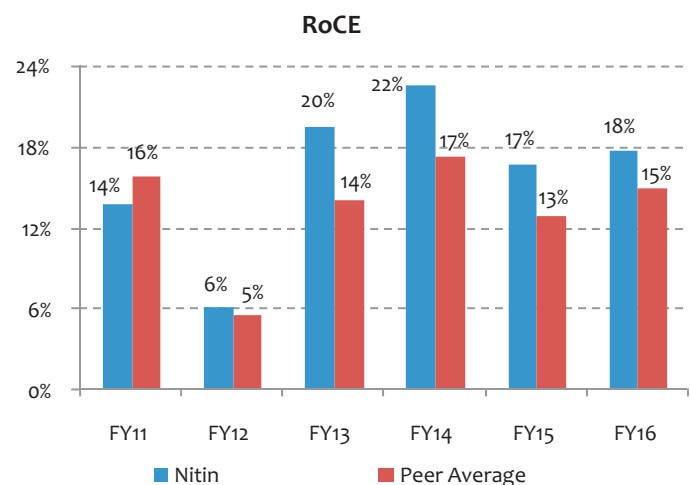
Healthy return ratios – RoE

- Improving profit margins and better asset turnover ratio have helped the company to achieve and sustain an RoE level above its peer.



Healthy return ratios – RoCE

- The company has been consciously reducing its debt levels and its D/E has reduced from 3.3x in FY11 to 1.7x in FY16.
- This has helped the company to maximise its RoCE and outperform its peers.



Source: Company, EISEC Research

Notes: Peer average includes KPR Mill, Vardhman Textile, Nahar Spinning Mills, RSWM, Ambika Cotton and Sutlej Textiles

Peer Comparison – Overall

- Of the total revenue for Nitin Spinners, yarn business contributes ~77%, knitting contributes ~19% while 4% comes from other sources such as trading, job works, etc.
- There is no like to like comparable peer since business contribution from each line of business is different for each peer so we have compared Nitin Spinners against a set of textile companies which are well recognised as strong and well managed companies.

All figures in Rs. Mn

Companies	Latest Mcap	Net Sales	EBITDA Margin (%)	PAT Margin (%)	ROCE(%)	ROE(%)	D/E	P/BV	TTM P/E
Vardhman Textiles	54,203	66,369	21.1%	8.7%	16.6%	16.0%	0.6	1.4	9.4
KPR Mill	35,277	25,004	18.8%	8.4%	17.3%	20.6%	0.7	3.2	16.8
Sutlej Textiles and Industries	9,088	22,267	12.6%	6.4%	15.6%	23.2%	1.0	1.3	6.3
RSWM	8,866	29,547	13.9%	3.6%	15.9%	21.9%	2.0	1.8	8.4
Ambika Cotton Mills	4,816	4,923	18.8%	9.0%	17.4%	14.0%	0.1	1.4	10.8
Nahar Spinning Mills	3,888	20,336	11.0%	2.5%	6.9%	6.4%	1.1	0.5	7.8
Average			16.0%	6.4%	14.9%	17.0%	0.9	1.6	9.9
Median			16.3%	7.4%	16.2%	18.3%	0.9	1.4	8.9
Nitin Spinners	2,959	7,669	17.9%	5.8%	17.7%	23.7%	1.7	1.4	6.7

Source: ACE Equity, EISEC Research

- Nitin Spinners EBITDA margin is 190 bps higher than the average of the above peers. This signifies good operational efficiency.
- Nitin Spinners D/E is on a higher end and hence its PAT margins are lower by 60 bps as compared to the average of the above peers.
- Nitin Spinners is able to deploy its capital efficiently and generate higher returns for its equity holders as it has the best capital efficiency ratios amongst the above peers.
- RoCE is better by 280 bps as compared to the average.
- RoE is higher by 670 as compared to the average.
- Despite the superior margins and return ratios, NSL is trading at 32.5% cheaper P/E multiple as compared to the average of above peers.

Financial Statement (Consolidated)

Income statement, Rs Mn	FY11	FY12	FY13	FY14	FY15	FY16	FY17E	FY18E
Total revenues	4,109	4,283	4,461	4,883	6,165	7,669	7,926	10,477
% growth	NA	4.2%	4.1%	9.5%	26.2%	24.4%	3.4%	32.2%
Operating expenses	(3,351)	(3,833)	(3,588)	(3,944)	(5,173)	(6,298)	(6,540)	(8,499)
EBITDA	758	450	872	939	992	1,370	1,387	1,979
Depreciation	(240)	(240)	(245)	(249)	(279)	(396)	(416)	(582)
EBIT	518	211	627	691	712	975	971	1,397
Interest	(210)	(209)	(273)	(175)	(226)	(330)	(300)	(391)
Other income	2	1	3	3	51	7	5	5
Exceptional items	(213)	-	(147)	-	-	-	-	-
PBT	97	3	210	520	537	652	676	1,010
Tax	(29)	0	(68)	(172)	(128)	(210)	(160)	(337)
PAT	67	3	141	348	410	442	516	674
Adjusted PAT	207	3	238	348	410	442	516	674
Reported EPS	1.5	0.1	3.1	7.6	8.9	9.6	11.3	14.7
% growth	NA	-95.5%	4,564.2%	146.0%	17.8%	7.8%	16.8%	30.6%

Source: Company, EISEC Research

Balance sheet, Rs Mn	FY11	FY12	FY13	FY14	FY15	FY16	FY17E	FY18E
Share capital	458	458	458	458	458	458	458	458
Reserves & surplus	405	408	550	857	1,212	1,598	2,045	2,636
Total net worth	864	867	1,008	1,316	1,670	2,056	2,503	3,094
Minority	-	-	-	-	-	-	-	-
Total debt	2,840	2,489	2,066	1,761	3,783	3,521	5,716	4,869
Deferred tax liabilities	-	-	66	211	339	433	433	433
Other non-current liabilities	8	11	15	24	43	53	53	53
Other current liabilities	99	106	302	229	264	287	241	266
Total liabilities and equity	3,811	3,473	3,457	3,540	6,099	6,350	8,947	8,715
Gross block	3,726	3,754	3,772	3,787	6,208	6,257	8,892	8,932
Net fixed assets	2,493	2,281	2,130	1,912	4,164	3,818	6,056	5,534
Investments	-	-	-	-	-	-	-	-
Other non-current assets	24	84	65	367	276	481	469	458
Total current assets	1,294	1,108	1,262	1,261	1,659	2,052	2,300	2,611
Total assets	3,811	3,473	3,457	3,540	6,099	6,350	8,947	8,715

Source: Company, EISEC Research

Cash flow, Rs Mn	FY11	FY12	FY13	FY14	FY15	FY16E	FY17E	FY18E
PBT	97	3	357	520	537	652	676	1,010
Adjustments	665	449	525	424	514	726	716	973
Chg. W.C.	(307)	190	45	35	(495)	(302)	(294)	(287)
OCF	454	642	889	866	445	1,000	937	1,360
Capex	(8)	(28)	(117)	(35)	(2610)	(49)	(2635)	(40)
Investment	-	-	-	-	-	-	-	-
CFI	2	-83	-44	-389	-2,194	-360	-2,764	-40
Net debt	(246)	(351)	(423)	(305)	2022	(262)	2195	(847)
Net equity	-	-	-	-	-	-	-	-
Dividend payout	-	-	-	-	(34)	(46)	(57)	(69)
CCF	(456)	(560)	(843)	(480)	1756	(641)	1826	(1320)
Increase/(Decrease) in cash	(0)	(1)	2	(2)	6	(1)	(1)	-
Opening cash	1.5	1.4	0.8	2.8	0.6	6.8	5.7	5
Closing cash	1.4	0.8	2.8	0.6	6.8	5.7	5	5

Source: Company, EISEC Research

Ratio analysis (%)	FY11	FY12	FY13	FY14	FY15	FY16	FY17E	FY18E
EBIDTA margin	18.4%	10.5%	19.6%	19.2%	16.1%	17.9%	17.5%	18.9%
PAT margin	5.0%	0.1%	5.3%	7.1%	6.6%	5.8%	6.5%	6.4%
RoAE	24.9%	0.4%	25.4%	29.9%	27.4%	23.7%	22.6%	24.1%
RoACE	13.7%	6.0%	19.5%	22.5%	16.7%	17.7%	14.1%	17.3%
Receivables (days)	31	16	23	19	27	21	22	22
Inventory (days)	89	78	81	69	75	73	75	75
Payable (days)	4	4	5	10	8	8	8	8
Debt to equity	3.3	2.9	2.1	1.3	2.3	1.7	2.3	1.6

Source: Company, EISEC Research

Valuation parameters	FY11	FY12	FY13	FY14	FY15	FY16	FY17E	FY18E
EPS (Rs)	1.5	0.1	3.1	7.6	8.9	9.6	11.3	14.7
P/E (x)	43.5	967.8	20.7	8.4	7.2	6.6	5.7	4.4
EV/EBIDTA (x)	8.5	14.3	7.4	6.9	6.5	4.7	4.7	3.3
PBV (x)	3.4	3.4	2.9	2.2	1.8	1.4	1.2	1.0

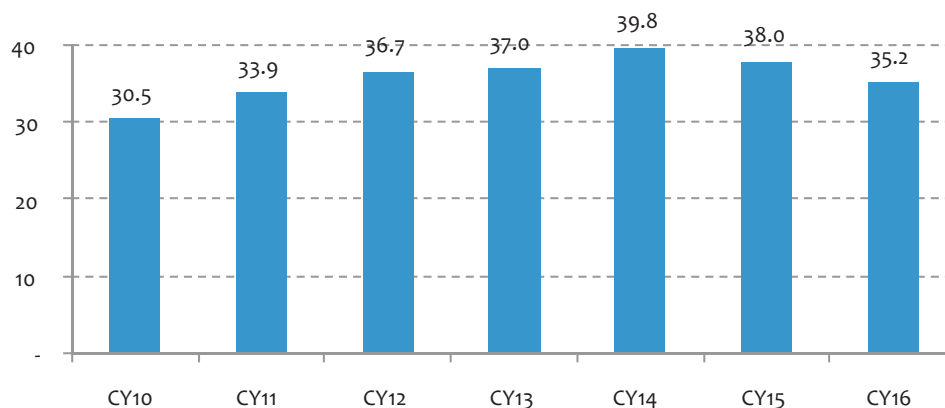
Source: Company, EISEC Research

Indian Cotton Textile Industry Overview

Cotton Scenario in India

- Cotton is the most important raw material required for the production of textile products like yarn, fabric and garments. Cotton costs accounts for almost 55 - 60% the company's total revenue.
- Cotton is a seasonal commodity and procuring it at the right time and price is crucial for a spinning company as this directly impacts the operating margins.
- Cotton arrival in India starts from the month of October. About 75% of the total crop arrives in the market during 5 months of November to March. This makes it necessary for spinning mills to buy and stock cotton during the peak arrival season or face price fluctuation and quality inconsistency later on.
- Shankar 6 is the most widely used cotton in India, well known for its quality worldwide and is largely produced in Gujarat.
- Production of raw cotton grew from 30.5 Mn bales in Cotton year (CY)₁₀ to 35.2 mn bales in CY₁₆ which implies a CAGR growth of CAGR of 2.4%.
- During CY₁₆, of the overall amount of raw cotton produced in the country, domestic consumption was 31 Mn bales while 7 Mn bales were exported.

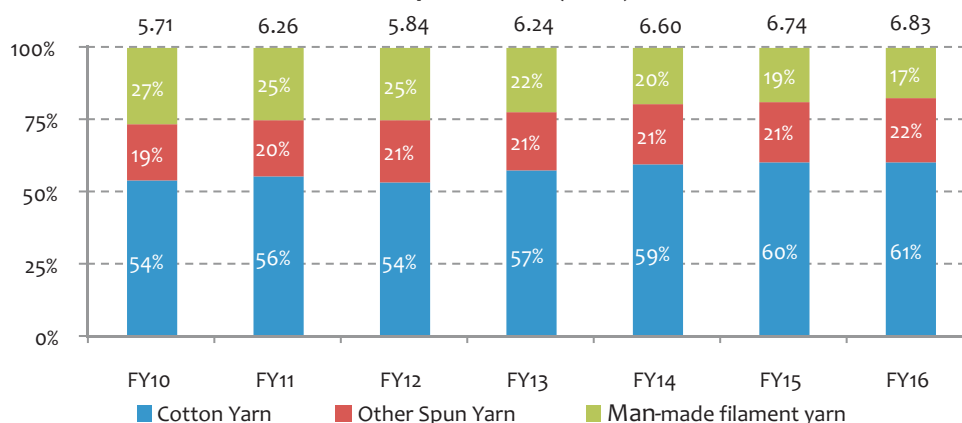
Cotton Production (Mn Bales)



Yarn production

- Production of total yarn grew from 5.71 MnT in FY₁₀ to 6.83 MnT in FY₁₆, implying a CAGR of 3.0%.
- Cotton yarn accounts for the largest share in total yarn production. Cotton yarn's production CAGR during the same period has grown at 5.0% as compared to other spun yarn at 5.4% while man-made fibre has experienced de-growth of 4.4%. Also, cotton yarn's share in total yarn production has been increasing constantly from ~54% in FY₁₀ to ~61% in FY₁₆.

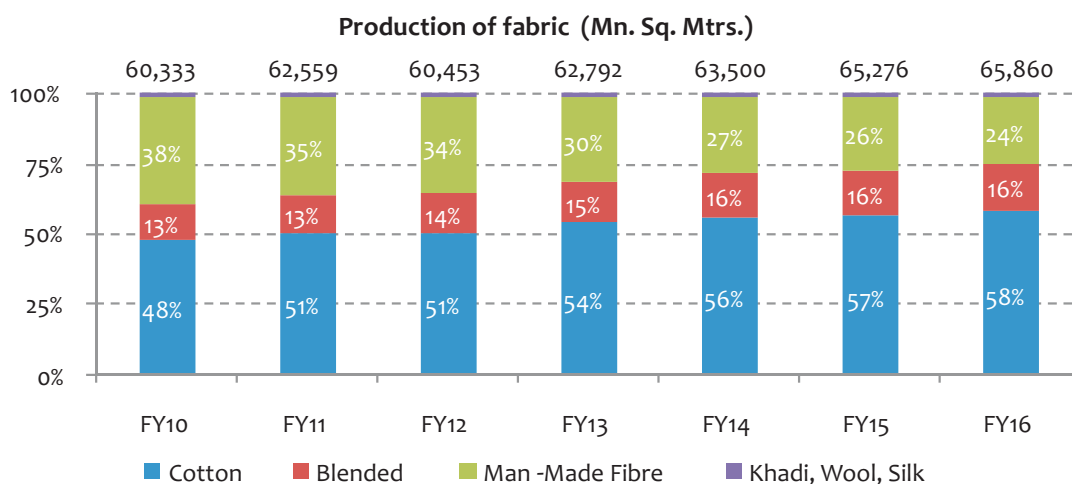
Yarn production (Mn T)



Indian Cotton Textile Industry Overview (cont'd)

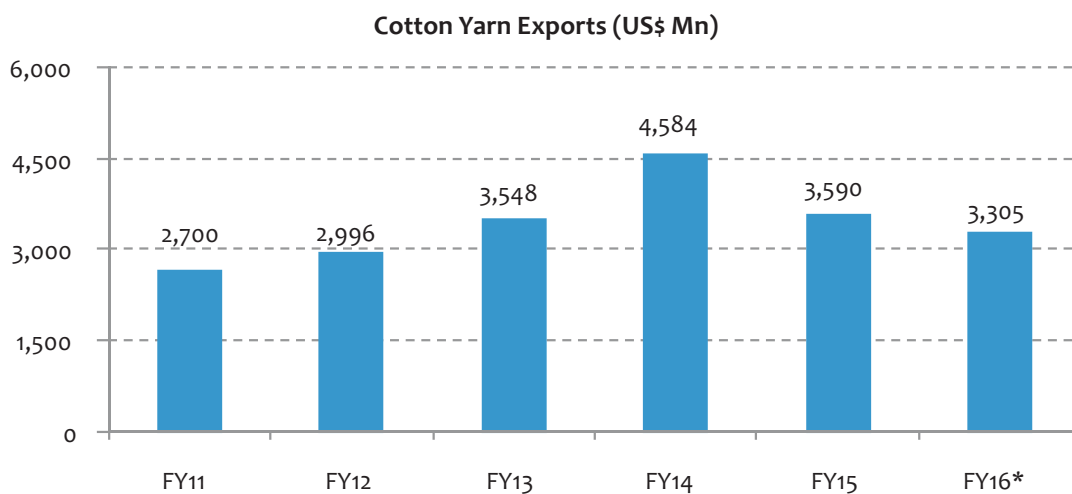
Fabric production

- Production of total fabric grew from 60,333 mn sq. mtrs. in FY10 to 65,860 mn sq. mtrs. in FY16, implying a CAGR of 1.5%.
- Cotton fabric accounts for the largest share in total fabric production. Cotton fabric's production CAGR during the same period has grown at 4.9% as compared to blended fabric at 5.6% while man-made fibre has experienced de-growth of 6.1% and Khadi, wool and silk has grown by 2.5%. Also, cotton fabric's share in total fabric production has been increasing constantly from ~48% in FY10 to ~58% in FY16.



Cotton Yarn Exports

- Total Cotton yarn exports have increased from US\$ 2,700 mn in FY11 to US\$ 3,305 mn in FY 16 (11 month data, April 2015 to February 2016) which implies a CAGR of ~6%.
- Major export destinations include China, Bangladesh, Egypt, Vietnam, South Korea and others.



Source: Company, EISEC Research, www.texmin.nic.in
Note: *FY16 data for April 2015 to February 2016

Indian Cotton Textile Industry Overview (cont'd)

Helping hand from the government

Technology Upgradation Fund Scheme (TUFS)

- TUFS was commissioned in 1999 with the objective of modernizing and upgrading the textiles industry by offering entrepreneurs credit at reduced rates. The scheme was initially approved from Apr 1999 to Mar 2004, however, it was modified, restructured and rolled over a number of times.
- Currently, the scheme is known as Amended Technology Upgradation Fund Scheme (ATUFS) and is valid from Jan 2016 to Mar 2022.
 - Garmenting, Technical Textiles – 15% Capital Investment Subsidy (CIS), upto Rs. 30 crore
 - Weaving for brand new Shuttle-less looms, Processing, Jute, Silk and Handloom – 15% Capital Investment Subsidy (CIS), upto Rs. 20 crore
 - Composite unit /Multiple Segments (more than 50% of the eligible project cost) – 15% Capital Investment Subsidy (CIS), upto Rs. 30 crore
 - Composite unit /Multiple Segments (Less than 50% of the eligible project cost) – 10% Capital Investment Subsidy (CIS), upto Rs. 20 crore
- ATUFS benefit is available for the benchmarked machinery under the scheme covering the following activities:-
 - Weaving, Weaving Preparatory and knitting
 - Processing of fibres, yarns, fabrics, garments and made-ups
 - Technical textiles
 - Garment/made-up manufacturing
 - Handloom Sector
 - Silk Sector
 - Jute Sector
- **Apart from TUFS which is provided by the Government of India, Governments of several states such as Rajasthan, Gujarat, Maharashtra, Andhra Pradesh, Telangana, Karnataka and Madhya Pradesh also offer different kinds of incentives like interest subvention, capital subsidy, tax concession, power assistance etc.**



East India Securities Ltd
Excellent | Investment | Solutions

Stock rating (1 year target scale)

<0%	-	Sell
0-10%	-	Reduce
10-30%	-	Accumulate
>30%	-	Buy

Disclosure & Disclaimer

East Indian Securities Ltd (hereinafter referred as 'EISEC') is a financial services firm. The Author does not hold any share in the company/ies discussed in this document. EISEC and its associated companies may hold shares in the company/ies discussed in this document.

This document is confidential and is supplied to you for information purposes only. It should not (directly or indirectly) be reproduced, further distributed to any person or published, in whole or in part, for any purpose whatsoever, without the consent of EISEC.

This document is not directed to, or intended for display, downloading, printing, reproducing or for distribution to or use by, any person or entity, who is a citizen or resident or located in any locality, state, country or other jurisdiction, where such distribution, publication, reproduction, availability or use would be contrary to law or regulation or what would subject EISEC to any registration or licensing requirement within such jurisdiction. If this document is sent or has reached any individual in such country, especially, USA, the same may be ignored.

This document does not constitute a personal recommendation or take into account the particular investment objectives, financial situations, or needs of individual investors. Our investment recommendations are general in nature and available electronically/in printed form to our clients. Before acting on any advice or recommendation in this document, investors should consider whether it is suitable for their particular circumstances and, if necessary, seek professional advice. The price and value of the investments referred to in this material and the income from them may go down as well as up, and investors may realize losses on any investments. Past performance is not a guide for future performance, future returns are not guaranteed and a loss of original capital may occur. Information herein is believed to be reliable but EISEC do not warrant its completeness or accuracy. The views/opinions expressed are our current opinions as of the date appearing in the material and may be subject to change from time to time without notice. This document should not be construed as an offer to sell or solicitation of an offer to buy any security in any jurisdiction. EISEC and its affiliates, its directors, analyst and employees will not be responsible for any loss or liability incurred to any person as a consequence of his or any other person on his behalf taking any investment decisions based on this document.



East India Securities Ltd
Excellent | Investment | Solutions

Corporate Office : 701, 7th Floor, Ruby Crescent Business Boulevard, Ashok Nagar, Kandivali (East), Mumbai - 400 101. Tel: +91 22 2272 1083

Head Office : DA-14, Salt Lake City, Sector-I, Kolkata-700064 Tel: +91 33 40205901

Web: www.eisec.com