

Nano **Invest**



January 5, 2023

Augmenting capacity to leverage long term opportunity

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 (~ 25% 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%+

Historical Financial Performance: NSL's revenues have grown at a CAGR of 20% over FY12-22. The quality of revenue growth is balanced with volumes increasing at a CAGR of 13% while realisation has grown by 7% over the period

- Exports, which contribute 65-70% of revenues, have grown 6.5x (21% CAGR) during FY12-22. The yarn segment mainly caters to exports whereas the fabrics division is more inclined towards the domestic market
- Vertically integrated business model with 95%+ of yarn requirement for fabric division being met in-house. Captive consumption of yarn increased from 8% in FY12 to 24% in FY22. Yarn segment recorded 18% revenue CAGR in FY12-22 whereas fabric division reported robust growth of 31% (on a favourable base) during the same period
- Over the last decade, NSL maintained EBITDA margins in range of 15-17%

What should investors do? 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. In line with its superior fundamental performance, the stock price has grown at 15% CAGR over last five years. 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.

- We initiate coverage under I-Direct Nano format with a **BUY** rating

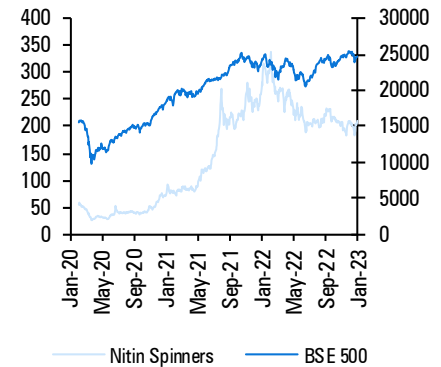
Target Price and Valuation: We value NSL at ₹ 290 i.e. 6.5x FY24E EPS of ₹ 44.5

Key triggers for future price performance:

- The company has demonstrated ability to effectively sweat its assets and maintain average asset utilisation of 85%+, which has led to outperformance in terms of revenue growth over the last decade
- Capacity expansion across segments to drive revenue growth. NSL's planned capex of ₹ 900 crore can generate incremental revenue of ~ ₹ 1100 crore (peak revenue of ₹ 3500 crore)
- 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
- We expect NSL to generate superior RoCE of ~16% in FY25E (vs. average RoCE: 10-12%) and, in turn, lead to higher EVA creation



Price Performance



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Key Financial Summary

Financials	FY19	FY20	FY21	FY22	5 Year CAGR (FY17-22)	FY23E	FY24E	FY25E	2 Year CAGR (FY23-25E)
Net Sales	1,242.5	1,438.1	1,624.4	2,692.3	24.0%	2,264.4	2,711.6	3,145.4	17.9%
EBITDA	178.1	169.8	257.3	647.1	17.0%	335.4	433.1	529.1	25.6%
Adjusted PAT	64.1	23.8	68.9	326.2		136.5	171.7	250.0	
P/E (x)	18.0	48.4	16.7	3.5		8.4	6.7	4.6	
EV/EBITDA (x)	11.3	12.9	8.2	2.8		6.5	5.4	3.9	
RoCE (%)	9.4	5.9	11.0	35.9		12.3	12.6	16.6	
RoE (%)	13.3	4.8	12.2	37.2		13.7	14.8	17.8	

Source: Company, ICICI Direct Research

Description

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. NSL 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 ~300 lakh metre 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). NSL is spread across 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 across the globe.

History and track record

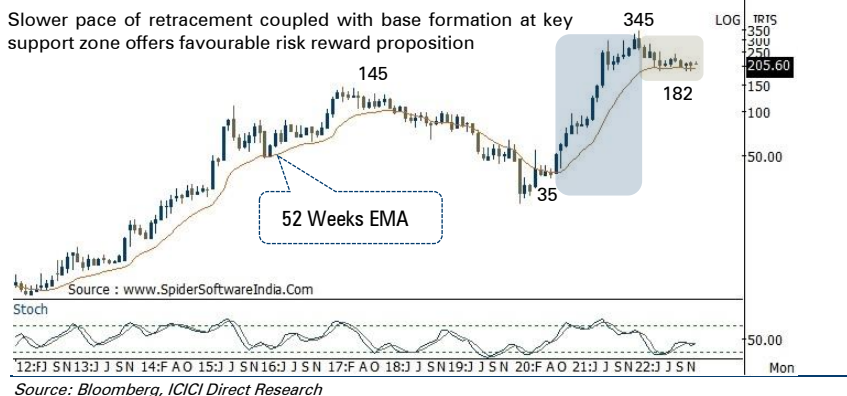
- 1993-2005:** Nitin Spinners commenced operations in 1993 with entry into open-end spinning and installed 384 rotors with an investment of ₹ 3 crore. Over 1993-2005, the company expanded its spinning capacity by entering into ring spinning and also forward integrated by foraying into knitted fabrics
- 2006-08:** In 2006, NSL came up with its maiden public issue and got listed on the BSE and NSE. Also, in 2007-08, the company further expanded its spinning and knitted fabrics capacity and also set up a 10.5 MW captive thermal power plant
- 2016-22:** The company aggressively added capacity across segments with doubling of spinning capacity and expansion of fabrics capacities by 20%, 30% addition in number of rotors/knitting machines, respectively. Forayed into finished woven fabric segment in a bid to supply high value processed fabrics to fashion brands

Exhibit 1: Earnings Estimates

₹ crore	FY20	FY21	FY22E	FY23E	FY24E	FY25E
Sales	1,438.1	1,624.4	2,692.3	2,264.4	2,711.6	3,145.4
EBITDA	169.8	257.3	647.1	335.4	433.1	529.1
EBITDA (%)	11.8	15.8	24.0	14.8	16.0	16.8
PAT	23.8	68.9	326.2	136.5	171.7	250.0
EPS	4.2	12.3	58.0	24.3	30.5	44.5

Source: Company, ICICI Direct Research

Exhibit 2: Technical Chart (Weekly Bar Chart)



Stock data

Particulars	Amount
Market Capitalisation (₹ crore)	1,152.5
Total Debt (FY23) (₹ crore)	688.6
Cash (FY23) (₹ crore)	0.6
EV (₹ crore)	1,840.5
52 Week H / L	346 /182
Equity Capital (₹ crore)	56.2
Face Value (₹)	10.0

Valuation

	FY21	FY22	FY23E	FY24E	FY25E
P/E	16.7	3.5	8.4	6.7	4.6
EV / EBITDA	8.2	2.8	6.5	5.4	3.9
EV / Sales	1.3	0.7	1.0	0.9	0.7
Price to Book Valu	2.0	1.3	1.2	1.0	0.8
RoCE	11.0	35.9	12.3	12.6	16.6
RoE	12.2	37.2	13.7	14.8	17.8

Quarterly performance

	Q2FY22	Q3FY22	Q4FY22	Q1FY23	Q2FY23
Sales	665.0	705.0	769.0	709.0	506.0
EBITDA	177.0	178.0	167.0	109.0	57.0
EBITDA (%)	26.6	25.2	21.7	15.4	11.3
PAT	87.0	93.0	85.0	66.0	29.0
EPS	15.5	16.6	15.2	11.7	5.2

Shareholding trend (%)

	Sep-21	Dec-21	Mar-22	Jun-22	Sep-22
Promoter	56.2	56.3	56.3	56.4	56.4
FII	2.7	4.0	4.8	4.3	3.8
DII	4.1	4.3	4.6	5.0	5.6
Others	37.0	35.5	34.3	34.3	34.3

Technical View

The share price has been undergoing slower pace of retracement of sharp rally seen during 2020-22, highlighting inherent strength that augurs well for next leg of up move. Over the past 12 months, the stock has retraced merely 50% of preceding 16 month's rally (₹ 35-345).

At the current juncture, the stock price has corrected from its lifetime high of ₹ 345 and is currently forming a base around long term 52 weeks EMA around ₹ 200. Past six month's consolidation appears to be forming a potential double bottom, indicating a structural turnaround.

Structurally, slower pace of retracement coupled with base formation at key support zone provides a favourable risk reward proposition.

What's the story?

One of the fastest growing players over the last decade; capturing growth across textile value chain

Nitin Spinners, over the last decade, has shown a resilient performance with yarn volumes (production) increasing at a CAGR of 13% during FY12-22. Focus on stringent quality control has resulted in the company having a material presence in global markets (exporting to more than 50 countries) with 60-70% revenue coming from exports. The robust dominance is visible with export revenue improving by 6.5x during FY12-22 while overall India's yarn exports during the same period grew ~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 has embedded future readiness by building capacity over the years. It has expanded its yarn spindles ~4x from 77616 spindles (21000 tonnes) in FY12 to 307344 spindles (75000 tonnes) as on FY22. In tandem with increased capacity, operational utilisation for spindles over the last decade has been 85%+ resulting in swifter new capacity absorption. Apart from being pioneers in the 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 a 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 metre). The plant was commissioned in FY20 while 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 FY22, yarn segment commands a lion's share of 70% (FY12: 85%) whereas fabrics contributed 25% to revenue (FY12: 10%).

Despite near term headwinds, robust macroeconomic opportunities provide larger growth canvas

FY22 was a landmark year for the textile industry as reduced dependency on China and several trade related restrictions (such as ban on Xinjiang cotton region by the US) fuelled India's yarn and fabric exports. NSL recorded its highest ever revenue and profits driven by historically high yarn realisations and spreads. Revenue grew 66% YoY to ₹ 2692 crore whereas EBITDA margins expanded 820 bps YoY to 24.0% in FY22. Yarn spreads for the company were at ~₹ 140/kg in FY22 vs. long term average of ₹ 65-70/kg. At an industry level, yarn spreads for a normal 40's count used to hover in the range of ₹ 50-55/kg, whereas in FY22 spreads went to a peak of ₹ 120/kg. Owing to robust pent-up demand post relaxation of Covid restrictions and closure of nearly 6-10% spindle capacity in India, cotton yarn players registered their highest ever profitability in FY22. We believe the profitability recorded in FY22 was a decadal phenomenon and replicating the performance would be challenging. However, we expect industry level yarn spreads (for 40's count) over a longer term to settle at ₹ 75-80/kg (25-30% higher than average). This is on the back of the government's sustained efforts of enlarging global market share for Indian textiles by entering into FTAs with multiple countries and stable export incentive policies, which would create sustainable demand across the textile value chain. After a stupendous performance in FY22, H1FY23 turned out to be a turbulent period for Indian textile value chain owing to spiralling domestic cotton prices and weak global demand (retailers being saddled with excess inventory and inflationary pressure). With cotton prices declining by ~35% and disparity between Indian and global cotton prices gradually diminishing (from 25% to current 10%), we believe most negatives are behind us and the company could witness a gradual improvement from Q3FY23 onwards. We expect NSL to exit FY23E with 75% utilisation rates for its yarn capacity (Q2FY23: 65%), 51% for knitting segment (Q2FY23: 34%) and 85% for the woven segment (Q2FY23: 75%).

Undergoing capex to fuel revenues over next two to three years; higher RoCE to create EVA for the long term

In a bid to capture long term growth opportunities and further strengthen the product range, NSL has 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 utilisation (at an average yarn realisation of ₹ 280/kg), the company could generate incremental revenue of ~ ₹ 1100 crore (peak revenue: ₹ 3500 crore). Weaving and knitting capacities are expected to be ramped up by Q4FY23 and yarn capacity is expected to be commissioned by Q2FY24. We expect the capex to be funded partially through internal accruals (OCF generation: ₹ 430 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 ~₹ 300 crore (D/E: 0.7x). NSL is well geared to capture long term opportunities in the textile segment and garner higher market share from unorganised space. We build in volume CAGR of 13% for yarn segment (76000 tonnes in FY25E, CU: 87%), 13% for woven segment (36 mn meters in FY25E, CU: 90%) and 4% CAGR for knitted segment (9200 tonnes in FY25E, CU: 83%). Efficient asset utilisation (1.3x asset turn) coupled with positive improvement in yarn spreads would enhance profitability. We build in average yarn spreads of ₹ 100/kg during FY24-25E and EBITDA margins of 16-17% on account of superior product mix. We expect NSL to generate superior RoCE of ~16% in FY25E (vs. average RoCE: 10-12%) and, in turn, lead to higher EVA creation. With a steady recovery from FY24E onwards, we build in revenue and EBITDA CAGR of 18% and 25%, respectively, in FY23-25E. We value the stock at 6.5x FY25E EPS with a target price of ₹ 290 per share (five-year average one year forward P/E: 7x).

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 trending higher owing to supply crunch. If cotton prices continue to remain elevated for an elongated period, it can negatively impact margins for NSL, going ahead. Disparity in Indian and international cotton prices has declined with premium of Indian cotton prices to international cotton prices reduced from 25% earlier to ~10% 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 NSL 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 may subdue revenue growth

NSL has a track record of operating its plants at capacity utilisation of 85%+. 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 3: Profit & Loss statement

(Year-end March)	FY21	FY22	FY23E	FY24E	FY25E
Net Sales	1,624.4	2,692.3	2,264.4	2,711.6	3,145.4
Growth (%)	13.0	65.7	(15.9)	19.7	16.0
Total Raw Material Cost	946.3	1,476.2	1,442.1	1,641.2	1,874.0
Gross Margins (%)	41.7	45.2	36.3	39.5	40.4
Employee Expenses	111.8	132.7	129.1	168.1	191.9
Other Expenses	309.1	436.3	357.8	469.1	550.4
Total Operating Expenditure	1,367.2	2,045.2	1,929.0	2,278.5	2,616.3
EBITDA	257.3	647.1	335.4	433.1	529.1
EBITDA Margin	15.8	24.0	14.8	16.0	16.8
Interest	61.6	55.3	67.7	75.8	58.1
Depreciation	91.0	87.4	87.3	130.8	139.8
Other Income	1.9	1.8	2.0	3.0	3.0
Exceptional Expense	-	-	-	-	-
PBT	106.5	506.2	182.4	229.6	334.2
Total Tax	37.7	180.0	45.9	57.9	84.2
Profit After Tax	68.9	326.2	136.5	171.7	250.0

Source: Company, ICICI Direct Research

Exhibit 5: Balance Sheet

(Year-end March)	FY21	FY22	FY23E	FY24E	FY25E
Equity Capital	56.2	56.2	56.2	56.2	56.2
Reserve and Surplus	507.1	819.6	942.0	1,105.2	1,345.1
Total Shareholders funds	563.4	875.8	998.3	1,161.4	1,401.3
Total Debt	961.7	688.6	1,041.9	1,263.0	967.9
Non Current Liabilities	73.2	130.1	130.3	130.6	130.8
Source of Funds	1,598.2	1,694.4	2,170.5	2,555.0	2,500.1
Gross block	1,380.4	1,394.8	1,454.8	2,254.8	2,330.8
Less: Accum depreciation	320.7	383.0	470.2	601.0	740.9
Net Fixed Assets	1,059.7	1,011.9	984.6	1,653.8	1,590.0
Capital WIP	1.6	0.1	500.0	60.0	60.0
Intangible assets	-	-	-	-	-
Investments	-	-	1.5	1.5	1.5
Inventory	354.7	406.3	403.2	482.9	491.2
Cash	0.9	0.6	13.1	66.4	32.3
Debtors	165.9	240.7	217.1	245.2	284.4
Loans & Advances & Other CA	85.8	135.2	144.1	153.7	164.1
Total Current Assets	607.2	782.8	777.6	948.1	972.0
Creditors	54.8	82.1	74.4	89.1	103.4
Provisions & Other CL	15.5	18.2	18.8	19.3	19.9
Total Current Liabilities	70.2	100.3	93.2	108.5	123.3
Net Current Assets	536.9	682.5	684.4	839.7	848.7
LT L&A, Other Assets	-	-	-	-	-
Other Assets	0.0	0.0	0.0	0.0	0.0
Application of Funds	1,598.2	1,694.4	2,170.5	2,555.0	2,500.1

Source: Company, ICICI Direct Research

Exhibit 4: Cash Flow Statement

(Year-end March)	FY21	FY22	FY23E	FY24E	FY25E
Profit/(Loss) after taxation	68.9	326.2	136.5	171.7	250.0
Add: Depreciation	91.0	87.4	87.3	130.8	139.8
Net Increase in Current Assets	-101.1	-175.9	17.7	-117.3	-57.9
Net Increase in Current Liabilities	9.4	30.1	-7.1	15.3	14.8
CF from operating activities	68.2	267.8	234.4	200.5	346.8
(Inc)/dec in Investments	0.0	0.0	-1.5	0.0	0.0
(Inc)/dec in Fixed Assets	-12.7	-38.1	-559.9	-360.0	-76.0
Others	0.0	0.0	0.0	0.0	0.0
CF from investing activities	-12.7	-38.1	-561.4	-360.0	-76.0
Inc / (Dec) in Equity Capital	0.0	0.0	0.0	0.0	0.0
Inc / (Dec) in Loan	-78.7	-273.1	353.4	221.1	-295.1
Others	23.7	43.1	-13.8	-8.3	-9.7
CF from financing activities	-55.1	-230.0	339.5	212.8	-304.8
Net Cash flow	0.4	-0.2	12.5	53.3	-34.0
Opening Cash	0.4	0.8	0.6	13.1	66.4
Closing Cash	0.8	0.6	13.1	66.4	32.3

Source: Company, ICICI Direct Research

Exhibit 6: Key Ratios

(Year-end March)	FY21	FY22	FY23E	FY24E	FY25E
Per share data (₹)					
EPS	12.3	58.0	24.3	30.5	44.5
Cash EPS	28.4	73.6	39.8	53.8	69.3
BV	100.2	155.8	177.6	206.6	249.3
DPS	0.6	3.0	2.5	1.5	1.8
Cash Per Share	0.2	0.1	2.3	11.8	5.8
Operating Ratios (%)					
EBITDA margins	15.8	24.0	14.8	16.0	16.8
PBT margins	6.6	18.8	8.1	8.5	10.6
Net Profit margins	4.2	12.1	6.0	6.3	7.9
Inventory days	79.7	55.1	65.0	65.0	57.0
Debtor days	37.3	32.6	35.0	33.0	33.0
Creditor days	12.3	11.1	12.0	12.0	12.0
Return Ratios (%)					
RoE	12.2	37.2	13.7	14.8	17.8
RoCE	11.0	35.9	12.3	12.6	16.6
RoIC	11.0	35.9	16.4	13.3	17.2
Valuation Ratios (x)					
P/E	16.7	3.5	8.4	6.7	4.6
EV / EBITDA	8.2	2.8	6.5	5.4	3.9
EV / Sales	1.3	0.7	1.0	0.9	0.7
Market Cap / Revenues	0.7	0.4	0.5	0.4	0.4
Price to Book Value	2.0	1.3	1.2	1.0	0.8
Solvency Ratios					
Debt / Equity	1.7	0.8	1.0	1.1	0.7
Debt/EBITDA	3.7	1.1	3.1	2.9	1.8
Current Ratio	8.6	7.8	8.2	8.1	7.6
Quick Ratio	3.6	3.7	3.9	3.7	3.6

Source: Company, ICICI Direct Research

Key risks to investing in Nano stocks

- Nano stocks may not be in the limelight and inherently being micro cap in nature will have a high risk return profile
- We advise clients to be disciplined in investing at all times. Allocate only a small proportion of your investible income to these stocks and diversify well
- Try to diversify your exposure within the Nano stocks as well by investing equal proportions in several picks
- These stocks may have low volumes and trade infrequently
- Micro cap stocks the world over are, to a large extent, affected by the “Pump and Dump” phenomenon of inflated price buying and depressed price selling
- As explained above, the clients should be patient and trade only through limit orders on any side of the trade.
- The risk of volatility remains in such micro cap stocks as they can move up or down with large buy/sell orders
- The fair value of Nano stocks are subject to expected growth potential in the future. Though due diligence has been done to a fair extent, the actualisation of growth still has a degree of uncertainty attached to it

Nano stocks report tries to highlight companies with good and scaleable business models, dependable management and sound financials. However, these stocks may not be in the limelight and have a high risk high return potential. Please watch out for the following factors before investing in these stocks:

Allocate a small proportion of your investible income to these stocks and diversify well. If you choose to invest in these stocks, most of your assets allocated towards equity should remain in more stable investments like stocks of large companies. Moreover, try to diversify your exposure within the Nano stocks as well by investing equal proportions in several picks. This will help you avoid losing too much of your total wealth if the investments do not turn out well. When you invest in micro-cap stocks there is a higher risk of impairment.

These stocks may have low volumes and trade infrequently. This can create a situation in which you may not be able to find any willing buyers for your stocks when you wish to sell. We advise our clients to be patient and trade only through limit orders to avoid volatile fluctuations, both while putting a buy and sell order in these stocks.

RATING RATIONALE

ICICI Direct endeavours to provide objective opinions and recommendations. ICICI Direct assigns ratings to its stocks according to their notional target price vs. current market price and then categorises them as Strong Buy, Buy, Hold and Sell. The performance horizon is two years unless specified and the notional target price is defined as the analysts' valuation for a stock

Buy: >10%/15% for large caps/midcaps, respectively;

Hold: Up to +/-10%;

Sell: -10% or more;



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