

Nitin Spinners Ltd

Capex on track, Strong fundamentals intact, future growth path is clear

Nitin Spinners Ltd (NSPL) came out with was in-line performance with some margin improvement in a tough business environment during Q1FY24. Despite QoQ flattish PBT, PAT was down 25% QoQ as now the company is paying full tax. The company had adopted new tax regime in FY23 onwards and the effective tax rate was very low on account of remeasurement of liabilities in FY23. Slowdown in the US market and geo-political situation in the European region are still posing challenges and due to soft demand, profitability is still far from normal levels. With continued better utilization in yarn and woven fabric segments, but slightly lower realization the company registered sequential growth of 7.2% at EBITDA levels with margin improvement. 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 improve. Considering continued pressure on profitability levels, we have toned down our earnings estimates. Maintain BUY rating with target price of Rs380 per share, 8.5x FY25e EPS.

Flattish performance in a challenging environment

- During the quarter, the company posted a de-growth of 7.1% QoQ on high base at Yarn sales volume front as utilizations remained at elevated levels with some demand recovery. Knitted fabric sales volume continued to be poor with a sequential de-growth of 0.6%.
- Woven fabric business remained strong with its sales volume grew by 2.5% QoQ. With economic activities back on track post covid, demand for woven fabric remains good.
- With correction in cotton prices, realization moderated further. Realization in Yarn/woven fabric segments was down by 1.4%/1.8% QoQ. In knitted fabric, it was up by 5.2% QoQ.

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

- The Indian textile industry has been facing tough times due to a slowdown in demand in the international market and price difference between domestic and international cotton.
- Indian cotton prices have stabilized at slightly higher level than desired and hence, spinners are still far from their expected normal margin. Not much capacity is getting added in spinning industry and hence pricing comfort should be there in the future.
- Capex plan of Rs9.5bn is on track. The company has already added 2500 MT/PA knitted fabrics and 10 mn Metres woven fabric during Q4FY23. NSPL would be adding 1.5 lakhs spindles by Q2FY24, which will increase yarn capacity from 75,000 MT to 1,10,000 MT.
- The company has already started trial production from newly added yarn capacity.

Valuation and risks

- With 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 **8.5x PE multiple to FY25E earnings as new capacity is coming on-stream** and arrive at a **target price Rs380 per share**, offering ~60% upside from current levels. **BUY**.
- Risk to our call is continuation of volatile situation in European market and further softness in yarn prices with stable cotton price.

Y/E Mar (Rs mn)	Q1FY24	Q1FY23	YoY (%)	Q4FY23	QoQ (%)	Q1FY24E	Var (%)
Revenues	6,171	7,088	-12.9%	6,548	-5.8%	6,431	-4.0%
Gross profit margin (%)	25.1%	27.0%	(193) bps	22.0%	304 bps		
Employee expense	397	348	14.0%	349	13.7%		
Other expense	389	477	-18.3%	384	1.4%		
EBITDA	761	1,089	-30.1%	710	7.2%	727	4.7%
EBITDA Margin (%)	12.3%	15.4%	(304) bps	10.8%	149 bps	11.3%	103 bps
Depreciation	230	218	5.7%	213	8.1%		
Interest	151	115	32.0%	103	47.0%		
Other Income	10	8	23.3%	14	-25.9%		
Exceptional item	0	0	NA	0	NA		
PBT	390	765	-49.1%	407	-4.4%		
Tax	101	109	-8.0%	22	355.7%		
Effective Tax Rate (%)	25.8%	14.3%	1,153 bps	5.4%	2,041 bps		
PAT	289	656	-55.9%	385	-25.0%	292	-0.9%
Adj PAT	289	572	-49.4%	310	-6.9%	292	-0.9%

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
FY23	24,067	-10.6	2,971	12.3	1,325	-59.8	23.6	17.3	10.5	9.1	7.4
FY24E	28,576	18.7	3,637	12.7	1,446	9.1	25.7	13.2	8.2	9.3	7.4
FY25E	37,179	30.1	5,633	15.2	2,511	73.6	44.7	19.9	11.5	5.3	4.6

Source: Company, SMIFS research estimates



Rating: Buy Upside/(Downside): 59%

Current Price: 238 Target Price: 380

Earlier recommendation

Previous Rating: Buy

Previous Target Price: 402

Market data

Bloomberg:	NSPL:IN
52-week H/L (Rs):	284/182
Mcap (Rs bn/USD bn):	13.4/0.16
Shares outstanding (mn):	56.2
Free float:	44.00%
Daily vol. (3M Avg):	156K
Face Value (Rs):	10

Source: Bloomberg, SMIFS research

Shareholding pattern (%)

	Jun-23	Mar-23	Dec-22	Sep-22
Promoter	56.4	56.4	56.4	56.4
FIs	2.2	2.4	3.8	3.8
DIs	8.5	6.3	5.4	5.6
Public/others	32.9	34.9	34.4	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	-2.4	6.3	7.3	69.3
Nifty 500	-0.8	8.9	8.6	78.4
Nitin Spinners	-11.5	-13.7	9.9	476.1

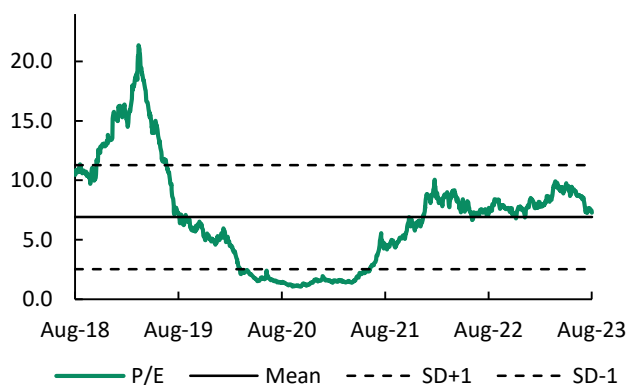
* As on 17th Aug 2023; Source: AceEquity, SMIFS research

Awanish Chandra

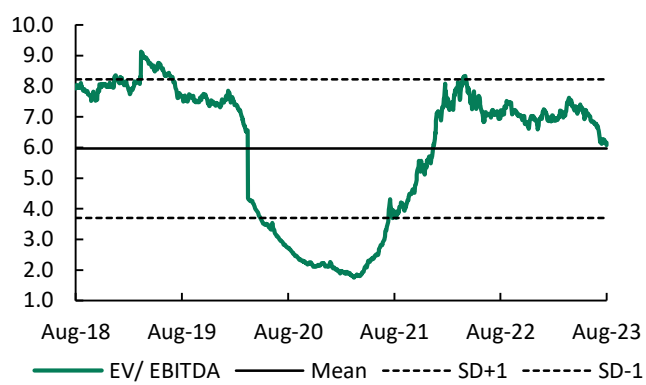
Executive Director

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Fig 1: 1-year forward P/E


Source: AceEquity, SMIFS research

Fig 2: 1-year forward EV/EBITDA


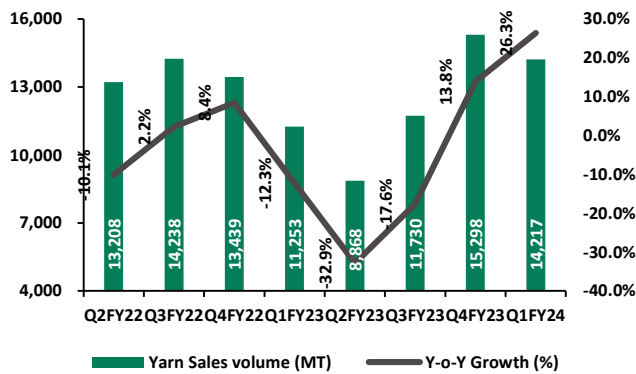
Source: AceEquity, SMIFS research

Fig 3: Change in Estimates

Rs mn	New Estimates		Old Estimates		Change (%)	
	FY24e	FY25e	FY24e	FY25e	FY24e	FY25e
Revenue	28,576	37,179	29,094	37,179	-1.8	0.0
Gross Profit	7,337	10,410	7,835	10,820	-6.4	-3.8
Gross Margin (%)	25.7	28.0	26.9	29.1	(126) bps	(110) bps
EBITDA	3,637	5,633	4,053	5,986	-10.3	-5.9
EBITDA Margin (%)	12.7	15.2	13.9	16.1	(120) bps	(95) bps
Adj PAT	1,446	2,511	1,673	2,822	-13.5	-11.0
EPS (Rs)	25.7	44.7	29.8	50.2	-13.7	-11.0

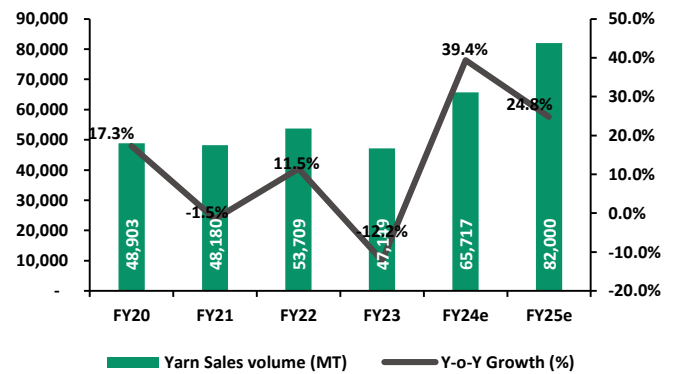
Source: Company, SMIFS research estimates

Fig 4: Yarn sales volume (Quarterly)



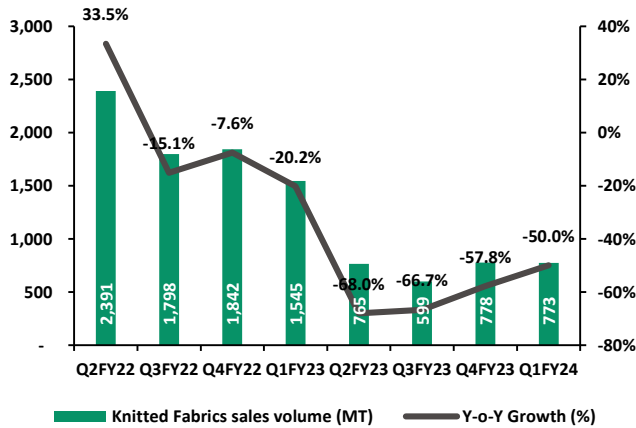
Source: Company, SMIFS research estimates

Fig 5: Yarn sales volume (Yearly)



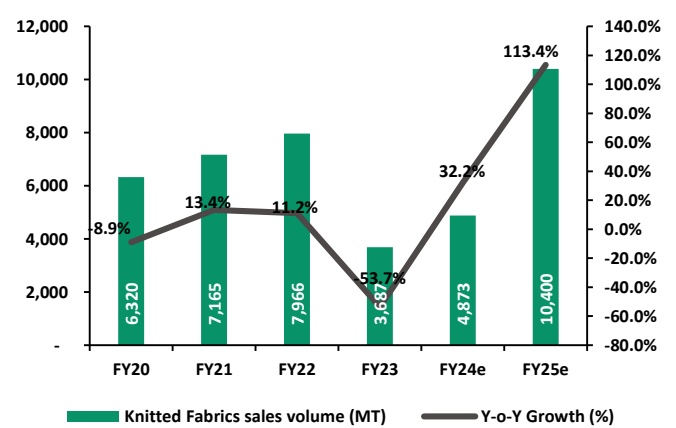
Source: Company, SMIFS research estimates

Fig 6: Knitted Fabric sales volume (Quarterly)



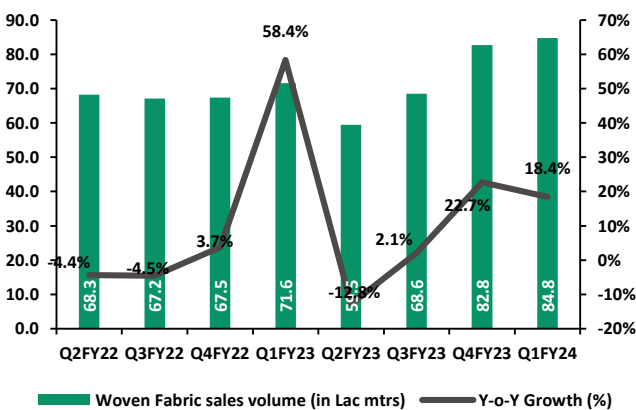
Source: Company, SMIFS research estimates

Fig 7: Knitted Fabric sales volume (Yearly)



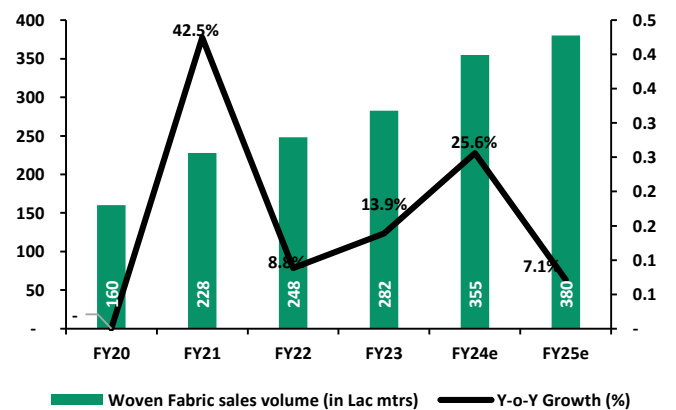
Source: Company, SMIFS research estimates

Fig 8: Woven Fabric sales volume (Quarterly)



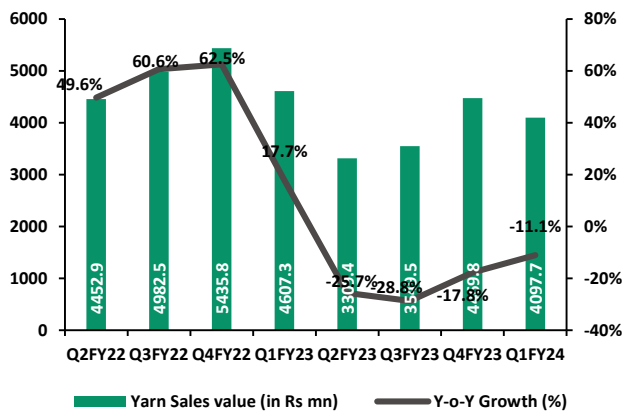
Source: Company, SMIFS research estimates

Fig 9: Woven Fabric sales volume (Yearly)



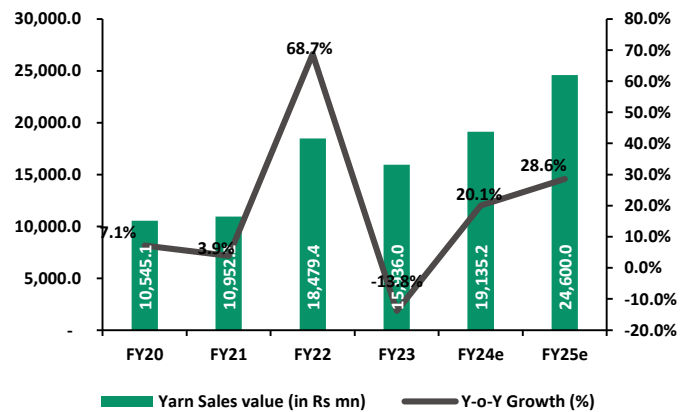
Source: Company, SMIFS research estimates

Fig 10: Yarn sales value (Quarterly)



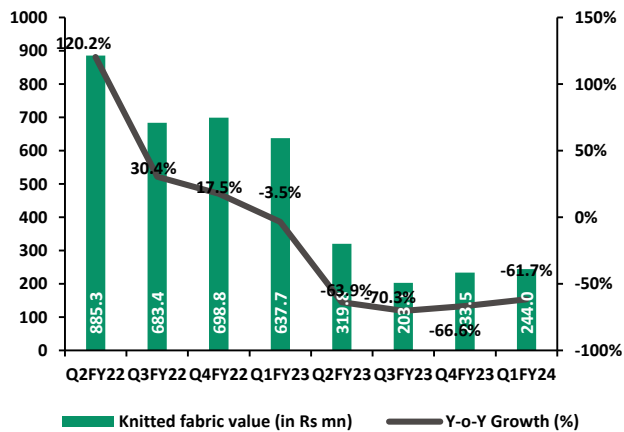
Source: Company, SMIFS research estimates

Fig 11: Yarn sales value (Yearly)



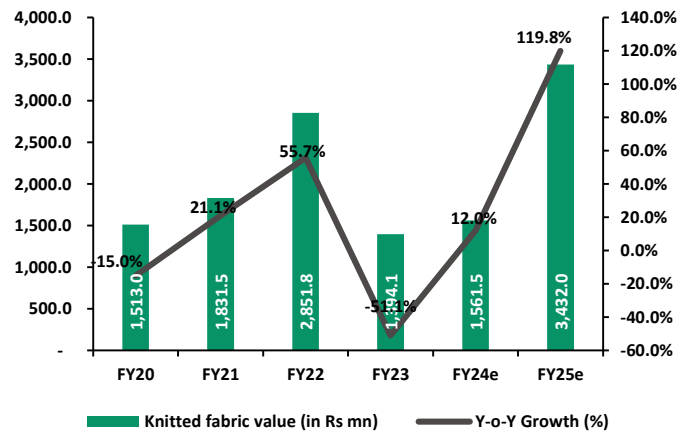
Source: Company, SMIFS research estimates

Fig 12: Knitted Fabric sales value (Quarterly)



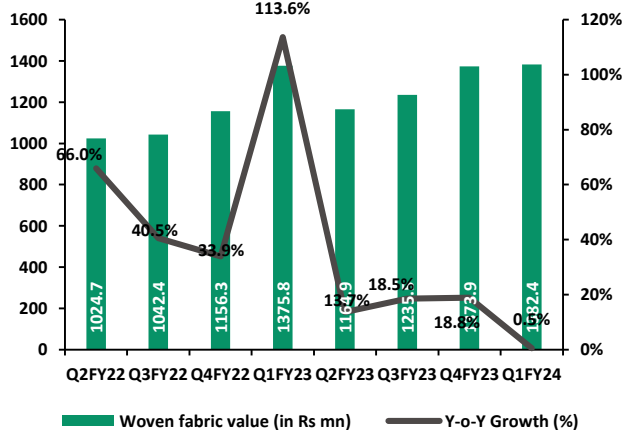
Source: Company, SMIFS research estimates

Fig 13: Knitted Fabric sales value (Yearly)



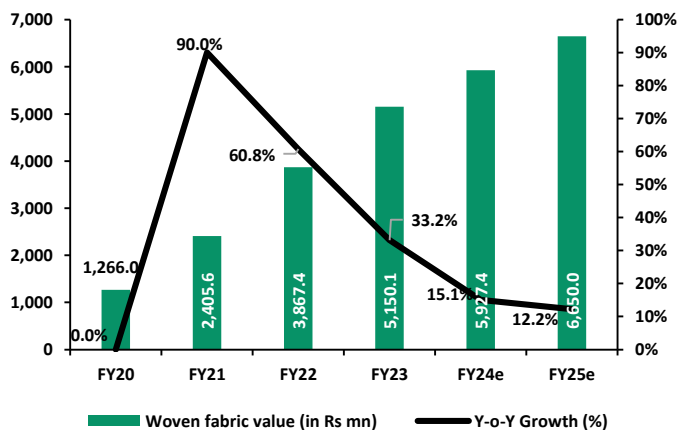
Source: Company, SMIFS research estimates

Fig 14: Woven Fabric sales value (Quarterly)



Source: Company, SMIFS research estimates

Fig 15: Woven Fabric sales value (Yearly)



Source: Company, SMIFS research estimates

Fig 16: Nitin Realization (Quarterly)

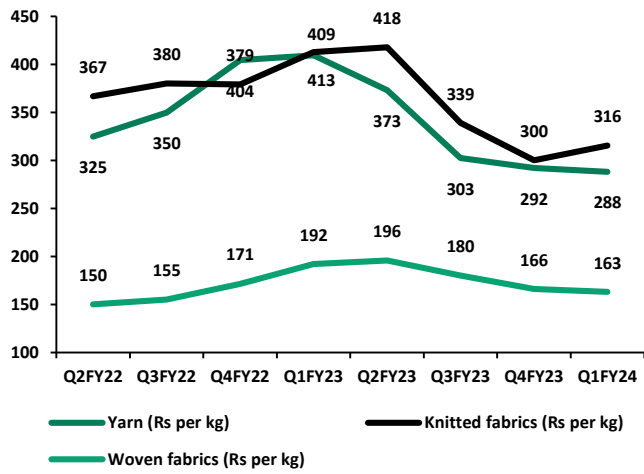
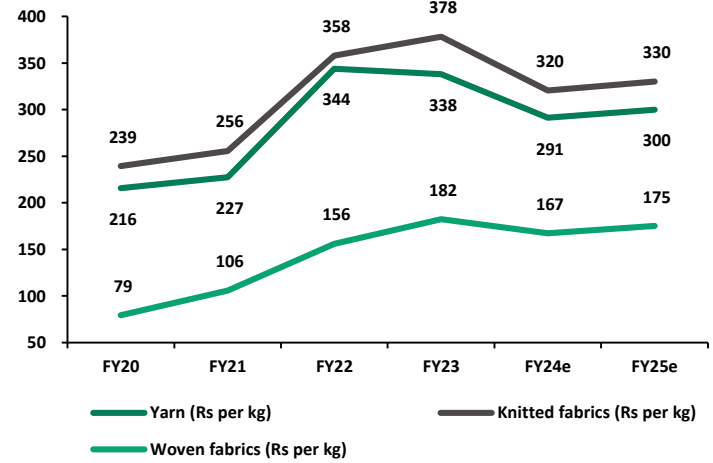


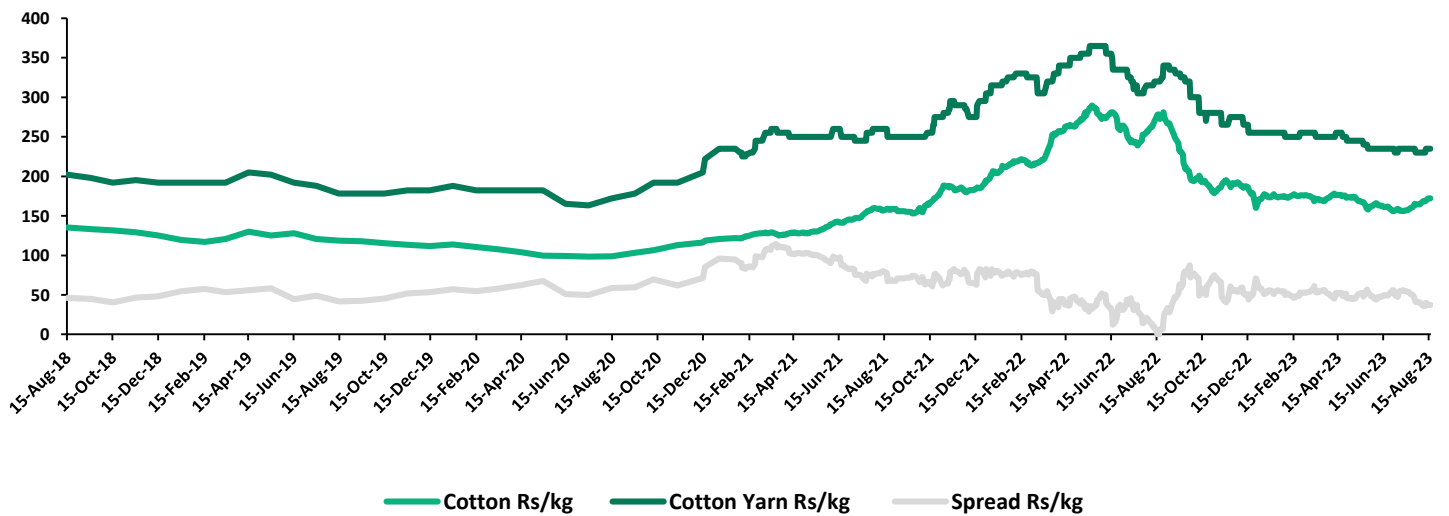
Fig 17: Nitin Realization (Yearly)



Source: Company, SMIFS research estimates

Source: Company, SMIFS research estimates

Fig 18: Cotton Yarn Spread



Source: Company, SMIFS research estimates

Quarterly financials, operating metrics & key performance indicators

Fig 19: Quarterly Financials

Y/E March (Rs mn)	Q2FY22	Q3FY22	Q4FY22	Q1FY23	Q2FY23	Q3FY23	Q4FY23	Q1FY24
Net Sales	6,647	7,049	7,691	7,088	5,059	5,372	6,548	6,171
Raw Materials	4,037	4,349	5,106	5,174	3,851	4,074	5,105	4,624
Employee Costs	323	348	324	348	293	341	349	397
Other Expenditure	512	571	586	477	345	355	384	389
EBITDA	1,775	1,781	1,674	1,089	570	601	710	761
Depreciation	218	219	215	218	219	218	213	230
Interest	142	135	140	115	85	74	103	151
Other Income	7	4	5	8	8	3	14	10
Exceptional items	-45	0	0	0	0	0	0	0
PBT	1,376	1,432	1,324	765	274	312	407	390
Tax	502	500	470	109	-17	-4	22	101
Tax rate (%)	36.5	34.9	35.5	14.3	-6.1	-1.3	5.4	25.8
PAT	874	933	855	656	291	316	385	289
Adjusted PAT	874	933	855	572	207	236	310	289
YoY Growth (%)								
Revenue	55.7	51.0	50.3	28.0	-23.9	-23.8	-14.9	-12.9
EBITDA	220.3	140.4	60.7	-15.3	-67.9	-66.2	-57.6	-30.1
PAT	633.0	301.2	99.4	9.3	-66.7	-66.1	-54.9	-55.9
QoQ Growth (%)								
Revenue	20.1	6.1	9.1	-7.8	-28.6	6.2	21.9	-5.8
EBITDA	38.0	0.4	-6.0	-34.9	-47.7	5.4	18.0	7.2
PAT	45.6	6.7	-8.4	-23.3	-55.6	8.5	22.0	-25.0
Margin (%)								
RMC/revenue (%)	60.7	61.7	66.4	73.0	76.1	75.8	78.0	74.9
Gross margin (%)	39.3	38.3	33.6	27.0	23.9	24.2	22.0	25.1
Employee cost/revenue (%)	4.9	4.9	4.2	4.9	5.8	6.4	5.3	6.4
Other expenses/revenue (%)	7.7	8.1	7.6	6.7	6.8	6.6	5.9	6.3
EBITDA margin (%)	26.7	25.3	21.8	15.4	11.3	11.2	10.8	12.3
PAT margin (%)	13.1	13.2	11.1	9.3	5.8	5.9	5.9	4.7

Source: Company, SMIFS research

Fig 20: Key Assumptions

Operating Details	FY19	FY20	FY21	FY22	FY23	FY24e	FY25e
Capacity							
Yarn (in MT)	55,000	75,000	75,000	75,000	75,000	1,10,000	1,10,000
Knitted Fabrics (in MT)	8,500	8,500	8,500	8,500	8,500	11,000	11,000
Woven Fabrics (in Lac Mtr)	0	300	300	300	300	400	400
Sales Volume Data							
Yarn (in MT)	41,689	48,903	48,180	53,709	47,149	65,717	82,000
Knitted Fabrics (in MT)	6,941	6,320	7,165	7,966	3,687	4,873	10,400
Woven Fabrics (in Lac Mtr)	0	160	228	248	282	355	380
Sales (Rs mn)							
Yarn	9,842	10,545	10,952	18,784	15,936	19,135	24,600
Knitted Fabrics	1,781	1,513	1,832	2,928	1,394	1,561	3,432
Woven Fabrics	0	1,266	2,406	3,867	5,150	5,927	6,650
Others	803	1,057	1,055	1,344	1,587	1,952	2,497
Total Sales	12,425	14,381	16,244	26,923	24,067	28,576	37,179
YoY Growth (%)	NA	15.7	13.0	65.7	-10.6	18.7	30.1

Source: Company, SMIFS research estimates

Financial Statements

Income Statement					
YE March (Rs mn)	FY21	FY22	FY23	FY24e	FY25e
Revenues	16,244	26,923	24,067	28,576	37,179
Raw Materials	11,249	16,853	18,204	21,239	26,769
% of sales	69.2	62.6	75.6	74.3	72.0
Personnel	1,118	1,327	1,332	1,741	2,175
% of sales	6.9	4.9	5.5	6.1	5.8
Manufacturing & Other Expenses	1,305	2,227	1,561	1,958	2,603
% of sales	8.0	8.3	6.5	6.9	7.0
EBITDA	2,573	6,516	2,971	3,637	5,633
Other Income	19	18	33	21	33
Depreciation & Amortization	910	874	868	1,069	1,523
EBIT	1,681	5,661	2,136	2,590	4,142
Finance cost	616	553	377	649	777
Core PBT	1,046	5,089	1,726	1,920	3,332
Exceptional Income/(Expense)	0	-45	0	0	0
PBT	1,065	5,062	1,759	1,941	3,365
Tax-Total	376	1,800	111	495	855
Tax Rate (%) - Total	35.3	35.6	6.3	25.5	25.4
Reported PAT	689	3,261	1,648	1,446	2,511
Adjusted PAT	689	3,295	1,325	1,446	2,511

Source: Company, SMIFS research estimates

Key Ratios					
YE March	FY21	FY22	FY23	FY24e	FY25e
Growth Ratios (%)					
Net Sales	13.0	65.7	-10.6	18.7	30.1
EBITDA	51.5	153.3	-54.4	22.5	54.9
Adjusted PAT	189.2	378.5	-59.8	9.1	73.6
Margin Ratio (%)					
Gross Profit	30.8	37.4	24.4	25.7	28.0
EBITDA Margin	15.8	24.2	12.3	12.7	15.2
EBIT Margin	10.3	21.0	8.9	9.1	11.1
Core PBT Margins	6.4	18.9	7.2	6.7	9.0
Adj PAT Margin	4.2	12.2	5.5	5.1	6.8
Return Ratios					
ROE	13.0	47.6	17.3	13.2	19.9
ROCE	6.8	22.2	10.5	8.2	11.5
Turnover Ratios (days)					
Gross Block Turnover (x)	1.2	1.9	1.7	1.5	1.6
Adj OCF / Adj PAT (%)	135	114	118	103	61
Inventory	70	52	68	66	67
Debtors	36	28	35	36	37
Creditors	15	14	18	14	15
Cash Conversion Cycle	90	65	85	88	89
Solvency ratio (x)					
Debt-equity	1.7	0.8	1.0	1.2	0.9
Net Debt-Equity	1.7	0.8	1.0	1.2	0.9
Gross Debt/EBITDA	3.7	1.1	3.3	3.7	2.3
Current ratio	3.1	3.4	7.1	2.2	2.8
Interest coverage ratio	2.7	10.1	5.7	4.0	5.3
Dividend					
DPS (Rs.)	1.5	4.0	2.5	3.1	6.7
Dividend Yield (%)	2.9	1.9	1.2	1.3	2.8
Dividend Payout (%)	12.2	6.9	8.5	12.0	15.0
Per share (Rs.)					
Basic EPS (reported)	12.3	58.0	29.3	25.7	44.7
FDEPS (adjusted)	12.3	58.6	23.6	25.7	44.7
CEPS	28.4	73.6	44.8	44.7	71.8
BV	100	156	183	206	244
Valuation					
P/E	4.3	3.6	9.1	9.3	5.3
P/BV	0.5	1.3	1.2	1.2	1.0
EV/EBITDA	4.9	2.9	7.4	7.4	4.6
EV/Sales	0.8	0.7	0.9	0.9	0.7
Adj Mcap/Core PBT	2.8	2.3	7.0	6.9	4.0
Adj Mcap/Adj OCF	3.1	3.1	7.7	8.9	8.6

Source: Company, SMIFS research estimates

Balance Sheet					
YE March (Rs mn)	FY21	FY22	FY23	FY24e	FY25e
Sources of funds					
Capital	562	562	562	562	562
Reserves & Surplus	5,071	8,196	9,727	11,000	13,134
Shareholders' Funds	5,633	8,758	10,289	11,562	13,696
Total Loan Funds	9,616	6,885	9,797	13,597	12,837
Non-Current Liabilities	732	1,301	978	978	978
Total Liabilities	15,982	16,944	21,064	26,137	27,510
Application of funds					
Gross Block	13,781	13,921	14,784	23,186	23,686
Net Block	10,597	10,119	10,111	17,445	16,421
Capital WIP	16	1	3,403	0	0
Investments	0	0	0	30	30
Other non current assets					
Inventories	3,547	4,063	4,920	5,167	6,825
Sundry Debtors	1,658	2,407	2,227	2,818	3,769
Cash & Bank Balances	8	6	4	113	46
Other current Assets	820	1,067	809	960	1,249
Total Current Assets	6,033	7,543	7,960	9,058	11,889
Sundry Creditors	765	1,294	1,110	1,096	1,528
Other Current Liabilities	16	5	6	7	9
Total Current Liabilities	781	1,299	1,116	1,103	1,537
Net Current Assets	5,252	6,243	6,844	7,956	10,352
Total Assets	15,982	16,944	21,064	26,137	27,510

Source: Company, SMIFS research estimates

Cash Flow					
YE March (Rs mn)	FY21	FY22	FY23	FY24e	FY25e
Operating profit before WC changes					
Operating profit before WC changes	2,439	5,549	2,493	3,143	4,778
Net chg in working capital	(890)	(1,234)	(555)	(1,003)	(2,463)
Cash flow from operating activities (a)	1,549	4,314	1,938	2,140	2,315
Adj OCF	933	3,761	1,561	1,491	1,538
Capital expenditure	(124)	(925)	(4,353)	(5,000)	(500)
Adj Free Cash Flow	808	2,836	(2,792)	(3,509)	1,038
Cash flow from investing activities (b)	(112)	(859)	(4,334)	(5,009)	(467)
Debt	(788)	(2,731)	2,912	3,800	(761)
Dividend	34	169	141	174	377
Interest and lease	616	553	377	649	777
Cash flow from financing activities (c)	(1,438)	(3,453)	2,394	2,978	(1,914)
Net chg in cash (a+b+c)	(1)	2	(2)	108	(66)

Source: Company, SMIFS research estimates

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