

Nitin Spinners Ltd

Excellent performance with super margins

Nitin Spinners Ltd (Nitin) came out with an excellent set of numbers with highest quarterly profit, way above estimates for Q1FY22 as demand was strong, especially on the export front, with firm yarn prices. Supported by a well-diversified geographical reach the company registered a sales growth of 152.6% YoY to Rs5,538 Mn on account of strong growth across all segments, well supported by strong realization growth. Led by realization growth, the company posted 8.2% QoQ growth at sales front. As rise in cotton price was comparatively lower, gross margin of overall business improved by 834 bps YoY with higher spreads and higher contributions from the new woven fabric division. EBITDA grew by 446.1% YoY to Rs1,286 Mn, with 1,248 bps margin expansion. Nitin is set to continue hitting ~95%-100% capacity utilization in coming quarters. Given yarn prices are still firm, strong margin performance should continue in coming quarters. We continue to maintain our BUY rating on the stock of the company with a target price of Rs363 per share, 10x FY23e EPS.

Excellent performance, results beat all expectations

- During the quarter, the company posted good growth of 79.2% YoY at Yarn sales volume front. Knitted fabric sales volume was higher by 53.3% YoY to 1,935 MT.
- Woven fabric sales increased with volumes higher by 113.9% YoY but on QoQ it was down by 30% as India demand was hit by 2nd wave.
- The company has scope to increase business from woven fabric in coming quarters.
- Realization was higher 42.9% YoY/13.1% QoQ in yarn business whereas it was up by 38.6% YoY/14.4% QoQ in knitted fabric as the company continues to pass on higher cotton prices.

Cotton textile industry to maintain its growth momentum

- The industry is getting loads of support from the government as due to recent decline in overall capacity of Yarn production, existing players will continue to benefit.
- With 2nd wave subsiding, demand is picking up in the domestic market as well. Export demand is already strong and hence, overall demand environment to remain good in coming quarters as well. This is supporting well in passing on higher cotton prices.

Valuation and risks:

- We believe going ahead the company should keep doing well with Yarn prices remained firmed up. Increasing share of processed woven fabric will further support the company's overall sales growth and margin profile.
- Nitin has plans to increase its capacity in value added products such as processed woven fabrics in future as existing capacities are getting nearly fully utilized.
- We assign 10 PE multiple to FY23E earnings and arrive at a target price Rs363, **offering 49% upside from current levels**. Hence, we maintain our **Strong Buy** rating.
- Risk to our call is rise of cotton price, along with stagnation in yarn prices.

Y/E Mar (Rs mn)	Q1 FY22	Q1 FY21	YoY (%)	Q4 FY21	QoQ (%)	Q1 FY22e	Var. (%)
Revenues	5,536	2,191	152.6%	5,116	8.2%	5,250	5.5%
Cost of Raw Materials	3,361	1,513	122.1%	3,339	0.7%		
Gross Profit	2,175	678	220.7%	1,777	22.4%		
Employee expense	331	236	40.4%	296	11.9%		
Other expense	558	207	169.6%	439	27.2%		
EBITDA	1,286	236	446.1%	1,042	23.4%	1,103	16.7%
EBITDA Margin (%)	23.2%	10.7%	1,248 bps	20.4%	286 bps	21.0%	223 bps
Depreciation	222	232	-4.1%	221	0.6%		
Interest	137	150	-8.7%	158	-13.5%		
Other Income	2	8	-72.1%	2	31.5%		
PBT	929	-139	NA	664	39.8%		
Tax	329	-47	NA	236	39.4%		
Effective Tax Rate (%)	35.4%	33.9%	146 bps	35.5%	(11) bps		
PAT	600	-91	NA	429	40.0%	470	27.7%

Source: Company, SMIFS research

Y/E Mar (Rs mn)	Revenue	YoY (%)	EBITDA	EBITDA (%)	Adj. PAT	YoY (%)	EPS	RoE (%)	RoCE (%)	P/E (x)	EV/EBITDA (x)
FY19	12,425	8.5%	1,781	14.3%	641	22.4%	11.4	14.3%	7.3%	7.7	2.9
FY20	14,381	15.7%	1,698	11.8%	238	-62.8%	4.2	5.2%	4.1%	13.3	2.1
FY21	16,244	13.0%	2,573	15.8%	689	189.2%	12.3	13.0%	6.8%	4.2	4.9
FY22e	22,522	38.6%	4,488	19.9%	1,940	181.7%	34.5	31.6%	14.3%	4.3	3.8
FY23e	23,278	3.4%	4,379	18.8%	2,038	5.1%	36.3	24.8%	14.6%	4.1	3.4

Source: Company, SMIFS research estimates



Rating: **Buy** Upside/(Downside): **49.0%**

Current Price: **243** Target Price: **363**

Earlier recommendation

Previous Rating: **Buy**

Previous Target Price: **189**

Market data

Bloomberg:	NSPL IN
52-week H/L (Rs):	295/35
Mcap (Rs bn/USD bn):	13.7/0.2
Shares outstanding (mn):	56.2
Free float:	44.0%
Daily vol. (3M Avg):	0.9mn
Face Value (Rs):	10
Group:	S&P BSE SmallCap

Source: Bloomberg, SMIFS research

Shareholding pattern (%)

	Jun-21	Mar-21	Dec-20	Sep-20
Promoter	56.2%	56.2%	56.1%	56.0%
FII	1.2%	0.0%	0.0%	0.0%
DII	6.8%	10.5%	13.8%	14.7%
Public/others	35.8%	33.3%	30.1%	29.3%

Source: BSE

Price performance (%) *

	1M	3M	12M	36M
BSE Smallcap	5%	23%	102%	60%
Nitin Spinners	69%	165%	498%	167%

* As on 4th Aug 2021; Source: AceEquity, SMIFS research

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Q1FY22 – Key takeaways from the management call

Demand

- ✓ The company's major revenue comes from exports (76% in Q1FY22 vs. 63% in FY21), hence despite of Covid related disruption & lockdowns in domestic market, Nitin Spinners managed to report QoQ revenue growth in Q1FY22.
- ✓ Domestic demand was lower. The company focused on organic cotton, recycled cotton, other fibers, etc. **Now, the overall demand of cotton yarn is good in domestic market and expect it to get only better from hereon.**
- ✓ **The export demand is also good.** Country-wise exposure - Bangladesh 30% of total revenue, EU 21%, China 5% (earlier it was 10%), Latin America generally do 7% (presently some disruption over there), USA 7% and Africa 7%.
- ✓ Due to China+1, the US is buying more fabric. But Vietnam and Bangladesh are also trying to grab that share. Nitin Spinners aims to increase share from the US.
- ✓ Global cotton consumption has gone up by 12%+, hence the company's capacity utilization is running near full.
- ✓ Nitin Spinners is not left with a lot of global competitors in the yarn business. Vietnam - consuming its own yarn, Pakistan is no longer in the market today and turned net buyers of yarn Indonesia became less competitive due to political reasons and Turkey – impacted due to political turmoil over there. Hence, the company's exports are doing very well.
- ✓ The company is running near to its peak utilization level and plans to do de-bottlenecking.
- ✓ The utilization level in Q2FY22 further improved and running on full steam.
- ✓ On the other side, retail people are not completely coming out due to uncertainty w.r.t. the 3rd wave. The performance will be much better if there is no 3rd wave.
- ✓ **The company has grown at 15-18% annually in the past decade and the management expect this consistent performance will continue in the coming years as well.**
- ✓ **The company can achieve Rs 6bn peak revenue at current prices at full utilization.**

Margin

- ✓ Cotton prices fluctuated in Q1FY22, initially it went down, then increased steeply due to increase in global prices. At present, domestic and global cotton prices are matching.
- ✓ Gross margins QoQ improved in Q1FY22, led by better plant utilization and focus on specialty products. The company managed to pass on increased input cost pressures as demand came back strongly. The cotton price increase of ~12% also supported in improving realization and margins.
- ✓ **The Q1FY22 margin level is sustainable for the next 1-2 quarters.** The company plans to sustain this margin level in the near term as there is a lot of focus on sustainable fiber, looking at organic cotton, high demand in exports and a lot of cost efficiency program is ongoing.
- ✓ Exports are doing well, but the very big issue is the shortages of containers and vessels. So far, the company managed it in a reasonable manner, but there is a definite impact due to this on costs and inventory.

- ✓ Cotton prices is at the highest level of last 8-10 years, the management doesn't expect any major price increase in the next cotton season.
- ✓ **The management expects the long run margin range of 18-22% level. The stable average margin in the long run is 20%. For Q2FY22, don't expect any major hit on the margins due to rise in the cotton prices, the demand is good. Current order book in hand is Rs 4.0-4.25bn.**

Other key highlights

- ✓ Nitin Spinners planning to reduce the debt level, which is in total is Rs 9.60bn. The company earlier planned to repay the debt by Rs 1.2-1.3bn, which will be fast forwarded to Rs 2.4-2.5bn.
- ✓ The management has not considered any benefits from the Govt. schemes like MEIS, etc. They are in touch with them since last 4-5 months and talking with the industry association. Expect some benefits to come roughly about 1-2%.
- ✓ **Capex:** Rs 350mn in FY22e and Rs 250mn in FY23e. It will mostly get spend on de-bottlenecking, on various parts of business, to add capacity, cost improvement, etc.
- ✓ On expansion, it's getting money at lower interest rate of 3-4%, have sufficient land & infrastructure available with them. In 2-3 years' time, the company is comfortable in taking loans of Rs 5bn + internal accruals to expand substantially.
- ✓ **Tax rate:** 35% in FY22e and lower in FY23e at 25% as the company will utilize its MAT credit.

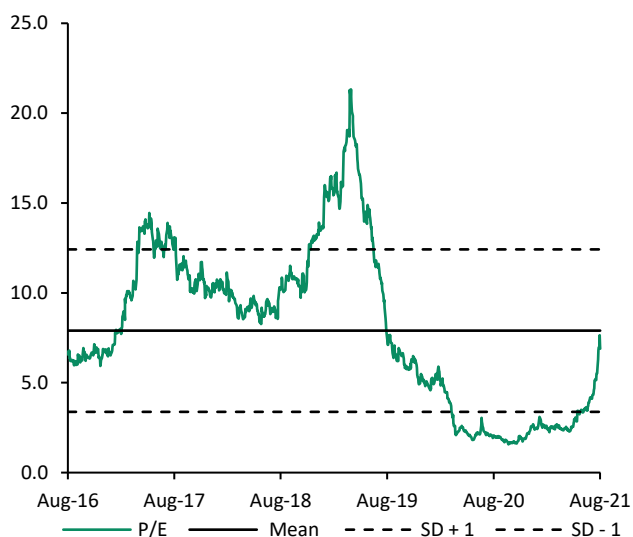
Quarterly financials, operating metrics & key performance indicators

Fig 1: Quarterly Financials

Y/E March (Rs mn)	Q2FY20	Q3FY20	Q4FY20	Q1FY21	Q2FY21	Q3FY21	Q4FY21	Q1FY22
Net Sales	3,726	4,022	3,801	2,191	4,269	4,668	5,116	5,536
Raw Materials	2,920	2,623	2,274	1,513	3,143	3,233	3,339	3,361
Employee Costs	227	265	276	236	270	315	296	331
Other Expenditure	227	712	707	207	302	380	439	558
EBITDA	351	422	544	236	554	741	1,042	1,286
Depreciation	213	213	244	232	228	229	221	222
Interest	130	135	207	150	146	161	158	137
Other Income	3	8	6	8	1	9	2	2
PBT	10	82	99	-139	180	359	664	929
Tax	3	24	34	-47	61	126	236	329
Tax rate (%)	29.8%	29.3%	34.3%	33.9%	33.9%	35.2%	35.5%	35.4%
PAT	7	58	65	-91	119	232	429	600
YoY Growth (%)								
Revenue	19.7%	26.5%	21.4%	-22.6%	14.6%	16.1%	34.6%	152.6%
EBITDA	-21.4%	-0.9%	16.2%	-38.1%	57.7%	75.5%	91.6%	446.1%
PAT	-95.5%	-59.7%	-63.6%	-	1519.4%	300.8%	557.4%	-
QoQ Growth (%)								
Revenue	31.6%	7.9%	-5.5%	-42.4%	94.8%	9.3%	9.6%	8.2%
EBITDA	-7.6%	20.2%	28.9%	-56.7%	135.3%	33.7%	40.7%	23.4%
PAT	-93.2%	728.6%	12.4%	-	-	95.0%	84.4%	40.0%
Margin (%)								
RMC/revenue (%)	78.4%	65.2%	59.8%	69.0%	73.6%	69.2%	65.3%	60.7%
Gross margin (%)	21.6%	34.8%	40.2%	31.0%	26.4%	30.8%	34.7%	39.3%
Employee cost/revenue (%)	6.1%	6.6%	7.3%	10.8%	6.3%	6.7%	5.8%	6.0%
Other expenses/revenue (%)	6.1%	17.7%	18.6%	9.4%	7.1%	8.1%	8.6%	10.1%
EBITDA margin (%)	9.4%	10.5%	14.3%	10.7%	13.0%	15.9%	20.4%	23.2%
PAT margin (%)	0.2%	1.4%	1.7%	-4.2%	2.8%	5.0%	8.4%	10.8%

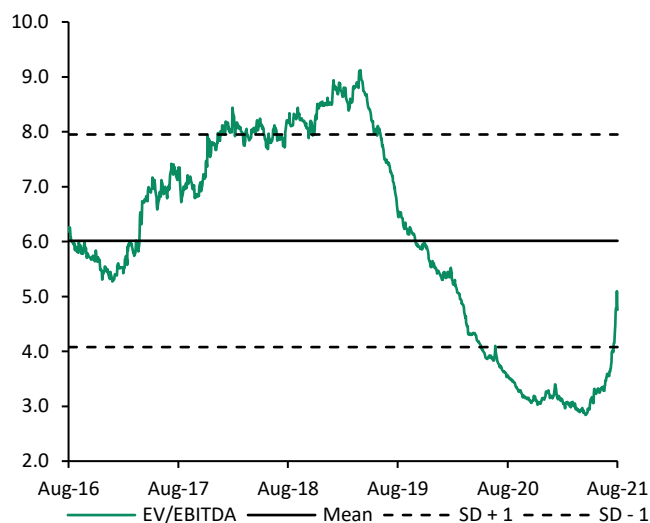
Source: Company, SMIFS research

Fig 1: 1-year forward P/E



Source: AceEquity, SMIFS research

Fig 2: 1-year forward EV/EBITDA



Source: AceEquity, SMIFS research

Financial Statements

Income Statement					
YE March (Rs mn)	FY19	FY20	FY21	FY22e	FY23e
Revenues	12,425	14,381	16,244	22,522	23,278
% Growth	8.5%	15.7%	13.0%	38.6%	3.4%
Raw Materials (Including power)	9,146	10,767	11,249	14,854	15,782
% of sales	73.6%	74.9%	69.2%	66.0%	67.8%
Personnel	680	943	1,118	1,314	1,347
% of sales	5.5%	6.6%	6.9%	5.8%	5.8%
Manufacturing & Other Expenses	818	973	1,305	1,866	1,769
% of sales	6.6%	6.8%	8.0%	8.3%	7.6%
EBITDA	1,781	1,698	2,573	4,488	4,379
EBITDA Margin (%)	14.3%	11.8%	15.8%	19.9%	18.8%
Depreciation & Amortization	546	807	910	914	942
EBIT	1,234	891	1,662	3,574	3,437
Finance cost	289	556	616	598	573
PBT From Operations	945	335	1,046	2,976	2,864
Other Income	28	21	19	10	48
Exceptional Income/(Expense)	0	0	0	0	0
PBT	973	356	1,065	2,985	2,912
Tax-Total	332	118	376	1,046	873
Tax Rate (%) - Total	34.1%	33.2%	35.3%	35.0%	30.0%
Reported PAT	641	238	689	1,940	2,038
PAT Margin	5.2%	1.7%	4.2%	8.6%	8.8%
% Growth	22.4%	-62.8%	189.2%	181.7%	5.1%

Source: Company, SMIFS research estimates

Key Ratios					
YE March	FY19	FY20	FY21	FY22e	FY23e
Growth Ratios (%)					
Net Sales	8.5%	15.7%	13.0%	38.6%	3.4%
EBITDA	14.9%	-4.7%	51.5%	74.5%	-2.4%
Adjusted Net Profit	22.4%	-62.8%	189.2%	181.7%	5.1%
Margin Ratio (%)					
EBITDA Margin	14.3%	11.8%	15.8%	19.9%	18.8%
EBIT Margin	9.9%	6.2%	10.2%	15.9%	14.8%
PBT margins	7.8%	2.5%	6.6%	13.3%	12.5%
PAT Margin	5.2%	1.7%	4.2%	8.6%	8.8%
Return Ratios					
ROE	14.3%	5.2%	13.0%	31.6%	24.8%
ROCE	7.3%	4.1%	6.8%	14.3%	14.6%
ROIC	7.2%	4.0%	6.8%	14.3%	14.8%
Turnover Ratios (days)					
Gross Block Turnover (x)	1.9	1.4	1.2	1.6	1.6
Inventory	67	67	80	70	70
Debtors	35	39	37	35	35
Creditors	14	15	18	20	20
Cash Conversion Cycle	88	91	99	85	85
Solvency ratio (x)					
Debt-equity	1.8	2.1	1.7	1.2	0.8
Net Debt-Equity	1.8	2.1	1.7	1.1	0.7
Gross Debt/EBITDA	0.2	0.2	3.7	1.9	1.6
Current ratio	8.5	8.0	7.3	6.1	6.7
Interest coverage ratio	4.4	1.6	2.7	6.0	6.1
Dividend					
DPS (Rs.)	1.2	0.6	1.5	4.1	5.4
Dividend Yield (%)	1.4%	1.1%	2.9%	2.8%	3.6%
Dividend Payout (%)	11.0%	14.2%	12.2%	12.0%	15.0%
Per share (Rs.)					
Basic EPS (reported)	11.4	4.2	12.3	34.5	36.3
CEPS	21.1	18.6	28.4	50.8	53.0
BV	85.8	87.9	100.2	130.6	161.4
Valuation					
P/E	7.7	13.3	4.2	4.3	4.1
P/BV	1.0	0.6	0.5	1.1	0.9
EV/EBITDA	2.9	2.1	4.9	3.8	3.4
EV/Sales	0.4	0.2	0.8	0.7	0.6

Source: Company, SMIFS research estimates

Balance Sheet					
YE March (Rs mn)	FY19	FY20	FY21	FY22e	FY23e
Sources of funds					
Capital	562	562	562	562	562
Reserves & Surplus	4,263	4,377	5,071	6,778	8,511
Shareholders' Funds	4,825	4,940	5,633	7,341	9,073
Minority Interest	-	-	-	-	-
Total Loan Funds	8,605	10,404	9,572	8,472	7,132
Deferred tax liabilities	299	333	535	535	535
Non-Current Liabilities	116	167	197	197	197
Total Liabilities	13,845	15,844	15,937	16,545	16,937
Application of funds					
Gross Block	6,746	13,698	13,813	14,128	14,428
Accumulated Dep.	1,510	2,317	3,228	4,142	5,084
Net Block	5,236	11,396	10,597	9,999	9,357
Capital WIP	4,682	0	16	0	0
Net Assets	9,918	11,396	10,613	9,999	9,357
Investments	0	0	0	0	30
Other non current assets	234	165	117	117	117
Inventories	2,278	2,647	3,547	4,319	4,464
Sundry Debtors	1,207	1,528	1,658	2,160	2,232
Cash & Bank Balances	30	4	8	70	861
Loans and Advances	-	-	-	-	-
Other current Assets	668	713	820	1,136	1,175
Total Current Assets	4,184	4,892	6,033	7,685	8,732
Sundry Creditors	478	592	810	1,234	1,275
Other Current Liabilities	0	0	0	0	0
Provisions	11	16	16	22	23
Total Current Liabilities	490	608	826	1,256	1,298
Net Current Assets	3,694	4,283	5,208	6,429	7,434
Total Assets	13,845	15,844	15,937	16,545	16,937

Source: Company, SMIFS research estimates

Cash Flow					
YE March (Rs mn)	FY19	FY20	FY21	FY22e	FY23e
Operating profit before WC changes	1,623	1,619	2,439	3,442	3,506
Net chg in working capital	(585)	(637)	(890)	(1,160)	(213)
Cash flow from operating activities (a)	1,037	982	1,549	2,282	3,292
Capital expenditure	(4,837)	(2,172)	(124)	(300)	(300)
Free Cash Flow	(3,800)	(1,190)	1,424	1,982	2,992
Cash flow from investing activities (b)	(4,834)	(2,167)	(112)	(290)	(282)
Cash flow from financing activities (c)	3,824	1,159	(1,438)	(1,931)	(2,219)
Net chg in cash (a+b+c)	27	(26)	(1)	61	791

Source: Company, SMIFS research estimates

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