

Improvement in yarn demand to aid revenue growth

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%+

Q4FY23 Results: Nitin Spinners reported an improvement in operational performance on a sequential basis but macro headwinds continued to impact its performance on a YoY basis.

- Revenue grew 22% QoQ to ₹ 654.8 crore (down 15% YoY). Gross margins declined 330 bps QoQ to 29.8% (vs. 41% in Q4FY22) probably owing to high cost cotton inventory and tough demand scenario
- However, positive operating leverage led to lower employee (down 102 bps QoQ) and other expenses (down 194 bps QoQ), which curtailed the decline in EBITDA margins to only 40 bps QoQ to 10.8%. Absolute EBITDA grew 18% QoQ to ₹ 71 crore (down 58% YoY)
- Consequently, PAT grew 22% QoQ to ₹ 38.5 crore (declined 55% YoY)

What should investors do? Consistent improvement in financial performance of NSL in spite of cyclical nature of the textile industry signifies NSL's ability of optimum asset utilisation leading to sustainable profit growth. In line with its superior performance, the stock price has grown at 19% CAGR over the 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 maintain **BUY** rating on the stock

Target Price and Valuation: We value Nitin Spinners at ₹ 290 i.e. ~7x FY25E earnings.

Key triggers for future price performance:

- 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)
- We expect NSL to generate superior RoCE of ~15% in FY25E (vs. average RoCE: 10-12%). We model revenue, earnings CAGR of 15%, 21%, respectively, in FY23-25E

Alternate Stock Idea: Apart from NSL, we like Siyaram Silk Mills.

- Siyaram's strong brand portfolio and presence in tier II/III towns would enable it to benefit from a shift from unorganised to organised players



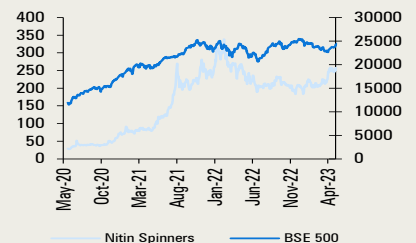
Particulars

Particulars	Amount
Market Capitalisation (₹ crore)	1,405.5
Total Debt (FY23) (₹ crore)	979.7
Cash (FY23) (₹ crore)	0.4
EV (₹ crore)	2,384.8
52 Week H / L	265 / 182
Equity Capital (₹ crore)	56.2
Face Value (₹)	10.0

Shareholding pattern

	Mar-22	Jun-22	Sep-22	Dec-22	Mar-23
Promoter	56.3	56.4	56.4	56.4	56.4
FII	4.8	4.3	3.8	3.8	2.4
DII	4.6	5.0	5.6	5.4	6.3
Others	34.3	34.3	34.3	34.4	34.9

Price Chart



Recent event & key risks

- New weaving & knitting capacity commissioned
- Key Risk:** (i) Elevated cotton prices can impact margin negatively (ii) Delay in expansion plans

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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%	2,406.7	2,679.3	3,162.0	14.6%
EBITDA	178.1	169.8	257.3	647.1	17.0%	297.1	400.2	505.6	30.5%
Adjusted PAT	64.1	23.8	68.9	326.2		164.8	162.9	239.6	20.6%
P/E (x)	21.9	59.0	20.4	4.3		8.5	8.6	5.9	
EV/EBITDA (x)	12.7	14.4	9.2	3.2		8.0	6.5	4.7	
RoCE (%)	9.4	5.9	11.0	35.9		10.6	11.4	15.2	
RoE (%)	13.3	4.8	12.2	37.2		16.0	13.8	16.9	

Source: Company, ICICI Direct Research

Key takeaways of Q4FY23 conference call

- The management highlighted that FY23 was a challenging year for the cotton yarn industry. The industry faced multiple challenges such as volatility in yarn realisation, elevated cotton prices and significantly higher domestic cotton price compared to international cotton prices. The scenario is gradually changing as domestic cotton prices have declined from their peak and the gap between the domestic and international prices has also reduced, which is aiding better competitive positioning for Indian cotton yarn exporters
- The management highlighted that overall the industry utilisation is near normal as inventory with the downstream industry and global retailers is declining aiding in new order flow for the industry. Export demand for cotton yarn has picked up from Europe, China and Latin America but fabric demand is lagging behind. China currently contributes 6-7% of total exports and ~ 4% of total revenues
- Nitin Spinners' cotton yarn utilisation has improved to 93% in Q4FY23 vs. 80% in Q3FY23. The company expects FY24 to be better than FY23 owing to improved demand and higher focus on value added products
- Cotton yarn spreads have improved from ₹ 94 per kg in Q3FY23 to ₹ 104 in Q4FY23. Considering the gradual improvement in overall scenario, the spreads could improve from these levels, which should provide positive momentum to margins in the ensuing quarters
- On the margins front, the company expects margins to improve from current levels as cotton prices have stabilised and logistics cost have declined from its peak
- On the capex front, the company is implementing a capex of ₹ 950 crore, of which it has spent around ₹ 600 crore and the balance capex would be done in FY24. The management indicated that the expansion of weaving, knitting and finishing capacities is complete and the same should begin commercial operations soon. The spinning capacity is expected to be completed in September-October 2023. The company would look to first stabilise the recently established capacities and reach optimum utilisation level and the management is not envisaging any new expansion plans for the next 12-18 months. The company expects new capacities to reach optimum capacity utilisation by March 2024. The full benefit in terms of incremental revenues would be visible in FY25
- The management indicated that currently ~23% of yarn is captively consumed and the same can increase to ~ 25-27% over the next two years
- The management indicated that it expects a peak debt of ~ ₹ 1300 crore and expects the debt equity to be below 1 post expansion of new capacities
- The management highlighted that its current fibre mix is dominated by cotton with share of 90% while polyester contributes ~8% and viscose fabric ~ 2%. Going ahead, the company expects the cotton share in the fibre mix to be ~ 85% while manmade fibre share would be ~15%

Financial Summary

Exhibit 1: Profit and loss statement				
	₹ crore			
(Year-end March)	FY22	FY23P	FY24E	FY25E
Net Sales	2,692.3	2,406.7	2,679.3	3,162.0
Growth (%)	65.7	(10.6)	11.3	18.0
Total Raw Material Cost	1,476.2	1,631.0	1,678.9	1,935.5
Gross Margins (%)	45.2	32.2	37.3	38.8
Employee Expenses	132.7	133.2	160.8	192.9
Other Expenses	436.3	345.5	439.4	528.1
Total Operating Expenditure	2,045.2	2,109.7	2,279.1	2,656.5
EBITDA	647.1	297.1	400.2	505.6
EBITDA Margin	24.0	12.3	14.9	16.0
Interest	55.3	37.7	64.5	51.6
Depreciation	87.4	86.8	120.9	136.7
Other Income	1.8	3.3	3.0	3.0
Exceptional Expense	-	-	-	-
PBT	506.2	175.9	217.8	320.3
Total Tax	180.0	11.1	54.9	80.7
Profit After Tax	326.2	164.8	162.9	239.6

Source: Company, ICICI Direct Research

Exhibit 2: Cash flow statement				
	₹ crore			
(Year-end March)	FY22	FY23P	FY24E	FY25E
Profit/(Loss) after taxation	326.2	164.8	162.9	239.6
Add: Depreciation	87.4	86.8	120.9	136.7
Net Increase in Current Assets	-145.0	-42.9	-27.3	-54.4
Net Increase in Current Liabilities	59.7	-18.4	38.7	19.0
CF from operating activities	328.3	190.4	295.3	340.9
(Inc)/dec in Investments	0.0	0.0	0.0	0.0
(Inc)/dec in Fixed Assets	-38.1	-426.2	-519.7	-76.0
Others	-60.5	-11.5	0.0	0.0
CF from investing activities	-98.5	-437.7	-519.7	-76.0
Inc / (Dec) in Equity Capital	0.0	0.0	0.0	0.0
Inc / (Dec) in Loan	-273.1	291.2	310.0	-257.9
Others	43.1	-44.0	-7.9	-9.3
CF from financing activities	-230.0	247.2	302.1	-267.3
Net Cash flow	-0.2	-0.2	77.6	-2.4
Opening Cash	0.8	0.6	0.4	78.1
Closing Cash	0.6	0.4	78.1	75.7

Source: Company, ICICI Direct Research

Exhibit 3: Balance Sheet				
	₹ crore			
(Year-end March)	FY22	FY23P	FY24E	FY25E
Equity Capital	56.2	56.2	56.2	56.2
Reserve and Surplus	819.6	972.7	1,127.5	1,357.5
Total Shareholders funds	875.8	1,028.9	1,183.7	1,413.7
Total Debt	688.6	979.7	1,289.7	1,031.8
Non Current Liabilities	130.1	97.8	98.0	98.3
Source of Funds	1,694.4	2,106.4	2,571.4	2,543.7
Gross block	1,394.8	1,480.9	2,280.9	2,356.9
Less: Accum depreciation	383.0	469.8	590.6	727.3
Net Fixed Assets	1,011.9	1,011.1	1,690.2	1,629.5
Capital WIP	0.1	340.3	60.0	60.0
Intangible assets	-	-	-	-
Investments	-	-	-	-
Inventory	406.3	492.0	491.8	493.8
Cash	0.6	0.4	78.1	75.7
Debtors	240.7	222.7	242.2	285.9
Loans & Advances & Other (104.4	79.5	87.5	96.2
Total Current Assets	751.9	794.6	899.6	951.5
Creditors	82.1	52.3	88.1	104.0
Provisions & Other CL	47.9	59.3	62.2	65.3
Total Current Liabilities	129.9	111.6	150.3	169.3
Net Current Assets	622.0	683.0	749.2	782.2
LT L& A, Other Assets	60.5	72.0	72.0	72.0
Other Assets	0.0	0.0	0.0	0.0
Application of Funds	1,694.4	2,106.4	2,571.4	2,543.7

Source: Company, ICICI Direct Research

Exhibit 4: Key ratios				
(Year-end March)	FY22	FY23P	FY24E	FY25E
Per share data (₹)				
EPS	58.0	29.3	29.0	42.6
Cash EPS	73.6	44.8	50.5	66.9
BV	155.8	183.0	210.5	251.5
DPS	3.0	2.5	1.4	1.7
Cash Per Share	0.1	0.1	13.9	13.5
Operating Ratios (%)				
EBITDA margins	24.0	12.3	14.9	16.0
PBT margins	18.8	7.3	8.1	10.1
Net Profit margins	12.1	6.8	6.1	7.6
Inventory days	55.1	74.6	67.0	57.0
Debtor days	32.6	33.8	33.0	33.0
Creditor days	11.1	7.9	12.0	12.0
Return Ratios (%)				
RoE	37.2	16.0	13.8	16.9
RoCE	35.9	10.6	11.4	15.2
RoIC	35.9	12.8	12.1	16.1
Valuation Ratios (x)				
P/E	4.3	8.5	8.6	5.9
EV / EBITDA	3.2	8.0	6.5	4.7
EV / Sales	0.8	1.0	1.0	0.7
Market Cap / Revenues	0.5	0.6	0.5	0.4
Price to Book Value	1.6	1.4	1.2	1.0
Solvency Ratios				
Debt / Equity	0.8	1.0	1.1	0.7
Debt/EBITDA	1.1	3.3	3.2	2.0
Current Ratio	5.8	7.1	5.5	5.2
Quick Ratio	2.7	2.7	2.2	2.3

Source: Company, ICICI Direct Research

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