Nitin Spinners Limited

February 07, 2023

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long Term Bank Facilities	1,834.54 (Enhanced from 1,585.74)	CARE A; Stable	Reaffirmed
Short Term Bank Facilities	66.70 (Enhanced from 46.27)	CARE A1	Reaffirmed

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

The ratings assigned to the bank facilities of Nitin Spinners Limited (NSL) continue to derive strength from significant experience of its promoters in the textile industry along with its long and established track record as an integrated textile mill having presence in cotton yarn, woven and knitted fabric. NSL's reputed and diversified clientele along with moderately diversified product profile and geographical revenue stream further underpin its ratings. The ratings also factor healthy growth in its total operating income (TOI) along with significant improvement in its profitability during FY22 (FY refers to the period April 01 to March 31) aided by strong growth in export revenue. The healthy cash flow from operations generated during FY22 has enabled reduction in its debt level as on March 31, 2022 resulting in improvement in its leverage and debt coverage indicators during the year.

The ratings are, however, primarily constrained due to inherent implementation and salability risk associated with the significantly large size on-going debt-funded brown-field expansion project, the cost of the project being nearly similar to its tangible net worth as on March 31, 2022. Consequently, the leverage and debt coverage indicators of the company are expected to moderate in the near to medium term due to drawl of fresh term debt for the expansion project. The ratings further continue to remain constrained on account of susceptibility of its profitability to volatility in raw material prices and foreign exchange rate fluctuations and its presence in the cyclical and fragmented textile industry. CARE Ratings also take cognisance of decline in its profitability during H1FY23 (UA) as compared to high base of H1FY22 (UA) due to decline in spread of cotton-cotton yarn in light of higher cotton prices along with subdued demand scenario in the export market. Nonetheless, NSL's TOI and profitability during H1FY23 (UA) remained in line with the envisaged level. With reduction in the cotton prices along with expected improvement in the export demand, the operational performance of NSL is expected to improve from Q4FY23 onwards.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

- PBILDT margin above 17% and ROCE above 20% on a sustained basis
- Maintaining overall gearing ratio below unity and Total Debt/PBILDT of around 2 times on a sustained basis
- Timely completion of its large size project within envisaged cost and generation of envisaged returns therefrom

Negative factors

- Decline in PBILDT margin below 15% on a sustained basis
- Increase in overall gearing ratio beyond 1.5 times and Total Debt/PBILDT beyond 3.5 times on a sustained basis
- Cost overrun in its planned large-size project by more than 10% of its envisaged cost thereby impacting its debt coverage indicators

Analytical approach: Standalone

Key strengths

Experience of promoters in the textile industry: NSL was promoted by the Nolkha family in 1992. Mr. R. L. Nolkha (first-generation entrepreneur), Chairman, has an experience of over four decades in the textile industry. He has also served as Vice Chairman of Confederation of Textile Industries (CITI), Chairman of Northern India Textile Research Association (NITRA), Chairman of Rajasthan Textile Mills Association and a member of the Board of Governors of Textile Skill Development Council. Mr Dinesh R. Nolkha, Managing Director, has around three decades of industrial experience and handles yarn marketing, finance and general administration. He has served as the president of Mewar Chamber of Commerce and Industry and presently, serves as a Chairman of NITRA. Mr Nitin R. Nolkha, Joint Managing Director, has around two decades of industrial experience, and looks after marketing of fabrics, procurement of materials and implementation of projects.

[1]Complete definition of the ratings assigned are available at www.careedge.in and other CARE Ratings Ltd.'s publications

Long and established track record with integrated nature of operations in textile industry: NSL has a track record of around three decades of operation in the Indian textile industry. NSL commenced operations in 1992 with a small capacity of 384 rotors at its plant located in Bhilwara (Rajasthan). Over the years, NSL has expanded its operations to include open-end yarns, ring-spun yarns, blended yarns, knitted fabrics, and finished woven fabrics. As a part of value addition and widening its product range, the company has set up an integrated textile mill in Chittorgarh (Rajasthan) equipped with modern spinning, weaving, dyeing, finishing and printing facilities with zero liquid discharge water treatment plant. Presently, NSL has an installed capacity of 3,07,000 spindles and 3,488 rotors producing 75,000 tons of yarn per annum. It also has 63 knitting machines with a capacity to produce 8,500 tons of knitted fabrics per annum and 168 looms and dyeing, printing, and finishing capacities to make approximately 300 lakh meters of finished fabrics per annum at its two plants located in Rajasthan. The company also have 8.5 MW rooftop solar power plant for captive power consumption which helps in reducing power cost to some extent. NSL also had a coal-based power plant of 10 MW for captive power consumption which was scrapped during FY22 due to impact of rising coal prices and availability of sufficient power supply by State Electricity Boards at a competitive tariff.

Moderately diversified product profile with large share of revenue contributed by cotton yarn: NSL is engaged in manufacturing of wide variety of cotton yarn, knitted fabrics and finished woven fabrics. Cotton yarn accounts for most of the revenue generated by the company registering around 70% of the sales in FY22 (FY21: 67%) followed by woven and knitted fabrics. The company manufactures varied quality of cotton yarn with count of cotton ranging from 6s to 100s. NSL is continuously focusing on providing value added products to its customers. It provides wide range of yarn to meet its customer requirement both for woven fabric and knitted fabric.

Reputed and diversified customer profile with good presence in export markets: The customer base of the company is diversified with top ten customers accounting for 25% of the total income of the company in FY22 (P.Y.: 16%), with each customer having less than 5% share of the total income. NSL supplies its products to some of the renowned brands like Raymond, Arvind, Donear, D'Decor, Siyaram's, Welspun etc in domestic market and Zara, United Colors of Benetton, Hennes & Mauritz (H&M), Marco Polo in the international market. The company enjoys good relationship with these customers and receives repeat orders from them. Moreover, NSL has presence in more than 60 countries globally, deriving more than half of revenue from exports. During FY22, the company earned nearly 73% of its revenue from the export market (P.Y.:63%). Further, NSL earned around 70% of its export revenue from yarn and remaining from fabrics.

Healthy growth in TOI along with significant improvement in its profitability during FY22 which is expected to normalise: NSL's TOI grew by 66% on y-o-y basis and stood at Rs.2,692 crore during FY22 largely due to significant improvement in the average sales realization of cotton yarn and knitted fabrics amidst strong export demand. During FY22, export revenue of the company grew by 92% on y-o-y basis. The sales realization of cotton yarn and knitted fabric improved by 54% and 44% respectively during FY22 as compared to FY21. PBILDT margin of the company also witnessed significant improvement by nearly 800 bps to 24% during FY22 as compared to 16% during FY21 respectively on account of sizable jump in the spread between cotton and cotton yarn along with improved operating efficiency led by better capacity utilization. With healthy growth in scale of operations coupled with improved profitability margin, the gross cash accruals (GCA) of NSL grew by 116% on y-o-y basis and stood at Rs.426 crore during FY22.
NSL's TOI remained stable at Rs.1,216 crore during H1FY23 as compared to Rs.1,219 crore during H1FY22 despite lower sales volume of its cotton yarn and knitted fabric which was primarily offset by improvement in the average sales realization. Further, due to lower capacity utilisation and sharp rise in cotton prices without commensurate rise in cotton yarn prices, the profitability of the company was impacted adversely in H1FY23. NSL's PBILDT margin stood modest at 13.78% during H1FY23 as compared to 25.18% during H1FY22. Owning to longer than expected subdued demand scenario of cotton yarn primarily in the export market coupled with relatively high cotton prices in the domestic market, the revenue of the company is expected to remain at around Rs.2,400-2,500 crore and PBILDT at around Rs.310-330 crore in FY23. On a sustainable basis, the PBILDT margin of the company is expected to remain in range of 15-16% while it may remain marginally lower in FY23.

Improvement in leverage and debt coverage indicators; albeit expectation of moderation due to drawal of term debt for ongoing large-size capex: The capital structure of NSL marked by overall gearing and TOL/TNW improved to 0.79 times and 0.94 times respectively as on March 31, 2022 as compared to 1.71 times and 1.88 times respectively as on March 31, 2021 backed by healthy accretion of profit to reserves coupled with reduction in debt level. Debt level of the company stood at Rs.689 crore as on March 31, 2022 which reduced from Rs.962 crore as on March 31, 2021 due to scheduled repayment of term debt of Rs.114 crore, prepayment of term debt of Rs.65 crore and lower utilization of working capital utilization in light of healthy cash flow during FY22. With improvement in profitability and cash accruals, the debt coverage indicators also improved marked by PBILDT interest coverage and Total Debt/PBILDT of 11.77 times and 1.06 times respectively in FY22 as compared to 4.18 times and 3.74 times respectively in FY21. However, the capital structure and debt coverage indicators are again expected to moderate in the medium term due to on-going large size debt-funded expansion project and expectation of higher utilization of its working capital limits considering envisaged internal accruals to be deployed for capex. Further, post commissioning of expansion project, the company would also require additional working capital borrowing to fund its incremental sales which may also lead to some moderation in capital structure and debt coverage indicators.

Liquidity: Adequate

The liquidity of NSL remains adequate backed by healthy cash accruals and cash flow from operation apart from cushion in the form of undrawn working capital limits. The company is envisaged to earn healthy cash accruals during FY23 which is expected to be adequate for meeting its capex funding requirements apart from its term debt repayment obligation of around Rs.90 crore during the year. The current ratio improved and remained strong at 1.83 times as on March 31, 2022. The average utilization of its working capital limits stood at a moderate 46% for trailing twelve months ended December 2022.

Key weaknesses

Implementation and saleability risk associated with large size ongoing debt funded capex: NSL is implementing a brownfield project to expand its cotton yarn and weaving capacity at existing locations in Rajasthan, as company is currently running at optimum utilization of its existing capacities. The capacity addition is also expected to meet increasing demand of its product, penetrate newer geographies, aid widening of product portfolio and to bring competitive cost advantage by having economies of scale. The estimated cost of the project (including margin money for working capital limits, pre-operative expenses and contingency) is Rs.955 crore (~ 1.09 times of tangible net-worth as on March 31, 2022) which is being funded through term loan of Rs.655 crore and remaining through internal accruals translating into project debt-equity ratio of 2.18:1 time. The company has incurred cost of nearly Rs.233 crore while it had extended letter of credits (LCs) aggregating to Rs.138 crore as on December 31, 2022 towards the aforesaid project. The capex is expected to be completed within next 6-9 months. The scheduled commercial operation date (SCOD) is October 2023 (i.e. Q3FY24). The term loan for the project is tied-up and is repayable with the door-to-door tenor of 9.5 years (including implementation and moratorium period of 2.5 years). The loan would be repayable in 28 quarterly installments starting from December 2024 (i.e. Q3FY25). The company is expected to receive interest subsidy for the aforesaid term loan under the Rajasthan Investment Promotion Scheme (RIPs), 2019 for 7 years.

Such large size projects are susceptible to inherent implementation risks and consequently any delay in execution of the project may result in cost overrun and impact the currently envisaged timelines for cash flow generation. Apart from that, demand for cotton yarn is driven by international demand-supply dynamics and susceptible to economic cycles. Historically, the textile industry has witnessed high cyclicality wherein demand shoots up and then falls rapidly. Hence, there is a salability risk associated with the project in case of sudden drop in demand which may adversely impact the credit profile of the company. Timely completion of the project within envisaged cost parameters and realization of envisaged benefit therefrom would be a key rating sensitivity.

Susceptibility to volatility in the raw material prices and foreign exchange rate fluctuations: The basic raw material consumed by NSL to produce yarn is raw cotton, which accounts for more than 90% of the total cost of production. The prices of raw cotton are volatile in nature and depends upon factors like area under production, yield for the year, vagaries of the monsoon, international demand-supply scenario, inventory carry forward from the previous year and minimum support price (MSP) decided by the government. Prices of raw cotton have been volatile over last couple of years, which translates into risk of inventory losses for the industry players; albeit at times it also leads to inventory gains. Collectively, these factors along with intense competition in the industry contribute to low bargaining power of yarn manufacturers and volatility in profitability.

Further, NSL is also exposed to foreign currency rate fluctuation as the company derives significant portion of its revenue from the export market (exports accounted for 73% of the total revenue in FY22). Thus, profitability margins of the company remain susceptible to any adverse movement in the foreign currency. However, the company has a policy to hedge its foreign currency exposure through forward contracts mitigating the forex exposure to an extent. As on March 31, 2022, Rs.6.95 crore of company's foreign currency exposure remained unhedged, therefore reducing the risk to minimal levels. The company has reported net foreign exchange fluctuation gain of Rs.28.35 crore in FY22 (P.Y.: Rs.15.76 crore).

Presence in fragmented, cyclical and competitive textile industry: NSL operates in a cyclical and fragmented textile industry marked by presence of many organised as well as unorganised players leading to high competition in the industry. Apart from competition, the commoditized nature of cotton yarn also limits the pricing ability of the industry players to an extent. Further, textile industry is inherently cyclical in nature and closely follows the macroeconomic business cycles. The prices of raw materials and finished goods are also determined by global demand-supply scenario, hence any shift in macroeconomic environment globally also impacts the domestic textile industry.

Industry outlook: Post first wave of Covid-19 pandemic, cotton spinners had gained momentum supported by healthy export demand. With availability of low cotton inventory and improvement in operating efficiency, majority of cotton spinners reported all time high revenue and profitability during FY22. Owning to weak demand scenario of cotton yarn primarily in the export market coupled with relatively high cotton prices in the domestic market, the spread between cotton-cotton yarn reduced significantly in 9MFY23 as compared to FY22 which in turn adversely impacted the operating profitability of Indian cotton spinners. India's cotton yarn export in terms of volume stood at 366 million (mn) kg during Apr'22-Nov'22 as compared to 936 mn kg during April'21 to Nov'21 (lower by 60% on a y-o-y basis) and 647 mn kg during April'20-Nov'20 (lower by ~43% on a y-o-y basis). With arrival of new cotton crop, the prices of cotton in the domestic market corrected significantly and currently, trading in range of 60,000-65,000 per candy. Further, the prices of cotton are expected to correct by another 5-10% in near to medium term. After witnessing a very subdued demand in 9MFY23, the demand is likely to see improvement from Q4FY23. On a long-term basis, Indian cotton spinners are expected to maintain stable demand growth and profitability supported by increasing urbanization, rising disposable income, China+1 strategy adopted by the major global retail players along with various incentives from government like Refund of Duties and Taxes on Exported Products (RoDTEP), Rebate of State and Central Taxes and Levies (RoSCTL) and Mega Integrated Textile Region and Apparel (PM MITRA) Parks etc.

Environmental, Social and Governance (ESG) assessment:

Parameter	Compliance and action by the company
Environmental	▪ The company conducts all its operations, ensuring the compliance with statutory and industrial requirements for environment protection, and conservation of natural resources to the extent possible. The facilities of the company are equipped with zero discharge facilities. Further, the facilities are accredited by certifications such as ISO 9001:2015 for Quality Management, ISO 14001:2015 for Environment Management, ISO 50001 for Energy Management and OHSAS 18001 for Occupation Health and Safety Management, SA8000 for Social Accountability among others. ▪ Despite having some access to renewable power, the reliance on conventional power continue to remain high as the operations of the company is heavily power intensive.
Social	▪ Over the years, the company has been investing in corporate social responsibility (CSR) initiative which includes construction of women's hostel, contribution for Covid-relief & vaccination drive, tree plantation, cotton and rural developments among others.
Governance	▪ The company has a balanced mix of Executive and Non-Executive Directors. The Board comprises of 6 Directors including one Woman Director. The Company has 50% Non-Executive Directors, it has an Executive Chairman, and the numbers of Independent Directors are 50% of the total number of Directors. The Independent Directors with their diverse knowledge, experience and expertise bring in their independent judgment in the deliberation and decisions of the Board.

Applicable criteria

Policy on default recognition
Financial Ratios – Non financial Sector
Liquidity Analysis of Non-financial sector entities
Rating Outlook and Credit Watch
Short Term Instruments
Cotton Textile
Manufacturing Companies
Policy on Withdrawal of Ratings

About the company

NSL, promoted by the Nolkha family of Bhilwara, is one of the leading manufacturers of cotton yarn, knitted fabrics, greige and finished woven fabrics and a Government of India-recognized export house. Established in 1992, NSL started operations with open end spinning with 384 rotors. Currently, the company has an integrated textile complex with over 3 lakh spindles, 3488 rotors, 63 knitted machines and 168 air jet weaving machines.

Brief Financials (₹ crore)	March 31, 2021 (A)	March 31, 2022 (A)	H1FY23 (UA)	9MFY23 (UA)
Total operating income	1,624	2,692	1,216	NA
PBILDT	257	652	168	NA
PAT	69	326	95	NA
Overall gearing (times)	1.71	0.79	0.60	NA
Interest coverage (times)	4.18	11.77	8.39	NA

A: Audited; UA: Un-audited; NA: Not Available

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

Rating history for the last three years: Please refer Annexure-2

Covenants of the rated instruments/facilities: Detailed explanation of the covenants of the rated instruments/facilities is given in Annexure-3

Complexity level of the various instruments rated: Annexure-4

Lender details: Annexure-5

Annexure-1: Details of instruments/facilities

Name of the Instrument	ISIN	Date of Issuance	Coupon Rate (%)	Maturity Date	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Fund-based - LT-Term Loan	-	-	-	30-09-2031	1084.54	CARE A; Stable
Fund-based-Working capital facilities	-	-	-	-	750.00	CARE A; Stable
Non-fund-based-Short Term	-	-	-	-	66.70	CARE A1

Annexure-2: Rating history for the last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating History			
		Type	Amount Outstanding (₹ crore)	Rating	Date(s) and Rating(s) assigned in 2022-2023	Date(s) and Rating(s) assigned in 2021-2022	Date(s) and Rating(s) assigned in 2020-2021	Date(s) and Rating(s) assigned in 2019-2020
1	Fund-based - LT-Term Loan	LT	1084.54	CARE A; Stable	1)CARE A; Stable (25-Jul-22)	1)CARE A; Stable (10-Jan-22) 2)CARE A; Stable (14-Jul-21)	-	-
2	Fund-based-Working capital facilities	LT	750.00	CARE A; Stable	1)CARE A; Stable (25-Jul-22)	1)CARE A; Stable (10-Jan-22) 2)CARE A; Stable (14-Jul-21)	-	-
3	Non-fund-based-Short Term	ST	66.70	CARE A1	1)CARE A1 (25-Jul-22)	1)CARE A1 (10-Jan-22) 2)CARE A1 (14-Jul-21)	-	-

Annexure-3: Detailed explanation of the covenants of the rated instruments/facilities

Name of the Instrument	Detailed Explanation
A. Financial covenants	Not applicable
B. Non-financial covenants	Not applicable

Annexure-4: Complexity level of the various instruments rated

Sr. No.	Name of the Instrument	Complexity Level
1	Fund-based - LT-Term Loan	Simple
2	Fund-based-Working capital facilities	Simple
3	Non-fund-based-Short Term	Simple

Annexure-5: Lender details

To view the lender wise details of bank facilities please click here

Note on the complexity levels of the rated instruments: CARE Ratings has classified instruments rated by it on the basis of complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careedge.in for any clarifications.

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