Nitin Spinners Limited

January 10, 2022

Ratings

Facilities/Instruments	Amount (Rs. crore)	Rating[1]	Rating Action
Long Term Bank Facilities	1,133.36	**CARE A; Stable (Single A; Outlook: Stable)**	**Reaffirmed**
Short Term Bank Facilities	54.85	**CARE A1 (A One)**	**Reaffirmed**
Total Bank Facilities	**1,188.21 (Rs. One Thousand One Hundred Eighty-Eight Crore and Twenty-One Lakhs Only)**		

Details of instruments/facilities in Annexure-1

Detailed Rationale & 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, NSL's long and established track record as an integrated textile mill having presence in cotton yarn, woven fabric and knitting along with captive thermal and solar power plants. Its reputed and diversified clientele along with moderately diversified product profile and geographical revenue stream further underpin its ratings. The ratings also favourably consider healthy growth in its total operating income (TOI) along with significant improvement in its profitability during H1FY22 (Un-audited; FY refers to the period April 01 to March 31) on a y-o-y basis aided by strong growth in export revenue. The healthy cash flow from operations generated during H1FY22 has enabled reduction in its debt level as on September 30, 2021 as compared to March 31, 2021 along with improvement in its leverage and debt coverage indicators during the period.

The ratings are, however, primarily constrained due to inherent implementation and salability risk associated with significantly large size proposed debt-funded brown-field expansion project which was not envisaged earlier. The expansion project is nearly 1.35 times its tangible net worth as on September 30, 2021. This apart the leverage of the company to remain at an elevated level as compared to earlier expectation of improvement due to drawl of fresh term debt for the 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.

Rating Sensitivities:

Positive factors - Factors that could lead to positive rating action / upgrade:

- Earning 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 - Factors that could lead to negative rating action / downgrade:

- 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

Detailed description of the key rating drivers

Key Rating Strengths

Experience of promoters in the textile industry

NSL was promoted by the Nolkha family in 1992. Mr. R. L. Nolkha, Chairman, has an experience of over four decades in the textile industry. At present, he is also the Vice Chairman of Confederation of Textile Industries (CITI) and a member of the Board of Governors of Textile Skill Development Council. Mr Dinesh Nolkha, Managing Director, has around three decades of industrial experience and handles yarn marketing, finance and general administration. He is also Chairman of Northern India Textile Research Association (NITRA) and a committee member of Rajasthan Textile Mills Association (RTMA). Mr Nitin Nolkha, Joint Managing Director, has around two decades of industrial experience, and looks after marketing of fabrics, procurement of materials and implementation of projects.

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. The company has presence in more than 60 countries globally, deriving more than half of revenue from exports. Further, NSL is continuously investing in the latest technologies, resulting in delivering quality products. Furthermore, NSL has various accreditations pertaining to quality management (ISO 9001:2015), energy management (ISO 50001), environmental management (ISO 14001: 2015) and occupational health and safety management (OHSAS 18001).

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

As a part of value addition and widening of its product range, the company has set up an integrated textile complex at Begun (District: Chittorgarh, State: Rajasthan) equipped with modern spinning, weaving, dyeing, finishing and printing facilities along with compliance with pollution control norms. NSL's plant is capable of producing wide range of yarn as per the market demand. Furthermore, the company has also set up a 10.5 MW thermal power plant and 8.5 MW rooftop solar power plant for captive consumption ensuring consistent power supply. Moreover, the company is also planning to set-up another 6 MW rooftop solar power plant over a period of next 2 years to reduce its power & fuel cost.

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 68% of the sales in FY21 and H1FY22 (FY20: 73%) 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

The customer base of the company is diversified with top ten customers accounting for only 16% of the total income of the company in FY21 (PY: 18%), with each customer having less than 5% share of the total income. NSL supplies its products to some of the renowned brands like Raymond, 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. As on December 31, 2021, the company had nearly 2.5-3 months of orders on hand.

Healthy growth in TOI along with significant improvement in its profitability during H1FY22

NSL's TOI grew by 88% on y-o-y basis and stood at Rs.1,219 crore during H1FY22 largely due to significant improvement in the average sales realization of cotton yarn and knitted fabrics amidst strong export demand. It was also aided by the lower base of H1FY21 which was impacted adversely by the first wave of Covid-19 pandemic. The company has witnessed healthy growth in its export revenue as it earned ~ 73% of its revenue from export market during H1FY22 as compared to 63% in FY21 and 54% in FY20. The sales realization of cotton yarn and knitted fabric improved by 41% and 40% respectively during H1FY22 as compared to FY21. PBILDT margin of the company also witnessed significant improvement by nearly 1,300 bps and 900 bps to 25% during H1FY22 as compared to H1FY21 and 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 operation coupled with improved profitability margin, the gross cash accruals (GCA) of NSL grew by 293% on y-o-y basis and stood at Rs.197 crore during H1FY22.

Improvement in leverage and debt coverage indicators during H1FY22; albeit expectation of marginal deterioration in future due to drawal of term debt for proposed large-size capex

The capital structure of NSL marked by overall gearing and TOL/TNW improved and stood at a moderate 1.05 times and 1.35 times respectively as on September 30, 2021 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 total debt level. Debt level of the company stood at Rs.734 crore as on September 30, 2021 as compared to Rs.962 crore as on March 31, 2021 primarily due to scheduled repayment of term debt coupled with lower utilization of working capital utilization as on even date in light of healthy cash accruals during H1FY22. With improvement in profitability, the debt coverage indicators also improved marked by PBILDT interest coverage and Total Debt/PBILDT of 11.02 times and 1.20 times respectively in H1FY22 as compared to 4.20 times and 3.72 times respectively in FY21. However, the capital structure and debt coverage indicators are again expected to deteriorate marginally in the medium term due to the planned 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 project, the company would also require additional working capital borrowing to fund its incremental working capital requirement 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. Further, the liquidity of the company is envisaged to remain adequate on account of expected healthy GCA as against relatively moderate debt repayment obligation over the next one year. Furthermore, the cash accruals are likely to remain adequate to fund its proposed capex. Moreover, its current ratio improved to 1.58 times as on September 30, 2021 as compared to 1.27 times as on March 31, 2021. The average utilization of its working capital limits stood moderate at 64% for trailing six months ended November 2021.

Key Rating Weaknesses

Implementation and saleability risk associated with large size proposed debt funded capex

NSL has planned to enhance its capacity through brownfield expansion at its existing location in Rajasthan with acquisition of land adjacent to its existing plant, as company is currently running at optimum utilization of its existing capacities. The capacity addition is also proposed to meet increasing demand, 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 is Rs.950 crore (~ 1.35 times of tangible net-worth as on September 30, 2021) which is to be funded through term loan of Rs.650 crore and remaining through internal accruals translating into project debt-equity ratio of 2.16:1 times. NSL has envisaged to complete the project in phase-wise manner over a period of next 20-24 months. Phase-I of the proposed capex is expected to commence from September 2023 (i.e. Q2FY24) and project is expected to be fully commissioned fully from FY25 onwards. As informed by the management, the financial closure of the project is yet to be achieved. The company is envisaging to avail term debt of Rs.650 crore for a door-to-door tenor of around 9 years (including implementation and moratorium period) along with expected benefits of interest subsidy. However, due to the large debt-funded expansion project and expectation of higher utilization of its working capital limits, the leverage and debt coverage indicators of the company are expected to remain at an elevated level, contrary to earlier expectation of improvement. Furthermore, 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 H1FY22 and 63% in FY21). 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. The company has reported net foreign exchange fluctuation gain of Rs.15.76 crore in FY21.

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 relatively 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.

Analytical approach: Standalone

Applicable Criteria

CARE's Criteria on assigning Outlook to Credit Ratings
CARE's Policy on Default Recognition
CARE's methodology for Short-term Instruments
CARE's methodology for Manufacturing Companies
Financial ratios – Non-Financial Sector
CARE's methodology for Cotton Textile Manufacturing
Liquidity Analysis of Non-financial sector entities

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 (Rs. crore)	FY20 (A)	FY21 (A)	H1FY22 (UA)
Total operating income	1,542.19	1,625.79	1219.19
PBILDT	203.82	258.64	306.94
PAT	23.82	68.87	147.41
Overall gearing (times)	2.11	1.71	1.05
PBIDLT Interest coverage (times)	3.67	4.20	11.02

A: Audited; UA: un-audited

Status of non-cooperation with previous CRA: Not Applicable
Any other information: NA
Rating History for last three years: Please refer Annexure-2
Covenants of rated instrument / facility: Not Applicable
Complexity level of various instruments rated for this company: Annexure 3

Annexure-1: Details of Instruments / Facilities

Name of the Instrument	ISIN	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based - LT-Term Loan	-	-	-	June 2027	678.36	CARE A; Stable
Fund-based-Working capital facilities	-	-	-	-	455.00	CARE A; Stable
Non-fund-based-Short Term	-	-	-	-	54.85	CARE A1

Annexure-2: Rating History of last three years

Sr. No.	Name of the Instrument/ Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2021-2022	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019
1	Fund-based - LT-Term Loan	LT	678.36	CARE A; Stable	1)CARE A; Stable (14-Jul-21)	-	-	-
2	Fund-based-Working capital facilities	LT	455.00	CARE A; Stable	1)CARE A; Stable (14-Jul-21)	-	-	-
3	Non-fund-based-Short Term	ST	54.85	CARE A1	1)CARE A1 (14-Jul-21)	-	-	-

* Long Term / Short Term

Annexure 3: Complexity level of various instruments rated for this company

Sr. No	Name of 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 4: Bank Lender Details for this Company

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

Note on complexity levels of the rated instrument: CARE Ratings Ltd. 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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About CARE Ratings Limited:

Established in 1993, CARE Ratings Ltd. is one of the leading credit rating agencies in India. Registered under the Securities and Exchange Board of India (SEBI), it has also been acknowledged as an External Credit Assessment Institution (ECAI) by the Reserve Bank of India (RBI). With an equitable position in the Indian capital market, CARE Ratings Limited provides a wide array of credit rating services that help corporates to raise capital and enable investors to make informed decisions backed by knowledge and assessment provided by the company.

With an established track record of rating companies over almost three decades, we follow a robust and transparent rating process that leverages our domain and analytical expertise backed by the methodologies congruent with the international best practices. CARE Ratings Limited has had a pivotal role to play in developing bank debt and capital market instruments including CPs, corporate bonds and debentures, and structured credit.

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