

Nitin Spinners Limited

July 14, 2021

Ratings

Facilities	Amount (Rs. crore)	Rating ¹	Rating Action
Long term Bank Facilities	1133.36	CARE A; Stable (Single A; Outlook: Stable)	Assigned
Short term Bank Facilities	54.85	CARE A1 (A One)	Assigned
Total Facilities	1188.21 (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) take into account the significant experience of its promoters in textile industry, NSL being a well-recognized entity with a long track record of operations in the industry and a diversified product profile. The rating also factors in the company's increasing scale of operations with healthy profitability margins, its reputed customers, low customer concentration risk and its integrated manufacturing facility with captive thermal and solar power plants. The ratings, however, remain constrained by the company's moderately leveraged capital structure partially offset by subsidized interest rates and its susceptibility to volatility in raw material prices and foreign exchange fluctuations. Ratings are further constrained by highly fragmented nature of the textile industry coupled with intense competition.

Rating Sensitivities:

Positive:

- Increase in total income above Rs.2000 Cr while maintaining PBILDT margin above 15% on a sustained basis
- Improvement in overall gearing below 1x

Negative:

- Any additional term loan resulting in increase in gearing beyond 2x
- Decline in PBILDT margin below 12%

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. The Chairman, Mr. RL Nolkha, has had an experience of over four decades in the textile industry. At present, he is also the Vice Chairman of Confederation of Textiles Industries (CITI) and a member of the Board of Governors of Textiles Skill Development Council. The Managing Director, Mr Dinesh Nolkha, has around three decades of industrial experience and handles yarn marketing, finance and general administration. He is also Chairman of Northern India Textiles Research Association (NITRA) and a committee member of Rajasthan Textiles 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.

Well-recognized entity with long track record of operations in the industry

NSL has a track record of around three decades of operating in the Indian textile industry. The company has presence in more than 60 countries globally, deriving more than half of income from exports. 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).

The company has also received many awards over the years in the area of exports. Recently, for the year 2019-2020, the company has won Gold Trophy for its superlative export performance in Cotton Yarn - Counts 51s & Above category and Silver Trophy for the second best export performance in Cotton Yarn - Counts 50s & Below category, from The Cotton Textiles Export Promotion Council (TEXPROCIL).

Diversified product profile

NSL is engaged in manufacturing of varieties of cotton yarn, knitted fabrics and finished woven fabrics. Yarn accounts for the majority of the revenue generated by the company through count ranging from 6 to 100s, registering around 68% of the sales in FY21 (PY: 73%), followed by woven and knitted fabrics.

¹Complete definition of the ratings assigned are available at www.careratings.com and other CARE publications

Increasing scale of operations with high profitability margins

The total income of the company registered a CAGR of 14.44% from FY19 to FY21, reporting a total income of Rs.1625.79 Cr in FY21 (PY: Rs.1542.19 Cr). The increase in income was due to the expansion undertaken by the company in FY19 and FY20. The company registered a PBILDT margin of 15.91% in FY21 compared to 13.22% the previous year. The PAT margin of the company has bounced back to 4.24% in FY21 from 1.54% the previous year with the increase in scale of operations.

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. Some of the renowned customers of the company are Raymond, Donear, D'Decor, Siyaram's, Welspun India in domestic market and Zara, United Colors of Benetton, H&M, Marco Polo in international market.

Integrated facility with captive thermal and solar power plant

As a part of value addition and widening its product range, the company has set up an integrated textiles complex at Tehsil Begun, District Chittorgarh, Rajasthan equipped with modern spinning, weaving, dyeing, finishing and printing facilities with the zero pollution emissions. Furthermore, the company also has set up a 10.5 MW thermal power plant and 8.5 MW rooftop solar power plant for captive consumption ensuring consistent power supply.

Key rating weaknesses**Moderately leveraged capital structure partially offset by subsidized interest rates**

The capital structure of the company stands moderately leveraged with an overall gearing of 1.71x as on March 31, 2021, which, however, was an improvement over the previous year when gearing was reported at 2.11x. The high gearing of the company is primarily due to the term loan availed by the company in FY19 and FY20 for capacity expansion. However, the PBILDT interest coverage stood comfortable at 4.20x in FY21 (PY: 3.67) owing to the interest subsidy provided to the company under the Rajasthan Investment Promotion Scheme (RIPS). The total debt-to-GCA ratio improved to 4.87x as on March 31, 2021 (PY: 8.91x) owing to the higher accruals and scheduled repayment of debt.

Susceptibility to volatility in the raw material prices and foreign exchange fluctuations

The basic raw material consumed by NSL to produce yarn is cotton, which accounted for more than 90% of the cost of total raw material purchased by the company in FY21 and FY20. Cotton prices, which are dependent on the Government policies, effect of monsoon, etc. have been highly volatile in the past few years. Furthermore, the ability to transfer the volatility in raw material prices is limited as the prices of both raw materials and finished goods are dependent upon the market conditions. NSL is exposed to foreign currency fluctuation risk as the company derives significant portion of its revenue from the export market (exports accounted for 63% of the total revenue in FY21 and 55% in FY20). 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. The company has reported net foreign exchange fluctuation gain of Rs.15.76 Cr in FY21.

Highly fragmented nature of industry coupled with intense competition

NSL operates in a cyclical and fragmented textile yarn industry marked by organised as well as unorganised players. The textile industry holds significant presence in the Indian economy, currently estimated to be over \$120 billion. The industry has around 4.5 crore workers including 35.22 lakh handloom workers all over the country. Intense competition in the industry limits the pricing abilities of the players in the industry.

Liquidity: Adequate

The liquidity profile of the company is marked by sufficient gross cash accruals in FY22 against scheduled loan repayment of Rs.114.50 crore. Unutilized cash credit of around Rs.90-100 crore provides additional liquidity. The company does not have any significant capex planned in the coming years other than minor maintenance capex. The working capital utilization stood at around 80% of the sanctioned limit for the last 12 months ended May 2021. The current ratio of the company was reported at 1.27x as on March 31, 2021. The operating cycle of the company stood elongated at 109 days in FY21 (PY: 101 days) owing to the high average inventory holding period of around three months in FY21.

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](#)

About the Company

NSL, promoted by Nolkha family, 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 textiles 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)
Total operating income	1542.19	1625.79
PBILDT	203.82	258.64
PAT	23.82	68.87
Overall gearing (times)	2.11	1.71
Interest coverage (times)	3.67	4.20

A: Audited

Status of non-cooperation with previous CRA: NA

Any other information: NA

Rating History for last three years: Please refer Annexure-2

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

Complexity level of various instruments rated for this company: Annexure 4

Annexure-1: Details of Instruments/Facilities

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

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

Annexure 4: Complexity level of various instruments rated for this company:

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

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

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About CARE Ratings:

CARE Ratings commenced operations in April 1993 and over two decades, it has established itself as one of the leading credit rating agencies in India. CARE is registered with the Securities and Exchange Board of India (SEBI) and also recognized as an External Credit Assessment Institution (ECAI) by the Reserve Bank of India (RBI). CARE Ratings is proud of its rightful place in the Indian capital market built around investor confidence. CARE Ratings provides the entire spectrum of credit rating that helps the corporates to raise capital for their various requirements and assists the investors to form an informed investment decision based on the credit risk and their own risk-return expectations. Our rating and grading service offerings leverage our domain and analytical expertise backed by the methodologies congruent with the international best practices.

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