Nitin Spinners Limited

July 05, 2023

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long-term bank facilities	1,811.68 (Reduced from 1,834.54)	CARE A; Stable	Reaffirmed
Short-term bank facilities	66.70	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 fabrics. NSL's reputed and diversified clientele along with moderately diversified product profile and geographical revenue stream further underpin its ratings. The ratings also favourably factor NSL's financial risk profile marked by relatively large scale of operation with healthy net worth base and adequate liquidity.

The ratings are, however, primarily constrained due to inherent implementation and saleability risk associated with the significantly large size on-going debt-funded brown-field expansion project, the cost of the project being marginally lower than its tangible net worth (TNW) as on March 31, 2023. Consequently, the leverage and debt coverage indicators of the company which witnessed moderation in FY23 (refers to the period from April 1 to March 31), are likely to moderate further in the near term due to drawl of term debt and expected increase in the working capital borrowings to support the enhanced scale of operation. 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 Limited (CARE Ratings) also take cognisance of de-growth in its total operating income (TOI) along with decline in its PBILDT margin in FY23 over FY22 albeit it remained largely in-line with envisaged. With reduction in the cotton prices along with expected improvement in the export demand and commencement of additional capacities, the operational performance of NSL is expected to improve from H2FY24 onwards.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

- The PBILDT margin above 15% and return on capital employed (ROCE) above 15% on a sustained basis.
- Maintaining overall gearing ratio below unity and total debt/PBILDT of around 2x on a sustained basis.
- Timely completion of its large-size project within the envisaged cost and generation of envisaged returns therefrom.

Negative factors

- Decline in PBILDT margin below 13% on a sustained basis.
- Increase in the overall gearing ratio beyond 1.5x and total debt/PBILDT beyond 3.5x 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

Outlook: Stable

Stable outlook reflects that the rated entity is likely to maintain its market position and operating efficiency, which coupled with expected improvement in the demand scenario shall enable it to sustain its business risk profile over the medium term.

Detailed description of the key rating drivers:

Key strengths

Experience of promoters in the textile industry: NSL was promoted by the Nolkha family in 1992. 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. 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 the Chairman of NITRA. 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 over three decades of operations 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 307,000 spindles and 3,488 rotors producing 75,000 tons of yarn per annum. It also has 77 knitting machines with a capacity to produce nearly 10,000 tons of knitted fabrics per annum, 222 looms and dyeing, printing, and finishing capacities to make around 400 lakh metres of finished fabrics per annum at its two plants located in Rajasthan. The company also has 8.5-MW rooftop solar power plant for captive power consumption which helps in reducing power cost to some extent.

Moderately diversified product profile with large share of revenue contributed by cotton yarn: NSL is engaged in the 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 66% of the sales in FY23 (FY22: 70%) followed by woven and knitted fabrics. Integrated nature of operations supports the operating profitability margins of the company. 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 10 customers accounting for 20% of the total income of the company in FY23 (FY22: 25%). NSL supplies its products to some of the renowned brands like Raymond, Arvind, Donear, D'Decor, Siyaram's, Welspun, etc, in the 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 the revenue from exports. During FY23, the company earned nearly 56% of its revenue from the export market (FY22: 70%). The share of export in the total revenue was declined during FY23 largely due to lower export demand.

Large scale of operation with expectation of growth in FY24 along with improvement in profitability: The revenue of NSL grew at a compounded annual growth rate (CAGR) of around 16% during FY18-FY23 albeit it registered de-growth of around 11% in FY23 mainly due to lower sales volume. Capacity utilisation for cotton yarn declined from 96% in FY22 to 82% in FY23, as the company had planned production cut in Q2FY23 and Q3FY23 to avoid losses amidst disparity between international and domestic cotton prices. Due to its long-standing relationship with the customers along with quality and diversified product portfolio, NSL has consistently operated its installed capacity at above 80%. The company had reported very high profitability margins in FY22 on account of elevated cotton yarn spreads of around ₹180/kg which normalised to ₹115/kg in FY23. The PBILDT margin declined from 24% in FY22 to 12% in FY23 with normalisation of cotton yarn spread along with relatively lower capacity utilisation.
After recording a peak in FY23, domestic cotton price corrected gradually with arrival of new crop which has reduced gap between international and domestic cotton prices and enhanced competitiveness of domestic spinners. The TOI of the company is expected to grow by 20% in FY24, driven by nearly 25% rise in sales volume, while average sales realisation is expected to decline by around 5% with decline in the cotton price. The company is in the process of expansion in its current capacity. Capacity addition of cotton yarn is expected to be operationalised in a phased manner by October 2023. Consequently, capacity utilisation is expected to increase in FY24 along with improvement in PBILDT margin. As per the CARE Ratings' estimates, the revenue of the company is expected to remain at around ₹2,800-3,000 crore and PBILDT at around ₹380-400 crore in FY24. On a sustainable basis, the PBILDT margin of the company is expected to remain in range of 13%-14% as compared to the earlier envisaged level of over 15%.

Liquidity: Adequate

The liquidity of NSL remains adequate backed by healthy cash accruals and cash flow from operations apart from cushion in the form of undrawn working capital limits. The company is envisaged to earn healthy cash accruals during FY24 which is expected to be adequate for meeting its capex funding requirements apart from its term debt repayment obligation of around ₹105 crore during the year. The current ratio continued to remain healthy at 1.50x as on March 31, 2023. The average utilisation of its working capital limits stood moderate at 48% for trailing 12 months ended April 2023.

Key weaknesses

Increased debt level leading to moderation in the capital structure and debt-coverage indicators which are further expected to moderate: As on March 31, 2023, the capital structure of NSL marked by overall gearing and total outsider liabilities (TOL)/tangible net worth (TNW) moderated as envisaged earlier and stood at 0.95x (PY: 0.79x) and 1.07x (PY: 0.94x), respectively, due to drawl of term debt for on-going large-size debt-funded expansion project and increase in working capital utilisation with deployment of internal accruals for capex. The debt level of the company stood at ₹980 crore as on March 31, 2023, which increased from ₹689 crore as on March 31, 2022. With moderation in profitability and cash accruals, the debt coverage indicators also moderated marked by PBILDT interest coverage and total debt to PBILDT of 7.88x and 3.30x, respectively, in FY23 as compared with 11.77x and 1.06x, respectively, in FY22. Furthermore, post commissioning of expansion project, the company would also require additional working capital borrowing to fund its incremental revenue which coupled with drawl of remaining term debt may further lead to some moderation in the capital structure and debt coverage indicators. The total debt to PBILDT is expected to remain above 3.50x for FY24, while it is expected to improve to below 3.00x in FY25.

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. 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 ₹955 crore (around 0.93x of TNW as on March 31, 2023) which is being funded through term loan of ₹655 crore and remaining through internal accruals. The company has incurred cost of nearly ₹600 crore by May 15, 2023, towards the aforesaid project funded through term loans of ₹360 crore and remaining through internal accruals. Capacity addition of cotton yarn is expected to be operationalised in a phased manner by October 2023, while expansion in downstream capacity commenced production in Q1FY24. The term loan for the project 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). CARE Ratings notes that 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 the 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, the 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 saleability 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 realisation 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 nearly 80% 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 the 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. Furthermore, NSL is also exposed to the foreign currency rate fluctuation as the company derives significant portion of its revenue from the export market (exports accounted for 56% of the total revenue in FY23). 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, 2023, ₹3.49 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 ₹21.67 crore in FY23 (FY22: ₹28.35 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 commoditised nature of cotton yarn also limits the pricing ability of the industry players to an extent. Furthermore, the 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 the 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. However, owing to weak demand scenario of cotton yarn primarily in the export market coupled with relatively high cotton prices in the domestic market, the cotton yarn spread reduced significantly in FY23 as compared with FY22, which in turn adversely impacted the operating profitability of Indian cotton spinners. India's cotton yarn export in terms of volume stood at 574 million (mn) kg during FY23 as compared with 1,389 mn kg during FY22 (lower by 59% on a y-o-y basis) and 1,012 mn kg during FY21. With arrival of new cotton crops, the prices of cotton in the domestic market corrected significantly and currently, trading in range of 55,000-60,000 per candy. After witnessing a very subdued demand in FY23, the demand is likely to see improvement from H2FY24. On a long-term basis, Indian cotton spinners are expected to maintain stable demand and profitability supported by increasing urbanisation, 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.

Environment, social, and governance (ESG) risks

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. Furthermore, 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 continues to remain high as the operations of the company are 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-19 relief and 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 six 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 and industry

Industry classification

Macro Economic Indicator	Sector	Industry	Basic Industry
Consumer Discretionary	Textiles	Textiles & Apparels	Other Textile Products

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-recognised 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, 77 knitted machines and 222 air jet weaving machines.

Brief Financials (₹ crore)	March 31, 2022 (A)	March 31, 2023 (A)
Total operating income	2,692	2,407
PBILDT	652	297
PAT	326	165
Overall gearing (times)	0.79	0.95
Interest coverage (times)	11.77	7.88

A: Audited; Note: 'the above results are latest financial results available'

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

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: Annexure-4

Lender details: Annexure-5

Annexure-1: Details of instruments/facilities

Name of the Instrument	ISIN	Date of Issuance (DD-MM-YYYY)	Coupon Rate (%)	Maturity Date (DD-MM-YYYY)	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Fund-based - LT-Term Loan	-	-	-	30-09-2031	1061.68	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 2023-2024	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
1	Fund-based - LT-Term Loan	LT	1061.68	CARE A; Stable	-	1)CARE A; Stable (07-Feb-23) 2)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 (07-Feb-23) 2)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 (07-Feb-23) 2)CARE A1 (25-Jul-22)	1)CARE A1 (10-Jan-22) 2)CARE A1 (14-Jul-21)	-

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

Established in 1993, CARE Ratings is one of the leading credit rating agencies in India. Registered under the Securities and Exchange Board of India, it has been acknowledged as an External Credit Assessment Institution by the RBI. With an equitable position in the Indian capital market, CARE Ratings provides a wide array of credit rating services that help corporates raise capital and enable investors to make informed decisions. With an established track record of rating companies over almost three decades, CARE Ratings follows a robust and transparent rating process that leverages its domain and analytical expertise, backed by the methodologies congruent with the international best practices. CARE Ratings has played a pivotal role in developing bank debt and capital market instruments, including commercial papers, corporate bonds and debentures, and structured credit.

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