Nitin Spinners Limited

July 05, 2024

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long-term bank facilities	1,706.04 (Reduced from 1,811.68)	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

Ratings assigned to bank facilities of Nitin Spinners Limited (NSL) continue to derive strength from significant experience of its promoters in the textile industry and 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, moderately diversified product profile and geographical revenue stream further underpin its ratings. Ratings also favourably factor NSL's financial risk profile marked by relatively large scale of operations with healthy net worth base and adequate liquidity.

However, ratings are tempered by moderation in leverage and debt coverage indicators of the company in FY24 (refers to April 1 to March 31) due to drawl of term debt associated with significantly large-size debt-funded brown-field expansion project and increase in the working capital borrowings to support the enhanced scale of operations. Ratings also 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: Factors likely to lead to rating actions

Positive factors

- The profit before interest, lease rentals, depreciation and taxation (PBILDT) margin above 15% and return on capital employed (ROCE) above 15% on a sustained basis.
- Improving overall gearing ratio below unity and total debt/PBILDT of around 2x on a sustained basis.

Negative factors

- Declining PBILDT margin below 13% on a sustained basis.
- Increasing overall gearing ratio beyond 1.5x and total debt/PBILDT beyond 3.5x on a sustained basis.

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 key rating drivers:

Key strengths

Experienced promoters in the textile industry

NSL was promoted by the Nolkha family in 1992. Late R. L. Nolkha was first-generation entrepreneur and presently, his sons are looking after the operations of the company. 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.

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 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 434,832 spindles and 5,864 rotors producing 110,000 tons of yarn per annum. It also has 77 knitting machines with a capacity to produce nearly 11,000 tons of knitted fabrics per annum, 222 looms and dyeing, printing, and finishing

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

capacities to make around 400 lakh metres of finished fabrics per annum at its two plants in Rajasthan. The company also has 18.8-MW 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 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 70% of sales in FY24 (PY: 66%), followed by woven fabrics (20%) and knitted fabrics (5%). 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 company's customer base is diversified with top 10 customers accounting for 17% of its total income in FY24 (P.Y.: 20%). NSL supplies its products to some of the renowned brands such as Raymond, Arvind, Donear, D'Decor, Siyaram's, Welspun, and others, in domestic market and Zara, United Colors of Benetton, Hennes & Mauritz (H&M), and 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. In FY24, the company earned nearly 59% of its revenue from the export market (P.Y.: 56%).

Large scale of operations with expectation of growth in FY25 and improvement in profitability
NSL's revenue grew at a compounded annual growth rate (CAGR) of around 15% in FY19-24 and grew by 21% in FY24 over FY23. Growth in TOI in FY24 was supported by volume growth of over 40% which was partially offset by decline in average sales realisation by around 20% backed by correction in cotton prices. Due to its long-standing relationship with the customers and quality and diversified product portfolio, NSL has consistently operated its installed capacity at above 80%. NSL could ramp-up production from additional capacities thereby improving capacity utilisation in FY24 over FY23. Export demand improved supported by increase in competitiveness of domestic spinners with correction of domestic cotton prices. However, cotton yarn spread declined in FY24 by around 9% over FY23 due to continued muted demand for textile products in USA and Europe. Despite decline in cotton yarn spread, PBILDT margin stood at 12.98% in FY24 (PY: 12.34%) supported by correction in cotton prices and ramp-up in additional capacities of cotton yarn and woven fabrics. With ramp-up in capacity utilisation on q-o-q basis, PBILDT margin improved and stood at around 14.5% in Q4FY24. CARE Ratings expects the company's revenue to remain at around ₹3,200 crore and PBILDT at around ₹450-470 crore in FY25.

Liquidity: Adequate

NSL's liquidity 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 in FY25 which is expected to be adequate for meeting its capex funding requirements apart from its term debt repayment obligation of around ₹145 crore during the year. The current ratio continued to remain healthy at 1.54x as on March 31, 2024. The average utilisation of its working capital limits stood at 66% for trailing 12 months ended March 2024.

Key weaknesses

Moderation in the capital structure and debt-coverage indicators
As on March 31, 2024, NSL's capital structure marked by overall gearing moderated as envisaged earlier and stood at 1.17x (PY: 0.95x) due to drawl of term debt for large-size debt-funded expansion project and increase in working capital borrowings to support the enhanced scale of operations. The company's debt level stood at ₹1,339 crore as on March 31, 2024 (PY: ₹980 crore). With increase in debt level, debt coverage indicators also moderated marked by total debt to PBILDT of 3.55x in FY24 (FY23: 3.30x). The moderation in capital structure and debt coverage indicators in FY24 is followed by moderation witnessed in FY23 though the same remained largely in-line with envisaged. With expected increase in profitability and cash accruals supported by commencement of additional capacities along with scheduled repayment of term debt and absence of major debt-funded capex plan, debt coverage indicators are expected to gradually improve in medium term. The total debt to PBILDT is expected to remain at around 2.50x for FY25.

Susceptibility to volatility in 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 60-70% of the total cost of production. The raw cotton prices are volatile in nature and depends upon factors such as 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. Raw cotton prices have been volatile over the last couple of years, which translates into risk of inventory losses for the industry players; though at times it also leads to inventory gains. Collectively,

these factors and intense competition in the industry contribute to low bargaining power of yarn manufacturers and volatility in profitability. 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 59% of the total revenue in FY24). Thus, the company's profitability margins 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, 2024, ₹7.17 crore of company's foreign currency exposure remained unhedged, therefore reducing the risk to minimal levels. The company reported net foreign exchange fluctuation gain of ₹24.54 crore in FY24 (FY23: ₹21.67 crore).

Presence in fragmented, cyclical, and competitive textile industry

NSL operates in a cyclical and fragmented textile industry marked by presence of many organised and 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. The textile industry is inherently cyclical in nature and closely follows the macroeconomic business cycles. The raw material prices 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

With availability of low cotton inventory and improvement in operating efficiency, the majority of cotton spinners reported all-time high revenue and profitability in FY22. However, owing to weak demand scenario of cotton yarn primarily in the export market and relatively high cotton prices in the domestic market, the cotton yarn spread reduced significantly in FY23 as compared to FY22, which in turn adversely impacted the operating profitability of Indian cotton spinners. With correction in cotton prices and subsequent increase in competitiveness of Indian spinners in global market, India's cotton yarn export recovered in FY24. India's cotton yarn export in terms of volume stood at 1,216 million (mn) kg in FY24 as compared to 664 mn kg in FY23 and 1,389 mn kg in FY22. Cotton prices in the domestic market are currently trading at around ₹58,000 per candy (around 356 Kg). After recovering demand in FY24, the demand is likely to see improvement in FY25 backed by continued strong export demand and demand from end-user industries in domestic market. 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, free trade agreements (FTAs) with key export markets, and various incentives from government such as 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 among others.

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 company's facilities are equipped with zero discharge facilities. 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, and SA8000 for Social Accountability among others. ▪ Despite having 18.8 MW of renewable solar 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 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

Definition of Default
Liquidity Analysis of Non-financial sector entities
Rating Outlook and Rating Watch
Manufacturing Companies
Financial Ratios – Non financial Sector
Cotton Textile
Short Term Instruments

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 four lakh spindles, 5,864 rotors, 77 knitted machines, 222 air jet weaving machines, and 264 air jet spinning machines.

Brief Financials (₹ crore)	March 31, 2023 (A)	March 31, 2024 (A)
Total operating income	2,407	2,906
PBILDT	297	377
PAT	165	132
Overall gearing (times)	0.95	1.17
Interest coverage (times)	7.88	4.53

A: Audited; Note: 'these are latest available financial results'

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

Rating history for last three years: Annexure-2

Covenants of rated instrument / facility: 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	-	-	-	31-09-2031	956.04	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 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 2024-2025	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
1	Fund-based - LT-Term loan	LT	956.04	CARE A; Stable	-	1)CARE A; Stable (05-Jul-23)	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 (05-Jul-23)	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)

Sr. No.	Name of the Instrument/ Bank Facilities	Current Ratings			Rating History			
		Type	Amount Outstanding (₹ crore)	Rating	Date(s) and Rating(s) assigned in 2024-2025	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
3	Non-fund-based-Short term	ST	66.70	CARE A1	-	1)CARE A1 (05-Jul-23)	1)CARE A1 (07-Feb-23) 2)CARE A1 (25-Jul-22)	1)CARE A1 (10-Jan-22) 2)CARE A1 (14-Jul-21)

LT: Long term; ST: Short term

Annexure-3: Detailed explanation of covenants of rated instruments/facilities: Not applicable

Annexure-4: Complexity level of 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 complexity levels of 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:

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