

NITIN SPINNERS LIMITED

Brickwork Ratings reaffirms ratings with a change in the outlook from Stable to Negative for long-term Bank Loan Facilities and reaffirms ratings for the short-term Bank Loan Facilities of Nitin Spinners Limited.

Particulars

Facility**	Amount (Rs in Crs)		Tenure	Rating*	
	Previous	Present		Previous (March,2020)	Present
Fund Based	1253.98	1223.58	Long Term	BWR A (Stable)	BWR A (Negative) Reaffirmation
Non Fund Based	42.25	42.25	Short Term	BWR A1	BWR A1 Reaffirmation
Total	1296.23	1265.83	Rupees One Thousand Two Hundred Sixty Five Crores and Eighty Three Lakh Only		

* Please refer to the BWR website www.brickworkratings.com/ for the definition of the ratings.

** Details of bank facilities are mentioned in Annexure-I.

RATING ACTION / OUTLOOK

Brickwork Ratings (BWR) has reaffirmed the long-term rating at BWR A with a change in the outlook from Stable to Negative, and the short-term rating was reaffirmed at BWR A1 for the bank loan facilities of Nitin Spinners Limited (NSL or the company).

The rating reaffirmation continues to factor in the extensive experience of the management, reputed clientele, adequate liquidity position and cash accruals to meet debt obligations, the timely completion of the second round of capacity expansion and a moderate conversion cycle. However, the ratings are constrained by a high gearing, led by a substantial debt intake on account of capex at Begun in Chittorgarh; pressure on the EBITDA due to weaker realisations and softer demand due to the outbreak of Covid-19. BWR notes the company's resilient performance in Q1FY21, marked by a stable EBITDA margin of 11.09%.



The change in the outlook from Stable to Negative reflects the risk of a delay in deleveraging on account of demand uncertainty emanating due to Covid-19, impacting NSL's capacity utilisations and the EBITDA over FY21.

KEY RATING DRIVERS

BWR has principally relied on audited financials upto FY20, Q1Y21 results, projections upto FY22, publicly available information and information/clarification provided by the management.

Credit Strengths :

- **Improved Scale of operations** :The company's total operating income (TOI) has consistently improved y-o-y, with a compounded annual growth rate (CAGR) of 15.50 % for the last 3 years. The TOI improved from Rs 1242.51 Cr in FY19 to Rs 1438.06 Crs in FY20. NSL registered a TOI of Rs. 219.15 Crs, against Rs 283.13 Crs in Q1FY20. This decline in the Q1FY21 sales and profit is mainly due to the Covid-19 situation. The company has an orderbook of Rs 206 Crs, providing revenue visibility for Q2FY21.
- **Interest subsidy and moratorium** : NSL continues to benefit from the interest subsidy (6.% on Rs 455 Crs new term loans) that the company receives under the Rajasthan Investment Promotion Scheme (RIPS). It also has approximately 37% of the total term borrowings under the Technology Upgradation Fund Scheme (TUFS), as well as RIPS, which enjoys a 4% to 6% subsidy. NSL has availed a moratorium of 6 months from March 2020 for the payment of term loans and interest to shore up liquidity. NSL's interest service coverage ratio (ISCR) continues to remain comfortable because of these subsidies despite the pressure on earnings. The company's ISCR was at 3.06x in FY20, against 6.17x in FY19, and the debt service coverage ratio (DSCR) is at 1.43x in FY20 against 1.84x in FY19.
- **Completion of expansion programme** : The company has completed the second round of the expansion programme of the spinning and weaving section, adding 76992 spindles, 552 rotors and 168 weaving machines for which commercial operations commenced in July 2019. The expansion programme for the finished fabric section commenced operations in January 2020. The aforesaid capex was likely to contribute approx 40% additional EBITDA from FY20.
- **Current ratio and cash conversion cycle** : The company's current ratio deteriorated from 1.43x in FY19 to 1.15x in FY20, but is still at a comfortable level. The company's operating cycle was at a reasonable level of 94 days in FY20, against 95 days in FY19. NSL had low receivables days, of only 35 days, in FY20.
- **Experienced promoters and established company** : NSL is a well-established player



in the textile industry (especially the cotton yarn segment), and its promoters are well-experienced; Mr. R.L Nolkha has an experience of more than four decades in the cotton textile industry, and he is also supported by his sons Mr. Dinesh Nolkha and Mr. Nitin Nolkha, who have an overall experience of more than two decades in the industry. The company has well-established relations with both domestic and international customers.

Credit Concerns :

- **Margin pressure :** NSL's net profit margin declined from 5.16% in FY19 to 1.66% in FY20, and the operating profit margin declined from 14.35% in FY19 to 11.81% in FY20. This decline in operating margins is due to lower sales realisations and higher raw material (cotton) prices, while the net profit was burdened with an additional depreciation of Rs 26.06 Crs in FY20 due to expansion. The company's Q1FY21 net profit margins were at -(4.17)%, but are expected to improve Q2FY21 onwards.
- **Price volatility risk and competition :** The major raw material used in the manufacturing is cotton, a highly volatile commodity, and its prices are influenced by factors such as global demand-supply imbalance, agro-climatic conditions and government intervention. Product prices are also impacted by competition from domestic and international peers.
- **Increased leverage position :** NSL's net debt to EBITDA stood at 6.13x in FY20, against 4.83x in FY19. NSL's gearing (total debt/TNW) increased from 1.08x in FY18 to 1.78x in FY19 and further to 2.11x in FY20 due to the addition of the term loan debt for setting-up a new plant, along with the increase in working capital requirements. The gearing is expected to remain high for FY21-22 until the new unit generates commensurate EBITDA to bring down the same.

ANALYTICAL APPROACH AND APPLICABLE RATING CRITERIA

BWR has factored in the standalone business parameters and financial risk profile of the trust to arrive at the rating. Reference may be made to the detailed Rating Criteria hyperlinked below (hyperlinks provided at the end of this rationale).

RATING SENSITIVITIES

Positive: The outlook may be revised to Stable if the company ramps-up its overall capacity utilisation and achieves deleveraging.



Negative: BWR may revise the ratings downwards if NSL achieves notably lower revenue and EBITDA against projections, and the key factors, such as the gearing, liquidity and debt protection metrics of the company, deteriorate.

LIQUIDITY POSITION (ADEQUATE) :

NSL had cash accruals (PAT+Dep) of Rs 104.52 Crs (Rs 118.75 Crs in FY19) in FY20, against a CPLTD of Rs 56.31 Crs. NSL had accruals (PAT+Dep) of Rs 14.01 Crs (Rs 24.41 Crs Q1FY20) in Q1FY21, but these were still adequate to meet its repayment obligations. The company has availed a moratorium period until September 2020, easing the liquidity of the company. The company has no capex plans as of now. The company's working capital utilisation is below 75%, providing some liquidity cushion.

ABOUT THE COMPANY

Nitin Spinners Ltd. (NSL) was incorporated in 1993 at Bhilwara, Rajasthan. It is a well-established player in the cotton yarn segment, an ISO 9001:2008 certified company and a Government of India recognised export house. It is a listed entity on the NSE and BSE.

The company has completed the expansion programme at a project cost of Rs 675 Cr, funded by debt of Rs 475 Cr and a promoters' contribution of Rs 200 Cr. The company has a present capacity of 300048 spindles with a production capacity of 63929 MTPA and 3488 rotors with production capacity of 10416 MTPA.

The company is promoted by Mr. R.L Nolkha, who has an experience of more than four decades in the cotton textile industry. He is supported by his sons Mr. Dinesh Nolkha and Mr. Nitin Nolkha. The promoters have also hired qualified professionals to manage different aspects of the business. The board also includes three independent directors to ensure corporate governance in the company.

KEY FINANCIAL INDICATORS

Key Parameters	Units	FY19	FY20
Result Type		Audited	Audited
Total Operating Income	Rs.in Crs	1242.51	1438.06
OPBDIT	Rs.in Crs	178.31	169.77
PAT	Rs.in Crs	64.11	23.82
Tangible Net Worth (TNW)	Rs.in Crs	482.22	492.50
Total Debt/TNW	Times	1.78	2.11
Current Ratio	Times	1.43	1.15

KEY COVENANTS OF THE INSTRUMENT/FACILITY RATED : NA

NON-COOPERATION WITH PREVIOUS RATING AGENCY: NA

RATING HISTORY FOR THE LAST 3 YEARS (INCLUDING WITHDRAWN/SUSPENDED)

Facilities Availed	Current Rating (Aug 2020)			(Rs. in Crs)							
	Tenure	Amount (In Crs)	Rating	.2020		2019		.2018		2017	
Bank Loan Fund Based (FB)	Long Term	1223.58	BWR A (Negative) Reaffirmation	02.03.2020		23.07.2019		19.07.2018		8.08.2017	
				FB 1253.98	BWR A- (Stable) Reaffirmation	FB 1253.98	BWR A ((Positive) Reaffirmation	FB 1086.23	BWR A (Positive) Reaffirmation	FB 686.89	BWR A (Stable) Upgrade
										24.01.2017	
										FB 676.93	BWR A- (Positive) Reaffirmation
Bank Loan Fund Based (NFB)	Short Term	42.25	BWr A1 Reaffirmation	02.03.2020		23.07.2019		19.07.2018		8.08.2017	
				N FB 42.25	BWR A1 Reaffirmation	N FB 42.25	BWR A1 Reaffirmation	N FB 25.00	BWR A1 Reaffirmation	NFB 25.00	BWR A1 Upgrade
										24.01.2017	
										FB 25.00	BWR A2+ (Stable) Reaffirmation
Total		1265.83	Rupees One Thousand Sixty Five Crores and Eighty Three Lakh Only								

COMPLEXITY LEVELS OF THE INSTRUMENTS

For more information, visit www.brickworkratings.com/download/ComplexityLevels.pdf

Hyperlink/Reference to applicable Criteria

- **General Criteria**
- **Approach to Financial Ratios**
- **Manufacturing Companies**
- **Short Term Debt**

Analytical Contacts	Investor and Media Relations
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Nitin Spinners Limited - Annexure 1

Details of Bank Facilities rated by BWR

In Crs

Name of the Bank	Term Loan	FBWC	LC/BG	CEL	Total
PNB	302.91	151.00	19.00	3.00	492.04
OBC	133.61	86.00	9.25	4.30	237.61
SBI	78.01	128.00	6.00	2.00	221.20
BOB	141.45	50.00	3.00	2.50	199.58
UBI	100.00	40.00	5.00	0.80	145.80
	755.98	455.00	42.25	12.60	1265.83

Total Rupees One Thousand Two Hundred Sixty Five Crores and Eighty Three Lakh Only



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