

Previous Rating: Buy

Current Rating: Buy

Capex to drive future growth

| | |
|---------------------------|----------------------------|
| CMP (Rs) | 94 |
| Target Price(Rs) | 160 |
| Upside (%) | 70% |
| Prev. Target (Rs) | 166 |
| Share Holding (%) | |
| Promoter | 53.6 |
| Public | 46.4 |
| Others | 0.0 |
| Total | 100.0 |
| Avg Vol (6m) (000) | 186.8 |
| FV | 10 |
| Beta | 1.2 |
| Mcap (Rs Mn) | 5,441 |
| 52 week H/L | 142/92 |
| Bloomberg/Reuters | NSPL IN / NISP.BO |
| Group | B/ S&P BSE Small Cap |
| Sensex/Nifty | 35557/ 10806 |
| ABS (%) | Sensex Nitin |
| 3 M | 2.3 (12.3) |
| 1 Yr | 17.7 (28.8) |

4QFY18 result highlights

Revenue: Nitin Spinners (Nitin) reported flat revenues of Rs 2,865 mn for 4QFY18

EBITDA: EBITDA grew 12.8% YoY and 10% QoQ to Rs 420 mn. EBITDA margin improved to 14.6% from 13% in 4QFY17 and 13.3% in 3QFY18.

PAT: Higher Depreciation provision (up 14.3%), finance cost (up 9.7%) and Taxation (up 100%) YoY impacted the net profit which declined 7.1% YoY and 13% QoQ. The company's equity capital stands at Rs 555.52 mn post QIP and preferential allotment .

FY18 result highlights

Revenue: Company reported 22.7% topline growth to Rs 11,452.5 mn for FY18.

EBITDA: EBITDA grew 16.4% to Rs1,549 mn, while higher raw material and other cost to sales ratio resulted in 80 bps decline in EBITDA margin to 13.5%

PAT: Higher deprecation provision (up 34.9%), Interest costs (up 32.9%) and taxation (up 88%) impacted the net profit which declined by 8.3% to Rs 524 mn . The company has accounted prev. year tax income of Rs 51.4 mn in 3QFY18. The company has declared 12% dividend.

Outlook and Valuation

The company has embarked Rs 6.5 bn capex over period of 12-18 months, which will be funded to the extent of Rs 4.5 bn through debt. The capacity will be operational by 1QFY20, which will bring volume and value growth from 2HFY20. Currently the company is operating at over 90% and will have no production uptick till new capacity comes up. However this period will have higher depreciation and finance costs weighing its pressure on bottomline. We have trim down our FY19 estimates and have introduce FY20 numbers (see page no 3). Considering the strong volume growth at premium product mix from FY20, we value the company at 11x FY20E EPS of Rs 14.5 to arrive at our target price of Rs 160 (earlier Rs166) and maintain "Buy".

| Particulars | Revenue (Rs mn) | EBITDA margin (%) | PAT (Rs mn) | EPS | PE (x) | RoCE(%) | RoE(%) |
|-------------|-----------------|-------------------|-------------|------|--------|---------|--------|
| FY16 | 7,669 | 17.9% | 442 | 9.6 | 9.8 | 17.8 | 23.7 |
| FY17 | 9,334 | 14.3% | 572 | 12.5 | 7.5 | 13.5 | 24.8 |
| FY18 | 11,452 | 13.5% | 524 | 9.4 | 10.0 | 10.9 | 15.6 |
| FY19E | 12,722 | 15.2% | 543 | 9.8 | 9.6 | 9.7 | 12.3 |
| FY20E | 15,424 | 16.2% | 807 | 14.5 | 6.5 | 11.5 | 16.0 |

Quarterly Performance

| INR in Mn | 4QFY18 | 4QFY17 | YoY (%) | 3QFY18 | QoQ (%) | FY18 | FY17 | YoY (%) |
|------------------------|--------|--------|---------|--------|---------|--------|-------|---------|
| Net Sales | 2,865 | 2,852 | 0.4 | 2,871 | (0.2) | 11,452 | 9,334 | 22.7 |
| Other operating income | - | - | - | - | | | - | |
| Total Revenue | 2,865 | 2,852 | 0.4 | 2,871 | (0.2) | 11,452 | 9,334 | 22.7 |
| Raw Material | 1,756 | 1,839 | (4.5) | 1,816 | (3.3) | 7,276 | 5,890 | 23.5 |
| Manufacturing Expenses | 538 | 499 | 7.7 | 524 | 2.7 | 2,021 | 1,591 | 27.1 |
| Employee Cost | 152 | 142 | 6.9 | 150 | 0.8 | 607 | 522 | 16.3 |
| Total Cost | 2,445 | 2,480 | (1.4) | 2,490 | (1.8) | 9,903 | 8,003 | 23.8 |
| EBITDA | 420 | 372 | 12.8 | 381 | 10.0 | 1,549 | 1,331 | 16.4 |
| Depreciation | 136 | 119 | 14.3 | 143 | (4.9) | 562 | 417 | 34.9 |
| EBIT | 284 | 253 | 12.2 | 239 | 18.9 | 987 | 915 | 7.9 |
| Other Income | 4 | 2 | 171.8 | 8 | (46.4) | 23 | 8 | 187.4 |
| Interest | 70 | 64 | 9.7 | 71 | (1.2) | 295 | 222 | 32.9 |
| PBT before extraord | 219 | 191 | | 176 | | 714 | | |
| extra ord | - | - | | 51 | | 51 | | |
| PBT | 219 | 191 | 14.4 | 228 | (4.1) | 766 | 700 | 9.4 |
| Tax | 73 | 34 | 113.0 | 9 | 718.6 | 242 | 129 | 88.0 |
| PAT | 146 | 157 | (7.1) | 168 | (13.0) | 524 | 572 | (8.3) |
| EPS | 2.6 | 3.4 | (23.3) | 3.0 | (13.5) | 9.4 | 12.5 | (24.4) |
| | | | | | | | | |
| Number of shares O/s | 55.55 | 45.83 | | 55.22 | | 55.55 | 45.83 | |

- For full year, the company reported 22.7% rise in net sales to Rs 11,452 million
- Higher raw material costs resulted into lower EBITDA margin at 13.5% Vs 14.3% in FY17
- Higher depreciation costs, up 34.9% and and finance cost, up 32.9% resulted into 9.4% rise in PBT while higher tax outgo, up 88% (excluding previous year tax income of Rs 51 mn), effective tax rate of 31.6% resulted into 8.3% decline in net profit to Rs 524 crore.
- During the year the company has raised equity capital by issue of QIP - 9385765 equity shares @ Rs 115 and preferential allotment – 332000 @ Rs 120.5, to Rs 555.52 mn.
- EPS for the reported quarter and full year is post diluted equity after QIP and preferential allotment.

- Change in FY19 estimates and introducing FY20 estimates

| Particulars | FY19 Old | FY19 New | % chg | FY20 |
|-------------|----------|----------|--------|--------|
| Sales | 12,397 | 12,722 | 2.6% | 15,424 |
| EBITDAM (%) | 16.4% | 15.2% | | 16.2% |
| PAT | 778 | 543 | -30.2% | 807 |
| EPS(Rs) | 13.8 | 9.8 | -29.1% | 14.5 |

The company is operating on 92% cap utilization and next year it will be 100%. The new capacities are coming up on stream from Q1FY20. Hence it is expected that FY19 would be lenient year with heavy capex and higher borrowing pressurizing net profit. Hence we are revising our FY19 estimates downward.

We are introducing FY20 estimates. The new capacities will come on stream in Q1FY20, which will drive volume growth with premium product mix (value added yarn and fabric). Accordingly we expect revenues CAGR of 18.2% (FY17-20E) and PAT CAGR of 12.2% over the same period.

Key risk to our estimates:

1. Lower than expected realization
2. Higher cotton prices
3. Higher P&F costs
4. Delay in project execution and commencement of operation at new facility

| Financial Summary | | | | | | | | | | | |
|---------------------------------|--------------|----------------|----------------|----------------|----------------|----------------------------|--------------|--------------|---------------|---------------|---------------|
| Income statement (Rs mn) | FY16 | FY17 | FY18E | FY19E | FY20E | Balance Sheet (Rs mn) | FY16 | FY17 | FY18E | FY19E | FY20E |
| Total revenues | 7,669 | 9,334 | 11,452 | 12,722 | 15,424 | Share Capital | 458 | 458 | 556 | 556 | 556 |
| % growth | 24.4% | 21.7% | 22.7% | 11.1% | 21.2% | Pref Share Capital | - | - | - | - | - |
| Operating expenses | (6,298) | (8,003) | (9,903) | (10,793) | (12,924) | Reserves & Surplus | 1,598 | 2,103 | 3,608 | 4,107 | 4,850 |
| EBITDA | 1370 | 1,331 | 1,549 | 1,928 | 2,500 | Total Networkth | 2,056 | 2,562 | 4,163 | 4,663 | 5,405 |
| % growth | 38.2% | -2.9% | 16.4% | 24.5% | 29.7% | Total Debt | 2,986 | 4,969 | 5,669 | 9,319 | 8,519 |
| Depreciation | (396) | (417) | (562) | (741) | (870) | Other non-current | 486 | 615 | 615 | 615 | 615 |
| EBIT | 975 | 915 | 987 | 1,187 | 1,631 | Other current liability | 821 | 1,089 | 1,146 | 1,167 | 1,217 |
| Interest | (330) | (222) | (295) | (420) | (499) | Total Liabilities | 6,350 | 9,235 | 11,593 | 15,764 | 15,757 |
| Other Income | 7 | 8 | 23 | 25 | 39 | Net Fixed Assets | 3,991 | 6,143 | 7,581 | 11,340 | 10,560 |
| Exceptional items | 0 | 0 | 51 | 0 | 0 | Investments | - | - | - | - | - |
| PBT | 652 | 700 | 766 | 793 | 1,170 | Long term advance & | 307 | 437 | 437 | 437 | 437 |
| Tax | (210) | (129) | (242) | (250) | (363) | Debtors and Inventory | 1,540 | 2,184 | 2,883 | 3,262 | 3,906 |
| PAT | 442 | 572 | 524 | 543 | 807 | (A) Cash & current investr | 6 | 13 | 65 | 29 | 9 |
| EPS | 9.6 | 12.5 | 9.4 | 9.8 | 14.5 | (B) Other current assets | 506 | 459 | 628 | 697 | 845 |
| % growth | 7.8% | 29.4% | -24.4% | 3.7% | 48.6% | Total Assets | 6,350 | 9,235 | 11,593 | 15,764 | 15,757 |
| | | | | | | | | | | | |
| Cash flow (Rs mn) | FY16 | FY17 | FY18E | FY19E | FY20E | Ratio analysis | FY16 | FY17 | FY18E | FY19E | FY20E |
| Profit before tax | 652 | 700 | 766 | 793 | 1,170 | EBIDTA margin (%) | 17.9 | 14.3 | 13.5 | 15.2 | 16.2 |
| Depreciation | 396 | 417 | 562 | 741 | 870 | PAT margin (%) | 5.8 | 6.1 | 4.6 | 4.3 | 5.2 |
| Change in working capital | (241) | (592) | (811) | (427) | (742) | ROCE (%) | 17.8 | 13.5 | 10.9 | 9.7 | 11.5 |
| Total tax paid | (132) | (155) | (242) | (250) | (363) | ROE (%) | 23.7 | 24.8 | 15.6 | 12.3 | 16.0 |
| Others | 330 | 222 | 295 | 420 | 499 | Fixed Asset turnover (x) | 1.9 | 1.5 | 1.5 | 1.1 | 1.5 |
| Cash flow from | 1,004 | 592 | 570 | 1,277 | 1,434 | Inventory days | 90 | 105 | 110 | 115 | 115 |
| Capital expenditure | (49) | (2,739) | (2,000) | (4,500) | (90) | Receivable days | 19 | 19 | 22 | 22 | 22 |
| Change in investments | - | - | - | - | - | Payable days | 10 | 11 | 12 | 12 | 12 |
| Others | - | - | - | - | - | Debt to equity | 1.5 | 1.9 | 1.4 | 2.0 | 1.6 |
| Cash flow from investing | (49) | (2,739) | (2,000) | (4,500) | (90) | | | | | | |
| Free cash flow (a+b) | 955 | (2,147) | (1,430) | (3,223) | 1,344 | | | | | | |
| Equity raised/(repaid) | - | - | 1,119 | - | - | Valuation parameters | FY16 | FY17 | FY18E | FY19E | FY20E |
| Debt raised/(repaid) | (306) | 1,617 | 600 | 3,500 | (1,000) | EPS | 9.6 | 12.5 | 9.4 | 9.8 | 14.5 |
| Dividend (incl. tax) | (46) | (46) | (42) | (43) | (65) | P/E (x) | 9.8 | 7.5 | 10.0 | 9.6 | 6.5 |
| Others | (330) | (222) | (295) | (420) | (499) | EV/ EBITDA (x) | 5.3 | 7.0 | 7.0 | 7.5 | 5.5 |
| Cash flow from financing | (682) | 1,348 | 1,382 | 3,037 | (1,564) | EV/ Sales (x) | 1.0 | 1.0 | 0.9 | 1.1 | 0.9 |
| Net chg in cash (a+b+c) | 274 | (798) | (48) | (186) | (220) | P/BV (x) | 2.1 | 1.7 | 1.3 | 1.1 | 1.0 |

Stock rating (1 year target scale)

| | | |
|--------|---|------------|
| <0% | - | Sell |
| 0-10% | - | Reduce |
| 10-30% | - | Accumulate |
| >30% | - | Buy |

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