



East India Securities Ltd
Excellent | Investment | Solutions

Previous Rating: **Accumulate**

Current Rating: **Buy**

Capacity expansion and improved realization to spin profit

CMP (Rs)	111
Target Price(Rs)	180
Upside (%)	62.1
Prev. Target (Rs)	155
Share Holding (%)	
Promoter	64.3
Public	35.7
Others	0
Total	100.0
Avg Vol (6m) (000)	
FV	10
Beta	1.4
Mcap (Rs Mn)	50,838
52 week H/L	145/61
Bloomberg/Reuters	NSPL IN / NISP.BO
Group	B/ S&P BSE SmallCap
Sensex/Nifty	31,213/ 9,711
ABS (%)	Sensex Nitin
3 M	3.4 (15.2)
1 Yr	11.2 56.3

1QFY18 result highlights

Revenue: Nitin Spinner sales increased 48.4% YoY Rs 2.8 bn. The utilisation levels continue to remain high at 94-95% in yarns and 85% in fabrics. Sales growth would have been much higher if the business sentiments would not have been impacted due to GST.

EBITDA: Raw material cost increased at a much higher rate due to increase in the cotton prices on an YoY basis, manufacturing and employee cost increased 42% and 28% YoY. EBITDA stood at Rs 413 mn with an increase of 33.7% on YoY basis.

PAT: Depreciation cost increased due to impact of full commissioning of new plant capacity. Tax rate was 34% of PBT as against 19.8% last year. PAT grew by 4.1% YoY to Rs 731 mn.

Outlook and Valuation

During FY17, Nitin expanded spinning yarn capacity by adding 72,960 spindles and 14 knitting machine with a capex of Rs 2.7 bn. This raised the production capacity to 50,000 MT per annum for yarns and 9,000 MT per annum for fibers. Full benefit of capacity expansion will happen from FY18E onwards. Nitin being an export oriented company, we believe the impact of GST on textile business will not be substantial. Also up-gradation of existing yarn capacity to value added yarns will help to improve realization. EBITDA margins will also improve as operating leverage kicks in. We have assumed expansion in EBITDA margin for FY18E and FY19E by 100 bps and 60 bps due to better realization and operational efficiency. We have also revised our Sales, EBITDA and PAT numbers for FY18 and introduced FY19 projections. We believe that Nitin will be able to register a revenue, EBITDA and PAT CAGR of 16.7%, 23.3% and 17.1% over the next two years. We maintain our target P/E multiple of 10.5x and arrive at new target price of 180 based on FY19E EPS. We upgrade rating to BUY from Accumulate.

Particulars	Revenue (Rs mn)	EBIDTA margin (%)	PAT (Rs mn)	EPS	PE (x)	RoCE(%)	RoE (%)
FY16	7,669	17.9%	442	9.6	11.5	16.5	23.7
FY17	9,334	14.3%	572	12.5	8.9	12.3	24.8
FY18E	11,698	15.3%	640	14.0	7.9	13.8	22.4
FY19E	12,717	15.9%	784	17.1	6.5	15.3	22.3

Quarterly Performance

INR in Mn	1QFY18	1QFY17	YoY (%)	4QFY17	QoQ (%)	FY17	FY16	YoY (%)
Net Sales	2,872	1,935	48.4	2,852	0.7	9,334	7,669	21.7
Other operating income	-	1	(100.0)	2	(100.0)	8	6	19.3
Total Revenue	2,872	1,937	48.3	2,854	0.7	9,341	7,675	21.7
Raw Material	(1,816)	(1,162)	56.3	(1,839)	(1.3)	(5,890)	(4,632)	27.2
Manufacturing Expenses	(491)	(346)	41.7	(499)	(1.7)	(1,591)	(1,235)	28.8
Employee Cost	(153)	(120)	27.7	(142)	8.1	(522)	(431)	20.9
Total Cost	(2,459)	(1,628)	51.1	(2,480)	(0.8)	(8,003)	(6,298)	27.1
EBITDA	413	309	33.7	374	10.6	1,339	1,377	(2.8)
Depreciation	(141)	(98)	43.5	(119)	19.1	(417)	(396)	5.3
EBIT	272	211	29.1	255	6.7	922	981	(6.0)
Other Income	2	0	-	0	-	0	1	(78.1)
Interest	(81)	(58)	39.0	(63)	27.5	(222)	(330)	(32.6)
PBT	193	152	26.6	191	0.8	700	652	7.4
Tax	(66)	(30)	117.3	(34)	91.5	(129)	(210)	(38.8)
PAT	127	122	4.1	157	(19.0)	572	442	29.4
EPS	2.8	2.7	4.1	3.4	(19.0)	12.5	9.6	29.4

- Net sales at Rs 2.8 bn were up due to mix of volume and value driven growth.
- Sales growth would have been much higher had it not been impacted by GST rollout.
- Cotton prices for the quarter remained at Rs 43,000 per candy.
- Due to higher production, raw material cost also increased substantially on an YoY basis. Raw material costs increased 56.3% YoY and was flat QoQ.
- Employee cost increased 27.7% YoY and 8.1% QoQ. Other manufacturing expenses were largely in line with our estimates.
- EBITDA margin declined 160 bps YoY but improved sequentially to 14.4%.
- Depreciation cost was higher due to full impact of capex done in FY17.
- EBIT margin expanded to 9.5% from 8.9% a year ago.
- Tax rate was higher on YoY basis as the company will no longer be benefitting from income tax incentives available on capex in FY17.
- PAT grew only marginally as higher tax provisioning resulted in muted PAT growth.

Change in estimates

	Old	New	% change	New
	FY18E	FY18E	FY18	FY19
Net revenue	10,500	11,698	11.4	12,717
EBITDA	1,892	1,794	(5.2)	2,023
EBITDA margin (%)	18.0	15.3	(270 bps)	15.9
Depreciation	561	570	1.6	608
Interest	327	320	(2.1)	392
PBT	1,009	960	(4.8)	1,176
Tax	336	320	(4.8)	392
Tax rate(%)	33.3	33.3	NA	33.3
PAT	673	640	(4.9)	784
PAT margin (%)	6.4	5.5	(110 bps)	6.2

Income statement (Rs mn)	FY16	FY17	FY18E	FY19E
Net revenues	7,669	9,334	11,698	12,717
% growth	24.4%	21.7%	25.3%	8.7%
Operating expenses	(6,298)	(8,003)	(9,904)	(10,694)
EBITDA	1,370	1,331	1,794	2,023
Depreciation	(396)	(417)	(570)	(608)
EBIT	975	915	1,224	1,415
Interest	(330)	(222)	(264)	(239)
Other Income	7	8	-	-
Exceptional items	-	-	-	-
PBT	652	700	960	1,176
Tax	(210)	(129)	(320)	(392)
PAT	442	572	640	784
Adjusted PAT	442	572	640	784
EPS	9.6	12.5	14.0	17.1
Growth (%)	7.8%	29.4%	12.0%	22.5%

Balance Sheet (Rs mn)	FY16	FY17	FY18E	FY19E
Share Capital	458	458	458	458
Reserves & Surplus	1,598	2,103	2,688	3,417
Total Networth	2,056	2,562	3,147	3,875
Preference Capital/Minority	-	-	-	-
Total Debt	3,521	5,802	4,853	5,164
Deferred tax liabilities	433	539	647	680
Other non-current liabilities	53	76	76	76
Current Liabilities & Prov	287	256	319	365
Total Liabilities	6,350	9,235	9,042	10,159
Gross Block	6,249	8,977	9,077	10,495
Net Fixed Assets	3,818	6,138	5,669	6,480
Investments	-	-	-	-
Other non-current assets	481	441	440	439
Total current assets	2,052	2,655	2,932	3,240
Total Assets	6,350	9,235	9,042	10,159

Cash flow (Rs mn)	FY16	FY17	FY18E	FY19E
Profit before tax	652	700	960	1,176
Depreciation	396	417	570	608
Change in working capital	(395)	(734)	(141)	(264)
Total tax paid	(117)	(22)	(212)	(360)
Others	330	222	264	239
CFO (a)	866	583	1,441	1,399
Capital expenditure	(220)	(2,568)	(100)	(1,418)
Change in investments	-	-	-	-
CFI (b)	(220)	(2,568)	(100)	(1,418)
Free cash flow (a+b)	646	(1,986)	1,341	(18)
Equity raised/(repaid)	-	-	-	-
Debt raised/(repaid)	(262)	2,281	(949)	311
Dividend (incl. tax)	(55)	(66)	(55)	(55)
Others	(330)	(222)	(264)	(239)
CFF (c)	(647)	1,993	(1,268)	17
Net chg in cash (a+b+c)	(1)	7	72	(2)

Ratio analysis	FY16	FY17	FY18E	FY19E
EBIDTA margin	17.9%	14.3%	15.3%	15.9%
PAT margin	5.8%	6.1%	5.5%	6.2%
ROCE (%)	16.5	12.3	13.8	15.3
ROE (%)	23.7	24.8	22.4	22.3
Inventory days	73	87	73	73
Payable days	8	9	10	10
Receivables days	21	21	21	21
Debt to equity	1.7	2.3	1.5	1.3

Valuation parameters	FY16	FY17	FY18E	FY19E
EPS	9.6	12.5	14.0	17.1
P/E (x)	11.5	8.9	7.9	6.5
P/BV (x)	2.5	2.0	1.6	1.3
EV/Sales (x)	1.1	1.2	0.8	0.8
EV/EBIDTA (x)	6.3	8.2	5.5	5.0
EV/EBIT (x)	11.6	8.8	11.8	8.1

Stock rating (1 year target scale)

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

Disclaimer & Disclosure

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Disclosure – SEBI has initiated an enquiry in the matter of First Financial Services Ltd against 152 entities. EISEC is one of them.



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