

Kumar Mangalam Birla is gearing up to take the mantle of Century Textiles

Laying a foundation

Kumar Mangalam Birla, the chairman of the \$40-billion conglomerate Aditya Birla group, is all set to directly purchase a stake of about 16 per cent in Century Textiles & Industries, which he is eventually going to inherit from his grandfather Basant Kumar Birla. In fact, the development is being seen as a prelude to his move to take over the mantle of the textiles-to-cement maker in future. This share purchase will allow the total promoter ownership in the company to go up to 51.21 per cent from the present 40.23 per cent, thus entailing a controlling stake. In fact, it is going to be the first company in which the B.K. Birla group has raised its ownership to more than 50 per cent.

The purchase will be facilitated through four private companies that will subscribe to 18.6 million preferential warrants of Century Textiles to be converted into equity shares subsequently. After conversion, the four investment companies, Aditya Marketing & Manufacturing, Essel Mining & Industries, IGH Holdings and Padmavati Investments will together hold a 16.77 per cent stake in Century Textiles. Aditya Marketing and Padmavati Investments currently

holds 0.08 per cent stake in the B.K. Birla group-controlled company.

"This stake purchase has been done to ensure that when he takes over the company's rein from his grandfather, the promoters hold a majority stake in the company. This will provide him, as a promoter, much better control over the company and its operations," says Arun Kejriwal, Arun Kejriwal, Kejriwal Research & Investment Services.

"Like other group companies, Kumar Mangalam Birla wants to consolidate the promoter group holding in Century Textiles also. In fact, it is precursor to his inheriting the company in the near future as part of B.R. Birla's succession plan," states Deven Choksey, CEO & managing director, KR Choksey Securities & Shares.

In the past, Kumar Mangalam Birla has raised stakes in his companies by subscribing to preferential warrants and buying unsold shares in rights offers. He has increased his stake in Hindalco to more than 50 per cent in the past few years from 17 per cent in 2005 and gained a controlling stake in Aditya Birla Nuvo, which houses his financial services business.

He was inducted on the board of the 127-year-old diversified company

in 2006, even as he has not been involved in the day to day affairs of the company. It is his 97-year-old grandfather and chairman of the company, B.K. Birla, who has been managing the operations with few trusted executives. In fact, the company, which once symbolised the glory of the textile industry, has so far been run as a typical Marwari business house.

In a communiqué to the BSE, Century Textiles & Industries has said that the board of directors, in its recently-held meeting, has decided to issue the promoters 18.65 million warrants on preferential basis fully convertible into equal number of equity shares of ₹10 each, at a price to be determined in accordance with Chapter VII of the Securities & Exchange Board of India (SEBI).

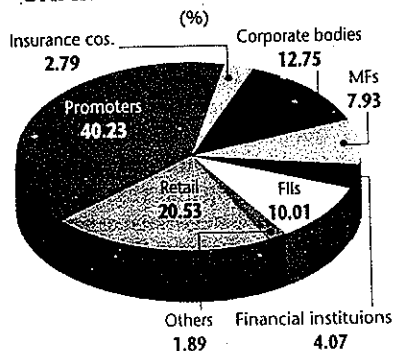
According to SEBI, the price of conversion will be fixed according to its formula of the 26-week average trading price or two-week average price. At the current six-month average price, Kumar Mangalam Birla will have to pay about ₹650 crore to convert these warrants into equity. The four companies will convert 25 per cent of the warrants after shareholder approval and 75 per cent in 18 months. As per company sources, the proceeds so raised will be used for trimming the debt and other purposes. Century Textiles' total debt stands at about ₹4,780 crore.

Of the promoters' stake in Century Textiles, Birla group companies Pilani Investments Industries Corp Ltd and Kesoram Industries own 36.78 per cent and 2.95 per cent, respectively. Pilani Investments, the single largest shareholder, used to be the holding company of the extended Birla family, until B.K. Birla bought out the stakes of other factions of his family in 2004, except the 25 per cent held by the M.P. Birla group. Currently, this 25 stake of M.P. Birla group is held by the Lodha family, which received M.P. Birla's shares, as per his widow Priyamvada Birla's will. This is being contested by the Birla family members in Kolkata courts. The control of the M.P. Birla group is disputed by the extended Birla family and, for the past 10 years, they have been battling legal battles over

erstwhile chairperson Priyamvada Birla's will.

The news of the expected consolidation of the promoters' holding (more so Kumar Mangalam Birla directly buying a 16 per cent stake) has a positive bearing on the stock of Century Textiles. Since then, the company made the announcement of issuing warrants to its promoters on 5 May, the stock has gained more than 35 per cent till 22 May, when it closed the day at ₹486. The company has reported a net profit of ₹2.72 crore for the year ended 31 March 2014, as against a net loss of ₹34.49 crore in 2012-13. The company clocked a modest growth of about 12 per cent in its total income to ₹6,694 crore.

SHAREHOLDING PATTERN



The "shareholders of Century Textiles have reacted positively to this development since it shows that the promoters have reposed their confidence in the company. Moreover, they are also trying to factor in the long-term gains that are going to accrue due to business synergies between the two companies," says D.R. Dogra, MD, Care Ratings.

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Though the share price has moved up recently, the company's current market capitalisation does not fully reflect the value of its businesses, including real estate which it has entered few years ago. It is undertaking a mega real estate project over a land parcel of some 35 acres in Mumbai's prime Worli location. At the current market price of ₹486 a share, the company's market capitalisation works

out to ₹4,523 crore. Add another ₹4,780 crore of debt in the books, its enterprise value translates to about ₹9,203 crore.

On the other hand, investors get about 11 million tonne cement capacity, which alone is valued in the vicinity of ₹9,000 crore, based on realistic valuations of \$135 per tonne of capacity. Analysts value Century Textiles' other businesses like paper and textile at about ₹1,800 crore. And, if the value of the real estate business, pegged at ₹7,000 crore, is considered, there is a huge amount of value in the stock.

"The company has failed to get the right kind of valuation in the market considering the fact the kind of businesses and assets it holds at present. The recent development as regards Kumar Mangalam Birla's purchase of stake, will certainly help the company get its due valuation," says S.P. Tulsian of sptulsian.com.

Till 1951, only a cotton textile manufacturing company, Century Textiles emerged as a diversified conglomerate with a presence in textiles, cement, tyre cords, chemicals, pulp and paper. It boasts 10 manufacturing units across different states in the country. Though initially known for its cotton textile business, the company earns more than 40 per cent of its revenue from its cement business. The company has four cement plants at different locations, with a total cement manufacturing capacity of around 11 million tonnes per annum.

After moving out of Mumbai, in 2008, the company added to its fold a vertically-integrated textile plant, Birla Century at Jhagadia, Bharuch, in Gujarat. This is a fully composite cotton textile plant from blow room to made-ups, stretching over an area of 100 acres. The company's 100 per cent cotton yarn unit, situated in Madhya Pradesh, has a capacity of 24,960 spindles. It also has a denim unit in Madhya Pradesh, with a capacity of 21 million metres of denim fabric per year. Viscose filament yarn, tyre cord and chemicals are manufactured at Kalyan in Maharashtra.

• ARBIND GUPTA

A big catch

Netting the Dhamra Port provides the Adanis with a crucial gateway on the east coast

The ₹55,067 crore (\$9.5 billion) Ahmedabad-based Adani group, founded by 52-year-old Gujarati entrepreneur Gautam Adani when he was half his age, was in the news for all the wrong reasons during the recent campaigning for the Lok Sabha elections. Both Congress party vice-president Rahul Gandhi and Aam Aadmi Party chief Arvind Kejriwal repeatedly alleged a nexus between Adani and the BJP's prime ministerial nominee - now Prime Minister - Narendra Modi. Matters came to such a head that two days after it was humiliated by the poll results, the out-going Congress had the Directorate of Revenue Intelligence (DRI) issue a ₹5,500 crore show cause notice to three thermal power companies of the Adani group for alleged over-valuation of capital equipment imports.

The Adanis were quick on the riposte. Group company, Adani Ports & Special Economic Zone (APSEZ) lost little time in concluding the full acquisition, coincidentally at an enterprise value of ₹5,500 crore (\$944 million), of the Dhamra Port Co Ltd (DPCL) equally owned by Tata Steel Ltd and L&T Infrastructure Development Projects Ltd. The shares of its holding company, Adani Enterprises Ltd, that had touched a low of ₹126 on 4 September 2013, have now soared to ₹541. With Adani, his wife Priti, brother Rajesh and family trusts having a 57.28 per cent shareholding, his personal wealth, according to the Bloomberg Billionaires Index, too has tripled to \$6 billion from \$1.9 billion on 13 September 2013, when Modi was declared the BJP's prime ministerial candidate.

The DRI's show cause notice was served on Adani Power Maharashtra, Adani Power Rajasthan, and Maharashtra Eastern Grid Power Transmission Company for alleged over-valuation by ₹2,000 crore of