Century Textiles And Industries Limited

August 28, 2023

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Commercial paper	1,000.00	CARE A1+	Reaffirmed

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

The rating assigned to the commercial paper (CP) issue of Century Textile and Industries Limited (CTIL) continues to factor in the strong parentage and implicit support of the Aditya Birla group (the AB group) and comfortable financial risk profile. The rating also derives comfort from the business diversity with revenue derived from pulp and paper, textiles, stable lease rentals from commercial properties and residential real estate businesses.

The ratings also derive comfort from the stable operating performance whereby CTIL reported a 16% y-o-y growth in its total operating income (TOI) from FY22 to FY23. The growth has been supported by demand recovery in paper division with improved realizations and stable cashflows from commercial real estate. CARE Ratings Limited (CARE Ratings) also factors the favourable booking and collection trend in residential real estate segment. The performance of the textile division however remained weak due to slowdown in export markets, resulting in loss in the division which impacted the overall profitability of the company. Liquidity profile of the company continues to remain strong on account of improved cash accruals supported by adequate liquidity buffer available in the form of partly unutilised working capital lines.

CARE Ratings estimates that the margins in textile business would undergo marginal improvement in the medium term, as inventory across global retailers is getting normalized, resulting in fresh order inflow and improved plant capacity utilization. Furthermore, the strategic decision taken to cease operations of the in-house spinning and weaving units which were hitherto not cost effective, and subsequent shift to sourcing quality greige fabric requirements from vendors would enhance profitability due to savings in fixed costs. The full-fledged reopening of educational institutions post COVID-19, industry transition to sustainable packaging and increase in orders from government authorities in the form of tenders in the upcoming election year, augurs well for the paper division. The real estate projects have received favourable response as depicted by healthy booking and collection status in the ongoing projects viz. Birla Vanya, Alokya, Navya, Tisya and Niyara, thereby giving adequate cash flows and revenue visibility, whereas commercial properties in Mumbai continue to generate stable lease rental income, with reputed clientele.

The above rating strengths are, however tempered by the increasing exposure of projects in residential real estate space to demand and implementation risk. CTIL, through its wholly owned subsidiary, Birla Estate Private Limited (BEPL) is planning to carry out new launches in the residential real estate segment which would be partly debt-funded and will increase the overall debt going ahead, however is not expected to significantly deteriorate the debt coverage metrics. CARE Ratings notes that in Q1FY24, CTIL has acquired land parcels in premium locations across Mumbai, Pune and Bangalore for a consideration of ₹500-600 crore, where it shall be launching premium residential projects in the future, with an estimated revenue potential in excess of ₹10,000 crore. The projects are yet to be launched.

The ongoing projects being under construction stage are exposed to saleability and implementation risk which are however partly mitigated by the established brand name of the AB group which has aided sales, track record of the group in timely completion of past projects in the commercial segment, along with prudent project funding and development mix. Along with real estate project execution and saleability risks, the ratings continue to be tempered by the inherent cyclicality of real estate business, commoditized and competitive nature of both textile and paper industry.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors: Nil

Negative factors

• Moderation in business risk profile leading to significant decline in PBILDT margin on sustained basis

• Any substantial change in leverage profile of the company resulting in significant deterioration in solvency indicators viz. overall gearing exceeding 1.00x

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

• Slow offtake in launched real estate inventory, time and cost overruns from envisaged timelines in the ongoing real estate projects
• Cash flows generated from manufacturing business trapped in real estate business, thereby resulting in liquidity pressure
• Weakening of linkages with the AB group.

Analytical approach:
Consolidated approach considering the strong operational and financial linkages between CTIL and its subsidiaries. Further, CARE Ratings has considered notching by factoring linkages of CTIL with its parent which is the AB group based on the nature and strength of the linkages with the group. The list of subsidiaries which have been consolidated is placed separately as **Annexure-6.**

Outlook: Not applicable

Detailed description of the key rating drivers:

Key strengths
Strong parentage, track record of management and implied support from the AB group: CTIL derives its benefits from being one of the flagship companies of the AB group. The AB group is a US $60 billion corporation with operations spanning across branded apparels, telecom, textiles, financial services, education, cement, metals, etc. Mr Kumar Mangalam Birla is currently the Chairman of the company. CARE Ratings also considers financial flexibility of CTIL derived from being part of the AB group and has also factored implicit need-based support from the parent group to CTIL.

Diversified operations with established position in pulp and paper products, textile segment: CTIL has presence across diversified sectors with its established position in pulp and paper products (accounting for 76% of the revenue in FY23), textile (accounting for 20% of the revenue in FY23) and real estate segments (accounting for 4% of the revenue in FY22). Going forward, revenue contribution from real estate segment is expected to increase with completion of projects.

Improved performance in FY23, driven by paper & pulp division as textile division continued to face headwinds: CTIL reported a growth of 17% in its TOI, y-o-y from FY22 to FY23 primarily on the back of strong business performance of Pulp & Paper division. This was supported by continued steady demand from resumption of education, commercial and industrial activities, all of which remained comparatively lower in the previous years as the global economy had just started to recover from the pandemic. The paper division also faced headwinds in FY23 with prices of key raw materials viz. wood and imported pulp depicting a rising trend. Nevertheless, ability to pass-through of raw material price increases to customers by undertaking price hikes, resulted in higher net sales revenue (NSR) across all the sub-segments, despite stagnation in the overall sales volume. Export demand from Europe, U.S. are expected to remain low due to recessionary impact. The domestic revenue from this division is expected to pick up with orders from government tenders in the education sector and demand from FMCG packaging contributing to incremental growth. As CTIL is continuing to undertake de-bottlenecking works in this division, CARE Ratings expects a further improvement in profitability margins.
The global demand in the textile industry faced slow down due to geopolitical uncertainties, high inflation and large existing inventories with traders at high cost. Additionally, factors such as cotton prices touching historical highs, shipping as well as energy costs witnessing a manifold increase, and low demand resulting in reduced capacity utilization and under absorption of fixed costs led to widening EBIDTA loss in this division. With gradually improving conditions as seen from global retailers in the US normalizing inventory, the overall performance of this division is likely to improve. Closure of asset-heavy in-house spinning and weaving units and subsequent external sourcing of greige fabric is also expected to result in improved profitability of this division.

Stable cash flows continue from lease rentals, ongoing residential projects receiving favourable response: CTIL's two commercial properties Birla Aurora and Birla Centurion, located in Worli, Mumbai, have been almost fully leased out and generate stable lease rentals of around ₹130 crore annually. Both these properties benefit from diversified and financially stable clientele (many of whom are companies of the AB group) and long-term lease contract with periodic escalations.
CTIL is into development of residential projects through a mix of owned land and joint development agreements (JDAs) through its subsidiary BEPL. The projects albeit at a preliminary stage have received favourable response. Factors such as strong brand name of the AB group and premium feature offerings have driven sales. Upto June 30,

2023, CTIL achieved cumulative sales value of Rs 2,403 crs. or ~83% of project value at Phase-1 of its newly-launched flagship residential project on own land bank at Worli, Mumbai within a year of its launch. In Birla Vanya, Kalyan almost all of Phase-I inventory has been booked and Phase-II has been launched. The booking status has been healthy in Birla Alokya, Bengaluru also with 93% flats being sold.

Comfortable financial risk profile, expected to temper marginally in view of debt-funded real estate construction: CTIL's overall gearing improved from 0.35x as on March 31, 2022 to 0.26x as on March 31, 2023 as during FY23, scheduled debt repayments were made and no major investments were done in real estate. In Q1FY24 however the gross debt almost doubled to ₹1,957 cr as on June 30, 2023 vis-à-vis ₹ 1,059 cr as on March 31, 2023 as CTIL availed debt to purchase land and invest in real estate projects. The debt metrics will undergo moderation considering the long-term construction period of residential projects and time for positive cashflows from the projects to accrue. However, with expected improvement in business and positive cashflows generated from the other divisions of CTIL viz. paper and textile along with steady lease rental cashflows, CARE Ratings expects the overall gearing not to exceed 0.75x even at a peak debt level of ₹2,500 cr. CARE Ratings notes that CTIL adopts a judicious funding mix (higher reliance on customer advances) and development mix (owned land bank and entering into JDA's/JV's) for its real estate projects which will continue to render the financial risk profile healthy.

Key rating weaknesses

Risk related to the ongoing residential projects: CTIL, through its subsidiary BEPL, is undertaking development of residential projects through a mix of owned land and JDAs. The initial project funding is being done by the company, from customer advances (around 70%) and only 10%-25% is from construction loan. BEPL is expected to follow a phase-wise development model with asset-light strategy to capitalise on owned land bank. The residential spaces being developed are in early stages of development, thus exposing BEPL to implementation and execution risk. Furthermore, the borrowing rates increased across the country could impact the demand.
However, the track record of CTIL of completing the projects in the past and tie-ups with the reputed contractors mitigate the implementation risk to some extent. The overall progress of the ongoing projects would remain a rating monitorable. Time and cost overruns in execution of projects would remain a key rating sensitivity.

Cyclical and commoditized nature of businesses: CTIL's key businesses of paper and textiles are commoditised in nature, besides being vulnerable to cycles. This exposes the company's performance to volatile demand conditions in addition to variations in input cost. Also, its businesses are competitive because of the presence of a large number of established and unorganised players.

Liquidity: 'Strong'
CTIL is expected to generate a GCA of around ₹450 cr for FY24 as against scheduled non convertible debentures (NCD) repayment of ₹250 cr in Q4FY24 and scheduled term loan repayment of ₹56 cr in Q2FY24. CTIL is expected to partly refinance this upcoming NCD repayment, as it had done for ₹400 cr earlier, paid out in FY23. CTIL also maintained healthy cash balance of ₹299 cr as on April 30, 2023 with presence of adequate unutilized limits. In FY25, CTIL has debt repayment obligation of ₹250 cr which is expected to be serviced out of internal accruals. CTIL is again likely to be refinance NCD repayment of ₹650 cr which is due in FY26. CARE Ratings has factored part re-financing in its analysis.
Factors such as strong networth base, established parentage of the AB group (implicit support is factored), adequate credit lines and large owned land bank provide strong financial flexibility and refinancing capability. CARE Ratings also draws comfort from management articulation that adequate liquidity in the form of cash balance/liquid investments shall continue to be maintained which further support the liquidity profile of the company.

Environment, social, and governance (ESG) risks
CTIL accelerated its yearly performance at Higg Index certification score which improved to 91.2% in 2022. It is also aiming to improve energy savings through process optimization and adopting alternate energy sources & fuels. CTIL follows robust compliances of all regulatory requirements which is intrinsic to the AB group, with 50% of its Board of Directors comprising of Independent Directors.

Applicable criteria

[Policy on default recognition](#)
[Consolidation](#)
[Factoring Linkages Parent Sub JV Group](#)
[Financial Ratios – Non financial Sector](#)
[Liquidity Analysis of Non-financial sector entities](#)
[Rating Outlook and Credit Watch](#)
[Short Term Instruments](#)
[Cotton Textile](#)
[Manufacturing Companies](#)
[Paper Industry](#)
[Rating methodology for Real estate sector](#)
[Policy on Withdrawal of Ratings](#)

About the company and industry

Industry classification

Macro Economic Indicator	Sector	Industry	Basic Industry
Diversified	Diversified	Diversified	Diversified

Promoted by late B K Birla, CTIL is a flagship company of the AB group. CTIL was established in 1897 to operate a cotton textile mill in Mumbai. Subsequently, the company expanded and diversified its activities and presently, CTIL is a well-diversified conglomerate engaged in the manufacturing of pulp and paper products, textiles, commercial real estate and chemicals across different states of India. In FY18, the company incorporated a wholly-owned subsidiary, Birla Estate Private Limited (BEPL), to focus on the residential real estate business.
Post the demerger of its cement business (transferred to Ultratech Cement Limited; UCL – transfer completed on September 30, 2019) and lease of Viscose Filament Yarn (VFY) business (part of textile division) for a duration of 15 years to Grasim Industries Limited (rated 'CARE AAA; Stable/ CARE A1+'), the company's focus has been paper (total installed capacity of 4.81 lakh metric tonnes per annum), textiles (installed capacity of 40 million meters), commercial real estate and residential real estate.

Brief Financials (₹ crore)	March 31, 2022 (A)	March 31, 2023 (A)	June 30, 2023 (UA)
Total operating income	4,068	4,719	1,218
PBILDT	487	687	131
PAT	162	265	(7)
Overall gearing (times)	0.35	0.26	NA
Interest coverage (times)	8.50	12.72	9.36

A: Audited UA: Unaudited; Note: 'the above results are latest financial results available'

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

Rating history for last three years: Please refer Annexure-2

Covenants of rated instrument / facility: Detailed explanation of covenants of the rated instruments/facilities is given in 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
Commercial paper-(Standalone)	INE055A14JR4	13-July-2023	NA	11-Sept-2023	300.00*	CARE A1+
Commercial paper-(Standalone)	Proposed	-	-	7 days – one year	700.00	CARE A1+

*Outstanding as on July 31, 2023; NA: Not Available

Annexure-2: Rating history for the 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 2023-2024	Date(s) and Rating(s) assigned in 2022-2023	Date(s) and Rating(s) assigned in 2021-2022	Date(s) and Rating(s) assigned in 2020-2021
1	Term loan-Long term	-	-	-				
2	Commercial paper	-	-	-				
3	Commercial paper-Commercial paper (Standalone)	ST	1000.00	CARE A1+	-	1)CARE A1+ (29-Aug-22)	1)CARE A1+ (30-Aug-21)	1)CARE A1+ (01-Sep-20)

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Annexure-3: Detailed explanation of covenants of the rated instruments/facilities: N/A

Annexure-4: Complexity level of the various instruments rated

Sr. No.	Name of the Instrument	Complexity Level
1	Commercial Paper-Commercial Paper (Standalone)	Simple

Annexure-5: Lender details

To view the lender-wise details of bank facilities please click here

Note on the complexity levels of the 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.

Annexure 6 : List of subsidiaries

Name of Subsidiary	% holding as on March 31, 2023
Birla Estate Private Limited (BEPL)	Wholly owned subsidiary (100%)
Avarna Projects LLP (subsidiary of BEPL)	Step down subsidiary (50%)
Birla Tisya LLP (subsidiary of BEPL)	Step down subsidiary (50%)
Birla Century Exports Private Limited (BCEPL)	Wholly owned subsidiary (100%)
Birla Century LLC	100%

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About us:

Established in 1993, CARE Ratings is one of the leading credit rating agencies in India. Registered under the Securities and Exchange Board of India, it has been acknowledged as an External Credit Assessment Institution by the RBI. With an equitable position in the Indian capital market, CARE Ratings provides a wide array of credit rating services that help corporates raise capital and enable investors to make informed decisions. With an established track record of rating companies over almost three decades, CARE Ratings follows a robust and transparent rating process that leverages its domain and analytical expertise, backed by the methodologies congruent with the international best practices. CARE Ratings has played a pivotal role in developing bank debt and capital market instruments, including commercial papers, corporate bonds and debentures, and structured credit.

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