Century Textiles and Industries Limited

August 29, 2022

Rating

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Commercial Paper	1,000.00	CARE A1+ (A One Plus)	Reaffirmed
Total Short-term instruments	**1,000.00 (₹ One thousand crore only)**		

Details of instruments/facilities in Annexure-1.

Detailed 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 and real estate businesses. Post reporting subdued performance across all segments in FY21 due to COVID-led slowdown, the business recovery has been significant in FY22 and has continued in Q1FY23, on the back of revival in demand across all its business segments, in line with easing of COVID. The growth has been supported by improved realisations, stable cashflows from commercial real estate and a favourable booking trend in residential real estate segment. CARE Ratings Limited (CARE Ratings) estimates that the margins are however likely to remain under pressure in the short term, in view of the unprecedented rise in input costs especially for textile segment.

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 unutilised working capital lines.

The 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 executing residential real estate projects which would be partly debt-funded and will likely impact the debt coverage metrics going ahead. The rating is also tempered by the recent foray of in the development of residential real estate through its subsidiary BEPL, which is at the initial phase of construction with no completed projects so far, and the inventory risk for the unsold portion as well as for phases which are yet to be launched. It also exposes the company to cost-escalation risk across the projects, as a significant portion of the cost is yet to be incurred. Timely implementation of the projects, future bookings and receipt of advances from customers will remain key rating sensitivity factors. However, the risk is mitigated, to some extent, by the established brand name which has aided sales in FY22 and track record of the group in timely completion of past projects in the commercial segment. Furthermore, the cyclical and commoditised nature of business affects the cash flow of its textile and real estate businesses.

Rating sensitivities

Positive factors – Factors that could lead to positive rating action/upgrade: Nil

Negative factors – Factors that could lead to negative rating action/downgrade:

• Any substantial upward change in leverage profile of the company resulting in significant deterioration in solvency indicators viz. overall gearing exceeding 1.00x
• Slow offtake in launched inventory, time and cost overruns from envisaged timelines in the ongoing real estate projects
• Positive cash flows from manufacturing business trapped in real estate business, thereby resulting in liquidity pressure

Detailed description of the key rating drivers

Key rating strengths

Strong parentage, track record of management and implied support from Aditya Birla (AB) Group: CTIL derives its benefits from being one of the flagship companies of the BK Birla Group and backing of the AB group. The AB group is a US $50 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 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 69% of the revenue in FY22), textile (accounting for 25% of the revenue in FY22) and real estate segments (accounting for 6% of the revenue in FY22).

Improved performance across manufacturing segments, albeit margins remain under pressure:

Paper: The overall capacity utilisation of this division improved to 97% in FY22 (PY: 81%) on the back of increased demand from resumption of educational, commercial and industrial activities. However, despite covid impact receding in FY22, challenges emerged on other fronts viz. timely availability of key raw materials, supply chain disruptions and global uncertainty surrounding

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

Russia-Ukraine conflict due to which there was an unprecedented increase in input costs. Increasing demand in products however enabled CTIL to take price hikes across product categories, passing on increased input cost pressures due to which Net Sales Realization (NSR) improved across product sub-categories. The single-use plastic ban augurs well for this segment.
Textile: The textiles division saw significant improvement in capacity utilisation at 96% in FY22 (P.Y. 80%). With increased production, sales growth was stronger with better opening up of retail sector. However, profitability margins were modest since elevated input costs, especially cotton and fuel, had an adverse effect. Challenges continue on account of high inflation, the on-going geopolitical scenario and fluctuations in commodity prices. Although apparel remains stable, the home textile industry outlook has been subdued due to drop in export market demand especially USA. Recovery of home textile/bed linen segment is critical since the product contributes to substantial portion of the textile division's income. The company has been undertaking risk-mitigation strategies including exploring different export markets and adopting hedging strategies to counter increasing cotton prices.
Real estate: The residential projects which are in different stages of development have been witnessing healthy momentum in terms of sales booking and collection with new launches lined up. The division performance was strong with bookings worth ₹ 434 crore in Q1FY23, mainly aided by Birla Niyaara P-I which achieved cumulative sales of around ₹1,600 crore till Q1FY23. With this, around 58% of the launched inventory at the Worli project has been sold within six months of the launch. Collections grew 179% YoY to ₹ 135 crore during Q1FY23.

Stable cash flows from leased out commercial properties: 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 ~ ₹128 crore annually with periodic escalations. Both these properties benefit from diversified and financially stable clientele and long-term lease contract. As per management articulation, there was no major challenge witnessed in terms of timely collections due to the impact of COVID.

Comfortable financial risk profile, expected to temper marginally in view of debt-funded real estate construction: The overall gearing remained comfortable at 0.35x as on March 31, 2022. Going forward, the company is planning to take debt to fund the real estate projects. Additional borrowings of ~₹ 1,000 crore is expected to be availed towards construction. Although the overall gearing is expected to increase, CARE Ratings expects the same to remain relatively comfortable at 0.60x, since large portion shall be funded through customer advances. Furthermore, the cash flows from manufacturing divisions are expected to remain stable and support the debt metrics.

Key rating weaknesses
Risk related to ongoing residential projects: CTIL, through its subsidiary BEPL, is undertaking development of residential projects through a mix of owned land and Joint Development Agreements (JDA). 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. Major cost is to be incurred towards the Niyara project at Worli, Mumbai which is in excavation stage. However, the customer response has been favourable with 58% booking achieved in Niyara and improving booking & collection trends across the other projects as well. The residential spaces being developed are in early stages of development, thus exposing BEPL to implementation and execution risk. Furthermore, 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 business: 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 GCA of around₹ 400 crore for FY23. The company has scheduled quarterly repayments of around ₹ 45 crore term loans and there is an NCD bullet repayment of ₹ 400 crore in Q4FY23. The company is likely to explore for refinancing if required. Liquid investments of ₹ 131 crore and free cash balance of ₹ 54 crore as on March 31, 2022 further support the liquidity profile of the company. Its unutilised bank lines are also available as a buffer. The company has unutilised CP and may also raise CP for any short-term mismatch. With a gearing of 0.35 times as of March 31, 2022, CTIL has sufficient gearing headroom, to raise additional debt. Strong networth base, established parentage of AB group (implicit support is factored) and large owned land bank provide strong financial flexibility and refinancing capability.

Analytical approach

Consolidated as the below mentioned subsidiaries and CTIL have significant management, operational and financial linkages. The subsidiaries which are the part of the consolidated financial statements are as follows:

Name of Subsidiary	% holding as on March 31, 2022
Birla Estate Private Limited (BEPL)	Wholly-owned subsidiary (100%)
Avarna Projects LLP (subsidiary of BEPL)	Step-down subsidiary
Birla Tisya LLP (subsidiary of BEPL)	
Birla Century Exports Private Limited (BCEPL)	Wholly-owned subsidiary (100%)
Birla Century International LLC (subsidiary of BCEPL)	Step-down subsidiary

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
Real Estate

About the company

Promoted by late B K Birla, CTIL is a flagship company of the BK Birla 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 4.45 lakh metric tonnes per annum), textiles (installed capacity of 40 million meters), commercial real estate and residential real estate.

Brief Financials (₹ crore)	March 31, 2021 (A)	March 31, 2022 (A)	June 30, 2022 (UA)
Total operating income	2,567	4,068	1,172
PBILDT	285	487	143
PAT	(34)	162	45
Overall gearing (times)	0.29	0.35	-
Interest coverage (times)	3.16	8.50	13.01

A: Audited; UA: Unaudited

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

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

Covenants of the rated instruments/facilities: Detailed explanation of covenants of the rated instruments/facilities is given in Annexure-3

Complexity level of various instruments rated for this company: Annexure-4

Annexure-1: Details of instruments/facilities

Name of the Instrument	ISIN	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Commercial Paper	INE055A14JA0*	-	-	7-364 days	1000.00	CARE A1+

*Rs. 100 crore was outstanding as on July 20, 2022 due on Aug 28, 2022. Balance Rs. 900 crore is proposed and not yet placed

Annexure-2: Rating history for the last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating History			
		Type	Amount Rated (₹ crore)	Rating	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	Date(s) and Rating(s) assigned in 2019-2020
3	Commercial Paper-Commercial Paper (Standalone)	ST	1,000.00	CARE A1+	-	1)CARE A1+ (30-Aug-21)	1)CARE A1+ (01-Sep-20)	1)CARE A1+ (11-Oct-19)

*Rs. 100 crore was outstanding as on July 20, 2022 due on Aug 28, 2022. Balance Rs. 900 crore is proposed and not yet placed

Annexure-3: Detailed explanation of the covenants of the rated instruments/facilities: Not available

Annexure-4: Complexity level of various instruments rated for this company

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

Annexure-5: Bank lender details for this company

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

Note on 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.

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About us:
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