Century Textiles & Industries Limited

August 30, 2021

Rating

Instruments	**Amount (Rs. crore)**	**Rating[1]**	**Rating Action**
Commercial Paper	1,000.00	**CARE A1+ (A One Plus)**	**Reaffirmed**
Total Facilities	**1,000.00 (Rs. One thousand crore only)**		

Detailed Rationale & 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 financial flexibility emanating from being part of the Aditya Birla group (AB group). The rating strengths are supported by the comfortable financial risk profile and the business diversity with revenue derived from pulp and paper, textiles and real estate businesses. CARE Ratings notes the moderation in the operational and financial performance metrics of CTIL in FY21 (refers to the period April 1 to March 31) was due to lower demand on the back of the pandemic and increased raw material expenses. However, the performance of CTIL has shown considerable improvement in Q1FY22 on the back of revival in demand in the pulp and paper segment, improved realizations in both pulp and paper and textile segments and stable lease rentals from the commercial properties.

Liquidity profile of the company continues to remain strong on account of improved cash accruals in Q1FY22 supported by adequate liquidity buffer available in the form of unutilized working capital lines.

The rating strengths are, however, offset by the increasing exposure of projects in residential real estate space to demand and implementation risk. However, the risk is mitigated, to some extent, by the established brand name which has aided sales in FY21 and track record of the group in timely completion of past projects in the commercial segment. CTIL, through its wholly-owned subsidiary, Birla Estate Private Limited (BEPL) is planning to expand significantly in the residential real estate segment which would be partially debt funded and will likely impact the debt coverage metrics going ahead, nevertheless the same are expected to remain comfortable.

Furthermore, the cyclical and commoditized nature of business affects the cash flow of its textile and pulp and paper businesses.

Rating Sensitivities

Positive Sensitivity: Not Applicable

Negative Sensitivity

- 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 as well as time and cost overruns in ongoing real estate projects

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 $48.3 billion corporation with operations spanning across branded apparels, telecom, textiles, financial services, education, cement, metals, etc. Mr Kumar Mangalam Birla was appointed as Chairman of the company effective July 20, 2019, following the demise of Mr B K Birla.

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 around 69% of the revenue in FY21), textile (accounting for around 25% of the revenue in FY21) and real estate segments (accounting for around 6% of the revenue in FY21).

Deterioration in operating performance in FY21 in paper and textiles segments although, Q1FY21 has shown significant improvement

Paper and pulp division- Overall capacity utilization of this division reduced to 81% in FY21 as compared with 100% in FY20 on account of shutdown during complete lockdown in Q1FY21. However, capacity utilization improved to 94% in Q1FY22 on the back of increased demand from paper board and tissue segments. In the paper board segment, there was healthy order flow

[1] *Complete definition of the ratings assigned are available at www.careratings.com and other CARE publications*

from pharmaceutical, fast-moving consumer goods (FMCG) and food packaging sectors which is expected to sustain going forward. The demand for tissue papers has also remained healthy due to increased focus on hygiene. However, due to closure of major paper consumption centres and expectation of third wave, the demand for writing and printing paper is expected to be muted in FY22. The division experienced decline in realizations in FY21 (9% on a YoY basis) due to increase in imports on account of steep drop in international paper prices. Average realizations improved in Q1FY22 both on QoQ and YoY basis due to multiple price increases in board and tissue paper segments as price of imported pulp increased during the quarter. CARE Ratings expects that with the commissioning of the new tissue plant in the current financial year, performance of the paper and pulp division is likely to improve further going forward.
Textiles- In the apparel fabric segment, weak domestic textile market through-out the year, led to a 45% decline in revenue from over the counter (OTC) and ready to stitch (RTS) as well as domestic trade segment in FY21 vis-à-vis last year. However, exports performed well and in that segment sales growth was marginal as compared with previous year. Home linen / made ups had operated at healthy capacity utilization levels in FY21 post resumption of operations due to healthy demand particularly from the export markets. The textile segment reported losses in FY21 on the back of low capacity utilization leading to lower absorption of fixed costs and higher raw material costs. Q1FY21, although the capacity utilization improved, inventory got built up at factory level due to state-wide lockdowns following the second wave of the pandemic. Overall textiles continued to be loss making in Q1FY22 on account of high input prices. Although the extent of loss reduced significantly due to increase in net realisations.

Stable cash flows from leased out commercial properties
CTIL's two commercial properties Birla Aurora l and Birla Centurion, located in Worli, Mumbai, have been almost fully leased out and generate stable lease rentals of around Rs.128 crore annually. Both these properties benefit from diversified clientele and long-term lease contract.

Comfortable financial risk profile
In FY21, the performance of the company was moderated due to unfavourable market condition prevalent for most part of the year. The same was further accentuated with COVID-19-induced lockdown resulting in tepid divisional sales. The financial risk profile marked by overall gearing still remained comfortable and stood at 0.37x and as on March 31, 2021. Going forward, the company is planning to take debt to fund the real estate projects as such overall gearing is expected to increase but CARE Ratings expects the same to remain comfortable.

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. So far, CTIL has launched three of its projects while others are in pre-launching stage. The residential spaces being developed are in early stages of development, thus exposing BEPL to implementation and execution risk. The subdued residential real estate market also exposes the company to demand risk, thereby exposing the overall business profile of the company. However, BEPL is expected to gain from the established brand name as demonstrated in sales booking close to 95% for Phase 1 of Birla Vanya Project, 64% of the Birla Alokya project and 85% of the Birla Navya project. Furthermore, 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 highly competitive because of the presence of a large number of established and unorganised players. Profitability margins is likely to remain susceptible to pricing pressures in both the segments because of intensifying competition and expected slowdown in demand.

Liquidity analysis: Strong
Liquidity is marked by strong expected cash accruals of Rs.341 crore against repayment obligations of Rs.159.53 crore in FY22. Liquid investments of Rs.238 crore as on March 31, 2021, further support the liquidity profile of the company. With a gearing of 0.37 times as of March 31, 2021, CTIL has sufficient gearing headroom, to raise additional debt for its capex. Its unutilized bank lines (average fund-based utilization of 10%) are more than adequate to meet its incremental working capital needs over the next one year.

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, 2021
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
Criteria on rating outlook and credit watch
CARE's Policy on Default Recognition
Financial ratios – Non-Financial Sector
Rating Methodology – consolidation and factoring linkages in Ratings
Liquidity analysis of Non-financial sector entities
Rating Methodology: Manufacturing Companies
Criteria for Short Term Instruments

About the company:
Promoted by late Mr B K Birla, Century Textiles and Industries Limited (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 (via Birla Estates Private Limited incorporated in FY18).

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

Brief Financials (Rs. In Crores)	FY20 (A)	FY21(A)	Q1FY22 (UA)
Total operating income	3437	2634	852
PBILDT	582	241	117
PAT*	378	(15)	21
Overall gearing (times)	0.39	0.37	NA
Interest coverage (times)	6.68	3.41	9.20

A: Audited
**from continued operations*

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

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

Annexure-1: Details of Instruments/Facilities

Name of the Instrument	ISIN	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Commercial Paper-Commercial Paper (Standalone)	-	-	-	7-364 days	1000.00	CARE A1+

Annexure-2: Rating History of last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2021-2022	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019
1.	Term Loan-Long Term	-	-	-	-	-	-	-
2.	Commercial Paper	-	-	-	-	-	-	-
3.	Commercial Paper-Commercial Paper (Standalone)	ST	1000.00	CARE A1+	-	1)CARE A1+ (01-Sep-20)	1)CARE A1+ (11-Oct-19)	1)CARE A1+ (04-Jan-19) 2)CARE A1+ (29-May-18)

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

Annexure 4: Complexity level of various instruments rated for this Company

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

Note on complexity levels of the rated instrument: *CARE has classified instruments rated by it on the basis of complexity. This classification is available at www.careratings.com. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.*

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