Century Textiles and Industries Limited

September 01, 2020

Ratings

Instruments	Amount (Rs. crore)	Rating[1]	Rating Action
Commercial Paper	1000.00	**CARE A1+ (A One Plus)**	**Reaffirmed**
Total facilities	**1000.00 (Rupees One thousand crore only)**		

Details of instruments/facilities in Annexure-1

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 with need-based and timely financial support expected from the Aditya Birla group (AB group). The rating strengths are supported by comfortable financial risk profile and satisfactory operational performance of CTIL during FY20 *(refers to the period between April 01, 2019 to March 31, 2020).* The rating also derives comfort from the business diversity with increased share of pulp and paper business along with the steady state cash inflow from the commercial real estate business. Healthy cash accruals supported by adequate liquidity buffer available in the form of unutilized working capital lines is sufficient to aid the substantial investment requirement for the residential real estate segment in FY21.

The rating strengths are, however, offset by the 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 expand substantially in the residential real estate segment. However, the risk is mitigated, to some extent, by the established brand name which has aided the sales in FY20 and track record of the group in timely completion of past projects in the commercial segment. Further, the cyclical and commoditized nature of business affects the cash flow of its textile and pulp and paper businesses.

CARE notes the moderation in the operational and financial performance metrics of CTIL in Q1FY21 due to restriction induced by COVID-19 wherein the plant operations remained shut for the half period during the quarter. However, the mitigation measures adopted by the company in terms of control on fixed expenses, maintenance of liquidity buffer, process digitization among others have soften the volatility rendered by the pandemic on the business profile of the company.

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
- Moderation in business resulting in PBILDT margin below 12.00% on a sustainable basis
- 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 BK Birla Group and backing of the AB group. 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. CTIL derives financial flexibility available in the form of timely and need based support from the AB group.

Diversified operations with established position in pulp and paper products, textile segment

CTIL's presence in diversified sectors with its established position in pulp and paper products and textile segment has resulted in improved performance (both financial and operational) for the divisions over the period of years. During FY20, paper division operated at 100% capacity during FY20 (~104% in FY19). The paper division increased its share in the revenue contribution and accounted for 69% of sales in FY20 (*66% in FY19*). Export requirements helped increase volumes for paper and board vertical. However, the division saw a decline in revenue due to loss of sales at the end of FY20 primarily due to no

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

dispatches during the last nine days of FY20 and general drop in realizations. During Q1FY21, the performance of the division moderated with low capacity utilisations and sales volume. Further, the realization dropped due to subdued market conditions.
Under textile, the exports volumes were higher by 11% in FY20 as compared to FY19, but muted finished goods prices resulted in de-growth of revenue for the division in FY20. In Q1FY21, due to lockdown restrictions, the capacity utilisation for the division remained very low at 14%. Additionally, the margins for this division remained under pressure mainly due to liquidity crunch and weak market sentiments.

Stable cash flows from leased out commercial properties
CTIL's two commercial properties Birla Aurora I 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.

Strong financial risk profile
In FY19, CTIL's financial risk profile viz. overall gearing, Total Debt to Gross Cash Accruals (TDGCA) improved substantially post transferring the cement business to full form (UCL) along with its associated assets as well as liabilities. In FY20, although the performance of the company moderated with COVID-19 induced lockdown which led to virtually no operations for the last two weeks of March 2020 resulting in de-growth in divisional sales, but the overall risk profile remained comfortable. The financial risk profile marked by overall gearing, TDGCA stood at 0.39x and 2.83 as on March 31, 2020 respectively compared to 0.31x and 1.06 as on March 31, 2019. However, in Q1FY21, the financial risk profile moderated on account of COVID-19 induced shutdown of operations for half period of the quarter resulting in lower capacity utilization and low sales volume and product realizations owing to subdued demand scenario. Consequently, the company reported net loss of Rs.4.07 crore in Q1FY21.
However, with the staggered easing of the lockdown, the operations were restored in a phased manner in all of its manufacturing facilities. The company has aligned its product offerings towards healthcare under pulp and paper division. The construction activities have also resumed at construction sites and collection efficiency in residential segment has improved. The commercial assets continued to generate stable lease rentals. The textile division is operating at sub-optimal capacity and is expected to breakeven by Q3FY21.

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 JDA. The initial project funding is being done by the company, while a large portion of funding is from customer advances (~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. Out of the five residential projects, CTIL has launched two of its projects in FY19 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 87% for Phase 1 of Birla Vanya Project and 31% of the Birla Alokya project. Further, 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 strong marked by healthy gross cash accruals in FY20 and unutilized fund based working capital limits *(average utilization of 11% for the past twelve months ending July 2020).* Liquidity surplus stands at Rs.356 crore as on August 21, 2020 including unutilized working capital lines, mutual fund investments which would be adequate to meet the scheduled repayments obligations of Rs.98.56 crore in FY21. The company has already repaid NCD Rs.700 crore in April 2020 via refinancing out of total scheduled repayment obligation of Rs.798.56 crore in FY21. Along with above limits, the company has unutilized CP limits of Rs.725 crore as on August 07, 2020. These, along with the cash accruals in FY21, will be more than adequate for substantial investment to be made in residential real estate in FY21.

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, 2020
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 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)..

Brief Financials (Rs. In Crores)	FY19 (A)	FY20(A)
Total operating income	3971.26	3437.25
PBILDT	979.08	581.91
PAT*	6063.16	360.43
Overall gearing (times)	0.31	0.41
Interest coverage (times)	9.64	6.68

A: Audited
**considering discontinuing operations in FY19*

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	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Commercial Paper	-	-	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 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018
1.	Term Loan-Long Term	-	-	-	-	-	-	-
2.	Commercial Paper	-	-	-	-	-	-	-
3.	Commercial Paper	ST	1000.00	CARE A1+	-	1)CARE A1+ (11-Oct-19)	1)CARE A1+ (04-Jan-19) 2)CARE A1+ (29-May-18)	1)CARE A1+ (20-Dec-17) 2)CARE A1+ (29-Sep-17)

Annexure 3: Detailed explanation of covenants of rated instrument: not applicable

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

Sr. No.	Name of the Instrument	Complexity Level
1.	Commercial Paper	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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