

Century Textiles and Industries Limited (Revised)

October 11, 2019

Ratings

Instruments	Amount (Rs. crore)	Rating ¹	Rating Action
Commercial Paper	1000 (reduced from 2200)	CARE A1+ (A One Plus)	Reaffirmed

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The rating assigned to the instruments of Century Textiles and Industries Limited (CTIL) factors in the parentage of the B. K. Birla group, vast experience of the promoters and management support from promoter group. The rating also positively factors in improved financial risk profile of the company post the de-merger of its cement business to Ultratech Cement, improvement in operating performance of the company mainly driven by pulp and paper business, steady cash flow from commercial real estate and adequate liquidity position as denoted by low utilization of fund based limits.

The aforementioned ratings strengths are however tempered by cyclical nature of businesses viz paper and textile businesses, which contributed more than 90% of sales and 70% of operating profit of CTIL in FY19, as well as foray into residential real estate which exposes the company to implementation and marketing risks.

The ability of the company to sustain the performance in paper and textile divisions, extent of investment required for residential real estate and the resultant cash flows generated from the same are the key rating sensitivities.

Detailed description of the key rating drivers**Key Rating Strengths*****Parentage of B.K. Birla group, vast experience of the promoters & management and implied support from Aditya Birla Group***

The B.K. Birla group, one of the oldest business houses of India, has interest in diverse fields such as cement, textiles, paper, tyres, sugar, tea, plyboards, media, chemicals, education, horticulture, telecom and shipping. Some of the major companies include Kesoram Industries Ltd, Century Enka Ltd, Mangalam Cement Ltd, Jayshree Tea & Industries Ltd., etc. CTIL enjoys financial flexibility being a part of the B.K. Birla group. Following the demise of Mr. B. K. Birla, the erstwhile Chairman, his grandson Mr. Kumar Mangalam Birla (the Chairman of Aditya Birla group) has been appointed Chairman of CTIL. The company is supported by experienced professionals who look after each of the business verticals.

Improved financial risk profile

CTIL's financial risk profile improved in FY19 on account of transfer to debt of cement business to Ultratech Cement (to the extent of Rs 3000 crore) and improvement in gross cash accruals mainly on account of robust pulp and paper business performance. As a result, the overall gearing improved significantly to 0.16x as on March 31, 2019 as against 1.59x as on March 31, 2018. With healthy cash accruals from the pulp and paper business and commercial real estate, leverage is expected to remain at comfortable levels over the medium term. The key monitorable would be scaling up of real estate business at envisaged levels where majority of capital expenditure shall be directed.

Improved operational performance

The company post demerger of cement business to Ultratech and lease of Viscose Filament Yarn (VFY) business to Grasim Industries Ltd, has paper and pulp business, textile business, real estate and others. So on a like -to- like basis, the sales of the erstwhile CTIL have improved marginally by 1% on YoY basis. However, an improvement in operating performance in paper division has led to improvement in operating margins for the company. Paper division contributed around 67% of operating profit of CTIL in FY19.

Steady cash flow from commercial real estate assets

The 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.150 -160 crore annually.

Key Rating Weaknesses***Cyclical and commoditized nature of business***

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

The two key businesses of CTIL viz. pulp & paper and textiles are commoditized with intense competition and cyclical in nature, making them vulnerable to demand and supply dynamics and restricts CTIL's pricing power. However, from the past two years, the performance of pulp and paper business has shown improvement.

Foray in residential segment where implementation and marketing risks remain the key monitorables

CTIL incorporated a wholly owned subsidiary Birla Estates Pvt. Ltd. (BEPL) during FY18 for joint development/ joint venture with landowners to develop real estate projects.

The company has forayed into residential real estate where the company has launched a project in Kalyan (Birla Vanya) in April 2019. The project has 2 phases. Phase 1 comprising saleable area of 5.24 lakh sq.ft. and Phase II comprising saleable area of 7.88 lakh sq ft. The Phase I has received good response with around 85% of inventory have been sold. The company is also developing a residential project in Whitefield, Bengaluru. The development potential of the project is around 5 lakh sq.ft.

Furthermore, In FY19 the Birla Estate Private Limited tied up Anant Raj Industries to develop housing project in Gurugram. The project is spread over 73 acres with saleable area of 3.5 mn sq.ft. Total investment into the project shall be ~ 760 crore of which BEPL's share in ~ Rs 380 crore spread over the period of 5 years. Investment into real estate projects exposes the company to implementation and marketing risks. CARE shall closely monitor cash inflows from the same.

Liquidity : Adequate

CTIL liquidity is adequate, as characterized by sufficient cushion w.r.t gross cash accruals vis-à-vis repayment obligations and moderate cash balance of Rs. 21 Crore as on March 31, 2019. The company has sufficient headroom to raise debt given the low overall gearing. Further, the fund based limits remain un-utilised to the extent of more than Rs 1300 crore providing sufficient liquidity cushion over the debt repayment obligation of Rs 43.5 crore in FY20.

Analytical approach: CARE has taken a consolidated approach; the main subsidiary being Birla Estate Private Limited, where the residential real estate business is housed. The other entities which are consolidated include Birla Century Exports Private Limited and Industry House Limited

Applicable Criteria

[Criteria on assigning Outlook to Credit Ratings](#)

[CARE's Policy on Default Recognition](#)

[Criteria for Short Term Instruments](#)

[Rating Methodology-Manufacturing Companies](#)

[Financial ratios – Non-Financial Sector](#)

[CARE's Policy on factoring linkages in ratings](#)

About the company:

Century Textiles and Industries Limited (CTIL), a part of the B. K. Birla group, was established in 1897 to operate a cotton textile mill in Mumbai. Subsequently, the company has expanded and diversified its activities and presently, CTIL is a well-diversified conglomerate engaged in manufacturing of pulp and paper products, textiles, and chemicals at ten plants located across different states of India.

Post the demerger of its cement business (transferred to Ultratech Cement Limited in September 2019) and lease of Viscose Filament Yarn business (included in textile division) for a duration of 15 years to Grasim Industries Limited (rated CARE AAA;Stable/ A1+), the company's core businesses will be pulp and paper (having total installed capacity of 4.45 lakh tonnes per annum), textiles (installed capacity of 375 lac meters per annum and real estate (via Birla Estates Private Limited).

Brief Financials (Rs. In Crores)	FY18 (A)	FY19(A)*
Total operating income	8249.51	3958.02
PBILDT	1381.09	978.35
PAT	371.66	681.07
Overall gearing (times)	1.59	0.16
Interest coverage (times)	3.03	10.20

A: Audited

*Numbers for FY19 are without cement business

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 to 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 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017
1.	Term Loan-Long Term	-	-	-	-	-	-	-
2.	Commercial Paper	-	-	-	-	-	-	-
3.	Short Term Instruments-CP/STD	ST	-	-	-	-	-	1)Withdrawn (30-Dec-16) 2)CARE A1+ (27-Apr-16)
4.	Short Term Instruments-CP/STD	ST	-	-	-	-	-	1)Withdrawn (30-Dec-16) 2)CARE A1+ (27-Apr-16)
5.	Fund-based - LT-Term Loan	LT	-	-	-	-	-	1)Withdrawn (30-Dec-16) 2)CARE AA- (27-Apr-16)
6.	Non-fund-based - ST-BG/LC	ST	-	-	-	-	-	1)Withdrawn (30-Dec-16) 2)CARE A1+ (27-Apr-16)
7.	Fund-based - LT-Cash Credit	LT	-	-	-	-	-	1)Withdrawn (30-Dec-16) 2)CARE AA- (27-Apr-16)
8.	Fund-based - ST-Working Capital Demand loan	ST	-	-	-	-	-	1)Withdrawn (30-Dec-16) 2)CARE A1+ (27-Apr-16)
9.	Debentures-Non Convertible Debentures	LT	-	-	-	-	-	1)Withdrawn (07-Apr-16)
10.	Debentures-Non Convertible Debentures	LT	-	-	-	-	-	1)Withdrawn (30-Dec-16) 2)CARE AA- (27-Apr-16)

11.	Debentures-Non Convertible Debentures	LT	-	-	-	-	-	1)Withdrawn (07-Apr-16)
12.	Commercial Paper	ST	1000.00	CARE A1+	-	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: List of entities in consolidated financials as on March 31, 2019

Name of Company	Country of Incorporation	Shareholding (%)
Subsidiaries		
Birla Estate Private Limited	India	100
Birla Century Exports Private Limited	India	100
Associates		
Industry House Limited	India	35.28

Annexure-4: Detailed explanation of covenants of the rated instrument / facilities – Not applicable

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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