Century Textiles and Industries Ltd

January 4, 2019

Ratings

Facilities	Amount (Rs. crore)	Rating[1]	Rating Action
Commercial Paper (CP) issue	**2200.00 (Rs. Two thousand two hundred crore only)**	**CARE A1+ (A One Plus)**	**Reaffirmed**

Details of instruments in Annexure-1

Detailed Rationale & Key Rating Drivers

The reaffirmation of rating assigned to the Commercial Paper issue of Century Textiles and Industries Ltd (CTIL) factors in the parentage of the B. K. Birla group, vast experience of the promoters & management and support from Aditya Birla Group.

The ratings also take into account the CTIL's decision to demerge its cement division into UltraTech Cement Limited (UCL). While the company has already received approval from the Board of Directors, shareholders and the CCI, the company is awaiting its final approval from its lenders. The demerger process is likely to be completed by the end of FY19, subject to fulfilment of the necessary approvals.

According to the scheme, UCL shall issue one equity share for every eight equity shares of CTIL. Furthermore, debt of around Rs. 3,000 crore will be transferred to UCL, thereby significantly deleveraging its balance sheet.

The rating also factors in transfer of Viscose Filament Yarn (VFY) business rights for duration of 15 years to Grasim Industries Ltd (GIL – rated CARE AAA; Stable/CARE A1+) without transfer of immoveable and moveable assets (other than current assets) for a consideration of Rs. 600 crore paid up front. GIL also provided interest free deposit to CTIL of Rs. 200 crore and also paid consideration for transfer of working capital related to VFY business to GTL at actuals (around Rs. 130-150 crore).

Demerger of the cement division and transfer of VFY business rights will result into constraining the revenues for CTIL mainly towards its paper business. However, the same is likely to be partially mitigated by CTIL's future plans to further expand its business activity in the real estate sector.

The rating further continues to draw strength from its improved operational performance, steady cash flow from commercial real estate assets and comfortable liquidity position.

The above strengths are however, offset by its moderate financial risk profile (pre-demerger) and cyclical and commoditized nature of business.

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: Mr. B. K. Birla, the Chairman and his grandson Mr. Kumar Mangalam Birla (the Chairman of Aditya Birla group), vice Chairman of CTIL are supported by experienced professionals who look after each of the business verticals. CARE also takes into account the need based timely support from the AB Group.

Well established and diversified operations: CTIL is a diversified conglomerate engaged in manufacturing of cement, textiles (Yarn, Fabric, Viscose filament yarn, Tyre yarn & leasing of Viscose filament yarn & Tyre yarn plant) and pulp & paper (Pulp, writing & printing paper, tissue paper and multilayer packaging board). Segment wise cement is the dominant revenue contributor with 53% in FY18 followed by pulp and paper and textiles with 27% and 17% respectively.
Lease of Viscose Filament Yarn (VFY) business to Grasim Industries Ltd, demerger of cement division to Ultratech Cement Ltd and potential sale of denim division will reduce the diversification to some extent. However, foray into real estate by incorporating a 100% subsidiary Birla Estates for the purpose of real estate development and in particular for undertaking joint venture projects with other parties will offset the risk to some extent.

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

Improved operational performance: Overall revenue improved by 7% Y-o-Y in FY18 and PBILDT grew by 40% in FY18 over previous year mainly on account of cost control measures and initiatives taken for reduction in cost at all levels across CTIL. PBILDT margins improved to 16.98% in FY18 from 13.02% in the previous year. Finance cost also reduced due to lower interest rates on borrowings and reduction of overall borrowings using the proceeds from the VFY division. PAT improved from Rs. 105 crore in FY17 to Rs. 372 crore in FY18.

Steady cash flow from commercial real estate assets, foray in residential segment will remain key monitorable: The two commercial properties Birla Aurora, adjacent to Century Bhavan, Mumbai, and Birla Centurion (on erstwhile Century Mill's land) has been almost fully leased out and generate stable lease rentals of approx. Rs.145 crore annually. Apart from the above, CTIL has huge land bank of around 208 acres in Worli (Mumbai), Kalyan (Thane) and Talegaon (Pune) with a development potential of approx. 13 million sq. ft (msf). Furthermore, CTIL incorporated a wholly owned subsidiary Birla Estates Pvt. Ltd. during FY18 for joint development/ joint venture with landowners to develop real estate projects. Investment into real estate projects and cash inflows from the same will be key monitorable over medium term.

Comfortable liquidity position: CTIL has superior fund raising ability with demonstrated track record of raising funds from capital markets as well as from banks at very aggressive interest rates helped by it being part of BK Birla group. The instruments (CP and NCD) issued by CTIL has ready acceptance in market which increases CTIL's ability to raise funds at competitive rates for short term as well as for longer duration. Fund based working capital limits of Rs. 1,500 crore are available with CTIL which is a backup and remains unutilized to the extent of CPs maturing in a particular month.

Key Rating Weaknesses

Moderate financial risk profile: Although higher, CTIL's financial risk profile improved in FY18 on account of improved overall gearing due to significant debt reduction with proceeds from lease of VFY business combined with improvement in debt coverage ratios as a result of higher cash accruals. The leverage is expected to improve further as the demerger of cement division would also reduce significant debt. With no major capex planned in the immediate future, the debt levels and coverage indicators are expected to improve gradually over the medium term as the cash accruals are expected to improve supported by operational efficiency and realizations from the real estate business.

Cyclical and commoditized nature of business: All the three key businesses of CTIL viz. cement, textiles and pulp & paper are commoditized with intense competition and cyclical in nature makes it vulnerable to demand and supply dynamics and restricts CTIL's pricing power. However, from the last 2 years the performances of cement and paper businesses have shown improvements.

Analytical approach: Consolidated as CTIL has incorporated a Wholly Owned Subsidiary viz. Birla Estates Private Ltd. in FY18.

Applicable Criteria
CARE's Policy on Default Recognition
Rating Methodology: Factoring Linkages in Ratings
Criteria for Short Term Instruments
Rating Methodology-Manufacturing Companies
Financial ratios – Non-Financial Sector
Cement
Cotton Yarn

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 cement, textiles, pulp and paper products, and chemicals at ten plants located across different states of India. CTIL has also ventured into real estate by developing two commercial properties named Birla Aurora and Birla Centurion which has been fully leased out and by incorporating a 100% subsidiary Birla Estates Private Ltd during FY18.

From February 1, 2018 CTIL transferred Viscose Filament Yarn (VFY) business rights for duration of 15 years to Grasim Industries Ltd (GIL – rated CARE AAA; Stable/CARE A1+) without transfer of immoveable and moveable assets (other than current assets).
The Board of Directors of CTIL on May 20, 2018 and shareholders on October 24, 2018, approved the demerger of its cement division (3 integrated cement units - one each in Madhya Pradesh, Chhattisgarh, and Maharashtra with total capacity of 11.4 MTPA and 1 grinding unit in West Bengal of 2 MTPA while an additional capacity of 1.2 MTPA is pending statutory clearance) to UltraTech Cement Ltd. The transaction is expected to be completed by March 2019.

During FY18, CTIL posted PAT of Rs.372 crore on a total operating income of Rs.8,250 crore against a PAT of Rs.105 crore on a total operating income of Rs.7,714 crore for FY17. For H1FY19, on a standalone basis CTIL reported PAT of Rs.319 crore on a total operating income of Rs.4,277 crore against PAT of Rs.173 crore on a total operating income of Rs.4,100 crore for the corresponding previous period.

Brief Financials (Rs. crore)	**FY17 (A)**	**FY18 (A)**
Total operating income	7713.91	8249.51
PBILDT	999.47	1381.09
PAT	104.99	371.66
Overall gearing (times)	2.31	1.60
Interest coverage (times)	1.80	3.03

A: Audited

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

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

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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About CARE Ratings:

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Annexure-1: Details of Instruments

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	-	-	-	2200.00	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 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016
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	2200.00	CARE A1+	1)CARE A1+ (29-May-18)	1)CARE A1+ (20-Dec-17) 2)CARE A1+ (29-Sep-17)	-	-

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