

**Century Textiles & Ind Ltd.** ₹ 226**A Stock of the Century****Buy**

December 30, 2011

**Financial Performance**

Century Textiles and Industries (Century) reported disappointing performance for the quarter ended September 2011 continuing the lacklustre performance this Financial year. Sales dropped by 1% to ₹ 10.99 bn. The cement division sales fell by 10% to ₹ 5.34 bn. Other major revenue contributor pulp and paper division's revenues were down by 6% to ₹ 2.33 mn. Textile division which grew by 23% contributed 30% or ₹ 3.36 bn to revenues.

Not only did Century's sales drop, but its operational performance also took major hit. Its OPM crashed by 860bps to 5.4% on the back of poor segmental performance, increase in employee costs, consumption of raw materials. Profits from cement business slipped sharply by 88% to ₹ 121.7 mn during the quarter. The pulp & paper segment has reported loss ₹ 360 mn against profit of ₹ 735 mn during previous corresponding quarter. Its textiles division reported loss of ₹ 8 mn despite strong growth in sales due to higher raw material prices. Payments under the voluntary retirement scheme also dragged the margins down. The resultant operating profits more than halved to ₹ 596.4 mn. Consequently, the company reported net loss of ₹ 321.6 mn against profit of ₹ 660.5 mn during the previous corresponding quarter. Nil tax provisioning against tax provision of ₹ 245 mn did help in arresting the losses.

**Investment Rationale****Portfolio Expansion**

Both Grasim & Century textiles are the Birla Group companies. B K Birla group has its cement business under Grasim, Century Textiles & Industries, Kesoram Industries and Mangalam Cement with a collective cement capacity of around 17 million tonnes. Of that, Century Textiles & Industries alone controls 7.8 million tonnes of capacity. Grasim's cement division with was merged with UltraTech last year. The cement business is not doing well & has been a drag while, its textile business is growing. Century has huge land bank in the heart of the Mumbai City. Developing this could be far better & immensely huge value addition. The Birla group has been consolidating its cement business. Streamlining its operations could help Century turn around quickly to profitability.

**Key Financials**

Year Ended 31 <sup>st</sup>	Mar 09	Mar 10	Mar 11
Revenue (₹ mn)	40506.0	46551.8	48980.9
<b>Rev. growth (%)</b>	<b>12.63</b>	<b>14.93</b>	<b>5.22</b>
EBITDA (₹ mn)	7046.5	9155.7	7743.3
Net profit (₹ mn)	2365.4	3394.7	2374.9
Shares outstanding (mn)	93.1	93.1	93.1
EPS (₹)	25.4	36.5	25.5
<b>EPS growth (%)</b>	<b>(15.35)</b>	<b>43.51</b>	<b>(30.04)</b>
P/E (x)	8.7	14.0	13.7
EV/ EBITDA	31.4	54.3	45.9
<b>ROCE (%)</b>	<b>9.59</b>	<b>11.46</b>	<b>7.04</b>

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**Previous Report**

Date	: Feb 21, 2010
Recommendation	: Buy
Price	: ₹ 441
Target Achieved	: Mar 11, 2010

**Market Data**

52 Wk Range (₹)	: 445 / 216
Shares in Issue (mn)	: 93
Mkt. Cap (₹ bn)	: 21.07
BSE 2 Wk Avg Vol	: 86000

**Share Holding Pattern (%)**

Promoters	: 40.38
DII's	: 18.18
FII's	: 5.22
Others	: 36.22

**Investment Theme**

Century is a Birla's Co. based in Worli, Mumbai, operating in Cement, Pulp & paper & textile business. it controls more than 55% of cement business of the Group. Cement is largest revenue contributor, However the Cement & pulp businesses are not doing well. The Birla group is also consolidating its cement business. Reportedly merger process of cement business of Century, owned B K Birla, with UltraTech Cement has started and the deal was likely to be inked in a few months. Century has underperformed the market in past one quarter, declining 20.32% as against 3.35% fall in the Sensex due to poor performance by cement & other divisions. The textile stock are recently showing sign of revival due to hopes of FDI. Century would also be beneficial. we remain bullish on the stock and thus recommend to buy.

**Consolidation to Turn Around**

## Financial Statements

### Income Statement

(₹ mn)

Year end	Mar 09	Mar 10	% Chg	Mar 11	% Chg
Total Sales + Excise	43559.6	49802.6	14.33	52741.4	5.90
Other Income	936.6	599.6	(35.98)	846.4	41.16
Change in Stocks	736.7	1122.0	52.30	380.6	(66.08)
Raw Material Con.	13575.8	14848.5	9.37	17327.4	16.69
Employee Exp.	4132.8	4551.2	10.12	3747.7	(17.65)
Indirect Taxes	4016.3	3926.1	(2.25)	4648.8	18.41
Other Exp.	16461.5	19042.7	15.68	20501.2	7.66
Operating Exp.	37449.7	41246.5	10.14	45844.5	11.15
Operating Profit	6109.9	8556.1	40.04	6896.9	(19.39)
Total Interest	1789.9	1729.2	(3.39)	1913.3	10.65
Gross Profit	5256.6	7426.5	41.28	5830.0	(21.50)
Net Dep.	2069.7	2358.1	13.93	2412.6	2.31
Total Taxation	821.5	1673.7	103.74	1042.5	(37.71)
Net Profit/Loss	2365.4	3394.7	43.51	2374.9	(30.04)

### 4 Years Balance Sheet

(₹ mn)

Balance Sheet as on 31 <sup>st</sup>	Mar 08	Mar 09	Mar 10	Mar 11
<b>SOURCES OF FUNDS</b>	<b>27049.8</b>	<b>32408.2</b>	<b>41266.7</b>	<b>49458.5</b>
Equity Share capital	930.4	930.4	930.4	930.4
Share Application Money	0.0	0.0	0.0	0.0
Preference Share Capital	0.0	0.0	0.0	0.0
Reserves & Surplus	11936.9	13854.3	16652.2	18432.3
Loan Funds	13428.6	17190.4	17627.4	20990.9
Unsecured Loans	753.9	433.1	6056.7	9104.9
<b>USES OF FUNDS</b>	<b>27049.8</b>	<b>32408.2</b>	<b>41266.7</b>	<b>49458.5</b>
Gross Block	36985.5	45497.8	46748.0	48107.9
Less : Revaluation Reserves	171.7	170.5	169.4	168.3
Less : Accumulated Depreciation	19842.7	19700.3	21904.3	24120.6
<b>Net Block</b>	<b>16971.1</b>	<b>25627.0</b>	<b>24674.3</b>	<b>23819.0</b>
Capital Work in Progress	6271.4	2282.9	12873.8	19983.5
Investments	277.0	465.4	584.3	683.6
Current Assets	13327.8	16691.3	20339.4	25763.1
Less : Current Liabilities	11612.6	13698.9	17205.1	20790.7
<b>Total Net Current Assets</b>	<b>1715.2</b>	<b>2992.4</b>	<b>3134.3</b>	<b>4972.4</b>
Misc. Expenses not written	1815.1	1040.5	0.0	0.0
<b>NOTE</b>				
Bk Val Unquoted Investments	7.0	7.0	34.4	10.8
Mkt Val. Quoted Investments	652.9	505.5	1476.5	1038.0
Contingent Liabilities	6663.7	15043.3	10681.8	13709.4
Dividend (%)	45	45	55	55

Quarterly Income Sheets

(₹ mn)

Quarter Ended	Dec 10	Mar 11	Jun 11	Sep 11
Net Sales	11636.80	13631.40	11760.30	10989.50
Cost Of Sales	10497.50	11881.50	10646.10	10445.60
Operating Profit	1139.30	1749.90	1114.20	543.90
Recurring Income	37.20	26.30	25.80	55.80
Adjusted PBDIT	1176.50	1776.20	1140.00	599.70
Financial Expenses	299.20	341.50	345.60	320.70
Depreciation	587.60	641.70	600.60	600.60
Other Write Offs	0.00	0.00	0.00	0.00
Adjusted PBT	289.70	793.00	193.80	(321.60)
Tax Charges	76.10	296.50	(45.20)	0.00
Adjusted PAT	213.60	496.50	239.00	(321.60)
Non Recurring Items	0.00	0.00	0.00	0.00
Other Non Cash Adjust	0.00	0.00	0.00	0.00
Net Profit	213.60	496.50	239.00	(321.60)

52 Week Index Relative Percentage Appreciation



CENTURYTEX vs SENSEX

Key Points

➡ Slowdown to hurt more

The overall profitability of the Company during the year has been adversely affected as compared to the previous year due to unfavourable market conditions prevailing for a major part of the year, particularly in the cement segment which is a major contributor to the revenues of the Company. Global economic recovery is still uneven and weak. Cement sector has a direct relation with Real Estate & Infrastructure sector, hence any slowdown in any of the sector mentioned could led to lower cement consumption & would impact the margins of the companies related.

➡ Paper & Pulp could impact too

For the paper industry, scarcity of quality raw material at attractive prices is a major concern. Also, macro-economic factors like future economic slowdown, sluggish demand, government policies etc., may affect the company`s business. Century Textiles & Industries has temporarily shut down its pulp and paper division operations situated at Lalkua, Dist. Nainital, Uttarakhand effective from Dec. 23, 2011 in order to comply with certain pollution control requirements and other technical reasons. this may deteriorate it operational performance further



### In a Nutshell

Century Textiles & Industries Ltd. incorporated in 1857, was under the Wadia Group which was later acquired by the BK Birla Group company. Till 1951 it had only one industrial unit - Cotton Textile Mills, since then the Company has been making rapid progress in widely diversified fields. The company has diversified its portfolio in Cement, Pulp & Paper, and Textiles & Real Estate. It has more than 50% production capability of Birla Group's cement interests. Century has a total land bank of 40 acres in the prime location of Worli, Mumbai which is likely to fetch premium prices for this, due to rising prices of Real Estate in the Financial Capital City. The Company is expected to focus more on realty business & textile business. The Birla group s consolidating its cement business which means, if the merger of cement business of Century & Ultratech takes place, it could lead o value unlocking of the business. The synergy could be beneficial to the Century. With the positive outlook on its related sectors due to growing demand & due to its diversified portfolio, its margins are expected to be in better position in the next few years. Therefore we remain bullish on the stock & recommend to buy this stock.

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### Rating Interpretation

<b>Buy</b>	: Expected to appreciate 20% or more over 12-months	<b>Reduce</b>	: Expected to depreciate up to 10% over 12-months
<b>Accumulate</b>	: Expected to appreciate 10% to 20% over 12-months	<b>Sell</b>	: Expected to depreciate 10% or more over 12-months
<b>Trade Buy</b>	: Expected to appreciate more than 10% over 45-days	<b>Trade Sell</b>	: Expected to depreciate more than 10% over 45-days

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