

**Century Enka Ltd.**

₹ 274

**Expect a Ton!****Buy**

Oct 07, 2016

**Company Background**

Established in 1965, Century Enka Limited (CEL) is an India-based company engaged in the manufacturing of synthetic yarn. The Company is a joint venture of B.K. Birla group and Accordis group of Netherland. Currently CEL has three manufacturing sites, located in name and style as Century Enka Ltd. (Pune), Konkan Synthetic Fibers (Mahad, Maharashtra) and Rajashree Polyfil in Bharuch, Gujarat producing nylon and polyester filament yarns (textile grade), polyester filament yarns (POY), jumbo beams, specialty yarns, industrial / fiber grade chips, industrial yarns and tire cord fabrics. The installed capacity of CEL is 1.46 Lac MT of Polymer - Chips, 1.25 Lac MT of Synthetic Filament & Industrial Yarn and 0.22 Lac MT of Tyre Cord Fabric. Since its inception the company has been continuously striving for modernisation, upgradation of capacity, debottlenecking of plant, improvement of plant efficiency and enhancing quality of product to compete with products manufactured from latest technology plants.

**Key Highlights**

- ➔ The demand of Nylon Filament Yarn (NFY) is witnessing a good growth due to lower raw material prices. The company has therefore converted a few more polyester spinning lines to NFY. It has also converted the two step Nylon Tyre Cord machines into one step process machines and enhanced their dipping capacity to increase the production rate and decrease energy costs.
- ➔ Due to the fact that in India GSFC is the only domestic supplier of raw material, the Company is aggressively working with various international suppliers and co-operating on technical know-how exchange to strengthen its contacts for a long term and continued supply of raw material.
- ➔ The company is focussed on reducing the costs and increasing operating efficiency in the long run. It has therefore initiated power purchase under open access at the Pune site and a captive generation plant at the Bharuch site.
- ➔ CEL has a respectable marketshare in most of the segments it operates in. The marketshare of Nylon Tyre Cord Fabric is around 25% and that of Nylon Textile Yarn is around 20%. Increase in operating margins due to business re-engineering along with a slight growth in sales can generate higher profits.

**Key Financials**

Year Ended 31 <sup>st</sup>	Mar 14	Mar 15	Mar 16
Revenue (INR mn)	16,610.1	13,770.2	12,912.2
Rev. growth (%)	(5.59)	(17.10)	(6.23)
EBITDA (INR mn)	1,328.5	1,874.3	1,226.9
Net profit (INR mn)	629.3	365.7	594.6
Shares outstanding (mn)	21.9	21.9	21.9
EPS (INR)	27.8	15.5	25.7
EPS growth (%)	210.17	(44.13)	65.64
P/E (x)	5.14	9.65	6.74
RONW (%)	9.43	5.23	8.17
ROCE (%)	12.75	9.01	11.51

**Nishant Chopra**

nishantc@indiratrade.com

**Info Codes**

Reuters	: CNTE.BO
Bloomberg	: CENK:IN
NSE	: CENTENKA
BSE	: 500280

**Market Data**

52 Wk Range (₹)	: 145 / 291
Shares in Issue (mn)	: 21.9
Mkt. Cap (₹ bn)	: 5.99
BSE 2 Wk Avg Vol	: 37000

**Share Holding Pattern (%)**

Promoters Holding	: 25.25
Corporate Holding	: 00.00
Domestic Institution	: 08.63
Foreign Institution	: 00.08
Public & Others	: 66.03

**Investment Theme**

CEL is an old company of the BK Birla Group, it is a low debt high growth company manufacturing Nylon and Polyester for use in many businesses especially Tyres and Apparels. The management has been striving to make it better. The company has been focussing on company has been continuously striving for modernisation, upgradation of capacity, debottlenecking of plant, improvement of plant efficiency and enhancing quality of product to compete with products manufactured from latest technology plants. Last year the CEL has done re-engineering work at two of its plants in line with the current business requirements. The power cost saving is also taken into consideration. The overall scenario for the company is significantly promising. We therefore recommend to Buy this stock at current price levels.

**Re-engineering Business!**

## Financial Statements

### Income Statement

(₹ mn)

Year end	Mar 14	Mar 15	% Chg	Mar 16	% Chg
Net Sales	14,667.9	12,185.3	(16.9)	11,436.4	(6.1)
Other Income	123.6	70.2	(43.2)	38.9	(44.6)
Change in Stocks	(37.1)	149.8	(503.8)	(466.7)	(411.5)
Raw Material Con.	9,590.2	7,760.1	(19.1)	6,108.3	(21.3)
Employee Exp.	557.9	713.0	27.8	724.2	1.6
Indirect Taxes	1,818.6	1,514.7	(16.7)	1,436.9	(5.1)
Other Exp.	913.4	1,190.6	30.3	1,353.7	13.7
Operating Exp.	12,880.1	11,178.4	(13.2)	9,623.1	(13.9)
Operating Profit	1,874.3	1,226.9	(34.5)	1,385.5	12.9
Total Interest	209.1	173.2	(17.2)	95.6	(44.8)
Gross Profit	1,665.2	1,053.7	(36.7)	1,289.9	22.4
Net Dep.	707.1	427.5	(39.5)	402.4	(5.9)
Total Taxation	328.8	260.5	(20.8)	292.9	12.4
Net Profit/Loss	629.3	365.7	(41.9)	594.6	62.6

### 4 Years Balance Sheet

(₹ mn)

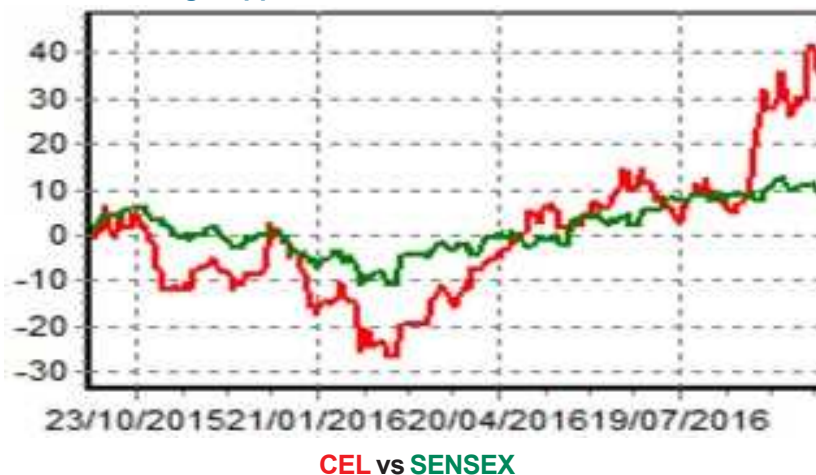
Balance Sheet as on 31 <sup>st</sup>	Mar 13	Mar 14	Mar 15	Mar 16
<b>SOURCES OF FUNDS</b>	<b>9,430.5</b>	<b>9,081.6</b>	<b>8,850.7</b>	<b>8,407.9</b>
Equity Share capital	218.5	218.5	218.5	218.5
Equity Application Money	0.0	0.0	0.0	0.0
Equity Share Warrants	0.0	0.0	0.0	0.0
Reserves & Surplus	6,319.8	6,792.8	6,942.9	7,340.3
Secured Loans	2,274.1	1,747.8	1,521.3	697.0
Unsecured Loans	618.1	322.5	168.0	152.1
<b>USES OF FUNDS</b>	<b>9,430.5</b>	<b>9,081.6</b>	<b>8,850.7</b>	<b>8,407.9</b>
Gross Block	17,162.7	16,173.8	16,809.1	17,131.7
Less : Revaluation Reserves	0.0	0.0	0.0	0.0
Less : Accumulated Depreciation	10,463.6	10,216.2	10,694.0	11,159.5
Net Block	6,699.1	5,957.6	6,115.1	5,972.2
Capital Work in Progress	30.2	222.3	122.7	18.8
Investments	31.9	85.2	85.2	727.7
Current Assets	4,249.0	4,253.2	3,934.1	3,191.3
Less : Current Liabilities	634.9	677.8	609.9	679.1
Total Net Current Assets	3,614.1	3,575.4	3,324.2	2,512.2
Misc. Expenses not writtenoff	(944.8)	(758.9)	(796.5)	(823.0)
<b>NOTE</b>				
Book Value of Unquoted Investments	1.5	1.5	85.2	727.7
Market Value of Quoted Investments	50.2	102.1	164.4	144.2
Contingent Liabilities	161.9	164.3	89.6	88.9
Dividend (%)	75.0	60.0	60.0	75.0

Quarterly Income Sheets

(₹ mn)

Quarter Ended	Sep 15	Dec 15	Mar 16	Jun 16
Net Sales	2,891.7	2,679.5	2,791.8	2,632.3
Cost Of Sales	2,631.7	2,354.4	2,395.7	2,202.8
Operating Profit	260.0	325.1	396.1	429.5
Other Income	17.7	23.0	33.5	36.6
Adjusted PBDIT	277.7	348.1	429.6	466.1
Financial Expenses	22.7	20.5	20.7	17.8
Depreciation	104.6	100.6	104.3	101.3
Other Write Offs	0.0	0.0	0.0	0.0
Adjusted PBT	150.4	227.0	304.6	347.0
Tax Charges	38.9	75.5	109.3	122.0
Reported Profit	111.5	151.5	195.3	225.0
Extra Ordinary Items	0.0	0.0	0.0	0.0
Other Non Cash Adjust	0.0	0.0	0.0	0.0
Adjusted Net Profit	111.5	151.5	195.3	225.0

52 Week Index Relative Percentage Appreciation



Risks Associated

➔ **Fluctuation in Raw material Prices**

The prices of raw material, mainly Caprolactam and Nylon Chips, are petroleum based and are closely linked with crude oil prices. Falling of crude oil prices in the international market may adversely affect the carrying cost of inventory and any rise may put pressure on margins.

➔ **Obsolescence of Product**

In Synthetic Yarn segment of Textile Industry, the Company is engaged in the production of Nylon Yarn, both for Tyre Industry as well as Apparel Industry. For Tyre Industry, it caters to the demand of Nylon Tyre Cord Fabric (NTCF) a reinforcement material for bias tyres. These tyres are mainly used for commercial vehicles (Truck & Bus). Radialisation of tyres is catching up fast due to improvement in road condition allowing higher mileage per tyre. NTCF is not used in radial tyre. In case of bus and truck tyres, it has already reached 35% penetration in the year 2015 and it is expected to reach a level of around 50% by 2020, thus impacting NTCF demand adversely. On the other hand, use of bias tyres is increasing in two wheelers and farm vehicles. On balance, the demand is likely to remain more or less stagnant.

➔ **Other Risks**

Obsolescence of technology may affect the production process and technical support from original equipment manufacturers. Further newer technology may result in cheaper products to manufacture which may create a business risk. Apart from this there are other risks like concerns pertaining to cheaper imports, high power cost, dependency on imported raw material, non level playing field for same products due to differential duty across states.



**In a Nutshell**

Century Enka Limited (CEL) is engaged in the business of nylon tyre cord fabric and polyester/nylon filament yarn. The Company's geographical segments include In India and Outside India. Its products include polyester filament yarn, nylon filament yarn, polyester partially oriented yarn (POY), polyester and nylon chips of industrial and fabric grade, and nylon industrial yarn. The Company offers mono filament yarns, multi-functional yarns, nylon POY for air texturizing, nylon products for cotton-nylon fabrics, and nylon tows. The Company offers yarn for knitting, narrow tape sector, and sewing thread and fish net, among others. Its yarns are used as reinforcing material in tyres, conveyor belts, V-belts, hoses, ropes and cordage, and broad and narrow wovens. It produces a range of nylon processed yarns for various application areas under the Enkalon brand. Its manufacturing sites are located at Pune (Maharashtra) and Rajashree Nagar (Bharuch-Gujarat). The company enjoys a significant marketshare of around 25% in Nylon Tyre Cord Fabric and around 20% in Nylon Textile Yarn. The company is a low debt high growth company and has been continuously striving for modernisation, upgradation of capacity, debottlenecking of plant, improvement of plant efficiency and enhancing quality of product to compete with products manufactured from latest technology plants. We feel given the latest approach of the management to its business where they are re-engineering the infrastructure to suit market needs, trying to reduce costs at all ends including power and expecting a surge in sales volumes after all this, the company should perform very well in the years to come. We therefore initiate a Buy on the company.

**Indira Group Offices**

**Registered Office** : 5, Indira House, 3rd Floor, Topiwala Lane, Lamington Road, Mumbai – 400007

**Tel** : 022-66224202 **Fax** : 022-66224201 **Email** : [im@indiratrade.com](mailto:im@indiratrade.com)

**Administrative Office** : 204-205 “Amardarshan” 28/2 Old Palasia, Indore (MP) 452018

**Tel** : 0731-4097170 **Fax** : 0731-4215999 **Email** : [customercare@indiratrade.com](mailto:customercare@indiratrade.com)

**Institutional Dealing Unit** : 5, Indira House, 3rd Floor, Topiwala Lane, Lamington Road, Mumbai – 400007

**Tel** : 022-66224209 **Fax** : 022-66224201 **Email** : [ie@indiratrade.com](mailto:ie@indiratrade.com)

**Rating Interpretation**

**Buy** : Expected to appreciate 20% or more over 12-months

**Accumulate** : Expected to appreciate 10% to 20% over 12-months

**Trade Buy** : Expected to appreciate more than 10% over 45-days

**Reduce** : Expected to depreciate up to 10% over 12-months

**Sell** : Expected to depreciate 10% or more over 12-months

**Trade Sell** : Expected to depreciate more than 10% over 45-days

**Disclaimer**

This document has been prepared by Indira Group of Companies (Indira). Indira and its associate companies are a full fledged retail and institutional broking group. Our research analysts and sales persons provide important input into our investment broking activities. This document does not constitute an offer or solicitation for the purchase or sale of any financial instrument or as an official confirmation of any transaction. The information contained herein is from publicly available data or other sources believed to be reliable, but we do not represent that it is accurate or complete and it should not be relied on as such. Indira or any of its affiliates shall not be in any way responsible for any loss or damage that may arise to any person from any inadvertent error in the information contained in this report. This document is provided for assistance only and is not intended to be and must not alone be taken as the basis for an investment decision. The user assumes the entire risk of any use made of this information. Each recipient of this document should make such investigation as it deems necessary to arrive at an independent evaluation of an investment in the securities of companies referred to in this document (including the merits and risks involved), and should consult his own advisors to determine the merits and risks of such investment. The investment discussed or views expressed may not be suitable for all investors. We and our affiliates, officers, directors, and employees may: (a) from time to time, have long or short positions in, and buy or sell the securities thereof, of company (ies) mentioned herein or (b) be engaged in any other transaction involving such securities and earn brokerage or other compensation or have other potential conflict of interest with respect to any recommendation and related information and opinions. This information is strictly confidential and is being furnished to you solely for your information. This information should not be reproduced or redistributed or passed on directly or indirectly in any form to any other person or published, copied, in whole or in part, for any purpose. This report is not directed or intended for distribution to, or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction, where such distribution, publication, availability or use would be contrary to law, regulation or which would subject Indira and affiliates to any registration or licensing requirements within such jurisdiction. The distribution of this document in certain jurisdictions may be restricted by law, and persons in whose possession this document comes, should inform themselves about and observe, any such restrictions. The information given in this document is as of the date of this report and there can be no assurance that future results or events will be consistent with this information. This information is subject to change without any prior notice. Indira reserves the right to make modifications and alterations to this statement as may be required from time to time. However, Indira is under no obligation to update or keep the information current. Nevertheless, Indira is committed to providing independent and transparent recommendation to its client and would be happy to provide any information in response to specific client queries. Neither Indira nor any of its affiliates, directors, employees, agents or representatives shall be liable for any damages whether direct, indirect, special or consequential including lost revenue or lost profits that may arise from or in connection with the use of the information. The analyst for this report certifies that all of the views expressed in this report accurately reflect his or her personal views about the subject company or companies and its or their securities, and no part of his or her compensation was, is or will be, directly or indirectly related to specific recommendations or views expressed in this report. The Analyst does not have any holding in this stock.