

Century Enka Ltd.**₹339****Values of Quality...!!!****Buy**

Nov 17, 2017

Company Background

Century Enka Limited is engaged in the manufacturing of Polyester Filament Yarn, Nylon Filament Yarn, Polyester POY, Polyester and Nylon Chips of industrial and fabric grade and Nylon Industrial Yarn and Nylon Tyre Cord Fabrics. It was incorporated in the year 1965 and it is a joint venture of B.K. Birla group and Accordis group of Netherland. CEL is committed towards values of Quality, Innovation & Fair business Practices for complete customer satisfaction. It has three plants: Century Enka Ltd. (Pune), Konkan Synthetic Fibers (Mahad, Maharashtra) and Rajashree Polyfil in Bharuch, Gujarat producing nylon and polyester filament yarns, polyester filament yarns, jumbo beams, specialty yarns, industrial / fiber grade chips, industrial yarns and tire cord fabrics. Company operates in synthetic yarn segment, producing nylon tyre cord fabric (NTCF) used as reinforcement material in bias tyres and nylon textile yarn used mainly by apparel industry. Bias tyres go mainly in commercial vehicles (trucks & buses), off the road tyre (OTR's) and two wheelers. Demand for NTCF for two wheeler, farm & OTR tyres is rise on the back of higher growth of these vehicles.

Key Highlights

- ➔ For the FY 2016-17 company earned a income from two products namely, Nylon Tyre Cord Fabric contributues 60.45% (₹8095.50 mn) and Nylon Filament Yarn 38.11% (₹ 5104.40 mn) for the total turnover.
- ➔ Net Sales jumped marginally by 3.2% to ₹ 11853.10 mn, other income also jumped by 259.40% to ₹ 154.90 mn, interest cost was down by 41.20% to ₹ 56.20 mn ultimately net profit rose by 53.90% to ₹ 909.70 mn for Mar 2017.
- ➔ Nylon tyre yarn manufacturing process is converted from two stage process to single stage process at Pune plant. Conversion of polyester textile yarn machines to nylon textile yarn machines resulted to higher production.
- ➔ Production of NTCF & industrial yarn was higher by 9.5% at 32,288 MT and of nylon textile yarn by 23.4% at 22,809 Mt for 2016-17. It evaluating entry into polyester tyre cord fabric market by using its existing conversion facilities.
- ➔ Company has planned to replace some old equipment to improve efficiency and quality in products and savings in energy cost.

Key Financials

Year Ended 31 st	Mar 15	Mar 16	Mar 17
Revenue (INR mn)	13,770.2	12,916.5	13,547.1
Rev. growth (%)	(17.10)	(6.20)	4.88
EBITDA (INR mn)	1,874.3	1,226.9	1,387.0
Net profit (INR mn)	365.7	591.0	909.7
Shares outstanding (mn)	21.9	21.9	21.9
EPS (INR)	15.5	27.1	41.6
EPS growth (%)	(44.13)	74.40	53.90
P/E (x)	9.65	6.40	10.27
RONW (%)	5.23	7.96	11.15
ROCE (%)	9.01	11.24	16.26

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Info Codes

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

Market Data

52 Wk Range (₹)	: 256/454
Shares in Issue (mn)	: 21.9
Market. Cap (bn)	: 7.40
BSE 2 Wk Avg Vol	: 17000

Share Holding Pattern (%)

Promoters Holding	: 25.00
Public & Others	: 62.00
Corporate Holding	: 00.00
Foreign Institution	: 05.00
Institutions	: 08.00

Investment Theme

Indian Textile Industry accounts for nearly 15% of total exports, size of Indian textile market in 2016 was around \$ 137 bn, which is expected to touch \$ 226 bn by 2023. Company operates in synthetic yarn segment, producing nylon tyre cord fabric (NTCF) used as reinforcement material in bias tyres and nylon textile yarn used mainly by apparel industry. Demand is likely to be same for NTCF, anti dumping duty on NTCF imports from China provides some relief but imports from ASEAN countries reduced import duty, puts pressure on product margin of domestic NTCF industry. Now abnormal increase in caprolactam prices and industry has not been able to pass on the customers. Company is continuously trying to minimise power cost, improving manufacturing process, stoped unviable products and evaluating new products will lead good future for the CEL.

We are, for your satisfaction...!!!

Financial Statements

Income Statement

(₹ mn)

Year end	Mar 15	Mar 16	% Chg	Mar 17	% Chg
Net Sales	12,185.3	11,484.8	(5.7)	11,853.1	3.2
Other Income	70.2	43.1	(38.6)	154.9	259.4
Change in Stocks	149.8	(515.0)	(443.8)	417.4	(181.0)
Raw Material Con.	7,760.1	6,352.6	(18.1)	6,981.4	9.9
Employee Exp.	713.0	728.2	2.1	779.2	7.0
Indirect Taxes	1,514.7	1,388.6	(8.3)	1,539.1	10.8
Other Exp.	1,190.6	1,156.5	(2.9)	1,247.9	7.9
Operating Exp.	11,178.4	9,625.9	(13.9)	10,547.6	9.6
Operating Profit	1,226.9	1,387.0	13.0	1,877.8	35.4
Total Interest	173.2	95.6	(44.8)	56.2	(41.2)
Gross Profit	1,053.7	1,291.4	22.6	1,821.6	41.1
Net Dep.	427.5	409.4	(4.2)	423.7	3.5
Total Taxation	260.5	291.0	11.7	488.2	67.8
Net Profit/Loss	365.7	591.0	61.6	909.7	53.9

4 Years Balance Sheet

(₹ mn)

Balance Sheet as on 31 st	Mar 14	Mar 15	Mar 16	Mar 17
SOURCES OF FUNDS	9,081.6	8,850.7	8,632.2	9,249.9
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	6,792.8	6,942.9	7,561.7	8,325.1
Secured Loans	1,747.8	1,521.3	697.0	525.3
Unsecured Loans	322.5	168.0	155.0	181.0
USES OF FUNDS	9,081.6	8,850.7	8,632.2	9,249.9
Gross Block	16,173.8	16,809.1	6,487.9	6,429.0
Less : Revaluation Reserves	0.0	0.0	0.0	0.0
Less : Accumulated Depreciation	10,216.2	10,694.0	472.8	740.9
Net Block	5,957.6	6,115.1	6,015.1	5,688.1
Capital Work in Progress	222.3	122.7	18.9	60.7
Investments	85.2	85.2	797.7	980.3
Current Assets	4,253.2	3,934.1	3,215.8	4,353.3
Less : Current Liabilities	677.8	609.9	479.6	928.8
Total Net Current Assets	3,575.4	3,324.2	2,736.2	3,424.5
Misc. Expenses not writtenoff	(758.9)	(796.5)	(935.7)	(903.7)
NOTE				
Book Value of Unquoted Investments	1.5	85.2	653.9	779.2
Market Value of Quoted Investments	102.1	164.4	143.8	201.1
Contingent Liabilities	164.3	89.6	59.4	52.6
Dividend (%)	60.0	60.0	75.0	70.0

Quarterly Income Sheets

(₹ mn)

Quarter Ended	Dec 16	Mar 17	Jun 17	Sep 17
Net Sales	2,811.6	3,575.1	3,374.7	3,062.2
Cost Of Sales	2,368.4	3,125.2	3,236.1	2,962.8
Operating Profit	443.2	449.9	138.6	99.4
Other Income	67.3	34.9	66.9	291.1
Adjusted PBDIT	510.5	484.8	205.5	390.5
Financial Expenses	3.6	15.0	9.4	8.8
Depreciation	103.6	114.8	101.6	103.8
Other Write Offs	0.0	0.0	0.0	0.0
Adjusted PBT	403.3	355.0	94.5	277.9
Tax Charges	141.7	122.0	33.5	96.5
Reported Profit	261.6	233.0	61.0	181.4
Extra Ordinary Items	0.0	(95.8)	0.0	249.1
Other Non Cash Adjust	0.0	0.0	0.0	86.5
Adjusted Net Profit	261.6	328.8	61.0	18.8

52 Week Index Relative Percentage Appreciation



Century Enka vs SENSEX

Risks Associated

- Company purchased power through open access for its Pune plant, but the change in open access tariff in Maharashtra since November 2016 has making power purchase unviable.
- Imports of Raw materials have high price volatility and many big players across the globe have either stopped or reduced their production.
- There will be a chance to come down profits, due to changes in foreign exchange rates, as the company involved in imports of raw materials, spare parts and exports of textile yarn, nylon chips.

Scope of Growth

- Nylon Tyre cord fabric is a major product of the company and generating around 60.50% of total turnover. We can expect same demand or marginal decline for the product in the future.
- CEL plans to undertake debottlenecking of its Nylon Tyre cord fabric dipping capacity & would install required machines for conversion of additional production of tyre cord into tyre cord fabric.
- Company continues its focus on conversion of polyester spinning machines into nylon spinning machines and will convert some more polyester spinning machines during the year.
- The company has planned to replace some old equipment to improve efficiency, quality and savings in energy cost.
- Company always trying to widen its product basket, is actively considering to use a part of its conversion and dipping capacity for polyester tyre cord fabric and also use dipping facility for rayon tyre cord fabric. And also evaluating entry into polyester tyre cord fabric market by using its existing conversion facilities.

In a Nutshell

Century Enka Limited is engaged in the manufacturing of synthetic yarn, incorporated in the year 1965. It is a joint venture of B.K. Birla group and Accordis group of Netherland. Company has three plants at Pune, Mahad and Bharuch. Products manufacturing by CEL are Polyester Filament Yarn, Nylon Filament Yarn, Polyester POY, Polyester and Nylon Chips of industrial and fabric grade and Nylon Industrial Yarn and Nylon Tyre Cord Fabrics. Among all the products Nylon Tyre Cord Fabric is giving contribution approx 60.50% to total turnover, company achieved ₹ 13392.20 mn for 2016-17. Higher power cost, imports of raw materials & spare parts and changes in foreign exchange rates will reduce the company profits. For 2016-17 company achieved a 3.2% growth rate of net sales to ₹ 11853.10 mn, other income has steep growth to ₹ 154.90 mn, interest cost was declined by 41.20% to ₹ 56.20 mn, tax charges was up by 67.80% to ₹ 488.20 mn and finally net profit was rose by 53.90% to ₹ 909.70 mn. Decline of raw material price is one of the concern for profit growth. Production of NTCF and industrial yarn was higher by 9.5% at 32,288 MT and of nylon textile yarn by 23.4% at 22,809 Mt for 2016-17. Higher production was achieved due to conversion to one step nylon tyre yarn manufacturing process from two step process at Pune. Conversion of polyester textile yarn machines to nylon textile yarn machines. Company is focusing on adding customer base and developing new products. And also evaluating entry into polyester tyre cord fabric market by using its existing conversion facilities. Company has good track record in dividend payouts, announced a dividend at ₹ 1.40 per share for the March 2017.

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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

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