Century Textiles & Industries Limited
RESEARCH

EQUITY RESEARCH October 17, 2007

RESULTS REVIEW

Share Data

Market Cap	Rs. 92.7 bn
Price	Rs. 997.10
BSE Sensex	18,715.82
Reuters	CNTY.BO
Bloomberg	CENT IN
Avg. Volume (52 Week)	0.6 mn
52-Week High/Low	Rs. 1,034/432.65
Shares Outstanding	93 mn

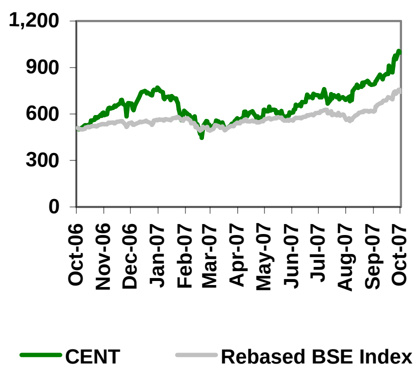
Valuation Ratios

Year to 31 March	2008E	2009E
EPS (Rs.)	53.9	66.2
+/- (%)	27.9%	22.9%
PER (x)	18.5x	15.1x
EV/ Sales (x)	2.9x	2.4x
EV/ EBITDA (x)	12.9x	10.4x

Shareholding Pattern (%)

Promoters	42
FIIs	12
Institutions	15
Public & Others	31

Relative Performance



Century Textiles and Industries Limited — Hold

Expansion in cement segment provides earnings growth

Century Textiles (Century) reported impressive results for the first quarter with net sales of Rs. 8,368 mn driven by a higher contribution from 'Pulp & Paper' and 'Cement' segment. On yoy basis, the revenues from paper and cement segment increased by 54% and 24.6% respectively due to their growing demand and improved realization rates. While EBITDA increased 53.4% yoy to Rs. 2,045 mn, margins improved 590 bps due to substantial decline in the production costs. Adjusted net profit improved to Rs. 1,225 mn, an increase of 72.7% yoy due to an increase in other income and a lower tax rate.

The Company is increasing the cement and paper producing capacity to capitalize on the upsurge in their demand. This is likely to improve efficiency and reduce production costs. In the light of the above, we expect an improvement in the volumes sold and therefore estimate sales to grow at a CAGR of 16.8% during FY07-09E.

Currently, Century is trading at 12.9x and 10.4x EV/EBITDA for FY08E and FY09E, respectively. Based on SOTP valuation, we believe all the positives have been factored in the current market price. Hence, we degrade our rating to Hold.

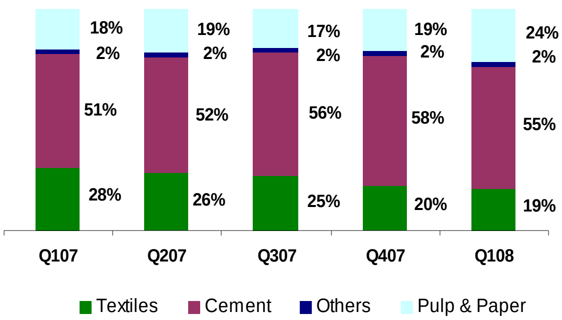
Result Highlights

Century's net sales increased by 16% to Rs. 8,368 mn due to a strong demand for pulp and paper and higher realizations in cement and paper segment.

Key Figures

Quarterly Data	1Q'07	4Q'07	1Q'08	YoY%	QoQ%
(Figures in Rs. mn, except per share data)					
Net Sales	7,215	8,756	8,368	16.0%	(4.4%)
EBITDA	1,333	1,946	2,045	53.4%	5.1%
Net Profit	709	1,444	1,225	72.7%	(15.2%)
Margins(%)					
EBITDA	18.5%	22.2%	24.4%		
NPM	9.8%	16.5%	14.6%		
Per Share Data (Rs.)					
Adjusted EPS	7.6	15.5	13.2	72.8%	(15.1%)

Segmental Contribution in Sales



On yoy basis, revenue from pulp & paper increased by 54% due to higher realization, optimum utilisation of plant capacity and sale of value added products. Revenue from cement segment grew by 24.6% owing to a higher sales realization, optimum capacity utilisation and good logistics. However, during the same period, revenue from textile fell by 24% due to the closure of the Mumbai mill, lower realizations and less demand in domestic market.

In order to capture the upsurge in cement demand, an additional capacity of 1 mtpa is expected to be added in FY08 to the existing cement production capacity of 6.8 mtpa. Further, we anticipate cement realization rates to rise by Rs. 3 per 50 kg bag in the next quarter despite the monsoon season. In the paper segment, we expect the new paper plant that commenced operations in the last quarter of FY07, to improve performance and bring additional revenue of Rs. 1,506 mn during FY08. Also realization is likely to witness an uptrend and we estimate an increase by 8% in FY08. All these factors are likely to improve efficiency and thereby sales volume.

Rising raw material costs is a concern

EBITDA increased 54.3% yoy to Rs. 2,045 mn while margins grew by 590 bps. On yoy basis, there was a significant reduction in production costs though raw material costs showed a continuous increase. Moreover, the Company has planned to set up a captive thermal plant of 30 MW near the new textile mill in Gujarat and a 35 MW thermal plant near the new cement grinding plant in West Bengal. Based on this, we expect the power and fuel costs to reduce in the future.

Margin improves due to reduction in interest expense and lower tax rate

Century's adjusted net profit grew 72.7% yoy to Rs. 1,225 mn. This was on account of increase in other income by 40% and lower tax rate. Margins improved by 480 bps though they were dampened by high interest expense which increased by 80.1% to Rs. 2.9 mn.

Key Events

Expanding pulp and paper segment to capture demand

100 TPD tissue paper plant expected to start contributing to the revenues by FY09

The Company has decided to set up a 100 tonnes per day prime grade tissue paper plant at a total capital outlay of Rs. 1,750 mn. The paper plant, proposed to be installed at Uttarakhand, is expected to be operational by

Sep'08. We have estimated the plant to generate an additional revenue of Rs. 288 mn for FY09.

Key Risks

- The government's initiative to freeze domestic cement prices in the future will adversely affect the realization rates and the Company's topline.
- Delay in capacity expansion across segments is likely to affect the Company's ability to capture the estimated demand and also its revenues.

Outlook

The booming economy has provided an impetus to the cement and pulp & paper businesses of Century resulting in an impressive performance.

Cement: To tap the current cement demand supply mismatch, Century intends to increase its cement production capacity from current 6.8 mtpa to 11.3 mtpa. The Company is expected to augment 1 mtpa capacity by Sep'07. The new grinding unit of 1.5 mtpa along with a 35 MW captive thermal plant at Sagardighi, West Bengal is likely to be operational by Sep'09 while the operation of the 2 mtpa plant in Maharashtra has been delayed and is awaiting environmental clearance from the government. The expansion is likely to benefit the Company's topline as the overall demand for cement is expected to grow at a CAGR of 10%-11% over FY07-10E due to a boom in the construction sector and increased expenditure on infrastructure development. However, subsequent capacity expansion across the industry and cement imports is likely to ease the demand supply mismatch and might create a surplus situation from FY09.

Capacity additions across segments likely to boost revenues and capture expected growth

Pulp & Paper: The pulp and paper industry is growing rapidly because of favourable government policies, increased government emphasis on education and a rapidly developing economy. We estimate paper realizations to increase by 8% in FY08E. The paper plant that began operations in the last quarter of FY07 is likely to improve efficiency and generate higher revenues for the Company. Moreover, the setup of tissue paper plant with capacity of 100 tonnes per day by Sep'08 should further enable Century to increase its market share. We expect the new plant to generate revenue of Rs. 288 mn in FY09E.

Textile: The textile industry is expected to register reasonable growth. So after the closure of the Mumbai mill, Century has planned to setup a new fabric plant in Gujarat with capacity of 25 mn metre pa along with a 30 MW thermal power plant to be commissioned by June, 2008. This new plant is likely to revive the Company's textile business and generate revenues of Rs. 1,042 mn in FY09E.

Foray in real estate: Century is negotiating with the 275 workers who have not yet accepted voluntary retirement after the closure of the Mumbai plant. An amicable settlement would trigger a significant rise in the stock prices as it would enable the Company to commercially develop the Mumbai mill. This would in turn, result in a significant value unlocking for the shareholders.

We expect sales to grow at a CAGR of 16.8% over FY07-FY09E driven by better realizations, and higher volumes on account of increased capacity.

Going forward, we expect margins to improve as the Company continues to increase its operational efficiency and reduce its power cost by setting up captive power plants.

Century is trading at a forward PE of 18.5x and 15.1x on our estimated earnings of Rs. 53.9 and Rs. 66.2 for FY08E and FY09E, respectively.

Based on SOTP valuation, including the valuation of the Mumbai mill land, we believe, the stock is fairly priced and has factored in the positives. Hence, we downgrade our rating to Hold.

Key Figures

Year to March	FY05	FY06	FY07	FY08E	FY09E	CAGR (%)
(Figures in Rs. mn, except per share data)						(FY07-09E)
Net Sales	24,415	25,783	31,402	35,927	42,861	16.8%
EBITDA	2,247	2,903	6,290	8,084	10,008	26.1%
Net Profit	1,047	1,087	3,922	5,015	6,164	25.4%
Margins(%)						
EBITDA	9.2%	11.3%	20.0%	22.5%	23.4%	
NPM	4.3%	4.2%	12.5%	14.0%	14.4%	
Per Share Data (Rs.)						
Adjusted EPS	11.3	11.7	42.1	53.9	66.2	25.4%
PER (x)	19.9x	38.0x	23.7x	18.5x	15.1x	

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