CENTURY TEXTILES & INDUSTRIES LTD
RESEARCH

EQUITY RESEARCH April 9, 2008

RESULTS REVIEW

Share Data

Market Cap	Rs. 67.6 bn
Price	Rs. 727.2
BSE Sensex	15,790.51
Reuters	CNTY.BO
Bloomberg	CENT IN
Avg. Volume (52 Week)	0.4 mn
52-Week High/Low	Rs. 1,275/469.5
Shares Outstanding	93.0 mn

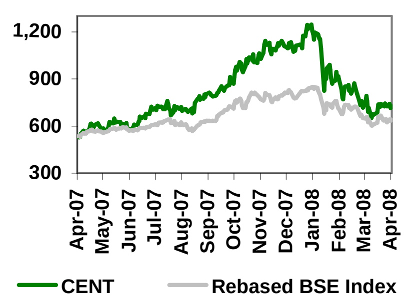
Valuation Ratios

Year to 31 March	2008E	2009E
EPS (Rs.)	52.8	61.3
+/- (%)	25.2%	16.2%
PER (x)	13.8x	11.9x
EV/ Sales (x)	2.3x	2.0x
EV/ EBITDA (x)	9.8x	8.4x

Shareholding Pattern (%)

Promoters	42
FIIs	12
Institutions	15
Public & Others	31

Relative Performance



Century Textiles and Industries Limited — Buy

Real estate to drive growth

We upgrade our rating on Century Textiles and Industries Ltd. (Century) from 'Hold' to 'Buy' on the basis of the following factors:

- **Commercial development of Mumbai land:** After the settlement of the VRS issue with the remaining 275 workers, Century has finalised the development of its 40 acre land for the purpose of hospitality services and IT/ITeS in two-phases over the next three years. This way the Company will be able to derive maximum benefit from the IT policy in Maharashtra which granted 100% additional FSI (of 2.66 vis-à-vis our estimate of 1.3) to the builders of IT parks resulting in an extra saleable area, thereby higher realisations. Moreover, the Company intends to lease out the entire developed area and the land in the prime location of Mumbai which will command higher lease rentals. Based on these factors, we have arrived at the NAV of the land at Rs. 840 per share.
- **Capacity expansion:** The Company is expected to commission 300 looms and 100,000 spindles to produce 25M metre denim by Jun'08 as against existing 21M metre. This along with 1.5MTPA addition in the cement division and the commencement of the 100 tonnes per day prime grade tissue paper plant by Sep'08, is likely to boost the total revenue for FY09E by 18.5% yoy.
- **Valuation**: At the current price, the stock is trading at a forward P/E of 13.8x and 11.9x for FY08E and FY09E, respectively. Using SOTP valuation, we have arrived at a 12-month target price of Rs. 1,355, including the valuation of Mumbai mill land.

Key Figures

Quarterly Data	Q3'07	Q2'08	Q3'08	YoY%	QoQ%	9M'07	9M'08	YoY%
(Figures in Rs. mn, except per share data)								
Net Sales	8,010	7,684	8,446	5.5%	9.9%	22,646	24,499	8.2%
Adj. EBITDA	1,590	1,584	1,733	9.0%	9.4%	4,299	5,363	24.7%
Adj. Net Profit	1,044	864	898	(14.0)%	3.9%	2,411	2,893	20.0%
Margins(%)								
EBITDA	19.9%	20.6%	20.5%			19.0%	21.9%	
NPM	13.0%	11.2%	10.6%			10.6%	11.8%	
Per Share Data (Rs.)								
Adj. EPS	11.2	9.3	9.7	(14.0)%	3.9%	25.9	31.1	20.0%

Result Highlights

Lacklustre performance of the cement and the textile segments…

During the quarter, net sales increased 5.5% YOY to Rs.8.4B. The top line witnessed a subdued growth due to the poor performance of the textile and the cement segments which accounts for around three-fourth of the Company's revenues. While the cement segment was affected by low demand, the textile segment suffered due to a drop in demand and shutdown of the Mumbai Textile mill. As a result, sales grew by a mere 2.6% on a yearly basis to Rs.4.7B in the cement segment and registered a decline of 27.7% YOY to Rs.1.5B in the textile segment. However, sales in the pulp & paper segment clocked a robust growth of 58.2% YOY driven by the introduction of value-added products along with improved realizations and optimal capacity utilization.

Power & fuel costs are on a rise...

Adjusted EBITDA grew 9% YOY to Rs.1.7B and the EBITDA margin went up by 670 bps YOY to 20.5% on account of lower employee costs and drop in freight and forwarding expenses. Sequentially, EBITDA grew by 9.4% while EBITDA margin declined 10 bps to 20.5%. EBITDA margins are expected to improve with the commissioning of 30 MW and 35 MW captive thermal plants at Gujarat and West Bengal by the first half of FY09E.

...higher interest expense due to additional debt raised in Q4'07 dented the bottom line

After providing for exceptional payments, net profit jumped 114.6% YOY to Rs.728M due to higher VRS payments in the corresponding quarter previous year. However, adjusted net profit went down 14% YOY to Rs.898M on account of higher interest and tax outgo.

Key Events

Tremendous value unlocking of the Mumbai mill land post - commencement of commercial development

- After VRS settlement with 6,600 workers, the Labour Commissioner of the Government of Maharashtra had given permission to close the operations of the textile mill at Worli, Mumbai. The operations of the mill were finally closed w.e.f. January 12, 2008.

Key Risks

Key risks to our rating include:

- Delay in capacity expansions will prevent the Company from timely capturing the surge in demand and negatively affect the projected top-line growth.
- Any strict measures taken by the government to curb the rise in cement prices in the future will adversely affect the cement realisation rates and thereby the Company's top line.
- The paper and textile industry is susceptible to cyclical fluctutations. A downward trend in the demand for these segments will adversely affect the revenues of the Company and bring down the earnings growth.

Outlook

Commercial land development in a prime location of Mumbai to unlock value for shareholders

Century has planned to lease out 40 acres of land of its Worli, Mumbai mill after it has decided to develop the infrastructures for the purpose of hospitality services and IT/ITeS. This would enable the Company to tap the benefit of 100% extra FSI as per the Maharashtra Government policy for IT parks, and hence to generate greater realisations. Moreover, the lease rentals in this area are already high (in the range of Rs. 300 to Rs. 400 per sq. ft.), and are expected to grow further by 15–20% per annum over next two to three years. Based on the above factors, we have arrived at the NAV of the land at Rs. 850 per share.

Cement: Due to the low demand the cement segment witnessed a stagnant growth during the quarter. However, we believe that this is a passing phase as with the increasing focus on the infrastructure development, the demand for cement is expected to increase at a CAGR of 13.5% over the next five

Undertaking aggressive capacity expansion plans to tap on the increase in demand for cement

years, according to industry estimates. Century is ramping up its production capacity to tap on this demand and is targeting to increase its production capacity to 11.3 mtpa. As a part of this ambitious plan, Century has already commenced work on a 1.5 mtpa grinding unit and a 35 MW captive thermal plant at Sagardighi, West Bengal, which is expected to be operational by Sep'08. However, the Company has still not stated any concrete plans for the setup of two mtpa cement grinding plant in Maharashtra, which is still awaiting environmental clearance from the government. To fund these expansion plans, the Company has raised debt in Q4'07 which has increased the burden on the bottom line in short term.

Pulp and paper segment's contribution in the top line is expected to rise

Pulp & Paper: We expect the revenues from the pulp & paper segment to grow at a CAGR of 24.7% during FY07-09E as a sequel to the favorable government policies, increased government emphasis on education, and a rapidly developing economy. Realizations are expected to increase by 9% in FY09E with the commencement of the 100 tons capacity per day tissue paper plant in Sep'08 and improved efficiency of the Company's newly operational paper plant.

Textile: After the shutdown of the Mumbai mill, Century is all set to establish a new fabric plant in Gujarat with a capacity of 25M metre per annum as the textile industry is likely to register a moderate growth. The Company will also set up a 30 MW thermal power plant, to be commissioned by June, 2008, to revive the textile business and generate estimated revenues of around Rs.1.04B in FY09E.

We expect the overall net sales to grow at a CAGR of 13.1% during FY07-09E, driven by better realisations and higher volumes on account of the rising demand and increased capacity across all the segments. However, escalating operating costs and increased interest burden will dent the bottom-line.

Century is trading at a forward PE of 13.8x and 11.9x on our estimated earnings of Rs. 52.8 and Rs. 61.3 for FY08E and FY09E, respectively.

Based on SOTP valuation, we believe that the stock is attractively priced and, hence, we upgrade our rating from 'Hold' to 'Buy' with a 12 month target price of Rs. 1,355 including the valuation of Mumbai mill land.

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	33,996	40,135	13.1%
Adj. EBITDA	2,247	2,903	6,290	8,057	9,432	22.4%
Adj. Net Profit	1,047	1,087	3,922	4,908	5,704	20.6%
Margins(%)						
EBITDA	9.2%	11.3%	20.0%	23.7%	23.5%	
NPM	4.3%	4.2%	12.5%	14.4%	14.2%	
Per Share Data (Rs.)						
Adj. EPS	11.3	11.7	42.1	52.8	61.3	20.6%
PER (x)	19.9x	38.0x	17.3x	13.8x	11.9x	

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