PROFITMART

RESEARCH REPORT

13TH April 2023

CENTURY ENKA LIMITED

BSE : CENTENKA | **Sector: NFY & NTCF** | **BSE: 500280**

View - BUY

CMP : Rs. 362

Target Price: Rs 600 (In next 12 to 18 mths)

BUSINESS BACKGROUND

Established in the year 1965, Century Enka Limited (CEL) a part of the B K Birla Group manufacturers Nylon Tyre Cord Fabric (NTCF) for the tyre industry, High Tenacity Yarn (HTY) for technical textiles and Nylon Filament Yarn (NFY) for the apparel industry. CEL is the largest producer of nylon yarn in India and quality leader in all the product categories. CEL's has 2 manufacturing facilities, one at Pune (Maharashtra) and the other at Bharuch (Gujarat)

Strong Financial Performance for FY22 & 9 months ended Dec 22 –

CEL reported a strong set of FY22 numbers in a difficult year with net sales at Rs 2098 crs as compared to a revenue of Rs 1223 crs last year, with EBIDTA placed at Rs 264 crs from Rs 120 crs last year with the PAT placed at Rs 184 crs from Rs 71 crs last year

For CEL for first 9 months of FY23 Revenue was Rs.1599.43 crs with EBIDTA at Rs 119.99 crs vs Rs 196.21 crs in first 9 months last year with the PAT at Rs 75.93 crs vs Rs 134.51 crs in same period last year. Operating profitability was badly impacted due sharp rise in caprolactam costs which saw a sharp rise in Q3FY23

INVESTMENT HIGHLIGHTS

CEL runs a strong business model in NFY/NTCF segment –

Century Enka provides high quality Nylon tyre cord fabrics for reinforcement of tyres which are used in motor cycles, scooters, light commercial vehicles (LMVs), heavy commercial vehicles (HCVs) and off the road (OTR).

CEL also makes Nylon filament yarn is a long continuous lustrous fibre, which is extensively used to produce a comprehensive range of textile fabrics such as sarees, draperies, furnishings and upholstery, sports-wear, mosquito nets and also for embroidery. Nylon filament yarn is known for its excellent dyeability, high tensile strength and elasticity with enhanced abrasion resistance, durability and toughness. Its properties make it the preferred choice over natural yarn options, such as cotton, silk and wool.

KEY DATA

FACE VALUE Rs	10.00
DIVD YIELD %	2.79
52 WK HI/LOW	634/340
NSE CODE	CENTENKA
BSE CODE	CENTENKA
MARKET CAP	RS 791 CRS

SHAREHOLDING PATTERN

PROMOTERS	-	25%
BANKS, MFs & DIIs	-	4%
FIIs	-	5%
PUBLIC	-	66%

KEY FUNDAMENTALS

YE	FY23	FY24	FY25
Rev Gr%	0.06	15	16
EBIDTA Gr%	-42	35	23
PAT Gr%	-49	40	23
EPS Gr%	-49	40	23
EPS (Rs)	42.56	59.60	73.23
ROE %	7	9	10
ROCE %	7	8	9
P/E(x)		6	5
EV/EBIDTA(x)		3	2

CEL is a market leader in NTCF and NFY –

Within the synthetic yarn segment of the textile industry, CEL produces Nylon Tyre Cord Fabric (NTCF) for the tyre industry, High Tenacity Yarn (HTY) for technical textiles and Nylon Filament Yarn (NFY) for the apparel industry. The Company is the largest producer of nylon yarn in India. and quality leader in all the product categories

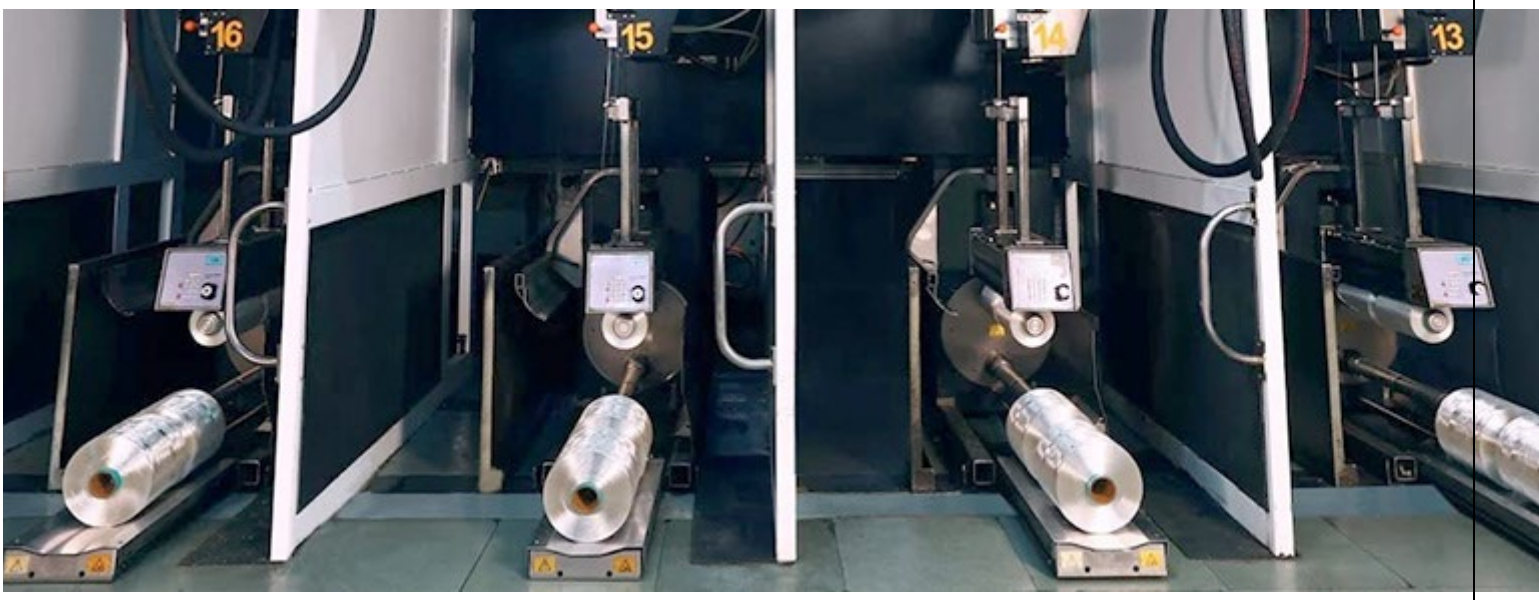
CEL's two state-of-the-art manufacturing facilities are located in Pune, Maharashtra and Bharuch, Gujarat, with a capacity of 78,000 MTPA. This capacity is inclusive of both NFY and NTCF capacities

CEL makes customised Nylon tyre cord fabric for reinforcement of tyres which are used in motorcycles, scooters, light commercial vehicles (LCVs), medium & heavy commercial vehicles (MHCVs) and off the road (OTR) vehicles.

Nylon Tyre Cord Fabrics (NTCF) are used as reinforcements in tyres to give them strength and durability. They provide shape to the tyres and support the weight of the vehicle. They are designed to keep tyres running longer and have significant effect on the performance of the tyres

Sub-products of Nylon Industrial Yarn & Tyre Cord Fabric include

Yarn –



Here Dried chips are fed into a melt spinning machines. The molten polymer is filtered before entering the spinneret (a wheel or plate with many tiny holes) to form yarn of different linear density as per specifications.

The filaments are coated with water & oil to ensure dimensional stability, then they are air quenched and solidified, offering outstanding tensile strength and low shrinkage under heated conditions, as well as high elasticity.

Greige Fabric –

Cord material is taken into the warp and interlaced with cotton or poly-cotton weft to produce reinforcing material for a wide variety of uses. Greige fabric (pronounced “grey” fabric) is the raw, unprocessed and unfinished woven fabric taken directly from a loom. Greige goods are the direct product of weaving when the fabric is still in its natural state and has yet to be bleached, dyed, coated or otherwise finished.

Dipped Fabric –

Greige fabric has very poor adhesion to rubber. Therefore, it is impregnated with an RFL (Resorcinol - Formaldehyde - Latex) solution which acts as a bonding agent between fabric and rubber.

The dipped fabric is hot stretched to reduce the effect of thermal shrinkage in a process known as heat setting. It is passed through different ovens to create adhesion with rubber, thus imparting dimensional stability. Dipped, heat-set fabric add high strength and adhesion, fatigue resistance and impact resistance.

Nylon tyre cord is made from high tenacity continuous filament yarn by twisting and plying. There are two major types of nylons used as tyre cord, i.e. nylon-6 and nylon-6,6.

The properties of nylon-6 and nylon-6,6 vary marginally and are controlled by the manufacturing process, type of stabilisers and additives used. In India only nylon-6 is produced commercially for tyre cord

The other materials used as tyre cord are cotton, rayon, polyester, fibre glass, steel,aromatic polyamides. Each of these materials has its own merits and demerits

The major criteria for acceptance of any material in tyre are its tensile strength, dimensional stability, durability, thermal stability, hysteresis and adhesion. Tests and actual application conditions have shown that although other cord materials meet one or more specific requirements, nylon by and large meets the desirable requirements for almost all the performance criteria

The tyre cord fabric provides the tyre its fundamental properties such as shape, size, load carrying capacity, abrasion resistance, fatigue resistance, etc. A tyre is a composite of cord and rubber. There are three varieties of tyres viz. bias-angle tyres, radial tyres and bias-belted tyres. They differ in the way the tyre fabric plies are laid inside the tyre

For nylon-6, the only major raw material required is caprolactam. Water is required as an initiator for ring opening during polymerisation. Nitrogen gas is required for blanketing, drying and conveying of polymer.

Nylon is made by polymerisation of caprolactam with certain additives like amino acids and dicarboxylic acid salts and certain heat stabiliser such as copper based organic compounds. The polymerisation process involves ring opening polycondensation and polyaddition reactions

Nylon Filament Yarn –

Nylon filament yarn is a long continuous lustrous fibre, which is extensively used to produce a comprehensive range of textile fabrics such as sarees, draperies, furnishings and upholstery, sports-wear, mosquito nets and also for embroidery. Nylon filament yarn is known for its excellent dyeability, high tensile strength and elasticity with enhanced abrasion resistance, durability and toughness

Nylon filament yarn is very suitable for the manufacture of a wide range of apparels because of its high strength and smoothness.

Moreover, the strength of nylon filament yarn doesn't diminish with life. It is one of the lightest textile fibres and also one of the strongest (strength to weight ratio of nylon filament yarn is high). Nylon filament yarn is added at the points of wear such as knees, seats of jeans and toes, and heel of socks

Also Nylon fabrics have excellent resilience. Nylon fabrics retain their smooth appearance and the wrinkles created as a result of daily activities can be removed easily. Also fabrics produced from nylon filament yarn have excellent draping qualities. The drape of the fabrics made from nylon can be modified depending on the yarn size.

Usage of nylon filament yarn for different applications

Ethnic wear - Nylon filament yarn is used to produce Indian ethnic wear for women and men. It includes sarees, salwar kameez, lehenga, kurtis for women and kurta pajama, sherwani, dhoti kurta for men. Basically, nylon filament yarn is available in five categories: georgettes, chiffons, crepes, kora silk and Bhagalpuri silk.

Nylon fabrics display properties similar to silk such as rich colours, silky feel, texture, easy dyeability, soft feel, comfort, durability, zari compatibility

Technical textiles / Industrial packaging –

These textiles are widely used for packaging purposes across industries. It also finds use in applications which require temporary bonding such as velcro fastening tapes, etc. and are recognised for their optimal quality. Use of nylon filament yarn results in increased durability and sustainable high-end fabric with high abrasion resistance properties.

Athleisure wear –

Athleisure is a fashion trend comprising clothing especially designed for daily workouts, exercise, athletic activities, casual outings, etc. Sports apparels have noticeably transitioned from the gym to the street and active wear has made the crossover to casual wear, which has resulted in increased demand for quality athleisure products. Nylon filament yarn is widely used in such kind of fabrics because of its good moisture absorption properties, soft feel, best abrasion resistance properties, etc.

Laces, nets and lingerie - Lightweight and exceptional strength makes nylon filament yarn great for laces and nets. It is not only stretchable but also highly durable. Nylon filament yarn facilitates creation of delicate designs in laces. Softness and moisture management makes nylon filament a great choice for lingerie.

Eco- green segment –

Responsible fashion starts with the right fabric. Century Enka's eco-friendly range is all about creating fashionable clothing with low environmental impact. These products are made by recycling yarn and polymer waste created during production.

However, it has the same purity and performance characteristics as virgin quality nylon. Additionally, production of dope-dyed yarns, i.e. colouration at spinning stage itself, further helps in saving water and reducing dyeing related pollution.

Nylon blends – Every yarn has its unique strengths. Blending allows us to achieve desired effects by incorporating the properties and characteristics of various yarns into a single fabric. Combining nylon filament yarns with other yarns helps increase the strength and stretch of the fabric

With increase in affordability and setting up of new technically advanced machinery, NFY is gaining fast acceptance in body-hugging apparels, work wear, active and functional wear. The industry, however, is dominated by small unorganised players with weak financials and with players who opportunistically switch between nylon and polyester

In NFY, CEL is a market leader with over 25% market share. After the lockdown was lifted, NFY demand picked up late, around September 2020. Pent-up demand and empty pipelines have helped record NFY higher sales volumes

To improve margins and to reduce competitive intensity, CEL plans to increase its capacity of Draw Texturing to add value to Partially Oriented Yarn (POY). CEL is also making efforts to develop export market for NFY made from Green Polymer.

CEL produces a broad range of High-Quality Nylon Processed Yarns for diverse application areas. The nylon industrial yarns are used for a variety of applications including fish-twines, conveyor belts, etc.

The brand name 'Enkalon' is a testament to its high quality material, which gives a soft, lustrous and elegant feel to the finished fabric. The nylon processed yarn can be used for various weaving applications on high-speed latest generation machines.

CEL offers a diverse product range of NFY comprising of mono filaments, mother yarn, Fully Drawn Yarn (FDY), Partially Oriented Yarn (POY), drawn textured yarns, dope dyed yarns, TOW, and draw wound yarns

Recent technology developments in CEL –

NTCF, which is used for reinforcement in vehicle tyres, conventionally uses caprolactam, a material made from crude oil, as raw material. To reduce the use of fossil fuels, Century Enka spent a year in R&D to create NTCF out of 100% recycled nylon yarn waste.

This process enables conservation of fossil fuels and reuses polyamide waste, thus making the nylon yarn and tyre sectors more sustainable. The first batch of the green product was shipped in November 2022 to M/s. Apollo Tyres

Century Enka's NTCF is used by some of the biggest tyre brands in the country, including Apollo Tyres, MRF, Ceat Tyres, Goodyear, JK Tyres, Metro, and Balkrishna Tyres & the company has already supplied MRF, one of its largest customers, with trial rolls and is working on similar developments at JK Tyres,

This new product was developed via a partnership with Apollo Tyres wherein CEL created a tyre with 75% NTCF made from its recycled caprolactam wherein it was able to conserve crude oil, a finite natural resource, for making virgin caprolactam and also avoid misuse of polyamide waste

Century Enka has been consistently recognised for its initiatives in water reduction, energy consumption and usage of renewable energy which include the following

Zero liquid discharge – An effluent treatment plant enables Century Enka's manufacturing process to achieve zero liquid discharge. All the water required during the process is used, reused, and recycled back to the cooling towers and other applications. In the last three years, it has cut consumption of freshwater by over a third.

Biodegradable fuel – Century Enka is one of the few companies in India that uses biodegradable briquettes to generate steam for the plant. The technology for this process has been developed in association with Thermax. These biodegradable briquettes are environmentally friendly, sustainable, and have a smaller environmental impact.

Hazardous waste treatment – The plant used to send out almost 950 tonnes of hazardous waste for disposal every year. Around three years ago, a dryer was installed to dry out the sludge before disposal. This step reduces the weight of hazardous waste by 80 percent. Earlier, waste from the nylon recycling process was sent to the incinerator for disposal. Currently, this waste is being sent to a co-processor to be converted into a high-calorific fuel for cement companies.

Energy conservation – Along with initiatives for boosting power-efficiency, the company is looking at sourcing renewable power, a mix of wind and solar power, to reduce the plant's dependency on grid power

Going ahead CEL plans to increase capacities both across NFY & NTCF –

CEL recently invested Rs. 86 crores, out of which the major portion was spent towards dipping capacity installation and expansion of Nylon Tyre Cord Fabric (NTCF) plant.

This capex will significantly increase the capacity at both the plants resulting into increased scale of operations. To achieve the vision of becoming a leading and dependable company in the tyre reinforcement and man-made textile yarn industries, CEL plans to allocate large portion of the capex towards capacity expansion of value-added products such as Nylon Tyre Cord Fabric (NTCF) and Polyester Tyre Cord Fabric (PTCF) in the future. CEL's synthetic yarn capacity is 78,000 tonnes/annum.

As per the company management it plans to raise its total capacity to 94000 tonns per annum involving a capex of Rs 400 crs which is expected to get completed this year. In FY23 during the first 9 months ending Dec 23, the company has already incurred Rs 219 crs capex wherein the target commissioning for NTCF expansion is expected by Q4 FY23. This capacity increase will take its installed capacity to 86000 tonnes per annum

Thereafter the company plans to start the production of PTCF and complete this project by Q4FY24 along with some additional capacity for NFY which will take its capacity to 94000 tonnes per annum. PTCF is in growing demand, because PTCF is used in passenger cars radials as reinforcement. Polyester tyre cords are generally used as reinforcement inside tyres used in passenger cars and light commercial vehicles.

A radial tyre comprising a reinforcing lining made up of a carcass ply and a reinforcement ply, and at least one of the carcass and reinforcement plies is reinforced with impregnated cords made of poly(ethylene terephtalate) fibres satisfying the four special requirements, an adhesive of the resorcinal-formaldehyde latex type is employed for the impregnation and the four conditions are tenacity, the long period of X-ray low-angle scattering, the end carboxyl group content and the diethylene glycol content of the polymer. The durability of the tyre is thus considerably improved

Profitability wise also PTCF is more profitable than NTCF which will also give a fillip to CEL's profitability going ahead in future. The radialisation in truck and bus tyres (largest category for NTCF) is set to have increased to over 40% in fiscal 2020 from 33% in fiscal 2015, and is likely to reach 60-65% by fiscal 2025.

This warrants players to enter the polyester tyre cord fabric (PTCF) and steel tyre cord fabric (STCF), used in radial tyres. The market leader, SRF Ltd, caters to PTCF (used in radial tyres) demand in India, while CEL has completed testing of commercial samples and plans to commence production in the medium term.

Domestic Tyre Industry growth looks strong & will drive higher demand for both NTCF and PTCF ahead –

Indian tyre manufacturers have undergone a strong capex of Rs 250-300bn in last 4-5 years. This is expected to remain robust in coming years (ICRA estimate of Rs 200bn over next 3 years) led by several factors like 1) gradual recovery in auto industry 2) increasing acceptance of Indian tyres in overseas market as export doubled to Rs 210bn from Rs 111bn in FY18 3) decline in tyre imports 4) new product launches and 5) stable replacement growth. In last five years (FY16-FY21), tyre production grew at 2.2% CAGR due to pandemic issue and semi-conductor shortage which indicates underutilization of already expanded capacities

With steady recovery in auto cycle underway, tyre production will accelerate in coming years which would improve demand for carbon black going ahead. According to ICRA, domestic tyre market is expected to grow 7-9% CAGR between FY22-FY25E

The CV cycle is expected to grow strongly with similar strong growth potential estimated in other vehicular segments from FY22. Also strong rural sentiment coupled with the recent pickup in urban demand should drive new vehicle sales, and thereby, boost OEM demand.

Replacement market contributes over 60% of domestic tyre production. And within replacement, CV segment's share stands at 72%.

T&B was the fastest growing segment in the last upcycle (i.e. FY16-19), driven by strong demand for higher tonnage trucks. However, during the current downcycle CVs were the worst hit. Pickup in automobile sales has started from H2FY21 and should last for the next couple of years. This will help healthy tyre sales (via OEMs) in the near-to-medium term.

Significant addition in vehicle population in the last upcycle and gradual pickup in economic activities should lead to next replacement upcycle. The T&B segment contributes over 60% of the replacement demand. While T&B was a big drag over the last two years, we expect strong revival in the segment as economic activities revive

Tyre industry volumes are likely to clock approximately 5% growth in FY24, after closing the current fiscal with 8-10% growth. The industry has started witnessing growth from the second half of FY21, which continued into FY22 driven by replacement demand, major revenue generator for the industry, and sharp boost in exports.

This growth is also driven by a steep decline in imports, particularly from China, following the application of customs duty and restrictions on imports by the Government of India to promote domestic manufacturing. As a result, imports fell from 8.7 million tyres in FY20 to 2.1 million tyres and 2.6 million tyres in FY21 and FY22, respectively.

The tyre industry recorded a 14% volume growth in FY22 Y-o-Y, and it is expected to end the year with a 4-5% growth Y-o-Y in volumes for FY23. The tyre industry has been recording growth across the past 10 quarters, primarily led by a combination of growth in volume and realisations.

Capacity Expansion Plans of Tyre Manufacturers –

The Indian tyre industry is expected to see significant capacity expansion in the upcoming two to three years. All major players in the industry have announced their plans

MRF has announced to set up a new facility in Gujarat where it plans to spend ~Rs 4,500 crores over next few years

Apollo tyres laid foundation for their fifth Indian facility in Andhra Pradesh which they will manufacture passenger vehicle tyres. The company is spending ~Rs 1800 crores in the first phase of the project. The facility is expected to commence operation in two years from now. Apollo is also planning to expand its T&B capacity at the Chennai plant which is expected to commence operations in this financial year

JK Tyre now plans to expand its T&B tyre capacity by 0.6 mn units at the Cavendish facility by investing Rs 275 crores

CEAT has announced a capex of Rs 3,000 to 4,000 crs over next 4 to 5 years. The company is entering into the OHT (off-highway tyre) segment with a new facility in the Amber Nath

CEAT is also planning to expand its capacity significantly PCR with a greenfield expansion in Chennai which Is expected to come online in line with Apollo's Andhra greenfield facility. It also has plans to expand it T&B and 2/3-Wheeler capacity by brown field expansion at Halol and Nagpur plant

Balkrishna Industries is coming up with an additional greenfield facility in the US with a capex of $100 mn (Rs 700 crs) which will manufacture 20,000 tonnes of OHT tyres every year.

The company is also spending Rs 500 crs in its domestic Waluj plant which will generate incremental capacity of 5,000 tonnes every year. Balkrishna also plans to set up a 140,000 tonnes/year carbon black facility

Bridgestone India is planning to spend $304 mn to increase its current capacity of 15,000 tyres per day to 41,000 tyres per day

Looking at the above expansion plans it seems there could be a competitive scenario amongst the tyre companies to gain market share as majority of the capacities have similar timelines.

The tyre companies might grow at a decent pace by selling more tyres however, their margins and return ratios might take a hit in order to achieve market share, however with increase in capacities announced there would be a increase in raw material requirements also especially NTCF and PTCF which are essential inputs for tyre making

Key Competitive Moats enjoyed by CEL –

CEL is a market leader in the NFY and NTCF segments with a market share of 25% and 23% respectively. Also the NTCF segment has only 2 large players which include SRF and CEL. The other players like NRC, Baroda Rayon are running to losses

CEL's current expansion plan from 78000 tonnes per annum to 94000 tonnes per annum involving a capex of Rs 400 crs would result in significant operating leverage from FY25 onwards

PTCF is a growing demand, because PTCF is used in passenger cars as reinforcement. Polyester tyre cords are generally used as reinforcement inside tyres used in passenger cars and light commercial vehicles

More important this entire capex has been funded via internal accruals. CEL continues to be net cash positive despite this expansion & has cash & investments totalling Rs 260 crs as on Sept 23

Century Enka's NTCF is used by some of the biggest tyre brands in the country, including Apollo Tyres, MRF, Ceat Tyres, Goodyear, JK Tyres, Metro, and Balkrishna Tyres

Additionally CEL is one of the few NTCF players which has successfully manufactured NTCF recently from recycled caprolactum wherein supplies post this new process has already started to Apollo Tyres. Supplies to other customers like MRF and JK Tyres are also likely to commence soon

The demand for nylon tyre cord is expected to increase due to the growth of the automotive industry in India. As the automotive industry expands, the demand for tyres increases, which in turn drives the demand for nylon tyre cord & PTCF

Reducing the carbon footprint is an important goal for CEL. CEL plans to reduce its carbon footprint by using renewable energy sources like solar or wind power. CEL also plans to reduce its carbon footprint by using sustainable materials in its products and processes. This could include sourcing materials from sustainable sources or using recycled materials. These efforts would go a long way to improve its ESG score in the long term which is also another positive

Experienced Management, Skilled Employee Base and the Promoters of CEL have approximately an average 20 years experience in the NFY & NTCF business. The majority of the company's Key Management Personnel have been employed with the company for over ten years and have contributed towards the growth of the company through their commitment and experience.

More importantly the domestic tyre market, is a huge growth opportunity and going ahead in terms of potential market size, the growth is expected to be strong for the next 3-5 years, which essentially puts CEL in a sweet spot, in this industry segment.

Key Weakness –

Key Raw material Caprolactam is imported –

CEL's main raw material caprolactum is largely imported with only one local producer namely GSFC. Therefore supply of caprolactum is a major logistic problem. Also pricing of this chemical depends on supply and demand scenario from time ti time

Increasing adoption of radial tyres

Adoption of radial tyres is expected to accelerate over the medium term, in line with global trends. The radialisation in truck and bus tyres (largest category for NTCF) was set to have increased to around 50% in fiscal 2020 from 33% in fiscal 2015 and is likely to reach 60-62% by fiscal 2025.

This warrants players to enter the polyester tyre cord fabric (PTCF) and steel tyre cord fabric (STCF) segments, which are used in radial tyres. The market leader, SRF Ltd, caters to PTCF demand in India, while CEL is currently undertaking capex to set up PTCF facilities that are expected to operationalise by the end of fiscal 2024

CEL enjoys a strong balance sheet with huge scalability potential going ahead –

CEL runs a strong business model covering multiple product segments across multi locations with a efficient working capital management while it continues to invest on a sustained basis largely from its internal accruals.

We expect that going ahead overall bottomline growth in the next 3 years starting FY23 onwards should easily increase at a CAGR of 20-22% and with capex funded largely from internal cash flows.

What is important is that CFO have remained positive since 2017 which have totalled Rs 56 crs in FY22 with net cash totalling Rs 260 crs as on Sept 22

Going ahead the company is confident of improving EBIDTA margins again to 10% following correction in raw material prices (caprolactam) in the coming year which will also improve in stronger OCFs in coming 2 years ahead

Business Outlook & Stock Valuation –

On a rough cut basis, in FY23E, Topline is expected to touch Rs 2099 crs, followed by Rs 2414 crs in FY24E and Rs 2800 crs in FY25E.

On the bottomline level we expect the company to record a PAT of Rs 93 Crs in FY23E which is expected to bounce back to Rs 130 crs in FY24 and Rs 160 crs in FY25.

Thus on a conservative basis, CEL should record a EPS of Rs 42.56 for FY23E. For FY24E and FY25E our expectation is that earnings traction for CEL would continue to be strong wherein we expect a EPS of Rs 59.50 and Rs 73.23 respectively.

Also another attractive point for CEL is that EPS growth over the next three years between FY23 to FY25 is expected to average 20% plus YoY but valuation multiples look quite low at 6x on FY24E.

On a EV/EBIDTA basis the stock trades at 3x & 2x on FY24 and FY25 which looks very low for a well established player enjoying good profitability, and a strong hold in its business segment, with strong operating cash flows. More importantly CEL will benefit from operating leverage fully from FY25 onwards once the full impact of PTCF sales gets reflected in numbers as margins here are attractive & offer a higher headroom for growth ahead

The company management is confident of improving EBIDTA margins in going ahead via operational efficiency and better pricing due to operating leverage benefits ahead

Looking at CEL's steady financial track record, strong business domain and dominant market share and strong promoters we expect the stock to get re rated in future.

Hence we believe that the CEL stock should be purchased at the current price for a price target of around Rs 600 over the next 18 months.

FINANCIALS

For the Year Ended March RsCrs	FY21	FY22	FY23	FY24	FY25
Net Sales	1223.00	2098.00	2099.43	2414.34	2800.64
EBIDTA	120.00	264.00	152.08	205.22	252.06
EBIDTA %	9.81	12.58	7.24	8.50	9.00
Interest	2.00	1.00	1.50	2.60	2.80
Depreciation	41.00	40.00	41.00	45.00	51.00
Non Operational Other Income	14.00	21.00	14.00	15.00	15.00
Profit Before Tax	92.00	241.00	123.58	172.62	213.26
Profit After Tax	71.00	184.00	93.00	130.00	160.00
Cash Profits	112.00	224.00	134.00	175.00	211.00
Diluted EPS (Rs)	32.49	84.21	42.56	59.50	73.23
CPS (Rs)	51.26	102.52	61.33	80.09	96.57
Equity Capital	21.85	21.85	21.85	21.85	21.85
Reserves	1067.00	1229.00	1322.00	1452.00	1612.00
Borrowings	13.00	15.00	43.00	45.00	40.00
GrossBlock	720.20	807.68	1016.68	1207.68	1210.00
Investments	302.00	260.00	256.00	225.00	245.00

Source Company our Estimates

KEY CONCERNS

Key Raw material Caprolactam is imported –

CEL's main raw material caprolactum is largely imported with only one local producer namely GSFC. Therefore supply of caprolactum is a major logistic problem. Also pricing of this chemical depends on supply and demand scenario from time ti time

Increasing adoption of radial tyres

Adoption of radial tyres is expected to accelerate over the medium term, in line with global trends. The radialisation in truck and bus tyres (largest category for NTCF) was set to have increased to around 50% in fiscal 2020 from 33% in fiscal 2015 and is likely to reach 60-62% by fiscal 2025.

The market leader, SRF Ltd, caters to PTCF demand in India, while CEL is currently undertaking capex to set up PTCF facilities that are expected to operationalise by the end of fiscal 2024