Dec 17, 2020 | PICK OF THE MONTH | VOL-6, NO-21

Industry: Textiles

Century Enka Limited

BUY

CMP: Rs.217 | TARGET PRICE: Rs.300 | TIME : 12 months

OVERVIEW: Textile Industry:

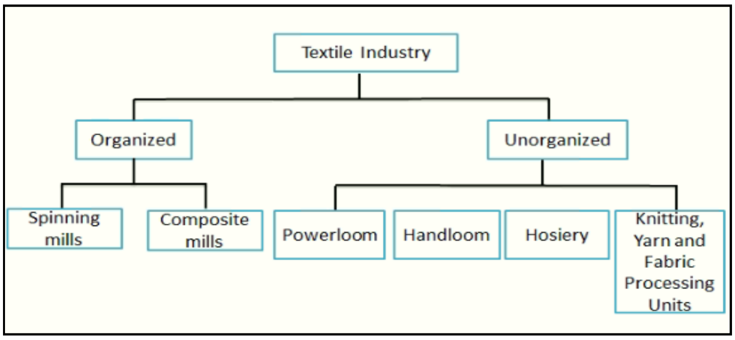
Dating back to centuries, the Indian textile sector is regarded as one of the oldest industries of the Indian economy. It has an inherent link with agriculture (for raw materials such as cotton) alongwith the rich and varied culture and traditions of the country, which embarks a formidable presence of the sector. The Indian textile industry is the second largest manufacturer and exporter in the world after China.

As per Ministry of Textiles annual report, the share of textile and apparel (T&A) including handicrafts in India's total exports stood at a significant 12% in 2019. India has a 5% share in the global trade of textiles and apparels. The domestic textile and apparel market is estimated to grow at a CAGR of 25% by 2025. With regard to employment, the industry seconds after agriculture and employs approx. 4.5crore people directly and another 6crore labour in the allied sectors, including a large number of women and rural population. Increasing disposable income, favourable demographics and growing retailers and e-commerce clothing segments are the major factors to drive demand. It is one of the leading segments of the Indian economy and key source of foreign exchange earnings. With the objective to increase FDI investments and to grow at a faster pace in the global apparel market there has been an increasing focus of the government's stimulus as well.

Structure of the Textile Industry:

As per Textilelearner.blogspot, production of textiles is structured across the organized and unorganized sector. The organized sector consists of spinning mills and composite mills. *Composite mills are those where all the activities, i.e., spinning, weaving and processing are performed. On the other hand, the unorganized sector is comprised of powerloom, handloom, hosiery, knitting yarn and fabric processing units.*

Exhibit 01: Structure of Textile Industry



Source: textile learner blogspot, Progressive Research

Prominent Usage: Textile can be made from a variety of materials and are classified depending on the components that are used for manufacturing. Also, materials come from either of the four main sources viz; animal (wool, silk), plant (cotton, flax, jute), mineral (asbestos, glass fiber) and synthetic (nylon, polyester, acrylic).

Nylon is significantly used in the Indian textile industry for the purpose of apparel and clothing, home furnishing and industrial use. *Nylon is a popular synthetic product which is synthesized by melting and processing a number of polyamides.* Based on its characteristics of elasticity, shape retaining ability, resilience and responsiveness to heat setting; Nylon has retained its fame and demand in the apparel industry. In India, nylon is mostly used in textiles, tyre cords and engineering plastics, where the primary type of nylon put to use is Nylon-6. The textile industry is one of the major users of nylon fibers due to its waterproof and fast-drying capability.

Nylon Filament Yarn (NFY), a continuous long fiber finds its applications in textile fabrics, knitting, weaving, embroidery, fishing nets and other industrial applications. As per ASD Reports.com, the NFY in India grew at a CAGR of ~5% during 2015-2020. With the increased use of NFY in production of sarees, scarves, fishing nets, wrap knits coupled with the overall increase in the apparel industry, immense growth in NFY is anticipated through 2030.

SNAPSHOT

52 week H / L	Mcap (INR mn)
221/100	4,749
Face value: 10	
BSE Code	NSE CODE
500280	CENTENKA

Annual Performance

(Rs mn)	FY18	FY19	FY20	FY21E
Total Revenue	14,165	17,914	14,235	11,353
EBITDA	1,117	1,505	932	681
EBITDA (%)	7.9	8.4	6.5	6.0
Other Income	178	216	422	322
Interest	34	35	35	21
Depreciation	419	450	455	472
PBT	841	1,236	864	510
PAT	701	766	955	386
Equity (Rs mn)	219	219	219	219
EPS (INR)	32	35	44	18

Quarterly Performance

Parameters (Rs mn)	Dec-19	Mar-20	Jun-20	Sept-20
Sales (Net)	3,696	3,443	1,024	2,755
EBITDA	190	252	(310)	215
EBITDA (%)	5	7	-	8
Other Income	68	156	75	55
Interest	6	15	4	4
Depreciation	113	111	102	98
PAT	92	219	(249)	148
Equity (Rs mn)	219	219	219	219

Ratio Analysis

Parameters (Rs mn)	FY18	FY19	FY20	FY21E
EV/EBITDA (x)	4.3	3.3	5.2	7.0
EV/Net Sales (x)	0.3	0.3	0.3	0.4
M Cap/Sales (x)	0.3	0.3	0.3	0.4
M Cap/EBITDA (x)	4.3	3.2	5.1	7.0
Debt/Equity (x)	0.2	0.2	0.1	0.1
ROCE (%)	8	12	8	5
Price/Book Value (x)	0.5	0.5	0.5	0.5
P/E (x) TTM	4.0	4.3	14.8	12.3

Shareholding Pattern as on 30th Sept, 2020

Parameters	No of Shares	%
Promoters	5,418,048	24.8
Institutions	1,601,572	7.3
Public	14,830,879	67.8
TOTAL	21,850,499	100.00

Source: Annual Report

Note: All the data is calculated as per Market Price on 16th Dec, 2020

Please Turn Over

PROGRESSIVE®
Your Progress Our Priority...
Equities | Derivatives | Commodities | Currency | Depository | Mutual Funds | NBFC | e-Broking

Dec 17, 2020 | PICK OF THE MONTH | VOL-6, NO-21

Industry: Textiles | **Century Enka Limited** | **BUY**

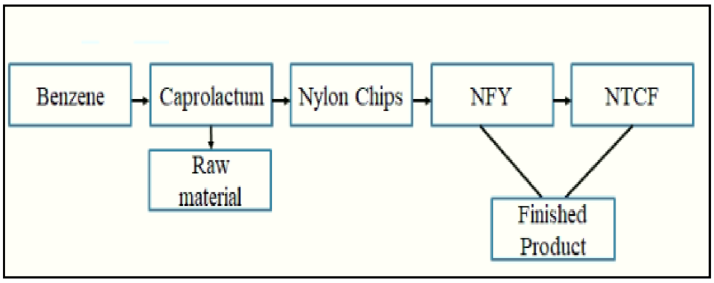
CMP: Rs.217 | **TARGET PRICE: Rs.300** | **TIME : 12 months**

OVERVIEW: Industry (contd.)

Few listed leading players of NFY in India: SRF Ltd, Century Enka, JCT Ltd and NRC Ltd

Nylon Tyre Cord Fabric (NTCF) is the reinforcing material that provides the tyre with a dimensional stability and thereby acts as a support to the vehicle weight. It is used for manufacturing of bias tyres that provide abrasion strength, controlled deformation, etc., hence are widely used in the tyre industry. As per Grandview Research, the global tyre fabric cord market was valued at USD5.5bn in 2019 and is estimated to grow at a CAGR of 3.4% from 2020-2027 backed by the growth in passenger cars, rising demand for durable fuel-efficient tyres. On the other hand, ***Polyester Tyre Cord Fabric (PTCF)*** is used as a reinforcement material in radial passenger vehicle and light commercial vehicles.

Exhibit 02: Value Chain



Source: Market Data , Progressive Research

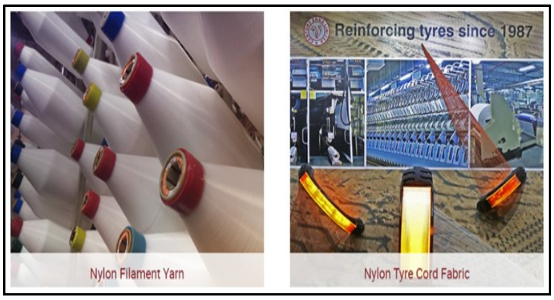
About the Company:

Century Enka Limited (Century Enka) was established in 1965 as a part of B.K. Birla group of companies, known for its legacy of trust and commitment. Century Enka is into the synthetic yarn segment of the textile industry, where it produces NFY for the apparel industry and NTCF for the tyre industry. It is the largest producer of NFY and the second largest manufacturer of NTCF in India with a capacity of ~30,000ton/annum and ~32,000ton/annum respectively. The manufacturing facilities are based out of Pune and Bharuch. Going forward, the company aspires to expand its horizon for the tyre industry into PTCF and eventually Rayon Tyre Cord Fabric (RTCF) owing to its growing demand in the automobile industry. Smt. Rajshree Birla is the Chairperson of the company.

Product Range:

The company's product range is broadly classified into 2 parts: **(a) Nylon Filament Yarn and (b) Nylon Tyre Cord Fabric.** Century Enka produces a wide range of high quality NFY comprising of mono filaments, mother yarn, FDY, POY, draw textured, dope-dyed yarns, TOW, draw wound yarns. In addition to this, the company also manufactures customised tyre cord fabrics that act as reinforcement material used in motor cycles, scooters, light commercial vehicles (LCVs), heavy commercial vehicles (HCVs) and off the road (OTR). The brand name **Enkalon** stands as a testimony to the high quality of finished fabric.

Exhibit 03: Product Basket



Source: Company Website

As of March, 2020, NFY (that finds its applications in apparels, sarees, dupattas and dress materials) stood at a market share of 25% and revenue contribution of 51% while NTCF, (used for manufacturing bias tyres), commanded 23% of the market share and 49% revenue contribution. Besides the traditional product offerings, the company has started moving towards potential value added products like dipped PTCF and RTCF, doped dyed yarn, dyeable yarn, etc. to mention a few.

INVESTMENT RATIONALE:

(A) Renewed Focus-PTCF/RTCF:

The Indian tyre industry plays an integral part in the Auto sector and its growth is directly proportional to the growth and demand of the sector. Thereby, with the auto sector being in doldrums, demand for tyres had also been in the downtrend since 2018. Bias tyres that have nylon cord fabric as one of the key component and its muted demand impacted the performance of the company as well. Revenue contribution dropped from 60% in FY18 to 54% in FY19 which further dropped to 49% in FY20 owing to the tyre demand contraction aggravated through the pandemic and the overall economic slowdown. For FY20, the poor off-take in NTCF led to drop in volumes by 16.05% from 33,050MT in 2019 to 27,745MT in 2020. In order to capitalize on the lost opportunity, the company is looking to enhance and broaden its customer base.

The Transition: Over the last few years, the automotive industry witnessed a significant surge in the level of tyre awareness among the vehicle buyers, which has led to a continuous shift from bias tyres (consists of multiple rubber plies overlapping each other) to radial tyres (these are made using steel cord and PTCF as the reinforcement material), largely because of longer shelf life and better riding comfort. Furthermore, this shift is expected to continue largely in the key segments of medium and heavy vehicles. Thereby, with the intent to widen its horizon; the Management of Century Enka has decided to start production of PTCF and RTCF. PTCF segment presents lot of opportunities for the Indian manufacturers, with an estimated annual domestic demand of 15,000TPA of which only 4,000TPA is catered by the domestic PTCF manufacturers, the rest is imported from China and Thailand. Overall, the demand for PTCF is expected to grow with the increased demand of cars.

Evolving Trend: Product diversification and addition of new dipping lines to ramp up production will gradually lead to decreased share of its major raw material i.e. Caprolactum, that accounts for more than half of its entire raw material used. Having a history of being volatile in nature, Caprolactum has led to margin contractions for the company. There has been a shift towards radialisation in the bus and truck segments due to improved road conditions and strict compliance of overloading laws. Overall, in the long run demand for PTCF should outperform the demand for NTCF, due to its growing feet both in the domestic and overseas market, hence the production and export of PTCF is set to rise in the next 5 years.

Please Turn Over

INVESTMENT RATIONALE (contd.)

(B) Inclination Towards NFY Segment:

The company has made consistent efforts to expand the NFY segment which is evident in its increased revenue contribution from 40% in FY18 to 51% in FY20. The market share as on FY20 stands at 25%. In the apparel industry, the company caters to the NFY demand which has witnessed strong traction in recent years, owing to its wide range of applications across a variety of fabric such as wrap knits, circular knits, narrow weaves along with its use on rapier and water jet looms.

The Slowdown Effect: During FY20, disruptions in China led by the pandemic outbreak enabled the company to achieve higher sales volume of ~2% as compared to FY19. However, the margins remained a cause of concern on account of higher dumping of cheap material from the Chinese as well as other Asian countries along with the volatility in the prices of raw materials like nylon chips and Caprolactum.

Recovery On the Cards: As a matter of fact, since many unorganized players are involved in the NFY segment which further leads to lower margins and intense competition, the company has been laying its efforts in developing the export markets and introducing new products. According to Ind-Ra, despite the recent headwinds being faced by the apparel industry, a recovery in demand is expected from Q3FY21 assuming the pandemic related fear to subside. The report further stated that FY22 is anticipated to see a sharp recovery on a y-o-y basis with a lower base effect and new store openings, led by a shift more towards the organized players. All of this can lead to a growth in the apparel industry and thus provide some respite at the company level as well.

Provisions Adopted: The company has successfully leveraged on this increased demand by converting all its polyester spinning machines into nylon spinning machines, which led to the highest ever production and sale by the company in 2019. Despite removal of anti-dumping duty on imports; including China, the company aims to surpass the performance it delivered in this segment. This is due to its diversified product base and further focus on valued-added products like deep dyed yarn, textured yarn, etc. This is a much needed move to fetch higher margins and indeed a pre-requisite for the next leap of growth. The value added products that the company is gradually adding to its offerings further are expected to give a fillip to the margins of the company.

(C) Risk Analysed, Definitive Action Planned:

The manufacturing of tyres requires more than 250 raw materials amongst which the major components include natural and synthetic rubber, nylon tyre fabric, carbon black, Caprolactum (an intermediate used in production of nylon-6 fibers) etc. Gujarat State Fertilizers and Chemicals Limited (GSFC) is the sole domestic manufacturer of Caprolactum and the company is unable to meet the total demand of the domestic industry. In the past, Century Enka has faced uncertainties in terms of raw materials shortage in India and thus is heavily dependent on imports. These misfortunes came in with higher inventory cost along with fluctuations in raw material prices coupled with currency fluctuations.

In order to avoid the unexpected disruptions, the company is continuously working towards increasing its supplier base to reduce the costs. Cost reduction measures such as negotiations in prices of nylon chips and Caprolactum, product diversification approach such as catering to new value added products for textile applications and entry in export market will protect the company against future eventualities, thus retaining its market share.

Roadmap Set Ahead:

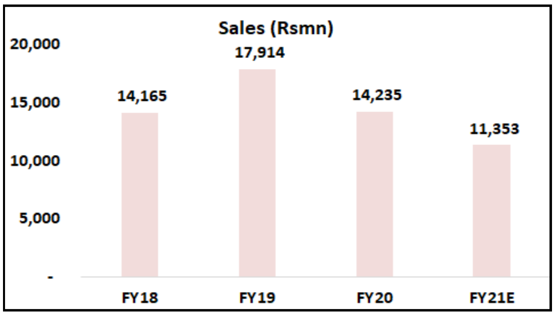
The company aspires to be a leading and reliable organization in the business of tyre reinforcement and man-made textile yarns. The future endeavours that would enable the company to achieve this mission are stated below:

- Cost rationalization approach
- Increase the customer base
- Improve the plant efficiency
- Strengthen the balance sheet
- Premiumisation in the product range

Financial Snapshot:

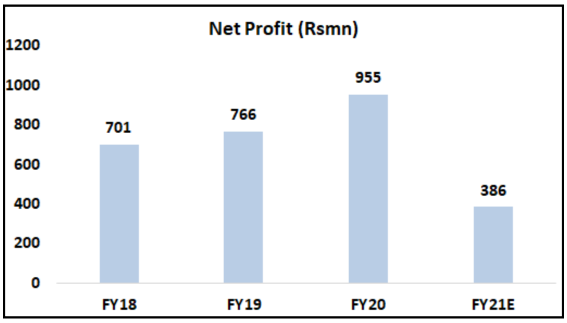
FY20 revenues came in at Rs14,235mn as against Rs17,914mn in FY19, drop of 20.5%. This was on account of nationwide lockdown that led to temporary shut-down of its plants located in Pune and Bharuch. Post the gradual unlocking, production at both these plants have restarted in a gradual manner. On the other hand, a sharp correction in the price of the key raw material (Caprolactum) from USD1,735/MT in 2019 to USD1,105/MT in 2020, affected the margins of the company that came in at 6.5% in FY20 as against 8.4% in FY19. The PAT came in at Rs955mn in FY20 as against Rs766mn in FY19; owing to lowering of corporate tax by the Government. The company has reported DPS of Rs8/- share in FY20. In the recent quarter (Q2FY21), the company reported sales of Rs2,755mn as against Rs3,344mn in Q2FY20. Ebitda margins came in at 7.8% as against 3.8% in Q2FY20. The profits stood at Rs148mn as against Rs460mn in Q2FY20.

Exhibit 04: Revenue Growth



Source: Annual Reports, Progressive Research

Exhibit 05: PAT Performance



Source: Annual Reports, Progressive Research

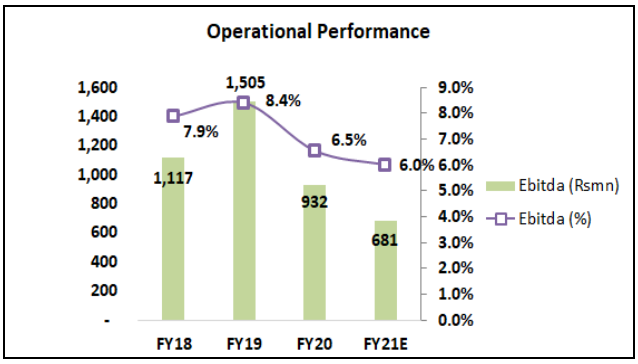
Dec 17, 2020 | **PICK OF THE MONTH** | **VOL-6, NO-21**

Industry: Textiles | **Century Enka Limited** | **BUY**

CMP: Rs.217 | **TARGET PRICE: Rs.300** | **TIME : 12 months**

Financials: (contd.)

Exhibit 06: Ebitda v/s Ebitda Margins



Source: Annual Reports, Progressive Research

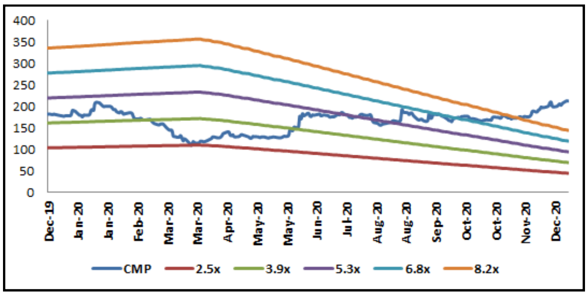
Risks and Concerns:

- Century Enka is heavily dependent on imports, which may lead to unusual supply and currency fluctuations.
- Removal of anti-dumping duty of NFY has led to increase in imports from China, the largest producer country globally, causing pressure on margins.
- Profitability of NFY may suffer due to competition from fragmented small and medium producers and imports from FTA countries.
- Higher energy cost continues to be a concern, although the company is continuously working on various options including power purchase under open access and exploring alternate sources of power. The recent qualification for power subsidy in its Pune plant will mitigate the power cost to some extent.
- It has a pending litigation for excise duty demand of Rs2,293mn with interest and penalty of the same amount. Till date, the company has not made any provision for the same. It could have financial implications if not in the favour of the company.

Outlook and Recommendations:

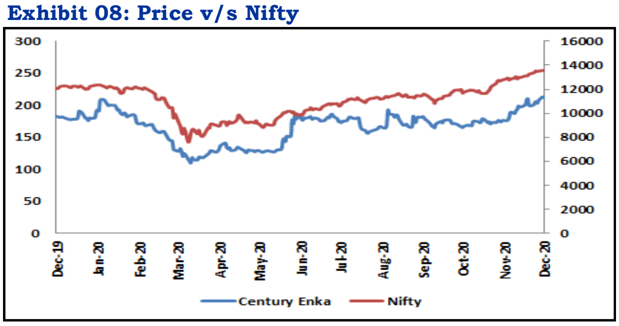
The company has a niche product pipeline at its end that caters the demand for both the apparel and auto sector. As reiterated earlier, despite the raw material concern and dependency on imports which can hamper the company's performance in the industry, the management has been consistently putting efforts to tweak its business model, which would gradually act as a shield for the company from the raw material headwinds as well as currency fluctuations. As far as setting up the new parallel line of PTCF and eventually into RTCF is concerned, we find that the company, being a dominant player in the industry, is aptly positioned to cater to its existing and potential customers for these new products in the pipeline. On the other hand, after the slow and gradual unlocking phase, some respite has been witnessed in the auto sector invariably benefitting the tyre industry. Financially, the company has a decent gearing ratio over the past years and has maintained a stable dividend payout in rewarding its shareholders. Betting on the solution-oriented approach of the management and likely change in the structure of the textile industry in the near future, we initiate a **Buy** call on the stock with a target of Rs300 over a horizon of 12 months.

Exhibit 07: One Year Forward P/E



Source: Ace Equity

Exhibit 08: Price v/s Nifty



Source: Ace Equity

DISCLAIMERS AND DISCLOSURES-

Progressive Share Brokers Pvt. Ltd. and its affiliates are a full-service, brokerage and financing group. Progressive Share Brokers Pvt. Ltd. (PSBPL) along with its affiliates are participants in virtually all securities trading markets in India. PSBPL started its operation on the National Stock Exchange (NSE) in 1996. PSBPL is a corporate trading member of Bombay Stock Exchange Limited (BSE), National Stock Exchange of India Limited (NSE) for its stock broking services and is Depository Participant with Central Depository Services Limited (CDSL) and is a member of Association of Mutual Funds of India (AMFI) for distribution of financial products.
PSBPL is SEBI registered Research Analyst under SEBI (Research Analysts) Regulations, 2014 with SEBI Registration No. INH000000859. PSBPL hereby declares that it has not defaulted with any stock exchange nor its activities were suspended by any stock exchange with whom it is registered in last five years. PSBPL has not been debarred from doing business by any Stock Exchange / SEBI or any other authorities; nor has its certificate of registration been cancelled by SEBI at any point of time.
PSBPL offers research services to clients as well as prospects. 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.

<u>Other disclosures by Progressive Share Brokers Pvt. Ltd. (Research Entity) and its Research Analyst under SEBI (Research Analyst) Regulations, 2014 with reference to the subject company (s) covered in this report-:</u>

· PSBPL or its associates financial interest in the subject company: NO
· Research Analyst (s) or his/her relative's financial interest in the subject company: NO
· PSBPL or its associates and Research Analyst or his/her relative's does not have any material
conflict of interest in the subject company. The research Analyst or research entity (PSBPL) has not been engaged in market making activity for the subject company.
· PSBPL or its associates actual/beneficial ownership of 1% or more securities of the subject company at the end of the month immediately preceding the date of publication of Research Report: NO
· Research Analyst or his/her relatives have actual/beneficial ownership of 1% or more securities of the subject company at the end of the month immediately preceding the date of publication of Research Report: NO
· PSBPL or its associates may have received any compensation including for brokerage services from the subject company in the past 12 months. PSBPL or its associates have not received any compensation or other benefits from the Subject Company or third party in connection with the research report. Subject Company may have been client of PSBPL or its associates during twelve months preceding the date of distribution of the research report and PSBPL may have co-managed public offering of securities for the subject company in the past twelve months.
· The research Analyst has served as officer, director or employee of the subject company: NO

PSBPL and/or its affiliates may seek investment banking or other business from the company or companies that are the subject of this material. Our sales people, traders, and other professionals may provide oral or written market commentary or trading strategies to our clients that reflect opinions that are contrary to the opinions expressed herein, and our proprietary trading and investing businesses (if any) may make investment decisions that may be inconsistent with the recommendations expressed herein. In reviewing these materials, you should be aware that any or all of the foregoing, among other things, may give rise to real or potential conflicts of interest including but not limited to those stated herein. Additionally, other important information regarding our relationships with the company or companies that are the subject of this material is provided herein. This report is not directed to, 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 or regulation or which would subject PSBPL or its group companies to any registration or licensing requirement within such jurisdiction. If this document is sent or has reached any individual in such country, especially, USA, the same may be ignored. Unless otherwise stated, this message should not be construed as official confirmation of any transaction. None of the material, nor its content, nor any copy of it, may be altered in any way, transmitted to, copied or distributed to any other party, without the prior express written permission of PSBPL. All trademarks, service marks and logos used in this report are trademarks or registered trademarks of PSBPL or its Group Companies. The information contained herein is not intended for publication or distribution or circulation in any manner whatsoever and any unauthorized reading, dissemination, distribution or copying of this communication is prohibited unless otherwise expressly authorized. Please ensure that you have read "Risk Disclosure Document for Capital Market and Derivatives Segments" as prescribed by Securities and Exchange Board of India before investing in Indian Securities Market. In so far as this report includes current or historic information, it is believed to be reliable, although its accuracy and completeness cannot be guaranteed.

Terms & Conditions:
This report has been prepared by PSBPL and is meant for sole use by the recipient and not for circulation. The report and information contained herein is strictly confidential and may not be altered in any way, transmitted to, copied or distributed, in part or in whole, to any other person or to the media or reproduced in any form, without prior written consent of PSBPL. The report is based on the facts, figures and information that are considered true, correct, reliable and accurate. The intent of this report is not recommendatory in nature. The information is obtained from publicly available media or other sources believed to be reliable. Such information has not been independently verified and no guaranty, representation of warranty, express or implied, is made as to its accuracy, completeness or correctness. All such information and opinions are subject to change without notice. The report is prepared solely for informational purpose and does not constitute an offer document or solicitation of offer to buy or sell or subscribe for securities or other financial instruments for the clients. Though disseminated to all the customers simultaneously, not all customers may receive this report at the same time. PSBPL will not treat recipients as customers by virtue of their receiving this report.

Registered Office Address:
Progressive Share Brokers Pvt. Ltd,
122-124, Laxmi Plaza, Laxmi Indl Estate,
New Link Rd, Andheri West,
Mumbai-400053;
www.progressiveshares.com
Contact No.:022-40777500.

Compliance Officer:
Mr. Shyam Agrawal,
Email Id: compliance@progressiveshares.com,
Contact No.:022-40777500.