

## Century Enka Ltd.

INDUSTRY	Textile
No. of Shares	21850589
Face value (Rs)	10.00
Mkt. Cap (Rs. Crore)	569.64
Price (19/09/2016)	260.70
Book Value (Rs)	352.39
P/BV	0.74x
BSE Code	500280
NSE Code	CENTENKA
Bloomberg	CENK IN
Reuters	CNTE.BO
Avg. Weekly Volume	81120
52 W H/L (Rs)	144.80/285.50

## Shareholding Pattern

	%
Indian Promoters	25.25
DIIs	8.63
FPIs	0.08
Body Corporate	11.06
Public	54.97
<b>Total</b>	<b>100.00</b>

(As on June 30, 2016)

## Recommendation

BUY

Century Enka Ltd.



## Company Background

Century Enka Ltd, a B.K. Birla group company was established in the year 1965. It is engaged in the business of nylon tire cord fabric and polyester/nylon filament yarn. Its products include polyester filament yarn, nylon filament yarn, polyester partially oriented yarn (POY), polyester and nylon chips of industrial and fabric grade, and nylon industrial yarn. It offers mono filament yarns, multi-functional yarns, nylon POY for air texturizing, nylon products for cotton-nylon fabrics, and nylon tows. It also offers yarn for knitting, narrow tape sector, and sewing thread and fish net, among others. Its yarns are used as reinforcing material in tires, conveyor belts, V-belts, hoses, ropes and cordage, and broad and narrow wovens. It produces a range of nylon processed yarns for various application areas under the Enkalon brand. Its manufacturing sites are located at Pune (Maharashtra), Rajashree Nagar (Bharuch-Gujarat) and Mahad (Not in operation).

## Investment Rationale

- In Q1FY17, the company has reported a strong growth in its financials, its EBIDTA and PAT grew by ~13% and ~73% YoY to Rs.44.09 crores and 22.50 crores respectively. EBIDTA margin improved by 380bps YoY to 16.68%.
- Healthy growth in financials has helped it to improve its return ratios. In FY16, its ROE and ROA improved by 294bps and 211bps YoY to 8.17% and 5.36% respectively.
- The company keeps watching development in Synthetic Yarn Industry, imports from China, high dependency on raw material imports and single source of domestic supply and with this background, it is evaluating various options which could be available to it for its growth strategy. Until such time, it will continue to put its thrust on re-engineering of its existing operations and carry on balancing investment in modification of existing equipments and some fresh investments in energy conservation schemes.
- The company has significantly reduced its debt burden, which is clearly reflected in its debt/equity ratio. As on March 31, 2016, its Debt/Equity ratio stood at 0.09x as against 0.22x in the corresponding period last year.
- The company has been consistently paying dividend to its equity shareholders. For the period of FY16, it has given a dividend of 75% or Rs.7.50 per equity share.
- At the CMP of Rs.260.70, the stock is trading at FY18E P/E of 5.89x. We recommend a BUY on the stock with a Price Target of Rs.354 (8x FY18E EPS) with an upside potential of ~36% from the current level with an investment horizon of 12-15 months.

Particulars (Rs. Crs)	Q1FY17	Q1FY16	Variance	FY14	FY15	FY16	FY17E	FY18E
Net Sales	264.37	303.29	-12.83%	1466.79	1218.53	1143.64	1258.00	1446.70
EBIDT	44.09	39.07	12.85%	177.27	115.67	142.20	176.36	208.105
Net Profit	22.50	13.00	73.08%	62.93	36.57	59.46	77.30	96.62
EBIDT margin (%)	16.68%	12.88%	380bps	12.09%	9.49%	12.43%	14.02%	14.38%
Net Profit Margin (%)	8.51%	4.29%	422bps	4.29%	3.00%	5.20%	6.14%	6.68%
EPS (Rs)	10.30	5.95	73.08%	28.80	16.74	27.21	35.38	44.22

Source: Company, Ace Equity & AUM Research

**Key Financials**

<b>Income Statement</b>					
(Rs. Crs)					
Description	FY12	FY13	FY14	FY15	FY16
<b>Net Sales</b>	<b>1649.51</b>	<b>1552.17</b>	<b>1466.79</b>	<b>1218.53</b>	<b>1143.64</b>
Total Expenditure	1568.24	1416.44	1289.52	1102.86	1001.44
<b>EBIDTA (Excl OI)</b>	<b>81.27</b>	<b>135.73</b>	<b>177.27</b>	<b>115.67</b>	<b>142.20</b>
Other Income	18.23	12.15	12.36	7.02	3.89
<b>EBIDTA (Incl OI)</b>	<b>99.50</b>	<b>147.88</b>	<b>189.63</b>	<b>122.69</b>	<b>146.09</b>
Interest	31.72	29.46	20.91	17.32	9.56
<b>EBDT</b>	<b>67.78</b>	<b>118.42</b>	<b>168.72</b>	<b>105.37</b>	<b>136.53</b>
Depreciation	67.43	71.91	70.71	42.75	40.24
<b>EBT</b>	<b>0.35</b>	<b>46.51</b>	<b>98.01</b>	<b>62.62</b>	<b>96.29</b>
Exceptional Income/Expenses	0.00	-15.03	-2.20	0.00	-7.54
Tax	-8.43	9.59	32.88	26.05	29.29
<b>PAT</b>	<b>8.78</b>	<b>21.89</b>	<b>62.93</b>	<b>36.57</b>	<b>59.46</b>
Adjusted EPS (Rs)	4.02	10.02	28.80	16.74	27.21

<b>Balance Sheet</b>					
Description (Rs. Crs)	FY12	FY13	FY14	FY15	FY16
<b>SOURCES OF FUNDS</b>					
Share Capital	21.85	21.85	21.85	21.85	21.85
Reserves	625.74	631.98	679.28	694.29	734.03
<b>Total Shareholders' Funds</b>	<b>647.59</b>	<b>653.83</b>	<b>701.13</b>	<b>716.14</b>	<b>755.88</b>
Total Borrowings	327.72	194.06	175.90	139.71	55.34
Trade Payable	74.78	24.83	37.14	32.87	34.76
Other Liabilities	279.78	293.00	210.28	234.97	248.94
<b>Total Liabilities</b>	<b>1329.87</b>	<b>1165.72</b>	<b>1124.45</b>	<b>1123.69</b>	<b>1094.92</b>
<b>APPLICATION OF FUNDS</b>					
Net Block	701.37	669.91	595.76	611.51	597.22
Capital Work in Progress	20.66	3.02	22.23	12.27	1.88
<b>Non Current Assets</b>					
Investments	3.19	3.19	8.52	8.52	8.52
Loans and Advances	11.44	7.15	9.07	22.69	20.43
Other Non Current Assets	4.43	1.35	9.10	16.10	16.10
<b>Total Non Current Assets</b>	<b>741.09</b>	<b>684.62</b>	<b>644.68</b>	<b>671.09</b>	<b>644.15</b>
<b>Current Assets Loans &amp; Advances</b>					
Investments	0.00	0.00	0.00	0.00	64.25
Inventories	244.62	207.30	212.05	202.52	146.64
Sundry Debtors	163.37	169.90	190.63	164.17	155.77
Cash and Bank	4.21	4.85	6.11	5.39	6.20
Short Term Loans and Advances	139.05	76.38	61.50	75.27	74.75
Other Current Assets	37.53	22.67	9.48	5.25	3.16
<b>Total Current Assets</b>	<b>588.78</b>	<b>481.10</b>	<b>479.77</b>	<b>452.60</b>	<b>450.77</b>
<b>Total Assets</b>	<b>1329.87</b>	<b>1165.72</b>	<b>1124.45</b>	<b>1123.69</b>	<b>1094.92</b>

**Aum Capital RESEARCH DESK**

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