“Trident Limited Q4 & FY 2017 Earnings Conference Call”

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Moderator: Ladies and Gentlemen, Good Day and Welcome to the Trident Limited’s Q4 & FY 17 Earnings Conference Call. Today, we have with us senior members of the management team including Mr. Pawan Jain, Director - Corporate Affairs, Mr. Gunjan Shroff – Chief Financial Officer and Mr. Vipul Garg, Vice President – Investor Relations. We will commence the call with opening remarks from the management team and follow that with an interactive Question-&-Answer session.

Before we begin, I would like to highlight that certain statements that may be made or discussed on the conference call today may be forward looking in nature and a disclaimer to that effect has been provided in the earnings presentation shared with you earlier. The Company does not undertake to update them publicly.

I now request Mr. Pawan Jain to make his initial remarks. Thank you, and over to you Sir.

Pawan Jain: Thank you. Good morning and a warm welcome to everyone. I would take you through the key developments as well as share the operational performance of the Company across business segments, while our CFO - Mr. Gunjan Shroff, will share the financial highlights for Q4 and FY 17.

Financial Year 2017 has been a good year for Trident as we have managed to deliver our Highest Ever Yearly Revenues of Rs 4839.3 crores, EBITDA of Rs 991.9 crores and Profit After Tax of Rs 336.9 crores. This has helped us in generating healthy cash flows, improve on our return ratios and deleverage our Balance Sheet. All this was a result of strong off take in Home Textile segment supported by various strategic initiatives taken in the past. Domestic market continued to witness strong demand driven by exciting product portfolio, increased presence across retail outlets as well as better acceptance of our products. With major CAPEX behind us, we are confident of maintaining our robust run-rate of generating free cash flows going forward, which we believe will create tremendous value for all our stakeholders going forward.

Bed and Bath segment contributed about 49% in our total revenues. For the full year Bath Linen segment reported healthy volume growth of more than 27%. With only one year of operation, Bed Linen unit have got encouraging and positive response in the International market and we are moving in right direction to fill the capacity. We are growing our order book with large retail chains which will help us improving our realization levels and will give us incremental Volume and Value growth in FY18 & 19.

In Home Textile, Bath Linen operated at a capacity utilization level of 50% in FY17, up from 41% in FY16 and Bed Linen at 29% in FY17. Yarn business reported utilization level at 93% for the full year. Management is focused on improving the utilization levels in the coming year. Our margin profile will be enhanced further with better efficiencies, increased captive consumption and increased contribution of high margin value-added products.

In order to explore alternative source of financing, company has recently issued commercial paper of Rs. 50 Crore carved out from existing working capital limits and not as incremental source of financing. It will enable us to reduce our cost of borrowing and strengthen the reach in capital market. Our Interest coverage ratio stands at a healthy number of 7.0x, as more than 75% of our long term debt is under TUF scheme. We are also planning to replace some of high
interest bearing loans by way of NCD which will reduce our Interest Cost in the years to come. The board has approved issue of NCD up to an amount of INR 600 Crore in one or more tranches, subject to further approval from the shareholders.

I am pleased to share that CRISIL & CARE both have further upgraded the credit rating of long term borrowings from A to A+, with stable outlook. Also India rating assigned highest credit rating of IND A1+ to Commercial paper of the company. This reflects strong financial performance of the company on account of consistent improvement in its asset utilization, consistent business performance and improvement in debt coverage indicators.

Textile players remains vulnerable to cotton price volatility as Cotton contribute about 50% in the overall cost of production. Arrival of cotton was late this season due to demonetization as traders have stocked up cotton which resulted in price increase of about 20%. Moreover, owing to increased acreage in current year, enhanced yields and liquidation of traders inventory, prices of cotton is expected to moderate from the current levels which should aid margins going ahead. Trident being vertically integrated in the complete end-to-end value chain, it gives us the edge to be able to mitigate this price impact to some extent.

Rupee appreciation is a cause of concern for Indian exporters and remains a key headwind in growth and further puts pressure on margins. Currency is expected to be volatile in view of current global macroeconomic scenario. During the FY17, rupee has appreciated ~2.1% compared to US Dollar, while Yuan has depreciated around 6% relative to dollar. Despite the current scenario of Rupee appreciation vis-a-vis Yuan to Dollar India still has cost advantage over China and other countries in terms of Raw Material availability, cheap labor and favorable government policy. Government’s recent decision on Rebate of State Levies (ROSL) scheme for textile made up segment is expected to benefit home textile exporters by 2 to 2.5% in terms of export revenues and help to aid margins. However, company specific factors like prudent risk management policy, adequate currency exposure & relationship with customers may also help companies to mitigate impact of adverse currency movements.

Let me also quickly take you through some of the key awards the Company received during Q4.

- Astitva Samman award from PHD chamber of commerce and Industry for taking trailblazing measures for women empowerment.
- Gold Trophy 2nd set of Northern region Export Excellence award & Silver Trophy 1st set of Northern region, Export Excellence award for outstanding export performance in the category of “Star trading house Non MSME”, presented by Federation of Indian Export Organisations.

In FY17, revenues from textiles segment grew by 34.2% to Rs. 3864.1 crore led by encouraging traction in Home Textiles including Bath Linen and Bed Linen. Higher Yarn sales also supported the overall momentum. Going forward, as contribution from Bed Linen increases, we anticipate to internally consume more yarn.
In our paper segment, revenues increased by 5% to Rs. 872.4 crore with significant improvement in EBITDA. EBITDA margins expanded by 569 basis points year-on-year mainly driven by better realizations due to higher demand. Capacity utilization in Paper stood at 89% in FY17.

I am glad to announce that the Board of Directors has recommended a final dividend of 3% in addition to two interim dividends of 6% each during the year. So the total dividend for FY2017 now stands at 15% per fully paid up equity share of Rs. 10/- each, translating into a healthy Dividend Payout Ratio of 27%.

We have outperformed our guidance of 15%-20% growth in revenues and going forward the roadmap for FY2018 appears promising as we are confident to improve on our return ratios and increase our utilization levels in the Home Textile segment.

The quarterly results have been declared in format prescribed by SEBI to comply with the requirements of SEBI’s circular dated July 05, 2016.

Let me give some details about other income and impact of Ind AS.

- Other income of INR 49 crore in Q4FY17 includes forex gain of INR 40.7 Crore & interest income of ~INR 5 crore;
- Other income of INR 103.4 crore in FY17 includes forex gain of INR 64.4 crore & interest income of ~INR 24.3 crore

In line with recognition under Ind AS, Forex income was realized due to ever highest exports and significant rupee appreciation during Q4FY17, as against forward cover by the company, which were earlier recognised as other operating income.

Moreover, some balance sheet items have been impacted in FY17 due to adoption of Ind AS & FY16 figures have been restated accordingly

- Trade receivable & Short term debt have increased due to recognition of bills discounting into trade receivable & short term debt, which was earlier part of contingent liabilities
- Company has carried out fair value of all of its land and the resultant increase of INR 768.4 Crore (net of deferred tax) has been credited to the other equity.
- Interest cost has increased slightly due to differential recognition of interest earned from vendors adjusted with purchases.

With that, I would like to call upon our CFO – Mr. Gunjan Shroff to continue the discussion with his views on the financial performance.

Gunjan Shroff:

Thank you Pawan. Good morning everyone. I will share the financial highlights for the Q4 and full year ended March 31, 2017.

During the quarter, our net revenues stood at Rs. 1330.1 crore, higher by 36% compared to Rs. 978.2 crore in Q4 FY16. EBITDA improved by 27.3% to Rs. 262.1 crore translating to EBITDA margin of 19.7%. Profit After Tax grew by 63.6% to Rs. 99.7 crore against Rs. 60.9 crore reported in the corresponding quarter of last year. PAT, including comprehensive income improved by 50.8% to Rs. 91.7 crore.
During FY 17, our net revenues increased by 29.3% to Rs. 4839.3 crore, while EBITDA improved by 29.9% to Rs. 991.9 crore translating to EBITDA margin of 20.5%. Profit After Tax stood at Rs. 337 crore, higher by 39.1% compared to Rs. 242.3 crore in FY16. PAT, including comprehensive income improved by 33.6% to Rs. 331.7 crore.

Let me now give you a segment-wise performance of the Company.

In Q4 FY17, revenues from Textiles segment came in at Rs. 1055.8 crore against Rs. 753.5 crore in Q4 FY16, representation an increase of 40.1% year-on-year. EBITDA was higher by 26.9% to Rs. 180.1 crore, while the EBITDA margins stood at 17.1%. In the paper segment, revenues were higher by 3.5% to Rs. 225.4 crore compared to Rs. 217.8 crore in Q4 FY16. EBITDA increased sharply by 28.1% to Rs. 82 crore translating to EBITDA margins of 36.4%, higher by 699 basis points year-on-year. Margin enhancement in the Paper segment was a result of combination of factors including higher contribution of value-added copier paper as well as better realizations due to higher demand.

During FY17, revenues from textiles segment stood at Rs. 3864.1 crore, higher by 34.2% year-on-year. EBITDA increased by 31.9% to Rs. 690 crore, while the EBITDA margins stood at 17.9%. In the paper segment, revenues were up by 5% to Rs. 872.4 crore. EBITDA increased by 25.7% to Rs. 301.9 crore translating to EBITDA margins of 34.6%, higher by 569 basis points year-on-year.

Coming to our key financial parameters, our Net Debt stood at Rs. 2714.5 crore as on 31st March, 2017, down from Rs. 3420.8 crore as on March 31, 2016. Net Debt to Equity Ratio stood at 1.0 against 1.4 as on March 31, 2016. Our Free Cash Flow stood at Rs. 749.4 Crores for FY17.

In Q4 FY17, we repaid outstanding term loans of Rs. 132 crore including high cost debt of Rs. 68 crore. With this, we have repaid a total of Rs. 576 crore in FY17 which includes Rs. 227 crore of high cost debt. Our long term debt as on 31st March, 2017 stood at Rs. 2048 crore, out of which more than 75% i.e. Rs. 1552 crore is covered under the TUF scheme. As a practice, we will continue to repay high cost term debt ahead of our repayment schedule which will strengthen our balance sheet and also help reduce the overall interest costs.

With this, I would request the moderator to open the forum for questions. Thank you.

Moderator: Thank you, sir. Ladies and gentlemen, we will now begin with the Question-and-Answer Session. The first question is from the line of Vinod Malviya from Florintree Advisors. Please go ahead.

Vinod Malviya: The first question is, can you help me with the utilization level for Q4 for both Home Textile and Yarn, basically Bed Linen and Towel?

Pawan Jain: Yes. So, in Q4, Yarn operated at 96% utilization; Bath Linen at 54% utilization; Bed Linen at 29% utilization; and Paper at 88% utilization.

Vinod Malviya: Okay. This is only for Q4?
Pawan Jain: Yes.

Vinod Malviya: Okay. And what kind of utilization level are we expecting in the Bed Linen and the Bath Linen for FY 2018?

Pawan Jain: For FY 2018 we are expecting Bath Linen utilization should be between 55% to 60%; and Bed Linen utilization should be between 40% to 50%.

Vinod Malviya: Okay. So, in the Bath Linen we are just expecting 10% growth, any particular reason for such a lower growth in the Bath Linen?

Pawan Jain: In Bath Linen we are at 54% utilization in Q4. So, the base for FY 2018 is on the higher side, though internally we are committed for higher number but definitely for the guidance perspective I think 55% to 60% is a fair number.

Vinod Malviya: Okay. My second question is on the TUF loan. We have been talking that we would be repaying the high cost debt. But I just saw that you have reduced TUF loan of Rs. 253 crores from FY 2016 to FY 2017, any particular reason for that?

Pawan Jain: This is as per the schedule. So, whatever is as per schedule we are repaying and over and above the schedule payment we are prepaying the high cost debt.

Vinod Malviya: Okay. And last question on the interest, on your Presentation you mentioned that your interest cost has increased because some of the interest income which you were getting from the vendor has been recognized a part of your material cost. So, can you quantify how much was the interest income which you were getting from the vendors and what exactly was this interest income related to?

Gunjan Shroff: This is pertaining to the interest income which we generate from Cotton parties because if you make an early payment within the given time frame of 7 days to 15 days, as per industry practices you get a 15% rate of interest discount. So, we have earned net interest income of Rs. 7.2 crores which was in all the previous year's part of the interest cost and financial cost. But now, that amount is being excluded from the interest cost and is being shown as other income.

Moderator: Thank you. Next question is from the line of Bhavin Chheda from Enam Holdings. Please go ahead.

Bhavin Chheda: Sir, couple of questions, main on the FOREX part, I think you mentioned and the opening remarks that the FOREX gain has been accounted in other income. So, what was the earlier policy then because I think, you said, you were accounting it in other operating income, because I do not see last year the number was large number. So, where was the FOREX gain if any last year was accounted?

Pawan Jain: Firstly, we have achieved highest ever exports in a quarter in this Q4 FY17 compared to any other quarter previously. Secondly, the variation in Dollar movement was also high in this
quarter compared to last quarter. There was around 4.5% variation in terms of Rupee appreciation from 31st December 2016 to 31st March 2017. So, both these things have escalated the amount in foreign exchange realization. Earlier this foreign exchange realization was part of the other operating income now with the implementation in IndAS, we have to compute it under the other income. This is the reason that the number is looking to be on the higher side in this particular quarter.

**Bhavin Chheda:** It is almost Rs. 40 crores, right?

**Pawan Jain:** Yes, that is right.

**Bhavin Chheda:** So, basically what is the hedging policy like how many months receivables you normally hedge and what is the 31st March hedging position like?

**Gunjan Shroff:** The mandated policy from the board is that we are hedging back to back on order basis, so we are approximately having at any point in time around four months to five months of hedge position.

**Bhavin Chheda:** Four months to five months.

**Gunjan Shroff:** That is right.

**Bhavin Chheda:** So, which means as on 31st March also for next five months, you will be having hedging rates which is much higher than the current rate, right?

**Pawan Jain:** Bhavin, it is spread out over the 12 months’ period. So, it means that on an overall basis, you have 30% - 40% kind of hedging position and 50% to 60% open also.

**Bhavin Chheda:** Okay. And what would be the 31st March Cotton inventory like?

**Pawan Jain:** If we compare with the last year it is about Rs. 100 crores lesser to the last year. However, we are now sufficiently covered for the next two to three months.

**Bhavin Chheda:** Okay. And resultantly, what would be the margin guidance like because this quarter we have seen a sharp dip. So, I think we were around 20 odd percent, if I see first nine months it was 20.3% this quarter is around 16.8%, so what should we model in FY 2018?

**Pawan Jain:** So, we are giving guidance for a Company as a whole and not segment wise, but company as a whole we expect that it should be 18% to 22% kind of EBITDA margin, sustainable for the next two years.

**Bhavin Chheda:** 18% to 22% is the range which you expect?

**Pawan Jain:** Yes, that is right.
Bhavin Chheda: Couple of more questions. On the full year utilization rate if you can give for Yarn, Terry Towel, Bed Linen, and Paper.

Pawan Jain: Yes, for full year the Yarn is at 93%; Bath Linen is at 50%; Bed Linen is at 29%; and Paper is at 89%.

Bhavin Chheda: Okay. And in this quarter, has the Bed Linen break even at the PBT level?

Pawan Jain: No, we expect two more quarters to break even. We expect to break even when we reach 40% kind of utilization. It is delayed as per our expectation and we now foresee that we could be able to break even at EBITDA level in Q2 of FY 2018.

Moderator: Thank you. Next question is from the line of Rupin Shah from Karvy PMS. Please go ahead.

Rupin Shah: My question is related to your Bed Linen segment, so we are expecting our utilization to improve from 30% to up to 50% in FY 2018.

Pawan Jain: Yes, in the range of 40% to 50%.

Rupin Shah: Okay, 40% to 50%. So, sir, have we worked on any premiumization of the product in the recent past. So, that, like we can assume some kind of improvement in the realization in FY 2018?

Pawan Jain: As we go towards higher utilization levels, there would be improvement in realization also because if you see the first one year of operations, we have moved on from more of Grieg fabric in first two quarters to more of processed fabric in the last two quarters. So, obviously going ahead also we expect improvement in value and volume both.

Rupin Shah: Okay. And sir, you have given the margin wise guidance of around 18% to 22% for FY 2018. So, this would be a sustainable margin going forward.

Pawan Jain: Yes, this is sustainable.

Rupin Shah: Okay. So, sir, by giving the guidance of 18% to 22%, what kind of Cotton price you assume?

Pawan Jain: This is assuming Cotton price as of now and we expect that it should moderate going forward in the coming season.

Rupin Shah: Okay. At same level?

Pawan Jain: No, it will be a little lesser because we expect yield in the next cotton season should be more with the improvement in acreage in the FY 2018 and we expect that production will be more than the consumption.
Rupin Shah: Okay, great. And sir, wanted to know your debt repayment plan for FY 2018 because the TUF loans is the maximum portion of the total loan. So, what would be the debt repayment plan for FY 2018?

Pawan Jain: We have our schedule repayment of about Rs. 300 crores for FY 2018. But as said earlier, we will continue to make prepayment ahead than the schedule repayment. Our endeavor is to make a repayment close to Rs. 400 - Rs. 450 crores in this particular financial year.

Moderator: Thank you. Next question is from the line of Bhavesh Chauhan from IDBI Capital. Please go ahead.

Bhavesh Chauhan: Sir, in Paper segment sequentially the margin was lower, any reason for the same because even though you operate at lower utilization levels but I thought that paper price going up EBIT margins should have remained around 3Q FY 2017 levels?

Pawan Jain: It is because production was little lower in this quarter. One, the number of days were lower and secondly, plant was having planned shut for few days. So there is a little decline in production in this quarter.

Bhavesh Chauhan: Okay. So, sequentially going forward, should it improve?

Pawan Jain: Yes, it should improve.

Bhavesh Chauhan: Okay. And secondly, on your Textile margins, margins in Textile segment EBIT margin decline by say 140 odd basis points on a sequential basis this was probably mainly due to Rupee appreciation and also higher Cotton prices.

Pawan Jain: Yes, mainly because of higher Cotton price.

Bhavesh Chauhan: Going forward considering even the price negotiation that you might be doing with your customers. But alongside that the rupee has also appreciated. So, should we consider the margins to remain around similar level for the coming two quarters despite your expectation of Cotton prices coming off?

Pawan Jain: Yes, it should be similar, so there are continuous pressures on the margins due to rupee appreciation and higher raw material cost. But at the same time, with improved utilization levels we expect some margin expansion and with introduction of Rebate of State Levies also it can contribute about 2% to 2.5% on exports.

Bhavesh Chauhan: Okay. So, excluding that, your margin should remain around similar level.

Pawan Jain: On an overall level basis it should remain similar or little better.

Moderator: Thank you. Next question is from the line of Ankit Kedia from CRISIL. Please go ahead.
Ankit Kedia: Few of my questions are already been answered. So, I have just two questions. One is on the CAPEX side, so, since we are already operating at around 95% of the Yarn. So, are we having any plans for expansion in that segment?

Pawan Jain: No, as of now the focus of management is only on improving the utilizations levels for Bath and Bed Linen facilities. As of now there is no CAPEX plan in either of the businesses, it will be more for debottlenecking or general maintenance which is expected to be about Rs. 50 crores to Rs. 100 crores in this year.

Ankit Kedia: Okay, Rs. 50 crores to Rs. 100 crores, okay. And sir, since we are continuously reducing and prepaying our debt, we have done wonderful in FY 2016 - FY 2017 also and you are again planning around Rs. 450 crores repayment including prepayment in FY 2018. So, what kind of debt equity we are looking at may be over the next two years?

Pawan Jain: In FY 2018, we are again looking for significantly reducing our debt which will improve our debt-equity going forward. We will not be able to give you the guidance in terms of the exact debt-equity. But yes, Rs. 400 crores to Rs. 450 crores is what we endeavor to repay in this year FY 2018.

Ankit Kedia: Okay, got it. And sir, if you could also help me the ratio of the processed to non-processed fabric in Bed Linen that you.

Pawan Jain: It is mostly processed now.

Ankit Kedia: It is mostly processed.

Pawan Jain: It was only the first two quarters we have more Grieg fabric because at that time the facilities was stabilizing and trial runs, samplings are small orders was there. So, we had utilized our facilities to that level of orders at that point of time. Now, in the second-half, shift has been more towards processed.

Ankit Kedia: Okay, got it, sir. And just one last thing I missed, what is our average cost of borrowing and the incremental cost of borrowing?

Pawan Jain: On an overall basis, it is less than 4% but still we have about Rs. 500 crores which is costing us at around 10% to 10.5%. Recently board has approved issue of NCDs which can help us in reducing our interest cost going forward.

Moderator: Thank you. Next question is from the line of Rakesh Jain from Asit C. Mehta. Please go ahead.

Rakesh Jain: Sir, if you could tell me what was the share of branded vs Copier segment in the Paper business?

Pawan Jain: Copier is around 50% to 55%.
Rakesh Jain: And with respect to Yarn, so how much have we consumed internally and what is our external sale for that?

Pawan Jain: So in the entire year we have consumed 35% captively and in Q4 it is at 37%.

Rakesh Jain: 37%, and what are you expecting it to increase how much in FY 2018?

Pawan Jain: For FY 2018, we expect it to be around 40%+ as we expect the utilizations levels to improve further in Bed and Bath Linen both. So, it should be in the range of 40% to 45%.

Rakesh Jain: Okay. And with respect to Yarn realizations since Cotton prices have hiked have you taken any price hike in the Yarn prices?

Gunjan Shroff: Yes, Yarn it is more real-time adjustment with the current Cotton prices. So, it is only 40 days to 45 days kind of a lag for which you already have order book to supply that Yarn. Post that it is adjusted with the current market price of Cotton.

Rakesh Jain: Okay. And with respect to the Bed Linen we are currently operating at 30% utilization. So, are we selling any value-added products in the Bed Linen if not then at what utilization you think you will be able to sell those value-added products?

Pawan Jain: So, as of now we are offering all kind of value-added products, but right now the order book is more of Utility Bedding, Quilts and those basic kinds of products. But yes, we are offering value added Bed Sheets at different-different price points.

Rakesh Jain: So, have you added any new clients to Bed Linen like previously in last quarter we had added two clients to three clients.

Pawan Jain: Yes, we added one large client in this quarter. But mostly, the clients which we are adding, the dispatch will going to start sometime in June.

Rakesh Jain: Okay. And overall on a consolidated basis, what has been the share of export to Europe and U.S.?

Pawan Jain: See, as per Otexa data, India’s export share to U.S. is right now around 40% in Towel and 50% in Bed Sheet. But if you see this first quarter number because there the calendar year is followed, so first quarter of March the numbers have been improved both in Towel and Bed Sheets.

Rakesh Jain: And what about Trident, about our numbers, how has we improved?

Pawan Jain: Trident market share of towel in U.S. for the calendar year 2016 is around 13%.

Moderator: Thank you. The next question is from the line of Danesh Mistry from TATA Mutual Fund. Please go ahead.
Abhishek: Hi, this is Abhishek from the line of Danesh. Sir, I wanted to get some sense on the debt repayment that had occurred this year. But the interest expense does not seem to have come off to the extent of debt repayment. So, what is the kind of interest expense number we can expect in FY 2018?

Gunjan Shroff: One is that we have netted about Rs. 10 crores which is a new thing otherwise the interest cost in absolute amount has gone down by about Rs. 10 crores. But as we ramp-up the capacity for our Bed Linen the working capital utilization remains elevated. So, obviously, which was in FY 2016 which was not there is now fully captured in FY 2017, so that is one of the reasons why it is not so exquisitely available to see in the numbers. But yes, interest cost in absolute terms has reduced by about Rs. 20 crores from last financial year.

Abhishek: And in FY 2018 which is the number we can expect?

Gunjan Shroff: The numbers again would because of schedule repayment as well as prepayment because there is no major working capital which we intent to borrow. So, I think the interest cost would come to that extent of scheduled repayment as well as plough back of money which we generate at the moment.

Moderator: Thank you. The next question is from the line of Shivani Vishwanathan from Way2Wealth. Please go ahead.

Shivani Vishwanathan: Most of my questions have been answered. I just had a few more questions. With regard to sir, we always say that as the business model shift towards value-added products, we will be better able to absorb the volatility in Cotton prices. If we see year-on-year especially if we see for Q4 what is that deterred us from absorbing these cost since Bed Sheets were at 29% capacity utilization versus 4% last year. And secondly, what are the sort of price increases that we have initiated or are we talking so, that we get the margins back? and is my sense correct that you are saying 16% to 17% is the margin range that you see for the next two quarters in the current scenario?

Pawan Jain: Firstly, in Bed Linen particularly this is our first year of operation. So, our effort is to first fill up the capacity and at the initial stage we are taking orders which are at an entry level price points where the realizations are lower as compared to the industry average. Going forward when we improve our utilization to a significant level, that time we will have our product mix changing which will enhance our margin by entering into mid to high-end level of products, that is one. Two, if you see the increase in Cotton prices, if Cotton prices increases by 20% the impact to pass on to the customers at a Yarn level is around 10% to 12%. Whereas, at Bed & Bath Linen level the impact is around 5% to 6%, so that kind of magnitude is reduced to certain extent by having more revenue from Bed and Bath Linen going forward. The time lag passing on this cost to the customer in Yarn is around 40 days - 45 days whereas, in Bed & Bath Linen it is around one quarter to one and a half quarter. We expect that passing on the cost in sometime in the Q2 of FY 2018.
Shivani Vishwanathnan: Okay, sir. So, this 16% to 17% EBITDA is what we can see for maybe for another quarter, sir.

Pawan Jain: No, we are giving the guidance for a company as a whole which is 18% to 22% and we are very much expecting to pass our guidance in FY 2018 itself.

Shivani Vishwanathnan: Okay. And sir, if you could share what have been the average realizations in Bed Sheet and Terry Towel segment for FY 2017?

Pawan Jain: We are not reporting realizations, we are only reporting the utilization level.

Moderator: Thank you. Next question is from the line of Ankit Panchmatia from ICICI Securities. Please go ahead.

Ankit Panchmatia: Question from my side is sir, do we have some sort of order just to track in that what sort of or what kind of orders we have and until what time we would be executing the same, any sort of that tracking mechanism we have?

Pawan Jain: Ankit, we are not reporting the order book but definitely the guidance which we are giving in terms of Bed and Bath Linen business for FY 2018 is definitely on the order book which is in hand. And obviously, there are sufficient leads which we expect to convert going forward. So, one it is on the basis of confirmed order book and two on the basis of the visibility we have in terms of our leads.

Ankit Panchmatia: Okay. And sir, regarding the U.S. market and Europe market, so just to get your view post the Rupee appreciation coupled with Trump coming in into picture. How has been the development in U.S. market first? And how are we progressing in the Europe market going ahead?

Pawan Jain: If you see the first quarter numbers which is the March quarter in spite of Rupee appreciation and headwinds in terms of increased raw material cost, the share of both Bed and Bath Linen has increased according to the data of exports to U.S.

Ankit Panchmatia: But sir, is it not seasonal in nature that this quarter continues to be remain heavy?

Pawan Jain: No, seasonally the second quarter and third quarter are a little better in terms of the off take. But usually the second quarter is seasonally and slightly higher. But on an overall year, March is not a seasonal kind of a period.

Ankit Panchmatia: Okay. And to development in Europe and how are we approaching that market?

Pawan Jain: With Europe, still our neighboring countries like Pakistan and Bangladesh are having advantage in terms of duty exemptions under FTA, and Indian manufacturers can compete in Europe at a mid-level to high end level products. So, the entry point products to these countries are better off.
Ankit Panchmatia: True. And sir, one last question from my side. Given the utilization levels have expected it to remain high going ahead. What sort of utilization levels trigger our next leg of capacity expansion program or how are we approaching it?

Pawan Jain: Focus right now is to enhance our utilization level up to optimum level. So, when we have a clear visibility in terms of achieving the optimum level in terms of the order book in hand or visibility in terms of reaching at 70% kind of plus utilization, we will think of next capex cycle at that point of time.

Ankit Panchmatia: But given the case we are going and I assume that by end of FY 2018 we would be getting in to those 70% levels. So, I assume that again, how do we then go ahead with that.

Pawan Jain: Our endeavor is to even achieve those much before that but it depends on how fast we are able to translate that capacity into order book.

Ankit Panchmatia: True. So, that is why I am hopping on the same quarter again, that what as an investor or as an analyst we should track percentage level and since what percentage we look forward for adding new capacities?

Pawan Jain: See, it is not a question of the utilization levels in a particular quarter, it is the question how we feel the capacity constraint going forward. So, wherever we feel that right now we have a sufficient order book to get that growth and whenever we feel that the capacity constraint is there for further growth, we definitely look into those kind of CAPEX at that point of time, so as of now, nothing on the table.

Ankit Panchmatia: And sir, current land utilization how much land we have and how much we are utilizing it at this point of time with these capacities?

Pawan Jain: So, see we have sufficient growth whenever, we think of any new CAPEX, so as of now there is no surplus land in Punjab but in Madhya Pradesh we have a land available for our further growth.

Moderator: Thank you. Next question is from the line of Rahul Bhangadia from Lucky Investment Managers. Please go ahead.

Rahul Bhangadia: You mentioned on the lag on the pricing part to pass on the Cotton prices. But if you were to take Yarn now as of now, if the Yarn, Cotton spread the same as it was say six months back or one year back worse off or better what is the situation on the Yarn?

Pawan Jain: The spread has shrunk right now as compared to the last year. But going forward, we expect that the Cotton prices should moderate from the current level and that can give a room for spread to normalize in the next quarters.

Rahul Bhangadia: So, the spread in this quarter better than Q4?
Pawan Jain: So, overall if you see the Q4 and quarter one right now the spread as compared to last year is slightly shrunk.

Rahul Bhangadia: Okay. No, I was asking since there is a lag in pricing, I was just wondering if Q1 spreads are better than what you reported in Q4.

Gunjan Shroff: Q4 and Q1 would be almost similar.

Pawan Jain: It is same in Q4 and Q1. But going forward Q2 onwards, we expect some moderation in Cotton prices and improvement in the spread.

Rahul Bhangadia: Okay. And sir, have the Yarn prices held or have they kind of gone down a bit or how has that worked out?

Pawan Jain: It has moderated as of now.

Moderator: Thank you. Next question is from the line of Giriraj Daga from KM Visaria Family Trust. Please go ahead.

Giriraj Daga: Couple of questions. What is the average Cotton price in Q4, Q3 and current price?

Pawan Jain: We are not reporting the average Cotton prices as of now.

Giriraj Daga: Okay. And if I put it this way what are the new orders you are booking as of now, have you pass on the currency cost like what are the margins of booking as of now?

Pawan Jain: The booking of order is happening at a current cost only whether it is Currency or Cotton. So, this is the usual and normal course of operation and we intend to pass on this cost going forward also.

Giriraj Daga: But current spread is similar to Q3?

Pawan Jain: That is similar. It is only that the order which we already have booked only there we have a spread a little lesser. But the current orders are booked at a similar spread.

Giriraj Daga: Okay. So, what are the EBITDA loss in Bed Linen segment for last year?

Pawan Jain: We are not reporting EBITDA segment wise. But yes, it has not breakeven at EBITDA level and we expect this to happen in Q2 of FY 2018.

Giriraj Daga: Okay. And one more question, what is the sale of Yarn in third-party basis?

Gunjan Shroff: Yarn 35% we consumed internally in this year.

Giriraj Daga: Absolute amount would be available?
Pawan Jain: I am not having the absolute amount right now, but on an average 35% of Yarn was consumed internally in FY 2017 and 65% we sold it outside.

Moderator: Thank you. Next question is from Dimple Kotak from SKS Capital. Please go ahead.

Dimple Kotak: Just a couple of questions, sir, regarding the industry as you said, that in Europe we have to see the mid-level and the premium segment. So, how is traction in that? is the growth similar to last year or there is any improvement?

Pawan Jain: So, see, in Bath Linen it is usual 3% to 4% kind of CAGR growth every year in the Europe. In Bed Linen particularly we are new entrant and getting a good traction in Europe also.

Dimple Kotak: Okay. So, generally what is the growth trend for Bed Linen in the premium segment?

Pawan Jain: It is around 3% to 4% annual for the industry as a whole.

Dimple Kotak: Okay, sir. And sir, for the U.S. market how is that doing in terms of growth?

Pawan Jain: So, again, if you see the last four - five years it is on an average of 4% to 5% CAGR growth. But in calendar year 2016 that has been muted and in quarter one of this calendar year 2017 that similar kind of growth is there.

Dimple Kotak: Okay, sir. And sir, how we are expecting for FY 2018?

Pawan Jain: So, FY 2018 we are expecting the numbers to continue to grow at a 3% to 4% kind of CAGR in U.S. market.

Dimple Kotak: Okay, sir. And sir, one more question, if the Rupee appreciates further, what would be the immediate impact on our margins, $1 appreciation in rupee what would be the ball park number if you can just help us with what could be the immediate impact on the margins?

Pawan Jain: So, if Rupee appreciates further, it will put pressure on the margins going forward and we could be able to pass it on to the customers over a period of quarter to one and a half quarter and that is the time lag in which the margins will be impacted and after that it will be recalibrated to the new currency levels.

Dimple Kotak: Yes. Sir, I just wanted to understand the quantum like there was a $1 appreciation in Rupee then the similar impact on your margins.

Pawan Jain: So, see, we suppose the currency has move by 1.5%, it will have a similar kind of impact on the margin because you have already procure the raw material, started the production, work in progress, etc. It is kind of a similar margin impact. However, as soon as, the proportion of new orders versus the existing order, you can able to shift your negative impact to a neutral level.
Dimple Kotak: Okay, sir. And just one last question, just you said that your margins will expand because you
would even get the rebate of 2% - 2.5%, so by what percentage your margins would be
protected if you get the rebate of 2% - 2.5%.

Pawan Jain: So, if you see as far as export is concerned, there are two ways to look at it, one obviously it
will definitely impact the margin on exports to the extent of 2% to 2.5%. However, to increase
the market share in Europe or to penetrate with the new customers or new markets in U.S. one
can also think of passing on this to the customers and get higher volumes.

Moderator: Thank you. Next question is from the line of Sumanth Kumar from Emkay Global. Please go
ahead.

Sumanth Kumar: Sir, what is the Paper price increase in this quarter?

Pawan Jain: In this quarter, it is around 4% increase in realizations in Paper.

Sumanth Kumar: So, 4%; Rs. 2,200 per tonne?

Pawan Jain: We are not reporting realizations per tonne of our product. But yes, if you see the volumes in
this quarter is almost flat or it is a little declined by 1%. However, the price has been increased
by 4% in this quarter.

Sumanth Kumar: Okay. So, do you expect further price increase going forward?

Pawan Jain: We are not expecting any price increase in this quarter because for Paper, March is basically
season for Paper industry. So, in June quarter or the next September quarter, we see a little
moderation in the Paper prices.

Sumanth Kumar: How is the inventory in the system?

Pawan Jain: Inventory is normalized.

Moderator: Thank you. Next question is from Nihal Jham from Edelweiss. Please go ahead.

Nihal Jham: My first question is how much Cotton inventory have we bought this season and till when
should it last? And secondly, I think you mentioned on the Cotton Yarn spread, so just to
confirm, if I have to say that the Yarn margins year-on-year have more or less remained flat,
would I be right in saying that?

Pawan Jain: More or less it remained flat or little moderate. So, that is one. As far as the inventory is
concerned, we usually have four months to six months’ kind of inventory at march end level.
This season it was a little lesser. So, we continue to hold about three months to four months’
kind of inventory in Cotton.
Nihal Jham: Three months to four months. And on our Home Textile margins, how do we compare that on a year-on-year basis that has improved as our Towel segment has gone up or is it that increase in Bed Sheet has moderated those margins?

Pawan Jain: As of now in FY 2017, it is more of a Bath Linen volume which has given a kind of an absolute EBITDA contribution in the overall Textile margins and Bed Linen has not also contributed but as of now we are not at breakeven till Q4, which has impacted negatively in the EBITDA margin. And we expect that EBITDA breakeven in Bed Linen business by Q2 of FY 2018.

Nihal Jham: Right. And Towel margins you are saying have remained stable year-on-year basis?

Pawan Jain: More or less stable.

Moderator: Thank you. Next question is from Abdul Karim from HDFC Securities. Please go ahead.

Abdul Karim: I just wanted to know outlook, earlier company has proposed up gradation of Paper machine to increase the production capacity. So, just, I wanted to know update on the same.

Pawan Jain: So, as of now we internally evaluating in terms of technical and other feasibility. So, there is nothing finalized as of now, it will take some while to finalize that CAPEX but whenever it will be, it will be around Rs 100 crore to Rs 200 crore kind of CAPEX and that will be spread over two years to three years.

Abdul Karim: Okay. And just wanted our utilization guidance on Paper business, just I think in fourth quarter it was in 88% I think so.

Pawan Jain: Yes. So, on an overall year it is 89% in FY 2017, so we expect that number to improve to 90%+ in FY 2018 because of efficiencies product mix and better demand.

Abdul Karim: Okay. And any tax related guidance?

Pawan Jain: So, the effective tax will be around 27% - 28% in FY 2018 also.

Moderator: Thank you. The next question is from Sourabh Patwa from HDFC Mutual Fund. Please go ahead.

Sourabh Patwa: Sir, I understand you do not give realization, but can you give us some trend on how the realizations have been over the years say like in Dollar terms like may be like two years back or three years back and what are they currently? They move up, downward or flattish?

Pawan Jain: On an overall basis if you see the FY 2016 and FY 2017, the Yarn realizations has improved by double-digit, whereas Bath Linen is more or less flat in FY 2016 and FY 2017. For Bed Linen this is the first year of operations, however, quarter-on-quarter it is improving.
Sourabh Patwa: Okay. And how it has been over like in Towel we have been there for like very long period. If you could tell like may be five years back and now what could be the price differential on a very broad term?

Pawan Jain: See, obviously, if you consider the five years’ period, the Towel realization has been improved significantly. It is almost 70% - 80% kind of figure. However, it is partially contributed by the Rupee depreciation and partly contribution by the value-added products and greater uptick.

Sourabh Patwa: Okay. So, in Dollar terms the improvement would be what 20% - 30% or it is more?

Pawan Jain: See, in Dollar terms it depends upon the product mix and customer mix from time-to-time. So, there are programs running out. So, sometime you get a program which is at a higher realization. Sometime you get a program which is at a mid-level kind of realizations but at the same time while deciding certain product mix or order book at that point of time, it is more of an absolute EBITDA we can able to generate on that capacity.

Sourabh Patwa: Okay. And what are the kind of absolute EBITDA in Dollar terms which you target to generate. Obviously, it could be very different from what you actually get but what is the target?

Pawan Jain: We are not reporting EBITDA per tonne or EBITDA segment wise but it is only for guidance that we are giving on overall company basis.

Sourabh Patwa: No, I am just asking, I am not saying what is guidance. What would be target normally, the actual might be very different, I am just saying what is the kind of target which you have in your mind when you would be building upon a price to a customer?

Pawan Jain: See, when we deal with the customer we keep EBITDA margins of 20%+ in mind but depending on the scenario, depending upon the competition, depending upon the demand supply, and depending upon which kind of customer we are pitching in. Obviously, sometimes just to penetrate with the new customers or new markets you can even compensate your margin at a firsthand but later on obviously, you will get compensated by way of large volumes from that customer.

Moderator: Thank you. Next question is from Subrata Sarkar from Dalmia Securities. Please go ahead.

Subrata Sarkar: I just like to get some update on U.S. market, can you tell me like how is the current situation and what is the India’s position whether India’s market share is growing vis-à-vis other countries particularly in Towel and Bed Linen segment?

Pawan Jain: So, if you see this is the first quarter of calendar year 2017, so in this March quarter definitely the figures are encouraging and there is a growth in both Bed & Bath Linen.

Subrata Sarkar: Okay. So, sir any quantification is possible like rough ball park number?
Pawan Jain: 3% to 4% kind of growth year-on-year.

Subrata Sarkar: Okay, that I understand, sir. That is talking about total market. I am talking about market share whether Indian companies gaining market share in let us say in last two years three years and any ballpark understanding on that.

Pawan Jain: I can you give you the figures for Trident. So, in Bath Linen two years back we were at around 10% - 11% market share in U.S. Towel exports. As of now it is 13% for the calendar year 2016.

Subrata Sarkar: Okay. And overall, from Indian perspective any ball park understanding on the ground?

Pawan Jain: It is around 40% to 42% kind of a market share in U.S. market in Bath Linen and 50% to 52% in Bed Linen.

Subrata Sarkar: Okay. And let us say three years - four years back what was the number, any understanding?

Pawan Jain: If you see the four years back the numbers for Bath Linen was around 30% and numbers for Bed Linen was around 27% - 29%.

Subrata Sarkar: Okay. Sir, our understanding on this let us say another two years - three years, can we expect both this market share to go up sir, from India perspective like 40 is it possible for India to go to 50 -55 in next two years - three years. What I am trying to understand, sir, can India’s competitiveness increase and as a result total market share can go up in U.S. market both in Towel and Bed Linen segment?

Pawan Jain: So, India is still competitive than its neighboring countries like China, Pakistan and Bangladesh because of the Cotton availability, because of the labor cost, Power cost, all these factors along with the favorable government policies that helps the Indian manufacturers to gain the shares going forward also. So, over the last four years - five years there is a significant improvement in market share. Going forward, it might not be that significant but definitely there is a sufficient room to grow further.

Subrata Sarkar: Sir, if you do not mind, like, in U.S. market 40% share is with India. Can you just give me a rough number rest 60% is how it is distributed, rough sir.

Pawan Jain: Roughly about 85% - 86% is with these three countries only i.e. India, China & Pakistan. So, in Bath Linen about 40% - 42% is with India, another 23% is with China and around 22% is with Pakistan.

Subrata Sarkar: Okay. And in case of Bed Linen?

Pawan Jain: It is a similar kind of numbers in Bed Linen also. So, 50% share is with India, around 22% is with China and rest is with Pakistan and other countries.
Subrata Sarkar: Okay. And sir, regarding Europe any this kind of data available or any guess on that?

Pawan Jain: It is not available because this data is available on Otexa which is for U.S. but it is not clearly available for Europe. But in Bed Linen, China and Pakistan is taking a lead in Europe.

Moderator: Thank you. Next question is from the line of Jayesh Gandhi from Harshad Gandhi Securities. Please go ahead.

Jayesh Gandhi: Can you tell what is this other income which is reflected in the financial results?

Pawan Jain: Other income of Rs. 49 crores in Q4, around Rs. 40 crores is the FOREX gain which is realized due to highest ever exports and significant appreciation in the Rupee realization as against the forward cover available. So, about Rs. 5 crores is the interest income from the customers and vendors and rest is like insurance claims and others.

Jayesh Gandhi: Okay And sir, one last question from my side is do we give break-up on borrowings as in what is TUF loans and what is other loans?

Pawan Jain: Yes, total at a gross level the borrowing is Rs. 2,852 crores and at a net debt level it is Rs. 2,714 crores, out of this TUF based loan is Rs. 1,552 crores and short-term borrowing is Rs. 804 crores.

Jayesh Gandhi: And what would be the rate sir, I mean cost of short-term borrowing?

Pawan Jain: On an overall basis it less than 4%. On long-term debt which is non-TUF it is costing us around 10% to 10.5%.

Moderator: Thank you. Next question is from Arjun Sengar from Reliance Mutual Fund. Please go ahead.

Arjun Sengar: Sir, you said that you may do a CAPEX of Rs. 100 crores to Rs. 200 crores in Paper, roughly by how much would that increase the capacity?

Pawan Jain: See, as of now, we are internally evaluating in terms of technical feasibility and what kind of CAPEX we should do. So, as of now nothing is final. It is only expectation that CAPEX will moderate in nature and might be Rs. 100 crores or Rs. 200 crores to be spread over two to three years.

Arjun Sengar: Got it. No, my question was just to understand this would lead to what kind of increase in the capacity is what I am saying.

Pawan Jain: So, around 15% - 20% kind of increase in production.

Arjun Sengar: Okay. And there has been a significant increase in other expenses in this quarter compared to last year…
Pawan Jain: It is with the increased volume of business, production also, other expenses include power and fuel, stores and spares, packing material, so all this contributed with the increased business.

Arjun Sengar: Okay. And most of your power requirement is through captive power plants, right?

Pawan Jain: In Punjab it is about 100% captive and in Madhya Pradesh we are taking from grid.

Arjun Sengar: Okay. So, coal prices would be one of other factors also.

Pawan Jain: Other expenses has coal also and other power and fuel. It is with enhanced utilization also, so that has been in proportionate to the increased revenue.

Arjun Sengar: Okay, got it. And secondly, like you said over the next one quarter to two quarters you are going to pass on all the increased cost and this Rupee appreciation. So, given that background, I just want to understand what is the state of the retailers, is there any financial stress or increased competition or something of that sort which is a headwind to pass on cost?

Pawan Jain: No. See, it is basically you have an umbrella orders for longer tenures and whenever you have the new purchase orders from that customer, you will again negotiate if some significant cost increases are there. So, whether it is Currency or Cotton, we keep on negotiating with the customers on a continuous basis. We expect that negotiation will take time in terms of natural lag of already running orders which has confirmed delivery. So, that will take a quarter to one and half quarter to pass on to the customers. We are already discussing it with the customers in terms of increase in prices. It is not an immediate kind of relative impact. However, going forward definitely we will be able to pass on completely by the end of quarter two.

Moderator: Thank you. As there are no further questions, I now hand the conference call over to Mr. Jain for closing comments. Over to you, sir!

Pawan Jain: Okay. Thank you everyone for joining us on the call. Hope we were able to answer all your questions. Should you need any other clarifications or would like to know more about the company, please feel free to contact our Investor Relations team. Thank you.

Gunjan Shroff: Thank you.

Moderator: Thank you very much. Ladies and gentlemen, on behalf of Trident Limited, that concludes today’s conference call. Thank you for joining us and you may now disconnect your lines now.