



Trident is the flagship company of Trident Group and is the world's largest terry towel and wheat straw based paper manufacturer. It is also amongst the largest integrated home textile manufacturers. It operates in two major business segments viz textiles (82% of revenues) and paper (18% of revenues).

Domestic and Global market for Home Textile is forecasted to grow by 7.2% and 3.5% CAGR between FY15-20 to US\$5.6bn and US\$131.5bn, respectively. To capture this growth, Trident has already set-up a *Bed Linen* facility of 43.2m mtrs p.a and doubled its *Bath linen* capacity to 90,000 TPA in FY15 which are expected to operate at ~45% and ~58% utilization levels in FY18E, respectively.

Over last four years (FY13-17) revenues and profits have grown at CAGR of 8.9% and 61.6% to Rs 46,944m and Rs 3,366m. Going forward, we expect revenues to grow at CAGR of 10.5% to Rs 57,301m and profits by 25.3% to Rs 5,287m respectively in FY19E. Profit growth is expected to outpace top line growth on back of better realisations, richer product mix which will expand EBITDA margins (by 200 bps) and lower interest cost due to deleveraging. This will boost RoE and RoCE to 15.6% and 13.4% by FY19E from 13.8% and 10.0% currently.

With all major capex cycle behind the company, it is expected to generate free cash to the tune of Rs5,598m in FY18E and Rs6,690m in FY19E. Simultaneously debt will also reduce from the current Rs28.7bn to Rs22.2bn.

We initiate coverage on the stock with a recommendation to BUY and a price target of Rs 114 which represents a 38% upside from the current levels. We have valued the company on SOTP methodology and ascribed a value of Rs 114. We have valued both the textile and the paper business at an EV/EBITDA of 6.5x.

Key financials (Y/e March)	2016	2017	2018E	2019E
Revenues (Rs m)	36,840	46,944	51,622	57,301
<i>Growth (%)</i>	<i>(1.9)</i>	<i>27.4</i>	<i>10.0</i>	<i>11.0</i>
EBITDA (Rs m)	7,189	8,882	10,603	12,004
PAT (Rs m)	2,280	3,366	4,027	5,287
EPS (Rs)	4.5	6.6	7.9	10.4
<i>Growth (%)</i>	<i>93.4</i>	<i>47.6</i>	<i>19.7</i>	<i>31.3</i>
CEPS (Rs)	11.1	14.7	15.9	18.2
Net DPS (Rs)	0.9	1.5	1.6	2.1
Profitability & Valuation	2016	2017	2018E	2019E
EBITDA margin (%)	19.5	18.9	20.5	20.9
RoE (%)	12.9	13.8	13.1	15.6
RoCE (%)	9.6	10.0	10.6	13.4
EV / sales (x)	2.1	1.5	1.3	1.1
EV / EBITDA (x)	10.6	7.8	6.3	5.2
PE (x)	18.6	12.6	10.5	8.0
P / BV (x)	2.2	1.4	1.3	1.2
Net dividend yield (%)	1.1	1.8	1.9	2.5

Source: Company Data, PL Research

Company Report

Wednesday, July 19, 2017

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Rating	BUY
Price	Rs 83
Target Price	Rs 114
Implied Upside	38%
Sensex	31,711
Nifty	9,827
Bloomberg Code	TRID IN
Reuters Code	TRIE.BO

(Prices as on July 14, 2017)

Tracking Data

Market Cap (Rs bn)	42.3
Shares O/s (m)	509.6
3M Avg. Daily Value (Rs m)	159.9

Major Shareholders

Promoters	67.8%
Domestic Inst.	3.7%
Public & Others	28.5%

Stock Performance

(%)	1M	6M	12M
Absolute	2.0	30.1	75.4
Relative	0.3	13.6	60.2

How we differ from Consensus

EPS (Rs)	PL	Cons.	% Diff.
2018E	7.9	7.6	3.9
2019E	10.4	10.4	-

Investment Highlights

Strong Global Outlook as well as buoyant demand in domestic market to grow Home Textiles

As per the Global Home Textiles Market Outlook by Fibre2Fashion, world-wide home textile (HT) market grew at a CAGR of 2.9% from 2008 to 2013 to US\$104.2bn. Asia Pacific region recorded a CAGR of 9.5% over the same period and in contrast, regions of Western and Eastern Europe recorded negative growth rates. Globally, the value of home textiles is expected to reach US\$131.5bn in 2020 (CAGR of 3.5% FY15-20).

Among the Asia Pacific region, Indian home textile market has the third largest market share. It is expected to expand at a CAGR of 7.2% during 2015–20 to US\$5.6bn in 2020 due to rising per capita income, increasing brand awareness and higher spends on premium products.

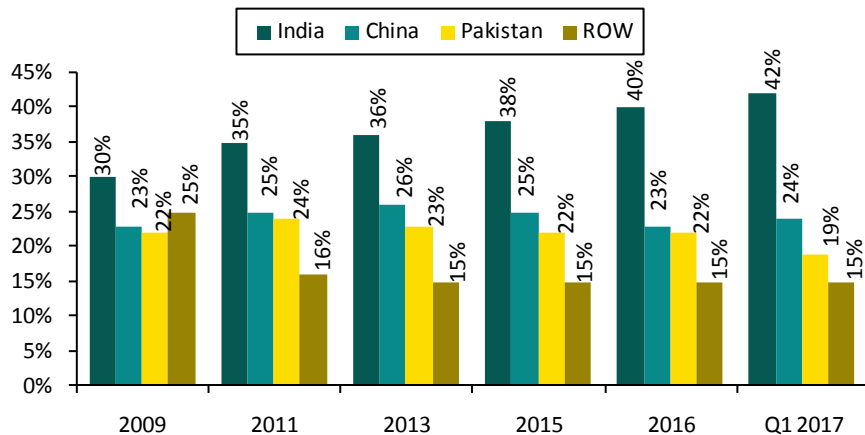
Terry Towels industry on a strong footing

The Global Terry Towels market is expected to grow from US\$21.6bn in 2014 to Rs26.4bn by 2020 and the Indian market is expected to grow from US\$0.6bn to US\$0.9bn in 2020. India has historically enjoyed the dominant position in the US Towel market. Its share has increased at a rampant pace from 30% in 2009 to 42% till March 2017.

The Indian Bed linen Market & Terry Towels market is largely driven by higher incomes, increased propensity to spend as well as consumer preference for branded and upmarket products.

The company had expanded capacities in terry towel as well in 2015 from 42,000 TPA to 90,000 TPA and is currently operating at 50% capacity utilization. Going forward, we expect the levels to improve to ~58% in FY18E and ~66% in FY19E. Exports accounts for 90%, balance being domestic.

Market Share in US Towel Market



Source: Company Data, PL Idea Research

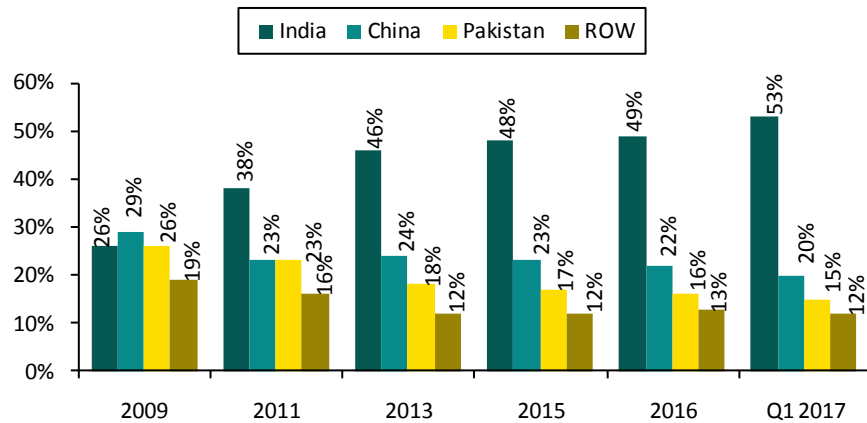
Existing clientele to help penetrate the Bed Linen market

According to Global Home Textiles Market Outlook by Fibre2Fashion, the Global Bed linen market is expected to grow at 4.4% CAGR during FY15-20 and reach US\$60.8bn by 2020. During the same period, the Indian Bed linen market is expected to grow faster at 7.4% CAGR to US\$3.3bn. India's export share in the US bed linen market has increased from 26% in 2009 to 53% in March 2017.

In order to capture this growth, Trident has set up a fresh capacity for bed linen of 43.2m meters which was commissioned in Q4FY16 and is expected to break-even at the EBITDA level in H1FY18E. Globally, the customers for bed linen and terry towels are mostly the same. Hence, the company was able to leverage on its pre-existing relations with customers from its terry towels business to sell its capacities in Bed Linen. Exports account for ~90% of revenues, balance being domestic.

At peak capacity utilization both these capacities can generate revenues of ~Rs43.7bn. It will take roughly 3 years for the company to achieve the same.

Market Share in US Sheet Market



Source: Company Data, PL Idea Research

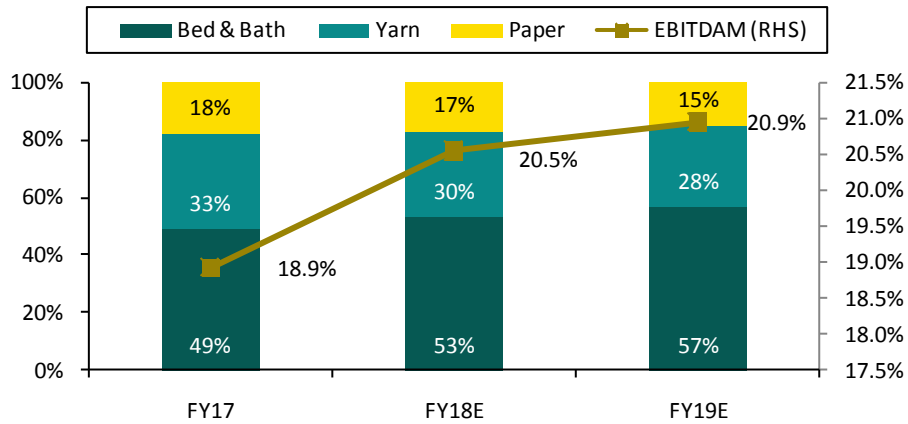
Higher margins on account of a richer product mix

Trident is shifting its focus towards value-added products across bath and bed linen segments and is continuously trying to launch innovative products. Some of the recent innovations in the Bed Linen segment include launches like *Air Rich*, *Nectar Soft* and *All Season Sheets*. These niche market products fetch higher realizations and margins.

During FY17, Trident utilized 50% of its installed capacity for Towels and only 29% of Bed linen and the same is expected to shoot up to ~58% and ~45% in FY18E. Revenue contribution of the yarn segment will subsequently reduce from the current levels of 33% to 28% by FY19E as

captive yarn consumption will go up on account of expanded terry towel and bed linen capacity. Thus the relatively lower margin yarn business (~18%) will steadily be replaced by revenues from the home textile segment (19%) which will partly push the overall margins upwards.

EBITDAM expand on back of richer product mix



Source: Company Data, PL Idea Research

Better fixed cost absorption due to higher capacity utilisation

Recently, the capacities for Bed linen and Towels were elevated to 43.2m meters p.a and 90,000 TPA, respectively. During FY17, capacity utilization stood at 29% and 54%, respectively. We expect this to improve to ~45% and ~58% in FY18E and ~57% and ~66% in FY19E. The key drivers for this would be increased industry demand, cross-selling bed linen to its existing customers and new client additions. In turn, this would result in economies of scale for the company, thereby, lowering cost of production and increasing EBITDA margins of both the segments.

Focus on diversifying customer base geographically

Trident exports 55% of its total turnover, of which, 65% is to the US, 15-20% to Europe and balance to the rest of the world. India’s export share in the US terry towel market has increased sharply from 30% in 2009 to 40% in 2016. Trident’s share too increased from ~10-11% in CY13 to 13% in CY16. Top 10 customers (including *Target, JCP, Macys, Walmart, IKEA*) account for 50% of the total exports for the company.

Trident aims to expand its overseas markets by strengthening relationships with clients, offering wide product range and implementing new strategies for product promotion. A wholly-owned subsidiary M/s Trident Europe Limited (UK) has been established to fortify its marketing channels in Europe, while a marketing and design team has been setup in the US for better market research and customer service. It is offering a wider range of products, including Bed linen and Bath linen to its existing customers across USA, Europe, Australia, and Middle East. At the same time, it is also expanding its customer base in international markets like Middle & Far East, Africa, Europe, Australia and Canada.

Paper segment continues to be outperformer

Paper segment enjoys the highest margins among all segments of the company. EBITDAM have increased from 27% in FY13 to 35% in FY17 due to higher contribution from value-added copier paper. Initially Trident used to be Maplitho manufacturer which was a conventional variety and has lesser realisations. The revenue from copier paper is ~52% of the total business of the paper segment.

Currently Trident has a capacity of 175,000 TPA which is operating at ~89%. The demand for paper is expected to grow at 6% CAGR during FY16-20E driven by the growing modern retail industry, increase in Indian literacy rate, increase in corporate activity, consumer preference for better quality paper and Government policies like 100% FDI, zero import duty. Along with increasing domestic demand of paper, the raw material cost and realisations are favorable for the paper industry. Trident is planning to debottleneck its paper capacity at a cost of Rs 1.5bn-2.0bn of capex. This will add ~15-20% capacity to the current capacity.

Key Risks

Fluctuating raw material price

Being in home textile and paper business, Trident's major raw materials are cotton and wheat husk. The cotton prices on an average rose 11% YoY in FY16, from Rs33,150 per candy to Rs36,650 per candy for J-34 variety cotton. Raw material cost accounts for ~50% of sales of the company and hence, any volatility of the prices directly put pressures on the margins of the company. However, it takes 40-45 days to pass on the increase in price of the cotton at Yarn side and one quarter to one & half quarters to Bed & Bath Linen customers.

Trident has a policy of procuring cotton from October to March and it is generally highest in March. At the year-end, it maintains five to six months of inventory.

Currency fluctuation risk

Trident exports 55% of its turnover and hence, any Rupee appreciation will affect the topline and profitability of the company negatively. However, as the proportion of new orders v/s the old order increases, the company can pass on the effect of Rupee appreciation to the customers with a lag of one or one & half quarters, thereby, affecting margins during that period.

High working capital requirements

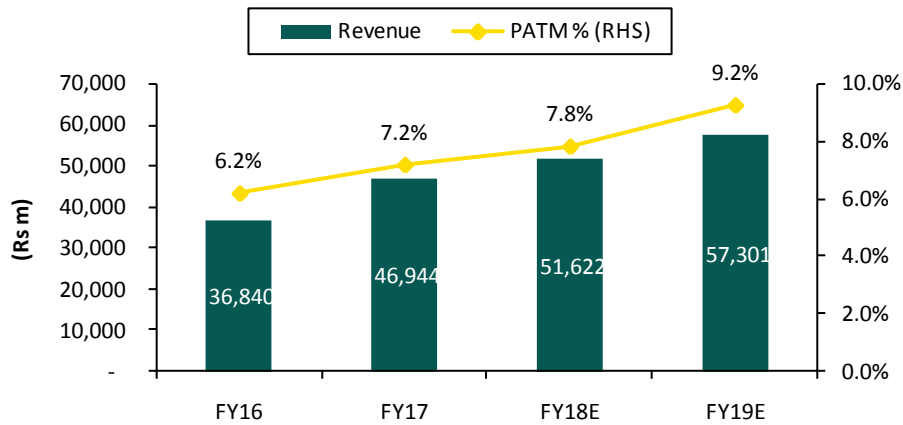
Cotton is a Kharif crop which requires six to eight months to mature. It becomes necessary to maintain inventory of cotton as it is the major raw material for home textile products. Also, absence of sufficient cash at hand or credit facilities can affect the operations of the business adversely.

Financial Overview

Revenues to grow at 10.5% CAGR and Profits at 25.3% CAGR

Over FY13-17 the revenues and profits grew at CAGR of 8.9% and 61.6% to Rs 46,944m and Rs 3,366m. Average EBITDA margins for the company are forecasted to improve by 200 bps to 20.9% between FY17-19E on account of better product mix. This along with lower interest cost will lead to faster growth in the bottom line versus the top line. While revenues are expected to grow at 10.5% CAGR to Rs 57,301m, profits will grow by 25.3% CAGR to Rs 5,287m by FY19E.

Steady growth in Revenue and Profitability

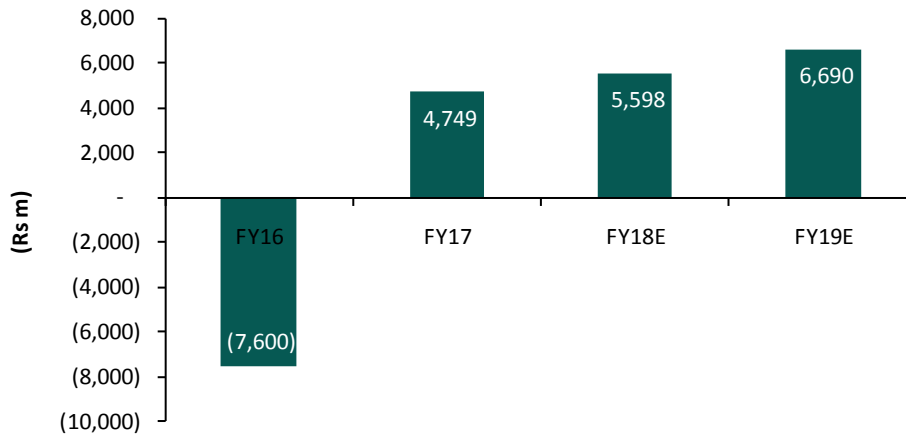


Source: Company Data, PL Idea Research

Improved Return Ratios and Free Cash Generation

Due to optimum utilization of capacities and increasing revenues from higher margin segments, we expect RoE and RoCE to rise to ~15.6% and ~13.4% in FY19E from ~13.8% and ~10% in FY17, respectively. With major capex behind the company, the company is expected to generate free cash of Rs5,598m in FY18E and Rs6,690m in FY19E.

Company to turn Free Cash Positive



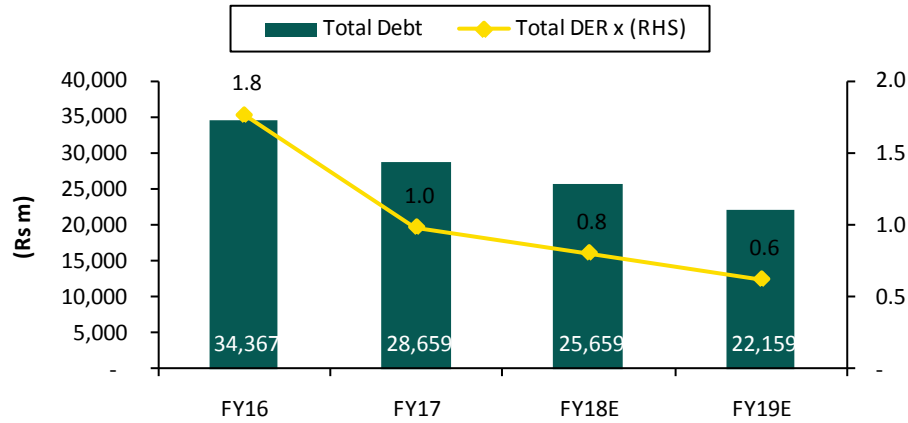
Source: Company Data, PL Idea Research

Debt Reduction

Currently, Trident has total debt of Rs 28.7bn; DER stands at 1.0x. The TUF (Technology Upgradation Fund) loan accounts for more than 75% of the long-term debt.

Trident plans to repay ~Rs 4bn each in FY18E and FY19E. Of this, 50% is towards repayment of high interest cost debt (Rs 1bn scheduled and Rs 1bn prepayment) and balance TUF loan. This will also help bring down the interest cost by Rs 250m by FY19E to Rs 1,160m.

Gradual de Leveraging of the Balance Sheet



Source: Company Data, PL Idea Research

Valuation

We initiate coverage on the stock with a recommendation to BUY and a price target of Rs 114 which represents a 38% upside from the current levels. We have valued the company on SOTP methodology and ascribed a value of Rs 114. We have valued both the textile business and paper business at an EV/EBITDA of 6.5x.

SOTP		
SOTP Valuation using EV/EBITDA Multiple	Multiple	(Rs m)
FY19E EBITDA – Textile (Rs M)		8,961
FY19E EBITDA – Paper (Rs M)		3,045
Target Multiple - Textile (x)	6.5	58,244
Target Multiple - Paper (x)	6.5	19,793
Total EV (Rs M)		78,037
FY19E Debt (Rs M)		22,159
FY19E Cash (Rs M)		2,361
Market Capitalisation (Rs M)		58,238
Equity shares (mn)		510
Target Price (Rs)		114
CMP (Rs)		83
Upside (%)		37.6

Source: Company Data, PL Idea Research

Comparative Valuation Table

Name	Price (Rs)	Mcap (Rs bn)	PER (x)		EV/EBITDA (x)		RoE (%)	Revenues (Rs m)		EPS (Rs.)		EPS CAGR %
			'18E	'19E	'18E	'19E		'19E	'18E	'19E	'18E	
Trident	82	41.6	10.3	7.9	6.3	5.2	15.5	51,622	57,301	7.9	10.4	32.4
Welspun India	89	89.2	13.7	11.3	7.5	6.6	25.4	71,112	80,000	6.5	7.9	4.0

Source: Company Data, Bloomberg Consensus Estimates

Over FY16-19E, Trident's profits are expected to grow at a much faster pace versus Welspun India. While the former is forecasted to grow by 32.4%, the latter is likely to grow by just 4%. Topline growth for both the companies is ~15% over the same period.

In FY17, while the topline for Welspun grew by just 7.1%, Trident grew its by 27.4%. The bottom line in Welspun India reduced to half (Rs 3.6bn versus Rs 7.0bn in FY16) due to the loss of one of its largest customers as well as rupee appreciation. Trident however, grew profits at a healthy rate of 47.6% in the same year. Thus in FY18, growth in Welspun's profits (82% as per consensus estimates) appears much higher due to the low base.

In the past, the gap in the profit margins of both companies has been significant which is expected to reduce going forward. At the current valuations, we feel that the stock is attractively valued from the medium term perspective.

Company Background

Established in 1990, Trident is the world's largest terry towel manufacturer and world's largest wheat straw-based paper manufacturer. It was originally incorporated as Abhishek Industries, the name was changed in 2011 to Trident. It is a classic example of a vertically integrated company. Broadly, Trident Ltd is engaged in Yarn, Home Textiles, Chemicals, Paper and Energy. It has state-of-the-art manufacturing facilities in Sanghera & Dhaura, Punjab and Budni, Madhya Pradesh. The company strives to be innovative, develop new products and penetrate new markets, while imprinting their brand in the minds of the people.

Exports account for more than 50% of its turnover. Trident's reach is widespread in domestic and international markets and its clientele comprises of recognized brand names like Taj Hotels Resorts & Palaces, Raymond, DMart, Reliance Retail, Target, Walmart, IKEA and Bed Bath & Beyond. It also has online presence on platforms like Amazon, Flipkart, Home Shop 18 and PepperFry.com. Trident has repeatedly received accolades from its customers in recognition for delivering quality products.

Industry Overview

Textile Industry

China, Pakistan and India collectively contribute about 80% of home textiles exports to US, but India enjoys a dominant position. Cheap labour, low raw material prices, low power charges and better productivity gives India an upper hand in the competition. Textile industry is one of the largest contributors to India's Export. According to Eurometer, Indian home textile industry is expected to be a \$ 8.2 Bn market by 2021 from \$ 5.5 bn in 2016. The Indian Bed Linen market and Towel market are set to grow to Rs 19,350 crores and Rs 7,000 crores respectively by 2021. Government has played a major role in promoting the sector by introducing various schemes time to time.

Paper Industry

India consumes just 3% of the global production of paper, which translates to per capita consumption of only 13 kg of paper every year against a global average of over 57 kg. A mere comparison of Indian consumption versus Global consumption depicts that there is a huge growth potential for Indian Paper industry. However, we consume more paper than produced. The estimated turnover of the Indian paper industry is about Rs 500 bn. Paper consumption is expected to grow at average annual rate of 10% during FY16-19 and these factors would contribute to the growth - 100% FDI, Zero Import Duty on machinery, Increase in literacy, Increase in Corporate Activities.

Income Statement (Rs m)

Y/e March	2016	2017	2018E	2019E
Net Revenue	36,840	46,944	51,622	57,301
Raw Material Expenses	17,342	22,916	25,319	27,974
Gross Profit	19,498	24,028	26,303	29,327
Employee Cost	4,335	5,794	5,500	5,850
Other Expenses	7,974	9,351	10,200	11,473
EBITDA	7,189	8,882	10,603	12,004
Depr. & Amortization	3,376	4,125	4,100	4,000
Net Interest	1,364	1,410	1,310	1,160
Other Income	317	1,035	400	500
Profit before Tax	2,766	4,382	5,593	7,343
Total Tax	486	1,016	1,566	2,056
Profit after Tax	2,280	3,366	4,027	5,287
Ex-Od items / Min. Int.	-	-	-	-
Adj. PAT	2,280	3,366	4,027	5,287
Avg. Shares O/S (m)	509.6	509.6	509.6	509.6
EPS (Rs.)	4.5	6.6	7.9	10.4

Cash Flow Abstract (Rs m)

Y/e March	2016	2017	2018E	2019E
C/F from Operations	4,371	6,532	7,509	8,140
C/F from Investing	(11,970)	(1,784)	(1,911)	(1,450)
C/F from Financing	8,249	(4,242)	(5,643)	(5,610)
Inc. / Dec. in Cash	649	507	(45)	1,080
Opening Cash	170	819	1,326	1,281
Closing Cash	819	1,326	1,281	2,361
FCFF	(7,600)	4,749	5,598	6,690

Key Financial Metrics

Y/e March	2016	2017	2018E	2019E
Growth				
Revenue (%)	(1.9)	27.4	10.0	11.0
EBITDA (%)	8.8	23.5	19.4	13.2
PAT (%)	93.4	47.6	19.7	31.3
EPS (%)	93.4	47.6	19.7	31.3
Profitability				
EBITDA Margin (%)	19.5	18.9	20.5	20.9
PAT Margin (%)	6.2	7.2	7.8	9.2
RoCE (%)	9.6	10.0	10.6	13.4
RoE (%)	12.9	13.8	13.1	15.6
Balance Sheet				
Net Debt : Equity	1.8	1.0	0.8	0.6
Net Wrkng Cap. (days)	60.1	52.0	54.0	54.0
Valuation				
PER (x)	18.6	12.6	10.5	8.0
P / B (x)	2.2	1.4	1.3	1.2
EV / EBITDA (x)	10.6	7.8	6.3	5.2
EV / Sales (x)	2.1	1.5	1.3	1.1
Earnings Quality				
Eff. Tax Rate	17.6	23.2	28.0	28.0
Other Inc / PBT	0.1	0.2	0.1	0.1
Eff. Depr. Rate (%)	5.5	5.8	5.7	5.4

Source: Company Data, PL Research.

Balance Sheet Abstract (Rs m)

Y/e March	2016	2017	2018E	2019E
Shareholder's Funds	17,789	27,568	30,629	34,647
Total Debt	34,367	28,659	25,659	22,159
Other Liabilities	1,811	2,603	1,740	1,550
Total Liabilities	53,967	58,830	58,029	58,356
Net Fixed Assets	38,919	44,680	42,096	39,146
Goodwill	-	-	-	-
Investments	739	1,005	1,400	1,800
Net Current Assets	12,400	12,060	13,633	16,360
<i>Cash & Equivalents</i>	819	1,326	1,281	2,361
<i>Other Current Assets</i>	14,251	13,768	15,629	17,605
<i>Current Liabilities</i>	2,671	3,034	3,278	3,606
Other Assets	1,909	1,086	900	1,050
Total Assets	53,967	58,831	58,029	58,356

Quarterly Financials (Rs m)

Y/e March	Q1FY17	Q2FY17	Q3FY17	Q4FY17
Net Revenue	11,482	11,478	11,223	12,345
EBITDA	2,418	2,349	2,260	2,131
% of revenue	21.1	20.5	20.1	17.3
Depr. & Amortization	1,034	1,044	1,035	1,010
Net Interest	416	348	276	321
Other Income	54	93	73	490
Profit before Tax	1,021	1,050	1,022	1,290
Total Tax	236	250	236	293
Profit after Tax	785	801	786	997
Adj. PAT	785	801	786	997

Key Operating Metrics

Y/e March	2016	2017	2018E	2019E
Yarn				
Capacity (MTPA)	1,15,200	1,15,200	1,15,200	1,15,200
Utilisation (%)	93	93	93	93
Bath Linen				
Capacity (TPA)	90,000	90,000	90,000	90,000
Utilisation (%)	41	50	58	66
Bed Linen				
Capacity (Mn Mtrs p.a)	43.2	43.2	43.2	43.2
Utilisation (%)	8	29	45	57
Paper				
Capacity (TPA)	1,75,000	1,75,000	1,75,000	1,75,000
Utilisation (%)	88	89	90	90

Source: Company Data, PL Research.

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