

KARVY INVESTMENT

STRATEGY REPORT
MAY-JUNE 2017

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VALUE INVEST

MAY 2017



One of the Largest Integrated Home Textile Players

Increased Capacity Utilization in Towel and Bed Linen Segment:

Trident Ltd is the largest manufacturer of terry towels in the world. The company is capable of producing 88,775 metric tonnes of towels per annum at optimum utilisation with a balanced product mix with net realization of Rs. 470 per kg.

Over the total revenue for 9MFY17, the revenue contribution from Bed and Bath Linen is at ~49.0% and 34.0%. The capacity utilization for Yarn is at ~92% and with the increased capacity Bath & Bed Linen recorded ~29% & 49% of utilization. Management guided that by changing sales mix towards higher margin business of terry towel and bed linen, the company could able to achieve the utilization level of ~65% & 50% by FY18E.

No further capex plan; Cash flows to be utilized to repay debt:

With the completion of the capacity expansion in terry towel facility and commissioning of the bed linen plant, the company has completed its ongoing capex plans and does not have any further expansion. The company made debt repayment of Rs. 4,450 Mn in FY17E. This includes prepayment of high cost debt of Rs. 2,295 Mn, which led to significant decline in the Net Debt to Equity ratio, at 1.4x by Q3FY17 against 1.9x as on FY16. The company is expected to make the debt repayment of Rs. 4,000 Mn per year going forward. We expect this will lead to a stronger balance sheet and reduce the financial leverage risks of the company.

The revenue is expected to grow at 17.5% CAGR over FY16-FY19E to Rs. 59714 Mn owing to superior volume growth in home textiles. Management pointed that EBITDA margins could be at a range of ~18.0-22.0% in FY18E & FY19E which could possible with the higher share of value added products, rising captive consumption of yarn, rising share of high-margin home textiles and increase in utilisation.

Recommendation (Rs.)

CMP (as on Apr 28, 2017)	83
Target Price	98
Upside (%)	18

Stock Information

Mkt Cap (Rs.Mn/US\$ Mn)	42422 / 660
52-wk High/Low (Rs.)	90 / 42
3M Avg.daily volume (Mn)	1.7
Beta (x)	1.2
Sensex/Nifty	29918 / 9304
O/S Shares(mn)	509.6
Face Value (Rs.)	10.0

Shareholding Pattern (%)

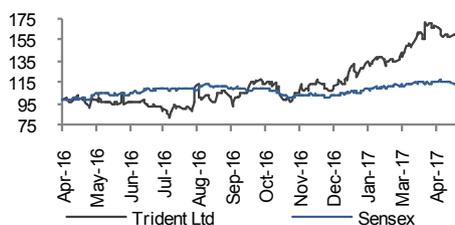
Promoters	67.8
FIIs	0.0
DIIIs	3.7
Others	28.5

Stock Performance (%)

	1M	3M	6M	12M
Absolute	(5)	23	42	56
Relative to Sensex	(6)	14	32	34

Source: Bloomberg

Relative Performance*



Source: Bloomberg; *Index 100

Valuation Summary

YE Mar (Rs. Mn)	FY15	FY16	FY17E	FY18E	FY19E
Net Sales	37553	36840	46913	52891	59714
EBITDA	6608	7189	9556	11243	12957
EBITDA Margin (%)	16.7	18.7	19.7	20.6	21.1
Adj. Net Profit	1179	2291	3329	4450	5720
EPS (Rs.)	2.5	4.5	6.5	8.7	11.2
RoE (%)	10.1	14.2	17.4	20.0	21.7
PE (x)*	9.3	11.5	13.3	9.6	7.4

Source: Bloomberg, Karvy Research, *Represents multiples for FY15, FY16 & FY17E are based on historic market price

Company Background

Headquartered in Ludhiana (Punjab), the company operates in two major business segments like textiles and paper with manufacturing facilities located in Punjab and Madhya Pradesh. Keeping in view the increasing requirements of continuously expanding operations, the company has manufacturing capacities of Terry towels with 688 looms, bed sheets with an operating capacity of 500 looms, yarn capacity of ~0.56 Mn spindles and 5504 rotors. Trident is generating captive power to meet the demands of the industry with the production capacity of 50 MW. The company has a customer presence in more than 75 countries spread across six continents. The company's prominent international customers include nine of ten largest American retailers, six leading European retailers and five of the seven largest Australia and New Zealand-based retailers.

Valuation and Outlook

Considering rising share of high-margin home textiles, increase utilization, increasing revenue from Bed Linen project, economies of scale and debt repayment plan for the next two years, we continue to maintain our positive outlook on Trident and we maintain our **"BUY"** rating with a target price of Rs. 98, based on 8.8x P/E FY19E, representing an upside potential of 18%.

Key Risks

- Increase in cotton prices may have bearing impact on the company's profitability.
- Majority of the company's revenue is generated by exporting products to developed economies namely USA, UK and EU. Demand crunch in these economies would impact the company's order book in any given year.
- Significant changes in the currency exchange rates could affect the financial performance of the company.
- The company faces a regular competition from China and ASEAN countries in the cotton yarn and home textiles segments while catering to multi-brand retail chain stores and overseas producers.

TRIDENT: Technical View



Trident is in a secular uptrend, forming higher highs and higher lows on all the time frames. The rally started in the counter after clocking low of Rs. 6, made on 1st August, 2013. In less than 4 years, the stock has gained 15 times, when it clocked a high of Rs.90.35 on 24th March, 2017. The stock has witnessed profit booking from the higher levels, falling towards Rs.80 levels from the life highs of Rs.90.35, correcting more than 10% in a span of 10 trading sessions. The dip in the counter can be used as an opportunity to go long in the stock as it is expected to continue its northward journey in the coming months as well. Any dip towards Rs.68-70 levels may be used as an opportunity to add further. The long term supports for the stock is seen to be around Rs.60 levels while the stock the likely to trade in the uncharted territory towards Rs.120-140 levels.

Stock Ratings	Absolute Returns
Buy	: > 15%
Hold	: 5-15%
Sell	: <5%

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