

RESULTS REVIEW

Trident

Top-line growth strong; margins disappoint

BUY

Analyst

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Nifty: 9,407; Sensex: 30,248

CMP	Rs86
Target Price	Rs103
Potential Upside/Downside	+20%

Key Stock Data

Sector	Midcap
Bloomberg / Reuters	TRID IN / TRIE.BO
Shares o/s (mn)	510
Market cap. (Rsmn)	43,698
Market cap. (US\$ mn)	676
3-m daily average vol.	100,038

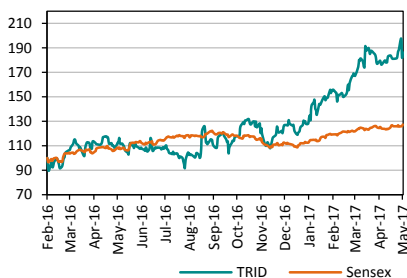
Price Performance

52-week high/low	Rs92/42		
	-1m	-3m	-12m
Absolute (%)	4	20	66
Rel to Sensex (%)	2	13	48

Shareholding Pattern (%)

Promoters	67.8
Institutions	3.7
Non-Institutions	28.5

Relative to Sensex



Source: Bloomberg

Summary

- Trident reported mixed set of results for Q4FY17. While sales growth surprised us positively; however, margins disappointed due to higher raw material costs.
- Top-line grew 31.7% YoY and 13.3% QoQ to Rs12,473 mn (better than our estimate by 6.7%).
- However, EBITDA margin was lower than our estimates (16.6% vs. our estimate of 21.3%) mainly due to higher-than-expected raw material costs (cotton prices) and INR appreciation against the USD.
- Textile segment EBIT margin contracted 159bps QoQ to 7.5%; even Chemicals & Paper segment EBIT margin were lower by 364bps QoQ to 24.7%.
- We introduce FY19 estimates and expect PAT to grow at a CAGR of 32% over FY17-19E.
- We maintain Buy on the stock with a revised target price of Rs103 (Rs98).

Result Highlights and Investment Rationale

- Top-line growth stellar:** Trident's net sales grew 31.7% YoY and 13.3% QoQ to Rs12,473 mn (better than our estimate by 6.7%). Blended utilization level at its bed linen facilities and terry towel improved to 29% and 54% during Q4FY17 from 27% and 46% in Q3FY17, respectively.
- Profitability hit by higher raw material costs:** EBITDA margin was lower than our estimates (16.6% vs. our estimate of 21.3%) mainly due to higher-than-expected raw material costs (cotton prices) and rupee appreciation. Raw material costs as a percentage of sales stood at 52% in Q4FY17 vs 47% in Q4FY16. EBITDA declined 5.4% YoY to Rs2,131 mn (14.6% below our forecast).
- Net debt continues to decline:** Net debt decreased by Rs906 mn to Rs25,174 mn as company deferred purchasing cotton inventories due to prevailing higher cotton prices. Deleveraging continued in FY17 with net debt declining by Rs7,060 mn. The company aims to prepay high-cost debt, aside from scheduled TUFs debt payments in FY18.
- Chemicals & Paper margins to improve:** During Q4FY17, Chemicals & Paper segment EBIT margins contracted 364bps to 24.7% QoQ due to ~300bps decrease in utilization levels. Nevertheless, Management expects segment margin to improve in the coming quarters as utilization rises.
- Management expects cotton prices to moderate:** Management expects bed linen utilization levels to increase to 40-50% in FY18 (29% in FY17) and terry towel utilization level at 55-60% (50% in FY17). EBITDA margin guidance for FY18-19 in the range of 18-22%. The company expects cotton prices to moderate in the coming two quarters; however, Textile margins are likely to remain flat due to currency headwinds. The company hedges based on order backlog and is generally exposed to spot currency for nearly 60% of its receivables.
- Revise target price; Maintain Buy:** We have cut our margin estimates for FY18 to account for rupee appreciation/ higher cotton prices. We introduce FY19 numbers and expect sales/EBITDA/ PAT to grow at a CAGR of 11%/15%/32% over FY17-19E. While Trident's Q4FY17 margins missed our estimates, sales growth of 31.7% YoY was better than our estimate. We believe FY18 margins should recover partially as the company raises prices and cotton prices moderate. **We revise our target price from Rs98 to Rs103 valuing the stock at 9x FY19 earnings. Maintain BUY.**

Table: Financial snapshot

Year	Revenue	EBITDA	EBITDA (%)	Adj. PAT	EPS (Rs)	P/E (x)	EV/EBITDA (x)	RoE (%)	RoCE (%)
FY 2016	37,112	7,297	19.7	2,421	4.3	20.2	9.5	15.0	11.1
FY 2017	47,438	8,889	18.7	3,379	6.6	12.9	6.8	14.9	10.9
FY 2018E	50,741	9,325	18.4	3,899	7.7	11.2	5.8	13.5	11.2
FY 2019E	58,008	11,666	20.1	5,844	11.5	7.5	4.0	17.9	16.9

Source: Company; IDBI Capital Research

Table: Quarterly Snapshot (Standalone results)**(Rs mn)**

	Q4FY17	Q3FY17	QoQ (%)	Q4FY16	YoY (%)
Net sales	12,473	11,011	13.3	9,472	31.7
Expenditure	10,680	9,102	17.3	7,723	38.3
EBITDA	2,131	2,252	(5.4)	1,990	7.1
EBITDA margin (%)	17.1	20.5	(337)bps	21.0	(392)bps
Other income	490	107	359.6	70	602.4
Interest	321	302	6.3	364	(11.9)
Depreciation	1,010	1,035	-2.4	928	8.8
PBT	1,290	1,022	26.2	767	68.2
Tax	293	236	24.3	158	86.1
PAT	997	786	26.8	609	63.6
Adj. diluted EPS (Rs)	1.96	1.54	26.8	1.20	63.0

Source: Company; IDBI Capital Research

Table: Actual vs. Estimates**(Rs mn)**

	Q4FY17E	Q4FY17	Variance (%)
Net sales	11,694	12,473	6.7
EBTIDA	2,495	2,131	(14.6)
Margin	21.3	17.1	(425)bps
PAT	958	997	4.0
Adj. diluted EPS (Rs)	1.88	1.96	4.0

Source: Company; IDBI Capital Research

Table: Segment Revenues**(Rs mn)**

	Q4FY17	Q3FY17	QoQ (%)	Q4FY16	YoY (%)
Textiles	10,558	9,155	15.3	7,535	40.1
Paper & Chemicals	2,254	2,233	0.9	2,178	3.5

Source: Company; IDBI Capital Research

Table: Segment EBIT**(Rs mn)**

	Q4FY17	Q3FY17	QoQ (%)	Q4FY16	YoY (%)
Textiles	790	831	(4.9)	830	(4.8)
Paper & Chemicals	557	634	(12.0)	439	26.9

Source: Company; IDBI Capital Research

Table: Segment EBIT margins (%)

	Q4FY17	Q3FY17	QoQ	Q4FY16	YoY
Textiles	7.5	9.1	(159)bps	11.0	(354)bps
Paper & Chemicals	24.7	28.4	(364)bps	20.2	456bps

Source: Company; IDBI Capital Research

Table: Change in estimates

	FY18E			FY19E
	Old	New	(%) Chg	
Revenue (Rs mn)	50,463	50,741	0.6	50,741
EBITDA (Rs mn)	10,588	9,325	(11.9)	9,325
EBITDA margin (%)	21.0	18.4	(260)bps	18.4
Net profit (Rs mn)	4,168	3,899	(6.4)	3,899
EPS (Rs)	8.2	7.7	(6.7)	11.5

Source: Company; IDBI Capital Research

Financial summary

Profit & Loss Account

(Rs mn)

Year-end: Dec.	FY16	FY17E	FY18E	FY19E
Net sales	37,112	47,438	50,741	58,008
Growth (%)	(1.2)	27.8	7.0	14.3
Operating expenses	(29,815)	(38,549)	(41,415)	(46,342)
EBITDA	7,297	8,889	9,325	11,666
Growth (%)	10.4	21.8	4.9	25.1
Depreciation	(3,366)	(4,125)	(4,250)	(4,300)
EBIT	3,931	4,764	5,076	7,366
Interest paid	(1,452)	(1,410)	(872)	(502)
Other income	334	1,035	1,138	1,252
Pre-tax profit	2,813	4,388	5,342	8,116
Tax	(392)	(1,016)	(1,442)	(2,273)
Effective tax rate (%)	13.9	23.2	27.0	28.0
Net profit	2,421	3,372	3,899	5,844
Adjusted net profit	2,421	3,379	3,899	5,844
Growth (%)	105.4	39.6	15.4	49.9
Shares o/s (mnos)	569	510	510	510

Balance Sheet

(Rs mn)

Year-end: Dec.	FY16	FY17E	FY18E	FY19E
Net fixed assets	38,302	43,448	41,096	37,596
Investments	739	1,005	1,005	1,005
Other non-curr assets	2,525	2,317	1,220	1,220
Current assets	15,071	15,095	15,953	18,841
Inventories	9,092	7,747	8,140	9,333
Sundry Debtors	1,767	3,751	2,578	2,955
Cash and Bank	819	278	1,916	3,234
Marketable Securities	197	49	49	49
Loans and advances	3,181	1,365	1,365	1,365
Other current Assets	15	1,905	1,905	1,905
Total assets	56,637	61,865	59,274	58,661
Shareholders' funds	17,789	27,568	30,337	34,867
Share capital	5,694	5,096	5,096	5,096
Reserves & surplus	12,095	22,473	25,241	29,771
Total Debt	23,176	20,066	14,566	9,066
Secured loans	21,365	17,463	11,963	6,463
Other liabilities	1,811	2,603	2,603	2,603
Curr Liab & Prov	4,466	3,890	3,890	3,890
Current liabilities	4,228	3,814	3,814	3,814
Provisions	238	76	76	76
Total equity & liabilities	56,637	61,865	59,274	58,661
Book Value (Rs)	31	54	60	68

Source: Company; IDBI Capital Research

Cash Flow Statement

(Rs mn)

Year-end: Dec.	FY16	FY17E	FY18E	FY19E
Pre-tax profit	2,813	4,388	5,342	8,116
Depreciation	3,376	4,125	4,250	4,300
Tax paid	(600)	(1,016)	(1,442)	(2,273)
Chg in working capital	(1,424)	(1,381)	920	(1,213)
Other operating activities	(13,366)	2,463	872	502
CF from operations (a)	(9,201)	8,580	9,941	9,433
Capital expenditure	(11,251)	(2,188)	(800)	(800)
Chg in investments	(250)	-	-	-
Other investing activities	(501)	32	-	-
CF from investing (b)	(12,001)	(2,156)	(800)	(800)
Equity raised/(repaid)	611	-	-	-
Debt raised/(repaid)	7,809	(8,180)	(5,500)	(5,500)
Dividend (incl. tax)	(360)	(794)	(947)	(1,100)
Other financing activities	(1,367)	(2,177)	(1,056)	(716)
CF from financing (c)	6,694	(11,151)	(7,503)	(7,316)
Net chg in cash (a+b+c)	(309)	(19)	(4,727)	1,638

Financial Ratios

Year-end: Dec.	FY16	FY17E	FY18E	FY19E
Adj EPS (Rs)	4.3	6.6	7.7	11.5
Adj EPS growth (%)	83.5	56.0	15.4	49.9
EBITDA margin (%)	19.7	18.7	18.4	20.1
Pre-tax margin (%)	7.6	9.3	10.5	14.0
RoE (%)	15.0	14.9	13.5	17.9
RoCE (%)	11.1	10.9	11.2	16.9
Turnover & Leverage ratios (x)				
Asset turnover	0.7	0.8	0.8	1.0
Leverage factor	3.1	2.6	2.1	1.8
Net Debt/Equity	1.1	0.6	0.3	0.1
Working Capital & Liquidity ratios				
Receivable days	17	29	19	19
Payable days	27	22	22	22

Valuations

Year-end: Dec.	FY16	FY17E	FY18E	FY19E
PER (x)	20.2	12.9	11.2	7.5
Price/Book value (x)	2.7	1.6	1.4	1.3
PCE (x)	8.4	5.8	5.4	4.3
EV/Net sales (x)	1.9	1.3	1.1	0.8
EV/EBITDA (x)	9.5	6.8	5.8	4.0
Dividend Yield (%)	0.7	1.8	2.2	2.5



Notes

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BUY: Absolute return of 15% and above; **ACCUMULATE:** 5% to 15%; **HOLD:** Upto ±5%; **REDUCE:** -5% to -15%; **SELL:** -15% and below.

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