

## Company Update

# Trident Ltd

Bloomberg Code: TRID IN

India Research - Stock Broking

**BUY**

## One of the Largest Integrated Home Textile Players

### Solid performance in the nine months period by strong offtake in Home Textile segment:

In 9MFY17E, the company recorded highest ever revenue of Rs. 34,868 Mn which is up by 26.4% YoY, EBITDA & PAT of Rs. 7,252 Mn and 2,373 Mn with a YoY growth of 30.3% and 35.6%. During nine month period of FY17, revenues from textile grew by 32.5% to Rs. 28,379 Mn led by encouraging traction in both Bath Linen and Bed Linen. On QoQ basis, the revenue was lower by 3.6% at Rs.11,387 Mn which was at Rs. 11,817 Mn in Q2FY17. However, EBITDA and PAT margins were increased by 61 & 12 bps in Q3FY17 in comparison to Q2FY17.

**Increased Capacity Utilization in Towel and Bed Linen Businesses:** Over the total revenue for nine months period, 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 nine months period of FY17. 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 believe this will lead to a stronger balance sheet and reduce the financial leverage risks of the company.

## Valuation and Outlook

We are introducing FY18E & FY19E estimates and marginally changed our revenue estimates for FY17E. Considering rising share of high-margin home textiles, increase utilization, 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 an upwardly revised target price of Rs. 87, based on 7.8x P/E FY19E, representing an upside potential of 21%.

### Exhibit 1: 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	11.0	8.2	6.4

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

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### Recommendation (Rs.)

CMP (as on Feb 10, 2017)	72
Target Price	87
Previous Target Price	55
Upside (%)	21

### Stock Information

Mkt Cap (Rs.mn/US\$ mn)	36588 / 547
52-wk High/Low (Rs.)	73 / 37
3M Avg. daily volume (mn)	2.0
Beta (x)	1.2
Sensex/Nifty	28334 / 8794
O/S Shares(mn)	509.6
Face Value (Rs.)	10.0

### Shareholding Pattern (%)

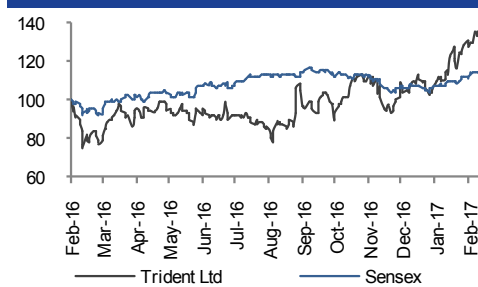
Promoters	67.8
FIIs	0.0
DIIIs	2.8
Others	29.4

### Stock Performance (%)

	1M	3M	6M	12M
Absolute	18	26	51	56
Relative to Sensex	12	22	48	31

Source: Bloomberg

### Relative Performance\*



Source: Bloomberg; \*Index 100

### Analyst Contact

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**Exhibit 2: Q3FY17**

YE Mar (Rs. Mn)	Q3FY17	Q2FY17	QoQ %	Q3FY16	YoY %	9MFY17	9MFY16	YoY %
Turnover	11387	11817	(3.6)	9050	25.8	34868	27586	26.4
Expenditure	9054	9468	(4.4)	7255	24.8	27616	22019	25.4
EBITDA	2333	2349	(0.7)	1795	30.0	7252	5567	30.3
Depreciation	1035	1044	(0.9)	812	27.5	3114	2441	27.6
Interest	276	348	(20.7)	240	15.0	1042	1059	(1.6)
Other Income	73	93	(21.4)	47	55.9	224	88	153.6
PBT	1022	1050	(2.7)	742	37.7	3095	2065	49.9
Tax	236	250	(5.6)	118	100.0	722	315	129.2
PAT	786	801	(1.9)	624	26.0	2373	1750	35.6
EBITDA Margin (%)	20.5	19.9	61 bps	19.8	65 bps	20.8	20.2	62 bps
EBIT Margin (%)	11.4	11.0	35 bps	10.9	54 bps	11.9	11.3	54 bps
Net Profit Margin (%)	6.9	6.8	12 bps	6.9	1 bps	6.8	6.3	46 bps

Source: Company, Karvy Research

**Key takeaways from conference call**

- To reduce the impact of higher cotton price, the company is shifting its sales mix to higher margin business of terry towel and bed linen as the utilization of cotton in these segments will be at ~30.0-35.0%; however, it could be at ~50.0% in case of Yarn.
- On higher contribution from valued-added copier paper, in Q3FY17, the revenue from paper segment sales was up by 2.0% QoQ at Rs. 2,233 Mn and 11.1% up by YoY.
- According to management guidance, EBITDA margins could be at a range of ~18.0-22.0% in FY18E & FY19E which could possible by rising captive consumption of yarn, rising share of high-margin home textiles and increase in utilisation.
- Bath Linen reported healthy double-digit volume growth of 20.0% YoY led by the efforts on marketing, enhanced product offerings, as well as deeper penetration in newer geographies.
- The company declared a second interim dividend of Rs. 0.6 per fully paid-up equity share of Rs.10 each.

**Key Risks**

- The majority of risks faced by the company are inherent to business activities of the company and the global network, ranging from agricultural crops in monsoon, economic cycles across the globe and foreign exchange fluctuations.
- Since the company caters to 75 countries globally in home textiles, wheat straw-based/eco-friendly paper and some varieties of yarn, it is always subject to the risk of foreign currency fluctuations.
- Since Trident relies a lot on developed economies of North America, Europe and UK for business, acute slowdown in these markets could adversely impact its business.

**Exhibit 3: Change in Earnings Estimates**

YE Mar - Standalone (Rs. Mn)	FY17E			FY18E	FY19E
	Old	New	% Change	New (Introducing)	New (Introducing)
Net Sales	56328	46913	(16.7)	52891	59714
EBITDA	10869	9556	(12.1)	11243	12957
EBITDA Margin (%)	19.2	19.7	50 bps	20.6	21.1
Adj. PAT	2539	3329	31.1	4450	5720
EPS (Rs.)	5.0	6.5	30.7	8.7	11.2

Source: Karvy Research

## Financials

### Exhibit 4: Income Statement

YE Mar (Rs. Mn)	FY15	FY16	FY17E	FY18E	FY19E
Revenues	37553	36840	46913	52891	59714
Growth (%)	(2.9)	(1.9)	27.3	12.7	12.9
Operating Expenses	30946	29651	37357	41648	46757
EBITDA	6608	7189	9556	11243	12957
Growth (%)	(9.2)	8.8	32.9	17.7	15.2
Depreciation & Amortization	3213	3376	3921	4367	4830
Other Income	345	317	315	329	345
EBIT	3739	4130	5951	7205	8472
Interest Expenses	2060	1364	1714	1542	1209
PBT	1680	2766	4237	5663	7263
Tax	501	486	907	1213	1543
Adjusted PAT	1179	2280	3329	4450	5720
Growth (%)	(40.2)	93.4	46.0	33.7	28.5

Source: Company, Karvy Research

### Exhibit 5: Balance Sheet

YE Mar (Rs. Mn)	FY15	FY16	FY17E	FY18E	FY19E
Cash & Equivalents	170	819	336	557	1300
Sundry Debtors	2033	1767	1985	2689	2950
Loans & Advances	4171	5090	5676	6104	7338
Investments	308	936	936	936	936
Gross Block	51173	61634	62134	62684	63364
Net Block	28639	38302	34882	31064	26915
CWIP	1993	572	572	572	572
Others	7756	9151	9066	10108	12226
<b>Total Assets</b>	<b>45070</b>	<b>56637</b>	<b>53453</b>	<b>52030</b>	<b>52235</b>
Current Liabilities & Provisions	7157	6769	5952	4912	4348
Debt	22117	30353	25369	21369	17369
Deferred tax liabilities	1242	1727	1727	1727	1727
<b>Total Liabilities</b>	<b>30517</b>	<b>38848</b>	<b>33048</b>	<b>28007</b>	<b>23444</b>
Shareholders Equity	5086	5694	5694	5694	5694
Reserves & Surplus	9467	12095	14711	18329	23098
<b>Total Networkth</b>	<b>14554</b>	<b>17789</b>	<b>20405</b>	<b>24023</b>	<b>28792</b>
<b>Total Networkth &amp; Liabilities</b>	<b>45070</b>	<b>56637</b>	<b>53453</b>	<b>52030</b>	<b>52235</b>

Source: Company, Karvy Research

**Exhibit 6: Cash Flow Statement**

YE Mar (Rs. Mn)	FY15	FY16	FY17E	FY18E	FY19E
PBT	1680	2766	4237	5663	7263
Depreciation	3213	3376	3921	4367	4830
Interest	2060	1364	1714	1542	1209
Tax Paid	(426)	(600)	(907)	(1213)	(1543)
Inc/dec in Net WC	(79)	(1424)	(1536)	(3215)	(4176)
Others	(42)	(194)	0	0	0
<b>Cash flow from operating activities</b>	<b>6406</b>	<b>5288</b>	<b>7428</b>	<b>7145</b>	<b>7582</b>
Inc/dec in capital expenditure	(15752)	(11251)	(500)	(550)	(680)
Inc/dec in investments	844	(250)	0	0	0
Others	45	(501)	0	0	0
<b>Cash flow from investing activities</b>	<b>(14864)</b>	<b>(12001)</b>	<b>(500)</b>	<b>(550)</b>	<b>(680)</b>
Inc/dec in borrowings	6302	7809	(4984)	(4000)	(4000)
Issuance of equity	1976	611	0	0	0
Dividend paid	(157)	(360)	(713)	(832)	(951)
Interest paid	(2060)	(1367)	(1714)	(1542)	(1209)
Others	2478	0	0	0	0
<b>Cash flow from financing activities</b>	<b>8540</b>	<b>6694</b>	<b>(7411)</b>	<b>(6374)</b>	<b>(6160)</b>
Net change in cash	81	(20)	(483)	221	743

Source: Company, Karvy Research

**Exhibit 7: Key Ratios**

YE Mar	FY15	FY16	FY17E	FY18E	FY19E
EBITDA Margin (%)	16.7	18.7	19.7	20.6	21.1
EBIT Margin (%)	9.0	10.4	12.0	13.0	13.6
Net Profit Margin (%)	3.1	6.2	7.1	8.4	9.6
Dividend Payout Ratio (%)	24.3	20.2	18.4	16.0	14.3
Net Debt/Equity (x)	1.5	1.7	1.2	0.9	0.6
RoE (%)	10.1	14.2	17.4	20.0	21.7
RoCE (%)	11.8	9.4	12.2	15.2	17.8

Source: Company, Karvy Research

**Exhibit 8: Valuation Parameters**

YE Mar	FY15	FY16	FY17E	FY18E	FY19E
EPS (Rs.)	2.5	4.5	6.5	8.7	11.2
DPS (Rs.)	0.6	0.9	1.2	1.4	1.6
BVPS (Rs.)	28.6	34.9	40.0	47.1	56.5
PE (x)	9.3	11.5	11.0	8.2	6.4
P/BV (x)	0.8	1.5	1.8	1.5	1.3
EV/EBITDA (x)	5.1	7.7	6.4	5.1	4.1
EV/Sales (x)	0.9	1.5	1.3	1.1	0.9

Source: Company, Karvy Research; \*Represents multiples for FY15 & FY16 are based on historic market price

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

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