

Trident Limited | BUY

Improving utilisations, higher integration to offset currency concerns

India's presence in the US Home Textile market (USD7bn imports) is underscored by a c.53% YTD market share in terry towels and c.40% in bed linen. Trident Limited (Trident) – with a revenue base of INR47bn+ – is among the leading home textile exporters with a bath linen capacity of 90mn kgs and a bed linen capacity of 43mn mts. Improving utilisations across businesses (currently at sub-50%), a richer product mix (bed linen, paper) coupled with increasing backward integration in the yarn segment more than offsets the adverse impact of an appreciating rupee, in our view. We estimate an EPS CAGR of 14% over FY17-19E with: a) sharp decline in cotton prices, b) higher paper prices and c) sharp INR depreciation as key upside risks to our estimates. An improving return ratio trajectory lends further support. We value the stock at a P/E of 12x FY19 (10% discount to peers) to arrive at our fair value of INR105/share implying a c.25%+ upside from CMP. We initiate coverage with a BUY rating.

- India structurally ahead of competitors:** The expiry of the quota regime in the global textile sector (end-2004) and the overall shrinkage in the supply base in developed markets due to adverse cost structures, increased the size of the accessible global market for Indian exporters. Supportive Government Policies (interest/capital subsidies), abundant raw material (cotton) availability (net exporter) and competitive cost structure (lower wages/power) helped India gain a structural advantage in the global textile trade ahead of competitors China and Pakistan. India's market share in US imports of bath and bed linen increased from 28% and 22% in 2008 to 40% and 49% in 2016, respectively. The global home textile export market is estimated at USD45bn, of which bath towels and bed linen alone constitute c.65%+.
- Cotton price expected to soften from 3QFY18:** INR appreciation and high cotton prices have of late adversely impacted the margins of Indian players. However, cotton prices are expected to soften as fresh arrivals start by Oct'17. As per International Cotton Advisory Committee, cotton inventory outside China is expected to decline c.18.6% YoY, while the production in India is expected to increase driven by c.8% increase in acreage.
- Multiple tailwinds for margin expansion:** With a capex of c.INR27bn over FY14-16, Trident doubled its bath linen capacity in FY15 and forayed into the bed linen segment with 43.2mn mtrs capacity commissioned in 4QFY16. Utilisation has been ramping up at a steady rate. Trident's EBITDA margin is expected to increase from c.18.9% in FY17 to 19.5% in FY19E driven by: **a)** a product mix shift towards high-margin home textile and achieving break-even utilisation for bed sheets (expected to break even by Sep'17), **b)** a higher proportion of yarn (low-margin business) is consumed captively, **c)** higher proportion of branded copier paper in the sales mix.
- Backward integration and capacity ramp-up to drive future earnings; Initiate with BUY:** Trident trades at FY18E/FY19E PE 11.5x/9.8x, a 10% discount to Welspun India due to its lower return ratios vs. peers. However, as the margins expand due to increased asset utilisation and higher captive yarn consumption, return ratios are expected to improve. We estimate a potential EBITDA increase from INR8.9bn in F17 to INR10.4bn in FY19E and estimate an EPS CAGR of c.14.3% over FY17-19E. Strong earnings momentum and limited capex will lend further support to a robust balance sheet. We ascribe a P/E of c.12x FY19E to arrive at our fair value of INR105/share implying upside of c.25% from CMP. We initiate coverage with a BUY rating.



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Recommendation and Price Target

Current Reco.	BUY
Previous Reco.	NA
Current Price Target (12M)	105
Upside/(Downside)	24.8%
Previous Price Target	NA
Change	NA

Key Data – TRID IN

Current Market Price	INR84
Market cap (bn)	INR42.9/USD0.7
Free Float	27%
Shares in issue (mn)	509.6
Diluted share (mn)	509.6
3-mon avg daily val (mn)	INR89.9/USD0.1
52-week range	92/42
Sensex/Nifty	32,477/10,082
INR/USD	63.7

Price Performance

%	1M	6M	12M
Absolute	13.3	22.3	92.8
Relative*	9.7	7.1	65.6

* To the BSE Sensex

JM Financial Research is also available on:
Bloomberg - JMFR <GO>,
Thomson Publisher & Reuters
S&P Capital IQ and FactSet

Please see Appendix I at the end of this report for Important Disclosures and Disclaimers and Research Analyst Certification.

Financial Summary					(INR mn)
Y/E March	FY15A	FY16A	FY17E	FY18E	FY19E
Net Sales	37,553	36,657	46,944	50,730	53,365
Sales Growth (%)	-2.9	-2.4	28.1	8.1	5.2
EBITDA	6,608	7,297	8,882	9,688	10,422
EBITDA Margin (%)	17.6	19.9	18.9	19.1	19.5
Adjusted Net Profit	1,179	2,421	3,372	3,747	4,403
Diluted EPS (Rs.)	2.3	4.8	6.6	7.4	8.6
Diluted EPS Growth (%)	-39.3	105.4	39.3	11.1	17.5
ROIC (%)	7.2	6.9	6.5	7.9	9.2
ROE (%)	9.9	12.4	13.0	12.8	13.4
P/E (x)	36.3	17.7	12.7	11.4	9.7
P/B (x)	2.9	1.8	1.6	1.4	1.2
EV/EBITDA (x)	10.3	10.6	7.9	6.7	5.6
Dividend Yield (%)	0.7	0.7	0.7	0.7	0.7

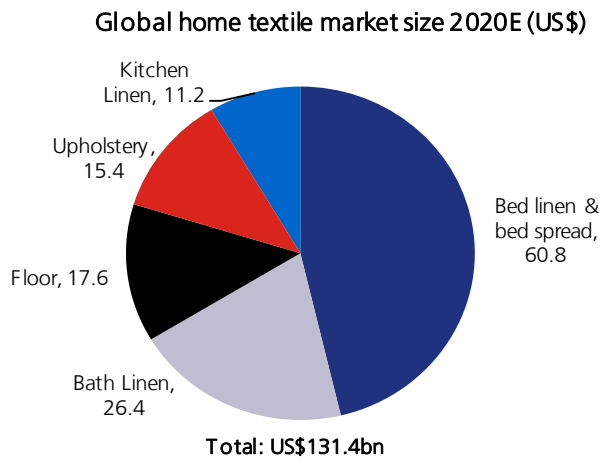
Source: Company data, JM Financial. Note: Valuations as of 03/Aug/2017

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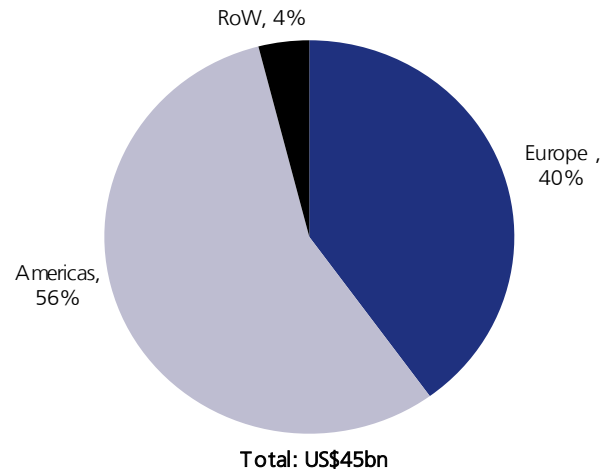
1) Story in charts

Exhibit 1. Textile market to grow 3.5% CAGR 2015-20E



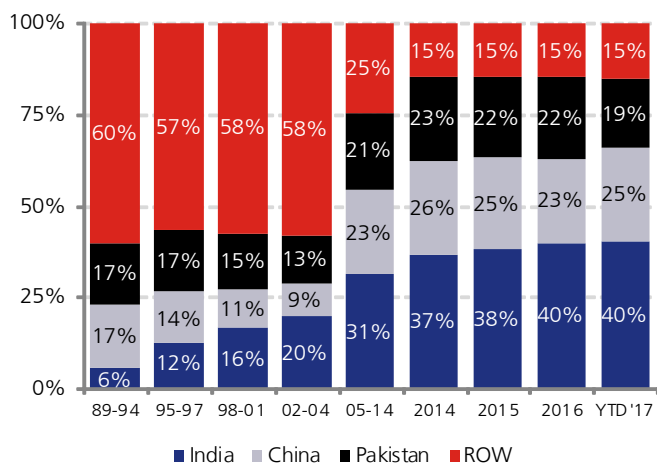
Source: Global home textiles market Outlook - Fibre2Fashion, JM Financial

Exhibit 2. Global home textile export market



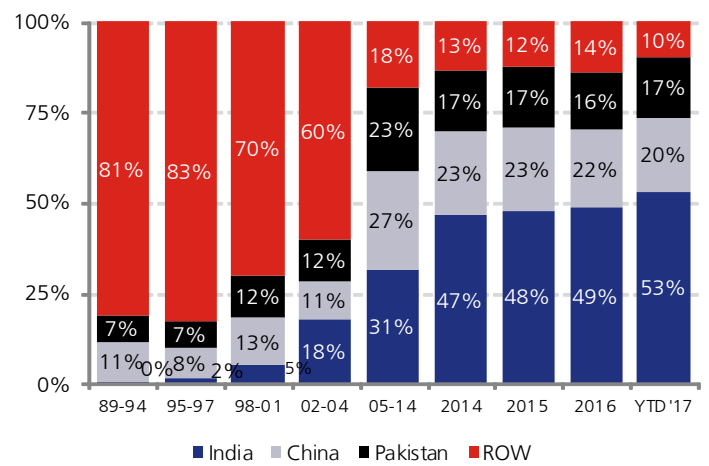
Source: Industry, JM Financial

Exhibit 3. Market share for US imports of cotton sheet (USD terms)



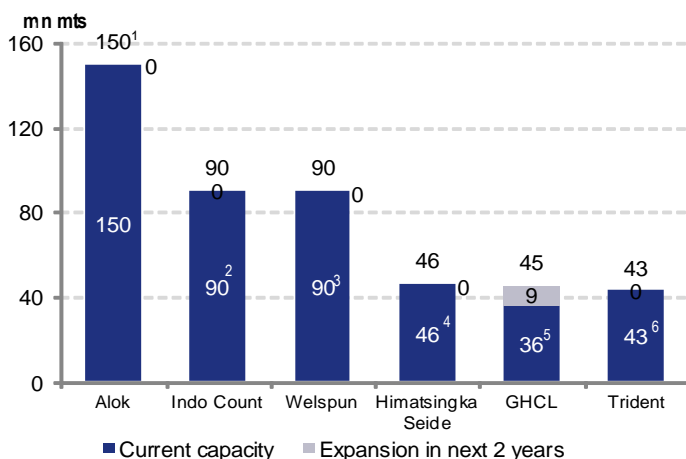
Source: OTEXA, JM Financial

Exhibit 4. Market share for US imports of terry towels (USD terms)



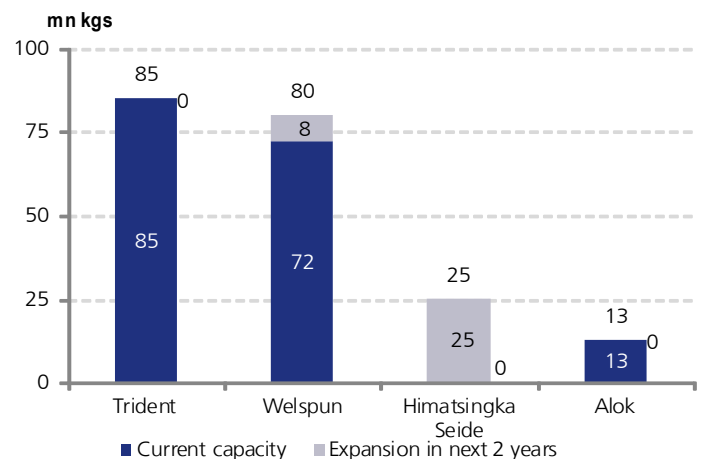
Source: OTEXA, JM Financial

Exhibit 5. Installed capacity of Indian bed sheet players



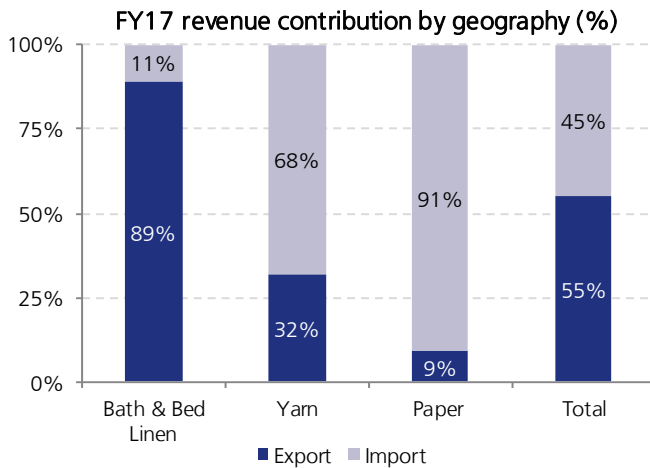
Source: Company, JM Financial; Note: ¹Capacity utilisation may be much lower, ²ICNT added 22mn mts capacity in FY17, ³WLSI added 18 mn capacity added in FY17, ⁴Himatsingka Seide added 23 mn mts capacity in FY17; ⁵ Processing capacity of GHCL; ⁶ Trident added 43 mn mts capacity in FY16 end

Exhibit 6. Installed capacity of Indian terry towel players



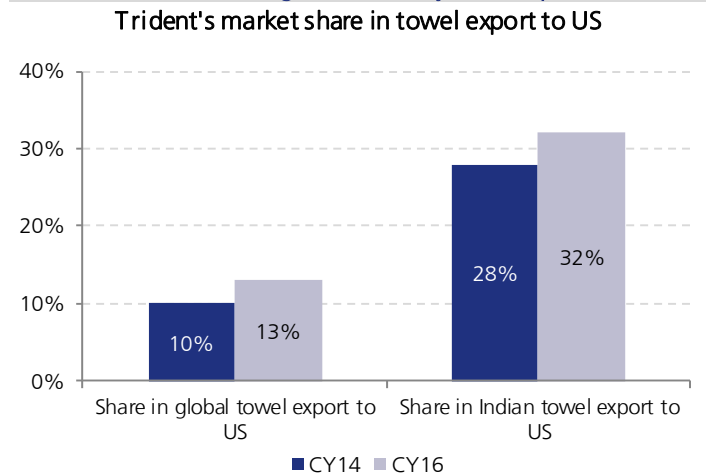
Source: Company, JM Financial; Note: Himatsingka Sales expected to begin from FY19; Welspun added 12mn ton capacity in FY17

Exhibit 7. C.90% of home textile revenue is from exports



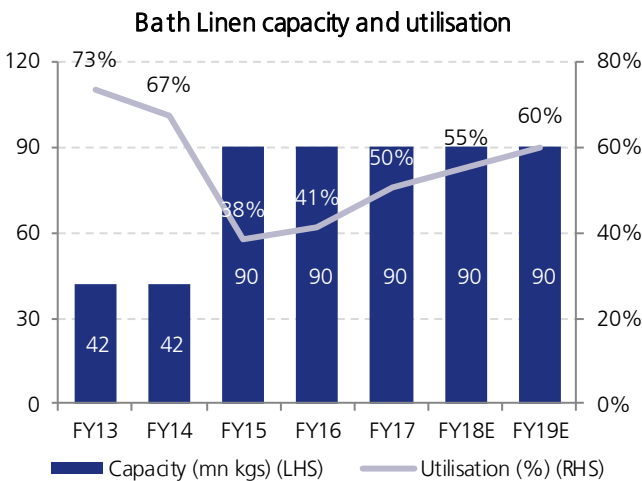
Source: Company, JM Financial

Exhibit 8. Trident is the largest Indian terry towel exporter to the US



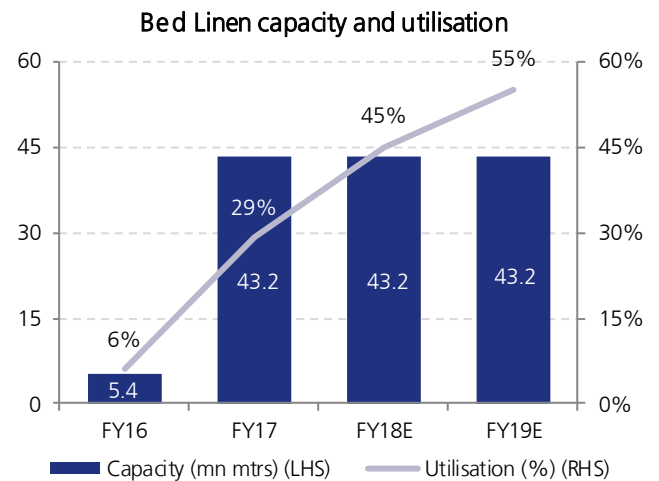
Source: Company, JM Financial

Exhibit 9. Utilisation of new facility ramping up steadily



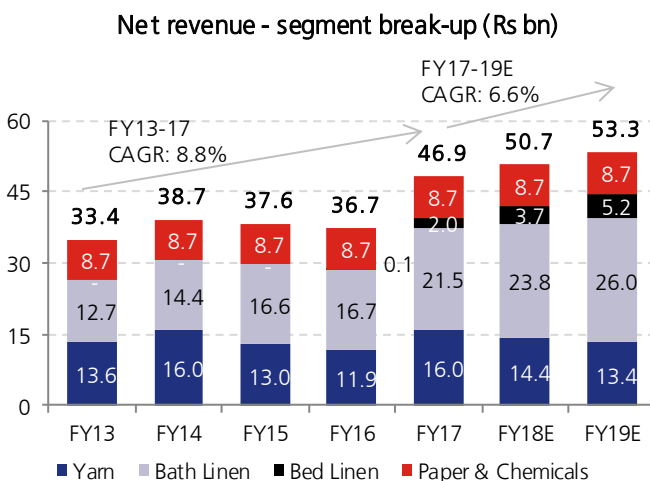
Source: JM Financial, Company

Exhibit 10. Capacity ramp-up a key to growth



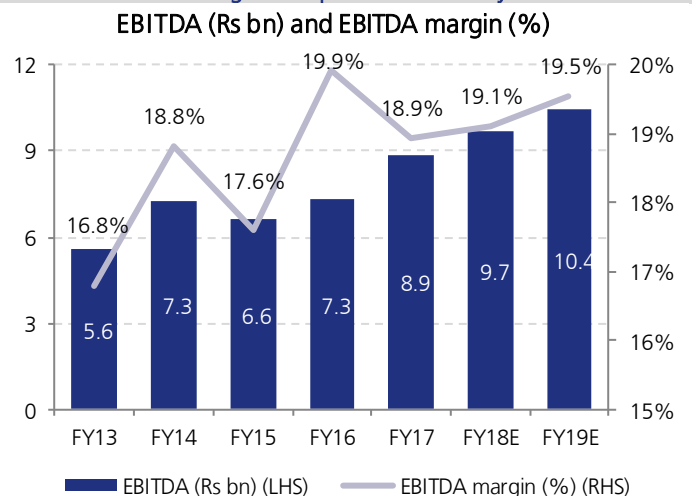
Source: Company, JM Financial

Exhibit 11. Net revenue expected to increase 6.6% CAGR FY17-19E



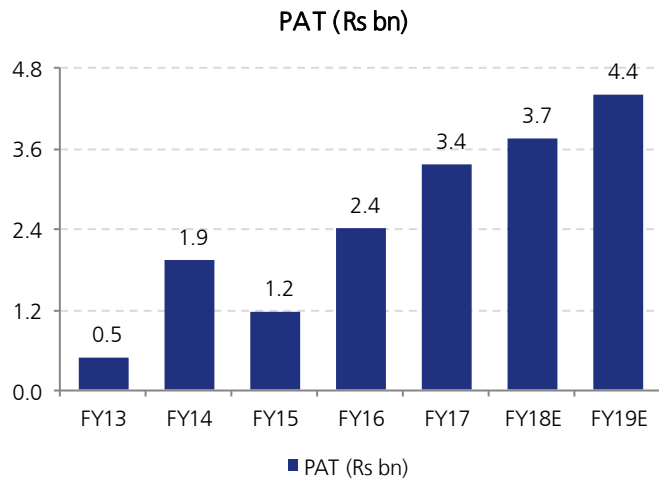
Source: Company, JM Financial

Exhibit 12. EBITDA margin to expand to 19.5% by FY19E



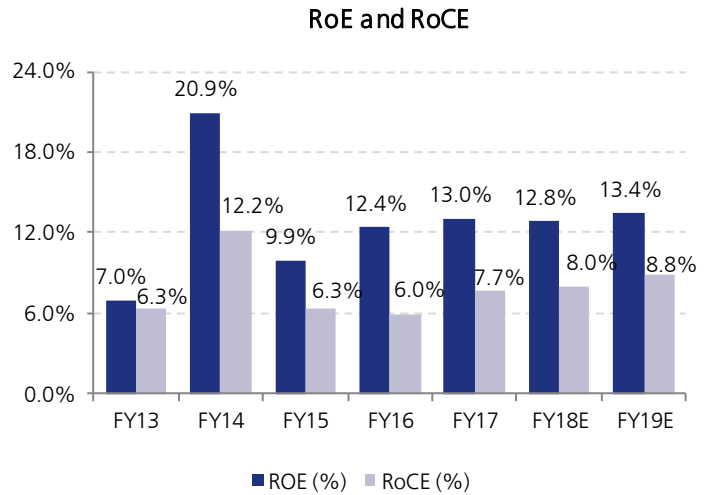
Source: Company, JM Financial

Exhibit 13. PAT expected to increase by 14.3% CAGR FY17-19E



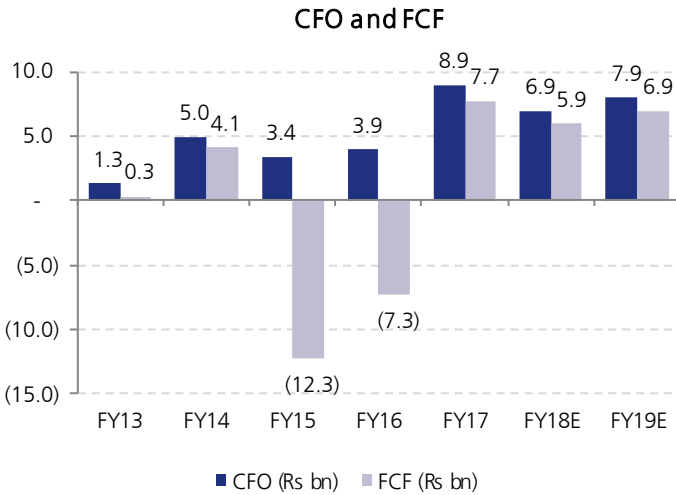
Source: Company, JM Financial

Exhibit 14. Return ratios set to increase with higher asset utilisation



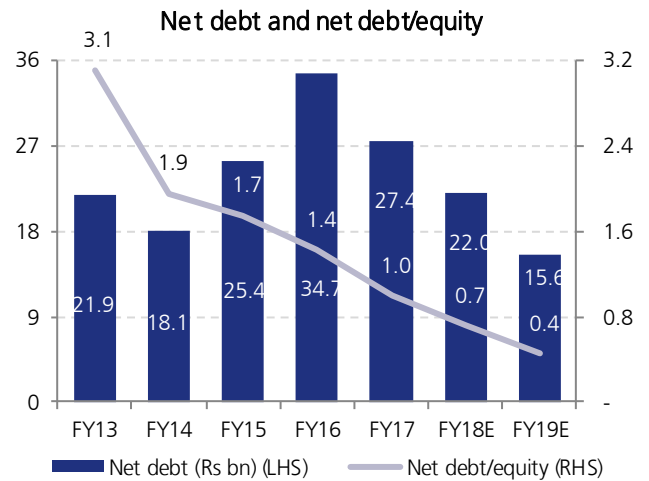
Source: Company, JM Financial

Exhibit 15. High CFO and lower capex to drive FCF



Source: Company, JM Financial

Exhibit 16. Higher FCF to support faster debt repayment



Source: Company, JM Financial

Exhibit 17. Target price of INR105/share; BUY

	FY19E
EPS (INR)	8.6
P/E multiple	12
Fair value (INR/share)	105

Source: JM Financial

Exhibit 18. TP sensitivity to INR/USD and cotton price (INR/share)

		Avg. price of cotton (INR/kg)				
		100	105	110	115	120
Avg. INR/USD	63	105	97	88	79	70
	64	114	105	96	87	79
	65	122	114	105	96	87
	66	131	122	113	104	96
	67	139	130	122	113	104

Source: JM Financial

2) Trident company profile – leading home textile exporter

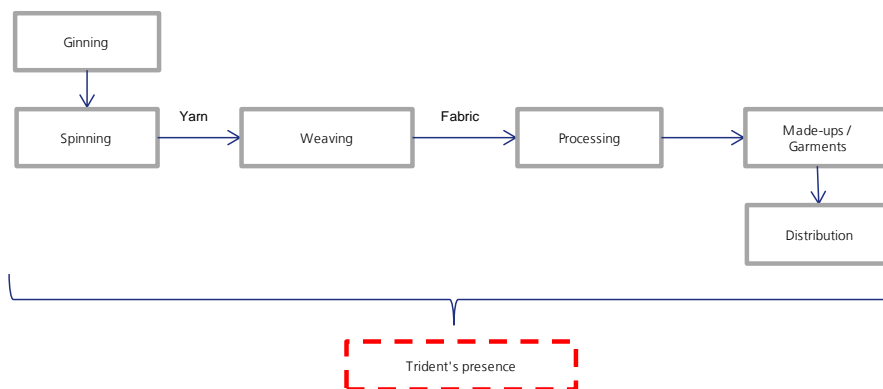
- Brief background:** Headquartered in Ludhiana (Punjab), Trident offers products in bath linen, yarn, paper and chemicals and has recently forayed into the bed linen segment. The company is one of the largest vertically integrated Home Textile manufacturers in the world. It holds the world’s largest compact yarn spinning unit under single roof and is the world’s largest wheat straw-based paper manufacturer. The manufacturing plants are spread across Barnala (Punjab) and Budni (Madhya Pradesh) with an installed capacity of 90,000 tons p.a. of terry towels (with 688 looms), 115mn kg of yarn and 175,000 mtpa capacity of paper. The Company has recently diversified into the high-potential bed linen segment with a production capacity of 43.2mn mtrs/p.a. (with 500 looms), along with new capacity of c.180,000 spindles for captive consumption. The Company also has 50MW of captive power in Punjab.
- An export powerhouse:** Trident is also one of the largest exporters of home textile products from India, with export turnover accounting for more than 55% in FY17. Trident exports to more than 100 countries across 6 continents and its clientele comprises leading global retail giants including Target, Ralph Lauren, JC Penney, IKEA, Wal-Mart, Macy’s, Kohl’s, Sears, Sam’s Club, Taj, Oberoi Hotels, Sheraton Hotels, ITC Hotels and DMart. Trident has over 300 multi-brand outlets (MBOs) in India.

Exhibit 19. Details of manufacturing capacities

Bath Linen	Bed Linen	Yarn	Paper	Others
Budni, MP	Budni, MP	Budni, MP	Barnala, Punjab	Water treatment 48 MLD
1 Unit	1 Unit	5 units	2 units	Power 50MW
300 Looms	500 looms	3.7 lakh spindles	175,000 mtpa	Chemical 0.1 mn tpa
48,000 mtpa	43.2 mn mtrs p.a.	2,880 rotors		
Barnala		Barnala, Punjab		
3 units		5 units		
388 looms		1.8 lakh spindles		
42,000mtpa		3584 rotors		

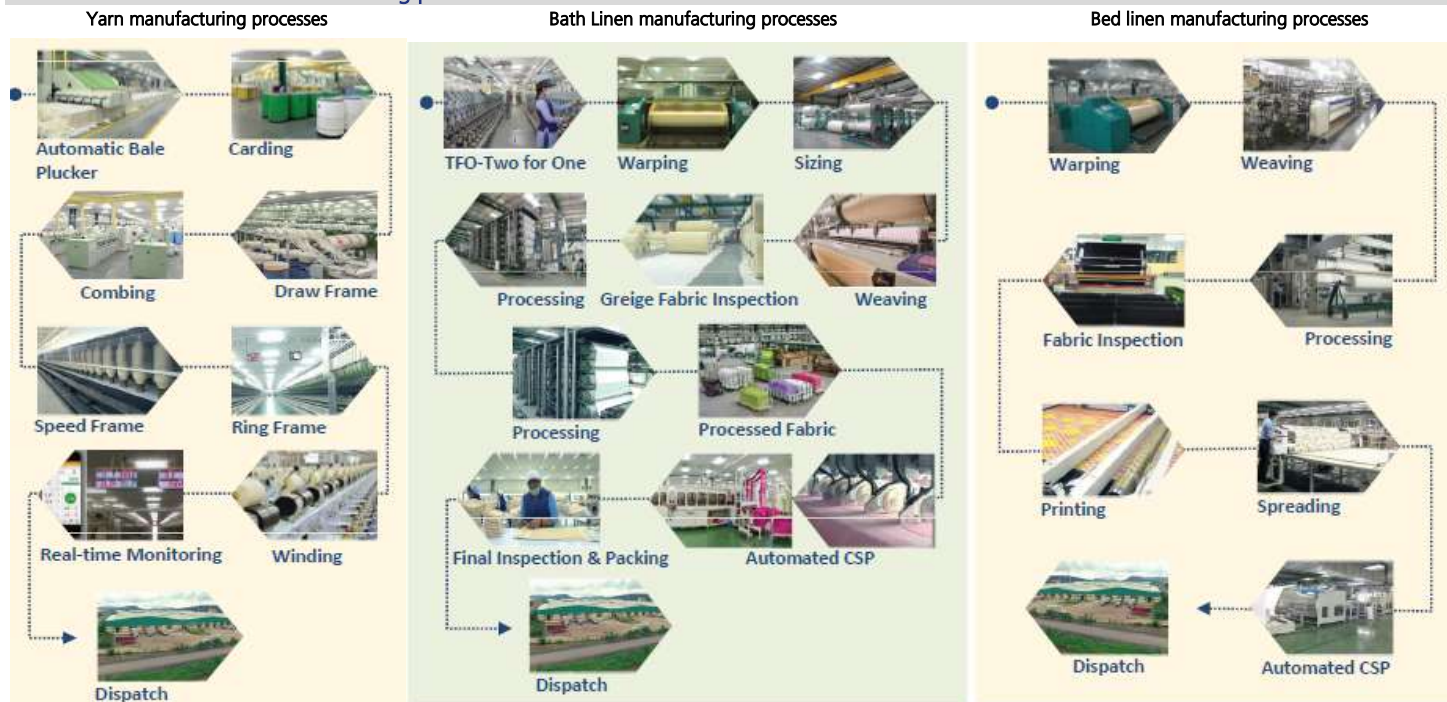
Source: Company, JM Financial

Exhibit 20. Trident's presence in the textile value chain



Source: Company, JM Financial

Exhibit 21. Home textile manufacturing process



Source: Company, JM Financial

Exhibit 22. Key milestones

Year	Event
1990	Inception
1993	Commenced yarn production (unit I)
1998	Acquired a towel unit and expanded spinning (unit II)
1999	Set up a captive power plant (9.4MW)
2002	Set up the first paper unit
2004	Expanded towel and yarn capacity
2009	Expanded paper capacity and new captive power plant of 20MW
2010	Expanded spinning unit at Budni
2014	Set up terry towel unit at Budni
2015	Set up a sheeting unit and expanded yarn capacity at Budni

Source: Company, JM Financial

Exhibit 23. Management overview

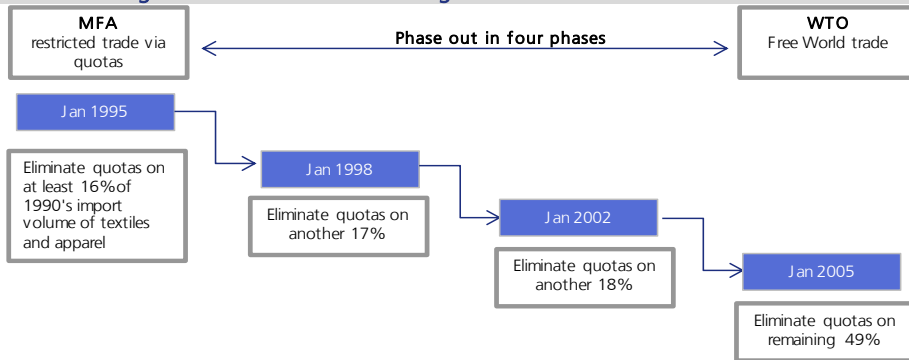
Name	Designation	Remarks
Rajinder Gupta	Co-Chariman	First generation entrepreneur behind the growth of Trident Group
Abhishek Gupta	CEO	Bachelors in Law & Business Studies from Warwick, International marketing from Harvard Business School and entrepreneurial development programme from ISB, Hyderabad
Pallavi Shardul Shroff	Chairperson	Over 35 years of experience and holds position in National Practise head of dispute resolution, leading litigation and arbitration teams
Rajiv Dewan	Director	A practicing Chartered Accountant, held various senior positions in renowned textile companies
Deepak Nanda	MD	IIM (Ahmedabad), Master of Science in Computer Software and Mangement

Source: Company, JM Financial

3) India – structurally ahead of competition in the US home textile market

- Removal of quota regime from global textiles:** The framework of the Multi-Fibre Arrangement (MFA) applied to international trade in textiles and clothing during 1974-94 imposed restrictions on exports from low-cost Asian textile/garment producers. After the establishment of the WTO, and as per the Agreement on Textile and Clothing (ATC), the signatory members were to remove all the quantitative restrictions in four phases over a 10-year period. The quota regime in the textile sector now stands completely phased out since end-2004. The expiry of ATC and the overall shrinkage in the supply base in developed markets due to adverse cost structures has thrown up a unique opportunity for Indian exports. Additionally, as global retailers and merchandisers were looking to outsource a greater share of their need from low-cost manufacturing bases, India clearly emerged as a major outsourcing destination, ahead of China and Pakistan.

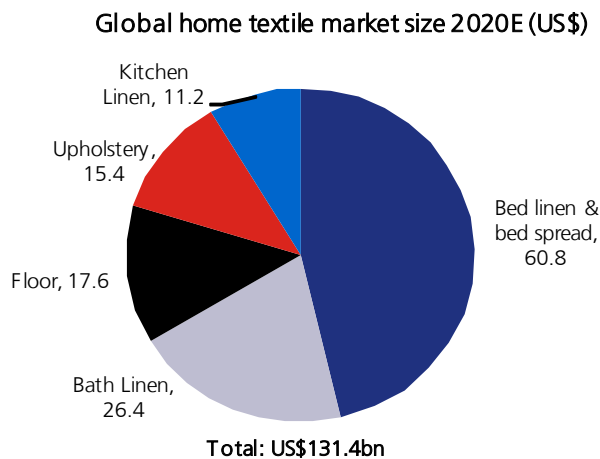
Exhibit 24. Integration of textiles and clothing into GATT



Source: WTO, JM Financial

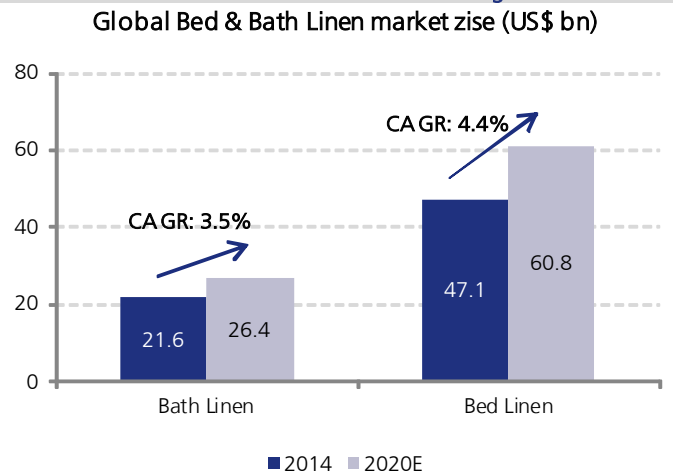
- Global home textiles constitute c.15% of the global textile market:** The home textile segment forms a significant part of the overall textile industry. As per industry, the global home textile market is estimated to increase at a 3.5% CAGR 2015-20E to USD131.4bn (bath and bed linen constitute c.65% of it). Growth in the home textiles would be supported by growing household income, increasing population and growth of end use sectors such as housing, hospitality, healthcare, etc. India accounts for c.45% of global home textile trades and is expected to expand at 7.2% CAGR 2015-20E to USD5.6bn. 85% of India’s domestic home textile market is dominated by unorganised players due to their cost competitiveness led by tax evasion.

Exhibit 25. Global home textile market to grow 3.5% CAGR 2015-20E



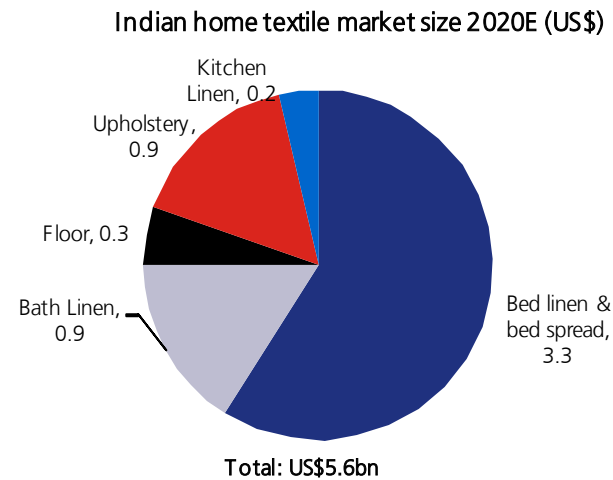
Source: Global home textiles market Outlook - Fibre2Fashion, JM Financial

Exhibit 26. Bath/Bed Linen forms c.20%/46% of global home textile



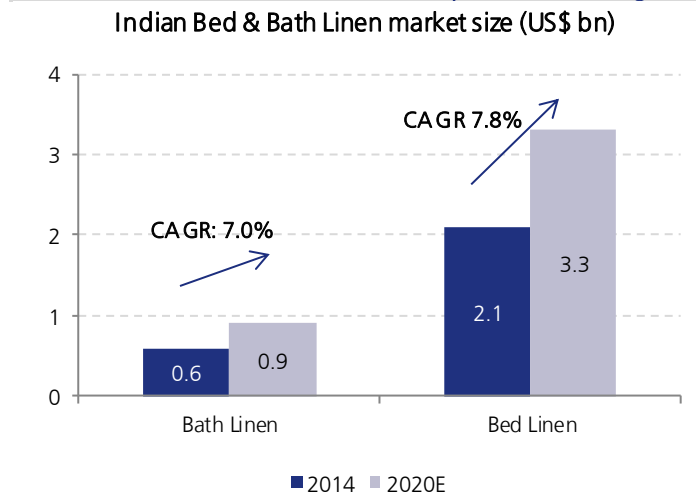
Source: Global home textiles market Outlook - Fibre2Fashion, JM Financial

Exhibit 27. Indian home textile market to grow 7.2% CAGR 2015-20E



Source: Global home textiles market Outlook - Fibre2Fashion, JM Financial

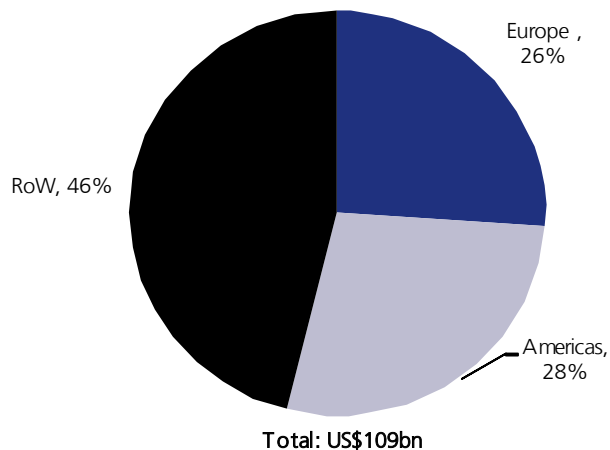
Exhibit 28. Indian bed and bath linen mkt. poised for robust growth



Source: Global home textiles market Outlook - Fibre2Fashion, JM Financial

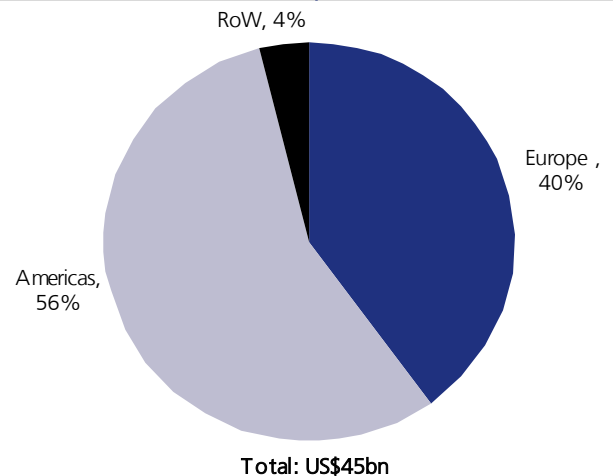
- Global Home Textile export market dominated by US and EU:** The global home textile market's total consumption by retail value currently stands at USD109bn, while the global home textile export market is estimated at USD45bn. The home textile export market is dominated by India, China and Pakistan; with India's market share continuously rising. The US (USD18bn) and Europe (USD25bn) are key markets, driven by the dominance of organised retail. Since the US is a large and homogenous market, it attracts Indian companies. However, Europe's free trade agreement with other countries places Indian companies at a disadvantage, led by higher duty (Indian exporters pay c.9.6% vis-à-vis nil duty to be paid by Pakistan and Bangladesh).

Exhibit 29. Global consumption of home textiles (retail value)



Source: Industry, JM Financial

Exhibit 30. Global home textile export market

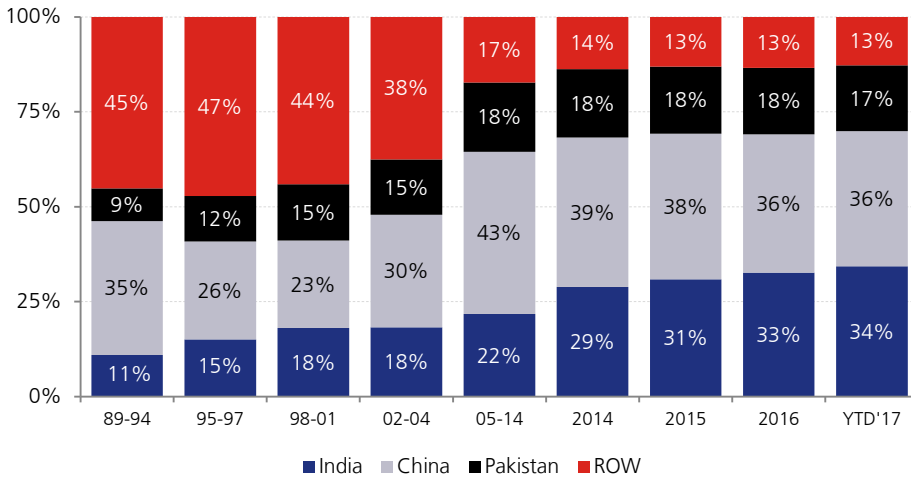


Source: Industry, JM Financial

- India has gained significant share in the US home textile import market due to its strategic advantage:** India's market share in US imports of terry towels and cotton sheets has consistently increased from 28% and 22% in CY08 to 40% and 50% in CY16, respectively. This growth was driven by the various structural advantages in favour of India – **a)** India is now the world's largest cotton producer and net exporter with abundant cotton availability, while competing countries such as China and Pakistan are net cotton importers. This has led to a higher cotton price spread with India's cotton price being lower than that of other countries; **b)** cost-competitiveness in key areas such as labour and power; **c)** higher INR depreciation vs. CNY. China's increased focus on high-margin man-made textiles has also helped India gain market share in the cotton home textile segment.

Exhibit 31. Market share for US imports of cotton made-ups (USD terms)

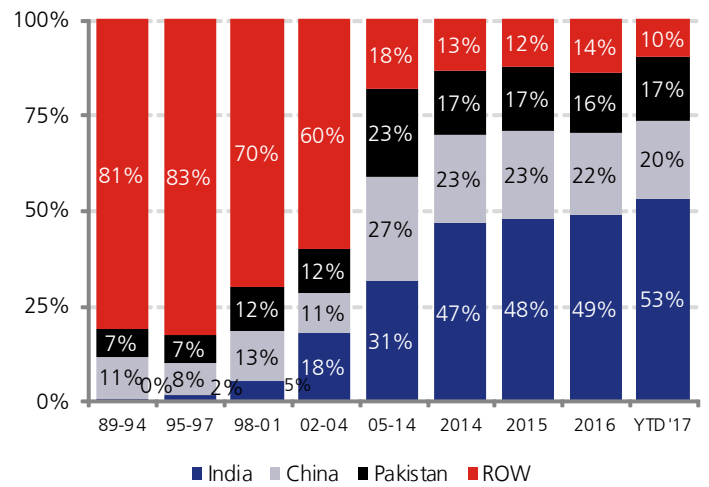
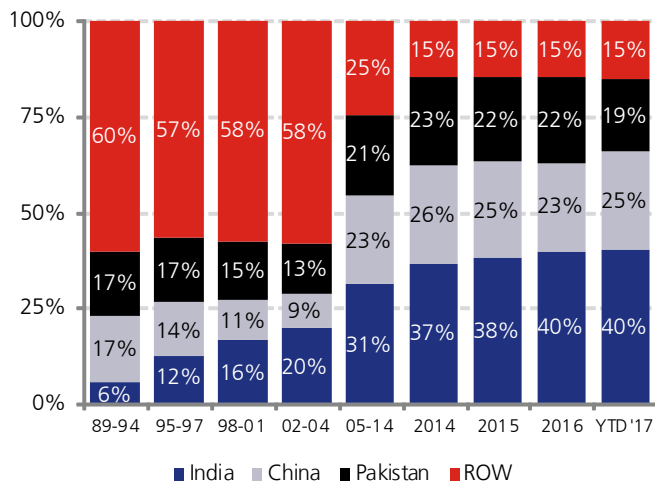
India holds a third of market share in US imports of cotton made-ups



Source: OTEXA, JM Financial

Exhibit 32. Market share for US imports of cotton sheet (USD terms)

Exhibit 33. Market share for US imports of terry towel (USD terms)

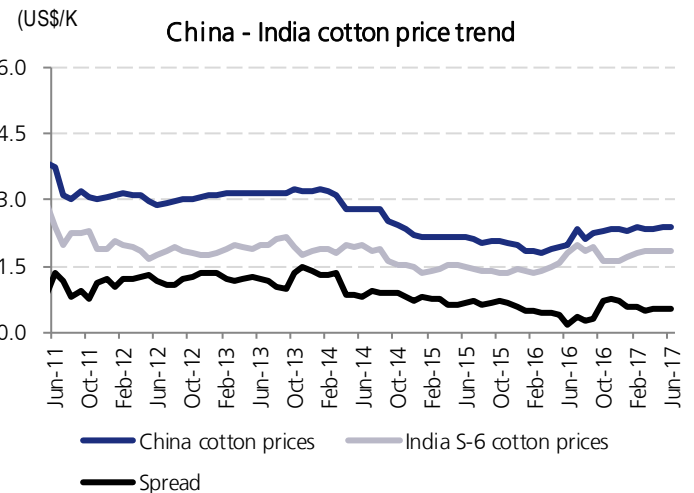
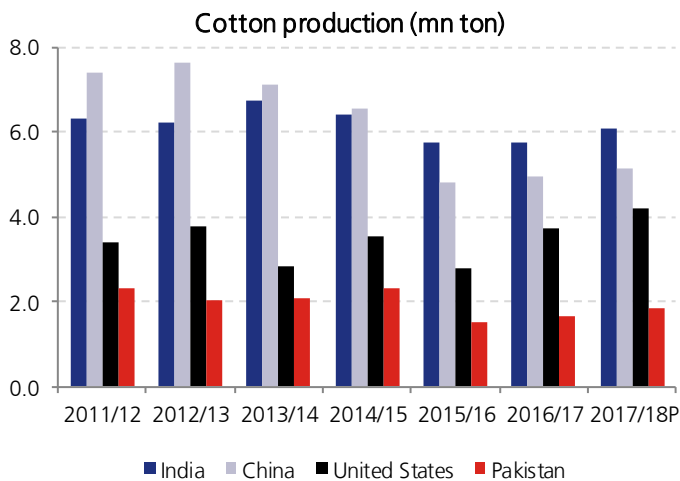


Source: OTEXA, JM Financial

Source: OTEXA, JM Financial

Exhibit 34. India is now the largest cotton producer in the world

Exhibit 35. China-India cotton price spread in India's favour



Source: USDA, JM Financial

Source: Company, JM Financial

Exhibit 36. Manufacturing competitiveness across countries

	Unit	China	India	Bangladesh
Labour cost	USD/month	550-600	150-160	110-12
Power cost	US cents/Kwh	13	10-12	9-12
Lending rate	(%)	5-6%	11-12%	13%

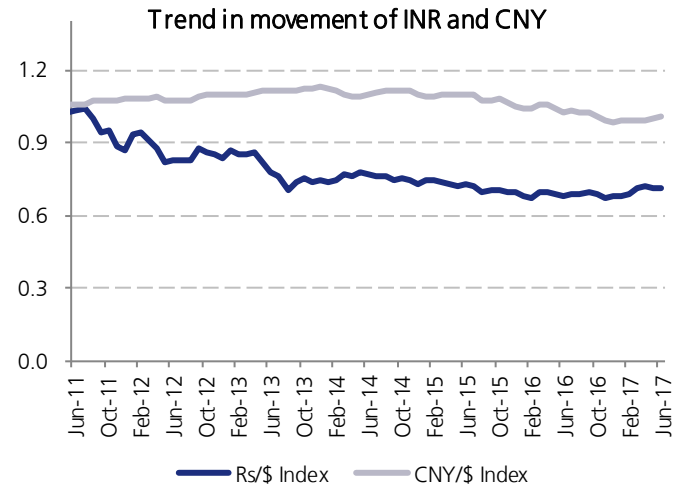
Source: JM Financial

Exhibit 37. Manufacturing competitiveness across countries

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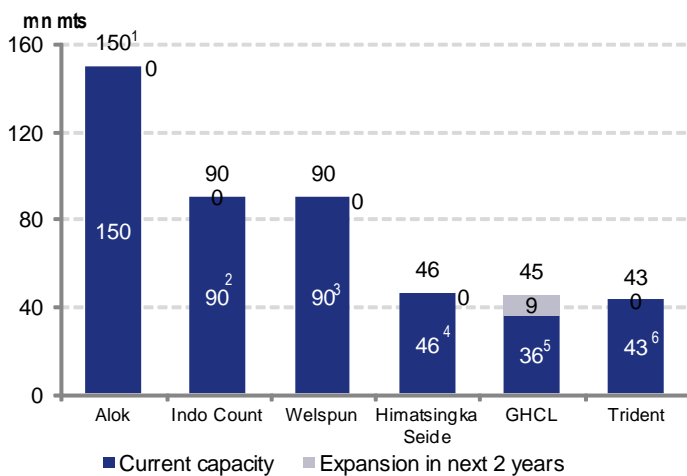
Source: FICCI, Wazir research and analysis, JM Financial

Exhibit 38. Higher INR depreciation vs. CNY benefit Indian exporters



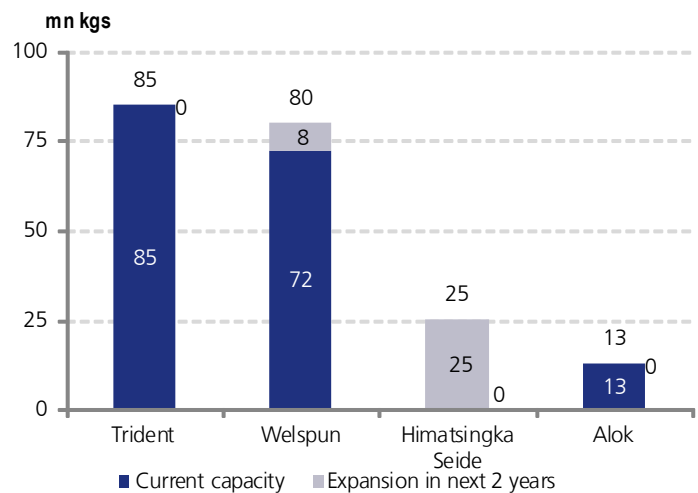
Source: Bloomberg, JM Financial

Exhibit 39. Installed capacity of Indian bed sheet suppliers



Source: Company, JM Financial; Note: ¹Capacity utilisation may be much lower, ²ICNT added 22mn mts capacity in FY17, ³WLSI added 18 mn capacity added in FY17, ⁴HimatSingka Seide added 23 mn mts capacity in FY17; ⁵ Processing capacity of GHCL; ⁶ Trident added 43 mn mts capacity in FY16 end

Exhibit 40. Installed capacity of Indian terry towel suppliers



Source: Company, JM Financial; Note: Himatsingka Sales expected to begin from FY19; Welspun added 12mn ton capacity in FY17

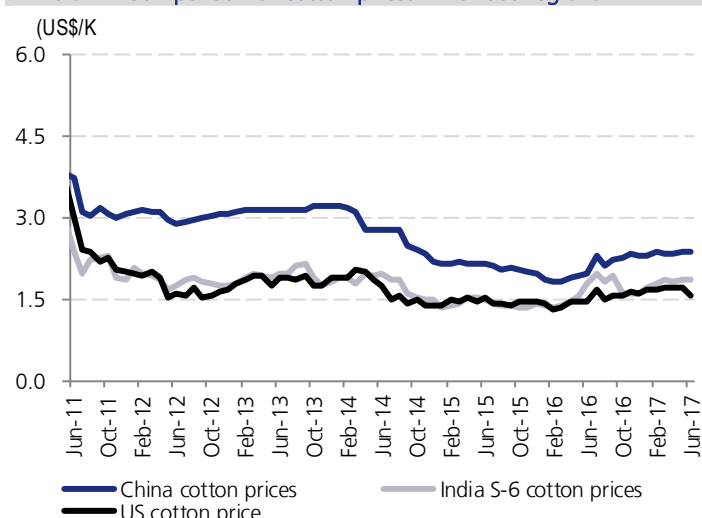
- Cotton bodies forecast cotton prices to reduce globally:** Raw material accounts for c.40-60% of revenue for home textile manufacturers, with cotton/yarn constituting the majority. Cotton prices in India increased c.23% in FY17, adversely impacting margins across players in the home textile segment. Cotton prices are expected to soften once new arrivals start in Oct'17, driven by a higher supply of cotton. USDA projects a second year of global production growth for 2017/18 (c.8.2% YoY). Global cotton consumption is expected to increase 2.3% YoY to 25.2mn tons. Cotton inventory outside China is expected to rise 16.3%, exerting a downward pressure on cotton prices. In Jul'17, ICAC revised their Cotlook A price estimate for 2017/18 by -10% to 71 cts/lb. India's cotton production is projected to grow 5.6% YoY to c.6.1mn tons, driven by an c.8% increase in acreage as an adequate monsoon and a higher minimum support price provide better returns to farmers.

Exhibit 41. World cotton supply and distribution (mn tons)

(Mn Tons)	2015/16 E	2016/17 E	2017/18 E
Production	21.3	22.9	24.0
Consumption	24.3	24.3	24.6
Surplus/(deficit)	-3.0	-1.4	-0.6
Imports	7.6	8.1	8.1
Exports	7.6	8.1	8.1
Ending Stocks	18.7	17.4	16.4
Cotlook A Index*	70	81	78

Source: ICAC, JM Financial

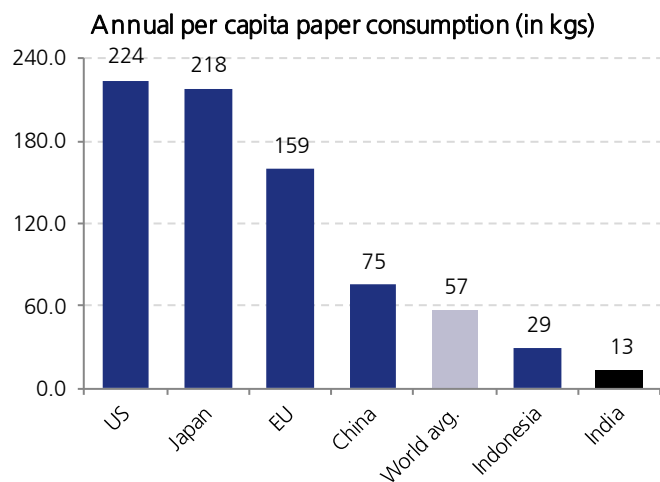
Exhibit 42. Comparison of cotton prices in various regions



Source: JM Financial

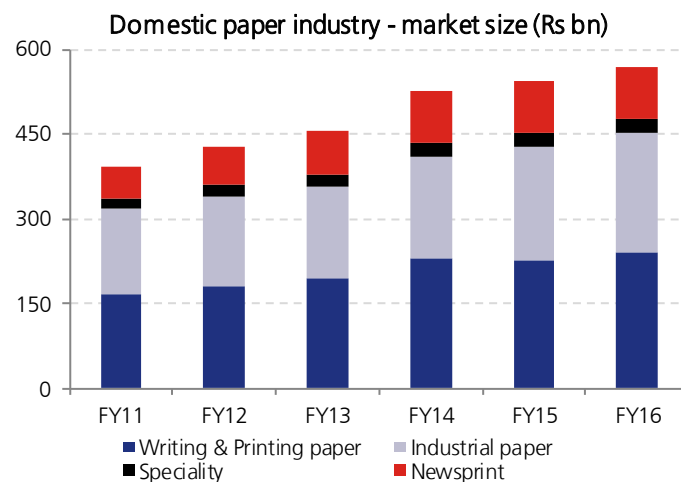
- Paper and writing constitutes c.32% of paper consumption; branded copier segment increased c.9% over FY12-16:** India's per capita paper consumption is low, but is gradually improving with the growth in economy. The total Indian paper market size is c.INR550bn, of which writing and printing constitutes 32%. Domestic demand for paper increased at 5% CAGR during FY12-FY16 to c.13.9mn tons. Most of the 800+ paper mills in India are operating in the paper and paper board segment. Capacity additions in recent years due to high demand raised the total capacity to c.14mn ton in FY16. Growth in demand for maplitho remained muted at 1.7%, while branded copier demand saw healthy growth of 8.7% CAGR in FY12-FY16 to 817,000 tons.

Exhibit 43. India's per capita paper consumption among the lowest



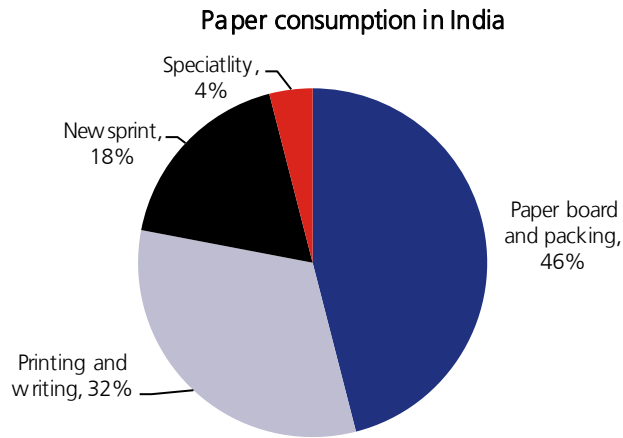
Source: Company, Crisil Research, Dun & Bradstreet, JM Financial

Exhibit 44. Domestic paper market increased at 8% CAGR FY12-16



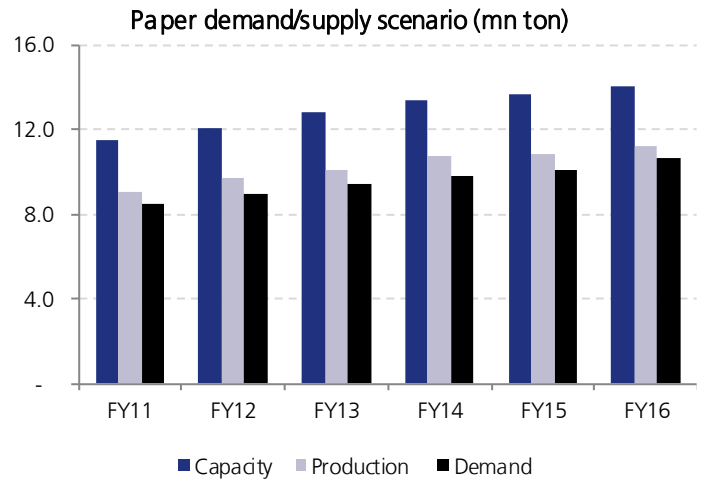
Source: Crisil Research, JM Financial

Exhibit 45. Printing/writing constitutes 32% of total consumption



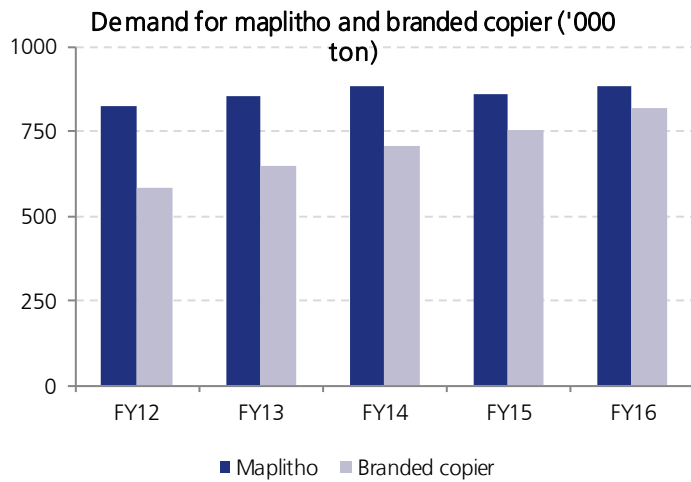
Source: Company, CRISIL Research, Dun & Bradstreet, JM Financial

Exhibit 46. Capacity addition in line with demand growth



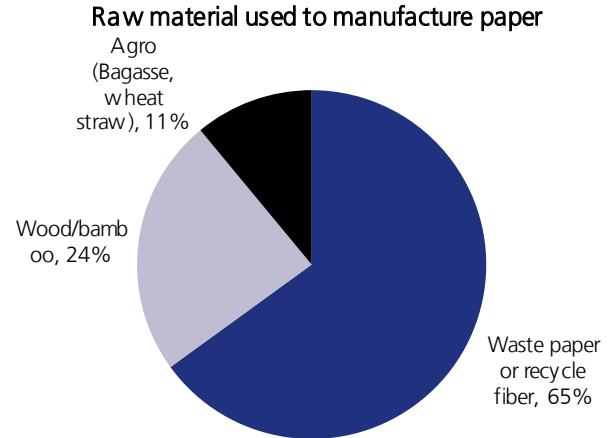
Source: Crisil, JM Financial

Exhibit 47. Demand for copier paper increased 8.7% CAGR FY12-16



Source: Crisil, JM Financial

Exhibit 48. 11% of paper is produced using agro waste

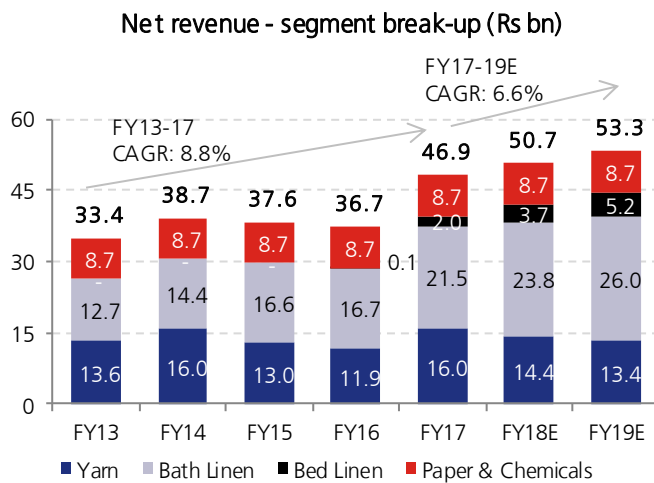


Source: Company, CRISIL Research, Dun & Bradstreet, JM Financial

4) Higher utilisation, richer mix to boost revenues

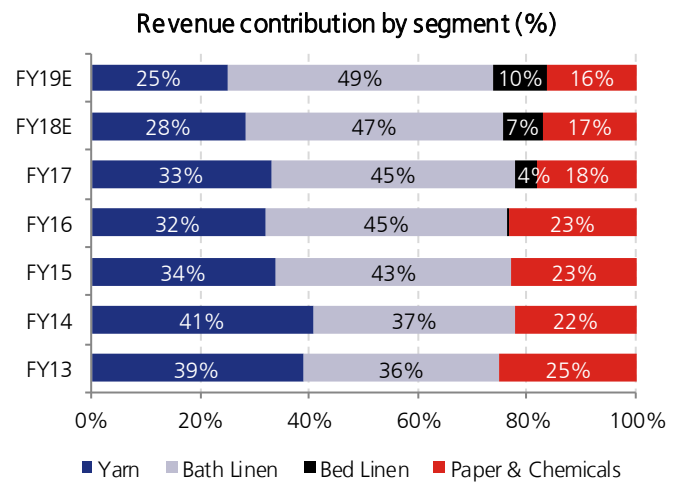
- New capacities and backward integration to drive revenue growth:** Trident incurred capex of c.INR27bn over FY14-16 to **a)** double its terry towel capacity to 90,000 tons p.a., **b)** diversify into fully integrated bed linen capacity of 43.2mn mtrs p.a., and **c)** backward integration into compact yarn with 190,000 additional spindles. Its paper capacity has remained constant at 175,000 mtpa. Its revenue increased at a CAGR of c.8.8% over FY13-17 and further revenue growth will be driven by the ramp-up of new capacities. We estimate revenue to increase at c.6.6% CAGR over FY17-FY19E with increase in utilisation of terry towels and bed linen, partially offset by the loss of revenue from the yarn business, as more of it will be captively utilised. The change in product mix is expected to be margin accretive as the company moves from the low-margin yarn business to the high-margin terry towel/sheets business.

Exhibit 49. Net revenue expected to increase 6.6% CAGR FY17-19E



Source: Company, JM Financial

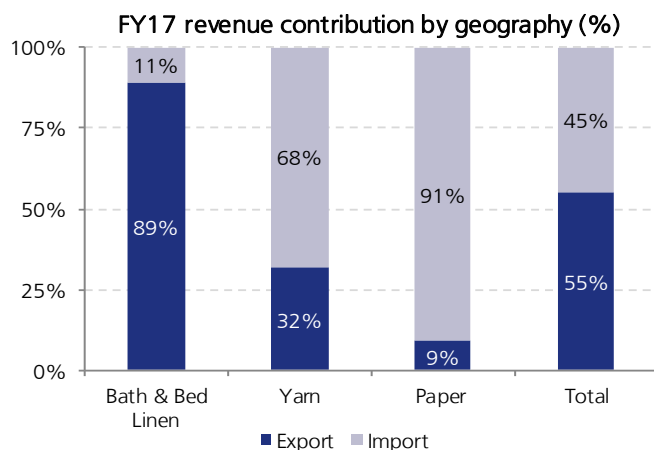
Exhibit 50. Revenue mix shifting towards high margin home textile



Source: Company, JM Financial

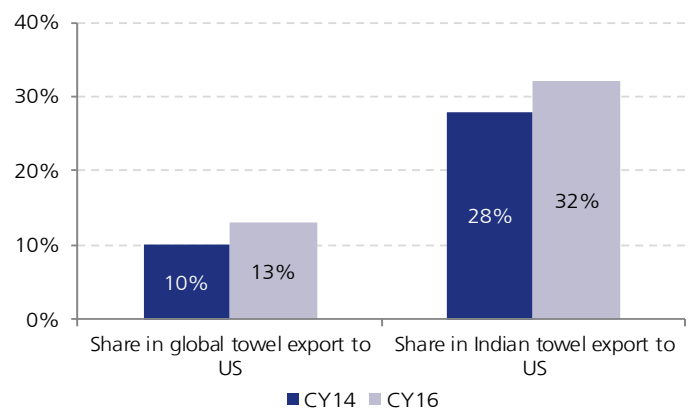
- Home textile revenue driven by exports:** In FY17, 55% of Trident’s net revenue was contributed by exports. In the bath and bed linen segment, 89% of net revenue was exports, primarily to the US as the domestic market is dominated by unorganised players. Trident held 13% share (of India’s 40% share in CY16) in global towel exports to the US, while its share in Indian towel exports to the US was 32%. As the bed linen capacity ramps up, the Company targets to gain share in the US bed linen market by leveraging its existing client base from the terry towels segment. Export contribution from paper and yarn was low at 32%/9%, respectively, in FY16.

Exhibit 51. C.90% of home textile revenue is from exports



Source: Company, JM Financial

Exhibit 52. Trident is largest Indian terry towel exporter to the US
Trident's market share in towel export to US



Source: Company, JM Financial

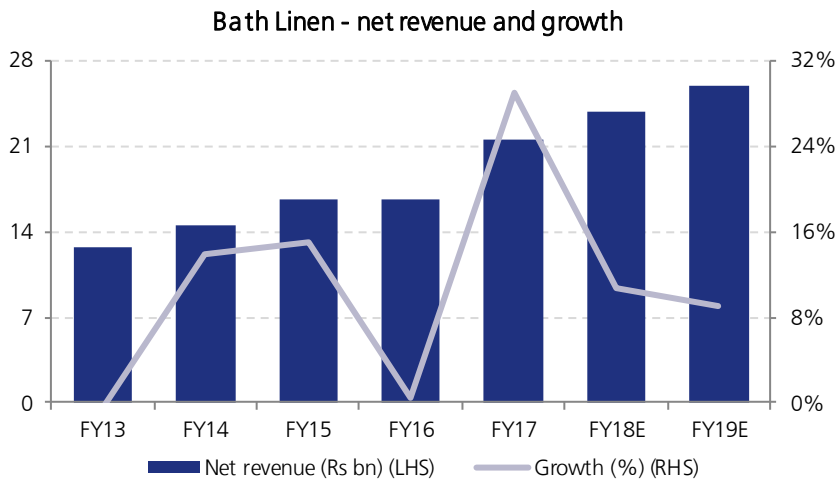
A) Bath linen capacity to provide maximum revenue delta

Bath linen revenue to increase at 10% CAGR FY17-19E; utilisation at 60% in FY19E:

Trident doubled its terry towel capacity to 90,000 tons p.a. in FY15. Revenue for terry towel increased from c.INR16.4bn in FY15 to c. INR21.4bn in FY17 at 14% CAGR as the utilisation ramped up from c.40% to c.50% during the period. We expect the utilisation to increase 5% each year in FY18/19. The revenue at 60% utilisation in FY19E is expected to increase at 10% CAGR over FY17-19E to INR26bn, contributing 49% of total revenue by FY19. Revenue growth after FY19 will be subject to the Company achieving its target optimum utilisation of c.80% in the bed and bath segment. Average realisation in USD terms has been in the range of USD7-USD7.5 over the past 5 years. We expect the USD realisation to increase marginally as the company re-negotiates its pricing in the appreciating INR environment. However, product price movement may not move with the price of cotton and there can be a lag of two to three quarters between the two.

Exhibit 53. Bath linen revenue to increase 10% CAGR FY17-19E

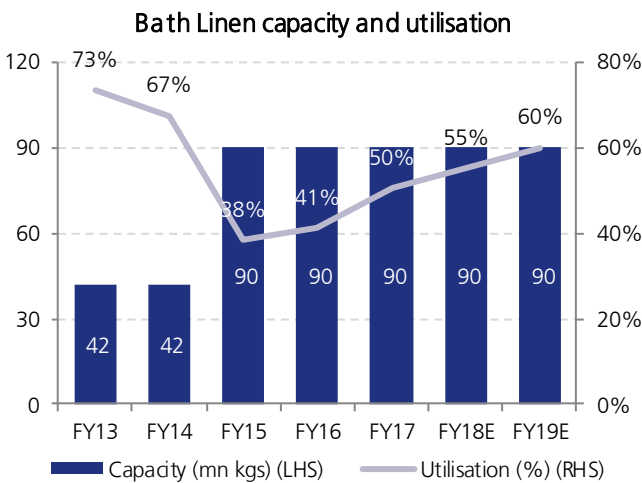
Bath linen revenue expected to increase at 10% CAGR FY17-19E to INR26bn



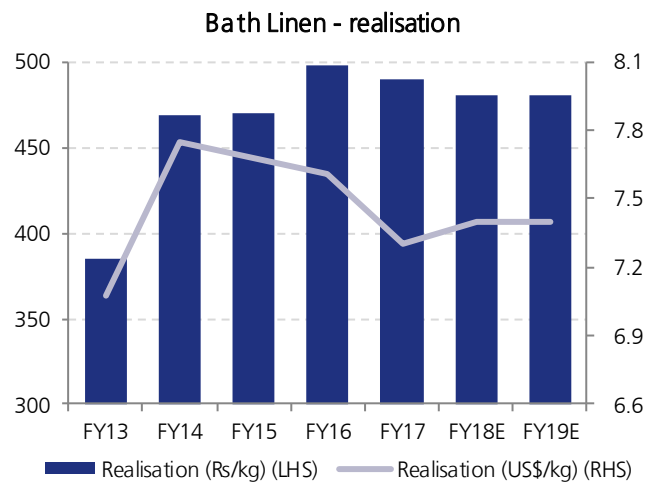
Source: Company, JM Financial

Exhibit 54. Utilisation of new facility ramping up steadily

Exhibit 55. Rupee realisation is expected to remain flat



Source: JM Financial, Company



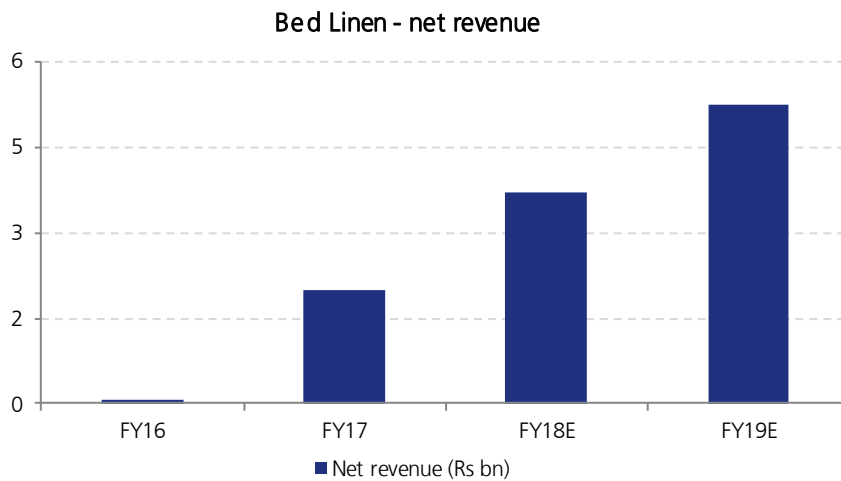
Source: JM Financial, Company

B) Bed linen to leverage existing bath linen client network

- **Bath linen revenue to increase at 61% CAGR FY17-19E on a low base; utilisation at 55% in FY19E:** Trident commissioned 43.2mn mtr p.a. bed linen capacity in 4QFY16. This is an integrated unit with newly added compact yarn facility of 190,000 spindles. The Company already achieved utilisation of c.29% in FY17, the majority of which constitutes unprocessed/grey fabric. The realisation is expected to increase from c.INR160/mtr in FY17 to c.INR220/mtr in FY19E as the Company establishes its footprint in the US with increasing orders of value added/processing bed linen. Bed linen revenue is expected to increase to INR3.7bn/INR5.2bn in FY18/19 as utilisation ramps up to 45%/55%, respectively. Bed linen is expected to contribute c.7%/10% of total revenue by FY18E/19E, respectively.

Exhibit 56. Bed linen revenue growth driven by capacity ramp up and increasing utilisation

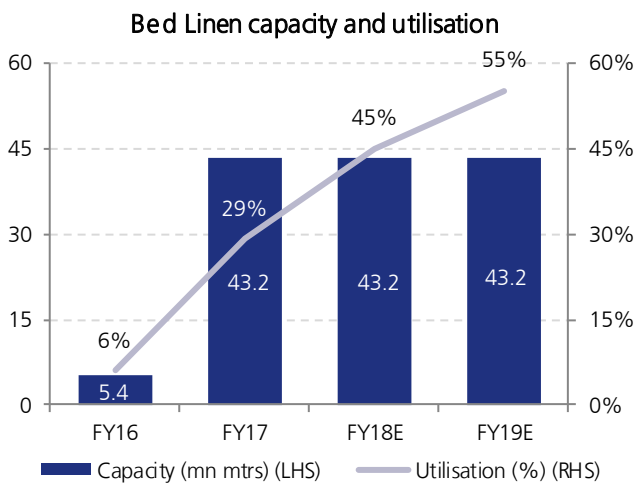
Bed linen revenue expected to increase at 61% CAGR FY17-19E to INR5.2bn



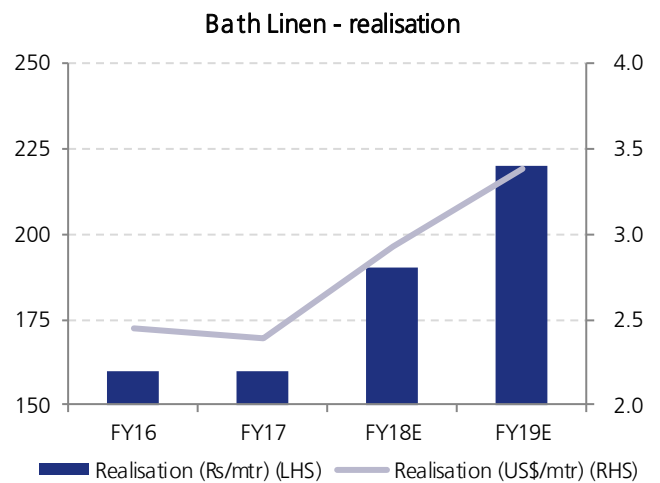
Source: Company, JM Financial

Exhibit 57. Capacity ramp up a key to growth

Exhibit 58. Realisation to increase with higher processed product



Source: Company, JM Financial



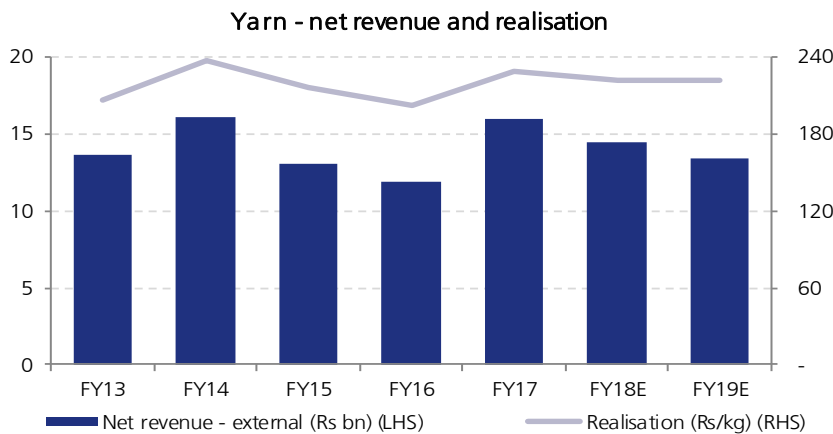
Source: Company, JM Financial

C) Yarn revenues to decline led by higher captive consumption

- **Yarn revenue to decline 8.6% CAGR FY17-19E; utilisation at 95% in FY19E:** Trident added 190,000 spindles of compact yarn (capability of producing 60-120 counts) in 4QFY16. This capacity has the potential to service the entire yarn requirement for the newly-installed bed linen capacity. The company had 360,000 existing spindles that could produce 10-50 count yarn. In total, Trident now has a yarn capacity of 115mn kg p.a. and witnessed a utilisation of 93% in FY17. We expect the utilisation to increase the optimum capacity of 94%/95% in FY18/19. Captive consumption of yarn has been limited at 35% in FY17 due to lower bed linen utilisation. We expect yarn revenue to decline 8.6% CAGR FY17-19E to INR13.4bn as the captive consumption increases to 40%/45% in FY18/19 on the back of a ramp-up of bed linen capacity.
- **An appropriate mix of different counts of yarn:** Recently added spindles for captive consumption in bed linen are capable of producing 60-120 count yarn, which can produce bed linen ranging from 100-1200 thread counts. Currently, Trident produces bed linen with an average thread count of 180-210. The older spindles are capable of manufacturing yarn ranging from 10-50 counts, of which the oldest spindles are of low count capability and the yarn produced is entirely sold externally, while relatively newer spindles of 30-35 count yarn are used for inputs to bath linen. The decision of using captive yarn or purchased yarn is based on the existing cotton-yarn market scenario. At optimum utilisation (80%) of bath linen capacity, 60% yarn requirement can be fulfilled captively, while the remaining 40% will still have to be procured externally.

Exhibit 59. Yarn revenue to decline as captive consumption increases

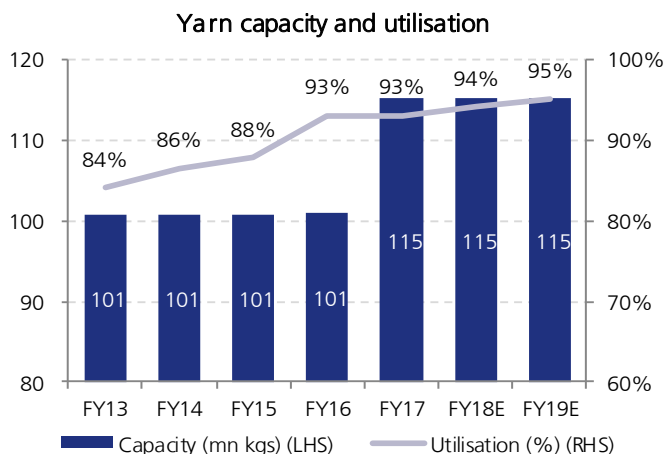
External revenue of yarn is expected to decline by 8.6% CAGR FY17-19E to INR13.4bn as more yarn is used captively



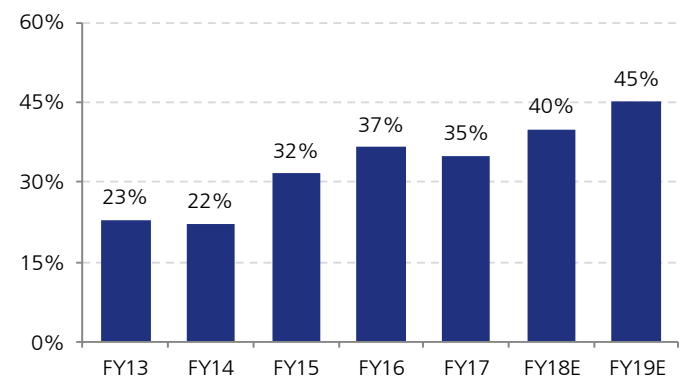
Source: Company, JM Financial

Exhibit 60. Quick ramp up in yarn capacity

Exhibit 61. High bed linen utilisation to increase captive consumption



Captive consumption of yarn (%)



Source: Company, JM Financial

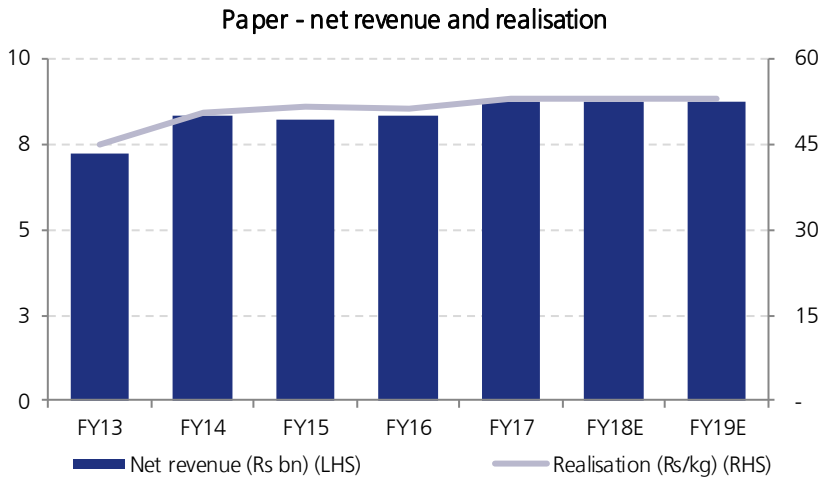
Source: Company, JM Financial

D) Increase in share of branded copier paper to lend support to paper segment

- **Paper segment utilisation at 90% in FY19E** : The capacity for Trident’s paper business has remained stagnant at 175,000mt. Paper revenue growth is expected to remain muted. Capacity utilisation remains steady at c.90%. Revenue will be supported as the Company shifts towards branded copier paper from Maplitho. We estimate paper revenue of INR8.7bn in FY19E. Contribution of paper towards total revenue is expected to reduce from c.18% in FY17 to c.16% in FY19E as home textile capacities ramp up.

Exhibit 62. Witnessed muted growth in revenue and realisation

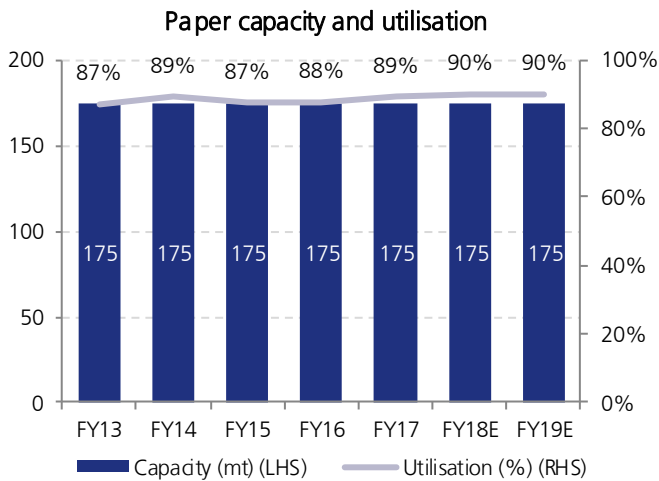
Paper revenue is expected to remain flat over FY17-19E at INR8.7bn



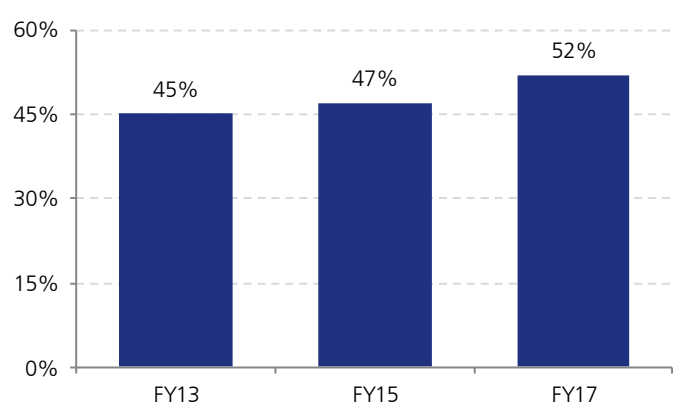
Source: Company, JM Financial

Exhibit 63. Maintained a steady utilisation

Exhibit 64. Shifting towards value added copier paper



Copier paper volume as % of total paper volume



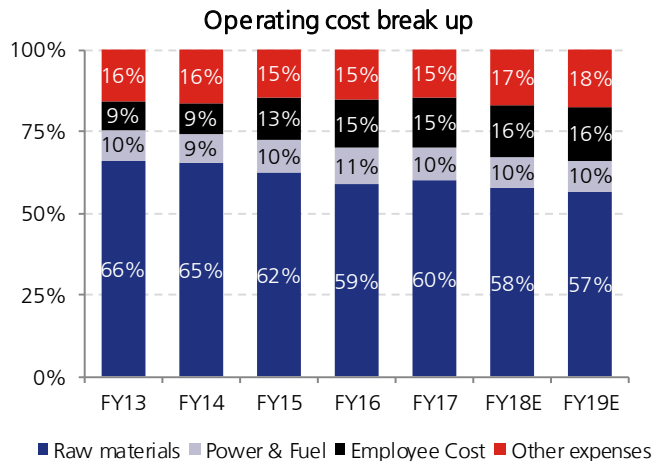
Source: Company, JM Financial

Source: Company, JM Financial

5) Presence across value chain to insulate margins

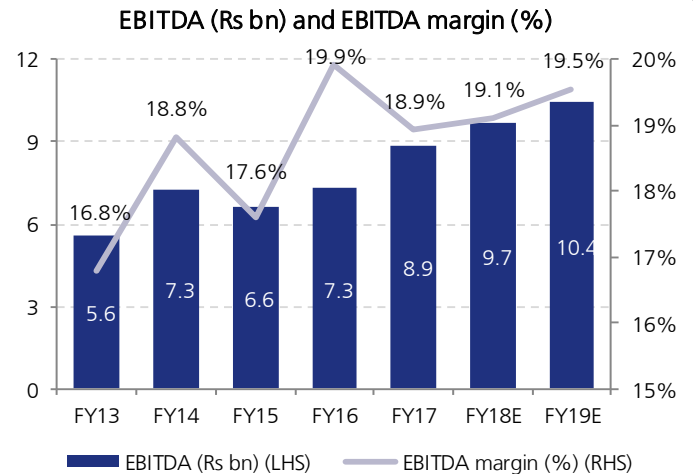
- Proximity to raw material suppliers help keep logistics cost minimal:** Cotton/yarn constitutes c.60% of total cost for home textiles. Among the other factors, cotton-yarn price scenario influences the decision whether to use captive yarn or to procure yarn from outside. During rising spread between cotton-yarn price, integrated players such as Trident prefer to use captive yarn. Trident procures its raw material from states closer to its plants such as Punjab, Madhya Pradesh, Maharashtra and Gujrat. Cotton is procured from Oct-Mar with an inventory of 5-6 months. In the paper division, c.70% of raw material used is wheat straw, which is abundant in supply within a 50km radius from the plant in Punjab. Proximity to raw materials helps keep logistics costs minimal.
- Margin to expand as home textile utilisation increases:** EBITDA margin for Trident expanded 310bps to 19.9% over FY13-FY16, driven by a product mix change and lower raw material prices. However, the margin dipped 100bps to 18.9% in FY17 due to a sharp increase in cotton prices. We expect the margin to expand going forward as: **a)** the product mix shifts towards high-margin home textiles and break-even utilisation is achieved for bed sheets (expected to break even by Sep'17), **b)** a higher proportion of yarn (low margin business) is consumed captively, **c)** the proportion of branded copier paper increases in its sales mix. We estimate a potential EBITDA increase from INR8.9bn in FY17 to INR10.4bn to FY19E.

Exhibit 65. Raw material constitutes c.60% of total costs



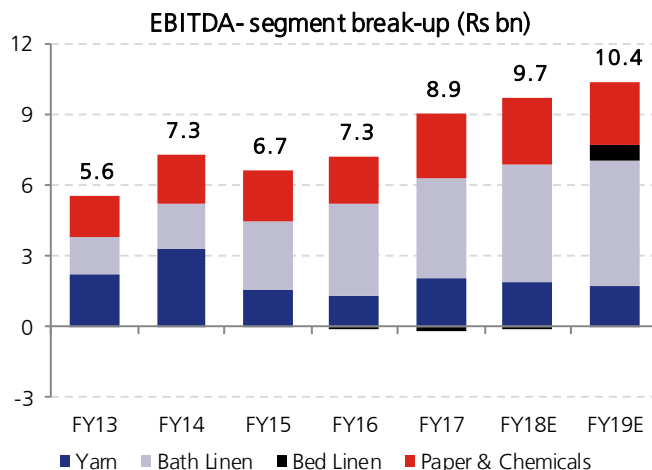
Source: Company, JM Financial

Exhibit 66. EBITDA margin to expand to 19.5% by FY19E



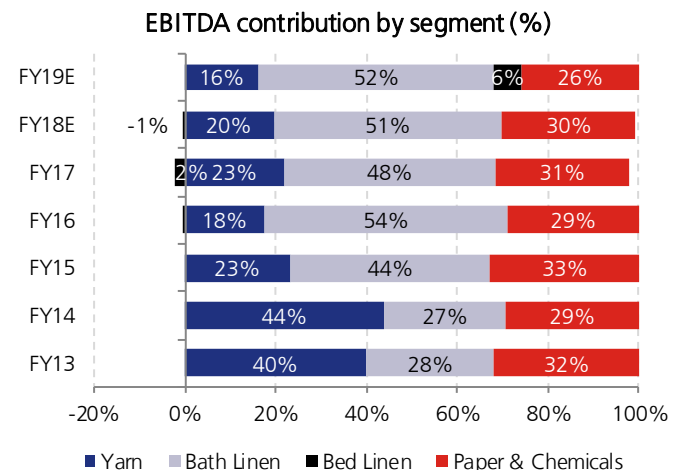
Source: Company, JM Financial

Exhibit 67. Bed linen expected to break-even by Sep'17



Source: Company, Company, JM Financial

Exhibit 68. Home textile contribution to drive EBITDA

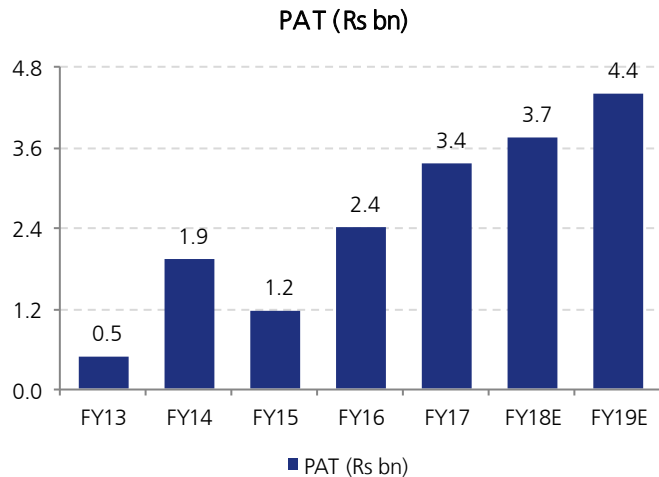


Source: Company, Company, JM Financial

6) FCF generation to support de-leveraging

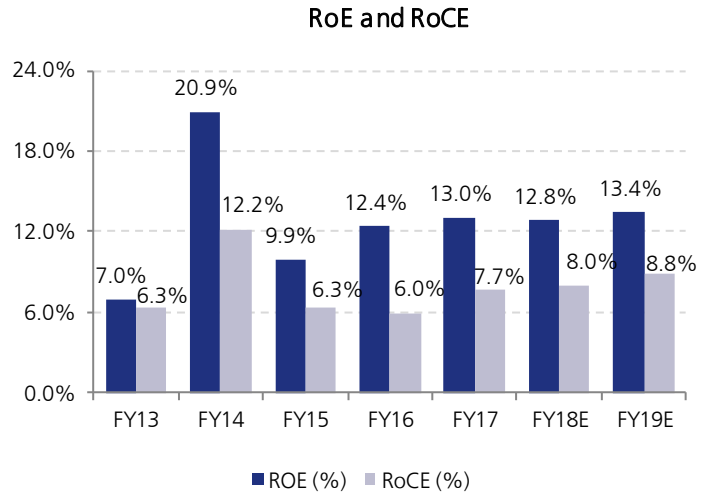
- Positive cash flows to support faster balance sheet de-leveraging:** Depreciation is expected to be range-bound in FY18/19 lead by restricted capex plan of INR1bn each year (maintenance capex) in the medium term. High cash flow from operations and limited capex is expected to keep Free Cash Flow positive at INR5.9bn/6.9bn in FY18/19, respectively. Backed by the positive cash flows, the company plans to pay its debt ahead of schedule, which is likely to lower finance costs. These are envisaged to result in a PAT CAGR of 14.3% over FY17-19E. Return ratios have traditionally been low due to the asset-heavy model. However, as the utilisation for bath and bath linen increase and the margins expand, RoCE and RoE are expected to improve to 8.0%/8.8% and 12.2%/12.7% in FY18/19, respectively.

Exhibit 69. PAT expected to increase by 14.3% CAGR FY17-19E



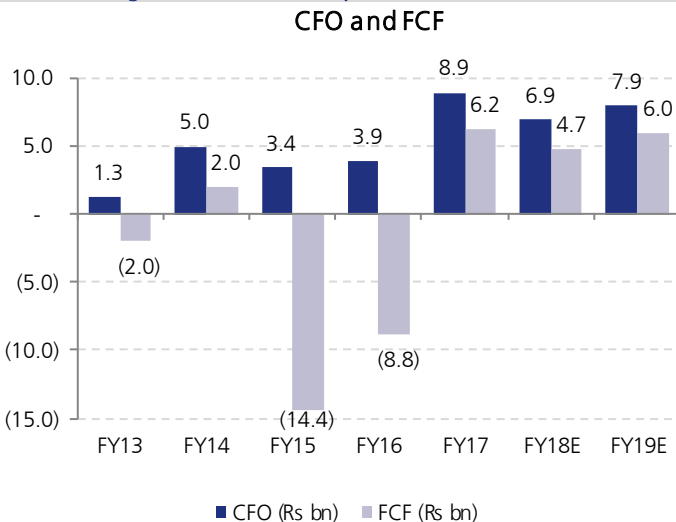
Source: Company, JM Financial

Exhibit 70. Return ratios set to increase with higher asset utilisation



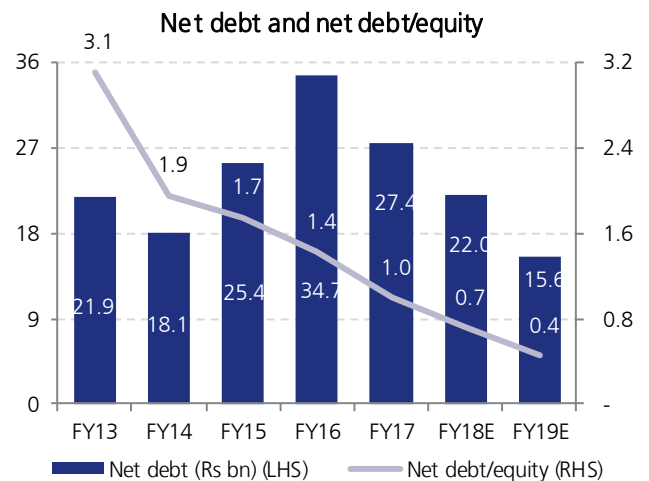
Source: Company, JM Financial

Exhibit 71. High CFO and lower capex to drive FCF



Source: Company, JM Financial

Exhibit 72. Higher FCF to support faster debt repayment



Source: Company, JM Financial

7) Initiate with BUY; valuation and sensitivity

- Backward integration and capacity ramp-up to drive future earnings; Initiate with a BUY:** Trident trades at FY18E/FY19E PE 11.5x/9.8x, a 10% discount to the closest competitor Welspun India due to its lower return ratios vs. peers. However, as the margins expand due to increased asset utilisation and higher captive yarn consumption, return ratios are expected to improve. We estimate a potential EBITDA increase from INR8.9bn in F17 to INR10.4bn in FY19E and estimate an EPS CAGR of c.14.3% over FY17-19E. Strong earnings momentum and limited capex, will lend further support to a robust balance sheet. We ascribe a P/E of c.12x FY19E to arrive at our fair value of INR105/share implying upside of c.25% from CMP. We initiate coverage with a BUY rating.

Exhibit 73. Target price

	FY19E
EPS (INR)	8.6
P/E multiple	12.0
Fair value (INR/share)	105

Source: JM Financial

Exhibit 74. Trident: FY19E EPS sensitivity to INR/USD and cotton price (INR)

		Avg. price of cotton (INR/kg)				
		100	105	110	115	120
Avg. INR/USD	63	8.7	8.0	7.2	6.5	5.8
	64	9.4	8.7	7.9	7.2	6.5
	65	10.1	9.4	8.6	7.9	7.2
	66	10.8	10.1	9.3	8.6	7.9
	67	11.5	10.8	10.1	9.3	8.6

Source: JM Financial

High yarn prices and rupee appreciation may adversely impact profitability

Exhibit 75. Trident: Target price sensitivity to INR/USD and cotton price (INR/share)

		Avg. price of cotton (INR/kg)				
		100	105	110	115	120
Avg. INR/USD	63	105	97	88	79	70
	64	114	105	96	87	79
	65	122	114	105	96	87
	66	131	122	113	104	96
	67	139	130	122	113	104

Source: JM Financial

1% increase in cotton price reduces fair value by 1.4%, while 1% rupee appreciation reduces fair value by 4.5%

Exhibit 76. Comparative valuation

Companies	PE		EPS CAGR		EV/EBITDA		ROE		ROCE	
	FY18E	FY19E	FY17-19E	FY18E	FY19E	FY18E	FY19E	FY18E	FY19E	
Home textile average	15.3	13.3		9.4	6.7					
Trident	11.5	9.8	14%	6.7	5.6	12%	13%	8%	9%	
Welspun India	12.9	10.6	49%	7.2	6.2	23%	23%	18%	20%	
Indo Count Industries	9.9	8.6	18%	6.1	5.1	25%	23%	21%	21%	
Himatsingka Seide	14.0	9.7	37%	8.4	6.3	19%	22%	19%	22%	
Luolai Lifestyle Technology-A	18.2	16.2	23%	11.6		13%	13%	18%	19%	
Sunvim Group Co Ltd-A	13.4	11.3	28%	8.1	7.2	14%	14%	11%	12%	
Hunan Mendale Hometextile-A	25.4	25.6	34%	16.0		10%	9%			
Shenzhen Fuanna Bedding-A	13.3	11.2	18%	8.7	8.6	15%	16%	20%	20%	

Source: Bloomberg, JM Financial; Note: Valuation as of 03/08/2017

8) Key risks

- **INR appreciation:** Further INR appreciation can materially impact earnings adversely as majority of revenues are USD denominated/benchmarked. We estimate that a c.1% appreciation in the INR against the USD can adversely impact earnings by as much as c.4.5%.
- **Losing competitive advantage to other countries:** Higher devaluation of the currency of other home textile exporting countries such as China and Pakistan may make them more competitive against Indian peers, adversely impacting market share.
- **Increase in raw material prices:** Cotton/yarn is a key input in home textiles and a price increase can adversely impact margins. We estimate that a c.1% increase in cotton prices can adversely impact earnings by as much as c.1.5%.

Exhibit 77. FY19E EPS sensitivity to INR/USD and cotton price (INR)

		Avg. price of cotton (INR/kg)				
		100	105	110	115	120
Avg. INR/USD	63	8.7	8.0	7.2	6.5	5.8
	64	9.4	8.7	7.9	7.2	6.5
	65	10.1	9.4	8.6	7.9	7.2
	66	10.8	10.1	9.3	8.6	7.9
	67	11.5	10.8	10.1	9.3	8.6

Source: JM Financial

1% increase in cotton price reduces earnings by 1.5%, while 1% rupee appreciation reduces earnings by 4.5%

- **High sales concentration to the US:** C.90% of export revenues are from one geography USA. Any macro-economic risk to the US economy may impact earnings adversely. Any significant change in import tariffs of key home textile markets such as the USA/EU may materially adversely impact earnings.
- **Delay in ramp up of the newly added capacities:** Bed linen market in the US is facing stiff competition from neighbouring countries as well as the among the Indian players. The market for imports of bed linen by the US is stagnant and has declined 4.7% YoY in CY16. Trident's strategy to capture share in the imports to US of bed linen will be a key monitorable. Similarly, towel capacity has been doubled in FY15 and ramp up to its optimum capacity c.80% is a key to the growth. We estimate a c.5% decrease in utilisation for bath and bed linen adversely impact target price by c.8% and 1% respectively.

Exhibit 78. FY19E TP sensitivity to change in utilisation of towel and bed capacities (INR)

		Bath linen capacity utilisation (%)				
		50%	55%	60%	65%	70%
Bed linen capacity utilisation (%)	65%	91	99	107	115	123
	60%	90	98	106	114	122
	55%	89	97	105	113	121
	50%	88	96	104	112	120
	45%	87	95	103	111	119

Source: JM Financial

Sensitivity for utilisation for bath linen is higher than sensitivity for bed linen utilisation

- **Withdrawal of current incentives by the regulator:** Currently, home textile manufacturers are privy to various export incentive such as duty drawbacks, TUFs and rebate of state levies. Withdrawal of such schemes may adversely impact earnings and return ratios of the business.

Financial Tables (Consolidated)

Income Statement					
	(INR mn)				
Y/E March	FY15A	FY16A	FY17E	FY18E	FY19E
Net Sales	37,553	36,657	46,944	50,730	53,365
Sales Growth	-2.9%	-2.4%	28.1%	8.1%	5.2%
Other Operating Income	0	0	0	0	0
Total Revenue	37,553	36,657	46,944	50,730	53,365
Cost of Goods Sold/Op. Exp	19,309	17,286	22,916	23,746	24,404
Personnel Cost	3,872	4,295	5,794	6,483	6,888
Other Expenses	7,766	7,778	9,351	10,812	11,652
EBITDA	6,608	7,297	8,882	9,688	10,422
EBITDA Margin	17.6%	19.9%	18.9%	19.1%	19.5%
EBITDA Growth	-9.2%	10.4%	21.7%	9.1%	7.6%
Depn. & Amort.	3,213	3,366	4,125	4,155	4,214
EBIT	3,395	3,931	4,757	5,533	6,208
Other Income	345	334	1,035	635	635
Finance Cost	2,060	1,452	1,410	1,170	970
PBT before Excep. & Forex	1,680	2,813	4,382	4,998	5,873
Excep. & Forex Inc./Loss(-)	0	0	0	0	0
PBT	1,680	2,813	4,382	4,998	5,873
Taxes	501	392	1,016	1,251	1,470
Extraordinary Inc./Loss(-)	0	0	0	0	0
Assoc. Profit/Min. Int.(-)	0	0	7	0	0
Reported Net Profit	1,179	2,421	3,372	3,747	4,403
Adjusted Net Profit	1,179	2,421	3,372	3,747	4,403
Net Margin	3.1%	6.6%	7.2%	7.4%	8.3%
Diluted Share Cap. (mn)	509.6	509.6	509.6	509.6	509.6
Diluted EPS (Rs.)	2.3	4.8	6.6	7.4	8.6
Diluted EPS Growth	-39.3%	105.4%	39.3%	11.1%	17.5%
Total Dividend + Tax	341	341	341	341	341
Dividend Per Share (Rs)	0.6	0.6	0.6	0.6	0.6

Source: Company, JM Financial

Balance Sheet					
	(INR mn)				
Y/E March	FY15A	FY16A	FY17E	FY18E	FY19E
Shareholders' Fund	14,554	24,361	27,568	30,806	34,699
Share Capital	5,086	5,094	5,096	5,096	5,096
Reserves & Surplus	9,467	19,267	22,473	25,710	29,603
Preference Share Capital	0	0	0	0	0
Minority Interest	0	0	0	0	0
Total Loans	25,801	35,669	28,926	25,426	21,926
Def. Tax Liab. / Assets (-)	1,242	1,582	1,655	1,655	1,655
Total - Equity & Liab.	41,597	61,612	58,149	57,887	58,280
Net Fixed Assets	30,858	47,546	44,680	41,525	38,310
Gross Fixed Assets	48,688	70,262	70,904	71,904	72,904
Intangible Assets	0	0	0	0	0
Less: Depn. & Amort.	20,049	23,331	27,456	31,612	35,826
Capital WIP	2,219	615	1,232	1,232	1,232
Investments	309	1,114	1,419	1,419	1,419
Current Assets	13,904	16,634	15,766	18,839	22,561
Inventories	7,508	9,065	7,747	8,368	8,800
Sundry Debtors	2,033	2,513	3,751	4,059	4,274
Cash & Bank Balances	170	809	1,326	3,234	6,146
Loans & Advances	4,192	4,246	2,942	3,178	3,342
Other Current Assets	0	0	0	0	0
Current Liab. & Prov.	3,473	3,681	3,716	3,896	4,011
Current Liabilities	2,490	2,237	2,302	2,482	2,597
Provisions & Others	983	1,444	1,414	1,414	1,414
Net Current Assets	10,431	12,952	12,050	14,943	18,551
Total - Assets	41,597	61,612	58,149	57,887	58,280

Source: Company, JM Financial

Cash Flow Statement					
	(INR mn)				
Y/E March	FY15A	FY16A	FY17E	FY18E	FY19E
Profit before Tax	1,680	2,812	4,388	4,998	5,873
Depn. & Amort.	3,213	3,366	4,125	4,155	4,214
Net Interest Exp. / Inc. (-)	2,060	1,452	1,410	1,170	970
Inc (-) / Dec in WCap.	-998	-1,883	1,419	-985	-696
Others	2,555	8,172	813	0	0
Taxes Paid	-501	-392	-1,016	-1,251	-1,470
Operating Cash Flow	8,009	13,529	11,140	8,087	8,891
Capex	-15,686	-19,970	-1,259	-1,000	-1,000
Free Cash Flow	-7,678	-6,442	9,881	7,087	7,891
Inc (-) / Dec in Investments	844	-805	-305	0	0
Others	0	0	0	0	0
Investing Cash Flow	-14,843	-20,775	-1,564	-1,000	-1,000
Inc / Dec (-) in Capital	1,976	7	2	0	0
Dividend + Tax thereon	-341	-537	-906	-510	-510
Inc / Dec (-) in Loans	5,119	8,415	-8,154	-4,670	-4,470
Others	0	0	0	0	0
Financing Cash Flow	6,754	7,886	-9,058	-5,179	-4,979
Inc / Dec (-) in Cash	-80	639	517	1,908	2,912
Opening Cash Balance	250	170	809	1,326	3,234
Closing Cash Balance	170	809	1,326	3,234	6,146

Source: Company, JM Financial

Dupont Analysis					
Y/E March	FY15A	FY16A	FY17E	FY18E	FY19E
Net Margin	3.1%	6.6%	7.2%	7.4%	8.3%
Asset Turnover (x)	1.0	0.7	0.7	0.8	0.9
Leverage Factor (x)	3.2	2.8	2.4	2.1	1.9
RoE	9.9%	12.4%	13.0%	12.8%	13.4%

Key Ratios					
Y/E March	FY15A	FY16A	FY17E	FY18E	FY19E
BV/Share (Rs.)	28.6	47.8	54.1	60.5	68.1
ROIC	7.2%	6.9%	6.5%	7.9%	9.2%
ROE	9.9%	12.4%	13.0%	12.8%	13.4%
Net Debt/Equity (x)	1.7	1.4	1.0	0.7	0.4
P/E (x)	36.3	17.7	12.7	11.4	9.7
P/B (x)	2.9	1.8	1.6	1.4	1.2
EV/EBITDA (x)	10.3	10.6	7.9	6.7	5.6
EV/Sales (x)	1.8	2.1	1.5	1.3	1.1
Debtor days	20	25	29	29	29
Inventory days	73	90	60	60	60
Creditor days	29	28	22	22	22

Source: Company, JM Financial

APPENDIX I

JM Financial Institutional Securities Limited

Corporate Identity Number: U65192MH1995PLC092522

Member of BSE Ltd. and National Stock Exchange of India Ltd. and Metropolitan Stock Exchange of India Ltd.

SEBI Registration Nos.: BSE - INZ010012532, NSE - INZ230012536 and MSEI - INZ260012539, Research Analyst – INH000000610

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Hold	Price expected to move in the range of 10% downside to 15% upside from the current market price.
Sell	Price expected to move downwards by more than 10%

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