

Trident Ltd.

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Strong margin in Paper negates subdued show in Textile

- Trident's Q1FY18 net sales stood at Rs11.8bn (+2.3% yoy), led by a 1.7% yoy growth in Textile and a 2.4% yoy growth in the Paper segment. Towels revenue declined by 7.8% yoy, primarily due to a higher base.
- EBITDA margin declined 50bps yoy to 20.3%. EBITDA stood at Rs2.39bn (-0.2% yoy). Textile EBIT margin stood at 7.9% (-260bps yoy) while Paper EBIT margin came in at 35.6% (+748bps yoy).
- For FY18, management has guided for capacity utilization of 40-50% in Bed Linen and 55-60% in Terry Towel. Textile EBITDA margin will be in 18-22% range for FY18 while Paper segment EBITDA margin will be in 35-40% range.
- We expect TRID IN to deliver earnings CAGR of 23% over FY17-19E on account of margin expansion and lower finance cost (due to debt repayment). We maintain BUY rating with TP of Rs110 based on 6.5x FY19E EV/EBITDA.

Stable performance; Paper continues to outshine Textile business

Trident's Q1FY18 net sales grew by 2.3% yoy to Rs11.8bn, led by 1.7% yoy growth in Textile and a 2.4% yoy growth in Paper. Home Textile contributed 49% to sales while Yarn contributed 33% and Paper 18%. Q1FY18 capacity utilization in Textile increased, with Bed Linen utilisation at 36% (vs 29% in FY17), Terry Towels at 51% (vs 50% in FY17) and Yarn at 95% (vs 93% in FY17). Captive consumption of Yarn was 40% in Q1FY18 vs 34% in FY17. Paper capacity utilization was lower at 83% (vs 89% in FY17). Paper business witnessed subdued growth due to GST rollout. EBITDA margin declined 50bps yoy to 20.3% and EBITDA stood at Rs2.39bn (-0.2% yoy). Textile EBIT margin came in at 7.9% (-260bps yoy) while Paper EBIT margin was 35.6% (+748bps yoy). Textile EBITDA declined by 6.8% yoy to Rs1.64bn and EBITDA margin contracted by ~200bps yoy to 16% on higher Raw Material cost. Paper EBITDA increased by 33% yoy to Rs950mn and EBITDA margin expanded by ~1000bps yoy to 44% due to price increases. Net profit grew by 13.4% yoy to Rs889mn on account of lower finance cost.

Maintain BUY; Focus on debt repayment to continue

TRID IN retired Rs2.27bn long-term debt in Q1FY18, including high cost debt of Rs1.87bn. Net debt reduced by Rs450mn to Rs27bn and Net Debt/Equity stood at 0.9x, with over 75% of long-term debt under TUFS. It is likely to generate free cash flow of ~Rs13bn over FY18-19E, led by high operating cash flows of ~Rs15bn, translating into deleveraging of Rs7.7bn over FY17-19E. We maintain BUY rating with TP of Rs110 based on 6.5x FY19E EV/EBITDA.

Financial Snapshot (Standalone)

(Rs mn)	FY15	FY16	FY17	FY18E	FY19E
Revenue	37,536	36,835	46,866	49,182	52,281
EBITDA	6,606	7,194	8,886	10,214	11,364
EBITDA Margin (%)	17.6	19.5	19.0	20.8	21.7
APAT	1,174	2,280	3,370	4,053	5,096
EPS (Rs)	2.3	4.5	6.6	8.0	10.0
EPS (% chg)	(64.1)	93.9	47.8	20.3	25.7
ROE (%)	9.8	14.5	18.7	19.5	21.1
P/E (x)	32.6	16.8	11.4	9.5	7.5
EV/EBITDA (x)	9.7	10.0	7.4	6.1	5.0
P/BV (x)	2.6	2.3	2.0	1.7	1.5

Source: Company, Emkay Research

CMP Rs 75 as of (August 14, 2017)	Target Price Rs 110 (■) 12 months
Rating BUY (■)	Upside 46.3 %

Change in Estimates

EPS Chg FY18E/FY19E (%)	-/
Target Price change (%)	NA
Target Period (Months)	12
Previous Reco	BUY

Emkay vs Consensus

EPS Estimates		
	FY18E	FY19E
Emkay	8.0	10.0
Consensus	8.0	10.7
Mean Consensus TP (12M)	Rs 108	

Stock Details

Bloomberg Code	TRID IN
Face Value (Rs)	10
Shares outstanding (mn)	510
52 Week H/L	92 / 45
M Cap (Rs bn/USD bn)	38 / 0.60
Daily Avg Volume (nos.)	8,31,471
Daily Avg Turnover (US\$ mn)	1.1

Shareholding Pattern Jun '17

Promoters	67.8%
FIIIs	1.5%
DIIIs	2.1%
Public and Others	28.6%

Price Performance

(%)	1M	3M	6M	12M
Absolute	(9)	(14)	5	59
Rel. to Nifty	(8)	(17)	(5)	42

Relative price chart



Source: Bloomberg

This report is solely produced by Emkay Global. The following person(s) are responsible for the production of the recommendation:

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Exhibit 1: Quarterly Financials

(Rs mn)	Q1FY17	Q4FY17	Q1FY18	YoY (%)	QoQ (%)	YTDFY18	YTDFY17	YoY %
Net Sales	11,520	13,090	11,780	2.3	-10.0	11,780	11,520	2.3
Expenditure	9,121	10,552	9,387	2.9	-11.0	9,387	9,121	2.9
as % of sales	79.2	80.6	79.7			79.7	79.2	
Consumption of RM	5,485	6,536	5,519	0.6	-15.5	5,519	5,485	0.6
as % of sales	47.6	49.9	46.9			46.9	47.6	
Employee Cost	1345	1510	1482	10.2	-1.9	1,482	1,345	10.2
as % of sales	11.7	11.5	12.6			12.6	11.7	
Other Expenditure	2292	2507	2385	4.1	-4.8	2,385	2,292	4.1
as % of sales	19.9	19.1	20.3			20.3	19.9	
EBITDA	2398	2538	2393	-0.2	-5.7	2,393	2,398	-0.2
Depreciation	1,034	1,010	1,023	-1.1	1.3	1,023	1,034	-1.1
EBIT	1,364	1,528	1,370	0.4	-10.4	1,370	1,364	0.4
Other Income	83	83	201	141.3	143.4	201	83	141.3
Interest Expenses	427	321	334	-21.8	4.1	334	427	-21.8
PBT	1,021	1,290	1,237	21.2	-4.1	1,237	1,021	21.2
Total Tax	236	293	348	47.3	18.6	348	236	47.3
Adjusted PAT	785	997	889	13.4	-10.8	889	785	13.4
Extra ord / Exceptional item	0	0	0			0	0	
Reported PAT	785	997	889	13.4	-10.8	889	785	13.4
Adjusted EPS (Rs)	1.54	1.96	1.75	13.4	-10.8	1.75	1.54	13.4

Margins (%)			(bps)	(bps)			(bps)	
EBITDA	20.8	19.4	20.3	-51	92	20.3	20.8	-51
EBIT	11.8	11.7	11.6	-21	-4	11.6	11.8	-21
EBT	8.9	9.9	10.5	164	65	10.5	8.9	164
PAT	6.8	7.6	7.6	74	-6	7.6	6.8	74
Effective Tax Rate	23.1	22.7	28.1	498	537	28.1	23.1	498

Source: Company, Emkay Research

Exhibit 2: Segmental Details

Segmental Details	Q1FY17	Q4FY17	Q1FY18	YoY (%)	QoQ (%)	YTDFY18	YTDFY17	YoY %
Revenue	11597	12812	11808	1.8	-7.8	11,808	11,597	1.8
Textile	9532	10558	9695	1.7	-8.2	9,695	9,532	1.7
Paper & Chemicals	2064	2254	2113	2.4	-6.3	2,113	2,064	2.4
Others	1	0	0	-100.0		0	1	-100.0
EBIT	1580	1346	1516	-4.1	12.6	1,516	1,580	-4.1
Textile	1002	790	767	-23.5	-3.0	767	1,002	-23.5
Paper & Chemicals	579	557	751	29.6	34.8	751	579	29.6
Others	-1	-2	-2	45.5	0.0	-2	-1	45.5

EBIT Margins (%)			(bps)	(bps)			(bps)	
Textile	10.5	7.5	7.9	-260	42	7.9	10.5	-260
Paper & Chemicals	28.1	24.7	35.6	748	1082	35.6	28.1	748
Others	-239.3						-239.3	

Source: Company, Emkay Research

Conference Call Highlights

Home Textile segment capacity utilization to improve on growing order book

Textile segment's revenue increased by 1.7% yoy to Rs9.7bn. However, Textile EBITDA declined by 6.8% yoy to Rs1.64bn and EBITDA margin contracted by ~200bps yoy to 16%. Bed Linen business delivered healthy volume growth of over 32% qoq and operated at 36% capacity utilization. TRID IN is growing its Bed Linen order book through large retail chains, both in domestic as well as international markets, and expects to break even in this business in a couple of months. Terry Towels revenue declined by 7.8% yoy, primarily due to a higher base. For FY18, management has guided for capacity utilization of 40-50% in Bed Linen and 55-60% in Terry Towels, while Textile EBITDA margin is expected to be in 18-22% range.

Paper margin to be healthy on better price

Paper segment's revenue increased by 2.4% yoy to Rs2.11bn. Paper EBITDA increased by 33% yoy to Rs950mn and EBITDA margin expanded by ~1000bps yoy to 44%. Higher realisations, led by a better product mix (increasing contribution of Branded Copier) and lower Raw Material cost (owing to higher availability of Wheat Straw) aided the sharp jump in profitability. This was despite lower capacity utilization of 83% (vs 89% in FY17) on account of lower offtake ahead of the GST rollout. For FY18, management expects offtake to be low in Q2FY18 also and has guided for Paper segment EBITA margin of 35-40%.

Focus on deleveraging to continue

TRID IN retired Rs2.27bn of long-term debt in Q1FY18, including high-cost debt of Rs1.87bn. Net debt reduced by Rs450mn and Net Debt/Equity stood at 0.9x, with over 75% of long-term debt under TUFs. Management continues to focus on debt repayment and interest coverage of 7.8x places TRID IN in a comfortable position on deleveraging. RoCE improved to 12.1% in Q1FY18 from 11.2% in Q1FY17. The Board of Directors has approved a proposal for raising funds up to Rs5bn by way of equity issue, NCD, warrants, convertible securities other than warrants, FCCB and/or such other securities that may be permitted by way of public or private offering, including QIP. The enabling Board resolution has been passed because high-cost debt of Rs4.5-5bn still resides on the company's balance sheet and 3% interest subvention on working capital will be discontinued post March'18. Hence, fund raising would allow the company to lower the cost of funds, besides equipping it to go for organic/inorganic expansion at an appropriate time.

Higher cotton sowing to keep cotton prices lower

Domestic Home Textile players continue to face challenge on the currency front, with the INR appreciating by ~2.7% against the US dollar during April'16-Jun'17. Moreover, adverse movement against Chinese yuan is impacting all Indian Home Textile players. In addition, high cotton prices have also posed a challenge for the Indian textile companies. However, with supplies expected to rise in the upcoming season, cotton prices are expected to moderate by 5-10%. Also, according to International Cotton Advisory Committee (CAC), Indian total area under cotton is projected to increase by 7% to 11.3mn hectares in 2017-18, which should keep cotton prices in check.

Key Financials (Standalone)**Income Statement**

Y/E Mar (Rs mn)	FY15	FY16	FY17	FY18E	FY19E
Revenue	37,536	36,835	46,866	49,182	52,281
Expenditure	30,929	29,641	37,980	38,968	40,917
EBITDA	6,606	7,194	8,886	10,214	11,364
Depreciation	3,213	3,376	4,124	4,149	4,207
EBIT	3,393	3,817	4,761	6,065	7,157
Other Income	345	316	1,034	502	568
Interest expenses	2,060	1,364	1,410	1,090	839
PBT	1,678	2,769	4,385	5,477	6,886
Tax	500	485	1,015	1,424	1,790
Extraordinary Items	4	5	0	0	0
Minority Int./Income from Assoc.	0	0	0	0	0
Reported Net Income	1,178	2,285	3,370	4,053	5,096
Adjusted PAT	1,174	2,280	3,370	4,053	5,096

Balance Sheet

Y/E Mar (Rs mn)	FY15	FY16	FY17	FY18E	FY19E
Equity share capital	5,086	5,094	5,096	5,096	5,096
Reserves & surplus	9,467	11,723	22,149	25,108	28,828
Net worth	14,553	16,817	27,245	30,204	33,924
Minority Interest	0	0	0	0	0
Loan Funds	26,207	34,366	28,659	25,670	20,960
Net deferred tax liability	1,242	1,727	1,657	1,657	1,657
Total Liabilities	42,002	52,909	57,561	57,531	56,541
Net block	28,865	38,346	43,575	40,291	37,201
Investment	314	567	748	748	1,248
Current Assets	13,868	16,753	16,107	19,524	21,246
Cash & bank balance	168	818	1,324	1,694	2,293
Other Current Assets	22	15	0	16	18
Current liabilities & Provision	3,037	3,329	3,967	4,130	4,252
Net current assets	10,831	13,424	12,140	15,394	16,994
Misc. exp	0	0	0	0	0
Total Assets	42,002	52,909	57,561	57,531	56,541

Cash Flow

Y/E Mar (Rs mn)	FY15	FY16	FY17	FY18E	FY19E
PBT (Ex-Other income) (NI+Dep)	1,333	2,453	3,351	4,975	6,318
Other Non-Cash items	0	0	0	0	0
Chg in working cap	(1,188)	(2,695)	1,708	(2,884)	(1,001)
Operating Cashflow	5,078	4,498	9,509	5,906	8,573
Capital expenditure	(15,571)	(11,013)	(1,747)	(865)	(1,117)
Free Cash Flow	(10,493)	(6,515)	7,762	5,041	7,456
Investments	874	(253)	(182)	0	(500)
Other Investing Cash Flow	0	0	0	0	0
Investing Cashflow	(14,352)	(10,950)	(895)	(363)	(1,049)
Equity Capital Raised	4,088	11	2	0	0
Loans Taken / (Repaid)	7,179	8,480	(5,763)	(2,989)	(4,710)
Dividend paid (incl tax)	(329)	(539)	(937)	(1,094)	(1,376)
Other Financing Cash Flow	319	514	0	0	0
Financing Cashflow	9,197	7,102	(8,108)	(5,173)	(6,925)
Net chg in cash	(77)	650	506	370	599
Opening cash position	245	168	818	1,324	1,694
Closing cash position	168	818	1,324	1,694	2,293

Source: Company, Emkay Research

Key Ratios

Profitability (%)	FY15	FY16	FY17	FY18E	FY19E
EBITDA Margin	17.6	19.5	19.0	20.8	21.7
EBIT Margin	9.0	10.4	10.2	12.3	13.7
Effective Tax Rate	29.8	17.5	23.2	26.0	26.0
Net Margin	3.1	6.2	7.2	8.2	9.7
ROCE	10.5	8.7	11.3	13.2	15.7
ROE	9.8	14.5	18.7	19.5	21.1
RoIC	10.2	8.4	9.8	13.1	15.9

Per Share Data (Rs)	FY15	FY16	FY17	FY18E	FY19E
EPS	2.3	4.5	6.6	8.0	10.0
CEPS	8.6	11.1	14.7	16.1	18.3
BVPS	28.6	33.0	37.8	43.7	51.0
DPS	0.9	1.5	1.8	2.2	2.4

Valuations (x)	FY15	FY16	FY17	FY18E	FY19E
PER	32.6	16.8	11.4	9.5	7.5
P/CEPS	8.6	6.7	5.0	4.6	4.1
P/BV	2.6	2.3	2.0	1.7	1.5
EV / Sales	1.7	1.9	1.4	1.3	1.1
EV / EBITDA	9.7	10.0	7.4	6.1	5.0
Dividend Yield (%)	1.2	2.0	2.4	3.0	3.2

Gearing Ratio (x)	FY15	FY16	FY17	FY18E	FY19E
Net Debt/ Equity	1.8	2.0	1.4	1.1	0.7
Net Debt/EBIDTA	3.9	4.6	3.1	2.3	1.6
Working Cap Cycle (days)	103.7	124.9	84.2	101.7	102.6

Growth (%)	FY15	FY16	FY17	FY18E	FY19E
Revenue	(3.0)	(1.9)	27.2	4.9	6.3
EBITDA	(9.2)	8.9	23.5	15.0	11.3
EBIT	(26.1)	12.5	24.7	27.4	18.0
PAT	(40.2)	93.9	47.5	20.3	25.7

Quarterly (Rs mn)	Q4FY16	Q1FY17	Q2FY17	Q3FY17	Q4FY17
Revenue	9,589	11,550	11,696	11,223	12,683
EBITDA	1,990	2,418	2,349	2,252	2,131
EBITDA Margin (%)	20.7	20.9	20.1	20.1	16.8
PAT	609	787	801	787	997
EPS (Rs)	1.2	1.5	1.6	1.5	2.0

Source: Company, Emkay Research

Shareholding Pattern (%)	Jun-16	Sep-16	Dec-16	Mar-17	Jun-17
Promoters	66.5	67.8	67.8	67.8	67.8
FII	1.0	1.1	-	1.6	1.5
DII	1.6	1.7	2.8	2.2	2.1
Public and Others	30.9	29.4	29.4	28.5	28.6

Source: Capitaline

RECOMMENDATION HISTORY TABLE

Date	Closing Price	TP	Period (months)	Rating	Analyst
14-Jul-17	83	110	12m	Buy	Sumant Kumar

Source: Company, Emkay Research

RECOMMENDATION HISTORY CHART

Source: Bloomberg, Company, Emkay Research

Emkay Rating Distribution

BUY	Expected total return (%) (Stock price appreciation and dividend yield) of over 25% within the next 12-18 months.
ACCUMULATE	Expected total return (%) (Stock price appreciation and dividend yield) of over 10% within the next 12-18 months.
HOLD	Expected total return (%) (Stock price appreciation and dividend yield) of upto 10% within the next 12-18 months.
REDUCE	Expected total return (%) (Stock price depreciation) of upto (-) 10% within the next 12-18 months.
SELL	The stock is believed to underperform the broad market indices or its related universe within the next 12-18 months.

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