

# Trident

Refer to important disclosures at the end of this report

## Subdued operating show on inventory loss in yarn segment

- Trident's Q2FY18 net revenues stood at Rs11.9bn (+1% yoy), primarily led by sales decline of 6.7% yoy in the Paper segment.
- EBITDA margin declined 325bps yoy to 17.6% (our expectation of 20.8%). EBITDA stood at Rs2.09bn (-14.8% yoy). Textile EBIT margin stood at 3.7% (-711bps yoy) while Paper EBIT margin came in at 37.3% (+1752bps yoy) on better realisations and efficiency.
- For FY18, management has reiterated guidance for capacity utilization of 40-50% in Bed Linen and 55-60% in Terry Towel. Textile EBITDA margin will be in the range of 18-22% for FY18 while Paper segment EBITDA margin will be in the range of 35-40%.
- 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.

### Muted sales in paper and lower margin in yarn impact earnings

Trident's Q2FY18 net revenues grew by 1% yoy to Rs11.9bn; Textile registered 1% yoy growth while paper de-grew by 6.7%. Home Textile contributed 49% to sales while Yarn contributed 33% and Paper 18%. In H1FY18, bed linen capacity utilization improved to 39% (29% in FY17) aided by addition of new customers, Terry Towels was lower at 47% (50% in FY17) as a result of uneven vendor procurement cycle and Yarn utilization at 94% (93% in FY17). Captive consumption of Yarn was 40% in H1FY18 as against 34% in FY17. Paper capacity utilization was lower at 85% (89% in FY17). EBITDA margin contracted by 325bps YoY to 17.6% and EBITDA fell by 14.8% YoY to Rs 2.09bn against our expectation of Rs 2.51bn. Gross margin contracted by 490bps YoY to 48.3%. Textile EBIT margin came in at 3.7% (-710bps yoy) as a result of higher cotton prices. Profitability was adversely impacted as spreads widened between spot and forward prices of cotton and yarn prices adjusted itself to the lower forward price. Paper EBIT margin was 37.3% (+1752bps yoy) due to better realisations and efficiency. Finance cost declined by 11% yoy to Rs319mn. Net profit declined by 36.4% yoy to Rs509mn due to lower gross margins and higher effective tax rate.

### Maintain earnings on better performance likely in H2FY18; Retain BUY

TRID IN retired Rs3.59bn long-term debt in H1FY18, including high cost debt of Rs1.63bn. Net debt reduced by Rs3.88bn to Rs23.3bn and Net Debt/Equity stood at 0.8x, with over 75% of long-term debt under TUFs. Management reiterated debt repayment of over Rs4.5bn in FY18. 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)	40.4	20.8	14.1	11.7	9.3
EV/EBITDA (x)	11.1	11.2	8.4	7.0	5.8
P/BV (x)	3.3	2.8	2.5	2.1	1.8

Source: Company, Emkay Research

<b>CMP</b>	<b>Target Price</b>
<b>Rs 93</b>	<b>Rs 110 (■)</b>
as of (November 6, 2017)	12 months
<b>Rating</b>	<b>Upside</b>
<b>BUY (■)</b>	<b>17.9 %</b>

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

Emkay vs Consensus		
EPS Estimates		
	FY18E	FY19E
Emkay	8.0	10.0
Consensus	7.9	10.1
Mean Consensus TP (12M)	Rs 107	

Stock Details	
Bloomberg Code	TRID IN
Face Value (Rs)	10
Shares outstanding (mn)	510
52 Week H/L	110 / 49
M Cap (Rs bn/USD bn)	48 / 0.74
Daily Avg Volume (nos.)	21,39,547
Daily Avg Turnover (US\$ mn)	3.2

Shareholding Pattern Sep '17	
Promoters	67.8%
FIIIs	1.6%
DIIIs	2.3%
Public and Others	28.3%

Price Performance				
(%)	1M	3M	6M	12M
<b>Absolute</b>	(10)	9	7	62
<b>Rel. to Nifty (15)</b>		4	(5)	31



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)	Q2FY17	Q1FY18	Q2FY18	YoY (%)	QoQ (%)	YTDFY18	YTDFY17	YoY (%)
Net Sales	11,789	11,981	11,906	1.0	-0.6	23,887	23,308	2.5
Expenditure	9,335	9,387	9,815	5.1	4.6	19,202	18,457	4.0
as % of sales	79.2	78.3	82.4			80.4	79.2	
Consumption of RM	5,513	5,519	6,150	11.6	11.4	11,669	10,997	6.1
as % of sales	46.8	46.1	51.7			48.9	47.2	
Employee Cost	1462	1482	1359	-7.0	-8.3	2,841	2,807	1.2
as % of sales	12.4	12.4	11.4			11.9	12.0	
Other Expenditure	2361	2385	2306	-2.3	-3.3	4,691	4,652	0.8
as % of sales	20.0	19.9	19.4			19.6	20.0	
EBITDA	2453	2594	2091	-14.8	-19.4	4,685	4,852	-3.4
Depreciation	1,044	1,023	1,022	-2.2	-0.1	2,045	2,079	-1.6
EBIT	1,409	1,571	1,069	-24.1	-31.9	2,640	2,773	-4.8
Other Income	0	0	0			0	83	
Interest Expenses	359	334	319	-11.1	-4.5	652	785	-16.9
PBT	1,050	1,237	751	-28.5	-39.3	1,988	2,071	-4.0
Total Tax	250	348	242	-3.2	-30.5	590	486	21.4
Adjusted PAT	801	889	509	-36.4	-42.8	1,398	1,585	-11.8
Extra ord / Exceptional item	0	0	0			0	0	
Reported PAT	801	889	509	-36.4	-42.8	1,398	1,585	-11.8
Adjusted EPS (Rs)	1.57	1.75	1.00	-36.4	-42.8	2.74	3.11	-11.8

Margins (%)				(bps)	(bps)			(bps)
EBITDA	20.8	21.7	17.6	-325	-409	19.6	20.8	-120
EBIT	12.0	13.1	9.0	-297	-413	11.1	11.9	-84
EBT	8.9	10.3	6.3	-261	-402	8.3	8.9	-56
PAT	6.8	7.4	4.3	-252	-315	5.9	6.8	-95
Effective Tax Rate	23.8	28.1	32.2	842	407	29.7	23.5	620

Source: Company, Emkay Research

**Exhibit 2: Segmental Information**

Segmental Details	Q2FY17	Q1FY18	Q2FY18	YoY (%)	QoQ (%)	YTDFY18	YTDFY17	QoQ (%)
Revenue	11601	11808	11551	-0.4	-2.2	23,359	23,198	0.7
Textile	9420	9695	9515	1.0	-1.9	19,211	18,952	1.4
Paper & Chemicals	2181	2113	2036	-6.7	-3.7	4,149	4,245	-2.3
Others	0	0	0			0	1	
EBIT	1452	1608	1115	-23.3	-30.7	2,723	3,033	-10.2
Textile	1022	892	357	-65.1	-60.0	1,249	2,024	-38.3
Paper & Chemicals	432	718	760	75.8	5.8	1,478	1,012	46.1
Others	-2	-2	-2			-4	-3	

EBIT Margins (%)				(bps)	(bps)			(bps)
Textile	10.9	9.2	3.7	-711	-545	6.5	10.7	-418
Paper & Chemicals	19.8	34.0	37.3	1752	335	35.6	23.8	1180

Source: Company, Emkay Research

**Key Financials (Standalone)****Income Statement**

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

**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
<b>Net worth</b>	<b>14,553</b>	<b>16,817</b>	<b>27,245</b>	<b>30,204</b>	<b>33,924</b>
<b>Minority Interest</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>Loan Funds</b>	<b>26,207</b>	<b>34,366</b>	<b>28,659</b>	<b>25,670</b>	<b>20,960</b>
Net deferred tax liability	1,242	1,727	1,657	1,657	1,657
<b>Total Liabilities</b>	<b>42,002</b>	<b>52,909</b>	<b>57,561</b>	<b>57,531</b>	<b>56,541</b>
<b>Net block</b>	<b>28,865</b>	<b>38,346</b>	<b>43,575</b>	<b>40,291</b>	<b>37,201</b>
<b>Investment</b>	<b>314</b>	<b>567</b>	<b>748</b>	<b>748</b>	<b>1,248</b>
<b>Current Assets</b>	<b>13,868</b>	<b>16,753</b>	<b>16,107</b>	<b>19,524</b>	<b>21,246</b>
Cash & bank balance	168	818	1,324	1,694	2,293
Other Current Assets	22	15	0	16	18
<b>Current liabilities &amp; Provision</b>	<b>3,037</b>	<b>3,329</b>	<b>3,967</b>	<b>4,130</b>	<b>4,252</b>
<b>Net current assets</b>	<b>10,831</b>	<b>13,424</b>	<b>12,140</b>	<b>15,394</b>	<b>16,994</b>
Misc. exp	0	0	0	0	0
<b>Total Assets</b>	<b>42,002</b>	<b>52,909</b>	<b>57,561</b>	<b>57,531</b>	<b>56,541</b>

**Cash Flow**

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

Source: Company, Emkay Research

**Key Ratios**

<b>Profitability (%)</b>	<b>FY15</b>	<b>FY16</b>	<b>FY17</b>	<b>FY18E</b>	<b>FY19E</b>
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	11.4	10.0	12.5	14.6	18.4

<b>Per Share Data (Rs)</b>	<b>FY15</b>	<b>FY16</b>	<b>FY17</b>	<b>FY18E</b>	<b>FY19E</b>
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

<b>Valuations (x)</b>	<b>FY15</b>	<b>FY16</b>	<b>FY17</b>	<b>FY18E</b>	<b>FY19E</b>
PER	40.4	20.8	14.1	11.7	9.3
P/CEPS	10.8	8.4	6.3	5.8	5.1
P/BV	3.3	2.8	2.5	2.1	1.8
EV / Sales	2.0	2.2	1.6	1.5	1.3
EV / EBITDA	11.1	11.2	8.4	7.0	5.8
Dividend Yield (%)	1.0	1.6	1.9	2.4	2.6

<b>Gearing Ratio (x)</b>	<b>FY15</b>	<b>FY16</b>	<b>FY17</b>	<b>FY18E</b>	<b>FY19E</b>
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

<b>Growth (%)</b>	<b>FY15</b>	<b>FY16</b>	<b>FY17</b>	<b>FY18E</b>	<b>FY19E</b>
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

<b>Quarterly (Rs mn)</b>	<b>Q2FY17</b>	<b>Q3FY17</b>	<b>Q4FY17</b>	<b>Q1FY18</b>	<b>Q2FY18</b>
Revenue	11,789	11,223	13,090	11,981	11,906
EBITDA	2,453	2,252	2,538	2,594	2,091
<b>EBITDA Margin (%)</b>	<b>20.8</b>	<b>20.1</b>	<b>19.4</b>	<b>21.7</b>	<b>17.6</b>
PAT	801	787	997	889	509
<b>EPS (Rs)</b>	<b>1.6</b>	<b>1.5</b>	<b>2.0</b>	<b>1.7</b>	<b>1.0</b>

Source: Company, Emkay Research

<b>Shareholding Pattern (%)</b>	<b>Sep-16</b>	<b>Dec-16</b>	<b>Mar-17</b>	<b>Jun-17</b>	<b>Sep-17</b>
Promoters	67.8	67.8	67.8	67.8	67.8
FIIIs	1.1	-	1.6	1.5	1.6
DIIIs	1.7	2.8	2.2	2.1	2.3
Public and Others	29.4	29.4	28.5	28.6	28.3

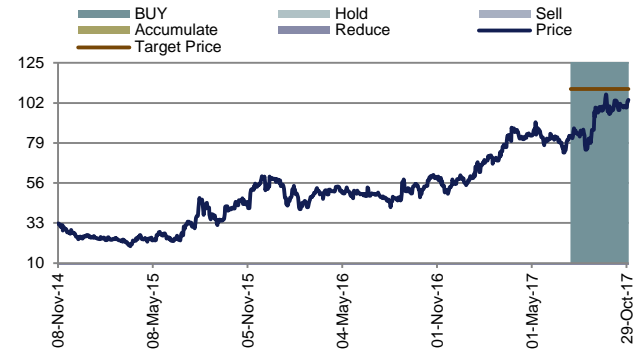
Source: Capitaline

**RECOMMENDATION HISTORY TABLE**

Date	Closing Price	TP	Period (months)	Rating	Analyst
16-Aug-17	80	110	12m	Buy	Sumant Kumar
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.

Completed Date:

Dissemination Date:

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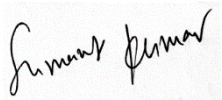
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