

Trident Ltd: Q2FY18 Result Update**Weak results; Strong Outlook**

CMP INR 92

Target INR 118

Rating: BUY

Upside: 30%

Date: 06th November 2017

After delivering a strong ~25% topline growth alongwith maintaining EBITDA margins around 19% in FY17, we expected a 5-7% topline growth in FY18 alongwith slight margin improvement (expected to be backended in H2FY18). In line with our expectation, Q2FY18 and overall H1FY18 have been subdued with flat growth on a y-o-y basis. However margins in Q2FY18 dipped more than our expectations from 18.4% in Q2FY17 to 15% in Q2FY18 (estimate was 17% margins). This fall in margins was due to; a) Spreads widening between spot and forward prices of cotton which led to lower forward yarn prices, leading to inventory write-downs in the yarn segment and b) Bath linen margins impacted due to de-growth on account of high base and uneven vendor procurement cycle. Therefore while the home textile industry continues to face slight headwinds with margins falling from 19.3% in Q2FY17 to 12% in Q2FY18, paper continues to outperform with lifetime high EBITDA margins of 48% in Q2FY18 on account of lower raw material costs. Cotton prices have started coming off and therefore we believe Trident can deliver a stronger H2FY18. Improving financial metrics and cheap valuation provide high margin of safety and we re-iterate "BUY" with a price target of INR 118.

Muted performance from home textiles; H2FY18 to be better

Home Textiles revenues grew 1% in this quarter from INR 942 Cr in Q2FY17 to INR 952 Cr in Q2FY18 led by higher utilization in bed sheets which increased from 29% in FY17 to 39% in Q2FY18 (our full year estimate is 44% and Trident should surpass that). Bed linen saw healthy volume and sales growth of 23% and 30% on a q-o-q basis on the back of new customer additions. Terry towel utilization fell in this quarter from 50% in FY17 to 47% in Q2FY18 due to high base and uneven vendor procurement cycle. However domestic home textile business has grown at a healthy 24% in H1FY18 to INR 157 Cr. The major pain point was margins falling from 19.3% in Q2FY17 to 12% in Q2FY18 due to lower utilization in bath linen and lower forward yarn prices which led to inventory write-downs in yarn. However the blip in yarn was a one-off and the management has retained full year guidance on margins as cotton prices are falling on expected lines.

Paper continues to outperform; Debt repayment on track

Paper utilization fell from 89% in FY17 to 85% in Q2FY18 but improved on a q-o-q basis. However cheaper raw material led to margins improving from 30% in Q2FY17 to a life high 48% in Q2FY18. We expect these margins to reduce going forward to around 40%. Company has repaid debt of INR 120 Cr in Q2FY18 and thus long term debt stands at INR INR 1,690 Cr (INR 1,821 Cr at the end of Q1FY18). This debt repayment has helped reduced interest outgo.

Outlook and valuations: Positive; Re-iterate BUY

While top line growth will be muted due to higher captive yarn consumption, the bottom line can catapult 30% over FY17-19E as operating and financial leverage play out. At an inexpensive valuation of 9x FY19E P/E, increasing RoCE (from 8% in FY16 to 15% plus in FY19E) and the ability to generate free cash flows in excess of INR600cr every year provides a high margin of safety. We value Trident at 11x FY19E P/E and re-iterate our Buy rating.

(INR cr)	Q2FY18	Q2FY17	% change	Q1FY18	% change	FY17	FY18E	FY19E
Net sales (INR cr)	1155	1160	0%	1168	-1%	4,693	4,861	5,283
Growth (%)						27	4	9
EBITDA (INR cr)	174	213	-18%	230	-24%	888	1,008	1,164
Adj PAT (INR cr)	51	80	-36%	89	-43%	342	430	550
Growth (%)						45	30	28
Dil. EPS (INR)						6.5	8.4	10.8
Diluted P/E (x)						14.9	11.5	9.0
EV/EBITDA (x)						8.5	7.0	5.5
ROAE (%)						18.6	20.7	22.4

Bloomberg:	TRID:IN
52-week range (INR):	110/50
Share in issue (cr):	5.1
M cap (INR cr):	4,700
Avg. Daily Vol. BSE/NSE :(^{'000}):	200
Promoters (%)	68%

Q2FY18 Result Highlights

Particulars (INR cr)	Q2FY18	Q2FY17	% change	Q1FY18	% change	FY17	FY18E	FY19E
Income from operations	1155	1160	0%	1168	-1%	4,693	4,861	5,283
Cost of goods sold	614	552	11%	552	11%	2,689	2,747	2,969
Employee expenses	136	146	-7%	148	-8%	552	572	622
Other expenses	231	248	-7%	239	-3%	1,115	1,107	1,150
Total operating expenses	981	947	4%	939	5%	3,805	3,853	4,119
EBITDA	174	213	-18%	230	-24%	888	1,008	1,164
Depreciation and amortization	102	104	-2%	102	0%	412	407	401
EBIT	72	109	-34%	127	-43%	477	601	763
Interest expenses	32	35	-8%	35	-8%	143	122	109
Other income	36	31	16%	31	16%	110	80	60
PBT	76	105	-28%	124	-39%	444	558	714
Provision for tax	25	25	0%	35	-28%	102	128	164
Core profit	51	80	-36%	89	-43%	342	430	550
Extraordinary items	0	0	NA	0	NA	-10	0	0
Adjusted net profit	51	80	-36%	89	-43%	332	430	550
No. of shares (Cr)						51	51	51
Diluted EPS (INR)						6.5	8.4	10.8

Financials

Income statement						Balance sheet (Standalone)					Ratios						
(INR Cr)						(INR Cr)											
Year to March	FY15	FY16	FY17	FY18E	FY19E	As on 31st March	FY15	FY16	FY17	FY18E	FY19E	Year to March	FY15	FY16	FY17	FY18E	FY19E
Income from operations	3,755	3,684	4,693	4,861	5,283	Equity share capital	509	449	449	449	449	ROAE (%)	10.1	14.7	18.6	20.7	22.4
Direct costs	2,253	2,058	2,689	2,747	2,969	Preference Share Capital	0	60	60	60	60	ROACE (%)	9.6	8.1	9.3	12.1	15.1
Employee costs	387	434	552	572	622	Reserves & surplus	947	1,210	1,465	1,796	2,220	Debtors (days)	20	18	25	22	22
Other expenses	841	907	1,115	1,107	1,150	Shareholders funds	1,455	1,719	1,914	2,245	2,669	Current ratio	4.0	4.4	6.1	5.7	6.7
Total operating expenses	3,095	2,965	3,805	3,853	4,119	Secured loans	2,580	3,368	0	0	0	Debt/Equity	1.8	2.0	1.5	1.1	0.8
EBITDA	661	719	888	1,008	1,164	Unsecured loans	0	0	0	0	0	Inventory (days)	73	90	60	70	70
Depreciation and amortisation	321	338	412	407	401	Borrowings	2,580	3,368	2,868	2,468	2,268	Payable (days)	29	31	20	25	25
EBIT	339	381	477	601	763	Minority interest	0	0	0	0	0	Cash conversion cycle (days)	63	77	65	67	67
Interest expenses	206	136	143	122	109	Sources of funds	4,035	5,147	4,842	4,773	4,997	Debt/EBITDA	3.9	4.7	3.2	2.4	1.9
Other income	34	32	110	80	60	Gross block	4,869	6,163	6,213	6,313	6,413	Adjusted debt/Equity	1.8	1.9	1.3	0.9	0.5
Profit before tax	168	277	444	558	714	Depreciation	2,005	2,333	2,745	3,152	3,553	Valuation parameters					
Provision for tax	50	49	102	128	164	Net block	2,864	3,830	3,469	3,162	2,861	Year to March	FY15	FY16	FY17	FY18E	FY19E
Core profit	118	228	342	430	550	Capital work in progress	222	62	0	0	0	Diluted EPS (INR)	2.3	4.5	6.5	8.4	10.8
Extraordinary items	-0	-0	0	0	0	Total fixed assets	3,086	3,892	3,469	3,162	2,861	Y-o-Y growth (%)	(62.8)	94.2	44.8	29.6	27.9
Profit after tax	117	227	342	430	550	Unrealised profit	0	0	0	0	0	CEPS (INR)	8.6	11.1	14.6	16.4	18.7
Minority Interest	0	1	-10	0	0	Investments	31	94	100	100	100	Diluted P/E (x)	41.9	21.6	14.9	11.5	9.0
Share from associates	0	0	0	0	0	Inventories	751	909	771	932	1,013	Price/BV (x)	3.4	2.9	2.5	2.1	1.8
Adjusted net profit	117	229	332	430	550	Sundry debtors	203	177	321	293	318	EV/Sales (x)	2.0	2.2	1.6	1.4	1.2
Equity shares outstanding (mn)	51	51	51	51	51	Cash and equivalents	17	82	228	397	809	EV/EBITDA (x)	11.3	11.4	8.5	7.0	5.5
EPS (INR) basic	2.3	4.5	6.5	8.4	10.8	Loans and advances	246	320	407	422	458	Diluted shares O/S	50.9	50.9	50.9	50.9	50.9
Diluted shares (Cr)	50.9	50.9	50.9	50.9	50.9	Other current assets	0	0	0	0	0	Basic EPS	2.3	4.5	6.5	8.4	10.8
EPS (INR) fully diluted	2.3	4.5	6.5	8.4	10.8	Total current assets	1,218	1,487	1,728	2,044	2,598	Basic PE (x)	41.9	21.6	14.9	11.5	9.0
Dividend per share	0.6	0.9	1.5	1.9	2.5	Sundry creditors and others	302	312	257	333	362	Dividend yield (%)	0.6	0.9	1.3	1.7	2.2
Dividend payout (%)	24.4	19.8	23.0	23.0	23.0	Provisions	4	24	25	26	28	Uses of funds					
						Total CL & provisions	307	336	282	359	389	Book value per share (INR)	29	34	39	45	54
						Net current assets	911	1,152	1,446	1,684	2,209	Cash flow statement					
						Net Deferred tax	-124	-173	-173	-173	-173	Year to March	FY15	FY16	FY17	FY18E	FY19E
						Misc expenditure	132	182	0	0	0	Net profit	118	228	342	430	550
						Uses of funds	4,035	5,147	4,842	4,773	4,997	Add: Depreciation	321	338	412	407	401
						Book value per share (INR)	29	34	39	45	54	Add: Misc expenses written off	15	-50	182	0	0
												Add: Deferred tax	16	48	0	0	0
												Add: Others	0	1	-10	0	0
												Gross cash flow	470	566	926	837	951
												Less: Changes in W. C.	114	176	148	70	113
												Operating cash flow	356	389	778	767	838
												Less: Capex	1,575	1,144	50	100	100
												Free cash flow	-1,219	-754	728	667	738

Common size metrics- as % of net revenues

Year to March	FY15	FY16	FY17	FY18E	FY19E
Operating expenses	82.4	80.5	81.1	79.3	78.0
Depreciation	8.6	9.2	8.8	8.4	7.6
Interest expenditure	5.5	3.7	3.0	2.5	2.1
EBITDA margins	17.6	19.5	18.9	20.7	22.0
Net profit margins	3.1	6.2	7.1	8.8	10.4

Growth metrics (%)

Year to March	FY15	FY16	FY17	FY18E	FY19E
Revenues	(2.9)	(1.9)	27.4	3.6	8.7
EBITDA	(9.2)	8.8	23.6	13.4	15.5
PBT	(36.7)	64.7	60.5	25.8	27.9
Net profit	(40.2)	93.4	49.9	29.6	27.9
EPS	(62.8)	94.2	44.8	29.6	27.9

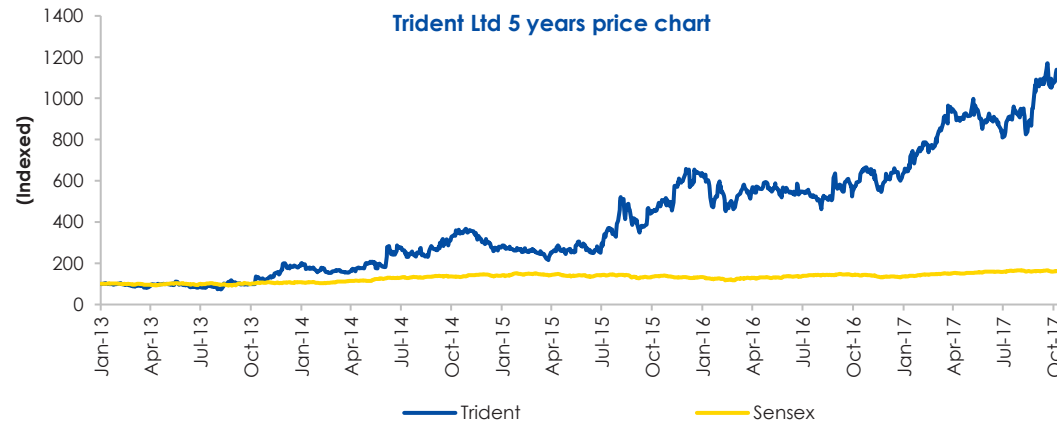
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Rating	Expected to
Buy	appreciate more than 15% over a 12-month period
Hold	appreciate between 5-15% over a 12-month period
Reduce	Return below 5% over a 12-month period



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