



| | | | |
|--------|-----|--------|-----|
| CMP | 90 | Rating | BUY |
| Target | 112 | Upside | 26% |

Flat revenue growth- for the qtr, Trident reported a revenue decline of 0.4% YoY to Rs 11.55bn. Growth for the qtr were impacted by 6.7% YoY decline in the paper segment (~18% of sales) to Rs 2.03bn. The Home Textile segment (~82% of sales) reported a tepid growth of 1% YoY to Rs 9.5bn.

OPM Falter- For the qtr, Trident reported a EBITDA of Rs 1.7bn a decline of 19.06%, while OPM contracted by 346bps YoY to 15%. The decline was on back of margins contracting in the home textile segment (-734bps YoY) to 11.98%, which were impacted by increase in cotton prices. However, robust margin expansion in the paper segment (48.4% vis-à-vis 30.26%) arrested overall decline.

Higher tax rates impede PAT- Trident reported a PAT decline of 36.4% YoY to Rs 0.50bn. the decline was on back of increase in tax rate (32.14% vis-à-vis 23.8%).

| STOCK DETAILS | |
|------------------------------|----------|
| BSE Code | 521064 |
| NSE Code | TRIDENT |
| Market Cap (Rs.mn) | 46066 |
| Sector/ Index | Textiles |
| Year End | March |
| 52 w.High/Low | 109/49 |
| Avg monthly Turnover (Rs.Mn) | 138.5mn |
| Shares in Issue (mn) | 569.37 |
| BSE Sensex | 33371 |
| NSE Nifty | 10350 |

About the company: Trident Limited is the flagship company of the Punjab-based conglomerate Trident Group, having a turnover of ~Rs 47bn. Trident manufactures textile products (terry towels, bed linen, cotton yarns, blended yarns among others), paper, chemical and energy. After commissioning its Budni unit, Trident became the largest terry towel manufacturer globally. To widen its product basket, the Company has embarked on becoming one of the major bed linen manufacturers in the country by installing 500 state-of-the-art looms at its Budni plant.

| CONSOLIDATED FINANCIALS | | | | |
|-------------------------|-------|-------|-------|-------|
| Rs in bn | FY16 | FY17E | FY18E | FY19E |
| Total Revenue | 36.7 | 46.9 | 48.6 | 52.8 |
| EBIDTA | 7.3 | 8.9 | 10.1 | 11.6 |
| EBIDTA(%) | 19.9% | 18.9% | 20.7% | 22.0% |
| PAT | 2.42 | 3.37 | 4.13 | 5.26 |
| EPS (Rs.) | 4.8 | 6.6 | 8.1 | 10.3 |
| P/E (x) | 19.0x | 13.7x | 11.2x | 8.8x |

Source: Company, Bloomberg Consensus

| Result (Rs.bn) | Q2FY18 | Q2FY17 | Q1FY18 | Y/Y(%) | Q/Q(%) |
|----------------|--------|--------|--------|---------|---------|
| Revenue | 11.5 | 11.6 | 11.68 | 0.44 | -1.16 |
| EBITDA | 1.7 | 2.1 | 2.30 | -19.1 | -24.5 |
| EBITDA(%) | 15.0 | 18.5 | 19.7 | -346bps | -464bps |
| PAT | 0.5 | 0.8 | 0.89 | -36.4 | -42.8 |
| PAT(%) | 4.4 | 6.9 | 7.6 | -250bps | -32bps |
| EPS | 1.0 | 1.6 | 1.7 | -36.4 | -42.8 |

Key Takeaways:

Home textile performance – Home textile segment reported a revenue growth of 1% YoY to Rs 9520mn led by higher utilization in bed sheet segment which increased to 39% in Q2FY18 (29% in FY17). Bed linen saw healthy volume and sales growth of 23% and 30% on QoQ 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. EBIT margins for the qtr stood at 3.7% as against 10.9% YoY. 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 division saves margin fall- Paper division saw a revenue decline of 6.7% YoY to 2040mn. The decline was on back of adverse impact of GST. Utilization has improved to 87% in Q2FY18 from 83% in Q1FY18. Cheaper raw material led to margins improving from 30% in Q2FY17 to a life high 48% in Q2FY18. Going forward margins are expected to stabilize at ~40%.

Healthy Balance Sheet Position- The company reduced its long-term debt by Rs 3590mn, including high cost debt of Rs 1630mn. The net debt further reduced to 0.8x in Q2FY18 as against 0.9x Q1FY18. 75% of the company's loan is under TUFs.

Cotton scenario- From Apr'16 to Jun'17 Cotton price was up more than 20% YoY. However, from July 17 prices have reduced by 6%. Going forward management has retained full year guidance on margins as cotton prices are falling on expected lines.

GST positive in the long run for Domestic players-With more than 70% of the industry unorganized, GST could be game changer for Trident. Though temporary disruption has been a challenge last quarter, The company believe it will gain significant market share in times to come.

Expected Utilization– Paper segment utilization is expected to be ~90%, . About 40% to 50% for bed linen, and around the 55% plus for towel business.

Valuation and View: Trident's margin profile during the qtr was impacted 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. However, the management expects H2FY18 to see recovery with cotton prices already seeing a declining trend. We expect trident to deliver a topline growth of CAGR 6% over FY17-19, with margins expanding by 310bps over the same period. Further the company has retired Rs3.59bn long-term debt in H1FY18, including high cost debt of Rs1.63bn. Net Debt/Equity stood at 0.8x, with over 75% of long-term debt under TUFs.

At CMP of 90 the stock is trading at 11.2x FY18E and 8.8x FY19E on earnings estimates of Rs 8.1 and Rs 10.3 respectively. We assign a target multiple of 11x for the stock on our FY19E earnings of Rs. 10.3 post which we arrive at a target of Rs 113 , which implies an upside of 26%. We assign a BUY call on the stock.

| SUMMARY INCOME STATEMENT | | | | | | | |
|-----------------------------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|
| (in mn) | FY13 | FY14 | FY15 | FY16 | FY17 | FY18E | FY19E |
| Total Income | 33,352 | 38,690 | 37,553 | 36,657 | 46,944 | 48,612 | 52,794 |
| Cost Of Revenues (incl Stock Adj) | 18,415 | 20,521 | 19,309 | 17,286 | 22,916 | 23,577 | 25,341 |
| Gross Profit | 14,937 | 18,169 | 18,245 | 19,370 | 24,028 | 25,035 | 27,453 |
| Employee Cost | 2,379 | 2,870 | 3,872 | 4,295 | 5,794 | 6,077 | 6,731 |
| Other Operating Expenses | 7,005 | 8,023 | 7,766 | 7,778 | 9,351 | 8,873 | 9,099 |
| EBITDA | 5,553 | 7,276 | 6,608 | 7,297 | 8,882 | 10,086 | 11,623 |
| Other Income | 224 | 163 | 345 | 334 | 1,035 | 729 | 792 |
| Net Interest Exp. | 2,353 | 2,103 | 2,060 | 1,452 | 1,410 | 1,100 | 875 |
| Depreciation | 2,614 | 2,684 | 3,213 | 3,366 | 4,125 | 4,137 | 4,239 |
| Exceptional Items | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| PBT | 811 | 2,652 | 1,680 | 2,813 | 4,382 | 5,578 | 7,301 |
| Tax | 318 | 681 | 501 | 392 | 1,016 | 1,450 | 2,044 |
| Profit After Tax | 493 | 1,971 | 1,179 | 2,421 | 3,366 | 4,127 | 5,256 |
| Net Profit | 493 | 1,971 | 1,179 | 2,421 | 3,366 | 4,127 | 5,256 |
| EPS | 1.0 | 3.8 | 2.3 | 4.8 | 6.6 | 8.1 | 10.3 |

| SUMMARY BALANCE SHEET | | | | | | | |
|---|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|
| (in mn) | FY13 | FY14 | FY15 | FY16 | FY17 | FY18E | FY19E |
| Assets | | | | | | | |
| Net Block | 19,682.2 | 17,955.9 | 28,639.0 | 46,930.4 | 43,448.0 | 40,908.2 | 37,169.3 |
| Capital WIP | 280.5 | 276.9 | 1,993.0 | 571.3 | 1,097.6 | 0.0 | 0.0 |
| Intangible Assets under development | 0.0 | 85.9 | 225.9 | 43.9 | 134.0 | 134.0 | 134.0 |
| Non-current Investment | 613.7 | 997.0 | 112.0 | 721.6 | 1,005.0 | 1,005.0 | 4,917.1 |
| Long term loans and advances | 1,224.6 | 1,514.4 | 1,727.9 | 1,291.6 | 1,085.7 | 1,085.7 | 1,085.7 |
| Current Assets | | | | | | | |
| Current Investment | 25.0 | 155.0 | 196.5 | 1.1 | 48.9 | 48.9 | 483.6 |
| Inventories | 6,910.8 | 6,428.5 | 7,507.8 | 9,065.5 | 7,747.2 | 7,325.2 | 7,232.0 |
| Trade receivables | 2,322.1 | 2,641.4 | 2,033.3 | 2,512.7 | 3,750.9 | 3,729.2 | 3,905.3 |
| Cash and cash equivalents | 335.7 | 250.1 | 170.1 | 819.4 | 1,326.3 | 6,019.0 | 6,299.3 |
| Short-term loans and advances | 1,436.6 | 1,487.8 | 2,442.5 | 306.2 | 316.5 | 266.4 | 433.9 |
| Other Current Assets | 36.3 | 22.0 | 22.0 | 3,029.2 | 1,904.9 | 1,904.9 | 1,904.9 |
| Total Current Assets | 11,041.5 | 10,829.8 | 12,175.7 | 15,733.0 | 15,045.8 | 19,244.6 | 19,775.4 |
| Current Liabilities & Provisions | | | | | | | |
| Short-term borrowings | 9,673.6 | 8,038.8 | 8,156.0 | 9,732.8 | 8,038.5 | 8,038.5 | 7,538.5 |
| Trade payables | 1,658.5 | 1,852.5 | 2,190.6 | 2,237.1 | 2,302.2 | 2,264.1 | 2,458.9 |
| Other current liabilities | 3,841.5 | 3,665.8 | 4,517.1 | 4,344.5 | 3,814.0 | 3,729.2 | 3,905.3 |
| Short-term provisions | 27.8 | 193.3 | 44.6 | 63.2 | 76.3 | 133.2 | 144.6 |
| Total Current Liabilities | 5,527.8 | 5,711.6 | 6,752.3 | 6,644.8 | 6,192.5 | 6,126.5 | 6,508.8 |
| Net Current Assets | 5,513.7 | 5,118.2 | 5,423.4 | 9,088.1 | 8,853.3 | 13,118.1 | 13,266.6 |
| Total Assets | 27,339.7 | 26,103.3 | 38,317.7 | 58,648.0 | 55,672.5 | 56,299.9 | 57,056.3 |
| Liabilities | | | | | | | |
| Share Capital | 3,108.4 | 3,110.9 | 5,086.4 | 5,093.7 | 5,095.8 | 5,095.8 | 5,095.8 |
| Reserves and Surplus | 3,952.9 | 5,737.4 | 9,467.1 | 19,267.3 | 22,472.6 | 26,600.0 | 31,856.4 |
| Total Shareholders Fudn | 7,061.3 | 8,848.3 | 14,553.5 | 24,361.0 | 27,568.4 | 31,695.8 | 36,952.2 |
| Money Received against warrants | 0.0 | 430.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Total Debt | 19,165.4 | 15,697.4 | 22,117.0 | 31,097.9 | 25,501.4 | 22,001.4 | 17,501.4 |
| Long Term Provisions | 42.9 | 45.3 | 405.1 | 84.6 | 140.4 | 140.4 | 140.4 |
| Other Long Term Liabilities | 0.0 | 0.0 | 0.0 | 1,522.9 | 807.3 | 807.3 | 807.3 |
| Net Deferred Tax Liability | 1,070.1 | 1,082.3 | 1,242.1 | 1,581.7 | 1,655.1 | 1,655.1 | 1,655.1 |
| Total Liabilities | 27,339.7 | 26,103.3 | 38,317.7 | 58,648.0 | 55,672.5 | 56,299.9 | 57,056.3 |

| SUMMARY CASH FLOW STATEMENT | | | | | | | |
|-----------------------------------|----------------|----------------|----------------|-----------------|----------------|----------------|----------------|
| (in mn) | FY13 | FY14 | FY15 | FY16 | FY17E | FY18E | FY19E |
| PBT | 811 | 2,652 | 1,680 | 2,766 | 4,382 | 5,578 | 7,301 |
| Depreciation & Amort., Total | 2,614 | 2,684 | 3,213 | 3,376 | 4,125 | 4,137 | 4,239 |
| After other adjustments | 2,257 | 2,282 | 1,871 | 1,170 | 1,410 | 1,100 | 875 |
| (Inc) / Dec in Working Capital | (1,767) | 23 | (977) | (1,424) | 1,003 | 428 | 132 |
| Taxes | (113) | (584) | (347) | (600) | (927) | (1,450) | (2,044) |
| Others | - | - | - | - | - | - | - |
| Cash from Ops. | 3,803 | 7,056 | 5,441 | 5,288 | 9,994 | 9,793 | 10,502 |
| Capital Expenditure & investments | (999) | (1,731) | (1,429) | (12,001) | (1,869) | (500) | (4,847) |
| Cash from Investing | (999) | (1,731) | (1,429) | (12,001) | (1,869) | (500) | (4,847) |
| Issue of Share capital | 64 | 3 | 187 | 611 | 2 | - | - |
| Net Borrowings | (555) | (4,062) | (1,966) | 7,809 | (5,596) | (3,500) | (4,500) |
| Others | (2,362) | (1,676) | (2,056) | (1,367) | (1,410) | (1,100) | (875) |
| Issuance of Dividend | - | (5) | (486) | (360) | - | - | - |
| Cash from Financing | (2,853) | (5,740) | (4,321) | 6,694 | (7,005) | (4,600) | (5,375) |
| Extraordinary receipts/payment | - | - | - | - | 18 | - | - |
| Net Change in Cash | (50) | (415) | (309) | (20) | 1,139 | 4,693 | 280 |
| BF Cash | 141 | 91 | 89 | 69 | 49 | 1,188 | 5,881 |
| Cash from Merger | - | - | 290 | - | - | - | - |
| END Cash | 91 | (323) | 69 | 49 | 1,188 | 5,881 | 6,161 |

| SUMMARY RATIOS | | | | | | | |
|---------------------------------|-------|-------|-------|-------|-------|-------|-------|
| | FY13 | FY14 | FY15 | FY16 | FY17 | FY18E | FY19E |
| Profitability | | | | | | | |
| Return on Assets | 1.5% | 6.1% | 2.6% | 3.7% | 5.5% | 6.6% | 8.3% |
| Return on Capital | 12.1% | 19.0% | 10.2% | 7.7% | 10.9% | 12.4% | 15.0% |
| Return on Equity | 7.0% | 20.9% | 8.1% | 9.9% | 12.2% | 13.0% | 14.2% |
| Margin Analysis | | | | | | | |
| Gross Margin | 44.8% | 47.0% | 48.6% | 52.8% | 51.2% | 51.5% | 52.0% |
| EBITDA Margin | 16.7% | 18.8% | 17.6% | 19.9% | 18.9% | 20.7% | 22.0% |
| Net Income Margin | 1.5% | 5.1% | 3.1% | 6.6% | 7.2% | 8.5% | 10.0% |
| Short-Term Liquidity | | | | | | | |
| Current Ratio | 0.7x | 0.8x | 0.8x | 1.0x | 1.1x | 1.4x | 1.4x |
| Quick Ratio | 0.3x | 0.3x | 0.3x | 0.4x | 0.5x | 0.8x | 0.9x |
| Avg. Days Sales Outstanding | 25 | 25 | 20 | 25 | 29 | 28 | 27 |
| Avg. Days Inventory Outstanding | 76 | 61 | 73 | 90 | 60 | 55 | 50 |
| Avg. Days Payables | 18 | 17 | 21 | 22 | 18 | 17 | 17 |
| Long-Term Solvency | | | | | | | |
| Total Debt / Equity | 2.7x | 1.7x | 1.5x | 1.3x | 0.9x | 0.7x | 0.5x |
| EBITDA / Interest Expense | 1.3x | 2.3x | 1.8x | 2.9x | 4.1x | 6.1x | 9.3x |
| Valuation Ratios | | | | | | | |
| EV/EBITDA | 8.5x | 6.0x | 10.3x | 10.5x | 7.9x | 6.1x | 4.9x |
| PER | 93.2x | 23.7x | 39.0x | 19.0x | 13.7x | 11.2x | 8.8x |
| P/B | 4.0x | 3.0x | 3.2x | 1.9x | 1.7x | 1.5x | 1.2x |

INDSEC Rating Distribution

BUY : Expected total return of over 25% within the next 12 months.

ACCUMULATE : Expected total return between 10 to 25% within the next 12 months.

REDUCE : Expected total return below 10% within the next 12 months.

SELL : Expected total return is below the market return within the next 12 months.

NEUTRAL: No investment opinion on the stock under review.

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