RESULT UPDATE

CMP	69	Rating	BUY
Target	94	Upside	35%

Marginal Revenue growth – For the qtr, Trident reported a revenue growth of 1.46% YoY to Rs 11.37bn. The textile segment (~80% of sales) grew by a mere 0.2% YoY to Rs 9.13bn, while the paper segment posted a tepid growth of 0.7% YoY to Rs 2.24bn.

OPM Falters- For the Qtr, Trident reported a EBITDA of Rs 2.0bn a decline of 11.2% YoY, while OPM contracted by 250bps YoY to 17.6%. The decline was on back of 488bps YoY increase in RMAT cost, however a 335bps YoY decline in employee expenses arrested overall decline.

EBIT for the textile stood at 8.0% a decline on 131bps YoY, while EBIT margins for the paper segment reported a growth of 258bps YoY to 28.8%.

Higher tax rate impede PAT- Trident reported a PAT decline of 7% YoY to Rs 0.73bn. The decline was on back of poor operating performance and higher tax rate (30.5% vis-à-vis 23.10%). Increase in other income (+1.96x YoY) negated overall decline.

STOCK DETAILS	
BSE Code	521064
NSE Code	TRIDENT
Market Cap (Rs.mn)	35197
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	34196
NSE Nifty	10498

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	FY19E	FY20E
Total Revenue	46.9	46.7	51.0	56.2
EBIDTA	8.9	9.4	10.5	11.9
EBIDTA(%)	*18.9%*	*20.0%*	*20.6%*	*21.2%*
PAT	3.37	3.80	4.62	5.90
EPS (Rs.)	6.6	7.5	9.1	11.6
P/E (x)	10.5x	9.3x	7.6x	6.0x

Source: Company, Bloomberg Consensus

Result (Rs.bn)	Q3FY18	Q3FY17	Q2FY18	Y/Y(%)	Q/Q(%)
Revenue	11.4	11.2	11.5	1.46	-1.53
EBITDA	2.0	2.3	1.7	-11.2	15.4
EBITDA(%)	*17.6*	*20.1*	*15.0*	-250bps	258bps
PAT	0.7	0.8	0.5	-7.0	43.5
PAT(%)	*6.4*	*7.0*	*4.4*	-59bps	201bps
EPS	1.4	1.5	1.0	-7.0	43.5

Key Takeaways:

Headwinds Persist- Due to uneven procurement cycle & destocking by some of large customers in US, the Industry saw pressure in volumes in Q2 of FY18 which also continued in Q3 FY18. Further, stronger rupee and higher raw material prices due to unavailability of quality cotton continue to remain key headwinds for the Textile Industry. The company expects come kind of recovery and restocking by US customers by Q4FY18 and Q1FY19E Onwards.

Capacity Utilization- Bed Linen registered 44% volume growth in 9M FY18 and Bath Linen registered 12% volume de-growth in 9M FY18 compared to the same period last year. Bath Linen 9M average Capacity Utilization stood at 45% and Bed Linen capacity utilization over 9M period stood at 42%. The management is confident of meeting the annual guidance of 55% capacity utilization for bath linen and 40-50% for bed linen.

Cotton Scenario- Arrival of Cotton this season was decent as anticipated and price was down nearly 15% as compared to last season. But due to quality issues the cotton prices started going up during December and currently the price is almost up 10% from bottom. Cotton spreads have now stabilized, and clarity has emerged on the duty drawback and RoSL.

Paper segment- Realizations were flat for paper division but low for chemicals; margins in paper & chemicals division suffered slightly due to rise in raw material and soft realizations. Share of copier paper in the overall paper volume at the end of 9month ending Dec.'17 was 48% as compared to 52% for FY17.

Valuation and View: Trident's margin profile during the qtr was impacted due to erratic vendor procurement cycle in the US. Further higher rupee and unavailability of quality cotton further hampered the overall sentiments. However, the management expects to see recovery by Q1FY19.

On back of these current scenario we have downgraded our sales estimate for FY18E and FY19E by 4% and 3% respectively. Further given the erratic vendor cycle in US markets have also brought the margins under pressure and hence we have downgraded our overall margins by 70bps and 100bps for FY18E and FY19E respectively. Hence, overall earnings have been downgraded by 8% and 10% for FY18E and FY19E. We have also introduced FY20e earning estimates as well.

We now expect the company to post a revenue CAGR growth of 6% over FY17-20. While margins are likely to improve by 230bps YoY to 21.2% over the same period. Margins are likely to improve on back of higher utilization levels in home textile segment and higher share of copier paper by FY20. We expect PAT to grow at CAGR of 21% over the same period as financial leverage plays out then.

At CMP of Rs 69.20 the stocks trades at 7.6x FY19E and 6.0x FY20E on expected earnings of Rs 9.1 (Rs 10.3) and Rs 11.6 respectively . we believe Trident is well placed to reap the benefits of the expected recovery in US market given the company's product profile. The textile sector has witnessed a erosion in valuations band on back of prolonged skewness in demand in the US markets, this has led to companies trading at an average of 10x 1yr forward against 13x in H1FY18. Hence, we assign a PE multiple of 9x as on Sept 19 earnings of Rs 10.40, post which we arrive at a target of Rs 94 an upside of 35% from current levels. We assign a BUY rating on the stock.

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SUMMARY INCOME STATEMENT							
(in mn)	FY14	FY15	FY16	FY17	FY18E	FY19E	FY20E
Total Income	38,690	37,553	36,657	46,944	46,749	50,994	56,243
Cost Of Revenues (incl Stock Adj)	20,521	19,309	17,286	22,916	24,310	26,517	26,996
Gross Profit	**18,169**	**18,245**	**19,370**	**24,028**	**22,440**	**24,477**	**29,246**
Employee Cost	2,870	3,872	4,295	5,794	5,142	5,864	6,468
Other Operating Expenses	**8,023**	**7,766**	**7,778**	**9,351**	**7,938**	**8,121**	**10,840**
EBITDA	7,276	6,608	7,297	8,882	9,359	10,492	11,939
Other Income	163	345	334	1,035	1,262	1,122	1,237
Net Interest Exp.	**2,103**	**2,060**	**1,452**	**1,410**	**1,210**	**963**	**715**
Depreciation	2,684	3,213	3,366	4,125	4,137	4,239	4,268
Exceptional Items	0	0	0	0	0	0	0
PBT	**2,652**	**1,680**	**2,813**	**4,382**	**5,274**	**6,413**	**8,193**
Tax	681	501	392	1,016	1,477	1,796	2,294
Profit After Tax	1,971	1,179	2,421	3,366	3,797	4,617	5,899
Net Profit	**1,971**	**1,179**	**2,421**	**3,366**	**3,797**	**4,617**	**5,899**
EPS	3.8	2.3	4.8	6.6	7.5	9.1	11.6

SUMMARY BALANCE SHEET							
(in mn)	FY14	FY15	FY16	FY17	FY18E	FY19E	FY20E
Assets							
Net Block	17,955.9	28,639.0	46,930.4	43,448.0	40,908.2	37,169.3	33,401.3
Capital WIP	276.9	1,993.0	571.3	1,097.6	0.0	0.0	0.0
Intangible Assets under development	85.9	225.9	43.9	134.0	134.0	134.0	134.0
Non-current Investment	997.0	112.0	721.6	1,005.0	1,005.0	4,917.1	8,828.3
Long term loans and advances	1,514.4	1,727.9	1,291.6	1,085.7	1,085.7	1,085.7	1,085.7
Current Assets							
Current Investment	155.0	196.5	1.1	48.9	48.9	483.6	483.6
Inventories	6,428.5	7,507.8	9,065.5	7,747.2	7,044.4	6,985.5	7,550.4
Trade receivables	2,641.4	2,033.3	2,512.7	3,750.9	3,586.2	3,772.2	4,006.3
Cash and cash equivalents	250.1	170.1	819.4	1,326.3	5,887.8	5,502.2	6,409.7
Short-term loans and advances	1,487.8	2,442.5	306.2	316.5	256.2	419.1	308.2
Other Current Assets	22.0	22.0	3,029.2	1,904.9	1,904.9	1,904.9	1,904.9
Total Current Assets	**10,829.8**	**12,175.7**	**15,733.0**	**15,045.8**	**18,679.5**	**18,583.9**	**20,179.4**
Current Liabilities & Provisions							
Short-term borrowings	8,038.8	8,156.0	9,732.8	8,038.5	8,038.5	7,538.5	7,038.5
Trade payables	1,852.5	2,190.6	2,237.1	2,302.2	2,177.4	2,375.1	2,311.3
Other current liabilities	3,665.8	4,517.1	4,344.5	3,814.0	3,586.2	3,772.2	4,006.3
Short-term provisions	193.3	44.6	63.2	76.3	128.1	139.7	308.2
Total Current Liabilities	5,711.6	6,752.3	6,644.8	6,192.5	5,891.7	6,286.9	6,625.8
Net Current Assets	**5,118.2**	**5,423.4**	**9,088.1**	**8,853.3**	**12,787.8**	**12,297.0**	**13,553.6**
Total Assets	**26,103.3**	**38,317.7**	**58,648.0**	**55,672.5**	**55,969.6**	**56,086.7**	**57,486.5**
Liabilities							
Share Capital	3,110.9	5,086.4	5,093.7	5,095.8	5,095.8	5,095.8	5,095.8
Reserves and Surplus	5,737.4	9,467.1	19,267.3	22,472.6	26,269.7	30,886.7	36,785.6
Total Shareholders Fudn	**8,848.3**	**14,553.5**	**24,361.0**	**27,568.4**	**31,365.5**	**35,982.5**	**41,881.4**
Money Received against warrants	430.0	0.0	0.0	0.0	0.0	0.0	0.0
Total Debt	**15,697.4**	**22,117.0**	**31,097.9**	**25,501.4**	**22,001.4**	**17,501.4**	**13,001.4**
Long Term Provisions	45.3	405.1	84.6	140.4	140.4	140.4	140.4
Other Long Term Liabilities	0.0	0.0	1,522.9	807.3	807.3	807.3	807.3
Net Deffered Tax Liability	1,082.3	1,242.1	1,581.7	1,655.1	1,655.1	1,655.1	1,655.1
Total Liabilities	**26,103.3**	**38,317.7**	**58,648.0**	**55,672.5**	**55,969.6**	**56,086.7**	**57,486.5**

SUMMARY CASH FLOW STATEMENT (in mn)	FY14	FY15	FY16	FY17	FY18E	FY19E	FY20E
PBT	2,652	1,680	2,766	4,382	5,274	6,413	8,193
Depreciation & Amort., Total	2,684	3,213	3,376	4,125	4,137	4,239	4,268
After other adjustments	2,282	1,871	1,170	1,410	1,210	963	715
(Inc) / Dec in Working Capital	23	(977)	(1,424)	1,003	627	105	(349)
Taxes	(584)	(347)	(600)	(927)	(1,477)	(1,796)	(2,294)
Others							
Cash from Ops.	**7,056**	**5,441**	**5,288**	**9,994**	**9,772**	**9,924**	**10,533**
Capital Expenditure & investments	(1,731)	(1,429)	(12,001)	(1,869)	(500)	(4,847)	(4,411)
Cash from Investing	**(1,731)**	**(1,429)**	**(12,001)**	**(1,869)**	**(500)**	**(4,847)**	**(4,411)**
Issue of Share capital	3	187	611	2	-	-	-
Net Borrowings	(4,062)	(1,966)	7,809	(5,596)	(3,500)	(4,500)	(4,500)
Others	(1,676)	(2,056)	(1,367)	(1,410)	(1,210)	(963)	(715)
Issuance of Dividend	(5)	(486)	(360)	-	-	-	-
Cash from Financing	**(5,740)**	**(4,321)**	**6,694**	**(7,005)**	**(4,710)**	**(5,463)**	**(5,215)**
Extraordinary receipts/payment	-	-	-	18	-	-	-
Net Change in Cash	**(415)**	**(309)**	**(20)**	**1,139**	**4,561**	**(386)**	**906**
BF Cash	91	89	69	49	1,188	5,749	5,364
Cash from Merger	-	290			-	-	-
END Cash	**(323)**	**69**	**49**	**1,188**	**5,749**	**5,364**	**6,270**

SUMMARY RATIOS	FY14	FY15	FY16	FY17	FY18E	FY19E	FY20E
Profitability							
Return on Assets	6.1%	2.6%	3.7%	5.5%	6.1%	7.4%	9.2%
Return on Capital	19.0%	10.2%	7.7%	10.9%	12.1%	13.8%	16.2%
Return on Equity	20.9%	8.1%	9.9%	12.2%	12.1%	12.8%	14.1%
Margin Analysis							
Gross Margin	47.0%	48.6%	52.8%	51.2%	48.0%	48.0%	52.0%
EBITDA Margin	18.8%	17.6%	19.9%	18.9%	20.0%	20.6%	21.2%
Net Income Margin	5.1%	3.1%	6.6%	7.2%	8.1%	9.1%	10.5%
Short-Term Liquidity							
Current Ratio	0.8x	0.8x	1.0x	1.1x	1.3x	1.4x	1.5x
Quick Ratio	0.3x	0.3x	0.4x	0.5x	0.8x	0.9x	1.0x
Avg. Days Sales Outstanding	25	20	25	29	28	27	26
Avg. Days Inventory Outstanding	61	73	90	60	55	50	49
Avg. Days Payables	17	21	22	18	17	17	15
Long-Term Solvency							
Total Debt / Equity	1.7x	1.5x	1.3x	0.9x	0.7x	0.5x	0.3x
EBITDA / Interest Expense	2.3x	1.8x	2.9x	4.1x	5.4x	7.7x	12.5x
Valuation Ratios							
EV/EBITDA	5.1x	8.6x	9.0x	6.7x	5.5x	4.5x	3.5x
PER	18.1x	29.9x	14.5x	10.5x	9.3x	7.6x	6.0x
P/B	2.3x	2.4x	1.4x	1.3x	1.1x	1.0x	0.8x

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

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