

SHORT RESEARCH NOTE



Trident Ltd.

'Buy & Add on dips'



- Trident Ltd.** is the flagship company of the Punjab-based conglomerate, Trident Group. It manufactures textile products (bed and bath linen and various types of cotton yarn), paper (wheat straw-based), chemical and energy. The textiles segment includes yarn, towel, bed sheets and dyed yarn manufacturing (including utility service).
- The paper & chemicals segment include paper and sulfuric acid (including utility service). The others segment includes sale of software and related services.
- The company's product portfolio includes solid bath ensembles, beach towels, embroidered towels, bath mats, bathrobes, printed bed linen, duvets, duvet covers, cushion covers, viscose blended yarn, core spun yarn, bamboo/cotton yarn, dyed bed linen set, micro modal/cotton blended yarn, drawing paper, and bible and offset print paper.
- Its brands include Trident Spectra, Trident My Choice, Trident Natural, Trident Everyday, Trident Play, Trident Digiprint, etc. It has manufacturing facilities in Punjab and Madhya Pradesh and its customer base is spread across 100 countries around the world.

Quarter Performance:

- The standalone revenue for Q3 FY18 remained flat at Rs. 11,371.1mn, registering a marginal growth of 1.5% YoY as against Rs. 11,208.1mn in Q3 FY17.
- EBITDA reduced by 11.2% YoY in Q3 FY18 to Rs. 2,000.3mn from Rs. 2,251.9mn in Q3 FY17. Also, overall EBITDA margin reduced from 20.1% to 17.6% in the third quarter.
- The net profit stood at Rs. 730.2mn down by 7.1% YoY as against Rs. 785.8mn for the same quarter previous year. The profit margin stood at 6.4% in Q3 FY18 as against 7% in Q3 FY17.
- The quarter was affected due to stronger rupee and higher raw material prices due to the unavailability of quality cotton.
- Due to uneven procurement cycle & destocking by some of large customers in US, the industry saw pressure in volumes in Q2, which also continued in Q3 of the current fiscal.
- Over FY13-17, the top-line of the company grew at a CAGR of 8.9%, EBITDA grew at a CAGR of 12.5% whereas the bottom-line increased at a CAGR of 61.7%.

Outlook:

- Government has increased ROSL (Rebate of State Levies) rates on cotton made up by 70 basis points effective 1st October 2017 to 2.2% which will be beneficial for the exports of the company.
- Trident has strong growth prospects on back of recent capacity additions and entry into bed linen segment
- Continuous focus on debt repayment has helped it to reduce debt, which in turn will help in improving the bottom-line of the company.
- In 2015, home textiles spending was estimated to be around USD 4bn in 2015 and is expected to grow at a 7.2% CAGR between 2015-20 to reach USD 5.6bn by 2020. The future looks bright as Trident generates 82% of its total revenue from home textiles.

Valuation: At CMP of Rs. 70.9, it is trading at a TTM P/E multiple of 11.6x, which is at discount to the peer average of 12.4x. We are positive on the company, mainly on the back of recent capacity expansions and modernization and its recent entry into bed linen segment. Over FY17-19, the company's revenue, EBITDA and PAT is anticipated to grow at 5.2%, 8.2% and 11.7%, respectively. Thus we assign a **"Buy and Add on Dips"** rating.

Financial Snapshot:

Particulars (Rs. Mn)	FY15	FY16	FY17	FY18E	FY19E
Revenue from operations	37,553.3	36,656.6	46,944.2	47991	51907
EBITDA (Excl OI)	6,607.7	7,297.2	8,882.5	9100	10396
EBITDA Margin (%)	17.6%	19.9%	18.9%	19.0%	20.0%
PAT	1,178.6	2,420.6	3,372.2	3290	4210
NPM (%)	3.1%	6.6%	7.2%	6.9%	8.1%
ROE (%)	8.1%	9.9%	12.2%	11.3%	13.1%
P/E			10.7	11.0	8.6
EPS				6.5	8.3
EV/EBITDA				6.7	5.9
P/BV				1.2	1.1

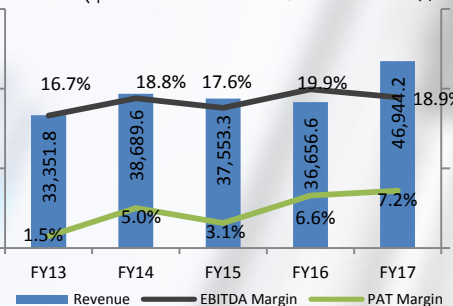
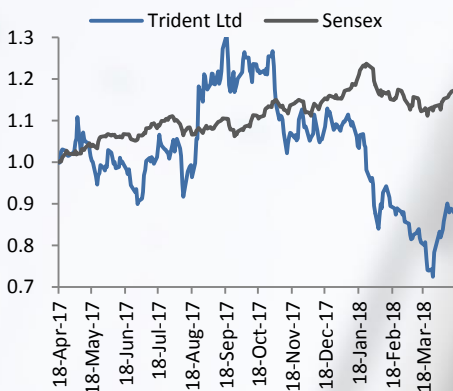
Rating Matrix

CMP	Rs. 70.9
Rating	Buy and Add on Dips
Holding Period	12-18 months
Current Level	Investment
52 week H/L	Rs. 109.5 / 59.05
Upside Potential	20-25%
Face value	Rs. 10
Sector	Textiles
Category	Mid Cap
F&O Stock	No

Shareholding Pattern

Particulars	Mar'18	Dec'17	Sept'17
Promoter	67.8%	67.8%	67.8%
FPIs	1.3%	1.5%	-
DII	2.3%	2.4%	3.9%
N. Insti.	28.6%	28.3%	28.3%

Relative Capital Market Strength



Quarterly Snapshot:

Particular (Rs. Mn)	Q3FY18	Q3FY17	Change (YoY)
Total Revenue	11371.7	11,338.62	0.3%
EBITDA (Excl OI)	2000.3	2251.9	-11.2%
EBITDA Margin (%)	17.6%	19.9%	
PAT	730.2	785.8	-7.1%
NPM (%)	6.4%	6.9%	

Source: Choice Research/ Annual reports; Financial data-Ace equity, Bloomberg



Peer Comparison (TTM):

Companies	CMP	ROE (%)	12MR(%)	M. Cap (Rs. Mn)	EPS	BVPS	EBIDTA Margin (%)	NPM (%)
Indo Count Industries Ltd	93.7	17.3%	-51.1	18,496.4	7.8	44.8	14.9%	8.6%
Trident Ltd	70.9	11.1%	14.8	36,104.9	6.1	55.0	17.3%	6.6%
Vardhman Textile Ltd	1200.0	12.7%	-8.3	67,668.0	102.2	805.9	14.5%	9.1%
Welspun India Ltd	60.1	18.2%	-36.1	60,332.2	4.5	24.7	21.4%	7.8%
Average		16.1%	-31.8				16.9%	8.5%

Companies	P/E (x)	P/Bv (x)	P/Sales(x)	EV/EBIDTA (x)	D/E	PAT (Rs. Mn)	EBIDTA (Rs. Mn)	Sales (Rs. Mn)
Indo Count Industries Ltd	12.1	2.1	1.0	7.8	0.2	1,530.8	2,635.3	17,707.5
Trident Ltd	11.6	1.3	0.8	6.9	0.8	3,125.2	8,161.9	47,200.7
Vardhman Textile Ltd	11.7	1.5	1.1	7.9	0.4	5,760.7	9,191.9	63,414.8
Welspun India Ltd	13.3	2.4	1.0	7.1	1.3	4,521.8	12,427.4	57,975.8
Average	12.4	2.0	1.1	7.6	0.7			

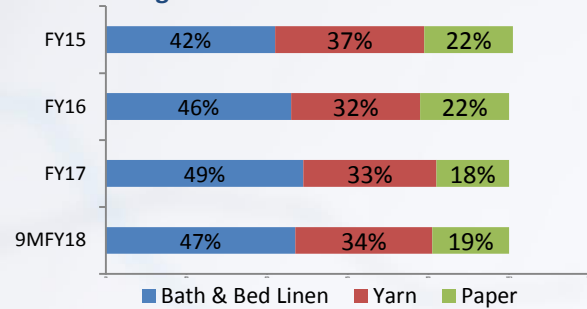
Financial Snapshot:

Particulars	FY13	FY14	FY15	FY16	FY17
Revenue from operations	33,351.8	38,689.6	37,553.3	36,656.6	46,944.2
Gr (%)	22.1%	16.0%	-2.9%	-2.4%	28.1%
EBITDA (Excl OI)	5553.3	7276.1	6607.7	7297.2	8882.5
EBITDA Margin (%)	16.7%	18.8%	17.6%	19.9%	18.9%
PAT	493.1	1,940.2	1,178.6	2,420.6	3,372.2
NPM (%)	1.5%	5.0%	3.1%	6.6%	7.2%
Net Worth	7,061.3	9,278.3	14,553.5	24,361.0	27,568.4
Total Assets	33,706.0	33,224.9	46,826.8	67,049.6	67,477.6
Total Debt	19,165.4	15,697.4	22,117.0	31,097.9	25,501.4
Cash flow from Operations	3,802.5	7,468.5	5,440.9	5,322.3	10,162.8
D/E (x)	2.7	1.7	1.5	1.3	0.9
Current Ratio (x)	0.7	0.8	0.8	1.0	1.0
Profitability ratios (%)					
ROCE (%)	15.9%	23.6%	10.6%	7.8%	9.5%
ROE (%)	7.0%	20.9%	8.1%	9.9%	12.2%
ROA (%)	1.5%	5.8%	2.5%	3.6%	5.0%
Efficiency ratios (x)					
Receivable days	25.4	24.9	19.8	25.0	29.2
Inventory days	75.6	60.6	73.0	90.3	60.2
Payable days	18.2	20.8	21.3	22.3	17.9

Quarterly Snapshot:

Particular (Rs. Mn)	Q3FY18	Q3FY17	Change (YoY)	Q2FY18	Change (YoY)
Total Revenue	11371.7	11,338.62	0.3%	11548.8	-1.5%
EBITDA (Excl OI)	2000.3	2251.9	-11.2%	1734.0	15.4%
EBITDA Margin (%)	17.6%	19.9%		15.0%	
PAT	730.2	785.8	-7.1%	508.9	43.5%
NPM (%)	6.4%	6.9%		4.4%	

Segment Revenue



Key Observations:

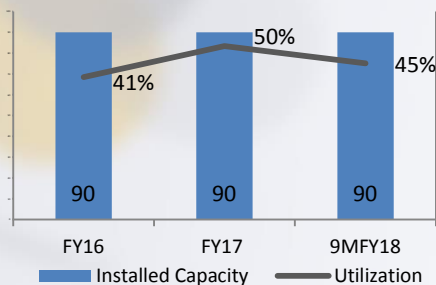
- Bed Linen registered 44 % volume growth in 9M FY18 compared to the same period last year.
- Bath linen registered 12% volume de-growth in 9M FY18 compared to the same period last year due to prolonged uneven vendor procurement cycle and destocking by large retailers in US.
- On year-on-year basis, bath linen realization was about 3% higher and the realization in the bed linen segment was about 20% higher.
- For Q3 FY18, finance costs came down by 21% QoQ and 16% YoY. During the 9M FY18, long term debt reduced by Rs. 3.9bn to Rs. 16.6bn as compared to FY17 levels.
- Home textile industry faced headwinds during the quarter due to prolonged uneven vendor procurement cycle and destocking by large retailers in US.

ConCall Highlights:

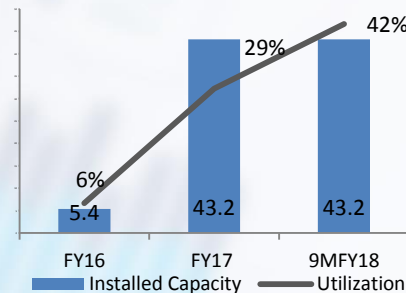
- Management is expecting 50-60% utilization level in FY19 in its bed linen segment compared to 42% in 9M FY18 owing to its ability to provide price competitive high quality products and for the bath linen segment it is expecting 55-60% utilization levels in FY19.
- In FY19, the management is expecting a double digit growth in towel segment, mainly due to the normalization.
- Capex is estimated at Rs. 1bn for next two years.
- Management is planning to repay Rs. 4-4.50bn p.a. of its loan in next two years.

Capacity Utilization:

Towel in '000tons

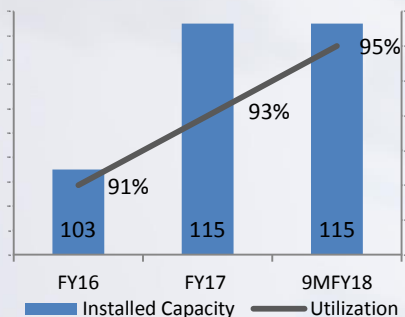


Bed Linen (in mn meter)

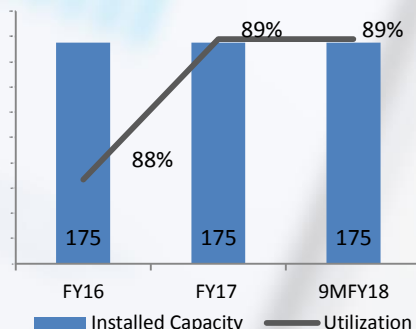


*Project commissioned at the end of FY16

Yarn (in '000tons)



Paper (in '000 tons)





Choice's Rating Rationale

The price target for a large cap stock represents the value the analyst expects the stock to reach over next 12 months. For a stock to be classified as Outperform, the expected return must exceed the local risk free return by at least 5% over the next 12 months. For a stock to be classified as Underperform, the stock return must be below the local risk free return by at least 5% over the next 12 months. Stocks between these bands are classified as Neutral.

Don't be an Investor by Force, Be an investor by CHOICE

- Create a Wealth Building Portfolio with the help of CHOICE Fundamental Research.
- CHOICE Fundamental Research will handpick stocks for you to invest in an oversold market by helping you build positions in heavily beaten down fundamentally strong stocks.
- Opportunities to invest in fundamentally strong stocks at a low arise only 2-3 times in a full year cycle.
- **Investors are advised to sell the stock if the recommended upside potential achieves.**
- **If recommended upside potential remains under-achieved, investors are advised to consider the update report on suggested stock.**



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