

# TRIDENT LTD

TEXTILES

## Q2FY19: Performance on improving trajectory; enhanced capacity Utilization to drive earnings...

In Q2FY19, Trident Ltd. reported net sales revenues of Rs 1,392 cr (↑24% on annual comparison & ↑23% QoQ), EBIDTA of Rs 271cr (↑30% YoY & ↑33% QoQ) with EBIDTA margin at 19.3% (expansion of 124 bps on annual comparison). The company booked notional MTM loss of Rs 23.49 cr due to depreciation of INR. Total comprehensive income was reported at Rs 113 cr (↑ 129% YoY).

Deliberate de-stocking undertaken by US retailers has come to an end as confirmed by volume growth in both product segments over last 3 quarters, improved capacity utilization is the testimony of the same. As the operational efficiencies improve, Trident Ltd. would be in better position to improve its realization. Given the cost advantage, raw material security vis-à-vis their neighboring peers, Indian home textile suppliers enjoy the leadership, Trident being one of the beneficiaries of rise in demand from US retailers.

# BUY

Target Price: Rs 86

 CMP : Rs 63  
 Potential Upside : 37%

### MARKET DATA

No. of Shares	: 50.9cr
FV (Rs)	: 10
Market Cap	: Rs 3218 cr
52-week High / Low	: Rs 110/ Rs 51
Avg. Daily vol. (6mth)	: 3,35,531 shares
Bloomberg Code	: TRID IN
Reuters Code	: TRIE.BO
BSE Code	: 521064
NSE Code	: TRIDENT

## Valuation

- The company reported improvement in its capacity utilization- bed linen reached 61% capacity utilization, yarn at 97% while bath linen was flat at 53%. Management has guided for capacity utilization of 60-70% for both bed and bath linen by FY20 (vs 45% for FY18). We have revised our earnings estimates upwards by 10%/6% for FY19/FY20 respectively and arrive at price target to Rs 86 and maintain a **BUY**.

## Key Highlights

- De-stocking of inventory by the US clients is behind, restocking has commenced; the company is reporting a strong set of volume increase for second quarter in row- sequential volume increase in Q219 has been seen at 17% for bath linen and 12% for bed linen. The restocking process, which started somewhere in Q4FY18, is expected to happen gradually over next 2-3 quarters which would reflect into improving volume for both the segments.
- Management expects both bed and bath linen segment to reach in the range of 60-70% capacity realization by FY20 vs around 45% in FY18, and as the demand improves, the capacity utilization is likely to inch up towards 70-75% by FY21.

## FINANCIAL SUMMARY

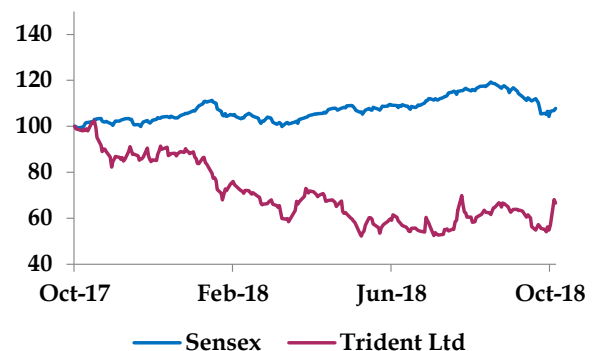
Y/E March (St)	Tot. Sales (Rs Cr)	Tot. Comp. Inc. (Rs Cr)	EPS (Rs)	Change (YoY %)	P/E (x)	RoE (%)	RoCE (%)	EV/EBITDA (x)	DPS (Rs)
2018	4640	277	5.4	(16.6)	-	9.6	10.9	-	1.5
2019E	5186	357	7.0	28.8	9.9	11.5	13.3	4.2	2.5
2020E	5830	441	8.6	23.6	8.0	13.2	16.3	3.3	3.0

Source: Company and Axis Securities

Key Drivers	FY18	FY19E	FY20E
Sales Growth (%)	(2.2)	12.5	12.7
PAT Growth (%)	(16.6)	28.8	23.6
EBITDA Margin (%)	19.7	19.5	20.3

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## PRICE PERFORMANCE



## Key Highlights (Cont'd)

- Incremental capacity utilization would lead to operating leverage - bed linen segment has already crossed EBIDTA level break-even level- thus helping the company improve its blended margins.
- Company has been reducing its debt burden; net debt reduced by Rs 621 cr in Q2FY19 which included LT debt of Rs 160 cr. Net debt at the end of Q2FY19 stood at Rs 2000 cr.; the quarterly interest burden reduced by 18% (YoY) to Rs 26 cr. As the balance sheet lightens, the return ratios viz., RoCE is expected to improve in future; we estimate RoCE to improve from 10.9% in Fy18 to upwards of 16% by FY20.
- Paper segment revenues reported YoY growth of 22% to Rs 248cr in Q2FY19; on sequential basis the paper segment reported 15% growth mainly backed by 3.6% volume growth and rest in realizations. Paper segment contributed 18% to the revenue stream but 48% to the segmental results.

## Results Update

(Rs. Cr)	Quarter ended					12 months ending		
	Q2FY19	Q2FY18	% Change (YoY)	Q1FY19	% Change (QoQ)	FY18	FY19E	FY20E
Sales	1,392	1,120	24	1,131	23	4578	5152	5807
Other Op. Inc	10	35.7	(73)	8.5	16	62	34	23
Total Revenue	1,401	1,156	21	1,140	23	4,640	5,186	5,830
Expenditure								
Net Raw Material	648	575	13	514	26	2292	2432	2799
Personnel	145	136	7	148	(2)	509	614	705
Forex Loss/ (gain) (incl. MTM)	56	0	NA	42	34	(32)	97	0
Other Exp	281	236	19	232	21	958	1030	1146
Total Expenditure	1130	947	19	936	21	3726	4173	4650
EBIDTA	271	209	30	204	33	914	1,012	1,181
Oth. Inc.								
Oth. Inc.	0.0	0.0	NA	0.0	NA	0.0	0.0	0.0
Interest	26.0	31.9	(18)	28.0	(7)	118	109	93
Depreciation	91.7	102.2	(10)	94.4	(3)	404	399	430
Exceptional Items	0.0	0.0	NA	0.0	NA	0.0	0.0	0.0
PBT	153	75	104	82	88	392	505	658
Tax	44.1	24.2	82	22.4	97	128	156	217
PAT	109.1	50.9	114	59.2	84	264	350	441
Other comprehensive income	3.8	(1.5)	NA	3.0		13	7	0
Total Comprehensive Income	113.0	49.4	129	62.2	81	276.8	356.6	440.8
EPS (Rs.)	2.1	1.0	114.0	1.2	84	5.4	7.0	8.6

Source: Company and Axis Securities

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DEFINITION OF RATINGS	
Ratings	Expected absolute returns over 12-18 months
BUY	More than 10%
HOLD	Between 10% and -10%
SELL	Less than -10%

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