

# Trident Limited | BUY

## Depreciation INR, volume growth augurs well

Trident reported 2QFY19 PAT at INR 1.1bn, significantly higher than JMfe/street estimates, primarily driven by robust performance in terry towel segment. EBITDA margin expanded 330bps YoY to 18.8% driven by a) operating leverage due to higher towel volumes, b) sheet segment turning EBITDA positive in 1QFY19, and c) YoY increase in yarn EBITDA on a low base in 2QFY18 (inventory loss). Bed sheet and terry towel volume increased 32.5% and 29.6% YoY, respectively. a) INR depreciation (15%+ YTD-CY18), b) settling of market place disruption in the US and c) extension of MEIS (4% export benefit) have provided a welcome relief to the company. Change in export subsidies (MEIS/ROSL) and cotton price movement remains the key monitorable. The Board has declared second interim dividend of INR 0.6/share. We roll forward to FY21E and ascribe a P/E of 12x FY21E to arrive at our revised fair value of INR 85/share. Maintain BUY.

- Revenue growth driven by robust performance in terry towel segment:** Trident's 2QFY19 net sales increased significantly by 24.2% YoY to INR 13.9bn, primarily driven by 30% YoY increase in terry towel sales. Sheet volume increased 32.5% YoY. Terry towel realisations remained flat YoY. Bed and Bath linen segment together contributed 50% of 2Q revenue with an utilisation of 61%/53%, respectively. Captive utilisation of yarn stood at c.42-43%. 2QFY19 paper revenues contributed 19% of total revenue with 90% capacity utilisation. Realisation for paper increased c.7% YoY.
- EBITDA margins expand driven by higher gross margin:** EBITDA increased 50.1% YoY to INR 2.6bn in 2QFY19 vs. JMfe of INR 2.2bn. EBITDA margin increased c.330bps YoY to 18.8%, driven by 540bps YoY increase in gross margin. EBITDA growth was aided by a) operating leverage due to higher towel volumes, b) sheet segment turning EBITDA positive in 1QFY19, and c) YoY increase in yarn EBITDA on a low base in 2QFY18 (inventory loss). Employee costs increased 9% YoY to INR 1.5bn. Raw material cost increased 11.3% YoY to INR 6.5bn in-tandem with increase in volumes. The company delivered a PAT of INR 1.1bn in 2Q (+114.4% YoY), significantly higher than JMfe/street estimates, primarily driven by robust performance in terry towel segment. The Board has declared second interim dividend of INR 0.6/share.
- Volume growth driven by settling of market place disruption in the US and INR depreciation to drive earnings; maintain BUY:** Towel and sheet witnessed strong growth in volumes driven by the cessation of destocking by large US retailers. We believe that as the margins expand due to increased asset utilisation and higher captive yarn consumption, return ratios are expected to improve. Earnings momentum and limited capex will lend further support to a robust balance sheet. a) INR depreciation (15%+ YTD-CY18), b) settling of market place disruption in the US and c) extension of MEIS (4% export benefit) have provided a welcome relief to the company. Change in export subsidies (MEIS/ROSL) and cotton price movement remains the key monitorable. The Board has declared second interim dividend of INR 0.6/share. We roll forward to FY21E and ascribe a P/E of 12x FY21E to arrive at our revised fair value of INR 85/share. Maintain BUY. Sustained increase in cotton price, reduction in government export incentives, INR appreciation, increased competition in US market are the key risk to our estimates.



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### Recommendation and Price Target

Current Reco.	BUY
Previous Reco.	BUY
Current Price Target (12M)	85
Upside/(Downside)	23.0%
Previous Price Target	82
Change	3.7%

### Key Data – TRID IN

Current Market Price	INR69
Market cap (bn)	INR35.2/US\$0.5
Free Float	16%
Shares in issue (mn)	497.8
Diluted share (mn)	497.8
3-mon avg daily val (mn)	INR71.0/US\$1.0
52-week range	105/51
Sensex/Nifty	34,865/10,513
INR/US\$	73.8

### Price Performance

%	1M	6M	12M
Absolute	6.6	-5.2	-29.5
Relative*	16.5	-7.0	-34.4

\* To the BSE Sensex

Financial Summary					(INR mn)
Y/E March	FY17A	FY18A	FY19E	FY20E	FY21E
Net Sales	46,252	45,575	52,032	54,532	56,847
Sales Growth (%)	26.2	-1.5	14.2	4.8	4.2
EBITDA	8,855	8,193	9,107	9,650	10,126
EBITDA Margin (%)	19.1	18.0	17.5	17.7	17.8
Adjusted Net Profit	3,372	2,641	2,936	3,385	3,523
Diluted EPS (INR)	6.8	5.3	5.9	6.8	7.1
Diluted EPS Growth (%)	39.3	-21.7	11.2	15.3	4.1
ROIC (%)	6.5	5.2	6.4	7.0	7.0
ROE (%)	13.0	9.3	9.6	10.3	9.8
P/E (x)	10.2	13.0	11.7	10.1	9.7
P/B (x)	1.2	1.2	1.1	1.0	0.9
EV/EBITDA (x)	6.9	7.4	6.5	6.0	5.5
Dividend Yield (%)	0.8	0.8	0.8	0.8	0.8

Source: Company data, JM Financial. Note: Valuations as of 15/Oct/2018

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 Bloomberg - JMFR <GO>,  
 Thomson Publisher & Reuters  
 S&P Capital IQ and FactSet  
 Thomson Publisher & Reuters  
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Please see Appendix I at the end of this report for Important Disclosures and

## Exhibit 1. Quarterly and 9M financial performance

(INR mn)

	2QFY19	2QFY19E	% Var	2QFY18	YoY %	1QFY19	QoQ %	1HFY19	1HFY18	YoY %
Net Sales	13,915	12,478	11.5	11,205	24.2	11,312	23.0	25,227	22,889	10.2
Expenditure	11,304	10,302	9.7	9,466	19.4	9,357	20.8	20,661	18,757	10.1
EBITDA	2,611	2,176	20.0	1,739	50.1	1,955	33.5	4,566	4,132	10.5
EBITDA (%)	18.8	17.4		15.5		17.3		18.1	18.1	
Other income	98	-		352		85		183	554	
Depreciation	917	950	-3.5	1,022	-10.3	944	-2.8	1,861	2,045	-9.0
EBIT	1,792	1,226	46.2	1,069	67.6	1,096	63.5	2,888	2,640	9.4
Interest	260	280	-7.2	319	-18.4	280	-7.1	540	652	-17.3
PBT	1,532	946	62.0	751	104.1	816	87.7	2,348	1,988	18.1
Tax	441	284		242		224		665	590	
Eff. Tax rate (%)	28.8	30.0		32.2		27.4		28.3	29.7	
XO items	-	-		-		-		-	0.0	
PAT- Reported	1,091	662	64.9	509	114.4	592	84.3	1,684	1,398	20.4
PAT- Adjusted	1,091	662	64.9	509	114.4	592	84.3	1,684	1,398	20.4
Diluted EPS (Rs)	2.2	1.3	64.9	1.0	114.4	1.2	84.3	3.4	2.8	20.4

Source: Company, JM Financial

## Exhibit 2. Operational analysis

	2QFY19	2QFY19E	% Var	2QFY18	YoY %/bps	1QFY19	QoQ %/bps	1HFY19	1HFY18	YoY %/bps
Gross margin (%)	53.4	51.5	190	48.0	538	54.6	-113	53.9	50.5	348
Staff cost as % of rev. (%)	10.4	11.7	(127)	11.9	(146)	13.1	-265	11.6	12.3	-67
Other exp. as % of rev. (%)	24.2	22.4	185	20.6	359	24.2	4	24.2	20.1	410
Currency (INR/USD)	70.1	70.1		64.3	9	67.0	5	0.0	66.9	-100

Source: Company, JM Financial

## Exhibit 3. Change in EPS

	Old (INR)		New (INR)		% change	
	FY19E	FY20E	FY19E	FY20E	FY19E	FY20E
Change in EPS	5.7	6.8	5.9	6.8	3%	0%

Source: JM Financial

## Exhibit 4. Target price

	FY21E
EPS (INR)	7.1
P/E multiple	12.0
Fair value (INR/share)	85

Source: JM Financial

## Exhibit 5. Trident: Target price sensitivity to INR/USD and cotton price (INR/share)

		Avg. price of cotton (INR/kg)				
		120	125	130	135	140
Avg. INR/USD	70	87	78	69	60	51
	71	95	86	77	68	59
	72	103	94	85	76	67
	73	111	102	93	84	75
	74	119	110	101	92	83

Source: JM Financial

## Financial Tables (Consolidated)

Income Statement		(INR mn)				
Y/E March	FY17A	FY18A	FY19E	FY20E	FY21E	
Net Sales	46,252	45,575	52,032	54,532	56,847	
Sales Growth	26.2%	-1.5%	14.2%	4.8%	4.2%	
Other Operating Income	0	0	0	0	0	
<b>Total Revenue</b>	<b>46,252</b>	<b>45,575</b>	<b>52,032</b>	<b>54,532</b>	<b>56,847</b>	
Cost of Goods Sold/Op. Exp	22,307	22,829	26,080	26,864	27,360	
Personnel Cost	5,794	5,243	5,605	5,955	6,317	
Other Expenses	9,296	9,310	11,240	12,062	13,044	
<b>EBITDA</b>	<b>8,855</b>	<b>8,193</b>	<b>9,107</b>	<b>9,650</b>	<b>10,126</b>	
EBITDA Margin	19.1%	18.0%	17.5%	17.7%	17.8%	
EBITDA Growth	21.3%	-7.5%	11.2%	6.0%	4.9%	
Depn. & Amort.	4,125	4,041	3,878	3,820	4,167	
EBIT	4,730	4,151	5,229	5,830	5,959	
Other Income	1,062	942	251	351	401	
Finance Cost	1,410	1,182	1,099	1,130	1,103	
PBT before Excep. & Forex	4,382	3,911	4,381	5,051	5,257	
Excep. & Forex Inc./Loss(-)	0	0	0	0	0	
PBT	4,382	3,911	4,381	5,051	5,257	
Taxes	1,016	1,277	1,444	1,665	1,733	
Extraordinary Inc./Loss(-)	0	0	0	0	0	
Assoc. Profit/Min. Int.(-)	7	6	0	0	0	
Reported Net Profit	3,372	2,641	2,936	3,385	3,523	
<b>Adjusted Net Profit</b>	<b>3,372</b>	<b>2,641</b>	<b>2,936</b>	<b>3,385</b>	<b>3,523</b>	
Net Margin	7.3%	5.8%	5.6%	6.2%	6.2%	
Diluted Share Cap. (mn)	497.8	497.8	497.8	497.8	497.8	
<b>Diluted EPS (INR)</b>	<b>6.8</b>	<b>5.3</b>	<b>5.9</b>	<b>6.8</b>	<b>7.1</b>	
Diluted EPS Growth	39.3%	-21.7%	11.2%	15.3%	4.1%	
Total Dividend + Tax	341	341	341	341	341	
Dividend Per Share (INR)	0.6	0.6	0.6	0.6	0.6	

Source: Company, JM Financial

Cash Flow Statement		(INR mn)				
Y/E March	FY17A	FY18A	FY19E	FY20E	FY21E	
Profit before Tax	4,388	3,918	4,381	5,051	5,257	
Depn. & Amort.	4,125	4,041	3,878	3,820	4,167	
Net Interest Exp. / Inc. (-)	0	0	0	0	0	
Inc (-) / Dec in WCap.	1,866	-3,578	-2,198	-1,818	-1,901	
Others	0	0	0	0	0	
Taxes Paid	-1,016	-1,277	-1,444	-1,665	-1,733	
<b>Operating Cash Flow</b>	<b>9,363</b>	<b>3,104</b>	<b>4,616</b>	<b>5,388</b>	<b>5,789</b>	
Capex	-1,373	-1,827	-2,500	-3,000	-3,000	
Free Cash Flow	7,990	1,277	2,116	2,388	2,789	
Inc (-) / Dec in Investments	-331	-98	0	0	0	
Others	1,040	579	0	0	0	
<b>Investing Cash Flow</b>	<b>-663</b>	<b>-1,346</b>	<b>-2,500</b>	<b>-3,000</b>	<b>-3,000</b>	
Inc / Dec (-) in Capital	-115	0	0	0	0	
Dividend + Tax thereon	-903	-903	-736	-613	-613	
Inc / Dec (-) in Loans	-7,175	-516	-1,800	-1,500	-2,200	
Others	0	0	0	0	0	
<b>Financing Cash Flow</b>	<b>-8,193</b>	<b>-1,419</b>	<b>-2,536</b>	<b>-2,113</b>	<b>-2,813</b>	
<b>Inc / Dec (-) in Cash</b>	<b>507</b>	<b>339</b>	<b>-420</b>	<b>274</b>	<b>-24</b>	
Opening Cash Balance	820	1,327	1,665	1,246	1,520	
Closing Cash Balance	1,327	1,665	1,246	1,520	1,496	

Source: Company, JM Financial

Balance Sheet		(INR mn)				
Y/E March	FY17A	FY18A	FY19E	FY20E	FY21E	
Shareholders' Fund	27,568	29,414	31,615	34,387	37,297	
Share Capital	4,979	4,978	4,978	4,978	4,978	
Reserves & Surplus	22,590	24,436	26,636	29,408	32,318	
Preference Share Capital	0	0	0	0	0	
Minority Interest	0	0	0	0	0	
Total Loans	28,494	27,978	26,178	24,678	22,478	
Def. Tax Liab. / Assets (-)	1,655	2,126	2,126	2,126	2,126	
<b>Total - Equity &amp; Liab.</b>	<b>57,718</b>	<b>59,518</b>	<b>59,919</b>	<b>61,190</b>	<b>61,900</b>	
Net Fixed Assets	44,680	42,466	41,088	40,267	39,100	
Gross Fixed Assets	51,085	52,378	53,378	54,378	60,878	
Intangible Assets	0	0	0	0	0	
Less: Depn. & Amort.	7,637	11,678	15,557	19,377	23,544	
Capital WIP	1,232	1,766	3,266	5,266	1,766	
Investments	1,053	1,151	1,151	1,151	1,151	
Current Assets	16,107	19,694	21,723	23,727	25,679	
Inventories	7,747	9,226	10,152	11,380	12,635	
Sundry Debtors	3,751	4,604	5,536	5,810	6,064	
Cash & Bank Balances	1,327	1,665	1,246	1,520	1,496	
Loans & Advances	3,282	4,199	4,789	5,017	5,485	
Other Current Assets	0	0	0	0	0	
Current Liab. & Prov.	4,122	3,794	4,043	3,955	4,030	
Current Liabilities	1,730	1,693	1,942	1,854	1,929	
Provisions & Others	2,392	2,101	2,101	2,101	2,101	
Net Current Assets	11,985	15,901	17,679	19,772	21,649	
<b>Total - Assets</b>	<b>57,718</b>	<b>59,518</b>	<b>59,919</b>	<b>61,190</b>	<b>61,900</b>	

Source: Company, JM Financial

Dupont Analysis						
Y/E March	FY17A	FY18A	FY19E	FY20E	FY21E	
Net Margin	7.3%	5.8%	5.6%	6.2%	6.2%	
Asset Turnover (x)	0.7	0.7	0.8	0.8	0.9	
Leverage Factor (x)	2.4	2.2	2.1	2.0	1.8	
RoE	13.0%	9.3%	9.6%	10.3%	9.8%	

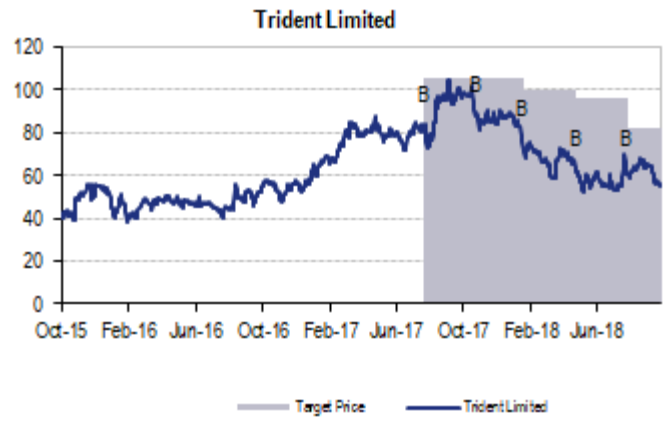
Key Ratios						
Y/E March	FY17A	FY18A	FY19E	FY20E	FY21E	
BV/Share (INR)	55.4	59.1	63.5	69.1	74.9	
ROIC	6.5%	5.2%	6.4%	7.0%	7.0%	
ROE	13.0%	9.3%	9.6%	10.3%	9.8%	
Net Debt/Equity (x)	1.0	0.9	0.8	0.7	0.6	
P/E (x)	10.2	13.0	11.7	10.1	9.7	
P/B (x)	1.2	1.2	1.1	1.0	0.9	
EV/EBITDA (x)	6.9	7.4	6.5	6.0	5.5	
EV/Sales (x)	1.3	1.3	1.1	1.1	1.0	
Debtor days	30	37	39	39	39	
Inventory days	61	74	71	76	81	
Creditor days	17	17	17	15	15	

Source: Company, JM Financial

History of Earnings Estimate and Target Price

Date	Recommendation	Target Price	% Chg.
7-Aug-17	Buy	105	
7-Nov-17	Buy	105	0.0
31-Jan-18	Buy	100	-4.8
8-May-18	Buy	96	-4.0
8-Aug-18	Buy	82	-14.6

Recommendation History



## APPENDIX I

**JM Financial Institutional Securities Limited**

(formerly known as JM Financial Securities Limited)

Corporate Identity Number: U67100MH2017PLC296081

Member of BSE Ltd., National Stock Exchange of India Ltd. and Metropolitan Stock Exchange of India Ltd.

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Rating	Meaning
Buy	Total expected returns of more than 15%. Total expected return includes dividend yields.
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