



Trident Limited Q3 & 9M Financial Year 2019
“Industry Outlook & Earnings Frequently Asked Questions”

January 16, 2019

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Business Performance and Outlook:

We will be providing you with the latest updates on the financial results, industry outlook and then answer specific questions that may be helpful to answer the queries regarding the business and financials of the company and way forward. This information has been collated by taking inputs from the senior management, including the business leaders who have the ownership of their business performance thereby presenting you with financial as well as insightful and pragmatic data points.

We remain committed and transparent towards our stakeholders and always maintain high corporate governance.

Further, if you have any queries, please feel free to get in touch with the Investor Relations team.

Ten months (January – October) OTEXA Bath linen & Bed linen data suggest that recovery is evident on both Monthly and Yearly basis and as said in our last communication that the trend should continue for rest of the calendar year.

Bed Linen business has been growing in both value and volume, crossed 60% capacity utilization despite unfavorable circumstances which the industry witnessed last year and intense competition.

Capacity Utilisation:

Business Segment	FY18 (Full Year)	FY19		
		Q2 FY19	Q3 FY19	9M FY19
Bath Linen	45 %	53%	48%	48%
Bed Linen	44 %	61%	63%	60%
Yarn	95 %	97%	97%	97%
Paper	89 %	90%	89%	89%

Production:

Business Segment	Unit	Q3 FY 19
Bath Linen	Metric Tons	10699
Bed Linen	Million Metres	6.84
Yarn	Metric Tons	27844
Paper	Metric Tons	38810

Trident, in 2018, has been ranked 1st & received the highest score in Sustainability Index among all Home Textiles Partners of Wal-Mart. By working with Wal-Mart Sustainability Teams, we have improved and honed our sustainability practices in line with global practices.

At the beginning of this publishing season in India (Q3 & Q4 FY19), the demand of Paper has been robust with realization growth Q-o-Q and Y-o-Y with healthy order book.

We continue to remain optimistic to sustain this growth in Home Textile business going forward and will be able to surpass our guidance on Revenue and Margins in this fiscal.

In terms of financials for the quarter:

- Net Revenue in Q3 FY19 grew by 18.9% Y-o-Y to INR 1306.4 crores compared to the same period last year, which is again driven by jump in volumes in the Home Textile business and growth in realizations in the Bed & Bath Linen category.
 - Y-o-Y Bed Linen sales volume grew by 41.7% and Bath Linen business sales volume grew by 10.1%.
 - Captive consumption of Yarn stood at 42.4% in Q3 FY 19
- The employee cost has gone up by 50% Y-o-Y due to one time performance incentives / Double Diwali Bonus during the quarter amounting to INR ~15 Crores. As guided in the last communication, the run rate will be around INR 140 – INR 145 crores on a quarterly basis going forward.
- Finance cost has increased by 17% Y-o-Y to INR 29.4 crores due to enhanced working capital requirements during the quarter.
- Profit after tax for the current quarter stood at INR 112.1 crores translating to EPS of INR 2.20.
- Net Debt come down by INR 424 Crores from 31st March 2018 to INR 2197 Crores as on 31st December 2018; Net Debt to Equity ratio stood at 0.7x and Net Debt to EBITDA at 1.9x.
 - Reduction in Long Term debt of INR 260 in 9M FY 19 to INR 1428 Crores as on 31st December 2018.

Coming to the segment wise performance:

Textile Segment:

- Q3 FY 19 Revenue grew by 18.6% to INR 1032.3 crores compared to INR 870.2 crores in Q3 FY18. EBIT jumped by 43.1% to INR 108.6 crores Y-o-Y.
- 9M FY19 Revenue grew by 12.2% to INR 3091.4 crores compared to INR 2754.2 crores in 9M FY18. EBIT stood at INR 248.8 crores compared to INR 205.8 crores in the same period last year, witnessing growth of 20.9%.

Paper & Chemicals Segment:

- Q3 FY 19 Revenue grew by 15.7% to INR 259.2 crores compared to INR 224.1 crores in Q3 FY18. EBIT jumped by 51.8% to INR 98.7 crores Y-o-Y.
- 9M FY 19 Revenue grew by 13.2% to INR 723.0 crores compared to INR 638.9 crores in 9M FY18. EBIT stood at INR 269.0 crores compared to INR 213.7 crores in the same period last year, witnessing growth of 25.9%.

Home Textile Outlook:

Despite unfavorable circumstances faced by Home Textile industry in FY18, we would again like to highlight that India will continue to hold competitive advantage as our industry is characterized by high entry barriers in terms of scale, capital availability, skilled labor, customer relationships, sustainability as well as availability of raw material thereby maintaining high quality standards which is one of the key parameters for customer stickiness. Accelerated growth, higher spending power with customers in US and currency support will help us to deliver better results going forward.

We believe that the currency will continue to witness volatility. We welcome the recent revision in Duty Drawback by 0.5% in Yarn Business and 0.6% in Bath Linen business. This will certainly give boost to the Indian Textile Industry.

OTEXA Data:

Market share for US imports of cotton sheets					Market share for US imports of terry towels				
Country	2015	2016	2017	2018*	Country	2015	2016	2017	2018*
India	48%	49%	50%	50%	India	38%	40%	39%	39%
China	23%	22%	20%	21%	China	25%	23%	24%	25%
Pakistan	17%	16%	16%	17%	Pakistan	22%	22%	21%	20%
ROW	12%	13%	14%	12%	ROW	15%	15%	16%	16%

**2018 Data is of 10 Months (January 2018 – October 2018)*

As per OTEXA data While India's share has remained same in cotton sheets in the current year (first 10 months) as compared to last year. But if we compare it over last 5 years India's share of Towel and Sheeting business both has been growing.

India has emerged not only the largest producer of raw cotton but also a major Cotton surplus & cotton exporting country in the recent years. This gives a distinct advantage to Indian Home Textile Manufacturers. Home Textiles companies which have invested in terms of scale, Technology & systems are bound to consolidate & grow, leveraging their capabilities with cost effect manufacturing

& strong market presence. Trident will further consolidate its business by leveraging the existing customers and adding new customers to its portfolio.

Paper Industry Outlook:

- Actual production of Indian Paper Industry in FY18 stands roughly at over 16 million tones which are roughly 4% of global 400 million tons. Capacity utilization rate is around 86%.
- Domestic demand increased from 12.8 million tons in 2013 to 17 million tons in 2017 at a CAGR of 7.35%. As per CARE report, it is likely to touch 18.5 MT in 2018-19 and expected to grow at 6.6% upto 2021. Copier segment still is the fastest growing segment with a growth rate of approx 12-15%.
- Writing and Printing segment demand is expected to grow at a CAGR of 4.2% and reach 5.3 million tons in FY -19.
- Factors leading to growth are
 - i) Rising disposable income
 - ii) Increasing literacy rate
 - iii) Growth of e-com and retail sectors
 - iv) Increasing concerns about plastic packaging.
- We expect the realizations in Paper to be moderated to some extent in the coming quarters due to enhanced import of Paper & moderation in global pulp prices.

Cotton Outlook:

- The Cotton Association of India (CAI) has estimated cotton crop for 2018- 19 season at 335 lakh bales of 170 kgs each which is lower by 5.25 lakh bales than its previous estimate of 340.25 lakh bales made during last month.
- The CAI has reduced the crop estimate for Gujarat, Maharashtra and Telangana by 1.50 lakh bales, 2 lakh bales and 2 lakh bales respectively. The main reason for reduction in cotton crop is that farmers have uprooted their cotton plants in about 70-80% cotton area due to moisture deficiency due to less rains.
- We expect cotton prices to remain stable going forward unless any demand pick up from current levels due to geo-political trade issues.

Dividend:

With strong emphasis to reward the shareholders board has declared 3rd interim dividend of INR 1.20 per fully paid share of INR 10 each. With this the total dividend declared for 9M FY19 is INR 2.40 per share.

Frequently asked questions and their responses

What is total revenue from Bed and Bath Linen in 9M FY19 ?

- Bed and Bath Linen contributed more than 50% of the Total Revenue in 9M FY19 which stands at INR 1926 crores.

What was the realization (USD/INR) rate in Q3 FY19 ?

- Our average negotiated rate for the current quarter has been at around USDINR of 72.40.

What utilization level are we envisaging for Bed & Bath Linen by FY 20?

- For Bed Linen we are targeting 75% (+-5%) utilization levels in FY20 and for Bath Linen we expect 60% (+-5%) utilization levels in FY20.

What is the hedging strategy/policy of the company?

- For hedging export receivables, forward covers are taken for a maturity up to 6-12 months. The hedging strategy division wise is as under:
 - Terry Towel Division: Hedging is done on monthly rolling basis at 40%-60% of sales replenishment.
 - Yarn/ Paper division: Hedging is done on order to order basis. Whenever any order is confirmed, it is hedged by forward cover.

As a policy when do we start hedging for FY20?

- We are hedging systematically. We hedge foreign exchange based on the hedging policy approved by the BOD of 6-12 months tenor.

What is the other income besides the FOREX gain or loss that you are showing in the P&L account?

- New accounting standard does not allow to net the interest expenditure with the interest income. But this is broadly the treasury income in terms of our investments into Liquid / FD based current investments.

How much debt we have already raised for Power Project in Budhni as on 31st December 2018 and expected draw-down by FY20?

- ➔ The financial closure and legal documentation has been done. The disbursement as on 31st December 2018 is Nil. We expect to draw down about INR 150 Crore by end of FY20.

Any updates on MEIS which is likely to go away?

- ➔ The government is supporting Textile sector and overall exports by various schemes which the government has introduced considering the need of the industry.

What kind of maintenance capex and quantum are we expecting for the entire year in FY19?

- ➔ We have been doing small maintenance CAPEXs in the form of de-bottlenecking/upgradation of capacities, approximately INR 100 crores a year and that we continue to do that.

Can you provide guidance on EBITDA & Revenue growth for FY20 & FY21?

- ➔ On a full year basis, the company's EBITDA margins will be around 18% to 22% on a sustainable basis with 10% - 15% revenue growth year on year.

Any Capex Plans for FY19 / FY20 / FY 21. If yes, in which business and what would be the size of the capacity?

- ➔ No significant CAPEX, other than implementation of captive co-generation Steam (2 x 150 TPH) and Power Plant (2 x 30 MW) facility in Budni, Madhya Pradesh that is already approved by the Board and details of the same have already been provided in the Q1 FY19 press release.

How confident are we in sustaining this volume growth in Home Textile even for the subsequent quarters to come?

- ➔ We are working on US Distribution, have enlarged our Team in United States, focusing on Product Development & Innovation, Improved Product Functionality and Branding Initiatives which should help us in sustaining the pace of growth in the forthcoming quarters also.

With the rise in the raw material prices (Cotton), do you think we will be able to pass on the cost to the customer and are we passing the benefit on rupee depreciation to the customers?

➔ Pricing is a mix of raw material cost, labor cost, Rupee-Dollar parity & other input costs etc. Currently all players are monitoring the situation very closely as yarn prices have continued to rise in the recent times. We always try and attempt to convince the customers that despite weaker rupee there has also been equal or even more escalation in the cost during last one year. For example, following factors have hit the cost during the last about a year.

- ✦ Increase in price of raw material (Cotton & Yarn)
- ✦ Increase in cost of Dyes & Chemicals
- ✦ Increase in cost of Packing Material.
- ✦ Increase in transportation cost.
- ✦ Increase in Manpower cost
- ✦ Reduction in rate of Drawback / Export Incentives

Currently, there doesn't seem to be any possibility of passing on the escalation in raw material cost to customers immediately and apart from domestic cotton prices we also need to consider how the price of cotton in International market reacts during the season.

What are the key initiatives have been taken by marketing team on client acquisition which makes you positive on increase in capacity utilization going forward?

➔ There are multiple initiatives that marketing team is taking for acquisition of customers & improvement of capacity utilization as we go forward:

- Reviewing white spaces of retail matrix
- Bringing new differentiated products to customers.
- Tailor made 'Foot in Door' strategy for each new customer.
- Building stronger team in US to be closer to customers & market.
- Competitive pricing.

This should help us to secure new customers & grow revenue / improve capacity utilization

Are we seeing price competition amongst the Indian players when you are marketing to clients and trying to ramp-up your own capacity utilization?

- Regarding Price competition there lies a constant challenge not only by the domestic players but also by the overseas players. We address it by conducting market & consumer surveys which helps us in bringing unique & innovative products to our partners & customers that helps them to grow their business & keep us ahead of competition which keeps us to remain competitive.

What is the current market price of Cotton (Candy) and what is average price of procurement this season?

- Currently the prices are about INR 43000 - 44000 per candy and the average price of procurement is near these levels only.

How do you see cotton price movement in the international markets and what is the current gap between Indian prices and international prices? What's your outlook on Cotton Prices going forward?

- Since June 2018, global cotton prices especially US cotton prices have come under pressure as the Chinese have not been buying US cotton. However, recently there has been a pick up in demand as prices are at very attractive levels and Indian cotton prices and US cotton prices are at about the same level. We expect cotton prices to remain stable going forward unless any demand pick up from current levels due to geo-political trade issues.

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