



Trident Limited Q4 & Financial Year 2018-19  
“Industry Outlook & Earnings Frequently Asked Questions”

May 13, 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.

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Let us start by mentioning that the unfavorable circumstances of FY 2018 have been left behind and the Home Textile business has made substantial recovery as well as has registered growth in FY 2019. The OTEXA Bath linen & Bed linen M-o-M data (upto Mar 2019) suggest that recovery is evident and the trend is expected to continue for rest of the calendar year.

Bed Linen business has been growing in both value and volume and has achieved 74% capacity utilization in Q4FY19 despite Trident being a new entrant into the market and intense competition from the established players.

### Capacity Utilisation:

Business Segment	FY18 (Full Year)	FY19		
		Q3 FY19	Q4 FY19	FY19
Bath Linen	45 %	48%	49%	49%
Bed Linen	44 %	63%	74%	63%
Yarn	95 %	97%	99%	98%
Paper	89 %	89%	88%	89%

### Production:

Business Segment	Unit	Q4 FY 19
Bath Linen	Metric Tons	10978
Bed Linen	Million Metres	7.98
Yarn	Metric Tons	28483
Paper	Metric Tons	38567

Trident has achieved highest ever dispatch volumes in Yarn and Bed Linen segment as well as Paper segment sales has shown tremendous growth in Q4 FY19. Owing to the above factors, we have surpassed our guidance for revenue and margins.

We continue to remain optimistic to sustain this growth in Home Textile business

In terms of financials for the quarter and financial year ended 31 March 2019:

- **Net Revenue in Q4 FY19 grew by 19.2% Y-o-Y to INR 1416.5 crores** compared to the same period last year and for the complete financial year, the company registered highest ever revenue of INR 5265.3 crores, 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 39.4% and Bath Linen business sales volume grew by 6.6% in Q4 FY19**
  - **Captive consumption of Yarn stood at 42.4% in Q4 FY 19**
- Adj. EBIDTA without forex loss for FY 19 stood at INR 1095.7 crores which translates into 20.8% margin. However, EBIDTA post forex losses for FY19 stood at INR 1029.2 crores with 19.5% EBIDTA margin
- **Profit after tax for the year stood at INR 370.9 crores** translating to **EPS of INR 7.28**.
- The employee cost has gone up by 17% Y-o-Y due to one time performance incentives / Double Diwali Bonus during the year. As guided in the last communication, the run rate will be around INR 140 – INR 145 crores on a quarterly basis going forward.
- Owing to sharp depreciation of rupee against the dollar during the first 6 months of the FY 19 and subsequent recovery, the company booked foreign exchange loss of Rs 66.6 crores on full year basis.
- **Finance cost for FY 19 has remained at previous year level at INR 118.3 crores** despite increased in utilization of working capital borrowings for cotton procurement
- **Gross Debt come down by INR 362 Crores to INR 2436 Crores** as on 31<sup>st</sup> March 2019; Net Debt to Equity ratio stood at 0.8x and Net Debt to EBITDA at 2.3x.
  - **Net reduction in Long Term debt by INR 395 Crores to INR 1294 Crores** as on 31<sup>st</sup> March 2019.

Coming to the segment wise performance:

Textile Segment:

- **Q4 FY 19 Revenue grew by 17.1% to INR 1131.5 crores** compared to INR 966.6 crores in Q4 FY18. EBIT jumped by 46.3% to INR 98.8 crores Y-o-Y.
- **FY19 Revenue grew by 13.5% to INR 4222.9 crores compared to INR 3720.9 crores in FY18**. EBIT stood at INR 347.6 crores compared to INR 273.3 crores in the same period last year, witnessing growth of 27.2%.

### Paper & Chemicals Segment:

- **Q4 FY 19 Revenue grew by 25.1% to INR 274.0 crores** compared to INR 218.9 crores in Q4 FY18. EBIT jumped by 67.5% to INR 101.5 crores Y-o-Y.
- **FY 19 Revenue grew by 16.2% to INR 997.0 crores** compared to INR 857.8 crores in FY18. EBIT stood at INR 370.5 crores compared to INR 274.3 crores in the last year, witnessing growth of 35.1%.

### Home Textile Outlook:

The unfavorable circumstances of FY 2018 have been left behind and the Home Textile business has made substantial recovery as well as has registered growth in FY 2019, 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. With the revision in Duty Drawback by 0.5% in Yarn Business and 0.6% in Bath/Bed Linen business in Dec 2018, we welcome the latest revision in ROSCTL from 2.2% to 8.2% for Bed as well as 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	2016	2017	2018	2019*	Country	2016	2017	2018	2019*
India	49%	50%	50%	50%	India	40%	39%	39%	37%
China	22%	20%	21%	21%	China	23%	24%	25%	26%
Pakistan	16%	16%	17%	20%	Pakistan	22%	21%	20%	21%
ROW	13%	14%	12%	9%	ROW	15%	16%	16%	16%

*\*(January 2019 – March 2019)*

As per OTEXA data while India's share has remained same in cotton sheets and terry towel in the current year 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. The impact of trade war between US and China has also become evident through OTEXA M-o-M data across Home textile categories in FY 2019 as the imports by US from China from Jan 19 to Mar 19 is showing a declining trend.

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%.
- As per CARE report, the Indian paper industry has continued to witness steady growth in FY18 and the domestic demand grew from 9.3 million tonnes in FY08 to 17.1 million tonnes in FY18 at a CAGR of 6.3%
- CARE Ratings expects that the overall paper demand is expected to grow at a CAGR of 6.7% to touch 20.8 million tonnes in FY21. Writing and Printing segment demand is expected to grow at a CAGR of 4.5% and reach 5.8 million tons in FY 21.
- Factors leading to growth are
  - i) Rising income levels
  - ii) Growing per capita expenditure and low domestic per capita paper consumption
  - iii) Increasing FMCG and packaged food industries
  - iv) Rapid Urbanisation
- We expect the volume growth and realizations to sustain momentum going forward as paper imports have decreased which will benefit the domestic paper industry

#### **Cotton Outlook:**

- The Cotton Association of India (CAI) has estimated cotton crop for 2018- 19 season at 315 lakh bales of 170 kgs each which is lower by 6 lakh bales than its previous estimate of 321 lakh bales made during last month and much lower than 365 lakh bales of cotton crop in last year.
- The CAI has reduced the crop estimate for Maharashtra by 2 lakh bales and CAI's current estimates for the North Zone, Madhya Pradesh, Telangana and Andhra Pradesh are lower by 1 lakh bales each compared to its previous month estimate. The main reason for the poor yield is attributed to acute water shortage in the growing regions of Gujarat, Maharashtra, Telangana and Karnataka and uprooting of cotton plants by farmers in about 70-80 per cent of area without waiting for 3rd and 4th rounds of picking.
- Owing to shortage of cotton crop, India's cotton imports are set to more than double to 31 lakh bales this year as compared to 15 lakh bales reported last year. This will be the highest import after 2016 when the country imported a record 29 lakh bales of cotton.

- We expect cotton prices to remain subdued going forward due to increased import cotton unless any demand pick up from current levels due to geo-political trade issues.

**Dividend:**

With strong emphasis to reward the shareholders board has recommended Final dividend of INR 0.60 per fully paid share of INR 10 each subject to approval of shareholders in Annual General Meeting. With this the total dividend declared for FY19 is INR 3.00 per share.

**Stock Split:**

The Board of Directors have recommended the split/sub-division of 1 Equity Share having a face value of INR 10/- each into 10 Equity Shares having a face value of INR 1/- each, subject to the approval of the shareholders.

## Frequently asked questions and their responses

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

- Bed and Bath Linen contributed more than 50% of the Total Revenue in FY19 which stands at INR 2665 crores.

### What was the average realization (USD/INR) rate in Q4 FY19?

- Our average negotiated rate for the current quarter has been at around INR 71.46 per USD.

### 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 hedging rate for H1 FY20?

- Average Forward Hedged Rate for H1 FY20 is around INR 73.03 per USD.

### 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.

**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. With the MEIS expected to be withdrawn soon, the government has introduced enhanced benefits under ROSCTL scheme for the industry which will provide additional impetus to textile sector.

**What are the key initiatives have been taken by marketing team to sustain the volume growth?**

- ➔ The company is undertaking the following initiatives for the US market to sustain and increase the volume growth across Bath Linen and Bed Linen segment:
  - Targeting key retailers among top 10 US retailers
  - Further in order to develop Trident as a Brand, we have started exploring direct sales through various dot com platforms
  - We have tied up with a warehousing company in US for drop shipment of merchandize to various e-retailers of US
  - Customer face time has been increased through dedicated US marketing team enabling quick turnaround of orders
  - Focusing on having more patents and trademarks through dedicated innovation/designing team

**What are the key initiatives we have taken to increase our market share in EU and Japan?**

- ➔ We are focusing on major markets in Europe; mainland including Germany, France, Netherlands & Norway, Denmark, Sweden & Poland in Scandinavia
  - Exploring and focusing on Loyalty Brand Channels in Germany & UK.
  - Working on the hospitality business possibilities.
  - Working and focusing to enter the supermarket segment in UK to drive potential customers

In Japan, the products demands stringent quality checks and strict compliance with local laws. With requisite infrastructure to support the required quality, the company is tying up with big sourcing companies in Japan to enter the market.



**What is the reason behind the capital raising efforts though QIP that the company is undertaking?**

→ We are taking enabling resolution from the Shareholders every year; we will evaluate depending upon the opportunities and market conditions.

As an alternative source of funding, we are seeking approval from shareholders for raising of funds for an amount not exceeding INR 500 crores. It will help us to strengthen our balance sheet by way of deleveraging along with healthy free cash flows to avail any exciting and attractive growth opportunity at an appropriate time in the near future.

**Trade receivables have increased from INR 477.6 Crores as on 31<sup>st</sup> March 2018 to INR 662.0 Crores as on 31<sup>st</sup> March 2019. Has the payment cycle changed or the credit period extended to the customers has been increased?**

→ The change has largely happened due to higher sales revenue for FY 2019 and particularly in Q4 FY19. Net revenue grew by 14% Y-o-Y in FY19 and by 19% Y-o-Y in this quarter. In Q4 FY 2019 the company achieved the highest ever dispatches in Bed Linen, Yarn and Paper segment for which receivables are being reflected at year-end balance sheet and will realize in the next quarter.

**What is the reason for increase in Deferred Tax Liabilities (DTL) under Non-current liabilities in the current year and reinstatement in previous year figure?**

→ The Company has adopted IND AS with transition date as April 1, 2015 and its first IND AS standalone and consolidated financial statements were prepared for the year ended March 31, 2017. The Company had adopted to fair value the block of Land on the transition date i.e. April 1, 2015 to IND AS and considered the same as the deemed cost under Ind AS as per note 49 (C) of the IND AS standalone and consolidated financial statements of the Company for the year ended March 31, 2017. On account of such fair valuation, corresponding Deferred Tax Liability was recognised. While calculating the Deferred Tax Liability, for the tax base, the Company had considered the value of Land at which such Land was acquired under past Business Combinations before the date of transition to IND AS (i.e. Fair Value at the time of Business Combination being the carrying amount in the books) as cost of acquisition instead of cost to the previous owner

in accordance with Section 49(1) of the Income Tax Act, 1961. Further, while calculating the Fair Value Gain on land, the land which was given on long term lease of 99 years and already derecognised in books (as long term lease was considered as sale in accordance with the applicable Indian GAAP at that time) was also erroneously recorded at fair value on the transition date resulting in overstatement of Property, Plant and Equipment by INR 87.71 crores.

These rectification adjustments resulted in increase of "Deferred Tax Liabilities (net)" by INR 129.64 crores as at April 1, 2017, (INR 127.50 crores as at March 31, 2018), decrease in "Freehold Land" under the head "Property Plant and Equipment" by INR 87.71 crores as at April 1, 2017, (INR 87.71 crores as at March 31, 2018), and decrease in "Other Equity" by INR 217.35 crores as at April 1, 2017, (INR 215.21 crores as at March 31, 2018) which has led to a restatement of the standalone and consolidated financial statements as at April 1, 2017 and standalone and consolidated financial statements for the year ended March 31, 2018 in accordance with the Ind AS 8 Accounting Policies, Changes in Accounting Estimates and Errors. Further, there is no impact on the standalone and consolidated profit before tax for the year ended March 31, 2018. However, standalone and consolidated profit after tax has increased by INR 2.14 crores for the year ended March 31, 2018, INR 0.54 crores for the quarter ended March 31, 2018 and Standalone and Consolidated profit after tax has decreased by INR 0.72 crores for the quarter ended December 31, 2018, due to accounting of deferred tax liabilities.

**What was the net effect of currency fluctuations on Q4 FY19 results?**

- ➔ The net effect of currency fluctuations has been positive on Q4 FY 19 with rupee recovering from the free fall in the Q1 and Q2 of the FY19. There is a positive MTM/ forward gain of INR 10.9 crores in Q4 FY19 and after setoff with the forward fluctuation of the quarter the net positive impact on the profitability is equivalent to INR 4.8 crores.

**What kind of maintenance capex and quantum are we expecting for the in FY20?**

- ➔ We will maintain our guidance for maintenance capex at approximately INR 100 crores for FY20 and the same will be utilized towards small maintenance CAPEXs in the form of de-bottlenecking/ upgradation of capacities.

**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 double digit growth in revenue.

**Any Capex Plans for in next two years. If yes, in which business and what would be the size of the capacity?**

- ➔ The company is undertaking an expansion project in yarn segment at Budni, Madhya Pradesh at a total cost of INR 1140.0 crores. The project cost is to be funded through mix of debt of INR 855.0 crores and equity of INR 285.0 crores. The proposed yarn project will provide backward integration support to the enhanced capacity utilization of Home Textile segment as well for outside sales. The plant is scheduled to become operational in 2021. Post expansion the installed capacity of yarn segment will increase by 48482 TPA. Based on outside sales, the plant will add approx. INR 1170 crore of revenue to the existing topline of the company.

**Do we pass on the impact of currency fluctuation to the customers?**

- ➔ Prices for most of the programs are agreed for at least a year in advance irrespective of the currency fluctuation. However, the prices can be negotiated within this period if there is substantial change in the currency or input cost. Both the parties do understand the impact (short term or long term) and decides mutually. 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

**With the rise in the raw material prices (Cotton), do you think we will be able to pass on the cost to the customer?**

- ➔ 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 cotton 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)
- ✦ Increase in cost of Dyes & Chemicals
- ✦ Increase in cost of Packing Material.
- ✦ Increase in transportation cost.
- ✦ Increase in Manpower cost

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.

**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?**

- ➔ Owing to the ongoing trade war between US and China, global cotton prices especially US cotton prices have come under pressure as the Chinese have not been buying US cotton. Current price of cotton in international future market has reduced to 72.5 cents/lbs against 78 cents/lbs in the last month. Current US cotton import prices are almost equivalent to Indian Cotton taking interest cost. However, any settlement between US and China may take it to another level. We expect cotton prices to remain subdued going forward due to increased import cotton unless any demand pick up from current levels due to geo-political trade issues.

For more information, please visit [www.tridentindia.com](http://www.tridentindia.com) OR contact:

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