



Trident Limited Q3 FY 2019-20
“Industry Outlook & Earnings Frequently Asked Questions”

29th January, 2020

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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.

The current year has seen growth in the first two quarters of the financial year, however, Q3 FY20 has brought some headwinds due to which the overall revenue has declined as compared to previous quarter as well as compared to corresponding period of last year.

Lower traction in Home Textile segment alongwith reduced realizations in Yarn and Paper Segment impacted the revenue as well as profitability for the quarter. Further to above withdrawal of MEIS benefit from March 07, 2019 has also resulted in reversal of income booked during the previous quarters.

Capacity Utilization:

Business Segment	9M FY19	9M FY20
Bath Linen	48%	52%
Bed Linen	60%	59%
Yarn	97%	95%
Paper	89%	88%

Production:

Business Segment	Unit	9M FY20
Bath Linen	Metric Tons	34676
Bed Linen	Million Metres	19.05
Yarn	Metric Tons	82053
Paper	Metric Tons	114671

The company is expecting improvement in capacity utilization in Bath Linen segment in the next quarter and looking at the order book for the sheeting segment for the next quarter, the same is expected to be the best in terms of revenues and capacity utilization.

In terms of financials for the period ended 31st December 2019:

- Net Revenue in 9M FY20 stood at INR 3775.4 crores compared to INR 3848.8 crores in 9M FY19
 - Bed Linen sales volume in 9M FY20 grew by 5.1% Y-o-Y basis and realization for the segment improved by 6.3% in same period as compared to corresponding period of last year
- EBIDTA for 9M FY20 stood at INR 762.0 crores which translates into 20.2% margin
- Profit after tax for the 9M FY20 stood at INR 302.2 crores translating to EPS of INR 0.59
- The employee cost for the quarter stood at INR 145.4 Crores. The run rate will be around INR 145 – INR 150 crores on a quarterly basis going forward.
- Finance cost for Q3 FY20 has come down to INR 23.4 crores which is lower by 16.3% compared to Q3 FY19.
- Net Debt slightly increased in Q3 FY20 to level of INR 1663.3 Crores as compared to previous quarter on account of increase in working capital utilization during ongoing cotton season, however the same is still lower by INR 680 Crores against net debt of INR 2343.7 Crores as on 31st March 2019; Net Debt to Equity ratio stood at 0.5x and Net Debt to EBITDA at 1.6x

Coming to the segment wise performance:

Textile Segment:

- Revenue for segment stood at INR 3049.6 crores in 9M FY20 compared to INR 3091.4 crores in 9M FY19.
- EBIT for the segment has improved to INR 268.7 crores Y-o-Y as compared to 244.9 Crores in 9M FY19.

Paper & Chemicals Segment:

- Revenue for the period stood at INR 708.5 crores in nine months of FY20 compared to INR 723.0 Crores in 9M FY19.
- EBIT for the segment during the period stands at INR 252.2 crores Y-o-Y as compared to INR 268.8 Crores in 9M FY19.

Home Textile Outlook:

The Home Textile business after a strong second quarter has faced some headwinds in current quarter on account of reduced dispatches under promotional programs as well as Q3 of the financial year generally remaining muted as compared to earlier quarters owing to export dispatches related to festival season happening in Q1 and Q2.

Once again 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.

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%	49%	50%	India	40%	39%	39%	39%
China	22%	20%	21%	19%	China	23%	24%	25%	24%
Pakistan	16%	16%	17%	19%	Pakistan	22%	21%	20%	21%
ROW	13%	14%	12%	12%	ROW	15%	16%	16%	16%

** (January 2019 – November 2019)*

As per OTEXA data India's share has slightly increased in cotton sheets in current year as compared to last year, however in terry towel segment the share has remain stable. In absolute terms, India's exports of cotton sheets to US have increased by 5% from Y-o-Y.

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. Overview of the current marketing efforts being made by Trident are enumerated in the FAQs below.

Paper Industry Outlook:

- India's share in the demand for paper across the globe is growing, as the domestic demand is increasing at a steady pace, while the demand in western nations is shrinking. Despite the continuous growth in the industry, per capita paper consumption in the country stands at a little over 14 kg, which is still well below the global average of 57 kg and considerably below 200 kg in North America. The Indian paper & paper products market is projected to grow from \$ 8.6 billion in 2018 to \$ 13.4 billion by 2024, exhibiting a CAGR of 7.8% during 2019-2024.
- Growing manufacturing sector, requirement of better quality packaging of FMCG products marketed through organized retail and the demand for the upstream market of paper products, such as tissue paper, filter paper, tea bags, light weight online coated paper and medical grade coated paper are expected to drive the paper & paper products market in India in coming years.
- According to IPMA, while the Indian paper market is growing at 6-7 per cent per annum, most of the increase is being taken over by imports. Out of the estimated market size of 18.6 million tonnes, imports have cornered more than 15 per cent and were 2.8 million tonnes in 2018-19. India's paper industry is operating at 80 per cent of the capacity, which is low for a high capital intensive and continuous process industry like paper. Except for a few companies, most of the sector is stressed and moving towards commercial nonviability on account of escalating duty-free imports.
- Based on the 9 months gone by and the in terms of visibility for the next quarter, we expect the volume growth in the segment but realizations are expected to be at same level as in Q3 FY20

Cotton Outlook:

- According to the December estimate of the cotton crop for the season 2019-20, Cotton Association of India (CAI) has estimated cotton crop at 354.50 lakh bales of 170 kgs each
- The increase in crop estimated for the 2019-20 season is on account of higher acreage under cotton than that of the previous season. Moreover, the CAI estimates yields to be higher as the country has received a good rainfall this year
- The total cotton supply estimated by the CAI during the months of October 2019 to December 2019 is 155.89 lakh bales of 170 kgs each, which consists of the arrivals of 125.89 lakh bales upto 31st December 2019, imports of 6.50 lakh bales upto 31st December 2019

and the opening stock estimated by the CAI at 23.50 lakh bales at the beginning of the season

- Further, the CAI has estimated cotton consumption during the months of October 2019 to December 2019 at 78 lakh bales of 170 kgs. each while the export shipment of cotton estimated by the CAI upto 31st December 2019 is 10 lakh bales of 170 kgs. each. Stock at the end of December 2019 is estimated by the CAI at 67.89 lakh bales including 30.89 lakh bales with textile mills and remaining 37 lakh bales with CCI and others (MNCs, Traders, Ginners, etc.)
- The yearly Balance Sheet projected by the CAI estimated total cotton supply till end of the cotton season i.e. upto 30th September 2020 at 403 lakh bales of 170 kgs. each

Frequently asked questions and their responses

What are the reasons for decline in revenue in Q3 FY20?

→ Typically, Q3 of the financial year remains muted as compared to earlier quarters since most of the export dispatches related to festival season happen in Q1 and Q2. In addition to above, during the current quarter Q3 FY20, the revenue growth was impacted due to following factors:

- Revenue from Home Textile segment was lower in the Q3 FY20 as compared to Q2 FY20 owing to reduced dispatches under promotional programs
- Realizations for the quarter under the yarn and paper segment were muted with Y-o-Y degrowth of 11-12%
- Impact of withdrawal of MEIS benefit

However, sheeting segment has been registering good growth with increase in capacity utilization as well as improved realizations. In fact, Q4 FY20 is expected to be the best quarter in terms of sheeting capacity utilization and revenue

What is the nature of exceptional item of appearing in Q3 FY20 standalone and consolidated results?

→ In view of Ministry of Textiles, Government of India's Gazette Notification number CG-DL-E-15012020-215423 dated January 14, 2020, the Company has, during the current quarter reversed the Merchandise Export from India Scheme (MEIS) benefit of Rs. 486.8 million and Rs. 531.6 million for the period from March 07, 2019 to September 30, 2019 in the standalone financial results and consolidated financial results respectively and has shown the same as an exceptional item. Further, the Company has not accrued MEIS benefit of Rs. 172.3 million and Rs. 176.5 million for the current quarter in the standalone financial results and consolidated financial results respectively

What was the average realization (USD/INR) rate in Q3FY20?

→ Our average negotiated rate for the current quarter has been at INR 71.81 per USD and INR 71.23 per USD for 9M-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.

What is the current hedging rate for FY20?

- ➔ Average Forward Hedged Rate for FY20 is around INR 72.91 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.

What's your outlook on Cotton Prices in ongoing season and whether the same will sustain going forward?

- ➔ Domestic cotton prices during the current cotton season have fallen around 12-13% from average price of Rs 122-124/kg to Rs 105-108/kg. The same have currently stabilized around levels of Rs 112-113/kg. Keeping in view the current Indian and global fundamental and technical, there does not seem to much upward movement in the cotton prices.

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.

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 being funded through mix of debt of INR 855.0 crores and equity of INR 285.0 crores. The proposed yarn project has already begun implementation will provide backward integration support for the enhanced capacity utilization of Home Textile segment as well for outside sales. The project is scheduled to become operational in 2021. Post expansion the installed capacity of yarn segment will increase by 48482 TPA.

The company is also undertaking a De-bottlenecking & Modernization of its existing paper units at Dhaura Plant, Punjab at total cost of INR 222.0 crores. The project cost is to be funded through debt of INR 148.0 crores and internal accruals of INR 74.0 crores. The proposed project shall help to strengthen the existing paper units of the company and shall further increase the market presence. Post expansion the installed capacity of paper segment will increase by 20000 TPA.

What is revenue from Bed and Bath Linen in 9M FY20?

- ➔ Bed and Bath Linen contributed more than 55% of the Total Revenue in 9M FY20 which stands at approx INR 2100 crores.

What will be the capacity utilization estimates for FY20 for Bed & Bath Linen?

- ➔ For Bed Linen we are maintaining our target to 70% (+-5%) utilization levels in FY20 and for Bath Linen we will be revising our guidance to 55% (+-5%) utilization levels in FY20.

Can you provide guidance on EBITDA margins for FY20 & FY21?

- ➔ On a full year basis, the company's will maintain its guidance of EBITDA margins around 18% to 22% on a sustainable basis.

What are the key initiatives taken by marketing team to increase 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:
 - The company is already dealing with the top 10 retailers in the US market out of which its has good amount of export volumes with 7 retailers. For increasing the business volumes with remaining 3 retailers, the company is increasing its customized and value added offerings in order to enhance its relationship with them
 - Further in order to develop Trident as a Brand, we have started exploring direct sales through various e-com platforms
 - We have already 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 RoW?

- ➔ We are focusing on 3 market segments in Europe - which includes UK, Mainland Europe (includes Germany, France, with hospitality chains to increase Trident's share in their towel and sheeting requirements Poland, Switzerland, etc.) And Scandinavia (Norway, Sweden and Denmark)
 - Working and focusing to enter the supermarket segment in UK to drive potential customers
 - Exploring and focusing on Loyalty & Promotional Programs in Mainland Europe.
 - We are working closely with our existing customers in Japan to understand there in depth requirements and taken initiatives by using special fine yarn counts for towels as per their needs.
 - In addition to above, the company has also increased its efforts in Australia and UAE market

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. In case of Europe the prices usually agreed on yearly basis for replenishment programs and on half yearly/seasonal basis for promotional programs irrespective of the currency fluctuation. However, the prices can be negotiated during the next year/season considering actual currency fluctuation and freeze the same accordingly

How would the recent reduction in corporate tax rate by the government benefits the company?

- Government of India has reduced Corporate Tax rate from 35% to 25% (including surcharge and ED cess) which is applicable from 1 April'2019. The company has elected to exercise the option permitted under Section 115BAA of the Income Tax Act, 1961 as introduced by Taxation Laws (Amendment) Ordinance, 2019 and accordingly, the company has recognized provision for taxation and re-measured its deferred tax liabilities based on the rates prescribed in the said section. The impact of such change is to be recognized over the year ending March 31, 2020 since the company has used effective tax rate for full financial year.

For more information, please visit www.tridentindia.com OR contact:

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