



Trident Limited Q2 FY 2020-21  
“Industry Outlook & Earnings Frequently Asked Questions”

15<sup>th</sup> October, 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.

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With the gradual opening up of economy across different geographies around the world, a certain level of positivity has come back after the negative impact seen in first quarter owing to Covid-19. Countries across the world have come together to fast track the development of vaccine effective against virus. Despite the rising number of cases in India and around the world, there has been a demand revival across various sectors due to unlocking of economy in phased manner. Government stimulus, improved demand from online channels, stabilization of supply chain and various other factors have contributed towards the revival. The same is being reflected by our topline which after the setback in Q1 of this year has seen a good recovery with Home Textile Segment leading the growth in revenues. Revenues are up by 65% on Q-o-Q basis and EBIDTA margins have also improved by 91% Q-o-Q basis.

The capacity utilization across the different segment have improved with Bed Linen segment and Bath Linen segment reaching the highest ever capacity utilizations till date at 90% and 61% respectively. Yarn segment has also seen a good recovery. Yarn being key raw material for Home Textile products, the captive consumption of yarn within this segment has also increased to level of 64% of total yarn production in current quarter as compared to 49% average consumption during the last year. Paper business, despite facing challenging circumstances, has performed well with the company sustaining the volumes on Y-o-Y basis.

A brief overview of the production for half year is given below:

Quarterly Production Data

Segment	UoM	Production	
		Q1 FY21	Q2 FY21
Bath Linen	MT	6492	13615
Bed Linen	Mn. Mtrs	4.15	9.68
Yarn	MT	14038	27058
Paper	MT	24509	34932

In terms of financials for the quarter ended 30<sup>th</sup> Sept 2020:

- Net Revenue in Q2 FY21 stood at INR 1174.6 crores compared to INR 1325.6 crores in Q2 FY20
  - ✓ Bed Linen segment revenue has grown by 48% Y-o-Y basis owing to increased demand and better product mix
  - ✓ Exports during the quarter has witnessed growth of 10% over Q2 FY20 and contribution of exports to overall revenue has increased to 68%
- EBIDTA for quarter stood at INR 226.9 crores which translates into 19.3% margin
- Profit after tax for the Q2 FY21 stood at INR 100.2 crores
- Finance cost for Q2 FY21 reduced to INR 12.3 crores as compared to cost of INR 27.1 Crores in Q2 FY20 as the company continues to reduce debt by way of accelerated repayments
- Net Debt reduced significantly as on 30<sup>th</sup> September 2020 to reach level of INR 947.6 Crores on account of prepayment of loans amounting to INR 373.2 crores, as against net debt of INR 1614.5 Crores as on 31<sup>st</sup> March 2020; Net Debt to Equity ratio stood at 0.3x

Coming to the segment wise performance:

Textile Segment:

- Revenue for segment stood at INR 990.8 crores in Q2 FY21 compared to INR 1094.1 crores in Q2 FY20.
- EBIT for the segment improved to INR 114.9 crores in Q2 FY21 vis a vis 113.6 crores in Q2 FY20

Paper & Chemicals Segment:

- Revenue for the period stood at INR 180.9 crores in Q2 FY21 compared to INR 227.9 Crores in Q2 FY20.
- EBIT for the segment during the period stands at INR 48.9 crores

## Industry Outlook

Disclaimer: The current industry outlook is being provided based on the progress made during the last few months after lifting of lockdown. The situation is very volatile currently with daily reporting of increased number of infections all over the world with some countries seeing a second wave. Going forward, Covid-19 cases and subsequent actions by local governments will be major variables for the industry. Indo- China relationship and US elections may also impact the future outlook for the industry

### Home Textile

The Home textile industry witnessed seen a strong demand revival during the second quarter on account high demand from big retailers (selling essentials) who have seen their inventory pipeline running dry due to huge demand build up on account of Covid-19 pandemic. People being more conscious towards health and hygiene are looking more towards the home furnishing products. Work from home in majority of the big cities across the world has also contributed to the demand revival with people spending more on home improvement products as the same becoming their primary workplace. The upcoming festival season in US and Europe is also expected to see strong demand in upcoming quarters.

Trident products and offerings with Anti-microbial treatment as standard across Bath Linen category has been receiving good response from the existing and new customers. The company has also created separate e-commerce vertical to cater to the online mode which has registered substantial growth during the current quarter on account of increased number of buyers preferring online mode of shopping.

### OTEXA Data:

Market share for US imports of cotton sheets					Market share for US imports of terry towels				
Country	2017	2018	2019	2020*	Country	2017	2018	2019	2020*
India	50%	49%	50%	50%	India	39%	39%	39%	43%
China	20%	21%	19%	15%	China	24%	25%	24%	21%
Pakistan	16%	17%	19%	21%	Pakistan	21%	20%	21%	21%
ROW	14%	12%	12%	13%	ROW	16%	16%	16%	15%

\* (January 2020 – Aug 2020)

As per the OTEXA data, India's share of terry towels export to US continue to rise in percentage terms as well as volume terms.

India will continue to have advantage of largest producer of raw cotton as well as a major cotton surplus & cotton exporting country. 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 effective manufacturing & strong market presence. Trident will further consolidate its business by leveraging the investments in terms of scale, technology & systems, leveraging their capabilities with cost effective manufacturing & strong market presence and adding new customers to its portfolio.

#### Paper

- With the gradual opening up of the educational institutions in staggered manner under Unlock 5 guidelines, a revival in demand is expected from the publishing houses and printing presses
- Offices have also started operations with reduced staff leading to demand revival for copier paper
- However growing imports from China (14% increase in last financial year) will impact the demand for domestic manufacturers as well as create pricing pressure as the manufacturers in China and other ASEAN countries enjoy access to cheap inputs and raw material and also get incentives and subsidies in their own countries. Therefore realizations are down by 20% on Y-o-Y basis in paper segment
- We expect the volumes as well as realizations to improve in upcoming quarters looking at the gradual unlocking of the economy
- To improve its product mix, the company has started offering kraft paper which has diverse uses including packaging etc.

- 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.

### Cotton Outlook

- Cotton sowing is expected to cross 115-120 lakh hectares for the 2020-21 season, according to industry bodies.
- This year, sowing has doubled compared to the last year, according to agriculture ministry data. Sowing began early this year since the monsoon began on time
- The Centre has raised the MSP of medium staple cotton by Rs 260 per quintal to Rs 5,515 for 2020-21 season. The same for long staple cotton has been increased by Rs 275 per quintal to Rs 5,825.
- With majority of first quarter under lockdown, the existing cotton stock will shift the cover period by 1-2 months for majority of textile players who have sufficient cotton reserves at end of March 2020. Hence, the same may impact the start of cotton season where we could see initial pricing pressure on fresh crop arrival in markets. Moreover, cotton buying strategy of Cotton Corporation of India would also impact the pricing of cotton going forward.
- We expect cotton prices to remain near the current levels going forward

## Frequently asked questions and their responses

What are the reasons for enhanced capacity utilizations in Home Textile Segment?

- ➔ The enhanced capacity utilization in Bed Linen and Bath Linen segment is on account of robust demand coming from export market on account of increased preference on hygiene front due to Covid-19 pandemic. With work from home becoming the norm, demand for home furnishing products has also increased. In addition to above, Q2 sees a buoyant demand owing to upcoming festival season. Replenishment of inventory in supply pipeline and government stimulus to individual are also the contributing factors to the enhanced capacity utilization in this segment.

What is the capacity utilization and revenue guidance for the Textile Segment for FY 21?

- ➔ After the decline in first quarter revenue due to covid impact, Q2 saw a revival in demand led Home Textile Segment. We expect the demand and capacity utilizations to sustain at current levels in upcoming quarters of the current financial year however the same may get impacted on account of any negative development related to Covid-19 pandemic.

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

- ➔ On a full year basis, the company's will endeavor to achieve EBITDA margins around 18% to 20% 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 has been tapping to new customers with customized offering of products in new programs in beach towel category
  - Creation of dedicated team to cater to online channel looking into the demand increase
  - Virtual showrooms has been created to enable the customers to see the range of offerings

- Virtual plant visits and inspections are also being conducted
- Focusing on having more patents and trademarks through dedicated innovation/designing team

What has been the company's efforts to reduce its debt commitments?

- ➔ The company has undertaken several initiatives over the years to reduce its debt commitments including prepayments of high cost non-subsidy loans, reduction in working capital utilization through retention of cash accruals, other measures to reduce CTC cycle and build up cash reserves.

During the year, the company has prepaid its high cost term loans amounting to INR 373.2 crores. Owing to the above initiatives the debt levels of the company have reduced by INR 666 Crores during the half year to level of INR 948 Crores at end of Sep 2020.

What is the sales strategy of the company going forward since some of the retailers in US market are facing stress due to lockdown?

- ➔ The company has always followed a prudent business policy under which regular review of the operational and financial parameters of the customers is undertaken to mitigate and control the risk. In addition to that, the company review credit reports from external agencies to have detailed analysis as well as undertakes credit insurance cover, wherever available of its customers from insurance companies. The above robust measures will continue to be utilized for the assessment of future transactions.

What is the current status of capex projects being undertaken by the company?

- ➔ The capex project being undertaken by the company before the Covid-19 was Yarn Manufacturing units and Paper Upgradation project which are currently being reviewed owing to Covid-19 situation. The company is reassessing the implementation schedule and viability in view of the changed economic scenario.

What was the average realization (USD/INR) rate in Q2FY21?

- ➔ Our average negotiated rate for the current quarter has been at INR 73.99 per USD

What is the current hedging rate for FY21?

- ➔ Average Forward Hedged Rate for FY21 is around INR 75.30 per USD.

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 typically 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.

Update on the Export Incentive Scheme announced by Govt. to replace MEIS? How much will be the benefit that will be available under new scheme?

- ➔ Company is presently receiving following export benefits:

Exports Benefits	Home Textiles
Duty Drawback	2.6%
Rebate of Central & State Levies	8.2%

Additional benefit of MEIS of 4% retrospectively withdrawn from Mar 2019. The government has introduced benefits under RoDTEP (Remission of Duties or Taxes on Export Product) scheme for the industry which may provide additional impetus to textile sector in coming years. However, the industry is awaiting further clarification on the benefits and applicability under the proposed scheme

What is the purpose of raising the funds through QIP and NCD?

- ➔ The same is enabling resolution which the company gets approval from shareholders on annual basis in AGM. The company shall utilize the proceeds for business purposes,

including but not limited to augmenting financial resources for organic/ inorganic growth opportunities, meeting the capital requirements of the ongoing consolidation process, meeting and satisfaction of working capital requirements, repayment of existing borrowings, general corporate purposes and financing investment opportunities.

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

Abhinav Gupta/ Ankit Mahajan

Trident Limited

Tel: +91 161 5039 999

Fax: +91 161 5039 900

Email: [abhinavgupta@tridentindia.com](mailto:abhinavgupta@tridentindia.com), [ankitmahajan@tridentindia.com](mailto:ankitmahajan@tridentindia.com)