



## Trident Limited

Q2 & H1 FY17 Earnings Conference Call Transcript  
October 25, 2016 at 02.00pm IST

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**Moderator:** Ladies and Gentlemen, Good Day and Welcome to the Trident Limited Earnings Conference Call. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. If you need assistance during the conference call, please signal an operator by pressing '\*' then '0' on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Nishid Solanki from CDR India. Thank you and over to you sir.

**Nishid Solanki:** Thank you. Good Afternoon everyone and thank you for joining us on Trident Limited's Q2 & H1 FY17 Earnings Conference Call. Today, we are joined by Mr. Pawan Jain – Director - Corporate Affairs, Mr. Gunjan Shroff - Chief Financial Officer and Mr. Vipul Garg - Vice President, Investor Relations. We will begin the call with opening remarks from the management team following which we will open the forum for Q&A.

Before we begin I would like to highlight that certain statements made on the conference call today may be forward-looking in nature and a disclaimer to that effect has been included in the 'Earnings Presentation' shared with you earlier.

I would now like to invite Mr. Pawan Jain to make his initial remarks. Thank you and over to you sir.

**Pawan Jain:** Thank you, Nishid. Good Afternoon, everybody and Welcome to Trident Limited's Earnings Conference Call. I would begin by taking you through the Key Developments at Trident as well as share the Operational Performance across Business Segments while our CFO Mr. Gunjan Shroff will share the Financial Highlights for the Quarter and Half Year-ended 30th September, 2016.

Financial Year 2017 thus far has been a healthy year for us and we have managed to deliver our Highest Ever Half Yearly Revenues, EBITDA and Profit After Tax, and we are well on our way to achieve sustainable performance and volume growth with all our facilities operating at optimum utilizations going forward.

During the quarter under review, our revenues grew by 22% to Rs. 1,182 crore, whereas EBITDA increased by 38% to Rs. 244 crore. Profit after tax significantly improved to Rs. 80 crore representing a growth of 59% year-on-year. Healthy performance was led by strong growth of 27% in Home Textiles segment which was

a result of sustained efforts of our marketing team to improve the product offtake combined with focus on product innovation and expanding our global footprint. We remain confident of sustaining this momentum in the forthcoming quarters, which would help us to close the year on a strong note.

One of the key highlights of the performance was the step taken to significantly strengthen our balance sheet. We repaid outstanding term loans of Rs. 366 crore in H1 of FY17, which included prepayment of Rs. 151 crore of high cost debt. We had earlier indicated that we plan to achieve a net debt-to-equity of 1.25x by FY18. I am happy to state that we are already at 1.4x as of 30th September, 2016, down from 1.9x as on 31st March, 2016. In addition, the company sold treasury stock worth Rs. 14.5 crore during the quarter at a market value of Rs. 68.4 crore. We also redeemed non-convertible cumulative redeemable unlisted preference shares of Rs. 60 crore.

Let me now take you through some of the key developments that took place during the quarter. Trident was conferred with Multiple National Awards; 'Excellence in Water Management 2016' 'Within The Fence Category' presented by Confederation of Indian Industry; 'The Winner' award was given to Trident's Home Textiles Division, while 'Noteworthy Water Efficient Unit' award was given to Paper & Chemicals Division of the company. I would also like to highlight here that we maintain "Zero Liquid Discharge Facilities" whereby saving freshwater of 6 million liters per day directly.

We were also conferred with 'Supplier Achievement in Excitement 2016' Award from Sam's Club USA as well as 'Best Quality Award 2016' from SEARS HOLDING. In addition, TEXPROCIL has recently conferred us with multiple awards for the year 2015-'16, which includes 'Silver Trophy' for The Second Highest Exports of Terry Towel under Category C, 'Silver Trophy' for Second Highest Exports of Cotton Yarn Counts 50s and Below under Category-II and 'Bronze Trophy' for the Third Highest Global Exports. These prestigious accolades highlight our efforts towards conserving the environment as well as focus on quality excellence.

I am also pleased to inform that both CRISIL and Care have upgraded the credit rating of bank facilities of Trident Limited factoring in strong business performance reflecting in increasing profitability, healthy cash flows leading to adequate liquidity and improvement in debt coverage parameters. CRISIL has upgraded the long term credit rating of 'CRISIL A/Stable' and Short Term Credit Rating Facility to CRISIL A1, while Care upgraded its long-term and short-term rating to Care A and Care A1 respectively. Improved credit rating should enable the company to further reduce the overall interest cost.

Let me now give you Segment Wise perspectives.

During the quarter, revenues from Textiles segment increased by 27% to Rs. 963 crore driven by healthy momentum in Yarn as well as Home Textiles including Terry Towel and Bed Linen. Our recently commissioned Bed Linen unit has demonstrated encouraging offtake thus far and this is expected to continue in the second half as well. In Terry Towels, we continue to expand our global reach aided by quality products and niche designs. With an overall objective of gaining market share in the domestic

market, we have increased our Terry Towel penetration on the back of our efforts on branding and distribution.

Our capacity utilization for the new Bed Linen plant stood at 32% during the quarter, while the Terry Towel plants operated at 50% utilization based on tonnage capacity and 90% utilization for Yarn business. We are satisfied with the ramp up utilization levels and remain well on track to achieve higher utilization levels in times ahead.

In Paper business, the utilization during this quarter is 92%. In Paper, the revenues enhanced by 3% to Rs. 219 crore with strong improvement in profitability i.e. EBIT and EBITDA margins. Margins enhanced significantly due to higher contribution of Value Added Copier Paper. The contribution of Copier Paper was 55% in Q2 FY17, up from 50% in same period last year.

Before I conclude, I would like to add that our CEO - Mr. Abhishek Gupta was recently honored with the prestigious 'ASSOCHAM Leadership Award CEO' for his Outstanding Contribution to the Society and the Nation. His Excellency, Governor of Punjab and Administrator UT, Chandigarh Shri V P Singh Badnore presented the coveted award at a Summit on Redefining Leadership for 21st Century and Presentation of ASSOCHAM Leadership Awards 2016 at Chandigarh on 15th October, 2016.

Over the next couple of years, we would focus on optimizing our global scale Home Textile capacities and continue to deliver value-led growth thereby generating healthy free cash flows and creating tremendous value for our stakeholders.

With that, I would like to hand over the call to Mr. Gunjan Shroff who will share the Financial Performance of the company. Thank you.

**Gunjan Shroff:** Thank you, Pawan, and Good Afternoon, everyone. I will share the Financial Highlights for the Quarter and Half Year ended September 30th, 2016.

During the quarter under review, our net revenue stood at Rs. 1,182 crore, higher by 22% compared to Rs. 973 crore in Q2 of FY16. EBITDA improved by 38% to Rs. 244 crore translating into EBITDA margin of 20.7%. Depreciation increased to Rs. 104 crore against Rs. 82 crore primarily owing to depreciation accounted for Bed Linen unit. Profit before tax stood at Rs. 105 crore, an increase of 79% compared to Rs. 59 crore in Q2 of FY16. Subsequently, profit after tax grew by 59% to Rs. 80 crore vis-à-vis Rs. 50 crore in the corresponding quarter of last year. PAT including comprehensive income improved by 58% to Rs. 79 crore.

During the first half of fiscal 2017, our net revenues increased by 27% to Rs. 2,349 crore, while EBITDA improved by 30% to Rs. 492 crore translating into EBITDA margin of 20.9%. Profit after tax stood at Rs. 159 crore, higher by 41% compared to Rs. 113 crore achieved in last half year of FY16.

Let me give you a Segment Wise Performance of the company.

In Q2 FY17, revenues from Textiles segment stood at Rs. 963 crore against Rs. 760 crore in Q2 of FY16, representing an increase of 27% year-on-year. EBIT was higher by 45% at Rs. 102 crore while the EBIT margins came at 10.6%. Healthy product offtake in Home Textiles resulted in strong performance of the Textiles segment.

In the Paper segment, revenues came in at Rs. 219 crore, higher by 3% compared to Rs. 213 crore in the Q2 of FY16. EBIT increased sharply by 50% at Rs. 56 crore translating into EBIT margin of 26%, higher by 820 basis points year-on-year. Margin enhancement was a result of increased contribution of Value Added Copier Paper to Total Paper revenues.

Coming to our Key Financial Parameters, our net debt stood at Rs. 2,518 crore as on 30th September, 2016, down from Rs. 3,273 crore as on the year-end of March 31, 2016. This led to significant decline in net debt-equity ratio which stood at 1.4x against 1.9x as on 31st March, 2016. During the quarter, we repaid outstanding term loans of Rs. 210 crore including high cost debt of Rs. 98 crore. With this, we have repaid a total of Rs. 366 crore in the current first half of the year, which includes Rs. 151 crore of high cost debt. As a practice, we would continue to repay high cost term debt ahead of our repayment schedule which will strengthen our balance sheet and also help reduce our overall interest cost. Finance cost during the quarter declined by 6% at Rs. 35 crore led by a combination of factors including better working capital utilization as well as the interest equalization scheme.

Given the recent improvement in bank ratings, we hope to further reduce our interest cost going forward. In the first half of FY17, our cash accrual also increased significantly to Rs. 366 crore.

With this, we would request the moderator to open the forum for questions. Thank you.

**Moderator:** Thank you very much. Ladies and Gentlemen, we will now begin the Question-and-Answer Session. The first question is from the line of Vinod Malviya from Florintree Advisors. Please go ahead.

**Vinod Malviya:** My first question is with respect to the Welspun issue, have you done audit of your cotton suppliers or the other raw materials so that you can be double sure that such issues does not come up for you?

**Pawan Jain:** We have systems, checks and processes in place where on a continuous basis, we get to know what kind of vendors are there and we prefer to source our raw materials from the first source and as of now there is no trouble there.

**Vinod Malviya:** On the Terry Towel capacity, now the 50% utilization we have been hearing for a long period of time, just wanted to understand why this capacity is not really moving up, the utilization level?

**Pawan Jain:** No, previously we use to report capacity on equipment utilization basis which is around 65% right now. However, most of the analysts/investor community prefer to have it on a tonnage basis, so we are now reporting on a tonnage basis. So it has improved on a continuously basis over the last three quarters and now it is 50% on tonnage basis.

**Vinod Malviya:** 50% is on your 75,000 tons capacity, right?

**Pawan Jain:** No, it is on 90,000 tons capacity.

**Vinod Malviya:** Even sequentially your Textiles revenue has been flat, so if the utilization keeps on increasing in the Bed Linen as well as the Terry Towel, than at least some growth should have been seen in the Textiles division?

**Pawan Jain:** If you see year-on-year basis, the growth is there, and if you see Q1 FY17, there was a significant growth of around 40% in Home Textiles, so this quarter it is around 26% growth in Home Textiles. So on a quarter-to-quarter, yes, it is flat, but on a year-to-year basis it is growing.

Also, if you see the last two financial years 2015 and 2016, though there is a growth in volumes, but the revenue did not see any growth and was being flat because of two reasons - one is the drop in realization of Yarn prices and the second is improvement in captive consumption. So even in this quarter which is Q2, the captive consumption has increased significantly from around 30% in last quarter to around 37% this quarter.

**Vinod Malviya:** Have you taken any price hikes in Terry Towel or Bed Linen because your Cotton prices have moved up?

**Pawan Jain:** It is not significant; it is more or less flat if we compare quarter-to-quarter.

**Vinod Malviya:** But in terms of percentage like how much would it be – 1%, 2%?

**Pawan Jain:** Almost flat.

**Vinod Malviya:** If I look at your March 2016 balance sheet, there was some Rs. 267-270 crore of outstanding with the Government of India. So did you receive a significant amount of that during this quarter and because of that cash flow was very good?

**Pawan Jain:** For all such kind of incentives and subsidies, we are continuously receiving on a quarter-to-quarter basis. So we file the claim after the end of every quarter and for State Government, it is about 6 months timeframe wherein we will get those incentives and subsidy to be credited in our accounts and for Central Government, it is 3 to 4-months.

**Vinod Malviya:** So that Rs. 270 crore right now, where does it stand as on September 2016?

**Pawan Jain:** We had not reported that September figure separately, but whatever received there is further outstanding for incremental business also.

**Vinod Malviya:** Can you quantify how much did you receive in this quarter?

**Gunjan Shroff:** In the first half, we have received about Rs. 100 crore.

**Moderator:** Thank you. The next question is from the line of Vikram Suryavanshi from PhillipCapital. Please go ahead.

**Vikram Suryavanshi:** Can you just give a breakup or is there any one-time item in other operating income which is Rs. 21.8 crore this quarter?

**Gunjan Shroff:** This other operating income is actually a business income only, it is the forward gain which we have realized in this quarter, we do book plain vanilla forward for our export receivables and that is the reason this operating income is there.

**Vikram Suryavanshi:** Approximately how much was the amount?

**Gunjan Shroff:** That amount was approximately Rs. 12 crore.

**Vikram Suryavanshi:** Can you just update on the way we are seeing the traction in our Bed Linen project, a number of customers what we are looking and how will we ramp up?

**Pawan Jain:** So on a quarter-to-quarter basis, our volume growth has happened about 30% in Bed Linen and in this quarter we had added around three new customers for Bed Linen business and pickup of volume will now expected to happen in Q4 of this FY17 on that customers.

**Vikram Suryavanshi:** How much was the volume growth in Towel?

**Pawan Jain:** So volume growth in Towel is around 13% YoY in Q2 and on a half year, it is around 26% on a year-on-year basis.

**Moderator:** Thank you. The next question is from the line of Nitin Agarwal from JM Financial. Please go ahead.

**Nitin Agarwal:** Can you help us with the sales volume for Terry Towels and Bed Sheets?

**Pawan Jain:** We are not giving the volumes separately for Towel and Bed Linen, but the sales revenue has grown by 26% in Terry Towel and Bed Linen both taken together.

**Nitin Agarwal:** Is it right that the Bed Linen utilization is 32% for this quarter?

**Pawan Jain:** Yes, that is right.

**Moderator:** Thank you. The next question is from the line of Ritesh Poladia from Girik Capital. Please go ahead.

**Ritesh Poladia:** My question is what would be the optimum utilization of Terry Towel capacity and by what time one can expect to reach that level?

**Pawan Jain:** So on a tonnage basis right now it is 50%, so it can go up to 75% to 80% kind of optimum utilization, which we will be able to achieve by end of FY18/19.

**Ritesh Poladia:** Now, the Cotton acreages have come down by about 11-12%. So what would be your outlook for Cotton – would you increase your inventories?

**Pawan Jain:** In October, the new cotton season has started, so in this season FY16-17, we are expecting that the consumption will again be higher than the production, so overall this is the second year when consumption will higher than the projected production. Right now cotton is arriving at a very slow pace and it is right now at around Rs. 38,000 per candy, but we believe that post-Diwali by November and December it may come down to around Rs. 35,000 - Rs. 36,000 per candy and we will continue to have the policy for storage of Cotton for the next season for about 4 to 6-months' time.

**Ritesh Poladia:** So you are not going to increase your Cotton inventory considering there might be a price jack up?

**Pawan Jain:** We continue to retain our policy of 4 to 6-months.

**Ritesh Poladia:** As you said that Cotton Candy is right now Rs. 38,000 per candy and post-Diwali it might come down to Rs. 34,000-35,000 per candy, but last year I believe it was below Rs. 30,000 per candy?

**Pawan Jain:** It had hit MSP at a particular point of time but on an overall average basis it is around Rs. 34,000 to 35,000 per candy only.

**Ritesh Poladia:** So you are not anticipating a big jump in the Cotton prices for this year?

**Pawan Jain:** No, as of now also it is around 5% higher than the last year. So on an overall basis it will remain within that range only.

**Gunjan Shroff:** Every day the price is coming down.

**Pawan Jain:** Right now, the arrival is at a very slow pace. The arrival is expected to pick up post-Diwali in November and December.

**Moderator:** Thank you. The next question is from the line of Arjun Sengar from Reliance Mutual Fund. Please go ahead.

**Arjun Sengar:** My question is on Paper. So if I heard it correct, you are at 92% utilization in Paper. So can you tell me what was the realization per ton in this quarter?

**Pawan Jain:** We are not reporting realization per ton, but yes if you see the growth on year-to-year basis in this quarter, it is around 3% growth in revenue, and out of that 2% is volume and 1% is the price hike.

**Arjun Sengar:** Your Copier Paper contribution has increased from 50% to 55%. So does that fully explain 26% increase in EBITDA?

**Pawan Jain:** Increase in EBITDA is due to two-three factors - one is the Copier Paper contribution and the other is the raw material costs.

**Arjun Sengar:** So that has come down?

**Pawan Jain:** Yes.

**Arjun Sengar:** I believe it is agri residue in your case, right?

**Pawan Jain:** Yes, that is right.

**Arjun Sengar:** By what percentage has the price come down YoY?

**Pawan Jain:** It is around 5% to 7%.

**Arjun Sengar:** Is the trend same in wheat prices also?

**Pawan Jain:** Because we are using Wheat Straw as a raw material, so April-to-September is the season for Wheat Straw and hence the price might be flat during the next half or it may increase a little also, but on the other side, the sales price is being increased continuously, so in this first half the sales price has been increased by around 5%, so we are expecting another increase in H2 also.

**Arjun Sengar:** 2% in Q2, that means 5-6% in Q1, right?

**Pawan Jain:** Yes.

**Arjun Sengar:** Also, can you tell me your utilization based on Metric Tonnes in Towels in the same quarter last year?

**Pawan Jain:** It is almost same; 50% for last quarter (Q1 FY17).

**Arjun Sengar:** But you said that you have 13% volume growth, right, in Towel this quarter?

**Pawan Jain:** In this quarter it is 13% Y-o-Y, if you see the half year it is around 26% Y-o-Y. In Q2 FY16 the utilisation was around 44-45% on tonnage basis.

**Arjun Sengar:** By FY17 year-end, what kind of utilization can we expect?

**Pawan Jain:** It will be about 50% to 55%.

**Arjun Sengar:** Because some time back we were expecting 20% kind of growth in Towels, seems to be not fructifying?

**Pawan Jain:** No, if you see the volume growth, it is already 26% Y-o-Y in H1 and H2 the same trend will continue. If you see the sales revenue of Towel it is around 23% growth Y-o-Y in H1.

**Arjun Sengar:** Bed Linen volume that you have achieved is all through exports mostly?

**Pawan Jain:** It is almost exports. We are selling in domestic market also and particularly this is a festival season, so the pickup in domestic market was also on a higher side.

**Arjun Sengar:** So as of now is it correct to say that you do not have any significant CAPEX planned in Textiles segment?

**Pawan Jain:** So as of now nothing on the table, yes.

**Arjun Sengar:** What about Paper?

**Pawan Jain:** Paper also there is no CAPEX right now.

**Arjun Sengar:** So, what would be your maintenance CAPEX per annum?

**Gunjan Shroff:** We spend around Rs. 3.5 crore a month or Rs. 50 crore a year.

**Arjun Sengar:** There is a possibility of this Government policy announced for apparels to be extended to Home Textiles. So can you give us a sense of what kind of benefit you will see out of that?

**Pawan Jain:** It is a 5% incremental duty draw back. So if that is extended to Home Textiles, 5% additional duty drawback will be the benefit.

**Arjun Sengar:** Currently, what is the duty drawback?

**Gunjan Shroff:** It is around 7.2%.

**Arjun Sengar:** Do we stand to gain significantly from the employee policy?

**Pawan Jain:** The major benefit is the duty drawback because if you get an additional 5%, than you can compete with European countries also. Right now because of the FTA, Pakistan is better placed for exporting to Europe because of the duty benefit they are having. If that duty drawback of additional 5% will be given to Home Textiles for Indian manufacturers that will help them to increase their proportion in European markets to compete on that basis with neighboring countries.

**Arjun Sengar:** This 5% duty drawback is calculated as a percentage of revenue or raw material cost?

**Gunjan Shroff:** Export revenue.

**Moderator:** Thank you. The next question is from the line of Vishal Rampuria from Brescon. Please go ahead.

**Vishal Rampuria:** I just wanted to ask a few questions: Basically, what is the maximum revenue on Textiles that we can achieve assuming that we run the sheeting plant at 80% and Towel plant at 70-80% say over the next two years or three years?

**Pawan Jain:** It depends upon two things - one is how much captive yarn we can utilize in our Towel and Bed Linen. So depending upon that, it might be Rs. 500 crore here and there, but we can go from Rs. 5,000 crore to around Rs. 5,500 crore on annual basis.

**Vishal Rampuria:** What would be my average cost of funding assuming that I have got TUF incentives and state incentives for the expansion?

**Pawan Jain:** So on an overall basis it is less than 5% including working capital loans.

**Vishal Rampuria:** You said that Cotton prices have gone up by 5% but I read a few days back that the rates are up by 20%. Is it that the rates have come down in last few days?

**Pawan Jain:** It was higher by about 30% in Q2, but the new season has started in October so now it again came down to settle at around 5% higher as compared to the last year.

**Vishal Rampuria:** If I look at your capital employed split between Textiles and Paper, so Textiles is giving me an ROCE of roughly 8-9%. So, assuming that we achieve revenue of Rs. 5,000-5,500 crore, what is the ROCE we can get?

**Pawan Jain:** We are not reporting ROCE on business separately. On an overall basis, it is right now into early teen, so it can go to the mid to high teens or early 20s in next two years' time.

**Vishal Rampuria:** No, basically I use the capital employed number given in the segmental reporting. So on that basis I am getting ROCE number of roughly 10% for the Textiles business and you are saying maximum it can go to 15% or 17%?

**Pawan Jain:** Yes, with passage of time, it will improve.

**Moderator:** Thank you. The next question is from the line of Ronak Morjaria from Edelweiss Mutual Fund. Please go ahead.

**Ronak Morjaria:** I just wanted to check the Bed Linen capacity utilization is at 32%. That is at the processing level?

**Pawan Jain:** So about 60% out of this is at processing and about 40% is up to weaving, so blended it is 32%.

**Ronak Morjaria:** Could you give the breakup of your home textiles revenue between Bed Linen, Towel and Yarn?

**Pawan Jain:** No, we are not reporting the breakup of Towel and Bed Linen separately.

**Moderator:** Thank you. The next question is from the line of Bhavin Chheda from Enam Holdings. Please go ahead.

**Bhavin Chheda:** What would be the volume growth in Towels and Bed Sheet for the quarter and first half for you?

**Pawan Jain:** So for Towel, the volume growth is 13% for quarter year-on-year basis and 26% for first half on year-on-year basis. So quarter-to-quarter Towel is flat whereas Bed Linen is 30% higher.

**Bhavin Chheda:** Last year Bed Linen was not there?

**Pawan Jain:** Not there.

**Bhavin Chheda:** On the Towel side, from the new capacity, what was the utilization in the quarter and first half?

**Pawan Jain:** We are now reporting on a blended basis. On a tonnage basis it is 50% now on the overall Towel.

**Bhavin Chheda:** On the Bed Sheet, overall tonnage how much it is?

**Pawan Jain:** So it is at 32% that is on million meters basis.

**Bhavin Chheda:** As we spoke last time, you said that initially as you start the Bed Sheet realizations will be low because you are doing via third-party. So Bed Sheet is still via third-party or you have been able to get orders from direct clients?

**Pawan Jain:** As reported earlier, we have added three customers in this quarter for Bed Linen business, and out of this 32% utilization, around 60% constitute the order which is processed fabric and 40% of this utilization is for greigh fabric.

**Bhavin Chheda:** Which means that you are directly selling it to customers?

**Pawan Jain:** Yes.

**Bhavin Chheda:** 40% is via third-party?

**Pawan Jain:** Yes.

**Bhavin Chheda:** Have you seen your realizations also improve in the Bed Sheet on quarter-on-quarter basis?

**Pawan Jain:** These are the only first two quarters we had started Bed Linen business. So the new customers which we have added, the delivery for the same will start sometime in Q3 and Q4 of FY17. With the addition of those customers, we will be able to improve the realization. So gradually when those kind of value will be added, we will reduce the share of our greigh fabric which we are selling through third-party basis.

**Bhavin Chheda:** On the Textiles side, what would be the export mix between US, Europe and any other country?

**Pawan Jain:** So roughly around 60% to 65% is US and around 15% to 20% is Europe and the rest is rest of world. So on an overall basis, about 90% to 92% is exports and domestic is 8% to 10%.

**Bhavin Chheda:** Since you are saying that the Bed Sheet utilization is also going up in your spread Towel capacity, which means second half should again be much better than the first half results, right?

**Pawan Jain:** We would not be able to give the guidance on quarter-to-quarter basis, but we can say that H2 in terms of volumes and sales growth will be little better than H1 and FY18 would be a better year than FY17.

**Bhavin Chheda:** You are confident that margins would also be sustained, there is a slight decline on quarter-on-quarter basis, but you will still remain upwards of 20%?

**Pawan Jain:** We can say that the margin will not deviate much. Earlier it used to deviate due to product mix and revenue proportion, Cotton scenario and foreign currency scenario. Now the deviation has reduced to a larger extent and now more or less high teens to early 20s will continue to be on an overall company basis.

**Moderator:** Thank you. The next question is from the line of Abhilasha Satale from First Global Securities Private Limited. Please go ahead.

**Abhilasha Satale:** My question is again on the Towel capacity utilization. If we could just get some breakup on old capacity and new capacity like how much is the utilization level you have reached in new capacity because old as is like we have been utilizing?

**Pawan Jain:** So if you see on a tonnage basis, right now in this quarter is 50%. So if you compare it with last year FY16 on an overall basis it was around 40% to 45% on blended on a tonnage basis.

**Abhilasha Satale:** In H2, how much volume growth are we anticipating on this base, on H1 how much more we can go by the end of the year as in FY18 we are targeting 80%, so FY17 how much run rate can we achieve?

**Pawan Jain:** So in this H1 the volume growth in Towel is around 26% and in H2 also it will be mid-20s kind of a growth.

**Abhilasha Satale:** Similarly, in Bed Linen facility, how much we will achieve by the end of the year?

**Pawan Jain:** So we had given a guidance to achieve up to 40% to 50% kind of utilization by the year-end (FY17).

**Abhilasha Satale:** So that will add another 15% to 20% kind of volume growth in H2?

**Pawan Jain:** Yes, that is right.

**Abhilasha Satale:** Coming to the Yarn division, out of the total 5.5 lakh spindles installed, how much is captive utilization as of now?

**Pawan Jain:** On a production basis, in this quarter 37% of Yarn we produced we had consumed captively, which was 30% in Q1.

**Abhilasha Satale:** Rest like around 63% we are selling outside?

**Pawan Jain:** That is right.

**Abhilasha Satale:** As this Bed Linen facility utilization keeps growing, this 63% run rate would come down, right, so we will start using captively more than selling it?

**Pawan Jain:** That is right.

**Abhilasha Satale:** Margins we are currently getting on Yarn division is comparatively lesser compared to Bed Linen division. So as we grow our volumes from Bed Linen division, will it not improve our margin gradually?

**Pawan Jain:** Yes, obviously, as soon as you move your revenue mix and product mix to the higher end of the product which is made ups, so you will obviously able to get better margins.

**Abhilasha Satale:** Can you just substantiate it with some numbers like how much is our margin in Yarn division and how much as we grow in Bed Linen we will achieve?

**Pawan Jain:** We are not reporting margins separately for our Yarn, Towel or Bed Linen. So on an overall basis, we had given the guidance that margin will be sustainable from 18% to 20% on an overall company basis.

**Abhilasha Satale:** I was just trying to understand that as we move in value chain, our margins will improve, right?

**Pawan Jain:** We had given guidance on a sustainable basis for next two-three years, not for a quarter-to-quarter basis. So when we say that it would be sustainable from 18% to 20% kind of a thing, we are taking cautionary view with respect to certain exports incentives or foreign currency fluctuations or all other parameters also.

**Abhilasha Satale:** What is our debt reduction plan, in H1 we have achieved better than what we have guided for. So in H2, have we changed our guidance, how much are we anticipating at the year-end?

**Pawan Jain:** We continue to repay around Rs. 100 crore a quarter for the next six to eight quarters and that is the normal run rate we are going to follow and whenever there are free cash flows, from a time to time our endeavor is to repay high cost debt.

**Moderator:** Thank you. The next question is from the line of Natasha Agarwal from Crisil Research. Please go ahead.

**Natasha Agarwal:** There was an update regarding the issuance of commercial paper worth Rs. 200 crore. I just wanted to know is this issuance for refinancing?

**Pawan Jain:** Because our rating has upgraded, so it is a flexibility in terms of availing commercial papers also. So that can give us a flexibility in terms of selecting the financial product. So whenever we raise this amount we will reduce our bank borrowings to that extent.

**Natasha Agarwal:** So you will be reducing your bank borrowings to that extent?

**Pawan Jain:** That is right.

**Natasha Agarwal:** Is there any seasonality impact in Q2 because your quarter-on-quarter numbers have been comparatively flat?

**Pawan Jain:** There is no seasonality in Q2, only the base for Q2 of FY16 was also on a higher side.

**Natasha Agarwal:** The net debt figure that you have given Rs. 2,500 crore, can you just give us a breakup as to what is TUF-based debt and what is the high cost debt in that?

**Pawan Jain:** Around Rs. 700 crore is the short-term debt and rest of the loans are long-term debt and out of that around (+75%) is the TUF-based loan.

**Natasha Agarwal:** What is the cost of your high cost debt?

**Pawan Jain:** It is around 9-10%.

**Moderator:** Thank you. The next question is from the line of Ritesh Badjatia from AMSEC. Please go ahead.

**Ritesh Badjatia:** You are a preferred supplier to Target, IKEA and other global giants. Can you highlight together the suppliers contribute how much revenue to your top line?

**Pawan Jain:** No, we are not reporting any customer wise revenue and proportion. So they continue to be our large customers.

**Ritesh Badjatia:** The Cotton prices as of now you said Rs. 38,000 per candy and it may reduce to Rs. 35,000-36,000 after Diwali. So in case the prices decreased from here instead of moving up because of Cotton acreages that we have seen, then what kind of the margins can be hit?

**Pawan Jain:** Right now the Cotton prices are already 5% higher as compared to the last year. So if the prices will start moving from this point onwards, so that will obviously have some impact in terms of margin for around 40-45-days because we always have a lead time of around 40-45-days for Yarn business; however, the Yarn business is more adjusted with the current prices of Cotton. So otherwise also Yarn prices in this quarter is not very much reduced as compared to the Cotton prices reduction.

**Ritesh Badjatia:** So that 18-20% margin guidance that you have given for the next two years factors in that scenario?

**Pawan Jain:** Yes, that will be sustainable, that is right.

**Moderator:** Thank you. The next question is from the line of Rajat Jain from Advance Enterprises Private Ltd. Please go ahead.

**Rajat Jain:** When you are booking orders for the customers, you are taking the current prices of Yarn and that will be delivered six months down the line. In the next quarter, October to December, so you would be booking sales for the orders you had booked between April to June, is that correct?

**Pawan Jain:** That is right.

**Rajat Jain:** So basically if we see the Cotton prices between April to June, they were at the lowest. And say if the prices go up in the next quarter – than your margins will take a hit, can you just explain that?

**Pawan Jain:** Whether the prices of Cotton will go higher or go lower, it will always give you a benefit or margin reduction for around 30-45-days. So it is on a rolling basis. So whenever there is a price hike or there is a price reduction in Cotton, so that will give you a benefit or negative impact in only 30 to 45-days.

**Rajat Jain:** But if you can give us a ballpark figure, let us say 10% increase in Cotton Yarn prices, by what percentage point is your margin reduced?

**Pawan Jain:** One thing we need to understand is, if Cotton prices go up by 20%, so at Yarn stage it is about 50% of your cost. So 20% increase will give you 10% higher cost for Yarn business. For Towel and Bedsheet, it will be around 30% of cost in terms of Cotton. So that will give you increase of only 5-6% in made-ups against 20% increase in cotton prices.

**Rajat Jain:** 10% increase in Cotton prices would?

**Pawan Jain:** At Towel and Bed Linen it will be 3% increase in cost. That can be easily passed on to the customers and there would not be much impact. Yes, for the immediate period of 30-days to 45-days, there is some impact.

**Rajat Jain:** So regarding your Terry Towel utilization, you said you expect about 55% by the year end. FY18 and FY19, what kind of utilizations are we estimating?

**Pawan Jain:** We had achieved about 50% in H1. We are saying that in H2 it will be around 50% to 55%, for FY18 onwards it will be around 75% to 80%.

**Rajat Jain:** You said lot of capital consumption which is happening now. So if you look at one of your closest competitors, Welspun India, they are into similar business - Bed Sheet and Terry Towel with margins of 27%. So once you achieve optimal capacity utilization, can you expect the margins to be around 25%-27% range the same as your competitor?

**Pawan Jain:** I will not able to comment on the competition margins but as far as Trident is concerned, we just started our Bed Linen business towards the end of FY16 and we are new to the market and obviously it will take some time to reach the maturity level in terms of our markets where we are serving for Bed Linen. For Towel business, yes, we had already at a maturity level and it is only the volume growth and the addition into the new customers that will give us a growth in terms of volumes and sales revenue.

**Rajat Jain:** So in terms of the capacity utilization, what is the maximum we can achieve for both the Terry Towel and Bed Linen – is it 80% by FY18?

**Pawan Jain:** 75-80% is the optimum.

**Rajat Jain:** I was reading that you are planning Rs. 440 crore of expansion in the paper capacity and the captive power plant. Is that still on?

**Pawan Jain:** That was the environmental clearance we had received from the Ministry of Environment & Forest. So as of now there is nothing on the cards for expansion in paper because in paper you cannot even increase your production by 1 ton without having that environment clearance in hand. Right now, there is nothing on table and tomorrow if we think of paper, there is no Greenfield or Brownfield kind of expansion in paper, it is only a debottlenecking where we may spend Rs. 100 crore in 2-3-years time and that will give us a 15% incremental production.

**Rajat Jain:** You opened a store in New York. So what kind of revenues are we expecting from that store?

**Pawan Jain:** We are not reporting revenues separately from that store, but yes, we had enhanced our marketing initiatives in the last two-three quarters and we had opened a new showroom in New York, we had opened a wholly-owned subsidiary in UK and we had also opened a new office in UK.

**Rajat Jain:** You plan to open more such stores?

**Pawan Jain:** It is more of having a touch base with the customers in US and UK. So earlier the teams from India were catering to these kind of customers. So now we have hired persons who are sitting in US and UK, they will be able to cater and touch base with those customers on a day-to-day basis.

**Rajat Jain:** Currently, you said you would be repaying close to Rs. 100 crore every quarter?

**Pawan Jain:** Yes.

**Moderator:** Thank you. The next question is from the line of Ronak Morjaria from Edelweiss Mutual Fund. Please go ahead.

**Ronak Morjaria:** You said Copier Paper share is now 55% versus 50% last year or last quarter?

**Pawan Jain:** Last year.

**Ronak Morjaria:** What led to the drop in EBITDA margins for the paper segment from 39% last quarter to 36% this quarter?

**Pawan Jain:** Some raw material costs were higher in this quarter.

**Moderator:** Thank you. The next question is from the line of Dhwanil Shah from iWealth Management. Please go ahead.

**Dhwanil Shah:** Just wanted to understand on our Bed Linen again, as you said that currently we are at 32% utilization. If you could just throw some light on how will the utilization improve from here – so do we currently have the orders for next six to seven months or how are we expecting the orders to come in further?

**Pawan Jain:** We are having some of the orders, we are also expecting higher off take in Q4 for those new customers which we have added recently, so we can achieve between 40% to 50% kind of the utilization.

**Dhwanil Shah:** For next year what is our internal targets?

**Pawan Jain:** Again, our projection is to achieve by the end of FY18, around 70-80% kind of utilization.

**Dhwanil Shah:** So that will lead to approx. Rs. 800-900 crore of top line from the Bed Linen part?

**Pawan Jain:** Yes, that is right.

**Dhwanil Shah:** On the Towel side, you said 75-80% utilization we will be doing. So that is again 25% kind of volume growth in this year.

**Pawan Jain:** In H1, it is already around 26%. So going forward, we are expecting 20% to 25% kind of growth in Towels in H2 also.

**Dhwanil Shah:** This is happening from the similar customer base only or the new ones?

**Pawan Jain:** It is a mix of both.

**Moderator:** Thank you. The next question is from the line of Nitin Agarwal from JM Financial. Please go ahead.

**Nitin Agarwal:** Just wanted to check, if the entire 43 million planned capacity for Bed Sheet has been commissioned?

**Pawan Jain:** Yes, it has commissioned.

**Nitin Agarwal:** So when you say utilization of 32%, is it that the production has been in the range of 3 to 4 million meters for this quarter?

**Pawan Jain:** Yes, that is right.

**Moderator:** Thank you. The next question is from the line of Rahul Verma, as an individual investor. Please go ahead.

**Rahul Verma:** I just wanted to check your Cotton procurement policy, you stock it for six months and how much proportion is imports and the domestic?

**Pawan Jain:** Cotton procurement is largely from the domestic market and by the end of the season, we will have around 4-6-months kind of procurement.

**Rahul Verma:** This policy remains same every year or it keeps changing?

**Pawan Jain:** Yes, we have the same policy.

**Rahul Verma:** Because last time since the prices were up, but that did not affect you much since you are holding 4 to 6-months?

**Pawan Jain :**That is why I am saying that, usually by the end of the year it will be around 4 to 6-months, so depending upon the prices, it might be higher, it might be around 4-5-months, if prices are comfortable, then you can have it 5 to 6-months kind of a period.

**Rahul Verma:** What kind of Yarn counts mainly?

**Pawan Jain:** Yarn counts, we have a capability from 10 counts to 120 counts.

**Rahul Verma:** Bed Linen and Towel, how much is required?

**Pawan Jain:** 60 to 100 kind of counts for bed linen.

**Moderator:** Thank you. The next question is from the line of Abhilasha Satale from First Global Securities. Please go ahead.

**Abhilasha Satale:** I just want to know, how much has been the utilization level for Yarn during the current year and how much it was last year because even 5.5 million spindles were there last year?

**Pawan Jain:** So it was almost same; it is 90% in this quarter, so if you see FY16, then also it was around 90% to 91%.

**Abhilasha Satale:** How much have Yarn volumes grown in Q2 and H1?

**Pawan Jain:** Yarn volumes in Q2 have grown 13% year-on-year and in H1, it has grown by 18%.

**Abhilasha Satale:** The count has remained same?

**Pawan Jain:** Now, the average count is higher in H1 as compared to FY16 because the new facilities which we had commissioned in Q4 of FY16 that has been utilizing at around (+90%) in the first half.

**Abhilasha Satale:** How much was utilization of this facility last year?

**Pawan Jain:** This was the new facility, this was commissioned on 15th of February. So in this first half it is operating at 90% utilization.

**Abhilasha Satale:** What is our average count now?

**Pawan Jain:** Average count is now between 36 to 40.

**Moderator:** Thank you. The next question is from the line of Saurabh Jain from HSBC. Please go ahead.

**Saurabh Jain:** Regarding Bed Sheets, you said you added three new customers. So just wanted to check if you can disclose if there are any Egyptian orders on this side?

**Pawan Jain:** No.

**Saurabh Jain:** But any premium products like vis-à-vis your existing mix of the Bed Sheets, are we increasing on the premiumization side?

**Pawan Jain:** It is not a premium kind of thing, it is more of a mid-segment kind of products.

**Saurabh Jain:** So probably the similar kind of margin profile with which we started?

**Pawan Jain:** Yes.

**Saurabh Jain:** On the Towel side, you mentioned that your revenue growth will be driven more by volumes?

**Pawan Jain:** On a half year basis, it is more of a volume and on a quarterly basis it is around 13% on volume and 2% on price realization.

**Saurabh Jain:** Going forward, are we bringing any new innovations or new products on the Towel side which can bring the higher realizations and probably higher margins also?

**Pawan Jain:** Obviously, our research and development is continuously working on the new product development and innovative products. That will obviously give us a more product mix in terms of value added products. We had also penetrated majorly into the domestic market and launched our branded products through MBOs and distributors that will also increase our premiumization in the domestic market.

**Saurabh Jain:** Any product we can expect in the near-term which can seriously bring us volume growth as well as better margins?

**Pawan Jain:** We will not be able to say that on a product-to-product basis, but yes, we are continuously working on the new product development and innovative products.

**Moderator:** Thank you. The next question is from the line of Natasha Agarwal from Crisil Research. Please go ahead.

**Natasha Agarwal:** I just wanted some clarity on the other income, which has increased so significantly?

**Gunjan Shroff:** The other income has increased because of better forward realizations of Rs. 12 crore, we had booked better forward contracts, which is included in the other operating income.

**Natasha Agarwal:** So this Rs. 12 crore is H1 FY17 figure?

**Gunjan Shroff:** This one is a quarter figure.

**Moderator:** Thank you. Ladies and Gentlemen, that was the last question. I would now like to hand the floor back to the management for closing comments. Thank you and over to you sir.

**Pawan Jain:** Thank you everyone for joining us on the call. Hope we were able to answer all your questions. Should you need any further clarifications or would like to know more about the company, please feel free to contact us or CDR India.

**Moderator:** Thank you very much. Ladies and Gentlemen, on behalf of Trident Limited, that concludes this conference. Thank you for joining us and you may now disconnect your lines.

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