Trident Limited
Q3 & 9M FY17 Earnings Conference Call
11.00am IST on Friday, January 20, 2017

Moderator: Good day ladies and gentlemen 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. Should you need assistance during the conference call, please signal an operator by pressing “*” and 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 morning everyone and welcome to Trident Limited’s Q3 & 9M FY17 earnings conference call. Today, we have with us senior members of the management team, including Mr. Pawan Jain - Director, Corporate Affairs, Mr. Gunjan Shroff - Chief Financial Officer and Mr. Vipul Garg - Vice President, Investor Relations. We will commence the call with opening remarks from the management team and follow that with an interactive question-and-answer session.

Before we begin, I would like to highlight that certain statements that may be made or discussed on the conference call today maybe forward-looking in nature, and a disclaimer to that effect has been provided in the earnings presentation shared with you earlier. The company does not undertake to update them publicly.

I now request Mr. Pawan Jain to make his initial remarks. Thank you, and over to you, sir.

Pawan Jain: Thank you Nishid. Good morning and a warm welcome to everyone. I would take you through the key developments as well as share the operational performance of the Company across business segments, while our CFO - Mr. Gunjan Shroff, will share the financial highlights for the quarter and nine-months ended 31st December, 2016.

I am glad to share that the Board of Directors has declared a second Interim Dividend of Rs. 0.60/- (6%) per fully paid up equity share of Rs. 10/- each. With this, the total dividend paid in the first nine months of fiscal year 2017 stands at Rs. 1.20 per share, translating into a healthy Dividend Payout Ratio of 31%.

Overall, we have showcased another solid performance in the nine months period backed by strong off take in Home Textiles segment. Our Bath Linen reported healthy volume growth of 25% year-on-year led by our
efforts on marketing, enhanced product offerings as well as deeper penetration in newer geographies. Bed Linen also registered solid growth in the first nine months period. I expect the performance to further improve as we increase the utilization levels at our newer facilities.

Let me just touch upon the key financial highlights. In 9M FY17, we achieved the highest-ever Revenues, EBITDA and PAT. Revenues stood at Rs. 3,487 crore, up by 26%, EBITDA at Rs. 725 crore, up 30% and PAT at Rs. 237 crore, up 36%. We also have a strong balance sheet with the Net Debt to Equity Ratio declining to 1.4x as on 31st December from 1.9x in FY16. In addition, we reported healthy cash accrual of Rs. 549 crore in 9M FY17, up by 31%.

Let me now share some segment wise perspectives.

In 9M FY17, revenues from textiles segment grew by 32% to Rs. 2,838 crore led by encouraging traction in Home Textiles including Bath Linen and Bed Linen. Higher Yarn sales also supported the overall momentum. Going forward, as contribution from Bed Linen increases, we anticipate to internally utilize more yarn. All the strategic initiatives undertaken in the past, including strengthening our core marketing team has further helped deliver robust performance.

Our new Bed Linen facility operated at a capacity utilization of 29% in 9M FY17, while the utilization in Bath Linen stood at 49% based on tonnage capacity. Yarn business also reported improved utilization level of 92%. We remain confident of notably improving our utilization levels over the coming quarters, which will enable us to report strong performance going forward. Domestic market also witnessed robust demand driven by exciting product portfolio, increased presence across retail outlets as well as better acceptance of our products.

Moving on to our paper segment, revenues increased by 5% to Rs. 649 crore with significant improvement in EBIT. EBIT margins expanded by 801 basis points year-on-year mainly driven by higher contribution of value-added copier paper as well as better realizations due to higher demand. The contribution of value-added copier paper was close to 50% in this quarter. Capacity utilization in Paper stood at 90% in 9M FY17.

Let me also quickly take you through some of the key awards the Company received during the quarter. Trident was conferred the ‘Runner Up Award’ in prestigious ‘Project of the Year - Large Category’ at the PMI India Awards 2016, for its Integrated Composite Textile (Bed Linen) Project at Budhni, Madhya Pradesh. The Company also received several accolades for Energy Conservation. One was the prestigious ‘National Energy Conservation Award – 2016 Second Prize for Towel Division in Budhni’ by the Ministry of Power, Government of India, while the other was ‘IPMA Energy Conservation Award – 2015-16 for Paper Division in Barnala’ by The Indian Paper Manufacturers Association.

The roadmap for FY2018 appears very promising as all the strategic initiatives undertaken by us in the past have started delivering results and we are confident of building on this momentum in the upcoming quarters. The top management of the Company is fully focused on sweating the global scale capacities in the shortest possible time. With major CAPEX behind us, we are confident of maintaining our robust run-
rate of generating free cash flows, which we believe will create tremendous value for all our stakeholders going forward.

With that, I would like to call upon our CFO – Mr. Gunjan Shroff to continue the discussion with his views on the financial performance during the quarter and nine-months period.

Mr. Gunjan Shroff: Thank you Pawan. Good morning everyone. I will share the financial highlights for the quarter and nine-months ended December 31, 2016.

During the quarter, our net revenues stood at Rs. 1,139 crore, higher by 26% compared to Rs. 905 crore in Q3 FY16. EBITDA improved by 30% to Rs. 233 crore translating to EBITDA margin of 20.5%. Profit After Tax grew by 26% to Rs. 79 crore against Rs. 62 crore reported in the corresponding quarter of last year. PAT including comprehensive income improved by 18% to Rs. 71 crore.

During 9M FY2017, our net revenues increased by 26% to Rs. 3,487 crore, while EBITDA improved by 30% to Rs. 725 crore translating to EBITDA margin of 20.8%. Profit After Tax stood at Rs. 237 crore, higher by 36% compared to Rs. 175 crore in 9M FY16. PAT including comprehensive income improved by 35% to Rs. 240 crore.

Let me now give you a segment-wise performance of the Company.

In Q3 FY17, revenues from textiles segment came in at Rs. 916 crore against Rs. 704 core in Q3 FY16, representation an increase of 30% year-on-year. EBIT was higher by 11% to Rs. 83 crore, while the EBIT margins stood at 9.1%. EBIT margins declined by 150 basis points on account of higher-than-expected increase in the prices of cotton in Q3 FY17. In the paper segment, revenues were higher by 11% to Rs. 223 crore compared to Rs. 201 crore in Q3 FY16. EBIT increased sharply by 62% to Rs. 63 crore translating to EBIT margins of 28.4%, higher by 890 basis points year-on-year. Margin enhancement in the Paper segment was a result of combination of factors including higher contribution of value-added copier paper as well as better realizations.

During 9M FY17, revenues from textiles segment stood at Rs. 2,838 crore, higher by 32% year-on-year. EBIT increased by 26% to Rs. 291 crore, while the EBIT margins stood at 10.2%. In the paper segment, revenues were up by 5% to Rs. 650 crore. EBIT increased by 49% to Rs. 178 core translating to EBIT margins of 27.5%, higher by 801 basis points year-on-year.

Coming to our key financial parameters, our Net Debt stood at Rs. 2,608 crore as on 31st December, 2016, down from Rs. 3,273 crore as on March 31, 2016. This led to significant decline in the Net Debt to Equity Ratio which stood at 1.4x against 1.9x as on March 31, 2016. During Q3 FY17, we repaid outstanding term loans of Rs. 78.5 crore including high cost debt of Rs. 8 crore. With this, we have repaid a total of Rs. 445 crore in 9M FY17 which includes Rs. 159 crore of high cost debt. Our long term debt as on 31st December, 2016 stood at Rs. 2,072 crore, out of which more than 75% is covered under the TUF scheme. As a practice, we will continue to repay high cost term debt ahead of our repayment schedule which will strengthen our balance sheet and also help reduce the overall financial costs.
With this, I would request the moderator to open the forum for questions. Thank you.

**Moderator:** Thank you very much. We will now begin with the question and answer session. The first question is from the line of Vinod Malviya from Florintree Advisors. Please go ahead.

**Vinod Malviya:** If I look at your Textile EBIT margins from Q2 to Q3, it has declined by almost more than 1.5%. So, can you explain why there is such a decline in the Textile margins from Q2 to Q3?

**Pawan Jain:** Yes, the EBIT margin has declined sequentially due to two reasons; one, there is an increase in raw material cost i.e. cotton. So in last quarter, which is Q2 FY17, we had inventory of cotton which we procured in last fiscal year, which is the FY16. So at that point of time, cost of cotton was much lower as compared to the cost of cotton in Q3 FY17. So if you see the last season, the cotton was procured between Rs. 34,000 to Rs. 36,000 a candy which has now gone to Rs. 40,000 a candy. The raw material cost has increased which has resulted into lower margins. And secondly, in this quarter, we have MTM FOREX loss also of about Rs. 8 crore, which has impact in other operating income.

**Vinod Malviya:** What is this MTM FOREX related to?

**Pawan Jain:** It is the forward contracts which we take for our contracts of exports. So every quarter end, there is MTM, if there is a loss that has to be booked as per the accounting standards. It has to be mark-to-market.

**Vinod Malviya:** Okay, got it. And the second thing was on the utilization front. So I went through your presentation, your utilization in the Towel for the nine-month is around 49%.

**Pawan Jain:** Yes.

**Vinod Malviya:** And if I am right, in Q1 it was 53%, in Q2 it was 50%. So this time, the utilization, if I do a weighted average, will be lower at around 45%. So why has there been a decline in the utilization, is this seasonality or there was some impact of demonetization?

**Pawan Jain:** In Towels, there is no impact of demonetization, the utilisations are lower in this quarter to 46% as compared to around 50%+ in Q2. So in Q2, there were certain promotional orders and historically, if you see the quarter two will always be better in terms of promotional orders, for the festive season in Q3. And secondly, there is a certain spillover of dispatches also, which has moved from Q3 to Q4.

**Vinod Malviya:** So, you talked about the increase in the cotton prices. So this was in Q3, but in the Q4, have you seen a similar increase in yarn pricing and your final product that is Terry Towel and Bed Linen has been increased to, so that your margins more or less again equalizes to the same level what you had recorded earlier?

**Pawan Jain:** So obviously in Yarn, 45 days is the lead time, so the impact for 45 days was there in Q3. In the current quarter also, the cotton prices are increasing further. So, as of now if you see the cotton per candy is costing around Rs. 42,000 plus. Proportionately the Yarn prices are also increasing and we are...
able to pass it on to customers. But the only thing is that up to 45 days, there would be some impact on the margins.

Vinod Malviya: Okay. But even your Terry Towel and Bed Linen prices are equal, increasing in the same proportion?

Pawan Jain: Yes. If you see the impact of the cotton, suppose the cotton prices have increased by say 20%. So at a Yarn level, the impact is around 8% to 10% whereas in Towel and Bed Linen, it is around 5% to 6% only. So obviously the impact has to be passed on to the customers, but the lead time for Towel and Bed Linen is more than three months. So that impacts one quarter.

Vinod Malviya: Okay. So we stick to our guidance of around 65% utilization in FY18 for Terry Towel and around 50% for Bed Linen

Pawan Jain: See 65% utilization in Towel is on equipment basis. On a tonnage basis, the guidance is still between; we will close this year between 50% to 55%.

Vinod Malviya: I am talking about FY18.

Pawan Jain: FY18, yes, that is right.

Vinod Malviya: 65% is very much achievable and around 50% in the Bed Linen is achievable?

Pawan Jain: Yes.

Moderator: Thank you. The next question is from the line of Rahul Bhangadia from Lucky Investment Managers. Please go ahead.

Rahul Bhangadia: Has the net debt gone up from Q2 to Q3? From what I can understand, it has gone up, right? If you could just throw some light here.

Pawan Jain: Yes, it is about Rs. 100 crore kind of an increase in this quarter due to procurement of cotton because the cotton season starts in October up to March, and every year in these two quarters because of the procurement of cotton for the next season, the inventory goes up and along with that the short-term debt is also going to increase.

Gunjan Shroff: But that is very marginal actually.

Rahul Bhangadia: Yes. It is marginal only. I just wanted to clarify it is only because of cotton.

Pawan Jain: It is because of the inventory.

Rahul Bhangadia: Inventory, nothing else there on the cards?

Pawan Jain: Yes.
Rahul Bhangadia: And the same reason that you mentioned for the Towels, it also applies to Bed Linen, right? That has also gone down in terms of topline.

Pawan Jain: So in Bed Linen, the utilizations are lower. It is at 27% in this quarter as against 32% in the previous quarter which is Q2. However, if you see in the last quarter i.e. Q2, the proportion of processed versus non-processed was 60-40, so 60% was processed and 40% was non-processed. However, in this quarter, the proportion is 90-10, so that is how we are moving in a right trajectory, where realizations are going to improve.

Moderator: Thank you. The next question is from the line of Ankit Panchmatia from ICICI Securities. Please go ahead.

Ankit Panchmatia: Can I get the breakup of the Textile revenues to be broadly bifurcated into Bath, Bed and the other parts of it, if you can give it to me?

Pawan Jain: As a policy, we are not reporting the numbers separately for Bath and Bed. However, we had given in the presentation, the percentages of Bath and Bed together as well as Yarn which is, as of now, out of total revenue for nine months, 49% is with Bed and Bath both and around 19% is Paper and 34% is Yarn.

Ankit Panchmatia: Just an update on the international marketing team which we have appointed, so how has been the reviews regarding the ramp up in the international markets, or how are we kind of positioned for 2017?

Pawan Jain: So, we had strengthened our team in USA and UK both in last fiscal year and now in this nine months period, they had shown good results in terms of order book, pipeline, visibility, etc. So if you see these nine months, the Towel volume has gone up by almost 25%. So that is significant as compared to last year where we were able to report only 10% kind of volume increase. So in the coming quarters also, we are having good visibility for a better kind of order book.

Ankit Panchmatia: I believe that Q1 for global clients i.e. January to March period for the US and the UK clients, there are some new roll-outs of designs or something like that, which has been observed in the international markets. So are we also kind of observing the same trend in the order book from our international team?

Pawan Jain: If we started procuring orders in the March quarter, so that will be delivered sometime in Q2 of next fiscal year. So every year there are new programs, which is turned out in Q1 of calendar year and which can be delivered in Q3. That is the normal kind of a process.

Ankit Panchmatia: Okay. And, if I heard you right, there was a spillover of some orders from Q3 to Q4, am I right?

Pawan Jain: Yes, in Towels.

Ankit Panchmatia: So what would that quantum be?
**Pawan Jain:** No, we will not be able to specify the quantum, but we are hopeful that Q4 will be better than Q3.

**Moderator:** Thank you. The next question is from the line of SahilDoshi from Birla Mutual Fund. Please go ahead.

**SahilDoshi:** We have segregated the Yarn, Bed Linen and Towel revenues. But can you give us separately what's the margin profile meaning, excluding Yarn, what is the margin today like? Just to understand because I understand that Bed Linen today maybe wouldn't have broken even, hence just to get a sense of margin trend and how that is improving?

**Pawan Jain:** We are not reporting margins separately for our Yarn and Bath & Bed Linen. So, on an overall basis, we are giving a guidance for Textile business, we will be able to generate margin on a sustainable basis in high-teens to early 20s. So between 18% to 22% is the range, which we are guiding in terms of the EBITDA margins going forward also.

**SahilDoshi:** Absolutely, I understand that. The only reason I am asking this is because today 50% of our Textile business is predominantly Yarn, approximately. And just to get a sense and trajectory and Yarn happens to be more volatile whereas the other portion is more stable. Just to get a sense.

**Pawan Jain:** See, I will tell you that as of now, Yarn is around 34% of our total revenues. And if you see the margins in Yarn that are quite fluctuating on month-to-month on the basis of the current cotton prices, on the basis of the inventory you are having. And if you see from cotton to cotton yarn, you are using raw material at around 50% to 55% whereas for Towel and Bed Linen, you are utilizing the cotton of about 30%, 35%. So obviously, as soon as you move more into the Towel and Bed Linen, you can able to absorb that kind of fluctuation in the cotton.

**SahilDoshi:** understand. That is the reason I am saying that Towel piece just inside our Textile piece, Yarn contribution for the Textile piece is 50%, right? And like you mentioned also that, this thing, Yarn is more volatile. So, if you can broadly give a sense.

**Pawan Jain:** If you see the range of Yarn is between 15% to 20%. So obviously, you can able to generate a margin of 20% in Yarn, the margin in Towel or Bed Linen might be 18% to 20%. So if you generate about 15%-16% in Yarn, the margin in Towel and Bed Linen will go higher to even 24%-25%. So it's kind of a natural hedge between the two segments.

**SahilDoshi:** Sure. But, just to take this point forward meaning if you can give us the trajectory, last year ex-Yarn, how much would the margin for Textiles be, approximately? And how is it today, and meaning where do we see that? So that we see the benefit of operating leverage really kicking in, just to understand that.

**Pawan Jain:** So as a range wise, if you see the last 2-3 years, the margin of Yarn ranged between 12% to 20%. So as of now, if you see the last two quarters, the range is between 15%-16% to even 22%.
SahilDoshi: And for the ex-Yarn?

Pawan Jain: So ex-Yarn, if you see the Towel and Bed sheet, in Towel particular, the range is from 20% to 24%, and Bed Linen as of now, we are not breakeven. So we are hopeful to breakeven in Q4.

SahilDoshi: Okay. And maybe that will be at what 30% kind of a utilization plus or higher?

Pawan Jain: So we will close, that is exit utilization of around 40% to 50%. On an overall basis, it should be something between 30% to 40%.

SahilDoshi: Okay, 40% is very encouraging, also you mentioned in one of the previous questions that now the shift is 90% processed. So how has this been driven, meaning, what kind of orders are these? And is there a new client?

Pawan Jain: Last quarter also, we had added a few new clients. And in this quarter also, we have added few more clients in the replenishment business and the earlier client, which we had added is going to start delivery or dispatches in Q4 whereas the customers whom we had added in this quarter that will start dispatches in Q1 of the next fiscal year.

SahilDoshi: And these are all in US?

Pawan Jain: So, mostly in US.

SahilDoshi: And on the Towel side, last two years FY15 and FY16, if we see, the volume growth wasn't much and it was more or less flat. This year, we started to see 15% - 20% kind of growth and you have maintained that we will be able to do that. So what is driving this? Is this new geographies, can you substantiate this?

Pawan Jain: See the volume growth in FY16 was around 10% and now this year, in nine months period, it is already 25% plus. So it's a more of a strengthening of our marketing and opening up new offices in UK and US, and then re-strategizing our market positioning. So these initiatives have started delivering this year, these steps we had taken in H2 of FY16.

SahilDoshi: But the US market is not growing at the same pace, right? So we are definitely gaining market share, or is it that new clients have been added or new geographies has also contributed to a large extent?

Pawan Jain: So both ways, we are adding new clients also, but most of the business is with the existing clients.

SahilDoshi: You would say that like-to-like growth also with the same client would have been 15% plus?

Pawan Jain: Yes.

Moderator: Thank you. The next question is from the line of NihalJham from Edelweiss. Please go ahead.
NihaJham: Just continuing on the margin part, you mentioned, obviously, that we have seen a big spike in cotton prices. And if most of the buying happens in this season between November to December or say upto March, and with prices already at Rs. 42,000 a candy, is it possible that this cotton to sit in our inventory is going to impact our margins for the coming quarters also unless we get a price hike.

Pawan Jain: As I said, we have a policy of procuring cotton from October to March, and in March, it is at a highest level. So obviously, when we start procuring cotton this season, that needs to be passed on to our Yarn and the Towel customers. So in Yarn, it's a 45 days lead time, which you can have some impact on the margin, whereas after 45 days, you will have to pass it on. And in Towel, it is a kind of a three months, which we'll able to take in terms of passing on to the customer.

NihaJham: Sure. But in Towel, considering that we are trying to acquire new clients and these clients have come onboard recently, you think we'll have the pricing power of taking this ahead?

Pawan Jain: Yes.

NihaJham: I was just looking at what has been a quarter-on-quarter utilization in the Bed Linen, you said it is 29% for 9M FY16, but specifically for the three quarters, how has that evolved?

Pawan Jain: So in this quarter, it is 27%, in last quarter, it was 32%. So obviously, the utilization on an overall basis, it has been reduced from 32% to 29%. However, the proportion of processing has been increased significantly. In last quarter, the proportion was 60-40, 60% was processing and 40% was unprocessed fabric. In this quarter, 90% is processed fabric and 10% is unprocessed.

NihaJham: And on our debt side, what is the kind of pay down that we are looking at for the remaining part of the year and in FY18 also? And most of that is non-TUF related?

Pawan Jain: We need to spend on increased inventory of cotton, so in this quarter also between Rs. 80 to 100 crore we will be able to repay and in FY18, again about Rs. 400 crore we are planning to repay.

NihaJham: Rs. 400 crore in the next year?

Pawan Jain: Yes.

Gunjan Shroff: But of course 75% of the debt is under TUF, so the ability to now repay the non-TUF portion would gradually decrease.

NihaJham: It will also decrease, absolutely. Fair enough.

Moderator: Thank you. The next question is from the line of Kaustuhb Pawaskar from Sharekhan. Please go ahead.

Kaustubh Pawaskar: You just mentioned that this quarter again you will require to maintain your debt because of your working capital requirement. So Rs. 80 to Rs. 100 crore of debt reduction, what you are planning for Q4, it is through your free cash flows or is there any other funding process you are looking for?
Pawan Jain: No, it is free cash flow only.

KaubhPawaskar: And this Rs. 400 crore of debt repayment also would be from your free cash flows because you are not having any CAPEX plan going forward.

Pawan Jain: Yes. That's right.

KaubhPawaskar: Okay. And what would be your maintenance CAPEX for FY17 and FY18?

Gunjan Shroff: Around Rs. 50 to Rs. 55 crore per annum.

KaubhPawaskar: And on international front, any other geographies you are looking to expand, where you see opportunity in the coming years?

Pawan Jain: The primary opportunity is with US; however, we are right now working with clients based in Europe, Australia, New Zealand and Japan among others. So these geographies were already there, but we are now focusing to increase the penetration into these markets.

KaubhPawaskar: But how the process would be like, you would be first opening your marketing office or you have your team already been there and they are trying to study the market and then you will get into that market? How exactly you are planning to get into these markets?

Pawan Jain: So see, earlier even in Europe also, our team from India used to visit there. So we had now opened office in Europe, so that team is taking care of entire Europe. So for the new markets like Australia, Japan right now, the team from India used to take a lead in that.

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

Vishal Rampuria: The key to overall ramp up would be getting more clients and getting more orders. So can you give more insights in terms of the client acquisitions in last one year or how has been the ramp up in the current clients? How many clients, if you just explain both on Bed plus your Bath. Can you give more insights about your marketing efforts?

Pawan Jain: So see, we had taken certain marketing initiatives in H2, which have started delivering in this current fiscal, which is FY17. So it is both kind of a trajectory where we had increased the business with our existing customers also, we had got some new clients also and in new geographies also. But the major portion of the growth is coming from the existing clients.

Vishal Rampuria: Okay. And how many clients we are servicing both on Bed plus Bath?

Pawan Jain: We are not having that data right now with regard to number of clients, so it is more of the existing clients where we had increased the business.
Vishal Rampuria: In terms of our ability to penetrate in new geographies to start selling Bath and Bed Linen products?

Pawan Jain: It is a continuous process. We are regularly looking for new geographies. We are penetrating into the new markets, where the new customers are there. But obviously, the quantum of those new markets are much lower as compared to the US and European market.

Moderator: Thank you. The next question is from the line of Amit Sureka from Bharti Axa Life. Please go ahead.

Amit Sureka: In your opinion, is it possible for US to raise import duty on Home Textiles from China or to put anti-dumping duty? I mean, is there any argument for the same?

Pawan Jain: Actually, we are also not sure what will be going to be the strategy for US going forward. But yes, if you see India, China and Pakistan are three dominant countries in terms of cotton made ups, when we see the exports to US. So obviously, India has taken a lead in terms of increasing the proportion during the last 4-5 years. So as of now, India has an inherent advantage of cotton surplus country whereas the China and Pakistan are in cotton deficit. So that is going to be inherent advantage India is having. So in any case whenever US have to change the policy, obviously they have to think of that cotton requirements also.

Amit Sureka: No, I mean, so let me put it this way, if they have to put any increased duties on Home Textiles from China, can India remain insulated from the same? I mean, will it not be the case that if there is something on China, it has to come on Indian imports also?

Pawan Jain: No, see, it's a kind of a how they will strategize in terms of import. So right now, India and China are comparable in terms of the duties which are similar, so if tomorrow they want to increase the business with India, or they want to have certain limit, so obviously, they will take a call on the basis of that how they want to go ahead. If there is increase in duties or anti-dumping duties with China, so obviously, the business will move to India.

Amit Sureka: No, that's what I'm asking. I mean, can there be differential import duties on imports from India and China?

Pawan Jain: Yes, that can be there. Right now in Europe, obviously, Pakistan is having a zero duty, whereas India is having a 9% duty.

Amit Sureka: That is for different region. Okay, but as of now, the import duty is same on Home Textiles?

Pawan Jain: Yes, that's right.

Amit Sureka: And that would be how much 15%, right?

Gunjan Shroff: About 9% is the import duty.

Amit Sureka: On the entire Home Textiles?
Gunjan Shroff: In the segment we are doing business - Terry Towel & Bed Linen.

Amit Sureka: Okay, that is 9%. But otherwise, how is the US business outlook currently? Is it showing signs of improvement, or is showing signs of fatigue right now?

Pawan Jain: So, if you see on an overall data, it is either flat or declining. Overall, however, the Indian proportion in the overall pie is increasing.

Amit Sureka: Yes. So I know last 4-5 years, that's been the trend, but will the trend last for coming years also?

Pawan Jain: Yes. So as I said that India is having advantage in terms of cotton surplus country, the availability of cotton is better as compared to the other neighboring countries. Secondly, technologically also, the Indian manufacturer has upgraded their technology in the recent 2-3 years, which is giving them edge in terms of offering a better products, offering a quality products to the US clients.

Amit Sureka: Coming to the Paper side, what has been the increase in the net realization, Q-o-Q and Y-o-Y?

Pawan Jain: So year-on-year, it's a 4% increase in realization.

Amit Sureka: Which would mean around Rs. 2,500 or roughly how much?

Gunjan Shroff: Rs. 2,000.

Amit Sureka: And Q-o-Q would be slightly less than..

Pawan Jain: Around 1.5% to 2%.

Amit Sureka: And how has been the overall Paper market? Are we seeing further price increase happening in the Paper market in November, December, or even in this month, January?

Pawan Jain: So in this quarter, there was a price increase. However going forward, so obviously, it's kind of a season period for the paper segment and demand is good. And I think we are hopeful that the Q4 is even better.

Amit Sureka: So this demonetization has no impact on the Paper demand in India?

Pawan Jain: No, in fact, the Paper demand has increased in this period.

Amit Sureka: And you are saying that in the month of January also, we have taken any further price increase?

Pawan Jain: So we have taken in the Q3. So as of now, Q4, we are reconsidering.
Moderator: Thank you. The next question is from the line of Bhavesh Chavan from IDBI Capital. Please go ahead.

Bhavesh Chavan: My question is on Bed Linen products, we think that it is not breakeven yet. So are we trying to gain market share by undercutting prices vis-à-vis competition?

Pawan Jain: No, I think it is because of the low utilization. So it is not that we are undercutting or we are offering products at cheaper prices, but it is more of underutilization, which is impacting in terms of higher fixed cost.

Bhavesh Chavan: Going forward, when the utilization ramps up over the coming one year, should we expect price increases also in the segment?

Gunjan Shroff: Actually the Bed Linen segment has its own gestation time in terms of moving to a processed segment. We were earlier in the non-processed segment, so now we are trying to move towards, which is the desired direction also. So there is no point of undercutting at this point in time. And yes, the utilizations would also increase and accordingly, the NSR and the profitability should be positively impacted.

Moderator: Thank you. The next question is from the line of Giriraj Daga from KM Visaria Family Trust. Please go ahead.

Giriraj Daga: My question is on Bed Linen market, we are talking about 50% kind of utilization next year. So effectively, we are talking about 60% to 70% kind of increase in volumes. So have we added a new customer there as the existing customer will not take this large quantity. So what are the plans there?

Pawan Jain: So that guidance is on the basis of visibility and obviously, we are adding customers on quarter-to-quarter basis and the customer which we had added in quarter two, the dispatch and delivery started in Q4, and the customer which we had added in this quarter which is Q3, the dispatches will start in Q1 of FY18.

Giriraj Daga: Okay. So what are the number of customers you have added?

Pawan Jain: So in this quarter, we have added 4-5 customers, but obviously the two are larger customers.

Giriraj Daga: Okay. So you remain confident that 50% looks possible?

Pawan Jain: Yes.

Giriraj Daga: And that is the exit capacity or full year capacity?

Pawan Jain: No. In Q4, the exit utilization will be 40% to 50%, so that will be the base for next year.

Giriraj Daga: And at what percentage will you breakeven like 27% to 30%, you don't breakeven. So at what percentage will you breakeven?

Pawan Jain: In Q4, we are hopeful to get a breakeven.
GirirajDaga: What is the percentage breakup of export in US and Europe, or what percentage of our exports goes to Europe?

Pawan Jain: So about 65% to 70% is in US. And about 15% to 20% is in Europe.

GirirajDaga: One more related question, in a contract, do we have a clause of cost pass on in case of increase in raw material prices? If there is certain percentage increase, let’s say 5% increase in our yarn cost or 5% increase in power cost, do we pass on automatically or it is negotiated?

Pawan Jain: So it is not a standard clause, if there is some abnormal increase. Suppose, tomorrow prices within a quarter moves up by 30%, so then you are able to negotiate on table with the customers to either absorb the half of cost. So it is not like there is a standard clause that whenever prices will move, you will able to pass on, so you have to get impact for a lead period.

GirirajDaga: But in the European market, we have seen adverse currency movement, currencies have appreciated against INR?

Pawan Jain: But most of our contracts are in USD only.

GirirajDaga: In Europe also?

Pawan Jain: Yes, even in European markets.

Moderator: Thank you. The next question is from the line of Viraj Mehta from Equirus Long Horizon Fund. Please go ahead.

Viraj Mehta: If I look at the new notification from Ministry of Textiles on January 3, 2017 i.e. the scheme of Rebate of State Levies on the Export of Made-ups 2016. Can you tell us the implications of this on your made-up exports? Because my understanding is that this would lead to a rebate of extra 3.5% to 3.8%. Is that correct?

Pawan Jain: So as of now that notification has been issued and both our products, Bed Linen and Bath Linen are covered under that. However, the rates are still not decided and the Drawback Committee has to sit and decide on the rates. So it is hopeful that something between 3% to 4% should be decided on terms of that they had already given the same kind of rates to garment industry earlier. Suppose, they decide for 3.5%, so you have to leave the state subsidies in terms of the input cost. So for procurement of out of state inputs, we have to pay 2% CST whereas for procuring the input from within the state, some states are having 4% to 5% kind of a VAT. So that has to be left in terms of wherever refund is there, you need to leave those refunds. So obviously, you have to analyze on product-to-product, case-to-case basis. So having said that, even if at 3.5%, you have to say leave 2%, but that 2% is on the input cost whereas that 3% or 3.5% is on the output value, which is made up.

Viraj Mehta: So would it be be fair to say that at least 1.5% to 2% margin accretion can happen, if this goes through?
Pawan Jain: That is true, but this is particularly on export business.

Viraj Mehta: Yes. Only export of made-up business is what I am talking about.

Pawan Jain: That is right. That is a fair assessment.

Viraj Mehta: Sure. What is the average cost of the TUF loans that we have at this point?

Pawan Jain: The average cost of TUF loan is less than 3%.

Viraj Mehta: And what is the pass on that we have seen in terms of transmission over last three quarters? What is the reduction that we have seen in the interest cost in the last three quarters?

Gunjan Shroff: Actually, as of now, the reduction in MCLRs are being passed on based on their annual reset dates only, most banks in India, are not passing on the benefit immediately for any reduction in MCLR.

Viraj Mehta: So what would have been the change for us in nine months?

Gunjan Shroff: For example, State Bank has reduced by almost 150 basis points. So approximately, we have got already got a benefit of 50 basis points and other 100 basis points benefit is yet to accrue to us.

Viraj Mehta: So over next one year, will it be fair to assume that our overall cost, even for the TUF and for non-TUF both should go down by another percent?

Gunjan Shroff: Not exactly, a percent would be a very aggressive stance because that is what State Bank of India has done, not other banks have passed on that benefit. But at least half a percentage basis point should come down.

Moderator: Thank you. The next question is from the line of Dhaval Shah from Girik Capital. Please go ahead.

Dhaval Shah: My question is on your Paper business. So Q4 is generally good for the industry on the Paper. You said you are again considering of taking any price hike. Now after Q4, could there be a scenario where, again, there could be a price reduction?

Pawan Jain: There has been an increase in paper prices every six months period. So in the next fiscal year FY18 also, it depends upon the demand and supply. And as not many capacities are coming in, in Paper, as Paper is having a larger gestation period. So we are hopeful that FY18-'19 is also going to be a good year for Paper.

Dhaval Shah: So you are more in writing and printing paper. Am I right?

Pawan Jain: Yes, that's right, writing, printing and copier.

Dhaval Shah: So now, the imports from Indonesia are happening in which segment?
Pawan Jain: So it is a more of a writing and printing paper, which certain traders import from Indonesia or other Asian countries, and they have cutting machines there and they start doing a copier paper also, but that is more impacting the states which are near to coastal areas, so in North side, it is a kind of a logistic cost, which they need to incur, while competing with North players.

Dhaval Shah: So you seem to be unaffected by this import?

Pawan Jain: Yes, that’s true.

Dhaval Shah: And what is the capacity currently in Paper?

Pawan Jain: So, we have a capacity of 175,000 tonnes per annum.

Dhaval Shah: And the utilization rate is?

Pawan Jain: 92%.

Dhaval Shah: So in Q1, the utilization rates goes down to what level?

Gunjan Shroff: The utilization percentage is almost stable at 90% to 93%.

Dhaval Shah: So you build up the inventory in Q1, Q2 and then Q3, Q4 you dispose it off?

Pawan Jain: See about 50% of our Paper production is copier paper, so in copier paper, we have our own brands. So whenever there is a lean season or the off take is less, than we keep on manufacturing our branded paper. So that gives us sustainable margins.

Dhaval Shah: And any increase on the cost side have you seen in the Paper business in terms of fuel, power cost or any other significant increase?

Pawan Jain: So, we are a wheat-straw based paper manufacturer, so all our raw materials are procured within 15 kilometers radius. So again, it's a seasonal product and the price ranges from Rs. 5,000 a tonne to even Rs. 7,000 tonnes depending upon the season. But as an overall year, it is giving us a good yield.

Dhaval Shah: But power is also a major cost in this business, right?

Pawan Jain: Yes. So that is there and we have a captive power plant, so we are not very much dependent on the state grid.

Dhaval Shah: And now on the Textiles side, any progress on the European free trade agreement that government is planning to do, any progress on that side?

Pawan Jain: As of now, there is nothing on the table. They are continuously saying it for the last one or two years. But actually nobody knows when it will happen.
Dhaval Shah: And now on the cotton production, so this year, India has been fairly stable. But China and Pakistan, since past two years, they have been facing trouble. Can you quantify more on this, what you seeing going forward? And so how will India be compared to them in terms of cotton production, what you seeing, and also on the pricing side?

Pawan Jain: In India, if you see this season, though the cotton acreages are expected to decrease; however, the yield and the production is higher in terms of last year. Having said that, the arrival of cotton in the mandis is gradual in this season, as compared to the last season. So that maybe due to demonetization or due to other factors, the arrival is gradual. And due to this gradual arrival, the cotton prices have not moderated during this quarter, which was expected in the last quarter. So going forward also I think it has already been reached to a Rs. 42,000 a candy and the season is now another 2 to 3 months remaining. So we expect that it might moderate from here onwards, but we don't see any significant moderation. So either, it should be a range bound plus, minus 5% - 10%.

Dhaval Shah: So then your procurement cost, say from starting October, November till now, would be approximately what Rs. 39,000- Rs. 40,000 a candy?

Pawan Jain: So in last quarter, which is December, it was around Rs. 40,000 a candy and the current quarter, it has already reached at around Rs. 42,000 a candy.

Dhaval Shah: And now in terms of acreages, what is the situation in Pakistan and China?

Pawan Jain: So China, the acreage remained similar; however, their own domestic consumption has increased significantly in this year.

Dhaval Shah: So this has been the story since 3-4 years where a lot of capacities on the exports are getting shifted to the domestic side?

Pawan Jain: Yes.

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

Natasha Agarwal: Most of my questions have been answered. I just wanted to check if you could share how have the realizations moved in Terry Towels and Yarn segment?

Pawan Jain: So, most of the realization in Yarn and Towel are flat in this quarter, quarter-on-quarter basis. Only the Bed Linen realization has increased by about 15% in this quarter on quarter-on-quarter basis.

Natasha Agarwal: How has been the realization for Towel and Yarn year-on-year?

Pawan Jain: So year-on-year, the Towel realizations are a little lesser, by about 6%. Whereas Yarn realizations were higher by around 13%.

Natasha Agarwal: Yarn was 13% higher?
Pawan Jain: Yarn was 13% higher on year-on-year basis.

Moderator: Thank you. The next question is from the line of Jayesh Gandhi from Harshad Gandhi Securities. Please go ahead.

Jayesh Gandhi: Are we planning any CAPEX in Paper division?

Pawan Jain: So we are not planning any CAPEX. We are just evaluating if we can have certain debottlenecking within the existing operations, which can improve our production by 15%-20%. So right now, we are evaluating internally, when we complete that evaluation, we can be able to share the exact plans.

Jayesh Gandhi: And to add to that, do we see a sustained demand of our printing, writing and copier paper, or because one of the vendors had gone out of business that is why we have increased on sales?

Pawan Jain: So about 50% of our production is writing and printing, which is B2B and 50% is copier right now. So our endeavor is to increase the copier allocation more going forward, so as to have our own brands and own market share in the Copier Paper segment.

Moderator: Thank you. The next question is from the line of NisargVakharia from Lucky Investment Managers. Please go ahead.

NisargVakharia: I wanted to discuss more on your Terry Towel business. So, by FY17, your capacity is 90,000 tonnes, Welspun India will be about 72,000 tonnes, and over the next three years, incrementally, there is going to be 65,000 tonnes of Terry Towels, which has to be basically sold, assuming 90% capacity utilization happens across all players. And even players like Himatsingka are discussing of doing a CAPEX in Terry Towels. So how is this capacity going to be sold? Is there so much demand in the US? Are we replacing some Chinese guys? If you could give me some insight on that?

Pawan Jain: As far as Trident is concerned, capacity of 90,000 tonnes is a rated capacity, which is maximum that we can achieve at a given product mix. But on the product mix, which we are following right now, we can achieve 75% to 80% only at optimum level. So that is one. Secondly, as far as demand is concerned from the overall US as well as the overall global demand in Towel and the made-ups in Bed Linen, they are going to be flat or declining, if you see the year-on-year basis in this fiscal. However, the Indian proportion is increasing at about 10% CAGR continuously. And going forward also, India is more competitive as compared to China or Pakistan in terms of cotton based made-ups and we expect the global demand to shift the base proportion in the overall pie from the neighboring countries.

NisargVakharia: This you are discussing cotton sheets, right?

Pawan Jain: Both, towel and cotton sheet.
NisargVakharia: In Europe, the advantage that the Pakistan players enjoy, this is a phenomenon which is supposed to be re-evaluated this year or end of next year? This 10% duty, which they enjoy or are this something which will only go away with the FTA agreement?

Pawan Jain: The FTA agreement is renewed on yearly basis. But having said that, it is continuously getting renewed if you are able to comply those conditions. If there is any infringement in those conditions, only then they can think of not renewing it. But for the past so many years, it is continuously getting renewed.

NisargVakharia: And lastly, I think this was discussed, where your net debt has gone up by some Rs. 100 crore in this quarter, that you are saying as a temporary phenomenon because of the inventory?

Pawan Jain: Yes, because of the inventory in these two quarters, which is Q3 and Q4, we store cotton from October till March. So at March end, our cotton inventory is at a highest level. So we procure the cotton inventory to be used in the next two quarters of the FY18.

NisargVakharia: So eventually, your debt reduction plan is going to resume from next quarter onwards as and when you make profits?

Pawan Jain: No, we are reducing the debt even in this quarter, but that is more of a long-term debt. So as against the overall debt profile, the short-term is going to increase.

NisargVakharia: So what will be your net debt in FY18, as per your estimates?

Pawan Jain: FY18? End of the next year?

NisargVakharia: Yes, please.

Gunjan Shroff: So net debt would be around Rs. 400 crore to Rs. 500 crore minus from where we are today.

NisargVakharia: So Rs. 900 crore less you are saying or Rs. 500 crore less?

Pawan Jain: No. Overall, it should be Rs. 400 to Rs. 500 crore less.

Moderator: Thank you. The next question is from the line of RiteshBajajatya from Asian Market Securities. Please go ahead.

RiteshBajajatya: My question is with regards to your cotton procurement prices. What is the average cotton procurement price this year? And how much procurement has been done so far?

Pawan Jain: So as a policy, we are not reporting that. However, if you see the market, in this quarter is at around Rs. 40,000 a candy. That is a rough average.

RiteshBajajatya: And what is your outlook on the cotton prices for the next year?

Pawan Jain: Cotton prices?
RiteshBadjatya: Yes. For the next year?

Pawan Jain: Next year, it is difficult to comment. I think right now, it is at around Rs. 42,000 a candy. So we will see that range bound of close to Rs. 38,000 to Rs. 43,000 a candy.

RiteshBadjatya: Alright. And on the cotton acreage, can you share your outlook for the next year?

Pawan Jain: The cotton is there, but the arrival in mandis is gradual.

RiteshBadjatya: Alright. No, on the acreage side I am asking.

Pawan Jain: Acreage was lesser this year by around 6%. However, the yield and cotton crop is good.

RiteshBadjatya: Yield per hectare is increasing, right?

Pawan Jain: Yes.

RiteshBadjatya: So how much increase from the last year?

Pawan Jain: I am not having the exact figures currently. But the cotton crop is higher than last year.

RiteshBadjatya: Alright. Second, question is on the Heimtextil fair, which concluded recently. So I was reading some of the articles where we find numerous innovations seen in the Bed Linen segment. So can you please throw some more light, how was the overall response in that fair? And whether any players from newer geography participated in that event? And how is the response from the other side for our products?

Pawan Jain: We received very good response in the Heimtextil fair this year. And we had showcased varied and niche products in both Bath and Bed Linen and a lot of products which were manufactured from our patented yarn also i.e. air-rich bed sheet and towel and other products, which is kind of a wrinkle-free bed sheet or long-lasting kind of a fasting color. So those kind of new products we had showcased and the response was very, very good and we are hopeful that, this will help us to generate leads in the coming quarters.

RiteshBadjatya: So other than US and Europe geographies, any other markets like Middle East or Scandinavia also showing interest for our products?

Pawan Jain: US and Europe will remain the main drivers in terms of growth. However, we are targeting Middle East, we are also targeting Japan, Australia, New Zealand, and so all those markets are there, but the base is lower.

Moderator: Thank you. The next question is from the line of Dhaval Shah from Girik Capital. Please go ahead.

Dhaval Shah: My question is on your Home Textiles business. When we talk about this patent that you develop for a new product. So even the competitors are doing the same. But how long does this patent protection survives and gives you a growth from the time you develop it?
**Pawan Jain:** If you get something new in terms of innovation, in terms of your research, which will be able to develop a new product, so obviously as a protocol, as a IPR rights, you will be able to get that patent. So it's a kind of registration, which you will be able to showcase to your customers, showcase the products to your customers that how that product will act as a USP in terms of the entire competition. So obviously, everybody is doing that innovation and research in-house. So right now, if you see the overall value-added portfolio in our Towel business is more than 30%. So having said that, that doesn't mean that 30% is patent product, but that's a product, which is different from the normal products. So that keeps you ahead of the competition from the neighboring countries.

**Dhaval Shah:** Because generally, when you talk about innovation, the companies like DSM or Invista, those are the people who have done innovation in terms of finding out a new thread or a polymer altogether, which gives some sort of extra property to the final garment or a textile.

**Pawan Jain:** So it is more of a final functionality of that product for the end consumer, so it might be more absorbent, it might be softer. So those kind of offerings we are giving which gives an edge in terms of product on the shelf.

**Dhaval Shah:** Fair enough. And the second question on Paper, so this Ballarpur, have they started production from any of the plants because they've got a good amount of funding also from private equity?

**Pawan Jain:** I think you have to ask them.

**Dhaval Shah:** I'm asking this because you are in the markets, you must be seeing the supply coming in, so in that manner I am asking you because if that thing starts again in a full-fledged manner then a lot of vacuum is created in terms of capacity which they will try to fill it up and then, again, that price increase what you said could not come as fast as what people are expecting.

**Pawan Jain:** We should refrain from commenting on the competition, but as far as the demand is concerned, the Paper demand is increasing, irrespective of that.

**Moderator:** Thank you. The next question is from the line of Jagadeeswaran. He's an individual investor. Please go ahead.

**Jagadeeswaran:** My first question is on your Textiles division. Based on the current run rate, I guess the Textile division will close FY17 with a topline of Rs. 3,800 crore. So with the order visibility, do you think the company can do 30% year-on-year and reach Rs. 5,000 crore in FY18?

**Pawan Jain:** We have given a guidance of 20% plus topline growth in FY17 and FY18. So as far as FY17 is concerned, in nine months periods, the topline has grown by around 26% and next year also, we have given this guidance of 20% which will remain intact.

**Jagadeeswaran:** And my second question is about the prospects of demerger. So the Home Textiles and Paper are two different businesses and generally, the conglomerate structures are good to incubate the
new business and scale them up, but they are generally valued at a discount. So I would like to know, considering that the investment in the Textile division reached a critical mass, will the management consider demerger of the Paper division?

**Pawan Jain:** So as of now, there is no such plan of restructuring of our Paper and Home Textile business. But having said that, we may consider this at an appropriate time.

**Jagadeeswaran:** Maybe in the next one year or so, something like that?

**Pawan Jain:** I would not able to comment on that, but right now, nothing on the table.

**Jagadeeswaran:** Okay. On the debt repayment plan. So currently, the company has around Rs. 1,200 crore of non-TUF debt. So basically, Rs. 800 crore of short-term and Rs. 400 crore of long-term debt. So at Rs. 400 crore per year, for the next three years, most of the cash will go towards the debt repayment?

**Pawan Jain:** So obviously, we are generating more cash than the repayment. So we are considering right now to pay about Rs. 400 crore as a repayment and we are also having dividend payouts. So as of now, that trajectory will continue in FY18 also.

**Moderator:** Thank you. The next question is a follow-up from the line of NisargVakharia from Lucky Investment Managers. Please go ahead.

**NisargVakharia:** There have been market talks of this Government extending the 3.5% duty benefit even to made-ups segment which are unconfirmed as of now.

**Pawan Jain:** So, there is a notification, which has been released in this month. That is generic and that has covered both Bed Linen and Bath Linen. And the rate is not yet decided, so the Duty Drawback Committee has to sit and decide on the rate. So that can take place anytime in the near future and whenever that rate will be disclosed, it will be in public domain. So, the expectation is anything between 3% to 4%.

**NisargVakharia:** So if this 3% to 4% actually comes in than that actually flows straight to your EBITDA.

**Pawan Jain:** Yes, having said that, you have to leave the state refunds also. So, if you procure your inputs from out of state, you have to pay 2% CST and the state will refund that 2% CST to you. So these 2% CST you have to leave to get that 3% or 4% whatever will be decided.

**NisargVakharia:** But even if it's 2%, it is a big topline, right?

**Pawan Jain:** Yes, so you have to leave that 2% that is on your input cost, which is either cotton or cotton yarn. But you have to get that 3% or 4% whatever at your sales price.

**NisargVakharia:** And suppose, if this was to happen, do you think you would retain this benefit, or would you pass it on for gaining more market share in the US?
Pawan Jain: So obviously, when we have an impact on the cotton, so there is always lead time of a quarter. So for this benefit also, we have to consider the costing, to pass it on or not, but that can be used for markets where you are not competitive like European market. So you are not competitive with Pakistan, so you can use that leeway for enhancing your market share in those markets.

Moderator: Thank you. Ladies and gentlemen, that was the last question. I now hand the conference over to the management for closing comments.

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 CitigateDewe Rogerson. Thank you.

Moderator: Thank you. 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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