



Trident Limited

Q3 FY16 Earnings Conference Call Transcript
05.00pm IST on Thursday, February 04, 2016

Moderator: Ladies and gentlemen good day and welcome to the Trident's earnings conference call. As a reminder all participants' 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 '*' then '0' on your touchtone telephone. Please note that this conference is being recorded.

I would now like to hand the conference over to Mr. Nishid Solanki of CDR India. Thank you and over to you sir.

Nishid Solanki: Thank you. Good evening everyone and welcome to Q3 & 9M FY2016 earnings conference call of Trident Limited. We have with us Mr. Pawan Jain, President - Corporate Affairs and Mr. Gunjan Shroff, Chief Financial Officer of the company. We will begin with the opening remarks from the management following which we will have the forum open for a Question and Answer session.

Before we begin this call, I would like to point out that some statements made in today's call maybe forward-looking in nature and a disclaimer to this effect has been included in the results presentation shared with you earlier. I would now like to invite Mr. Pawan Jain to make his opening remarks.

Pawan Jain: Thank you. Good afternoon to all of you and thank you for taking time out to join us on the call today.

Let me quickly take you through the corporate developments that took place during the quarter and also brief you on the operational performance of the company across business segments. This will be followed by results discussion for the quarter and nine months' period by our CFO - Mr. Gunjan Shroff.

During the quarter under review, we added a niche product to our copier paper portfolio, branded as 'Trident Digiprint'. This product is positioned as premium paper especially suitable for digital printing applications and is manufactured using wheat-straw based raw material. It is an eco-friendly paper that delivers high-quality output for high-resolution printing. This product will further boost our portfolio in the premium paper segment.

I would also like to share that CRISIL has assigned its CRISIL A-/stable and CRISIL A2+ ratings to the bank facilities of Trident Ltd. The ratings reflect Trident's healthy and improving market position in the home textile segment and healthy diversity in the revenue profile. The ratings also factor in strong operating efficiencies in both home textiles and copier paper segments supported by high level of backward integration.

Let me also highlight here that The Cotton Textiles Export Promotion Council (TEXPROCIL) has conferred multiple awards on the company for the year 2014-15, the most significant one includes Silver Trophy for second highest exports in Made-ups in Terry Towels under Rs. 500 crore plus category. These recognitions will certainly inspire us to work much harder and meet the delivery timelines. We also received a Certificate of Merit at National Energy Conservation Awards and Certificate of Appreciation at CII-ITC sustainability awards for 2015.

Moving on to our financial performance during the quarter; Trident reported stellar operational performance led by 260 basis points improvement in EBITDA margin and 153% jump in profit after tax. Our performance in the nine-months period also stood robust thereby improving our profitability significantly.

Let me now give you a segment wise perspective.

Top line of textile business moderated during the quarter as a result of subdued yarn realizations and higher captive consumption of yarn. We expanded our brand presence in more than 150 multi brand outlets (MBOs) across India including supermarkets, hypermarkets, cash and carry formats and departmental stores. Additionally, we have also appointed new key accounts, channel partners and premium outlets in order to expand our brand reach. I'm pleased to highlight that we have received encouraging response to our home textile brands in the domestic market through strong traction in the e-commerce space, which witnessed over 46% growth. I expect this trend to keep improving from here on given the strength of our product portfolio and various marketing-led initiatives.

Our recently commissioned Bed Linen facility in Budhni is advancing well and we remain on track to achieve its stabilization as per schedule in Q4 of FY16. Bed Linen production would give further impetus to our strong home textile portfolio. In the domestic bath and bed linen; we have already launched our brands. In-line with our focus on expanding presence across European markets, we have incorporated a wholly-owned subsidiary M/s Trident Europe Limited in United Kingdom and we believe that this will strengthen our marketing channels in Europe and will also act as a catalyst to superior customer service.

Our paper segment reported steady momentum backed by higher contribution of value added copier paper which stood at around 50% of total paper revenues. Along with healthy traction from the copier paper, launch of 'Trident Digiprint' under 100 GSM digital printing paper will strengthen our presence in the premium paper segment.

To conclude, I would like to add that we have completed all major capital expenditure over the past few years which resulted in significant increase in our Terry Towel capacity and a foray into Bed-linen business.

Our emphasis would now be on increasing the utilization rates across business segments. We expect maintenance CAPEX to close to 1% of the fixed assets or about Rs. 50 crore on an annual basis. So we expect to generate significant free cash flows which would support our strong financial positions going forward.

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. Good afternoon and a warm welcome to everyone. I will cover the financial highlights of Trident Limited for Q3 & 9M FY16.

During the quarter, our net revenues stood at Rs. 898 crore compared to Rs. 931 crore in the corresponding quarter last year. PBDIT improved by 11% to Rs. 177 crore translating to PBDIT margin of 19.7%, higher by 260 basis points. Profit after tax has increased by 153% to Rs. 61 crore for the quarter vis-à-vis Rs. 24 crore in the same period last quarter.

During 9M FY16, net revenues stood at Rs. 2,738 crore compared to Rs. 2,806 crore in the same period last year. PBDIT margins have improved by 12% at Rs. 554 crore while PBDIT margins have enhanced by 250 basis points at 20.2%. Profit after tax stood higher at Rs. 173 crore which is 125% more compared to Rs. 77 crore achieved in the corresponding period of last year.

Let us give you a segment wise performance of the company.

During the quarter, revenues from textile segment stood at Rs. 707 crore against Rs. 731 crore in Q3 FY15. PBIT increased to Rs. 72 crore while PBIT margins improved by 230 basis points at 10.2%. As highlighted earlier, subdued yarn realizations and captive consumption of yarn moderated top-line growth, this was however mitigated by volume growth in Terry Towel segment. Revenues in the paper segment stood at Rs. 192 crore compared to Rs. 200 crore in the same period last year. PBIT stood at Rs. 39 crore translating to PBIT margin of 20.4% which was higher by 360 basis points. Margins improved as a result of increased contribution from value-added copy paper.

As on 31st December 2015, our total debt stood at Rs. 3,168 crore and net debt of Rs. 2,973 crore resulting into net debt equity ratio of 1.8:1. Debt level increased during the quarter due to implementation of integrated Bed-linen at Budhni, Madhya Pradesh. We expect our debt to peak out in Q4 of the current financial year before it starts tapering down next year onwards. During the nine-month period, the Company repaid outstanding term loans of Rs. 355 crore including high-cost debt of Rs. 108 crore. During the quarter, we repaid Rs. 54 crore of high-cost term debt. As informed earlier, we would continue to repay high-cost term debt ahead of our scheduled repayment which would lead to notable savings in our interest cost. Our finance cost during the quarter has declined by 54% to Rs. 23 crore on account of reduction in base rate, interest equalization scheme benefit and better working capital utilization.

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

Moderator: Thank you very much. We will now begin the question and answer session. Our first question is from the line of Abhilasha Satale from First Global. Please go ahead.

Abhilasha Satale: I was of the view that whatever loss we are doing on the textile front because of yarn realization going down, will be made up on the towel volumes going up because in H1 only we had reached around 40% of the utilization level. This year probably we would have increased from that level. So could you just explain why this is low and how is the trajectory going forward?

Pawan Jain: You are right that yarn realizations have dropped. If we compare the current nine months to the last nine months, the yarn realizations have already dropped by around 10%. So, whatever revenues we lost in yarn realization has been made up by the increased volume of towels.

Abhilasha Satale: Is it not sufficient to make up for that entire loss? How much has been the growth in towel revenue year-on-year?

Pawan Jain: On a nine months to nine months' comparison, the volumes have grown by around 11%.

Abhilasha Satale: In towel business?

Pawan Jain: Yes.

Abhilasha Satale: How is our utilization in the Terry Towels?

Pawan Jain: Utilization in towel business is 60%.

Abhilasha Satale: In Q4 and FY17 then we should see more growth coming from the towel business and that is how top-line would keep growing, right?

Pawan Jain: The volume growth is varied quarter-to-quarter, so in the second quarter we had a volume growth of around 22% in towels and if we take the total nine-months period, then it is 11%. And we had given a guidance of 15% to 20% volume growth in towel in the current year and going forward also in FY17. So, in this year we are remain hopeful and look forward to achieving that 15% guidance.

Abhilasha Satale: Even on quarter-on-quarter basis we should have grown by around 5% to 7% in towel business?

Pawan Jain:No, in this quarter there was a drop, but in the previous quarter it had grown quarter-on-quarter. That's why in the last quarter it was 22% and overall nine months it is 11%.

Abhilasha Satale:But then why have the volumes dropped this quarter?

Pawan Jain:It has basically spilled over to next quarter and also due to the season in this quarter, most of the retailers have procured the material in the previous quarter. So, that's why the volumes were high in the previous quarter while it is muted in this quarter.

Abhilasha Satale:But then we are seeing Q4 to be better than this, right?

Pawan Jain:Hopefully Q4 will be better than Q3.

Abhilasha Satale:In H1, we had utilization of around 40% and now you said that the utilization has already reached 60%.

Pawan Jain:Last quarter we had the towel utilization again at 60% only.

Abhilasha Satale:So how much we have reached on the new capacity?

Pawan Jain:The utilization across the units are different quarter-to-quarter on the given product mix and the overall utilization remains same at 60%.

Abhilasha Satale:On your debt profile, it is very remarkable to note that interest cost has gone down considerably and you have already re-paid your high cost debt. Out of this Rs. 3,100 crore of current debt, how much is the term loan, working capital and how much is the high-cost debt?

Gunjan Shroff:We have Rs. 3,100 crore of total debt out of which close to Rs. 750 crore is the short term working capital borrowing and within this Rs. 3,100 also the net debt is actually Rs. 2,950 crore so net-net only on the term loan basis we have close to Rs. 2,300 crore of term loan. Out of this Rs. 2,300 crore term loan majority i.e. 80% is under TUF.

Abhilasha Satale:Most of the high-cost debt is already repaid, right?

Gunjan Shroff:Majority.

Abhilasha Satale:So how are our repayment schedules in FY17?

Gunjan Shroff:We have close to Rs. 90 crore of quarterly repayment.

Abhilasha Satale:And in this quarter have you also received benefit from that interest equalization scheme introduced under TUF?

Gunjan Shroff: The Government of India has introduced interest equalization scheme for the exporters, for particular category of exports so we are also amongst the beneficiaries and yes, we have received the benefit from the Government in our accounts.

Abhilasha Satale:Has it been partly received or in the end full benefit will be seen in this quarter and FY17 or the entire benefit is there in the cost of debt I just want to know that?

Gunjan Shroff: Government of India has given this retrospectively and all the money due up to 31st December, 2016 other than one or two accounts has actually been credited.

Abhilasha Satale:Okay. In FY17, what could be the blended cost of debt for you?

Gunjan Shroff: It should be around 5.5% to 6.5% blended.

Moderator:Our next question is from the line of Vaibhav Bid from Motilal Oswal Securities. Please go ahead.

Vaibhav Bid: On a consolidated basis, where has there been a bit of drop in the revenue, in which segment are we seeing pressure?

Pawan Jain:If you see on a nine months' basis, in yarn the volumes were higher by around 4%, in towels the volumes were higher by 11% and in paper it was around 2%. The yarn has dropped most in terms of realization by 10% and in Terry Towel also there has been some moderation of 3% realization because part of yarn realizations benefit needs to be passed on to towel customers also.

Vaibhav Bid: And we are not taking any price cuts due to pressure and all those factors?

Pawan Jain:No.

Vaibhav Bid: Going forward do we expect yarn to be a captive thing?

Pawan Jain: If we compare these nine months to the last nine months, captive consumption of yarn has grown by around 20%. In last nine-months it was around 31% and now it is around 37%. And answering the need of our captive consumption of yarn in the next two years' time, we believe that it will be something around 45% to 50%.

Vaibhav Bid: Because your bed linen unit would need more yarn for processing?

Pawan Jain: Our Bed linen is an integrated project from cotton to bed linen so that will take yarn from its own facilities. But as and when we improve the utilization in towels, our captive will improve here onwards.

Vaibhav Bid: Where do we see the cotton prices from a two-year perspective, is there excess production globally or how are you all viewing the prices to go?

Pawan Jain: We believe that this is the first year when consumption is higher than the production globally. We see that even in the last year prices are more or less stable. We neither foresee any upside from here onward or neither any decline, so it will be range bound.

Vaibhav Bid: Do we expect margins to increase in the paper segment?

Pawan Jain: In the nine-months, realizations have dropped by around 5% in paper. But since we are into eco-friendly and agro-based paper which is manufactured from wheat-straw, we are better placed as far as location is concerned against the other paper manufacturers. So we don't foresee any immediate hike in paper business right now in terms of realizations or production.

Vaibhav Bid: This realization drop is due to what reason?

Pawan Jain: There are certain imports of paper from other countries and that has impacted the overall demand-supply dynamics within the domestic market.

Vaibhav Bid: On the Bed-linen front, companies are expanding capacity, everyone is doubling capacities and some companies want to expand more. So, how do we see this going forward, what is the scenario going to be? Does the Chinese Yuan depreciation affect us in terms of sourcing again getting transferred to China?

Pawan Jain: It is not only the Chinese currency vis-à-vis USD that we need to look at. It is more relative to Indian rupee which we need to look at as a currency fluctuation. In the last nine months, by whatever extent Chinese currency has depreciated, the Indian rupee has depreciated more than that and that's how India is

more competitive as compared to China. If you see the last 2-3 years and even in the current year, India's share in the US and Europe market is continuously increasing as compared to China.

Vaibhav Bid: What about other companies setting up capacities, you all are setting up new bed linen so is there more demand coming in? Are global retailers asking for more bed linen products from Indian players?

Pawan Jain: India is definitely in a more competitive place as compared to other neighboring countries. It is only Europe where Pakistan is having little advantage due to FTA agreement. Otherwise as far as US and other countries are concerned, India is very competitive as compared to China.

Vaibhav Bid: Do we see any progress on talks on the FTA front?

Pawan Jain: I think the talks are at advanced stage and it is going on. But for the last so many months, we are not able to anticipate when it can happen.

Vaibhav Bid: And on the bed-linen, do we see the ramp up in the next quarter or how do we see that?

Pawan Jain: As per our schedule, we expect the technology to fully stabilize within this quarter which is Q4 and we expect the revenue to start generating from Q1 of FY17.

Vaibhav Bid: So the incremental growth for the next year should come from the volume growth in Terry Towels and Bed-linen?

Pawan Jain: Yes. That's right.

Vaibhav Bid: The customers for Bed-linen and Terry Towels are the same overlapping customers?

Pawan Jain: Most of the customers are same. Yes.

Vaibhav Bid: So it does not take much time to convince the client for bed linen, is that true?

Pawan Jain: We are already in discussions with these customers and their plant visit and certification process has already been done and it is at advanced stage. Now sampling and designing is being done. After all this, we expect the orders to start delivering in first quarter of FY17.

Vaibhav Bid: Currently we don't have any order book in hand, right?

Pawan Jain:We are just picking up the order book.

Vaibhav Bid:Are we also getting into fashion bedding?

Pawan Jain:We are more into mid to high range, to start with printed bed-sheet.

Vaibhav Bid: What would be the thread count?

Pawan Jain:We have the capability to produce from 200 to 1200 thread counts (TC).

Moderator:Our next question is from the line of Sumant Kumar from Elara Securities. Please go ahead.

Sumant Kumar:You've said that the paper realization has gone down by 10% in 9M FY16, right?

Pawan Jain: In 9M FY16 as compared to 9M FY15, the paper realization has declined by 5%.

Sumant Kumar:Okay, but when we compare this with other players, the realization Y-o-Y has gone down by 2% only. So what is the key reason of our realisations declining by 5% compared to other players?

Pawan Jain:Because they are into a separate segment which is wood-based paper and we are having more presence in North and less presence in coastal area. On an overall demand-supply basis, the demand in the Government sector and B2B segment of paper is lesser in this period. Having said that, whatever realizations we've got is more from branded copier paper.

Sumant Kumar:What is the realization of paper for nine months?

Pawan Jain:It is around Rs. 55,000.

Sumant Kumar:Net realization?

Pawan Jain:Yes.

Sumant Kumar:The paper volumes increased by 2%, in 9M or Q3?

Pawan Jain:In nine-months' period.

Sumant Kumar:What about the Terry Towel volumes, it has increased by 11% in 9M FY16?

Pawan Jain:Yes. 11%.

Sumant Kumar:And you are expecting 15% for full year ?

Pawan Jain:Yes.

Sumant Kumar:But realization has declined by 3% in 9M FY16.

Pawan Jain:That's right.

Sumant Kumar:Yarn realization declined by 10%?

Pawan Jain:Yes. On a nine months' basis.

Sumant Kumar:Volumes increased by 3%?

Pawan Jain:Yes.

Sumant Kumar:What is the capacity utilization in Budhni?

Pawan Jain:On an overall basis, towel utilisation is close to 60%.

Sumant Kumar:And for the Budhni Terry Towel unit?

Pawan Jain: Q3 on an overall blended basis towel utilization remains same in Q3 and Q2 which is 60%.

Sumant Kumar:But 45% is what you said in Q2, if it has increased to 60%, than why is there no increase in sales?

Pawan Jain:In Q2 it was again 60% blended, it is not 45%.

Sumant Kumar:45% at Budhni only, I'm talking about the new plant.

Pawan Jain:At that time also it was around 60% blended.

Pawan Jain:Actually it is the product mix basis, so we allocate the product sometime to Budhni and sometime to this Punjab-based unit so on an overall basis it remains the same at 60%.

Sumant Kumar:But talking about the Budhni plant the capacity utilization increased?

Pawan Jain:That's right.

Sumant Kumar:From Q2 to Q3?

Pawan Jain: Its YoY basis.

Moderator:Our next question is from the line of N. Samraj from Dwarka Wealth Managers. Please go ahead.

N. Samraj:Your Bed-linen linen project has already commissioned on September 23rd of FY16, correct?

Pawan Jain:Right.

N. Samraj:Taking the stabilization of the commissioning process and also getting your samples passed by the European and US customers, how is that process going on right now?

Pawan Jain:In these kinds of large projects, whenever the project commissions, you need to stabilize your technology and get the clearance done. Then the customer starts visiting your plant site, get the legal approvals checked and audit being done for their certifications. After that factory approval, they start taking samples from you. We have already gone through that phase and started navigating with the customers on samples and started picking up the order book. We expect that the technology will be fully stabilized within this quarter and from Q1 FY17 we will start generating the revenue from that facility.

N. Samraj:How is the marketing feedback from them?

Pawan Jain:We have recently attended the Heimtextil where we displayed all our products where we are having capability to manufacture in terms of bed linen and bath products and we got good feedback and response from the customers.

N. Samraj:Taking the competition into focus - Welspun India and Indo Count when we read on their products, this bubble technology and the fluffiness, do we have any USP compared to them or are we basically marketing the same proposition as the competitor?

Pawan Jain:Every company has its own strengths and opportunities are available. They have their own ideas and technology to present to the customers. We also have our innovative products and new products which we keep developing so that will help to get good response from the market.

N. Samraj:Our quality control says that we will be better off than these two competitors which I have named?

Pawan Jain:I think we should refrain commenting on others. But yes we are getting a good response from the customer's end.

Moderator:Our next question is from the line of Rahul Harlalka from BHH Securities. Please go ahead.

Rahul Harlalka:What is the EPS guidance for the whole year?

Pawan Jain:We are not giving the EPS guidance, but we have given 15 to 20% revenue growth guidance of home textile business every year for next 2-3 years.

Rahul Harlalka:Going forward your profitability as well as your top-line and bottom-line will sustain?

Pawan Jain:Yes that's right.

Rahul Harlalka:Is there any substantial increment that you are looking at or it will just sustain?

Pawan Jain:We had given EBITDA guidance of 18% on this revenue and we will still maintain this guidance.

Moderator:We will take our next question from the line of Abhilasha Satale from First Global. Please go ahead.

Abhilasha Satale:I wanted clarification on the growth in domestic business. In your opening comments, you said 46% growth in domestic business, so that is only through e-commerce channel?

Pawan Jain:No. Overall domestic business.

Abhilasha Satale:So that includes the entire domestic brand revenue, right?

Pawan Jain:It includes everything - branded, e-commerce, hospitality, etc.

Abhilasha Satale:How much is this as a percentage of sales?

Pawan Jain:It is around 10%.

Abhilasha Satale:So our domestic business is 10% of the total sales (home textiles) and it is growing at 40% to 50%, right?

Pawan Jain:That's right.

Abhilasha Satale:Secondly, in the textile business, could you give the breakup revenue between yarn and terry towel?

Pawan Jain:We are not disclosing that separately. We report it under textile business.

Moderator:Our next question is from the line of Sumant Kumar from Elara Securities. Please go ahead.

Sumant Kumar:Could you please share your guidance on tax rate?

Pawan Jain:For FY16, the tax rate will remain at around 15% and in FY17 it will be around 20% to 25%.

Sumant Kumar:Why so sir?

Pawan Jain:In the current year, we had added these new capacities - plant and machinery, so as per 32 AC of IT-act, you will get an additional benefit of 15%.

Sumant Kumar:So 20% to 25% for FY17?

Gunjan Shroff:That's right.

Sumant Kumar: Could you please give us the sales volume growth for the quarter, segment wise?

Pawan Jain:Sales volume growth in Towel is 11%

Sumant Kumar:And for the quarter?

Pawan Jain:For the quarter, Terry Towel volume growth was flat, around 1% higher. In yarn it is 6% higher and in paper it is again flat.

Sumant Kumar:And the realization?

Pawan Jain:In Towel, it is again flat and in yarn it is lower by around 4% and in paper it is again lower by 4%

Moderator:Thank you. That was the last question. I would now like to hand the floor over to the management for their closing comments. Over to you Sir.

Management: Thank everyone for joining us on the call today. 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. Thank you.

Moderator:Thank you very much members of the management. 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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