Moderator: Ladies and gentlemen, good day and welcome to the Trident Limited’s Q1 FY16 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 “0” on your touchtone phone. 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 morning and welcome to the Q1 FY16 Earnings Conference Call of Trident Limited. Today, we are joined by senior members of the management team including Mr. Pawan Jain – President; Mr. Anuj Pareek – Vice President, Finance; and Mr. Siddharth Gupta – Manager, Investor Relations. We will commence the call with opening remarks from the management and follow that with an interactive question and answer session.

Before we begin, I would like to caution that some of the statements made or discussed on the call today may be forward looking in nature and a note to that effect has been included in the Earnings Presentation shared with you earlier. The Company does not undertake to update them publicly.

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 morning everyone and thank you for joining us on Q1 FY16 Earnings Conference Call of Trident Limited.

I will begin by sharing the corporate developments during the quarter followed by the operational performance of the company across business segments, while Mr. Anuj Pareek will take us through the financial performance for the quarter ended June 30, 2015.

I am glad to share that Trident has recently appointed Kriti Sanon as Brand Ambassador to endorse the New Bath and Home Linen collection which is the combination of contemporary designs, innovative constructions and luxurious fiber. She will be the face of our vibrant brand campaign ‘the affair to
remember’ We believe this branding initiative is an important milestone in establishing Trident as a home textile brand in the domestic market. So in addition to our focus on targeting newer international markets for Bath and Home Linen segments, we will lay strong emphasis on the domestic market through this branding strategy. As you may be aware, we already have multi-brand and premium outlets to target the domestic customer base combined with presence on all major e-commerce portals. Our presence has expanded to more than 120 multi-brand outlets across India.

Coming to another key development during the quarter, the Strategy Committee of the Company has revisited the CAPEX plan of yarn modernization project of Rs. 104 crore and 60 MW Captive Power Project of Rs. 393 crore at its facility in Budhni, Madhya Pradesh. This is in-line with the management’s focus on consolidating the existing Terry Towel operations and upcoming Composite Bed Linen project. Going forward, based on free cash flow generation, Trident may evaluate a Captive Power Plant at its Budhni facility in smaller phases. However, marginal CAPEX would be deployed for necessary de-bottlenecking at the existing plants to enhance productivity and performance. Further, the Board of Directors has approved raising of funds of Rs. 60 crore through issue of unlisted non-convertible cumulative redeemable preference shares on private placement basis at their meeting held on 27th July, 2015.

Coming to our performance during the quarter, we have reported steady performance led by healthy demand scenario and improved off take of the home textile products. Volumes improved during the quarter due to ongoing efforts of our marketing team combined with our focus on brand building and addition in our global client base. Our margin profile also enhanced led by better efficiencies, cost rationalization, increased captive consumption and increased contribution of high margin value-added products.

Let me now give you segment wise perspectives.

Our terry towel business reported strong performance during the quarter on the back of better contribution of value added products combined with focus on brand building and addition in our global client base. Efforts of our marketing team also contributed to this growth. Our Budhni unit is steadily scaling up and currently operating at 40% utilization level. We expect this rate would improve to 55-60% by the end of this financial year. Our bed linen project is also progressing well and we are confident of commissioning this facility by the second half of this financial year. Let me reiterate that we do not expect significant revenue from bed linen this year. Stabilization of operations and certification should be materialized by FY16 and it would then start contributing positively to our performance going forward. Giving this strong push to marketing of Bath and Bed Linen products in international and as well as domestic markets, we will remain confident that these projects will add significantly to our top-line and bottom-line performance over the next few years.

Our paper business is looking equally good with healthy improvement in the margins owing to higher contribution from value added copier paper. Copier paper contributed ~50% to total paper revenues. We
would continue to increase our brand presence and in-line with this we have launched Trident Retailer-ship Scheme which is aimed at increasing the pull from end consumers.

I would like to conclude by saying that, the past few years have been transformational for the Company. Within the textile segment, we have moved from being 60% yarn player and 40% towel player two years ago to about 60% terry towel and 40% yarn in FY15 and over the next 2-3 years, we should see high margin Bath and Bed Linen products contributing over 80% to textile revenues. This should lead to healthy top-line and strong bottom-line growth over the next 2-3 years.

I am also happy to share that the Board of Directors has declared first interim dividend of Re. 0.30, which is 3% per equity share of face value of Rs. 10 each. This is in-line with our stated objective of rewarding shareholders whilst ensuring that sufficient funds are retained for growth of the company.

Now, I would like to hand over the call to Mr. Anuj Pareek who will share the financial performance for Q1 FY16. Thank you.

**Anuj Pareek:** Thank you Pawan. Good morning and a very warm welcome to everyone present on the call. I will take you through the financial highlights of the Company for the quarter ended June 30, 2015.

During the quarter, net revenues stood at Rs. 879.1 crore compared to Rs. 913.3 crore reported in the corresponding quarter last year. EBITDA improved by 8% to Rs. 198 crore, while EBITDA margin enhanced by 240 basis points to 22.5%. Profit after tax increased by 89% to Rs. 61 crore vis-a-vis Rs. 32.3 crore in the same period last year.

Now let me give you segment wise performance of the Company.

During the quarter, the revenues from textile segment stood at Rs. 685.7 crore against Rs. 715.8 crore reported in the corresponding quarter of last year. PBIT increased by 8% to Rs. 84 crore while the PBIT margins improved to 12.3%. The decline in the yarn realizations and higher captive consumption of yarn led to moderation in top line growth. This was however mitigated by growth in Terry towel business which recorded 8% increase in volumes.

Revenues in the paper segment stood at Rs. 193.4 crore compared to Rs. 196.8 crore in the same period last year. PBIT came in at Rs. 42.9 crore up 6.1% Y-o-Y. PBIT margin improved by 160 basis points to 22.2%. Margins have shown sustained improvement in on the back of higher contribution from value added copier paper.

As on 30 June, 2015, our total debt stood at Rs. 2,682 crore resulting in total debt to equity ratio of 1.77:1. During the quarter, the Company repaid outstanding term loans of Rs. 102.9 crore including high cost debt of Rs. 32.2 crore. I would like to again highlight in FY15, we repaid approximately Rs. 458 crore which was
far above our scheduled repayment of Rs. 370 crore. We intend to continue this strategy for repaying high
cost debt against scheduled repayment in FY16 as well. With our bed linen project going online this year we
anticipate our debt to increase in FY16, however FY17 onwards our net debt to equity should start coming
down. Repayment of high cost debt along with improvement in credit rating enabled the Company to
significantly reduce overall interest cost during the quarter. Finance cost declined by 23.5% to Rs. 44.5
crore vis-a-vis Rs. 58.1 crore in Q1 FY15.

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

**Moderator:** Thank you. We have first question from the line of Niraj Mansinghka from Edelweiss. Please go
ahead.

**Niraj Mansinghka:** One question on the taxation front. Can you give us some clarity on how much benefit
you have in the new Terry Towel plant on the taxation side which includes the MEIS, VAT and other duty
drawbacks and what is your view on how it will change in the next few years?

**Pawan Jain:** As of now I do not have the exact numbers with me but on a revenue basis it is between 3 to
4% after taking everything together. Merchandise Exports from India Scheme (MEIS) benefits are ~2% of
the revenue. On an overall basis it will be close to 3 to 4% of our overall revenues and going forward
government is gradually reducing these export incentives, but we expect this to continue till 2018-19.

**Niraj Mansinghka:** What about duty drawback, that is also a large number but it is not reflected?

**Pawan Jain:** Duty drawback is a part of sales realization, it is gradually reducing if you see the last 3-4
years and we feel that it will continue till 2018.

**Niraj Mansinghka:** How much is the duty drawback which is included as a part of the realization?

**Pawan Jain:** On a quarterly basis, it would be around Rs. 20 crore to Rs. 25 crore. However, I do not have
the exact figure with me at present.

**Niraj Mansinghka:** Anything on the VAT refund?

**Pawan Jain:** No we do not have any VAT applicable on this.

**Niraj Mansinghka:** So what about the TUF loan scheme. Your Bed Linen project is approved from the old
TUF scheme?
**Pawan Jain:** Yes. Our Bed Linen project is approved under TUF, both the Centre and the State and we have already got our UIDs registered. That is in-line with the TUF Scheme.

**Niraj Mansinghka:** What about the payment of the tax interest subsidy from the State and the Centre, what is the status of that?

**Pawan Jain:** In Madhya Pradesh, there is interest subsidy as well as VAT refund in terms of whatever we sell outside Madhya Pradesh and also in terms of CST. Usually it takes about six months for cash refunds, so it is already on track.

**Niraj Mansinghka:** Actually when I was asking about VAT refund, I was asking to that only, so what is the VAT refund you have in the Terry Towel plant?

**Pawan Jain:** It is not applicable on Terry Towel, it is applicable on yarn. So whatever yarn we sell outside and there whatever VAT we paid as CST or within the state, it will be refunded.

**Niraj Mansinghka:** This would be applicable till how many years generally, I think they allow till 7-8 years.

**Pawan Jain:** This is five years from the commencement of commercial production.

**Niraj Mansinghka:** Which will end when?

**Pawan Jain:** There are four units in Madhya Pradesh. It started sometime in 2011 and the last unit came in 2013.

**Niraj Mansinghka:** I think the government is giving a lot of support to the entire industry. What is your view on how it will continue, MEIS has just come out, will it continue for some time?

**Pawan Jain:** Upto last year, FMS and FPS put together gave close to 4% benefit. So, it has been reduced from this year onwards and replaced with a new scheme which is Merchandise Exports from India Scheme (MEIS) with 2% net impact.

**Niraj Mansinghka:** What about the interest subvention, there was always a discussion on that.

**Pawan Jain:** Interest subvention was withdrawn in April 2014. However, the talks are on in the Ministry that the Government may announce interest subvention again.

**Niraj Mansinghka:** Any thought process that you have here?
**Pawan Jain:** It is applicable on working capital required for exports, but we are already using PCFC and other instrument which is already giving us very competitive rate in terms of our working capital requirements. If the interest subvention is given, then obviously it will improve our finance cost further but we are already utilizing the best products available in the market right now.

**Moderator:** Thank you. Next question is from the line of Harshal Shah from Anvil Wealth Management. Please go ahead.

**Harshal Shah:** What is the current captive consumption of yarn?

**Pawan Jain:** Captive consumption in this quarter is 38%.

**Harshal Shah:** Once all your capacities start working at full utilization levels say by FY18, then what will be the total top-line and what will be the captive consumption of yarn at that time?

**Pawan Jain:** We are expecting our top line to grow by about 20% in the next 2 to 3 years. If we take FY18 or FY19, when everything is fully commissioned then it would contribute about Rs. 6,500 crore to the top-line. We have continuously focused on increasing the captive consumption of yarn. The captive consumption at that point of time may range between 55-60% and accordingly revenue may range between Rs. 6000 to Rs. 7000 crore but the captive consumption of yarn towards towel or bed linen will give us better margins on our overall revenues.

**Harshal Shah:** How is the situation in yarn currently, hearing a lot of slowdown here.

**Pawan Jain:** Realisations in yarn have started improving in April, so from June it has again came down to the realization levels which was in March. So more or less I think it is stable, there is a decline in the realization in this quarter, but the cotton inventory which we had procured till March, is giving us the parity between cotton and cotton yarn, which is adequate right now.

**Harshal Shah:** We will not face any inventory loss in second or third quarter.

**Pawan Jain:** No.

**Harshal Shah:** How is the demand in yarn, whatever you produce we are able to sell or what capacity we are working at now?

**Pawan Jain:** There is a decline in demand during this quarter in yarn also but, as I said that we are now more focused towards increasing our captive consumption, so if you compare last year corresponding quarter with this quarter, last quarter the captive consumption was 32%, now it has enhanced to 38% so
going forward also quarter to quarter we will improve it and within the next two years' time we see that the captive consumption will improve to 55%-60%.

**Harshal Shah:** On top-line of Rs. 6500 crore with 60% captive consumption, what is the kind of margins you can do?

**Pawan Jain:** We are giving guidance of 18% EBITDA margin on sustainable basis.

**Moderator:** Thank you. Next question is from the line of Vaibhav Baid from Motilal Oswal. Please go ahead.

**Vaibhav Baid:** On the bed linen segment, what is the capacity that you are setting up and for these bed linen products are you going to search for the new customers or ready clients for terry towels would become your bed linen customers?

**Pawan Jain:** Firstly, it is a composite bed linen project so it is from cotton to bed linen, hence we are implementing 500 looms of bed linen along with around 1.85 lac spindles of commensurate yarn. All this yarn is meant for captive consumption in bed linen.

The capacity would be around 3.6 million metres per month which is the peak capacity. And with regard to the customers base, the bed linen and towels category comes within the same product basket and we are already in discussion with our existing customers and we are hopeful that we will be able to sell these bed linen products to them.

**Vaibhav Baid:** By when are you going to commence this project?

**Pawan Jain:** It will be commissioned sometime in H2 FY16, but we are not expecting any revenues within this year. So it will start probably with trial run in third quarter this year and it will take about 3 to 5 months for stabilization and getting the certification from the customers and the commercials will start sometime in Q4.

**Vaibhav Baid:** Any indications on utilization at a very early stage?

**Pawan Jain:** As highlighted earlier, we are not expecting any revenues in this financial year.

**Vaibhav Baid:** Okay, but from next year onwards how confident are you to get the customers. I have spoken to a few industry experts and they are of the view that it takes around 2 to 3 years to actually set up customers and get the approvals.
**Pawan Jain:** Though the internal targets are much higher but we are hopeful to have 50-60% kind of utilization in the first year of next financial year itself.

**Vaibhav Baid:** At full capacity your margins would be around 18%, is this blended margins?

**Pawan Jain:** Yes 18%, it is blended margins taking all the businesses together.

**Vaibhav Baid:** You are forward integrated with yarn and suppose if someone is outsourcing the yarn spinning and weaving, so what is the difference between the margins out there?

**Pawan Jain:** Margins would differ in two different scenarios, sometimes yarn may be doing well and sometimes the end product may be doing well on the basis of lower yarn prices. However having a forward integration as a full line from cotton to end product is a resilient model which is able to absorb the fluctuations in the cotton or currency in a better way. For textiles, the two major risks are cotton scenario and foreign currency.

**Vaibhav Baid:** Over the last 3 to 5 years some structural changes have happened like Chinese currency and other labor issues. You think it will stay for another 4-5 years?

**Pawan Jain:** Yes we believe that most of the supplies have shifted from China to India because of currency differentiation and increase in labor & power costs. Technology upgradation benefits given by the Government is also helping the industry to absorb most of the latest technology with helps in producing better quality and innovative products, so this will certainly help us.

**Vaibhav Baid:** What is the count for your bed linen products like?

**Pawan Jain:** It will be 60 to 100 counts.

**Vaibhav Baid:** Are you also getting into fashion and utility bedding or right now it is just normal bed linen?

**Pawan Jain:** To start with, it will be normal bed linen. As soon as we start utilizing our capacity and start generating the revenue we will definitely go into a value added and better products.

**Vaibhav Baid:** How big is the market for bed linen because already we have players like Indo Count with Rs. 1,800 crore kind of top-line and Welspun India which is 25% kind of market share. Is the market so big that you are setting up such a big capacity and you’re also expecting that in 2-3 years’ time you will be almost be at 80% capacity?
**Pawan Jain:** Globally, bed linen is having major market share even more than terry towel and other home textiles products.

**Vaibhav Baid:** What would be the market in your sense, I am sure you must have done some analysis?

**Pawan Jain:** I do not have those figures right now. We can discuss it off-line.

**Vaibhav Baid:** What would be the working capital cycle in bed linen segment as comparable to towels?

**Pawan Jain:** It is between 45 to 60 days so it is comparable with towels.

**Vaibhav Baid:** If you are selling it to private labels than there would be higher debtor days say around 60 to 90?

**Pawan Jain:** No, on an average it is around 30 to 50 days, so the average is around 45 days.

**Vaibhav Baid:** If I compare you with Welspun India, then their margins are at around 23-25% and they are also backward integrated in yarn. So shouldn't your margins also be comparable because you also have backward integration, so why just 18%?

**Pawan Jain:** We have major revenue coming from yarn. Two years back it is 60% yarn and 40% towel, but now it is 60% towel and 40% yarn. So we still have 40% exposure in yarn business which is having a lesser margin as compared to overall towel and bed linen. In case of other Company, there is 75% vertical integration and the yarn may not be sold outside. That is where the margin differentiation may be. Going forward over the next two years, we will see 80% revenues from towel and bed linen and only 20% from yarn.

**Vaibhav Baid:** What is the update on the paper segment? Any significant events taking place, Maplitho I think you were closing down?

**Pawan Jain:** No we are not closing down, gradually we are increasing the allocation of capacity towards copier paper. Five years back, we had 100% allocation of capacity towards Maplitho and writing & printing paper. Today, about 50% of our capacity allocation is towards copier paper. So in the next two years, we will keep steadily scaling up our copier paper capacity so this writing & printing paper and sheets which is more of B2B will come down to around 30%.

**Vaibhav Baid:** What would be the utilization currently?

**Pawan Jain:** Utilization in paper is about 94-97%
**Vaibhav Baid**: Can we expect 5 to 10% growth in this segment or can there be a trigger somewhere?

**Pawan Jain**: Paper is a more stable business for us and it is more or less flat. About 2 or 3% increase in volumes is expected in this segment. We would also have certain de-bottlenecking in paper business which may take around another two years’ time, but that will be at the cost of Rs.100 crore and it will give us around 15 to 20% volume growth in copier paper.

**Vaibhav Baid**: So you have already firmed up this plan?

**Pawan Jain**: Yes. We have filed the applications with the Environment Ministry and it is under process so whenever we get the clearances, we will start implementing that CAPEX. So it is a kind of debottlenecking CAPEX.

**Vaibhav Baid**: This Rs. 100 crore would come from internal accruals?

**Pawan Jain**: It will be from our free cash flow going forward, so it is the plan two years down the line.

**Vaibhav Baid**: On an overall basis where do you see the Company going forward, will bed linen become like 30-40% revenue business, do you expect 20% growth every year?

**Pawan Jain**: On an overall basis about 20% topline growth is expected in the next three years.

**Vaibhav Baid**: When do we start the debt repayment?

**Pawan Jain**: We are already repaying the debt. In FY15, we had repaid Rs. 458 crore of debt against our schedule repayments of less than Rs. 400 crore. Even in this quarter, we repaid around Rs. 102 crore and out of that about Rs. 32 crore is prepayment. So, Rs. 70 crore was scheduled repayment and Rs. 32 crore was towards prepayment of high cost debt.

**Vaibhav Baid**: This year also can we consider Rs. 450 crore debt repayment?

**Pawan Jain**: The scheduled payment is Rs. 370 crore and whenever we have some free cash flow over and above what is earmarked for project implementation or for other allocations, we would repay the high cost debt.

**Vaibhav Baid**: What is the cost of debt?
Pawan Jain: Cost of debt on a blended basis is 5 to 6% for long-term and 6 to 7% taking all the loans together.

Vaibhav Baid: On a two-year perspective, can we see your debt coming down to 1:1 kind of debt to equity?

Pawan Jain: Yes. As per our estimate, FY16 will be the peak year of debt and FY18 onwards we will see the debt equity of around 1.25x.

Moderator: Thank you. Next question is from the line of Sumant Kumar from Elara Securities. Please go ahead.

Sumant Kumar: What is the current capacity utilization at Budhni and what is the expected capacity utilization in FY16 and FY17?

Pawan Jain: In Q1 FY16, it was 40% utilization and we expect to close this year with an overall utilization of 50 to 55% in FY16.

Sumant Kumar: In India, what is our branded sales contribution?

Pawan Jain: We have around 8 to 10% of domestic sales in towel business. All of this sale is in branded and out of this, close to 5% is through retailers, e-commerce and all put together and the rest 3 to 4% is from institutional sales to Hotels and other institutions that we are selling under our own brand.

Sumant Kumar: So out of 8 to 10% sales is India, what is Trident's own brand sales?

Pawan Jain: It is all our own brands. We are not selling any other brands other than Trident in India.

Sumant Kumar: Could you share your outlook on paper and prices?

Pawan Jain: Paper is a stable kind of business with stable volumes and price. Realization in paper is lesser when you compare it on Y-o-Y but on Q-o-Q basis, it is flat.

Sumant Kumar: Any other impact from China like dumping?

Pawan Jain: There is some impact in the coastal areas, but that is not impacting the overall demand in copier paper. We are selling copier paper under our own brand and that is helping us to have stable margins.
Sumant Kumar: You highlighted that high-margin bath and terry towel would contribute 80% to the business, so what is that 80% of the business?

Pawan Jain: I said 80% of the textiles revenue. In FY15, our textile revenue comprises of 60% towel and 40% yarn. So two year down the line, with better utilization in towel and contribution from upcoming bed linen unit, we expect that 80% of the textile revenues would come from bed linen and towel and 20% from yarn.

Moderator: Thank you. Next question is from the line of Abhijeet Singh from Crisil. Please go ahead.

Abhijeet Singh: With regards to EBITDA margin improvement in the textile segment, is it purely due to change in product mix as an increase in terry towels and lower yarn sales or is there any change in the respective product segments?

Pawan Jain: One is the product mix and second is the raw material cost. So if you compare the raw material cost as compared to the last year then the yarn realization has dropped. That has helped us to even improve the margin in towel business.

Abhijeet Singh: If you look at quarter-on-quarter basis, EBITDA margins in Q4 FY15 for textiles was 19.9% and in this quarter it is 20.7% and you said last quarter that you have actually offloaded all the high cost inventory. So now your yarn realization is normalized. So if you purchase from outside there should not be in a big differential in margins for terry towels. So just wanted to understand that perspective on quarter-on-quarter basis why these margins have increased in textiles?

Pawan Jain: Quarter-on-quarter the realization in yarn has increased by around 4%, otherwise in sales terms there is a decline in yarn overall but there is improvement in captive yarn as compared to corresponding year, though it is flat quarter-to-quarter. So for whatever yarn we have procured from outside, when yarn realization has dropped than that helps us to reduce the cost of yarn.

Abhijeet Singh: Coming back to the paper segment, I was looking at your margins in the paper segment it looks like in the first quarter you typically get very good margins. For example in same quarter last year you got some 32.7% EBITDA margins then it dropped to 28 levels, similarly in Q1 FY13, so is it some kind of seasonality here?

Pawan Jain: Definitely. The raw material cost varies throughout the year so whatever wheat straw we procure from within the region that will certainly have some seasonality impact. Right now that is impacting in terms of increasing margins in the paper business.
**Abhijeet Singh:** What is the outlook on the copier paper because the sense that I am getting is that the competition in the copier is increasing and JK Paper has also put up a new capacity?

**Pawan Jain:** This capacity had enhanced last year so they had started sometime in Q2 of FY15. I believe that capacity has been absorbed and there is no major impact in terms of overall demand-supply within paper. Secondly, as of now none of the paper mills are expanding in terms of putting the new CAPEX in paper as the gestation in paper requires close to four years. So if you start thinking of installing a paper plant right now, then it will take around four years. Hence, we believe that paper is a good business with stable margins.

**Abhijeet Singh:** It correctly shows that you have a margin benefit because of wheat straw which is the raw material, why is that any other competitor is not putting up a paper plant nearby and procuring wheat straw similar to what you’re doing, is there any deterrence?

**Pawan Jain:** We had put this paper plant in around 2008-2009. You know paper is a high capital intensive industry and wheat straw is limited in this region and right now we are the world’s largest wheat straw based paper manufacturers.

So it is like we have a locational advantage as we are sitting in the belt where wheat straw is available within 50 to 60 km. So it can’t be logistically moved from one place to another, but definitely one can put a new machine, but that requires a fresh capital for which the capital cost is much higher so that’s, I guess, a barrier.

**Abhijeet Singh:** How much could be the capital cost for putting up a similar paper plant or capacity that you have if anybody likes to put?

**Pawan Jain:** Similar capacity will be close to Rs. 2,000 crore.

**Abhijeet Singh:** Without land?

**Pawan Jain:** Inclusive of everything.

**Abhijeet Singh:** Coming to the capacity expansion of bed linen, just wanted to understand what is the status right now. Your civil work is done and your plan is to get it commissioned by September, so what is the status right now?

**Pawan Jain:** Civil work is more or less completed. Most of the plant and machinery has started arriving at the site and some of the plant and machinery is already under erection, so we see that by September end
everything should be in place and it will take around 3-4 months for performance testing and trial run and the commercial production would start somewhere in Q4.

Abhijeet Singh: One thing on the borrowing, your interest cost has declined significantly whereas your borrowing is at the same level even on quarter-on-quarter basis, so wanted to understand the math of it and will it be sustainable, how should we look at that interest cost for the full year?

Pawan Jain: We had repaid about Rs. 458 crore last year and within this quarter also we had repaid around Rs. 102 crore against our scheduled repayment of Rs. 70 crore, so Rs. 32 crore of high cost debt has been prepaid.

Abhijeet Singh: So what was the cost of that Rs. 32 crore?

Pawan Jain: It was more than 12.5%. There are 2-3 factors which have led to this finance cost reduction. One, last year when our rating was upgraded we had filed our request with the bankers to reduce the interest cost so that has started happening and the full impact of that cost reduction which is nearly 100 basis points has come in this quarter.

Second is this repayment of high cost debt. And thirdly, our working capital utilization also has improved in this quarter and that has reduced our overall interest cost in short-term borrowings. Additionally, there is an interest cut of 0.25% as per the RBI guidelines, so that has reduced the overall interest costs.

Abhijeet Singh: Interest cut of 0.25%.

Pawan Jain: Yes, base rate reduction of 0.25%.

Abhijeet Singh: One last question on the tax rate, your provision for tax rate this quarter is somewhere around 15%. It's significantly low and any insight on that?

Pawan Jain: This is as per the income tax deduction applicable for this year for the new plant and machinery which we are adding, so there is a 15% additional reduction on whatever investments we are putting into the plant and machinery. So that has reduced our effective tax rate during this year.

Moderator: Thank you. Next question is from the line of Pawan Kumar from Unify Capital. Please go ahead.

Pawan Kumar: Can you share your views about TUF subsidy schemes and whether it is expected to continue, how far it is expected to continue going in the near future and if any present amendments or any kind of change in the regulatory environment related to the industry?
Pawan Jain: As of now whatever projects have been registered under TUF and obtained the UID, they are continuing to get the interest subsidy as per the guidelines of the Central Government and as per the guidelines of the State Government. So we don't foresee any issues as far as our existing CAPEX which is under implementation is concerned and as well as the CAPEX which we had already completed in the last few years. For the new projects, it is not clear whether it is going to reduce certain subsidy or going to give the subsidy at a rate it is right now. So project applications pending under TUF is taking some time for clearance and there is no clear-cut decision from the government.

Pawan Kumar: Any date they have pushed it on to for the new projects?

Pawan Jain: No, there is no clarity as of now. I think it is more towards the allocation of TUF so I think they are taking time in terms of what allocation is there or what allocation is anticipated in the next year.

Pawan Kumar: Regarding the TUF subsidy receivables, are they coming on time or is the industry seeing some kind of receivables delay?

Pawan Jain: No we don't see any delay in receiving those subsidies, whatever is outstanding at one particular quarter, within 6 months we are able to receive that. So it's only these 6 months’ time gap which we are having in receiving the subsidy.

Pawan Kumar: Regarding the yarn realization, what has been the position of China’s stock presently because due to high stocks with China last year there was a significant fall in the realization right?

Pawan Jain: China, that portion has already taken a hit in FY15. For the last one year China has not imported majorly in terms of cotton or either cotton yarn so I think now it's more of a demand supply and realization which is having its parity adjusted with the current cotton prices.

Pawan Kumar: But has the exports from China again picked up or it remains at a same level?

Pawan Jain: It remains at the same level as that of last year, it has only reduced as compared to FY14. But from FY15 onwards it has remained more or less on the same parity.

Pawan Kumar: Any outlook on the yarn realization going forward?

Pawan Jain: The yarn realisations towards last month of the June quarter has started declining again, and in this quarter also it's more or less stable as compared to the last quarter. The new cotton starts coming in from October-November season and till September most of the major mills are having cotton stock till October or mid of November, so I think up to September quarter already for the existing inventories there is
a good parity in terms of realization and whenever the new cotton comes, then that scenario will help us with better realizations going forward. So we don’t expect any move on either side, we expect that it is more or less stable with minor bias towards the decline side.

Pawan Kumar: Any view on what would be our volume growth for this year especially in the home textile business?

Pawan Jain: The current utilization of our Budni plant is 40% and we expect that on an overall year basis it will be 50-55% by the end of this year and that will give us growth in terry towels.

Pawan Kumar: How much percentage growth can be attained?

Pawan Jain: In terms of our towel revenue, we see growth of more than 25% but having said that whenever we have additional revenue in towel there is some decline in yarn revenue due to increase in the captive consumption. So, on an overall basis if you see the blended revenue, it may improve to about 20%.

Pawan Kumar: Any kind of slowdown seen in the export markets, what is the environment in the export markets especially Europe and US?

Pawan Jain: I think US is more or less growing as usual. In Europe there is a little contraction during the last few quarters but the companies are waiting for FTA to happen sometime in the near future so that will help improve our exports towards Europe.

Moderator: Thank you. Next question is from the line of Sangeeta Tripathi from ShareKhan. Please go ahead.

Sangeeta Tripathi: My question is with reference to the CAPEX that you have revisited. You are not putting the captive power plant and not going for the modernization of the yarn. Can you outline the CAPEX for FY16, FY17 and FY18?

Pawan Jain: Right now we have only one CAPEX which is under implementation and that is composite bed linen project. So that CAPEX would be completed within this financial year only. So beyond that we may spend on certain debottlenecking exercises in FY17 which will be a smaller CAPEX of maybe around Rs. 100 or 200 crore. Going forward, we may have a captive power plant in smaller units. It might not be 60 MW, but maybe 20 or 30 MW of smaller phases. We believe that FY16 would be a flat year in terms of free cash flow, but from FY17 we expect some free cash flow and from that we will be able to put some debottlenecking initiatives in the next 2-3 years.
Sangeeta Tripathi: What is the CAPEX for FY16, how much have we already spent and what would happen in the next year?

Pawan Jain: The overall CAPEX which we are implementing is Rs. 1,667 crore which is for the composite sheeting project and already on an overall basis around Rs. 1,000 crore we have spent.

Sangeeta Tripathi: So another Rs. 670 crore we will be spending in the next six months time frame?

Pawan Jain: Yes, in this Rs. 1,000 crore, close to Rs. 400 crore is the cost which is incurred and another Rs. 600 crore is the committed cost which will materialize in the next quarter.

Sangeeta Tripathi: Another question is on the revisit in the CAPEX that you have done. You are not going to spend Rs. 100 crore for yarn modernization?

Pawan Jain: Yes. That's right.

Sangeeta Tripathi: On the captive power plant, you said that 60 MW which you were expecting to put up that has also been deferred and you will be doing smaller phases going forward. So I would like to understand that post the bed linen facility being up and running, will you buy power from outside? How your power requirements will build?

Pawan Jain: As far as yarn is concerned we had planned this modernization to shift some spindleage capacity to counts which are required for towel so as to increase our captive consumption even to a higher level. But right now with the current yarn scenario and current cotton scenario we foresee that yarn which is required for our towel business is easily available in the market so better to defer this project for the time being and whenever we see that we are able to generate sufficient free cash flows, than we will spend this CAPEX and modernize our capacity so as to shift more towards our towel requirements.

Second, with regards to captive power, we had planned 60 MW captive power for our entire complex in Madhya Pradesh, Budni. As of now, all our Punjab facilities are already 100% on captive power. And for Budni, the power position in Madhya Pradesh is good in terms of uninterrupted supply and costs, which is better than the Punjab grid rates, so we expect that power situation is not bad as of now. We had planned 60 MW going forward due to the fast industrialization in Madhya Pradesh and 2-4 four years down the line we may expect some power crisis in Madhya Pradesh. So we would definitely look into the captive requirement but as of now the decision is deferred for the time being and going forward we may have it in a phased manner.

Sangeeta Tripathi: You said that the debt levels will peak in FY16, so what's the targeted debt level that we are looking in FY16? Right now we are at Rs. 2,600 crore, right?
Pawan Jain: Yes, that's right. Gross debt is at Rs. 2,682 crore and we expect the peak debt in March 2016 which will be around Rs. 3,300 crore.

Sangeeta Tripathi: On the margin front, I believe that terry towel is the product which fetches you the higher margin in totally integrated operations. So around 21-22% would be the kind of margin that you are earning from terry towels? Could you give segmental margin overview across Terry towel, bed linen and yarn on an integrated basis?

Pawan Jain: I will give you the range. In yarn, whatever we are selling outside, we have a margin of around 12-18% depending upon the cotton scenario and the inventory stock and in towels it ranges between 18-22% and the bed linen would have even better margins because it's a complete composite project from yarn to bed linen, so that will give us around 24-27% EBITDA margin.

So going forward on a blended basis, we are giving guidance of 18% on a sustainable basis. Suppose 2-3 years down the line, if these export incentives or duty drawback is withdrawn, then there would be a contraction in the margins of 2-3% but 18% is still sustainable going forward.

Sangeeta Tripathi: Your paper business and textile business are very different with different dynamics, so why put it in the same company. Are there any plans to spin off the paper unit?

Pawan Jain: Paper is our old plant. The first unit was commissioned even before our terry towel unit. We had expanded paper in 2008-2009 and now it is more stable and giving us good revenue and EBITDA margin. So going forward we don't have any plans to split this unit from textile business. Having said that, there is certain integration within the paper segment and textiles in terms of utilities, power, steam, recovery and effluent treatment, so all those utilities help both the businesses to have better efficiencies.

Sangeeta Tripathi: So there are no plans to spin off?

Pawan Jain: As of now there is no plan, but tomorrow may be at a certain point of time we feel that it is required than we may take a call. But as of now there is no plan.

Moderator: Thank you. Next question is from the line of Dhwanil Shah from I-Wealth Management. Please go ahead.

Dhwanil Shah: My question was regarding the disruption that happened in our Budni plant due to rains, so things are normal now?
**Pawan Jain:** Yes, there are no major losses. There were flash floods in Madhya Pradesh and a lot of water logging had happened due to continuous rain. So there was a little disruption in our project site of bed linen project for about a week’s time and there was also some disruption in our yarn facilities as water had come in and the operations were disrupted for a few days, but now it is all normalized and the entire bed line project work and also the yarn operations are running as usual.

**Dhwanil Shah:** No inventory loss or anything like that?

**Pawan Jain:** No, it’s normal, there is a normal loss which is adequately insured.

**Dhwanil Shah:** One more question regarding your interest cost, you are saying that there would be a peak debt this year of about Rs. 3,400 crore, so our interest would be roughly Rs. 200-240 crore this year?

**Pawan Jain:** The new loans which are coming in towards bed linen project, will be capitalized till the facility is commissioned, after that it will be absorbed in the P&L. So it will be normalized when it is commissioned in the third or fourth quarter

**Dhwanil Shah:** And in terms of margins, you said that blended margins would be 18% as we move from yarn to more internal consumption, but shouldn’t be our margins at 22-23% level on a sustainable basis?

**Pawan Jain:** Our endeavor is certainly to have better margins going forward but as a guidance for your valuation perspective we are saying 18% only. This is because of a few reasons like fluctuations in cotton scenario, fluctuations in foreign currency scenario, and thirdly the exports incentives which we believe that in the next three years’ time period, it may be curtailed.

**Moderator:** Thank you. Next question is from the line of Chintan Sheth from SKS Capital and Research. Please go ahead.

**Chintan Sheth:** On the CAPEX front, you said that you have deferred Rs. 104 crore and Rs. 393 crore CAPEX and the same would be deployed going forward depending on the cash flow situation and you will be spending the bed linen CAPEX of close to Rs. 670 crore this year?

**Pawan Jain:** The entire CAPEX is Rs. 1,667 crore, out of that we had already incurred more than Rs. 400 crore and close to Rs. 600 crore is a committed CAPEX in the sense that we have procured most of the plant and machinery and hence there are certain advance payments and there are certain payments on arrival and there are certain payments which are linked with achieving the performance parameters and commissioning. So we see that this is a committed capital but, the payment will be done whenever some commissioning is happening or whenever remaining part of the plant and machinery will arrive at the site.
Chintan Sheth: So net-net, you will be paying Rs. 600 crore or you will be paying entirely Rs. 1200 crore?

Pawan Jain: Rs. 1,200 crore will be incurred within this financial year, FY16.

Chintan Sheth: And once the plant is commissioned say in Q4, what will be the quarterly depreciation rate because of the new plant commissioning? Current run rate is around Rs. 80 crore of depreciation on a quarter basis, so it will go up to what level?

Pawan Jain: On a quarterly basis it would be around additional Rs. 20-25 crore.

Chintan Sheth: You mentioned about the tax rate which is 15% due to the investment in plant and machinery, so for this fiscal and next fiscal what will be the effective tax rate?

Pawan Jain: Within this fiscal we expect the tax rate to be between 15-20% only and in the next fiscal this incentive will not be available because this is only applicable in the year of purchase of plant and machinery. Hence, from next fiscal this deduction will not be applicable, however, there will be 80-IA benefits on our captive power so that would continue to accrue. Hence, in the next year we expect the effective tax rate to be around 25-30%.

Moderator: Thank you. Next question is from the line of Amit Sharma from AUM Capital. Please go ahead.

Amit Sharma: On the bed linen front, are we also gearing in for some branded launches?

Pawan Jain: We had already launched our new branded products in bed linen in July. Currently, we are getting those products outsourced from other suppliers, so we are already supplying these bed linen products in the domestic market to understand the market. This would be export-oriented but some part of it, say about, 5-10% will be sold in domestic markets also.

Amit Sharma: We already have an established Trident brand. Is this brand present in the export markets?

Pawan Jain: No, in export markets most of the products that we are selling in towel are on private-label basis which is owned by the retail and fashion stores but yes, a few of our products in towels are available online in US through portals like Amazon US, but that on an overall revenue basis is negligible. However, we are exporting our Trident brand of paper products to US and other parts of the world.

Amit Sharma: What will be the margin difference between bed linen and terry towel and bed linen and yarn per se?
**Pawan Jain:** The EBITDA margin range for yarn is 12-18% and for towel it is 18-22% and for bed linen as a composite project, it will give us close to 24-27%.

**Amit Sharma:** So we do expect margin expansion from the existing products?

**Pawan Jain:** Yes, that's right. The margin expansion will happen in terms of improving our utilization in towels and secondly the stabilization of our bed linen project and then ramping up the utilization there.

**Amit Sharma:** On the debt front, do we have any internal target of debt repayment in FY18?

**Pawan Jain:** We had repaid about Rs. 458 crore last year and within this quarter also we have repaid Rs. 102 crore against our scheduled repayment of Rs. 70 crore. In FY16, we have scheduled repayment of Rs. 370 crore.

**Amit Sharma:** I was trying to ascertain the debt level in FY18 because in FY16 anyway our debt would peak out and FY17 will enable us to gear up for some debt reduction but FY18 do we have some kind of target?

**Pawan Jain:** On an average we are repaying debt of around Rs. 400-450 crore every year, so in FY18, the debt equity would be somewhere around 1.25x to 1.3x.

**Amit Sharma:** Our CAGR growth would be around 20% or in the range of 25% or more?

**Pawan Jain:** Around 20% for the next year.

**Moderator:** Thank you. As there are no further questions from the participants I would now like to hand over the floor back to the management for their closing comments, over to you sir.

**Pawan Jain:** Thank you everyone for joining us on the call today. Hope we have been able to answer all the questions and should you need any more clarifications, please feel free to contact our Investor Relations Team or Citigate Dewe Rogerson. Thank you.

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

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