

## Company Update

# Trident Ltd

Bloomberg Code: TRID IN

India Research - Stock Broking

## Robust Manufacturing Capacity; Focusing on Increasing Asset Utilization

**Stable revenue growth; however margins affected slightly:** In Q4FY17, Trident recorded revenue of Rs. 12,683 Mn which is up by 13.0% QoQ. In FY17, the company reported a revenue growth of 27.4% YoY which is highest in the past five consecutive years. During FY17, EBITDA improved by 23.5% however margins were affected by 59bps due to increase in raw material cost and Rupee appreciation (which became a cause of concern for Indian exporters and remains a key headwind in margin growth). In Q4FY17, the company has witnessed an uptick in PAT of Rs. 997 Mn which grew by 26.8% on QoQ basis and on YoY basis it is 63.6%.

### Debt repayment to be supported by healthy free cash flow generation:

Trident has completed its capex plans and does not have any further capex plan in near future, except maintenance capex or de-bottlenecking involved. In FY17, the company has repaid a total debt of Rs. 5760 Mn which includes Rs. 2270 Mn of high cost debt. Currently, the company has long term debt of Rs. 20480 Mn out of which ~75% i.e. Rs. 15520 Mn is covered under the Technology Upgradation Fund Scheme (TUFS). As a practice, the company has aimed to continue to repay high cost debt first which indicates disposing the term debt ahead of repayment schedule which will strengthen the balance sheet and also help to reduce the overall interest costs. Also Trident has improved dividend payment on the back of higher free cash flow generation.

### Focusing on expanding utilization along with higher realization orders:

The capacity utilization for Yarn is at ~93% and with the increased capacity, Bath & Bed Linen recorded ~50% & 29% of utilization. Capacity utilization in Paper stood at 89.0% in FY17. Management guided that by changing sales mix towards higher margin business of terry towel and bed linen, the company could able to achieve the utilization levels of 55-60% & 40-50% by FY18E.

## Valuation and Outlook

Considering rising share of high-margin home textiles, increase utilization, economies of scale and debt repayment plan for the next two years, we continue to maintain our positive outlook on Trident and we maintain our “BUY” rating with an upwardly revised target price of Rs. 98, based on 9.4x P/E FY19E, representing an upside potential of 21% in next 9-12 months.

### Exhibit 1: Valuation Summary

YE Mar (Rs. Mn)	FY15	FY16	FY17	FY18E	FY19E
Net Sales	37553	36840	46944	51189	58725
EBITDA	6608	7189	8882	10431	12539
EBITDA Margin (%)	17.6	19.5	18.9	20.4	21.4
Adj. Net Profit	1179	2291	3372	4141	5292
EPS (Rs.)	2.5	4.5	6.6	8.1	10.4
RoE (%)	10.1	14.2	17.4	17.9	18.7
PE (x)*	9.3	11.4	13.0	10.0	7.8

Source: Company, Karvy Research, \*Represents multiples for FY15, FY16 & FY17 are based on historic market price

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# BUY

### Recommendation (Rs.)

CMP (as on Jun 13, 2017)	81
Target Price	98
Previous Target Price	87
Upside (%)	21

### Stock Information

Mkt Cap (Rs.mn/US\$ mn)	41201 / 639
52-wk High/Low (Rs.)	92 / 42
3M Avg. daily volume (mn)	1.1
Beta (x)	1.1
Sensex/Nifty	31103 / 9607
O/S Shares(mn)	509.6
Face Value (Rs.)	10.0

### Shareholding Pattern (%)

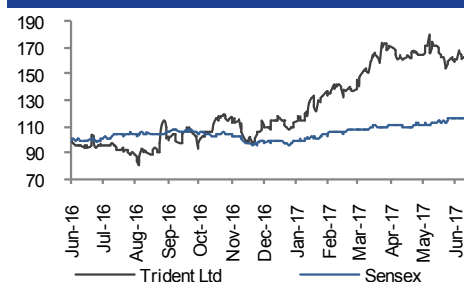
Promoters	67.8
FII	1.6
DII	2.2
Others	28.5

### Stock Performance (%)

	1M	3M	6M	12M
Absolute	(7)	6	38	63
Relative to Sensex	(10)	(2)	18	40

Source: Bloomberg

### Relative Performance\*



Source: Bloomberg; \*Index 100

### Earnings Revision (%)

YE Mar	FY18E	FY19E
Sales (%)	↓ (3.2)	↓ (1.7)
EBITDA (%)	↓ (7.2)	↓ (3.2)
PAT (%)	↓ (7.0)	↓ (7.5)

Source: Karvy Research

### Analyst Contact

**Prasanth Victor**

040 - 3321 6271

v.prasanth@karvy.com

**Exhibit 2: Q4FY17**

YE Mar (Rs. Mn)	Q4FY17	Q3FY17	QoQ %	Q4FY16	YoY %	FY17	FY16	YoY %
Turnover	12683	11223	13.0	9589	32.3	46944	36840	27.4
Expenditure	10552	8971	17.6	7600	38.8	38062	29651	28.4
EBITDA	2131	2252	(5.4)	1990	7.1	8882	7189	23.5
Depreciation	1010	1035	(2.4)	928	8.8	4125	3376	22.2
Interest	321	302	6.3	364	(11.8)	1410	1364	3.4
Other Income	490	107	357.9	70	602.4	1035	317	226.7
PBT	1290	1022	26.2	767	68.2	4382	2766	58.4
Tax	293	236	24.2	158	85.8	1016	486	109.1
PAT	997	786	26.8	609	63.6	3372	2291	47.2
EBITDA Margin (%)	16.8	20.1	(326) bps	20.7	(395) bps	18.9	19.5	(59) bps
EBIT Margin (%)	8.8	10.8	(201) bps	11.1	(223) bps	10.1	10.4	(22) bps
Net Profit Margin (%)	7.9	7.0	86 bps	6.4	151 bps	7.2	6.2	98 bps

Source: Company, Karvy Research

**Key takeaways from conference call**

- The company declared a final dividend of Rs. 0.3. So, the total dividend for FY17 stands at Rs. 1.5 which is 15.0% per fully paid up equity share of Rs. 10.
- Due to Demonetization, there was a delay in the procurement of cotton as traders have stocked up by creating temporary scarcity which resulted in increase of cotton price by about ~20%.
- In paper segment for FY17, revenues increased by 5.0% to Rs. 8724 Mn with significant improvement in EBITDA. EBITDA margins expanded by 569 bps YoY mainly driven by better realizations due to higher demand. Capacity utilization in Paper stood at 89.0% in FY17.
- According to management guidance, EBITDA margins could be in a range of ~18-22% in FY18E & FY19E which could be possible by rising captive consumption of yarn, rising share of high-margin home textiles and increase in utilisation.
- No further capex plans in the business, it will be more of maintenance capex or debottlenecking involved which is expected to be about Rs. 500 Mn to Rs. 1000 Mn per year.

**Exhibit 3: Financials**

YE Mar (Rs. Mn)	FY18E			FY19E		
	Old	New	% Change	Old	New	% Change
Net Sales	52891	51189	(3.2)	59714	58725	(1.7)
EBITDA	11243	10431	(7.2)	12957	12539	(3.2)
EBITDA Margin (%)	20.6	20.4	(22) bps	21.1	21.4	25 bps
Adj. Net Profit	4450	4141	(7.0)	5720	5292	(7.5)
EPS (Rs.)	8.7	8.1	(6.6)	11.2	10.4	(7.3)

Source: Company, Karvy Research

**Key Risks**

- The majority of risks faced by the company are inherent to business activities of the company and the global network, ranging from agricultural crops in monsoon, economic cycles across the globe and foreign exchange fluctuations.
- Since the company caters to 75 countries globally in home textiles, wheat straw-based/eco-friendly paper and some varieties of yarn, it is always subject to the risk of foreign currency fluctuations.
- Since Trident relies a lot on developed economies of North America, Europe and UK for business, acute slowdown in these markets could adversely impact its business.

## Financials

### Exhibit 4: Income Statement

YE Mar (Rs. Mn)	FY15	FY16	FY17	FY18E	FY19E
Revenues	37553	36840	46944	51189	58725
Growth (%)	(2.9)	(1.9)	27.4	9.0	14.7
Operating Expenses	30946	29651	38062	40758	46186
EBITDA	6608	7189	8882	10431	12539
Growth (%)	(9.2)	8.8	23.5	17.4	20.2
Depreciation & Amortization	3213	3376	4125	4308	4859
Other Income	345	317	1035	450	580
EBIT	3739	4130	5792	6574	8261
Interest Expenses	2060	1364	1410	1246	1189
PBT	1680	2766	4382	5328	7072
Tax	501	486	1016	1187	1780
Adjusted PAT	1179	2291	3372	4141	5292
Growth (%)	(40.2)	93.4	47.6	23.0	27.8

Source: Company, Karvy Research

### Exhibit 5: Balance Sheet

YE Mar (Rs. Mn)	FY15	FY16	FY17P	FY18E	FY19E
Cash & Equivalents	170	819	1326	1765	2765
Sundry Debtors	2033	1767	3751	3289	3369
Loans & Advances	2443	3181	0	0	0
Investments	308	936	1054	1054	1054
Net Block	30858	38919	38108	35737	33509
Inventory	7508	9092	7747	7892	8257
Other current and Non current assets	1750	1923	3307	3064	3880
<b>Total Assets</b>	<b>45070</b>	<b>56637</b>	<b>55293</b>	<b>52801</b>	<b>52833</b>
Current Liabilities & Provisions	4967	4550	4838	3898	3437
Debt	22117	30353	25501	19776	14086
Deferred tax liabilities	1242	1727	1655	1655	1655
Trade Payables	2191	2219	2302	2158	2458
<b>Total Liabilities</b>	<b>30517</b>	<b>38848</b>	<b>34297</b>	<b>27487</b>	<b>21636</b>
Shareholders Equity	5086	5694	5096	5096	5096
Reserves & Surplus	9467	12095	15901	20218	26101
<b>Total Networkth</b>	<b>14554</b>	<b>17789</b>	<b>20996</b>	<b>25314</b>	<b>31196</b>
<b>Total Networkth &amp; Liabilities</b>	<b>45070</b>	<b>56637</b>	<b>55293</b>	<b>52801</b>	<b>52833</b>

Source: Company, Karvy Research

**Exhibit 6: Cash Flow Statement**

YE Mar (Rs. Mn)	FY15	FY16	FY17E	FY18E	FY19E
PBT	1680	2766	4382	5328	7072
Depreciation	3213	3376	4125	4308	4859
Interest	2060	1364	1410	1246	1189
Tax Paid	(347)	(600)	(1016)	(1187)	(1780)
Inc/dec in Net WC	(977)	(1424)	1411	(524)	(1422)
Others	(188)	(194)	0	0	0
<b>Cash flow from operating activities</b>	<b>5441</b>	<b>5288</b>	<b>10312</b>	<b>9170</b>	<b>9917</b>
Inc/dec in capital expenditure	(1843)	(11251)	(757)	(750)	(850)
Inc/dec in investments	192	(250)	0	0	0
Others	222	(501)	0	0	0
<b>Cash flow from investing activities</b>	<b>(1430)</b>	<b>(12001)</b>	<b>(757)</b>	<b>(750)</b>	<b>(850)</b>
Inc/dec in borrowings	(1783)	6978	(6747)	(5725)	(5690)
Issuance of equity	187	611	0	0	0
Dividend paid	(486)	(360)	(891)	(1010)	(1189)
Interest paid	(2056)	(1367)	(1410)	(1246)	(1189)
Others	(183)	832	0	0	0
<b>Cash flow from financing activities</b>	<b>(4321)</b>	<b>6694</b>	<b>(9049)</b>	<b>(7981)</b>	<b>(8067)</b>
Net change in cash	(310)	(20)	507	439	1000

Source: Company, Karvy Research

**Exhibit 7: Key Ratios**

YE Mar	FY15	FY16	FY17P	FY18E	FY19E
EBITDA Margin (%)	17.6	19.5	18.9	20.4	21.4
EBIT Margin (%)	9.0	10.4	10.1	12.0	13.1
Net Profit Margin (%)	3.1	6.2	7.2	8.1	9.0
Dividend Payout Ratio (%)	24.3	20.0	22.7	20.9	19.3
Net Debt/Equity (x)	1.5	1.7	1.2	0.7	0.4
RoE (%)	10.1	14.2	17.4	17.9	18.7
RoCE (%)	11.8	9.4	11.8	13.9	17.6

Source: Company, Karvy Research

**Exhibit 8: Valuation Parameters**

YE Mar	FY15	FY16	FY17P	FY18E	FY19E
EPS (Rs.)	2.5	4.5	6.6	8.1	10.4
DPS (Rs.)	0.6	0.9	1.5	1.7	2.0
BVPS (Rs.)	28.6	34.9	41.2	49.7	61.2
PE (x)	9.3	11.4	13.0	10.0	7.8
P/BV (x)	0.8	1.5	2.1	1.6	1.3
EV/EBITDA (x)	5.1	7.7	7.7	5.7	4.2
EV/Sales (x)	0.9	1.5	1.5	1.2	0.9

Source: Company, Karvy Research; \*Represents multiples for FY15, FY16 & FY17 are based on historic market price

Stock Ratings	Absolute Returns
Buy	: > 15%
Hold	: 5-15%
Sell	: <5%

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Plot No.31, 6th Floor, Karvy Millennium Towers, Financial District, Nanakramguda, Hyderabad, 500 032, India  
Tel: 91-40-2331 2454; Fax: 91-40-2331 1968

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