

26 June 2014

Trident

Global scale

Expanding scale and reach. Incorporated in 1985 by Chairman Rajinder Gupta, the Trident Group today is one of the biggest yarn producers in India and the largest for terry towels globally. It has eight yarn units at Sanghera (Punjab) and Budni (MP), while the integrated Dhaula complex (Punjab) has three home-textile units, two paper units, chemicals and energy. The capacities have reached global scale – yarn (100,800tons), terry towel (360mn pieces), paper (450tpd) – thereby providing competitive edge in the commoditised sector. The customer base is highly diversified with MNCs in 75 countries across the globe, comprising 9 of the top 10 retailers in U.S., 6 leading retailers in Europe and 5 of the top 7 in Australia and New Zealand (ANZ).

Value addition drives revenues. Trident's revenue base is diversified, both geographically and product-wise. Cotton and blended yarn contributed ₹15,960m to revenue (FY14: 31% exports, 42% value addition). The home-textiles division (FY14 revenue: ₹14,386m, 81% exports) caters to brands, department stores, home-specialty chains, mass merchants and institutional customers. Paper (FY14 revenue: ₹8,326m, 8% exports, 49% value addition) accounts for 20% of revenues (with exports to 35 countries through a network of 60 distributors).

Focus on portfolio enrichment and consolidation. Trident is in the midst of establishing 500 looms integrated sheeting capacity at MP by FY16e with ₹17bn capex. It will have 600,000 spindles post expansion, integrated end-to-end, fulfilling the requirement of the entire existing clientele. The management expects the existing post merger debt of ₹26bn to be curtailed within the range of ₹30bn, as capex will be calibrated to cash flows in future.

Our take. At CMP, the stock trades at 4x FY14 PE and 3.5x FY14 EV/EBITDA. With global scale in home textiles, Trident has strong focus on value addition and portfolio enrichment. We believe it is poised to leverage its business model to drive earnings and consolidate its balance sheet.

| Key financials (YE Mar) | FY10 | FY11 | FY12 | FY13 | FY14e |
|-------------------------|--------|--------|--------|--------|--------|
| Revenues (₹m) | 18,034 | 25,207 | 27,323 | 33,568 | 38,840 |
| EBITDA (₹m) | 3,377 | 3,974 | 3,001 | 5,769 | 7,428 |
| EBITDA margin (%) | 18.7 | 15.8 | 11.0 | 17.2 | 19.1 |
| PAT (₹m) | 565 | 671 | (437) | 493 | 1,970 |
| EPS (₹) | 2.5 | 3.0 | (1.4) | 1.6 | 6.3 |
| EPS growth (%) | NA | 18.8 | NA | NA | 299.5 |
| PE (x) | 10.1 | 8.5 | NA | 16.1 | 4.0 |
| P/BV (x) | 1.1 | 1.1 | 1.2 | 1.1 | 0.9 |
| EV/EBITDA (x) | 6.7 | 6.2 | 10.1 | 5.2 | 3.5 |
| RoACE (%) | 9.4 | 9.1 | 4.1 | 10.4 | 16.0 |

Source: Company, Anand Rathi Research

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Rating: **NR**

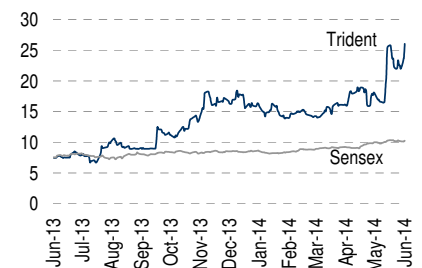
Target Price: NA

Share Price: ₹26

| Key data | TRID IN / TRIE.BO |
|--------------------|-------------------|
| 52-week high / low | ₹28 / ₹6 |
| Sensex / Nifty | 25314 / 7569 |
| 3-m average volume | US\$0.3m |
| Market cap | ₹12bn / US\$0.2bn |
| Shares outstanding | 447m |

| Shareholding pattern (%) | May '14 | Mar '14 | Dec '13 |
|--------------------------|---------|---------|---------|
| Promoters | 68.9 | 59.8 | 55.3 |
| - of which, Pledged | 0.0 | 0.0 | 0.0 |
| Free Float | 31.1 | 40.2 | 44.7 |
| - Foreign Institutions | 0.0 | 0.0 | 0.0 |
| - Domestic Institutions | 1.8 | 2.6 | 2.6 |
| - Public | 29.3 | 37.7 | 42.1 |

Relative price performance



Source: Bloomberg

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Quick Glance – Financials and Valuations

Fig 1 – Income statement (₹ m)

| Year-end: Mar | FY10 | FY11 | FY12 | FY13 | FY14 |
|-------------------------|---------|--------|--------|--------|--------|
| Revenues | 18,034 | 25,207 | 27,323 | 33,568 | 38,840 |
| Revenue growth (%) | 29.0 | 39.8 | 8.4 | 22.9 | 15.7 |
| - Op. expenses | 14,657 | 21,233 | 24,322 | 27,799 | 31,412 |
| EBITDA | 3,377 | 3,974 | 3,001 | 5,769 | 7,428 |
| EBITDA margin (%) | 18.7 | 15.8 | 11.0 | 17.2 | 19.1 |
| - Interest expenses | 1,098 | 1,289 | 1,718 | 2,353 | 2,103 |
| - Depreciation | 1,744 | 1,947 | 2,075 | 2,614 | 2,684 |
| + Other income | 396 | 166 | 202 | 9 | 11 |
| - Tax | 366 | 234 | (153) | 318 | 681 |
| Effective tax rate (%) | 39.3 | 25.8 | NA | 39.2 | 25.7 |
| PAT | 565 | 671 | (437) | 493 | 1,970 |
| +/- Extraordinary items | - | - | - | - | - |
| +/- Minority interest | - | - | - | - | - |
| Attributable PAT | 565 | 671 | (437) | 493 | 1,970 |
| Adj. FDEPS (₹/share) | 2.5 | 3.0 | (1.4) | 1.6 | 6.3 |
| Adj. FDEPS growth (%) | (206.4) | 18.8 | NA | NA | 299.5 |

Source: Company, Anand Rathi Research

Fig 2 – Balance sheet (₹ m)

| Year-end: Mar | FY10 | FY11 | FY12 | FY13 | FY14e |
|-------------------------|---------------|---------------|---------------|---------------|---------------|
| Share capital | 2,222 | 2,223 | 3,058 | 3,108 | 3,111 |
| Reserves & surplus | 2,806 | 3,092 | 3,447 | 3,954 | 6,198 |
| Net worth | 5,028 | 5,315 | 6,506 | 7,063 | 9,309 |
| Minority interest | - | - | - | - | - |
| Total debt | 17,111 | 19,181 | 22,837 | 22,398 | 18,620 |
| Def. tax liab. (net) | 684 | 913 | 760 | 1,070 | 1,082 |
| Capital employed | 22,823 | 25,409 | 30,102 | 30,531 | 29,011 |
| Net fixed assets | 17,181 | 16,563 | 21,543 | 19,963 | 18,319 |
| Investments | 287 | 439 | 557 | 620 | 1,032 |
| - of which, Liquid | (2) | (1) | - | - | - |
| Net working capital | 5,019 | 8,333 | 7,772 | 9,592 | 9,260 |
| Cash and bank balance | 336 | 73 | 230 | 356 | 400 |
| Capital deployed | 22,823 | 25,409 | 30,102 | 30,531 | 29,011 |
| Net debt | 16,777 | 19,108 | 22,606 | 22,042 | 18,220 |
| WC days | 101.6 | 120.7 | 103.8 | 104.3 | 87.0 |
| Book value (₹/sh) | 22.6 | 23.9 | 21.3 | 22.7 | 29.9 |

Source: Company, Anand Rathi Research

Fig 3 – Cash-flow statement (₹ m)

| Year-end: Mar | FY10 | FY11 | FY12 | FY13 | FY14e |
|--------------------------|----------------|----------------|----------------|----------------|----------------|
| PBT | 930 | 904 | (591) | 811 | 2,651 |
| Non cash items | 1,744 | 1,947 | 2,075 | 2,614 | 2,684 |
| Interest expense | 1,098 | 1,289 | 1,718 | 2,353 | 2,103 |
| Non operat. items | (190) | (141) | (63) | (102) | (11) |
| Chg in WC | (2,357) | (3,033) | 1,060 | (1,761) | 332 |
| Tax paid | (60) | (217) | (39) | (113) | (681) |
| Operating cash | 1,166 | 750 | 4,161 | 3,803 | 7,079 |
| Capex | (2,614) | 308 | (6,095) | (797) | (1,040) |
| Investments | 1,079 | (2,026) | (58) | (203) | (402) |
| CF from investing | (1,535) | (1,718) | (6,153) | (1,000) | (1,442) |
| Chg in share capital | - | 1 | 533 | 64 | 2 |
| Chg in debt | 330 | (713) | 4,208 | (2,872) | (3,778) |
| Dividend, int & others | 104 | 1,481 | (2,634) | (45) | (1,818) |
| CF from fin. Act. | 434 | 770 | 2,107 | (2,853) | (5,593) |
| Net cash-flow | 65 | (198) | 115 | (50) | 44 |

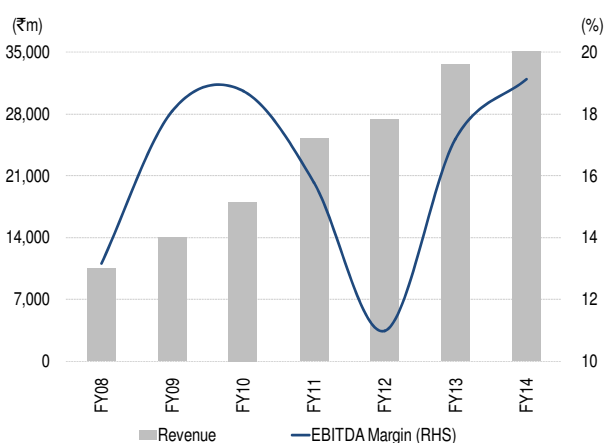
Source: Company, Anand Rathi Research

Fig 4 – Ratio analysis @ ₹26

| Year-end: Mar | FY10 | FY11 | FY12 | FY13 | FY14e |
|---------------------|------|------|--------|------|-------|
| P/E (x) | 10.1 | 8.5 | NA | 16.1 | 4.0 |
| P/B (x) | 1.1 | 1.1 | 1.2 | 1.1 | 0.9 |
| P/CF (x) | 2.5 | 2.2 | 4.8 | 2.6 | 1.7 |
| EV/Sales (x) | 1.2 | 1.0 | 1.1 | 0.9 | 0.7 |
| EV/EBITDA (x) | 6.7 | 6.2 | 10.1 | 5.2 | 3.5 |
| Dividend yield (%) | - | - | - | - | 1.2 |
| Dividend payout (%) | - | - | - | - | 4.7 |
| RoAE (%) | 11.9 | 13.0 | (7.4) | 7.3 | 24.1 |
| RoACE (%) | 9.4 | 9.1 | 4.1 | 10.4 | 16.0 |
| Debt/Equity (x) | 3.4 | 3.6 | 3.5 | 3.2 | 2.0 |
| EBIT/Interest (x) | 1.5 | 1.6 | 0.5 | 1.3 | 2.3 |
| EBITDA growth (%) | 33.6 | 17.7 | (24.5) | 92.3 | 28.7 |
| EBITDA margin (%) | 18.7 | 15.8 | 11.0 | 17.2 | 19.1 |
| EBIT margin (%) | 9.1 | 8.0 | 3.4 | 9.4 | 12.2 |
| PAT margin (%) | 3.1 | 2.7 | (1.6) | 1.5 | 5.1 |

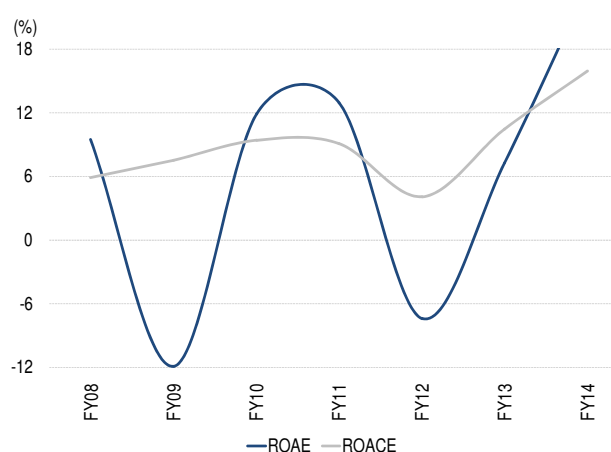
Source: Company, Anand Rathi Research

Fig 5 – Revenue and margins



Source: Anand Rathi Research

Fig 6 – Improving return ratios



Source: Anand Rathi Research

Operational and manufacturing details

Yarn

Trident has installed base of 365,904 spindles and 3,584 rotors to manufacture with cotton and blended yarn capacity of 100,800 tonnes per annum. It also has 6,825 tonnes processing capabilities. The yarn capacity is now fully balanced with towel capacity post the commissioning of Trident Corporation's expansion in FY14e. The company has taken value addition to 42% volumes and diversified geographical customer base to drive earnings. So, over FY09-14, yarn volumes registered 24% CAGR, with 36% CAGR in revenue, while EBIT recorded 59% CAGR to ₹2.3bn.

Fig 7 – Yarn segment

| Yarn | FY08 | FY09 | FY10 | FY11 | FY12 | FY13 | FY14 |
|------------------------|----------|----------|----------|----------|----------|----------|----------|
| Spindles | 1,25,952 | 1,25,952 | 1,76,352 | 2,24,000 | 3,65,904 | 3,65,904 | 3,65,904 |
| Rotors | 1,920 | 1,920 | 1,920 | 1,920 | 3,584 | 3,584 | 3,584 |
| Dyed Yarn (tpa) | 6,825 | 6,825 | 6,825 | 6,825 | 6,825 | 6,825 | 6,825 |
| Production (tons) | 42,244 | 40,072 | 48,115 | 61,212 | 59,611 | 84,700 | 87,144 |
| Sales (tons) | 28,036 | 28,658 | 34,620 | 44,213 | 39,000 | 65,000 | 68,000 |
| Realization (US\$/ton) | 2,417 | 2,403 | 2,641 | 3,909 | 3,948 | 3,581 | 3,881 |
| Revenue (₹m) | 2,728 | 3,156 | 4,335 | 7,876 | 7,383 | 12,668 | 15,960 |
| Export revenues | 8% | 10% | 17% | 27% | 26% | 27% | 31% |
| Domestic revenues | 92% | 90% | 83% | 73% | 74% | 73% | 69% |
| EBITDA (₹m) | 642 | 334 | 787 | 1,891 | 566 | 2,444 | 3,461 |
| EBITDA Margin (%) | 21.8 | 9.8 | 16.9 | 22.4 | 7.0 | 18.1 | 21.7 |
| EBIT (₹m) | 330 | 60 | 360 | 1,310 | (50) | 1,340 | 2,331 |

Source: Company

Home textiles

Trident's 688 looms has capacity to produce 90,000 tpa of towelling material, translating to 360m towels and 1.08m bathrobes. Trident's installed capacity of 688 looms consists of Jacquards (54), Air Jet Dobby (596) and Rapier Dobby (38). Its home textiles are branded as Home Essential, Classic, Kids & Mom, Floral, Colors, and Indulgence. Trident is associated with global retail brands across the globe, including Ralph Lauren, Calvin Klein, JC Penney, IKEA, Target, Wal-Mart, Macy's, Kohl's, Sears, Sam's Club, Burlington, etc. The towel capacity has doubled post merger of associate Trident Corporation effective from April 1, 2014. The focus was on value addition to drive earnings and the new capacity will deliver capability to address the mass segment providing volumes. Trident is also contemplating sheeting capacity of 500 looms in MP, to manufacture 3.6 million metres of sheeting by FY16e at capex of ₹17bn. Sheeting is expected to compliment the home textiles portfolio for the existing customers requiring customised/similar design sets from the same vendor. Home-textile volumes recorded 2% CAGR over FY09-14, with 14% CAGR in revenue, while EBIT registered 2% CAGR to ₹1.6bn.

Fig 8 – Terry towels segment

| Terry towel | FY08 | FY09 | FY10 | FY11 | FY12 | FY13 | FY14 |
|------------------------|--------|--------|--------|--------|--------|--------|--------|
| Looms | 282 | 350 | 374 | 388 | 388 | 388 | 388 |
| Production (tons) | 24,616 | 28,311 | 29,152 | 31,774 | 30,734 | 30,741 | 28,289 |
| Sales (tons) | 24,319 | 28,291 | 29,583 | 32,197 | 30,000 | 31,000 | 31,000 |
| Realization (US\$/ton) | 5,295 | 5,573 | 5,738 | 6,999 | 8,430 | 7,092 | 7,674 |
| Revenue (₹m) | 5,184 | 7,224 | 8,049 | 10,270 | 12,126 | 11,964 | 14,386 |
| Export revenues | 92% | 92% | 92% | 91% | 84% | 85% | 81% |
| Domestic revenues | 8% | 8% | 8% | 9% | 16% | 15% | 19% |
| EBITDA (₹m) | 1,045 | 425 | 2,052 | 1,405 | 1,855 | 1,762 | 2,144 |
| EBITDA Margin (%) | 18.0 | 5.6 | 24.3 | 12.8 | 14.6 | 13.9 | 14.9 |
| EBIT (₹m) | 580 | (100) | 1,500 | 850 | 1,290 | 1,195 | 1,613 |

Source: Company

Paper

Trident is largest global wheat-straw-based paper producer with per-day production capacity of 450 tonnes paper and 265 tonnes pulp. It has increased contribution of the copier segment positioning as premium and eco-friendly paper-products. Volumes of paper registered a 24% CAGR over FY09-14, with a 14% CAGR in revenue, while EBIT recorded a 58% CAGR to ₹1.3bn. The focus going ahead is to further improve value addition from existing 49% and expand national market share

Fig 9 – Paper segment

| Paper | FY08 | FY09 | FY10 | FY11 | FY12 | FY13 | FY14 |
|------------------------|--------|----------|----------|----------|----------|----------|----------|
| Capacity | 40,500 | 1,75,000 | 1,75,000 | 1,75,000 | 1,75,000 | 1,75,000 | 1,75,000 |
| Production (tons) | 40,832 | 67,302 | 1,23,639 | 1,36,716 | 1,46,416 | 1,52,811 | 1,56,259 |
| Sales (tons) | 40,771 | 66,950 | 1,23,662 | 1,36,574 | 1,46,416 | 1,53,028 | 1,56,600 |
| Realization (US\$/ton) | 916 | 925 | 835 | 926 | 908 | 857 | 879 |
| Revenue (₹m) | 1,503 | 2,838 | 4,895 | 5,763 | 6,374 | 7,135 | 8,326 |
| Export revenues | 6% | 6% | 6% | 19% | 11% | 10% | 8% |
| Domestic revenues | 94% | 94% | 94% | 81% | 89% | 90% | 92% |
| EBITDA (₹m) | 281 | 663 | 964 | 1,106 | 1,153 | 1,944 | 2,302 |
| EBITDA Margin (%) | 16.3 | 21.9 | 19.5 | 18.6 | 17.7 | 26.9 | 27.6 |
| EBIT (₹m) | 220 | 330 | 210 | 310 | 300 | 1,050 | 1,326 |

Source: Company

Appendix

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