



## Trident

View: Positive

Integrated home textile player with attractive valuations

CMP: Rs51

### Key points

- India in a sweet spot for home textiles; Trident set to encash on the same:** India is well poised to gain from the long-term growth in the global home textile market, as it leverages the twin benefits of lower cost of production and large spinning capacity, which accounts for 9% of the global installed capacity. India's growth drivers include: (1) availability of raw material (cotton) at lower cost than Pakistan, China and Turkey (all net importers); (2) lower labour cost (India's labour 62% cheaper than China); (3) captive power for assured power supply at good rates. As a result, India has increased its market share in terry towels in the USA from 19% in 2009 to 38% in 2014 while its share in the bed linen market has also improved from sub 25% in 2009 to 47% in 2014, while China's and Pakistan's share have dwindled during the same period. Trident by virtue of being present in the terry towel segment, with an annual capacity to manufacture 90,000 tonne, is now entering the lucrative bed linen space with a capacity of 42.5 million metre. It is well placed to encash on its strong global home textile opportunity for Indian players.
- Strengthening capacity in terry towel + entering bed linen space to drive growth ahead:** Over the last 18 months, Trident has undertaken a capital expenditure (capex) of Rs2,800 crore. The capex has been deployed for doubling the terry towel capacity from an annual 42,000 metric tonne to 90,000 metric tonne, while it is also backward integrating its yarn capabilities with an outlay of Rs1,200 crore. Further, it has also entered into the bed linen segment, with an annual capacity of 42 million metre. Driven by the improving volume growth in the terry towel segment (which is currently running at 60% utilisation level), coupled with added revenue from the newly commissioned bed linen plant (the plant is already commissioned and trial runs are going on), we expect the company to post 10.7%, 15.0% and 52.0% growth in revenues, operating profit and net earnings respectively over FY2015-17.
- Taking efforts to pare down high-cost debt; strengthening balance sheet:** After the expansion programme, the company would reach its peak debt at Rs3,300 crore (debt/equity at 2.1x). With strong earnings growth forecast and no further capex planned for the next two years, Trident is making efforts to pare down its high-cost debt from its balance sheet and has also done some pre-payment of the same in the past. Going forward, the company plans to repay all its Rs700-crore high-cost debt, along with scheduled repayment of the technology upgradation fund (TUF) debt. All these efforts would enable the company to save on the interest cost (from a blended cost of 12% in FY2015 to 6% in FY2017), paving way for deleveraging of balance sheet along with strong earnings growth momentum.
- Strong growth + steady cash flow + attractive valuation make us positive:** We believe that Trident with (a) strong earnings growth potential (CAGR of 52% over FY2015-17); (b) steady cash flow generation (average cash flow generation of Rs350 crore annually over the next two years); (c) improving product mix from mere terry towels to bed linen and targeting domestic market; (d) strengthening balance sheet, is available at an attractive valuation of 9.5x its FY2017E earnings and hence is likely to offer decent 20-25% upside from the current levels, make us positive on the stock.

### Valuations (consolidated)

Particulars	FY13	FY14	FY15	FY16	FY17
Net sales	3,335	3,869	3,755	3,771	4,598
Growth (%)		16	(3)	0.4	22
Operating profit	578	744	695	738	920
Y-o-Y growth (%)		29	(7)	6	25
Operating profit margin (%)	17	19	19	20	20
Net earnings	49	197	118	207	272
EPS	1.59	3.81	2.32	4.07	5.35
RoCE (%)	7.0	13.2	8.2	7.4	7.1
RoE (%)	7.3	24.1	9.9	13.3	15.1
Debt/equity	2.7	1.7	1.5	2.0	1.7
PER (x)	32.5	13.5	22.2	12.6	9.6

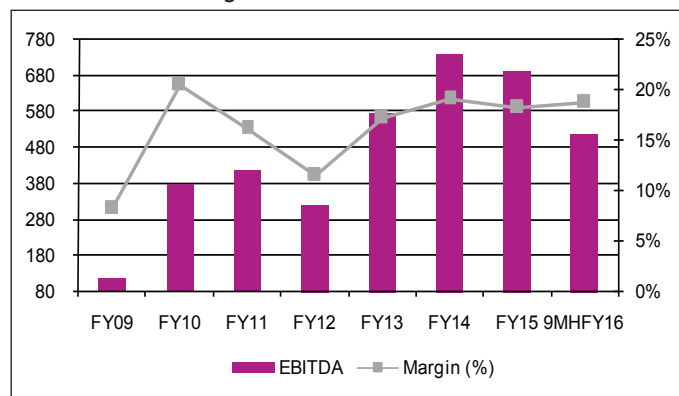
## About the company

Trident is the flagship company of the Trident Group, \$1 billion Indian business conglomerate and a global player. Headquartered in Ludhiana, Punjab, the company operates in two major business segments, textile and paper, with its manufacturing facilities located in Punjab and Madhya Pradesh. Trident's customer base spans over 100 countries across 6 continents and comprises of global retail brands like Ralph Lauren, Calvin Klein, JC Penney, IKEA, Target, Wal-Mart, Macy's, Kohl's, Sears, Sam's Club, Hema, Metro Group etc. With export turnover accounting for about 50% of the total sales of the company, the Trident has emerged as one of the world's largest integrated home textile manufacturer.

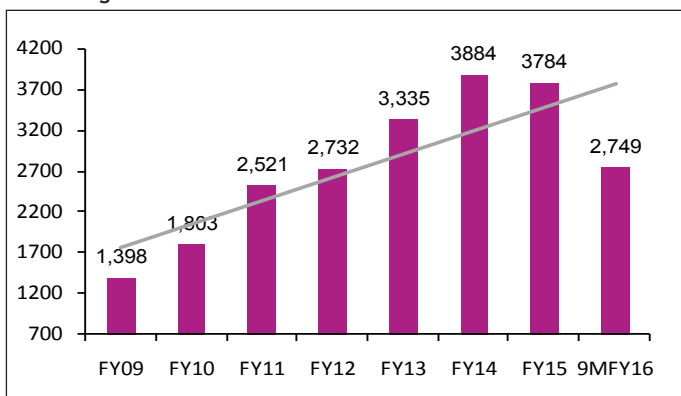
### Capacities across the verticals

Segments	Products	Capacity
Home textiles	Terry towels	688 looms
	Bed linen	500 looms (43.2 mn metre)
	Yarn	555,600 spindles
		5,504 rotors
Paper & chemicals	Dyed yarn	6,825 TPA
	Paper	175,000 TPA
	Chemicals	10,000 TPA
Energy	Captive power	50MW

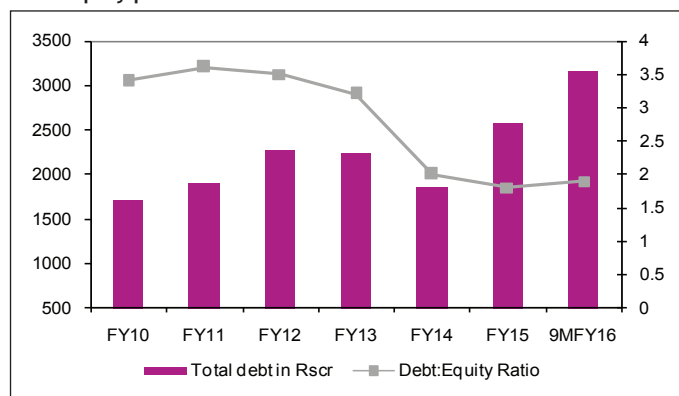
### EBITDA & EBITDA margin trend



### Revenue growth



### Debt equity profile



Revenue mix (%)	Q1FY15	Q2FY15	Q3FY15	Q4FY15	Q1FY16	Q2FY16	Q3FY16
Textiles	78.4	78.2	78.5	78.2	78.0	78.6	78.5
Paper	21.5	20.5	21.1	20.1	22.4	20.5	21.9

PBIT margins (%)	Q1FY15	Q2FY15	Q3FY15	Q4FY15	Q1FY16	Q2FY16	Q3FY16
Textile	10.9	7.2	7.9	12.0	12.3	9.5	10.2
Paper	20.6	17.9	16.8	17.8	22.2	18.3	20.3

Asset turns (x)	Q1FY15	Q2FY15	Q3FY15	Q4FY15	Q1FY16	Q2FY16	Q3FY16
Textile	0.8	0.9	0.9	0.9	0.7	0.8	0.7
Paper	1.7	2.1	2.0	2.2	2.0	2.3	2.6

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