

IER

Independent Equity Research

Enhancing investment decisions



Trident Ltd

Q3FY18 Results Update

Explanation of CRISIL Fundamental and Valuation (CFV) matrix

The CFV Matrix (CRISIL Fundamental and Valuation Matrix) addresses the two important analysis of an investment making process – Analysis of Fundamentals (addressed through Fundamental Grade) and Analysis of Returns (Valuation Grade) The fundamental grade is assigned on a five-point scale from grade 5 (indicating Excellent fundamentals) to grade 1 (Poor fundamentals) The valuation grade is assigned on a five-point scale from grade 5 (indicating strong upside from the current market price (CMP)) to grade 1 (strong downside from the CMP).

CRISIL Fundamental Grade	Assessment	CRISIL Valuation Grade	Assessment
5/5	Excellent fundamentals	5/5	Strong upside (>25% from CMP)
4/5	Superior fundamentals	4/5	Upside (10-25% from CMP)
3/5	Good fundamentals	3/5	Align (+-10% from CMP)
2/5	Moderate fundamentals	2/5	Downside (negative 10-25% from CMP)
1/5	Poor fundamentals	1/5	Strong downside (<-25% from CMP)

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Trident Ltd

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Industry headwinds continue to impact margins; focus on domestic markets to drive growth

Fundamental Grade: 4/5 (Superior fundamentals)

Valuation Grade: 5/5 (CMP has strong upside)

Industry: Textiles and Paper

Fair Value: ₹128 CMP: ₹73

Trident Ltd's Q3FY18 revenue and earnings were below CRISIL Research's expectations. Owing to headwinds in textile exports, the company's revenue increased merely 1.5% y-o-y to ₹11.4 bn in Q3FY18. Better realisations across textiles were offset by ~11% volume de-growth in bath linen. Thus, as a result of lower operational efficiencies and higher cotton prices, the company's EBITDA margin contracted 250 bps y-o-y to 17.6%. Healthy traction in the domestic textile business and a likely uptick in exports, resulting in better utilisation levels, are expected to revive the growth momentum. Further, rapidly decreasing financial leverage is expected to strengthen the balance sheet. We maintain our fundamental grade of **4/5**.

Home textiles: Uneven vendor procurement cycle and destocking by clients impacted bath linen volumes adversely; traction in bed linen continues

Textile revenue increased merely 4% y-o-y and was flat q-o-q at ₹9.5 bn owing to ~11% y-o-y and ~6% q-o-q volume de-growth in the bath linen segment. This was offset by improvement in realisations across the textile segment and robust volume growth in the bed linen segment (up ~44% y-o-y in 9MFY18). The bath linen segment's utilisation levels were low (42% in Q3FY18 versus 51% in FY17) owing to continuous destocking by overseas clients and an uneven vendor procurement cycle. On the other hand, bed linen volumes and realisations grew 62% and 20% y-o-y, respectively. This enabled the segment to break even for the first time during the quarter. Going ahead, increasing proportion of value-added products, healthy traction in the domestic business (grew 47% y-o-y in 9MFY18) and likely uptick in exports are expected to drive textile revenue. We expect the home textile segment's revenue to log a CAGR of 12.7% over FY17-20.

Paper & chemicals: Softer margins due to product mix change & higher material costs

During the quarter, the paper and chemicals segment's revenue was flat y-o-y and grew 10% q-o-q on the back of better volumes in the paper division. However, EBITDA margin expanded merely ~70 bps y-o-y and contracted ~900 bps q-o-q to 39% owing to the change in product mix (share of high-margin copier papers sales ~42% in Q3FY18 versus 52% in FY17). Further, higher raw material cost in the paper and chemicals segments resulted in softer margins. Over FY17-20, with existing high utilisation levels and increasing competition, we expect the segment's revenue to log a moderate 5.0% CAGR.

Impact of Union Budget 2018

Budgetary allocation towards the textiles sector was increased ~15% to ₹71.5 bn in FY18 wherein export incentives under Remission of State Levies (RoSL) were increased 17% to ₹21.6 bn. Increased allocation towards RoSL incentives is likely to aid textile exporters, but overall reduction in export incentives by 2.5-3% post GST roll-out remains a concern.

Fair value maintained at ₹128 per share

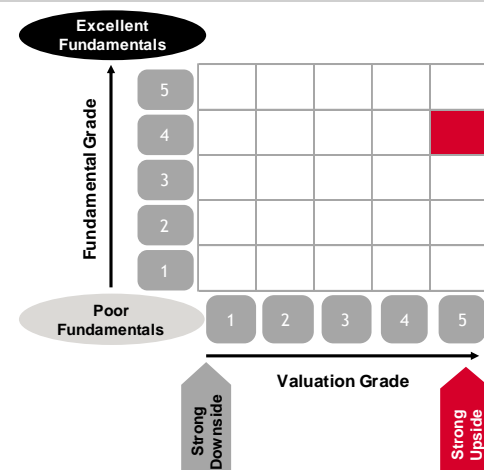
We continue to value Trident by the discounted cash flow (DCF) method and have rolled forward our estimates by one year to FY20. Further, we have revised our estimates for FY18 and FY19. The combined impact of the roll forward and downward revision in estimates on valuation is insignificant and, hence, we retain the fair value of ₹128 per share. The value implies P/E multiples of 14.4x and 11.5x FY19E and FY20E EPS, respectively. At the current market price of ₹73 per share, the valuation grade is **5/5**.

KEY FORECAST – CONSOLIDATED

(₹ mn)	FY16	FY17	FY18E	FY19E	FY20E
Operating income	36,755	46,983	47,091	55,227	61,350
EBITDA	7,395	9,565	9,146	11,056	12,428
Adj net income	2,351	3,312	3,207	4,490	5,593
Adj EPS (₹)	4.6	6.5	6.3	8.8	11.0
Dividend yield (%)	0.8	2.0	2.1	3.3	4.1
RoCE (%)	8.0	9.4	9.2	13.2	16.1
RoE (%)	12.1	12.8	11.2	14.3	16.1
PE (x)	15.8	11.2	11.6	8.3	6.7
P/BV (x)	1.5	1.3	1.2	1.1	1.0
EV/EBITDA (x)	9.8	6.8	6.7	5.1	4.2

Source: Company, CRISIL Research estimates

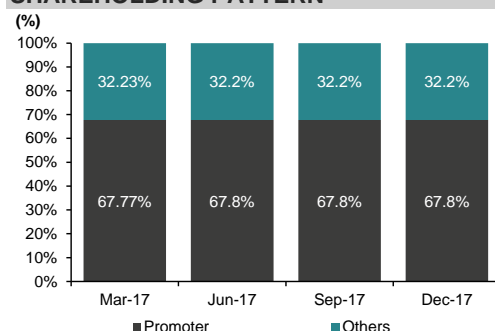
CFV MATRIX



KEY STOCK STATISTICS

NIFTY/SENSEX	10583/34446
NSE/BSE ticker	TRIDENT/TRIDENT
Face value (₹ per share)	10
Shares outstanding (mn)	509.6
Market cap (₹ mn)/(US\$ mn)	37,201/574
Enterprise value (₹ mn)/(US\$ mn)	64,951/1002
52-week range (₹)/(H/L)	110/54
Beta	1.1
Free float (%)	32.2%
Avg daily volumes (30-days)	868,466
Avg daily value (30-days) (₹ mn)	227.2

SHAREHOLDING PATTERN



PERFORMANCE VIS-À-VIS MARKET

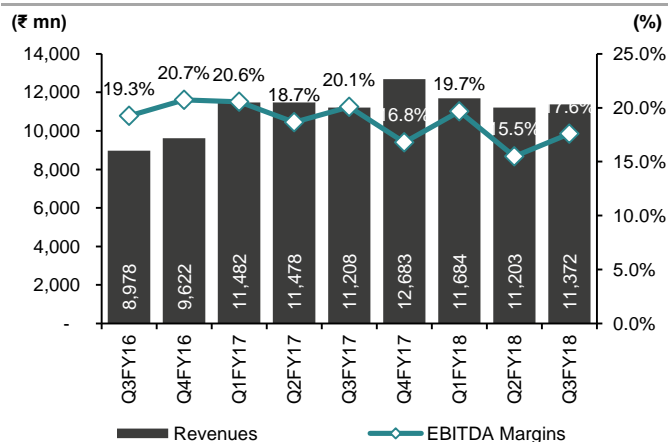
	Returns			
	1-m	3-m	6-m	12-m
Trident	-17%	-15%	-11%	6%
NIFTY 500	-6%	0%	8%	20%

Q3FY18 Results Summary - Standalone

(₹ mn)	Q3FY18	Q2FY18	Q3FY17	q-o-q	y-o-y	9MFY18	9MFY17	y-o-y
Net sales (net of excise)	11,372	11,203	11,208	1.5%	1.5%	34,234	34,114	0.4%
Raw materials cost	5,934	5,751	5,302	3.2%	11.9%	17,175	16,261	5.6%
Raw materials cost (% of net sales)	52.2%	51.3%	47.3%	85bps	488bps	50.2%	47.7%	250bps
Employees cost	1,087	1,359	1,447	-20.0%	-24.9%	3,929	4,254	-7.6%
Other expenses	2,350	2,359	2,208	-0.4%	6.4%	7,099	6,845	3.7%
EBITDA	2,000	1,734	2,252	15.4%	-11.2%	6,031	6,755	-10.7%
EBITDA margin	17.6%	15.5%	20.1%	211bps	-250bps	17.6%	19.8%	-218bps
Depreciation	1,013	1,022	1,035	-0.8%	-2.1%	3,059	3,114	-1.8%
EBIT	987	712	1,217	38.6%	-18.9%	2,973	3,641	-18.3%
Interest and finance charges	252	319	302	-20.8%	-16.3%	905	1,089	-16.9%
Operating PBT	734	393	915	86.7%	-19.8%	2,068	2,551	-19.0%
Other Income	316	357	107	-11.6%	196.1%	970	544	78.5%
PBT	1,050	751	1,022	39.9%	2.8%	3,038	3,095	-1.8%
Tax	320	242	236	32.4%	35.5%	909	722	26.0%
PAT	730	509	786	43.5%	-7.1%	2,129	2,373	-10.3%
Adj PAT	730	509	786	43.5%	-7.1%	2,129	2,373	-10.3%
Adj PAT margin	6.4%	4.5%	7.0%	188bps	-59bps	6.2%	7.0%	-74bps
No of equity shares (mn)	509.6	509.6	509.6	NM	NM	509.6	509.6	NM
Adj EPS (₹)	1.43	1.00	1.54	43.5%	-7.1%	4.18	4.66	-10.3%

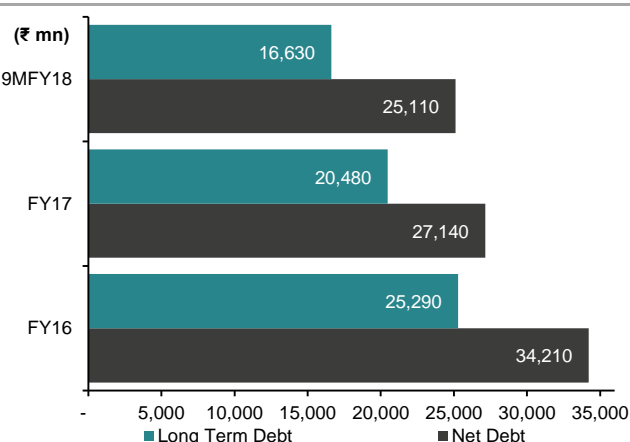
Source: Company, CRISIL Research; Note: Owing to change in reporting norms Q2FY18 onwards, quarterly financials of prior periods may not be strictly comparable

EBITDA margin expanded ~110 bps q-o-q



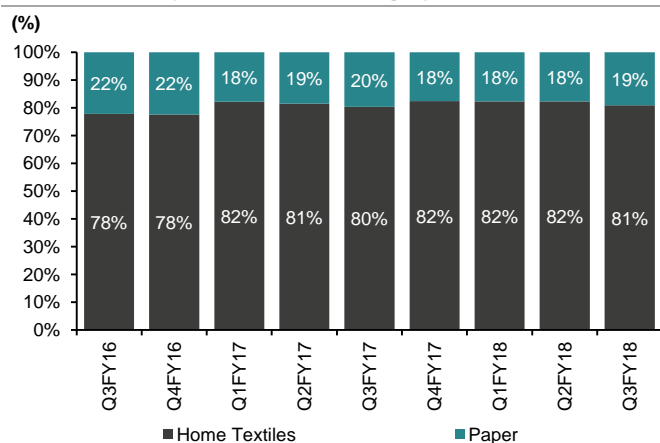
Source: Company, CRISIL Research

Focus on de-leveraging by pre-payment of high cost debt



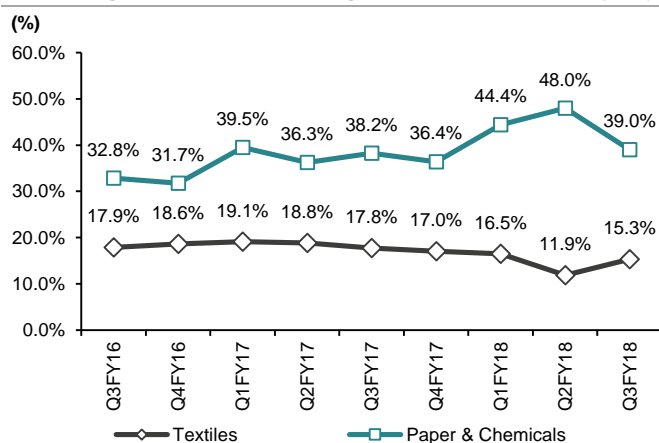
Source: Company, CRISIL Research

Share of home textiles lower owing to uneven vendor procurement cycle and destocking by clients



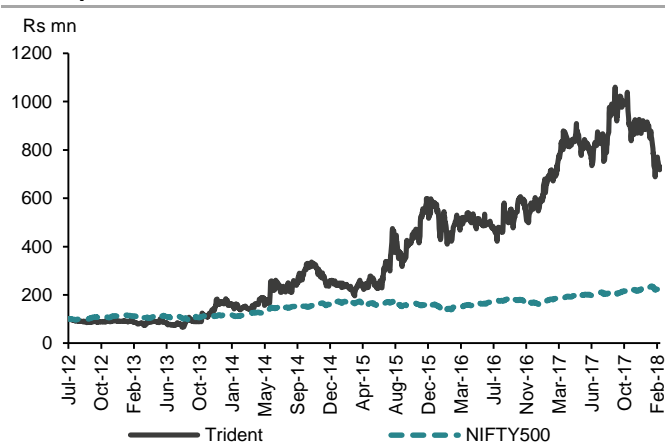
Source: Company, CRISIL Research

Paper segment's EBITDA margin expanded 260 bps y-o-y



Source: Company, CRISIL Research

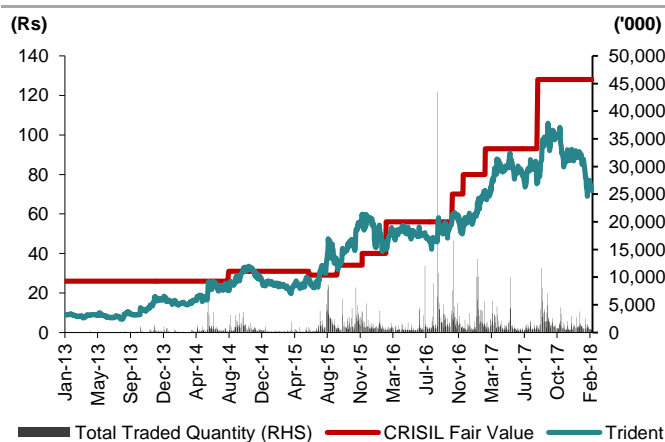
Share price



-Indexed to 100

Source: NSE, CRISIL Research

Fair value since initiation



Source: NSE, BSE, CRISIL Research

Estimate revised downwards for FY18-19; FY20 estimates introduced

Particulars	Unit	FY18E			FY19E			FY20E
		New	Old	% change	New	Old	% change	Introduced
Revenue	(₹ mn)	47,091	50,640	-7.0%	55,227	58,656	-5.8%	61,350
EBITDA	(₹ mn)	9,146	9,831	-7.0%	11,056	12,307	-10.2%	12,428
EBITDA margin	%	19.4%	19.4%	1bps	20.0%	21.0%	-96bps	20.3%
Adj. PAT	(₹ mn)	3,207	3,414	-6.1%	4,490	5,043	-11.0%	5,593
PAT margin	%	6.8%	6.7%	7bps	8.1%	8.6%	-47bps	9.1%
EPS	₹	6.3	6.7	-6.1%	8.8	9.9	-11.0%	11.0

Source: CRISIL Research estimates

Reasons for changes in estimates

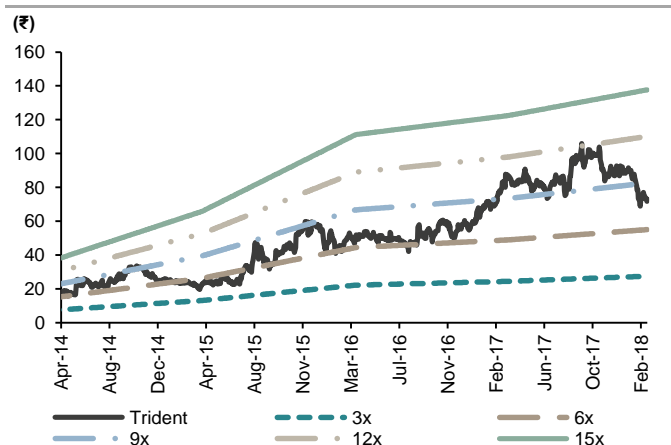
Line item	FY18E	FY19E
Revenue	Lowered owing to prevailing uneven vendor procurement cycle and destocking in the bath linen segment	Owing to impact of lower incentives with the implementation of GST and revision of export incentive rates – resulting in lesser benefits to exporters, we have assumed lower volume growth
EBITDA margin	Broadly maintained	Lower volume growth translating to lower operational efficiency, resulting in lower margins
PAT margin	Broadly maintained	Lowered as a result of downward revision in revenue and EBITDA margin estimates

Valuation

Grade: 5/5

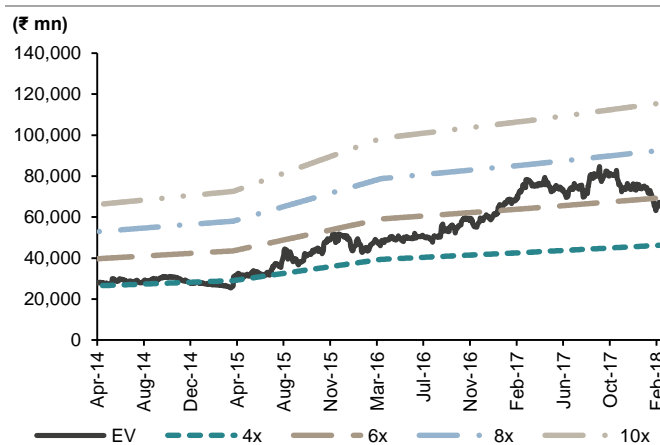
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One-year forward P/E band



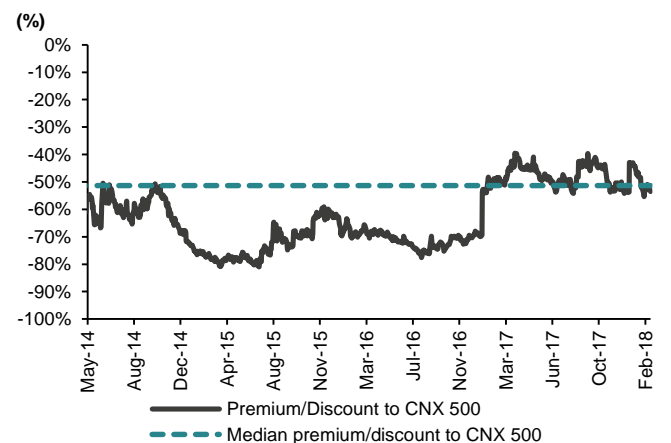
Source: NSE, CRISIL Research

One-year forward EV/EBITDA band



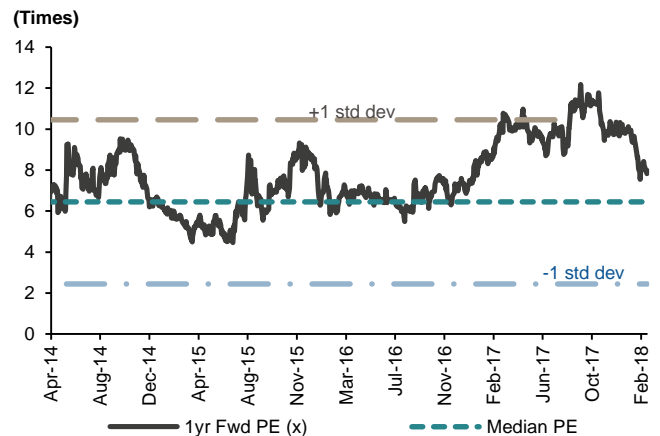
Source: NSE, CRISIL Research

P/E – premium / discount to CNX 500



Source: NSE, CRISIL Research

P/E



Source: NSE, CRISIL Research

CRISIL IER reports released on Trident Ltd

Date	Nature of report	Fundamental grade	Fair value	Valuation grade	CMP (on the date of report)
24-Feb-14	Initiating coverage	3/5	₹26	5/5	₹14
02-June-14	Q4FY14 result update	3/5	₹26	5/5	₹17
21-Aug-14	Q1FY15 result update	3/5	₹31	5/5	₹24
20-Nov-14	Q2FY15 result update	3/5	₹31	3/5	₹29
10-Mar-15	Q3FY15 result update	3/5	₹31	5/5	₹23
12-June-15	Q4FY15 result update	3/5	₹29	5/5	₹23
10-Sep-15	Detailed report	3/5	₹34	3/5	₹36
08-Dec-15	Q2FY16 result update	3/5	₹40	1/5	₹56
25-Feb-16	Q3FY16 result update	3/5	₹56	5/5	₹43
22-Jun-16	Q4FY16 result update	3/5	₹56	3/5	₹53
18-Oct-16	Detailed report	3/5	₹70	4/5	₹60
25-Nov-16	Q2FY17 result update	3/5	₹80	5/5	₹54
14-Feb-17	Q3FY17 result update	3/5	₹93	5/5	₹71
31-May-17	Q4FY17 result update	3/5	₹93	4/5	₹81
05-Sep-17	Detailed report	4/5	₹128	4/5	₹97
22-Dec-17	Q2FY18 result update	4/5	₹128	5/5	₹91
26-Feb-18	Q3FY18 result update	4/5	₹128	5/5	₹73

Annexure: Financials (Consolidated)

Income statement							Balance Sheet						
(₹ mn)	FY15	FY16	FY17	FY18E	FY19E	FY20E	(₹ mn)	FY15	FY16	FY17	FY18E	FY19E	FY20E
Operating income	37,626	36,755	46,983	47,091	55,227	61,350	Liabilities						
EBITDA	6,762	7,395	9,565	9,146	11,056	12,428	Equity share capital	5,086	5,094	5,096	5,096	5,096	5,096
EBITDA margin	18.0%	20.1%	20.4%	19.4%	20.0%	20.3%	Reserves	9,467	19,267	22,473	24,717	27,725	31,472
Depreciation	3,178	3,366	4,125	4,075	4,042	4,028	Minorities	-	-	-	-	-	-
EBIT	3,584	4,029	5,440	5,071	7,014	8,400	Net worth	14,554	24,361	27,568	29,813	32,821	36,568
Interest	2,060	1,452	1,411	1,120	914	719	Convertible debt	-	-	-	-	-	-
Operating PBT	1,524	2,577	4,030	3,951	6,100	7,681	Other debt	26,249	35,217	28,518	24,168	19,823	15,423
Other income	129	166	297	629	313	308	Total debt	26,249	35,217	28,518	24,168	19,823	15,423
Exceptional inc/(exp)	26	70	60	-	-	-	Deferred tax liability (net)	1,242	1,582	1,655	1,660	1,665	1,675
PBT	1,680	2,812	4,387	4,581	6,414	7,990	Total liabilities	42,044	61,159	57,743	55,642	54,310	53,668
Tax provision	501	392	1,014	1,374	1,924	2,397	Assets						
Share of associate profit	-	-	-	-	-	-	Net fixed assets	28,609	46,536	43,081	40,255	37,431	34,603
PAT (Reported)	1,179	2,421	3,372	3,207	4,490	5,593	Capital WIP	2,582	737	1,133	1,033	1,015	1,035
Less: Exceptionals	26	70	60	-	-	-	Total fixed assets	31,191	47,272	44,214	41,288	38,446	35,638
Adjusted PAT	1,153	2,351	3,312	3,207	4,490	5,593	Investments	802	1,600	1,564	1,900	1,920	2,270
							Current assets						
							Inventory	7,508	9,065	7,747	8,902	10,364	11,497
							Sundry debtors	2,256	2,781	4,019	3,759	4,078	4,480
							Loans and advances	5,137	5,951	8,617	6,404	7,400	8,282
							Cash & bank balance	124	131	768	227	198	233
							Marketable securities	1	1	49	85	100	225
							Total current assets	15,026	17,929	21,199	19,377	22,141	24,718
							Total current liabilities	5,230	6,080	9,736	7,485	8,834	9,650
							Net current assets	9,796	11,849	11,463	11,892	13,307	15,067
							Intangibles/Misc. expenditure	256	439	501	561	636	691
							Total assets	42,045	61,159	57,743	55,642	54,310	53,668
							Cash flow						
							(₹ mn)	FY15	FY16	FY17	FY18E	FY19E	FY20E
							Pre-tax profit	1,654	2,742	4,326	4,581	6,414	7,990
							Total tax paid	(341)	(52)	(941)	(1,369)	(1,919)	(2,387)
							Depreciation	3,178	3,366	4,125	4,075	4,042	4,028
							Working capital changes	(1,179)	(2,045)	1,070	(934)	(1,429)	(1,600)
							Net cash from operations	3,312	4,011	5,580	6,353	7,108	8,030
							Cash from investments						
							Capital expenditure	(15,536)	(19,630)	(1,129)	(1,210)	(1,275)	(1,275)
							Investments and others	819	(798)	(12)	(372)	(35)	(475)
							Net cash from investments	(14,718)	(20,428)	(1,141)	(1,582)	(1,310)	(1,750)
							Cash from financing						
							Equity raised/(repaid)	4,518	12	3	0	-	-
							Debt raised/(repaid)	7,292	8,968	(6,699)	(4,350)	(4,345)	(4,400)
							Dividend (incl. tax)	(341)	(368)	(915)	(962)	(1,482)	(1,846)
							Others (incl. extraordinary)	(55)	7,813	807	-	(0)	0
							Net cash from financing	11,415	16,425	(6,803)	(5,312)	(5,827)	(6,246)
							Change in cash position	8	8	636	(541)	(29)	35
							Closing cash	124	131	768	227	198	233
							Quarterly financials (Standalone)						
							(₹ mn)	Q2FY17	Q3FY17	Q4FY17	Q1FY18	Q2FY18	Q3FY18
							Net Sales	11,478	11,208	12,683	11,684	11,203	11,372
							Change (q-o-q)	0%	-2%	13%	-8%	-4%	2%
							EBITDA	2,142	2,252	2,131	2,297	1,734	2,000
							Change (q-o-q)	-9%	5%	-5%	8%	-25%	15%
							EBITDA margin	18.7%	20.1%	16.8%	19.7%	15.5%	17.6%
							PAT	801	786	997	889	509	730
							Adj PAT	801	786	997	889	509	730
							Change (q-o-q)	2%	-2%	27%	-11%	-43%	43%
							Adj PAT margin	7.0%	7.0%	7.9%	7.6%	4.5%	6.4%
							Adj EPS	1.6	1.5	2.0	1.7	1.0	1.4

Source: CRISIL Research; Note: Owing to change in reporting norms Q2FY18 onwards, quarterly financials of prior periods may not be strictly comparable

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About CRISIL Limited

CRISIL is an agile and innovative, global analytics company driven by its mission of making markets function better. We are India's foremost provider of ratings, data, research, analytics and solutions. A strong track record of growth, culture of innovation and global footprint sets us apart. We have delivered independent opinions, actionable insights, and efficient solutions to over 100,000 customers.

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Each member of the team involved in the preparation of the grading report, hereby affirms that there exists no conflict of interest that can bias the grading recommendation of the company.

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