

# CRISIL IER

## Independent Equity Research

Enhancing investment decisions



### Trident Ltd

Q2FY17 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).

<b>CRISIL Fundamental Grade</b>	<b>Assessment</b>	<b>CRISIL Valuation Grade</b>	<b>Assessment</b>
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

November 25, 2016

## Utilisation ramp-up a positive

**Fundamental Grade: 3/5 (Good fundamentals)**

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

**Industry: Textiles and Paper**

**Fair Value: ₹80 CMP: ₹54**

Trident Ltd's Q2FY17 revenue and earnings were in line with CRISIL Research's expectations. Revenue increased 21.5% y-o-y to ₹11,696 mn, led by 27% y-o-y growth in the home textile segment, while paper revenue grew 3% y-o-y. Gross margin expanded 116 bps y-o-y owing to low-cost inventory and decline in other expenses as a percentage of sales, which resultantly led to 183 bps y-o-y expansion in EBITDA margin to 20.1%. Adjusted PAT increased 59.2% y-o-y to ₹801 mn led by higher EBITDA and 6.4% y-o-y reduction in interest cost. Going forward, we expect ramp-up in the bed linen and terry towel capacities, and gradual increase in demand in the key export market - the US - to drive healthy growth in the textile segment. We maintain our fundamental grade of **3/5**.

### Higher volumes drove home textile growth; momentum to continue

The home textile segment's revenue increased 27% y-o-y to ₹9.6 bn in Q2FY17 aided by sustained marketing efforts in the existing markets and increased penetration in newer geographies such as Italy and Japan. Yarn and terry towel segments registered healthy volume growth of 16% and 13% y-o-y, respectively. Bed linen capacity also ramped up – the segment posted 37% q-o-q growth in Q2FY17. We expect utilisation of terry towels to increase to 60% in FY18 from 40% in FY16, supported by improving demand outlook in the US (~65% of total terry towel sales) and the domestic market, and concerted efforts to increase presence in new geographies. Further, with the opportunity to cross-sell its bed linen to existing customers, we expect the bed linen segment to achieve 55-60% utilisation by FY18. Accordingly, we factor in revenue contribution of ₹38.2 bn in FY17 and ₹43.9 bn in FY18 from the home textile segment.

### Copier paper aided performance; long-term growth potential subdued

The paper segment's revenue increased 3% y-o-y to ₹2.2 bn led by 2% y-o-y volume growth, primarily driven by increase in copier paper share (increased to 55% in Q2FY17 from 50% in Q2FY16). Going ahead, growth is expected to be primarily driven by the copier paper segment. Increase in competition following excess supply is expected to moderate revenue growth at a CAGR of 2% in value terms in FY18.

### Low raw material and interest costs led to PAT growth; margin to remain stable

Although cotton prices have risen in the recent past, the company utilised its low-cost inventory and this led to 183 bps y-o-y expansion in EBITDA margin to 20.1%. Interest cost declined 6.4% y-o-y to ₹348 mn, driven by better working capital utilisation and interest equalisation scheme benefit. Subsequently, adjusted PAT jumped 59.2% y-o-y to ₹801 mn. Despite increase in yarn prices, we expect margin to remain stable at 20% owing to higher contribution from high-margin terry towels, ramp-up in capacity in terry towel and bed linen, and increasing share of value-added copier paper.

### Increase fair value to ₹80 per share

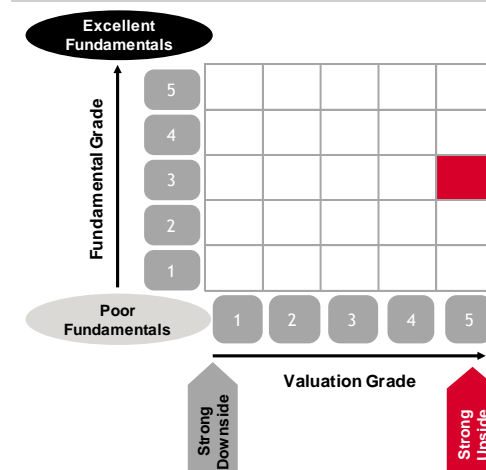
We maintain our revenue and earnings estimates for FY17 and FY18. We lower our base cost of equity by 100 bps to factor in the recent decline in government security (G-sec) yields. Consequently, our discounted cash flow (DCF)-based fair value estimate is revised to ₹80 per share. At the current market price of ₹54, our valuation grade is **5/5**.

## KEY FORECAST - CONSOLIDATED

(₹ mn)	FY14	FY15	FY16	FY17E	FY18E
Operating income	38,775	37,626	36,952	46,611	52,565
EBITDA	7,405	6,762	7,303	9,318	10,718
Adj net income	1,956	1,153	2,222	3,349	4,197
Adj EPS (₹)	6.3	2.4	4.5	6.6	8.2
Dividend yield (%)	0.6	1.1	1.7	2.6	3.8
RoCE (%)	16.4	10.4	8.5	10.8	13.6
RoE (%)	23.9	9.7	14.0	18.2	19.9
PE (x)	8.6	22.4	12.0	8.2	6.6
P/BV (x)	1.8	1.8	1.6	1.4	1.2
EV/EBITDA (x)	4.8	7.7	8.4	6.2	5.0

Source: Company, CRISIL Research estimates

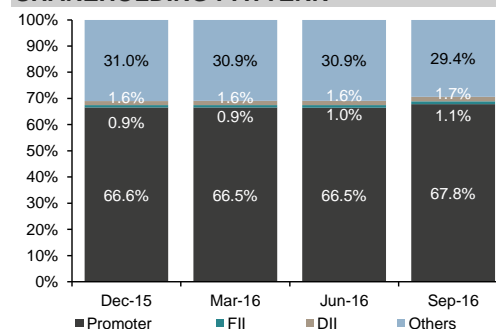
## CFV MATRIX



## KEY STOCK STATISTICS

NIFTY/SENSEX	7993/25879
NSE/BSE ticker	TRIDENT/TRIDENT
Face value (₹ per share)	10
Shares outstanding (mn)	509.6
Market cap (₹ mn)/(US\$ mn)	27,517/401
Enterprise value (₹ mn)/(US\$ mn)	60,380/879
52-week range (₹)/(H/L)	63/37
Beta	1.0
Free float (%)	32.2%
Avg daily volumes (30-days)	5,40,696
Avg daily value (30-days) (₹ mn)	29.8

## SHAREHOLDING PATTERN



## PERFORMANCE VIS-À-VIS MARKET

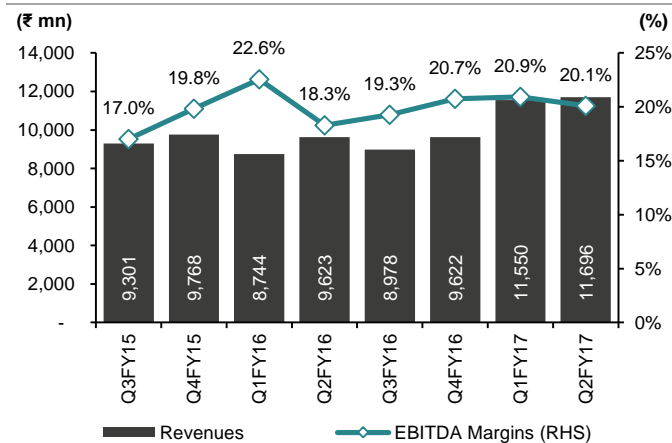
	Returns			
	1-m	3-m	6-m	12-m
Trident	-15%	12%	10%	-5%
NIFTY 500	-9%	-7%	5%	3%

## Q2FY17 results summary - Consolidated

(₹ mn)	Q2FY17	Q1FY17	Q2FY16	q-o-q (%)	y-o-y (%)	H1FY17	H1FY16	y-o-y (%)
<b>Net sales (net of excise)</b>	<b>11,696</b>	<b>11,550</b>	<b>9,623</b>	<b>1.3%</b>	<b>21.5%</b>	<b>23,245</b>	<b>18,314</b>	<b>26.9%</b>
Raw materials cost	5,524	5,495	4,657	0.5%	18.6%	11,019	8,573	28.5%
Raw materials cost (% of net sales)	47.2%	47.6%	48.4%	-34bps	-116bps	47.4%	46.8%	59bps
Employee Cost	1,462	1,345	1,041	8.7%	40.4%	2,807	2,044	37.4%
Other Expenses	2,361	2,292	2,168	3.0%	8.9%	4,652	3,967	17.3%
<b>EBITDA</b>	<b>2,349</b>	<b>2,418</b>	<b>1,757</b>	<b>-2.8%</b>	<b>33.7%</b>	<b>4,768</b>	<b>3,731</b>	<b>27.8%</b>
<b>EBITDA margin</b>	<b>20.1%</b>	<b>20.9%</b>	<b>18.3%</b>	<b>-85bps</b>	<b>183bps</b>	<b>20.5%</b>	<b>20.4%</b>	<b>14bps</b>
Depreciation	1,044	1,034	817	1.0%	27.8%	2,079	1,630	27.6%
<b>EBIT</b>	<b>1,305</b>	<b>1,384</b>	<b>940</b>	<b>-5.7%</b>	<b>38.9%</b>	<b>2,689</b>	<b>2,101</b>	<b>28.0%</b>
Interest and finance charges	348	419	372	-17.0%	-6.4%	767	819	-6.4%
<b>Operating PBT</b>	<b>957</b>	<b>965</b>	<b>568</b>	<b>-0.8%</b>	<b>68.5%</b>	<b>1,922</b>	<b>1,282</b>	<b>50.0%</b>
Other income	93	58	19	60.0%	393.8%	151	42	263.7%
<b>PBT</b>	<b>1,050</b>	<b>1,023</b>	<b>587</b>	<b>2.7%</b>	<b>78.9%</b>	<b>2,073</b>	<b>1,323</b>	<b>56.7%</b>
Tax	250	236	84	5.7%	196.9%	486	197	146.5%
<b>PAT</b>	<b>801</b>	<b>787</b>	<b>503</b>	<b>1.8%</b>	<b>59.2%</b>	<b>1,587</b>	<b>1,126</b>	<b>40.9%</b>
<b>Adj PAT</b>	<b>801</b>	<b>787</b>	<b>503</b>	<b>1.8%</b>	<b>59.2%</b>	<b>1,587</b>	<b>1,126</b>	<b>40.9%</b>
<b>Adj PAT margin</b>	<b>6.8%</b>	<b>6.8%</b>	<b>5.2%</b>	<b>3bps</b>	<b>162bps</b>	<b>6.8%</b>	<b>6.1%</b>	<b>68bps</b>
No. of equity shares (mn)	509.6	495.0	494.3	3.0%	3.1%	509.6	494.3	3.1%
<b>Adj EPS (₹)</b>	<b>1.6</b>	<b>1.6</b>	<b>1.0</b>	<b>-1.2%</b>	<b>54.4%</b>	<b>3.1</b>	<b>2.3</b>	<b>36.7%</b>

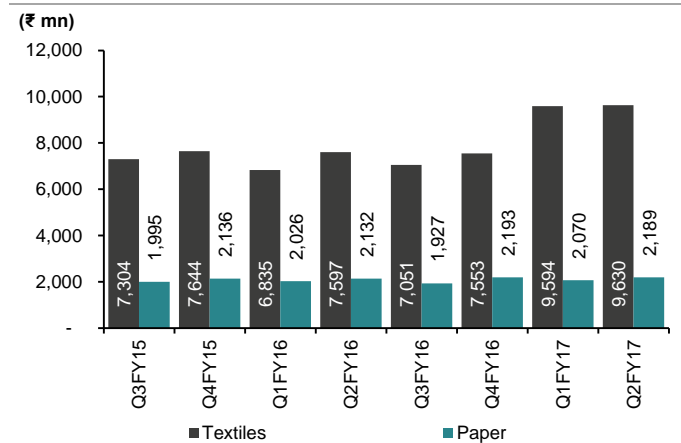
Source: Company, CRISIL Research

### EBITDA margin expanded y-o-y owing to low-cost inventory



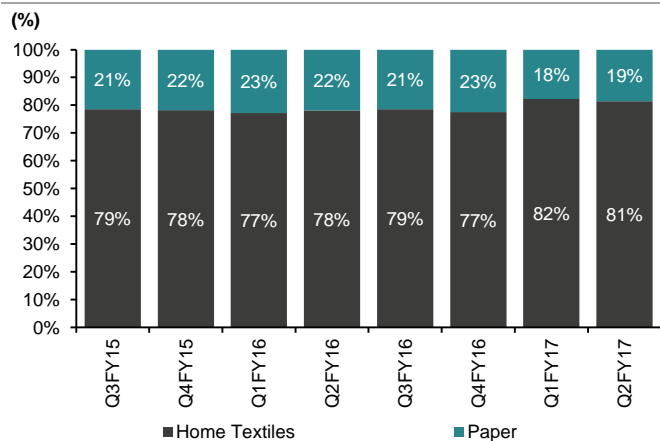
Source: Company, CRISIL Research

### Textiles and paper segment revenues increased sequentially



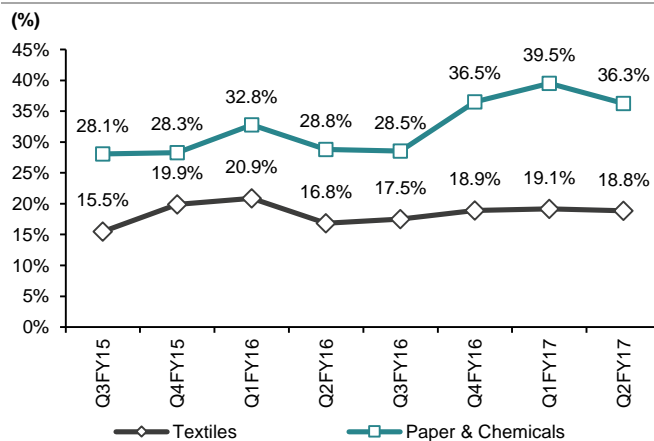
Source: Company, CRISIL Research

### Higher revenue contribution from the home textile segment a positive



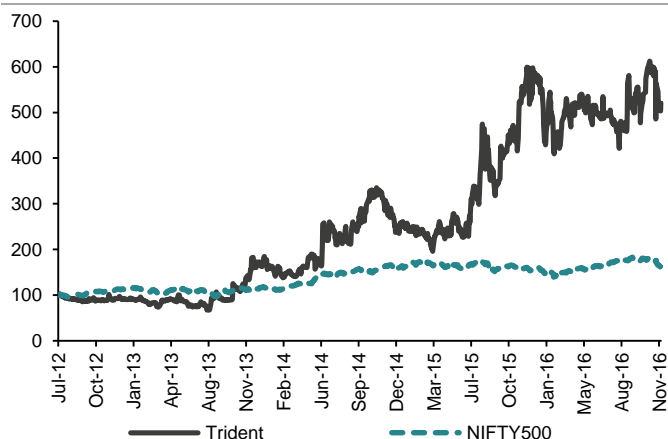
Source: Company, CRISIL Research

### EBITDA margin of paper declined due to increase in wheat straw prices



Source: Company, CRISIL Research

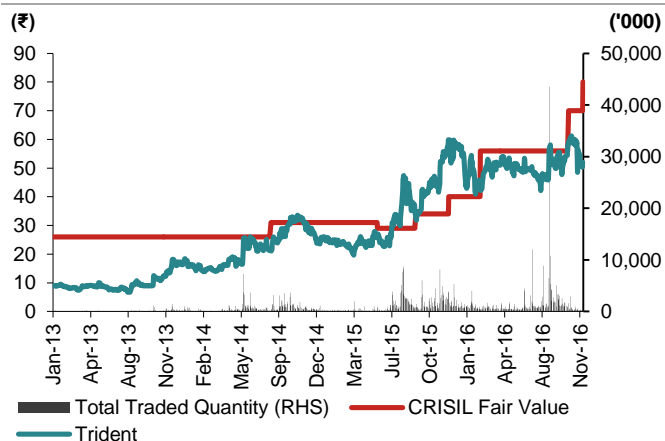
### Share price



-Indexed to 100

Source: NSE, CRISIL Research

### Fair value since initiation



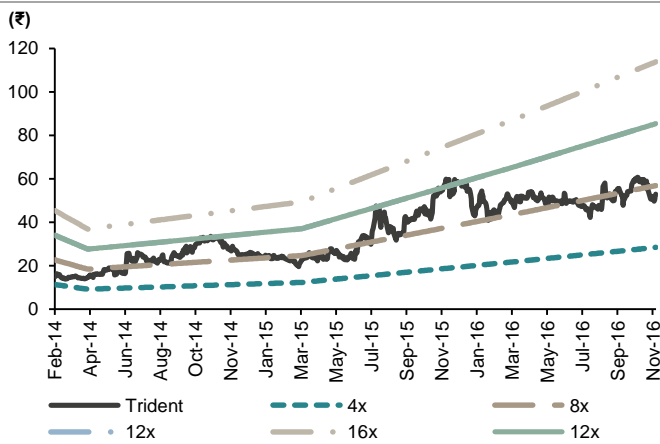
Source: NSE, BSE, CRISIL Research

## Valuation

**Grade: 5/5**

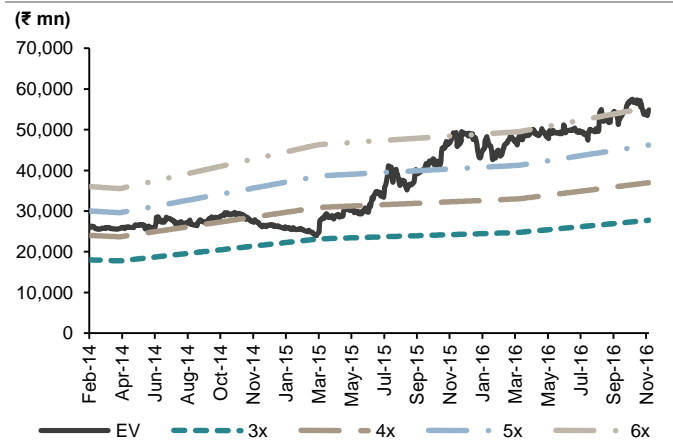
We maintain our revenue and earnings estimates for FY17 and FY18. We have lowered our base cost of equity by 100 bps to 18.8% from 19.8% to factor in the recent decline in G-sec yields, which is expected to be range-bound in the near future. Subsequently, we revise our fair value for the company to ₹80 per share from ₹70 earlier. The fair value implies P/E multiples of 12.1x and 9.7x FY17E and FY18E EPS, respectively. At the current market price of ₹54, our valuation grade is **5/5**.

### One-year forward P/E band



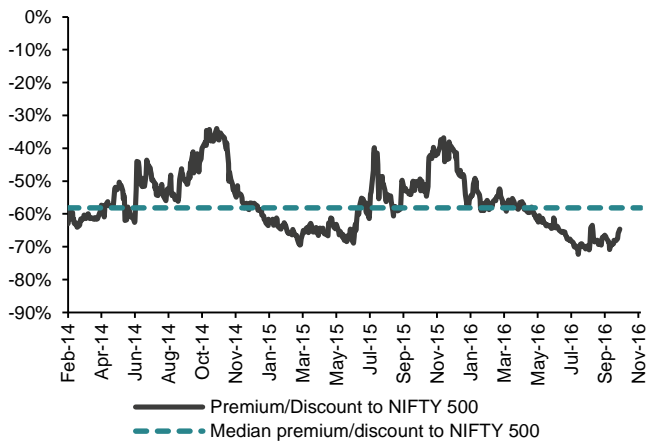
Source: NSE, CRISIL Research

### One-year forward EV/EBITDA band



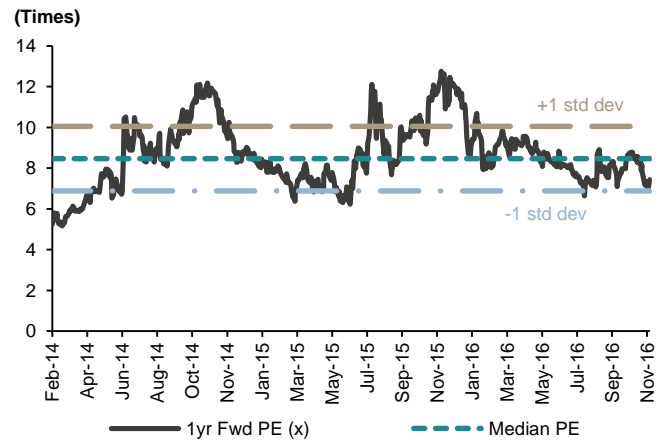
Source: NSE, CRISIL Research

### P/E – premium / discount to Nifty 500



Source: NSE, CRISIL Research

### P/E



Source: NSE, CRISIL Research

**CRISIL IER reports released on Trident Ltd**

<b>Date</b>	<b>Nature of report</b>	<b>Fundamental grade</b>	<b>Fair value</b>	<b>Valuation grade</b>	<b>CMP (on the date of report)</b>
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





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## About CRISIL Limited

CRISIL is a global analytical company providing ratings, research, and risk and policy advisory services. We are India's leading ratings agency. We are also the foremost provider of high-end research to the world's largest banks and leading corporations.

CRISIL is majority owned by S&P Global Inc., a leading provider of transparent and independent ratings, benchmarks, analytics and data to the capital and commodity markets worldwide.

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CRISIL Research is India's largest independent integrated research house. We provide insights, opinion and analysis on the Indian economy, industry, capital markets and companies. We also conduct training programs to financial sector professionals on a wide array of technical issues. We are India's most credible provider of economy and industry research. Our industry research covers 86 sectors and is known for its rich insights and perspectives. Our analysis is supported by inputs from our network of more than 5,000 primary sources, including industry experts, industry associations and trade channels. We play a key role in India's fixed income markets. We are the largest provider of valuation of fixed income securities to the mutual fund, insurance and banking industries in the country. We are also the sole provider of debt and hybrid indices to India's mutual fund and life insurance industries. We pioneered independent equity research in India, and are today the country's largest independent equity research house. Our defining trait is the ability to convert information and data into expert judgements and forecasts with complete objectivity. We leverage our deep understanding of the macro-economy and our extensive sector coverage to provide unique insights on micro-macro and cross-sectoral linkages. Our talent pool comprises economists, sector experts, company analysts and information management specialists.

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**Last updated: April 2016**

## Analyst Disclosure

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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