Sector Report

23 February, 2017

Home Textile Industry

Indian players poised to gain market share

IDBI capital

Table of Contents

February 23, 2017

SECTOR REPORT

Home Textile Industry

Indian players poised to gain market share

Summary

- Indian home textile companies are in a sweet spot currently with potential to increase sales in the export market. Over the last five years, there have been structural shifts in the dynamics of the industry where Indian companies have gained advantage over their Chinese counterparts.
- Indian companies have become increasingly competitive in the textile exports markets due to 1) availability of raw material (cotton) at lower costs compared to China, Pakistan who are net importers, 2) labour cost advantage over China, and 3) rupee depreciation of ~20% against the yuan during the last five years.
- Moreover, Indian companies continue to benefit from supportive government policies with assistance such as TUFS loans, capital subsidy, tax breaks, etc.
- Looking ahead, we expect Indian companies to continue to gain market share in the terry towel and cotton sheet markets in the US; also they remain well poised to penetrate other geographies such as Japan, Middle East and Australia.

Investment Rationale and Outlook

- **Indian textile industry at a glance**

  India's textiles sector is one of the largest contributors to India's exports contributing $40 bn in FY16 towards exports (11% of total exports). The industry is also labour intensive and employs about 40 mn workers and 60 mn indirectly. Hence, government policies towards the sector have always remained favourable. The central government comes out with various policies such as The National Textile Policy and Technology Upgradation Fund Scheme (TUFS) to ensure that the industry is internationally competitive.

- **Structural shift in India's competitive position; India gaining share in US home textiles market**

  During the last five years, Indian companies have become increasingly competitive in the exports markets due to rising labour costs in China (key competitor) and depreciation of Indian rupee vis-à-vis Chinese yuan. In the US home textile market, Indian players have gained market share during the last 5 years. The structural shift in competitive dynamics for the Indian companies is evident from rising market share in home textiles market in the US (largest market) from 13% in 2011 to 19% by 2016. China's share has fallen from 58% in 2011 to 51% by 2016. Specifically, in cotton sheet and terry towel exports, India's share of imports by the US has increased to 49% in 2016 (38% in 2011) and to 40% in 2016 (35% in 2011), respectively.

- **Opportunities galore; most companies expanding**

  Looking ahead, we expect Indian companies to continue to gain market share in the US terry towel and cotton sheet markets. Most of the Indian companies recognize this opportunity and have announced expansion plans. We expect Indo Count and Trident to be major beneficiaries as they have expanded capacities, proven expertise and long-standing relationships with clients. **We initiate coverage on Trident and Indo Count with BUY ratings.**

Table: Consolidated financial projections

Particulars	Revenues (Rs mn)			EBITDA (Rs mn)			Adjusted PAT (Rs mn)			EPS (Rs)		
	FY16	FY17E	FY18E	FY16	FY17E	FY18E	FY16	FY17E	FY18E	FY16	FY17E	FY18E
Trident	36,840	46,426	50,463	7,189	9,521	10,588	2,291	3,378	4,168	4.0	6.6	8.2
Indo Count Industries	21,737	22,800	24,463	4,345	4,094	4,921	2,647	2,677	3,312	13.4	13.6	16.8

Source: Company; IDBI Capital Research

Table: Valuation

Particulars	CMP (Rs)	Target Price (Rs)	Reco	P/E (x)			RoE (%)			RoCE (%)		
				FY16	FY17E	FY18E	FY16	FY17E	FY18E	FY16	FY17E	FY18E
Trident	70	98	**BUY**	17.3	10.5	8.5	14.2	18.1	19.7	10.7	13.5	17.2
Indo Count Industries	162	218	**BUY**	12.1	11.9	9.7	49.0	34.6	32.2	44.5	33.4	33.9

Source: Company; IDBI Capital Research

Valuation and Recommendation

- **Trident Ltd (TP – Rs98; 41% upside)**

  Incorporated in 1990 by a first generation entrepreneur Mr. Rajinder Gupta, Trident is one of the largest integrated home textile producers in the world. It also manufactures wheat straw-based paper. During FY14-16, Trident expanded capacity in both towels and sheets with backward integration in yarn manufacturing. With current utilization levels under 50% for terry towel and 30% for bed linen, the company remains well-poised to capture market share in home textile export markets.

  We expect Trident's revenues/EBITDA/ net profit to grow at a CAGR of 15.5% /19.6%/34.5%, respectively over FY16-19E. ROEs and ROCEs are expected to expand to 19.7% and 17.2% in FY18E, respectively, from 14.2% and 10.7% in FY16. With rising sales of terry towel and bed linen and no major capex plans in the near future, we expect free cash flows to be utilized towards deleveraging balance sheet and paying dividends. On a valuation front, the stock is currently trading at a PE of 8.5x on its FY18E earnings. **We assign a PE multiple of 12.0x to our FY18 EPS estimate of Rs8.2 and derive a target price of Rs98, translating in a 41% upside to the current market price**

- **Indo Count Industries (TP – Rs218; 35% upside)**

  Incorporated in 1988, Indo Count is focused player on bedding — a niche segment of home textile market. After its successful foray into bed linen over the past decade, Indo Count now eyes a larger and more lucrative market - Fashion Bedding, Utility Bedding and Institutional Bedding. These new categories will expand company's target market by over 3x from $4 bn to $14 bn. Owing to its asset-light model, Indo Count has superior return ratios compared to its peers.

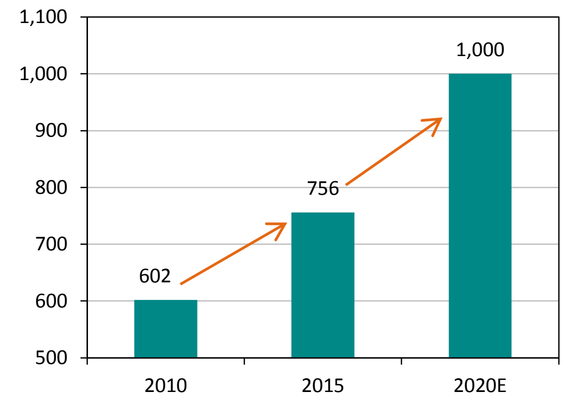
  We expect Indo Count's revenues/EBITDA/net profit to grow at a CAGR of 11.0%/12.6%/17.0%, respectively over FY16-19. While the company will also commence phase II of its expansion plan to increase its weaving capacity and upgrade spinning capacities, we expect the company to generate strong free cash flows even after meeting this capex. We believe Indo Count's stock should trade at a premium over its peers given its high return ratios, low leverage levels and rising dividend payments. The stock is currently trading at a PE of 9.7x on its FY18E earnings. **We assign a PE multiple of 13.0x to our FY18 EPS estimate of Rs16.8 and derive a target price of Rs218/sh, translating in a 35% upside to the current market price.**

Textile Industry Overview

- **Global textile trade overview**

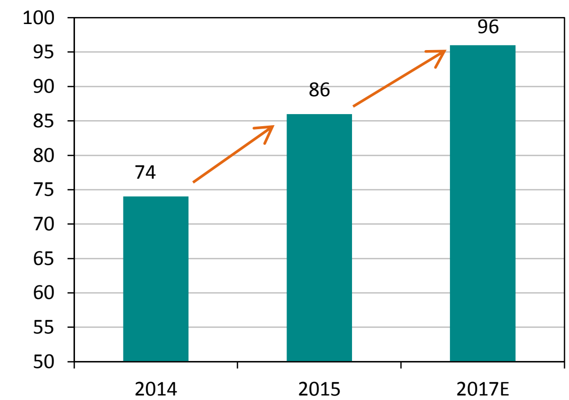
The Global Textile & Apparel trade for 2015 stood at $756 bn ($797 bn in 2014) and contributed 4.6% to global trade (4.3% during 2014). The EU and the US were the top three importers of textiles in 2015. Hence, these regions are the key target markets for countries such as India, China, Vietnam, Bangladesh. The global textile and apparel trade has grown at a CAGR of 4.7% during CY2005-15 and it is estimated to grow at a CAGR of 6.0% during 2015-2020E to reach $1 tn by 2020 (Source: World Trade Statistical Review 2016, WTO). Home textile market accounts for a small share in the global textile market. The global home textiles market stood at $86 bn in CY2015 and is expected to reach $96 bn by CY2017 (Source: Global and Indian Textile Apparel Trade-Technopak Analysis).

Figure: Global textile and apparel trade ($ bn)



Source: Ministry of Textiles, Technopak, TechSci Research

Figure: Home textile growth ($ bn)



Source: Ministry of Textiles, Technopak, TechSci Research

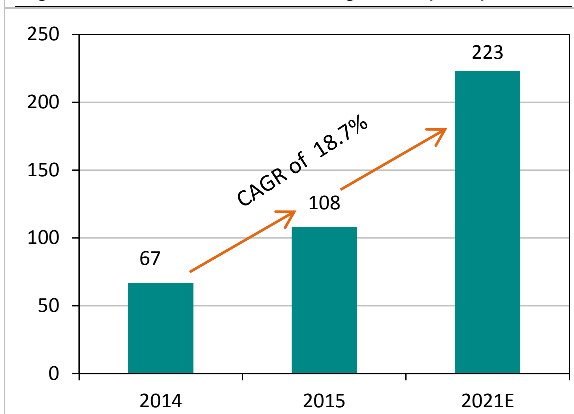
- **Indian textile overview**

India's textiles sector is one of the oldest industries in Indian economy dating back several centuries. The sector is one of the largest contributors to India's exports forming 11% of total exports. The textiles industry is also labour intensive and is one of the largest employers. The industry employs ~40 mn workers and 60 mn indirectly. India's overall textile exports during FY 2016 stood at $40 bn. The Indian Textile industry contributes approximately 5% to India's Gross Domestic Product (GDP), and 14% to overall Index of Industrial Production (IIP).

Market Size

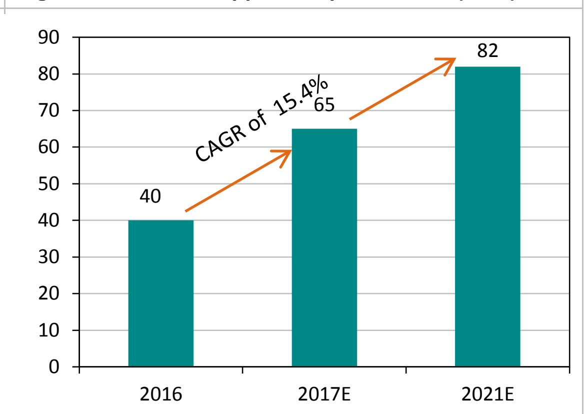
The Indian textiles industry, estimated at $108 bn in CY2015, is expected to grow to $223 bn by CY2021. Further, textile and apparel exports are estimated to grow from $40 bn in CY2016 to $82 bn by CY2021.

Figure: Domestic textile sector growth ($ bn)



Source: Ministry of Textiles, Technopak, TechSci Research

Figure: Textile and apparel exports- India ($ bn)



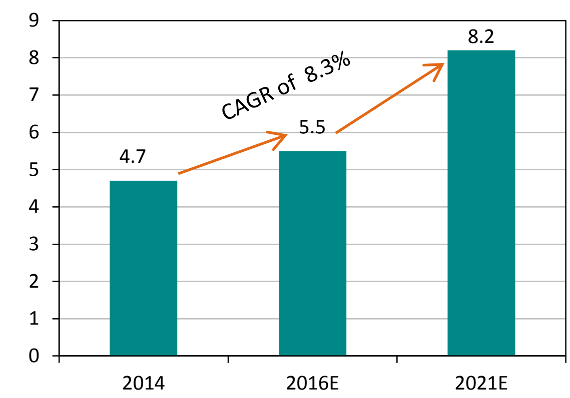
Source: Ministry of Textiles, Technopak, TechSci Research

Home textiles – an attractive market for India

Home textile is a branch of technical textile comprising application of textiles in household purposes. It consists of products such as sheets and pillowcases, blankets, terry towels, table cloths, and carpets and rugs.

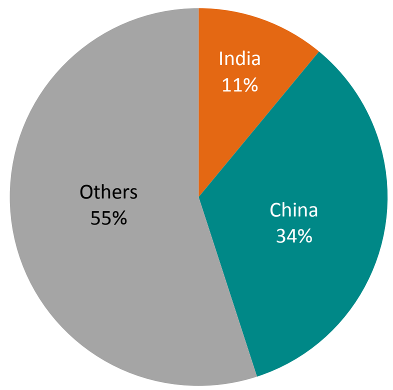
India accounted for only 11% of global home textiles trade in 2014, indicating strong potential to grow via market share gains given structural advantages with Indian players such as availability of raw material (cotton), labour cost advantage vis-à-vis China, favourable government policies, etc.

Figure: Indian home textile industry ($ bn)



Source: Ministry of Textiles, Technopak, TechSci Research

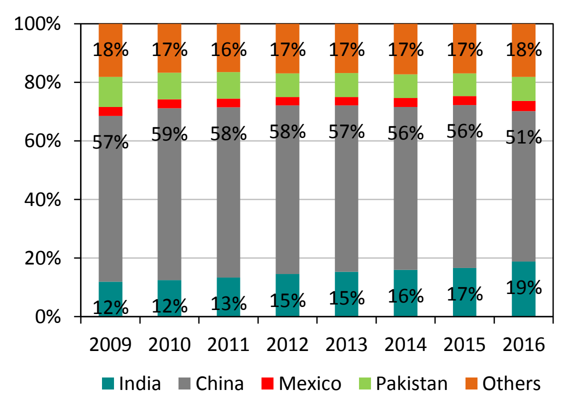
Figure: India's share in home textile industry (2014)



Source: Ministry of Textiles, Technopak, TechSci Research

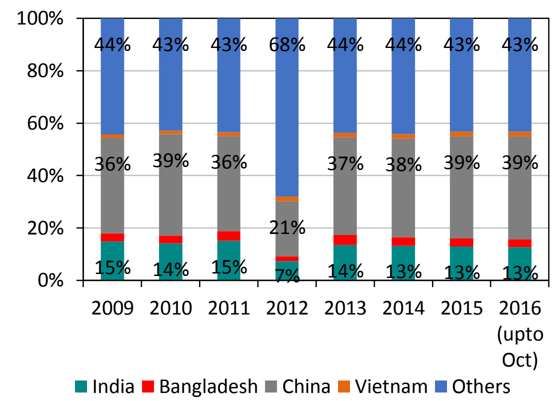
Most of the Indian home textile players target the exports markets (mainly US and the EU) as large retail giants such as Wal-Mart, Target, JC Penny, etc source these products from low-cost labour countries such as China, India, Pakistan, etc. Indian companies have become more competitive in the home textiles market over the last 5-7 years and have continued to gain market share in the US home textiles market over 2009-2016; however, their share in exports to EU has remained stagnant as Indian imports into EU attract 6-9% duties while Bangladesh and Pakistan have duty-free access to EU.

Figure: Home textile export market share - US



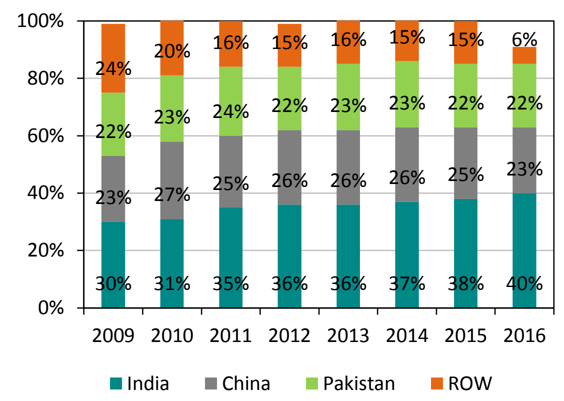
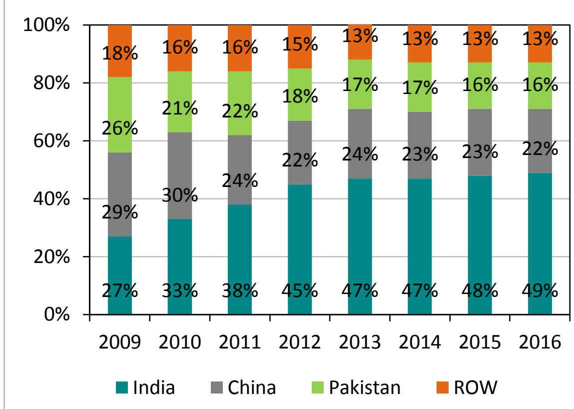
Source: OTEXA, Crisil Research, IDBI Capital Research

Figure: Home textile export market share - EU

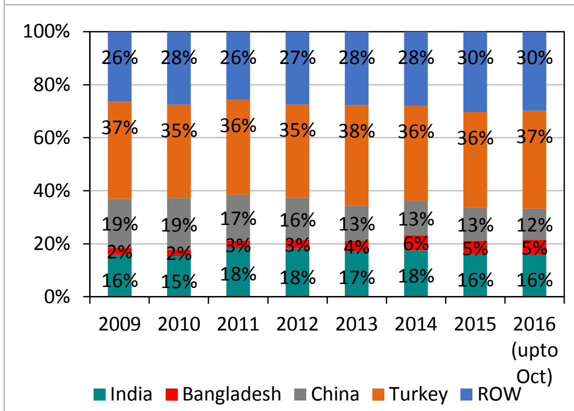
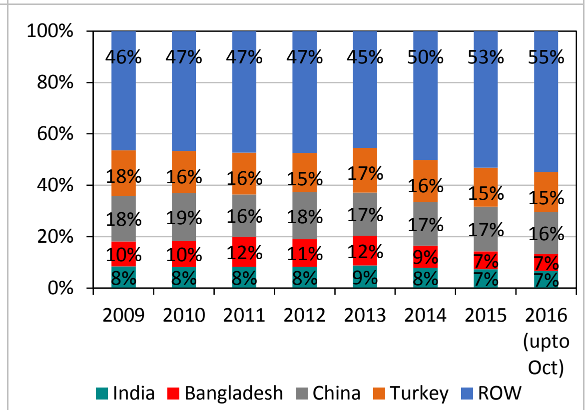


Source: Crisil Research ,IDBI Capital Research

India has consistently gained market share in the US terry towel and bed linen market during 2009-15 and the trend is expected to continue.

Figure: Market share of major terry towel (cotton) suppliers to the US	Figure: Market share of major bed sheet (cotton) suppliers to the US
	
Source: OTEXA, Crisil Research, IDBI Capital Research	*Source: OTEXA, Crisil Research, IDBI Capital Research*

However, India's export market share in European bed linen and terry towel markets has remained stagnant during 2009-16. Turkey is a major supplier to EU; Exports from Turkey to EU do not face import duties due to their bilateral agreements. Even Bangladesh enjoys duty-free access to the EU under the General System of Preferences.

Figure: Market share of major terry towel (cotton) suppliers to the EU	Figure: Market share of major bed linen (cotton) suppliers to the EU
	
Source: Crisil Research, IDBI Capital Research	*Source: Crisil Research, IDBI Capital Research*

Similarly, China cornered a lion's share of exports to Japan and Australia, owing to free trade pacts with them. Vietnam has signed favourable trade agreements with the US and the EU. Even India's Ministry of Textiles is pushing Commerce Ministry to pursue the proposed FTA with EU to boost international trade.

- **Indian government policies favourable towards textiles**

  Government policies have a significant influence on the textiles industry. The Indian central government comes out with various policies such as The National Textile Policy and Technology Upgradation Fund Scheme (TUFS) to ensure that the industry is internationally competitive in terms of manufacturing practices and exports. Further, some states such as Gujarat and Maharashtra provide additional incentives to textile players to boost investments in their respective states.

Table: Government policies in India for textiles remain favourable

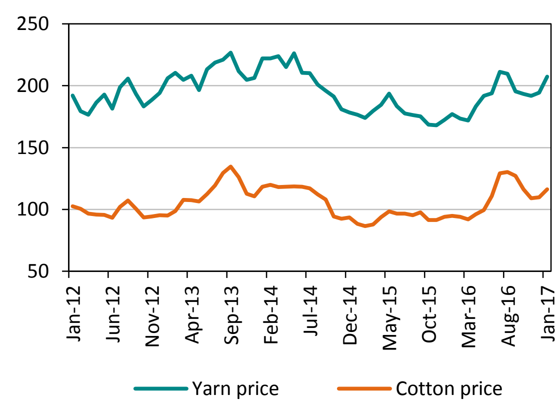
Particulars	Products
TUFS	Scheme was started in 1999; initially provided a 5% interest subsidy on loans In January 2016, a new scheme Amended technology Upgradation Scheme (ATUFS) was approved to provide one time capital subsidy for investments Under FY17 Union Budget, $226 mn has been allocated for Amended technology Upgradation Scheme (ATUF) scheme
State policies	Gujarat – Interest subsidy and Power subsidy Maharashtra – Interest subsidy Madhya Pradesh – Interest subsidy, capital subsidy and tax exemption
Duty drawbacks	Exporters get a refund of excise and import duties paid on raw materials
Liberalisation of FDI policy	The government has also allowed FDI up to 100% in the textiles sector by allowing foreign equity participation. This will help in setting up integrated units, which are capital intensive
Export Promotion Capital Goods Scheme	The scheme facilitates import of capital goods with duty at a concession up to 0% and appropriate export obligations. Textiles machinery is also covered under this scheme, thereby promoting textiles exports.
Setting up modern laboratories	The Ministry of Textiles has assisted the Textiles Committee in setting up modern textiles laboratories to ensure that textiles exported from the country meet international environmental standards

Source: Industry, Crisil Research, IDBI Capital Research

- **India is the largest producer of cotton**

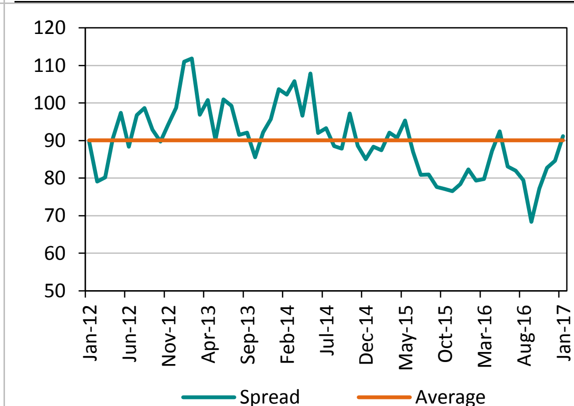
The key raw material for manufacturing Home textiles (20-30% of the operating costs) is cotton. Cotton is first used to make yarn which accounts for 50-60% of the operating costs of cotton yarn producers. While most of the Indian companies are backward-integrated (with yarn making units); however, sharp rise in cotton prices can affect their margins for a quarter or two as there is a lag in pass-through of raw material prices. The companies negotiate pricing on a quarterly/ half-yearly basis in case of sharp fluctuations in prices of raw materials. Barring short-term fluctuations, yarn and cotton prices move in sync with each other.

Figure: Cotton and yarn prices – India (Rs/kg)



Source: Crisil Research, IDBI Capital Research

Figure: Yarn - Cotton spread (Rs/kg)

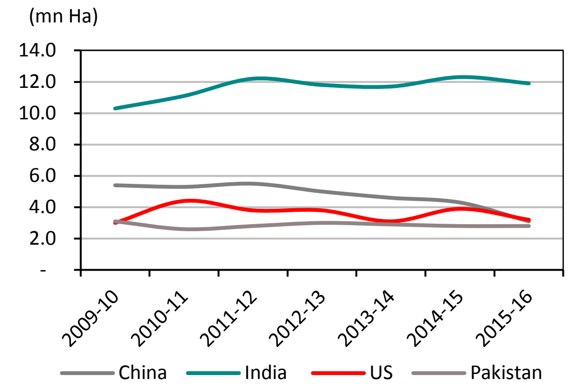


Source: Crisil Research, IDBI Capital Research

In India, the cotton season is from October to September, with cotton arrivals peaking during November to February. Most spinning companies purchase cotton during these months which lead to spike in their working capital. India has the highest acreage for cotton as compared to the other major cotton producing nations in the world. However, it has the lowest yield among the major cotton producing countries.

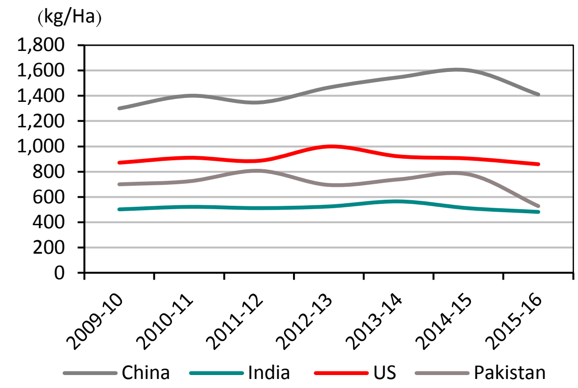
In cotton season 2015-16, India significantly surpassed China to become the largest producer of cotton. This was due to Chinese policy of introducing target price based subsidy instead of earlier minimum support price based subsidies which made cotton production in China less lucrative than was the case before 2014. Due to this, production in China declined significantly in cotton season 2015-16.

Figure: India ranks highest in acreage..



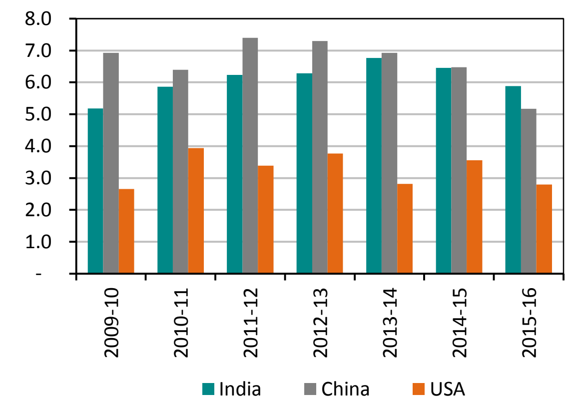
Source: Crisil Research, IDBI Capital Research; Note: Years refers to international cotton season (August to July).

Figure: ..but has lowest yield per hectare



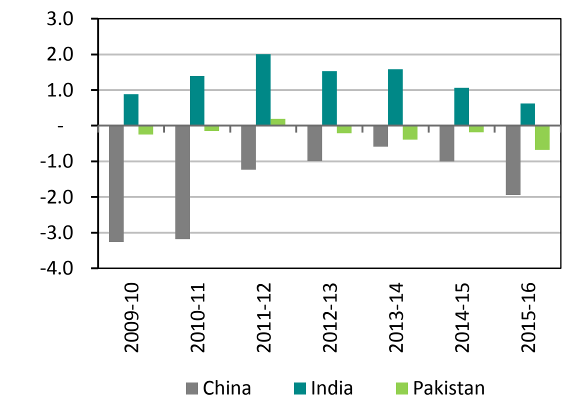
Source: Crisil Research, IDBI Capital Research; Note: Years refers to international cotton season (August to July).

Figure: India – largest cotton producer (mn tons)



Source: Crisil Research, IDBI Capital Research; Note: Years refers to international cotton season (August to July).

Figure: Cotton - Net consumption (mn tons)



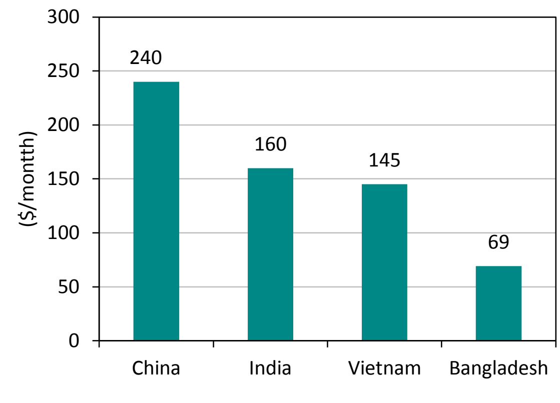
Source: Crisil Research, IDBI Capital Research

Advantage India – Textiles

Indian home textile companies are in a sweet spot in a rising global market (albeit on a lower base). The key advantages to Indian textile manufacturers are: 1) Availability of raw material (cotton) at lower costs, 2) low labor cost, 3) rupee depreciation of ~20% against the Chinese yuan over the past five years.

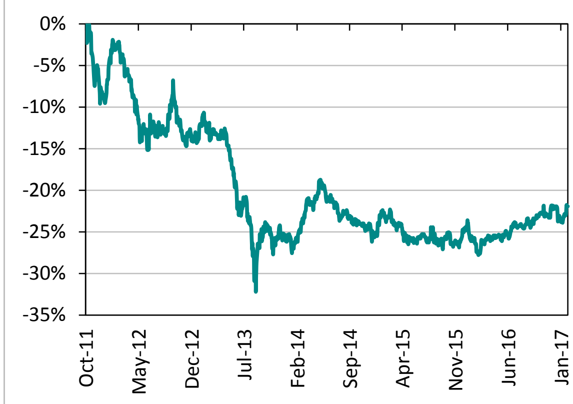
Labour cost in Bangladesh is the lowest, improving its export competitiveness significantly. China has the highest labour cost, which is partly compensated by high labour and machine productivity.

Figure: Labour cost in the textiles sector (2016)



Source: Crisil Research, IDBI Capital Research

Figure: Rupee depreciation vis-à-vis yuan



Source: Bloomberg, IDBI Capital Research

Table: Country strength and weaknesses in Textiles

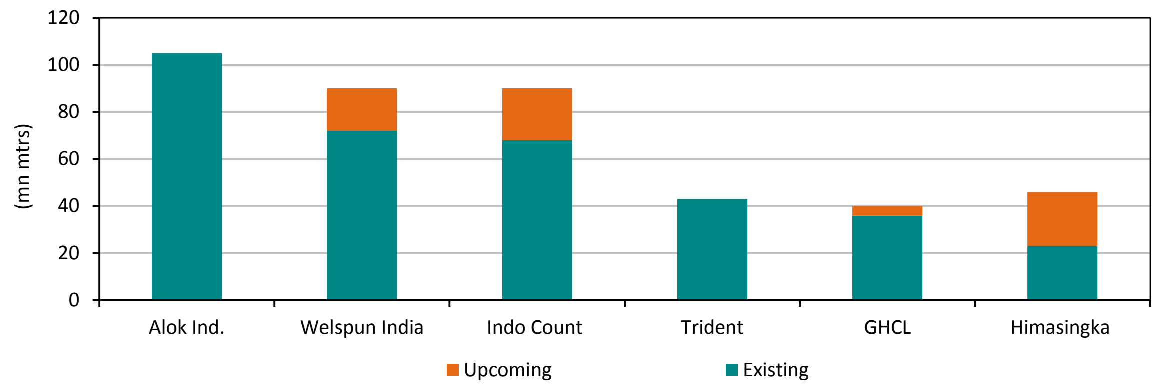
	India	China	Vietnam	Pakistan	Bangladesh
Strength	Raw material availability	Technologically advanced	cheap labour	cheap labour	cheap labour
	Labour costs	Better infrastructure	Supportive government policies	Supportive government policies	Lower cost of power using gas as fuel
	Supportive government policies				Supportive government policies
	Value addition				
Weakness	Weak Infrastructure	Lack of raw material availability	Lack of raw material availability (70% import dependency)	Lack of value addition	Lack of value addition
	Fragmented industry	Rising labour costs	Rising labour costs	Rising exports of cotton rather than finished products	Lack of raw material availability
		Rising energy costs	Weak infrastructure	Political instability	Higher lead time
				Weak Infrastructure	High cost of capital
				Poor value chain	Political instability

Source: Industry, IDBI Capital Research

- **Industry players upbeat on the opportunities; most of them expanding**

Indian companies recognize the opportunities to gain further traction in the US home textiles markets as well as penetrate other developed markets such as EU, Japan and Australia. Except for debt laden Alok Industries, most of the companies are adding processing capacities or have underutilized capacities (Trident). Expansions are planned mainly in the bed sheet category of the home textiles market.

Figure: Indian companies expanding bed sheet capacity



Source: Companies, IDBI Capital Research

Product range and level of integration determines the margins

Welspun India and Indo Count are the most established players in the home textiles markets; hence their product mix is better than most others. Most of the companies have their captive yarn making facilities to ensure quality checks and timely availability of raw material. However, since yarn-making is capital intensive, outsourcing it can improve return ratios as is the case with Indo Count. The margins are also determined by the designs, the thread counts, the quality of yarn, etc. Indo Count is venturing into high-margin fashion and utility bedding while companies who have been late entrants in bedding markets such as Trident and GHCL are initially targeting to sell mid-to-entry-level bed linen products.

Table: Competitive landscape of Indian home textiles players

	Welspun India	Alok Industries	Indo Count	Trident	GHCL	Himatsingka Seide
Product mix	Bed linen	Bed linen	Bed linen	Terry towels	Bed linen	Terry towels
	Terry towel	Terry towels		Bed linen		Bed linen
	Carpets and rugs					Drapery & uphostery
Existing capacity	Terry towels -60 kt	Bed linen - 105 mn mtrs	Bed linen - 68 mn mtrs	Terry towels -90 kt	Sheets - 36 mn mtrs	Bed linen - 23 mn mtrs
	Sheets - 72 mn mtrs	Terry towels - 14 kt		Sheets - 43 mn mtrs		Drapery and upholstery -2 mn mtrs
	Rugs & carpet - 8 mn mtrs					
Planned capacity (FY17-19E)	Towels -12 kt					
	Bed linen - 18 mn mtrs	No expansion plans	Bed linen - 22 mn mtrs	No expansion plans	Bed linen - 4 mn mtrs	Bed linen - 23 mn mtrs
	Rugs & carpet - 2 mn mtrs					Terry towels - 25 kt
	Flooring solutions - 7 mn mtrs					
Textile revenues - FY16 (Rs mn)*	53,607	130,890	20,033	29,049	10,013	18,088
Textile EBIT margins - FY16*	21%	-48%	19%	10%	7%	14%
Textile ROCE - FY16*	27%	NA	45%	7%	5%	15%

*Source: Companies, IDBI Capital Research; Note: * including yarn business*

Trident and Indo Count's valuations inexpensive

Trident trades at an FY18E EV/EBITDA of 4.2x, which is cheapest among its peer group. Although GHCL trades at PE of only 4.9x on its FY18 earnings, its multiples cannot be fully compared with other home textile companies as GHCL derives over 50% of its sales from soda ash business. Considering the strong visibility on growth, expected free cash flows and higher dividend payments, we expect Trident and Indo Count to trade at higher multiples compared to their current multiples.

Table: Valuation summary

Particulars	P/E (x)		EV/EBITDA (x)		RoE (%)	ND/ Equity (x)
	FY17E	FY18E	FY17E	FY18E	FY16	FY16
Trident	**10.5**	**8.5**	**5.4**	**4.2**	**14.2**	**1.1**
Indo Count Industries	**11.9**	**9.7**	**7.8**	**6.0**	**49.0**	**0.5**
Welspun India*	12.3	11.6	7.1	7.1	41.1	1.3
GHCL*	7.8	6.8	5.4	4.9	29.2	1.2
Himatsingka Seide*	18.9	14.5	11.5	8.6	18.6	0.8
Average	**12.4**	**10.3**	**7.5**	**6.2**	**30.4**	**1.0**

Source: IDBI Capital Research; Note: Bloomberg consensus estimates*

Company Section

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February 23, 2017

INITIATING COVERAGE

Trident Ltd.

Capex cycle behind; focus on sales growth

BUY

Nifty: 8,927; Sensex: 28,865

CMP	**Rs70**
Target Price	**Rs98**
Potential Upside/Downside	**+41%**

Key Stock Data

Sector	Textiles
Bloomberg	TRID IN / TRIE.BO
Shares o/s (mn)	509
Market cap. (Rsmn)	35,503
Market cap. (US$ mn)	530

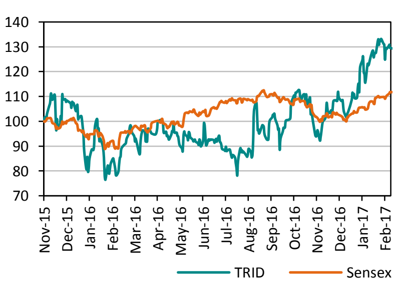
Price Performance

52-week high/low			Rs73/42
	-1m	-3m	-12m
Absolute (%)	5	38	52
Rel to Sensex (%)	(1)	27	31

Shareholding Pattern (%)

Promoters	67.8
Institutions	2.8
Non-Institutions	29.4

Relative to Sensex



Source: Ace Equity

Summary

- **Incorporated in 1990 by a first generation entrepreneur Mr. Rajinder Gupta, Trident is one of the largest integrated home textile producers in the world. It also manufactures wheat straw-based paper.**
- **We expect Trident to be one of the key beneficiaries of India's rising share in US home textiles markets.**
- **Trident has nearly doubled its terry towel capacity and set up a new bed linen capacity at Budni (Madhya Pradesh) in FY16.**
- **Until FY16, Trident was in the capex mode which resulted in sporadic cash flow generation.**
- **Nevertheless, we expect remarkable improvement in free cash flows from FY17 which are likely to be utilized towards deleveraging balance sheet and stepping up dividend payments.**

Investment Rationale and Outlook

- **Expansion plans complete:** During FY14-16, Trident expanded capacity in both towels and sheets with backward integration in yarn manufacturing. It spent Rs12 bn on terry towel and Rs15 bn on bed linen, including 190,000 spindles. With this expansion, Trident now has the largest terry towel capacity in India (90k tonnes).
- **Terry Towel and bed linen sales volumes poised to witness strong growth:** Trident is likely to leverage its long-standing relationships and distribution network to increase sales of terry towel and ramp up sales of its new product bed sheets. We forecast terry towel sales volumes to rise at a CAGR of 16.5% over FY16-19E. Bed linen sales volumes are expected to rise to 30 mn mtrs by FY19 from an estimated 12 mn mtrs in FY17. Further, realizations in bed linen are expected to increase at a CAGR of 15.2% over FY17-19E.
- **Return ratios on these projects likely to be strong:** Currently, the utilization levels in bed linen facility is ~30% and hence not break-even. Nevertheless, we expect strong return on equity on this project once it operates at full capacity which is likely to be in FY20E. We expect project ROCE and ROE to be 8% and 19%, respectively. In the terry towel project, the return ratios are likely to be even stronger on full ramp up. We expect project ROCE and ROE to be 42% and 18%, respectively. It is noteworthy that the interest rate on both these projects is estimated to be only ~4.0% (including working capital loans) due to central and state level subsidies.
- **Trident's overall return ratios to expand**: We expect significant improvement in Trident's return ratios as it ramps-up utilization levels with rising order backlogs. ROEs and ROCEs are expected to expand to 19.7% and 17.2% in FY18E, respectively, from 14.2% and 10.7% in FY16. Free cash flows to the firm are likely to remain strong during FY17-19E (Rs6,000-7,400 mn).
- **Outlook and valuation:** We expect Trident's revenues/EBITDA/ net profit to grow at a CAGR of 15.5% /19.6%/34.5%, respectively over FY16-19E. Further, with rising sales of terry towel and bed linen and no major capex plans in the near future, we expect free cash flows to be utilized towards deleveraging balance sheet and paying dividends. Hence, we expect the stock to trade at higher-than-historical multiples. On valuation front, the stock is currently trading at a PE of 8.5x on its FY18E earnings. **We assign a PE of 12.0x to our FY18 EPS estimate of Rs8.2 and derive a target price of Rs98, translating in a 41% upside to the current market price.**

Table: Financial snapshot (Consolidated) **(Rs mn)**

Year	Revenue	EBITDA	EBITDA(%)	Adj.PAT	EPS (Rs)	PE(x)	EV/EBITDA (x)	ROE (%)	ROCE (%)
FY15	37,553	6,608	17.6	1,179	2.3	30.1	7.4	9.9	14.1
FY16	36,840	7,189	19.5	2,291	4.0	17.3	8.4	14.2	10.7
FY17E	46,426	9,521	20.5	3,378	6.6	10.5	5.4	18.1	13.5
FY18E	50,463	10,588	21.0	4,168	8.2	8.5	4.2	19.7	17.2

Source: Company; IDBI Capital Research

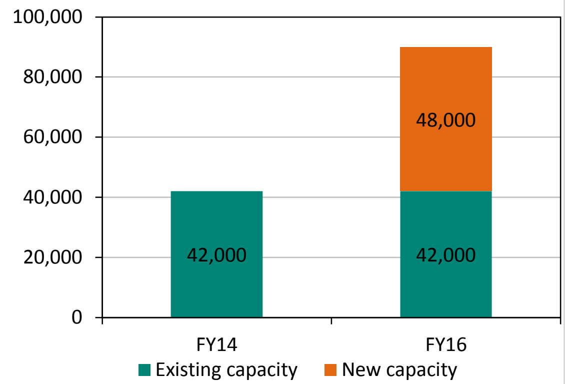
Investment Rationale

Expansion plans complete; Management focused on increasing top-line

- **Expansion plans complete; revenues poised to rise over the coming three years**

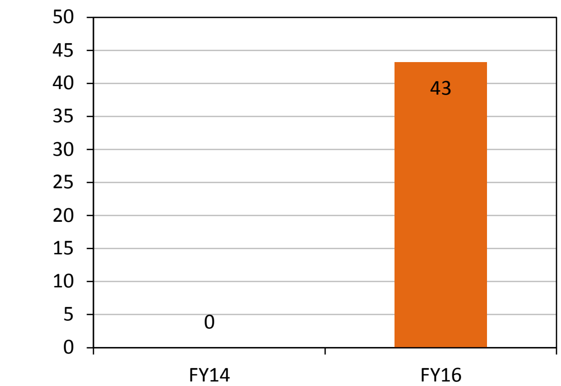
During FY14-16, Trident expanded capacity in both towels and sheets with backward integration in yarn manufacturing. It spent Rs12 bn on terry towel and Rs15 bn on bed linen, including 190,000 spindles. With this expansion, Trident now has the largest terry towel capacity in India (90k tonnes).

Figure: Terry towel capacity more than doubled (tonnes)



Source: Company; IDBI Capital Research

Figure: New bed linen capacity set-up (mn mtrs)



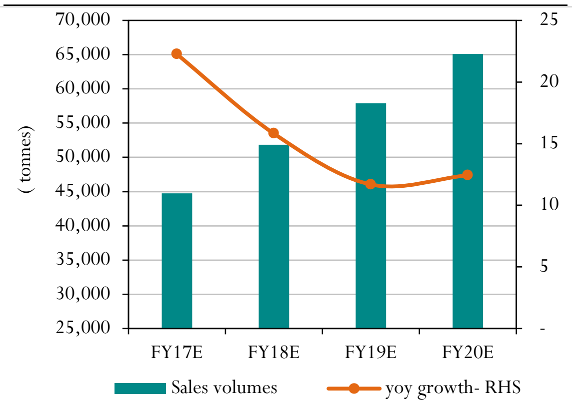
Source: Company; IDBI Capital Research

- **Terry Towel sales to witness strong growth over FY16-20E**

Trident has been operating in terry towel business since more than a decade and has long-standing relationships with clients such as Wal-Mart, JC Penny, Target, IKEA, etc. It has added 48 kt of terry towel capacity in FY16 (to its existing capacity of 42 kt) and has become one of the largest vertically integrated home textile manufacturers in the world. The focus for the company hereon is to get additional sales orders given current capacity utilization of only 50% as of 3QFY17.

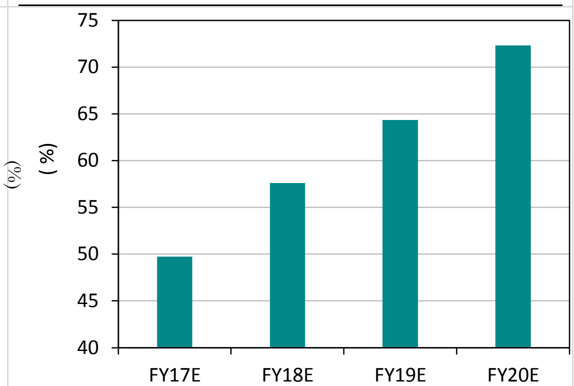
We believe Trident is likely to leverage its long-standing relationships and distribution network to increase sales of terry towel. Also the company is likely to increase penetration in other geographies such as Middle East and South East Asia. We expect terry towel utilization levels to increase to 64% in FY19 from 46% in 3QFY17. Terry towel sales volumes are expected to rise at a CAGR of 16.5% over FY16-19E.

Figure: Terry towel sales volumes trend



Source: Company; IDBI Capital Research

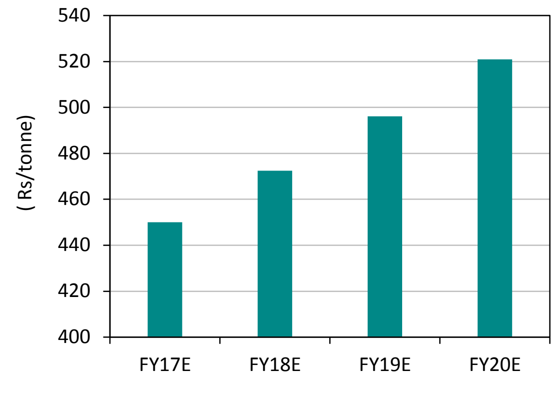
Figure: Terry towels utilization levels to rise



Source: Company; IDBI Capital Research

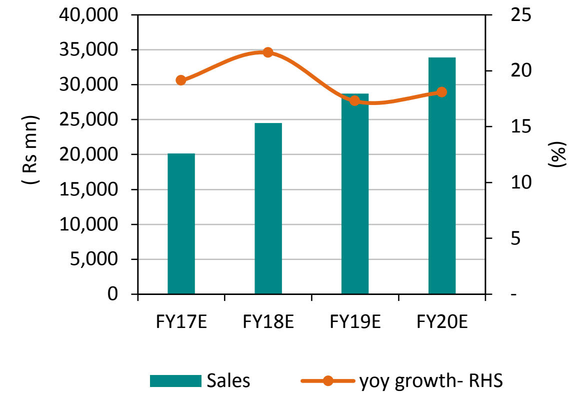
We estimate realizations to grow at a CAGR of 5.0% during FY17-20E as the company starts improving its product mix with rising orders. Overall Terry towel sales are estimated to grow at a CAGR of 19.0% during the same period.

Figure: Terry towel realizations to rise



Source: Company; IDBI Capital Research

Figure: Terry towel sales trend

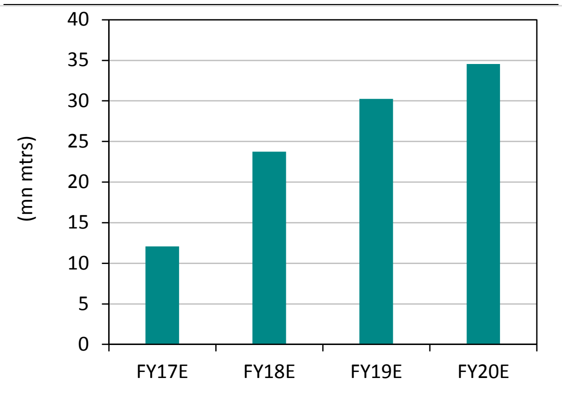


Source: Company; IDBI Capital Research

Bed linen sales to leap-frog over FY16-19E

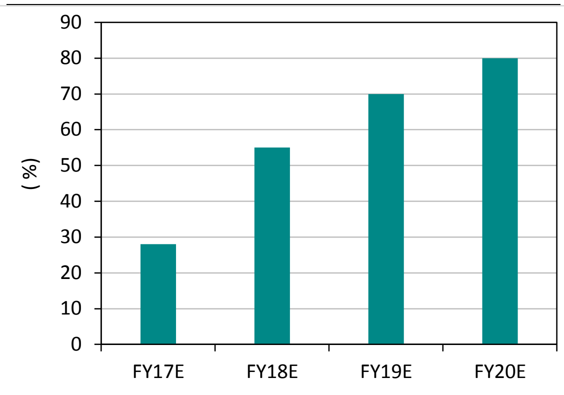
Trident forayed into the bed linen market as an extension of its product mix during FY16. While the company's utilization levels is lower (30%) currently, it is in the seeding stage and is focused on marketing products. Bed linen sales volumes are expected to rise to 30 mn mtrs by FY19 from an estimated 12 mn mtrs in FY17.

Figure: Bed linen sales volumes trend



Source: Company; IDBI Capital Research

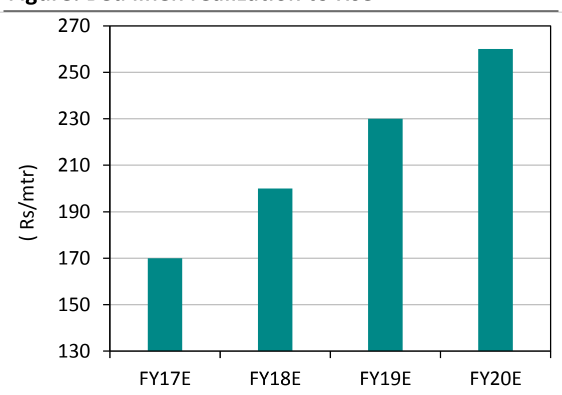
Figure: Bed linen utilization levels to improve



Source: Company; IDBI Capital Research

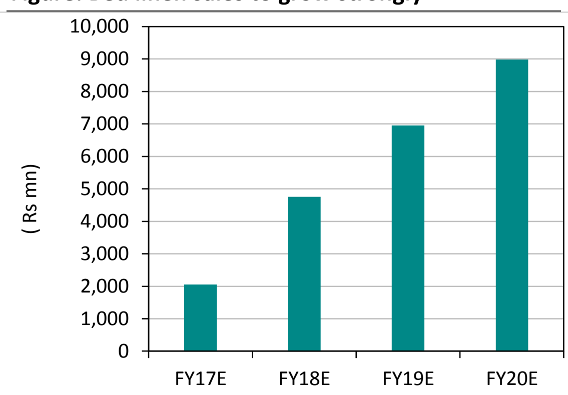
Current realizations in the range of Rs150-200/mtr are on account of promotional orders and less optimal product mix. With higher orders from large retailers the company's realizations are likely to improve in line with its competitors (Rs250-300/ mtr).

Figure: Bed linen realization to rise



Source: Company; IDBI Capital Research

Figure: Bed linen sales to grow strongly



Source: Company; IDBI Capital Research

Return ratios on these projects likely to be strong

Trident has spent Rs15,100 mn on its integrated bed linen project. Approximately Rs7,000 mn has been spent on spinning capacity and Rs8,100 mn on processing capacity. Currently, the bed sheet project is working at ~30% utilization levels and hence not breaking even. Nevertheless, we expect strong return on equity on this project once it operates at full capacity (likely in FY20E). In the tables below, we showcase the estimated return ratios on full ramp up.

Table: Bed linen project cost break-up including working capital requirement on full ramp-up (Rs mn)

Debt	11,625
Equity	3,075
Capital subsidy received	400
Total project cost	**15,100**
Working capital on full ramp-up	2,000
Total invested capital	**17,100**

Source: Company; IDBI Capital Research

Table: Bed linen project ROE estimated to be 19% on full ramp up (Rs mn)

Sales	10,000
EBITDA	2,400
EBITDA margin	24%
Depreciation	982
EBIT	1,419
Interest	545
PBT	874
Tax	288
Net profit	585
Project ROE	**19%**
Project ROCE (pre-tax)	**8%**

Source: IDBI Capital Research

In terry towel project, the return ratios are likely to be even stronger on full ramp up as there was no capex on spinning facilities. We expect project ROCE and ROE to be 18% and 42%, respectively. The interest cost on both these projects is estimated to be only 4.0% (including working capital loans) due to central and state level subsidies.

Table: Terry towel project cost break-up including working capital requirement on full ramp-up (Rs mn)

Debt	8,340
Equity	3,150
Capital subsidy received	420
Total project cost	**11,910**
Working capital on full ramp-up	3,299
Total invested capital	**15,139**

Source: Company; IDBI Capital Research

Table: Terry towel ROE estimated to be over 42% on full utilization (Rs mn)

Sales	17,940
EBITDA	3,588
EBITDA margin	20%
Depreciation	893
EBIT	2,695
Interest	463
PBT	2,232
tax	737
PAT	1,495
Project ROE	**42%**
Project ROCE (pre-tax)	**18%**

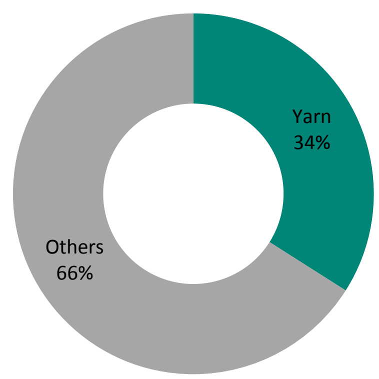
Source: IDBI Capital Research

Proven execution skills; vertical integration

Over the past 15 years, Trident has expanded vertically as well as horizontally moving up the value chain with foray into home textiles. The revenue mix has improved in favor of high margin products in the past two decades. In 1999, the commoditized yarn business contributed 75% to sales. Nevertheless, yarn's share in revenues declined gradually to 34% in FY16 and we estimate it to decline further to 21% with rising sales of bed linen and terry towels.

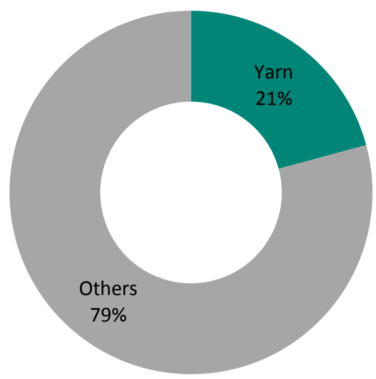
Trident's presence across the value chain of textiles manufacturing helps Trident's textile business nearly offset raw material price fluctuation risks. The home textile business is likely to internally consume 45% of yarn produced by FY18E. Increasing captive consumption of yarn for terry towels and the bed linen segment would add value in the textile chain, making the company a one stop-shop for home textiles.

Figure: Yarn contribution to sales (FY15)



Source: Company; IDBI Capital Research

Figure: Yarn contribution to sales (FY19E)



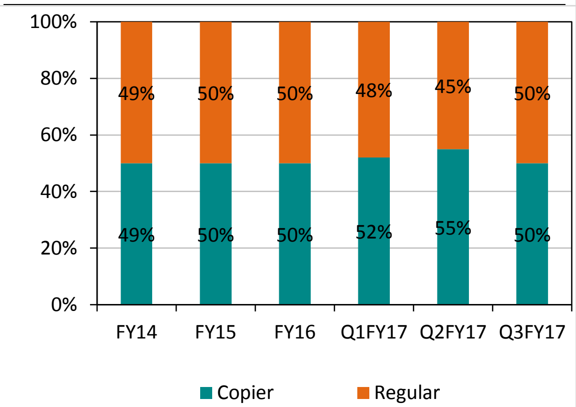
Source: Company; IDBI Capital Research

Improving product mix towards brand to aid Paper segment margins

Trident is the world's largest wheat straw-based paper producer with a paper capacity of 175 ktpa. The company is focusing to improve its product mix towards branded copier products which enjoy higher margins. Its key brands in copier paper are Trident My Choice, Trident Natural, Trident Spectra, Trident Eco Green and Trident Royal Touch.

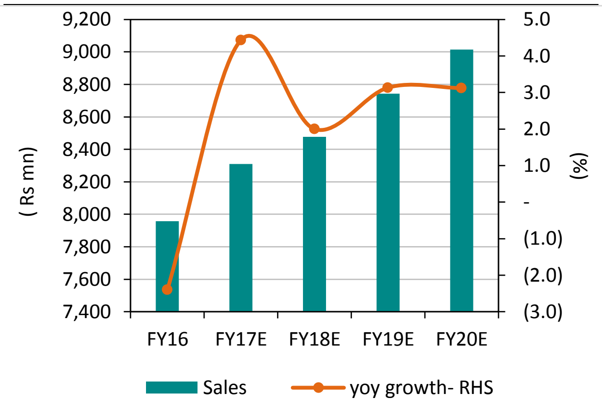
The company has environmental clearance to undertake brownfield expansion at its paper plant. However, the company has no plans to expand its capacity in the near future as it will lead to scarcity of raw materials (wheat straw) in Punjab.

Figure: Rising share of Copier Paper



Source: Company; IDBI Capital Research

Figure: Paper segment revenue trend

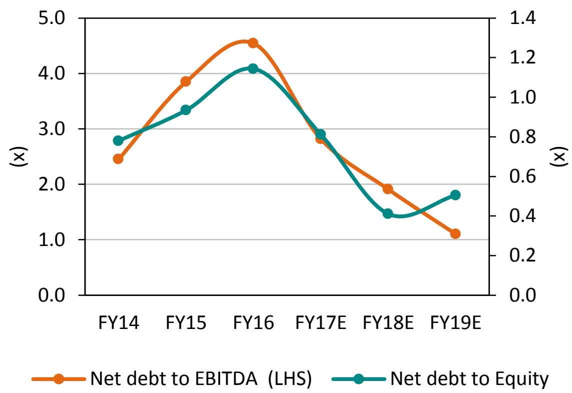


Source: Company; IDBI Capital Research

Credit profile to improve; dividends to rise

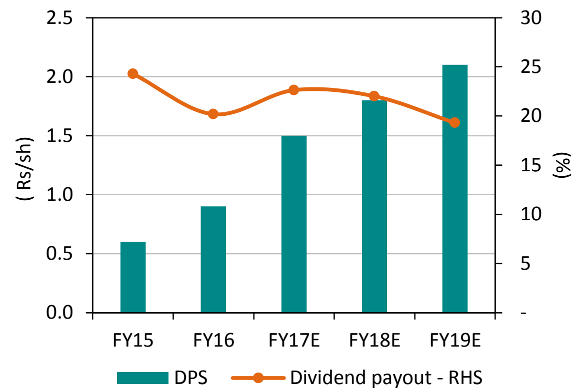
With major capex cycle complete in FY16, Trident's management remains focused on stepping up sales alongside margin improvement. Since FY14, Trident has started paying dividends and stepped up dividend per share every year. Trident has committed to pay minimum dividend payment at 6% of the face value. Also, company targets debt repayment of Rs1,000 mn per quarter over the coming eight quarters. We believe Trident's strategy to prepay high-cost debt and step-up dividend payments bode well for minority shareholders.

Figure: Credit profile to improve sharply



Source: Company; IDBI Capital Research

Figure: Dividend payments likely to increase



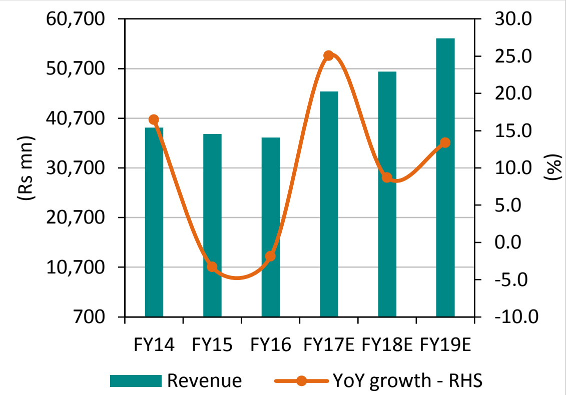
Source: Company; IDBI Capital Research

Financial Forecasts

- **Revenue to grow at a CAGR of 14% over FY16-19E**

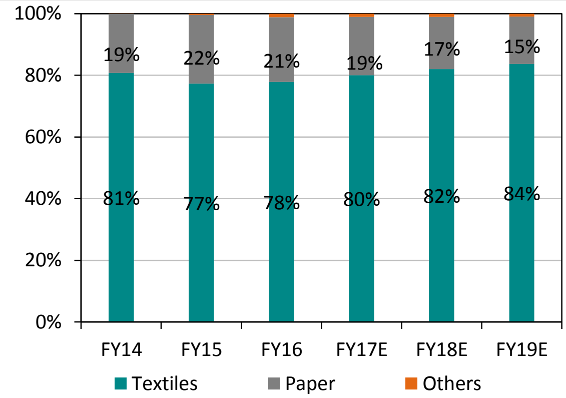
We expect Trident's revenue to grow at a CAGR of 13.7% over FY16-19E on the back of rising sales of terry towel and bed linen. The recently commissioned bed linen segment is expected to grow the fastest (+221% CAGR) over FY16-19E, albeit from a low base, driven by addition of customers. The terry towel segment is likely to post healthy CAGR of 19.0% in sales over FY16-19E. Yarn volumes are likely to decline at a CAGR of 3.2% over FY16-19E as the company diverts yarn towards captive consumption.

Figure: Strong growth in revenues over FY6-19E



Source: Company; IDBI Capital Research

Figure: Share of textile to rise

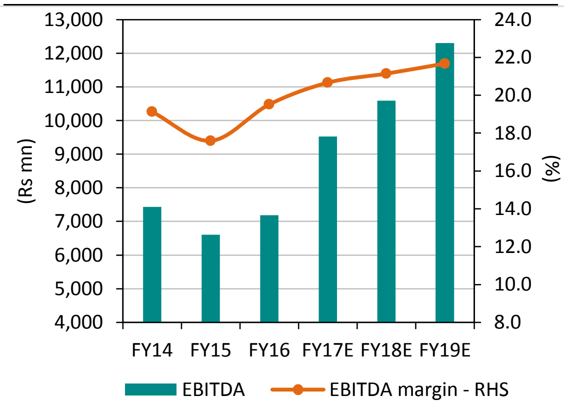


Source: Company; IDBI Capital Research

- **Net profit to grow at a CAGR of 35% over FY16-19E**

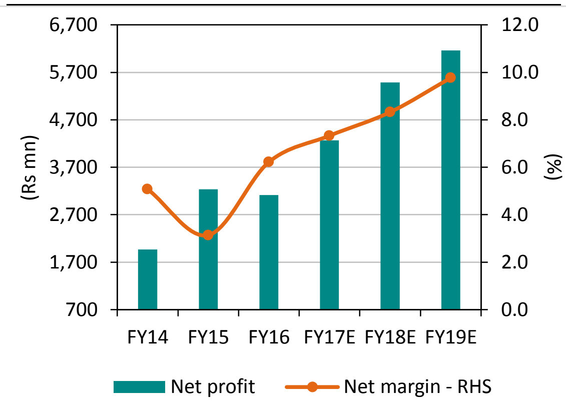
EBITDA is estimated to grow at a CAGR of 19.6% over FY16-19E with increase in sales. We expect net profit to grow at a CAGR of 34.5% over FY16-19E due to higher EBITDA and fall in interest costs. Interest costs are estimated to decline from Rs1,364 mn in FY16 to Rs733 mn in FY19.

Figure: EBITDA to grow in-line with top-line



Source: Company; IDBI Capital Research

Figure: Strong growth in net profit

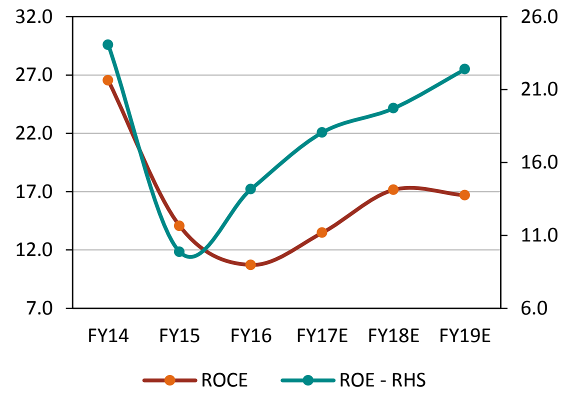


Source: Company; IDBI Capital Research

- **Return ratios to expand**

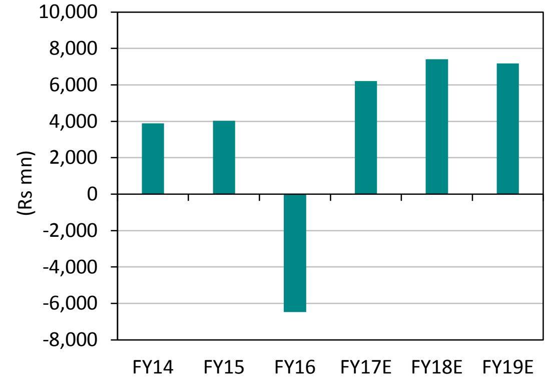
Improvement in utilization levels of terry towel and bed linen is likely to drive strong improvement in return ratios. ROEs and ROCEs are expected to expand to 19.7% and 17.2% in FY18E, respectively, from 14.2% and 10.7% in FY16. Free cash flows to the firm are likely to remain strong during FY17-19E (Rs6,000-7,400 mn).

Figure: ROCE and ROE to expand (%)



Source: Company; IDBI Capital Research

Figure: Free cash flows to improve sharply



Source: Company; IDBI Capital Research

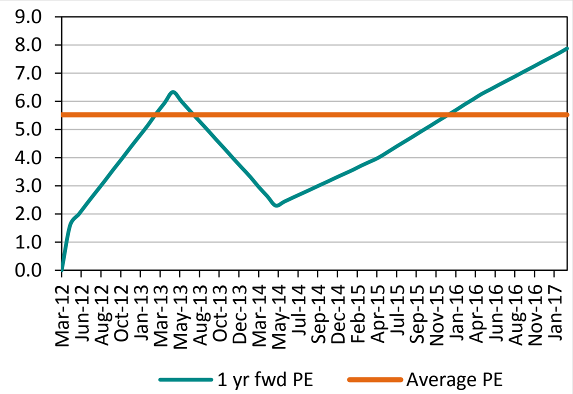
Valuation and Outlook

- **Valuations attractive; Initiate with a BUY**

  We expect Trident's revenues/EBITDA/ net profit to grow at a CAGR of 15.5% /19.6%/34.5%, respectively over FY16-19E. Further, with rising sales of terry towel and bed linen and no major capex plans in the near future, we expect free cash flows to be utilized towards deleveraging balance sheet and paying dividends. Hence, we expect the stock to trade at higher-than-historical multiples.

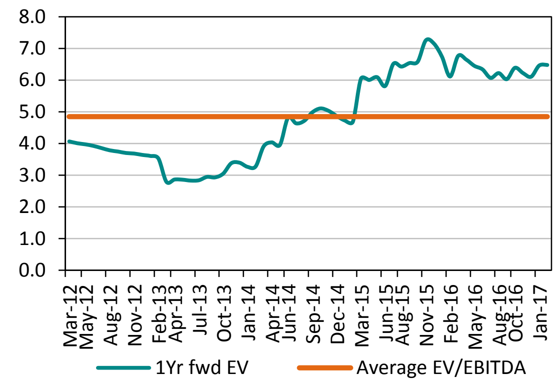
  The stock is currently trading at an inexpensive valuation of 8.5x our estimated FY18 EPS. We assign PE of 12.0x to our FY18 EPS estimate of Rs8.2 and derive a target price of Rs98, translating in a 41% upside to the current market price.

Figure: 1 year fwd PE band (x)



Source: Bloomberg; IDBI Capital Research

Figure: 1 year fwd EV/EBITDA band (x)



Source: Bloomberg; IDBI Capital Research

Key Risks

- Since the company derives significant portion of revenues from overseas, any appreciation in rupee poses a threat to earnings estimates.
- Sharp rise in prices of cotton (key raw material) could affect Trident's margins as it may be unable to take timely price hikes.

About the Company

Incorporated in 1990 by a first generation entrepreneur Mr. Rajinder Gupta, Trident is one of the largest integrated home textile producers in the world. It is also a manufacturer of wheat straw-based paper.

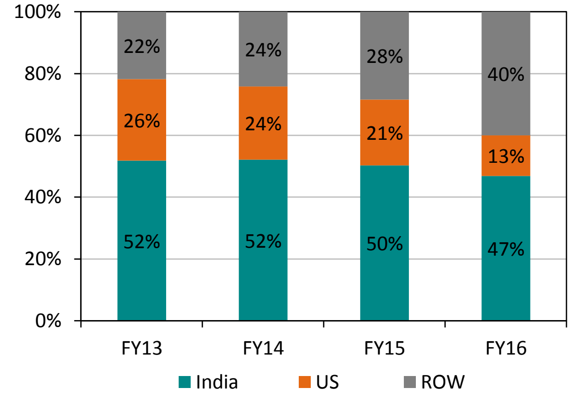
Currently, it has capacity to produce 90 kt of terry towel, 43 mn mtrs of bed linen and ~175 ktpa of paper. Trident enjoys raw material advantage in paper over wood-pulp based manufacturers due to its location in Punjab. Trident Group's customer base spans more than 100 countries across six continents and comprises global retail brands like Wal-Mart, Target, JC Penny, IKEA, etc. Its manufacturing units are in Barnala (Punjab) and Budni (Madhya Pradesh).

Table: Trident capacities as of December 2016

Segment	Capacity
Yarn	0.56 mn spindles and 5,504 rotors
Dyed yarn	6,825 tpa
Bed linen	500 looms/43.2 mn meters
Terry towel	688 looms/90,000 MT pa
Paper	1,75,000 tpa
Chemicals	1,00,000 tpa
Captive power	50 MW

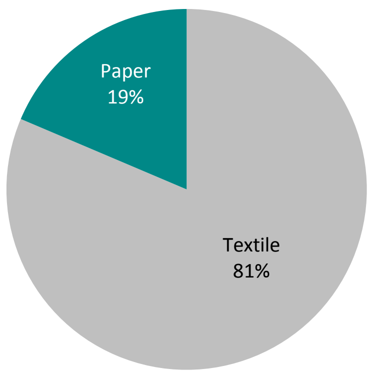
Source: Company; IDBI Capital Research

Figure: Revenue break-up by geography



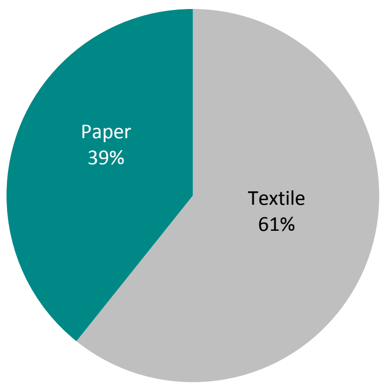
Source: Company; IDBI Capital Research

Figure: Trident revenue break-up (9MFY17)



Source: Company; IDBI Capital Research

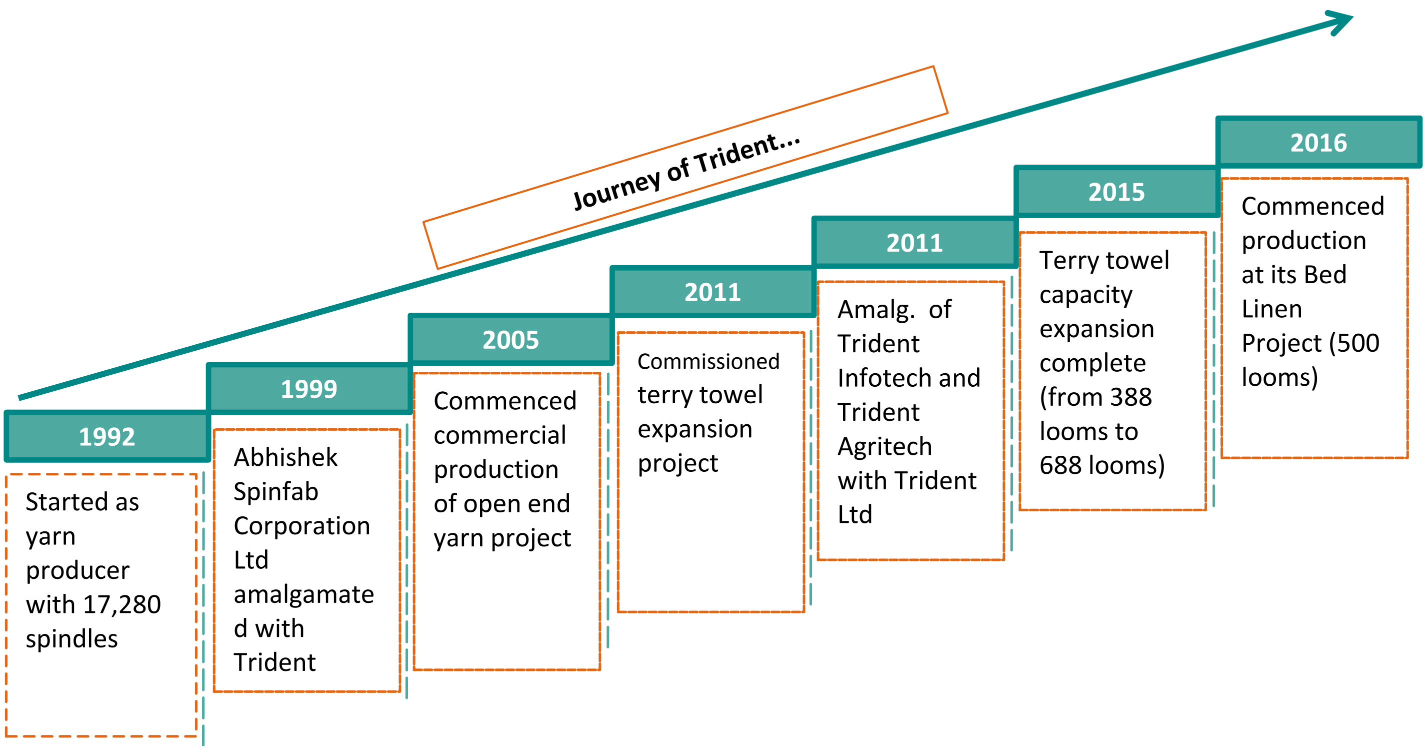
Figure: Trident EBIT break-up (9MFY17)



Source: Company; IDBI Capital Research

Trident (initially known as Abhishek Industries Ltd.) started as a cotton yarn manufacturer in 1990 with 17,280 spindles. The company's first yarn plant in Sanghera, Punjab was financed by a public issue in October 1992. With the amalgamation of Abhishek Spinfab Corporation Ltd in 1999 and Varinder Agro Chemicals Ltd in 2002, Trident diversified into terry towels and paper.

Diagram: Trident – Timelines of events



Source: Company, IDBI Capital Research

Financial Summary (Consolidated)

Profit & Loss Account (Rs mn)

Year-end: March	FY15	FY16	FY17E	FY18E
Net sales	**37,553**	**36,840**	**46,426**	**50,463**
Growth (%)	*(3.3)*	*(1.9)*	*26.0*	*8.7*
Operating expenses	(30,946)	(29,651)	(36,904)	(39,875)
EBITDA	**6,608**	**7,189**	**9,521**	**10,588**
Growth (%)	*(11.0)*	*8.8*	*32.4*	*11.2*
Depreciation	(3,213)	(3,376)	(4,160)	(4,181)
EBIT	**3,395**	**3,813**	**5,362**	**6,407**
Interest paid	(2,060)	(1,364)	(1,319)	(1,103)
Other income	345	317	298	327
Pre-tax profit	**1,680**	**2,766**	**4,340**	**5,632**
Tax	(501)	(486)	(963)	(1,464)
Effective tax rate (%)	*29.8*	*17.6*	*22.2*	*26.0*
Net profit	**1,179**	**2,280**	**3,378**	**4,168**
Adjusted net profit	**1,179**	**2,291**	**3,378**	**4,168**
Growth (%)	*(40.2)*	*94.4*	*47.4*	*23.4*
Shares o/s (mn nos)	*509*	*569*	*509*	*509*

Cash Flow Statement (Rs mn)

Year-end: March	FY15	FY16	FY17E	FY18E
Pre-tax profit	1,680	2,766	4,340	5,632
Depreciation	3,213	3,376	4,160	4,181
Tax paid	(341)	(1)	(963)	(1,464)
Chg in working capital	(268)	(1,293)	(1,127)	187
Other operating activities	1,159	440	2,719	1,103
CF from operations (a)	**5,443**	**5,288**	**9,129**	**9,639**
Capital expenditure	(1,843)	(11,251)	(1,000)	(800)
Chg in investments	707	(808)		-
Other investing activities	-	-	572	-
CF from investing (b)	**(1,429)**	**(12,001)**	**(428)**	**(800)**
Equity raised/(repaid)	187	611	-	-
Debt raised/(repaid)	(1,966)	7,809	(5,615)	(5,500)
Dividend (incl. tax)	(488)	(360)	(794)	(947)
Chg in monorities	-	11	-	-
Other financing activities	(2,056)	(1,378)	(2,072)	(1,286)
CF from financing (c)	**(4,323)**	**6,694**	**(8,481)**	**(7,733)**
Net chg in cash (a+b+c)	**(309)**	**(19)**	**221**	**1,105**

Balance Sheet (Rs mn)

Year-end: March	FY15	FY16	FY17E	FY18E
Net fixed assets	30,857	38,919	35,187	31,806
Investments	1,840	2,648	2,648	2,648
Other non-curr assets	-	-	-	-
Current assets	**12,372**	**15,071**	**15,162**	**16,376**
Inventories	7,508	9,092	8,205	8,232
Sundry Debtors	2,033	1,767	2,525	2,607
Cash and Bank	170	819	1,040	2,146
Marketable Securities	197	197	197	197
Loans and advances	2,443	3,181	3,181	3,181
Total assets	**45,070**	**56,637**	**52,996**	**50,830**
Shareholders' funds	**14,554**	**17,789**	**19,620**	**22,657**
Share capital	5,086	5,694	5,094	5,094
Reserves & surplus	9,467	12,095	14,526	17,563
Total Debt	**13,961**	**21,365**	**17,150**	**11,650**
Secured loans	13,961	21,365	17,150	11,650
Other liabilities	1,647	1,811	1,811	1,811
Curr Liab & prov	**14,908**	**15,672**	**14,415**	**14,711**
Current liabilities	14,864	15,434	14,177	14,473
Provisions	45	238	238	238
Total liabilities	**30,517**	**38,848**	**33,376**	**28,173**
Total equity & liabilities	**45,070**	**56,637**	**52,996**	**50,830**
Book Value (Rs)	**29**	**31**	**39**	**44**

Financial Ratios

Year-end: March	FY15	FY16	FY17E	FY18E
Adj EPS (Rs)	2.3	4.0	6.6	8.2
Adj EPS growth (%)	(63.4)	73.7	64.8	23.4
EBITDA margin (%)	17.6	19.5	20.5	21.0
Pre-tax margin (%)	4.5	7.5	9.3	11.2
RoE (%)	9.9	14.2	18.1	19.7
RoCE (%)	14.1	10.7	13.5	17.2
Turnover & Leverage ratios (x)				
Asset turnover	1.0	0.7	0.8	1.0
Leverage factor	3.2	3.1	2.9	2.5
Net margin (%)	3.1	6.2	7.3	8.3
Net Debt/Equity	0.9	1.1	0.8	0.4
Working Capital & Liquidity ratios				
Inventory days	73	90	65	60
Receivable days	20	18	20	19
Payable days	26	27	22	23

Valuations

Year-end: March	FY15	FY16	FY17E	FY18E
PER (x)	30.1	17.3	10.5	8.5
Price/Book value (x)	2.4	2.2	1.8	1.6
PCE (x)	8.1	7.0	4.7	4.3
EV/Net sales (x)	1.3	1.6	1.1	0.9
EV/EBITDA (x)	7.4	8.4	5.4	4.2
Dividend Yield (%)	1.4	0.9	2.2	2.7

Source: Company; IDBI Capital Research

February 23, 2017

INITIATING COVERAGE

Indo Count Industries Ltd.

Expanding target markets…

BUY

Nifty: 8,927; Sensex: 28,865

CMP	**Rs162**
Target Price	**Rs218**
Potential Upside/Downside	**+35%**

Key Stock Data

Sector	Textiles
Bloomberg	ICNT IN / ICNT.BO
Shares o/s (mn)	197
Market cap. (Rs mn)	31,914
Market cap. (US$ mn)	477

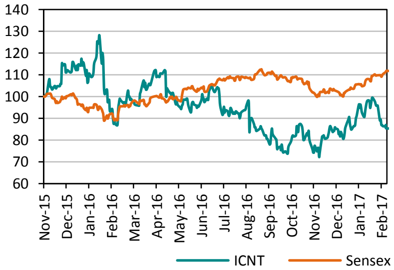
Price Performance

52-week high/low			Rs216/135
	-1m	-3m	-12m
Absolute (%)	(6)	12	(9)
Rel to Sensex (%)	(12)	1	(31)

Shareholding Pattern (%)

Indian Promoters	27.5
Foreign Promoters	31.4
Institutions	17.3
Non-Institutions	23.7

Relative to Sensex



Source: Ace Equity

Summary

- **Incorporated in 1988, Indo Count is a focused player on bedding — a niche segment of home textile market.**
- **The company follows an asset light model and has industry leading return ratios.**
- **Indo Count will complete expanding its bedding capacity from 68 mn mtrs to 90 mn mtrs by March 2017 as it aims to improve its product mix towards high margin products.**
- **We expect sales/ EBITDA/ net profit to grow at a CAGR of 11%/13%/17% over FY16-19E.**
- **We expect strong free cash flows over FY17-19E and expect the company to step up dividends.**
- **We initiate coverage on the company with a BUY rating.**

Investment Rationale and Outlook

- **Expanding target market by 3x:** After its successful foray into bed linen over the past decade, Indo Count now eyes a larger and more lucrative market - Fashion Bedding, Utility Bedding and Institutional Bedding. These new categories will expand company's target market by over 3x from $4 bn to $14 bn. The management expects these high-margin products to contribute 30% of sales by FY20 from 10% in FY16. These categories are currently dominated by China in the US markets (estimated market share 85%).
- **High return on investments on upcoming bed sheet expansion likely:** Indo Count will complete phase I of its capacity expansion plan (capex of Rs1,750 mn) which includes increasing bed sheet capacity from 68 mn meters to 90 mn meters by March 2017. Further, company's board has approved greenfield expansion with a capital expenditure of Rs3,000 mn towards upgrading existing spinning facilities, increasing weaving capacity (to 27 mn mtrs from 9 mn mtrs currently) and purchasing value added equipment. We estimate Rs4,750 mn expansion to generate asset turnover of 1.4x once the company's plants run at optimum utilization levels. Fashion, utility and institutional bedding enjoy higher margins (~23-25%) compared to company's existing product sales. The ROCE from these additional investments are estimated to be ~26% once these capacities reach optimum utilization levels (our estimate FY20E).
- **Asset light model ensures industry leading return ratios, asset turns:** Indo Count follows a forward integrated business model which is asset light compared to its peers such as Trident, Welspun India, Alok Industries who largely follow backward integration. Indo Count outsources most of its spinning and weaving requirements while focusing on processing and designing part. The company's asset light model explains its higher return ratios as compared to other players. Indo Count's return ratios are unmatched vis-à-vis its peers. We estimate ROEs to remain over 30% during FY17-19E.
- **Valuation:** We expect Indo Count's revenues/EBITDA/net profit to grow at a CAGR of 11.0%/12.6%/17.0%, respectively over FY16-19E. While the company will also commence phase II of its expansion plan to increase its weaving capacity and upgrade spinning capacities, we expect the company to generate strong free cash flows even after meeting this capex. We believe the Indo Count's stock should trade at a premium over its peers given its high return ratios, low leverage and rising dividends. On valuation front, the stock is currently trading at a PE multiple of 9.7x on its FY18E earnings. **We assign a PE multiple of 13.0x to our FY18 EPS estimate of Rs16.8 and derive a target price of Rs218/sh, translating in a 35% upside to the current market price.**

Tale: Financial snapshot (Consolidated) **(Rs mn)**

Year	Revenue	EBITDA	EBITDA(%)	Adj.PAT	EPS (Rs)	PE(x)	EV/EBITDA (x)	ROE (%)	ROCE (%)
FY15	17,169	2,488	14.5	1,716	9.2	17.6	13.3	48.0	31.2
FY16	21,737	4,345	20.0	2,647	13.4	12.1	8.1	49.0	44.5
FY17E	22,800	4,094	18.0	2,677	13.6	11.9	7.8	34.6	33.4
FY18E	24,463	4,921	20.1	3,312	16.8	9.7	6.0	32.2	33.9

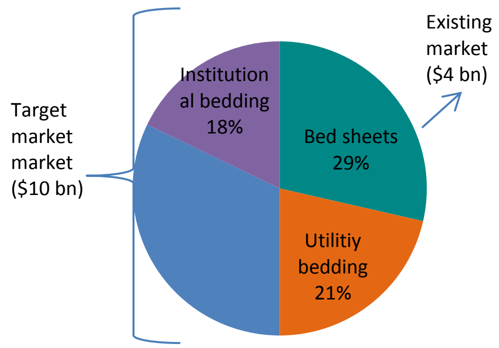
Source: Company; IDBI Capital Research

Investment Rationale

- **Expanding target market by 3x**

After its successful foray into bed linen over the past decade, Indo Count now eyes a larger and more lucrative market - Fashion Bedding, Utility Bedding and Institutional Bedding. These new categories will expand company's target market by over 3x from $4 bn to $14 bn. The management expects these high-margin products to contribute 30% of sales by FY20 from 10% in FY16. These categories are currently dominated by China in the US markets (estimated market share 85%).

Figure: US Home textile market break up



Source: Company; IDBI Capital Research

Table: New product categories

Segment	Products mix
Institutional Bedding	Flat sheets, pillow cases, duvet and shams, covers for hotels, hospitals and others
Fashion Bedding	Comforters, bed in bag, quilts and coverlets, decorative pillows, etc
Utility Bedding	Basic white bedding, mattress pads, protectors, white filled comforters filled with poly fill fibre, etc

Source: Company; IDBI Capital Research

- **High return on investments on upcoming bed sheet expansion likely**

Indo Count will complete phase I of its capacity expansion plan (capex of Rs1,750 mn) which includes increasing bed sheet capacity from 68 mn meters to 90 mn meters by March 2017. Further, company's board has approved greenfield expansion with a capital expenditure of Rs3,000 mn (phase II) towards upgrading existing spinning facilities, increasing weaving capacity (to 27 mn mtrs from 9 mn mtrs currently) and purchasing value added equipment. Currently, the company is in the process of acquiring land for the project.

We estimate Rs4,750 mn expansion to generate asset turnover of 1.4x once its plants run at optimum utilization levels. Fashion, utility and institutional bedding enjoy higher margins (~23-25%) compared to company's existing product sales. The ROCE from these additional investments are estimated to be ~26% once these capacities reach optimum utilization levels (our estimate FY20E).

Table: Phase I and Phase II capex break-up (Rs mn)

Expanding processing by 22 mn mtrs	750
Setting up a water treatment plant	500
Automation	500
Expanding weaving by 18 mn mtrs	2,500
Upgrading spindles	500
Total	**4,750**
Capital subsidy	500
Net project cost	**4,250**

Source: Company; IDBI Capital Research

Table: Project ROCE estimated to be high

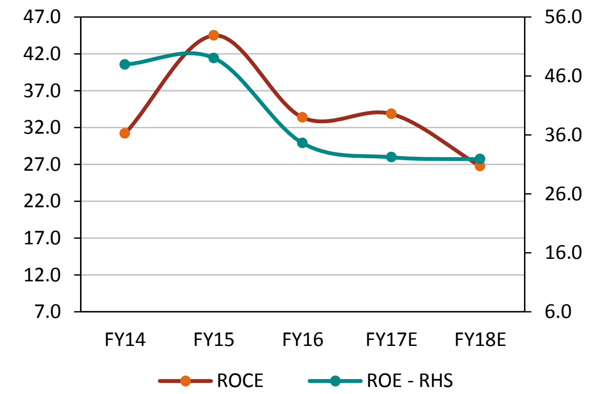
Additional sales (mn mtrs)	19
Realization /mtr	325
Sales (Rs mn)	6,175
EBITDA	1,420
EBITDA margin	23%
Depreciation	333
EBIT	1,088
pre-tax ROCE	**26%**

Source: Company; IDBI Capital Research

- **Asset light model ensures industry leading return ratios, asset turns**

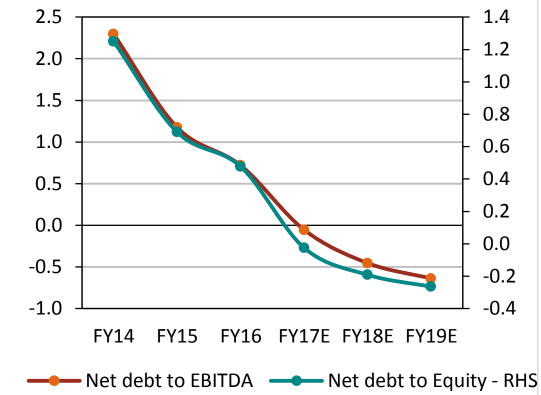
  Indo Count follows a forward integrated business model which is asset light compared to its peers such as Trident, Welspun India, Alok Industries who largely follow backward integration and set up spinning capacities which are backed by cheaper TUFS loans. Indo Count outsources most of its spinning and weaving requirements while focusing on processing and designing part. The company's asset light model, focus on margins and designing capabilities explains its higher return ratios compared to other players. Looking ahead, we expect Indo Count's ROEs to remain over 30% during FY17-19E. Also, the company's capex intensity is likely to be lower in FY18, resulting in improvement in leverage ratios.

Figure: Return ratios to remain strong (%)



Source: Company; IDBI Capital Research

Figure: Leverage ratios to improve (x)



Source: Company; IDBI Capital Research

- **Proven strategic initiatives and execution skills**

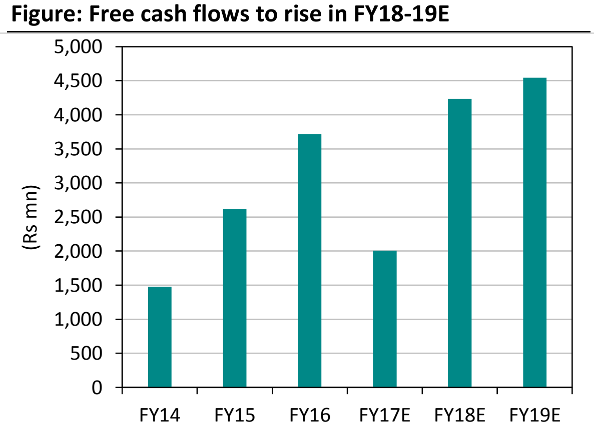
  Indo Count successfully forayed into home textiles business in 2007 after the end of the imports quota regime in the developed markets of the US, Europe and Canada. It set up a bed sheets manufacturing capacity of 36 mn meters in 2007. Later, it expanded the capacity to 45 mn meters in 2012 and then to 68 mn mtrs in 2015. This capacity will be expanded to 90 mn mtrs by March 2017.

  Looking ahead, the company's strategy to foray into high-margin fashion and utility bedding and diversifying its revenues geographically away from the US bode well for the long-term prospects of the company. With foray in Fashion, utility and institutional bedding, Indo Count is one-step ahead of most of its Indian counterparts who are expanding in the entry level bedding market.

- **Dividends to increase with moderation in capex cycle**

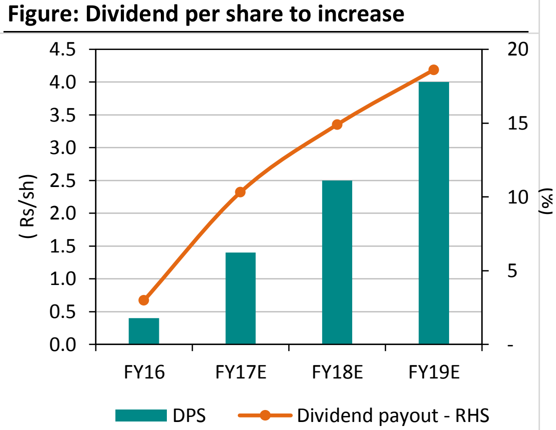
  Indo Count is nearly on the verge of completion of its phase I capex cycle (Rs1,750 mn) by March 2017. We expect phase II capex of Rs3,000 mn to be spread over FY18-20. We estimate company's annual free cash flows to remain over Rs4,000 mn over FY18-19E which are likely to be used for deleveraging balance sheet and increasing dividend payments in our view.

Figure: Free cash flows to rise in FY18-19E



Source: Company; IDBI Capital Research

Figure: Dividend per share to increase



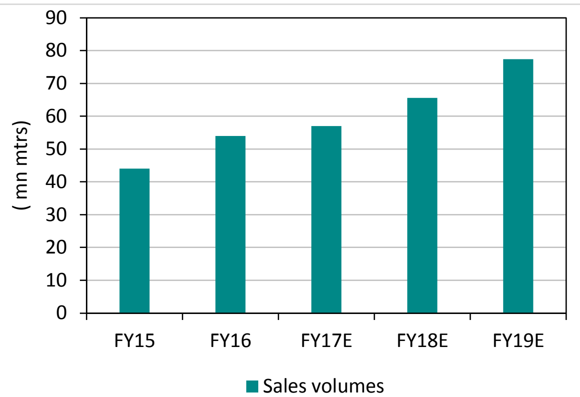
Source: Company; IDBI Capital Research

Financial Forecasts

- **Higher volumes to drive revenue growth**

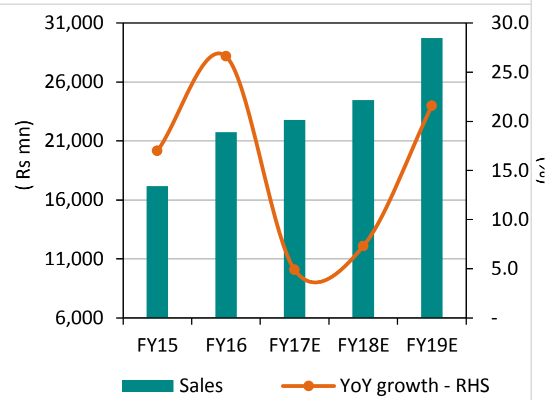
  Revenue is expected to increase at a CAGR of 11.0% over FY16-19E as it increases utilization levels at its expanded capacity. Although FY17 is likely to see muted sales growth, we expect volumes to pick up from FY18. We expect sales volumes to grow at a CAGR of 12.7% over FY16-19E.

Figure: Increase in volumes…



Source: Company; IDBI Capital Research

Figure: …to drive sales growth over FY16-19E

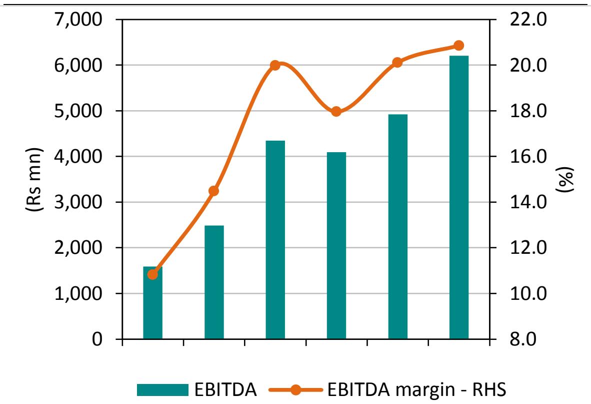


Source: Company; IDBI Capital Research

- **Net profit to grow at a CAGR of 17% over FY16-19E**

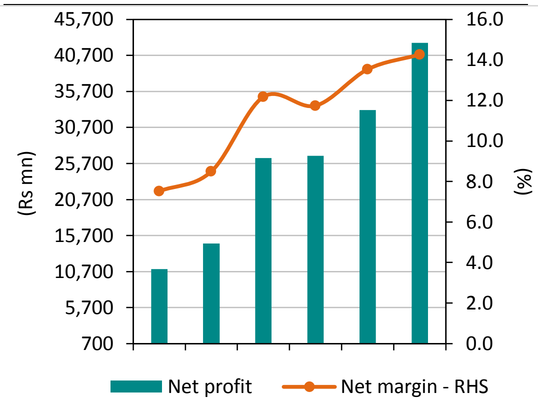
  EBITDA is estimated to grow at a CAGR of 12.6% over FY16-19E mainly due to increase in sales volumes. EBITDA margin is likely to improve ~100 bps over FY16-19E. We expect net profit to grow at a CAGR of 17.0% over FY16-19E.

Figure: EBITDA to grow in-line with top-line



Source: Company; IDBI Capital Research

Figure: Strong growth in net profit



Source: Company; IDBI Capital Research

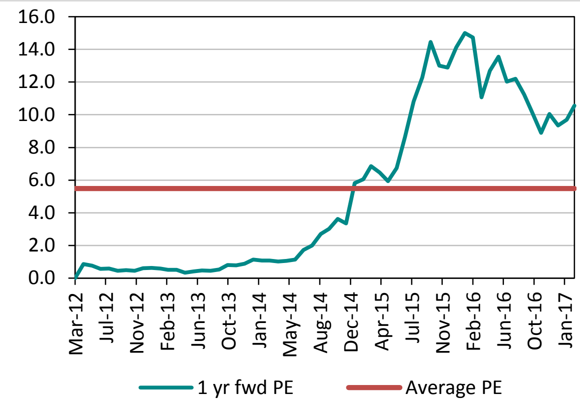
Valuation and Outlook

- **Valuations attractive; Initiate with a BUY**

  We expect Indo Count's revenues/EBITDA/net profit to grow at a CAGR of 11.0%/12.6%/17.0%, respectively over FY16-19. While the company will also commence phase II of its expansion plan to increase its weaving capacity and upgrade spinning capacities, we expect the company to generate strong free cash flows even after meeting this capex.

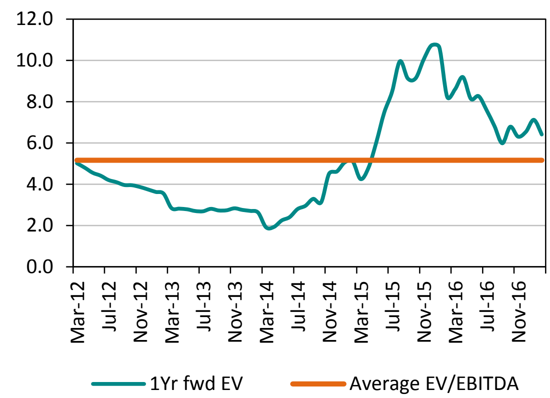
  We believe the Indo Count's stock should trade at a premium over its peers given its high return ratios, low leverage and rising dividend payments. On valuation front, the stock is currently trading at a PE multiple of 9.7x on its FY18E earnings. **We assign a PE multiple of 13.0x to our FY18 EPS estimate of Rs16.8 and derive a target price of Rs218/sh, translating in a 35% upside to the current market price.**

Figure 9: 1-year fwd PE band (x)



Source: Bloomberg; IDBI Capital Research

Figure 10: 1-year fwd EV/EBITDA band (x)



Source: Bloomberg; IDBI Capital Research

Key risks

- Since the company derives significant portion of overseas, any appreciation in rupee vis-à-vis other currencies poses a threat to our earnings estimates.
- Company derives nearly 70% of its sales from the US. Demand slowdown in the US could affect the company's ability to increase sales in the US market.
- The company sells only bed sheets in the home textiles market and hence product concentration is a key risk.
- Sharp rise in price of yarn (key raw material) could affect Indo Count's margins as it may be unable to take timely price hikes.

About the Company

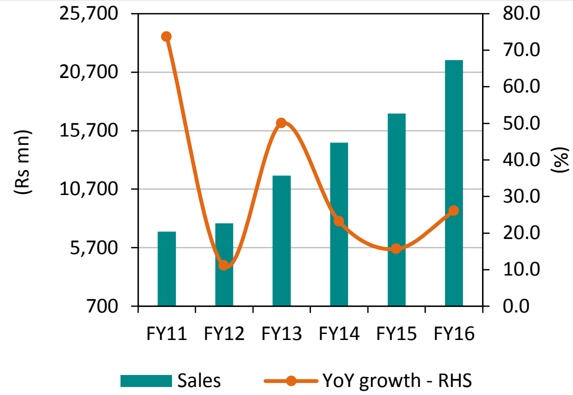
Incorporated in 1988, Indo Count is a focused player on bedding — a niche segment of home textile market. Indo Count is the second largest manufacturer and exporter of bed linen from India; amongst the top three bed sheet suppliers in USA and eleventh largest global home textiles supplier to the US. It exports to more than 54 countries with major revenues derived from the US (the company's largest market); its other markets comprise UK, Canada, Europe, MENA and Australia etc. The company exports to international clients such as Wal-Mart, JC Penny, Target, Bed Bath and Beyond, Macy's, John Lewis, etc. In 2008, Indo Count acquired Pranavaditya Spinning Mills Ltd (a BIFR company).

Table: Indo Count current capacities

Segment	Capacity
Spindles*	80,000
Weaving	9 mn mtrs
Processing	68 mn mtrs

*Source: Company; IDBI Capital Research, * including Pranavaditya*

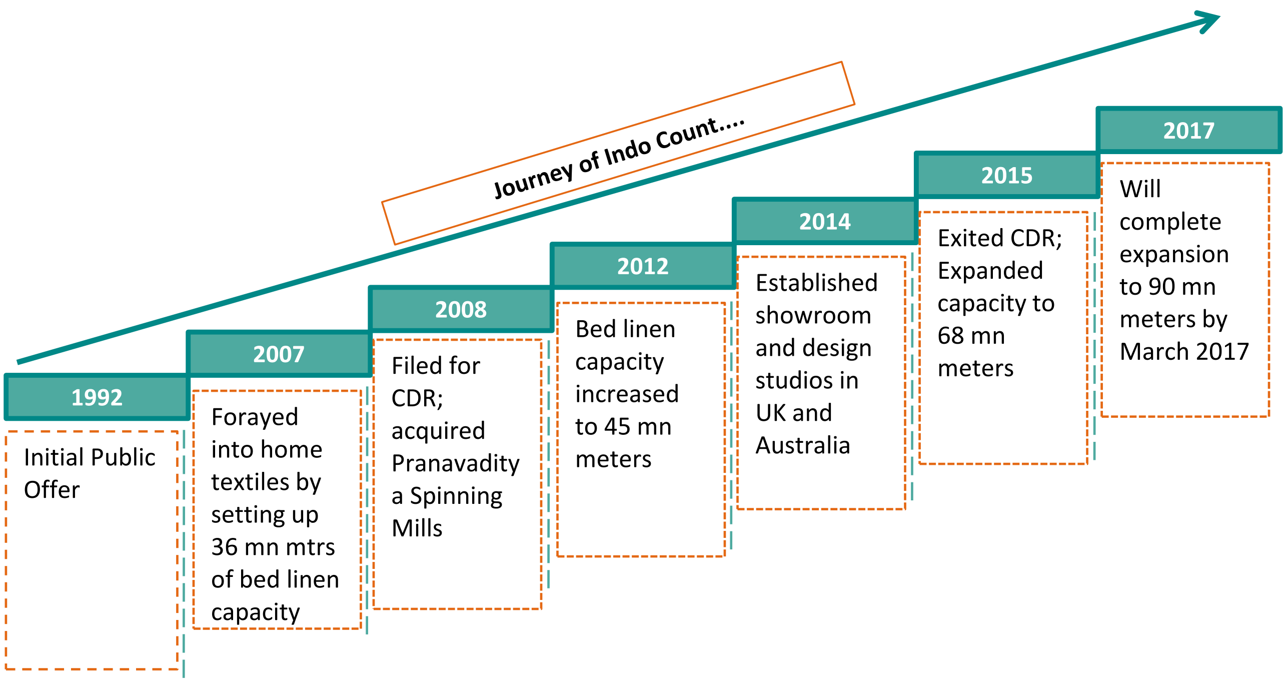
Figure: Sales growth trend



Source: Company; IDBI Capital Research

Initially, the company started manufacturing only yarn. In 2007, the company forayed into the high-margin home textiles business. It acquired Pranavaditya Spinning Mills Ltd. In 2008 increasing its total spindlage to 80,000 spindles and producing 14,000 tons of yarn per year. However, the company's debt-funded expansion plans met with global sub-prime crisis which pushed the company into CDR in 2008. Nevertheless, its business turned around sharply resulting in its exit from CDR in March 2015.

Diagram: Indo Count – Timeline of events



Source: Company

Financial Summary (Consolidated)

Profit & Loss Account (Rs mn)

Year-end: March	FY15	FY16	FY17E	FY18E
Net sales	**17,169**	**21,737**	**22,800**	**24,463**
Growth (%)	*17.0*	*26.6*	*4.9*	*7.3*
Operating expenses	(14,681)	(17,393)	(18,706)	(19,542)
EBITDA	**2,488**	**4,345**	**4,094**	**4,921**
Growth (%)	*56.6*	*74.7*	*-5.8*	*20.2*
Depreciation	(160)	(188)	(311)	(356)
EBIT	**2,328**	**4,156**	**3,783**	**4,564**
Interest paid	(650)	(549)	(390)	(284)
Other income	649	391	602	663
Pre-tax profit	**2,069**	**3,998**	**3,995**	**4,943**
Tax	(611)	(1,351)	(1,318)	(1,631)
Effective tax rate (%)	*29.5*	*33.8*	*33.0*	*33.0*
Net profit	**1,459**	**2,647**	**2,677**	**3,312**
Adjusted net profit	**1,716**	**2,647**	**2,677**	**3,312**
Growth (%)	*55.5*	*54.3*	*1.1*	*23.7*
Shares o/s (mn nos)	*187*	*197*	*197*	*197*

Cash Flow Statement (Rs mn)

Year-end: March	FY15	FY16	FY17E	FY18E
Pre-tax profit	2,069	3,998	3,995	4,943
Depreciation	160	188	311	356
Tax paid	(109)	(1,210)	(1,318)	(1,631)
Chg in working capital	(263)	(1,835)	1,626	(70)
Other operating activities	506	528	(98)	(112)
CF from operations (a)	**2,362**	**1,670**	**4,516**	**3,486**
Capital expenditure	(862)	(1,223)	(844)	(900)
Chg in investments	-	(0)	-	-
Other investing activities	(166)	20	-	-
CF from investing (b)	**(1,028)**	**(1,203)**	**(844)**	**(900)**
Equity raised/(repaid)	11	-	-	-
Debt raised/(repaid)	(528)	(9)	(800)	-
Dividend (incl. tax)	-	(79)	(322)	(576)
Chg in minorities	2	0	-	-
Other financing activities	35	54	-	-
CF from financing (c)	**(479)**	**(34)**	**(1,122)**	**(576)**
Net chg in cash (a+b+c)	**195**	**(212)**	**2,550**	**2,010**

Balance Sheet (Rs mn)

Year-end: March	FY15	FY16	FY17E	FY18E
Net fixed assets	4,030	4,948	5,465	6,008
Investments	0	0	0	0
Other non-curr assets	116	118	133	133
Current assets	**8,273**	**9,529**	**11,703**	**14,273**
Inventories	3,830	4,564	4,402	4,723
Sundry Debtors	1,270	2,058	1,745	1,873
Cash and Bank	508	296	2,846	4,856
Loans and advances	1,912	1,960	1,960	1,960
Total assets	**12,419**	**14,594**	**17,300**	**20,415**
Shareholders' funds	**4,239**	**6,556**	**8,911**	**11,647**
Share capital	420	395	395	395
Reserves & surplus	3,819	6,162	8,516	11,252
Total Debt	**3,430**	**3,421**	**2,621**	**2,621**
Secured loans	3,430	3,421	2,621	2,621
Unsecured loans	-	-	-	-
Other liabilities	393	525	525	525
Curr Liab & prov	**4,300**	**4,035**	**5,186**	**5,565**
Current liabilities	3,592	2,815	3,619	3,883
Provisions	708	1,219	1,567	1,682
Total liabilities	**8,124**	**7,981**	**8,333**	**8,711**
Total equity & liabilities	**12,419**	**14,594**	**17,300**	**20,415**
Book Value (Rs)	**23**	**33**	**45**	**59**

Source: Company; IDBI Capital Research

Financial Ratios

Year-end: March	FY15	FY16	FY17E	FY18E
Adj EPS (Rs)	9.2	13.4	13.6	16.8
Adj EPS growth (%)	58.0	46.0	1.1	23.7
EBITDA margin (%)	14.5	20.0	18.0	20.1
Pre-tax margin (%)	12.1	18.4	17.5	20.2
RoE (%)	48.0	49.0	34.6	32.2
RoCE (%)	31.2	44.5	33.4	33.9
Turnover & Leverage ratios (x)				
Asset turnover	1.5	1.6	1.4	1.3
Leverage factor	3.1	2.5	2.1	1.8
Net margin (%)	10.0	12.2	11.7	13.5
Net Debt/Equity	0.7	0.5	0.0	-0.2
Working Capital & Liquidity ratios				
Inventory days	81	77	70	70
Receivable days	27	35	28	28
Payable days	47	27	33	34

Valuations

Year-end: March	FY15	FY16	FY17E	FY18E
PER (x)	17.6	12.1	11.9	9.7
Price/Book value (x)	7.1	4.9	3.6	2.7
PCE (x)	16.1	11.3	10.7	8.7
EV/Net sales (x)	1.9	1.6	1.4	1.2
EV/EBITDA (x)	13.3	8.1	7.8	6.0
Dividend Yield (%)	0.0	0.2	0.9	1.5

Notes

Dealing	(91-22) 6637 1150	dealing@idbicapital.com

Key to Ratings

Stocks:

BUY: Absolute return of 15% and above; **ACCUMULATE:** 5% to 15%; **HOLD:** Upto ±5%; **REDUCE:** -5% to -15%; **SELL:** -15% and below.

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Analyst Disclosures

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Trident Ltd
BUY

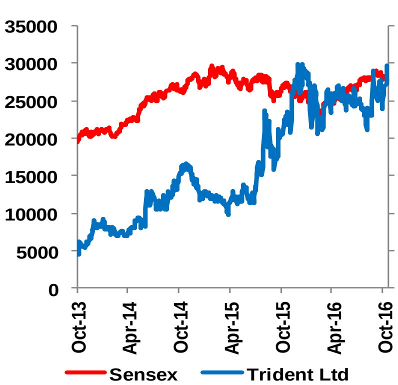
Target Price ₹ 104.4	CMP ₹ 60	FY19E EV/EBITDA 4.5X

Index Details	
Sensex	28,129
Nifty	8,699
Industry	Textiles

Scrip Details	
MktCap (₹ cr)	3,060
BVPS (₹)	33.8
O/s Shares (Cr)	50.9
AvVol	5,66,370
52 Week H/L	62/37.3
Div Yield (%)	1.5
FVPS (₹)	10.0

Shareholding Pattern	
Shareholders	%
Promoters	67.7
Public	32.2
Total	100.0

Trident vs. Sensex



The newly commissioned capacities for manufacturing of terry towel and bed linen are expected to lead to improved product mix in favour of the high margin home textiles. Further the fiasco created over Welspun's product quality has helped Trident secure newer clientele in the fast growing exports of home textiles. Further debottlenecking is expected to enhance paper manufacturing capacities by ~15%. This coupled with the recent spike in realization is expected to boost paper segment revenues which were so far tepid.

As a result we expect overall revenues to grow at a CAGR of 12.1% over FY16-19 from Rs 3,684 cr in FY16 to Rs 5,189 cr by FY19. The higher margins for both business along with lower cost of reprised loan should lead to a exuberant 41.5% CAGR growth in net earnings to Rs 646 cr by FY19 (from 228 cr clocked in FY16).

We initiate coverage on Trident as a BUY with a price objective of Rs 104.4 representing a potential upside of 74% from the CMP of Rs 60. At the CMP of Rs 60 the stock is trading at 4.5X its estimated EV/EBITDA of FY19. We have valued the company using the Sum of the parts (SOTP) methodology and ascribe a value of Rs 104.4 per share. We have valued the textile business at an EV/EBITDA of 5.8X FY19 and the paper business at an EV/EBITDA of 6.5X.

We are optimistic about the company's prospects given that:

- **Globally the retail value of home textiles is expected to reach USD 117.10 billion by 2018 (CAGR of 2.4%) with Asia Pacific growing at a much faster CAGR of 8%.**
- **The Indian home textile industry is expected to expand at a CAGR of 8.3% during 2014–21 to USD8.2 billion in 2021 (from USD4.7 billion in 2014) on the back of increasing spending on premium products, higher per capita income and increasing brand awareness.**

Key Financials (₹ in Cr)

Y/E Mar	Net Sales	EBITDA	PAT	EPS (₹)	EPS Growth (%)	RONW (%)	ROCE (%)	P/E (x)	EV/EBITDA (x)
2016	3,684.0	718.9	228.0	4.5	-	4.2	7.1	11.4	8.3
2017E	4,131.3	914.7	346.9	6.8	52.2	6.9	6.6	8.5	6.5
2018E	4,661.7	1,054.4	468.7	9.2	34.9	13.2	12.2	6.3	5.3
2019E	5,189.4	1,179.2	645.6	12.7	37.6	14.3	18.7	4.6	4.5

STOCK POINTER

- **India's export share in the US towel market has improved at a rampant pace from 30% in 2009 to 39% in 2016 on the back of continuous product innovation by Indian players coupled with a low cost advantage.**

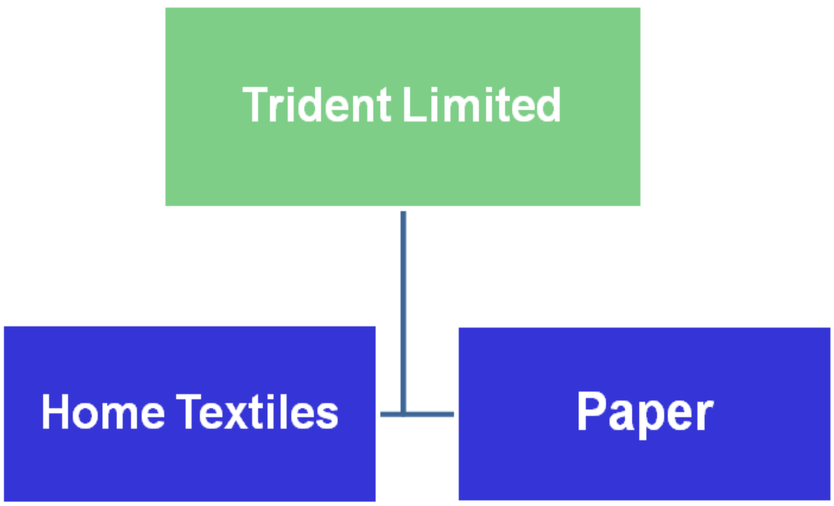
- **India's labor cost in the textile industry ranks amongst the lowest at 1.12$ per hour, slightly higher than Pakistan (0.62$/hr) and Bangladesh (0.62$/hr). China's cost is double that of India at 2.65$/hr which endorses India's long lasting competitiveness in the textile space.**
- **New client additions and an enhanced global footprint are expected to improve the capacity utilization of towels to 57% by FY19 from the current 41%. The capacity utilization of the nascent bedsheet segment is expected to ramp up smartly to 70% by FY19**
- **The company has planned to undertake a debottlenecking exercise which will enhance its capacity by ~15%. This enhanced capacity along with an improved product mix in favor of the high value Copier paper (65% in FY19 from 53% in Q1 FY17) is expected to lead to a resurgent growth trajectory**

❖ Company Background

Trident is not only one of the largest towel manufacturers of the world, but also one of the world's largest agro-based paper manufacturers. Trident caters to all segments of the market - brands, department stores, home specialty chains, mass merchants and institutional customers. Trident's clientele comprises stalwarts of the retail world in the US, Europe, Australia and New Zealand. The company is also making significant inroads into the markets in Japan, Middle East and South Africa.

The operations of the company are segregated into four main segments viz. Yarns, Terry Towels, Bed Sheets and Paper

Highlights of Trident



Home Textiles

- ✓ **One of the World's largest integrated home textile manufacture**
- ✓ **World's largest integrated terry towel manufacturer**

Paper

- ✓ **World's largest wheat straw based paper manufacturer**
- ✓ **Eco Friendly technology**
- ✓ **Market leader in agro based branded copier paper**

Source: Trident, Ventura Research

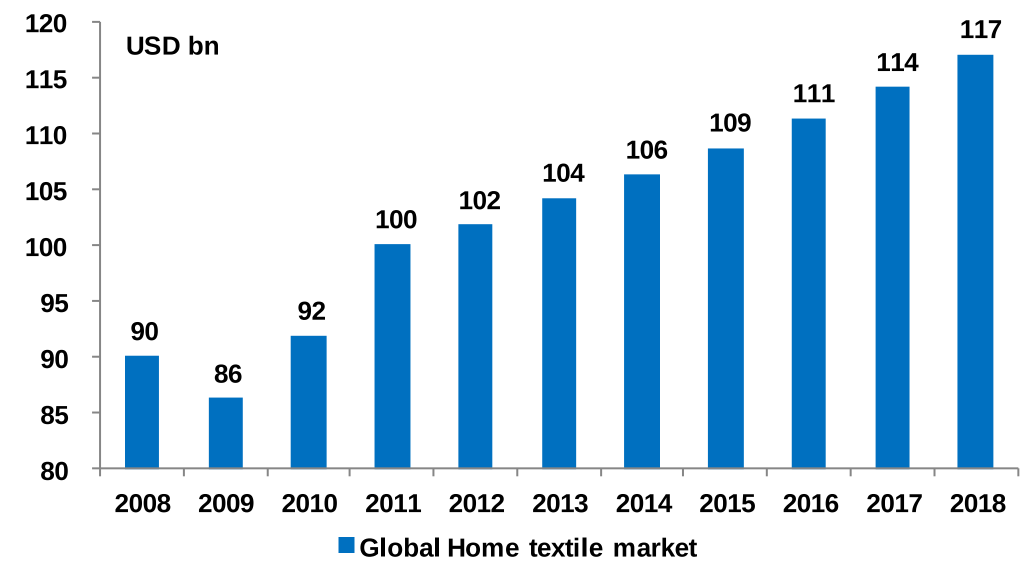
❖ Key Investment Highlights

➢ Strong global outlook for home textiles augurs well for Trident

According to Euromonitor the world-wide home textile market grew from 2008 to 2013 at a CAGR of 2.9% totaling USD 104 billion (retail value). The main driver of this development was Asia Pacific with an impressive CAGR of 9.5% over the same period. However the regions of Western and Eastern Europe recorded negative growth rates. The forecast for the next five years looks similar. Globally the retail value of home textiles is expected to reach USD 117.10 billion (CAGR of 2.4%) in 2018.

The highest increase will take place in Asia Pacific with a CAGR of 8%.

Stable growth expected in global home textiles

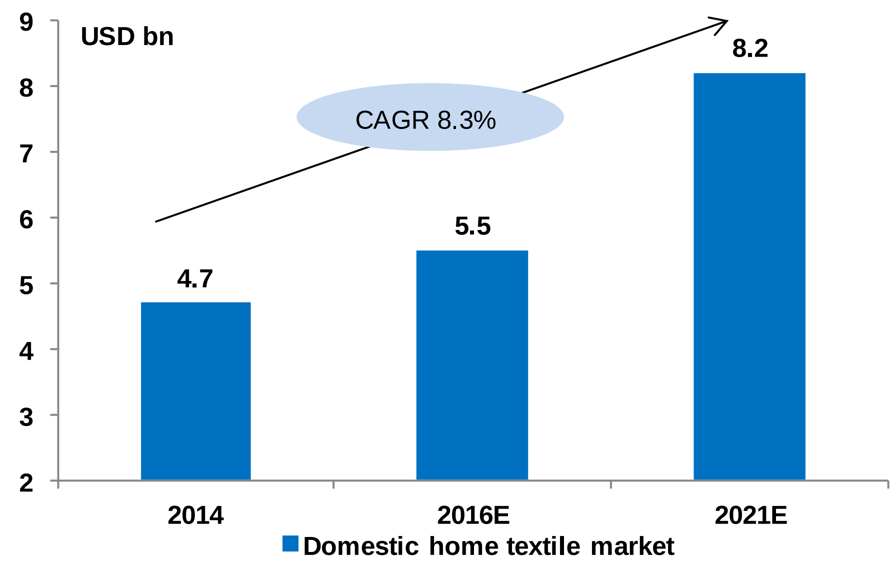


Source: Euromonitor, ITMF, Ventura Research

Domestic home textile market to grow at 4X global growth

The Indian home textile industry is expected to expand at a CAGR of 8.3% during 2014–21 to USD8.2 billion in 2021 (from USD4.7 billion in 2014) on the back of increasing spends on premium products, higher per capita income and increasing brand awareness.

India's home textiles to grow at 4X global growth

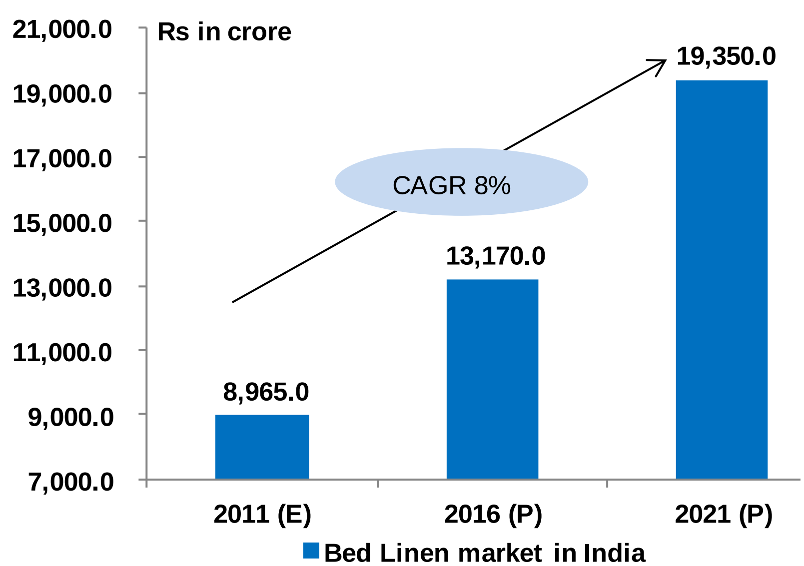


Source: IBEF, Ventura Research

Bed linen and towel market growth trajectory heading higher

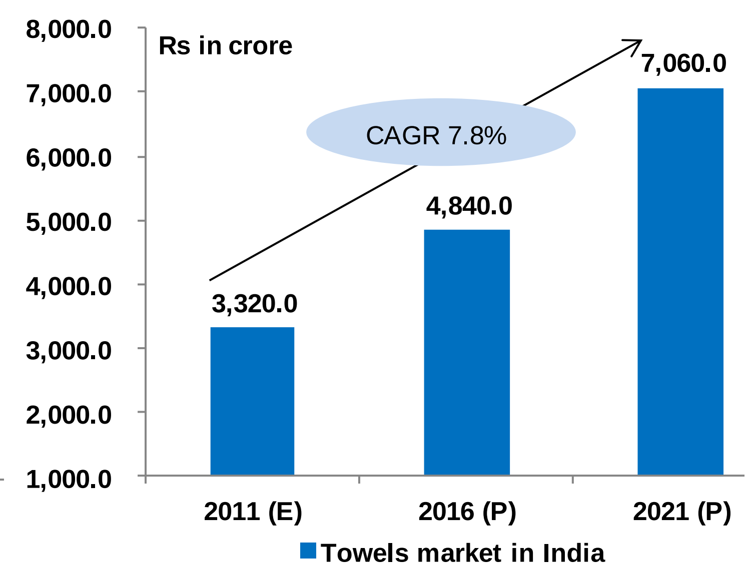
The Indian bed linen and towel market is set to flourish over the next few years on the back of innovative product offerings and improving consumer spends on personalized products. The Bed linen market is set to grow at a CAGR of 8% from Rs 8,965 crore in 2011 to Rs 19,350 crore by 2021. Similar growth prospects could be seen in the towels market which is expected to grow from Rs 3,320 cr in 2011 to Rs 7,060 cr in 2021.

Good growth potential for bed linen in India



Source: Technopak, Ventura Research

Towel market seen heading higher



Source: Technopak, Ventura Research

➢ Growth trajectory of India's export share to US home textile market set to continue

Dominant share in US towel market continues to improve

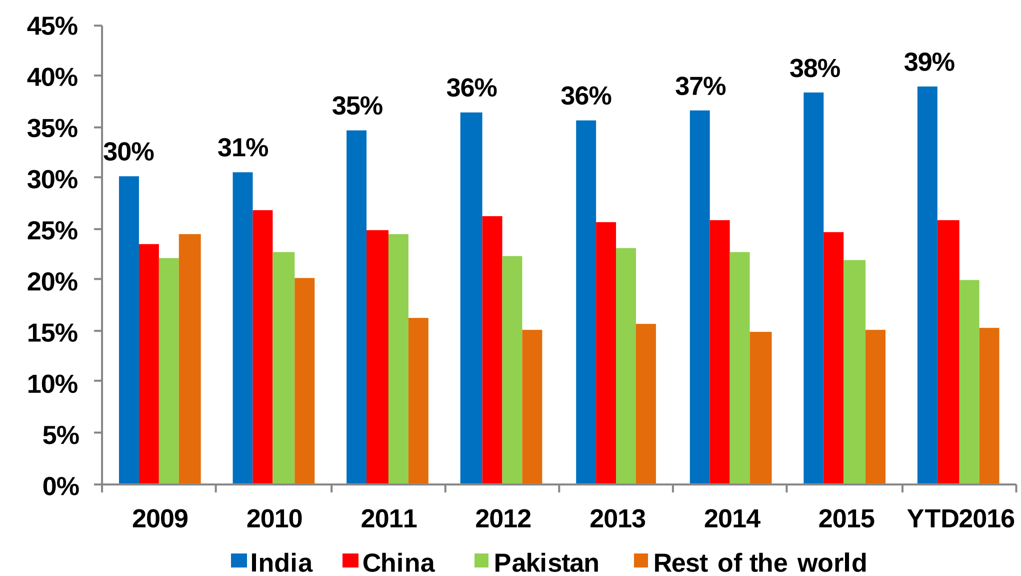
India's export share in the US towel market has improved at a rampant pace from 30% in 2009 to 39% in 2016 on the back of continuous product innovation by Indian players coupled with the low cost advantage.

China on the other hand lost its market share by 1% to 26% in 2016. Major reasons attributable to China's dismal show are

- the revised textile policy by the Chinese Government in 2011 which arrested home textile exports,
- continuous upturn in labor and power cost,
- growing domestic consumption etc.

Pakistan's share has been on a decline since 2014 due to unstable business conditions and the geopolitical risk associated with Pakistan.

India has a dominant market share in the US towel market

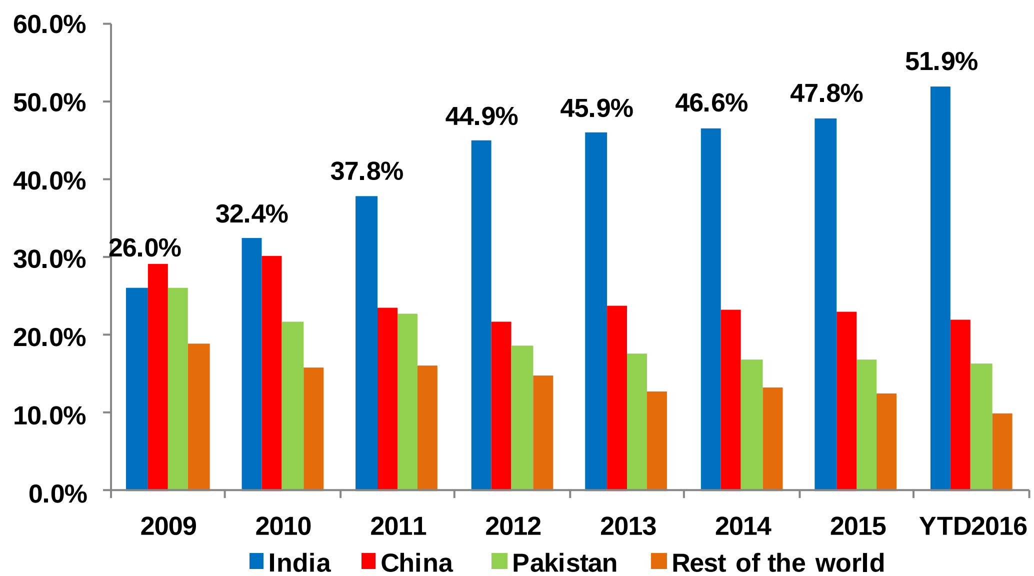


Source: Otexa, Ventura Research

Lion's share in US sheet market set to gain further

The US bedsheet market has been largely dominated by Indian exports wherein, the share of India's export has doubled from 26% in 2009 to 52% in 2016. India has largely gained share at the cost of Pakistan losing its market share from 26% in 2009 to 16% in 2016 largely due to quality issues. India's dominant position in the sheet market is well proven as the 2nd largest economy China has also degrown substantially wherein its market share has reduced from 29% in 2009 to 22% in 2016.

India's moonshot leap in the US sheet market



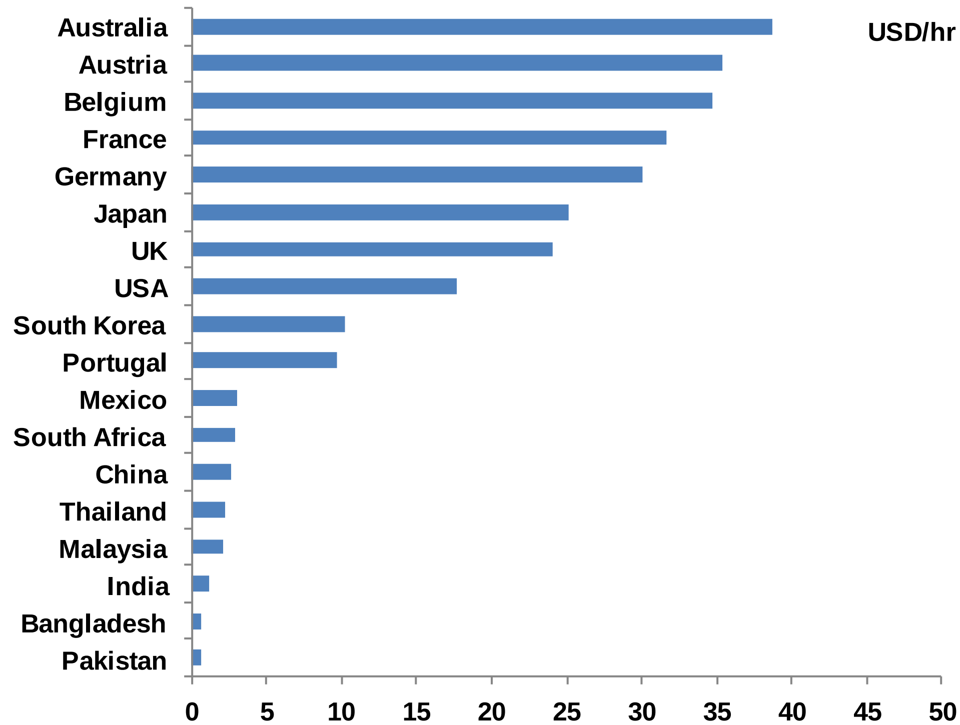
Source: Otexa, Ventura Research

India's cost competiveness to pave the way for further market share improvement….

India is well poised to make long-term gains from the matured US home textiles market. Importers of home textiles are also concerned about the geopolitical risk associated with Pakistan and Bangladesh (major competitors for India). These factors have given a fillip to India as a more stable alternative to China and Pakistan.

In case the most favoured nation (MFN) status of Pakistan to Europe is withdrawn due to India's political posturing, we could see our exports to Europe pick up substantially.

India has one of the lowest labor cost in global home textiles



Source: Werner Intl, Ventura Research

As per Werner International hourly labour cost of textile industry 2014 report, India's labor cost in the textile industry ranks amongst the lowest at 1.12$ per hour, slightly higher than Pakistan(0.62$/hr) and Bangladesh(0.62$/hr). China's cost is double that of India at 2.65$/hr which endorses India's long lasting competitiveness in the textile space.

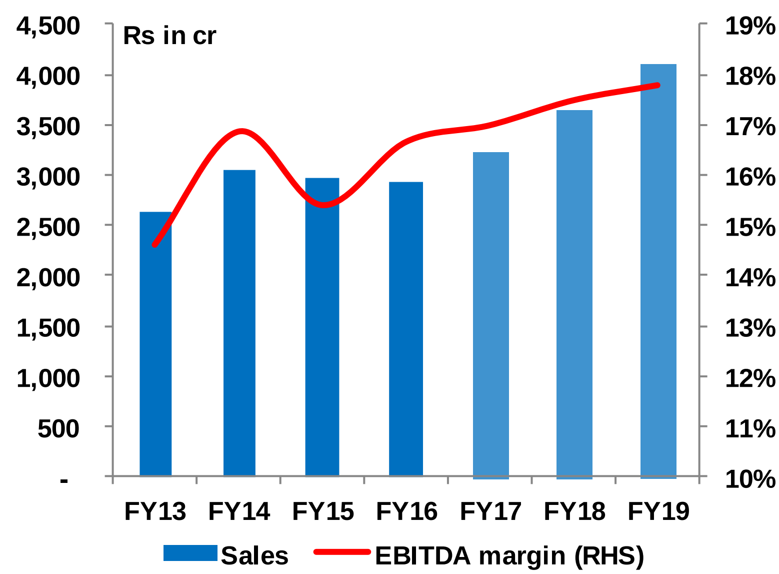
➢ New capacities and value added products to bolster growth trajectory for Trident's textile segment

Over the period FY12-16, revenue from the textile segment has grown at a CAGR of 8.7%. This is all set to change as the utilization of its recently commissioned plant improves and contribution from value added home textile products increases. We expect Trident to clock a revenue CAGR of 11.8% in its textiles segment from Rs 2,925 cr in FY16 to Rs 4,093 cr by FY19.

EBITDA from the textile business is expected to grow at a CAGR of 14.3% over FY16-19 from Rs 488 cr in FY16 to Rs 729 cr in FY19. EBITDA margin is expected to rise to 17.8% in FY19 from the existing 16.7% clocked in FY16 led by

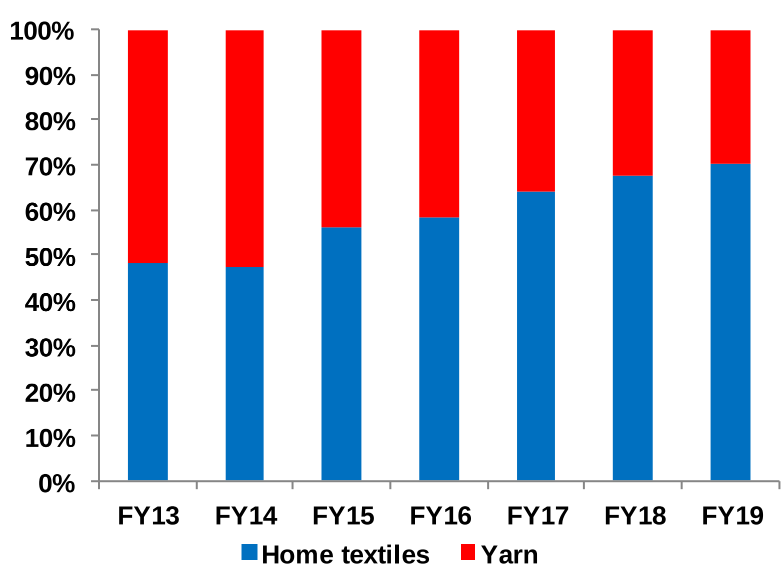
1. Introduction of bed linen to its textile portfolio
2. Higher share of home textiles in revenues

Strong revenue growth on the cards



Source: Trident Ltd, Ventura Research

Shift in product mix in favour of home textiles

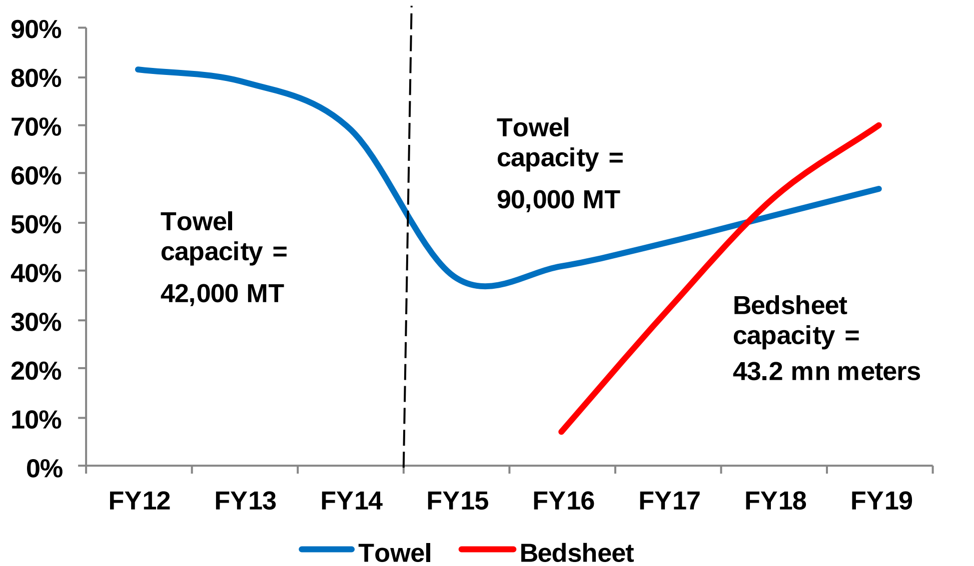


Source: Trident Ltd, Ventura Research

Steady capacity utilization across product stream

New client additions and an enhanced global footprint are expected to improve the capacity utilization of towels to 57% by FY19 from the current 41%. The capacity utilization of the nascent bedsheet segment is expected to ramp up smartly to 70% by FY19.

Steady utilization going forth



Source: Trident Ltd, Ventura Research

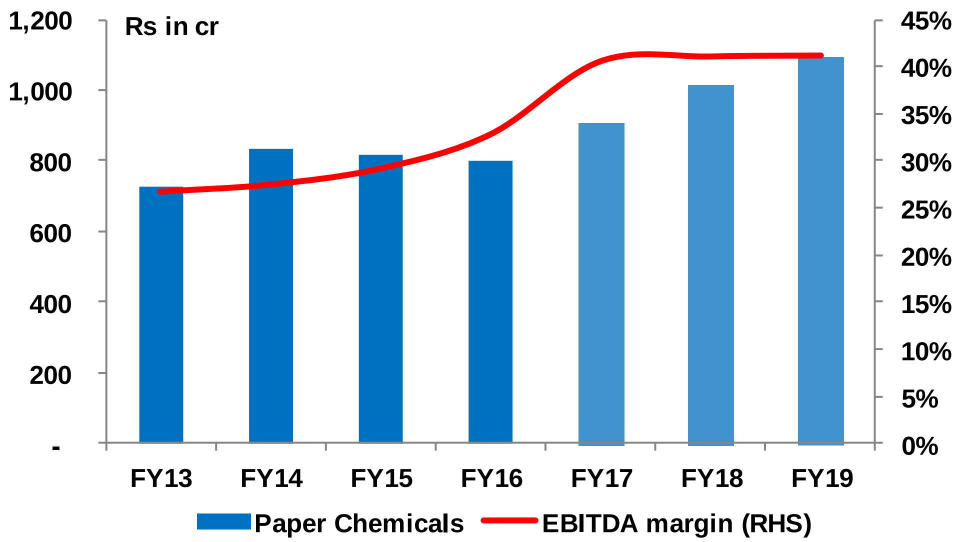
➢ Promising growth in the paper business

Trident's highly profitable paper business revenues have grown at a tepid 5.3% CAGR over FY12-16 given the capacity constraints. Current utilization stands at 93%. The company has planned to undertake a debottlenecking exercise which will enhance its capacity by ~15%. This enhanced capacity along with an improved product mix in favor of the high value Copier paper (65% in FY19 from 53% in Q1 FY17) is expected to lead to a resurgent growth trajectory. We expect revenues from the paper division to grow at a CAGR of 11.0% from Rs 802 cr in FY16 to Rs 1,096 cr by FY19.

Paper margin set to improve

Trident enjoys the highest EBITDA margins in the paper business as the company uses agri waste (wheat straw) to manufacture paper. It also enjoys a location advantage as it procures the raw material from a source that is within a 50 kilometers radius of its production. This helps Trident to obtain raw material at a much better rate. EBITDA margins are expected to gain 830 bps from 32.8% in FY16 to 41.1% by FY19.

Steady growth in Paper business revenue

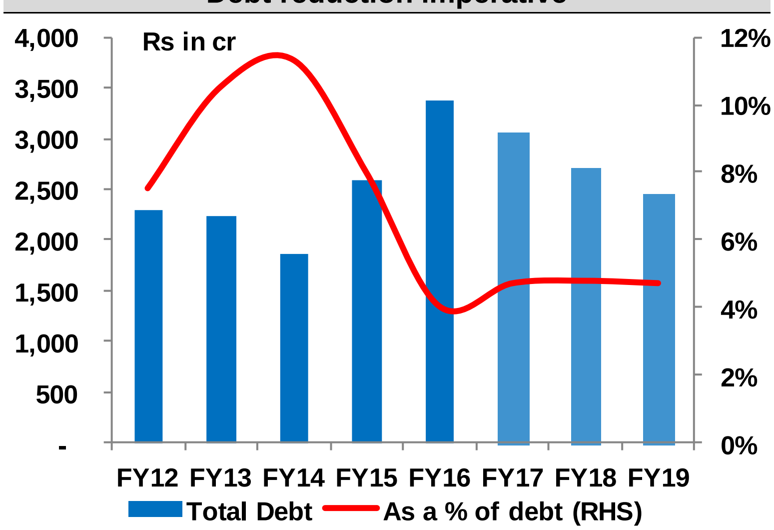


Source: Trident Ltd, Ventura Research

➢ Cut down in high cost debt to pare finance cost

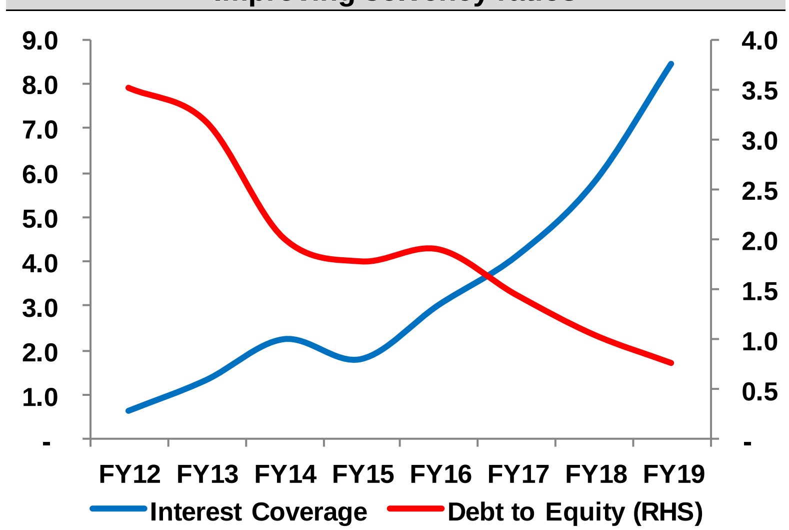
During the first quarter, Trident repaid outstanding term loans of Rs. 156 crore including high cost debt of Rs. 54 crore (out of the total loan of Rs 3,368 cr as on March 2016). Post this repayment; more than 70% of long-term debt carries lower interest rates as it is covered under the TUF scheme. The management expects to repay the high cost term debt ahead of their repayment schedule. This will not only strengthen the balance sheet but also help reduce the overall interest costs. We expect the consolidated debt to reduce to Rs 2,450 cr by FY19, while finance costs are expected to plunge to Rs 116 cr by FY19 from Rs 136 cr reported in FY16.

Debt reduction imperative



Source: Trident Ltd, Ventura Research

Improving solvency ratios



Source: Trident Ltd, Ventura Research

❖ Financial Performance

The company reported robust growth in its topline as well as bottomline numbers during Q1 FY17. Net Sales grew by 32.1% YoY to Rs 1,155 cr from Rs 874.4 cr in Q1 FY16 on the back of stupendous volume growth in the home textile segment (~40%). EBITDA rose 24.1% YoY to Rs 247.1 crore in Q1 FY17 as compared to to Rs 199.1 crore reported in Q1 FY16. EBITDA margins fell 154 bps from 22.3% in Q1 FY16 to 20.7% in Q1 FY17. PAT jumped 26.1% YoY to Rs 78.4 cr.

For FY16, Trident's net sales stood at Rs 3,684 crore registering a degrowth of 2% YoY. However EBITDA gained 8.8% YoY to Rs 718.9 cr on the back of a 190 bps improvement in margins. PAT jumped 93.5% YoY to Rs 228.3 cr in FY16 from 118 cr in FY15.

Consolidated Quarterly Financial Performance (Rs crores)

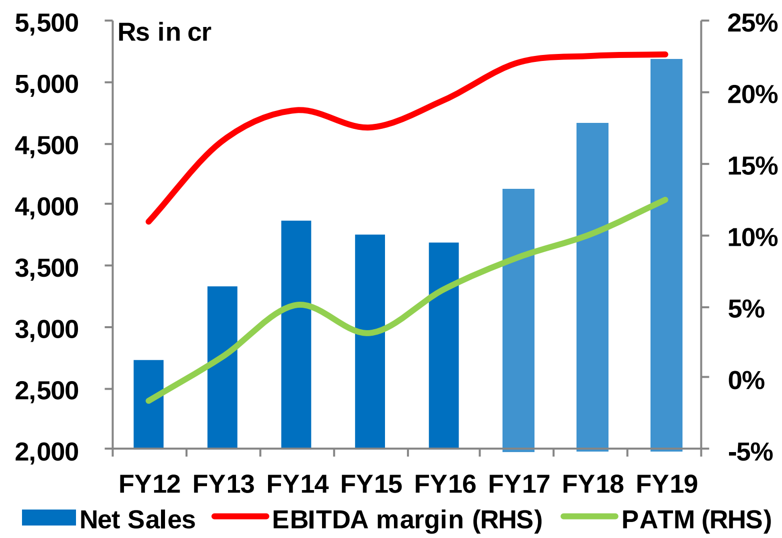
Particulars	Q1FY17	Q1FY16	FY16	FY15
Net Sales	**1,155.0**	**874.4**	**3,684.0**	**3,755.3**
Growth (%)	*32.1*		*(1.9)*	
Total expenditure	907.8	675.3	2,965.1	3,094.6
EBITDA	**247.1**	**199.1**	**718.9**	**660.8**
Margin (%)	*21.4*	*22.8*	*19.5*	*17.6*
Depreciation	103.5	81.3	337.6	321.3
EBIT (Ex. OI)	143.7	117.9	381.3	339.5
Non-Operating Income	5.4	1.8	31.7	34.5
EBIT	**149.0**	**119.7**	**413.0**	**373.9**
Margin (%)	*12.9*	*13.7*	*11.2*	*10.0*
Finance Cost	41.6	44.5	136.4	206.0
Exceptional Items	-	-	-	-
PBT	**102.1**	**73.4**	**276.9**	**168.0**
Margin (%)	*8.8*	*8.4*	*7.5*	*4.5*
Provision for Tax	23.6	11.2	48.6	50.0
Profit after Tax	**78.5**	**62.2**	**228.3**	**118.0**
Margin (%)	*6.8*	*7.1*	*6.2*	*3.1*

Source: Trident, Ventura Research

❖ Financial Outlook

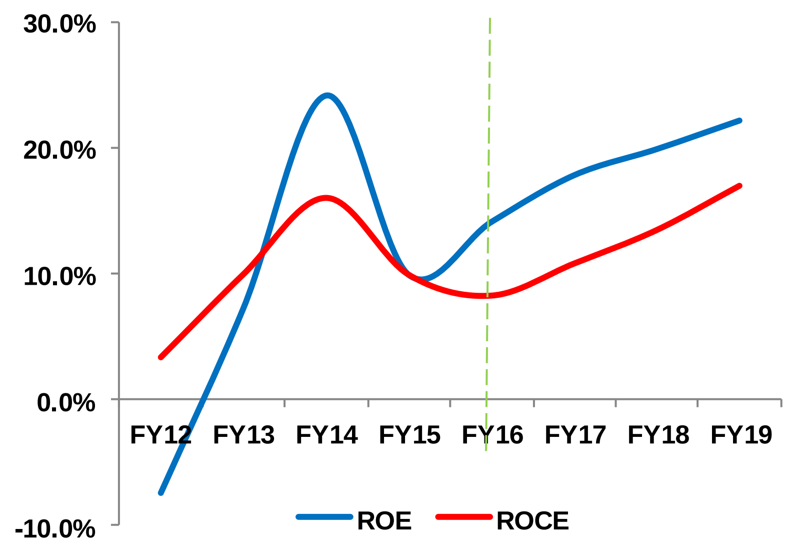
The Revenue growth trajectory is expected to continue going forward as Trident has launched bed linen in FY16 which is expected to be the next growth trigger. We expect overall revenues to grow at a CAGR of 12.1% over FY16-19 to 5,189 cr from 3,684 cr reported in FY16. Consolidated net earnings are expected to grow at a boisterous CAGR of 41.5% from Rs 228 cr in FY16 to Rs 646 cr in FY19 on the back of lower finance costs and higher operating efficiencies. The EBITDA and PAT margin are expected to reach to 22.7% and 12.4% respectively.

Strong revenue growth visible



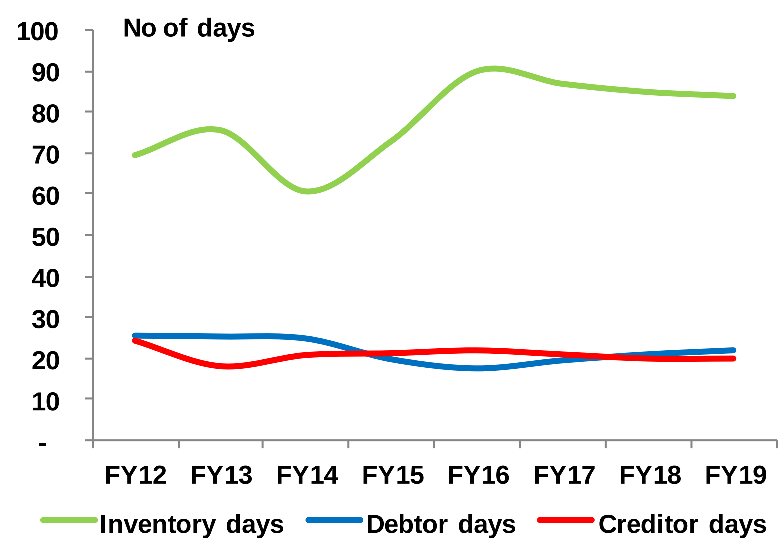
Source: Trident, Ventura Research

Stable return ratios going forth



Source: Trident, Ventura Research

Working capital cycle to stabilize



Source: Trident, Ventura Research

❖ Key Risk

The key risks to Trident are the currency risks and cotton prices risk. The risk of cotton price movement has been hedged to a large extent as the company has already stocked cotton upto September and it expects cotton prices to cool off soon as the new cotton harvest comes in. Also, when cotton prices increase, Trident uses less cotton and produces higher count products which have resulted in savings of 3-4% in the past.

❖ Valuation

We initiate coverage on Trident as a BUY with a price objective of Rs 104.4 representing a potential upside of 74% from the CMP of Rs 60. At the CMP of Rs 60 the stock is trading at 4.6X its estimated earnings for FY19.

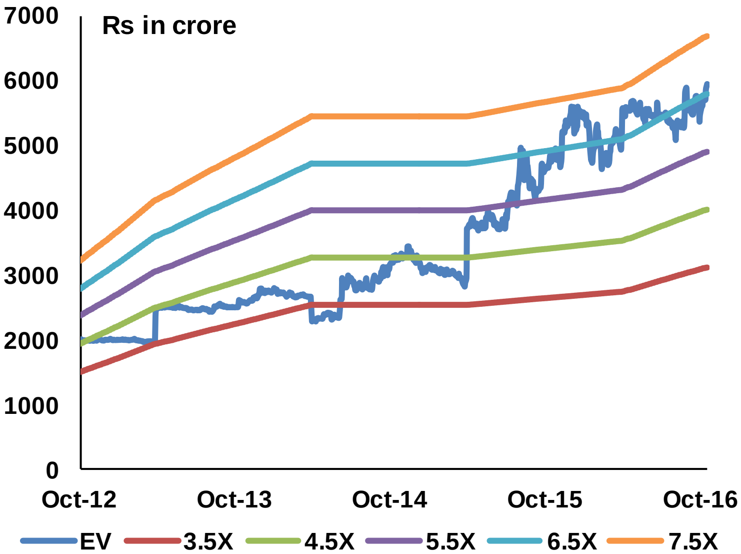
We have valued the company using the Sum of the parts (SOTP) methodology and ascribe a value of Rs 104.4 per share. We have valued the textile business at an EV/EBITDA of 5.8X FY19 and the paper business at an EV/EBITDA of 6.5X.

SOTP valuation matrix

Trident SOTP Valuation	Basis	Multiple	EV (Rs in cr)
Textiles Business	FY19E EBITDA - Rs 728.6 cr	5.8 X	4225.8
Paper Business	FY19E EBITDA - Rs 450.4 cr	6.5 X	2927.3
Total EV			7,153.1
Less: FY18 Debt			(2,450.1)
Add: FY18 Cash			619.0
Market Capitalisation			5,322.0
No of shares outstanding			51.0
Total value per share			104.4
CMP			58.0
Potential upside			80.1%

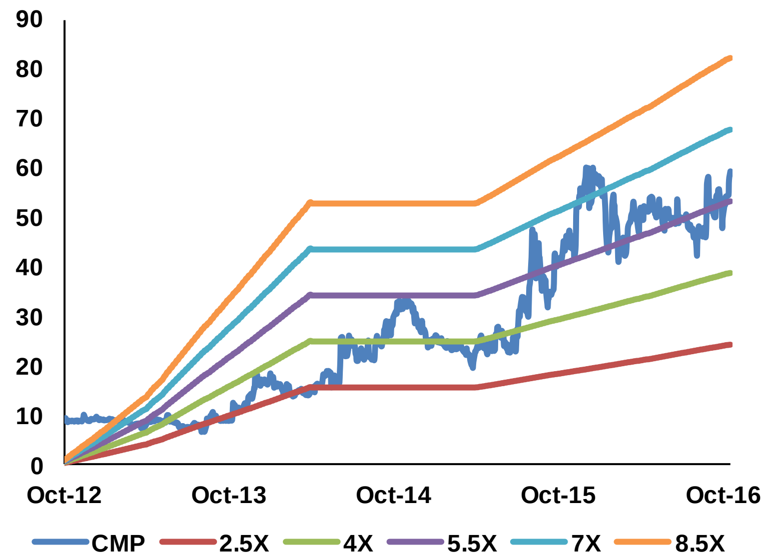
Source: Trident, Ventura Research

1 Yr Fwd EV/EBITDA Band



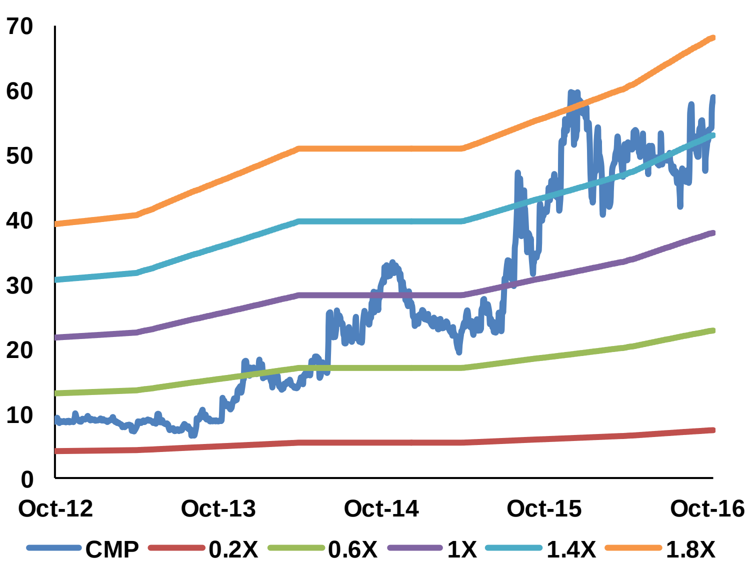
Source: Trident Ltd, Ventura Research

1 Yr Fwd P/E Band



Source: Trident Ltd, Ventura Research

1 Yr Fwd P/B Band



Source: Trident Ltd, Ventura Research

Financials and Projections

Y/E March, Fig in ₹ Cr	FY16	FY17E	FY18E	FY19E
Profit & Loss Statement				
Net Sales	**3684.0**	**4131.3**	**4661.7**	**5189.4**
% Chg.	*-1.9*	*12.1*	*12.8*	*11.3*
Total Expenditure	2965.1	3216.6	3607.3	4010.2
% Chg.	*-4.2*	*8.5*	*12.1*	*11.2*
EBDITA	718.9	914.7	1054.4	1179.2
EBDITA Margin %	*19.5*	*22.1*	*22.6*	*22.7*
Other Income	31.7	35.5	40.1	44.6
PBDIT	**750.6**	**950.2**	**1094.5**	**1223.8**
Depreciation	337.6	354.9	348.0	247.0
Interest	136.4	144.6	129.6	115.9
Exceptional items				
PBT	**276.6**	**450.7**	**616.9**	**860.9**
Provision for tax	48.6	103.8	148.1	215.3
Reported PAT	**228.0**	**346.9**	**468.7**	**645.6**
Minority Interest				
PAT	**228.0**	**346.9**	**468.7**	**645.6**
PAT Margin (%)	*6.2*	*8.4*	*10.1*	*12.4*
RM % of Sales	*47.1*	*46.2*	*45.2*	*44.7*
Employee cost % of sale	*11.8*	*11.3*	*11.4*	*11.4*
Balance Sheet				
Share Capital	569.4	569.4	569.4	569.4
Reserves & Surplus	1209.5	1557.0	2026.1	2672.1
Minority Interest				
Long Term Borrowings	2136.5	1900.0	1700.0	1550.0
Deferred Tax Liability	172.7	198.9	212.5	229.8
Other Non Current Liabilities	243.3	250.0	263.0	270.0
Total Liabilities	**4331.3**	**4475.4**	**4771.0**	**5291.3**
Gross Block	6163.4	6400.0	6600.0	6700.0
Less: Acc. Depreciation	2333.1	2688.0	3036.0	3283.0
Net Block	3830.2	3712.0	3564.0	3417.0
Capital WIP	61.6	56.0	55.0	50.0
Other Non Current Assets	73.9	73.9	73.9	73.9
Net Current Assets	-60.1	203.7	598.4	1200.7
Long term Advances	425.7	430.0	480.0	550.0
Total Assets	**4331.3**	**4475.4**	**4771.0**	**5291.3**

Y/E March, Fig in ₹ Cr	FY16	FY17E	FY18E	FY19E
Per Share Data (Rs)				
Adj. EPS	4.5	6.8	9.2	12.7
Cash EPS	11.1	13.8	16.1	17.6
DPS				
Book Value	34.9	41.7	51.0	63.6
Capital, Liquidity, Returns Ratio				
Debt / Equity (x)	1.9	1.4	1.0	0.8
Current Ratio (x)	1.0	1.1	1.4	1.9
ROE (%)	14.1	17.8	19.9	22.1
ROCE (%)	8.3	10.8	13.5	17.0
Dividend Yield (%)				
Valuation Ratio (x)				
P/E	11.4	8.5	6.3	4.6
P/BV	1.5	1.4	1.1	0.9
EV/Sales	1.6	1.4	1.2	1.0
EV/EBIDTA	8.3	6.5	5.3	4.5
Efficiency Ratio (x)				
Inventory (days)	90.1	87.0	85.0	84.0
Debtors (days)	17.5	19.5	21.0	22.0
Creditors (days)	22.0	21.0	20.0	20.0
Cash Flow Statement				
Profit Before Tax	**93.4**	**246.7**	**448.4**	**534.8**
Depreciation	61.2	67.4	69.4	71.4
Working Capital Changes	110.6	-197.4	-238.4	-296.0
Others	0.0	0.0	0.0	0.0
Operating Cash Flow	**265.2**	**116.7**	**279.4**	**310.2**
Capital Expenditure	-101.6	-12.0	-50.0	-50.0
Other Investment Activities	0.0	0.0	0.0	0.0
Cash Flow from Investing	**-101.6**	**-12.0**	**-50.0**	**-50.0**
Changes in Share Capital	0.0	0.0	0.0	0.0
Changes in Borrowings	-102.8	-67.5	-60.0	-60.0
Dividend and Interest	-67.1	-57.6	-51.8	-53.8
Cash Flow from Financing	**-169.9**	**-125.2**	**-111.8**	**-113.8**
Net Change in Cash	**-6.3**	**-20.5**	**117.6**	**146.4**
Opening Cash Balance	251.4	245.5	225.0	342.0
Closing Cash Balance	**245.1**	**225.0**	**342.6**	**488.4**

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Independent Equity Research

Enhancing investment decisions

Trident Ltd

Q3FY17 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

February 14, 2017

Increased penetration in new geographies is a positive

Fundamental Grade: 3/5 (Good fundamentals) **Valuation Grade:** 5/5 (CMP has strong upside)

Industry: Textiles and Paper **Fair Value:** ₹93 **CMP:** ₹71

Trident Ltd's Q3FY17 revenue and earnings were in line with CRISIL Research's expectations. Revenue increased 25.9% y-o-y to ₹11,257 mn, led by strong offtake in the textile segment. EBITDA margin expanded 53 bps y-o-y to 20.1% owing to higher share of value-added products in the paper segment. The company's continuous efforts to retire high cost debt kept finance charges in check and, therefore, adjusted PAT increased 26% y-o-y to ₹786 mn. Going forward, owing to the company's concerted efforts in marketing products overseas, and widening store presence and the product portfolio in the domestic market, utilisation levels are expected to rise. Further, favourable growth outlook in the domestic and the US markets is expected to drive volume growth. We maintain our fundamental grade of **3/5**.

Home textiles: Growth was volume driven; momentum to continue

The home textile segment's revenue increased 30% y-o-y to ₹9.2 bn in Q3FY17. Cotton yarn posted volume growth of 14% y-o-y and terry towel – 24% y-o-y. EBITDA increased 28.6% y-o-y owing to higher volume growth. In the bed linen segment, the company increased its ratio of processed to non-processed fabric and, as a result, realisations jumped 15% q-o-q. We expect utilisation of terry towels to increase to 60% in FY18 from 40% in FY16 and bed linen to 55-60% in FY18, supported by concerted efforts to increase penetration in new geographies and strengthening presence in existing regions. Accordingly, we factor in revenue contribution of ₹38.2 bn in FY17 and ₹43.9 bn in FY18.

Paper: Increased realisations aided performance; copier segment to sustain growth

The paper segment's revenue increased 11% y-o-y to ₹2.2 bn led by 9% y-o-y growth in realisations. Higher share of branded copier paper (~50%) aided revenue growth. However, growth is expected to be moderate over FY16-18, primarily owing to expected increase in competition following excess supply.

Volume growth to drive revenue; EBITDA margin to remain range bound

As envisaged earlier, revenue is expected to grow at 19.3% CAGR over FY16-18 to ₹52.6 bn owing to superior volume growth, especially in home textiles. While the higher share of value-added products is expected to aid margin expansion, a rise in cotton prices should keep margin range bound at 20-20.5%.

Retirement of high cost debt is a positive

Over the past three quarters, the company repaid debt of ~₹4,450 mn, including prepayment of ~₹1,600 mn. Free cash flow generation is expected to lead to further repayment of high cost debt in the following quarters. This is expected to bring down the debt-to-equity ratio to 1.2x by FY18 from 2.0x in FY16. As a result, PAT is expected to grow at a CAGR of 35.5% over FY16-18 to ₹4.2 bn in FY18.

Increase fair value to ₹93 per share

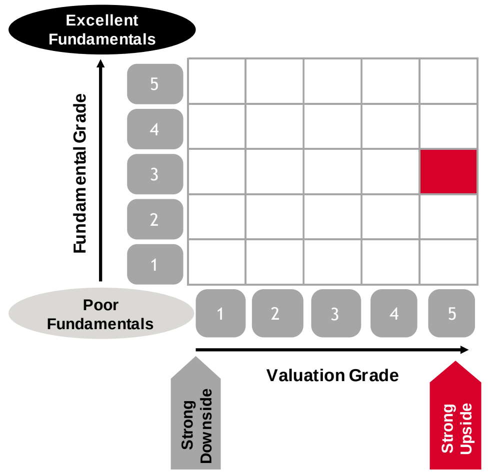
We maintain our FY17 and FY18 estimates. We continue to value Trident by the discounted cash flow (DCF) method, and have rolled forward our estimates by one year to FY19. Subsequently, we have raised our fair value to ₹93 per share from ₹80. At the current market price of ₹71, our valuation grade is **5/5**.

KEY FORECAST - CONSOLIDATED

(₹ mn)	FY15	FY16	FY17E	FY18E	FY19E
Operating income	37,626	36,952	46,611	52,565	57,407
EBITDA	6,762	7,303	9,318	10,718	11,706
Adj net income	1,153	2,222	3,349	4,197	4,768
Adj EPS (₹)	2.4	4.5	6.6	8.2	9.4
Dividend yield (%)	0.8	1.3	2.0	2.9	3.3
RoCE (%)	10.4	8.5	10.5	13.5	15.3
RoE (%)	9.7	14.0	18.2	19.9	19.6
PE (x)	29.5	15.8	10.8	8.6	7.6
P/BV (x)	2.3	2.0	1.8	1.6	1.4
EV/EBITDA (x)	8.9	9.5	7.2	5.8	5.0

Source: Company, CRISIL Research estimates

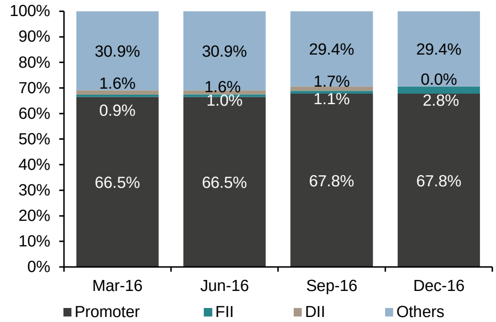
CFV MATRIX



KEY STOCK STATISTICS

NIFTY/SENSEX	8792/28339
NSE/BSE ticker	TRIDENT/TRIDENT
Face value (₹ per share)	10
Shares outstanding (mn)	509.6
Market cap (₹ mn)/(US$ mn)	36,690/548
Enterprise value (₹ mn)/(US$ mn)	69,553/1039
52-week range (₹)/(H/L)	73/37
Beta	1.2
Free float (%)	32.2%
Avg daily volumes (30-days)	31,14,187
Avg daily value (30-days) (₹ mn)	189.5

SHAREHOLDING PATTERN



PERFORMANCE VIS-À-VIS MARKET

	Returns			
	1-m	3-m	6-m	12-m
Trident	8%	30%	50%	73%
NIFTY 500	6%	7%	4%	31%

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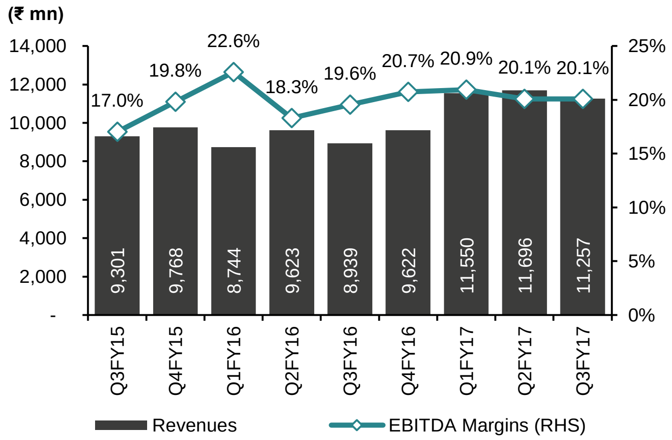
CRISIL Independent Equity Research reports are also available on Bloomberg (CRI <go>) and Thomson Reuters.

Q3FY17 results summary - Consolidated

(₹ mn)	Q3FY17	Q2FY17	Q3FY16	q-o-q (%)	y-o-y (%)	9MFY17	9MFY16	y-o-y (%)
Net sales (net of excise)	**11,257**	**11,696**	**8,939**	**-3.8%**	**25.9%**	**34,502**	**27,253**	**26.6%**
Raw materials cost	5,364	5,524	4,290	-2.9%	25.0%	16,383	12,863	27.4%
Raw materials cost (% of net sales)	47.7%	47.2%	48.0%	42bps	-34bps	47.5%	47.2%	28bps
Employee Cost	1,447	1,462	1,038	-1.0%	39.4%	4,254	3,081	38.0%
Other Expenses	2,186	2,361	1,863	-7.4%	17.3%	6,838	5,830	17.3%
EBITDA	**2,260**	**2,349**	**1,748**	**-3.8%**	**29.3%**	**7,028**	**5,478**	**28.3%**
EBITDA margin	**20.1%**	**20.1%**	**19.6%**	**-1bps**	**53bps**	**20.4%**	**20.1%**	**27bps**
Depreciation	1,035	1,044	812	-0.9%	27.5%	3,114	2,442	27.5%
EBIT	**1,225**	**1,305**	**936**	**-6.1%**	**30.9%**	**3,914**	**3,036**	**28.9%**
Interest and finance charges	276	348	240	-20.5%	14.9%	1,043	1,059	-1.6%
Operating PBT	**949**	**957**	**695**	**-0.9%**	**36.4%**	**2,871**	**1,977**	**45.2%**
Other income	73	93	47	-21.5%	55.9%	224	88	153.6%
PBT	**1,022**	**1,050**	**742**	**-2.7%**	**37.7%**	**3,095**	**2,065**	**49.8%**
Tax	236	250	118	-5.4%	99.3%	722	315	128.8%
PAT	**786**	**801**	**624**	**-1.9%**	**26.0%**	**2,373**	**1,750**	**35.6%**
Adj PAT	**786**	**801**	**624**	**-1.9%**	**26.0%**	**2,373**	**1,750**	**35.6%**
Adj PAT margin	**7.0%**	**6.8%**	**7.0%**	**13bps**	**bps**	**6.9%**	**6.4%**	**46bps**
No. of equity shares (mn)	509.6	509.6	494.4	0.0%	3.1%	509.6	494.4	3.1%
Adj EPS (₹)	**1.5**	**1.6**	**1.3**	**-1.9%**	**22.2%**	**4.7**	**3.5**	**31.6%**

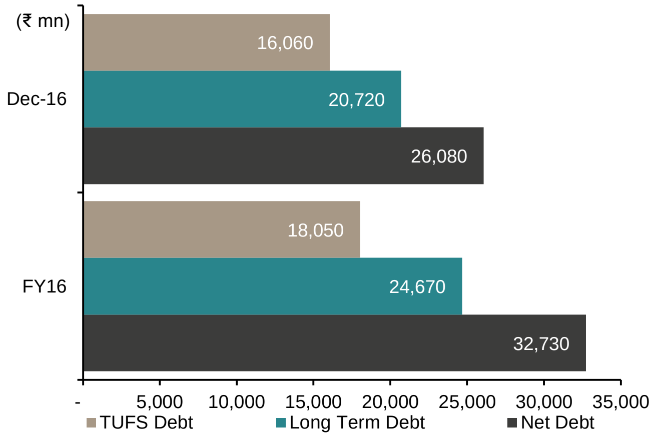
Source: Company, CRISIL Research

EBITDA margin remained stable sequentially



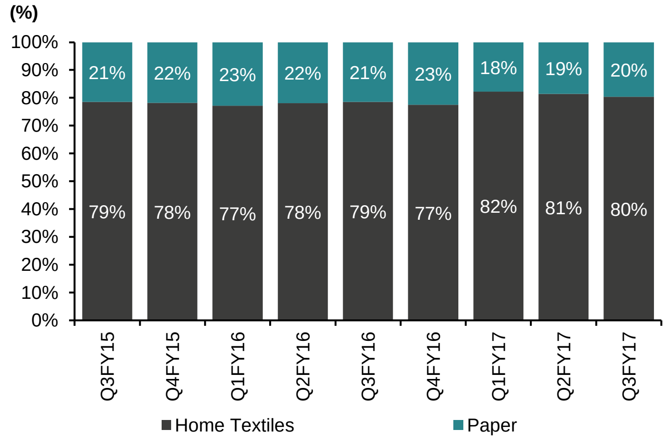
Source: Company, CRISIL Research

Focus on gradual de-leveraging



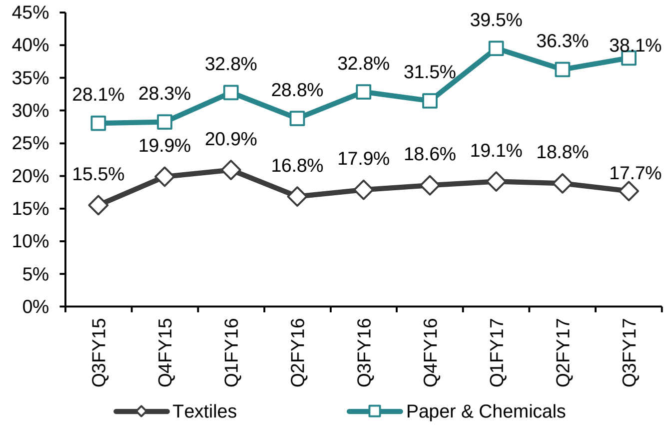
Source: Company, CRISIL Research

Increasing share of bed & bath linen a positive



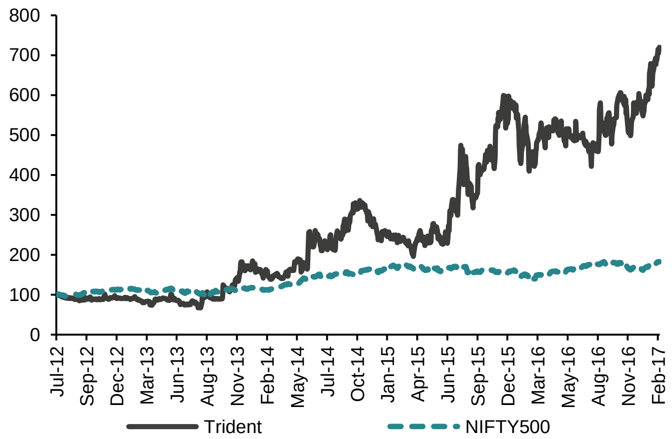
Source: Company, CRISIL Research

EBITDA margin of textile down on higher cotton prices



Source: Company, CRISIL Research

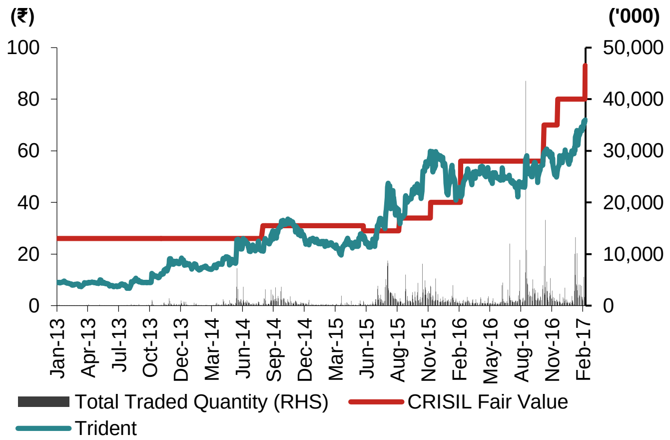
Share price



-Indexed to 100

Source: NSE, CRISIL Research

Fair value since initiation

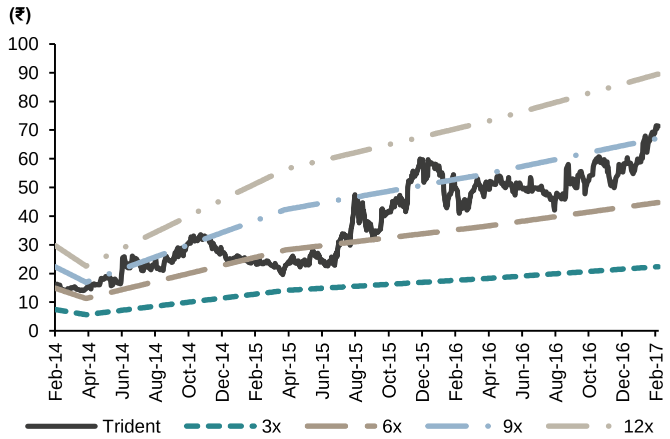


Source: NSE, BSE, CRISIL Research

Valuation Grade: 5/5

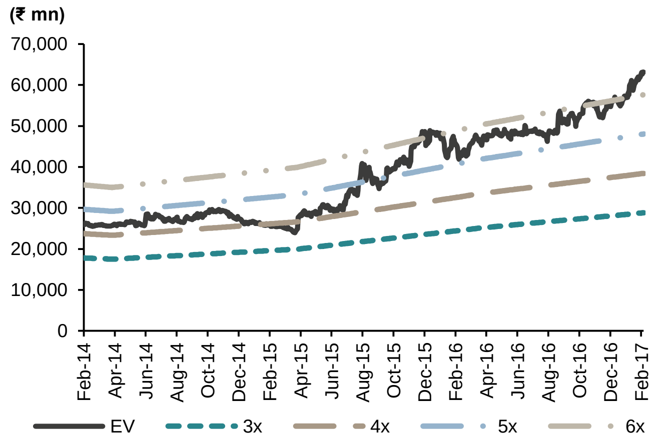
We have rolled forward our estimates by one year to FY19. Consequently, the fair value is raised to ₹93 per share from ₹80. This value implies P/E multiples of 11.3x and 9.9x FY18E and FY19E EPS, respectively. At the current market price of ₹71 per share, the valuation grade is **5/5**.

One-year forward P/E band



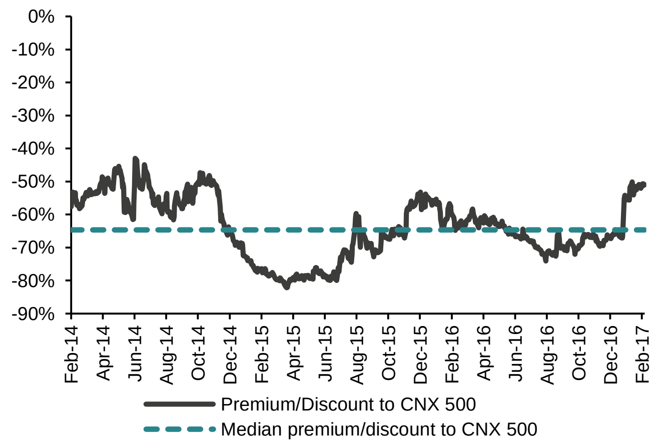
Source: NSE, CRISIL Research

One-year forward EV/EBITDA band



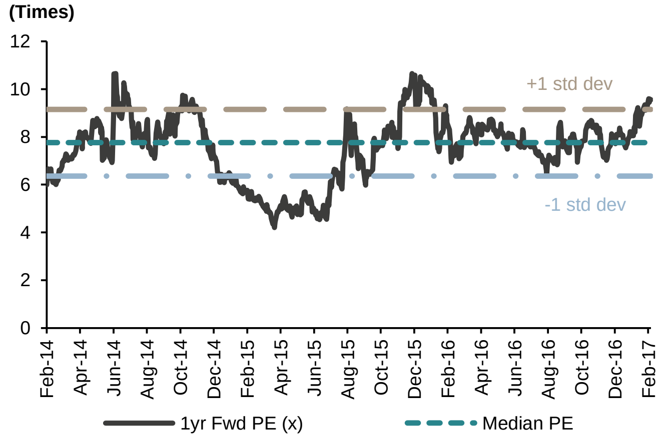
Source: NSE, CRISIL Research

P/E – premium / discount to Nifty 500



Source: NSE, CRISIL Research

P/E



Source: NSE, CRISIL Research

CRISIL IER reports released on Trident Ltd

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

Annexure: Financials (Consolidated)

Income statement

(₹ mn)	FY15	FY16	FY17E	FY18E	FY19E
Operating income	**37,626**	**36,952**	**46,611**	**52,565**	**57,407**
EBITDA	**6,762**	**7,303**	**9,318**	**10,718**	**11,706**
EBITDA margin	**18.0%**	**19.8%**	**20.0%**	**20.4%**	**20.4%**
Depreciation	3,178	3,385	3,938	4,004	4,229
EBIT	**3,584**	**3,918**	**5,380**	**6,715**	**7,477**
Interest	2,060	1,364	1,217	1,013	953
Operating PBT	**1,524**	**2,554**	**4,163**	**5,702**	**6,523**
Other income	129	153	302	295	289
Exceptional inc/(exp)	26	63	-	-	-
PBT	**1,680**	**2,770**	**4,465**	**5,996**	**6,812**
Tax provision	501	486	1,116	1,799	2,044
Minority interest	-	-	-	-	-
PAT (Reported)	**1,179**	**2,285**	**3,349**	**4,197**	**4,768**
Less: Exceptionals	26	63	-	-	-
Adjusted PAT	**1,153**	**2,222**	**3,349**	**4,197**	**4,768**

Ratios

	FY15	FY16	FY17E	FY18E	FY19E
Growth					
Operating income (%)	(3.0)	(1.8)	26.1	12.8	9.2
EBITDA (%)	(8.7)	8.0	27.6	15.0	9.2
Adj PAT (%)	NM	92.7	50.7	25.3	13.6
Adj EPS (%)	NM	86.8	45.9	25.3	13.6
Profitability					
EBITDA margin (%)	18.0	19.8	20.0	20.4	20.4
Adj PAT Margin (%)	3.1	6.0	7.2	8.0	8.3
RoE (%)	9.7	14.0	18.2	19.9	19.6
RoCE (%)	10.4	8.5	10.5	13.5	15.3
RoIC (%)	10.1	8.3	9.9	11.5	12.9
Valuations					
Price-earnings (x)	29.5	15.8	10.8	8.6	7.6
Price-book (x)	2.3	2.0	1.8	1.6	1.4
EV/EBITDA (x)	8.9	9.5	7.2	5.8	5.0
EV/Sales (x)	1.7	2.0	1.5	1.2	1.0
Dividend payout ratio (%)	24.4	19.9	21.6	24.9	24.9
Dividend yield (%)	0.8	1.3	2.0	2.9	3.3
B/S ratios					
Inventory days	78	96	86	79	78
Creditors days	39	38	38	38	38
Debtor days	23	21	20	20	19
Working capital days	99	129	110	107	108
Gross asset turnover (x)	0.9	0.7	0.8	0.8	0.9
Net asset turnover (x)	1.6	1.1	1.3	1.5	1.8
Sales/operating assets (x)	1.1	0.8	1.3	1.5	1.8
Current ratio (x)	2.9	3.2	3.3	3.3	3.3
Debt-equity (x)	1.8	2.0	1.6	1.2	0.9
Net debt/equity (x)	1.8	2.0	1.6	1.2	0.8
Interest coverage	1.7	2.9	4.4	6.6	7.8

Per share

	FY15	FY16	FY17E	FY18E	FY19E
Adj EPS (₹)	2.4	4.5	6.6	8.2	9.4
CEPS	9.1	11.4	14.3	16.1	17.7
Book value	30.4	34.8	38.6	44.4	50.9
Dividend (₹)	0.6	0.9	1.4	2.1	2.3
Actual o/s shares (mn)	478.1	493.4	509.6	509.6	509.6

Balance Sheet

(₹ mn)	FY15	FY16	FY17E	FY18E	FY19E
Liabilities					
Equity share capital	5,086	5,094	5,094	5,094	5,094
Reserves	9,467	12,095	14,573	17,512	20,850
Minorities	-	-	-	-	-
Net worth	**14,554**	**17,189**	**19,667**	**22,605**	**25,943**
Convertible debt	-	-	-		
Other debt	26,249	34,471	30,793	26,693	22,493
Total debt	**26,249**	**34,471**	**30,793**	**26,693**	**22,493**
Deferred tax liability (net)	1,242	1,727	1,727	1,727	1,727
Total liabilities	**42,044**	**53,387**	**52,187**	**51,026**	**50,164**
Assets					
Net fixed assets	28,609	37,908	35,707	33,034	30,505
Capital WIP	2,582	738	-	-	-
Total fixed assets	**31,191**	**38,645**	**35,707**	**33,034**	**30,505**
Investments	802	1,813	1,813	1,813	1,813
Current assets					
Inventory	7,508	9,092	10,855	11,233	12,111
Sundry debtors	2,256	1,990	2,513	2,806	3,044
Loans and advances	5,137	7,065	6,759	8,200	9,300
Cash & bank balance	124	131	230	378	463
Marketable securities	1	1	1	1	1
Total current assets	**15,026**	**18,279**	**20,357**	**22,618**	**24,918**
Total current liabilities	**5,230**	**5,789**	**6,130**	**6,879**	**7,513**
Net current assets	**9,795**	**12,490**	**14,227**	**15,739**	**17,406**
Intangibles/Misc. expenditure	**256**	**439**	**439**	**439**	**439**
Total assets	**42,044**	**53,387**	**52,187**	**51,025**	**50,163**

Cash flow

(₹ mn)	FY15	FY16	FY17E	FY18E	FY19E
Pre-tax profit	1,654	2,708	4,465	5,996	6,812
Total tax paid	(341)	(1)	(1,116)	(1,799)	(2,044)
Depreciation	3,178	3,385	3,938	4,004	4,229
Working capital changes	(1,178)	(2,687)	(1,638)	(1,364)	(1,582)
Net cash from operations	**3,313**	**3,404**	**5,648**	**6,837**	**7,416**
Cash from investments					
Capital expenditure	(15,536)	(11,021)	(1,000)	(1,330)	(1,700)
Investments and others	819	(1,011)	-	-	-
Net cash from investments	**(14,718)**	**(12,032)**	**(1,000)**	**(1,330)**	**(1,700)**
Cash from financing					
Equity raised/(repaid)	4,518	11	-	-	-
Debt raised/(repaid)	7,292	8,222	(3,679)	(4,100)	(4,200)
Dividend (incl. tax)	(341)	(546)	(871)	(1,259)	(1,431)
Others (incl extraordinaries)	(55)	948	-	(0)	-
Net cash from financing	**11,415**	**8,636**	**(4,549)**	**(5,359)**	**(5,631)**
Change in cash position	9	8	99	148	85
Closing cash	124	131	230	378	463

Quarterly financials

(₹ mn)	Q3FY16	Q4FY16	Q1FY17	Q2FY17	Q3FY17
Net Sales	**8,978**	**9,622**	**11,550**	**11,696**	**11,257**
Change (q-o-q)	-4%	15%	20%	1%	-4%
EBITDA	**1,728**	**1,995**	**2,418**	**2,349**	**2,260**
Change (q-o-q)	-4%	15%	21%	-3%	-4%
EBITDA margin	**19%**	**21%**	**21%**	**20%**	**20%**
PAT	610	586	786	801	786
Adj PAT	**610**	**586**	**786**	**801**	**786**
Change (q-o-q)	17%	-4%	34%	2%	-2%
Adj PAT margin	**7%**	**6%**	**7%**	**7%**	**7%**
Adj EPS	**1.2**	**1.2**	**1.6**	**1.6**	**1.5**

Source: CRISIL Research

CRISIL
An S&P Global Company

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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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Trident Ltd

Industry	CMP	Recommendation	Add on dips to	Sequential Targets	Time Horizon
Textiles & Paper	Rs. 67.80	Buy at CMP and add on declines	Rs. 60-63	Rs. 79-88	1-2 quarters

HDFC Scrip Code	TRIDENEQNR
BSE Code	521064
NSE Code	TRIDENT
Bloomberg	TRID IN
CMP Jan 27 2017	Rs. 67.80
Equity Capital (Rs cr)	510.0
Face Value (Rs)	10.0
Eq- Share O/S(crs)	50.9
Market Cap (Rs crs)	3454.9
Book Value (Rs)	31.2
Avg. 52 Wk Volumes	356001
52 Week High	69.3
52 Week Low	37.3

Shareholding Pattern % (Dec 31, 16)	
Promoters	67.8
Institutions	2.8
Non Institutions	29.4
Total	100.0

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Trident is the world's largest terry towel manufacturer and the world's largest wheat straw-based paper manufacturer. It was originally incorporated in 1990 as Abhishek Industries Ltd, promoted by Mr Rajinder Gupta; the name was changed in 2011 to Trident. Trident Ltd has business interests in Home Textiles, Yarn, Paper & Chemicals and Energy.

Investment Rationale:

Home Textiles (Terry Towels/Bed linen)

- Vertically integrated operations with pan global presence,
- Focus on value added products to boost margins going forward,
- Focused to expand its presence in overseas markets,
- Will benefit out of major capex of Rs.2700 cr between FY14-FY16 and no major capex lined up now.
- Gradual increase in capacity utilization will result in operating leverage benefits,
- Could be possible beneficiary of fresh large order wins post termination of Welspun contract by Target Corp,

Paper

- Received environment clearance for expansion of its paper mill could help to grow its paper business going forward,
- Launched copier brand in South in FY16 and expanded dealers/MBOs, all of which could help lift volumes

General

- Plans to cut interest cost by reducing its long term debt going forward,
- With sound financials, company is on track to significantly improve return ratios.

Concerns:

- High working capital requirements,
- Competition, Environmental norms/regulations,
- Shortage of Raw material, Change in Interest rate,
- Economic slowdown, Currency fluctuation risk.

View and Valuation:

The home textile business growth (out of the capex incurred over FY14-FY16) combined with steady contributions from the paper and yarn segments will lead to a healthy revenue and profit growth over FY16-FY19. The benefits of increasing scale of operations, highly integrated manufacturing process in both home textiles and paper, and continued access to low-cost raw material for paper division will ensure healthy and sustained operating profitability in the medium term.

Trident's financial risk profile will improve significantly over the medium term given the absence of major debt-funded capital expenditure (capex), progressive retirement of debt and improvement in liquidity. Its credit rating was revised upwards by CARE and CRISIL in Oct 2016 to 'A'.

We feel investors could buy the stock at the CMP and add on dips to Rs. 60-63 band (~7.0x FY18E EPS or 5.1x FY18 EV/EBITDA) for sequential targets of Rs 79 (9.0x FY18E EPS or 6.0x FY18E EV/EBITDA) and Rs 88 (10.0x FY18E EPS or 6.4x EV/EBITDA FY18E). At the CMP of Rs 67.8 the stock trades at 7.7x FY18E EPS or 5.4x FY18 EV/EBITDA.

Financial Summary:

Particulars, Rs in Cr	Standalone					Consolidated				
	Q3FY17	Q3FY16	YoY-%	Q2FY17	QoQ-%	FY15	FY16	FY17E	FY18E	FY19E
Net Sales	1122.3	888.1	26.4%	1147.8	-2.2%	3755	3684	4656	5514	6379
EBITDA	226.0	172.8	30.8%	234.9	-3.8%	661	719	936	1075	1199
APAT	78.3	61.0	28.3%	80.1	-2.2%	118	229	316	450	566
Diluted EPS (Rs)	1.5	1.2	30.5%	1.6	-3.1%	2.3	4.0	6.2	8.8	11.1
P/E (x)						29.3	16.9	10.9	7.7	6.1
EV/EBITDA (x)						8.5	9.5	6.5	5.4	4.6
RoE (%)						8.1%	12.9%	16.8%	21.2%	22.9%

(Source: Company, HDFC sec)

Company Profile:

Trident is the world's largest terry towel manufacturer and the world's largest wheat straw-based paper manufacturer. It was originally incorporated in 1990 as Abhishek Industries Ltd, promoted by Mr Rajinder Gupta; the name was changed in 2011 to Trident. Trident Ltd has business interests in Home Textiles, Yarn, Paper & Chemicals and Energy.

Trident Ltd has established its presence in the Terry Towel segment and Bed Linen. Apart from this, Company is one of the top 10 yarn manufacturers in India. Its customer base is spread across 100 Countries in 6 Continents. Its brand has presence in more than 260 MBOs to address customer needs pan-India. Trident Ltd has manufacturing facilities, Sanghera & Dhaula, Punjab and Budni, Madhya Pradesh. It has entered into a partnership with French firm Lagardere Active Group, to launch a premium range of home textiles under the renowned French lifestyle brand Elle Décor in India.

Business Overview:

Broadly, Trident Ltd is engaged in (1) Home Textiles, (2) Yarn, (3) Paper & Chemical and (4) Energy

Home Textiles:

Trident is one of the largest integrated home textile producers in the world. The Company exports its textile products to more than 65 countries across the globe. It recorded revenues of Rs2904.3 cr in FY16, out of which 70% is earned through export business. Textile segment comprises Yarn, Towel, Bed sheets, Dyed Yarn manufacturing (Including utility service).

Trident Ltd offers a variety of brands of terry towels and bed linen in the domestic market, catering to everyday as well as indulgent use. Trident's home textiles products are sold under various established brands like Trident Home Essentials, Trident Indulgence, Trident Organica, Trident Cuddlies, Trident Bath Buddy and Trident Play. Trident has expanded its range with contemporary designs, innovative constructions and new fibres, all coming together to create the finest bed and bath collection.

Products Portfolio:

Towels	Bed-Linen	Yarn
Solid bath ensembles	Organic bed linen	Mélange
Jacquard bath ensembles	Air rich bed linen	Core spun yarn
Beach towels	Printed bed linen	Slub yarn
Celebratory towels and towels for special occasions	Dyed bed linen set	Core spun slub yarn
Sublistatic printed towels	Comforters	Compact yarn
Embroidered towels	Duvets	El-twist yarn
Bath mats	Duvet covers	Modal/Cotton blended yarn
Bathrobes in various designs/styles	Dohars	Micro modal/ Cotton blended yarn
	Cushion covers	Fine cotton compact yarn
		Soya blended yarn
		Viscose blended yarn
		Air-rich/wrapper yarn
		Zero-twist yarn
		Bamboo/cotton yarn
		Tencel/cotton blended yarn

(Source: Company, HDFC sec)

Paper and Chemical business:

Trident is the world's largest wheat straw-based paper producer with a paper and pulp capacity of 175,000 tonnes per annum and 125,000 tonnes per annum, respectively. The Company's facility is located in an area where adequate wheat straw is available within 50 to 60 kilometres radius. Trident has a customer presence across 54 countries including India, the Middle East, Africa, the US, Latin America and the UK, among others. Trident's copier paper is among the top-selling brands in India and it is easily available across all major hypermarkets and supermarkets. Company has launched Trident retailer ship scheme aimed at increasing consumer pull.

Products Portfolio:

Branded copier paper	Writing and printing map litho paper	Bible and offset print paper
Trident Spectra	Silver Line	Bible
Trident My Choice	Diamond Line	Cream wove
Trident Natural	Platinum Line	Offset (Watermark) paper
Trident Eco Green	Super Line	
Trident Royal Touch	Stiffener paper	
Trident Digi Print	Cartridge paper	
	Drawing paper	

(Source: Company, HDFC sec)

Chemical and Power Business:

Trident is engaged in manufacturing Sulphuric acid (used in manufacturing commercial battery). It is one of Northern India's largest commercial and battery grade sulphuric acid manufacturers. Trident has a production capacity of 100000 tons per annum. It caters to diverse battery needs and also find usage in the production of zinc sulphate, alum, detergent and dye and fertilizers. During FY16, the Company produced 92,617 MT of sulphuric acid.

Apart from this, Trident has captive power capacity of 50 megawatts, produced through three mega turbines and two power boilers.

Brands in Home Textile and Paper Business:

(Source: Company, HDFC sec)

Manufacturing Facilities/Serving /Team size

Facilities	Division
Sanghera, Punjab	Textile
Dhaula, Punjab	Textile
Budni, Madhya Pradesh	Textile
Barnal Punjab	Paper & Chemical Division
Serving	
Countries	100
Continents	6
Team size (31st March 2016)	14500

(Source: Company, HDFC sec)

Holding/Subsidiaries and Associates Company:

Company	Type	Holding-%
Trident Global Corp Limited	Subsidiary	100%
Trident Europe Limited	Subsidiary	100%
Lotus Texpark Ltd	Associate	32.40%
Trident Infotech Inc	Associate	49%
Trident Global Inc	Associate	49%

(Source: Company, HDFC sec)

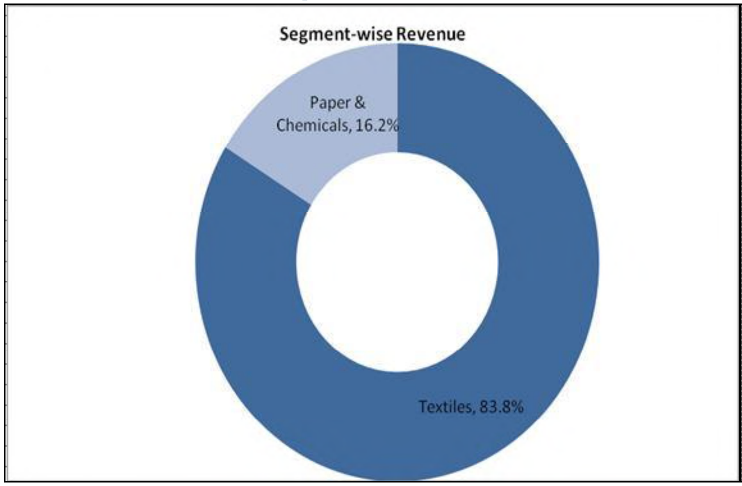
Operating Metrics:

Production Capacity (FY16)

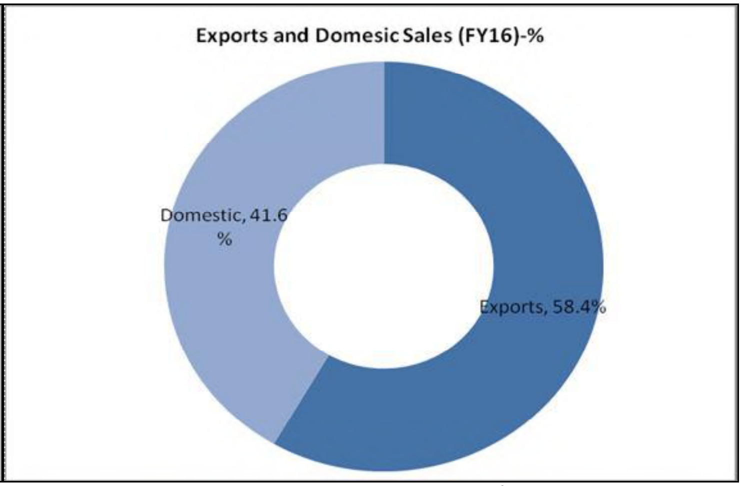
Business Verticals	Products	Capacity
Home Textiles	Terry Towel	688 looms/90000 MT/A
	Bed Sheet	500looms/43.2Million Meter
	Yarn	5.5lac Spindles &5504 rotors/115200 TPA
	Dyed Yarn	6825 TPA
Paper and Chemicals	Papers	175000 tpa
	Chemicals	100000 tpa
Energy	Captive Power	50 megawatts

(Source: Company, HDFC sec)

Sales Contribution (FY16)



Exports and Domestic Sales-% (FY16)



(Source: Company, HDFC sec)

Exports:

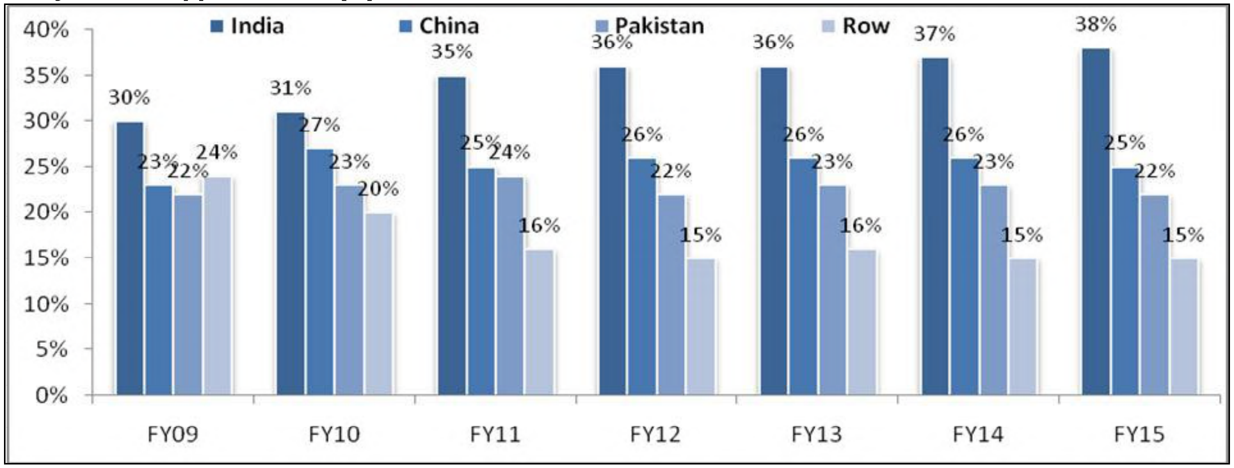
Trident has stepped up its exports to more than 100 countries and 6 continents, across US, Europe, Asia Pacific, Middle-East, the African sub continents which are a testimony to its global acceptance for its quality products meeting international standards. As on 31st March 2016, the US contributes more than 13% of overall sales and ~23% of total export revenue.

Industry Overview:

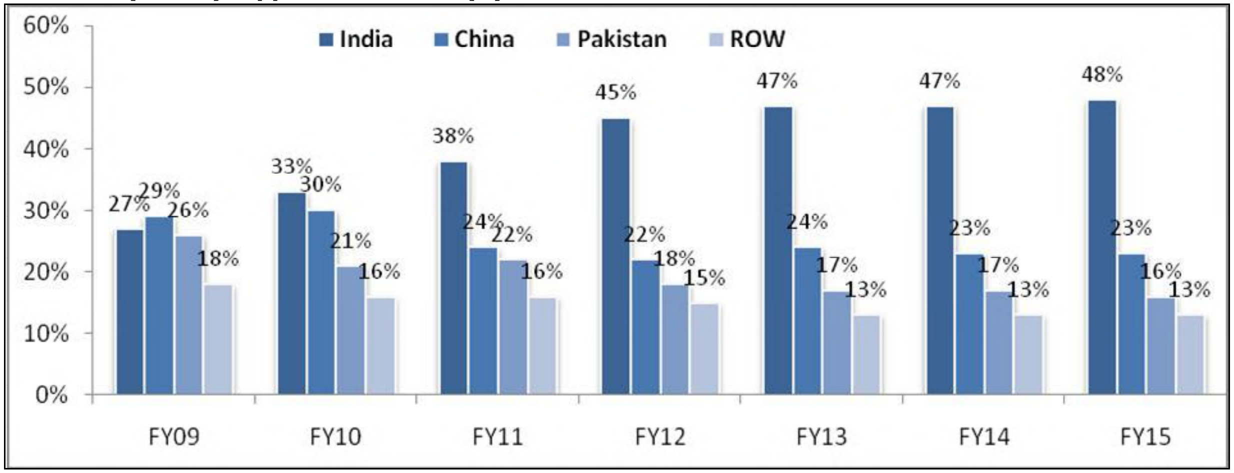
Textile Industry:

The India is a globally-recognized player in the home textiles and furnishing fabric segments. It accounts for a 7% share of the global home textiles trade. In India, home textiles market has more scope to grow led by growing household income, increasing population and growth of end users like housing, hospitality and healthcare etc. India, China and Pakistan contribute to about 80% of the home textile exports to the US and India enjoys a dominant position in cotton bed sheets and terry towels of the total US imports of around 47% and 37%.

Terry Towel supplied to US (%)



Bed linen (cotton) suppliers to the US (%)

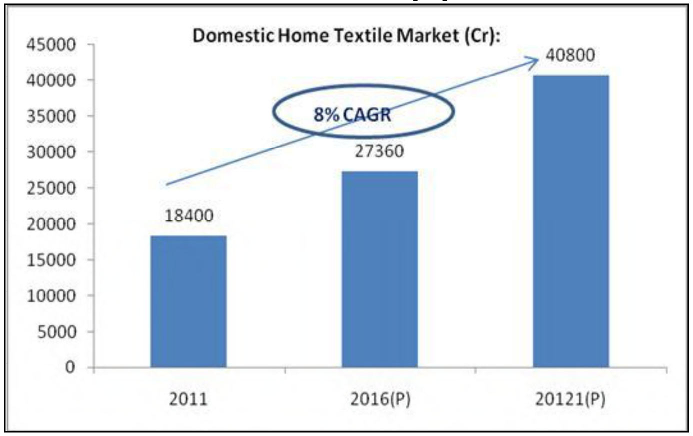


(Source: Company, HDFC sec, Indian Brand Equity forum)

Key growth drivers:

- The domestic home textiles market is expected to grow at a CAGR of 8% from 2011 till 2021 and reach a market value of Rs 40,800 crore driven by the growing working class, increasing affluence of the average Indian and growing trends towards nuclear living standard.
- The Indian home textile industry is also expected to register healthy export growth over the coming years on the back of;
  -Shifting into new homes in developed nation especially the US, family and individual buy fresh sets of bed linen and towel. This provides huge opportunities for exporters.
  -House building in UK remains buoyant with required supply of homes seen at 240,000 per year, a promising opportunity for Indian home linen exporters.

Domestic Home Textile Market (Cr):



Category wise market breakup (Cr)

Category	2011	2016(P)	2021(P)	CAGR 2011-21
Bed Linen	8,965	13,170	19,350	8%
Towels	3,320	4,840	7,060	8%
Curtains	1,850	2,975	4,790	10%
Blankets	1,465	2,040	2,850	7%
Upholstery	1,190	1,915	3,080	10%
Kitchen Linen	1,110	1,635	2,400	8%
Rugs & Carpets	500	790	1,250	9.50%
Total	18,400	27,360	40,800	8%

(Source: Company, HDFC sec, Indian Brand Equity forum)

Paper Industry

Consumption of paper in India is just about 3% of the global production of paper, which means that the average Indian consumes only about 10 kg of paper every year against a global average of over 57 kg. Indonesia consumes 33 kg of paper per capita while Japan consumes more than 220 kg per capita. The paper industry has huge potential to grow due to the lower per capita consumption in India comparing with other developing and developed nations. The estimated turnover of the industry is Rs 50,000 crore ($8 billion) approximately and its contribution to the exchequer is around Rs 4,500 crore. The industry provides employment to more than 0.5 million people directly and 1.5 million people indirectly.

Key growth drivers in the Industry:

- In the coming years, the sector is poised to grow with decent pace on account of massive spurt in demand for writing and printing paper. The domestic demand for paper is set to surpass supply, with the growing emphasis on education and alternative uses of paper. These developments are expected to give fillip to the industry.

- The operating capacity of the industry currently stands at around 13 million tonnes. During 2015-16, domestic production was estimated to be around 12.2 million tonnes. As per industry guesstimates, over all paper consumption has now touched 13.9 million tonnes and per capita consumption is pegged at slightly below 10 kg. So far, the growth in paper industry has mirrored the growth in GDP. Demand of paper has been growing around 8% per annum for some time.
- Demand for better quality packaging of FMCG products marketed through organized retail, rising healthcare spends, over-the-counter medicines and increasing preference for ready-to-eat foods are the key demand drivers for paperboard.
- India is the fastest growing paper market globally, growing at over 7 per cent and projected to grow at over 4 per cent per annum till 2030 to 27 million tonnes by 2030. The industry has made an investment of over Rs 20,000 crore in last 5 years and it needs investments of Rs 90,000 crore to add new capacities by 2030. Demand of paper in India is expected to grow by 53% in next six years as the educational demand for paper is constantly on the rise.
- The market for writing and printing paper is expected to grow by about 6 per cent annually over the next five years. As a result, market for printing and writing paper will expand from the current 4.8 million tonnes in 2015-16 to about 5.8 million tonnes per year by 2018-19.

Investment Rationale:

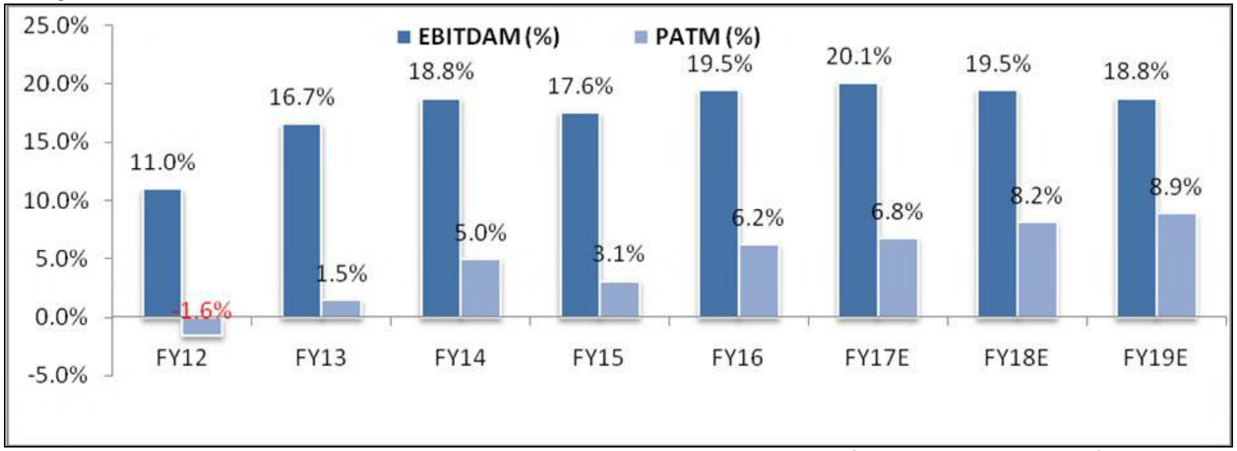
Vertically integrated operations with pan global presence:

Trident has presence across the textile manufacturing value chain (from cotton yarn to value added home textile). This helps to bring better product portfolio to grow its business, strengthen value addition & control risk associated with raw material price fluctuation. Trident consumes ~38% of yarn internally. Company continuously focus on increasing captive consumption of yarn & expects captive consumption to reach 55%-60% at full utilization level. We believe incremental captive consumption could benefit company from better operational margins. A vertically integrated operation (cotton-to-terry towel and cotton-to-bed linen) ensures greater sustainability in performance.

Focus on value added product to boost margin going forward:

Trident extended the value-addition products across its bath and bed linen range. In FY16, Company expanded value-added towels range following the launch of niche towel products (Air Rich, low-lint towels, fade-resistant towels and cotton tinsel towels). Company has plans to launch a larger basket of soft, fluffy towels and jacquard designs. Company intends to enhance capacity utilization, improve product quality and optimize the consumption of utilities and consumables. We believe that the orientation towards new product development, innovation, and branding and value addition will make the Company attractively competitive across all market cycles. Over the next two years, Company expects high margin in Bath and Bed Linen products to contribute more in the total sales figure.

Margins:



(Source: Company, HDFC sec)

Focused to expand its overseas markets:

Trident is focused to expand its overseas markets by implanting key strategies of products promotion, strengthening products range and establishing long term relationship with clients. Key actions over the last two years include

- Trident incorporated a wholly-owned subsidiary M/s Trident Europe Limited (UK), which will strengthen its marketing channels in Europe.
- Company strengthened the marketing and design team in US for better market research and customer service.
- Trident strengthened its product range by including the Bed Linen range to strengthen long-term relationships with existing customers across USA, Europe, Australia, and Middle East.
- Company expanded its value-added range such as Air Rich, low tint, fade-resistant Bed and Bath Linen products to cater to the premium segment.
- Company is entering into the growing and emerging markets of Middle & Far East, APAC for marketing textile products and plans to establish a footprint in the international markets across USA, Europe, Middle East, SAARC and Africa.
- Apart from this, company's supply yarn to top corporate such as Pacific, Esquel, Yongour, Monti and WPH etc.
- Spreading customers geographically, entered market like UK, Italy, France, Japan, Australia, South Africa and Canada.

Trident has already received the following awards from its esteemed customers:

- Wal-Mart's 'Supplier of the Year' award (four times)
- JC Penney award ('Best Supplier', 'Innovation and Quality') (three times)
- Ikea Quality and Sustainability award (Two times)

Will benefit out of major capex of Rs.2,700 cr between FY14-FY16 and no major capex lined up now.

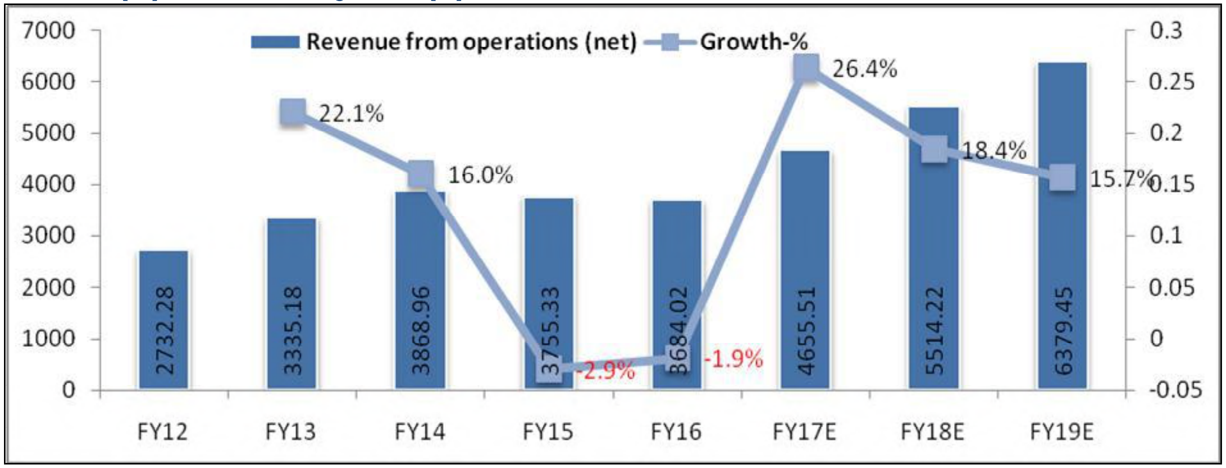
Trident incurred capex of Rs.2700 cr between Apr 2014 and Mar 2016 on its various initiatives (including the capex in Trident Corp which was merged with Trident). This affected its debt equity matrix and return ratios as the capacities will take time to get utilized. However in 9MFY17, the impact of rising capacity utilization is visible on sales and profits. This will be more visible in FY18 and FY19. The management has also assured of no big capex in the near term and has hinted at repaying the loans to bring down its D/E ratio.

Gradual increase in capacity utilization will result in operating leverage benefits,:

- Trident commissioned a bed linen facility with a capacity of 500 looms in Feb 2016. This facility is likely to produce 43.2 million meters of bed linen at optimum utilization with targeted revenues of Rs.1200 Cr, this facility is expected to operate at 30%-40% utilization by end FY17, rising to 40-50% by FY18 with balancing preparatory, processing and cut stitch pack equipment.
- Trident had in fiscal 2015 expanded its towels capacity to 90,000 tonne per annum from 42,000 tonne per annum. This operated at 40% utilization in FY16 which could rise to 55-60% over FY17-FY18.
- Trident commissioned a new yarn unit (integrated with bed sheet project for captive consumption) in FY16. In FY17, this unit is expected to operate at 70-80% utilisation (against 30-40% utilisation of bed linen capacity), generating a surplus for merchant sales.
- Company has revisited its Capex plan of Yarn Modernization Project (Rs 103.9 crore) and Captive Power Project (Rs 393 crore for 60 MW) at its facility in Budni, Madhya Pradesh. Going forward, based on free cash flow generation, the Board may evaluate a Captive Power Plant at its Budni Facility in smaller phases.
- Trident plans to enhance its capacity allocation in B2C paper in FY17, generating 15-20% volume growth of copier paper.

We expect more than 26% revenue growth in FY17E, and 18.4% and 15.7% in FY18E and FY19E respectively. Further Trident will have the opportunity to cross-sell its bed linen to existing customers. New client additions and an enhanced global footprint are expected to improve the capacity utilization of towels to 60%+ by FY19 from the current 40-45%. The capacity utilization of bed sheet segment is expected to ramp up smartly to 60% by FY19.

Revenue (Cr) and Revenue growth (%)



(Source: Company, HDFC sec)

Could be possible beneficiary of fresh large order wins post termination of Welspun contract by Target Corp:
The U.S. retail giant Target Corp. is expected to shift some orders to Trident Ltd. after it terminated $90 million of business with rival supplier Welspun India Ltd. for labeling cheaper bed sheets as premium Egyptian cotton. Trident, based in the northern state of Punjab, currently supplies terry towels to Target and is one of the few Indian companies with the capacity to produce more bedsheets. In fact, Target is Welspun India's biggest customer after Bed Bath and beyond. It accounted for about $90 million, or 10 percent of the company's total business in the financial year through March 2016.

Over the years, Trident has built and developed long standing relationships with the leading global retailers including Target Corp, and in the normal course of business. The latest development comes in the wake of the US-based retailer announcing its decision to terminate business with Welspun India for passing off cheap bed sheets as premium Egyptian cotton. Post termination of Welspun contract Trident could be a key beneficiary of Target deal going forward. Apart from this, company has maintained sound relations with clients by providing quality products over the periods.

Received environment clearance for expansion of its paper mill could help to grow its paper business going forward:
Trident has received environment clearance for expansion of its paper mill with improved technology and energy efficiency in Punjab's Barnala district, entailing a cost of Rs 440 crore. Company has proposed up gradation of paper machines to increase production of paper from 1,35,000 tonnes per annum (TPA) to 2,10,000 TPA and increase captive co-generation plant from 45.9 MW to 90.9 MW.

Expert Appraisal Committee (EAC), the Environment Ministry has given environment clearance to the Trident Ltd for its paper mill expansion project.The clearance to the project has been given subject to certain conditions. No additional land would be required and the company is likely to employ ~100 people.

Post FY14, there has been stagnant demand of paper and paper products. Now, demand-supply situation has been improving in the writing and printing segment. This has helped ease pricing pressure which was earlier prevalent as a result of adverse demand-supply situation, given significant capex between FY10-FY14. We expect company could add its revenue in paper business going forward. Initially this may be done by debottlenecking of its existing capacity (upto 15% additional capacity possible) and later putting up the additional capacity.

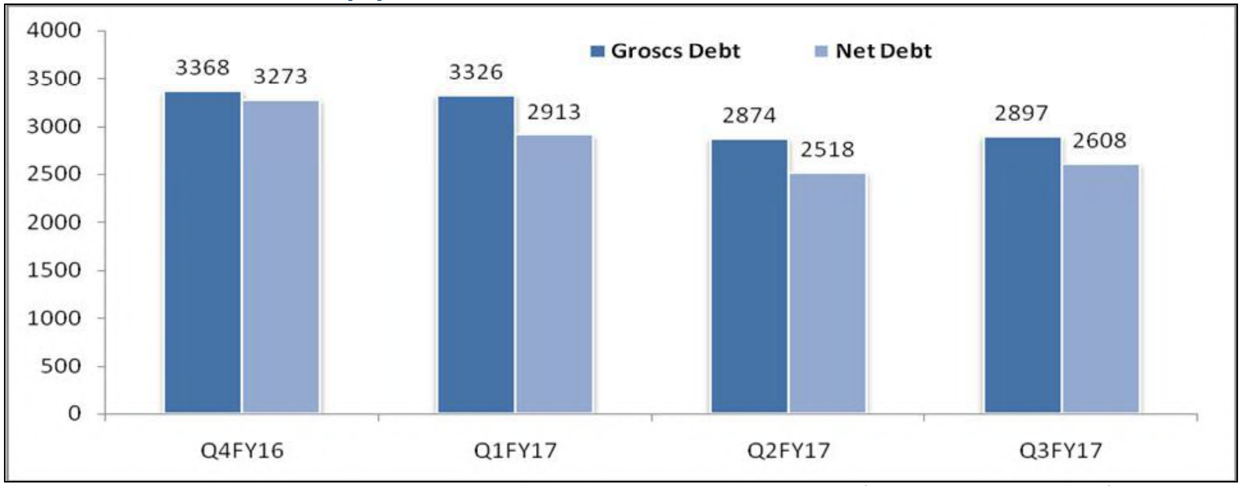
Paper industry is currently undergoing better times with robust demand growth, lower raw material and production costs, increase in realization, lower impact of cheap imports and shorter plantation cycles. In such a scenario, Trident will be able to perform even better as is apparent from its performance in 9MFY17 wherein its PBIT margins in paper and chemicals business improved to 27.5% from 19.5% a year ago.

Plans to cut interest cost by reducing its long term debt going forward:
As on 31th Dec 2016, Trident gross debt stood at Rs 2897cr (vs Rs.3368 cr in Mar 2016). Company plans to repay its debt of Rs 80-100 cr in Q4FY17 and Rs 300-400 cr in FY18E. More than 70% of long-term debt carries lower interest rates as it is covered under the TUF scheme. The management expects to repay the high cost term debt ahead of their repayment schedule. This will not only strengthen the balance sheet but also help reduce the overall interest costs. We expect the consolidated debt to

reduce to Rs ~2,450 cr by FY18 and Rs ~2200 cr by FY19, while finance costs are expected to fall to Rs 122 cr by FY18 and Rs 110.5 cr by FY19 from Rs 136 cr reported in FY16.

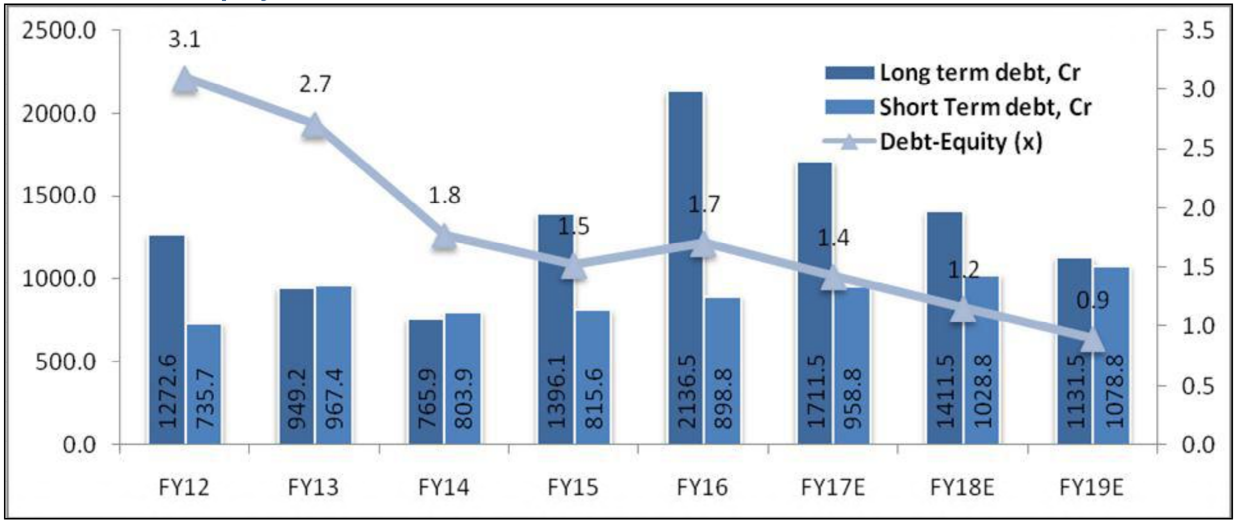
The recent introduction of 3% interest subvention on working capital loans for exporters will ensure lower interest outgo, thus improving the interest cover.

Continuous focus on debt repayment



(Source: Company, HDFC sec)

Debt and Debt- Equity Ratio-x



(Source: Company, HDFC sec)

With sound financials, company is on track to significantly improve return ratios:

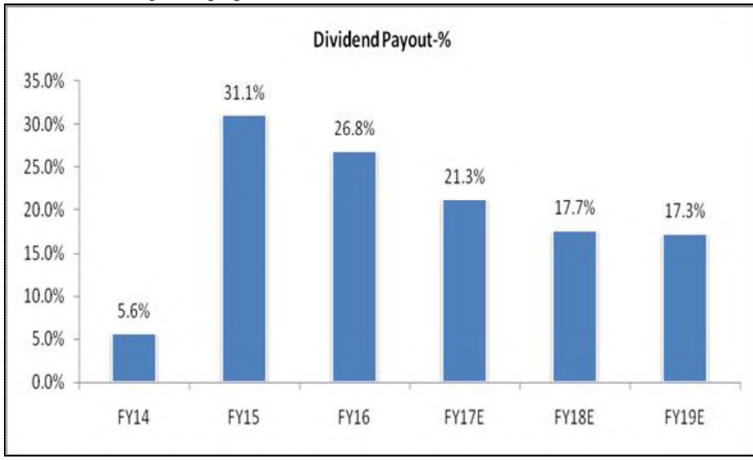
Trident has registered 2% (YoY) revenue de-growth in FY16 to Rs 3684 cr. However EBITDA gained 8.8% (YoY) to Rs 718.9 cr on the back of a 190 bps improvement in margins. PAT jumped 94.4% YoY to Rs 229.1 cr in FY16 from 118 cr in FY15. Debt to Equity has declined from 3.1x of FY12 to 1.7x in FY16.

Total debtors as of March 31, 2016 stood at Rs 177 crore (4.8% of sales) against Rs 203 crore (5.4% of sales) of March 31, 2015. Debtors Sales Outstanding (DSO) decreased from 20 days to 18 days in FY16. Company reported 26.1% (YoY) revenue growth to Rs 3418 cr in 9MFY17 and PAT growth by 36.7% to Rs 237.7cr in 9MFY17.

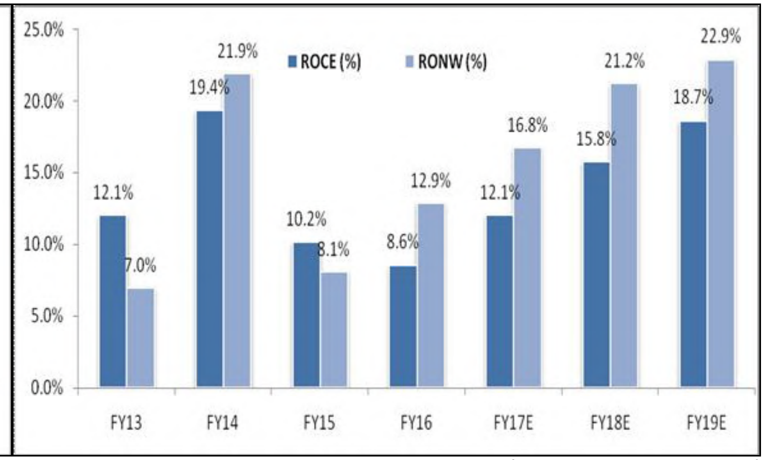
We expect worst days seem to be over, as company had reported revenue de-growth in FY15 as well as FY16. Trident witnessed soft input cost scenario and improving realization led by domestic demand and export opportunities. Return ratios are on the way of recovery and are likely to register decent growth going forward.

Trident has good track record to pay dividend to its share holders since FY14. We expect Trident could pay dividend Rs 1.30 and Rs 1.60 per share in FY17E and FY18E respectively.

Dividend Payout(%)



RoNW & RoCE-%



(Source: Company, HDFC sec)

Risk and Concerns:

Currency fluctuation risk:

The Company exports home textiles and wheat straw-based/eco-friendly paper and some varieties of yarn to 100 countries globally, hence always subject to the risk of foreign currency fluctuations. However in a scenario of depreciating Rupee, Trident could benefit as 58% of its total sales comes from exports, while imports amount to just Rs.24.67 cr in FY16 and foreign currency loans amount to Rs. ~90 cr (USD 13.7mn) in FY16.

Economic slowdown:

Trident exports business contributes 58% of overall sales as on 31st March 2016 and company has global presence across 100 countries for all segments of business. Any slow down or macro uncertainty across these geographies could hit its business. However, company has balanced earnings between overseas and domestic market.

Shortage of Raw material and/or fluctuations in its prices:

Company largely depends on agriculture based raw material like cotton and Wheat husk and buys from local markets. Availability and price of raw materials depends on condition of climate. Shortage of raw material and higher price could impact its profitability.

Competition:

China and other ASEAN nations are major threat for Trident; these competitors provide products at cheaper price. It could impact Trident growth and future outlook.

High working capital requirements

The company's operations are subject to high working capital requirements. Inability to obtain and/or maintain sufficient cash flow, credit facilities and other sources of funding, in a timely manner, could adversely affect operations, financial condition and profitability.

Environmental norms/regulations:

Paper industry consumes significant amount natural resources and releases wasteful chemicals. Proper wastes and chemical recovery management are critical for environmental certification standpoint. Further changes in environmental related compliance may increase overall cost and business competitiveness.

Change in Interest rate:

Interest rate risk resulting from changes in prevailing market rates can cause an impact on the financials of the Company.

Risks related to stabilization and ramp-up of utilization of its recently commissioned sizeable bed-linen capacity.

View and Valuation:

The home textile business growth (out of the capex incurred over FY14-FY16) combined with steady contributions from the paper and yarn segments will lead to a healthy revenue and profit growth over FY16-FY19. The benefits of increasing scale of operations, highly integrated manufacturing process in both home textiles and paper, and continued access to low-cost raw material for paper division will ensure healthy and sustained operating profitability in the medium term.

Trident's financial risk profile will improve significantly over the medium term given the absence of major debt-funded capital expenditure (capex), progressive retirement of debt and improvement in liquidity. Its credit rating was revised upwards by CARE and CRISIL in Oct 2016 to ‘A’.

We feel investors could buy the stock at the CMP and add on dips to Rs. 60-63 band (~7.0x FY18E EPS or 5.1x FY18 EV/EBITDA) for sequential targets of Rs 79 (9.0x FY18E EPS or 6.0x FY18E EV/EBITDA) and Rs 88 (10.0x FY18E EPS or 6.4x EV/EBITDA FY18E). At the CMP of Rs 67.8 the stock trades at 7.7x FY18E EPS or 5.4x FY18 EV/EBITDA.

Quarterly Financials – Standalone

Particulars, Rs in Cr	Q3FY17	Q3FY16	YoY-%	Q2FY17	QoQ-%	9MFY17	9MFY16	YoY-%
Net Sales	1122.3	888.1	26.4%	1147.8	-2.2%	3418.3	2710.1	26.1%
Other Operating Income	3.4	9.7	-65.2%	21.8	-84.6%	31.9	24.3	31.4%
Total Operating Income	1125.7	897.8	25.4%	1169.6	-3.7%	3450.2	2734.4	26.2%
Raw Material Consumed	548.9	415.5	32.1%	533.1	3.0%	1626.9	1270.5	28.1%
Stock Adjustment	-15.8	11.1	-243.0%	18.0	-188.0%	5.0	4.9	3.5%
Purchase of Finished Goods	3.4	2.6	32.1%	1.3	166.4%	6.4	11.1	-42.7%
Employee Expenses	144.7	104.9	37.9%	146.2	-1.0%	425.4	309.3	37.5%
Other Expenses	218.6	190.9	14.5%	236.1	-7.4%	683.8	592.9	15.3%
Total Expenditure	899.7	724.9	24.1%	934.6	-3.7%	2747.5	2188.6	25.5%
EBITDA	226.0	172.8	30.8%	234.9	-3.8%	702.7	545.8	28.8%
Depreciation	103.5	81.3	27.3%	104.5	-0.9%	311.4	244.3	27.5%
EBIT	122.5	91.5	33.8%	130.5	-6.1%	391.3	301.5	29.8%
Othe Income	7.1	3.7	89.0%	9.3	-24.0%	22.2	7.5	198.1%
Interest	27.6	23.0	20.0%	34.8	-20.5%	104.3	104.6	-0.3%
Profit Before Tax	101.9	72.2	41.1%	105.0	-2.9%	309.3	204.3	51.4%
Tax Paid	23.6	11.2	110.8%	25.0	-5.4%	72.2	30.8	134.1%
PAT Reported	78.3	61.0	28.3%	80.1	-2.2%	237.1	173.5	36.7%
Adjusted Profit After Extra-ord-item	78.3	61.0	28.3%	80.1	-2.2%	237.1	173.5	36.7%
EPS (Adj) (Unit Curr.)	1.5	1.2	30.5%	1.6	-3.1%	4.7	3.5	36.4%

(Source: Company, HDFC sec)

Segment-wise Revenue

Particulars, Rs in cr	Q4FY15	Q1FY16	Q2FY16	Q3FY16	Q4FY16	Q1FY17	Q2FY17	Q3FY17
Revenue								
Paper & Chemicals	213.4	202.6	213.2	201.0	219.3	207.0	218.9	223.3
Others	0.2	0.2	0.1	0.1	0.1	0.1	0.0	0.0
Textiles	763.5	683.5	759.7	704.1	755.3	959.4	963.0	915.5
Revenue from Operations	***977.2***	***886.2***	***973.0***	***905.1***	***974.6***	***1166.5***	***1181.9***	***1138.9***
EBIT								
Paper & Chemicals	37.9	43.1	37.6	39.2	45.5	58.6	56.4	63.4
Others	-0.1	-0.1	-0.2	-0.2	-0.2	-0.2	-0.2	-0.2
Textiles	91.0	85.1	70.4	74.8	82.0	105.4	102.1	83.1
Profit/Loss Before Interest and Tax	***128.8***	***128.1***	***107.9***	***113.8***	***127.3***	***163.8***	***158.3***	***146.3***
Capital Employed								
Paper & Chemicals	380.9	378.5	350.4	293.9	301.4	272.6	257.7	274.0

Others	96.8	97.2	96.7	96.2	96.6	95.2	93.9	93.7
Textiles	3519.3	3683.7	4021.7	41851.7	4569.9	4298.3	3949.8	4083.3
Capital Employed in Segment	***3996.9***	***4159.4***	***4468.8***	***4575.3***	***4967.8***	***4666.1***	***4301.4***	***4451.0***

(Source: Company, HDFC sec)

Financials – Consolidated

Income Statement

Particulars, Rs in Cr	FY15	FY16	FY17E	FY18E	FY19E
Revenue from operations	3755.3	3684.0	4655.5	5514.2	6379.5
Cost of material consumed	1971.2	1726.3	2225.3	2682.7	3148.3
Purchase of stock in trade	53.3	14.7	11.6	16.5	22.3
Changes in inventories	-93.7	-6.8	7.0	11.0	15.9
Employee benefits exp	387.2	433.5	568.0	661.7	752.8
Other expense	776.6	797.4	907.8	1067.0	1240.8
Total Expenditure	3094.6	2965.1	3719.8	4438.9	5180.1
EBITDA	660.8	718.9	935.8	1075.3	1199.3
Depr and amort- exp	321.3	337.6	416.0	388.8	360.7
EBIT	339.5	381.3	519.8	686.5	838.7
Other income	34.5	31.7	30.3	33.1	35.1
Finance costs	206.0	136.4	136.2	122.0	110.5
Earnning before tax	168.0	276.6	413.9	597.5	763.2
Tax Paid	50.1	48.6	99.3	149.4	198.4
PAT	117.9	228.0	314.5	448.2	564.8
Share in profit of ass-	0.0	1.1	1.3	1.4	1.6
PAT Adjusted	117.9	229.1	315.8	449.6	566.4
EPS	2.3	4.0	6.2	8.8	11.1

Cash Flow

Particulars, Rs in Cr	FY15	FY16	FY17E	FY18E	FY19E
EBT	168.0	276.6	413.9	597.5	763.2
Depreciation and Amort-	321.3	337.6	416.0	388.8	360.7
Interest /Dividend paid	206.0	136.4	136.2	122.0	110.5
Other Adjustment	-18.8	-19.4	25.5	-40.0	15.3
(Inc)/Dec in working Capital	-97.7	-142.4	-146.2	-322.5	-300.9
Tax Paid	-34.7	-60.0	-99.3	-149.4	-198.4
CF from Operating Activities	544.1	528.8	745.9	596.4	750.4
Capital expenditure	-181.6	-1123.3	-45.0	-60.0	-80.0
(Purchase)/Sale of Invest	19.2	-25.0	14.4	-31.4	-126.9
Others	19.4	-51.9	46.1	-61.9	-80.2
CF from Investing Activities	-142.9	-1200.1	15.5	-153.3	-287.0
Inc/(Dec) in Share capital	0.0	0.0	-59.8	0.0	0.0
Inc/(Dec) in Debt	-196.6	780.9	-365.0	-230.0	-230.0
Dividend and Interest Paid	-254.2	-172.7	-203.4	-201.5	-208.4
CF from Financing Activities	-450.8	608.2	-628.2	-431.5	-438.4
Net Cash Flow	-49.7	-63.1	133.2	11.6	25.0
Opening Balance	8.9	6.9	-56.2	77.0	88.6
Closing Balance	-40.8	-56.2	77.0	88.6	113.6

(Source: Company, HDFC sec)

Balance Sheet

Particulars	FY15	FY16	FY17E	FY18E	FY19E
EQUITY AND LIABILITIES					
Share capital	508.6	569.4	509.6	509.6	509.6
Reserves and surplus	946.7	1209.5	1371.4	1607.7	1959.5
Shareholders' funds	**1455.4**	**1778.9**	**1880.9**	**2117.3**	**2469.0**
Long term borrowings	1396.1	2136.5	1711.5	1411.5	1131.5
Deferred tax liabilities	124.2	172.7	146.8	117.4	88.1
Long term provisions	40.5	8.5	9.3	10.2	11.2

Key Ratios

Particulars	FY15	FY16	FY17E	FY18E	FY19E
No of Equity Shares-cr	50.9	56.9	51.0	51.0	51.0
Current Market Price-Rs	67.8	67.8	67.8	67.8	67.8
Enterprise Value-cr	5643.3	6813.6	6048.2	5806.6	5551.6
EPS	2.32	4.02	6.20	8.82	11.11
Cash EPS (PAT + Depr)	8.63	9.95	14.36	16.45	18.19
Book Value Per Share(Rs.)	28.61	31.24	36.91	41.55	48.45

Non-current liabilities	**1560.8**	**2317.6**	**1867.6**	**1539.1**	**1230.8**
Short term borrowings	815.6	898.8	958.8	1028.8	1078.8
Trade payables	219.1	221.9	255.1	271.9	297.1
Other current liab	451.7	422.8	443.9	399.5	379.5
Short term provisions	4.5	23.8	25.0	26.5	28.4
Current liabilities	**1490.8**	**1567.2**	**1682.7**	**1726.7**	**1783.8**
Total	***4507.0***	***5663.7***	***5431.3***	***5383.1***	***5483.6***
ASSETS					
Fixed assets	**3063.2**	**3887.5**	**3471.5**	**3082.7**	**2722.0**
Non-current investments	11.2	73.9	59.1	65.0	71.5
Long term loans and adv	172.8	190.9	152.7	183.2	229.1
Non-current assets	**3269.8**	**4156.7**	**3688.0**	**3335.9**	**3027.9**
Current investments	19.7	19.7	20.0	45.5	165.9
Inventories	750.8	909.2	1135.2	1299.2	1468.1
Trade receivables	203.3	176.7	255.1	332.4	384.5
Cash and bank balances	17.0	81.9	77.0	88.6	113.6
Short term loans and adv	244.3	318.1	254.5	279.9	321.9
Other current assets	2.2	1.5	1.5	1.6	1.7
Current assets	**1237.2**	**1507.1**	**1743.3**	**2047.3**	**2455.8**
Total	***4507.0***	***5663.7***	***5431.3***	***5383.1***	***5483.6***

PE(x)	29.26	16.85	10.94	7.68	6.10
P/BV (x)	2.37	2.17	1.84	1.63	1.40
Mcap/Sales(x)	0.92	1.05	0.74	0.63	0.54
EV/EBITDA	8.54	9.48	6.46	5.40	4.63
EBITDAM (%)	17.6%	19.5%	20.1%	19.5%	18.8%
EBITM (%)	9.0%	10.4%	11.2%	12.4%	13.1%
PATM (%)	3.1%	6.2%	6.8%	8.2%	8.9%
ROCE (%)	10.2%	8.6%	12.1%	15.8%	18.7%
RONW (%)	8.1%	12.9%	16.8%	21.2%	22.9%
Dividend Payout(%)	31.1%	26.8%	21.3%	17.7%	17.3%
Current Ratio	0.83	0.96	1.04	1.19	1.38
Liquid Ratio	0.33	0.38	0.36	0.43	0.55
Debt-Equity	1.52	1.71	1.42	1.15	0.90

(Source: Company, HDFC sec)

One Year forward P/E

One Year Price Chart

(Source: Company, HDFC sec)

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TRIDENT

January 30, 2017

SECTOR TEXTILES AND APPREAL

RECOMMENDATION

Buy @ 67, Target 80

DYNAMIC LEVELS™

Report Prepared by Arnab Dasgupta

Email: arnab@dynamiclevels.com

Trident – Leading yarn spinner of India

 Source: Company, www.dynamiclevels.com

About Trident:

Trident Group is a leading diversified group of businesses. As a USD 1 billion Indian business conglomerate and a global player, Trident Limited (Trident) is the flagship company of Trident Group.

The flagship operates in two major segments namely home textiles and paper – with manufacturing facilities in Punjab and Madhya Pradesh.

Trident has acquired wide and varied global scale capabilities in the production of terry towel and bedsheet. From a variety of fibres and yarns to a range of colours, both in piece dyed and yarn dyed, plains and jacquards, to a complete collection of performance finishes and surface decorations, the range of products keeps expanding to meet the unique needs of the customers.

Trident Brands:

Globally-renowned clientele: The Company has a strong client list comprising global retail and institutional brands across 60 countries like J.C. Penney, Wal-Mart Stores Inc., Ralph Lauren, Calvin Klein, Carrefour S.A., H&M, IKEA, Marks & Spencer, ITC Hotels, Taj Hotels Resorts and Palaces and Oberoi Hotels & Resorts, among others.

Raw Materials:

Product Name	Value*	% of RM cost to Total Cost
Dyes & Chemicals	264.62	15.32
Cotton Fibre	1137.9	65.91
Yarn	174.78	10.12
Other Agro Products	149	8.63
Total	**1726.3**	

**Value is Rs. Cr*

Source: Company, www.dynamiclevels.com

Finished Goods:

Business Verticles	Products	Operating Capacity
Home textiles	Terry towels	688 looms
	Bed sheet	500 looms
	Yarn	5.55 lac spindles, 5504 rotors
	Dyed yarn	6,825 tpa
Paper and chemicals	Paper	1,75,000 tpa
	Chemicals	100,000 tpa

Trident- Enhancing Profitability

Business transformation- Trident transformed itself business from being a standalone yarn manufacturer to one of the largest integrated home textile manufacturers in the world. Yarn used to account for 60 per cent of our total revenues, whereas in FY16 higher margin Home Textiles accounted for 60 per cent of the total textile revenues. By the next two years, we expect high margin Bath and Bed Linen products to contribute about 80 per cent of the same.

Value-addition- Trident has progressively trended its paper output towards value-addition. Five years ago, 100 per cent of its paper manufacturing capacity comprised maplitho as well as writing & printing paper. There has been a big transformation since; copier paper, fetching higher realizations over the conventional varieties, now accounts for about 50 per cent of its capacity and is projected to increase to 60 per cent to 70 per cent of all its paper output two years from now.

Efficiencies- Trident continues to enhance operating efficiency that makes it possible to sweat its global scale assets and infrastructure. The Company intends to enhance capacity utilisation, improve product quality and optimise the consumption of utilities and consumables.

Welspun's loss, Trident's gain:

After Welspun lost the Target Corp's contract to Trident and market's trust, Trident has gained a lot in business, most of which earlier belonged to Welspun. Having lived up to the trust and expectations in the field of its business, Trident has been giving out good returns on the back of all the business it gained from Welspun's loss.

CSR Activities:

- **Asmita-** Asmita is a program that Trident took towards empowering women by employing them and recognizing their work with awards.

  Takshashila- Providing opportunities to LEARN, EARN & GROW to more than 10,000 members of 10th, 10+2, ITI's.There have been more than 600 Graduates and Diploma Holders in past 6 years.

- **Saving water -** Trident maintains a zero liquid discharge facility for towel processing, saving fresh water of 6 million litres per day directly. The facility has a biological plant for biodegradation of wastewater and an RO system to recover 92% of water.

- **Saakshar-** Adult Education Programme, "Saakshar" in Association with village panchayats and anganwadi centers is conducted in Sehore (MP). It aims to educate the illiterate masses of the villages with an approach to go beyond Reading- Writing and Numerics.

- **Setting an example -** Trident undertook the 'Clean Narmada' campaign on World Environment Day in association with the Madhya Pradesh Pollution Control Board and State Department of Agriculture.

- **Raising awareness -** Trident, in a joint attempt with Ministry of Agriculture, conducted an awareness drive in 8 villages surrounding the Budni plant to educate the rural people about the harmful effects of the Parthenium hysterophorus grass.

Industry Outlook:

- India, the world's second largest producer of textiles and garments, accounts for 63% of the market share of textiles and garments.
- India accounts for about 14% of the world's production of textile fibres and yarns (largest producer of jute, second largest producer of silk and cotton; and thirdlargest of cellulosic fibre).
- The textile industry contributes around 14% to the IIP, 5% to the country's GDP, 27% to the Company's forex inflows and about 13% to the country's total exports earnings.
- Further, it accounts for 21% of the total employment generated in the economy, providing direct employment to over 45 million people.
- Indirect employment including the manpower engaged in agro-based raw material production like cotton and related trade and handling employs around another 60 million. It contributes to around 8% of the total excise revenue collection.
- The textile sector accounts for about 24% of the world's spindle capacity and 8% of global rotor capacity.

 Source: Company, www.dynamiclevels.com

Strengths

- Consistent long term demand because of a rising middle-class in emerging markets
- A shift towards manmade fibres due to comparatively less volatile price trend for cotton or wool.
- The textile industry is projected to grow at a CAGR of 9% to USD 141 billion by 2021.
- India's home textiles market is projected to grow at a CAGR of 10.5% to USD 9.9 billion in 2017 on account of increased exports growth at a CAGR of 8.4% to USD 6.0 billion in 2017.
- Bed and bath linen together constitute about 67% of the home textile industry.

Weaknesses

- Profitability undermined due to volatile raw material prices and rising wages
- Intense competition weighing on margins that are further being stressed by e-commerce
- Changing consumer behavior (e.g. changing fashion) forcing terms and conditions to become even more flexible.

Sectoral Outlook:

Sectoral Analysis:	
Supply	Despite a pick-up in demand from both global and domestic markets, most new capacities in the home textile segments are not operating at full capacities.
Demand	High for premium and branded products due to increasing per capita disposable incomes.
Barriers to entry	Superior technology, skilled and unskilled labour, distribution network. The Central Government has discontinued providing the interest subsidy assistance and limited the capital subsidy payable under ATUFS. These developments are expected to act as entry barriers, lending existing players a definite cost advantage.
Bargaining power of suppliers	Due to over-supply in the unorganised market, suppliers have little bargaining power. However, premium products and branded players continue to garner higher margins.
Bargaining power of customers	Domestic customers - low for premium and branded product segments. Global customers - High due to presence of low-cost sourcing destinations
Competition	High. Fragmented industry with competition from other low cost producing nations likely to intensify.

Company Outlook (Segments)

Home textile:

International:

- Incorporated a wholly-owned subsidiary M/s Trident Europe Limited in the United Kingdom, strengthening their marketing channels in Europe.
- Strengthened the marketing and design team in US for better market research and customer service.
- Strengthened their overall product range and expanded their value added range.
- Established a footprint in the growing markets of Middle & Far East, APAC for marketing textile products
- Supplied yarn to top corporates such as Pacific, Esquel, Yongour, Monti and WPH etc.

Domestic:

- Enhanced their brand presence in more than 260 MBOs to address customer needs pan-India.
- Ramped their business volumes in general trade and institutional segment, besides modern retail.
- Established a presence across all major e-commerce marketplaces.
- Entered into a partnership with French firm Lagardere Active Group, to launch a premium range of home textiles under the renowned French lifestyle brand Elle Décor in India.
- Extended the licensed brand merchandise to cater to the growing children's segment.
- Supplied yarn to top corporates such as Page Industries, Raymonds Limited, Arvind Limited etc.
- Increased revenues from value-added Yarn such as Platinum, Roving Grindle and Blends – Tencle, Modal, Micromodal etc.

Paper:

- Added a niche product to our copier paper portfolio, branded as 'Trident Digiprint' – a paper variety suited for digital printing applications.
- Launched a copier paper brand in South and West India which should generate significant volumes.
- Increased Trident Paper Brand presence in 133 MBOs such as Walmart, Metro, Reliance, Big Bazaar, Max, D'mart etc.
- Conducted regular retailer meets for better market research and customer service.
- Established a footprint in the international markets across USA, Europe, Middle East, SAARC and Africa.
- Increased their dealership network in the domestic and international markets to more than 60.

Technical and Fundamental Overview at Glance:

EXCHANGE SYMBOL	TRIDENT (NSE)
Sector	TEXTILES AND APPAREL
Current Price * (Rs.)	64.85
Face Value (Rs.)	10
52 Week High (Rs.)	68.80 (17-Jan-17)
52 Week Low (Rs.)	37.15 (12-Feb-16)
Life Time high (Rs.)	68.80 (17-Jan-17)
Life Time low (Rs.)	3.50 (28-Mar-02)
Average Daily Movement [ADM]	2.23
Average Volume [20 days]	2483385
1 Month Return (%)	9.03
Consolidated FY 15-16 PE Ratio	14.36
Consolidated Trailing PE Ratio	0
Standalone FY 15-16 PE Ratio	14.4
Standalone Trailing PE Ratio	11.95
Book Value	33.74
Market Cap	3289.33 (Cr)
% of Promoter holding pledged	0

- The company's share price is trading approximately twice to its Book value, in general Book value below 7 times is pretty low on valuation.
- The company has no promoter's pledge.
- Company has a huge market capitalization.

The chart shows that the stock was trading almost on a flat note from January till August. However it picked up a little pace since September. The stock has grown over 27% from Rs. 51.90 on 1st September 2016 to Rs. 66.30 on 23rd of January 2017.

Shareholding Pattern

Shareholding Pattern	16-Dec	16-Sep	16-Jun	16-Mar	15-Dec
Promoter and Promoter Group (%)	67.77	67.77	66.49	66.51	66.56
Indian	67.77	67.77	66.49	66.51	66.56
Foreign	NIL	NIL	NIL	NIL	NIL
Public Shareholding					
Institutions (%)	2.78	2.85	2.61	2.54	2.48
Mutual Funds	0.35	0.12	0.05	0.05	0.05
Foreign Portfolio Investors	NIL	NIL	NIL	NIL	NIL
Others	0.82	1.12	0.98	0.91	0.89
Non-Institutions (%)	29.44	29.38	30.9	30.94	30.96
Others	NIL	NIL	NIL	NIL	NIL
Total no. of shares (cr.)	50.96	50.96	50.95	50.94	50.9

Indian promoters have increased their holdings in the company in September quarter from 66.49% in June to 67.77% in December. Institutional holding percentage has slipped a little from 2.85% in September to 2.78 in December. On the other hand, Mutual Funds have increased the stake from 0.5 in June to 0.12 in September and 0.35 in December.

Source: Company, www.dynamiclevels.com

Institutional Shareholding:

INSTITITION HOLDING IN Trident	16-Dec			16-Sep			16-Jun		
	No. of Share Holders	No. of Equity shares	% Holding	No. of Share Holders	No. of Equity shares	% Holding	No. of Share Holders	No. of Equity shares	% Holding
Mutual Funds	9	1801572	0.35	9	603575	0.12	8	260,800	0.05
Financial Institutions/ Banks	4	8228974	1.61	3	8192437	1.61	4	134917	0.05
Any Other	12	4183029	0.82	18	5731844	1.12	24	5,008,914	0.98
Foreign Institutional Investors	NIL	NIL	NIL	18	5731844	1.12	NIL	NIL	NIL
Grand Total	25	14213575	2.78	30	14527856	2.85	36	13,296,026	2.61

As evident, Mutual Funds have increased their investment in past three quarters, from 0.05% in June 2016 to 0.35 in Dec 2016. Also, a financial institution hiked their investment from 0.05 in June-16 to 1.61 in Sept-16 and has held on to it.

COMPANY PROFILE OF TRIDENT, NSE, INDIA	
Date of Incorporation	32981
Date of Listing	37048
Management	
Name	Designation
S K Tuteja	Chairman
Rajinder Gupta	Co-Chairman
Rajiv Dewan	Director
Pallavi Shroff	Director
Deepak Nanda	Managing Director
Registered Office Address	Sanghera Complex, Raikot Road,148101,Barnala,Punjab,India
Website	http://www.tridentindia.com

Source: Company, www.dynamiclevels.com

Company Financials:

SL	In Cr.	16-Dec	16-Sep	15-Dec	% QOQ Growth Dec16-Sep16	% YOY Growth Dec16-Dec15
		Quarterly	Quarterly	Quarterly		
1	Net Sales/Income from operations	1,122.34	1,147.77	888.12	-2.21	26.3
2	Other Operating Income	3.36	21.78	9.65	-84.5	-65.1
3	Total Income From Operations	**1,125.69**	**1,169.55**	**897.77**	-3.75	25.38
4	Increase/Decrease in Stocks	-15.84	18	11.08		
5	Consumption of Raw Materials	548.88	533.11	415.5	2.95	32.1
6	Employees Cost	144.68	146.17	104.94	-1.02	37.86
7	Depreciation	103.52	104.45	81.32		
8	Other Expenses	218.58	236.06	190.85		
9	Total Expenditure	**1,003.20**	**1,039.06**	**806.24**	-3.45	24.42
10	Operating Profit	**122.49**	**130.49**	**91.53**	-6.13	33.82
11	Other Income	7.31	9.3	3.74		
12	P/L Before Int., Excpt. Items & Tax	129.8	139.79	95.26		
13	Interest	27.62	34.76	23.02	-20.54	19.98
14	P/L Before Tax	102.18	105.03	72.24	-2.71	41.44
15	Tax	23.61	24.96	11.2		
16	PAT	**78.58**	**80.07**	**61.04**	-1.86	28.73
17	Equity Share Capital	509.58	509.58	508.95		
18	EPS (Rs.) [Before Extraordinary items]	**1.54**	**1.59**	**1.18**	-3.14	30.5

Source: Company, www.dynamiclevels.com

Key points in Quarterly Result

Key strengths:

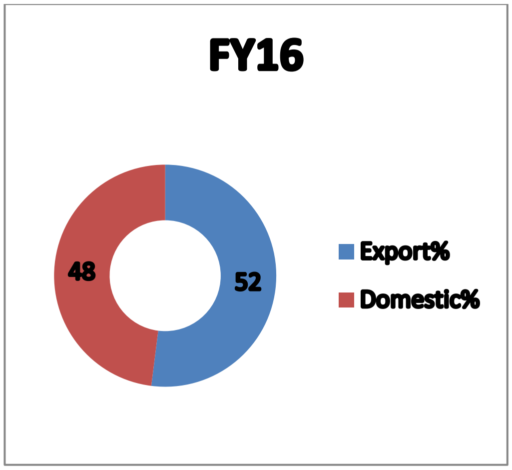
- SL-1: Net Revenue at Rs. 1,122.34 crore in Q3 FY17, up 26% compared to Rs. 888.12 crore in Q3FY16. This was led by 32% growth in Home Textile segment in the last three quarters of FY17 as compared to the last three quarters of FY16, as a result of sustained focus & efforts on marketing, designing & product innovation.
- SL-10: Operating profit has gone up by 33.82% YoY from 91.53 to 122.49.
- Employees cost have surged 37.86% YoY from 104.94 to 144.68.

Key Weaknesses:

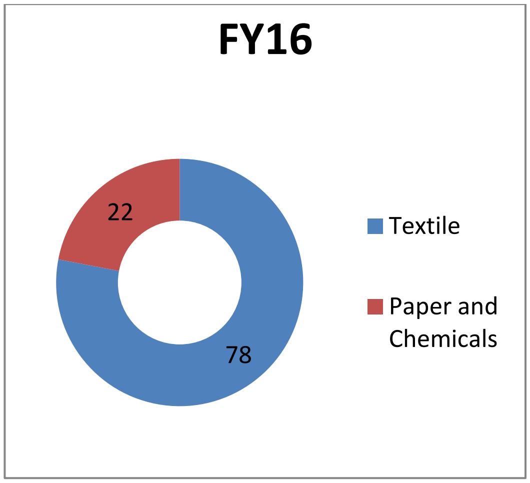
- SL-2: Other Operating income has gone down 84.5% QoQ and 65.1% YoY.
- SL-10:Operating profit declined over 6% QoQ

Business Overview:

Market Wise Contribution:



Segment Wise Contribution:



Balance Sheet:

Sl.No.		Mar-16	Mar-15	Mar-14	Mar-13	Mar-12
		12 mths	12 mths	12 mths	12 mths	12 mths
1	EQUITIES AND LIABILITIES					
2	SHAREHOLDERS FUNDS					
3	Equity Share Capital	509.37	508.64	311.09	310.84	305.84
4	Total Share Capital	569.37	508.64	311.09	310.84	305.84
5	Reserves and Surplus	1,172.29	946.68	576.79	395.43	342.58
6	Total Reserves and Surplus	1,172.29	946.68	576.79	395.43	342.58
7	Total Shareholders Funds	1,741.66	1,455.32	930.88	706.27	650.55
8	NON-CURRENT LIABILITIES					
9	Long Term Borrowings	2,136.50	1,396.10	765.86	949.18	1,272.57
10	Deferred Tax Liabilities [Net]	172.67	124.21	108.23	107.01	75.98
11	Long Term Provisions	8.45	40.51	4.53	4.29	3.01
12	Total Non-Current Liabilities	2,317.62	1,560.82	878.62	1,060.48	1,351.56
13	CURRENT LIABILITIES					
14	Short Term Borrowings	898.75	815.6	803.88	967.36	735.65
15	Trade Payables	219.78	216.3	185.25	165.85	182.17
16	Other Current Liabilities	422.3	451.49	366.58	384.15	344.76
17	Short Term Provisions	23.66	4.36	19.32	2.78	1.91
18	Total Current Liabilities	1,564.49	1,487.75	1,375.03	1,520.14	1,264.49
19	Total Capital And Liabilities	5,623.77	4,503.89	3,184.53	3,286.89	3,266.60
20	ASSETS					
21	NON-CURRENT ASSETS					
22	Tangible Assets	3,790.73	2,860.83	1,791.23	1,962.22	2,140.03
23	Intangible Assets	39.48	3.03	4.36	6	7.92
24	Capital Work-In-Progress	57.24	199.3	27.69	28.05	6.38
25	Intangible Assets Under Development	4.39	22.59	8.59	0	0
26	Fixed Assets	3,891.84	3,085.75	1,831.87	1,996.27	2,154.33
27	Non-Current Investments	37.02	11.7	103.23	61.97	55.65
28	Long Term Loans And Advances	190.57	172.79	151.44	122.46	115.19
29	Total Non-Current Assets	4,119.43	3,270.24	2,086.54	2,180.70	2,325.17
30	CURRENT ASSETS					
31	Current Investments	19.65	19.65	15.5	2.5	0

Source: Company, www.dynamiclevels.com

32	Inventories	901.16	746.54	642.85	690.99	520.4
33	Trade Receivables	183.54	204.78	264.14	232.3	191.9
34	Cash And Cash Equivalents	81.79	16.77	24.52	33.11	23.03
35	Short Term Loans And Advances	316.74	243.71	148.78	143.66	204.92
36	Other Current Assets	1.46	2.2	2.2	3.63	1.18
37	Total Current Assets	1,504.34	1,233.65	1,097.99	1,106.19	941.43
38	Total Assets	5,623.77	4,503.89	3,184.53	3,286.89	3,266.60

Key Strength in Balance sheet:

- Sl-6: Company has increased its reserves and surplus from 946.68 in March 15 to 1172.29 in March 16.
- Sl-40: Company's total current assets have increased from 4503.89 to 5623.77.

Key Weakness:

- Sl-11: Company's long term borrowings have gone up from 1.396.10 in March 15 to 2136.50 in March 16.
- Sl-12: Total non-current liabilities stand at 2317.62 in March 16 from 1560.82 in March 15.

Key Ratios:

	16-Mar	15-Mar	14-Mar	Explanation	Signals
Per Share Ratios					
Basic EPS (Rs.)	4.45	2.47	6.33		
Cash EPS (Rs.)	11.11	8.63	14.96		
Book Value	33.01	28.61	29.92	consistent	Neutral
Dividend / Share(Rs.)	0.9	0.6	0.3	Dividend Yield is very low (LTP 68.20)	Negative
Profitability Ratios					
PBDIT Margin (%)	20.38	18.51	19.22	Consistent	Neutral
Net Profit Margin (%)	6.2	3.13	5.09		
Return on Capital Employed (%)	5.62	3.9	10.88	17% or 18% is considered as better	Negative
Return on Assets (%)	4.06	2.61	6.18		
Total Debt/Equity (X)	1.8	1.52	1.69	Debt is a little higher but at considerable level	Neutral
Liquidity Ratios					
Current Ratio (X)	0.96	0.83	0.8	Acceptable between 1.5% and 3% for healthy businesses	Negative
Quick Ratio (X)	0.39	0.33	0.33	commonly acceptable ratio is 1	Negative
Dividend Payout Ratio (CP) (%)	8.01	6.54	2.88		
Valuation Ratios					
MarketCap/Net Operating Revenue (X)	0.71	0.31	0.12	0.07	0.12
Price/BV (X)	1.56	0.8	0.49	Price to book value is very low	Negative
Price/Net Operating Revenue	0.71	0.31	0.12	0.07	0.12

Source: Company, www.dynamiclevels.com

Peer Comparison

Peer Comparison					
	Price Growth (1 Yr. %)	P/E ratio	Market Cap (Cr.)	Op. Margin (%)	Net profit (%)
Trident	17.9	11.18	3457.5	19.52	28.73
Raymond	2.26	29.16	3098.51	8.4	(Posted a loss)
KPR Mills	1.04	17.31	4340.32	18.15	96.87
Trent	21.73	82.21	8106.87	6.23	18.83

Trent share price has grown most among the peers followed by Trident but it has the lowest PE among them all, hinting a lot of space for more growth. Also, Trident has the highest Operating Profit Margin Percent and has posted a decent YoY rise in its net profit.

Investment Rational

- EPS has shown a jump from 1.18 to 1.54 almost 30.5% on the yearly basis.
- Bottom line in YoY has shown tremendous growth where operating profit has gone up by 33.82% and Profit after tax jumped by 25.54% YoY.
- Employee Cost has gone up by 37.86% on the yearly basis.
- The company's share price is trading almost twice its Book value.
- Company has a huge market capitalization.
- Net Debt to Equity Ratio declined to 1.4x from 1.9x in FY16
- Board declared 2nd Interim Dividend of 6% on equity shares
- Net Revenue at Rs. 1,139 crore in Q3 FY17, up 26% compared to Rs. 905 crore in Q3 FY16
- EBITDA increased by 30% to Rs. 233 crore during Q3FY17 from Rs. 179 crore in Q3 FY16
- Company's total current assets have increased from 4503.89 to 5623.77.
- Indian promoters have increased their holdings in the company in September quarter from 66.49% in June to 67.77% in December.

Concerned areas to look in the company

- Company's long term borrowings have gone up from 1.396.10 in March 15 to 2136.50 in March 16.
- Total non-current liabilities stand at 2317.62 in March 16 from 1560.82 in March 15.
- Fluctuating value of the Indian rupee
- Increasing energy costs
- Continuous technology upgradation for quality and innovation entailing investments.
- International competition: Competition from countries like China, Pakistan and Turkey is fierce in the home textiles segment. With the country progressing on the path of overall development, the cost-competitiveness that Trident enjoys might deteriorate.
- The biggest challenge faced by the Indian textile industry is competition from the other up and-coming Asian economies which may attract more business from the international markets because of their lower production costs, ease-of-doing business and availability of cheap labour.

On 30th January, 2017 at 2.00 pm, Trident share price was trading @ 69.65. We recommend BUY in Trident ltd @ 67 with the target of 80 the stock is trading at PE Multiple of 11.81 having book value of 33.74 per share.

 Source: Company, www.dynamiclevels.com

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