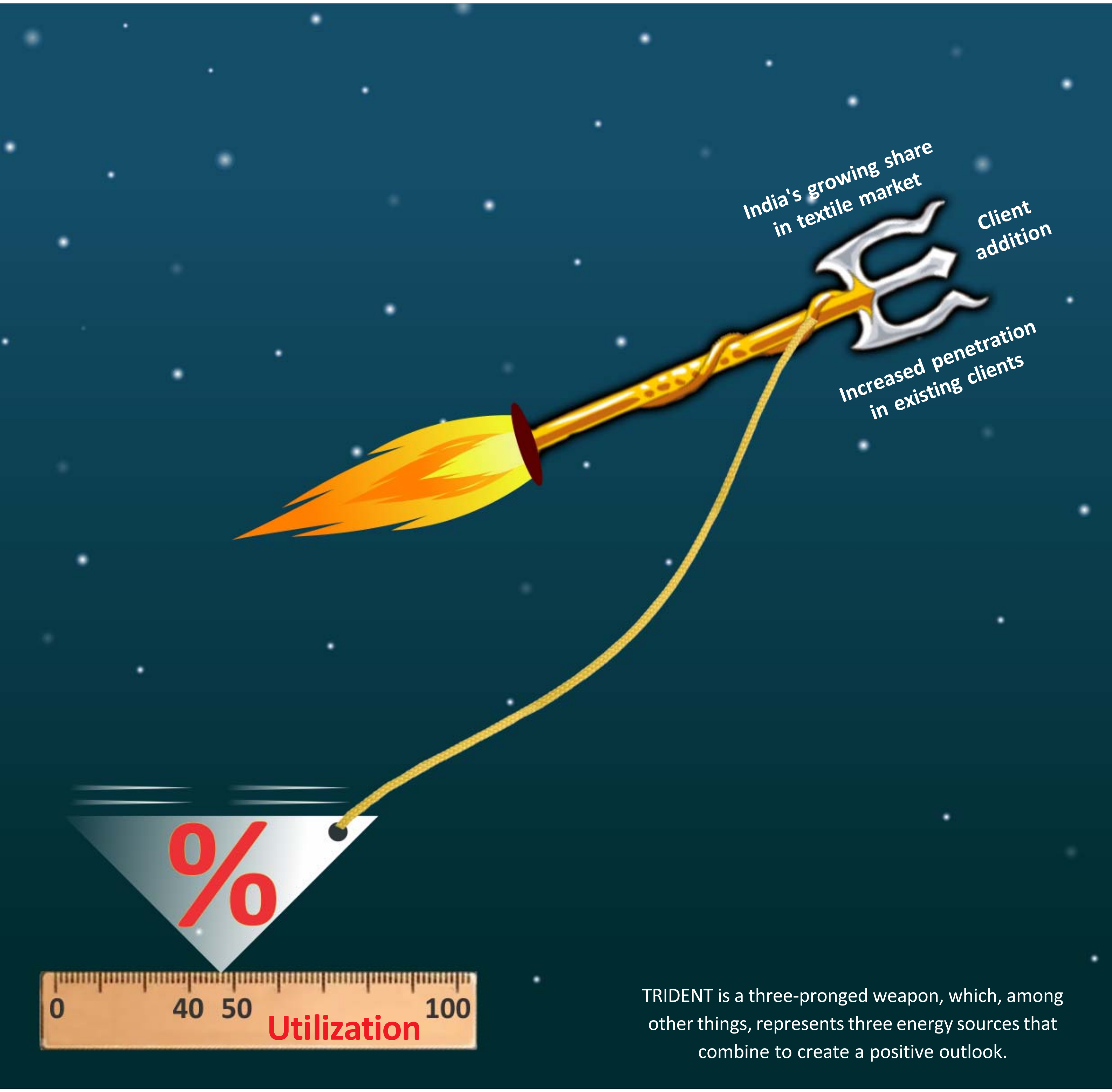
Trident



TRIDENT is a three-pronged weapon, which, among other things, represents three energy sources that combine to create a positive outlook.

An attractive utilization play

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Contents: Trident Ltd. | An attractive utilization play

Trident

BSE Sensex	S&P CNX
31,292	9,766

CMP: INR82 **TP: INR114 (+39%)** **Buy**

Stock Info

Bloomberg	TRID IN
Equity Shares (m)	509.4
52-Week Range (INR)	92/45
M.Cap. (INR b)	41.7
M.Cap. (USD b)	0.7
1, 6, 12 Rel. Per (%)	-3/9/62
Avg Val, (INR m)	129
Free float (%)	32.2

Financial Snapshot (INR b)

Y/E Mar	2017	2018E	2019E
Sales	47.4	52.2	57.1
EBITDA	8.9	9.9	11.1
NP	3.4	4.2	5.3
EPS (INR)	6.6	8.3	10.4
EPS Gr (%)	39.3	25.2	25.5
BV/Sh (INR)	54.1	60.5	68.6
RoE (%)	13.0	14.5	16.1
RoCE (%)	7.5	9.0	10.9
P/E (x)	12.4	9.9	7.9
P/BV (x)	1.5	1.4	1.2

Shareholding pattern (%)

As On	Jun-17	Mar-17	Jun-16
Promoter	67.8	67.8	66.5
DII	2.1	2.2	1.6
FII	1.5	1.6	1.0
Others	28.6	28.5	30.9

Trident

An attractive utilization play

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Please click here for Video Link

Trident (TRID) is one of India's leading diversified group of businesses headquartered in Ludhiana, Punjab. The company is one of the world's largest manufacturers of integrated home textile (bed and bath linen) and the largest manufacturer of wheat straw-based paper. In FY17, the Home Textile business contributed 82% of its overall revenue, while Paper accounted for 18%. It has manufacturing plants at Budni (MP) and Barnala (Punjab) with combined installed capacity of 115mn kg of yarn, 175k MT of paper, 90MT of bath linen and 43m mtrs of bed linen. TRID also owns the world's largest compact yarn spinning unit under single roof.

An attractive utilization play

Increasing utilization and entry into bed linen – the key growth drivers

- **Home Textile contributes 82% of TRID's revenues. Improving productivity and operating efficiencies are expected to significantly boost utilization in this segment over the coming years (65% utilization in its stronghold bath linen v/s current level of 50%, and 60% utilization in the recently forayed bed linen v/s current level of 29%). The focus on value-added products should help the company improve realization impressively in Home Textile.**
- **Paper accounts for 18% of its revenues. The company has presence in copier paper (~60% of TRID's Paper sales volume), which is among the top-selling brands in India and commands high margins. TRID plans to implement a debottlenecking project to release capacity of 250-275 TPD, improving capacity utilization and allowing further expansion in the copier segment. Increased focus on copier paper is expected to expand TRID's Paper margin by 340bp to 38% in FY20E.**
- **We estimate a CAGR of 9% in revenue and 24% in PAT over FY17-20, driven by EBITDA margin expansion of 110bp and lower interest expense. We value the stock at 11x FY19E EPS. We initiate coverage with a Buy rating and a target price of INR114, implying 39% upside.**

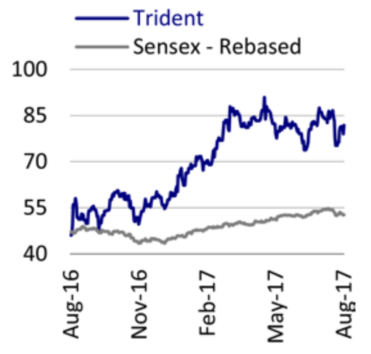
Margin expansion in Paper business led by copier

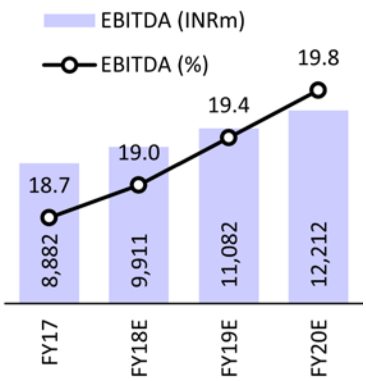
Copier paper is among the top selling brands in India and commands high margins. Copier paper contributed 45% of Paper sales volume in FY13, which increased to 60% in FY17. The company intends to leverage strong growth in copier paper in India (CAGR of ~8% v/s ~4% in other paper and stationery) to improve Paper realization and margin (+340bp to 38% in FY20E).

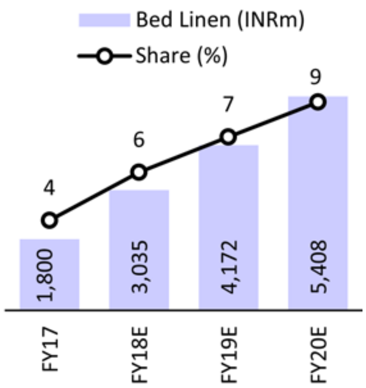
Enhanced profitability led by bed linen

The company most recently ventured into bed linen, with installed capacity of 43m meters. In the first year of operations, bed linen had 29% utilization, and the company expects to ramp-up operations by adding new clients. TRID has already added more than 10 clients in FY18 so far, including large replenishment clients like IKEA and Amazon. Bed linen currently posts EBITDA loss, which is expected to turnaround by 3QFY18 as utilization reaches 40%. We believe new customer acquisition and the expanding share of TRID in the global textile market should help the bed linen segment increase utilization to 60% in FY20.

Stock Performance (1-year)







Bath linen (towel) inching toward higher utilization

TRID is the market leader in the towel segment in India, and accounts for a significant part (32%) of Indian towel exports to the US. The company used to run at high utilization of 74% in FY13, which declined thereafter as TRID invested heavily in capex and nearly doubled its capacities from 42MT to 90MT to make itself future-ready. Since there would be no further capex, the company expects the plants to return to higher utilization, resulting in margin expansion (as yarn capacity would be utilized in-house and no further spinning capacity would be required). Capacity utilization is expected to reach 65% in FY20E from the current level of 50%.

Rising share of India in global home textile market

In terry towel category, India accounts for 40% of the global market, which has increased at 15% YoY. India also commands the third largest market share in the Asia-Pacific home textile market, and is expected to grow fastest in the world at a CAGR of 7.2% over 2015-2020. The growing share of India in the global home textile market puts TRID in a sweet spot to garner more market share (evident from the increase in the company's market share in towel exports to the US, from 10% in CY14 to 13% in CY16), particularly in bath linen, where it is the domestic market leader.

Robust free cash flow generation with major capex cycle behind

In FY16, the company executed greenfield expansion, with total outlay of INR7.5b for 1.9 lac spindles capable of producing compact yarn up to 120 counts. The initiative was taken to attain 100% backward integration for the bed linen unit. The company is not expected to invest heavily in expanding capacities, but is rather likely to improve efficiencies by initiatives such as debottlenecking, which would result in better capacity utilization and thus steady generation of free cash flows in both Paper and Home Textile segments.

Valuation and view

TRID appears to be at the onset of a high growth cycle, driven by:

1. **Growth in bed linen segment:** The company is expected to turn EBITDA profitable in the recently ventured bed linen segment by 3QFY18 as utilization touches 40%. In the first year of operations, bed linen witnessed utilization of 29%, which is expected to increase to 60% in FY20. Also, the segment's share in overall revenue is expected to increase from 4% in FY17 to 9% in FY20.
2. **Higher utilization in bath linen:** TRID used to run at high utilization of 74% in the towel segment in FY13. However, utilization declined thereafter as the company almost doubled its capacity in the segment from 42MT in FY13 to 90MT in FY15 to make itself future-ready. Going forward, the company is expected to witness higher utilization (65% in FY20E v/s 50% in FY17), which would not require further addition of spindles as yarn capacity would be utilized in-house.
3. **TRID's rising share in global market:** The share of Indian companies in the global textile market is on the rise as the country is becoming highly competitive in terms of raw material cost, labor cost and level of automation, leading to improved quality. TRID has been proactive in capitalizing on this opportunity, leading to an increase in the company's share in global towel exports to the US (from 10% in CY14 to 13% in CY16). Also, the company's share in Indian towel exports to the US has also increased from 28% in CY14 to 32% in CY16.
4. **Paper biz margin driven by branded copier paper:** TRID has consistently increased its share of copier paper over the years. Copier paper contributed 45% of the company's overall Paper sales volume in FY13, which increased to 60% in FY17. Since, copier paper commands high margins, we expect Paper business margin to expand 340bp to 38% in FY20.

We believe TRID is set to benefit from multiple factors, including industry growth and expanding share of bed linen/copier paper. Hence, we estimate 9% sales CAGR and 24% PAT CAGR over FY17-20, with improving RoCE and RoE (from 7.5% and 13% in FY17 to 13% and 17.1% in FY20, respectively). IND AS adjustment recognized on fair valuation of PPE to the tune of INR7,582m has resulted in a depressed return ratios, with RoE and RoCE standing at 18.3% and 8.6% in FY17 pre-adjustment v/s 13% and 7.5% in FY17 post-adjustment. Consequently, pre-adjusted RoE and RoCE is expected to increase to 21.4% and 15.1% in FY20E respectively. We value TRID at 11x FY19E EPS, arriving at a TP of INR114, implying 39% upside. We initiate coverage with **Buy**.

Company overview

India's leading integrated home textiles and paper manufacturer

Trident (TRID) is one of India's leading diversified group of businesses headquartered in Ludhiana, Punjab. The company is the world's largest wheat straw-based paper manufacturer, has world's largest compact yarn spinning unit under single roof and is among the world's largest integrated home textile manufacturers.

Home Textiles business contributed 82% of its overall revenues in FY17, while Paper accounted for 18%.

TRID was incorporated in 1990 as a yarn manufacturer. It gradually expanded into towels in 1998 and also set up a paper manufacturing facility. Most recently, the company ventured into bed linen (part of Home Textile), marking a shift from a pure-play yarn player to an integrated home textile and paper manufacturer.

Exhibit 1: TRID's journey since inception

	1990-95	1996-2000	2001-05	2006-10	2011-16
Home Textiles	• Inception • Set-up 1st Spinning Unit Facility	• Entered Home-Textile; Acquired 1st Towel Manufacturing facility • Set up Spinning Unit - II	• Augmented Towel & Spinning; Set-up Towel Unit –II & Spinning Unit-III	• Set-up Towel Unit – III; added Spinning Units– IV, V & VI	• Set-up Towel Unit-IV & Bed Linen Unit • Set-up Spinning Units - VII, VIII, IX & X • Launched Textile Brands
Paper			• 1st Paper Manufacturing facility	• Set-up Paper Unit – II • Set-up Captive Power Facility	• Launched Paper Brands

Source: Company

Significant presence in both domestic and export markets

TRID has a strong presence in both domestic and export markets. As of FY17, exports contributed 89% of revenue in the bed and bath linen, 32% in yarn and 9% in paper. On the other hand, the domestic market contributed 91% of revenue in paper, 68% in yarn, and 11% in bed and bath linen.

The US remains the primary market for the company's flagship towel business (bath linen). TRID's share in Indian towel exports to the US stands at ~32%, while its share in global towel exports to the US stands at ~13%.

Client reach

Exhibit 2: TRID's international clientele

Source: Company

Exhibit 3: TRID's domestic clientele

Source: Company

Exhibit 4: TRID's online clientele

Source: Company

Home Textiles – the key to improved profitability

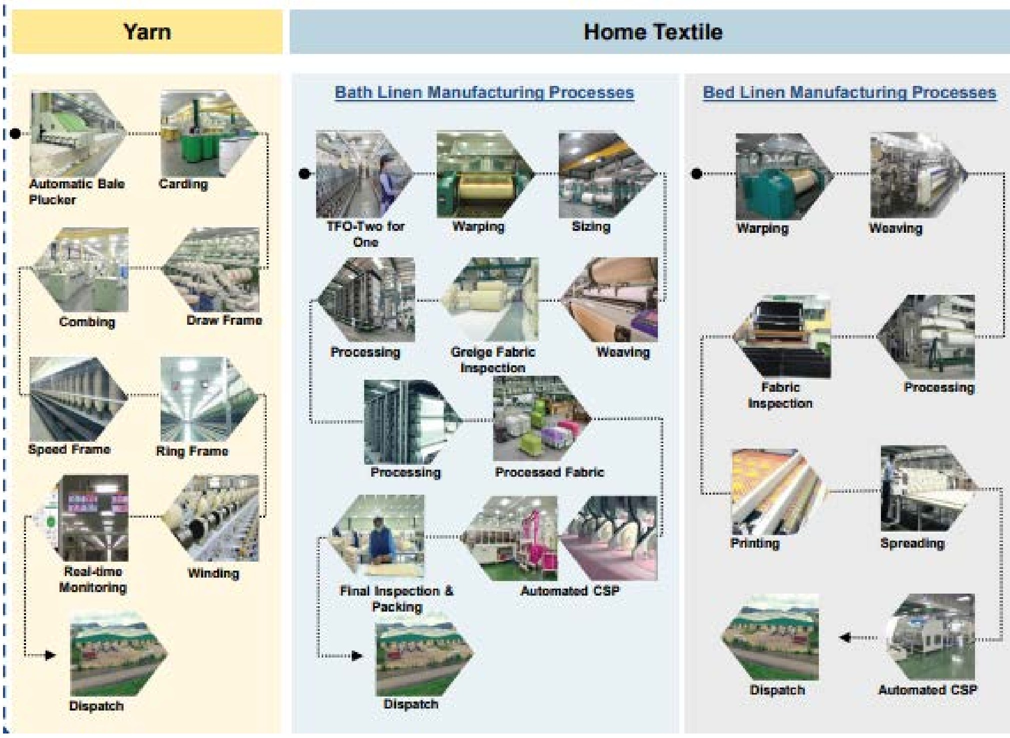
Fully integrated process across units

Homes Textile is the largest revenue contributor for TRID. The company has fully integrated manufacturing processes, which provide strong control over the production value chain. The company has plants in Budni (MP) and Barnala (Punjab).

TRID has one unit with capacity of 300 looms and 48k MT per annum (p.a.) in Budni, and three units with capacity of 388 looms, 42k MT p.a. in Barnala for bath linen. For bed linen, there is one unit with capacity of 500 looms and 43.2m meters p.a. in Budni.

Capacities for bed and bath linen are vertically integrated by installed capacities for yarn, for which there are five units with capacity of 3.7lac spindles and 2,880 rotors in Budni, and five units with capacity of 1.8lac spindles and 3,584 rotors in Barnala.

Exhibit 5: Fully integrated manufacturing process



Source: Company

Better product mix in bed linen and improved utilization to drive growth

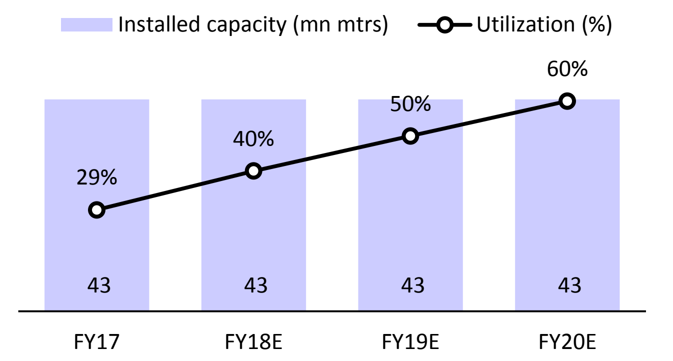
TRID ventured into the bed linen segment in FY17 (installed capacity of 43m meters) to leverage on the strong customer base in bath linen (towel). In the first year of operations, bed linen had 29% utilization – the company expects to ramp up its operations by capturing new clients and drive profitability via top-line growth.

The company has already added more than 10 clients in FY18 so far in the segment, including large replenishment clients like IKEA and Amazon. As of now, the company is servicing small orders from the large players to test capability and quality; it expects to gradually leverage the same to bag large orders. Led by its full backward integration in the segment, the company is well placed to service clients by having full control over production quality.

Bed linen segment accounts for the largest share in the Indian and global home textile markets. It is globally pegged to grow at a CAGR of 4.4% over 2015-20, while the Indian bed linen and bed spread market is expected to witness much higher CAGR of 7.4% over this period.

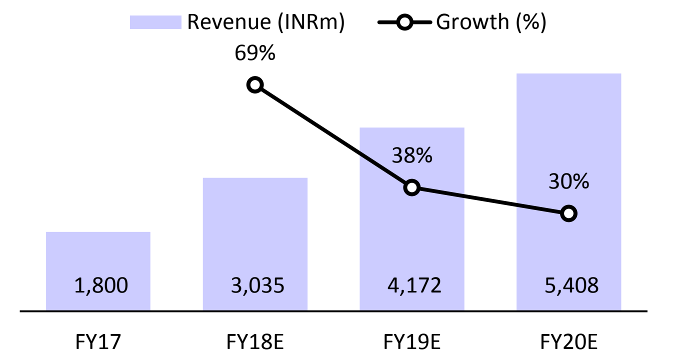
For TRID, bed linen currently posts EBITDA loss, which is expected to turnaround by 3QFY18, as the segment reaches utilization of 40%. Driven by new customer acquisition and expanding share of TRID in the global textile market, we expect utilization in bed linen to eventually increase up to 60% in FY20. Additionally, the company manufacturers bed sheets of 200 counts, which are expected to be scaled up to higher counts to penetrate further into the market. Higher count provides higher realization without requiring any additional capacity or modification in the manufacturing unit. We expect bed linen realization CAGR of 13% over FY17-20 to INR209m/MT.

Exhibit 6: Bed linen's utilization set to improve



Source: Company, MOSL

Exhibit 7: Bed linen to post 44% revenue CAGR over FY17-20E

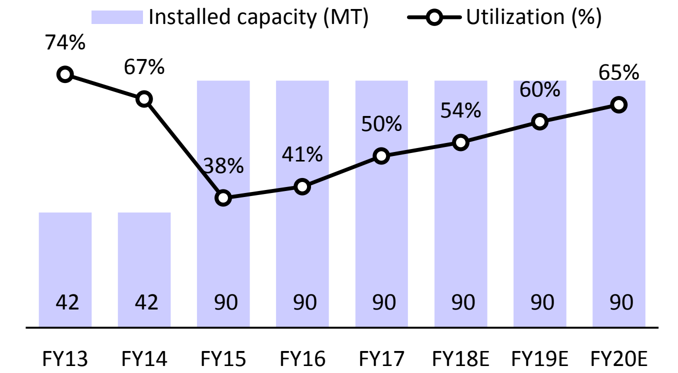


Source: Company, MOSL

Bath linen (towel) inching toward higher utilization

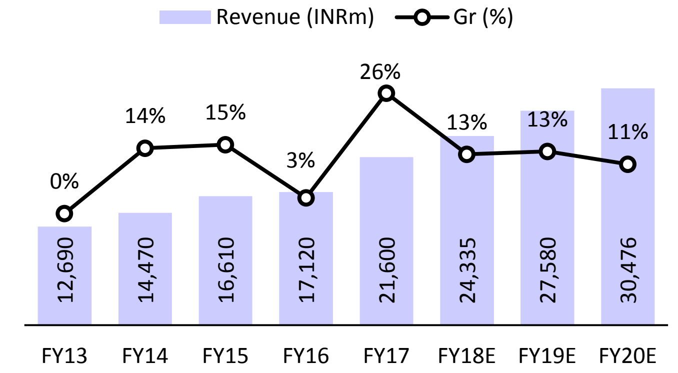
TRID is the market leader in India's towel segment, and forms a significant part (32%) of Indian towel exports to the US. The company used to run at high utilization of 74% in FY13; however, it declined thereafter, as TRID invested heavily in capex and nearly doubled its capacities from 42MT to 90MT, making itself ready for future opportunities. Since there would be no further capex, the company expects the plants to run at higher utilization, which would result in margin expansion, as yarn capacity would be utilized in-house and no further spinning capacity would be required.

Exhibit 8: Bath linen's utilization set to improve



Source: Company, MOSL

Exhibit 9: Bath linen to post 12% revenue CAGR over FY17-20E



Source: Company, MOSL

Branded copier paper to drive margins

India's only wheat straw-based paper manufacturer

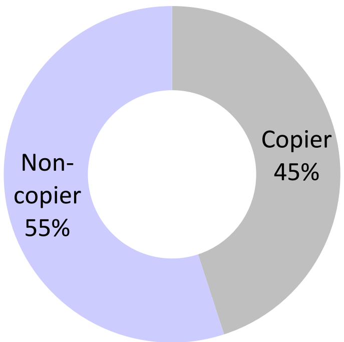
TRID is the world's largest and India's only wheat straw-based paper manufacturer. The company has two units with capacity of 175k MT p.a. in Barnala (Punjab), which contribute ~18% of its overall revenue. The company uses wheat straw (residue left after harvesting wheat, which typically wheat farmers sell for extra income) for manufacturing paper, which provides it with a locational advantage as Punjab is the highest wheat producing state in the country (facilitates easy procurement at attractive pricing). Additionally, the use of wheat straw is environment friendly. With production capacity of 450TPD, TRID saves 8,100 trees per day by using wheat straw instead of wood. This, in turn, results in a reduction of 5,520lbs of CO2 emissions per 1,000 reams of paper produced.

The manufacturing facilities are technology advanced as well, with TRID being the first mill in the world to use ECF bleaching and oxygen delignification on wheat straw and the first mill in India to adopt fuzzy logic for burner management in lime-kiln, in-house QC and R&D lab.

Product mix skewed toward high-growth copier paper

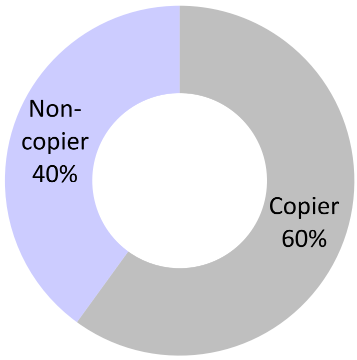
TRID's Paper business contributes ~18% of overall revenues. The high-growth, high-margin branded copier paper accounts for ~60% of its sales volume. The company intends to further increase the share of branded copier and leverage on the industry-wide growth in the segment. Copier paper in India is witnessing a CAGR of ~8% v/s ~4% in other paper and stationery.

Exhibit 10: Paper product mix in FY13



Source: Company, MOSL

Exhibit 11: Paper product mix in FY17



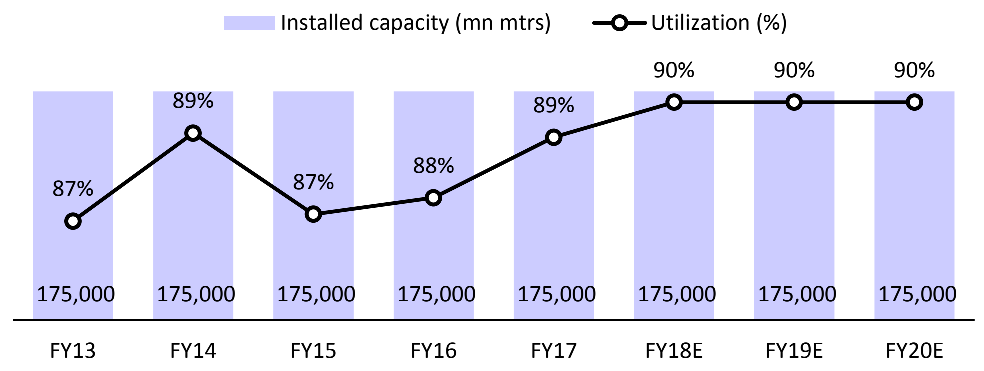
Source: Company, MOSL

With 47 distributors pan-India and customer presence across 54 countries, TRID commands the highest market share in north India, and is the fourth largest player in India. Easy procurement at attractive pricing as discussed earlier also provides multiple sourcing alternatives. With production capacity of 450TPD, TRID is set to augment its market share further.

Going forward, the company plans to carry out a debottlenecking project to release capacity of 250-275 TPD, which would improve its utilization, allowing further expansion in the copier segment. Copier paper, being among the top-selling brands in India and also providing higher margins, is expected to drive overall Paper business margin expansion of 340bp to 38% in FY20.

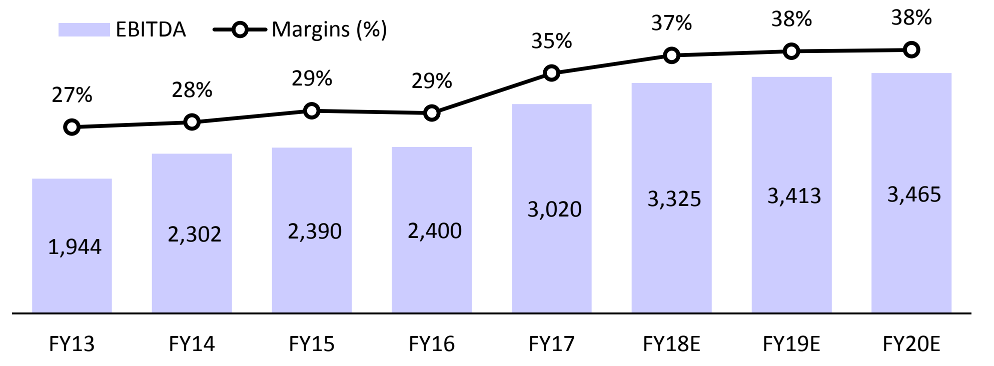
Additionally, there is no new capacity coming up industry-wide on account of huge barriers to entry (e.g., environment clearance as government stresses on a zero disposal plant; heavy capex; replacement cost of a paper manufacturing plant is as large as ~INR20b and takes ~4 years for commercial launch). This will lead to higher capacity utilization while capturing growth in the segment.

Exhibit 12: Paper units to run at high utilization level



Source: Company

Exhibit 13: EBITDA margins in Paper business to expand



Source: Company

Culminating capex cycle

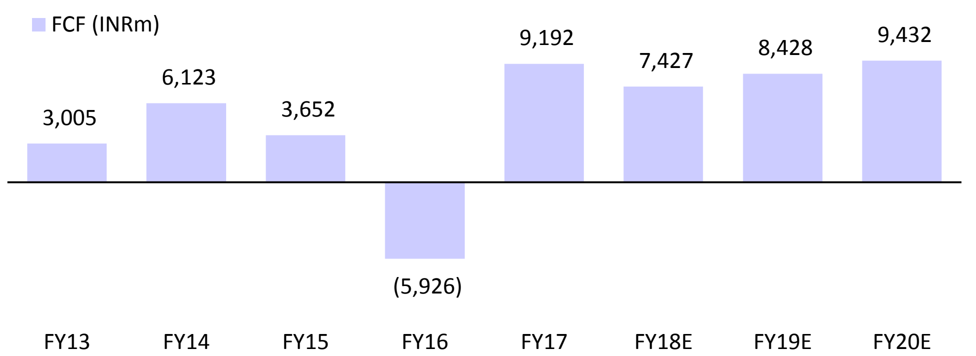
Robust free cash flow generation expected as major capex cycle gets over

TRID in the recent past has invested heavily to expand and carry out backward integration for its existing capacities. In FY16, the company executed greenfield expansion with total outlay of INR7.5b for 1.9 lac spindles capable of producing compact yarn up to 120 counts. The initiative was taken to attain 100% backward integration for the bed linen unit.

Going forward, the company is not expected to invest heavily in expanding capacities. In the paper segment too, there is no new capacity coming up industry-wide on account of huge barriers to entry (e.g., environment clearance as government stresses on a zero disposal plant; heavy capex; replacement cost of a paper manufacturing plant is as large as ~INR20b and takes ~4 years for commercial launch).

The company is rather expected to improve efficiencies by undertaking initiatives like debottlenecking, which would result in better capacity utilization in both Paper and Home Textile. Utilization in yarn is expected to increase to 98% in FY20 from current levels of 93%, while in Paper utilization is likely to rise marginally to 90% in FY20 from 89% now. Utilization in bed and bath linen is expected to increase to 60% and 65% in FY20 from current levels of 29% and 50%, respectively.

Exhibit 14: Robust free cash flow generation expected



Source: Company, MOSL

SWOT analysis

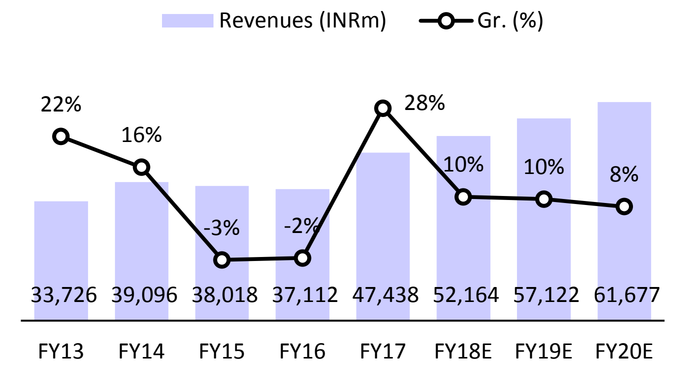
Earnings to post 24% CAGR over FY17–20

EBITDA margin to expand by 110bp

We expect PAT CAGR of 24% over FY17–20, led by 9% CAGR in revenue due to ramp-up of the bed linen segment (as the business turns EBITDA profitable) and steady growth in the bath linen and paper businesses. Additionally, 11% EBITDA CAGR over the same period would aid growth in PAT.

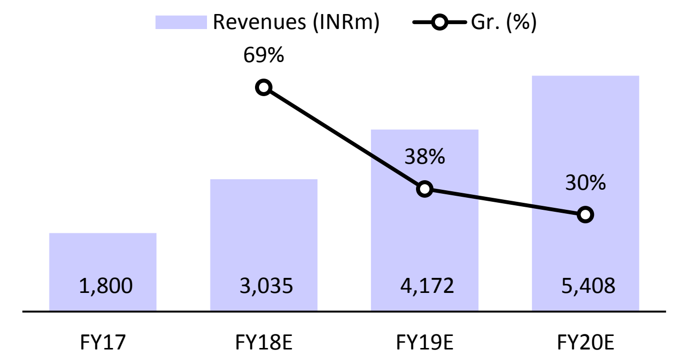
Revenue growth would be driven by 44% revenue CAGR in bed linen and steady revenue CAGR of 12% in bath linen.

Exhibit 15: Revenue to post 9% CAGR over FY17–20…



Source: Company, MOSL

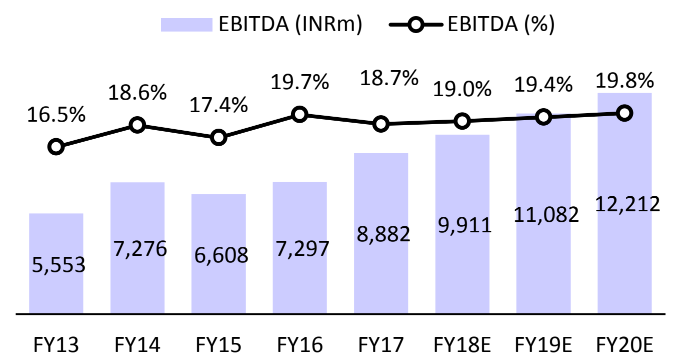
Exhibit 16: …driven by 44% revenue CAGR in bed linen



Source: Company, MOSL

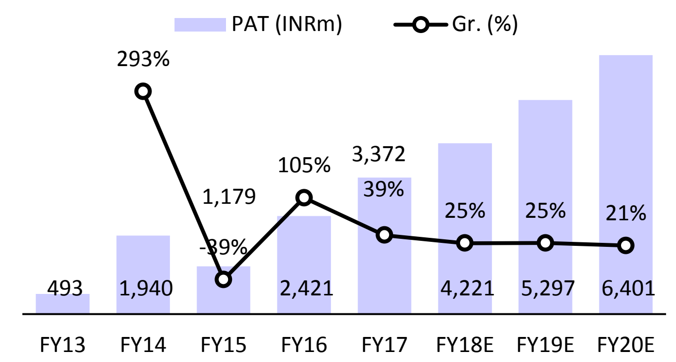
We expect EBITDA margin to expand by 110bp to 19.8% in FY20, as the company continues to improve its product mix toward higher-value products, especially in the paper and bed linen segments. PAT margin is expected to expand from 7.1% in FY17 to 10.4% in FY20 on account of deleveraging of balance sheet, as the company continues its efforts to turn debt-free.

Exhibit 17: EBITDA to register CAGR of 11% over FY17–20



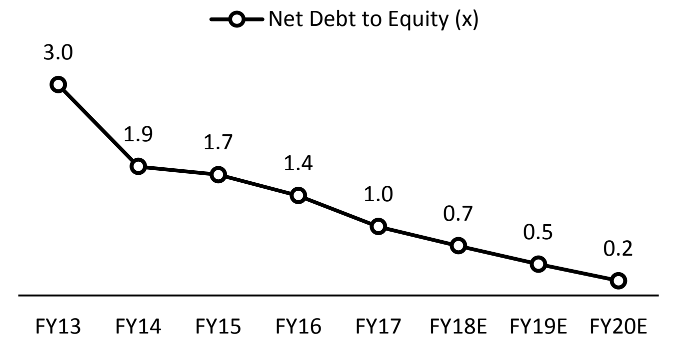
Source: Company, MOSL

Exhibit 18: PAT to record CAGR of 24% over FY17–20



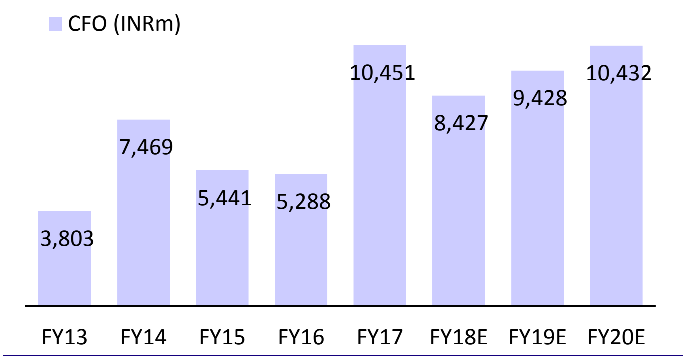
Source: Company, MOSL

Exhibit 19: Surging toward becoming debt-free



Source: Company, MOSL

Exhibit 20: Cash flow from operations to remain strong

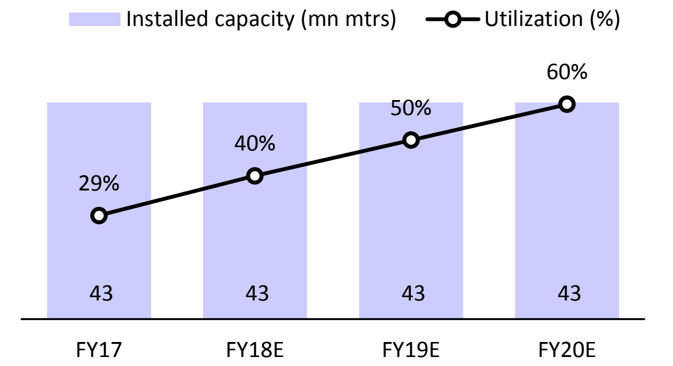


Source: Company, MOSL

TRID's overall utilization rate is expected to improve further on better operational efficiencies, led by a significant improvement in utilization of bed linen, followed by bath linen. This, coupled with top-line growth, should lead to improved return ratios.

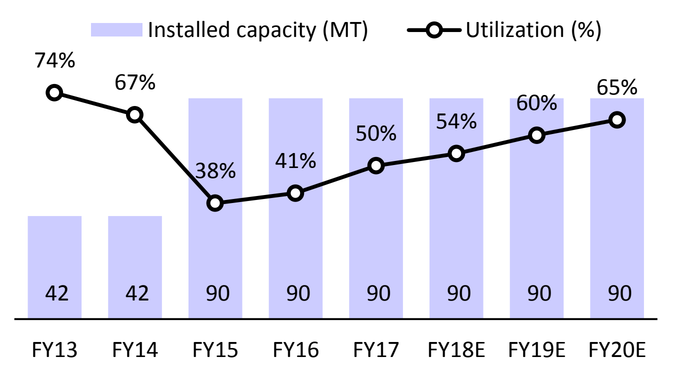
We estimate 9% sales CAGR and 24% PAT CAGR over FY17-20, with improving RoCE and RoE (from 7.5% and 13% in FY17 to 13% and 17.1% in FY20, respectively). IND AS adjustment recognized on fair valuation of PPE to the tune of INR7,582m has resulted in a depressed return ratios, with RoE and RoCE standing at 18.3% and 8.6% in FY17 pre-adjustment v/s 13% and 7.5% in FY17 post-adjustment. Consequently, pre-adjusted RoE and RoCE is expected to increase to 21.4% and 15.1% in FY20E respectively.

Exhibit 21: Improved utilization in bed linen



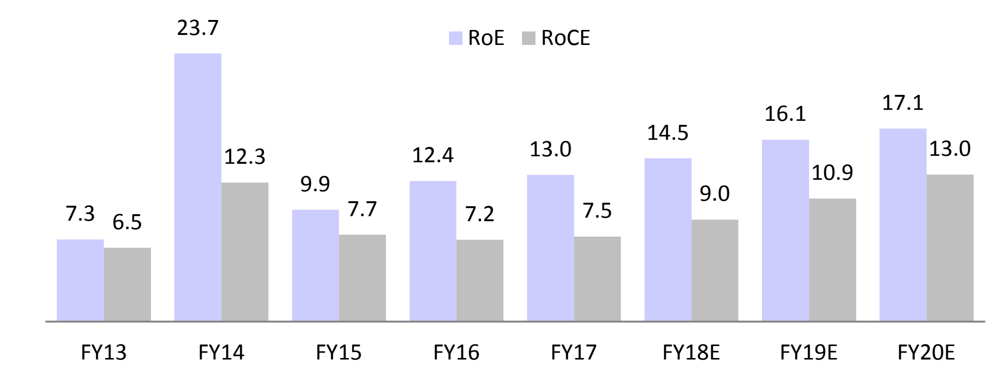
Source: Company, MOSL

Exhibit 22: Improved utilization in bath linen



Source: Company, MOSL

Exhibit 23: Higher utilization to improve return ratios



Source: Company, MOSL

Valuation and view

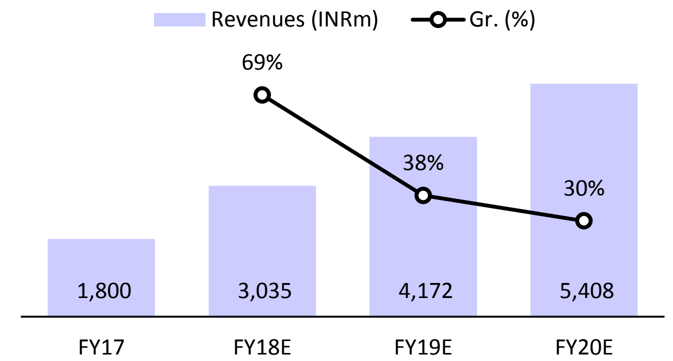
Initiating with Buy rating

- **We believe TRID is set to benefit from multiple factors, including industry growth and the expanding share of bed linen from 4% of overall revenues in FY17 to 9% in FY20E.**
- **The rising share of copier paper (from 45% of Paper sales volume in FY13 to 60% in FY17) is expected to lead to Paper business margin expansion of 340bp to 38% in FY20.**
- **We estimate a CAGR of 9% in sales and 24% in PAT over FY17-20, with improving RoCE and RoE (from 7.5% and 13% in FY17 to 13% and 17.1% in FY20, respectively).**
- **We value TRID at 11x FY19E EPS, arriving at a price target of INR114, implying 39% upside. We initiate coverage on TRID with a Buy rating.**

Growth in bed linen segment

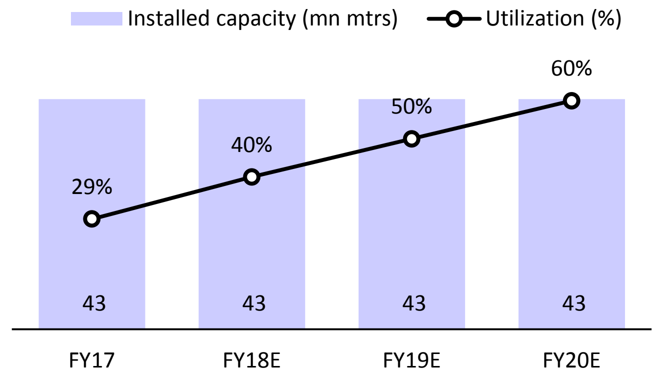
The company is expected to turn EBITDA profitable in the recently ventured bed linen segment by 3QFY18 as utilization touches 40%. In the first year of operations, bed linen witnessed utilization of 29%, which is expected to increase to 60% in FY20. Also, the segment's share in overall revenue is expected to increase from 4% in FY17 to 9% in FY20.

Exhibit 24: Bed linen to post revenue CAGR of 44% over FY17-20E



Source: Company, MOSL

Exhibit 25: Bed linen utilization set to improve to 60% in FY20E



Source: Company, MOSL

Higher utilization in bath linen segment

TRID used to run at high utilization of 74% in the towel segment in FY13. However, utilization declined thereafter as the company almost doubled its capacity in the segment from 42MT in FY13 to 90MT in FY15 to make itself future-ready. Going forward, the company is expected to witness higher utilization (65% in FY20E v/s 50% in FY17), which would not require further addition of spindles as yarn capacity would be utilized in-house.

TRID's rising share in global market

The share of Indian companies in the global textile market is on the rise as the country is becoming highly competitive in terms of raw material cost, labor cost and level of automation, leading to improved quality. TRID has been proactive in capitalizing on this opportunity, leading to an increase in the company's share in global towel exports to the US (from 10% in CY14 to 13% in CY16). Also, the company's share in Indian towel exports to the US has also increased from 28% in CY14 to 32% in CY16.

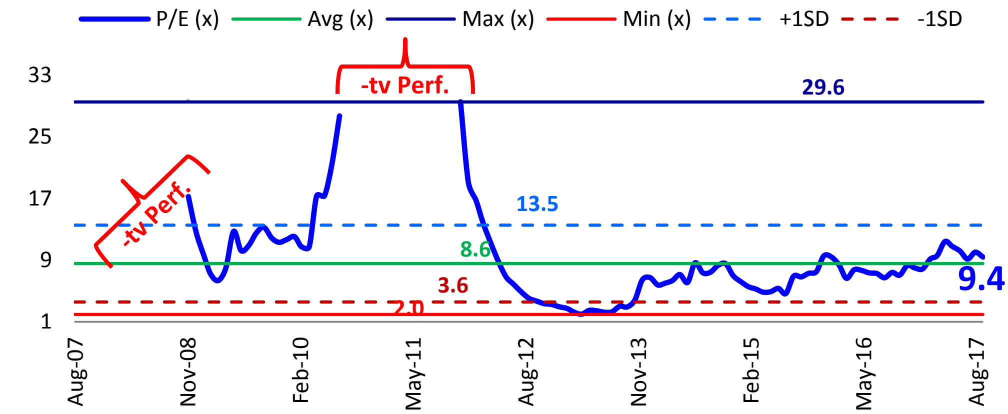
Paper biz margin driven by branded copier paper

TRID has consistently increased its share of copier paper over the years. Copier paper contributed 45% of its overall Paper sales volume in FY13, which increased to 60% in FY17. Since, copier paper commands high margins, we expect Paper business margin to expand 340bp to 38% in FY20.

Value TRID at 11x P/E multiple on FY19E EPS

We believe TRID is set to benefit from multiple factors, including industry growth and expanding share of bed linen/copier paper. Hence, we estimate 9% sales CAGR and 24% PAT CAGR over FY17-20, with improving RoCE and RoE (from 7.5% and 13% in FY17 to 13% and 17.1% in FY20, respectively). IND AS adjustment recognized on fair valuation of PPE to the tune of INR7,582m has resulted in a depressed return ratios, with RoE and RoCE standing at 18.3% and 8.6% in FY17 pre-adjustment v/s 13% and 7.5% in FY17 post-adjustment. Consequently, pre-adjusted RoE and RoCE is expected to increase to 21.4% and 15.1% in FY20E respectively. We value TRID at 11x FY19E EPS, arriving at a TP of INR114, implying 39% upside. We initiate coverage with **Buy**.

Exhibit 26: TRID's 1-year forward P/E



Source: Company, MOSL

Exhibit 27: Peer Comparison

Company Name	Market Cap. (USD m)	PE		PB		RoE %		EV/Sales		Sales CAGR FY17-19E	PAT CAGR FY17-19E
		FY18E	FY19E	FY18E	FY19E	FY18E	FY19E	FY18E	FY19E		
Vardhman Textiles Ltd.	1,047	9.1	7.5	1.4	1.2	15.2	16.4	1.2	1.1	7%	5%
Indo Count Industries Ltd.	318	9.0	7.7	2.0	1.6	22.9	21.8	1.0	0.9	6%	4%
Welspun India Ltd.	1,154	11.5	9.5	2.6	2.2	25.3	24.9	1.5	1.3	11%	11%
KPR Mill Ltd.	892	15.6	13.3	3.5	2.9	23.4	22.2	2.0	1.8	16%	21%
Trident Ltd.	625	9.9	7.9	1.4	1.2	14.5	16.1	1.2	1.0	**10%**	**25%**

Source: Company, MOSL

Bull & Bear case

Bull case

- ☑ In the bull case, we are assuming a boost in demand from the global home textile industry, resulting in a significant improvement in utilization, and thus, driving volume growth. Over FY17-20, we assume revenue CAGR of 13% (9% in base case), EBITDA CAGR of 16% (11% in base case) and PAT CAGR of 32% (24% in base case).
- ☑ We assume that the company will be able to convert small orders in bed linen into sustainable large orders, resulting in revenue CAGR of 59% over FY17-20 in the bed linen segment (44% in base case).
- ☑ We assume that the company would leverage its market leadership position in bath linen and expand into overseas markets other than the US, resulting in revenue CAGR of 18% over FY17-20 in the bath linen segment (12% in base case). We assume a rapid shift in product mix toward high-value products, resulting in significant margin expansion.
- ☑ Accordingly, we are assuming 140bp EBITDA margin expansion (110bp in base case) to 20.1% over FY17-20. This will lead to EPS CAGR of 32% over FY17-20.
- ☑ Assuming a target multiple of 12x in the bull case instead of 11x that we have taken for the base case, we get a bull case target price of INR154 (upside of 88% to CMP) instead of the base case target price of INR114 (upside of 39%), based on FY19E EPS.

Bear case

- ☑ In the bear case, we are assuming muted growth in global home textile industry, leading to pressure on capacity utilization in both bed and bath linen. Over FY17-20, we assume revenue CAGR of 1% (9% in base case), EBITDA CAGR of 2% (11% in base case) and PAT CAGR of 7% (24% in base case).
- ☑ We assume that the company will face increased pressure from competitors and at raw material prices front, which would not allow the company to sustain large orders in bed linen. We assume revenue CAGR of 15% over FY17-20 in the bed linen segment (44% in base case).
- ☑ We assume that increased competition, coupled with muted growth in the global home textile industry, would restrict growth in the bath linen segment. We assume utilization in the segment would dip down to 45% in FY20 (65% in base case).
- ☑ Accordingly, we are assuming 50bp EBITDA margin expansion (110bp in base case) to 19.2% over FY17-20. This will lead to EPS CAGR of 7% over FY17-20.
- ☑ Assuming a target multiple of 10x, we get a bear case target price of INR72 (downside of 12%), instead of the base case target price of INR114 (upside of 39%), based on FY19E EPS.

Exhibit 28: Scenario Analysis – Bull Case

	FY17	FY18E	FY19E
Sales (INR m)	47,438	59,135	63,889
Sales growth (%)	27.8	24.7	8.0
EBITDA (INR m)	8,882	11,413	12,586
EBITDA Margin (%)	18.7	19.3	19.7
EBITDA growth (%)	22%	28%	10%
PAT (INR m)	3,372	5,471	6,546
PAT Margin (%)	7.1	9.3	10.2
PAT growth (%)	39.3	62.2	19.7
EPS (INR)	6.6	10.7	12.8
Target multiple (x)			12
Target price (INR)			**154**
Upside/downside (%)			88

Source: Company, MOSL

Exhibit 29: Scenario Analysis – Bear Case

	FY17	FY18E	FY19E
Sales (INR m)	47,438	49,206	48,157
Sales growth (%)	27.8	3.7	-2.1
EBITDA (INR m)	8,882	9,201	9,102
EBITDA Margin (%)	18.7	18.7	18.9
EBITDA growth (%)	22%	4%	-1%
PAT (INR m)	3,372	3,634	3,652
PAT Margin (%)	7.1	7.4	7.6
PAT growth (%)	39.3	7.8	0.5
EPS (INR)	6.6	7.1	7.2
Target multiple (x)			10
Target price (INR)			**72**
Upside/downside (%)			-12

Source: Company, MOSL

Industry overview

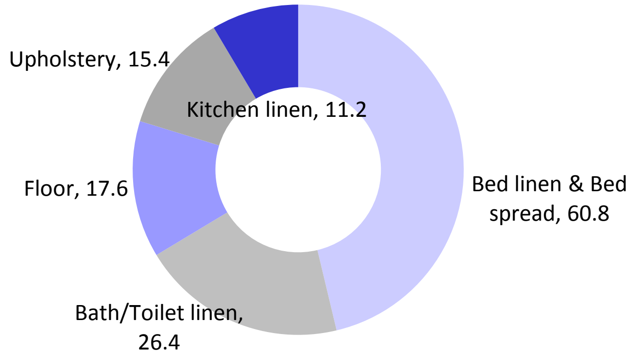
Home Textile presents huge opportunity with rising Indian share in global market

Global home textile industry

The global home textile industry is expected to grow at a 3.5% CAGR over 2015-20 to reach USD131.5b, driven by growth in bed linen/spread and bath linen.

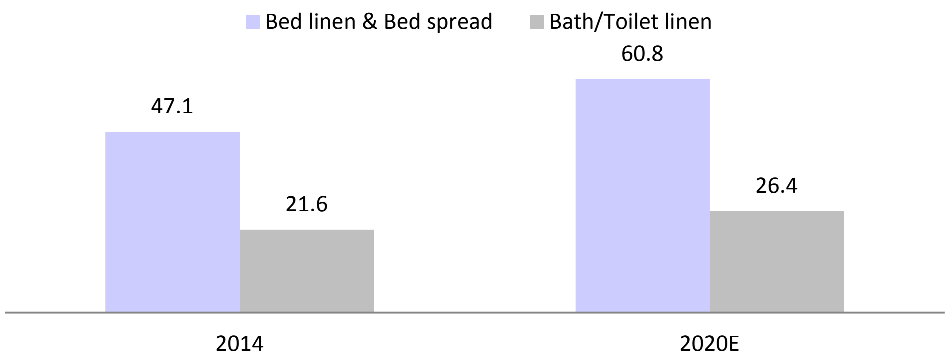
The bed linen and bed spread segment accounted for the largest share of 43.9% in 2014, and is expected to grow at a CAGR of 4.4%, from USD48.9b in 2015 to USD60.8b by 2020. Bath/toilet linen accounted for the second largest market share – it is expected to grow at 3.5% to reach USD26.4b by 2020, representing 20.1% market share.

Exhibit 30: Size of global home textile market – 2020E (USDb)



Source: Company, MOSL

Exhibit 31: Global bed & bath linen market size (USDb)



Source: Company, MOSL

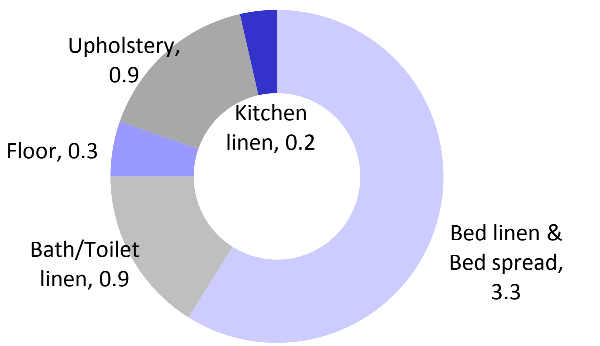
India commands the third largest share in the Asia-Pacific home textile market. Home textile spending in India (at USD3.7b in 2014E) is expected to grow at a CAGR of 7.2% over 2015-20 (fastest in the world) to reach USD5.6b by 2020.

Indian home textile market

Bed linen and bed spread segment accounted for 58.1% of the Indian home textile market worth USD2.1b in 2014, and is expected to witness highest growth over 2015-20 (CAGR of 7.4%) to reach USD3.3b. Bath/Toilet linen, which held the second largest market share in 2014, is expected to register a CAGR of 6.9% to reach USD0.9b by 2020.

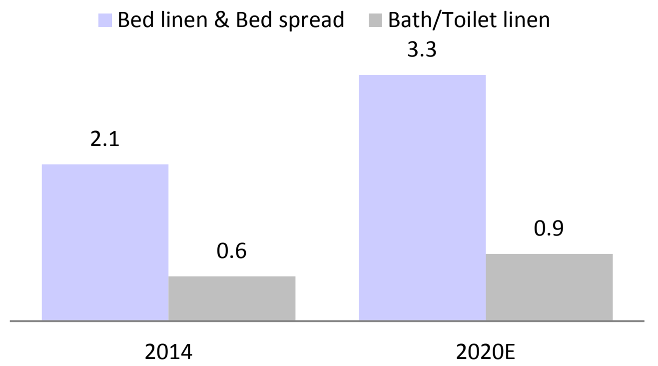
Growth in the domestic textile segment is expected to be driven by India's advantageous position in terms of raw material and labor cost. India has a strategic advantage over its major competitor China in terms of labor cost (USD1.12 per hour v/s USD2.65 per hour in China), according to the Werner International 2014 report. Moreover, the Indian government's policies – e.g. Technology Upgradation Fund Scheme (TUFS), duty drawback, liberalization of FDI policy and EPCG – have provided a big boost to the textile industry.

Exhibit 32: Size of Indian home textile market - 2020E (USDb)



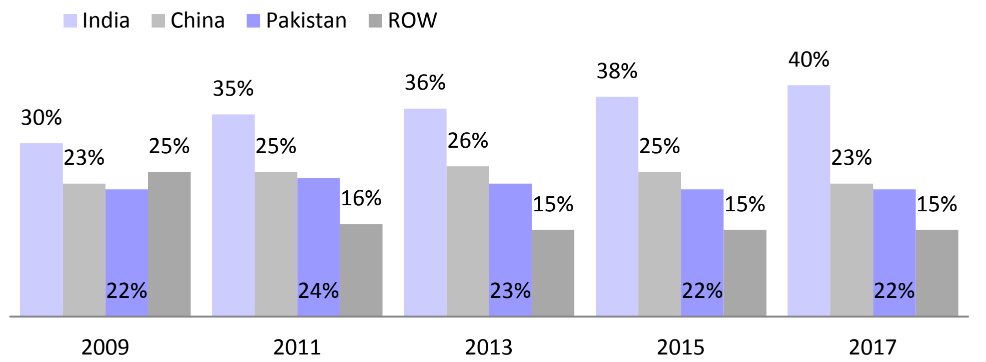
Source: Company, MOSL

Exhibit 33: Indian bed & bath linen market size (USDb)



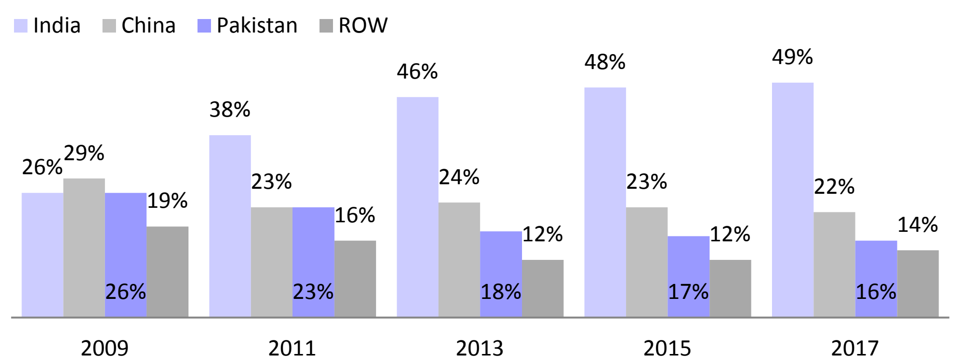
Source: Company, MOSL

Exhibit 34: Market share in US towel market



Source: Company, MOSL

Exhibit 35: Market share in US sheet market



Source: Company, MOSL

Domestic paper industry to witness CAGR of 8-10%

The Indian paper industry accounts for ~3% of the world's paper production, with a turnover of ~INR500b. Total production grew at a CAGR of 13.3% over FY11-15 to ~16.63m tonnes. The domestic paper industry, employing more than 0.5m people directly and 1.5m people indirectly, is being driven by multiple factors:

- The government policies such as 100% FDI in the sector and 0% import duty on machinery support growth in the industry. Further, the GoI has earmarked spending of INR280b on education and proposed to open 62 Navodaya Vidyalaya over the next two years.
- The country is witnessing a constant increase in the literacy rate (from 65% in 2001 to 74% in 2011).
- Demand for paper is directly linked to growth in the publications sector. The country witnessed an increase in the number of registered publications (newspapers and other periodicals) from 73,146 in 2009 to 1,05,443 in 2015.
- Additionally, the industry is witnessing increased demand for packaging products and heightened corporate activity.

The paper consumption in India is expected to grow by an average annual growth rate of 8-10% over FY16-19, with capacity addition in line with demand growth. Annual per capita consumption of paper in India remains at a mere 13kg v/s global average of 57kg, providing enough headroom for growth.

Demand in the paper industry is expected to be driven by growth in branded copier paper (CAGR of 10% over FY17-FY21), which is expected to outpace growth in writing and printing paper (CAGR of 4.7%).

Exhibit 36: Annual per capita consumption of paper (kg)

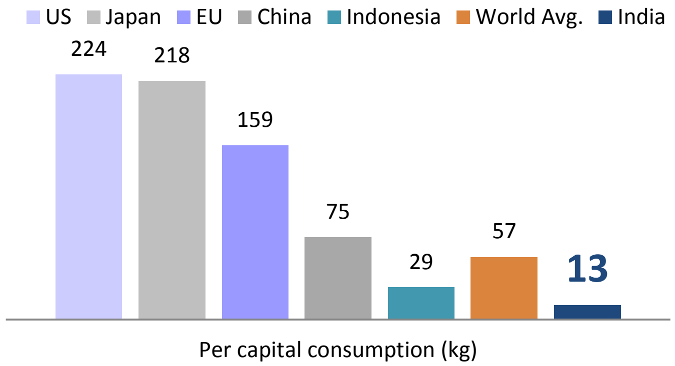


Exhibit 37: India's demand supply matrix of paper industry

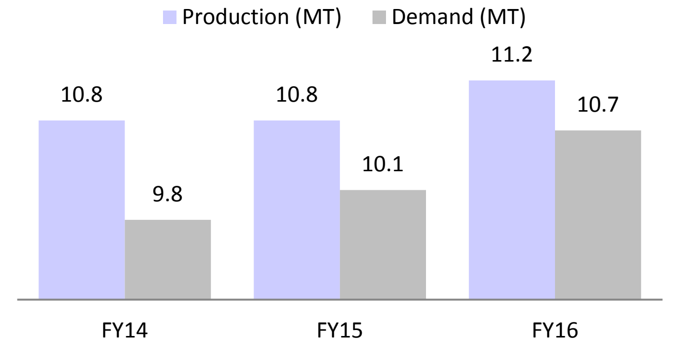
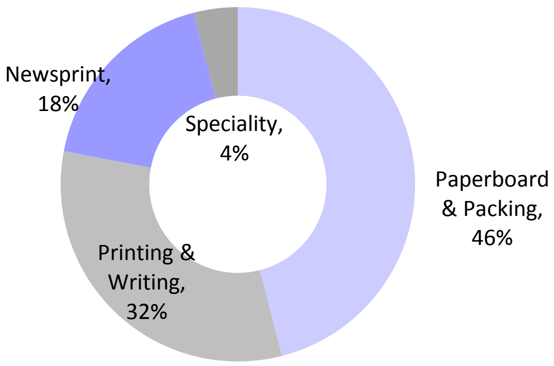
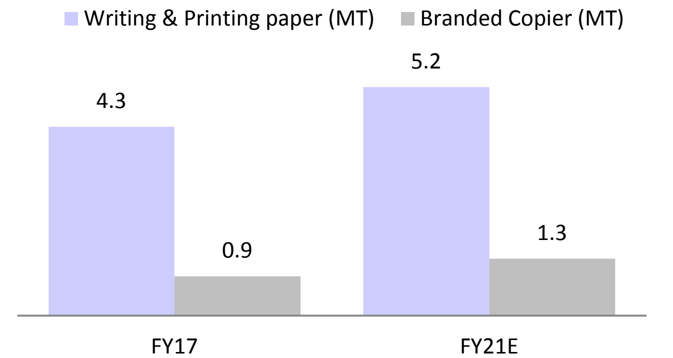


Exhibit 38: Paper consumption pattern by category



Source: Company, MOSL

Exhibit 39: Copier paper to grow at 10% CAGR over FY17-21



Source: Company, MOSL

Key risks

Currency appreciation

TRID has presence across the globe, with exports forming 89% of revenue in the bed and bath linen segment, 32% in yarn and 9% in paper. The Indian currency appreciated 2.7% against the USD from Apr’16 to Jun’17. Since a large part of the company’s revenue is exposed to currency risk, any unfavorable movement in currency would have a negative impact of profitability.

Fluctuating cotton prices

The industry witnessed a sharp increase of 20% in cotton prices from Apr’16 to Jun’17. Since cotton is the major raw material for the company, any unfavorable fluctuation in the cotton prices directly impacts the margins.

Management overview

Mr Rajinder Gupta, Co-Chairman

Mr. Gupta is the founder of the company and served as Managing Director from 1992 to 2012. A first generation entrepreneur having rich & varied exposure of promoting industrial ventures over the last three decades, Mr. Gupta was awarded "Padmashree" in 2007, in recognition of his distinguished services in the field of trade and industry. He is the Nominated Vice-Chairman of Punjab State Planning Board, Chairman of FICCI Regional Advisory Council (Punjab, Haryana, Chandigarh & HP) and member of Managing Committee of ASSOCHAM.

Mr Abhishek Gupta, Chief Executive Officer

Mr. Gupta, serving as the CEO of the company, leads the Corporate Marketing and Innovation Team and spearheaded the branding initiatives of Copier Paper. He holds Bachelor's Degree in Law & Business studies from University of Warwick, International Marketing from Harvard Business School and Entrepreneurial Development Program from ISB, Hyderabad. He was recently honored with the ASSOCHAM Leadership Award (CEO), 2016.

Ms Pallavi Shardul Shroff, Chairperson

Ms Shroff is currently Chairperson and independent director on company's board. She is a Managing Partner of Shardul Amarchand Mangaldas & Co. having over 35 years of experience. She is the National Practice Head of Dispute Resolution, leading litigation and arbitration teams and mentors the Competition Law practice at the firm. She has been recognized as one of the Most Powerful Women in Indian Business by Business Today.

Mr Rajiv Dewan, Independent Director

Mr. Dewan is currently an independent director on company's board. He is a practicing Chartered Accountant and possesses wide experience in tax planning, management consultancy, business restructuring, capital market operations, SEBI-related matters and other corporate laws.

Mr Deepak Nanda, Managing Director

Mr. Nanda is currently the Managing Director. He is an alumnus of IIM, Ahmedabad and holds a degree of Master of Science in Computer Software and Management. Mr Nanda possesses more than three decades of experience in business development, client relationship, contract negotiations, project implementation and delivery, and improving the efficiency and effectiveness of business.

Financials and valuations

Consolidated - Income Statement							(INR Million)
Y/E March	**FY14**	**FY15**	**FY16**	**FY17**	**FY18E**	**FY19E**	**FY20E**
Gross Revenue from Operations	**39,096**	**38,018**	**37,112**	**47,438**	**52,164**	**57,122**	**61,677**
Change (%)	15.9	-2.8	-2.4	27.8	10.0	9.5	8.0
Raw Materials	20,521	19,309	17,286	22,916	25,091	27,419	29,543
Employees Cost	2,870	3,872	4,295	5,794	6,468	6,969	7,401
Other Expenses	8,429	8,230	7,778	9,351	10,172	11,082	11,904
Excise			455	494	522	571	617
Total Expenditure	**31,820**	**31,410**	**29,815**	**38,556**	**42,253**	**46,040**	**49,465**
% of Sales	81.4	82.6	80.3	81.3	81.0	80.6	80.2
EBITDA	**7,276**	**6,608**	**7,297**	**8,882**	**9,911**	**11,082**	**12,212**
Margin (%)	18.6	17.4	19.7	18.7	19.0	19.4	19.8
Depreciation	2,684	3,213	3,366	4,125	4,187	4,258	4,319
EBIT	**4,592**	**3,395**	**3,931**	**4,757**	**5,725**	**6,824**	**7,893**
Int. and Finance Charges	2,103	2,060	1,452	1,410	1,169	956	669
Other Income	163	345	334	1,035	939	1,028	1,110
PBT bef. EO Exp.	**2,652**	**1,680**	**2,813**	**4,382**	**5,495**	**6,896**	**8,334**
EO Items	0	0	0	0	0	0	0
PBT after EO Exp.	**2,652**	**1,680**	**2,813**	**4,382**	**5,495**	**6,896**	**8,334**
Total Tax	681	501	392	1,016	1,274	1,599	1,933
Tax Rate (%)	25.7	29.8	13.9	23.2	23.2	23.2	23.2
Minority Interest	30	0	0	-7	0	0	0
Reported PAT	**1,940**	**1,179**	**2,421**	**3,372**	**4,221**	**5,297**	**6,401**
Adjusted PAT	**1,940**	**1,179**	**2,421**	**3,372**	**4,221**	**5,297**	**6,401**
Change (%)	293.5	-39.3	105.4	39.3	25.2	25.5	20.9
Margin (%)	5.0	3.1	6.5	7.1	8.1	9.3	10.4

Consolidated - Balance Sheet							(INR Million)
Y/E March	**FY14**	**FY15**	**FY16**	**FY17**	**FY18E**	**FY19E**	**FY20E**
Equity Share Capital	3,111	5,086	5,094	5,096	5,096	5,096	5,096
Total Reserves	5,737	9,467	19,267	22,473	25,741	29,843	34,800
Net Worth	**9,278**	**14,554**	**24,361**	**27,568**	**30,837**	**34,938**	**39,896**
Minority Interest	0	0	0	0	0	0	0
Total Loans	18,623	25,801	36,592	29,733	25,233	19,733	11,733
Deferred Tax Liabilities	1,082	1,242	1,582	1,655	1,655	1,655	1,655
Capital Employed	**28,983**	**41,597**	**62,535**	**58,956**	**57,725**	**56,326**	**53,283**
Gross Block	34,858	48,688	70,389	71,122	72,500	73,576	74,591
Less: Accum. Deprn.	16,902	20,049	23,415	27,540	31,727	35,985	40,304
Net Fixed Assets	**17,956**	**28,639**	**46,974**	**43,582**	**40,774**	**37,591**	**34,287**
Capital WIP	363	2,219	571	1,098	720	644	629
Total Investments	**1,152**	**309**	**723**	**1,054**	**1,054**	**1,054**	**1,054**
Curr. Assets, Loans&Adv.	**12,344**	**13,904**	**17,025**	**16,132**	**18,392**	**20,543**	**21,084**
Inventory	6,429	7,508	9,065	7,747	8,335	8,956	9,486
Account Receivables	2,641	2,033	2,513	3,751	4,287	4,695	5,069
Cash and Bank Balance	250	170	819	1,326	2,133	2,910	2,228
Loans and Advances	3,024	4,192	4,627	3,307	3,637	3,982	4,300
Curr. Liability & Prov.	**2,832**	**3,473**	**2,758**	**2,909**	**3,214**	**3,505**	**3,770**
Account Payables	2,326	2,490	2,237	2,302	2,547	2,775	2,981
Other Current Liabilities	267	534	373	390	429	469	507
Provisions	239	450	148	217	238	261	282
Net Current Assets	**9,513**	**10,431**	**14,266**	**13,223**	**15,178**	**17,038**	**17,314**
Appl. of Funds	**28,983**	**41,597**	**62,535**	**58,956**	**57,725**	**56,327**	**53,284**

E: MOSL Estimates

Financials and valuations

Ratios

Y/E March	FY14	FY15	FY16	FY17	FY18E	FY19E	FY20E
Basic (INR)							
EPS	**3.8**	**2.3**	**4.8**	**6.6**	**8.3**	**10.4**	**12.6**
Cash EPS	9.1	8.6	11.4	14.7	16.5	18.7	21.0
BV/Share	18.2	28.6	47.8	54.1	60.5	68.6	78.3
DPS	0.3	0.6	0.9	1.2	1.6	1.9	2.4
Payout (%)	8.1	28.9	22.6	22.6	22.6	22.6	22.6
Valuation (x)							
P/E		35.4	17.2	12.4	9.9	7.9	6.5
Cash P/E		9.5	7.2	5.6	5.0	4.4	3.9
P/BV		2.9	1.7	1.5	1.4	1.2	1.0
EV/Sales		1.8	2.1	1.5	1.2	1.0	0.8
EV/EBITDA		10.2	10.6	7.9	6.5	5.3	4.2
Dividend Yield (%)	0.3	0.7	1.1	1.5	1.9	2.4	2.9
FCF per share	12.0	7.2	-11.6	18.0	14.6	16.5	18.5
Return Ratios (%)							
RoE	23.7	9.9	12.4	13.0	14.5	16.1	17.1
RoCE	12.3	7.7	7.2	7.5	9.0	10.9	13.0
RoIC	12.1	7.2	6.8	6.3	8.0	9.9	12.0
Working Capital Ratios							
Fixed Asset Turnover (x)	1.1	0.8	0.5	0.7	0.7	0.8	0.8
Asset Turnover (x)	1.3	0.9	0.6	0.8	0.9	1.0	1.2
Inventory (Days)	60	72	89	60	58	57	56
Debtor (Days)	25	20	25	29	30	30	30
Creditor (Days)	22	24	22	18	18	18	18
Leverage Ratio (x)							
Current Ratio	4.4	4.0	6.2	5.5	5.7	5.9	5.6
Interest Cover Ratio	2.2	1.6	2.7	3.4	4.9	7.1	11.8
Net Debt/Equity	1.9	1.7	1.4	1.0	0.7	0.5	0.2

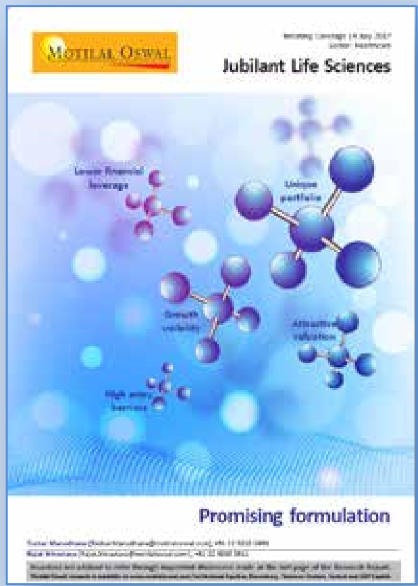
Consolidated - Cash Flow Statement (INR Million)

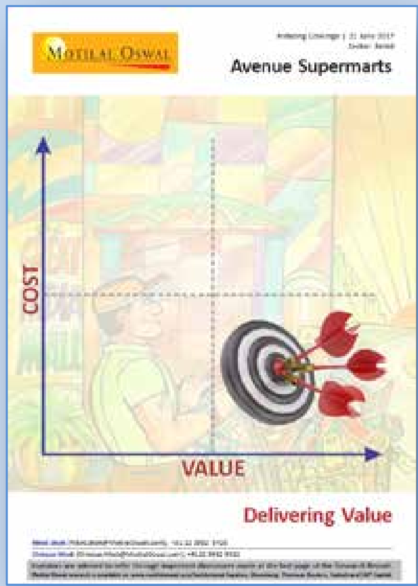
Y/E March	FY14	FY15	FY16	FY17	FY18E	FY19E	FY20E
OP/(Loss) before Tax	2,652	1,680	2,766	4,382	5,495	6,896	8,334
Depreciation	2,684	3,213	3,376	4,125	4,187	4,258	4,319
Interest & Finance Charges	2,028	1,939	1,230	1,410	1,169	956	669
Direct Taxes Paid	-584	-347	-600	-1,016	-1,274	-1,599	-1,933
(Inc)/Dec in WC	435	-977	-1,424	1,550	-1,149	-1,082	-958
CF from Operations	**7,214**	**5,509**	**5,348**	**10,451**	**8,427**	**9,428**	**10,432**
Others	255	-68	-60	0	0	0	0
CF from Operating incl EO	**7,469**	**5,441**	**5,288**	**10,451**	**8,427**	**9,428**	**10,432**
(Inc)/Dec in FA	-1,345	-1,789	-11,214	-1,259	-1,000	-1,000	-1,000
Free Cash Flow	**6,123**	**3,652**	**-5,926**	**9,192**	**7,427**	**8,428**	**9,432**
(Pur)/Sale of Investments	-411	192	-250	-331	0	0	0
Others	-58	396	132	668	0	0	0
CF from Investments	**-1,814**	**-1,200**	**-11,332**	**-922**	**-1,000**	**-1,000**	**-1,000**
Issue of Shares	433	187	611	2	0	0	0
Inc/(Dec) in Debt	-4,062	-1,966	7,809	-6,859	-4,500	-5,500	-8,000
Interest Paid	-2,106	-2,056	-1,367	-1,410	-1,169	-956	-669
Dividend Paid	-5	-486	-360	-761	-952	-1,195	-1,444
Others	0	0	0	7	0	0	0
CF from Fin. Activity	-5,740	-4,321	6,694	-9,022	-6,621	-7,651	-10,113
Inc/Dec of Cash	**-86**	**-80**	**649**	**507**	**806**	**777**	**-682**
Opening Balance	336	250	170	819	1,327	2,133	2,910
Closing Balance	**250**	**170**	**819**	**1,327**	**2,133**	**2,910**	**2,228**

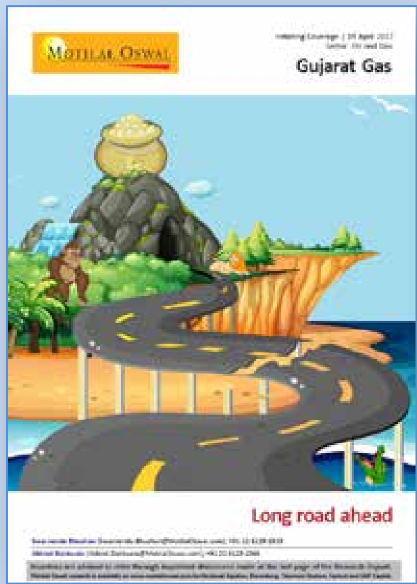
NOTES

REPORT GALLERY

RECENT INITIATING COVERAGE REPORTS







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Trident Ltd.: Q1FY18 Result Update

In Line Performance

CMP INR 76 | Target INR 118

Rating: BUY | Upside: 51%

Kshitij Kaji
Research Analyst
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Trident has delivered a revenue growth of 2% and a slight fall in margins. However PAT has improved 14% due to lower finance costs. This performane is inline with the management guidance of a muted H1FY18 followed by a stronger H2FY18. Trident's disclosures have also improved with the company sharing the segmental split between paper and home textiles. So while the home textile industry continues to face slight headwinds in the form of twin challenger from cotton and currency, paper continues to outperform. However cotton prices have already started coming off and therefore we also believe Trident can deliver a stronger H2FY18. We believe that improving financial metrics and cheap valuation provide high margin of safety and re-iterate "BUY" with a price target of Rs INR 118.

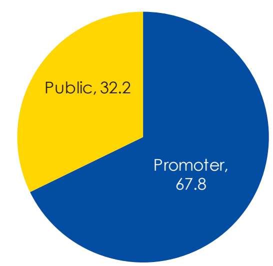
Bloomberg:	TRID:IN
52-week range (INR):	92/ 45
Share in issue (cr):	5.1
M cap (INR cr):	3,832
Avg. Daily Vol. BSE/NSE :('000):	200

Muted performance from home textiles

Home Textiles revenues grew 3% in this quarter from INR 1,171 Cr in Q1FY17 to INR 1,210 Cr in Q1FY18 led by higher utilization in bed sheets which increased from 29% in FY17 to 36% in Q1FY18. Terry towel and yarn utilization also improved from 50% in FY17 to 51% in Q1FY18 and 93% in FY17 to 95% in Q1FY18 respectively. While bed sheet volumes grew 36% y-o-y, towel volumes degrew 7% y-o-y on account of higher base. The other pain point was the domestic business (15% of home textile revenues) which witnessed subdued growth due to transition phase of GST. Overall, EBITDA declined by 7% to INR 164 crore in Q1FY18 vs. INR 176 crore in Q1FY17 while margins fell from 18% to 16.5% due to higher cotton costs and rupee appreciation.

Paper continues to outperform

Although paper utilization fell from 89% in FY17 to 83% in Q1FY18, this division still clocked a topline growth of 3% to INR 214 crore in Q1FY18 from INR 207 crore in Q1FY17 as the share of the higher margin copier paper was sustained at above 50%. This also resulted in an increase in EBITDA by 33% to INR 95 crore in Q1FY18 from INR 71 crore in Q1FY17. EBITDA margins in the paper segment were at an all time high of 44% aided by lower raw material costs. We expect these margins to reduce going forward to around 36-38%.



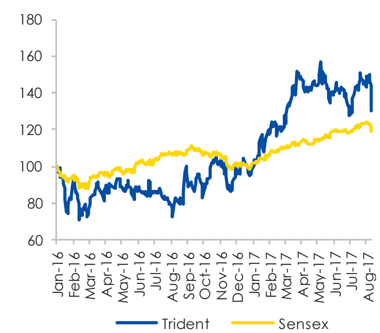
H2FY18 to be better; Debt repayment on track

Cotton prices have already started coming off which will aid in improving margins going forward and we are thus expecting a strong H2FY18 for Trident in the home texties segment. Growth will also be driven by domestic sales in the ensuing quarters due to its brand presence in 450 Multi Brand Outlets and e-commerce. Company has repaid debt of INR 227 Cr in Q1FY18 and thus long term debt stands at INR 1,821 Cr now. This debt repayment has helped reduced interest outgo which thus resulted in a PAT growth of 14% inspite of a flat EBITDA.

Outlook and Valuations – Positive; Re-iterate BUY

While top line growth will be muted due to higher captive yarn consumption, the bottom line can catapult 30% over FY17-19E as operating and financial leverage play out. At an inexpensive valuation of 7x FY19E P/E, increasing RoCE (from 8% in FY16 to 15% plus in FY19E) and the ability to generate free cash flows in excess of INR600cr every year provides a high margin of safety. We value Trident at 11x FY19E P/E and re-iterate our Buy rating.

Year to March	Q1FY18	Q1FY17	% change	Q4FY17	% change	FY17	FY18E	FY19E
Net sales (INR cr)	1181	1159	2%	1281	-8%	4,693	4,861	5,283
Growth (%)						*27*	*4*	*9*
EBITDA (INR cr)	230	235	-2%	213	8%	888	1,008	1,164
Adj PAT (INR cr)	89	78	14%	92	-3%	342	430	550
Growth (%)						*45*	*30*	*28*
Dil. EPS (INR)						6.5	8.4	10.8
Diluted P/E (x)						11.2	8.6	6.8
EV/EBITDA (x)						7.2	5.7	4.4
ROAE (%)						18.6	20.7	22.4



Date: 14th August 2017

Q1FY18 Result Highlights

Particulars	Q1FY18	Q1FY17	% change	Q4FY17	% change	FY17	FY18E	FY19E
Income from operations	1181	1159	2%	1281	-8%	4,693	4,861	5,283
Cost of goods sold	552	549	1%	653	-15%	2,689	2,747	2,969
Employee expenses	148	135	10%	151	-2%	552	572	622
Other expenses	251	240	5%	264	-5%	1,115	1,107	1,150
Total operating expenses	951	924	3%	1,068	-11%	3,805	3,853	4,119
EBITDA	230	235	-2%	213	8%	888	1,008	1,164
Depreciation and amortization	102	103	-1%	101	1%	412	407	401
EBIT	128	132	-3%	112	14%	477	601	763
Interest expenses	33	43	-23%	32	3%	143	122	109
Other income	29	13	123%	49	-41%	110	80	60
PBT	124	102	22%	129	-4%	444	558	714
Provision for tax	35	24	46%	29	21%	102	128	164
Core profit	89	78	14%	100	-11%	342	430	550
Extraordinary items	0	0	NA	0	NA	-10	0	0
Adjusted net profit	89	78	14%	100	-11%	332	430	550
No. of shares (Cr)						51	51	51
Diluted EPS (INR)						6.5	8.4	10.8

Financials

Income statement (Standalone) (INR Cr)

Year to March	FY15	FY16	FY17	FY18E	FY19E
Income from operations	3,755	3,684	4,693	4,861	5,283
Direct costs	2,253	2,058	2,689	2,747	2,969
Employee costs	387	434	552	572	622
Other expenses	841	907	1,115	1,107	1,150
Total operating expenses	3,095	2,965	3,805	3,853	4,119
EBITDA	661	719	888	1,008	1,164
Depreciation and amortisation	321	338	412	407	401
EBIT	339	381	477	601	763
Interest expenses	206	136	143	122	109
Other income	34	32	110	80	60
Profit before tax	168	277	444	558	714
Provision for tax	50	49	102	128	164
Core profit	118	228	342	430	550
Profit after tax	117	227	342	430	550
Adjusted net profit	117	229	332	430	550
Equity shares outstanding (mn)	51	51	51	51	51
EPS (INR) basic	2.3	4.5	6.5	8.4	10.8
Diluted shares (Cr)	50.9	50.9	50.9	50.9	50.9
EPS (INR) fully diluted	2.3	4.5	6.5	8.4	10.8
Dividend per share	0.6	0.9	1.5	1.9	2.5
Dividend payout (%)	24.4	19.8	23.0	23.0	23.0

Common size metrics- as % of net revenues

Year to March	FY15	FY16	FY17	FY18E	FY19E
Operating expenses	82.4	80.5	81.1	79.3	78.0
Depreciation	8.6	9.2	8.8	8.4	7.6
Interest expenditure	5.5	3.7	3.0	2.5	2.1
EBITDA margins	17.6	19.5	18.9	20.7	22.0
Net profit margins	3.1	6.2	7.1	8.8	10.4

Growth metrics (%)

Year to March	FY15	FY16	FY17	FY18E	FY19E
Revenues	(2.9)	(1.9)	27.4	3.6	8.7
EBITDA	(9.2)	8.8	23.6	13.4	15.5
PBT	(36.7)	64.7	60.5	25.8	27.9
Net profit	(40.2)	93.4	49.9	29.6	27.9
EPS	(62.8)	94.2	44.8	29.6	27.9

Balance sheet (Standalone) (INR Cr)

As on 31st March	FY15	FY16	FY17E	FY18E	FY19E
Equity share capital	509	449	449	449	449
Preference Share Capital	0	60	60	60	60
Reserves & surplus	947	1,210	1,465	1,796	2,220
Shareholders funds	1,455	1,719	1,914	2,245	2,669
Secured loans	2,580	3,368	0	0	0
Borrowings	2,580	3,368	2,868	2,468	2,268
Sources of funds	**4,035**	**5,147**	**4,842**	**4,773**	**4,997**
Gross block	4,869	6,163	6,213	6,313	6,413
Depreciation	2,005	2,333	2,745	3,152	3,553
Net block	2,864	3,830	3,469	3,162	2,861
Capital work in progress	222	62	0	0	0
Total fixed assets	3,086	3,892	3,469	3,162	2,861
Investments	31	94	100	100	100
Inventories	751	909	771	932	1,013
Sundry debtors	203	177	321	293	318
Cash and equivalents	17	82	228	397	809
Loans and advances	246	320	407	422	458
Total current assets	1,218	1,487	1,728	2,044	2,598
Sundry creditors and others	302	312	257	333	362
Provisions	4	24	25	26	28
Total CL & provisions	307	336	282	359	389
Net current assets	911	1,152	1,446	1,684	2,209
Net Deferred tax	-124	-173	-173	-173	-173
Misc expenditure	132	182	0	0	0
Uses of funds	**4,035**	**5,147**	**4,842**	**4,773**	**4,997**
Book value per share (INR)	29	34	39	45	54

Cash flow statement (INR cr)

Year to March	FY15	FY16	FY17E	FY18E	FY19E
Net profit	118	228	342	430	550
Add: Depreciation	321	338	412	407	401
Add: Misc expenses written off	15	-50	182	0	0
Add: Deferred tax	16	48	0	0	0
Add: Others	0	1	-10	0	0
Gross cash flow	470	566	926	837	951
Less: Changes in W. C.	114	176	148	70	113
Operating cash flow	356	389	778	767	838
Less: Capex	1,575	1,144	50	100	100
Free cash flow	**-1,219**	**-754**	**728**	**667**	**738**

Ratios

Year to March	FY15	FY16	FY17	FY18E	FY19E
ROAE (%)	10.1	14.7	18.6	20.7	22.4
ROACE (%)	9.6	8.1	9.3	12.1	15.1
Debtors (days)	20	18	25	22	22
Current ratio	4.0	4.4	6.1	5.7	6.7
Debt/Equity	1.8	2.0	1.5	1.1	0.8
Inventory (days)	73	90	60	70	70
Payable (days)	29	31	20	25	25
Cash conversion cycle (days)	63	77	65	67	67
Debt/EBITDA	3.9	4.7	3.2	2.4	1.9
Adjusted debt/Equity	1.8	1.9	1.3	0.9	0.5

Valuation parameters

Year to March	FY15	FY16	FY17	FY18E	FY19E
Diluted EPS (INR)	2.3	4.5	6.5	8.4	10.8
Y-o-Y growth (%)	*(62.8)*	*94.2*	*44.8*	*29.6*	*27.9*
CEPS (INR)	8.6	11.1	14.6	16.4	18.7
Diluted P/E (x)	31.5	16.2	11.2	8.6	6.8
Price/BV (x)	2.6	2.2	1.9	1.6	1.4
EV/Sales (x)	1.7	1.9	1.4	1.2	1.0
EV/EBITDA (x)	9.5	9.7	7.2	5.7	4.4
Diluted shares O/S	50.9	50.9	50.9	50.9	50.9
Basic EPS	2.3	4.5	6.5	8.4	10.8
Basic PE (x)	31.5	16.2	11.2	8.6	6.8
Dividend yield (%)	0.8	1.2	1.8	2.3	2.9

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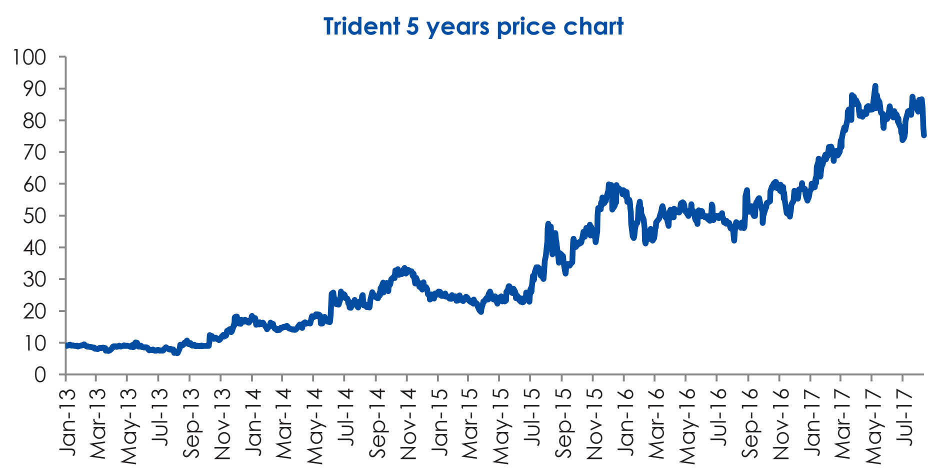
Rating	**Expected to**
Buy	appreciate more than 15% over a 12-month period
Hold	appreciate between 5-15% over a 12-month period
Reduce	Return below 5% over a 12-month period



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Trident BUY

Paper margin lifts 1QFY18 profitability

TP	Rs91
CMP	Rs76
Potential upside / downside	+20%
Previous Rating	BUY

V/s Consensus

EPS (Rs)	FY18E	FY19E
IDBI Capital	6.8	10.1
Consensus	7.5	10.2
% difference	*(9.3)*	*(1.0)*

Key Stock Data

Bloomberg / Reuters	TRID IN / TRIE.BO
Sector	Midcap
Shares o/s (mn)	510
Market cap. (Rs mn)	38,729
Market cap. (US$ mn)	602
3-m daily average value (Rs mn)	85
52-week high / low	Rs92 / 45
Nifty / Sensex	9,794 / 31,449

Shareholding Pattern (%)

Promoters	67.8
FII	0.0
DII	2.1
Public	30.1

Relative to Sensex (%)

Price Performance (%)

	-1m	-3m	-12m
Absolute	(9.5)	(13.2)	59.0
Rel to Sensex	(6.9)	(16.6)	48.1

Summary

- **Trident's Q1FY18 EBITDA margin was better than our estimates; however, sales growth was slightly below forecast on lower than expected towel volumes.**
- **Trident's sales stood at Rs12,785 mn (-7.1% QoQ, + 3.7% YoY). Nevertheless, EBITDA margin was ~300 bps above our estimate at 21.8% (+209bps QoQ, -27 bps YoY) on stronger-than-expected margins in Paper business.**
- **Margin improvement was led by Paper & Chemicals division with EBIT margin of 35.6% (+1082bps QoQ, +718 bps QoQ) on lower raw material costs. However, plant utilization was lower at 83% (89% in FY17) due to weak demand.**
- **We maintain Buy on the stock with a revised target price of Rs91 (previous Rs103).**

Key Highlights and Investment Rationale

- **Bed linen strong; Towel laggard:** We were positively surprised by strong growth in Bed linen sales volumes (+32% QoQ) with plant utilization at 36% (29% in Q4FY17). However, Towel division utilization fell to 51% (54% in Q4FY17).
- **Textile margins improve QoQ:** Textiles EBIT margin improved QoQ by 42bps (although it fell 315bps YoY) to 7.9% despite firm cotton prices and INR appreciation against the USD.
- **Overhang on incentives/ duty drawback remains:** Currently, there is uncertainty on the carry forward of two schemes -Rebate on State levies (ROSL) and export duty drawback post the September 2017. **This is likely to be a key overhang on the stock until clarity emerges.** We believe these benefits are likely to continue post September and hence, build it in our estimates.
- **Revise target price; Maintain Buy:** We raise our margin estimates for FY18/ FY19 to improve as we raise Paper & Chemicals margins. We continue to expect gradual improvement in sales volumes of towel and bed sheet businesses. We revise our target price from Rs103 to Rs91 valuing the stock at 9.0x FY19 earnings. **Maintain BUY.**

Financial snapshot (Rs mn)

Year	FY2015	FY2016	FY2017	FY2018E	FY2019E
Revenue	37,553	37,112	47,438	51,168	58,507
EBITDA	6,608	7,297	8,889	9,972	12,070
EBITDA (%)	*17.6*	*19.7*	*18.7*	*19.5*	*20.6*
Adj. PAT	1,179	2,421	3,379	3,444	5,127
EPS (Rs)	2.3	4.3	6.6	6.8	10.1
EPS Growth (%)	*(63.4)*	*83.5*	*56.0*	*1.9*	*48.9*
PE (x)	32.9	17.9	11.5	11.3	7.6
Dividend Yield (%)	1.3	0.8	2.0	2.4	2.8
EV/EBITDA (x)	7.9	8.7	6.3	4.9	3.6
RoE (%)	9.9	15.0	14.9	12.0	16.1
RoCE (%)	14.1	11.1	10.9	12.4	17.4

Source: Company; IDBI Capital Research

Table 1: Quarterly Snapshot

(Rs mn)

Financial snapshot	Q1FY18	Q4FY17	*QoQ (%)*	Q1FY17	*YoY (%)*
Net sales	**11,903**	**12,811**	***(7.1)***	**11,482**	***3.7***
Expenditure	9,510	10,680	*(11.0)*	9,132	*4.1*
EBITDA	**2,594**	**2,621**	***(1.0)***	**2,585**	***0.4***
EBITDA margin (%)	*21.8*	*19.7*	*209bps*	*22.1*	*(27)bps*
Interest	334	321	*4.1*	427	*(21.8)*
Depreciation	1,023	1,010	*1.3*	1,034	*(1.1)*
PBT	1,237	1,290	*(4.1)*	1,023	*21.0*
Tax	348	293	*18.6*	236	*47.3*
PAT	**889**	**997**	***(10.8)***	**785**	***13.4***
Diluted EPS (Rs)	**1.75**	**1.96**	***(10.8)***	**1.54**	***13.3***

Source: Company; IDBI Capital Research

Table 2: Actual vs. Estimates

(Rs mn)

	Q1FY18E	Q1FY18	*Variance (%)*
Net sales	12,785	11,903	*(6.9)*
EBTIDA	2,405	2,594	*7.9*
Margin	18.8	21.8	*298bps*
PAT	905	889	*(1.7)*
Adj. diluted EPS (Rs)	1.78	1.75	*(1.7)*

Source: Company; IDBI Capital Research

Table 3: Segment Revenues

(Rs mn)

	Q1FY18	Q4FY17	*QoQ (%)*	Q1FY17	*YoY (%)*
Textiles	9,695	10,558	*(8.2)*	9,532	*1.7*
Paper & Chemicals	2,113	2,254	*(6.3)*	2,064	*2.4*

Source: Company; IDBI Capital Research

Table 4: Segment EBIT **(Rs mn)**

	Q1FY18	Q4FY17	*QoQ (%)*	Q1FY17	*YoY (%)*
Textiles	767	790	*(3.0)*	1,054	(27.2)
Paper & Chemicals	751	557	*34.8*	586	28.3

Source: Company; IDBI Capital Research

Table 5: Segment EBIT margins (%)

	Q1FY18	Q4FY17	*QoQ (%)*	Q1FY17	*YoY*
Textiles	7.9	7.5	*42bps*	11.1	*(315)bps*
Paper & Chemicals	35.6	24.7	*1,082bps*	28.4	*718bps*

Source: Company; IDBI Capital Research

We have raised our FY18/19 EBITDA margin estimates to incorporate higher margins in Paper business. Further, we have raised our interest costs and depreciation expenses for FY18/19 leading to net profit estimates being lower by 11.7%/12.3%, respectively.

Table 6: Change in estimates

	FY18E			FY19E		
	Old	New	*(%) Chg*	Old	New	*(%) Chg*
Revenue (Rs mn)	50,741	51,168	*0.8*	58,008	58,507	*0.9*
EBITDA (Rs mn)	9,325	9,972	*6.9*	11,666	12,070	*3.5*
EBITDA margin (%)	*18.4*	*19.5*	*111bps*	*20.1*	*20.6*	*52bps*
Net profit (Rs mn)	3,899	3,444	*(11.7)*	5,844	5,127	*(12.3)*
EPS (Rs)	7.7	6.8	*(11.7)*	11.5	10.1	*(12.3)*

Source: Company; IDBI Capital Research

Financial Summary

Profit & Loss Account

(Rs mn)

Year-end: March	FY16	FY17	FY18E	FY19E
Net sales	**37,112**	**47,438**	**51,168**	**58,507**
Growth (%)	*(1.2)*	*27.8*	*7.9*	*14.3*
Operating expenses	(29,815)	(38,549)	(41,195)	(46,437)
EBITDA	**7,297**	**8,889**	**9,972**	**12,070**
Growth (%)	*10.4*	*21.8*	*12.2*	*21.0*
Depreciation	(3,366)	(4,125)	(4,317)	(4,368)
EBIT	**3,931**	**4,764**	**5,655**	**7,701**
Interest paid	(1,452)	(1,410)	(938)	(678)
Other income	334	1,035	-	-
Pre-tax profit	**2,813**	**4,388**	**4,717**	**7,024**
Tax	(392)	(1,016)	(1,274)	(1,896)
Effective tax rate (%)	*13.9*	*23.2*	*27.0*	*27.0*
Net profit	**2,421**	**3,372**	**3,444**	**5,127**
Adjusted net profit	**2,421**	**3,379**	**3,444**	**5,127**
Growth (%)	*105.4*	*39.6*	*1.9*	*48.9*
Shares o/s (mn nos)	*569*	*510*	*510*	*510*

Cash Flow Statement

(Rs mn)

Year-end: March	FY16	FY17	FY18E	FY19E
Pre-tax profit	2,813	4,388	4,717	7,024
Depreciation	3,376	4,125	4,317	4,368
Tax paid	(600)	(1,016)	(1,274)	(1,896)
Chg in working capital	(1,424)	(1,381)	806	(1,218)
Other operating activities	(13,366)	2,463	938	678
Cash flow from operations (a)	**(9,201)**	**8,580**	**9,505**	**8,955**
Capital expenditure	(11,251)	(2,188)	(800)	(800)
Chg in investments	(250)	-	-	-
Other investing activities	(501)	32	-	-
Cash flow from investing (b)	**(12,001)**	**(2,156)**	**(800)**	**(800)**
Equity raised/(repaid)	611	-	-	-
Debt raised/(repaid)	7,809	(8,180)	(4,500)	(4,500)
Dividend (incl. tax)	(360)	(794)	(947)	(1,100)
Other financing activities	(1,367)	(2,177)	(1,121)	(892)
Cash flow from financing (c)	**6,694**	**(11,151)**	**(6,568)**	**(6,492)**
Net chg in cash (a+b+c)	**(309)**	**(19)**	**(4,727)**	**2,136**

Balance Sheet

(Rs mn)

Year-end: March	FY16	FY17	FY18E	FY19E
Net fixed assets	38,302	43,448	41,028	37,460
Investments	739	1,005	1,005	1,005
Other non-curr assets	2,525	2,317	1,220	1,220
Current assets	**15,071**	**15,095**	**16,598**	**19,840**
Inventories	9,092	7,747	8,252	9,451
Sundry Debtors	1,767	3,751	2,613	2,993
Cash and Bank	819	278	2,414	4,077
Marketable Securities	197	49	49	49
Loans and advances	3,181	1,365	1,365	1,365
Other current assets	15	1,905	1,905	1,905
Total assets	**56,637**	**61,865**	**59,851**	**59,524**
Shareholders' funds	**17,789**	**27,568**	**29,881**	**33,694**
Share capital	5,694	5,096	5,096	5,096
Reserves & surplus	12,095	22,473	24,786	28,599
Total Debt	**23,176**	**20,066**	**15,566**	**11,066**
Secured loans	21,365	17,463	12,963	8,463
Other liabilities	1,811	2,603	2,603	2,603
Curr Liab & Prov	**4,466**	**3,890**	**3,890**	**3,890**
Current liabilities	4,228	3,814	3,814	3,814
Provisions	238	76	76	76
Total equity & liabilities	**56,637**	**61,865**	**59,851**	**59,524**
Book Value (Rs)	**31**	**54**	**59**	**66**

Source: Company; IDBI Capital Research

Financial Ratios

Year-end: March	FY16	FY17	FY18E	FY19E
Adj EPS (Rs)	4.3	6.6	6.8	10.1
Adj EPS growth (%)	*83.5*	*56.0*	*1.9*	*48.9*
EBITDA margin (%)	*19.7*	*18.7*	*19.5*	*20.6*
Pre-tax margin (%)	*7.6*	*9.3*	*9.2*	*12.0*
ROE (%)	*15.0*	*14.9*	*12.0*	*16.1*
ROCE (%)	*11.1*	*10.9*	*12.4*	*17.4*
Turnover & Leverage ratios (x)				
Asset turnover (x)	0.7	0.8	0.8	1.0
Leverage factor (x)	3.1	2.6	2.1	1.9
Net Debt/Equity (x)	1.1	0.6	0.4	0.1
Working Capital & Liquidity ratio				
Inventory days	89	60	59	59
Receivable days	17	29	19	19
Payable days	27	22	22	22

Valuation

Year-end: March	FY16	FY17	FY18E	FY19E
PER (x)	17.9	11.5	11.3	7.6
Price / Book value (x)	2.4	1.4	1.3	1.2
PCE (x)	7.5	5.2	5.0	4.1
EV / Net sales (x)	1.7	1.2	1.0	0.7
EV / EBITDA (x)	8.7	6.3	4.9	3.6
Dividend Yield (%)	*0.8*	*2.0*	*2.4*	*2.8*

Notes

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