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Trident Ltd

Moving up the value chain

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Coverage Stock: Trident Ltd.

Moving up the value chain

CMP INR 85 | **Target INR 118**

Rating: BUY | **Upside: 40%**

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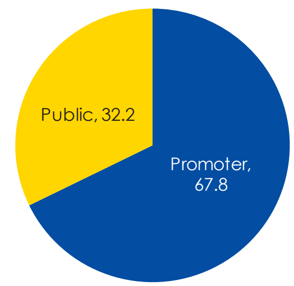
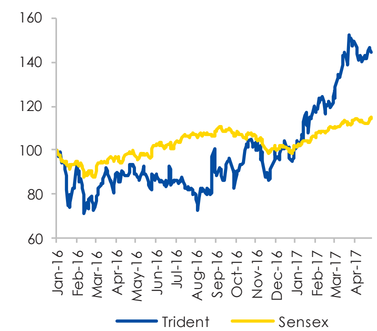
Bloomberg:	TRID:IN
52-week range (INR):	92 / 42
Share in issue (cr):	5.1
M cap (INR cr):	4,423
Avg. Daily Vol. BSE/NSE :('000):	200





Trident is one of the largest integrated home textile manufacturers in the world. Commencing operations as a yarn player, the company has shifted to the higher margin home textile segment. We estimate the company's operating margin to improve to over 22.0% in FY19 from 19.5% in FY16 due to shift up the value chain with home textile accounting for 71% of revenue in FY19E versus 46% in FY16. Also, with utilisation of terry towel and bed linen improving from the current 49% and 32%, respectively, operating leverage should boost margin further. Additionally, we expect Trident to utilise the free cash flow of INR600cr generated every year over FY17-19E, as its expansion plans have been completed, to pay off debt, resulting in a debt to equity of mere 0.8x in FY19E. We initiate coverage with 'BUY' and TP of INR118.

Indian home textile exports: To catapult to USD8.2bn by 2021 spearheaded by inherent advantages

India enjoys significant advantages in manufacture of cotton home textile such as surplus cotton, low labour costs, policy push to boost production and long-term relationships with clients due to strict compliance & quality adherence. India's market share in US cotton terry towels and bed linen has jumped from 28% and 22% in 2008 to 40% and 49%, respectively, in 2016 as it wrested market share from China due to labour cost advantage. However, it has failed to make a mark in other countries due to duty and tariff disadvantages. But, the government is discussing revised trade agreements and any positive outcome could be a huge kicker.

Multiple levers for margin expansion

We envisage Trident's EBITDA margin to jump to 22% in FY19E from 19% in FY17 riding multiple levers. First, the company has prudently metamorphosed from a low-margin yarn manufacturer to a higher-margin home textile major (home textile revenue will jump from 46% in FY16 to 70% in FY19E). Second, higher backward integration via rising captive consumption of yarn is bound to boost margin. Third, the paper division continues to report improved margin due to higher share of branded copier paper. Fourth, and most importantly, utilisation of terry towels and bed linen is expected to improve significantly from 49% and 32% currently to 66% and 54% in FY19E, respectively resulting in operating leverage.

Higher free cash flow generation to help prune debt, spur return ratios, PAT

We anticipate Trident to generate INR600cr free cash flow every year over FY17-19 as its capex has been completed and riding estimated improvement in utilisation. A part of this free cash flow is bound to be used to repay debt. Hence, we estimate the company's debt to equity to improve substantially from 2.0x in FY16 to 0.8x in FY19. Debt repayment coupled with margin expansion is expected to boost PAT, which is estimated to clock 28% CAGR over FY17-19E. Higher utilisation will spur asset turnover and margin, which will result in RoE and RoCE expanding from 8% and 14% in FY16 to 16% and 22% in FY19E, respectively.

Outlook and valuations: Spinning a growth story; initiate with '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 8x 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 initiate coverage on Trident with a price target of INR118 (40% upside from current level), valuing it at 11x FY19E P/E.

Year to March (Standalone)	FY15	FY16	FY17E	FY18E	FY19E
Revenues (INR cr)	3755	3684	4693	4861	5283
Rev growth (%)	-2.9	-1.9	27.4	3.6	8.7
EBITDA (INR cr)	661	719	888	1008	1164
PAT (INR cr)	117	227	342	430	550
EPS (INR)	2.3	4.5	6.5	8.4	10.8
EPS growth (%)	(40.2)	93.4	47.9	29.6	27.9
P/E (x)	36.7	18.9	13.0	10.1	7.9
EV/EBITDA (x)	10.4	10.6	7.8	6.3	5.0
RoACE (%)	9.6	8.1	9.3	12.1	15.1
RoAE (%)	10.1	14.7	18.6	20.7	22.4

Date: 10th May 2017

Pick up in capacity utilisation and Trident's ability to source higher realisation orders for the increased utilisation are key monitorables. 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 8x 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.

Indian home textile exports: To catapult to USD8.2bn by 2021 spearheaded by inherent advantages

	FY16	FY17E	FY18E	FY19E
Revenue	3684	4693	4861	5283
EBITDA	719	888	1008	1164
EBITDA Margin	19.5	18.9	20.7	22.0
PAT	227	342	430	550

Multiple levers for margin expansion

	FY16	FY17E	FY18E	FY19E
RoACE (%)	8.1	9.3	12.1	15.1
Debt to Equity (x)	2.0	1.5	1.1	0.8

Higher free cash flow generation to help prune debt, spur return ratios, PAT

	Multiple	Price Target
Trident	11x P/E	118
	13x P/E	140

Entry = INR 85

+

PAT CAGR of 28% over FY17E-FY19E to lead to exit multiple of 11x FY19E P/E

Total Return of 40%

Price Target	**INR 118**	Our TP is arrived at by assigning a 11x P/E multiple to Trident on an EPS of INR 10.8 in FY19E. The current capacity utilization (FY17E) is 49% in terry towel and 32% in bed linen. We have assumed a utilization of 65% in terry towel and 54% in bed linen in FY19E.
Bull 13x Bull Case 2019E EPS	**INR 146**	Assuming a higher utilization of ~70% in terry towel and ~60% in bed linen (along with spurt in bed linen realization) in FY19E, Trident can generate an EPS of 12 in FY19E. Historically, home textile companies have traded between 10x – 15x. Assigning a multiple of 13x P/E in FY19E (higher end of the range) gives us a TP of INR 146
Base 11x Base Case 2019E EPS	**INR 118**	Assuming our base case scenario of ~65% in terry towel and ~54% in bed linen, Trident can generate an EPS of 10.8 in FY19E. Historically, home textile companies have traded between 10x – 15x. Assigning 11x P/E (lower end of the range) on account of inferior return ratios gives us a TP of INR 118
Bear 10x Bear Case 2019E EPS	**INR 80**	In the bear case scenario, we have assumed a marginal increase in utilization of 55% in terry towel and 45% in bed linen from the current 49% and 32% respectively, Assigning a lower multiple of 10x FY19E on an EPS of INR 8 gives us a TP of INR 80 which is a 5% downside from the current levels

Trident Ltd.

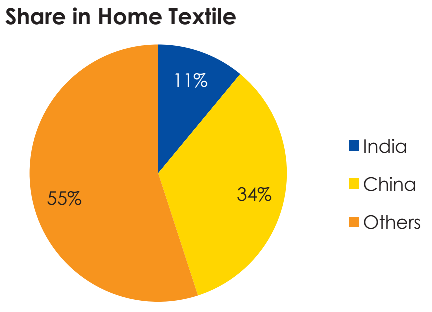
Average Daily Turnover (INR cr)			Stock Price (CAGR)				Relative to Sensex, CAGR (%)			
3 months	6 months	1 year	1 year	3 years	5 years	10 years	1 year	3 years	5 years	10 years
1.8	4.2	2.5	73%	71%	55%	17%	18%	11%	13%	9%

Business Value Drivers

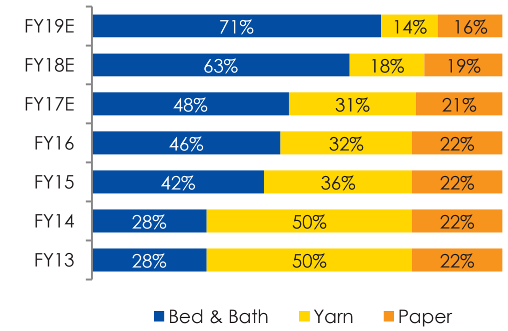
Nature of Industry	In home textiles - India has been gaining market share from China in the USA cotton home textile market, due to cheaper labour. We expect this structural advantage to last for at least a few more years.
Opportunity Size	While USA has largely been penetrated, focus is now shifting to Europe, Japan, Middle East and also domestic home textiles market. All these combined, present a huge opportunity size.
Capital Allocation	Capex has been completed. Company has increased dividend outgo on the back of higher free cash flow generation and has no further expansion plans
Predictability	Cotton and currency volatility will impact predictability
Sustainability	Very difficult to dislodge India's dominance in the USA home textile segment; Scope to expand globally will ensure sustainability
Disproportionate Future	The shift from a yarn manufacturer to a home textile major will ensure that the future performance in terms of return ratios will be better than the past as asset turnover and margins will improve
Business Strategy & Planned Initiatives	Current focus is ramp up in utilization along with higher realization orders
Near Term Visibility	Strong Visibility for 28% CAGR bottom line growth along with 250 bps improvement in operating margins from FY17-FY19E
Long Term Visibility	To remain one of the biggest home textile exporters from India and to increase domestic presence

Focus Charts – Story in a nutshell

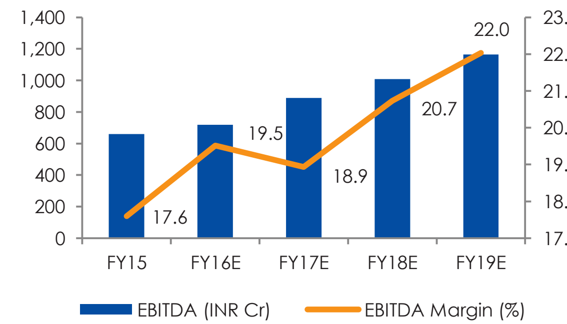
China and India are leaders in home textiles



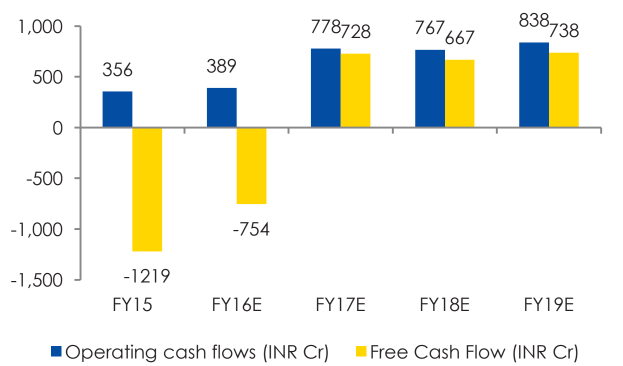
Trident is shifting from a yarn manufacturer to a home textile major



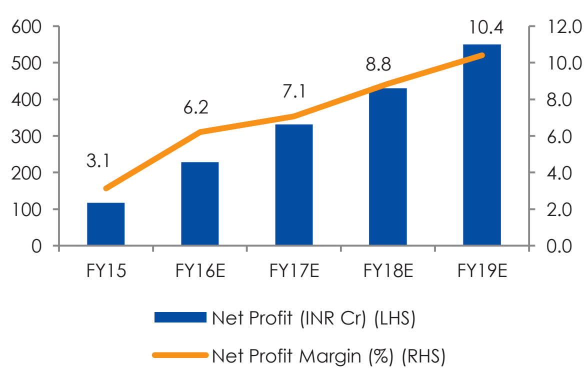
Shift to home textile will lead to margin improvement



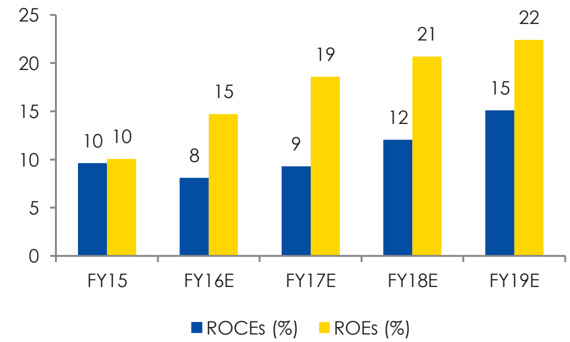
Due to capex completion, Trident will generate high free cash flows



Margin improvement with debt repayment from free cash flow to boost PAT



Higher utilization in home textiles to boost return ratios



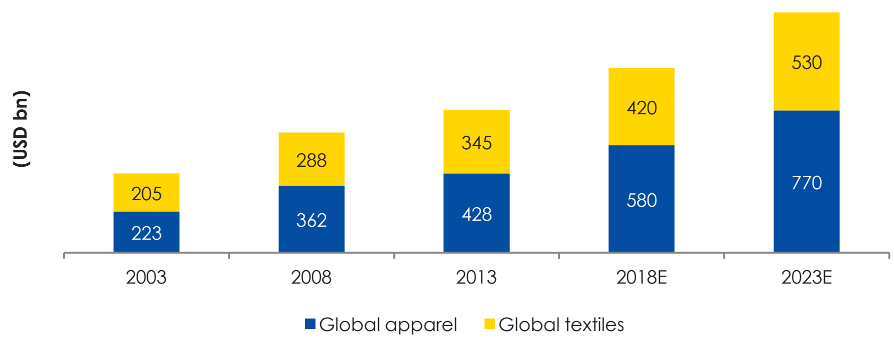
Source: Edelweiss Investment Research

I. Industry Overview

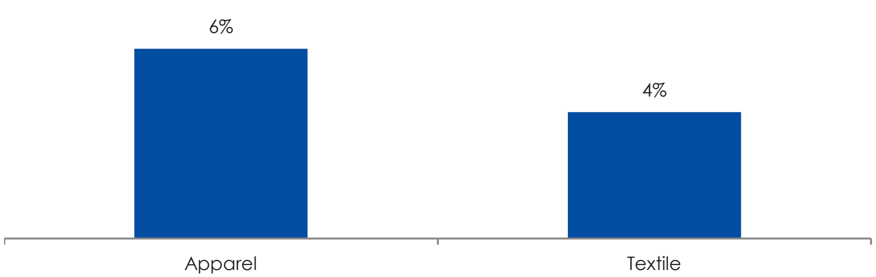
Global apparel and textile* trade in expansion mode; trend to sustain

Textile is an extremely labour-intensive industry. Higher consuming regions like Europe and US have extremely high labour costs and hence the trend of outsourced manufacturing to lower-wage countries is gaining ground, boosting apparel and textile trade.

Global apparel and textile trade is witnessing growth



Apparel trade growth to outpace textile trade growth



Source: Technopak, Edelweiss Investment Research

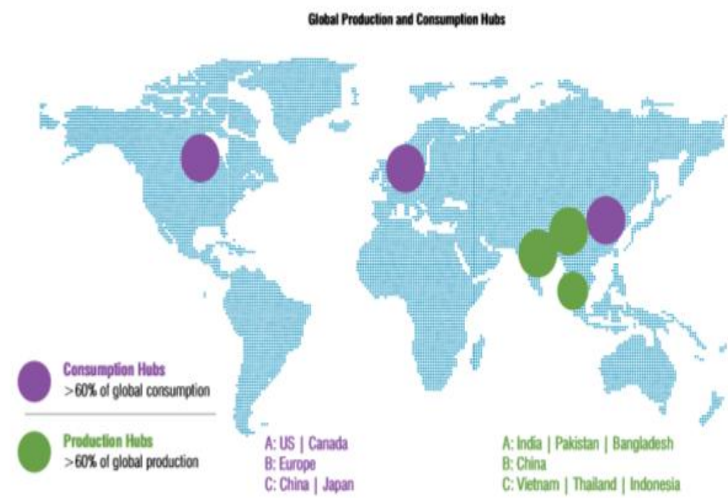
Asia: Major apparel and textile export hub

Asia is the largest exporter of textile and apparel with nearly 60% production share across the entire value chain as shown in the map below. Major consumption hubs are North America, Europe, China and Japan, which account for 60% of global consumption

Share of major exporters across the value chain

Share across Chain	Apparel	Fabric	Yarn	Fibre	Made-ups
China	37%	42%	22%	8%	33%
India	4%	3%	12%	10%	10%
Bangladesh	6%	0%	1%	0%	1%
Vietnam	5%	1%	5%	1%	1%
Pakistan	1%	2%	4%	1%	4%
Indonesia	2%	1%	5%	2%	1%
Turkey	4%	4%	4%	1%	5%

Global production and consumption hubs



Source: Technopak, Edelweiss Investment Research

*Textile includes fibres, yarns, fabrics and made-ups

India Textile and apparel (T&A) exports: A force to reckon with in textile exports; lagging in apparel

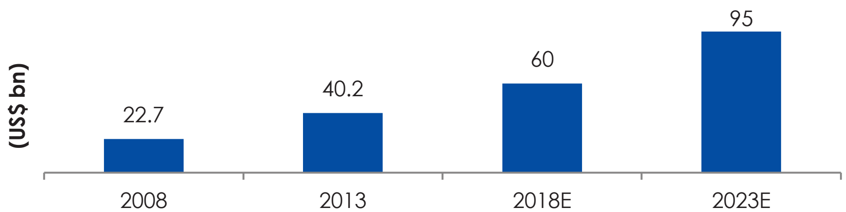
The table below enumerates share of biggest exporting nations. While India is a clear No.2 in textile exports in terms of size, apparel exports are fragmented as most countries are on an equal footing.

	India	China	Turkey	Bangladesh	Vietnam	Pakistan
Textile Export CAGR (2008-14)	11%	10%	4%	8%	21%	4%
Textile Export 2014 (USD Bn)	25	109	13	2	4	10
Apparel Export CAGR (2008-14)	8%	8%	1%	14%	17%	3%
Apparel Export 2014 (USD Bn)	15	165	15	26	19	4
T&A Export CAGR (2008-14)	9%	9%	2%	13%	17%	4%
T&A Export 2014 (USD Bn)	40	274	28	28	23	14
% of Textile in T&A	63%	40%	46%	7%	17%	71%

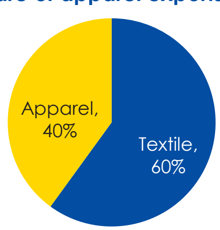
India's T&A exports clocked 9% CAGR over 2008-14

Currently, India's textile exports constitute 60% of total T&A exports, which are estimated to jump to USD60bn in 2018. However, the share of textile exports, is expected to dip as apparel exports are estimated to grow at a faster clip than certain segments in textile exports.

India's T&A exports have been growing steadily



Currently the share of apparel exports is less than textile exports

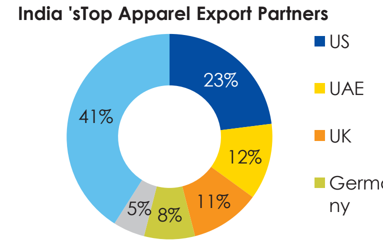


Source: Technopak, IBEF, Edelweiss Investment Research

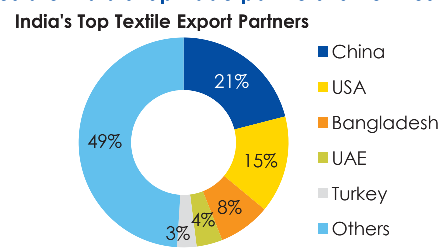
US, Europe primary apparel export partners; Asia dominates textile exports

While India's top apparel export partners are US and Europe, its top textile exports partners are Asian countries, primarily due to high percentage of yarn exports as India is a cotton surplus country.

USA and Europe are India's top trade partners for apparel



Asian countries are India's top trade partners for textiles

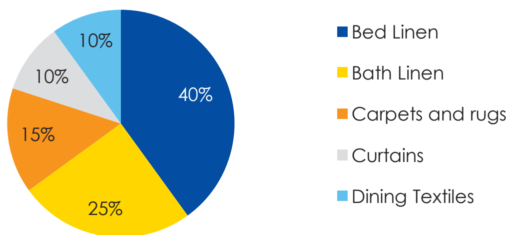


Source: Technopak, IBEF, Edelweiss Investment Research

Global home textile market: Dominated by bed and bath linen

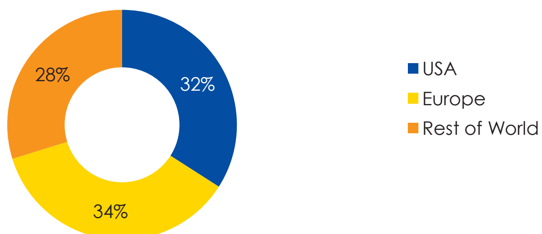
The global home textile market is pegged at ~USD85-90bn currently at the retail level. However, 65% of this is dominated by bed and bath linen, 15% by flooring solutions and the balance 20% is equally split between curtains and dining textiles. The global home textile industry is clocking 3-4% CAGR every year and is expected to touch USD102bn at the retail level by FY18 end.

Global home textiles product wise breakdown



Europe, US and Japan are the largest consumers of home textiles and the consumption is split almost evenly among US, Europe and Rest of the World.

Global home textile consumers



Source: CRISIL, Edelweiss Investment Research

The global home textile market at the wholesale level is pegged at USD45bn and, like the retail market, is dominated by bed (35% share) and bath (25% share) linen

Indian home textile: Leading the cotton pack

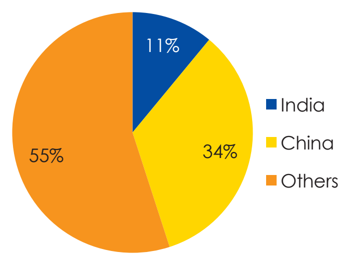
Although India has been lagging in terms of export of fabrics and general apparel, it has significant advantages in manufacture of cotton home textile.

Source: Company, Edelweiss Investment Research

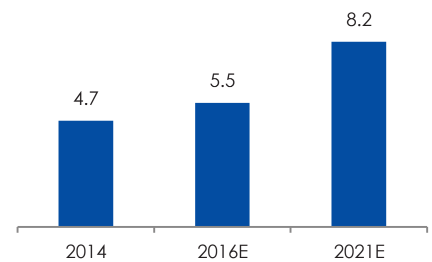
India accounted for 11% of global home textile market in 2014 and 9% of the global home textile trade (at wholesale level) and with the above mentioned benefits, we believe it has many structural advantages for incremental market gains, which should help India enhance its share in the global home textile trade. India's home textile industry is expected to catapult to USD8.2bn in 2021 from USD4.7bn in 2014, CAGR of 8.3%. Indian exporters have been gaining significant market share in US over the past few years.

China and India are leaders in home textile

Share in Home Textile



Indian home textile industry to grow at 8.3% CAGR from 2014-21E



Source: Technopak, IBEF, Edel Invest Research

India: Leader in US market; long way to go in other markets

India's market share in US cotton terry towels and bed linen has jumped to 40% and 49% in 2016 from 28% and 22% in 2008, respectively. It has been continuously gaining market share from China due to labour cost advantage—China's labour cost at ~USD240 per month compared to India's ~USD160. Also, while Chinese cotton acreage has been reducing, India's is increasing.

Exports of Cotton Terry Towels to USA – Share of various countries

Share	2008	2009	2010	2011	2012	2013	2014	2015	2016
India	28%	30%	31%	35%	36%	36%	37%	38%	40%
China	22%	23%	27%	25%	26%	26%	26%	25%	23%
Pakistan	21%	22%	23%	24%	22%	23%	23%	22%	22%
Others	29%	25%	19%	16%	16%	15%	14%	15%	15%

Exports of Cotton Bed Linen to USA – Share of various countries

Share	2008	2009	2010	2011	2012	2013	2014	2015	2016
India	22%	26%	32%	38%	45%	46%	47%	48%	49%
China	35%	29%	30%	23%	22%	24%	23%	23%	22%
Pakistan	24%	26%	22%	23%	19%	18%	17%	17%	16%
Others	22%	26%	32%	38%	45%	46%	47%	48%	49%

Source: Otexa, Edel Invest Research

However, international policy disadvantages hindering progress in other markets

Inspite of being able to successfully penetrate the US cotton home textile market, India has not been able to make a mark in other countries. Despite efforts to enhance presence in Europe, India has largely been unsuccessful due to 9% duty disadvantage compared to Asian peers like Pakistan and Bangladesh. Also, markets like Japan and Australia are too small for batch sizes produced by Indian manufacturers. However, revised trade agreement discussions with most countries are underway and any positive outcome on this front could be a big kicker for India's penetration in other markets.

Indian Exports to EU – India's share has been stagnant over the years

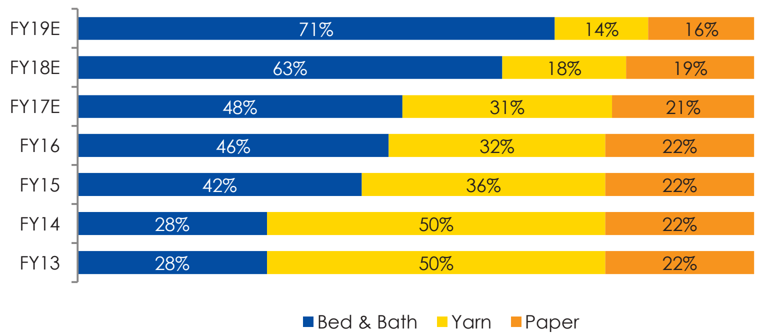
Share	2008	2009	2010	2011	2012	2013	2014	2015	2016
Terry Towel	15%	16%	15%	18%	18%	17%	18%	16%	16%
Bed Linen	7%	8%	8%	8%	8%	9%	8%	7%	7%

Source: CRISIL, Edel Invest Research

II. Trident: Multiple margin expansion levers

A) The metamorphosis: From a yarn manufacturer to major home textile manufacturer

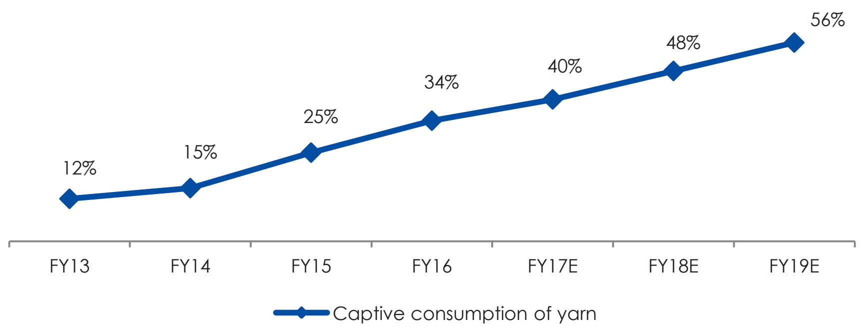
Trident commenced its textile business in the yarn segment, but gradually diversified into bath textile initially and has recently ventured into the bed textile segment. In FY19, we estimate bed and bath to contribute 70% to total sales versus 30% in FY14. As home textile entails higher margin than basic yarn sales, we believe this gradual shift to home textiles will significantly boost the company's margin.



Source: Company, Edel Invest Research

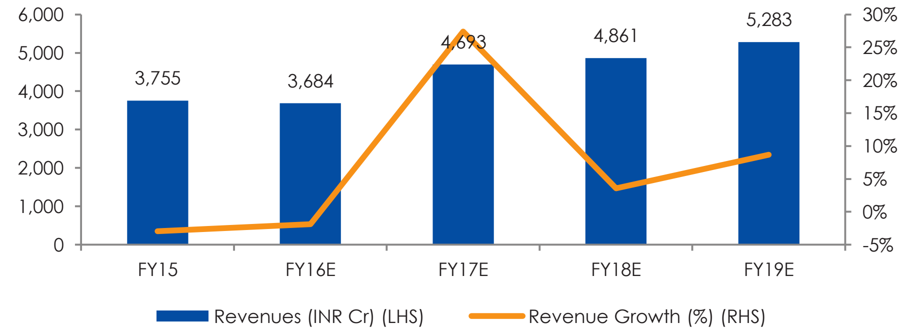
B) Captive yarn consumption on the rise

As Trident sources yarn for the bed and bath segment in-house, yarn's captive consumption is envisaged to jump every year. This backward integration is bound to boost margin.



Source: Company, Edelweiss Investment Research

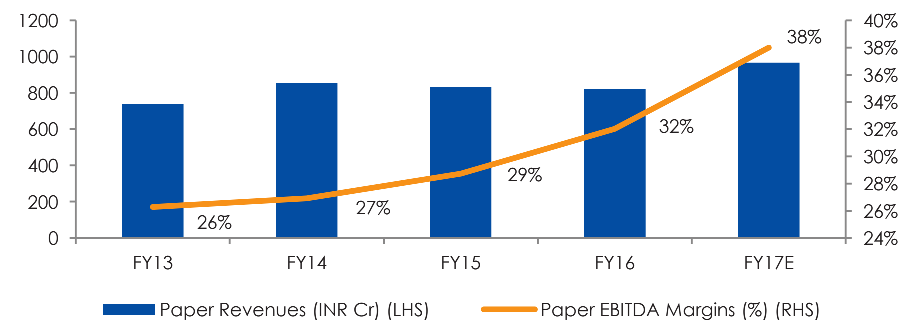
However, Trident's revenue is estimated to post mere 7% CAGR over the next 2 years inspite of ramp up in capacity utilisation due to jump in share of captive yarn consumption. Excluding paper and yarn, the company's revenue from core home textile business is estimated to post 25% CAGR over FY17-19.



Source: Company, Edelweiss Investment Research

C) Paper division has been reporting strong operating margin due to shift to branded copier paper

Trident is the world's largest wheat straw-based paper producer with a paper capacity of 175ktpa. The company's paper revenue has been stagnant due to no additional capacity as it has been focusing on improving its product mix in favour of higher margin branded copier products. Operating margin in the paper segment has improved to 38% in FY17 from 26% in FY13. This robust spurt has aided improvement in Trident's overall margin. Although, the company has environmental clearance for a brownfield expansion at its paper plant, it has no plans to expand currently due scarcity of wheat straw in Punjab.



Source: Company, Edelweiss Investment Research

Paper revenues and margins expected to remain robust due to shift to branded copier

Source: Company, Edelweiss Investment Research

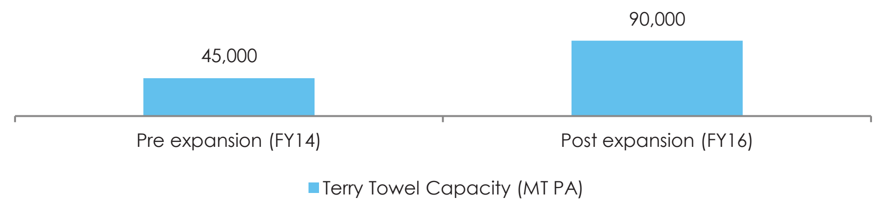
Indian Paper Industry

The domestic paper industry accounts for 3% of global production and is pegged at USD8bn. Currently, digitisation has led to excess capacity in pulp and paper globally. However, demand remains robust in developing countries due to lower digitisation and this has created regional imbalances in production and consumption. At 158kg in EU, 218kg in Japan and 224kg in North America, annual per capita paper consumption has topped out in these countries. However, the global average is 56kg and Indian per capita paper consumption at 13kg is way behind even the global average. This indicates adequate headroom for growth with demand set to rise from the current 13mt to 20mt by 2020E.

D) Terry towels capacity utilisation to improve

Leading terry towel manufactuer in India; competition low in this segment

Post the capex in FY15, Trident's terry towel capacity has doubled to 90,000MT p.a. in FY16 from 45,000MT p.a. in FY14, rendering it the biggest terry towel manufacturer in India. Currently, Welspun is the only other player in the terry towel space as Himatsingka's capcity is set to be operationl in FY19.

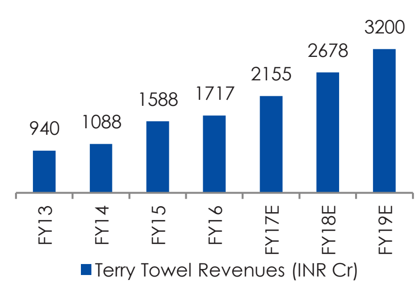


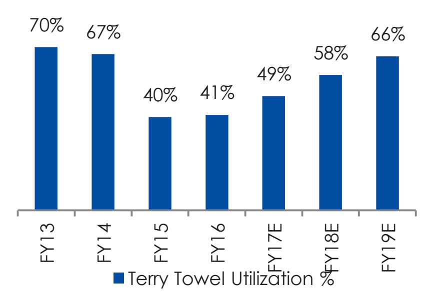
Capacities		Trident	Welspun	Indo Count	Himatsingka	GHCL
Terry Towel (MT)	Existing	90,000	72,000	-	-	-
	Planned	-	8,000	-	25,000	-
	Total	**90,000**	**80,000**	**-**	**25,000**	**-**

Source: Company, Edelweiss Investment Research

At 66% utilisation, terry towels will account for ~55% of revenue of Trident in FY19E

Due to the capacity expansion in FY15, Trident's utilisation has reduced during that year. However, utilisation of the 90,000MT p.a. capacity increased from 40% in FY15 to 49% in FY17. We estimate utilisation to further improve to 66% in FY19E due to low domestic competition. Trident's bath lien revenue is, therefore, estimated to clock a 23% CAGR over FY16-19E.

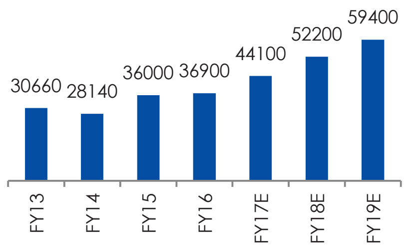


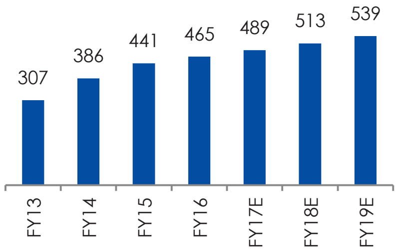


Source: Company, Edelweiss Investment Research

Volumes to pick up, but realisation growth to be muted

We believe, growth in terry towel realisation will be muted as Trident is already operating with settled customers and bulk of the spurt has already played out. However, we expect volumes to increase due to muted competition in this segment.

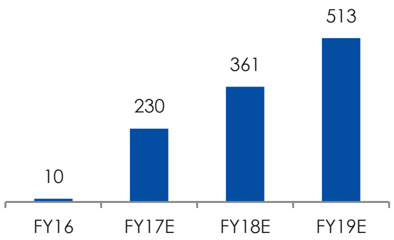


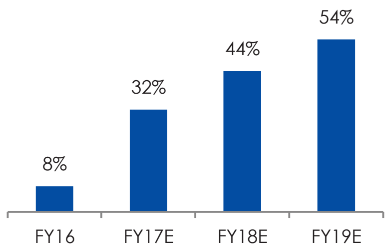


Source: Company, Edelweiss Investment Research

Bed Linen minuscule segment as even at 54% utilisation, it will account for only 10% of revenue

FY17 was first full year of operations in the bed linen segment. However, Trident commendably clocked 32% utilisation from mere 8% in FY16 inspite of heightened competition in this segment. We believe, cross-selling to existing terry towel customers will help the company scale up to 54% in FY19E.

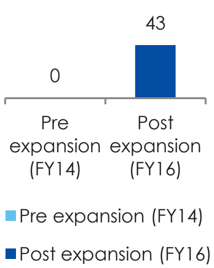




E) Bed linen capacity utilisation to improve

Trident is one of the 5 bed linen manufactuers in India; competition high in this segment

Post capex in FY15, Trident's bed linen capacity, which was non-existent in FY14, stood at 43.2mn mtrs p.a. in FY16. The company is currently the third biggest bed linen manufacturer in India.

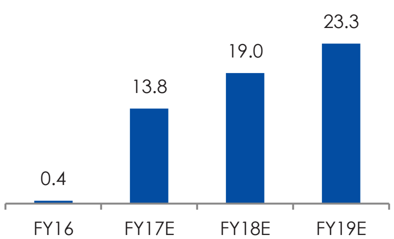


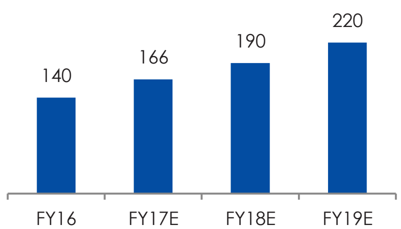
Capacities		Trident	Welspun	Indo Count	Himatsingka	GHCL
Bed Sheet (mln mtrs.)	Existing	43	72	68	23	36
	Planned	-	18	22	23	4
	Total	**43**	**90**	**90**	**46**	**40**

Source: Company, Edelweiss Investment Research

Realisations and volumes to jump

We estimate bed linen realisations to jump substantially as Trident's FY17E utilisation of 32% was primarily driven by low-realisation domestic orders or by selling unprocessed greige fabric. However, post customer trials and with cross-selling to existing terry towel clients, we envisage the company to receive higher-margin orders, which will help scale realisations and volumes.





Source: Company, Edelweiss Investment Research

Steps to boost home textile volumes – International

To boost volumes in the home textile segments, in the international markets, Trident has undertaken the following measures:

- Incorporated a wholly-owned subsidiary M/s Trident Europe Limited in the United Kingdom, which will strengthen our marketing channels in Europe
- Strengthened the marketing and design team in USA and increased the product range
- Expanded the value-added range such as Air Rich, low tint, fade-resistant Bed and Bath Linen products in the premium segment.
- Established a footprint in Middle & Far East, APAC. Regularly showcased home textiles in international exhibitions

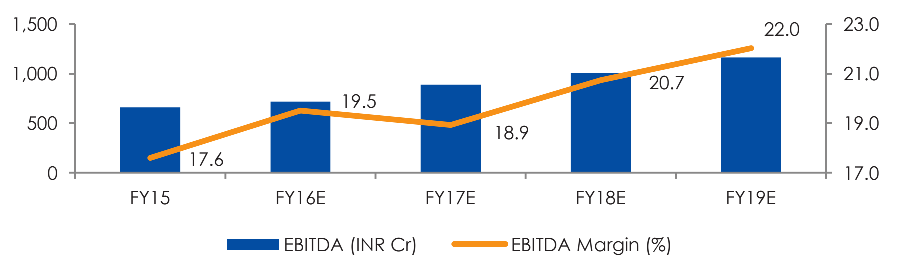
Integrated automated facility saves labour and transportation costs

Trident's domestic business will also aid in revenue growth

Trident is now present across 260 MBOs pan-India and are trying to grow through general trade, institutional segment, retail and e-commerce .Trident has appointed Kriti Sanon as the brand ambassador to endorse the new Bed & Bath Linen collection. Trident has also entered into a partnership with French firm - Lagardere Active Group, to launch a premium range of home textiles under the lifestyle brand - Elle Décor in India. Finally, it has increased revenues from value-added Yarn such as Platinum, Roving Grindle and Blends – Tencle, Modal, Micromodal etc.

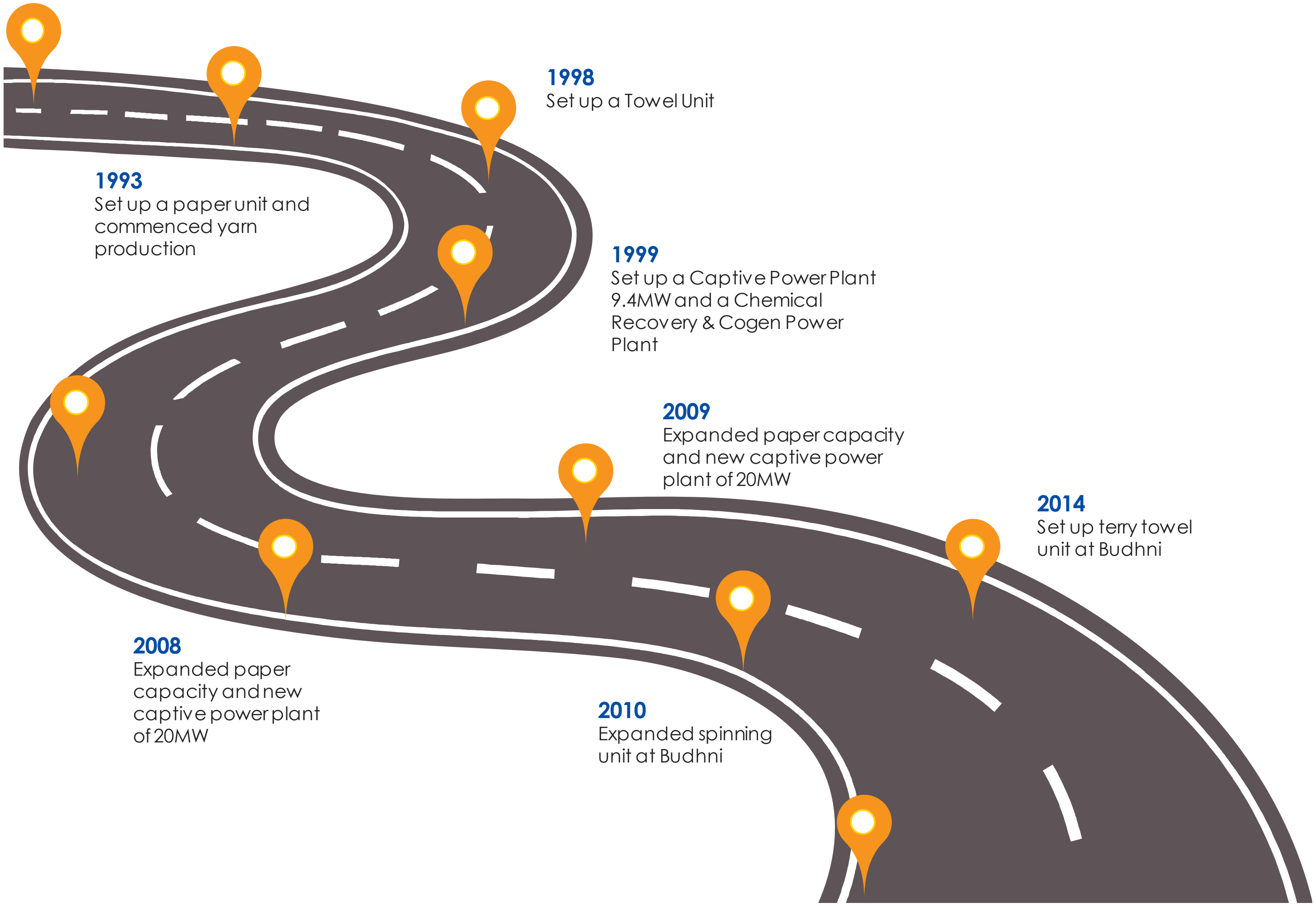
All the above factors to catapult operating margin

Trident's operating margins are estimated to improve to over 22.0% in FY19 from 19.5% in FY16 due to a shift up the value chain with bed and bath home textile accounting for 71% of the company's revenue in FY19E versus 46% in FY16. Simultaneously, the share of yarn revenue will fall to 14% in FY19E from 32% in FY16. Also, with utilisation of terry towel and bed linen improving from the current 49% and 32%, respectively, operating leverage should boost margin further.



Source: Company, Edelweiss Investment Research

Time Line



1985
Set up a chemical plant - Single Super Phosphate Plant

1993
Set up a paper unit and commenced yarn production

1998
Set up a Towel Unit

1999
Set up a Captive Power Plant 9.4MW and a Chemical Recovery & Cogen Power Plant

2004
Expanded towel and yarn capacity

2008
Expanded paper capacity and new captive power plant of 20MW

2009
Expanded paper capacity and new captive power plant of 20MW

2010
Expanded spinning unit at Budhni

2014
Set up terry towel unit at Budhni

2015
Set up a sheeting unit and expanded yarn capacity at Budhni

Valuations & Peers

Major player in the home textile industry

Trident has the largest terry towel capacity in India and currently is the third largest player in the sheeting space as well. Among home textile players, Trident is the only company to have completed all capex plans.

Capacities		Trident	Welspun	Indo Count	Himatsingka	GHCL
Terry Towel (MT)	Existing	90,000	72,000	-	-	-
	Planned	-	8,000	-	25,000	-
	Total	**90,000**	**80,000**	**-**	**25,000**	**-**
Bed Sheet (mln mtrs.)	Existing	43	72	68	23	36
	Planned	-	18	22	23	4
	Total	**43**	**90**	**90**	**46**	**40**
Other Product Lines		Paper	Flooring solutions	NA	Upholstery and Drapery	Chemicals

Source: Company, Edelweiss Investment Research

Cheapest in terms of valuation inspite of highest net profit growth expectation

Among all the comparable peers such as Indo Count, Welspun and Himatsingka, Trident is the cheapest in terms of valuation inspite of the potential to generate the highest net profit CAGR over the next 2 years.

Company	Price	Market Cap (INR Cr)	Revenues (FY19E)	EBITDA (FY19E)	PAT (FY19E)	PAT CAGR (FY17-19E)	ROCE FY19E (%)	P/E (FY19E)
Trident	**85**	**4,300**	**5,283**	**1,164**	**550**	**28%**	**15%**	**8x**
Indo Count	201	4,000	2,943	689	395	20%	38%	10x
Welspun	95	9,300	7,500	1,781	850	13%	22%	11x
Himatsingka	350	3,400	2,765	637	304	26%	22%	12x

Source: Bloomberg Estimates, Edelweiss Investment Research

High margin of safety due to inexpensive valuations and huge free cash flow generation capability

Pick up in capacity utilisation and Trident's ability to source higher realisation orders for the increased utilisation are key monitorables. While top line growth will be muted due to higher captive consumption of yarn, the bottom line can catapult 28% over the next 2 years as operating and financial leverage play out. At an inexpensive valuation of 8x FY19E P/E, rising RoCE (from 8% in FY16 to 15% plus in FY19E) and the ability to generate free cash flows in excess of INR600cr every year provide a high margin of safety. We initiate coverage on Trident with a target price of INR118 (40% upside from current level), valuing it at 11x FY19E P/E (currently trading at 8x FY19E P/E).

EPS (FY19E)	Target P/E	Target Price	Current Price	Potential Upside
10.8	**11**	**118**	**85**	**40%**

Key Management

Name	Designation	Profile
Mr. Rajinder Gupta	***MD & Chairman***	Mr. Rajinder Gupta has over 3 decades of industry experience and is the current Chairman of the Trident Group. In 2007, he received the Padma Shri Award in recognition of distinguished service in the field of Trade and Industry. He is a Harvard graduate and has also studied from ISB Hyderabad & Templeton College University of Oxford. He holds strategic positions such as Vice Chairman in the Punjab State Planning Board (PSPB), Advisor to the Deputy Chief Minister of Punjab on various matters, on the Board of Governors of Punjab Bureau of Investment Promotion and is the Chairman of Advisory Council of (FICCI) for Punjab, Haryana, Chandigarh & Himachal Pradesh.
Mr. Abhishek Gupta	***CEO***	Mr. Abhishek Gupta, is a Graduate from the University of Warwick and is the current CEO of Trident. He earlier led the company's commercial, supply chain, project & operations team and corporate marketing and innovation team. He honed his skills in marketing from Harvard Business School.

Source: Company, Edel Invest Research

Key Risks

- Client acquisition for capacity ramp up.
- Changes in domestic and international regulations and other events such as Brexit.
- Rising competition from domestic players and neighbouring countries.
- Volatility in cotton and currency prices.

Business Overview

Company Brief

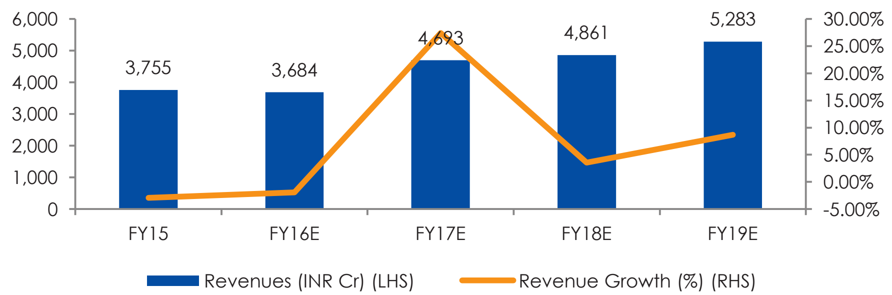
Trident is one of the largest integrated home textile manufacturers in the world. The company operates primarily in 2 business segments: textiles (~80% of revenue) and paper (~20% of revenue), with manufacturing facilities in Punjab and Madhya Pradesh. Incorporated in 1990, the company continues to grow under the leadership of Mr. Rajinder Gupta, Chairman and a first generation entrepreneur. Commencing operations with a modest 17,280 yarn spindles, the group currently exports to over 100 countries. Trident has recently completed its capex in terry towels and bed sheet divisions and can now produce 90MT terry towels, 43mn mtrs of bed linen and ~175ktpa of paper.

Business Model	The company has 4 segments. 1) Yarn 2) Terry Towel 3) Bed Linen 4) Paper
Strategic Positioning	The company is the leader in the terry towel segment in India and is also a major player in bed linen exports and the domestic paper segment
Competitive Edge	• Complete backward integration • Capex completion to yield free cash flows • Integrated facility saves labor and transportation costs • Shift to copier paper has resulted in margin improvement in the paper segment • Debt is expected to reduce • Diversified client base • Automated facility
Financial Structure	The company is repaying its debt from the free cash flow generated. As per the management and our analysis from our plant visit, Trident doesn't require much capex as they have invested in high quality modern machinery.
Key Competitors	Welspun, Indo Count
Industry Revenue Drivers	Opportunities across other geographies
Shareholder Value Proposition	The company can do an EPS of INR 10 in FY19E. A 12x valuation can give price target of INR 120 for the company which gives an upside of 33% over the next 12 months.

III. Financial Analysis

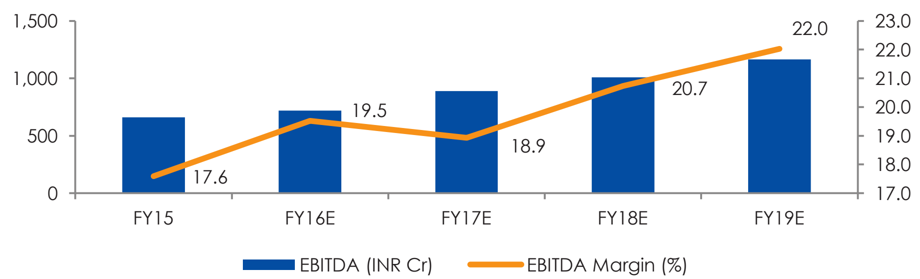
Revenue growth to be subdued due to higher captive yarn consumption

Trident's revenue is expected to clock CAGR of 7% over the next 2 years inspite of ramp up in capacity utilisation as the share of captive consumption of yarn will increase from 34% in FY16 to 56% in FY19E. Excluding paper and yarn, Trident's revenue from core home textile business of terry towel and bed linen is estimated to report 25% CAGR over FY17-19E.



Higher capacity utilisation and a shift up the value chain will boost operating margin

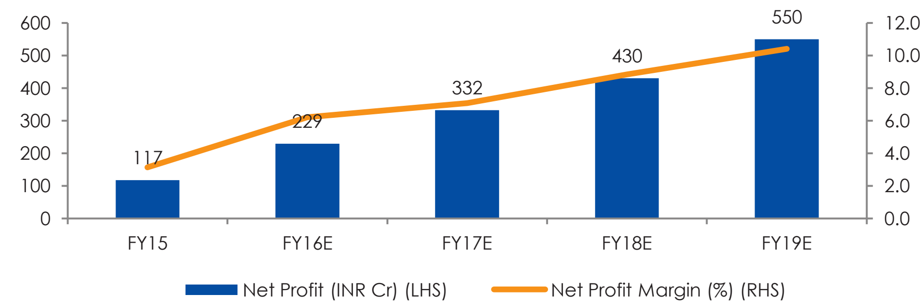
Trident's operating margin is estimated to improve from 19.5% in FY16 to over 22.0% in FY19 due to a shift up the value chain with bed and bath home textile accounting for 71% of the company's revenue in FY19E from 46% in FY16. Simultaneously, the share of yarn revenue will fall from 32% in FY16 to 14% in FY19E. Also, as utilisation of terry towels and bed linen will improve from the current 49% and 32%, respectively, operating leverage should boost margin further.



Source: Company, Edelweiss Investment Research

PAT and PAT margin to improve substantially

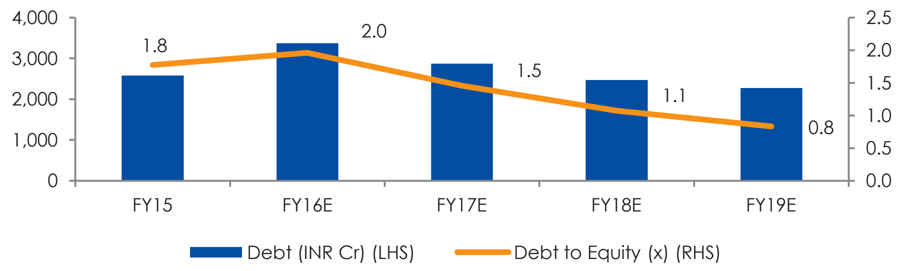
As majority of the capex is complete, depreciation costs are expected to remain range-bound, while debt repayment from free cash flows will lower finance costs. These are envisaged to result in a PAT CAGR of 28% over FY17-19E. PAT margin is estimated to improve from 6.2% in FY16 to 10.4% in FY19E.



Source: Company, Edelweiss Investment Research

Debt to dip significantly

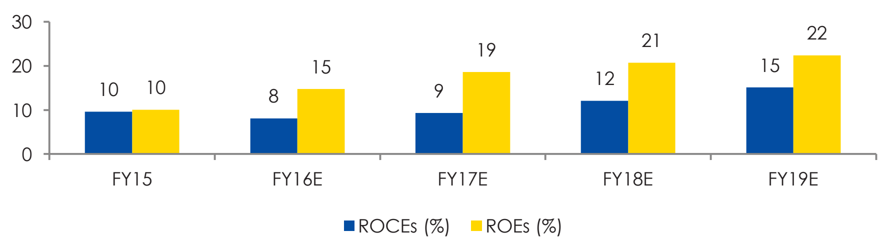
Trident's debt to equity stood at ~2x till FY16 as the company was expanding aggressively at its Budhni plant. However, the expansion has been completed in FY16, post which there are no new capex plans on the anvil. Ergo, we envisage significant free cash flow generation, which will be used to pay off debt and result in a debt to equity of mere 0.8x in FY19E.



Source: Company, Edelweiss Investment Research

Return ratios to improve as utilisation picks up

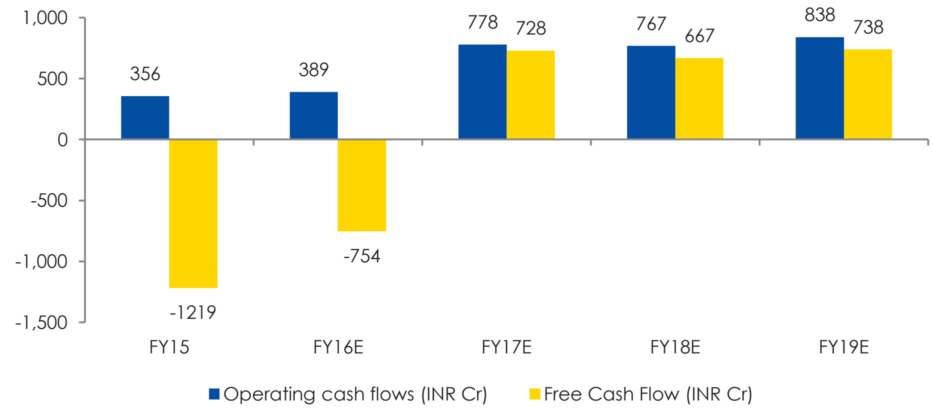
As the capacity utilisation of terry towels and bed linen lines picks up, asset turnover and margins are estimated to improve going forward, which will help the RoE and RoCE to improve from 8% and 14% in FY16 to 15% and 22%, respectively, in FY19E.



Source: Company, Edelweiss Investment Research

Free cash flow generation of INR600cr p.a.

Due to the aggressive expansion in FY15 and FY16, free cash flows were negative for these 2 years. However, Trident's expansion is complete for the time being and hence we expect it to generate free cash flow of INR600cr every year from FY17-19E. Operating cash flows will steadily increase as utilisation picks up.



Source: Company, Edelweiss Investment Research

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
Extraordinary items	-0	-0	0	0	0
Profit after tax	117	227	342	430	550
Minority Interest	0	1	-10	0	0
Share from associates	0	0	0	0	0
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	25.8	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
Unsecured loans	0	0	0	0	0
Borrowings	2,580	3,368	2,868	2,468	2,268
Minority interest	0	0	0	0	0
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
Unrealised profit	0	0	0	0	0
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
Other current assets	0	0	0	0	0
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	FY17E	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	FY17E	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)	36.7	18.9	13.0	10.1	7.9
Price/BV(x)	3.0	2.5	2.2	1.9	1.6
EV/Sales (x)	1.8	2.1	1.5	1.3	1.1
EV/EBITDA (x)	10.4	10.6	7.8	6.3	5.0
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)	36.7	18.9	13.0	10.1	7.9
Dividend yield (%)	0.7	1.0	1.5	2.0	2.5

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Vinay Khattar

Head Research

vinay.khattar@edelweissfin.com

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

Trident Ltd 5 years price chart

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