

Trident Ltd: Q3FY18 Result Update

Headwinds Persist

CMP INR: 79
 Rating: BUY
 Target Price INR: 110
 Upside: 39%

We had expected a 5-7% topline growth in FY18 alongwith slight margin improvement (expected to be backended in H2FY18). However Q3FY18 was also subdued in line with H1FY18 as the textile sector continues to be hit by multiple headwinds such as higher cotton prices, appreciating rupee, lower government incentives and uneven vendor procurement cycle on account of de-stocking in terry towels. Sales at INR 1137cr grew 1% y-o-y and slightly below estimates of a 4% y-o-y growth in revenues. EBITDA at INR 200cr de-grew by 11% from INR 225 Cr in Q3FY17 and this was below our estimates of a 7% de-growth. EBITDA margin at 17.6% in Q3FY18 were 250 bps lower than Q3FY17 margins and slightly below our estimates of 18% margins. Reported PAT of INR 73 Cr was 7% lower than Q3FY17 PAT of INR 79 Cr on account of higher tax expense. Therefore while the home textile industry continues to face headwinds (especially terry towels), paper continues to outperform. We have cut our margin expectation for FY18E and FY19E while retaining our topline growth expectation. Undemanding valuation provide margin of safety and we re-iterate "BUY" with a revised price target of INR 110 (earlier 118) as we roll forward to FY20E.

Muted performance from home textiles; Recovery delayed

Home Textiles revenues grew 3% in this quarter from INR 920 Cr in Q3FY17 to INR 945 Cr in Q3FY18 led by higher utilization in bed sheets which increased from 29% in FY17 to 42% in 9MFY18 (our full year estimate is 44% and Trident should surpass that). Terry towel utilization fell further in this quarter from 50% in FY17 to 45% in 9MFY18 due to high base and uneven vendor procurement cycle. However domestic home textile business continues its healthy growth. Adjusting other income, margins slightly improved but are still lower on a 9M basis with 9MFY18 margins at 14.6% as against 17.7% margins in 9MFY17. This was due to lower utilization in terry towel along with high prices for good quality cotton and inspite of manpower rationalization undertaken by the company. Yarn utilization increased further to 95% with lower captive consumption leading to higher yarn sales which also impacted margins negatively.

Paper continues to outperform; Debt repayment on track

Paper utilization was maintained at 89% in Q3FY18 and revenues are almost flat on a y-o-y basis for the 9M period. However cheaper raw material and stronger realizations have led to margins improving from 37% in Q3FY17 to 39% in Q3FY18. On a 9M basis, margins have improved from 34% in 9MFY17 to 43% in 9MFY18. Copier sales were softer in Q3FY18 at 48% vs. 52% in Q2FY18 which led to lower paper margins than the previous quarter. Company has repaid debt of INR 466 Cr in 9MFY18 and thus long term debt stands at INR INR 1,660 Cr. This debt repayment has helped reduced interest outgo.

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 FY18-20E as financial leverage plays out. At an inexpensive valuation of 8x FY20E P/E, and the ability to generate free cash flows in excess of INR600cr every year provides a margin of safety. We value Trident at 11x FY20E P/E and re-iterate our Buy rating.

Year to March	Q3FY18	Q3FY17	% change	Q2FY18	% change	FY17	FY18E	FY19E
Net sales (INR cr)	1137	1122.34	1%	1155	-2%	4,694	4,827	5,372
Growth (%)						27	3	11
EBITDA (INR cr)	200	225	-11%	174	15%	888	828	943
Adj PAT (INR cr)	73	79	-7%	51	43%	334	305	403
Growth (%)						47	-9	32
Dil. EPS (INR)						6.6	6.0	7.9
Diluted P/E (x)						12.1	13.3	10.1
EV/EBITDA (x)						7.6	7.4	6.0
ROAE (%)						15.5	10.8	13.0

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Bloomberg:	TRID:IN
52-week range (INR):	110/67
Share in issue (cr):	5.1
M cap (INR cr):	4,000
Avg. Daily Vol. BSE/NSE :('000):	200
Promoter Holding (%)	67.77

Date: 31st January 2018

Q3FY18 Result Highlights

Particulars	Q3FY18	Q3FY17	% change	Q2FY18	% change	FY17	FY18E	FY19E
Income from operations	1137	1122	1%	1155	-2%	4,694	4,827	5,372
Cost of goods sold	593	534	11%	614	-3%	2,673	2,848	3,148
Employee expenses	109	145	-25%	136	-20%	579	596	663
Other expenses	235	219	8%	231	2%	1,133	1,151	1,281
Total operating expenses	937	897	4%	981	-4%	3,806	3,999	4,428
EBITDA	200	225	-11%	174	15%	888	828	943
Depreciation and amortization	101	104	-2%	102	-1%	413	413	421
EBIT	99	122	-19%	72	38%	476	415	522
Interest expenses	25	30	-17%	32	-22%	141	118	98
Other income	31	11	191%	36	-14%	104	100	100
PBT	105	102	3%	76	38%	439	397	525
Provision for tax	32	24	36%	25	28%	102	92	122
Core profit	73	79	-7%	51	43%	337	305	403
Extraordinary items	0	0	NA	0	NA	0	0	0
Adjusted net profit	73	79	-7%	51	43%	337	305	403
No. of shares (Cr)						51	51	51
Diluted EPS (INR)						6.6	6.0	7.9

Financials

Income statement					
(INR Cr)					
Year to March	FY16	FY17	FY18E	FY19E	FY20E
Income from operations	3,684	4,694	4,827	5,372	5,917
Direct costs	2,058	2,673	2,848	3,148	3,455
Employee costs	434	579	596	663	730
Other expenses	907	1,133	1,151	1,281	1,399
Total operating expenses	2,965	3,806	3,999	4,428	4,854
EBITDA	719	888	828	943	1,063
Depreciation and amortisation	338	413	413	421	429
EBIT	381	476	415	522	634
Interest expenses	136	141	118	98	79
Other income	32	104	100	100	100
Profit before tax	277	439	397	525	654
Provision for tax	49	102	92	122	152
Core profit	228	337	305	403	503
Extraordinary items	-0	-3	0	0	0
Profit after tax	227	334	305	403	503
Minority Interest	1	0	0	0	0
Share from associates	0	0	0	0	0
Adjusted net profit	229	334	305	403	503
Equity shares outstanding (mn)	51	51	51	51	51
EPS (INR) basic	4.5	6.6	6.0	7.9	9.9
Diluted shares (Cr)	50.9	50.9	50.9	50.9	50.9
EPS (INR) fully diluted	4.5	6.6	6.0	7.9	9.9
Dividend per share	0.9	1.2	1.3	1.7	2.1
Dividend payout (%)	19.8	18.1	21.0	21.0	21.0

Common size metrics- as % of net revenues

Year to March	FY16	FY17	FY18E	FY19E	FY20E
Operating expenses	80.5	81.1	82.8	82.4	82.0
Depreciation	9.2	8.8	8.5	7.8	7.2
Interest expenditure	3.7	3.0	2.4	1.8	1.3
EBITDA margins	19.5	18.9	17.2	17.6	18.0
Net profit margins	6.2	7.1	6.3	7.5	8.5

Growth metrics (%)

Year to March	FY16	FY17	FY18E	FY19E	FY20E
Revenues	(1.9)	27.4	2.8	11.3	10.2
EBITDA	8.8	23.5	(6.8)	13.9	12.7
PBT	64.7	58.7	(9.4)	32.0	24.7
Net profit	93.4	47.9	(8.6)	32.0	24.7
EPS	94.2	47.2	(9.4)	32.0	24.7

Ratios

Year to March	FY16	FY17	FY18E	FY19E	FY20E
ROAE (%)	14.7	15.5	10.8	13.0	14.6
ROACE (%)	8.1	8.6	7.4	9.5	11.7
Debtors (days)	18	29	22	22	22
Current ratio	4.4	4.7	5.1	5.3	5.7
Debt/Equity	2.0	1.0	0.8	0.6	0.4
Inventory (days)	90	60	70	70	70
Payable (days)	31	24	25	25	25
Cash conversion cycle (days)	77	65	67	67	67
Debt/EBITDA	4.7	3.2	2.8	2.1	1.5
Adjusted debt/Equity	1.9	1.0	0.7	0.5	0.3

Valuation parameters

Year to March	FY16	FY17	FY18E	FY19E	FY20E
Diluted EPS (INR)	4.5	6.6	6.0	7.9	9.9
Y-o-Y growth (%)	94.2	47.2	(9.4)	32.0	24.7
CEPS (INR)	11.1	14.7	14.1	16.2	18.3
Diluted P/E (x)	17.8	12.1	13.3	10.1	8.1
Price/BV(x)	2.4	1.5	1.4	1.2	1.1
EV/Sales (x)	2.0	1.4	1.3	1.0	0.9
EV/EBITDA (x)	10.2	7.6	7.4	6.0	4.7
Diluted shares O/S	50.9	50.9	50.9	50.9	50.9
Basic EPS	4.5	6.6	6.0	7.9	9.9
Basic PE (x)	17.8	12.1	13.3	10.1	8.1
Dividend yield (%)	1.1	1.5	1.4	1.8	2.2

Balance sheet					
(INR Cr)					
As on 31st March	FY16	FY17E	FY18E	FY19E	FY20E
Equity share capital	449	449	449	449	449
Preference Share Capital	60	60	60	60	60
Reserves & surplus	1,210	2,247	2,488	2,807	3,204
Shareholders funds	1,719	2,696	2,937	3,256	3,653
Secured loans	3,368	2,852	0	0	0
Unsecured loans	0	0	0	0	0
Borrowings	3,368	2,852	2,352	1,952	1,552
Minority interest	0	0	0	0	0
Sources of funds	5,147	5,608	5,349	5,268	5,265
Gross block	6,163	5,109	5,209	5,309	5,409
Depreciation	2,333	764	1,176	1,597	2,026
Net block	3,830	4,345	4,032	3,711	3,383
Capital work in progress	62	123	0	0	0
Total fixed assets	3,892	4,468	4,032	3,711	3,383
Unrealised profit	0	0	0	0	0
Investments	94	105	100	100	100
Inventories	909	775	926	1,030	1,135
Sundry debtors	177	375	291	324	357
Cash and equivalents	82	133	276	390	590
Loans and advances	320	222	228	254	280
Other current assets	0	0	0	0	0
Total current assets	1,487	1,505	1,721	1,998	2,362
Sundry creditors and others	312	310	331	368	405
Provisions	24	8	8	8	9
Total CL & provisions	336	318	339	376	414
Net current assets	1,152	1,187	1,383	1,622	1,948
Net Deferred tax	-173	-166	-166	-166	-166
Misc expenditure	182	14	0	0	0
Uses of funds	5,147	5,609	5,349	5,268	5,265
Book value per share (INR)	34	54	59	65	73

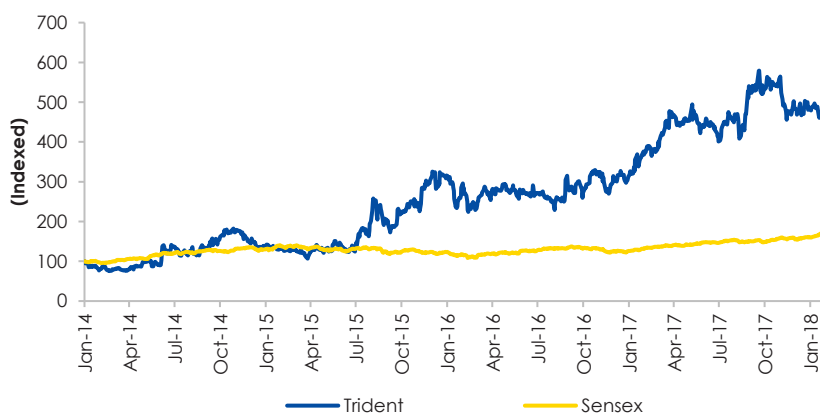
Cash flow statement					
(INR cr)					
Year to March	FY16	FY17E	FY18E	FY19E	FY20E
Net profit	228	340	305	403	503
Add: Depreciation	338	413	413	421	429
Add: Misc expenses written	-50	169	14	0	0
Add: Deferred tax	48	-7	0	0	0
Add: Others	1	0	0	0	0
Gross cash flow	566	914	732	824	932
Less: Changes in W. C.	176	-16	52	125	125
Operating cash flow	389	930	680	699	806
Less: Capex	1,144	989	-23	100	100
Free cash flow	-754	-59	703	599	706

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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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