

Trident (TRID)

Sector: Textile /Small Cap | Earnings Update – 4QFY18

BUY

15 May 2018

Background: Trident Ltd was incorporated in the year 1990, headquartered in Ludhiana, Punjab. Company operates in three key business segments such as Home textile (49% of revenue), Yarn (33% of revenue) and Paper (18% of revenue) with manufacturing facilities located in Punjab and Madhya Pradesh. Company has a capacity to produce 90,000 MTPA of terry towel, 43.2mn mtrs of bed linen, 115,200 MTPA of yarn and 175,000 TPA of wheat straw based paper. Between FY15-18, Company's Revenue and PAT grew at a CAGR of 6.7% and 3.8% to INR 45.6bn and INR 2.6bn respectively.

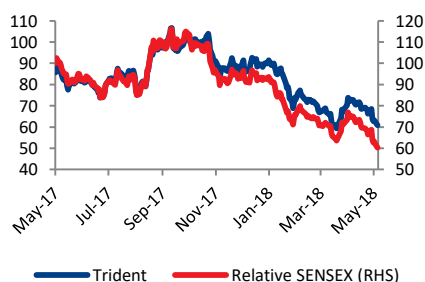
Sensex	35,544
Nifty	10,801
Price	INR 60.8
Target Price	INR 81
Recommendation	BUY
52 Week High/Low	INR 109.5/59
Bloomberg / Reuters	TRID IN /TRIE.BO
Equity (shares in mn)	509.6
Mkt. Cap in bn	INR 30.9/\$ 0.45
Avg. Daily Vol. ('000)	817.5
Avg. Daily Vol. (mn)	INR 49.7/\$ 0.74

Shareholding	Mar 17	Dec 17	Mar 18
Promoters (%)	67.77	67.77	67.77
FII (%)	1.55	1.58	1.31
DII (%)	2.15	2.29	2.31
Others (%)	28.53	28.36	28.61
Pledge (% of promoter holding)	8.69	0.00	0.00

Valuation Summary (INR bn)

Y/E March	2018	2019E	2020E
Revenue	45.6	49.3	53.6
EBITDA	8.2	9.1	10.2
Adj PAT	2.6	3.5	4.1
Adj EPS	5.2	6.8	8.1
% growth	-21.7	31.2	19.6
PE	11.7	8.9	7.5
P/ BV	1.1	1.0	0.9
EV/EBITDA	6.4	5.2	4.2
EV/Sales	1.2	1.0	0.8
Div Yield (%)	2.5	2.7	3.5
ROE (%)	9.3	11.4	12.5

Performance %	1M	3M	12M
Trident	-16.5	-21.4	-29.8
Sensex	3.9	4.1	17.8



Results below expectation

- Trident revenue de-grew by 6.1%YoY to INR 11.85bn; Textile revenue de-grew by 8% YoY to INR 9.66bn, due to continuous de-stocking of bath linen by large retailers in US and Paper revenue down 3% YoY to INR 2.19bn.
- In FY18, Textile revenue de-grew 2% YoY to INR 37.19bn, due to multiple headwinds in the home textile business (adverse currency movement, reduction in drawback duty and de-stocking by large retailers in US). Bath linen volume de-grew 12.3% YoY and bed linen volume grew 56.2% YoY. Domestic home textile business grew by 25% YoY. Paper revenue de-grew by 2% YoY to INR 8.58bn.
- During the quarter, EBITDA stood at INR 2.17bn, up 3.1% YoY; EBITDA margins improved by 160bps YoY to 3.1%; Gross margin improved by 86bps YoY, Employee cost was down 120bps YoY and other expenses (+40bps YoY). Interest expenses were down 14% YoY to INR 277mn. Depreciation expenses were down by 2.8% YoY. Other income at INR -29mn, on account of forex loss to the tune of INR 100mn. PAT de-grew by 48.9%YoY to INR 509mn, on account of forex loss and higher tax outgo and PAT margin fell by 230bps YoY to 4.9%.
- Company has repaid INR 3.6bn of long term debt in FY18 and net debt stood at INR26.2bn with net debt to equity of INR 0.9X

Valuation: Trident is the second largest Terry towel manufacturer and largest wheat straw based paper manufacturer in India. We expect Trident's bottom line to grow at a CAGR of 25.2% between FY18-20E as the operating and financial leverage play out. As the company has completed all major capital expenditure, we estimate the cumulative FCF generated between FY18-20E would be around INR 21.8bn i.e. ~71% of current market capitalization, which provides a good margin of safety. Amongst the comparable peers, Trident has relatively better earnings quality and trading at an inexpensive valuation i.e. 25% discount to its peers average. At CMP, Trident is trading at 8.9X & 7.5X FY19E & FY20E earnings and we maintain a **BUY** rating, while reducing our target price to INR 81 (earlier: INR 95) valuing the company at 10X FY20E EPS, representing an upside potential of 33.6%. **Risks:** Loss in market share in terry towel segment, adverse price movement in currency and cotton prices and withdrawal of export schemes by Govt.

Results Summary 4QFY18

Y/E March (INR mn)	4QFY18	4QFY17	YoY Growth	3QFY18	QoQ Growth
Revenue	11850.1	12615.4	-6.1%	10937.2	8.3%
EBITDA	2167.9	2103.1	3.1%	2000.3	8.4%
Depreciation	981.8	1010.0	-2.8%	1013.5	-3.1%
Other Income	-29.0	517.6	-105.6%	315.7	-109.2%
PBT	880.0	1290.0	-31.8%	1050.1	-16.2%
Tax	371.2	293.4	26.5%	319.9	16.0%
PAT	508.8	996.6	-48.9%	730.2	-30.3%
Total Comprehensive Income	584.6	917.2	-36.3%	818.6	-28.6%
EBITDA Margin	18.3%	16.7%		18.3%	
Tax Incidence	42.2%	22.7%		30.5%	
PAT Margin	4.9%	7.3%		7.5%	

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