

# Trident (TRID)

Sector: Textile /Small Cap | Earnings Update – 2QFY19

**BUY**

19 October 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.

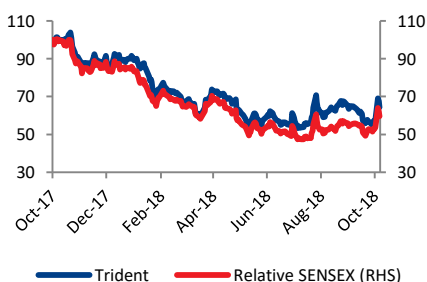
Sensex	34,179
Nifty	10,262
Price	INR 63.5
Target Price	INR 81
Recommendation	BUY
52 Week High/Low	INR 105.4/51
Bloomberg / Reuters	TRID IN /TRIE.BO
Equity (shares in mn)	509.6
Mkt. Cap in bn	INR 32.4/\$ 0.44
Avg. Daily Vol. ('000)	842.98
Avg. Daily Vol. (mn)	INR 53.5/\$ 0.73

Shareholding	Sep 17	Jun 18	Sep 18
Promoters (%)	67.77	67.78	68.45
FII (%)	1.56	1.26	1.35
DII (%)	2.32	2.14	2.07
Others (%)	28.35	28.82	28.13
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	12.3	9.3	7.8
P/ BV	1.1	1.0	0.9
EV/EBITDA	6.6	5.4	4.3
EV/Sales	1.2	1.0	0.8
Div Yield (%)	2.4	2.6	3.4
ROE (%)	9.3	11.4	12.5

Performance %	1M	3M	12M
Trident	-0.9	17.8	-36.6
Sensex	-7.5	-4.8	6.7



## Strong operational performance across all verticals

- Trident's revenue grew by 24.2%YoY to INR 13.9bn; Textile revenue grew by 24.6% YoY to INR 11.4bn, aided by strong growth in the home textile segment and Paper revenue grew 22% YoY to INR 2.48bn. Bed linen revenue grew 44% YoY, aided by 32.5% YoY increase in volume and 11.5% YoY increase in realization. Bath linen grew 30% YoY, while realization was stable. Captive consumption of yarn stood at 42% in 2QFY19.
- During the quarter, EBITDA stood at INR 2.61bn, up 50.1% YoY; EBITDA margins improved by 320bps YoY to 18.8%; Gross margin improved by 540bps YoY, which was partially offset by the Forex loss to the tune of INR 558mn in 2QFY19 compared to the gain of INR 5mn in 2QFY18. Employee cost fell by 150bps YoY and other expenses was down 50bps YoY. Interest expenses were down 18.4% YoY to INR 260mn as gross debt was reduced by INR 2.71bn in 2QFY19. Depreciation expenses were down by 10.3% YoY. Other income was down by 72.1% YoY. PAT grew by 114.4%YoY to INR 1,091mn; PAT margin improved by 370bps YoY to 8.1%.
- Textile division EBIT margin stood at 8.8% up 460bps YoY; while Paper division EBIT margin was flat at 37.4%.
- Bed linen, Bath linen and Paper division reported a sequential improvement in capacity utilization at 53% (+800bps QoQ), 61% (+600bps QoQ) and 90% (+300bps QoQ)
- Company's net debt stood at INR20bn with net debt to equity of INR 0.7X.
- Board has approved to implement co-gen steam (2X150 TPH) and power plant (2X30 MW) facility in Budni with a total capex of INR 5.5bn, financed by internal accrual and borrowing of INR 3.75bn. The project will be executable in phased manner and expected to be completed by FY21.

**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. ~70% 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 9.3X & 7.8X FY19E & FY20E earnings and we maintain a **BUY** rating, with a target price of INR 81 valuing the company at 10X FY20E EPS, representing an upside potential of 27.6%.

**Risks:** Loss in market share in terry towel segment, adverse price movement in currency and cotton prices and withdrawal of export schemes by Gol.

## Results Summary 2QFY19

Y/E March ( INR mn)	2QFY19	2QFY18	YoY Growth	1QFY19	QoQ Growth
<b>Revenue</b>	13,915	11,205	24.2%	11,312	23.0%
<b>EBITDA</b>	2,611	1,739	50.1%	1,955	33.5%
<b>Depreciation</b>	917	1,022	-10.3%	944	-2.8%
<b>Other Income</b>	260	319	-18.4%	280	-7.1%
<b>PBT</b>	98	352	-72.1%	85	15.9%
<b>Tax</b>	441	242	82.4%	224	96.8%
<b>PAT</b>	1,091	509	114.4%	592	84.3%
<b>Total Comprehensive Income</b>	1,130	494	128.7%	622	81.5%
<b>EBITDA Margin (%)</b>	18.8	15.5		17.3	
<b>Tax Incidence (%)</b>	28.8	32.2		27.4	
<b>PAT Margin (%)</b>	8.1	4.4		5.5	

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