

Trident (TRID)

Sector: Textile /Small Cap | Earnings Update – 3QFY19

BUY

16 January 2019

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.

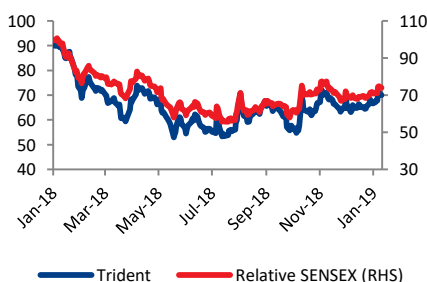
Sensex	36,321
Nifty	10,890
Price	INR 70.7
Target Price (12M)	INR 90
Recommendation	BUY
52 Week High/Low	INR 91.4/51
Bloomberg / Reuters	TRID IN /TRIE.BO
Equity (shares in mn)	509.6
Mkt. Cap in bn	INR 36/\$ 0.51
Avg. Daily Vol. ('000)	1,095.98
Avg. Daily Vol. (mn)	INR 77.4/\$ 1.09

Shareholding	Dec 17	Sep 18	Dec 18
Promoters (%)	67.77	68.45	70.77
FII (%)	1.50	1.35	1.45
DII (%)	2.37	2.07	0.39
Others (%)	28.36	28.13	27.39
Pledge (% of promoter holding)	8.69	0.00	0.00

Valuation Summary (INR bn)

Y/E March	2019E	2020E	2021E
Revenue	50.5	54.1	57.5
EBITDA	9.5	10.2	11.1
Adj PAT	3.5	4.0	4.6
Adj EPS	6.9	7.8	9.0
% growth	33.9	12.4	15.5
PE	10.2	9.1	7.8
P/ BV	1.1	1.0	1.0
EV/EBITDA	5.6	4.8	3.9
EV/Sales	1.1	0.9	0.8
Div Yield (%)	2.4	2.9	3.4
ROE (%)	11.6	12.0	12.7

Performance %	1M	3M	12M
Trident	7.94	21.3	-21.5
Sensex	-0.3	3.2	3.7



Strong operational performance

- Trident's revenue grew by 18%YoY to INR 12.9bn; Textile revenue grew by 18.6% YoY to INR 10.3bn, aided by strong in the home textile segment and Paper revenue grew 15.7% YoY to INR 2.59bn. Bed linen revenue grew 41.7% YoY, aided by 33.3% YoY increase in volume and 8.4% YoY increase in realization. Bath linen grew 10.1% YoY, aided by volume growth of 12.2% YoY, while realization de-grew by 2.1% YoY.
- During the quarter, EBITDA stood at INR 2.68bn, grew 18.2% YoY; EBITDA margins remained flat at 20.8%; Gross margin improved by 450bps YoY, which got offset by higher employee cost and operating expenditures. Employee cost increased by 260bps YoY and other expenses was higher by 140bps YoY. Interest expenses were higher by 17% YoY to INR 294mn. Depreciation expenses were down by 12% YoY. Other income grew by 249% YoY. PAT grew by 53.6%YoY to INR 1,121mn; PAT margin improved by 270bps YoY to 10.2%.
- Textile division EBIT margin stood at 10.5% up 180bps YoY; while Paper division EBIT margin stood at 38.1% up 910bps on low base.
- Bed linen capacity utilization improved 300bps sequentially to 64%, while Bath linen capacity utilization declined 700bps QoQ to 46%.Yarn and Paper division capacity utilization remained flat sequential at 97% and 90% respectively.
- Company's net debt stood at INR21.97bn 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 introduce FY21 estimates and we expect Revenue, EBITDA and EPS to grow at a CAGR of 6.7%, 8% and 13.9% respectively between FY19-21E, as the operating and financial leverage plays out. As the company has completed all major capital expenditures, we estimate the cumulative FCF generated between FY19-21E would be around INR 20.9bn i.e. ~58% of current market capitalization, which provides a good margin of safety. At CMP, Trident is trading at 9.1X & 7.8X FY20E & FY21E earnings and we rollover the valuation to FY21E and revise the target price upwards to INR 90 valuing the company at 10X FY21E EPS, while maintaining the **BUY** rating. **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 3QFY19

Y/E March (INR mn)	3QFY19	3QFY18	YoY Growth	2QFY19	QoQ Growth
Revenue	12,914	10,941	18.0%	13,915	-7.2%
EBITDA	2,686	2,273	18.2%	2,611	2.9%
Depreciation	892	1,013	-12.0%	917	-2.7%
Other Income	294	252	16.5%	260	13.2%
PBT	150	43	248.6%	98	52.7%
Tax	529	320	65.3%	441	20.0%
PAT	1,121	730	53.6%	1,091	2.7%
Total Comprehensive Income	1,317	819	60.9%	1,130	16.6%
EBITDA Margin (%)	20.8	20.8		18.8	
Tax Incidence (%)	32.1	30.5		28.8	
PAT Margin (%)	10.2	7.5		8.1	

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